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GRENADA

July 2015

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

In the context of the second review under the Extended Credit Facility, request for a waiver of a performance criterion, 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** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2015, following discussions that ended on April 15, 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 June 15, 2015.

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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June 29, 2015

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IMF Executive Board Completes Second Review Under the ECF Arrangement for Grenada, and Approves US$2.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Grenada's economic performance under a three-year program supported by an arrangement under the Extended Credit Facility (ECF). The completion of the review enables the disbursement of SDR 2 million (about US$2.8 million), bringing total disbursements under the arrangement to SDR 6.04 million (about US$8.5 million).

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).

Following the Executive Board's discussion on Grenada, Mr. Min Zhu, Deputy Managing Director and Acting Chair, said:

"The Grenadian authorities have achieved important results in the context of their Fund-supported economic program. Fiscal targets have been exceeded, important reforms of the fiscal policy framework have been put in place, and significant progress has been made in restructuring public debt. Stronger economic activity has supported program implementation, although unemployment remains elevated. Maintaining social cohesion and support from all stakeholders remains critical to completing the reforms and putting Grenada on a higher, sustainable, and more inclusive growth path.

"Grenada is well advanced in its ambitious fiscal adjustment and in restoring debt sustainability. Safeguarding the fiscal performance achieved thus far and carefully monitoring budget execution will help achieve this year's fiscal objectives. A final round of adjustment will be needed, as planned, to achieve the program's fiscal targets for 2016. An agreement on debt relief with the remaining stakeholders will be necessary to return public debt to a sustainable level.

"Recent reforms to the fiscal policy framework are a major step forward to promote durable fiscal discipline and support debt sustainability over the medium-term. The comprehensive reforms include the introduction of fiscal responsibility and public debt management legislation, and reforms of the tax incentive regime and of the framework governing state-owned enterprises and other parastatal entities.

"In the context of the exchange rate peg, continued structural reforms are needed to strengthen competitiveness and boost potential growth. These reforms should focus on lowering production costs, including in the energy sector, and improving the investment environment. Strengthening social protection programs should aim at promoting inclusive growth.

"Good progress has been achieved in advancing the regional strategy to strengthen the banking system, coordinated by the Eastern Caribbean Central Bank. Full implementation of the strategy will be essential to preserving financial stability."

INTERNATIONAL MONETARY FUND

GRENADA

June 15, 2015

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR A WAIVER OF A PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Extended Credit Facility (ECF) Arrangement. The program was approved on June 26, 2014 and the first review completed on December 12, 2014. Grenada has received SDR 4.04 million (about US$5.9 million) 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 second review.

Debt restructuring. Grenada has achieved a critical milestone in its debt restructuring, reaching agreement on key restructuring terms with its largest private creditor group. The agreement implies a net present value reduction in the related debt of 54 percent and will reduce public debt by 13 percent of 2017 GDP once fully executed. The restructuring of Grenada's debt with the Export-Import Bank of Taiwan Province of China at end-2014 reduced the stock of public debt by another 2 percent of GDP. The authorities expect to finalize negotiations with remaining creditors by end-2015.

Program Performance. Overall program implementation remains solid. All but one quantitative performance criteria for the second review were met with wide margins. Major reforms of the fiscal policy framework to anchor debt sustainability have been completed, albeit with some delay, including new fiscal responsibility legislation and the reform of the bulk of the tax incentive regime to eliminate discretion. The strategy to reform parastatal entities has also been completed and its implementation started.

Second Review. Discussions focused on meeting the 2015-16 fiscal targets and the structural reform agenda. Modifications are proposed to the 2015 performance criteria to accommodate one-time costs of structural reforms and to the ceiling on non-concessional borrowing to clarify when a loan is considered contracted. Proposed structural conditionality seeks the transparent and sustainable management of citizenship-by-investment receipts and to bring the chart of accounts in line with international best practice.

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

Discussions took place in St. George's during February 18-26, 2015 and continued in Washington DC during April 13-15, 2015. The staff team comprised Aliona Cebotari (head), Kimberly Beaton, Xin Li (all WHD), Nujin Suphaphiphat (SPR), Eriko Togo (MCM) and Jemma Lafeuillee (local IMF economist). Representatives from the Caribbean Development Bank, the Eastern Caribbean Central Bank, and the World Bank attended some of the meetings.

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BACKGROUND

1. Context. The first review under the Extended Credit Facility (ECF) was completed by the Executive Board on December 12, 2014 and total disbursements reached the equivalent of SDR 4.04 million (out of total access of SDR 14.04 million or 120 percent of quota). The main objectives of the authorities' program remain to improve competitiveness and medium-term growth prospects, restore fiscal sustainability, and strengthen financial stability.

2. Strong program implementation and commitment to reform continue to benefit from broad social support. Significant progress has been achieved on fiscal consolidation, with almost half of the total programmed consolidation implemented in 2014. Moreover, the government reached a restructuring agreement in principle with its private commercial bond creditors, a critical step toward restoring debt sustainability. Progress was made on the structural agenda, especially with the strong launch of reforms to restructure parastatal entities and important reforms to the fiscal policy framework.

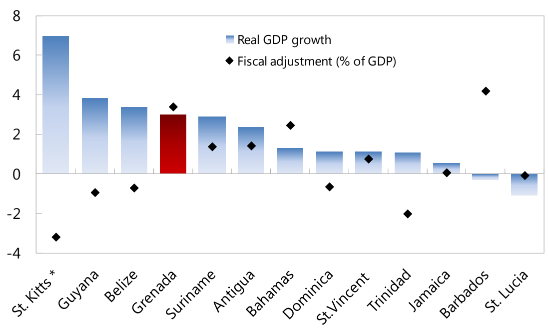
RECENT DEVELOPMENTS AND OUTLOOK

The economic recovery and prospects have strengthened alongside external demand, but domestic demand remains weak.

3. The economic recovery has strengthened with support from external demand, improving the near-term outlook. Economic activity is estimated to have expanded by 3 percent in 2014, significantly higher than anticipated, despite headwinds from fiscal consolidation. While strong external demand for tourism has fueled the recovery—buoyed by an expansion of capacity in the sector and robust consumption growth in trading partners—the agricultural sector has also outperformed expectations. Recent indicators suggest that the recovery is maintaining its momentum in 2015. At the same time, weak domestic demand continues as the public and private sectors deleverage and banks repair their balance sheets. Unemployment remains high at 29½ percent and is particularly elevated among the youth at 45½ percent. On balance, near-term economic prospects have strengthened since the first review. Growth is now expected at 1¾ percent in 2015, up from 1.1 percent at the first review, reflecting—in addition to stronger prospects for the tourism sector—the significant decline in world oil prices (Box 1, Annex I). Over the medium-term, growth is expected to gradually return to 2–2½ percent, consistent with potential growth.

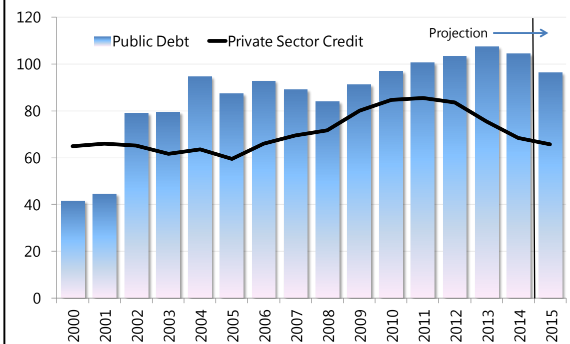
4. The decline in world oil prices and weak domestic demand are expected to cause moderate deflation for the third consecutive year in 2015. Consumer prices fell by one percent on average in 2014. Deflation was initially driven by a large reduction in telecommunication costs, which pushed core inflation into negative territory during 2013-14, but as this base effect dissipated in late 2014, deflation has been increasingly driven by the decline in the world oil price and soft domestic demand. Deflation is expected to persist in 2015, with an expected 0.4 percent fall in consumer prices. As the effect of the decline in world oil prices dissipates and domestic demand gradually strengthens, consumer price growth is expected to return to positive territory in 2016.

Growth in Caribbean
(2014, in percent)



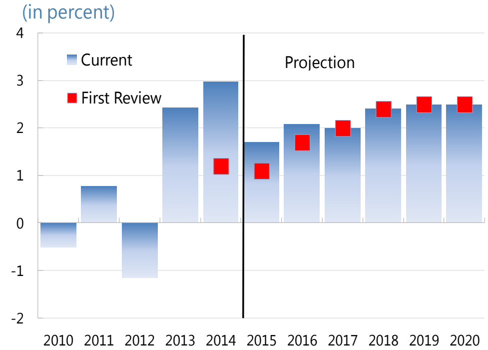
* Growth fueled by large inflows from the citizenship-by-investment program.

Grenada: Public and Private Sector Deleveraging
(in percent of GDP)



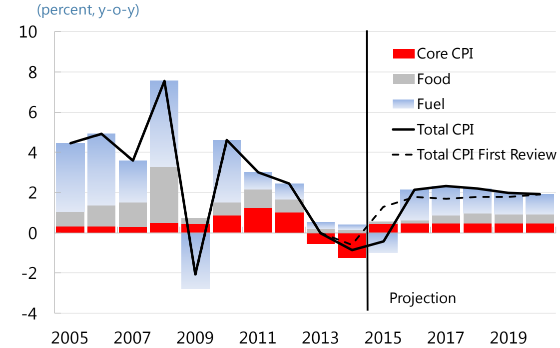
Sources: Grenada authorities and Fund staff estimates.

Grenada: Real GDP Growth
(in percent)



Sources: Grenada authorities and Fund staff estimates.

Grenada: Contribution to Headline Inflation
(percent, y-o-y)

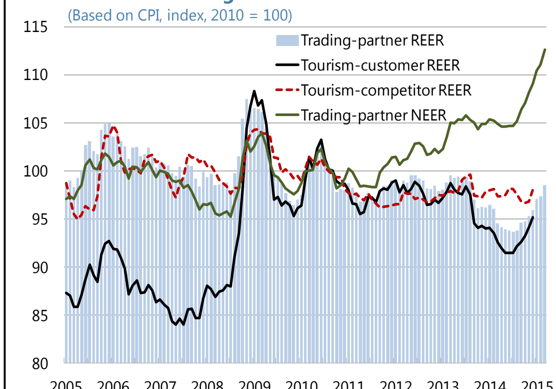


Sources: Grenada authorities and Fund staff estimates.

5. **The strong appreciation of the U.S. dollar, to which the regional currency is pegged, has narrowed earlier gains in Grenada's price competitiveness.** The real effective exchange rate (REER), which depreciated significantly over mid-2013 to mid-2014, has appreciated by about 4 percent since mid-2014 alongside the appreciation of the U.S. dollar, partly reversing the earlier improvement in Grenada's price competitiveness.

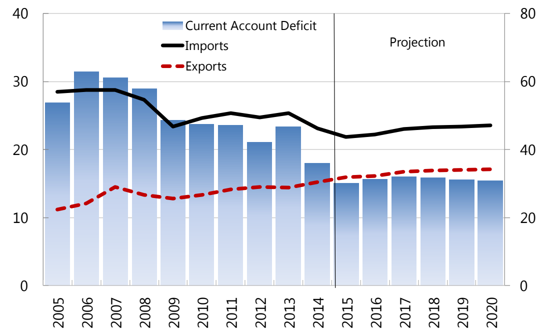
6. **Grenada's external imbalances continued to narrow, helped by lower world oil prices and earlier competitiveness gains.** The current account deficit narrowed to 18 percent of GDP in 2014, the lowest deficit in a decade and a half (excluding 2004 when Hurricane Ivan hit Grenada). The improvement was primarily associated with the recovery of the US economy, which contributed to strong tourism receipts; a slowdown in imports due to the completion of a large tourism construction project in 2013; and the significant decline in oil prices in the latter half of 2014. Net international

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



reserves rose to 4.9 months of prospective imports of goods and services, compared to 4 months at end-2013. Notwithstanding the recent appreciation of the U.S. dollar, the external position is expected to continue to strengthen, mainly reflecting the decline in world oil prices. However, the current account deficit is expected to remain elevated at 15-16 percent of GDP over the medium-term.

Trade and Current Account Deficit
(in percent of GDP)



7. Risks to the outlook are becoming more balanced. Upside risks have increased, notably due to the potential for a larger demand response to the oil price decline and potential inflows from the citizenship-by-investment (CBI) program. These upside risks are balanced by downside risks from a stronger than expected impact of the U.S. dollar appreciation, which will put pressure on Grenada's competitiveness, the ongoing fiscal consolidation, and natural disasters.

Box 1. The Macroeconomic Impact of the Decline in World Oil Prices

Lower world oil prices are expected to provide a boost to economic activity in Grenada (Annex I). World oil prices have declined by around 40 percent since mid-2014. As an oil importer, Grenada could benefit directly from the decline in oil prices through lower transportation and electricity costs and the resulting increase in real disposable income. Grenada could also benefit indirectly from the real income effect in other oil importers through increased demand for Grenada's tourism services.

Staff estimates based on a vector autoregressive model suggest that the decline in oil prices could increase economic activity by 0.3 percentage points in 2015. At the same time, econometric evidence suggests that the decline could reduce total inflation by about 0.6 percentage points in 2015. These effects are expected to be somewhat offset by the April 2015 increase in the fuel tax by EC$1 per gallon.

The current account deficit is expected to improve by 2.7 percent of GDP in 2015 due to lower oil prices. The improvement is expected to be driven by a reduction in the value of fuel imports, offset somewhat by a modest pickup in import volumes due to the income effect. However, the positive effect on the overall balance of payments is expected to be somewhat lower than the improvement in the current account as the drop in global oil prices will reduce the share of oil imports financed under Grenada's Petrocaribe arrangement. Despite the loss of Petrocaribe financing, the net impact on Grenada's external position is notably positive and would remain marginally positive even under a complete disruption of Petrocaribe financing.

The decline in world oil prices will have a negative impact on the fiscal accounts of about ½ percent of GDP due to reduced Petrocaribe grants for Grenada's social programs, but its impact is already being offset through policy measures. While government transportation and energy costs are expected to fall somewhat from lower oil prices, this positive effect will be more than offset by a halving of Petrocaribe grants, which supported 0.9 percent of GDP in social spending in 2014. To neutralize the negative impact on expenditure and the primary balance, while preserving social spending, the authorities took advantage of the decline in oil prices to increase the fuel tax, lowered expenditure allocations relative to the budget, and mobilized other grant resources.

8. The financial system remains under stress, strained by nonperforming loans and unable to support the recovery:

- Commercial banks continued to face losses in 2014, driven by negative credit growth, declining interest margins and an increase in provisioning. Faced with these trends throughout the ECCU, commercial banks have streamlined their operations, with a number of banks closing branches (text table). Non-performing loans reached 14.6 percent of total loans as of end-2014, up from 13.8 percent in 2013, reflecting legacy challenges emanating from the pre-crisis credit boom and the subsequent fallout from the global financial crisis. While provisioning rose over 2014, it remains too low to effectively cover NPLs. Reported capital adequacy remains above the regulatory 8 percent minimum, but would be lower under stricter loan classification and provisioning rules. While some banks in the Caribbean have faced challenges in maintaining correspondent banking relationships with foreign banks, Grenadian banks have not yet been affected.

Grenada: Composition of the Banking System

	Number of Branch Closures	Remaining Branches	Banking System Assets (in percent of total, as of September 2014)
Locally-incorporated banks	**2**	**17**	**66.2**
Republic Bank Grenada	-	8	28.8
Grenada Cooperative Bank	-	7	23.5
RBTT Grenada	2	2	14.0
Foreign-incorporated banks	**3**	**4**	**33.8**
Scotiabank	1	2	21.1
FirstCaribbean International Bank (FCIB)	2	2	12.7

Sources: Grenada authorities.
Note: RBTT Grenada is a subsidiary of the Royal Bank of Canada, while Republic Bank Grenada is a subsidiary of Republic Bank of Trinidad and Tobago. FCIB is a branch of a Barbados subsidiary of the Canadian bank CIBC.

- Banks have responded to high delinquencies by further reducing credit supply which—along with a reduction in demand for credit—resulted in a 5.1 percent contraction in private credit in 2014. The contraction occurred despite rapid growth in liquidity. As a result, commercial bank net foreign assets and excess reserves held at the central bank continued to rise.

- The ECCB's Monetary Council lowered the floor on savings deposit rates by 1 percentage point to 2 percent (effective May 1, 2015)—the first effective loosening of regional monetary policy since 2002. This reduction could help to strengthen bank profitability going forward.

- In the non-bank financial sector, the financial position of credit unions has continued to strengthen in terms of the capital position, liquidity and non-performing assets, although there continues to be significant dispersion in performance across institutions. Equity remained stable around 12 percent of assets over 2014, above the regulatory requirement of 10 percent, while NPLs fell to 5.2 percent at end 2014, down from 7.4 percent at end 2013. Two credit unions have been stabilized and their administrative supervision lifted in December 2014. The institutions remain subject to Memorandum of Understandings with the Grenada Authority for the Regulation of Financial Institutions (GARFIN), the nonbank financial sector supervisor, to ensure further progress.

9. Grenada has reached a debt restructuring agreement with its largest private creditor group—a major milestone toward restoring debt sustainability (Annex II).

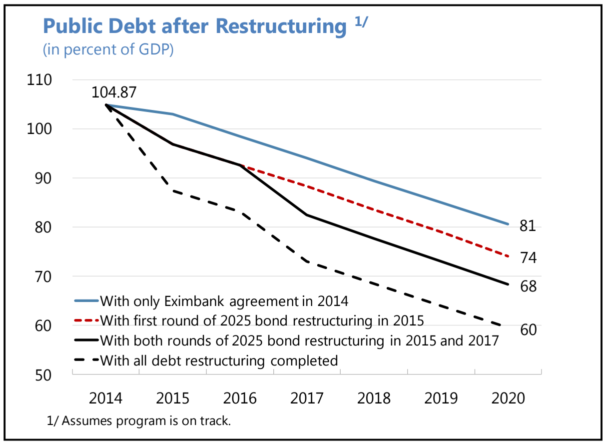
- *Private creditors*: In April 2015, the authorities announced an agreement on key debt restructuring terms with the creditor committee representing the majority of private bondholders. The *in principle* agreement covers the US$ and EC$ 2025 bonds that account for close to a third of total public debt. The agreed terms include a phased 50 percent nominal principal haircut, with half of the haircut taking effect upfront and the remainder upon completion of the sixth review of the ECF-supported program. The overall terms imply an NPV reduction of the affected debt of 54 percent, assuming a 12 percent exit yield, and the restructuring is expected to reduce public debt by 13 percent of 2017 GDP by that year compared to the projected trajectory without the restructuring. The agreement also includes an arrangement to share potential receipts from Grenada's CBI program with creditors after the ECF-supported program. The legal terms of the agreement are being finalized and the formal exchange is expected to take place around mid-2015. High bondholder representation on the committee (76 percent of the 2025 bonds) is expected to help satisfy the 75 percent voting threshold required by the collective action clause to ensure universal participation in the bond exchange.[1]

- *Bilateral creditors*: Grenada finalized a restructuring agreement with the Export-Import Bank of Taiwan Province of China (Eximbank) in December 2014.[2] The agreement reduced the principal outstanding on the loan by 50 percent (equivalent to about 2 percent of GDP).
- *Government guaranteed debt*: Grenada's Marketing and National Importing Board (MNIB), a state-owned enterprise, has reached financial agreement with a private creditor to restructure government guaranteed debt. Once executed, the agreement will reduce the principal outstanding by 47 percent and will remove the guarantee from the restructured debt, reducing the stock of government guaranteed debt by 0.5 percent of GDP.
- *Remaining creditors:* The Paris Club is tentatively scheduled to discuss the treatment of its claims on Grenada in September 2015. The Government has also contacted all non-Paris Club bilateral official creditors and negotiations are ongoing with domestic creditors, including the National Insurance Scheme (NIS).

10. The restructuring progress will contribute to restoring debt sustainability. After peaking at about 107½ percent of GDP in 2013, public debt is now expected to decline to 68 percent by 2020 on the basis of the restructuring agreements reached so far and the expected completion of the program. Combined with continued fiscal adjustment, debt is expected to fall further to 60 percent of GDP by 2020 once the broader debt restructuring is completed with the remaining creditors, which would reduce Grenada's risk of external debt distress (Annex II).

[1] The government is in the process of agreeing to a comparable long-term flow rescheduling with the National Insurance Scheme, which holds about 4 percent of GDP of debt in the 2025 bonds.

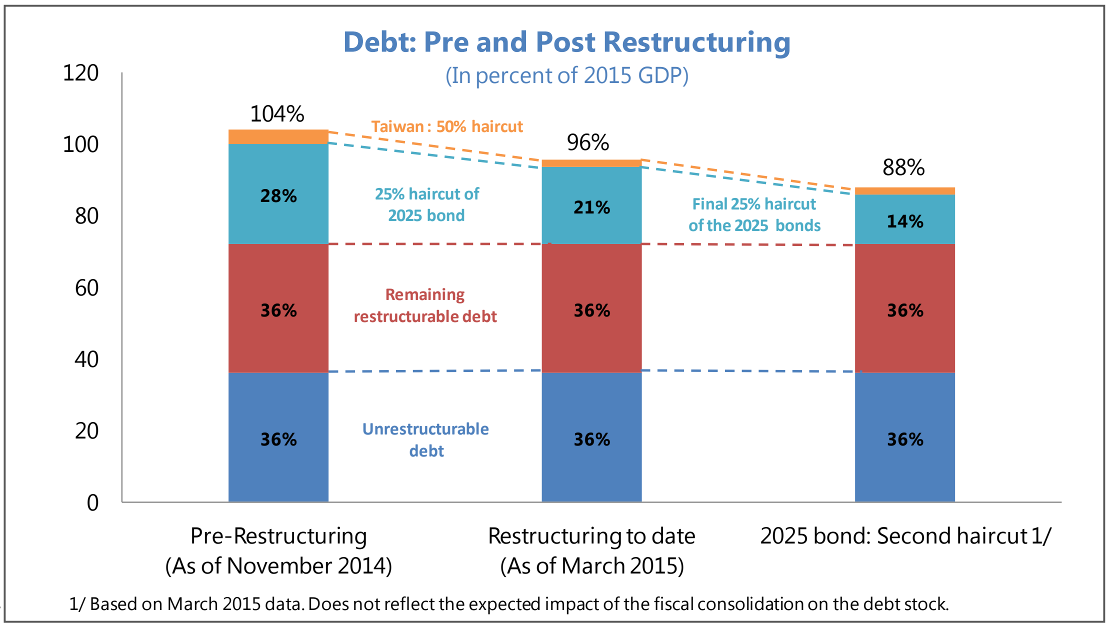
[2] Eximbank's legal proceedings in New York court to recover payments outstanding since the 2005 debt restructuring were subsequently dismissed with prejudice (i.e. Eximbank cannot re-file the litigation).



Financial Terms for the Restructuring of the US$ and EC$2025 Bonds

Financial Terms	April 2014 Published Terms Option 1	April 2014 Published Terms Option 2	Export-Import Bank of Taiwan Province of China	2025 Agreed Terms US$ and EC$2025 bond 1/
Coupon	6.5% p.a.	5% p.a.	7% p.a.	7% p.a.
Tenor	15 years	20 years	15 years	15 years
Grace Period	0 year	2 year	3.5 years	0.5 year
Repayment	Equal semiannual installments	Mortgage style installments	Equal semiannual installments	Equal semiannual installments
Principal Reduction	60% at closing	50% at closing	50% at closing	50% at closing and 50% at completion of the sixth review of the ECF-supported
Past Due and Accrued Interest	60% reduction, remaining 40% capitalized	50% reduction , remaining 50% capitalized	50% reduction, remaining 50% capitalized	100% capitalized
Memo:				
NPV Haircut (12 % exit yield)	66%	68%	58%	54%
NPV Haircut (5 % exit yield)	54%	48%	39%	32%

1/ Exclude NIS holdings of the EC$2025 bond.



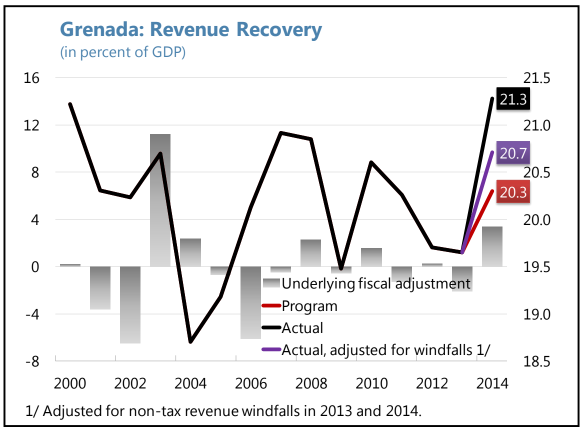
PROGRAM PERFORMANCE

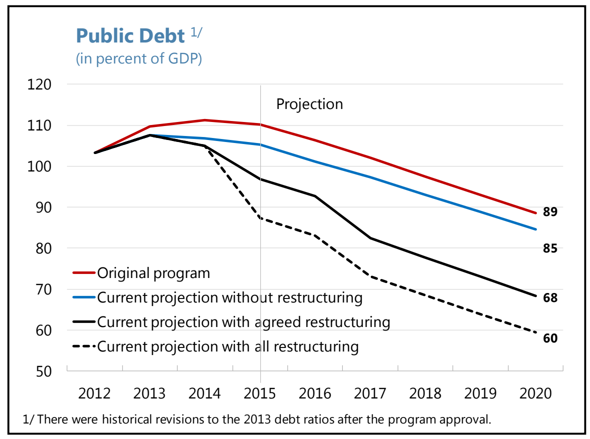
Program implementation remains solid, with all but one quantitative performance criteria met for the review. Important progress was also made on the structural reform agenda, with key reforms of the fiscal policy framework to support medium-term sustainability, including new fiscal responsibility legislation and an overhaul of the tax incentive regime.

A. Fiscal Consolidation

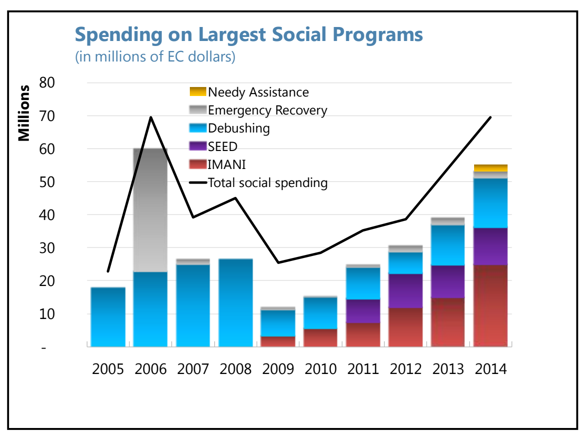
11. **Fiscal performance was stronger than programmed in 2014.** The robust economic recovery and a higher than anticipated yield of the adjustment measures contributed to strong performance across all tax categories. Together with windfall nontax revenues of 0.6 percent of GDP, overall revenues reached a historic high of 21⅓ percent of GDP, an over-performance of

1 percentage point of GDP relative to projections at program approval. Current spending was successfully contained, while the authorities used some of the additional space created by stronger revenues to support an increase in capital spending. The public sector wage freeze, together with a faster than anticipated reduction in public employment (largely from attrition), successfully contained the public wage bill to below program levels. Overall, the primary deficit fell from 4 percent of GDP in 2013 to 1.2 percent of GDP, outperforming the program by ¾ percent of GDP.[3] The underlying consolidation in 2014 amounted to an estimated 3½ percent of GDP (compared to 2¾ percent programmed), almost half of the total consolidation under the program. Stronger economic and fiscal performance contributed, along with initial progress in debt restructuring, to a faster than anticipated reduction in public debt.





12. Despite strong fiscal performance, the indicative floor on social spending for end-December 2014 was missed, as anticipated at the first review. The authorities are working with the World Bank to improve the targeting of their flagship social assistance program, SEED. However, persistent delays introducing the new targeting tool and the beneficiary information system have stalled progress and the temporary freeze on the processing of new applicants remains in place, resulting in under spending (by about 0.07 percent of GDP) relative to the programmed indicative floor for end-December 2014. The end-June 2015 floor is also likely to be missed. The authorities have increased spending on other programs, which has helped to offset the impact of the under-spending under the SEED program.



[3] The improvement in the headline primary balance was less than the total fiscal consolidation effort due to retroactive wage payments of 1.1 percent of GDP. These payments, along with the external grants and windfall nontax revenues, have also cushioned the impact of the consolidation on economic activity.

Grenada: Program Monitoring - Quantitative Performance Criteria under the ECF[1/] (in millions of EC dollars)					
	End-December 2014, second review				
	Program	Program Adjusted 1/	Actual	Difference	Status
Performance criteria					
A. Cumulative floor on central government primary balance (EC$ mln) 2/	-57	-46	-28	18	Met
B. Cumulative ceiling on central government primary spending (EC$ mln) 2/	622	656	630	-25	Met
C. Ceiling on stock of central government domestic arrears (EC$ mln)	86	86	66	-20	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	10	10	Not Met
Indicative targets					
F. Cumulative ceiling on net increase in debt contracted or guaranteed by the central government (EC$ mln) 2/	149	103	48	-55	Met
G. Floor on social spending by central government (EC$ mln)	13.0	13.0	11.4	-1.6	Not Met
Monitoring					
H. Wage bill target (excluding retroactive payments) 3/	276	276	275	-1	Met
I. Public employment 4/	7584	7584	7515	-69	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ From end-December 2013.
3/ Wages, salaries, and personnel allowances.
4/ Excludes workers under the IMANI program.

13. The authorities made good progress in clearing arrears:

- **Domestic arrears.** Supplier arrears at end-December 2014 stood at 2¾ percent of GDP, below the program ceiling, and the authorities have finalized a strategy to clear all remaining domestic arrears by end-2015 in line with program commitments. About half of outstanding budget expenditure arrears will be settled in cash, partly financed by inflows under the CBI program (MEFP¶11), with the remainder to be settled by debt net-offs and issuance of government paper.

- ***External arrears***. No new arrears have been accumulated on external debt, apart from debt under restructuring negotiations, meeting the performance criterion. External arrears to the holders of the 2025 bonds will be regularized as part of the recent debt restructuring agreement. The authorities are expected to approach the Paris Club in September 2015 on the treatment of its claims, and the authorities have requested a comprehensive restructuring of their claims with all non-Paris Club official bilateral creditors.

Outstanding Arrears	2013	2014		
	Dec.	Jun.	Dec.	
	EC$mn	EC$mn	EC$mn	% of GDP
Total Arears	**329.8**	**364.0**	**277.4**	**11.8**
External Arrears	**228.9**	**264.3**	**174.6**	**7.4**
Multilateral	3.4	2.1	0.0	0.0
Official bilateral	129.3	136.5	40.0	1.7
Paris Club	7.9	9.6	11.6	0.5
Non-Paris Club	121.4	126.9	28.5	1.2
Commercial creditors	38.6	69.4	70.0	3.0
Unpaid contributions	57.5	56.3	64.6	2.7
Budget expenditure arrears	**100.9**	**99.7**	**102.8**	**4.4**
Debt arrears	18.5	20.1	37.0	1.6
Supplier arrears	82.4	79.6	65.9	2.8

- ***Membership arrears***. The authorities have reached preliminary agreement on an arrears clearance plan with organizations accounting for almost 30 percent of Grenada's arrears on membership fees, and continue discussions with remaining organizations.

14. The ceiling on non-concessional external borrowing for end-December 2014 was not observed, and staff supports the granting of a waiver as the deviation was minor. The ceiling prohibits the contracting of non-concessional external loans during the program period. An external non-concessional loan agreement was signed and ratified by parliament in 2013, before the ECF arrangement was approved, at which point it was considered contracted by the authorities and was included as part of the medium-term financing envelope for the program.[4] However, the loan agreement came into effect after the approval of the arrangement in 2014 and—since under Fund practice, the definition of "contracting" is generally applied to the loan agreement becoming effective—this caused the nonobservance of the zero ceiling on contracting of non-concessional debt. The contracting of this loan did not affect the indicative target on the net increase in contracted debt, which contained a separate definition of "contracting" and which was met with a wide margin.[5] As the loan had been incorporated into the program's framework and will not affect performance under the program, staff considers the deviation minor and supports the granting of the waiver for nonobservance of the performance criterion requested by the authorities.

B. Structural Reforms for Fiscal Sustainability

15. The structural reform agenda is advancing, with a strategic plan to reform financially weak parastatal entities now finalized and being implemented (Box 2 and Annex III). The strategy (an end-October 2014 **structural benchmark**) is a critical step toward improving the performance of and reducing the fiscal risks emanating from SOEs and statutory bodies, and puts Grenada at the forefront of regional efforts to reform the sector. It envisages reforms to the employment and regulatory environment of these institutions, as well as reforms for individual enterprises to strengthen their financial position. Institution-specific strategies may require the payment of severance to existing employees as institutions are restructured or wound-down, with potential fiscal implications (see below).

Box 2. Strengthening State-Owned Enterprises (SOEs) and Statutory Bodies (SBs)

Grenada's plan to reform its financially weak SOEs and SBs includes two pillars: the overall reform of the sector and institution specific reforms (Annex III). Reforms of the overall parastatal sector include:

- *Stronger government oversight***.** The authorities introduced a performance-monitoring framework under which SOEs and SBs are required to: (i) adhere to the reporting requirements under the new PFM Act; (ii) develop an institutional plan consistent with the overall fiscal objectives; and (iii) prepare budget and financial forecasts for the next three financial years. Oversight responsibility is now centralized within the Ministry of Finance.
- *Centralized policy for employment conditions***.** A centralized policy is being developed to standardize employment practices in SOEs/SBs and address the structural challenges of high labor costs and inflexible employment conditions. The government has also mandated that all SOEs/SBs seek direction, ahead of wage and salary negotiations, from the central government to reduce the disparity between remuneration and employment conditions in SOEs/SBs and the central government.

[4] The loan agreement with the OPEC Fund for International Development (OFID) for US$10 million (1 percent of GDP) was signed and ratified by the Grenadian parliament in 2013; the ECF arrangement was approved in June 2014.

[5] The indicative target on the net increase in contracted debt specified that "contracting" referred to the signature and ratification of the loan agreement (IMF Country Report No. 14/363, TMU ¶12), which could not be applied to the zero ceiling on non-concessional external borrowing. The TMU has been clarified to apply the former definition to all references to 'contracting" in the TMU.

Box 2. Strengthening State-Owned Enterprises (SOEs) and Statutory Bodies (SBs) (Concluded)

- *Introduction of a new dividend policy***.** SOEs are now required to comply with dividend payments to the central government. Previously, no policy was in place and no SOEs paid dividends to the central government.
- *Requirements to reduce expenditure*. In line with the central government's target, the government has mandated that all SOEs and SBs reduce non-personnel spending by 20 percent and report on progress in this regard to the Ministry of Finance on a quarterly basis.
- *Revamped tariff-setting regime*. Reforms to the pricing regime of some commercial SOEs will be considered to resolving revenue weaknesses in these institutions.
- *Pension reform*. The government has directed parastatal entities to prepare and implement a plan to address unfunded pension liabilities, which are significant in some entities.

Institution-specific reform strategy. The implementation of the institution-specific strategy will proceed in two phases, with the initial phase (2015-16) focused on strengthening the financial condition of institutions that face the most pressing challenges and with remaining institutions to be reformed in the second phase (2017-19). These individual reform strategies are generally consistent with the recommendations made by CARTAC technical assistance and, if diligently implemented, will provide a sound basis for addressing key performance issues in the sector.

16. Far-reaching reforms of the fiscal policy framework, to introduce a rule-based setting and promote transparency and accountability, have also been completed:

- *Fiscal responsibility legislation (FRL).* Parliament has approved key fiscal responsibility legislation to transition Grenada to a rule-based fiscal framework, promote durable fiscal discipline and secure a sustainable fiscal position (**structural benchmark** for end-2014). The legislation is broadly in line with program commitments (Annex IV):
  - It maintains the program's primary surplus of 3½ percent of GDP until public debt is reduced to 55 percent of GDP (estimated around 2022), after which a lower primary balance would stabilize debt at this level.[6]
  - The primary balance target will be maintained over the cycle through an expenditure rule, which caps real spending growth at trend real GDP growth (2 percent), while allowing revenues to absorb cyclical fluctuations.
  - While the legislation does not include a wage bill growth target as anticipated, it targets the ratio of expenditure on the wage bill at nine percent of GDP and requires wage setting to be forward-looking rather than retroactive.

[6] This target is significantly more ambitious than the recently revised regional target for the Eastern Caribbean Currency Union of 60 percent of GDP by 2030, and consistent with the previous regional target of reaching 60 percent of GDP by 2020.

  - The legislation was strengthened relative to the program to mandate that 40 percent of the CBI inflows be saved for general budget financing purposes, including contingency spending, natural disasters and debt reduction.

- *Tax incentive regime*. Parliament has also approved a major reform of the tax incentive regime to make it more rule-based and transparent by removing the discretion of the executive to grant such incentives from the various tax acts (an end-November 2014 **structural benchmark** and **prior action** for the second review). The authorities will also remove discretion from the granting of customs duty exemptions after coordinating with CARICOM given their regional commitments (MEFP¶12). The comprehensive reform of the tax incentive regime ensures that all tax incentives will now be codified in the legislation, making the investment environment more predictable and safeguarding the fiscal position going forward. The reform was delayed as the authorities engaged in stakeholder consultations and estimated the potential revenue impact of the reform, with technical assistance from the IFC and the IMF. With the bulk of the reform completed, the authorities are now in a position to sign into force the recently passed Investment Act that draws on the tax incentive legislation.

- *Public finance management implementation*. Parliament passed minor revisions to the 2014 PFM Act, which was approved in August 2014 in line with the structural benchmark, but has not yet come into force. With these revisions complete, the signing into force of the Act is expected in early June (a **prior action** for the second review). The IMF provided technical assistance to draft regulations to support implementation of the Act, which are expected to be completed no later than early July (end-June 2015 **structural benchmark**).

- *Strengthening the management of public debt*. To strengthen the management of public debt, parliament passed a new Public Debt Management Act (**structural benchmark** for end-March 2015). The authorities also finalized a medium-term debt management strategy covering the period 2015-2020, which will guide their future borrowing policies and will focus on minimizing refinancing risk.[7]

17. The authorities are making progress in strengthening tax administration. As anticipated, a new Customs Act was approved by parliament in November 2014 and a new Tax Administration Act, drafted with technical assistance from the IMF, is being finalized (end-November 2015 **structural benchmark**). The authorities have also taken steps to strengthen administration with technical assistance from the IMF's Fiscal Affairs Department and CARTAC. They are restructuring the Inland Revenue Department (IRD) to establish a Large and Medium Taxpayer Service Unit, which will strengthen IRD's capacity to enforce tax compliance by the largest taxpayers and have introduced in June 2015 a presumptive tax for small taxpayers to facilitate their tax compliance.

[7] The strategy was prepared with technical assistance from the IMF and the World Bank.

POLICY DISCUSSIONS

Discussions focused on the outlook for meeting the fiscal targets for 2015-16 and on the structural reform agenda. Modifications are proposed to the 2015 performance criteria to accommodate the one-time costs of structural reforms. New structural conditionality seeks the sustainable management of CBI receipts and bringing the chart of accounts in line with international best practice.

A. Restoring Fiscal Sustainability

18. The outlook for continued strong fiscal performance in 2015 is good, supported by scaled-down expenditure allocations relative to the budget.

- Last year's strong fiscal performance continued through April 2015, with revenue outperforming program projections despite delays in implementing some of the measures.[8] The primary balance swung into a surplus of about 0.6 percent of GDP in the first four months of 2015, outperforming program projections by about 0.1 percent of GDP and boding well for fiscal performance in the remainder of the year.
- The main downside risk to the fiscal outlook is a faster than planned execution of the capital budget. Despite slow receipts thus far, the budget counts on significant inflows from CBI (4¼ percent of GDP) to finance above-program spending on infrastructure and social projects.[9] Some of these projects are recurrent in nature and may be hard to scale back in case of a shortfall in CBI receipts. As a result, staff concluded that the structural benchmark for a 2015 budget in line with program commitments was not met. However, the authorities have put in place corrective measures to realign the budget with program commitments through a cabinet decision (**prior action**) to reduce expenditure allocations to program levels, and are closely monitoring and managing capital budget execution. CBI receipts in excess of arrear repayment needs could finance spending on infrastructure projects, as allowed under the program.
- The authorities agreed to an additional reduction in budget allocations to reflect lower than expected grants from the Petrocaribe arrangement, which are projected to halve to 0.4 percent of GDP in 2015 (Annex I). Reduced grants from Petrocaribe reflect the direct effect of lower oil prices on receipts from fuel sales, as well as a smaller share of these sales that can be

[8] The taxation of personal allowances of the St. George's University's non-national employees, estimated to yield 0.3 percent of GDP, has not yet contributed to higher revenues as collection of the taxes has not yet proceeded. Should the revenue overperformance by mid-2015 not be sufficient to offset this loss, the authorities stand ready to increase the excises on alcohol and tobacco (MEFP ¶6).

[9] Under the program, the first EC$24 million (1 percent of GDP) of the annual flows will be used to accelerate arrear repayment, with the rest of the resources available to finance the public sector investment. Since the beginning of the inflows in September 2014, the receipts have amounted to EC$5.4 million or around 0.2 percent of GDP in the six months to March 2015.

retained as concessional financing for social projects.[10] While some of the shortfall in grants would be offset by grants from the EU and expenditure reallocations, half could not be easily offset and was compensated by a reduction in the expenditure envelope for this year and an increase in the fuel tax.

19. With fiscal over-performance last year resulting in an improved debt trajectory, staff supports accommodating some one-off expenditure this year critical to completing program reforms. These one-off expenditures include: (i) the cost of technical assistance on public sector modernization review, after the anticipated donor grants did not materialize as expected (0.04 percent of GDP); (ii) severance costs associated with the recent decision to restructure two loss-making parastatal entities (0.4 percent of GDP); and (iii) fees to financial and legal advisors at the closing of the debt restructuring (0.2 percent of GDP). In light of the criticality of these reforms and the one-off nature of the associated expenses, staff supports including adjustors on the programmed primary expenditure and primary surplus targets up to a cumulative ceiling of US$6.3 million (0.6 percent of GDP; TMU¶5 and 7) to accommodate these expenses. Including these expenditures, debt would remain consistent with a trajectory that brings it towards 60 percent of GDP by 2020.

20. The monitoring of the public sector wage bill has been more challenging than anticipated, but reforms are in train to address this. Wage spending on public servants is captured not only under the wage bill, but also under capital spending, where many recurrent programs with a large wage component are recorded. While the broadening of the wage bill target during the first review was intended to capture both categories, it also captured many projects that do not include a wage component and that cannot be easily separated from those that do.[11] Going forward, staff and the authorities propose to restore the original focus on the recorded wage bill, while accelerating reforms to introduce a new chart of accounts (COA) in 2016. The new COA was developed with assistance from CARTAC, is consistent with the 2014 Government Finance Statistics Manual, and clearly identifies wage expenditures on all civil servants, which will facilitate monitoring of the wage bill going forward. Implementation of the new COA for the 2016 budget is proposed as a **structural benchmark** for end-December 2015.

[10] Under Grenada's Petrocaribe arrangement, a share of the fuel imports is settled immediately, with the remainder converted into a concessional loan that can be used for social projects (see IMF Country Report No. 14/196, Annex VI). This share depends on the level of international oil prices, with the concessional financing portion falling from 60 percent to 40 percent of fuel imports since 2014.

[11] The broadened wage bill was proxied by spending under certain Chart of Account codes, as identified in the November 2014 TMU (¶17).

21. A further round of adjustment measures will be needed in the 2016 budget to complete the programmed fiscal consolidation of 8 percent of GDP. A total fiscal consolidation of 2⅓ percent of GDP is needed for 2016, of which about 1⅓ percent of GDP requires additional measures. While the composition of the planned measures has changed somewhat relative to originally envisioned under the program, the authorities remain committed to putting the needed measures in place with the 2016 budget.

Adjustment Effort

(in percent of GDP; cumulative from end 2013)

	2014		2015		2016	
	1st Rev.	Act.	1st Rev.	Proj.	1st Rev.	Proj.
1. Adjustment effort (i+ii)	**2.4**	**2.6**	**5.8**	**5.2**	**8.0**	**7.4**
i. Current revenue and expenditure	**2.8**	**2.7**	**4.2**	**3.5**	**6.0**	**5.4**
a. Already enacted measures	2.8	2.7	3.9	3.5	4.4	4.2
b. Remaining measures	...	...	0.4	...	1.6	1.2
Petrol tax increase	...	...	...	...	...	0.4
Financial Activities Tax	...	...	0.3	...	0.3	0.3
Civil service reforms	...	...	...	...	0.3	0.3
Property value update	...	...	...	...	0.1	0.1
Others	...	...	...	...	0.1	0.2
Property tax increase	...	...	...	...	0.4	...
Reduced exemptions to GRENLEC	...	...	...	...	0.4	...
Tire levy	...	...	0.1	...	0.1	...
ii. Streamline capital spending	**-0.4**	**0.0**	**1.6**	**1.6**	**2.0**	**2.1**
2. Revenue and expenditure overperformance	**0.4**	**0.8**	**0.1**	**0.7**	**0.0**	**0.6**
3. Total underlying adjustment (1+2)	**2.8**	**3.4**	**5.9**	**5.9**	**8.0**	**8.0**

22. With significant reforms to the fiscal framework finalized, the authorities' focus will turn towards strengthening the management of the CBI program and undertaking a strategic review of the public sector (MEFP¶12):

- *Ensuring the transparent and sustainable management of CBI receipts.* Staff and the authorities agreed on the importance of sustainable and transparent management/use of all proceeds from the CBI program. To strengthen transparency of the CBI program, the authorities committed to publishing on a quarterly basis all CBI-related statistics (proposed **new quarterly structural benchmark**). For this purpose, the Cabinet approved a conclusion mandating publication of the CBI statistics (**prior action** for the second review). Regulations for the National Transformation Fund (NTF) to put in place a governance framework (end-February 2015 **structural benchmark**) are nearing completion, with draft regulations prepared with technical assistance from CARTAC and expected to be finalized in July 2015 (MEFP ¶12).

- *Public sector modernization reforms.* The authorities are initiating a strategic review of the public sector and will develop a reform strategy to address its cost and efficiency. Donor grants to facilitate the review have not materialized. Given the importance of the reform, the authorities will self-finance it and staff proposes an adjustor on the primary expenditure and primary balance targets to accommodate the limited cost of the reform with no implications for debt sustainability (TMU¶5, 7). In light of the financing challenges, the authorities have requested a rephasing of the associated structural benchmark from end-September 2015 to end-March 2016, which was anticipated at the time of the program request and staff supports.

B. Structural Reforms to Support Competitiveness and Growth Prospects

23. Grenada's growth strategy is designed to address its critical constraints to growth and is focused on:

- *Growth and Poverty Reduction Strategy (GPRS).* The authorities finalized their new GPRS for the period 2014-18, which will guide their efforts toward a higher, sustainable and more equitable growth path (MEFP¶13).

  - Staff notes that the GPRS is closely intertwined with the authorities' ECF-supported program, with a more medium-term vision for the development of Grenada's growth and job creation potential. To strengthen the GPRS' strategic value, the authorities could enhance its linkages with the operational planning and budgetary process of all public institutions.
  - Staff and the authorities agreed that strengthening of labor and social statistics would be critical to provide the needed input into the government's social support strategy and its implementation going forward. The authorities are committed to continuing the annual Labor Force Surveys (conducted in 2013 and 2014) and are strengthening the capacity of the statistical office to process and analyze labor market data, with assistance from the World Bank. From 2015, the surveys 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. As part of the Regional Labor Market Information System project with the ILO, the authorities will also undertake the first labor demand survey in 2015 through the Job Opening and Labor Turnover survey, with the results expected by end-year.

- *Investment Act*. While Grenada's parliament approved a new Investment Act in November 2014 to bring Grenada's investment regime in line with international best practice (an end-November 2014 **structural benchmark**), it has not entered into force as some provisions of the act are linked to the recently completed reform of the tax incentive regime. With the bulk of the tax incentive reform now complete, the authorities are committed to bringing the Act into force. To support implementation of the Act, the authorities received technical assistance from the WB/IFC to conduct an assessment of the role of the Grenada Industrial Development Corporation (GIDC), the agency responsible for investor promotion in Grenada.

- *Energy sector reforms*. Energy sector reforms have been launched to lower energy costs and support growth. The authorities have completed draft revisions to the Electricity Supply Act to open the sector to competition, encourage renewable energy, and introduce an independent regulator to set electricity tariffs. Public consultations on the draft legislation were held in February 2015 and the new legislation is expected to be put in place after further discussions with the stakeholders (MEFP¶13).

- *Other growth-enhancing reforms*. The authorities are also undertaking other growth-enhancing reforms, including to strengthen the social safety net (discussed below). They also recently approved a PPP policy, designed with World Bank assistance, which provides clear principles, processes and institutional responsibilities for identifying and implementing PPP projects, as well as guarding against the accumulation of fiscal risks.

C. Financial Sector Reforms

24. The regional strategy to strengthen the banking system has advanced to the critical implementation stage (MEFP¶14)**.** Over 2015, implementation of the strategy is focused on:

- *Strengthening the framework for bank resolution and supervision.* At its February 2015 meeting, the ECCB Monetary Council approved key legislative reforms to: (i) strengthen the regional framework for bank regulation and supervision, including through the introduction of a new Banking Act;, as well as to (ii) establish an asset management company (AMC) to manage nonperforming assets and act as the receiver of insolvent banks. Grenada's parliament approved the new Banking Act in April 2015. The AMC legislation is pending sign-off by all countries. The Monetary Council has also committed to drafting regionally harmonized legislation to introduce deposit insurance and reform foreclosure proceedings.
- *Completion of the bank diagnostics and addressing bank weaknesses*. The regional asset quality review (AQR) was completed by end-April 2015, as anticipated, and results are under consideration by the ECCB. The AQR will be followed by a viability assessment of each bank, expected to be submitted to the ECCB in June 2015 and discussed at its Monetary Council subsequently, along with a regional assessment of potential mergers and/or groupings of assets and liabilities across banks that could be attractive for potential investors. Following these discussions, the strategy to address the results of the bank diagnosis for Grenada will be an important focus of the third ECF review, especially in light of potential fiscal implications. Staff and the authorities agreed that private sector solutions should be sought in order to safeguard fiscal sustainability.

25. Reforms to strengthen the regulation and supervision of the nonbank financial sector are continuing (MEFP¶15).

- In the credit union sector, GARFIN is participating in the Caribbean Association of Credit Union Supervisors and remains committed to the organization as a first step toward regional regulation and supervision. GARFIN has also moved toward risk-based supervision of credit unions and, with technical assistance from CARTAC, is working to strengthen supervision and regulation, including by introducing a more stringent risk weighted capital adequacy regime. To formalize the new framework, the authorities intend to introduce amendments to the Cooperative Societies Act in 2015 to raise the minimum level of institutional capital required to 7 percent and the total capital ratio to 12 percent (compared to 10 percent currently). Finally, GARFIN is committed to undertaking a credit quality review of Grenadian credit unions, with technical assistance from CARTAC, as part of an ECCU-wide initiative.
- The authorities continue to support the establishment of the Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor of the insurance sector. In the mean time, in line with international best practice, GARFIN has moved to consolidated supervision and is strengthening cooperation with home country authorities to further strengthen supervision. Formal frameworks for consolidated and risk-based supervision for the sector are being finalized.
- In the pension sector, the authorities plan to strengthen the supervisory provisions in the Insurance Act as they relate to pension plan supervision to introduce provisions to regulate intermediaries, such as plan managers and administrators.

PROGRAM DESIGN AND FINANCING

26. Modifications of performance criteria and an indicative target are proposed in support of the program's objectives. Modifications are proposed to: (i) the end-June and end-December 2015 performance criteria (floor on primary balance and ceiling on primary spending) to accommodate the potential cost of critical structural reforms and debt restructuring fees of up to 0.6 percent of GDP; (ii) the ceiling on non-concessional external borrowing to clarify when a loan is considered contracted and consequently to rename the performance criterion; and (iii) the indicative target on the net change in central government and guaranteed debt to clarify that the change in debt is measured on a disbursement, rather than a contracting, basis. In addition, new quantitative targets are set for end-June 2016 (MEFP Table 1). With respect to structural benchmarks: (i) two new structural benchmarks are proposed to ensure the transparent and sustainable management of CBI receipts and to bring the chart of accounts in line with international best practice; and (ii) the structural benchmark on public sector modernization reform is proposed to be rephased from end-September 2015 to end-March 2016, as anticipated in the original program in case of delays in donor grants (MEFP Table 2).

27. Financing assurances are in place for the second review. The completion of the debt restructuring with Eximbank and the restructuring agreement with the largest private creditors, along with improvement in the macroeconomic outlook, are expected to close the remaining financing gaps over the ECF-program period. Therefore, the program is expected to be fully financed.

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

29. Risks to program implementation have declined relative to the first review, with half of the programmed fiscal consolidation achieved and important progress made on Grenada's debt restructuring. Risks related to potential disruptions in the Petrocaribe arrangement have also subsided as Petrocaribe grant financing has already declined due to the fall in world oil prices, with the related fiscal impact already absorbed. However, risks due to capacity constraints and natural disasters continue to be relevant.

STAFF APPRAISAL

30. Economic tailwinds have supported program implementation. Activity has been strong, supported by an expansion of capacity in the tourism sector, robust external demand and an emerging improvement in confidence. The recovery appears likely to maintain its momentum in the near term, providing support for the government to undertake one final round of fiscal consolidation next year. However, challenges remain as the social fabric remains strained from still high unemployment and insufficiently broad-based growth.

31. **Notable progress has been made to address fiscal imbalances and debt sustainability concerns.** The fiscal consolidation has proceeded faster than programmed in 2014 and is projected to be on track in 2015; this will create some margin to accommodate additional spending to support critical fiscal structural reforms. The recent debt restructuring agreement is a landmark development that will help alleviate financing and debt sustainability pressures. Restructuring of the remaining debt, expected to be completed before year-end, will also be critical to anchor the debt path going forward.

32. **Concerted policy implementation will be needed to complete the programmed fiscal adjustment.** For 2015, close monitoring of implementation of the capital budget remains critical to keeping the program on track. Renewed efforts to implement and effectively administer the tax measures committed under the program will also be important. They could also contribute toward the last round of adjustment in the context of the 2016 budget, which will require difficult policy choices.

33. **Despite delays, major fiscal structural reforms to anchor debt sustainability have been completed.** The authorities made notable progress in advancing their newly approved reform strategy for parastatal entities, with comprehensive reforms of their governance framework and action to restructure the weakest entities breaking new ground in the ECCU region. The completion of the reforms to the fiscal policy framework —most importantly the fiscal responsibility legislation, tax incentive reforms and debt management legislation—will provide the critical mass needed to lock in durable fiscal discipline, and constitutes a historical break from practices that stoked fiscal imbalances and are still prevalent in the region. Finally, the upcoming revision of the public chart of accounts needs to significantly facilitate the monitoring of the total wage spending on public servants and assist fiscal policy decision making by drawing a clear distinction between current and capital spending.

34. **Transparent and balanced management of resources from the new CBI program is essential to supporting overall fiscal reforms.** Staff welcomes the recent decision to increase the transparency of the CBI program by publishing comprehensive data on the inflows, as well as plans to strengthen the program's governance framework with regulations for the National Transformation Fund. In particular, staff welcomes the commitment—now embedded in the fiscal responsibility legislation—to balance the use of the funds between savings to reduce debt or meet contingent liabilities and spending for capital projects. Given the likely exhaustible nature of these flows, using these resources to finance one-off transformational infrastructure projects—as opposed to recurrent spending—would have substantial dividends in terms of reducing fiscal risks from a sudden stop of these flows while boosting potential growth.

35. **Raising Grenada's growth potential will hinge on continued structural reforms.** The ongoing wage freeze in the public sector will contribute to improved external competitiveness in the

absence of other policy tools, but further reforms to reduce production costs and boost the economy's potential will be needed. Staff supports the authorities' strategy in the electricity sector of engaging with all stakeholders to find a durable legislative solution to the regulation of the sector and catalyzing the development of the renewable energy sector. Benefits could be derived from refocusing the investment agency towards its investment promotion function, as well as from increasing the efficiency of the government's capital budgeting process and its ability to identify projects with highest value-for-money.

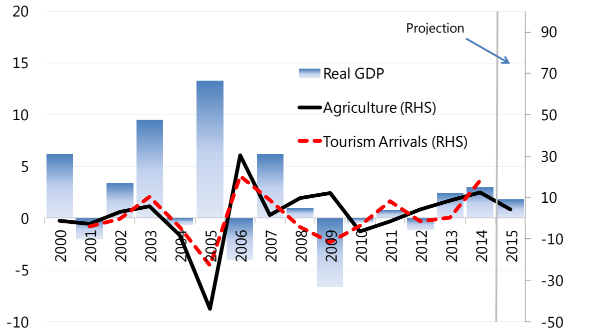
36. Strengthening the financial sector is an important regional focus now that the banking sector diagnostics are nearing completion. The authorities are fully engaged in regional efforts to revamp the regulatory framework for banks and are committed to take measures to strengthen Grenada's financial system based on the results of the diagnostics. Once the results are finalized, the discussion with the authorities on the strategy going forward will be undertaken in the context of future program reviews and will be based on the principle of giving strict priority to private sector solutions given limited fiscal space.

37. Risks to the program have moderated but need to be managed carefully. The authorities' recent track record, their commitment to program implementation, and the accomplishments in fiscal and structural reforms provide confidence that the program will meet its objectives. Staff supports the completion of the second review under the ECF-arrangement, the modification of quantitative performance criteria, the waiver for the nonobservance of a performance criterion, the financing assurances review.

Figure 1. Grenada: Recent Economic Developments

The economic recovery has strengthened…

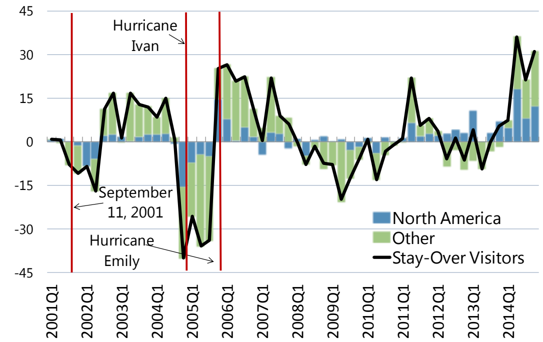
Grenada: Economic Growth
(in percent)



Sources: Grenada authorities.

…due to strong external demand for Grenada's tourism services.

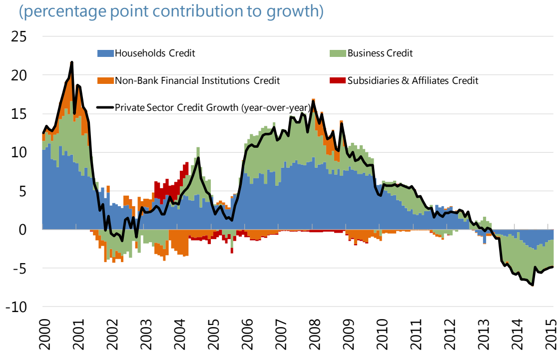
Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)



Source: Caribbean Tourism Organization.

Domestic demand remains weak as both the public and private sectors deleverage…

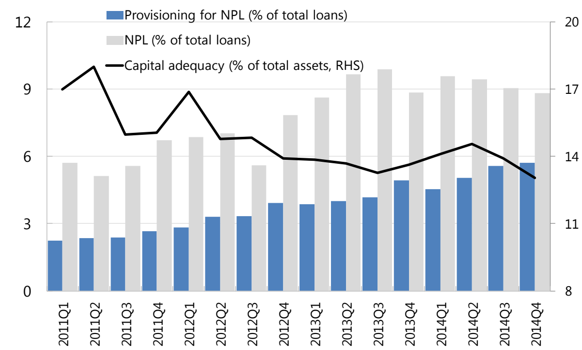
Credit growth
(percentage point contribution to growth)



Sources: Grenada authorities and Fund staff estimates.

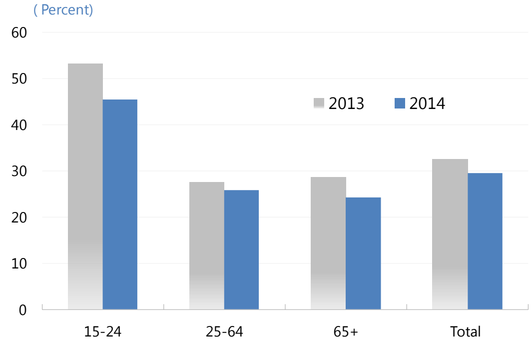
….with lower credit demand amplified by a reduction in credit supply as banks, burdened by high levels of nonperforming assets, repair their balance sheets.

Financial Soundness Indicators
(Percent)



Elevated unemployment, particularly among youth, remains an important constraint on domestic demand.

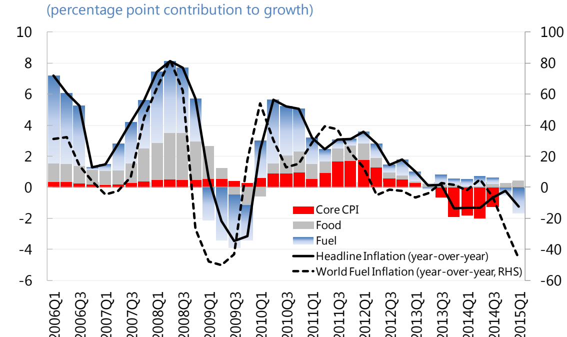
Unemployment Rate by Age
(Percent)



Sources: Grenada authorities.

Weak domestic demand continues to put downward pressures on prices, although headline inflation is increasingly driven by the decline in global energy prices.

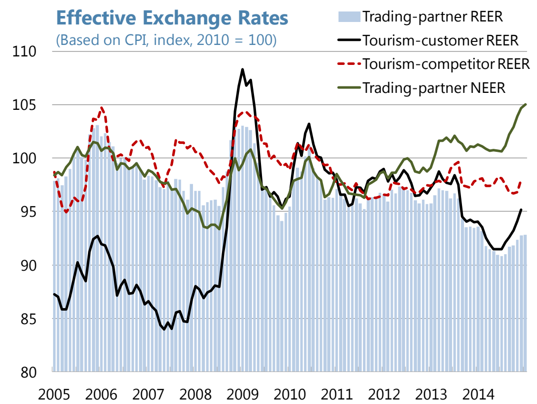
Grenada: Inflation
(percentage point contribution to growth)



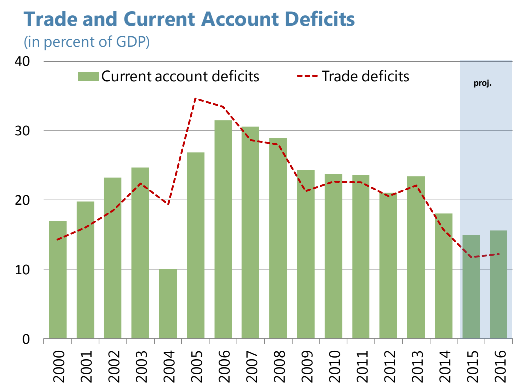
Sources: Grenada authorities, Fund staff estimates and WEO.

Figure 2. Grenada: External Developments

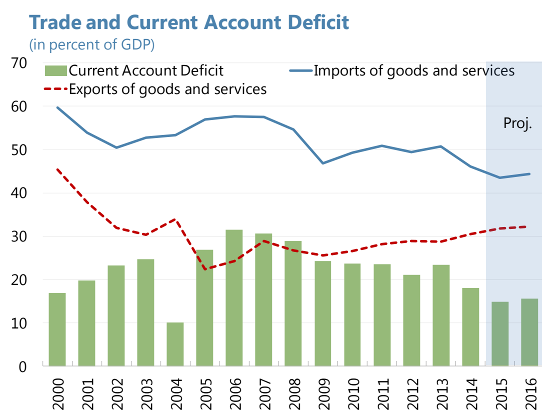
Deflation has strengthened Grenada's price competitiveness but the improvement has been partially offset by the recent appreciation of the U.S. dollar.



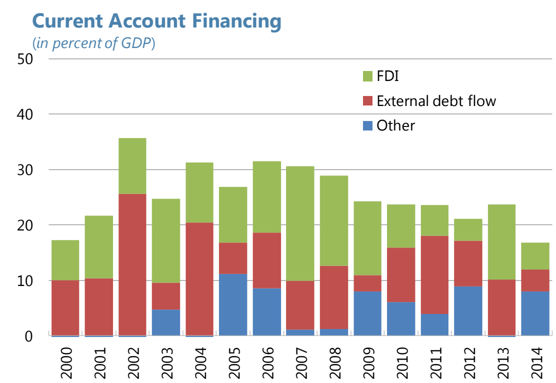
The trade and current account deficits are continuing to improve...



...as Grenada's tourism exports increased and imports compressed with weak domestic demand and lower oil prices.

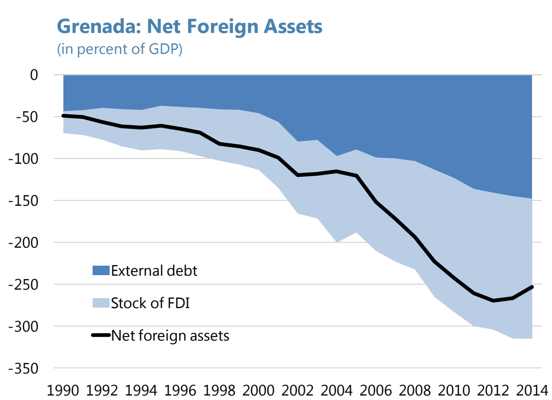


In 2014, the current account was financed by FDI, capital transfers, and debt, including exceptional financing from IFIs...

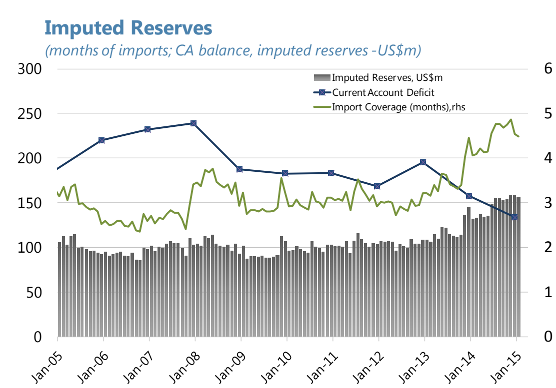


Source: ECCB.

...and Grenada's external debt has increased despite some debt forgiveness from the restructuring of the Eximbank's claims on Grenada.



Imputed reserves rose in 2014 alongside the improvement in the current account balance.

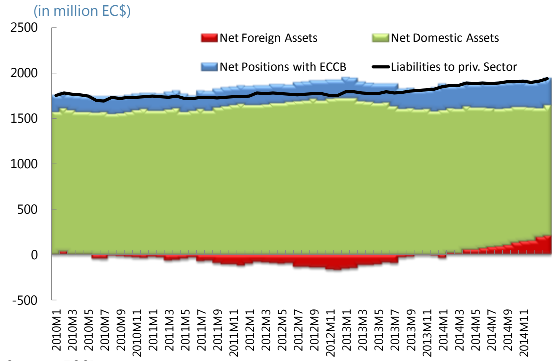


Sources: ECCB and IMF staff estimates.

Figure 3. Grenada: Monetary Developments

Banks' deleveraging has contributed to a contraction in their domestic assets and expansion in their foreign assets.

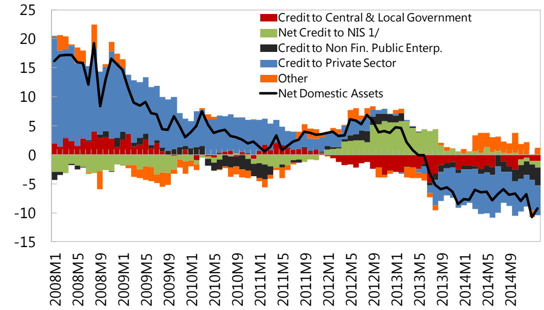
Net Assets of the Banking System
(in million EC$)



Sources: ECCB

Credit to the private sector has continued to contract, as has lending to the government.

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

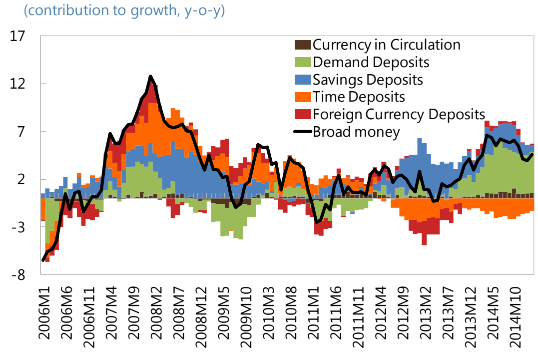


Sources: ECCB

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.

The contraction in credit has occurred despite a continued expansion in broad money.

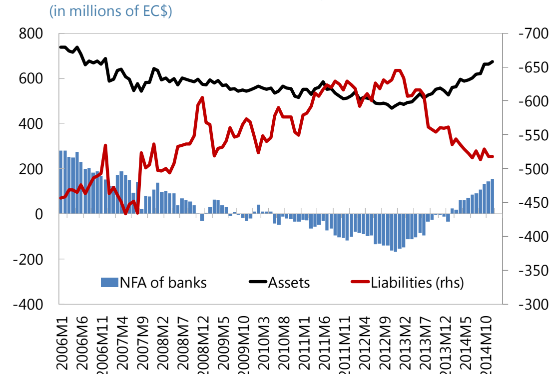
Components of Broad Money Growth (M2)
(contribution to growth, y-o-y)



Sources: ECCB and Fund staff estimates.

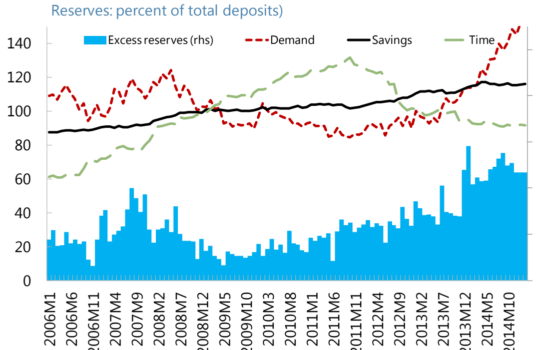
As a result, banks are relatively liquid and have expanded their foreign assets and reduced their foreign liabilities…

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



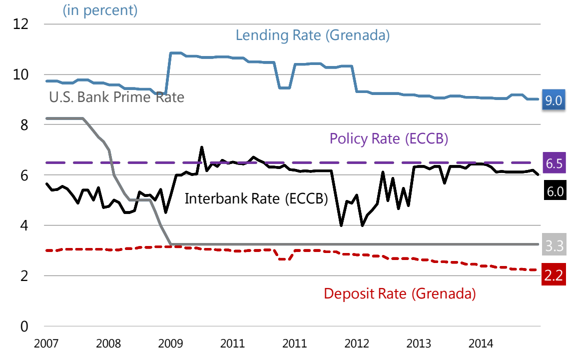
…while banks' excess reserves at the central bank remain at historical highs.

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



Despite high liquidity in the banking system, the decline in average deposit rates has been limited given the regional floor on savings deposit rates.

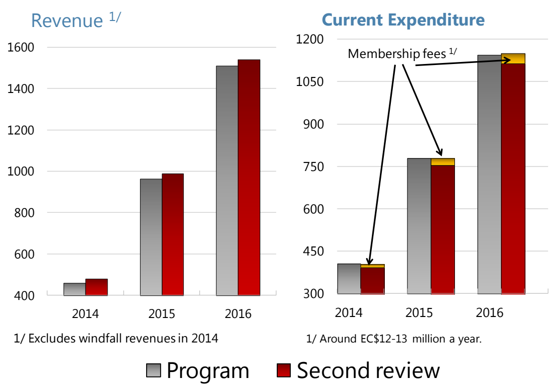
Interest Rates
(in percent)



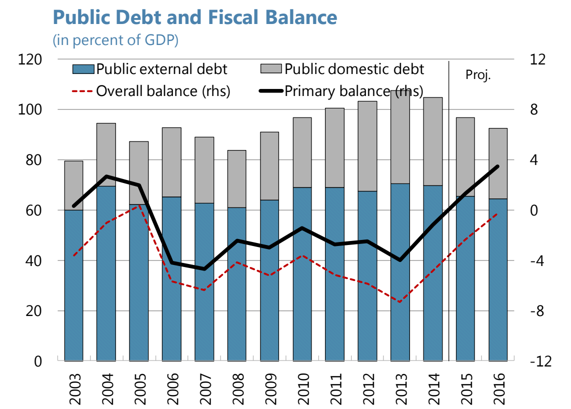
Sources: ECCB and Haver Analytics.

Figure 4. Grenada: Fiscal Developments

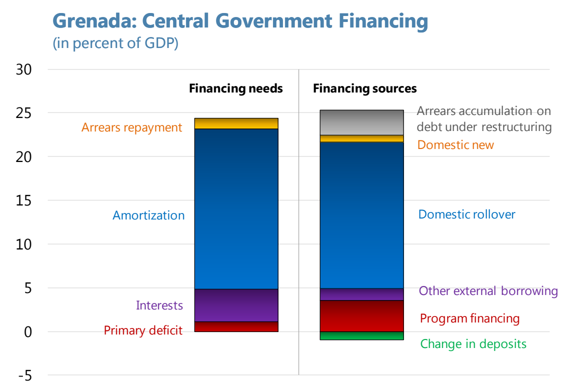
The fiscal consolidation was stronger than programmed in 2014.



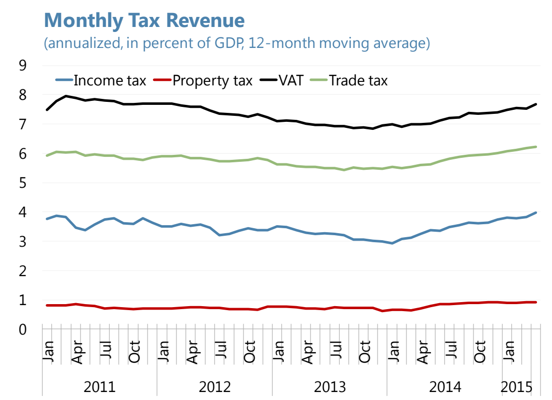
This, together with initial savings from debt restructuring, lowered the public debt ratio for the first time since the crisis.



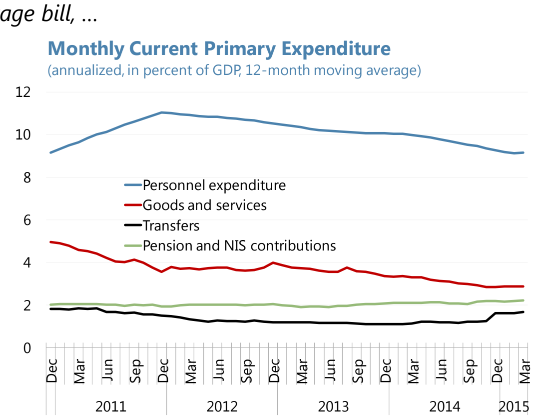
Sizable financing needs in 2014 were met with largely IFIs' program financing, rollover of domestic debt and arrear accumulation on debt under restructuring.



Tax revenue improved across categories, reflecting stronger yield of the fiscal consolidation measures and the robust economic recovery.



Recurrent expenditures are declining with the authorities' continued efforts to contain spending, especially on the wage bill, ...



...with the size of civil service shrinking further as a result of the implementation of the government's attrition policy.

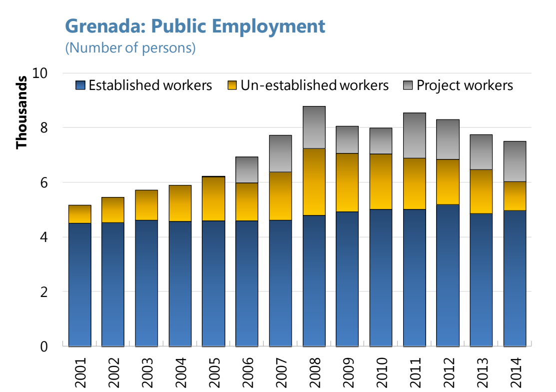


Table 1. Grenada: Selected Economic and Financial Indicators, 2009-20

	2009	2010	2011	2012	2013	2014		2015		2016	2017	2018	2019	2020
						Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise specified)													
Output and prices														
Real GDP	-6.6	-0.5	0.8	-1.1	2.4	1.1	3.0	1.2	1.7	2.0	2.4	2.5	2.5	2.5
Nominal GDP	-6.6	0.0	1.0	2.7	4.5	3.1	4.6	3.2	2.5	5.0	4.8	5.3	5.4	5.4
Consumer prices, end of period	-2.3	4.2	3.5	1.8	-1.2	1.7	-0.6	1.6	0.5	2.4	2.4	2.1	1.9	1.9
Consumer prices, period average	-0.3	3.4	3.0	2.4	0.0	1.6	-1.0	1.7	-0.4	2.2	2.3	2.2	2.0	1.9
Output gap (percent of potential GDP)	-1.4	-2.6	-2.5	-4.4	-3.0	-2.2	-1.3	-2.0	-1.1	-0.7	-0.6	-0.2	0.0	1.0
Real effective exchange rate	-8.8	3.1	-0.9	-1.0	-2.3	...	...	...	...	...	...	...	...	...
(annual average, depreciation -)														
	(In percent of GDP, unless otherwise specified)													
Central government balances (accrual)														
Revenue	22.8	24.6	23.6	20.8	21.0	24.9	25.5	24.9	24.2	23.9	24.7	24.8	24.9	24.9
Taxes	17.5	18.7	18.4	18.0	16.7	18.7	19.0	19.9	19.4	20.1	20.1	20.1	20.1	20.1
Non-tax revenue	2.0	1.9	1.8	1.7	3.0	1.6	2.3	1.6	1.6	1.6	2.4	2.5	2.5	2.5
Grants	3.3	4.0	3.4	1.1	1.4	4.6	4.3	3.3	3.2	2.2	2.2	2.2	2.2	2.2
Expenditure	28.0	28.2	28.8	26.7	28.3	31.0	30.4	27.9	26.6	24.2	24.7	24.2	24.1	23.9
Current primary expenditure	18.2	18.8	18.6	18.3	17.9	17.9	17.1	16.0	15.5	14.6	14.6	14.6	14.6	14.6
Interest payments	2.2	2.2	2.5	3.4	3.3	3.6	3.7	4.3	3.7	3.7	3.4	2.9	2.7	2.5
Capital expenditure	7.6	7.3	7.8	5.0	7.1	9.5	9.6	7.5	7.4	5.8	6.7	6.7	6.8	6.8
Primary balance	-3.0	-1.5	-2.7	-2.5	-4.0	-2.4	-1.2	1.3	1.3	3.5	3.5	3.5	3.5	3.5
Overall balance	-5.2	-3.6	-5.2	-5.9	-7.3	-6.0	-4.9	-3.0	-2.4	-0.3	0.0	0.6	0.8	1.0
Public debt (incl. guaranteed)	91.1	96.9	100.7	103.3	107.5	111.3	104.9	110.2	96.9	92.6	82.5	77.7	73.0	68.3
Domestic	27.2	28.0	31.7	35.8	37.0	42.1	35.0	39.4	31.4	28.3	26.6	26.1	25.7	25.2
External	63.9	68.9	69.0	67.6	70.6	69.2	69.9	70.8	65.5	64.4	55.8	51.6	47.3	43.2
Money and credit, end of period (annual percent change)														
Broad money (M2)	3.0	1.0	0.7	0.7	4.1	1.4	4.1	...	2.5	5.0	...	...	...	...
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	1.1	-5.1	...	-1.6	3.5	...	...	...	...
Balance of payments														
Current account balance, o/w: 1/	-24.3	-23.7	-23.6	-21.1	-23.4	-23.8	-18.0	-20.6	-14.9	-15.6	-16.0	-15.8	-15.5	-15.3
Exports of goods and services	25.5	26.6	28.2	28.9	28.7	32.9	30.4	33.1	31.8	32.1	33.4	33.7	33.9	34.1
Imports of goods and services	46.8	49.2	50.8	49.5	50.8	54.7	46.2	50.8	43.5	44.4	45.9	46.4	46.7	46.9
Capital and financial account balances 2/	34.0	24.4	24.4	17.4	24.1	9.0	18.3	17.0	15.2	13.7	16.5	17.0	16.5	16.2
Overall balance	-0.2	-2.1	0.1	-1.0	1.1	-14.9	4.9	-3.7	0.3	-1.8	0.5	1.2	1.0	0.9
Overall financing	0.2	2.1	-0.1	1.0	-1.1	-0.6	-4.9	-0.7	-3.1	-0.7	-0.7	-1.2	-1.0	-0.9
Financing gap 3/	...	...	...	...	...	15.5	0.0	4.3	2.8	2.6	0.1	0.0	0.0	0.0
External debt (gross)	113.5	123.4	136.3	141.0	145.1	160.0	148.0	163.2	143.5	139.9	130.2	125.5	119.8	114.2
Savings-Investment balance	-24.3	-23.7	-23.6	-21.1	-23.4	-23.8	-18.0	-20.6	-14.9	-15.6	-16.0	-15.8	-15.5	-15.3
Savings	-0.4	-1.7	-3.7	-4.7	4.6	2.0	3.8	2.3	4.7	3.5	7.6	8.9	10.6	10.8
Investment	23.9	22.0	19.9	16.3	28.0	25.8	21.8	22.9	19.6	19.0	23.5	24.7	26.1	26.1
Memorandum items:														
Underlying primary balance 4/	-3.0	-1.5	-2.7	-2.5	-4.6	-1.3	-1.2	1.3	1.3	3.5	3.5	3.5	3.5	3.5
Nominal GDP (EC$ million)	2,082	2,082	2,102	2,160	2,256	2265	2,360	2,338	2,419	2,540	2,661	2,802	2,952	3,110
Net imputed international reserves														
Months of imports of goods and services	3.6	3.1	3.2	2.9	4.0	3.7	4.9	3.7	4.6	4.3	4.1	4.0	4.0	4.0

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.
1/ The change between program and actual value in 2014 reflects latest revision from the authorities.
2/ The financing gap in 2014 was filled by exceptional financing which is captured in the financing gap from 2015 onwards.
3/ To be closed through IMF and other IFIs financing and debt restructuring.
4/ Excluding one-off items (windfall license fees in 2013 and retroactive wage and pension payments in 2013 and 2014).

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.	Prog.	Budget	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**473.9**	**512.8**	**496.4**	**449.3**	**474.7**	**564.9**	**602.8**	**581.5**	**721.2**	**585.2**	**603.3**	**607.1**	**658.5**	**695.3**	**734.6**	**773.9**
Revenue	405.6	428.9	425.9	425.6	443.4	459.9	502.3	504.4	508.0	508.8	547.4	551.2	599.9	633.7	669.6	705.5
Tax revenue	363.6	388.3	387.4	387.9	376.8	423.1	448.1	466.4	469.8	469.2	507.9	511.7	536.2	564.4	594.6	626.4
Taxes on income and profits	87.2	78.5	73.9	75.5	66.1	77.9	89.9	84.7	95.6	91.7	90.4	97.5	102.2	107.6	113.4	119.4
Taxes on property	18.8	16.8	14.9	16.4	15.1	21.7	21.3	25.6	21.7	20.7	42.3	24.2	25.4	26.7	28.1	29.7
Taxes on goods and services	144.2	169.7	174.4	174.5	170.5	185.6	193.4	207.2	203.1	202.0	217.4	219.3	229.8	241.8	254.7	268.3
Taxes on international trade	113.3	123.3	124.2	121.5	125.1	137.9	143.5	149.0	149.5	154.8	157.8	170.7	178.9	188.3	198.4	209.0
Nontax revenue	41.8	40.4	38.4	37.6	66.7	36.8	54.2	37.9	38.2	39.6	39.5	39.6	63.7	69.3	75.0	79.0
Grants	68.3	83.9	70.5	23.7	31.3	105.0	100.5	77.1	213.1	76.4	55.9	55.9	58.5	61.6	64.9	68.4
Total expenditure and net lending	**582.7**	**588.0**	**605.2**	**576.3**	**639.6**	**701.2**	**717.7**	**652.1**	**793.2**	**642.6**	**633.6**	**614.1**	**657.5**	**678.1**	**711.7**	**744.2**
Current expenditure	424.9	436.8	442.0	468.0	479.2	485.7	491.0	475.5	481.0	464.0	482.6	466.3	480.3	489.4	510.9	532.6
Wages and salaries	191.2	195.3	231.9	227.2	243.5	250.5	242.4	226.6	221.5	219.4	220.1	212.9	223.1	234.8	247.4	260.7
Pensions and NIS contributions	40.8	41.5	40.7	44.0	46.9	52.9	51.6	48.4	48.4	48.9	49.9	50.7	53.1	55.8	58.8	61.8
Goods and services	86.0	109.2	75.1	86.4	75.9	75.9	72.2	73.7	72.4	69.9	71.4	70.3	73.7	77.6	81.7	86.1
Transfers 1/	60.7	45.8	42.7	36.7	37.6	25.3	37.4	25.3	38.4	37.4	25.3	37.4	39.2	41.3	43.5	45.8
Interest payments	46.3	45.0	51.6	73.6	75.3	81.0	87.3	101.6	100.3	88.4	115.9	95.0	91.2	79.9	79.4	78.1
Capital expenditure and net lending	157.8	151.3	163.2	108.4	160.5	215.6	226.7	176.5	312.3	178.6	151.0	147.8	177.2	188.7	200.8	211.6
Grant-financed	23.4	46.1	65.6	23.0	31.3	105.0	90.6	77.1	213.1	76.4	55.9	55.9	58.5	61.6	64.9	68.4
Non-grant financed	134.4	105.2	97.6	85.4	129.2	110.6	136.1	99.4	99.1	102.2	95.1	91.9	118.6	127.1	135.9	143.2
Primary balance 2/	**-62.6**	**-30.3**	**-57.2**	**-53.4**	**-89.6**	**-55.3**	**-27.6**	**31.0**	**28.2**	**31.1**	**85.6**	**87.9**	**92.2**	**97.0**	**102.3**	**107.8**
Overall balance	**-108.9**	**-75.3**	**-108.8**	**-127.0**	**-164.9**	**-136.4**	**-114.9**	**-70.6**	**-72.1**	**-57.4**	**-30.3**	**-7.0**	**1.0**	**17.2**	**22.8**	**29.7**
Public Debt	**1,897.0**	**2,018.0**	**2,116.9**	**2,231.8**	**2,426.7**	**2,521.2**	**2,476.0**	**2,577.1**	**-**	**2,344.9**	**2,592.7**	**2,352.7**	**2,195.1**	**2,177.9**	**2,155.1**	**2,125.4**
Memo items:																
Programmed primary balance						-57.3	-27.6									
Programmed primary balance (adjusted)						**-45.5**	**-27.6**									
Programmed primary spending						622.2	630.4									
Programmed primary spending (adjusted)						**655.8**	**630.4**									
Nominal GDP (EC$ millions)	2,082	2,082	2,102	2,160	2,256	2,265	2,360	2,338	2,419	2,419	2,437	2,540	2,661	2,802	2,952	3,110
Underlying primary balance (EC$ millions) 3/	...	-30.3	-57.2	-53.4	-103.3	-28.9	-28.5	31.0		31.1	85.6	87.9	92.2	97.0	102.3	107.8
Adjustment relative to the previous year (EC$ millions)	...	...	*-26.9*	*3.8*	*-49.9*	*62.1*	*74.7*	*59.8*		*59.6*	*54.6*	*56.9*	...	...	...	...

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 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.	Prog.	Budget	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**22.8**	**24.6**	**23.6**	**20.8**	**21.0**	**24.9**	**25.5**	**24.9**	**29.8**	**24.2**	**24.8**	**23.9**	**24.7**	**24.8**	**24.9**	**24.9**
Revenue	19.5	20.6	20.3	19.7	19.7	20.3	21.3	21.6	21.0	21.0	22.5	21.7	22.5	22.6	22.7	22.7
Tax revenue	17.5	18.7	18.4	18.0	16.7	18.7	19.0	19.9	19.4	19.4	20.8	20.1	20.1	20.1	20.1	20.1
Taxes on income and profits	4.2	3.8	3.5	3.5	2.9	3.4	3.8	3.6	4.0	3.8	3.7	3.8	3.8	3.8	3.8	3.8
Taxes on property	0.9	0.8	0.7	0.8	0.7	1.0	0.9	1.1	0.9	0.9	1.7	1.0	1.0	1.0	1.0	1.0
Taxes on goods and services	6.9	8.2	8.3	8.1	7.6	8.2	8.2	8.9	8.4	8.3	8.9	8.6	8.6	8.6	8.6	8.6
Taxes on international trade	5.4	5.9	5.9	5.6	5.5	6.1	6.1	6.4	6.2	6.4	6.5	6.7	6.7	6.7	6.7	6.7
Nontax revenue	2.0	1.9	1.8	1.7	3.0	1.6	2.3	1.6	1.6	1.6	1.6	1.6	2.4	2.5	2.5	2.5
Grants	3.3	4.0	3.4	1.1	1.4	4.6	4.3	3.3	8.8	3.2	2.3	2.2	2.2	2.2	2.2	2.2
Total expenditure and net lending	**28.0**	**28.2**	**28.8**	**26.7**	**28.3**	**31.0**	**30.4**	**27.9**	**32.8**	**26.6**	**26.0**	**24.2**	**24.7**	**24.2**	**24.1**	**23.9**
Current expenditure	20.4	21.0	21.0	21.7	21.2	21.4	20.8	20.3	19.9	19.2	19.8	18.4	18.0	17.5	17.3	17.1
Wages and salaries	9.2	9.4	11.0	10.5	10.8	11.1	10.3	9.7	9.2	9.1	9.0	8.4	8.4	8.4	8.4	8.4
Pensions and NIS contributions	2.0	2.0	1.9	2.0	2.1	2.3	2.2	2.1	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	3.4	3.3	3.1	3.2	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8
Transfers 1/	2.9	2.2	2.0	1.7	1.7	1.1	1.6	1.1	1.6	1.5	1.0	1.5	1.5	1.5	1.5	1.5
Interest payments	2.2	2.2	2.5	3.4	3.3	3.6	3.7	4.3	4.1	3.7	4.8	3.7	3.4	2.9	2.7	2.5
Capital expenditure and net lending	7.6	7.3	7.8	5.0	7.1	9.5	9.6	7.5	12.9	7.4	6.2	5.8	6.7	6.7	6.8	6.8
Grant-financed	1.1	2.2	3.1	1.1	1.4	4.6	3.8	3.3	8.8	3.2	2.3	2.2	2.2	2.2	2.2	2.2
Non-grant financed	6.5	5.1	4.6	4.0	5.7	4.9	5.8	4.3	4.1	4.2	3.9	3.6	4.5	4.5	4.6	4.6
Primary balance 2/	**-3.0**	**-1.5**	**-2.7**	**-2.5**	**-4.0**	**-2.4**	**-1.2**	**1.3**	**1.2**	**1.3**	**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**	**-4.9**	**-3.0**	**-3.0**	**-2.4**	**-1.2**	**-0.3**	**0.0**	**0.6**	**0.8**	**1.0**
Public Debt	**91.1**	**96.9**	**100.7**	**103.3**	**107.5**	**111.3**	**104.9**	**110.2**		**96.9**	**106.4**	**92.6**	**82.5**	**77.7**	**73.0**	**68.3**
Memo item:																
Programmed primary balance						-2.5	-1.2									
Programmed primary balance (adjusted)						**-2.0**	**-1.2**									
Programmed primary spending						27.5	26.7									
Programmed primary spending (adjusted)						**28.9**	**26.7**									
Nominal GDP (EC$ millions)	2,082	2,082	2,102	2,160	2,256	2,265	2,360	2,338	2,419	2,419	2,437	2,540	2,661	2,802	2,952	3,110
Underlying primary balance (% of GDP) 3/	…	*-1.5*	*-2.7*	*-2.5*	-4.6	-1.3	-1.2	1.3		1.3	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*	*2.8*	*3.4*	*2.6*		*2.5*	*2.2*	*2.2*	…	…	…	…

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 Financing of the Central Government
(In EC$ million)

	2014	2015	2016	2017	2018	2019	2020
Stock of deposits at beginning of the period	**69.5**	**99.4**	**97.6**	**101.3**	**105.0**	**104.6**	**112.7**
Inflows	**704.7**	**1389.3**	**645.5**	**777.1**	**652.9**	**698.6**	**731.4**
Primary surplus		31.1	87.9	92.2	97.0	102.3	107.8
Debt placement	531.3	503.1	557.6	528.4	555.8	596.3	623.6
External	117.0	90.7	131.6	70.1	57.0	57.0	43.7
Domestic	414.3	412.4	425.9	458.3	498.8	539.3	579.8
Arrears accumulation	74.8	29.2					
Debt forgiveness 1/	46.3	153.6	0.0	156.5			
New debt issued under restructuring 1/	52.2	648.3					
Transfer from the NTF for arrears repayment		24.0					
Outflows	**674.8**	**1,391.1**	**641.9**	**773.4**	**653.3**	**690.5**	**721.0**
Primary deficit	27.6						
Interest bill	87.3	88.4	95.0	91.2	79.9	79.4	78.1
Scheduled Amortization	432.7	452.8	539.1	517.8	560.3	597.8	629.7
External	37.6	53.8	79.1	81.1	92.8	91.5	82.9
Domestic	395.1	398.9	460.0	436.7	467.5	506.3	546.8
Arrears clearance 2/	127.2	143.4	7.8	7.8	13.2	13.2	13.2
Debt restructuring 1/		706.5	0.0	156.5			
Net cash flow (+surplus/-deficit)	**29.9**	**-1.8**	**3.7**	**3.8**	**-0.5**	**8.1**	**10.4**
Stock of deposits at the end of the period	**99.4**	**97.6**	**101.3**	**105.0**	**104.6**	**112.7**	**123.0**
Memorandum:							
Overall balance	-114.9	-57.3	-7.0	1.0	17.2	22.8	29.7
Central Government Debt	2,351.9	2,220.9	2,228.8	2,071.2	2,054.0	2,031.2	2,001.5
Stock of arrears	277.4	163.5	155.7	147.9	134.7	121.5	108.3
Stock of registered debt	2,074.5	2,057.5	2,073.1	1,923.3	1,919.3	1,909.6	1,893.2

1/ Total restructured amount is EC$801.9 million. Under inflows, this consitututes debt forgiveness and debt restructuring. Under outflows, the counterpart is debt restructuring (EC$706.5 million principal outstanding), interest payable in March 2015 (EC$21.2 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, 2012-14

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

	2012			2013			2014		
		Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	826.6	100.0	103.3	898.8	100.0	107.5	916.6	100.0	104.9
Central government debt	772.1	93.4	96.5	849.1	94.5	101.6	870.7	95.0	99.6
Central-government guaranteed debt	54.5	6.6	6.8	49.7	5.5	5.9	45.9	5.0	5.3
External debt	540.5	65.4	67.6	589.8	65.6	70.6	610.4	66.6	69.8
A. Central Government	510.4	61.7	63.8	563.7	62.7	67.5	586.8	64.0	67.1
1. Multilateral	214.7	26.0	26.8	221.1	24.6	26.5	245.6	26.8	28.1
CDB	116.7	14.1	14.6	118.1	13.1	14.1	125.0	13.6	14.3
IDA	48.6	5.9	6.1	54.2	6.0	6.5	66.2	7.2	7.6
IBRD	11.6	1.4	1.4	11.3	1.3	1.3	10.5	1.1	1.2
IMF	28.3	3.4	3.5	27.9	3.1	3.3	30.4	3.3	3.5
Other Multilateral	9.5	1.1	1.2	9.6	1.1	1.2	13.5	1.5	1.5
2. Official bilateral	77.0	9.3	9.6	102.8	11.4	12.3	96.3	10.5	11.0
Paris Club 1/	8.6	1.0	1.1	10.2	1.1	1.2	10.5	1.1	1.2
France	2.7	0.3	0.3	4.2	0.5	0.5	4.4	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	0.4	0.4	2.9	0.3	0.3	2.9	0.3	0.3
U.K.	2.8	0.3	0.4	2.9	0.3	0.3	2.9	0.3	0.3
Other	68.4	8.3	8.6	92.6	10.3	11.1	85.9	9.4	9.8
Kuwait	19.8	2.4	2.5	19.0	2.1	2.3	18.0	2.0	2.1
Taiwan Province of China 2/	25.2	3.0	3.2	25.2	2.8	3.0	19.4	2.1	2.2
Trinidad and Tobago	17.9	2.2	2.2	32.9	3.7	3.9	32.9	3.6	3.8
Venezuela	0.0	0.0	0.0	10.0	1.1	1.2	10.0	1.1	1.1
Other Bilateral	5.6	0.7	0.7	5.6	0.6	0.7	5.6	0.6	0.6
3. Commercial debt	199.1	24.1	24.9	199.1	22.2	23.8	199.1	21.7	22.8
US$ 2025 Bonds	193.5	23.4	24.2	193.5	21.5	23.2	193.5	21.1	22.1
Other Bonds	5.6	0.7	0.7	5.6	0.6	0.7	5.6	0.6	0.6
4. External arrears on interests	2.8	0.3	0.3	19.3	2.1	2.3	21.8	2.4	2.5
5. Overdue membership fees	16.8	2.0	2.1	21.3	2.4	2.6	23.9	2.6	2.7
B. Central-government guaranteed	30.0	3.6	3.8	26.1	2.9	3.1	23.6	2.6	2.7
Domestic debt	286.1	34.6	35.8	308.9	34.4	37.0	306.2	33.4	35.0
A. Central Government	261.7	31.7	32.7	285.4	31.8	34.1	283.9	31.0	32.5
1. Treasury bills	96.1	11.6	12.0	120.1	13.4	14.4	125.3	13.7	14.3
RGSM 3/	27.5	3.4	3.4	34.2	4.1	4.1	36.9	4.0	4.2
3 month initial maturity	9.1	1.1	1.1	14.8	1.8	1.8	14.8	1.6	1.7
1 year initial maturity	18.3	2.3	2.3	19.4	2.3	2.3	22.1	2.4	2.5
Private placements	68.6	8.3	8.6	85.9	9.6	10.3	88.4	9.6	10.1
National Insurance Scheme	14.7	1.8	1.8	22.1	2.5	2.6	22.1	2.4	2.5
Petrocaribe Grenada	25.6	3.1	3.2	34.8	3.9	4.2	34.8	3.8	4.0
Other private placements	28.4	3.4	3.5	29.0	3.2	3.5	31.5	3.4	3.6
2. Bonds	89.7	10.8	11.2	91.3	10.2	10.9	91.9	10.0	10.5
EC$ 2025 Bonds	68.1	8.2	8.5	68.1	7.6	8.2	68.1	7.4	7.8
RGSM 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	16.9	2.0	2.1	17.9	2.0	2.1	17.9	1.9	2.0
Other Bonds and FICs	4.6	0.6	0.6	5.3	0.6	0.6	5.9	0.6	0.7
3. Domestic arrears on interests	0.0	0.0	0.0	3.1	0.3	0.4	7.2	0.8	0.8
4. Compensation claims	14.8	1.8	1.9	14.8	1.6	1.8	14.8	1.6	1.7
5. Commercial Bank Loans	13.9	1.7	1.7	10.7	1.2	1.3	8.5	0.9	1.0
6. Overdraft	4.9	0.6	0.6	6.1	0.7	0.7	3.3	0.4	0.4
7. Supplier arrears	35.8	4.3	4.5	30.5	3.4	3.7	24.4	2.7	2.8
8. Other 4/	6.6	0.8	0.8	8.8	1.0	1.1	8.5	0.9	1.0
B. Central-Government Guaranteed	24.4	3.0	3.1	23.6	2.6	2.8	22.3	2.4	2.6
Memorandum items:									
Nominal GDP	799.9			835.7			874.1		

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
3/ Regional Government Securities Market placements.
4/ Includes unpaid claims < 60 days, ECCB temporary advance, and arrears to Port Authorities

Table 5. Grenada: Central Government Arrears, 2013-14
(In millions of U.S. Dollars, unless otherwise indicated)

	2013				2014			
	Principal	Interest	Total US$mln	Total % of GDP	Principal	Interest	Total US$mln	Total % of GDP
Total arrears	**99.8**	**22.4**	**122.2**	**14.6**	**73.8**	**29.0**	**102.8**	**11.8**
External arrears	**65.5**	**19.3**	**84.8**	**10.1**	**42.9**	**21.8**	**64.7**	**7.4**
Multilateral	0.8	0.5	1.3	0.1	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	0.6	0.5	1.1	0.1	0.0	0.0	0.0	0.0
EIB	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
IFAD	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Bilateral	37.8	10.1	47.9	5.7	13.3	1.5	14.8	1.7
Paris Club	2.6	0.4	2.9	0.4	3.8	0.4	4.3	0.5
France	1.1	0.3	1.4	0.2	1.7	0.3	2.0	0.2
Russia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
UK	0.8	0.1	0.9	0.1	1.1	0.1	1.2	0.1
US	0.5	0.0	0.5	0.1	0.8	0.1	0.9	0.1
Non-Paris Club	35.2	9.7	45.0	5.4	9.5	1.0	10.5	1.2
Algeria	0.6	0.0	0.6	0.1	0.6	0.0	0.6	0.1
Kuwait	2.6	0.7	3.2	0.4	1.2	0.1	1.2	0.1
Libya	5.0	0.0	5.0	0.6	5.0	0.0	5.0	0.6
Taiwan Province of China	25.2	8.4	33.6	4.0	0.0	0.0	0.0	0.0
Trinidad	1.8	0.7	2.5	0.3	2.7	1.0	3.7	0.4
Commercial	5.6	8.7	14.3	1.7	5.6	20.3	25.9	3.0
Unpaid contribution to organizations	21.3	0.0	21.3	2.6	23.9	0.0	23.9	2.7
Budget expenditure arrears	**34.3**	**3.1**	**37.4**	**4.5**	**30.9**	**7.2**	**38.1**	**4.4**
Domestic debt	3.8	3.1	6.9	0.8	6.5	7.2	13.7	1.6
Domestic debt under restructuring	2.3	3.1	5.4	0.6	6.5	7.2	13.7	1.6
ECCB	1.5	0.0	1.5	0.2	0.0	0.0	0.0	0.0
Supplier arrears	30.5	0.0	30.5	3.7	24.4	0.0	24.4	2.8

Sources: Grenadian authorities and staff estimates.

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

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

	Act		Projections						
	2012	2013	2014	2015	2016	2017	2018	2019	2020
					In millions of US dollars				
Current account	**-168.5**	**-195.5**	**-157.6**	**-133.8**	**-146.4**	**-157.3**	**-163.6**	**-169.8**	**-176.6**
Trade balance for goods and services	-164.4	-184.2	-137.5	-105.2	-115.0	-123.0	-132.0	-139.4	-147.6
Net Income	-34.3	-29.6	-42.1	-47.4	-50.7	-54.3	-52.2	-52.7	-53.1
Current transfers	30.3	18.3	22.0	18.8	19.3	20.0	20.7	22.4	24.1
Capital and financial account	**139.1**	**201.4**	**160.2**	**136.4**	**129.1**	**162.6**	**176.2**	**180.6**	**186.5**
Capital transfers	58.6	43.9	74.1	100.6	45.5	116.9	72.7	78.0	81.9
o.w. debt forgiveness 1/	...	...	17.2	48.4	0.0	49.5	0.0	0.0	0.0
Foreign direct investment	31.5	113.1	42.2	43.3	54.8	73.9	78.4	86.5	91.2
Public sector borrowing (net)	5.1	53.8	44.1	-20.8	7.9	-62.5	-19.3	-20.9	-23.6
NFA of Commercial banks	18.5	-57.0	-62.2	-31.1	-11.8	-12.2	-5.9	-6.4	-6.7
Other private flows	25.3	47.6	45.0	-4.0	32.7	-3.0	50.3	43.3	43.7
Errors and omissions	21.6	3.6	39.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-7.7**	**9.4**	**42.6**	**2.6**	**-17.3**	**5.3**	**12.6**	**10.9**	**10.2**
Overall financing	**7.7**	**-9.4**	**-42.6**	**-27.5**	**-6.9**	**-6.6**	**-12.6**	**-10.9**	**-10.2**
Change in ECCB NFA	1.9	-31.4	-22.9	-1.4	-1.7	-1.7	-8.0	-9.1	-10.1
Change in Reserve Position with the IMF	-0.5	-0.5	3.4	-4.6	-5.1	-4.9	-5.0	-2.9	-2.0
Change in existing external arrears	6.3	22.5	-23.2	-21.5	0.0	0.0	0.0	0.0	0.0
Financing gap:	**...**	**...**	**0.0**	**24.9**	**24.2**	**1.3**	**0.0**	**0.0**	**0.0**
Exceptional financing:	...	...	0.0	25.6	25.7	2.8	0.0	0.0	-0.3
Net use of Fund resources	...	...	0.0	5.6	5.7	2.8	0.0	0.0	-0.3
World Bank	...	...	0.0	10.0	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
Saving from possible restructuring 2/			0.0	-0.8	-1.5	-1.5	0.0	0.0	0.3
					In percent of GDP				
Current account	**-21.1**	**-23.4**	**-18.0**	**-14.9**	**-15.6**	**-16.0**	**-15.8**	**-15.5**	**-15.3**
Trade balance for goods and services	-20.6	-22.0	-15.7	-11.7	-12.2	-12.5	-12.7	-12.8	-12.8
Exports of goods and services	28.9	28.7	30.4	31.8	32.1	33.4	33.7	33.9	34.1
o.w. Tourism	15.2	14.5	16.6	17.8	18.3	18.6	18.8	18.9	19.0
o.w. Student receipts 3/	3.1	3.1	3.0	3.0	2.9	2.9	2.9	2.8	2.7
Imports of goods and services	49.5	50.8	46.2	43.5	44.4	45.9	46.4	46.7	46.9
o.w. Mineral fuels	11.4	9.8	8.9	5.7	6.2	6.4	6.4	6.4	6.4
Net income	-4.3	-3.5	-4.8	-5.3	-5.4	-5.5	-5.0	-4.8	-4.6
o.w. Public interest payment	-2.3	-2.5	-2.0	-2.1	-2.1	-2.0	-1.6	-1.4	-1.3
Net current transfers	3.8	2.2	2.5	2.1	2.1	2.0	2.0	2.0	2.1
Capital and financial account	**17.4**	**24.1**	**18.3**	**15.2**	**13.7**	**16.5**	**17.0**	**16.5**	**16.2**
Capital transfers	7.3	5.3	8.5	11.2	4.8	11.9	7.0	7.1	7.1
o.w. debt forgiveness 1/	...	...	2.0	5.4	0.0	5.0	0.0	0.0	0.0
Foreign direct investment	3.9	13.5	4.8	4.8	5.8	7.5	7.6	7.9	7.9
Public sector flows	0.6	6.4	5.0	-2.3	0.8	-6.3	-1.9	-1.9	-2.0
NFA of Commercial banks	2.3	-6.8	-7.1	-3.5	-1.3	-1.2	-0.6	-0.6	-0.6
Other private flows	3.2	5.7	5.1	-0.4	3.5	-0.3	4.8	4.0	3.8
Error and Omission	2.7	0.4	4.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.0	1.1	4.9	0.3	-1.8	0.5	1.2	1.0	0.9
Overall financing	**1.0**	**-1.1**	**-4.9**	**-3.1**	**-0.7**	**-0.7**	**-1.2**	**-1.0**	**-0.9**
Change in ECCB NFA	0.2	-3.8	-2.6	-0.2	-0.2	-0.2	-0.8	-0.8	-0.9
Change in Reserve Position with the IMF	-0.1	-0.1	0.4	-0.5	-0.5	-0.5	-0.5	-0.3	-0.2
Change in existing external arrears	0.8	2.7	-2.7	-2.4	0.0	0.0	0.0	0.0	0.0
Financing gap:	**...**	**...**	**0.0**	**2.8**	**2.6**	**0.1**	**0.0**	**0.0**	**0.0**
Exceptional financing:	...	...	0.0	2.9	2.7	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	1.1	1.1	0.0	0.0	0.0	0.0
CDB	...	...	0.0	1.1	1.1	0.0	0.0	0.0	0.0
Possible restructuring			0.0	-0.1	-0.2	-0.2	0.0	0.0	0.0
Memorandum Items:									
Gross external debt	141.0	145.1	148.0	143.5	139.9	130.2	125.5	119.8	114.2
External public and publicly guaranteed debt	67.6	70.6	69.9	65.5	64.4	55.8	51.6	47.3	43.2
Foreign liabilities of private sector 4/	73.4	74.5	78.1	78.0	75.5	74.4	73.9	72.5	71.0
Nominal GDP	799.9	835.7	874.1	896.1	940.6	985.7	1037.6	1093.3	1152.0

Sources: Ministry of Finance and Planning; ECCB; and Fund staff estimates and projections.
1/ Debt forgiveness as a result of debt restructuring.
2/ Encompasses the clearance of external arrears as part of debt restructuring.
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 financial account.

Table 7. Grenada: Summary Accounts of the Banking System, 2009-15

	2009	2010	2011	2012	2013	2014	Proj. 2015
	(In millions of EC dollars; end of period)						
Net foreign assets	283.7	242.3	165.8	113.8	352.4	582.2	669.9
ECCB	303.4	277.5	282.9	280.8	365.6	427.3	431.2
Of which: Net imputed reserves	303.4	277.5	282.9	280.8	365.6	427.3	431.2
Commercial banks (net)	-19.8	-35.2	-117.0	-167.0	-13.2	154.8	238.7
Assets	549.3	514.5	511.9	478.0	546.2	672.7	739.7
Liabilities	-569.1	-549.6	-628.9	-645.0	-559.4	-517.9	-500.9
Net domestic assets	1,536.4	1,595.1	1,683.8	1,748.5	1,586.3	1,435.8	1,398.8
Public sector credit (net)	-125.8	-173.1	-168.2	-53.3	-57.3	-86.9	-94.4
Central government	98.8	110.0	150.4	107.5	52.3	17.3	9.9
ECCB	-30.5	-7.7	27.9	30.1	17.7	17.0	17.0
Commercial banks	129.3	117.7	122.5	77.4	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
National Insurance Scheme	-152.4	-165.4	-164.3	-71.1	-63.8	-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	1,588.3
Other items (net)	-105.4	-104.5	-98.9	-109.0	-109.1	-91.1	-95.1
Broad money	1,820.0	1,837.4	1,849.7	1,862.2	1,938.7	2,018.0	2,068.7
Money	332.3	342.3	325.2	333.3	381.2	466.6	490.0
Currency in circulation	106.7	98.8	108.7	112.9	115.7	124.1	127.2
Demand deposits	225.6	243.5	216.5	220.4	265.5	342.5	362.8
Quasi-money	1,487.8	1,495.1	1,524.5	1,528.9	1,557.6	1,551.4	1,578.7
Time deposits	339.2	371.2	381.4	339.9	318.2	287.1	294.3
Savings deposits	1,014.4	1,011.6	1,023.1	1,095.9	1,143.1	1,167.9	1,185.6
Foreign currency deposits	134.2	112.3	120.0	93.1	96.2	96.3	98.7
	(Annual percentage change)						
Net foreign assets	14.0	-14.6	-31.6	-31.4	209.7	65.2	15.1
Net domestic assets	1.2	3.8	5.6	3.8	-9.3	-9.5	-2.6
Public sector credit, net	6.1	37.6	-2.9	-68.3	7.5	51.8	8.5
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	-5.1	-1.6
Broad money	3.0	1.0	0.7	0.7	4.1	4.1	2.5
NFA contribution	2.0	-2.3	-4.2	-2.8	12.8	11.9	4.3
NDA contribution	1.0	3.2	4.8	3.5	-8.7	-7.8	-1.8
Money	-10.0	3.0	-5.0	2.5	14.4	22.4	5.0
Quasi-money	6.4	0.5	2.0	0.3	1.9	-0.4	1.8
	(In percent of GDP)						
Net foreign assets	13.6	11.6	7.9	5.3	15.6	24.7	27.7
Net domestic assets, o.w.	73.8	76.6	80.1	81.0	70.3	60.8	57.8
Public sector credit, net	-6.0	-8.3	-8.0	-2.5	-2.5	-3.7	-3.9
Private sector credit, net	80.1	84.6	85.6	83.5	75.4	68.4	65.6
Broad money (M2)	87.4	88.3	88.0	86.2	85.9	85.5	85.5
Money	16.0	16.4	15.5	15.4	16.9	19.8	20.3
Quasi-money	71.4	71.8	72.5	70.8	69.0	65.7	65.3
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	0.3	0.5	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, 2012-20

(in millions of SDRs, unless otherwise indicated)

	Actual			Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Existing Fund credit (stock)									
In percent of quota	157.6	155.0	174.3	146.6	115.6	86.0	56.3	39.2	27.6
In millions of SDRs	18.4	18.1	20.4	17.2	13.5	10.1	6.6	4.6	3.2
In millions of US$	28.4	27.9	29.7	24.2	19.2	14.3	9.4	6.5	4.6
In percent of GDP	3.5	3.3	3.4	2.7	2.0	1.4	0.9	0.6	0.4
Proposed Extended Credit Facility (stock)									
In percent of quota	0.0	0.0	0.0	34.2	68.3	85.4	85.4	85.4	83.7
In millions of SDRs	0.0	0.0	0.0	4.0	8.0	10.0	10.0	10.0	9.8
In millions of US$	0.0	0.0	0.0	5.6	11.3	14.2	14.2	14.2	13.9
In percent of GDP	0.0	0.0	0.0	0.6	1.2	1.4	1.4	1.3	1.2
Outstanding Fund credit (end of period)									
In percent of quota	157.6	154.9	174.3	180.7	183.9	171.3	141.7	124.6	111.3
In millions of SDRs	18.4	18.1	20.4	21.1	21.5	20.0	16.6	14.6	13.0
In millions of US$	28.4	27.9	29.7	29.9	30.5	28.4	23.5	20.7	18.5
In percent of exports of goods and services	12.3	11.6	11.2	10.5	10.1	8.6	6.7	5.6	4.7
In percent of debt service	77.6	58.6	24.5	27.7	57.0	51.4	40.4	36.0	34.3
In percent of GDP	3.5	3.3	3.4	3.3	3.2	2.9	2.3	1.9	1.6
In percent of Imputed Net International Reserves	27.3	20.6	18.8	18.7	18.9	17.4	13.7	11.5	9.7
Fund obligations based on existing credit	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	1.4
Repurchases and repayments	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	1.4
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	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	1.6
Repurchases and repayments	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	1.6
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$	0.5	0.5	2.7	4.6	5.1	4.9	5.0	2.9	2.3
In percent of exports of goods and services	0.2	0.2	1.0	1.6	1.7	1.5	1.4	0.8	0.6
In percent of debt service	1.3	1.0	2.2	4.2	9.6	8.9	8.5	5.1	4.2
In percent of GDP	0.1	0.1	0.3	0.5	0.5	0.5	0.5	0.3	0.2
In percent of Imputed Net International Reserves	0.5	0.3	1.7	2.9	3.2	3.0	2.9	1.6	1.2
In percent of quota	2.6	2.6	15.2	27.7	31.0	29.7	29.7	17.4	13.6
Net use of Fund credit	-0.3	-0.3	2.3	0.8	0.4	-1.5	-3.5	-2.0	-1.6
Disbursements	0.0	0.0	4.0	4.0	4.0	2.0	0.0	0.0	0.0
Repayments and Repurchases	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	1.6
Memorandum items:									
Exports of goods and services (in millions of US$)	231.2	240.0	266.0	284.6	302.3	329.2	349.6	370.8	392.6
Debt service (in millions of US$)	36.5	47.6	121.3	107.9	53.5	55.3	58.2	57.5	53.9
GDP (in millions of US$)	799.9	835.7	874.1	896.1	940.6	985.7	1037.6	1093.3	1152.0
Imputed Net International Reserves (in millions of US$)	104.0	135.4	158.3	159.7	161.4	163.1	171.1	180.2	190.3
Quota (in millions of SDR)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: Staff estimates and projections.

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

	2009	2010	2011	2012	2013	2014	Latest Available	
Financial sector indicators								
Regulatory capital to risk-weighted assets	15.9	16.5	15.1	13.9	13.6	13.0	13.0	Dec-14
Regulatory Tier 1 capital to risk-weighted assets	13.8	15.0	13.6	13.2	12.2	11.7	11.7	Dec-14
Nonperforming loans net of provisions to capital	25.2	33.8	50.2	49.7	61.6	59.5	59.5	Dec-14
Nonperforming loans to total gross loans	5.9	7.6	9.4	11.8	13.8	14.6	14.6	Dec-14
Foreign banks	5.8	6.4	8.9	12.0	13.7	15.4	15.4	Dec-14
Sectoral distribution of loans to total loans								
Residents	94.4	95.0	95.9	96.2	96.0	96.3	96.3	Dec-14
Other financial corporations 1/	0.6	0.4	0.5	0.5	0.3	0.2	0.2	Dec-14
General government 2/	9.0	7.6	7.0	5.5	5.3	4.9	4.9	Dec-14
Nonfinancial corporations 3/	28.9	30.6	30.0	31.4	28.9	27.5	27.5	Dec-14
Nonresidents	5.6	5.0	4.1	3.8	4.0	3.7	3.7	Dec-14
Return on assets	1.3	1.2	0.2	0.5	-1.8	-0.1	-0.1	Dec-14
Return on equity	12.1	9.2	-2.8	3.1	-22.3	-2.5	-3.7	Dec-14
Net interest income to Total income	52.7	53.0	50.9	51.9	50.6	51.1	51.4	Dec-14
Noninterest expenses to gross income	69.2	68.2	85.6	70.0	109.0	86.5	91.6	Dec-14
Liquid assets to total assets	21.7	20.7	22.9	22.9	27.7	32.8	32.8	Dec-14
Liquid assets to short-term liabilities	24.1	23.3	25.4	25.0	29.8	34.9	34.9	Dec-14
Net foreign currency exposure to total capital	37.8	34.7	24.6	37.7	65.2	102.7	102.7	Dec-14
U.S. treasury bill rate (percent per annum)	0.2	0.1	0.1	0.1	0.1	0.0	0.0	Mar-15
Treasury bill rate (percent per annum) 4/	6.5	6.0	6.0	6.0	6.0	6.0	6.0	Dec-14
External sector indicators								
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	Apr-15
REER appreciation (percent change on 12-month basis, end of period)	-8.8	3.1	-0.9	-1.0	-2.3	-0.3	1.3	Feb-15
Gross international reserves of the ECCB (in US$ millions)	898.4	991.8	1,069.2	1,181.1	1,222.4	1,457.1	1,475.8	Feb-15
Gross international reserves to broad money in ECCU countries (percent)	17.4	18.8	19.7	20.5	20.4	23.0	22.7	Feb-15
Public gross external debt (in US$ million)	493.0	531.4	537.4	540.5	589.8	610.8	610.8	Dec-14
Public gross external interest payments to fiscal revenue (percent)	5.5	4.7	5.2	8.9	8.0	7.9	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	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	-4.9	-4.9	Dec-14
Public and publicly-guaranteed gross external debt	91.1	96.9	100.7	103.3	107.5	104.9	104.9	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: Structural Program Conditionality

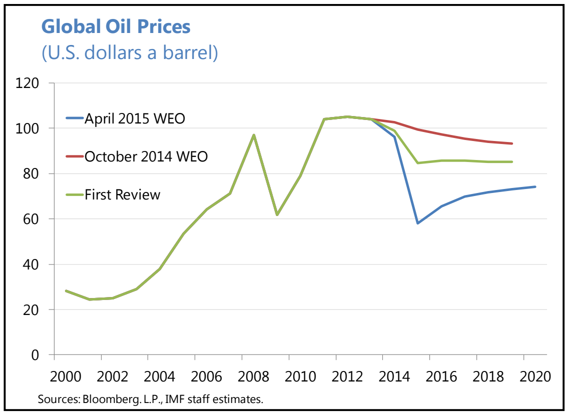
Measure	Timing	Implementation Status
Prior Actions for the Second Review		
1. Cabinet conclusion specifying the quarterly capital budget allocation with indicative targets for each Ministry and each project consistent with program commitments excluding NTF resources		Met
2. Cabinet conclusion mandating quarterly publication of CBI statistics		Met
3. Parliamentary approval of the revised legislation on tax incentive regime		Met
4. Signing into force of the 2015 PFM Act		Expected early June
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
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	Expected in July
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	Expected early July
8. Minister of Finance approval of regulations for the fiscal responsibility legislation	June 30, 2015	Proposed to be removed
9. Cabinet approval of a strategic plan to modernize the public sector	September 30, 2015	Proposed to be rephased to March 31, 2016
10. Parliamentary approval of a tax administration act	November 30, 2015	In progress
11. Publication of all citizenship-by-investment statistics on a quarterly basis	Quarterly, beginning July 31, 2015	Proposed
12. Implementation of the new Chart of Accounts for the 2016 Budget	December 31, 2015	Proposed

Annex I. The Macroeconomic Impact of the Decline in Global Oil Prices

Global oil prices have declined dramatically since mid-2014, reflecting additional supply on global markets combined with a weaker outlook for global demand. *This annex considers the potential impact of the decline in the world price of oil on Grenada. Grenada, as a net oil importer, is expected to benefit from the decline in oil prices through positive growth effects as well as an improvement in the external current account balance.*

A. Developments in Global Oil Prices

1. **Global oil prices have declined by more than 40 percent since mid-2014.** IMF analysis suggests that while demand weakness in some major economies, particularly emerging market economies, has played a role in the oil price decrease, that greater-than-expected supply has been the dominant factor.[1,2] With the demand and supply factors driving the decline in the world price of oil expected to persist, the IMF forecast for oil prices has been revised down significantly since the October World Economic Outlook (WEO) baseline and since the staff report for the first review of Grenada's ECF-supported program.[3] The April 2015 WEO baseline oil price forecast for 2015 is 42 percent below that of the October WEO baseline and 31 percent below that underlying the macroeconomic framework for the first review. The decline in prices is expected to persistent well into the medium term, with oil prices in 2020 expected to remain about 20 percent below the October 2014 WEO baseline.



B. Expected Real Effects

2. **Lower global oil prices are expected to provide a boost to economic activity in Grenada through three channels:**

- **Domestic demand**: As an oil importer, Grenada could benefit directly from the decline in global oil prices, as lower prices reduce the domestic cost of transportation and electricity and as the resulting increase in real disposable income stimulates consumption and economic activity.

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[1] IMF April 2015 World Economic Outlook.

[2] The supply effect has included a steady rise in production in countries not belonging to the Organization of Petroleum Exporting Countries (OPEC), especially the United States; the faster-than-expected recovery of production in some stressed OPEC producers; and especially OPEC's November 2014 decision to maintain production levels despite the sharp decline in prices.

[3] The IMF oil price forecast is based on a simple average of the spot prices of Dated Brent, West Texas Intermediate, and the Dubai Fateh crude prices.

However, given the structure of Grenada's economy, the increased consumer spending is likely to be largely incident on imported consumer goods rather than domestic production.

- **External demand**: Grenada could benefit indirectly from the real income effect in other oil importers through increased demand for Grenada's tourism services. Tourism demand could also increase as the cost of air travel is reduced.
- **Competitiveness (supply):** The lower cost of production and associated increase in firms' profit could also stimulate investment. Lower global oil prices may reduce production costs for Grenada by more than its competitors with a more diversified energy base.

3. **A vector autoregression (VAR) model similar to that in Cashin and Sosa (2013) is used to estimate the impact on real GDP of an oil price shock.**[4] The VAR model with block exogeneity constraints includes five endogenous variables and one exogenous variable. The endogenous variables are divided into two blocks: (i) one domestic, including growth in real GDP and the real effective exchange rate; and (ii) one external, including growth in the world oil price and advanced economies, as well as the real interest rate in advanced economies. Finally, the exogenous variable captures the effect of natural disasters with a dummy variable constructed as in Acevedo (2014).[5] The model suggests that the elasticity of real GDP to a 1-standard deviation shock to the price of oil (equivalent to a 32 percent increase in the price of oil) is -0.3 on impact.[6] This suggests that the roughly 30 percent decline in the oil price forecast for 2015 since the first review could increase economic activity in Grenada by 0.3 percentage points in 2015.

4. **The economic outlook for 2015 has been revised upward, with the improvement partly attributed to the decline in global oil prices.** Growth is now expected at 1¾ percent in 2015, up from 1.1 percent at the time of the first review, with 0.3 percentage points of the upward revision attributed to the decline in the outlook for world oil prices. The remainder of the upward revision for 2015 is reflective of stronger prospects for the tourism sector, as well as stronger momentum in agriculture than previously anticipated. The outlook for 2016 has also been revised upward by 0.3 percentage points, to 2.0 percent. The medium-term forecast remains unchanged, reflecting an unchanged view on potential output.

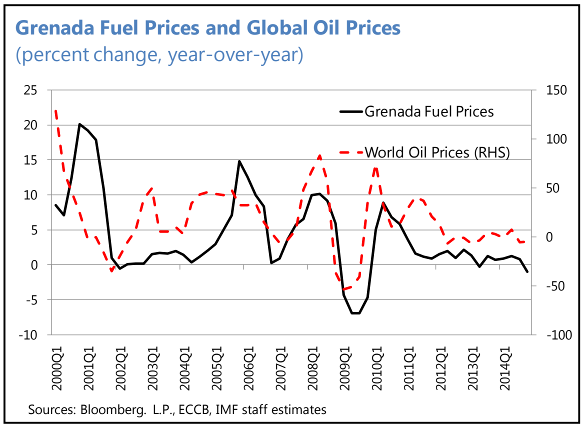
5. **The decline in world oil prices is expected to contribute to continued deflation in 2015, but the pass-through to core prices is expected to be limited.** The decline in the world price of oil is expected to be passed through to retail fuel prices in Grenada. Retail fuel prices are

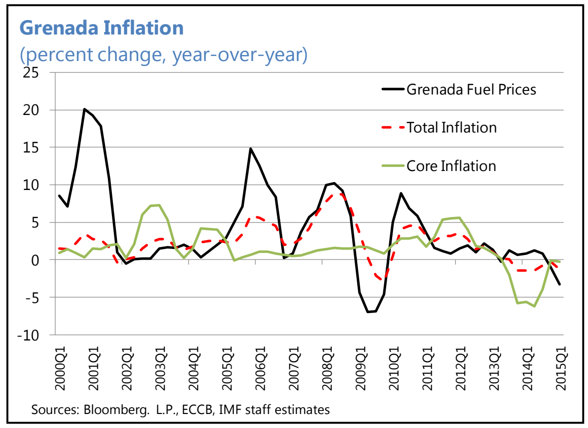
[4] Cashin, P. and Sosa, S., 2013, "Macroeconomic fluctuations in the Eastern Caribbean: The role of climatic and external shocks," *The Journal of International Trade and Economic Development*, Vol. 22, pp. 729-748.

[5] The dummy variable captures the effects of storms, floors, earthquakes, volcanic activity and droughts. Acevedo, S. (2014), "Debt, Growth and Natural Disasters: A Caribbean Trilogy," IMF Working Paper 14125 (Washington, DC: International Monetary Fund).

[6] At the same time, the model suggests that the lagged effects could be substantial with a one standard deviation decline in the price of oil expected to increase growth by 2.4 percentage point the first year following the shock. However, it is important to note that the confidence interval (-3.7 to -1.1 percent) is very large, suggesting significant variability in the response of growth to an oil price shock.

based on the f.o.b. prices of imported refined fuel products in the previous month, with complete pass-through of the change in the imported prices to the final consumer. Indeed, the correlation between growth in Grenadian fuel prices and lagged world oil price inflation is 0.6.[7] While developments in total inflation are closely related to developments in fuel prices (contemporaneous correlation of 0.6), the correlation between fuel prices and core inflation is negative (-0.1), suggesting that movements in fuel prices are not passed through to core inflation.





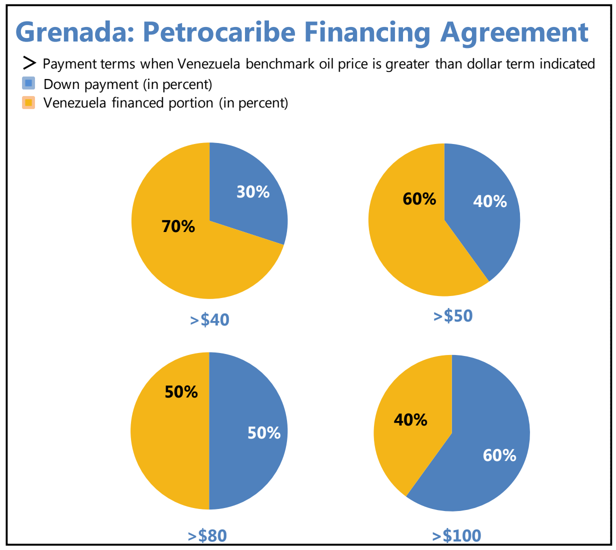
6. **The strong pass-through of world oil prices to total inflation and limited pass through to core inflation is confirmed by regression analysis.** In particular, pass-through to core inflation would be expected to be limited, as world oil prices are not a significant determinant of core inflation in Grenada. However, based on the estimated relationship between total inflation and the world oil price, a 30 percent decline in the world price of oil would be expected to reduce total inflation by 0.6 percentage points. This relationship has been factored into staff's re-evaluation of the inflation outlook. However, the impact of the decline the world price of oil on consumer prices in Grenada is expected to be offset by the increase in the Petrol Tax in March 2015 by EC$1. On balance, total inflation (average annual basis) is now expected to decline by 0.4 percent in 2015 compared to the moderate inflation (1.3 percent) expected at the first review.

C. Balance of Payments Effects

7. **The current account deficit is expected to improve with a lower fuel import bill**, although this effect would be somewhat offset by a modest pickup in import volumes due to the positive real income effect. On a net basis, Grenada's current account deficit is expected to improve by 2.7 percent of GDP in 2015 and by about 1½ percent of GDP over the medium term, on account of lower oil prices. For the overall balance of payments, this positive effect on the current account will be somewhat offset by a change in the financing terms of Grenada's Petrocaribe arrangement with Venezuela. With global oil prices expected to remain in the $50–$60 per barrel range over 2015, the share of Grenada's oil imports financed under its Petrocaribe arrangement is expected to

[7] Fuel CPI is not reported separately in Grenada. Staff defines fuel price inflation as transportation costs plus housing, utilities, gas and other fuels.

drop from 60 percent to 40 percent (see text figure). As a result, Petrocaribe financing is expected to decline by ½ percent of GDP to 1.2 percent of GDP in 2015, reflecting both the expected lower value of imports as well as the smaller share of Petrocaribe financing. On net basis, the impact on the external position is notably positive (2¼ percent of GDP improvement relative to the first review, due solely to the lower oil prices) and would remain marginally positive even under a complete disruption of Petrocaribe financing.



D. Fiscal Effects

8. **The decline in world oil prices is expected to have a net negative impact (about ½percent of GDP) on the fiscal balance due to reduced Petrocaribe grants for social spending, but this effect is already being offset through policy measures:**

- Petrocaribe grants, which covered about 40 percent of total social spending (or about 1 percent of GDP) in 2014, are projected to fall by half in 2015 as a result of the lower oil prices and the subsequent lower share of concessional financing available under the arrangement. The authorities had to reallocate resources elsewhere to maintain spending on the social programs supported by these grants.[8] To the degree that any further decline in oil prices may precipitate a disruption to Grenada's Petrocaribe arrangement, this remains an important risk to the fiscal position. An abrupt withdrawal of this funding could potentially derail these social projects unless the government could effectively identify additional grant resources, including receipts from the CBI program.
- While the government transportation and energy costs are expected to fall somewhat with the lower oil prices, additional policy measures have been taken by the authorities to neutralize the negative impact from the reduced Petrocaribe grants, including an increase in the fuel tax (by EC$1 to EC$4 per imperial gallon on gasoline and diesel) and lowered expenditure allocations relative to the budget.
- Lastly, lower oil prices could potentially reduce regional savings (generated in oil-producing countries), on which many tourism-dependent countries have relied on for fiscal financing during the global downturn, with a corresponding tightening of the financing conditions.

Annex II. Progress in the Restructuring of Grenada's Public Debt and Updated Debt Sustainability Analysis

[8] Particularly in the areas of education, employment support, infrastructure and housing.

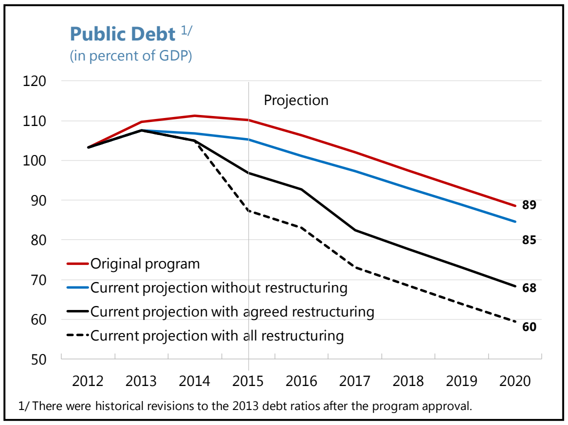
Significant progress has been made in the comprehensive restructuring of Grenada's public debt. The authorities reached agreement with creditors holding over half of Grenada's restructurable debt, which will reduce public debt by 13 percent of GDP by 2017 compared to the projected trajectory without the restructuring. This agreement marks a critical milestone toward debt sustainability and restoring orderly relations with financial markets. Moreover, significant progress has also been made in the clearing of Grenada's arrears. These developments support an improvement in Grenada's external risk of debt distress, but the classification of debt in distress is maintained until all debt restructuring elements have been completed and external arrears have been eliminated.

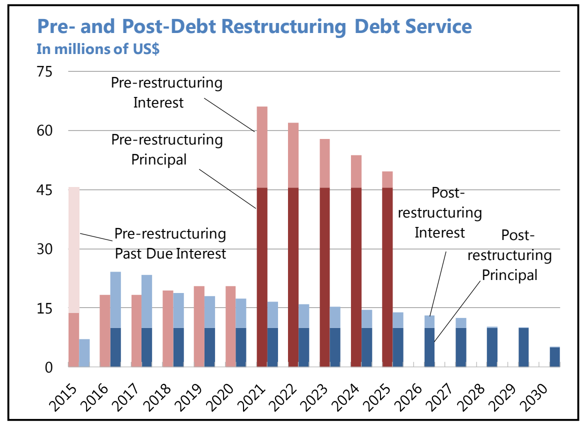
A. Progress in the Restructuring of Grenada's Public Debt

1. **Important progress has been made in the restructuring of Grenada's public debt across all creditor groups, with debt restructuring agreements reached with some private and bilateral creditors:**

- ***Private creditors:***
  - **On April 8, 2015, the Government of Grenada announced an agreement on key debt restructuring terms with the creditor committee that represents the majority of its private bondholders.** The in principle agreement covers the US$ and EC$ bonds issued in the 2005 restructuring (the "2025 bonds"), which account for close to one-third of total debt. As of end-March 2015, the total sum owed by Grenada to the 2025 bondholders (including past due interest) was US$296.8 million or 33 percent of GDP, with 75 percent denominated in US dollars.
  - **The agreed financial terms include a phased 50 percent nominal principal haircut.** Half of the principal reduction will take effect upfront and half upon completion of the sixth review of Grenada's ECF-supported program (expected in 2017). Past due interest will be capitalized, but will not receive a haircut. The restructured debt will have a maturity of 15 years, a fixed interest rate of 7 percent, and 29 equal semi-annual principal repayments beginning early 2016. The overall terms imply an NPV reduction of the affected debt of 54 percent, assuming a 12 percent exit yield. Grenada expects to launch an exchange offer for the 2025 bonds once the legal aspects of the new instrument, which will replace the existing bonds, have been finalized.
  - **The agreement also includes the sharing of potential receipts from the recently launched CBI program.** The share of CBI receipts going to the creditors will vary positively with the magnitude of the annual inflows—which is highly uncertain—with cumulative flows capped on an NPV basis. The sharing of the CBI receipts will start only after the ECF-supported program and will exclude the first US$15 million in annual CBI revenue. This feature will effectively allow the creditors to claw back some of the haircut in the event that the CBI program is highly successful. The authorities and the committee are also discussing the inclusion of a 'hurricane clause' in the new instruments, to allow a delay in debt servicing following hurricanes.

- **High bondholder representation on the creditor committee is expected to help satisfy the collective action clause voting threshold and ensure universal participation in the bond exchange.**[9] The creditor committee represents about 76 percent of the total outstanding 2025 bonds— one of the few restructuring cases with such high representation. Support of these creditors will help achieve the 75 percent voting threshold required by the collective action clauses in the 2025 bond contract to ensure 100 percent participation in the bond exchange, which is expected to be concluded around mid-2015.[10]
- **The agreement is a significant milestone towards restoring debt sustainability and orderly relations with the markets.** The restructuring of the 2025 bonds will reduce public debt by 13 percentage points (to 81 percent) of 2017 GDP by that year compared to the projected trajectory without the restructuring. The agreement will also provide notable cash flow relief, with the NPV saving on the 2025 bond cash flows of about 46 percent.





- ***Bilateral official creditors***: On January 7, 2015, the Government announced completion of a restructuring agreement with the Export-Import Bank of Taiwan Province of China (Eximbank). The agreement resulted in an immediate principal reduction of 47 percent on Grenada's liabilities of US$36.5 million (2 percent of GDP) to Eximbank.[11] A further 3 percent principal reduction will take effect upon completion of the 6th review under the ECF arrangement (expected in 2017). The restructured debt has a coupon rate of 7 percent, a grace period of 3½ years, and a final maturity of 15 years. The overall terms resulted in an NPV haircut of 62 percent and a decline in the 2014 public debt stock by about 2 percent of GDP. Importantly, in February 2015, Eximbank's legal proceedings in New York court to recover payments outstanding since the 2005 debt restructuring on the basis of the *pari passu* contractual clause included in the loan agreement were dismissed with prejudice (i.e. Eximbank cannot re-file the litigation).

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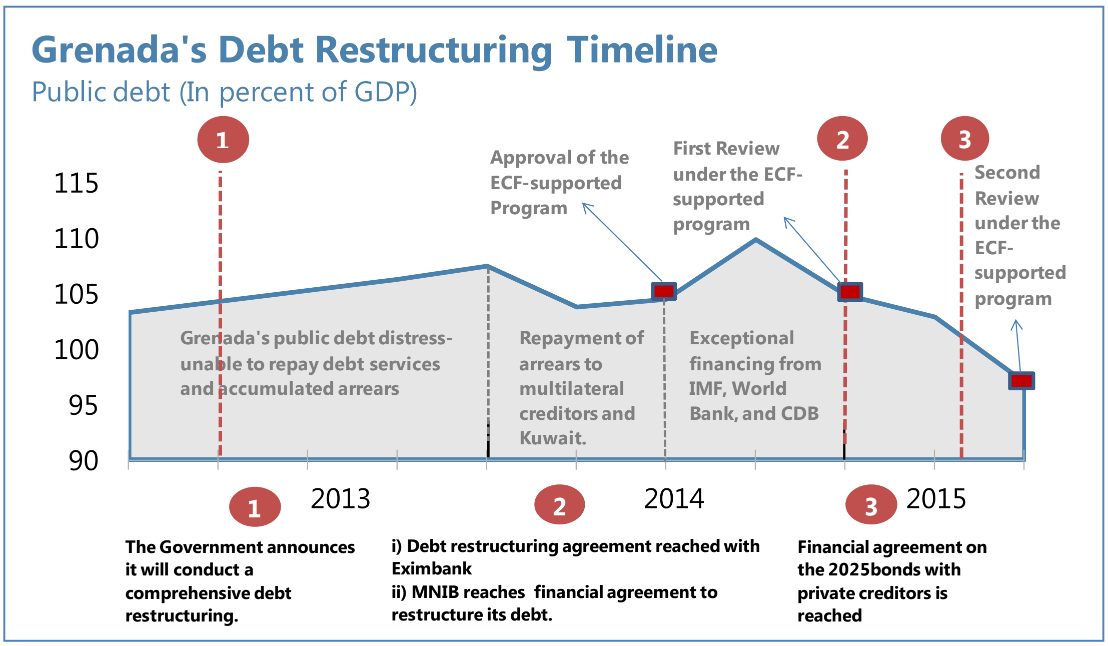
9 The largest bondholders on the committee include Franklin Templeton, GMO, Greylock, and T Rowe Price.

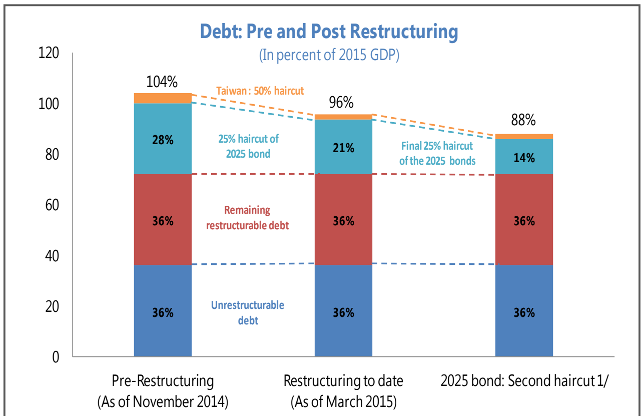
10 The government is in the process of agreeing to a comparable long-term flow rescheduling with the National Insurance Scheme, which holds about 4 percent of GDP of debt in the 2025 bonds.

11 While the announcement was made in January 2015, the debt restructuring transaction took place in December, 2014.

- ***Central government guaranteed debt:*** As part of its reform efforts, Grenada's Marketing and National Importing Board (MNIB), a state-owned enterprise, has reached financial agreement with its private creditor to restructure US$5.4 million in government guaranteed debt. The agreement implies a reduction of the principal outstanding by 47 percent, and, importantly, includes the removal of the guarantee from the restructured debt. MNIB also made an upfront payment of US$1.5 million, resulting in a reduction in the stock of MNIB's government guaranteed debt to US$4 million (0.5 percent of GDP) at end-2014. Upon finalization of the restructuring, the stock of government guaranteed debt will decline by 8 percent (0.5 percent of GDP). Guaranteed debt of other parastatals is being included in the overall debt restructuring negotiations.

- ***Remaining Creditors:*** The authorities are continuing debt restructuring negotiations with their remaining creditors. The Paris Club is tentatively scheduled to discuss the treatment of its claims on Grenada in September 2015. The government has also contacted all non-Paris Club bilateral official creditors, and negotiations are ongoing with domestic creditors.





1/ Based on March 2015 data. Does not reflect the expected impact of the fiscal consolidation on the debt stock.

Financial Terms for the Restructuring of the US$ and EC$2025 Bonds

Financial Terms	April 2014 Published Terms: Option 1	April 2014 Published Terms: Option 2	Export-Import Bank of Taiwan Province of China	2025 Agreed Terms: US$ and EC$2025 bond 1/
Coupon	6.5% p.a.	5% p.a.	7% p.a.	7% p.a.
Tenor	15 years	20 years	15 years	15 years
Grace Period	0 year	2 year	3.5 years	0.5 year
Repayment	Equal semiannual installments	Mortgage style installments	Equal semiannual installments	Equal semiannual installments
Principal Reduction	60% at closing	50% at closing	50% at closing	50% at closing and 50% at completion of the sixth review of the ECF-supported
Past Due and Accrued Interest	60% reduction, remaining 40% capitalized	50% reduction , remaining 50% capitalized	50% reduction, remaining 50% capitalized	100% capitalized
Memo:				
NPV Haircut (12 % exit yield)	66%	68%	58%	54%
NPV Haircut (5 % exit yield)	54%	48%	39%	32%

1/ Exclude NIS holdings of the EC$2025 bond.

B. Impact of Debt Restructuring Progress on Grenada's Debt Sustainability

38. **The progress achieved to date in the restructuring of Grenada's public debt marks a critical milestone in the restoration of Grenada's debt sustainability.** After peaking at about 107½ percent of GDP in 2013, public debt is now expected to decline to 82½ percent of GDP by 2017 (from 99.6 percent of GDP at the first review). While the debt restructuring agreements reached to date with Grenada's creditors are anticipated to contribute about 15 percentage points out of the 22½ percent of GDP reduction in public debt over 2014-17, continued steadfast implementation of the programmed fiscal consolidation remains essential to put debt on a firmly downward path and is expected to contribute over 7 percentage points to the improvement in the debt to GDP ratio over the program period. Completion of the broader debt restructuring and continued fiscal prudence over the medium-term remain essential to restoring debt sustainability and reducing debt towards 60 percent of GDP by 2020.

2. **Grenada's risk of external debt distress has improved with progress in the restructuring of its public debt, although it will remain classified as "in distress" until all debt restructuring steps are completed and official arrears are cleared.** Combined with the programmed fiscal consolidation, the debt restructuring agreements reached thus far with Grenada's creditors are expected to reduce public external debt to 43.2 percent of GDP by 2020 (65.1 percent at the first review), from 69.9 percent of GDP in 2014.[12] In the baseline scenario of the DSA update, only the debt threshold on the present value of the debt-to-GDP ratio and the debt-service to revenue ratios are breached, with the breaches relatively minor and temporary in nature. In contrast, all debt and debt service thresholds had protracted breaches in the DSA update at the first review. These developments would warrant an improvement in Grenada's risk of external debt from "in distress" to "high risk", but the classification of "in distress" is maintained for now until all debt restructuring steps are completed and official arrears are cleared. Thus, completion of the broader restructuring of public external debt—expected before end-2015—remains critical to further reducing Grenada's risk of external debt distress.

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[12] Private external debt, estimated at 78 percent of GDP in 2014, however, remains elevated and continues to present an important risk to external debt sustainability.

Table AII: 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	107.5	104.9			96.9	92.6	82.5	77.7	73.0	68.3	64.5		55.1	55.1	
of which: foreign-currency denominated	67.6	70.6	69.9			65.5	64.4	55.8	51.6	47.3	43.2	40.5		35.5	43.1	
Change in public sector debt	2.6	4.2	-2.6			-8.0	-4.3	-10.2	-4.8	-4.7	-4.6	-3.9		-1.4	0.0	
Identified debt-creating flows	1.0	2.9	-1.8			-8.2	-4.3	-10.2	-4.7	-4.7	-4.7	-3.9		-1.3	-0.1	
Primary deficit	2.5	4.0	1.2	2.4	1.9	-1.3	-3.5	-3.5	-3.5	-3.5	-3.5	-3.0	-3.1	-0.6	0.8	-0.1
Revenue and grants	20.8	21.0	25.5			24.2	23.9	24.7	24.8	24.9	24.9	24.9		24.9	24.9	
of which: grants	1.1	1.4	4.3			3.2	2.2	2.2	2.2	2.2	2.2	2.2		2.2	2.2	
Primary (noninterest) expenditure	23.3	25.0	26.7			22.9	20.4	21.3	21.4	21.4	21.4	21.9		24.3	25.7	
Automatic debt dynamics	0.7	-1.1	-1.0			1.1	-0.8	-0.8	-1.3	-1.3	-1.2	-0.9		-0.8	-0.9	
Contribution from interest rate/growth differential	2.2	-0.8	-0.9			1.2	0.1	-0.4	-1.0	-1.0	-0.9	-0.4		-0.5	-0.6	
of which: contribution from average real interest rate	1.0	1.7	2.2			2.9	2.0	1.5	0.9	0.9	0.9	1.3		0.9	0.7	
of which: contribution from real GDP growth	1.2	-2.4	-3.1			-1.8	-2.0	-1.8	-1.9	-1.9	-1.8	-1.7		-1.4	-1.3	
Contribution from real exchange rate depreciation	-1.4	-0.3	-0.1			-0.1	-0.9	-0.5	-0.3	-0.3	-0.3	-0.5		...	...	
Other identified debt-creating flows	-2.2	0.0	-2.0			-8.0	0.0	-5.9	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	-2.0			-6.3	0.0	-5.9	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			-1.7	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.7	1.3	-0.8			0.2	0.1	0.0	0.0	0.0	0.0	0.0		-0.1	0.1	
Other Sustainability Indicators																
PV of public sector debt	...	...	88.3			78.7	72.9	63.8	59.0	54.3	49.9	45.8		35.0	35.8	
of which: foreign-currency denominated	...	...	53.2			47.3	44.7	37.2	32.9	28.7	24.7	21.9		15.3	23.8	
of which: external	...	...	53.2			47.3	44.7	37.2	32.9	28.7	24.7	21.9		15.3	23.8	
PV of contingent liabilities (not included in public sector debt)7/	...	...	...			0.2	...	...	...	...	...	...		...	...	
Gross financing need 2/	5.9	7.3	23.1			21.0	20.8	18.7	18.6	18.9	18.8	19.4		17.5	12.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	345.6			325.3	305.1	258.0	237.9	218.4	200.5	184.3		140.6	143.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	414.7			374.1	336.0	283.2	261.0	239.5	220.0	202.1		154.3	157.9	
of which: external 3/	...	...	250.1			224.8	205.8	165.0	145.4	126.4	109.0	96.5		67.5	104.9	
Debt service-to-revenue and grants ratio (in percent) 4/	16.4	15.9	85.8			92.3	101.7	89.7	88.9	89.7	89.6	89.8		72.6	46.8	
Debt service-to-revenue ratio (in percent) 4/	17.3	17.0	102.9			106.1	112.0	98.5	97.6	98.4	98.3	98.5		79.7	51.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	0.9	0.8			-1.3	0.7	0.6	1.1	1.1	1.0	0.8		0.7	0.9	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	-1.1	2.4	3.0	1.4	5.5	1.7	2.1	2.0	2.4	2.5	2.5	2.5	2.2	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	3.1	3.3	3.2	2.8	2.8	2.7	2.7	3.0	2.7	2.7	2.7
Average real interest rate on domestic debt (in percent)	1.1	2.8	3.1	1.3	2.9	3.8	2.6	2.6	2.4	2.5	2.5	2.8	2.7	2.8	2.8	2.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.0	-0.5	-0.1	-0.5	2.1	-0.1	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.9	2.0	1.6	2.5	2.4	0.8	2.8	2.8	2.8	2.8	2.8	2.5	2.5	2.5	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-12.6	10.1	10.0	0.8	6.3	-12.8	-8.9	6.2	2.8	2.8	2.5	4.8	-1.2	5.3	2.5	3.8

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

(In percent of GDP)

	Actual				Historical 6/	Standard 6/	Projections									
					Average	Deviation							2014-2020			2021-2035
	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Average	2025	2035	Average
External debt (nominal) 1/	**136.3**	**141.0**	**145.1**	**148.0**			**143.5**	**139.9**	**130.2**	**125.5**	**119.8**	**114.2**		**99.9**	**91.2**	
of which: public and publicly guaranteed (PPG)	69.0	67.6	70.6	69.9			65.5	64.4	55.8	51.6	47.3	43.2		35.5	43.1	
Change in external debt	12.9	4.6	4.1	2.9			-4.5	-3.7	-9.7	-4.7	-5.6	-5.6		-1.8	-1.6	
Identified net debt-creating flows	16.9	13.5	3.8	6.8			6.5	2.9	2.1	1.7	1.2	1.3		2.6	2.7	
Non-interest current account deficit	**22.0**	**19.0**	**21.5**	**15.8**	**23.2**	**4.1**	**12.7**	**13.3**	**13.8**	**14.1**	**14.0**	**13.9**		**14.3**	**13.8**	14.2
Deficit in balance of goods and services	22.6	20.6	22.0	15.7			11.7	12.2	12.5	12.7	12.8	12.8		12.7	12.0	
Exports	28.2	28.9	28.7	30.4			31.8	32.1	33.4	33.7	33.9	34.1		34.6	36.1	
Imports	50.8	49.5	50.8	46.2			43.5	44.4	45.9	46.4	46.7	46.9		47.3	48.0	
Net current transfers (negative = inflow)	-3.1	-3.8	-2.2	-2.5	-4.6	2.8	-2.1	-2.1	-2.0	-2.0	-2.0	-2.1		-1.9	-1.6	-1.8
of which: official	-0.9	-1.4	-0.2	-0.6			-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		-0.1	-0.1	
Other current account flows (negative = net inflow)	2.5	2.2	1.7	2.6			3.0	3.1	3.3	3.3	3.3	3.2		3.6	3.5	
Net FDI (negative = inflow)	**-5.5**	**-3.9**	**-13.5**	**-4.8**	**-10.9**	**5.4**	**-4.8**	**-5.8**	**-7.5**	**-7.6**	**-7.9**	**-7.9**		**-7.9**	**-7.8**	-7.9
Endogenous debt dynamics 2/	**0.4**	**-1.5**	**-4.2**	**-4.2**			**-1.4**	**-4.5**	**-4.2**	**-4.8**	**-4.8**	**-4.7**		**-3.8**	**-3.3**	
Contribution from nominal interest rate	1.6	2.1	1.9	2.2			2.3	2.3	2.2	1.7	1.6	1.4		1.1	1.2	
Contribution from real GDP growth	-0.9	1.5	-3.3	-4.1			-2.5	-2.8	-2.7	-3.0	-3.0	-2.8		-2.4	-2.2	
Contribution from price and exchange rate changes	-0.3	-5.1	-2.8	-2.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.9**	**-8.9**	**0.3**	**-3.9**			**-11.0**	**-6.6**	**-11.7**	**-6.4**	**-6.9**	**-7.0**		**-4.3**	**-4.3**	
of which: exceptional financing	0.0	-0.2	-0.8	-3.6			-2.9	-2.7	-0.3	0.0	0.0	0.0		0.0	0.0	
debt restructuring	0.0	0.0	0.0	-2.0			-5.4	0.0	-5.0	0.0	0.0	0.0		0.0	0.0	
capital transfers							-5.8	-4.8	-6.8	-7.0	-7.1	-7.1		-2.2	-2.2	
PV of external debt 4/	...	...	...	131.4			125.3	120.2	111.6	106.8	101.2	95.7		79.8	71.9	
In percent of exports	...	...	...	431.8			394.5	373.8	334.0	316.9	298.3	280.9		230.4	199.4	
PV of PPG external debt	**...**	**...**	**...**	**53.2**			**47.3**	**44.7**	**37.2**	**32.9**	**28.7**	**24.7**		**15.3**	**23.8**	
In percent of exports	**...**	**...**	**...**	**175.0**			**148.9**	**139.0**	**111.4**	**97.6**	**84.6**	**72.5**		**44.2**	**65.9**	
In percent of government revenues	**...**	**...**	**...**	**250.1**			**224.8**	**205.8**	**165.0**	**145.4**	**126.4**	**109.0**		**67.5**	**104.9**	
Debt service-to-exports ratio (in percent)	**5.6**	**7.2**	**6.5**	**12.6**			**14.2**	**13.9**	**12.8**	**11.9**	**11.3**	**10.0**		**7.2**	**5.9**	
PPG debt service-to-exports ratio (in percent)	**4.4**	**6.4**	**5.9**	**12.0**			**13.6**	**13.3**	**12.3**	**11.3**	**10.7**	**9.4**		**6.7**	**5.7**	
PPG debt service-to-revenue ratio (in percent)	**6.1**	**9.4**	**8.6**	**17.1**			**20.6**	**19.8**	**18.2**	**16.9**	**16.1**	**14.2**		**10.3**	**9.0**	
Total gross financing need (Millions of U.S. dollars)	140.8	137.0	82.4	129.6			110.6	112.4	104.4	109.1	108.2	108.6		131.0	196.2	
Non-interest current account deficit that stabilizes debt ratio	9.0	14.3	17.4	12.9			17.1	17.0	23.5	18.8	19.6	19.6		16.1	15.4	
Key macroeconomic assumptions																
Real GDP growth (in percent)	0.8	-1.1	2.4	3.0	1.4	5.5	1.7	2.1	2.0	2.4	2.5	2.5	2.2	2.5	2.5	2.5
GDP deflator in US dollar terms (change in percent)	0.2	3.9	2.0	1.6	2.5	2.4	0.8	2.8	2.8	2.8	2.8	2.8	2.5	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	1.4	1.2
Growth of exports of G&S (US dollar terms, in percent)	7.3	5.2	3.8	10.8	3.6	13.8	7.0	6.2	8.9	6.2	6.1	5.9	6.5	5.4	5.8	5.5
Growth of imports of G&S (US dollar terms, in percent)	4.2	0.0	7.2	-4.9	2.9	11.1	-3.4	7.0	8.4	6.5	5.9	5.9	5.1	5.2	5.2	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	33.8	40.7	22.9	48.5	52.7	38.6	38.1	29.7	29.7	29.7
Government revenues (excluding grants, in percent of GDP)	20.3	19.7	19.7	21.3			21.0	21.7	22.5	22.6	22.7	22.7		22.7	22.7	22.7
Aid flows (in Millions of US dollars) 7/	26.1	8.8	11.6	37.2			39.7	40.5	31.5	30.6	31.9	33.2		32.4	53.1	
of which: Grants	26.1	8.8	11.6	37.2			28.3	20.7	21.7	22.8	24.0	25.3		32.4	53.1	
of which: Concessional loans	0.0	0.0	0.0	0.0			11.4	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	835.7	874.1			896.1	940.6	985.7	1037.6	1093.3	1152.0		1474.2	2414.5	
Nominal dollar GDP growth	1.0	2.7	4.5	4.6			2.5	5.0	4.8	5.3	5.4	5.4	4.8	5.1	5.1	5.1
PV of PPG external debt (in Millions of US dollars)				465.4			423.7	420.1	366.7	341.3	313.5	284.8		225.7	575.0	
(PVt-PVt-1)/GDPt-1 (in percent)							-4.8	-0.4	-5.7	-2.6	-2.7	-2.6	-2.9	0.0	2.2	0.9
Gross workers' remittances (Millions of US dollars)	29.0	29.7	30.5	31.2			32.0	33.2	34.6	36.1	40.6	45.2		55.4	83.2	
PV of PPG external debt (in percent of GDP + remittances)		...	...	51.4			45.7	43.1	35.9	31.8	27.6	23.8		14.8	23.0	
PV of PPG external debt (in percent of exports + remittances)		...	...	156.6			133.8	125.2	100.8	88.5	76.2	65.0		39.9	60.2	
Debt service of PPG external debt (in percent of exports + remittances)		...	...	10.7			12.2	12.0	11.1	10.3	9.7	8.4		6.1	5.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ 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 AII: 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	47	45	37	33	29	25	22	**15**	24
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	47	49	46	46	46	47	49	**57**	84
A2. New public sector loans on less favorable terms in 2015-2035 2	47	45	38	34	30	26	23	**19**	34
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	47	48	42	37	32	28	25	**17**	27
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	47	48	48	44	39	35	32	**23**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	47	46	39	35	30	26	23	**16**	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	47	45	39	35	31	27	24	**17**	24
B5. Combination of B1-B4 using one-half standard deviation shocks	47	47	45	40	36	31	28	**20**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	47	63	53	46	40	35	31	**22**	34
PV of debt-to-exports ratio									
Baseline	149	139	111	98	85	73	64	**44**	66
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	149	151	137	136	137	139	143	**164**	233
A2. New public sector loans on less favorable terms in 2015-2035 2	149	141	113	100	88	76	68	**56**	95
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	149	139	111	98	85	73	64	**44**	66
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	149	178	207	186	166	148	136	**96**	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	149	139	111	98	85	73	64	**44**	66
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	149	140	117	104	90	78	70	**48**	67
B5. Combination of B1-B4 using one-half standard deviation shocks	149	152	152	135	119	104	93	**65**	84
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	149	139	111	98	85	73	64	**44**	66
PV of debt-to-revenue ratio									
Baseline	225	206	165	145	126	109	96	**68**	105
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	225	224	203	203	205	208	216	**250**	370
A2. New public sector loans on less favorable terms in 2015-2035 2	225	209	167	149	131	114	103	**85**	152
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	225	219	187	164	143	123	109	**76**	119
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	225	222	213	193	173	155	143	**102**	112
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	225	211	174	153	133	115	102	**71**	111
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	225	208	174	154	135	118	105	**74**	106
B5. Combination of B1-B4 using one-half standard deviation shocks	225	216	201	179	158	138	124	**88**	119
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	225	291	233	205	178	154	136	**95**	148

Table AII: 4. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-35 (Continued)

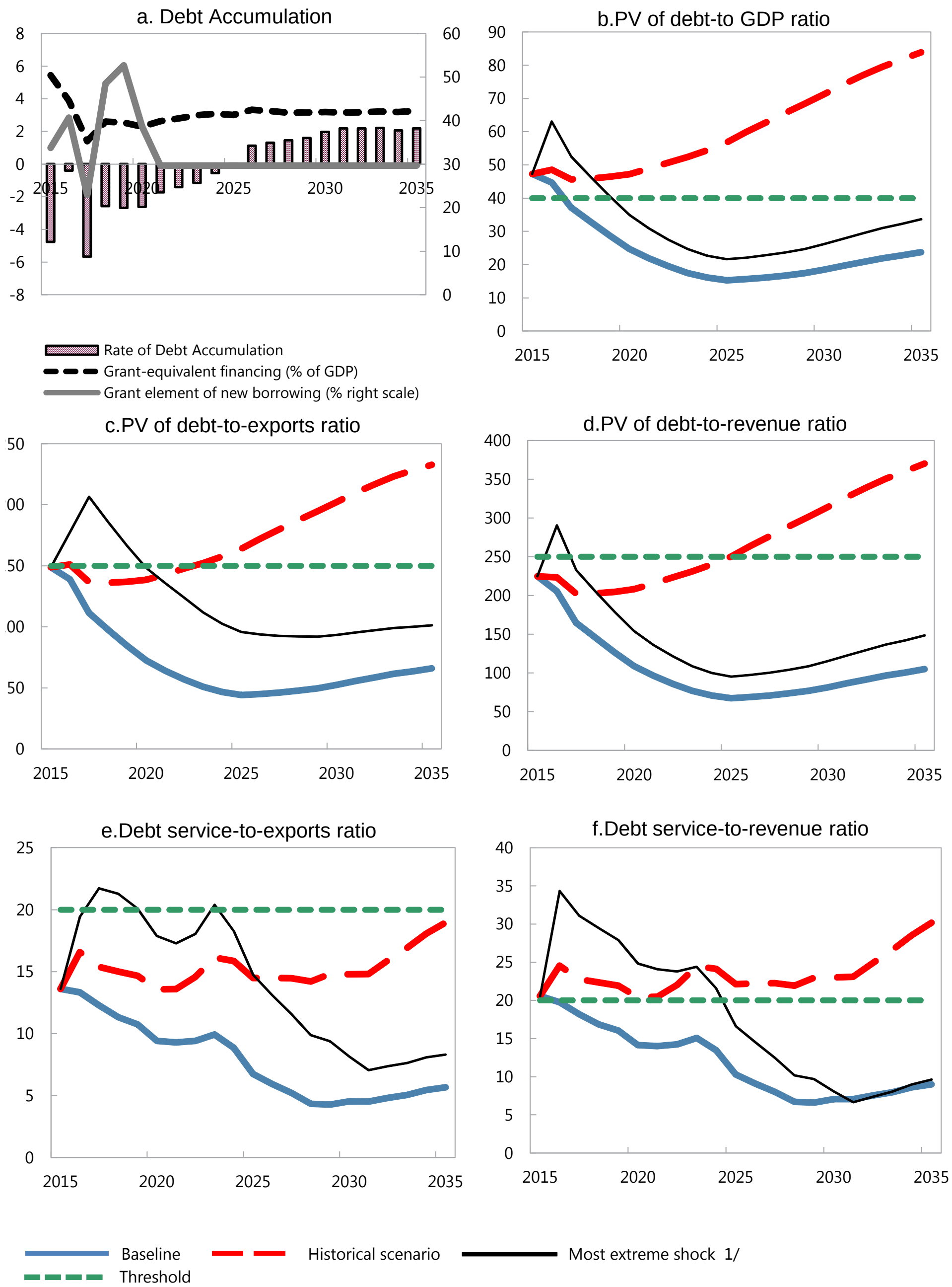
(In percent)

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

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.

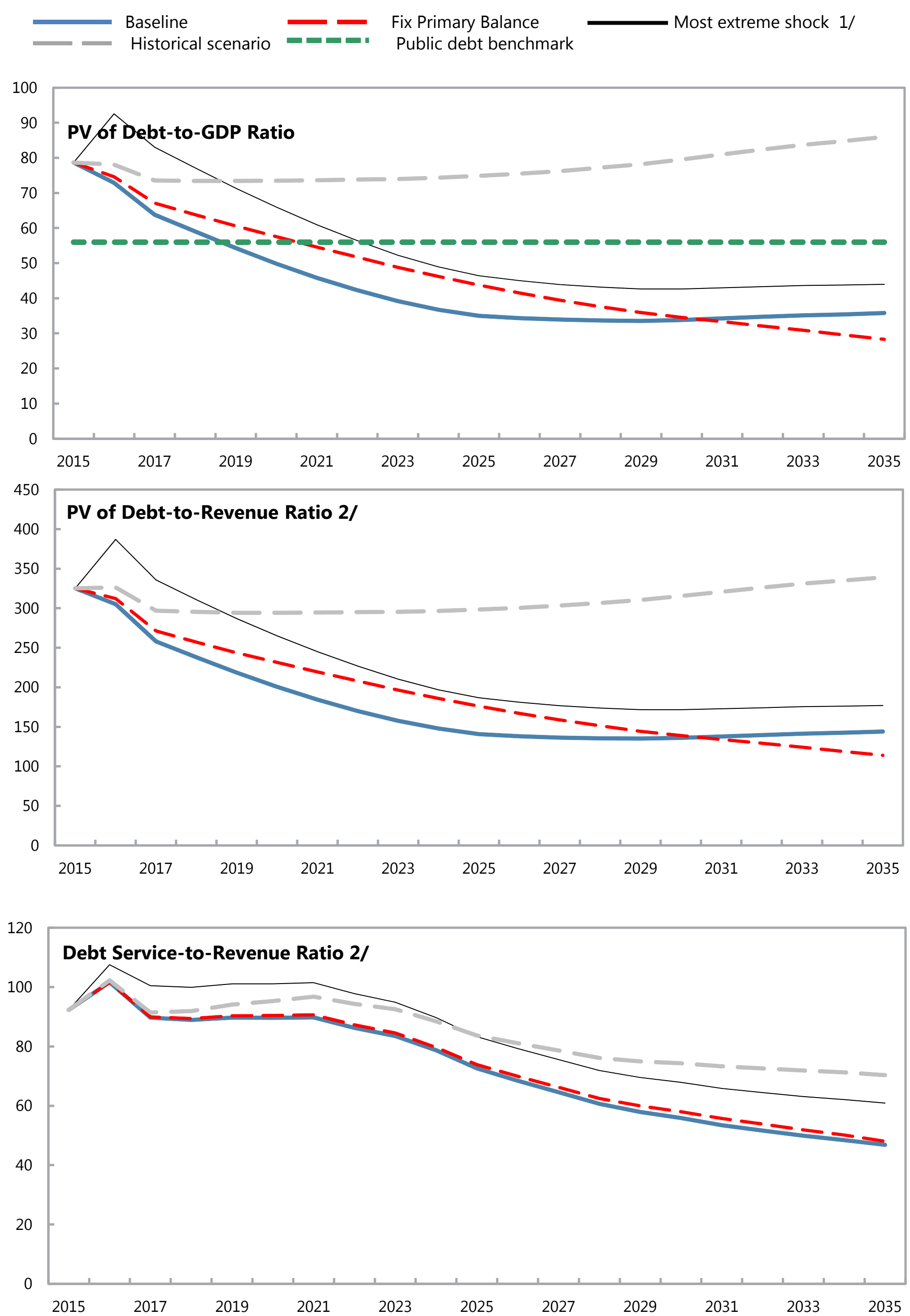
Figure AII: 1. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015-35 1/



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 AII: 2. Grenada: Indicators of Public 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.

2/ Revenues are defined inclusive of grants.

Annex III. Strengthening Grenada's State-Owned Enterprises (SOEs) and Statutory Bodies (SBs)

1. Grenada has finalized a strategic plan to reform its weak SOEs and statutory bodies, completing a critical step toward addressing related fiscal risks and putting Grenada at the forefront of regional efforts to reform the sector.[1] The reform strategy, designed with technical assistance from CARTAC, is comprehensive and includes policies to reform both the overall regulatory environment of the sector and to address specific challenges faced by individual entities.[2] With the strategy finalized in February 2015, the authorities have quickly turned to its implementation, with critical reforms to strengthen the overall regulatory environment of the sector already in place.

2. Overall SOE and SB Framework Reform. Reforms to the overall framework focus on strengthening the regulatory environment in which these institutions operate, as well as on aligning their employment and compensation policies with those of the central government. The reforms build on the strengthened reporting requirements for parastatal entities under the new PFM Act.[3] In March 2015, the Minister of Finance issued a letter of expectations to all SOEs and SBs outlining the new framework. As a result, key elements of the reform strategy are already in place and include:

- ***Stronger government oversight of SOEs and SBs.*** The government issued guidelines to the parastatal entities on the new framework governing the sector, to outline a new performance monitoring regime and specify roles, key tasks and timelines applicable to the performance monitoring framework.
    - To strengthen government oversight of parastatal entities, a new performance-monitoring framework—developed with technical assistance from CARTAC—was introduced. Under the framework, parastatal entities are required to: (i) adhere to the reporting requirements under the new PFM Act; (ii) develop a clear strategic plan that is consistent with the government's overall objectives; (iii) identify future investment needs and prepare proposals for the government for how those needs may be funded (including through private sector delivery or partnerships); (iv) identify key performance indicators that will allow the government to track financial and non-financial performance in meeting each SOE/SBs objectives under its strategic plan; and (v) prepare budget and financial forecasts for the next three financial years. Consistent with CARTAC's recommendations, the government will be holding

[1] See IMF Country Report No. 14/196, Annex V, for an overview of the financial challenges faced by Grenada's SOEs and statutory bodies.

[2] In May 2014, at the request of the Ministry of Finance, CARTAC undertook an analysis of the financial performance of SOEs and recommended restructuring options. The review found that SOEs in Grenada face a number of financial and operational challenges, with performance hampered by: high and inflexible cost structures, overly leveraged balance sheets, aging assets, and a lack of access to capital to successfully invest and innovate to meet changing market dynamics.

[3] See Annex 1 of IMF Country Report No. 12/363 for an overview of the PFM Act, including the strengthened reporting requirements for parastatal entities.

workshops with SOEs and SBs to clarify the requirements of the new framework and help facilitate compliance.

- To ensure effective oversight takes place, a framework has also been put into place to clearly allocate responsibility for oversight of the SOEs/SBs and to monitor compliance with the new framework. In particular, the Ministry of Finance (MOF) is responsible for overseeing the financial performance of SOEs/SBs and monitoring compliance with the performance framework, while the associated portfolio Minister (and Ministry) will be responsible for ensuring that SOE/SB performance and outcomes are consistent with the government's policy objectives. The Board of Directors of each SOE/SB is required to establish and maintain policies, procedures, risk management and internal control systems, and governance and management practices to ensure that each individual entity operates efficiently in line with the objectives for which it was established.

- ***Centralized policy for employment conditions***. A centralized policy for employment conditions in SOEs and SBs is being developed to standardize employment practices in these institutions and address the structural challenges of high labor costs and inflexible employment conditions they face. The policy is expected to address the existing high degree of autonomy of these institutions in setting wages and require alignment of wages with central government norms. The government has also mandated that all SOEs and SBs seek written directions, ahead of wage and salary negotiations, from the Government to help reduce the disparity between remuneration and employment conditions of SOEs and SBs relative to the central government.

- ***Requirement for SOEs and SBs to reduce expenditure***. In line with its own target, the government has mandated that all SOEs and SBs must reduce non-personnel spending by 20 percent and report on progress in this regard to the MOF on a quarterly basis.

- ***A reduction of government arrears to SOEs***. Important progress has been made to address government arrears to SOEs, with all arrears expected to be cleared by end-2015. The reform strategy includes a commitment to improve revenue collection models for commercial SOEs, which should help to prevent a recurrence of these arrears going forward.

- ***Introduction of a new dividend policy for SOEs.*** SOEs are now required to comply with a new dividend policy, which establishes a framework for dividend payments to central government. While the immediate financial impact for the government will be limited due to the poor financial position and operating losses of a number of SOEs, the policy sends an important signal to SOEs that positive rates of return on government equity are expected in setting prices.

- ***Revamped tariff-setting regime for SOEs***. The reform strategy includes a plan to reconsider the pricing regime of two SOEs (the National Water and Sewerage Authority and the Solid Waste Management Authority), which would be critical to resolve revenue weaknesses in these institutions. However, the reforms will only be considered in 2017. Committing to future path of price increases now, to be effective at a later date, would give these institutions greater revenue certainty in circumstances where they have large forward capital commitments and significant balance sheet stress.

- ***Pension reform***. As part of the reform strategy, the government has directed all SOEs and SBs to prepare and implement a plan to address any unfunded pension liabilities.

- ***Clarity on SOE and statutory body tax liabilities***. Further to the reduction in exemptions to statutory bodies by 50 percent in 2014, the government has clarified in the letter of expectation to SOEs and SBs that they are required to pay all taxes, duties, fees, and charges as applicable.

3. ***Institution-specific Reform Strategy***. The implementation of the institution-specific strategy will proceed in two phases, with the initial phase (2015-16) focused on strengthening the financial condition of those institutions that face the most pressing financial challenges and the remainder of the institutions to be reformed in the second phase (2017-19). The specific reform strategies for each institution are shown in Table 1. These individual strategies are generally consistent with the recommendations made by CARTAC technical assistance and, if diligently implemented, provide a sound basis for addressing key performance issues in the sector and reducing the fiscal risks emanating from these enterprises.[4] However, the restructuring proposals could, in many cases, be complex and involve substantial implementation risks, such as in the case of PPPs.[5] Careful attention to market structure, deal structure, competitive tendering and contract negotiation are pre-requisites for effective outcomes, and asset sales should not be discounted in cases where structuring an effective PPP becomes difficult.

[4] For the Grenada Airport Authority and the Gravel Concrete & Emulsion Production Corporation, the government has proposed PPPs as opposed to more comprehensive private sector involvement. For the Housing Authority of Grenada, the government has proposed scaling back operations instead of resolving the Authority. Finally, for the Grenada Postal Corporation the reform strategy goes beyond that recommended by CARTAC. In the case of GIDC, CARTAC's recommended reform strategy will not be pursued.

[5] Grenada has recently finalized a PPP policy, prepared in consultation with the World Bank, which sets out the framework for pursuing PPPs within Grenada. The policy will help to ensure that a careful cost-benefit analysis is conducted prior to the pursuit of a PPP arrangement.

Table 1: Strategic Plan to Reform Grenada's State-Owned Enterprises and Statutory Bodies		
Institution	**CARTAC Recommendation**	**Reform Strategy**
Phase 1 (2015-16)		
Grenada Airports Authority	The Authority should prepare formal proposal for a transaction or transactions to partner with a private operator.	A PPP arrangement for capital expansion and management will be pursued.
Grenada Bureau of Standards and Grenada Produce Chemistry Laboratory	N.A.	To strengthen synergies and improve efficiences, these institutions will be merged by 2016.
Gravel Concrete & Emulsion Production Corporation	Due to high fixed cost structure and inability to generate profits, Corporation should be sold or resolved.	A PPP arrangement will be pursued to facilitate capital development, strengthen management, and restore profitability. Corporation will be restructured with a downsizing of its workforce. The government will seek external funding to finance severance costs. Pension reform will be considered.
Grenada National Stadium	Control costs to prevent the need for government subvention. Introduce a private management contract, but retain government ownership.	New management is being sought alongside consideration for a private partner so that the stadium can be operated as a business. A business plan for the viability of the stadium will be developed by 2016.
Grenada Postal Corporation	Explore franchising of post offices as an option to reduce costs and increase revenues. Increase parcel rates, but only as part of a wider restructuring of the cost base.	The Grenada Postal Corporation will be restructured by end 2015 to improve efficiency, including through the possibility of franchising.
Housing Authority of Grenada	The Authority should be wound up, with its low income housing programs taken up by government.	The Authority will be restructured by end 2015 with a new restricted mandate to include responsibility for the government's soft loan programme, supervision of Low Income Chinese houses and a PPP will be explored to involve the private sector in the provision of low cost housing. The Authority will not be permitted to borrow and offer new mortgages.
Marketing & National Importing Board	The existing monopolies over the import of basic commodities should be removed and the business sold.	Organizational restructuring is complete with MNIB under new management and strategic plan in place. MNIB has returned to profitability in 2012 and paid a dividend to the central government in 2014. MNIB's outstanding debt is being restructured with the government guarantee being removed on the restructured debt.
Phase II (2017-19)		
Grenada Development Bank	Government to facilitate further lending by development financial institutions.	External funding has been secured from the CARICOM Development Fund. Government is in the process of facilitating additional lending by development financial institutions such as CDB to support the expansion of GDB's role in national development.
Grenada Industrial Development Corporation	The investment promotion and business development functions of GIDC should be separated from the Industrial Park, which should be sold.	The activities of the Industrial Park are profitable and currently help to finance its other operations as government's investment promotion agency. The Industrial Park will be retained and the profitability of this SOE with its real estate portfolio will be increased with more efficient management and implementation of measures to attract more tenants for enhanced revenue. A consultant is preparing recommendations for the restructuring and rebranding of GIDC.
Grenada National Lottery Authority	No action required.	Improvement in corporate governance is expected with the appointment of a new Chairman. A long term agreement with a private partner is being pursued to facilitate expansion.
Grenada Ports Authority	Pursue private sector participation option that could increase port utilization, without relying on government capital. Restructure the balance sheet to remove significant excess financial assets held, particularly in light of the Authority's government guaranteed debt. Return the financial assets to government in the form of a special dividend or liquidate assets to repay debt. Increase dividends to Government.	A PPP arrangement for increased utilization and profitability will be explored.
Grenada Solid Waste Management Authority	Government should repay past receivables to GSWMA (by end-2015) to facilitate investment in required new plant. Tariffs should be restructured.	Government receivables to the GSWMA will be repaid by end 2015 to facilitate necessary capital investments through a proposed on-lending agreement with government for a US$11 million CDB loan.
National Insurance Board	Government receivables should be repaid or resolved. NIB to examine the merits of funds management being separated from funds administration, with revenues and costs to be separately identified.	Government's liabilities to this non-commercial/quasi financial institution have declined. Selected recommendations of the eighth and ninth actuarial reviews are under consideration, commencing with increasing the retirement age to 65 over the next 10 years.
National Water & Sewerage Authority (NAWASA)	Restructure pension liabilities, address the employee cost base. Government receivables should be repaid and tariffs increased to facilitate needed capital investment.	Government arrears to NAWASA will be eliminated by end-2015. Pension liabilities will be restructured and tariffs will be reviewed in 2017 to facilitate a capital development program.
Petro-Caribe Grenada Ltd	Government should investigate the potential for funds management to be transferred to the National Insurance Scheme.	For this quasi-financial institution, a contingency plan will be developed in the event there is a change in the PetroCaribe arrangement. Funds management responsibilities will be retained.

Annex IV. Grenada's Fiscal Responsibility Framework

In June 2015, Grenada's parliament approved landmark fiscal responsibility legislation that will transition Grenada to a rule-based fiscal framework, promote durable fiscal discipline and support Grenada's return to a sustainable fiscal position. Grenada is the first ECCU country to put in place fiscal responsibility legislation and only the second CARICOM country (following Jamaica) to legislate a comprehensive rule-based fiscal policy framework.

A. Grenada's Rule-Based Fiscal Policy Framework

1. **The overall objective of Grenada's rule-based fiscal policy framework is to restore and maintain debt sustainability**. The framework establishes a debt ceiling of 55 percent of GDP (expected to be achieved by 2022), notably more ambitious than the regional target for the Eastern Caribbean Currency Union (ECCU) of 60 percent of GDP by 2030. The debt ceiling will be achieved through a primary balance target implemented with an expenditure rule. Importantly, the framework has broad coverage, including not only the central government but also statutory bodies and state-owned enterprises.

2. **Grenada's rule-based fiscal framework will be implemented in broadly three phases**:

- **Phase 1** is the authorities' ECF-supported homegrown program, with the objective to reduce the debt/GDP ratio and restore debt sustainability through an increase in the primary balance to 3.5 percent of GDP by end 2016.

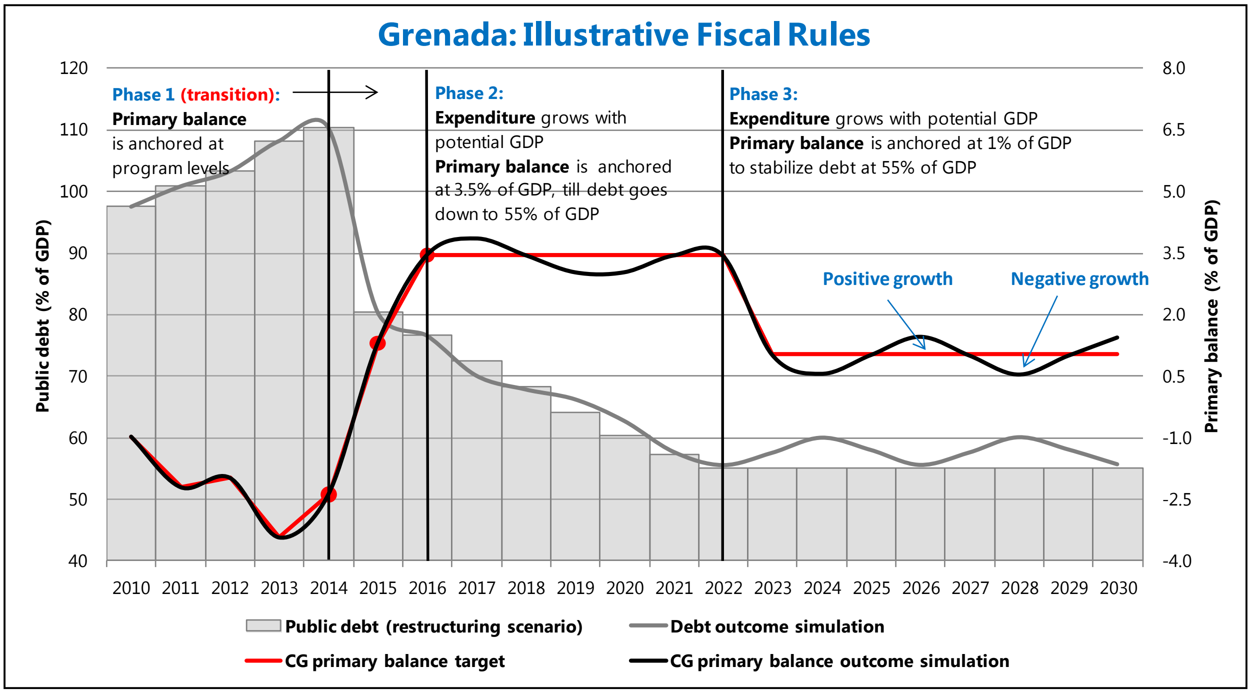
- **Phase 2**. During this phase, the primary balance is maintained at 3.5 percent of GDP on average over the economic cycle through the expenditure rule until public debt is reduced to 55 percent of GDP (estimated by 2022).

- **Phase 3**. Once the debt target is achieved, the objective is to maintain debt at this level. The primary balance is maintained at its debt-stabilizing level (currently estimated around 1 percent of GDP) through the expenditure rule.

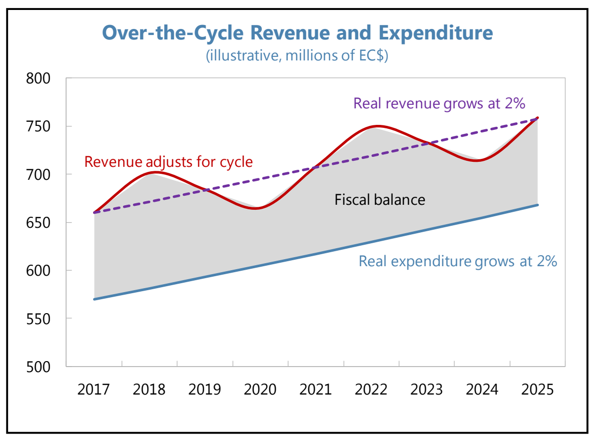
Grenada's Rule-Based Fiscal Policy Framework

Table 1: Summary of Grenada's Proposed Fiscal Rules

	Phase I	Phase II	Phase III
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



3. The primary balance target will be implemented through an expenditure rule. The expenditure rule caps the growth of real primary spending of the central government and covered parastatal entities at 2 percent per year, in line with estimated potential output growth, while allowing revenues to move with economic activity.[1] As a result, the actual primary balance will fluctuate around the targeted primary balance with economic activity, but over the economic cycle will average the targeted balance. Grant and CBI financed capital expenditures, which are not debt creating, are excluded from the expenditure rule. This framework is equivalent with targeting a structural primary balance, but has the added advantages of being transparent and easy to understand and allowing revenues to move with the economic cycle, thereby providing space for automatic countercyclical fiscal policy.

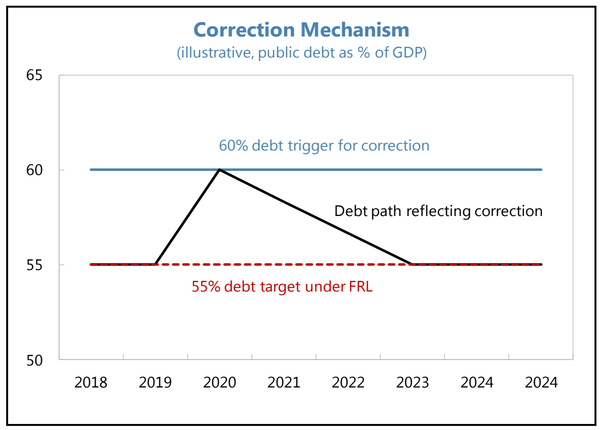


4. To support effective implementation of the expenditure rule and achievement of the overall objective of debt sustainability, Grenada's rule-based fiscal framework includes both flow and stock corrective mechanisms.

[1] Covered statutory bodies and state-owned enterprises include those entities that have received transfers of any kind from the budget in the five-year period immediately preceding the fiscal year, those entities that have not met their quarterly reporting requirements to central government, and all entities where the audited balance sheet has recorded a negative equity position as at the end of one of the preceding three financial years.

- **Flow correction mechanism.** Since the expenditure rule is not accompanied by overall restrictions on the primary or overall balance, Grenada's rule-based fiscal framework includes a mechanism to correct for persistent deviations from the targeted primary balance. All deviations of the primary balance from its target will be recorded in a "notional compensatory primary balance", which will reflect the cumulated difference between the actual primary balance and the target primary balance realized in any fiscal year. If the notional compensatory balance shows cumulative deviations from the primary balance target of greater than 3 percent of GDP, a change in the level of revenue and/or expenditures, implemented over 3 years, with at least one third of the adjustment in the first year, is required to reduce the notional compensatory balance to zero.

- **Stock correction mechanism**. Grenada's rule-based framework also includes an automatic correction mechanism for deviations in stock of debt from its targeted level (55 percent of GDP). If, at any time after reaching the debt target, the debt to GDP ratio exceeds 60 percent, the rule-based framework requires adjustment measures to reduce public debt to 55 percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year. This stock correction mechanism provides an additional safeguard, in case the flow correction was not triggered for one reason or another.



5. The rule-based fiscal framework is further strengthened through guidelines on public sector wage negotiations, an explicit ceiling on contingent liabilities arising from PPPs, and rules on the use of CBI receipts:

- **Public sector wage** negotiations must be conducted in a forward-looking manner, and the ratio of public sector wage expenditure to GDP is targeted at nine percent of GDP;

- **Public private partnerships** and their associated contingent liabilities (arising from, as a result of, or in connection with the PPPs) are capped at 5 percent of GDP;

- **CBI program receipts** are partly reserved for general budget financing, including contingency spending, natural disasters and debt reduction. Specifically, 40 percent of the monthly inflows into the National Transformation Fund will be saved. Moreover, the total sum of CBI program receipts to be used for meeting the primary balance targets are capped at 1.5 percent of GDP from 2018 onward.

6. The rule-based fiscal framework also includes escape clauses to provide sufficient policy flexibility to address rare events. Escape clauses with well-defined triggers are included for:

- **Natural disasters, public health epidemics, or wars** as a result of which a state of emergency is declared under Grenada's Constitution,

- **Severe economic contractions**, defined as a decline in real GDP of 2 percent in a given fiscal year or a cumulative decline equal to or greater than 3 percent over two consecutive years,
- **Financial crises**, as certified by the Eastern Caribbean Central Bank, where the estimated fiscal costs of the crisis—including the costs of any related recapitalization of banks by the government after all possible private sector solutions have been explored—is likely to equate or exceed four percent of GDP.

The triggering of an escape clause provides for a suspension of the rule-based framework for a period not longer than one year by the Minister of Finance.[2] Moreover, in the event of a triggering of an escape clause, the Minister of Finance must immediately submit to Parliament a recovery plan setting out the measures proposed to secure compliance with the rule-based fiscal framework at the end of the period for which the rule-based framework is suspended, including the size and nature of the revenue and expenditure measures. In the event that the Minister of Finance determines that the resumption of the application of the rule-based framework would be unduly harmful to public finances and macroeconomic and financial stability, the Minister may extend the suspension for a period not exceeding one fiscal year, subject to an affirmative resolution of parliament.

B. Monitoring Framework

7. A multi-tiered monitoring framework is being put in place to support implementation of Grenada's rule-based fiscal policy framework.

- The **Minister of Finance** must report to parliament with the presentation of the annual budget and any supplementary budget on progress made toward compliance with the rule-based framework. Moreover, also together with the annual budget, the Minister must submit to parliament a fiscal risk statement detailing, inter alia: economic and fiscal risks, and the sensitivity of economic and fiscal forecasts to these risks; the exposure of government to contingent liabilities; fiscal risks arising from the financial sector, statutory bodies, state-owned enterprises, public-private partnerships, and any other institutions; and any measures implemented by Cabinet or the Minister of Finance to manage fiscal risks.

- A **Fiscal Responsibility Oversight Committee** is being established. The committee will be responsible for independent monitoring of compliance with the rule-based fiscal policy framework and, on an annual basis, will submit to parliament a report on implementation of and compliance with the framework.

C. Conclusions

8. Grenada's fiscal responsibility legislation provides a strong framework to support a durable return to fiscal and debt sustainability over the medium-term. The legislation is the first of its type in the ECCU. The region has, since 1998, committed to reduce public debt to 60 percent

[2] The Ministerial Order to suspend the rule-based framework is subject to approval by Cabinet and must be laid before parliament, and is subject to negative resolution of parliament.

of GDP; however, the regional target has never been accompanied by clear operational guidance as to how the target will be achieved. This has contributed to a generalized lack of historical adherence to the target across the region and to the recent decision to extend the timeline to adhere to the target to 2030 from 2020. Grenada's new fiscal responsibility legislation overcomes this challenge by explicitly linking its overall objective of debt sustainability, defined as a debt to GDP ratio of 55 percent of GDP, with clear rules as to how the objective will be achieved, supporting effective implementation. The choice of an expenditure rule to guide compliance with the primary balance target and achievement of the debt sustainability objective is also appropriate for a small state like Grenada, as it provides scope for counter-cyclical fiscal policy, while overcoming the challenges of estimating a structural primary balance that can be faced by a small economy. The mandated saving of a portion of the CBI receipts and the introduction of the forward-looking wage negotiations are other strong features of the framework. Overall, the design of Grenada's rule-based fiscal policy framework is appropriate and effective implementation will ultimately depend on the country's continued commitment to the framework.

Appendix I. Letter of Intent

June 12, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
UNITED STATES OF AMERICA

Dear Madame Lagarde,

Grenada has concluded the first year of its homegrown programme, supported since June 2014 by its international partners. The progress made to stabilize the Grenadian economy and put it on a path to sustainable development is significant. The Government outperformed its 2014 fiscal targets by a large margin, completing almost half of the adjustment effort required to restore fiscal sustainability. We have also set the legislative foundation for more sustainable fiscal policy by reforming budget processes and addressing areas where fiscal risks have built up. We have also jumpstarted growth-boosting reforms, including in the electricity sector. We have met all but one of the quantitative performance criteria under the programme and completed significant progress on the structural reform agenda. The steadfast implementation of our Homegrown Programme is beginning to bear fruit, with confidence gradually returning and the economic recovery underway continuing to strengthen. While encouraged by the progress made thus far, we recognize that significant challenges remain, the most pressing of which is elevated unemployment. Together with our Social Partners, we will overcome these challenges and set the stage for strong, sustainable and job rich growth.

The Government remains fully committed to meeting the objectives of its programme, as well as the specific targets set out in the June 2014 Memorandum of Economic and Financial Policies (MEFP) and its December 2014 supplement. The Government requests modifications to the performance criteria for primary spending and the primary balance at end-June and end-December 2015 to accommodate one-off reform costs with last year's fiscal over-performance, and to the ceiling on non-concessional external borrowing by the central government to clarify the definition of the criterion.

Attachment 1 to this letter is a further supplement to the MEFP that discusses performance under the programme and provides updates on some 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 so far and our commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the second review of the arrangement under the ECF, the financing assurances review, approve the request for a waiver of a performance criterion, the proposed modifications to performance criteria, the proposed new performance criteria for June 2016, the proposed structural benchmarks, and the third disbursement under the arrangement of SDR 2 million.

We are confident that the policies described in the attached MEFP are adequate to achieve our programme's objectives. However, if necessary, the Government stands ready to take any additional measures that may be required. The Government 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. The 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, the attached supplementary MEFP and Technical Memorandum of Understanding, and 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 strides in overcoming its fiscal and economic crisis. On December 12, 2014, the Fund's Executive Board completed the first review of the 3-year arrangement under the ECF in support of Grenada's home-grown economic reform programme. Overall program implementation remains strong, with all but one quantitative performance targets for the second review met and progress made on the structural reform agenda (Tables 1 and 2). The Monitoring Committee for the Homegrown Programme has continued to play an effective role in supporting programme implementation by providing independent monitoring of progress and assisting the Government to achieve the agreed targets and benchmarks.

2. We are committed to continued strong program implementation to improve prospects for growth and job creation, put public finances back on a sustainable path, and entrench financial stability. The supporting policies to achieve these objectives are outlined in the June 2014 Memorandum of Economic and Financial Policies (MEFP) and its December 2014 Supplement. Unless modified below, that strategy and those policies remain valid in full. This supplementary MEFP further develops our reform strategy to improve growth and job creation (¶13), restore fiscal and debt sustainability (¶5-12), and entrench financial stability (¶14-15). The quantitative targets that serve as performance criteria and indicative targets under the programme have been extended through June 2016 (Table 1). The structural conditionality under the programme, incorporating modifications as discussed below, is presented in Table 2.

Developments and Outlook

3. The Grenadian economy is recovering and confidence in its prospects is strengthening. Economic activity is now estimated to have expanded by 3 percent (market prices) in 2014, significantly higher than the 1.2 percent anticipated at the first review. While strong external demand for tourism services has continued to fuel the recovery, our efforts to reform the agricultural sector contributed to strong growth in the sector in 2014. The renewed sense of confidence in the Grenadian economy, robust growth in the United States, and the decline in oil prices are also expected to contribute to improved economic prospects in 2015. We now expect the economy to grow by 1¾ percent in 2015 (up from 1.1 percent at the first review). Over the medium term, we continue to expect growth to pick up to potential growth of 2–2½ percent. While the ongoing economic recovery is encouraging, we are cognizant that the challenges confronting economic recovery remain significant, the most pressing of which is unemployment, which remains elevated at 29½ percent and is particularly high among the youth at 45.4 percent.

4. Relatively weak domestic demand and the decline in the world price of oil pushed deflation into the second consecutive year in 2014. Prices declined by 1 percent on average in 2014 relative to a year earlier. While the decline in prices was initially driven by a large reduction in telecommunication costs in late 2013, this effect has dissipated (on a year-over-year basis) and the decline has recently been driven by the fall in the world price of oil and weak domestic demand.

Deflation is now expected to persist in 2015, with prices projected to decline by 0.4 percent compared to the moderate inflation projected at the first review. We continue to expect inflation to pick up gradually to about 2 percent over the medium term with the economic recovery.

Fiscal Consolidation

5. **Almost half of the consolidation effort contemplated under our home-grown programme was implemented in 2014.** In 2014, the Government undertook a fiscal consolidation of 3½ percent of GDP. However, due to retroactive wage payments of 1.1 percent of GDP, the primary balance improved from a deficit of 4 percent of GDP in 2013 to a deficit of 1.2 percent of GDP in 2014. On aggregate, we outperformed our 2014 program primary deficit target by ¾ percent of GDP. Combined, our adjustment measures, intensified revenue collection efforts, and the economic recovery underway, helped to restore tax revenues to pre-crisis levels. At the same time, primary spending was kept within the programmed envelope through strict budget controls and expenditure savings. In particular, public employment and the wage bill were below the monitored targets.

6. **We are also on track to achieve the 2015 fiscal targets.** The 2015 Budget targets a primary surplus of $1^1/_3$ percent of GDP, in line with our programme commitment. This will be the first primary surplus in a decade.

- To achieve our revenue targets, we have increased the Petrol Tax by EC$1 per gallon (on gasoline and diesel), which is expected to raise 0.3 percent of GDP in revenue. We are also committed to ensuring the collection of personal income taxes on allowances as stipulated under the latest agreement with St. George's University (0.3 percent of GDP). If by end-May 2015 revenue is below the program forecast of EC$212 million by more than 1 million we will increase excise taxes on alcohol and tobacco to yield an estimated increase in revenue equivalent to 3 times the shortfall.

- On the spending side, the prudent management of citizenship-by-investment (CBI) program receipts will be critical to ensuring that the consolidation objectives remain unaffected by the uncertain nature of these revenues. The 2015 Budget assumes large inflows into the National Transformation Fund (NTF) from the CBI programme (4 percent of GDP, in addition to the EC$24 million (1 percent of GDP) that would be saved for arrear repayment), which are transferred to the central government as grants. A portion of these receipts are budgeted to finance recurrent expenditure mandates, including on social programs and ongoing infrastructure programs. We are committed to ensuring that these recurrent mandates are restricted to the fiscal envelope available in the absence of the CBI inflows and that the latter will be used to finance only one-off transformational infrastructure spending that we would otherwise not be able to undertake. For this, we will:

    - Reallocate the recurrent mandates from NTF-financed to nongrant-financed spending and reduce expenditure allocations for nongrant-financed spending to programmed levels. A Cabinet conclusion specifying the quarterly budget allocation consistent with the agreements under the program, with indicative targets for each Ministry and project, taking into account reduced grant financing from the Petrocaribe arrangement, has been approved in May (a **prior action** for the review).

- Identify the non-recurrent infrastructure projects that will be financed with NTF resources if these become available. The execution of these projects will start only when sufficient resources have been accumulated in the NTF to finance the project to its completion and through its maintenance over the medium-term, as previously committed under program.

- Ensure that, after 2015, spending under the NTF is limited to non-recurrent and productive infrastructure spending. For this, we (i) will approve the regulations that govern the use of funds out of the NTF (see below) and (ii) with assistance from CARTAC and the IMF, will revise the chart of accounts by end-2015 to ensure, among other things, proper future accounting for capital spending under the budget (see below).

7. We are committed to strengthening the monitoring of the public sector wage bill. Monitoring of the public sector wage bill has proven more challenging than anticipated as wage spending on public servants is captured not only under the wage bill, but also under capital expenditure as part of spending on some recurrent programs. While the broadening of the wage bill target during the first review was intended to cover both categories, it also unintentionally captured many projects that do not include wage spending, which cannot be easily separated from those that do. Going forward, we will restore the original focus on the recorded wage bill, while accelerating reforms to introduce a new chart of accounts, consistent with the 2014 Government Finance Statistics Manual in the 2016 budget (**new structural benchmark** for end-December 2015). The new chart of accounts clearly identifies wage expenditures on all public servants, including related to capital spending, and will facilitate our monitoring of the wage bill going forward. The new chart of accounts will also help ensure the proper classification of current and capital spending and strengthen our ability to target limited resources on growth-enhancing investment projects.

8. While important progress has been made with the programmed fiscal consolidation, a further fiscal adjustment will be required in 2016 to achieve the 3½ percent of GDP primary surplus target. Some of the measures initially contemplated under the program for 2016 may not be feasible and we recognize that a further $1^1/_3$ percent of GDP in adjustment measures will be needed to safeguard the fiscal targets agreed under the last full year of the program. These measures will include (a) a further increase of the Petrol Tax by EC$1 per gallon (on gasoline and diesel) to raise 0.4 percent of GDP in revenue; (b) a phased in revision of property values to their market levels consistent with an increase in property tax revenues by 0.1 percent of GDP; (c) the introduction of a financial activities tax as detailed in the December 2014 MEFP(expected to increase revenue by 0.3 percent of GDP); (d) a reduction in the wage bill associated with the implementation of the civil service reform (0.3 percent of GDP in expenditure savings); (e) a further savings in goods and services from renegotiated lower fixed-line rates, streamlining transportation costs, and savings on electricity and fuel as a result of the lower international oil prices (estimated at about 0.1 percent of GDP).

9. 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. The Government will also take steps to safeguard against a potential disruption of the PetroCaribe arrangement, which provides important financing for Grenada's social programmes. To ensure that the fiscal program remains on track in the face of a potential disruption of the arrangement, the Government will meet the resulting shortfall by reprioritizing spending and implementing the identified contingent fiscal measures.

Debt Restructuring and Regularization of Arrears

10. The Government continues to engage with all creditor groups to finalize agreement on a comprehensive restructuring of Grenada's public debt:

- *Private debt*. The Government has reached an agreement in principle with the Steering Committee of Grenada Bondholders on the key financial terms that will apply to the restructuring of its U.S. and E.C. Dollar bonds due 2025. The restructuring will involve a phased 50 percent nominal principal reduction, with half of the agreed principal reduction provided at the closing of the transaction and the latter half contingent upon completion of the sixth review of our ECF-supported program. The new bonds to be issued in exchange for the 2025 bonds will carry a coupon of 7 percent per annual with a maturity of 15 years. As part of the agreement, bondholders will receive a portion of revenues that may be generated by Grenada's CBI program after the expiry of the ECF arrangement. We continue to discuss with the Committee the inclusion of a hurricane clause in the new instruments. The formal exchange offer to implement the restructuring is expected to be launched around mid-2015. Negotiations with our remaining private creditors have proceeded in parallel to the restructuring of the 2025 bonds and are expected to be concluded in 2015.
- *Bilateral official debt*. In December 2014, the Government finalized an agreement with the Export-Import Bank of Taiwan Province of China (Eximbank) to restructure US$36.5 million in debts to Eximbank. The agreement reduces the amount outstanding on the loan by 50 percent (equivalent to 2 percent of GDP, or 62 percent in net present value (NPV) terms). The agreement put an end to Eximbank's legal proceedings in New York courts to recover payments outstanding since the 2005 debt restructuring. The Paris Club has provided financing assurances for Grenada and has tentatively agreed to discuss the treatment of its claims in September 2015. Kuwait has resumed new disbursements to finance existing projects and all other non-Paris Club bilateral official creditors have been contacted to request a comprehensive restructuring of their claims on Grenada.

11. 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 with creditors, the Government is negotiating with its creditors a clearance framework for the existing stock of Government debt arrears. As part of the restructuring of the 2025 bonds, we have agreed with the creditor committee that all interest arrears on the bonds will be capitalized. 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*. With respect to the clearance of budget expenditure arrears, the Government has completed its strategy and will clear all budget expenditure arrears by end-2015 as committed under the programme. As of December 2014, the Government reduced budget expenditure arrears by 20 percent since end-2013, bringing the level of arrears to EC$66 million, or EC$20 million below the end-December 2014 ceiling. We are committed to clearing all arrears by end-2015, as agreed under the program. Around half of the outstanding supplier arrears (to public entities) will be settled with Government paper and debt net-offs, while the rest will be settled by cash. In support of this commitment, we will transfer the first EC$24 million of the annual inflows received by the NTF 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.
- *Membership fees to regional and international organization arrears*. The Government has reached a preliminary agreement to regularize membership arrears with international organizations accounting for more than 30 percent of the total stock of arrears, and is seeking agreements with the remaining organizations.

Fiscal Structural Reforms

12. 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 the 2014 Public Financial Management (PFM) Act.* In 2014, we modernized our public financial management legislation with a new PFM Act. In 2015, we made minor revisions to the Act and are now focused on its implementation. The signing into force of the 2015 PFM Act, expected in early June, will be a **prior action** for completion of the second review. To support implementation of the Act, we will finalize the regulations, drafted with IMF technical assistance, necessary to implement the legislation (approval of the regulations is an end-June 2015 structural benchmark). An important challenge to effective implementation of the new legislation 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. We will receive technical assistance from the IMF to support implementation of the new Act. We will also seek technical assistance from CARTAC and the IMF to update our Chart of Accounts, which will be critical to ensuring the proper classification of all categories of spending.

- *Finalizing the state-owned enterprise and statutory body reform strategy*. Cabinet approved a strategic plan to strengthen the financial position of the sector in February 2015, completing the end-October 2014 structural benchmark, and a committee has been set up to oversee implementation of the strategy. The plan includes policies to reform the overall regulatory environment of the sector as well as to address the specific challenges faced by individual entities. Subsequent to reforms to the overall SOE framework the implementation of the institution-specific strategy will proceed in two phases:

- *SOE framework reforms*. Following the extension of the PFM law requirements to statutory bodies and SOEs, the government has strengthened further the regulatory environment in which they operate. In particular, we have mandated strengthened reporting requirements to all SOEs and statutory bodies, including those mandated under the new PFM Act, and have held follow-up discussions with these institutions to clarify these requirements. The Government also plans to issue a directive to all SOEs and statutory bodies that will clarify the employment and compensation practices to which these institutions must adhere. The Policy Unit within the Ministry of Finance will be strengthened and given oversight responsibility over SOEs and statutory bodies, including for monitoring compliance with the new reporting requirement and the implementation of the reform agenda.

- *Phase 1 of restructuring (2015-16)*. The first phase will include targeted reforms to strengthen the financial condition of the SOEs and statutory bodies facing the most pressing financial challenges. We will pursue contracting out or long-term concessions with the private sector for some SOEs (e.g. Gravel, Concrete & Emulsion Production Corporation and the Grenada Airport Authority) to strengthen management and facilitate a return to profitability. We will pursue these private partnership opportunities in the context of the new PPP framework, prepared with assistance from the World Bank and approved by the Cabinet in February 2015. Other enterprises will be restructured to strengthen their viability (including the Housing Authority of Grenada, and the Grenada Stadium Authority), others merged (the Grenada Bureau of Standards and the Grenada Produce Chemistry Laboratory), and other will be wound up through privatization of their core activities.

- *Phase 2 of restructuring (*2017-19): Phase 2 will focus on strengthening the Grenada Solid Waste Management Authority and the National Water and Sewerage Authority, among other entities.

- *Completing the reform of the tax incentive regime.* We are bringing to a closure our efforts to reform the tax incentive regime to make it more rule-based and transparent, reduce tax expenditures and maximize the growth impact of the incentives by focusing them on the productive sectors (end-November 2014 structural benchmark). Completion of these reforms was somewhat delayed relative to the timeline originally envisioned in order to ensure that the newly codified incentives do not entail a revenue loss, with technical assistance on this received from the IFC, the World Bank and the IMF. With this technical assistance complete, parliament approved in early June 2015 amendments to the income tax, value added tax, and property transfer tax acts required to implement the new regime (**prior action** for the completion of the second review). We are committed to continuing our efforts to remove all discretion in our tax incentive regime and, in particular, will also remove discretion from the granting of customs duty exemptions after coordinating with CARICOM given our regional commitments on external tariffs.

- *Improving tax administration.* As noted in the December 2014 MEFP, we are committed to improving tax administration to sustain fiscal gains and ensure an equitable contribution to the consolidation effort. 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 the CARTAC and the IMF—to establish a Large and Medium Taxpayer Service unit to strengthen IRD's capacity and facilitate tax compliance by the largest taxpayers. Moreover, performance management systems are being strengthened and taxpayer services and information technology improved.

- *Transitioning to a rule-based fiscal framework.* We have finalized the Fiscal Responsibility Legislation (FRL) (end-December 2014 structural benchmark) to complete the transition to a rule-based fiscal framework and strengthen fiscal discipline. The legislation was approved by Parliament in June 2015. Consistent with our commitments outlined in the June 2014 MEFP, the rule-based fiscal framework has the overarching objective of debt sustainability. It includes an operational debt target of 55 percent of GDP and an expenditure rule to maintain a targeted primary balance over the macroeconomic cycle consistent with the achievement of the debt target. We request to remove the end-June 2015 structural benchmark for the approval of regulations for the FRL as these are no longer required, given that the law provides sufficient clarity and regulations not needed to guide its implementation.

- *Ensuring the transparent and sustainable management of CBI receipts.* Launched in 2013, our CBI programme received its first revenues in 2014. As of March 2015, we have set aside EC$3.1 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 program 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. To this end, we are committed to:

    - *Publication of all CBI program statistics.* We commit to publishing on the Ministry of Finance website on a quarterly basis all CBI-related statistics as outlined in the TMU (¶19). This will be a **new structural benchmark** to be observed on a quarterly basis starting in July 2015. A Cabinet conclusion mandating the publication of the CBI statistics has been approved in May 2015 (a **prior action** for the review).

- *Regulations for the National Transformation Fund (NTF) (*end-February 2015 structural benchmark). The regulations, which are being drafted with technical assistance from CARTAC, will put in place a governance framework for the NTF, including Government oversight, and will include policy guidelines on the use of NTF resources. The use of NTF resources will be balanced between debt reduction and spending on transformational investment projects. The regulations will mandate that 40 percent of total NTF revenues are saved for arrears repayment, debt reduction and as contingency financing for natural disaster relief (in 2015, to fulfill our commitments on arrear clearance, the first EC$24 million of annual NTF resources will be devoted to these purposes). With respect to NTF investment in transformational investment projects, the regulations will require (i) rigorous project evaluation and selection aligned with Grenada's development priorities identified in the GPRS 2014-18 and Strategic Plan 2030 and (ii) the full integration of the NTF projects with the budget's Public Sector Investment Program. The regulations are expected to be finalized in July 2015.

- *Strengthening the management of public debt.* To further support a strengthening of the management of public debt, we have modernized the legislative framework for public debt management through a new Public Debt Management (PDM) Act (structural benchmark for end-March 2015), approved by Parliament in June 2015. We are committed to fully implementing the new PDM Act in 2016.

- *Modernizing the public sector.* We continue to believe that public sector modernization reforms are critical to improving the efficiency, quality and cost effectiveness of the public sector. Technical and financial assistance from our international partners imperative to facilitate the strategic review of the public sector has not materialized as expected. Nevertheless, given the importance we place on reforming the public service, we are committed to self-financing the reform initiative. In light of the unanticipated financing challenges, we request re-phasing the end-September structural benchmark to end-March 2016 to allow us adequate time to complete this important reform. Subsequent to finalizing the reform strategy, we remain committed to revising the existing legislation on government functions, civil services, and public compensation (including the 1969 Public Service Law) within the subsequent six months.

Structural Reforms to Support Competitiveness and Growth

13. Strengthening Grenada's competitiveness to improve prospects for growth and job creation remains the main focus of the Government's economic program.

- *Growth and Poverty Reduction Strategy (GPRS).* As outlined in the December 2014 MEFP, the Government's efforts toward a higher, sustainable and more equitable growth path will be guided by its new Growth and Poverty Reduction Strategy (GPRS) for the period 2014-18. The strategy is closely intertwined with our home-grown economic programme that aims at addressing the immediate crisis, but has a more medium-term vision for the development of Grenada's growth and job creation potential. The GPRS will be the guiding pillar of Grenada's development policy and will be the foundation for the economic strategy underpinning the national budget. The Government is committed to a results-based implementation of the GPRS and is working to put in place a transparent monitoring and evaluation framework to ensure periodic assessment of progress against GPRS goals and objectives and strengthen Government's accountability for effective implementation of the strategy. Work has also commenced a new long-term development plan, Strategic Plan 2030, which will complement the medium-term strategy in the GPRS.

- *Improving the investment environment.* The 2014 Investment Act represents a comprehensive revamping of Grenada's investment regime, bringing it in line with international best practice, and we are now focused on implementing the new framework. With the tax incentive reform now finalized, we will bring the 2014 Investment Act into force expeditiously. We are committed to supporting effective implementation of the new investment framework by strengthening the institutional framework for attracting and retaining investment in Grenada and will request technical assistance from our international partners to reform the Grenada Industrial Development Agency (GIDC) to strengthen its investment facilitation and generation capacity.

- *Energy sector reforms*. The initial reforms are focusing on putting in place a new regulatory authority responsible for tariff-setting, which is currently outlined in a 1994 agreement with Grenada's monopoly energy company. We have prepared a draft amendments to the Public Utilities Regulatory Commission Act (with World Bank technical assistance) to establish the new national regulator to be supported by the regional advisory authority - the Eastern Caribbean Energy Regulatory Authority (ECERA) - is established. We are confident that this will ensure a more efficient pricing of electricity in Grenada in support of our growth objectives. We have also completed a draft of the new Electricity Supply Bill, with support from the World Bank, which will replace the 1994 Electricity Supply Act (ESA) in guiding Grenada's transition from electricity generation to renewable energy by putting in place a supportive regulatory environment. Public consultations on the draft legislation were held in February 2015 and we are now engaged in discussions with GRENLEC. Subsequent to these discussions, we expect the new legislation to be put in place in 2015.

- *Social protection and poverty reduction*. We are continuing our efforts, with support from the World Bank, to strengthen social protection. We are putting in place a new information management system for our largest social assistance program, SEED. While implementation of the system has proven to be more challenging than anticipated and has contributed to a delay in putting in place the new targeting mechanism and under spending on social spending compared to our end-December 2014 indicative floor, we consider the indicative floor on social spending an important barometer of our support to the most vulnerable and will work toward ensuring that the spending floor is met.

Financial Sector Reforms

14. We remain committed to the ECCU regional strategy to strengthen the banking sector and are actively engaged with our regional partners on its implementation. The ongoing asset quality review (AQR) of commercial banks in the region, together with financial modeling of banks' viability, will provide important insight into the financial position of banks in the region. The results of these diagnostics are expected by end May and we remain committed to taking immediate action as needed to strengthen the financial position of commercial banks operating in Grenada. In this regard, we will work with the ECCB to determine an appropriate strategy, in the context of a sustainable fiscal framework. To promote the stability of the banking system over the medium-term, in April 2015 Parliament approved the revised Banking Act, approved by the ECCB Monetary Council in February 2015, to strengthen the legislative framework for banking regulation and supervision. Parliamentary approval of the ECCB Agreement Amendment Act will proceed as soon as the draft legislation is received from the ECCB.

15. We continue to strengthen regulation and supervision of the nonbank financial sector. With respect to the insurance sector, we continue to support the establishment of the Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor. In line with international best practice, Grenada Authority for the Regulation of Financial Institutions (GARFIN) has moved to consolidated supervision of the insurance sector and is strengthening cooperation with home country authority partners to further strengthen supervision. Formal frameworks for consolidated and risk-based supervision for the insurance sector are being finalized. With respect to the credit union sector, we remain committed to the Caribbean Association of Credit Union Supervisors as a stepping stone toward regional regulation/supervision. GARFIN is now implementing risk-based supervision of credit unions and, with technical assistance from CARTAC, is working to strengthen its regulatory regime for credit unions through a strengthened risk weighted capital adequacy regime and by conducting credit quality reviews to further strengthen supervision and regulation of the sector.

Programme Monitoring

16. The programme will be subject to semiannual reviews and semiannual performance criteria, indicative targets and structural benchmarks, as well as continuous performance criteria, as set out in Tables 1-2 and in the attached Technical Memorandum of Understanding (TMU). We anticipate that the third, fourth, and fifth reviews will take place on or after September 30, 2015, March 31, 2016, and September 30, 2016, respectively, and will require observance of the continuous performance criteria and of the conditionality for end-June 2015, end-December 2015, and end-June 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 also be monitored on a quarterly basis through staff visits.

Table 1. Grenada: Quantitative Program Targets

	2013	2014				2015		2016	
	Dec.	Jun.	Dec.			Jun.	Dec.	Jun.	Dec.
	Act.	Act.	Prog.	Adj. Prog. 1/	Act.	Prog.		Proposed	Ind.
Performance criteria									
A. Cumulative floor on central government primary balance (EC$ mln) 2/	-90	-2	-57	-46	-28	9	31	39	86
B. Cumulative ceiling on central government primary spending (EC$ mln) 2/	564	285	622	656	630	281	550	268	519
C. Ceiling on stock of central government budget expenditure arrears (EC$ mln)	86	80	86	86	66	43	0	0	0
D. Ceiling on accumulation of external debt arrears (continuous)		0	0	0	0	0	0	0	0
E. Ceiling on contracting of non-concessional external debt by the central government (continuous, US$ mln)		0	0	0	10	0	0	0	0
Indicative targets									
F. Cumulative ceiling on net change in central government and central government guaranteed debt (EC$ mln) 2/		73	149	103	48	39	66	13	25
G. Floor on social spending by central government (EC$ mln)		6.2	13.0	13.0	11.4	6.7	13.4	7.0	14.0
Monitoring									
H. Wage bill target 3/									
First review target	272	134	276	276	275	136	272	132	264
Proposed new target	227	111	223	223	219	110	220	107	214
I. Public employment target	7755	7168	7584	7584	7515	7534	7484	7434	7384

1/ Adjusted for the shortfall in SEED spending, the revenue and budgetary grant 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/ New targets are proposed during second program review to restore wage bill definition from program approval (TMU¶17).

Table 2. Grenada: Structural Program Conditionality

Measure	Timing	Implementation Status
Prior Actions for the Second Review		
1. Cabinet conclusion specifying the quarterly capital budget allocation with indicative targets for each Ministry and each project consistent with program commitments excluding NTF resources		Met
2. Cabinet conclusion mandating quarterly publication of CBI statistics		Met
3. Parliamentary approval of the revised legislation on tax incentive regime		Met
4. Signing into force of the 2015 PFM Act		Expected early June
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
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	Expected in July
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	Expected early July
8. Minister of Finance approval of regulations for the fiscal responsibility legislation	June 30, 2015	Proposed to be removed
9. Cabinet approval of a strategic plan to modernize the public sector	September 30, 2015	Proposed to be rephased to March 31, 2016
10. Parliamentary approval of a tax administration act	November 30, 2015	In progress
11. Publication of all citizenship-by-investment statistics on a quarterly basis	Quarterly, beginning July 31, 2015	Proposed
12. Implementation of the new Chart of Accounts for the 2016 Budget	December 31, 2015	Proposed

Attachment II. Technical Memorandum of Understanding

1. Grenada's performance under the Extended Credit Facility (ECF arrangement), described in the Memorandum of Economic and Financial Policies from June 2014 and its December 2014 supplement, will be assessed on the basis of observance of quantitative performance criteria, indicative targets, as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the performance criteria and indicative targets under the ECF arrangement. It also describes the modalities for assessing performance under the programme and the information requirements for monitoring this performance.

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 regarded as 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$10 million in 2014, 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 recently legislated 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 2014-16, as well as capital spending, to which the actual outcomes will be compared.

Grenada: Programmed revenues and grants, 2013-16							
	2013	2014 [1]		2015 [1]		2016 [1]	
	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.
(EC$ millions)							
Non grant revenue	443.4	231.1	459.9	253.6	504.4	275.6	551.0
Budgetary grants	0	0	0	0	0	0	0
Capital spending	160.5	97.0	215.6	79.5	176.5	73.9	147.8
o.w. financed by capital grants	31.3	37.5	105.0	27.5	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 end-June and end-December 2015 targets, 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 end-June and end-December 2015 targets 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$2 million).

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).

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) and (vi). 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); advisor fees related to the debt restructuring, for the end-June and end-December 2015 targets only (up to a cumulative maximum of US$2 million); and (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).

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$43 million at end-June 2015, EC$0 million at end-December 2015, and EC$0 million at end-June 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). The contracting and guaranteeing of non-concessional external debt will be monitored and reported to the Fund staff by the DMU, after reconciliation with the Accountant General's office, on a monthly basis. The government undertakes 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 relative to face value) is less than 35 percent. The discount rate used for this purpose is 5 percent.

II. INDICATIVE TARGETS

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

12. Net change in central government and central government guaranteed debt is defined as difference in the stock of central government and central government guaranteed debt between two specified periods. For program purposes, the stock of central government and central government guaranteed debt is measured under the disbursement basis.

13. 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.

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

- 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

15. The data used to monitor 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. Floor on the Social Spending by the Central Government

16. The social spending of the central government will only include the expenditures incurred by central government towards the SEED programme (support for education empowerment and development). This will be reported by the Ministry of finance on a quarterly basis.

H. Memorandum Item: Wage Bill Target

17. The wage bill of the central government will include the 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

18. 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

19. 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-program applications approved (NTF donation or investment option), (iii) the number of new citizens under the CBI program, (iv) the number of CBI-program applications rejected, (v) the total amount of revenues received into the NTF, (vi) the total amount of CBI program 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-program related revenue (direct central government financing and NTF-financed projects).The data will be reported as outlined in Table 1.

IV. PROGRAMME REPORTING REQUIREMENTS

20. 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.