



GRENADA

December 2014

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW—STAFF REPORT; PRESS RELEASE

In the context of the first review under the Extended Credit Facility arrangement and Financing Assurances Review, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 12, 2014, following discussions that ended on October 12, 2014, with the officials of Grenada on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 21, 2014
- A **Staff Statement** of December 9, 2014 updating information on recent developments.
- A **Press Release** including a statement by the Chair of the Executive Board.

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

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GRENADA

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW

November 21, 2014

EXECUTIVE SUMMARY

Extended Credit Facility (ECF) Arrangement: On June 26th, 2014, the Executive Board approved a three-year arrangement for a total amount equivalent to SDR 14.04 million (about US\$21.7 million, 120 percent of quota). The equivalent of SDR 2.04 million was disbursed upon approval of the arrangement. The equivalent of SDR 2 million (about US\$3 million) will be made available upon Executive Board completion of the first review.

Recent Developments: The economy is slowly recovering from a protracted recession, but domestic demand remains weak. Financial balance sheets are strained by non-performing loans, private credit continues to contract, and inflation has been negative or low. Growth is expected to remain positive but below potential over the next two years, as private and public balance sheets are repaired. Discussions with creditors on a comprehensive restructuring of public debt have intensified.

Program Performance: Policy implementation is off to a good start. The fiscal consolidation is proceeding as programmed and all quantitative performance criteria for the first review were met. Progress has also been made on the structural reform agenda, with two structural benchmarks met or expected to be met, and two to be finalized soon. In particular, the authorities overhauled the public financial management framework, prepared an initial strategy to strengthen weak public institutions and are modernizing the investment promotion framework.

First Review: No substantive changes were made to the macroeconomic framework. Discussions focused on the fiscal outlook for 2014-15, and on structural reforms going forward. No changes are proposed to the programmed fiscal targets. Proposed new structural conditionality focuses on a continued strengthening of the fiscal policy framework through implementing regulations, debt management and revenue administration reforms, as well as a framework for sustainable use of receipts under the new citizenship-by-investment program. The program is still in early stages, and implementation risks remain.

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

Discussions took place in St. George's during August 18-27, 2014, and in Washington DC during October 10-12, 2014. 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. The mission met with the Prime Minister and Minister of Finance Keith C. Mitchell, the Permanent Secretary of the Ministry of Finance Timothy Antoine, Deputy Permanent Secretary Mike Sylvester, senior officials, as well as representatives of the private sector and civil society, including the Monitoring Committee for the Home-grown Program.

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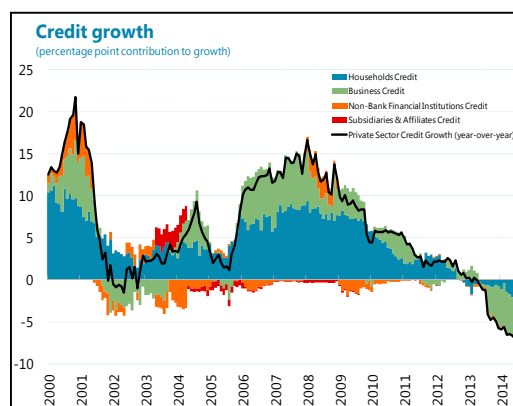
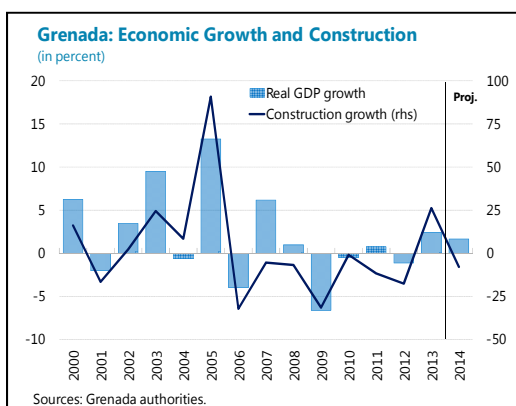
BACKGROUND

1. **Context.** A three-year SDR 14.04 million (120 percent of quota) Extended Credit Facility (ECF) arrangement was approved by the IMF Executive Board on June 26, 2014 in support of the authorities' home grown economic reform program. The main objectives of the program are to improve competitiveness and medium-term growth prospects, restore fiscal and debt sustainability, and strengthen financial stability.
2. **Program performance has been strong, supported by broad social consensus and a shared commitment to reform among all stakeholders.** The fiscal consolidation is proceeding as programmed, with all quantitative performance criteria for the first review met and the ambitious structural reform agenda largely on schedule. A committee with broad participation of Grenadian society as well as the Eastern Caribbean Central Bank (ECCB) has been established to monitor program performance and has provided important support to implementation.

RECENT DEVELOPMENTS

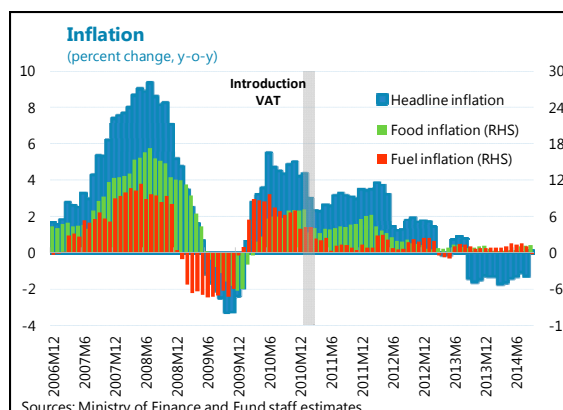
The economy is slowly recovering from a protracted recession, but domestic demand remains weak. The decline in consumer prices has continued, but may be at an inflection point.

3. **Economic recovery is slowly taking hold with support from external demand.** After almost four years of decline, the economy is estimated to have grown by 2.4 percent (market prices) in 2013, higher than the 1.5 percent previously reported, due to a stronger than expected boost to economic activity from the construction of a large resort. Short-term indicators suggest that the recovery has continued in 2014, as tourism arrivals picked up strongly following the opening of the new resort.
4. **Credit has continued to contract as the private sector deleverages and banks repair their balance sheets.** Private credit has declined 8³/₄ percent from its peak, despite strong growth in deposits, due to constraints on both the supply and demand sides. The decline in credit is widespread across the economy, affecting both households and businesses, and across most sectors, with credit only expanding to the agriculture, utilities and tourism sectors.

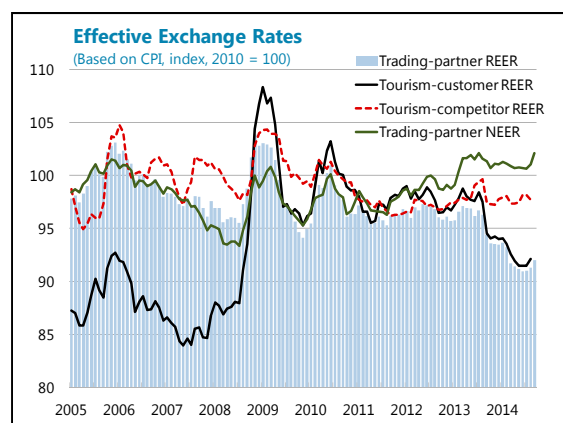


5. Weak demand and deleveraging have contributed to deflation over the past year.

Consumer prices declined by 1.2 percent on average during the first nine months of 2014 relative to a year earlier. Deflation was primarily driven by a significant drop in the cost of telecommunication services in late 2013, although other prices are also declining.¹ The end of the transitory impact of the price drop in telecommunications, a slight pickup in food prices since mid-2014 and the increase in excises on alcohol and tobacco, put inflation in marginally positive territory in September.

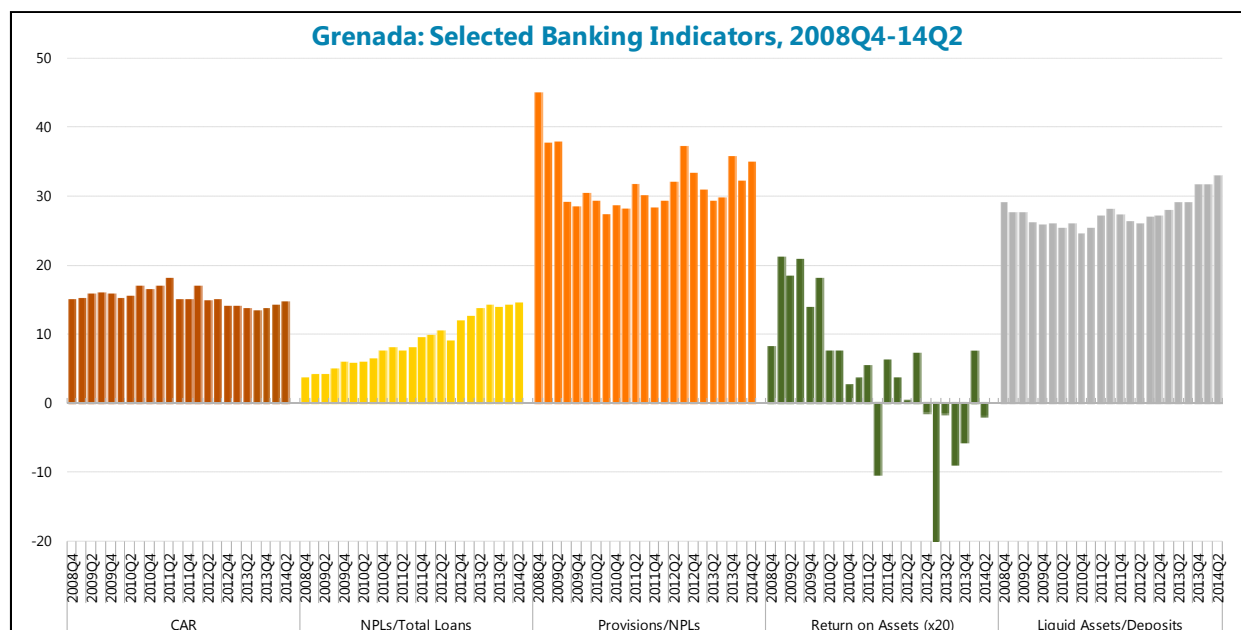


6. **Deflation led to a notable depreciation of the real effective exchange rate (REER).** The REER has depreciated significantly since mid-2013 (by 6 percent as of mid-2014, as measured against trading partners). These gains in price competitiveness have partly offset the appreciation of the U.S. dollar since mid-2014 to which the regional currency is pegged. High-frequency external indicators are consistent with these gains in competitiveness and suggest improvement in trade volumes, with strong growth in tourism arrivals. Inflows on the capital and financial accounts, including from international financial institutions, were more than sufficient to cover the current account deficit, with net international reserves rising to US\$152 million (17½ percent of GDP) at end-August 2014, compared to US\$133 million at end-2013.



7. **The financial sector remains liquid, but strained by nonperforming loans and unable to support the recovery.** Continued strong growth in deposits, combined with the sustained reduction in credit, resulted in a further increase in bank liquidity and pressures on interest margins. Costs also increased with higher provisioning for non-performing loans (NPLs) as NPLs rose to 14.5 percent of total loans by mid-2014. With weakening income and higher costs, banks continued to face losses in the first half of 2014, but reported capital adequacy improved marginally as banks continued to deleverage. High liquidity in the banking system allowed a substantial increase in commercial banks' net foreign assets in the first half of 2014.

¹Increased competition in telecommunication services resulted in about a 20 percent fall in telecommunication costs in late 2013. Prices have subsequently stabilized.



8. Progress is being made in the restructuring of Grenada's public debt, which stood at 105½ percent of GDP as of June 2014:

- *Bilateral official debt.* The Paris Club has provided financing assurances for Grenada and agreed to discuss the treatment of its claims. All non-Paris Club bilateral official creditors have been contacted to request comprehensive restructuring of their claims. The authorities are at an advanced stage in their negotiations with the Export-Import Bank of Taiwan Province of China (Eximbank) on the restructuring of its debt. Both parties informed the New York court in mid-November that an agreement is in final drafting stages.
- *Private debt.* The authorities continue to work toward the launch of a formal offer for the restructuring of the EC\$2025 and US\$2025 bonds. Good faith discussions with the creditor committee representing the majority of creditors for the bonds are intensifying, with both sides committed to reaching a solution that is both firmly sustainable and amicable. Negotiations aim at an agreement by year-end. Discussions with remaining domestic private creditors are proceeding in parallel to the restructuring of the 2025 bonds.

PROGRAM PERFORMANCE

Policy implementation is off to a strong start. All quantitative performance criteria for the first review were met and the structural reform agenda is broadly on track.

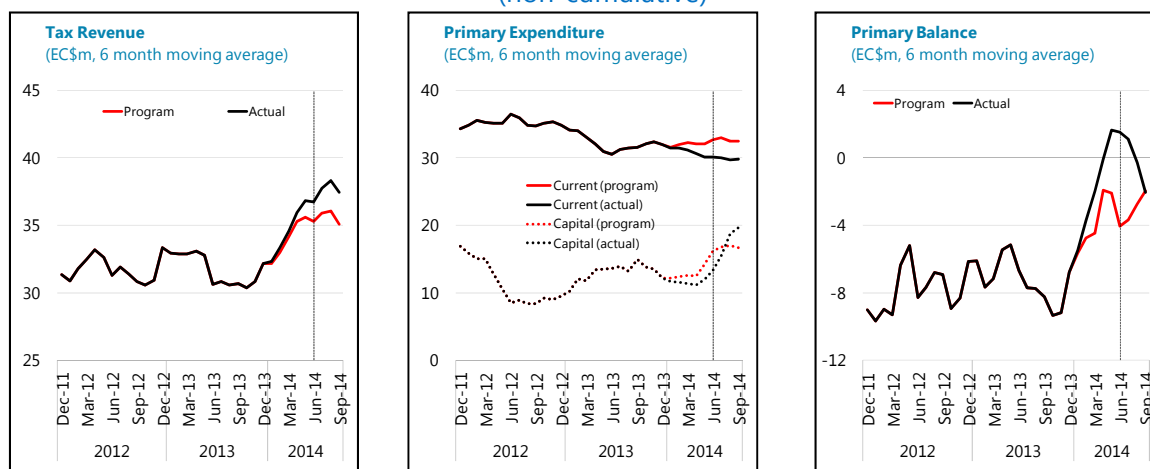
9. **Fiscal performance in the first half of 2014 was stronger than programmed (MEFP Table 1).** The

primary balance registered a small surplus, compared to the programmed primary deficit of about 1½ percent of GDP.² Performance was strong on both the revenue and expenditure sides. Revenues were higher than projected by about one percent of GDP, about ⅔ of which was due to windfall nontax receipts, while primary spending in the year to June was 1⅓ percent of GDP below the performance criterion. Strong fiscal performance has continued through September, with the fiscal space partially used to increase capital investment. However, the pace of the investment scale-up has been faster than expected in the third quarter, as externally-financed projects have outstripped expenditure allocations, and will need to moderate going forward.

Grenada: Fiscal Program Performance, Year-to-June 2014 (% of GDP)		
	Program	Actual
Total revenue and grants	11.5	12.2
Revenue	9.9	11.0
Grants	1.6	1.1
Primary spending	13.7	12.1
Current primary spending	9.3	8.7
Capital spending	4.4	3.4
Primary balance	-2.2	0.1
Adjustor: Wage/pension back-pays below program	0.2	...
Adjustor: Half of revenue exceeding program	0.5	...
Adjustor: Shortfall in SEED spending	0.0	...
Primary balance (adjusted) 1/	-1.4	0.1
Primary spending	13.7	12.1
Adjustor: Wage/pension back-pays below program	-0.2	...
Adjustor: Half of revenue exceeding program	0.5	...
Adjustor: Half of grant shortfall	-0.2	...
Adjustor: Shortfall in SEED spending	0.0	...
Primary spending (adjusted) 1/	13.8	12.1

1/ See TMU 15&7.

Grenada: Monthly Fiscal Performance (non-cumulative)

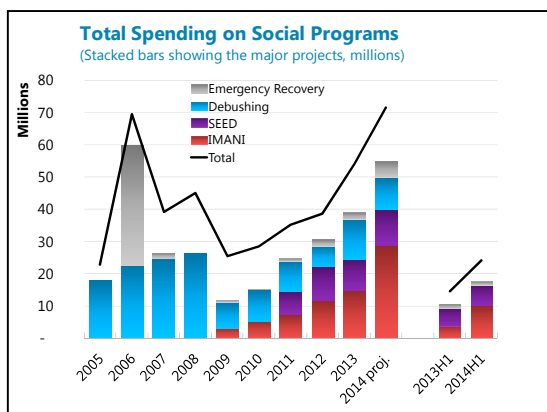


Note: Windfall nontax revenues and retroactive wage and pension payments are excluded.

² Under the program, the headline primary balance is adjusted for lower-than-programmed retroactive wage payments and social assistance spending, among other adjustments (TMU115).

10. Spending on social programs was strengthened, but expenditure on the flagship social assistance program, SEED, was below the indicative floor by a small margin.

The authorities are working with the World Bank to improve the targeting of SEED; however, delays in introducing the new targeting tool led to a temporary freeze on the processing of new applications and resulted in some under-spending relative to the programmed floor. As the new targeting tool is not yet fully



operational, the end-December floor is also likely to be missed. The authorities are working to address the delays and bring spending back to programmed levels. In the meantime, they have increased spending on other programs to ensure that social support is in place during the fiscal consolidation.

11. The wage freeze successfully contained the public wage bill, which fell further than programmed (MEFP18).³

Seasonal fluctuations in some large public employment programs and the reclassification of some wage costs from current to capital projects contributed to a faster reduction in the current wage bill and public employment than expected under the program, but the monitoring targets on both variables were met without the reclassification. Going forward, these targets are being broadened to capture wage expenditures on all civil servants (TMU17 and 18).

12. The authorities have started clearing expenditure arrears, and no new external arrears have been incurred outside debt under restructuring negotiations since approval of the arrangement.

Faced with financing constraints, the authorities accumulated arrears through mid-2014, while keeping the stock of expenditure arrears under the program’s end-June ceiling. With the approval of IFI-support in June/July 2014, financing constraints eased and the authorities began to repay arrears to suppliers and on membership fees to regional and international organizations, bringing the stock of supplier arrears down to 3 percent of GDP by September 2014. In addition, no new arrears have been accumulated on external debt outside debt under restructuring, and no non-concessional loans have been contracted since the approval of the arrangement, meeting the associated performance criteria. With fiscal performance exceeding targets, the indicative target on debt contracted or

	Outstanding Arrears			
	2013	2014		
	Dec.	Jun.	Sep.	
	EC\$mn	EC\$mn	EC\$mn	% of GDP
Total Arrears	338.9	354.0	367.2	15.8
External Arrears	237.9	254.3	272.5	11.7
Multilateral	3.4	2.1	2.1	0.1
Official bilateral	133.0	135.3	137.3	5.9
Paris Club	7.9	9.3	11.2	0.5
Non-Paris Club	125.1	126.0	126.0	5.4
Commercial creditors	44.0	60.6	76.9	3.3
Unpaid contributions	57.5	56.3	56.3	2.4
Budget expenditure arrears	100.9	99.7	94.7	4.1
Debt arrears	18.5	20.1	25.6	1.1
Supplier arrears	82.4	79.6	69.0	3.0

³ The trade unions have agreed in principle to a wage freeze for the duration of the program, discussions on a three-year memorandum of understanding covering broader issues are still underway.

guaranteed by the central government was observed by a wide margin.

Grenada: Program Monitoring - Quantitative Performance Criteria under the ECF^{1/} (in millions of EC dollars)					
	Program	Program Adjusted ^{1/}	Actual	Difference	Status
Performance criteria					
A. Cumulative floor on central government primary balance (EC\$ mln) 2/	-50	-33	1	34	Met
B. Cumulative ceiling on central government primary spending (EC\$ mln) 2/	318	321	282	-39	Met
C. Ceiling on stock of central government budget expenditure arrears (EC\$ mln)	109	109	80	-29	Met
D. Ceiling on accumulation of external debt arrears (continuous)	0	0	0	0	Met
E. Ceiling on non-concessional external borrowing by the central government (continuous)	0	0	0	0	Met
Indicative targets					
F. Cumulative ceiling on net increase in debt contracted or guaranteed by the central government (EC\$ mln) 2/	90	90	73	-16	Met
G. Floor on social spending by central government (EC\$ mln)	6.5	6.5	6.2	-0.3	Not Met
<i>Monitoring</i>					
H. Wage bill target	115	115	111	-4	Met
I. Public employment target	6358	6358	5940	-418	Met
<i>Memorandum items:</i>					
Wage bill without the employment type reclassification	115	115	114	-1	Met
Public employment without the employment type reclassification	6358	6358	6131	-227	Met
1/ Targets as defined in the Technical Memorandum of Understanding.					
2/ From end-December 2013.					

13. The structural reform agenda is advancing, with two structural benchmarks met or expected to be met, and two to be finalized soon (MEFP Table 2):

- *Public Financial Management (PFM) framework.* The PFM framework has been revamped with the approval of a new PFM Act, meeting the end-August 2014 structural benchmark. The new framework addresses weaknesses in budget preparation and execution practices that led to poor fiscal outcomes in the past and strengthens government oversight of statutory bodies and SOEs (Annex I). The approval of a new Procurement Act in August 2014 that aligns Grenada's procurement practices with international best practice has also strengthened the PFM framework.
- *Reform of Statutory Bodies and State-Owned Enterprises.* The authorities completed a strategic review of statutory bodies and SOEs, with support from CARTAC, and the Cabinet has approved the broad directions of a strategic plan to reform these institutions. For the near-term, the strategy includes reforms to the employment framework and regulatory environment for these institutions, which the authorities aim to put in place by end-2014. The framework for reforming individual enterprises to strengthen their financial positions has been approved, but final decisions on their liquidation, restructuring or privatization required additional assessment. Thus, the end-October 2014 structural benchmark is partially met, but the process is underway. The Cabinet has set up a Committee to consider the reform strategies for individual institutions, including their feasibility and cost, and the Committee is expected to report to Cabinet on a final strategy by end-2014.
- *Investment Environment.* With technical assistance from the World Bank/IFC and financial assistance from DFID, the authorities have prepared a new Investment Law that streamlines and

simplifies the investment regime. The draft law offers potential investors simplicity, transparency, clarity and consistency by: (i) eliminating the requirements for the approval of business plans, investment certifications, and incentive proposals by the Grenada Industrial Development Corporation (GIDC), (ii) clarifying and streamlining investment guarantees consistent with international good practice, (iii) eliminating all discretionary investment incentive provisions, (iv) providing for an investment promotion, facilitation, generation and policy role for GIDC or a successor agency. The draft law has been approved in the lower house of Parliament, and is expected to be considered by the Senate in November 2014, in line with the structural benchmark.

- *Tax Incentives.* Reforms to the tax incentive regime are well advanced, but the end-November structural benchmark is likely to be delayed. The reforms, which represent a substantial departure from current practice in the Caribbean region, will enhance the transparency of the tax incentive regime by codifying all incentives and eliminating discretion in granting them, thereby removing an important source of uncertainty in the investment framework and fiscal policy. With assistance from the IMF, the draft amendments to the relevant tax legislation have been prepared and are under consideration by Grenada's Cabinet. However, with a heavy reform agenda leading up to end-2014, these reforms are unlikely to be considered by Parliament until early 2015.
- *Treasury Single Account.* While not a structural benchmark, the Government has also made important strides in moving toward a Treasury Single Account (TSA) as an efficient and cost effective solution for management of public resources (MEFP18). The TSA is expected to be fully operational by end-2015.

POLICY DISCUSSIONS

Discussions focused on the outlook for meeting the fiscal targets for 2014-15, and on the structural reform agenda going forward. No changes are proposed to the programmed fiscal targets. Proposed new structural conditionality focuses on a continued strengthening of the fiscal policy framework.

A. Macroeconomic Framework

14. **With economic developments broadly in line with the program, the macroeconomic framework is largely unchanged from the approval of the arrangement:**

- *Growth.* For 2014, growth is expected to be only marginally higher (1.2 percent) than anticipated at the approval of the arrangement (1.1 percent) due to stronger momentum in tourism. The forecast for a modest economic recovery is unchanged, with growth averaging 1½ percent over 2015-17 and recovering to potential growth of 2-2 ½ percent over the medium-term.
- *Inflation.* Inflation is expected to remain positive going forward, but somewhat below prior projections in the near-term. However, there is a notable risk that deflationary tendencies will persist due to falling fuel prices, weak demand and private sector deleveraging. For 2014, the deflation in the year-to-August will bring average inflation into negative territory compared to

moderate inflation projected previously. Inflation is also expected to be somewhat lower in 2015 due to lower global commodity prices.

- *External sector outlook.* The near-term outlook for the current account is somewhat better than previously projected due to savings in the fuel import bill (about ½ percent of GDP) from lower oil prices. The medium-term outlook remains unchanged, as these savings are broadly offset by higher imports associated with the citizenship-by-investment funds.

15. While the outlook for the Grenadian economy remains subject to significant downside risks, these are gradually easing.

- On the downside, risks to the outlook arise from: (i) a continued weak global recovery, on which Grenada depends for tourism; (ii) a stronger than expected impact of the ongoing fiscal consolidation; (iii) the recent appreciation of the U.S. dollar, which will put pressure on Grenada's competitiveness; and (iv) potential natural disasters.
- These risks are partly balanced by the emergence of new upside risks: (i) the new CBI program, if successful, could increase investment and economic growth (see Annex II); and (ii) a significant equity investment into St. George's University, the largest employer on the island, could provide positive spillovers to growth.⁴ A pickup in confidence in economic policies and prospects as program implementation proceeds remains an important upside risk.

B. Growth-Boosting Structural Reforms

16. Grenada has developed a new Growth and Poverty Reduction Strategy (GPRS)

(MEFP16). The primary objectives of the strategy are to (i) engender productivity and competitiveness through growth and job creation, (ii) create fiscal sustainability, and (iii) improve debt sustainability. The strategy is therefore closely aligned with the authorities' ECF-supported program. The strategy was approved by the Cabinet in August 2014, and will be published after final edits are made to reflect the Cabinet discussion.

17. Reforms to the energy sector are underway to lower energy costs and support growth.

The authorities' efforts remain focused on strengthening the regulatory framework for electricity to support more efficient pricing. With technical assistance from the World Bank, the authorities now expect to complete the revisions to the Electricity Supply Act by mid-2015, followed thereafter by the revisiting of their agreement with GRENLEC (MEFP16).⁵ The authorities noted that while the

⁴ In August 2014, St. George's University received an equity investment of US\$750 million (32½ percent of GDP). The bulk of this investment may involve shares changing ownership, but may also involve new investment; the details are not yet available.

⁵ The Electricity Supply Act amendments will establish an independent regulatory authority, which will set the price of electricity under a revised tariff-setting mechanism and set out the roadmap for transitioning to renewable energy. The World Bank's policy loan with Grenada includes conditionality on these reforms to the energy sector for disbursement of its second tranche (Annex III).

reforms may require more time than initially anticipated, they remain committed to the reforms, as they view the reforms as key to providing the needed support to competitiveness and growth.

18. **The authorities will continue their efforts to strengthen the investment environment following the enactment of the new Investment Bill.** With continued assistance from the IFC, the authorities plan to develop and implement a robust and sustainable institutional framework for attracting and retaining investment in Grenada through reforms to GIDC or a successor agency. This framework will include the key pillars of investment promotion, facilitation, generation and policy advocacy.

19. **The government has made progress with product market reforms to strengthen export competitiveness (MEFP16).** A program has been initiated to commercialize government estates by leasing underutilized government land to the private sector for strategic agricultural production concentrated in Grenada's key agricultural exports. The government is also strengthening the governance and institutional capacity of and introducing export quality standards for the nutmeg and cocoa sectors. The authorities' consider these reforms critical to enhancing these sectors' investment environment, productivity, and competitiveness as well as their export potential.

C. Restoring Fiscal Sustainability

Fiscal Consolidation

20. **The stronger than expected fiscal consolidation in the first half of 2014 bodes well for prospects of meeting the fiscal targets going forward, but caution is still needed.**

- *Adjustment effort to reach fiscal targets.* The estimated fiscal adjustment effort needed to reach the program's primary balance target of 3½ percent of GDP by 2016 is now higher (8 percent of GDP) than at the time of the approval of the arrangement (7¾ percent of GDP). This reflects in part the authorities' commitment to remain current on membership fees, which will require an additional 0.4 percent of GDP in spending annually.
- *Adjustment effort to date.* Staff estimates that the legislated revenue measures and savings in current spending to date are sufficient to generate 4½ percentage points of GDP in savings for the three-year fiscal adjustment, compared to about 4 percentage points expected at arrangement approval for these measures. The estimated over-performance, along with the windfall nontax revenues in 2014, will cover the higher-than-programmed spending on membership fees to international and regional organizations, and provide some space for the authorities to support growth-

Adjustment Effort (in percent of GDP; cumulative)						
	2014		2015		2016	
	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Adjustment effort, o.w.	3.0	2.4	5.6	5.8	7.8	8.0
1. Current revenue and expenditure	2.0	2.8	3.9	4.2	5.8	6.0
a. Already enacted measures	2.0	2.8	3.2	3.9	3.9	4.4
b. Remaining measures	...	...	...	0.4	...	1.6
Financial Activities Tax	...	...	...	0.3	...	0.3
Levy on tires	...	...	...	0.1	...	0.1
Property tax increase	...	...	...	...	...	0.4
Property value update	...	...	...	...	...	0.1
Cut exemptions to GRENLEC	...	...	...	...	...	0.4
Civil service reforms	...	...	...	...	...	0.3
Other	...	...	...	...	...	0.1
2. Streamline capital spending	0.9	-0.4	1.6	1.6	2.0	2.0
<i>Memorandum items:</i>						
Overperformance and windfall revenues	...	1.0	...	0.2	...	0.2
Membership fees	...	-0.4	...	-0.4	...	-0.4

enhancing capital projects in 2014, as agreed under the program (TMU17). Nevertheless, with still weak controls over the execution of externally-financed projects, caution is needed to ensure that the scaled up capital investment in the remainder of 2014 does not use up all available fiscal space given the still uncertain revenue outcomes and that a comfortable cushion is maintained for meeting the end-2014 target.

- *Remaining adjustment effort.* A further 1 $\frac{2}{3}$ percent of GDP in adjustment measures will be required to achieve the fiscal consolidation over the remainder of the program. Of this, measures yielding 0.4 percent of GDP are needed to achieve the 2015 fiscal targets. The authorities plan to introduce a financial activities tax and a levy on tire imports to realize the programmed consolidation. Parliamentary approval of a 2015 budget consistent with the program targets is a new structural benchmark for end-December 2014. Achieving the 2016 fiscal targets will require another 1.3 percent of GDP in adjustment measures, discussions on which will be undertaken during the second and third program reviews.
- *Contingency measures.* The authorities have identified a number of contingent fiscal measures to safeguard their fiscal consolidation efforts, including broadening the income tax and VAT base and further increasing excise tax rates on alcohol and tobacco (MEFP19).

21. **As the new citizenship-by-investment (CBI) program has begun to receive applicants, staff and the authorities agreed on the importance of the sustainable and transparent use of its receipts** (MEFP10; Annex II). CBI inflows into the budget will be used for general budget financing, with receipts prioritized to clear the existing stock of supplier arrears to restore liquidity to the private sector and reinvigorate growth. Furthermore, a share of inflows into the National Transformation Fund (NTF) will be channeled for similar purposes, in part to secure full compliance with the program's schedule to clear arrears. To ensure transparent and sustainable management of the remaining inflows into the NTF, the authorities have also committed to putting in place guidelines to clarify the NTF's institutional, governance and investment framework to avoid an unsustainable scaling up of public investment (new structural benchmark).

Debt Restructuring and Regularization of Arrears

22. **A comprehensive restructuring of public debt with meaningful principal reduction remains essential to return public debt to sustainable levels.** Public debt dynamics remain broadly unchanged from program approval (Annex IV). After peaking at about 108.8 percent of GDP this year, public debt is expected to decline to 99.6 percent of GDP by the end of the program period. Therefore, over the medium-term, public debt would remain elevated and in distress in the absence of a comprehensive restructuring of public debt.

23. **The authorities are making progress in addressing the stock of arrears.** Consistent with the Fund's non-toleration of arrears policy, the authorities have cleared their arrears to multilateral creditors. With respect to bilateral official debt, the Paris Club has provided financing assurances to Grenada and has agreed to discuss the treatment of its claims, and discussions continue with other bilateral creditors on the restructuring of their claims. In compliance with the Fund's lending into arrears policy, the authorities are also making a good faith effort to reach agreement with their

private creditors for missed coupon payments on the 2025 bonds. Arrears to public bodies will be settled with Government paper or assets, while arrears to private suppliers will be paid in quarterly cash installments. Finally, the authorities are working to regularize payment of membership fees to regional and international organizations and have started to address arrears to these organizations.

Fiscal Structural Reforms

24. Following the program's initial focus on the legislation required to strengthen the fiscal policy framework, staff and the authorities agreed that the focus should turn to implementation:

- *PFM implementation.* Staff and the authorities agreed that approval of the regulations needed to implement the new PFM legislation is critical (new structural benchmark for mid-2015; MEFP¶14). The authorities will also receive technical assistance from the IMF to strengthen the fiscal accounting and reporting framework to support implementation of the new PFM framework.
- *Fiscal Responsibility Legislation.* The legislation— which will transition Grenada to a rule-based fiscal framework— is on track for approval by Parliament by end-2014 (structural benchmark). To support implementation of the FRL legislation, staff and the authorities agreed that the necessary regulations will be approved before end-June 2015 (new structural benchmark; MEFP¶15).
- *Debt management legislation.* A new Public Debt Management bill is being drafted, with technical assistance from the IMF, to establish a modern and robust legal framework for public debt management (new structural benchmark; MEFP¶16). The authorities will also receive technical assistance from the IMF and the World Bank in early 2015 to strengthen their debt management capacity and develop a medium-term debt management strategy.
- *Reform of Statutory Bodies and State-Owned Enterprises.* Staff and the authorities agreed that bringing the reform strategy to its implementation stage will be critical to address fiscal risks emanating from the weak financial position of a number of the SOEs. Discussions on the implementation of the strategy will be undertaken during the second review.
- *Tax and Customs Administration.* The authorities have reinvigorated their efforts to improve revenue administration (MEFP¶18). With technical assistance from the IMF and CARTAC, the authorities undertook a comprehensive diagnosis of the state of tax and customs administration, which will be used to guide the reform agenda. Subsequent to the finalization of the report, the recommended reforms will be discussed in the context of the second review. A new Customs Act is under preparation and is expected to be finalized by end-2014, and the authorities indicated a desire to introduce a new Tax Administration Act, to be finalized with IMF assistance, to unify and ensure consistency between tax administration procedures across various taxes (new structural benchmark). Finally, as part of the reforms to properly align incentives for strengthened tax collection, Cabinet approved a decision to eliminate the bonus that tax collectors receive on interest from tax arrears. The implementation of this decision required

additional administrative measures, which the authorities have already completed as a prior action for the first review (MEFP118).

- *Tax Policy.* The authorities conducted a comprehensive review of Grenada's tax system, with technical assistance from the IMF, and are considering the recommendations to simplify the tax system and make it more modern, equitable and investment-friendly. To allow recent changes to the tax system to take hold, further tax policy reforms will be discussed in the context of the second review.
- *Public sector modernization reforms.* The authorities are committed to undertaking a strategic review of the public sector and to develop a reform strategy to address its cost and efficiency (June 2014 MEFP120). As the reform timeline under the program was conditional on the availability of technical assistance resources, the review is expected to take place slightly later than initially expected (end-September 2015, new structural benchmark).

D. Strengthening Financial Stability

25. **The impact of the debt restructuring on financial stability is expected to be contained.**⁶

In cooperation with the ECCB, the regional supervisor of commercial banks, the authorities assessed the potential impact on the banking system and concluded that the banking system would remain adequately capitalized following the debt restructuring.⁷ Similarly, an initial assessment of the ability of the insurance and credit union sectors to absorb the debt restructuring was conducted by GARFIN, the supervisor of the nonbank financial sector. The results suggest that both insurers and credit unions have limited exposure to government debt and would be able to absorb the impact of the restructuring.

26. **Regional efforts to strengthen the banking system are ongoing, but have progressed slower than previously expected.**⁸ The asset quality review (AQR) of all banks in the ECCU has been delayed, but is moving ahead and the AQR for Grenada is tentatively scheduled to commence in January 2015. Similarly, regional reforms to the legal and institutional framework for bank supervision and regulation have taken longer than expected, but are now well advanced, with draft legislation currently being finalized.

⁶ Staff's detailed assessment of the potential impact of the debt restructuring on financial stability can be found in IMF Country Report No. 14/196.

⁷ The assessment assumes that all debt subject to restructuring is restructured according to the terms in the two indicative debt restructuring options announced by the Government of Grenada in March 2014, which include haircuts on the face value of government securities of 60 and 50 percent, respectively.

⁸ As elaborated in IMF Country Report No. 14/196, the regional strategy consists of three pillars: (i) banking sector diagnostics to assess banks' capital needs and viability, (ii) legal and institutional reforms to strengthen the banking system and bring the regulatory framework in line with international standards, and (iii) bank restructuring and recapitalization based on the results of (i).

27. **The authorities continue to strengthen regulation and supervision of the nonbank financial sector.** In addition to their participation in reforms to regionalize the regulation and supervision of insurance companies (MEFP123), GARFIN is working to strengthen cooperation with home country regulators to implement consolidation supervision. In the credit union sector, GARFIN is participating in the Caribbean Association of Credit Union Supervisors, launched in August 2014 as the first step toward regional regulation and supervision of the sector. Moreover, together with other ECCU members, Grenada is continuing to work toward finalizing and passing regionally harmonized legislation for credit unions. Meanwhile, GARFIN is now conducting risk-based supervision of credit unions, and has strengthened its supervision of pension funds.

28. **The authorities recognize the importance of strengthening the framework for anti-money laundering and countering the financing of terrorism (AML/CFT).** With the launch of the CBI program and increased international scrutiny over such programs, strengthened safeguards to prevent financial integrity and security risks—including through adequate background checks of CBI applicants and effective implementation of the AML/CFT framework targeted to the new citizens—are critical to ensuring the sustainability of the CBI program. More generally, critical to a further strengthening of Grenada’s AML/CFT regime will be the completion of a national money laundering and terrorist financing risk assessment, for which the authorities have requested technical assistance from the IMF.

PROGRAM DESIGN AND FINANCING

29. **No modifications are proposed to quantitative performance criteria or indicative targets.** For the variables monitored under the program—the public sector wage bill and employment—a broadening of the variable definitions is proposed to capture all public employment (TMU17&18). New quantitative targets are proposed for end-June 2015 and end-December 2015, unchanged from the earlier indicative targets (MEFP Table 1).⁹ With respect to structural benchmarks, new benchmarks are proposed to align the 2015 budget with the programmed fiscal consolidation and to extend program conditionality to December 2015 (MEFP Table 2).

30. **Exceptional financing available during the program is larger than anticipated at approval of the arrangement.** The World Bank approved a financing package for Grenada in June that increased concessional resources available over the program period by US\$5 million relative to expectations at arrangement approval, to US\$35 million (Annex III). The Caribbean Development Bank also approved its 2014-17 financing package for Grenada. In addition, OPEC has disbursed US\$2.3 million to Grenada over and above expectations at arrangement approval.

⁹ The quantitative performance criterion on domestic arrears at the time of approval of the arrangement has been renamed to budget expenditure arrears for clarity. There is no change in coverage of criterion or the programmed targets.

31. **Financing assurances are in place for the first review.** After accounting for program financing and the rollover of domestic short-term debt not subject to restructuring, the residual financing needs are estimated at about US\$285 million during 2014-15. These are covered by the continued accumulation of debt arrears, while the authorities continue good faith debt restructuring negotiations with all creditors in a transparent and equitable manner (in the context of a non-disclosure agreement). It continues to be staff's judgment that there are adequate assurances that a debt restructuring consistent with closing financing gaps under the program and restoring Grenada's debt sustainability will be successfully completed in the short term.
32. **Grenada's capacity to repay the Fund remains adequate.** Debt service to the Fund and the disbursements profile remain unchanged and, in the absence of significant revisions to the macroeconomic outlook, Grenada's capacity to repay the Fund will continue to depend on timely and strong implementation of its ambitious program and on progress on the comprehensive debt restructuring underway.
33. **Risks to program implementation have abated somewhat with the authorities' demonstrated commitment to reforms and with the legislation of the bulk of the fiscal adjustment measures.** However, risks due to capacity constraints, weaker than expected growth, and natural disasters continue to be relevant. In addition, potential disruptions in the PetroCaribe arrangement, which currently finances a notable share of the government's social programs as a grant inflow, could present a risk to the fiscal consolidation, although contingency financing from the CBI inflows and the contingency measures identified by the authorities would be put in place to avoid pressures on public debt.

STAFF APPRAISAL

34. **Overall program performance.** The authorities have made a strong start toward tackling the crisis and the macroeconomic imbalances that exacerbated it. The fiscal adjustment is on track, and major structural reforms have been put in place to strengthen the fiscal framework. Broad program ownership across Grenadian society has provided important support to program implementation.
35. **Fiscal policies.** Strong fiscal performance has freed up some space this year to ease the adjustment with growth-supportive capital investment, but continued vigilance is needed to ensure that the pace of capital spending does not jeopardize future fiscal targets. The authorities are encouraged to prioritize the use of any overperformance towards an early repayment of supplier arrears, to ease the hurdles these create for the suppliers and the financial sector, including its capacity to support growth. The 2015 budget will be an important milestone for advancing the fiscal consolidation, and the timely approval of the additional consolidation measures critical for generating the needed fiscal savings. As the negative demand impulse from the fiscal consolidation is expected to deepen in 2015, adequate spending on targeted social safety nets will take on added importance in protecting the most vulnerable.

36. **Debt restructuring.** A comprehensive restructuring of public debt remains an essential and urgent complement to fiscal consolidation. Debt restructuring negotiations with all creditor groups are proceeding and financing assurances remain in place. Staff continues to support the authorities' intention to seek a substantial nominal reduction in the face value of public debt that, combined with the ongoing fiscal consolidation, would put debt on a sustainable path towards reaching 60 percent of GDP by 2020. Looking ahead, strengthening debt management will be important to support sustainable management of public debt.

37. **Management of citizenship-by-investment (CBI) flows.** Inflows from the CBI program could provide meaningful support to fiscal financing and growth, but their transparent and prudent management is paramount. While the magnitude of the inflows remains uncertain, staff and the authorities agreed that a significant share will be used for general budget financing, especially the repayment of supplier arrears and contingent financing needs. For the remaining inflows that are channeled into the National Transformation Fund, the approval of clear guidelines for its governance and spending will be important for the sustainable use of this public wealth.

38. **Fiscal structural reforms.** The authorities have shown determination and effort in reforming the fiscal framework. The overhaul of the public financial management legislation has signaled an important departure from budgetary practices in the ECCU region, and will reduce risks of deviations from targeted fiscal outcomes. Similar far-reaching reforms are being finalized to adopt fiscal responsibility legislation and tax incentive legislation. Approval of the delayed tax incentive legislation remains critical to creating a more transparent environment for investment and reducing fiscal costs. The authorities have also made a good start in addressing fiscal risks in the rest of the public sector with the approval of the near-term action plan to reform statutory bodies and state-owned enterprises and with the setup of a committee to spearhead the reform effort. The government should finalize the strategy for addressing financial weaknesses in individual institutions as soon as feasible, to minimize risks to the planned fiscal consolidation. The reform agenda going forward is ambitious and will focus on full implementation of the reforms to the legislative framework. It will also address weaknesses in a number of other areas, including revenue administration, debt management and public sector modernization. Staff supports the authorities' enhanced focus on strengthening tax and customs administration, as key to continued delivery on the fiscal targets with fair burden-sharing.

39. **Growth-supporting reforms.** Reforms to strengthen Grenada's competitiveness and business environment have been launched as programmed. The authorities have approved a new Investment Bill to streamline investment requirements and remove red tape, and have started reforms to open up product markets. Going forward, the focus on implementing the investment law by strengthening the institutional framework is appropriate. Reforms to improve cost competitiveness remain critical for jumpstarting growth. While the ongoing fiscal consolidation and public sector wage freeze could play an important role in improving Grenada's competitiveness, addressing energy sector costs through reforms to the sector's regulatory framework remain critical to lowering input costs.

40. **Financial sector.** Although more rapid progress in the regional strategy to strengthen the banking system is desirable, regional reforms are advancing. In the nonbank financial sector, steady progress continues to be made in strengthening the regulation and supervision of credit unions and insurers. The results of the assessment of the potential impact of the debt restructuring on the financial system are positive; however, close monitoring of the financial system, particularly as the debt restructuring proceeds, should continue and emerging vulnerabilities should be proactively addressed to guard against risks to financial stability.

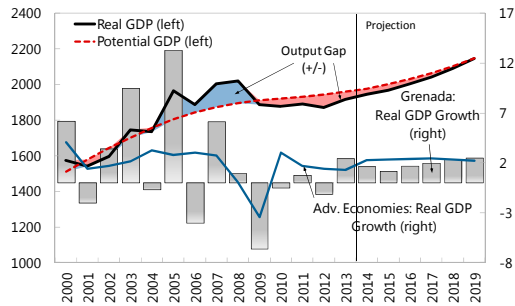
41. **Risks.** Strong program implementation has put Grenada on the right path to overcoming its crisis, but significant challenges remain and continued steadfast implementation will be needed to put the Grenadian economy back on a sustainable trajectory. While risks remain, staff is confident that the policy commitments of the government will achieve the return to fiscal and debt sustainability, financial stability and the strengthening of competitiveness and growth prospects that are the principal objectives of the authorities' program.

42. **Staff supports the completion of the first review under the ECF-arrangement and the financing assurances review.**

Figure 1. Grenada: Recent Economic Developments

A slow economic recovery is underway...

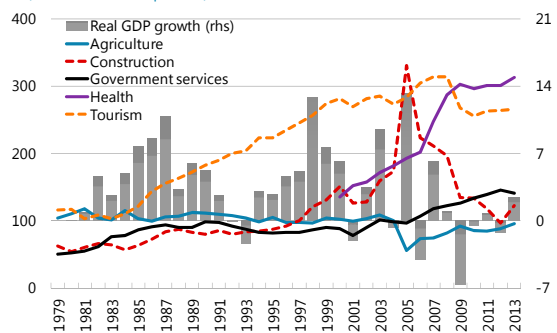
Grenada: Actual and Potential Real GDP
(levels in millions of 2006 EC\$; growth in percent)



Sources: Grenada authorities and Fund staff estimates.

... led by the tourism and construction sectors.

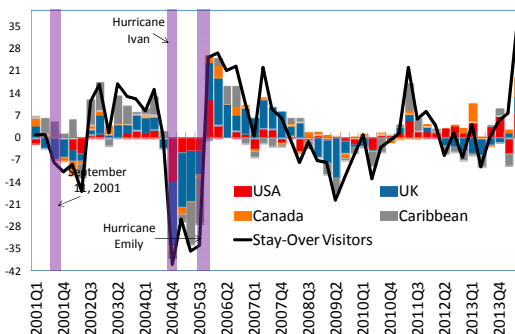
GDP by sector
(in million EC\$ and percent)



Sources: Grenada authorities.

Tourism arrivals picked up 2014, largely following the opening of a large new resort, whose construction supported activity in 2013.

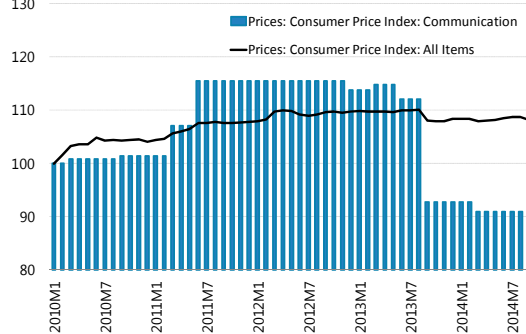
Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)



Source: Caribbean Tourism Organization.

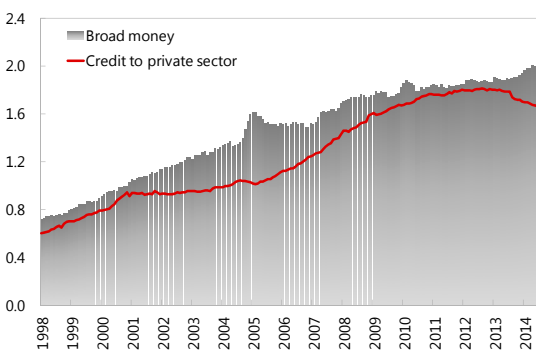
The recovery is externally-driven, while domestic demand remains weak. Inflation has been negative through most of 2014, due to a significant decline in telecommunication prices, but also declines in other prices.

Consumer Price Index
(January 2010=100)



Private credit has continued to contract despite strong growth in deposits, reflecting both weak demand...

Deleveraging in the Banking Sector
(Billions of EC dollars)



... and restrained credit supply as banks repair their weak balance sheets.

Financial Soundness Indicators
(Percent)

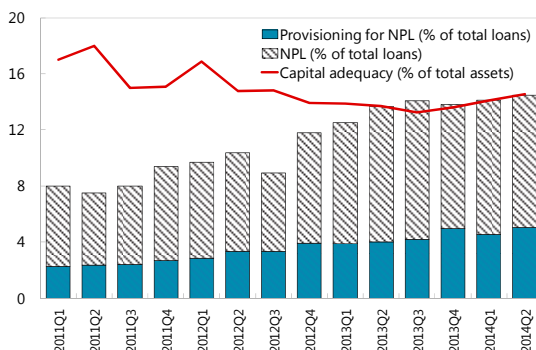
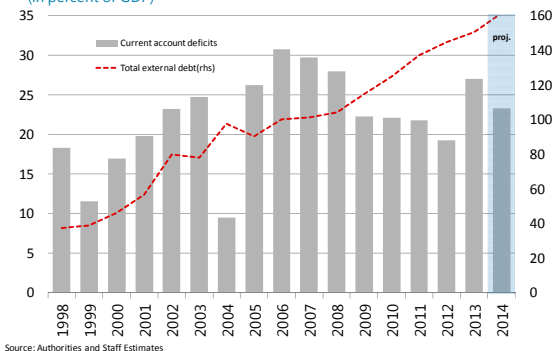


Figure 2. Grenada: External Developments

The current account deficit widened significantly in 2013 due to a large-scale resort construction project.

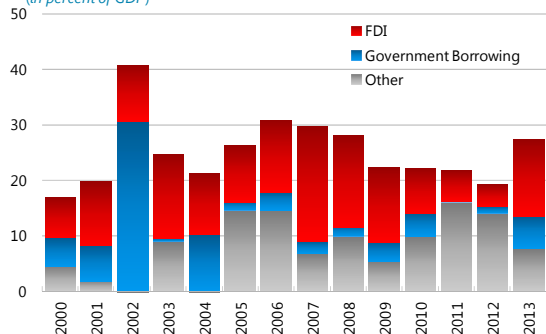
External Indicators
(in percent of GDP)



Source: Authorities and Staff Estimates

Except for 2013 when the large FDI-financed project took place, the current account deficit has largely been financed by debt-creating flows during the recent years...

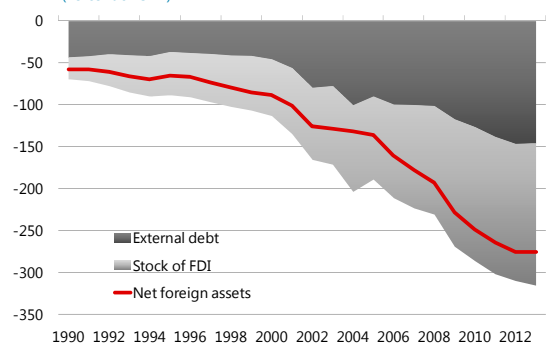
Current Account Financing
(in percent of GDP)



Source: ECCB.

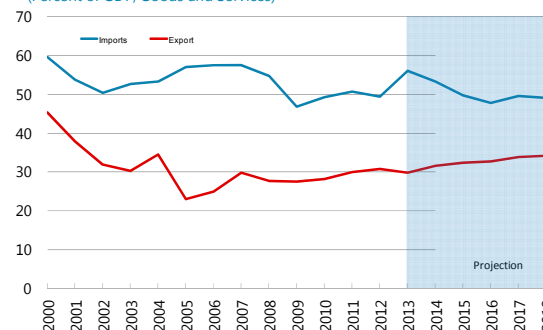
As a result, Grenada's external debt increased significantly to about 150 percent of GDP in 2013 or more than 300 percent of GDP including FDI liabilities.

Grenada: Net Foreign Assets
(Percent of GDP)



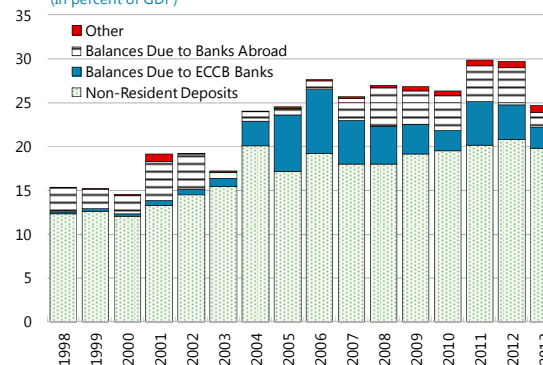
Correspondingly, imports increased sharply in 2013 while exports remained subdued.

Current Account, Imports and Exports
(Percent of GDP; Goods and Services)



...as banks accumulated foreign liabilities largely from non-resident deposits and borrowed from the headquarters. The latter flow reversed in 2013.

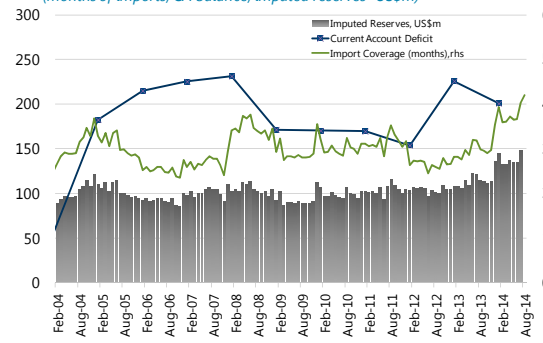
Commercial Banks Foreign Liabilities
(In percent of GDP)



Imputed reserves have risen in 2014 with the improvement in the current account balance.

Imputed Reserves

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

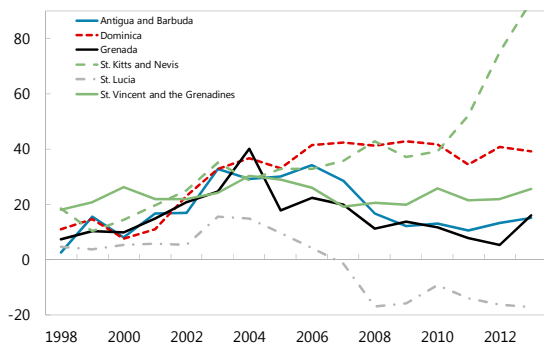


Sources: ECCB and IMF staff estimates.

Figure 3. Grenada: Monetary Developments

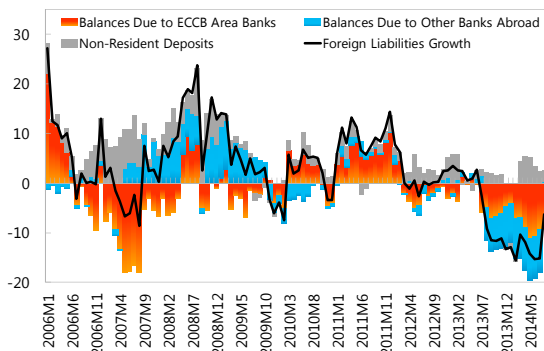
Banks' net foreign asset position improved in 2013, reversing the deteriorating trend of the previous ten years...

Net Foreign Assets
(Percent of GDP)



The decline in foreign liabilities has been to both banks within the ECCU and to other foreign banks...

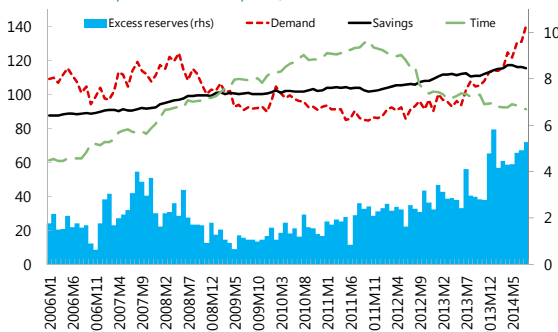
Components of Foreign Liabilities Growth
(contribution to growth, y-o-y)



Continued strong growth in deposits alongside the contraction in credit has kept bank excess reserves at historical highs...

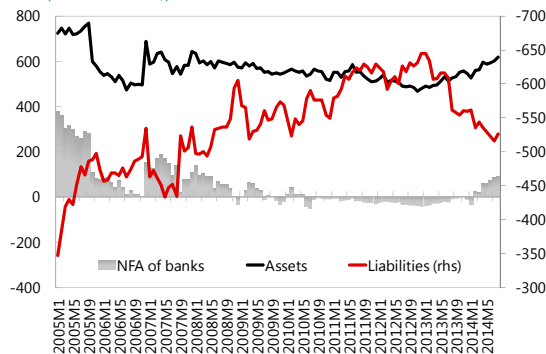
Deposits and Bank Excess Reserves

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



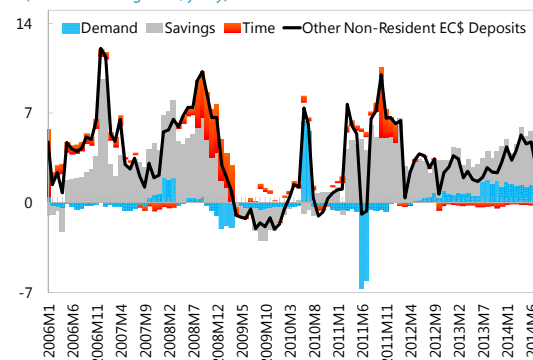
...and has continued to improve in 2014 alongside both a decline in bank foreign liabilities and increase in bank foreign assets.

Commercial Banks Net Foreign Assets
(in millions of EC\$)



... while nonresident deposits have continued to grow, especially into savings deposits that are subject to the 3 percent interest floor.

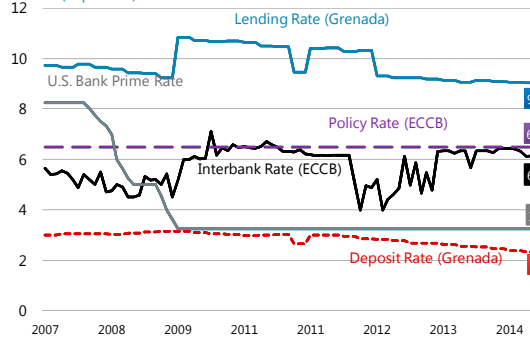
Composition of Growth in Other Non-Resident Deposits
(contribution to growth, y-o-y)



...but the decline in average deposit rates has been limited given the regional floor on savings deposit rates.

Interest Rates

(in percent)



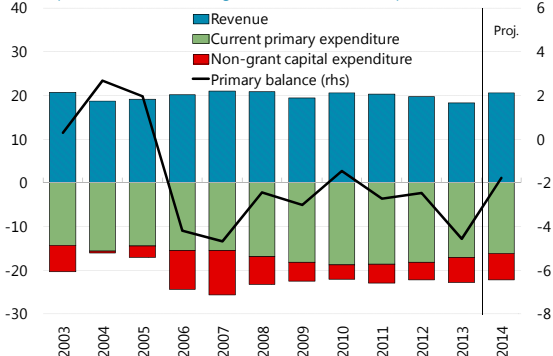
Sources: ECCB and Haver Analytics.

Figure 4. Grenada: Fiscal Developments

Since the fiscal adjustment began in 2014, improved revenue and restrained spending have, along with external donor grants, supported the growth-inducing investments.

Government Fiscal Balance

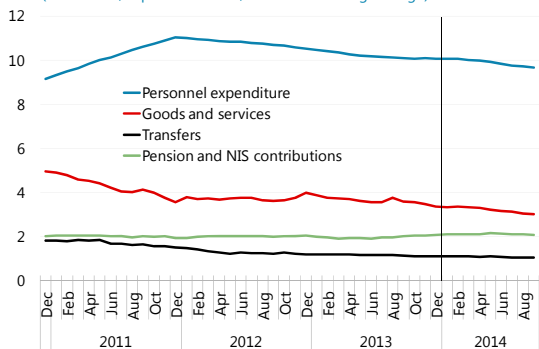
(in percent of GDP, excluding one-off revenues and expenditure)



...and current expenditure declined across most of categories.

Monthly Current Primary Expenditure

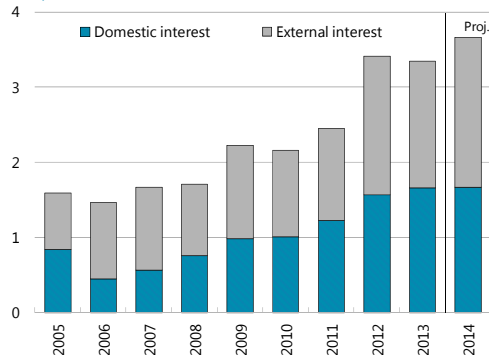
(annualized, in percent of GDP, 12-month moving average)



...owing to the large interest bill ...

Interest Payments

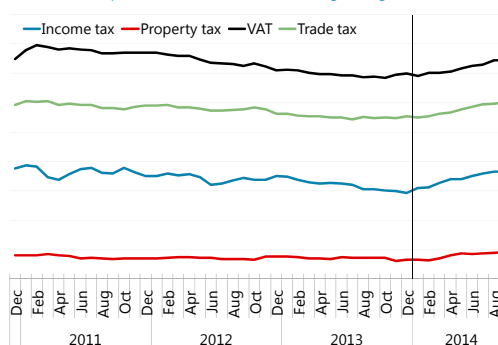
(in percent of GDP)



Tax revenue has strengthened across all categories ...

Monthly Tax Revenue

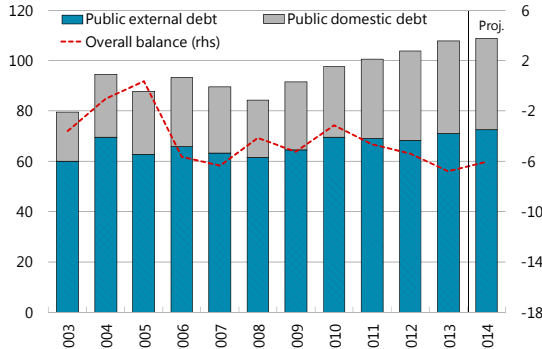
(annualized, in percent of GDP, 12-month moving average)



However, as the programmed fiscal consolidation continues, public debt is expected to peak in 2014, ...

Public Debt and Fiscal Balance

(in percent of GDP)



...which reflect the elevated borrowing costs.

Central Government Effective Interest Rate

(in percent)

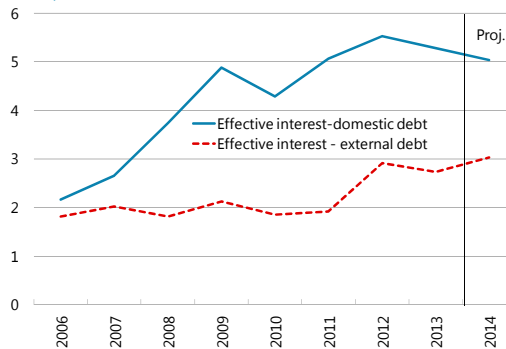


Table 1. Grenada: Selected Economic and Financial Indicators, 2008-19

	2008	2009	2010	2011	2012	2013	2014		2015	2016	2017	2018	2019
							Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise specified)													
Output and prices													
Real GDP	0.9	-6.6	-0.5	0.8	-1.2	2.4	1.1	1.2	1.1	1.7	2.0	2.4	2.5
Nominal GDP	8.9	-6.6	0.0	1.0	2.7	4.5	3.1	3.1	2.9	4.4	4.8	5.3	5.4
Consumer prices, end of period	5.2	-2.3	4.2	3.5	1.8	-1.2	1.7	0.6	1.3	1.8	1.7	1.8	1.8
Consumer prices, period average	8.0	-0.3	3.4	3.0	2.4	0.0	1.6	-0.6	1.3	1.6	1.9	2.0	2.1
Output gap (percent of potential GDP)	6.6	-1.2	-2.2	-2.0	-3.6	-2.0	-2.2	-1.7	-1.7	-1.4	-1.1	-0.6	0.0
Real effective exchange rate (annual average, depreciation -)	6.4	-8.8	3.1	-0.9	-1.0	-2.3	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)													
Central government balances													
Revenue	24.2	22.8	24.6	23.6	20.8	21.0	24.9	24.9	25.0	24.5	25.3	25.4	25.5
Taxes	18.7	17.5	18.7	18.4	18.0	16.7	18.7	18.8	19.7	20.7	20.7	20.7	20.7
Non-tax revenue	2.1	2.0	1.9	1.8	1.7	3.0	1.6	2.3	1.5	1.5	2.3	2.4	2.5
Grants	3.3	3.3	4.0	3.4	1.1	1.4	4.6	3.8	3.7	2.3	2.3	2.3	2.3
Expenditure	28.3	28.0	28.2	28.8	26.7	28.4	31.0	30.9	27.9	25.6	26.2	26.2	26.2
Current primary expenditure	17.0	18.2	18.8	18.6	18.3	17.9	17.9	17.4	15.8	15.0	15.0	15.0	15.0
Interest payments	1.7	2.2	2.2	2.5	3.4	3.3	3.6	3.7	4.2	4.6	4.3	4.3	4.2
Capital expenditure	9.6	7.6	7.3	7.8	5.0	7.1	9.5	9.9	7.9	6.0	6.9	7.0	7.0
Primary balance	-2.4	-3.0	-1.5	-2.7	-2.5	-4.0	-2.4	-2.4	1.3	3.5	3.5	3.5	3.5
Overall balance	-4.1	-5.2	-3.6	-5.2	-5.9	-7.3	-6.0	-6.0	-2.9	-1.1	-0.9	-0.8	-0.7
Public debt (incl. guaranteed)	84.4	91.7	97.6	100.6	103.9	107.9	111.3	108.8	108.0	104.0	99.6	94.9	90.4
Domestic	22.8	27.2	28.0	31.7	35.8	36.9	42.1	36.3	32.8	30.9	29.0	27.1	25.3
External	61.6	64.5	69.5	68.9	68.2	71.0	69.2	72.5	75.3	73.0	70.6	67.8	65.1
Money and credit, end of period (annual percent change)													
Broad money (M2)	4.1	3.3	0.4	1.0	0.9	4.0	1.4	4.7	2.9	...	...	...	...
Credit to private sector	12.0	4.5	5.6	2.2	0.2	-5.7	1.1	-3.4	0.9	...	...	...	...
Balance of payments													
Current account balance, o/w:	-28.0	-22.2	-22.1	-21.8	-19.2	-27.0	-23.8	-23.3	-19.6	-18.0	-18.9	-18.1	-17.4
Exports of goods and services	27.7	27.6	28.2	30.0	30.7	29.9	32.9	31.7	32.4	32.7	33.8	34.2	34.5
Imports of goods and services	54.7	46.8	49.2	50.8	49.5	56.1	54.7	53.4	49.8	47.8	49.5	49.1	48.7
Capital and financial account balances	30.6	29.7	24.1	24.7	19.8	28.1	9.0	9.0	14.3	15.5	17.7	15.3	14.5
FDI	16.3	13.3	7.8	5.5	3.9	13.6	7.9	7.6	7.8	7.5	9.2	9.8	10.3
Public sector borrowing (identified financing only)	1.8	3.5	4.2	0.1	1.1	5.9	-16.3	-12.9	-0.6	-1.7	-2.1	-2.4	-2.5
Banking system	6.3	-0.6	0.7	3.9	2.3	-6.8	-0.2	-4.9	-1.0	-1.1	-1.1	-0.3	-0.3
Other (incl. errors and omissions)	6.2	13.6	11.3	15.3	12.5	15.4	17.6	19.3	8.1	10.7	11.7	8.3	7.0
Overall balance	-1.6	2.1	-2.1	-5.5	-2.0	1.1	-14.9	-14.3	-5.3	-2.5	-1.2	-2.8	-2.9
Overall financing	1.6	-2.1	2.1	5.5	2.0	-1.0	-0.6	-2.6	-0.7	-0.8	-2.4	-0.9	-0.6
Financing gap 1/	...	...	...	...	...	...	15.5	16.8	6.0	3.2	3.6	3.7	3.5
External debt (gross)	104.2	114.8	124.7	137.1	144.6	150.6	160.0	161.4	163.7	163.6	161.8	156.6	150.1
Savings-Investment balance	-28.0	-22.2	-22.1	-21.8	-19.2	-27.0	-23.8	-23.3	-19.6	-18.0	-18.9	-18.1	-17.4
Savings	3.1	1.7	-0.1	-1.9	-2.9	1.1	2.0	1.2	3.0	3.0	6.6	9.0	11.4
Investment	31.1	23.9	22.0	19.9	16.3	28.1	25.8	24.5	22.6	21.0	25.5	27.1	28.8
Memorandum items:													
Underlying primary balance 2/	-2.4	-3.0	-1.5	-2.7	-2.5	-4.6	-1.3	-1.8	1.3	3.5	3.5	3.5	3.5
Nominal GDP (EC\$ million)	2,230	2,082	2,082	2,102	2,160	2,256	2,265	2,325	2,394	2,500	2,620	2,758	2,906
Net imputed international reserves													
Months of imports of goods and services	3.5	3.6	3.1	3.2	2.6	3.5	3.7	4.2	4.2	3.9	4.1	4.1	3.9

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

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

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

Table 2a. Grenada: Operations of the Central Government

(In EC\$ million)

	2008	2009	2010	2011	2012	2013	2014		2015		2016		2017	2018	2019
							Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	539.3	473.9	512.8	496.4	449.3	474.7	564.9	579.1	581.5	597.6	603.3	611.3	662.9	700.1	739.7
Revenue	465.0	405.6	428.9	425.9	425.6	443.4	459.9	491.0	504.4	508.6	547.4	554.2	603.1	637.1	673.3
Tax revenue	418.1	363.6	388.3	387.4	387.9	376.8	423.1	438.2	466.4	471.7	507.9	516.9	541.7	570.3	600.9
Taxes on income and profits	94.6	87.2	78.5	73.9	75.5	66.1	77.9	88.2	84.7	94.5	90.4	99.9	104.8	110.3	116.2
Taxes on property	26.0	18.8	16.8	14.9	16.4	15.1	21.7	20.1	25.6	21.7	42.3	35.1	36.8	38.7	40.8
Taxes on goods and services	171.0	144.2	169.7	174.4	174.5	170.5	185.6	189.1	207.2	204.7	217.4	214.4	224.7	236.5	249.2
VAT	148.9	122.1	155.6	161.7	153.2	157.5	172.2	172.7	186.1	182.5	195.5	191.2	200.3	210.9	222.2
Taxes on international trade	126.5	113.3	123.3	124.2	121.5	125.1	137.9	140.7	149.0	150.8	157.8	167.5	175.5	184.8	194.7
Nontax revenue	46.8	41.8	40.4	38.4	37.6	66.7	36.8	52.8	37.9	36.9	39.5	37.3	61.4	66.8	72.4
Grants	74.3	68.3	83.9	70.5	23.7	31.3	105.0	88.2	77.1	89.0	55.9	57.1	59.8	63.0	66.3
Total expenditure and net lending	631.7	582.7	588.0	605.2	576.3	639.8	701.2	719.6	652.1	667.0	633.6	639.3	685.8	722.1	760.7
Current expenditure	416.8	424.9	436.8	442.0	468.0	479.3	485.7	488.7	475.5	478.6	482.6	488.3	505.3	529.9	556.2
Wages and salaries	200.8	191.2	195.3	231.9	227.2	243.5	250.5	243.3	226.6	221.2	220.1	214.7	225.0	236.9	249.6
Pensions and NIS contributions	42.4	40.8	41.5	40.7	44.0	46.9	52.9	53.6	48.4	48.9	49.9	50.5	53.0	55.8	58.8
Goods and services	84.7	86.0	109.2	75.1	86.4	75.9	75.9	69.4	73.7	70.3	71.4	71.4	74.9	78.8	83.1
Transfers 1/	50.9	60.7	45.8	42.7	36.7	37.6	25.3	37.3	25.3	37.3	25.3	37.3	39.1	41.1	43.3
Interest payments	38.2	46.3	45.0	51.6	73.6	75.5	81.0	85.2	101.6	100.9	115.9	114.3	113.3	117.3	121.4
Capital expenditure and net lending	214.9	157.8	151.3	163.2	108.4	160.5	215.6	230.9	176.5	188.4	151.0	151.0	180.5	192.3	204.6
Grant-financed	42.5	23.4	46.1	65.6	23.0	31.3	105.0	88.2	77.1	89.0	55.9	57.1	59.8	63.0	66.3
Non-grant financed	172.4	134.4	105.2	97.6	85.4	129.2	110.6	142.7	99.4	99.4	95.1	93.9	120.7	129.3	138.2
Primary balance 2/	-54.3	-62.6	-30.3	-57.2	-53.4	-89.6	-55.3	-55.3	31.0	31.5	85.6	86.3	90.4	95.2	100.3
Overall balance	-92.5	-108.9	-75.3	-108.8	-127.0	-165.1	-136.4	-140.5	-70.6	-69.5	-30.3	-28.0	-22.9	-22.1	-21.1
Public Debt 3/	1,882.1	1,908.8	2,031.0	2,115.4	2,244.8	2,435.1	2,521.2	2,530.5	2,577.1	2,585.8	2,592.7	2,599.7	2,608.4	2,616.3	2,625.9
Memo items:															
Nominal GDP (EC\$ millions)	2,230	2,082	2,082	2,102	2,160	2,256	2,265	2,325	2,338	2,394	2,437	2,500	2,620	2,758	2,906
Underlying primary balance (EC\$ millions) 4/	...	...	-30.3	-57.2	-53.4	-103.3	-28.9	-41.0	31.0	31.5	85.6	86.3	90.4	95.2	100.3
Adjustment relative to the previous year (EC\$ millions)	...	...	...	-26.9	3.8	-49.9	62.1	62.2	59.8	72.5	54.6	54.9	...	...	...

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 surpluses for 2017-19 would include revenue from the Citizenship by Investment program.

3/ Assumes no debt restructuring.

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

Table 2b. Grenada: Operations of the Central Government
(In percent of GDP)

	2008	2009	2010	2011	2012	2013	2014		2015		2016		2017	2018	2019
							Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	24.2	22.8	24.6	23.6	20.8	21.0	24.9	24.9	24.9	25.0	24.8	24.5	25.3	25.4	25.5
Revenue	20.8	19.5	20.6	20.3	19.7	19.7	20.3	21.1	21.6	21.2	22.5	22.2	23.0	23.1	23.2
Tax revenue	18.7	17.5	18.7	18.4	18.0	16.7	18.7	18.8	19.9	19.7	20.8	20.7	20.7	20.7	20.7
Taxes on income and profits	4.2	4.2	3.8	3.5	3.5	2.9	3.4	3.8	3.6	3.9	3.7	4.0	4.0	4.0	4.0
Taxes on property	1.2	0.9	0.8	0.7	0.8	0.7	1.0	0.9	1.1	0.9	1.7	1.4	1.4	1.4	1.4
Taxes on goods and services	7.7	6.9	8.2	8.3	8.1	7.6	8.2	8.1	8.9	8.6	8.9	8.6	8.6	8.6	8.6
VAT	6.7	5.9	7.5	7.7	7.1	7.0	7.6	7.4	8.0	7.6	8.0	7.6	7.6	7.6	7.6
Taxes on international trade	5.7	5.4	5.9	5.9	5.6	5.5	6.1	6.0	6.4	6.3	6.5	6.7	6.7	6.7	6.7
Nontax revenue	2.1	2.0	1.9	1.8	1.7	3.0	1.6	2.3	1.6	1.5	1.6	1.5	2.3	2.4	2.5
Grants	3.3	3.3	4.0	3.4	1.1	1.4	4.6	3.8	3.3	3.7	2.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	28.3	28.0	28.2	28.8	26.7	28.4	31.0	30.9	27.9	27.9	26.0	25.6	26.2	26.2	26.2
Current expenditure	18.7	20.4	21.0	21.0	21.7	21.2	21.4	21.0	20.3	20.0	19.8	19.5	19.3	19.2	19.1
Wages and salaries	9.0	9.2	9.4	11.0	10.5	10.8	11.1	10.5	9.7	9.2	9.0	8.6	8.6	8.6	8.6
Pensions and NIS contributions	1.9	2.0	2.0	1.9	2.0	2.1	2.3	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Goods and services	3.8	4.1	5.2	3.6	4.0	3.4	3.3	3.0	3.2	2.9	2.9	2.9	2.9	2.9	2.9
Transfers 1/	2.3	2.9	2.2	2.0	1.7	1.7	1.1	1.6	1.1	1.6	1.0	1.5	1.5	1.5	1.5
Interest payments	1.7	2.2	2.2	2.5	3.4	3.3	3.6	3.7	4.3	4.2	4.8	4.6	4.3	4.3	4.2
Capital expenditure and net lending	9.6	7.6	7.3	7.8	5.0	7.1	9.5	9.9	7.5	7.9	6.2	6.0	6.9	7.0	7.0
Grant-financed	1.9	1.1	2.2	3.1	1.1	1.4	4.6	3.8	3.3	3.7	2.3	2.3	2.3	2.3	2.3
Non-grant financed	7.7	6.5	5.1	4.6	4.0	5.7	4.9	6.1	4.3	4.2	3.9	3.8	4.6	4.7	4.8
Primary balance 2/	-2.4	-3.0	-1.5	-2.7	-2.5	-4.0	-2.4	-2.4	1.3	1.3	3.5	3.5	3.5	3.5	3.5
Overall balance	-4.1	-5.2	-3.6	-5.2	-5.9	-7.3	-6.0	-6.0	-3.0	-2.9	-1.2	-1.1	-0.9	-0.8	-0.7
Public Debt 3/	84.4	91.7	97.6	100.6	103.9	107.9	111.3	108.8	110.2	108.0	106.4	104.0	99.6	94.9	90.4
Memo item:															
Nominal GDP (EC\$ millions)	2,230	2,082	2,082	2,102	2,160	2,256	2,265	2,325	2,338	2,394	2,437	2,500	2,620	2,758	2,906
Underlying primary balance (% of GDP) 4/	...	...	-1.5	-2.7	-2.5	-4.6	-1.3	-1.8	1.3	1.3	3.5	3.5	3.5	3.5	3.5
<i>Adjustment relative to the previous year (% of GDP)</i>	...	...	...	-1.3	0.2	-2.1	2.8	2.8	2.6	3.1	2.2	2.1	...	...	...

Sources: Country authorities and Fund staff estimates.

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

2/ The primary surpluses for 2017-19 would include revenue from the Citizenship by Investment program.

3/ Assumes no debt restructuring.

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

Table 2c. Grenada: Operations of the Central Government, (Quarterly, 2014)

(Numbers are cumulative)

	EC\$m								% of GDP							
	March		June		September		December		March		June		September		December	
	Proj.	Act.	Prog.	Act.	Proj.	Act.	Prog.	Proj.	Proj.	Act.	Prog.	Act.	Proj.	Act.	Prog.	Proj.
Total revenue and grants	128.7	129.2	268.5	283.0	411.5	427.9	564.9	579.1	5.7	5.7	11.9	12.2	18.2	18.4	24.9	24.9
Revenue	111.9	118.8	231.1	256.5	343.8	374.1	459.9	491.0	4.9	5.2	10.2	11.0	15.2	16.1	20.3	21.1
Tax revenue	103.6	106.3	211.8	220.4	314.0	330.7	423.1	438.2	4.6	4.7	9.3	9.5	13.9	14.2	18.7	18.8
Taxes on income and profits	19.5	23.0	41.7	45.4	59.1	68.1	77.9	88.2	0.9	1.0	1.8	2.0	2.6	2.9	3.4	3.8
Taxes on property	5.0	4.8	13.7	14.2	17.8	17.7	21.7	20.1	0.2	0.2	0.6	0.6	0.8	0.8	1.0	0.9
Taxes on goods and services	47.7	46.9	93.1	93.7	137.7	142.4	185.6	189.1	2.1	2.1	4.1	4.0	6.1	6.1	8.2	8.1
VAT	44.3	42.5	86.3	85.8	127.6	128.9	172.2	172.7	2.0	1.9	3.8	3.7	5.6	5.5	7.6	7.4
Taxes on international trade	31.4	31.5	63.4	67.1	99.4	102.5	137.9	140.7	1.4	1.4	2.8	2.9	4.4	4.4	6.1	6.0
Nontax revenue	8.3	12.6	19.2	36.1	29.8	43.4	36.8	52.8	0.4	0.6	0.8	1.6	1.3	1.9	1.6	2.3
Grants	16.8	10.3	37.5	26.6	67.7	53.7	105.0	88.2	0.7	0.5	1.7	1.1	3.0	2.3	4.6	3.8
Total expenditure and net lending	178.2	168.5	353.5	323.2	519.5	521.9	701.2	719.6	7.9	7.4	15.6	13.9	22.9	22.4	31.0	30.9
Current expenditure	130.9	128.9	250.9	243.8	372.0	364.3	485.7	488.7	5.8	5.7	11.1	10.5	16.4	15.7	21.4	21.0
Wages and salaries	67.4	64.4	135.6	132.6	193.1	187.6	250.5	243.3	3.0	2.8	6.0	5.7	8.5	8.1	11.1	10.5
Pensions and NIS contributions	13.8	11.1	29.3	23.3	41.1	35.6	52.9	53.6	0.6	0.5	1.3	1.0	1.8	1.5	2.3	2.3
Goods and services	18.5	17.5	38.0	33.6	56.0	50.0	75.9	69.4	0.8	0.8	1.7	1.4	2.5	2.1	3.3	3.0
Transfers	6.6	6.2	13.1	12.8	19.1	18.6	25.3	37.3	0.3	0.3	0.6	0.6	0.8	0.8	1.1	1.6
Interest payments	24.5	29.7	34.9	41.4	62.7	72.6	81.0	85.2	1.1	1.3	1.5	1.8	2.8	3.1	3.6	3.7
Capital expenditure and net lending	47.3	39.5	102.6	79.5	147.4	157.6	215.6	230.9	2.1	1.7	4.5	3.4	6.5	6.8	9.5	9.9
Grant-financed	16.8	10.3	37.5	26.6	67.7	53.7	105.0	88.2	0.7	0.5	1.7	1.1	3.0	2.3	4.6	3.8
Non-grant financed	30.5	29.2	65.2	52.9	79.8	103.8	110.6	142.7	1.3	1.3	2.9	2.3	3.5	4.5	4.9	6.1
Primary balance	-25.0	-9.6	-50.2	1.2	-45.3	-21.4	-55.3	-55.3	-1.1	-0.4	-2.2	0.1	-2.0	-0.9	-2.4	-2.4
Overall balance	-49.5	-39.3	-85.0	-40.2	-108.0	-94.0	-136.4	-140.5	-2.2	-1.7	-3.8	-1.7	-4.8	-4.0	-6.0	-6.0

Sources: Country authorities and Fund staff estimates.

Table 3a. Grenada: Medium-Term Central Government Financing Projections
(In millions of U.S. Dollars)

	2013	2014	2015	2016	2017	2018	2019	2020
Financing requirement	278.0	335.3	140.1	138.3	135.9	149.8	161.8	167.5
Primary balance 1/	-33.2	-20.5	11.6	32.0	33.5	35.3	37.2	39.1
Total interest	27.9	31.5	37.4	42.2	42.3	43.8	45.3	45.2
Existing debt at end-2013	27.9	31.5	22.9	27.7	26.1	27.1	28.1	27.5
Official	5.2	5.6	5.3	4.9	4.7	4.5	4.3	3.9
External commercial	8.9	11.7	11.6	15.5	15.5	16.5	17.4	17.4
Domestic 2/	13.8	14.3	6.1	7.2	5.9	6.1	6.3	6.3
New debt incurred after 2013			14.5	14.5	16.2	16.7	17.2	17.7
External			2.7	3.8	4.3	4.8	5.4	5.9
Domestic			11.78	10.8	11.9	11.9	11.8	11.8
Amortizations	122.6	283.3	114.4	128.1	127.1	141.3	153.6	161.4
Existing debt at end-2013	122.6	152.2	20.2	39.0	21.2	21.7	20.3	14.9
Official	17.6	14.1	17.7	18.7	18.8	20.6	19.3	13.9
External commercial		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 2/	105.0	138.2	2.5	20.2	2.4	1.1	1.0	1.0
New debt incurred after 2013			45.3	68.7	81.2	94.9	108.5	121.8
External			0.0	0.0	0.6	2.2	3.9	5.1
Domestic			45.2	68.6	80.6	92.6	104.6	116.6
Arrears from previous year payable in future 3/	94.3	117.7	20.4	20.4	24.7	24.7	24.7	24.7
o.w. Budget expenditure arrears	35.8	28.5						
Arrears from previous years payable within the year		13.3	28.5					
o.w. Budget expenditure arrears		7.6	28.5					
Financing sources	278.0	335.3	104.6	107.0	95.9	104.6	116.6	128.6
Official (existing pipeline)	39.5	9.4	9.8	0.2	0.2			
World Bank	6.7	2.3	9.8	0.2	0.2			
CDB	7.3	1.8						
Other multilaterals	0.4	2.8						
Bilateral	25.0	2.5						
Official program		31.2	26.1	26.2	3.1			
IMF		6.2	6.1	6.2	3.1			
World Bank		15.0	10.0	10.0				
CDB		10.0	10.0	10.0				
Domestic	107.5	45.2	68.6	80.6	92.6	104.6	116.6	128.6
Accumulation of arrears 3/	131.1	249.5						
Financing gap expected to be filled by restructuring	0.0	0.0	35.5	31.2	40.0	45.2	45.1	38.8
Memorandum item:		2014	2015	2016	2017	Total		
Net disbursements from IFIs		25.6	22.8	12.2	-11.1	49.5		
IMF		3.5	1.2	0.6	-2.3	3.0		
World Bank		15.2	17.5	8.0	-1.9	38.8		
CDB		6.9	4.1	3.6	-6.9	7.7		

Source: Country authorities and Fund staff estimates.

1/ The primary surpluses for 2017-20 would record revenue from the future Citizenship by Investment Programme.

2/ Includes EC\$ portion of the 2025 bond.

3/ For illustrative purposes, beginning in 2015, imputes repayment of debt arrears accumulated through Q4 2014.

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

(In percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
Financing requirement	33.3	38.9	15.8	14.9	14.0	14.7	15.0	14.8
Primary balance 1/	-4.0	-2.4	1.3	3.5	3.5	3.5	3.5	3.5
Total interest	3.3	3.7	4.2	4.6	4.4	4.3	4.2	4.0
Existing debt at end-2013	3.3	3.7	2.6	3.0	2.7	2.6	2.6	2.4
Official	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3
External commercial	1.1	1.4	1.3	1.7	1.6	1.6	1.6	1.5
Domestic 2/	1.7	1.7	0.7	0.8	0.6	0.6	0.6	0.6
New debt incurred after 2013			1.6	1.6	1.7	1.6	1.6	1.6
External			0.3	0.4	0.4	0.5	0.5	0.5
Domestic			1.3	1.2	1.2	1.2	1.1	1.0
Amortizations	14.7	32.9	12.9	13.8	13.1	13.8	14.3	14.2
Existing debt at end-2013	14.7	17.7	2.3	4.2	2.2	2.1	1.9	1.3
Official	2.1	1.6	2.0	2.0	1.9	2.0	1.8	1.2
External commercial		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 2/	12.6	16.0	0.3	2.2	0.2	0.1	0.1	0.1
New debt incurred after 2013			5.1	7.4	8.4	9.3	10.1	10.7
External			0.0	0.0	0.1	0.2	0.4	0.5
Domestic			5.1	7.4	8.3	9.1	9.7	10.3
Arrears from previous year payable in future 3/	11.3	13.7	2.3	2.2	2.5	2.4	2.3	2.2
o.w. Budget expenditure arrears	4.3	3.3						
Arrears from previous years payable within the year		1.5	3.2					
o.w. Budget expenditure arrears		0.9	3.2					
Financing sources	33.3	38.9	11.8	11.6	9.9	10.2	10.8	11.3
Official (existing pipeline)	4.7	1.1	1.1	0.0	0.0			
World Bank	0.8	0.3	1.1	0.0	0.0			
CDB	0.9	0.2						
Other multilaterals	0.1	0.3						
Bilateral	3.0	0.3						
Official program		3.6	2.9	2.8	0.3			
IMF		0.7	0.7	0.7	0.3			
World Bank		1.7	1.1	1.1				
CDB		1.2	1.1	1.1				
Domestic	12.9	5.3	7.7	8.7	9.5	10.2	10.8	11.3
Accumulation of arrears 3/	15.7	29.0						
Financing gap expected to be filled by restructuring	0.0	0.0	4.0	3.4	4.1	4.4	4.2	3.4
Memorandum item:		2014	2015	2016	2017	Total		
Net disbursements from IFIs		3.0	2.6	1.3	-1.1	4.8		
IMF		0.4	0.1	0.1	-0.2	0.3		
World Bank		1.8	2.0	0.9	-0.2	3.8		
CDB		0.8	0.5	0.4	-0.7	0.7		

Source: Country authorities and Fund staff estimates.

1/ The primary surpluses for 2017-20 would record revenue from the future Citizenship by Investment Programme.

2/ Includes EC\$ portion of the 2025 bond.

3/ For illustrative purposes, beginning in 2015, imputes repayment of debt arrears accumulated through Q4 2014.

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

	2013				2014 (As of September)			
	Principal	Interest	Total		Principal	Interest	Total	
			US\$mIn	% of GDP			US\$mIn	% of GDP
Total arrears	111.4	14.1	125.5	15.0	105.9	30.1	136.0	15.8
External arrears	77.1	11.0	88.1	10.5	78.0	22.9	100.9	11.7
Multilateral	0.8	0.5	1.3	0.1	0.4	0.3	0.8	0.1
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 1/	0.6	0.5	1.1	0.1	0.4	0.3	0.8	0.1
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	47.6	1.7	49.3	5.9	48.8	2.0	50.8	5.9
Paris Club	2.6	0.4	2.9	0.4	3.5	0.6	4.2	0.5
France	1.1	0.3	1.4	0.2	1.3	0.5	1.8	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	1.4	0.1	1.5	0.2
US	0.5	0.0	0.5	0.1	0.7	0.1	0.7	0.1
Non-Paris Club	45.0	1.3	46.3	5.5	45.3	1.4	46.7	5.4
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	2.4	0.6	3.0	0.3
Libya	5.0	0.0	5.0	0.6	5.0	0.0	5.0	0.6
Taiwan Province of China	35.0	0.0	35.0	4.2	35.0	0.0	35.0	4.1
Trinidad	1.8	0.7	2.5	0.3	2.3	0.8	3.1	0.4
Commercial	7.4	8.9	16.3	2.0	7.9	20.6	28.5	3.3
Unpaid contribution to organizations	21.3	0.0	21.3	2.6	20.9	0.0	20.9	2.4
Budget Expenditure arrears	34.3	3.1	37.4	4.5	27.9	7.2	35.1	4.1
Domestic debt arrears	3.8	3.1	6.9	0.8	2.3	7.2	9.5	1.1
Domestic debt under restructuring	2.3	3.1	5.4	0.6	2.3	7.2	9.5	1.1
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	25.6	0.0	25.6	3.0

Sources: Grenadian authorities and staff estimates.

1/ All arrears to OPEC are cleared in November, 2014.

Table 7. Grenada: Summary Accounts of the Banking System, 2008–15

	2008	2009	2010	2011	2012	2013	Proj.	
							2014	2015
(In millions of EC dollars; end of period)								
Net foreign assets	248.8	283.7	242.3	165.8	110.4	347.8	513.1	539.5
ECCB	281.0	303.4	277.5	282.9	277.5	361.0	413.1	415.6
<i>Of which: Net imputed reserves</i>	281.0	303.4	277.5	282.9	277.5	361.0	413.1	415.6
Commercial banks (net)	-32.2	-19.8	-35.2	-117.0	-167.0	-13.2	100.0	124.0
Assets	573.3	549.3	514.5	511.9	478.0	546.2	626.2	644.6
Liabilities	-605.4	-569.1	-549.6	-628.9	-645.0	-559.4	-526.2	-520.6
Net domestic assets	1,504.9	1,528.4	1,577.3	1,671.4	1,742.5	1,579.2	1,503.5	1,536.1
Public sector credit (net)	4.4	-27.0	-62.6	-17.6	54.2	-5.0	-37.0	-38.0
Central government	122.9	98.8	110.0	150.4	107.5	52.3	62.5	62.5
ECCB	6.4	-30.5	-7.7	27.9	30.1	17.8	17.1	17.1
Commercial banks	116.4	129.3	117.7	122.5	77.4	34.5	45.4	45.4
Net credit to rest of public sector	-118.5	-125.8	-172.6	-168.0	-53.3	-57.3	-99.5	-100.5
National Insurance Scheme	-135.1	-152.4	-165.4	-164.3	-71.1	-63.8	-69.5	-70.5
Credit to private sector	1,596.7	1,668.8	1,762.2	1,800.3	1,803.2	1,700.4	1,643.4	1,658.6
Other items (net)	-96.2	-113.4	-122.2	-111.3	-115.0	-116.2	-102.9	-84.5
Broad money	1,753.7	1,812.1	1,819.6	1,837.2	1,852.9	1,927.0	2,016.6	2,075.7
Money	355.5	324.3	324.5	312.7	324.0	369.4	442.5	455.4
Currency in circulation	103.4	106.7	98.8	108.7	112.9	115.7	120.6	124.1
Demand deposits	252.1	217.7	225.7	204.1	211.1	253.7	321.9	331.3
Quasi-money	1,398.1	1,487.8	1,495.1	1,524.5	1,528.9	1,557.6	1,574.1	1,620.3
Time deposits	291.6	339.2	371.2	381.4	339.9	318.2	294.1	302.7
Savings deposits	980.6	1,014.4	1,011.6	1,023.1	1,095.9	1,143.1	1,178.7	1,213.3
Foreign currency deposits	125.9	134.2	112.3	120.0	93.1	96.2	101.3	104.3
(Annual percentage change)								
Net foreign assets	-38.7	14.0	-14.6	-31.6	-33.4	214.9	47.5	5.1
Net domestic assets	17.6	1.6	3.2	6.0	4.3	-9.4	-4.8	2.2
Public sector credit, net	-35.1	-715.7	132.3	-71.8	-407.6	-109.2	638.3	2.8
Credit to private sector	12.0	4.5	5.6	2.2	0.2	-5.7	-3.4	0.9
Broad money	4.1	3.3	0.4	1.0	0.9	4.0	4.7	2.9
NFA contribution	-9.3	2.0	-2.3	-4.2	-3.0	12.8	8.6	1.3
NDA contribution	13.4	1.3	2.7	5.2	3.9	-8.8	-3.9	1.6
Money	-5.5	-8.8	0.1	-3.6	3.6	14.0	19.8	2.9
NFA contribution	-4.6	6.3	-8.0	1.7	-1.7	25.8	14.1	0.5
NDA contribution	-0.9	-15.1	8.1	-5.3	5.3	-11.8	5.7	2.4
Quasi-money	6.8	6.4	0.5	2.0	0.3	1.9	1.1	2.9
(In percent of GDP)								
Net foreign assets	11.2	13.6	11.6	7.9	5.1	15.4	22.1	22.5
Net domestic assets, o.w.	67.5	73.4	75.8	79.5	80.7	70.0	64.7	64.2
Public sector credit, net	0.2	-1.3	-3.0	-0.8	2.5	-0.2	-1.6	-1.6
Private sector credit, net	71.6	80.1	84.6	85.6	83.5	75.4	70.7	69.3
Broad money (M2)	78.6	87.0	87.4	87.4	85.8	85.4	86.7	86.7
Money	15.9	15.6	15.6	14.9	15.0	16.4	19.0	19.0
Quasi-money	62.7	71.4	71.8	72.5	70.8	69.0	67.7	67.7
Interest rates (percent per year)								
ECCB policy rate	6.5	6.5	6.5	6.5	6.5	6.5	...	...
US policy rate	2.1	0.1	0.1	0.1	0.1	0.1	...	...
Interbank market rate	4.5	6.5	6.2	4.9	6.3	6.4	...	...
Time deposit rate	4.9	4.4	4.3	3.8	3.2	2.7	...	...
Demand deposit rate	0.4	0.3	0.3	0.3	0.3	0.5	...	...
Weighted average lending rate	9.2	10.7	9.5	10.3	9.2	9.1	...	...

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

Table 8. Grenada: Financial Sector Indicators, 2009–2014

	2009	2010	2011	2012	2013	2014Q2	Latest Available
Financial sector indicators							
Regulatory capital to risk-weighted assets	15.9	16.5	15.1	13.9	13.6	14.5	Jun-14
Regulatory Tier 1 capital to risk-weighted assets	13.8	15.0	13.6	13.2	12.2	12.5	Jun-14
Nonperforming loans net of provisions to capital	25.2	33.8	50.2	49.7	61.6	65.5	Jun-14
Nonperforming loans to total gross loans	5.9	7.6	9.4	11.8	13.8	14.5	Jun-14
Foreign banks	5.8	6.4	8.9	12.0	13.7	15.1	Jun-14
Sectoral distribution of loans to total loans							
Residents	94.4	95.0	95.9	96.2	96.0	96.1	Jun-14
Other financial corporations 1/	0.6	0.4	0.5	0.5	0.3	0.3	Jun-14
General government 2/	9.0	7.6	7.0	5.5	5.3	5.3	Jun-14
Nonfinancial corporations 3/	28.9	30.6	30.0	31.4	28.9	28.9	Jun-14
Nonresidents	5.6	5.0	4.1	3.8	4.0	3.9	Jun-14
Return on assets	1.3	1.2	0.2	0.5	-1.8	-0.1	Jun-14
Return on equity	12.1	9.2	-2.8	3.1	-22.3	0.8	Jun-14
Net interest income to Total income	52.7	53.0	50.9	51.9	50.6	51.5	Jun-14
Noninterest expenses to gross income	69.2	68.2	85.6	70.0	109.0	79.7	Jun-14
Liquid assets to total assets	21.7	20.7	22.9	22.9	27.7	29.8	Jun-14
Liquid assets to short-term liabilities	24.1	23.3	25.4	25.0	29.8	31.9	Jun-14
Net foreign currency exposure to total capital	37.8	34.7	24.6	37.7	65.2	76.8	Jun-14
U.S. treasury bill rate (percent per annum)	0.2	0.1	0.1	0.1	0.1	0.0	Jun-14
Treasury bill rate (percent per annum) 4/	6.5	6.0	6.0	6.0	6.0	6.0	Jun-14
External sector indicators							
Exchange rate (per US\$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7	Sep-14
REER appreciation (percent change on 12-month basis, end of period)	-8.8	3.1	-0.9	-1.0	-2.3	-5.2	Sep-14
Gross international reserves of the ECCB (in US\$ millions)	898.4	991.8	1,069.2	1,181.1	1,222.4	1,396.5	Aug-14
Gross international reserves to broad money in ECCU countries (percent)	17.4	18.8	19.7	20.5	20.4	22.2	Aug-14
Public gross external debt (in US\$ million)	497.3	536.2	536.8	545.3	593.6	...	Jun-14
Public gross external interest payments to fiscal revenue (percent)	5.5	4.7	5.2	8.9	8.0	...	Jun-14
Public gross external amortization payments to fiscal revenue (percent)	5.7	7.7	6.0	4.2	7.4	...	Jun-14
Public sector indicators (in percent of GDP)							
Central government overall balance (after grants)	-5.2	-3.6	-5.2	-5.9	-7.3	...	Jun-14
Public and publicly-guaranteed gross external debt	91.7	97.6	100.6	103.9	107.9	...	Jun-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 9. Grenada: Indicators of Capacity to Repay the Fund, 2012–20 1/
(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	157.2	129.5	98.5	68.9	39.2	22.1	13.9
In millions of SDRs	18.4	18.1	18.4	15.2	11.5	8.1	4.6	2.6	1.6
In millions of US\$	28.4	27.9	28.1	23.3	17.8	12.4	7.1	4.0	2.5
In percent of GDP	3.5	3.3	3.3	2.6	1.9	1.3	0.7	0.4	0.2
Proposed Extended Credit Facility (stock)									
In percent of quota	0.0	0.0	17.1	51.3	85.4	102.5	102.5	102.5	97.4
In millions of SDRs	0.0	0.0	2.0	6.0	10.0	12.0	12.0	12.0	11.4
In millions of US\$	0.0	0.0	3.1	9.2	15.4	18.5	18.5	18.5	17.6
In percent of GDP	0.0	0.0	0.4	1.0	1.7	1.9	1.8	1.7	1.5
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	20.39	21.15	21.52	20.05	16.58	14.58	13.03
In millions of US\$	28.4	27.9	31.2	32.5	33.2	30.9	25.6	22.5	20.1
In percent of exports of goods and services	11.5	11.2	11.4	11.3	10.9	9.4	7.3	6.0	5.1
In percent of debt service	77.6	28.7	24.9	79.4	71.8	59.5	46.5	41.5	41.4
In percent of GDP	3.5	3.3	3.6	3.7	3.6	3.2	2.5	2.1	1.8
In percent of Imputed Net International Reserves	27.6	20.9	20.4	21.1	21.4	17.9	14.4	12.4	10.9
Fund obligations based on existing credit	0.3	0.3	1.8	3.3	3.7	3.5	3.5	2.0	1.0
Repurchases and repayments	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	1.0
Charges and interest 1/	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	3.3	3.7	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	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit									
In millions of US\$	0.5	0.5	2.7	5.0	5.7	5.4	5.5	3.2	2.5
In percent of exports of goods and services	0.2	0.2	1.0	1.8	1.9	1.7	1.6	0.9	0.6
In percent of debt service	1.3	0.5	2.2	12.3	12.2	10.5	9.9	5.8	5.1
In percent of GDP	0.1	0.1	0.3	0.6	0.6	0.6	0.5	0.3	0.2
In percent of Imputed Net International Reserves	0.5	0.4	1.8	3.3	3.6	3.1	3.1	1.7	1.3
In percent of quota	2.6	2.6	15.2	28.1	31.5	30.1	30.1	17.4	13.5
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\$)	245.7	249.7	272.9	287.4	303.2	328.0	349.1	371.6	390.3
Debt service (in millions of US\$)	36.5	97.1	125.1	40.9	46.2	52.0	55.0	54.2	48.6
GDP (in millions of US\$)	799.9	835.6	861.3	886.5	925.9	970.4	1021.5	1076.4	1134.1
Imputed Net International Reserves (in millions of US\$)	102.8	133.7	153.0	153.9	155.3	172.9	177.3	181.8	185.0
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.

1/ The Fund reviews the level of interest rates for all concessional facilities every two years with the next review taking place in December 2014.

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: Adjustment Effort

(In percent of GDP, marginal impact from previous year)

Measures	2014		2015		2016		Full yield	
	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.
Revenue measures	1.6	1.7	1.2	1.1	0.9	1.0	3.7	3.8
Personal income tax	0.4	0.7	0.1	0.2	...	...	0.5	1.0
Reduce threshold to EC\$36,000, with a marginal rate of 15 percent on income up to EC\$60,000	0.4	0.7	0.1	...	...	...	0.5	0.7
Increase personal income tax rate from 12.5 percent to 15 percent for non-national faculty at St. George's University and include the employee benefits into taxable gross income	...	...	...	0.2	...	...	0.0	0.2
Widen the income and withholding tax base to winnings from lotteries and games of chance	...	...	0.0	0.0	...	...	0.0	0.0
Property tax	0.3	0.3	0.1	0.1	0.6	0.5	1.0	0.9
Increase rate on both buildings and land to 0.25 percent in 2014 and to 0.5 percent in 2016	0.3	0.3	...	0.1	0.5	0.4	0.8	0.8
Revise valuations to market value	...	...	0.1	...	0.1	0.1	0.3	0.1
Value-added tax	0.1	0.2	0.4	0.2	0.1	0.0	0.5	0.4
Reduce the list of exempt items (nonbasic foods, private accommodations)	0.0	...	0.4	0.2	...	...	0.4	0.2
Restore 15 percent rate on construction materials	0.1	0.1	...	...	...	...	0.1	0.1
Increase VAT paid by St. George's University from 10 to 15 percent	...	...	...	...	0.1	0.0	0.1	0.0
Spillover from higher customs service charge	...	0.1	...	0.0	...	...	0.0	0.1
Excises	...	0.0	0.1	0.1	...	0.0	0.1	0.1
Excise tax of 5 percent on motor vehicle parts, batteries, motor oil, and luxury goods	...	...	0.1	0.0	...	...	0.1	0.0
Increase excises on tobacco and alcohol (at least 10 percent)	...	0.0	0.1	0.0	...	...	0.1	0.1
Customs exemptions	0.4	0.1	0.2	0.1	0.1	0.4	0.7	0.5
Halve customs exemptions to GRENLEC, statutory bodies, St. George's University and returning nationals	0.4	0.1	0.2	0.1	0.1	0.4	0.7	0.5
Other	0.4	0.5	0.3	0.5	0.1	0.0	0.7	1.0
Increase in customs service charge from 5% to 6%	0.3	0.4	...	0.1	...	...	0.3	0.5
Introduce a tax on financial activities	...	...	0.3	0.3	...	...	0.3	0.3
Introduce a small business taxation regime	...	...	...	...	0.1	0.0	0.1	0.0
Introduce a new environmental levy on tire imports	...	...	0.1	0.1	...	...	0.1	0.1
Increase fees for motor vehicle license, professional licenses, and gun license	0.1	0.0	...	0.0	...	...	0.1	0.1
Current expenditure measures	0.5	1.0	0.7	0.3	1.0	0.8	2.1	2.2
Wage and pension bill	0.3	0.7	0.5	0.3	0.7	0.7	1.5	1.7
Freeze wage bill (including allowances) for 2014-2016 at May-December 2013 levels	0.3	0.6	0.3	0.3	0.4	0.4	0.9	1.2
Reduce wage bill by another 0.4pp of GDP after freeze (attrition, reform)	...	...	0.1	...	0.3	0.3	0.4	0.3
Freeze personal allowances for 2014-16 at 2013 levels	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Goods and services	0.1	0.4	0.2	0.0	0.2	0.1	0.5	0.5
Goods and services spending fixed in nominal terms at 2013 levels for 2014-2016	0.1	0.4	0.1	0.0	0.1	0.1	0.4	0.5
Total revenue and current expenditure measures	2.1	2.8	1.9	1.4	1.8	1.8	5.8	6.0
Streamline non-grant-financed capital spending	0.9	-0.4	0.7	2.0	0.4	0.4	2.0	2.0
Total fiscal adjustment effort	3.0	2.4	2.6	3.4	2.2	2.2	7.8	8.0

Annex I. Public Financial Management Reform

Grenada has taken an important step to strengthen public finance management with Parliamentary approval of a new Public Finance Management (PFM) Act in August 2014. The new PFM Act— drafted with technical assistance from the IMF’s Fiscal Affairs and Legal Departments— brings the legislative framework for PFM in line with international best practice and provides a significant departure from the PFM practices common in the OECS region. In particular, key features of the new legislation include:

- **Broader coverage of public accounts:** The PFM Act broadens the coverage of its provisions from the central government to the entire non-financial public sector.
- **Strengthened budget discipline.** In a departure from the past and the common practice across the region, the legislation eliminates the practice of spending in excess of the originally approved budget without ex-ante parliamentary approval, i.e. eliminates the use of special warrants. All spending above budget will now be subject to ex-ante parliamentary approval through supplementary budgets, which will be limited to two per fiscal year and will only be issued in the second half of the year. A contingency fund (equivalent to up to 2 percent of total revenues) will be created to address urgent unforeseen expenditures in the first half of the year. Moreover, the new Act strengthens control over expenditure commitments—a major weakness in past budget execution practices—by explicitly prohibiting commitments without appropriate approvals, or in violation of approved limits. Explicit responsibility to maintain oversight over the commitment control system is assigned the accountable officer of each entity, with further controls put in place through the introduction of the internal audit system and sanction regime (see below).
- **Restrictions on tax incentives.** In line with the government’s efforts to reform the system of tax incentives, the PFM legislation requires the Minister of Finance to maintain a public record of incentives granted by Parliament and to conduct a periodic (every three years) review of the rational, costs and benefits of all incentives granted.
- **Stronger oversight of statutory bodies and state-owned enterprises (SOEs).** The PFM Act makes a clear distinction between “statutory bodies” and “SOEs” and tailors the governance, oversight, and monitoring regimes to reflect specific sources of fiscal risk they pose. It requires that all statutory bodies and SOEs submit a 3-year strategic plan and financial and business plans to the Minister of Finance and the relevant line Minister at least 4 months before the beginning of the fiscal year, and introduces sanctions for noncompliance. Moreover, these institutions will be required to submit quarterly performance reports to the Minister of Finance. The PFM Act also requires that the budget statement include a report on the performance of statutory bodies and SOEs. All accounts of statutory bodies and SOEs must be audited. The Minister of Finance will exercise financial/fiscal oversight over these entities, while line Ministers exercise operational oversight over them.

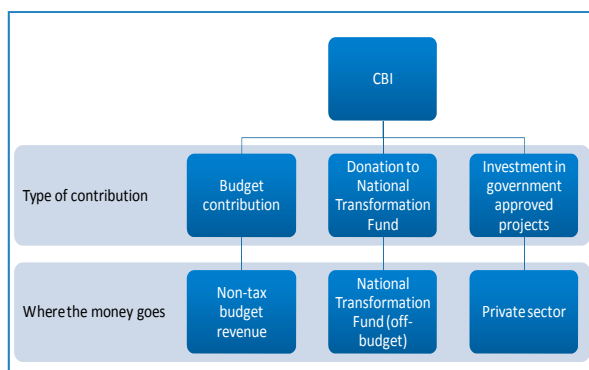
- **Strengthened cash management.** In line with the Government's efforts to move toward a Treasury Single Account, the new PFM legislation requires consolidation of all government banking transactions under a Treasury Single Account and prohibits the opening of new accounts.
- **Introduction of internal control and audit provisions.** The new legislation requires that every covered entity establishes and maintains an internal control and audit system. The internal auditor will advise the accountable officer on the extent to which the entity's systems, processes, and controls promote compliance with the Act and relevant laws, and on required remedial action.
- **A strengthened medium-term budget framework:** The Minister of Finance must now provide a clear statement of medium-term fiscal policy objectives and align the medium-term fiscal framework to those objectives. The medium-term fiscal framework must include macroeconomic and fiscal forecasts covering all subsectors of the economy for the current year and two consecutive years. These forecasts must be consistent with the declared medium-term economic and fiscal objectives.
- **A comprehensive budget preparation framework.** The new legislation requires that budget estimates are consistent with the medium-term budget framework. Aggregate budget ceilings estimated for the 2nd year will be the starting point for preparation of the budget for the following year. Moreover, the legislation requires that detailed information, including performance under the previous year's budget, be provided in the budget. Budget estimates must be published widely with the approved budget published widely within a week of approval.
- **A requirement for a mid-year budget review.** A mid-year budget review report must be submitted to Cabinet no later than 2 months from the end of the half year. The mid-year budget review must be submitted to Parliament with any supplementary budget.
- **A requirement for fiscal impact analysis of all draft legislation.** This will help ensure that approved budget ceilings are not breached when new legislation comes into effect.
- **A sanction regime for noncompliance with the PFM Act.** The Act introduces a sanctions regime for both institutions and persons in violation of the PFM Act, with personal sanctions providing for administrative and criminal sanctions.

Annex II. The Citizenship by Investment Program

1. **CBI programs.** Grenada's Citizenship by Investment (CBI) program, launched in 2014, allows people who do not otherwise qualify for citizenship to become citizens by investing in Grenada. While many countries offer options for investors to become residents and eventually citizens, only a few countries grant citizenship without a residency requirement, including several in the ECCU (St. Kitts, Dominica, Antigua and Barbuda). Most applicants to the Grenada's program so far originate from China, with the first new citizen from the program gained the Grenadian citizenship in August 2014.

	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis
US	No	No	No	No
UK	Yes	Yes	Yes	Yes
Canada	Yes	No	No	Yes
Schengen countries	Yes	No	No	Yes

Source: VisaHQ.com, Inc.



	Government Fee	NTF/Investment	Total
Donation to NTF	50,000	200,000	250,000
First Tranche	25,000	75,000	100,000
Second Tranche	25,000	125,000	150,000
Private Investment	50,000	Minimum of 250,000	300,000

1/ As of August 2014.

2. **The setup in Grenada.** The CBI program allows foreign nationals to obtain Grenadian citizenship through two options (table): (i) a donation to the National Transformation Fund (NTF), which is an off-budget entity, or (ii) investments in the private sector (real estate or other government approved projects), which remain an asset of the applicant. Under either option, applicants pay a fee to the government, which will be recorded as nontax revenue. Under the authorities' ECF-supported program, all fees paid to the budget are saved for direct and contingent financing (including the repayment of supplier arrears as a priority), helping to reduce debt further. This ensures that between 25 and 100 percent of the CBI inflows available to the public sector (budget fees and NTF) are saved, depending on the distribution of applicants between the two options.

3. **The National Transformation Fund.** The NTF is a special public fund. It has three primary responsibilities: (i) providing funds for the well-being of the people of Grenada, (ii) preserving and developing the resources of Grenada for future generations, and (iii) attracting private investment in the NTF and projects of the Government of Grenada. In this context, the NTF is allowed to transfer funds to the government for investment projects, which will be recorded as grants in the fiscal accounts of the central government. The Fund is owned and controlled by the government, but governed by an independent Board of Directors that consists of both public and private sector representatives.¹ The information about the applicants, inflows into and investments by the NTF will be reported to Parliament and made public every six months. The NTF can transfer funds to the budget for arrears repayment and investment, with the remaining resources managed independently by a public-private Board.

- **Governance of the NTF.** Strong and transparent governance of the NTF is critical to the success of Grenada's CBI program, which already includes provisions on proper due diligence and semi-annual reporting of NTF finances. To further strengthen governance of the NTF, the authorities have committed to approve stand-alone regulations for the NTF to: clarify its relationship with the budget; enhance Government oversight, including by ensuring the integrity of the program; strengthen reporting requirements; and, more generally, strengthen the NTF's institutional, governance and investment framework (a new structural benchmark for end-February 2015). In addition, the recently revised PFM legislation also strengthens the transparency of the NTF by requiring consolidated reporting of public accounts, including special funds such as the NTF, and that the special funds undergo an external audit.
- **Management of NTF resources.** To ensure that NTF funds are managed judiciously to avoid an unsustainable scaling up of public investment that could undermine the fiscal position or macroeconomic stability, the NTF regulations will include policy guidelines on the use of NTF resources and require rigorous project evaluation and selection. This includes budgeting of projects only after sufficient funds are secured to finance the project to completion and through its maintenance over the medium-term.² Both the NTF and the budget will be required to report on how any NTF-financed capital spending complies with these criteria. To allow the full repayment of supplier arrears by the end-2015 deadline, the NTF will transfer through the budget to the CBI Fund the first EC\$2 million of its monthly inflows for the settlement of arrears.

4. **The macroeconomic effects of the program could be important, although there is significant uncertainty about their potential magnitude in Grenada.** Based solely on the

¹ The Board includes the Chairman of the CBI committee, a representative of the Ministry of Finance, a representative from the Attorney General's Chambers and two members from the private sector chosen by the Minister of Finance.

² The NTF grant financing for capital projects is consistent with the fiscal targets under the program, which include adjusters to allow for the full use of available capital grants (TMU 17).

applications received to date, receipts to the budget could amount to 0.2 percent-0.6 percent of GDP a year, but there is considerable uncertainty surrounding the potential magnitude of these inflows. The budget inflows from CBI will be saved under the program, and this could lead to a substantial improvement in the fiscal position through debt reduction or the buildup of a contingent financing cushion in case of unexpected events. The direct private investments in real estate or private sector projects could increase liquidity in the banking system and contribute to a pickup in construction, although if inflows are large it could also carry the risk of stoking a real estate bubble. The overall balance of payment effect is likely to be positive. However, the management of the receipts needs to be prudent to ensure that they do not undermine the sustainability of the fiscal position in the future.

Annex III. Caribbean Development Bank and World Bank Programs

- 1. Caribbean Development Bank (CDB) and World Bank (WB) support for Grenada's homegrown structural adjustment program will complement the support being provided under the Fund's ECF arrangement for Grenada.** Combined, the CDB and WB are providing US\$65 million in concessional financing to Grenada over 2014-17 (Tables 3a and 3b). The WB is expected to provide US\$35 million under its Development Policy Credit with Grenada, of which the first of the three year programmatic program was approved by the WB Board on June 30, 2014. An initial tranche of US\$15 million has been disbursed, with two further disbursements of US\$10 million to be released in 2015 and 2016, respectively, subject to Grenada meeting WB policy actions. The CDB Board on July 17, 2014 approved a total of US\$30 million in concessional financing for Grenada. The financing will be disbursed in even annual tranches over the next three years subject to CDB conditionality being met. An initial US\$10 million was disbursed in September, 2014.
- 2. The design of the IMF, CDB, and WB-supported programs and associated conditionality was closely coordinated.** Each institution's conditionality for Grenada is focused on its respective mandate and comparative advantage and tailored to avoid duplication between the institutions. Given the similar mandates of the CDB and the WB, the institutions coordinated on a common policy matrix (see text table) that outlines shared conditionality between the institutions' lending arrangements for Grenada over the 2014-2017 period. The intent is to ensure that conditionality is appropriately tailored to the government's implementation capacity.
- 3. CDB and WB-supported program conditionality is focused on four pillars:** (i) creating conditions for private sector investment in a sustainable manner, (ii) supporting improved public sector management, better targeting of social safety net programs and reduced vulnerability of the financial sector, (iii) enhancing resilience of natural disasters, and (iv) facilitating debt portfolio restructuring and enhancing debt management. Combined, the conditionality under the four pillars will complement conditionality under the Fund's ECF-arrangement for Grenada which aims to improve competitiveness and medium-term growth prospects, restore fiscal and debt sustainability and strengthen financial stability.

CDB and WB Program Conditionality	
Policy Area	Associated Conditionality
Pillar I: Creating Conditions for Private Sector Investment in a Sustainable Manner	
Tourism Sector Development	Establish a regulatory framework and organizational structure for the new Grenada Tourism Authority (GTA) to ensure the design and implementation of a shared tourism policy. Develop a Strategic Marketing and Product Development Policy for the GTA.
Agribusiness Sector Development	Commercialize government-owned agricultural estates. Reform the Marketing and National Importing Board into a service provider of market information, product quality and standards, logistics and aggregation services, on a voluntary and pro-competition basis.
Trade Logistics	Improve logistics through a new Customs Bill. Enhance border agency coordination.
Public Private Partnerships	Establish policy and institutional frameworks for PPPs.
Energy Sector	Provide a reform options report and roadmap for revisions of the Electricity Supply Act. Introduce an independent regulator in the electricity sector.
Pillar II: Supporting Improved Public Sector Mangement, Better Targeting of Social Safety Net Programmes and Reduced Vulnerability of the Financial Sector	
Mangement of Public Employment	Endorse a public sector modernization policy. Align public employment structures in line with recommendations from the HR audit conducted in 2010-13. Approve a public employment policy in the education sector.
Accountability for Results in Public Administration	Approve regulations defining ruels and procedures for producing and publishing public annual performance reports.
Procurement	Bring procurement practices in line with best international practice through a new public procurement law.
Financial Sector Development	Undertake a comprehensive and independent valuation of bank assets.
Social Safety Nets	Strengthen the design and programming of social safety nets. Improve targeting of social programs by establishing eligibility criteria.
Pillar III: Enhancing Resilience Against Natural Disasters	
Enhancing Physical Resilience Against Natural Disasters	Strengthen building codes and physical planning and development guidelines. Strengthen professional practices for architects and engineers.
Pillar IV: Facilitating Debt Portfolio Restructuring and Enhancing Debt Management	
Debt Management	Adopt a medium-term debt management stratgegy.

Annex IV. Updated Debt Sustainability Analysis

- 1. Grenada's public debt remains in distress and a debt restructuring is underway.** The assessment that Grenada's public debt is in distress remains unchanged from the analysis presented with the staff report on the request for the ECF arrangement in June 2014. Grenada's public debt reached 107.9 percent of GDP at the end of 2013. Public debt is expected to improve notably under the program, but debt will remain in distress and unsustainable without a comprehensive restructuring of public debt. The fiscal adjustment targeted under the program would put debt on a firmly downward path, but in the absence of debt restructuring and only with non-market financing, debt would remain elevated at 86 percent of GDP by 2020, a high level given Grenada's growth prospects and capacity. Similarly, the debt would remain in distress as all debt and debt service thresholds would be breached even in the absence of shocks. Therefore, comprehensive debt restructuring remains critical to reducing debt to sustainable levels, lowering the risk of debt distress, and putting the ECCU-wide debt target of 60 percent of GDP by 2020 in reach.
- 2. Grenada's public external debt also remains in distress, unchanged from the assessment at the time of approval of the arrangement.** External public debt would decline to about 62.4 percent of GDP by 2020, as the authorities rely increasingly on external concessional sources to meet their financing needs, while paying down domestic non-concessional debt. Public external debt would remain in distress with all debt and debt service thresholds breached even in the absence of shocks, similar to the assessment of public debt sustainability. As with public debt sustainability more broadly, a comprehensive restructuring of public external debt remains critical to returning external public debt to sustainable levels. Private external debt also remains elevated and continues to present an important risk to external sustainability.

Table AIV.3. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (In percent, before debt restructuring)

	Projections								
	2014	2015	2016	2017	2018	2019	2020	2024	2034
PV of debt-to GDP ratio									
Baseline	63	65	63	61	58	55	53	43	44
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2014-2034 1/	63	67	69	72	76	81	85	98	140
A2. New public sector loans on less favorable terms in 2014-2034 2	63	67	65	64	62	60	58	54	65
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	63	69	71	68	65	62	59	48	49
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	63	68	72	70	67	64	62	50	45
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	63	66	65	63	60	58	55	45	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	63	67	68	66	63	60	57	47	44
B5. Combination of B1-B4 using one-half standard deviation shocks	63	68	72	70	67	64	61	50	48
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	63	92	89	86	82	78	75	61	62
PV of debt-to-exports ratio									
Baseline	200	200	192	179	170	160	153	122	115
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2014-2034 1/	200	206	211	214	222	234	247	278	369
A2. New public sector loans on less favorable terms in 2014-2034 2	200	205	199	189	181	173	167	152	170
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	200	200	192	179	170	160	153	122	115
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	200	245	299	280	266	253	243	193	161
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	200	200	192	179	170	160	153	122	115
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	200	208	207	194	184	174	167	132	117
B5. Combination of B1-B4 using one-half standard deviation shocks	200	220	238	223	211	200	191	152	137
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	200	200	192	179	170	160	153	122	115
PV of debt-to-revenue ratio									
Baseline	300	305	283	263	251	239	227	185	188
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2014-2034 1/	300	314	312	314	329	349	366	423	606
A2. New public sector loans on less favorable terms in 2014-2034 2	300	313	295	277	267	258	249	231	279
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	300	323	319	297	283	269	256	209	212
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	300	321	326	304	291	278	266	217	195
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	300	310	295	274	261	248	237	193	196
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	300	318	306	285	272	259	248	202	192
B5. Combination of B1-B4 using one-half standard deviation shocks	300	320	324	302	288	275	262	214	207
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	300	433	402	373	356	338	322	263	267

Table AIV:4. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (Concluded) (In percent, before debt restructuring)

	Projections								
	2014	2015	2016	2017	2018	2019	2020	2024	2034
Debt service-to-exports ratio									
Baseline	11	13	14	13	14	13	12	20	13
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2014-2034 1/	11	13	14	14	15	15	15	26	31
A2. New public sector loans on less favorable terms in 2014-2034 2	11	13	14	13	13	13	11	17	13
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	13	14	13	14	14	12	18	11
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	11	15	20	19	20	19	17	28	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	13	14	13	14	14	12	18	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	13	14	14	14	14	12	20	11
B5. Combination of B1-B4 using one-half standard deviation shocks	11	14	17	16	17	16	14	23	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	13	14	13	14	14	12	18	11
Debt service-to-revenue ratio									
Baseline	17	20	21	19	20	20	18	31	22
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2014-2034 1/	17	20	21	20	22	23	22	40	51
A2. New public sector loans on less favorable terms in 2014-2034 2	17	20	20	19	20	19	16	27	22
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	17	21	24	22	23	23	20	31	20
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	17	20	21	21	22	21	19	31	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	17	20	22	20	21	21	19	29	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	17	20	21	20	21	21	18	30	19
B5. Combination of B1-B4 using one-half standard deviation shocks	17	21	23	22	23	22	20	32	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	17	28	30	28	29	29	25	40	25
<i>Memorandum item:</i>									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	29	29	29	29	29	29	29	29	29

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.

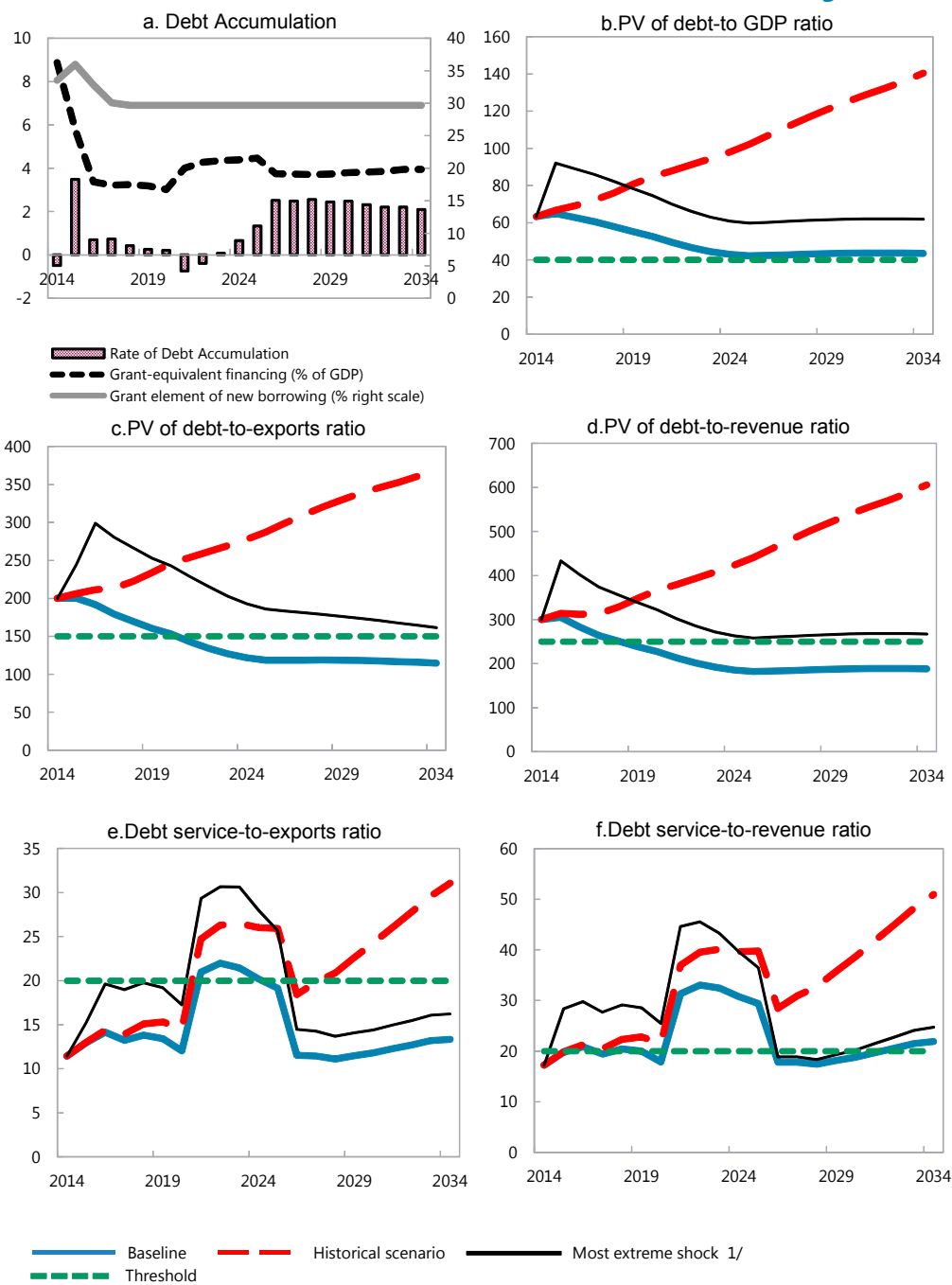
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

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.

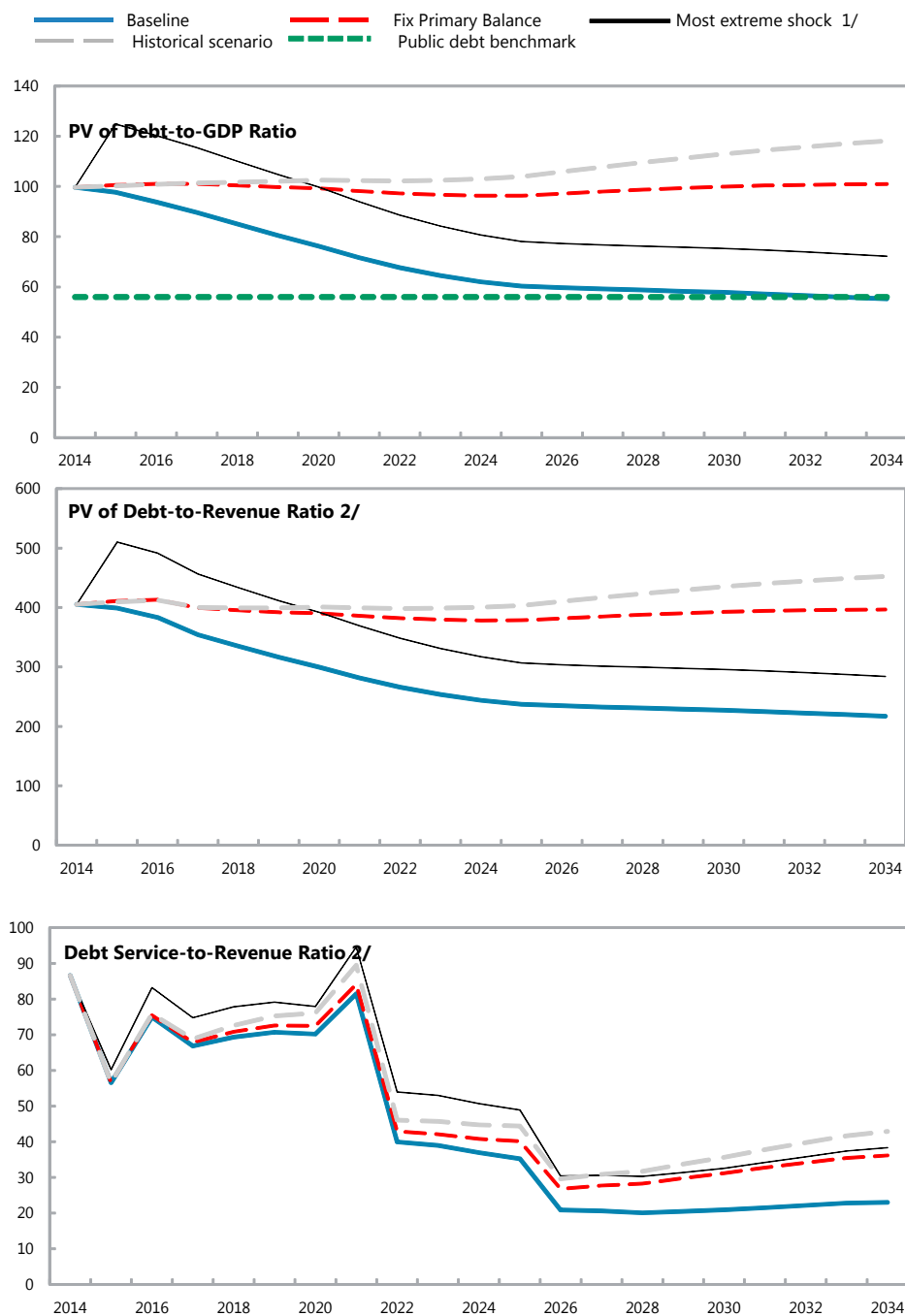
Figure AIV.I. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014-34 (before debt restructuring) 1/



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 2024. 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 AIV:II. Grenada: Indicators of Public Debt under Alternative Scenarios, 2014-34
(before debt restructuring) 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 2024.

2/ Revenues are defined inclusive of grants.

Appendix I. Letter of Intent

November 20, 2014

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

Dear Madame Lagarde,

Grenada has made a strong start in implementing its home-grown economic programme, supported since June 2014 by an IMF arrangement under the Extended Credit Facility (ECF). The fiscal consolidation is on track and the fiscal targets for end-June were met with ample margins. We continue our engagement with all creditor groups toward reaching a cooperative and meaningful solution for the Country's large debt overhang. Our ambitious structural reform agenda—aimed at addressing bottlenecks to higher potential growth and strengthening our fiscal policy framework—is being implemented with technical and financial assistance from our international partners.

The strong start of the programme, with support from all social partners, is contributing to a renewed sense of confidence in the Grenadian economy. Economic recovery is taking hold, and we project moderate growth to continue this year. The economy continues to face significant challenges in terms of high unemployment, a large debt overhang, and weak competitiveness.

To address these challenges, the Government remains fully committed to the objectives and targets of its programme, as set out in the June 2014 Memorandum of Economic and Financial Policies (MEFP). The attached supplement to the MEFP discusses performance under the programme thus far and updates policies toward meeting the objectives of the home-grown economic programme. Our key focus going forward will be on: (i) pressing ahead with reforms to create a propitious operating environment for the private sector and reform the energy sector; (ii) continuing the ongoing fiscal consolidation and seeking to finalize agreement with all creditors on a comprehensive and collaborative restructuring of Grenada's public debt; (iii) bringing to completion the reforms to strengthen the fiscal policy framework, by introducing fiscal responsibility legislation, reforming the tax incentive regime, strengthening debt management and tax administration and modernizing the public service; and (iv) strengthening financial stability following the completion of the regional asset quality review.

On the basis of our performance under the programme so far and our commitment to the continued implementation of the programme, including its proposed revisions, the Government requests that the Executive Board of the IMF complete the first review of the arrangement under the

ECF, approve the proposed new performance criteria for June 2015 and December 2015, as well as the new structural benchmarks for 2014-15, and approve the second disbursement under the arrangement of SDR 2 million.

We are confident that the policies described in the June 2014 MEFP and in the attached supplement are adequate to achieve the 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 2014-17

1. **Grenada is making important progress in overcoming one of its worst crises in recent history.** The Government embarked on a home-grown economic reform programme in 2013 to improve prospects for growth and job creation, restore fiscal sustainability, and entrench financial stability. Since June 2014, the programme has been supported by an arrangement under the IMF's Extended Credit Facility (ECF), as well as programmes with the World Bank and the Caribbean Development Bank. Programme implementation has been strong: the fiscal consolidation is proceeding as programmed and the ambitious structural reform agenda is broadly on schedule with all quantitative performance criteria met for the first review (Tables 1 and 2). These developments have improved confidence in Grenada's ability to overcome the crisis and restore growth. We are confident that continued strong implementation of our programme will lead to a more stable macroeconomic environment and set the stage for strong and sustainable growth of the Grenadian economy.

2. **We recognize that broad social consensus and a shared commitment to reform are critical to the success of Grenada's home-grown programme.** To engage all stakeholders in the implementation of the programme, Grenada's social partners have established a Monitoring Committee for the Homegrown Programme, with broad participation of the Grenadian society, including the government, private sector, labor unions, civil society, churches, and the Eastern Caribbean Central Bank. The Committee has the mandate to monitor the implementation of the programme, receive and review monthly reports from the Ministry of Finance on performance vis-à-vis programme conditionality, assist the government in achieving the agreed targets and benchmarks, as well as recommend corrective actions as necessary. The Committee has already met a number of times and has issued communiqués after each meeting on its findings and recommendations.

3. **We remain fully committed to the objectives of our reform programme outlined in the June 2014 Memorandum of Economic and Financial Policies (MEFP).** These reforms are further developed in this supplementary MEFP with a view to ensuring their full implementation, and center on: (i) improving the investment environment and boosting growth through structural reforms (¶16); (ii) restoring fiscal sustainability through fiscal consolidation and debt restructuring (¶17-12); (iii) instilling long-lasting fiscal discipline and strong public financial management through fiscal structural reforms (¶13-20); and (iv) strengthening the financial system (¶21-23). The quantitative targets that serve as performance criteria and indicative targets under the programme have been updated and extended through December 2015. These updated targets are presented in Table 1. The structural conditionality under the programme, incorporating several modifications as discussed below, is presented in Table 2.

Developments and Outlook

4. **Economic recovery is taking hold, led by strong growth in tourism.** The economy is estimated to have grown by 2.4 percent (market prices) in 2013, higher than the 1.5 percent previously estimated, due largely to buoyant construction activity. For 2014, we are also projecting moderately higher growth (1.2 percent) than anticipated at the time of the approval of the arrangement (1.1 percent), as the slowdown in construction activity with the winding down of the Sandals resort construction is expected to be more than offset by a rapid pickup in tourist arrivals associated with the operation of the resort. For the period 2015-2017, we project average growth of 1.5 percent, with a steady pickup over the medium-term to 2-2 ½ percent. While we are encouraged by the ongoing economic recovery, unemployment is high, private credit is declining as bank balance sheets are burdened by high non-performing loans, and the debt overhang remains to be addressed.

5. **Consumer prices continue to trend noticeably downward.** Prices declined by 1.2 percent on average during the first nine months of 2014 relative to a year earlier, with a significant drop in the cost of telecommunication services, declines in the prices of clothing and furniture, and muted food price inflation. We project prices to stabilize going forward as the transitory effect of the decline in telecommunication costs wanes. Inflation is expected at about -½ percent in 2014 and 1.3 percent in 2015 and to pick up gradually to about 2 percent over the medium-term with the economic recovery.

Growth-Boosting Structural Reforms

6. **Boosting economic growth and strengthening the social safety net remain the main focus of the Government's economic programme.**

- *Growth and Poverty Reduction Strategy (GPRS).* To guide our efforts towards a higher, sustainable and more equitable growth path, the Government has developed a new Growth and Poverty Reduction Strategy (GPRS) for the period 2014-18. The new GPRS is the outcome of extensive national consultations and reflects broad-based consensus on the policy framework for promoting job creation, poverty reduction and economic growth; it was approved by the Cabinet in August 2014 and will be published after final edits are made to reflect the Cabinet discussion. 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.
- *Increasing efficiency of product markets.* The Government has initiated a number of reforms to increase the efficiency of product markets, many of them affecting the key agricultural sector. In particular, the Government has begun to commercialize its agricultural estates (about 500 acres of land in four main estates) by leasing underutilized government land to the private sector for strategic agricultural production. Thus far, two estates have been leased, with the remaining two

likely to be commercialized over the course of 2014-15. These reforms are aimed at increasing production efficiency and export capacity in the sector, while ensuring some fiscal savings. With support from the IDB-sponsored Compete Caribbean project, the Government is also working to modernize the key nutmeg and cocoa sectors, with a view to enhancing their investment environment, competitiveness and productivity. Efforts will focus on reforming the 1947 legal and administrative framework governing the sectors, strengthening their governance and institutional capacity, and introducing export quality standards for the sectors.

- *Improving the investment environment.* The cornerstone of our efforts to improve the investment environment is a comprehensive revamping of the investment regime to bring it in line with international best practice. To this end, with technical assistance from the World Bank and IFC and financial assistance from DFID, we have prepared a new Investment Law that streamlines and simplifies the investment regime and provides investors with transparency. The draft law is expected to be approved by Grenada's Parliament in November 2014, in line with the structural benchmark. Following the enactment of the new Investment Law, we will continue our efforts to strengthen the investment environment by implementing a robust and sustainable institutional framework for attracting and retaining investment in Grenada through reforms to the Grenada Industrial Development Corporation or a successor agency. This framework will include the key pillars of investment promotion, facilitation (including the streamlined delivery of services to investors), generation and policy advocacy.
- *Energy sector reforms.* Reforms in the energy sector to support a more efficient pricing of electricity remain an integral component of our growth strategy. The reforms are currently focused on strengthening the regulatory framework for electricity through amendments to the Electricity Supply Act, now expected to be completed in the first half of 2015. As set out in the June 2014 MEFP, the reforms aim to establish an independent regulatory authority, revise the tariff-setting mechanism, enable the regulation of the sector by a regional authority once it is fully operational; and set out the roadmap for transitioning to renewable energy.
- *Social protection and poverty reduction.* We are committed to protecting the most vulnerable groups during the period of fiscal adjustment. The indicative floor on social spending through SEED for end-June 2014 was missed by a small margin (EC\$300 thousand or US\$111 thousand) as we worked with the World Bank to overcome capacity constraints and improve targeting of our social assistance programmes with a new information management system. As the new targeting system is not yet fully operational, the end-December floor is also likely to be missed. We continue to work with the World Bank to strengthen our social assistance programmes and are committed to bringing spending to programmed levels to ensure that the necessary social support is in place during the ongoing fiscal consolidation.

Fiscal Consolidation

7. **Grenada faces a significant fiscal consolidation effort during 2014-17 to correct the fiscal imbalances.** The Government started this effort in the context of the 2014 budget and

subsequently introduced a large package of fiscal consolidation measures, with staggered implementation dates, in early 2014. These measures are yielding encouraging results both on the revenue and spending side: the Government moved into a slight primary surplus position in the first half of 2014, despite large retroactive wage settlements, compared to the adjusted targeted deficit of EC\$33 million. We thus expect that the 2014 fiscal targets will be fully met, which will allow us to draw on some of the over-performance to date for growth-supporting investments that would have otherwise not been undertaken.

8. We have also taken action to lock in the yield of adjustment measures and improve control over spending:

- *Attrition policy.* Since August 2014, we have been implementing a strict attrition policy across the Public Service in support of the programmed reduction in the wage bill. Under the policy, no more than three out of every ten employees departing the public service will be replaced. To ensure the optimal deployment of human resources, the policy is being implemented in a targeted manner, with hiring concentrated on positions critical to delivering on the Government's strategic priorities. In addition, we plan to abolish at least 90 percent of the remaining vacant positions (about 496 positions at end-September 2014) in 2015, and have introduced a policy of creating new positions only when offset by the abolition of another position. As part of our efforts to strengthen control over public payrolls, we undertook a survey of public sector employment in early 2014. The results provide a comprehensive picture of the structure of the Public Service and existing vacancies, and will inform our efforts to eliminate vacancies and redeploy the public service in support of the Attrition Policy.
- *Treasury Single Account.* The Government has made important strides in moving toward a Treasury Single Account (TSA) as an efficient and cost effective solution for management of scarce public resources. Since 2009, about 180 central government accounts have been closed or merged into the TSA. Of the 20 remaining accounts, most are related to projects financed by international financial institutions and will be closed as the projects wind down, likely by end-2015.
- *Capital spending controls.* We have taken a number of steps in 2014 to strengthen control over capital spending. Most importantly, the Government has integrated all of its remaining accounts into the payment system and is now issuing checks against a single account, allowing the timely monitoring and recording of all project spending. We have also established controls to ensure timely recording of the spending from the project loans, which were previously recorded with a delay.

9. The permanent fiscal consolidation gains achieved so far will help the Government attain its primary surplus target of 1.3 percent of GDP in 2015. We will take the following additional steps to ensure that the targets for 2015 are achieved:

- *Remaining measures.* The Government will enact the remaining measures agreed in the June 2014 MEFP needed for the programmed fiscal adjustment in 2015:

- a. The Government has negotiated, and parliament approved in August 2014, a revised agreement with St. George's University for the 2015-2020 period, which envisages halving of the tax exemptions on motor vehicles and construction materials, an increase in the personal income tax rate for the non-national employees from 12½ to 15 percent, and the removal of the exemptions on its property tax liabilities.
 - b. The Government will introduce a new environmental levy on tyre imports by end-December 2014 with a two-tiered rate structure aimed at raising revenue (0.1 percent of GDP) while discouraging the import of used tyres.
 - c. The Government will also introduce a new tax on financial activities, to capture services provided by the financial institutions that are currently exempt from VAT. In addition, the government will introduce a small business tax before end-July 2015 to facilitate tax compliance by small businesses. In line with international practice, the tax will replace the VAT, income and other taxes that small businesses are subject to, and is expected to be broadly neutral on the tax burden faced by small businesses. Moreover, the Government will publish the recently revised property market values, last updated in 2001, by end-June 2015. These are expected to entail an average increase in property values by at least 20 percent, and will come into effect in 2016.
 - d. To support the targeted reduction in the wage bill, the government reached agreement with the trade unions on a nominal wage freeze and will continue negotiations with unions on employment conditions over the next three years. A binding wage bill ceiling will also be introduced under the proposed fiscal responsibility legislation, capping its growth from 2015 on to levels that can be sustained by the tax inflows.
- *2015 Budget.* The Government is committed to formulating a 2015 budget consistent with the programme targets, and its Parliamentary approval will be a **new structural benchmark** for end-December 2014.
 - *Contingency measures.* 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 for 2015. These include: (i) a widening of the income tax base to capital gains, dividends and interest; (ii) a broadening of the VAT base by removing exemptions on fee-based banking services, property and casualty insurance policy premia, as well as margins of gaming operators; and (iii) a further increase of excise tax rates on alcohol and tobacco, which remain low by the international standards. If shortfalls materialize later in the year, the government will reduce next-quarter expenditure allocations relative to the programme.
10. **The recently launched citizenship-by-investment (CBI) programme has begun to receive applications and the Government is committed to the sustainable and transparent management of the programme, including of its receipts.**
- *CBI fees to the budget.* As committed in the June 2014 MEFP, the Government will use all CBI fees paid directly to the budget for general budget financing. The fees will be managed through a sub-account of the Treasury Single Account – the CBI Fund. The receipts will be prioritized to clear the existing stock of supplier arrears in order to restore liquidity to the

private sector and reinvigorate growth. Any additional CBI revenues will be dedicated to general budget financing to help achieve a sustainable reduction in government debt and for contingency financing, including for natural disasters and potential risks from disruptions of the PetroCaribe arrangement.

- *Governance of the CBI programme.* As outlined in the June 2014 MEFP, we remain committed to take steps to ensure that: (i) applications are subject to adequate criminal background checks; and (ii) appropriate AML/CFT measures and oversight are targeted to the new citizens. Strong and transparent governance of the NTF is also critical to the success of the CBI programme. The recently approved public financial management legislation (see below) requires consolidated reporting of special funds (such as the NTF) as part of the public accounts and includes provisions for their external audit by the Director of Audit. To further strengthen governance of the NTF, the Government will approve, by end-February 2015, stand-alone regulations for the NTF to clarify its relationship with the budget, Government oversight, reporting requirements, and more generally the NTF's institutional, governance and investment framework (**new structural benchmark**).
- *Management of NTF resources.* The regulations above will also include policy guidelines on the use of NTF resources, to be approved by the Ministry of Finance and to require rigorous project evaluation and selection. To avoid an unsustainable scaling up of public investment, which could undermine the fiscal position and/or macroeconomic stability, the policy guidelines will require that spending on a project be undertaken only after sufficient funds are secured to finance the project (i) to completion and (ii) through its maintenance over the medium-term. Both the NTF and the budget will be required to report on the spending out of the NTF. To allow the full repayment of supplier arrears by the end-2015 deadline, the NTF will transfer through the budget to the CBI Fund the first EC\$2 million of its monthly inflows for the settlement of arrears. The Government will monitor the magnitude of NTF funds and will take further measures as needed to ensure that NTF spending (both on and off budget) is consistent with a sustainable fiscal framework.

Debt Restructuring and Regularization of Arrears

11. The Government has continued to engage with all creditor groups in its effort toward meaningfully restructuring its debt.

- *Bilateral official debt.* The Paris Club provided financing assurances for Grenada and has agreed to discuss the treatment of its claims following progress with the restructuring of private debt. All non-Paris Club bilateral official creditors have been contacted to request comprehensive restructuring of their claims on Grenada. The Government is at an advanced stage in its negotiations with the Export Import Bank of Taiwan Province of China (Ex-Im Bank) on a restructuring agreement. Both parties informed New York court in mid-November that an agreement is in final drafting stages.
- *Private debt.* The Government continues to work toward the launch of a formal offer for the restructuring of the EC\$2025 and US\$2025 bonds. Negotiations with the creditor committee

representing the majority of creditors for the 2025 bonds are intensifying, with both sides committed to reaching a solution that is both firmly sustainable and amicable. Negotiations have focused on an agreement being reached by year-end. Negotiations with remaining domestic private creditors are proceeding in parallel to the restructuring of the 2025 bonds.

12. **The Government remains committed to clearing its domestic and external arrears during the programme period.** As indicated in the June 2014 MEFP, a clearance framework for the existing stock of Government debt arrears will be agreed as part of the ongoing debt restructuring process and the Government will not incur additional debt arrears during the duration of the programme outside the restructuring process. With respect to supplier arrears, arrears to public entities will be settled with Government paper or assets, while arrears to private suppliers will be settled in cash in quarterly installments until December 2015. The Government remains committed to not incurring additional arrears on membership fees to regional and international organizations, and has revised the 2014 fiscal programme to reflect the higher payments associated with this commitment. The strategy for regularizing the stock of existing arrears on membership fees will be developed in the context of the technical assistance on public debt management from the IMF and the World Bank expected in early 2015.

Fiscal Structural Reforms

13. **We are in the process of reforming our fiscal policy framework to ensure fiscal discipline and lock-in the gains from fiscal consolidation.** Below we provide an update on the status of the reforms and develop further the agenda set out in the June 2014 MEFP, to focus on the implementation of reforms that are being legislated and to develop the agenda in areas where additional reform needs have been identified.

14. **We have overhauled and modernized our public financial management legislation, and will now focus on its implementation.** In August 2014, Parliament approved a new Public Finance Management (PFM) Bill to align it with best international practice (the Government has thus met the associated structural benchmark). The new legislation broadens the coverage of public accounts and the scope of the PFM requirements to the entire public sector; strengthens budget preparation and execution, especially with a view to moving away from the practice of spending outside the budget without prior parliamentary approval; strengthens control over statutory bodies and state-owned enterprises; reforms the practice of granting tax incentives to limit the discretion of the executive in granting them and make the system more transparent; and introduce meaningful penalties for noncompliance with the provisions of the act. To ensure the prompt implementation of the new Act, the Regulations for the Act will be approved before end-June 2015 (**new structural benchmark**). The Government will seek technical assistance in drafting the Regulations from the IMF. In addition to the PFM Act, Parliament has approved in August 2014 a revised Procurement Act that is better aligned to best international practice. A revised Customs Act, to bring it in line with best international practice is expected to be considered by Parliament by end 2014.

15. **The Government is preparing draft Fiscal Responsibility Legislation (FRL) to transition to a rule-based fiscal framework and ensure durable fiscal discipline going forward.** As outlined in the June 2014 MEFP, the legislation will cap overall and personnel spending to ensure their sustainability, and will require forward-looking rather than retroactive wage negotiations, among other. Parliamentary approval of the FRL is expected before end-2014, and the approval of the associated regulations to ensure prompt implementation is expected before end-June 2015. The approval of the regulations will be a **new structural benchmark**, and the Government will seek assistance from the IMF on this reform initiative.

16. **The ongoing sovereign debt crisis has revealed the need to strengthen the management of public debt.** As a first step, the Government will strengthen the legislative framework for public debt management (PDM) by consolidating the currently fragmented framework into a modern and comprehensive PDM law, introducing requirements for setting clear objectives, developing a medium-term debt management strategy annual borrowing plans; evaluating and managing guarantees, and reporting on a timely basis. The PDM legislation will be drafted with assistance from the IMF and its parliamentary approval is expected before end-March 2015 (**new structural benchmark**), with the associated regulations expected to be approved by end-October 2015. To ensure that the new legislative framework leads to measurable improvements in debt management, the Government will, after the completion of the debt restructuring, receive technical assistance from the IMF and the World Bank to develop a medium-term debt management strategy and to strengthen debt management capacity.

17. **Addressing the financial challenges faced by state-owned enterprises (SOEs) and statutory bodies is critical to the success of the Government's fiscal adjustment effort.** With technical assistance from CARTAC, we undertook a strategic review of the financial position, viability and rationale of statutory bodies during May-August 2014. Based on the recommendations of the review, Cabinet approved in principle a strategy to strengthen the financial position of the sector by reforming their employment, wage-setting and pension practices; pursuing targeted reform of existing tariffs and other policies; and prioritizing individual institutions to be restructured, liquidated, or privatized (existing structural benchmark for end-October 2014). Cabinet has moved to implement, by end-2014, the near-term elements of the strategy, which include: (i) developing a centralized policy for employment conditions in SOEs and statutory bodies, (ii) publishing the list of SOEs and statutory bodies subject to the new PFM Act, and (iii) standardizing and improving budget disclosures for SOEs and statutory bodies. To implement the medium-term elements of the strategy, the Cabinet has set up a Committee to consider reform strategies for individual institutions, including their feasibility and cost; the Committee is expected to report to Cabinet on a final strategy by end-2014. Based on this strategy, the Government will further develop its reform agenda to take the reforms of the statutory bodies to their fruition.

18. **The Government will renew its efforts to improve tax administration, which we see as key to sustaining the fiscal gains and ensuring an equitable contribution to the consolidation effort.** We undertook a comprehensive diagnosis of the deficiencies in tax administration with

technical assistance from the IMF and CARTAC during September–October 2014. Based on the recommendations of this technical assistance, we will further develop our reform agenda going forward. Meanwhile, the Government intends to introduce a new Tax Administration Act, to be drafted with technical assistance from the IMF, to unify and ensure consistency between tax administration procedures, which are currently fragmented across multiple tax laws. Its parliamentary approval will be a **new structural benchmark** for end–November 2015. To properly align incentives for strengthened tax collection, Cabinet approved—as a prior action for approval of the arrangement—a decision to eliminate the bonus that tax collectors receive on interest from tax arrears. The enactment of this decision required additional administrative procedures to adjust the grade of the tax collectors. Cabinet has now approved an allowance equivalent to the approved grade adjustment until the latter can take effect and the new compensation regime will take effect from November 2014 (prior action for first review).

19. **We are reforming the tax incentive regime to make it more rule-based and transparent, reduce tax expenditures and maximize the growth impact of the incentives.** The recently approved PFM legislation already introduces major reforms to the tax incentive regime by requiring clear public records of all incentives and introducing formal periodic reviews of their rationale and costs to ensure that they remain aligned with Government’s strategic priorities. Going forward, the Government will amend the affected tax legislation to, codify all incentives and eliminate executive discretion in granting them (existing structural benchmark for end–November 2014). With assistance from the IMF, the draft amendments to the relevant tax legislation have been prepared and are under consideration by Cabinet. However, with a heavy reform agenda leading up to end–2014—including the approval of the PFM legislation, preparation of the Fiscal Responsibility legislation, the Investment Promotion Act, ongoing customs and procurement legislation reforms, as well as preparations for the 2015 budget—the tax incentive reform is expected to be finalized in early 2015. With assistance from the World Bank and IFC, and in the context of the reform to the Investment Promotion Act, the government will also: (i) align the newly codified tax incentives with the Government’s priorities as delineated in the Growth and Poverty Reduction Strategy; and (ii) assess the revenue impact of the codified incentives to ensure their consistency with the fiscal targets.

20. **Public sector modernization reforms are critical to improving the efficiency, quality, and cost effectiveness of the public sector.** To this end, the Government will undertake a strategic review of the public sector in early 2015 with financial assistance from the European Union and technical assistance from international partners. The results of the review will inform the development of our reform strategy, to be approved by the Cabinet before end–September 2015 (**new structural benchmark**). Based on the reform strategy, we will revise the existing legislation on government functions, civil services, and public compensation (including the 1969 Public Service Law) within the subsequent six months.

Financial Sector Reforms

21. **We continue to take a proactive approach to ensuring financial stability and have completed an assessment of the potential impact of the debt restructuring on the financial system.** In partnership with the ECCB, the regional supervisor of commercial banks, we assessed the potential impact of the debt restructuring on the banking system. The results suggest that, under the existing regulatory framework, the banking system would remain adequately capitalized following the debt restructuring. Finally, an initial assessment conducted by GARFIN suggests that the insurance and credit union sectors, with their limited exposure to government debt, would be able to absorb the potential impact of the debt restructuring. We are committed to proactively engaging with all financial institutions to ensure adequate capitalization following the debt restructuring.

22. **We remain actively engaged with our ECCU partners on the regional strategy to strengthen the banking sector.** The upcoming asset quality review (AQR) of commercial banks across the region, which is expected to be completed in 2015Q1, will provide important insight into the financial position of banks in the region. Following the completion of the AQR, we are committed to taking immediate action as needed to strengthen the financial position of commercial banks and will work with the ECCB to determine an appropriate strategy in this regard. To strengthen the legislative framework for banking regulation and supervision, we will expeditiously seek Parliament approval of the revised Banking Act and ECCB Agreement Act after their approval by the ECCB Monetary Council.

23. **We are continuing our efforts to strengthen regulation and supervision of the nonbank financial sector.** In the insurance sector, we continue to support the establishment of the Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor. We are also committed to moving to consolidated supervision of the insurance sector and will work with our home country authority partners to effectively implement consolidated supervision. As in the insurance sector, we are committed to regional regulation/supervision of the credit union sector over the medium-term. To this end, we are participating in the Caribbean Association of Credit Union Supervisors, launched in August 2014, with our regional counterparts as a first step toward regional regulation and supervision of the sector. For the entire nonbank financial sector, we will adopt full risk-based supervision in line with established best international practice. We will seek technical assistance from CARTAC to assist with our efforts to implement consolidated supervision of the insurance sector and risk-based supervision of the entire non-bank financial sector.

Programme Monitoring

24. 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 and fourth reviews will take place on or after September 30, 2015 and March 31, 2016,

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respectively, and will require observance of the continuous performance criteria and of the conditionality for end-June 2015 and end-December 2015, 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 will 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.	Dec.	
	Act.	Prog.	Adj. Prog. 1/	Act.	Prog.	Proposed	Ind.	
Performance criteria								
A. Cumulative floor on central government primary balance (EC\$ mln) 2/	-90	-50	-33	1	-57	9	31	86
B. Cumulative ceiling on central government primary spending (EC\$ mln) 2/	564	318	321	282	622	281	550	518
C. Ceiling on stock of central government budget expenditure arrears (EC\$ mln)	86	109	109	80	86	43	0	0
D. Ceiling on accumulation of external debt arrears (continuous)		0	0	0	0	0	0	0
E. Ceiling on non-concessional external borrowing by the central government (continuous)		0	0	0	0	0	0	0
Indicative targets								
F. Cumulative ceiling on net increase in debt contracted or guaranteed by the central government (EC\$ mln) 2/		90	90	73	149	39	66	25
G. Floor on social spending by central government (EC\$ mln)		6.5	6.5	6.2	13.0	6.7	13.4	14.0
Monitoring								
H. Wage bill target 3/								
Original program target	227	115	115	111	230	113	227	220
Proposed new target	272	138	138	134	276	136	272	264
I. Public employment target 3/								
Original program target	6479	6358	6358	5940	6308	6258	6208	6108
Proposed new target	7755	7218	7218	7168	7584	7534	7484	7384
1/ Adjusted for the wage and pension back-pays below the program, the shortfall in SEED spending, the revenue overperformance, and the grant shortfall compared to the program as applicable according to the TMU.								
2/ From end-December of the previous year. End-June 2014 actual number on net increase in debt contracted or guaranteed includes disbursements of EC\$40.5 million from World Bank, EC\$27 million from CDB, and EC\$8.4 million from IMF.								
3/ New targets are proposed for the broadened coverage of wage bill and public employment (TMU117&18).								

Table 2: Grenada: Structural Program Conditionality

Measure	Timing	Implementation Status
Prior Action for the First Review		
Make effective the new compensation regime for tax collectors		Met
Structural Benchmarks		
Growth- Enhancing Reforms		
Parliamentary approval of the revised Investment Promotion Act	November 30, 2014	Expected to be met
Fiscal Adjustment Measures		
Parliamentary approval of 2015 budget consistent with program commitments	December 31, 2014	Proposed
Fiscal Structural Reforms		
Parliamentary approval of the revised PFM legislation	August 31, 2014	Met
Cabinet approval of a strategic plan for the statutory bodies	October 31, 2014	Partially Met
Parliamentary approval of the revised legislation on tax incentive regime	November 30, 2014	In progress
Parliamentary approval of the legislation for the fiscal policy framework	December 31, 2014	
Minister of Finance approval of regulations for the National Transformation Fund	February 28, 2015	Proposed
Parliamentary approval of a public debt management law	March 31, 2015	Proposed
Minister of Finance approval of regulations for the revised PFM legislation	June 30, 2015	Proposed
Minister of Finance approval of regulations for the fiscal responsibility legislation	June 30, 2015	Proposed
Cabinet approval of a strategic plan to modernize the public sector	September 30, 2015	Proposed
Parliamentary approval of a tax administration act	November 30, 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 November 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. 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. Downward (larger deficit)/upward (smaller deficit) by the amount of retroactive wage and pension payments for the 2009-2012 period in excess/shortfall relative to the programmed amounts, as detailed in the table below, with cumulative payment during the programme period not exceeding EC\$26.5 million.

	2013		2014 ¹		2015	2016
	Dec.	Jun.	Dec.	Jun.	Dec.	Dec.
(EC\$ millions)						
Programmed retroactive wage and pension payments	17.4	26.5	26.5		0	0

¹ Cumulative from end-2013

- ii. 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.
- iii. 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.

	2013		2014 ¹		2015 ¹		2016
	Dec.	Jun.	Dec.	Jun.	Dec.	Dec.	Dec.
(EC\$ millions)							
Non grant revenue	443.4	231.1	459.9	253.6	504.4	547.4	547.4
Budgetary grants	0	0	0	0	0	0	0
Capital spending	160.5	97.0	215.6	79.5	176.5	151.0	151.0

¹ Cumulative from end of the previous year.

- iv. Upward by half of the amount of budgetary grants received in excess of those projected under the programme.
 - v. Upward for any shortfall in the targeted cash transfers (SEED) from their indicative target.
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. 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).

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\$86 million at end-December 2014, EC\$43 million at end-June 2015, and EC\$0 million at end-December 2015. 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 Non-Concessional External Borrowing 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 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 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 Increase in Debt Contracted or Guaranteed by the Central Government

12. Net increase in debt contracted or guaranteed by the central government is defined as issuance minus repayments of debt contracted or guaranteed by the central government and approved by Parliament by each relevant date and minus the accumulation of central government deposits. For the purposes of the programme, such debt will be considered to have been contracted as of the date when both: (1) an agreement to provide such a lending facility or guarantee has been concluded and signed; and (2) the proposed borrowing or guarantee has been approved by Parliament, in the case of external debt. The ceiling excludes debt instruments to be issued as part of the process of debt restructuring.

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 debt contracted or guaranteed by the central government 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.

15. The data used to monitor debt contracting 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 that are made under line items 310, 312, 314, 318, 319, 320, 322, 324, 326, 340, 420, 47001 and 47008 of the Chart of Accounts, and exclude one-off retroactive wage payments. 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. PROGRAMME REPORTING REQUIREMENTS

19. 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 the table below. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

IV. OTHER

20. The prior action on eliminating the tax collector's bonus will require:
- For both unestablished and established civil servants: (i) a Cabinet decision approving a duty allowance equivalent to the re-grading of the tax collectors; and (ii) confirmation from the PS of Finance that new compensation regime is in effect.

Table: Summary of Data to be Reported			
Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outturn	Monthly	30 days after the end of month	AG ^{1/} /Budget Office
Grants	Monthly	Same as above	AG
Budgetary grants	Monthly	Same as above	AG
Project grants	Monthly	Same as above	AG
Spending on SEED program	Monthly	Same as above	AG
Employment data for established and un-established workers	Quarterly	30 days after the end of quarter	AG
Financial statements of all statutory bodies	Annually	Within 12 months after year end	AG
Change in the stock of domestic arrears	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			
Consolidated balance sheet for all credit unions	Monthly	30 days after the end of quarter	GARFIN ^{2/}
Consolidated balance sheet for all insurance companies	Quarterly	By the end of subsequent quarter	GARFIN
Real and External Sector			
Updates on annual National Accounts: by sector	Annually	Within 6 weeks after availability	CSO/MOF ^{3/}
Tier 1 high frequency indicators ^{4/}	Monthly	60 days after the end of month	CSO/MOF
Tier 2 high frequency indicators ^{5/}	Monthly	6 weeks after the end of quarter	CSO/MOF
Balance of Payments data	Annually	Within 3 months after year end	CSO/MOF
Details of exports breakdown	Quarterly	By the end of subsequent quarter	Customs Dept.
Details of imports breakdown	Quarterly	Same as above	Customs Dept.
Details of tourism data	Quarterly	Same as above	CSO
Customs revenue foregone	Monthly	30 days after the end of month	Customs Dept.
CPI	Monthly	Same as above	CSO
Debt			
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
Financial statement of Petrocaribe Grenada	Monthly	Same as above	DMU/AG
Gross receipts from divestment	Monthly	Same as above	Budget Office
Exceptional domestic financing	Monthly	Same as above	DMU
Proceeds from bonds issued abroad	Monthly	Same as above	DMU
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.			

**Statement by the IMF Staff Representative on Grenada
December 12, 2014**

This statement provides additional information that has become available since the staff report was issued. It does not alter the thrust of the staff appraisal.

1. **As anticipated in the staff report, Grenada’s parliament approved a new Investment Bill in November 2014, meeting the associated structural benchmark.** The Investment Bill—drafted with technical assistance from the WB/IFC and financial assistance from DFID—makes the investment regime more simple and transparent, and brings it in line with international best practice. In particular, the new Bill: (i) eliminates the requirements for approval of an investment for tax incentive benefits, a process that was opaque and discretionary¹; (ii) strengthens guarantees to foreign investors on remittances, access to land and against expropriations, and granting investors the option to seek redress through international arbitration in the event of a dispute with the government; and (iii) narrows the “negative list” of investment activities limited to local investors and increases the authorities’ flexibility to revise and shorten the list.

2. **The lower house of parliament approved the 2015 budget in line with the program.** The budget targets a primary surplus of 1¼ percent of GDP—compared to a deficit of close to 2½ percent of GDP expected for 2014—through continued spending restraint, the full-year effect of the already approved measures and additional revenue effort. Approval by the upper house is expected before end-December.

3. **A new Customs Act was also approved by the parliament in November.** The Act provides a solid foundation for modernization in customs and introduces internationally accepted good practice in its administration. It promotes trade facilitation, introduces WTO-compliant valuation (GATT), increases administration transparency, including through facilitation of electronic capacity for payment and submission of documents, and strengthens customs controls. The authorities are receiving assistance from the regional technical assistance center CARTAC to implement the new legislation and advance customs reform.

¹ Tax incentives will be granted on a non-discretionary basis, with the qualifying criteria set out in the legislation. The authorities are finalizing legislation to amend the tax incentive regime accordingly and expect to approve it in early 2015. The new Investment Bill will enter into effect alongside the new tax incentive regime.

Table 1: Grenada: Structural Program Conditionality		
Measure	Timing	Implementation Status
Prior Action for the First Review		
Make effective the new compensation regime for tax collectors		Met
Structural Benchmarks		
Growth- Enhancing Reforms		
Parliamentary approval of the revised Investment Promotion Act	November 30, 2014	Met
Fiscal Adjustment Measures		
Parliamentary approval of 2015 budget consistent with program commitments	December 31, 2014	Proposed
Fiscal Structural Reforms		
Parliamentary approval of the revised PFM legislation	August 31, 2014	Met
Cabinet approval of a strategic plan for the statutory bodies	October 31, 2014	Partially Met
Parliamentary approval of the revised legislation on tax incentive regime	November 30, 2014	In progress
Parliamentary approval of the legislation for the fiscal policy framework	December 31, 2014	
Minister of Finance approval of regulations for the National Transformation Fund	February 28, 2015	Proposed
Parliamentary approval of a public debt management law	March 31, 2015	Proposed
Minister of Finance approval of regulations for the revised PFM legislation	June 30, 2015	Proposed
Minister of Finance approval of regulations for the fiscal responsibility legislation	June 30, 2015	Proposed
Cabinet approval of a strategic plan to modernize the public sector	September 30, 2015	Proposed
Parliamentary approval of a tax administration act	November 30, 2015	Proposed



INTERNATIONAL MONETARY FUND



Press Release No. 14/574
FOR IMMEDIATE RELEASE
December 12, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Extended Credit Facility Arrangement for Grenada, and Approves US\$2.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first 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\$2.9 million), bringing total resources made available to Grenada under the arrangement to SDR 4.04 million (about US\$5.9 million).

The ECF arrangement in the amount of 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 are implementing their Fund-supported economic program with great resolution. Fiscal consolidation is underway, structural reforms are advancing, and negotiations with creditors on public debt restructuring are progressing. While the economy is showing signs of recovery, it remains subject to significant risks. Continued strong commitment to the program, supported by all stakeholders, will be critical to boost Grenada's growth prospects.

“Immediate priorities are to restore fiscal and debt sustainability, and bolster competitiveness. The planned fiscal consolidation will help meet the fiscal objectives for 2014-15, while protecting the most vulnerable. However, continued adjustment effort and strong implementation is needed to achieve the program's primary surplus targets. In addition, a comprehensive restructuring of public debt will be essential to return public debt to sustainable levels.

“Reforms to the institutional framework for fiscal policy will be critical to support sound policies, going forward. Priority should be given to implementing the new public financial management legislation, introducing fiscal responsibility legislation, finalizing reforms of public institutions outside the central government, reforming the tax incentive regime, introducing a framework for sustainable management of citizenship-by-investment receipts, and improving the tax and customs administration.

“The legislative underpinnings of the authorities’ growth-enhancing strategy have been put in place. However, stronger reforms will be needed to improve competitiveness and longer-term prospects. A focus on the implementation of the investment framework and on the reform of the regulatory framework for the energy sector could yield important gains. Social protection programs should also be strengthened to ensure more inclusive growth.

“Advancing the regional strategy to strengthen the banking system, coordinated by the Eastern Caribbean Central Bank, remains essential to securing financial stability and efficient intermediation.”