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Grenada: 2009 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Modification of Performance Criterion, and Financing Assurances Review—Staff Report; Public Information Notice; and Press Release

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2009 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Modification of Performance Criterion, and Financing Assurances Review for Grenada, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Modification of Performance Criterion, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on September 25, 2009, with the officials of Grenada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 4, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice

- A Press Release

The document listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of Grenada.*
Supplementary Memorandum of Economic Policies by the authorities of Grenada*
*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

Staff Report for the 2009 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Modification of Performance Criterion, and Financing Assurances Review

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

Approved by Rodrigo Valdés (WHD) and Aasim Husain (SPR)

November 4, 2009

EXECUTIVE SUMMARY

- **Economic activity is slowing significantly, reflecting the drag of the global crisis on tourism receipts, FDI, and remittances.** Commercial banks have remained resilient thus far, but the intervention of the Trinidad and Tobago-based CL Financial Group has heightened financial uncertainty.

- **All quantitative targets for end-June 2009 were met.** All but one of the structural benchmarks were met, in most cases with short delays. The benchmark on establishment of a Public Procurement Authority will be rephased until the fifth review.

- **Staff supports the authorities' proposal to relax the end-November 2009 PC for domestic arrears over 60 days by EC$12.5 million (0.7 percent of GDP)** reflecting the increasingly tight liquidity situation and the likelihood that several large external disbursements will not take place until December.

- **The government is still considering a US$107 million (17 percent of GDP) concessional loan from the Export-Import Bank of China to build a luxury hotel.** Such a large loan could jeopardize debt sustainability and would breach a program ceiling on bilateral concessional debt.

- **The authorities were in broad agreement with the staff's assessment and associated policy recommendations.** Staff recommended anchoring medium-term fiscal consolidation on a balanced mix of revenue and expenditure measures; continuing with a regional strategy to address the collapse of the Trinidad and Tobago-based CL Financial Group; and moving ahead with structural reforms to improve the business environment and make Grenada a more attractive destination for investors, as well as to enhance export diversification.

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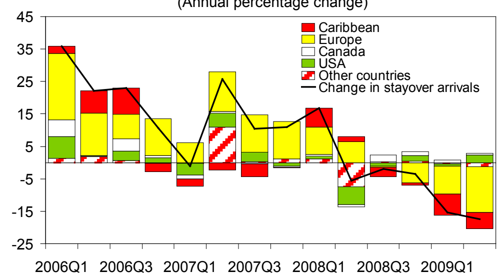
I. Recent Developments and Outlook

1. **Grenada's economy has been hit hard by the global crisis.** The Board completed the third review of the PRGF-supported program in June 2009. Reflecting the adverse external circumstances, it approved an augmentation of total resources to SDR 16.4 million (140 percent of quota). Discussions on the 2009 Article IV Consultation and the Fourth Review under the PRGF-supported program took place in the context of the continuing adverse effects of the difficult external environment on growth, the external position, and fiscal revenue.[1] In addition, the collapse of the Trinidad and Tobago-based CL Financial Group has increased financial sector uncertainty.

2. **The downturn has been deeper than initially expected at the last review, reflecting the strong drag of the global crisis on tourism receipts, FDI, and remittances.** While economic performance in 2008 was better than previously estimated, economic activity in 2009 is slowing markedly.[2] Tourist stayover arrivals fell 18 percent in the first eight months of 2009 compared to the same period in 2008. Almost all FDI-financed construction of tourism projects has been put on hold, owing to financing difficulties and uncertain prospects. Overall, real GDP in 2009 is expected to fall by over 6 percent. The current account deficit is expected to narrow dramatically in 2009 to 22 percent of GDP, as falling FDI and other external financing force a sharp import reduction, more than offsetting lower tourism receipts.

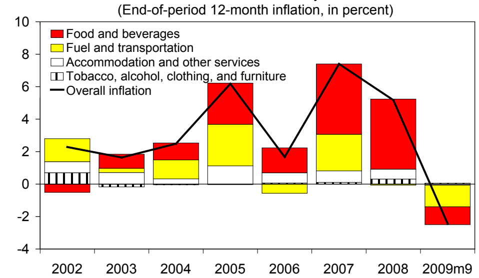
Grenada: Stayover Arrivals, 2006Q1–2009Q2
(Annual percentage change)



Sources: Board of Tourism; and Fund staff calculations.

3. **Falling prices of international commodities in the first half of the year and weak domestic demand have pushed consumer prices down, with the CPI falling by 2.4 percent (y-o-y) in September 2009, compared with inflation of 5.2 percent during 2008 (Figure 1).** Notwithstanding a recent rise of food and fuel prices, inflation is projected to be negative 0.4 percent during 2009.

Grenada: Contribution to Overall Inflation, by Sector, 2002–2009 M9
(End-of-period 12-month inflation, in percent)



Sources: Grenada Central Statistics Office; and Fund staff calculations.

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[1] A mission visited St. George's during September 21–25, 2009, following videoconferences during August 31–September 4, and met with Minister of Finance Burke, Permanent Secretary Antoine, other senior officials, opposition leaders, and representatives of the private sector and trade unions. The mission comprised Mr. Young (Head), Messrs. Monroe and Kang (both WHD), and Ms. Kaltani (SPR). Mr. O'Sullivan (OED) also joined the mission. Ms. Thacker (next mission chief, WHD) participated in the final policy meetings.

[2] The authorities recently revised the estimate of 2008 real GDP growth from 0.3 percent to 2.2 percent, mainly reflecting the stronger-than-expected performance of St. George's University.

4. **The weak economy has led to rising unemployment, while poverty remains widespread.** According to a preliminary draft of the Country Poverty Assessment (CPA), prepared with assistance from the Caribbean Development Bank, the unemployment rate stood at 25 percent in June 2008. Compounding matters, the authorities believe that labor market conditions have softened further in 2009 leading to unemployment rates closer to 30 percent. Some 38 percent of the population lives below the poverty line.

5. **Reflecting the anemic economic activity, the growth of monetary aggregates is slowing and the quality of commercial bank loan portfolios is deteriorating, though the banking sector has proven to be resilient so far.** Year-on-year growth of credit to the private sector and broad money continued to decline (8.2 percent and -1.0 percent, respectively, as of August 2009). The ratio of nonperforming loans (NPLs) to total loans, while low, has worsened slightly (4.1 percent at end-June 2009). The ratio of provisions to NPLs declined to 37.8 percent at end-June 2009, the lowest level in recent years. The ratio of net liquid assets to total deposits (at about 20 percent) was fairly stable in the first eight months of 2009.

6. **In response to the deteriorating economic environment, the government announced temporary tax relief to hotels and guest houses in May, with minimal fiscal impact.**[3] The relief is intended to support the tourism sector and limit job losses. The authorities estimate that the fiscal cost will be less than EC$3 million (0.2 percent of GDP), partly because not all hotels and guest houses were willing to meet the conditions required for participation (including no dismissals of staff). Given the decline in government revenue and the partial waiver on the hotel occupancy tax, the government is limiting additional support for airlines and marketing to no more than EC$4 million (0.2 percent of GDP), less than half the original allocation (EC$10 million).

7. **On the political front, the government has a strong mandate for reform.** It won 11 of 15 parliamentary seats in the July 2008 election after 13 years in opposition. The opposition also supports the objectives of the PRGF-supported program, which it requested in 2006, and the political debate has focused on its implementation.

8. **The collapse of the Trinidad and Tobago-based CL Financial Group represents a major challenge to financial system stability.** Two insurance subsidiaries of CL Financial Group had been offering deposit-like products: British American Insurance Company (BAICO) and the Colonial Life Insurance Company (CLICO). Last July, ECCU governments announced their intervention of BAICO, which is reportedly near complete collapse with its main assets subject to foreclosure. BAICO accounts for just over half of the exposure of the two subsidiaries to policy and deposit holders in the ECCU (EC$2 billion; 15 percent of ECCU GDP). At the regional level, BAICO is estimated to have a negative net worth of

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[3] This action was foreseen at the time of the third review. Half of the General Consumption Tax was waived, and this measure has been extended through the end of 2009. Tax relief has also been granted on selected consumables, except on food that can be purchased locally.

some EC$0.8 billion (6 percent of ECCU GDP). The liquidation of Capital Bank remains in court and is not expected to have any fiscal costs as the authorities have announced that there will not be any bailout.

II. Performance Under the Program

9. **All quantitative targets for end-June 2009 were met**. The authorities were able to respond to significant financing constraints by containing capital spending. The primary deficit excluding grants (measured below the line) was reduced to EC$43.9 million (2.5 percent of GDP), 0.4 percent of GDP less than the adjusted target. The target for domestic arrears older than 60 days was met by EC$6.4 million (0.4 percent of GDP).[4]

10. **Preparations to introduce a VAT by February 2010—the centerpiece of the structural reform program—are on track.** The recruitment and training of VAT staff began on schedule in May 2009, and transitional procedures for bonded warehouses were finalized in September 2009. The authorities also launched a public education program including advisory trips to the business sector. The new VAT Bill, passed by parliament, is now available to the public. The authorities submitted the new Excise Bill to Parliament in October 2009.

11. **All but one of the structural benchmarks were met, in most cases with short delays.** The law creating a separate Registrar of Companies was enacted and the registrar was appointed in July 2009. The government has enacted the law creating a new Public Procurement Authority (PPA) and appointed the head of this authority, but it does not expect the PPA to be fully operational until March 2010, which is proposed as a fifth review benchmark. At the time of this writing, the Country Poverty Assessment (CPA) was expected to be completed in mid-November 2009, later than the target date of August 2009 as a result of delays in completing the technical work and national consultation. Reflecting discussions with consultants, the authorities implemented a customs Fraud Control Plan in October 2009. The authorities expect to submit the amended Income Tax Act and repeal of tax incentives to parliament in November 2009.

[4] Excluding debts eligible to participate in a 2005 debt exchange, as per the 2006 Technical Memorandum of Understanding (EC$4.5 million owed to the National Ports Authority).

Status of Structural Benchmarks Under the Program

Benchmark	Target Date	Status
Recruit and begin training staff and adopt transitional procedures for bonded warehouses	May 2009	Met with a delay; procedures were adopted in September
Submit new Excise Bill to Parliament	August 2009	Met with a delay in October
Complete the Country Poverty Assessment	August 2009	Expected to be met with a delay in November
Develop and begin implementing a customs Fraud Control Plan	August 2009	Met with a delay in October
Establish a Public Procurement Authority	September 2009	Partially met; rephased to March 2010 1/
Appoint a separate Registrar of Companies	October 2009	Met in July

1/ A director has been appointed, but a number of other steps still need to be taken, including finalizing procurement procedures.

III. Policy Discussions

12. **Policy discussions focused on fiscal policies and debt sustainability, financial system vulnerabilities, and the medium-term outlook for growth and FDI.**

A. Fiscal Policies and Debt Sustainability

13. **The high debt-to-GDP ratio (over 100 percent of GDP at end-2008) leaves the authorities little space for countercyclical fiscal policies.** Furthermore, weak economic activity implies that total revenues during 2009 will be about 1½ percent of GDP lower than anticipated. Although a tax amnesty that ended in April yielded EC$9 million (0.5 percent of GDP) more than expected at the time of the third review, the sharp decline in imports is resulting in a substantial shortfall (1 percent of GDP) of international trade taxes.

14. **Reflecting the tighter resource envelope, the authorities have revised their 2009 fiscal framework.**[5] The revised framework contemplates a lower path for spending on capital projects, wage restraint, and protection of social spending to buffer vulnerable groups. The authorities are facing tight liquidity conditions owing to the large revenue shortfall and the likelihood that several large external disbursements will not take place until December. As a result, while the authorities are determined to maintain the original target on the primary

[5] The 2010 budget, which will be submitted to Parliament in December, is expected to be in line with the framework presented in Tables 2-2a.

deficit excluding grants for end-November, they have proposed raising the end-November ceiling on domestic arrears over 60 days by EC$12.5 million to EC$25 million, in effect providing bridge financing until the external disbursements arrive. The authorities intend to lower these domestic arrears to EC$12.5 million by end-March 2010.[6]

15. **The government has been protecting social spending to mitigate the impact of the economic slowdown on vulnerable groups.** A joint social safety net assessment by the United Nations and the World Bank estimates that social assistance spending increased from 1.4 percent of GDP in 2004 to 3.2 percent in 2008, partly reflecting escalating food prices.[7] In 2009, the government increased transfers under the public assistance program, from EC$100 to EC$200 per month. However, even this amount is still lower than the poverty line of EC$487 per month. The cost of this monthly transfer program is EC$10 million a year (0.6 percent of GDP). The program reaches approximately 4,000 households, with a substantially greater number eligible, but rationed out due to limited resources.

16. **The authorities are implementing important domestic revenue measures in order to bolster available resources, in line with staff advice.** Following the completion of the tax amnesty in April 2009, the authorities are intensifying tax enforcement. They are on track to introduce a VAT in February 2010. The VAT, though technically designed to be revenue neutral, will be a broader and more efficient tax than the General Consumption Tax it replaces. As a result of efficiency gains, a revenue boost of half a percentage point of GDP is expected, broadly in line with experience in other ECCU countries. In addition, the authorities are preparing a market-based property tax to take effect from January 2011 (to avoid two major tax reforms in the same year). The cadastral survey (the basis for reassessing property values) was completed in October 2009.

17. **The authorities have requested significant budgetary support from external partners.** They have requested an US$8 million Development Policy Loan (DPL) from the World Bank (WB), which could be disbursed in early 2010, and a US$12.8 million Policy Based Loan (PBL) from the Caribbean Development Bank (CDB); half of which could arrive in late 2009. They have also requested a €10 million grant from the European Union under the Vulnerability Flex facility, of which €5 million could arrive in late 2009. The government intends to limit recourse to expensive sources of financing, such as bank overdraft facilities.

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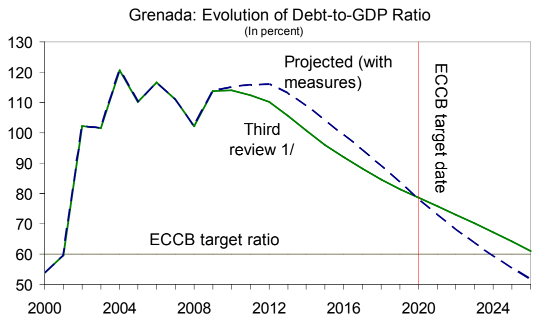
[6] The target date of March 2010 reflects the authorities' desire to leave themselves some leeway, since the introduction of a VAT in February 2010 could initially depress import duties, as businesses run down inventories (and import less) to avoid double taxation, and in case of any start-up issues with the VAT.

[7] Social assistance spending is a subset of social spending. It does not include the cost of social insurance, nor does it capture all the operating costs of the various ministries administering social programs. The authorities are working toward making available a more comprehensive measure of social spending.

18. **Grenada remains at high risk of debt distress.** Staff noted that in light of the worsened short-term economic prospects, lowering the debt-to-GDP ratio to 60 percent will only be achieved by 2024—four years after the ECCB's target date of 2020—and will require a stronger mix of revenue and expenditure measures in the medium term. The newly established Debt Management Unit is developing its capacity to assess loan proposals and to produce in-house debt sustainability analyses (DSAs) and will prepare quarterly debt reports for the cabinet.



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

19. **The authorities agreed with the staff recommendation to anchor medium-term fiscal consolidation on a balanced mix of revenue and expenditure measures.** In addition to the introduction of a VAT and a market-based property tax, this mix will include containing the growth of public sector wages to less than that of nominal GDP through the medium term (2010–14), containing and prioritizing capital spending, and improving the efficiency of spending on goods and services (mainly by reducing waste and fraud).[8] The authorities also intend to adopt a three-year rolling budget plan in order to promote a more stable, long-term perspective of fiscal management. This would also facilitate rephasing of medium-term spending plans if needed.

20. **The authorities are still considering a US$107 million (17 percent of GDP) loan from the Export-Import Bank of China to build a luxury hotel in a joint venture with private investors.** Staff expressed strong concerns about this project for a number of reasons; including the risk it poses to returning public debt to a sustainable trajectory (see Box 1). In order for such a project to be a sound investment for the government, it would need an objective and outside assessment, substantial equity participation from private investors, and shared risks amongst all parties. As noted in the attached Supplementary Memorandum of Economic Policies, the authorities are consulting with the IFC for an objective assessment of the economic and financial return from such a loan. Given the uncertain prospects for the tourism sector at this juncture, building a 100-plus room hotel is an inherently risky venture. In view of the above, staff is not proposing to accommodate this loan under the program ceiling on bilateral concessional debt.

[8] Improving the efficiency of spending on goods and services will be facilitated by establishment of a Public Procurement Authority. A separate Waste Reduction Unit has already been created.

B. Financial System Vulnerabilities

21. **The financial system remains vulnerable due to contagion risks from regional financial sector entities as well as home-grown risks from the slowdown.** The authorities are monitoring closely the impact of developments with the CL Financial Group. At the request of the government, the High Court appointed a judicial manager of BAICO's operations in Grenada in early August to perform a financial review and feasibility study; similar coordinated action was undertaken in other ECCU members. The judicial managers are expected to provide recommendations on establishing a new company to take over the operations of BAICO in the Organization of Eastern Caribbean States (OECS). The staff supported the regional approach, recommended limiting the fiscal cost, and encouraged prompt resolution of the BAICO problem. The banking system, which is dominated by subsidiaries of international banks, has remained resilient. However, close monitoring is warranted in light of the vulnerabilities outlined above.

22. **The risk of contagion and home-grown risks have underscored the need to further strengthen nonbank financial sector supervision.** The staff recognized the efforts of the Grenada Authority for the Regulation of Financial Institutions (GARFIN) to improve the supervision of the non-bank financial sector. Staff supported the authorities' endeavors to further build GARFIN's capacity, while continuing with the ambitious agenda of enhancing legislation, producing regulations, and developing and implementing supervisory practices for each type of institution, as well as strengthening the framework for Anti-Money Laundering and Combating the Financing of Terrorism (in close consultation with the Attorney General). Parliament approved the Money Services Act in May and the new Insurance and Cooperative Societies Acts are expected to be passed by the end of the year.

23. **The authorities have agreed to hold the recent SDR allocation (SDR 10.2 million) as reserves at the ECCB.** These reserves will serve as a shared buffer against home-grown risks (e.g., high debt vulnerability) and regional risks stemming from financial stresses in other ECCU members.

24. **The liquidation of Capital Bank remains in court.** The authorities intend to move directly to liquidate the bank once the court permits. The staff supports the government's decision, announced in 2008, not to bail out Capital Bank depositors, as banks and the population do not perceive any contagion risk to the regulated banking system.

C. Medium-term Outlook for Growth and FDI

25. **The medium-term outlook has deteriorated given the difficult external environment.** The authorities and the mission shared the view that tourism and related FDI, which were expected to be the principal drivers of economic growth, are not likely to recover to pre-crisis levels in the near term. The market for villas, targeted to expatriates as investment properties and second homes, has collapsed and, to the extent that it was driven by a worldwide bubble in real estate prices, may take some time to recover. The authorities expect that work on several major tourism projects could resume in the latter part of 2010.

With a slow recovery of the tourism sector, the main sources of growth over the next few years are expected to be agriculture, services (including St. George's University), construction, and light manufacturing.

26. **The authorities concurred with the mission that any fiscal programs to support tourism and FDI should be limited and temporary in nature, so as not to distort investment incentives nor significantly worsen the debt profile.** In addition, given the central role of tourism and FDI in the Grenadian economy, the mission encouraged the government to push ahead with structural reforms, with continued assistance from key development partners, to improve the business environment and make Grenada a more attractive destination for investors. The mission also supported the authorities' plans to undertake structural reforms to boost the diversity of exports. These are focused on agricultural products, such as nutmeg; manufactured goods, such as processed agricultural goods; as well as services, such as the expansion of St. George's University and a new open campus of the University of the West Indies.

27. **The real effective exchange rate (REER) depreciated by about 5 percent during the first eight months of 2009**, reflecting the depreciation of the U.S. dollar, to which the Eastern Caribbean dollar is pegged, against other major currencies. Measures of exchange rate misalignment through 2008 were mixed, pointing to a modest undervaluation or overvaluation of the REER, depending on the methodology employed. Other competitiveness measures from the World Bank's Doing Business Indicators suggest that Grenada's overall business environment scores well in the Latin American and Caribbean region (see Box 2).

28. **The mission underscored the importance of fiscal consolidation to reinforce investor confidence in the sustainability of the macroeconomic framework and protect the credibility of the peg.** The mission emphasized that progress in expanding and diversifying external receipts will depend, at least in part, on streamlining red tape on trade, document preparation requirements, customs clearance, ports and terminal handling, and inland transport regulations. The mission noted that ongoing reform of land titling would enhance productivity and likely increase agricultural exports. The authorities concurred with staff that in view of the scarcity of resources, prioritization of capital spending plans was an essential element in maximizing the economic impact of the public investment program.

29. **The government intends to accelerate structural reforms focusing on tax and customs reform, and laying the groundwork for a comprehensive poverty reduction strategy.** These reforms are important not only to overcome the economic crisis in the near term, but also to lay the basis for sustainable growth by improving competitiveness and promoting private sector-led growth.

- **The government began implementing a customs Fraud Control Plan in October 2009.** The plan emphasizes risk-based, rather than across-the-board, inspections. This is an important part of the customs reform strategy, which together with the upgrade of the technology infrastructure (to ASYCUDA World), should improve customs efficiency and revenue.

- **As a part of the government's efforts to develop a comprehensive poverty reduction strategy, it has sought World Bank and Caribbean Development Bank assistance to rationalize the social safety net.** Both the WB and the CDB continue to support the authorities' efforts to improve targeting, implementation, and rationalization of social programs. They are also helping the authorities develop a comprehensive poverty reduction strategy, including finalizing a full Poverty Reduction Strategy Paper (PRSP) (as elements of their respective loan programs).

- **The Country Poverty Assessment, prepared with CDB assistance, provides information to improve targeting of social programs.** The authorities indicated that following the delay in completing the CPA (to be finalized in November 2009), they will need up to nine months beyond that date to finalize the PRSP, since the latter will require further stakeholder consultations. The mission encouraged the authorities to move forward expeditiously with completion of the PRSP by mid-2010.

- **The government is developing an action plan to improve Doing Business Indicators, with technical assistance from the World Bank.** The authorities completed two out of five identified priority areas (starting a business and trading across borders) in October 2009. They expect to complete action plans for the other three areas (paying taxes, registering property, and contract enforcement) by the end of 2009.

- **The authorities are moving ahead with a major reform of the finance ministry to improve the capacity for economic management.** The Division of Economic Management and Planning was created to sharpen the analytical underpinnings of the policy framework. Based on the recommendations of an OECD consultant, the authorities plan to revise the recently passed law of establishing a new Public Procurement Authority in line with international best practice. The PPA is expected to be fully operational by March 2010.

- **During 2010, the government plans to implement several pieces of public financial management legislation enacted in 2007–08**, including the Integrity in Public Life, Prevention of Corruption, Public Finance Management, Audit, and Contract Administration Acts.

IV. Program Issues

30. **The attached Letter of Intent and accompanying Supplementary Memorandum of Economic Policies outline the authorities' policy objectives for the remainder of 2009 and 2010.** Quantitative performance criteria for end-November 2009 and structural measures are shown in Tables 1 and 2 of Attachment II. Introduction of a VAT by February 2010 is proposed as a new structural benchmark for the fifth review, while establishment of the Public Procurement Authority is proposed to be rephased to March 2010.

31. **The program faces significant risks, notwithstanding the authorities' strong commitment to their program.** These risks include further revenue shortfalls, owing to the uncertain macroeconomic environment, possible financial spillovers from other ECCU members, as well as implementation risks with the new VAT. To address these risks, the authorities are committed to taking contingent spending measures if needed.

32. **Regarding financing assurances, the authorities intend to continue best efforts to extend or conclude bilateral agreements with Paris Club creditors and to seek comparable treatment from non-Paris Club creditors.** They are seeking an out-of-court settlement with the Export-Import Bank of Taiwan Province of China, and pursuing good faith efforts to reach a collaborative agreement with external commercial creditors that did not participate in the 2005 debt exchange.[9]

V. Staff Appraisal

33. **Grenada, like the rest of the ECCU and the Caribbean, has been hit hard by the global economic downturn, which has been more devastating in terms of employment and growth than the 2004–05 hurricanes.** Its financial system has come under pressure, primarily through the nonbank financial sector. The high debt levels, in the context of the regional currency board arrangement, have greatly constrained the scope for policy responses to the downturn.

34. **The government is approaching these challenges with strong resolve.** After the impressive fiscal adjustment in the second half of 2008 and the first half of 2009 and progress with structural reforms, the government is applying the same determination in its response to the shock to tourism and FDI buffeting the country.

35. **Staff welcomes the government's steps to address these challenging circumstances.** The government is reducing nonpriority capital spending, restraining wage growth, and increasing the efficiency of spending on goods and services in response to significant revenue shortfalls, while protecting social spending. At the same time, it is seeking to get the greatest economic stimulus possible within the tighter budget envelope by accelerating a list of priority projects, although even this effort has been limited by financing constraints. The fiscal framework accommodates additional targeted transfers to assist vulnerable segments of the population. In light of the risks to these groups, staff has underscored the importance of completing the PRSP as soon as possible so as to target social spending better.

[9] Overall participation in the debt exchange was high at 91 percent of eligible debt. A press release was issued in February 2007 inviting nonparticipating creditors to come forward and accept the terms and conditions offered to other commercial creditors. Of the US$5.6 million outstanding external debt to nonparticipating, about US$300,000 has been exchanged for bonds maturing in 2025—most of which was exchanged in September 2009.

36. **The ambitious fiscal reform program is moving forward.** Introduction of a VAT will enhance the coverage and buoyancy of the tax system. It will be important to continue with the thorough approach being taken with preparations, including recent finalization of transitional procedures for bonded warehouses. In this context, submission of a new excise bill was a crucial step. Progress with the cadastral survey is laying the basis for a market-based property tax, which has appropriately been delayed until January 2011 to avoid taking on two major tax reforms in the same year.

37. **Improving economic management through institutional reform at the ministry of finance is a welcome priority.** Notable progress has already been made by the new Debt Management Unit and Private Sector Development Office. The creation of a Waste Reduction Unit, a Division of Economic Management and Planning, and the planned Public Procurement Authority are also welcome innovations.

38. **Strong caution is warranted regarding the possible loan from the Export-Import Bank of China to build a luxury hotel.** While acknowledging the authorities' desire to raise long-term growth and strengthen debt-servicing capacity, staff has expressed concern that a loan of this magnitude would undermine progress toward debt sustainability and entails significant implementation risks. The program's design seeks to address the risk of excessive debt through the ceiling on bilateral debt.

39. **Improving tax enforcement is essential following completion of the tax amnesty last April.** Better enforcement will prevent a reaccumulation of tax arrears, while increasing the credibility of the government's commitment that the amnesty will not be repeated.

40. **The authorities need to carefully monitor financial sector vulnerabilities.** The banking sector has remained resilient thus far. However, concerns regarding CL Financial Group, which follow upon past difficulties of Capital Bank and an unregulated investment scheme, could pose a risk to confidence in the financial system. Staff welcomes the close cooperation among regional governments to address the troubled CL Financial Group. The government should proceed directly to liquidation of Capital Bank as soon as the court permits. Staff recognizes GARFIN's progress in improving its capacity for nonbank financial supervision and regulation.

41. **The deteriorating economic environment has heightened program risks**. Key risks include the potential for a delayed recovery of tourism and FDI, uncertainty regarding the CL Financial Group, and implementation risks associated with the VAT. The government has responded prudently to these risks by prioritizing spending plans, enhancing efforts to protect vulnerable groups, and identifying contingent measures.

42. **In view of the authorities' solid track record, and notwithstanding the above risks, staff supports the authorities' requests** for completion of the fourth review and financing assurances review, and modification of a quantitative performance criterion. The government has shown an impressive commitment to its program and its ability to monitor it.

Staff supports the government's efforts, while underscoring the need for caution, particularly with regard to external borrowing, as pressures intensify.

43. **Grenada has accepted the obligations under Articles VIII, Sections 2, 3 and 4 of the Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.** It is proposed that the next Article IV consultation take place in accordance with the July 15, 2002 decision on consultation cycles.

Box 1. Debt Sustainability Analysis

With the implementation of strong fiscal measures (as assumed in the medium-term macro framework), Grenada's debt sustainability outlook will remain broadly similar to the previous DSA.[1] As in the previous DSA, the authorities will not achieve the ECCU's nominal debt target of 60 percent of GDP by 2020 until 2024. The debt-to-GDP ratio would be 41.3 percent by 2029 while the present value (PV) would be 39.9 percent. The PV of public sector debt-to-revenue ratio falls from 230.4 percent in 2008 to 103.5 percent in 2029, while the debt-service-to-revenue ratio increases from 11.2 percent in 2008 to 15.5 percent in 2029.

The authorities are considering a large loan (US$107 million) from the Export-Import Bank of China in 2010–12 to finance the building of a luxury hotel. Given uncertainty about the terms of the loan, two scenarios are considered: i) a concessional loan, disbursed between 2010–12, with two percent interest rate, five years grace, and 20 years maturity; and ii) a nonconcessional loan, with five percent interest, three years grace, and eight years maturity.[2] Both scenarios present a partial equilibrium analysis, in which there is a full debt rollover, implying a lack of convergence of the debt series to the baseline. Should the project lead to higher government revenue and/or GDP growth, the debt series could converge or even fall below the baseline. However, there is too little information available at this time to make an accurate general equilibrium analysis.

The loan from China is likely to delay putting public debt on a sustainable trajectory. The average PV of debt-to-GDP ratio in 2010–12 jumps by 8–11 percentage points depending on the loan terms. For the concessional loan, it rises to 118.2 percent, while for the nonconcessional loan it reaches 121.1 percent (as opposed to 111.1 percent in the baseline). In 2029, the PV of debt-to-GDP ratio is 46.5 percent (49.3 percent in nominal terms) for the concessional loan and 53.4 percent (54.8 percent in nominal terms) for the nonconcessional one. The 60 percent of GDP target for nominal debt is reached only in 2027 under the concessional loan and 2028 under the nonconcessional one, rather than 2024 in the baseline.

Grenada's risk of external debt distress remains high. Grenada continues to exceed thresholds for the ratio of the PV of external debt to GDP and to exports of goods and services. Based on Grenada's 2006–08 average CPIA rating of "medium," the thresholds are 40 percent and 150 percent for the ratios to GDP and exports, respectively, while for 2008, Grenada's ratios were 70.1 percent and 269.3 percent. The ratio of the PV of external public debt to GDP would not fall below the 40 percent threshold until 2023 in the baseline scenario, while the PV of debt to exports would not fall below the 150 percent threshold until 2021, as in the previous DSA. The debt-service-to-exports ratio breaches the 20 percent threshold in 2012 and only falls below it in 2026.

The loan from China would worsen the external debt outlook considerably. The PV of external public debt to GDP would not fall below the 40 percent threshold until 2025 for the concessional loan and 2027 for the nonconcessional one, two and four years later than in the baseline scenario. The PV of debt to exports would fall below the 150 percent threshold in 2023 for the concessional loan and 2024 for the nonconcessional one, two and three years later than in the baseline scenario. Starting in 2012, the debt-service-to-exports ratio would breach the 20 percent threshold. It would remain above the threshold until 2028 for the concessional loan and would not fall below the threshold for the remainder of the projection period for the nonconcessional loan.

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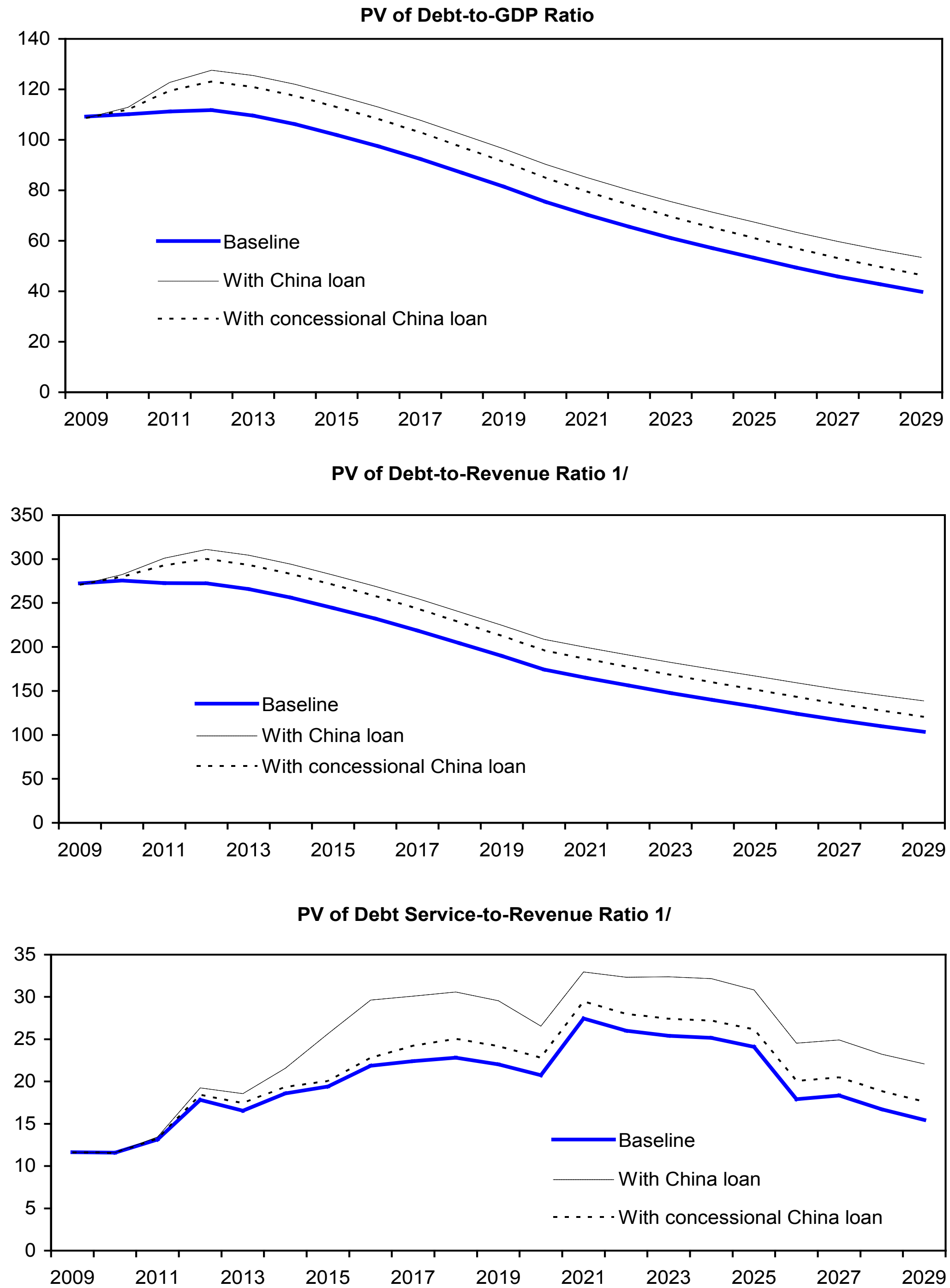
[1] Due to a revision in GDP for 2008, the debt-to-GDP ratio for 2008-10 is lower than in the previous DSA (IMF Country Report No. 09/200).

[2] The loan amount is taken from a feasibility study commissioned by a group of private investors and provided by the Grenadian authorities.

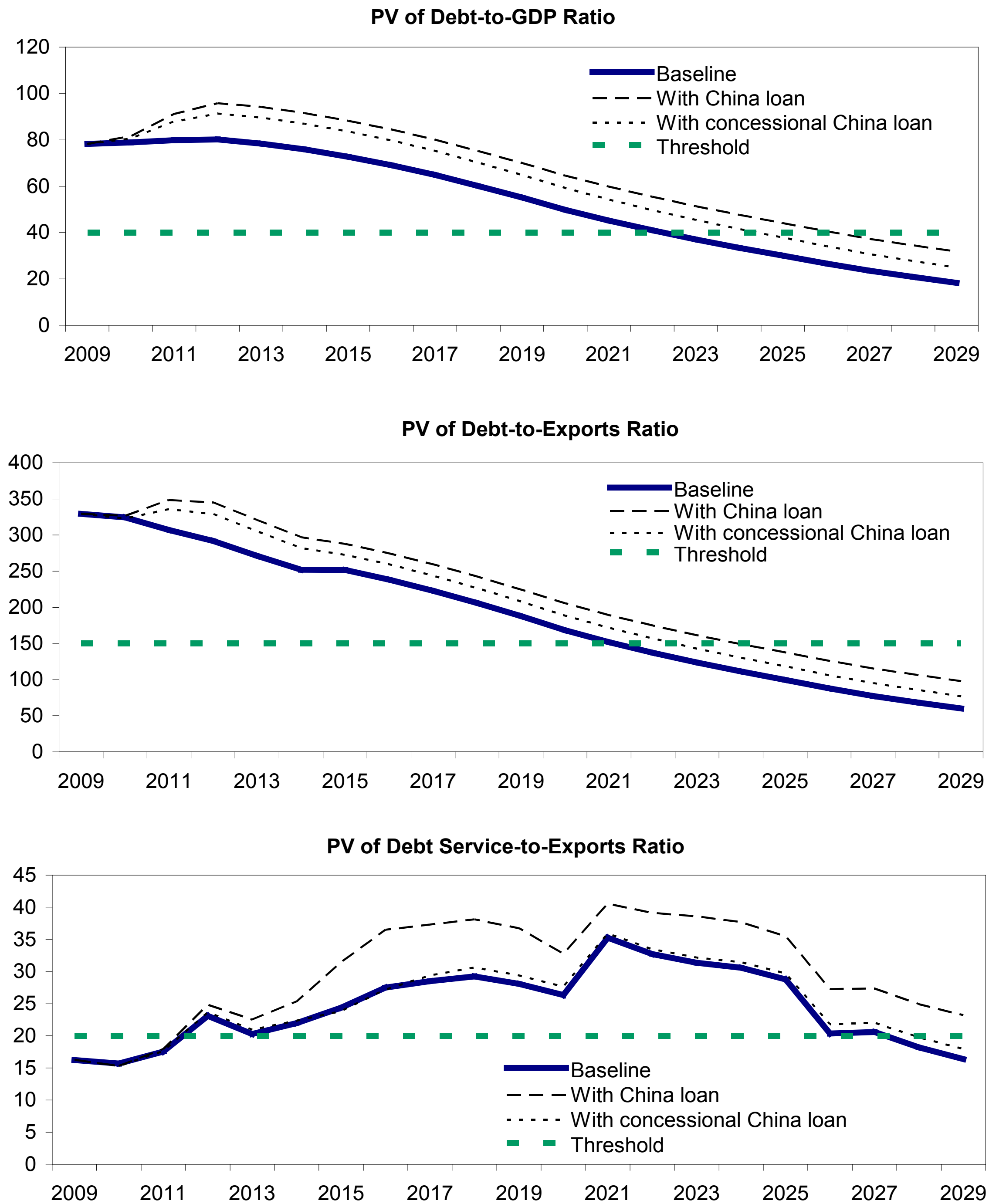
Box 1. Figure 1. Grenada: Indicators of Public Debt Under Alternative Scenarios, 2009–29 1/



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

1/ Revenues are defined inclusive of grants.

Box 1. Figure 2. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009–29 1/



Source: IMF staff projections, and simulations.

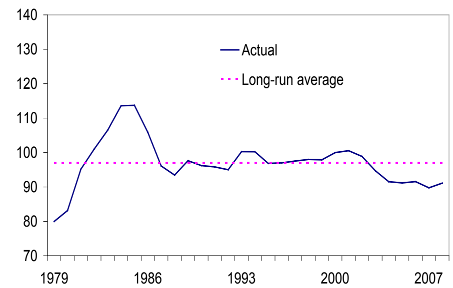
Box 2. Exchange Rate and Competitiveness Assessment

Measures of misalignment of Grenada's nominal and real effective exchange rates through 2008 were mixed, pointing to either a modest undervaluation or overvaluation of the REER. Grenada's real effective exchange rate depreciated by 5 percent during the first eight months of 2009. Other competitiveness measures from the World Bank's Doing Business Indicators (DBI) suggest that Grenada's overall business environment compares well in the Latin American and Caribbean region, with the exception of areas capturing the registration of property, contract enforcement, and closing a business. However, relative to 2008 most of the DBI for Grenada have deteriorated as other countries have reformed more rapidly.

Various methods can be used to assess whether the real exchange rate of Grenada is misaligned.[1]

- Univariate and panel unit root tests based on the Purchasing Power Parity (PPP) hypothesis indicate that the long-run sample average REER—the equilibrium concept for this model of PPP—provides a benchmark to assess the level of the real exchange rate. Based on this type of analysis the real exchange rate is calculated to have been undervalued by 6 percent at end-2008.

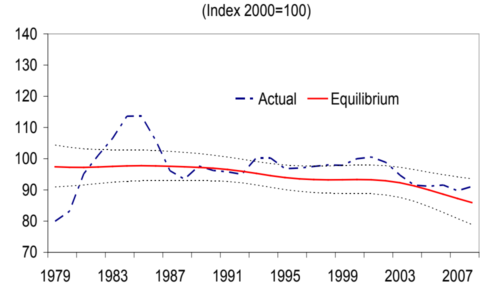
Grenada: Actual and Long-Run Average REER, 1979–2008 1/
(Index 2000=100)



Sources: IMF, Information Notice System; and authors' calculations.

- An econometric analysis of the determinants of the equilibrium real effective exchange rate (EREER), which takes into account productivity differentials, terms of trade, government consumption, and net foreign assets, indicates that Grenada's REER was slightly overvalued by about 5 percent at end-2008.

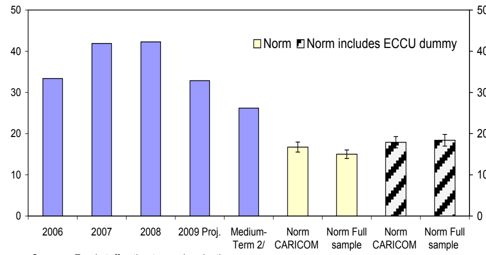
Grenada: Actual and Equilibrium REER, 1980–2008 1/
(Index 2000=100)



Sources: IMF, Information Notice System; and Pineda, Cashin, and Sun, "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," IMF Working Paper WP/09/78.
1/ The dotted lines around the equilibrium exchange rate represent 90 percent confidence intervals of the prediction.

- The macroeconomic balance approach calculates the difference between the current account balance projected over the medium term at the prevailing exchange rate and an estimated equilibrium current account balance norm. The equilibrium current account balance norm is determined through regression analysis where the independent variables are the fiscal balance, the oil balance, relative income, relative economic growth, FDI, grants, and economic growth. Out of the full set of independent variables, the ones that were statistically significant were fiscal balance, oil trade balance, FDI, relative per capita income growth, and a dummy for ECCU countries in a sample for CARICOM economies. Such a methodology points to an overvaluation of the REER as the current account balance projected over the medium term is higher than the equilibrium current account balance norm by about 9 percent.

Grenada: Current Account Deficit, Actual and Estimated Norms 1/
(In percent of GDP)



Sources: Fund staff estimates and projections.
1/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction. CARICOM sample includes ECCU countries and The Bahamas, Barbados, Belize, and Jamaica. Full sample includes 24 tourism-dependent economies as defined by Bayoumi and others (2005).
2/ Based on Fund staff estimates. Medium-term is 2014.

- Structural measures of competitiveness from the World Bank's DBI suggest that Grenada fares about average in terms of overall business environment in the LAC region (ranking 17th out of 32 countries), but faces challenges in areas of registering property, enforcing contracts, and closing a business.[2] In a separate Doing Business report, which focuses on small island developing states, Grenada is ranked 15th out of 33. Relative to 2008, Grenada's ranking on most indicators has deteriorated, mainly reflecting faster progress in other countries.

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[1] Here we summarize the measures produced by Cashin, Pineda, and Sun (2009). See WP/09/78 for specific details on each measure.

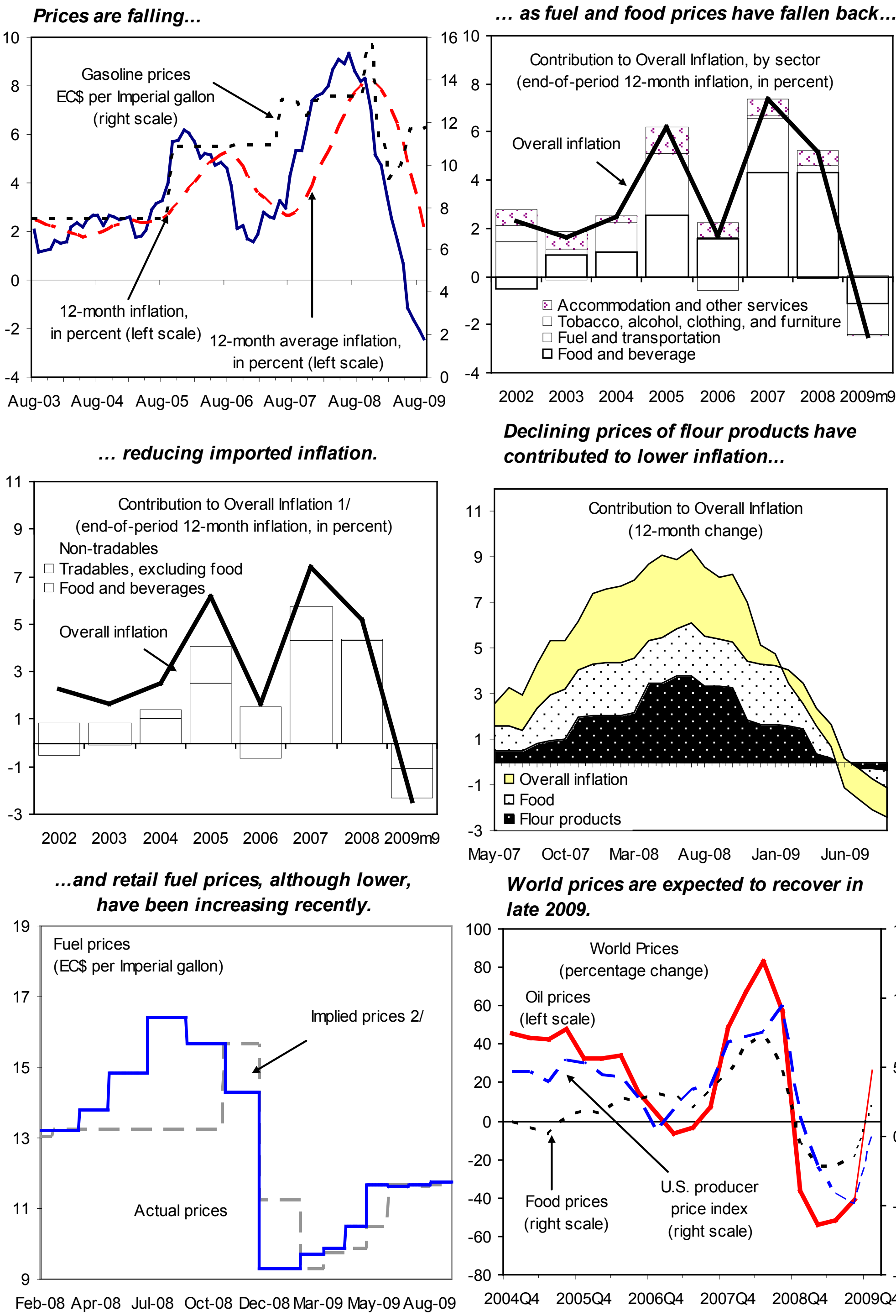
[2] For closing a business, Grenada fares poorly, because it does not have an established practice for such a procedure.

Box 3. Previous Article IV Recommendations

The key recommendations in the previous Article IV consultation (September 2007) were: taking corrective action for fiscal slippages; using all divestment proceeds to pay down expensive debt and scaling back capital expenditure; addressing the operations of an unregulated bank and insurance companies' deposit-taking activities; mitigating vulnerability to natural disasters and diversifying the economic base; improving the business environment; reforming tax concessions; introducing a VAT; enhancing tax administration; strengthening capacity to evaluate and prioritize capital projects; and developing a full Poverty Reduction Strategy.

Most of these recommendations were taken. The authorities took action to correct fiscal slippages beginning in the second half of 2008, revoked the license of the unregulated bank, and filed for liquidation of the bank. Expected divestment proceeds did not materialize as a result of the global crisis. Limited progress was made in addressing the deposit-taking activities of the insurance subsidiaries of CL Financial Group, which have since encountered difficulties. Grenada has continued to participate in the Caribbean Catastrophe Risk Insurance Facility, and the government is continuing efforts to diversify the economic base. The government has made progress in developing an Action Plan to improve Doing Business Indicators. The Investment Act was passed in July to reform tax concessions. Work to introduce a VAT in February 2010 is on track. Collection of tax arrears has improved, and reforms in customs are moving forward. The government's ability to control capital expenditure has improved and more work is needed to improve prioritization. A full PRSP should be completed within nine months of finalizing the Country Poverty Assessment. The PRSP will build on the existing National Development Strategy.

Figure 1. Grenada: Inflation Developments



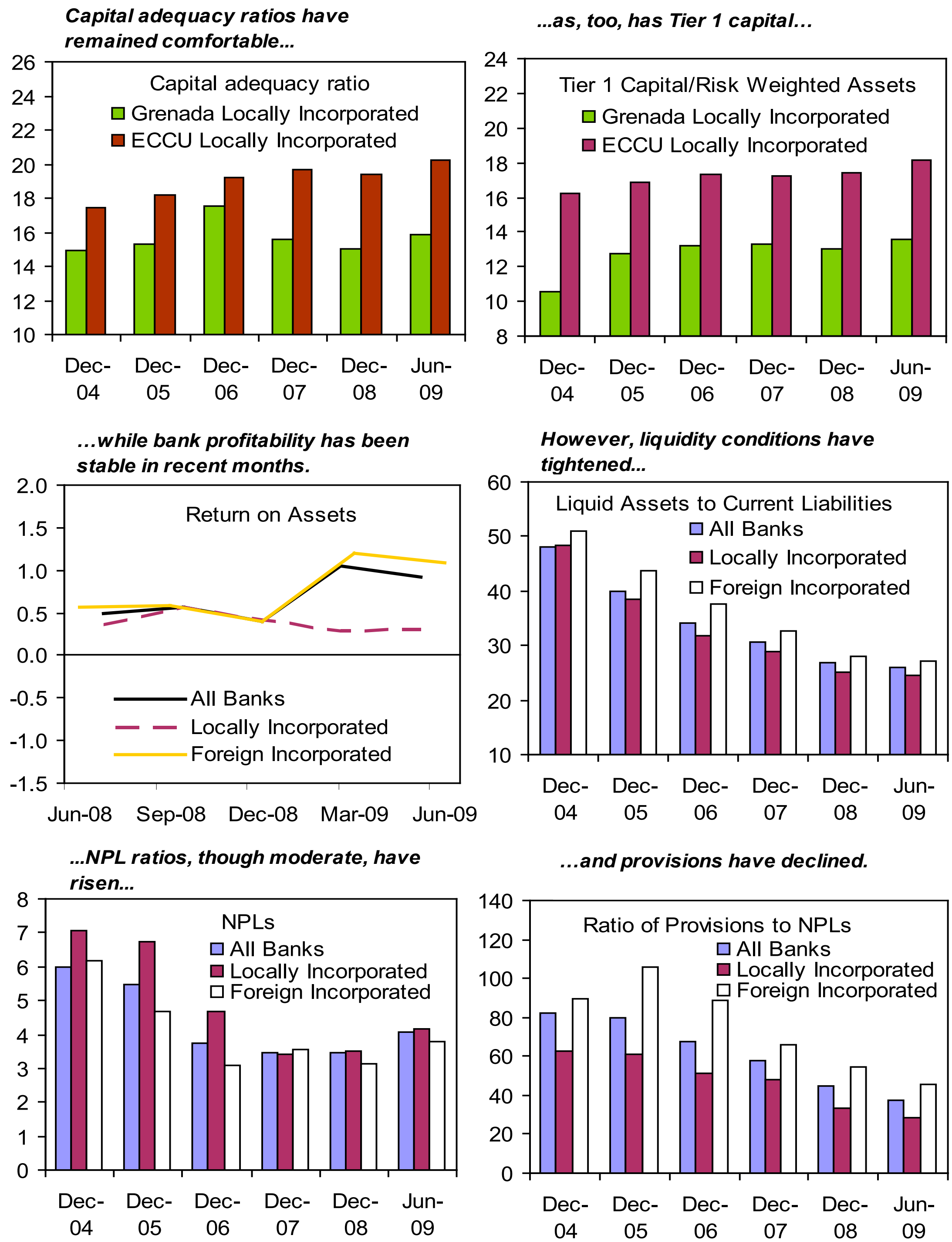
Sources: Grenada authorities; HAVER; ECCU; IMF, International Financial Statistics; IMF, World Economic Outlook; and Fund staff calculations.

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

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

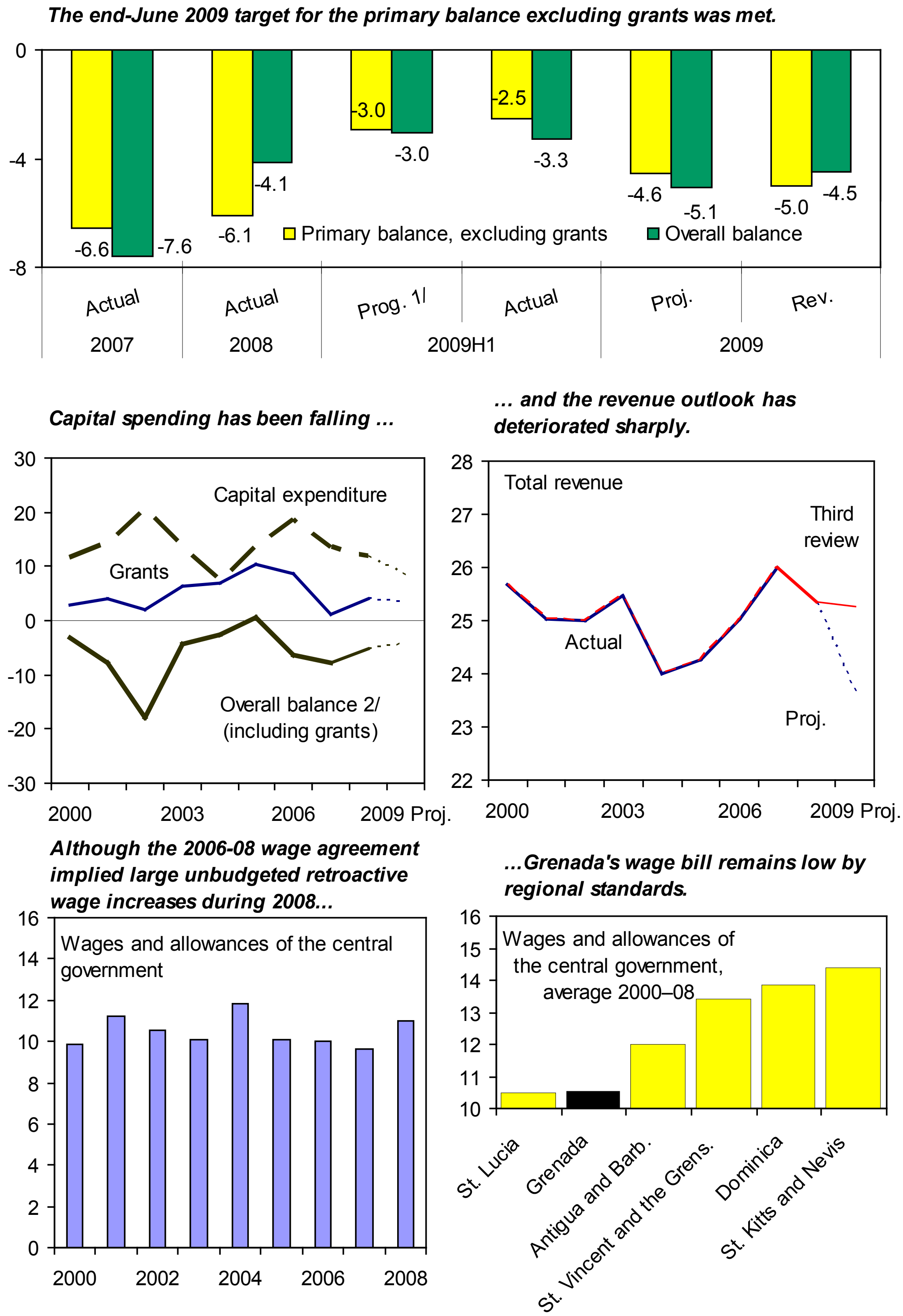
Figure 2. Grenada: Banking System Vulnerabilities

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



Sources: ECCB; and Fund staff calculations.

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

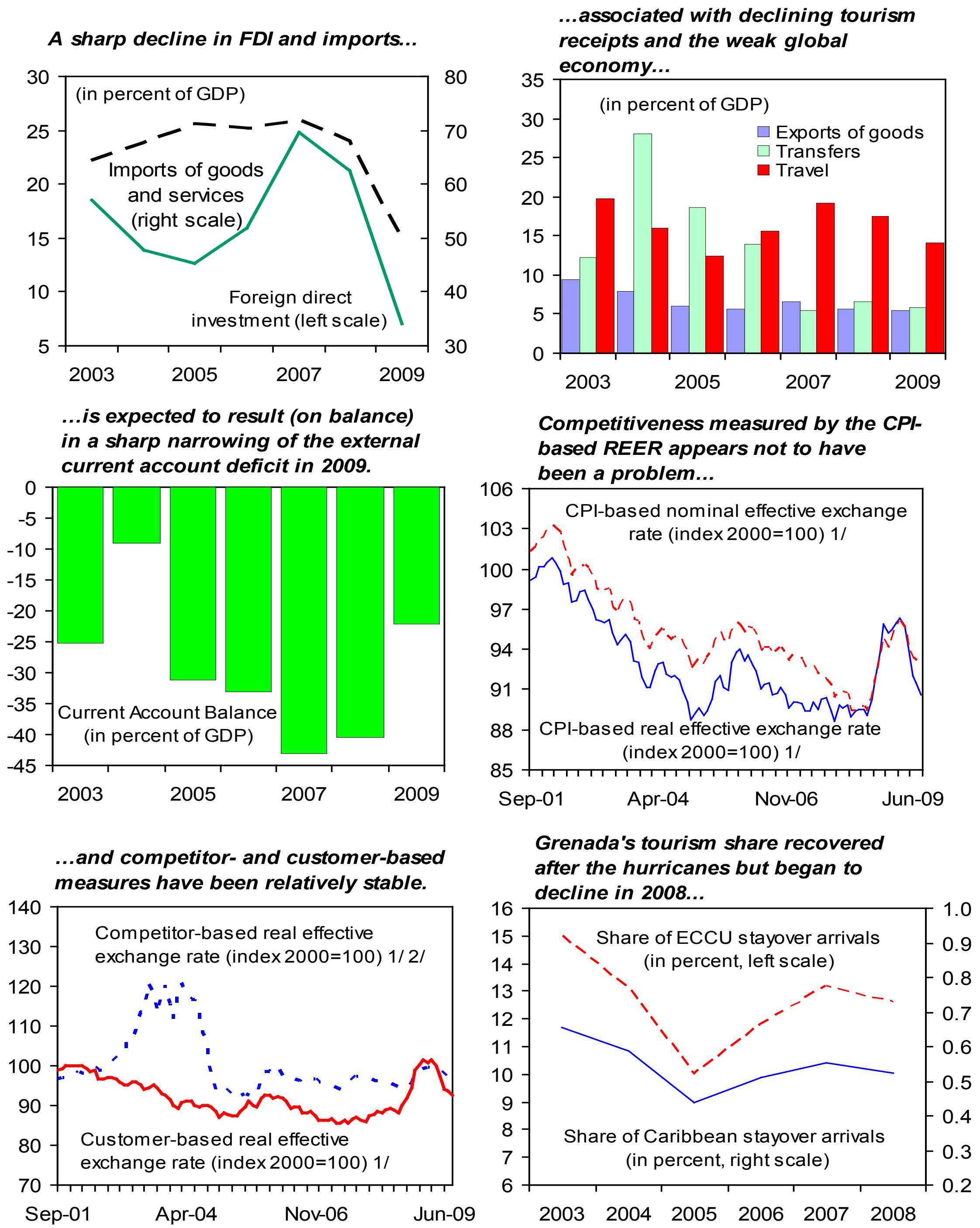


Sources: Grenada authorities; ECCU country authorities; and Fund staff estimates.

1/ The target for the primary balance excluding grants in the first half of 2009 is adjusted based on the outturn for divestment proceeds, grants, concessional loans, and bank restructuring costs.

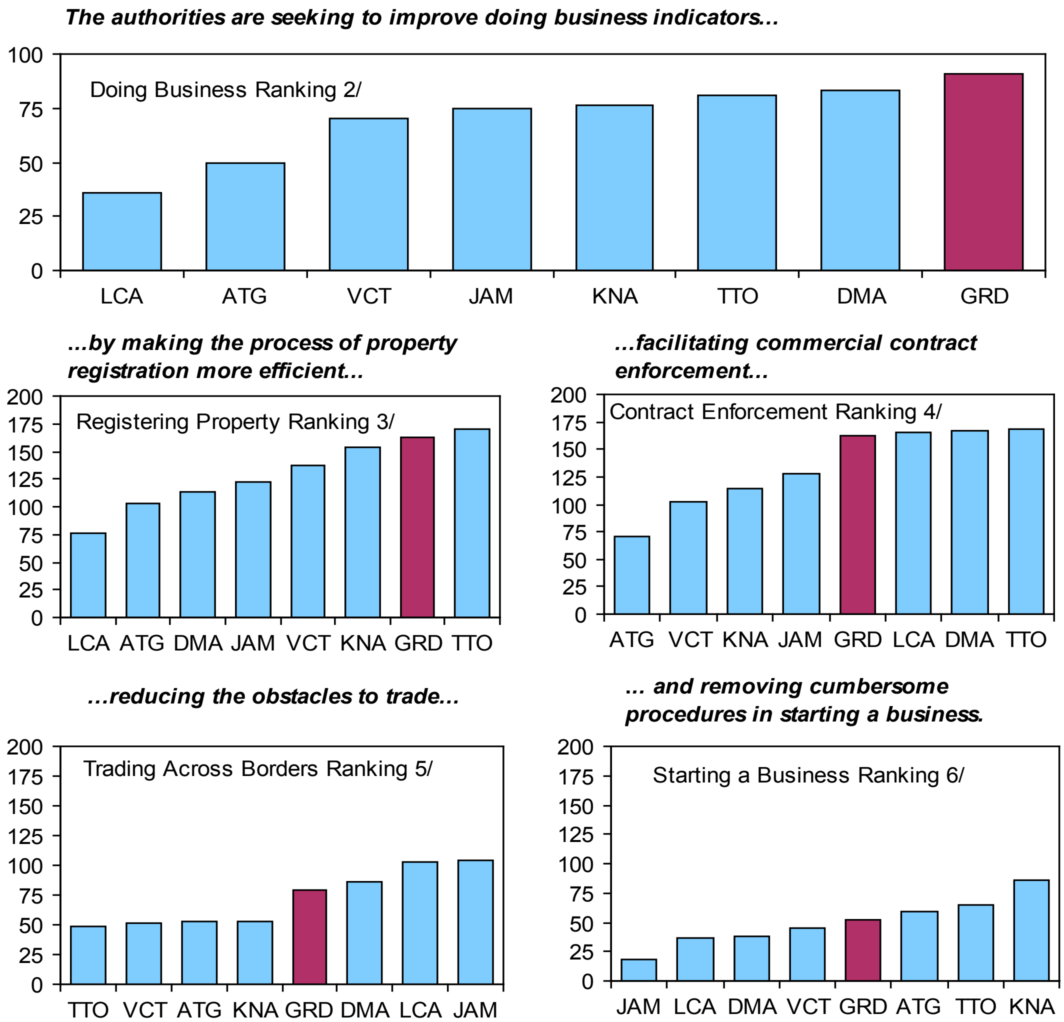
2/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements.

Figure 4. Grenada: Competitiveness Indicators



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

Figure 5. Grenada: Doing Business Indicators, 2009 1/



Source: World Bank, *Doing Business Indicators* (2010).

Note: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), Jamaica (JAM), St. Kitts and Nevis (KNA), St. Lucia (LCA), Trinidad and Tobago (TTO) and St. Vincent and the Grenadines (VCT).

1/ Smaller numbers represent greater ease in doing business. The indicators are comparable across 183 countries covering the period June 2008 to May 2009.

2/ An overall indicator that captures the regulatory costs of doing business.

3/ Measures the steps, time, and cost involved in registering property.

4/ Measures the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment.

5/ Measures the procedural requirements, time, and cost involved for trading a standard shipment of goods by ocean transport for a medium-sized domestically-owned private firm with 60 employees located in the economy's most populous city.

6/ Measures the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy’s per capita gross national income.

Table 1. Grenada: Selected Economic and Financial Indicators, 2006–10

Rank in UNDP Human Development Index out of 179 countries (2008)	86	Infant mortality rate per '000 births (2006)	16
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2006)	68	Poverty headcount index (2000)	32
GDP per capita in US$ (2007)	5,760		

		Est.	Prel.	Proj. 1/	Rev.	Proj.
	2006	2007	2008	2009		2010
	(Annual percentage change; unless otherwise specified)					
National income and prices						
Real GDP	-2.3	4.9	2.2	-0.7	-6.2	-2.0
GDP deflator	3.9	3.4	10.2	5.5	0.7	5.5
Consumer prices 2/						
End-of-year 2/	1.7	7.4	5.2	2.1	-0.4	4.4
Period average 2/	4.2	3.9	8.0	2.3	0.2	4.9
External sector						
Exports of goods (value)	-1.7	26.1	-7.4	-0.8	-5.7	10.1
Imports of goods (value)	-0.8	10.6	4.8	-22.2	-40.1	2.8
Exports of goods (volume)	-18.7	16.5	-19.6	-13.4	19.7	3.8
Imports of goods (volume)	-9.7	0.3	-6.5	-9.3	-28.3	-1.2
Current account balance (including grants; in percent of GDP)	-33.2	-43.2	-40.4	-33.4	-22.1	-21.6
FDI (net, in percent of GDP)	15.9	24.8	21.2	16.0	7.0	7.4
Real effective exchange rate (end of period, depreciation -)	-4.6	0.2	6.6	...	...	...
Banking system						
Net foreign assets 3/	-7.3	-1.0	-9.3	-3.6	-5.1	-4.7
Net domestic assets 3/	7.4	12.1	13.4	4.6	3.2	6.4
Of which						
Credit to public sector (net) 3/	-0.3	1.5	1.0	1.9	-0.8	1.2
Credit to private sector 3/	8.5	12.0	10.2	2.7	4.1	5.2
Money and quasi-money (M2)	0.1	11.0	4.1	1.0	-1.9	1.6
Weighted average deposit rate (in percent) 4/	3.0	3.0	3.2	...	3.1	...
Weighted average lending rate (in percent) 4/	9.7	9.6	9.2	...	10.7	...
	(In percent of GDP)					
Central government finances 5/						
Total revenue and grants	33.6	27.1	29.4	27.9	27.1	27.0
Of which						
Grants	8.7	1.0	4.1	2.6	3.5	3.1
Total expenditure	39.7	34.9	34.5	33.0	31.6	30.3
Current expenditure	20.9	21.4	22.8	23.7	23.3	23.3
Of which						
Salaries and allowances	10.0	9.6	11.0	11.0	10.9	10.8
Capital expenditure	18.8	13.5	11.7	9.3	8.3	7.0
Primary balance (excluding grants)	-13.0	-6.9	-7.0	-4.6	-5.0	-3.3
Primary balance (including grants)	-4.3	-5.8	-3.0	-1.9	-1.5	-0.2
Current balance	4.0	4.6	2.6	1.5	0.3	0.6
Overall balance (including grants)	-6.1	-7.9	-5.1	-5.1	-4.5	-3.3
Public and publicly guaranteed debt (end-period)	116.5	111.0	102.2	114.2	113.9	114.9
	(In millions of U.S. dollars)					
Nominal GDP	564.4	610.3	678.5	640.9	640.9	662.9

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

1/ Corresponds to projections in IMF Country Report 09/200 with all ratios expressed as a percent of revised GDP.
2/ Assumes that VAT introduction in February 2010 will increase prices by 3 percentage points.
3/ As a percent of broad money at the beginning of the year.
4/ For 2009 as of June.
5/ Measured using above-the-line information.

Table 2. Grenada: Central Government Finances, 2006–10

(In millions of Eastern Caribbean dollars)

	Actual 2006	Actual 2007	Actual 2008	2009 Proj. First Half	2009 Actual First Half	2009 Proj. 1/ Full Year	2009 Rev. Full Year	Proj. 2010
Total revenue and grants	**511.91**	**445.8**	**538.8**	**243.0**	**224.1**	**482.6**	**469.3**	**482.9**
Total revenue	379.7	428.5	464.5	226.1	218.6	437.1	409.2	428.3
Current revenue	379.6	428.4	464.4	226.0	218.5	437.0	409.1	428.2
Tax revenue	353.5	402.8	433.8	210.3	205.8	405.6	385.1	397.8
Taxes on income and profits	56.0	74.8	94.6	43.9	51.3	81.7	89.7	92.9
Taxes on property	22.6	29.0	26.0	16.7	13.6	30.3	21.4	22.6
Taxes on goods and services 2/	69.0	71.3	78.7	44.2	43.2	82.4	81.5	160.6
Taxes on international transactions 2/	205.9	227.7	234.6	105.6	97.7	211.2	192.6	121.7
Nontax revenue	26.0	25.6	30.6	15.7	12.7	31.4	23.9	30.4
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants 3/	132.2	17.3	74.3	16.9	5.6	45.5	60.1	54.6
Total expenditure	**605.0**	**575.8**	**631.7**	**295.3**	**269.4**	**570.5**	**546.6**	**541.7**
Current expenditure	319.2	352.7	416.8	205.2	204.6	410.3	403.0	416.7
Current primary expenditure	291.6	318.5	378.7	178.0	186.0	355.9	352.2	362.0
Salaries and allowances	152.5	158.4	200.8	94.9	94.8	189.8	189.0	193.7
Wages and salaries	135.3	140.7	180.0	81.4	83.1	162.8	165.3	169.4
Personnel allowances	17.1	17.7	20.8	13.5	11.7	27.0	23.7	24.3
Goods and services	71.1	79.1	84.7	36.8	43.3	73.5	77.1	78.6
Interest 5/	27.7	34.2	38.2	27.2	18.5	54.4	50.8	54.7
Domestic	8.5	11.5	13.8	9.4	3.6	18.7	14.0	14.5
Foreign	19.2	22.6	24.3	17.9	14.9	35.7	36.8	40.2
Transfers and subsidies	68.0	81.0	93.2	46.3	47.9	92.6	86.1	89.7
Capital expenditure	285.8	223.1	214.9	90.1	64.8	160.2	143.6	125.0
Current balance	60.4	75.8	47.6	20.9	13.9	26.6	6.0	11.5
Primary balance (excluding grants)	-197.6	-113.1	-129.1	-42.0	-32.3	-79.0	-86.7	-58.7
Primary balance (including grants)	-65.4	-95.9	-54.8	-25.1	-26.8	-33.5	-26.6	-4.1
Overall balance (excluding grants)	-225.3	-147.3	-167.2	-69.2	-50.9	-133.5	-137.5	-113.4
Overall balance (including grants)	-93.1	-130.0	-92.9	-52.3	-45.3	-87.9	-77.4	-58.8
Statistical discrepancy	-22.2	4.6	17.4	0.0	-11.5	0.0	0.0	0.0
Financing	**124.7**	**125.4**	**75.5**	**52.3**	**56.8**	**87.9**	**77.4**	**58.8**
Net external financing	54.5	40.2	44.1	23.0	24.0	58.4	44.1	34.5
Net amortization	54.8	40.5	40.1	23.0	24.0	58.4	44.1	34.5
Disbursements	73.8	62.7	65.7	36.7	37.1	85.8	71.5	61.7
Amortization	-19.0	-22.2	-25.6	-13.7	-13.1	-27.4	-27.4	-27.2
Change in government assets	-0.3	-0.3	4.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	23.2	69.7	0.7	24.7	11.5	22.5	13.3	33.4
ECCB (net)	-5.8	12.6	2.3	2.2	5.4	0.0	0.0	0.0
Commercial banks (net) 4/	26.5	54.4	13.3	17.1	5.4	17.1	9.6	17.3
Domestic debt	2.5	2.7	-14.9	5.4	0.8	5.4	3.7	16.1
Of which: Banking system	1.5	0.0	2.9	4.7	-1.6	4.7	3.6	3.2
Divestment/privatization proceeds	8.8	36.0	50.3	0.0	0.0	2.4	2.4	2.4
Expenditure arrears 5/	28.7	-20.5	-19.6	4.6	21.2	4.6	17.6	-11.5
Of which: Excluding arrears from debt exchange	28.3	-20.9	-20.0	0.0	21.0	0.0	16.6	-12.5
Memorandum items:								
Nominal GDP (market prices)	1,524	1,648	1,832	1,730	1,730	1,730	1,730	1,790
Stock of expenditure arrears 5/	49.3	28.8	9.2	13.8	30.4	13.8	26.8	15.3
Of which: Excluding arrears from debt exchange	48.9	28.0	8.0	8.0	29.0	8.0	24.6	12.1
Fiscal impulse (in percent of GDP)	…	…	-0.4	…	…	-2.5	-2.3	-1.9

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

1/ Corresponds to projections in IMF Country Report 09/200 with all ratios expressed as a percent of revised GDP.
2/ The VAT to be introduced on February 1, 2010 is classified exclusively under taxes on goods and services, unlike the Generalized Consumption Tax it replaces. Its introduction is expected to yield an additional 0.5 percent of GDP.
3/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
4/ Excludes commercial bank holdings of government paper, which are shown in the following two lines.
5/ Includes interest arrears to nonparticipating creditors in the debt exchange based on the post-exchange interest rate.

Table 2a. Grenada: Central Government Finances, 2006–10

(In percent of GDP, unless noted otherwise)

	Actual	Actual	Actual	2009 Proj. 1/	2009 Actual	2009 Proj. 1/	2009 Rev.	Proj.
	2006	2007	2008	First Half		Full Year		2010
Total revenue and grants	**33.6**	**27.1**	**29.4**	**14.0**	**13.0**	**27.9**	**27.1**	**27.0**
Total revenue	24.9	26.0	25.4	13.1	12.6	25.3	23.6	23.9
Current revenue	24.9	26.0	25.4	13.1	12.6	25.3	23.6	23.9
Tax revenue	23.2	24.4	23.7	12.2	11.9	23.4	22.3	22.2
Taxes on income and profits	3.7	4.5	5.2	2.5	3.0	4.7	5.2	5.2
Taxes on property	1.5	1.8	1.4	1.0	0.8	1.8	1.2	1.3
Taxes on goods and services 2/	4.5	4.3	4.3	2.6	2.5	4.8	4.7	9.0
Taxes on international transactions 2/	13.5	13.8	12.8	6.1	5.6	12.2	11.1	6.8
Nontax revenue	1.7	1.6	1.7	0.9	0.7	1.8	1.4	1.7
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 3/	8.7	1.0	4.1	1.0	0.3	2.6	3.5	3.1
Total expenditure	**39.7**	**34.9**	**34.5**	**17.1**	**15.6**	**33.0**	**31.6**	**30.3**
Current expenditure	20.9	21.4	22.8	11.9	11.8	23.7	23.3	23.3
Current primary expenditure	19.1	19.3	20.7	10.3	10.8	20.6	20.4	20.2
Salaries and allowances	10.0	9.6	11.0	5.5	5.5	11.0	10.9	10.8
Wages and salaries	8.9	8.5	9.8	4.7	4.8	9.4	9.6	9.5
Personnel allowances	1.1	1.1	1.1	0.8	0.7	1.6	1.4	1.4
Goods and services	4.7	4.8	4.6	2.1	2.5	4.2	4.5	4.4
Interest 5/	1.8	2.1	2.1	1.6	1.1	3.1	2.9	3.1
Domestic	0.6	0.7	0.8	0.5	0.2	1.1	0.8	0.8
Foreign	1.3	1.4	1.3	1.0	0.9	2.1	2.1	2.2
Transfers and subsidies	4.5	4.9	5.1	2.7	2.8	5.4	5.0	5.0
Capital expenditure	18.8	13.5	11.7	5.2	3.7	9.3	8.3	7.0
Current balance	4.0	4.6	2.6	1.2	0.8	1.5	0.3	0.6
Primary balance (excluding grants)	-13.0	-6.9	-7.0	-2.4	-1.9	-4.6	-5.0	-3.3
Primary balance (including grants)	-4.3	-5.8	-3.0	-1.5	-1.5	-1.9	-1.5	-0.2
Overall balance (excluding grants)	-14.8	-8.9	-9.1	-4.0	-2.9	-7.7	-7.9	-6.3
Overall balance (including grants)	-6.1	-7.9	-5.1	-3.0	-2.6	-5.1	-4.5	-3.3
Statistical discrepancy	-1.5	0.3	0.9	0.0	-0.7	0.0	0.0	0.0
Financing	**8.2**	**7.6**	**4.1**	**3.0**	**3.3**	**5.1**	**4.5**	**3.3**
Net external financing	3.6	2.4	2.4	1.3	1.4	3.4	2.5	1.9
Net amortization	3.6	2.5	2.2	1.3	1.4	3.4	2.5	1.9
Disbursements	4.8	3.8	3.6	2.1	2.1	5.0	4.1	3.4
Amortization	-1.2	-1.3	-1.4	-0.8	-0.8	-1.6	-1.6	-1.5
Change in government assets	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Net domestic financing	1.5	4.2	0.0	1.4	0.7	1.3	0.8	1.9
ECCB (net)	-0.4	0.8	0.1	0.1	0.3	0.0	0.0	0.0
Commercial banks (net) 4/	1.7	3.3	0.7	1.0	0.3	1.0	0.6	1.0
Domestic debt	0.2	0.2	-0.8	0.3	0.0	0.3	0.2	0.9
Of which: Banking system	0.1	0.0	0.2	0.3	-0.1	0.3	0.2	0.2
Divestment/privatization proceeds	0.6	2.2	2.7	0.0	0.0	0.1	0.1	0.1
Expenditure arrears 5/	1.9	-1.2	-1.1	0.3	1.2	0.3	1.0	-0.6
Of which: Excluding arrears from debt exchange	1.9	-1.3	-1.1	0.0	1.2	0.0	1.0	-0.7
Memorandum items:								
Nominal GDP (market prices, EC$ millions)	1,524	1,648	1,832	1,730	1,730	1,730	1,730	1,790
Stock of expenditure arrears 5/	3.2	1.7	0.5	0.8	1.8	0.8	1.5	0.9
Of which: Excluding arrears from debt exchange	3.2	1.7	0.4	0.5	1.7	0.5	1.4	0.7

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

1/ Corresponds to projections in IMF Country Report 09/200 with all ratios expressed as a percent of revised GDP.
2/ The VAT to be introduced on February 1, 2010 is classified exclusively under taxes on goods and services, unlike the Generalized Consumption Tax it replaces. Its introduction is expected to yield an additional 0.5 percent of GDP.
3/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
4/ Excludes commercial bank holdings of government paper, which are shown in the following two lines.
5/ Includes interest arrears to nonparticipating creditors in the debt exchange based on the post-exchange interest rate.

Table 3. Grenada: Cyclically-Adjusted Balances and Fiscal Impulse, 2007–10 1/

	2007	2008	Proj. 2009	Proj. 2010
Overall balance (percent of GDP)	**-8.7**	**-8.2**	**-7.9**	**-6.3**
Primary balance (percent of GDP)	-6.6	-6.1	-5.0	-3.3
Primary revenue (percent of GDP)	26.0	25.4	23.6	23.9
Primary expenditure (percent of GDP)	32.6	31.5	28.7	27.2
Interest payments (percent of GDP)	2.1	2.1	2.9	3.1
Cyclically-adjusted primary balance	**-7.1**	**-6.7**	**-4.4**	**-2.4**
Cyclically-adjusted primary revenue	26.0	25.4	23.6	23.9
Cyclically-adjusted primary expenditure	33.1	32.0	28.0	26.3
Cyclical primary balance	**0.5**	**0.6**	**-0.7**	**-0.9**
Cyclical primary revenue	0.0	0.0	0.0	0.0
Cyclical primary expenditure	-0.5	-0.6	0.7	0.9
Cyclically-adjusted overall balance	**-9.2**	**-8.8**	**-7.3**	**-5.5**
Change in primary balance	**-7.8**	**-0.5**	**-1.1**	**-1.7**
Fiscal impulse (not including interest payments) 2/	**-6.5**	**-0.4**	**-2.3**	**-1.9**
Contribution from automatic stabilizers	-1.3	0.0	1.2	0.2
Memo items:				
Output gap (deviation from potential output in percent)	1.6	1.8	-2.3	-3.2
Revenue elasticity	1.0	1.0	1.0	1.0
Primary expenditure elasticity	0.0	0.0	0.0	0.0
Real GDP growth	4.9	2.2	-6.2	-2.0

Source: Fund staff estimates.

1/ FAD Methodology, excluding grants.
2/ A negative (positive) number indicate a contractionary (expansionary) effect.

Table 4. Grenada: Summary Accounts of the Banking System, 2006–10 1/

	2006	2007	2008	June 2009	Proj. 2009	Proj. 2010
	(In millions of Eastern Caribbean dollars, end of period)					
Net foreign assets	**421.5**	**405.6**	**248.8**	**269.1**	**159.7**	**78.2**
ECCB	269.4	298.2	281.0	240.0	225.9	211.7
Of which: Imputed reserves 2/	269.4	298.2	281.0	240.0	267.7	253.0
Commercial banks	152.0	107.4	-32.2	29.1	-66.2	-133.5
Net domestic assets	**1,096.2**	**1,279.7**	**1,504.9**	**1,503.2**	**1,561.4**	**1,671.1**
Public sector credit (net)	-36.0	-12.5	4.4	-1.4	-10.3	10.2
Central government	37.3	104.3	122.9	132.0	136.1	156.7
ECCB	-7.5	5.0	6.4	11.8	6.4	6.4
Commercial banks	44.9	99.3	116.4	120.2	129.7	150.2
Net credit to rest of public sector	-73.3	-116.8	-118.5	-133.4	-146.4	-146.4
National Insurance Scheme	-86.6	-112.5	-135.1	-148.8	-160.8	-160.8
Other	13.2	-4.3	16.6	15.4	14.4	14.4
Credit to private sector	1,243.0	1,425.2	1,596.7	1,624.3	1,667.9	1,757.1
Other items (net)	-110.8	-133.0	-96.2	-119.7	-96.2	-96.2
Broad money	**1,517.7**	**1,685.3**	**1,753.7**	**1,772.3**	**1,721.2**	**1,749.3**
Money	325.6	376.2	355.5	309.8	279.1	267.1
Currency in circulation	104.5	107.8	103.4	88.0	83.3	79.7
Demand deposits	221.1	268.4	252.1	221.8	195.8	187.4
Quasi-money	1,192.1	1,309.1	1,398.1	1,462.5	1,442.1	1,482.2
Time deposits	212.6	264.5	291.6	329.7	324.7	333.7
Savings deposits	899.1	915.8	980.6	1,008.7	999.9	1,027.7
Foreign currency deposits	80.4	128.8	125.9	124.0	117.5	120.7
	(Annual percentage change)					
Net foreign assets	-20.7	-3.8	-38.7	-21.9	-35.8	-51.1
Net domestic assets	11.4	16.7	17.6	8.3	3.8	7.0
Credit to private sector	11.5	14.7	12.0	9.4	4.5	5.3
Broad money	0.1	11.0	4.1	2.3	-1.9	1.6
Money	-2.5	15.6	-5.5	-18.0	-21.5	-4.3
Quasi-money	0.9	9.8	6.8	8.0	3.1	2.8
	(Percent contribution compared to M2 at the beginning of the year)					
Net foreign assets	-7.3	-1.0	-9.3	1.2	-5.1	-4.7
Net domestic assets	7.4	12.1	13.4	-0.1	3.2	6.4
Public sector credit (net)	-0.3	1.5	1.0	-0.3	-0.8	1.2
Of which: Central government	1.5	4.4	1.1	0.5	0.8	1.2
Credit to private sector	8.5	12.0	10.2	1.6	4.1	5.2
Other items (net)	-0.8	-1.5	2.2	-1.3	0.0	0.0
Memorandum item:						
Income velocity 3/	1.2	1.2	1.1	1.1	1.0	1.0

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

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

2/ Incorporates SDR allocation of SDR 10.2 million.

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

Table 5. Grenada: Summary Balance of Payments, 2006–14

			Est.	Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
				(In millions of U.S. dollars)					
Current account	**-187.4**	**-263.4**	**-274.2**	**-141.5**	**-143.2**	**-143.1**	**-155.9**	**-166.9**	**-187.5**
Trade balance	-264.1	-287.2	-306.1	-170.5	-172.5	-181.9	-203.7	-226.7	-258.4
Exports (f.o.b.) 1/	32.3	40.7	37.7	35.6	39.2	43.3	46.4	50.2	54.1
Imports (f.o.b.)	-296.4	-327.9	-343.8	-206.0	-211.7	-225.2	-250.1	-276.9	-312.5
Of which: Mineral fuels	-43.6	-53.6	-74.7	-43.7	-52.7	-55.8	-58.4	-60.9	-63.1
Travel (net)	88.2	116.7	118.8	90.6	91.2	102.4	115.5	130.4	147.3
Other services (net)	-59.4	-80.2	-83.1	-68.1	-66.0	-66.8	-69.4	-72.8	-78.4
Income (net)	-30.5	-45.6	-48.8	-31.3	-32.1	-35.1	-39.0	-39.2	-40.3
Transfers (net)	78.3	32.8	44.9	37.7	36.2	38.3	40.7	41.5	42.3
Capital and financial account	**198.4**	**249.1**	**275.0**	**116.0**	**138.0**	**144.8**	**158.0**	**169.4**	**191.7**
Capital account (transfers)	23.5	24.1	24.2	25.6	26.0	26.9	28.1	29.3	28.5
Financial account	175.0	225.0	250.8	90.4	112.0	117.9	129.9	140.1	163.1
Public sector borrowing (net)	17.0	17.7	24.9	15.7	21.3	21.7	24.4	10.1	11.9
Direct investment (net)	89.8	151.6	144.1	45.0	49.1	53.3	59.7	67.1	78.7
Portfolio investment (net)	-0.7	-2.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Change in NFA of commercial banks	46.3	16.5	51.7	12.6	24.9	25.5	28.4	45.3	54.8
Other investments (net)	22.6	41.6	30.3	17.4	17.0	17.7	17.8	17.9	18.0
Net errors and omissions	-5.3	25.1	-8.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**5.7**	**10.8**	**-7.9**	**-25.5**	**-5.3**	**1.7**	**2.1**	**2.6**	**4.1**
Available financing	**-5.7**	**-10.8**	**7.9**	**25.5**	**5.3**	**-1.7**	**-2.1**	**-2.6**	**-4.1**
Change in ECCB NFA	-5.6	-10.7	6.4	20.4	5.3	-1.7	-2.1	-2.6	-4.1
Change in net imputed reserves	-5.6	-10.7	6.4	4.9	5.3	-1.7	-2.1	-2.6	-4.1
Of which: due to SDR allocation	0.0	0.0	0.0	-15.5	0.0	0.0	0.0	0.0	0.0
Change in medium- and long-term net liabilities	0.0	0.0	0.0	15.5	0.0	0.0	0.0	0.0	0.0
IMF purchases and disbursements	2.3	0.0	8.5	11.8	2.5	0.0	0.0	0.0	0.0
IMF repurchases and repayments	-1.6	-2.2	-2.9	-2.2	0.0	-0.2	-0.5	-0.5	-2.7
Exceptional financing 2/	0.0	0.0	0.0	5.1	0.0	0.0	0.0	0.0	0.0
Other	-0.1	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)					
Current account	**-33.2**	**-43.2**	**-40.4**	**-22.1**	**-21.6**	**-20.9**	**-21.9**	**-22.4**	**-23.8**
Trade balance	-46.8	-47.1	-45.1	-26.6	-26.0	-26.6	-28.6	-30.4	-32.8
Exports of goods	5.7	6.7	5.6	5.5	5.9	6.3	6.5	6.7	6.9
Imports of goods	-52.5	-53.7	-50.7	-32.1	-31.9	-32.9	-35.2	-37.1	-39.7
Travel (net)	15.6	19.1	17.5	14.1	13.8	15.0	16.2	17.5	18.7
Other services (net)	-10.5	-13.1	-12.2	-10.6	-10.0	-9.8	-9.8	-9.8	-10.0
Income and current transfers (net)	8.5	-2.1	-0.6	1.0	0.6	0.5	0.2	0.3	0.3
Capital and financial account	**35.2**	**40.8**	**40.5**	**18.1**	**20.8**	**21.2**	**22.2**	**22.7**	**24.3**
Public sector	3.0	2.9	3.7	2.5	3.2	3.2	3.4	1.4	1.5
Private sector	32.1	37.9	36.9	15.6	17.6	18.0	18.8	21.4	22.8
Of which: Direct investment (net)	15.9	24.8	21.2	7.0	7.4	7.8	8.4	9.0	10.0
Overall balance	**1.0**	**1.8**	**-1.2**	**-4.0**	**-0.8**	**0.2**	**0.3**	**0.3**	**0.5**
External public and publicly guaranteed debt	81.0	78.4	74.6	82.9	83.7	84.3	84.4	81.8	78.7
				(Annual percentage change)					
Exports of goods	-1.7	26.1	-7.4	-5.7	10.1	10.6	7.1	8.1	7.9
Imports of goods	-0.8	10.6	4.8	-40.1	2.8	6.4	11.1	10.7	12.9
Travel (net)	27.4	32.3	1.7	-23.7	0.7	12.2	12.9	12.9	13.0
Memorandum items:				(In millions of U.S. dollars)					
External public and publicly guaranteed debt	457.2	478.7	506.0	531.3	555.1	576.5	600.4	610.0	619.2

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

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

Table 6. Grenada: Medium-Term Macro Framework, 2006–14
(In percent of GDP unless, otherwise indicated)

			Est.	Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Output and prices (in percent)									
Real GDP growth (in percent)	-2.3	4.9	2.2	-6.2	-2.0	1.1	2.0	2.8	3.5
GDP deflator (in percent)	3.9	3.4	10.2	0.7	5.5	2.0	2.0	2.0	2.0
CPI inflation (period average, in percent)	4.2	3.9	8.0	0.2	4.9	1.9	2.0	2.0	2.0
CPI inflation (end of period, in percent)	1.7	7.4	5.2	-0.4	4.4	2.0	2.0	2.0	2.0
Gross national savings	17.8	7.7	8.2	10.3	10.4	11.5	11.5	11.6	11.6
Public	11.1	4.1	4.2	0.2	-0.2	0.7	0.5	1.2	1.7
Private	6.7	3.6	4.0	10.1	10.6	10.8	11.0	10.3	10.0
Gross domestic investment	51.0	50.9	48.6	32.4	32.0	32.5	33.4	33.9	35.4
Public	10.7	9.2	6.2	4.4	3.7	4.1	4.4	4.4	4.4
Private	40.3	41.7	42.5	28.0	28.3	28.4	29.0	29.5	31.0
Central government operations 1/									
Total revenue and grants	33.6	27.1	29.4	27.1	27.0	27.8	28.0	28.2	28.5
Total revenue	24.9	26.0	25.4	23.6	23.9	24.8	25.2	25.5	25.9
Of which: tax revenue	23.2	24.4	23.7	22.3	22.2	23.1	23.5	23.8	24.2
Grants	8.7	1.0	4.1	3.5	3.1	3.0	2.8	2.7	2.6
Total expenditure	39.7	34.9	34.4	31.6	30.3	30.6	31.5	30.9	30.9
Current expenditure	20.9	21.4	22.7	23.3	23.3	22.8	23.0	22.5	22.4
Of which:									
Salaries and allowances	10.0	9.6	11.0	10.9	10.8	10.8	10.6	10.4	10.1
Goods and services	4.7	4.8	4.6	4.5	4.4	4.3	4.3	4.1	4.1
Interest payments	1.8	2.1	2.0	2.9	3.1	3.2	3.6	3.5	3.7
Capital expenditure	18.8	13.5	11.7	8.3	7.0	7.8	8.5	8.5	8.5
Primary balance (including grants)	-4.3	-5.8	-3.0	-1.5	-0.2	0.4	0.2	0.8	1.3
Overall balance (including grants)	-6.1	-7.9	-5.0	-4.5	-3.3	-2.8	-3.4	-2.7	-2.4
Total public sector debt	116.5	111.0	102.2	113.9	114.9	115.7	116.0	113.0	109.0
External debt	81.0	78.4	74.6	82.9	83.7	84.3	84.4	81.8	78.7
Domestic debt	35.5	32.6	27.6	31.0	31.2	31.4	31.6	31.2	30.4
External sector									
Exports of goods	5.7	6.7	5.6	5.5	5.9	6.3	6.5	6.7	6.9
Imports of goods	52.5	53.7	50.7	32.1	31.9	32.9	35.2	37.1	39.7
Travel (net)	15.6	19.1	17.5	14.1	13.8	15.0	16.2	17.5	18.7
Foreign direct investment	15.9	24.8	21.2	7.0	7.4	7.8	8.4	9.0	10.0
Current account	-33.2	-43.2	-40.4	-22.1	-21.6	-20.9	-21.9	-22.4	-23.8
Overall balance	1.0	1.8	-1.2	-4.0	-0.8	0.2	0.3	0.3	0.5
Imputed gross international reserves									
(in millions of U.S. dollars)	100.5	112.8	107.1	102.2	96.9	98.6	100.7	103.2	107.4
(in months of imports of goods and services)	3.0	3.4	3.2	3.1	2.9	3.0	3.0	3.1	3.2
Memorandum items:									
Nominal GDP (in millions of U.S. dollars)	564.4	610.3	678.5	640.9	662.9	683.6	711.2	745.7	787.2
Fiscal impulse 2/	2.2	-6.5	-0.5	-2.3	-1.9	-0.6	0.4	-0.1	0.1

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

1/ Measured using above-the-line information.
2/ See Table 3 for details.

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

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

Table 8. Grenada: Indicators of Capacity to Repay the Fund, 2007–16

(In millions of SDRs, unless otherwise indicated)

			Projections							
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund obligations based on existing credit	1.7	1.9	1.5	0.1	0.2	0.4	0.4	1.8	2.2	2.0
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.8	2.2	2.0
Charges and interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit	1.7	1.9	1.5	0.1	0.2	0.4	0.4	1.9	3.2	3.2
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.8	3.1	3.1
Charges and interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit										
In millions of U.S. dollars	2.7	3.0	2.4	0.1	0.4	0.6	0.6	2.9	4.9	4.9
In percent of exports of goods and services	1.4	1.6	1.6	0.1	0.2	0.3	0.3	1.2	2.0	1.9
In percent of debt service 1/	10.5	10.0	6.6	0.5	1.3	1.7	1.2	5.1	7.8	6.6
In percent of GDP	0.4	0.4	0.4	0.0	0.1	0.1	0.1	0.4	0.6	0.6
In percent of Imputed Net International Reserves	2.4	2.9	2.9	0.2	0.5	0.7	0.7	3.3	5.5	5.4
In percent of quota	14.8	16.5	13.1	0.7	2.1	3.3	3.3	15.9	27.1	27.1
Outstanding Fund credit (end of period)										
In millions of SDRs	4.9	8.4	14.7	16.4	16.2	15.9	15.6	13.8	10.7	7.6
In millions of U.S. dollars	7.7	13.0	22.9	25.5	25.3	24.8	24.3	21.5	16.7	11.8
In percent of exports of goods and services	4.1	6.9	15.0	15.8	14.2	12.7	11.3	9.1	6.9	4.6
In percent of debt service 1/	30.4	42.6	63.2	98.7	86.8	70.8	48.9	37.9	26.2	15.9
In percent of GDP	1.3	1.9	3.6	3.9	3.7	3.5	3.3	2.7	2.0	1.3
In percent of Imputed Net International Reserves	6.9	12.5	27.4	32.6	31.6	30.2	28.7	24.6	18.7	13.0
In percent of quota	41.5	71.9	125.7	140.0	138.7	136.0	133.4	118.1	91.6	64.9
Net use of Fund credit	-1.5	3.6	6.3	1.7	-0.2	-0.3	-0.3	-1.8	-3.1	-3.1
Disbursements	0.0	5.4	7.8	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.8	3.1	3.1
Memorandum items:										
Exports of goods and services (in millions of US$)	188.2	186.8	152.4	161.3	177.7	195.3	215.5	237.0	241.2	256.7
Debt service (in millions of US$) 1/	25.2	30.4	36.3	25.9	29.1	35.1	49.8	56.9	64.7	75.5
GDP (in millions of US$)	610.3	678.5	640.9	662.9	683.6	711.2	745.7	787.2	835.1	885.9
Imputed Net International Reserves (in millions of US$)	110.4	104.1	83.7	78.4	80.1	82.2	84.7	87.5	89.3	91.1
Quota	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: Fund staff estimates and projections.

1/ Total debt service including to the Fund.

Table 9. Grenada: Vulnerability Indicators, 2004–09

	2004	2005	2006	2007	2008	2009 1/
Real sector indicators						
Real GDP growth (percent)	-5.7	11.0	-2.3	4.9	2.2	…
CPI inflation (period average, in percent)	2.3	3.5	4.2	3.9	8.0	…
Financial sector indicators						
Total capital asset ratio of banks (locally incorporated banks)	14.9	15.3	17.5	15.6	15.1	15.8
Of which: Tier 1 capital (locally incorporated banks)	10.5	12.7	13.2	13.3	13.0	13.6
Liquid assets/total assets	44.0	37.2	31.2	27.6	24.1	23.4
Liquid assets/current liabilities	47.9	40.0	34.2	30.6	26.8	26.1
Total loans/total deposits	57.6	66.0	73.2	75.9	80.0	81.2
Net liquid assets/total deposits	44.2	35.4	28.6	26.4	19.8	21.2
Nonperforming loans/total loans	6.0	5.5	3.7	3.5	3.5	4.1
Locally incorporated banks	7.1	6.8	4.7	3.4	3.5	4.0
Foreign incorporated banks	6.2	4.7	3.1	3.2	3.1	3.8
Provisions for loan losses /nonperforming assets	81.9	79.4	67.4	57.7	44.9	37.8
Locally incorporated banks	63.0	60.7	51.5	48.3	33.3	28.6
Foreign incorporated banks	89.3	105.7	88.6	65.8	54.3	45.4
Gross government claims/total assets	11.3	11.2	11.6	11.9	12.7	12.6
FX deposits/total deposits	5.6	7.8	5.8	7.7	6.9	6.6
Net foreign currency exposure/capital (locally incorporated banks)	221.4	138.4	101.4	65.7	47.1	36.7
Contingent liabilities/capital (locally incorporated banks)	67.7	78.7	72.2	85.8	68.2	72.0
Ratio of bank's before-tax profits to average assets (percent)	0.5	0.7	2.5	2.1	1.9	0.9
Broad money (percent change, 12-month basis) 2/	20.8	-4.8	0.1	11.0	7.4	0.1
Private sector credit (percent change, 12-month basis) 2/	4.6	8.3	11.5	14.7	12.0	8.7
U.S. treasury bill rate (percent per annum) 3/	1.4	3.2	4.7	4.4	1.5	0.2
Treasury bill rate (percent per annum) 4/	6.0	6.0	6.5	6.5	6.3	6.0
External sector indicators						
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7
REER appreciation (percent change on 12-month basis, end of period) 2/	-3.5	5.9	-4.6	0.2	6.6	2.8
Exports of goods (percent change, 12-month basis)	-17.6	-12.4	-1.7	26.1	-7.4	…
Imports of goods (percent change, 12-month basis)	-0.1	32.1	-0.8	10.6	4.8	…
Travel receipts (gross, percent change, 12-month basis)	-18.7	-5.4	30.8	27.7	-2.0	…
Current account balance (percent of GDP)	-9.0	-31.3	-33.2	-43.2	-40.4	…
Capital and financial account balance (percent of GDP)	24.0	35.3	35.2	40.8	40.5	…
Net FDI inflows (percent of GDP)	13.9	12.7	15.9	24.8	21.2	…
Gross international reserves of the ECCB (in US$ millions) 2/	632.4	600.8	696.0	764.5	759.0	813.7
Gross international reserves in months of current year imports in ECCU countries	4.8	3.9	3.8	3.7	3.5	…
Gross international reserves to broad money in ECCU countries (percent) 2/	20.4	17.9	18.6	18.6	17.0	17.8
Public gross external debt (in US$ million)	415.6	437.0	457.2	478.7	506.0	…
Public gross external debt to exports of goods and services (percent)	44.8	53.0	49.9	41.7	39.9	…
Public gross external interest payments to exports of goods and services (percent)	13.7	6.5	7.5	7.2	8.4	…
Public gross external amortization payments to exports of goods and services (percent)	8.6	6.0	4.9	8.4	7.1	…
Public gross external interest payments to fiscal revenue (percent)	17.5	5.1	6.0	5.8	6.0	…
Public gross external amortization payments to fiscal revenue (percent)	11.0	4.7	3.9	6.8	5.1	…
Gross external financing requirement (in percent of GDP)	9.0	31.3	33.2	43.2	40.4	…
		(In percent of GDP)				
Public sector indicators						
Central government overall balance (after grants)	-2.6	0.4	-6.1	-7.9	-5.0	-2.6
Public and publicly-guaranteed gross external debt	88.6	78.9	81.0	78.4	74.6	…

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

1/ As of June, unless otherwise indicated.
2/ As of July.
3/ As of August.
4/ Rate on one-year treasury bills. As of July.

Annex: Summary of Appendices

The full appendices to this report are issued as a supplement and can be viewed in CyberDocs on the Fund's intranet and on the secure extranet for Executive Directors and member officials.

Fund Relations

Grenada's outstanding purchases as of end-September 2009 amounted to SDR 11.20 million (95.65 percent of quota). Grenada is a member of the ECCB, which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged at EC$2.70 per U.S. dollar since July 1976. The last Article IV consultation was concluded by the Executive Board on September 26, 2007 (IMF Country Report No. 08/351). CARTAC, MCM, FAD, and LEG have provided extensive technical assistance. A safeguards assessment was completed in 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place.

Relations with the World Bank Group[10]

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. There are eight active World Bank projects in Grenada for a net commitment of approximately US$49.1 million.

Relations with the Caribbean Development Bank[11]

Grenada, since Hurricane Ivan in 2004, continues to benefit from special financing from the Caribbean Development Bank (CDB), designed to yield a concessionary grant element of 35 percent. These loans offer longer maturities and grace periods, as well as lower interest rates than those applied in the Bank's ordinary operations. Recently approved activities include reducing the risk of rock fall and landslides, strengthening institutional capacity, rehabilitating physical infrastructure, improving the shelter conditions of low-income households, and facilitating urban redevelopment.

Statistical Issues

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

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[10] Adapted from text prepared by World Bank staff in October 2009.

[11] Adapted from text prepared by Caribbean Development Bank staff in October 2009.

Attachment I: Letter of Intent

St. George's, Grenada
November 2, 2009

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

Dear Mr. Strauss-Kahn:

We have made important progress with our economic program since the third review of our arrangement under the PRGF in June 2009. Addressing the impact of the protracted global economic slowdown and financial spillovers has been challenging, but we remain firmly committed to laying the groundwork for broad-based economic growth. In light of the sharp slowdown in global output growth and the continuing regional financial turmoil, we have had to update our policy framework.

The attached Supplementary Memorandum of Economic Policies (SMEP) discusses progress in implementing our PRGF-supported program, and outlines policies, objectives, and the revised macroeconomic framework going forward. We continue to give priority to mitigating the impact of the global economic slowdown and regional financial stresses, particularly on the most vulnerable groups, putting our debt on a sustainable trajectory, undertaking reforms to improve the business environment, and strengthening our capacity for economic and financial management.

We met all of our end-June 2009 quantitative performance criteria. We were able to meet the target of the primary deficit excluding grants by a margin of 0.4 percent of GDP, mainly due to significant containment of capital spending. A large revenue shortfall, tight liquidity, and some uncertainty with regard to timing of late-year external disbursements have prompted us to request a relaxation of the end-November target on domestic arrears older than 60 days. Our intention is to limit the stock of domestic arrears older than 60 days by end-November to no more than EC$25 million, and to reduce it to EC$12.5 million by end-March 2010.

The liquidation of Capital Bank remains in court. Once the court has ruled on a number of legal challenges that have been put forward by the bank's owner, and on the liquidation petition, we will move rapidly to resolve the bank through liquidation.

We have made significant progress with structural reforms. Preparations to introduce a VAT by February 2010 are solidly on track: we began the recruitment and training of VAT staff, finalized transitional procedures for bonded warehouses, and submitted the Excise Bill to parliament. We have implemented the customs Fraud Control Plan and created a separate Registrar of Companies. We expect to complete the Country Poverty Assessment later this month. We have also made substantial progress in establishing a Public Procurement Authority.

With respect to our public debt, we are firmly committed to reducing our debt-to-GDP ratio over the medium to long term. Any public borrowing we undertake, including concessional borrowing, will be closely examined for its impact on economic growth and our debt-servicing capacity. We are considering a concessional loan from the Export-Import Bank of China to build a luxury hotel in a joint venture. We are consulting closely with the IFC for an objective assessment of the economic and financial return from such a loan. In consultation with Fund staff, we would update our debt sustainability analysis (DSA) to examine the implications of such borrowing on our debt vulnerability. This loan is not accommodated under our program ceiling on bilateral concessional debt.

We intend to maintain our SDR allocation (SDR 10.2 million) in the form of reserves at the ECCB in a cooperative action with other ECCU members. We will use this allocation to build a shared cushion at the ECCB as a buffer against our high debt vulnerability, as well as financial system vulnerabilities stemming from financial stresses at home and abroad.

The attached SMEP presents our revised policy framework. Proposed quantitative performance criteria and indicative targets are indicated in Table 1, and proposed structural benchmarks are indicated in Table 2. We are committed to working to achieve these program targets. On this basis, the Government of Grenada hereby requests the completion of the fourth review under the PRGF arrangement and financing assurances review and the release of the associated disbursement in an amount equivalent to SDR 3.875 million.

The government will continue to provide the Fund with such information as the Fund may request in connection with progress in implementing the economic and financial policies. The government believes that the policies and measures set forth in our previous MEP and the attached SMEP will achieve the program's objectives. The government also stands ready to take additional policy measures as appropriate to ensure the attainment of these objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEP and SMEP, in accordance with the Fund's policies on such consultations.

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

Yours faithfully,

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

Attachment II: Supplementary Memorandum of Economic Policies

1. **In the context of the global economic and financial crisis, our policy framework emphasizes four main objectives:** promoting broad-based economic growth that will benefit all members of society, strengthening the resilience of the financial sector, mitigating the impact of the crisis on the most vulnerable groups, and firmly placing public debt on a sustainable, downward trajectory. This supplement to our Memorandum of Economic Policies dated March 21, 2006 sets forth these updated economic objectives in greater detail and our plan for achieving them.

I. Recent Developments and Outlook

2. **We have revised upward our estimate of 2008 real GDP growth to 2.2 percent (previously, 0.3 percent), reflecting a stronger-than-expected performance of St. George's University.** However, economic activity slowed significantly in the first half of this year, chiefly reflecting large negative external shocks. Weak domestic demand and declining fuel and food prices have led to consumer prices falling by 2.4 percent in the 12 months to September 2009 (compared with inflation of 5.2 percent during 2008).

3. **External conditions have severely restricted balance of payments inflows.** Stayover arrivals declined by 17.8 percent for the first eight months of 2009 compared with the same period last year. Foreign direct investment (FDI) has almost dried up, with most FDI-financed tourism investment projects having been put on hold due to financing difficulties. The shortage of external financing is forcing an almost halving of the external current account deficit to 22.1 percent of GDP in 2009.

4. **Reflecting the impact of the global economic and financial crisis, particularly on tourism, real GDP is now expected to decline by 6.2 percent in 2009.** Stayover arrivals and private remittances are projected to fall sharply in 2009. FDI, which peaked at 24.8 percent of GDP in 2007, is expected to fall to 7 percent of GDP this year.

5. **Commercial banks, many of which are subsidiaries of international banks, have generally remained resilient, notwithstanding the global financial turmoil.** Growth of private sector credit and broad money slowed to 8.2 percent and -1.0 percent, respectively, at end-August 2009, reflecting weaker economic activity. The ratio of nonperforming loans (NPLs) to total loans, while still low, has deteriorated slightly, to 4.1 percent at end-June 2009, and the ratio of provisions to NPLs declined to 37.8 percent for the same period, the lowest level in recent years.

6. **The financial system remains vulnerable to contagion risks from the Trinidad and Tobago-based CL Financial Group**. ECCU governments working in tandem have appointed judicial managers to take stock of the financial situation of the British American Insurance Company (BAICO), one of two insurance subsidiaries that had been offering

deposit-like products. They are reviewing the possible formation of a new company to take over the operation of BAICO in the OECS.

II. Program Performance

7. **Reflecting our strong commitment to the PRGF-supported program, we met all of our end-June 2009 quantitative program targets.** We reduced our primary deficit excluding grants (measured below the line) to EC$43.9 million (2.5 percent of GDP), meeting the end-June target by a margin of 0.4 percent of GDP. This performance reflected less-than-budgeted capital spending resulting from sound budget control and financing constraints.

- **Capital expenditure of EC$65 million (3.7 percent of GDP) in the first half of 2009 was much less than expected at the third review (EC$90 million, 5.2 percent of GDP).** We were able to push forward with a few high-priority projects, in line with the strategy of favoring those capital spending programs that provide the greatest economic stimulus and job opportunities.

- **The central government's first half current surplus was about half a percentage point of GDP less than expected**. The shortfall reflects higher-than-expected spending on goods and services (0.4 percent of GDP) and lower-than-expected revenues (0.5 percent of GDP), partly offset by lower-than-expected interest payments (0.5 percent of GDP).

- **Notwithstanding the tight liquidity situation, domestic arrears older than 60 days remained well within the end-June 2009 target of EC$15 million.** Total expenditure arrears increased from EC$9.2 million (0.5 percent of GDP) at end-2008 to EC$30.4 million (1.8 percent of GDP) at end-June 2009, partly reflecting lower-than-expected grants (0.7 percent of GDP).

8. **We have met all but one of the structural benchmarks, in most cases with short delays.**

- Preparations to introduce a **VAT** by February 2010 are on track. We began the recruitment and training of VAT staff in May 2009 and also launched a public education program, including advisory trips to the business sector. Transitional procedures for bonded warehouses were finalized in September 2009. We submitted the new **Excise Bill** to Parliament in October 2009.

- We enacted the law establishing a new **Public Procurement Authority** (PPA) and appointed the head of this authority. Based on the recommendations of an OECD consultant, we are taking some additional time to revise this law in line with international best practice. We expect the PPA to be fully established by March 2010. We propose to rephase this benchmark to the fifth review.

- We enacted the law creating a separate **Registrar of Companies** in July 2009 and appointed the registrar to further improve the investment climate. This measure from our Action Plan to improve Doing Business Indicators will help establish a one-stop shop for new investors.

- As a result of delays in completing the technical work, the completion of the **Country Poverty Assessment** is now expected for November 2009.

- Discussions with consultants on a **customs Fraud Control Plan** have taken longer than expected, but the plan was completed in October 2009.

III. Policies for the Remainder of 2009 and 2010

9. **Notwithstanding the difficult global environment, we remain firmly committed to sound economic and fiscal management.** We are continuing to pursue fiscal consolidation in order to place the economy on a sustainable debt trajectory. Enhancing the business and investment environment is key to achieving broad-based economic growth, reducing poverty, and strengthening the resilience of our financial system.

10. **Total revenues for 2009 are projected to be substantially less than the program target, as a result of the anemic economic activity.** We were able to raise EC$16 million (0.9 percent of GDP) from the tax amnesty, EC$9 million more than anticipated at the time of the third review. However, import-related tax revenues have been particularly hard hit by the sharp decline in imports, resulting in a shortfall of EC$7.9 million (0.5 percent of GDP) in the first half of 2009.

11. **Our ability to accelerate selected capital projects has been hampered by financing constraints.** We have been able to accelerate a few Cabinet-approved high-priority projects, such as new road maintenance and debushing programs. However, significant financing constraints limited spending to about two-thirds of the expected amount.

12. **In response to the deteriorating economic environment, we have provided temporary tax relief to hotels and guest houses, with minimal fiscal consequences.** Since May 2009, half of the General Consumption Tax (GCT) has been waived, and we will extend this measure through the end of 2009 to support the tourism sector and limit job losses. We estimate that the fiscal cost in 2009 will be no more than EC$3 million (0.2 percent of GDP) because not all hotels and guest houses are participating. Owing to a lack of resources, we have allocated only EC$4 million in additional support to airlines and marketing (less than the EC$10 million originally envisaged).

13. **To achieve our fiscal objectives for the remainder of 2009 and 2010, we plan to take the following fiscal measures**:

- **Introduce a VAT,** which although technically designed to be revenue neutral, will be a broader and more efficient tax than the GCT it replaces. As a result of these efficiency gains, we expect to see a revenue boost of about 0.5 percent of GDP in 2010.

- In support of the above VAT, **introduce an excise tax** on a limited number of goods simultaneously.

- **Maintain the 4-week cycle of automatic fuel price adjustment** mechanism.

- **Further intensify tax enforcement**, following the conclusion of the tax amnesty, through garnishing of wages, seizing assets, and linking provision of government services to timely tax payments.

- **Limit the increase in wages** to less than the growth of nominal GDP over the medium term.

- **Accelerate capital spending on those priority projects** that provide the greatest economic stimulus, taking advantage of external grants and concessional loans to be disbursed later this year.

- **Improve the efficiency of spending on goods and services** and hold total spending to EC$77 million (4.5 percent of GDP). The Waste Reduction Unit in the Ministry of Finance is expected to achieve savings on fuel for government vehicles, fleet insurance, and electricity costs.

- **Target social spending** to mitigate the impact of the economic slowdown on the most vulnerable groups. We will also implement the recommendations of the United Nations and the World Bank's recent assessment of the social safety net in Grenada as well as articulate more clearly our social protection strategy in our PRSP, which we expect to complete by August 2010 (within nine months of having finalized the Country Poverty Assessment).

14. **We intend to accelerate structural reforms that focus on tax and customs reform, economic management, and help lay the foundations for sustained growth and poverty reduction.**

- **The customs Fraud Control Plan** will provide for risk profiles as a basis for risk-based inspections, in conjunction with the upgrade of our automated customs data program (to ASYCUDA World) beginning in November 2009.

- **Introduction of a VAT** will be a structural benchmark for the fifth review (February 2010). CARTAC is providing technical assistance on implementation, drawing on the successful experiences in other ECCU countries.

- We are developing an **Action Plan to improve Doing Business Indicators**, with World Bank technical assistance, to improve the business and investment environment. We completed two out of five identified priority areas (starting a business and trading across borders) in October 2009. We expect to complete action plans for the other three areas (paying taxes, registering property, and contract enforcement) by end-2009.

- We are continuing our efforts to establish a **Public Procurement Authority** by March 2010. We will work with the World Bank to establish bulk procurement procedures with another OECS country, and to extend the existing successful procedure with pharmaceuticals to other products such as textbooks, agricultural inputs, fleet insurance, and tires.

- We intend to implement several pieces of **public financial management legislation** enacted in 2007–08, including the Integrity in Public Life, Prevention of Corruption, Public Finance Management, and Audit Acts.

- As part of our **strategy to alleviate poverty**, and with support from the World Bank, we intend to rationalize cash-transfer programs and introduce an objective and transparent targeting mechanism. Conditional cash transfers could be used to promote human capital development among children and adults. We are also examining a reconfiguration of public works programs to protect workers from short- and long-term unemployment.

15. **In light of the severe financing constraints we are facing, we have requested increased budgetary support from multilateral donors.** We have requested an US$8 million Development Policy Loan (DPL) from the World Bank which could be disbursed in early 2010 and a US$12.8 million Policy Based Loan (PBL) from the Caribbean Development Bank, half of which could be delivered in 2009. We also hope to secure a €10 million grant from the European Union under the Vulnerability Flex facility, of which €5 million could arrive in 2009. This support, together with the requested disbursement under the PRGF arrangement, will ease adjustment to the current crisis.

16. **Notwithstanding the above efforts, in view of the sharp downward revision in projected output growth and fiscal revenues, it will not be possible to meet all of our targets for end-November 2009.** Reflecting the large revenue shortfall, a tight liquidity situation, and some uncertainty with regard to the timing of external disbursements at the end of the year, we propose to revise the end-November 2009 target for domestic arrears older than 60 days upward by EC$12.5 million (to a stock of no more than EC$25 million). We are committed to meeting the revised program target. We are also committed to taking corrective actions so that we can begin reversing the increase in domestic arrears older than 60 days as soon as possible. In particular, we brought forward to October 15, 2009, the date after which no new commitments for nonessential expenditure items can be made. Our intention is to

reduce the stock of domestic arrears older than 60 days to the original steady state target of EC$12.5 million by end-March 2010. Further revenue shortfalls could complicate this effort, for instance, if companies run down inventories in anticipation of the introduction of the VAT on February 1, 2010.

17. **We intend to maintain our SDR allocation (SDR 10.2 million) in the form of reserves at the ECCB.** We will use this allocation to build a shared cushion at the ECCB as a buffer against high debt vulnerability, as well as financial system vulnerabilities stemming from financial stresses in other ECCU countries. We also intend to limit recourse to expensive sources of financing, such as bank overdraft facilities. Notwithstanding a further deterioration in the medium-term economic growth profile (relative to the third review), we still aim to reach the 60 percent debt-to-GDP target by 2024, four years after the ECCU's 2020 benchmark for the region. We recognize that this will require substantial fiscal discipline.

18. **The government believes that the policies and measures set forth above will be sufficient to achieve our fiscal targets.** In case of further revenue shortfalls, we would undertake measures as needed to meet our fiscal targets, such as reducing current spending (including goods and services), while protecting vulnerable groups, and further rationalizing capital spending.

19. **We petitioned the High Court for the liquidation of Capital Bank in November 2008,** but the liquidation has been delayed because of challenges by the bank's owner. As soon as the court permits, we will proceed directly to liquidation. There will be no fiscal cost associated with the liquidation of Capital Bank.

20. **With respect to our public debt, we are firmly committed to reducing our debt-to-GDP ratio over the medium to long term.** Any public borrowing we undertake, including concessional borrowing, will be closely examined for its impact on economic growth and our debt-servicing capacity. We are considering a concessional loan from the Export-Import Bank of China of about US$107 million (17 percent of GDP) to build a luxury hotel in a joint venture. We are consulting closely with the IFC for an objective assessment of the economic and financial return from such a loan. In consultation with Fund staff, we would update our debt sustainability analysis (DSA) to examine the implications of such borrowing on our debt vulnerability. This loan is not accommodated under our program ceiling on bilateral concessional debt.

21. **We are continuing best efforts to extend or conclude bilateral agreements with Paris Club creditors and to seek comparable treatment from non-Paris Club creditors**. The Paris Club granted us an extension of debt relief for 2009, in line with the debt relief that the Paris Club extended in 2006–08. We will continue to seek an out-of-court settlement, through a new legal counsel in New York, with the Export-Import Bank of Taiwan Province

of China, and pursue good faith efforts to reach a collaborative agreement with Grenada's external commercial creditors that did not participate in the 2005 debt exchange.

Program Monitoring

22. **We will continue improving our capability to monitor economic developments and program performance.** A designated Ministry of Finance official, the PRGF program coordinator, will continue to oversee the monitoring of macroeconomic and structural program targets. We will continue to conduct monthly monitoring of domestic arrears and below-the-line financing of the central government overall balance. We will also work more closely with the ECCB and commercial banks to reconcile data on bank lending to the government on a monthly basis. The performance criteria for end-November 2009 are specified in Table 1 and further specified in the May 2009 Supplementary Technical Memorandum of Understanding.

IV. Other Issues

Reducing Financial Sector and Natural Disaster Vulnerabilities

23. **We continue monitoring closely the impact of developments with the troubled Trinidad and Tobago-based CL Financial Group.** Based on a financial review and feasibility study and recommendations of judicial managers of BAICO in the region, regional governments are reviewing the possibility of forming a new company to take over the operation of BAICO in the OECS. ECCU members will contribute US$10 million to a Liquidity Support Fund for BAICO to be created in cooperation with Trinidad and Tobago, Barbados, and regional and international organizations. A formula to determine country shares is still to be agreed.

24. **We are continuing our efforts to strengthen nonbank financial sector supervision.** We are reinforcing the capacity of the Grenada Authority for the Regulation of Financial Institutions (GARFIN), while continuing with the ambitious agenda of enhancing legislation, producing regulations, and developing and implementing supervisory practices (reporting, offsite and onsite monitoring) for each type of institution. The Money Services Act was passed by Parliament in May 2009 and the new Insurance Act is also expected to be passed by the end of this year, as is the Cooperative Societies Act.

25. **We will continue to participate in the World Bank's Caribbean Catastrophic Risk Insurance Facility.** The World Bank and CDB are financing the premium payments for the year beginning June 2009.

Fiscal transparency

26. **We are continuing our efforts to improve fiscal transparency**. We intend to begin disseminating to the public quarterly information (with a one-quarter lag) on the overall fiscal situation and gross financing needs by end-2009. In May 2009, we began publishing financial information on selected public enterprises. In line with the new Public Finance Management Act of 2007, we now require public enterprises to submit audited financial statements within four months after the close of the financial year. Public enterprises are also required to submit annual business plans within four months of the start of the next financial year. We will continue to publish newly granted or extended tax concessions on a quarterly basis.

Table 1. Grenada: Quantitative Performance Criteria and Indicative Targets, 2008-09

				2009						
	End-Dec. 2008			End-June			End-Sept.		End-Nov.	
	Adjusted	EBS/09/73	Corrected	Prog.	Adjusted	Actual 1/	Prog. 2/	Actual 3/	Prog.	Prop.
Performance Criteria:	(In millions of Eastern Caribbean dollars)									
Central government primary balance excluding grants (floor) 4/ 5/	-110.0	-107.5	-111.7	-52.5	-51.2	-43.9	-67.8	…	-77.9	-77.9
Stock of central government domestic arrears (ceiling)	25.0	8.4	4.4	15.0	15.0	8.6	13.5	21.0	12.5	25.0
	(In millions of U.S. dollars)									
Contracting and guaranteeing of nonconcessional external debt by the central government with maturity of at least one year (ceiling) 4/	4.0	0.0	0.0	4.0	4.0	0.0	4.0	0.0	4.0	4.0
Stock of external short term debt (ceiling) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contracting and guaranteeing of bilateral concessional external debt by the central government with maturity of at least one year (ceiling) 4/ 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government or guaranteed external arrears accumulation (ceiling) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Target:	(In millions of Eastern Caribbean dollars)									
Change in net credit of the banking system to the public sector (ceiling) 4/ 5/	45.0	16.9	16.9	26.9	39.2	-5.8	31.9	…	35.2	35.2

1/ The difference between the primary deficit excluding grants measured above and below the line (EC$32.3 million and EC$43.9 million respectively) is equal to the statistical discrepancy (EC$11.5 million).
2/ Indicative target.
3/ For domestic arrears over 60 days, the outturn given is for September 22, 2009.
4/ Cumulative within each calendar year.
5/ See the TMU and supplementary TMU for a description of adjustors.
6/ To be monitored on a continuous basis.
7/ Excludes PetroCaribe.

Table 2. Grenada: Structural Measures

	Target Date	Comment	Macroeconomic Criticality
Fourth Review			
Recruit and begin training staff and adopt transitional procedures for bonded warehouses	May 2009	Benchmark. Met with a delay; procedures were adopted in September	To ensure smooth implementation of the VAT
Submit new Excise Bill to Parliament	August 2009	Benchmark. Met with a delay in October	To increase the efficiency and effectiveness of revenue collection
Complete the Country Poverty Assessment	August 2009	Benchmark. Expected to be met with a delay in November	To strengthen the ability of the government to develop effective and well-targeted poverty reduction measures
Develop and begin implementing a customs Fraud Control Plan	August 2009	Benchmark. Met with a delay in October	To enhance customs administration and revenue collection for sustainable financing of the budget
Establish a Public Procurement Authority	September 2009	Benchmark. Partially met; rephased to March 2010 1/	To enhance transparency and governance in procurement and facilitate donor monitoring
Appoint a separate Registrar of Companies	October 2009	Benchmark. Met in July	To further improve the investment climate
Fifth Review			
Introduce a VAT	February 2010	Proposed Benchmark	To improve the buoyancy and efficiency of the tax system
Establish a Public Procurement Authority	March 2010	Proposed Benchmark	To enhance transparency and governance in procurement and facilitate donor monitoring

1/ A director has been appointed, but a number of other steps still need to be taken, including finalizing procurement procedures.

INTERNATIONAL MONETARY FUND

GRENADA

The 2009 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Modification of Performance Criterion, and Financing Assurances Review

Informational Annex

Prepared by Western Hemisphere Department

November 4, 2009

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Appendices

Appendix I. Grenada: Fund Relations
(As of September 30, 2009)

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

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11.70	100.00
Fund Holdings of Currency	12.07	103.14
Reserve Position	0.00	0.00

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	11.17	100.00
Holdings	10.68	95.63

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Emergency Assistance	0.37	3.13
PRGF Arrangements	10.83	92.52

V. Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr. 17, 2006	Apr .16, 2010	16.38	10.83

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

	Forthcoming				
	2009	**2010**	**2011**	**2012**	**2013**
Principal	0.37	0.00	0.16	0.31	0.31
Charges/Interest	0.03	0.06	0.06	0.05	0.05
Total	0.39	0.06	0.21	0.37	0.37

VII. Implementation of HIPC and MDRI Initiatives: Not Applicable

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

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

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

XI. FSAP Participation: Grenada participated in the regional Eastern Caribbean Currency Union FSAP conducted in September and October 2003. The Financial System Stability Assessment is IMF Country Report No. 04/293.

XII. Technical Assistance:

Caribbean Regional Technical Assistance Centre (CARTAC)

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

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

Other Technical Assistance (2007–09)

FAD and LEG have provided extensive assistance in tax policy and administration. In particular, FAD and LEG have assisted in the design and drafting of a VAT and related changes to excise taxes. LEG has also assisted with training for tax officials and with the finalization of the VAT and excise laws as well as with drafting of an investment promotion bill. A series of FAD missions have provided further assistance on implementing a VAT and on tax policy, tax and customs administration and reforms as well as on income tax reform and tax incentives system.

Appendix II. Grenada—Relations with the World Bank Group

(As of September 30, 2009)

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY06–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consisted of about US$51.3 million in IDA resources for the four OECS IDA eligible countries. An OECS CAS progress report was presented to the Board in June 2008. Currently, a new OECS CAS is being prepared for the FY10–14 period.

A. Projects

There are eight active World Bank projects in Grenada for a net commitment of approximately US$49.13 million of which US$29.45 million has been disbursed.

The Grenada (OECS) Education Development Project, approved in June 2003 for US$8.0 million as part of a multi-country APL, is a follow-up to an earlier education project. Its objective is to build human capital, with a view to contributing to economic diversification and more sustainable growth. Key objectives are: (i) to increase equitable access to secondary education; (ii) to improve the quality of the teaching and learning processes, with more direct interventions at the school level and an increased focus on student-centered learning, and (iii) to strengthen management of the education sector and improve governance of schools. The World Bank has approved additional financing in the amount of US$1.9 million and the project should be effective by late May 2009. The additional resources will finance the costs associated with scaling up those components curtailed when the original project was restructured after Hurricane Ivan in November 2004, namely improving education quality and strengthening management.

The Hurricane Ivan Emergency Project was approved in November 2004 for US$10 million. This loan has been augmented by an EU trust fund established in September 2005, and supplemental contributions have been added through the life of the project making the total amount of the trust fund US$13.4 million. This emergency assistance for Grenada was implemented to respond to the effects of a devastating hurricane that hit the island in September 2004. The project supports Grenada's recovery efforts through the financing of critical imports and rehabilitation activities in key social sectors. The Bank project has closed the funds from the EU trust fund will continue to be disbursed until December 31, 2009.

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

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

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

The Grenada Technical Assistance Project was approved on March 13, 2008 as a US$2.8 million IDA Credit. The Project's developmental objectives are: (i) to improve the efficiency and effectiveness of Customs, (ii) to improve the efficiency of tax administration and decrease transaction costs of paying taxes and consequently increase tax compliance, (iii) to modernize investment promotion, and, (iv) to enhance the Government's support to the export sector through improved access to trade information and the strengthening the capacity of the Bureau of Standards to provide conformity assessment and quality assurance. The medium-to-long-term direct impact of the project is likely to be substantial, including: better quality service and reduced clearance time at customs; reduced time and lower transaction cost for paying taxes and hence improved compliance; greater access to trade data and quality assurance support for exporters; and increased investments as a result of a more streamlined and faster system for investment approval in Grenada.

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

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

B. Economic and Sector Work

The Bank has completed a series of analytical studies relating to public sector capacity in the OECS including a number of Public Expenditure Reviews, an Institutional and Organizational Capacity Review and, in late 2007, a Country Fiduciary Assessment. The Bank also prepared an OECS study on Growth and Competitiveness (2005), an OECS Skills Enhancement Policy Note (2006), a Caribbean Air Transport Report (2006), and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007). In addition, an OECS Private Sector Financing Study and the OECS Tourism Backward Linkages Study were completed in 2008. The publication "Caribbean-Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" was released in the Fall of 2008.

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

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

Operation	Original Principal	Available[1]	Disbursed[1]
OECS (Grenada) Skills for Inclusive Growth	3.00	3.33	0.00
E-Government for Regional Integration Program	2.40	2.37	0.00
Grenada Technical Assistance Project	1.86	1.90	0.00
The Caribbean Catastrophe Risk Insurance	4.50	0.90	3.85
The Public Sector Modernization Technical Assistance Project	3.50	3.15	0.81
Telecommunications & ICT Development Project	0.54	0.30	0.26
Hurricane Ivan Emergency Recovery Project	23.43	6.27	17.69
Grenada Education Development Project	9.90	2.58	6.84
Total	**49.13**	**20.8**	**29.45**

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

Disbursements and Debt Service (Fiscal Year ending June 30)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Total disbursements	1.99	2.59	2.64	7.28	1.78	6.03	5.22	6.49	7.47	2.22	0.25
Repayments	0.07	0.06	0.06	0.07	0.22	0.63	1.10	1.49	1.62	1.79	0.29
Net disbursements	1.92	2.53	2.57	7.21	1.56	5.40	4.12	5.00	5.85	0.43	-0.04
Interest and fees	0.08	0.22	0.28	0.39	0.48	0.53	0.65	0.78	0.82	0.79	0.20

*July 2009—September 2009

Appendix III. Grenada—Relations with the Caribbean Development Bank

(As of October 7, 2009)

A. New Projects and Technical Assistance in 2008

Grenada, since Hurricane Ivan in 2004, continues to benefit from special financing from the Caribbean Development Bank (CDB), designed to yield a concessional grant element of 35 percent. These loans offer longer maturities and grace periods, as well as lower interest rates than those applied in the Bank's ordinary operations.

Rockfall and Landslip (Additional Loan and Variation in Scope)

In May 2008, a loan of US$3.7 million was approved to finance cost overruns (on the original Rockfall and Landslip project that was approved in 2005), as well as additional works to mitigate rockfall hazards at selected sites and to restore damaged retaining structures at selected locations along the main road network. The original loan of US$5.7 million was approved for similar mitigation works.

Institutional Strengthening—The Ministry of Communications, Works and Transport

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

B. Ongoing Activities

Loan disbursements continued for projects under implementation. These included capital works: (i) to upgrade and rehabilitate physical infrastructure including the road and bridge network as well as school infrastructure; (ii) to reduce the risk of rock fall and landslip events in the aftermath of natural hazards; (iii) to improve the shelter conditions of low-income households through the provision of 116 serviced lots; and (iv) to facilitate urban re-development.

C. Financial Relations

(In millions of U.S. dollars)

Item	2005	2006	2007	2008	2009*
Cumulative total credit approved[1]	152.6	163.6	171.1	174.8	174.9
Cumulative disbursements[2]	112.8	130.0	143.3	150.0	153.0
Outstanding debt (end of period)	77.6	91.6	101.8	106.4	106.4
Disbursements					
Ordinary Capital Resources	5.6	3.3	1.0	0.5	0.04
Special Development Fund	8.4	9.8	7.0	3.5	1.53
Other Special Fund Resources	0.6	3.9	6.7	4.4	0.08
Amortization[3]					
Ordinary Capital Resources	1.2	1.5	1.4	1.8	1.2
Special Development Fund	1.6	1.6	1.0	0.7	0.3
Other Special Fund Resources	0.2	0.3	0.2	0.2	0.07
Interest and Commitment Fees					
Ordinary Capital Resources	1.6	1.9	2.0	1.8	0.9
Special Development Fund	0.7	0.9	0.3	1.1	0.5
Other Special Fund Resources	0.2	0.2	1.1	0.4	0.2

Source: Caribbean Development Bank
*Up to May 2009

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

2. [2] Including valuation adjustments.

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

APPENDIX IV. GRENADA—STATISTICAL ISSUES

As of November 3, 2009

I. Assessment of Data Adequacy for Surveillance

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

National Accounts: National accounts are provided annually but are subsequent to frequent revisions—major revisions were undertaken in 2007 to extend coverage of national accounts to the offshore university, as well as to improve construction activity estimates. There are a number of deficiencies in the real sector statistics. GDP by expenditure is available only with long lags, and real GDP estimates for the tourism sector are not computed. The estimation of gross fixed capital formation and sectoral price deflators needs to be improved.

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

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

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

The coverage of the rest of the public sector is limited, and there are no consolidated public sector accounts. Since May 2009, financial information on selected public enterprises began to be published. In line with the new Public Finance Management Act of 2007, public enterprises are required to submit audited financial statements within four months after the close of the financial year.

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

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

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

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

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

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

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<tr><td colspan="2" align="center">II. Data Standards and Quality</td></tr>
<tr><td>While Grenada has participated in the Fund's General Data Dissemination System since March 2001, most of the metadata have not been updated since late 2002.</td><td>The 2007 regional data ROSC on monetary statistics provides an assessment of the ECCB's monetary statistics.</td></tr>
<tr><td colspan="2" align="center">III. Reporting to STA</td></tr>
<tr><td colspan="2">The International Financial Statistics page includes data on exchange rates, international liquidity, monetary statistics, prices, balance of payments, national accounts, and population.</td></tr>
</table>

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

The ECCB provides data to the IMF for publication in the Balance of Payments Yearbook.

Grenada has not provided any fiscal data, either on a *GFSM 2001* basis, or a cash basis, for presentation in the *GFS Yearbook*. The ECCB disseminates Grenada's quarterly GFS data in its *Economic and Financial Review.*

Grenada: Table of Common Indicators Required for Surveillance

As of November 3, 2009

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication[1]
Exchange Rates[2]	NA	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[3]	Aug 2009	Oct 2009	M	M, with 2- to 3-month lag	A/Q
Reserve/Base Money	Aug 2009	Oct 2009	M	M, with 2- to 3-month lag	A/Q
Broad Money	Aug 2009	Oct 2009	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Aug 2009	Oct 2009	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Aug 2009	Oct 2009	M	M, with 2- to 3-month lag	A/Q
Interest Rates[4]	June 2009	Aug 2009	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Sep 2009	Oct 2009	M	M, with 1- to 2-month lag	A/M
Revenue, Expenditure, Balance and Composition of Financing[5] – Central Government	July 2009	Sep 2009	M	Q, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	June 2009	July 2009	M/A	Q, with 1- to 2-month lag	A
External Current Account Balance	Dec 2008	Mar 2009	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2008	Mar 2009	A	A, with long lag	A
GDP/GNP	Dec 2008	Sep 2009	A	Staff Mission	A
Gross External Debt[7]	June 2009	July 2009	Q	Q, with 1-month lag	A/Semi-annual
International Investment Position	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with Grenada

On November 25, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the 2009 Article IV consultation with Grenada.[1]

Background

Grenada's economy has been hit hard by the global crisis and the downturn has been deeper than expected, reflecting the strong drag of the global crisis on tourism receipts, Foreign Direct Investment (FDI), and remittances. Tourism, a key growth driver, is expected to experience a 20 percent decline in stayover arrivals; FDI is almost at a standstill; construction, an important source of employment, is projected to fall by 35 percent, the fourth consecutive year of double-digit declines. As a result, real GDP is expected to contract by more than 6 percent in 2009, with a further 2 percent decline in 2010, before seeing positive growth. Falling prices of international commodities in the first half and weak domestic demand have pushed consumer prices down, with inflation projected to be negative 0.4 percent during 2009 (compared to 5.2 percent during 2008).

The weak economy has led to rising unemployment, while poverty remains widespread. According to a preliminary draft of the Country Poverty Assessment, the unemployment rate stood at 25 percent in June 2008. Compounding matters, the authorities believe that labor

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

market conditions have softened further in 2009 leading to unemployment rates closer to 30 percent. Some 38 percent of the population lives below the poverty line.
Reflecting the anemic economic activity, the growth of monetary aggregates is slowing: year-on-year growth of credit to the private sector and broad money continued to decelerate (8.2 percent and -1.0 percent, respectively, as of August 2009). The current account deficit is expected to narrow sharply in 2009 (to 22 percent of GDP), as falling FDI and other external financing force a sharp import reduction, more than offsetting lower tourism receipts.

Commercial banks, many of which are subsidiaries of international banks, have generally remained resilient. However, the quality of commercial bank loan portfolios is deteriorating: the ratio of nonperforming loans (NPLs) to total loans, while low, has been worsening (4.1 percent at end-June 2009) and the ratio of provisions to NPLs declined to 37.8 percent at end-June 2009, the lowest level in recent years. The financial system remains vulnerable to contagion from regional financial sector entities. ECCU governments are working together closely on a regional solution to the difficulties of the Trinidad and Tobago-based CL Financial Group.

The authorities have made significant progress with structural reforms. Preparations to introduce a VAT by February 2010, which is expected to improve the efficiency of the tax system, are solidly on track. Reforms to lay the basis for broad-based economic growth by improving the investment and business environment are underway. An institutional reform of the ministry of finance aims at improving the capacity for economic management.

Executive Board Assessment

Executive Directors noted that Grenada's real GDP has contracted markedly in 2009, due primarily to sharp falls in tourism receipts, foreign direct investment, and remittances, while unemployment has risen further. Fiscal policy has been constrained by revenue shortfalls and the rising public debt ratio. Directors commended the Grenadian authorities for the satisfactory performance of their economic program under these highly challenging circumstances. They supported focusing macroeconomic policies on mitigating the short-term impact of the external shocks, while laying the foundation for sustainable, broad-based economic growth.

Directors considered medium-term fiscal consolidation to be a high priority. They welcomed the planned fiscal measures, including the prioritization of capital spending, wage restraint, and increased efficiency of spending on goods and services, while protecting social expenditures. Directors stressed the importance of accelerating tax and customs reforms and strengthening institutional capacity for public financial management. They endorsed the planned introduction of a value-added tax in early 2010, a key measure to boost revenue and reduce reliance on trade taxes. Directors looked forward to the early completion of the Poverty Reduction and Strategy Paper.

Directors expressed concern over Grenada's high risk of debt distress. They urged vigilance in contracting an external loan for the joint venture under consideration, stressing the need for an objective assessment of the project’s financial viability as well as substantial equity participation from private investors. Directors encouraged sustained efforts to put public debt on a sustainable trajectory, and to regularize financial relations with external creditors. They called on the authorities to adhere to their plan to reduce the stock of domestic arrears.

Directors noted the staff’s assessment that the real effective exchange rate appears broadly in line with macroeconomic fundamentals. Looking forward, they encouraged the authorities to take steps to preserve external competitiveness, including by completing action plans to improve the business climate and implementing structural reforms to expand and diversify external receipts.

Directors noted that, although the banking sector has remained resilient, financial stresses in the region could pose a risk. This highlights the need for careful monitoring of financial sector vulnerabilities and close cooperation among regional governments, particularly in dealing with the financial difficulties associated with the Trinidad and Tobago-based CL Financial Group. Directors encouraged the authorities to control the fiscal costs of intervention strictly. They commended the authorities for the progress in improving the capacity for nonbank financial supervision and regulation, and looked forward to the passage of a new Insurance Act by the end of this year. Directors noted the authorities’ intention to keep their Special Drawing Rights allocation as a shared reserved cushion at the Eastern Caribbean Central Bank, as a buffer against risks stemming from financial stresses in the region.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Grenada: Selected Economic Indicators

				Prog. 1/	Prel.	Proj.
	2006	2007	2008	2009		2010
(Annual percentage change, unless otherwise specified)						
Output and prices						
Real GDP	-2.3	4.9	2.2	-0.7	-6.2	-2.0
GDP deflator	3.9	3.4	10.2	5.5	0.7	5.5
Consumer prices (end of period)	1.7	7.4	5.2	2.1	-0.4	4.4
Money and credit 2/						
Net foreign assets of the banking system	-7.3	-1.0	-9.3	-3.6	-5.1	-4.7
Net domestic assets of the banking system	7.4	12.1	13.4	4.6	3.2	6.4
Of which						
Net credit to the nonfinancial public sector	-0.3	1.5	1.0	1.9	-0.8	1.2
Credit to the private sector	8.5	12.0	10.2	2.7	4.1	5.2
Liabilities to the private sector (M2)	0.1	11.0	4.1	1.0	-1.9	1.6
Balance of payments						
Merchandise exports, f.o.b.	-1.7	26.1	-7.4	-0.8	-5.7	10.1
Merchandise imports, c.i.f.	-0.8	10.6	4.8	-22.2	-40.1	2.8
Real effective exchange rate (end of period, depreciation -)	-4.6	0.2	6.6	…	…	…
Current account balance (in percent of GDP)	-33.2	-43.2	-40.4	-33.4	-22.1	-21.6
(In percent of GDP, unless otherwise specified)						
Central government finances 3/						
Total revenue and grants	33.6	27.1	29.4	27.9	27.1	27.0
Of which						
Grants	8.7	1.0	4.1	2.6	3.5	3.1
Current expenditure	20.9	21.4	22.8	23.7	23.3	23.3
Capital expenditure	18.8	13.5	11.7	9.3	8.3	7.0
Primary balance (excluding grants)	-13.0	-6.9	-7.0	-4.6	-5.0	-3.3
Overall balance (including grants)	-6.1	-7.9	-5.1	-5.1	-4.5	-3.3
Public and publicly guaranteed debt (end-period)	116.5	111.0	102.2	114.2	113.9	114.9
(In millions of U.S. dollars)						
Memorandum items:						
Nominal GDP	564.4	610.3	678.5	640.9	640.9	662.9

Sources: Grenada authorities; ECCB; and IMF staff estimates and projections.
1/ Corresponds to projections in IMF Country Report No. 09/200.
2/ As a percent of broad money at the beginning of the year.
3/ Measured using above-the-line information.

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International Monetary Fund
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IMF Executive Board Completes Fourth Review Under PRGF Arrangement with Grenada and Approves US$6.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed on November 25, 2009 the fourth review of Grenada's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review allows for the immediate disbursement of an amount equivalent to SDR 3.9 million (about US$6.2 million), bringing total disbursements to SDR 14.7 million (about US$23.5 million).

The Executive Board also approved the request to modify a quantitative performance criterion by relaxing the target for end-November 2009 domestic arrears older than 60 days because of delays in external disbursements, a waiver on the performance criterion on the primary balance excluding grants at end-December 2008, and completion of the financing assurances review.

The three-year PRGF with Grenada was approved on April 17, 2006 (see Press Release No. 06/75), and in July 2008 was augmented to SDR 12.0 million (about US$19.2 million) to help mitigate the impact of food and fuel price shocks and extended by one year to April 16, 2010 (see Press Release No. 08/169). The arrangement was augmented again to SDR 16.4 million (about US$26.2 million) in June 2009 (see Press Release No. 09/200) to help mitigate the impact of the global downturn and financial turmoil.

Following the Executive Board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, made the following statement:

"The impact of the global crisis on Grenada's economy has been more pronounced than initially envisaged. Falling tourism receipts, foreign direct investment, and remittances have led to a marked decline in output, a rise in unemployment, and revenue shortfalls in 2009. The authorities have continued to implement steadfastly their PRGF-supported program, focusing macroeconomic policies on coping with the short-term impact of the external shocks, while laying the foundation for sustainable and broad-based economic growth. Implementation of the structural reform agenda and a cautious debt management policy will be essential.

"The government is pursuing medium-term fiscal consolidation to place public debt on a sustainable trajectory. Steps have been taken to prioritize capital spending, restrain wage growth, and increase the efficiency of spending on goods and services, while protecting social spending to mitigate the impact of the crisis on the most vulnerable groups. The government is committed to moving forward expeditiously with the drafting of a Poverty Reduction Strategy Paper.

"The banking sector has remained resilient, and important progress has been made in strengthening the capacity for nonbank financial supervision and regulation. The authorities have cooperated closely with regional governments to contain the fallout from the financial difficulties associated with the Trinidad and Tobago-based CL Financial Group.

"Grenada remains at high risk of debt distress. Any additional borrowing would need to be assessed carefully so as not to undermine progress toward debt sustainability. The authorities are committed to strengthening debt management capacity further and regularizing financial relations with external creditors. The authorities intend to keep their SDR allocation as a shared reserve cushion at the Eastern Caribbean Central Bank, as a buffer against risks stemming from financial stresses in the region.

"The authorities have made important progress on structural reforms. Preparations to introduce a value-added tax in early 2010, which is expected to enhance the coverage and buoyancy of the tax system, are firmly on track. To preserve external competitiveness, the government is pressing ahead with measures to improve the business and investment climate and implementing reforms to expand and diversify external receipts.

"The authorities have taken steps to ensure the accuracy of data provided to the Fund. These include a strengthening of procedures for reconciliation of monetary survey and ministry of finance data on credit to the central government," Mr. Kato said.