INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/133

GRENADA

May 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER OF NON-OBSERVANCE OF A PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION AND FINANCING ASSURANCES REVIEW —PRESS RELEASE AND STAFF REPORT

In the context of the Staff Report, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its May 18, 2016 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 18, 2016, following discussions that ended on March 3, 2016, 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 May 3, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

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

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

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

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May 19, 2016

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Washington, D. C. 20431 USA

IMF Executive Board Concludes Article IV Consultation with Grenada and Fourth Review Under the Extend Credit Facility with Grenada and Approves US$2.8 Million Disbursement

On May 18, 2016 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Grenada and the fourth review of Grenada's performance under a program supported by a three-year arrangement under the Extended Credit Facility (ECF). The completion of the review enables the disbursement of the equivalent of SDR 2 million (about US$2.8 million), bringing total resources made available to Grenada under the ECF arrangement to the equivalent of SDR 10.04 million (about US$14.1 million).

The Grenadian authorities continue to deliver a strong track record of program implementation and results. All performance criteria for end-December 2015 were met and most structural benchmarks for the fourth review were met on time or with minor delays, with timely corrective actions taken for two unmet benchmarks.

Growth prospects and fiscal sustainability are improving as the authorities' home grown adjustment program enters its third year. Real GDP is estimated to have expanded by 4.6 percent in 2015, with strong growth in agriculture and tourism, as well as a rebound in construction. Growth is projected to moderate to 3 percent in 2016. The fiscal performance turned Grenada's primary balance from deficit to surplus for the first time in a decade and together with debt restructuring agreements reached with both external and domestic creditors, Grenada is making progress on fiscal and debt sustainability. The debt-to-GDP ratio declined from 107 percent in 2013 to 94 percent in 2015 and is projected to continue its downward path going forward.

The 2016 budget aims to complete the programmed fiscal adjustment in support of meeting medium term debt targets, while focusing on structural reforms to promote economic growth and lower unemployment.

[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.

Since the onset of the program, there has been progress with structural fiscal reforms, including strengthened tax administration, improved public finance management, an overhaul of the tax incentives regime, and a new rules-based fiscal policy framework, which now need to be made fully effective. The authorities are working to reform management of the public sector wage bill to ensure sustainable personnel expenditure. In addition, reforms to improve the investment and business climate and modernize the labor market are also proposed to unlock growth potential and lower unemployment.

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

"Grenada's performance under its Fund-supported home-grown program remains satisfactory. The government is on track to complete the programmed fiscal adjustment and its structural reform agenda. The initial dividends from the program are emerging, as economic activity has picked up and the external position strengthened. The government's economic strategy going forward should focus on promoting broad-based growth and lowering unemployment while maintaining fiscal discipline in the context of its strengthened fiscal policy framework.

"Grenada has made significant progress toward restoring debt sustainability, supported by budget discipline and steps toward a comprehensive debt restructuring. As wage and spending pressures are rising, the program is at an important juncture and continued policy resolve is essential to secure lasting success and to safeguard the credibility of the new rules-based policy framework.

"The Grenadian authorities have pushed through important legislative reforms aimed at locking in fiscal discipline over the long term. Grenada has made significant progress improving public finance management, strengthening the fiscal policy framework, and overhauling the tax incentive regime. The next step is to implement the new legislations, with high priority on reforms to strengthen management of the public wage bill, tax administration, and public debt management.

"To improve Grenada's competitiveness and growth potential, priorities should focus on removing impediments to private sector activity and strengthening labor market skills and mobility. To protect the most vulnerable, the government has safeguarded total social spending, but needs to follow through on its stated goals of improving the targeting and effectiveness of this spending.

"Financial stability has improved, but continued efforts to strengthen the banking system are critical to enabling it to contribute more effectively to private sector growth. A proactive approach should be taken to address remaining vulnerabilities in the banking sector."

Executive Board Assessment[2]

Executive Directors welcomed the strong economic recovery and the significant improvements in fiscal and external balances and debt reduction. Directors commended the authorities for steadfast implementation of their home-grown program, notably the successful fiscal consolidation. They stressed, however, that remaining challenges call for continued policy resolve in order to achieve the objectives of restoring debt sustainability, boosting medium-term growth prospects, and strengthening financial stability.

Directors noted that downside risks to the outlook persist, and called for prioritizing structural reforms to promote growth and job creation. In particular, they encouraged the authorities to implement reforms to remove impediments to private sector activity, and improve labor market skills, matching and mobility. They supported a proactive approach to focus training on skills needed by the market, and at the same time improve productivity and reduce structural unemployment.

Directors commended the authorities for the fiscal adjustment achieved thus far. In particular, they welcomed the primary surplus achieved in 2015 through important progress on tax policy and administration reforms and expenditure rationalization. Directors encouraged the authorities to safeguard this progress with strict budget execution and adherence to the new rules-based fiscal framework, while maintaining growth.

Directors commended the authorities' steadfast implementation of their ambitious legislative reform agenda. They welcomed the impressive progress to overhaul the fiscal framework, reform the tax incentive regime, strengthen tax administration, and improve the monitoring and accountability of parastatal entities. Going forward, priority should be given to implementation of these reforms. Directors stressed that additional efforts are needed to strengthen public debt management and management of the public sector wage bill, as well to improve tax administration.

Directors welcomed the progress made to implement the country's new growth and poverty reduction strategy. They underscored that close integration with the budget is needed to maximize the impact on competitiveness and growth. Directors urged the authorities to take steps to improve the targeting of the social safety net, as anticipated under the program, to protect the most vulnerable during fiscal adjustment and to ensure a lasting success of the program. Implementation of the Support for Education, Employment and Development (SEED) was encouraged.

[2] 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.

Directors welcomed the authorities' continued efforts to strengthen financial stability. They encouraged measures to address remaining vulnerabilities in the financial system while minimizing fiscal costs. Directors shared the view that a stronger banking system would contribute more effectively to private sector investment and growth. They called for continued efforts to strengthen regulation and supervision of the nonbank financial sector, as well as to enhance the AML/CFT framework.

Directors acknowledged the progress made to restore debt sustainability under the ECF-supported program and underscored the need to complete the comprehensive debt restructuring. They stressed the importance of maintaining fiscal discipline over the medium term with the aim of meeting long-term debt reduction goals.

Grenada: Selected Economic and Financial Indicators

	2011	2012	2013	2014	2015	2016	2017
						Proj.	
	(Annual percentage change, unless otherwise						
National income and prices							
GDP at constant prices	0.8	-1.2	2.4	5.7	4.6	3.0	2.7
GDP deflator	0.2	3.9	2.9	2.4	0.0	1.5	2.4
Consumer prices, end of period	3.5	1.8	-1.2	-0.6	-1.2	-0.2	2.8
Exchange rate							
Real effective exchange rate	1.1	-1.0	-1.9	-0.3	0.3	...	...
(annual average, depreciation -)							
Money and credit, end of period							
Credit to private sector	2.2	0.2	-5.7	-5.1	-3.8	0.1	2.6
Broad money (M2)	0.7	0.7	4.1	4.1	5.2	4.6	5.1
Lending rate (in percent)	10.3	9.2	9.1	9.0	8.7	...	...
Deposit rate (in percent)	2.9	2.7	2.5	2.2	1.6	...	...
	(In percent of GDP, unless otherwise specified)						
Central Government							
Revenue	23.6	20.8	20.9	24.5	25.6	24.6	25.4
Expenditure	28.8	26.7	28.1	29.1	26.8	24.8	24.9
o.w. capital expenditure	7.8	5.0	7.1	9.2	8.7	6.6	6.8
Primary balance 1/	-2.7	-2.5	-3.9	-1.1	2.2	3.1	3.5
Overall balance	-5.2	-5.9	-7.3	-4.7	-1.3	-0.2	0.5
Public debt (incl. guaranteed) 2/	100.7	103.3	107.6	101.4	94.3	89.2	78.8
Domestic	31.7	35.8	37.4	34.3	30.2	27.3	25.3
External	69.0	67.6	70.2	67.1	64.1	61.9	53.5
Savings-Investment balance	-23.6	-21.1	-23.2	-15.5	-14.5	-12.1	-14.3
Savings	-3.7	-4.7	-3.2	1.4	4.4	4.4	3.9
Investment	19.9	16.3	20.0	16.9	18.9	16.4	18.2
External sector							
Gross international reserves (millions of dollars)	104.8	104.0	135.4	158.3	188.5	201.0	203.7
GIR (in months of imports)	3.2	2.9	4.1	4.8	5.8	5.4	5.1
Current account balance, o/w:	-23.6	-21.1	-23.2	-15.5	-14.5	-12.1	-14.3
Exports of goods and services	28.2	28.9	28.5	28.9	28.9	28.8	29.7
Imports of goods and services	50.8	49.5	50.4	43.5	41.5	39.3	42.5
External debt (gross)	136.3	141.0	144.1	144.2	140.2	136.2	125.5

Sources: Ministry of Finance; Eastern Caribbean Central Bank; and IMF staff projections.
World Bank WDI 2007; and Fund staff estimates and
1/ Includes 0.7 percent of GDP CBI-related non-tax
2/ Includes the impact of the debt restructuring agreements that have already been reached.

INTERNATIONAL MONETARY FUND

GRENADA

May 3, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER OF NON-OBSERVANCE OF A PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Extended Credit Facility Arrangement. The arrangement was approved on June 26, 2014 and the third review completed on November 25, 2015. Disbursements equivalent to SDR 8.04 million (about US$11.5 million) have been made to Grenada so far under the arrangement and the equivalent of SDR 2 million (about US$2.9 million) will be made available upon Executive Board completion of the fourth review.

Debt Restructuring. Grenada's comprehensive public debt restructuring is nearing completion. The debt exchange with Grenada's largest private creditor group was implemented and an agreement reached with Paris Club creditors. The authorities have also made important progress restructuring domestic debt.

Program Performance. Overall program implementation remains satisfactory. All quantitative performance criteria for the fourth review were met. Most structural benchmarks for the Fourth Review were met on time or with minor delays, with actions being taken already to correct the two unmet benchmarks. The authorities advanced reforms to strengthen tax administration, improve public finance management, and overhaul the tax incentives regime.

Fourth Review. Discussions focused on completing the programmed fiscal consolidation, finalizing reforms to Grenada's fiscal policy framework, and improving competitiveness and growth prospects. Staff proposes to refine the structural benchmark on public sector modernization to focus specifically on public wage bill management, and to rephase the benchmark to allow the authorities adequate time to consider recommendations from upcoming technical assistance.

Article IV Consultation. Discussions focused on updating the medium term policy framework around the following priorities: (i) adherence to the new fiscal framework and medium term debt anchor, (ii) policies to deliver broader based growth, including through financial sector strengthening, and (iii) ways to lower structural unemployment.

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

Discussions took place in St. George's during February 22-March 3, 2016. The staff team comprised Nicole Laframboise (head), Kimberly Beaton, Xin Li, Hanlei Yun (all WHD), and Jemma Lafeuillee (local IMF economist). A representative from the Eastern Caribbean Central Bank and the Caribbean Development Bank participated in the meetings and the team was joined by Kevin Silston (OED).

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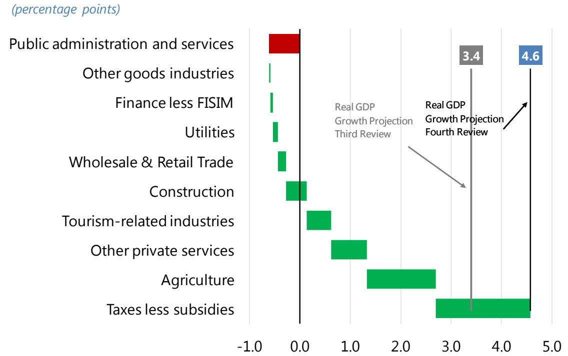
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

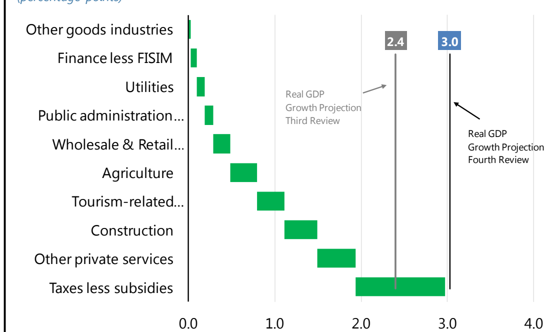
1. **The strong economic growth experienced in 2015 is expected to moderate.** Real GDP is estimated to have expanded by 4.6 percent (market prices) in 2015 due to continued expansion in agricultural, tourism, and tourism-related construction. Growth is expected to moderate to 3 percent in 2016 as agriculture output approaches capacity and tourist arrivals decelerate. Construction activity is projected to remain vigorous as several large tourism projects get underway.

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



Sources: IMF staff projections.

Grenada: Contribution to 2016 Real GDP Growth Projection
(percentage points)

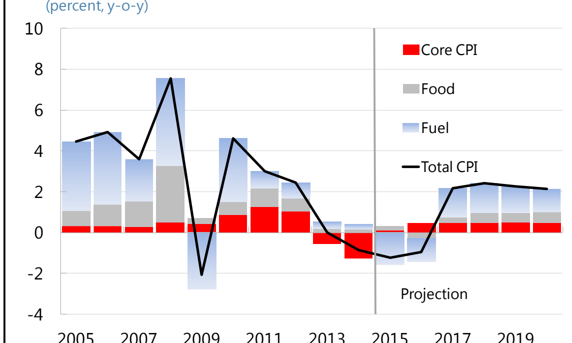


Sources: IMF staff projections.

2. **Unemployment remains elevated**. The unemployment rate has fluctuated around 30 percent since 2013, with unemployment particularly high among the youth and first time job seekers, suggesting potential skills mismatch and other rigidities that prevent adjustment. Recent growth has helped reduce long term unemployment, but has not been particularly job-rich because of spare capacity in the tourism sector and, to some degree, the entry of informal agriculture producers into the formal sector. Persistently high unemployment has led to large income gaps, with inequality in Grenada above the Caribbean average (Figure 1).

3. **Deflation persisted for the third consecutive year, though core inflation turned positive.** Owing to low international oil prices, headline CPI declined by 1.3 percent (y/y) in 2015 and is expected to fall by 0.9 percent in 2016. Core CPI (excluding fuel and food), however, turned positive (0.3 percent) in 2015 as domestic demand recovered.

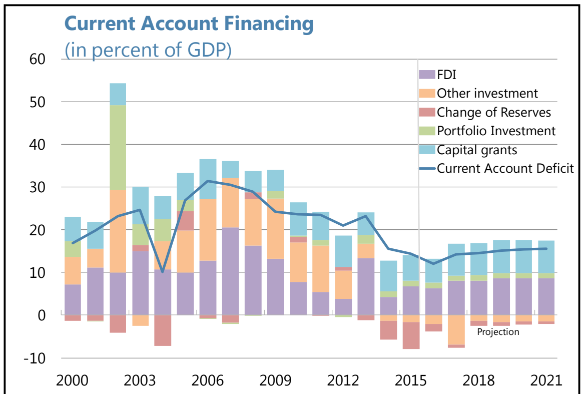
Grenada: Contribution to Headline Inflation
(percent, y-o-y)



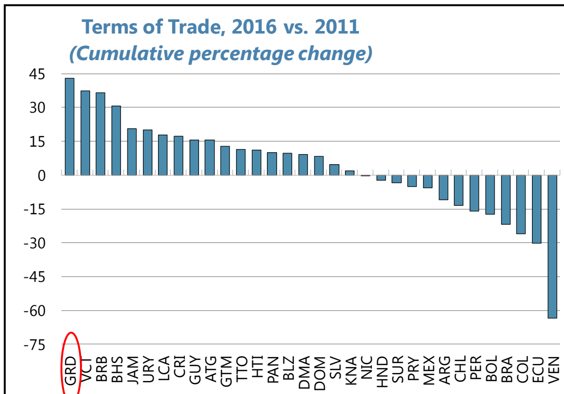
Sources: Grenada authorities and Fund staff estimates.

4. **Grenada's external position continues to strengthen.** Fiscal consolidation, rising tourism demand and falling oil prices helped narrow the current account deficit to 14.5 percent of GDP in 2015 from 23.3 percent in

2013.[1] Over the medium term, the current account deficit is forecast to remain around 15 percent of GDP. The deficit has remained adequately financed by tourism-related FDI and other private capital inflows, which more than offset banking sector outflows. As a result, foreign reserves rose to 5.7 months of imports in 2015.



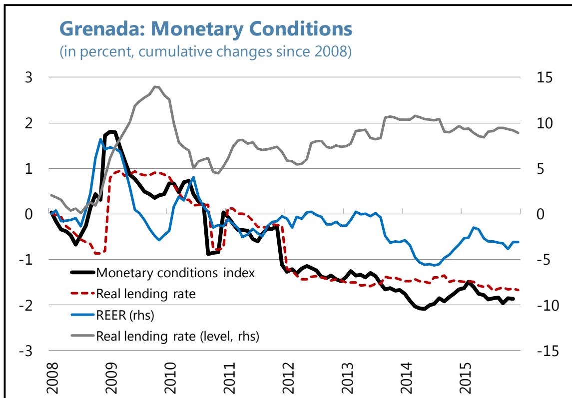
Sources: Grenada authorities and Fund staff estimates



Sources: IMF, World Economic Outlook database; and IMF staff calculations

5. **Concerns about external competitiveness remain on the radar, but signs are mixed.** Tourism growth has been strong, with stay-over tourists rising by 5.6 percent in 2015. Grenada's market share is gradually recovering to pre-2005 hurricane levels, although it still lags behind ECCU peers. Grenada's terms of trade have improved notably due to recent falls in oil prices given the country's high dependence on imported commodities. The real effective exchange rate (REER) has appreciated by 3.6 percent since mid-2014 owing to the strengthening U.S. dollar, which was partly offset by deflation in Grenada. Measured against tourism-markets only, the REER has appreciated by 5.8 percent over the same period. In addition, Grenada dropped from 130th to 135th in 2016 in the World Bank Doing Business index.

6. **Monetary conditions eased in 2015, but bank lending remains weak.** The reduction in the floor on savings deposit rates from 3 to 2 percent in May 2015 reduced banks' cost of funds and lending rates fell. Combined with real exchange rate depreciation, this contributed to a moderate easing in Grenada's monetary conditions in 2015. However, bank lending contracted by 3.8 percent due to tightened loan conditions and ongoing efforts to strengthen balance sheets: credit to the manufacturing and construction sectors expanded, but not by enough to offset the reduction in household credit.

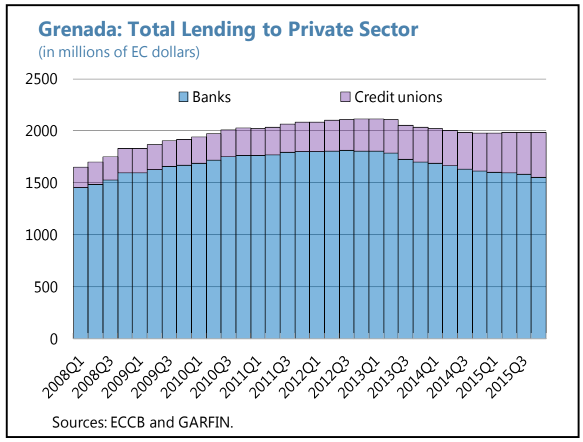


Sources: staff estimates.

[1] Balance of payments statistics prepared with improved and updated methodologies under BPM6 are currently under review and will be finalized by late 2016. See Box 3.

The loan-to-deposit ratio declined from 69 percent to 61 percent and banks' liquidity rose further.

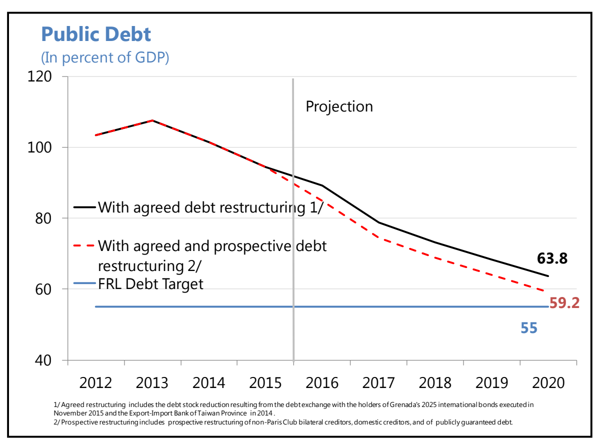
7. **In contrast, Grenada's credit unions expanded credit at a rapid pace.** Credit unions saw a steady increase in their deposit base and assets. Faced by increasing interest expenses, credit unions expanded their lending portfolios as total loans grew by 18 percent in 2015 following a 9 percent expansion in 2014. As a result, aggregate lending to the private sector increased slightly in 2015, for the first time since 2012, with credit unions' share of total lending increasing to 25 percent compared to 15 percent in 2013. Credit unions' NPLs remained relatively stable at 5 percent of total loans at end-2015, of which roughly half was provisioned. Capital reached 11.2 percent of total assets at end-2015, above the regulatory requirement of 10 percent for credit unions.



Grenada: Total Lending to Private Sector
(in millions of EC dollars)
Sources: ECCB and GARFIN.

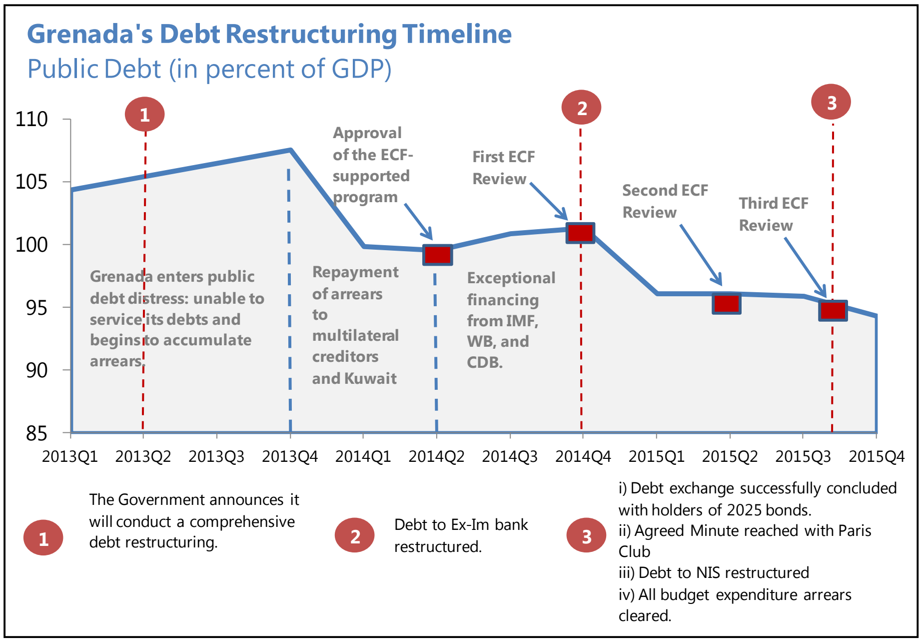
8. **The health of Grenada's commercial banks is slowly improving, though vulnerabilities remain.** Profitability improved in 2015 as the lower deposit rate significantly reduced banks' interest expense, but remains weak with a return on assets of 1.5 percent in 2015. The NPLs-to-loans ratio declined to the lowest level since 2011 at end-2015, but remains elevated at 10 percent. The reported capital adequacy ratio declined from 13 percent in 2014 to 12.2 percent in 2015, still well above the regulatory requirement of 8 percent.

9. **External debt remains in distress but prospects for a restoration of 'sustainability' are much improved.** Grenada's debt restructuring is nearing completion (See DSA). Restructuring agreements have been reached with creditors representing about 64 percent of total debt under restructuring negotiations and valued at 34 percent of GDP. Since November, most of Grenada's domestic debt to the National Insurance Scheme (NIS) was restructured, resulting in cash flow relief of approximately 58 percent in NPV terms. An agreement was finalized with the Grenada Ports Authority to restructure a privately placed T-bill, with a 50 percent haircut, agreements were reached with some commercial banks, and some state-owned enterprise (SOE) debts guaranteed by the government were restructured (MEFP¶9). The completed agreements have contributed to a reduction in public debt from 107.6 percent of GDP in 2013 to 94.3 percent in 2015. Negotiations with remaining creditors are



Public Debt
(In percent of GDP)
1/ Agreed restructuring includes the debt stock reduction resulting from the debt exchange with the holders of Grenada's 2025 international bonds executed in November 2015 and the Export-Import Bank of Taiwan Province in 2014.
2/ Prospective restructuring includes prospective restructuring of non-Paris Club bilateral creditors, domestic creditors, and of publicly guaranteed debt.

ongoing.[2] Assuming successful completion of the ECF-supported program and restructuring of remaining outstanding debts, the debt-to-GDP ratio is projected to fall to 79 percent of GDP by end-2017 and to below 60 percent by 2020.



10. **The baseline outlook sees growth converging at potential and inflation stabilizing.** Robust growth over 2013-15 has helped close the output gap, which had widened significantly during the global crisis. Going forward, growth is expected to gradually converge toward potential, estimated at about 2.7 percent.[3] This has risen slightly (from 2.5 percent) because the production capacity of the economy is expected to increase as Grenada gradually attracts new investment, including related to the CBI program, confidence rises, and as the labor force expands further. Consistent with the recovery, CPI inflation is expected to rise gradually to about 2 percent over the medium term, in line with imported inflation.

11. **Risks to the outlook remain balanced (Annex I).** Upside risks to the outlook are posed by the potential for a larger demand response to the oil price decline, stronger than anticipated tourism inflows, and higher than expected proceeds from the CBI program. Downside risks arise from a stronger impact from fiscal consolidation on growth, reputational and fiscal risks stemming from a dispute between the government and a major hotel property, natural disasters, a possible Zika virus outbreak, and externally, a weaker global recovery, the appreciation of the

[2] Grenada's official bilateral creditors to whom it remains in arrears pending agreement on debt restructuring (Algeria, Libya, Trinidad and Tobago) have consented to completion of the review.

[3] The potential growth rate is estimated with a Cobb-Douglas production function and suggests that productivity growth has been negative (estimated at -0.6 percent per year on average) in Grenada during the past decade, in line with the findings from WP/12/235, despite recent improvements during the recovery. Staff has assumed zero productivity growth over the medium term.

U.S. dollar, an opening of U.S.-Cuba tourism, and a reduction in financial services by global banks, i.e. de-risking.

12. **Authorities' Views.** The authorities share staff's views on the outlook and risks, but are more optimistic about growth prospects for 2016 based on the potential impact of several tourism-related construction projects. They agreed on the importance of finalizing the debt restructuring and indicated that all negotiations are expected to conclude in 2016.

PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

Program performance remains satisfactory. The government met all quantitative performance criteria for the fourth review and made progress on the structural reform agenda.

A. Quantitative Performance Criteria

13. **The fiscal position continues to improve**. For the first time in a decade, Grenada achieved a primary surplus in 2015 (2.2 percent of GDP), a significant turnaround from the deficit of 3.9 percent of GDP in 2013. The primary balance exceeded the adjusted Quantitative Performance Criterion (QPC) by a significant margin (0.7 percent of GDP) due to continued expenditure restraint and higher-than-projected revenues. Stronger growth and a bigger yield from tax measures helped boost revenues. All end-2015 and continuous QPCs were met. This over performance was achieved even as the authorities utilized some of the fiscal space provided by the strong revenue growth to raise capital spending (allowed under the program) to support growth. Grenada entered the final year of its program with over 80 percent of the total programmed consolidation completed.

Grenada: Fiscal Program Performance

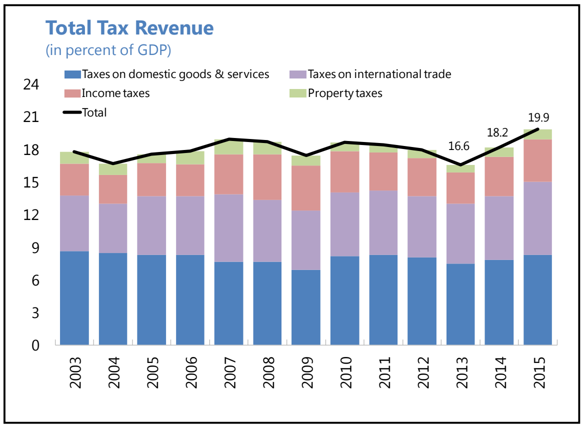
(in millions of EC$)

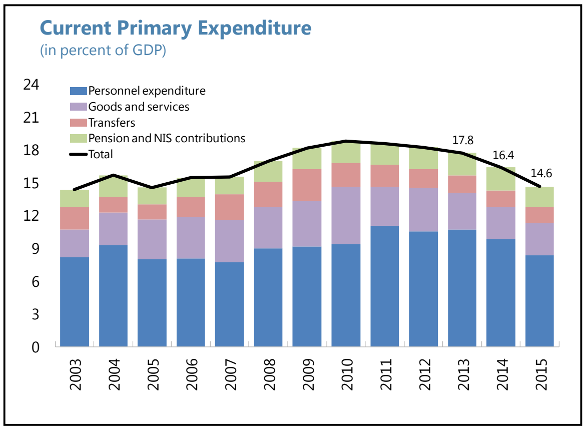
	2014	2015
	Act.	Act.
Total revenue and grants	**602.8**	**658.2**
Tax revenue	448.1	511.6
Non-tax revenue, o.w.	54.2	59.5
CBI-related revenue	0.3	16.3
Grants	100.5	87.2
Total expenditure	**717.7**	**690.6**
Current non-interest expenditure	403.7	377.1
Interest payments	87.3	89.9
Capital expenditure, o.w.	226.7	223.6
Non-grant-financed	136.1	136.5
Primary balance (Act.)	**-27.6**	**57.5**
Primary balance (Act., in percent of GDP)	**-1.1**	**2.2**
PC: Primary balance	**...**	**31.0**
Adjustor: Shortfall in SEED spending	...	1.6
Adjustor: CBI related revenue	...	19.4
Adjustor: Debt Advisor Fees	...	-12.6
PC: Primary balance (adjusted)	**...**	**39.4**
PC: Primary balance (adjusted, in percent of GDP)	**...**	**1.5**
Overall balance	**-114.9**	**-32.4**
Memorandum items:		
Primary spending	**630.4**	**600.7**
Primary spending (in percent of GDP)	**25.6**	**23.3**
PC: Primary spending	**...**	**550.5**
Adjustor: Shortfall in SEED spending	...	-1.6
Adjustor: Revenue overperformance	...	47.3
Adjustor: Additional capital grants	...	10.1
Adjustor: Debt Advisor Fees	...	12.6
PC: Primary spending (adjusted)	**...**	**618.9**
PC: Primary spending (adjusted, in percent of GDP)	**...**	**24.0**
IT: Social spending (on SEED)	13.0	11.8
Monitoring: Wage bill 1/	223.3	215.3

1/ Excludes retroactive payments in 2014.

14. **All budget expenditure arrears were cleared by end-2015.** This was an important condition under the program and should help restore liquidity and confidence in the economy. Debt restructuring agreements have regularized about 78 percent of external debt arrears

(excluding membership arrears). Apart from external debt still under negotiation, no new arrears were accumulated, in line with the QPC. Remaining external arrears are primarily to non-Paris Club bilateral creditors and holdouts from the 2005 debt restructuring. The new instrument issued for the restructured U.S. dollar 2025 bonds included an allowance for participation by these 2005 holdouts. The restructuring for these creditors will be finalized in the first half of 2016.[4]





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

	End-December 2015, fourth review				
	Program	Program Adjusted 1/	Actual	Difference	Projected Status
Performance criteria					
A. Cumulative floor on central government primary balance (EC$ mln) 2/	31	39	58	19	Met
B. Cumulative ceiling on central government primary spending (EC$ mln) 2/	550	619	601	-18	Met
C. Ceiling on stock of central government budget expenditure arrears (EC$ mln)	0	0	0	0	Met
D. Ceiling on accumulation of external debt arrears (continuous)	0	0	0	0	Met
E. Ceiling on contracting of non-concessional external borrowing by the central government (continuous)	0	0	0	0	Met
Indicative targets					
F. Cumulative ceiling on net change in central government and central government guaranteed debt (EC$ mln) 2/	66	-58	-66	-8	Met
G. Floor on social spending by central government (EC$ mln)	13.4	n.a.	11.8	-1.6	Not Met
Monitoring					
H. Wage bill target (excluding retroactive payments) 3/	220	n.a.	215	-5	Met
I. Public employment (excluding workers under the IMANI program)	7484	n.a.	7003	-481	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ From end-December 2014.
3/ Wages, salaries, and personnel allowances.

15. **While budget expenditure arrears at end-2015 were cleared, the ceiling for end-June 2015 was not observed.** During restructuring negotiations with the NIS in late 2015, the government became aware of previously unrecorded contribution arrears amounting to EC$14.5

[4] The majority of creditors have not come forward; the excess allowance of new debt issued for these holdouts will be cancelled before the first coupon payment (May 2016) on the U.S. dollar 2030 bond. The authorities are also exploring the option of cancelling the entire allowance and pursuing a cash settlement with these creditors.

million, or 0.6 percent of GDP. These arrears were folded into the restructuring, enabling the government to meet the December 2015 QPC.[5] However, given the higher stock of budget expenditure arrears that would have existed in June had the additional contribution arrears to the NIS been known, the program ceiling on budget expenditure arrears for end-June 2015 would not have been observed by a small margin (EC$10.5 million, or 0.4 percent of 2015 GDP). Staff recommends granting a waiver for this deviation because it was minor and because the government accomplished the program objective of clearing all arrears by end-2015. The assessment of performance under other previous test dates was unaffected because central government expenditure arrears remained below the program ceilings, despite the higher stock.

16. **The authorities continue to limit external borrowing as per the QPC.** In 2015, external non-concessional borrowing was restricted to the bonds issued to execute the restructuring agreement with private external bond creditors. The remaining external borrowing consists primarily of exceptional financing from multilateral creditors, excluded from the QPC on non-concessional external debt (TMU¶10, see also ¶29). The continuous QPC was consequently met, as was the end-2015 indicative target on the net change in central government and central government guaranteed debt. External borrowing is expected to remain limited going forward, with borrowing limited to program and project based lending from the World Bank and Caribbean Development Bank consistent with the authorities' development strategy (¶31).

Summary Table on External Borrowing Program for 2016

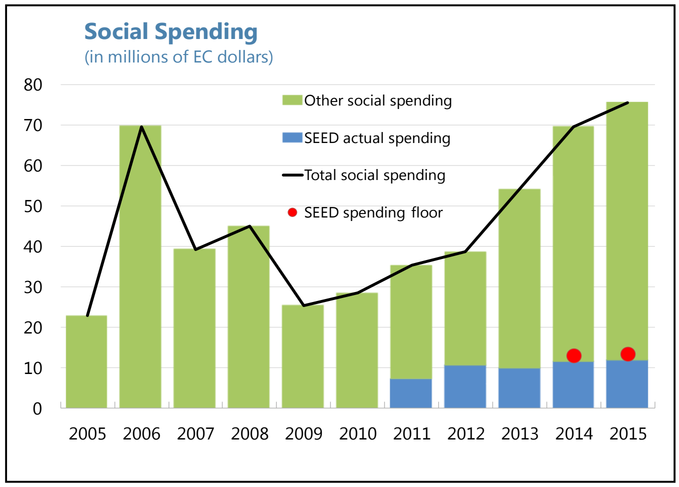
PPG external debt contracted or guaranteed	2016 New debt US million 1/	2016 Present value US million 1/
Sources of debt financing	**37.0**	**24.6**
Concessional debt, of which 2/	10.0	3.9
Multilateral debt	10.0	3.9
Bilateral debt	0.0	0.0
Non-concessional debt (NCD), of which 3/	27.0	20.7
Semi-concessional debt 4/	27.0	20.7
Commercial terms 5/	0.0	0.0
Use of debt financing	**37.0**	**13.3**
Infrastructure	17.0	0.0
Budget financing	20.0	13.3
Debt restructuring	0.0	0.0
Memo items		
Indicative projections		
Year 2017	33.0	27.7

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold of 35 percent.
3/ NCDs from the IBRD and the CDB and NCD issued for the purposes of debt restructuring are excluded from the continuous quantitative performance criterion on zero ceiling of NCD specified in the TMU (TMU¶10)
4/ Debt with a positive grant element which does not meet the minimum grant element. These include financings from IBRD and CDB.
5/ Debt without a positive grant element.

17. **Spending under the 'Support for Education, Employment and Development' (SEED) program was below the indicative target (floor) for end-2015**. Staff had understood that the new beneficiary information system developed under Grenada's World Bank-supported program would be fully operational in late 2015, but the transition has taken longer than expected due to technical and administrative capacity constraints. Consequently, the approval of new beneficiaries has been constrained, and spending under the target fell short by EC$1.6 million, or 0.06 percent of GDP. The SEED program is now closed to new entrants until the transition is complete, expected in the first half of 2016. The goal of SEED reform under the World Bank

[5] The additional arrears comprised: (i) arrears that existed prior to the program period (EC$10.9 million) from an earlier agreement signed between the NIS and the Government of Grenada on pre-2002 contribution arrears; and (ii) arrears that arose over the program period as a result of discrepancies (related to both bookkeeping and disagreements as to amounts owed) between the NIS and Government of Grenada data on contributions owed.

program —to improve the targeting of social spending and eventually consolidate all social programs under the strengthened SEED program—is an important objective which the Fund-supported program shares. As a result, staff continues to support the existing definition of the indicative target. In the interim, the government has continued to offset the impact of under-spending on SEED with higher spending on other social programs such as the youth apprenticeship, needy assistance, and emergency recovery programs.



B. Structural Reforms

18. **Structural reforms are advancing**:

- **Tax administration**: The new Tax Administration Act was approved by Parliament in February 2016 (November 2015 **structural benchmark**) and the restructuring of the Inland Revenue Department (IRD) is now complete, with the Large and Medium (LMTU) and Small Taxpayers Service Units operational by mid-January 2016 (end-2015 **structural benchmark**). To maximize the revenue yield from these efforts, the Act should be brought into force expeditiously and IRD provided with sufficient resources to fulfill its mandate.

- **Tax incentive regime**: The reform of the tax incentive regime to make it rule-based, predictable and transparent should be finalized in early May 2016. Relative to the initial legislative reforms approved in 2015, additional amendments were made to the individual acts primarily to codify incentives for qualifying investments in priority sectors, which are currently provided through Cabinet discretion. With approval from CARICOM partners, amendments to the list of conditional duty exemptions to remove discretion were also finalized. Regulations under the Investment Act of 2014 were also completed. With the new regime in place, bringing it into full force is a **prior action** for completion of the fourth review. While the transition to the new regime is expected to be broadly revenue neutral, the authorities have committed to taking immediate action should there be revenue losses (¶30, MEFP ¶10).

- **Public finance management (PFM)**: The authorities undertook to prepare the 2016 budget under the new Chart of Accounts (CoA) classification (end-2015 **structural benchmark**). However, several recurrent spending items and some wage spending related to capital projects were still recorded incorrectly under the capital budget. Consequently, the end-2015 structural benchmark was not met. However, all monthly budget accounting and reporting in

2016 has been converted to the new CoA and, consequently, staff does not propose to rephase the structural benchmark. To support the proper classification of spending under the new CoA, further progress is needed to correctly record recurrent components of capital projects into their proper classification under the new CoA (MEFP¶10). To that end, CARTAC has agreed to provide focused TA in this area this year.

Grenada's Strengthened Fiscal Policy Framework

	Approved by Parliament	Entered into Force	Regulations Entered into Force
Fiscal Policy Framework Reform			
Fiscal Responsibility Act 2015	✓	✓	n/a
Public Debt Management Reform			
Public Debt Management Act 2015	✓		
Public Finance Management Reform			
National Transformation Fund Regulations 2015 *	✓	✓	✓
Public Finance Management Act 2015	✓	✓	✓
Public Procurement and Disposal of Property Act 2014	✓	✓	✓
Tax Administration Reform			
Customs Act 2015	✓	✓	
Tax Administration Act 2016	✓		n/a
Tax Incentive Reform 1/			
Annual Stamp Tax (Amendment) Act 2015	✓	✓	n/a
Customs (Duties Exemptions) Order 2016 *	n/a		n/a
Customs (Service Charge) (Amendment) Act 2016	✓		n/a
Excise Tax (Amendment) Act 2016	✓		n/a
Income Tax (Amendment) Act 2015	✓	✓	n/a
Income Tax (Amendment) Act 2016	✓		n/a
Investment Act 2014	✓		n/a
Investment (Amendment) Act 2016	✓		n/a
Investment (Priority Sectors) Regulations 2016	n/a		n/a
Property Transfer Tax (Amendment) Act 2015	✓	✓	n/a
Property Transfer Tax (Amendment) Act 2016	✓		n/a
Value-Added Tax (Amendment) Act 2015	✓	✓	n/a
Value-Added Tax (Amendment) Act 2016	✓		n/a

Note: n/a = not applicable. * = Approved by Cabinet.
1/ All tax incentive reform legislation will be entered into force as a prior action for completion of the fourth review.

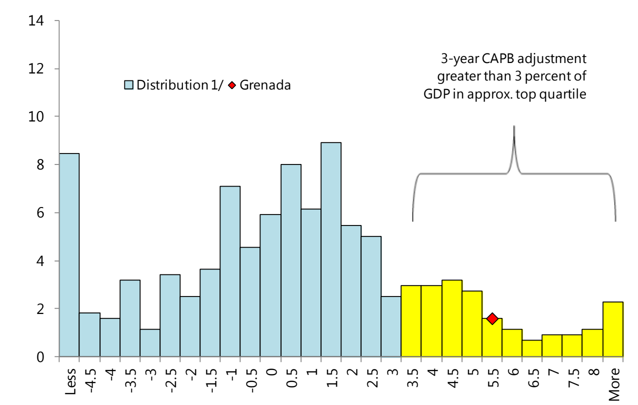
PROGRAM PRIORITIES FOR 2016

Discussions focused on completing the programmed fiscal consolidation, finalizing reforms to Grenada's fiscal policy framework, and improving competitiveness and growth prospects to support sustainability over the medium-term.

A. Completing the Fiscal Consolidation

19. **The programmed fiscal consolidation is on track, but there is little room for maneuver in 2016**. With the VAT on banking services effective (MEFP¶4), all 2016 adjustment measures are in place. Primary spending and the primary balance for 2016 are projected in line with their nominal program targets under conservative forecast assumptions, but nevertheless require close monitoring.[6] Successful implementation of the final year of the programmed fiscal consolidation would put Grenada in the top quartile (93rd percentile) of all fiscal consolidation efforts recorded globally during the past two decades for countries with debt ratios higher than 60 percent of GDP (chart).

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



1/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

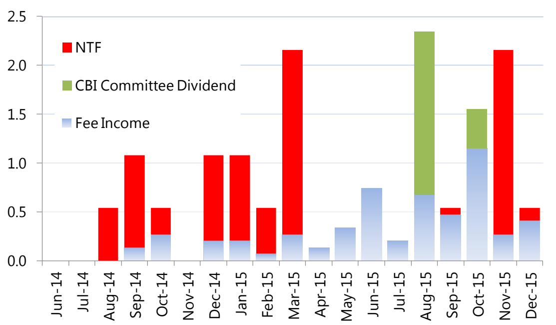
20. **While projected to meet the nominal QPC, the primary surplus could fall below the 3.5 percent of GDP target set out in Grenada's FRA.** This target is required until public debt is reduced to 55 percent of GDP. The deviation is driven by expenditures related to the restructuring of two SOEs, which are accommodated under the ECF-supported program by an adjustor on the floor of the primary surplus for this purpose ((TMU¶5). While projected to meet the 2016 nominal QPC on the primary surplus (after adjustors), staff assess that these expenditures could put at risk the government's primary surplus target of 3.5 percent of GDP under the FRA. Staff forecast the primary surplus to meet the FRA target of 3.5 percent of GDP in 2017 but urged the government to make additional efforts as needed in 2016 to deliver a surplus that complies with the FRA target, to safeguard the credibility of the rules-based fiscal policy framework.

21. **The main downside fiscal risk for 2016 could be overly-ambitious capital spending, but safeguards have been put in place**. The budget assumes a significant scaling up of CBI program funds and a commensurate increase in grant inflows from the National Transformation

[6] The nominal program target for the primary surplus, after program adjustors are applied, is equivalent to 3.1 percent of GDP (see ¶ 21).

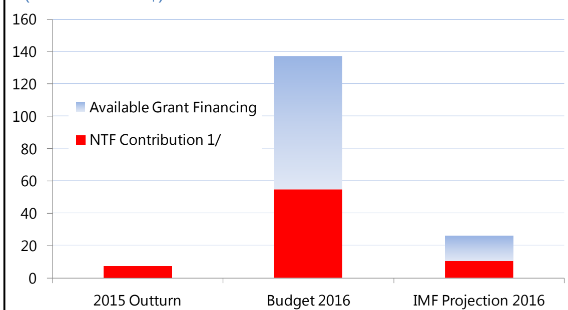
Fund (NTF) to finance above-program capital spending (3 percent of GDP) on infrastructure and social projects. Some of the planned capital spending is on recurrent projects and could not be easily scaled back in the event of a shortfall in grant financing. As a result, staff concluded that the December **structural benchmark** for "approval of a budget consistent with program commitments" was not met. However, the authorities have put in place corrective measures to align the budget with program commitments (MEFP¶4), including by revising capital budget allocations (TMU¶20), and are closely monitoring execution. They also reduced their capital budget allocation to reflect lower- than-expected grants from the Petrocaribe arrangement, which are projected to decline to 0.1 percent of GDP from 0.4 percent in 2014.[7]

CBI Program Revenues
(millions of EC$)



Sources: Grenadian authorities.

CBI Program Revenues: NTF Application Option
(millions of EC$)



Sources: Grenadian authorities and IMF staff estimates. 1/ Contributions to the NTF are consistent with the requirement in the NTF regulations to save 40% of inflows into the NTF for arrears repayment, debt reduction and contingency financing. In 2015 all contribution to the NTF were utilized for arrears repayment consistent with ECF program commitments.

22. **Rising wage pressures also present a downside risk.** The budget made additional provisions for wage expenditures to address staff shortages in health care and strengthen revenue administration. While relatively small (0.2 percent of GDP), these provisions would push the wage bill slightly over the ECF monitoring target, although they would still be accommodated within the QPC on primary spending and also be under the ceiling on wage expenditure under the government's FRA (9 percent of GDP). At the same time, public wage negotiations have commenced and unions are demanding payment of automatic grade increments for the 2014-16 period (MEFP ¶7). Staff projections for wages include cautious assumptions regarding the risk of payment of increments. While this raises the staff projection further above the monitoring target, total primary spending is still projected under the QPC ceiling. To ensure sustainability of the public sector wage bill over the medium-term, the authorities have committed (**structural benchmark**) to implement measures to strengthen management of the public sector wage bill (¶25, MEFP¶11).

23. **Authorities' views:** The authorities reasserted their commitment to the contingent fiscal measures outlined in the MEFPs from 2014 (see MEFP¶8). They concurred with staff about the importance of complying with the parameters of the FRA, and noted that under their own

[7] Under Grenada's Petrocaribe arrangement, a portion of the fuel import bill is converted into a concessional loan for social projects (Country report No. 14/196, Annex VI). This share depends on international oil prices; the concessional financing portion has fallen from 60 percent to 30 percent since 2014.

projections, they continue to target a 2016 primary surplus of 3.5 percent. They indicated that they would monitor budget outcomes closely. The government is committed to executing the capital budget in line with program commitments. With respect to wages, the government had committed in 2014 not to pay any wage increase or increments during the program, but discovered subsequently they had a contractual obligation to some public sector employees to pay increments. On this issue, they agreed with staff on the need to overhaul civil service compensation practices to address rigidities and deficiencies (¶25).

B. Structural Reforms to Support Fiscal Sustainability and Growth

24. **The top priority in 2016 is to strengthen management of the public sector wage bill.** During the first phase of the program, direct controls on nominal wages and attrition successfully contained the wage bill, but now must be replaced with more sustainable measures.[8] Moreover, public sector wages have important impact on private sector wages in small states. In response, the authorities have committed to develop a rational mechanism to manage the wage bill, including pay and grading reform, compensation guidelines, and systematic indicators to inform regular wage negotiations (MEFP¶7, 11). The authorities will receive TA from IMF Fiscal Affairs Department to conduct a review of existing policies, which is tentatively scheduled for May 2016. Approval of a "focused strategy to manage the public sector wage bill", informed by the TA recommendations, is proposed as a revised and rephased **structural benchmark** for end-September 2016. As a complement, the government has begun consultations on public sector pension reform as part of addressing the overall cost of the civil service and of ensuring the sustainability of the NIS.[9]

25. **Finalizing and implementing Grenada's new fiscal policy framework remains a priority for 2016.** The exhaustive legislative reforms to strengthen the framework are nearing completion (Table 11), but signing into force the tax incentive regime (**prior action**) and the tax administration act remain outstanding. The regulations for the public debt management act need to be finalized and the act and regulations brought into force—important given weaknesses noted in debt management.

26. **Labor laws and investment promotion are important elements of pro-growth reforms this year.** In this respect, the authorities have drafted a new Act for the Grenada Investment Development Corporation (GIDC) and revised Labor Code. The new acts will come into effect following parliamentary approval, which are currently on track to meet the **structural benchmarks** for end-June 2016 (MEFP¶15) and end-August 2016 (MEFP¶17), respectively. These reforms should strengthen investment processes and prospects, improve labor relations, and motivate job search, key ingredients for raising potential growth and lowering unemployment.

[8] IMF Country Report No. 14/196, Box 4 on the civil service and wage-setting mechanism.

[9] See IMF Country Report No. 14/196, Annex IV. TA in support of pension reform took place in February 2016.

C. Program Design and Financing

27. **No changes are proposed to the QPCs (MEFP Table 1).** The authorities agreed to lower the monitoring target ceiling on public employment for both end-June and end-December 2016—more ambitious than agreed earlier—to maintain employment at or below the end-2015 level. As noted, staff proposes to revise the structural benchmark on public sector modernization to focus it specifically on the management of the public sector wage bill, and to rephase it to provide the authorities adequate time to consider recommendations from the FAD TA (MEFP Table 2). Consultations with TA experts will inform the government's position in ongoing negotiations with unions in 2016.

28. **Modifications to the definition of the continuous QPC ceiling on the contracting of non-concessional external debt by central government are proposed.** Previously, all borrowing from the Caribbean Development Bank (CDB) and the World Bank (WB) was excluded from the zero ceiling. However, to comply with the Fund's new policy on Public Debt Limits, modifications are proposed to the QPC in the TMU (¶10) to include borrowing from the CDB and WB in the definition but with associated adjustors for CDB and WB borrowing for set amounts and purposes. The ceiling and adjustors state the specific nature of the development loans expected to be contracted and set a cap on the borrowing permitted under the adjustor for the QPC ceiling.[10] The projected borrowing from these institutions (US$30 million for the CDB and WB, respectively) is expected to occur primarily under their respective Development Policy Loans (DPL), regional partnership strategies, and project loans. These programs/projects aim to support Grenada's national development strategy with a focus on strengthening growth, competitiveness and resilience, including improving the investment climate, strengthening tourism and linkages to agribusiness, building resilience to natural disasters with regulatory and physical planning reforms, and improving the targeting of social programs (see Informational Annex). The latter has been synchronized with conditionality under the ECF arrangement, where a feature of the Bank's policy loan is related to the identification and registration of eligible recipients for social assistance to ensure that social spending is allocated to those most in need. As previously agreed, debt instruments issued as part of the restructuring continue to be excluded from the QPC ceiling as, consistent with the Public Debt Limits policy, these borrowings are for debt management operations to improve the overall profile of public debt.

29. **Financing assurances are in place for the fourth review.** The completion of several debt restructuring agreements (¶9), along with the continued improvement in the macroeconomic outlook, have narrowed financing needs in the baseline scenario. The remaining financing gaps are expected to close over the program period with exceptional financing expected from International Financial Institutions (Tables 3 and 6). The authorities remain in arrears to three official bilateral creditors (Algeria, Libya, and Trinidad and Tobago) pending agreement on debt restructuring with these creditors. Staff is of the view that, given the relative

[10] IMF, "Reform of the Policy on Public Debt Limits in Fund-Supported Programs". December 2014.

financial contribution of these bilateral creditors to the ECF-supported program, the agreement reached with Grenada's Paris Club creditors in November 2015 is not adequately representative under the Fund's policy on the non-toleration of arrears to official bilateral creditors.[11] Grenada continues to engage in good faith discussions with its remaining official bilateral creditors to whom it remains in arrears and these creditors have indicated that they consent to the completion of the review.[12]

ARTICLE IV CONSULTATION DISCUSSIONS

Since the last Article IV consultation in June 2014, Grenada has made major strides toward restoring fiscal and external sustainability. Economic activity has picked up, debt has been reduced, and the external position has strengthened. The government has also pushed through important legislative reforms to build a fiscal framework that will lock-in fiscal discipline over the long term.

A. Supporting Fiscal Sustainability over the Medium-Term

30. **Grenada is on the road to fiscal and debt sustainability, but has a ways to go**. While the fiscal adjustment and debt restructuring have contributed to a significant reduction in public debt since 2013, debt remains elevated and well above the regional average. The policy resolve and commitment demonstrated so far will need to continue to entrench lasting fiscal and debt sustainability. Tax policy changes have supported an increase in revenues by over 3 percent of GDP since 2013. However, revenues as a share of output remain lower than in peer countries (figure) and there is scope to broaden the tax base further.

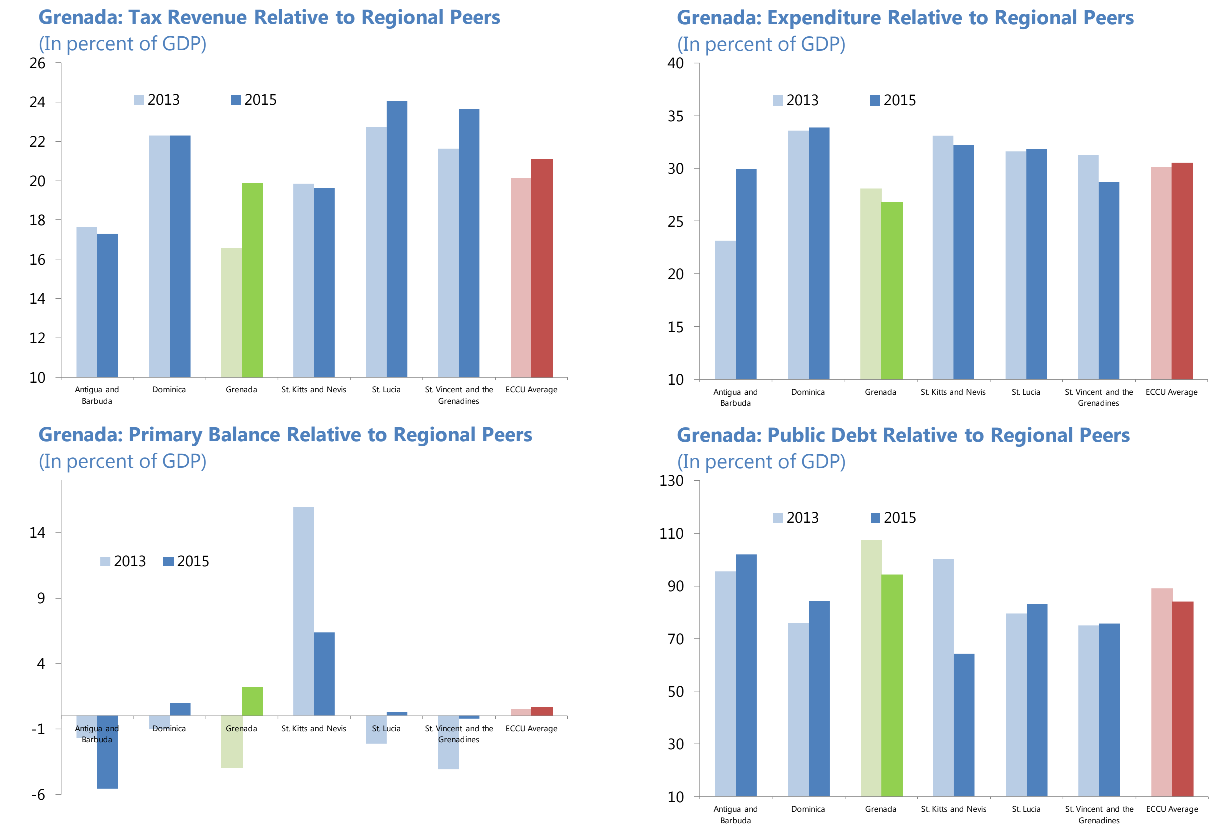
31. **The new fiscal policy framework has established the foundation needed to promote fiscal discipline over the medium-term.** Grenada is the first independent ECCU country and second CARICOM country to put in place fiscal rules. The debt ceiling of 55 percent of GDP is more ambitious than the ECCU target of 60 percent by 2030 and the framework has broad coverage over general government which will help reduce fiscal risks emanating from state enterprises. The challenge will be to follow through—full implementation of the fiscal policy framework to ensure its effectiveness as the anchor for policy-making.

32. **Revenue measures have supported fiscal adjustment, but more could be done to broaden the tax base and support growth.** The government lowered the income threshold for the personal income tax (PIT) and reduced exemptions under the VAT and customs duties. To further widen the tax base and promote equity, the PIT income threshold remains relatively high and could be lowered further, and the tax base broadened to include investment income. Completion of the tax incentive reform also remains critical to ensuring the integrity of the tax

[11] IMF, "Reforming the Fund's Policy on Non-toleration of Arrears to Official Creditors". December 2015.

[12] The authorities have continued to engage all external creditors to whom it remains in arrears.

Grenada's Fiscal Performance Relative to Regional Peers



Box 1. Implementation of the 2014 Article IV Consultation Recommendations

Recommendations:

1. Strengthen medium term growth and competitiveness by improving the investment environment, lowering energy costs, liberalizing agriculture markets, and containing wage growth.
2. Restore stability and debt sustainability with ambitious fiscal adjustment and comprehensive debt restructuring. Key elements comprise lowering controlling the wage bill, broadening the tax base.
3. Overhaul the fiscal policy framework to ensure sustainability, including with a fiscal responsibility law, tax reform, stronger public finance management, and reform of state owned enterprises.
4. Safeguard social protection for the most vulnerable during fiscal adjustment, and improve the targeting of social spending toward those most in need.
5. Strengthen the banking system with improved regulation and supervision, including with an asset quality review of Grenada's banks; improve regulation and oversight of non bank financial sector.

Outcome:

In the areas of growth, fiscal adjustment, debt restructuring, re-design of the fiscal policy framework, tax reform, and financial sector reform, over the past two years the government has implemented or is implementing Fund recommendations. The areas where progress is underway but not complete include improving tax administration and debt management, and finalizing regulatory reform in the energy sector. While greater social spending has occurred, the government has not fully implemented an improved system to target social assistance to the most vulnerable. While the public wage bill has been contained with a wage freeze and attrition, there has been little or no progress to reform the public sector. The government has committed to a more focused approach in 2016 to correct this shortcoming.

base. The government introduced an alternative minimum tax regime for small businesses and, once the tax incentive reform is brought into force, will accelerate investment allowances and introduce a deduction on business training costs to encourage investment. The corporate income tax base could be broadened by restricting deductions and taxing foreign-source interest, rents, royalties, and fees. When fiscal space is available, the corporate income tax rate could be lowered. Finally, the list of priority sectors under the tax incentive regime is too comprehensive and could be streamlined to focus on key growth sectors.

33. **Ongoing efforts to strengthen tax administration will support improved fiscal outcomes over the medium-term**. With a strengthened legislative framework for tax administration and the restructuring of the IRD complete, the authorities are focusing on taxpayer compliance.[13] In line with Fund TA advice, they are developing a Compliance Strategy and working to strengthen compliance risk management within both IRD and Customs. To support further improvements, IRD needs to update urgently its SIGTAS technology system and both Customs and IRD need to make full use of the modern ASYCUDA World system. Both will also need adequate resources and leadership to fulfill their mandates.

34. **Public finance management continues to improve (MEFP¶10).** The preparation of the 2016 Budget was vastly improved relative to prior years—a direct consequence of the 2015 PFM Act. The Budget was accompanied by a medium-term fiscal framework and an assessment of performance for the previous fiscal year, included information summarizing the financial condition of each SOE, and was consistent with the FRA. Moreover, assessments are now being prepared on the impact of all policy proposals on fiscal and debt sustainability. The results of the 2015 Public Expenditure and Financial Accountability (PEFA) assessment noted the contribution that strengthened PFM practices have made to improving fiscal outcomes and achieving targets.[14] Going forward, strengthening cash forecasting and commitment control remain priorities.

35. **Grenada is leading the region on management and accountability of SOEs.** CARTAC experts report that Grenada's strategy to strengthen the accountability and performance of SOEs and their new oversight framework is the strongest in the region (Box 2). While the budget included important financial information, there is room to improve the monitoring of SOE financials and their compliance with the new reporting requirements.[15] Importantly, resources available within the Ministry of Finance should be allocated to the SOE monitoring unit and outreach is needed to boost compliance on reporting, the dividend policy, and salary guidance.

36. **Debt management needs to be strengthened to support fiscal sustainability and facilitate compliance with the FRA.** The challenges observed in the accurate reporting of central government budget expenditure arrears (¶15) are symptomatic of broader challenges in

[13] The authorities continue to benefit from a peripatetic revenue administration advisor supported by FAD.

[14] See IMF Country Report No. 15/333 Annex IV for a summary of the PEFA results.

[15] The authorities received further TA from CARTAC in February 2016 to assist with their efforts.

debt management. The authorities' efforts to strengthen the legislative environment for debt management are welcome, but need to be complemented with more fundamental reform of debt management in Grenada. The Debt Management Unit (DMU) is focused on back office operations including debt recording, reporting and payments monitoring rather than on fulfilling its analytical, strategic, and resourcing responsibilities mandated by the 2015 PDM Act. The DMU should be comprehensively restructured along functional areas (front, middle and back office) in line with TA advice based on international best practice, with its operations refocused on implementing the government's medium-term debt strategy to achieve its debt management objectives in support of fiscal sustainability. Additional resources will also need to be allocated to the DMU in support of these objectives and the draft medium-term debt strategy should be finalized as an urgent priority as the debt restructuring is now nearing completion.

37. **Authorities' Views.** The authorities' reiterated their confidence in and commitment to the FRA framework. In light of the significant tax policy changes implemented over the past two years, they did not see scope for further reforms at this time and indicated that they are focusing on strengthening tax administration, where there is considerable scope for raising yields. They noted the significant progress made to strengthen PFM and agreed with staff's assessment of the priority areas for reform. With respect to SOEs, they agreed to steadfastly improve compliance and oversight and stressed the continuous efforts made so far despite staffing constraints.

Box 2. Update on the Reform of State-Owned Enterprises and Statutory Bodies [1/]

System-wide reform. The government put in place a Performance Monitoring Framework, developed with CARTAC assistance, which, together with the new PFM legislation, provides a legal basis to the oversight of SOEs/SBs and to directives on both salary levels and dividend requirements. A Letter of Expectations was sent to the SOE/SB Boards in 2015 which sets out their obligations going forward. The strategy is supported by the new PFM legislation and regulations which provide incentives to promote improved financial reporting and performance. So far, reporting has improved significantly: the 2016 Budget for the first time included a summary of financial indicators for each SOE/SB and as of March 2016, more than half of the SOEs/SBs had met the new reporting requirements. However, fewer had submitted their strategic business plans—needed for the Policy Unit to advise on capital expenditure needs/financing and dividend levels, and recently an SOE announced plans to award a wage settlement conflicting with the directives.

Oversight responsibility. This resides in the Policy Unit; with only one staff currently assigned, the Unit needs more resources to fulfill its monitoring function.

Reforms within individual SOEs/SBs. The new monitoring framework has been a catalyst for driving reforms at the enterprise level, with structural changes in the cost base of a number of SOEs having led to improvements in operating performance. These reforms included greater private sector involvement in service delivery, balance sheet restructuring, and revenue and cost improvement measures. For example, Gravel, Concrete & Emulsion Production Corporation (GCEPC) has focused on cost reductions and is now generating cash profits from operations. Within the Housing Authority, the accounts have been reorganized according to profit centers with accountability on each operating unit to generate profits. Targets have been established for sales that will allow the Authority to break even or generate a small profit.

Financial Performance of Selected SOEs and SBs [1/]
(net surplus/loss, in EC dollars)

Institution	2013	2014
GARFIN	46,122	438,481
GIDC	781,583	433,981
Gravel, Concrete & Emulsion Production Co.	(56,720)	(23,371)
Grenada Airports Authority	(426,140)	4,340,967
Grenada Development Bank	1,214,181	177,075
Grenada Food & Nutrition Council	(18,789)	66,771
Grenada Ports Authority	1,537,841	3,049,051
MNIB	418,256	538,879
National Insurance Scheme	30,765,711	38,497,754
NAWASA	2,028,670	3,152,583
NTRC	28,622	32,811
Spice Mas Corporation	(148,448)	(304,512)
TAMCC	(236,128)	6,351,183

1/ With audited 2014 financial statements.

In terms of the Phase I (2015-17) institution-level restructuring, efforts are focused on improving the financial position of those facing the most difficulty. Cabinet approved a reform agenda in 2014 broadly consistent with CARTAC recommendations which, if implemented, provides a sound basis for addressing performance issues. To date, however, implementation has focused on the restructuring of the Postal and GCEPC Corporations.

- **Grenada Postal Corporation:** The private sector has been involved in the restructuring process. Staff redundancy was resolved in February 2016, whereby 150 workers were retrenched and received severance packages based on years of service, which paved the way for private participation in the operation of the postal service. The total severance cost is estimated at EC$7.5m, or 0.3 percent of GDP. Greater transparency about the plans for this new entity and/or and the timing of conclusion of the deal would be desirable.

- **GCEPC (Gravel and Concrete):** Private partnerships are planned as a way to raise funds given the capital intensive nature of this business. The government is still in negotiations with parties on final terms of the restructuring, which is expected to take place during the course of 2016. Total severance cost for resolving staff redundancy is currently estimated at EC$5.6m, or about 0.2 percent of GDP.

Next steps. While the strengthened framework serves as a strong foundation on which to build best practices, only enforcement will make it effective. The Ministry of Finance will need to review progress and consider what might be needed to strengthen compliance. With respect to enterprise restructuring, progress could be accelerated. While incentives and management performance has improved, SOE/SBs could examine the possibility of tariff increases and broader private sector participation in service delivery, as CARTAC has recommended.

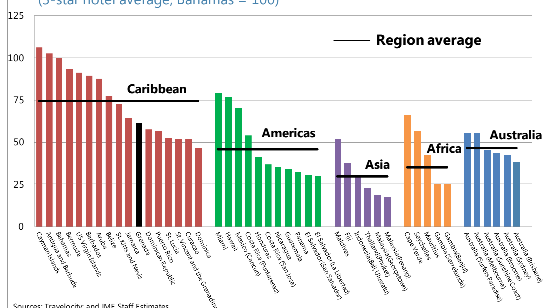
1/ See also ANNEX III of IMF Country Report 15/193.

B. Boosting Growth and Competitiveness

A. A Path Toward Competitiveness

38. **While external imbalances have narrowed, broader competitiveness signs are mixed (Annex II).** Holiday prices in Grenada are competitive within the region (chart), however, the real exchange rate has appreciated since mid 2014 along with the stronger U.S. dollar. This presents a challenge in the tourism business and for agricultural and manufacturing exports.[16] Although Grenada's currency is estimated to be moderately overvalued (Box 3), in the absence of active exchange rate policy tools, measures to strengthen competitiveness should continue, including improving productivity, reducing energy costs, lowering trade-related charges, and keeping labor costs in check.

W@tB Index— Travelocity
(3-star hotel average, Bahamas = 100)



Sources: Travelocity; and IMF Staff Estimates.
1/Room rate: see"http://www.travelocity.com/", average room rate is from Feb 19 - Feb 26 2016
2/Taxi, Meals, Water, Beer, Coffee: see"http://www.numbeo.com/cost-of-living/"and "http://www.worldcabfares.com/index.php"
3/Total Cost without Tax: 7 * (3 star hotel) + 2 * (average taxi ride from main international airport to capital city) + 7 *(1 inexpensive meal + 2 mid-range meals) + 7 * 2 liters water + 7 * 0.5 liter beer + 7 * regular coffee

Box 3. Grenada—EBA Assessment and BoP Data Revision

Based on existing balance of payments (BoP) data, the external sector assessment finds the real equilibrium exchange rate (RER) to be near balance or overvalued by up to 43 percent, depending on the methodology (Annex II). However, the ECCB in January 2016 released provisional revised BoP and IIP statistics for ECCU members based on improved and updated methodologies.[17] While the new data will not be finalized until late-2016, they show a large improvement in the current account balance in most ECCU countries (and by over 10 percent of GDP in Grenada) arising from higher travel services, matched by lower FDI inflows, portfolio outflows, and errors & omissions. A rough estimation under the EBA approach with these new data produces external sector assessments that are significantly different: whereas estimates of the RER based on existing data range from -2.7 (undervalued) to 43 percent (overvalued), preliminary estimates with new data suggest no misalignment or possibly undervaluation.

Staff expect that the new BoP statistics would better reflect underlying BoP flows and provide a more accurate picture of Grenada's external position. Staff will continue working with CARTAC and the ECCB and will reassess Grenada's external position when the new data are finalized.

B. Growth Enhancing Policies

39. **Measures to improve long term growth prospects should focus on improving productivity and building resilience.** Grenada has started to attract new investment as investor confidence has rebounded and the recovery solidified. Caution is needed to avoid overheating from a possible sudden surge of investment flows related to the CBI program or mega tourism

[16] IMF WP/14/229.

[17] The new external/IIP statistics are prepared using BPM6, covering 2014 only, and are still provisional.

projects which could potentially cause "Dutch disease" and harm competitiveness. Staff analysis finds that economic growth since the 2000s has been mostly attributed to factor accumulation, while productivity growth has been absent. This should be addressed with supply side policies to increase competition and efficiency in product markets and improve labor market flexibility. Finally, the authorities have made efforts in building resilience to natural disasters and cushioning their detrimental impact on output and public finances (Box 4).

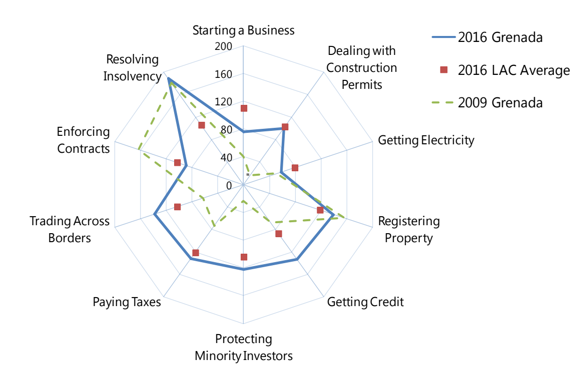
Box 4: Grenada: Natural Disasters, Macroeconomic Performance, and Policy Framework

As a small island economy, Grenada is highly vulnerable to natural disasters (NDs). During 1980-2014, average annual damages from NDs are estimated at 6.9 percent of GDP. Two major hurricanes in 2004 and 2005 (Ivan and Emily), with damages estimated at 148 and 31 percent of GDP, respectively, account for the majority of the average annual storm damages over this period. Staff's baseline projection includes the detrimental impact of NDs on potential growth.

A recent regional study (Acevedo 2014) finds that growth declines in the year the ND occurs, with a persistent negative effect the year after. Staff includes a ND shock scenario in the DSA (See DSA), where an average ND is simulated with its impact on growth calibrated to be consistent with the findings from the regional study, and its impact on public finance based on historical ND events. The shock results in a debt path that is about 8 percent of GDP higher than in the baseline by 2020.

Grenada is taking steps proactively to build resilience to NDs. Grenada successfully negotiated the inclusion of ND clauses in recent debt restructuring agreements that allow for a delay in debt service following a qualifying natural disaster—a global precedent. These clauses will provide important cash flow relief in the event of a ND. The new instrument issued under the debt restructuring with external commercial creditors includes a clause which will be triggered by a qualifying natural disaster (covered by Grenada's CCRIF Policy) if the calculated loss to Grenada from an event is greater than US$15 million. If such an event occurs, Grenada may elect to defer debt service payments (either one or two payments depending on the severity of the loss suffered); however, the deferred payment amount will continue to be repayable and to accrue interest. Grenada's agreement with its Paris Club creditors also includes a clause that would allow the creditors to consider further relief in the event of a ND, but it does not specify the terms of the relief or the criteria of the disaster. Finally, the FRA of 2015 requires that 40 percent of proceeds from the CBI program into the NTF are saved to make contingency financing available in the event of a ND. Grenada is the first Caribbean country with a CBI program to mandate such a requirement.

Ease of Doing Business Relative to ECCU Peers



40. **Improvement in the business climate will help attract investment and promote employment**. Based on findings from the World Bank's Doing Business Index, resolving insolvency, property registration, trading across borders, protecting minority investors, and dealing with construction permits are areas where Grenada lags behind. Underlying problems are related to high port charges, inefficiencies in the judicial system, and absence of legal liability and insurance

regimes to cover structural building flaws, among others. Targeted reforms should include streamlining property registration, reinforcing corporate governance, simplifying customs procedures and reducing port charges, strengthening building quality control and supervision, and collaborating more with regional partners on joint solutions, such as a regional credit registry (see Selected Issues Paper (SIP), Chapter I).

41. **Implementation of the GPRS is progressing** (Box 5).[18] With a new public investment management system (PIMS) coming on stream, this is a major step toward improving the efficiency of the PSIP and to achieving GPRS objectives—both closely intertwined with that of the ECF-supported program. The reform encompasses stronger monitoring and evaluation of projects through suitable IT platforms, clarification of roles and responsibilities, improved institutional arrangements, and new reporting requirements. The new PSIP—to be rolled out by the 2017 budget, would put Grenada's capital budgeting systems ahead of the region.

Box 5. Implementation of Grenada's Growth and Poverty Reduction Strategy (GPRS)

Central to the GPRS, the authorities are developing an effective framework to implement the PSIP. In accordance with the requirements of the PFM Act 2015 and its regulations, the re-activated Economic & Technical Co-operation Unit (ETCU) is reforming its PSIP system. In that regard, a UNDP-funded consultancy was recently undertaken to provide technical leadership/recommendations on the development of a well functioning PIMS. This included recommendations for IT upgrades, outline of PSIP flow processes, and the roles of various agencies. Once completed, the PIMS is expected to provide a secure, interactive, web-based PSIP database (project bank) for effective preparation, monitoring and evaluation of projects. The PIMS will facilitate queries for analytical purposes to help strengthen the link between strategic/national planning and multi-year PSIP budgeting. The consultancy also provided: (i) a proposed project cycle manual, (ii) PIMS training for local planning officers, and (iii) a proposal for training in project development and management.

The PIMS, along with institutionalized arrangements for inter-agency coordination and institutional strengthening, is expected to ensure that the capital budgeting process is guided by the priorities of GPRS themes and the corporate plans of line ministries. This will be done within the parameters of the medium term fiscal framework (MTFF, MTDS). As a governance element of the GPRS, criteria will be applied for the prioritization of projects, with input from social partners. The government plans to set up a committee to monitor, evaluate, and report on the PSIP for the 2017 budget presentation by June 2016, to comply with the PFM regulations.

Beyond the PSIP, staff recommends putting in place an institutional framework for overall co-ordination, monitoring and evaluation of the GPRS with clear reporting lines and guidelines. Annual reports would help measure overall progress towards the attainment of the GPRS objectives while signaling necessary adjustments to policy priorities to support medium term goals. In the interest of transparency, this report should be published and could benefit from more specific, relevant and time-bound deliverables. Additional staff in the ETCU with the requisite technical skills/experience and training for capacity building in line ministries could yield important gains towards effective implementation of the GPRS.

[18] An review of GPRS implementation will be conducted during the fifth review of the ECF-supported program.

42. **Active labor market policies are needed to lower unemployment and promote skill development.** The annual labor force surveys started in 2013 provide an unprecedented opportunity to understand the Grenada's labor market. Staff research points to skills mismatch, particularly at higher skill levels following sectoral shifts in the structure of the economy toward service-oriented sectors demanding higher skills. Skills mismatch, combined with other structural rigidities of the labor market, has impeded the growth of youth employment. The authorities have organized some sector specific training programs through the National Training Agency and private partners, and an internet platform for job center and vacancy posting. However, more is needed: with more than 40 percent of young Grenadians out of work, the education curriculum needs to be reviewed and aligned with the needs of the labor market, and additional training opportunities should be provided in collaboration with the private sector to improve career readiness (see SIP, Chapter II).

43. **Reforms to the energy sector will help lower production costs (MEFP ¶18).** Energy prices remain high in Grenada compared to the region, even abstracting from the impact of recent petrol tax increases. Reforming the regulatory environment for the sector remains important for the government. Amendments to the Public Utilities Regulatory Commission Act and the new Electricity Supply Act, drafted with assistance from the World Bank, to establish an independent regulatory authority could encourage competition in the sector and guide Grenada's transition to renewable energy. However, care should be taken to minimize fiscal risks to the government related to the transition from the *status quo* and to assess risks and returns related to economies of scale.

44. **Efforts to expand agricultural output and strengthen climate resilience should improve growth prospects (MEFP¶19).** Infrastructure (road access) investments and commercialization of government farms are expected to create jobs, improve efficiencies, and promote private investment. The draft National Agriculture Strategy outlines a targeted approach for environmentally sustainable development of the sector. This draft strategy also identifies strategic crops to capitalize on potential export markets and focuses on integrating the sector into the tourism supply chain.

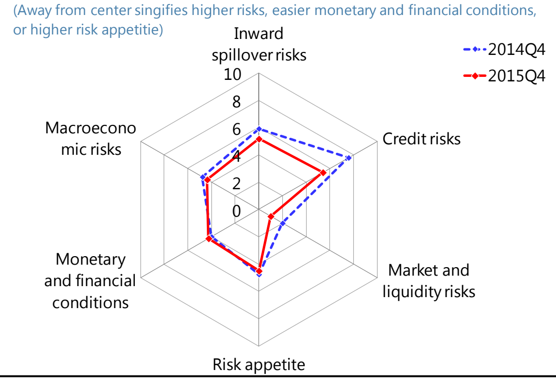
C. Financial Sector Issues

45. **Financial stability is slowly improving.** Banks' balance sheets strengthened in 2015 (heat map), with lower leverage, improved asset quality, healthy deposit growth, and a turnaround in profitability, all of which reduced the financial sector's exposure to credit and liquidity risks (spidergram). In this respect, the authorities are meeting a key objective in their program of strengthening financial stability. Despite these improvements, caution is still needed because the loan delinquency ratio remains high and significant credit risks still remain, while profitability is still weak. Since financial cycles appear to have a larger amplitude and duration than business cycles in Grenada (chart), sluggish credit growth is expected to persist and remain an impediment to growth in the near term.

46. **A strong banking sector is critical for sustained growth.** With the new regional legislative framework for bank regulation, supervision and resolution in place, the authorities will shift focus to addressing the results of the regional bank diagnostics once they become available (MEFP¶21). To safeguard fiscal sustainability, staff and the authorities concurred that private sector solutions should be considered as a first best option. Continued efforts to strengthen the banking system are needed to enable it to contribute more effectively to private sector investment and growth. As of today, Grenada has not been directly affected by the withdrawal of correspondent banking relationships, but "de-risking" remains an important concern given its potential impact and experience in some neighbors. In this respect, the authorities are advised to continue efforts to strengthen their AML/CFT framework and financial sector supervision.

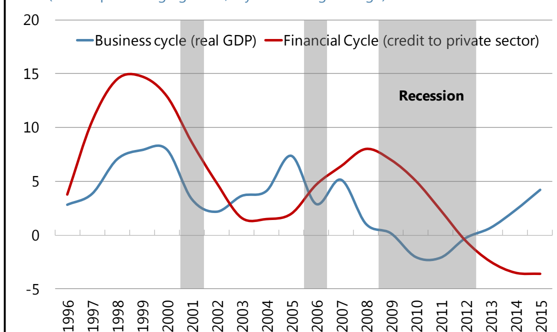
Grenada: Country Financial Stability Map

(Away from center singifies higher risks, easier monetary and financial conditions, or higher risk appetitie)



Grenada: Financial Cycle VS. Business Cycle

(annual percentage growth, 3 year moving average)



Sources: ECCB and IMF Staff estimates.

Grenada: Heat Map of Financial Soundness Indicators

Grenada	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4
Overall Financial Sector Rating	L	M	M	M	L	L	L	L
Credit cycle	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	(12.1)	(11.4)	(9.2)	(8.1)	(6.4)	(5.6)	(4.6)	(5.2)
Growth of credit / GDP (%, annual)	(14.8)	(14.4)	(12.3)	(11.1)	(9.2)	(8.2)	(7.0)	(8.0)
Credit-to-GDP gap (st. dev)	(1.5)	(1.0)	(0.5)	0.4	1.6	2.8	2.7	2.3
Balance Sheet Soundness	L	M	M	M	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L
Deposit-to-loan ratio	134.7	139.1	143.1	145.8	152.1	155.2	156.7	163.5
FX liabilities % (of total liabilities)	7.0	7.1	7.3	6.9	7.4	8.3	9.1	8.4
FX loans % (of total loans)	4.3	4.2	4.2	4.4	4.5	4.7	4.9	5.3
Balance Sheet Buffers	L	M	M	M	L	L	L	L
Leverage	L	L	L	L	L	L	L	L
Leverage ratio (%)	9.6	9.6	9.2	8.9	8.2	8.5	8.7	8.5
Profitability	L	H	H	H	L	L	L	L
ROA	0.4	(0.1)	(0.2)	(0.1)	0.1	0.3	0.4	0.8
ROE	3.3	0.8	(3.0)	(3.7)	0.7	4.2	2.3	8.0
Asset quality	M	M	L	M	L	L	L	L
NPL ratio	14.1	14.5	14.6	14.6	13.7	13.0	11.6	10.0
NPL ratio change (%, annual)	13.1	5.9	3.8	5.5	(2.8)	(10.2)	(20.8)	(31.6)

47. **Strengthened regulation and supervision remain the focus for the non-bank financial sector.** Following recommendations from CARTAC, the authorities are increasing staff at Grenada Authority for the Regulation of Financial Institutions' (GARFIN) to strengthen its oversight responsibilities (MEFP ¶23-25). In the credit union sector, the recent rapid increase in

lending (¶7) calls for a strengthened legislative and oversight framework for the sector and for a credit quality review and stress testing. In the insurance sector, the single regulatory framework should be put in place while continuing the off-site supervision by GARFIN. With respect to pension funds, off-site supervision has continued, with interim reporting expected shortly and on-site supervision planned next year. Finally, the authorities are working with CARTAC to develop a national crisis management plan.

48. **The 2016 safeguards assessment update found that the ECCB continues to maintain a governance framework that provides for independent oversight.** Transparency in financial reporting has been maintained and the external audit mechanism is sound. However, the internal audit function only partially conforms to international standards and steps are underway to address this weakness.

49. **Authorities' Views.** The authorities agreed that improving productivity and strengthening resilience against natural disasters are critical to boosting growth and sustainability. They applauded staff's analysis on Grenada's business environment and concurred that inefficiency in property registration and high port charges are among the most important impediments. They are working with regional partners on a strategic plan to prioritize the reforms that are most imperative and those that could be addressed through regional collaboration. The authorities noted that energy sector reform is near completion and would promote competition and renewable energy alternatives. They agreed with staff's diagnostics of the labor market and that review of the education curriculum and more training opportunities are needed to improve skill matching. Finally, they agreed to proactively address banking sector issues and to strengthen supervision of the non-bank financial sector.

STAFF APPRAISAL

50. **Since the last Article IV consultation in 2014, Grenada has made further progress toward restoring fiscal and external sustainability**. The government had already achieved 80 percent of the planned fiscal consolidation under the ECF-supported program before the last year of the program, debt has been reduced, and the balance of payments position has strengthened. The authorities have also pushed through important legislative reforms to build a fiscal framework that should lock in fiscal discipline over the long term.

51. **Performance under the program has been satisfactory.** All quantitative performance criteria and most of the structural benchmarks for the Fourth Review were met. Corrective actions have been taken to address the two unmet benchmarks. The government exceeded the fiscal targets in 2015 and cleared all budget arrears while still finding space to raise capital spending in support of growth. Successful restructuring of domestic and external debt has led to a reduction in public debt from a peak of 107 percent of GDP in 2013 to 94 percent at end-2015.

52. **The recovery is continuing, but all of the economy's pistons are not yet firing.** Agriculture, tourism and construction are expected to continue fueling growth in 2016, projected

at 3 percent in 2016. The external position has strengthened despite some real exchange rate appreciation. The health of the financial system is gradually improving, but credit growth is weak and not yet supportive of growth. Unemployment remains high and some targeted attention will be needed to address underlying problems in the labor market.

53. **The program is at an important juncture and continued policy resolve will be essential to secure lasting success**. After much effort, the benefits of reforms are just starting to spread more broadly to all sectors and the job market, while wage and spending pressures are rising. Moreover, while the budget outlook for 2016, with corrective steps, is in line with the program, there is little room for maneuver. After an intensive reform sprint, the authorities will need to guard against fatigue and be wary of risks posed by the external environment.

54. **The authorities need to persevere with program implementation.** While the program is on track and the authorities' commitment strong, problems related to some indicative and monitoring targets reflect capacity limitations that should receive focused attention. In particular, failure to fully launch the SEED targeting program reflects technical capacity constraints, while the discovery of older NIS contribution arrears reflects shortcomings in debt management. Staff urges the government to redouble efforts to launch the SEED beneficiary system to strengthen the effectiveness of social spending, and to move decisively to implement the regulations for the debt management act, finalize the medium-term debt strategy, and restructure the debt management unit.

55. **Near term fiscal priorities should be guided by program goals under the medium term debt anchor**. In particular, the government must focus on execution of the budget in line with program commitments and staff urges the government to ensure that budget outcomes are in line with FRA targets to safeguard the credibility of the new rules-based policy framework. The authorities' strong record of budget discipline will need to continue in the face of mounting wage and spending pressures.

56. **The legislative agenda has been impressive, though the last steps need follow through**. Over the past two years the authorities have pushed through an exhaustive legislative agenda to overhaul the fiscal policy framework, improve tax policies and strengthen public finance management. These reforms comprised no less than 21 new laws, not including new laws on the investment code, insolvency and banking (24 total). This is particularly noteworthy given the size of the country. Implementing the remaining elements of the new fiscal policy framework—the tax incentive regime, the tax administration act, and the regulations for the public debt management act— remains a priority for 2016.

57. **Staff place high priority in 2016 on reforms to strengthen management of the public sector wage bill.** Staff urges the authorities to draw on TA from the Fiscal Affairs Department to inform their discussions with labor in 2016 and to formulate a strategy as soon as possible to put in place a rational mechanism to manage the wage bill. The system should include pay and grading reform, compensation guidelines, and systematic indicators to inform regular wage negotiations. More broadly, public sector reform has failed to materialize as

committed under the program and remains critical to reducing inefficiencies and right-sizing the public sector. Failure to address these issues risks undermining the hard work so far at fiscal adjustment and structural reform.

58. **Renewed energy is needed to push through priority structural reforms.** In addition to putting into force remaining fiscal legislation and wage bill management, the key pro-growth reforms for 2016 comprise a revised Labor Code, new GIDC Act, and steps to remove impediments to private sector activity. On the latter, staff's findings on impediments to doing business point to the need to streamline property registration, simplify customs procedures and reduce port charges, and strengthen building quality control, among other things. To lower unemployment, research on labor market developments suggest that greater focus is needed on modernizing education systems to align skills with the needs of the labor market, and on training opportunities in collaboration with the private sector to improve skills and job readiness.

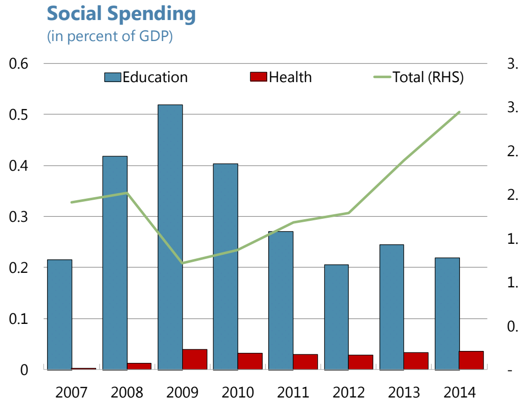
59. **Continued efforts to strengthen the banking system are needed to enable it to contribute more effectively to private sector investment and growth.** Steps to address potential weaknesses in the banking sector will need to safeguard fiscal sustainability. Staff welcome the measures taken so far and plans to continue strengthening regulation and supervision of the non-bank financial sector.

60. **Data is adequate for surveillance (see Informational Annex).** The authorities are encouraged to build on the progress achieved under the ECF-supported program on government finance statistics, including in the implementation of the new Chart of Accounts, to improve reporting on capital expenditure and on the broader public sector, and to consider providing the Fund with fiscal data for the GFSM. In addition, staff would urge the government to take advantage of the data provision under the program to work toward updating the metadata under the GDDS, which has not been updated since 2001.

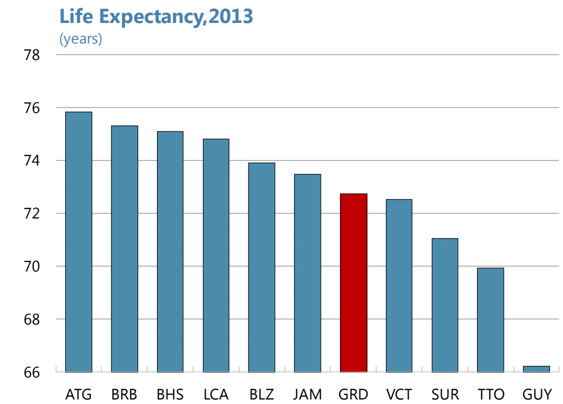
61. Staff supports the completion of the fourth review under the ECF-arrangement, the waiver for the nonobservance of a performance criterion, the request for modification of a performance criterion, and the financing assurances review. Staff also recommends that the next Article IV consultation be held on the 24 month consultation cycle in accordance with the provisions of Decision No. 14747, as amended.

Figure 1. Grenada: Social Development Indicators 1/

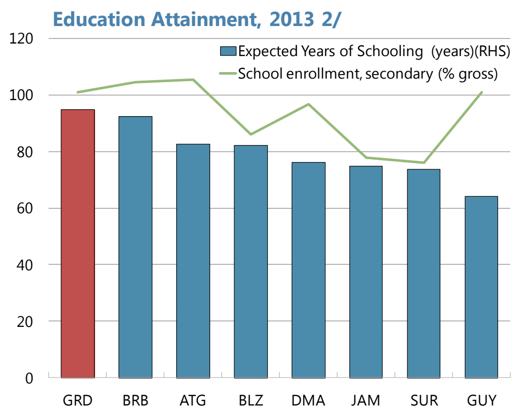
Social spending on health and education expanded over the past decade but remains low.



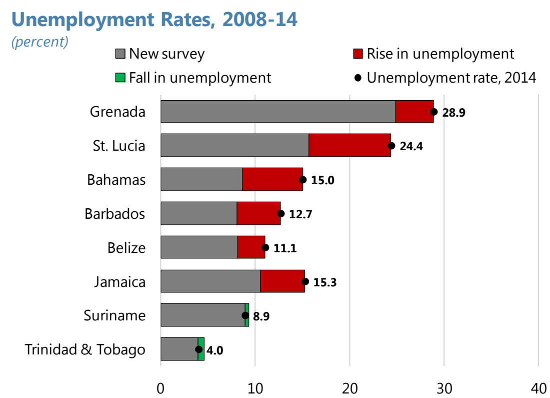
Life expectancy is slightly below the regional average.



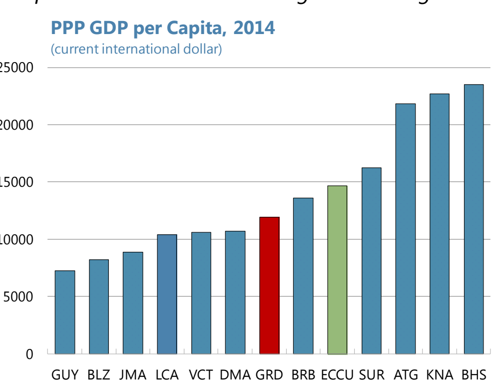
Educational attainment is high relative to regional comparators, with universal secondary school enrollment.



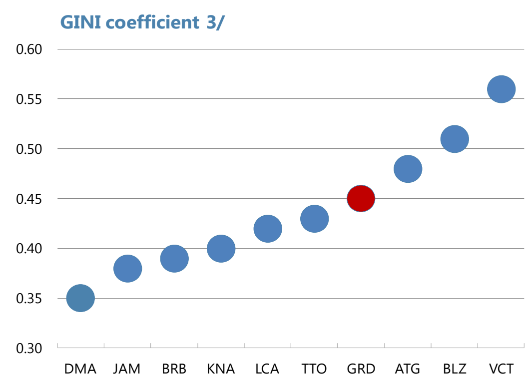
Despite a skilled labor force, unemployment remains high suggesting for one, a potential mismatch of skills.



Per capita income is below the regional average…



…and inequality in Grenada is above the regional average.



Source: World Bank, World Development Indicators; United Nations, International Human Development Indicators, ECCB, country authorities and IMF staff calculations.

1/ATG refers to Antigua and Barbuda, AIA refers to Anguilla, BRB refers to Barbados, BHS refers to Bahamas, BLZ refers to Belize, DMA refers to Dominica, GRD refers to Grenada, GUY refers to Guyana, JAM refers to Jamaica, KNA refers to St. Kitts and Nevis, LCA refers to St. Lucia, VCT refers to St. Vincent and the Grenadines, SUR refers to Suriname, TTO refers to Trinidad and Tobago

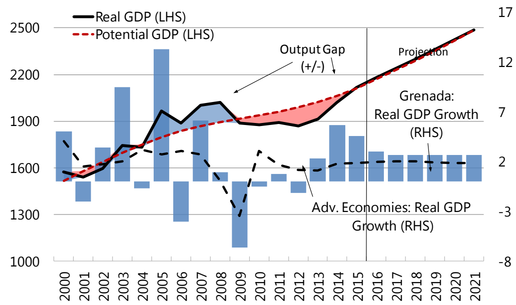
2/ Enrollment can exceed 100% if include over-aged and under-aged students because of early or late school entrance and grade repetition.

3/ The data of GINI coefficient is from Caribbean Development Bank Annual Economic Report, data are based on survey in different countries from 1996 to 2006

Figure 2. Grenada: Recent Economic Developments

The economic recovery has continued, with the output gap estimated to have closed in 2015 …

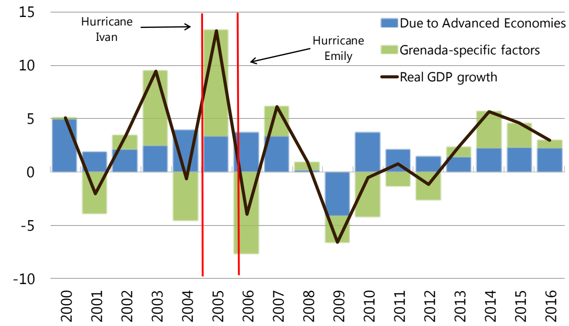
Grenada: Actual and Potential Real GDP
(levels in millions of 2006 EC$; growth in percent)



Sources: Grenada authorities and Fund staff estimates.

supported by robust external demand for tourism …

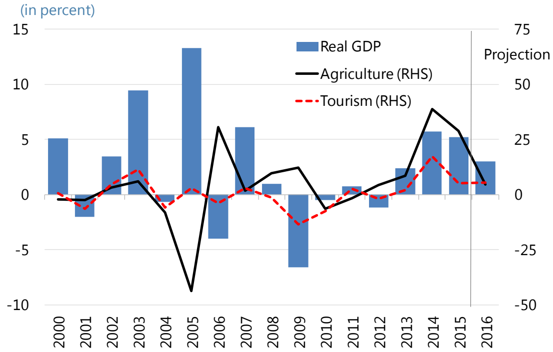
Grenada: Economic Growth 1/
(contribution to growth, percentage points)



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

…and continued recovery in agricultural output.

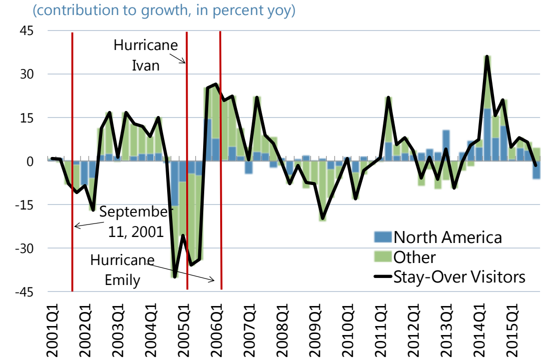
Grenada: Economic Growth
(in percent)



Sources: Grenada authorities and Fund staff estimates.

Tourism arrivals continue to display strong momentum.

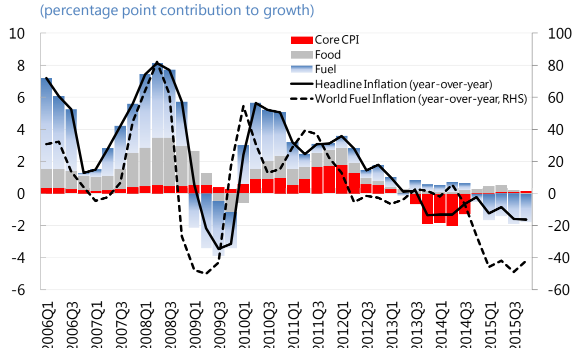
Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)



Source: Caribbean Tourism Organization.

Headline inflation is driven by the decline in global energy prices and …

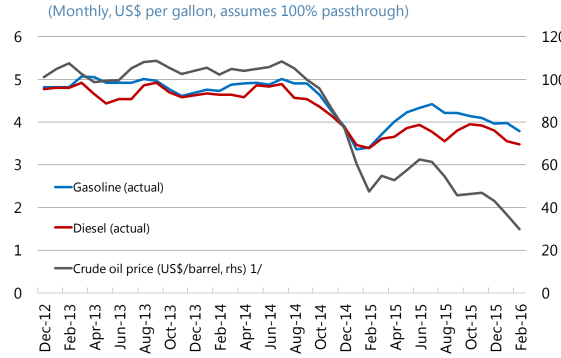
Grenada: Inflation
(percentage point contribution to growth)



Sources: Grenada authorities, Fund staff estimates and WEO.

… despite recent petrol tax increases, retail petroleum product prices are forecast to remain below their 2013-14 levels in the near term.

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



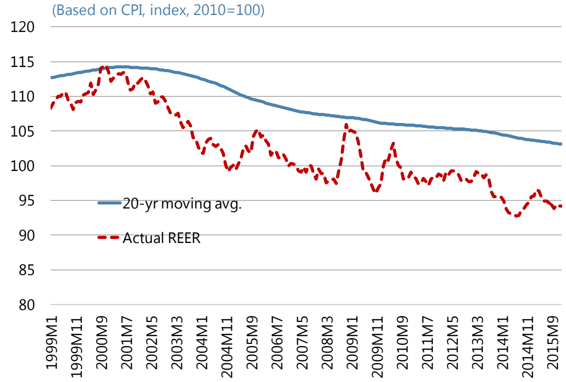
1/ From WEO, simple average of Brent, WTI and Dubai Fateh spot prices.

Figure 3. Grenada: External Developments

The real effective exchange rate continues its gradual depreciation…

Real Effective Exchange Rate

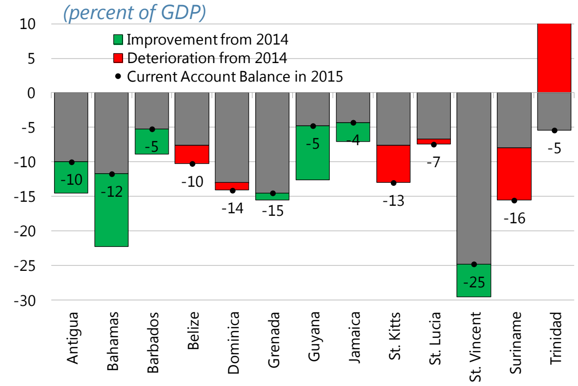
(Based on CPI, index, 2010=100)



… and the external current account improved, though the level is still relatively high compared to other Caribbean countries.

Current Account Balance, 2014-15

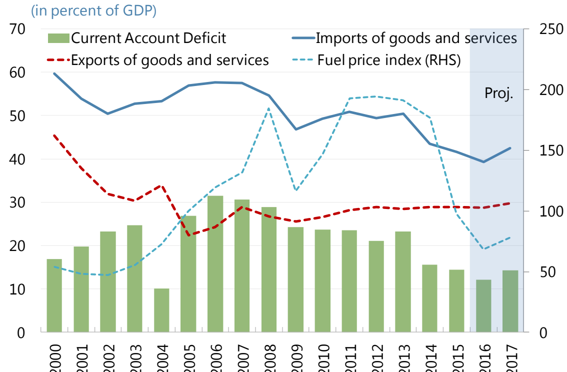
(percent of GDP)



Grenada's tourism service exports increased and imports fell in line with weak domestic demand and low oil price

Trade and Current Account Deficit

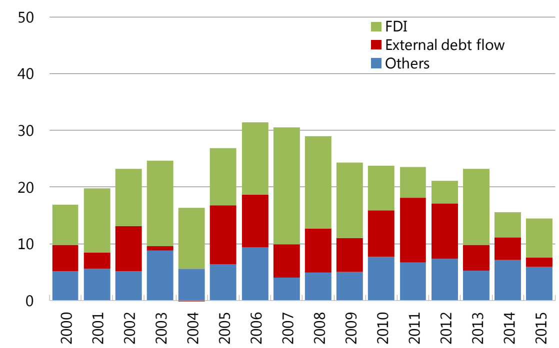
(in percent of GDP)



In 2015, the current account deficit is estimated to have been financed by FDI, capital transfers, and some debt, including exceptional financing from IFIs.

Current Account Financing

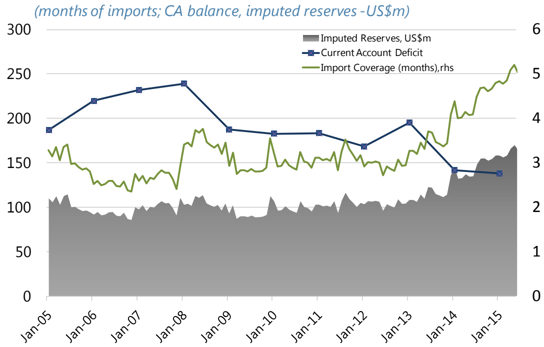
(in percent of GDP)



Due to the improvement in the current account, imputed reserves reached 5 months of prospective imports, …

Imputed Reserves

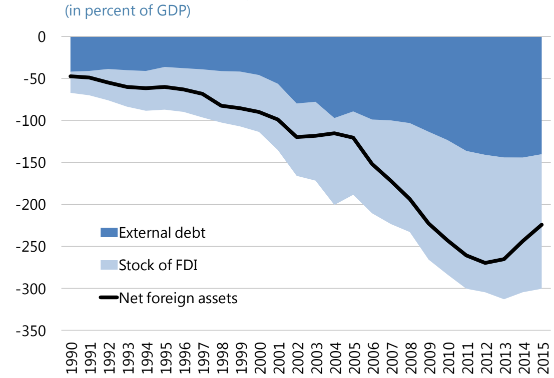
(months of imports; CA balance, imputed reserves -US$m)



and the net foreign liabilities position continued to improve in 2015.

Grenada: Net Foreign Assets

(in percent of GDP)

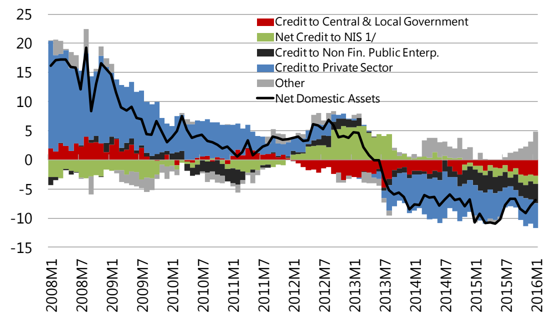


Sources: ECCB and IMF staff estimates.

Figure 4. Grenada: Monetary Developments

Banks' net domestic assets have continued to decline...

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

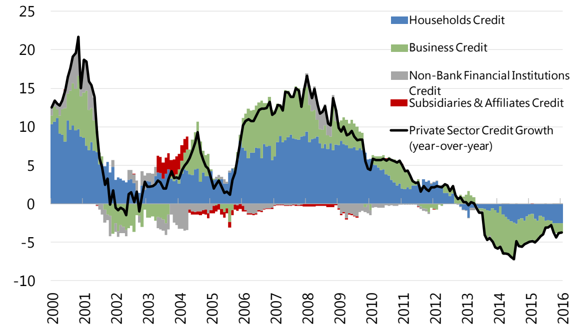


Sources: ECCB

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

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

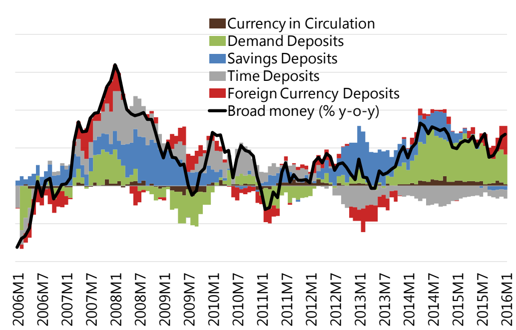
Credit growth
(percentage point contribution to growth)



Sources: Grenada authorities and Fund staff estimates.

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

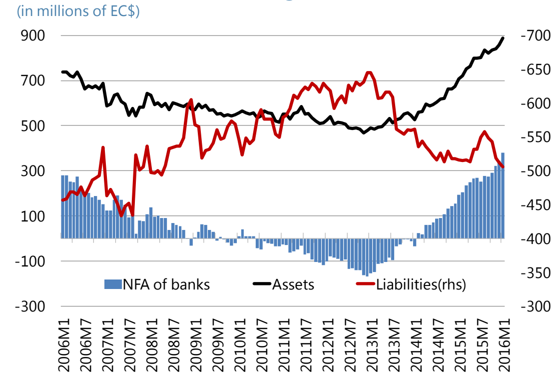
Components of Broad Money Growth (M2)
(contribution to growth, y-o-y)



Sources: ECCB and Fund staff estimates.

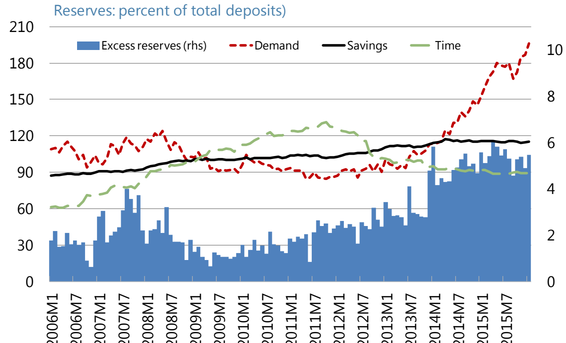
...as banks have expanded net foreign assets.

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



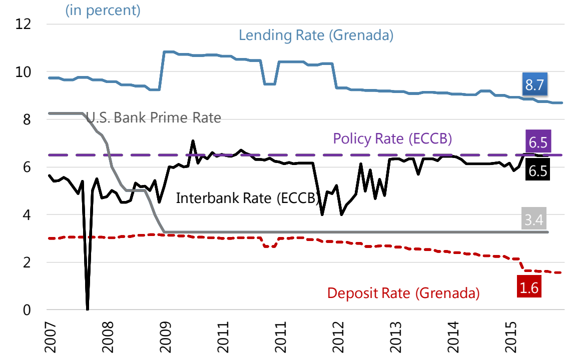
Banks' excess reserves at the central bank continued to build ...

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



... while lending rates declined due to the ECCB decision to lower the savings deposits rate floor in April 2015.

Interest Rates
(in percent)

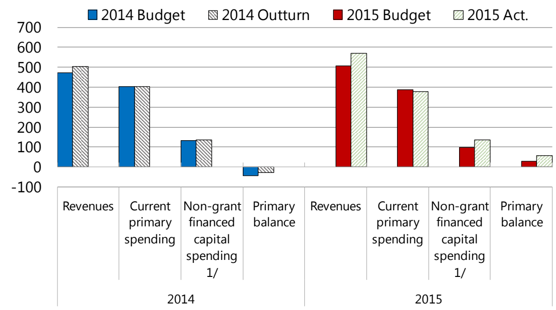


Sources: ECCB and Haver Analytics.

Figure 5: Grenada: Fiscal Developments

Fiscal consolidation outperformed the budget…

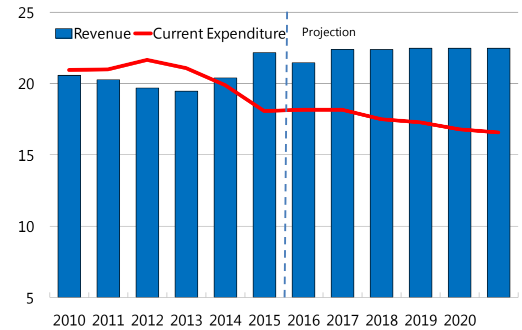
Grenada: Budget Execution
(EC$m)



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

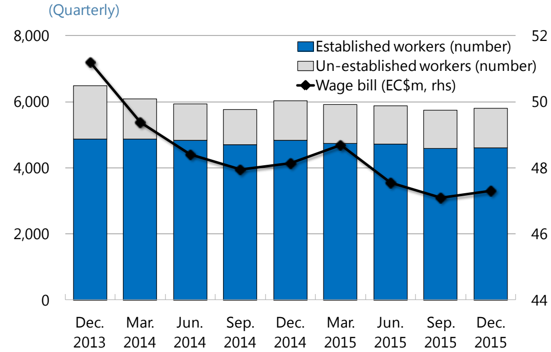
…with both revenue and expenditure contributing to the adjustment.

Grenada: Public Sector Revenue and Expenditure
(in percent of GDP)



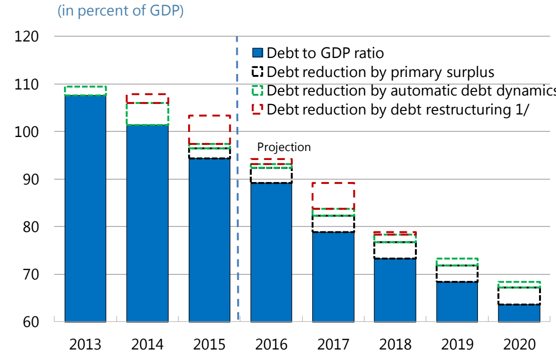
Public employment and personnel expenditure have been lowered with the wage freeze and attrition policy.

Grenada: Public Employment and Wage Bill
(Quarterly)



Completion of the debt restructuring with external commercial creditors has helped improve debt dynamics.

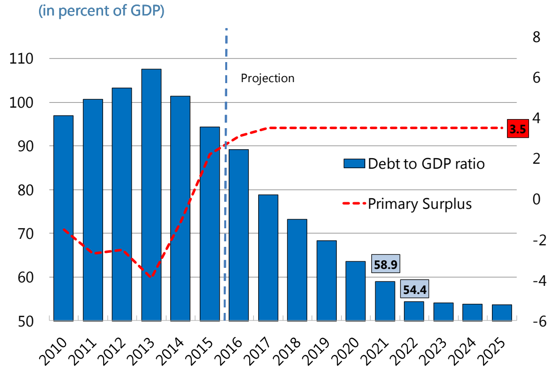
Grenada: Public Sector Debt
(in percent of GDP)



1/ Includes only agreed restructuring.

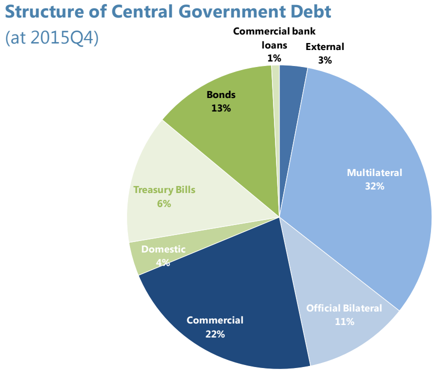
Debt restructuring combined with consolidation have put public debt on a downward path toward the FRA target.

Grenada: Public Sector Debt and Fiscal Balance
(in percent of GDP)



Grenada's debt is concentrated in external official debt, including to multilateral creditors.

Structure of Central Government Debt
(at 2015Q4)

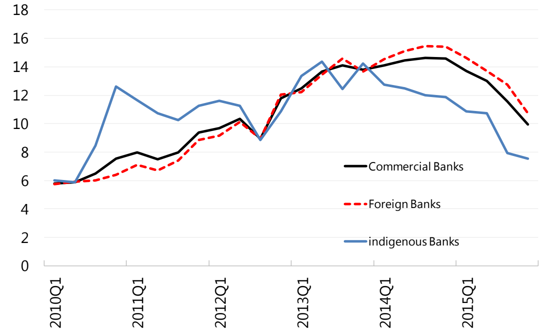


Sources: Grenada authorities.

Figure 6. Grenada: Financial Sector Developments

Though heading lower, nonperforming loans remain elevated across the banking system ...

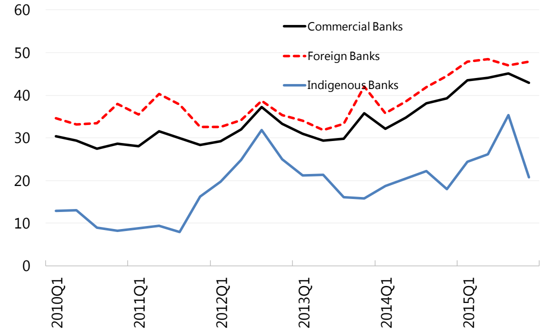
Nonperforming Loans
(in percent of total loans)



Sources: ECCB.

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

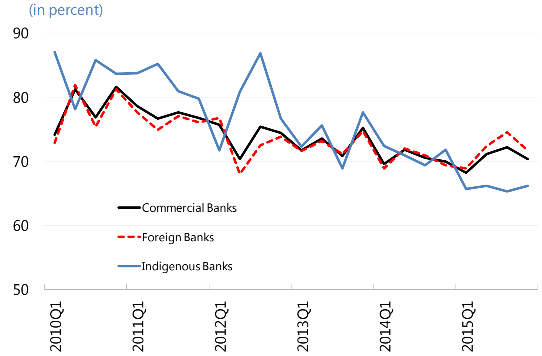
Provisions to Nonperforming Loans
(provisions for loan losses to non-performing loans, in percent)



Sources: ECCB.

Together with lower interest margins relative to gross income ...

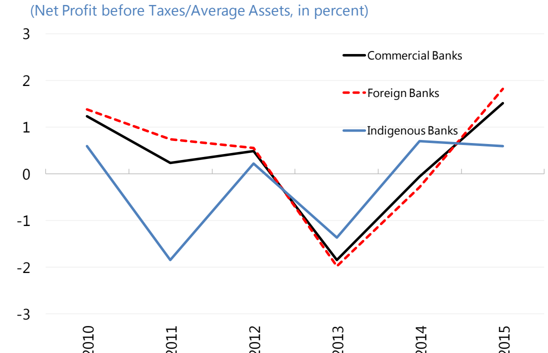
Interest Margin/Gross Income
(in percent)



Sources: ECCB.

... bank profitability remains weak, although it is improving.

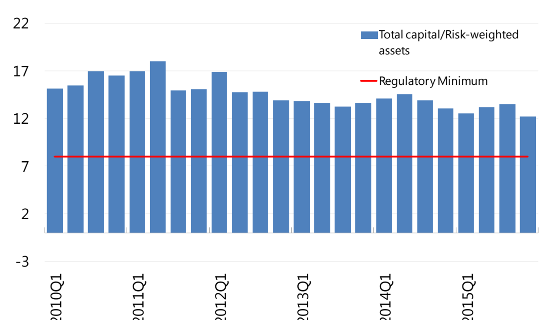
Return on Average Assets
(Net Profit before Taxes/Average Assets, in percent)



Sources: ECCB.

Banks' reported capital adequacy is above the regulatory minimum ...

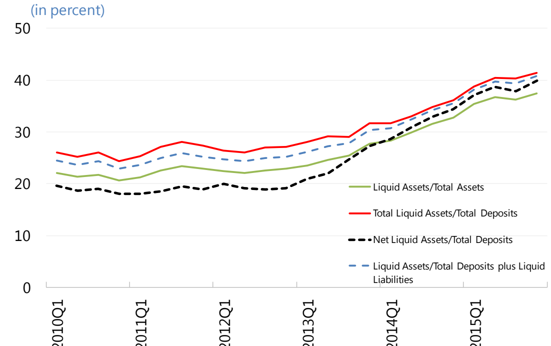
Commercial Banks' Capital Adequacy
(Total Capital/Risk Weighted Assets, in percent)



Sources: ECCB.

... and their liquidity continues to increase..

Commercial Banks' Liquidity
(in percent)



Sources: ECCB.

Table 1. Grenada: Selected Economic and Financial Indicators, 2009-21

	2009	2010	2011	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
							3nd review 1/		Projections					
	(Annual percentage change, unless otherwise specified)													
Output and prices														
Real GDP	-6.6	-0.5	0.8	-1.2	2.4	5.7	3.4	4.6	3.0	2.7	2.7	2.7	2.7	2.7
Nominal GDP	-6.6	0.0	1.0	2.7	5.3	8.2	5.0	4.6	4.6	5.1	5.4	5.2	5.1	5.1
Consumer prices, end of period	-2.3	4.2	3.5	1.8	-1.2	-0.6	0.0	-1.2	-0.2	2.8	2.3	2.2	2.1	2.1
Consumer prices, period average	-0.3	3.4	3.0	2.4	0.0	-0.8	-0.8	-1.3	-0.9	2.2	2.4	2.3	2.1	2.1
Output gap (percent of potential GDP)	-1.6	-3.1	-3.6	-6.0	-5.4	-2.0	0.1	0.2	0.5	0.4	0.4	0.3	0.3	0.2
Real effective exchange rate	-8.8	1.0	1.1	-1.0	-1.9	-0.3	...	0.3	...	...	...	...	...	...
(annual average, depreciation -)														
	(In percent of GDP, unless otherwise specified)													
Central government balances (accrual)														
Revenue	22.8	24.6	23.6	20.8	20.9	24.5	23.9	25.6	24.6	25.4	25.5	25.5	25.5	25.5
Taxes	17.5	18.7	18.4	18.0	16.6	18.2	18.9	19.9	20.0	20.0	20.0	20.0	20.0	20.0
Non-tax revenue 2/	2.0	1.9	1.8	1.7	2.9	2.2	2.0	2.3	1.5	2.3	2.4	2.4	2.4	2.4
Grants	3.3	4.0	3.4	1.1	1.4	4.1	3.0	3.4	3.1	3.1	3.1	3.1	3.1	3.1
Expenditure	28.0	28.2	28.8	26.7	28.1	29.1	25.2	26.8	24.8	24.9	24.4	24.3	24.1	23.9
Current primary expenditure	18.2	18.8	18.6	18.3	17.8	16.4	14.6	14.6	14.9	15.2	15.0	15.0	14.7	14.7
Interest payments	2.2	2.2	2.5	3.4	3.3	3.5	3.5	3.5	3.3	3.0	2.4	2.2	2.1	1.9
Capital expenditure	7.6	7.3	7.8	5.0	7.1	9.2	7.0	8.7	6.6	6.8	7.0	7.0	7.3	7.3
Primary balance 2/	-3.0	-1.5	-2.7	-2.5	-3.9	-1.1	2.2	2.2	3.1	3.5	3.5	3.5	3.5	3.5
Underlying primary balance (excl. one-off rev. and exp.)	...	...	...	...	-4.5	-1.2	1.6	1.8	3.5	3.5	3.5	3.5	3.5	3.5
Primary balance (excl. CBI revenues)	-3.0	-1.5	-2.7	-2.5	-3.9	-1.1	1.7	1.6	3.1	3.5	3.5	3.5	3.5	3.5
Overall balance	-5.2	-3.6	-5.2	-5.9	-7.3	-4.7	-1.3	-1.3	-0.2	0.5	1.1	1.3	1.4	1.6
Public debt (incl. guaranteed) 3/	91.1	96.9	100.7	103.3	107.6	101.4	90.2	94.3	89.2	78.8	73.2	68.3	63.6	58.9
Domestic	27.2	28.0	31.7	35.8	37.4	34.3	29.4	30.2	27.3	25.3	24.4	23.3	22.3	21.2
External	63.9	68.9	69.0	67.6	70.2	67.1	60.8	64.1	61.9	53.5	48.8	45.0	41.3	37.7
Money and credit, end of period (annual percent change)														
Broad money (M2)	3.0	1.0	0.7	0.7	4.1	4.1	7.1	5.2	4.6	5.1	5.4	5.2	5.1	5.1
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	-5.1	-2.0	-3.8	0.1	2.6	5.4	5.2	5.1	5.1
Balance of payments														
Current account balance, o/w:	-24.3	-23.7	-23.6	-21.1	-23.2	-15.5	-13.7	-14.5	-12.1	-14.3	-14.5	-15.1	-15.4	-15.5
Exports of goods and services	25.5	26.6	28.2	28.9	28.5	28.9	28.8	28.9	28.8	29.7	29.8	30.0	30.1	30.2
Imports of goods and services	46.8	49.2	50.8	49.5	50.4	43.5	41.4	41.5	39.3	42.5	43.2	44.3	44.9	45.3
Capital and financial account balances	34.0	25.2	24.4	17.4	24.1	18.3	15.3	17.6	11.3	14.7	15.7	16.1	16.3	16.2
FDI	13.3	7.8	5.5	3.9	13.4	4.4	4.9	6.9	6.4	8.1	8.1	8.7	8.7	8.7
Public sector borrowing (identified financing only)	3.4	5.0	0.8	0.4	6.2	4.4	-4.7	-4.0	-1.1	-5.4	-1.2	-1.3	-1.5	-1.3
Banking system	-0.6	0.7	3.9	2.3	-6.8	-6.8	-5.3	-7.3	-3.2	-1.5	-0.8	-0.8	-0.8	-0.8
Other (incl. errors and omissions)	17.9	11.6	14.2	10.7	11.3	16.4	20.4	22.1	9.1	13.6	9.6	9.5	9.9	9.6
Overall balance	-0.2	-1.2	0.1	-1.0	1.1	4.3	1.6	3.1	-0.8	0.5	1.2	1.0	0.9	0.6
Overall financing	0.2	1.2	-0.1	1.0	-1.1	-4.3	-4.8	-6.4	-1.8	-0.7	-1.2	-1.0	-0.9	-0.6
Financing gap 4/	...	...	...	...	...	0.0	3.2	3.2	2.6	0.3	0.0	0.0	0.0	0.0
External debt (gross)	113.5	123.4	136.3	141.0	144.1	144.2	136.1	140.2	136.2	125.5	119.4	114.3	109.4	104.6
Savings-Investment balance	-24.3	-23.7	-23.6	-21.1	-23.2	-15.5	-13.7	-14.5	-12.1	-14.3	-14.5	-15.1	-15.4	-15.5
Savings	-0.4	-1.7	-3.7	-4.7	-3.2	1.4	1.6	4.4	4.4	3.9	4.0	3.9	4.0	3.8
Investment	23.9	22.0	19.9	16.3	20.0	16.9	15.3	18.9	16.4	18.2	18.4	19.0	19.4	19.4
Memorandum items:														
Nominal GDP (EC$ million)	2,082	2,082	2,102	2,160	2,275	2,462	2,584	2,575	2,692	2,831	2,983	3,139	3,298	3,466
Net imputed international reserves														
Months of imports of goods and services	3.6	3.1	3.2	2.9	4.1	4.8	5.2	5.8	5.4	5.1	5.0	4.9	4.8	4.7

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.
1/ Program forecast from IMF Country Report No. 15/333.
2/ Includes 0.7% of GDP CBI-related non-tax revenue in 2015.
3/ Includes the impact of the in principle debt restructuring agreement reached with the creditor committee for the 2025 bonds.
4/ To be closed through IMF and other IFIs financing and debt restructuring.

Table 2a. Grenada: Operations of the Central Government

(In EC$ million)

	2009	2010	2011	2012	2013	2014	2015		2016			2017	2018	2019	2020	2021
							3rd rev.	Act.	Budget	3rd rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**473.9**	**512.8**	**496.4**	**449.3**	**474.7**	**602.8**	**616.7**	**658.2**	**776.2**	**621.6**	**662.6**	**719.5**	**759.6**	**801.3**	**842.0**	**884.7**
Revenue	405.6	428.9	425.9	425.6	443.4	502.3	540.3	571.0	574.6	565.8	580.1	632.8	668.2	705.1	740.9	778.5
Tax revenue	363.6	388.3	387.4	387.9	376.8	448.1	488.8	511.6	526.2	525.4	539.6	567.2	597.7	628.8	660.7	694.3
Taxes on income and profits	87.2	78.5	73.9	75.5	66.1	89.9	93.3	101.7	99.0	93.9	99.0	104.1	109.7	115.4	121.3	127.4
Taxes on property	18.8	16.8	14.9	16.4	15.1	21.3	22.6	23.3	21.7	22.0	21.7	22.8	24.0	25.3	26.6	27.9
Taxes on goods and services	144.2	169.7	174.4	174.5	170.5	193.4	212.1	213.8	231.5	229.4	231.5	243.3	256.3	269.7	283.3	297.7
Taxes on international trade	113.3	123.3	124.2	121.5	125.1	143.5	160.9	172.8	180.6	180.1	187.4	197.1	207.6	218.5	229.6	241.3
Nontax revenue	41.8	40.4	38.4	37.6	66.7	54.2	51.5	59.5	48.3	40.4	40.5	65.6	70.6	76.3	80.2	84.2
Grants	68.3	83.9	70.5	23.7	31.3	100.5	76.4	87.2	201.6	55.9	82.5	86.7	91.4	96.2	101.1	106.2
Total expenditure and net lending	**582.7**	**588.0**	**605.2**	**576.3**	**639.6**	**717.6**	**650.4**	**690.6**	**775.9**	**619.1**	**667.4**	**705.1**	**727.4**	**762.0**	**794.2**	**829.8**
Current expenditure	424.9	436.8	442.0	468.0	479.2	490.9	468.3	467.0	481.2	470.3	488.6	513.6	520.0	541.8	551.8	575.1
Wages and salaries	191.2	195.3	231.9	227.2	243.5	242.4	219.4	215.3	196.6	219.4	229.2	254.3	268.0	282.0	286.0	300.5
Pensions and NIS contributions	40.8	41.5	40.7	44.0	46.9	51.6	51.4	48.5	50.1	54.0	51.6	57.1	60.1	63.1	64.7	67.9
Goods and services	86.0	109.2	75.1	86.4	75.9	72.2	70.1	75.9	66.7	68.7	70.7	74.3	78.3	82.4	86.6	91.0
Transfers 1/	60.7	45.8	42.7	36.7	37.6	37.4	36.8	37.5	37.9	36.8	48.7	44.1	42.2	44.4	46.7	49.0
Interest payments	46.3	45.0	51.6	73.6	75.3	87.2	90.5	89.9	103.3	91.4	88.4	83.8	71.4	69.8	67.8	66.6
Capital expenditure and net lending	157.8	151.3	163.2	108.4	160.5	226.7	182.1	223.6	294.7	148.8	178.8	191.6	207.3	220.2	242.4	254.7
Grant-financed	23.4	46.1	65.6	23.0	31.3	90.6	76.4	87.2	201.6	55.9	85.7	86.7	91.4	96.2	101.1	106.2
Non-grant financed	134.4	105.2	97.6	85.4	129.2	136.1	105.7	136.5	93.1	92.9	93.1	104.8	115.9	124.0	141.3	148.5
Primary balance 2/	**-62.6**	**-30.3**	**-57.2**	**-53.4**	**-89.6**	**-27.6**	**56.9**	**57.5**	**95.1**	**93.9**	**83.6**	**98.2**	**103.7**	**109.1**	**115.6**	**121.5**
Underlying primary balance (excl. one-off rev. and exp.)	**...**	**...**	**...**	**...**	**-103.3**	**-28.5**	**41.8**	**45.9**		**93.9**	**94.4**	**98.2**	**103.7**	**109.1**	**115.6**	**121.5**
Overall balance	**-108.9**	**-75.3**	**-108.8**	**-127.0**	**-164.9**	**-114.8**	**-33.7**	**-32.4**	**0.2**	**2.5**	**-4.7**	**14.4**	**32.3**	**39.3**	**47.8**	**54.9**
Public Debt	**1,897.0**	**2,018.0**	**2,116.9**	**2,231.8**	**2,447.6**	**2,495.4**	**2,330.8**	**2,429.0**		**2,329.1**	**2,402.3**	**2,231.3**	**2,183.9**	**2,144.6**	**2,096.8**	**2,041.9**
Memo items:																
Nominal GDP (EC$ millions)	2,082	2,082	2,102	2,160	2,275	2,462	2,584	2,575	2,709	2,713	2,692	2,831	2,983	3,139	3,298	3,466

Sources: Country authorities and Fund staff estimates.

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

2/ The primary surpluses for 2017-21 would include revenue from the Citizenship by Investment program.

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

Table 2b. Grenada: Operations of the Central Government

(In percent of GDP)

	2009	2010	2011	2012	2013	2014	2015		2016			2017	2018	2019	2020	2021
						Act.	3rd review	Act.	Budget	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**22.8**	**24.6**	**23.6**	**20.8**	**20.9**	**24.5**	**23.9**	**25.6**	**28.7**	**22.9**	**24.6**	**25.4**	**25.5**	**25.5**	**25.5**	**25.5**
Revenue	19.5	20.6	20.3	19.7	19.5	20.4	20.9	22.2	21.2	20.9	21.5	22.4	22.4	22.5	22.5	22.5
Tax revenue	17.5	18.7	18.4	18.0	16.6	18.2	18.9	19.9	19.4	19.4	20.0	20.0	20.0	20.0	20.0	20.0
Taxes on income and profits	4.2	3.8	3.5	3.5	2.9	3.7	3.6	4.0	3.7	3.5	3.7	3.7	3.7	3.7	3.7	3.7
Taxes on property	0.9	0.8	0.7	0.8	0.7	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on goods and services	6.9	8.2	8.3	8.1	7.5	7.9	8.2	8.3	8.5	8.5	8.6	8.6	8.6	8.6	8.6	8.6
Taxes on international trade	5.4	5.9	5.9	5.6	5.5	5.8	6.2	6.7	6.7	6.6	7.0	7.0	7.0	7.0	7.0	7.0
Nontax revenue	2.0	1.9	1.8	1.7	2.9	2.2	2.0	2.3	1.8	1.5	1.5	2.3	2.4	2.4	2.4	2.4
Grants	3.3	4.0	3.4	1.1	1.4	4.1	3.0	3.4	7.4	2.1	3.1	3.1	3.1	3.1	3.1	3.1
Total expenditure and net lending	**28.0**	**28.2**	**28.8**	**26.7**	**28.1**	**29.1**	**25.2**	**26.8**	**28.6**	**22.8**	**24.8**	**24.9**	**24.4**	**24.3**	**24.1**	**23.9**
Current expenditure	20.4	21.0	21.0	21.7	21.1	19.9	18.1	18.1	17.8	17.3	18.1	18.1	17.4	17.3	16.7	16.6
Wages and salaries	9.2	9.4	11.0	10.5	10.7	9.8	8.5	8.4	7.3	8.1	8.5	9.0	9.0	9.0	8.7	8.7
Pensions and NIS contributions	2.0	2.0	1.9	2.0	2.1	2.1	2.0	1.9	1.8	2.0	1.9	2.0	2.0	2.0	2.0	2.0
Goods and services	4.1	5.2	3.6	4.0	3.3	2.9	2.7	2.9	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Transfers 1/	2.9	2.2	2.0	1.7	1.7	1.5	1.4	1.5	1.4	1.4	1.8	1.6	1.4	1.4	1.4	1.4
Interest payments	2.2	2.2	2.5	3.4	3.3	3.5	3.5	3.5	3.8	3.4	3.3	3.0	2.4	2.2	2.1	1.9
Capital expenditure and net lending	7.6	7.3	7.8	5.0	7.1	9.2	7.0	8.7	10.9	5.5	6.6	6.8	7.0	7.0	7.3	7.3
Grant-financed	1.1	2.2	3.1	1.1	1.4	3.7	3.0	3.4	7.4	2.1	3.2	3.1	3.1	3.1	3.1	3.1
Non-grant financed	6.5	5.1	4.6	4.0	5.7	5.5	4.1	5.3	3.4	3.4	3.5	3.7	3.9	4.0	4.3	4.3
Primary balance 2/	**-3.0**	**-1.5**	**-2.7**	**-2.5**	**-3.9**	**-1.1**	**2.2**	**2.2**	**3.5**	**3.5**	**3.1**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Underlying primary balance (excl. one-off rev. and exp.)	**…**	**…**	**…**	**…**	**-4.5**	**-1.2**	**1.6**	**1.8**		**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Overall balance	**-5.2**	**-3.6**	**-5.2**	**-5.9**	**-7.3**	**-4.7**	**-1.3**	**-1.3**	**0.0**	**0.1**	**-0.2**	**0.5**	**1.1**	**1.3**	**1.4**	**1.6**
Public Debt	**91.1**	**96.9**	**100.7**	**103.3**	**107.6**	**101.4**	**90.2**	**94.3**		**85.8**	**89.2**	**78.8**	**73.2**	**68.3**	**63.6**	**58.9**
Memo item:																
Nominal GDP (EC$ millions)	2,082	2,082	2,102	2,160	2,275	2,462	2,584	2,575	2,709	2,713	2,692	2,831	2,983	3,139	3,298	3,466

Sources: Country authorities and Fund staff estimates.

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

2/ The primary surpluses for 2017-21 include projected revenue from the Citizenship by Investment program.

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

Table 3. Grenada: Medium-Term Central Government Financing Projections
(in millions of EC Dollars)

	2015	2016	2017	2018	2019	2020	2021
Stock of deposits at beginning of the period	**94.0**	**135.2**	**191.9**	**198.8**	**206.6**	**211.4**	**216.7**
Inflows	**1501.5**	**642.6**	**724.8**	**616.4**	**639.1**	**667.8**	**681.8**
Primary surplus	57.5	83.6	98.2	103.7	109.1	115.6	121.5
Debt placement	493.2	504.5	470.0	497.6	530.0	552.2	560.3
External	116.7	128.4	66.9	53.9	53.9	43.7	43.7
o/w Exceptional financing	82.6	69.1	7.6				
Domestic	376.5	376.1	403.1	443.6	476.0	508.4	516.5
Arrears accumulation	8.7						
Debt stock reduction from restructuring 1/	153.6	29.1	156.5	15.1			
New debt issued under restructuring 2/	788.6	25.3					
Outflows	**1,460.3**	**585.9**	**717.8**	**608.6**	**634.3**	**662.5**	**682.5**
Primary deficit							
Interest bill	89.9	88.2	83.9	71.6	70.1	68.1	65.8
Scheduled Amortization	425.5	456.2	474.2	518.8	557.0	587.1	609.5
External	53.6	90.6	85.4	96.2	93.9	91.6	87.8
Domestic	371.9	365.5	388.7	422.6	463.1	495.5	521.7
Arrears clearance 3/	167.0	17.8	3.1	18.3	7.2	7.2	7.2
o/w Regularization of arrears	105.6	17.8		15.1			
Debt restructuring	777.9	23.7	156.5	0.0			
Net cash flow (+surplus/-deficit)	**41.2**	**56.7**	**7.0**	**7.7**	**4.8**	**5.3**	**-0.8**
Stock of deposits at the end of the period	**135.2**	**191.9**	**198.8**	**206.6**	**211.4**	**216.7**	**215.9**
Memorandum:							
Overall balance fiscal balance	57.5	-4.6	14.2	32.1	39.0	47.5	55.7
Stock of arrears	143.0	125.2	122.1	103.8	96.6	89.3	82.1
Public Debt	2429.0	2402.3	2231.3	2183.9	2144.6	2096.8	2041.9
(in percent of GDP)	94.3	89.2	78.8	73.2	68.3	63.6	58.9
o.w.							
Domestic	778.5	734.5	715.9	727.0	732.8	735.8	735.8
External	1,650.5	1,667.8	1,515.4	1,456.8	1,411.8	1,361.0	1,306.1

1/ Includes debt stock reduction from the debt exhange for the 2025 bonds, the Export-Import Bank of Taiwan Province, other external commercial debt and restructured domestic debt. Under inflows, the total restructured amount is the sum of debt restructuring and debt forgiveness. under ourflows, the counterpart is debt restructuring and regularization of arrears.
2/ Includes new debt issued under restructuring agreements executed with the Export-Import Bank of Taiwan Provice of China, holders of Grenada's 2025 international bonds, Paris Club creditors, the National Insurance Scheme, and other domestic creditors.
3/ Remaining stock of arrears in 2016 is comprised of bilateral debt, contribution arrears to organizations, and domestic debt. They have a corresponding imputed repayment under arrears clearance starting in 2016.

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

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

	2013			2014			2015		
		Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	906.5	100.0	107.6	924.2	100.0	101.4	899.6	100.0	94.3
Central government debt	856.8	94.5	101.7	878.3	95.0	96.3	859.2	95.5	90.1
Central-government guaranteed debt	49.7	5.5	5.9	45.9	5.0	5.0	40.4	4.5	4.2
External debt	591.8	65.3	70.2	611.8	66.2	67.1	611.3	67.9	64.1
A. Central Government	565.7	62.4	67.1	588.3	63.7	64.5	590.7	65.7	61.9
1. Multilateral	223.1	24.6	26.5	247.1	26.7	27.1	280.0	31.1	29.4
CDB	118.1	13.0	14.0	125.0	13.5	13.7	134.7	15.0	14.1
IDA	54.2	6.0	6.4	66.2	7.2	7.3	77.7	8.6	8.1
IBRD	11.3	1.2	1.3	10.5	1.1	1.1	14.9	1.7	1.6
IMF	27.9	3.1	3.3	29.5	3.2	3.2	29.3	3.3	3.1
Other Multilateral	11.6	1.3	1.4	15.9	1.7	1.7	23.4	2.6	2.4
2. Official bilateral	102.8	11.3	12.2	96.3	10.4	10.6	95.7	10.6	10.0
Paris Club 1/	10.2	1.1	1.2	10.5	1.1	1.1	10.8	1.2	1.1
France	4.2	0.5	0.5	4.4	0.5	0.5	4.5	0.5	0.5
Russian Federation	0.2	0.0	0.0	0.2	0.0	0.0	0.3	0.0	0.0
U.S.	2.9	0.3	0.3	2.9	0.3	0.3	3.0	0.3	0.3
U.K.	2.9	0.3	0.3	2.9	0.3	0.3	3.2	0.4	0.3
Other	92.6	10.2	11.0	85.9	9.3	9.4	84.9	9.4	8.9
Kuwait	19.0	2.1	2.2	18.0	1.9	2.0	17.0	1.9	1.8
Taiwan Province of China 2/	25.2	2.8	3.0	19.4	2.1	2.1	19.4	2.2	2.0
Trinidad and Tobago	32.9	3.6	3.9	32.9	3.6	3.6	32.9	3.7	3.4
Venezuela	10.0	1.1	1.2	10.0	1.1	1.1	10.0	1.1	1.0
Other Bilateral	5.6	0.6	0.7	5.6	0.6	0.6	5.6	0.6	0.6
3. Commercial debt	199.1	22.0	23.6	199.1	21.5	21.8	189.3	21.0	19.8
US$ 2040 Bonds 5/	193.5	21.3	23.0	193.5	20.9	21.2	183.7	20.4	19.3
Other Bonds	5.6	0.6	0.7	5.6	0.6	0.6	5.6	0.6	0.6
4. External arrears on interests	19.3	2.1	2.3	21.8	2.4	2.4	2.9	0.3	0.3
5. Overdue membership fees	21.3	2.4	2.5	23.9	2.6	2.6	22.8	2.5	2.4
B. Central-government guaranteed	26.1	2.9	3.1	23.5	2.5	2.6	20.6	2.3	2.2
Domestic debt	314.7	34.7	37.4	312.4	33.8	34.3	288.3	32.1	30.2
A. Central Government	291.2	32.1	34.6	290.0	31.4	31.8	268.5	29.8	28.2
1. Treasury bills	120.1	13.3	14.3	125.3	13.6	13.7	117.9	13.1	12.4
RGSM 3/	34.2	4.1	4.1	36.9	4.0	4.1	35.9	4.0	3.8
3 month initial maturity	14.8	1.8	1.8	14.8	1.6	1.6	13.0	1.4	1.4
1 year initial maturity	19.4	2.3	2.3	22.1	2.4	2.4	23.0	2.6	2.4
Private placements	85.9	9.5	10.2	88.4	9.6	9.7	82.0	9.1	8.6
National Insurance Scheme	22.1	2.4	2.6	22.1	2.4	2.4	14.8	1.6	1.6
Petrocaribe Grenada	34.8	3.8	4.1	34.8	3.8	3.8	34.8	3.9	3.7
Other private placements	29.0	3.2	3.4	31.5	3.4	3.5	32.4	3.6	3.4
2. Bonds	91.3	10.1	10.8	91.9	9.9	10.1	112.8	12.5	11.8
EC$ 2040 Bonds 5/	68.1	7.5	8.1	68.1	7.4	7.5	68.9	7.7	7.2
RGSM 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	17.9	2.0	2.1	17.9	1.9	2.0	37.9	4.2	4.0
Other Bonds and FICs	5.3	0.6	0.6	5.9	0.6	0.6	6.0	0.7	0.6
3. Domestic arrears on interests	3.1	0.3	0.4	11.3	1.2	1.2	4.9	0.5	0.5
4. Compensation claims	14.8	1.6	1.8	14.8	1.6	1.6	14.8	1.6	1.6
5. Commercial Bank Loans	10.7	1.2	1.3	8.5	0.9	0.9	7.0	0.8	0.7
6. Overdraft	6.1	0.7	0.7	3.3	0.4	0.4	0.0	0.0	0.0
7. Supplier arrears	34.6	3.8	4.1	29.2	3.2	3.2	0.0	0.0	0.0
8. Other 4/	10.5	1.2	1.2	5.7	0.6	0.6	11.1	1.2	1.2
B. Central-Government Guaranteed	23.6	2.6	2.8	22.4	2.4	2.5	19.8	2.2	2.1
Memorandum items:									
Nominal GDP	842.6			911.8			953.6		

Sources: Grenadian authorities and Fund staff estimates.

1/ Debt service obligations to the Paris Club were rescheduled in May 2006.

2/ New debt issued after restructuring in December 2014

3/ Regional Government Securities Market placements.

4/ Includes unpaid claims < 60 days, and ECCB temporary advance

5/ Prior to the restructuring that took place in November 2015 was the US$ 2025 bonds.

Table 5. Grenada: Arrears, 2013-15
(In millions of U.S. Dollars, unless otherwise indicated)

	2013				2014				2015			
	Principal	Interest	US$mln	% of GDP	Principal	Interest	US$mln	% of GDP	Principal	Interest	US$mln	% of GDP
Total arrears	**106.4**	**25.3**	**131.7**	**15.6**	**81.7**	**33.1**	**114.8**	**12.6**	**50.0**	**7.8**	**57.8**	**6.1**
External arrears	**65.5**	**19.3**	**84.8**	**10.1**	**42.9**	**21.8**	**64.7**	**7.1**	**42.5**	**2.9**	**45.4**	**4.8**
Multilateral	0.8	0.5	1.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	37.8	10.1	47.9	5.7	13.3	1.5	14.8	1.6	14.1	2.9	17.0	1.8
Paris Club	2.6	0.4	2.9	0.3	3.8	0.4	4.3	0.5	4.8	0.9	5.7	0.6
France	1.1	0.3	1.4	0.2	1.7	0.3	2.0	0.2	2.3	0.3	2.6	0.3
Russia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.1	0.1	0.2	0.0
UK	0.8	0.1	0.9	0.1	1.1	0.1	1.2	0.1	1.3	0.5	1.8	0.2
US	0.5	0.0	0.5	0.1	0.8	0.1	0.9	0.1	1.1	0.1	1.2	0.1
Non-Paris Club	35.2	9.7	45.0	5.3	9.5	1.0	10.5	1.2	9.3	2.0	11.2	1.2
Algeria	0.6	0.0	0.6	0.1	0.6	0.0	0.6	0.1	0.6	0.0	0.6	0.1
Libya	5.0	0.0	5.0	0.6	5.0	0.0	5.0	0.5	5.0	0.0	5.0	0.5
Trinidad	1.8	0.7	2.5	0.3	2.7	1.0	3.7	0.4	3.6	2.0	5.6	0.6
Commercial	5.6	8.7	14.3	1.7	5.6	20.3	25.9	2.8	5.6	0.0	5.6	0.6
Unpaid contribution to organizations	21.3	0.0	21.3	2.5	23.9	0.0	23.9	2.6	22.8	0.0	22.8	2.4
Budget expenditure arrears	**41.0**	**6.0**	**47.0**	**5.6**	**38.9**	**11.3**	**50.1**	**5.5**	**7.5**	**4.9**	**12.4**	**1.3**
Domestic debt	6.4	6.0	12.4	1.5	9.7	11.3	20.9	2.3	7.5	4.9	12.4	1.3
Domestic debt under restructuring	4.9	6.0	10.9	1.3	9.7	11.3	20.9	2.3	7.5	4.9	12.4	1.3
ECCB	1.5	0.0	1.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplier arrears	34.6	0.0	34.6	4.1	29.2	0.0	29.2	3.2	0.0	0.0	0.0	0.0

Sources: Grenadian authorities and staff estimates.

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

Table 6. Grenada: Balance of Payments Summary, 2012-21

	2012	2013	Est. 2014	Projections 2015	2016	2017	2018	2019	2020	2021
				(In millions of US Dollars)						
Current account	**-168.5**	**-195.5**	**-141.8**	**-137.9**	**-120.3**	**-149.7**	**-159.7**	**-175.8**	**-188.3**	**-199.5**
Trade balance for goods and services	-164.4	-184.2	-133.1	-120.6	-104.9	-134.2	-148.3	-166.4	-180.8	-193.4
Net Income	-34.3	-29.6	-34.7	-39.7	-38.3	-39.0	-35.6	-35.5	-35.6	-36.1
Current transfers	30.3	18.3	26.1	22.5	22.9	23.5	24.2	26.1	28.1	30.0
Capital and financial account	**139.1**	**203.3**	**125.2**	**167.9**	**112.3**	**154.5**	**173.1**	**187.2**	**198.7**	**207.7**
Capital transfers	58.6	43.9	82.5	104.8	55.4	127.8	83.6	89.6	93.9	98.4
o.w. debt forgiveness 1/	0.0	0.0	17.2	48.4	0.0	49.5	0.0	0.0	0.0	0.0
Foreign direct investment 2/	31.5	113.1	39.9	65.6	64.2	84.8	89.8	100.9	106.0	111.4
Public sector borrowing (net)	3.6	51.8	40.1	-38.3	-11.2	-56.9	-13.4	-14.6	-18.8	-23.1
NFA of commercial banks	18.5	-57.0	-62.2	-69.9	-31.7	-15.6	-9.4	-9.6	-9.8	-10.3
Other private flows	26.9	51.5	25.0	105.6	35.6	14.4	22.4	20.9	27.4	-23.0
Errors and omissions	21.6	1.6	56.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-7.7**	**9.4**	**39.5**	**30.0**	**-8.0**	**4.8**	**13.3**	**11.4**	**10.4**	**8.2**
Overall financing	**7.7**	**-9.4**	**-39.5**	**-60.6**	**-17.5**	**-7.6**	**-13.3**	**-11.4**	**-10.4**	**-8.2**
Change in ECCB NFA	1.9	-31.4	-22.9	-30.3	-12.5	-2.7	-8.5	-8.6	-8.5	-5.9
Change in Reserve Position with the IMF	-0.5	-0.5	3.4	-4.5	-5.1	-4.9	-4.9	-2.8	-1.9	-2.3
Change in existing external arrears	6.3	22.5	-20.1	-25.8	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**…**	**…**	**0.0**	**30.6**	**25.6**	**2.8**	**0.0**	**0.0**	**0.0**	**0.0**
Exceptional financing:	…	…	0.0	30.6	25.6	2.8	0.0	0.0	0.0	0.0
Net use of Fund resources	…	…	0.0	5.6	5.6	2.8	0.0	0.0	0.0	0.0
World Bank	…	…	0.0	15.0	10.0	0.0	0.0	0.0	0.0	0.0
CDB	…	…	0.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)						
Current account	**-21.1**	**-23.2**	**-15.5**	**-14.5**	**-12.1**	**-14.3**	**-14.5**	**-15.1**	**-15.4**	**-15.5**
Trade balance for goods and services	-20.6	-21.9	-14.6	-12.7	-10.5	-12.8	-13.4	-14.3	-14.8	-15.1
Exports of goods and services	28.9	28.5	28.9	28.9	28.8	29.7	29.8	30.0	30.1	30.2
Tourism	15.2	14.4	15.7	16.2	16.3	16.5	16.5	16.6	16.7	17.2
Student receipts 3/	3.1	3.1	2.9	2.8	2.7	2.6	2.6	2.5	2.5	2.5
Imports of goods and services	49.5	50.4	43.5	41.5	39.3	42.5	43.2	44.3	44.9	45.3
Mineral fuels	11.4	9.8	8.5	4.8	3.4	3.9	4.2	4.5	4.7	4.8
Net income	-4.3	-3.5	-3.8	-4.2	-3.8	-3.7	-3.2	-3.1	-2.9	-2.8
o.w. Public interest payment	-2.3	-2.4	-2.7	-2.4	-2.0	-1.9	-1.4	-1.3	-1.2	-1.1
Net current transfers	3.8	2.2	2.9	2.4	2.3	2.2	2.2	2.2	2.3	2.3
Capital and financial account	**17.4**	**24.1**	**13.7**	**17.6**	**11.3**	**14.7**	**15.7**	**16.1**	**16.3**	**16.2**
Capital transfers	7.3	5.2	9.0	11.0	5.6	12.2	7.6	7.7	7.7	7.7
o.w. debt forgiveness 1/	0.0	0.0	1.9	5.1	0.0	4.7	0.0	0.0	0.0	0.0
Foreign direct investment	3.9	13.4	4.4	6.9	6.4	8.1	8.1	8.7	8.7	8.7
Public sector flows	0.4	6.2	4.4	-4.0	-1.1	-5.4	-1.2	-1.3	-1.5	-1.8
NFA of commercial banks	2.3	-6.8	-6.8	-7.3	-3.2	-1.5	-0.8	-0.8	-0.8	-0.8
Other private flows	3.4	6.1	2.7	11.1	3.6	1.4	2.0	1.8	2.2	-1.8
Errors and omissions	2.7	0.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-1.0**	**1.1**	**4.3**	**3.1**	**-0.8**	**0.5**	**1.2**	**1.0**	**0.9**	**0.6**
Overall financing	**1.0**	**-1.1**	**-4.3**	**-6.4**	**-1.8**	**-0.7**	**-1.2**	**-1.0**	**-0.9**	**-0.6**
Change in ECCB NFA	0.2	-3.7	-2.5	-3.2	-1.3	-0.3	-0.8	-0.7	-0.7	-0.5
Change in reserve position with the IMF	-0.1	-0.1	0.4	-0.5	-0.5	-0.5	-0.4	-0.2	-0.2	-0.2
Change in existing external arrears	0.8	2.7	-2.2	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**…**	**…**	**0.0**	**3.2**	**2.6**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**
Exceptional financing:	…	…	0.0	3.2	2.6	0.3	0.0	0.0	0.0	0.0
Net use of Fund resources	…	…	0.0	0.6	0.6	0.3	0.0	0.0	0.0	0.0
World Bank	…	…	0.0	1.6	1.0	0.0	0.0	0.0	0.0	0.0
CDB	…	…	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Gross external debt	**141.0**	**144.1**	**144.2**	**140.2**	**136.2**	**125.5**	**119.4**	**114.3**	**109.4**	**104.6**
External public and publicly guaranteed debt	67.6	70.2	67.1	64.1	61.9	53.5	48.8	45.0	41.3	37.7
Foreign liabilities of private sector 4/	73.4	73.9	77.1	76.1	74.2	72.0	70.6	69.3	68.1	66.9
Nominal GDP in US$	800	843	912	954	997	1048	1105	1162	1222	1284

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

1/ Debt forgiveness as a result of debt restructuring

2/ After 2016 includes staff's projection of CBI reciepts

3/ Incorporates receipts of students from St Georges University

4/ Comprises foreign liabilities of commercial banks and other liabilities under the "Other investment" item of the financial account.

Table 7. Grenada: Summary Accounts of the Banking System, 2009-17

	2009	2010	2011	2012	2013	2014	2015 3rd review	2015 Proj.	2016 Proj.	2017 Proj.
(In millions of EC dollars; end of period)										
Net foreign assets	283.7	242.3	165.8	113.8	352.4	582.2	772.9	852.5	971.9	1,021.3
ECCB	303.4	277.5	282.9	280.8	365.6	427.3	480.3	509.0	542.7	550.1
Of which: Net imputed reserves	303.4	277.5	282.9	280.8	365.6	427.3	480.3	509.0	542.7	550.1
Commercial banks (net)	-19.8	-35.2	-117.0	-167.0	-13.2	154.8	292.6	343.5	429.2	471.3
Assets	549.3	514.5	511.9	478.0	546.2	672.7	806.2	855.9	945.0	993.6
Liabilities	-569.1	-549.6	-628.9	-645.0	-559.4	-517.9	-513.7	-512.4	-515.8	-522.4
Net domestic assets	1,536.4	1,595.1	1,683.8	1,748.5	1,586.3	1,435.8	1,389.2	1,269.9	1,249.0	1,313.7
Public sector credit (net)	-125.8	-173.1	-168.2	-53.3	-57.3	-86.9	-94.4	-232.3	-198.9	-211.4
Central government	98.8	110.0	150.4	107.5	52.3	17.3	9.9	-65.9	-28.3	-35.8
ECCB	-30.5	-7.7	27.9	30.1	17.7	17.0	17.0	17.0	17.0	17.0
Commercial banks	129.3	117.7	122.5	77.4	34.5	34.5	34.5	34.5	34.5	34.5
Net credit to rest of public sector	-125.8	-172.6	-168.0	-53.3	-57.3	-104.3	-104.3	-166.4	-170.6	-175.6
National Insurance Scheme	-152.4	-165.4	-164.3	-71.1	-63.8	-74.7	-74.7	-92.0	-96.2	-101.1
Credit to private sector	1,668.8	1,762.2	1,800.3	1,803.2	1,700.4	1,613.9	1,581.3	1,552.4	1,553.5	1,594.5
Other items (net)	-105.4	-104.5	-98.9	-109.0	-109.1	-91.1	-97.7	-50.2	-105.6	-69.4
Broad money	1,820.0	1,837.4	1,849.7	1,862.2	1,938.7	2,018.0	2,162.1	2,122.4	2,220.9	2,335.0
Money	332.3	342.3	325.2	333.3	381.2	466.5	579.6	543.0	608.0	639.3
Currency in circulation	106.7	98.8	108.7	112.9	115.7	124.1	130.3	131.5	137.6	144.6
Demand deposits	225.6	243.5	216.5	220.4	265.5	342.4	449.3	411.4	470.5	494.7
Quasi-money	1,487.8	1,495.1	1,524.5	1,528.9	1,557.6	1,551.5	1,582.5	1,579.4	1,612.8	1,695.7
Time deposits	339.2	371.2	381.4	339.9	318.2	287.1	267.0	271.4	256.7	269.9
Savings deposits	1,014.4	1,011.6	1,023.1	1,095.9	1,143.1	1,167.9	1,214.4	1,160.5	1,201.9	1,263.7
Foreign currency deposits	134.2	112.3	120.0	93.1	96.2	96.4	101.1	147.4	154.2	162.1
(Annual percentage change)										
Net foreign assets	14.0	-14.6	-31.6	-31.4	209.7	65.2	32.8	46.4	14.0	5.1
Net domestic assets	1.2	3.8	5.6	3.8	-9.3	-9.5	-3.2	-11.6	-1.6	5.2
Public sector credit, net	6.1	37.6	-2.9	-68.3	7.5	51.8	8.5	167.2	-14.4	6.3
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	-5.1	-2.0	-3.8	0.1	2.6
Broad money	3.0	1.0	0.7	0.7	4.1	4.1	7.1	5.2	4.6	5.1
NFA contribution	2.0	-2.3	-4.2	-2.8	12.8	11.9	9.5	13.4	5.6	2.2
NDA contribution	1.0	3.2	4.8	3.5	-8.7	-7.8	-2.3	-8.2	-1.0	2.9
Money	-10.0	3.0	-5.0	2.5	14.4	22.4	24.2	16.4	12.0	5.1
Quasi-money	6.4	0.5	2.0	0.3	1.9	-0.4	2.0	1.8	2.1	5.1
(In percent of GDP)										
Net foreign assets	13.6	11.6	7.9	5.3	15.5	23.6	29.9	33.1	36.1	36.1
Net domestic assets, o.w.	73.8	76.6	80.1	81.0	69.7	58.3	53.8	49.3	46.4	46.4
Public sector credit, net	-6.0	-8.3	-8.0	-2.5	-2.5	-3.5	-3.7	-9.0	-7.4	-7.5
Private sector credit, net	80.1	84.6	85.6	83.5	74.7	65.6	61.2	60.3	57.7	56.3
Broad money (M2)	87.4	88.3	88.0	86.2	85.2	82.0	83.7	82.4	82.5	82.5
Money	16.0	16.4	15.5	15.4	16.8	18.9	22.4	21.1	22.6	22.6
Quasi-money	71.4	71.8	72.5	70.8	68.5	63.0	61.2	61.3	59.9	59.9
Interest rates (percent per year)										
ECCB policy rate	6.5	6.5	6.5	6.5	6.5	6.5	...	6.5	...	...
US policy rate	0.1	0.1	0.1	0.1	0.1	0.1	...	0.1	...	...
Interbank market rate	6.5	6.2	4.9	6.3	6.4	6.0	...	n.a.	...	...
Time deposit rate	4.4	4.3	3.8	3.2	2.7	2.0	...	1.6	...	...
Demand deposit rate	0.3	0.3	0.3	0.5	0.3	0.3	...	0.3	...	...
Weighted average lending rate	10.7	9.5	10.3	9.2	9.1	9.0	...	8.7	...	...

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

Table 8. Grenada: Indicators of Capacity to Repay the Fund, 2014-22

(in millions of SDRs, unless otherwise indicated)

	Actual		Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Existing Fund credit (stock)									
In percent of quota	174.3	180.8	106.9	85.7	64.6	52.4	44.1	34.3	24.5
In millions of SDRs	20.4	21.2	17.5	14.1	10.6	8.6	7.2	5.6	4.0
In millions of US$	29.7	29.9	24.9	19.9	15.0	12.2	10.3	8.0	5.7
In percent of GDP	3.3	3.1	2.5	1.9	1.4	1.0	0.8	0.6	0.4
Proposed Extended Credit Facility (stock)									
In percent of quota	0.0	0.0	24.5	36.7	36.7	36.7	36.8	35.5	29.4
In millions of SDRs	0.0	0.0	4.0	6.0	6.0	6.0	6.0	5.8	4.8
In millions of US$	0.0	0.0	5.7	8.5	8.5	8.5	8.6	8.3	6.8
In percent of GDP	0.0	0.0	0.6	0.8	0.8	0.7	0.7	0.6	0.5
Outstanding Fund credit (end of period)									
In percent of quota	174.3	180.7	131.4	122.4	101.3	89.1	80.8	69.8	53.9
In millions of SDRs	20.4	21.1	21.5	20.1	16.6	14.6	13.3	11.4	8.8
In millions of US$	29.7	29.9	30.6	28.5	23.6	20.7	18.8	16.2	12.5
In percent of exports of goods and services	11.2	10.8	10.7	9.2	7.2	5.9	5.1	4.2	3.1
In percent of debt service	24.5	27.7	56.0	50.6	39.8	35.5	34.3	29.1	21.2
In percent of GDP	3.3	3.1	3.1	2.7	2.1	1.8	1.5	1.3	0.9
In percent of Imputed Net International Reserves	18.8	15.8	15.2	14.0	11.1	9.3	8.1	6.7	5.0
Fund obligations based on existing credit	1.8	3.2	3.3	3.5	3.5	2.0	1.4	1.8	2.6
Repurchases and repayments	1.8	3.2	3.3	3.5	3.5	2.0	1.4	1.8	2.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit	1.8	3.2	3.3	3.5	3.5	2.0	1.4	1.8	2.6
Repurchases and repayments	1.8	3.2	3.3	3.5	3.5	2.0	1.4	1.8	2.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit									
In millions of US$	2.7	4.6	4.7	4.9	5.0	2.9	2.0	2.6	3.8
In percent of exports of goods and services	1.0	1.7	1.6	1.6	1.5	0.8	0.5	0.7	0.9
In percent of debt service	2.2	4.2	8.6	8.8	8.4	5.0	3.6	4.7	6.4
In percent of GDP	0.3	0.5	0.5	0.5	0.5	0.3	0.2	0.2	0.3
In percent of Imputed Net International Reserves	1.7	2.4	2.3	2.4	2.3	1.3	0.9	1.1	1.5
In percent of quota	15.2	27.7	20.3	21.2	21.2	12.4	8.5	11.2	16.1
Net use of Fund credit	2.3	0.8	0.4	-1.5	-3.5	-2.0	-1.4	-1.8	-2.6
Disbursements	4.0	4.0	4.0	2.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.8	3.2	3.6	3.5	3.5	2.0	1.4	1.8	2.6
Memorandum items:									
Exports of goods and services (in millions of US$)	263.9	275.5	286.9	311.3	329.1	348.4	367.6	387.6	409.4
Debt service (in millions of US$)	121.3	107.7	54.6	56.3	59.2	58.5	54.8	55.8	59.1
GDP (in millions of US$)	911.8	953.6	997.2	1048.4	1104.8	1162.4	1221.5	1283.6	1348.9
Imputed Net International Reserves (in millions of US$)	158.3	188.5	201.0	203.7	212.6	222.4	233.1	241.3	249.8
Quota (in millions of SDR)	11.7	11.7	16.4	16.4	16.4	16.4	16.4	16.4	16.4

Source: Staff estimates and projections.

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

	2009	2010	2011	2012	2013	2014	2015	Latest Available
Financial sector indicators								
Regulatory capital to risk-weighted assets	15.9	16.5	15.1	13.9	13.6	13.0	12.2	Dec-15
Regulatory Tier 1 capital to risk-weighted assets	13.8	15.0	13.6	13.2	12.2	11.7	10.2	Dec-15
Nonperforming loans net of provisions to capital	25.2	33.8	50.2	49.7	61.6	59.5	41.0	Dec-15
Nonperforming loans to total gross loans	5.9	7.6	9.4	11.8	13.8	14.6	10.0	Dec-15
Foreign banks	5.8	6.4	8.9	12.0	13.7	15.4	10.7	Dec-15
Sectoral distribution of loans to total loans								
Residents	94.4	95.0	95.9	96.2	96.0	96.3	95.9	Dec-15
Other financial corporations 1/	0.6	0.4	0.5	0.5	0.3	0.2	0.3	Dec-15
General government 2/	9.0	7.6	7.0	5.5	5.3	4.9	3.9	Dec-15
Nonfinancial corporations 3/	28.9	30.6	30.0	31.4	28.9	27.5	27.3	Dec-15
Nonresidents	5.6	5.0	4.1	3.8	4.0	3.7	4.1	Dec-15
Return on assets	1.3	1.2	0.2	0.5	-1.8	-0.1	1.5	Dec-15
Return on equity	12.1	9.2	-2.8	3.1	-22.3	-2.5	15.4	Dec-15
Net interest income to Total income	52.7	53.0	50.9	51.9	50.6	51.1	56.0	Dec-15
Noninterest expenses to gross income	69.2	68.2	85.6	70.0	109.0	86.5	73.8	Dec-15
Liquid assets to total assets	21.7	20.7	22.9	22.9	27.7	32.8	37.5	Dec-15
Liquid assets to short-term liabilities	24.1	23.3	25.4	25.0	29.8	34.9	40.0	Dec-15
Net foreign currency exposure to total capital	37.8	34.7	24.6	37.7	65.2	102.7	124.1	Dec-15
U.S. treasury bill rate (percent per annum)	0.2	0.1	0.1	0.1	0.1	0.0	0.3	Feb-16
Treasury bill rate (percent per annum) 4/	6.5	6.0	6.0	6.0	6.0	6.0	6.0	Feb-16
External sector indicators								
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	Feb-16
REER appreciation (percent change on 12-month basis, end of period)	-8.8	1.0	1.1	-1.1	-1.8	-0.3	-1.0	Feb-16
Gross international reserves of the ECCB (in US$ millions)	898.4	991.8	1,069.2	1,181.1	1,222.4	1,457.1	1,661.4	Jan-16
Gross international reserves to broad money in ECCU countries (percent)	17.4	18.8	19.7	20.5	20.4	23.0	25.0	Jan-16
Public gross external debt (in US$ million)	493.0	531.4	537.4	540.5	591.8	611.8	611.3	Dec-15
Public gross external interest payments to fiscal revenue (percent)	5.5	4.7	5.2	8.9	8.0	7.9	9.3	Dec-15
Public gross external amortization payments to fiscal revenue (percent)	5.7	7.7	6.0	4.2	7.4	7.9	10.5	Dec-15
Public sector indicators	(in percent of GDP)							
Central government overall balance (after grants)	-5.2	-3.6	-5.2	-5.9	-7.3	-4.7	-1.3	Dec-15
Public and publicly-guaranteed gross external debt	91.1	96.9	100.7	103.3	106.9	100.9	94.3	Dec-15

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

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

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

Availability date	Amount of Disbursement		Conditions
	SDR million	Percent of quota 1/	
June 26, 2014	2.040	12.439	Executive Board approval of the arrangement
September 30, 2014	2.000	12.195	Observance of continuous and end-June 2014 performance criteria and completion of the first review
March 31, 2015	2.000	12.195	Observance of continuous and end-December 2014 performance criteria and completion of the second review
September 30, 2015	2.000	12.195	Observance of continuous and end-June 2015 performance criteria and completion of the third review
March 31, 2016	2.000	12.195	Observance of continuous and end-December 2015 performance criteria and completion of the fourth review
September 30, 2016	2.000	12.195	Observance of continuous and end-June 2016 performance criteria and completion of the fifth review
March 31, 2017	2.000	12.195	Observance of continuous and end-December 2016 performance criteria and completion of the sixth review
Total	19.68	120	

Source: Fund staff estimates

1/ Quota increased from SDR 11.7 million to SDR 16.4 million, effective March 23, 2016.

Table 11. Grenada: Recent and Ongoing Legislative Reform

	Approved by Parliament	Entered into Force	Regulations Entered into Force
Financial Legislation			
Banking Act 2015	✓	✓	n/a
Cooperative Societies (Amendment) Act			n/a
ECCB (Amendment of Schedule) Order 2016 *	n/a	✓	n/a
Eastern Caribbean Asset Management Corporation Act 2016	✓	✓	
Uniform Insurance Act			n/a
Fiscal Legislation			
Fiscal Policy Framework Reform			
Fiscal Responsibility Act 2015	✓	✓	n/a
Public Debt Management Reform			
Public Debt Management Act 2015	✓		
Public Finance Management Reform			
National Transformation Fund Regulations 2015 **	✓	✓	✓
Public Finance Management Act 2015	✓	✓	✓
Public Procurement and Disposal of Property Act 2014	✓	✓	✓
Tax Administration Reform			
Customs Act 2015	✓	✓	
Tax Administration Act 2016	✓		n/a
Tax Incentive Reform			
Annual Stamp Tax (Amendment) Act 2015	✓	✓	n/a
Customs (Duties Exemptions) Order 2016 **	n/a		n/a
Customs (Service Charge) (Amendment) Act 2016	✓		n/a
Excise Tax (Amendment) Act 2016	✓		n/a
Income Tax (Amendment) Act 2015	✓	✓	n/a
Income Tax (Amendment) Act 2016	✓		n/a
Investment Act 2014	✓		n/a
Investment (Amendment) Act 2016	✓		n/a
Investment (Priority Sectors) Regulations 2016 **	n/a		n/a
Property Transfer Tax (Amendment) Act 2015	✓	✓	n/a
Property Transfer Tax (Amendment) Act 2016	✓		n/a
Value-Added Tax (Amendment) Act 2015	✓	✓	n/a
Value-Added Tax (Amendment) Act 2016	✓		n/a
Business Environment Legislation			
Bankruptcy and Insolvency Act 2016	✓		n/a
Grenada Industrial Development Corporation (Amendment) Act			n/a
Investment Act 2014	✓		n/a
Energy Sector Reform			
Electricity Supply Act			n/a
Public Utilities Regulatory Commission (Amendment) Act			n/a
Labor Code Reform			
Employment (Amendment) Act			n/a
Labor Relations (Amendment) Act			n/a

Note: n/a = not applicable. * = Signed by the Minister responsible for Finance. ** = Approved by Cabinet.

1/ All tax incentive reform legislation will be entered into force as a prior action for completion of the fourth ECF Review.

Annex I. Grenada: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Recommend Policy Response
Structurally weak growth in key advanced economies. Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms lead to low medium-term growth and persistent financial imbalances.	**High**	**Medium Term**	**High.** Slower growth in advanced economies could directly dampen Grenada's growth through lower tourism arrivals, remittances, and FDI. The fiscal position could also worsen with weaker revenues.	Carry through with the programmed fiscal adjustment and structural reforms.
Slowdown in commodity exporters (Canada and Trinidad and Tobago). Lower oil prices could further weaken activity and spill over to their financial sectors, further dampening demand and growth and resulting in negative feedback loops.	**High**	**Near Term**	**High.** Grenada's growth could be directly affected through lower tourism arrivals, remittances and FDI. Financial spillover channels could include a cutback in lending from Canadian and Trinidadian banks, resulting in lower growth and negative feedback loops, as well as tightened liquidity in regional financial markets, increasing rollover risks for sovereign debt.	See (1). Strengthen creditworthiness and build fiscal and financing buffers by implementing home grown program, saving receipts from the CBI program, adhering to fiscal rules in the FRA and focusing public investment to raise productivity and competitiveness.
Zika Virus, a virus transmitted by mosquitoes that causes flu-like symptoms but is suspected to be associated with microcephaly.	**High**	**Near Term**	**High.** If spread to Grenada, the virus could significantly discourage tourist arrivals, widen current account deficit and dampen growth.	Raise public awareness of the virus and related health issues and urge proactive prevention measures by tourism facilities (e.g. regular mosquito fogging).
Surge in the US dollar. Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge.	**High**	**Short Term**	**Medium.** A surge in the U.S. dollar, to which the EC dollar is pegged, could lead to further appreciation of Grenada's real exchange rate, while making Grenada a more expensive destination for tourists from Europe and Canada.	Increase productivity and reduce labor costs to improve competitiveness and promote tourism sector through better targeted marketing strategies.
Reduced financial services by global/regional banks ("de-risking"): Further loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances in small economies.	**High**	**Short Term**	**Medium/low.** Shock to remittance flows could have a short-run impact on BOP net inflows and reduced consumption spending. Disrupted banking services could also hinder financial transactions in the tourism industry.	Continue efforts to strengthen AML/CFT and financial sector supervision. Implement regional strategy to strengthen bank balance sheets.

Annex I. Grenada: Risk Assessment Matrix (Concluded)

Persistently lower energy prices, triggered by supply factors reversing only gradually.	High	**Medium Term**	Low. Persistently low oil prices could tighten liquidity in the regional financial markets (oil-producing Trinidad and Tobago) and increase rollover risks for sovereign T-bills issued in the regional market. At the same time, there is potential upside risk associated with domestic demand boost from lower energy costs and price competitiveness gains.	Strengthen creditworthiness and build fiscal and financing buffers by carrying through with home grown program, saving receipts from the CBI program.
Opening of U.S-Cuba tourism, following the regularization of diplomatic relations between the two countries	High	**Short Term**	Low. It is unclear how the ECCU will be affected. Research so far suggests ECCU niche could be preserved and downside risks are expected to be manageable.	Comprehensive approach to raise competitiveness; build regional synergy against potential negative shocks.
Natural disasters, mainly hurricanes, could cause severe damage to infrastructure and disrupt tourism flows.	Medium	**Medium Term**	High. The cost of infrastructure rehabilitation would put pressure on the fiscal position. The disruption to the hotel plant would slow tourism inflows, reduce growth and widen the current account deficit.	Build fiscal buffers by saving receipts from the CBI program, increase coverage of natural disaster insurance with donor assistance, and adhere to the fiscal rules in the 2015 Fiscal Responsibility Act (FRA). In long-term, work with World Bank/donors to build resilience to climate change.
Stronger-than expected adverse impact from fiscal consolidation on growth	Medium	**Short Term**	Low. A larger than expected negative fiscal impulse could potentially slow the recovery of domestic demand. However, the cyclical impact from adjustment should run its course by 2017.	Follow through with program to raise confidence; prioritize growth-enhancing and job creating public investment.
Higher than expected proceeds from the citizenship-by-investment (CBI) program	Low	**Short/ Medium Term**	Medium. CBI-related investment could accelerate economic growth and create employment opportunities, but a surge of could pose overheating pressures or ultimately Dutch Disease type pressures.	Manage the program transparently and prudently, save a portion of these potential windfalls for contingencies while maximizing their impact on potential growth.

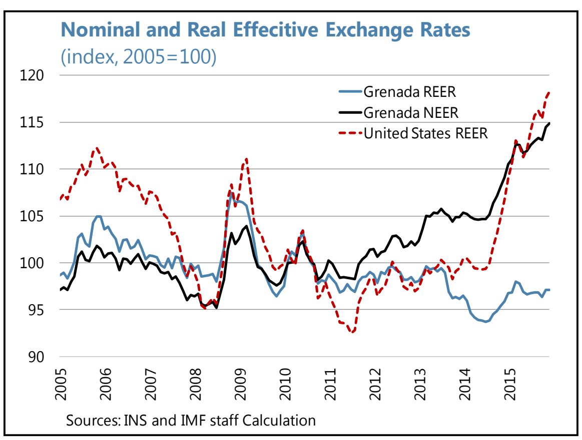
1 The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

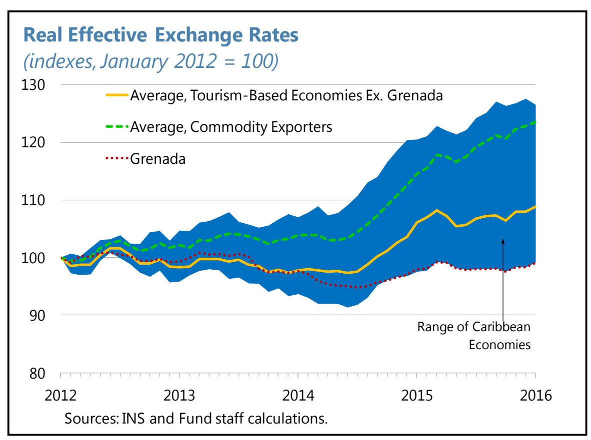
Annex II. Grenada—External Sector and Competitiveness Assessment

Despite signs of improvement, Grenada's external competitiveness needs to be monitored closely. Earlier fiscal and external imbalances caused by damages from natural disasters and countercyclical policy responses to the global financial crisis took a toll on Grenada's competitiveness. Under the authorities' home grown program, however, fiscal and debt sustainability are improving. In addition, lower international oil price and a recovery in tourism have helped to narrow external imbalances. That said, broader competitiveness signs, including exchange rates, labor costs and tourism market share, show a mixed picture. On balance, the analysis points to the need for ongoing efforts to increase productivity and lower domestic costs. With pending and significant revisions to balance of payments statistics, staff will monitor developments closely and revisit the assessment when the data are finalized.

1. Nominal and real effective exchange rates

Recent appreciation of the EC dollar is expected to continue, but the impact is likely to be mitigated by relatively lower domestic price inflation in the near term. Measured against its main trading partners (INS weights), Grenada's nominal effective exchange rate (NEER) has appreciated by 10.7 percent since mid 2014, largely owing to the strengthening U.S. dollar, to which the regional currency is pegged. The nominal appreciation has been partially offset by deflation in Grenada, with the real effective exchange rate (REER) appreciating by 2.8 percent during the same period. With domestic deflation, the real effective exchange rate in Grenada is much lower than its Caribbean peers, which has helped lower the current account deficit. Going forward, nominal appreciation is expected to continue as relatively stronger growth in the U.S. and higher interest rates cause the dollar to remain strong. Inflation in Grenada is projected to remain muted for most of 2016 due to lower energy prices, which should provide counter nominal appreciation pressures.





2. Equilibrium real exchange rate estimates and new balance of payments data

Empirical analysis with current BoP data points to overvaluation of the real exchange rate (RER). Based on current BoP statistics, the standard EBA-lite estimates suggest the misalignment of Grenada's real effective exchange rate (REER) ranges from -8.0 percent (- under-valuation) to 43.2 percent (+ overvaluation), based on different methodologies. These are broadly consistent with the staff assessment during the last Article IV consultation.

- The current account regression approach finds that Grenada's current account balance of -15.5 percent of GDP in 2014 was weaker than the estimated "norm" of -6.9 percent of GDP. Based on an estimated elasticity of -0.2, a 43.2 percent REER adjustment (depreciation) would be needed to close the current account gap. (Past analysis has found that EBA models have a poor fit for micro economies, partly due to natural disaster shocks.)

- The external sustainability approach suggests that a current account balance of 12.9 percent of GDP would be needed to stabilize Grenada's net foreign liabilities, and a 13.1 percent RER adjustment would be needed toward the medium term.

- Finally, the REER-based regression approach indicates that Grenada's REER is broadly in line with its estimated norm.

However, in January 2016, the ECCB released new provisional balance of payments (BoP) data for 2014 which shows a significant improvement in Grenada's external position. The new BoP estimates are based on BPM6 for the first time and were compiled using improved methodologies, particularly with respect to recording tourism expenditure. The provisional estimates were compiled with TA from CARTAC to develop and administer new surveys and train data compilers and surveyors. The key changes in methodology include: i) a new survey to capture transactions by offshore universities that were not captured under the old methodology (Grenada has the largest private medical university in the Caribbean), and ii) a new survey to estimate tourism expenditures, which were previously based on outdated estimates. The new data are incomplete and will not be finalized until late-2016.

ECCB BOP Revisions: Grenada

	2014 (EC$, million)		2014 (% of GDP)	
	BPM5	***BPM6***	***BPM5***	***BPM6***
Current Account	-453.78	-192.82	-18.43	-7.83
Goods	-683.71	-714.97	-27.77	-29.04
Services	253.16	738.27	10.28	29.99
of which: Transport	-89.71	-100.44	-3.64	-4.08
of which: Travel	354.82	1155.46	14.41	46.93
of which: Other Services	-11.95	-316.76	-0.49	-12.87
Capital Account	176.31	189.23	7.16	7.69
Financial Account	284.61		11.56	
FDI	107.75	-114.53	4.38	-4.65
Portfolio	32.26	-35.62	1.31	-1.45
Other Investment	144.61	42.72	5.87	1.74
Reserve Assets	61.71	38.95	2.51	1.58
Net errors and Omissions	54.56	-64.9	2.22	-2.64

Source: ECCB; and IMF Staff Estimates.

The provisional BoP data suggest that external imbalances may be considerably lower than estimated under the existing BoP statistics. The current account deficit is estimated at 7.8 percent of GDP, an improvement of over 10 percent of GDP. The difference is primarily caused by an improved recording of travel expenditure, which resulted in a significant increase in travel service exports matched by downward revisions in FDI inflows, portfolio outflows and Errors & Omissions.

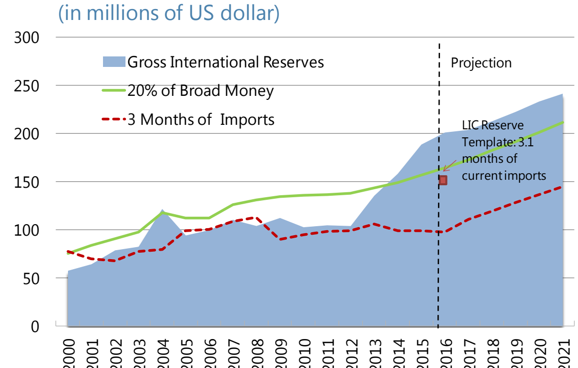
Grenada: External Balance Assessment (EBA) Estimates (2014, in percent/percent of GDP)					
	Current Account Norm	Current Account Actual	Current Account Gap	Elasticity	REER gap 1/
Current Account Regression (BPM5)	-6.9	-15.5	-8.6	-0.20	43.2
Current Account Regression (provisional BPM6)	-6.9	-7.8	-0.9	-0.37	2.5
External Sustainability Approach (BPM5)	-12.9	-15.5	-2.6	-0.20	13.1
External Sustainability Approach (provisional BPM6)	-12.9	-7.8	5.1	-0.37	-13.8
REER Regression	...	...	...	...	-8.0
1/ Positive number suggests overvaluation.					

Under these new strengthened BoP data, the EBA assessment suggests a smaller misalignment in Grenada's RER. An illustrative estimate under the EBA-lite assessment using the provisional data finds no misalignment of Grenada's RER based on the current account regression approach, and a 13.8 percent undervaluation of the exchange rate based on the external sustainability approach. As noted above, irrespective of the data revision, past analysis has found EBA models to have a poor fit for small and micro economies. Along with measurement errors and other data shortcomings, the estimates should be considered with caution and assessed in conjunction with other indicators of external sustainability. Staff will work with the authorities to continue improving the external statistics and the exchange rate assessment.

3. Reserve adequacy

Improvement in Grenada's external position has led to further reserve accumulation. Imputed reserves stood at US$188.5 million at end-2015, covered 5.7 months of imports or 24 percent of broad money, and appeared to be adequate for cushioning external shocks and preventing disorderly market conditions. The imputed reserve position is also stronger than the 3.1 month of imports optimal level suggested by a risk-based model tailored to low-income economies.[1,2]

Gross International Reserve and Adequacy
(in millions of US dollar)



Sources: IMF staff calculation

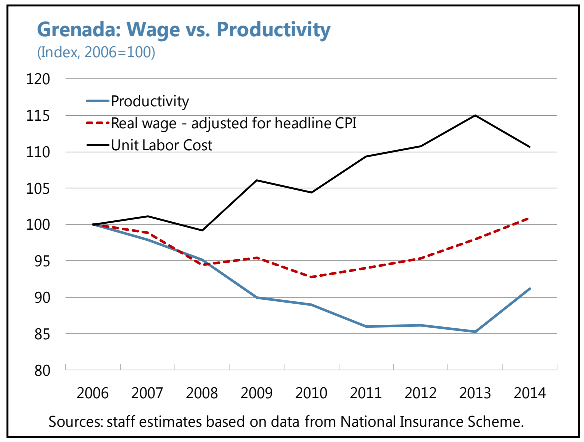
4. Labor costs and productivity

With a fixed exchange rate, labor costs are a key variable in the competitiveness equation. Labor market rigidities and skills mismatch have led to a large number of workers being displaced

[1] International Monetary Fund, 2015, *Assessing Reserve Adequacy—Specific Proposals*,

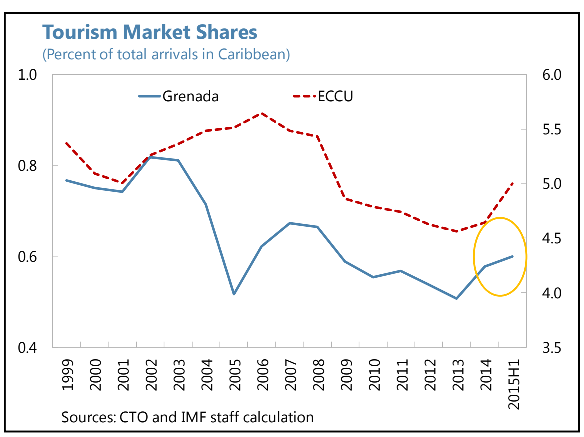
[2] This assessment does not take into consideration the need for cushions to deal with natural disasters.

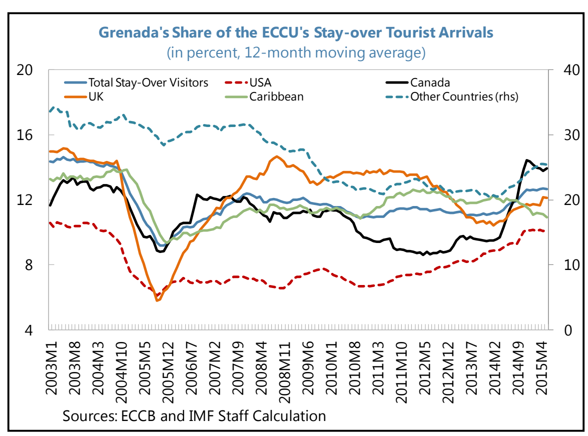
and persistent high unemployment in Grenada, which repressed productivity. Measured by real output per worker, labor productivity in Grenada fell sharply from 2006-2013. Real wages have not adjusted fully to lower productivity, which has resulted in rising unit labor costs. Large public sector employment, accounting for more than one third of total formal employment, combined with rigid wage setting practices may have contributed to inflexibility of labor costs and prevented timely real wage adjustment. As the economy exited a four year long recession, labor productivity started to recover in 2014, narrowing the real wage gap. However, labor market reforms, together with the anticipated modernization of the public sector (a program structural benchmark) are necessary to reduce rigidities, update worker skills, and strengthen job search to support long run productivity growth and reduce relative labor costs (see SIP, Chapter III).



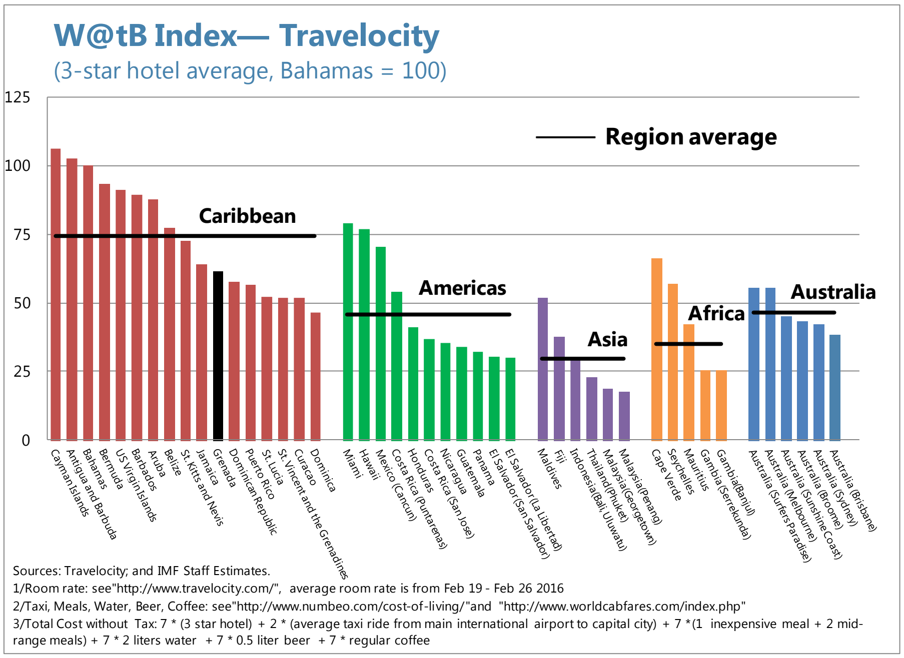
5. Tourism: arrivals, market share, and price

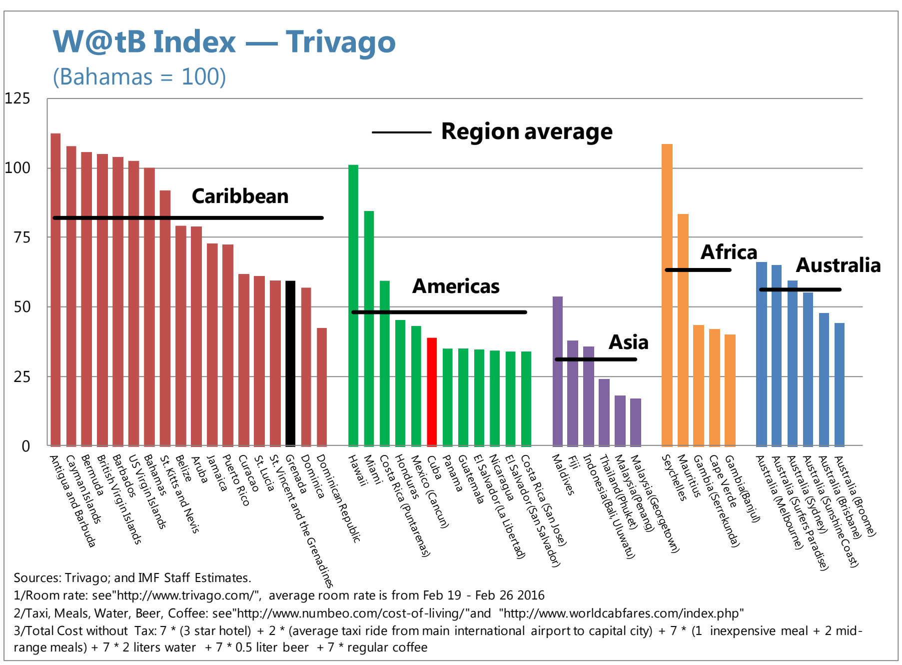
Grenada's tourism market share has recovered but is yet to fully reach its pre-2005-hurricane level. After the devastating hurricanes in 2004 and 2005, Grenada suffered a 30 percent drop in its share of total stay-over visitors in the ECCU. The tourism industry was hit hard again during the global financial crisis in 2008-09, which ended a short-lived post-disaster recovery. Grenada started to regain its market share in 2014 after intensified marketing, the establishment of a new Grenada Tourism Authority, and the opening of a large brand-name luxury resort. Stay-over arrivals, particularly from the U.S. and Canada, have recovered, but Grenada's share of total visitors in the Caribbean is still behind the level enjoyed prior to 2005. More recently, the surge in arrivals from Canada has slowed, likely due to the depreciation in the Canadian dollar which makes Grenada a more expensive destination. (See Selected Issues papers, Chapter II.)





While tourism costs in the Caribbean are high relative to other global beach destinations, comparisons with other Caribbean countries suggest holiday prices in Grenada are competitive. The attached index compares nominal in-country costs of a typical basket of beach holiday goods/services with common standards, from a common source, in a common currency. (WP/14/229). Grenada is shown in the black bar below.





Appendix I. Letter of Intent

May 2, 2016

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

Dear Madame Lagarde,

We are now in the final year of implementation of our Homegrown Programme, supported by our regional and international partners, and have continued to make significant progress in boosting economic growth, restoring fiscal and debt sustainability and strengthening the financial sector. We have met all continuous and end-December 2015 quantitative performance criteria and strong progress was made on the structural reform agenda.

As committed, we achieved the first primary surplus in a decade in 2015, outperforming the programme target by a significant margin. We have also substantially completed a comprehensive debt restructuring that has resulted in a major reduction in our debt burden. The substantial legislative reforms that we have undertaken to overhaul our fiscal policy framework, together with our ongoing fiscal consolidation efforts, have set the foundation for fiscal and debt sustainability and longer-term economic growth. Accordingly, we have remained firmly on track to successfully implement the remainder of our programme and have already taken the necessary fiscal adjustment measures to complete the programmed fiscal consolidation.

The Government remains fully committed to the objectives and targets of its programme, as set out in the November 2015 Memorandum of Economic and Financial Policies (MEFP). The attached supplement to the MEFP (Attachment I), together with the updated Technical Memorandum of Understanding (Attachment II) present performance under the programme thus far and update the specific policies toward meeting the objectives of the home-grown economic programme. Our key focus going forward will be on safeguarding the results thus far, while advancing reforms to ensure sustainable public sector wage management, and to boost productivity, employment and growth.

On the basis of our performance under the programme and commitment to continued implementation, our Government requests that the Executive Board of the IMF complete the fourth review of the arrangement under the ECF and the financing assurances review, approve the request for a waiver of a performance criterion, approve the request for modification of a performance criterion, approve the requested rephasing of structural benchmarks, and approve the fifth disbursement under the arrangement of the equivalent of SDR 2 million.

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

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

Yours truly,

/s/

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

Attachment I. Memorandum of Economic and Financial Policies for 2016-17

1. **Grenada continues to make important progress to restore fiscal and debt sustainability.** On November 25th, 2015, the IMF's Executive Board completed the Third Review of the three-year arrangement under the Extended Credit Facility (ECF) in support of Grenada's home-grown economic reform programme. Overall programme implementation remained strong in 2015. All quantitative targets were met for the fourth review and progress was made on the structural reform agenda, most notably by strengthening tax administration with a new Tax Administration Act and the restructuring of our Inland Revenue Department by making operational the Large/Medium and Small Taxpayer Units.

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

Fiscal Consolidation

3. **The Government achieved the first primary surplus in a decade in 2015.** At 2.2 per-cent of GDP (including 0.5 percent of GDP in budgetary revenue from the Citizen-By-Investment (CBI) programme), the primary surplus outperformed the programme target by a significant margin. Strong revenue growth drove the overperformance, underpinned by a strong economic recovery, improvements in tax administration, and a larger-than anticipated revenue yield of tax policy measures introduced in 2015. To lend further support to the economic recovery, the Government utilized some of the fiscal space provided by strong revenue growth to undertake additional capital spending to help boost potential output, while preserving its efforts to restrict recurrent spending. As part of our efforts to restrict recurrent spending, public employment and the wage bill were maintained below their monitored targets. With the progress achieved in 2015, the Government has undertaken a total fiscal adjustment of 6.1 percent of GDP since embarking on our home-grown adjustment programme, marking a significant turnaround in the fiscal position.

4. **We will complete the fiscal consolidation required to restore fiscal and debt sustainability in 2016**. In support of this objective, the 2016 Budget targets a primary surplus of 3.5 percent of GDP, (excluding one-off severance payments – see ¶6 below) as also required under the newly enacted Fiscal Responsibility Act (FRA) until we have completed our efforts to reduce central government and central government guaranteed debt below the FRA target of 55 percent of GDP. To accomplish this objective, an additional consolidation of 1.3 percent of GDP is required in 2016. As outlined in our December 2015 MEFP, we have already taken steps to put in place the measures required to achieve this consolidation, including the VAT on fee-based banking services, which was legislated in 2015 (meeting the end-December 2015 **structural benchmark**). We expect to begin

receiving revenues under this VAT in April 2016 as we have now completed discussions with banks on the applicability of the VAT to their various fee-based services. To further support our efforts, we will maintain public sector employment below its end-2015 level and propose to lower the associated **monitoring target** to reflect this commitment. No further adjustment measures are required to achieve the programmed fiscal consolidation for 2016.

5. **We remain committed to prudent management of receipts from our CBI programme to ensure that our fiscal consolidation efforts remain unaffected by the uncertain nature of these potential inflows**. The 2016 Budget assumes the receipt of EC$82 million of grant financing from the National Transformation Fund (NTF), with a portion of these receipts budgeted to finance recurrent expenditure mandates, including on social programmes and ongoing infrastructure spending. We are committed to ensuring that these recurrent mandates are restricted to the fiscal envelope available in the absence of CBI inflows and that available NTF grant financing will be used to finance only one-off, transformational infrastructure spending that we would otherwise not be able to undertake, as required under the NTF regulations (see below). To achieve this, we have:

- Reallocated the recurrent mandates from NTF-financed to non-grant-financed spending and reduced expenditure allocations for non-grant-financed spending to programmed levels. We have also specified quarterly capital budget allocations for non-grant-financed spending (TMU¶20) consistent with achieving our quantitative programme targets, and will ensure that our quarterly capital budget allocations to Ministries/Departments are consistent with these allocations. These allocations are also consistent with the expected reduced availability of Petrocaribe financing relative to the time of the preparation of the 2016 Budget, given the continued decline in international oil prices.

- Prioritized the non-recurrent infrastructure projects that will be financed with NTF resources if these become available. As previously committed (June 2015 MEFP), the execution of these projects will start only when sufficient resources have been accumulated in the NTF to finance the project to its completion and through its maintenance over the medium-term.

We will also ensure that spending under the NTF is limited to non-recurrent and productive infrastructure spending, as required under the NTF regulations. In support of this objective, we will continue our efforts to ensure proper accounting of capital spending under the new Chart of Accounts (CoA) (¶10).

6. **To support achievement of our fiscal targets mandated by the FRA, we will ensure that budgeted transfers to state-owned enterprises (SOEs) and statutory bodies (SBs) include provisions for the payment of severance related to their restructuring (¶13).** In 2016, we expect to pay approximately US$4.9 million in severance to workers at Grenada Postal Corporation and Grenada Concrete and Emulsion Production Corporation (GCEPC) as part of the restructuring of these organizations. A provision for this spending was not included in the 2016 Budget approved in 2015 because of the uncertainty at that time about the magnitude of the required severance. While the exact cost of severance payments for GECPC is uncertain at this time, should spending in 2016 for both entities amount to more than the US$4 million allowed under the ECF programme adjustor

(TMU ¶7), we will take corrective measures to safeguard compliance with programme targets. For 2016, the one-off severance payments could result in a temporary deviation of the primary balance from its FRA-mandated target. Based on current severance estimates, we anticipate achieving a primary balance of at least 3.1 percent of GDP. Going forward, we are committed to providing for all spending related to the ongoing restructuring of SOEs and SBs (¶13), including for the payment of severance in the budget estimates, and to adhering to the fiscal rules as set out in the FRA.

7. **We will work with the public service to address any outstanding salary obligations within the expenditure ceiling under our ECF-supported programme**. We previously committed (IMF Country Report No. 14/196, MEFP ¶18) not to award salary increments (automatic pay grade increases) for the 2014-16 period while improving the public service performance appraisal system. However, the Government subsequently discovered it may have a contractual liability to award some increments for this period. We commit to engaging key stakeholders with a view to arriving at a systematic approach for the settlement of outstanding wage obligations consistent with the ECF targets and the FRA. Moreover, we aim to implement, with guidance from the IMF's Fiscal Affairs Department (FAD), a new system to manage the wage bill that will install a rational, rules-based mechanism of wage bill management and regular performance-based assessments (see ¶11).

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

Debt Restructuring and Regularization of Arrears

9. The Government has executed debt restructuring agreements with its largest external and domestic creditors:

External Debt:

- **Private Creditors**. The debt exchange with the holders of Grenada's 2025 international bonds was successfully concluded on November 12, 2015. High creditor participation in the exchange triggered the collective action clause, ensuring universal participation. Half of the 50 percent haircut became effective immediately, with the remainder to be effective upon completion of the sixth review of the current ECF arrangement. The new bonds have an annual coupon rate of 7 percent and a maturity of 15 years. The Government, through the fiscal agent for the bonds, contacted the outstanding creditors of the original commercial bonds that did not participate in the 2005 debt exchange and the exchange agreement included a clause to allow these creditors to participate in the exchange.[1] Some holdouts have subsequently come forward and their

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

claims are expected to be restructured with the same nominal haircut as applied to the holders of the 2025 international bonds. We expect to conclude this process in by end-June 2016.

- **Official Creditors**. An Agreed Minute was reached with our Paris Club creditors on November 18, 2015 to reschedule outstanding Paris Club debts and arrears.[2] We have subsequently contacted all of our Paris Club creditors to implement the Agreed Minute. We have also continued to engage all other non-Paris Club bilateral official creditors to request a comprehensive restructuring of their claims on Grenada.

Domestic Debt:

- **National Insurance Scheme (NIS).** Agreements have been executed to restructure several Government of Grenada debts held by the NIS. The E.C. dollar 2025 bonds held by the NIS were restructured into a new long-term instrument with a 25-year term, 10-year grace period and a 3 percent interest rate, with expected NPV savings to the government of 73 percent. A restructuring agreement with equivalent terms was also executed for NIS holdings of the Government of Grenada 2014/16 Serial Bond. A privately held Treasury bill was restructured into a 7-year bond with a 2-year grace period and an interest rate of 3 percent, with expected NPV savings of 31 percent. Finally, the Government's contribution arrears to the NIS were restructured into a 5-year bond with an interest rate of 3 percent, for total expected NPV savings of 19 percent. The remaining NIS holdings of Government of Grenada debt are concentrated in 365-day Treasury bills, which are expected to be converted into instruments with longer maturities and lower interest rates, similar to those agreed on the restructured NIS holdings of Government of Grenada debt, upon their maturity.

- **Port Authority**. In February 2016, agreement was finalized with the Grenada Ports Authority (GPA) to restructure a privately placed Treasury bill held by the GPA. The Treasury bill will be restructured into a 15-year Government of Grenada bond with a 3.5 percent interest rate. A 50 percent haircut will be applied to outstanding principal and interest arrears, and is expected to result in a 0.7 percent of GDP decline in the stock of government debt.

- **Remaining domestic creditors**. Negotiations continue with our remaining domestic creditors to restructure their outstanding claims on the Government of Grenada. Negotiations with remaining domestic commercial creditors continue to focus on restructuring the majority of outstanding debt on terms comparable to those received on Grenada's external bond, excluding the sharing of any CBI flows. To reduce rollover risks, we also plan to convert our outstanding privately placed Treasury bills into new instruments with longer maturities and lower interest rates.

Government Guaranteed Debt. We have also made progress with our efforts to restructure government guaranteed debt. Debt restructuring agreements have been reached with the NIS to restructure domestic debt owed by the Housing Authority of Grenada and the Maurice Bishop

[2] Details can be found in IMF Country Report 15/333, Supplement (page 80-81).

International Airport that is guaranteed by central government. While these agreements will not provide any nominal debt relief, they are expected to improve the ability of these SOEs to service their government guaranteed debt. The Marketing and National Importing Board (MNIB) has also reached agreement with its external private creditor to restructure its debt, with the objective of removing the government guarantee. The agreement is expected to be executed in 2016.

Government Arrears. In line with our programme commitments, the Government cleared all budget expenditure arrears by end-2015. To support our efforts to remain current on our liabilities, we continue to focus on strengthening cash management, including cash flow forecasting in support of budget execution, and on implementing commitment control (¶10). We have also made important inroads to reduce debt arrears. The debt restructuring agreements implemented with our external creditors lowered our external debt arrears to 4.9 percent of GDP at end-2015 from a peak of 10.1 percent in2013. The Agreed Minute reached with our Paris Club creditors includes an agreed clearance framework for our arrears to Paris Club creditors and, once executed, is expected to reduce our external debt arrears by a further 1.8 percent of GDP. Similarly, our debt arrears to domestic creditors fell from their peak of 2.1 percent of GDP in 2014 to 1.7 percent at end-2015 due to the execution of restructuring agreements with some domestic creditors, most importantly the NIS, and will decline by a further 0.7 percent of GDP due to the agreement reached with the Port Authority in early 2016. We continue our efforts to regularize our remaining debt arrears in the context of ongoing debt restructuring negotiations with our creditors and to implement our strategy to pay membership arrears to regional and international organizations. Outside of the ongoing debt restructuring, the Government has not incurred additional arrears and remains committed to staying current on all obligations going forward.

Fiscal Structural Reforms

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

- Adhere to the regulations for the NTF, put in place in August 2015. As required by the regulations, forty percent of the monthly inflows into the NTF will be saved for general budget financing purposes, including contingency spending, natural disasters and debt reduction. All NTF-financed capital spending will be fully integrated into the Government's public sector investment programme (PSIP) and the central government Budget and will be aligned with the objectives of Grenada's Growth and Poverty Reduction Strategy (GPRS) 2016-18 and National Plan 2030. To strengthen oversight of the allocation of NTF resources, we will, as required by NTF regulations, put in place a Board of Directors for the NTF by end-2016 which will be vested with primary responsibility for allocating NTF resources. We also remain committed to the transparent management of CBI receipts and will continue to publish all CBI statistics on the Ministry of Finance website, as outlined in the TMU (¶20), on a quarterly basis (**structural benchmark**).

- Put in place the regulations needed to support implementation of the 2015 Public Debt Management (PDM) Act and bring the Act into force. We received technical assistance from the IMF to draft the regulations in 2015 and will ensure that the Act and regulations are entered into force by end-2016. We are also committed to continuing our efforts to strengthen debt management and, in support of this objective, will finalize our medium-term debt strategy by mid-2016 and undertake a restructuring of the Debt Unit within the Ministry of Finance to vest it with additional resources to fulfill its function. To strengthen control over the contracting of debt, the Debt Unit will be vested with a formal oversight responsibility of all debt contracted. The requirement to include the Debt Unit in the negotiation process for all central government and central government guaranteed debt will be explicitly included in the new PDM regulations.

- Strengthen public finance management. Important progress has already been made to strengthen public finance management with the 2016 Budget prepared according to the requirements set out in the 2015 PFM Act. As required by the Act, the Budget was accompanied by an assessment of performance for the previous fiscal year and information summarizing the financial condition of each SOE and SB. It was also accompanied by a medium-term fiscal framework, which was used as the foundation of the 2016 Budget estimates. As required by the Act, the Ministry of Finance has begun to prepare fiscal impact assessments for all proposed policy decisions to ensure that decisions are made only after considering their impact on fiscal and debt sustainability. As part of our efforts to strengthen the Government's PSIP (¶14), we are also taking steps, including through a new PSIP manual, to ensure that project selection under the PSIP is consistent with the prioritization and selection criteria outlined in the PFM Act and that PSIP reporting procedures are consistent with those required in the PFM Act. To further strengthen public finance management, we remain focused on strengthening our accounting and auditing framework for public accounts and are receiving technical assistance from the IMF's Fiscal Affairs Department to prepare manuals on budget preparation and budget execution to help guide compliance with the 2015 PFM Act.

- Implement the new CoA. We approved the final appropriation for the 2016 budget under the new Chart of Accounts (CoA) (end-2015 **structural benchmark**), and subsequently converted monthly budget accounting and reporting to the new CoA starting in January 2016. However, the Fund is of the view that the new CoA was not fully implemented for the 2016 Budget because the reclassification of some recurrent spending items (such as wage spending related to capital projects) from capital expenditure to current expenditure categories was not completed. In light of this difference of views, we have agreed to seek support from CARTAC to review the CoA implementation and provide advice on whether any further changes are necessary.

- Cash forecasting and commitment control. A cash forecasting unit has been established within the Accountant General's Department of the Ministry of Finance to strengthen cash management. We will continue our efforts to strengthen the cash forecasting model by broadening the model to include the Budget Department in monthly reporting and by utilizing the model as a key input in determining monthly/quarterly expenditure allocations. In particular, we will closely integrate the cash forecasting system into our expenditure commitment controls by limiting commitments to available cash. We have made progress to strengthen commitment control by introducing a requirement that all goods must have a SmartStream generated purchase order which automatically commits expenditure. We will continue our efforts in this regard by also mandating that all capital and services spending, regardless of its revenue stream, be initiated through a SmartStream generated purchase order.

- Implement the new tax incentive regime. The reform of the tax incentive regime to make it more rules-based and transparent and to eliminate discretion was completed in early March 2016. Further to the amendments to the various tax acts completed in 2015, additional amendments were made to clarify the incentives to be provided to large scale investments in priority sectors. Moreover, the Income Tax Act was amended to remove the Sixth Schedule and to outline the requirements for an investment to qualify as a priority investment. These qualifications were then reissued as the Investment (Priority Sectors) Regulations under the Investment Act of 2014. Finally, with support from our CARICOM partners given our regional commitments on external tariffs, the Customs (Duties Exemptions) Order of 2016 was issued to remove discretion from the granting of customs duty exemptions. With the new regime now in place, we will bring it into full force as a **prior action** for completion of the review. We expect the transition to the new tax incentive regime to be broadly revenue neutral, but will actively monitor revenue performance and take action, including implementing our identified contingent fiscal measures (¶8), should the impact be larger than anticipated. If by end-May 2016 revenue (on a cumulative basis) is below the programme forecast of EC$251 million by more than EC$1 million we will take corrective action to safeguard compliance with our programme targets.

- Strengthen tax and customs administration. Parliament approved the new Tax Administration Act in February 2016 (**end-November 2015 structural benchmark**). We will now move to bring the new Act into force, with the aim of meeting this goal by mid-2016. In addition to strengthening the legislative environment for tax administration, we continue our efforts to reform the Inland Revenue Department (IRD) — with technical assistance from CARTAC and the IMF—to strengthen tax administration. While there was a small delay relative to the anticipated end-December 2015 timeline, the Large and Medium Taxpayer Service Unit (LMTU) and the Small Taxpayers Service Unit are now operational (**end-December 2015 structural benchmark**). We are now focused on enhancing the LMTU's ability to facilitate compliance by the largest taxpayers and will provide sufficient resources to IRD to do so. For 2016, our priorities to strengthen tax administration will be to finalize an updated Corporate Strategic Business Plan and to put in place a detailed Taxpayer Compliance Strategy.

11. **The government places priority in 2016 on reforms to improve management of the public sector wage bill.** We believe this reform is essential to safeguard fiscal progress made so far and ensure a mechanism and tools to manage the wage bill in a way that is fiscally prudent, fair, and sustainable. The goal is to build a rational system of wage bill control that would include pay and grading reform, compensation related to performance and market comparators, and systematic indicators to guide regular wage negotiations based on established parameters like productivity growth, inflation and cost of living adjustments. In March 2016 we requested technical assistance

(TA) from FAD to help us prepare this strategy. We aim to host the TA mission in May 2016, which will help inform our position in discussions with public sector unions, and will submit to Cabinet by mid-2016 a focused reform strategy based on recommendations in the TA report. We would request to rephase this **structural benchmark**—Cabinet approval of a reform strategy to manage the public sector wage bill—to take place by September 30, 2016. As noted, this reform will be critical for guiding wage negotiations, complement the work underway to prepare a revised Public Service Bill, and improve the quality and effectiveness of public goods and services—key to promoting private sector growth.

12. **We are continuing our efforts to implement our strategic plan to strengthen the financial position of SOEs and SBs.** Putting in place an effective oversight framework for the sector to ensure implementation of the strategy remains integral to its success. To this end, we are committed to strengthening the committee mandated to oversee implementation of the strategy by appointing new representatives. Moreover, we will allocate additional resources to the Policy Unit within the Ministry of Finance to strengthen our monitoring of SOE and SB compliance with their reporting requirements, and to assess the financial position of individual entities and any required reforms. While some institutions have adhered to the new reporting requirements and have provided business plans as required, reporting remains uneven across institutions and we recognize that additional outreach will be needed by the oversight committee and the Policy Unit to strengthen compliance. We will also continue to monitor compliance with the guidance note issued to SOEs/SBs on salary negotiations and the dividend policy.

13. **Reform of individual SOEs and SBs are advancing, although progress has been slower than envisioned**. In late 2015, we received US$5 million in financing from the World Bank to complete the restructuring of the Grenada Postal Corporation (GPC) and Gravel, Concrete and Emulsion Production Corporation. GPC is expected to be commercialized in the first half of 2016, while Gravel Concrete and Emulsion Production Corporation is expected to be commercialized through a joint venture with a private investor. Reforms to other SOEs are expected to advance after the completion of the restructuring of these SOEs. In addition, we remain committed to resolving revenue weakness in the National Water and Sewerage Authority and the Solid Waste Management Authority, and will consider revamping their tariff-setting regimes if required.

Structural Reforms to Support Competitiveness and Growth

14. **The Government's economic programme remains focused on improving prospects for growth and job creation, guided by our GPRS 2014-18.** GPRS implementation continues to be centered on the Government's capital budget, with budgeted capital projects aligned with GPRS priorities. The Government is in the process of establishing a management information system infrastructure to align the public sector investment management system with the requirements of the FR and PFM Acts. The PSIP will be guided by GPRS priorities and the new management system will enable full integration into the capital budgeting process and *ex ante* analysis of debt implications of loan financed investment project proposals. We are also continuing our efforts to strengthen the monitoring and evaluation framework for the GPRS and expect to finalize the

framework by June 2016. The GPRS will be the cornerstone for Grenada's new long-term development plan, the National Sustainable Development Plan 2030. A national steering committee continues to guide development of the plan, which is currently in the planning stage. We expect to submit the draft plan for public consultation by mid-2016 and to finalize the plan before the next budget cycle.

15. **The Government has also taken actions to improve the business environment and enhance Grenada's investment readiness.** Consistent with the GPRS emphasis on strengthening the business climate, we are committed to unlocking the critical impediments to private sector investment and activity. In this regard, we have:

- *Introduced new insolvency legislation.* A new Bankruptcy and Insolvency Bill was approved by Parliament in March 2016 to modernize the legislative framework related to bankruptcy and insolvency of individuals and companies. The bill provides a comprehensive regime that sets out procedures available to both creditors and debtors and is expected to enhance Grenada's standing with respect to the ease of doing business.

- *Reformed Grenada Industrial Development Corporation (GIDC).* We have implemented a strategic realignment and corporate restructuring of GIDC to align the organizational structure with its business priorities. Investment promotion is now positioned as a key function of GIDC's mandate, complemented by the facility management and business development functions. As the next step, we will revise the GIDC Act, with assistance from the Commonwealth Secretariat, to support the business activities of GIDC and its new organizational structure. We are committed to obtaining parliamentary approval of the revised act by end-June 2016, on track with the **structural benchmark**. We believe that the restructuring of GIDC will play a fundamental role in reducing the time and cost of obtaining investment approval and strengthening the overall investment environment in Grenada.

16. **The Government is committed to engaging key stakeholders from the private sector to develop a plan to strengthen Grenada's position in the World Bank's Doing Business ranking.** We are collaborating with IMF staff to identify the key impediments to doing business in Grenada and the main contributors to the decline in Grenada's ranking in the World Bank index in recent years. Preliminary findings have pointed to weakness in areas such as high trading (port) costs, lengthy customs procedures, difficult access to credit, and the lack of fully digitized land registration system and building quality control regulations. Also, inefficiencies in the judicial system are cited as an important cause of delay and costs to doing business in Grenada. To resolve these issues, we are looking at steps to establish accurate information about property records, streamline property registration processes, simplify customs procedures, strengthen building quality control and regulation, and to promote a regional solution where possible, for example a region-wide credit registry.

17. **The Government has elevated the labour market as a key element of our overall efforts to strengthen growth and competitiveness.** In line with our commitment to modernize

the public sector and reduce associated costs (¶11), we will also introduce reforms to reduce unemployment and lower labour costs. We will:

- Finalize revisions to the Labour Code. Following an extensive review of the 1999 Labour Code, we have drafted the new Employment Act, Labour Relations Act, and Occupancy Safety and Health Act, guided by International Labour Standards and Conventions. These new acts are aimed at enhancing labour mobility and reducing impediments to hiring while ensuring that the system provides adequate protection of workers' rights. We have submitted the draft Occupation Safety and Health Act to the ILO and are seeking further technical assistance in finalizing this act and developing accompanying regulations. We anticipate submitting the draft Employment Act and Labour Relations Act to Parliament in June 2016 for approval, on track to meet the end-August 2016 **structural benchmark.**

- Strengthen labour market statistics. With technical assistance from the World Bank, we expect to finalize and publish the 2015 Labour Force Survey (LFS) by the end of the first quarter. The 2015 survey will incorporate for the first time a new section on multidimensional poverty indicators (including education, health and employment), compiled with assistance from the Oxford Poverty and Human Development Initiative. Strengthened labour market statistics serve as an important input to policy decisions in support of our efforts to reduce unemployment, and we are committed to continuing the survey on an annual basis. We have also finished collecting the information for the Job Opening and Labour Turnover Study, as part of a regional initiative, and are currently engaging the World Bank for assistance in processing the data, with results expected by year-end.

- Put in place active labour market policies required to strengthen skills matching, improve demand and supply links, and promote human capital development. The government, through the National Training Agency (Grenada), has undertaken a labour market needs assessment and developed the National Vocational Qualification, which provides important guidelines for tailored training programmes to meet skill demand. We are also working closely with international organizations on skill training and development of the youth and are developing a website for vacancy posting and online job center to improve skills matching. The government is also seeking active support from foreign investors to include elements of job training and skills development as part of their investment planning in Grenada. Finally, we are collaborating with IMF staff to assess the Grenadian labour market and to determine other appropriate policies.

18. **The Government remains committed to reforming the regulatory environment for the energy sector to regain its price competeveness.** Amendments to the Public Utilities Regulatory Commission Act (PURCA) and a new Electricity Supply Act (ESA) have been drafted by renowned consultants under the World Bank funded Eastern Caribbean Energy Regulatory Agency (ECERA) project, and revised with the incorporation of public comments following national consultations during the course of 2015. The Government has entered the final stage of dialogue with the electricity company, facilitated by a third party, in an effort to secure maximum acceptability of the new legislations by the parties and expects to conclude the facilitated discussions and approve the new legislations by mid-2016. The new legislations will establish an independent national regulatory

authority responsible for tariff-setting, among others, to be supported by the regional advisory authority (ECERA). The new legislative framework, once established, is expected to introduce competition in the electricity sector and guide Grenada's transition to renewable energy. The Government has also been receiving assistance from international partners to further review the draft legislation and undertake viability studies of renewable energy alternatives.

19. **The government has continued efforts to expand the productive capacity and output of the agriculture sector to improve the prospects for sustainable growth and competitiveness.** Various government initiatives geared towards higher agricultural exports include infrastructure (road access) investments and the facilitation of new private sector investments through the commercialization of government estates. In addition to the strategic focus of MNIB, these are expected to boost farmer confidence, create jobs, and increase efficiencies and farmers' income. These form part of the national agriculture strategy, which is closely aligned with the objectives of the GPRS and outlines a targeted approach for a more environmentally sustainable development of the sector to strengthen its resilience to climate change. The strategy, which was recently submitted to Cabinet for approval, also identifies strategic crops to capitalize on potential export markets, increasing the scale and range of value added products as well as strengthening the linkages with the tourism sector.

20. **The Government will work to strengthen social protection under the SEED programme.** Due to technical delays in populating the new Management Information System (MIS), implementation of the testing tool was delayed. However, beginning in late 2015, to address pressing social needs, new applicants were accepted into the programme after a screening process conducted by our field officers. With additional beneficiaries under the programme, monthly spending increased in the last quarter of 2015. However, due to the earlier delays noted above, the end December 2015 indicative floor was missed by a small margin (EC$1.6 million). We are now in the process of entering all beneficiary data into the new MIS, in final preparation for implementing the phase-out policy approved in August 2015. We anticipate to complete the data entry process by end-March 2016 and to submit the draft phase-out plan to Cabinet thereafter. We expect to implement the phase-out plan and start accepting new applicants using the new MIS and testing tool in 2016.

Financial Sector Reforms

21. **We remain committed to the ECCU regional strategy to strengthen the banking sector.** With the new regional legislative framework for bank regulation, supervision and resolution in place, we are now, together with our regional partners, focused on addressing the results of the regional asset quality review (AQR) and viability assessments on indigenous banks as well as the regional assessment of potential mergers and/or groupings of assets and liabilities that could be attractive for potential investors. We remain committed to taking immediate action as necessary to strengthen the financial position of commercial banks operating in Grenada while safeguarding fiscal sustainability. In this regard, we continue to work with the ECCB to determine an appropriate strategy, in the context of a sustainable fiscal framework consistent with commitments under the

IMF-supported programme and resumption of debt sustainability, to address weaknesses identified in the Grenadian banking sector. Private sector solutions will be considered as a first best option to address any weaknesses identified in Grenadian banks.

22. **We continue to strengthen regulation and supervision of the nonbank financial sector.** Following recommendations from CARTAC's evaluation of the Grenada Authority for the Regulation of Financial Institutions' (GARFIN) operations and supervisory practices, we are in the process of increasing staff to strengthen our oversight responsibilities. We are also working with CARTAC to develop a national crisis management plan, as part of a regional project, to prepare for any potential financial crisis that could arise from the failure of national financial institutions and/or cross-border financial institutions with systemic reach.

23. **GARFIN has taken important steps to enhance supervision in the credit union sector, including implementing risk-based supervision**. Going forward, with technical assistance from CARTAC, we will start conducting credit quality reviews and stress testing of the credit unions. To strengthen the legislative framework for regulation and supervision, we have made amendments to the Cooperative Societies Act, following consultations with industry, to standardize capital adequacy requirements and provide guidance for investments. We expect to bring the revised Act into force by the third quarter of 2016. In the interim, we are committed to issuing the uniform ECCU regulations for the credit union sector which will provide support for the Cooperatives Societies Act.

24. **We continue to support the establishment of the Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor of the proposed single insurance market in the ECCU**. Regional public consultations on the regional Insurance Act are coming to an end, with the draft Act expected to be submitted to the ECCB Monetary Council by end-2016. We expect the single regulatory framework to be formally put into place in 2018. GARFIN will continue its off-site supervision of insurers, through regular prudential meetings and review of prudential returns. On-site examination of insurance companies is continuing and we plan to start risk-based supervision in the next year.

25. **With regard to pensions, GARFIN has completed registering most of the pension plans in Grenada.** Offsite supervision has been completed for two-thirds of the pension funds through review of audited financial statements and actuarial reports. We introduced detailed interim reporting forms for the pension funds in October 2015 and anticipate starting to compile consolidated statistics on financial performance and membership of the sector. To strengthen prudential management of the pension funds, we held a second training workshop for trustees in December 2015. We expect to start on-site supervision of the pension funds covering areas such as asset/investment quality and corporate governance in the next year.

26. **We continue to place importance on strengthening our framework for anti-money laundering and countering the financing of terrorism (AML/CFT).** We recognize the potential for heightened AML/CFT risks from the CBI programme and are committed to continued strengthening of our due diligence framework for the programme, with appropriate AML/CFT measures and oversight targeted to applicants and new citizens under the programme. More

generally, critical to a further strengthening of our AML/CFT regime will be the completion of a national money laundering and terrorist financing risk assessment. Given our limited capacity to conduct the risk assessment, we are continuing our efforts to source technical assistance from our international partners to complete this assessment.

Programme Monitoring

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

Table 1. Grenada: Quantitative Programme Targets

	2014				2015						2016	
	Jun.		Dec.		Jun.		Dec.				Jun.	Dec.
	Act.	Status	Act.	Status	Act.	Status	Prog.	Adj Prog. 1/	Act.	Status	Prog.	Prog.
Performance criteria												
A. Cumulative floor on central govt. primary balance (EC$ mn) 2/	-2	Met	-28	Met	37	Met	31	39	58	Met	39	94
B. Cumulative ceiling on central govt. primary spending (EC$ mn) 2/	285	Met	630	Met	281	Met	550	619	601	Met	268	526
C. Ceiling on stock of central govt. budget expenditure arrears (EC$ mn) 5/	94	Met	79	Met	53	Not met	0	0	0	Met	0	0
D. Ceiling on accumulation of external debt arrears (continuous)	0	Met	0	Met	0	Met	0	0	0	Met	0	0
E. Ceiling on contracting of non-concessional external debt by the central govt. (continuous, US$ mn) 6/	0	Met	10	Not met	0	Met	0	0	0	Met	0	0
Indicative targets												
F. Cumulative ceiling on net change in central govt. and central govt. guaranteed debt (EC$ mn) 2/ 3/	31	Met	48	Met	-30	Met	66	-58	-66	Met	13	15
G. Floor on social spending by central govt. (EC$ mn)	6.2	Not Met	11.4	Not met	5.4	Not met	13.4	13.4	11.8	Not met	7.0	14.0
Monitoring												
H. Wage bill target	111	Met	219	Met	109	Met	220	220	215	Met	110	219
I. Public employment target	7168	Met	7515	Met	7096	Met	7484	7484	7003	Met	7000	7000
Memorandum item												
Projected new concessional external debt (US$ mn) 4/							21				0	10

1/ Adjusted for the shortfall in SEED spending, revenue overperformance, and capital grants compared to the program, as applicable according to the TMU.
2/ From end-December of the previous year.
3/ Actual does not include financing from CDB on behalf of GSWMA because the loan had not been disbursed.
4/ Debt with a grant element that exceeds a minimum threshold of 35 percent.
5/ For June 2015: budget expenditure arrears were revised upward after the Third Review, resulting in nonobservance of the June 2015 performance criteria *ex post*.
6/ period, and for borrowing from the CDB and WB for development and debt management purposes up to cumulative maximums of US$30 mllion from each institution (TMU¶10).

Table 2. Grenada: Structural Programme Conditionality

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

Attachment II. Technical Memorandum of Understanding

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

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

I. PERFORMANCE CRITERIA

A. Cumulative Floor on the Central Government Primary Balance

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

- Total revenues and grants will record (i) project grants only to the extent that they have been spent; (ii) budgetary grants (grants not earmarked for capital outlays) will be treated as project grants and recorded when spent on capital outlays; and (iii) transfers from the National Transformation Fund (NTF) for the settlement of arrears will be recorded as non-tax revenue and treated similarly to the CBI receipts.
- Expenditures will be recorded on an accrual basis, with: (a) budget execution data as reported by the Ministry of Finance (MOF); supplemented by (b) data on unprocessed claims to be collected and reported by the MOF.

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

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

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

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

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

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

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

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

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

ix. Less grants received but unutilized.

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

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

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

ii. In the event that revenues (excluding non-tax revenue from the CBI programme and transfers from the NTF) exceed those projected under the programme, the primary balance target for end-June 2016 will be adjusted upward by one half of the excess during January-June, to allow for additional capital spending while safeguarding compliance with the annual fiscal targets. The Government will safeguard the over-performance in revenue achieved in the first half of any year by increasing the capital budget allocations (¶20) for the last two quarters of the year only up to 2/3 of the over-performance. The following table shows the accumulated projected revenue and budgetary grants for 2015-16, as well as capital spending, to which the actual outcomes will be compared.

Grenada: Programmed revenues and grants, 2016		
	2016 [1/]	
	Jun.	Dec.
(EC$ millions)		
Non grant revenue	298.0	580.1
Budgetary grants	0	0
Capital spending [2/]	88.8	178.8
o.w. financed by capital grants	42.9	85.7

[1/] Cummulative from end of the previous year.
[2/] The quarterly allocation of non-grant financed capital spending is less than the projection to provide a buffer to achieve program QPCs.

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

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

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

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

6. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing.

B. Cumulative Ceiling on Central Government Primary Spending

7. Primary spending of the central government will be calculated as the sum of revenues and grants that have been utilized minus the primary balance of the central government as measured above in section A. The performance criterion on primary spending will be adjusted as follows:

i. In the event that revenues (excluding non-tax revenue from the CBI programme and transfers from the NTF) exceed those projected under the programme (table above), the end-June 2016 target will be adjusted upward by one half of the excess during January-June, to allow for additional capital spending and the end-December 2016 target will be adjusted upward for the full amount of annual revenue over performance;

ii. Upward by the full amount of additional capital grants received in excess of programmed levels (table above) and downward by half of any shortfall in capital grants compared to programmed levels to safeguard the fiscal targets (table above).

iii. Upward by half of the amount of budgetary grants, received and spent on capital outlays in excess of programmed levels (table above).

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

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

vi. Upward by the amount paid by the government to reimburse the policy holders of BAICO and CLICO.

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

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

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

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

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

10. The ceiling on non-concessional borrowing will be applied to the contracting or guaranteeing by the central government of medium and long-term external debt (maturity greater than one year). The ceiling includes adjustors for borrowing from the Caribbean Development Bank and the World Bank (for development and debt management purposes), and for debt instruments to be issued as part of a debt restructuring to improve the overall public debt profile, limited to the nominal amount of debt restructured during a given period. The total amount of contracting of non-concessional external debt from the World Bank under the adjustor will be strictly limited to US$30 million, and the total amount of contracting of non-concessional external debt from the Caribbean Development Bank under the adjustor will be strictly limited to US$30 million, both on a cumulative basis from the beginning of 2016.Borrowing from the World Bank and the Caribbean Development Bank will be closely monitored in cooperation with these institutions.

11. The contracting and guaranteeing of non-concessional external debt will be monitored and reported to the Fund staff by the Debt Management Unit (DMU), after reconciliation with the Accountant General's office, on a monthly basis. The government will undertake to consult with IMF staff on the terms and concessionality of any proposed new debt in advance of contracting such external debt. The performance criterion will be applied on a continuous basis under the programme.

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

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

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

II. INDICATIVE TARGETS

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

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

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

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

- Upward by the amount paid by the government to reimburse the policy holders BAICO and CLICO, less the grant-financed share of these payments.
- Upward to a maximum amount of 5 percent of GDP to accommodate PPP related expenditures.
- Downward by the amount of nominal debt forgiveness in the case of debt restructuring
- Upward for the cost of severance payments associated with the restructuring of Grenada Concrete Emulsion and Production Corporation and the Grenada Postal Corporation (up to a cumulative maximum of US$4 million).

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

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

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

III. MONITORING TARGETS

H. Memorandum Item: Wage Bill Target

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

I. Memorandum Item: Public Employment

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

IV. QUARTERLY CAPITAL BUDGET ALLOCATION

21. Non-grant financed capital spending will be allocated to Ministries/Departments consistent with the quarterly allocation as set out in the following table:

	2016Q1	2016Q2	2016Q3	2016Q4
Non-grant Capital Spending Allocation	23.4	17.5	23.6	23.6

V. PUBLICATION OF CITIZENSHIP-BY-INVESTMENT STATISTICS

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

VI. PROGRAMME REPORTING REQUIREMENTS

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

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

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

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

INTERNATIONAL MONETARY FUND

GRENADA

May 3, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, FOURTH PROGRAM REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER OF NON-OBSERVANCE OF A PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW — INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of February 29, 2016)

Membership Status: Joined: August 27, 1975; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	16.40	100.00
Fund Holdings of Currency	15.23	92.84
Reserve Position	1.18	7.16

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	11.17	100.00
Holdings	5.36	47.97

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
ECF Arrangements	20.85	127.16

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	June 26, 2014	June 25, 2017	14.04	8.04
ECF	Apr 18, 2010	Apr 17, 2013	8.78	2.53
ECF[1/]	Apr 17, 2006	Apr 13, 2010	16.38	16.38

[1/] Formerly PRGF.

Projected Obligations to Fund[2/]

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	3.33	3.47	3.47	2.00	1.35
Charges/Interest	0.00	0.00	0.00	0.03	0.02
Total	3.33	3.47	3.47	2.03	1.38

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiatives: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. Previous assessments were completed in 2003, 2007, and 2012. An update assessment is substantially completed and finds that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The internal audit function needs to be reformed to align it with leading international practices and oversight could be further strengthened by enhancing the financial expertise of the audit committee.

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.

Article IV Consultation: Grenada is on a 24-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on June 26, 2014 (IMF Country Report No. 14/196).

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.

Technical Assistance:

Caribbean Regional Technical Assistance Centre (CARTAC)

CARTAC has provided wide-ranging technical assistance (TA) to Grenada, the highest user of CARTAC TA over the FY15-16 period to date (93.2 weeks or 8.7 percent of total TA delivery).

- **Public Finance Management**. CARTAC TA in PFM has focused on reform of state-owned enterprises and statutory bodies, cash forecasting and commitment control, development and transition to a new chart of accounts consistent with GFSM2014, and a PEFA assessment. Assistance was also provided on strategic budget reform to modernize the budget preparation process. In the area of SOE/SB reform, CARTAC provided in 2014 TA to develop a strategy to reform the sector, with recommendations for both the overall sector and individual institutions. Assistance was also provided to develop a dividend policy for SOEs and an employment directive for SOEs and SBs, draft regulations for the National Transformation Fund to guide the transparent receipt and use of citizenship-by-investment funds, and to assess public pension reform options. TA priorities going forward will be guided by the authorities' PFM Action Plan and building further depth in capacity in cash forecasting and commitment control and SOE/SB oversight.

- **Tax Administration**. TA has been provided to strengthen tax administration at both the Inland Revenue and Customs Departments. At IRD, support included establishing a Large and Medium Taxpayer Unit and a Design, Planning and Monitoring Section.

- **Financial Stability.** Supervision and Regulation. Significant TA has been provided to the Grenada Authority for the Regulation of Financial Institutions (GARFIN) to implement risk-based supervision for the non-banking sector. CARTAC also conducted a review of GARFIN's supervisory framework for non-banks to ensure consistency with international standards. TA was also provided, as part of the broader ECCU-wide initiative, to conduct dynamic modeling (stress testing).

- **Macroeconomic framework and statistics**. To support the authorities' efforts to put in place an annual medium-term economic framework to guide the annual Budget, CARTAC provided TA to strengthen medium-term macroeconomic projections. TA was also provided to produce balance of payments statistics according to BPM6 and to initiate the production of IIP statistics.

Other Technical Assistance (2014–16)

FAD and LEG have provided extensive assistance in tax policy and administration, public financial management and on public expenditure rationalization. In particular, technical assistance was provided in the design and drafting of the PFM legislation and the Tax Administration legislation, reforms of the tax incentives system, and reform of the following Acts: income tax, property, VAT, excise tax. FAD also provided comprehensive technical assistance to draft the Fiscal Responsibility Act of 2015. MCM provided TA on formulating a medium-term debt management strategy and implementing institutional changes to strengthen debt management and, together with LEG, provided TA to draft the Public Debt Management Act of 2015.

Grenada: IMF Technical Assistance, 2013-present

Start Date	End Date	Mission Description
1/6/2014	1/17/2014	Public Financial Management
1/28/2014	1/30/2014	Tax Administration
3/2/2014	7/2/2014	Tax Administration
3/17/2014	3/28/2014	Public Financial Management
3/23/2014	5/4/2014	Fiscal -- Non Tax
3/24/2014	3/28/2014	Tax Administration
3/31/2014	4/4/2014	Tax Administration
4/1/2014	11/4/2014	Tax Administration
4/22/2014	7/5/2014	Public Financial Management
6/11/2014	6/27/2014	Tax Administration
6/23/2014	6/27/2014	National Accounts Statistics
7/2/2014	7/16/2014	Tax Policy
7/21/2014	7/25/2014	Public Financial Management
8/22/2014	8/27/2014	Public Financial Management
8/25/2014	8/26/2014	Bank Supervision & Regulations
8/29/2014	7/9/2014	Public Financial Management
9/8/2014	11/9/2014	Bank Supervision & Regulations
9/18/2014	9/26/2014	Public Financial Management
9/23/2014	9/25/2014	Tax Administration
10/5/2014	6/10/2014	Tax Administration
10/6/2014	8/10/2014	Public Financial Management
10/27/2014	10/28/2014	Bank Supervision & Regulations
11/3/2014	11/14/2014	Tax Administration
11/10/2014	11/11/2014	Bank Supervision & Regulations
11/12/2014	11/13/2014	Tax Administration
11/24/2014	11/28/2014	Tax Administration
11/26/2014	12/12/2014	Tax Administration
12/8/2014	12/19/2014	Public Financial Management
12/16/2014	12/18/2014	Public Financial Management
1/5/2015	1/16/2015	Public Financial Management
1/6/2015	1/16/2015	Liability Management
1/19/2015	1/30/2015	Tax and Customs Administration
2/1/2015	5/2/2015	Public Financial Management
2/2/2015	2/13/2015	Tax Administration
2/9/2015	10/2/2015	Public Financial Management
2/11/2015	12/2/2015	Tax Administration

Grenada: IMF Technical Assistance, 2013-present (concluded)

Start Date	End Date	Mission Description
2/16/2015	2/20/2015	Public Financial Management
2/23/2015	6/3/2015	Public Financial Management
2/24/2015	2/26/2015	Balance of Payments Statistics
3/2/2015	3/13/2015	Tax Administration
3/5/2015	6/3/2015	Public Financial Management
3/16/2015	3/27/2015	Tax and Customs Administration
3/23/2015	3/27/2015	Public Financial Management
3/25/2015	3/31/2015	Public Financial Management
3/26/2015	7/4/2015	Macro-fiscal
4/9/2015	4/13/2015	Bank Supervision & Regulations
4/13/2015	4/17/2015	Public Financial Management
4/16/2015	4/20/2015	Bank Supervision & Regulations
5/11/2015	5/22/2015	Tax Administration
5/18/2015	5/22/2015	Bank Supervision & Regulations
5/25/2015	5/6/2015	Tax Administration
6/1/2015	3/6/2015	Tax and Customs Administration
6/15/2015	6/26/2015	Bank Supervision & Regulations
7/20/2015	7/31/2015	Public Financial Management
7/20/2015	7/31/2015	National Accounts Statistics
8/1/2015	8/14/2015	Public Financial Management
8/10/2015	8/14/2015	Public Financial Management
8/17/2015	8/21/2015	Tax Administration
8/24/2015	8/26/2015	Public Financial Management
9/1/2015	10/9/2015	Fiscal Law
9/14/2015	9/18/2015	Public Financial Management
9/21/2015	9/25/2015	Public Financial Management
10/1/2015	7/10/2015	Tax Administration
10/1/2015	10/14/2015	Fiscal Law
10/19/2015	10/23/2015	Tax Administration
11/16/2015	11/20/2015	Public Financial Management
12/1/2015	12/14/2015	Public Financial Management
12/7/2015	11/12/2015	Financial Stability Analysis
1/11/2016	1/15/2016	Public Financial Management
3/21/2016	3/25/2016	Balance of Payments Statistics
4/18/2016	4/22/2016	Tax Administration

Source: ICD RAP database for FY 14-16

RELATIONS WITH THE WORLD BANK GROUP

(As of March 22, 2016)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Executive Board of the World Bank Group endorsed the new OECS Regional Partnership Strategy (RPS) for FY15-19. The high-level objective of the new RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. To achieve this goal, the program is organized around three main areas of engagement. In the first area, the WBG will support "competitiveness". Growth and job creation in the private sector will be supported both horizontally—by improving the business environment—and vertically, by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection) and exposure to natural disasters. Constrained in general by the small size of investments in the OECS, the IFC and MIGA will contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC will focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA faces limited opportunities for engagement because of the small market size of the OECS countries.

The RPS is grounded in a holistic approach to tackling the long-standing issues of low growth and debt sustainability in the Caribbean, i.e., the Comprehensive Debt Framework, **developed in 2010 by the Bank at the request of the Heads of Government of CARICOM countries**. Structured around four pillars, the Comprehensive Debt Framework (CDF) is designed to address the interdependent structural causes of high debt and low growth in small island states by (i) promoting private-sector led growth, (ii) strengthening fiscal management, (iii) building resilience to natural disasters, and (iv) improving debt management. Governments of the OECS recognize the multifaceted nature of the challenges they face and understand that improvements in competitiveness, reduction in sovereign debt levels, fiscal adjustments to ensure macro sustainability, and enhanced sustainability and resilience to shocks are interrelated aspects that are critical to resume and sustain inclusive growth. As a result, they have used the CDF to frame their own reform strategies and activities.

The indicative IBRD lending program for the six OECS countries is expected to be around US$120 million, or up to a maximum of US$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around 22 percent over the IDA16 OECS allocation (SDR50.3 million). With regard to Grenada, its IDA-17 allocation is equal to SDR 14.1 million (roughly USD 19.7 million at today's exchange rate).

A. Projects

The **Second Programmatic Resilience Building Development Policy Credit and Loan** (DPL/DPC) for the proposed amount of the equivalent of US$15 million (SDR7.2 million equivalent to US$10 million and US$5 million) was approved by the World Bank Board on October 28, 2015. This is the second operation in a programmatic series of three Development Policy Credits/Loans aimed at supporting the Government's national development strategy with a focus on policy and institutional measures to sustain economic growth, restore fiscal sustainability and build resilience against adverse weather events. This DPC/DPL series is aligned with the Regional Partnership Strategy for the OECS for the period 2015-19. Specifically, it is aligned with the following identified objectives: (i) improved investment climate; (ii) increased tourism benefits with stronger linkages to agribusiness; (iii) improved budget management and transparency; (iv) strengthened capacity to manage PPPs; (v) improved targeting and reduced fragmentation of the social-protection system; and (vi) increased capacity to manage natural hazards.

The DPC/DPL series is designed to support Grenada in implementing a program of policy and institutional reforms to: (i) create conditions for private investment in a sustainable manner; (ii) support improved public resource management; and (iii) enhance resilience against natural disasters and key elements of resilience in the banking sector. The program consists of three pillars. The first pillar seeks to improve the business environment to promote private-sector led growth by strengthening the regulatory framework for the tourism sector; promoting the modernization of the agribusiness sector; and mobilizing private investment through a public-private partnership (PPP) policy framework. The second pillar focuses on enhancing the effectiveness with which the public sector utilizes its limited resources by strengthening public procurement systems and improving the targeting of social safety net programs for the poor and vulnerable. The third pillar emphasizes on: (i) building resilience to natural disasters through an improved physical planning regulatory system; and (ii) improving key elements of banking sector resilience through better regulation and supervision.

The series is part of a multi-donor engagement which promotes key reforms in Grenada and complements concurrent operations by the IMF, anchored by a 36-month IMF Extended Credit Facility, and the Caribbean Development Bank. This DPC/DPL series supports the Government's long-term efforts to address systemic vulnerabilities by targeting structural reforms in the areas of private sector development and fiscal management.

The **Caribbean Regional Communications Infrastructure Program (CARCIP)** is a broad umbrella program to include all interested CARIFORUM countries.[1] It offers a menu of choices with specific components to be tailored to each country's priorities. The menu of options are: (a) ICT Connectivity—to increase access and affordability of broadband communications networks within

[1] CARIFORUM comprises the 15 Caribbean countries of CARICOM (i.e., Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago), and the Dominican Republic.

region and countries; (b) E-Government—to contribute to improved Government efficiency and transparency through the delivery of e-services, including e-government and e-society applications; and (c) IT Industry—to contribute to the development of the regional and national IT industry. Phase 1 of the Program was approved by the Board on May 22, 2012 with Grenada (US$10 million IDA), St. Lucia (US$6 million IDA) and St. Vincent and the Grenadines (US$6 million IDA) as participating countries. Additional countries can join since this is a comprehensive program that seeks to increase access to regional broadband networks and advance the development of an ICT-enabled services industry in the Caribbean Region. The project is currently going through restructuring.

The Eastern Caribbean Energy Regulatory Authority (ECERA) Project (Grenada and St. Lucia) was approved in June 2011. The objective of this project is to establish and operationalize a regional approach to the development of the electricity sector in the OECS, by supporting the establishment of a regional regulator. Currently, Grenada and Saint Lucia have used IDA credit (with US$2.8 million each, for a total of US$5.6 million) for the design and operationalization of ECERA. The design phase is coordinated by the OECS Secretariat. Component A of this project will facilitate the creation and launching of the ECERA, including carrying out the legal and consultative process leading to the formulation and ratification of the ECERA treaty, and defining the options for the ECERA self-financing mechanism, reviewing tariffs, and examining incentive mechanisms to promote renewable energy. Component B will facilitate the initial three years of ECERA's operations, including the day-to-day operations and execution of core regulatory tasks including: (i) tariff and investment plan reviews; and (ii) defining a regional licensing framework for electricity market participants with a particular focus on facilitating the integration of electricity production from renewable sources into the supply mix. The project is currently going through restructuring.

The OECS Disaster Vulnerability Reduction Project was approved in June 2011. Grenada will receive a total of US$26.2 million, including a US$10 million zero-interest credit from IDA repayable in 35 years with a 10-year grace period; a US$8 million grant from the Caribbean Regional Pilot Program for Climate Resilience (PPCR); and an US$8.2 million zero-interest loan from PPCR repayable in 40 years with a 10-year grace period. The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure, which will complement the work and goals of the Pilot Program for Climate Resilience. Component 1 will implement a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 will support regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 will re-categorize financing or provide additional financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Component 4 will strengthen and develop the institutional capacity for project management and implementation.

The Grenada Safety Net Advancement Project was approved in June 2011 for US$5 million. The project aims to (i) strengthen the basic architecture of the consolidated Conditional Cash Transfer

(CCT) Program and the capacity of the Ministry of Social Development to implement it; (ii) improve coverage of poor households receiving cash transfers; and (iii) improve education outcomes of poor children and health monitoring of vulnerable households. Component 1 will finance cash transfers to beneficiaries. Disbursements will be made against meeting performance milestones aimed at the gradual adoption of an overhauled business model in results areas including institutions; budget and coverage; beneficiary outreach and targeting; management information systems and making payments against co-responsibilities; communication; and monitoring and evaluation. Component 2 will provide technical assistance to the Ministry of Social Development (MOSD) for improving its management, coordination, supervision, monitoring, and evaluation of the newly consolidated conditional cash transfer (CCT) program, including the design of a PMT, a MIS, and an impact evaluation. The project is currently going through restructuring.

In spring 2015 the WB has conducted a **Country Portfolio Performance Review** in the OECS countries. Some of the main findings regarding the portfolio review in Grenada are the following: (i) country context needs to be better understood and taken into account during project preparation; (ii) institutional strengthening of national agencies in charge of monitoring projects, beyond the Project Implementation Unit (PIU), is needed to make sure that projects contribute to build national capacity; (iii) training initiatives are critical, particularly on fiduciary training; (iv) a more comprehensive and flexible approach to facilitate procurement in small states is needed; (v) Government processes are sometimes complex or slow and cause delays; (vi) Collaboration needs to improve both internally, among line ministries, and at the Bank, to ensure consistency of messages and clear communication with the client; and (vii) lack of technical staff is an issue and causes delays in completing activities by the deadline.

B. Non-Lending Activities

The Caribbean Growth Forum (CGF) - The Caribbean Growth Forum (CGF) is a multi-stakeholder platform designed to identify, prioritize and implement a set of activities to improve the growth enabling environment in the Caribbean, while promoting participatory public policy making. It has so far engaged more than 2,500 representatives from business associations, civil society organizations, Government, private sector, media, indigenous groups, and international development agencies on themes such as Logistics and Connectivity; Investment Climate; and, Skills and Productivity.

Low growth, high unemployment, especially for youth and women, high debt ratios (eight of the top twelve most indebted countries in the world are in Caribbean), high incidence of crime, and, growing vulnerability to external shocks characterize the region. In the wake of the global financial crisis, the high debt/low growth challenge has become even more acute.

A number of Caribbean countries reached out to international donors to find an innovative approach to the growth challenge in the region. A suggestion was made to launch a genuinely participatory growth initiative. Following consultations and some preparatory work, the program started in mid-2012 with a regional launch event in Jamaica. The process is supported and facilitated by the World Bank, the Inter-American Development Bank, the Caribbean Development Bank, Compete Caribbean and the European Union.

Key Outcomes

Positive outcomes are tangible: twelve countries formally joined the process by establishing their national CGF chapter and have completed the first phase of national dialogue. This effort has led to the prioritization of concrete and actionable activities and draft action plans are now available, with details on each activity' implementation plan (e.g., accountabilities, milestones, timeline, funding). The results of each country's dialogue were presented at three regional forum in The Bahamas in June 2013, in St. Kitts and Nevis in 2014, and in St. Lucia in June 2015. This allowed national stakeholders from government, private sector and civil society to compare notes on each other's' priorities and exchange ideas on solutions to each identified challenge with technical specialists and peers. Each government involved in the CGF also committed to follow-up on implementation of the reform agenda, to report back periodically on progress (every 4-5 months) and to enable independent monitoring of the reforms by private sector and civil society representatives.

Comprehensive Debt Framework - At the request of the Heads of Government of CARICOM, the Bank put together a Comprehensive Debt Framework that proposes a strategy for addressing the high debt challenge faced in the OECS in a sustainable way. This Framework proposes a holistic approach around four interdependent pillars (Supporting private sector led growth, including private sector development and financial sector stability; enhancing fiscal sustainability; improving climate change resilience and Disaster Risk Management; and debt resolution). The Framework has been rolled out in all the OECS, including Grenada. The Governments expressed interest in principle, in continuing to work with the World Bank and other development partners to develop policy measures that could help stimulate growth and reduce debt in the country.

In terms of **analytical products**, the Bank has completed a series of studies related to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including Grenada.

The Bank's program in Grenada is further supported by a comprehensive series of completed, ongoing and planned analytical and advisory activities, including the following: "Towards a New Agenda for Growth" – OECS growth and competitiveness study (2005); an OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011). A number of recent analytical works have also been disseminated in the context of the CGF process. A number of knowledge products are expected to be disseminated this year, including "Driving tourism in the Eastern Caribbean: The case for a regional Ferry"; "Trade matters: new opportunities for the Caribbean"; "Linking farmers and agro-processors to the tourism industry in the OECS"; and the "OECS Growth report".

C. Financial Relations

Project	Original Principal	Undisbursed Balance*	Disbursed*
Second Programmatic Resilience Building Development Policy Credit			
IDA 57340	10,000,000.00	0.00	10,071,288.00
IBRD 85460	5,000,000.00	0.00	5,000,000.00
Caribbean Regional Communications Infrastructure Program			
IDA 51190	10,000,000.00	6,820,896.36	2,271,238.64
Eastern Caribbean Energy Regulatory Authority (ECERA)			
IDA 49350	2,800,000.00	1,395,854.67	1,121,967.33
Grenada Safety Net Advancement Project			
IDA 49930	5,000,000.00	2,029,059.11	2,447,068.89
Regional Disaster Vulnerability Reduction APL1			
TF 19396	3,800,000.00	3,800,000.00	
IDA 49850	10,000,000.00	3,050,670.07	5,621,827.93
TF 11131	8,200,000.00	5,385,963.71	2,814,036.29
Total	54,800,000.00	22,482,443.92	29,347,427.08

*Amounts may not add up to original principal due to changes in the SDR/USD exchange rate.

Disbursements and Debt Service
(calendar year, in millions of U.S. dollars

	2010	2011	2012	2013	2014	2015	2016*
Disb. Amt.	10.67	1.67	3.88	6.27	16.96	20.30	0.01
Repay Amt.	2.03	2.02	1.97	2.09	2.08	2.25	0.36
Net Amt.	8.64	-0.35	1.91	4.18	14.88	18.06	-0.35
Charges	0.36	0.36	0.33	0.29	0.24	0.20	0.05
Fees	0.31	0.35	0.34	0.37	0.44	0.50	0.07

*As of February 29, 2016

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of March 31, 2016)

Over the period 1970-2015, the Caribbean Development Bank (CDB) has approved US$250.36 million (net) in loans, contingent loans, equity and grants to the Government of Grenada; representing 6.3% of total approvals to CDB's borrowing member countries. CDB's lending has mainly been in the area of social and economic infrastructure, aimed at improving the country's growth potential in order to reduce poverty.

CDB is in its second year of implementing its Country Assistance Strategy 2014-18. The Strategy's priority sector outcomes are:

(i) **Improved macroeconomic management**. Two Policy-Based Loans (PBLs) in the amounts of US$10 million each were disbursed (in 2014 and 2015) in support of the Government's Home-Grown Structural Reform Program. The two PBLs are part of a programmatic series of three loans totaling US$30 million.

(ii) **Increased access to high quality education and training**. Continued support for the education sector development strategy with components relating to: ongoing restoration of school infrastructure; a heightened focus on quality and relevance to improve student outcomes; alignment of education and training with the needs of the economy; policy development; and strengthening strategic leadership and planning capacity.

(iii) **Improved access by the poor to basic infrastructure and services through community-driven development**. The Basic Needs Trust Fund (BNTF) Seventh and Eighth programs will be providing community-driven grant resources for education and human resource development, water and sanitation, and access and drainage.

(iv) **Enhanced social policy/social protection and research**. The Bank is assisting with the development and implementation of a Gender Policy. Additionally, the Bank will assist in the conduct of a new poverty assessment to help the Government in poverty monitoring and evidence-based decision-making.

(v) **Improved environmental sustainability and land use management**. In light of the challenges of environmental degradation and the need to build a sustainable solid waste system, the Bank has identified interventions to assist in the development of a land use policy; help implement adaptation measures for select communities affected by climate change; and assist in the development of environmentally sound solid waste options.

(vi) **Enhanced energy efficiency and renewable energy development**. CDB will help remove the binding constraints to the achievement of policy targets with respect to energy efficiency and the development of renewable energy options.

(vii) **Improved economic infrastructure**. CDB will assist in financing outstanding work that contributes to the redevelopment of the town of Grenville through improvements in key urban infrastructure. Three of four sub-components are already complete.

Major projects under implementation include:

1. **Grenville Market Square Development**—this project was designed to address issues of poor quality infrastructure in the market square, unhygienic practices in relation to the slaughter of animals, and issues of vehicular and pedestrian congestion as a result of a bus terminal within the environs of the market.

2. **Schools Rehabilitation and Reconstruction Project II**—the major issues addressed by this project are the inadequacy of the physical learning environment, the need for curricula refocusing, and the enhancement of instructional modalities in the school system.

3. **Market Access and Rural Enterprise Development—**Jointly funded with the International Fund for Agricultural Development, this project seeks to enhance the livelihood of rural communities through the strengthening and establishment of rural businesses/clusters, the upgrading of technical and business skills, and the provision of affordable credit.

4. **Rehabilitation and Reconstruction - Extreme Rainfall Event—**the objective of this project is to reduce risks associated with landslides and flood hazards in the parishes of St. Mark and St. John. This objective is being realized through ongoing rehabilitation and reconstruction of damaged roads including landslip repairs, bridge restoration, and flood mitigation works.

Grenada: Loan Disbursement

(In millions of U.S. dollars)

	2010	2011	2012	2013	2014	2015
Net Disbursement	5.52	0.41	0.83	(0.22)	6.43	9.12
Disbursement	9.65	5.00	4.70	6.70	11.88	15.72
Amortization	4.13	4.59	3.87	6.92	5.45	6.60
Interest and charges	3.23	3.11	2.38	4.39	3.20	3.21
Net resource flow	2.29	(2.70)	(1.55)	(4.61)	3.23	5.91

STATISTICAL ISSUES

(As of March 31, 2016)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is adequate for surveillance.

National Accounts: A rebased GDP series (using 2006 as the base year) was released in October 2010 with assistance from CARTAC. The new series improved coverage, data sources, and methodology. Administrative data from revenue agencies are used to supplement the coverage of survey-based results for industries such as hotels and restaurants, manufacturing, and wholesale and retail trade. Education, health and social work are now identified as separate industries, and public components of these services, formerly included under government, have now been reclassified. However, some weakness remain; data on GDP broken down by expenditure is not available at constant prices, while data at current prices is not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual.

Prices and high frequency statistics: The authorities provide regular data on consumer prices, retail sales, agricultural production and purchases, motor vehicles registration, total cargo handled, fish production and export, industrial production, imports of construction material, water and electricity production. The 2010 revisions of the CPI series assured that the new series met international standards. A new CPI basket, including several additional items, has been developed using data from the 2007/08 Household Income and Expenditure Survey (HIES), with a strong recommendation to conduct the HIES on a five-year cycle to ensure more timely future updates than the current ten-year period. The new series are re-referenced to January 2010 and historical CPI series back to 2001 have been recalculated based on the new structure. Producer prices, export and import price indices are not available.

Labor statistics: Labor statistics are improving. The authorities introduced an annual Labor Force Survey in 2013, which was completed again in 2014 and 2015. The first labor demand survey was conducted in 2015, the Job Opening and Labor Turnover Survey, but these results have not been finalized or released, pending processing and verification. A population census was completed in 2011. Regular wage data are not available with the exception of partial data available from the National Insurance Scheme. The Central Statistical Office (CSO) conducted a Country Poverty Assessment in 2008, with assistance from 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 monthly data being provided to the ECCB, IMF, and other users in Fund economic classification format with lags of about 4–6 weeks. However, some challenges remain with the accuracy and timeliness of the capital expenditure data: (i) the composition of public expenditure appears to be inaccurate as many current spending items are classified as capital spending; and (ii) donor-financed capital spending data are often not available until the end of the year, as they are not reported to or do not pass through the accounts of the central government. The new Chart of Accounts introduced in 2016 should help to ameliorate these challenges. The coverage of the rest of the public sector has improved, but remains limited, and there are no consolidated public sector accounts. For the first time, financial information on selected public enterprises was included in the Budget 2016. This is consistent with the requirement in the new Public Finance Management (PFM) Act of 2015 that the Minister of Finance present a statement of the overall performance of all enterprises to Parliament alongside the budget proposals. The PFM Act also requires public enterprises to submit annual financial statements no later than three months from the end of the fiscal year to the Director of Audit and the Minister of Finance.

Monetary statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund, and is broadly adequate for surveillance.

Balance of payments: Balance of payments statistics are being strengthened. The ECCB is preparing new BOP survey forms, which will include trade in services and provide a better coverage of foreign direct investment. In the medium term, the improved forms will allow for the presentation of the BOP in the Extended Balance of Payments Services (EBOPS) and for the preparation of the International Investment Position (IIP). However, due to delays in updating the software to reflect changes to the survey form, the new data are incomplete and will not be finalized until late-2016. Merchandise trade statistics have traditionally been more reliable and are available by SITC classification on a quarterly basis.

External and domestic debt statistics: The database for central government external debt is comprehensive, and can be used to provide detailed and reasonably up-to-date breakdowns of disbursements and debt service, including future projections. There is also a detailed database on domestic government securities maintained by the Regional Governments Securities Market (RGSM) that provides data on auction results, and outstanding securities of the central government. Although the stock information on privately placed domestic T-bills, loans, bonds, and overdraft facilities are available on a monthly basis, there is no reliable data on future projections. Data availability on government-guaranteed debt and debt of public enterprises is limited, and there is no data on private external debt.

II. Data Standards and Quality

While Grenada has participated in the Fund's General Data Dissemination System since March 2001, most of the metadata have not been updated since late 2002.

III. Reporting to STA

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

Table of Common Indicators Required for Surveillance

As of March 31, 2016

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication[1]
Exchange Rates[2]	NA	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[3]	Jan 2016	Mar 2016	M	M, with 1- to 2-month lag	A/Q
Reserve/Base Money	Jan 2016	Mar 2016	M	M, with 1- to 2-month lag	A/Q
Broad Money	Jan 2016	Mar 2016	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Jan 2016	Mar 2016	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Jan 2016	Mar 2016	M	M, with 1- to 2-month lag	A/Q
Interest rates[4]	Jan 2016	Mar 2016	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Feb 2016	Mar 2016	M	M, with 2- to 3-month lag	A/Q
Revenue, Expenditure, Balance and Composition of Financing[5]- Central Govt.	Feb 2016	Feb 2016	M	M, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Feb 2016	Feb 2016	M	M, with 2- to 3-month lag	A
External Current Account Balance	Dec 2014	Feb 2015	A	A, with long lag	A
Exports and Imports of Goods and Services	Feb 2016	Mar 2016	A	A	A
GDP/GNP	Dec 2015	Mar 2016	A	Staff mission	A
Gross External Debt[7]	Feb 2016	Feb 2016	M	M, with 2- to 3-month lag	A
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

GRENADA

May 3, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER OF NON-OBSERVANCE OF A PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW— DEBT SUSTAINABILITY ANALYSIS

Approved By

Approved by Robert Rennhack and Bob Traa (IMF) and John Panzer (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

While prospects for a restoration of external debt sustainability have improved significantly, Grenada's external debt remains in distress absent completion of the broader debt restructuring and clearance of arrears to all official creditors. The comprehensive restructuring of Grenada's public debt is nearing completion. Agreements have been implemented with creditors representing over two thirds of total debt under negotiation. Combined, the agreements to date are expected to reduce public debt by about 15 percent of GDP by 2018 and will also provide cash flow relief. Significant progress has been made to clear arrears, with all budget expenditure arrears cleared by end-2015 and three fourths of arrears to external creditors regularized. This marks a critical milestone toward restoring liquidity to the domestic economy, entrenching the economic recovery underway and regularizing financial relations with external creditors. Nevertheless, completion of the debt restructuring and continued fiscal discipline will be needed to keep debt on a downward path and restore its sustainability.

RECENT DEBT DEVELOPMENTS

1. **This annex provides an updated Debt Sustainability Analysis (DSA) of Grenada's public debt**. The DSA incorporates all debt restructuring agreements executed with external and domestic creditors as of 2016Q1 (table) as well as the agreement in principle reached in November 2015 with Paris Club bilateral creditors to reschedule outstanding Paris Club debts and arrears. [1] [2] The baseline scenario does not assume any additional debt restructuring on other debt (external or domestic) under restructuring negotiations. Compared to the previous DSA, the short-run economic outlook has improved. Activity remains strong, driven by tourism and construction and underpinned by stronger than anticipated activity in 2015. Growth is revised upward compared to the forecast in the Third Review reflecting the expected positive impulse from the further oil price decline as well as steady growth in key tourism export markets. In the medium-term, growth is assumed to return to its potential of 2.7 percent, which has been revised upward from 2.5 percent in the previous DSA. Price inflation has stayed slightly negative as energy prices remain low while unemployment is high at 30 percent. The external position continues to strengthen owing to strong tourism receipts, lower oil prices and robust private capital inflows.[3]

Grenada: Debt Restructuring Agreements Executed

			National Insurance Scheme			
	Export-Import Bank of Taiwan Province of China	**US$ and EC$ 2025 bonds**	**EC$2025 bond**	**2014/16 Serial Bond**	**Treasury Bill**	**Contribution arrears**
Coupon	7% p.a.	7% p.a.	3% p.a.	3% p.a.	3% p.a.	3% p.a.
Tenor	15 years	15 years	25 years	25 years	7 years	5 years
Grace Period	3.5 years	0.5 years	10 years	10 years	2 years	0
Repayment	Equal semiannual installments	Equal semiannual installments	Mortgage style semiannual installments	Mortgage style semiannual installments	Equal semiannual installments	Equal quarterly installments
Principal Reduction	50% at closing	50% at closing and 50% at completion of ECF-supported program	n.a.	n.a.	n.a.	n.a.
Past Due and Accrued Interest	50% reduction, remainder capitalized	100% capitalized	100% capitalized	100% capitalized	100% capitalized	n.a.
Memo:						
NPV Haircut (12% exit yield)	59%	54%	73%	73%	31%	19%
NPV Haircut (5% exit yield)	39%	32%	52%	52%	8%	4%

2. **Grenada's debt restructuring is nearing completion.** Restructuring agreements have now been reached with creditors representing about 64 percent of total debt under restructuring negotiations valued at 34 percent of GDP (text figure). As of end-2015, the agreements executed with Grenada's external creditors have lowered the debt-to-GDP ratio by 8 percentage points and, once the agreement with Grenada's private bondholders is fully executed, a further 6 percentage point decline is anticipated in 2017.[4] Agreements to restructure domestic debt are expected to lower the debt-to-GDP ratio by

[1] See Supplement to IMF Country Report No. 15/333.

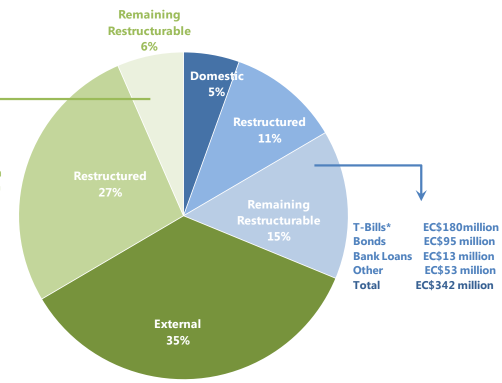
[2] The DSA includes assumptions on the restructuring of commercial bank debt consistent with agreements reached with commercial bank creditors, and includes the impact of the agreement to restructure a privately held T-bill held by the Port Authority (for a 50 percent nominal haircut on principal and interest arrears).

[3] Detailed macroeconomic assumptions can be found in IMF Country Report No. 16/133.

[4] The DSA does not include any impact of potential receipts under the CBI program on the debt restructuring agreement with Grenada's external creditors. Under the debt restructuring agreement, creditors will only receive a

1.1 percentage points in 2016. In total, the agreements reached thus far are expected to reduce the debt- to GDP ratio by about 15 percentage points by 2018.[5] Important cash flow relief is also anticipated from these agreements as well as those reached with Paris Club bilateral creditors and Grenada's National Insurance Scheme (NIS). The total reduction in the net present value of public debt as a result of the flow restructuring agreements reached with creditors is estimated at 3 percent of 2015 GDP.[6]

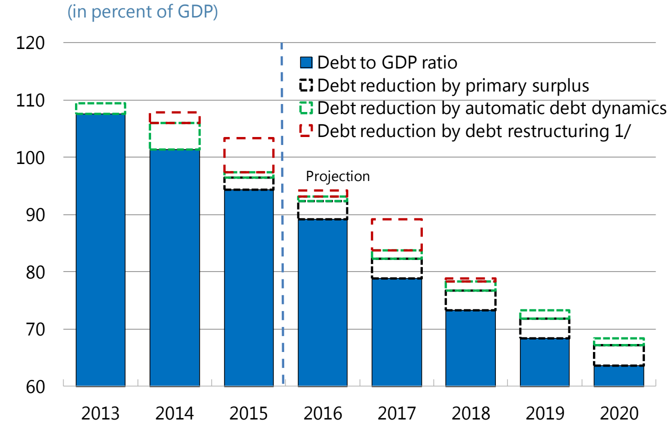
Central Government Restructurable Debt
(2015Q4, EC$493, or 21% of central government debt)



Source: Grenada authorities. *EC$36 million of outstanding Treassury bills are listed on the RGSM and are not elligible for restructuring.

3. **With the progress achieved on debt restructuring and fiscal consolidation, Grenada's public debt has continued to decline from its 2013 peak.** Public debt declined to 94.3 percent of GDP in 2015 from 101.4 in 2014 after peaking at 107.6 percent in 2013. The reduction in public debt in 2015 was less than anticipated at the third review (4 percent of GDP). This was associated with the authorities' strategy to clear more domestic arrears with debt issuance rather than cash, as anticipated by staff. This contributed to a build up of government deposits. Public debt is now expected to decline to 73 percent of GDP by 2018, with about 15 percentage points of the total reduction of 35 percent of GDP from the peak in 2013 attributed to debt restructuring. Fiscal consolidation and automatic debt dynamics are expected to account for the remainder of the anticipated reduction (text figure). Completion of the broader debt restructuring with all remaining creditors, as well as completion of the ongoing fiscal consolidation remain essential to restoring debt sustainability and reducing Grenada's public toward the 55 percent of GDP ceiling as required in Grenada's Fiscal Responsibility Act (FRA) of 2015.

Grenada: Public Sector Debt
(in percent of GDP)

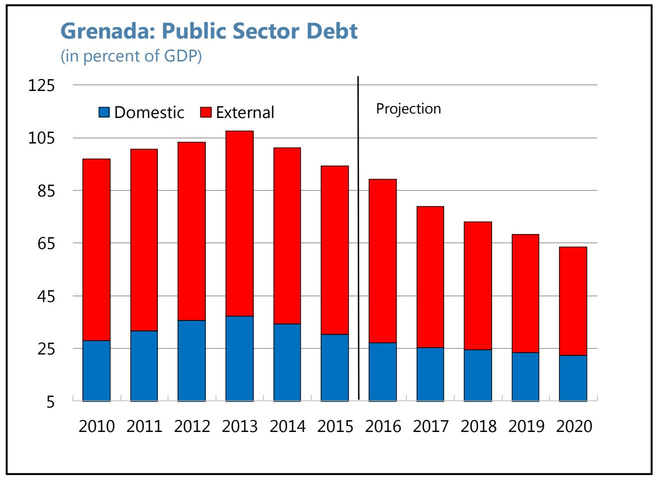


1/ Includes only agreed restructuring.

portion of CBI program receipts if they meet a particular threshold. Staff's projection is that CBI receipts will remain below this threshold.

[5] This includes a 0.5 percent of GDP decline in public debt associated with the expiration of the statute of limitations on some of Grenada's external commercial debt.

[6] Assuming a 5 percent discount rate. A 12 percent discount rate would yield an estimated NPV reduction of 4.5 percent of 2015 GDP. Includes flow restructuring agreements reached with the NIS and the Paris Club. Excludes agreements reached, but not yet executed, with commercial banks.



4. The restructuring of Grenada's debt with its external creditors has reduced the stock of public external debt. Public external debt fell from its peak of 70 percent of GDP in 2013 to 64 percent in 2015 as the debt restructuring with external creditors is completed and fiscal consolidation continues, and is expected to continue to decline to 41 percent of GDP by 2020 (text figure). Nevertheless, the baseline scenario of the DSA finds that the debt thresholds on the present value of the debt-to-GDP, debt service-to-revenue, and debt -to-exports ratios are breached (Figure I).[7] These breaches to the thresholds in the baseline scenario are relatively minor and temporary in nature, suggesting that Grenada's external risk of debt distress is a borderline high-moderate risk case. To complement the baseline scenario analysis and results, the probability approach focusing on the evolution of the probability of debt distress over time, rather than on the evolution of debt burden indicators, was also considered (Figure 2). The results show similar, but accentuated, breaches to the baseline scenario thresholds, which lends support to a high external risk rating for Grenada. However, the ongoing debt restructuring and existence of arrears to official creditors means that Grenada's external debt remains in distress.

5. The DSA includes a shock scenario to assess the potential impact of a natural disaster on debt sustainability. As a small Caribbean island economy, Grenada is highly vulnerable to natural disasters (i.e. hurricanes). Over 1980-2014 average annual damages from natural disasters in Grenada are estimated at 6.9 percent of GDP. Two particularly damaging hurricanes in 2004 and 2005 (Hurricanes Ivan and Emily) with estimated damages of 148 and 31 percent of GDP, respectively, account for the majority of average annual storm damages over this time period.[8] In the shock scenario, a natural disaster is expected to occur in 2016, with the fiscal response calibrated to be consistent with that of the hurricanes experienced in 2004/2005. The government is assumed to increase its expenditure by a total of 5 percent of GDP in the two years following the hurricane (2.5 percentage points in each 2017 and 2018) to cover reconstruction costs following a simulated disaster in 2016. Based on the estimated relationship between growth and natural disasters in the Caribbean and the ECCU (Acevedo, 2014), growth is expected to decline by 0.7 percentage points in 2016, and 1.3 percentage points in 2017.[9] The new lower growth path will have an impact on revenues which are expected to decline in line with the decrease in nominal growth, resulting in

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

[8] Other storms during this period include Hurricane Lenny (1999), Arthur (1990) and Allen (1980).

[9] See Acevedo, S. "Debt, Growth, and Natural Disasters: A Caribbean Trilogy" IMF Working Paper No. 14/125. The response is calibrated off of the estimated response to a moderate storm.

unchanged revenue to GDP ratio. This shock results in a debt path that is about 8 percent of GDP higher than in the baseline by 2020.

6. Absent completion of all debt restructuring steps and the clearance of arrears to all official creditors, Grenada's external debt remains "in distress". Completion of the debt restructuring with private creditors holding the U.S. and EC dollar commercial bonds and with the NIS have put public and external debt on a firm downward trajectory toward sustainability. Execution of the recent Paris Club agreement will further assist in the restoration of debt sustainability. Nevertheless, completion of the broader restructuring with remaining external and domestic creditors remains critical to restoring debt sustainability. Continued efforts to strengthen debt recording and monitoring, including by finalizing the planned medium-term debt strategy, will be important complements to debt restructuring and fiscal consolidation to strengthen debt sustainability.

Table 1. Public Debt Sustainability Framework, 2013-36

(In percent of GDP)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	107.6	101.4	94.3			89.2	78.8	73.2	68.3	63.6	58.9		53.5	51.0	
of which: foreign-currency denominated	70.2	67.1	64.1			61.9	53.5	48.8	45.0	41.3	37.7		36.9	41.0	
Change in public sector debt	4.3	-6.2	-7.0			-5.1	-10.4	-5.6	-4.9	-4.7	-4.7		-0.2	-0.1	
Identified debt-creating flows	2.0	-5.4	-9.8			-5.0	-10.4	-5.6	-4.9	-4.8	-4.7		-0.3	-1.2	
Primary deficit	3.9	1.1	-2.2	1.9	1.9	-3.2	-3.5	-3.5	-3.5	-3.5	-3.5	-3.4	1.0	0.2	0.7
Revenue and grants	20.9	24.5	25.6			24.6	25.4	25.5	25.5	25.5	25.5		25.5	25.5	
of which: grants	1.4	4.1	3.4			3.1	3.1	3.1	3.1	3.1	3.1		3.1	3.1	
Primary (noninterest) expenditure	24.8	25.6	23.3			21.4	21.9	22.0	22.1	22.0	22.1		26.5	25.7	
Automatic debt dynamics	-1.9	-4.6	-0.9			-0.8	-1.4	-1.6	-1.4	-1.2	-1.2		-1.2	-1.4	
Contribution from interest rate/growth differential	-1.1	-4.1	-1.6			-0.4	-0.8	-1.3	-1.3	-1.1	-1.1		-1.0	-1.1	
of which: contribution from average real interest rate	1.3	1.7	2.8			2.3	1.6	0.7	0.7	0.6	0.6		0.4	0.2	
of which: contribution from real GDP growth	-2.4	-5.8	-4.4			-2.8	-2.3	-2.1	-1.9	-1.8	-1.7		-1.4	-1.4	
Contribution from real exchange rate depreciation	-0.8	-0.5	0.7			-0.3	-0.6	-0.3	-0.2	-0.1	-0.1		...	...	
Other identified debt-creating flows	0.0	-1.9	-6.6			-1.0	-5.5	-0.5	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)6/	0.0	-1.9	-6.0			-1.1	-5.5	-0.5	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	-0.7			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.2	-0.8	2.8			-0.2	0.0	0.0	0.0	0.1	-0.1		0.1	1.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	80.1			73.1	64.4	59.6	55.3	51.1	47.1		40.4	39.5	
of which: foreign-currency denominated	...	...	49.9			45.8	39.1	35.2	31.9	28.8	25.9		23.8	29.4	
of which: external	...	...	49.9			45.8	39.1	35.2	31.9	28.8	25.9		23.8	29.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.3	22.3	17.8			19.1	16.3	16.4	16.7	16.6	16.4		16.0	9.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	313.5			296.8	253.2	233.9	216.4	200.4	184.5		158.3	154.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	361.3			339.0	287.9	265.9	246.0	227.7	209.7		179.9	175.9	
of which: external 3/	...	...	225.0			212.4	174.7	157.1	142.0	128.4	115.2		106.2	131.2	
Debt service-to-revenue and grants ratio (in percent) 4/	15.9	86.6	78.5			90.4	77.9	77.9	78.9	78.9	77.7		59.0	37.9	
Debt service-to-revenue ratio (in percent) 4/	17.0	103.9	90.5			103.3	88.6	88.6	89.6	89.6	88.3		67.1	43.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.3	7.4	4.8			2.0	6.9	2.1	1.4	1.2	1.3		1.1	0.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.4	5.7	4.6	0.7	4.1	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Average nominal interest rate on forex debt (in percent)	2.6	3.0	3.7	2.5	0.7	3.4	3.2	2.7	2.6	2.5	2.4	2.8	2.0	1.8	1.9
Average real interest rate on domestic debt (in percent)	1.9	2.2	3.4	2.9	1.2	2.9	1.9	1.6	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.3	-0.7	1.0	0.0	1.4	-0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.9	2.4	0.0	1.4	1.6	1.5	2.4	2.6	2.5	2.3	2.3	2.3	2.3	2.3	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	9.1	9.1	-4.7	1.9	5.2	-5.4	5.0	3.1	3.0	2.5	2.9	1.8	2.9	-1.1	3.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.2	34.8	34.5	33.2	32.5	29.7	32.8	29.7	29.7	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

6/Debt relief includes savings from restructuring agreements reached with external and domestic creditors.

Table 2. External Debt Sustainability Framework, 2013-36

(In percent of GDP)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2016-2021			2022-2036
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average
External debt (nominal) 1/	**144.1**	**144.2**	**140.2**			**136.2**	**125.5**	**119.4**	**114.2**	**109.4**	**104.6**		**98.3**	**92.6**	
of which: public and publicly guaranteed (PPG)	70.2	67.1	64.1			61.9	53.5	48.8	45.0	41.3	37.7		36.9	41.0	
Change in external debt	3.2	0.1	-4.0			-4.1	-10.6	-6.1	-5.2	-4.8	-4.8		-0.4	-0.5	
Identified net debt-creating flows	2.6	0.2	1.3			1.6	2.7	3.1	3.4	3.8	4.1		4.1	3.2	
Non-interest current account deficit	**21.4**	**13.4**	**11.9**	**19.9**	**5.0**	**9.8**	**12.2**	**12.9**	**13.7**	**14.1**	**14.4**		**14.5**	**13.5**	14.2
Deficit in balance of goods and services	21.9	14.6	12.7			10.5	12.8	13.4	14.3	14.8	15.1		14.6	13.2	
Exports	28.5	28.9	28.9			28.8	29.7	29.8	30.0	30.1	30.2		31.0	33.2	
Imports	50.4	43.5	41.5			39.3	42.5	43.2	44.3	44.9	45.3		45.6	46.4	
Net current transfers (negative = inflow)	-2.2	-2.9	-2.4	-3.5	1.0	-2.3	-2.2	-2.2	-2.2	-2.3	-2.3		-2.1	-1.7	-2.0
of which: official	-0.2	-1.1	-0.6			-0.6	-0.6	-0.6	-0.6	-0.6	-0.5		-0.5	-0.4	
Other current account flows (negative = net inflow)	1.7	1.7	1.6			1.6	1.7	1.7	1.7	1.6	1.7		2.0	2.0	
Net FDI (negative = inflow)	**-13.4**	**-4.4**	**-6.9**	**-8.9**	**4.7**	**-6.4**	**-8.1**	**-8.1**	**-8.7**	**-8.7**	**-8.7**		**-8.7**	**-8.7**	-8.7
Endogenous debt dynamics 2/	**-5.3**	**-8.8**	**-3.8**			**-1.8**	**-1.4**	**-1.7**	**-1.6**	**-1.6**	**-1.7**		**-1.8**	**-1.6**	
Contribution from nominal interest rate	1.9	2.1	2.6			2.2	2.1	1.5	1.4	1.3	1.1		0.8	0.8	
Contribution from real GDP growth	-3.1	-7.6	-6.3			-4.1	-3.5	-3.2	-3.0	-2.9	-2.8		-2.6	-2.4	
Contribution from price and exchange rate changes	-4.0	-3.4	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.5**	**-0.2**	**-5.2**			**-5.6**	**-13.4**	**-9.3**	**-8.5**	**-8.6**	**-8.9**		**-4.5**	**-3.7**	
of which: exceptional financing	-0.7	-3.4	-3.2			-2.6	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	
debt restructuring	0.0	-1.9	-5.1			-0.7	-4.7	-0.5	0.0	0.0	0.0				
capital transfers						-4.9	-7.5	-7.1	-7.7	-7.7	-7.7				
PV of external debt 4/	...	...	126.0			120.0	111.1	105.7	101.2	96.9	92.8		85.2	81.0	
In percent of exports	...	...	436.1			417.1	374.1	354.9	337.6	322.2	307.4		274.9	244.2	
PV of PPG external debt	**...**	**...**	**49.9**			**45.8**	**39.1**	**35.2**	**31.9**	**28.8**	**25.9**		**23.8**	**29.4**	
In percent of exports	**...**	**...**	**172.7**			**159.1**	**131.6**	**118.1**	**106.5**	**95.8**	**85.7**		**76.9**	**88.7**	
In percent of government revenues	**...**	**...**	**225.0**			**212.4**	**174.7**	**157.1**	**142.0**	**128.4**	**115.2**		**106.2**	**131.2**	
Debt service-to-exports ratio (in percent)	**6.5**	**12.8**	**16.2**			**19.5**	**16.9**	**15.8**	**14.9**	**14.1**	**13.1**		**8.6**	**6.9**	
PPG debt service-to-exports ratio (in percent)	**5.9**	**12.1**	**15.6**			**18.8**	**16.3**	**15.2**	**14.3**	**13.5**	**12.5**		**8.2**	**6.7**	
PPG debt service-to-revenue ratio (in percent)	**8.6**	**17.2**	**20.3**			**25.2**	**21.6**	**20.3**	**19.1**	**18.0**	**16.8**		**11.3**	**9.9**	
Total gross financing need (Billions of U.S. dollars)	82.4	116.3	92.6			89.6	96.0	105.0	110.5	118.4	124.2		140.3	194.9	
Non-interest current account deficit that stabilizes debt ratio	18.2	13.4	15.9			13.9	22.9	19.0	18.9	19.0	19.2		14.9	14.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.4	5.7	4.6	0.7	4.1	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
GDP deflator in US dollar terms (change in percent)	2.9	2.4	0.0	1.4	1.6	1.5	2.4	2.6	2.5	2.3	2.3	2.3	2.3	2.3	2.3
Effective interest rate (percent) 5/	1.4	1.6	1.9	1.5	0.2	1.7	1.6	1.3	1.2	1.2	1.1	1.3	0.9	0.9	0.9
Growth of exports of G&S (US dollar terms, in percent)	3.8	9.9	4.4	3.4	6.6	4.1	8.5	5.7	5.9	5.5	5.4	5.9	5.7	5.2	5.8
Growth of imports of G&S (US dollar terms, in percent)	7.2	-6.4	-0.2	-1.4	9.4	-1.1	13.7	7.2	7.8	6.5	6.0	6.7	5.3	5.3	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.2	34.8	34.5	33.2	32.5	29.7	32.8	29.7	29.7	29.7
Government revenues (excluding grants, in percent of GDP)	19.5	20.4	22.2			21.5	22.4	22.4	22.5	22.5	22.5		22.5	22.4	22.5
Aid flows (in Billions of US dollars) 7/	11.6	37.2	32.3			50.4	41.9	41.7	43.4	45.3	39.3		50.5	83.2	
of which: Grants	11.6	37.2	32.3			30.6	32.1	33.9	35.6	37.4	39.3		50.5	83.2	
of which: Concessional loans	0.0	0.0	0.0			19.8	9.8	7.8	7.8	7.8	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.8	2.2	3.5	3.6	3.5	3.4		4.3	4.2	4.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			50.1	338.1	81.4	76.9	77.9	80.6		58.9	60.8	62.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	842.6	911.8	953.6			997.2	1048.4	1104.8	1162.4	1221.5	1283.6		1646.5	2716.8	
Nominal dollar GDP growth	5.3	8.2	4.6			4.6	5.1	5.4	5.2	5.1	5.1	5.1	5.1	5.1	5.1
PV of PPG external debt (in Billions of US dollars)			475.9			456.4	409.5	388.7	370.9	352.3	332.1		392.6	800.1	
(PVt-PVt-1)/GDPt-1 (in percent)						-2.0	-4.7	-2.0	-1.6	-1.6	-1.7	-2.3	1.7	2.0	1.6
Gross workers' remittances (Billions of US dollars)	30.5	31.2	31.8			32.7	34.0	35.5	40.0	44.7	49.5		60.9	92.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	48.3			44.3	37.8	34.1	30.8	27.8	24.9		23.0	28.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	154.8			142.8	118.6	106.6	95.5	85.5	76.0		68.7	80.5	
Debt service of PPG external debt (in percent of exports + remittance	...	...	14.0			16.9	14.7	13.8	12.8	12.0	11.1		7.3	6.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-36
(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	46	39	35	32	29	26	**24**	29
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	46	45	47	49	51	53	**71**	100
A2. New public sector loans on less favorable terms in 2016-2036 2	46	39	35	32	30	27	**29**	42
A3. Alternative Scenario: Natural Disaster	46	43	39	36	33	30	**27**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	46	42	40	36	33	29	**27**	33
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	46	41	41	38	35	32	**29**	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	46	40	37	34	30	27	**25**	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	46	42	40	37	34	31	**28**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	46	44	47	43	40	36	**33**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	46	55	50	45	41	37	**34**	42
PV of debt-to-exports ratio								
Baseline	159	132	118	106	96	86	**77**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	159	152	158	164	169	174	**228**	300
A2. New public sector loans on less favorable terms in 2016-2036 2	159	130	118	108	99	89	**95**	126
A3. Alternative Scenario: Natural Disaster	159	146	132	120	109	99	**86**	90
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	159	132	118	106	96	86	**77**	89
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	159	156	170	155	142	129	**113**	112
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	159	132	118	106	96	86	**77**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	159	140	136	124	113	103	**90**	91
B5. Combination of B1-B4 using one-half standard deviation shocks	159	152	160	147	134	122	**107**	105
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	159	132	118	106	96	86	**77**	89
PV of debt-to-revenue ratio								
Baseline	212	175	157	142	128	115	**106**	131
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	212	202	210	218	227	234	**315**	444
A2. New public sector loans on less favorable terms in 2016-2036 2	212	173	157	144	132	120	**131**	186
A3. Alternative Scenario: Natural Disaster	212	193	175	160	146	132	**119**	134
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	212	186	177	160	145	130	**120**	148
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	212	185	185	169	155	142	**128**	136
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	212	179	166	150	135	122	**112**	138
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	212	187	181	165	151	138	**124**	135
B5. Combination of B1-B4 using one-half standard deviation shocks	212	197	210	192	177	162	**145**	153
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	212	247	222	201	182	163	**150**	186

Table 3: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-36 (Concluded)

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
Debt service-to-exports ratio								
Baseline	19	16	15	14	13	12	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	19	17	17	17	16	16	**18**	27
A2. New public sector loans on less favorable terms in 2016-2036 2	19	16	15	13	12	11	**7**	9
A3. Alternative Scenario: Natural Disaster	19	16	16	15	14	13	**9**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	19	16	15	14	13	12	**8**	7
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	19	18	19	18	17	16	**12**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	19	16	15	14	13	12	**8**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	19	16	15	15	14	13	**10**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	19	18	18	17	16	15	**11**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	19	16	15	14	13	12	**8**	7
Debt service-to-revenue ratio								
Baseline	25	22	20	19	18	17	**11**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	25	22	22	22	22	22	**24**	40
A2. New public sector loans on less favorable terms in 2016-2036 2	25	22	19	17	16	14	**10**	13
A3. Alternative Scenario: Natural Disaster	25	22	21	20	19	17	**13**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	25	23	23	22	20	19	**13**	11
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	25	22	21	20	19	17	**14**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	25	22	21	20	19	18	**12**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	25	22	21	20	19	17	**13**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	25	23	23	22	21	20	**16**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	25	31	29	27	25	24	**16**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	28	28	28	28	28	28	**28**	28

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

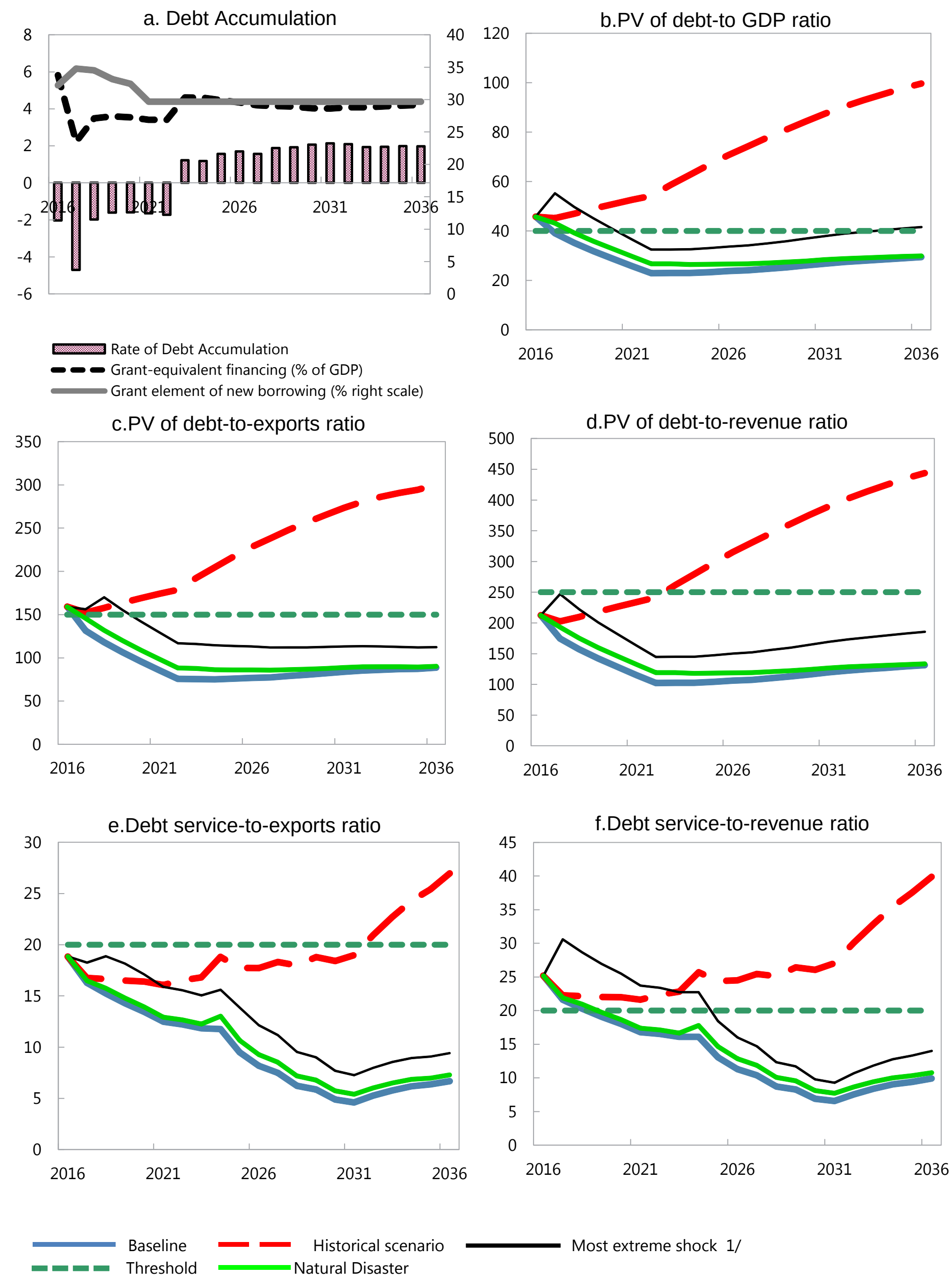
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming and offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

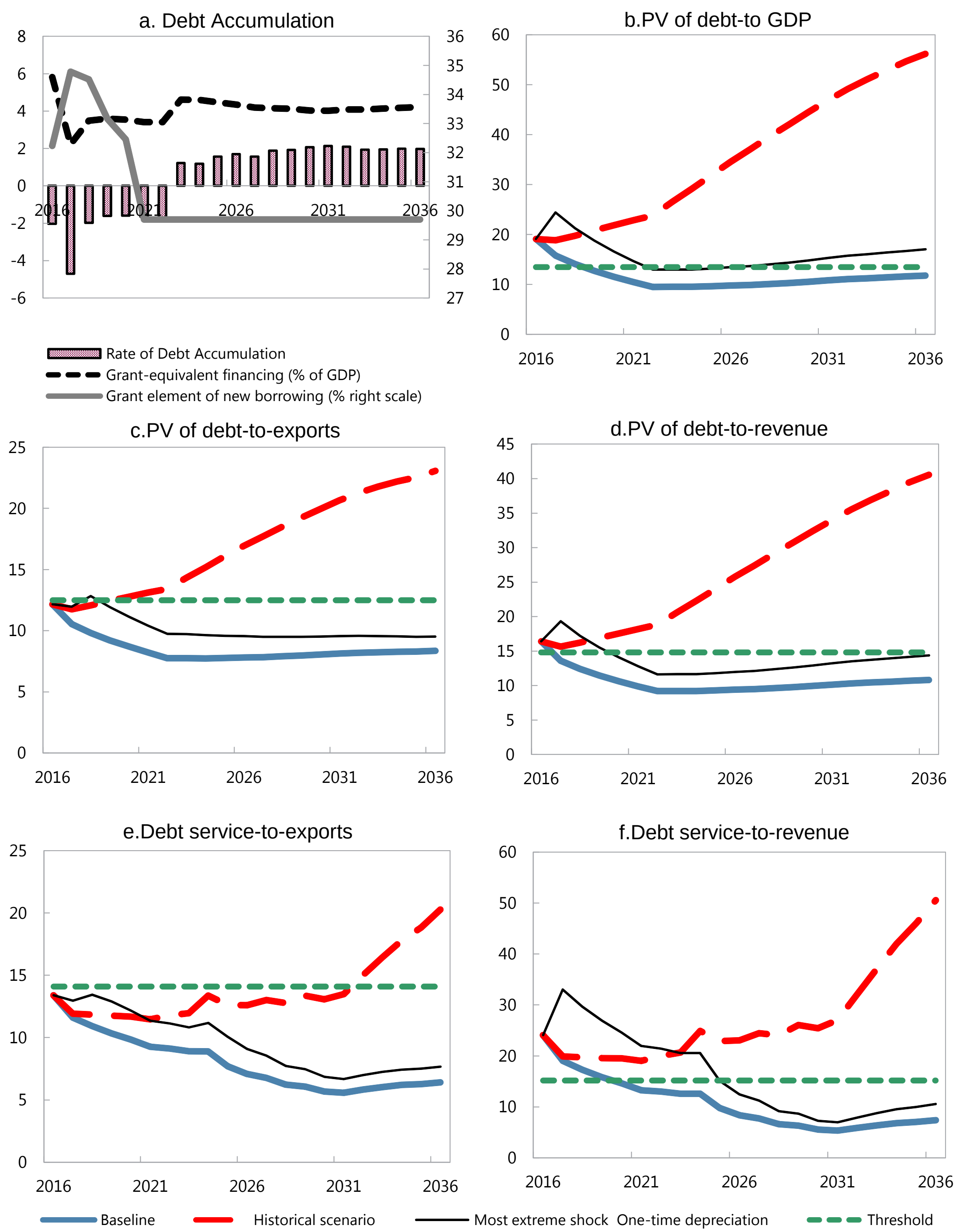
Figure 1: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016-36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016-36 1/



Sources: Country authorities; and staff estimates and projections.

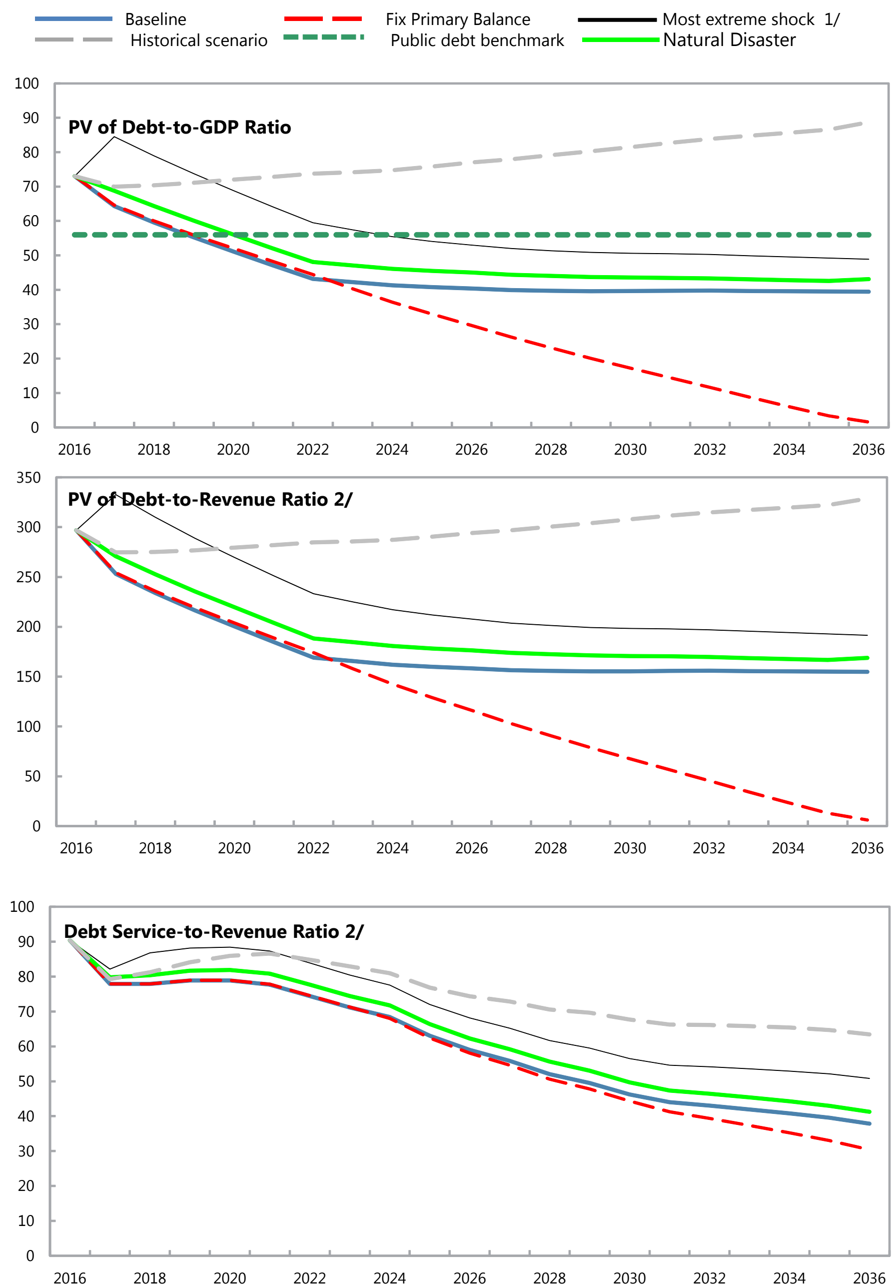
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 4. Sensitivity Analysis for Key Indicators of Public Debt, 2016-36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	73	64	60	55	51	47	40	39
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	73	70	70	71	72	73	77	89
A2. Primary balance is unchanged from 2016	73	65	60	56	52	48	30	2
A3. Permanently lower GDP growth 1/	73	65	61	58	54	51	52	78
A4. Alternative Scenario: Natural Disaster	73	69	64	60	56	52	45	43
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	73	70	71	68	65	63	65	80
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	73	70	71	66	61	57	50	47
B3. Combination of B1-B2 using one half standard deviation shocks	73	72	75	71	68	64	63	71
B4. One-time 30 percent real depreciation in 2017	73	85	79	74	69	64	53	49
B5. 10 percent of GDP increase in other debt-creating flows in 2017	73	72	67	62	58	54	47	44
PV of Debt-to-Revenue Ratio 2/								
Baseline	297	253	234	216	200	185	158	155
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	297	275	275	277	279	282	294	329
A2. Primary balance is unchanged from 2016	297	254	236	219	204	189	116	6
A3. Permanently lower GDP growth 1/	297	256	239	225	213	201	203	299
A4. Alternative Scenario: Natural Disaster	297	271	253	235	220	204	176	169
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	297	271	273	262	252	242	251	309
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	297	276	278	257	240	224	195	182
B3. Combination of B1-B2 using one half standard deviation shocks	297	283	291	275	262	250	244	274
B4. One-time 30 percent real depreciation in 2017	297	333	310	289	270	251	208	192
B5. 10 percent of GDP increase in other debt-creating flows in 2017	297	285	263	244	228	211	183	174
Debt Service-to-Revenue Ratio 2/								
Baseline	90	78	78	79	79	78	59	38
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	90	79	81	84	86	87	74	63
A2. Primary balance is unchanged from 2016	90	78	78	79	79	78	58	30
A3. Permanently lower GDP growth 1/	90	79	79	81	81	81	65	50
A4. Alternative Scenario: Natural Disaster	90	80	80	82	82	81	62	41
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	90	82	87	88	88	87	68	51
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	90	78	79	80	80	79	62	41
B3. Combination of B1-B2 using one half standard deviation shocks	90	81	84	86	86	85	67	48
B4. One-time 30 percent real depreciation in 2017	90	82	86	86	86	85	65	46
B5. 10 percent of GDP increase in other debt-creating flows in 2017	90	78	79	80	80	78	61	40

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Figure 3. Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016-36 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.