

Grenada

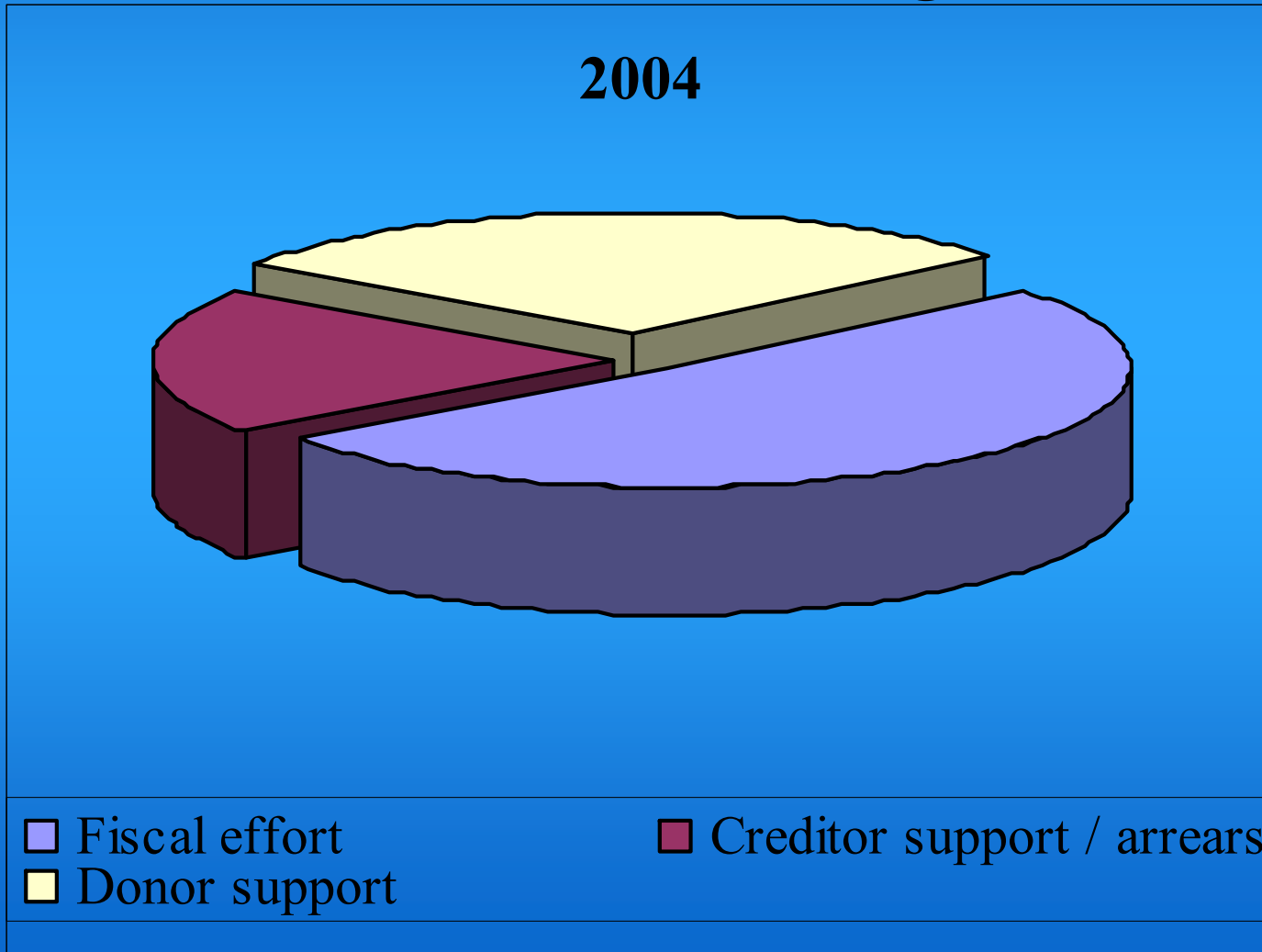
2005 Article IV Consultation Discussions

International Monetary Fund
May 12, 2005

Impact of Ivan

- 200 percent of GDP in damages
 - Average damage from disaster: 2 percent of GDP
 - Tsunami damage to Sri Lanka: 8 percent of GDP
- Unemployment worsened
- Strong support from international community
- 2004 Fiscal effort
 - Non essential expenditures curtailed

The financing gaps in 2004 were filled through...

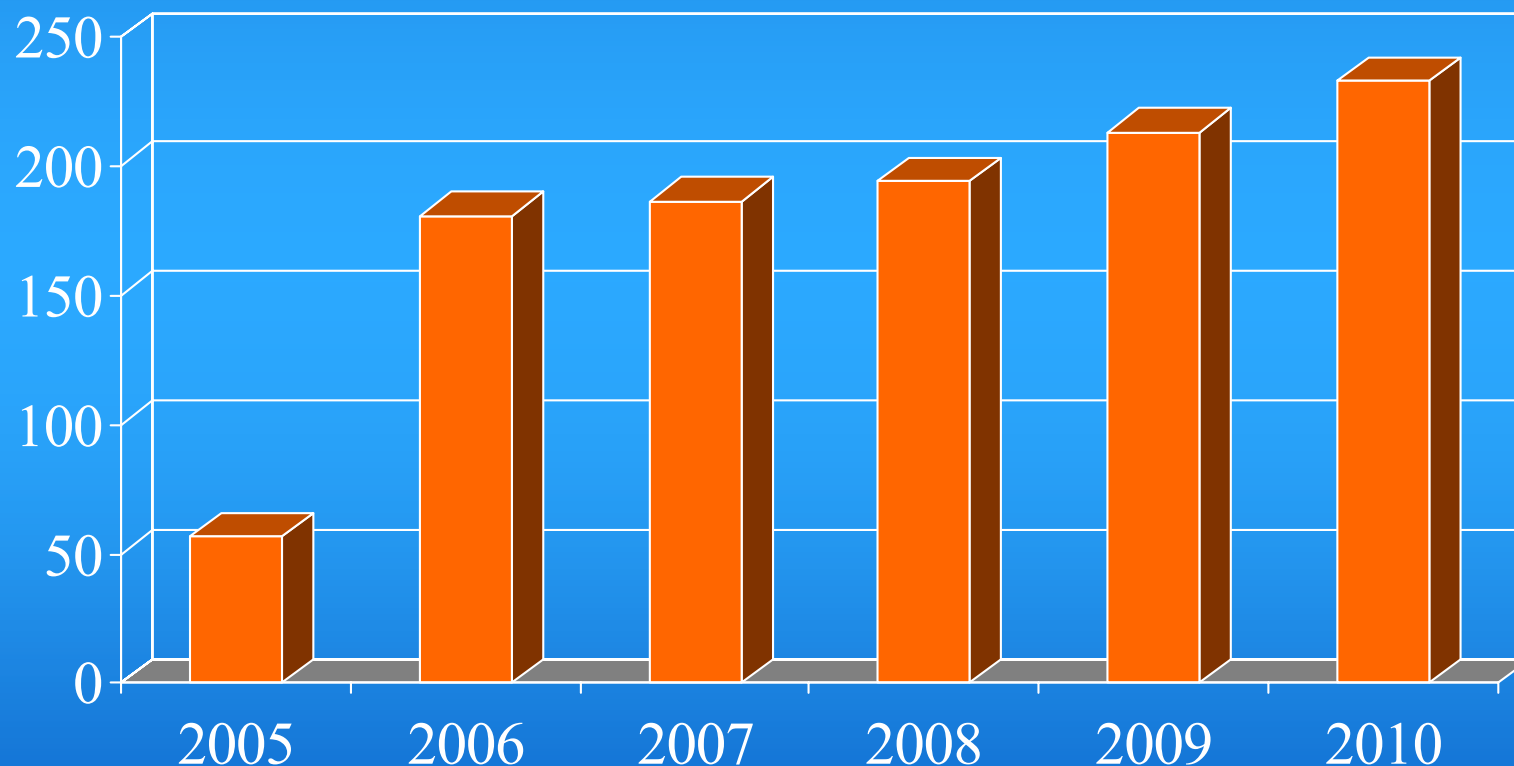


2005 budget

- Revenue measures yielding ~EC\$25 million
- Large expenditure increases
 - Capital expenditures re-oriented for reconstruction
 - Wage bill increased by EC\$12½ million (8 percent)
- Overall fiscal balance worsening by EC\$72 million (6 percentage points of GDP)

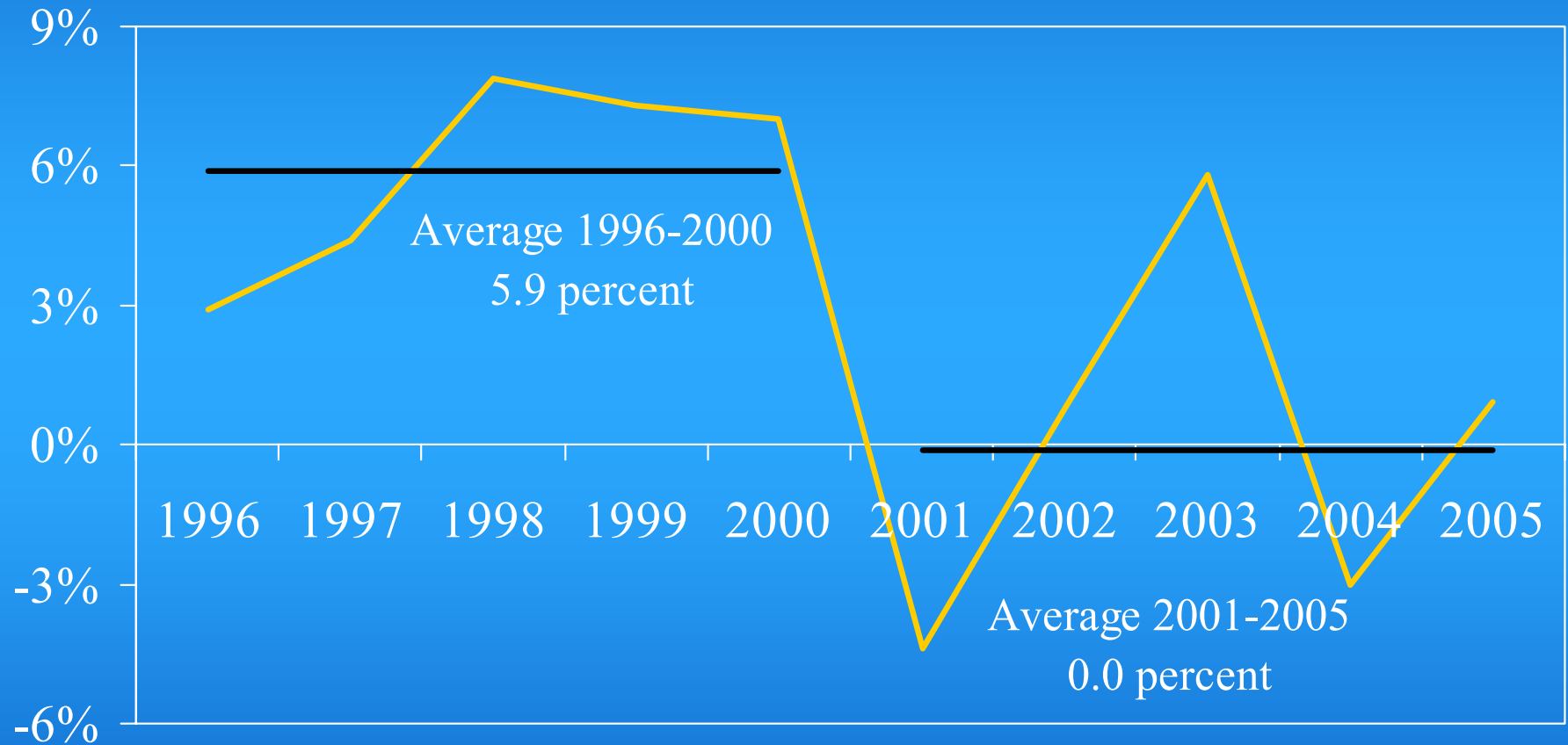
Fiscal situation remains difficult

Financing gap, 2005-2010
(EC\$ million)



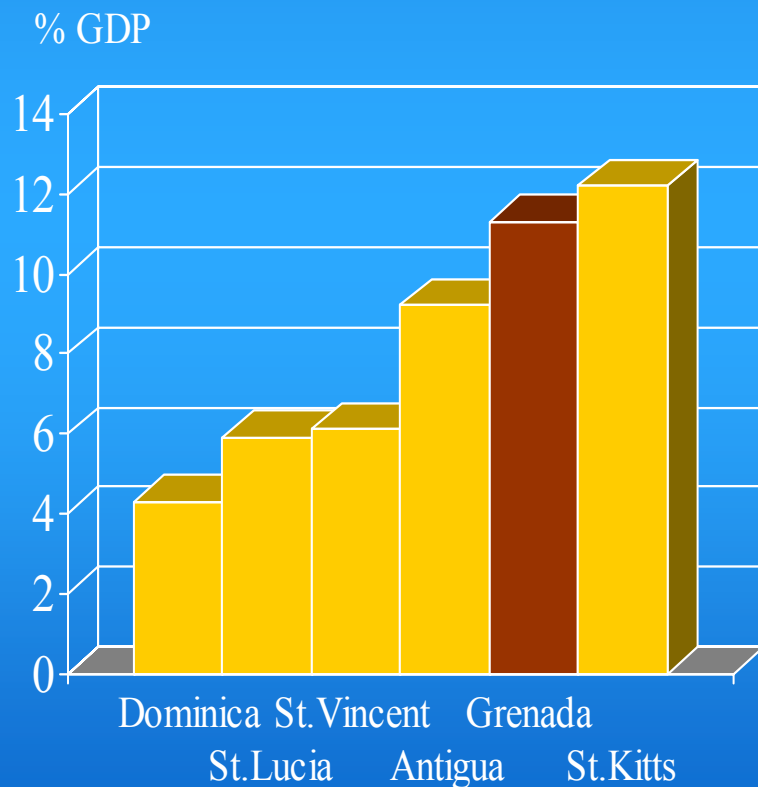
Taking Stock

Growth has slowed markedly

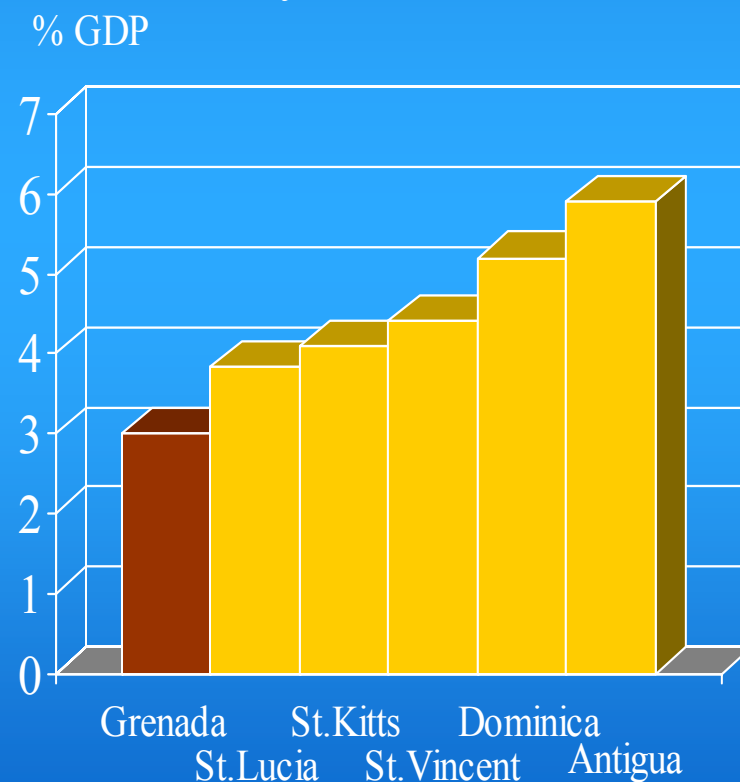


Revenue forgone from tax concessions has been very high

Customs revenue losses per year
2001-03



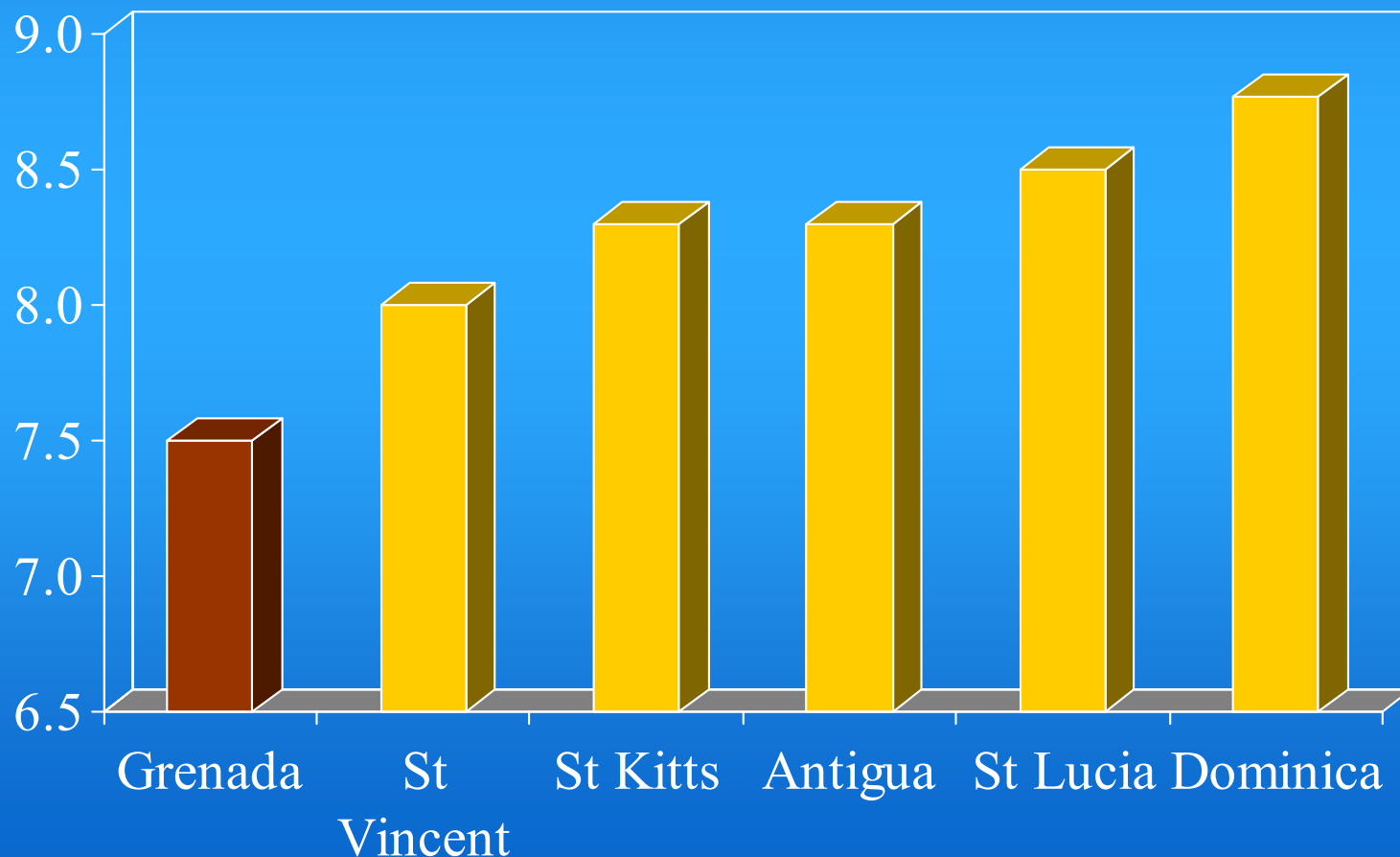
Corporate income tax losses per
year, 2003



Sources: IMF staff calculations; and Customs & Excise Departments

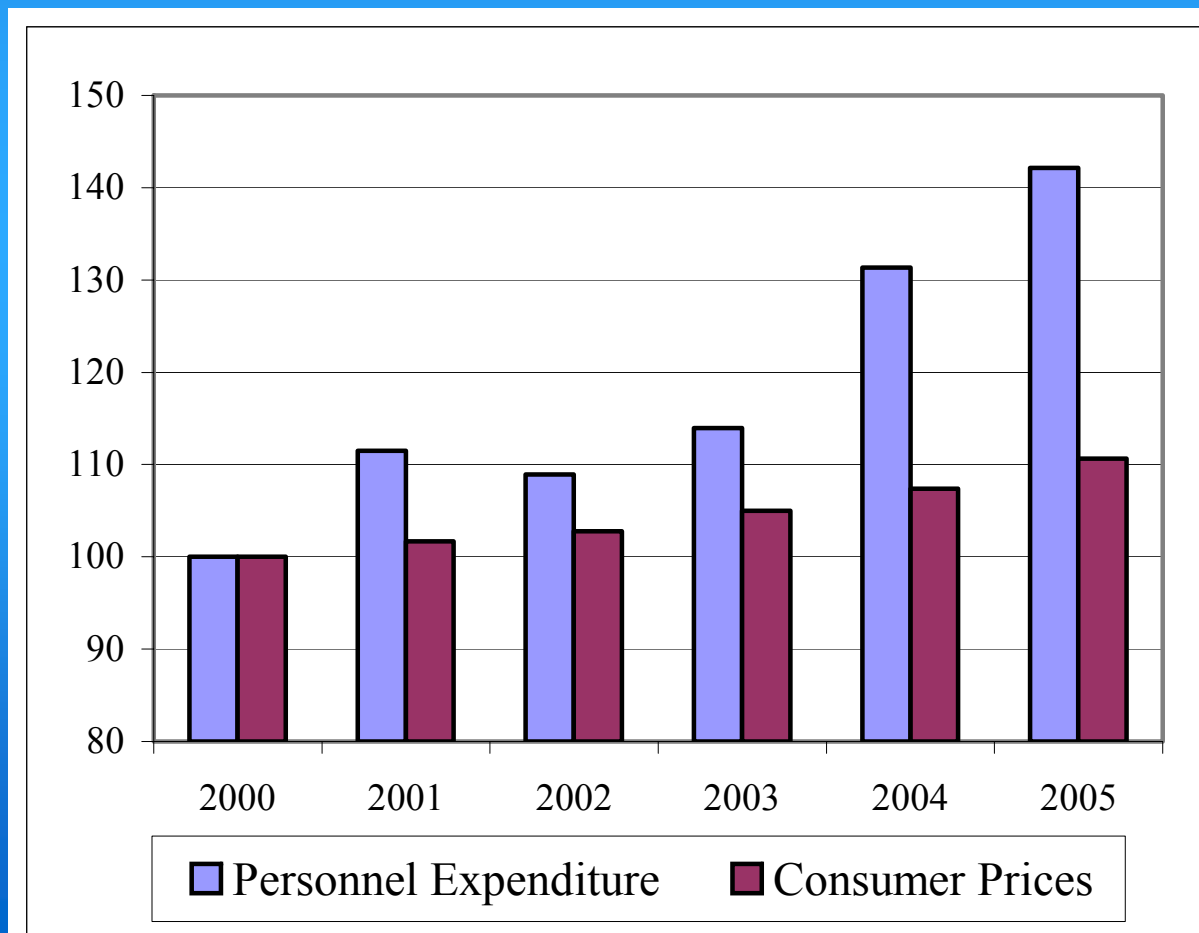
Retail fuel prices have been the lowest in the region

ECCU: Retail Fuel Prices, February 2005
(EC\$ per imperial gallon)



Wage bill has grown by over 40 percent in 5 years, and faster than consumer prices...

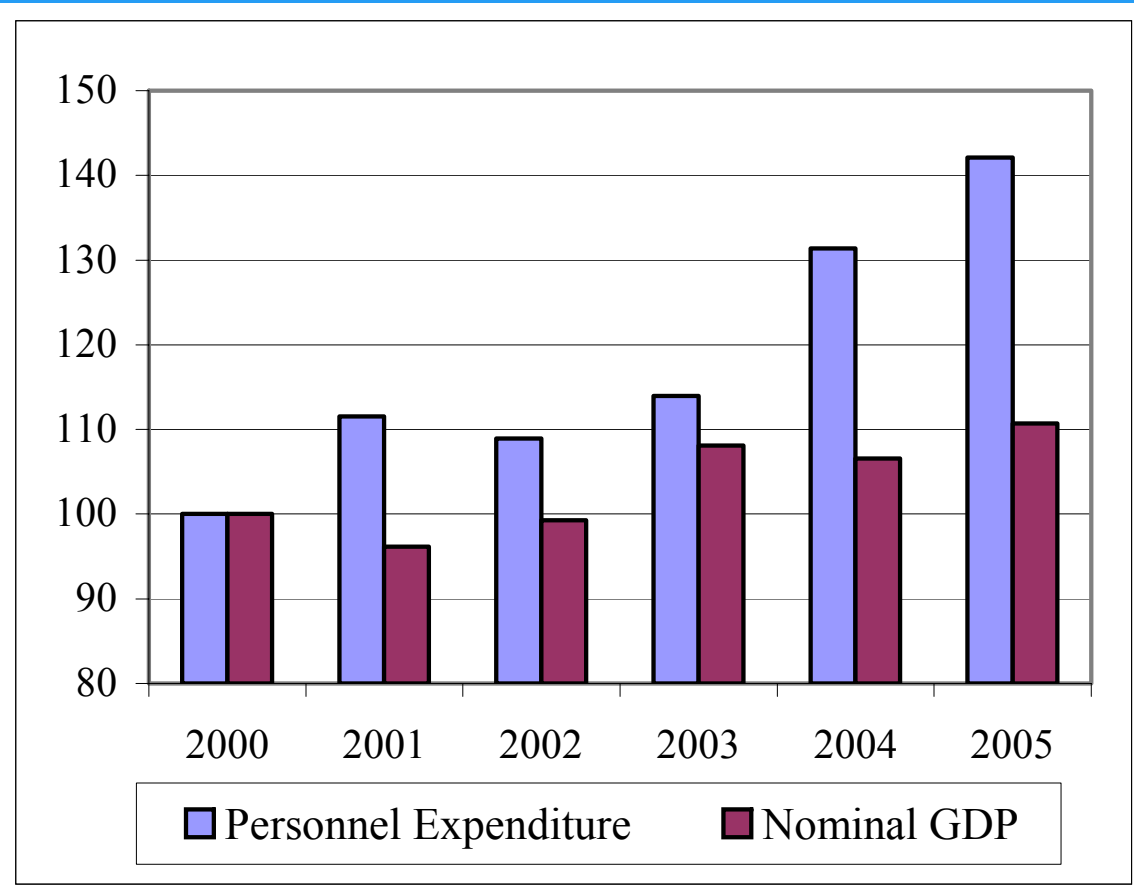
Grenada: Wage bill and consumer prices, 2000-2005
(Index, 2000=100)



...and faster than GDP

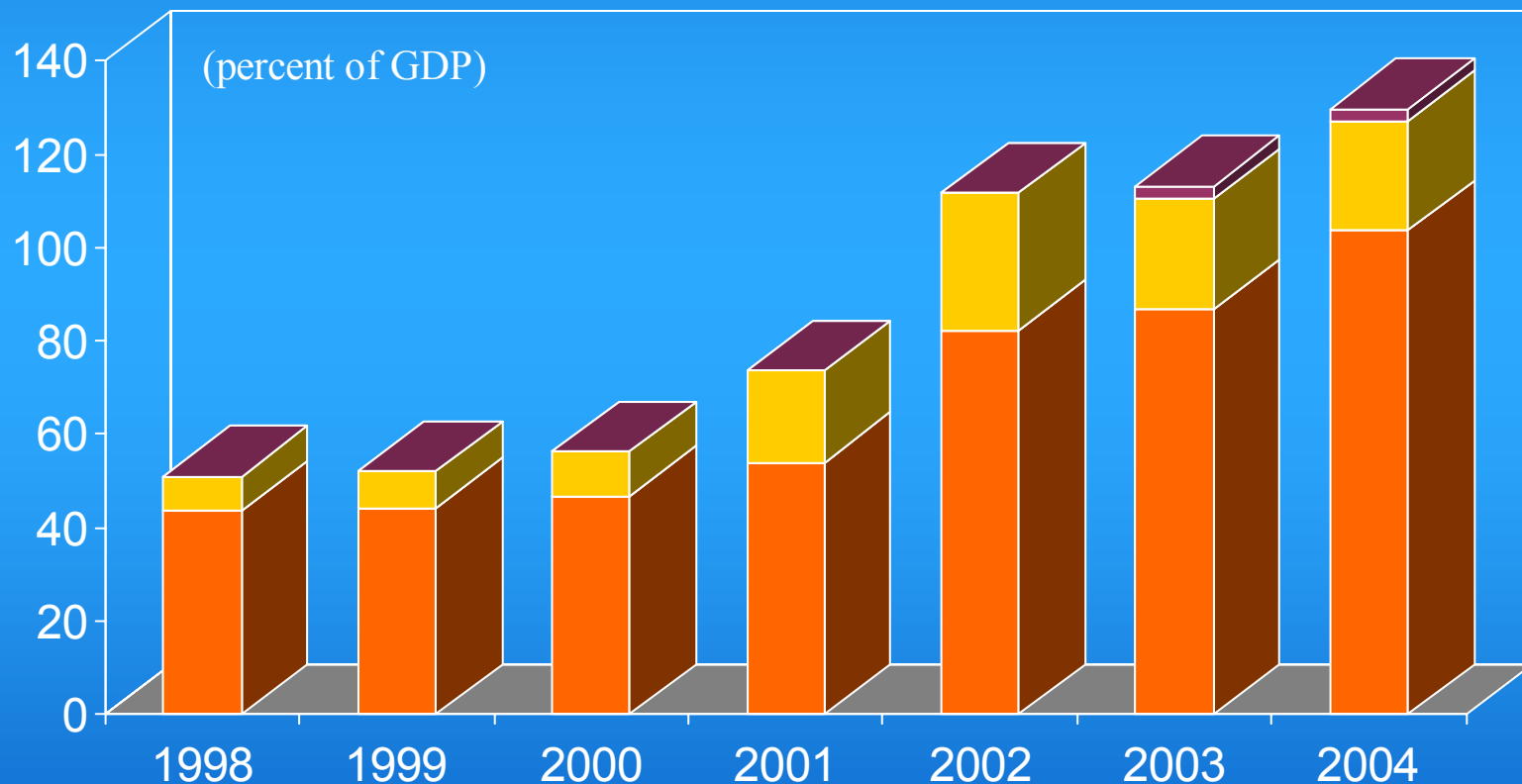
Grenada: Wage bill and nominal GDP, 2000-2005

(Index, 2000=100)



Grenada's public debt has increased sharply

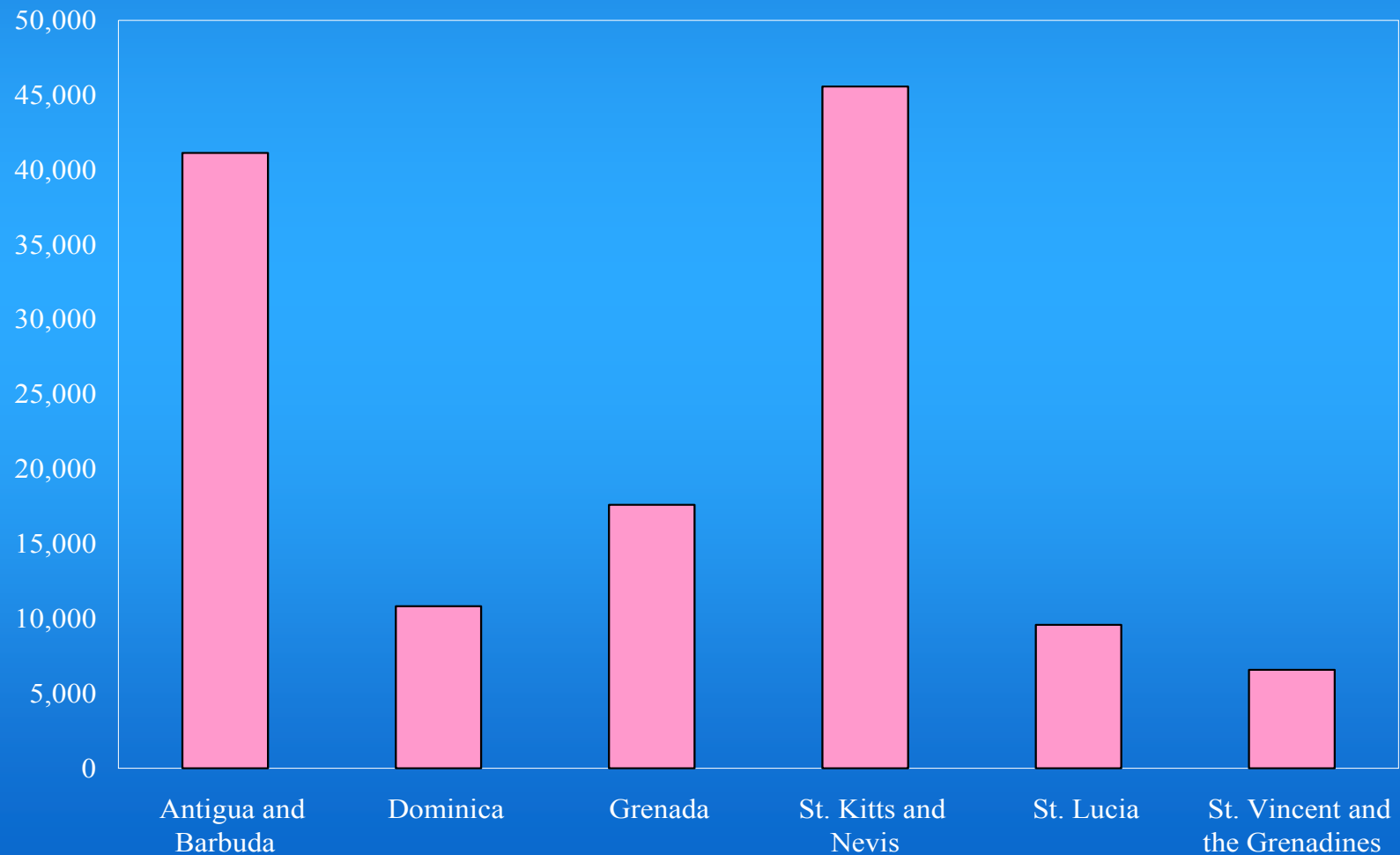
Public Debt exceeded EC\$1.5 billion at end 2004



Central Government Government-Guaranteed Other Public Sector

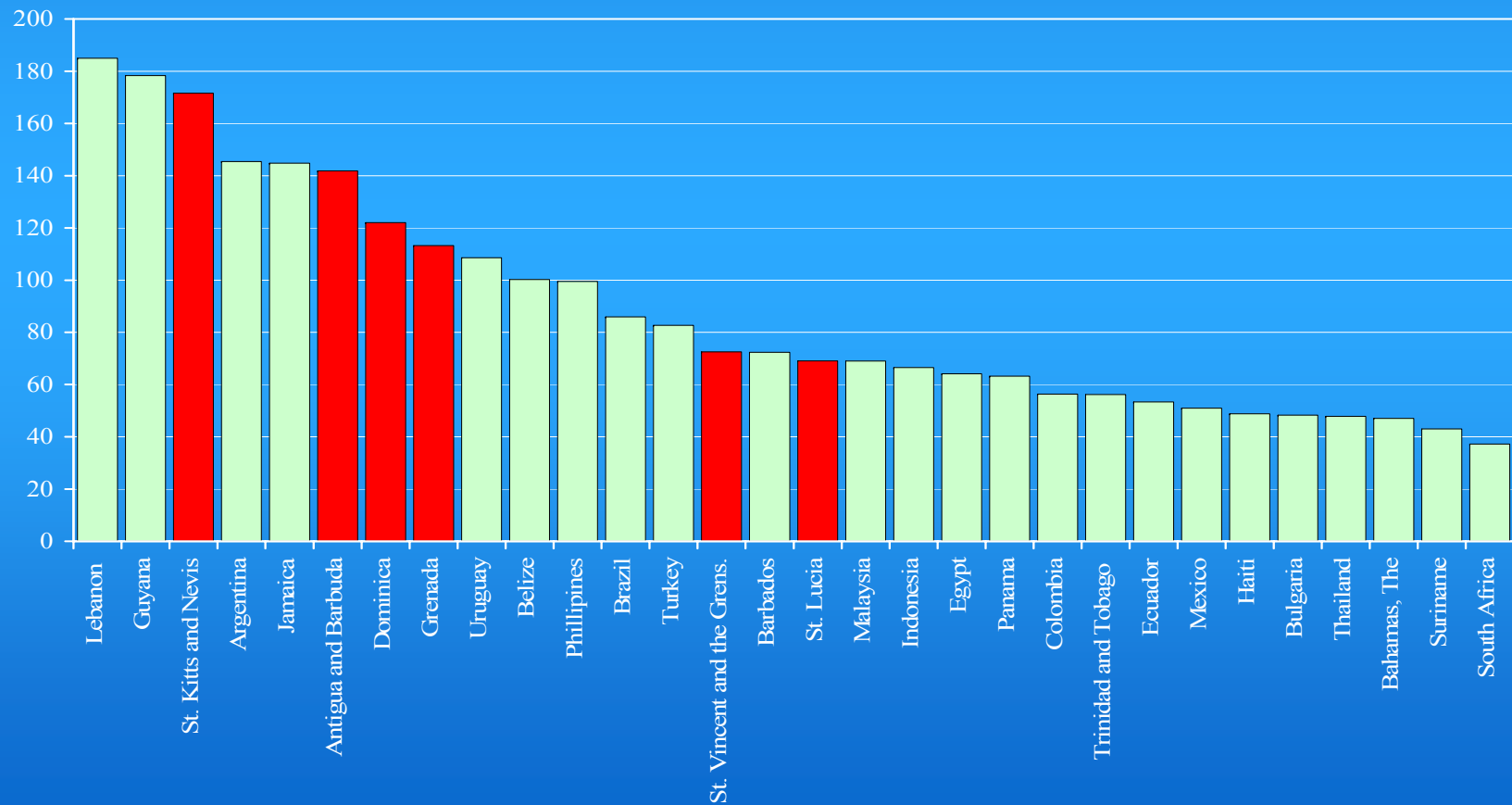
Public debt per person is striking

Public debt
(2004, per capita, in EC dollars)



Public debt levels in the ECCU are very high compared to emerging market economies

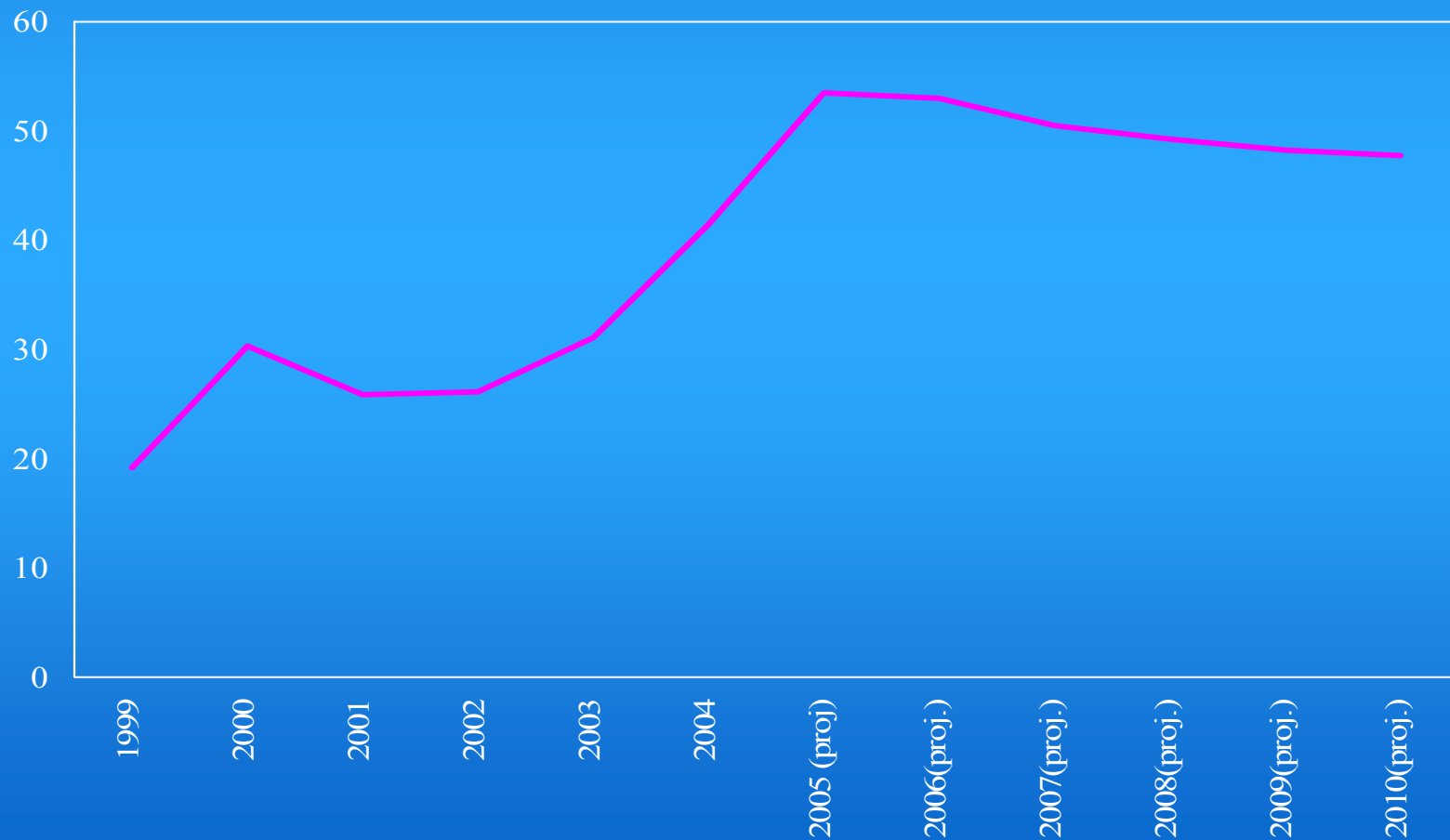
Public Sector Debt, 2003, percent of GDP



Global Environment

World oil prices have been rising and are projected to remain high

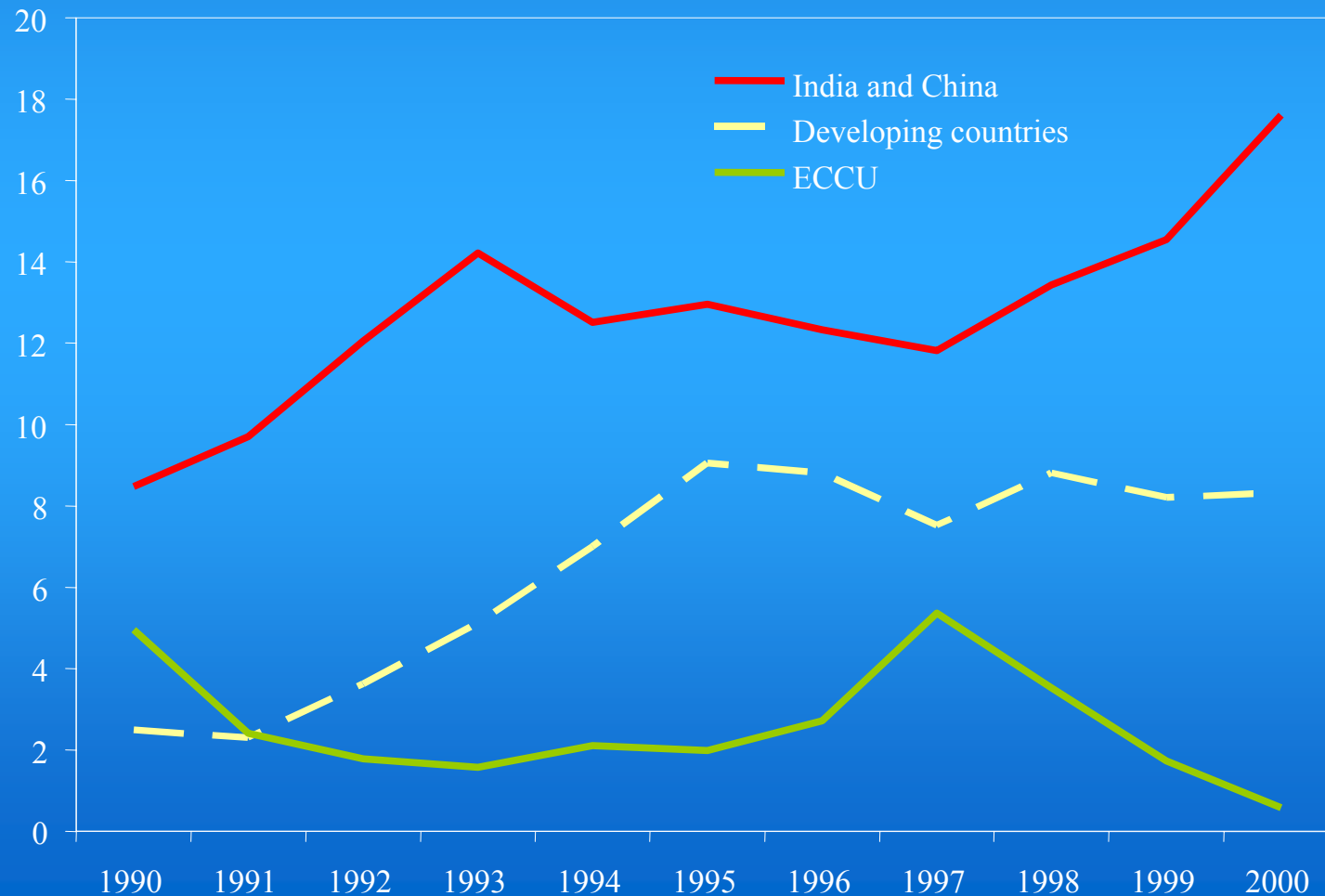
Petroleum spot price (West Texas intermediate)
(1999-2010, US\$ per barrel)



Source: IMF World Economic Outlook

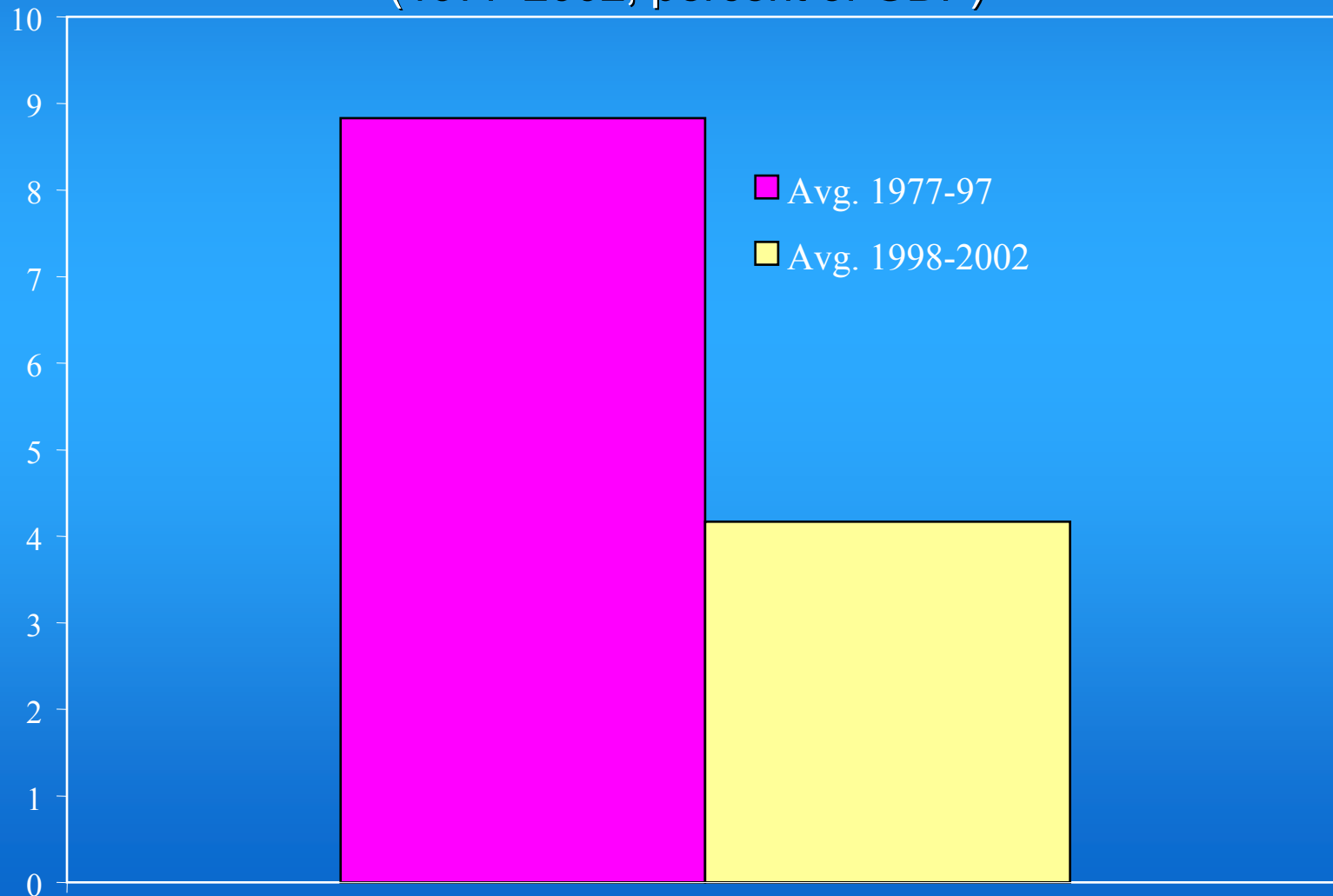
There is greater competition from low-cost economies

Export of goods and services
(annual percentage change, 5-year moving average)



Foreign aid is declining

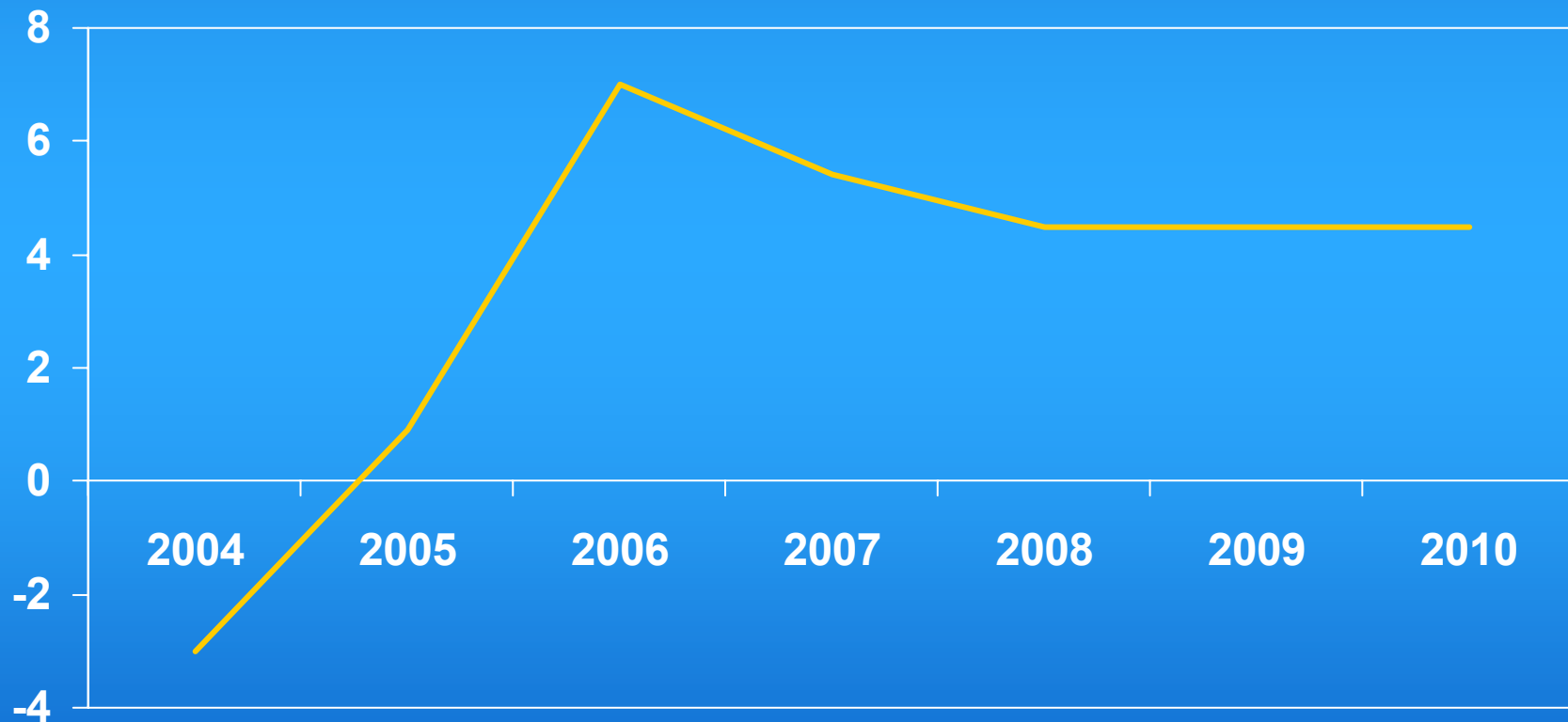
ECCU: Official Development Assistance
(1977-2002, percent of GDP)



The Way Forward

Growth in next few years will be driven by the reconstruction effort

GDP Growth
(in percent)



Realize growth potential

- Emphasize efficient reconstruction
- Increase medium-term growth prospects
 - Improve the investment climate
 - Increase the contribution of the service sector
 - Strengthen linkages between agriculture and tourism
 - Tap the diaspora

Together with international support,
fiscal effort of EC\$70m-90m per year is
needed in 2006-10

Develop a five year medium-term
macroeconomic framework with
fiscal and debt targets

Build ownership of reforms

Mobilize revenue

Revenue options:

- Reduce tax concessions
- Restore tax collections from retail fuel prices
- Improve collection of taxes and fees
- Introduce the VAT

Curtail expenditures

- Achieve greater efficiency in capital expenditures
- Keep wage bill aligned to inflation and productivity growth
- Control spending on goods and services

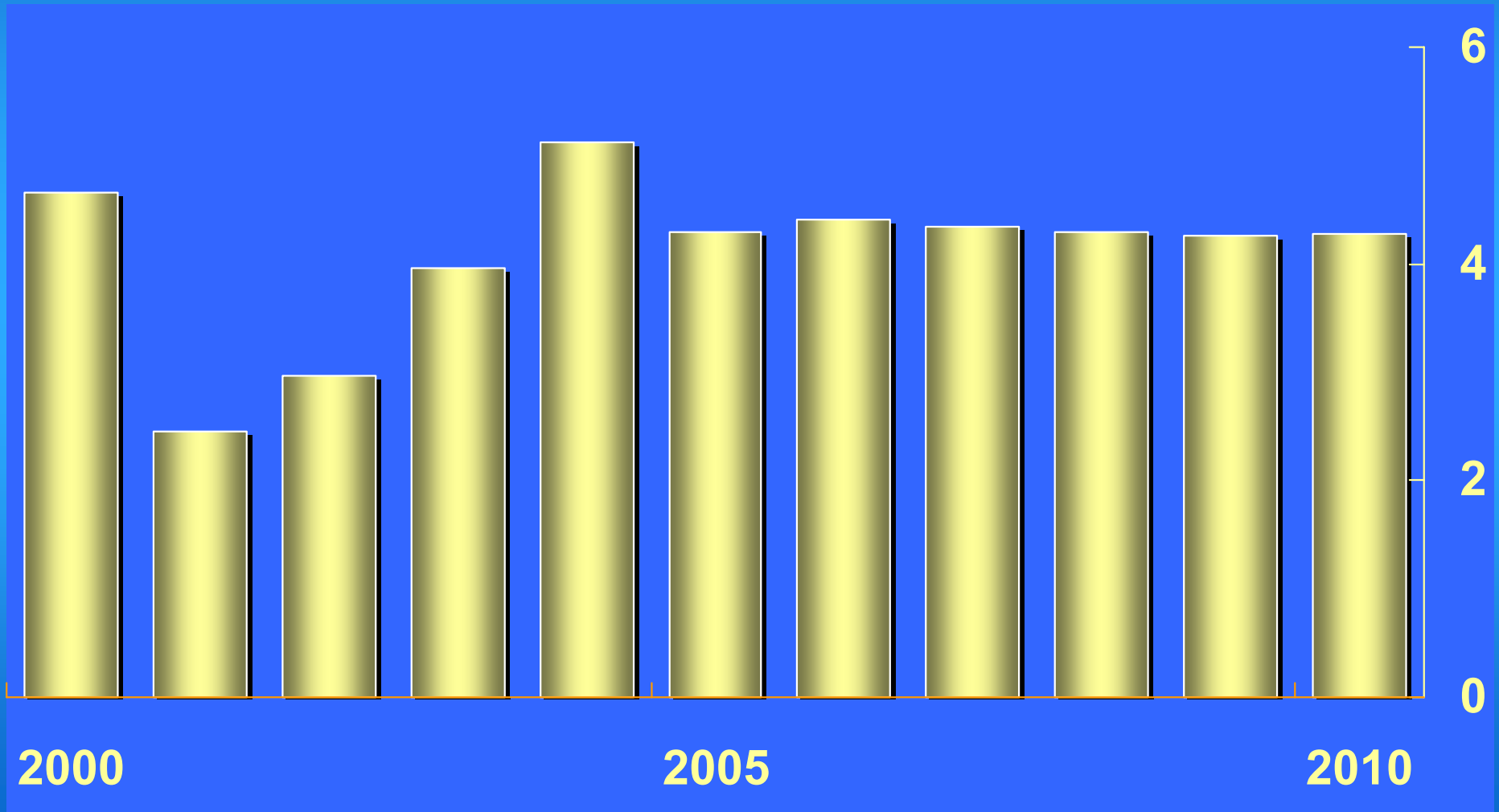
Reduce Vulnerability

- Strengthen financial sector
- Improve disaster mitigation and management
- Reduce debt

Global growth outlook is favorable

World Real GDP

(2000-2010, annual percent change)



Source: IMF