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# Grenada: 2005 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Grenada, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 12, 2005, 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 June 24, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 13, 2005 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Statistical Appendix

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

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GRENADA

# Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Grenada

Approved by Ratna Sahay and Matthew Fisher

June 24, 2005

- **Economic context:** Grenada is a multi-island economy in the eastern Caribbean, with a population of about 104,000 and per capita GDP of US$4,200. It is one of eight island states comprising the Eastern Caribbean Currency Union (ECCU). Its GDP accounts for nearly 15 percent of the region. The ECCU has a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, the Eastern Caribbean dollar, that has been pegged to the U.S. dollar at the rate of EC$2.70 per US$1 since July 1976.

- **Political situation:** Grenada is a Westminster-style democracy with a bicameral parliament consisting of 13 appointed senators and 15 elected representatives. Prime Minister Keith Mitchell of the New National Party has been in office since 1995. Although his party won a third consecutive term in November 2003, its majority in Parliament fell to just one seat.

- **Relations with the IMF:** Grenada has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions (Appendix I). Two purchases under the Fund's policy on emergency assistance for natural disasters of SDR 2.93 million (25 percent of quota) each were approved in January 2003 and November 2004, respectively, in support of the government's efforts to deal with the impacts of Tropical Storm Lili (September 2002) and Hurricane Ivan (September 2004).

- **Previous Article IV consultation:** The last consultation was concluded on January 27, 2003. While acknowledging the difficult economic situation faced by Grenada, Directors expressed concern about the high level of public debt and urged strong fiscal adjustment measures in 2003 and the medium term. They stressed the need for a comprehensive tax reform, reductions in tax concessions, and improved expenditure management. They encouraged the authorities to strengthen debt management and exercise caution in granting guarantees. Discussions for the 2004 consultation were held in St. George's during May 13–25 but not concluded because Hurricane Ivan rendered the projections and some of the policy discussions obsolete.

- **Last Board discussion:** On November 15, 2004, Directors approved Grenada's request for a purchase under the emergency assistance policy for natural disasters. They noted the authorities' progress in addressing Grenada's challenges prior to the hurricane, including a comprehensive review of the tax system and reductions in concessions. They agreed that these efforts were set back by the hurricane, and welcomed the authorities' intention to work closely with the Fund on a medium-term framework encompassing fiscal consolidation, a debt strategy, and measures to bring about recovery and enhance growth.

- **Discussions:** A staff team comprising Prakash Loungani (Head, EXR), Rishi Goyal and Werner Keller (both WHD), and Harald Finger (PDR) held discussions in St. George's during April 28–May 12. The team met with Prime Minister Mitchell, Deputy Prime Minister Bowen, Finance Minister Boatswain, other members of Cabinet, senior government officials, and representatives of the opposition, trade unions, private sector and civil society. Staff of the ECCB and Caribbean Development Bank (CDB) also participated in the discussions. Ratna Sahay (WHD) and Paul Jenkins (OED) attended the final discussions.

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## Executive Summary


- **Eight months after Hurricane Ivan devastated Grenada, economic conditions remain difficult.** Following a decline by 3 percent last year, growth of only 1 percent is projected in 2005. Tourism and agricultural activities remain weak and nearly offset the stimulus from the reconstruction boom. Poverty rates have reportedly risen sharply, particularly in the rural sector. The majority of homes are still in need of repair.

- **Debt is unsustainable and the government faces large financing gaps.** Gaps of about 4½ percent of GDP this year and 12–14 percent of GDP per year between 2006 and 2010 are projected. Public debt is projected to increase from 130 percent of GDP to nearly 150 percent by 2010 on present policies. The authorities announced in October 2004 that they intend to seek a cooperative solution with their creditors.

- **A comprehensive medium-term plan is needed to deal with these challenges.** The plan should: (i) include measures to close the financing gaps and ensure debt sustainability; (ii) facilitate economic recovery and raise medium-term growth; and (iii) reduce vulnerabilities to adverse shocks. The authorities plan to resume work on a home-grown structural adjustment program, with help from the Caribbean Regional Technical Assistance Centre (CARTAC), that would incorporate these goals.

- **Burden sharing will be required to fill financing gaps and reduce debt.** Although too large to be filled by any one source alone, the financing gaps could plausibly be filled through fiscal effort, cooperative debt restructuring agreements, and donor support.

- **The 2005 budget shows a commitment to fiscal effort, but implementation will require building a social and political consensus.** Staff recommended some measures for this year and additional fiscal consolidation of 5 percent of GDP per year for 2006–10, including an increase in retail fuel prices. A special levy on incomes proposed by the authorities has been rejected by the opposition party and labor unions. As background, the ruling party holds a slim one-seat majority in Parliament.

- **There has been progress on the debt restructuring strategy, but hurdles remain.** A debt exchange offer to commercial creditors is expected to be launched this summer. While official creditors have also been contacted, the situation is complicated by diplomatic estrangement with Taiwan Province of China, the largest bilateral creditor.

- **Reinvigorating growth is a high priority.** In the near term, the performance and transparency of the newly created reconstruction agency need to be stepped up. Raising medium-term growth will require skill development, improving the investment climate, diversifying into new services, and tapping the funds and skills of the diaspora more effectively.

- **Continued efforts are needed to address vulnerabilities.** Improving natural disaster mitigation and management is a top priority. Close attention should be paid to the health of the financial sector, including through enhanced supervision.

## I. BACKGROUND

1. **Grenada is a largely tourism-based, small, open economy that is vulnerable to external shocks.** Over the past two decades, the economy has shifted from the once-dominant agricultural sector into services, which now account for over three-quarters of total value added. Most of the goods consumed or invested domestically are imported. The economy remains susceptible to changes in global economic conditions, particularly growth in advanced economies, and to natural disasters.

2. **Sustained private sector growth has proven elusive, adding to fiscal and debt imbalances.**

- Following slow growth and domestic fiscal adjustment in the early- to mid-1990s, growth picked up in the second half of the 1990s, driven by the telecommunications, construction, and manufacturing sectors (Figure 1).[1] Although fiscal policy was expansionary, the public debt-to-GDP ratio remained at around 50 percent of GDP, as deficits were financed partly by privatization proceeds.

- Adverse external shocks in 2001–02—the September 2001 terrorist attacks, the slowdown in the global economy, and the damage from Tropical Storm Lili—resulted in economic contraction. Fiscal policy became even more expansionary, as current and capital expenditures were increased (Figure 2). Public debt spiraled to 110 percent of GDP by end-2003, as privatization receipts declined, guarantees were granted, and leases associated with public-private partnerships were purchased.

- With the economy's recovery in 2003, the government began to consolidate its fiscal accounts and to develop a medium-term fiscal strategy. Nevertheless, debt remained high and the interest burden continued to rise.

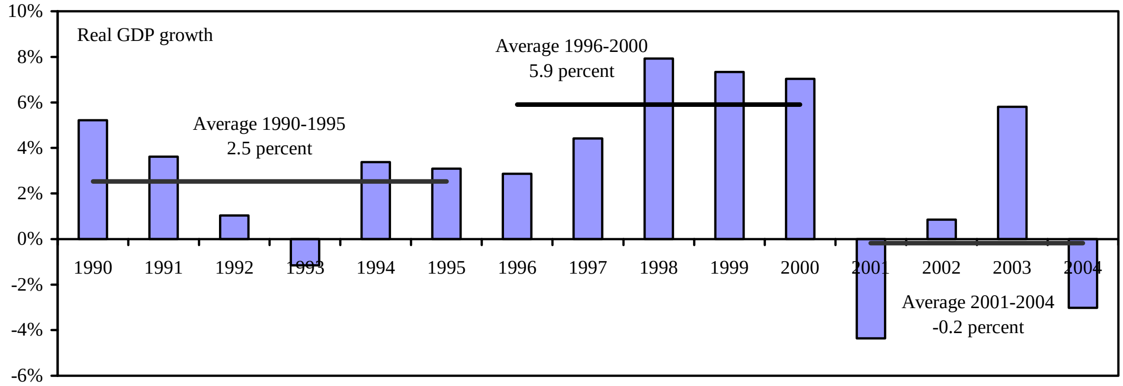
3. **Economic conditions and policy priorities changed abruptly when Hurricane Ivan hit in September 2004.** Damage from the hurricane exceeded 200 percent of GDP (Box 1). The economy contracted by 3 percent in 2004, a sharp setback from the 4 percent growth that had been projected earlier. Progress in fiscal consolidation was impeded as the authorities gave priority to post-hurricane relief and revenues fell.[2] Nonessential expenditures were curtailed, and pledges of US$150 million (34 percent of 2004 GDP) were marshaled quickly through two successful donor conferences. Grenada also purchased US$4.4 million (25 percent of quota) under the Fund's emergency assistance policy for natural disasters in November 2004. The World Bank and the Caribbean Development Bank (CDB) also

[1] This pattern differs from that in other ECCU countries, where growth continued to decelerate.

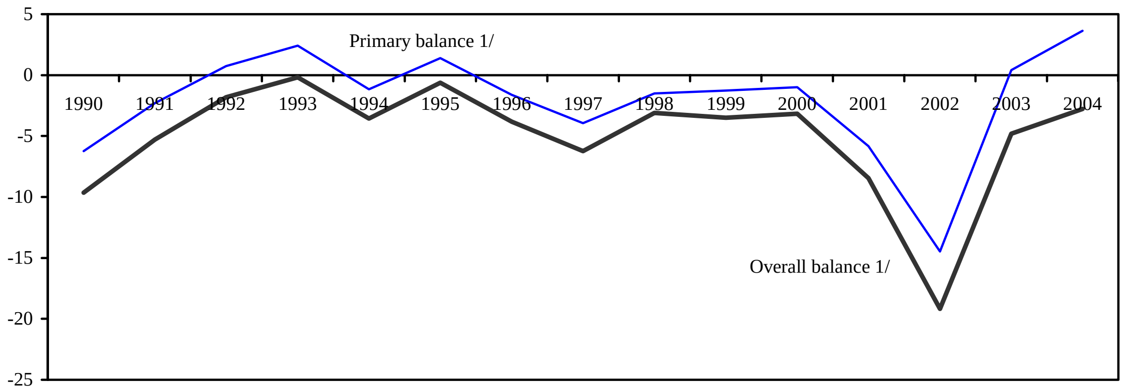
[2] Revenue collection during September–December 2004 was 31 percent lower than in the same period in 2003.

Figure 1. Grenada: Macroeconomic Developments, 1990–2004
(In percent of GDP, unless denoted otherwise)

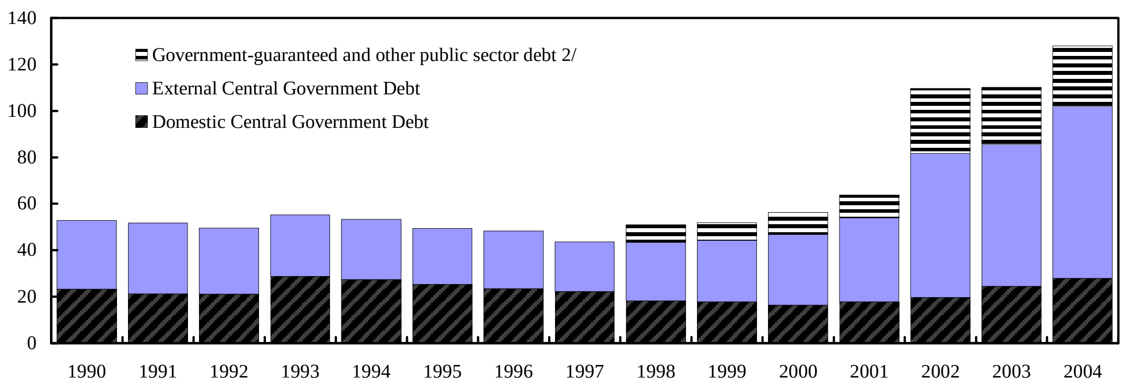
**Economic growth has slowed in recent years,...**




**...fiscal balances have deteriorated,...**




**...and public debt, especially external and guaranteed public debt, has risen sharply.**

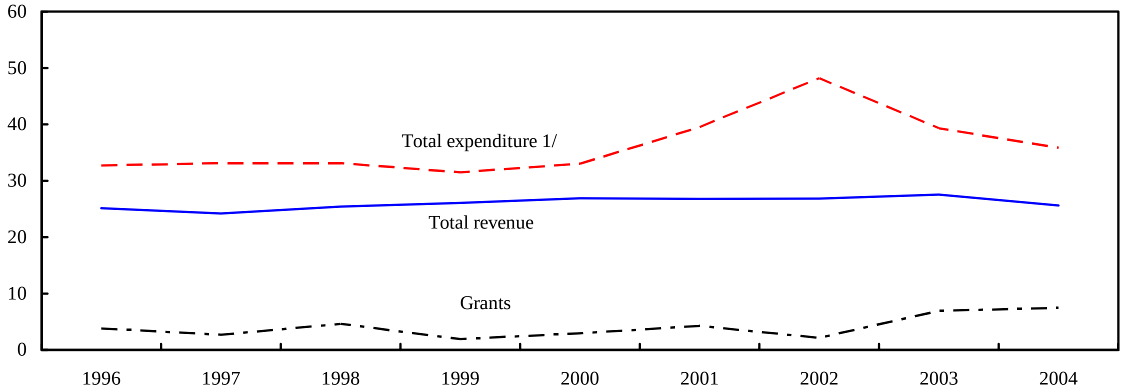



Sources: Ministry of Finance; and Fund staff estimates.

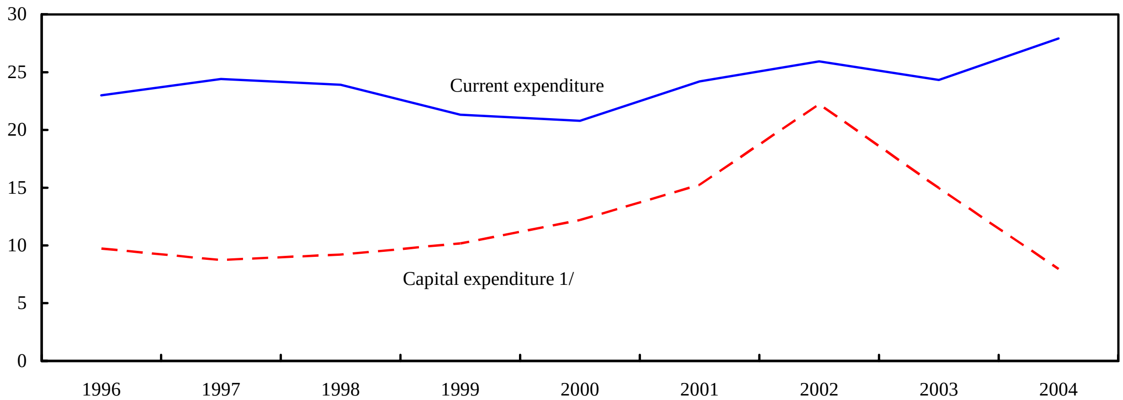
1/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements.
2/ Data on government-guaranteed debt before 1998 are not available.

Figure 2. Grenada: Fiscal Developments, 1996–2004
(Central government, in percent of GDP)

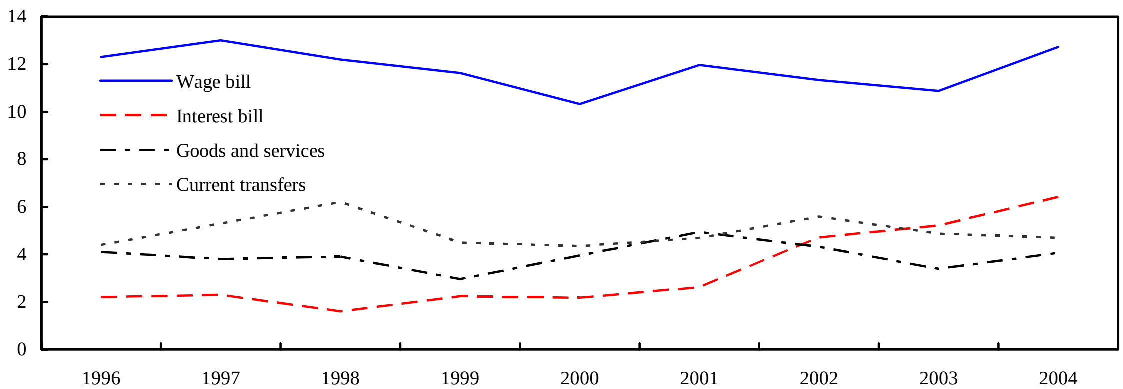
**The fiscal deterioration until 2002 was due to expenditure increases,...**




**...as current and capital expenditures rose,...**




**...with current expenditure increases driven by a rising interest bill.**




Sources: Ministry of Finance; and Fund staff estimates.

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

provided assistance.[3] There was no run on bank deposits, and banking sector conditions remained stable.

4. **A month after Ivan struck, the authorities announced public debt to be unsustainable.** As revenues contracted sharply and relief expenditures soared, there were difficulties in servicing debt. In October 2004, the authorities announced that the public debt was unsustainable and their intent to seek a cooperative solution with their creditors and donors. After interest payments on two large international bonds were missed in late December, Grenada was downgraded to 'selective default' by Standard & Poor's.

**Box 1. Impact of Hurricane Ivan**

**The damage to Grenada from Hurricane Ivan exceeded 200 percent of GDP (EC$ 2.4 billion).**

- Virtually every house on the island was affected, with 30 percent completely destroyed; schools and universities suffered extensive damage, as did hospitals and shelters.
- Productive sectors were hit hard. In the tourism sector, few hotels escaped damage. In agriculture, the nutmeg sector—in which Grenada was the world's second-largest producer and which employed an estimated 30 percent of the population directly or indirectly—was decimated. Nutmeg trees take 7–10 years to grow. Cocoa, bananas, and other crops also were damaged.
- The entire population was without water and electricity in the immediate aftermath of the hurricane.

**Measured in economic damage relative to the size of the economy, Hurricane Ivan was one of the most severe natural disasters in recent decades.** On average over the past 30 years, the damage to countries worldwide hit by natural disasters has been 0.6 percent of GDP. Even for the more disaster-prone ECCU region, the damage on average has been 2 percent of GDP, with a maximum of 101 percent of GDP (from two successive hurricanes impacting Dominica in 1979).[1]

[1] Rasmussen, Tobias N., 2004, "Macroeconomic Implications of Natural Disasters in the Caribbean," *IMF Working Paper* WP/04/224 (Washington: International Monetary Fund).

5. **Social indicators, already weaker than in other ECCU countries, deteriorated.** Nearly 8 percent of the labor force was displaced from their jobs in the immediate aftermath of Ivan, raising the unemployment rate to over 20 percent. Starting from an already high incidence of over 30 percent, poverty levels have reportedly risen sharply among farmers and

Grenada and ECCU: Social Indicators

| | Grenada | ECCU |
|---|---|---|
| Rank in UNDP Human Development Index out of 177 countries (2004) | 93 | 73 |
| GDP per capita in US$ (2004) | 4,205 | 5,473 |
| Infant mortality rate per '000 births (2003) | 18 | 17 |
| Life expectancy at birth (years) (2003) | 73 | 74 |
| Adult illiteracy rate (percent) (2001) | 6 | 8 |
| Poverty headcount index (2000) | 32 | 29 |

Sources: United Nations, Human Development Report 2004; World Bank, WDI 2005; and Fund staff estimates.

[3] Grenada's relations with the World Bank and the CDB are described in Appendices II and III, respectively.

women. There is considerable anxiety about the 2005 hurricane season, in part because the majority of houses have not yet been fully repaired.

6. **Political tensions are high.** Having won less than a majority of the popular vote in the 2003 election, and with only a one-seat majority in Parliament, the government has found it difficult to build a social and political consensus on a course of action for recovery. Fiscal measures have met with resistance, particularly from labor unions and the opposition.

## II. RECENT DEVELOPMENTS AND NEAR-TERM PROSPECTS

7. **The economy is expected to recover slowly over the course of 2005.** Staff projects growth of about 1 percent as conditions in the tourism and agricultural sectors are weak and nearly offset the stimulus from the reconstruction boom (Table 1). About 50 percent of hotel rooms have resumed service; more than 80 percent are expected to be in operation for the tourist season starting later this year. Farmers have turned to short-cycle crops as near-term prospects for nutmeg and cocoa remain bleak. Strong demand for construction workers has reportedly lowered the unemployment rate below the pre-Ivan rate of 13 percent. Inflation has remained subdued, notwithstanding large increases in input prices such as construction materials. The year-over-year inflation rate in April 2005 was 1.8 percent.

Grenada: Selected Economic Indicators, 2001–2005

| | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
|---|---|---|---|---|---|
| | (Annual percentage change) | | | | |
| Real GDP | -4.4 | 0.8 | 5.8 | -3.0 | 0.9 |
| CPI, average | 1.7 | 1.1 | 2.2 | 2.3 | 3.0 |
| Value added in: | | | | | |
| Hotels & restaurants | -1.8 | 5.6 | 13.8 | -13.1 | -10.0 |
| Agriculture | -2.9 | 19.0 | -2.4 | -7.3 | -47.7 |
| Construction | -18.9 | 1.0 | 26.0 | -0.8 | 35.0 |

8. **Although competitiveness indicators have improved since 2001, Hurricane Ivan dealt a temporary setback to agricultural exports and tourism services.** Owing mainly to the depreciation of the U.S. dollar, the CPI-based real effective exchange rate (REER) has depreciated by more than 15 percent since end-2001, unwinding the appreciation of the late 1990s (Figure 3). Tourism-based REER measures have also depreciated. Grenada's market share of Caribbean tourist arrivals increased sharply in 2002 and 2003. While real wages have grown rapidly between 1995 and 2003, they have been in line with real GDP growth.[4]

9. **A sharp deterioration in the external current account deficit is expected this year.** In 2004, substantial foreign grant inflows and insurance payments led to a strong improvement in the external current account deficit to about 17 percent of GDP, even though the balance of trade in goods and services deteriorated markedly after Ivan struck (Table 2). This year, reconstruction-related imports have started to surge while exports and tourism

[4] Data on wages for the last two years are not available, but the public sector wage bill has grown faster than GDP growth, even as employment was kept constant.

receipts will recover more slowly. Sizable capital grant inflows and direct investment are expected.

| Grenada: Selected External Indicators, 2001–2005 | | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
| | (In percent of GDP) | | | | |
| External current account balance | -26.6 | -32.0 | -32.7 | -17.4 | -33.9 |
| Capital grants (public sector) | 4.4 | 2.7 | 4.5 | 2.5 | 6.6 |
| Direct investment (net) | 14.9 | 14.1 | 18.5 | 9.1 | 12.5 |
| | (Annual percentage change) | | | | |
| Exports of goods | -23.3 | -34.9 | 10.0 | -23.1 | -13.2 |
| Imports of goods | -10.9 | -7.8 | 25.1 | 4.1 | 17.5 |
| Travel (net) | -10.7 | 7.2 | 17.2 | -12.4 | -8.5 |
| Real effective exchange rate | -0.1 | -3.4 | -8.5 | -4.6 | ... |

10. **The government faces a financing gap of 4½ percent of GDP in 2005.** In 2004, the government could not fully service its debt obligations despite generous international assistance and sustained efforts to reduce nonessential expenditures. In 2005 thus far, revenue collections have exceeded expectations, on account of booming tax collections on imports such as construction materials (temporary tax relief measures on imports, put in place after Ivan struck, were mostly phased out in February) and a large one-time back payment of taxes (Table 3). This year's budget, approved in April, proposes revenue-enhancing measures (Box 2). Yet, despite the revenue effort and exceptional donor support, the financing gap is large because of high reconstruction expenditures.

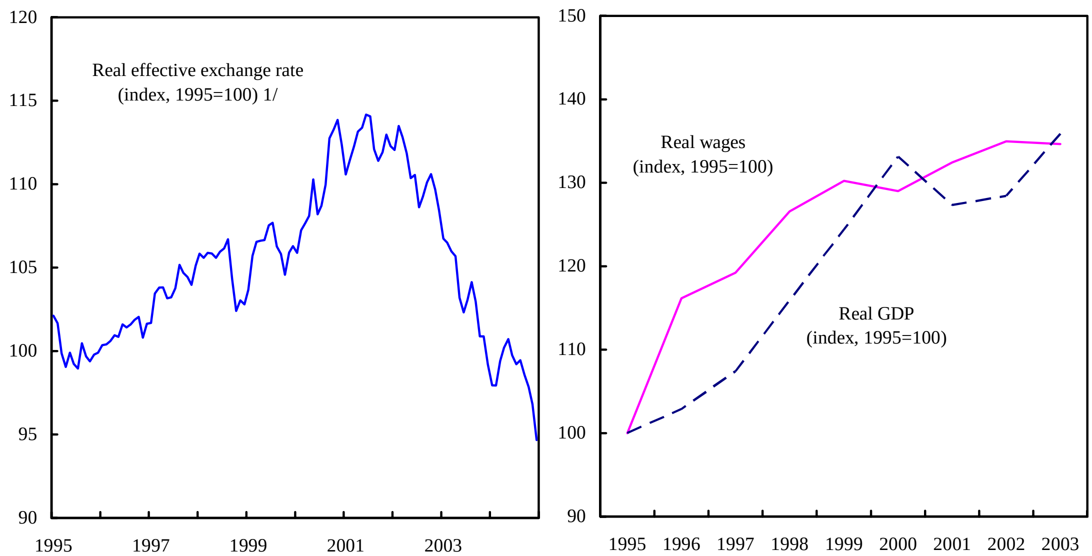
| Grenada: Selected Fiscal Indicators, 2001–2005 | | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
| | (In percent of GDP) | | | | |
| Overall central government balance 1/ | -8.5 | -19.2 | -4.8 | -2.8 | -8.5 |
| Revenues and grants | 31.0 | 29.0 | 34.5 | 33.1 | 41.7 |
| *Of which:* grants | 4.2 | 2.1 | 6.9 | 7.5 | 13.9 |
| Expenditures 1/ | 39.5 | 48.2 | 39.3 | 35.9 | 50.2 |
| *Of which:* capital expenditures | 15.3 | 22.2 | 15.0 | 7.9 | 19.2 |
| Primary balance (after grants) 1/ | -5.8 | -14.5 | 0.4 | 3.7 | -2.5 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 4.6 |
| Public sector debt | 63.7 | 109.6 | 110.0 | 129.4 | 133.1 |

1/ Includes 11.4 percent of GDP in 2002 paid to retire obligations associated with outstanding lease arrangements.

Figure 3. Grenada: External Competitiveness, 1995–2004

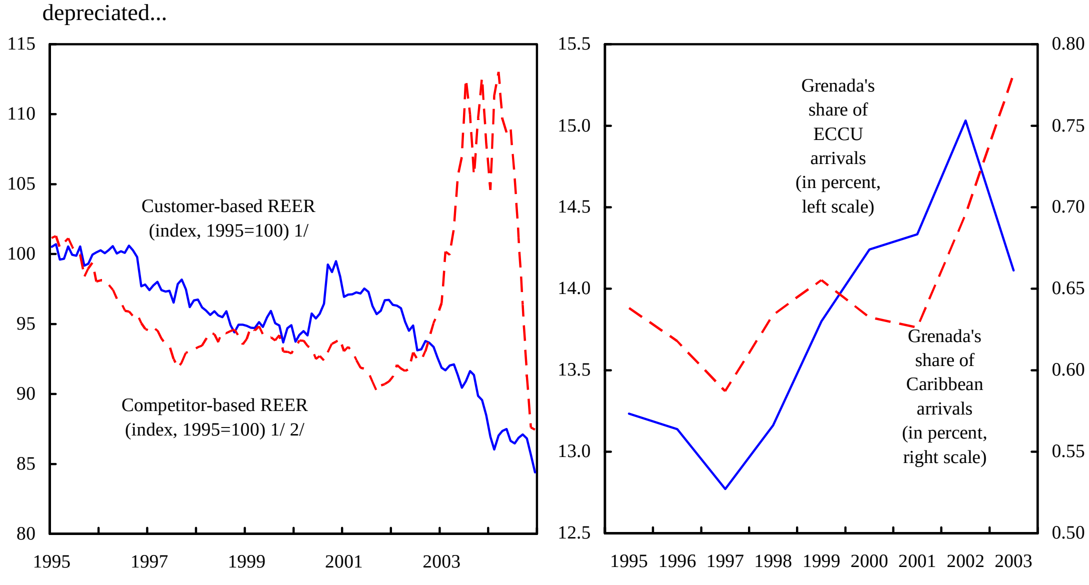
While the CPI-based real effective exchange rate has declined sharply since 2002...

...real wages have been rising since the mid 1990s, although wage developments have been in line with GDP.




In the tourism sector, the competitor- and customer-based measures of the REER have depreciated...

...and Grenada's share of stayover arrivals in the Caribbean has increased.




Sources: Ministry of Finance; Eastern Caribbean Central Bank; Caribbean Tourism Organization; National Insurance Scheme; and Fund staff calculations.

1/ An increase (decrease) indicates an appreciation (depreciation).
2/ The sharp appreciation in 2002-03 was caused largely by the real depreciation of the Dominican Republic's peso.

**Box 2. The 2005 Budget and the Reconstruction Program**

**To stabilize the public finances, new revenue measures yielding over 2 percent of GDP have been proposed.** The measures include: (i) a special levy on incomes instituted for a five-year period, the proceeds of which are to be deposited in the Grenada Reconstruction and Development Fund (RDF);[1,2] (ii) an increase by about 13 percent in the retail price of fuel, which has been fixed since December 2000, and the adoption of a flexible fuel price mechanism; (iii) an increase in excise taxes on alcohol and tobacco; and (iv) strengthened tax administration. Given the immense property damage, however, the taxes payable on residential properties were reduced by 50 percent for 2005 only. Moreover, taxes on certain vehicle tires and brakes and on alternative (renewable) energy products were lowered.

**To promote reconstruction, capital expenditures have been increased sharply.** Given the large reconstruction needs, the government plans to incur capital expenditures of 19.2 percent of GDP this year. The priority areas are (i) provision of housing and shelter; (ii) rehabilitation of schools; (iii) revitalization of agriculture, the mainstay of a large proportion of the poor in Grenada, through product diversification for near-term growth and replanting of traditional tree crops for longer-term recovery; (iv) reactivation of the business sector; (v) social recovery, that is, policies aimed at addressing the needs of the most vulnerable; (vi) skills training; and (vii) reconstruction of sporting facilities, including the National Stadium to meet Grenada's commitment to co-hosting the 2007 Cricket World Cup.

**Current expenditures are also budgeted to increase.** The wage bill is expected to increase by over 8 percent in 2005 (an additional 1 percent of GDP), comprising a 4½ percent contracted wage increase that had been agreed as part of the 2002–05 wage negotiations with the labor unions and salary increments. In addition, transfers and spending on goods and services have been increased.

[1] Legislation to establish the RDF was passed by the lower house of Parliament in April 2005. The RDF is the mechanism to receive the monies for the reconstruction and development effort.
[2] Under the present income tax system, personal income above EC$60,000 per year is taxed at a rate of 30 percent.

11. **Progress has been made in developing a comprehensive debt strategy, and a successful outcome would help in filling the financing gap.** Public debt at end-2004 rose to almost 130 percent of GDP (Table 4). In January 2005, the government hired legal and financial advisors to assist in the formulation of a comprehensive debt-reduction strategy. Pending the development and outcome of the strategy, Grenada has discontinued servicing most commercial and official bilateral debt obligations. In April 2005, a creditor committee representing a majority of Grenada's commercial debt obligations was formed.[5] In May, the authorities published their debt sustainability analysis (DSA), following which they held meetings with the committee.[6] They are preparing an exchange offer for their commercial

[5] While the committee largely represents external creditors, there are strong linkages with domestic creditors through bank ownership.

[6] The authorities' DSA is broadly similar to staff's baseline scenario, but shows a higher financing gap in 2005 (6.4 percent of GDP) and lower financing gaps in 2006–10 (between 9 and 12 percent of GDP compared to staff's projections of 12–14 percent of GDP) owing to differences in assumptions.

debt and have also approached their official creditors to negotiate debt and debt-service relief on at least comparable terms.

12. **Prudential indicators for the banking system did not show a deterioration through March 2005.** After Ivan struck, banks granted blanket moratoria on loans, sharply increased loan loss provisions, and assessed loan-by-loan credit quality.[7] The share of nonperforming loans (NPLs) in the total rose to 5.8 percent at end-March, rising in foreign banks but declining in locally-incorporated banks. The ECCB conducted offsite surveillance, but has not undertaken onsite inspections. In 2004, banking sector deposits grew rapidly owing to insurance flows and remittances. Commercial bank net foreign assets also grew rapidly (Tables 5 and 6).

Grenada: Selected Monetary and Financial Indicators, 2001–2005

| | 2001 | 2002 | 2003 | 2004 | Proj. 2005 |
|---|---|---|---|---|---|
| | (Annual percentage change) | | | | |
| Broad money | 10.6 | 7.1 | 8.0 | 17.7 | 2.3 |
| Net foreign assets 1/ | 7.4 | 10.8 | 5.8 | 17.9 | 2.1 |
| Net domestic assets 1/ | 3.2 | -3.7 | 2.2 | -0.2 | 0.2 |
| *Of which:* private sector credit 1/ | 0.8 | 0.9 | 3.1 | 5.0 | 1.9 |
| | (In percent) | | | | |
| Capital adequacy ratio 2/ 3/ | 14.1 | 15.6 | 17.7 | 14.9 | 17.7 |
| Nonperforming loans/total loans 3/ | 5.9 | 5.8 | 4.5 | 6.0 | 5.8 |
| Loan loss provisions/NPLs 3/ | 43.6 | 45.6 | 61.7 | 81.9 | 77.2 |

1/ 12-month change in percent of broad money at the beginning of the period.
2/ For locally incorporated banks.
3/ For 2005, actual data at end-March are reported.

## III. Policy Discussions

### A. Overview

13. **The authorities welcomed the close policy dialogue with staff and timely financial disbursement from the Fund after Hurricane Ivan struck.** They noted that staff's presentations in the donor conferences had helped trigger international support and the Fund's policy advice was helping address their economic challenges. The authorities expressed their desire to develop a home-grown adjustment program, as had been developed in 1992–94. To develop this program, they intend to maintain close consultation with the Fund, especially in light of the severe technical capacity constraints they face.

14. **Policy discussions centered on the government's efforts to recover from the effects of Hurricane Ivan, restore growth, and achieve fiscal sustainability.** The mission strongly recommended a comprehensive strategy, centered on a medium-term macroeconomic plan with fiscal targets for the next 3–5 years that would be based on a broad consensus and approved by Parliament. Such a strategy would feature three key components:

- *Restoring debt sustainability and closing financing gaps;*

[7] While the period of blanket moratoria on loan payments has expired, staff discussions with banks suggest moratoria are being continued for some borrowers or the terms of the loans softened by stretching out repayment periods.

- *Facilitating reconstruction and enhancing growth;* and

- *Reducing vulnerabilities to adverse shocks*, in particular, through natural disaster preparedness and by strengthening financial sector supervision and regulation.

The mission noted that such a plan could help unlock further donor financing and ensure the success of debt restructuring. It encouraged the authorities to continue to hold extensive national consultations to build ownership of the fiscal effort required.

15. **The authorities were in full agreement with the mission's recommendation on the elements of the medium-term plan.** They noted progress made during 2003–04 under the Structural Adjustment Technical Assistance Program (SATAP), with assistance from the Caribbean Regional Technical Assistance Centre (CARTAC). They stated their intention to resume work on this project such that a medium-term fiscal plan could be used as the basis for the 2006 budget consultations later this year.[8]

## B. Addressing Fiscal and Debt Imbalances

16. **Resolving the unsustainable debt and filling large financing gaps in 2005 and beyond will require burden sharing by all stakeholders.** In staff's baseline projections, capital expenditures remain high, while revenues recover gradually and grants taper off rapidly after 2006.[9] Financing gaps in 2006–10 range between 12–14 percent of GDP. Public debt rises to nearly 150 percent of GDP by 2010 (Tables 7 and 8). Filling the gaps and resolving the unsustainable debt will require: (i) fiscal adjustment—by enhancing revenues and containing expenditures; (ii) creditor support in the form of a cooperative debt restructuring agreement; and (iii) donor support.

Grenada: Baseline Fiscal Projections, 2005–2010

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| | (In percent of GDP, unless denoted otherwise) | | | | | |
| Total revenues | 27.8 | 26.1 | 27.6 | 28.6 | 29.3 | 29.0 |
| Grants | 13.9 | 6.1 | 2.7 | 0.6 | 0.6 | 0.5 |
| Noninterest current expenditures | 24.9 | 23.8 | 23.8 | 23.6 | 23.6 | 23.3 |
| Interest expenditures | 6.1 | 6.2 | 6.8 | 7.4 | 8.0 | 8.5 |
| Capital expenditures | 19.2 | 16.5 | 12.0 | 10.0 | 10.0 | 10.0 |
| Overall balance (after grants) | -8.5 | -14.3 | -12.3 | -11.7 | -11.6 | -12.3 |
| Financing gap | 4.6 | 13.4 | 12.8 | 12.6 | 12.9 | 13.3 |
| Financing gap (in US$ millions) | 21.1 | 66.9 | 69.0 | 71.9 | 78.9 | 86.2 |
| Debt service (in percent of revenue) | 31.8 | 35.9 | 42.1 | 40.0 | 37.0 | 37.9 |
| Public sector debt | 133.1 | 135.7 | 138.0 | 141.2 | 144.1 | 147.5 |

17. **The authorities are working towards bringing burden sharing to fruition.** The successful implementation of the 2005 budget measures and the debt strategy, together with

[8] A mission from CARTAC is expected to visit Grenada this summer.

[9] Beyond 2005, the external current account is also expected to deteriorate further, as the trade balance will take time to recover while reconstruction-related insurance payments are poised to fall sharply. The current account deficits are expected to be financed mainly through sustained inflows of foreign direct investment and private capital transfers.

the disbursement of pledged donor support and additional requested support, would fill the gap for 2005. However, for 2006 and beyond, further fiscal effort and donor support would be needed in addition to the contribution from a successful debt strategy.

18. **A feasible burden sharing would fill the financing gaps and bring debt down to safer levels.** Staff have developed a burden-sharing scenario that is based on: (i) fiscal effort that has been discussed with the authorities; (ii) illustrative calculations of debt relief (pending the availability of details on the debt exchange offer); and (iii) additional donor support. Under this scenario, the debt service burden would be reduced to more manageable levels, and the ratio of public debt to GDP would decline steadily, although it would initially remain high (Tables 9 and 10, and Figure 4).

Grenada: Illustrative Burden-Sharing Fiscal Projections, 2005–2010

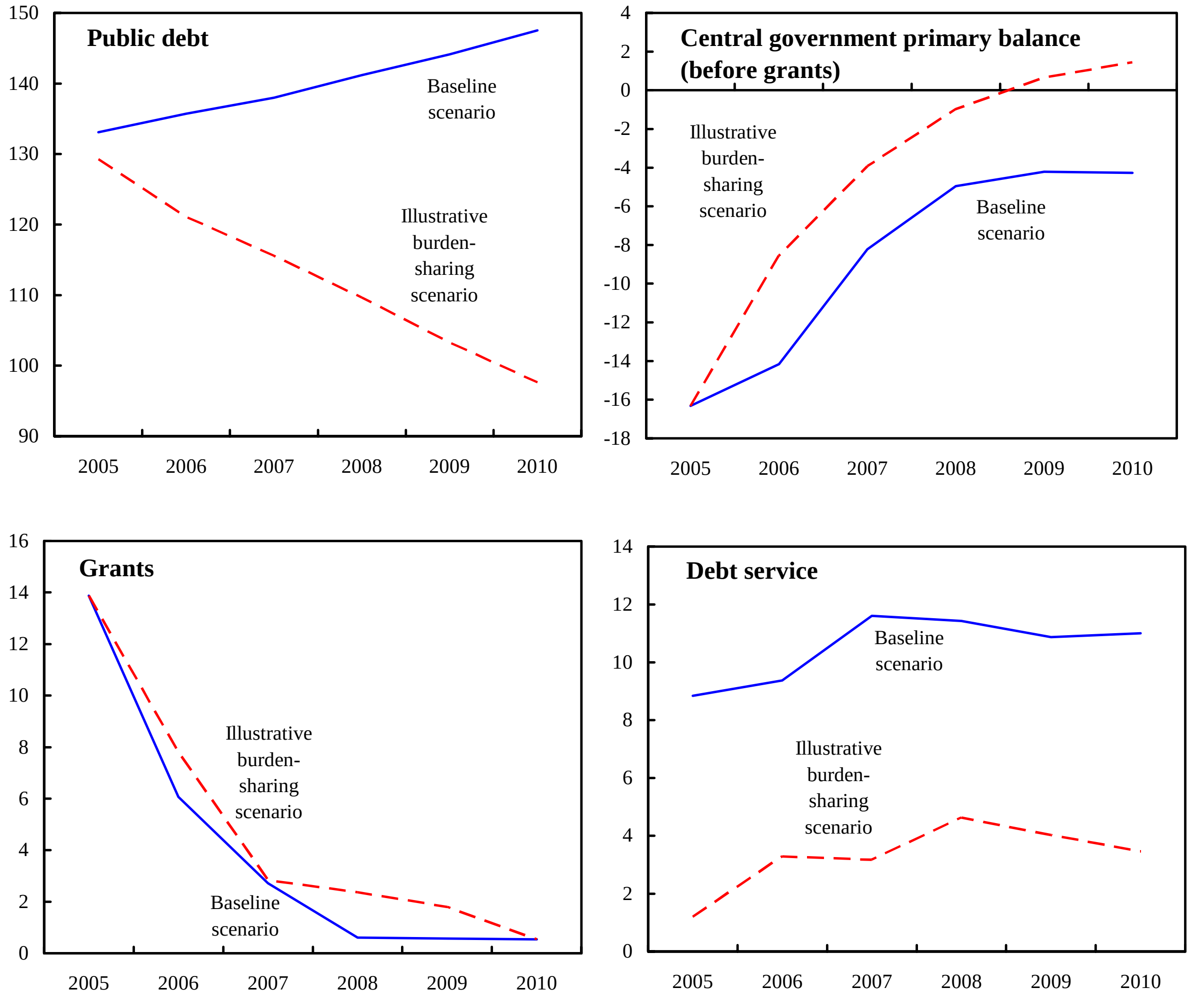
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| | (In percent of GDP, unless denoted otherwise) | | | | | |
| Total revenues | 27.8 | 27.3 | 29.0 | 29.9 | 30.6 | 30.2 |
| Grants | 13.9 | 7.8 | 2.8 | 2.4 | 1.8 | 0.5 |
| Noninterest current expenditures | 24.9 | 21.9 | 21.0 | 20.4 | 19.9 | 19.3 |
| Interest expenditures | 6.1 | 5.7 | 5.2 | 4.9 | 4.5 | 4.2 |
| Capital expenditures | 19.2 | 14.0 | 12.0 | 10.5 | 10.0 | 9.5 |
| Overall balance (after grants) | -8.5 | -6.5 | -6.3 | -3.5 | -2.1 | -2.2 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Illustrative debt relief | 7.7 | 5.6 | 6.9 | 4.3 | 3.4 | 3.2 |
| Debt service (in percent of revenue) | 15.1 | 12.0 | 10.9 | 15.5 | 13.2 | 11.4 |
| Public sector debt | 129.2 | 121.1 | 115.6 | 109.7 | 103.3 | 97.6 |

Grenada: Financing Gaps, 2005–2010
(In percent of GDP)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Gaps under baseline scenario | 4.6 | 13.4 | 12.8 | 12.6 | 12.9 | 13.3 |
| In staff's burden-sharing scenario, gaps are filled through: | | | | | | |
| Fiscal effort (relative to baseline) | 0.0 | 5.6 | 4.3 | 4.0 | 4.9 | 5.7 |
| Illustrative official and commercial creditor support 1/ | 7.7 | 5.6 | 6.9 | 4.3 | 3.4 | 3.2 |
| Additional grants from donors (relative to baseline) | 0.0 | 1.7 | 0.1 | 1.8 | 1.2 | 0.0 |
| Reduced debt service from filling gaps | 0.0 | 0.5 | 1.5 | 2.5 | 3.4 | 4.3 |
| Gaps under burden sharing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

1/ The mission recommended that any excess financing be used to reduce debt.

Figure 4. Grenada: Public Sector Debt Dynamics, 2005–10
(In percent of GDP)




### *Fiscal adjustment*

19. **The authorities' fiscal plans for 2005 seem broadly appropriate provided the promised new revenue measures are implemented.**

- The impending increase in retail fuel prices has been widely accepted by the public. The authorities are working on the legislation needed to implement the increase, including on introducing a flexible price mechanism.

- The special levy on incomes, however, has met with stiff resistance from the opposition and the unions. The authorities have taken the measure back to the public for consultations on its design, but stated their commitment to implementing it. Staff urged the authorities to show the proceeds of the levy transparently on the budget.

- The mission stressed the importance of prioritizing capital expenditures, and asked if expenditures could be scaled back or delayed, especially because the shortage of skilled staff in line ministries limits implementation capacity. The authorities responded that the capital projects were high priority under the circumstances and that implementation was being improved, among other things, with the operations of the Agency for Reconstruction and Development (ARD).[10]

- The authorities had considered a wage freeze for 2005 and 2006, but acceded to union demands for payment of the contracted 4½ percent wage increase for this year.

20. **The mission recommended further fiscal effort of about 5 percent of GDP per year (relative to the baseline) during 2006–10 to help fill financing gaps.** The mission also urged the authorities to identify contingent fiscal measures that could be put in place quickly should adverse events make the already-difficult situation worse. Several revenue-enhancing and expenditure-reducing measures were discussed, many of which had already been contemplated by the government.

Potential Fiscal Measures, 2006–2010

| | Range | | 2004 Expenditure | 2005 Projections 1/ | Applicable expenditure |
|---|---|---|---|---|---|
| | EC$ mill | Percent of GDP | or Revenue (EC$ mill) | (EC$ mill) | item, tax, or department |
| **Revenue measures 2/** | **38-51** | **3.1-4.2** | | | |
| Implement new pricing for petroleum products | 12-15 | 1.0-1.2 | 0.2 | 2.0 | Petrol levy; GCT; CSC 3/ |
| Reduce concessions for taxes on imports | 8-11 | 0.7-0.9 | 167.1 | 192.9 | Import duty; GCT; CSC |
| Implement the special levy on incomes | 10-12 | 0.8-1.0 | -- | 4.5 | Special levy |
| Strengthen tax audits and collections, including of arrears | 4-6 | 0.3-0.5 | 278.8 | 313.2 | Inland Revenue; Customs |
| Strengthen administration of Lands and Surveys Dept | 2-4 | 0.2-0.3 | 1.4 | 3.2 | Lands and Survey Dept |
| Improve company registration and collection of fees | 2-3 | 0.2-0.2 | 13.0 | 16.0 | Lands and Deeds |
| **Expenditure measures** | **30-38** | **2.4-3.1** | | | |
| Contain the wage bill | 3-4 | 0.2-0.3 | 150.3 | 162.6 | Wage bill |
| Control expenditures on goods and services | 3-4 | 0.2-0.3 | 48.0 | 56.0 | Goods and services |
| Restrict capital expenditure to well-targeted projects 4/ | 24-30 | 2.0-2.4 | 93.8 | 236.0 | Capital expenditures |
| **Total impact of fiscal measures** | **68-89** | **5.5-7.3** | | | |

1/ Fund staff projections, based on information provided by the authorities. Revenue projections include the potential gains from the measures described here.
2/ The yield is computed for collections from the entire year.
3/ GCT refers to the general consumption tax. CSC refers to the customs' service charge.
4/ Refers to limiting the locally financed component of capital expenditures. Restricting grant-financed expenditures would mainly be for efficiency and implementational purposes.

[10] The ARD was established in November 2004, and officially launched on March 15, 2005, to coordinate domestic and international efforts to rebuild Grenada after Ivan. It was set up to improve the policy and institutional framework for reconstruction, strengthen the project implementation capacity of line ministries, monitor implementation of projects, and report back to stakeholders, particularly the donor community.

21. **Higher revenues of 3–4 percent of GDP per year could come from implementing petroleum price reform, broadening the tax base, and improving tax collection.**[11]

- *Restoring tax collections from retail fuel prices (Figure 5):* Even after the proposed increase, retail fuel prices will remain below world prices, with the effective tax rate on fuel imports below the tax rates on most other imports.[12] The mission recommended that retail prices be adjusted more frequently—possibly monthly and according to a transparent, rules-based formula—to yield needed revenues and promote fuel efficiency and conservation. The authorities agreed that retail fuel prices need to catch up to world prices and thereafter reflect movements in world prices. However, they expressed concern about the impact on vulnerable groups, especially through increases in bus fares for school children.[13]

- *Reducing tax concessions*. Grenada has been granting very generous concessions over the past decade. The estimated costs in terms of customs revenue forgone (as a percentage of GDP or current revenues) have been one of the highest in the ECCU (Figure 6). Surveys have indicated that infrastructure, skilled workers, and low tax rates, among other factors, are more important than tax concessions in attracting investment. The mission emphasized that concessions should be phased out. As an interim step, concessions should be nondiscretionary, transparent, and subject to a fixed upper limit in EC dollar terms and a clear expiration date. The authorities agreed that concessions were not among the most critical determinants of investment, but felt the pressure to extend them due to competition from neighboring countries. They acknowledged the need for harmonization of concessions in a regional context. They also intend to review their concessions policy to move away from a system of tax holidays towards granting tax credits.

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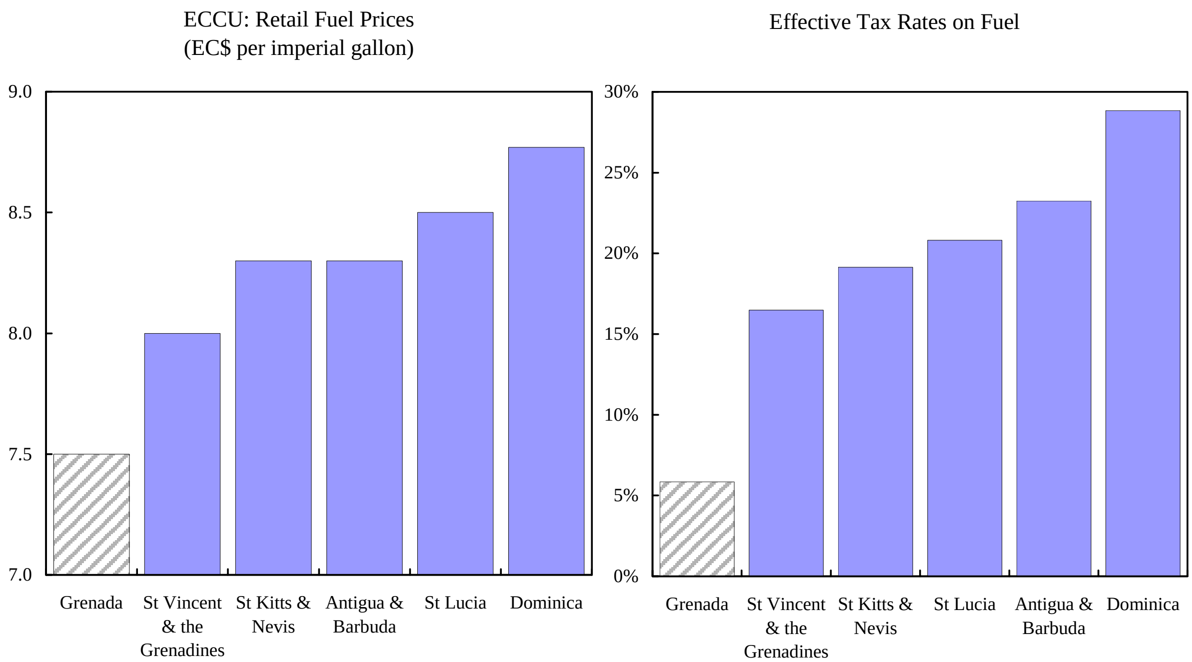
[11] The scope for divestment of government assets is limited. Significant privatization occurred during the 1990s. The government retains only small shareholdings in a few enterprises. The authorities said that they have been examining the possibility of divesting some of the remaining shares.

[12] The proposed increase in fuel prices should yield over ½ percent of GDP in additional revenues. Full pass through of the world price increases since end-2000 would have brought in about 2 percent of GDP in additional revenues. Inflation would increase temporarily by about 1½ percentage points. The impact on growth is expected to be modest.

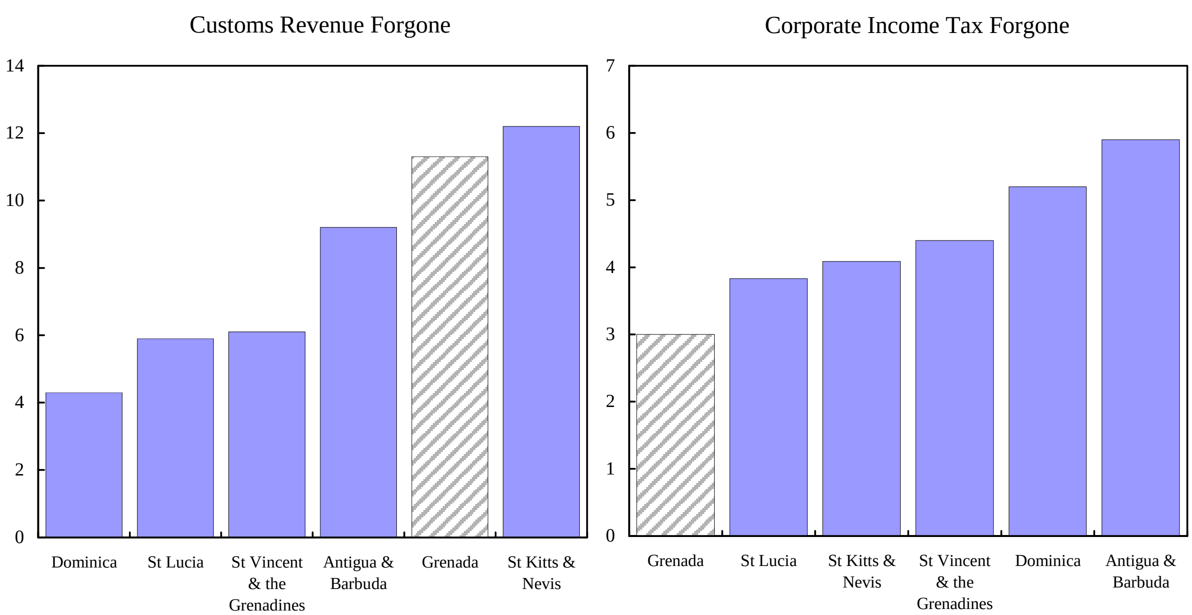
[13] Currently, there is no publicly-financed transportation system in Grenada. Staff discussed with the authorities the possibility of providing a subsidy for school children’s bus fares. Moreover, a gradual catch up to world prices perhaps over two years would ease the impact on the vulnerable, and would give the authorities time to design social safety nets.

Figure 5. ECCU: Retail Fuel Prices and Taxes, February 2005




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

Figure 6. ECCU: Tax Revenues Forgone Due to Concessions, 2003
(In percent of GDP)




Source: "Tax Concessions and Foreign Direct Investment in the ECCU" by J. Chai and R. Goyal, Chapter V in *Eastern Caribbean Currency Union—Selected Issues.*

- *Lowering the threshold for personal income tax exemption and introducing a lower rate.* Currently, the threshold for paying personal income taxes is over five times per capita income. In place of the proposed levy on incomes, the mission recommended lowering gradually the threshold, and introducing a schedule of lower tax brackets. The authorities had made an election promise not to impose new personal income taxes. They noted that they are designing the special levy so that it would not be regressive.

- *Improving collection of taxes and fees.* A menu of administrative measures were discussed, including strengthening the administrative capacity of the Lands and Surveys Department, enhancing the audit capacity of the Inland Revenue and Customs and Excise Departments, and tightening enforcement at Customs.[14] The authorities have already implemented measures this year, including requiring tax identification numbers for those getting concessions or licenses. Moreover, a CDB-financed project is expected to improve internal auditing and enforcement procedures at Customs and intensify anti-smuggling efforts.

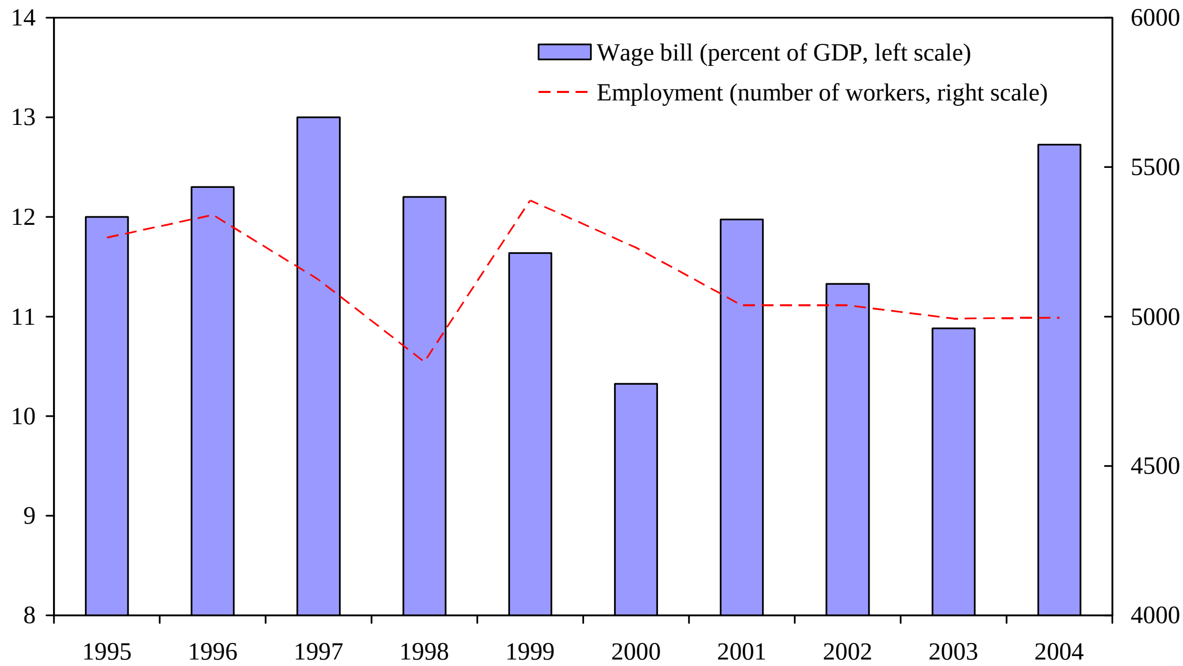
22. **Expenditure efforts could include containing the growth of noninterest current spending, particularly the wage bill, and achieving greater efficiency in capital projects.** Measures amounting to 2−3 percent of GDP per year were discussed.

- *Keeping the wage bill aligned to inflation and productivity growth.* With the 8 percent increase in this year’s wage bill, the cumulative increase over the last five years has exceeded 40 percent, far outstripping inflation and real per capita GDP (Figure 7). The mission stressed the importance of aligning the wage bill to inflation and productivity growth. While noting that there had been a freeze on new employment, the mission emphasized that civil service reform should entail some transfer of authority from the Public Service Commission to managers to lay off workers. The authorities considered tripartite discussions among labor, business, and the government as a way to obtain agreement on wages during 2006–09. They expect to table a public sector reform bill before Parliament in the coming months to enhance public sector efficiency and productivity.[15] However, a critical need is donor financing for potential severance payments.

[14] Prior to the hurricane, Grenada had begun taking steps to implementing a value added tax (VAT) by January 2006, as per technical assistance from FAD (*Organization of Eastern Caribbean States: Modernization of the Tax System,* 2003). The date for introducing the VAT has now been deferred by at least two years.

[15] The World Bank has begun providing technical assistance for the Public Sector Modernization Project.

Figure 7. Grenada: Central Government Wage Bill and Employment, 1995–2004




Source: Ministry of Finance.

- *Controlling expenditures on goods and services.* The authorities indicated that savings could come from commercialization of services, improving the procurement system, and reducing spending on professional and other services.

- *Realizing greater efficiency in capital expenditures.* The mission recommended that capital expenditures be carefully prioritized and planned, keeping in mind the implementation capacity of the line ministries, and that reconstruction activity be carried out at a measured pace, in step with developments on the financing side. The authorities noted that concessional finance and grants had been sought for projects.

23. **The authorities have requested donor-supported technical assistance to carry out the needed fiscal effort.** The administrative capacity of the Ministry of Finance and the Customs and Excise Department needs to be boosted. At the Ministry of Finance, additional staff are needed for economic management and revenue administration. Technical assistance is needed to bring the Inland Revenue and the Customs and Excise Departments on a common data platform, which would contribute to the revenue effort. Assistance is also needed to evaluate, among other things, the feasibility and cost effectiveness of public transportation and commercialization of services.

*Debt restructuring*

24. **As part of the burden sharing among the Grenadians, creditors, and donors, the government hopes to strike a cooperative agreement with creditors to restructure debt and help close financing gaps.** The mission emphasized that any restructuring agreement should: (a) be transparent; (b) be nested in a comprehensive medium-term macroeconomic framework; (c) involve a close and constructive dialogue with all creditors, private and official; (d) ascertain and incorporate to the extent possible the preferences of creditors with respect to new debt instruments; and (e) treat comparably the different creditor groups. The mission also encouraged the authorities to launch the exchange offer in a timely fashion.

25. **The mission noted that progress has been made towards reaching a cooperative agreement with creditors but hurdles remain.** The authorities intend to launch their commercial debt exchange offer this summer.[16] They have approached their bilateral creditors, asking them for full debt forgiveness or—at a minimum—for relief on comparable terms with commercial creditors.[17] However, diplomatic relations with Taiwan Province of China, the largest bilateral creditor, were ruptured in December 2004 when Grenada established diplomatic relations with the People's Republic of China. The authorities also noted that the preference of some Paris Club creditors for a Fund program has complicated matters.

26. **Although debt levels and debt servicing would decline under staff's illustrative burden-sharing scenario, Grenada would remain exposed to risks.** The mission presented several stress tests with reference to different risk factors, including natural disasters (Tables 11 and 12). In some scenarios, debt increases substantially (Annex I). The authorities agreed that burden sharing would pave the way for Grenada to emerge from its difficulties but would not resolve all vulnerabilities.

*Additional donor support*

27. **Even with strong fiscal adjustment and creditor support, additional donor support would be required to fill remaining financing gaps.** The authorities urged the international community, including the IMF, to play its part in triggering and providing grants and technical assistance.

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[16] The extent to which sovereign claims of the domestic banking system will be included in the exchange offer is still being discussed by the authorities and their debt advisors.

[17] The assumptions underlying staff's burden-sharing scenario are that bilateral creditors grant net present value reductions similar to those granted by commercial creditors and that the CDB provides additional concessional loans covering future debt service payments.

### C. Reviving Growth and Enhancing the Growth Potential

28. **The authorities agreed that reconstruction, essential to restoring the economy's growth potential, has been proceeding slower than desired.** A number of houses have been re-roofed or reconstructed, but the vast majority of the homes are still in need of repair. There has been some clearing of agricultural lands and replanting of short-cycle crops under an emergency resuscitation program, which had to be halted temporarily owing to administrative difficulties. A national replanting program for nutmeg and cocoa is expected to commence soon. The authorities pointed to limitations of institutional capacity in relation to the sheer magnitude of the effort required. They further noted that while relief and rehabilitation aid had arrived quickly after Ivan struck, disbursement of grants for reconstruction projects was proving much more cumbersome and slow moving.

29. **The mission discussed ways to speed up the reconstruction and to disseminate information on the status of the effort.**

- The mission encouraged the authorities to set measurable targets. Moreover, collecting and regularly disseminating information on the status of the reconstruction effort would improve accountability and help assuage the population's concerns regarding the slow pace of reconstruction and recovery. The authorities agreed that information from different sources on the reconstruction effort needed to be gathered more systematically.

- The mission stressed the importance of stepped-up performance by ARD. The agency has had a slow start, attaining a critical mass of staff and moving into permanent offices only in March. The RDF is not yet operational. ARD's staff acknowledged the teething troubles, particularly the potential for institutional overlap with line ministries if lead roles were not clearly spelled out. They are working to overcome some of the problems, and are undertaking greater outreach to promote public understanding of the agency's role and its plan of action.

- The mission stressed the importance of ensuring that the operations of ARD are consistent with the overall prioritization of capital expenditures and decision-making of Parliament through the budget discussions. Staff also urged that the RDF and ARD's operating expenditures be reported transparently as items in the regular budget. The authorities noted that ARD's activities are monitored by its Executive Board (which includes the Permanent Secretary of the Ministry of Finance) and will be subject to a regular independent audit. They also pointed out that the separation of RDF and ARD from regular budget procedures was done in part to assuage donor concerns that the enormous task of reconstruction could not otherwise be carried out speedily and transparently.

30. **There was broad agreement on ways to realize the country's medium-term growth potential.** Staff and the authorities agreed that medium-term growth of 4–4½ percent a year could be achieved through appropriate policies on a number of fronts:

- *Improving the investment climate:* Diagnostic reviews have identified needed steps, including changes in the investment code, changes in customs' regulations to speed up clearance, and strengthening the Grenada Industrial Development Corporation's capacity to serve as a 'one-stop shop' for investment.

- *Increasing the contribution of the service sector:* The authorities agreed more could be done to develop the tourism sector, the mainstay of the economy. Linkages between agriculture and the tourism sector could be improved, for instance by having farmers grow produce for use in hotels. The authorities also saw promise in developing the sports and entertainment industries within the service sector.

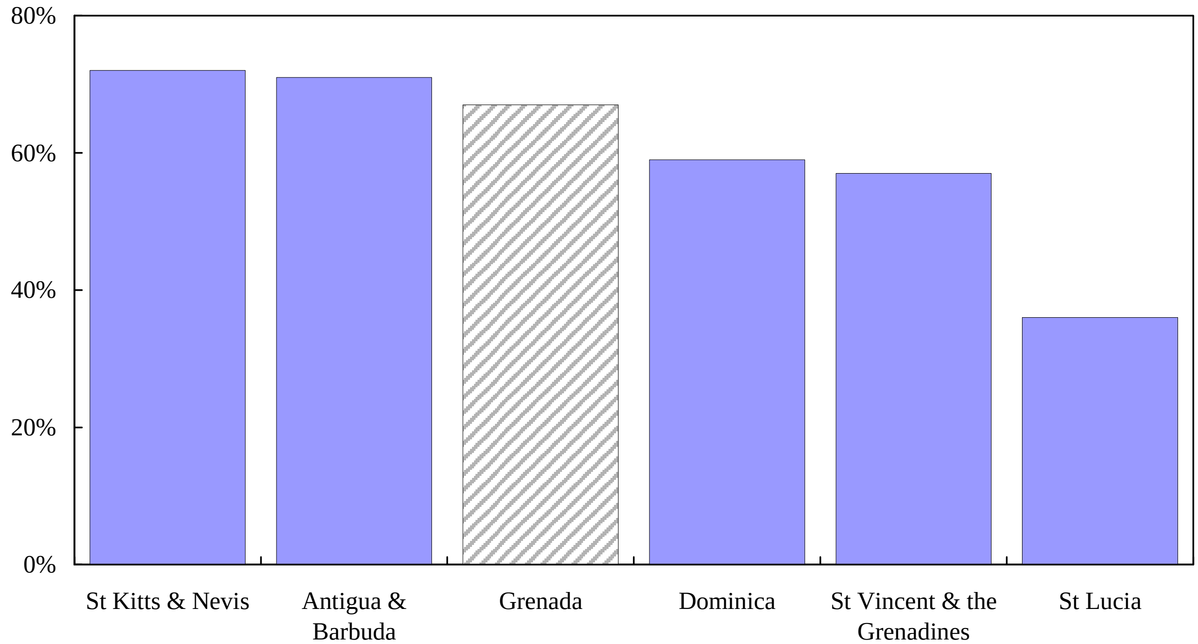
- *Enhancing skills by training and tapping the diaspora:* According to a World Bank report, the shortage of local specialized skills is the main hindrance to raising private investment and growth.[18] Therefore, training and the quality of education need to be enhanced. The very high rate of emigration from Grenada over the last few decades has created a large diaspora in places such as Trinidad and New York (Figure 8). The authorities indicated that they are considering ways to tap the diaspora's skills, garner funds for reconstruction and productive investment, and build networks for trade and tourism promotion.

31. **The authorities agreed that there was a need for structural measures to bolster competitiveness.** The authorities felt that the quasi-currency board arrangement has served Grenada well. However, they recognized that, given the fixed exchange rate regime and the temporary setback to exports, continued inflows of foreign direct investment, remittances and private capital transfers would be crucial to ensuring balance of payments sustainability. In this regard, they noted that improving the investment climate and enhancing productivity are especially critical.

32. **The mission discussed steps being taken to promote trade.** The authorities have begun formulating a national export strategy with support from the Commonwealth Secretariat and in consultation with the private sector. The authorities indicated that benefits from the Generalized System of Preferences (GSP) with the European Union and other industrialized countries remain limited for Grenada—key export products, including nutmeg, cocoa, and spices, are not covered by GSP. In addition, market access to industrialized countries has become more complicated by heightened administrative requirements, arising from regulations such as the U.S. Bioterrorism Act.

[18] World Bank, 2005, *Organization of Eastern Caribbean States: Towards A New Agenda for Growth*, Washington D.C.

Figure 8. Grenada and ECCU: Skilled Labor Force Migration to OECD, 1970–2002




Source: "Emigration and Brain-Drain: Evidence from the Caribbean" by P. Mishra, Chapter VI in *Eastern Caribbean Currency Union—Selected Issues*.

33. **The authorities are committed to deepening regional integration, in particular through progress towards the Caribbean Community Single Market and Economy (CSME).** They noted that potential benefits include collective provision of government services, such as security, and harmonization of tax concessions. While CSME is slated to become fully effective in January 2006, the authorities stressed that many elements of CSME, including partial liberalization of labor movement, are already in place. Progress is being made towards implementing the remaining elements, including changes to administrative rules and procedures. The authorities, however, intend to seek an extension of their right to impose certain quantitative restrictions after 2005.[19] They stressed their commitment to other ongoing regional initiatives, including the Organization of Eastern Caribbean States Economic Union and the Free Trade Area of the Americas.

[19] Under Caribbean Community (CARICOM) rules, the right of least developed countries, including Grenada, to impose quantitative restrictions on other CARICOM members, ends in 2005. Grenada has imposed restrictions on a number of items (including curry, wheat flour, uncooked pasta, aerated beverages, and candles) and intends to seek an extension by soliciting support from more developed CARICOM countries. For trade with non-CARICOM countries, the restrictions have to be converted into tariffs in order to be consistent with WTO rules. The authorities stated their intention to negotiate higher bound rates under WTO before converting the quantitative restrictions into tariffs.

## D. Reducing Vulnerabilities to Adverse Shocks

34. **Grenada's high vulnerability to natural disasters emphasizes the need for disaster-preparedness initiatives to cope with these shocks.** The catastrophic impact of Hurricane Ivan exposed deficiencies in Grenada's disaster mitigation and management capacity. The authorities noted that the National Disaster Management Agency (NaDMA) is taking measures to rectify the situation by procuring better communications equipment, working with communities to identify structures that proved resilient and could serve as shelters and emergency housing, and raising awareness of and strengthening enforcement of building codes.[20] Staff was encouraged that new construction by aid agencies and the national Housing Authority is reportedly resistant to category 3 hurricanes. The authorities are exploring interest for risk-pooling in the region and are working with the World Bank to investigate the cost-efficacy of regional catastrophe insurance pools as a risk transfer mechanism.

35. **Maintaining a sound financial system is also key to limiting vulnerabilities and sustaining growth.** The mission urged that close attention be paid to the health of the financial sector, especially to detect signs of stress that might arise on portfolio quality post Ivan. Staff's calculations suggest that the banking system could withstand a further deterioration in nonperforming loans, although some banks are more vulnerable.[21] The authorities noted that the banking sector had held its own thus far, partly because before Ivan struck, banks had been in a strong position, which provided them with room to maneuver, including by increasing provisions.

- The mission encouraged the authorities to ensure, in conjunction with the ECCB, that effective banking supervision take place, including through onsite inspections. The mission also urged a resolution without delay of the issue of the unregulated bank that had been referred to the courts.

- The authorities expect to bring shortly before Parliament the new Uniform Banking Act that would enhance the effectiveness of banking supervision. However, it is regrettable the recommendation of the regional Financial Sector Assessment Program (FSAP) to give licensing authority to the ECCB is not likely to be accepted.

- The authorities acknowledged that supervision of the insurance sector was weak, and noted that this was a problem across the region. With the assistance of CARTAC, draft insurance legislation is expected to be finalized by end year.

[20] NaDMA is receiving technical assistance from the Caribbean Disaster Emergency Response Agency (CDERA) and funding from the Canadian International Development Agency (CIDA).

[21] Relative to the impact from Hurricane Ivan, the adverse impact on bank balance sheets from debt restructuring (on terms comparable to those assumed in staff's illustrative burden-sharing scenario) is much smaller.

- The authorities noted that supervision of the nonbank financial sector, including credit unions, money transfer agencies, the offshore financial sector and insurance companies, is expected to be strengthened by passage of the Grenada Authority for the Regulation of Financial Institutions (GARFIN) Act, which would establish a single supervisory agency. Additional staff are also expected to be recruited.

### E. Statistical Issues

36. **Despite ongoing efforts to enhance statistical databases, Grenada's statistical data remain weak in terms of coverage and timeliness.** Major improvements in all areas are needed, including in national accounts, tourism, labor markets, public enterprises, balance of payments, and debt (Appendix IV). While data provision for surveillance purposes has remained generally adequate, shortcomings have affected, for instance, the accuracy of staff's assessments of fiscal, labor market, and external sector developments. The authorities acknowledged the need to enhance statistical databases, and are seeking financial and technical assistance from donors. With assistance from the UNDP, a Core Welfare Indicators Questionnaire survey is being conducted to improve the timeliness and reliability of poverty monitoring data (Table 13). The data would help in designing better-targeted social safety nets.

## IV. Staff Appraisal

37. **The Grenadians deserve credit for their efforts to recover from the effects of Hurricane Ivan.** The population showed resilience in putting their lives back together in the face of a shock of unprecedented devastating magnitude. The government maintained fiscal stability in 2004 under challenging circumstances—nonessential expenditures were curtailed—and international support was marshaled quickly to help fill financing gaps.

38. **These efforts notwithstanding, the economic situation remains very difficult.** The economy is expected to recover slowly this year while the external current account deficit is expected to deteriorate sharply. The fiscal situation is challenging and there are large financing gaps in 2005 and beyond. Public debt, already at unsustainable levels, is projected to rise further.

39. **Staff and the authorities agree that a comprehensive economic program is needed to fill financing gaps, restore debt sustainability, and ensure medium-term growth.** The program should be centered on a medium-term macroeconomic framework, with appropriately ambitious fiscal targets for the next 3–5 years based on a broad consensus and approved by Parliament. The program should aim to: (i) close financing gaps and move Grenada toward a sustainable debt level through a burden-sharing strategy—a combination of fiscal adjustment, additional donor support, and a cooperative agreement with creditors; (ii) bring about successful reconstruction and economic recovery and take steps to enhance the growth potential; and (iii) reduce vulnerabilities to adverse shocks.

40. **There has been progress with the burden sharing strategy, but its eventual success will require the cooperation of all stakeholders.** The financing gaps are too large to be filled through contributions from one source alone. While the authorities recognize this, adequate support from creditors, donors, and the Grenadians is needed urgently.

41. **The government has shown a commitment to fiscal effort, but has not been able to build the requisite consensus that would support its implementation**. The authorities agree that additional fiscal effort in 2006 and beyond is needed to contribute to filling financing gaps in those years. The 2005 budget announced specific measures to help make some of that contribution. However, while the impending increase in retail fuel prices has been widely accepted by the public, the special levy on incomes has met with stiff resistance from the opposition party and labor unions, forcing the authorities to consider changes to its design. In addition to the passage of the levy, other revenue-enhancing measures, such as continued increases in fuel prices toward world levels and reductions in tax concessions, will be required.

42. **To build consensus, the authorities need to strengthen public consultations and regularly disseminate information on both the fiscal situation and their reconstruction efforts.** Frequent consultations through town hall meetings, debates, and press conferences could help build consensus. There is a need to set measurable targets and to collect and regularly disseminate information on the status of the reconstruction effort. This would help improve accountability and assuage concerns that not enough is being done. It is critical that the tripartite negotiations among government, labor unions, and the private sector result in an agreement that limits wage growth over 2006–09 to productivity increases.

43. **Progress has been made toward reaching a cooperative agreement with creditors but hurdles remain.** With help from their debt advisors, the authorities have made progress in discussions with their commercial creditors and a debt exchange offer is expected to be launched this summer. Progress is also being made in the discussions with official creditors and the authorities have approached all their bilateral creditors for relief. However, the situation is complicated by the diplomatic estrangement with Taiwan Province of China, the largest bilateral creditor, and the preference of some Paris Club creditors for a Fund program.

44. **A successful reconstruction effort will require a stepped-up performance—and increased transparency—from the Agency for Reconstruction and Development (ARD).** Eight months after Hurricane Ivan struck, the vast majority of the homes are still in need of some repair, which is a source of great anxiety as the hurricane season gets underway. The government and ARD, the main agency in charge of coordinating the reconstruction of both private and public assets, need to focus on priority areas such as housing. It is regrettable that the mechanisms to ensure transparency and accountability of ARD's operations, which were promised at the donors' conference last November, are still not fully in place. In particular, the Grenada Reconstruction and Development Fund, the main conduit for the agency to receive and account for the donor funds directed to reconstruction, should be made operational. ARD's operations should be recorded transparently in the budget.

45. **Staff and the authorities are in agreement on ways to realize the country's medium-term growth potential.** The authorities' medium-term program should outline the specific steps being contemplated to improve the investment climate, increase the contribution of the service sector to growth, and tap the diaspora for assistance. Staff welcomes the authorities' willingness to deepen regional integration.

46. **Even if the burden-sharing scenario unfolded as envisaged, Grenada would remain exposed to risks.** Financing gaps could re-emerge and debt and debt service could rise substantially in the event of adverse shocks such as shortfalls in donor financing and tax revenues, increases in real interest rates, natural disasters, and other exogenous economic and financial events.

47. **The deficiencies in Grenada's disaster mitigation and management capacity need to be addressed immediately.** The steps initiated by Grenada's National Disaster Management Agency—such as raising awareness of building codes and carrying out inspections—are in the right direction and staff urges their continued and forceful implementation. Staff also welcomes the authorities' intention to investigate the cost-efficacy of regional catastrophe insurance pools.

48. **It will be critical to monitor the health of the financial sector closely.** The ECCB should ensure that effective banking supervision takes place, including through onsite inspections. The issue of the unregulated bank should be resolved without delay. The new Uniform Banking Act should be passed by Parliament and implemented as soon as feasible to enhance the supervisory authority. Licensing authority should be transferred to the ECCB. Supervision of the nonbank financial sector, including the insurance industry, should also be strengthened as planned.

49. **Despite ongoing efforts to enhance statistical databases, Grenada's statistical data remain weak in terms of coverage and timeliness.** Major improvements in all areas are needed, including in national accounts, tourism, labor markets, public enterprises, balance of payments, and debt. While data provision for surveillance purposes has remained generally adequate, shortcomings have affected, for instance, the accuracy of staff's assessments of fiscal, labor market, and external sector developments. Staff welcomes efforts to improve poverty assessment data, which would help in designing targeted social safety nets.

50. **It is proposed that the next Article IV consultation take place on the standard 12-month cycle.** Staff welcomes the authorities' decision to publish the mission's concluding statement and the transcript of the press conference held at the conclusion of the mission.

Table 1. Grenada: Selected Economic and Financial Indicators, 2000–05

| | | | |
|---|---|---|---|
| Rank in UNDP Human Development Index out of 177 countries (2004) | 93 | Infant mortality rate per '000 births (2003) | 18 |
| Life expectancy at birth in years (2003) | 73 | Adult illiteracy rate in percent (2001) | 6 |
| GDP per capita in US$ (2004) | 4,205 | Poverty headcount index (2000) | 32 |

| | 2000 | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
|---|---|---|---|---|---|---|
| (Annual percentage change; unless otherwise specified) | | | | | | |
| **National income and prices** | | | | | | |
| Real GDP | 7.0 | -4.4 | 0.8 | 5.8 | -3.0 | 0.9 |
| GDP deflator | 0.8 | 1.5 | 1.6 | 1.3 | 2.7 | 3.0 |
| Consumer prices | | | | | | |
| End-of-year | 3.4 | -0.7 | 2.3 | 1.6 | 2.5 | 3.0 |
| Period average | 2.1 | 1.7 | 1.1 | 2.2 | 2.3 | 3.0 |
| **External sector** | | | | | | |
| Exports, f.o.b. | 11.7 | -23.3 | -34.9 | 10.0 | -23.1 | -13.2 |
| Imports, c.i.f. | 19.7 | -10.9 | -7.8 | 25.1 | 4.1 | 17.5 |
| Export volume 1/ | 13.1 | -20.2 | -35.0 | -2.2 | -26.3 | -22.2 |
| Import volume 1/ | 13.8 | -6.3 | -10.1 | 11.4 | -9.2 | 8.5 |
| Current account balance (including grants; in percent of GDP) | -21.5 | -26.6 | -32.0 | -32.7 | -17.4 | -33.9 |
| Terms of trade (deterioration -) | -5.4 | 0.4 | -1.6 | -3.1 | -11.6 | 3.0 |
| Real effective exchange rate (end of period, depreciation -) | 5.7 | -0.1 | -3.4 | -8.5 | -4.6 | ... |
| **Banking system** | | | | | | |
| Net foreign assets 2/ | 0.3 | 7.4 | 10.8 | 5.8 | 17.9 | 2.1 |
| Net domestic assets 2/ | 15.0 | 3.2 | -3.7 | 2.2 | -0.2 | 0.2 |
| *Of which* | | | | | | |
| Credit to public sector (net) 2/ | 3.6 | 4.9 | -4.5 | 2.3 | -6.5 | 0.1 |
| Credit to private sector 2/ | 12.9 | 0.8 | 0.9 | 3.1 | 5.0 | 1.9 |
| Money and quasi-money (M2) | 15.4 | 10.6 | 7.1 | 8.0 | 17.7 | 2.3 |
| Weighted deposit rate (in percent per year) 3/ | 4.2 | 4.2 | 3.2 | 3.4 | 2.8 | ... |
| Weighted lending rate (in percent per year) 3/ | 11.5 | 10.1 | 10.5 | 12.4 | 10.0 | ... |
| (In percent of GDP) | | | | | | |
| **Central government finances** | | | | | | |
| Total revenue and grants | 29.8 | 31.0 | 29.0 | 34.5 | 33.1 | 41.7 |
| *Of which* | | | | | | |
| Grants | 2.9 | 4.2 | 2.1 | 6.9 | 7.5 | 13.9 |
| Total expenditure 4/ | 33.0 | 39.5 | 48.2 | 39.3 | 35.9 | 50.2 |
| Current expenditure | 20.8 | 24.2 | 25.9 | 24.3 | 27.9 | 31.0 |
| *Of which* | | | | | | |
| Salaries and allowances | 10.3 | 12.0 | 11.3 | 10.9 | 12.7 | 13.3 |
| Capital expenditure 4/ | 12.2 | 15.3 | 22.2 | 15.0 | 7.9 | 19.2 |
| Primary balance (after grants) 4/ | -1.0 | -5.8 | -14.5 | 0.4 | 3.7 | -2.5 |
| Current balance | 6.0 | 2.5 | 0.6 | 3.2 | -2.4 | -3.2 |
| Overall balance (after grants) 4/ | -3.2 | -8.5 | -19.2 | -4.8 | -2.8 | -8.5 |
| Public sector total debt (end-period) 5/ | 56.2 | 63.7 | 109.6 | 110.0 | 129.4 | 133.1 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.6 |
| (In millions of U.S. dollars; unless otherwise specified) | | | | | | |
| Gross international reserves of the ECCB, end-of-period | 383.7 | 446.0 | 504.8 | 539.9 | 632.4 | 678.7 |
| In percent of broad money in all ECCU countries | 17.4 | 19.1 | 20.2 | 19.8 | 20.4 | 20.1 |
| Nominal GDP | 410.4 | 394.6 | 407.5 | 443.7 | 437.3 | 454.3 |

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2004; World Bank, WDI 2005; and Fund staff estimates and projections.

1/ Does not include goods procured in ports by carriers.
2/ As a percent of broad money at the beginning of the year.
3/ Break in the data series in 2003.
4/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements, and reflected in capital expenditures.
5/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.

Table 2. Grenada: Summary Balance of Payments, 2000–05

| | 2000 | 2001 | 2002 | 2003 | Prel. 2004 | Proj. 2005 |
|---|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | | |
| **Current account balance** | **-88.1** | **-105.0** | **-130.3** | **-144.9** | **-76.0** | **-154.0** |
| Exports (f.o.b.) | 83.0 | 63.6 | 41.4 | 45.5 | 35.0 | 30.4 |
| Imports (f.o.b.) | 220.4 | 196.4 | 181.0 | 226.4 | 235.7 | 276.8 |
| Services (net) | 63.7 | 48.4 | 38.8 | 47.9 | 53.7 | 37.7 |
| *Of which* | | | | | | |
| Travel (net) | 85.0 | 75.9 | 81.3 | 95.2 | 83.4 | 76.4 |
| Income (net) | -34.4 | -41.8 | -52.9 | -48.4 | -53.3 | -53.4 |
| Transfers (net) | 20.1 | 21.1 | 23.3 | 36.5 | 124.2 | 108.2 |
| **Capital and financial account** | **95.9** | **89.8** | **135.1** | **134.9** | **84.0** | **135.5** |
| Capital account (transfers) | 32.1 | 42.5 | 31.8 | 43.2 | 33.3 | 53.4 |
| Financial account | 63.8 | 47.2 | 103.3 | 91.7 | 50.7 | 82.1 |
| *Of which* | | | | | | |
| Public sector net borrowing 1/ | 25.4 | 17.5 | 113.7 | 41.9 | 51.4 | 27.8 |
| Direct investment (net) | 37.4 | 58.7 | 57.6 | 82.1 | 39.6 | 56.7 |
| Portfolio investment (net) | 19.4 | -0.3 | 107.7 | 27.4 | 23.1 | 0.0 |
| Other investments (net) | 6.9 | -11.2 | -62.0 | -17.8 | -12.0 | 25.5 |
| Net errors and omissions | -1.2 | 21.1 | 26.4 | -2.8 | 38.6 | 0.0 |
| Overall balance | 6.6 | 5.8 | 31.2 | -12.8 | 46.5 | -18.5 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **21.1** |
| Memorandum item: | | | | | | |
| External public sector debt 1/ | 144.0 | 179.7 | 340.5 | 355.8 | 415.6 | 455.9 |
| | (In percent of GDP) | | | | | |
| **Current account balance** | **-21.5** | **-26.6** | **-32.0** | **-32.7** | **-17.4** | **-33.9** |
| Trade balance | -33.5 | -33.6 | -34.2 | -40.8 | -45.9 | -54.2 |
| Exports of goods | 20.2 | 16.1 | 10.2 | 10.3 | 8.0 | 6.7 |
| Imports of goods | 53.7 | 49.8 | 44.4 | 51.0 | 53.9 | 60.9 |
| Service, income, and transfers | 12.0 | 7.0 | 2.3 | 8.1 | 28.5 | 20.4 |
| *Of which* | | | | | | |
| Travel (net) | 20.7 | 19.2 | 19.9 | 21.5 | 19.1 | 16.8 |
| **Capital and financial account** | **23.4** | **22.7** | **33.2** | **30.4** | **19.2** | **29.8** |
| Capital and financial account, including errors and omissions | 23.1 | 28.1 | 39.6 | 29.8 | 28.0 | 29.8 |
| Public sector net borrowing 1/ | 6.2 | 4.4 | 27.9 | 9.5 | 11.7 | 6.1 |
| Direct investment (net) | 9.1 | 14.9 | 14.1 | 18.5 | 9.1 | 12.5 |
| Overall balance | 1.6 | 1.5 | 7.7 | -2.9 | 10.6 | -4.1 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **4.6** |
| External public sector debt 1/ | 35.1 | 45.5 | 83.6 | 80.2 | 95.0 | 100.4 |
| | (Annual percentage change) | | | | | |
| Exports of goods | 11.7 | -23.3 | -34.9 | 10.0 | -23.1 | -13.2 |
| Imports of goods | 19.7 | -10.9 | -7.8 | 25.1 | 4.1 | 17.5 |
| Travel (net) | 4.8 | -10.7 | 7.2 | 17.2 | -12.4 | -8.5 |

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

1/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.

Table 3. Grenada: Summary of Central Government Finances, 2000–05

| | 2000 | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
|---|---|---|---|---|---|---|
| | (In millions of Eastern Caribbean dollars) | | | | | |
| **Total revenue and grants** | **330.5** | **330.5** | **318.8** | **413.2** | **390.7** | **511.2** |
| Total revenue | 297.9 | 285.4 | 295.2 | 330.3 | 302.5 | 341.0 |
| Current revenue | 297.2 | 284.9 | 292.5 | 330.0 | 301.2 | 341.0 |
| Tax revenue | 265.2 | 256.7 | 262.4 | 298.3 | 278.8 | 313.2 |
| Nontax revenue | 32.1 | 28.2 | 30.1 | 31.8 | 22.3 | 27.9 |
| Capital revenue | 0.7 | 0.5 | 2.7 | 0.3 | 1.3 | 0.0 |
| Grants | 32.6 | 45.2 | 23.5 | 82.9 | 88.2 | 170.2 |
| **Total expenditure** | **365.7** | **420.6** | **529.8** | **470.8** | **423.4** | **615.9** |
| Current expenditure | 230.5 | 258.0 | 285.4 | 291.6 | 329.6 | 380.0 |
| Wages and allowances | 114.4 | 127.6 | 124.6 | 130.4 | 150.3 | 162.6 |
| Goods and services | 43.8 | 52.7 | 47.5 | 40.5 | 48.0 | 56.0 |
| Interest | 24.2 | 27.9 | 51.8 | 62.5 | 75.8 | 74.6 |
| Domestic | 11.7 | 13.3 | 12.7 | 17.2 | 21.1 | 20.4 |
| Foreign | 12.5 | 14.6 | 39.1 | 45.2 | 54.7 | 54.3 |
| Transfers and subsidies | 48.2 | 49.9 | 61.4 | 58.3 | 55.5 | 86.8 |
| Capital expenditure 1/ | 135.2 | 162.6 | 244.4 | 179.1 | 93.8 | 236.0 |
| Current balance | 66.7 | 26.9 | 7.1 | 38.4 | -28.4 | -38.9 |
| Primary balance (after grants) | -11.0 | -62.2 | -159.3 | 4.9 | 43.1 | -30.1 |
| Overall balance (before grants) | -67.7 | -135.2 | -234.6 | -140.5 | -120.8 | -274.9 |
| Overall balance (after grants) | -35.2 | -90.0 | -211.1 | -57.6 | -32.7 | -104.7 |
| Statistical discrepancy 2/ | -16.7 | -29.7 | -12.1 | -56.0 | -19.1 | 0.0 |
| **Financing** | **51.9** | **119.7** | **223.2** | **113.5** | **51.8** | **47.9** |
| Foreign (net) | 72.5 | 48.2 | 287.1 | 39.7 | 67.9 | 74.9 |
| Domestic (net) | -4.3 | 47.8 | -21.1 | 73.6 | -38.1 | -5.1 |
| Privatization proceeds | 0.0 | 0.0 | 2.5 | 0.3 | 0.0 | 0.0 |
| Arrears | -16.2 | 23.7 | -45.4 | 0.0 | 22.0 | -22.0 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **56.9** |
| | (In percent of GDP) | | | | | |
| **Total revenue and grants** | **29.8** | **31.0** | **29.0** | **34.5** | **33.1** | **41.7** |
| Total revenue | 26.9 | 26.8 | 26.8 | 27.6 | 25.6 | 27.8 |
| Current revenue | 26.8 | 26.7 | 26.6 | 27.5 | 25.5 | 27.8 |
| Tax revenue | 23.9 | 24.1 | 23.8 | 24.9 | 23.6 | 25.5 |
| Nontax revenue | 2.9 | 2.6 | 2.7 | 2.7 | 1.9 | 2.3 |
| Capital revenue | 0.1 | 0.0 | 0.2 | 0.0 | 0.1 | 0.0 |
| Grants | 2.9 | 4.2 | 2.1 | 6.9 | 7.5 | 13.9 |
| **Total expenditure** | **33.0** | **39.5** | **48.2** | **39.3** | **35.9** | **50.2** |
| Current expenditure | 20.8 | 24.2 | 25.9 | 24.3 | 27.9 | 31.0 |
| Wages and allowances | 10.3 | 12.0 | 11.3 | 10.9 | 12.7 | 13.3 |
| Goods and services | 4.0 | 4.9 | 4.3 | 3.4 | 4.1 | 4.6 |
| Interest | 2.2 | 2.6 | 4.7 | 5.2 | 6.4 | 6.1 |
| Domestic | 1.1 | 1.2 | 1.2 | 1.4 | 1.8 | 1.7 |
| Foreign | 1.1 | 1.4 | 3.6 | 3.8 | 4.6 | 4.4 |
| Transfers and subsidies | 4.3 | 4.7 | 5.6 | 4.9 | 4.7 | 7.1 |
| Capital expenditure 1/ | 12.2 | 15.3 | 22.2 | 15.0 | 7.9 | 19.2 |
| Current balance | 6.0 | 2.5 | 0.6 | 3.2 | -2.4 | -3.2 |
| Primary balance (after grants) | -1.0 | -5.8 | -14.5 | 0.4 | 3.7 | -2.5 |
| Overall balance (before grants) | -6.1 | -12.7 | -21.3 | -11.7 | -10.2 | -22.4 |
| Overall balance (after grants) | -3.2 | -8.5 | -19.2 | -4.8 | -2.8 | -8.5 |
| Statistical discrepancy 2/ | -1.5 | -2.8 | -1.1 | -4.7 | -1.6 | 0.0 |
| **Financing** | **4.7** | **11.2** | **20.3** | **9.5** | **4.4** | **3.9** |
| Foreign (net) | 6.5 | 4.5 | 26.1 | 3.3 | 5.8 | 6.1 |
| Domestic (net) | -0.4 | 4.5 | -1.9 | 6.1 | -3.2 | -0.4 |
| Privatization proceeds | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Arrears | -1.5 | 2.2 | -4.1 | 0.0 | 1.9 | -1.8 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **4.6** |

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

1/ EC$123.6 million (11.4 percent of GDP) was paid in 2002 to extinguish the lease arrangements on the National Stadium and Ministerial Complex, and reflected in capital expenditures.

2/ Difference between overall balance and identified financing. There was a breakdown in the recording of capital expenditures in 2003.

Table 4. Grenada: Public and Publicly-Guaranteed Debt, 2003–04

(Year end, in millions of U.S. dollars)

| | 2003 | | | 2004 1/ | | |
|---|---|---|---|---|---|---|
| | Stock | Percent of | | Stock | Percent of | |
| | | Total Debt | GDP | | Total Debt | GDP |
| **Public and publicly guaranteed debt 2/** | **488.2** | **100.0** | **110.0** | **565.8** | **100.0** | **129.4** |
| Central government debt | 379.2 | 77.7 | 85.5 | 452.1 | 79.9 | 103.4 |
| Central-government guaranteed debt | 97.3 | 19.9 | 21.9 | 102.0 | 18.0 | 23.3 |
| Other public sector debt | 11.7 | 2.4 | 2.6 | 11.7 | 2.1 | 2.7 |
| **External debt** | **355.8** | **72.9** | **80.2** | **415.6** | **73.5** | **95.0** |
| A. Central government | 271.5 | 55.6 | 61.2 | 330.4 | 58.4 | 75.5 |
| 1. Multilateral | 86.6 | 17.7 | 19.5 | 101.6 | 18.0 | 23.2 |
| CDB | 54.4 | 11.1 | 12.3 | 60.6 | 10.7 | 13.9 |
| IDA | 19.2 | 3.9 | 4.3 | 21.2 | 3.8 | 4.9 |
| IBRD | 6.4 | 1.3 | 1.4 | 7.8 | 1.4 | 1.8 |
| IMF | 4.0 | 0.8 | 0.9 | 9.0 | 1.6 | 2.1 |
| OPEC | 1.3 | 0.3 | 0.3 | 1.2 | 0.2 | 0.3 |
| EIB | 1.0 | 0.2 | 0.2 | 1.0 | 0.2 | 0.2 |
| IFAD | 0.4 | 0.1 | 0.1 | 0.6 | 0.1 | 0.1 |
| 2. Official bilateral | 52.8 | 10.8 | 11.9 | 51.2 | 9.0 | 11.7 |
| Paris Club 3/ | 8.5 | 1.7 | 1.9 | 7.4 | 1.3 | 1.7 |
| France | 4.3 | 0.9 | 1.0 | 4.2 | 0.7 | 1.0 |
| U.S. | 2.0 | 0.4 | 0.5 | 1.5 | 0.3 | 0.3 |
| U.K. | 1.7 | 0.4 | 0.4 | 1.7 | 0.3 | 0.4 |
| Netherlands | 0.4 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other | 44.3 | 9.1 | 10.0 | 43.8 | 7.7 | 10.0 |
| Taiwan Province of China | 20.6 | 4.2 | 4.6 | 20.8 | 3.7 | 4.8 |
| Kuwait | 17.3 | 3.5 | 3.9 | 16.8 | 3.0 | 3.8 |
| Libya | 5.0 | 1.0 | 1.1 | 5.0 | 0.9 | 1.1 |
| Algeria | 0.6 | 0.1 | 0.1 | 0.6 | 0.1 | 0.1 |
| Trinidad and Tobago | 0.5 | 0.1 | 0.1 | 0.5 | 0.1 | 0.1 |
| Venezuela | 0.4 | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 |
| 3. Commercial, total | 132.1 | 27.1 | 29.8 | 177.7 | 31.4 | 40.6 |
| Bonds | 129.5 | 26.5 | 29.2 | 175.7 | 31.1 | 40.2 |
| International Bonds | 100.0 | 20.5 | 22.5 | 104.7 | 18.5 | 23.9 |
| RBTT Merchant Bank Ltd. bonds | 0.0 | 0.0 | 0.0 | 42.2 | 7.5 | 9.7 |
| Unit Trust Corporation (T&T) bonds | 10.6 | 2.2 | 2.4 | 10.6 | 1.9 | 2.4 |
| Citibank (T&T) bonds | 9.9 | 2.0 | 2.2 | 9.9 | 1.7 | 2.3 |
| Royal Merchant Bank (T&T) bonds | 9.1 | 1.9 | 2.0 | 8.4 | 1.5 | 1.9 |
| Other commercial | 2.6 | 0.5 | 0.6 | 1.9 | 0.3 | 0.4 |
| South Trust Bank (U.S.) | 2.3 | 0.5 | 0.5 | 1.7 | 0.3 | 0.4 |
| Other | 0.3 | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 |
| B. Central-government guaranteed | 72.6 | 14.9 | 16.4 | 73.5 | 13.0 | 16.8 |
| C. Other public sector | 11.7 | 2.4 | 2.6 | 11.7 | 2.1 | 2.7 |
| **Domestic debt** | **132.5** | **27.1** | **29.8** | **150.2** | **26.5** | **34.3** |
| A. Central government | 107.8 | 22.1 | 24.3 | 121.7 | 21.5 | 27.8 |
| National Insurance Scheme | 28.4 | 5.8 | 6.4 | 28.4 | 5.0 | 6.5 |
| Bonds | 17.6 | 3.6 | 4.0 | 27.7 | 4.9 | 6.3 |
| Treasury bills | 32.4 | 6.6 | 7.3 | 26.9 | 4.7 | 6.1 |
| Compensation claims | 14.8 | 3.0 | 3.3 | 14.8 | 2.6 | 3.4 |
| Commercial bank loans | 8.8 | 1.8 | 2.0 | 22.9 | 4.1 | 5.2 |
| Other | 5.8 | 1.2 | 1.3 | 1.0 | 0.2 | 0.2 |
| B. Central-government guaranteed | 24.7 | 5.1 | 5.6 | 28.5 | 5.0 | 6.5 |
| C. Other public sector | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Memorandum items:** | | | | | | |
| Nominal GDP | 443.7 | | | 437.3 | | |

Sources: Ministry of Finance; and Fund staff estimates.

1/ Preliminary.
2/ Includes central government liabilities to the National Insurance Scheme.
3/ In addition, Russia put forward a claim of US$260,000, which the authorities intend to reconcile.

Table 5. Grenada: Summary Accounts of the Banking System, 2000–05

| | 2000 | 2001 | 2002 | 2003 | 2004 | Proj. 2005 |
|---|---|---|---|---|---|---|
| (In millions of Eastern Caribbean dollars, end of period) | | | | | | |
| I. Consolidated Banking System | | | | | | |
| **Net foreign assets** | **136.7** | **209.9** | **327.7** | **395.1** | **620.8** | **652.5** |
| **Net domestic assets** | **849.2** | **880.5** | **839.6** | **865.3** | **862.6** | **865.1** |
| Net credit to the public sector | 39.9 | 87.7 | 38.8 | 65.1 | -16.3 | -15.2 |
| Central government | 59.8 | 93.3 | 71.1 | 126.6 | 75.0 | 75.8 |
| Nonfinancial public enterprises 1/ | -19.9 | -5.6 | -32.3 | -61.4 | -91.3 | -91.0 |
| Credit to private sector | 878.4 | 886.4 | 896.2 | 933.0 | 996.4 | 1025.1 |
| Other | -69.1 | -93.7 | -95.4 | -132.8 | -117.6 | -144.7 |
| **Liabilities to private sector (M2)** | **985.8** | **1090.4** | **1167.4** | **1260.4** | **1483.4** | **1517.6** |
| Money | 182.4 | 192.3 | 212.0 | 241.1 | 340.2 | 355.2 |
| Quasi-money | 803.5 | 898.0 | 955.4 | 1019.3 | 1143.1 | 1162.4 |
| II. Eastern Caribbean Central Bank | | | | | | |
| Imputed net international reserves | 155.7 | 174.0 | 237.2 | 224.7 | 328.6 | 313.6 |
| Net domestic assets | 7.7 | 7.4 | -22.0 | 9.5 | -0.8 | 0.0 |
| **Base money** | **163.3** | **181.3** | **214.7** | **234.1** | **327.6** | **313.6** |
| Currency held by the public | 71.1 | 70.2 | 75.2 | 84.7 | 102.1 | 112.8 |
| Commercial bank reserves | 92.2 | 111.1 | 139.6 | 149.4 | 225.5 | 200.8 |
| III. Commercial Banks | | | | | | |
| Net foreign assets | -19.0 | 35.9 | 90.6 | 170.4 | 292.2 | 338.8 |
| Net claims on ECCB | 92.2 | 107.6 | 138.2 | 147.6 | 237.6 | 200.8 |
| **Net domestic credit** | **841.5** | **876.7** | **863.5** | **857.7** | **851.5** | **865.1** |
| Net credit to the public sector | 32.2 | 80.4 | 61.2 | 55.7 | -15.2 | -15.2 |
| Credit to private sector | 878.4 | 886.4 | 896.2 | 933.0 | 996.4 | 1025.1 |
| Other | -69.1 | -90.1 | -94.0 | -131.0 | -129.7 | -144.7 |
| Liabilities to the private sector | 914.7 | 1020.2 | 1092.2 | 1175.7 | 1381.3 | 1404.8 |
| (12-month change in percent of M2 at the beginning of the period) | | | | | | |
| **Consolidated banking system** | | | | | | |
| Liabilities to private sector | 15.4 | 10.6 | 7.1 | 8.0 | 17.7 | 2.3 |
| Net foreign assets | 0.3 | 7.4 | 10.8 | 5.8 | 17.9 | 2.1 |
| Net domestic assets | 15.0 | 3.2 | -3.7 | 2.2 | -0.2 | 0.2 |
| Credit to private sector | 12.9 | 0.8 | 0.9 | 3.1 | 5.0 | 1.9 |
| **Memorandum items:** | | | | | | |
| Loans/deposits ratio (in percent) | 80.1 | 79.2 | 72.5 | 68.1 | 57.6 | ... |
| Net liquid assets/total deposits (in percent) | 17.7 | 20.5 | 27.9 | 33.4 | 39.9 | ... |

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

1/ Includes the National Insurance Scheme.

Table 6. Grenada: Indicators of Financial and External Vulnerability, 2000–05

| | 2000 | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
|---|---|---|---|---|---|---|
| **Real sector indicators** | | | | | | |
| Real GDP growth (percent) | 7.0 | -4.4 | 0.8 | 5.8 | -3.0 | 0.9 |
| CPI inflation (period average, in percent) | 2.1 | 1.7 | 1.1 | 2.2 | 2.3 | 3.0 |
| **Financial sector indicators** | | | | | | |
| Capital adequacy ratio (locally incorporated banks) 1/ | 13.5 | 14.1 | 15.6 | 17.7 | 14.9 | 17.7 |
| Nonperforming loans/total loans 1/ | 8.5 | 5.9 | 5.8 | 4.5 | 6.0 | 5.8 |
| Locally incorporated banks 1/ | 13.4 | 9.3 | 9.0 | 7.2 | 7.1 | 5.9 |
| Foreign banks 1/ | 2.0 | 1.4 | 1.3 | 0.6 | 4.4 | 5.8 |
| Loan loss provision/NPLs 1/ | 31.2 | 43.6 | 45.6 | 61.7 | 81.9 | 77.2 |
| Locally incorporated banks 1/ | 30.8 | 40.6 | 39.3 | 49.5 | 63.0 | 74.5 |
| Foreign banks 1/ | 35.1 | 71.1 | 106.9 | 301.3 | 127.8 | 81.2 |
| Gross government claims/total assets 1/ | 13.0 | 14.3 | 15.6 | 13.7 | 11.3 | 11.9 |
| FX deposits/total deposits 1/ | 7.5 | 7.3 | 6.9 | 7.3 | 5.6 | 6.7 |
| Net foreign currency exposure/capital (locally incorporated banks) 1/ | 7.4 | 49.8 | 78.7 | 116.4 | 221.4 | 181.9 |
| Contingent liabilities/capital (locally incorporated banks) 1/ | 88.6 | 74.0 | 73.2 | 55.5 | 67.7 | 71.0 |
| (Pre-tax) return on average assets 1/ | 2.5 | 2.4 | 2.3 | 2.9 | 0.5 | 0.5 |
| Broad money (percent change, 12-month basis) | 15.4 | 10.6 | 7.1 | 8.0 | 17.7 | 2.3 |
| Private sector credit (percent change, 12-month basis) | 14.4 | 0.9 | 1.1 | 4.1 | 6.8 | 2.9 |
| US treasury bill rate (percent per annum) | 6.0 | 3.5 | 1.6 | 1.0 | 1.4 | ... |
| Treasury bill rate (percent per annum) 2/ | 6.5 | 7.0 | 7.0 | 6.0 | 6.0 | ... |
| **External sector indicators** | | | | | | |
| Exchange rate (per US$, end of period) | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | ... |
| REER appreciation (percent change on 12-month basis, end of period) | 5.7 | -0.1 | -3.4 | -8.5 | -4.6 | ... |
| Exports of goods (percent change, 12-month basis) | 11.7 | -23.3 | -34.9 | 10.0 | -23.1 | -13.2 |
| Imports of goods (percent change, 12-month basis) | 19.7 | -10.9 | -7.8 | 25.1 | 4.1 | 17.5 |
| Travel receipts (gross, percent change, 12-month basis) | 5.0 | -9.9 | 6.7 | 16.4 | -11.6 | -7.5 |
| Current account balance (percent of GDP) | -21.5 | -26.6 | -32.0 | -32.7 | -17.4 | -33.9 |
| Capital and financial account balance (percent of GDP) | 23.4 | 22.7 | 33.2 | 30.4 | 19.2 | 29.8 |
| FDI inflows (percent of GDP) | 9.6 | 15.4 | 14.9 | 19.1 | 9.6 | 13.0 |
| Gross international reserves of the ECCB (in US$ millions) | 383.7 | 446.0 | 504.8 | 539.9 | 632.4 | 678.7 |
| Gross international reserves in months of current year imports in ECCU countries | 3.2 | 4.1 | 4.6 | 4.4 | 4.7 | 4.9 |
| Gross international reserves to broad money in ECCU countries (percent) | 17.4 | 19.1 | 20.2 | 19.8 | 20.4 | 20.1 |
| Private external debt (percent of GDP) | ... | ... | ... | ... | ... | ... |
| Public gross external debt (in US$ million) | 144.0 | 179.7 | 340.5 | 355.8 | 415.6 | 455.9 |
| Public gross external debt to exports of goods and services (percent) | 61.1 | 91.2 | 197.9 | 197.0 | 235.8 | 270.4 |
| Public gross external interest payments to exports of goods and services (percent) | 2.5 | 4.1 | 11.3 | 12.6 | 15.4 | 16.7 |
| Public gross external amortization payments to exports of goods and services (percent) | 3.1 | 4.1 | 6.1 | 6.3 | 9.6 | 8.1 |
| Public gross external interest payments to fiscal revenue (percent) | 5.3 | 7.6 | 17.8 | 18.7 | 26.0 | 23.9 |
| Public gross external amortization payments to fiscal revenue (percent) | 6.7 | 7.6 | 9.7 | 9.2 | 15.2 | 10.8 |
| Gross external financing requirement (in percent of GDP) 3/ | 23.6 | 28.8 | 35.0 | 35.8 | 25.1 | 36.9 |
| (In percent of GDP) | | | | | | |
| **Public sector indicators** | | | | | | |
| Central government overall balance (after grants) 4/ | -3.2 | -8.5 | -19.2 | -4.8 | -2.8 | -8.5 |
| Central government current account balance | 6.0 | 2.5 | 0.6 | 3.2 | -2.4 | -3.2 |
| Public sector gross external debt | 35.1 | 45.5 | 83.6 | 80.2 | 95.0 | 100.4 |

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

1/ For 2005, actual data at end March are reported.

2/ Rate on three-month treasury bills for 2000, on one-year treasury bills for 2001–04.

3/ Defined as external current account deficit plus external amortization.

4/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements, and reflected in capital expenditures.

Table 7. Grenada: Medium-Term Central Government Finances, Baseline Scenario, 2004–10 1/

| | Est. | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | (In millions of Eastern Caribbean dollars) | | | | | | |
| **Total revenue and grants** | **390.7** | **511.2** | **432.8** | **439.5** | **451.8** | **493.1** | **518.8** |
| Total revenue | 302.5 | 341.0 | 351.3 | 400.1 | 442.4 | 483.6 | 509.3 |
| Current revenue | 301.2 | 341.0 | 350.9 | 399.7 | 442.0 | 483.2 | 508.9 |
| Tax revenue | 278.8 | 313.2 | 320.7 | 361.8 | 400.5 | 437.7 | 459.8 |
| Nontax revenue | 22.3 | 27.9 | 30.2 | 37.9 | 41.5 | 45.5 | 49.1 |
| Capital revenue | 1.3 | 0.0 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Grants | 88.2 | 170.2 | 81.5 | 39.4 | 9.5 | 9.5 | 9.5 |
| **Total expenditure** | **423.4** | **615.9** | **624.6** | **617.6** | **633.3** | **684.6** | **734.1** |
| Current expenditure | 329.6 | 380.0 | 402.9 | 443.5 | 478.6 | 519.8 | 558.5 |
| Wages and allowances | 150.3 | 162.6 | 178.1 | 192.3 | 205.0 | 218.4 | 232.7 |
| Goods and services | 48.0 | 56.0 | 61.1 | 66.0 | 70.3 | 74.9 | 78.1 |
| Interest | 75.8 | 74.6 | 83.0 | 98.2 | 114.3 | 131.6 | 149.8 |
| Domestic | 21.1 | 20.4 | 20.3 | 19.2 | 19.5 | 20.1 | 20.0 |
| Foreign | 54.7 | 54.3 | 62.7 | 79.0 | 94.9 | 111.5 | 129.9 |
| Transfers and subsidies | 55.5 | 86.8 | 80.6 | 87.0 | 89.0 | 94.9 | 97.9 |
| Capital expenditure | 93.8 | 236.0 | 221.8 | 174.1 | 154.6 | 164.8 | 175.6 |
| Current balance | -28.4 | -38.9 | -51.9 | -43.7 | -36.6 | -36.6 | -49.6 |
| Primary balance (after grants) | 43.1 | -30.1 | -108.8 | -79.9 | -67.1 | -59.9 | -65.6 |
| Overall balance (before grants) | -120.8 | -274.9 | -273.4 | -217.5 | -190.9 | -201.0 | -224.8 |
| Overall balance (after grants) | -32.7 | -104.7 | -191.8 | -178.1 | -181.5 | -191.5 | -215.4 |
| Statistical discrepancy 2/ | -19.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing** | **51.8** | **47.9** | **11.3** | **-8.3** | **-12.7** | **-21.6** | **-17.5** |
| Foreign (net) | 67.9 | 74.9 | 18.8 | 27.7 | -3.0 | -14.8 | -8.9 |
| Domestic (net) | -38.1 | -5.1 | -7.5 | -36.0 | -9.7 | -6.7 | -8.6 |
| Privatization proceeds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 22.0 | -22.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing gap** | **0.0** | **56.9** | **180.6** | **186.4** | **194.1** | **213.1** | **232.9** |
| | (In percent of GDP) | | | | | | |
| **Total revenue and grants** | **33.1** | **41.7** | **32.2** | **30.3** | **29.2** | **29.9** | **29.5** |
| Total revenue | 25.6 | 27.8 | 26.1 | 27.6 | 28.6 | 29.3 | 29.0 |
| Current revenue | 25.5 | 27.8 | 26.1 | 27.6 | 28.6 | 29.3 | 29.0 |
| Tax revenue | 23.6 | 25.5 | 23.9 | 24.9 | 25.9 | 26.6 | 26.2 |
| Nontax revenue | 1.9 | 2.3 | 2.2 | 2.6 | 2.7 | 2.8 | 2.8 |
| Capital revenue | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 7.5 | 13.9 | 6.1 | 2.7 | 0.6 | 0.6 | 0.5 |
| **Total expenditure** | **35.9** | **50.2** | **46.5** | **42.6** | **41.0** | **41.5** | **41.8** |
| Current expenditure | 27.9 | 31.0 | 30.0 | 30.6 | 31.0 | 31.5 | 31.8 |
| Wages and allowances | 12.7 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 | 13.3 |
| Goods and services | 4.1 | 4.6 | 4.5 | 4.5 | 4.5 | 4.5 | 4.4 |
| Interest | 6.4 | 6.1 | 6.2 | 6.8 | 7.4 | 8.0 | 8.5 |
| Domestic | 1.8 | 1.7 | 1.5 | 1.3 | 1.3 | 1.2 | 1.1 |
| Foreign | 4.6 | 4.4 | 4.7 | 5.4 | 6.1 | 6.8 | 7.4 |
| Transfers and subsidies | 4.7 | 7.1 | 6.0 | 6.0 | 5.8 | 5.8 | 5.6 |
| Capital expenditure | 7.9 | 19.2 | 16.5 | 12.0 | 10.0 | 10.0 | 10.0 |
| Current balance | -2.4 | -3.2 | -3.9 | -3.0 | -2.4 | -2.2 | -2.8 |
| Primary balance (after grants) | 3.7 | -2.5 | -8.1 | -5.5 | -4.3 | -3.6 | -3.7 |
| Overall balance (before grants) | -10.2 | -22.4 | -20.3 | -15.0 | -12.3 | -12.2 | -12.8 |
| Overall balance (after grants) | -2.8 | -8.5 | -14.3 | -12.3 | -11.7 | -11.6 | -12.3 |
| Statistical discrepancy 2/ | -1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing** | **4.4** | **3.9** | **0.8** | **-0.6** | **-0.8** | **-1.3** | **-1.0** |
| Foreign (net) | 5.8 | 6.1 | 1.4 | 1.9 | -0.2 | -0.9 | -0.5 |
| Domestic (net) | -3.2 | -0.4 | -0.6 | -2.5 | -0.6 | -0.4 | -0.5 |
| Privatization proceeds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 1.9 | -1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing gap** | **0.0** | **4.6** | **13.4** | **12.8** | **12.6** | **12.9** | **13.3** |
| **Memorandum items:** | | | | | | | |
| Total public sector debt 3/ 4/ | 129.4 | 133.1 | 135.7 | 138.0 | 141.2 | 144.1 | 147.5 |
| Real GDP growth (percent change) | -3.0 | 0.9 | 7.0 | 5.4 | 4.5 | 4.5 | 4.5 |
| CPI (average, percent change) | 2.3 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |

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

1/ Excluding debt restructuring.

2/ Difference between overall balance and identified financing.

3/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.

4/ Includes financing gap, which is assumed to be financed at 9 percent interest.

Table 8. Grenada: Medium-Term Balance of Payments, Baseline Scenario, 2004–10

| | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | (In millions of U.S. dollars) | | | | | | |
| **Current account balance** | **-76.0** | **-154.0** | **-204.3** | **-203.3** | **-209.4** | **-208.5** | **-210.2** |
| Exports (f.o.b.) | 35.0 | 30.4 | 30.6 | 28.4 | 31.1 | 33.8 | 37.1 |
| Imports (f.o.b.) | 235.7 | 276.8 | 254.6 | 265.5 | 276.9 | 289.0 | 305.1 |
| Services (net) | 53.7 | 37.7 | 51.6 | 71.6 | 79.4 | 95.1 | 112.1 |
| *Of which* | | | | | | | |
| Travel (net) | 83.4 | 76.4 | 104.8 | 126.6 | 136.9 | 155.2 | 176.0 |
| Income (net) | -53.3 | -53.4 | -58.3 | -66.0 | -73.2 | -80.8 | -89.1 |
| Transfers (net) | 124.2 | 108.2 | 26.3 | 28.2 | 30.2 | 32.4 | 34.7 |
| **Capital and financial account** | **84.0** | **135.5** | **141.2** | **137.9** | **139.4** | **131.4** | **125.8** |
| Capital account (transfers) | 33.3 | 53.4 | 54.6 | 40.7 | 31.5 | 33.5 | 35.6 |
| Financial account | 50.7 | 82.1 | 86.6 | 97.2 | 107.9 | 97.9 | 90.2 |
| *Of which* | | | | | | | |
| Public sector net borrowing 1/ | 51.4 | 27.8 | 6.9 | 10.3 | -1.1 | -5.5 | -3.3 |
| Direct investment (net) | 39.6 | 56.7 | 71.2 | 75.7 | 79.5 | 83.3 | 87.4 |
| Portfolio investment (net) | 23.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments (net) | -12.0 | 25.5 | 15.4 | 21.5 | 28.4 | 14.6 | 2.8 |
| Net errors and omissions | 38.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 46.5 | -18.5 | -63.2 | -65.3 | -70.1 | -77.1 | -84.4 |
| **Financing gap** | **0.0** | **21.1** | **66.9** | **69.0** | **71.9** | **78.9** | **86.2** |
| **Memorandum item:** | | | | | | | |
| External public sector debt 1/ | 415.6 | 455.9 | 529.7 | 609.0 | 679.8 | 753.2 | 836.2 |
| | (In percent of GDP) | | | | | | |
| **Current account balance** | **-17.4** | **-33.9** | **-41.0** | **-37.8** | **-36.6** | **-34.2** | **-32.3** |
| Trade balance | -45.9 | -54.2 | -45.0 | -44.1 | -42.9 | -41.8 | -41.2 |
| Exports of goods | 8.0 | 6.7 | 6.2 | 5.3 | 5.4 | 5.5 | 5.7 |
| Imports of goods | 53.9 | 60.9 | 51.1 | 49.4 | 48.3 | 47.4 | 46.9 |
| Service, income, and transfers | 28.5 | 20.4 | 3.9 | 6.3 | 6.4 | 7.7 | 8.9 |
| *Of which* | | | | | | | |
| Travel (net) | 19.1 | 16.8 | 21.0 | 23.6 | 23.9 | 25.4 | 27.1 |
| **Capital and financial account** | **19.2** | **29.8** | **28.4** | **25.7** | **24.3** | **21.5** | **19.4** |
| Capital and financial account, including errors and omissions | 28.0 | 29.8 | 28.4 | 25.7 | 24.3 | 21.5 | 19.4 |
| Public sector net borrowing 1/ | 11.7 | 6.1 | 1.4 | 1.9 | -0.2 | -0.9 | -0.5 |
| Direct investment (net) | 9.1 | 12.5 | 14.3 | 14.1 | 13.9 | 13.7 | 13.4 |
| Overall balance | 10.6 | -4.1 | -12.7 | -12.2 | -12.2 | -12.6 | -13.0 |
| **Financing gap** | **0.0** | **4.6** | **13.4** | **12.8** | **12.6** | **12.9** | **13.3** |
| External public sector debt 1/ | 95.0 | 100.4 | 106.4 | 113.3 | 118.7 | 123.4 | 128.6 |
| | (Annual percentage change) | | | | | | |
| Exports of goods | -23.1 | -13.2 | 0.8 | -7.2 | 9.2 | 8.9 | 9.5 |
| Imports of goods | 4.1 | 17.5 | -8.0 | 4.3 | 4.3 | 4.4 | 5.5 |
| Travel (net) | -12.4 | -8.5 | 37.2 | 20.8 | 8.1 | 13.4 | 13.4 |

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

1/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.

Table 9. Grenada: Medium-Term Central Government Finances, Burden-Sharing Scenario, 2004–10 1/

| | Est. | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | (In millions of Eastern Caribbean dollars) | | | | | | |
| **Total revenue and grants** | **390.7** | **511.2** | **472.3** | **462.4** | **499.4** | **533.6** | **540.3** |
| Total revenue | 302.5 | 341.0 | 367.5 | 421.3 | 462.7 | 504.0 | 530.8 |
| Current revenue | 301.2 | 341.0 | 367.2 | 420.9 | 462.3 | 503.6 | 530.4 |
| Tax revenue | 278.8 | 313.2 | 337.0 | 383.0 | 420.8 | 458.1 | 481.3 |
| Nontax revenue | 22.3 | 27.9 | 30.2 | 37.9 | 41.5 | 45.5 | 49.1 |
| Capital revenue | 1.3 | 0.0 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Grants | 88.2 | 170.2 | 104.7 | 41.1 | 36.7 | 29.6 | 9.5 |
| **Total expenditure** | **423.4** | **615.9** | **559.1** | **554.0** | **552.8** | **568.1** | **579.4** |
| Current expenditure | 329.6 | 380.0 | 370.9 | 379.9 | 390.4 | 403.3 | 412.6 |
| Wages and allowances | 150.3 | 162.6 | 172.5 | 175.8 | 182.1 | 187.5 | 192.4 |
| Goods and services | 48.0 | 56.0 | 55.6 | 59.8 | 63.8 | 67.7 | 69.1 |
| Interest | 75.8 | 74.6 | 76.8 | 75.7 | 75.1 | 74.9 | 73.9 |
| Domestic | 21.1 | 20.4 | 19.2 | 18.0 | 18.3 | 19.0 | 18.9 |
| Foreign | 54.7 | 54.3 | 57.6 | 57.7 | 56.7 | 55.9 | 55.1 |
| Transfers and subsidies | 55.5 | 86.8 | 66.1 | 68.5 | 69.5 | 73.2 | 77.1 |
| Capital expenditure | 93.8 | 236.0 | 188.2 | 174.1 | 162.4 | 164.8 | 166.8 |
| Current balance | -28.4 | -38.9 | -3.7 | 41.1 | 71.9 | 100.3 | 117.9 |
| Primary balance (after grants) | 43.1 | -30.1 | -10.1 | -15.9 | 21.7 | 40.4 | 34.8 |
| Overall balance (before grants) | -120.8 | -274.9 | -191.5 | -132.7 | -90.1 | -64.1 | -48.5 |
| Overall balance (after grants) | -32.7 | -104.7 | -86.8 | -91.6 | -53.4 | -34.5 | -39.1 |
| Statistical discrepancy 2/ | -19.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing** | **51.8** | **10.8** | **11.3** | **-8.3** | **-12.7** | **-21.6** | **-17.5** |
| Foreign (net) 3/ | 67.9 | 74.9 | 18.8 | 27.7 | -3.0 | -14.8 | -8.9 |
| Domestic (net) 3/ | -38.1 | -42.2 | -7.5 | -36.0 | -9.7 | -6.7 | -8.6 |
| Privatization proceeds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 22.0 | -22.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Illustrative debt relief | ... | 94.0 | 75.5 | 99.9 | 66.0 | 56.1 | 56.6 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| | (In percent of GDP) | | | | | | |
| **Total revenue and grants** | **33.1** | **41.7** | **35.1** | **31.9** | **32.3** | **32.4** | **30.8** |
| Total revenue | 25.6 | 27.8 | 27.3 | 29.0 | 29.9 | 30.6 | 30.2 |
| Current revenue | 25.5 | 27.8 | 27.3 | 29.0 | 29.9 | 30.6 | 30.2 |
| Tax revenue | 23.6 | 25.5 | 25.1 | 26.4 | 27.2 | 27.8 | 27.4 |
| Nontax revenue | 1.9 | 2.3 | 2.2 | 2.6 | 2.7 | 2.8 | 2.8 |
| Capital revenue | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 7.5 | 13.9 | 7.8 | 2.8 | 2.4 | 1.8 | 0.5 |
| **Total expenditure** | **35.9** | **50.2** | **41.6** | **38.2** | **35.7** | **34.5** | **33.0** |
| Current expenditure | 27.9 | 31.0 | 27.6 | 26.2 | 25.2 | 24.5 | 23.5 |
| Wages and allowances | 12.7 | 13.3 | 12.8 | 12.1 | 11.8 | 11.4 | 11.0 |
| Goods and services | 4.1 | 4.6 | 4.1 | 4.1 | 4.1 | 4.1 | 3.9 |
| Interest | 6.4 | 6.1 | 5.7 | 5.2 | 4.9 | 4.5 | 4.2 |
| Domestic | 1.8 | 1.7 | 1.4 | 1.2 | 1.2 | 1.2 | 1.1 |
| Foreign | 4.6 | 4.4 | 4.3 | 4.0 | 3.7 | 3.4 | 3.1 |
| Transfers and subsidies | 4.7 | 7.1 | 4.9 | 4.7 | 4.5 | 4.4 | 4.4 |
| Capital expenditure | 7.9 | 19.2 | 14.0 | 12.0 | 10.5 | 10.0 | 9.5 |
| Current balance | -2.4 | -3.2 | -0.3 | 2.8 | 4.7 | 6.1 | 6.7 |
| Primary balance (after grants) | 3.7 | -2.5 | -0.7 | -1.1 | 1.4 | 2.5 | 2.0 |
| Overall balance (before grants) | -10.2 | -22.4 | -14.3 | -9.1 | -5.8 | -3.9 | -2.8 |
| Overall balance (after grants) | -2.8 | -8.5 | -6.5 | -6.3 | -3.5 | -2.1 | -2.2 |
| Statistical discrepancy 2/ | -1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing** | **4.4** | **0.9** | **0.8** | **-0.6** | **-0.8** | **-1.3** | **-1.0** |
| Foreign (net) 3/ | 5.8 | 6.1 | 1.4 | 1.9 | -0.2 | -0.9 | -0.5 |
| Domestic (net) 3/ | -3.2 | -3.4 | -0.6 | -2.5 | -0.6 | -0.4 | -0.5 |
| Privatization proceeds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 1.9 | -1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Illustrative debt relief | ... | 7.7 | 5.6 | 6.9 | 4.3 | 3.4 | 3.2 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Memorandum items:** | | | | | | | |
| Total public sector debt 4/ | 129.4 | 129.2 | 121.1 | 115.6 | 109.7 | 103.3 | 97.6 |
| Real GDP growth (percent change) | -3.0 | 0.9 | 7.0 | 5.4 | 4.5 | 4.5 | 4.5 |
| CPI (average, percent change) | 2.3 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |

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

1/ Includes fiscal adjustment, an illustrative scenario for debt restructuring, and additional donor support.
2/ Difference between overall balance and identified financing.
3/ Net foreign and net domestic financing are shown separately from the illustrative debt relief. Net domestic financing in the burden-sharing scenario, including the illustrative domestic debt relief, is zero.
4/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.

## Table 10. Grenada: Medium-Term Balance of Payments, Burden-Sharing Scenario, 2004–10 1/

| | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| (In millions of U.S. dollars) | | | | | | | |
| **Current account balance** | **-76.0** | **-154.0** | **-179.3** | **-170.0** | **-167.7** | **-157.8** | **-147.2** |
| Exports (f.o.b.) | 35.0 | 30.4 | 30.6 | 28.4 | 31.1 | 33.8 | 37.1 |
| Imports (f.o.b.) | 235.7 | 276.8 | 237.7 | 247.0 | 256.7 | 267.0 | 278.7 |
| Services (net) | 53.7 | 37.7 | 57.9 | 78.4 | 86.8 | 103.2 | 121.2 |
| *Of which* | | | | | | | |
| Travel (net) | 83.4 | 76.4 | 104.8 | 126.6 | 136.9 | 155.2 | 176.0 |
| Income (net) | -53.3 | -53.4 | -56.4 | -58.1 | -59.1 | -60.2 | -61.4 |
| Transfers (net) | 124.2 | 108.2 | 26.3 | 28.2 | 30.2 | 32.4 | 34.7 |
| **Capital and financial account** | **84.0** | **126.9** | **160.0** | **151.6** | **149.2** | **141.5** | **131.1** |
| Capital account (transfers) | 33.3 | 53.4 | 63.1 | 41.3 | 41.6 | 40.9 | 35.6 |
| Financial account | 50.7 | 73.5 | 96.8 | 110.2 | 107.6 | 100.5 | 95.5 |
| *Of which* | | | | | | | |
| Public sector net borrowing 2/ | 51.4 | 27.8 | 6.9 | 10.3 | -1.1 | -5.5 | -3.3 |
| Direct investment (net) | 39.6 | 56.7 | 78.6 | 84.8 | 86.8 | 89.9 | 93.1 |
| Portfolio investment (net) | 23.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments (net) | -12.0 | 16.9 | 18.2 | 25.5 | 20.8 | 10.6 | 2.4 |
| Net errors and omissions | 38.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance 3/ | 46.5 | -27.1 | -19.4 | -18.4 | -18.4 | -16.3 | -16.0 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Memorandum item: | | | | | | | |
| External public sector debt 2/ | 415.6 | 449.6 | 465.2 | 483.5 | 490.6 | 492.9 | 497.5 |
| (In percent of GDP) | | | | | | | |
| **Current account balance** | **-17.4** | **-33.9** | **-36.0** | **-31.6** | **-29.3** | **-25.9** | **-22.6** |
| Trade balance | -45.9 | -54.2 | -41.6 | -40.7 | -39.4 | -38.2 | -37.2 |
| Exports of goods | 8.0 | 6.7 | 6.2 | 5.3 | 5.4 | 5.5 | 5.7 |
| Imports of goods | 53.9 | 60.9 | 47.8 | 46.0 | 44.8 | 43.7 | 42.9 |
| Service, income, and transfers | 28.5 | 20.4 | 5.6 | 9.0 | 10.1 | 12.3 | 14.5 |
| *Of which* | | | | | | | |
| Travel (net) | 19.1 | 16.8 | 21.0 | 23.6 | 23.9 | 25.4 | 27.1 |
| **Capital and financial account** | **19.2** | **27.9** | **32.1** | **28.2** | **26.1** | **23.2** | **20.2** |
| Capital and financial account, including errors and omissions | 28.0 | 27.9 | 32.1 | 28.2 | 26.1 | 23.2 | 20.2 |
| Public sector net borrowing 2/ | 11.7 | 6.1 | 1.4 | 1.9 | -0.2 | -0.9 | -0.5 |
| Direct investment (net) | 9.1 | 12.5 | 15.8 | 15.8 | 15.2 | 14.7 | 14.3 |
| Overall balance 3/ | 10.6 | -6.0 | -3.9 | -3.4 | -3.2 | -2.7 | -2.5 |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| External public sector debt 2/ | 95.0 | 99.0 | 93.4 | 90.0 | 85.7 | 80.8 | 76.5 |
| (Annual percentage change) | | | | | | | |
| Exports of goods | -23.1 | -13.2 | 0.8 | -7.2 | 9.2 | 8.9 | 9.5 |
| Imports of goods | 4.1 | 17.5 | -14.1 | 3.9 | 3.9 | 4.0 | 4.4 |
| Travel (net) | -12.4 | -8.5 | 37.2 | 20.8 | 8.1 | 13.4 | 13.4 |

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

1/ Scenario is based mainly on fiscal adjustment, supported by higher FDI as a result of improved confidence over the medium term.
2/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.
3/ Before debt relief.

Table 11. Grenada: Public Sector Debt Sustainability Framework, Burden-Sharing Scenario, 2000–10
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | | | | | | | | **I. Burden-Sharing Projections** | | | | | |
| **Public sector debt 1/** | 56.2 | 63.7 | 109.6 | 110.0 | 129.4 | | | **129.2** | **121.1** | **115.6** | **109.7** | **103.3** | **97.6** |
| o/w foreign-currency denominated | 35.1 | 45.5 | 83.6 | 80.2 | 95.0 | | | 99.0 | 93.4 | 90.0 | 85.7 | 80.8 | 76.5 |
| Change in public sector debt | 4.4 | 7.5 | 45.9 | 0.4 | 19.3 | | | -0.1 | -8.2 | -5.5 | -5.9 | -6.4 | -5.6 |
| Identified debt-creating flows (4+7+12) | 1.7 | 10.7 | 35.3 | -5.6 | 5.5 | | | -3.9 | -10.5 | -9.5 | -8.0 | -8.1 | -7.4 |
| Primary deficit | 2.5 | 4.9 | 31.0 | -3.7 | -4.7 | | | 0.1 | -1.4 | -0.9 | -3.3 | -4.2 | -3.6 |
| Revenue and grants | 35.8 | 37.0 | 34.0 | 39.5 | 36.1 | | | 45.7 | 40.1 | 36.9 | 37.3 | 37.4 | 35.8 |
| Primary (noninterest) expenditure | 38.4 | 42.0 | 65.0 | 35.8 | 31.4 | | | 45.7 | 38.7 | 35.9 | 34.0 | 33.2 | 32.1 |
| Automatic debt dynamics 2/ | -0.8 | 5.7 | 4.5 | -1.8 | 10.2 | | | 3.6 | -3.4 | -1.7 | -0.4 | -0.4 | -0.5 |
| Contribution from interest rate/growth differential 3/ | -0.8 | 5.7 | 4.5 | -1.8 | 10.2 | | | 3.6 | -3.4 | -1.7 | -0.4 | -0.4 | -0.5 |
| Of which contribution from real interest rate | 2.5 | 3.2 | 5.1 | 4.0 | 6.8 | | | 4.7 | 4.8 | 4.4 | 4.5 | 4.2 | 3.8 |
| Of which contribution from real GDP growth | -3.4 | 2.5 | -0.5 | -5.8 | 3.4 | | | -1.1 | -8.3 | -6.1 | -4.9 | -4.6 | -4.3 |
| Contribution from exchange rate depreciation 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | ... | ... | ... | ... | ... | ... |
| Other identified debt-creating flows | 0.0 | 0.0 | -0.2 | 0.0 | 0.0 | | | -7.7 | -5.6 | -6.9 | -4.3 | -3.4 | -3.2 |
| Privatization receipts (negative) | 0.0 | 0.0 | -0.2 | 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 |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | -7.7 | -5.6 | -6.9 | -4.3 | -3.4 | -3.2 |
| Residual, including asset changes (2-3) 5/ | 2.7 | -3.2 | 10.6 | 6.0 | 13.8 | | | 3.8 | 2.3 | 4.0 | 2.1 | 1.7 | 1.7 |
| Public sector debt-to-revenue ratio 1/ | 157.0 | 172.2 | 322.7 | 278.6 | 358.5 | | | 282.9 | 301.6 | 313.4 | 294.0 | 276.3 | 273.0 |
| **Gross financing need 6/** | 10.6 | 14.6 | 44.6 | 12.7 | 17.7 | | | 23.1 | 17.7 | 16.6 | 13.3 | 11.4 | 10.6 |
| in millions of U.S. dollars | 43.6 | 57.5 | 181.9 | 56.1 | 77.4 | | | 105.1 | 88.0 | 89.2 | 76.4 | 69.7 | 69.2 |
| **Key Macroeconomic and Fiscal Assumptions** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | |
| Real GDP growth (in percent) | 7.0 | -4.4 | 0.8 | 5.8 | -3.0 | 3.2 | 4.3 | 0.9 | 7.0 | 5.4 | 4.5 | 4.5 | 4.5 |
| Average nominal interest rate on public debt (in percent) 7/ | 6.3 | 5.9 | 10.6 | 7.1 | 7.7 | 6.1 | 2.2 | 6.8 | 6.7 | 6.5 | 6.2 | 6.1 | 6.1 |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent | 5.3 | 5.4 | 8.2 | 4.1 | 6.1 | 4.1 | 2.6 | 3.8 | 4.3 | 4.0 | 4.2 | 4.1 | 4.1 |
| Nominal appreciation (increase in US dollar value of local currency, in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 1.0 | 0.5 | 2.4 | 2.9 | 1.6 | 2.1 | 1.3 | 3.0 | 2.4 | 2.4 | 2.0 | 2.0 | 2.0 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 16.3 | 4.6 | 56.2 | -41.8 | -14.9 | 7.0 | 26.6 | 47.0 | -9.5 | -2.1 | -1.2 | 1.9 | 1.2 |
| Primary deficit | 2.5 | 4.9 | 31.0 | -3.7 | -4.7 | 4.0 | 10.0 | 0.1 | -1.4 | -0.9 | -3.3 | -4.2 | -3.6 |
| | | | | | | | | **II. Stress Tests for Public Debt Ratio** | | | | | |
| **A. Alternative Scenarios** | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2006-10 8/ | | | | | | | | **129.2** | **130.8** | **132.8** | **135.5** | **138.8** | **142.3** |
| A2. Baseline scenario 9/ | | | | | | | | **133.1** | **135.7** | **138.0** | **141.2** | **144.1** | **147.5** |
| A3. Downside scenario (natural disaster in 2006) 9/ | | | | | | | | **129.2** | **128.4** | **127.5** | **122.2** | **116.2** | **111.0** |
| **B. Bound Tests** | | | | | | | | | | | | | |
| B1. Real interest rate is at historical average plus two standard deviations in 2006 and 2007 | | | | | | | | **129.2** | **127.1** | **127.7** | **121.8** | **115.4** | **109.7** |
| B2. Real GDP growth is at historical average minus two standard deviations in 2006 and 2007 10/ | | | | | | | | **129.2** | **142.1** | **160.7** | **162.9** | **164.4** | **166.4** |
| B3. Primary balance is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **129.2** | **146.6** | **165.7** | **159.6** | **153.1** | **147.2** |
| B4. Combination of B1-B3 using one standard deviation shocks | | | | | | | | **129.2** | **149.7** | **172.0** | **165.5** | **158.7** | **152.5** |
| B5. One time 30 percent real depreciation in 2006 11/ | | | | | | | | **129.2** | **167.2** | **161.1** | **155.0** | **148.5** | **142.6** |
| B6. 10 percent of GDP increase in other debt-creating flows in 2006 | | | | | | | | **129.2** | **131.1** | **125.4** | **119.5** | **113.1** | **107.4** |

1/ Central government, government-guaranteed, and non-guaranteed public sector debt.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; $\pi$ = growth rate of GDP deflator; g = real GDP growth rate; $\alpha$ = share of foreign-currency denominated debt; and $\varepsilon$ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ Derived as nominal interest expenditure divided by previous period debt stock.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ The baseline and downside scenarios are discussed in the text.
10/ The assumed expenditure path is similar in nominal terms to the baseline projections, while the revenue path is similar in terms of its ratio to GDP.
11/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 12. Grenada: External Debt Sustainability Framework, Burden-Sharing Scenario, 2000–10
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | | | | | | | | **I. Burden-Sharing Projections** | | | | | |
| **External debt 1/** | 35.1 | 45.5 | 83.6 | 80.2 | 95.0 | | | **99.0** | **93.4** | **90.0** | **85.7** | **80.8** | **76.5** |
| Change in external debt | 4.1 | 10.4 | 38.0 | -3.4 | 14.9 | | | 3.9 | -5.5 | -3.5 | -4.3 | -4.9 | -4.3 |
| Identified external debt-creating flows (4+8+9) | 2.5 | -3.4 | 2.5 | -0.5 | -9.7 | | | -3.1 | -3.4 | -0.6 | -0.5 | -2.2 | -3.4 |
| Current account deficit, excluding interest payments | 18.5 | 23.5 | 25.5 | 26.4 | 9.6 | | | 26.1 | 28.8 | 25.0 | 23.1 | 20.1 | 17.2 |
| Deficit in balance of goods and services | 18.0 | 21.4 | 24.7 | 30.0 | 33.6 | | | 45.9 | 30.1 | 26.3 | 24.4 | 21.5 | 18.7 |
| Exports | 57.5 | 49.9 | 42.2 | 40.7 | 40.3 | | | 37.1 | 36.0 | 37.6 | 38.0 | 39.5 | 41.1 |
| Imports | 75.4 | 71.3 | 66.9 | 70.7 | 73.9 | | | 83.1 | 66.1 | 63.9 | 62.4 | 61.0 | 59.8 |
| Net non-debt creating capital inflows (negative) | -16.7 | -31.0 | -28.4 | -27.6 | -27.4 | | | -36.2 | -33.2 | -27.8 | -26.2 | -24.6 | -22.7 |
| Automatic debt dynamics 2/ | 0.7 | 4.2 | 5.5 | 0.8 | 8.1 | | | 7.0 | 1.0 | 2.2 | 2.6 | 2.3 | 2.1 |
| Contribution from nominal interest rate | 3.0 | 3.1 | 6.5 | 6.4 | 7.7 | | | 7.7 | 7.4 | 6.8 | 6.4 | 5.9 | 5.5 |
| Contribution from real GDP growth | -2.0 | 1.6 | -0.4 | -4.5 | 2.4 | | | -0.8 | -6.3 | -4.7 | -3.8 | -3.6 | -3.4 |
| Contribution from price and exchange rate changes 3/ | -0.3 | -0.5 | -0.7 | -1.1 | -2.1 | | | ... | ... | ... | ... | ... | ... |
| Residual, incl. change in gross foreign assets (2-3) 4/ | 1.6 | 13.8 | 35.5 | -2.9 | 24.6 | | | 7.0 | -2.1 | -2.8 | -3.8 | -2.7 | -0.9 |
| External debt-to-exports ratio (in percent) | 61.1 | 91.2 | 197.9 | 197.0 | 235.8 | | | 266.6 | 259.2 | 239.1 | 225.5 | 204.3 | 186.0 |
| **Gross external financing need (in millions of US dollars) 5/** | 108.0 | 144.8 | 218.4 | 196.2 | 138.5 | | | 211.3 | 190.5 | 185.0 | 185.9 | 176.9 | 171.6 |
| in percent of GDP | 26.3 | 36.7 | 53.6 | 44.2 | 31.7 | | | 46.5 | 38.4 | 34.7 | 32.7 | 29.2 | 26.6 |
| **Key Macroeconomic Assumptions** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | |
| Real GDP growth (in percent) | 7.0 | -4.4 | 0.8 | 5.8 | -3.0 | 3.2 | 4.3 | 0.9 | 7.0 | 5.4 | 4.5 | 4.5 | 4.5 |
| GDP deflator in US dollars (change in percent) | 0.8 | 1.5 | 1.6 | 1.3 | 2.7 | 1.7 | 0.7 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Nominal external interest rate (in percent) | 10.3 | 8.6 | 14.7 | 8.2 | 9.6 | 11.5 | 3.9 | 8.5 | 8.1 | 7.9 | 7.5 | 7.4 | 7.3 |
| Growth of exports (US dollar terms, in percent) | 8.2 | -16.5 | -12.7 | 5.0 | -2.4 | 4.3 | 14.3 | -4.3 | 6.0 | 12.3 | 7.6 | 10.9 | 10.9 |
| Growth of imports (US dollar terms, in percent) | 16.5 | -9.1 | -3.0 | 15.0 | 3.1 | 7.5 | 12.0 | 16.8 | -13.1 | 3.9 | 4.1 | 4.1 | 4.5 |
| Current account balance, excluding interest payments | -18.5 | -23.5 | -25.5 | -26.4 | -9.6 | -17.4 | 7.5 | -26.1 | -28.8 | -25.0 | -23.1 | -20.1 | -17.2 |
| Net non-debt creating capital inflows | 16.7 | 31.0 | 28.4 | 27.6 | 27.4 | 19.6 | 9.9 | 36.2 | 33.2 | 27.8 | 26.2 | 24.6 | 22.7 |
| | | | | | | | | **II. Stress Tests for External Debt Ratio** | | | | | |
| **A. Alternative Scenarios** | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2006-10 6/ | | | | | | | | **99.0** | **102.6** | **105.7** | **107.7** | **111.0** | **116.4** |
| A2. Baseline Scenario 7/ | | | | | | | | **100.4** | **106.4** | **113.3** | **118.7** | **123.4** | **128.6** |
| A3. Downside scenario (natural disaster in 2006) 7/ | | | | | | | | **99.0** | **98.8** | **98.1** | **94.3** | **89.5** | **85.3** |
| **B. Bound Tests** | | | | | | | | | | | | | |
| B1. Nominal interest rate is at historical average plus two standard deviations in 2006 and 2007 | | | | | | | | **99.0** | **103.6** | **111.3** | **107.1** | **102.4** | **98.3** |
| B2. Real GDP growth is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **99.0** | **106.2** | **114.6** | **110.0** | **105.0** | **101.1** |
| B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **99.0** | **95.1** | **93.3** | **88.9** | **84.0** | **79.8** |
| B4. Non-interest current account is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **99.0** | **97.0** | **100.9** | **96.6** | **91.8** | **87.6** |
| B5. Combination of B1-B4 using one standard deviation shocks | | | | | | | | **99.0** | **105.7** | **118.0** | **117.6** | **116.3** | **115.4** |
| B6. One time 30 percent nominal depreciation in 2006 | | | | | | | | **99.0** | **135.4** | **131.7** | **126.8** | **121.8** | **118.1** |

1/ Public and publicly-guaranteed external debt.
2/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt, ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
3/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).
4/ For projection, line includes the impact of price and exchange rate changes.
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
7/ The baseline and downside scenarios are discussed in the text.

Table 13. Grenada: Millennium Development Goals, 1990–2003

| | 1990 | 1994 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|
| Goal 1. Eradicate extreme poverty and hunger | | | | | |
| Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day. | | | | | |
| Population below $1 a day (percent) | ... | ... | ... | ... | ... |
| Poverty gap at $1 a day (percent) | ... | ... | ... | ... | ... |
| Percentage share of income or consumption held by poorest 20 percent | ... | ... | ... | ... | ... |
| Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger. | | | | | |
| Prevalence of child malnutrition (percent of children under 5) | ... | ... | ... | ... | ... |
| Population below minimum level of dietary energy consumption (percent) | ... | ... | ... | ... | ... |
| Goal 2. Achieve universal primary education | | | | | |
| Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling. | | | | | |
| Net primary enrollment ratio (percent of relevant age group) | ... | ... | ... | 84.2 | ... |
| Primary completion rate, total (percent of relevant age group) | ... | ... | ... | 80.0 | ... |
| Percentage of cohort reaching grade 5 (percent) | ... | ... | ... | 79.0 | ... |
| Youth literacy rate (percent ages 15–24) | ... | ... | ... | ... | ... |
| Goal 3. Promote gender equality | | | | | |
| Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015. | | | | | |
| Ratio of girls to boys in primary and secondary education (percent) | ... | ... | ... | ... | ... |
| Ratio of young literate females to males (percent ages 15–24) | ... | ... | ... | ... | ... |
| Share of women employed in the nonagricultural sector (percent) | 38.4 | ... | ... | ... | ... |
| Proportion of seats held by women in national parliament (percent) | ... | ... | 20.0 | 27.0 | 27.0 |
| Goal 4. Reduce child mortality | | | | | |
| Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate. | | | | | |
| Immunization, measles (percent of children under 12 months) | 85.0 | 87.0 | 92.0 | 92.0 | 99.0 |
| Infant mortality rate (per 1,000 live births) | 30.0 | 26.0 | ... | 21.0 | 18.0 |
| Under 5 mortality rate (per 1,000) | 37.0 | 33.0 | ... | 26.0 | 23.0 |
| Goal 5. Improve maternal health | | | | | |
| Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio. | | | | | |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | ... | ... | ... | ... | ... |
| Births attended by skilled health staff (percent of total) | ... | ... | 99.0 | 99.0 | ... |

Table 13. Grenada: Millennium Development Goals, 1990–2003 (Concluded)

| | 1990 | 1994 | 1997 | 2000 | 2003 |
|---|---|---|---|---|---|
| Goal 6. Combat HIV/AIDS, malaria and other diseases | | | | | |
| Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. | | | | | |
| Prevalence of HIV, total (percent ages 15–49) | ... | ... | ... | ... | ... |
| Contraceptive prevalence rate (percent of women ages 15–49) | ... | ... | 54.0 | ... | ... |
| Number of children orphaned by HIV/AIDS | ... | ... | ... | ... | ... |
| Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases. | | | | | |
| Incidence of tuberculosis (per 100,000 people) | 6.1 | 5.7 | 5.4 | 5.2 | 4.9 |
| Tuberculosis cases detected under DOTS (percent) 1/ | ... | ... | ... | ... | ... |
| Goal 7. Ensure environmental sustainability | | | | | |
| Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. | | | | | |
| Forest area (percent of total land area) | 14.7 | ... | ... | 14.7 | ... |
| Nationally protected areas (percent of total land area) | ... | ... | ... | ... | ... |
| GDP per unit of energy use (PPP $ per kg oil equivalent) | ... | ... | ... | ... | ... |
| CO2 emissions (metric tons per capita) | 1.3 | 1.7 | 2.0 | 2.1 | ... |
| Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water. | | | | | |
| Access to an improved water source (percent of population) | ... | ... | ... | ... | 95.0 |
| Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers. | | | | | |
| Access to improved sanitation (percent of population) | 97.0 | ... | ... | ... | 97.0 |
| Access to secure tenure (percent of population) | ... | ... | ... | ... | ... |
| Goal 8. Develop a Global Partnership for Development | | | | | |
| Target 12: Develop and implement strategies for decent and productive work for youth. | | | | | |
| Youth unemployment rate (percent of total labor force ages 15–24) | 27.0 | ... | ... | ... | ... |
| Target 13: Make available the benefits of new technologies, especially information and communications. | | | | | |
| Fixed line and mobile telephones (per 1,000 people) | 178.3 | 242.3 | 301.1 | 377.6 | 666.7 |
| Internet users (per 1,000 people) | 0.0 | 0.0 | 11.0 | 43.6 | 169.0 |
| Personal computers (per 1,000 people) | ... | ... | 108.3 | 127.1 | 132.1 |

Source: World Development Indicators database, April 2005.

1/ DOTS detection rate is the percentage of estimated new infectious tuberculosis cases detected under the directly observed treatment, short course case detection, and treatment strategy.

## Medium-Term Outlook and Debt Sustainability

1. **Under the current circumstances, Grenada's large stock of public and publicly guaranteed debt is unsustainable.** In the baseline scenario described in the text, public debt service is projected to range between 32 and 42 percent of revenue in 2005-10, and financing gaps, already large at 5 percent of GDP this year, are expected to increase to 13 percent of GDP in 2006-10. Both debt service ratios and financing gaps would increase further over the longer term. Moreover, the ratio of public and publicly guaranteed debt to GDP, already high at 130 percent of GDP at end-2004, would continue its upward dynamics, reaching nearly 150 percent by 2010 (Table AI.1).

2. **The burden-sharing scenario discussed in the text implies a gradual return to sustainability.** The scenario assumes substantial additional fiscal consolidation over the medium term, additional foreign grants, and the implementation of a comprehensive debt restructuring in 2005. This burden-sharing among Grenadians, their donors, and their creditors results in: (i) a primary fiscal surplus by 2008, which reaches 3.8 percent of GDP over the longer term; (ii) a reduction in debt service obligations to between 10 and 18 percent of GDP, and financing gaps that are fully covered; and (iii) a decline in the ratio of debt to GDP to below 100 percent of GDP by 2010 and below 50 percent by 2020.

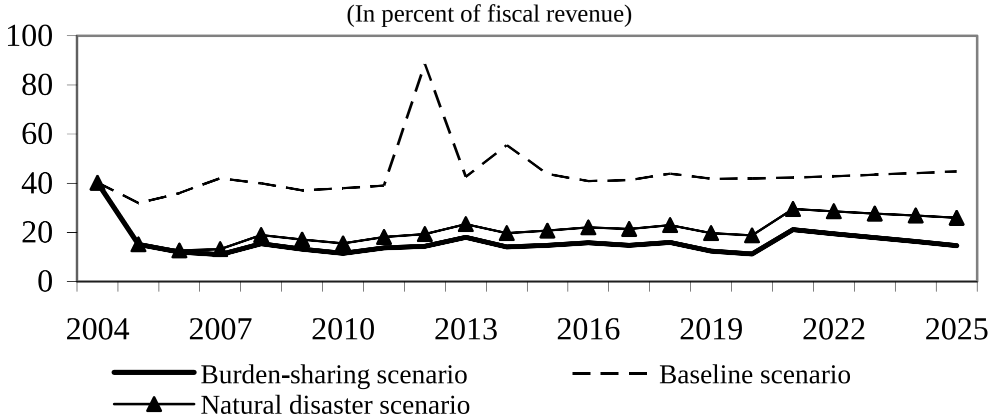
3. **Notwithstanding the considerable improvements in debt and debt service dynamics, the burden-sharing scenario contains non-negligible risks.** Staff presented to the authorities a number of scenarios and bound tests which show that—depending on the macroeconomic conditions—debt-service ratios and debt dynamics could turn out considerably worse than under the burden-sharing scenario (Figures AI.1 and AI.2).

- **Natural disaster scenario.** Staff presented a scenario assuming a natural disaster in 2006 (Table AI.1). Although assumed to be of much smaller magnitude than Hurricane Ivan, the disaster would lead to a decline in GDP growth relative to the burden-sharing scenario by 3½ percent of GDP in 2006 and 1½ percent of GDP in 2007. Notwithstanding an annual increase in foreign grants by 1 percent of GDP in 2006 and 2007, the temporary decline in revenue collection and the increased expenditure needs for reconstruction would lead to an expansion of the primary fiscal deficit relative to the burden-sharing scenario by 4 percent of GDP in 2006, 3 percent of GDP in 2007, and 1 percent of GDP in 2008. As a result, the debt-service burden would increase markedly over time, reaching almost 28 percent of revenue over the medium term. Similarly, the downward momentum in the debt-to-GDP ratio would be diminished, with the ratio staying close to 130 percent until 2007.

- **Historical averages scenario and bound tests.** A scenario using historical averages for the projection of key variables, as well as a number of bound tests also point to non-negligible risk (Table 11).[1] For instance, under the historical averages scenario, the debt-to-GDP ratio would continue its upward trend, while under a bound test that shocks real GDP growth, the real interest rate and the primary balance by one standard deviation in 2006 and 2007, the debt-to-GDP ratio would quickly rise to above 170 percent in 2007 before stabilizing.

**Figure AI.1. Grenada: Public Debt Service, 2004–25**

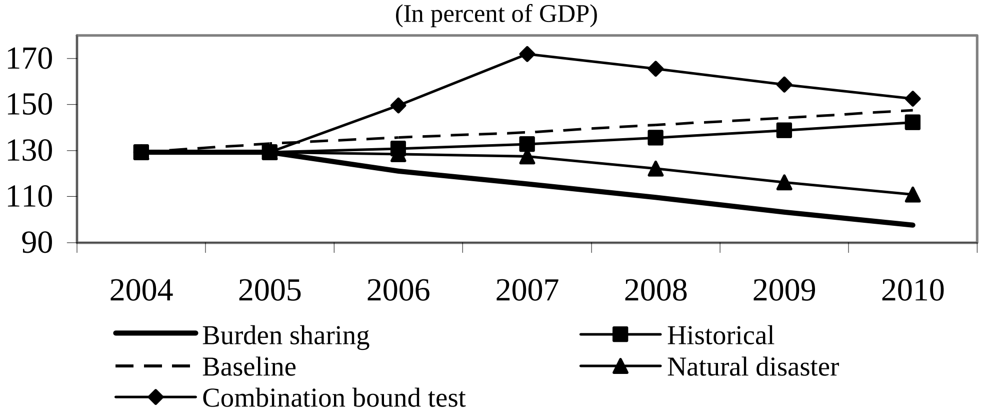
(In percent of fiscal revenue)




Sources: Ministry of Finance; and Fund staff estimates.

**Figure AI.2. Grenada: Public Debt, 2004–10**

(In percent of GDP)




Sources: Ministry of Finance; and Fund staff estimates.

[1] Under the historical averages scenario, key variables, including real GDP growth, the real interest rate and the primary balance in percent of GDP, are assumed at their 10-year historical averages during 2006–10.

**Table AI.1. Grenada: Medium-Term Projections. 2003–25**
(In percent of GDP, unless denoted otherwise)

| | 2003 | 2004 | Projections 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Avg. 2011-15 | Avg. 2016-20 | Avg. 2021-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Baseline Scenario** | | | | | | | | | | | |
| Real GDP growth (percent) | 5.8 | -3.0 | 0.9 | 7.0 | 5.4 | 4.5 | 4.5 | 4.5 | 4.0 | 4.0 | 4.0 |
| GDP deflator (annual percent change) | 1.3 | 2.7 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Central government overall balance (including grants) | -4.8 | -2.8 | -8.5 | -14.3 | -12.3 | -11.7 | -11.6 | -12.3 | -10.7 | -10.2 | -10.9 |
| Total revenue and grants | 34.5 | 33.1 | 41.7 | 32.2 | 30.3 | 29.2 | 29.9 | 29.5 | 30.0 | 29.8 | 29.8 |
| *Of which*: grants | 6.9 | 7.5 | 13.9 | 6.1 | 2.7 | 0.6 | 0.6 | 0.5 | 0.4 | 0.0 | 0.0 |
| Total expenditure | 39.3 | 35.9 | 50.2 | 46.5 | 42.6 | 41.0 | 41.5 | 41.8 | 40.7 | 40.0 | 40.7 |
| Non-interest recurrent expenditure | 19.1 | 21.5 | 24.9 | 23.8 | 23.8 | 23.6 | 23.6 | 23.3 | 22.0 | 20.5 | 20.4 |
| Interest expenditure | 5.2 | 6.4 | 6.1 | 6.2 | 6.8 | 7.4 | 8.0 | 8.5 | 9.8 | 11.4 | 12.3 |
| Capital expenditure | 15.0 | 7.9 | 19.2 | 16.5 | 12.0 | 10.0 | 10.0 | 10.0 | 9.0 | 8.2 | 8.0 |
| Central government primary balance (including grants) | 0.4 | 3.7 | -2.5 | -8.1 | -5.5 | -4.3 | -3.6 | -3.7 | -0.9 | 1.2 | 1.4 |
| Public and publicly-guaranteed debt | 110.0 | 129.4 | 133.1 | 135.7 | 138.0 | 141.2 | 144.1 | 147.5 | 154.3 | 160.5 | 166.4 |
| Debt service (in percent of revenue) 1/ | 27.0 | 40.2 | 31.8 | 35.9 | 42.1 | 40.0 | 37.0 | 37.9 | 53.8 | 41.9 | 43.5 |
| **Burden-Sharing Scenario** | | | | | | | | | | | |
| Real GDP growth (percent) | 5.8 | -3.0 | 0.9 | 7.0 | 5.4 | 4.5 | 4.5 | 4.5 | 4.0 | 4.0 | 4.0 |
| GDP deflator (annual percent change) | 1.3 | 2.7 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Central government overall balance (including grants) | -4.8 | -2.8 | -8.5 | -6.5 | -6.3 | -3.5 | -2.1 | -2.2 | 0.9 | 2.9 | 3.2 |
| Total revenue and grants | 34.5 | 33.1 | 41.7 | 35.1 | 31.9 | 32.3 | 32.4 | 30.8 | 30.6 | 30.2 | 30.2 |
| *Of which*: grants | 6.9 | 7.5 | 13.9 | 7.8 | 2.8 | 2.4 | 1.8 | 0.5 | 0.4 | 0.0 | 0.0 |
| Total expenditure | 39.3 | 35.9 | 50.2 | 41.6 | 38.2 | 35.7 | 34.5 | 33.0 | 29.7 | 27.4 | 27.1 |
| Non-interest recurrent expenditure | 19.1 | 21.5 | 24.9 | 21.9 | 21.0 | 20.4 | 19.9 | 19.3 | 18.7 | 18.4 | 18.4 |
| Interest expenditure | 5.2 | 6.4 | 6.1 | 5.7 | 5.2 | 4.9 | 4.5 | 4.2 | 2.4 | 1.0 | 0.7 |
| Capital expenditure | 15.0 | 7.9 | 19.2 | 14.0 | 12.0 | 10.5 | 10.0 | 9.5 | 8.5 | 8.0 | 8.0 |
| Central government primary balance (including grants) | 0.4 | 3.7 | -2.5 | -0.7 | -1.1 | 1.4 | 2.5 | 2.0 | 3.3 | 3.8 | 3.8 |
| Public and publicly-guaranteed debt | 110.0 | 129.4 | 129.2 | 121.1 | 115.6 | 109.7 | 103.3 | 97.6 | 81.3 | 57.2 | 34.3 |
| Debt service (after relief; in percent of revenue) 1/ | 27.0 | 40.2 | 15.1 | 12.0 | 10.9 | 15.5 | 13.2 | 11.4 | 15.0 | 14.0 | 17.9 |
| **Natural Disaster Scenario** | | | | | | | | | | | |
| Real GDP growth (percent) | 5.8 | -3.0 | 0.9 | 3.5 | 4.0 | 5.0 | 4.5 | 4.5 | 4.0 | 4.0 | 4.0 |
| GDP deflator (annual percent change) | 1.3 | 2.7 | 3.0 | 3.0 | 2.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Central government overall balance (including grants) | -4.8 | -2.8 | -8.5 | -10.6 | -10.0 | -5.5 | -3.3 | -3.5 | -0.7 | 0.8 | 0.3 |
| Total revenue and grants | 34.5 | 33.1 | 41.7 | 35.6 | 32.4 | 32.3 | 32.4 | 30.8 | 30.6 | 30.2 | 30.2 |
| *Of which*: grants | 6.9 | 7.5 | 13.9 | 8.8 | 3.8 | 2.4 | 1.8 | 0.5 | 0.4 | 0.0 | 0.0 |
| Total expenditure | 39.3 | 35.9 | 50.2 | 46.3 | 42.4 | 37.8 | 35.7 | 34.3 | 31.2 | 29.4 | 29.9 |
| Non-interest recurrent expenditure | 19.1 | 21.5 | 24.9 | 22.4 | 21.5 | 20.4 | 19.9 | 19.3 | 18.8 | 18.4 | 18.4 |
| Interest expenditure | 5.2 | 6.4 | 6.1 | 5.9 | 5.9 | 5.9 | 5.8 | 5.5 | 4.0 | 3.0 | 3.5 |
| Capital expenditure | 15.0 | 7.9 | 19.2 | 18.0 | 15.0 | 11.5 | 10.0 | 9.5 | 8.5 | 8.0 | 8.0 |
| Central government primary balance (including grants) | 0.4 | 3.7 | -2.5 | -4.8 | -4.1 | 0.4 | 2.5 | 2.0 | 3.3 | 3.8 | 3.8 |
| Public and publicly-guaranteed debt | 110.0 | 129.4 | 129.2 | 128.4 | 127.5 | 122.2 | 116.2 | 111.0 | 96.6 | 77.0 | 60.3 |
| Debt service (after relief; in percent of revenue) 1/ | 27.0 | 40.2 | 15.1 | 12.6 | 13.2 | 18.9 | 17.1 | 15.5 | 20.2 | 21.0 | 27.7 |

Sources: Ministry of Finance; and Fund staff projections.

1/ Excludes repayment of short-term domestic debt, which is assumed to be rolled over.

## Grenada—Relations with the Fund
(As of May 31, 2005)

**I. Membership Status:** Joined: 08/27/75; Article VIII.

| **II. General Resources Account:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 11.70 | 100.00 |
| Fund Holdings of Currency | 17.56 | 150.05 |
| Reserve Position | 0.00 | 0.00 |

| **III. SDR Department:** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 0.93 | 100.00 |
| Holdings | 0.00 | 0.08 |

| **IV. Outstanding Purchases and Loans:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Stand-by Arrangements | 5.86 | 50.04 |

**V. Financial Arrangements:** None

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

| | | Forthcoming | | | |
|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2008** | **2009** |
| Principal | | 1.10 | 1.47 | 1.83 | 1.46 |
| Charges/Interest | 0.12 | 0.23 | 0.18 | 0.12 | 0.06 |
| Total | 0.12 | 1.33 | 1.64 | 1.94 | 1.52 |

**VII. Implementation of HIPC Initiative:** Not Applicable

**VIII. Exchange Arrangement:**

Grenada is a member for the Eastern Caribbean Central Bank (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 payments and transfers for current international transactions.

**IX. Article IV Consultation:**

Grenada is on the standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on January 27, 2003 (IMF Country Report No. 03/25). The 2004 Article IV Consultation, for which discussions were held in St. George's during May 13−25 and which was scheduled to be discussed at the Executive Board in November 2004, was postponed following the devastation caused by Hurricane Ivan.

**X. FSAP Participation**:

Grenada participated in the regional ECCU FSAP conducted in September and October 2003. The Financial System Stability Assessment is IMF Country Report No. 04/293.

**XI. Technical Assistance:**

An FAD mission visited Grenada in April 2004 to provide assistance in the preparations to implement a VAT.

An FAD mission visited Grenada in October 2002 to provide assistance in tax policy and administration.

An MAE mission visited Grenada in September 2003 as part of the regional FSAP covering the members of the Eastern Caribbean Currency Union.

An MAE mission visited Grenada in September 2001 to evaluate the Module I self-assessment of the offshore financial sector.

An MAE mission visited Grenada in January 2001 to assist the authorities in preparing self-diagnostic exercises to assess the regulatory framework and operations of the offshore financial sector.

An LEG mission visited Grenada in July 2000 to examine the tax laws and to make recommendations for increasing compliance.

An FAD mission visited Grenada in October 1999 to review the tax system and advise on the feasibility of introducing a VAT.

**Caribbean Regional Technical Assistance Centre (CARTAC):**

## I. Medium-Term Economic Framework

As part of the Structural Adjustment Technical Assistance Program (SATAP), CARTAC assisted Grenada during 2003–04 to design measures to reduce fiscal deficits and stabilize the debt-to-GDP ratio in line with ECCB targets. The exercise was undertaken in collaboration with staff of the Ministry of Finance in an effort to enhance macroeconomic management capacity within the Ministry, including in financial programming. Work on SATAP was interrupted by Hurricane Ivan but is expected to resume in the summer of 2005.

## II. Fiscal Sector

- CARTAC is assisting with VAT implementation, which was scheduled for January 2006 but put on hold as a consequence of Hurricane Ivan. A draft VAT/excise legislation has been prepared by LEG, a VAT sensitivity study has been undertaken, and a program for VAT publicity and public education has been prepared.

- The authorities have approached CARTAC to discuss alternative means of raising revenue in the short term, including through changes in the personal income tax threshold.

- CARTAC provided training to Customs officers in UNIX and ASYCUDA and will assist with migration to ASYCUDA ++.

## III. Financial Sector

- In collaboration with OSFI in 2003, CARTAC assisted in drafting legislation to establish the single supervisory agency, GARFIN.

- In 2002, a CARTAC-funded consultant conducted a feasibility study on the establishment of a single supervisory unit for all licensed financial institutions. Comments were provided on proposed changes to the Offshore Banking Act and an expert was recruited to draft revisions to the Act.

- A Corporate Governance Seminar was arranged and convened for directors, auditors, and service providers in Grenada in 2002. Presentations were made by regional experts on the duties and responsibilities of directors, the application of international accounting standards, and the implementation of an effective anti-money laundering regime.

- Supervisors from Grenada have participated in CARTAC training courses covering banking, credit unions, and insurance companies.

## Grenada—Relations with the World Bank Group

(As of May 25, 2005)

The FY 2002–06 Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) includes commitments of US$107 million for five borrowing member states of the Organization of the Eastern Caribbean States (OECS), including Grenada. The main goals of the strategy are to reduce income insecurity and vulnerability at the national and household levels, and build human and institutional capacity to meet the challenging economic and social environment. Most new projects are being provided, in close collaboration with sub-regional organizations and external partners, under a sub-regional umbrella mechanism using horizontal Adaptable Program Loans (APLs). The World Bank is currently preparing a new CAS for the OECS sub-region for FY 2006–09.

### A. Projects

There are five active World Bank projects in Grenada for a net commitment of approximately US$38 million as well as two Global Environmental Facility (GEF) projects with total commitments of US$8.7 million.

The Grenada **Disaster Management Project**, approved in October 2000, is part of a regional program for the OECS countries to fortify, reconstruct, and/or rehabilitate key economic and social infrastructure and facilities, in order to minimize the potential damage or disruption caused by future disasters, and to improve disaster response and emergency recovery. Of a total program size of US$34 million, Grenada's component is US$10.7 million.

In March 2002, the World Bank approved US$20.9 million in loans and credits to support **Emergency Recovery Projects** in the OECS sub-region, including in Grenada. The projects support efforts aimed at fostering recovery from the fallout of the events of September 11, 2001, including: (i) efforts to safeguard the productive capacity of the tourism sector by securing energy imports; (ii) investments to enhance security at sea ports and airports; and (iii) the development of institutional capacity for security programs as mandated by international civil aviation and maritime transport agencies. The Bank's support to Grenada under this project is for US$3.8 million.

The **Grenada Education Reform Project**, approved in June 2003 for US$8.0 million, is a follow-up to an earlier education project. Its objective is to build human capital, with a view to contributing to economic diversification and more sustainable growth. Key objectives are to: (i) increase equitable access to secondary education; (ii) improve the quality of the teaching and learning processes, with more direct interventions at the school level and an increased focus on student-centered learning, and (iii) strengthen management of the education sector and to improve governance of schools.

Approved in July 2002, the **HIV/AIDS Prevention and Control Program** is funded under the Multi-Country APL for the Caribbean Region. Its objectives are to: (i) curb the spread of the HIV/AIDS pandemic; (ii) reduce the morbidity and mortality attributed to HIV/AIDS;

(iii) improve the quality of life for persons living with HIV/AIDS; and (iv) develop a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic. The Bank's support to Grenada under this project amounts to US$6.0 million.

In November 2004, the World Bank approved US$10 million in emergency assistance for Grenada to respond to the effects of **Hurricane Ivan**. The project supports the recovery efforts of the government of Grenada through the financing of critical imports and rehabilitation activities in key social sectors.

Grenada is also participating in two Global Environment Facility (GEF) projects. The **Caribbean-Wide Mainstreaming Adaptation to Climate Change Project** became effective in June 2003 and aims to facilitate an enabling environment for climate change adaptation. The project components aim to: (i) build regional capacity to collect and analyze data, thereby expanding the knowledge base on climate change impacts and helping to assess the associated physical and socioeconomic vulnerabilities; and (ii) build in-country capacity to formulate and analyze adaptation policy options and finalize sectoral adaptation strategies for the countries. The project is being executed by the Caribbean Community (CARICOM) and is intended to receive financing of approximately US$10.9 million, of which US$5 million is GEF funding. The **OECS Protected Areas and Associated Alternative Livelihood** became effective December 2004. It aims to remove barriers to the effective management of protected areas, and to increase the involvement of civil society in the planning, management and sustainable use of these areas. The OECS Secretariat will execute the project and receive financing of about US$7.6 million, of which US$3.7 million is GEF funding.

## B. Economic and Sector Work

The Bank has completed a series of analytical work relating to: public sector capacity in the OECS including the Institutional and Organizational Capacity Review, the OECS Procurement Assessment Review, and the OECS Financial Accountability Assessment. In conjunction with the IMF, a Financial Sector Assessment Program (FSAP) was completed in early 2004. The Bank also recently completed an OECS study on Growth and Competitiveness. Work is ongoing on a review of large scale energy options for the OECS, under the Energy Sector Management Assistance Program. Grenada also stands to benefit from ongoing Caribbean-wide work on social protection.

For Grenada specifically, the Bank recently completed an Analysis of Fiscal Issues, which examines the management and allocation of public expenditure. In June 2004, **Foreign Investment Advisory Service** (FIAS) conducted a diagnostic review with recommendations to improve the investment climate in Grenada.

## C. Financial Relations[1]

## (In millions of U.S. dollars)

| Operation | Original Principal | Available[2] | Disbursed[2] |
|---|---|---|---|
| Telecom & ICT Development Project | 0.54 | 0.57 | 0.00 |
| Disaster Management Project | 10.07 | 1.18 | 8.82 |
| Emergency Recovery Project | 3.80 | 0.86 | 3.36 |
| Grenada Education Reform Project | 8.00 | 7.86 | 0.52 |
| HIV/AIDS Prevention And Control Program | 6.04 | 6.25 | 0.35 |
| Hurricane Ivan Emergency Recovery Project | 10.00 | 8.27 | 2.03 |
| **Total** | **38.45** | **25.00** | **15.08** |

1/ Includes only IBRD and IDA funded projects and is not inclusive of the two GEF projects.
2/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

### Disbursements and Debt Service (Fiscal Year Ending June 30)

| | Actual | | | | | | | | Projections |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| Total disbursements | 0.5 | 0.3 | 1.4 | 2.0 | 2.6 | 2.6 | 7.3 | 1.8 | 6.7 |
| Repayments | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.6 |
| Net disbursements | 0.4 | 0.2 | 1.3 | 1.9 | 2.5 | 2.6 | 7.2 | 1.6 | 6.1 |
| Interest and fees | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 |

## Grenada: Relations with the Caribbean Development Bank

(As of March 31, 2005)

### A. Projects

In 2004, the Caribbean Development Bank (CDB) approved two loans and five grants to Grenada with gross commitments of US$9.6 million. Special Development Fund (SDF) resources were provided for programmes and projects that assisted Grenada advance its economic recovery, reconstruction, and transformation process.

Given the importance of the nutmeg industry as a major contributor to Grenada's economic growth and development, the CDB approved a technical assistance grant amounting to US$150,000 to assist the Government of Grenada (GOG) to assess the feasibility of manufacturing and marketing value-added products from nutmeg with a view to promote product diversification and enhance industry performance and competitiveness. The CDB approved a technical assistance grant for the institutional strengthening of the Customs and Excise Department to reduce the incidence of fraud and non-compliance and optimize revenues. In education, a technical assistance grant was approved for the development of the T.A. Marryshaw Community College. In the area of the environment, environmental training workshops were conducted to impart the basic tools to conduct environmental screening and scoping of projects while assistance was provided for the institutional strengthening for environmental management.

Following the passage of Hurricane Ivan, the CDB approved immediate assistance in September 2004, amounting to US$620,000 under its Natural Disaster Management Strategy and Operational Guidelines (NDMSOG). This consisted of a grant of US$100,000 for emergency relief, and a loan of US$500,000 and associated grant of US$20,000 to the GOG for cleaning, clearing of debris, and restoring public services including utilities. In line with the NDMSOG, which provides that the CDB, in consultation with the affected country, may reallocate available balances under loans already approved, the Board of Directors approved the reprogramming of approximately US$27.8mn in undisbursed credits from a number of operations, in accordance with new priorities to be agreed between CDB and the GOG. This included US$2.7 mn in grants under the CDB's Basic Needs Trust programme. The GOG's counterpart contribution for projects financed utilizing these redirected resources was also waived. In addition, a budget support loan of US$8.1 mn from its Special Development Fund was provided to assist the GOG in meeting its fiscal obligations. The CDB also applied to, and obtained from the Inter-American Development Bank (IDB), a grant of US$200,000 for the GOG for relief assistance for immediate repairs to housing and medical supplies to health clinics. The grant was fully disbursed by the CDB in March 2005. At the same time, good progress was made in assisting Grenada strengthen its capacity for hazard mitigation through the development of disaster risk reduction policies and practices. Technical assistance was provided to develop a national policy and operational framework for mainstreaming disaster risk reduction into the reconstruction process. Training in incorporating disaster risk management into development project is scheduled for 2005.

Active projects under implementation in 2004 include:

**Economic Reconstruction Programme—Rehabilitation of Primary Schools—** US$4.4 million. This project is aimed at improving educational outcomes and attainment levels through the upgrading of the physical learning environment at the primary level, the provision of higher quality and more effective educational services, and more efficient system management.

**Bridge and Road Improvement Project—**US$17.1 million. For the restoration of approximately 20 kilometers of principal roads and the replacement of 12 bridges.

**Student Loans Scheme—**US$3.5 million. To the Grenada Development Bank for on-lending to students undertaking vocational, technical and professional training.

**Rural Enterprise Development—**US$8.4 million. Co-financed with the International Fund for Agricultural Development, this project seeks to promote rural community development and provide opportunities to expand rural household incomes through enterprise development and activities to improve agricultural production, marketing, and processing, among others.

## B. Financial Relations

(As of March 31, 2005)
(In millions of U.S. dollars)

| Item | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| Cumulative total credit approved[1] | 87.1 | 98.9 | 120.0 | 126.8 | 133.8 | 146.3 | 146.5 |
| Cumulative disbursements[2] | 73.8 | 78.9 | 87.6 | 93.0 | 101.4 | 110.9 | 114.3 |
| **Disbursements** | | | | | | | |
| Ordinary Capital Resources | 4.6 | 2.4 | 3.3 | 1.0 | 4.7 | 5.8 | 1.0 |
| Special Development Fund | 0.8 | 1.4 | 2.3 | 2.5 | 4.3 | 3.5 | 1.7 |
| Other Special Fund Resources | 0.5 | 0.9 | 2.3 | 1.4 | 0.1 | 0.2 | - |
| **Amortization[3]** | | | | | | | |
| Ordinary Capital Resources | 0.6 | 0.8 | 0.9 | 0.7 | 0.8 | 0.3 | 0.3 |
| Special Development Fund | 1.7 | 1.4 | 1.4 | 1.7 | 1.7 | 1.7 | 0.5 |
| Other Special Fund Resources | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | - |
| Outstanding debt (end of period) | 45.1 | 47.9 | 51.3 | 55.7 | 61.2 | 67.1 | 69.6 |
| **Interest and Commitment Fees** | | | | | | | |
| Ordinary Capital Resources | 0.8 | 0.9 | 1.2 | 1.1 | 1.1 | 1.3 | 0.4 |
| Special Development Fund | 0.7 | 0.6 | 0.6 | 0.7 | 0.6 | 0.6 | 0.2 |
| Other Special Fund Resources | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | - |

Source: Caribbean Development Bank.

[1] Loans and grants.

[2] Including valuation adjustments.

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

## Grenada—Statistical Issues

Grenada participates in the Fund's General Data Dissemination System (GDDS). Its metadata are posted on the Dissemination Standards Bulletin Board, although these have not been updated recently. The metadata include short- and medium-term plans for statistical development. Improvement in several key areas are needed to facilitate effective surveillance. Some of the outstanding issues are detailed below.

### A. Real Sector

There are a number of deficiencies in the real sector statistics. National accounts are provided annually. However, GDP by expenditure is available only with long lags, and real GDP by sector is not available. The estimation of gross capital formation needs to be improved and sectoral price deflators computed. There are discrepancies in the foreign trade estimates prepared by the customs department and the Central Statistical Office (CSO), and coverage, consistency, and timeliness of tourism data are limited.

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

Labor statistics are limited and outdated, with 1998 being the most recent year for which data are available. There are no regular wage and unemployment data. Data collected during the 2001 population census are still being processed. The CSO is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics.

### B. Public Finances

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

The coverage of the rest of the public sector is very limited, and there are no consolidated public sector accounts. There is no systematic reporting of information to the Ministry of Finance. Annual statements for some public enterprises are provided during Fund missions. It would be useful to institute a mechanism for the regular reporting of financial data pertaining to the rest of the public sector.

The authorities do not report fiscal data for publication in IFS. The 2002 *GFS Yearbook* contains data for 1991 to 1995, and covers only the central government. No financing data are reported. Grenada has not provided any fiscal data, either on a *GFSM 2001* basis, or a cash basis, for either the 2003 or the 2004 *GFS Yearbooks*.

### C. Monetary Accounts

The ECCB compiles monthly data on commercial banks with a lag of about two months. Information is reported on a regular basis for publication in *IFS*. The Ministry of Finance does not collect data regularly on nonbank financial institutions. Coverage of the offshore financial sector is limited.

Expanding institutional coverage to include nonbank financial institutions, such as credit unions and insurance companies, would enhance understanding of savings and credit as well as improve compilation of monetary aggregates. In addition, improved classification of financial instruments and loan categorization would enhance identification of credit flows to different sectors of the economy.

### D. Balance of Payments

The ECCB compiles and reports balance of payments statistics on an annual basis, using information collected by the CSO. Many of these statistics are based on information collected from surveys, and are not comprehensive. Trade statistics are more reliable and are available by SITC classification on a quarterly basis. The latest data published in the IFS and Balance of Payments Yearbook are for 2002.

Enhanced data sources and better compilation procedures are needed to improve the accuracy of balance of payments statistics. Moreover, quarterly balance of payments statistics and international investment position data are not compiled.

### E. External and Domestic Debt

The database for government and government-guaranteed external debt is quite comprehensive, and can be used to provide detailed and reasonably up-to-date breakdowns of disbursements and debt service. However, the database on domestic debt, including government-guaranteed debt, is limited, and there is no compilation of data on private external debt.

## GRENADA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF MAY 28, 2005

| | 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] | Mar 2005 | 5/3/05 | M | M, with 2- to 3-month lag | A/Q |
| Reserve/Base Money | Mar 2005 | 5/3/05 | M | M, with 2- to 3-month lag | A/Q |
| Broad Money | Mar 2005 | 5/3/05 | M | M, with 1- to 2-month lag | A/Q |
| Central Bank Balance Sheet | Mar 2005 | 5/3/05 | M | M, with 1- to 2-month lag | A/Q |
| Consolidated Balance Sheet of the Banking System | Mar 2005 | 5/3/05 | M | M, with 2- to 3-month lag | A/Q |
| Interest Rates[4] | Mar 2005 | 5/3/05 | M | M, with 1- to 2-month lag | A/Q |
| Consumer Price Index | Apr 2005 | May 2005 | M | M, with 1- to 2-month lag | A/M |
| Revenue, Expenditure, Balance and Composition of Financing[5]– Central Government | Mar 2005 | May 2005 | M | Q, with 1- to 2-month lag | A |
| Stocks of Central Government and Central Government-Guaranteed Debt[6] | Dec 2004 | Feb 2005 | M/A | Q, with 1- to 2-month lag | A |
| External Current Account Balance | Dec 2004 | May 2005 | A | Article IV Mission | A |
| Exports and Imports of Goods and Services | Dec 2004 | May 2005 | A | Article IV Mission | A |
| GDP/GNP | Dec 2004 | May 2005 | A | Article IV Mission | A |
| Gross External Debt[7] | Dec 2004 | May 2005 | Q | Q, with 1- to 2-month lag | A/Semi-annual |

[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) has been pegged to the US dollar at US$1=EC$2.70 since July 1976.
[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

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International Monetary Fund
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Washington, D. C. 20431 USA

# IMF Executive Board Concludes 2005 Article IV Consultation with Grenada

On July 13, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Grenada.[1]

Early in the morning of July 14, just hours after the Article IV staff report was discussed by the Executive Board, Grenada was struck by Hurricane Emily. The hurricane caused loss of life, injury and significant damage to a country still recovering from the impact of Hurricane Ivan, which hit the country in September 2004. Managing Director Rodrigo de Rato has written to Grenada's Prime Minister Mitchell, conveying the Fund's sympathies and assuring him of its readiness to help the people of Grenada in the difficult task of reconstruction and recovery that lies ahead.

## Background

Grenada's economy has been highly susceptible to changes in global economic conditions, particularly growth in advanced economies, and to natural disasters. Macroeconomic conditions have been difficult in Grenada since 2001 as a result of adverse shocks—the decline in tourism in the aftermath of the September 2001 terrorist attacks and the damage caused by Tropical Storm Lili and Hurricane Ivan. Real GDP growth, on average, has been low over the last five years compared with growth of nearly 6 percent a year in the late-1990s.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The absence of sustained growth has added to fiscal and debt imbalances. Although fiscal policy was expansionary in the mid-1990s, the public debt-to-GDP ratio remained broadly stable at around 50 percent of GDP, as deficits were financed partly by privatization proceeds. However, public debt spiraled to 110 percent of GDP by end-2003, as privatization receipts declined, guarantees were granted, and leases associated with public-private partnerships were purchased. As the economy began to recover in 2003, the government began to consolidate its fiscal accounts. Nevertheless, debt remained very high and the associated interest burden continued to rise.

Economic conditions and policy priorities changed abruptly when Hurricane Ivan hit in September 2004. Damage from the hurricane exceeded 200 percent of GDP. The economy contracted by 3 percent in 2004, a sharp reversal from the 4 percent growth that had been projected for the year pre-Ivan. Progress in fiscal consolidation was impeded as the authorities gave priority to post-hurricane relief and rehabilitation and revenue collection stalled. Nonessential expenditures were curtailed, and donor pledges of US$150 million (34 percent of 2004 GDP) were marshaled quickly through donor conferences. Grenada also received US$4.4 million (25 percent of quota) under the Fund's emergency assistance policy for natural disasters in November 2004.

A month after Hurricane Ivan struck, the authorities announced public debt to be unsustainable. In October 2004, they announced their intent to seek a cooperative solution with their creditors and donors. Interest payments were missed in December 2004 on two large international bonds pending their orderly restructuring. Grenada was downgraded to 'selective default' by Standard & Poor's. In January 2005, Grenada hired legal and financial advisors to assist in the formulation of a comprehensive debt-reduction strategy.

Inflation has remained low and stable within the framework of the currency board arrangement. The inflation rate has averaged 2 percent over the past 15 years. The annual inflation rate in April 2005 was 1.8 percent.

External current account deficits have been large, although mostly financed by foreign direct investment and capital transfers. Having averaged around 20 percent of GDP in 1997–2000, the current account deficit increased further to 32.7 percent by 2003. In 2001–03, more than half of the current account deficits were financed by foreign direct investment, and nearly one third by capital transfers, including migrant capital transfers.

Financial sector indicators have strengthened in recent years. Enforcement of regulations governing the offshore sector improved, leading to Grenada's removal from the Financial Action Task Force list of noncooperative countries in February 2003. Prudential indicators of the domestic banking sector have generally compared favorably with Eastern Caribbean Currency Union (ECCU) averages, with the ratio of nonperforming loans to total loans being the lowest in the region at 4½ percent at end-2003. After Ivan struck, banks granted moratoria on loans, sharply increased loan loss provisions, and assessed loan-by-loan credit quality. The share of nonperforming loans in the total rose to 5.8 percent at end-March 2005.

**Executive Board Assessment**

Executive Directors commended the people and government of Grenada for their efforts to overcome the effects of the massive damage caused by Hurricane Ivan. They praised the authorities' actions to maintain fiscal discipline in 2004 while outlining an agenda for reconstruction and reform under these daunting circumstances. Despite these efforts, the situation remains challenging. Directors noted that the economy contracted by 3 percent last year and is expected to recover only slowly over the course of this year. The external current account deficit is expected to deteriorate, the government faces large financing gaps, and the public debt stock stands at a very high level.

Directors welcomed the close cooperation between the authorities and the Fund staff to help Grenada overcome these problems. They expressed strong support for the authorities' intent to adopt a comprehensive medium-term plan to fill financing gaps and reduce and restructure public debt, with a view to restoring debt sustainability and boosting growth. Directors were encouraged by the authorities' progress with their home-grown structural adjustment program. They noted that in the absence of an official financing package, a sharp fiscal adjustment would be needed in order to restore external viability.

Directors agreed that filling financing gaps requires the collective effort of all stakeholders—creditors, donors, and the Grenadian people themselves. In this context, they commended the government for the measures proposed in the 2005 budget and urged their early implementation to address fiscal imbalances. They noted that an increase in retail fuel prices was scheduled for later this year and encouraged the adoption of social safety nets to protect groups most vulnerable to the effects of this increase. Directors welcomed the authorities' intent to continue to work closely with the staff on the design of a mechanism for regular changes in retail fuel prices in line with world prices. They hoped that the public consultations conducted by the government in recent weeks would result in the adoption of a special levy on incomes that has broad support.

Most Directors noted, however, that further fiscal effort would be required beyond the measures announced in the 2005 budget. Efforts should be made on the revenue side to reduce tax concessions and strengthen tax audits and collection. On the expenditure side, Directors urged wage moderation—following the cumulative increase of 40 percent in the public sector wage bill over the last five years. They advised that public sector wage increases should be aligned with productivity growth. Directors also drew attention to the importance of carefully prioritizing capital expenditures. They supported the authorities' requests for technical assistance to catalyze their efforts.

Directors were encouraged by the generous donor pledges that Grenada received in the aftermath of Hurricane Ivan, but noted that continued efforts were necessary to ensure the full disbursement of pledged funds.

Directors welcomed the progress that the authorities have made in their discussions with commercial creditors. They looked forward to the launch and successful completion of a debt exchange offer. Directors urged the authorities to continue their dialogue with official creditors and to respect the principle of inter-creditor equity. Several Directors saw an important role for the Fund in assisting Grenada to move to a position of debt sustainability, including by facilitating the process of restructuring the country's Paris Club debt. The need to engage the non-Paris Club creditors was also underscored.

Directors noted the important role that the Agency for Reconstruction and Development will be required to play in bringing about Grenada's economic recovery. They strongly urged that the mechanisms to ensure transparency and accountability in the use of donor funds be made fully operational. In particular, the operations of the Reconstruction and Development Fund and the Agency's own operational expenses should be recorded transparently as an item in the budget. The importance of setting clear priorities and enhancing implementation and capacity building in carrying forward the reconstruction process was also noted.

Looking beyond the near-term recovery of the economy, Directors urged that the government's economic program should include structural measures to improve the investment climate and increase the contribution of the services sector to growth. Directors welcomed the authorities' recognition of, and willingness to promote, greater regional integration as a way of boosting medium-term growth prospects.

Directors noted that Grenada's high vulnerability to natural disasters highlights the urgent need for strengthening its ability to prepare for and cope with these shocks. They accordingly welcomed efforts to boost disaster mitigation and preparedness, particularly through better enforcement of building codes. They welcomed the authorities' openness to looking into ways to transfer disaster risk, including through regional insurance pools.

Directors stressed the importance of close monitoring of the health of the financial sector. They urged the authorities to ensure, in conjunction with the Eastern Caribbean Central Bank (ECCB), that there is effective supervision of the banking sector, including through onsite inspections. They welcomed the authorities' efforts to improve the legislative framework for financial system regulation and supervision and their intention to strengthen regulation of the insurance industry.

Directors encouraged the authorities to strengthen the quality, coverage, timeliness, and frequency of the statistical database to facilitate policymaking and effective surveillance. They welcomed the recent efforts to improve data on poverty, which should help in the design of effective social safety nets.

**Grenada: Selected Economic Indicators, 2000–05**

| | 2000 | 2001 | 2002 | 2003 | Est. 2004 | Proj. 2005 |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise specified) | | | | | |
| **Output and prices** | | | | | | |
| Real GDP | 7.0 | -4.4 | 0.8 | 5.8 | -3.0 | 0.9 |
| Consumer prices, end of period | 3.4 | 2.5 | 2.3 | 1.6 | 2.5 | 3.0 |
| Consumer prices, period average | 2.1 | 1.7 | 1.1 | 2.2 | 2.3 | 3.0 |
| **Banking system** | | | | | | |
| Net foreign assets 1/ | 0.3 | 7.4 | 10.8 | 5.8 | 17.9 | 2.1 |
| Net domestic assets 1/ | 15.0 | 3.2 | -3.7 | 2.2 | -0.2 | 0.2 |
| *Of which:* | | | | | | |
| Net credit to the public sector 1/ | 3.6 | 4.9 | -4.5 | 2.3 | -6.5 | 0.1 |
| Credit to private sector 1/ | 12.9 | 0.8 | 0.9 | 3.1 | 5.0 | 1.9 |
| Broad money | 15.4 | 10.6 | 7.1 | 8.0 | 17.7 | 2.3 |
| Average deposit interest rate (in percent per annum) 2/ | 4.2 | 4.2 | 3.2 | 3.4 | 2.8 | ... |
| Average lending interest rate (in percent per annum) 2/ | 11.5 | 10.1 | 10.5 | 12.4 | 10.0 | ... |
| | (In percent of GDP, unless otherwise specified) | | | | | |
| **Central government finances** | | | | | | |
| Total revenue and grants | 29.8 | 31.0 | 29.0 | 34.5 | 33.1 | 41.7 |
| *Of which:* | | | | | | |
| Grants | 2.9 | 4.2 | 2.1 | 6.9 | 7.5 | 13.9 |
| Total expenditure 3/ | 33.0 | 39.5 | 48.2 | 39.3 | 35.9 | 50.2 |
| Current expenditure | 20.8 | 24.2 | 25.9 | 24.3 | 27.9 | 31.0 |
| Capital expenditure 3/ | 12.2 | 15.3 | 22.2 | 15.0 | 7.9 | 19.2 |
| Current balance | 6.0 | 2.5 | 0.6 | 3.2 | -2.4 | -3.2 |
| Primary balance (after grants) 3/ | -1.0 | -5.8 | -14.5 | 0.4 | 3.7 | -2.5 |
| Overall balance (after grants) 3/ | -3.2 | -8.5 | -19.2 | -4.8 | -2.8 | -8.5 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.6 |
| Total public sector debt 4/ | 56.2 | 63.7 | 109.6 | 110.0 | 129.4 | 133.1 |
| **External sector** | | | | | | |
| External current account | -21.5 | -26.6 | -32.0 | -32.7 | -17.4 | -33.9 |
| Exports, f.o.b. (percentage change) | 11.7 | -23.3 | -34.9 | 10.0 | -23.1 | -13.2 |
| Imports, c.i.f. (percentage change) | 19.7 | -10.9 | -7.8 | 25.1 | 4.1 | 17.5 |
| Travel (net, percentage change) | 4.8 | -10.7 | 7.2 | 17.2 | -12.4 | -8.5 |
| Terms of trade (- = deterioration, percentage change) | -5.4 | 0.4 | -1.6 | -3.1 | -11.6 | 3.0 |
| Real effective exchange rate (- = depreciation, percentage change) | 5.7 | -0.1 | -3.4 | -8.5 | -4.6 | ... |
| External public sector debt 4/ | 35.1 | 45.5 | 83.6 | 80.2 | 95.0 | 100.4 |

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

1/ Annual changes relative to the stock of broad money at the beginning of the period.
2/ Break in the data series in 2003.
3/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements, and reflected in capital expenditures.
4/ Includes central government debt, government-guaranteed debt, and non-guaranteed public enterprise debt.