March 2009
IMF Country Report No. 09/95

Grenada: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers and Modification of Quantitative Performance Criteria, and Financing Assurances Review—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Grenada

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility for Grenada, requests for waivers and modification of quantitative performance criteria, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers and Modification of Quantitative Performance Criteria, and Financing Assurances Review prepared by a staff team of the IMF, following discussions that ended on November 13, 2008 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 December 1, 2008. 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 staff supplement of December 10, 2008, updating information on recent developments and an providing an updated Letter of Intent.

- A Press Release summarizing the views of the Executive Board as expressed during its December 12, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Grenada.

The documents listed below will be separately released.

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

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

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GRENADA

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers and Modification of Quantitative Performance Criteria, and Financing Assurances Review

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

Approved by José Fajgenbaum (WHD) and Philip Gerson (SPR)

December 1, 2008

Context: The slowing global economy and financial turmoil are expected to negatively affect tourism receipts, FDI, and remittances, but the financial system has remained resilient thus far. Growth is projected to slow in 2008–09, as several major FDI-financed tourism investment projects are on hold.

Arrangement: On April 17, 2006, the Executive Board approved a PRGF Arrangement for SDR 10.53 million (90 percent of quota). In July 2008, the Board completed the first program review, augmented access to 102.5 percent of quota to help mitigate the impact of food and fuel price shocks, and extended the arrangement by one year to April 16, 2010.

Program performance: Reflecting measures to alleviate the external commodity price shocks, high spending in the run up to the July elections, and unbudgeted retroactive wage payments, the primary balance excluding grants in the first half of 2008 deviated from the program target by 0.8 percent of GDP. The performance criterion on external arrears was also missed. Meeting structural benchmarks on investment legislation, a plan to improve Doing Business Indicators, customs reforms, and planning regulations has been delayed following the change in government and difficulties with external consultants.

Review: In the attached Letter of Intent and Supplementary Memorandum of Economic Policies, the authorities elaborate on their policies for 2008–09, and propose quantitative performance criteria and structural benchmarks for 2009. They request completion of the review, waivers for the missed performance criteria on the primary balance and on external arrears, and modification of the end-2008 performance criteria on the primary balance and on domestic arrears (by 1.1 percent and 1 percent of GDP respectively). Upon completion of the second review, a disbursement of SDR 2.41 million will become available.

Missions: A mission visited St. George's during September 15–24 and November 12-13, 2008 and met with Prime Minister Thomas, Minister of Finance Burke, Permanent Secretary Antoine, other senior officials, and representatives of the banking sector. The team comprised Ms. Pattillo (Head), Mr. Monroe, Ms. Mwase (all WHD), Mr. Nielsen (SPR), and Mr. Olafsson (MCM). Mr. Jenkins (OED) participated in the final discussions.

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EXECUTIVE SUMMARY

Grenada's economic outlook has deteriorated somewhat, mainly reflecting the global financial turmoil and slowing global growth. GDP growth is expected to fall from 4.5 percent in 2007 to 1.6 percent in 2008 and remain low in 2009. Several major tourism investment projects are on hold, while temporary disruptions in tourism airlift capacity and the global slowdown are expected to weaken tourism receipts and remittances. Annual inflation is projected at 7.8 percent in 2008, but is expected to decline considerably in 2009 in line with world fuel and food prices. The banking system, which is dominated by subsidiaries of international banks, has remained resilient thus far.

Reflecting measures to alleviate the negative external commodity price shocks, spending pressures in the run up to the July 2008 elections, and unbudgeted retroactive wage payments, public finances weakened and the end-June 2008 quantitative performance criterion on the central government primary balance was missed by EC$14 million (0.8 percent of annual GDP). Administrative delays also led to several cases of small external debt service payments being made late, breaching the performance criterion on nonaccumulation of external arrears. Meeting structural benchmarks has been delayed by the change in government and difficulties with external consultants.

The new government, with a strong mandate from the elections, has taken important remedial measures to address fiscal slippages and strengthen policies. These measures include issuing a finance circular to sharply reduce capital expenditure in the second half of 2008 to EC$50 million (2.8 percent of annual GDP) (prior action); reinstating the EC$3 per gallon fuel tax and full passthrough to domestic fuel prices, implying an 18 percent price increase; delaying repeal of the National Reconstruction Levy until 2009; better targeting social spending; and committing to resolving Capital Bank with limited direct fiscal costs.

The authorities are moving forward with a policy framework that provides for needed fiscal consolidation, addresses financial sector vulnerabilities, and reinvigorates the structural agenda.

- The 2009 draft budget will allocate expected divestment proceeds toward financing an overall deficit of 1.1 percent of GDP, and reducing expensive debt by 1.2 percent of GDP and arrears by 0.4 percent of GDP. The budget also reduces spending on transfers and subsidies and on goods and services, and lowers capital expenditure to 9 percent of GDP.

- The authorities revoked Capital Bank's license and reappointed the receiver in September 2008, and the Minister of Finance petitioned the High Court for liquidation of the bank on November 13, 2008. Supervision of nonbank financial institutions is being strengthened, an important effort during this period of global financial turmoil.

- Structural measures for late 2008 and for 2009 include reforming investment incentives, completing a country poverty assessment, and preparing for implementation of a VAT.

The program entails significant risks. Financial turmoil and the global economic slowdown are expected to slow tourism demand, FDI, and remittances, and could also negatively affect grants from some donors. The government intends to take contingent fiscal measures if needed to ensure success of the program, including limiting transfers while protecting vulnerable groups.

I. Recent Developments and Outlook

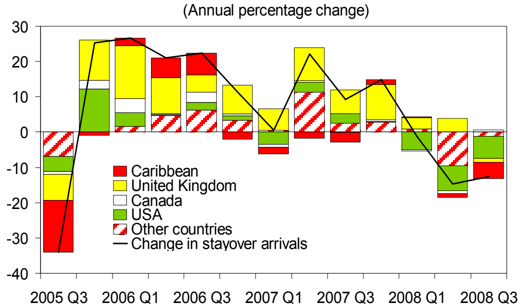
1. **Grenada launched its home-grown economic reform program with the 2006 budget**. Its key objectives were to sharply reduce public debt; to reinvigorate growth through structural reforms; to reduce vulnerabilities; and to further the nation's social development agenda. It has made progress including conducting successful commercial and Paris Club debt restructurings, moving ahead with fiscal reforms, and addressing weaknesses in the financial system, including an unregulated bank. There have also been important setbacks, namely fiscal slippages during 2006–07 and the first half of 2008, difficulties in prioritizing capital spending, delays in improvements to the business climate and reforming investment incentives, and further issuance of tax holidays.

A. Recent Developments

2. **A new government was elected on July 8, 2008 with a strong mandate.** The National Democratic Congress (NDC) won 11 of 15 parliamentary seats, coming to power after 13 years in opposition. Its strong mandate should help create an environment conducive for reform. The new government is committed to the successful implementation of the PRGF-supported program.

3. **The slowing global economy and financial turmoil have already begun to affect Grenada.** Tourist stayover arrivals declined 4.4 percent during January-September 2008 after a strong Cricket World Cup related performance during the first half of 2007. Temporary disruptions in tourism airlift capacity, including the collapse of two airlines, and slowing global demand have weakened tourism receipts in the third quarter of 2008. Several major FDI-financed tourism investment projects have been put on hold due to financing difficulties. However, thus far the financial system has been largely unaffected by the global financial turmoil.

Grenada: Stayover Arrivals, 2005–2008
(Annual percentage change)



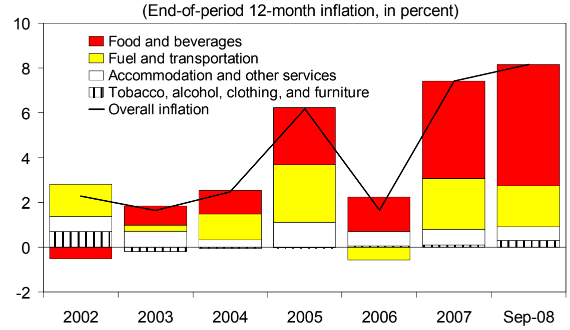
Sources: ECCB; and Fund staff calculations.

4. **The external current account deficit is expected to narrow slightly in 2008, mainly reflecting a slowdown in economic activity.** During 2006–08, the real effective exchange rate has remained broadly unchanged while the improvements in the terms of trade in 2006–07 have been reversed in 2008.

5. **Inflation has risen markedly**. High world food and fuel prices pushed the 12-month inflation rate to 8.2 percent in September 2008.[1] However, core inflation (excluding food and energy) was 2.3 percent in the same period (Figure 1).

6. **To mitigate the large increases in world fuel prices, the government reduced the fixed tax on gasoline from EC$3 to EC$2 per gallon in May 2008 and did not employ the automatic fuel price mechanism in July and September 2008.** Lack of passthrough led to arrears to fuel importers whose margins were eroded with respect to the level anticipated in the automatic fuel price mechanism. The government reinstated the automatic mechanism and the EC$3 per gallon fuel tax in October 2008.

Grenada: Contribution to Overall Inflation, by Sector, 2002–Sept. 2008
(End-of-period 12-month inflation, in percent)



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

7. **The banking system, which is dominated by subsidiaries of international banks, has remained resilient thus far.** It appears to be weathering well the global financial turmoil, closure of Capital Bank, and freezing of assets of an unregulated investment scheme.[2] The growth rate of credit to the private sector slowed to 9 percent through September 2008. The ratio of nonperforming loans to total loans remained low at 3.5 percent at end-June 2008, and liquidity and capital adequacy ratios remained adequate (Figure 2). Some foreign commercial banks report a tightening of credit standards.

B. Outlook

8. **The slowing global economy and financial turmoil have weakened the economic outlook.** Real GDP is projected to grow by 1.6 percent in 2008, lower than the 3.7 percent projected earlier. Tourism demand is expected to weaken further, notwithstanding new daily direct airline service from the United States and indications that new airlines will replace two that ceased operations. Several major tourism investment projects are reporting difficulties in securing financing, and remittances are expected to slow down sharply. Output growth is expected to remain low at 1.6 percent in 2009. Annual inflation is projected at 7.8 percent in 2008 and to decline to 4 percent in 2009 owing to lower global commodity prices. The banking sector is expected to remain resilient, notwithstanding the international financial turmoil, and based on the performance to date of their primarily Canadian parent banks.

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[1] Although retail fuel prices were not adjusted in July and September 2008, there was full passthrough of international fuel prices to electricity prices.

[2] The Eastern Caribbean Securities and Regulatory Commission issued cease and desist orders in May 2008 against two unregulated investment schemes in Grenada, one of which was already operating. That scheme invested through an offshoot of a Jamaican scheme, the assets of which were frozen by the Turks and Caicos law enforcement authorities in July 2008.

II. Performance Under the Program

9. **Quantitative performance criteria on the central government primary balance at end-June 2008 and on nonaccumulation of external arrears were missed**. The end-June primary deficit excluding grants was 3.6 percent of annual GDP, exceeding the program target of 2.8 percent of GDP,[3] driven mainly by capital spending overruns of 2.5 percent of GDP (Figure 3) and unbudgeted retroactive wage payments of 0.4 percent of GDP.[4] The capital spending overruns reflected spending pressures in the period before the elections and measures to alleviate the negative external commodity price shocks.[5] The overall deficit was financed primarily with divestment proceeds. Administrative delays led to small late external debt service payments in several cases.[6] All other quantitative performance criteria and the indicative target on net credit to the public sector were met.

10. **While the end-June performance criterion on domestic arrears was met, subsequently some pre-election spending was left unpaid, giving rise to new domestic arrears.**[7] These arrears declined from EC$27 million (1.5 percent of GDP) at end-2007 to EC$12 million (0.7 percent of GDP) at end-June 2008. However, arrears rose back to EC$29 million (1.6 percent of GDP) at end-September, reflecting the aging of arrears on pre-election spending.[8]

11. **Observance of structural benchmarks has been delayed.** Cabinet approval of legislation on investment incentives has been delayed by the change in government, but is now expected to take place in December.[9] An action plan to improve Doing Business Indicators and a Customs Fraud

Status of Structural Benchmarks Under the Program

	Target Date	Status
On Investment Act, amended Income Tax Act, and drafts to repeal tax incentives legislation, update with final policy decisions and obtain Cabinet approval	Sept. 2006	Not met
Develop an action plan with measures to improve Doing Business Indicators	Aug. 2008	Not met
Bring into force new planning regulations	July 2008	Not met
Develop and begin implementing a customs Fraud Control Plan and sign an MoU on information sharing between customs and Inland Revenue	Sept. 2008	Partially met. MoU signed in November 2008

[3] The program target was EC$49.8 million reflecting adjustors for grants and concessional financing; see Table 1 of the supplementary MEP. The target, which is measured below-the-line, was missed by less than the amount of the spending overruns measured above-the-line, reflecting the large statistical discrepancy.

[4] The government reached agreement in June 2008 on a wage path for teachers. The wage increases were higher than budgeted, but in line with inflation and with the terms agreed with other public service workers in January 2008.

[5] Some nonrecurrent spending programs (such as the food basket program) are classified as capital spending.

[6] The two largest cases of external arrears amounted to US$0.4 million.

[7] For program purposes, domestic arrears are only those older than 60 days, in line with the program's performance criterion.

[8] The government has acknowledged arrears to fuel importers as of end-June 2008 resulting from incomplete pass-through of world fuel prices and has reached an agreement with these importers under which the government will remit back 50 percent of the fuel tax until these claims are satisfied.

[9] A major investment project received a tax holiday just prior to the elections.

Control Plan were delayed due to difficulties with external consultants. Problems in securing technical assistance hindered the drafting of planning regulations.

12. **Progress was made with resolving Capital Bank.** On September 18, 2008, the authorities revoked the bank's license, and, acting on the recommendation of the Eastern Caribbean Central Bank (ECCB), reappointed a receiver. On November 13, the authorities petitioned the High Court for liquidation of the bank. Several investors are still interested in some form of asset purchase and assumption of liabilities.

III. Policies for the Remainder of 2008 and for 2009

13. **The key goals for the program remain achieving fiscal and debt sustainability, stimulating private sector-led growth and poverty reduction through structural reforms, and reducing financial sector vulnerabilities.** The new government has responded prudently to the significant policy challenges it has faced since taking office. In the context of large fiscal overruns in the first half of 2008, policy discussions focused on the government's strong remedial measures, which are already beginning to bear fruit, and the 2009 budget in the context of a medium-term framework for fiscal and debt sustainability. Other key topics were fiscal reforms including a VAT, and further steps toward resolving Capital Bank.

A. Fiscal Policies and Debt Sustainability

14. **Fiscal policy for the remainder of 2008 is designed to address slippages which occurred in the first half of the year.** The authorities have put in place a series of strong remedial measures, which imply an adjustment in the primary balance of four percentage points of annual GDP from the first to the second half (see text table). These measures include:

- Issuing a finance circular in September 2008 to limit capital expenditure in the second half of 2008 to 2.8 percent of annual GDP (prior action);[10]
- Bringing forward to September 20 the date after which no new commitments for nonessential expenditure items can be made;
- Reinstating the EC$3 per gallon gasoline tax and full passthrough of world prices under the automatic price mechanism in October 2008, implying an 18 percent price increase;
- Delaying repeal of the National Reconstruction Levy (NRL) until 2009;[11]

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[10] A large growth impact is not expected from the reduction toward pre-hurricane levels of capital expenditure, which includes significant amounts of misclassified current expenditure. Furthermore, the growth impact of capital expenditure in the Eastern Caribbean has historically been limited; see S. Roache, "Public Investment and Growth in the Eastern Caribbean," IMF Working Paper 07/124.

[11] The NRL was put in place in 2006 for period of 3–5 years.

- Beginning the rationalization of social spending programs; and
- Committing to resolving Capital Bank with limited direct costs to the budget.

Fiscal Developments in 2006–09
(In percent of GDP)

	2006	2007	2008						2009	
			First Half		Second Half		Full year			
	Actual	Prel.	Prog. 1/	Prel.	Prog.	Rev.	Prog.	Rev.	Proj.	Rev.
Total revenues and grants	**33.6**	**27.2**	**14.1**	**14.7**	**14.8**	**15.3**	**28.9**	**30.0**	**28.3**	**29.3**
Of which:										
Revenues	24.9	26.1	12.6	13.2	12.6	12.4	25.3	25.6	25.7	25.3
Grants	8.7	1.1	1.5	1.5	2.2	2.9	3.7	4.4	2.6	3.9
Total expenditures	**40.0**	**35.3**	**16.0**	**19.3**	**17.0**	**14.9**	**33.0**	**34.2**	**29.0**	**30.4**
Current expenditures	21.2	21.7	10.9	11.7	12.5	12.1	23.4	23.8	19.9	21.3
Of which:										
Interest payments	2.1	2.3	1.4	1.1	1.4	1.5	2.8	2.6	2.5	2.9
Bank restructuring	0.0	0.0	0.0	0.0	1.5	0.0	1.5	0.0	0.0	0.0
Capital expenditures	18.8	13.6	5.1	7.6	4.5	2.8	9.6	10.4	9.0	9.1
Primary balance (excluding grants) 2/	**-13.0**	**-6.9**	**-2.0**	**-5.0**	**-3.0**	**-1.0**	**-5.0**	**-6.0**	**-0.7**	**-2.2**
Overall balance (including grants) 2/	**-6.4**	**-8.2**	**-1.9**	**-4.6**	**-2.2**	**0.4**	**-4.1**	**-4.2**	**-0.6**	**-1.1**

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Not adjusted.
2/ Measured above the line.

15. **The new government has also limited its spending plans in 2008 to include only two new programs.** To help mitigate the impact of high food and fuel prices, households will be allowed to import two barrels of foodstuffs duty-free until end-December 2008 with expected foregone revenue of EC$2.6 million (0.1 percent of GDP). The government has also introduced a free textbook scheme, which is expected to cost around EC$5 million (0.3 percent of GDP) in 2008.

16. **Fiscal measures have already begun to bear fruit, based on preliminary data.** The pace of capital spending during August–October 2008 fell to EC$13 million per month, down from EC$22 million per month during January–July 2008. Goods and services spending has also slowed down, while transfers and subsidies still need to be brought down.

17. **The government has developed a revised fiscal framework for 2008, in light of slippages in the first half and unbudgeted retroactive wage payments agreed for the second half.** The sharp fiscal adjustment now underway in the second half is ambitious, and implies an overall surplus in the second half (see text table above). In light of this strong adjustment, the government has requested increasing the primary deficit (excluding grants) target for end-December 2008 from EC$90 million (5.1 percent of GDP) to EC$110 million (6.2 percent of GDP) and increasing the domestic arrears target to EC$25 million at end-December 2008, which would still imply a reduction from the level at end-September 2008 of EC$29 million. The change in the primary balance target represents a net relaxation of EC$34 million (1.9 percent of GDP), adjusting for lower projected bank restructuring costs and higher projected grants.

18. **The new government has emphasized its overarching policy objective of placing debt on a sustainable trajectory.** In this regard:

- **The authorities are proceeding cautiously on the proposed loan from the Export-Import Bank of China to build a port and marina.** The current government has indicated that it may consider a significantly smaller concessional loan of around US$5 million (0.8 percent of GDP) to finance a much smaller marina, but this will not move ahead in the first half of 2009.[12]

- **The authorities have adopted a prudent approach to managing the resources from the PetroCaribe Initiative.** The authorities will continue setting aside 35 percent of PetroCaribe's concessional financing in a special account in 2008 to provide funds for repayment while transferring the remainder to the budget as grants. They will raise the share set aside to 40 percent starting from January 2009.[13]

19. **The draft 2009 budget envisages strong fiscal consolidation to support the authorities' objective of securing debt sustainability.** A primary fiscal deficit of 2.2 percent of GDP would be consistent with shifting gradually to small overall surpluses, which are needed to achieve debt sustainability.[14] Less than half of the divestment proceeds from the Four Seasons Project, which are expected to total EC$45 million (2.3 percent of GDP), will be used to finance the 2009 fiscal deficit, while the rest will be used to reduce expensive debt and arrears. Lower privatization proceeds for 2009 than previously projected[15] would delay reaching the 60 percent debt-to-GDP target by one year to 2019, still one year ahead of the ECCB's 2020 benchmark for the region.

20. **External grants represent an important revenue source for the budget in 2008–09.** The primary sources of grants in these years are PetroCaribe, the European Union, and CARICOM. Any shortfall in grants would have a significant impact on the budget outlook. Should grants be lower than projected by more than EC$10 million, the authorities' program envisages a corresponding reduction in the primary deficit excluding grants, through various contingency measures.

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[12] The original proposal was for US$85 million (13 percent of GDP). The authorities have shared the project feasibility study with World Bank and Fund staffs, although they are now considering a much smaller project.

[13] PetroCaribe provides concessional financing (two years grace, 25 years maturity, and 1 percent interest) for a share of diesel imported which depends on international prices. The projected transfer to the budget is EC$29 million (1.6 percent of GDP) in 2008 and EC$20 million (1.0 percent of GDP) in 2009. The lower transfer in 2009 reflects lower projected diesel imports, as well as the lower share that is financed with diesel prices below the equivalent of US$100 per barrel.

[14] The authorities have proposed quantitative performance criteria for end-June 2009 consistent with the draft budget.

[15] The lower projection of privatization proceeds for 2008 and 2009 reflects difficulties in selling shares in a telecommunications company.

21. **The planned fiscal consolidation is supported by an increased tax effort as well as rationalization and reallocation of spending to priority areas.** The priority areas include continuing ongoing internationally funded capital projects, revitalizing agriculture, moving forward with housing programs and with community development. On the revenue side, the budget framework anticipates maintaining the EC$3 per gallon fixed fuel tax with full passthrough, repeal of the NRL, and intensification of successful efforts to collect tax arrears, while providing a tax amnesty through March 2009 (see below). On the expenditure side, it anticipates reaching agreement on a wage path for 2009–11,[16] budgeting capital expenditure at 9 percent of GDP, reducing spending on goods and services reflecting lower fuel prices and through efficiency gains and waste reduction; and reducing spending on transfers and subsidies through rationalization of social programs, while protecting transfers to vulnerable groups.

22. **In November 2008, the authorities announced a tax amnesty with the objective of bringing taxpayers back into the tax net.** The mission noted the unfavorable international experience with tax amnesties in terms of future compliance and revenue collection. It recommended alternatives, including improving the tax administration's detection and enforcement powers, establishing appropriate interest penalty regimes, and establishing an effective and fair payment installment program for taxpayers. The authorities consider that the tax amnesty will complement their successful efforts to collect tax and nontax arrears. Given the authorities' decision to pursue an amnesty, the mission supported plans to strengthen their powers to seize assets, garnish income, and link eligibility for government services to tax compliance.

23. **Major institutional changes in the Ministry of Finance will support the government's fiscal and structural reform objectives.** The new Waste Reduction Unit is expected to realize savings on fuel and on fleet insurance for government vehicles and on electricity costs. The government plans to create a database of transfer recipients shared among spending units as a basis for reviewing the eligibility of recipients and rationalizing social programs. A new Debt Management Unit (structural benchmark) will coordinate the screening of new borrowing proposals, including analysis of the economic benefits and the impact on debt sustainability. This unit will also seek to address administrative delays that led to small late external debt service payments in 2008. The Ministry has also created a new Office of Private Sector Development, which aims to enhance the government's dialogue with the private sector and to work with the Grenada Industrial Development Corporation (GIDC) to improve the investment and business environment.

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[16] Wages and allowances are projected to fall by 1.3 percentage points of GDP in 2009, reflecting large retroactive wage payments in 2008. Nominal wages excluding retroactive payments are expected to increase by 4 percent in 2009 for public service workers excluding the police, assuming an agreement is reached that takes into account expected inflation, while recognizing the unavoidable impact on real incomes of higher world food and fuel prices.

B. Structural Reforms

24. **The government has defined a focused agenda of structural reforms, centered on reforming tax and customs, enhancing the business environment and improving economic and financial management.**

- **The authorities intend to introduce a VAT by early 2010 and have recommenced preparatory work.** To provide sufficient time for stakeholders to prepare for the tax, the authorities plan to announce the introduction date in the December budget speech. They will draw on CARTAC technical assistance and submit VAT and excise tax bills to Parliament by April 2009 (proposed structural benchmark). A Memorandum of Understanding between the Customs and Inland Revenue Departments which was signed in November 2008 will facilitate implementation of the VAT.

- **The new government places a high priority on improving the business environment** and is committed to creating a more transparent and nondiscretionary system for investment incentives. The new legislation will provide capital write-offs (a form of investment tax credit) rather than tax holidays. The draft legislation has been expanded to an Investment Code, including administrative procedures, investors' rights and legal requirements for investments, as well as the investment incentives framework. The new government may need more time to consult with stakeholders and for this reason may be slightly delayed in meeting the December 2008 structural benchmark.

- **The Country Poverty Assessment (CPA) is expected to provide information to help improve targeting of social programs, and to develop a full PRSP report.** Because of the time needed to meet with stakeholders, completion of the CPA (December 2008 structural benchmark) may also be delayed.

25. **The authorities intend to complete the following structural benchmarks for the second review, but with a delay:** the action plan to improve the Doing Business Indicators, Cabinet approval of new investment legislation, and the customs Fraud Control Plan.[17] However, given difficulties in securing technical assistance and the improvement in construction practices since Hurricanes Ivan and Emily in 2004–05, the authorities propose to drop the benchmark on implementing planning regulations from the program.

26. **The government is proceeding promptly with the resolution of Capital Bank, and intends to minimize costs to the government.** Drawing on the recommendations from the receiver and following consultation with the ECCB, the Minister of Finance petitioned the High Court for liquidation of the bank on November 13, 2008, thus meeting a structural performance criterion for November 2008. The government intends to limit

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[17] The authorities intend to complete the action plan on Doing Business Indicators by May 2009, at which point one measure will be selected as a benchmark for the fourth review. Cabinet approval of new investment legislation will take place before its submission to Parliament. The authorities expect to begin implementing a customs Fraud Control Plan by August 2009.

direct costs to the budget from the resolution, and has stated publicly that it does not intend to compensate depositors. The government would entertain requests by potential investors for indirect support such as tax credits or placement of government deposits, which would have a limited fiscal impact.

27. **Further strengthening of nonbank financial sector regulation and supervision is taking place, which is of heightened importance given the global financial turmoil.** The Grenada Authority for the Regulation of Financial Institutions (GARFIN) is enhancing legislation for insurance companies, credit unions, and money service providers; producing regulations; and developing and improving supervisory practices, including reporting and off- and on-site monitoring. CARTAC is continuing to provide assistance. Grenada undertook its AML/CFT assessment under the Caribbean Financial Action Task Force in October 2008.

C. Program Monitoring, Risks and Financing Assurances

28. **The attached Letter of Intent and accompanying supplementary Memorandum of Economic Policies outline the authorities' policy objectives for the remainder of 2008 and for 2009.** As a prior action for the second review, the authorities have issued a finance circular to reduce capital spending. They have requested relaxing the end-December 2008 performance criteria on the primary fiscal balance and domestic arrears on the basis of an ambitious but feasible fiscal adjustment in the second half of the year. Quantitative performance criteria and structural measures for the remainder of 2008 and for 2009 are shown in Tables 1 and 2 of Attachment I. The authorities expect to complete benchmarks for the second review on developing an action plan to improve Doing Business Indicators and on sending investment legislation to Cabinet with a delay but these have not been rephased as they are subsumed in subsequent benchmarks. The authorities request dropping the benchmark on implementing planning regulations, as described above, and rephasing the benchmark on the customs Fraud Control Plan.

29. **The new authorities have demonstrated strong policy commitment but significant risks still lie ahead.** Socioeconomic tensions could emerge in the current difficult external environment characterized by financial turmoil and slower economic activity. Further exogenous shocks could deepen the economic downturn and worsen the fiscal position, through: (i) deterioration of the terms of trade, including further oil and food price shocks; (ii) additional airlift disruption or declines in tourism demand; (iii) tightening financing conditions for the FDI projects; and (iv) lower grants and remittances. Capacity constraints could delay structural reforms in the short run. The program's design addresses the latter three risks through an adjustor on grants and divestment proceeds and a realistic timetable for undertaking the structural measures. The authorities are committed to taking contingent measures if needed to reduce spending, including limiting transfers.

30. **The authorities have approached the Paris Club asking for an extension of the 2006–08 treatment to include 2009.** The authorities are also seeking an out-of-court settlement with the Export-Import Bank of Taiwan Province of China providing for debt relief on terms comparable to that provided by the Paris Club. These efforts would yield

debt service savings of around US$5 million (0.7 percent of GDP) in 2009. Concurrently, the authorities are continuing to make best efforts to conclude the remaining bilateral Paris Club agreement with the Russian Federation. The authorities have continued to offer those nonparticipating creditors in the 2005 commercial debt exchange who have come forward the same terms as received by other participants in the exchange. The authorities have cleared or restructured all but EC$1.1 million (0.1 percent of GDP) arrears on unrestructured domestic debt to the nonbank public incurred in June 2007, but incurred new arrears on 90-day treasury bills held by domestic commercial banks which stood at EC$3.4 million (0.2 percent of GDP) at end-October 2008. They intend to clear these arrears by end-2008.

31. **The quality and availability of statistical data for program monitoring are adequate and improving.** The coverage of fiscal data is currently limited to the central government; technical assistance through CARTAC is helping improve standardized reporting of government financial operations.

IV. Staff Appraisal

32. **The economic outlook has weakened.** As a small, open economy, Grenada is particularly vulnerable to external shocks from the global economic slowdown and financial turmoil as well as volatile world food and fuel prices. Deteriorating external financial conditions are adversely affecting FDI-financed projects while the accompanying global economic slowdown is starting to affect remittances and tourism demand.

33. **Program implementation has been uneven.** Reflecting measures to alleviate negative external commodity price shocks, spending pressures in the run up to the July elections, and unbudgeted retroactive wage payments, fiscal performance in the first half of 2008 deviated from the program projections. The July 2008 elections and change of government as well as difficulties with external consultants also delayed the structural reform agenda. By contrast, the new authorities took positive steps on Capital Bank, exercised restraint on the proposed China loan, and are addressing fiscal slippages in the second half of the year, showing a strong commitment to the program.

34. **The new government has taken decisive action to correct fiscal slippages.** It has already implemented several difficult measures, including issuing a finance circular to sharply cut capital expenditure, raising gasoline prices by 18 percent, and delaying repeal of the NRL—a key campaign promise—until 2009. The proposed revised end-2008 performance criteria on the primary balance and on domestic arrears are feasible, while reflecting an ambitious adjustment in the second half of the year. The 2009 budget, which represents the new government's first opportunity to set the direction of fiscal policy, will improve the quality of expenditure while targeting a primary deficit consistent with the government's objective of reducing debt.

35. **Restoring debt sustainability remains the centerpiece of the authorities' program.** Staff welcomes the authorities' caution in moving ahead with a loan from China's Export-Import Bank and urges them to maximize the level of concessionality and

private financing for the project if it proceeds. Their decision to increase the share of PetroCaribe financing set aside to provide for repayment is also welcome. In addition, creation of a Debt Management Unit will improve the assessment of proposals for new borrowing.

36. **Staff welcomes the authorities' intention to introduce a VAT**. The date for VAT implementation should reflect the need for thorough preparation, particularly in light of the previous failed attempt at VAT introduction. Passage of the new VAT and excise tax laws, with a sound rate and exemption structure, will be an important step.

37. **Improving tax enforcement and detection powers will minimize the risk that the recently announced tax amnesty would undermine future compliance and revenue collection.** The authorities expect some short-term revenue boost beyond their successful efforts to collect tax arrears. The staff support the authorities' plans to improve their ability to garnish income, to seize assets, and to link eligibility for government services to tax compliance.

38. **Going forward, it will be important that the authorities take advantage of their strong political mandate to move decisively ahead with structural reforms.** Staff welcomes the decision to reorganize the Ministry of Finance to strengthen policy planning and implementation. The completion of a Country Poverty Assessment will lay the groundwork for elaboration of a Poverty Reduction Strategy (PRS). The need for a new investment tax concessions regime is demonstrated by the ad hoc decision to grant a tax holiday just before elections. Customs reforms can contribute to lowering import costs and inflation while efforts to improve Doing Business Indicators should help foster private sector-led growth.

39. **Staff welcomes the authorities' decision to revoke Capital Bank's license, to reappoint the receiver, and to petition the High Court for liquidation.** The decision to resolve the bank in a manner that limits direct fiscal costs is appropriate. In the absence of further legal obstacles, liquidation should move forward without delay.

40. **The banking sector has remained resilient thus far, notwithstanding the recent adverse domestic and external developments.** The banking system has not been affected by the closure of Capital Bank and an unregulated investment scheme, and is weathering well the global financial turmoil. Staff has encouraged the authorities to remain in close contact with the ECCB to ensure effective onsite and offsite examinations that would detect and address any banking sector problems that may arise.

41. **GARFIN's progress in improving nonbank financial supervision and regulation needs to be continued, particularly in light of the global financial turmoil.** Grenada was the first ECCU Fund-member to establish a single regulatory unit, and it has set an ambitious agenda to build its capacity and to address regulatory gaps. Careful monitoring of the insurance sector is warranted in the current global environment.

42. **The quality of statistics is improving in areas that are critical for program monitoring**. The coverage of fiscal data could be expanded to include public corporations and the National Insurance Scheme.

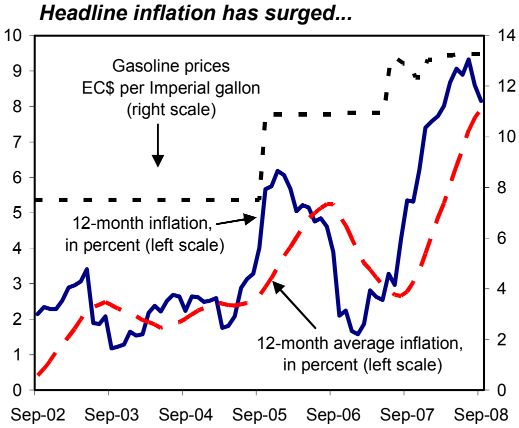
43. **The program is fully and sustainably financed, allowing for a gradual clearance of domestic arrears.** Staff welcomes the authorities' continued efforts to regularize financial relations with Grenada's external creditors.

44. **Nevertheless, program risks remain significant**. Financial turmoil and the global economic slowdown are expected to lead to weaker tourism demand, FDI, and remittances, and could also negatively affect grants. The government intends to take contingent fiscal measures if needed to ensure success of the program, including limiting transfers.

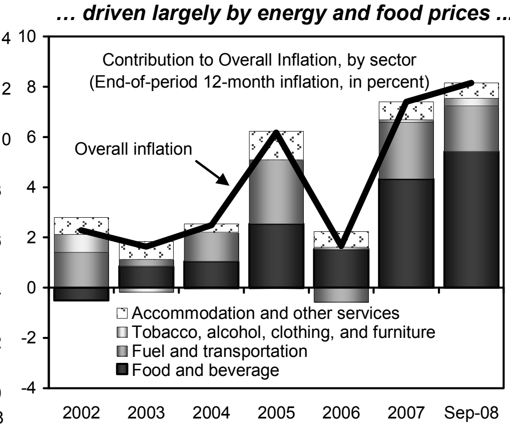
45. **Notwithstanding the risks described above, staff supports the authorities' requests for completion of the second review and financing assurance review, for waivers, and for modification of quantitative performance criteria.** In response to the spending overruns in the first half of 2008, the new government has shown steadfast commitment to the program including taking strong remedial measures, such as issuing a finance circular to sharply reduce capital expenditure. The fiscal outturn for the third quarter shows that the measures are already beginning to bear fruit. Staff supports the request to modify the end-2008 performance criteria on the primary balance and domestic arrears, but has emphasized the need to stay the course to meet the revised targets.

Figure 1. Grenada: Inflation Developments

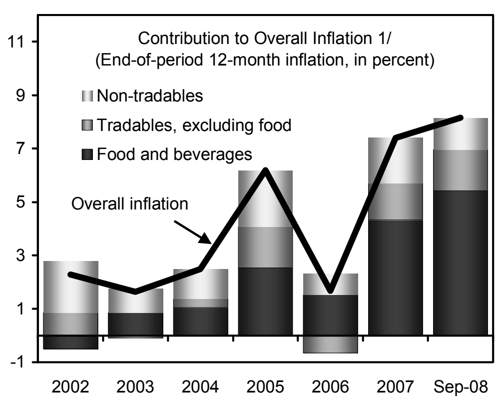
Headline inflation has surged...



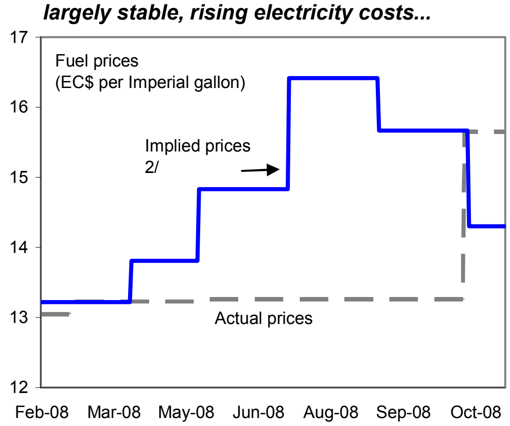
... driven largely by energy and food prices ...



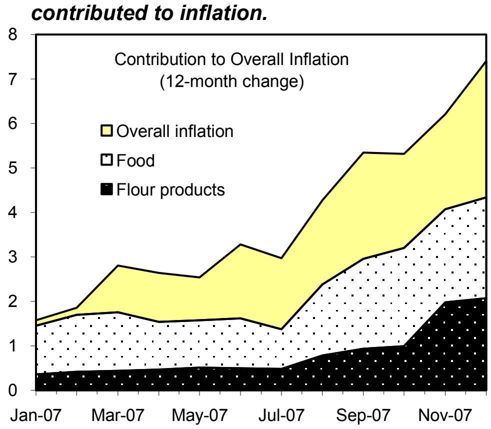
... and is mainly imported.



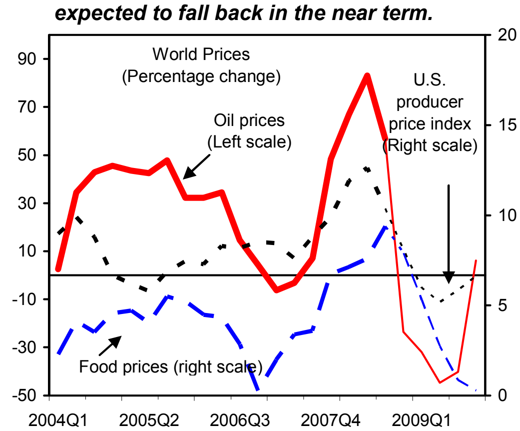
Though fuel prices have until recently been largely stable, rising electricity costs...



...and increasing prices of flour products have contributed to inflation.



Nevetheless, oil and food prices are expected to fall back in the near term.



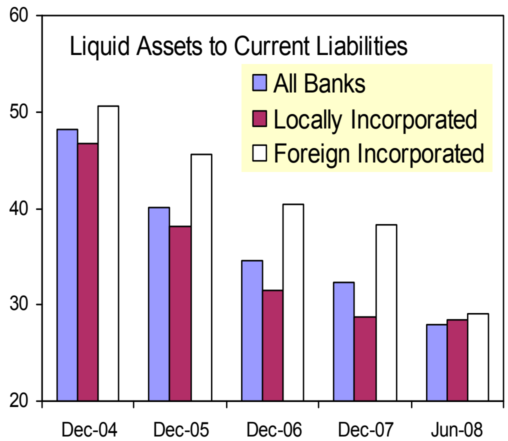
Sources: Grenada authorities; Bloomberg; ECCU; IMF, International Financial Statistics; IMF, World Economic Outlook; and Fund staff calculations.

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

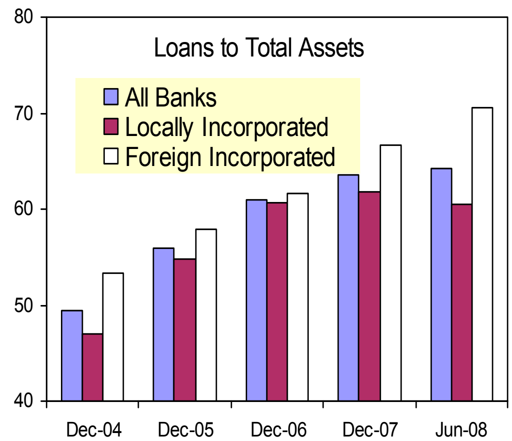
2/ Prices implied by the automatic pricing mechanism and assuming the EC$3 per gallon specific fuel tax was in place.

Figure 2. Grenada: Banking System Vulnerabilities

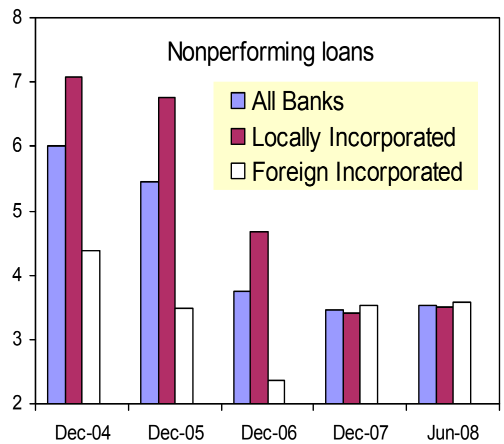
Though liquidity conditions have tightened...



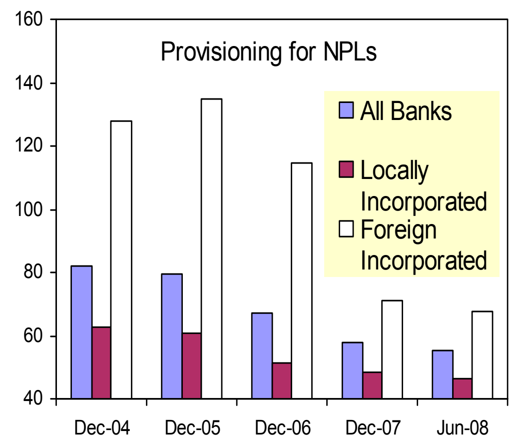
...banks have continued shifting their assets toward loans...



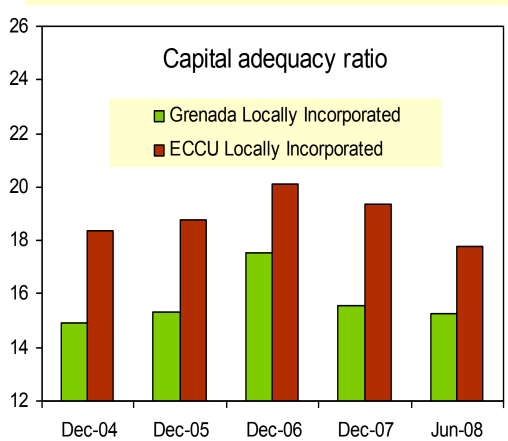
...and NPL ratios have remained at moderate levels...



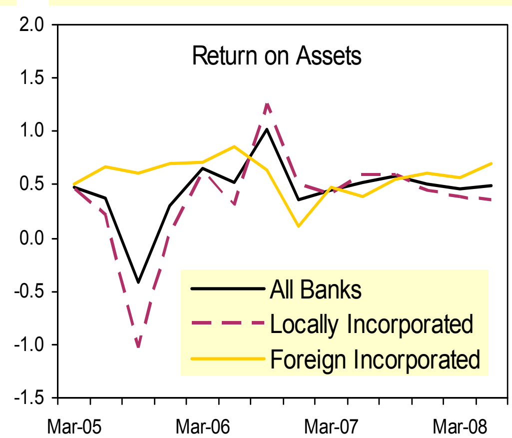
...but the declining trend in provisioning points to the need for vigilance in the banking sector.



Capital cushions in local banks, remained solid, despite their recent trend decline...

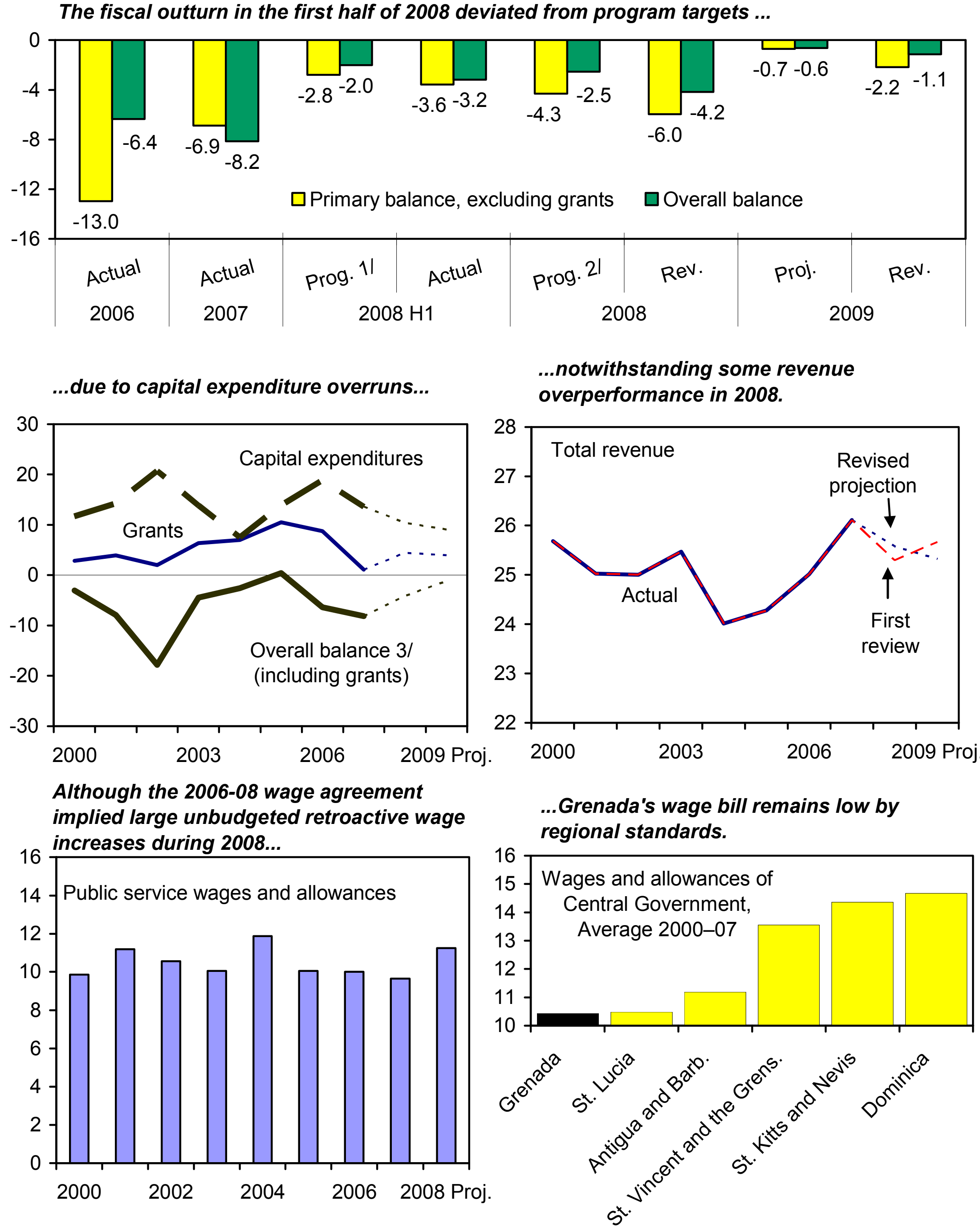


...while profitability in foreign-incorporated banks continued its upward trend.



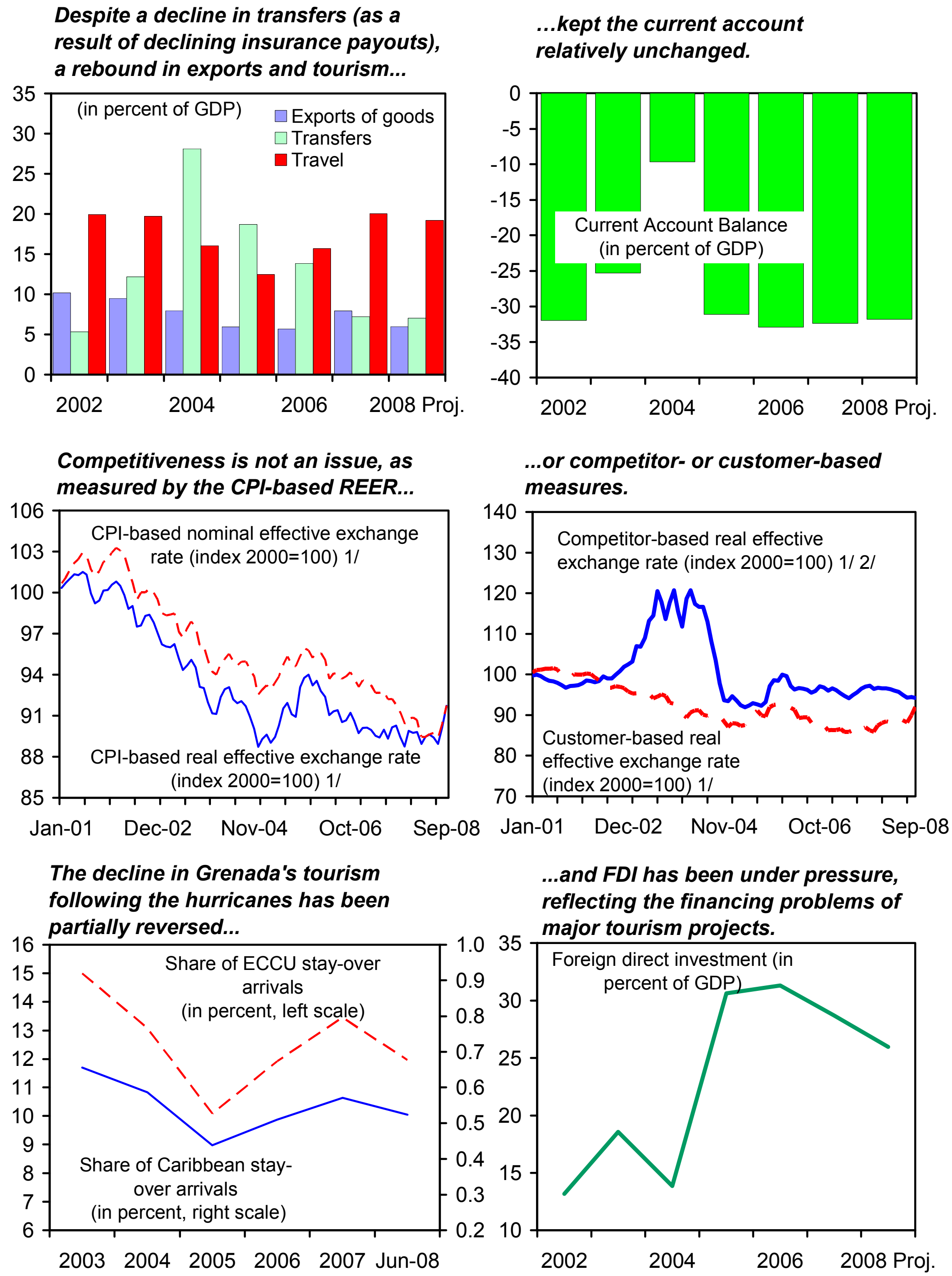
Sources: ECCB; and Fund staff calculations.

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



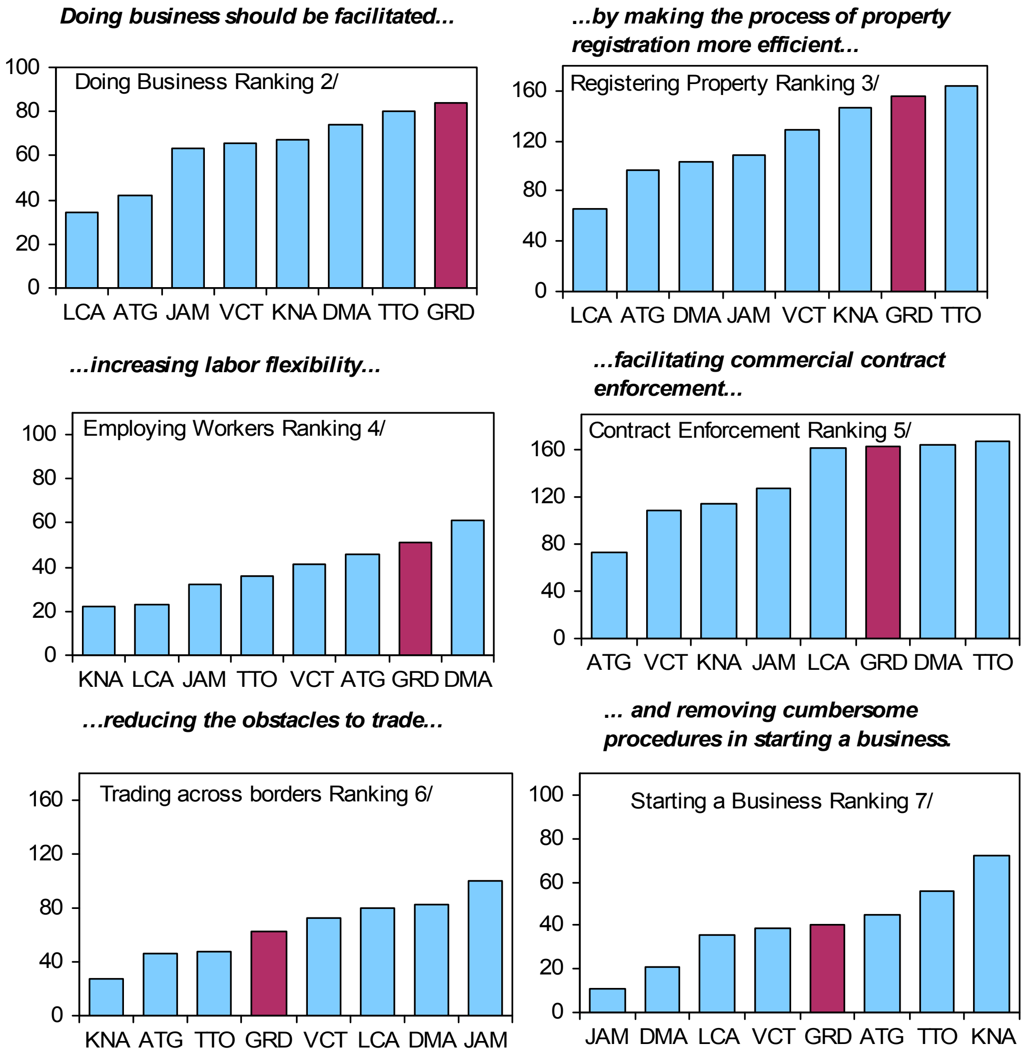
Sources: Grenada authorities; ECCU country authorities; and Fund staff estimates.
1/ For the primary balance excluding grants, the target is adjusted.
2/ Adjusted based on revised projections for grants, concessional loans, and bank restructuring costs.
3/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements.

Figure 4. Grenada: Competitiveness Indicators



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

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



Source: World Bank, *Doing Business Indicators* (2009).

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

1/ Smaller numbers represent greater ease in doing business. The indicators are comparable across 181 countries covering the period June 2007 to June 2008.

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

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

4/ Measures the flexibility of working hours, restrictions on holiday work, firing costs, and the difficulty of hiring and firing workers.

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

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

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

Table 1. Grenada: Selected Economic and Financial Indicators, 2005–09

Rank in UNDP Human Development Index out of 177 countries (2007/08)	82	Infant mortality rate per '000 births (2005)	17
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2004)	73	Poverty headcount index (2000)	32
GDP per capita in US$ (2006)	5,482		

		2006		Est.	2008		2009	
	2005	Prog.	Prel.	2007	Prog.	Rev.	Proj.	Rev.
	(Annual percentage change; unless otherwise specified)							
National income and prices								
Real GDP	11.0	6.5	-2.3	4.5	3.7	1.6	4.2	1.6
GDP deflator	5.3	4.6	3.9	3.4	6.0	6.2	4.7	7.3
Consumer prices								
End-of-year	6.2	2.0	1.7	7.4	6.2	6.1	3.9	3.2
Period average	3.5	4.6	4.2	3.9	7.8	7.8	4.5	4.0
External sector								
Exports of goods	-12.4	0.6	-1.7	49.2	-18.4	-18.4	2.6	2.6
Imports of goods	32.1	-3.4	-0.7	3.9	11.8	3.0	7.8	2.8
Merchandise export volume 1/	-21.4	-0.6	-14.7	41.2	-16.4	-16.7	-0.6	-1.4
Merchandise import volume 1/	20.7	-5.0	-10.4	-5.9	0.9	-11.8	8.3	12.4
Current account balance (including grants; in percent of GDP)	-31.1	-32.8	-32.9	-32.4	-36.4	-31.8	-35.1	-31.5
Terms of trade (deterioration -)	3.7	…	5.9	1.1	-5.8	-9.6	2.9	11.3
Real effective exchange rate (end of period, depreciation -)	5.9	...	-4.6	0.2	...	...	...	...
Banking system								
Net foreign assets 2/	-12.0	-2.2	-7.5	-1.1	-0.3	-1.1	1.8	2.0
Net domestic assets 2/	10.9	10.1	8.4	12.0	8.8	7.2	7.2	7.0
Of which								
Credit to public sector (net) 2/	-0.9	0.0	0.2	1.6	1.3	-2.0	-0.6	-0.7
Credit to private sector 2/	6.2	8.5	9.2	12.5	7.4	5.5	7.8	7.8
Money and quasi-money (M2)	-1.0	7.8	0.9	11.0	8.5	6.1	9.1	9.0
Weighted average deposit rate (in percent)	2.8	...	3.0	3.0	...	...	...	...
Weighted average lending rate (in percent)	10.2	...	9.7	9.6	...	...	...	...
	(In percent of GDP)							
Central government finances 3/								
Total revenue and grants	34.5	33.2	33.6	27.2	28.9	30.0	28.2	29.3
Of which								
Grants	10.4	7.4	8.7	1.1	3.7	4.4	2.6	3.9
Total expenditure	34.0	35.1	40.0	35.3	32.9	34.2	28.9	30.4
Current expenditure	20.3	20.9	21.2	21.7	23.4	23.8	19.9	21.3
Of which								
Salaries and allowances	10.1	10.8	10.0	9.7	10.1	11.3	9.3	10.0
Capital expenditure	13.8	14.2	18.8	13.6	9.6	10.4	9.0	9.1
Bank restructuring	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0
Primary balance (excluding grants)	-8.0	-7.1	-13.0	-6.9	-5.0	-6.0	-0.7	-2.2
Primary balance (including grants)	2.4	0.3	-4.3	-5.8	-1.3	-1.6	1.9	1.8
Current balance	3.8	4.9	3.7	4.4	1.8	1.8	5.8	4.0
Overall balance (including grants)	0.4	-1.9	-6.4	-8.2	-4.1	-4.2	-0.6	-1.1
Public and publicly guaranteed debt (end-period)	110.3	116.5	116.7	111.5	106.5	107.2	98.7	101.2
	(In millions of U.S. dollars)							
Nominal GDP	553.9	...	564.4	607.9	657.3	655.9	716.9	715.1

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2007/08; World Bank, WDI 2007; 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/ Measured using above-the-line information.

Table 2a. Grenada: Medium-Term Central Government Finances, 2006–09

(In millions of Eastern Caribbean dollars)

	2006	2007	2008							2009	
			First Half		Second Half		Full year				
	Actual	Prel.	Prog.	Prel.	Prog.	Rev.	Budget	Prog.	Rev.	Proj. 1/	Rev.
Total revenue and grants	**511.9**	**445.8**	**250.2**	**260.0**	**262.4**	**271.2**	**558.8**	**512.6**	**531.2**	**546.8**	**565.1**
Total revenue	379.7	428.5	223.8	233.0	223.8	220.0	461.1	447.6	453.0	496.9	489.0
Current revenue	379.6	428.4	223.7	232.9	223.7	220.0	461.0	447.5	452.9	496.8	488.8
Tax revenue 2/	353.5	402.8	207.1	212.6	207.1	203.2	423.4	414.3	415.9	460.2	448.2
Taxes on income and profits	56.0	74.8	39.5	40.5	39.5	41.4	73.8	78.9	81.8	85.1	77.2
Taxes on property	22.6	29.0	14.0	17.8	14.0	7.8	27.7	28.0	25.7	30.8	30.8
Taxes on domestic goods and services	69.0	71.3	39.4	42.4	39.4	32.7	95.6	78.7	75.0	118.9	86.2
Taxes on international transactions	205.9	227.7	114.3	112.0	114.3	121.4	226.3	228.6	233.3	225.3	254.0
Nontax revenue	26.0	25.6	16.6	20.3	16.6	16.8	37.6	33.2	37.0	36.6	40.7
Capital revenue	0.1	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants 3/	132.2	17.3	26.4	27.0	38.6	51.2	97.7	65.0	78.2	50.0	76.1
Total expenditure	**608.9**	**579.7**	**283.9**	**341.1**	**300.9**	**264.0**	**644.6**	**584.7**	**605.0**	**559.3**	**587.2**
Current expenditure	323.1	356.6	193.9	206.8	220.9	214.3	402.8	414.7	421.0	385.1	412.2
Current primary expenditure	291.6	318.5	169.3	186.7	196.3	188.0	355.0	365.7	374.7	336.2	356.1
Salaries and allowances	152.5	158.4	89.8	97.4	89.8	101.9	188.9	179.6	199.3	179.6	193.6
Wages and salaries	135.3	140.7	80.1	86.9	80.1	90.7	167.5	160.2	177.6	161.1	166.6
Personnel allowances	17.1	17.7	9.7	10.5	9.7	11.2	21.4	19.4	21.7	18.5	27.0
Goods and services	71.1	79.1	37.8	37.4	37.8	37.6	77.5	75.5	75.0	70.0	75.0
Interest 4/	31.6	38.1	24.5	20.1	24.5	26.3	47.8	49.1	46.3	48.9	56.1
Domestic	9.9	13.0	9.8	5.1	9.8	13.3	18.4	19.6	18.4	18.3	20.4
Foreign	21.6	25.1	14.7	15.0	14.7	13.0	29.4	29.4	27.9	30.6	35.7
Transfers and subsidies	68.0	81.0	41.8	51.9	41.8	48.5	88.6	83.6	100.4	86.6	87.5
Bank restructuring 5/	0.0	0.0	0.0	0.0	27.0	0.0	0.0	27.0	0.0	0.0	0.0
Capital expenditure	285.8	223.1	90.0	134.3	80.0	49.7	241.8	170.0	184.0	174.2	175.0
Current balance	56.5	71.8	29.9	26.1	2.9	5.8	62.5	32.8	31.9	111.7	76.6
Primary balance (excluding grants)	-197.6	-113.1	-35.5	-88.1	-52.5	-17.6	-135.7	-88.1	-105.7	-13.6	-42.1
Primary balance (including grants)	-65.4	-95.9	-9.1	-61.0	-13.9	33.5	-38.0	-23.1	-27.5	36.4	34.0
Overall balance (excluding grants)	-229.2	-151.2	-60.1	-108.1	-77.1	-43.9	-179.2	-137.1	-152.0	-62.4	-98.2
Overall balance (including grants)	-97.0	-133.9	-33.7	-81.1	-38.5	7.3	-81.5	-72.1	-73.8	-12.5	-22.1
Statistical discrepancy	-27.8	2.6	0.0	24.8	0.0	-24.8	0.0	0.0	0.0	0.0	0.0
Financing	**124.7**	**131.3**	**33.7**	**56.2**	**38.5**	**17.6**	**81.5**	**72.1**	**73.8**	**12.5**	**22.1**
Net external financing	54.5	40.2	22.2	3.5	22.2	42.1	-6.3	44.4	45.6	-26.6	2.7
Net amortization	54.8	40.5	22.2	2.3	22.2	42.1	-6.3	44.4	44.4	-26.6	2.7
Disbursements	73.8	62.7	35.4	18.1	35.4	52.7	26.7	70.9	70.9	46.7	30.1
Amortization	-19.0	-22.2	-13.2	-15.9	-13.2	-10.6	-33.0	-26.5	-26.5	-73.3	-27.4
Change in government assets	-0.3	-0.3	0.0	1.2	0.0	0.0	0.0	0.0	1.2	0.0	0.0
Net domestic financing	30.2	69.7	-10.8	-2.0	-9.1	-40.3	30.0	-19.8	-42.3	-32.0	-22.7
ECCB (net)	-5.8	12.6	0.0	-0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Commercial banks (net) 6/	33.5	54.4	-10.8	5.5	2.0	-36.8	30.0	-8.8	-31.3	-32.8	-23.5
Domestic debt	2.5	2.7	0.0	-7.2	-11.0	-3.9	0.0	-11.0	-11.0	0.8	0.8
Of which: Commercial banks	1.5	0.0	0.0	-0.4	0.9	1.3	0.0	0.9	0.9	0.8	0.8
Divestment/privatization proceeds	8.8	36.0	27.0	47.7	30.0	2.7	57.2	57.0	50.4	73.5	44.6
Expenditure arrears 7/	31.2	-14.6	-4.7	7.1	-4.7	13.0	0.0	-9.4	20.1	-2.4	-2.4
Of which: Excluding arrears from debt exchange	26.6	-19.2	-7.0	4.8	-7.0	10.7	0.0	-14.0	15.5	-7.0	-7.0
Memorandum items:											
Nominal GDP (market prices, EC$ millions) 8/	1,524	1,641	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,931	1,931
Stock of expenditure arrears 7/	51.8	37.2	32.5	44.3	27.8	57.3	…	27.8	57.3	25.4	54.9
Of which: Excluding arrears from debt exchange	47.2	28.0	21.0	32.8	14.0	43.5	…	14.0	43.5	7.0	36.5

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

1/ See IMF Country Report No. 08/357.
2/ Assumes that VAT is not introduced in 2009.
3/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
4/ The 2008 budget figures are adjusted to include interest arrears to nonparticipating creditors in the debt exchange.
5/ Preliminary estimate.
6/ Excludes commercial bank holdings of government paper, which are shown in the following two lines.
7/ After 2005, includes EC$4.6 million arrears each year on interest to nonparticipating creditors in the debt exchange.
8/ All GDP ratios are based upon the most recent GDP projections.

Table 2b. Grenada: Medium-Term Central Government Finances, 2006–09

(In percent of GDP, unless noted otherwise)

	2006	2007	2008							2009	
			First Half		Second Half		Full year				
	Actual	Prel.	Prog.	Prel.	Prog.	Rev.	Budget	Prog.	Rev.	Proj. 1/	Rev.
Total revenue and grants	**33.6**	**27.2**	**14.1**	**14.7**	**14.8**	**15.3**	**31.6**	**28.9**	**30.0**	**28.3**	**29.3**
Total revenue	24.9	26.1	12.6	13.2	12.6	12.4	26.0	25.3	25.6	25.7	25.3
Current revenue	24.9	26.1	12.6	13.2	12.6	12.4	26.0	25.3	25.6	25.7	25.3
Tax revenue 2/	23.2	24.5	11.7	12.0	11.7	11.5	23.9	23.4	23.5	23.8	23.2
Taxes on income and profits	3.7	4.6	2.2	2.3	2.2	2.3	4.2	4.5	4.6	4.4	4.0
Taxes on property	1.5	1.8	0.8	1.0	0.8	0.4	1.6	1.6	1.5	1.6	1.6
Taxes on domestic goods and services	4.5	4.3	2.2	2.4	2.2	1.8	5.4	4.4	4.2	6.2	4.5
Taxes on international transactions	13.5	13.9	6.5	6.3	6.5	6.9	12.8	12.9	13.2	11.7	13.2
Nontax revenue	1.7	1.6	0.9	1.1	0.9	0.9	2.1	1.9	2.1	1.9	2.1
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 3/	8.7	1.1	1.5	1.5	2.2	2.9	5.5	3.7	4.4	2.6	3.9
Total expenditure	**40.0**	**35.3**	**16.0**	**19.3**	**17.0**	**14.9**	**36.4**	**33.0**	**34.2**	**29.0**	**30.4**
Current expenditure	21.2	21.7	10.9	11.7	12.5	12.1	22.7	23.4	23.8	19.9	21.3
Current primary expenditure	19.1	19.4	9.6	10.5	11.1	10.6	20.0	20.6	21.2	17.4	18.4
Salaries and allowances	10.0	9.7	5.1	5.5	5.1	5.8	10.7	10.1	11.3	9.3	10.0
Wages and salaries	8.9	8.6	4.5	4.9	4.5	5.1	9.5	9.0	10.0	8.3	8.6
Personnel allowances	1.1	1.1	0.5	0.6	0.5	0.6	1.2	1.1	1.2	1.0	1.4
Goods and services	4.7	4.8	2.1	2.1	2.1	2.1	4.4	4.3	4.2	3.6	3.9
Interest 4/	2.1	2.3	1.4	1.1	1.4	1.5	2.7	2.8	2.6	2.5	2.9
Domestic	0.7	0.8	0.6	0.3	0.6	0.8	1.0	1.1	1.0	0.9	1.1
Foreign	1.4	1.5	0.8	0.8	0.8	0.7	1.7	1.7	1.6	1.6	1.9
Transfers and subsidies	4.5	4.9	2.4	2.9	2.4	2.7	5.0	4.7	5.7	4.5	4.5
Bank restructuring 5/	0.0	0.0	0.0	0.0	1.5	0.0	0.0	1.5	0.0	0.0	0.0
Capital expenditure	18.8	13.6	5.1	7.6	4.5	2.8	13.7	9.6	10.4	9.0	9.1
Current balance	3.7	4.4	1.7	1.5	0.2	0.3	3.5	1.8	1.8	5.8	4.0
Primary balance (excluding grants)	-13.0	-6.9	-2.0	-5.0	-3.0	-1.0	-7.7	-5.0	-6.0	-0.7	-2.2
Primary balance (including grants)	-4.3	-5.8	-0.5	-3.4	-0.8	1.9	-2.1	-1.3	-1.6	1.9	1.8
Overall balance (excluding grants)	-15.0	-9.2	-3.4	-6.1	-4.4	-2.5	-10.1	-7.7	-8.6	-3.2	-5.1
Overall balance (including grants)	-6.4	-8.2	-1.9	-4.6	-2.2	0.4	-4.6	-4.1	-4.2	-0.6	-1.1
Statistical discrepancy	-1.8	0.2	0.0	1.4	0.0	-1.4	0.0	0.0	0.0	0.0	0.0
Financing	**8.2**	**8.0**	**1.9**	**3.2**	**2.2**	**1.0**	**4.6**	**4.1**	**4.2**	**0.6**	**1.1**
Net external financing	3.6	2.4	1.3	0.2	1.3	2.4	-0.4	2.5	2.6	-1.4	0.1
Net amortization	3.6	2.5	1.3	0.1	1.3	2.4	-0.4	2.5	2.5	-1.4	0.1
Disbursements	4.8	3.8	2.0	1.0	2.0	3.0	1.5	4.0	4.0	2.4	1.6
Amortization	-1.2	-1.4	-0.7	-0.9	-0.7	-0.6	-1.9	-1.5	-1.5	-3.8	-1.4
Change in government assets	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Net domestic financing	2.0	4.2	-0.6	-0.1	-0.5	-2.3	1.7	-1.1	-2.4	-1.7	-1.2
ECCB (net)	-0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net) 6/	2.2	3.3	-0.6	0.3	0.1	-2.1	1.7	-0.5	-1.8	-1.7	-1.2
Domestic debt	0.2	0.2	0.0	-0.4	-0.6	-0.2	0.0	-0.6	-0.6	0.0	0.0
Of which: Commercial banks	0.1	0.0	0.0	0.0	1.7	0.1	0.0	0.0	0.0	0.0	0.0
Divestment/privatization proceeds	0.6	2.2	1.5	2.7	-0.3	0.2	3.2	3.2	2.8	3.8	2.3
Expenditure arrears 7/	2.0	-0.9	-0.3	0.4	-0.4	0.7	0.0	-0.5	1.1	-0.1	-0.1
Of which: Excluding arrears from debt exchange	1.7	-1.2	-0.4	0.3	0.0	0.6	0.0	-0.8	0.9	-0.4	-0.4
Memorandum items:											
Nominal GDP (market prices, EC$ millions) 8/	1,524	1,641	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,931	1,931
Stock of expenditure arrears 7/	3.4	2.3	1.8	2.5	1.6	3.2	…	1.6	3.2	1.3	2.8
Of which: Excluding arrears from debt exchange	3.1	1.7	1.2	1.9	0.8	2.5	…	0.8	2.5	0.4	1.9

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

1/ See IMF Country Report No. 08/357.
2/ Assumes that VAT is not introduced in 2009.
3/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
4/ The 2008 budget figures are adjusted to include interest arrears to nonparticipating creditors in the debt exchange.
5/ Preliminary estimate.
6/ Excludes commercial bank holdings of government paper, which are shown in the following two lines.
7/ After 2005, includes EC$4.6 million arrears each year on interest to nonparticipating creditors in the debt exchange.
8/ All GDP ratios are based upon the most recent GDP projections.

Table 3. Grenada: Summary Accounts of the Banking System, 2004–09

				Prel.			Projections	
	2004	2005	2006	2007	June 2008	Sept. 2008	2008	2009
(In millions of Eastern Caribbean dollars, end of period)								
I. Consolidated Banking System								
Net foreign assets	**709.0**	**531.6**	**421.5**	**405.6**	**344.6**	**325.2**	**387.6**	**422.5**
Net domestic assets	**775.1**	**937.4**	**1,060.9**	**1,239.1**	**1,349.1**	**1,377.1**	**1,357.1**	**1,479.7**
Net credit to the public sector	-18.6	-32.0	-29.0	-5.5	4.5	7.4	-38.9	-51.6
Central government	71.6	15.1	44.3	111.3	116.1	129.0	80.9	58.2
Nonfinancial public enterprises 1/	-185.0	-108.7	-173.1	-116.8	-111.6	-121.6	-119.9	-109.9
Credit to private sector	996.7	1,088.3	1,223.9	1,409.2	1,440.1	1,489.0	1,499.5	1,634.9
Other	-203.0	-118.9	-134.0	-164.6	-95.4	-119.3	-103.5	-103.5
Liabilities to private sector (M2)	**1,484.1**	**1,469.0**	**1,482.4**	**1,644.7**	**1,693.8**	**1,702.3**	**1,744.7**	**1,902.2**
Money	340.5	315.3	309.5	355.8	358.0	344.9	350.2	381.8
Quasi-money	1,143.7	1,153.7	1,172.9	1,288.9	1,335.8	1,357.4	1,394.5	1,520.4
II. Eastern Caribbean Central Bank								
Imputed net international reserves	**328.6**	**254.4**	**269.4**	**298.2**	**306.3**	**271.1**	**289.2**	**289.2**
Net domestic assets	**-1.1**	**-1.7**	**-7.6**	**5.0**	**4.7**	**-2.6**	**5.0**	**5.0**
Base money	**327.6**	**252.7**	**261.9**	**303.2**	**311.0**	**268.5**	**294.2**	**294.2**
Currency held by the public	102.1	105.3	104.5	107.8	106.0	96.8	106.1	115.7
Commercial bank reserves	225.5	147.5	157.4	195.5	205.0	171.7	188.1	178.6
III. Commercial Banks								
Net foreign assets	**380.4**	**277.2**	**152.0**	**107.4**	**38.3**	**54.1**	**98.4**	**133.3**
Net claims on ECCB	**223.3**	**134.2**	**152.3**	**175.0**	**204.2**	**175.3**	**191.3**	**181.8**
Net domestic credit	**777.6**	**952.4**	**1,073.6**	**1,254.5**	**1,345.3**	**1,376.1**	**1,348.9**	**1,471.5**
Net credit to the public sector	-18.1	-30.3	-21.4	-10.5	-0.2	10.1	-44.0	-56.7
Credit to private sector	996.7	1,088.3	1,223.9	1,409.2	1,440.1	1,489.0	1,499.5	1,634.9
Other Items (net)	-214.6	-119.7	-128.9	-144.2	-94.6	-123.0	-106.7	-106.7
Liabilities to the private sector	**1,381.3**	**1,363.8**	**1,377.9**	**1,536.9**	**1,587.8**	**1,605.5**	**1,638.6**	**1,786.5**
(12-month change in percent of M2 at the beginning of the period)								
Consolidated banking system								
Liabilities to private sector	17.8	-1.0	0.9	11.0	8.5	6.7	6.1	9.0
Net foreign assets	24.9	-12.0	-7.5	-1.1	-5.3	1.4	-1.1	2.0
Net domestic assets	-7.2	10.9	8.4	12.0	13.8	5.4	7.2	7.0
Credit to private sector	5.1	6.2	9.2	12.5	8.3	7.7	5.5	7.8
Loans/deposits ratio (in percent)	57.6	66.0	73.2	75.9	75.8	…	...	...

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

1/ Includes the National Insurance Scheme.

Table 4. Grenada: Summary Balance of Payments, 2005–13

	2005	2006	Prov. 2007	Projections 2008	2009	2010	2011	2012	2013
	(In millions of U.S. dollars)								
Current account	**-172.3**	**-185.9**	**-197.0**	**-208.8**	**-225.4**	**-237.5**	**-241.4**	**-253.5**	**-257.7**
Trade balance	-265.9	-264.3	-260.1	-278.2	-286.0	-289.1	-298.3	-313.4	-327.0
Exports (f.o.b.) 1/	32.9	32.3	48.2	39.3	40.4	42.9	46.8	51.0	55.7
Imports (f.o.b.)	-298.7	-296.6	-308.3	-317.6	-326.3	-332.0	-345.1	-364.4	-382.7
Of which: Mineral fuels	-56.8	-117.7	-129.6	-184.6	-127.9	-146.8	-162.0	-174.8	-184.4
Travel (net)	69.1	88.5	121.9	126.1	127.8	139.9	153.9	169.1	185.6
Other services (net)	-48.4	-57.1	-69.4	-65.5	-67.1	-72.4	-78.1	-83.9	-89.7
Income (net)	-30.7	-31.2	-33.4	-37.2	-41.2	-44.5	-47.9	-54.8	-56.6
Transfers (net)	103.6	78.3	43.9	46.1	41.0	28.6	29.0	29.4	29.9
Capital and financial account	**179.2**	**193.8**	**189.5**	**198.7**	**216.9**	**246.3**	**253.5**	**260.2**	**241.2**
Capital account (transfers)	22.7	23.5	24.2	19.8	20.6	21.3	22.3	23.3	24.3
Financial account	156.5	170.4	165.3	178.9	196.3	225.0	231.2	236.9	216.9
Public sector borrowing	18.5	26.1	24.7	38.8	29.5	33.8	38.8	41.0	18.8
Public sector amortization	-9.0	-9.1	-9.7	-10.6	-11.6	-12.1	-19.8	-23.5	-27.5
Direct investment (net)	70.2	85.2	137.0	125.9	154.7	178.8	187.5	196.2	204.9
Portfolio investment (net)	17.8	-0.7	0.6	9.3	9.8	10.4	11.0	11.7	12.4
Other investments (net)	59.0	68.9	12.6	15.5	13.9	14.1	13.6	11.5	8.3
Net errors and omissions	-50.5	-15.9	19.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-43.7**	**-8.0**	**11.8**	**-10.1**	**-8.6**	**8.8**	**12.0**	**6.7**	**-16.6**
Available financing	**43.7**	**8.0**	**-11.8**	**10.1**	**3.4**	**-8.8**	**-12.0**	**-6.7**	**16.6**
Change in imputed reserves	27.5	-5.6	-10.7	3.3	0.0	-11.8	-11.8	-6.2	17.0
IMF purchases and disbursements	0.0	2.3	0.0	8.5	5.1	2.6	0.0	0.0	0.0
IMF repurchases and repayments	0.0	-1.6	-2.2	-2.9	-2.2	0.0	-0.2	-0.5	-0.5
Exceptional financing 2/	0.0	13.0	1.2	1.1	0.5	0.4	0.0	0.0	0.0
Other	16.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Possible reschedulings 3/					**5.1**				
Memorandum items:									
External public and publicly guaranteed debt 2/	437.0	457.2	478.8	513.8	540.3	565.0	583.8	600.8	591.6
	(In percent of GDP)								
Current account	**-31.1**	**-32.9**	**-32.4**	**-31.8**	**-31.5**	**-31.0**	**-29.3**	**-28.8**	**-27.5**
Trade balance	-48.0	-46.8	-42.8	-42.4	-40.0	-37.7	-36.2	-35.6	-34.8
Exports of goods	5.9	5.7	7.9	6.0	5.6	5.6	5.7	5.8	5.9
Imports of goods	-53.9	-52.6	-50.7	-48.4	-45.6	-43.3	-41.9	-41.4	-40.8
Travel (net)	12.5	15.7	20.1	19.2	17.9	18.2	18.7	19.2	19.8
Other services (net)	-8.7	-10.1	-11.4	-10.0	-9.4	-9.4	-9.5	-9.5	-9.6
Income and current transfers (net)	13.2	8.3	1.7	1.4	0.0	-2.1	-2.3	-2.9	-2.8
Capital and financial account	**32.3**	**34.3**	**31.2**	**30.3**	**30.3**	**32.1**	**30.8**	**29.5**	**25.7**
Public sector	1.7	3.0	2.5	4.3	2.5	2.8	2.3	2.0	-0.9
Private sector	30.6	31.3	28.7	26.0	27.8	29.3	28.5	27.6	26.6
Overall balance	**-7.9**	**-1.4**	**1.9**	**-1.5**	**-1.2**	**1.1**	**1.5**	**0.8**	**-1.8**
External public and publicly guaranteed debt 2/	78.9	81.0	78.8	78.3	75.6	73.6	70.9	68.2	63.0
	(Annual percentage change)								
Exports of goods	-12.4	-1.7	49.2	-18.4	2.6	6.2	9.2	8.9	9.3
Imports of goods	32.1	-0.7	3.9	3.0	2.8	1.7	3.9	5.6	5.0
Travel (net)	-8.3	28.1	37.7	3.4	1.4	9.4	10.0	9.9	9.8

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

1/ Re-exports increased sharply in 2007 upon completion of construction related to the 2007 Cricket World Cup.
2/ Includes amounts rescheduled under the May 2006 Paris Club agreement.
3/ Possible reschedulings from the Paris Club and Taiwan Province of China.

Table 5. Grenada: Reviews and Disbursements Under the PRGF Arrangement, 2006–10 1/

Date	Conditions	Disbursement	Percent of Quota	Availability date
April 2006	Board approval of PRGF arrangement	SDR 1.56 million	13.33	April 15, 2006
July 2008	Observance of end-June 2006 performance criteria, completion of first review and adopt conditions for second year of the arrangement	SDR 2.98 million	25.48	July 15, 2008
December 2008	Observance of end-June 2008 performance criteria and completion of second review	SDR 2.41 million	20.61	October 15, 2008
April 2009	Observance of end-December 2008 performance criteria, completion of third review, and adopt conditions for third year of the arrangement	SDR 1.68 million	14.36	April 15, 2009
October 2009	Observance of end-June 2009 performance criteria and completion of fourth review	SDR 1.68 million	14.36	October 15, 2009
April 2010	Observance of end-December 2009 performance criteria and completion of fifth review	SDR 1.68 million	14.36	March 31, 2010
Total		**SDR 11.99 million**	**102.50**	

Source: Fund staff.

1/ Reflects frontloading, as well as augmentation of access of 12.5 percent of quota (SDR 1.46 million), phased equally over the two disbursements expected in 2008.

Table 6. Grenada: Indicators of Capacity to Repay the Fund, 2007–15 1/

(In millions of SDRs unless otherwise indicated)

		Projections							
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund obligations based on existing credit	1.7	1.9	1.6	0.1	0.2	0.4	0.4	1.0	1.0
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	0.9	0.9
Charges and interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit	1.7	1.9	1.6	0.1	0.3	0.4	0.4	1.6	2.3
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.6	2.2
Charges and interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit									
In millions of US$	2.7	3.1	2.4	0.1	0.4	0.6	0.6	2.6	3.6
In percent of exports of goods and services	1.3	1.5	1.1	0.1	0.2	0.2	0.2	0.8	1.0
In percent of debt service 2/	10.5	10.1	6.7	0.5	1.3	1.7	1.2	4.5	5.6
In percent of GDP	0.4	0.5	0.3	0.0	0.0	0.1	0.1	0.3	0.3
In percent of Imputed Net International Reserves	2.4	2.9	2.3	0.1	0.3	0.5	0.6	3.4	9.3
In percent of quota	14.8	16.5	13.4	0.7	2.1	3.3	3.3	14.0	19.7
Outstanding Fund credit (end of period)									
In millions of SDRs	4.9	8.4	10.3	12.0	11.8	11.5	11.2	9.7	7.4
In millions of US$	7.7	13.1	16.1	18.7	18.4	18.0	17.5	15.0	11.6
In percent of exports of goods and services	3.7	6.3	7.5	8.0	7.2	6.5	5.8	4.7	3.4
In percent of debt service 2/	30.4	43.1	44.3	72.2	63.3	51.2	35.1	26.4	18.2
In percent of GDP	1.3	2.0	2.2	2.4	2.2	2.0	1.9	1.5	1.1
In percent of Imputed Net International Reserves	6.9	12.2	15.0	16.8	15.9	14.8	16.3	20.0	29.9
In percent of quota	41.5	72.0	88.2	102.6	101.2	98.5	95.9	82.6	63.5
Net use of Fund credit	-1.5	3.6	1.9	1.7	-0.2	-0.3	-0.3	-1.6	-2.2
Disbursements	0.0	5.4	3.4	1.7	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.6	2.2
Memorandum items:									
Exports of goods and services (in millions of US$)	209.0	208.3	215.6	233.2	254.4	277.3	302.0	322.0	342.6
Debt service (in millions of US$) 2/	25.2	30.4	36.2	25.9	29.1	35.0	49.8	56.9	63.7
GDP (in millions of US$)	607.9	655.9	715.1	767.3	823.7	880.9	938.8	995.9	1056.4
Imputed Net International Reserves (in millions of US$)	110.4	107.1	107.1	110.9	116.2	121.1	107.5	75.0	38.7
Quota	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: Fund staff estimates and projections.

1/ Assumes prospective disbursements of SDR 2.41 million in December 2008 and SDR 1.68 million in April 2009, October 2009 and April 2010.

2/ Total debt service including debt service to the Fund.

Table 7. Grenada: Vulnerability Indicators, 2004–07

	2004	2005	2006	Est. 2007
Real sector indicators				
Real GDP growth (percent)	-5.7	11.0	-2.3	4.5
CPI inflation (period average, in percent)	2.3	3.5	4.2	3.9
Financial sector indicators				
Total capital asset ratio of banks (locally incorporated)	14.9	15.3	17.5	15.6
Of which : Tier 1 capital	10.5	12.7	13.2	13.3
Liquid assets/total assets	44.3	37.3	31.5	29.2
Liquid assets/current liabilities	48.2	40.0	34.6	32.3
Total loans/total deposits	57.6	66.0	73.2	75.9
Net liquid assets/total deposits	44.2	35.4	28.6	26.4
Nonperforming loans/total loans	6.0	5.5	3.7	3.5
Locally incorporated banks	7.1	6.8	4.7	3.4
Foreign banks	4.4	3.5	2.4	3.5
Provisions for loan losses /nonperforming assets	81.9	79.4	67.4	57.7
Locally incorporated banks	63.0	60.7	51.5	48.3
Foreign banks	127.8	134.6	114.6	71.2
Gross government claims/total assets	11.3	11.2	11.6	11.9
FX deposits/total deposits	5.6	7.8	5.8	7.7
Net foreign currency exposure/capital (locally incorporated banks)	221.4	138.4	101.4	65.7
Contingent liabilities/capital (locally incorporated banks)	67.7	78.7	72.2	85.8
Ratio of bank's before-tax profits to average assets (percent)	0.5	0.7	2.5	2.1
Broad money (percent change, 12-month basis)	17.8	-1.0	0.9	11.0
Private sector credit (percent change, 12-month basis)	6.8	9.2	12.5	15.1
U.S. Treasury bill rate (percent per annum)	1.4	3.2	4.8	4.5
Treasury bill rate (percent per annum) 1/	6.0	6.0	6.5	6.5
External sector indicators				
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7
REER appreciation (percent change on 12-month basis, end of period)	-3.5	5.9	-4.6	0.2
Exports of goods (percent change, 12-month basis)	-17.6	-12.4	-1.7	49.2
Imports of goods (percent change, 12-month basis)	-0.1	32.1	-0.7	3.9
Travel receipts (gross, percent change, 12-month basis)	-18.7	-5.6	31.5	27.2
Current account balance (percent of GDP)	-9.6	-31.1	-32.9	-32.4
Capital and financial account balance (percent of GDP)	15.2	32.3	34.3	31.2
FDI inflows (percent of GDP)	13.9	30.6	31.3	28.7
Gross international reserves of the ECCB (in US$ millions)	632.4	600.8	696.0	764.5
Gross international reserves in months of current year imports in ECCU countries	4.8	3.9	3.8	3.8
Gross international reserves to broad money in ECCU countries (percent)	20.4	20.4	18.6	18.6
Public gross external debt (in US$ million)	415.6	437.0	457.2	478.8
Public gross external debt to exports of goods and services (percent)	45.5	53.0	49.9	37.7
Public gross external interest payments to exports of goods and services (percent)	13.9	6.5	7.5	6.3
Public gross external amortization payments to exports of goods and services (percent)	8.7	6.0	5.6	4.6
Public gross external interest payments to fiscal revenue (percent)	18.7	5.0	6.4	8.0
Public gross external amortization payments to fiscal revenue (percent)	11.7	4.7	4.8	5.9
Gross external financing requirement (in percent of GDP)	13.3	32.7	34.6	34.0
	(In percent of GDP)			
Public sector indicators				
Central government overall balance (after grants)	-2.6	0.4	-6.4	-8.2
Public and publicly-guaranteed gross external debt	88.6	78.9	81.0	78.8

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

1/ Rate on one-year treasury bills.

ANNEX I—SUMMARY OF APPENDICES

Fund Relations

Grenada's outstanding purchases as of end-October 2008 amounted to SDR 6.37 million (54.43 percent of quota). Grenada is a member of the ECCB, which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The last Article IV consultation was concluded by the Executive Board on September 26, 2007 (IMF Country Report No. 08/351). The next Article IV consultation is expected to take place in August 2009. CARTAC, MCM, and FAD have provided extensive technical assistance. An updated safeguards assessment of the ECCB was undertaken in July 2007 and did not note any new significant vulnerabilities.

Relations with the World Bank Group[1]

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. There are eight active World Bank projects in Grenada for a net commitment of approximately US$47.56 million: OECS E-government for Regional Integration Program, Grenada Technical Assistance Project, Telecommunications and ICT Development, Public Sector Modernization, Education Reform Project, HIV/AIDS Prevention and Control, the Hurricane Ivan Emergency Project, and the Caribbean Catastrophe Risk Insurance Facility.

Relations with the Caribbean Development Bank[2]

Grenada continued to receive special financing from the Caribbean Development Bank (CDB) for projects intended to facilitate the recovery and reconstruction process; to build capacity; and to assist with poverty reduction. The financing apportioned to Grenada incorporates a blend of the Bank's Special Development Funds (SDF) and ordinary capital resources, designed to yield a concessionary grant element of 35 percent. The main activities include the school rehabilitation and reconstruction project, Project Management Training, and a Country Poverty Assessment.

Statistical Issues

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

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[1] Adapted from text prepared by World Bank staff in November 2008.`

[2] Adapted from text prepared by the Caribbean Development Bank staff in October 2008.

ATTACHMENT I. LETTER OF INTENT

St. George's, Grenada
November 26, 2008

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

Dear Mr. Strauss-Kahn:

Our government, which took office in July 2008, has a strong commitment to the PRGF-supported program. The attached Supplementary Memorandum of Economic Policies (SMEP) reviews the progress under the PRGF-supported program implementation, and outlines the government's policies and objectives and macroeconomic framework for the remainder of 2008 and beyond. It emphasizes putting our debt on a sustainable trajectory, undertaking reforms to improve the business environment, and reforming our capacity for fiscal management.

Owing to negative shocks and spending pressures in the run up to the July elections, we were unable to meet two out of six of the quantitative performance criteria (on the primary balance excluding grants and external arrears) for the second review. We have taken strong remedial measures to address the fiscal slippages and to bring down the stock of domestic arrears by issuing in September a finance circular (a prior action for completion of the second review) that would sharply restrict capital spending in the fourth quarter of the year. We have also recently selected an expert with professional experience to head the new Debt Management Unit in the Ministry of Finance. Reflecting overruns in the first half, we have revised our end-2008 program targets for the primary balance excluding grants and for domestic arrears. On this basis, we request waivers for the missed performance criteria.

We are making progress with the resolution of a small unregulated bank and in September 2008 revoked its license and reappointed the receiver under a different section of the Banking Act. On November 13, we petitioned the High Court to liquidate the bank at the recommendation from the receiver and following consultation with the ECCB.

We have made limited progress with other structural reforms. We signed a memorandum of understanding on information sharing between the Customs and Inland Revenue Departments in November 2008. There were delays in developing an action plan to improve Doing Business Indicators, and obtaining Cabinet approval for reforms to investment incentives, and developing and implementing a customs Fraud Control Plan. Looking forward, we intend to submit investment incentives reforms and new VAT and Excise bills to Parliament, and to establish the Debt Management Unit.

With regard to the proposed large loan from the Export-Import Bank of China to build a port and marina, we are proceeding cautiously and would consider a loan of around US$5 million for a small marina project, but the project will not go forward in the first half of 2009. We have maintained our best efforts to complete the restructuring of our bilateral debt. We will continue good faith efforts to reach collaborative agreements with the few remaining nonparticipating commercial creditors. We have approached our Paris Club creditors to seek debt relief for 2009 in line with the debt relief that the Paris Club extended in 2006–08.

Proposed quantitative performance criteria and indicative targets are indicated in Table 1 of the SMEP; the proposed structural benchmarks and performance criteria are indicated in Table 2. We are committed to working to achieve these program targets, including the fiscal targets. On this basis, the Government of Grenada hereby requests the completion of the second review under the PRGF arrangement and financing assurances review and the release of the associated disbursement in an amount equivalent to SDR 2.41 million. We also request revision of the end-December targets for the primary balance excluding grants and for domestic arrears.

The government will continue to provide the Fund with such information as the Fund may request in connection with progress in implementing the economic and financial policies. The government believes that the policies and measures set forth in our previous MEP and the attached SMEP will achieve the program's objectives. The government also stands ready to take additional policy measures as appropriate to ensure the attainment of these objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEP and SMEP, in accordance with the Fund's policies on such consultations. The fourth review under the PRGF arrangement is expected to be completed by October 15, 2009 and the fifth review by March 31, 2010.

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

Yours sincerely,

______________/s/_________________
Honorable Nazim Burke
Minister of Finance, Planning, Economy,
Energy, Foreign Trade and Cooperatives

ATTACHMENT II. SUPPLEMENTARY MEMORANDUM OF ECONOMIC POLICIES

1. **Our economic strategy aims at promoting sustained high economic growth** by putting public finances on a sustainable trajectory; improving the climate for private investment; reducing vulnerabilities; and alleviating poverty through more effective social safety nets. This supplement to our Memorandum of Economic Policies dated March 21, 2006 MEP sets forth these economic objectives in greater detail and our plan for achieving them.

V. RECENT DEVELOPMENTS

2. **The economic outlook has deteriorated reflecting the global slowdown.** Growth is expected to slow to 1.6 percent during 2008. Inflation has been on an upward trend, reaching 8.2 percent in the 12 months to September 2008, mainly reflecting the impact of rising world fuel and food prices. Excluding food and fuel, inflation was 2.3 percent in the same period.

3. **External conditions are placing pressure on the balance of payments.** Stayover arrivals declined by 4.4 percent during January–September 2008 after strong Cricket World Cup-related performance in the first half of 2007, and are expected to slow further in the fourth quarter. Work on several FDI-financed tourism projects has been put on hold, due to financing difficulties. A U.S. airline began providing daily direct service to Grenada from Miami in November, and we have made some progress in attracting new airlines to take the place of two airlines that collapsed.

4. **The banking sector, which is dominated by subsidiaries of international banks which pool resources, is expected to remain resilient** notwithstanding the closure of the unregulated bank, the freezing of assets of an unregulated investment scheme, and adverse global conditions. Private sector credit growth has declined in recent months reaching 9 percent through September 2008, partly reflecting the slowdown in economic activity and remittances.

VI. PROGRAM PERFORMANCE

5. **Reflecting the negative external shocks, spending pressures in the run up to the July elections, and unbudgeted retroactive wage payments, fiscal performance in the first half of 2008 deviated from the program projections.** The end-June primary deficit excluding grants (below-the-line) was 3.6 percent of annual GDP, exceeding the program target (reflecting adjustors) of 2.8 percent of GDP. Divestment proceeds financed most of the overall deficit.

- **Capital expenditure of 7.6 percent of annual GDP was significantly higher than the programmed 5.1 percent of GDP.** The overrun mainly reflected pre-election spending pressures, and included many nonrecurrent spending programs in the capital budget. Expenditure on some projects exceeded annual budgeted amounts.

- **The outturn for the current balance was slightly worse than programmed**. The first half-year revenue outturn exceeded projections by 0.6 percent of GDP. This was largely due to overperformance on the consumption tax, which offset the impact of the reduction in May 2008 of the specific tax on gasoline from EC$3 to EC$2 per gallon. Current expenditure exceeded projections by 0.8 percent of GDP, due to unbudgeted retroactive wage payments and higher-than-expected transfers and subsidies.

- **Several small external debt service payments were paid with a slight delay, due to administrative difficulties.** These late payments breached our continuous zero ceiling on external payment arrears.

6. **We have made less progress with structural reforms than expected, and the implementation of most of our structural benchmarks for the second review will be delayed.** These delays largely reflect the change in government and schedule slippages by external consultants**.**

- On **customs reforms**, we signed a memorandum of understanding on information sharing between Customs and Inland Revenue in November 2008. This will facilitate implementation of the planned VAT. We have yet not developed and implemented a Fraud Control Plan, due to difficulties with external consultants.

- We are working to complete an **action plan to improve Doing Business Indicators**.

- We have been unable to develop **planning regulation**s by the scheduled date, given problems with securing technical assistance. Given these difficulties and the improvement in construction practices since Hurricanes Ivan and Emily in 2004–05, we propose to drop this benchmark from the program.

- On the **investment incentives legislation**, a new Investment Policy Review Committee, approved by Cabinet and comprised of representatives from the GIDC, private sector, and the government, will review policy issues for the new Investment Code. Some revisions may result, but the main aspects of the framework—provision of capital write-offs rather than tax holidays as a transparent, nondiscretionary process for granting incentives—will remain. We have requested technical assistance from the IMF Legal Department—which is planned for December—in drafting sections of the new Investment Code.

- Furthermore, we reduced the fixed fuel tax from EC$3 to EC$2 per gallon in May 2008 and did not employ the automatic fuel price adjustment mechanism in July and September 2008. As a result, the government accumulated arrears to fuel price importers whose margins were eroded.

VII. Policies for the Remainder of 2008 and Through 2009

7. **We are committed to strong, sound economic and fiscal management.** We intend to work to reduce our high public debt levels, through a determined effort, particularly at fiscal consolidation. Enhancing the business and investment environment, in partnership with the private sector is a key objective. We are committed to achieving these objectives,

including through implementation of our PRGF-supported program. The institutional framework to support reforms and changes in the culture of economic management are being supported by a major restructuring in the Ministry of Finance. The restructuring will include establishing Debt Management Unit, a Waste Reduction Unit, a Public Procurement Authority, and an Office of Private Sector Development.

Program Objectives for the Third Review

8. **We have undertaken strong remedial measures to address the fiscal slippages and accumulation of domestic arrears in the first half of 2008.**

- The Ministry of Finance, with approval from Cabinet, issued a finance circular in September 2008 that would limit capital expenditure in the second half of 2008 to EC$50 million (2.8 percent of GDP), including through delaying until 2009 large locally-funded projects.

- We brought forward to September 20 the date after which no new commitments for nonessential expenditure items can be made.

- In October 2008, we also reinstated the EC$3 per gallon fuel tax and resumed full passthrough of world fuel prices using the automatic mechanism. As a consequence, domestic retail gasoline prices increased from EC$13.26 to EC$15.65 per gallon.

- We have decided to resolve Capital Bank in a way that limits direct costs to the budget, and will not use the bank restructuring reserve of EC$27 million (1.5 percent of GDP).

While these measures imply substantial adjustment in the second half, given expenditure overruns by the previous government, our target for the primary deficit (excluding grants) will be increased to EC$110 million (6.2 percent of GDP). This implies a relaxation of EC$36 million (2.0 percent of GDP) relative to the original program target, also adjusting for lower-than-expected bank restructuring costs and higher-than-expected grants. We are committed to meeting our revised program target and will take offsetting measures as needed in case of shortfalls in revenue and grants.

9. **Nevertheless, recurrent expenditures for the second half are expected to remain high relative to the program target,** on account of:

- The projection for payments for salaries and allowances in the second half has been raised to reflect retroactive payments to teachers of EC$10.3 million.

- The projection for transfers and subsidies has been revised upward to reflect the impact of retroactive wage increases on pensions, and the difficulty of tightening social programs while the cost of living was rising rapidly.

10. **Within the budget envelope described above, we have undertaken urgent measures to mitigate the rising costs of living.** Households will be allowed to import two barrels of foodstuffs duty-free until end-December 2008 with expected foregone revenue of

EC$2.6 million (0.1 percent of GDP). We have also introduced a free textbook program at a cost of EC$5 million (0.3 percent of GDP) (classified under capital expenditure).

11. **We plan to reduce the large stock of domestic arrears older than 60 days.** These arrears declined from EC$27 million (1.5 percent of GDP) at end-2007 to EC$12 million (0.7 percent of GDP) at end-June 2008, but rose back to EC$29 million (1.6 percent of GDP) at end-September 2008. We intend to reduce these arrears to EC$25 million by end-2008. We have accumulated arrears to fuel importers resulting from incomplete passthrough of world fuel prices during recent years and have reached an agreement with these importers under which we agreed to remit back 50 percent of the fuel tax to reduce these claims, which we expect to clear in 2009. We do not expect to accumulate further arrears to importers in light of full passthrough of world fuel prices.

12. **We intend to proceed with introduction of a VAT.** We have reconstituted the VAT team and resumed preparatory work. We plan to announce in the December budget speech an introduction date that will allow sufficient time to allow businesses, consumers and government to prepare. The introduction date will be within the period October 2009 to February 2010. We will submit VAT and Excise bills to Parliament by April 2009 and recruit and begin training staff and adopting transitional procedures for bonded warehouses by May 2009. These will constitute structural benchmarks for the third and fourth reviews respectively. We have asked CARTAC to provide technical assistance building on earlier work.

13. **We intend to accelerate structural reforms focusing on tax and customs reform, economic management, and laying the groundwork for a poverty reduction strategy.**

- We will begin implementing a customs Fraud Control Plan by August 2009. This will provide for risk profiles as a basis for risk-based inspections, in conjunction with the introduction of ASYCUDA World.

- We are also moving forward with our work related to the new investment legislation and in this regard we have established a new Investment Policy Review Committee to review the legislation with stakeholders.

- Completing the Country Poverty Assessment (CPA) becomes more important as we consider ways to mitigate the impact of food and fuel shocks on vulnerable groups. The CPA will provide information to help improve targeting of social programs, and to develop a poverty reduction strategy that will be reflected in a full PRSP report. We will work with the World Bank, with the aim of finalizing the full PRSP by November 2009.

- We also plan to set up a new Debt Management Unit. The unit would improve debt recording, evaluate proposed external and domestic borrowing, develop a debt management strategy and undertake debt sustainability analysis. Technical assistance on the structure and operation of the unit will be requested from the IMF.

14. **We will proceed promptly with the resolution of Capital Bank, while minimizing costs to the government.** The process has been delayed by legal challenges by the bank's owner and the High Court's decision to revoke the appointment of the receiver. On September 18, 2008, we dropped our appeal of that decision, and revoked the bank's license and reappointed the receiver under a different a section of the Banking Act on the recommendation of the ECCB. We petitioned the High Court for liquidation on November 13, acting on the recommendation of the receiver and following consultation with the ECCB. The government will not provide any cash injection during the resolution but would entertain requests by potential investors for indirect support such as tax credits or placement of government deposits.

15. **We intend to proceed cautiously regarding a possible concessional loan from the Export-Import Bank of China to build a port and marina.** The previous government had considered a proposal of up to US$85 million (13 percent of GDP). Such a large loan could, depending on its concessionality, undermine our objective of restoring debt sustainability. We would consider a smaller loan of around US$5 million for a small marina project which would not go forward in the first half of 2009. If we proceed we will seek a high level of concessionality and explore nonguaranteed private sector co-financing.

16. **In light of Grenada's high public debt levels, we will prudently manage PetroCaribe concessional financing.** We will set aside 35 percent of PetroCaribe financing in the special account to ensure sufficient funds for repayment, and in January 2009 will raise this share to 40 percent. The remainder would be transferred to the budget as grants. We intend to broaden the range of fuel products imported under PetroCaribe as we develop the necessary infrastructure.

17. **We have approached our Paris Club creditors to seek debt relief for 2009 in line with the debt relief that the Paris Club extended in 2006–08.** We are continuing best efforts to conclude bilateral agreements with Paris Club (the Russian Federation) and non-Paris Club (Taiwan Province of China) creditors. We are seeking an out-of court-settlement with the Export-Import Bank of Taiwan Province of China. We are pursuing good faith efforts to reach a collaborative agreement with Grenada's external commercial creditors that did not participate in the 2005 debt exchange. We have cleared or restructured all but EC$1.1 million arrears on unrestructured domestic debt to the nonbank public incurred in June 2007. However, we incurred new arrears on 90-day Treasury bills held by domestic commercial banks, which stood at EC$3.4 million at end-October 2008, and will complete clearing these arrears by the end of 2008.

Program Objectives for the Fourth Review

18. **Our 2009 budget will continue with fiscal consolidation needed to achieve debt sustainability.** An primary deficit target of 2.2 percent of GDP would be consistent with shifting gradually to small overall surpluses, in line with the objective of securing debt sustainability. Privatization proceeds expected from the Four Seasons project (EC$45 million or 2.3 percent of GDP) will be used to finance this deficit and to reduce expensive debt and arrears. We now expect to reach the 60 percent debt-to-GDP target by 2019, still one year

ahead of the ECCB's 2020 benchmark for the region. Our framework anticipates the following policies:

- Maintaining the fuel tax at EC$3 per gallon and continuing application of the automatic fuel price adjustment mechanism.

- Repealing from January 2009 the National Reconstruction Levy, a levy which was put in place in 2006 for period of 3–5 years, with a cost of EC$10 million (0.5 percent of GDP).

- Intensifying the successful program of collecting tax and nontax arrears (which is expected to yield around EC$12 million or 0.7 percent of GDP in 2008), while providing a tax amnesty through March 2009 in tandem with strengthened powers for seizing assets, garnishing income, and linking eligibility for government services to tax compliance.

- Reaching agreement on a wage path for public service workers for 2009–11 in line with projected inflation while taking into account the loss of national income from higher world fuel and food prices. We will also utilize the findings from the 2008 pay and grade study financed by the CDB.

- Adjusting travel allowances for public service workers, which had not been adjusted since 1990, at a cost of EC$6.5 million (0.3 percent of GDP).

- Targeting capital expenditure of EC$175 million (9.1 percent of GDP), and minimizing use of special warrants.

- Reducing spending on goods and services to EC$75 million (0.4 percent of GDP), through bulk procurement internally and in cooperation with other ECCU members. The new Waste Reduction Unit in the Ministry of Finance is expected to achieve savings on fuel for government vehicles, fleet insurance and electricity costs.

- Reducing spending on transfers and subsidies to EC$87 million (0.5 percent of GDP). The first stage of rationalization of social programs would yield savings of around EC$4 million (0.2 percent of GDP), while protecting transfers to vulnerable individuals. Any increase in the monthly transfer to the elderly from EC$150 per month would be financed by rationalization and would not increase the total cost of the assistance.

19. **The government believes that the policies and measures set forth above will be sufficient to achieve our fiscal targets.** We would undertake contingent measures if needed to reduce spending, including limiting grants and subventions while protecting vulnerable groups, and further rationalizing capital spending.

20. **Our structural reform agenda will continue to focus on improving tax revenue policy, enhancing the business environment, and upgrading public financial management.**

- A key objective is to improve Grenada's Doing Business Indicators. We are developing an action plan to improve specific indicators. Three priority areas have been identified: starting a business, registering property and facilitating trade. We will use the action plan to identify specific outcome targets and add one of these as a benchmark for fourth review.

- On tax policy, preparatory steps for introducing VAT (recruiting and training staff and adopting transitional procedures for bonded warehouses) will be the focus in 2009. In addition, we will move toward introducing a market-based property tax. We will complete the cadastral survey in December 2008 as a basis for reassessing the value of property. The new valuations would be applied beginning January 1, 2010.

- We plan to establish a Public Procurement Authority by September 2009, in order to realize gains in efficiency, uniformity of procedures, and savings for government purchases. We intend to implement several pieces of public financial management legislation enacted in 2007–08, including the Integrity in Public Life, Anticorruption, Public Financial Management, Audit, and Public Procurement and Contract Administration Acts. The latter provides for the establishment of a public procurement authority that would provide a framework for the procurement of all government purchases. We will also work with the World Bank to establish bulk procurement procedures with another OECS country, extending the existing successful procedure with pharmaceuticals to other products such as textbooks, agricultural inputs, fleet insurance and tires.

Program Monitoring

21. **We are improving our capability to monitor economic developments and program performance.** We will designate a Ministry of Finance official as the coordinator of Grenada's PRGF-supported program, with responsibility for overseeing the monitoring of macroeconomic and structural program targets. We have put in place a system of monthly monitoring of domestic arrears and below-the-line financing of the central government overall balance, and will update this on a monthly basis.

VIII. Other Issues

Reducing Financial Sector and Natural Disaster Vulnerabilities

22. **The Eastern Caribbean Securities and Regulatory Commission (ECSRC) issued cease and desist orders in May against two unregulated investment schemes in Grenada, one of which was already operating.** We will not compensate investors in the scheme, which has not made payments since July. The scheme invested through an offshoot of a Jamaican scheme whose assets were frozen by the Turks and Caicos law enforcement authorities in July. The Grenada Authority for the Regulation of Financial Institutions

(GARFIN) will continue efforts to advise the public to invest only with licensed institutions, and will continue to advise any new parties interested in setting up a foreign exchange trading scheme not to start operations unless they are licensed by the ECSRC.

23. **We intend to further strengthen nonbank financial sector regulation and supervision, with continued technical assistance from CARTAC.** GARFIN, which has authority over insurance, nonbank financial institutions, money services, and international financial services, is pursuing an ambitious agenda of enhancing legislation, producing regulations, and developing and implementing supervisory practices (reporting, offsite and onsite monitoring) for each type of institution. The Money Services, Insurance, and Cooperative Society Acts will be submitted to Parliament in the first half of 2009.

24. **We will continue participation in the World Bank's Caribbean Catastrophic Risk Insurance Facility.** In June 2007, we began purchasing parametric insurance that pays the government a predetermined amount in case of hurricane or earthquake. An IDA credit has financed Grenada's insurance premium in the first two years and half the premium for the next year. We intend to seek donor support for the remaining half of the premium payments beginning in June 2009.

Fiscal transparency

25. **We are continuing our efforts to improve fiscal transparency**. We will disseminate to the public quarterly information with a lag of one quarter on the overall fiscal situation and gross financing needs starting May 2009 and publish information on public enterprise finances. In line with the new Public Financial Management Act of May 2007, we will require public enterprises to submit audited financial statements four months after the close of the financial year, as required by law. We will continue to publish newly granted or extended tax concessions within a month of granting these.

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

	End-June 2008			End-Sept. 2008			End-Dec. 2008		2009	
	Unadjusted Target	Adjusted Target	Prel.	Unadjusted Target 1/	Adjusted Target	Prel.	Target	Proposed	End-March Proposed 1/	End-June Proposed
Performance Criteria:				(In millions of Eastern Caribbean dollars)						
Central government primary balance excluding grants (floor) 2/3/	-45.0	-49.8	-63.3	-67.5	-50.8	-84.5	-90.0	-110.0	-11.3	-22.5
Stock of central government domestic arrears (ceiling)	15.0	15.0	12.4	11.0	11.0	28.9	7.0	25.0	20.0	15.0
				(In millions of U.S. dollars)						
Contracting and guaranteeing of nonconcessional external debt by the central government with maturity of at least one year (ceiling) 2/	4.0	4.0	0.0	4.0	4.0	0.0	4.0	4.0	4.0	4.0
Stock of external short term debt (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contracting and guaranteeing of bilateral concessional external debt by the central government with maturity of at least one year (ceiling) 2/5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Target:				(In millions of Eastern Caribbean dollars)						
Change in net credit of the banking system to the public sector (ceiling) 2/3/	12.0	14.2	9.9	18.0	31.1	12.9	24.0	24.0	0.0	0.0

1/ Indicative target.
2/ Cumulative within each calendar year.
3/ See the TMU and supplementary TMU for a description of adjustors.
4/ To be monitored on a continuous basis.
5/ Excludes PetroCaribe.

Table 2. Grenada: Structural Measures

	Target Date	Comment	Macroeconomic Criticality
Second Review			
Issue a finance circular reducing capital expenditure to EC$184 million.	September 2008	Prior action. Met	To address fiscal slippages in the first half of 2008
Develop an action plan to improve Doing Business Indicators	August 2008	Benchmark. Not met	To create a more enabling environment for doing business by first identifying key steps to reduce bottlenecks identified in the World Bank's 2007 Doing Business Indicators
Bring into force new planning regulations, as a first step toward giving the Building Code force of law	July 2008	Benchmark. Not met	To reduce the vulnerability of the economy to natural disasters
Develop and begin implementing a customs Fraud Control Plan and sign an MoU on information sharing between customs and Inland Revenue	September 2008	Benchmark. Partially met. MoU signed November 2008	To enhance customs administration and revenue collection for sustainable financing of the budget
On Investment Act, amended Income Tax Act, and drafts to repeal tax incentives legislation, update with final policy decisions and obtain Cabinet approval	September 2008	Benchmark. Not met	To improve the investment climate and to reform the tax concessions regime
Third Review			
Reorganize or initiate liquidation of Capital Bank	November 2008	Performance criterion. Met	To increase confidence in the financial system by having a clear bank resolution strategy
Submit to Parliament the Investment Act, the amended Income Tax Act, and repeal of tax incentives	December 2008	Benchmark	To improve the investment climate and reform the tax concessions regime
Complete the Country Poverty Assessment	December 2008	Benchmark	To strengthen the ability of the government to develop effective and well-targeted poverty reduction measures
Establish a Debt Management Unit at the Ministry of Finance	February 2009	Proposed benchmark	To enable more effective debt management including better monitoring of payment obligations and effective debt sustainability analysis
Submit new VAT and Excise bills to Parliament	April 2009	Proposed benchmark	To increase the efficiency and effectiveness of revenue collection
Fourth Review			
Recruit and begin training staff and adopt transitional procedures for bonded warehouses	May 2009	Proposed benchmark	To ensure smooth implementation of the VAT
Develop and begin implementing a customs Fraud Control Plan	August 2009	Proposed benchmark	To enhance customs administration and revenue collection for sustainable financing of the budget
Establish a Public Procurement Authority	September 2009	Proposed benchmark	To enhance transparency and governance in procurement and facilitate donor monitoring
Implement a measure to be identified from the Action Plan to improve Doing Business Indicators 1/	To be specified	Benchmark to be specified	To further improve the investment climate

1/ Three priority areas have been identified. Once specific outcome targets (for example reducing by a specified amount the number of steps required to start a business) have been identified, a specific benchmark will be proposed at the time of the third review as a benchmark for the fourth review.

ATTACHMENT III. SUPPLEMENTARY TECHNICAL MEMORANDUM OF UNDERSTANDING

The Technical Memorandum of Understanding (TMU) associated with the LOI and MEP of March 21, 2006, as modified by the Supplemental TMU of June 20, 2008, remains the operative document for monitoring and reporting requirements and for defining how the quantitative performance criteria and indicative targets, specified in Table 1 of the supplementary MEP, will be interpreted, except for the specific changes in the following:

Section II. Replace paragraph 10 with "The floor on the central government primary balance excluding grants will be adjusted as follows:

(i) downward[1] to the extent that grants exceed programmed amounts, as specified in Table 1 below.

(ii) upward to the extent that grants fall short of the programmed amounts, as specified in Table 1 below, by more than EC$10 million through end-June or after.

(iii) downward to the extent that concessional financing from multilateral development banks exceeds programmed amounts, as specified in Table 1.

(iv) upward by an amount equivalent to 50 percent of the shortfall of divestment proceeds from the programmed amount, as specified in Table 1.

(v) downward by an amount equivalent to 50 percent of divestment proceeds in excess of EC$45 million, with a maximum adjustment of EC$32 million. The remaining excess divestment proceeds will be used to pay down debt, targeting more expensive debt first.

(vi) downward to the extent that bank restructuring costs exceed the programmed amount, as specified in Table 1, with a maximum adjustment of EC$7 million."

Section III. Replace paragraph 12 with

"The ceiling on net credit of the banking system will be adjusted by the amount of required counterpart financing as follows:

(i) Upward to the extent that grants fall short of programmed amounts in Table 1 up to a limit of EC$10 million;

(ii) Upward to the extent that concessional financing falls short of programmed amounts in Table 1."

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[1] Downward adjustment means a higher deficit; upward implies a lower deficit.

Section IV. Replace the last sentence of paragraph 14 with

"The performance criterion on domestic arrears older than 60 days will not be monitored continuously but on an outstanding stock basis at the specified test dates."

Table 1. Programmed Disbursements of Concessional Loans and Grants
and Bank Restructuring Costs, 2008-09
(In millions of Eastern Caribbean dollars, cumulative)

	2008	2009			
	Q4	Q1	Q2	Q3	Q4
	Prog.	Prog.	Prog.	Prog.	Prog.
Concessional loans	49.0	2.4	4.7	7.1	9.4
Grants disbursements	78.2	15.5	31.0	60.6	76.1
Divestment proceeds	50.4	0.0	0.0	0.0	44.6
Bank restructuring costs	0.0	0.0	0.0	0.0	0.0

INTERNATIONAL MONETARY FUND

GRENADA

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers and Modification of Quantitative Performance Criteria, and Financing Assurances Review

Informational Annex

Prepared by Western Hemisphere Department

December 1, 2008

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Appendices

Appendix I. Grenada: Fund Relations

(As of October 31, 2008)

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

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11.70	100.00
Fund Holdings of Currency	13.53	115.64
Reserve Position	0.00	0.00

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	0.93	100.00
Holdings	0.05	5.63

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Emergency Assistance	1.83	15.63
PRGF Arrangements	4.54	38.80

V. Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr. 17, 2006	Apr .16, 2010	11.99	4.54

VI. Projected Obligations to Fund

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

	Forthcoming				
	2008	**2009**	**2010**	**2011**	**2012**
Principal	0.37	1.46	0.00	0.16	0.31
Charges/Interest	0.03	0.07	0.04	0.04	0.04
Total	0.40	1.53	0.04	0.20	0.35

VII. Implementation of HIPC and MDRI Initiatives: Not Applicable

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

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

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

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

XII. Technical Assistance:

Caribbean Regional Technical Assistance Centre (CARTAC)

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

Other Technical Assistance (2007–08)

FAD and LEG have provided extensive assistance in tax policy and administration. In particular, FAD and LEG have assisted in the design and drafting of a VAT and related changes to excise taxes. LEG has also assisted with training for tax officials and with the finalization of the VAT and excise laws. A series of FAD missions have provided further assistance on implementing a VAT and on tax and customs administration more broadly.

Appendix II. Grenada—Relations with the World Bank Group

(As of November 14, 2008)

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

A. Projects

There are eight active World Bank projects in Grenada for a net commitment of approximately US$47.56 million.

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

The Grenada Technical Assistance Project was approved on March 13, 2008 as a US$2.78 million IDA Credit. The Project's developmental objectives are to: (i) improve the efficiency and effectiveness of Customs, (ii) improve the efficiency of tax administration and decrease transaction costs of paying taxes and consequently increase tax compliance, (iii) modernize investment promotion, and, (iv) enhance the government's support to the export sector through improved access to trade information and the strengthening the capacity of the Bureau of Standards to provide conformity assessment and quality assurance. The medium-to-long-term direct impact of the project is likely to be substantial, including: better quality service and reduced clearance time at customs; reduced time and lower transaction cost for paying taxes and hence improved compliance; greater access to trade data and quality assurance support for exporters; and increased investments as a result of a more streamlined and faster system for investment approval in Grenada.

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

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

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

The Hurricane Ivan Emergency Project was approved in November 2004 for US$10 million, with an additional US$9.8 million being added in September 2005. This emergency assistance for Grenada was implemented to respond to the effects of a devastating hurricane that hit the island in September 2004. The project supports Grenada's recovery efforts through the financing of critical imports and rehabilitation activities in key social sectors.

The Grenada OECS Education Development Project, approved in June 2003 for US$8.0 million as part of a multi-country Adaptable Program Loan (APL), is a follow-up to an earlier education project. Its objective is to build human capital, with a view to contributing to economic diversification and more sustainable growth. Key objectives are 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 improve governance of schools. The Bank is currently preparing additional financing in the amount of US$1.9 million which is scheduled to go to the Board in December 2008. The proposed additional resources would finance the costs associated with scaling up those components curtailed when the original project was restructured after Hurricane Ivan in November 2004, namely improving education quality and strengthening management.

The HIV/AIDS Prevention and Control Program, approved in July 2002 for US$6.04 million, 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.

OECS (Grenada) Skills for Inclusive Growth, is scheduled to be approved by the Board in December 2008. The US$3.5 million IDA Credit will fund the second phase of the multi-country APL and will support Grenada's efforts to increase the employability of youth through public/private sector partnerships for technical and life skills training that is demand driven. This objective has three intermediate outcomes with associated lines of action: (a) to increase job-related competencies among unemployed youth through the establishment of a competitive training mechanism that supports the financing and delivery of demand driven training; (b) to improve the quality and value of training in Grenada and enhance OECS collaboration in training through the adoption of an occupational standards framework that is validated locally and recognized regionally; and (c) to strengthen institutional capacity to plan, implement, and monitor training.

B. Economic and Sector Work

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

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

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

Operation	**Original Principal**	**Available[1]**	**Disbursed[1]**
E-Government for Regional Integration Program	2.40	2.24	0.00
Grenada Technical Assistance Project	1.86	1.79	0.00
The Caribbean Catastrophe Risk Insurance	4.50	0.85	3.63
The Public Sector Modernization Technical Assistance Project	3.50	2.97	0.77
Telecommunications & ICT Development Project	0.54	0.30	0.26
Hurricane Ivan Emergency Recovery Project	19.77	4.59	9.87
Grenada Education Reform Project	8.00	1.41	5.77
HIV/AIDS Prevention And Control Program	6.04	3.13	12.08
Total	**46.61**	**17.28**	**32.38**

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

Disbursements and Debt Service (Fiscal Year ending June 30)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Total disbursements	1.99	2.46	2.78	6.30	2.77	5.93	4.27	5.83	7.48
Repayments	0.07	0.06	0.06	0.07	0.22	0.63	1.10	1.49	1.62
Net disbursements	1.92	2.40	2.71	6.23	2.55	5.30	3.17	4.35	5.85
Interest and fees	0.08	0.22	0.29	0.39	0.48	0.53	0.65	0.78	0.82

Appendix III. Grenada—Relations with the Caribbean Development Bank
(As of August 30, 2008)

A. New Projects and Technical Assistance

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

Rockfall and Landslip (Additional Loan and Variation in Scope)

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

Institutional Strengthening - The Ministry of Communications, Works and Transport

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

B. Ongoing Activities

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

C. Financial Relations

(As of August 2008)
(In millions of U.S. dollars)

Item	2002	2003	2004	2005	2006	2007	2008
Cumulative total credit approved[1]	112.4	119.0	127.6	152.6	163.6	171.1	174.8
Cumulative disbursements[2]	88.6	97.0	99.7	112.8	130.0	143.3	148.7
Disbursements							
Ordinary Capital Resources	1.0	4.7	5.8	5.6	3.3	1.0	0.4
Special Development Fund	2.5	4.3	3.9	8.4	9.8	7.0	1.6
Other Special Fund Resources	1.4	0.1	0.1	0.6	3.9	6.7	3.9
Amortization[3]							
Ordinary Capital Resources	0.7	0.8	0.3	1.2	1.5	1.4	1.5
Special Development Fund	1.7	1.7	1.7	1.6	1.6	1.0	0.6
Other Special Fund Resources	0.2	0.2	0.2	0.2	0.3	0.2	0.1
Outstanding debt (end of period)	55.7	61.2	67.1	77.6	91.6	101.8	105.2
Interest and Commitment Fees							
Ordinary Capital Resources	1.1	1.1	1.3	1.6	1.9	2.0	1.5
Special Development Fund	0.7	0.6	0.6	0.7	0.9	0.3	0.8
Other Special Fund Resources	0.2	0.2	0.2	0.2	0.2	1.1	0.3

Source: Caribbean Development Bank.

[1] Loans to Government of Grenada.

[2] Including valuation adjustments.

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

Appendix IV. Grenada—Statistical Issues

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

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

A. Real Sector Statistics

There are a number of deficiencies in the real sector statistics. National accounts are provided annually but are subsequent to frequent revisions—major revisions were undertaken in 2007 to extend coverage of national accounts to the offshore university, as well as to improve construction activity estimates. GDP by expenditure is available only with long lags, and real GDP estimates for the tourism sector are not computed. The estimation of gross fixed capital formation and sectoral price deflators needs to be improved. There are also discrepancies in the foreign trade estimates prepared by the customs department and those from the Central Statistical Office (CSO); furthermore, coverage, consistency, and timeliness of tourism data are limited.

Consumer prices are the only real sector data provided in between IMF missions; however these data are subject to frequent revisions. 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 unprocessed. The CSO is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics and is also conducting a Country Poverty Assessment, with assistance of the Caribbean Development Bank.

B. Government Finance Statistics

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

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

C. Monetary and Financial Statistics

The ECCB compiles monthly data on depository corporations (central bank and other depository corporations) and reports the accounts attributable to Grenada to STA using the standardized report forms with a lag of about two months for publication in the *IFS* and the *IFS* Supplement. The Ministry of Finance does not collect data regularly on finance companies, building societies, and credit unions, which also accept deposits, and on other financial corporations; this may improve with the formation of the Grenada Authority for the Regulation of Financial Institutions. While the dataset provided by the authorities is generally adequate for program purposes, identified discrepancies would need to be increasingly addressed. These include appropriate classification of government indebtedness (in particular, a specific 2005 loan). However, these data inadequacies do not pose problems to program reviews.

Expanding institutional coverage to include all depository corporations and the other financial corporations, 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 Statistics

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

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

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

E. External and Domestic Debt Statistics

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

Grenada: Table of Common Indicators Required for Surveillance

As of November 26, 2008

	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]	Sep 2008	Nov 2008	M	M, with 2- to 3-month lag	A/Q
Reserve/Base Money	Sep 2008	Nov 2008	M	M, with 2- to 3-month lag	A/Q
Broad Money	Sep 2008	Nov 2008	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Sep 2008	Nov 2008	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Sep 2008	Nov 2008	M	M, with 2- to 3-month lag	A/Q
Interest Rates[4]	Sep 2008	Nov 2008	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Sep 2008	Nov 2008	M	M, with 1- to 2-month lag	A/M
Revenue, Expenditure, Balance and Composition of Financing[5] – Central Government	Oct 2008	Nov 2008	M	Q, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Sep 2008	Nov 2008	M/A	Q, with 1- to 2-month lag	A
External Current Account Balance	Dec 2007	Feb 2008	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2007	Feb 2008	A	A, with long lag	A
GDP/GNP	Dec 2007	Sep 2008	A	Staff Mission	A
Gross External Debt[7]	Jul 2008	Sep 2008	Q	Q, with 1-month lag	A/Semi-annual
International Investment Position	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND

GRENADA

**Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waivers and Modification of Quantitative Performance Criteria, and Financing Assurances Review—
Supplementary Information and Supplementary Letter of Intent**

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

Approved by José Fajgenbaum (WHD) and Philip Gerson (SPR)

December 10, 2008

1. **The Grenadian government submitted the draft 2009 budget to Parliament on December 5.**[1] The draft budget remains consistent with the program's objectives, and implies an adjustment in the primary deficit excluding grants of over 3 percentage points of GDP relative to the 2008 fiscal program. However, it incorporates some additional expenditure and less revenue and grants than anticipated in the authorities' Letter of Intent and Memorandum of Economic Policies dated November 26. In the attached Supplementary Letter of Intent, the authorities propose revised targets for 2009 on the primary deficit excluding grants and on net credit to the public sector accordingly.

2. **The additional expenditure of EC$9 million (0.5 percent of GDP) is comprised of the following:**

- Spending on transfers and subsidies has been increased by EC$1.7 million to reflect increased demand to participate in existing government transfer programs given slowing economic activity;

- Spending on goods and services has been increased by EC$2.2 million, reflecting in part the new Ministry of Housing, which has been established to improve management of several large externally-financed housing programs; and

- Capital spending has been increased by EC$5 million, primarily to accommodate faster disbursements for an existing externally financed project to build farm roads, and for new infrastructure spending to address recent damage by strong rainstorms.

[1] The budget speech is scheduled for December 12.

3. **Revenue and grants have been reduced by EC$11.5 million (0.6 percent of GDP) as follows:**

- Grants have been lowered by EC$10.6 million to reflect a more conservative projection in the difficult external environment and the effect of lower oil prices on PetroCaribe-related grants.

- Tax revenue has been increased by EC$6.9 million reflecting a number of technical factors, including carried over National Reconstruction Levy revenue, personal income taxes on higher public service wages, and reclassification of tax credits to fuel importers as arrears.[2] Nontax revenue is lower by EC$7.8 million reflecting more conservative projections for dividends and rent.

4. **The revisions will increase the primary deficit excluding grants from EC$42.1 million (2.2 percent of GDP) to EC$51.9 million (2.7 percent of GDP).**[3] In addition, the projection for concessional World Bank financing has been increased. Staff estimates that Grenada would still meet the 60 percent debt-to-GDP target in 2019, one year ahead of the Eastern Caribbean Central Bank's benchmark date of 2020 for the region.[4]

Staff Appraisal

5. **The revisions, while increasing the previously envisaged primary deficit, still allow for a halving of the deficit from 2008 to 2009 and thereby are consistent with the authorities' objective of securing debt sustainability.** Indeed, the draft 2009 budget submitted to Parliament represents an ambitious fiscal adjustment that would facilitate achieving the program's objectives of fiscal and debt sustainability, in a challenging environment. The nature of the additional spending, which is financed by higher bilateral and World Bank credits, is appropriate because it includes well-targeted transfers and addresses reconstruction needs.

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[2] See footnote 8 of the Grenada Staff Report for the Second Review. These revenue increases are offset by lower property transfer taxes in a slower real estate market.

[3] The primary deficit excluding grants in the draft 2009 budget is EC$5.9 million (0.3 percent of GDP) higher than the proposed program target. The difference is accounted for by wages for unfilled positions, which are included in the draft budget, but excluded from the proposed program columns in Tables 2a-b. This adjustment has also been made in past years, and the gap between budgeted and actual wages has remained relatively stable. The authorities do not expect the number of unfilled positions to change significantly in 2009.

[4] Under the December 3, 2008 oil price baseline, the medium-term debt outlook has in fact improved, as PetroCaribe-related borrowing is significantly lower. In the attached tables, which reflect the new baseline, PetroCaribe-related grants and borrowing are lower and oil imports are lower. The monetary projection reflects the revised balance of payments projection as well as the draft budget submitted to Parliament. The macro framework is otherwise unchanged.

6. **Staff supports the proposed revisions to the targets, which do not change the thrust of the staff appraisal contained in the Grenada Staff Report for the Second Review.**

Table 1. Grenada: Selected Economic and Financial Indicators, 2005–09

Rank in UNDP Human Development Index out of 177 countries (2007/08)	82	Infant mortality rate per '000 births (2005)	17
Life expectancy at birth in years (2004)	73	Adult illiteracy rate in percent (2004)	4
GDP per capita in US$ (2006)	5,482	Poverty headcount index (2000)	32

		2006		Est.	2008		2009	
	2005	Prog.	Prel.	2007	Prog.	Rev.	Proj.	Rev.
	(Annual percentage change; unless otherwise specified)							
National income and prices								
Real GDP	11.0	6.5	-2.3	4.5	3.7	1.6	4.2	1.6
GDP deflator	5.3	4.6	3.9	3.4	6.0	6.2	4.7	7.3
Consumer prices								
End-of-year	6.2	2.0	1.7	7.4	6.2	6.1	3.9	3.2
Period average	3.5	4.6	4.2	3.9	7.8	7.8	4.5	4.0
External sector								
Exports of goods	-12.4	0.6	-1.7	49.2	-18.4	-18.4	2.6	2.6
Imports of goods	32.1	-3.4	-0.7	3.9	11.8	3.0	7.8	-0.3
Merchandise export volume 1/	-21.4	-0.6	-14.7	41.2	-16.4	-16.7	-0.6	-1.4
Merchandise import volume 1/	20.7	-5.0	-10.4	-5.9	0.9	-11.8	8.3	11.7
Current account balance (including grants; in percent of GDP)	-31.1	-32.8	-32.9	-32.4	-36.4	-31.8	-35.1	-30.5
Terms of trade (deterioration -)	3.7	…	5.9	1.1	-5.8	-9.6	2.9	14.1
Real effective exchange rate (end of period, depreciation -)	5.9	...	-4.6	0.2	...	...	...	...
Banking system								
Net foreign assets 2/	-12.0	-2.2	-7.5	-1.1	-0.3	-1.1	1.8	1.3
Net domestic assets 2/	10.9	10.1	8.4	12.0	8.8	7.2	7.2	7.7
Of which								
Credit to public sector (net) 2/	-0.9	0.0	0.2	1.6	1.3	-2.0	-0.6	-0.1
Credit to private sector 2/	6.2	8.5	9.2	12.5	7.4	5.5	7.8	7.8
Money and quasi-money (M2)	-1.0	7.8	0.9	11.0	8.5	6.1	9.1	9.0
Weighted average deposit rate (in percent)	2.8	...	3.0	3.0	...	...	...	...
Weighted average lending rate (in percent)	10.2	...	9.7	9.6	...	...	...	...
	(In percent of GDP)							
Central government finances 3/								
Total revenue and grants	34.5	33.2	33.6	27.2	28.9	30.0	28.2	28.7
Of which								
Grants	10.4	7.4	8.7	1.1	3.7	4.4	2.6	3.4
Total expenditure	34.0	35.1	40.0	35.3	32.9	34.2	28.9	30.9
Current expenditure	20.3	20.9	21.2	21.7	23.4	23.8	19.9	21.5
Of which								
Salaries and allowances	10.1	10.8	10.0	9.7	10.1	11.3	9.3	10.0
Capital expenditure	13.8	14.2	18.8	13.6	9.6	10.4	9.0	9.3
Bank restructuring	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0
Primary balance (excluding grants)	-8.0	-7.1	-13.0	-6.9	-5.0	-6.0	-0.7	-2.7
Primary balance (including grants)	2.4	0.3	-4.3	-5.8	-1.3	-1.6	1.9	0.7
Current balance	3.8	4.9	3.7	4.4	1.8	1.8	5.8	3.7
Overall balance (including grants)	0.4	-1.9	-6.4	-8.2	-4.1	-4.2	-0.6	-2.2
Public and publicly guaranteed debt (end-period)	110.3	116.5	116.7	111.5	106.5	107.2	98.7	101.6
	(In millions of U.S. dollars)							
Nominal GDP	553.9	...	564.4	607.9	657.3	655.9	716.9	715.1

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2007/08; World Bank, WDI 2007; 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/ Measured using above-the-line information.

Table 2a. Grenada: Medium-Term Central Government Finances, 2007–09

(In millions of Eastern Caribbean dollars)

	2007	2008							2009	
		First Half		Second Half		Full year				
	Prel.	Prog.	Prel.	Prog.	Rev.	Budget	Prog.	Rev. 1/	Rev. 1/	Prop. 2/
Total revenue and grants	**445.8**	**250.2**	**260.0**	**262.4**	**271.2**	**558.8**	**512.6**	**531.2**	**565.1**	**553.6**
Total revenue	428.5	223.8	233.0	223.8	220.0	461.1	447.6	453.0	489.0	488.1
Current revenue	428.4	223.7	232.9	223.7	220.0	461.0	447.5	452.9	488.8	488.0
Tax revenue 3/	402.8	207.1	212.6	207.1	203.2	423.4	414.3	415.9	448.2	455.1
Taxes on income and profits	74.8	39.5	40.5	39.5	41.4	73.8	78.9	81.8	77.2	81.8
Taxes on property	29.0	14.0	17.8	14.0	7.8	27.7	28.0	25.7	30.8	27.8
Taxes on domestic goods and services	71.3	39.4	42.4	39.4	32.7	95.6	78.7	75.0	86.2	85.8
Taxes on international transactions	227.7	114.3	112.0	114.3	121.4	226.3	228.6	233.3	254.0	259.7
Nontax revenue	25.6	16.6	20.3	16.6	16.8	37.6	33.2	37.0	40.7	32.9
Capital revenue	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants	17.3	26.4	27.0	38.6	51.2	97.7	65.0	78.2	76.1	65.5
Total expenditure	**579.7**	**283.9**	**341.1**	**300.9**	**264.0**	**644.6**	**584.7**	**605.0**	**587.2**	**596.1**
Current expenditure	356.6	193.9	206.8	220.9	214.3	402.8	414.7	421.0	412.2	416.1
Current primary expenditure	318.5	169.3	186.7	196.3	188.0	355.0	365.7	374.7	356.1	360.0
Salaries and allowances	158.4	89.8	97.4	89.8	101.9	188.9	179.6	199.3	193.6	193.6
Wages and salaries	140.7	80.1	86.9	80.1	90.7	167.5	160.2	177.6	166.6	166.6
Personnel allowances	17.7	9.7	10.5	9.7	11.2	21.4	19.4	21.7	27.0	27.0
Goods and services	79.1	37.8	37.4	37.8	37.6	77.5	75.5	75.0	75.0	77.2
Interest 4/	38.1	24.5	20.1	24.5	26.3	47.8	49.1	46.3	56.1	56.1
Domestic	13.0	9.8	5.1	9.8	13.3	18.4	19.6	18.4	20.4	20.4
Foreign	25.1	14.7	15.0	14.7	13.0	29.4	29.4	27.9	35.7	35.7
Transfers and subsidies	81.0	41.8	51.9	41.8	48.5	88.6	83.6	100.4	87.5	89.2
Bank restructuring	0.0	0.0	0.0	27.0	0.0	0.0	27.0	0.0	0.0	0.0
Capital expenditure	223.1	90.0	134.3	80.0	49.7	241.8	170.0	184.0	175.0	180.0
Current balance	71.8	29.9	26.1	2.9	5.8	62.5	32.8	31.9	76.6	71.9
Primary balance (excluding grants)	-113.1	-35.5	-88.1	-52.5	-17.6	-135.7	-88.1	-105.7	-42.1	-51.9
Primary balance (including grants)	-95.9	-9.1	-61.0	-13.9	33.5	-38.0	-23.1	-27.5	34.0	13.6
Overall balance (excluding grants)	-151.2	-60.1	-108.1	-77.1	-43.9	-179.2	-137.1	-152.0	-98.2	-108.0
Overall balance (including grants)	-133.9	-33.7	-81.1	-38.5	7.3	-81.5	-72.1	-73.8	-22.1	-42.5
Statistical discrepancy	2.6	0.0	24.8	0.0	-24.8	0.0	0.0	0.0	0.0	0.0
Financing	**131.3**	**33.7**	**56.2**	**38.5**	**17.6**	**81.5**	**72.1**	**73.8**	**22.1**	**42.5**
Net external financing	40.2	22.2	3.5	22.2	42.1	-6.3	44.4	45.6	2.7	11.3
Net amortization	40.5	22.2	2.3	22.2	42.1	-6.3	44.4	44.4	2.7	11.3
Disbursements	62.7	35.4	18.1	35.4	52.7	26.7	70.9	70.9	30.1	38.7
Amortization	-22.2	-13.2	-15.9	-13.2	-10.6	-33.0	-26.5	-26.5	-27.4	-27.4
Change in government assets	-0.3	0.0	1.2	0.0	0.0	0.0	0.0	1.2	0.0	0.0
Net domestic financing	69.7	-10.8	-2.0	-9.1	-40.3	30.0	-19.8	-42.3	-22.7	-10.9
ECCB (net)	12.6	0.0	-0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Commercial banks (net) 5/	54.4	-10.8	5.5	2.0	-36.8	30.0	-8.8	-31.3	-23.5	-11.7
Domestic debt	2.7	0.0	-7.2	-11.0	-3.9	0.0	-11.0	-11.0	0.8	0.8
Of which: Commercial banks	0.0	0.0	-0.4	0.9	1.3	0.0	0.9	0.9	0.8	0.8
Divestment/privatization proceeds	36.0	27.0	47.7	30.0	2.7	57.2	57.0	50.4	44.6	44.6
Expenditure arrears 6/	-14.6	-4.7	7.1	-4.7	13.0	0.0	-9.4	20.1	-2.4	-2.4
Of which: Excluding arrears from debt exchange	-19.2	-7.0	4.8	-7.0	10.7	0.0	-14.0	15.5	-7.0	-7.0
Memorandum items:										
Nominal GDP (market prices, EC$ millions) 7/	1,641	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,931	1,931
Stock of expenditure arrears 6/	37.2	32.5	44.3	27.8	57.3	…	27.8	57.3	54.9	54.9
Of which: Excluding arrears from debt exchange	28.0	21.0	32.8	14.0	43.5	…	14.0	43.5	36.5	36.5

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

1/ See the Grenada Staff Report for the Second Review.
2/ This column differs from the draft budget as follows: the projection for PetroCaribe-related grants is more conservative, wages for unfilled positions are excluded, and interest reflects the possible extension of the 2006-08 Paris Club treatment and includes amounts due to nonparticipating creditors in the debt exchange.
3/ Assumes that VAT is not introduced in 2009.
4/ The 2008 budget figures are adjusted to include interest arrears to nonparticipating creditors in the debt exchange.
5/ Excludes commercial bank holdings of government paper, which are included in the following two lines.
6/ After 2005, includes EC$4.6 million arrears each year on interest to nonparticipating creditors in the debt exchange.
7/ All GDP ratios are based upon the most recent GDP projections.

Table 2b. Grenada: Medium-Term Central Government Finances, 2007–09

(In percent of GDP, unless noted otherwise)

		2008								
	2007	First Half		Second Half		Full year			2009	
	Prel.	Prog.	Prel.	Prog.	Rev.	Budget	Prog.	Rev. 1/	Rev. 1/	Prop. 2/
Total revenue and grants	**27.2**	**14.1**	**14.7**	**14.8**	**15.3**	**31.6**	**28.9**	**30.0**	**29.3**	**28.7**
Total revenue	26.1	12.6	13.2	12.6	12.4	26.0	25.3	25.6	25.3	25.3
Current revenue	26.1	12.6	13.2	12.6	12.4	26.0	25.3	25.6	25.3	25.3
Tax revenue 3/	24.5	11.7	12.0	11.7	11.5	23.9	23.4	23.5	23.2	23.6
Taxes on income and profits	4.6	2.2	2.3	2.2	2.3	4.2	4.5	4.6	4.0	4.2
Taxes on property	1.8	0.8	1.0	0.8	0.4	1.6	1.6	1.5	1.6	1.4
Taxes on domestic goods and services	4.3	2.2	2.4	2.2	1.8	5.4	4.4	4.2	4.5	4.4
Taxes on international transactions	13.9	6.5	6.3	6.5	6.9	12.8	12.9	13.2	13.2	13.4
Nontax revenue	1.6	0.9	1.1	0.9	0.9	2.1	1.9	2.1	2.1	1.7
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.1	1.5	1.5	2.2	2.9	5.5	3.7	4.4	3.9	3.4
Total expenditure	**35.3**	**16.0**	**19.3**	**17.0**	**14.9**	**36.4**	**33.0**	**34.2**	**30.4**	**30.9**
Current expenditure	21.7	10.9	11.7	12.5	12.1	22.7	23.4	23.8	21.3	21.5
Current primary expenditure	19.4	9.6	10.5	11.1	10.6	20.0	20.6	21.2	18.4	18.6
Salaries and allowances	9.7	5.1	5.5	5.1	5.8	10.7	10.1	11.3	10.0	10.0
Wages and salaries	8.6	4.5	4.9	4.5	5.1	9.5	9.0	10.0	8.6	8.6
Personnel allowances	1.1	0.5	0.6	0.5	0.6	1.2	1.1	1.2	1.4	1.4
Goods and services	4.8	2.1	2.1	2.1	2.1	4.4	4.3	4.2	3.9	4.0
Interest 4/	2.3	1.4	1.1	1.4	1.5	2.7	2.8	2.6	2.9	2.9
Domestic	0.8	0.6	0.3	0.6	0.8	1.0	1.1	1.0	1.1	1.1
Foreign	1.5	0.8	0.8	0.8	0.7	1.7	1.7	1.6	1.9	1.9
Transfers and subsidies	4.9	2.4	2.9	2.4	2.7	5.0	4.7	5.7	4.5	4.6
Bank restructuring	0.0	0.0	0.0	1.5	0.0	0.0	1.5	0.0	0.0	0.0
Capital expenditure	13.6	5.1	7.6	4.5	2.8	13.7	9.6	10.4	9.1	9.3
Current balance	4.4	1.7	1.5	0.2	0.3	3.5	1.8	1.8	4.0	3.7
Primary balance (excluding grants)	-6.9	-2.0	-5.0	-3.0	-1.0	-7.7	-5.0	-6.0	-2.2	-2.7
Primary balance (including grants)	-5.8	-0.5	-3.4	-0.8	1.9	-2.1	-1.3	-1.6	1.8	0.7
Overall balance (excluding grants)	-9.2	-3.4	-6.1	-4.4	-2.5	-10.1	-7.7	-8.6	-5.1	-5.6
Overall balance (including grants)	-8.2	-1.9	-4.6	-2.2	0.4	-4.6	-4.1	-4.2	-1.1	-2.2
Statistical discrepancy	0.2	0.0	1.4	0.0	-1.4	0.0	0.0	0.0	0.0	0.0
Financing	**8.0**	**1.9**	**3.2**	**2.2**	**1.0**	**4.6**	**4.1**	**4.2**	**1.1**	**2.2**
Net external financing	2.4	1.3	0.2	1.3	2.4	-0.4	2.5	2.6	0.1	0.6
Net amortization	2.5	1.3	0.1	1.3	2.4	-0.4	2.5	2.5	0.1	0.6
Disbursements	3.8	2.0	1.0	2.0	3.0	1.5	4.0	4.0	1.6	2.0
Amortization	-1.4	-0.7	-0.9	-0.7	-0.6	-1.9	-1.5	-1.5	-1.4	-1.4
Change in government assets	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Net domestic financing	4.2	-0.6	-0.1	-0.5	-2.3	1.7	-1.1	-2.4	-1.2	-0.6
ECCB (net)	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net) 5/	3.3	-0.6	0.3	0.1	-2.1	1.7	-0.5	-1.8	-1.2	-0.6
Domestic debt	0.2	0.0	-0.4	-0.6	-0.2	0.0	-0.6	-0.6	0.0	0.0
Of which: Commercial banks	0.0	0.0	0.0	1.7	0.1	0.0	0.0	0.0	0.0	0.0
Divestment/privatization proceeds	2.2	1.5	2.7	-0.3	0.2	3.2	3.2	2.8	2.3	2.3
Expenditure arrears 6/	-0.9	-0.3	0.4	-0.4	0.7	0.0	-0.5	1.1	-0.1	-0.1
Of which: Excluding arrears from debt exchange	-1.2	-0.4	0.3	0.0	0.6	0.0	-0.8	0.9	-0.4	-0.4
Memorandum items:										
Nominal GDP (market prices, EC$ millions) 7/	1,641	1,771	1,771	1,771	1,771	1,771	1,771	1,771	1,931	1,931
Stock of expenditure arrears 6/	2.3	1.8	2.5	1.6	3.2	…	1.6	3.2	2.8	2.8
Of which: Excluding arrears from debt exchange	1.7	1.2	1.9	0.8	2.5	…	0.8	2.5	1.9	1.9

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

1/ See the Grenada Staff Report for the Second Review.
2/ This column differs from the draft budget as follows: the projection for PetroCaribe-related grants is more conservative, wages for unfilled positions are excluded, and interest reflects the possible extension of the 2006-08 Paris Club treatment and includes amounts due to nonparticipating creditors in the debt exchange.
3/ Assumes that VAT is not introduced in 2009.
4/ The 2008 budget figures are adjusted to include interest arrears to nonparticipating creditors in the debt exchange.
5/ Excludes commercial bank holdings of government paper, which are included in the following two lines.
6/ After 2005, includes EC$4.6 million arrears each year on interest to nonparticipating creditors in the debt exchange.
7/ All GDP ratios are based upon the most recent GDP projections.

Table 3. Grenada: Summary Accounts of the Banking System, 2004–09

	2004	2005	2006	Prel. 2007	June 2008	Sept. 2008	Projections 2008	2009
(In millions of Eastern Caribbean dollars, end of period)								
I. Consolidated Banking System								
Net foreign assets	**709.0**	**531.6**	**421.5**	**405.6**	**344.6**	**325.2**	**387.6**	**410.7**
Net domestic assets	**775.1**	**937.4**	**1,060.9**	**1,239.1**	**1,349.1**	**1,377.1**	**1,357.1**	**1,491.5**
Net credit to the public sector	-18.6	-32.0	-29.0	-5.5	4.5	7.4	-38.9	-39.8
Central government	71.6	15.1	44.3	111.3	116.1	129.0	80.9	70.0
Nonfinancial public enterprises 1/	-185.0	-108.7	-173.1	-116.8	-111.6	-121.6	-119.9	-109.9
Credit to private sector	996.7	1,088.3	1,223.9	1,409.2	1,440.1	1,489.0	1,499.5	1,634.9
Other	-203.0	-118.9	-134.0	-164.6	-95.4	-119.3	-103.5	-103.5
Liabilities to private sector (M2)	**1,484.1**	**1,469.0**	**1,482.4**	**1,644.7**	**1,693.8**	**1,702.3**	**1,744.7**	**1,902.2**
Money	340.5	315.3	309.5	355.8	358.0	344.9	350.2	381.8
Quasi-money	1,143.7	1,153.7	1,172.9	1,288.9	1,335.8	1,357.4	1,394.5	1,520.4
II. Eastern Caribbean Central Bank								
Imputed net international reserves	**328.6**	**254.4**	**269.4**	**298.2**	**306.3**	**271.1**	**289.2**	**317.0**
Net domestic assets	**-1.1**	**-1.7**	**-7.6**	**5.0**	**4.7**	**-2.6**	**5.0**	**5.0**
Base money	**327.6**	**252.7**	**261.9**	**303.2**	**311.0**	**268.5**	**294.2**	**322.0**
Currency held by the public	102.1	105.3	104.5	107.8	106.0	96.8	106.1	115.7
Commercial bank reserves	225.5	147.5	157.4	195.5	205.0	171.7	188.1	206.4
III. Commercial Banks								
Net foreign assets	**380.4**	**277.2**	**152.0**	**107.4**	**38.3**	**54.1**	**98.4**	**93.7**
Net claims on ECCB	**223.3**	**134.2**	**152.3**	**175.0**	**204.2**	**175.3**	**191.3**	**209.6**
Net domestic credit	**777.6**	**952.4**	**1,073.6**	**1,254.5**	**1,345.3**	**1,376.1**	**1,348.9**	**1,483.3**
Net credit to the public sector	-18.1	-30.3	-21.4	-10.5	-0.2	10.1	-44.0	-44.9
Credit to private sector	996.7	1,088.3	1,223.9	1,409.2	1,440.1	1,489.0	1,499.5	1,634.9
Other Items (net)	-214.6	-119.7	-128.9	-144.2	-94.6	-123.0	-106.7	-106.7
Liabilities to the private sector	**1,381.3**	**1,363.8**	**1,377.9**	**1,536.9**	**1,587.8**	**1,605.5**	**1,638.6**	**1,786.5**
(12-month change in percent of M2 at the beginning of the period)								
Consolidated banking system								
Liabilities to private sector	17.8	-1.0	0.9	11.0	8.5	6.7	6.1	9.0
Net foreign assets	24.9	-12.0	-7.5	-1.1	-5.3	1.4	-1.1	1.3
Net domestic assets	-7.2	10.9	8.4	12.0	13.8	5.4	7.2	7.7
Credit to private sector	5.1	6.2	9.2	12.5	8.3	7.7	5.5	7.8
Loans/deposits ratio (in percent)	57.6	66.0	73.2	75.9	75.8	…	...	...

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

1/ Includes the National Insurance Scheme.

Table 4. Grenada: Summary Balance of Payments, 2005–13

			Prov.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
				(In millions of U.S. dollars)					
Current account	**-172.3**	**-185.9**	**-197.0**	**-208.8**	**-218.3**	**-226.9**	**-231.3**	**-243.0**	**-248.3**
Trade balance	-265.9	-264.3	-260.1	-278.2	-276.2	-281.6	-292.1	-307.8	-322.4
Exports (f.o.b.) 1/	32.9	32.3	48.2	39.3	40.4	42.9	46.8	51.0	55.7
Imports (f.o.b.)	-298.7	-296.6	-308.3	-317.6	-316.6	-324.4	-338.9	-358.7	-378.1
Of which: Mineral fuels 2/	-21.0	-43.6	-48.0	-68.4	-37.8	-46.9	-53.9	-59.2	-63.8
Travel (net)	69.1	88.5	121.9	126.1	127.8	139.9	153.9	169.1	185.6
Other services (net)	-48.4	-57.1	-69.4	-65.5	-65.8	-71.0	-76.6	-82.3	-88.0
Income (net)	-30.7	-31.2	-33.4	-37.2	-41.2	-42.8	-45.5	-51.6	-53.4
Transfers (net)	103.6	78.3	43.9	46.1	37.1	28.6	29.0	29.4	29.9
Capital and financial account	**179.2**	**193.8**	**189.5**	**198.7**	**220.1**	**229.0**	**246.5**	**253.5**	**244.7**
Capital account (transfers)	22.7	23.5	24.2	19.8	20.6	21.3	22.3	23.3	24.3
Financial account	156.5	170.4	165.3	178.9	199.5	207.7	224.2	230.2	220.4
Public sector borrowing	18.5	26.1	24.7	38.8	32.7	15.2	29.7	31.7	19.2
Public sector amortization	-9.0	-9.1	-9.7	-10.6	-11.6	-10.8	-17.6	-20.9	-24.4
Direct investment (net)	70.2	85.2	137.0	125.9	154.7	178.8	187.5	196.2	204.9
Portfolio investment (net)	17.8	-0.7	0.6	9.3	9.8	10.4	11.0	11.7	12.4
Other investments (net)	59.0	68.9	12.6	15.5	13.9	14.1	13.6	11.5	8.3
Net errors and omissions	-50.5	-15.9	19.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-43.7**	**-8.0**	**11.8**	**-10.1**	**1.8**	**2.1**	**15.2**	**10.5**	**-3.6**
Available financing	**43.7**	**8.0**	**-11.8**	**10.1**	**-6.9**	**-2.1**	**-15.2**	**-10.5**	**3.6**
Change in imputed reserves	27.5	-5.6	-10.7	3.3	-10.3	-5.1	-14.9	-10.0	4.0
IMF purchases and disbursements	0.0	2.3	0.0	8.5	5.1	2.6	0.0	0.0	0.0
IMF repurchases and repayments	0.0	-1.6	-2.2	-2.9	-2.2	0.0	-0.2	-0.5	-0.5
Exceptional financing 3/	0.0	13.0	1.2	1.1	0.5	0.4	0.0	0.0	0.0
Other	16.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Possible reschedulings 4/					**5.1**				
Memorandum items:									
External public and publicly guaranteed debt 3/	437.0	457.2	478.8	513.8	543.5	550.8	562.6	573.0	567.3
				(In percent of GDP)					
Current account	**-31.1**	**-32.9**	**-32.4**	**-31.8**	**-30.5**	**-29.6**	**-28.1**	**-27.6**	**-26.4**
Trade balance	-48.0	-46.8	-42.8	-42.4	-38.6	-36.7	-35.5	-34.9	-34.3
Exports of goods	5.9	5.7	7.9	6.0	5.6	5.6	5.7	5.8	5.9
Imports of goods	-53.9	-52.6	-50.7	-48.4	-44.3	-42.3	-41.1	-40.7	-40.3
Travel (net)	12.5	15.7	20.1	19.2	17.9	18.2	18.7	19.2	19.8
Other services (net)	-8.7	-10.1	-11.4	-10.0	-9.2	-9.2	-9.3	-9.3	-9.4
Income and current transfers (net)	13.2	8.3	1.7	1.4	-0.6	-1.8	-2.0	-2.5	-2.5
Capital and financial account	**32.3**	**34.3**	**31.2**	**30.3**	**30.8**	**29.8**	**29.9**	**28.8**	**26.1**
Public sector	1.7	3.0	2.5	4.3	3.0	0.6	1.5	1.2	-0.6
Private sector	30.6	31.3	28.7	26.0	27.8	29.3	28.5	27.6	26.6
Overall balance	**-7.9**	**-1.4**	**1.9**	**-1.5**	**0.2**	**0.3**	**1.8**	**1.2**	**-0.4**
External public and publicly guaranteed debt 4/	78.9	81.0	78.8	78.3	76.0	71.8	68.3	65.0	60.4
				(Annual percentage change)					
Exports of goods	-12.4	-1.7	49.2	-18.4	2.6	6.2	9.2	8.9	9.3
Imports of goods	32.1	-0.7	3.9	3.0	-0.3	2.5	4.5	5.8	5.4
Travel (net)	-8.3	28.1	37.7	3.4	1.4	9.4	10.0	9.9	9.8

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

1/ Re-exports increased sharply in 2007 upon completion of construction related to the 2007 Cricket World Cup.
2/ Corrected with respect to the Grenada Staff Report for the Second Review.
3/ Includes amounts rescheduled under the May 2006 Paris Club agreement.
4/ Possible reschedulings from the Paris Club and Taiwan Province of China.

Table 6. Grenada: Indicators of Capacity to Repay the Fund, 2007–15 1/

(In millions of SDRs unless otherwise indicated)

		Projections							
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund obligations based on existing credit	1.7	1.9	1.6	0.1	0.2	0.4	0.4	1.0	1.0
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	0.9	0.9
Charges and interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit	1.7	1.9	1.6	0.1	0.3	0.4	0.4	1.6	2.3
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.6	2.2
Charges and interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit									
In millions of US$	2.7	3.1	2.4	0.1	0.4	0.6	0.6	2.6	3.6
In percent of exports of goods and services	1.3	1.5	1.1	0.1	0.2	0.2	0.2	0.8	1.0
In percent of debt service 2/	10.5	10.1	6.7	0.5	1.3	1.7	1.2	4.5	5.6
In percent of GDP	0.4	0.5	0.3	0.0	0.0	0.1	0.1	0.3	0.3
In percent of Imputed Net International Reserves	2.4	2.9	2.1	0.1	0.3	0.4	0.4	1.7	2.4
In percent of quota	14.8	16.5	13.4	0.7	2.1	3.3	3.3	14.0	19.7
Outstanding Fund credit (end of period)									
In millions of SDRs	4.9	8.4	10.3	12.0	11.8	11.5	11.2	9.7	7.4
In millions of US$	7.7	13.1	16.1	18.7	18.4	18.0	17.5	15.0	11.6
In percent of exports of goods and services	3.7	6.3	7.5	8.0	7.2	6.5	5.8	4.7	3.4
In percent of debt service 2/	30.4	43.1	44.3	72.2	63.3	51.2	35.1	26.4	18.2
In percent of GDP	1.3	2.0	2.2	2.4	2.2	2.0	1.9	1.5	1.1
In percent of Imputed Net International Reserves	6.9	12.2	13.7	15.3	13.4	12.2	12.2	10.3	7.8
In percent of quota	41.5	72.0	88.2	102.6	101.2	98.5	95.9	82.6	63.5
Net use of Fund credit	-1.5	3.6	1.9	1.7	-0.2	-0.3	-0.3	-1.6	-2.2
Disbursements	0.0	5.4	3.4	1.7	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.6	2.2
Memorandum items:									
Exports of goods and services (in millions of US$)	209.0	208.3	215.6	233.2	254.4	277.3	302.0	322.0	342.6
Debt service (in millions of US$) 2/	25.2	30.4	36.2	25.9	29.1	35.0	49.8	56.9	63.7
GDP (in millions of US$)	607.9	655.9	715.1	767.3	823.7	880.9	938.8	995.9	1056.4
Imputed Net International Reserves (in millions of US$)	110.4	107.1	117.4	122.5	137.5	147.5	143.4	146.2	148.0
Quota	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: Fund staff estimates and projections.

1/ Assumes prospective disbursements of SDR 2.41 million in December 2008 and SDR 1.68 million in April 2009, October 2009 and April 2010.

2/ Total debt service including to the Fund.

St. George's, Grenada
December 9, 2008

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

Dear Mr. Strauss-Kahn:

We have now submitted our draft 2009 budget to Parliament. Our budget speech is scheduled for December 12, and Parliament will approve the budget by the end of December. The draft budget represents an ambitious fiscal adjustment, and envisages reduction in the primary balance excluding grants from a projected 6.0 percent of GDP in 2008 to 2.7 percent of GDP in 2009. Reflecting some new information and consultations within the government that had been delayed, we have revised the draft budget relative to the parameters presented in our letter dated November 26, 2008. In particular, we have:

- Increased spending on transfers and subsidies by EC$1.7 million to reflect recent increased demand by individuals to participate in existing government transfer programs, notwithstanding removal of ineligible persons from the transfer lists;
- Increased spending on goods and services by EC$2.2 million, reflecting in part our plan to improve management of several large donor-financed housing programs under the new Ministry of Housing; and
- Increased capital spending by EC$5 million in light of faster disbursements for an existing externally-financed project to build farm roads, and for new infrastructure spending to address recent damage by strong tropical rainstorms.

In addition, our more conservative projection of external grants is lower by EC$4.8 million.

The draft budget remains consistent with our objective of undertaking fiscal consolidation to support restoration of debt sustainability, and we remain committed to achieving our program's targets.

We propose to revise our targets for 2009 on the primary balance (excluding grants) and on net credit to the public sector, as specified in the attached two tables in our Supplementary Memorandum of Economic Policies and Technical Memorandum of Understanding dated November 26.

Yours sincerely,

______/s/___________
Honorable Nazim Burke
Minister of Finance, Planning, Economy,
Energy, Foreign Trade and Cooperatives

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

	End-June 2008			End-Sept. 2008			End-Dec. 2008		2009	
	Unadjusted Target	Adjusted Target	Prel.	Unadjusted Target 1/	Adjusted Target	Prel.	Target	Proposed	End-March Proposed 1/	End-June Proposed
Performance Criteria:				(In millions of Eastern Caribbean dollars)						
Central government primary balance excluding grants (floor) 2/3/	-45.0	-49.8	-63.3	-67.5	-50.8	-84.5	-90.0	-110.0	-14.0	-28.0
Stock of central government domestic arrears (ceiling)	15.0	15.0	12.4	11.0	11.0	28.9	7.0	25.0	20.0	15.0
				(In millions of U.S. dollars)						
Contracting and guaranteeing of nonconcessional external debt by the central government with maturity of at least one year (ceiling) 2/	4.0	4.0	0.0	4.0	4.0	0.0	4.0	4.0	4.0	4.0
Stock of external short term debt (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contracting and guaranteeing of bilateral concessional external debt by the central government with maturity of at least one year (ceiling) 2/5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Target:				(In millions of Eastern Caribbean dollars)						
Change in net credit of the banking system to the public sector (ceiling) 2/3/	12.0	14.2	9.9	18.0	31.1	12.9	24.0	24.0	6.2	12.5

1/ Indicative target.
2/ Cumulative within each calendar year.
3/ See the TMU and supplementary TMU for a description of adjustors.
4/ To be monitored on a continuous basis.
5/ Excludes PetroCaribe.

Table 1--STMU. Programmed Disbursements of Concessional Loans and Grants and Bank Restructuring Costs, 2008–09
(In millions of Eastern Caribbean dollars, cumulative)

	2008	2009			
	Q4	Q1	Q2	Q3	Q4
	Prog.	Prog.	Prog.	Prog.	Prog.
Concessional loans	49.0	2.3	4.7	9.3	14.0
Grants disbursements	78.2	12.9	25.7	52.7	65.5
Divestment proceeds	50.4	0.0	0.0	0.0	44.6
Bank restructuring costs	0.0	0.0	0.0	0.0	0.0

Press Release No. 08/320
FOR IMMEDIATE RELEASE
December 12, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes Second Review under the PRGF Arrangement with Grenada and Approves US$3.66 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Grenada's economic performance under the Poverty Reduction and Growth Facility (PRGF) and approved the disbursement of an amount equivalent to SDR 2.41 million (about US$3.66 million).

In completing the review, the Executive Board also approved the request for waivers and modification of performance criteria as well as the Financing Assurances Review. The waived quantitative performance criteria related to the end-June primary balance of the central government (which was missed by 0.8 percent of GDP) and to external payments arrears (reflecting some small late payments).

The three-year PRGF arrangement with Grenada was originally approved for a total amount equivalent to SDR 10.53 million (about US$ 15.97 million) on April 17, 2006 (see Press Release No. 06/75). In July 2008, the Executive Board approved a one-year extension of the PRGF arrangement to 2010. It further approved the rephasing of the remaining disbursements and augmented the arrangement by SDR 1.46 million (about US$2.21 million) to a total of SDR 11.99 million (about US$18.19 million) to help mitigate the impact of food and fuel price shocks (see Press Release No. 08/169).

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, said:

“The Grenadian authorities are committed to implementing fully their program of economic reform, which is being supported by a PRGF arrangement. Against the backdrop of a difficult external environment, they are strengthening macroeconomic management and have developed a well-focused structural reform agenda.

“The new government has already taken significant remedial measures to correct the fiscal slippages which occurred in the first half of 2008 and to restore fiscal and debt sustainability.

In particular, the authorities have reduced capital expenditure, reinstated the fuel tax, passed through to consumers the full impact of changes in global oil prices, and delayed until 2009 the repeal of the National Reconstruction Levy (NRL). The draft 2009 budget aims to improve the quality of expenditure while targeting a primary deficit consistent with the government's objective of reducing the public debt burden.

"Restoring fiscal and debt sustainability remains the centerpiece of the authorities' program, and the overall deficits targeted for 2008 and 2009 are consistent with this. Their intention to proceed cautiously in contracting a large potential external loan is welcome.

"The government will introduce a VAT at an appropriate date so as to allow time for thorough preparation. Passage of the VAT and excise tax laws with effective tax rate and exemption structures will be key. Improving tax enforcement and capabilities to detect evasion will minimize the risk that the recently announced tax amnesty will undermine future compliance and revenue collection.

"The government took the welcome decision to revoke Capital Bank's license, reappoint its receiver, and petition the High Court for its liquidation. The authorities intend to resolve Capital Bank with limited direct costs to the budget.

"The banking system remains sound and resilient. In light of the global financial turmoil, it will be important to further improve the supervision and regulation of the nonbank financial sector. Important steps have already been taken to issue a cease-and-desist order against an unregulated investment scheme.

"The authorities intend to utilize their strong political mandate to push through structural reforms. Their efforts will focus on improving the system for investment incentives and the business environment; reforming the tax and customs regimes; and strengthening economic management in the Ministry of Finance. The authorities will work to complete a Country Poverty Assessment, which will provide information to enable a better targeting of social programs and help lay the foundation for a Poverty Reduction Strategy (PRS)," Mr. Portugal said.

Statement by Stephen O'Sullivan, Alternate Executive Director for Grenada and Murna Morgan, Senior Advisor to the Executive Director
December 12, 2008

The Grenadian authorities wish to express their appreciation to the staff for the cordiality and frankness that characterized the consultations. The new government, which took office in July 2008 after thirteen years in opposition, is fully committed to strong macroeconomic management and to the successful implementation of the PRGF program. The program objectives of growth recovery and debt reduction are consistent with the key elements of the authorities' medium-term economic reform strategy. They place high priority on restoring fiscal and debt sustainability, improving the business climate, and strengthening fiscal management capacity.

Recent Developments

Like other small, open vulnerable economies, Grenada has been grappling with the effects of higher fuel and food prices and the global economic and financial crisis. Inflation has accelerated, economic activity has slowed and the balance of payments has come under pressure. Grenada, a tourism-dependent economy, has seen a 4.4 percent contraction in tourist arrivals in the first nine months of 2008. Work on a number of FDI tourism projects have been put on hold as investors experience difficulties securing financing given the global financial turmoil. The authorities anticipate that the full effects of the weakening world economy, and in particular the US economic recession, will be felt in 2009/10.

Grenada's banking system remains resilient in the face of the global financial turmoil, reflecting in part the strides in strengthening the financial supervisory and regulatory framework, as well as the dominance of Canadian banks.

Program Implementation

In the context of an extremely unfavorable global environment and spending pressures in an election period, performance under the program was mixed with progress in restoring fiscal and debt sustainability less than anticipated. All, except two of the six end-June 2008 quantitative performance criteria (PCs) and the indicative targets were met. The missed PCs - the primary balance (excluding grants) and non accumulation of external arrears - resulted from spending pressures in the first half of 2008 and administrative difficulties. In light of the economic hardship brought about by rising cost of living, the authorities took a number of steps to help cushion the effects. These included increases in the social safety net programs, temporary suspension of the automatic price adjustment mechanism in July and September 2008, reduction in excise tax and lowering of duties on food barrels from overseas. In addition, there were substantial wage pressures from public sector workers resulting in higher –than-programmed wage settlements.

The new government has taken bold remedial measures to address the fiscal slippages of the first half of 2008 and to reduce domestic arrears. There has been a re-prioritization of capital projects and a finance circular was issued in September (a prior action for completion of the second review) sharply restricting capital expenditure for the second half of 2008. Measures have also been put in place to contain recurrent expenditure, and rationalization of various

safety net programs to reduce waste is underway. The gasoline tax and full pass-through of fuel prices through the automatic price mechanism have been reinstated. These measures have already begun to bear fruit.
In keeping with the commitment to fiscal prudence, the authorities have agreed to save a larger portion of the Venezuelan grants from the PetroCaribe Fund, beginning January 2009. The new administration has also decided to move cautiously on the proposed large loan to build a port and marina. They are prepared to consider a smaller project and hence a smaller loan. Grenada continues to engage in good-faith consultations with the few remaining bilateral creditors who have not participated in the debt-restructuring exercise. They are hoping collaborative agreements can be reached. The authorities have approached Paris Club creditors for debt relief in 2009, along the lines of that extended for 2006-2008.

Grenada has made significant strides in resolving Capital Bank, a small unregulated bank. The bank's license was revoked in September 2008 and, in consultation with the Eastern Caribbean Central Bank, a receiver was re-appointed. In November 2008, the authorities petitioned the high court to liquidate the bank. In working to liquidate the bank, the authorities will seek to minimize the impact on the budget.

Observance of some structural benchmarks was delayed due to the elections and subsequent change in government, and difficulties in securing external consultants. The delayed benchmarks included the development of an action plan to improve *Doing Business Indicators,* obtaining Cabinet approval for reforms to incentive schemes, and developing and implementing a customs fraud control plan. In November 2008, a Memorandum of Understanding was signed for information-sharing between the customs and revenue departments, paving the way for the planned implementation of a VAT. The authorities' plan to submit investment incentives reforms and new VAT and Excise Bills to Parliament by April 2009. Implementation of the fraud control plan is also planned for April 2009. The Grenadian authorities are highly appreciative of Fund technical assistance (TA) in the preparatory work for the introduction of a VAT, and for broader TA received through CARTAC.

The authorities have embarked on a process to strengthen fiscal management capability to facilitate better management of the country's limited resources. The Ministry of Finance is being restructured to include the establishment of an Office of Private Sector Development, a Waste Reduction Unit, and a Public Procurement Authority. To address the issues of debt arrears and consistent with the medium-term objective of fiscal and debt sustainability, debt management capability within the ministry is being strengthened. A debt manager with wide professional experience has been hired to head the soon-to-be-established debt management office. Fund TA in this area is to be requested by the authorities.

Grenada's authorities place great emphasis on facilitating private sector development and have moved expeditiously to implement measures to enhance the business climate. In addition to the office of private sector development established within the Ministry of Finance, the authorities plan to create an investment promotion agency, modernize customs, reform the tax system, and modernize the registry for property and companies.

Conclusion

The authorities are fully cognizant of the downside risks and challenges posed by the global economic outlook. For them, the current external environment gives greater urgency to the need for stronger macroeconomic management and the establishment of a foundation for future sustainability. There is a strong commitment to placing the country on a sustainable fiscal and debt path. Accordingly, great emphasis is given to the successful achievement of program targets. The authorities have demonstrated their preparedness to move expeditiously and boldly to address program slippages. The rigor applied to the development of the 2009 budget framework to ensure that it is focused and driven by strategic priorities is demonstrative of the seriousness of approach and the strength of commitment. The authorities see the budget and the fiscal reform program as providing a credible framework for fiscal consolidation.

Grenada's authorities are seeking the Board's approval of the completion of second review under the PRGF arrangement and financing assurances review, and the release of the associated disbursement in an amount equivalent to SDR 2.41 million. They are also requesting revision of the end-December 2008 targets for the primary balance (excluding grants) and for domestic arrears. This request reflects the extent of the budget overruns in the first half of 2008, the cost of infrastructure repairs following recent heavy rains, unavoidable increases in social safety net programs and setup costs for the establishment of a new ministry to manage the housing programs as the authorities seek to address one of the country's pressing developmental needs. Under the circumstances, the authorities wish to set realistic and achievable targets as this is important for credibility.

The authorities look forward to a continued excellent relationship with the Fund as they seek to transform the economy.