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Grenada: Use of Fund Resources—Request for Emergency Assistance—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Grenada

In the context of the use of Fund resources—request for emergency assistance with Grenada, the following documents have been released and are included in this package:

- the staff report for the use of Fund resources—request for emergency assistance, prepared by a staff team of the IMF, following discussions that ended on October 22, 2004, with the officials of Grenada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 8, 2004. 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 Press Release summarizing the views of the Executive Board as expressed during its November 15, 2004 discussion of the staff report that completed the request.

- a statement by the Executive Director for Grenada.

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

Letter of Intent sent to the IMF by the authorities of Grenada*

*May also be 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

Use of Fund Resources—Request for Emergency Assistance

Prepared by the Western Hemisphere Department
(In collaboration with other departments)

Approved by Ratna Sahay and Matthew Fisher

November 8, 2004

- **Background:** On September 7, 2004, Hurricane Ivan—one of the strongest storms ever in the Caribbean—passed directly over Grenada. Nearly 90 percent of the housing stock was damaged or destroyed, and severe damage was inflicted on tourism resorts and agriculture, the main foreign exchange earners and employers. Preliminary estimates place the damage at 200 percent of GDP.

- **Discussions:** A staff team comprising R. Sahay (Head), D. O. Robinson, and R. Goyal (all WHD) held discussions in St. George's during September 28–29, and at headquarters during October 21–22. The team met with the Minister of Finance, Permanent Secretary, other senior officials, and banking sector representatives. On October 4, Prime Minister Keith Mitchell met with management in Washington, D.C., and made a request for a purchase under the Fund's policy on emergency assistance for natural disasters. This request was formalized in a letter of October 26, 2004 (Attachment I).

- **Economic context:** Grenada is one of eight island states comprising the Eastern Caribbean Currency Union (ECCU), with a pre-hurricane per capita GDP of about US$4,200. Its GDP accounts for nearly 15 percent of this region. The common currency of the ECCU, the EC dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per US$1 since 1976.

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

- **Last Article IV consultation:** The last consultation was completed on January 27, 2003. While acknowledging the difficult economic situation faced by Grenada, Directors expressed concern about the high level of public debt and urged strong fiscal adjustment measures in 2003 and the medium term. They stressed the need for a comprehensive tax reform, reductions in tax concessions, and improved expenditure management. They encouraged the authorities to strengthen debt management, and to exercise caution in granting debt guarantees.

- **Relations with the IMF:** Grenada has accepted the obligations of Article VIII, Sections 2, 3, and 4 (Appendix I). A purchase under the Fund's policy on emergency assistance for natural disasters of SDR 2.93 million (25 percent of quota) was approved in January 2003, in support of the government's efforts to deal with the impact of Tropical Storm Lili (September 2002).

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EXECUTIVE SUMMARY

- **On September 7, 2004, Grenada was hit by Hurricane Ivan, one of the strongest storms ever in the Caribbean.** Damage is estimated at over 200 percent of 2003 GDP. About two-thirds of this amount is damage to the housing stock. Tourism and agriculture, the two major sources of foreign exchange earnings, were also hit hard.

- **Prior to Hurricane Ivan, the economy was recovering rapidly from the 2001–02 downturn.** The authorities were making progress in addressing fiscal imbalances and offshore financial sector weaknesses. The central government primary balance registered a surplus in 2003 for the first time in almost a decade, and reform of tax policy and administration was under way. Grenada was removed from the Financial Action Task Force (FATF) list of noncooperative countries.

- **The near-term economic outlook is very difficult.** Having grown by nearly 4 percent in the first half of the year, the economy is now projected to contract by over 3 percent in 2004. Unemployment is expected to double to 30 percent of the labor force in the near term. The balance of payments has been severely affected, particularly by the loss of tourism receipts estimated at over 8 percent of GDP. The government is hard pressed to meet its fiscal obligations, including wage payments.

- **The authorities, with the support of the international community, are responding swiftly to the emerging needs of the economy.** They have redirected budget allocations to more pressing needs and commenced rebuilding the Customs' collection systems. Nevertheless, large financing gaps are estimated for 2004 and beyond, which the authorities plan to fill by rationalizing expenditures, marshaling donor support, and initiating early discussions with creditors. A donors' conference was held in Washington, D.C., on October 4, 2004, and a follow-up formal pledging session is scheduled in the second half of November.

- **The authorities intend to develop, in close cooperation with Fund staff, a comprehensive medium-term framework** that combines fiscal consolidation, growth-enhancing reforms, and a strategy to bring public debt back to a sustainable level.

- **The authorities have requested a purchase under the Fund's policy on emergency assistance for natural disasters** for an amount equivalent to SDR 2.93 million (25 percent of quota). In view of the difficult economic situation and the uncertainty regarding the pace of recovery, there are some risks to the Fund's resources. However, these are mitigated by the authorities' firm resolve to implement a comprehensive reform strategy and the expectation of continued support from the international community.

I. BACKGROUND

1. **On September 7, 2004, Hurricane Ivan—one of the strongest storms ever in the Caribbean—passed directly over Grenada causing extensive destruction.** An Organization of Eastern Caribbean States (OECS) assessment team estimated the damage at US$900 million, more than 200 percent of the 2003 GDP. About two-thirds of this amount is damage to the housing stock, of which only 30 percent has some form of insurance coverage. Tourism and agriculture, the two major sources of export earnings, were also hit hard.

2. **Security and social conditions worsened in the immediate aftermath of the hurricane.** Partial curfews were imposed soon after the hurricane to ensure public order. While it is difficult to provide precise estimates, at least one-third of the population is reportedly homeless. Virtually all schools were damaged and had to be closed, and some parents responded by sending their children to schools in neighboring countries.

3. **Grenada's human development indicators were generally weaker than in the other ECCU countries.** Grenada ranked the lowest among the ECCU countries in the United Nations' Human Development Index (93 out of 175 countries). Its school enrollment rate was lower and its poverty rate higher than the ECCU average. However, infant mortality rates were lower than the ECCU average.

Grenada and ECCU: Social Indicators

	Grenada	ECCU
Rank in UNDP Human Development Index out of 175 countries (2004)	93	73
GDP per capita in US$ (2003)	4,205	5,162
Infant mortality rate per '000 births (2000)	13	17
Life expectancy at birth (years) (2004)	73	73
Adult illiteracy rate (percent)	6	8
Combined school enrollment ratio (2000/01)	63	68
Poverty headcount index (2000)	32	29

Sources: United Nations, Human Development Report 2004; World Bank, WDI 2003; and Fund staff estimates.

4. **The ruling party has a one-seat majority in parliament.** In elections held in November 2003, Prime Minister Keith Mitchell's center-right New National Party won a third consecutive five-year term. After the hurricane struck, the parliament met for the first time on November 4 to discuss the reconstruction of the economy.

5. **The authorities have requested a purchase equivalent to 25 percent of quota (SDR 2.93 million) under the Fund's policy on emergency assistance for natural disasters.** In a letter of intent dated October 26, 2004 (Attachment I), the Minister of Finance has informed the Fund of the effects of the hurricane—including on the balance of payments. The letter indicates the authorities' intent to collaborate with the Fund to formulate an appropriate medium-term adjustment program that combines fiscal consolidation, steps to restore growth, and a commitment to reach a cooperative solution with Grenada's creditors to reduce the country's debt burden. The staff will remain in close contact with the authorities in the coming months and update the Article IV consultation discussions, which had been held in May 2004.

II. Economic Performance Prior to the Hurricane

6. **Prior to Hurricane Ivan, the economy was recovering rapidly from the 2001–02 downturn.** Driven by a recovery in tourism, real GDP increased by 5.7 percent in 2003 (Table 1). Construction activity had also been buoyant, related to a new cruise-ship terminal and the continuation of residential development. Inflation remained subdued, under the currency board arrangement.

Grenada: Selected Economic Indicators, 2000–2004

	2000	2001	2002	Est. 2003	Pre-Ivan Proj. 2004	Post-Ivan Proj. 2004
(In percent)						
Real GDP	7.0	-4.4	-0.4	5.7	4.1	-3.1
CPI, average	2.2	1.7	1.1	2.2	2.0	2.3
Real effective exchange rate, (depreciation-)	5.7	3.1	-6.5	-5.4	...	...
(In percent of GDP)						
Overall central government balance 1/	-3.2	-8.5	-19.3	-4.9	-5.2	-13.4
Revenues and grants	29.8	31.0	29.2	35.0	33.4	29.7
Expenditure and net lending 1/	33.0	39.5	48.5	39.9	38.6	43.0
Primary balance (after grants) 1/	-1.0	-5.8	-14.6	0.4	0.5	-6.9
External current account	-21.0	-25.8	-31.4	-33.6	-31.5	-39.1
Public sector debt	56.2	73.6	111.7	113.3	113.0	124.6

Sources: Grenadian authorities; and Fund staff estimates.

1/ Includes the payment (amounting to 11.4 percent of GDP) in 2002 to retire obligations associated with outstanding lease arrangements.

7. **Fiscal imbalances had narrowed in 2003, and efforts were under way to reduce the high debt level over the medium term.** The tax base was being broadened, tax and import duty exemptions further curtailed, and expenditures controlled. As a consequence, and aided by the economic recovery, the central government primary balance registered a surplus of ½ percent of GDP in 2003, for the first time in almost a decade, and was projected to remain in surplus in 2004 (Table 2). Although the overall deficit was lowered to 4.9 percent of GDP in 2003, it was not sufficient to reduce public debt levels, which rose to 113 percent of GDP at end-2003. However, the day before the hurricane hit the island, the authorities had approved a medium-term fiscal strategy to bring debt down to more manageable levels.

8. **A reform of tax policy and administration was being implemented.** A comprehensive review of tax policy and administration was conducted in 2002 and efforts were being made to: strengthen property taxation by revising valuations and improving the billing system; raise income taxation by improving assessments for professionals and auditing large businesses; and increase productivity of staff resources through training and computerization. With assistance from CARTAC, preparations were under way to re-introduce a value-added tax (VAT), which remains a cornerstone of the authorities' medium-term fiscal strategy.

9. **The external current account deficit widened in 2003, but was expected to narrow somewhat in 2004.** While merchandise exports continued to decline owing largely to weaknesses in the agricultural sector, merchandise imports increased in 2003 in response to higher investment in the construction and telecommunications sectors (Table 3). About two-fifths of the current account deficit was financed by foreign direct investment and the remainder by other private capital inflows and public sector borrowing.

10. **The domestic banking sector was highly liquid, and important progress was made in strengthening the financial system (Table 4).** Prudential indicators were generally better than the ECCU average, with the ratio of nonperforming assets to total loans being the lowest in the region at 4½ percent at end-2003. Stronger enforcement of regulations in the offshore sector led to the removal of Grenada from the FATF list of noncooperative countries in February 2003.

III. Near-Term Outlook

11. **The near-term outlook is very difficult, as the damage inflicted on the economy is extensive.** Most tourism facilities cannot be reopened for at least the next six months, missing the forthcoming high season, while nutmeg plantations, the principal export commodity, have been largely destroyed and will take 5–8 years to recover. The damage to tourism and agriculture also has had negative repercussions for downstream services such as restaurants, retail shops, taxis, and tour operators. Consequently, unemployment is expected to double to 30 percent of the labor force in the near term.

12. **Prior to the hurricane, real GDP was projected to grow by over 4 percent in 2004, but is now projected to contract by more than 3 percent**. A small recovery could be anticipated for 2005 depending on the pace at which reconstruction projects are implemented.

13. **The fiscal situation is dire.** The government is hard pressed to meet current fiscal obligations, including wage payments (Table 5). The tax base has virtually disappeared and will recover only gradually, while unanticipated expenditure needs, such as infrastructure repairs and protection of vulnerable groups, have risen. The customs building was destroyed, and even though temporary offices have been set up, administrative capacity has weakened. Limits on overdraft facilities with local commercial banks were reached quickly.

14. **Public debt is projected to rise to over 120 percent of GDP by end-2004.** Over 70 percent of the total public sector debt is to external creditors, of which 25 percent is owed to multilaterals, 15 percent to official bilaterals, and 40 percent to private creditors (Table 6). Arrears have emerged on payments to a few creditors, and Grenada's credit rating was downgraded within one month by four notches to B- by Standard and Poor's.

15. **Thus far, banks have not faced liquidity problems, but may face difficulties as nonperforming loans increase in the next few months.** Local banks had sufficient resources to meet—without resorting to administrative control—the immediate, modest deposit withdrawals when they re-opened on September 16. Solvency issues, however, could arise as nonperforming loans are likely to increase significantly—60 percent of loans are to households. Banks are already discussing ways to provide relief on mortgage payments, a common practice in the region under these conditions.

16. **The external current account deficit has widened sharply.** The loss of foreign exchange receipts from tourism alone is estimated at US$35 million relative to pre-Ivan projections, or over 8 percent of projected 2004 GDP. Despite a likely drop in imports during the rest of the year, the external current account deficit is now anticipated to widen to about 40 percent of GDP, compared to a pre-Ivan projection of 31 percent. Should private sector imports for reconstruction and other needs be higher than currently projected, the current account deficit would be correspondingly larger.

17. **A donors' conference was held in Washington, D.C., on October 4, 2004.** The Prime Minister appealed to the donor community for help in financing the country's reconstruction efforts and for budgetary support. Since then, the Caribbean Development Bank (CDB) has announced a package that would effectively provide relief on debt service payments falling due over the next six quarters, amounting to US$8.1 million. They have also made available undisbursed funds, including to cover counterpart contributions, and are in discussions with the government to re-prioritize the use of the resources.[1] The World Bank planned support—including US$10 million of undisbursed funds from ongoing projects, and US$10 million in new financing—is being redesigned so as to better correspond to the emerging needs of the country.[2] A follow-up formal pledging session is now scheduled for the second half of November in Grenada.

IV. Policy Discussions

18. **The authorities indicated that their immediate priorities were to ensure rapid progress in rehabilitating the population and reconstructing the economy.** A key priority is to reconstruct basic infrastructure (particularly restoration of electricity) and ensure that all

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[1] The total package, from existing and reallocated commitments, amounts to about US$28 million.

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

children are able to return to school by January 2005. Providing an adequate social safety net for the vulnerable and the large number of unemployed workers is also considered critical. In the days following the hurricane, the international community, including Caribbean Community (CARICOM) members, provided security and utility personnel and disaster relief.

19. **Budgetary pressures are intense and the budget deficit has widened significantly in 2004 and beyond**. The revenue loss for 2004 is substantial at nearly US$24 million (5½ percent of GDP) compared to 2003. A primary deficit of nearly 7 percent of GDP is now projected for 2004, while the overall deficit (after grants) is anticipated to rise from about 5 percent of GDP in 2003 to over 13 percent in 2004.

20. **As described in the attached letter from the authorities, a number of measures are being taken to relieve near-term budgetary pressures.** The authorities have streamlined nonessential expenditures and redirected US$15 million (nearly 3½ percent of GDP) in capital expenditures from existing projects to more pressing reconstruction and rehabilitation needs. The Customs' collection systems, including physical infrastructure and collection procedures, are being restored. They are also making efforts to ensure that insurance claims are processed efficiently.

21. **In anticipation of significant donor inflows and the large reconstruction needs, staff advised the authorities to establish transparent and efficient mechanisms to channel the flows**. The authorities are setting up an Agency for Reconstruction and Development, headed by an independent professional, to coordinate the reconstruction effort. They are also setting up a Reconstruction Fund by an act of parliament to channel donor support. This fund will be subject to independent audits.

22. **The authorities agreed that a new comprehensive macroeconomic framework is needed.** A medium-term fiscal consolidation strategy had been developed and approved prior to the hurricane. However, a more comprehensive framework was now needed, which would include fiscal consolidation, growth-enhancing reforms, and a debt strategy. The authorities expressed their desire for a close dialogue with Fund staff in developing this framework.

23. **Fiscal consolidation would be achieved both through strengthening revenues and streamlining expenditures.** Among the revenue-enhancing measures, the authorities intend to re-introduce a VAT, although on a revised timetable, reduce government guarantees, and rationalize tax incentives. On the expenditure side, they intend to collaborate with the World Bank in implementing its Public Expenditure Review (PER) recommendations and improving efficiency of the public sector.

24. **Growth-enhancing measures would be geared to facilitating a rapid rebound of the private sector.** Steps to increase near-term growth include: rehabilitating selected attraction sites to restore cruise-ship tourism; training people to work in the construction sector, which can be expected to remain buoyant into the medium term; and implementing a program to help farmers import nutmeg trees or switch to alternative cash crops with shorter

gestation periods. The PER recommends re-orienting capital expenditures toward projects better geared to medium-term growth and poverty reduction. A rationalized tax incentive regime could help in creating a more level playing field for private sector investment.

25. **The government indicated its intention to implement a debt strategy aimed at bringing public debt back to a sustainable level and issued a press release to this effect.** Although the authorities are committed to servicing their debts to the extent possible, pressing fiscal needs have constrained the government's ability to do so. The authorities recognized that the public debt is unsustainable in the current circumstances, and issued a press release on October 1 seeking the cooperation of creditors as a critical element of a comprehensive economic program aimed at returning the country to a position of economic stabilization and debt sustainability (Attachment II). They have started the process of contacting their official bilateral creditors to request cash flow relief and debt and debt service reduction, and plan to approach their private creditors for a cooperative solution to their debt difficulties after they have secured the services of professional advisors. They concurred with the staff on the need to maintain a good faith and constructive dialogue with creditors and ensure inter-creditor equity. However, despite the authorities' best good faith efforts to seek a cooperative resolution of the debt situation, it is not possible to preclude the emergence of arrears to official bilateral and private creditors. The authorities plan to mobilize further donor support in the form of grants, limit commercial borrowings to projects with high rates of return, commercialize selected government operations, and possibly divest shares of selected enterprises.

26. **Staff advised the authorities to closely monitor the banking system in anticipation of a likely increase in nonperforming loans.** The authorities pointed out the public's continuing confidence in the financial system, given the modest deposit withdrawals. They further noted that four of the five licensed banks were foreign owned and could receive support from their head office, if necessary. The authorities agreed to initiate high-frequency monitoring of financial soundness indicators of the banking system, in conjunction with the ECCB. Shortly after the hurricane hit the island, the ECCB Governor had visited Grenada and had reassured the commercial banks that the central bank stood ready to provide short-term liquidity support, if needed.

V. Capacity to Repay

27. **There are significant financing gaps in 2004 and beyond, but large commitments from donors are anticipated.** Immediately following the hurricane, the fiscal and balance of payments financing gap for the remainder of 2004 was nearly US$40 million, or 9 percent of GDP.[3] In the subsequent month and a half, new grants and concessional loans were committed, reducing the remaining financing gap for 2004 to about US$25 million

[3] Private sector financing gaps are expected to be filled from remittances, insurance flows, and other private transfers.

(5.7 percent of GDP).[4] A pledging session is scheduled to be held in Grenada in the second half of November to marshal further donor support. The authorities are also seeking debt and debt service relief from both official and private creditors.[5] These initiatives are needed to also fill the financing gaps that are projected to remain high in 2005–06 and decline steadily thereafter (Table 7).

28. **While the medium-term outlook is uncertain, the authorities are committed to implementing a comprehensive medium-term program that will strengthen fiscal balances and restore debt sustainability**. The speed at which the economy recovers will fundamentally be determined by reconstruction activities driven by the pace of donor disbursements and by the global economic outlook that affects tourism. On current projections, the tax base and export receipts will largely return to their pre-hurricane level by 2007.

29. **The high degree of uncertainty on the pace of the recovery implies some risk to Fund resources, but staff believe that there are adequate assurances with regard to the member's capacity to repay the Fund.** Staff considers that assurances are provided by: (i) the authorities' commitment to cooperate with the Fund in finding a solution to Grenada's balance of payments difficulties through the development of a medium-term framework that combines fiscal consolidation, growth-enhancing reforms, and a comprehensive debt strategy, and their commitment to avoid the introduction or intensification of exchange and trade restrictions; (ii) the authorities' announcement of their intention to approach their private and official creditors with a view to putting Grenada's debt on a sustainable path, and their initiation of the selection of professional debt advisors; and (iii) the preliminary favorable reactions of official and private creditors, and donors. With the proposed emergency assistance purchase, Grenada's outstanding Fund credit would amount to less than 2 percent of its total public sector debt by end-2004. Debt servicing to the Fund is projected at about 1 percent or less of external current earnings over the next five years (Table 8).

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[4] Budgetary support has so far been committed by the CDB (over US$1 million), United Kingdom's DFID (US$10 million), Taiwan, Province of China (US$1 million), and the remaining amount by other regional bilaterals.

[5] The country is experiencing severe balance of payments pressures, and it is possible that arrears may emerge to official bilateral creditors. The authorities have announced that their debt burden is unsustainable, and their intention is to approach their creditors with a view to achieving debt sustainability. Staff have had informal contacts with the Paris Club secretariat and representatives of other bilateral creditors. These creditors recognize that contractual debt service arrears may arise, but have indicated that they do not object to the Fund proceeding to extend emergency assistance. Against this background, staff consider that the Fund can provide financing consistent with its arrears policy.

VI. Staff Appraisal

30. **In September 2004, Grenada was hit by Hurricane Ivan, one of the strongest storms ever in the Caribbean.** Damage is estimated at over 200 percent of 2003 GDP. About two-thirds of this amount is damage to the housing stock. Tourism and agriculture, the two major sources of foreign exchange earnings, were also hit hard.

31. **The hurricane has created large fiscal and balance of payments financing needs and has severely complicated fiscal efforts.** Prior to the hurricane, the authorities were making progress in addressing the fiscal and debt imbalances. Following Ivan, however, the government is hard pressed to meet current fiscal obligations, including wage payments, and the overall fiscal deficit is anticipated to rise sharply. The loss of foreign exchange receipts from tourism alone is projected at over 8 percent of GDP. To meet their immediate financing needs, the authorities would need to rely on external assistance, mainly grants. The forthcoming pledging session in the second half of November will provide a forum for donors to help in financing the country's reconstruction efforts and providing budgetary support.

32. **In the difficult circumstances, the authorities responded swiftly to mitigate the impact of the hurricane on the population and have begun to address the macroeconomic imbalances in a transparent manner.** They have redirected budget allocations from capital expenditures to more pressing needs and commenced rebuilding the Customs' collection systems. They are establishing an agency to coordinate the reconstruction effort and are setting up a reconstruction fund that would be subject to independent audits. They have also initiated an early dialogue with creditors. Their press release, indicating their intention to seek a cooperative solution with creditors, as part of a comprehensive economic program, was a major step toward restoring debt sustainability.

33. **The policies outlined in the authorities' letter represent a significant and feasible package to attain medium-term sustainability.** The authorities intend to work closely with Fund staff to develop an appropriate medium-term framework that combines fiscal consolidation, growth-enhancing reforms, and a debt strategy. They have indicated areas for mobilizing revenues, and stated their intention to reduce government guarantees and cut costs in the public sector. In addition, they intend to rationalize the tax incentive regime, which should help create a level playing field for private sector activities. A collaborative debt strategy, combined with a determined implementation of domestic policies, should put the economy firmly on a sustainable macroeconomic path.

34. **The banking system has not been subject to liquidity pressures in the aftermath of the hurricane.** Prior to the hurricane, prudential indicators were among the best in the ECCU region. However, the banking system would need to be closely monitored for any signs of emerging liquidity pressures and for an anticipated increase in nonperforming loans.

35. **The authorities have a good track record in implementing policy commitments.** Almost all the policy commitments under the January 2003 purchase under the Fund's policy on emergency assistance for natural disasters were met (Table 9). They conducted a comprehensive review of tax policy and administration and took steps to curtail exemptions. As a consequence, and because of the rebounding economy, the primary balance registered a surplus in 2003—for the first time in nearly a decade—and was projected to remain in surplus in 2004. The authorities had also begun preparations to re-introduce a VAT by January 1, 2006, and had designed a medium-term fiscal strategy, approved by Cabinet, to bring debt down to more manageable levels. While this strategy was more gradual than staff would have recommended, it is an important sign of the authorities' commitment to addressing the fiscal problems.

36. **Staff supports the authorities' request for a purchase under the Fund's policy on emergency assistance for natural disasters.** The authorities have requested a purchase in the amount of 25 percent of quota, normally provided under this policy, to help meet the immediate financing needs without seriously depleting their external reserves. Notwithstanding an outstanding purchase of 25 percent of quota made under the same policy after Tropical Storm Lili hit Grenada, staff supports the authorities' request on the basis of the exceptional magnitude of the devastation, the authorities' past track record in meeting policy commitments under the previous purchase, and the strength of the adjustment policies outlined in their letter. The difficult economic situation and the uncertainty regarding the pace of recovery pose some risks to the Fund's resources. However, these are mitigated by the authorities' firm resolve to implement a comprehensive medium-term strategy, the expectation of continued support from the international community, and their commitment to cooperate closely with the Fund in developing their reform strategy.

Table 1. Grenada: Selected Economic and Financial Indicators, 2000–2004

	2000	2001	2002	Est. 2003	Pre-Ivan Proj. 2004	Post-Ivan Proj. 2004
(Annual percentage change; unless otherwise specified)						
National income and prices						
Real GDP	7.0	-4.4	-0.4	5.7	4.1	-3.1
GDP deflator	0.8	1.5	1.9	0.5	1.7	2.0
Consumer prices						
End-of-year	3.5	2.5	2.3	1.6	2.0	2.0
Period average	2.2	1.7	1.1	2.2	2.0	2.3
External sector						
Exports, f.o.b.	11.7	-23.3	-34.9	7.1	-11.8	-31.6
Imports, c.i.f.	19.7	-10.9	-7.8	25.9	-5.9	0.4
Export volume 1/	12.9	-19.7	-35.2	-2.5	-13.6	-31.6
Import volume 1/	17.9	-7.7	-10.1	12.6	-11.9	-9.2
Terms of trade (deterioration -)	-1.9	-1.7	-1.2	-1.7	-4.5	-9.5
Real effective exchange rate;						
(1990=100) end-of-period (depreciation -)	5.7	3.1	-6.5	-5.4	...	...
Banking system						
Net foreign assets 2/	0.3	7.3	10.9	6.7	4.7	-0.5
Net domestic assets 2/	15.0	3.3	-3.9	1.3	1.9	-0.1
Of which						
Credit to public sector (net)	3.6	5.0	-4.6	1.9	0.3	-2.1
Credit to private sector	12.9	0.8	0.9	2.4	1.8	2.2
Money and quasi-money (M2)	15.4	10.6	7.1	8.0	6.6	-0.6
Weighted deposit rate (in percent per year)	4.2	4.2	3.6	3.4	...	...
Weighted lending rate (in percent per year) 3/	11.6	10.2	11.3	12.1	...	...
(In percent of GDP)						
Central government finances						
Total revenue and grants	29.8	31.0	29.2	35.0	33.4	29.7
Total expenditure 4/	33.0	39.5	48.5	39.9	38.6	43.0
Current expenditure	20.8	24.2	26.1	24.7	27.1	28.4
Of which						
Salaries and allowances	10.3	12.0	11.4	11.0	12.0	12.8
Capital expenditure 4/	12.2	15.3	22.4	15.2	11.5	14.6
Primary balance (after grants) 4/	-1.0	-5.8	-14.6	0.4	0.5	-6.9
Current balance	6.0	2.5	0.6	3.3	2.3	-5.8
Overall balance (after grants) 4/	-3.2	-8.5	-19.3	-4.9	-5.2	-13.4
Public sector total debt (end-period) 5/	**56.2**	**73.6**	**111.7**	**113.3**	**113.0**	**124.6**
Saving and investment						
Gross national saving	21.0	6.5	3.3	6.4	5.0	-4.7
Central government	6.0	2.5	0.6	3.3	2.3	-5.8
Other	15.0	4.0	2.6	3.1	2.6	1.1
Gross domestic investment	42.1	32.3	34.7	40.0	36.5	34.4
Central government	12.2	15.3	22.4	15.2	11.5	14.6
Other	29.9	17.1	12.3	24.8	25.0	19.8
External current account (deficit (-))	-21.0	-25.8	-31.4	-33.6	-31.5	-39.1
(In millions of U.S. dollars; unless otherwise specified)						
Gross international reserves of the ECCB, end-of-period	383.7	446.0	504.8	539.9	559.9	554.9
In percent of broad money in all ECCU countries	17.4	19.1	20.2	19.8	18.6	18.6
Nominal GDP	410.4	394.5	404.5	437.4	466.4	433.2

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

1/ Does not include goods procured in ports by carriers.
2/ As a percent of broad money at the beginning of the year.
3/ The recorded rise in the average lending rates in 2003 reflects a change in methodology.
4/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements, and reflected in capital expenditures.
5/ Government and government guaranteed debt.

Table 2. Grenada: Summary of Central Government Finances, 2000–2004

	2000	2001	2002	Est. 2003	Pre-Ivan Proj. 2004	Post-Ivan Proj. 2004
		(In millions of Eastern Caribbean dollars)				
Total revenue and grants	**330.5**	**330.5**	**318.8**	**413.2**	**420.2**	**346.8**
Total revenue	297.9	285.4	295.2	330.3	370.2	265.6
Current revenue	297.2	284.9	292.5	330.0	370.2	264.3
Tax revenue	265.2	256.7	262.4	298.3	328.8	242.8
Nontax revenue	32.1	28.2	30.1	31.8	41.4	21.5
Capital revenue	0.7	0.5	2.7	0.3	0.0	1.3
Grants	32.6	45.2	23.5	82.9	50.0	81.2
Total expenditure	**365.7**	**420.6**	**529.8**	**470.8**	**485.8**	**503.0**
Current expenditure	230.5	258.0	285.4	291.6	341.2	332.2
Wages and allowances	114.4	127.6	124.6	130.4	151.6	149.7
Goods and services	43.8	52.7	47.5	40.5	51.9	43.2
Interest	24.2	27.9	51.8	62.5	71.7	75.9
Domestic	11.7	13.3	12.7	17.2	21.5	17.8
Foreign	12.5	14.6	39.1	45.2	50.2	58.1
Transfers and subsidies	48.2	49.9	61.4	58.3	65.9	63.4
Capital expenditure 1/	135.2	162.6	244.4	179.1	144.7	170.8
Current balance	66.7	26.9	7.1	38.4	29.1	-67.9
Primary balance (after grants)	-11.0	-62.2	-159.3	4.9	6.1	-80.3
Overall balance (before grants)	-67.7	-135.2	-234.6	-140.5	-115.6	-237.3
Overall balance (after grants)	-35.2	-90.0	-211.1	-57.6	-65.6	-156.2
Statistical discrepancy 2/	-14.9	-27.0	-14.9	-50.4	8.6	0.0
Financing	**50.1**	**117.1**	**226.0**	**108.0**	**57.0**	**55.8**
Foreign (net)	72.5	48.2	287.1	40.0	29.9	67.8
Domestic (net)	-6.2	45.2	-18.2	67.7	27.1	-12.0
Privatization proceeds	0.0	0.0	2.5	0.3	0.0	0.0
Arrears	-16.2	23.7	-45.4	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	100.4
Committed budget support	0.0	0.0	0.0	0.0	0.0	33.8
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**66.6**
Anticipated budget support	0.0	0.0	0.0	0.0	0.0	7.0
Remaining financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**59.6**
		(In percent of GDP)				
Total revenue and grants	**29.8**	**31.0**	**29.2**	**35.0**	**33.4**	**29.7**
Total revenue	26.9	26.8	27.0	28.0	29.4	22.7
Current revenue	26.8	26.7	26.8	27.9	29.4	22.6
Tax revenue	23.9	24.1	24.0	25.3	26.1	20.8
Nontax revenue	2.9	2.6	2.8	2.7	3.3	1.8
Capital revenue	0.1	0.0	0.3	0.0	0.0	0.1
Grants	2.9	4.2	2.2	7.0	4.0	6.9
Total expenditure	**33.0**	**39.5**	**48.5**	**39.9**	**38.6**	**43.0**
Current expenditure	20.8	24.2	26.1	24.7	27.1	28.4
Wages and allowances	10.3	12.0	11.4	11.0	12.0	12.8
Goods and services	4.0	4.9	4.4	3.4	4.1	3.7
Interest	2.2	2.6	4.7	5.3	5.7	6.5
Transfers and subsidies	4.3	4.7	5.6	4.9	5.2	5.4
Capital expenditure 1/	12.2	15.3	22.4	15.2	11.5	14.6
Current balance	6.0	2.5	0.6	3.3	2.3	-5.8
Primary balance (after grants)	-1.0	-5.8	-14.6	0.4	0.5	-6.9
Overall balance (before grants)	-6.1	-12.7	-21.5	-11.9	-9.2	-20.3
Overall balance (after grants)	-3.2	-8.5	-19.3	-4.9	-5.2	-13.4
Statistical discrepancy 2/	-1.3	-2.5	-1.4	-4.3	0.7	0.0
Financing	**4.5**	**11.0**	**20.7**	**9.1**	**4.5**	**4.8**
Foreign (net)	6.5	4.5	26.3	3.4	2.4	5.8
Domestic (net)	-0.6	4.2	-1.7	5.7	2.2	-1.0
Privatization proceeds	0.0	0.0	0.2	0.0	0.0	0.0
Arrears	-1.5	2.2	-4.2	0.0	0.0	0.0
Residual financing need	0.0	0.0	0.0	0.0	0.0	8.6
Committed budget support	0.0	0.0	0.0	0.0	0.0	2.9
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**5.7**
Anticipated budget support	0.0	0.0	0.0	0.0	0.0	0.6
Remaining financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**5.1**

Sources: Ministry of Finance; and Fund staff projections.

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

2/ Difference between overall balance and identified financing.

Table 3. Grenada: Summary Balance of Payments, 2000–2004

	2000	2001	2002	Est. 2003	Post-Ivan Proj. 2004
(In millions of U.S. dollars)					
Current account balance	**-86.3**	**-101.8**	**-126.9**	**-147.1**	**-169.2**
Exports (f.o.b.)	83.0	63.6	41.4	44.3	30.3
Imports (f.o.b.)	220.4	196.4	181.0	227.9	228.9
Services (net)	65.5	51.1	42.4	62.4	51.7
Of which					
Travel (net)	85.0	75.9	81.3	96.0	71.9
Income (net)	-34.4	-41.8	-52.9	-58.5	-63.8
Transfers (net)	20.1	21.6	23.1	32.6	41.4
Capital and financial account	**95.9**	**89.6**	**135.1**	**143.0**	**139.8**
Capital account (transfers)	32.1	42.1	31.8	41.4	51.4
Financial account	63.8	47.2	103.3	101.5	88.4
Direct investment (net)	37.4	58.7	57.6	59.1	51.4
Portfolio investment (net)	19.4	-0.3	107.7	34.1	40.4
Other investments (net)	6.9	-11.2	-62.0	8.4	-3.5
Of which					
Public sector net borrowing 1/	4.6	17.3	4.2	36.2	35.1
Net errors and omissions	-3.0	18.0	23.0	-7.5	0.0
Overall balance	6.6	5.8	31.2	-11.6	-29.4
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**24.7**
Anticipated budget support	0.0	0.0	0.0	0.0	2.6
Remaining financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**22.1**
Memorandum item:					
External public sector debt (in millions U.S. dollars)	144.0	179.7	318.8	341.4	388.9
(In percent of GDP)					
Current account balance	**-21.0**	**-25.8**	**-31.4**	**-33.6**	**-39.1**
Trade balance	-33.5	-33.7	-34.5	-42.0	-45.8
Exports of goods	20.2	16.1	10.2	10.1	7.0
Imports of goods	-53.7	-49.8	-44.7	-52.1	-52.8
Service, income, and transfers	12.5	7.9	3.1	8.3	6.8
Of which					
Travel (net)	20.7	19.2	20.1	22.0	16.6
Capital and financial account	**23.4**	**22.7**	**33.4**	**32.7**	**32.3**
Capital and financial account, including errors and omissions	22.6	27.3	39.1	31.0	32.3
Public sector net borrowing 1/	1.1	4.4	1.0	8.3	8.1
Direct investment	9.1	14.9	14.2	13.5	11.9
Overall balance	1.6	1.5	7.7	-2.7	-6.8
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**5.7**
Anticipated budget support	0.0	0.0	0.0	0.0	0.6
Remaining financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**5.1**
External public sector debt	35.1	45.5	78.8	78.1	89.8
(Annual percentage change)					
Exports of goods	11.7	-23.3	-34.9	7.1	-31.6
Imports of goods	19.7	-10.9	-7.8	25.9	0.4
Travel (net)	4.8	-10.7	7.2	18.1	-25.1

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

1/ Government and government guaranteed debt.

Table 4. Grenada: Summary Accounts of the Banking System, 2000–2004

	2000	2001	2002	Est. 2003	Post-Ivan Proj. 2004
(In millions of Eastern Caribbean dollars, end of period)					
I. Consolidated Banking System					
Net foreign assets	**136.7**	**208.5**	**327.7**	**406.0**	**400.1**
Net domestic assets	**849.2**	**881.8**	**839.6**	**854.4**	**852.7**
Net credit to the public sector	39.9	89.1	38.8	61.0	34.4
Central government	59.8	94.7	71.1	126.6	99.3
Nonfinancial public enterprises 1/	-19.9	-5.6	-32.3	-65.6	-64.9
Credit to private sector	878.4	886.4	896.2	923.7	951.7
Other	-69.1	-93.7	-95.4	-130.3	-133.5
Liabilities to private sector (M2)	**985.8**	**1,090.4**	**1,167.4**	**1,260.4**	**1252.8**
Money	182.4	192.3	212.0	241.1	243.4
Quasi-money	803.5	898.0	955.4	1,019.3	1009.5
II. Eastern Caribbean Central Bank					
Imputed net international reserves	155.7	172.6	237.2	224.7	211.9
Net domestic assets	7.7	8.8	-22.0	9.5	-2.7
Base money	**163.3**	**181.3**	**214.7**	**234.1**	**209.2**
Currency held by the public	71.1	70.2	75.2	84.7	88.5
Commercial bank reserves	92.2	111.1	139.6	149.4	120.7
III. Commercial Banks					
Net foreign assets	-19.0	35.9	90.6	181.3	188.2
Net claims on ECCB	92.2	107.6	138.2	147.6	120.7
Net domestic credit	**841.5**	**881.7**	**863.5**	**846.8**	**855.4**
Net credit to the public sector	32.2	80.4	61.2	51.6	37.2
Credit to private sector	878.4	886.4	896.2	923.7	951.7
Other	-69.1	-85.1	-94.0	-128.5	-133.5
Liabilities to the private sector	914.7	1,020.2	1,092.2	1,175.7	1164.4
(12-month change in percent of M2 at the beginning of the period)					
Consolidated banking system					
Liabilities to private sector	15.4	10.6	7.1	8.0	-0.6
Net foreign assets	0.3	7.3	10.9	6.7	-0.5
Net domestic assets	15.0	3.3	-3.9	1.3	-0.1
Credit to private sector	12.9	0.8	0.9	2.4	2.2
Memorandum items:					
Loans/deposits ratio (in percent)	80.1	79.2	72.5	68.1	...
Net liquid assets/total deposits (in percent)	17.7	20.5	27.9	33.4	...

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

1/ Includes the National Insurance Scheme.

Table 5. Grenada: Central Government Financing Needs After Hurricane Ivan, 2004

(In millions of EC dollars, unless otherwise noted)

	January-August	September-December	Year	Year (% of GDP)
Total revenue	**223.6**	**42.0**	**265.6**	**22.7**
Of which				
Tax revenue	203.7	39.1	242.8	20.8
Total expenditure	**306.5**	**196.5**	**503.0**	**43.0**
Of which				
Personnel emoluments	100.3	49.3	149.7	12.8
Interest payments	45.2	30.8	75.9	6.5
Capital expenditures and net lending	88.5	82.3	170.8	14.6
Financing requirements (overall balance before grants)	**-82.9**	**-154.5**	**-237.3**	**-20.3**
Identified financing	**80.8**	**56.1**	**136.9**	**11.7**
Domestic	-12.0	0.0	-12.0	-1.0
External loans	66.0	1.8	67.8	5.8
Disbursements	118.5	15.4	133.9	11.5
Amortization	-52.5	-13.6	-66.1	-5.7
Grants	26.9	54.3	81.2	6.9
Residual financing need	2.0	98.4	100.4	8.6
Residual financing need (US$ millions)	0.7	36.4	37.2	8.6
Committed budget support (US$ millions) 1/	0.0	12.5	12.5	2.9
Financing gap (US$ millions)	**0.7**	**23.9**	**24.7**	**5.7**
Anticipated budget support (US$ millions)	0.0	2.6	2.6	0.6
Remaining financing gap (US$ millions)	**0.7**	**21.3**	**22.1**	**5.1**

Sources: Ministry of Finance; and Fund staff estimates.

1/ Identified support from donors after Hurricane Ivan.

Table 6. Grenada: Structure of Public Sector Debt, 2003–2004 1/

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

	2003			2004 2/		
		Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Total public sector debt	**495.4**	**100.0**	**113.3**	**538.2**	**100.0**	**124.2**
Central government debt	379.7	76.7	86.8	420.6	78.2	97.1
Other public sector debt 3/	115.7	23.3	26.4	117.5	21.8	27.1
External debt 4/	**341.4**	**68.9**	**78.1**	**383.9**	**71.3**	**88.6**
A. Central government	271.0	54.7	62.0	311.6	57.9	71.9
1. Multilateral, total	86.6	17.5	19.8	86.9	16.1	20.1
CDB	54.4	11.0	12.4	54.5	10.1	12.6
World Bank	25.5	5.2	5.8	25.8	4.8	6.0
IMF	4.0	0.8	0.9	4.0	0.7	0.9
OPEC	1.3	0.3	0.3	1.2	0.2	0.3
EIB	1.0	0.2	0.2	0.9	0.2	0.2
IFAD	0.4	0.1	0.1	0.4	0.1	0.1
2. Official bilateral, total	52.3	10.6	12.0	51.9	9.7	12.0
Taiwan Province of China	20.6	4.2	4.7	20.3	3.8	4.7
Kuwait	17.3	3.5	3.9	17.5	3.3	4.0
Libya	5.0	1.0	1.1	5.0	0.9	1.2
France	4.3	0.9	1.0	4.3	0.8	1.0
U.S.	2.0	0.4	0.5	2.0	0.4	0.5
U.K.	1.7	0.3	0.4	1.6	0.3	0.4
Algeria	0.6	0.1	0.1	0.6	0.1	0.1
Netherlands	0.4	0.1	0.1	0.4	0.1	0.1
Venezuela	0.4	0.1	0.1	0.3	0.1	0.1
3. Commercial, total	132.1	26.7	30.2	172.8	32.1	39.9
Bonds	129.7	26.2	29.7	170.9	31.8	39.5
International Bonds (US$100 million)	100.0	20.2	22.9	100.0	18.6	23.1
RBTT Merchant Bank Ltd. Bonds	0.0	0.0	0.0	41.5	7.7	9.6
Unit Trust Corporation (T&T) Bonds	10.6	2.1	2.4	10.6	2.0	2.4
Citibank (T&T) Bonds	9.9	2.0	2.3	9.9	1.8	2.3
Royal Merchant Bank (T&T) Bonds	9.1	1.8	2.1	8.7	1.6	2.0
Airport Bonds	0.2	0.0	0.0	0.2	0.0	0.1
Other commercial	2.4	0.5	0.5	1.9	0.4	0.4
South Trust Bank (U.S.)	2.3	0.5	0.5	1.9	0.4	0.4
Other	0.1	0.0	0.0	0.0	0.0	0.0
B. Other public sector	70.4	14.2	16.1	72.2	13.4	16.7
Guaranteed public- and private-sector debt	58.7	11.8	13.4	60.5	11.2	14.0
Nonguaranteed public sector debt	11.7	2.4	2.7	11.7	2.2	2.7
Domestic debt	**154.0**	**31.1**	**35.2**	**154.3**	**28.7**	**35.6**
A. Central government	108.7	21.9	24.9	109.0	20.3	25.2
Bonds	47.2	9.5	10.8	56.8	10.5	13.1
Treasury bills	32.4	6.5	7.4	26.9	5.0	6.2
Loans from banks	8.8	1.8	2.0	9.5	1.8	2.2
Debentures	0.6	0.1	0.1	0.6	0.1	0.1
Other	19.7	4.0	4.5	15.3	2.8	3.5
B. Other public sector	45.3	9.1	10.4	45.3	8.4	10.5
Guaranteed public- and private-sector debt	45.3	9.1	10.4	45.3	8.4	10.5
Memorandum items:						
Nominal GDP	437.4			433.2		

Sources: Ministry of Finance; and Fund staff estimates.

1/ Preliminary estimates.
2/ Until June.
3/ Includes government guarantees extended to public enterprises and private sector.
4/ Preliminary breakdown.

Table 7. Grenada: Medium-Term Outlook, 2003–2009

	Est.	Projections 1/					
	2003	2004	2005	2006	2007	2008	2009
	(Annual percentage change)						
National income and prices							
Real GDP growth	5.7	-3.1	2.3	7.2	5.8	5.2	5.0
CPI (average)	2.2	2.3	2.0	2.0	2.0	2.0	2.0
	(In percent of GDP, unless otherwise specified)						
Central government							
Total revenue	28.0	22.7	22.6	26.7	27.4	28.2	28.6
Of which							
Tax revenue	25.3	20.8	20.8	24.1	24.7	25.4	25.8
Nontax revenue	2.7	1.8	1.8	2.6	2.7	2.7	2.8
Grants	7.0	6.9	9.8	5.6	4.9	4.2	3.9
Total expenditure	39.9	43.0	46.7	42.6	38.6	37.2	36.8
Current expenditure	24.7	28.4	28.7	28.1	27.6	27.2	26.8
Wages and allowances	11.0	12.8	12.8	12.8	12.8	12.8	12.8
Goods and services	3.4	3.7	3.7	3.5	3.4	3.4	3.3
Domestic interest	1.5	1.5	2.0	1.8	1.7	1.6	1.5
Foreign interest	3.8	5.0	5.0	4.9	4.8	4.7	4.6
Transfers and subsidies	4.9	5.4	5.3	5.1	5.0	4.8	4.7
Capital expenditure	15.2	14.6	18.0	14.5	11.0	10.0	10.0
Current balance	3.3	-5.8	-6.1	-1.4	-0.2	1.0	1.8
Primary balance (after grants)	0.4	-6.9	-7.3	-3.6	0.1	1.5	1.8
Overall balance (after grants)	-4.9	-13.4	-14.3	-10.3	-6.3	-4.8	-4.3
External amortization payments	-2.3	-5.7	-2.3	-2.2	-2.2	-2.1	-2.1
Residual financing need	0.0	8.6	10.1	7.5	3.5	1.9	1.3
Committed budget support	0.0	2.9	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	5.7	10.1	7.5	3.5	1.9	1.3
Anticipated budget support	0.0	0.6	3.9	0.0	0.0	0.0	0.0
Remaining financing gap	0.0	5.1	6.2	7.5	3.5	1.9	1.3
Exceptional financing 2/	0.0	-5.1	-6.2	-7.5	-3.5	-1.9	-1.3
External sector							
Current account balance	-33.6	-39.1	-47.6	-39.6	-34.3	-32.1	-30.2
Trade balance	-42.0	-45.8	-53.7	-41.8	-39.5	-37.8	-36.2
Exports of goods	10.1	7.0	5.5	8.5	8.8	8.9	9.1
Imports of goods	-52.1	-52.8	-59.2	-50.2	-48.3	-46.7	-45.3
Travel (net)	22.0	16.6	15.4	19.0	20.4	20.6	20.9
Capital and financial account	31.0	32.3	37.4	33.2	31.8	30.9	29.5
Overall balance	-2.7	-6.8	-10.3	-6.4	-2.5	-1.3	-0.7
Financing gap	0.0	5.7	10.1	7.5	3.5	1.9	1.3
Anticipated budget support	0.0	0.6	3.9	0.0	0.0	0.0	0.0
Remaining financing gap	0.0	5.1	6.2	7.5	3.5	1.9	1.3
Exceptional financing 2/	0.0	-5.1	-6.2	-7.5	-3.5	-1.9	-1.3
Memorandum items:							
Net imputed international reserves (US$ millions)	83.2	78.5	77.7	84.9	91.5	98.1	105.0
Total public sector debt 3/	113.3	124.6	129.8	129.0	125.9	122.1	118.3

Sources: Grenadian authorities; and Fund staff projections.

1/ Preliminary projections.
2/ See paragraphs 27 and 28 of the Staff Report.
3/ Government and government guaranteed debt.

Table 8. Grenada: Indicators of Capacity to Repay the Fund, 2003–2009 1/

		Projections					
	2003	2004	2005	2006	2007	2008	2009
Outstanding Fund credit							
In millions of SDRs	2.9	5.9	5.9	4.8	3.3	1.5	0.0
In millions of U.S. dollars	4.4	8.5	8.6	7.0	4.8	2.2	0.0
In percent of:							
Quota	25.0	50.0	50.0	40.7	28.1	12.5	0.0
GDP	1.0	2.0	1.9	1.4	0.9	0.4	0.0
Exports of goods and nonfactor services	2.3	4.8	4.9	3.6	2.2	0.9	0.0
Net imputed international reserves	5.2	10.9	11.0	8.2	5.3	2.2	0.0
Public and publicly guaranteed debt	0.9	1.6	1.5	1.1	0.7	0.3	0.0
Debt service to the Fund							
In millions of SDRs	0.0	0.1	0.2	1.3	1.6	1.9	1.5
In millions of U.S. dollars	0.1	0.1	0.3	1.9	2.4	2.8	2.2
In percent of:							
Quota	0.4	0.8	1.7	11.1	13.8	16.5	12.9
GDP	0.0	0.0	0.1	0.4	0.4	0.5	0.4
Exports of goods and nonfactor services	0.0	0.1	0.2	1.0	1.1	1.2	0.9
Net imputed international reserves	0.1	0.2	0.4	2.2	2.6	2.9	2.1
Public and publicly guaranteed debt	0.0	0.0	0.1	0.3	0.4	0.4	0.3

Source: Fund staff estimates and projections.

1/ Assuming disbursements under the Fund's emergency assistance policy for natural disasters as scheduled and debt service according to the obligations schedule.

Table 9: Grenada: Progress in Implementing Policy Commitments Contained in the 2003 Emergency Assistance Purchase

Policy Commitment	Status
Macroeconomic policy stance Central government deficit in 2003 of 6 percent of GDP.	 Met. Central government deficit estimated at 4.9 percent of GDP.
Broaden tax base by reining in exemptions Revoke tax exempt status of Cable and Wireless and St. Georges' University School of Medicine. Case-by-case review of requests for renewal of tax exemptions Reduce the percentage of import duty exemptions from 100 to 50 percent Shorten the period for which the duty exemption will be granted Strengthen Customs and Inland Revenue Departments	Met. Exemptions granted by Customs have declined from EC$ 105 million in 2002 to EC$ 90 million in 2003. Partially met. Exemptions for Cable and Wireless have been revoked. Exemptions for St. Georges' University School of Medicine have been reduced but not revoked. Met. Largely met. A few exemptions remain at 100 percent. Even in these cases, no waivers are granted from customs service charges. Met. Met. Programs to strengthen audit and increase computerization are ongoing.
Comprehensive review of tax policy and administration	Met. Following the FAD/CARTAC technical assistance mission and the subsequent report by the OECS Tax Reform and Administration Commission, the authorities have proceeded with preparations for introducing a VAT on January 1, 2006.
Debt management Eschew any lease-purchase agreements.	 Met.
Exchange system Do not impose new or intensify existing restrictions on payments and transfers for current international transactions, introduce any multiple currency practices, or impose new or intensify existing import restrictions for balance of payments purposes.	 Met.

GRENADA: FUND RELATIONS

As of September 30, 2004

I. **Membership Status**: Joined August 27, 1975; Article VIII

II. **General Resources Account**:	SDR million	% Quota
Quota	11.70	100.00
Fund holdings of currency	14.63	125.05
Reserve Position	0.00	0.00

III. **SDR Department**:	SDR million	% Allocation
Net cumulative allocation	0.93	100.00
Holdings	0.01	1.14

IV. **Outstanding Purchases and Loans**:	SDR million	% Quota
Stand-by Arrangements	2.93	25.04

V. **Latest Financial Arrangements**: None

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

	Forthcoming				
	2004	2005	2006	2007	2008
Principal			1.10	1.47	0.37
Charges/Interest	0.03	0.11	0.10	0.06	0.02
Total	0.03	0.11	1.20	1.52	0.39

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

VIII. **Exchange Arrangements**:

Grenada is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. In practice, the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

Grenada accepted the obligations of Article VIII, Sections 2, 3, and 4 in January 1994. There are no restrictions on the making of payments and transfers for current international transactions. There are exchange controls on payments for invisibles (i.e., indicative limits on travel allowances), but all bona fide transactions are approved.

IX. **Article IV Consultation**:

Grenada is on the standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on January 27, 2003.

X. **FSAP Participation**:

Grenada participated in the regional ECCU FSAP conducted in September and October 2003.

XI. **Technical Assistance**:

FAD	Staff visit for VAT implementation	April 2004
FAD	Tax policy and administration	October 2002
MFD	Financial Sector Assessment Program	September 2003
MFD	Offshore self assessment	September 2001

Grenada also receives assistance through CARTAC.

Grenada: Relations with the World Bank Group

(As of October 27, 2004)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on June 28, 2001. The CAS, which covers FY 2002–06, proposes new commitments of US$107 million for five borrowing member states of the Organization of the Eastern Caribbean States (OECS), including Grenada. The main goals of the strategy are to reduce income insecurity and vulnerability at the national and household levels, and build human and institutional capacity to meet the challenging economic and social environment facing these small states. Most new projects are being provided under a sub-regional umbrella mechanism using horizontal Adaptable Program Loans (APLs), and in close collaboration with sub-regional organizations and external partners.

The World Bank is currently in the process of preparing a new Country Assistance Strategy (CAS) for the OECS expected to be approved during FY05.

I. Projects

There are five active World Bank projects in Grenada for a net commitment of approximately US$29.1 million. A new operation, Hurricane Ivan Emergency Project, of US$10 million is currently being prepared. The Bank will also support Grenada's reconstruction efforts through the reallocation of a previously committed amount of US$10 million under ongoing projects, listed below.

The Grenada **Disaster Management Project**, approved September 15, 2000, is part of a regional program for the five OECS borrowing countries to fortify, reconstruct, and/or rehabilitate key economic and social infrastructure and facilities, in order to minimize damage or disruption caused by future natural disasters, and to speed emergency recovery following such disasters. Additionally, the project is expected to strengthen the countries' institutional capacity to prepare for and respond to disaster emergencies efficiently and effectively. The total program size is US$34 million, and the Grenada component is US$10.7 million.

The World Bank on March 8, 2002, approved $20.9 million in loans and credits to support **Emergency Recovery Projects** in Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The projects support efforts aimed at fostering recovery from the fallout of the events of September 11, 2001. The projects support: (i) efforts to safeguard the productive capacity of the tourism sector by securing energy imports; (ii) investments to enhance security at airports and ports; and (iii) the development of institutional capacity to develop security programs as mandated by international civil aviation and maritime transport agencies. The Bank's support to Grenada under this project is for US$3.8 million.

The **OECS Education Reform Project**, approved in June 2003 for US$8.0 million, is a follow-up to the Basic Education project. The overall objective of this project is to build human capital which, in turn, will contribute to the diversification of the economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning, and (iii) strengthening management of the sector and governance of schools.

The HIV/AIDS Prevention and Control Program, which was approved in July 2002, is funded under the Multi-Country APL for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS (PLWAs); and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term. The Bank's support to Grenada under this project is for US$6.0 million.

The **OECS Telecommunications Reform Program**, approved in June 1998 for US$6 million, aims to introduce pro-competition reforms in the telecommunications sector and increase the supply of informatics-related skills in the five OECS borrowing countries—Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The project has assisted the OECS countries negotiate with the subregional telecom monopoly for less one-sided contracts and lower long distance and regional telephone rates. One-fifth of the program, or US$1.2 million, has been taken on by Grenada.

II. Economic and Sector Work

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

For Grenada, specifically, the Bank has recently completed an Analysis of Fiscal Issues, which examines the management and allocation of public expenditures.

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

Operation	**Original Principal**	**Available**/1	**Disbursed**/1
Disaster Management	10.07	3.02	7.05
Emergency Recovery Project	3.80	1.04	2.76
OECS Education Reform Project	8.00	7.71	0.29
HIV/Aids Prevention And Control Program	6.04	5.77	0.27
OECS Telecom Reform	1.20	0.14	1.05
	29.11	17.68	11.42

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)

	Actual								Projections
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total disbursements	0.5	0.3	1.4	2.0	2.6	2.6	7.3	1.8	8.0
Repayments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.4
Net disbursements	0.4	0.2	1.3	1.9	2.5	2.6	7.2	1.6	7.6
Interest and fees	0.1	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.4

Grenada: Relations with the Caribbean Development Bank
(As of September 30, 2004)

I. PROJECTS

In 2003, the Caribbean Development Bank approved two loans and three grants to Grenada with gross commitments of US$7.0 million. Resources were provided for programmes that will assist in addressing critical areas of development, poverty reduction, governance, health and education, and economic infrastructure.

Economic Reconstruction Programme—Rehabilitation of Primary Schools— US$4.4 million; US$2.5 million of Ordinary Capital Resources (OCR) and US$3.5 million of Other Special Funds (OSF). This project will assist Grenada in improving educational outcomes and attainment levels through the upgrading of the physical learning environment at the primary level, the provision of higher quality and more effective educational services, and more efficient system management. The project involves the rehabilitation of 13 primary schools, the rebuilding of one, the provision of architectural and engineering services, furniture replacement, consultancy services for strengthening the services of the Ministry of Education in the areas of curriculum development, special education, and project management services.

Caribbean Court of Justice (CCJ)—US$2.2 million (OCR). In the area of Governance, as part of a regional project with total financing of US$99.5 million, CDB approved financing of US$2.2 million for Grenada's contribution to the establishment and operation of a Caribbean Court of Justice. The CCJ will play a central role in establishing the legal framework for the operation of the Caribbean Single Market and Economy.

CDB also approved grant resources for:-

- The Review of the Pay and Grade Structure and Conduct of a Public and Private Sector Salary Survey—US$149,000;
- Development of a National Strategic Plan for Health—US$59,000; and
- Project Preparation, Glenville Market Square Development—US$100,000.

Disbursements in 2003 totaled US$9.1 million with US$7.9 million being disbursed for loans currently under implementation. The main on-going projects with amounts undisbursed include:

Bridge and Road Improvement Project (US$17.1 million), approved December 2001 for the restoration of approximately 20 kilometers of the principal road network and the replacement of 12 bridges which have exceeded their design life.

Student Loan Scheme (US$3.5 million), approved October 2002, to the Grenada Development Bank for on-lending to students undertaking vocational, technical, and professional training.

Rural Enterprise Development (US$8.4 million) approved May 2001, financed with resources from the Caribbean Development Bank, the International Fund for Agricultural Development and the Government of Grenada, the project seeks to promote rural community development, and provide opportunities to expand rural household incomes through enterprise development and activities to improve agricultural production, marketing, processing, among others.

Credit (US$0.15 million) approved May 2004 to the Government of Grenada for a study to ascertain the feasibility of manufacturing and marketing value-added products from nutmeg.

Developments since September 30, 2004

At its meeting on October 14, 2004, the Board of Directors of CDB approved a budget support loan of US$8.1 million from the Bank's Special Development Fund to assist the Government of Grenada in meeting its fiscal obligations following the devastation caused by Hurricane Ivan in September 2004. In addition to the loan, the Board of Directors approved the redirection of previously approved but undisbursed credits from a number of operations amounting to approximately US$25 million, including approximately US$2.7 million in grants under the Bank's Basic Needs Trust Fund programme, in accordance with new priorities to be agreed between CDB and the Government of Grenada in response to the damage caused by the hurricane. The Board also waived the requirement of a counterpart contribution for projects financed utilizing the redirected resources.

II. FINANCIAL RELATIONS

(As of December 31 for 1997–2003 and September 30 for 2004)
(In millions of U.S. Dollars)

Item	1997	1998	1999	2000	2001	2002	2003	2004
Cumulative total credit approved	79.0	85.3	87.1	98.9	120.0	126.8	133.8	134.0
Cumulative disbursements[1]	61.6	67.1	73.8	78.9	87.6	93.0	101.4	106.8
Disbursements								
Ordinary Capital Resources	1.9	2.8	4.6	2.4	3.3	1.0	4.7	4.1
Special Development Fund	0.5	0.4	0.8	1.4	2.3	2.5	4.3	1.1
Other Special Fund Resources	0.7	1.9	0.5	0.9	2.3	1.4	0.1	
Amortization[2]								
Ordinary Capital Resources	0.5	0.5	0.6	0.6	0.8	0.9	3.1	0.9
Special Development Fund	1.2	1.2	1.7	1.4	1.4	1.7	1.7	1.3
Other Special Fund Resources	0.3	0	0.3	0.2	0.3	0.2	0.2	0.2
Outstanding debt (end of period)	39.9	42.2	45.1	47.9	51.3	55.7	61.2	63.6
Interest and Commitment Fees								
Ordinary Capital Resources	0.6	0.6	0.8	0.9	1.2	1.1	1.1	1.0
Special Development Fund	0.7	0.2	0.7	0.6	0.6	0.7	0.6	0.5
Other Special Fund Resources	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2

Source: Caribbean Development Bank

[1] Including valuation adjustments.

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

October 26, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Mr. de Rato:

On September 07, 2004, Hurricane Ivan—the most powerful hurricane to hit the Caribbean in the past decade—struck the State of Grenada[1] causing 29 deaths and extensive damage to property, crops, and infrastructure. The damage is estimated at US$900 million, (over 200 percent of 2003 GDP), of which US$75 million is damage to education facilities and US$500 million represents damage to the housing stock. Almost 90 percent of houses were severely damaged or destroyed. Only about a third of the housing stock has some form of insurance.

Our productive sectors have been decimated. The damage to tourism facilities, while mostly covered by insurance, has resulted in the closure of many hotels, precipitating massive job layoffs. Fortunately, the newly constructed Cruise Ship Terminal was not damaged, and we anticipate some cruise tourism activity from November onwards following the rehabilitation of selected attraction sites.

Nutmeg, the principal export commodity, has been largely destroyed and will require about 10 years to attain previous production capacity. The associated loss of export earnings is estimated at about US$14.5 million during 2004 and US$15.9 million in 2005. To assist Grenada in meeting its immediate financing needs, without seriously depleting its external reserves, our Government requests a purchase from the Fund for the equivalent of SDR 2.93 million (25 percent of its quota in the Fund) under the emergency assistance procedure for natural disasters.

Government responded immediately after the hurricane by providing emergency relief to the population in the form of food supplies, tarpaulins and building materials. The relief effort has been partly funded by friendly governments, multilateral agencies and international nongovernment organizations.

The economy is now anticipated to contract by about 3 percent in 2004 compared with the pre-hurricane forecast of 4 percent growth. We believe that there may be a modest growth in 2005 as reconstruction activity accelerates. The disruption to tourism and agriculture, both highly labor-intensive sectors, will cause unemployment to rise in the near to medium term.

[1] The State of Grenada consists of Grenada, Carriacou, and Petit Martinique.

In order to reduce unemployment, retraining of displaced workers from tourism and agriculture is urgently needed to secure their absorption in the construction sector.

In addition, there is a need to strength social safety nets to support those without work as well as other vulnerable groups. These costs are currently being provided in large part from the emergency supplies from international donors, but the responsibility will increasingly fall on Government and we would expect to incur additional fiscal expenditures of US$10 million in 2005 to meet these needs.

In light of the long gestation period for nutmeg, the Government is encouraging farmers, as an interim measure, to plant cash crops for domestic food security. In this regard, an Emergency Agricultural Resuscitation Programme will soon be launched to put farmers and fishermen back to work. The replanting of tree crops such as nutmegs and cocoa is being pursued.

The fall in government revenue resulting from the economic downturn coupled with the essential expenditures for relief and rehabilitation will place great pressure on the fiscal and debt situation of the Country in both the near-term and the medium-term. We expect some recovery in revenue collection next year with further improvement in 2006.

Fiscal options for the remainder of 2004 are severely constrained. In this regard, Government has undertaken the following steps:

- Reviewed our capital expenditure budget and identified US$15 million of projects that can be postponed in order to provide additional resources for more urgently needed reconstruction projects;

- Requested technical assistance to ensure appropriate revenue collection from insurance industry during the period of claims settlement;

- Commenced the rebuilding of collection systems at Customs; and

- Agreed to establish the Agency for Reconstruction and Development, to be headed by an independent professional, to coordinate and implement Grenada's reconstruction program. A Reconstruction Fund will be set up by an act of parliament, and the accounts will be audited by independent auditors.

While the above measures have served to narrow the immediate imbalances and ensure that revenues can be collected once the economy recovers, there is a large financing shortfall of US$40 million for the remainder of the year. Payments to some creditors are already overdue, but we are seeking a cooperative solution and have already published a statement to this effect.

Given the severity of the damage, it is clear that a comprehensive economic strategy needs to be developed to ensure renewed growth, address the fiscal imbalances, bring debt back to a sustainable level. We will maintain a close dialogue with the Fund staff in formulating this strategy. Development of this strategy is still at an early stage, but would likely include the following measures that build on the medium-term fiscal strategy that had been approved in early September:

- The introduction of a VAT, although the previous target date of January 01, 2006, may need to be revisited;
- Institutional strengthening of Customs to improve revenue collection (CDB financed technical assistance);
- Reduction of Government Guarantees;
- Rationalize incentive regime and move towards replacing tax holidays with tax credits, which would raise revenues;
- Limit commercial borrowing to projects with high rates of return that offer the prospect of revenue mobilization;
- Restructure the Public Service with a view to cutting costs and improving operational efficiency;
- Commercialization of selected government operations;
- Possible divestment of shares in selected enterprises;
- In close collaboration with the World Bank, implement the recommendations of the Public Expenditure Review.
- Mobilizing donor support to help cover the cost of reconstruction; and
- The elaboration of a collaborative debt strategy that, in conjunction with the steadfast implementation of domestic policies, offers the prospect of restoring medium-term sustainability.

The Government of Grenada does not intend to impose new, nor intensify existing restrictions on payments and transfers for current international transactions, introduce any multiple currency practices or impose new, or intensify existing import restrictions for balance of payments purposes.

Thank you for your consideration of this request.

Yours faithfully,

___________/s/___________

Hon. Anthony Boatswain
MINISTER OF FINANCE

cc: The Right Hon. Dr. Keith C. Mitchell, Prime Minister of Grenada

PRESS RELEASE

Grenada Announces Intention to Seek the Cooperation of Creditors

The Government of Grenada is announcing its intention to seek the cooperation of its creditors as a critical element of its economic stabilization and reconstruction effort following the widespread damage inflicted on the economy and its people by Hurricane Ivan.

Hurricane Ivan has had a devastating impact on Grenada's economy and its population. Total damage to the economy has been estimated at least EC$2.2 billion or US$815 million (more than double 2003 GDP). 90 percent of houses have been severely damaged or destroyed. Extensive damage was also inflicted on public and private infrastructure, affecting adversely the economic prospects of tourism and agriculture, which account for a significant share of the Country's foreign exchange earnings.

Prior to Hurricane Ivan, the economy had been growing at about 4.7 percent during 2004, following 5.7 percent growth in 2003, driven by a recovery in tourism. Fiscal imbalances had also narrowed, containing the rise in public debt levels. Hurricane Ivan has, however, substantially altered the economic outlook and poses serious challenges for policy making and public financial management. Indeed, the economy will likely contract in 2004, there are pressing unanticipated reconstruction needs, and there is substantial erosion of the revenue base, at least in the near term.

International donors are providing emergency relief to cope with the immediate needs of the population. However, it is clear that a major reconstruction and rehabilitation effort requiring considerable external assistance will be needed. The government is discussing possible assistance from multilateral creditors—the Caribbean Development Bank, the International Monetary Fund, and the World Bank—and has initiated discussions with a number of official creditors.

Grenada's public debt stock is now 112 percent of GDP, an unsustainable level in the current circumstances of the Country. To the extent possible, the Government will continue normal servicing of its debt obligations. The Government's financial resources are, however, limited given the difficult fiscal position. Under these circumstances, the Government intends to seek the cooperation of its creditors, as a critical element of a comprehensive economic programme, with the objective of returning the Country to a position of economic stabilization and debt sustainability.

A donors' conference on Grenada is scheduled to be held in Washington, D.C., on Monday, October 04, 2004.

Ministry of Finance
St. George's, Grenada

October 01, 2004

Press Release No. 04/240
FOR IMMEDIATE RELEASE
November 16, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$4.4 million in Emergency Assistance for Grenada

The Executive Board of the International Monetary Fund (IMF) has approved SDR 2.93 million about (US$4.4 million) in emergency assistance for Grenada. The amount approved is available immediately to help the government deal with the devastating effects of Hurricane Ivan—one of the strongest storms ever in the Caribbean—which passed directly over Grenada in September.

The damage caused by Hurricane Ivan is estimated at over 200 percent of GDP. Tourism and agriculture, the two major sources of foreign exchange earnings, have been hit hard.
The economy is projected to contract by over 3 percent in 2004, compared to a pre-hurricane projection of 4 percent growth.

With its tax base and sources of foreign exchange earnings impaired, Grenada faces large financing gaps for 2004-05. These gaps will need to be filled, in part, through support from the international community. A donors' conference was held in Washington, D.C., on October 4, 2004, and a follow-up pledging session is scheduled for November 19 in Grenada.

The IMF provides emergency assistance to member countries hit by natural disasters to help them meet immediate balance of payments financing needs, and maintain or restore macroeconomic stability. The emergency loan, which currently carries a charge of 3.4 percent, will be repaid in eight equal quarterly installments over 3.25 to 5 years from the disbursement date. In January 2003, emergency assistance had been approved to help Grenada deal with the effects of tropical storm Lili (see Press Release No. 03/10).

At the conclusion of the Executive Board's discussion on Grenada, Agustín Carstens, Deputy Managing Director and Acting Chair, said:

"The IMF extends its deepest sympathy to the people of Grenada at this difficult time following the devastation of Hurricane Ivan. The government, with the support of the international community, is responding swiftly to the situation. They have redirected budget allocations to the pressing needs of rehabilitation and reconstruction. They have also set up an independent agency to coordinate the reconstruction effort and a reconstruction fund that would be subject to independent audits.

"The hurricane has set back the government's efforts to address fiscal imbalances. Prior to the hurricane, Grenada had been making progress in addressing these imbalances, in part through a comprehensive review of tax policies and a medium-term fiscal strategy to bring debt down to more manageable levels. However, with the tax base and foreign exchange earnings impaired by the hurricane, Grenada now faces larger fiscal and balance of payments financing gaps.

“While external support provided by multilateral and bilateral sources, including emergency assistance from the IMF, will help with the near-term situation, a comprehensive strategy is needed to ensure the success of the reconstruction efforts and spur economic growth. In this regard, it is very encouraging that the authorities intend to develop a medium-term policy framework aimed at restoring fiscal and debt sustainability and promoting structural reforms to enhance growth prospects in Grenada.

“As part of this medium-term policy framework, the authorities have outlined several revenue-enhancing measures, including re-introduction of a value added tax, strengthening of the customs department, reduction of government guarantees, and rationalization of the tax incentive regime. In addition, the authorities intend to reform the public service to improve efficiency, and to rationalise and re-prioritise public expenditure.

“The authorities’ firm resolve to implement a comprehensive medium-term economic strategy, together with the continued support from the international community, should help Grenada’s economy to rebound,” Mr. Carstens said.

Statement by Kevin G. Lynch, Executive Director for Grenada
Executive Board Meeting 04/106
November 15, 2004

The Impact of Hurricane Ivan

As the staff paper describes, Grenada suffered a direct hit by Hurricane Ivan on September 7, 2004. A Category 3 hurricane with winds of 195km/hr, Ivan claimed 29 lives and left a trail of devastation. Some 90 percent of houses have been damaged or destroyed and an estimated 30 percent of the population was made homeless.

In addition to the terrible human and personal toll, the disaster has had a serious economic impact. Estimates of the material destruction range up to $900 million, or roughly twice Grenada's 2003 GDP. Particularly relevant in considering the Fund's role is the impact on the country's exports. Both tourism and agriculture – mainstays of Grenada's external sector – have been hard hit with most hotels having to close and 90 percent of cash crops destroyed. Perhaps most worrisome is the impact on production of nutmeg: ninety-five percent of the island's nutmeg trees have been destroyed, which will necessitate a lengthy period of replanting and rehabilitation of what had been a lucrative industry. With the hurricane disrupting revenue collection, the fiscal situation has deteriorated significantly.

The Authorities' Response

Grenada's authorities have moved quickly to address the most urgent humanitarian needs, and to establish priorities for the longer-term recovery and reconstruction efforts. An important part of this has been their engagement with the IMF and the World Bank, including through direct contacts with Fund and Bank staff at the time of the Annual Meetings and their participation in the Donors' Conference held on October 4 in Washington. The authorities are committed to moving forward in a manner that reflects the priorities and sentiments of a broad spectrum of Grenadian society, as reflected in the newly-established National Council of Reconstruction and Development, created following the hurricane to ensure the participation of civil society stakeholders.

Economic Outlook and Uncertainties

Given the magnitude of the destruction, Grenada will face significant challenges in the months ahead and the situation is not without risks for both Grenada and the Fund. The near-term outlook for Grenada is very difficult, with most tourist facilities unlikely to be re-opened within six months. As a result, GDP, which had been projected to grow by 4 percent in 2004, is now expected by the staff to contract by 3 percent, and unemployment is likely to double to roughly 30 percent. The fiscal deficit is projected to widen by some 8 percent of GDP to 13 percent, while the deficit on the current account of the balance of payments is likely to hit almost 40 percent of GDP in 2004 versus a pre-Ivan projection for the year of 31 percent.

At the same time, as the staff report notes, there are a number of factors that will support reconstruction, leverage the impact of the Fund's assistance, and mitigate financial risks to levels that are acceptable.

First, the authorities are formulating their policy actions in the context of a comprehensive and realistic medium-term fiscal and economic program. This program expands on the measures that were in place before the hurricane, under which Grenada was making steady progress toward addressing fiscal and debt imbalances. The more ambitious program now being developed in a close dialogue with Fund staff envisions a range of measures geared toward achieving a rapid rebound in private sector activity, building on Grenada's established advantages but also in the context of a strategy of economic diversification.

Second, the authorities are also acting quickly to put into motion a voluntary restructuring of Grenada's external debt made necessary as a result of the economic disruption caused by the hurricane. Technical assistance for this restructuring is being generously provided by a number of bilateral donors. The authorities' willingness to face the need for restructuring should be viewed positively by the Fund and the creditor community, as a way of minimizing the prospect that arrears may materialize, preserving to the greatest extent possible the value of claims, and complying with "best practice" for transparency and comparability of treatment across creditors.

Third, the international community has rallied in support of Grenada, with short-term relief and longer-term reconstruction assistance being provided by bilateral donors and multilateral institutions from both within and outside the region. A re-profiling of loans previously in the pipeline from the Caribbean Development Bank and the World Bank will be helpful in meeting new post-hurricane needs. A second Donor's Conference is being held on November 18-19 in Grenada. For their part, the authorities have put in place mechanisms including an Agency for Reconstruction and Development and a Reconstruction Fund subject to independent audits to ensure the most efficient use of available funds. Measures to reduce the impact of future natural disasters will be an important element of the reconstruction effort.

Conclusion

Against this backdrop, the emergency assistance which the Fund could provide would make a vital contribution to the rehabilitation effort alongside additional funds from other sources. Under these circumstances, Grenada's authorities would greatly appreciate a favorable response by the Board to their request for emergency assistance in the amount of 25 percent of quota.