International Monetary Fund

Grenada and the IMF

Press Release:
IMF Executive Board Completes Second Review Under the ECF Arrangement for Grenada, and Approves US$2.8 Million Disbursement
June 29, 2015

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Grenada: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 12, 2015

The following item is a Letter of Intent and a Memorandum of Economic Policies of the government of Grenada. It is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that Grenada is implementing in the framework of a staff-monitored program. A members's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Letter of Intent

June 12, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
UNITED STATES OF AMERICA

Dear Madame Lagarde,

Grenada has concluded the first year of its homegrown programme, supported since June 2014 by its international partners. The progress made to stabilize the Grenadian economy and put it on a path to sustainable development is significant. The Government outperformed its 2014 fiscal targets by a large margin, completing almost half of the adjustment effort required to restore fiscal sustainability. We have also set the legislative foundation for more sustainable fiscal policy by reforming budget processes and addressing areas where fiscal risks have built up. We have also jumpstarted growth-boosting reforms, including in the electricity sector. We have met all but one of the quantitative performance criteria under the programme and completed significant progress on the structural reform agenda. The steadfast implementation of our Homegrown Programme is beginning to bear fruit, with confidence gradually returning and the economic recovery underway continuing to strengthen. While encouraged by the progress made thus far, we recognize that significant challenges remain, the most pressing of which is elevated unemployment. Together with our Social Partners, we will overcome these challenges and set the stage for strong, sustainable and job rich growth.

The Government remains fully committed to meeting the objectives of its programme, as well as the specific targets set out in the June 2014 Memorandum of Economic and Financial Policies (MEFP) and its December 2014 supplement. The Government requests modifications to the performance criteria for primary spending and the primary balance at end-June and end-December 2015 to accommodate one-off reform costs with last year's fiscal over-performance, and to the ceiling on non-concessional external borrowing by the central government to clarify the definition of the criterion.

Attachment 1 to this letter is a further supplement to the MEFP that discusses performance under the programme and provides updates on some specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Attachment 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme so far and our commitment to the continued implementation of the programme, the Government requests that the Executive Board of the IMF complete the second review of the arrangement under the ECF, the financing assurances review, approve the request for a waiver of a performance criterion, the proposed modifications to performance criteria, the proposed new performance criteria for June 2016, the proposed structural benchmarks, and the third disbursement under the arrangement of SDR 2 million.

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

We consent to the publication of this letter, the attached supplementary MEFP and Technical Memorandum of Understanding, and the related staff report.

Yours truly,

/s/

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

Attachment I. Memorandum of Economic and Financial Policies for 2015-17

1. Grenada continues to make strides in overcoming its fiscal and economic crisis. On December 12, 2014, the Fund's Executive Board completed the first review of the 3-year arrangement under the ECF in support of Grenada's home-grown economic reform programme. Overall program implementation remains strong, with all but one quantitative performance targets for the second review met and progress made on the structural reform agenda (Tables 1 and 2). The Monitoring Committee for the Homegrown Programme has continued to play an effective role in supporting programme implementation by providing independent monitoring of progress and assisting the Government to achieve the agreed targets and benchmarks.

2. We are committed to continued strong program implementation to improve prospects for growth and job creation, put public finances back on a sustainable path, and entrench financial stability. The supporting policies to achieve these objectives are outlined in the June 2014 Memorandum of Economic and Financial Policies (MEFP) and its December 2014 Supplement. Unless modified below, that strategy and those policies remain valid in full. This supplementary MEFP further develops our reform strategy to improve growth and job creation (¶13), restore fiscal and debt sustainability (¶5-12), and entrench financial stability (¶14-15). The quantitative targets that serve as performance criteria and indicative targets under the programme have been extended through June 2016 (Table 1). The structural conditionality under the programme, incorporating modifications as discussed below, is presented in Table 2.

Developments and Outlook

3. The Grenadian economy is recovering and confidence in its prospects is strengthening. Economic activity is now estimated to have expanded by 3 percent (market prices) in 2014, significantly higher than the 1.2 percent anticipated at the first review. While strong external demand for tourism services has continued to fuel the recovery, our efforts to reform the agricultural sector contributed to strong growth in the sector in 2014. The renewed sense of confidence in the Grenadian economy, robust growth in the United States, and the decline in oil prices are also expected to contribute to improved economic prospects in 2015. We now expect the economy to grow by 1¾ percent in 2015 (up from 1.1 percent at the first review). Over the medium term, we continue to expect growth to pick up to potential growth of 2–2½ percent. While the ongoing economic recovery is encouraging, we are cognizant that the challenges confronting economic recovery remain significant, the most pressing of which is unemployment, which remains elevated at 29½ percent and is particularly high among the youth at 45.4 percent.

4. Relatively weak domestic demand and the decline in the world price of oil pushed deflation into the second consecutive year in 2014. Prices declined by 1 percent on average in 2014 relative to a year earlier. While the decline in prices was initially driven by a large reduction in telecommunication costs in late 2013, this effect has dissipated (on a year-over-year basis) and the decline has recently been driven by the fall in the world price of oil and weak domestic demand.

Deflation is now expected to persist in 2015, with prices projected to decline by 0.4 percent compared to the moderate inflation projected at the first review. We continue to expect inflation to pick up gradually to about 2 percent over the medium term with the economic recovery.

Fiscal Consolidation

5. **Almost half of the consolidation effort contemplated under our home-grown programme was implemented in 2014.** In 2014, the Government undertook a fiscal consolidation of 3½ percent of GDP. However, due to retroactive wage payments of 1.1 percent of GDP, the primary balance improved from a deficit of 4 percent of GDP in 2013 to a deficit of 1.2 percent of GDP in 2014. On aggregate, we outperformed our 2014 program primary deficit target by ¾ percent of GDP. Combined, our adjustment measures, intensified revenue collection efforts, and the economic recovery underway, helped to restore tax revenues to pre-crisis levels. At the same time, primary spending was kept within the programmed envelope through strict budget controls and expenditure savings. In particular, public employment and the wage bill were below the monitored targets.

6. **We are also on track to achieve the 2015 fiscal targets.** The 2015 Budget targets a primary surplus of $1^1/_3$ percent of GDP, in line with our programme commitment. This will be the first primary surplus in a decade.

- To achieve our revenue targets, we have increased the Petrol Tax by EC$1 per gallon (on gasoline and diesel), which is expected to raise 0.3 percent of GDP in revenue. We are also committed to ensuring the collection of personal income taxes on allowances as stipulated under the latest agreement with St. George's University (0.3 percent of GDP). If by end-May 2015 revenue is below the program forecast of EC$212 million by more than 1 million we will increase excise taxes on alcohol and tobacco to yield an estimated increase in revenue equivalent to 3 times the shortfall.

- On the spending side, the prudent management of citizenship-by-investment (CBI) program receipts will be critical to ensuring that the consolidation objectives remain unaffected by the uncertain nature of these revenues. The 2015 Budget assumes large inflows into the National Transformation Fund (NTF) from the CBI programme (4 percent of GDP, in addition to the EC$24 million (1 percent of GDP) that would be saved for arrear repayment), which are transferred to the central government as grants. A portion of these receipts are budgeted to finance recurrent expenditure mandates, including on social programs and ongoing infrastructure programs. We are committed to ensuring that these recurrent mandates are restricted to the fiscal envelope available in the absence of the CBI inflows and that the latter will be used to finance only one-off transformational infrastructure spending that we would otherwise not be able to undertake. For this, we will:

    - Reallocate the recurrent mandates from NTF-financed to nongrant-financed spending and reduce expenditure allocations for nongrant-financed spending to programmed levels. A Cabinet conclusion specifying the quarterly budget allocation consistent with the agreements under the program, with indicative targets for each Ministry and project, taking into account reduced grant financing from the Petrocaribe arrangement, has been approved in May (a **prior action** for the review).

- Identify the non-recurrent infrastructure projects that will be financed with NTF resources if these become available. The execution of these projects will start only when sufficient resources have been accumulated in the NTF to finance the project to its completion and through its maintenance over the medium-term, as previously committed under program.

- Ensure that, after 2015, spending under the NTF is limited to non-recurrent and productive infrastructure spending. For this, we (i) will approve the regulations that govern the use of funds out of the NTF (see below) and (ii) with assistance from CARTAC and the IMF, will revise the chart of accounts by end-2015 to ensure, among other things, proper future accounting for capital spending under the budget (see below).

7. We are committed to strengthening the monitoring of the public sector wage bill. Monitoring of the public sector wage bill has proven more challenging than anticipated as wage spending on public servants is captured not only under the wage bill, but also under capital expenditure as part of spending on some recurrent programs. While the broadening of the wage bill target during the first review was intended to cover both categories, it also unintentionally captured many projects that do not include wage spending, which cannot be easily separated from those that do. Going forward, we will restore the original focus on the recorded wage bill, while accelerating reforms to introduce a new chart of accounts, consistent with the 2014 Government Finance Statistics Manual in the 2016 budget (**new structural benchmark** for end-December 2015). The new chart of accounts clearly identifies wage expenditures on all public servants, including related to capital spending, and will facilitate our monitoring of the wage bill going forward. The new chart of accounts will also help ensure the proper classification of current and capital spending and strengthen our ability to target limited resources on growth-enhancing investment projects.

8. While important progress has been made with the programmed fiscal consolidation, a further fiscal adjustment will be required in 2016 to achieve the 3½ percent of GDP primary surplus target. Some of the measures initially contemplated under the program for 2016 may not be feasible and we recognize that a further $1^{1}/_{3}$ percent of GDP in adjustment measures will be needed to safeguard the fiscal targets agreed under the last full year of the program. These measures will include (a) a further increase of the Petrol Tax by EC$1 per gallon (on gasoline and diesel) to raise 0.4 percent of GDP in revenue; (b) a phased in revision of property values to their market levels consistent with an increase in property tax revenues by 0.1 percent of GDP; (c) the introduction of a financial activities tax as detailed in the December 2014 MEFP(expected to increase revenue by 0.3 percent of GDP); (d) a reduction in the wage bill associated with the implementation of the civil service reform (0.3 percent of GDP in expenditure savings); (e) a further savings in goods and services from renegotiated lower fixed-line rates, streamlining transportation costs, and savings on electricity and fuel as a result of the lower international oil prices (estimated at about 0.1 percent of GDP).

9. To ensure that the fiscal consolidation remains on track in the face of an uncertain outlook, the Government has identified a number of contingent fiscal measures. These measures are outlined in the June 2014 MEFP and its December 2014 Supplement and we remain committed to enacting them should fiscal risks materialize. The Government will also take steps to safeguard against a potential disruption of the PetroCaribe arrangement, which provides important financing for Grenada's social programmes. To ensure that the fiscal program remains on track in the face of a potential disruption of the arrangement, the Government will meet the resulting shortfall by reprioritizing spending and implementing the identified contingent fiscal measures.

Debt Restructuring and Regularization of Arrears

10. The Government continues to engage with all creditor groups to finalize agreement on a comprehensive restructuring of Grenada's public debt:

- *Private debt*. The Government has reached an agreement in principle with the Steering Committee of Grenada Bondholders on the key financial terms that will apply to the restructuring of its U.S. and E.C. Dollar bonds due 2025. The restructuring will involve a phased 50 percent nominal principal reduction, with half of the agreed principal reduction provided at the closing of the transaction and the latter half contingent upon completion of the sixth review of our ECF-supported program. The new bonds to be issued in exchange for the 2025 bonds will carry a coupon of 7 percent per annual with a maturity of 15 years. As part of the agreement, bondholders will receive a portion of revenues that may be generated by Grenada's CBI program after the expiry of the ECF arrangement. We continue to discuss with the Committee the inclusion of a hurricane clause in the new instruments. The formal exchange offer to implement the restructuring is expected to be launched around mid-2015. Negotiations with our remaining private creditors have proceeded in parallel to the restructuring of the 2025 bonds and are expected to be concluded in 2015.
- *Bilateral official debt*. In December 2014, the Government finalized an agreement with the Export-Import Bank of Taiwan Province of China (Eximbank) to restructure US$36.5 million in debts to Eximbank. The agreement reduces the amount outstanding on the loan by 50 percent (equivalent to 2 percent of GDP, or 62 percent in net present value (NPV) terms). The agreement put an end to Eximbank's legal proceedings in New York courts to recover payments outstanding since the 2005 debt restructuring. The Paris Club has provided financing assurances for Grenada and has tentatively agreed to discuss the treatment of its claims in September 2015. Kuwait has resumed new disbursements to finance existing projects and all other non-Paris Club bilateral official creditors have been contacted to request a comprehensive restructuring of their claims on Grenada.

11. The Government remains committed to clearing its domestic and external arrears during the programme period:

- *Debt arrears*. In the context of the ongoing debt restructuring negotiations with creditors, the Government is negotiating with its creditors a clearance framework for the existing stock of Government debt arrears. As part of the restructuring of the 2025 bonds, we have agreed with the creditor committee that all interest arrears on the bonds will be capitalized. Outside the restructuring process, the Government has not incurred additional arrears and remains committed to staying current on all obligations going forward.

- *Budget expenditure arrears*. With respect to the clearance of budget expenditure arrears, the Government has completed its strategy and will clear all budget expenditure arrears by end-2015 as committed under the programme. As of December 2014, the Government reduced budget expenditure arrears by 20 percent since end-2013, bringing the level of arrears to EC$66 million, or EC$20 million below the end-December 2014 ceiling. We are committed to clearing all arrears by end-2015, as agreed under the program. Around half of the outstanding supplier arrears (to public entities) will be settled with Government paper and debt net-offs, while the rest will be settled by cash. In support of this commitment, we will transfer the first EC$24 million of the annual inflows received by the NTF in 2015 to the central government for the settlement of arrears. We are also working to strengthen cash management, including flow forecasting in support of budget execution, implementation of commitment control and our arrears clearance strategy.
- *Membership fees to regional and international organization arrears*. The Government has reached a preliminary agreement to regularize membership arrears with international organizations accounting for more than 30 percent of the total stock of arrears, and is seeking agreements with the remaining organizations.

Fiscal Structural Reforms

12. Our fiscal policy framework has undergone a fundamental transformation to ensure fiscal discipline and lock-in the gains from fiscal consolidation. Going forward our reform strategy will focus on:

- *Implementing the 2014 Public Financial Management (PFM) Act.* In 2014, we modernized our public financial management legislation with a new PFM Act. In 2015, we made minor revisions to the Act and are now focused on its implementation. The signing into force of the 2015 PFM Act, expected in early June, will be a **prior action** for completion of the second review. To support implementation of the Act, we will finalize the regulations, drafted with IMF technical assistance, necessary to implement the legislation (approval of the regulations is an end-June 2015 structural benchmark). An important challenge to effective implementation of the new legislation will be to strengthen our accounting and auditing framework for public accounts, and to prepare a PFM manual to help guide compliance with the new Act. We will receive technical assistance from the IMF to support implementation of the new Act. We will also seek technical assistance from CARTAC and the IMF to update our Chart of Accounts, which will be critical to ensuring the proper classification of all categories of spending.

- *Finalizing the state-owned enterprise and statutory body reform strategy*. Cabinet approved a strategic plan to strengthen the financial position of the sector in February 2015, completing the end-October 2014 structural benchmark, and a committee has been set up to oversee implementation of the strategy. The plan includes policies to reform the overall regulatory environment of the sector as well as to address the specific challenges faced by individual entities. Subsequent to reforms to the overall SOE framework the implementation of the institution-specific strategy will proceed in two phases:

- *SOE framework reforms*. Following the extension of the PFM law requirements to statutory bodies and SOEs, the government has strengthened further the regulatory environment in which they operate. In particular, we have mandated strengthened reporting requirements to all SOEs and statutory bodies, including those mandated under the new PFM Act, and have held follow-up discussions with these institutions to clarify these requirements. The Government also plans to issue a directive to all SOEs and statutory bodies that will clarify the employment and compensation practices to which these institutions must adhere. The Policy Unit within the Ministry of Finance will be strengthened and given oversight responsibility over SOEs and statutory bodies, including for monitoring compliance with the new reporting requirement and the implementation of the reform agenda.

- *Phase 1 of restructuring (2015-16)*. The first phase will include targeted reforms to strengthen the financial condition of the SOEs and statutory bodies facing the most pressing financial challenges. We will pursue contracting out or long-term concessions with the private sector for some SOEs (e.g. Gravel, Concrete & Emulsion Production Corporation and the Grenada Airport Authority) to strengthen management and facilitate a return to profitability. We will pursue these private partnership opportunities in the context of the new PPP framework, prepared with assistance from the World Bank and approved by the Cabinet in February 2015. Other enterprises will be restructured to strengthen their viability (including the Housing Authority of Grenada, and the Grenada Stadium Authority), others merged (the Grenada Bureau of Standards and the Grenada Produce Chemistry Laboratory), and other will be wound up through privatization of their core activities.

- *Phase 2 of restructuring (*2017-19): Phase 2 will focus on strengthening the Grenada Solid Waste Management Authority and the National Water and Sewerage Authority, among other entities.

- *Completing the reform of the tax incentive regime.* We are bringing to a closure our efforts to reform the tax incentive regime to make it more rule-based and transparent, reduce tax expenditures and maximize the growth impact of the incentives by focusing them on the productive sectors (end-November 2014 structural benchmark). Completion of these reforms was somewhat delayed relative to the timeline originally envisioned in order to ensure that the newly codified incentives do not entail a revenue loss, with technical assistance on this received from the IFC, the World Bank and the IMF. With this technical assistance complete, parliament approved in early June 2015 amendments to the income tax, value added tax, and property transfer tax acts required to implement the new regime (**prior action** for the completion of the second review). We are committed to continuing our efforts to remove all discretion in our tax incentive regime and, in particular, will also remove discretion from the granting of customs duty exemptions after coordinating with CARICOM given our regional commitments on external tariffs.

- *Improving tax administration.* As noted in the December 2014 MEFP, we are committed to improving tax administration to sustain fiscal gains and ensure an equitable contribution to the consolidation effort. A new Tax Administration Act drafted with technical assistance from the IMF is being finalized and is expected to be approved by Parliament in line with the end-November 2015 structural benchmark. In addition to strengthening the legislative environment for tax administration, we are reforming the Inland Revenue Department (IRD) — with technical assistance from the CARTAC and the IMF—to establish a Large and Medium Taxpayer Service unit to strengthen IRD's capacity and facilitate tax compliance by the largest taxpayers. Moreover, performance management systems are being strengthened and taxpayer services and information technology improved.

- *Transitioning to a rule-based fiscal framework.* We have finalized the Fiscal Responsibility Legislation (FRL) (end-December 2014 structural benchmark) to complete the transition to a rule-based fiscal framework and strengthen fiscal discipline. The legislation was approved by Parliament in June 2015. Consistent with our commitments outlined in the June 2014 MEFP, the rule-based fiscal framework has the overarching objective of debt sustainability. It includes an operational debt target of 55 percent of GDP and an expenditure rule to maintain a targeted primary balance over the macroeconomic cycle consistent with the achievement of the debt target. We request to remove the end-June 2015 structural benchmark for the approval of regulations for the FRL as these are no longer required, given that the law provides sufficient clarity and regulations not needed to guide its implementation.

- *Ensuring the transparent and sustainable management of CBI receipts.* Launched in 2013, our CBI programme received its first revenues in 2014. As of March 2015, we have set aside EC$3.1 million of the associated revenues for arrears clearance in line with our commitment to prioritize NTF revenues for arrears clearance. Receipts from Grenada's CBI program are an asset of the Grenadian people and the Government is committed to ensuring that they are effectively, transparently, and sustainably managed to promote national development. To this end, we are committed to:

  - *Publication of all CBI program statistics.* We commit to publishing on the Ministry of Finance website on a quarterly basis all CBI-related statistics as outlined in the TMU (¶19). This will be a **new structural benchmark** to be observed on a quarterly basis starting in July 2015. A Cabinet conclusion mandating the publication of the CBI statistics has been approved in May 2015 (a **prior action** for the review).

- *Regulations for the National Transformation Fund (NTF) (*end-February 2015 structural benchmark). The regulations, which are being drafted with technical assistance from CARTAC, will put in place a governance framework for the NTF, including Government oversight, and will include policy guidelines on the use of NTF resources. The use of NTF resources will be balanced between debt reduction and spending on transformational investment projects. The regulations will mandate that 40 percent of total NTF revenues are saved for arrears repayment, debt reduction and as contingency financing for natural disaster relief (in 2015, to fulfill our commitments on arrear clearance, the first EC$24 million of annual NTF resources will be devoted to these purposes). With respect to NTF investment in transformational investment projects, the regulations will require (i) rigorous project evaluation and selection aligned with Grenada's development priorities identified in the GPRS 2014-18 and Strategic Plan 2030 and (ii) the full integration of the NTF projects with the budget's Public Sector Investment Program. The regulations are expected to be finalized in July 2015.

- *Strengthening the management of public debt.* To further support a strengthening of the management of public debt, we have modernized the legislative framework for public debt management through a new Public Debt Management (PDM) Act (structural benchmark for end-March 2015), approved by Parliament in June 2015. We are committed to fully implementing the new PDM Act in 2016.

- *Modernizing the public sector.* We continue to believe that public sector modernization reforms are critical to improving the efficiency, quality and cost effectiveness of the public sector. Technical and financial assistance from our international partners imperative to facilitate the strategic review of the public sector has not materialized as expected. Nevertheless, given the importance we place on reforming the public service, we are committed to self-financing the reform initiative. In light of the unanticipated financing challenges, we request re-phasing the end-September structural benchmark to end-March 2016 to allow us adequate time to complete this important reform. Subsequent to finalizing the reform strategy, we remain committed to revising the existing legislation on government functions, civil services, and public compensation (including the 1969 Public Service Law) within the subsequent six months.

Structural Reforms to Support Competitiveness and Growth

13. Strengthening Grenada's competitiveness to improve prospects for growth and job creation remains the main focus of the Government's economic program.

- *Growth and Poverty Reduction Strategy (GPRS).* As outlined in the December 2014 MEFP, the Government's efforts toward a higher, sustainable and more equitable growth path will be guided by its new Growth and Poverty Reduction Strategy (GPRS) for the period 2014-18. The strategy is closely intertwined with our home-grown economic programme that aims at addressing the immediate crisis, but has a more medium-term vision for the development of Grenada's growth and job creation potential. The GPRS will be the guiding pillar of Grenada's development policy and will be the foundation for the economic strategy underpinning the national budget. The Government is committed to a results-based implementation of the GPRS and is working to put in place a transparent monitoring and evaluation framework to ensure periodic assessment of progress against GPRS goals and objectives and strengthen Government's accountability for effective implementation of the strategy. Work has also commenced a new long-term development plan, Strategic Plan 2030, which will complement the medium-term strategy in the GPRS.

- *Improving the investment environment.* The 2014 Investment Act represents a comprehensive revamping of Grenada's investment regime, bringing it in line with international best practice, and we are now focused on implementing the new framework. With the tax incentive reform now finalized, we will bring the 2014 Investment Act into force expeditiously. We are committed to supporting effective implementation of the new investment framework by strengthening the institutional framework for attracting and retaining investment in Grenada and will request technical assistance from our international partners to reform the Grenada Industrial Development Agency (GIDC) to strengthen its investment facilitation and generation capacity.

- *Energy sector reforms*. The initial reforms are focusing on putting in place a new regulatory authority responsible for tariff-setting, which is currently outlined in a 1994 agreement with Grenada's monopoly energy company. We have prepared a draft amendments to the Public Utilities Regulatory Commission Act (with World Bank technical assistance) to establish the new national regulator to be supported by the regional advisory authority - the Eastern Caribbean Energy Regulatory Authority (ECERA) - is established. We are confident that this will ensure a more efficient pricing of electricity in Grenada in support of our growth objectives. We have also completed a draft of the new Electricity Supply Bill, with support from the World Bank, which will replace the 1994 Electricity Supply Act (ESA) in guiding Grenada's transition from electricity generation to renewable energy by putting in place a supportive regulatory environment. Public consultations on the draft legislation were held in February 2015 and we are now engaged in discussions with GRENLEC. Subsequent to these discussions, we expect the new legislation to be put in place in 2015.

- *Social protection and poverty reduction*. We are continuing our efforts, with support from the World Bank, to strengthen social protection. We are putting in place a new information management system for our largest social assistance program, SEED. While implementation of the system has proven to be more challenging than anticipated and has contributed to a delay in putting in place the new targeting mechanism and under spending on social spending compared to our end-December 2014 indicative floor, we consider the indicative floor on social spending an important barometer of our support to the most vulnerable and will work toward ensuring that the spending floor is met.

Financial Sector Reforms

14. We remain committed to the ECCU regional strategy to strengthen the banking sector and are actively engaged with our regional partners on its implementation. The ongoing asset quality review (AQR) of commercial banks in the region, together with financial modeling of banks' viability, will provide important insight into the financial position of banks in the region. The results of these diagnostics are expected by end May and we remain committed to taking immediate action as needed to strengthen the financial position of commercial banks operating in Grenada. In this regard, we will work with the ECCB to determine an appropriate strategy, in the context of a sustainable fiscal framework. To promote the stability of the banking system over the medium-term, in April 2015 Parliament approved the revised Banking Act, approved by the ECCB Monetary Council in February 2015, to strengthen the legislative framework for banking regulation and supervision. Parliamentary approval of the ECCB Agreement Amendment Act will proceed as soon as the draft legislation is received from the ECCB.

15. We continue to strengthen regulation and supervision of the nonbank financial sector. With respect to the insurance sector, we continue to support the establishment of the Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor. In line with international best practice, Grenada Authority for the Regulation of Financial Institutions (GARFIN) has moved to consolidated supervision of the insurance sector and is strengthening cooperation with home country authority partners to further strengthen supervision. Formal frameworks for consolidated and risk-based supervision for the insurance sector are being finalized. With respect to the credit union sector, we remain committed to the Caribbean Association of Credit Union Supervisors as a stepping stone toward regional regulation/supervision. GARFIN is now implementing risk-based supervision of credit unions and, with technical assistance from CARTAC, is working to strengthen its regulatory regime for credit unions through a strengthened risk weighted capital adequacy regime and by conducting credit quality reviews to further strengthen supervision and regulation of the sector.

Programme Monitoring

16. The programme will be subject to semiannual reviews and semiannual performance criteria, indicative targets and structural benchmarks, as well as continuous performance criteria, as set out in Tables 1-2 and in the attached Technical Memorandum of Understanding (TMU). We anticipate that the third, fourth, and fifth reviews will take place on or after September 30, 2015, March 31, 2016, and September 30, 2016, respectively, and will require observance of the continuous performance criteria and of the conditionality for end-June 2015, end-December 2015, and end-June 2016, respectively. To facilitate programme monitoring, we are committed to providing detailed statistical information as specified in the TMU. Progress in the implementation of the policies under the programme may also be monitored on a quarterly basis through staff visits.

Table 1. Grenada: Quantitative Program Targets

	2013	2014				2015		2016	
	Dec.	Jun.	Dec.			Jun.	Dec.	Jun.	Dec.
	Act.	Act.	Prog.	Adj. Prog. 1/	Act.	Prog.		Proposed	Ind.
Performance criteria									
A. Cumulative floor on central government primary balance (EC$ mln) 2/	-90	-2	-57	-46	-28	9	31	39	86
B. Cumulative ceiling on central government primary spending (EC$ mln) 2/	564	285	622	656	630	281	550	268	519
C. Ceiling on stock of central government budget expenditure arrears (EC$ mln)	86	80	86	86	66	43	0	0	0
D. Ceiling on accumulation of external debt arrears (continuous)		0	0	0	0	0	0	0	0
E. Ceiling on contracting of non-concessional external debt by the central government (continuous, US$ mln)		0	0	0	10	0	0	0	0
Indicative targets									
F. Cumulative ceiling on net change in central government and central government guaranteed debt (EC$ mln) 2/		73	149	103	48	39	66	13	25
G. Floor on social spending by central government (EC$ mln)		6.2	13.0	13.0	11.4	6.7	13.4	7.0	14.0
Monitoring									
H. Wage bill target 3/									
First review target	272	134	276	276	275	136	272	132	264
Proposed new target	227	111	223	223	219	110	220	107	214
I. Public employment target	7755	7168	7584	7584	7515	7534	7484	7434	7384

1/ Adjusted for the shortfall in SEED spending, the revenue and budgetary grant overperformance, and the capital grant shortfall compared to the program as applicable according to the TMU.
2/ From end-December of the previous year.
3/ New targets are proposed during second program review to restore wage bill definition from program approval (TMU¶17).

Table 2. Grenada: Structural Program Conditionality

Measure	Timing	Implementation Status
Prior Actions for the Second Review		
1. Cabinet conclusion specifying the quarterly capital budget allocation with indicative targets for each Ministry and each project consistent with program commitments excluding NTF resources		Met
2. Cabinet conclusion mandating quarterly publication of CBI statistics		Met
3. Parliamentary approval of the revised legislation on tax incentive regime		Met
4. Signing into force of the 2015 PFM Act		Expected early June
Structural Benchmarks		
Growth- Enhancing Reforms		
1. Parliamentary approval of the revised Investment Promotion Act	November 30, 2014	Met
Fiscal Adjustment Measures		
1. Parliamentary approval of 2015 budget consistent with program commitments	December 31, 2014	Not met, but corrective action taken
Fiscal Structural Reforms		
1. Parliamentary approval of the revised PFM legislation	August 31, 2014	Met
2. Cabinet approval of a strategic plan for the statutory bodies	October 31, 2014	Met in February 2015
3. Parliamentary approval of the revised legislation on tax incentive regime	November 30, 2014	Met in June 2015
4. Parliamentary approval of the legislation for the fiscal policy framework	December 31, 2014	Met in June 2015
5. Minister of Finance approval of regulations for the National Transformation Fund	February 28, 2015	Expected in July
6. Parliamentary approval of a public debt management law	March 31, 2015	Met in June 2015
7. Minister of Finance approval of regulations for the revised PFM legislation	June 30, 2015	Expected early July
8. Minister of Finance approval of regulations for the fiscal responsibility legislation	June 30, 2015	Proposed to be removed
9. Cabinet approval of a strategic plan to modernize the public sector	September 30, 2015	Proposed to be rephased to March 31, 2016
10. Parliamentary approval of a tax administration act	November 30, 2015	In progress
11. Publication of all citizenship-by-investment statistics on a quarterly basis	Quarterly, beginning July 31, 2015	Proposed
12. Implementation of the new Chart of Accounts for the 2016 Budget	December 31, 2015	Proposed

Attachment II. Technical Memorandum of Understanding

1. Grenada's performance under the Extended Credit Facility (ECF arrangement), described in the Memorandum of Economic and Financial Policies from June 2014 and its December 2014 supplement, will be assessed on the basis of observance of quantitative performance criteria, indicative targets, as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the performance criteria and indicative targets under the ECF arrangement. It also describes the modalities for assessing performance under the programme and the information requirements for monitoring this performance.

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

I. PERFORMANCE CRITERIA

A. Cumulative Floor on the Central Government Primary Balance

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

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

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

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

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

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

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

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

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

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

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

ix. *Less* grants received but unutilized.

If the difference between the primary balance measured from above the line and from below the line is larger than EC$10 million in 2014, EC$6 million in 2015 and EC$3 million in 2016 the MOF will consult with IMF staff.

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

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

ii. In the event that revenues (excluding the fees from the CBI programme and transfers from the NTF) exceed those projected under the programme, the primary balance target will be adjusted upward by one half of the excess during January-June, to allow for additional capital spending while safeguarding compliance with the annual fiscal targets. The following table shows the accumulated projected revenue and budgetary grants for 2014-16, as well as capital spending, to which the actual outcomes will be compared.

Grenada: Programmed revenues and grants, 2013-16							
	2013	2014 [1]		2015 [1]		2016 [1]	
	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.
(EC$ millions)							
Non grant revenue	443.4	231.1	459.9	253.6	504.4	275.6	551.0
Budgetary grants	0	0	0	0	0	0	0
Capital spending	160.5	97.0	215.6	79.5	176.5	73.9	147.8
o.w. financed by capital grants	31.3	37.5	105.0	27.5	77.1	27.9	55.9

[1] Cummulative from end of the previous year.

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

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

v. Downward for the end-June and end-December 2015 targets, for the cost of technical assistance related to public sector modernization reforms less the amount of any grants received for this purpose (up to a cumulative maximum of US$300 thousand).

vi. Downward for the end-June and end-December 2015 targets for the advisor fees related to debt restructuring less the amount of any grants received for this purpose (up to a cumulative maximum of US$2 million).

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

6. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing. The Government will safeguard the over-performance in revenue achieved in the first half of any year by increasing the capital budget allocations for the last two quarters of the year only up to 2/3 of the over-performance.

B. Cumulative Ceiling on Central Government Primary Spending

7. The primary spending of the central government will be calculated as the sum of revenues and grants that have been utilized minus the primary balance of the central government as measured above in section A. The performance criterion on primary spending will be subject to the same adjustors as applied to the primary balance target as applicable with the exceptions of the adjustors specified in ¶5 points (v) and (vi). An additional adjustor would apply to the primary spending target to allow for the full use of available project grants and half of the amount of budgetary grants: the target will be adjusted upward by the full amount of additional capital grants, and by the amount of budgetary grants, received and spent on capital outlays in excess of programmed levels (but only up to half of the total budgetary grants received) and will be adjusted downward by half of the shortfall in capital grants compared to the programmed levels to safeguard the fiscal targets (table above). The target will also be adjusted upward by: (i) the cost of technical assistance related to public sector modernization reforms (up to a cumulative maximum of US$300 thousand); advisor fees related to the debt restructuring, for the end-June and end-December 2015 targets only (up to a cumulative maximum of US$2 million); and (iii) the cost of severance payments associated with the restructuring of Grenada Concrete Emulsion and Production Corporation and the Grenada Postal Corporation (up to a cumulative maximum of US$4 million).

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

8. A ceiling is set on the stock of central government budget expenditure arrears equal to EC$43 million at end-June 2015, EC$0 million at end-December 2015, and EC$0 million at end-June 2016. Budget expenditure arrears are defined as the sum of: (i) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period),or in the absence of a grace period, within 60 days after the due date; (ii) wages, pensions, or transfers (including to the Solid Waste Company), for which payment has been pending for longer than 60 days to domestic or foreign residents; and (iii) interest and amortization payments on domestic debt for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period). Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition. The data will be reported by the Accountant General's office.

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

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

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

10. The ceiling on non-concessional borrowing will be applied to the contracting or guaranteeing by the central government of medium and long-term external debt (maturity greater than one year). Excluded from the ceiling is borrowing from regional financial institutions or markets (Caribbean

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

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

II. INDICATIVE TARGETS

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

12. Net change in central government and central government guaranteed debt is defined as difference in the stock of central government and central government guaranteed debt between two specified periods. For program purposes, the stock of central government and central government guaranteed debt is measured under the disbursement basis.

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

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

- Upward by the amount paid by the government to reimburse the policy holders of the failed regional insurance companies BAICO and CLICO, less the grant-financed share of these payments.
- Upward to a maximum amount of 5 percent of GDP to accommodate PPP related expenditures.
- Downward by the amount of nominal debt forgiveness in the case of debt restructuring

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

G. Floor on the Social Spending by the Central Government

16. The social spending of the central government will only include the expenditures incurred by central government towards the SEED programme (support for education empowerment and development). This will be reported by the Ministry of finance on a quarterly basis.

H. Memorandum Item: Wage Bill Target

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

I. Memorandum Item: Public Employment

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

III. PUBLICATION OF CITIZENSHIP-BY-INVESTMENT STATISTICS

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

IV. PROGRAMME REPORTING REQUIREMENTS

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

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

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

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