FOR AGENDA

SM/84/240

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October 25, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Grenada - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Grenada. A draft decision appears on page 13.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Amselle (ext. (5)7682) or Mr. Sundgren (ext. (5)7686).

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

GRENADA

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984
Article IV Consultation with Grenada

Approved by E. Wiesner and S. Kanesa-Thasan

October 24, 1984

The 1984 Article IV consultation discussions with Grenada were held in St. George's in the period August 8-23, 1984. The Grenadian representatives in the discussions included the Chairman of the Advisory Council, the Minister of Finance, the Director General of Finance, senior officials in the ministries, and representatives of the major public enterprises. The mission also met with the Governor of the Eastern Caribbean Central Bank and with representatives of commercial banks and private business. The staff mission consisted of Messrs. Amselle (Head), Khor, Terrier, and Sundgren (all WHD), and Ms. Archer (Secretary-WHD). The mission was assisted by Mr. Gantt, the Fund's Regional Advisor. Mr. Leonard, the Alternate Executive Director for Grenada, participated in the discussions. Grenada continues to avail itself of the transitional arrangements of Article XIV.

The last consultation discussions with Grenada were held in May 1983 and concluded by the Executive Board on August 24, 1983 when the Board approved a three-year extended arrangement for SDR 13.5 million, equivalent to 300 percent of Grenada's quota at that time. One purchase was made under the arrangement in August 1983. However, following the events of October 1983, the interim Government of Grenada decided in January 1984 to cancel the EFF program.

In concluding the discussions on the 1983 Article IV consultation with Grenada in August 1983, Executive Directors noted that the ambitious investment program undertaken by Grenada had resulted in large financial imbalances and stressed the need for increased public sector savings. Directors also noted the need to encourage private investment, to maintain a restrained wage policy, and to instill greater flexibility in interest rate management. Moreover, Directors stressed the importance of keeping exchange rate policy under review and encouraged the Grenadian authorities to eliminate as soon as possible the multiple currency practice arising from the 5 percent tax on purchases of foreign exchange.

I. Recent Economic Developments

Following two years of slow growth, real output increased by close to 5 percent in 1982 reflecting rising activity in construction and manufacturing (Table 1). The events of October 1983 seriously disrupted economic activity during the last quarter of the year, and it is estimated that output declined by 1 1/2 percent in 1983 as a whole, notwithstanding a substantial increase in agricultural production. Uncertainties in connection with the elections that are scheduled for December 3, 1984 have had adverse effects on private investment decisions this year, and growth in output is expected to be in the neighborhood of 1 percent. However, a substantial recovery in output is projected for 1985, mainly on the basis of a strong expansion that is expected in some agricultural products, tourism, and export-oriented manufacturing.

Table 1. Grenada: Selected Economic Indicators

(Percentage change)

	1980	1981	1982	Prel. 1983	Proj. 1984	Proj. 1985
GDP at current market prices	12.6	16.2	10.2	5.2	5.8	10.6
Gross domestic expenditure	21.7	22.7	15.3	0.6	6.5	10.4
GDP at 1980 market prices	1.8	1.9	4.7	-1.6	1.0	5.3
Consumer prices (average)	21.2	18.8	7.7	6.1	5.0	5.0
Terms of trade	-10.5	-3.3	0.1	3.7	3.2	--

Sources: Ministry of Finance, Statistical Office; and Fund staff estimates.

The rate of increase in consumer prices declined from an average of 20 percent a year in 1980-81 to 6 percent in 1983. Inflation has continued to moderate in 1984 and the rate of price increase is not expected to exceed 5 percent. Information on wage trends is limited; however, a sampling of negotiated settlements in the private sector suggests that wage increases slowed down from a 15 percent annual average in 1981-82 to about 10 percent in 1983 and 8 percent in 1984. The three-year contract negotiated by the Central Government for the period 1981-83 provided for yearly increases ranging from 17 percent in 1981 to 12 1/2 percent in 1983. Wage negotiations with civil servants for 1984 and beyond have not yet begun and there has been no wage increase since the expiration of the previous agreement at the end of 1983.

In 1981-83 there was a sizable increase in public sector outlays in connection with the construction of the international airport and other infrastructure projects. As a result, the overall public sector deficit after grants rose from the equivalent of 2 percent of GDP in 1980 to an average of nearly 18 percent in the following three years (Table 2). Public sector saving rose somewhat during the period, reflecting increased taxation and the creation of the National Insurance Board in 1983, but the bulk of investment was financed by external borrowings and, in 1982, by domestic borrowing as well. Central government revenue collections were seriously disrupted in the last quarter of 1983, which resulted in a buildup in overdue obligations to both foreign and domestic creditors equivalent to 3.7 percent of GDP. Revenue collection weakened further in 1984, as the stamp duty on imports was reduced from 20 percent to 15 percent in an attempt to stimulate private sector activity. The reduction in revenues in the early part of 1984 was matched by a cutback in expenditures; however, a substantial increase in foreign grants later in the year permitted a resumption in public investment projects--particularly the international airport--and the repayment of overdue obligations.

Because of the increase in project-related imports, the deficit in the current account of the balance of payments rose from a yearly average of 11 percent of GDP in 1979-80 to 26 percent of GDP in 1981-83 (Table 3). Capital inflows in the form of grants and loans have financed most of the current account deficits since 1979, although there was also significant net recourse to the Fund in 1981 and some arrears on the service of the foreign debt were incurred in 1983.1/ Foreign indebtedness has risen rapidly in the past few years, from the equivalent of 16 1/2 percent of GDP at the end of 1980 to almost 42 percent of GDP at the end of 1983. However, because of the concessionary nature of a large part of the foreign debt, debt service payments in relation to exports of goods and services only rose from 4 percent to 6 1/2 percent during the same period.

II. Economic Policies and Prospects

1. Economic development strategies

The interim administration that was appointed by the Governor General of Grenada following the events of October 1983 decided to shift radically the general economic strategy from that pursued by the previous Government. The authorities now favor a more market-oriented approach based on a substantial reduction in the size and scope of the public sector and greater private sector participation in economic activity through less restrictive investment guidelines, the rebuilding of commercial bank liquidity, and the liberalization of controls on prices, interest rates, imports, and foreign exchange. In addition, the authorities have been mindful of the disincentives to production and

1/ Because these arrears arise from the Government's failure to generate the necessary domestic resources for debt servicing--rather than a governmental limitation on, or interference with, the availability of foreign exchange--they do not constitute an exchange restriction subject to Fund approval.

Table 2. Grenada: Operations of the Consolidated Public Sector

	1980	1981	1982	1983	Proj. 1984	Proj. 1985
(In millions of Eastern Caribbean dollars)						
Total revenue and grants	93.4	97.9	121.2	121.2	178.3	162.5
Current revenue 1/	59.0	63.0	76.2	86.6	86.1	90.0
Current grants	1.4	0.9	2.6	3.2	30.7	...
Capital grants	33.0	34.0	42.4	31.4	61.5	72.5
Total expenditure	98.3	142.5	180.0	175.3	171.3	179.3
Current expenditure	59.6	64.6	71.6	79.8	83.2	84.2
Capital expenditure	38.7	77.9	108.4	95.5	88.1	95.1
Of which: public enterprises	(1.9)	(6.7)	(19.9)	(13.9)	(15.9)	(14.5)
Public sector saving	-0.6	-1.6	4.6	6.8	2.9	5.8
Central Government	-1.9	-1.4	2.8	1.7	-3.1	-1.2
National Insurance Board	--	--	--	4.1	5.0	6.0
Public enterprises	1.3	-0.2	1.8	1.0	1.0	1.0
Overall surplus or deficit (-)	-4.9	-44.6	-58.8	-54.1	7.0	-16.8
Change in payment arrears	--	--	--	11.7	-11.7	--
Overall deficit on cash basis	-4.9	-44.6	-58.8	-42.4	-4.7	-16.8
Financing	4.9	44.6	58.8	42.4	4.7	16.8
External (net)	4.5	41.6	24.2	38.8	8.3	-0.1
Domestic (net)	0.4	3.0	34.6	3.6	-7.1	-0.2
Financing gap	--	--	--	--	3.5	17.1
(As percent of GDP)						
Total revenue and grants	40.2	36.3	40.8	38.7	53.9	44.3
Of which: current revenue	25.4	23.3	25.6	27.7	26.0	24.6
Total expenditure	42.3	52.8	60.5	56.0	51.7	49.0
Current expenditure	25.7	23.9	24.1	25.5	25.1	23.0
Capital expenditure	16.6	28.9	36.4	30.5	26.6	26.0
Public sector saving	-0.3	-0.6	1.5	2.2	0.9	1.6
Overall surplus or deficit (-)	-2.1	-16.5	-19.8	-17.3	2.1	-4.6

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes operating surpluses of the National Insurance Board and of the public enterprises.

Table 3. Grenada: Summary Balance of Payments, 1980-85

	1980	1981	1982	1983	Projected 1984	1985
	(In millions of U.S. dollars)					
Goods, services, and transfers	-13.3	-23.4	-33.7	-29.0	-33.7	-40.4
Exports	17.4	19.0	18.6	18.9	17.4	20.9
Imports	-54.1	-60.7	-65.1	-64.6	-67.6	-77.4
Of which: airports	(-3.9)	(-6.4)	(-8.6)	(-8.5)	(-10.0)	(-12.0)
Services	13.8	7.9	1.8	5.9	4.8	4.1
Of which: tourism (net)	(14.4)	(11.2)	(10.9)	(11.6)	(11.1)	(12.8)
interest payments	(-0.4)	(-0.6)	(-0.9)	(-1.2)	(-2.8)	(-2.6)
Current transfers	9.6	10.4	11.0	10.8	11.7	12.0
Capital account	12.9	15.4	34.0	26.7	37.1	36.4
Official grants 1/	12.7	12.9	16.7	12.8	38.0	31.4
Public borrowings	1.3	7.5	9.5	14.7	5.0	2.6
Commercial banks	1.1	-0.8	9.4	-2.2	-5.9	--
Other	-2.2	-4.2	-1.6	1.4	--	2.4
SDR allocation	0.5	0.4	--	--	--	--
Overall balance	0.1	-7.6	0.3	-2.3	3.4	-4.0
Financing	-0.1	7.6	-0.3	2.3	-3.4	4.0
IMF	--	5.8	-0.9	1.2	-1.3	-2.5
ECCB	0.3	0.8	0.8	-0.5	--	0.4
Change in foreign assets	-0.4	1.0	-0.2	-0.1	-0.4	-0.2
Arrears	--	--	--	1.7	-1.7	--
Financing gap	--	--	--	--	--	6.3
	(In percent of GDP)					
Trade balance	-42.9	-41.7	-42.2	-39.4	-40.9	-41.7
Current balance	-15.5	-23.4	-30.6	25.0	-27.5	-29.8
Overall balance	0.1	-7.6	0.3	-2.0	2.8	2.9

Sources: Statistical Office; and Fund staff estimates.

1/ Includes grants from official donors to the private sector.

investment embodied in the existing tax structure. Thus, the thrust of the interim Government's policies has been to set the stage before the December 1984 elections for a private sector-led economic recovery.

The authorities view the role of the public sector as that of creating the conditions for private sector activity. Therefore, they have rationalized and reshaped the Public Sector Investment Program (PSIP) formulated by the previous administration with more emphasis on basic infrastructure. Although many of the individual projects have been retained, higher priority has been given to road construction, the rehabilitation and expansion of the electric power company, and the construction of much needed factory shells. The cornerstone of the PSIP, however, has continued to be the international airport, which the authorities believe is essential for the development of tourism and exports, as it will allow a more rapid access to international markets and help reduce transport costs. The revised PSIP calls for outlays of EC$96 million in 1985 compared with EC$89 million in 1984, but expenditure is expected to fall to about EC$60 million in 1986 following completion of the international airport.

During the 1981-83 period the previous Government had created 23 new public enterprises and expanded the scope of the existing ones. At the end of 1983, the nonfinancial public enterprises employed about 2,300 workers (representing slightly less than one third of total public sector employees) and accounted for 27 percent of public sector gross revenues. Following reviews by a special committee appointed to assess the financial and economic performance and viability of the state enterprises, and by the staff of the Fiscal Affairs Department of the Fund, the interim Government has come to the conclusion that it should divest itself of many of the enterprises and to offer private sector participation in most of the others, but it has not yet decided on the timing and scope of the divestiture process. The authorities noted that divestiture would facilitate the shift of public sector employees to the private sector, would result in the virtual elimination of central government transfers to the rest of the public sector, and would yield substantial net capital receipts.

State enterprises to be liquidated or sold to the private sector in whole or in part cover a wide range of activities including farming, fishing, banking, hotels, marketing and trading, processing of raw materials, and transportation. Even public utilities would be partially divested with the state keeping a controlling interest. Divestiture of the Grenada Farms Corporation would involve particularly complex problems. The corporation, which employs nearly 1,000 workers in 32 farms totalling almost 4,000 acres, has pending claims from previous owners against more than half of the estates. Therefore, procedures for divestiture must include arrangements for restitution or compensation, while avoiding excessive fragmentation of the holdings which could affect adversely agricultural production and employment. A decision on whether to divest the state-owned Grenada Beach Hotel, the largest hotel on the island, is still pending. However, the Government has indicated that, if not sold, management of the hotel would be contracted out to a professional operator.

In order to provide incentives for private sector investment, including to foreign entrepreneurs, the interim administration is considering a liberalization of the existing investment code and is drafting an investors' guide which would clearly indicate all laws and regulations that would apply to foreign investment and would detail the procedures to be followed by potential investors. The interim authorities also intend to take steps shortly to remove price controls from domestically produced goods, to liberalize import licensing requirements, and to eliminate the state monopoly on the import of cement, milk powder, rice, sugar, and some other items.

2. The public finances

In 1984 the overall balance of the consolidated public sector (on a commitment basis) is projected to improve sharply, from a deficit of 17 percent of GDP in 1983 to a surplus of 2 percent. This improvement, however, is based mainly on a major increase in total foreign grants, from 11 percent of GDP in 1983 to 28 percent in 1984. External grants for current budgetary operations and reduction of indebtedness to local commercial banks are expected to amount to 9 1/2 percent of GDP this year compared to 1 percent in 1983. To eliminate fiscal arrears carried over from 1983--as had been the intention of the authorities--would require an overall surplus of 3 percent of GDP. The authorities were confident that the required resources would be forthcoming from a combination of strict expenditure control and more buoyant revenue in the last quarter of 1984 than estimated by the staff. They are also determined to reduce public sector employment, but they were concerned about the potential social consequences of a retrenchment in public employment at a time when recovery in private sector activity was much slower than anticipated and unemployment was already at an unacceptably high level. In that connection they indicated that if the resources were not available to liquidate all overdue obligations by the end of the year, they would seek a delay or rescheduling of some foreign obligations.

The interim Government has felt that the existing tax system is incompatible with its development strategy, which aims at providing additional incentives for private sector growth. Therefore, the authorities requested assistance from consultants funded by the U.S. AID and from the staff of the Fiscal Affairs Department of the Fund to review the present tax structure and to formulate specific recommendations on fiscal reform. The broad conclusions of both reviews were that the present tax system was inelastic and contained disincentives for production. Accordingly, their recommendations were in the direction of lower tax rates, a broadening of the tax base, and the simplification of the structure of indirect taxation with a view to increasing revenue elasticity and reducing the disincentives and distortions inherent in the present tax system. Nevertheless, there was general agreement that if all the recommendations on fiscal reform were adopted simultaneously, there would very likely be a substantial loss of revenue in the short run. Although the authorities recognized that undertaking the fiscal reform was essential to revive private sector activity, they believed that in the absence of sufficient alternative budgetary resources, and in view of the downward rigidity in current outlays and the implications for recurrent costs of existing investment projects, the fiscal reform would need to be implemented in stages so as to minimize the adverse impact on the public finances.

Uncertainties concerning the course of policy that would be pursued by the Government to be elected on December 3, 1984, and the possible magnitude of foreign budgetary support make it difficult to assess the fiscal outlook for 1985. However, in the absence of both external current budget support and nonrecurrent net income from the divestiture of state enterprises, the staff estimated that an overall deficit of more than 4 1/2 percent of GDP could emerge in 1985, the financing of which is not assured as of now. For the purpose of this estimate it was assumed that (a) the fiscal reform would be implemented cautiously and that central government revenue would not fall below 23 percent of GDP (the ratio attained in 1981); and (b) that current expenditure could be held at approximately the same nominal level as in 1984, which should be possible given the substantial amount of nonrecurrent outlays embodied in the 1984 budget for the elections, the trial of former officials involved in the events of October 1983, and the reduction of overdue obligations.

The authorities noted that the adoption of specific measures to finance the fiscal deficit in 1985 would to a large extent depend on the government to be elected at the end of the year. However, they believed that the financing gap would be covered by a combination of foreign budgetary support and net revenues from the divestiture of state enterprises. The authorities did not believe it likely that expenditures for 1985 could be lower than those projected by the staff but emphasized that a judicious implementation of the tax reform would allow some room for maneuver, should there be a shortfall in financing.

3. Monetary developments and policies

The thrust of the monetary policy of the interim administration has hinged on (a) the rebuilding of commercial bank liquidity through a substantial central government repayment of its outstanding obligations with the domestic banks and (b) a two-stage liberalization of interest rate ceilings on loans.

The reduction in the central government debt to domestic commercial banks was facilitated by a U.S. AID grant of US$2.5 million early in the year specifically for this purpose. The infusion of these resources, combined with a stagnant private sector demand for credit and a marked recovery in private sector deposits in 1984, has permitted the commercial banks to improve significantly their net foreign asset position, from a negative EC$9.5 million at the end of 1983 to a positive EC$14.5 million at the end of June 1984.

To increase incentives to depositors and improve resource allocation, the interim Government decided to eliminate the limitation on interest rates established in the usury law. However, because of concern that derogation of the usury law might result in a sharp increase in lending rates, which could hamper economic recovery, the authorities opted for a two-stage approach. Thus, the ceiling on lending rates was increased from 12 1/2 percent to 16 percent in late August 1984, with a view to its full elimination toward the end of the year. The measure has been well received by the banking community which refrained from increasing significantly its lending rates after the ceiling was raised. As an additional incentive to depositors the authorities have decided to allow both residents and nonresidents to keep foreign currency accounts with the domestic commercial banks. It was expected that this measure would go into effect at the same time as the removal of the ceiling on lending rates.

The Government of Grenada owns two commercial banks. Under their divestiture policy, the authorities are giving serious consideration to reducing their participation in these banks through the sale of shares, although they expect to maintain a controlling interest in at least one of these banks.

4. External policies and issues

Grenada's external current balance has deteriorated in 1984 as earnings from banana and nutmeg have declined as a result of lower prices and volume exported. Revenues from tourism also have been sluggish during most of the year. Imports have been running slightly higher than in 1983, reflecting some restocking of inventories by merchants and some recovery in domestic expenditure. The current account deficit of the balance of payments is expected to reach 41 percent of GDP this year, up from 39 1/2 percent in 1983. This deficit has been more than financed by capital inflows, mainly in the form of grants. The overall balance of payments is expected to be in surplus in 1984, reflecting repayments to the Fund and the reduction of arrears incurred in 1983.

The outlook for 1985 is for a recovery in exports based on higher prices and a return to normal volumes of production for bananas and nutmeg, as well as increased exports of manufactured goods. Tourism is also expected to increase following the opening of the international airport in late 1984. Imports are expected to rise substantially, reflecting the step up in public sector investment and in private direct investment in response to the incentives discussed above. Under assumptions similar to those underlying the fiscal projection the staff estimated that additional foreign financing of about US$6 million would seem to be needed in 1985. However, as was noted earlier, the authorities were of the view that financing in the form of nonproject grants and direct investment would cover the projected gap.

Uncertainties concerning the possible response of foreign entrepreneurs to the incentives envisaged by the authorities and to the outcome of the December elections have made it difficult to assess the outlook beyond 1985. However, the outlook for exports of manufactured products to be produced in enclave-type zones appears to be relatively favorable. With respect to traditional products, cocoa exports are expected to continue to increase in value, reflecting both higher prices and increased output. The future of nutmeg and mace exports will depend on the success of a marketing campaign that has recently been initiated in the U.S. market. Prospects for banana exports continue to be relatively unfavorable, given the low yields and prices for the produce.

The Grenadian authorities believe that the new international airport will provide a strong impetus to the tourist industry. They are in the process of negotiating with airlines and hotel management operators ways to promote and support the development of the industry.

The authorities anticipate a substantial increase in direct foreign investment in 1985 and beyond in response to the generous incentives envisaged in the draft investment code. Moreover, before the December elections, they plan to eliminate the 25 percent withholding tax on profit remittances, remove the surrender requirements for export earnings, and allow unrestricted foreign exchange denominated accounts in domestic banks for both residents and nonresidents. The authorities also have given consideration to the removal (or at least a substantial reduction) in export duties which presently apply to the major agricultural exports, and the elimination of the 5 percent tax on the purchase of foreign exchange.1/ However, they believed that this should be done in the context of the fiscal reform that is intended. With respect to imports, the authorities have already eliminated licensing requirements, which had been applicable to all imports, except for 48 items which remain subject to licensing and account for a small percentage of the total value of imports.

External debt service remained relatively low through 1983, when total payments for interest and amortization (including overdue obligations) reached 6 1/2 percent of exports of goods and services and 8 1/2 percent of public sector current revenues. Because of scheduled repayments to the Fund, as well as payments on principal and interest on nonconcessionary debt contracted in 1981-83 (mainly for construction

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1/ The Fund has approved the multiple currency practice that arises from this tax on various occasions, most recently until December 31, 1984, or the completion of the 1984 Article IV consultation, whichever was earlier.

and equipment of the international airport), total debt service is expected to rise in 1985 to a peak of 19 percent of exports of goods and services and to 27 percent of public sector current revenues.

The exchange rate of Grenada's currency, the Eastern Caribbean dollar, can only be changed by unanimous agreement of the member states of the ECCB. The Eastern Caribbean dollar has been pegged to the U.S. dollar at EC$2.70 per U.S. dollar since July 1976. Though the index of the real effective exchange rate (weighted by Grenada's trade in goods and services, including tourism) has increased by 26 1/2 percent since 1980, the authorities are reluctant to support a modification of the exchange rate while the sweeping structural reforms outlined above are being undertaken. However, the authorities have agreed to cooperate with the ECCB in a study of the implications of the real appreciation of the Eastern Caribbean dollar for Grenada as well as for the other member states.

III. Staff Appraisal

After a period of years characterized by a growing role for the public sector, the authorities plan to make substantial structural changes that should have important implications for economic management. The interim administration has decided to dismantle the complex system of controls and regulations, to reduce significantly the relative size of the public sector, and to promote private sector activity. These objectives are being brought about through changes in fiscal, monetary, and external policies that involve greater reliance on markets to determine the allocation of resources.

Given the difficult fiscal outlook for 1985, the already high reliance on external resources to finance the budget, and the need to sustain public investment at historically high levels, there is a need to undertake adjustment and to increase the mobilization of domestic resources. In this context, and in view of the importance of improving the competitiveness of the economy, the staff would underscore the need for continued restraint in civil service wages. Expenditure restraint in general will be important in view of the expected increase in debt service and in the costs associated with the upkeep of the infrastructure put in place in recent years.

Based on the findings of the Fund's Fiscal Affairs Department mission that visited Grenada last April, as well as on studies conducted by other organizations, the authorities have decided to undertake a comprehensive fiscal reform with a view to reducing disincentives to producers, instilling greater elasticity to revenue collections, and broadening the tax base. However beneficial this reform may be in the longer term, there is a potential for revenue losses in the short term, particularly if the fiscal reform were to be implemented all at once. Grenada will be facing a substantial debt service burden in the next few years and, in the absence of significant nonproject assistance on concessionary terms, may continue to face sizable fiscal pressures. Therefore, in implementing the reform the authorities will need to proceed in a way that avoids a weakening of the fiscal position.

The staff believes that the recent initiative of the Government to raise the ceiling on lending rates should contribute to a better allocation of resources as well as provide stimulus to saving through the indirect effects on deposit rates. The staff would urge the authorities to proceed with the complete elimination of ceilings on interest rates. The staff also welcomes the decision of the Government to reduce import licensing requirements, and to eliminate the withholding tax on profit remittances and the surrender requirement on export earnings. These measures, together with the recent relaxation of price controls, and with more liberal guidelines planned for investors, should provide improved conditions for capital formation. Sustained expansion of the private sector will be essential to reduce unemployment and to facilitate the transfer of employees out of the public sector.

The growth in tourism and exports of manufactured goods expected by the authorities in the period ahead should contribute to a strengthening of the balance of payments of Grenada. However, the substantial increase in the index of the real effective exchange rate in the past three years points to the need to ascertain whether the present exchange rate of the Eastern Caribbean dollar is suitable from the standpoint of Grenada. Therefore, the staff welcomes the Government's support to the ECCB study that is in progress on the implications of the appreciation of the Eastern Caribbean dollar for Grenada and for the other ECCB member countries, and it hopes that early corrective steps will prove possible if they should be necessary.

In view of the Government's undertaking with regard to the fiscal reform, the staff supports Grenada's request for approval of the temporary retention by Grenada of the multiple currency practice resulting from the 5 percent tax on foreign exchange purchases until June 30, 1985, or the completion of the next Article IV consultation, whichever is earlier. It is recommended that the next consultation be held on the present 12-month cycle.

IV. Proposed Decision

1984 Consultation

The following draft decision is proposed for adoption by the Executive Board in concluding the 1984 consultation with Grenada:

1. The Fund takes this decision relating to Grenada's exchange measures subject to Article VIII, Section 3, and in concluding the 1984 Article XIV consultation with Grenada, in the light of the 1984 Article IV consultation with Grenada conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Grenada applies a tax of 5 percent on most purchases of foreign exchange, which gives rise to a multiple currency practice. In view of the circumstances of Grenada, the Fund approves the retention by Grenada of the multiple currency practice resulting from the tax on foreign exchange purchases until June 30, 1985, or the completion of the next Article IV consultation, whichever is earlier.

Grenada - Fund Relations
(As of September 30, 1984)

I. Membership Status

(a) Member since August 27, 1975
(b) Status - Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a)	Quota:	SDR 6 million
(b)	Total Fund holdings of Grenada currency:	SDR 10.86 million or 181.06 percent of quota
(c)	Use of Fund credit:	SDR 4.86 million or 81.04 percent of quota
	Of which:	SDR 2.68 million or 44.79 percent of quota under credit tranche
		SDR 1.13 million or 18.75 percent of quota under EFF: EAR
		SDR 1.23 million or 17.50 percent of quota under CFF
(d)	Reserve tranche position:	Nil

III. Current Stand-by or Extended Arrangement and Special Facilities

(a) Current stand-by or extended arrangement: None
(b) Previous extended arrangement:
  (i) Duration: August 1983 to January 1984 1/
  (ii) Amount: SDR 13.50 million
  (iii) Utilization: SDR 1.13 million
(c) Special facilities: CFF
  (i) Year approved: 1981
  (ii) Amount: SDR 1.40 million

IV. SDR Department

(a) Net cumulative allocation: SDR 0.93 million
(b) Holdings: SDR 8,741, or 0.94 percent of net cumulative allocation
(c) Current designation plan: Not applicable

V. Administered Accounts

(a) Trust Fund loans: Disbursed: SDR 1.96 million
Outstanding: SDR 1.73 million

VI. Overdue Obligations to the Fund: None

1/ Canceled prior to expiration date of August 23, 1986.

B. Nonfinancial Relations

VII. Exchange rate: Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar.

VIII. Last Article IV consultation: Concluded by the Executive Board on August 24, 1983.

IX. Technical Assistance: In February 1984 a Fiscal Affairs Department mission reviewed the performance of public enterprises, and another team from the same Department visited Grenada in April to draft a plan for tax reform and improvement in expenditure controls.

X. Resident Representative/Advisor: Mr. Andrew Gantt, the Fund's Regional Advisor, has been accredited to Grenada since January 1984.

Grenada--Basic Data

Area and population	
Area	133 sq. miles (344 sq. kilometers)
Population (mid-1983)	92 thousand
Annual rate of population increase (1977-82)	0.9 percent
Unemployment rate	27 percent
GDP (1983)	SDR 109.0 million
	US$115.9 million
	EC$312.9 million
GDP per capita (1983)	SDR 1,185

Origin of GDP	1981	1982	Prel. 1983	Proj. 1984
		(percent)		
Agriculture, fisheries, and forestry	21	19	21	21
Manufacturing	4	5	4	4
Construction	9	11	9	9
Utilities	2	1	1	2
Wholesale and retail trade	18	18	18	18
Transport and communications	9	9	9	9
Hotels and restaurants	4	4	4	4
Government and other services	33	33	34	33
Ratios to GDP				
Exports of goods and nonfactor services	39.6	34.7	33.6	32.4
Imports of goods and nonfactor services	73.7	75.1	67.8	67.5
Current account of the balance of payments	-23.4	-30.6	-25.0	-27.5
Central government revenue and grants	36.3	40.1	37.0	51.8
Central government expenditure	51.6	58.9	54.9	51.2
Central government current balance (before grants)	-0.6	0.9	0.6	-0.9
Central government current balance (after grants)	-0.2	1.8	1.6	8.3
Central government overall balance	-15.3	-18.8	-17.8	0.6
External public debt (end of year) 1/	26.2	30.6	41.7	42.5
Gross national savings	12.2	10.2	9.6	7.2
Gross domestic investment	35.6	40.8	34.6	35.0
Money and quasi-money (end of year)	54.1	51.5	48.6	48.9
Annual changes in selected economic indicators				
Real GDP per capita	1.0	3.8	-1.6	0.2
Real GDP	1.9	4.7	-1.6	1.0
GDP at current prices	16.2	10.2	5.2	5.8
Domestic expenditure (at current prices)	22.7	15.3	0.6	6.5
Investment	(71.7)	(26.5)	(-10.7)	(6.8)
Consumption	(11.2)	(11.3)	(5.2)	(6.4)
GDP deflator	14.0	5.2	7.0	4.8
Consumer prices (annual averages)	18.8	7.7	6.1	5.0
Central government revenues and grants	6.8	22.0	-2.8	47.8
Central government expenditures	43.4	25.9	-1.9	-1.5
Money and quasi-money	7.3	4.7	-0.5	6.2
Money	(1.1)	(-4.4)	(-0.8)	(1.7)
Quasi-money	(12.5)	(11.7)	(-0.3)	(10.2)
Net domestic bank credit 2/	2.7	27.3	-7.1	-5.5
Credit to public sector (net)	(3.6)	(28.3)	(4.2)	(-9.3)
Credit to private sector	(2.8)	(2.2)	(-0.6)	(3.3)
Merchandise exports (f.o.b., in U.S. dollars)	9.4	-2.4	1.9	-7.8
Merchandise imports (c.i.f., in U.S. dollars)	12.2	7.2	-0.8	4.6
Travel receipts (gross, in U.S. dollars)	-14.2	-6.0	2.8	-0.7

Central government finances	1981	1982	Prel. 1983	Proj. 1984
	(millions of Eastern Caribbean dollars)			
Revenues and grants	97.9	119.4	115.9	171.3
Total expenditure	139.2	175.2	171.8	169.3
Current account surplus or deficit (-)	-1.4	2.8	1.7	-3.1
Current account surplus or deficit (-) after current grants	-0.5	5.4	4.9	27.6
Overall surplus or deficit (-)	-41.3	-55.8	-55.9	2.0
External financing (net)	41.6	24.2	38.8	8.3
Domestic financing (net)	-0.3	31.6	17.1	-6.3
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	19.0	18.6	18.9	17.4
Merchandise imports (c.i.f.)	-60.7	-65.1	-64.6	-67.6
Travel (gross)	15.1	14.2	14.6	14.5
Other services and private transfers (net)	3.2	1.4	2.1	1.6
Balance on current and transfer accounts	-23.4	-33.7	-29.0	-33.7
Official capital (net)	20.4	26.2	27.5	43.0
Private capital (net) and errors and omissions	-5.0	7.8	-0.8	-5.9
IMF transactions 3/	0.4	--	--	--
Change in official net reserves (increase -)	7.6	-0.3	2.3	-3.4

1/ Includes IMF debt.

2/ Change in relation to liabilities to the private sector at the beginning of the year.

3/ Consists of SDR allocation and profit distribution from IMF gold sales, and gold restitution profits.

Grenada - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest Data in October 1984 IFS
Real Sector	- National Acounts	1982
	- Prices	n.a.
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1977
	- Financing	1977
	- Debt	n.a.
Monetary Accounts	- Central Bank	May 1984
	- Deposit Money Banks	June 1984
	- Other Financial Institutions	n.a.
External Sector	- Merchandise Trade: Values (imports)	April 1984
	(exports)	December 1983
	- Merchandise Trade: Prices	December 1983
	- Balance of Payments	1982
	- International Reserves	May 1982
	- Exchange Rates	August 1984

During the past year, the reporting of data for inclusion in the IFS has been infrequent.

2. Outstanding Statistical Issues

Prices

Data on a consumer price index are available but not published in IFS, as the details of the methodology used in its compilation have not been received in the Bureau of Statistics. A technical assistance mission in 1979 recommended that the authorities should consider compiling a new consumer price index.

Government Finance

No response to the government finance statistics questionnaire was received last year. The statistical tables in the 1983 GFS Yearbook relate to budgetary data for the years 1974-1977. These matters were discussed recently with the GFS correspondent, during her participation in an IMF Institute course, as a result a full response to the GFS questionnaire including data through 1982 is expected.

Monetary Accounts

Statistical issues in this field are dealt with by the Eastern Caribbean Central Bank (ECCB). A number of issues are being reviewed as a result of technical assistance missions to the ECCB. These include the apportioning of the capital of the ECCB to the individual territories, altering the definition of nonresidents to relate to each territory and refining the calculation of the data on currency outside banks, foreign assets, and foreign liabilities.

A technical assistance mission in February 1983 undertook a general review of money and banking data, and a short follow-up mission in February 1984 reviewed the implications of subsequent institutional changes, particularly the establishment of the Central Bank and the introduction of coded currency notes.

Balance of Payments

Balance of payments data for Grenada are reported to the Bureau of Statistics by the ECCB, but the latest data relate only to 1982. A technical assistance mission in March 1981 recommended improvements in the compilation procedures, but no response has been received to the mission's report.