INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved an extended arrangement for the Government of Grenada, authorizing purchases up to the equivalent of SDR 13.5 million over the next three years, in support of the Government's economic and financial program. Purchases under the arrangement, which is equivalent to 300 percent of Grenada's quota of SDR 4.5 million, will be financed in part from the Fund's ordinary resources (SDR 4.525 million) and in part from borrowed resources (SDR 8.975 million). Grenada's outstanding financial obligations to the Fund resulting from past operations and transactions, excluding Trust Fund loans, currently total the equivalent of SDR 4.3 million.

Grenada's recent economic performance has been adversely affected by the world recession. Nevertheless, real gross domestic product (GDP) grew by an average of 3 percent a year during the 1980-1982 period and the annual rate of inflation declined from an average of 20 percent in 1980-81 to 5.5 percent in the 12 months through April 1983. Despite a recent improvement in the public sector savings performance in 1982, the public sector deficit widened markedly as a result of the steep rise in investment spending. Partly mirroring the upsurge in public investment and associated imports, as well as a drop in export earnings, the deficit in the current account of the balance of payments also increased considerably in 1982.

The economic program, which the extended arrangement supports, aims at a reduction in the financial imbalances in the economy, a strengthening of the balance of payments position, a buildup of the country's net foreign assets, and the completion of the core investments necessary for generating sustainable growth. Public finances are a major focus of the program in order to secure a reduction in the overall deficit and a further improvement in the savings effort. By 1985/86, public sector savings are projected to double to about 6 percent of GDP and the overall public sector deficit, net of grants, is to be halved to 8.5 percent of GDP. The fiscal program involves an improved revenue effort and restraint in public sector wages and employment, as well as in other expenditure policies. Tighter fiscal management, together with a projected recovery in exports and tourism, is expected to lead to a reduction in the current account deficit, net of grants, to less than 9 percent of GDP by 1985/86, and to a stabilization of the debt service ratio.