

**REPORT TO CONGRESS ON  
THE INTERNATIONAL MONETARY FUND'S  
LOANS TO GRENADA, JAMAICA AND GREECE**



A Report to Congress

*consistent with*

Section 1501 of the  
Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010

United States Department of the Treasury  
August 2015

## ***Introduction***

This report provides an annual update assessing the likelihood that International Monetary Fund (IMF or Fund) loans, made to countries whose public debt exceeds gross domestic product and who are not eligible for assistance from the International Development Association, will be repaid in full. This report is required by section 1501 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010*.<sup>1</sup> Three countries — Grenada, Jamaica, and Greece — met the conditions of section 1501 and are covered in this report.

As directed by section 1501, and consistent with its longstanding practice with respect to all loans, the Office of the United States Executive Director (USED) at the International Monetary Fund (IMF), in close coordination with the Treasury Department, conducted a careful and thorough evaluation of the proposed programs for Grenada, Jamaica, and Greece when they were submitted to the IMF Executive Board.

## **Grenada**

Grenada is a small, tourism-driven economy sensitive to the U.S. and UK business cycles and to Caribbean weather patterns. Hurricane Ivan, which struck Grenada in 2004, decimated the island's infrastructure and its commercial agriculture. According to some measures, the damage caused to Grenada by the storm imposed some of the most substantial economic costs of any storm on a Caribbean island country in history. The damage created a need to finance reconstruction by taking on debt that has weighed on the country. Grenada first restructured its sovereign debt in 2005, issuing 20-year bonds to creditors, but without imposing any principal reduction and with gradually increasing coupon payments. In March 2013, the scheduled increase in coupon payments on the 2025 bonds led the newly elected government of Grenada to pursue a second, comprehensive debt restructuring.

The global financial crisis brought the recovery following Hurricane Ivan to a halt. With tourism down sharply, economic output contracted over 10 percent between 2008 and 2012, leading up to the 2013 debt restructuring. In 2013, the economy began to rebound, with real GDP expanding by 2.4 percent. Tourism and agriculture contributed to further strengthening in growth, to 3.0 percent in 2014.

Grenada's primary fiscal deficit decreased from 4.0 percent in 2013 to 1.2 percent in 2014, outperforming the IMF program targets. Tax revenues recovered to pre-crisis levels, in part due to stronger tax collection efforts, while expenditures were kept under control. The overall fiscal deficit fell to 4.9 percent of GDP in 2014, from 7.3 percent in 2013. The current account deficit shrank to 18 percent of GDP in 2014 from 23 percent in 2013. Grenada is a member of the Eastern Caribbean Currency Union (ECCU), which maintains a peg to the U.S. dollar. Deflation

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<sup>1</sup>P.L. 111-203; codified at 22 U.S.C. 286tt(b), section 68(b) of the Bretton Woods Agreements Act: "Within 30 days after the Board of Executive Directors of the Fund approves a proposal [to make a loan to a country whose public debt exceeds gross domestic product and is not eligible for assistance from the International Development Association] and annually thereafter by June 30, for the duration of any program approved under such proposals, the Secretary of the Treasury shall report in writing . . . assessing the likelihood that loans made pursuant to such proposals will be repaid in full . . . ."

in Grenada over the past two years has led to real exchange rate depreciation, boosting broad competitiveness, in particular tourism.

### ***Program Description***

On June 26, 2014, the IMF Executive Board approved a three-year \$21.7 million Extended Credit Facility (ECF) for Grenada. The main pillars of the program are: (i) to improve competitiveness and medium-term growth prospects; (ii) to restore fiscal and debt sustainability; and, (iii) to strengthen financial stability.

On June 29, 2015, the IMF Board completed its second review of the ECF and approved a \$2.8 million disbursement, bringing total funding disbursed to \$8.5 million. Grenada met all but one quantitative performance criteria required for its second review, with fiscal consolidation proceeding as programmed. (The only criterion that Grenada missed involved a minor technical issue regarding the timing of a non IMF loan and does not affect program performance.) The government out-performed both its primary balance and primary spending criteria in 2014. The authorities have started clearing expenditure arrears, have incurred no new external arrears aside from debt under restructuring, and have not contracted any new non-concessional loans.

The authorities have also pursued an ambitious structural reform agenda. Grenada approved a new Public Financial Management Act in line with international best practice, a new Investment Bill to make investment more simple and transparent, and a Customs Act to modernize customs administration. The government is also taking steps to reform the energy sector.

### ***Debt Status***

The IMF had projected that debt would equal 86 percent of GDP by 2020 in the absence of comprehensive restructuring. The authorities have cleared arrears to multilateral creditors, while the Paris Club has provided financing assurances for Grenada and has tentative plans to discuss its claim in September 2015. Grenada has also reached debt restructuring agreements with many of its creditors, as detailed below. As a result, the IMF expects public debt to decline from a peak of 108 percent of GDP in 2013 to 83 percent by the end of the program period (2017) and 68 percent in 2020, depending on the extent of further restructuring. Roughly two thirds of Grenada's public debt is held externally and is denominated in a foreign currency.

### ***Debt Management Strategy***

The government's primary objective is to achieve a 60 percent debt-to-GDP ratio by 2020. It has committed, through a fiscal responsibility law, to run substantial (3.5 percent of GDP) primary surpluses until public debt reaches 55 percent of GDP, and stabilize debt thereafter. The government's debt restructuring efforts will further support fiscal sustainability.

This past year, the authorities have made significant progress with debt restructuring. In April 2015, Grenada reached an agreement with its largest private creditors that included a 50 percent nominal principal reduction. The agreement is expected to reduce public debt by 13 percentage points of 2017 GDP. The government has also reached a restructuring agreement with the Export-Import Bank of Taiwan, which will reduce public sector debt by about another two percentage points of GDP. A state-owned enterprise has reached an agreement with its own

private creditors, which will reduce government guaranteed debt (included in public debt figures) by half a percentage point of GDP. The authorities are continuing negotiations with their remaining bilateral and commercial creditors, including the Paris Club.

### ***Vulnerabilities***

Grenada's primary external vulnerabilities are the exposure to downturns in advanced economies and potential natural disasters, which negatively affect tourism and foreign investment inflows. Additionally, the appreciation of the U.S. dollar could put pressure on Grenada's competitiveness.

Grenada's primary internal vulnerabilities are the exposure of its banking sector to potential cross-border contagion risks in the ECCU region. Thus far, these pressures have been contained by the regional authority's ability to provide full depositor and creditor protection. Domestic banks are not particularly at risk from the sovereign debt restructuring, since government debt held by banks represents a small fraction of total banking assets. The Grenadian government worked with the Eastern Caribbean Central Bank's (ECCB) regional financial supervisor and assessed that the banking system would remain adequately capitalized following a debt restructuring. Grenada also faces the risk of stronger than expected growth effects of fiscal consolidation.

Possible tailwinds include: (i) potentially higher investment and growth from initiatives to promote foreign investment; (ii) spillovers from significant new investment into St. George's University; and, (iii) a pickup in confidence from improved economic policies.

### ***Overall Assessment***

Grenada is heavily indebted and vulnerable. However, its IMF-supported program, combined with debt restructuring, provides the best opportunity for the country to return to a sustainable debt path and mitigate its vulnerabilities. Given the demonstrated commitment of the Grenadian government to implement the policy measures specified by the IMF program; significant progress on debt restructuring; and, the IMF's preferred creditor status, the Treasury Department assesses that the IMF's loan to Grenada is likely to be repaid in full.

### **Jamaica**

On May 1, 2013, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) in the amount of \$926 million for Jamaica. The main pillars of the program are: (i) structural reforms to boost growth; (ii) actions to improve price and non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt management operations that place public debt on a sustainable path, while protecting financial system stability; and, (v) improved social protection programs to help the most vulnerable.

The eighth review of the IMF program was approved by the IMF Board on June 16, 2015. A disbursement of nearly \$40 million was approved, bringing total funding under the program to approximately \$250 million. Jamaica has consistently maintained a large primary surplus of 7.5 percent of GDP over the lifetime of the EFF, demonstrating commendable fiscal discipline by

the government. This benchmark was narrowly missed in the most recent quarterly review, by just 0.2 percent of GDP, in part because growth and inflation both fell more than expected during the review period. However, all other criteria, including overall public debt and social spending, were achieved.

In 2012, Jamaica experienced a widening of its current account deficit to nearly 15 percent of GDP and a significant loss of foreign exchange reserves, due in part to an inflexible exchange rate regime and unsustainable fiscal expansion. Since its IMF program was approved in mid-2013, the exchange rate has substantially adjusted toward its equilibrium level under a more flexible regime, the fiscal situation has stabilized, and Jamaica has begun to rebuild reserve buffers. Economic performance for Jamaica's fiscal year 2015 (ended March 2015) was broadly in line with the program framework, though GDP growth was weaker than expected at 0.2 percent. Inflation fell to 4.0 percent year-over-year in March 2015, from a recent high of 9.8 percent in August 2014. Lower oil prices have helped narrow the current account deficit to 6.0 percent of GDP for fiscal year 2015, from 8.0 percent in fiscal year 2014.

During its 2015 fiscal year, Jamaica's structural reform agenda focused on improving tax and customs administration, public financial management, the framework for monetary policy, and implementing financial reforms. Jamaica completed an entity-by-entity review of all firms grandfathered into 2013 tax incentive legislation. The Large Taxpayer Office hired significantly more auditors and increased audits by 100 percent. The government has also tabled legislation to amend the property tax law and introduce a Minimum Business Tax, and its electricity sector reform is expected to become effective this month. On the monetary side, the authorities have refined their operational practices. Exchange rate flexibility has improved and, after two years of exchange rate and current account adjustment, IMF models do not show evidence of misalignment of the currency. Lastly, the Banking Services Act was adopted in June 2014, and implementing regulations are expected to be promulgated in fall 2015.

### ***Debt Status***

Debt-to-GDP had fallen to 137 percent at end-March 2015 from 142 percent in March 2014. Jamaica's high primary government surplus is expected to further reduce its debt-to-GDP ratio. Additionally, as growth-enhancing reforms take hold, improvement in public revenue and GDP growth should directly help to ease the debt burden. Jamaica's fiscal rule places a floor of the overall fiscal balance with the goal of reducing debt-to-GDP to 96 percent by 2020 and 60 percent by 2026. Moreover, the rule requires escalating expenditure cuts if the cumulative deviations from annual fiscal balance targets threshold exceed 1.5 percent and 3.5 percent of GDP. The rule will be phased in after the conclusion of the EFF so that program targets do not overlap. In February 2013, Jamaica's government conducted a domestic debt exchange, which is projected to result in savings of 8.6 percent of GDP by 2020. The exchange involved both lower coupon rates as well as a maturity extension of 3-5 years for domestic instruments, though did not incorporate haircuts to the principal.

### ***Debt Management Strategy***

The government's primary objective is to place Jamaica's public debt on a downward trajectory. In order to meet this objective, the government is committed to running large primary surpluses that reduce the need for additional debt and allow for a reduction in outstanding debt. Jamaica is

on track, with a primary surplus of 7.5 percent of GDP for fiscal year 2015 and at least 7.0 percent targeted through fiscal year 2021. The government has implemented a number of structural and competitiveness reforms, as well as a tax reform that includes broadening the tax base. The IMF baseline analysis projects a continued decline in debt. However, the IMF notes that this baseline assumption is sensitive to lower-than-expected growth, contingent liability shocks emerging from the financial sector, and higher-than-expected external financing needs in case of an external shock.

### ***Vulnerabilities***

Jamaica's tourism sector is dependent on economic conditions in the United States, Canada, and the United Kingdom. The economy is also highly vulnerable to commodity price shocks and natural disasters. Additionally, the possibility of higher U.S. interest rates and the appreciation of the U.S. dollar could put pressure on Jamaica's international reserves.

Jamaica's primary internal vulnerability is the large exposure of its banks and securities dealers to government debt. The Financial Sector Support Fund, established with financing from the IMF under its previous arrangement and bolstered under this one, will provide a liquidity backstop to financial institutions, if required, to help address vulnerabilities arising in the financial sector due to the debt exchange. Securities dealers are also changing the structure of their repurchase transactions as part of the government's implementation of bank reform, which should enhance financial stability. However, persistent slow growth could erode public support for the IMF program and continued tight fiscal policy.

### ***Overall Assessment***

Jamaica is heavily indebted and vulnerable. However, its IMF-supported program, combined with its progress on debt restructuring, provides the best opportunity for the country to return to a sustainable debt path and mitigate its vulnerabilities. Performance under the IMF program has been very strong. Almost all performance targets have been met, and all reviews and additional disbursements have been approved by the IMF Board. In addition, Jamaica completed a debt restructuring in 2013. Based on these factors and the IMF's preferred creditor status, the Treasury Department assesses that the IMF's loan to Jamaica is likely to be repaid in full.

### **Greece**

On March 15, 2012, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) for Greece, with the potential for about \$36 billion in funding. The fifth review of Greece's progress under the program was concluded on May 30, 2014, and the total amount disbursed under the IMF program is approximately \$15.4 billion. The IMF program is slated to expire in March 2016. However, the program has been on hold pending negotiations between the IMF, Europe, and the current Greek government, which came into power in January 2015 after campaigning against the previous government's policies.

In late June, Greece entered into arrears with the IMF when it missed payments to the IMF totaling about \$2.2 billion. On July 12, Greek and euro area leaders reached an agreement on a path forward for a new assistance program with the European Stability Mechanism (ESM) that is

conditional on Greece implementing additional fiscal measures and structural reforms in exchange for an estimated €82-86 billion in financial support. The Greek authorities have since passed a number of reforms required by the July 12 agreement, enabling commencement of negotiations on a three-year financing program. Greece's European partners agreed to provide bridge financing from the European Financial Stabilization Mechanism to help Greece meet its immediate financing needs while the new ESM program is negotiated. As soon as the bridge funds were available, on July 20, Greece repaid the IMF and cleared its arrears in full, underscoring the IMF's preferred creditor status and the priority placed on the relationship with the Fund.

### ***Debt Status***

Greece's gross public debt is estimated to have been 177 percent of GDP in 2014, up slightly from 175 percent in 2013. Greece's debt burden is expected to increase in 2015 due to the recent deterioration of the economy, which has been adversely impacted by the closure of banks and the imposition of capital controls. In a short update to the debt sustainability analysis published in mid-July, the IMF projected debt to peak at close to 200 percent of GDP in the next two years. The IMF's debt sustainability analysis indicates that Greece will need debt relief on its European debt. The Eurogroup has reiterated that it stands ready to consider possible additional measures aiming at ensuring that gross financing needs remain at a sustainable level, in the context of a new economic reform program. The July 12 agreement between Greece and euro area leaders ruled out a nominal haircut, but included a commitment on the part of European leaders to consider other options to reduce Greece's debt burden, such as longer grace periods and maturity extensions.

### ***Vulnerabilities***

The European authorities are seeking to reach a new financing program under the ESM in the coming weeks, which will likely require Greece to undertake additional tax, pension, labor, financial sector, and structural reforms. The reforms could face significant political hurdles to implementation. For the past several months, Greece has faced an acute short-term liquidity shortage, which necessitated a bank holiday and the imposition of capital controls in July, leading to further stress on the financial system.

Greece faces a number of challenges that hinder its ability to strengthen economic growth and improve public finances. The key variables that will influence Greece's public debt trajectory are the rate of growth, the fiscal balance, and the nature of its financing. Greece's banks continue to hold a substantial amount of non-performing loans, and stronger efforts from the authorities are needed to improve the insolvency framework, facilitate debt resolution, and restore bank balance sheets to health, so that the banking system can contribute to growth going forward. The long-term growth trajectory will also depend on the ability to implement structural reforms that improve Greece's competitiveness and productivity.

### ***Overall Assessment***

Greece is heavily indebted and vulnerable, and the situation in Greece has deteriorated since the last program review in May of 2014. Since an initial agreement with European partners in mid-July 2015, Greece has adopted substantive reform measures, obtained bridge funding from

Europe, and commenced negotiations with its creditors on a new three-year ESM financing program. The agreement also recognized that there are serious concerns regarding the sustainability of Greek debt and articulated a commitment on the part of European authorities to consider additional measures aimed at bringing Greece's debt to a sustainable level. The Treasury Department will continue to encourage all parties involved to press forward with negotiations on this program, with the goal of putting Greece on a path toward economic growth within the euro area on the basis of needed economic reforms and requisite financing that achieves debt sustainability. Such a solution is in the best interests of all parties and the global economy.

The Treasury Department continues to assess that the IMF's loan to Greece will be repaid in full. Treasury is monitoring developments closely and will update Congress as the situation evolves.