GRENADA

ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

Overview

A recovery is underway in Grenada, but output remains below a full recovery from the pandemic. Economic activity accelerated in 2022, building on the progress made a year earlier, although output in key sectors including tourism remains below pre-pandemic levels. Fiscal measures helped to anchor the recovery and supported households amid rising food and fuel prices. Although public expenditures grew, spending was outpaced by revenues collected and fiscal balances improved. Consequently, the public debt-to-gross domestic product (GDP) ratio trended downward. Bank capitalisation positions remained strong, above the required prudential ratios. The external current account deficit worsened as export growth slowed and imports surged.

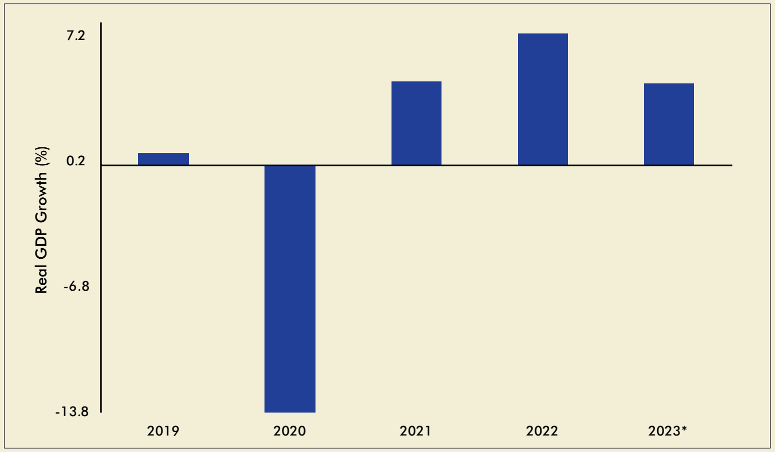
The 2023 outlook remains cautiously positive driven mainly by public sector construction activity and strong tourism inflows. Risks to the outlook are associated with further upward pressures on prices linked to the impact of the Russia/Ukraine war, a global economic slowdown, and vulnerability to climate-related shocks.

KEY DEVELOPMENTS IN 2022

Real GDP grew by 7.4%, as the recovery accelerated (see Chart 1). The economic recovery was driven by increased activities in the tourism, construction, manufacturing, and wholesale and retail sectors, with positive knock-on effects on other ancillary sectors. The uptick in activity was underpinned by continued fiscal policy support under the Government of Grenada's (GOGR) COVID-19 Economic Stimulus programme which started in 2020.

Tourism activities trended upwards, as COVID-19 travel restrictions and quarantine protocols were all removed in April. Stayover arrivals rose to 133,115 visitors – 71.0% of the 2019 level – compared with 42,099 in 2021. As such, value added in the hotel and tourism sector increased by 66.6%. The higher number of visitor arrivals reflected relaxed border controls and safety protocols, a return of summer festivals, additional airlift from main source markets including the United States of America (USA), and the recommencement of cruise arrivals. However, length of stay, which significantly influence tourists' expenditure, fell from an average of 10 days in 2021 to 7 days.

Chart 1: Real Gross Domestic Product Growth



Sources: *GOGR, Eastern Caribbean Central Bank; *Caribbean Development Bank (CDB) estimate.*

The construction sector remained strong, with both public and private sector activity driving growth. Value added in the sector grew by 31.4%. Public sector infrastructure capital investments continued apace with works on roads, the general hospital, schools, and the airport enhancement project. Private sector construction also increased related, in part, to Grenada's Citizenship-by-Investment (CBI) programme, which requires approved applicants to invest in the economy through one of two pathways – real estate investments or a one-time contribution to a National Transformation Fund (NTF). The strong activity in construction, as well as tourism recovery, supported a 9.4% rebound in the manufacturing sector, notwithstanding continued challenges related to logistics, supply shortages, and rising inflation.

Private education[1] **weakened despite the return of students to the St. George's University campus, a medical school and international university in Grenada**. A decline in enrollment was recorded in 2022. This development aligns with an emerging trend of fewer students enrolling in undergraduate programmes in the USA since the pandemic[2]. Notwithstanding, the return to campus supported growth in wholesale and retail, transportation, property rentals, and other services.

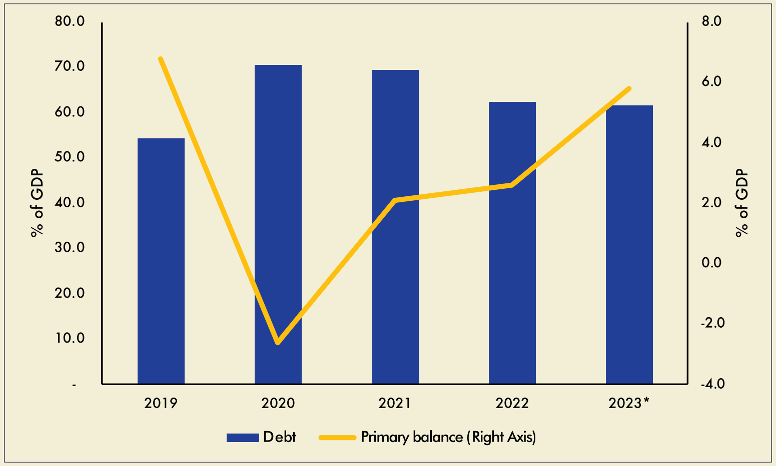
Real value added in agriculture fell by 24.4%. The decline in agriculture was predominantly linked to lower production of other crops, including bananas and vegetables, in part, due to adverse weather events.

Inflation accelerated. Measured by the Consumer Price Index, average inflation rose by 2.5%, reflecting increases in international oil prices and supply constraints that contributed to higher prices for food, transportation, housing, utilities, and gas and fuels. Policy support tempered the increase in prices particularly for food and fuel. Measures included: (a) zero-rated Value-added Tax (VAT) on select food items; (b) removal of VAT and the Environmental Levy on electricity for domestic consumers of 500 kilowatt hours (KWh) or less; (c) 25% reduction of non-fuel charge per KWh for all categories of electricity consumers; (d) EC$15 cap on price of gasoline and diesel; (e) zero petrol tax and new price cap depending on price of fuel; and (f) cap on freight charges at the port to 2019 levels.

Fiscal balances improved even as fiscal rules remained suspended for the third consecutive year. Although the authorities extended its economic stimulus programme into 2022, revenue collection outpaced higher spending generating fiscal surpluses; a primary surplus of 2.6% of GDP and an overall surplus of 0.9% of GDP (see Chart 3). Total revenues[3] rose by 13.8% to EC$1,088.7 million (mn) reflecting higher grant receipts, including from the CBI programme and higher inflows from most tax types. CBI receipts[4] from NTF used for capital spending was EC$116.4 mn for the year. Total expenditures rose by 11.7% reflecting a large EC$75 mn payment (2.7% of GDP) towards settling outstanding pensions owed, and salary increases and reimbursements.

Central government debt, as a percentage of GDP, trended downwards. Based on higher nominal GDP and fiscal surplus outturns, the debt ratio fell slightly to 62.4% from 69.4% in 2021 (see Chart 3). Debt service payments of 11.1% of GDP were recorded.

Chart 3: Fiscal and Debt Performance



Sources: *GOGR. *CDB estimate.*

The Financial system remained stable with liquidity and capital adequacy positions remaining above

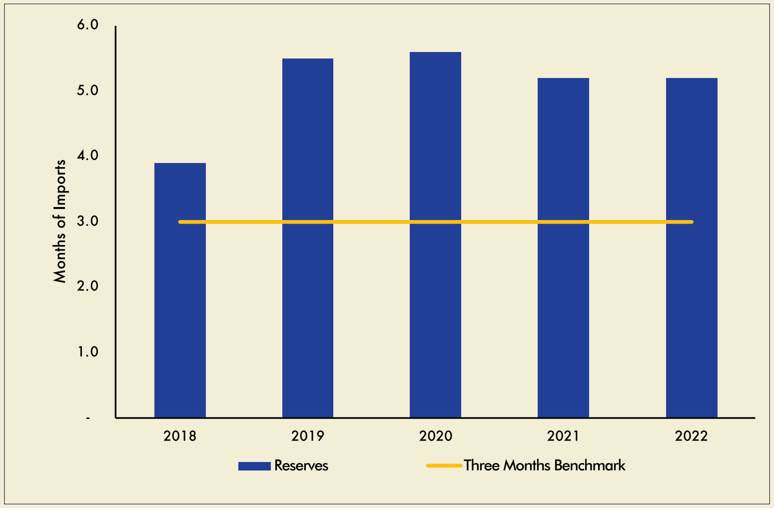
[1] This sector contributed approximately 20% to GDP in 2021.
[2] National Student Clearinghouse Research Center.

[3] Includes grants.
[4] CBI total receipts were EC$354.5 mn in 2022, inclusive of approved projects and NTF contributions.

regulatory benchmarks, providing adequate buffers in the banking system. The liquid assets to total assets ratio rose to 49.1%, but the capital adequacy ratio declined to 12.7% compared with 15.8% at one year earlier. The level of non-performing loans inched up to 3.6% but remained under the 5% benchmark. Private sector credit grew by 2.1% for the year despite the weighted average lending rate rising by 69 basis points to 6.89%. Net loans extended to accommodation and food service activities, construction and land development, and real estate activities increased while credit to households fell by 20%.

The external current account deteriorated, and international reserves remained above the prudential benchmark (see Chart 4). There was a significant expansion of the current account deficit to 17.3% of GDP, from 13.2 % of GDP in 2021 . This was driven by an increase in imports, higher international prices, which was not fully offset by the inflows from services, particularly receipts from travel and tourism.

Chart 4: Imputed Foreign Reserves



Sources: *International Monetary Fund (IMF), Eastern Caribbean Central Bank, GOGR.*

2023 OUTLOOK

The economic outlook for 2023 is cautiously optimistic. Economic growth is expected to remain buoyant driven mainly by public sector construction activity and strong tourism inflows, before returning to potential output level over the medium term. Tourism activity will remain susceptible to a global slowdown and continued increases in prices, particularly around airfares to the destination. Inter-regional travel will continue to be challenged by connectivity issues.

GOGR has committed to reinstating the fiscal rules in 2023. A primary surplus target of 3.5% of GDP is programmed and is expected to be supported by higher CBI earnings and continued economic growth. With this, it is expected that public debt should converge to 60% of GDP limit ahead of the revised target date of 2035. From 2023, the authorities intend to earmark 10% of CBI collections to be set aside for disaster risk preparation and mitigation financing.

Downside risks are elevated, with increasing geo-political tensions, the imminent threat of stagflation in the global economy, and mounting international pressures on citizenship schemes. Increasing threats to the CBI programme are emanating from legislative and other developments in USA and European Union that could impact visitor access to these countries and, therefore, undermine citizenship schemes. The lingering impacts of the cascading shocks in recent years and the extent to which GOGR can continue to provide support to the most vulnerable will be challenging. Sustaining concessional financing support from the development community will become necessary if these challenges persist in the medium term. The risk of extreme weather events remains an imminent threat to the outlook and can pose significant challenges to the development outcomes in Grenada.

Data

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2023 data are estimates and subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	0.7	-13.8	4.7	7.4	4.6
Average Inflation (%)	0.6	-0.7	1.2	2.5	3.5
Unemployment (%)	15.1	28.4*	16.6*	n.a.	n.a.
Primary Balance (% of GDP)	6.8	-2.6	2.1	2.6	5.8
Public Sector Debt (% of GDP)[5]	54.4	70.6	69.4	62.4	61.6

Sources: *IMF, GOGR, CDB.*

*Notes: e-estimate (as of June 2023); *for second quarter (Q2) 2020 and 2021. No labor force survey has been undertaken since Q2, 2021.*

[5] CG debt as a percentage of GDP.