



# GRENADA

## COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC\$); United States dollar (US\$). **US\$1 = EC\$2.70**

### OVERVIEW

**The COVID-19 pandemic threatens the economic expansion and changed the outlook for Grenada.** Economic output collapsed by 11.2% in 2020 after seven consecutive years of growth. Measures taken to restrict the spread of COVID-19 contributed to this decline. Unemployment rose but average inflation remained subdued.

**Fiscal balances turned negative and debt levels increased as revenues dropped, and public expenditures rose to help mitigate the economic and social fallout of the pandemic.** The banking sector remained well capitalised even as the crisis placed banking systems under stress. The external current account deficit deteriorated, as export income shrank and imports fell. The medium-term outlook is cautiously optimistic amidst heightened downside risks.

### KEY DEVELOPMENTS IN 2020

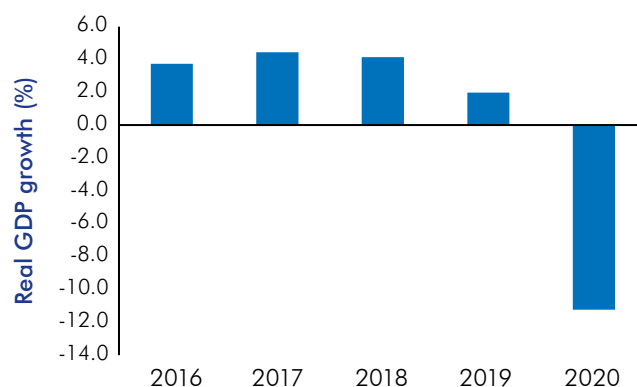
**Gross domestic product (GDP) contracted by 11.2% in 2020 due to the impacts of the Covid-19 pandemic** (see Chart 1). Contractions were recorded in all major sectors, including tourism, manufacturing, transportation, construction, agriculture, and wholesale and retail. Steps taken by the Government in March to contain the outbreak helped restrict the infection rate to 157 cases and ease the strain on the health systems. However, island-wide lockdown, border closures, and curfews resulted in dwindling economic activity and a severe economic fallout.

**Tourism (which accounts for about 40.5% of GDP) came to a halt in March.** Value added in the hotel and tourism sector is estimated to have

contracted by 66.4% in 2020. Border closures resulted in a precipitous drop in stay-over and cruise arrivals by 73.1% and 51.9%, respectively. This dampened activities in hotels, restaurants and other tourist-related facilities, some of which temporarily closed. Despite the reopening of borders in October, stay-over arrivals remained below pre-pandemic levels as the fear of contagion among the global populace continued to weigh heavily on tourism activity.

**The construction sector contracted due, in part, to the lockdown and strict social distancing measures.** Value added in the construction sector is estimated to have shrunk by 13.5% in 2020, reversing an annual average growth of 5.3% over the last 10 years. This is notwithstanding continuing work on key private sector projects such as the Levera Resort, the Grenada Resort in Mt. Hartman, and public sector works.

**Chart 1: Real gross domestic product growth**



**Sources:** Government of Grenada, Eastern Caribbean Central Bank (ECCB); Caribbean Development Bank (CDB) estimates.

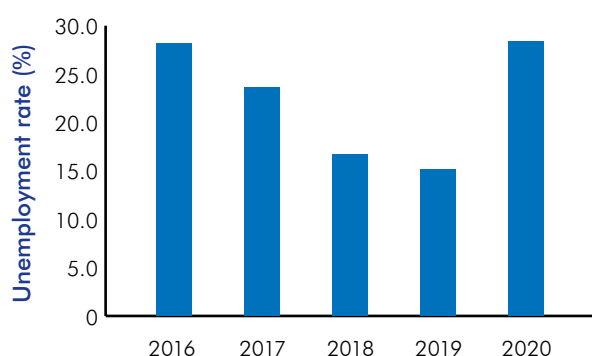
**Private education (about 20% of GDP) declined following the closure of St. George's University (SGU) in March.** The students' departure further compressed consumer

demand and put added pressure on businesses servicing the SGU market, including wholesale and retail, transportation, real estate rental, and other services, some of which were already being impacted by restricted operating hours and lower demand.

**COVID-19 also affected production in manufacturing and agriculture.** Manufacturing production was halted while output in agriculture was impacted by lower demand, logistical challenges due to curfews and border closures, as well as price fluctuations. Value added in manufacturing and agriculture declined by 20.0% and 11.2%, respectively. Production of bakery products, animal feed, beverages and tobacco, and chemicals and paints contracted in 2020. Meanwhile lower output from major crops, including bananas, mace, and cocoa, were recorded but production of nutmeg was higher in 2020.

**Inflation remained subdued while unemployment rose sharply.** Based on the Consumer Price Index, average inflation was -0.7%, reflecting decreases in international oil prices that contributed to lower prices for transportation, housing, utilities, and gas and fuels. Unemployment rose sharply to 28.4% in June (see Chart 2). Approximately 14,000 jobs were estimated to have been lost during the first half of 2020 because of COVID-19 containment policies on business activity and labour markets.

**Chart 2: Unemployment**



**Sources:** Government of Grenada: \*as of fourth quarter of 2019; \*\*as of second quarter of 2020.

A total of 3,303 persons (1,805 women and 1,498 men) received unemployment benefits through a temporary unemployment programme initiated by the Government through the National Insurance Scheme. The Government also facilitated the creation of temporary jobs.

**Fiscal deficits were recorded in 2020.** A primary deficit (after grants) of 2.5% of GDP was registered, the first deficit since 2015, as well as an overall deficit (after grants) of 4.4% of GDP (see Chart 3). This turnaround comes after a strengthening that had generated surpluses, expanded fiscal space, and lowered public debt in the years prior to the pandemic.

**The weakened fiscal position reflects lower revenue collections and higher expenditures.** Total revenue and grants fell to EC\$792.7 million (mn) from EC\$871.4 mn in 2019. Concurrently, total expenditures rose by 29.8% due to higher COVID-19-related spending, specifically for upgrading and expanding health services, and extending social assistance to cushion the economic blow to the vulnerable and adversely affected sectors. Transfers rose by 13.6% as part of the Government's temporary COVID-19 stimulus package<sup>1</sup>.

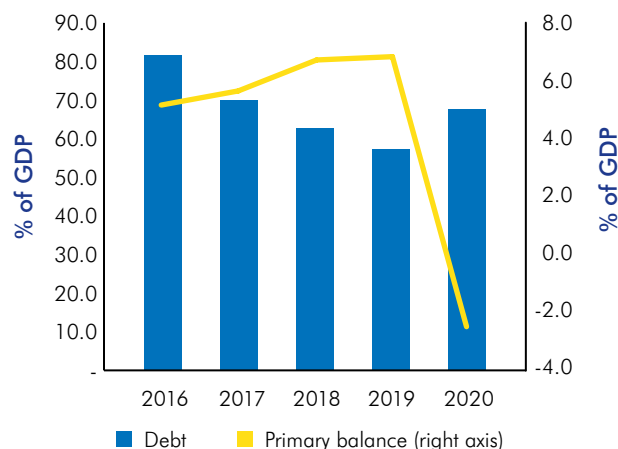
**The downward trend in public debt was reversed in 2020.** Public debt rose sharply to 67.6% of GDP, from 57.7% of GDP in 2019. Debt service payments fell by 2.9% (to EC\$272.6 mn) attributed, in part, to the temporary suspension of debt service payments to three bilateral creditors participating under the COVID-19 Debt Service Suspension Initiative (DSSI)<sup>2</sup>, initiated by the World Bank and the International Monetary Fund (IMF) to help countries concentrate their resources on the

<sup>1</sup> The COVID-19 economic stimulus package included income and payroll support; contributions to the Grenada Development Bank for hotel and small business support; an electricity subsidy; agriculture support; and health-related spending.

<sup>2</sup> DSSI resulted in a suspension of a total of \$10.8 mn in interest and principal repayments for the period May to December 2020.

pandemic. Separately, CDB<sup>3</sup> provided debt servicing support. Interest payments dropped by 7.8% to an estimated EC\$55.9 mn. The Government also turned to multilateral agencies for financial and policy support.

**Chart 3: Fiscal and debt performance**



Source: Government of Grenada.

**There was an uptick in private sector credit while financial soundness indicators in the banking sector held strong.** Net domestic assets of the banking system fell by 9.5% at the end of December 2020. Total loans and advances grew by 3.7% to \$1,774.7 mn at the end of 2020. With the large shock to incomes from the halt to the economy, banks played a key role in helping to absorb the shock by supplying much needed cash flows. Domestic credit fell by 2.1% at the end of the year, reflecting lower private sector credit (3.0%) and the general pace of economic activity in 2020. Market pressures and the impact of COVID-19 continued to force lending rates down, narrowing the spread between lending and deposit rates.

**Liquidity and capital positions remained above regulatory benchmarks, with adequate buffers in the banking system.** The liquid assets to total assets ratio increased to

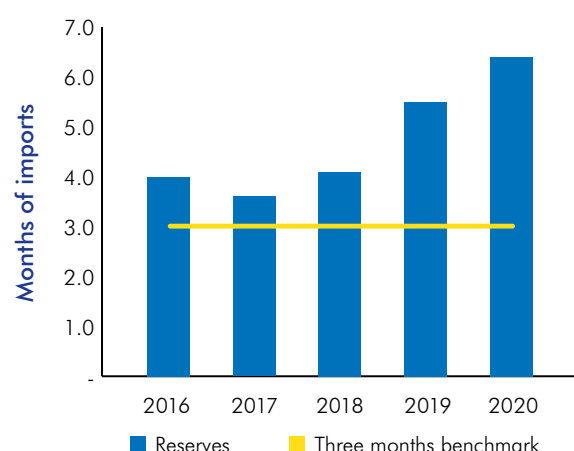
46.8%, while the capital adequacy ratio rose to 15.1% from 11.8% in 2019. The level of non-performing loans (NPLs) inched up to 2.24% from 2.20% one year earlier, remaining under the 5% benchmark, and lower than that of the rest of the Eastern Caribbean Currency Union. However, the performance of NPLs has been influenced, in part, by prudential measures aimed at providing borrower relief and easing the impact of the crisis in the short term. The ECCB and the Bankers' Association initiated a loan repayment moratoria for distressed borrowers for a six-month period that commenced in March. The subsequent extension of this period to September 2021, illustrates the extent of the economic dislocation being experienced.

**Within a challenging business environment, banks faced setbacks to earnings.** There have been adverse impacts to several revenue-generating flows in the banking system, along with increases in the level of provisions for credit losses (an expense) to cater for potential debt default. Hardship relief programmes and waivers on fees and commissions would have eroded earnings, accounting, in part, for the decline in the return on average assets and equity, which fell from 1.38% and 22% in 2019 to 0.4% and 4.8%, respectively.

**The external current account deteriorated, but international reserves remain above the prudential benchmark** (see Chart 4). For 2020, preliminary trade data reflected a smaller trade deficit. Total imports and exports fell by 18.4% and 29.8%, respectively, over the 12-month period. COVID-19 restrictions contributed to lower imports of food and live animals, mineral fuels and related materials, and machinery and transport equipment. Lower exports of agricultural and manufactured products contributed to the decline in export receipts. This was compounded by the drop in travel receipts. International imputed reserves remained adequate at approximately 6.4 months at the end 2020.

<sup>3</sup> CDB approved US\$15.7 mn in concessional resources to help the country meet its Ordinary Capital Resource payments over the period April 2020-March 2021.

**Chart 4: Imputed foreign reserves**



Sources: IMF, Government of Grenada.

## OUTLOOK

**The medium-term outlook for the country is cautiously optimistic.** For 2021, growth of 2.8% is projected, predicated on an improved COVID-19 situation and the roll-out of public vaccination. Construction is expected to drive economic recovery as public sector infrastructure gains momentum. Tourism activity is expected to remain tepid, with downside impacts on related services and activities which cater primarily to this sector. A gradual return to

pre-COVID-19 levels is expected in the tourism sector but is also dependent on airlift and international travel requirements. With the expected reopening of SGU in August 2021 for on-site learning, the students return should bolster activity.

**A fiscal deficit is anticipated in 2021 and debt levels will remain elevated over the short-to-medium term.** Decisive fiscal measures will be necessary to return to a primary surplus target of 3.5% of GDP by 2022, as required by Grenada's Fiscal Responsibility Act (FRA). The Escape Clause in FRA permits the suspension of prior targets for a maximum of one year in the event of a crisis. With economic recovery, public debt should converge with the 60% benchmark well ahead of the revised target date of 2035.

**Downside risks are elevated in 2021.** Public access to vaccination to further control the spread of the virus will determine the extent and speed with which Grenada can return to normalcy. The risk of extreme weather events and a slow global economic recovery also pose significant threats to the outlook.

## 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 2020 data are estimates and subject to revision.

### Selected indicators

	2016	2017	2018	2019	2020 <sup>e</sup>
Real GDP growth (%)	3.7	4.4	4.1	2.0	-11.2
Average inflation (%)	1.7	1.7	0.8	1.0	-0.7
Unemployment (%)	28.2	23.6	16.7	15.1	28.4*
Primary balance (% of GDP)	5.4	5.7	6.6	6.7	-2.5
Public sector debt (% of GDP)	81.6	70.0	62.7	57.7	67.6

Sources: IMF, Government of Grenada, CDB.

Note: e – estimate (as at April 15, 2021); \*for second quarter 2020.

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