# GRENADA

# 2019 ECONOMIC REVIEW
# &
# MEDIUM-TERM OUTLOOK

Prepared by the Ministry of Finance, Planning, Economic Development and Physical development
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# 1 Overview

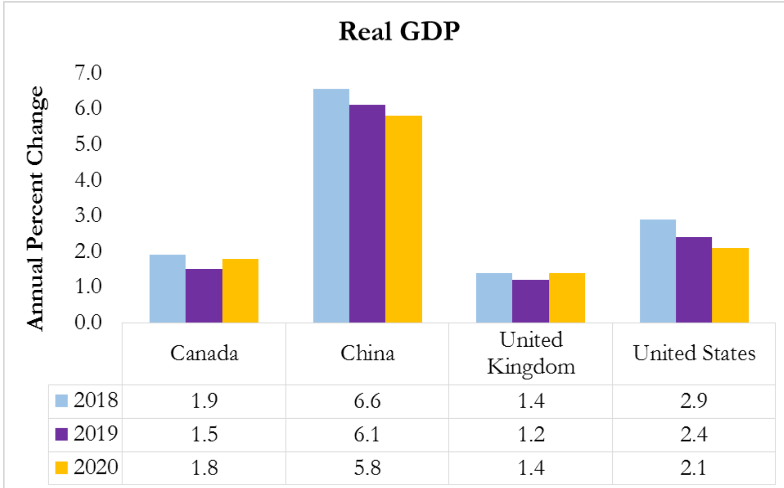
Economic growth is estimated at 3.2 percent in 2019, underpinned mainly by activity in the Services Sector particularly Private Education, Tourism, and Wholesale and Retail Trade, as well as activity in the Manufacturing Sector and to a lesser extent, the Agricultural Sector. Average inflation, as measured by the Consumer Price Index, remained subdued in 2019, estimated at 1.0 percent compared to 0.8 percent in 2018. Preliminary data collected from the 2019 Labour Force Survey indicate that the unemployment rate fell to 15.2 percent in the first quarter of 2019.

Public finances remained healthy in 2019, with the primary surplus and overall surplus estimated at 6.8 percent of GDP and 4.6 percent of GDP respectively, compared to 6.9 percent of GDP and 4.9 percent of GDP correspondingly in 2018. In the case of the primary surplus, the 2019 estimate exceeds the FRL's target of 3.5 percent of GDP for the fourth consecutive year. The estimated 2019 fiscal surpluses largely reflect the performance of capital expenditure, which is estimated to be 15.0 percent higher than the 2018 amount. Public debt (Central Government debt plus Government guaranteed debt) is expected to decline to 55.8 percent of GDP by year-end from 62.7 percent at the end of 2018.

# 2 International Developments

According to the IMF's World Economic Outlook (WEO) Report released in October 2019, the global economic upswing in 2017, lost momentum during the second half of 2018 and into 2019. The subdued global expansion was underpinned by several factors, most notable being rising trade tensions that negatively affected business and consumer confidence in advanced economies and tightening of financial market conditions that affected emerging market economies and by extension, the global economy. Consequently, the IMF projected that global growth would decelerate to 3.0 percent in 2019 from 3.6 percent in 2018, before edging back up to 3.4 percent in 2020. The 2019 estimate and 2020 projection were revised downwards by 0.2 and 0.1 percentage points respectively relative to the projections that were published in the July 2019 WEO Report.

**<u>Figure 1: Selected Real GDP Growth Rates - International</u>**




*Source: IMF's WEO, October 2019*

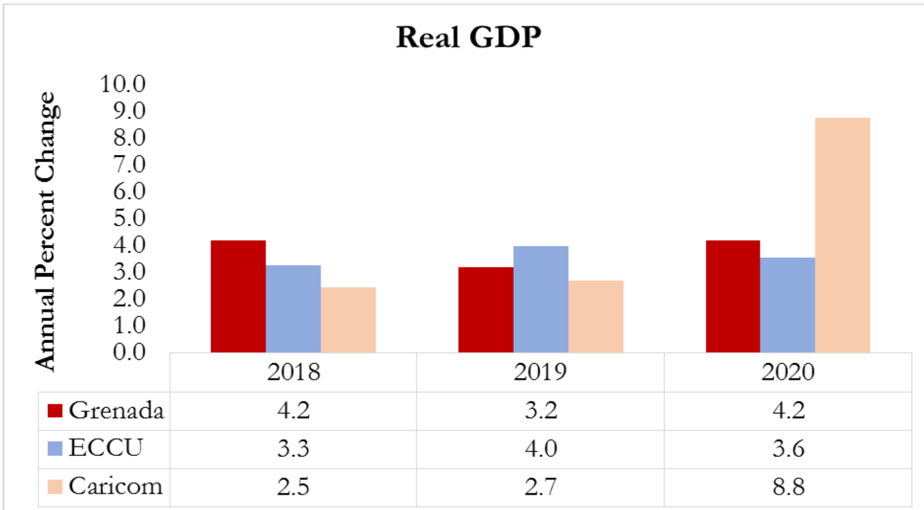
In relation to the economies of some of Grenada's major trading partners, in the United States (US) in particular, growth is estimated to decelerate from 2.9 percent in 2018 to 2.4 percent in 2019, mainly because of the negative effects of tariffs imposed in the later part of 2018 and the waning of the positive effects of the fiscal stimulus that was implemented in later part of 2017. By 2020, the pace of growth is projected to slow further to 2.1 percent.

In the United Kingdom, growth is estimated to slow down from 1.4 percent in 2018 to 1.2 percent in 2019 before returning to 1.4 percent in 2020, mainly as a result of weak business investment because of lingering uncertainties regarding Brexit. In Canada, growth is also projected to lose momentum, decelerating from 1.9 percent in 2018 to 1.5 percent in 2019, amid waning private investment and consumer demand, as well as tepid growth in the US, its largest trading partner. Growth is projected to accelerate to 1.8 percent in 2020. In China, growth is projected to moderate from 6.6 percent in 2018 to 6.1 percent in 2019 largely because of lingering trade tensions with the US as well as tightening of financial regulations. Growth is projected to decelerate further in 2020. (Figure 1).

Short-term risks to global growth are tilted to the downside mainly because of the possibility of an escalation of trade and geopolitical tensions and attendant policy uncertainties.

# 3 Regional Developments

**<u>Figure 2: Real GDP Growth Rates - Regional</u>**




*Sources: IMF's World Economic Outlook, October 2019 and Government of Grenada*

The average GDP growth in the independent countries of CARICOM is estimated to accelerate from

2.5 percent in 2018 to 2.7 percent in 2019 and 8.8 percent in 2020. Strong growth in Guyana, associated with the commencement of oil production, is the largest contributor to the regional average. In the ECCU, average growth is estimated at 4.0 percent in 2019 and is projected to decelerate to 3.6 percent in 2020. Rehabilitation activities in Dominica, especially in 2019, and tourism activities in other member countries underpin the relatively robust average growth estimate in 2019, while the projected slowdown in economic activity in 2020 largely reflects softening economic conditions forecasted for the economies of the ECCU member countries' main trading partners (Figure 2).

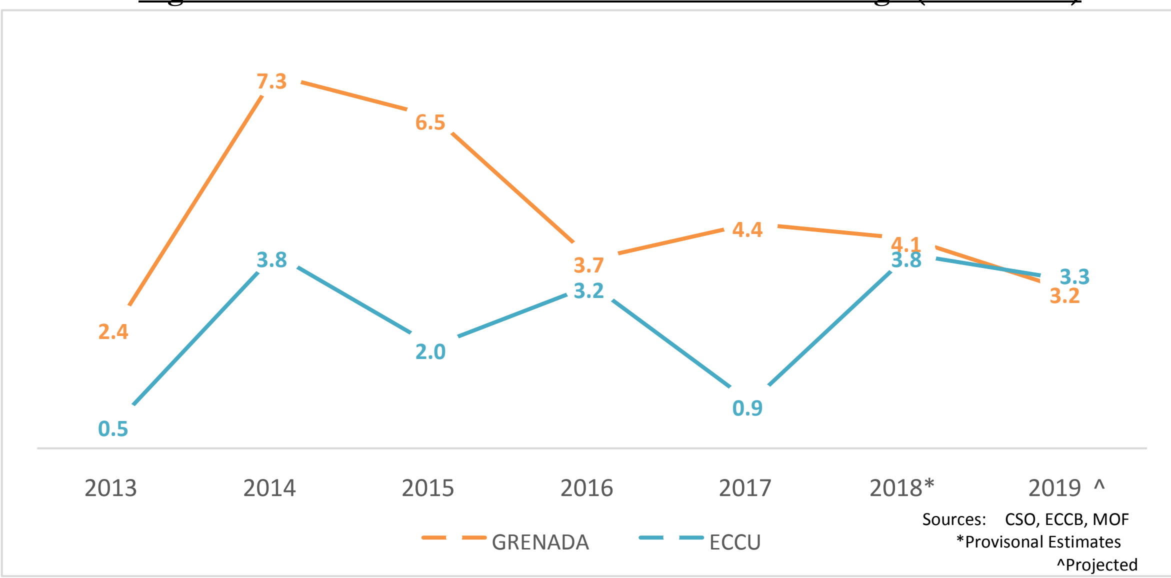
Risks to the regional growth outlook are on the downside. Not only are regional economies susceptible to spillovers from weaknesses in the global economy, they are also vulnerable to risks associated with natural disasters and other weather-related events. Furthermore, uncertainties about how Brexit would be resolved also cast a shadow on the region's economic outlook, at least in the short term.

# 4 2019 Economic Review and Medium-Term Outlook

## 4.1 Real Sector Developments

Preliminary data for the first half of 2019 indicate that the economy is poised to experience its seventh consecutive year of growth. On the heels of a 4.1 percent expansion in 2018, growth in 2019 is projected to be 3.2 percent in real terms, slightly below the ECCU average of 3.3 percent (Figure 3). Growth in 2019 is mainly fueled by activity in the Tourism, Education and Transport Sectors, complemented by relatively strong performances in the Wholesale & Retail Trade and Manufacturing sectors. Persistent challenges in Agriculture have resulted in very low growth projected in that sector.

**Figure 3: Real GDP Growth: Grenada vs. ECCU Average (2013-2019^)**




### 4.1.1 Agriculture & Fishing

Data for the first six months of 2019[1] indicate growth in the agriculture sector, though marginal. After recording growth of 3.1 percent in 2018, preliminary estimates indicate agriculture production will increase by a further 1.3 percent in 2019. However, challenges persist in the sector including issues with pests and diseases and extreme weather. Fluctuating international prices for some crops have created additional challenges, especially those where production is driven by price.

[1] Latest period for which data are available.

#### 4.1.1.1 Nutmeg and Mace

For the first half of 2019, the volume of nutmegs produced increased by 21.5 percent relative to the corresponding period in 2018. Intermittent rain during the dry season appeared to have had a positive impact on production from January to June. Mace production also rose by 58.3 percent for the first two quarters of 2019 compared to the same period in 2018. This is consistent with the increase in the production of nutmegs as these two crops are intrinsically linked. As mace production is price driven, increases in the price of mace over the period under review was also a factor which contributed to increased production. In 2018, the Nutmeg Board secured a stable market for mace which allowed it to offer higher prices to farmers to meet required supply levels. The price of mace increased by approximately 47.0 percent from an average price of $3.81 per pound in the first half of 2018 to $5.60 per pound in the first half of 2019.

On the export side, despite fluctuating international prices, nutmeg exports increased by 18.5 percent in the first half of 2019 compared to the same period in the previous year. Conversely, mace exports fell by 33.0 percent during the period, amid price challenges. However, exports are expected to increase once prices improve.

#### 4.1.1.2 Cocoa

Cocoa production for the period January to June 2019 rose by 11.8 percent relative to the corresponding period in 2018. Favourable rainfall patterns have contributed to cocoa production during the first half of the year though challenges remain. Reports of black pod disease and issues with rodents have the potential to negatively affect production in the second half of 2019. However, overall production is expected to increase year on year.

Sales on the international market increased by 7.8 percent in the first six months of 2019 compared to the same period in 2018 though average prices fell by 1.2 percent in the period under review. The Cocoa Board typically stockpiles cocoa beans while prices are depressed. Therefore, should prices improve, exports are also expected to rise.

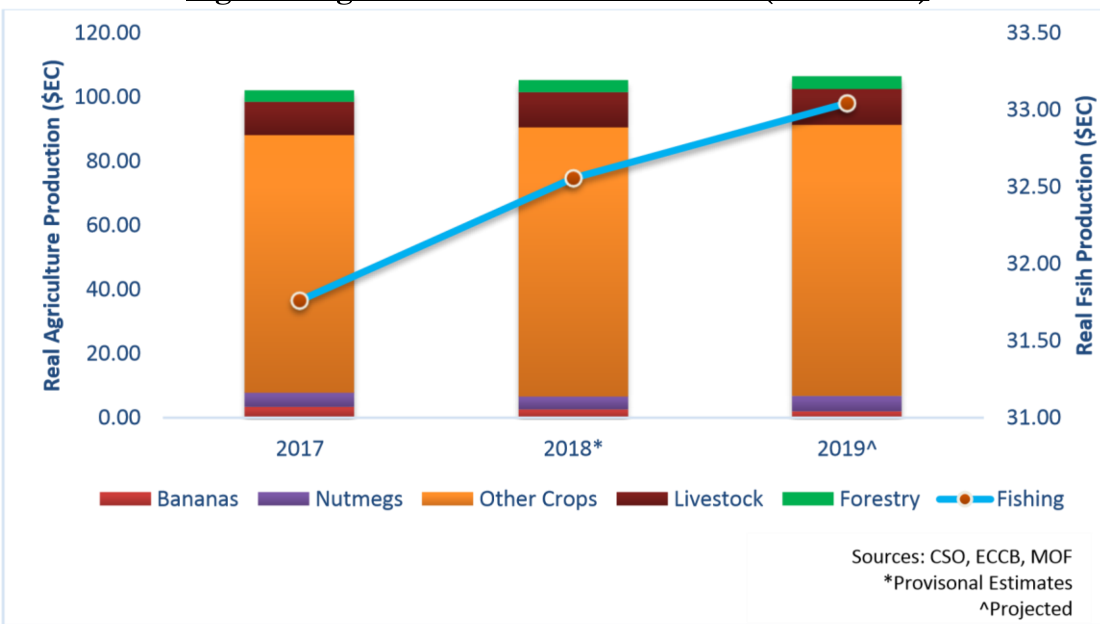
#### 4.1.1.3 MNIB Purchases of Other Crops[2]

From January to June 2019[3], the quantity of MNIB purchases of "other crops" fell by 13.4 percent compared to the corresponding period in 2018. MNIB's Purchases of other crops is the main indicator for the production

[2] In this section, "Other Crops" means crops other than Nutmegs, Cocoa and Bananas.
[3] Latest period for which data are available

of fresh fruits, vegetables, and root crops. Though this indicator has shown a decline, it should be noted that an increased number of farmers and farmers' co-operatives continue to sell directly to hotels and supermarkets which affects the correlation between MNIB's purchases and production in the "other crops" sub-sector. Efforts are therefore ongoing to improve data collection in that regard to better capture production levels. Additionally, the cultivation of over 200 acres of sugarcane by the newest rum distillery on the island, which is not captured in MNIB's data, has contributed positively to the production of "other crops" thus far in 2019 and has provided valuable employment for persons in the sector.

**Figure 4: Agriculture and Fish Production (2017-2019^)**




### 4.1.1.4 Fishing

After recording growth of 2.5 percent in 2018, preliminary data indicate that for the first six months of 2019, fish production rose by 1.5 percent compared to the same period in 2018. A similar moderate growth path is expected for the second half as well. Increased fishing effort has also been recorded thus far in 2019 with more vessels, including several new vessels, in operation. In terms of challenges, the sargassum seaweed issue is reportedly not as severe as in previous years much to the relief of fisherfolk. However, several reports of piracy at sea from foreign-owned vessels are posing a new threat to fishermen as their catch and fishing equipment have allegedly been stolen. These safety concerns have the potential to affect fishing effort going forward should the issue remain unchecked.

On the export side, fish exports for the first quarter of 2019 were 15.7 percent higher than the corresponding period in 2018. However, this trend may not persist throughout the year as rising sea temperatures during the year have impacted the quality of fish which has implications for meeting export standards. Exporters have noted a decline in fish quality during 2019, largely due to the higher internal temperature of the fish being caught. Other issues such as logistics persist, with exporters finding it more efficient to utilize commercial aircrafts to transport fish than the available cargo airline service (Figure 4).

### 4.1.2 Tourism

For the period January to June 2019[4], preliminary data on arrivals show an increase in stay-overs of 3.8 percent over the same period in 2018. There were increases in all source markets during the period, except the United States which declined marginally by 0.5 percent (Table 1). Notable is the 19.1 percent increase in visitors from Canada. Increased marketing efforts and destination promotion in Canada, as well as increased airlift, have been reported as key factors that contributed to growth in arrivals during the period.

**Table 1: Visitor Arrivals for January to June 2018 vs. 2019**

| Visitor Arrivals | As at June | | % Change |
|---|---|---|---|
| | **2018** | **2019** | **2019/2018** |
| United States | | | -0.5 |
| Continental Europe | 37,281 | 37,112 | 7.5 |
| United Kingdom | 4,527 | 4,866 | 5.2 |
| Canada | | 13,882 | 19.1 |
| Caribbean | 13,200 | | 3.4 |
| Other | | 10,226 | 3.7 |
| | 8,589 | | |
| | | 13,819 | |
| | 13,370 | 2,494 | |
| | 2,404 | | |
| **Total Stay Over** | | | **3.8** |
| **Arrivals** | **79,371** | **82,399** | |
| **Cruise Passengers** | | | **0.4** |
| | **220,125** | **220,960** | |

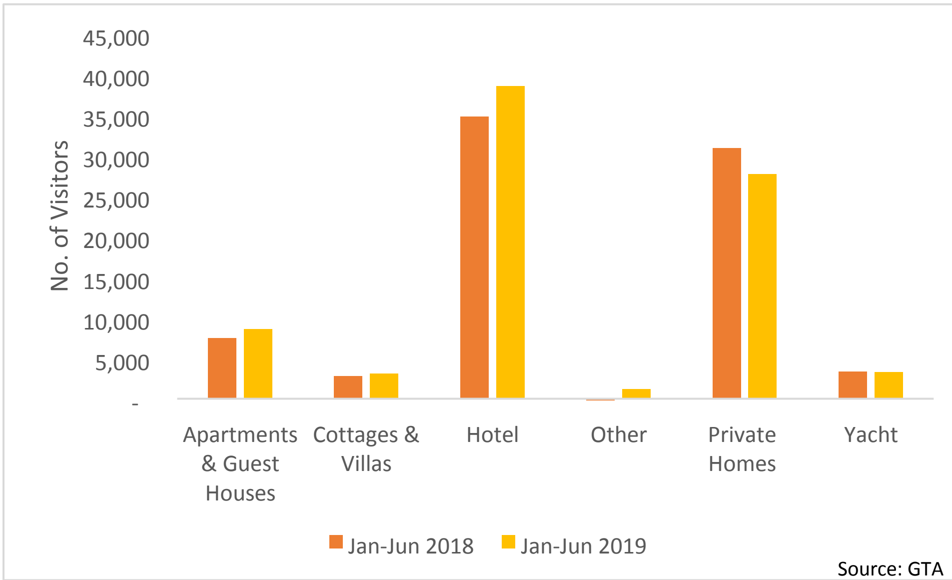
Source: GTA

Amid economic instability and BREXIT uncertainties, increases in visitors from Continental Europe (7.5 percent) and the UK (5.2 percent) are encouraging. Visitors from the Caribbean region also rose by 3.4 percent during the period. Moreover, in 2019, the influx of visitors was bolstered by the hosting of several international sporting and cultural/music events during the period, including West Indies T20 Cricket, the Grenada Invitational, the Long Walk to Freedom Concert and the Grenada Music Festival. In the second half of the year, numbers are expected to increase further as a result of visitors coming to Grenada to participate in the island's premier event, Spicemas.

[4] Latest period for which data are available

In terms of paid accommodations, there was a 10.8 percent increase in persons staying in hotels during the period, while persons staying in Apartments/Guest Houses and Cottages/Villas increased 14.7 and 10.8 percent respectively (Figure 5). With the average length of stay at 8.7 days, the Hotel[5] sector is projected to be a major contributor to overall growth in 2019.

**Figure 5: Stay-Over Visitors by Accommodation: Jan-Jun 2018 vs. Jan-Jun 2019**




Cruise ship arrivals rose marginally by 0.4 percent in the first six months of the year from 220,125 passengers in 2018 to 220,960 in 2019. Grenada would have benefited from a re-routing of ships after the devastation caused in some northern Caribbean islands by Hurricanes Maria and Irma in 2017. Though there were slightly more cruise calls in the first half of 2019 than the same period in 2018 (175 vs 171), smaller load factors would have contributed to the slight decline. Growth in cruise arrivals is expected to decline overall in 2019 by 1.8 percent as cruise lines readjust routes after the recovery of the more northern Caribbean islands (Figure 6).

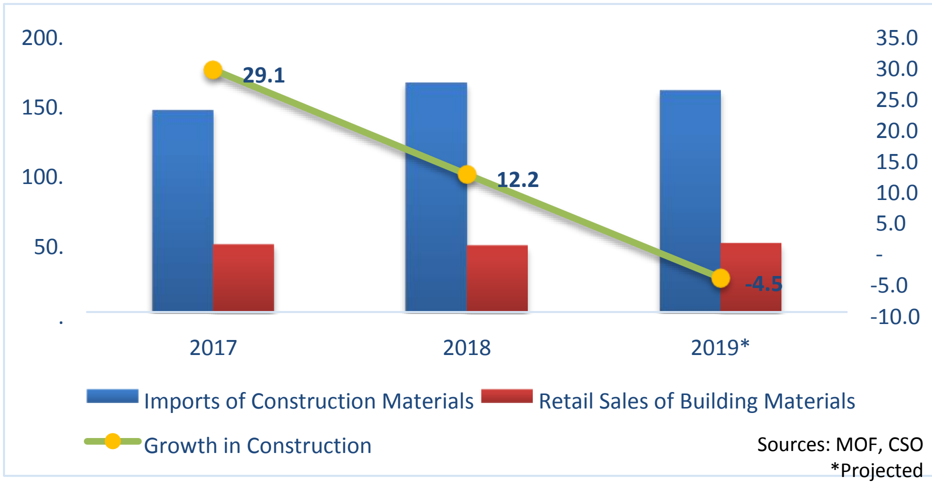
[5] The Hotel sectors includes all paid accommodation and is used as a proxy for Tourism related activities.

**Figure 6: Visitor Arrivals: 2017-2019***


### 4.1.3 Construction

Construction-related imports are the main indicator used for activity in the Construction sector. Preliminary data indicate a 12.4 percent decline in the value of imports of construction materials for the first six months of 2019 compared to the same period in 2018. Furthermore, there was a marginal decline in the secondary indicator, retail sales of building materials, of 0.9 percent during the same period. Notwithstanding these growth numbers, the Construction sector continues to be a major source of economic activity in 2019. Several public sector projects, including the Gouyave Medical Centre and housing projects in St. Mark, St. David, St. George, St Patrick, and Carriacou are underway with some at a very advanced stage. Both commercial and residential private construction activity also continue, notably the Kawana Bay Resort and Starfish Grenada-Rex Resorts. Other smaller hotel projects are also underway as well as various apartment buildings in the south of the island, primarily related to student accommodation. Despite the impact of these projects, activity in the Construction sector in 2019 is not expected to exceed that in 2018 and as such a decline of 4.5 percent is projected for the sector in 2019 (Figure 7).

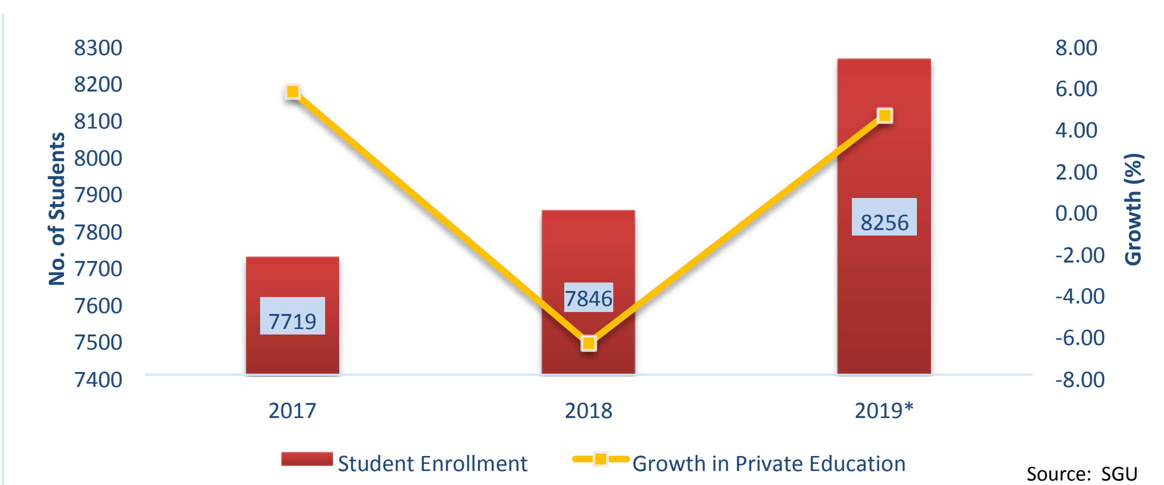
**Figure 7: Construction Indicators and Growth: 2017-2019***




### 4.1.4 Education

Private Education remains the largest contributor to GDP, constituting approximately 18.9 percent in 2019. It has also been one of the main drivers of economic growth in recent years. After experiencing a 6.5 percent decline in 2018, growth in Private Education is expected to be 4.5 percent in 2019 as enrollment picks up (Figure 8). Notwithstanding, some stabilization is expected in enrollment which may see growth slow in the sector. The influx of students at St. George's University also has spillover effects in the other sectors such as Real Estate, Wholesale & Retail, and Transport Sectors. These effects make Private Education crucial to Grenada's economic performance.

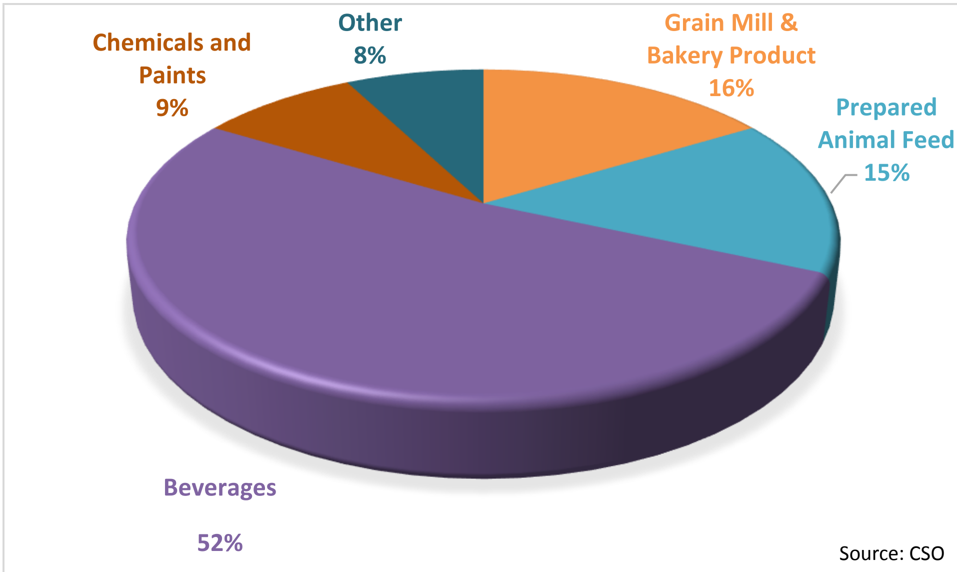
**Figure 8: SGU Enrollment and Growth in Private Education: 2017-2019**



#### 4.1.5 Manufacturing

In 2018, the Manufacturing sector grew by an impressive 9.4 percent, the highest growth rate in over a decade. This trend is expected to continue in 2019 with projected growth in the sector of 7.4 percent. In the first half of 2019, Beverages made up 52.0 percent of manufactured goods, while Grain Mill & Bakery Products were approximately 16.3 percent (Figure 9).

**Figure 9: Composition of Manufacturing Sector: Jan-Jun 2019**




Preliminary estimates of production for the first half show that there was a 6.3 percent increase in the value of beverages manufactured compared to the corresponding period in 2018. The value of Chemicals & Paints produced during the period also rose by 9.7 percent. Since beverage and paint production are notably demand-driven, increases are most likely the result of the general uptick in economic activity. Moreover, an increase in entertainment events during the year has bolstered beverage production, especially alcoholic beverages. A further increase is expected in the last quarter during the festive season.

Conversely, the production of Grain Mill & Bakery Products and Animal Feed fell marginally in the period under review by 0.9 and 0.3 percent respectively. Continued challenges on the export market have been cited as a reason for the decline in the value of flour produced during the period. One such challenge is the non-implementation of Article 164 of the Revised Treaty of Chaguaramas[6] in some of Grenada's main export markets for flour. This has made it difficult for Grenada's products to compete with those from the larger Caribbean countries which can produce much more cheaply. As a result, Grenadian flour producers have been

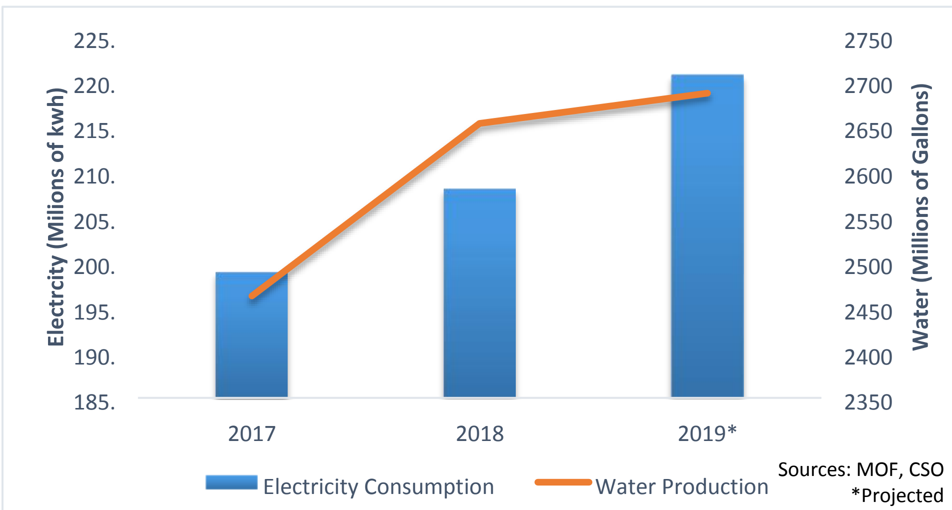
[6] Article 164 of the Revised Treaty of Chaguaramas grants the Lesser Developed Countries (LDCs) of CARICOM, including Belize and Haiti, the authority to deny certain products originating in CARICOM and extra regional countries from preferential (duty free) entry into their markets.

forced to reduce the prices of their products to remain competitive. On the local front, competition from imported flour and pre-baked goods continue to negatively affect the flour industry.

### 4.1.6 Other Sectors

The Wholesale & Retail Trade sector and the Transport sector are projected to grow by 5.0 and 7.8 percent respectively in 2019. Increased economic activity and employment, are the main factors contributing to these projections. Marginal improvement is also expected in the Real Estate and Financial Intermediation sectors with projected growth rates of 2.0 and 2.7 percent respectively. Electricity consumption and water production were also up during the first half of 2019 by 4.9 and 1.0 percent respectively (Figure 10). A further uptick is expected for the second half of the year due to the impact of the Carnival and Christmas seasons.

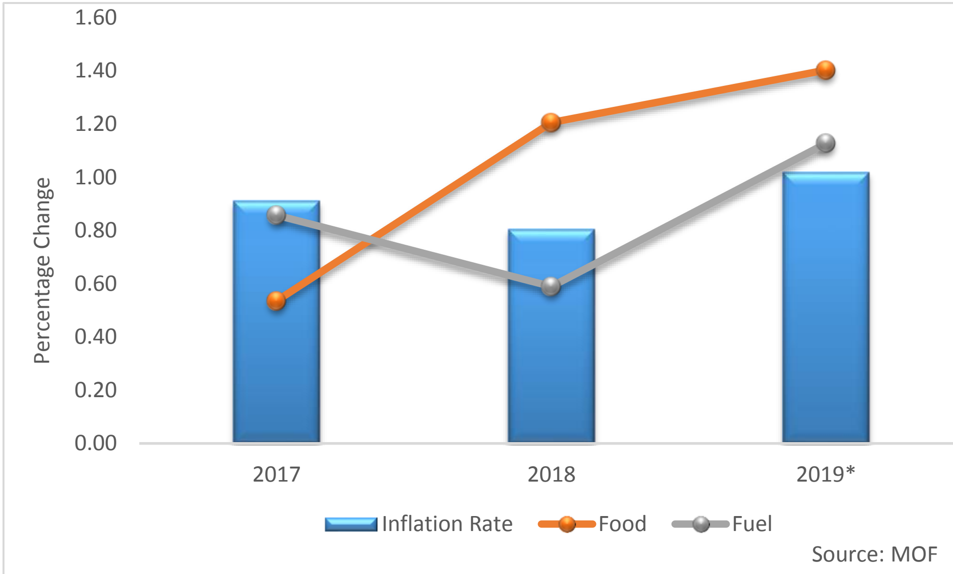
**Figure 10: Utilities: 2017-2019***




### 4.1.7 Inflation

It is estimated that the average rate of inflation for 2019, as measured by the Consumer Price Index is 1.0 percent (Figure 11). This is a continuation of depressed prices experienced in recent years, with inflation averaging 0.4 percent from 2014-2018. As Grenada's inflation is mainly imported, international oil and food prices, as well as US inflation, are the main drivers of increases in local prices. As these are expected to remain relatively low, inflation in Grenada is also expected to remain low.

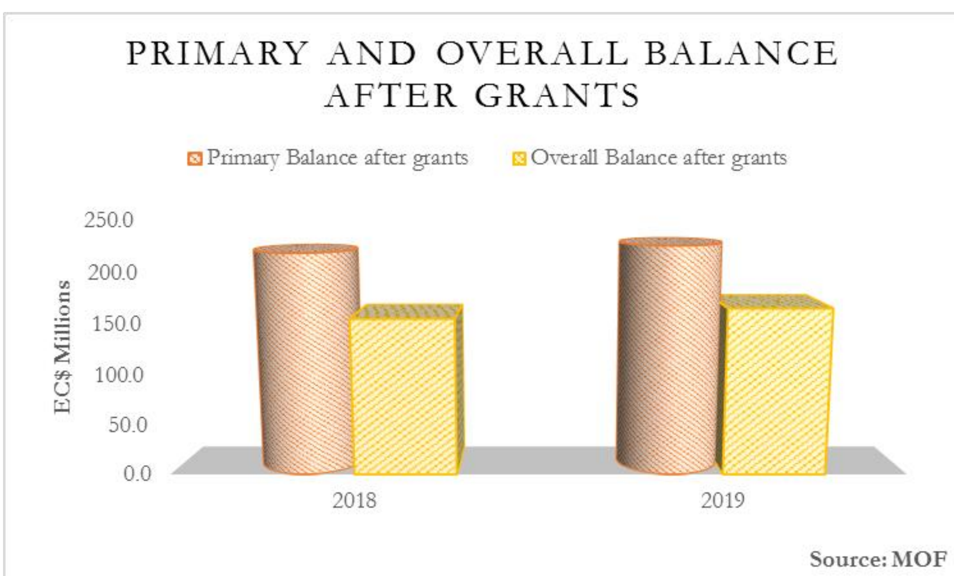
**Figure 11: Inflation (CPI) 2017-2019***




## 4.2 Fiscal Sector

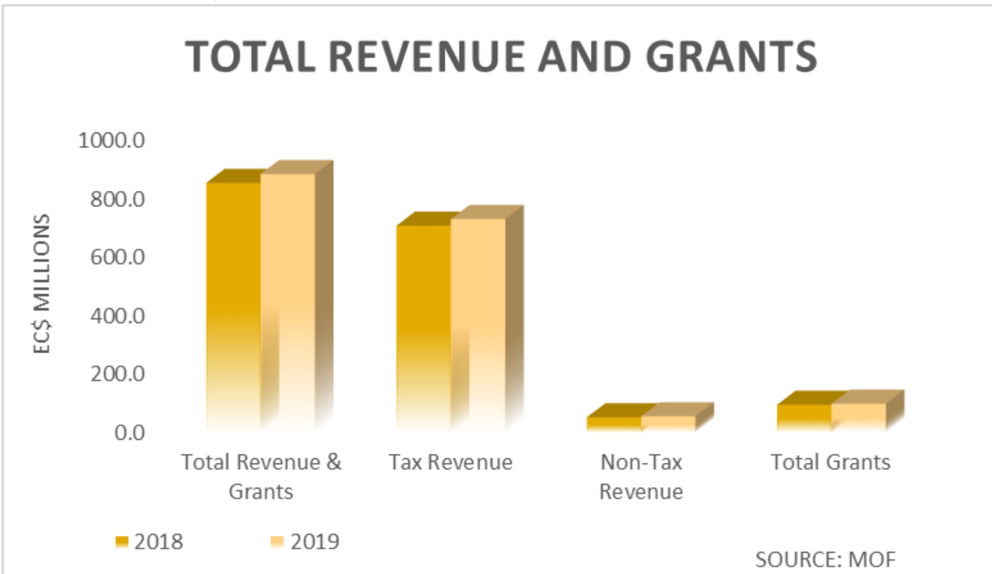
Grenada's fiscal position continues to improve. A primary balance (including grants) of $225.1 million (6.8 percent of GDP) is estimated for 2019, which is 3.2 percent more than the 2018 actual. The Government's Overall Balance (including Grants) for 2019 is estimated at $165.0 million, 6.5 percent higher than what was achieved in 2018 (Figure 12). This performance was attributed to an increase in total revenue and a significant decrease in the Government's expenditure, as the Government continues its efforts to reduce discretionary expenditure.

**Figure 12: Primary and Overall Balance After Grants 2018 Vs 2019**



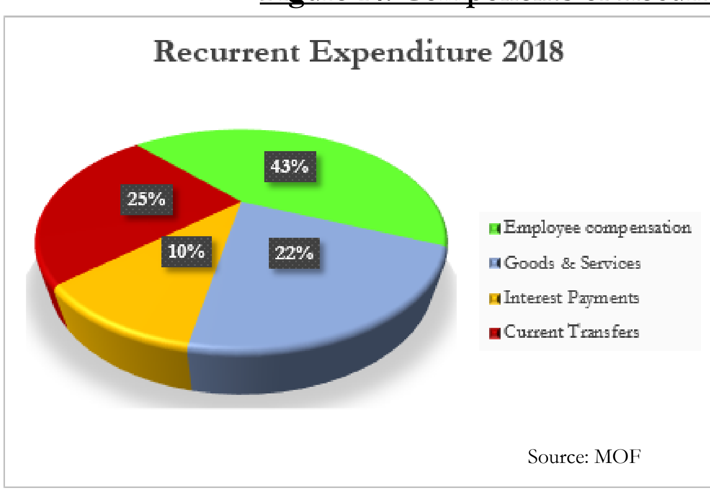
Total Revenue and Grants for 2019 is estimated at $880.2 million of which total revenue is $782.1 million and total grants $98.1 million. Total revenue is estimated to be 3.5 percent more than what was collected in 2018. This was a result of a 29.2 percent increase in taxes collected on property; a 2.1 percent increase in taxes collected on domestic goods and services; a 4.0 percent increase in taxes collected on international transactions and a 6.5 percent increase in nontax revenue. However, there was a decline in the collection of taxes on income and profits of 2.3 percent. The improvement in the collection of taxes can be attributed to the continuous efforts by the revenue collecting agencies in enforcing and implementing the tax administration act. Similarly, increase taxpayer education efforts and growth in selected sectors of the economy contributed to the increase in total revenue. Total Grants are estimated to increase by 4.0 percent when compared to 2018 (Figure 13).

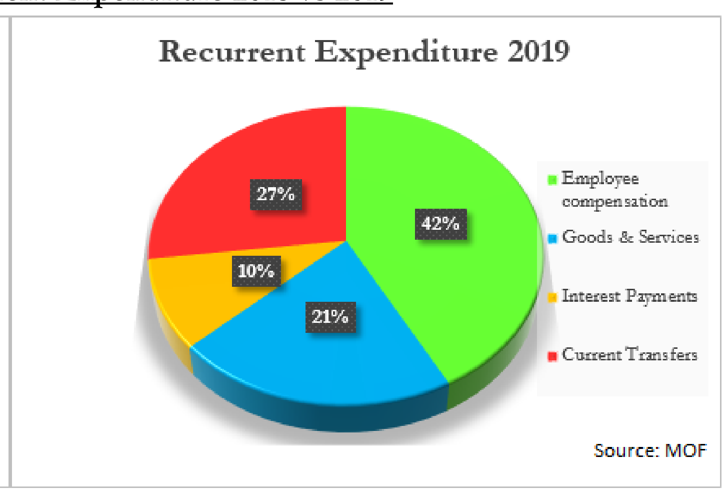
**Figure 13: Total Revenue and Grants 2018 Vs 2019**




Total Expenditure for 2019 is estimated to increase by 2.9 percent when compared to 2018. It is expected that there will be a 1.0 percent and 15.7 percent increase in current expenditure and capital expenditure respectively.

**Figure 14: Components of Recurrent Expenditure 2018 vs 2019**



In 2019, of the components of the recurrent expenditure, current transfers registered the largest increase (10.2 percent) reflecting the Government's advance payment to retired public officers[7] in October 2019, an increase in the minimum payment of $350 as ex-gratia, and Government's equity injection in LIAT. The Government honored its agreement with the Trade Unions to pay a salary increase of 4.0 percent in 2019, however, despite this increase, Employee compensation is estimated to decrease by 2.1 percent (compared to 2018) because of Government's existing attrition policy. Goods and services are estimated to decrease by 0.4 percent (compared to 2018) as the Government continued its tight rein on discretionary spending. Interest payments are estimated at $60.2 million, 4.9 percent less than what was paid in 2018 consistent with the reduction in the nominal value of debt (Figure 14).

In relation to the 2019 budget, the primary balance (including grants) is estimated to be 11.5 percent more and overall balance (including grants) 26.9 percent higher. Total revenue and grants are estimated to be lower than the budgeted amount by 8.7 percent and total expenditure is also expected to be lower than the budgeted amount by 14.3 percent (Table 3).

**Table 3: Grenada Fiscal Projections 2019**

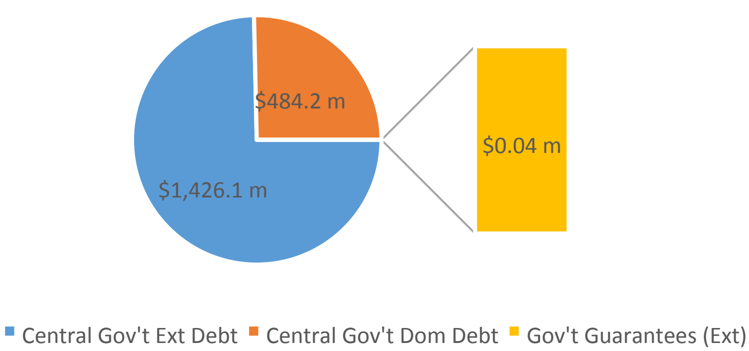
| *In millions of Eastern Caribbean Dollars unless stated otherwise* | | | |
|---|---|---|---|
| | 2019 | | |
| | **Estimated Outturn** | **Budget** | **Variance (%)** |
| **TOTAL REVENUE AND GRANTS** | **880.2** | **964.2** | **-8.7** |
| **TOTAL REVENUE** | **782.1** | **780.4** | **0.2** |
| Tax revenue | **726.9** | **726.5** | **0.1** |
| Non - Tax Revenue | **55.2** | **53.9** | **2.3** |
| **Grants** | **98.1** | **183.7** | **-46.6** |
| | | | |
| **TOTAL EXPENDITURE & NET LENDING** | **715.2** | **834.2** | **-14.3** |
| **Primary Expenditure** | **655.0** | **762.2** | **-14.1** |
| **CURRENT EXPENDITURE** | **614.7** | **637.8** | **-3.6** |
| Employee compensation | **258.8** | **288.9** | **-10.4** |
| Goods and Services | **130.2** | **124.8** | **4.3** |
| Interest Payments | **60.2** | **72.0** | **-16.4** |
| Transfers | **165.5** | **152.1** | **8.8** |
| **Net Lending** | **0.0** | **0.0** | **0.0** |
| **Capital Expenditure** | **100.5** | **196.4** | **-48.8** |
| **Current Balance (before Grants)** | **167.4** | **142.7** | **17.3** |
| **Overall Balance (after Grants)** | **165.0** | **130.0** | **26.9** |
| **Primary Balance (after Grants)** | **225.1** | **202.0** | **11.5** |
| | | | ***Source: MOF*** |

[7] Qualifying criteria: (a) attained the age of 60 upon retirement; (b) were employed for twenty six and two thirds years (c) alive at the time of retirement and (d) joined the public service after February 22nd, 1985

## 4.3 Public Debt

Public sector debt outstanding (Central Government debt and Government guarantees) at the end of September 2019[8] is estimated at $1,910.4 million. A decline of 7.2 percent and 3.4 percent compared to the end of September and December 2018 respectively, was recorded. As a percentage of GDP, public debt declined from 62.7 percent in December 2018 to an estimated 59.1 percent at the end of September 2019. This decline is because of growth in GDP as well as existing debt amortizations during the period. For the same period, the Central Government's external debt stock contracted by 3.7 percent to an estimated $1,426.1 million or 74.7 percent of total public debt. Similarly, domestic debt declined by 2.5 percent to an estimated $484.2 million or 25.3 percent of total public debt over the same period (Figure 15). Government guaranteed debt at the end of the third quarter of 2019 is estimated at $0.04 million or less than 0.005 percent of total public debt. Preliminary estimates project public debt to decline by 6.9 percentage points from 62.7 percent of GDP in 2018 to 55.8 percent at the end of 2019.

**Figure 15: Composition of Public Debt as at end September 2019**




Source: MOF

### 4.3.1 Central Government Domestic Debt

Central Government domestic debt, which accounted for $496.4 million or 25.1 percent of total public sector debt at the end of 2018 declined to $484.2 million or 25.3 percent of total debt at the end of September 2019. This decline is attributable to amortization during the first three quarters of this year and the retirement in March of a privately placed Treasury note held by Petro Caribe of $4.0 million. In the nine months to September 2019, Central Government re-issued $70 million in Treasury bills on the RGSM as part of its liquidity management operations. These included three re-issues of a $15.0 million 91-Day Treasury bill. This bill, which was issued in March, yielded rates of 1.90, 1.75 and 4.0 percent respectively with each successive re-issue. In July, Government also re-issued a $25.0 million 365-day Treasury bill at 5.0 percent. Based on

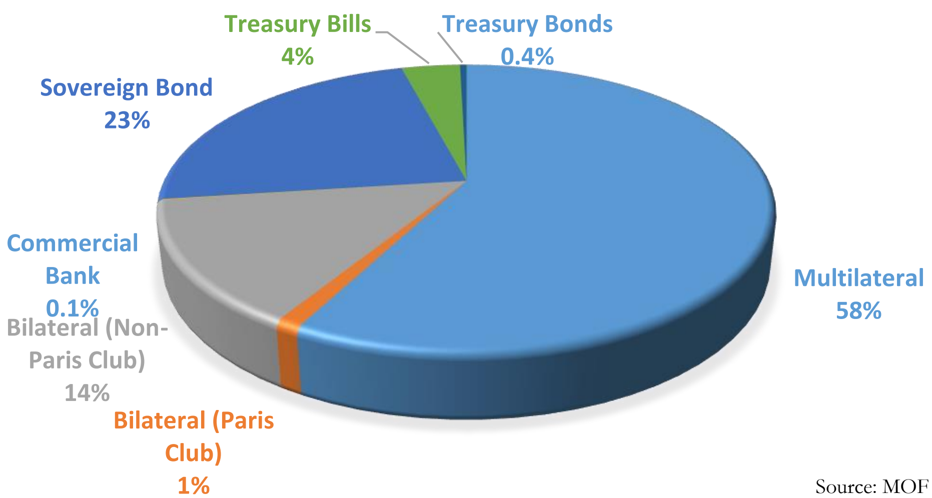
[8] Latest period for which data are available

Debt Sustainability Analysis results, Central Government domestic debt will record 12.2 percent of GDP at the end of 2019.

### 4.3.2 Central Government External Debt

Preliminary estimates at the end of September records Central Government external debt at $1,426.1 million or 43.2 percent of projected GDP. The constituent holders of Central Government external debt at the end of the third quarter were: multilaterals that accounted for $823.2 million; sovereign bondholders, $327.5 million; bilateral (Non-Paris Club) creditors, $200.3 million; Treasury bill holders with $52.8 million; bilateral (Paris Club) creditors, $15.8 million; Treasury bondholders with $5.9 million and commercial bank, $0.9 million (Figure 16). Between January and September 2019, $14.9 million was disbursed from existing external creditors including; $2.9 million from Caribbean Development Bank; $5.7 million from the World Bank; $3.8 million from Organization of Petroleum Exporting Countries; $2.0 from International Fund for Agricultural Development; and $ 0.5 million from Kuwaiti Fund for Agricultural Development.

**Figure 16: External Debt by Creditor as at end of September 2019**




Source: MOF

### 4.3.3 Debt Service

Total Central Government debt service for the first three quarters of 2019 was $179.2 million, representing an 11.4 percent decline when compared to the corresponding period of 2018. Amortization payments accounted for $141.7 million or 79.1 percent of total debt service whilst interest repayments accounted for $37.5 million or 20.9 percent of total debt service. Domestic debt service, which accounted for $116.2 million during the January to September period of last year decreased by 18.9 percent during the same period of 2019. Of this amount, $84.1 million or 46.9 percent represented refinancing or rollover of existing debt while $10.2 million was interest repayment on existing debt.

External debt service declined by 1.4 percent to $84.9 million during the first three quarters of 2019 when compared to the same period of 2018. External principal and interest repayments were $57.6 million and $27.3 million respectively. Central Government debt service as a percentage of total revenue for the nine-month period January to September 2019 was 31.2 percent. This represents a decline of 4.8 percentage points relative to the corresponding period of 2018.

#### 4.3.4 Update on Government Guaranteed Debt

Government guarantees outstanding at the end of September 2018 were estimated at $0.04 million or a 79.0 percent decline relative to the end of December 2018. Currently, only one State-Owned Enterprise holds explicit Government guaranteed debt and there were no new issues of guarantees during the year. The authorities anticipate that this figure will be liquidated by the end of 2019.

As at the end of June 2019[9], with the exception of one SOE, the total debt stock of SOEs was EC$ 489.3 million (15.1% of GDP). This includes the debt obligations of Petro Caribe which amounted to EC$ 372.1 million (11.5% of GDP).

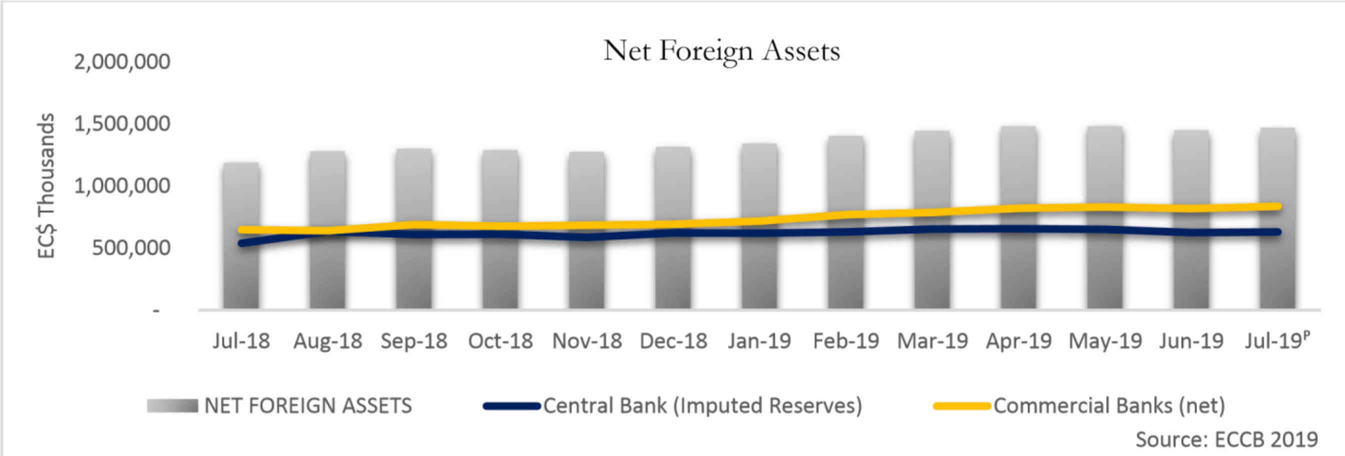
### 4.4 Monetary and Financial Sector

The Monetary and Financial System analyzed through the Bank and Non-Bank Financial Institutions continue to see improvements in its Assets over the past 12 months. However, deposits continue to increase at a faster rate than that of loans, further exacerbating the liquidity problem in the Sector. Credit, despite its slight uptick, continues to be a looming issue for the economy. Overall, the sector remains stable, with Non-Performing Loans remaining below the prudential benchmark and regulatory capital to risk-weighted assets continue to remain stable with slight improvements over the period.

Net Foreign Assets for the period July 2018-July 2019 increased by 23.6 percent. This increase was driven primarily by a 29.1 percent ($188.8 million) increase in Commercial Banks' net assets and liabilities, while Central Bank Imputed Reserves increased by 17.0 percent ($91.4 million) (Figure 17).

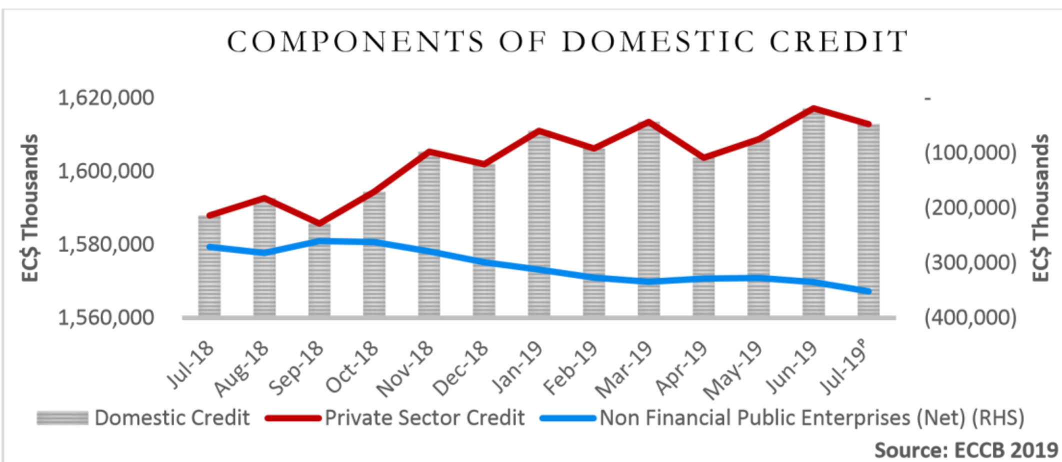
[9] June 2019 is the latest period for which data on total SOE debt is available

**Figure 17: Net Foreign Assets for the Period July 2018-July 2019**




During the 12-month period, July 2018- July 2019, Net Domestic Assets continued on a downward trajectory moving $1.7 million to $903.9 million (15.7 percent decline). This decline was exacerbated by a 9.9 percent or $112.6 million reduction in Domestic Credit, chiefly motivated by an 80.4 percent decline in Non-Bank Financial Enterprises, owing to a complete tapering off its credit towards investments (Figure 18). It should be noted that there was a slight uptick in Private Sector Credit of 1.6 percent ($25.0 million) over the same period as a result of a 6.4 percent ($34.0 million) increase in Business Credit. Despite this moderate improvement, it was not significant enough to improve overall domestic credit.

**Figure 18: Components (Some) of Domestic Credit for the Period July 2018-July 2019**




Monetary Liabilities for the sector increased moderately by 5.0 percent to $2,371.1 million during the period July 2018-July 2019. The money supply expanded by 10.8 percent of which, currency with the public declined by 5.1 percent, Private Sector Demand Deposits increased by 12.0 percent and EC$ cheques and Drafts issued increased by a staggering 179.4 percent. Quasi money registered a slight uptick of 2.7 percent, motivated mainly by a 25.6 percent ($45.4 million) increase in Private Sector Foreign Currency Deposits. Private Sector Time Deposits declined by 9.7 percent to $177.7 million over the same period (Table 4).

**Table 4: Monetary Liabilities July 2018-July 2019 in EC$ Thousands**

| | Jul-18 | Jul-19P | Variance |
|---|---|---|---|
| MONETARY LIABILITIES (M2) | 2,259,103 | 2,371,116 | 5.0% |
| MONEY SUPPLY (M1) | 630,273 | 698,216 | 10.8% |
| Currency with the Public | 130,820 | 124,145 | -5.1% |
| Currency in Circulation | 172,187 | 172,345 | 0.1% |
| Cash at Commercial Banks | 41,367 | 48,200 | 16.5% |
| Private Sector Demand Deposits | 490,643 | 549,457 | 12.0% |
| EC$ Cheques and Drafts Issued | 8,810 | 24,614 | 179.4% |
| QUASI MONEY | 1,628,830 | 1,672,900 | 2.7% |
| Private Sector Savings Deposits | 1,254,439 | 1,272,254 | 1.4% |
| Private Sector Time Deposits | 196,852 | 177,663 | -9.7% |
| Private Sector Foreign Currency Deposits | 177,539 | 222,983 | 25.6% |

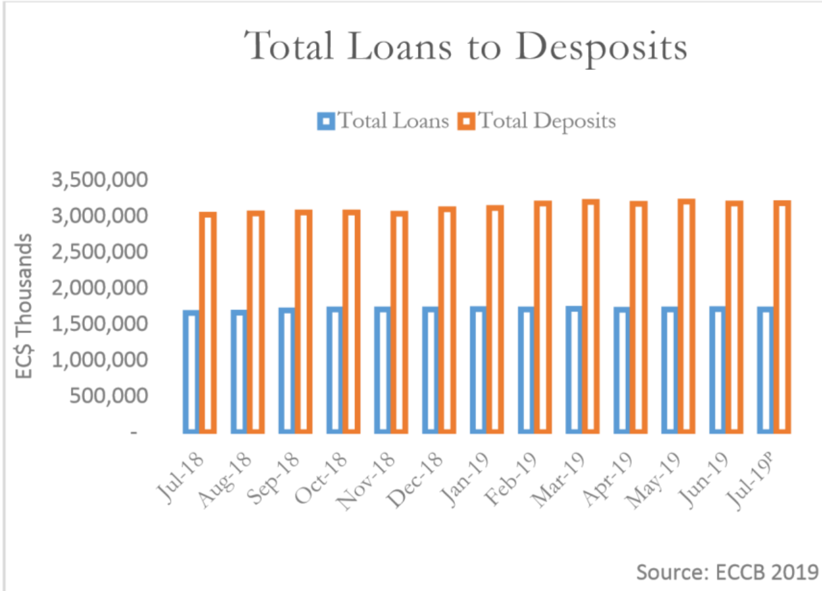
Source: ECCB

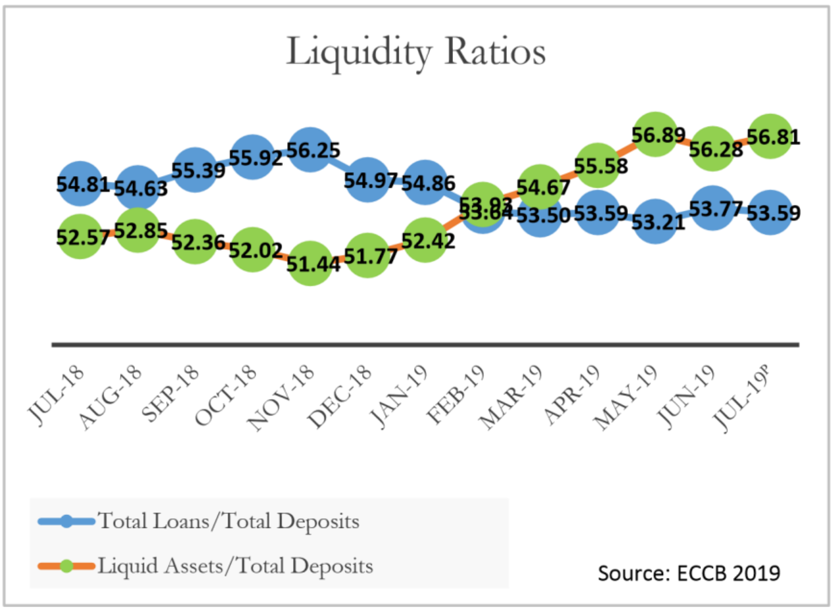
Liquidity continues to be a looming issue in the commercial banking system. Total Deposits increased by 5.3 percent during the period July 2018-July 2019 to $3,178.9 million, while Total Loans rose by 3.0 percent to $1,703.5 million over the same period. Liquidity ratios of Total Loans to Total Deposits declined by 1.2 percentage points to 53.6 percent, highlighting the excess deposits in the system, Cash Reserves to Total Deposits declined by 1.0 percentage points to 11.3 percent, and Liquid Assets to Total Deposits increased by 4.2 percentage points to 56.8 percent (Figure 19).

Similarly, in the Credit Union Sector, high levels of liquidity also continue to be present. At the end of the first half of the year, Total Deposits increased to $789.0 million, while Total Loans increased to $677.3 million, yielding a Total Loans-Total Deposits Liquidity Ratio of 85.8 percent, notably higher than that of the Banking System.

With respect to commercial banks' interest rates, the weighted average lending rate declined by 0.3 percentage points over the 12-month period to 7.4 percent at the end of June 2019. Interest on Savings Deposits declined slightly to 2.02 percent at end June 2019 from 2.07 percent at the end of the same period of the previous year. The Banks' Prime Loan Rate remains at 10.0 percent and the ECCB's discount rate remains at 6.5 percent.

**Figure 19: Liquidity Analysis for the Year July 2018-July 2019**




Commercial Banks' credit improved slightly by 3.5 percent over the 1-year period June 2018-June 2019. A minor improvement in Personal credit toward the purchasing of durable consumer goods and other personal items of 0.1 percent, as well as a 26.2 percent and 13.4 percent increase in Construction and Tourism respectively, all acted as catalysts for the slight bump in overall credit. All other sectors experienced notable declines, including the sectors of Transport (50.2 percent), Mining and Quarrying (33.0 percent), Financial Institutions (28.8 percent), Public Utilities (19.4 percent) and Agriculture (4.9 percent) (Table 5).

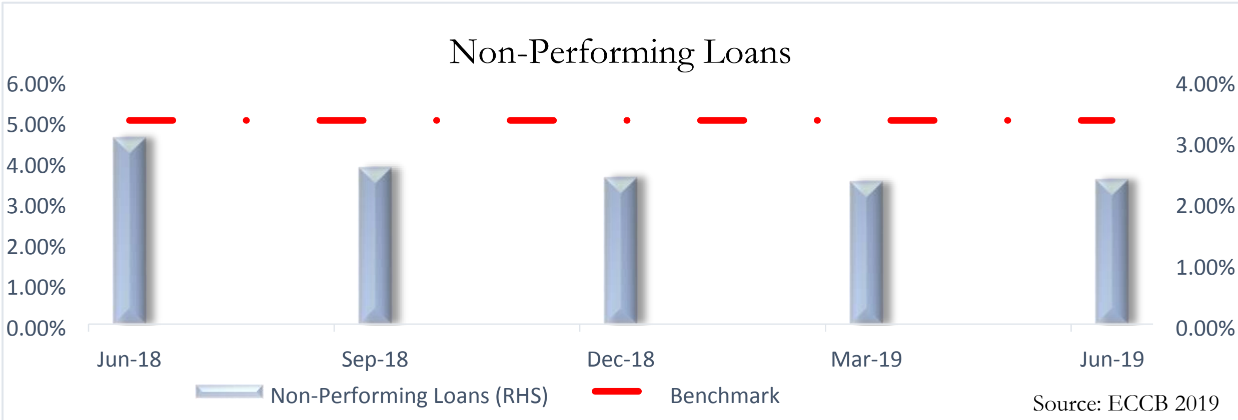
**Table 5: Specific Credit in EC$ Thousands by Sectors During the Period June 2018- June 2019**

| Sector | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | % Change Jun-18/Jun-19 |
|---|---|---|---|---|---|---|
| Agriculture | 23,062 | 21,003 | 22,294 | 24,592 | 21,922 | -4.9% |
| Fisheries | 4,800 | 2,929 | 3,106 | 4,570 | 4,672 | -2.7% |
| Mining & Quarrying | 182 | 164 | 154 | 146 | 122 | -33.0% |
| Manufacturing | 27,092 | 26,135 | 25,465 | 27,963 | 26,930 | -0.6% |
| Public Utilities | 45,267 | 78,796 | 38,455 | 37,381 | 36,470 | -19.4% |
| Personal | 1,073,725 | 1,079,181 | 1,085,931 | 1,079,476 | 1,074,682 | 0.1% |
| Construction | 28,900 | 33,868 | 35,221 | 36,626 | 36,469 | 26.2% |
| Distributive Trade | 98,324 | 91,784 | 91,577 | 94,352 | 96,464 | -1.9% |
| Tourism | 162,541 | 164,636 | 173,242 | 177,333 | 184,282 | 13.4% |
| Entertainment | 44,660 | 43,564 | 39,274 | 43,371 | 43,751 | -2.0% |
| Transport | 31,790 | 33,386 | 15,550 | 14,278 | 15,827 | -50.2% |
| Financial Institutions | 5,006 | 3,604 | 4,669 | 3,682 | 3,563 | -28.8% |

Source: ECCB

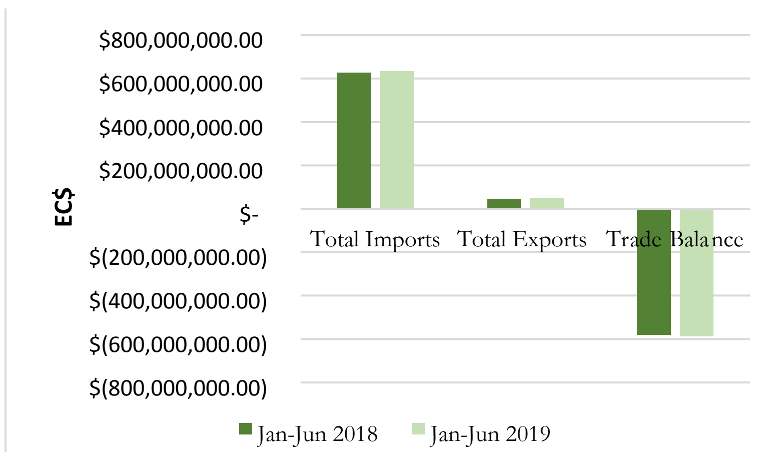
Both the Bank and Non-Bank Sectors have continued to see improvement in their financial stability indicators. In the Banking Sector, Non-Performing Loans (NPLs) continued to experience steady declines below the international benchmark to 2.4 percent at the end of June 2019 (Figure 20). Although Credit Unions saw improvement in its delinquent loans 30-89 days past due, the sector's delinquent loans past 90 days increased to 6.2 percent at the end of the first half of 2019, above the recognized benchmark of 5.0 percent. Regulatory Capital to Risk-Weighted Assets, a protection mechanism for depositors, increased to 20.3 percent at the end of June 2019, compared to 18.9 percent in the previous period of 2018. Returns on Average Asset (Annualized) saw a slight increase of 0.3 percentage points to 1.1 percent at the end of June 2019, while Returns on Average Equity reduced slightly to 4.5 percent from 5.6 percent at end June 2018.

**Figure 20: Non-Performing Loans to Total Loans, June 2018-June 2019**




## 4.5 External Sector Developments

**Figure 21 - Balance of Trade (EC$)**




Source: CSO

As the economy continues to rely excessively on imported products, the trade balance proceeds to deteriorate. The gap between the value of imported ($634.0 million) and exported ($47.4 million) products is relatively large. A trade deficit of -$586.7 million was realized at the end of the second quarter of 2019. A comparison with the trade deficit within the same period in 2018 (-$580.0 million) shows a 1.1 percent increase (Figure 21). This increase in the trade deficit was on account of the rise in imports valued at $634.0 million. The value of imports grew by 1.3 percent and exports by 2.4 percent during the first half of 2019 compared to the first half of 2018.

The increase in imports at the end of the second quarter of 2019 was significantly impacted by the increase in "commodities & transactions not classified elsewhere in the SITC" (81.4 percent), beverages & tobacco (8.3 percent), chemicals & related products (8.3 percent) and food (7.8 percent). The importation of crude materials and miscellaneous manufactured articles decreased by 11.18 and 10.42 percent respectively (Table 6).

**Table 6 - Category of Imports (EC$'000)**

| CODE | SITC SECTIONS | Jan-Jun 2018 | Jan-Jun 2019 (est.) | Percentage Change |
|---|---|---|---|---|
| 0 | FOOD | **111,609.10** | **120,360.60** | **7.84** |
| 1 | BEVERAGES & TOBACCO | **16,110.20** | **17,453.30** | **8.34** |
| 2 | CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS | **16,941.20** | **15,046.70** | **-11.18** |
| 3 | MINERAL FUEL, LUBRICANTS & RELATED MATERIALS | **100,963.30** | **108,962.80** | **7.92** |
| 4 | ANIMALS & VEGETABLE OILS, FATS & WAXES | **2,452.50** | **2,257.30** | **-7.96** |
| 5 | CHEMICALS & RELATED PRODUCTS, N.E.S | **42,382.10** | **45,897.00** | **8.29** |
| 6 | MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL | **109,732.80** | **99,531.20** | **-9.30** |
| 7 | MACHINERY & TRANSPORT EQUIPMENT | **142,643.10** | **149,845.70** | **5.05** |
| 8 | MISCELLANEOUS MANUFACTURED ARTICLES | **83,348.90** | **74,664.10** | **-10.42** |
| 9 | COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC | **5.90** | **10.7** | **81.36** |
| | **TOTAL** | **626,189.10** | **634,029.40** | **1.25** |

Source: CSO

Beverages & Tobacco, Chemicals & Related Products, and Miscellaneous Manufactured Articles are the three largest categories of exports that contributed to the increase in export value at the end of the second quarter of 2019 compared to the same period in 2018. On the other hand, a decline in manufactured exports under codes 0, 2, 4 and 7 was recorded (Table 7).

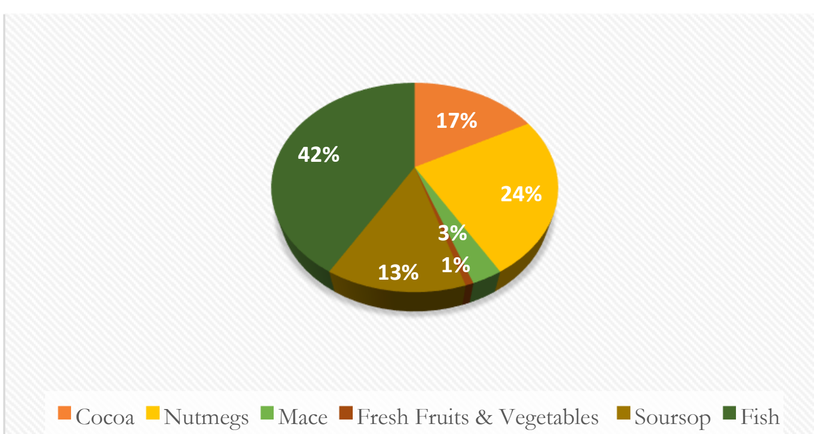
**Table 7 - Category of Domestic Exports (EC$'000)**

| CODE | SITC SECTIONS | Jan-Jun 2018 | Jan-Jun 2019 | Percentage Change |
|---|---|---|---|---|
| 0 | FOOD | 30,561.10 | 27,364.30 | -10.46 |
| 1 | BEVERAGES & TOBACCO | 2,738.80 | 6,170.70 | 125.31 |
| 2 | CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS | 665.90 | 470.80 | -29.30 |
| 3 | MINERAL FUEL, LUBRICANTS & RELATED MATERIALS | - | 0.00 | |
| 4 | ANIMALS & VEGETABLE OILS, FATS & WAXES | 4.90 | 0.20 | -95.92 |
| 5 | CHEMICALS & RELATED PRODUCTS, N.E.S | 1,747.00 | 3,907.10 | 123.65 |
| 6 | MANUFACTURED GOODS CLASSIFIED CHIEFLY BY | 2,728.10 | 2,980.20 | 9.24 |
| 7 | MACHINERY & TRANSPORT EQUIPMENT | 3,961.10 | 3,890.80 | -1.77 |
| 8 | MISCELLANEOUS MANUFACTURED ARTICLES | 445.20 | 750.60 | 68.60 |
| 9 | COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC | - | 0 | |
| | **TOTAL** | 42,852.10 | 45,534.70 | 6.26 |

Source: CSO

Total Agricultural exports increased by 0.6 percent at the end of the second quarter of 2019, moving from 26.1 million (Jan-Jun 2018) to 26.2 million (Jan-Jun 2019). Fish occupied a large share of agriculture exports (42.0 percent) despite decreasing by 0.7 percent at the end of June 2019 in comparison with the end of June 2018. The exportation of nutmeg increased by 10.0 percent at the end of June 2019 compared to the previous period and represented 24.0 percent of agricultural exports. Cocoa also increased by 7.5 percent in the aforementioned periods and represented 17.0 percent of agricultural exports.

**Figure 22 - Share of Agricultural Exports**

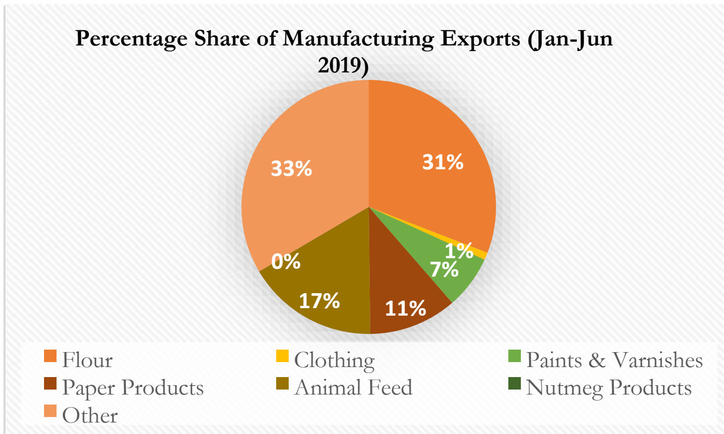



Source: CSO

Despite the decrease of 10.0 percent in Soursop exports, this commodity occupied a 13.0 percent share of total agricultural exports for the first half of 2019 (Figure 22).

Exports of all manufacturing products increased by 12 percent at the end of the 2nd quarter of 2019 compared to 2018. This includes a 20.7 percent increase in paints & varnishes, a 15.2 percent increase in animal feed and a 63.9 percent increase in other products. Some manufacturing exports which decreased in the aforementioned period include nutmeg products (-18.8 percent) clothing (-15.8 percent), paper products (-14.7 percent) and flour (10.4 percent).

**Figure 23: Percentage Share in Manufacturing Exports**




Source: CSO

Flour represents 31 percent of all manufacturing exports at the end of June 2019, while animal feed occupied 17 percent, paper products 11 and paints & varnishes 7 percent (Figure 23).

# 5 Economic Outlook

On balance, Grenada's short-to-medium term economic prospects are positive. Real GDP growth (at market prices) is provisionally projected to average 3.8 percent over the period 2020 - 2022. The assumption is that economic activity will be buoyed by public infrastructure development, especially housing, road works, and investments to build climate resilience. Additionally, the relatively strong performances in the construction and tourism sectors witnessed in 2018 are expected to continue. Likewise, new linkages between the agricultural and tourism sectors forged in 2018 are expected to continue as well as expand, which should help boost agricultural production in the foreseeable future.

Meanwhile, inflation is estimated to remain subdued in the short term barring any shocks to international commodity prices, especially fuel and food. The unemployment rate is expected to continue declining with increased economic activity, but it is likely to remain in double digits in the short term.

Fiscal performance is expected to improve further in the short-to-medium term, with continued fiscal prudence, consistent with the rules-based fiscal framework as prescribed by FRL. By year-end, a primary surplus of 6.8 percent of GDP is estimated, which will aid in the reduction of public debt from 62.7 percent in 2018 to 55.8 percent of GDP in 2019. By 2020, the ratio is projected to be 53.7 percent of GDP, below the FRL's 55 percent target.

## 5.1 Risks to the Economic Outlook

A mix of upside and downside risks can affect Grenada's positive macroeconomic outlook, but on balance, they are tilted to the downside. On the upside, Grenada's fiscal improvement provides space to upscale public investment that can boost growth and job creation, while simultaneously build resilience to climate change. On the downside, risks are linked to the waning expansion of the global economy and in particular, the economies of Grenada's main trading partners, which can negatively affect tourist arrivals, remittances, and foreign direct investment. Uncertainties regarding Brexit outcomes also pose downside risks to Grenada through lower tourist arrivals. Volatile international fuel prices also sources of risks. Grenada's vulnerability to natural hazards is an inherent risk; adverse effects of climate change can significantly affect agricultural output (in particular) over the medium-term. The Medium-term Fiscal Framework can also be adversely affected should any of the downside risks materialise. The Fiscal Risk Statement provides more details on risks to the medium-term outlook.