GRENADA

MINISTRY OF FINANCE, ECONOMIC DEVELOPMENT, PHYSICAL DEVELOPMENT AND ENERGY

2021 ANNUAL ECONOMIC REVIEW & MEDIUM-TERM OUTLOOK

November

2021

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1. Overview

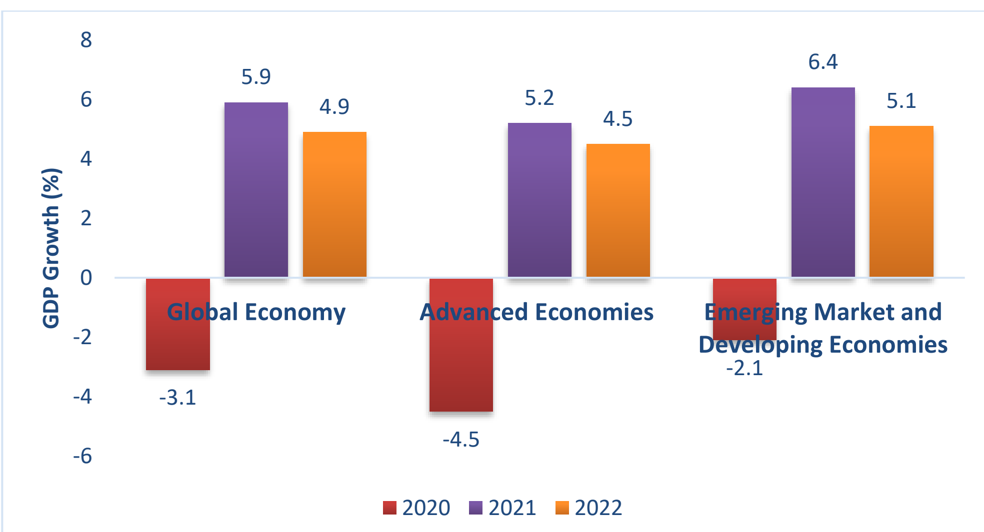
The effect of the COVID-19 pandemic continues to be visible in the economy 19 months after the first case was recorded on island. Activity in most sectors for the first half of the year remained below pre-COVID-19 levels, but there are indications of recovery (albeit tepid) in some sectors relative to 2020. First quarter performance in 2021 was generally weaker than that of 2020 as economic activity for that period in 2021 could not match pre-pandemic levels, which prevailed for most of the first quarter of 2020. Noteworthy was the comparative difference in tourist arrivals quarter on quarter. Economic activity strengthened in the second quarter of 2021 and continued into the third quarter but was temporarily interrupted by a spike in COVID-19 cases in September. Measures implemented to reduce the spread; including curfews, "no movement weekends" and limited business activity though not as severe as those implemented in the second quarter of 2020, were successful in "flattening the curve." However, the disruption affected business activity for several weeks, resulting in a reduction in productivity.

Real GDP Growth in 2021 is estimated to be in the range of 4.8 percent, a downward revision from the 5.2 percent published in July 2021. The slight downward revision is largely driven by the softening in economic activity in the third quarter because of the COVID-19 spike and heightened uncertainties for the remainder of the year as the effects of the pandemic linger. The estimated growth is mainly driven by the construction sector with private education, manufacturing and wholesale and retail trade showing signs of rebound. The tourism and air transport sectors continue to experience sluggish recovery due to a reduction in global travel since the pandemic. It is expected that recovery in the tourism sector will be gradual and dependent on the pace of global vaccination rollouts and an increase in the appetite for travel as pandemic fears abate. Inflation is expected to be in the region of 2.2 percent, above the 1.6 percent initially projected due to increases in global commodity prices. Overall, the fiscal position improved, though not to pre-crisis levels. Primary and overall balances including grants of $117.1 million and $62.7 million are anticipated for the full year 2021, eclipsing the budgeted primary surplus and overall deficit of $45.5 million and -$18.2 million respectively.

2. International Developments

According to the IMF's World Economic Outlook published in October 2021, global growth in 2021 is estimated to be 5.9 percent, a marginal downward revision from the 6.0 percent previously published in July 2021. The projection for growth in 2022 remains 4.9 percent (Figure 1). The downward revision for 2021 is linked to reduced prospects for growth in advanced economies such as the United States, Germany, and Japan, partly due to supply disruptions, softening demand and a period of rising COVID-19 infections. Additionally, the low-income developing country group was marked down 0.6 percentage points relative to July mainly due to worsening pandemic dynamics. Conversely, emerging market and developing economies were marked up slightly, partly reflecting stronger-than-anticipated demand in some regions, and improved prospects for commodity exporters, which outweigh pandemic-related drags on recovery. Risks to the projected growth include a resurgence of the virus and the emergence of deadlier, more transmissible variants.

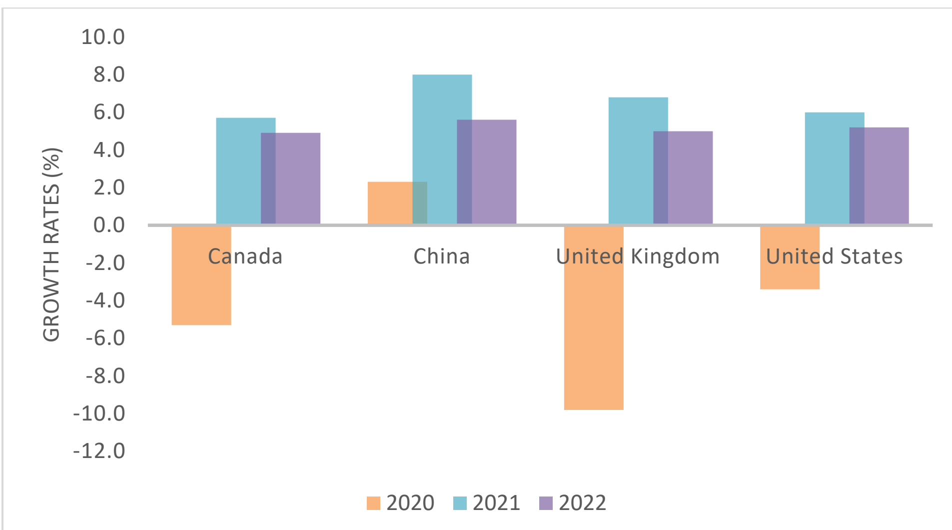
Figure 1: Global Growth Projections



Source: IMF's World Economic Outlook, October 2021

Vaccine access remains the principal driver of the divergent nature of the global recovery or the "K-shaped" global performance. Advanced economies with greater access to vaccines have made markedly higher progress with vaccinations with about 58.0 percent of their population being fully vaccinated. However, vaccine hesitancy is a major constraint retarding further recovery in those countries. The United Kingdom is highlighted as one case where large-scale vaccination campaigns were effective in reducing the impact of highly-contagious new variants of the virus. In emerging market and developing economies, the vaccination rate was lower, at about 36.0 percent, while only 5.0 percent of the population in low-income developing economies were fully vaccinated (at the time of writing this report in October 2021). Vaccine supply and distribution have been identified as factors hindering the roll out in these economies. Additionally, vaccine hesitancy, and in some cases vaccine resistance, are major constraints impeding progress to achieving herd immunity. Moreover, differences in policy support also widen the recovery gaps. Advanced economies continue to provide sizable fiscal support while emerging market economies are withdrawing support on some level due to shrinking fiscal space.

Figure 2: Real GDP Growth Rates- Major International Trading Partners



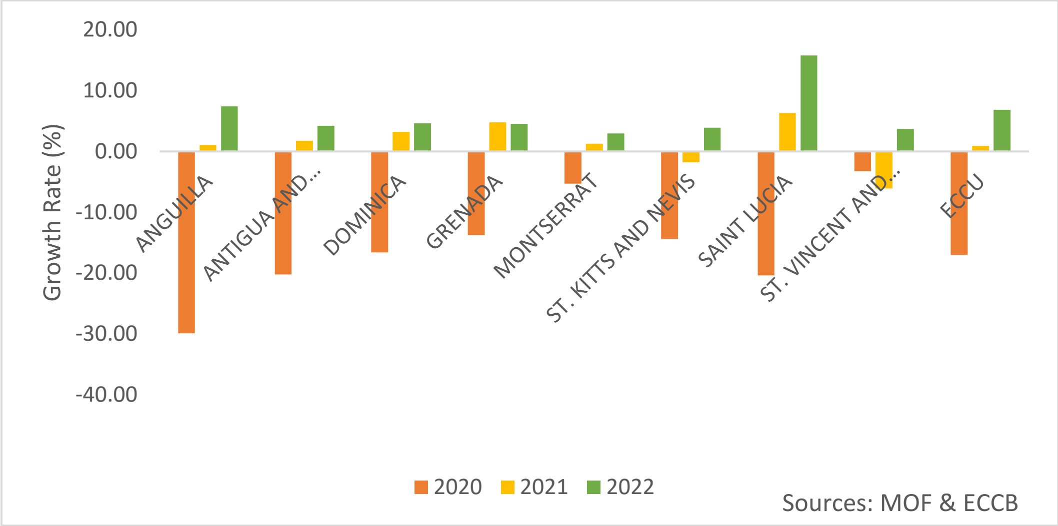
Source: IMF's World Economic Outlook, October 2021

Inflation rates have increased rapidly in recent months in the United States, and in some emerging market and developing economies, while other regions are affected to a lesser extent. Food prices, specifically in sub-Saharan Africa and the Middle East and Central Asia, increased significantly amid local shortages and rising global prices. Inflation is driven largely by supply and demand mismatches, rising commodity prices and policy-related developments. On the issue of trade, the sharp decline in demand in 2020, occasioned by the pandemic, saw many businesses cut orders for inputs. With the increasing demand in 2021, many producers are experiencing difficulty ramping up production, resulting in supply bottlenecks. Despite temporary trade disruptions, trade volumes are expected to increase by approximately 10 percent in 2021 and moderate to 7.0 percent in 2022. This recovery somewhat masks the subdued outlook for tourism-dependent countries, which are likely to recover more slowly. Travel restrictions and fears of a global resurgence of the virus could linger until a sustained decline in transmission is achieved.

3. Regional Developments

Most of the member countries of the Eastern Caribbean Currency Union (ECCU) are expected to record economic growth in 2021 as indicated by their real GDP numbers (Figure 3). These increases indicate that the economies are slowly recovering from the acute declines in real GDP recorded in 2020. In 2021, the average real GDP growth of the ECCU territories is expected to rebound to 0.9 percent as member governments implement accommodative policies to stimulate economic activity. Saint Lucia is expected to record the largest growth in real GDP of 6.3 percent followed by Grenada (4.8 percent) and Dominica (3.9 percent). St. Vincent and the Grenadines and St. Kitts and Nevis are the only countries that are expected to record declines in real GDP in 2021 of 6.1 percent and 1.8 percent, respectively. In 2022, however, it is expected that all economies will recover and record growth in real GDP. The ECCU average is forecasted at 6.8 percent.

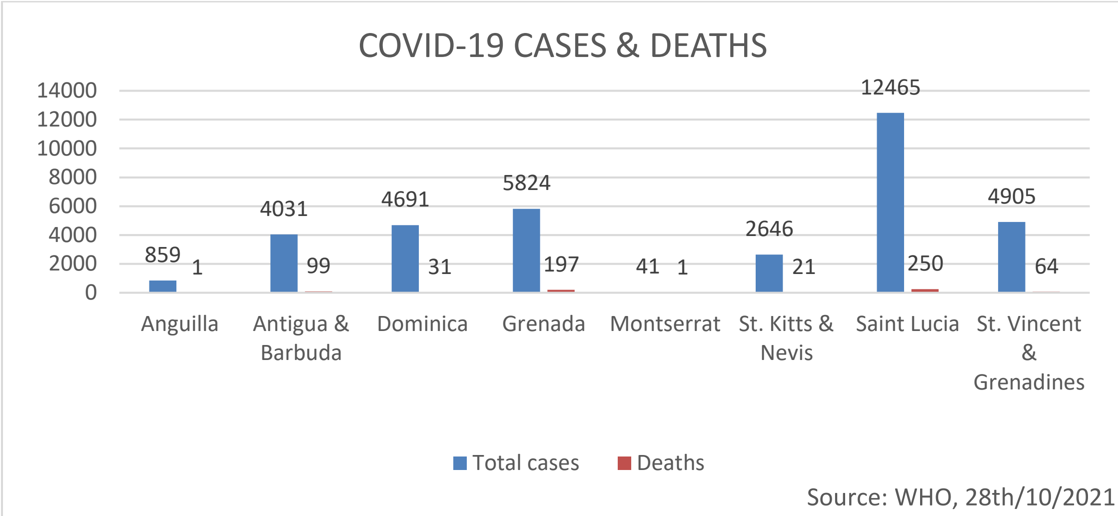
Figure 3: Real GDP Growth Rates (ECCU Countries)



In 2021, the member countries were still dealing with the effects of the COVID-19 pandemic. Saint Lucia recorded the largest number of COVID-19 cases (12,465) and deaths (250). More than 90 percent of those cases were recorded in 2021, with the largest spike occurring in the months of August and September 2021. Montserrat recorded the lowest number of COVID-19 cases (41) and deaths (1) of which most cases were documented in October 2021 (Figure 4). To curb the spread of the virus, these countries have implemented various strategies such as requiring that all visitors are fully vaccinated, instituting lockdowns and curfews, and only allowing essential businesses to operate for a specified period. Thus far, these strategies have helped these countries manage the spread of the virus.

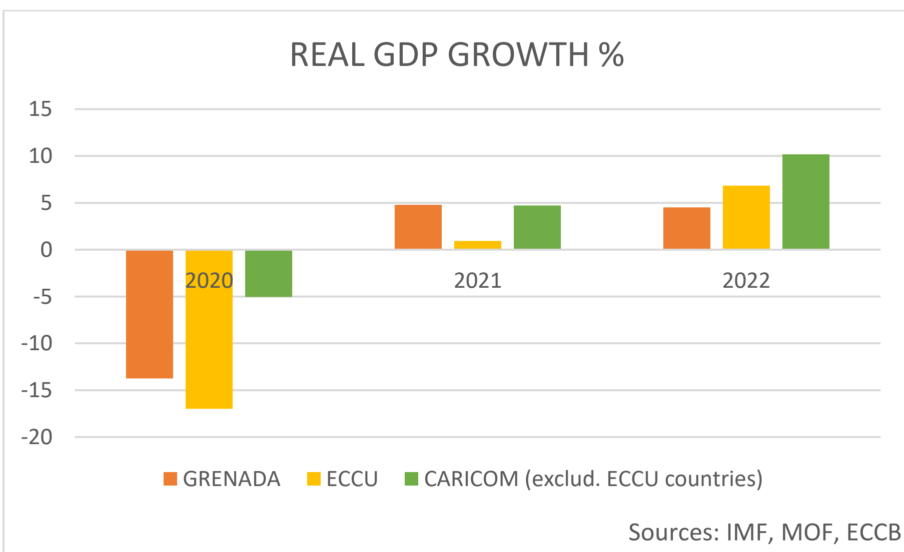
Global supply chain disruptions, higher international prices and international travel restrictions continue to put a strain on these economies. However, it is expected that in 2022 the burden of the pandemic will lessen as vaccination policies are put into place and life returns to some level of normalcy.

Figure 4: Regional COVID-19 cases and deaths



In 2021, CARICOM's average real GDP is expected to increase by 4.7 percent (Figure 5). Grenada's growth in 2021 is expected to be greater than both the averages of ECCU and CARICOM countries. However, in 2022 it is projected that the CARICOM countries will record a 10.2 percent increase in real GDP, largely due to the recovery of the tourism-dependent nations and robust growth projected for Guyana.

Figure 5: Real GDP Growth (Grenada, ECCU and CARICOM)

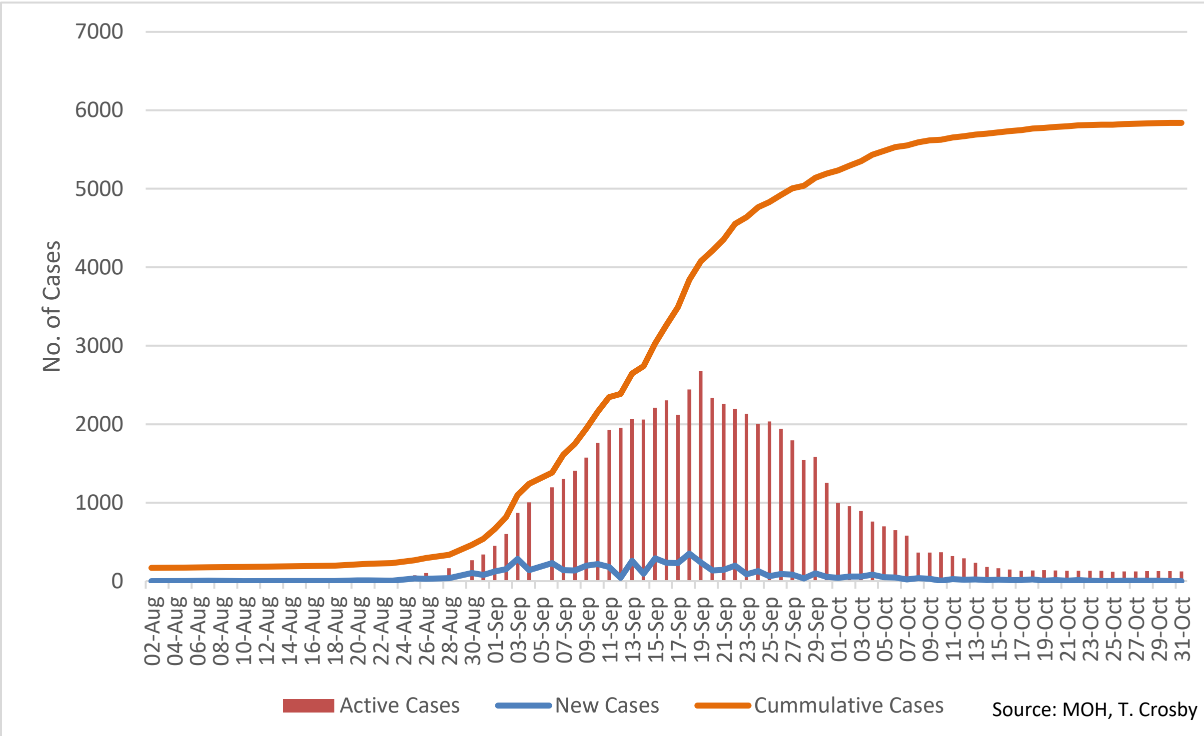


4. 2021 Mid-Year Economic Review and Estimated 2021 Performance

4.1. Real Sector

The Grenadian economy, like most economies, continued to be impacted by the COVID-19 pandemic 19 months after the first case was recorded on island. Activity in several sectors remained depressed, most notably tourism, although there were some signs of improvement. The sluggish recovery in global travel and the slower-than-anticipated vaccination rates were contributory factors to the weak performance of the sector in 2021. The spike in COVID-19 cases in September 2021 (Figure 6) retarded progress to some extent as measures had to be implemented to curb the spread of the virus. Restricted movement and limited hours of business, including “no movement weekends,” limited operating hours and the shut-down of some types of businesses, negatively impacted the economy for several weeks. Additionally, it was observed that businesses in all sectors voluntarily ceased operations when a case was reported in their institution to prioritise the safety of their staff and customers. The length of the closure depended on the extent of the exposure to the virus and the speed at which testing was conducted. These interruptions, though temporary, further impacted businesses’ bottom line. Notwithstanding, there are signs of a tepid recovery in the economy with some sectors such as construction and private education reporting growth relative to 2020. Preliminary data indicate that growth in 2021 will be in the range of 4.8 percent, a downward revision from the 5.2 percent published in July and the 6.0 percent projected in October 2020. There was a marginalincrease in inflation in the first nine months of 2021, and this is expected to rise further with projected increases in global food and fuel prices, as well as international shipping costs.

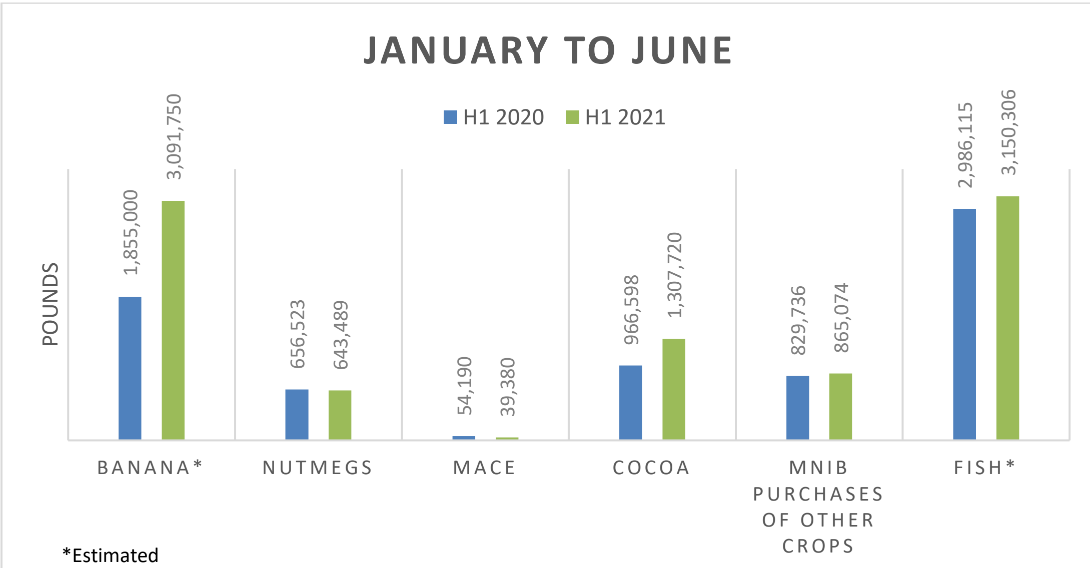
Figure 6: COVID-19 Cases (August-September 2021)



4.1.1. Agriculture & Fishing

Preliminary data for the first half show mixed results for the agriculture sector in 2021 compared to the same period in 2020 (Figure 7). Various factors affected crop production, including crop cycles, weather patterns and subdued demand. Anecdotal information for the third quarter suggests some pick up in production linked to favourable rainfall coupled with increasing demand both locally and internationally.

Figure 7: Production in Agriculture and Fishing



Source: Ministry of Finance, CSO

Nutmeg and Mace

Production of nutmeg and mace reduced by 2.0 and 27.3 percent respectively during the first half of 2021 compared to the same period in 2020. Nutmeg production was relatively low for the first half of 2021 partially due to lower-than-anticipated rainfall resulting in a late crop. However, anecdotal information on production for the third quarter indicate that there is some pick up expected for the rest of the year. In terms of mace, the price paid to farmers was adjusted from $1 per pound to $3 per pound to incentivise production so that supply can meet increased demand in the international market. Notwithstanding, several issues continued to plague the sub-sector including cash flow challenges affecting the co-operative and lack of land clearing services to access to farms. Nutmeg production, however, is expected to improve in the medium term, contingent on the success of propagation and planting drives as well as other support from the Government to resolve cash flow issues and improve farm access.

Cocoa

Cocoa production increased significantly by 35.3 percent during the first half of 2021 in comparison to the same period in 2020. The massive increase is largely due to second quarter production in 2021, which is compared to the second quarter of 2020 where restricted movement because of the pandemic, prevented farmers from harvesting. Moreover, the price of cocoa increased to $4 per pound, the highest price recorded since 2014. These developments have led to increased interest by farmers in cocoa production, reflected by an increase in requests for cocoa cards from the Grenada Cocoa Association (GCA). Meanwhile, low visitor arrivals on the island led to depressed demand for chocolate resulting in reduced production. On the export side, Grenada continues to secure premium prices for its cocoa due to its high quality. However, shortage of suitable ventilated containers for shipping to the international market adversely affected the subsector. Despite the challenges, projects are being implemented to increase production and improve processing of cocoa. Additional investment is needed in the sector to increase the production of low cadmium cocoa[1] to meet the demand in the international market.

MNIB Purchases of Other Crops[2]

Despite continued COVID-19-related challenges, the Marketing and National Importing Board (MNIB) recorded increases in the purchases of fresh produce such as bananas, plantains, watermelons, and root crops in 2021 relative to 2020. Produce such as sour sop and sea moss also continued to thrive. A monthly average of 187,000 pounds of produce was recorded for 2021, which is 78.1 percent greater than the monthly average for 2020. The MNIB has implemented several measures to improve performance, including technical assistance to farmers and establishing production contracts to ensure a steady supply of certain produce for local consumption and export. It is therefore anticipated that production growth will continue in 2022 as the organisation seeks to uncover new markets for exports.

Fishing

In the fishing sector, production growth is estimated at 5.5 percent for the first half of 2021 compared to the same period in the previous year. However, production remains below 2019 levels. The sector is currently confronting several challenges. On the local front, the relatively low activity in the tourism sector and the temporary halt of face-to-face classes at the SGU decreased the demand for fish. Reduced airlift in 2021 has limited capacity to export to international markets. All exporters, including exporters of fresh fruits and vegetables, were required to share already-

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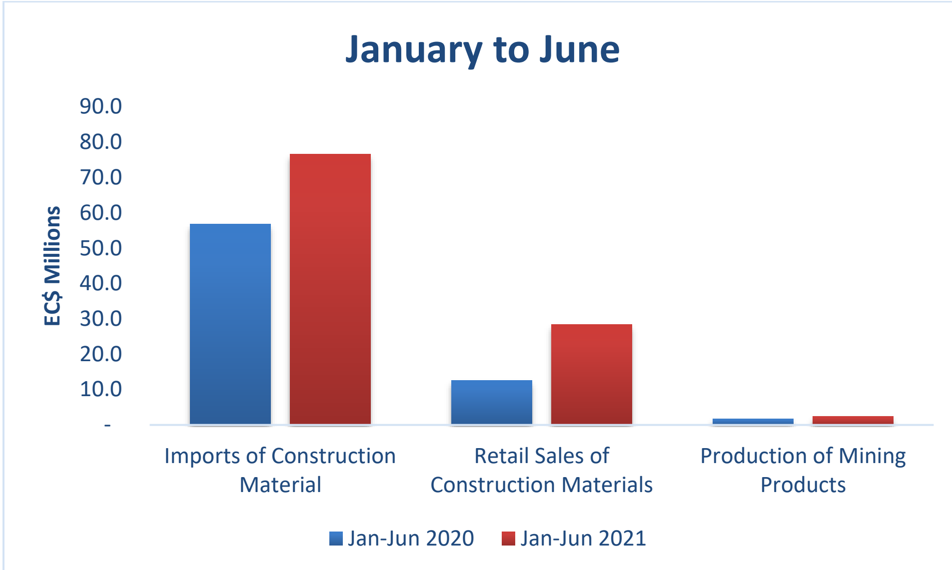
[1] Cocoa sold on the international market is required to have low levels of cadmium since it is carcinogenic.
[2] Used as a proxy for production of fresh fruits, vegetables and root crops.

limited space on one weekly flight from the main cargo aircraft servicingthe island. In the past, commercial aircrafts were used as an alternative for exporting, but with reduced commercial flights, this was not possible during the first half of 2021. Consequently, fishexporters have cutback the volume of fish purchased locally causing fisherfolk to find alternative markets for their catch since the amounts caught could not be readily absorbed in thelocal market. Increased freight and fuel costs, as well as trade disruptions, also affected fish exports. Should these issues persist, the return to pre-covid production levels could be delayed. There are some indications that production improved in the third quarter with increased demand due to improved tourist arrivals and the resumption of face-to-face classes at SGU.

4.1.2. Construction

Activity in the construction sector in the first half of 2021 was greater than in the same period in 2020. A 34.9 percent increase in the importation of construction materials was recorded in the first half of 2021, while retail sales of building materials expanded by 126.2 percent (Figure 8). This suggests a pick-up in both commercial and residential construction as evidenced by the increase in both indicators over the period. Improved implementation of Government's Public Sector Investment Programme (PSIP), mainly as it relates to the construction and repairs of roads, bridges, schools, and other public infrastructure contributed to the performance of the sector during the year. In the private sector, major construction projects included the Six Senses Resort in St. David as well as developments in Levera in the north of the island and Mt. Hartman in the south. Additionally, other smaller construction projects are ongoing, including expansion works by a major retailer in the south of the island.

Figure 8: Construction and Mining Indicators



Source: Ministry of Finance, CSO

Despite this high level of activity, the Construction sector continues to face various challenges owing to the COVID-19 pandemic. According to the reports from some construction companies, the sector is being adversely affected by supply chain disruptions (shortage of construction material and longer delivery times) and increases in global freight costs, which lead to higher landed costs of construction materials. There have been significant increases in the prices of steel products, woodwork & finishing materials, and waterproofing materials. Vaccine resistance is stated as an issue affecting the sector, as many construction workers are refusing to be vaccinated, contributing to the shortage of skilled labour. Notwithstanding these challenges, the sector is still recovering positively, and construction activity is expected to grow further in 2022.

4.1.3. Tourism

The tourism sector remains the most affected by COVID-19 as this sector has yet to rebound in a meaningful way since the onset of the pandemic. Tourism statistics for the first three quarters of 2021 show a 41.2 percent decline in stayover arrivals relative to the same period in 2020 (Table 1) with reductions observed in every source market. The largest number of visitors in 2021, came from the United States, followed by the United Kingdom, and the Caribbean.

Table 1: Visitor Arrivals

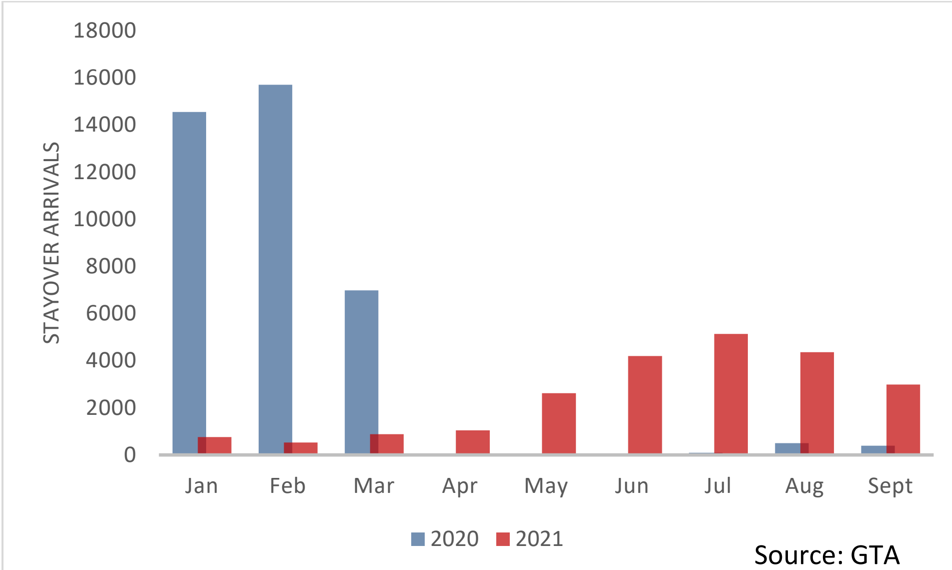
Visitor Arrivals	Jan - Sep-20	Jan - Sep-21	% Change
United States	17,300	16,289	-5.8
Europe	2,881	426	-85.2
United Kingdom	7,028	2,697	-61.6
Canada	4,400	628	-85.7
Caribbean	5,369	1,685	-68.6
Other	1,296	780	-39.8
Total Stayover Arrivals	**38,274**	**22,505**	-41.2
Cruise Passengers	**162,517**	**-**	-100.0

Source: GTA

However, an examination of monthly arrivals shows improvements in the months of May to September 2021 relative to 2020 as that period in 2020 included the global lockdowns and depressed travel due to the pandemic. In 2021, though travel remained well below pre-pandemic levels, airlines increased flights and international travel gradually recovered. The largest number of stayover arrivals for the first nine months of 2021 were recorded in July (5,133) and August (4,357) (Figure 9), consistent with pre-pandemic trends[3], though on a much smaller scale. A quarter-on-quarter analysis shows that the largest number of visitors in 2021 arrived in quarter three (12, 478 compared to 987 in quarter three of 2020).

[3] These months historically record the highest monthly arrivals linked to the carnival season.

Figure 9: Monthly Stayover Arrivals



Many factors continue to affect the hotel sector as some properties struggle to remain operational. The spike in COVID-19 cases in September 2021 and the restrictions implemented to manage the spread, negatively impacted tourist arrivals. As Grenada was given level 4 risk rating[4] by the Centers for Disease Control and Prevention (CDC), many tourists canceled flights and accommodation during that period. Locally, beach restrictions affected the dive and water sports subsectors while tour operators were not allowed to ply their trade. Restaurants also lost revenue due to in-house dining restrictions. Though the COVID-19 situation has dramatically improved since then, the level 4 rating was not yet been revised at the time of writing this report in October 2021. Nonetheless, stayover arrivals are expected to steadily increase during the last quarter of 2021. Several hotels, which temporarily closed their doors in 2020 have resumed operation in 2021, including the Spice Island Beach Resort and the Royalton Grenada Resort, which both reopened in October. Tourism businesses continue to implement measures and protocols to ensure the safety of staff and guests as the sector recovers. Many employees in the tourism sector have been vaccinated in preparation for the predicted increase in arrivals for the winter season. Continued recovery of the sector is dependent on improvement in the vaccination rate to reduce the possibility and/or severity of a second wave of COVID-19 cases, as well as global

[4] Highest risk rating for travel.

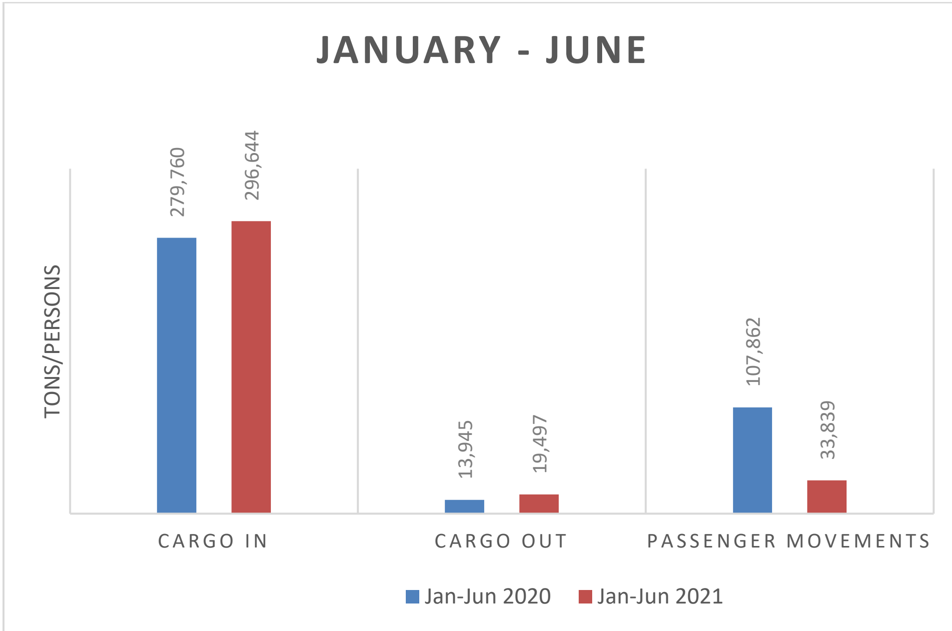
developments in international travel.

In terms of the cruise subsector, the cruise season remained closed since February 2020, hence no visitors were record for the first three quarters of 2021. However, the 2021/2022 cruise season is set to open in November 2021, with approximately 68 ships expected for the last quarter.

4.1.4. Transport and Storage

Indicators used to gauge activity in road, sea and air transport include air passenger movements, cargo movements and cruise arrivals. In terms of sea transport, an increase of 7.6 percent was observed in overall cargo movements in the first half of 2021 compared to the same period in 2020. "Cargo in" grew by 6.0 percent from 279,760 tons to 296,644 tons while "cargo out" rose by 39.8 percent from 13,945 tons to 19,497 tons (Figure 10). It should be noted that approximately 99.6 percent of cargo movements pertained to sea cargo. A quarter-on-quarter analysis shows that there was a decline in cargo movements in the first three months of the year compared to the same period in 2020 attributed to international trade issues including shipping delays, production setbacks due to material scarcity, shortage of containers, increased cost of freight and general product shortages. Conditions improved somewhat in the second quarter, resulting in the overall performance seen in the first half. Notwithstanding, some of the challenges experienced in quarter one remained and affected the business of most importers. Moreover, the continued closure of the cruise ship season contributed to the decline in sea transport for the period under review.

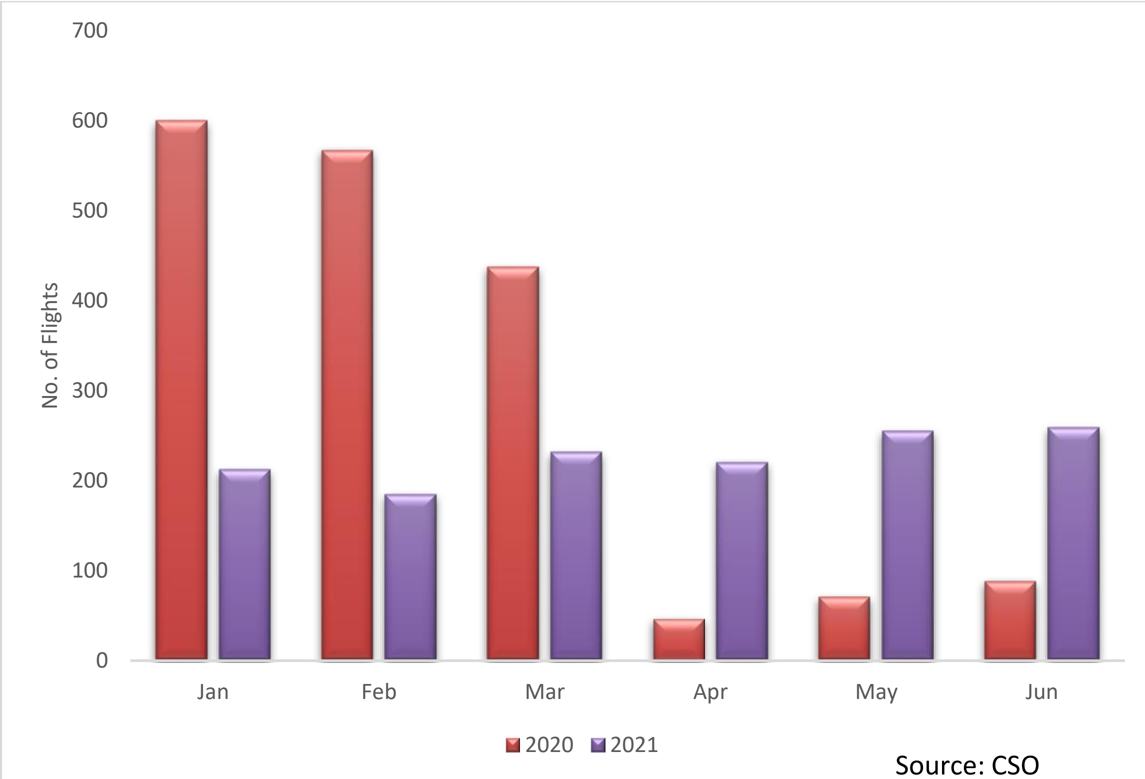
Figure 10: Passenger and Cargo Movements



Source: Ministry of Finance, CSO

Air transport was affectedby reduced passenger movements and commercial flights for the first half of 2021 compared to the same period in 2020. For air transport, it is estimated that passenger movements fell by 68.6 percent in January to June 2021 compared to the same period in the previous year. The number of aircraft arriving in Grenada also fell during the period from 1,809 in the first half of 2020 to 1,362 in the same period in 2021. It should be noted that there were 204 flights (including private aircraft) in the second quarter of 2020 (lockdown period) compared to 734 for the same period in 2021 (Figure 11). There is therefore some indication of recovery in the sector. Concerning road transport, activity in this sector is hinged on activity in the construction sector and cargo movements largely related to the wholesale and retail sector.

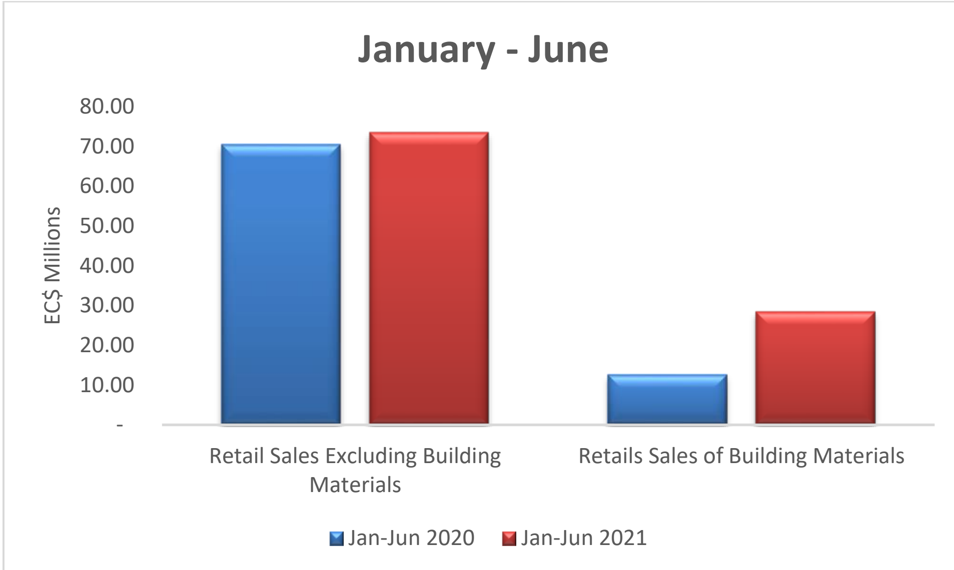
Figure 11: Monthly Aircraft Arrivals



4.1.5. Wholesale and Retail Trade

Preliminary data for the wholesale and retail trade sector indicate some improvement for the January to June period of 2021 against the comparable period in 2020. Retail sales excluding building material rose by 4.2 percent in the first half, indicative of increased spendingpower since the economic downturn caused by the pandemic. Additionally, retail sales of building material increased period on period by 126.2 percent, signaling a spike in residential construction (Figure 12).

Figure 12: Retail Sales



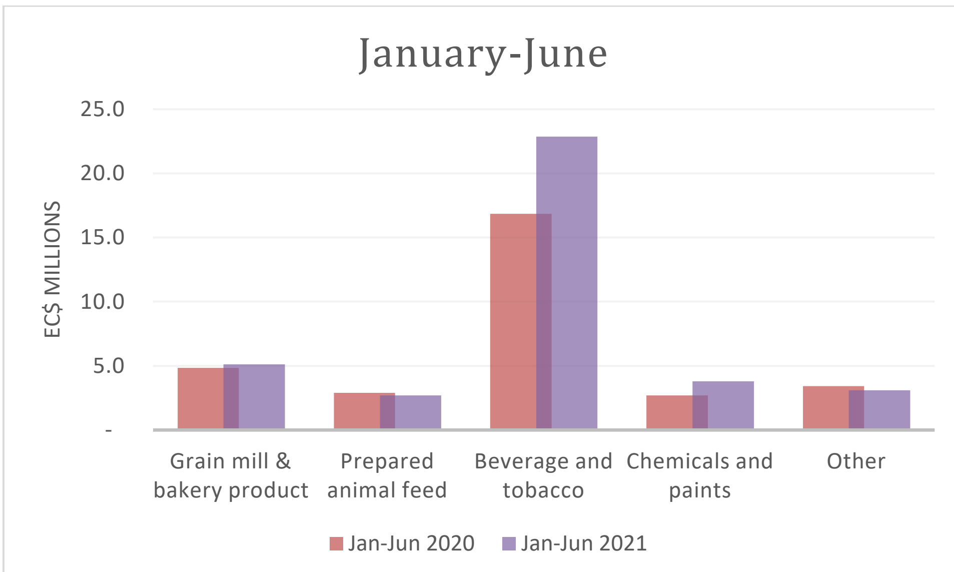
Source: Ministry of Finance, CSO

The sector experienced several challenges in 2021, largely related to shipping delays, decreased supply of goods, material shortages, increased shipping rates and increased base costs of goods. These issues have raised the cost of doing business and reduced profit margins as some wholesalers and retailers have absorbed at least a portion of the price increases. Uncertainty relating to the alleviation of these trade issues threatens the outlook for the sector as businesses will eventually be forced to pass on increased costs to consumers, which may result in a drop in demand. Notwithstanding, there have been some improvements in the wholesale and retail sector brought on by the COVID-19 pandemic. For example, more businesses are incorporating ICT into their operations, starting with the digitisation of business processes and the development of online shopping websites and applications.

4.1.6. Manufacturing

Overall, the value of products manufactured in the first six months of 2021 grew by 22.3 percent. However, the performance of products showed mixed outcomes. Animal feed declined by 6.9 percent, while "other" production fell by 9.4 percent (Figure 13). In the case of grain mill & bakery products, production increased by 5.4 percent during the period under review despite several factors affecting demand. On the export side, the non-implementation of Article 164 of the Revised Treaty of Chaguaramas in some islands continued to affect exports. Article 164 is meant to give a slight advantage to products produced in the lesser developed countries (LDCs) in the region. Without these special provisions,products, such as flour, that are produced in Grenada, cannot compete pricewise with products produced in more developed countries (MDCs) such as Trinidad and Jamaica. Moreover, the increased cost of freight and inputs from September 2020 necessitated an increase in local flour prices early in 2021.

Figure 13: Industrial Production



Source: Ministry of Finance, CSO

By contrast, beverage production, which is by far the largest category of manufactured products rose by 35.7 percent. After some delays due to COVID-19, the island's newest Rum manufacturing company commenced production in January 2021. Although the final product will not reach the market for several years, as is the process with aged rum, production is progressing smoothly with the company moving to cultivate sugarcane in over 100 additional acres of land to facilitate production. There have also been reported increases in the production of beers, ciders, other brewed beverages, and water during the period under review, partially due to an increase in exports to the islands of Trinidad and Tobago and St. Vincent and the Grenadines. Additionally, the production of chemicals and paints also grew by 40.6 percent during the period, reflecting the increased activity in the construction sector.

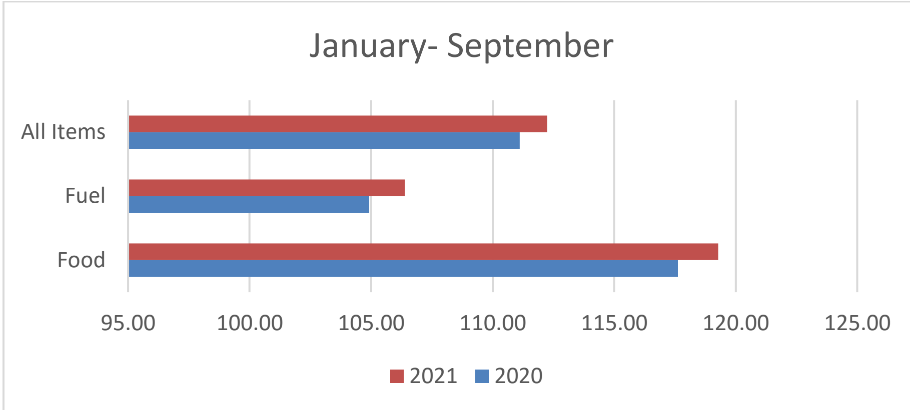
4.1.7. Private Education

The SGU, which is the largest contributor to private education, announced the resumption of face-to-face classes for the August 2021 term. The institution, which has been delivering classes online since March 2020, announced its decision to resume in-person learning on April 15, 2021, signaling the return of its students to the island. Additionally, the University implemented a strict vaccination policy where, going forward, all faculty, staff, students, and service providers of the University must be fully vaccinated to be allowed onto all of its campuses. Although most students returned in August, the spike in COVID-19 cases in September prompted the University to temporarily halt face-to-face classes for several weeks. Students were given the option to remain on the island or return home as studies could be conducted online. Face-to-face classes resumed in October, requiring the return of all students, faculty and staff. The University is optimistic that enrolment for the 2021/2022 academic year, which includes the January intake, will be at least on par with previous years. Additionally, the University has adjusted its tuition fees upwards in 2021 after a temporary freeze in 2020. The return of the students and faculty should have a positive impact on other sectors, including the wholesale & retail and real estate sectors.

4.1.8. Inflation

The consumer price index (CPI) for January to September 2021 indicates a period average inflation rateof 1.0 percent compared to the same period in 2020. Rising commodity prices relating to supply bottlenecks, trade disruptions and supply and demand mismatches have created domestic inflationary pressures. Local fuel prices, as measured by the CPI, rose by 1.4 percent during the period reflective of increases in international oil prices. Likewise, food prices grew by 1.4 percent also reflective of high international prices (Figure 14).

Figure 14: Consumer Price Index

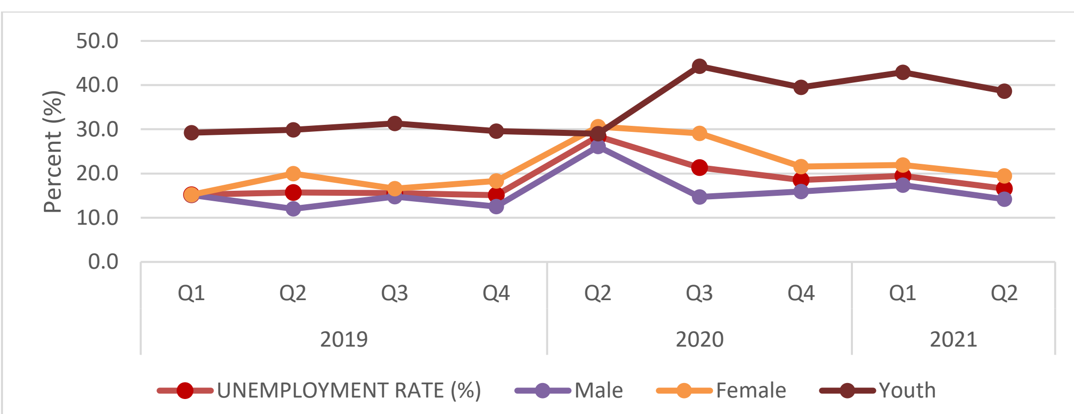


Source: Ministry of Finance, CSO

4.1.9. Unemployment

Unemployment was on a downward trajectory for two consecutive quarters since the spike in quarter two of 2020, reaching 18.5 percent in quarter four of 2020. It increased marginallyto 19.5 percent in the first quarter of 2021 then reduced to 16.6 percent in the second quarter. The unemployment rate remains higher for women thanfor men, though the rates for both sexes were falling pre-COVID-19. Similarly, though still high,youth unemployment had been on a downward trend pre-COVID-19 (Figure 15). The spike in youth unemployment in the first quarter of 2021 is partly attributed to an increase in youth participation in the labour force after completion of studies. It has since been on a downward trajectory in the second quarter.

Figure 15: Unemployment Rate

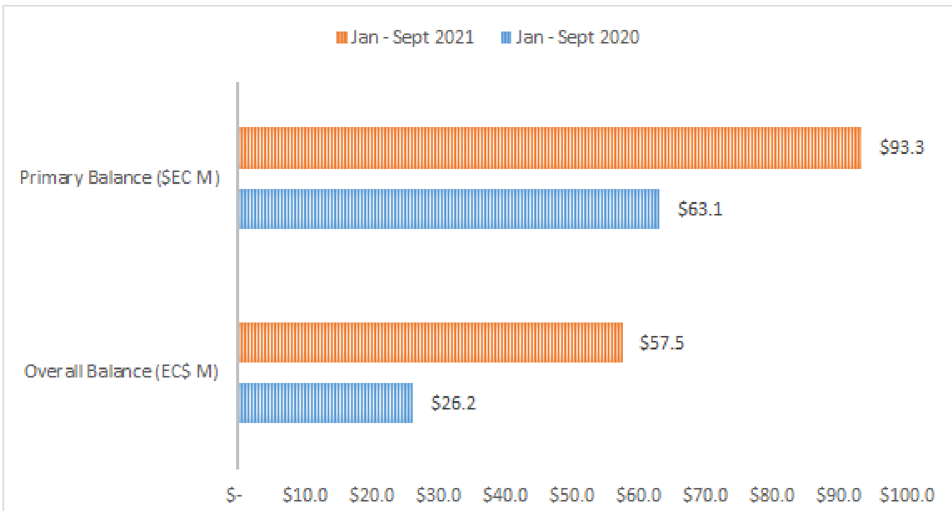


Source: CSO

4.2. Fiscal Sector

On balance, Grenada's fiscal position strengthened in 2021 relative to 2020 despite the continued impact of theCOVID-19 pandemic. During the first nine months of 2021, the Primary and Overall Balances including Grants were $93.3 million and $57.5 million respectively, which were more than the comparable period of 2020 by 47.9 percent and 119.5 percent respectively (Figure 16).

Figure 16: Primary Balance and Overall Balance after grants 2021 vs 2020 (Jan-Sept)



Source: Ministry of Finance

Total Revenue and Grants for Jan - Sept of 2021 amounted to $674.1 million of which total revenue was $534.0 million and total grants were $140.1 million. Total Revenue and Grants were 18.2 percent more thanthe amount collected in the same period of 2020, primarily because of improvedperformances in Non-tax Revenue and total Grants received.

During the Jan-Sept 2021 period, Capital Grants of $53.8 millionwere transferred from the Citizenship-by-Investment (CBI) programme to the National Transformation Fund (NTF).

Table 2: Total Revenue and Grants 2020 vs 2021 (Jan-Sept)

	2020	2021	Variance	
	January - Sept			
	$M	$M	$M	%
Total Revenue and Grants	**570.4**	**674.1**	**103.7**	**18.2%**
Total Revenue	**506.3**	**534.0**	**27.7**	**5.5%**
Tax Revenue	**454.8**	**459.3**	**4.5**	**1.0%**
Taxes on Income and Profit	96.3	91.2	(5.1)	-5.3%
Taxes on Property	26.5	24.8	(1.7)	-6.4%
Taxes on Domestic Transactions	97.8	95.0	(2.8)	-2.9%
Taxes on International Transactions	234.2	248.3	14.1	6.0%
Non-Tax Revenue	**51.5**	**74.7**	**23.2**	**45.0%**
Total Grants	**64.1**	**140.1**	**76.0**	**118.6%**

Source: Ministry of Finance

Tax Revenue was $459.3 million or $4.5 million more than 2020. Alltax types recorded lower collections than in 2020 except for taxes receipts from international transactions that increased by 6.0 percent. In contrast, taxes collected on domestic transactions were 2.9 percent less than the amount collected in 2020. Taxes collected on Income and Profit and Property were 5.3 percent and 6.4 percent respectively, less than the collections of 2020 (Table 2).

Total Expenditure (excluding principal repayments) for the first nine months of 2021 was 13.3 percent more than the same period of 2020 driven by a 131.2 percent increase in capital spending as the Government continued its effort to bolster the PSIP. Recurrent outlays decreased by $14.3 million overall, despite increases of 4.2 percent and 19.5 percent in Employee Compensation and Goods and Services respectively.

Table 3: Total Expenditure 2020 vs 2021 (Jan-Sept)

	2020	2021	Variance	
	January - Sept			
	$M	$M	$M	%
Total Expenditure	**544.2**	**616.5**	**72.3**	**13.3%**
Recurrent Expenditure	**478.2**	**463.9**	**(14.3)**	**-3.0%**
Employee Compensation	**205.4**	**214.0**	**8.6**	**4.2%**
Personal Emoluments	194.6	202.1	7.5	3.9%
Social Contributions	10.8	11.9	1.1	10.2%
Goods and Services	94.6	113.0	18.4	19.5%
Interest Payments	36.9	35.8	(1.1)	-3.0%
Current Transfers	141.3	101.1	(40.2)	-28.5%
Capital Expenditure	**66.0**	**152.6**	**86.6**	**131.2%**

Source: Ministry of Finance

The growth in Employee Compensation included increases of 3.9 percent and 10.2 percent respectively in Personal Emoluments and Social Contributions. The expansion in spending on Goods and Services was due principally to higher outlays on outsourced service contracts. By contrast, Interest Payments and Current Transfers declined by 3.0 percent and 28.5 percent respectively (Table 3). The decrease in Current Transfers was primarily because of the expiration of the suite of stimulus measures introduced during the second quarter of 2020 to mitigate the adverse impacts of the COVID-19 pandemic on affected sectors. However, Government launched a second round of economic stimulus measures in September 2021 to mitigate the protracted effects of pandemic. This is expected to cause an uptick in Current Transfers in the fourth quarter resulting in higher outturns at the end of this fiscal year.

Reflective of better-than-budgeted tax and non-tax revenue outturns during the first nine months of 2021, as well as actual Capital Expenditure being less that budgeted, an Overall Surplus of $62.7 million is estimated for the full year 2021 compared to a budgeted deficit of $18.2 million. Likewise, a Primary Surplus including Grants of $117.1 million is estimated, exceeding the budgeted amount of $45.5 million.

Table 4: Grenada Fiscal Projections

	2021			
	Estimated Outturn	Budget	Variance	
	EC$M	EC$M	EC$M	%
Total Revenue & Grants	**923.0**	**917.1**	**5.9**	**0.6**
Total Revenue	**690.4**	**653.5**	**37.0**	**5.7**
Tax Revenue	**605.0**	**590.2**	**14.8**	**2.5**
Taxes on Income	116.5	103.1	**13.4**	**13.0**
Taxes on Property	29.1	27.4	**1.6**	**5.9**
Taxes on Domestic Goods &	125.4	124.5	**0.8**	**0.7**
Taxes on International Trade & Transactions	334.1	335.2	**(1.1)**	**(0.3)**
Non - Tax Revenue	**85.4**	**63.2**	**22.2**	**35.0**
Grants	**232.6**	**263.6**	**(31.0)**	**(11.8)**
Total Expenditure	**860.3**	**935.2**	**(74.9)**	**(8.0)**
Primary Expenditure	**805.9**	**871.6**	**(65.7)**	**(7.5)**
Current Expenditure	**598.6**	**629.6**	**(31.0)**	**(4.9)**
Employee compensation	273.9	277.8	**(3.9)**	**(1.4)**
o/w wages, salaries & allowances	259.7	264.3	**(4.7)**	**(1.8)**
Goods and Services	116.5	121.8	**(5.3)**	**(4.4)**
Interest Payments	54.5	63.7	**(9.2)**	**(14.4)**
Transfers	153.7	166.3	**(12.6)**	**(7.6)**
Capital Expenditure	**261.7**	**305.6**	**(43.9)**	**(14.4)**
o/w Grant financed	**195.4**	**243.6**	**(48.2)**	**(19.8)**
Overall balance	**62.7**	**(18.2)**	**80.8**	**(444.8)**
Primary balance (including grants)	**117.1**	**45.5**	**71.7**	**157.5**

Source: Ministry of Finance

4.2.1. Public Debt

Total public debt[1] at the end of September 2021 stood at $2.1 billion or 70.6 percent of estimated GDP.This increase in the debt-to-GDP ratio can be attributed to the lower projected growth as well as new disbursements on concessional loans from multilateral and bilateral partners, including to help respond to the COVID-19 crisis. The quarterly Debt Bulletins as well as the Medium-term Debt Management Strategy 2022-2024, which are prepared separately, provide detailed information and analyses on public debt.

4.3. Monetary and Financial Sector

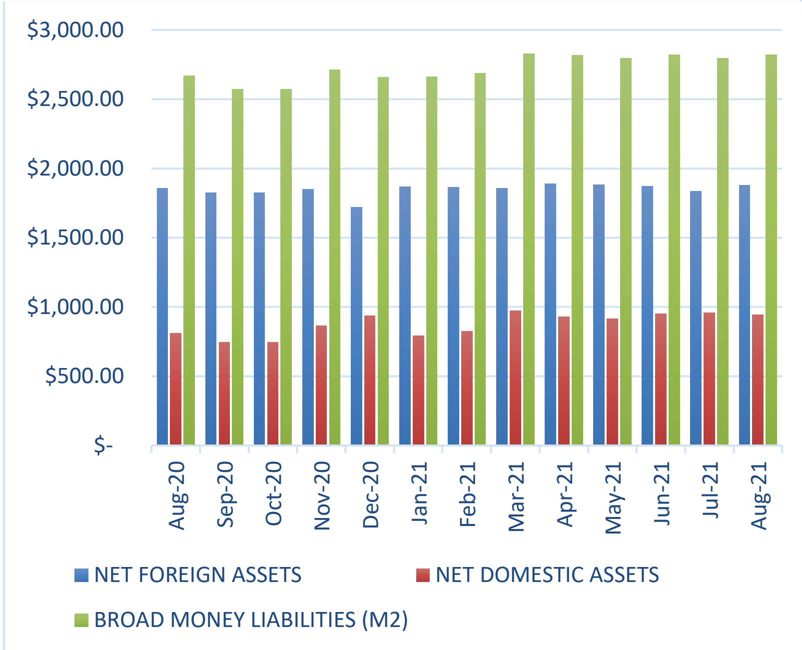
The monetary and financial system analysed through banks and non-bank financial institutions, continued to see improvements in its assets. Despite financial pressures due to the onset of the COVID-19 pandemic, deposits rose faster rate than that of loans, which further increased the already-high liquidity in the financial sector. Overall, the financial sector remained stable, with improvements in domestic credit over the period and non-performing loans remainingbelow the prudential benchmark.

[1] Total public debt includes both the external and domestic debt of Central Government and Government Guaranteed debt of State-owned enterprises.

4.3.1. Overview of the Monetary and Financial Sector

The monetary and financial sector showed slight improvements at the end of the third quarter of 2021, compared to the same period in 2020. This was illustrated by the 5.7 percent overall growth of the monetary base.

Figure 17: Monetary Survey Analysis of Money Aggregates



Source: ECCB

In like manner, there were recorded advances in the *uses* of finances (Assets). Net Domestic Assets (NDA) grew by16.4 percent due to increases in domestic credit, mainly in Private Sector credit, and to a lesser extent, Public Sector credit.

Net Foreign Assets (NFA) increased slightly by 1.1 percent, attributed to increased foreign assets held at the Eastern Caribbean Central Bank (ECCB) (imputed reserves) and reductions in other depository corporations (Commercial Banks) (Figure 17).

Supporting these activities were the *sources of financing (Liabilities)*, the stock of Broad Money (M2). Monetary Liabilities have been chiefly driven by improvements in narrow money (M1) of 14.7 percent, foreign currency deposits and other deposits in national currency. Banks continue to be very liquid, with a ratio of total non-interbank loans/total non-interbank deposits of 51.7 percent. Notwithstanding the high liquidity levels, there was a slight decline in liquidity of 1.0 percent over the period September 2020 to September 2021. Overall, the stock of money continued to grow at a rate greater than NDA and NFA, which duly indicated the level of liquidity in the sector and the stability of the financial system.

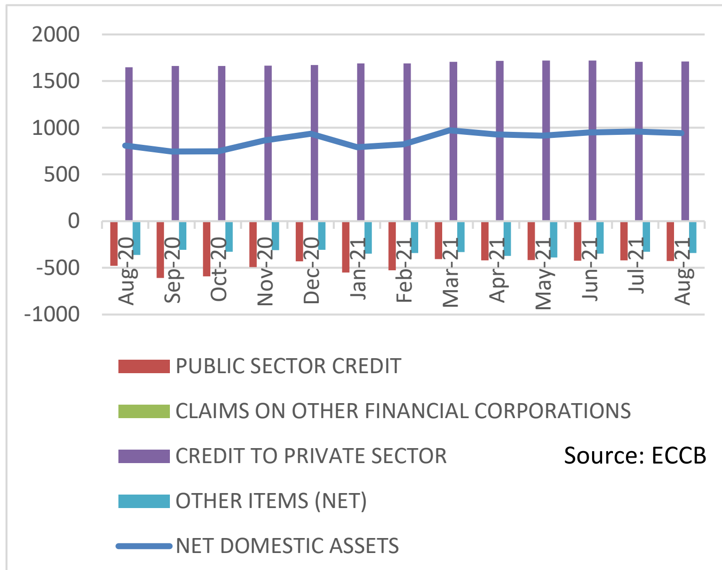
4.3.2. Detailed Analysis of Monetary Survey

Assets

Net Foreign Assets (NFA)

At the end of August 2021, the NFA position stood at $1,877.9 million. This slight increase of 19.6 million was primarily driven by an expansion in the ECCB's (imputed reserve) of $77.7 million; however, there was a decline in Other Depository Corporations (Commercial Banks) of $58.2 million.

Figure 18: Net Domestic Assets



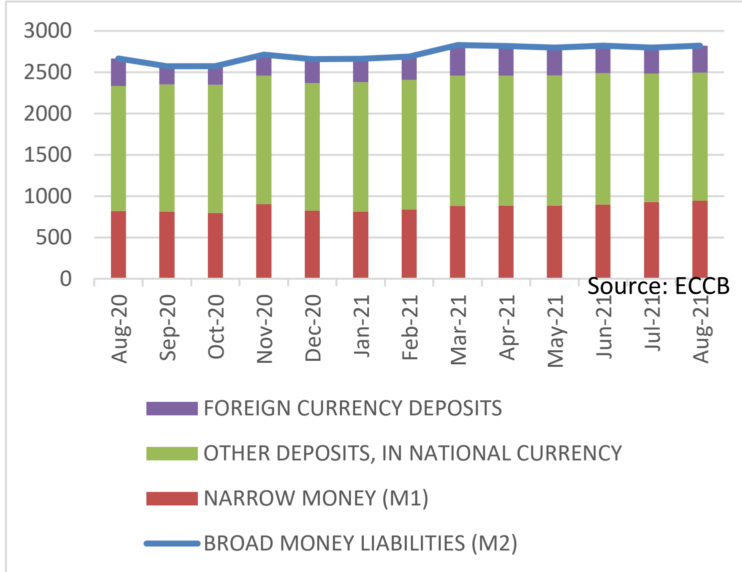
Net Domestic Assets (NDA)

Despite the dampening effects of the COVID-19 pandemic, NDA at the end of August 2021 showed growth, recording a $132.6 million improvement compared to August 2020 (Figure 18).

Improvements in Public Sector credit of $51.2 million, accounted for 38.5 percent improvements in NDA. While Private Sector credit experienced marginal improvements, that is, by 3.7 percent, a large portion of the changes observed with NDA is explained by the nominal value of credit to the Private Sector $60 million, which is indicative of the degree of economic activities in the Private Sector. This was driven by a 4.8 percent uptick in commercial loans mostly in the construction and land development sector, and in Transport and Storage over the period. Additional sectors that experienced notable improvements include Human Health and Social Work Activities, Manufacturing, Water Supply or Sewerage and Waste Management, Information and Communication, Education (including student loans), Other Service Activities and Private Household credit specifically: Medical, Private travel and Personal vehicle.

Liabilities

Figure 19: Disaggregation of Monetary Liabilities



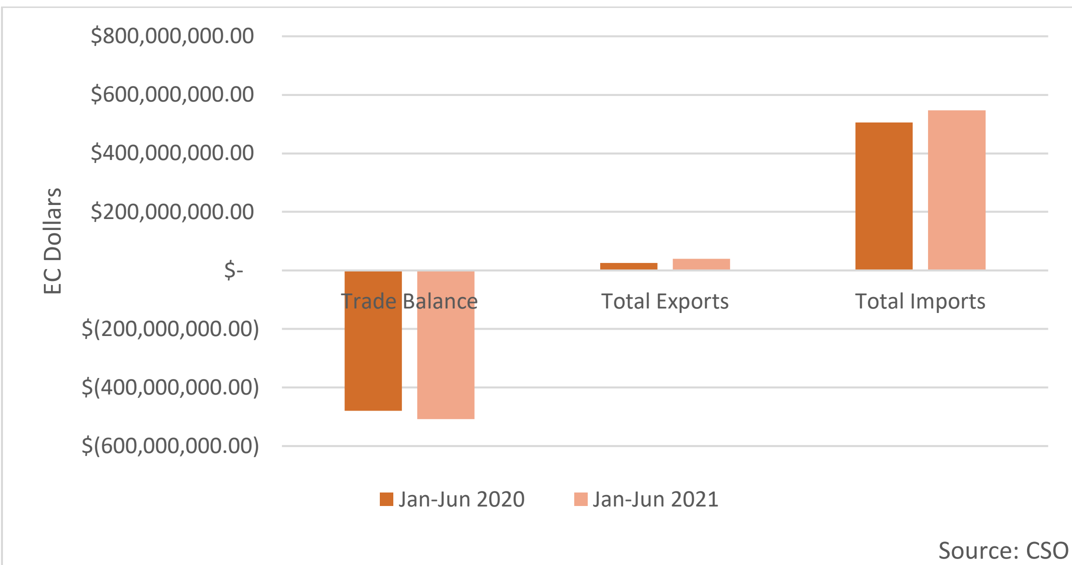
Monetary Liabilities improved by 5.7 percent at the end of August 2021 compared to the same period in 2020. Quasi Money, which includes Other Deposits in National Currency and Foreign Currency Deposits account for most of the stock of Monetary Liabilities. Over the observation period August 2020 to August 2021, Quasi Money registered slight improvements of approximately 1.7 percent ($31.4 million). This was chiefly driven by an increase in Other Deposits in National Currency of $44.4 million- this growth was influenced most significantly by improvements in Public Non-financial Corporations ($37.5 million) and deposits from the Private Sector ($7.5 million). These improvements however were netted against the recorded declines in Foreign Currency Deposits of $13.1 million, which resulted in the stock of Quasi Money to stand at $1,877 million at the end of August 2021.

Although Quasi money accounts for the largest share of the money stock, the observed growth in Monetary Liabilities is owed primarily to the increases in the Money Supply (M1) equivalent to $120.8 million (14.9 percent improvement). Transferable deposits which included Public Non-Financial Corporations Demand Deposits, and Private Sector Demand Deposits and EC Cheques and Drafts issued, accounted for a significant share of this growth in M1 ($65.4 and $50.3 million respectively)- while currency held with the public accounted for a smaller portion ($11.1 million) (Figure 19).

4.4. External Sector Developments

An analysis of the trade data for the first half of 2021 depicts a slight worsening of the trade balance compared to the same period in 2020. The trade deficit increased by 5.8 percent, moving from negative $480.0 million at the end of the second quarter of 2020, to negative $507.9 million at the end of the second quarter of 2021 (Figure 20). This increase in the trade deficit was the result of the growth in total imports by 8.2 percent, from $506.0 million (Jan-Jun 2020) to $547.5 million (Jan-Jun 2021). Additionally, there was a substantial improvement in total exports (though the nominal values are small), which grew by 52.5 at the end of June 2021 compared to 2020.

Figure 20: Balance of Trade (est.)



An examination of the category of imports for the second half of 2021, reveals that the main contributors driving the increase in imports are Animal & Vegetable Oils, Fats & Waxes (42.9 percent), Crude Materials, inedible, except fuels (37.4 percent), and Miscellaneous Manufactured Articles (23.7 percent) (Table 5). Even with the rise in trade costs, it is expected that the importation of goods will continue to increase in the last quarter of 2021 especially as the Christmas season approaches.

Table 5: Domestic Imports (Est)

SITC SECTIONS	Jan-Jun 2020	Jan-Jun 2021	% Change
	EC$ Millions	EC$ Millions	
FOOD	$ 111.23	$ 105.55	-5.1
BEVERAGES & TOBACCO	$ 15.32	$ 12.56	-18.1
CRUDE MATERIALS,INEDIBLE, EXCEPT FUELS	$ 13.95	$ 19.16	37.4
MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	$ 81.70	$ 86.89	6.4
ANIMALS & VEGETABLE OILS, FATS & WAXES	$ 1.88	$ 2.69	42.9
CHEMICALS & RELATED PRODUCTS, N.E.S	$ 46.28	$ 50.15	8.4
MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	$ 78.89	$ 91.57	16.1
MACHINERY & TRANSPORT EQUIPMENT	$ 102.27	$ 111.63	9.2
MISCELLANEOUS MANUFACTURED ARTICLES	$ 54.45	$ 67.35	23.7
COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE	$ 0.00	$ 0.00	-64.7
TOTAL	**$ 505.98**	**$ 547.55**	**8.2**

Source: CSO

An evaluation of the category of exports shows that domestic exports increased by 65.5 percent and re-exports declined by 32.5 percent, leading to an overall expansion in total exports of 52.5 percent at the end of June 2021. The increase in total exports at the end of quarter two was driven by the 137.4 percent surge in exports of Machinery & Transport Equipment, 113.3 percent in Beverages & Tobacco, and 73.6 percent in Food items. The export of Miscellaneous Manufactured Articles declined by 57.6 percent and Chemicals & Related Products by 20.8 percent (Table 6).

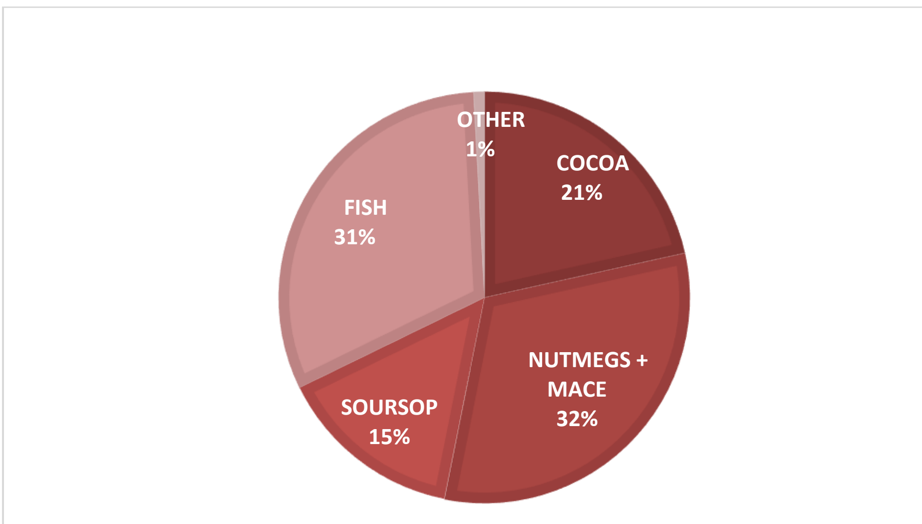
Table 6: Domestic Exports (Est)

SITC SECTIONS	Jan-Jun 2020	Jan-Jun 2021	% Change
	EC$ Millions	EC$ Millions	
FOOD	$ 14.77	$ 25.65	73.6
BEVERAGES & TOBACCO	$ 2.88	$ 6.14	113.3
CRUDE MATERIALS,INEDIBLE, EXCEPT FUELS	$ 0.15	$ 0.15	1.4
MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	$ -	$ -	
ANIMALS & VEGETABLE OILS, FATS & WAXES	$ -	$ -	
CHEMICALS & RELATED PRODUCTS, N.E.S	$ 1.59	$ 1.26	-20.8
MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	$ 2.59	$ 3.10	19.7
MACHINERY & TRANSPORT EQUIPMENT	$ 0.40	$ 0.94	137.4
MISCELLANEOUS MANUFACTURED ARTICLES	$ 0.17	$ 0.07	-57.6
COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE	$ 0.00	$ -	-100.0
TOTAL	**$ 22.54**	**$ 37.31**	**65.5**

Source: CSO

Agricultural exports rose by 76.3 percent at the end of quarter two 2021, in comparison to the same period in 2020, and represented 57.1 percent of total Domestic Exports. The increase in agricultural exports was underpinned by Soursop exports, which expanded by 181.3 percent, Nutmegs 127.4 percent, Cocoa 74.8 percent, and other 123.4 percent. The significant increases in the exportation of nutmegs, cocoa, and soursop, depict the growth in the agricultural sector as at the end of June 2021. The exportation of nutmegs and mace represented 32.0 percent of total agricultural exports, fish was 31.0 percent, cocoa was 21.0 percent and soursop was 15.0 percent (Figure 21). The soursop market continues to improve significantly as the demand for this product increases regionally and internationally.

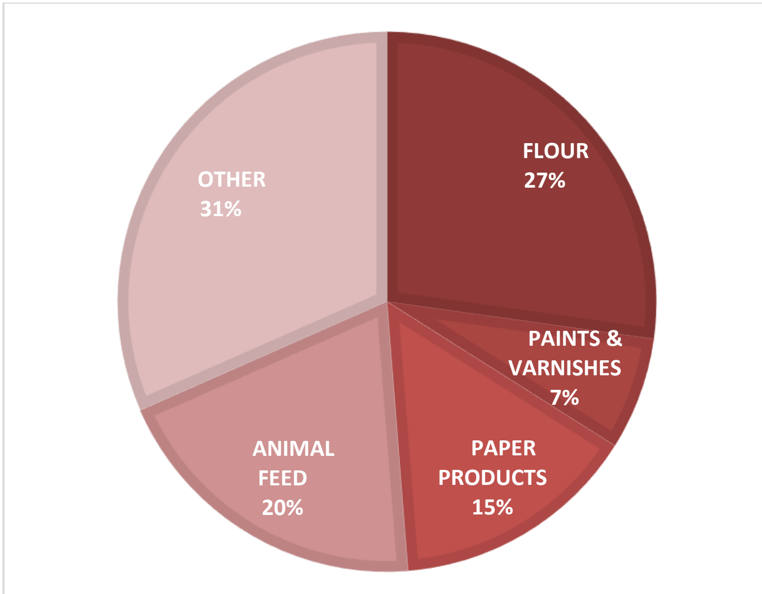
Figure 21: Percentage Share of Agricultural Exports (Jan-Jun 2021)



Source: CSO

Manufactured exports increased by 53.0 percent at the end of June 2021, compared to the end of June 2020, and represented 42.9 percent of total domestic exports for the period mentioned. The increase in manufactured exports was driven by the increases in the exportation of Flour by 27.2 percent, Animal Feed by 19.6 percent, Paper Products by 14.8 percent, and Other Products by 31.6 percent. Of the total manufactured exports recorded during the period, Flour represented 27.0 percent, Animal Feed 20.0 percent, and “Other” was 31.0 percent (Figure 22). The increase in the exports of manufactured goods showed improvement in the sector, which is expected to continue.

Figure 22: Percentage Share of Manufactured Exports (Jan-Jun 2021)



Source: CSO

5. Economic Outlook

The pace of Grenada's economic recovery is largely hinged on global recovery and the rate at which these positive impacts filter through the local economy. Most notably, improved economic conditions in the United States should positively influence trade of both goods and services as the United States is one of Grenada's main trading partners. The resumption of face-to-face classes at the SGU is a welcomed development that would not only impact private education but spill over into other sectors such as real estate activities, construction, agriculture, and wholesale & retail trade.

Activity in the tourism sector is also projected to pick up over the medium term with vaccination rollouts, especially in advanced economies. However, the low rate of vaccination locally could further delay recovery. Although vaccine access has been cited as a reason for the low rate of vaccination in developing countries, this has not been an issue in Grenada. By contrast, vaccine hesitancy, or in some cases, vaccine resistance among certain sectors of the population, has slowed the rate of vaccination, with some expressing concerns about the safety of the available vaccines. More public education programmes that are better targeted at the root causes of hesitancy may be more effective in accelerating vaccine take up.

Moreover, the rising cost of food and fuel globally are significantly impacting local consumption and business activity and could ultimately affect investment decisions. The increased cost of living has the potential to negatively impact all sectors, especially the wholesale and retail trade, tourism, construction (more so residential construction), and real estate sectors, which are key in achieving the average 4.3 percent growth projected for the medium term. Notwithstanding, measures implemented by the Government, including a second economic support programme and improved implementation of the PSIP should further stimulate the economy and increase investor confidence. Public sector projects continue, including schools' construction/upgrades, low-income housing projects in several parishes, as well as road, drain, and bridge construction and repairs. Major private sector projects are also ongoing, including the Six Senses Resort and the Beach House by Silver Sands.

Inflation is expected to remain elevated over the medium term with forecasted increases in

Grenada's top imports, namely food and fuel, as international price increases penetrate the local economy. Additionally, trade disruptions and demand and supply mismatches could impact the cost of tradeover the medium term and further influence prices. Inflation is projected to average 2.8 percent forthe period 2022-2024, well above the 0.7 percent over the period 2018-2021.

Fiscal performance is projected to further improve in the short-to-medium term though not at pre-COVID-19 levels. The Primary balance and Overall balance are projected to average 3.1 percent and 1.3 percent of projected GDP respectively over the medium term.

Table 7 shows more details on the assumptions underlying the medium-term projections.

5.1. Risks to the Economic Outlook

A mix of upside and downside risks remain to the Outlook, but they are more tilted to the downside. On the upside, further improvements in the fiscal position through enhanced revenue mobilisation can boost public investment and spur job creation and growth. Downside risks relate primarily to the COVID-19 pandemic and its prolonged socioeconomic effects. The fast-spreading Delta and threats of new variants have heightened uncertainty about when the pandemic can be defeated. A protracted health crisis can adversely affect tourist arrivals, remittances, and foreign direct investment. The recovery path also depends on the pace of vaccination and a rebound of economic activities in the private and public sectors. Vaccine hesitancy and vaccine resistance remain hurdles to a return to normalisation and a premature relaxation or removal of protocols can trigger additional domestic outbreaks and waves of the COVID-19. Meanwhile, rising international oil and food prices are significant risks to the outlook through inflationary pressures. Grenada's high vulnerability to natural disasters is an inherent risk and its susceptibility to the adverse effects of climate change can retard agricultural production as well as tourism activity.

Table 7: Medium- Term Assumptions

CATEGORIES	2022	2023	2024
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected nominal GDP, except for ImportDuty and Customs Service Charge. Import duty and Customs Service Charge are moved by the average growth of import values over the period 2009- 2020.	All categories of tax and non-tax revenue are assumed to growin line with projected nominal GDP.	
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	Adjustment was made for the agreed 4 percent salary increase.	Pending salary agreement for the new negotiating cycle, estimated increment payments to eligible positions within the public service is used to project employee compensation.	
Social contributions to employees			
Goods & Services	Categories under this item move in line with inflation		
Current transfers	Inflation used to project for each category except for transfers abroad and pension. Transfers abroad reflect contractual agreements and pension values are adjusted by the 4 percent salary increase.	Inflation of the previous year was used to project for each category except for transfers abroad. Transfersabroad reflect conditions as per contractual agreements. Adjustment made to account for reductions in discretionary spending as per the expenditure strategy	
Interest payment	External and domestic interest payments reflect the conditions stated in the contractual agreements.		
Grants			
Capital	Capital Grants will be fully covered by the NTF		
Capital expenditure & net lending			
Grant financed	Assumed to grow in line with inflation.		
Non-Grant financed			

Source: Ministry of Finance