GRENADA

DECEMBER 2022

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

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ANNUAL REVIEW

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Grenada
Annual Economic and Financial Review - 2022

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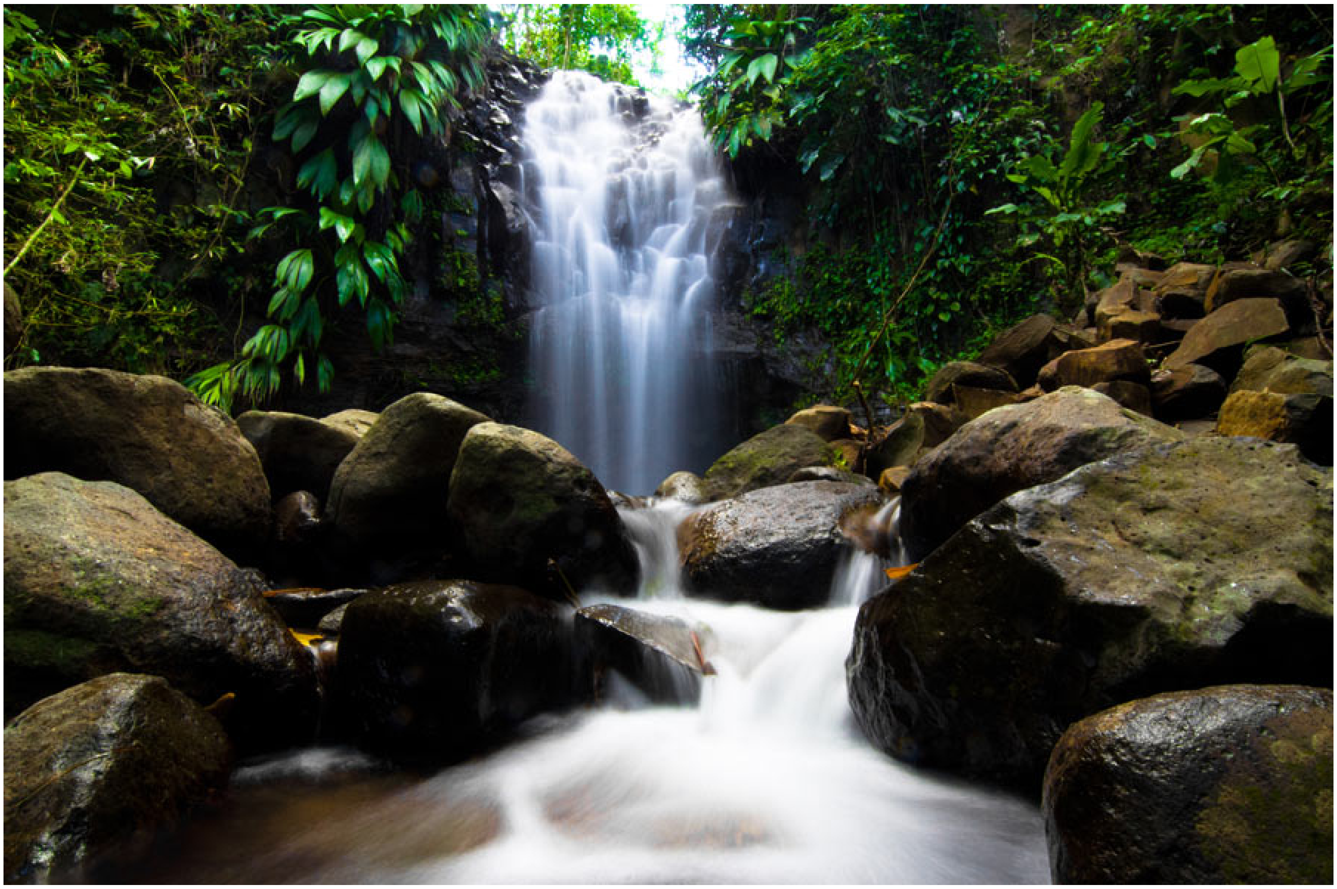


Overview

- The economy of Grenada strengthened further in 2022, as the tourism sector rebounded and government stepped up its capital expenditure programme.

- Preliminary estimates indicate that the economy expanded by 5.9 per cent, compared with growth of 4.7 per cent in 2021.

- The economy is expected to remain on the path to recovery in 2023, barring any growth inhibiting factors such as an escalation in the Russia-Ukraine war, a spike in global inflation, contraction in major source markets, and the emergence of new variants of the COVID-19 virus.

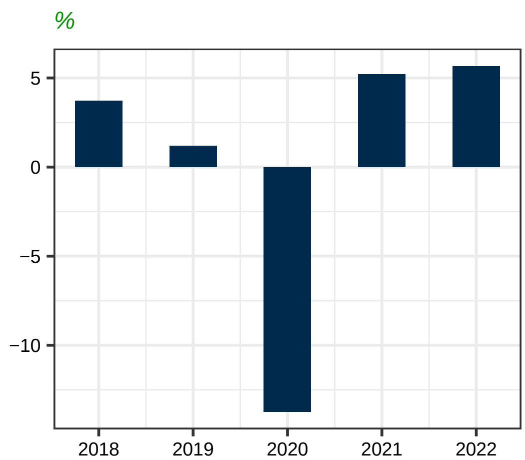
- Public sector debt to GDP is estimated to have declined relative to the previous year. As at 2022, the debt to GDP ratio stood at 64.8 per cent.

5.9% Real GDP Growth (2022)	**2.9%** end-of-period inflation	**64.8%** Debt-to-GDP ratio
0.9% Overall fiscal balance (%GDP)	**$1.6B** Merchandise trade deficit	**$1.5B** Domestic claims

The Economy (Real Sector)

The economy of Grenada is estimated to have expanded by 5.9 per cent in 2022, surpassing the previous year's mark of 4.7 per cent (Figure 1). The increased output was primarily driven by expansions in key sectors including tourism (51.0 per cent), construction (19.2 per cent), wholesale and retail trade (10.1 per cent), and transport, storage and communications (9.6 per cent). Growth in total output was moderated somewhat by reduced activity in agriculture and fishing, which fell by 10.9 and 11.1 per cent, respectively.

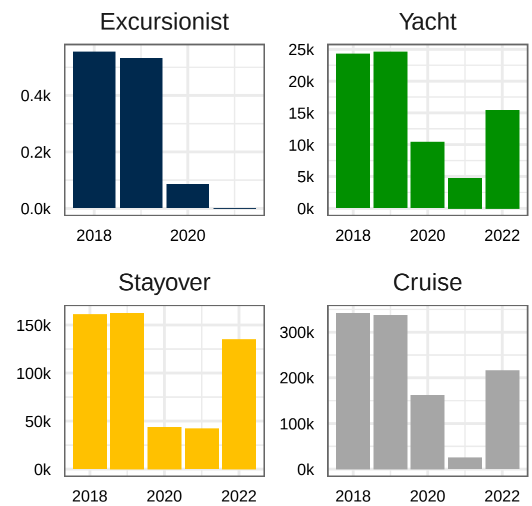
Figure 1: Real GDP Growth Rates (%)



Source: ECCB

Total visitor arrivals increased five-fold to 366,304 passengers compared with 71,861 in the prior year, as the economy fully reopened and international travel rebounded. The three main categories of visitors rose appreciably, with stayover arrivals and yacht passengers increasing three-fold, while cruise passengers rose nine-fold relative to 2021 (Figure 2). Despite the rebound in tourist arrivals, only the US and UK stayover segments have fully recovered, with their level of arrivals surpassing the 2019 mark. By contrast, a lack of intra-regional airlift has negatively affected the Caribbean market, Grenada's second largest source market after the United States. Accordingly, the number of Caribbean stay-over visitors as at December 2022 was 49.0 per cent lower than that of 2019.

Figure 2: Visitor Arrivals by Category

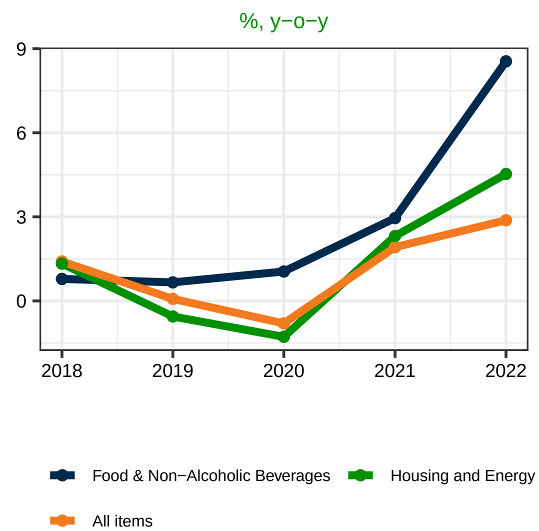


Source: ECCB

Consumer Prices

Grenada's inflation rate increased by 2.9 per cent (end of period basis), following the 1.9 per cent growth recorded in 2021 (Figure 3). Driving the consumer price index higher were increased costs for food and non-alcoholic beverages (8.7 per cent); housing, utilities, gas and fuels (4.5 per cent); and health (4.0 per cent). Moderating overall price increases was a 4.1 per cent decline in the cost of transport.

Figure 3: Selected Categories of Inflation



Source: ECCB

Government Operations

Despite having invoked the Escape Clause of the Fiscal Responsibility Act (FRA) for a third consecutive year, the operations of the Government of Grenada generated both primary and overall surpluses (after grants) in 2022. Accordingly, an overall surplus of $30.7m (0.9 per cent of GDP) was recorded, following the smaller surplus of $9.9m (0.3 per cent of GDP) generated in the prior year (Figure 4).

Figure 4: Central Government Fiscal Balance

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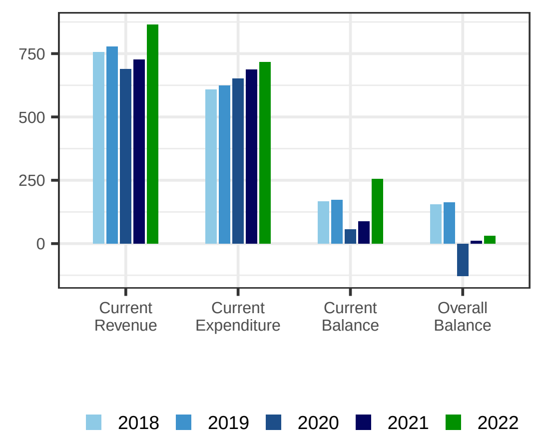

Source: ECCB

The positive fiscal outturn was largely driven by stronger growth in current revenue relative to current expenditure over the year. As such, current revenue grew by 18.8 per cent to $863.9m (26.2 per cent of GDP) compared with growth of 5.4 per cent to $727.1m (24.0 per cent of GDP) in 2021. By comparison, current expenditure rose by 4.5 per cent to $717.4m (21.8 per cent of GDP), relative to growth of 5.5 per cent to $686.8m (22.7 per cent of GDP) in the prior year.

Tax revenue was the largest contributor to the growth in current revenue, expanding by 14.2 per cent to $733.5m, with taxes on goods and services, and international trade and transactions being the primary drivers. Non-tax revenue also expanded by 54.3 per cent to $130.4m in 2022, with flows from the Citizenship by Investment Programme (CBI) amounting to $73.1m, up from $32.3 in the year prior.

In respect of current expenditure, a 49.7 per cent ($85.0m) increase in transfers and subsidies to $256.1m, largely drove the expansion in outflows. This development was directly related to the retroactive payment of pensions to retired public servants, which amounted to $75.0m. Outflows for other key components of current expenditure declined, including personal emoluments (9.1 per cent), and goods and services (16.9 per cent), consistent with a fall in COVID-19 related expenditure. The aforementioned developments resulted in a current account surplus (after grants) of $254.5m (7.7 per cent of GDP) compared with one of $87.4m (2.9 per cent of GDP) in the prior year. On the capital side, expenditure rose by 30.6 per cent to $340.2m (10.3 per cent of GDP), up from $260.4m (8.6 per cent of GDP) in the previous year, as the government pursued its transformation agenda, especially in respect of more climate-resilient infrastructure.

Debt

Total public sector debt [1] as at end December 2022 was $2,132.7m (64.8 per cent of GDP), comprising external debt of $1,647.1m (50.0 per cent of GDP) and domestic debt of $485.6 million (14.7 per cent of GDP), respectively, as illustrated in Figure 5. This represents a 1.5 per cent ($31.7m) decrease in the nominal stock when compared with the previous year.

Figure 5: Outstanding Public Sector Debt

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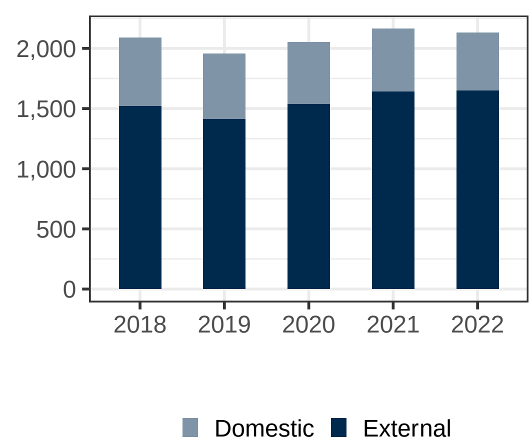


Source: ECCB

The domestic debt stock declined by $37.9m, primarily due to net outflows during the period, while the external

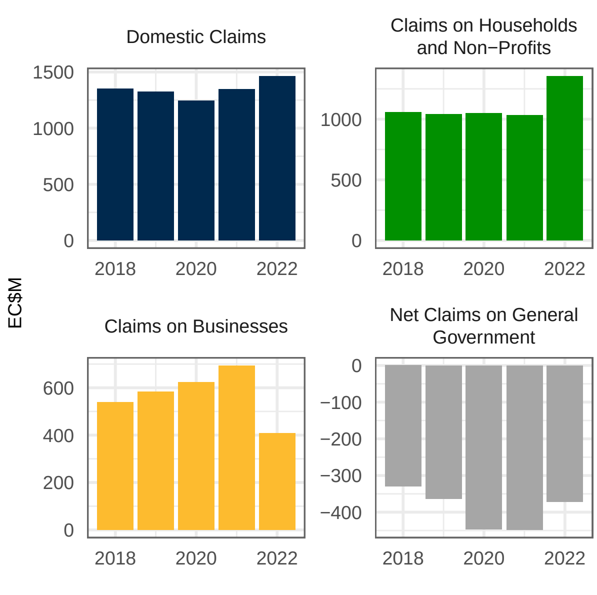
[1] Actual; Figures adjusted to include public non-guaranteed debt

debt stock increased by $6.1m. In 2022, the government continued to honor its existing obligations to domestic bondholders and other domestic liabilities, including the payment of judgement debts. External debt rose marginally due to net disbursements on new and existing loans, primarily to support capital programmes and budgetary support. Additionally, in accordance with its Medium-Term Debt Strategy (MTDS), the government reduced the auction sizes for its Treasury Bills issued on the Regional Government Securities Market (RGSM), which served to reduce the stock of domestic and external debt.

Banking Developments (Monetary)

Consistent with an expanding economy, domestic claims (credit) rose by 8.6 per cent in 2022, marginally above the 8.4 per cent growth recorded in 2021 (Figure 6). The rise in claims was dominated by the private sector, which saw growth of 2.1 per cent to $1,772.4m, down from the 3.8 per cent expansion in the prior year. Within the private sector, claims to households grew by 30.9 per cent, while business claims contracted by 41.3 per cent, reversing the credit pattern of the previous year. Meanwhile, the net deposit position of the central government fell by 17.0 per cent to $371.8m.

Figure 6: Claims (Credit) to Selected Sectors
in EC$M

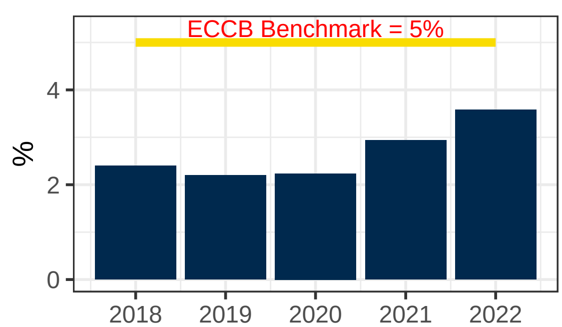


Source: ECCB

Following the general uptick in economic activity, deposits in the banking system rose on aggregate. Broad money liabilities increased by 9.9 per cent, following the 8.5 per cent expansion in 2021. This reflected stronger growth in transferable deposits in national currency (46.7 per cent) and foreign currency deposits (34.4 per cent). However, the increase in broad money was moderated by a 15.2 per cent contraction in other deposits in national currency.

The asset quality of commercial banks in Grenada deteriorated marginally over the year. Accordingly, the nonperforming loans as a percentage of gross loans rose by 65 basis points to 3.6 per cent, compared with 2.9 per cent in 2021 (Figure 7). Additionally, banks' liquidity positions improved as the ratio of liquid assets to short-term liabilities rose by 4.4 percentage points to 55.2 per cent.

Figure 7: Non−Performing Loans Ratio
% of Total Loans



Source ECCB

External Trade

As the tourism sector continued to recover and supply chain issues lessened, Grenada's merchandise trade deficit widened by 40.2 per cent, year-on-year, to $1,590.8m. Import payments rose to its highest level in over 5 years, surpassing the 2021 mark by 39.4 per cent to $1,692.4m, reflecting greater domestic demand and higher global commodity prices (Figure 8). Similarly, export receipts returned to pre-pandemic levels, amounting to $101.6m compared with $79.6m one year earlier. In respect of services, total visitor expenditure more than doubled to $426.0m as the economy fully reopened and international flights resumed.

Figure 8: Selected Categories of External Secto

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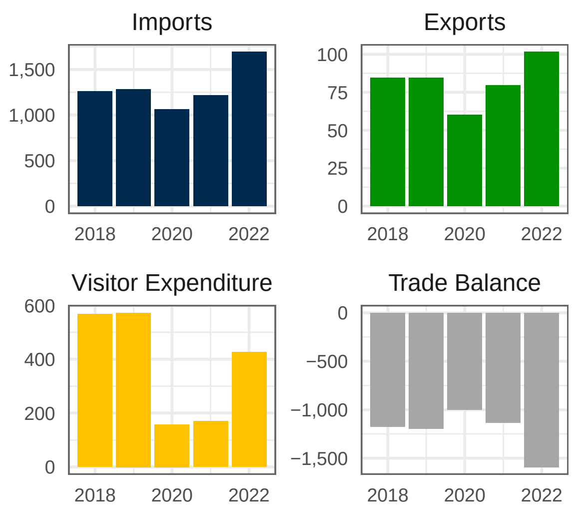

Source: ECCB

Outlook

Grenada's economy is projected to expand further in 2023, contingent on greater tourism activity and increased public and private sector construction projects. However, risks to global economic activity are tilted to the downside, on account of global developments including the Russia/Ukraine conflict, high inflation, and a tightening of monetary policy among major central banks. In addition, the long-term viability of the Citizenship by Investment (CBI) programme is under threat as both the European Union and the United States are considering legislation to penalize countries offering those programmes, to the detriment of the fiscal and macroeconomic health of Grenada. Furthermore, Grenada faces the perennial threat of hurricanes and other natural disasters. As a result, Grenada remains susceptible to a slowdown in its key tourism markets, with potentially negative economic spillovers to the domestic economy and all related sectors.

In the absence of the materialization of the aforementioned risks, the expansion of the Grenadian economy is expected to be driven by:

- Activity in the construction sector is likely to pick up in the second half of the year as the government begins work under its Resilient Infrastructure Programme to include new and enhanced road networks, water systems, and air and seaports, consistent with the 2022/23 Budget Statement;
- The Public Sector Investment Programme, which seeks to transform the economy with emphasis on six strategic focus areas, including health and wellness, education and training, agriculture and the marine industry, and physical and digital infrastructure.
- Private sector construction projects to include Silversands Legacy (at Mount Cinnamon), the Riviera Project, the Port Louis Project and Six Senses LaSagesse.
- Increased domestic and regional demand for agricultural and manufactured goods.

Selected Economic Indicators

Indicators	2018	2019	2020	2021	2022
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	3.6	4.0	-14.0	7.6	8.6
Real GDP at Market Prices	4.4	0.7	-13.8	4.7	5.9
Deflator	-0.7	3.3	-0.3	2.8	2.6
Consumer Prices (end of period)	1.4	0.1	-0.8	1.9	2.9
Consumer Prices (period average)	0.8	0.6	-0.7	1.2	2.5
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	3.0	-3.6	-15.0	15.0	-10.9
Construction	12.6	-3.6	-20.5	25.7	19.2
Wholesale and Retail Trade	7.8	1.8	-15.4	6.5	10.1
Hotels and Restaurants	9.9	4.1	-68.2	37.6	51.0
Transport, Storage and Communications	8.2	0.5	-25.6	-8.5	9.5
Financial Intermediation	7.0	2.9	4.3	4.1	5.7
Real Estate, Renting and Business Activities	1.8	1.5	-7.0	0.8	2.1
Public Administration, Defence & Compulsory Social Security	-3.8	-0.8	-2.0	0.1	1.0
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	66.4	59.7	72.9	71.4	64.8
Public Sector External Debt	48.2	43.1	54.5	54.1	50.0
Central Government (in XCD millions)					
Current Account Balance	166.8	172.4	57.0	87.4	254.5
Current Revenue	755.9	778.0	689.6	727.1	863.9
Current Expenditure	608.5	623.5	650.8	686.8	717.4
Capital Expenditure and Net Lending	86.8	85.7	269.9	260.4	340.2
Overall Fiscal Balance	154.9	162.4	-128.1	9.9	30.7
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rate	1.3	1.2	1.1	1.2	0.8
Weighted Lending Interest Rate	7.6	7.2	6.4	6.2	6.9
Non-Performing Loans Ratio (%)	2.4	2.2	2.2	2.9	3.6
Memo (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	3,149.6	3,276.4	2,817.2	3,031.6	3,293.7
Real GDP at Market Prices	2,473.0	2,489.7	2,147.2	2,247.9	2,380.9
GDP per capita (EC$)	23,479.1	24,416.4	20,897.2	22,471.6	24,221.2
Merchandise Imports (f.o.b)	1,260.7	1,281.5	1,061.0	1,214.5	1,692.4
Merchandise Exports	84.4	84.5	60.2	79.6	101.6
Gross Visitor Expenditure	568.3	572.5	158.0	170.0	426.1
Net Foreign Assets	1,315.2	1,400.4	1,720.7	1,919.1	2,211.7
Domestic Credit	1,351.4	1,326.2	1,243.9	1,348.7	1,464.2
Money Supply (M2)	2,618.4	2,691.3	2,658.8	2,884.7	3,169.8
Currency in Circulation	205.5	202.8	225.2	259.0	277.1

Note:

Data as at February 2023

[1] Sources:Central Statistics Office and Eastern Caribbean Central Bank