GRENADA

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EASTERN CARIBBEAN CENTRAL BANK

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ECONOMIC AND FINANCIAL REVIEW

GRENADA

EASTERN CARIBBEAN CENTRAL BANK

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The analysis in this report uses data available as at September 2024 to estimate 2024 full-year figures. For the most recent updates and detailed statistics, please refer to the Statistics page on the ECCB's website.

Grenada

Economic and Financial Review - December 2024

Eastern Caribbean Central Bank

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Overview

The Grenadian economy continues to expand,[1] driven by robust activity in the tourism sector, with some support from the construction and affiliated sectors. In tandem with rising economic activity, public sector revenues have increased, supported by inflows from the Citizenship by Investment (CBI) programme. Similarly, public sector expenditures have grown, consistent with public sector salary increases and the additional expenditures necessitated by Hurricane Beryl relief and reconstruction efforts.

Hurricane Beryl affected the sister islands of Carriacou and Petite Martinique as well as the parishes in the north. Despite the increased expenditures, the government of Grenada generated both primary and overall surpluses. The maintenance of fiscal surpluses put the debt-to-GDP ratio on a downward trajectory and the country is on track to achieve the ECCU's debt target of 60 per cent of GDP by 2035.

The growth in economic output was also supported by larger credit flows from the banking system, although the bulk of this credit was for consumption purposes and, together with investment-related imports, led to larger external deficits in the balance of payments.

Recent Economic Developments

Real Sector Developments

Following the sharp contraction of 13.8 per cent in 2020, owing to COVID-19 and the resultant worldwide travel restrictions, the economy of Grenada has been steadily expanding over the past four years, with real growth averaging 5.1 per cent, roughly three percentage points above Grenada's long-run growth rate of 2.2 per cent (Figure 1).

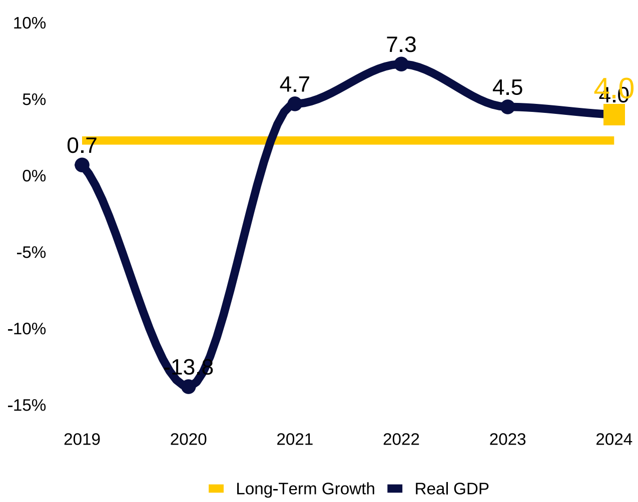
In 2024, economic output is estimated to have expanded by 4.0 per cent to $2.6b, slightly below the 4.5 per cent growth recorded in 2023. Growth was driven in large

[1] The data presented for 2024 in this report reflect estimates based on data available through September 2024. Readers should note that these figures are subject to change as more complete data become available. Updated data for 2024 may be accessed via the statistics page on our website, and readers are encouraged to refer to this resource for the latest information

measure by a buoyant tourism sector, with support from construction, wholesale and retail sales, and the real estate sectors.

Figure 1: Real GDP Growth (2019 – 2024)

Real GDP growth is expected to exceed the long-term average



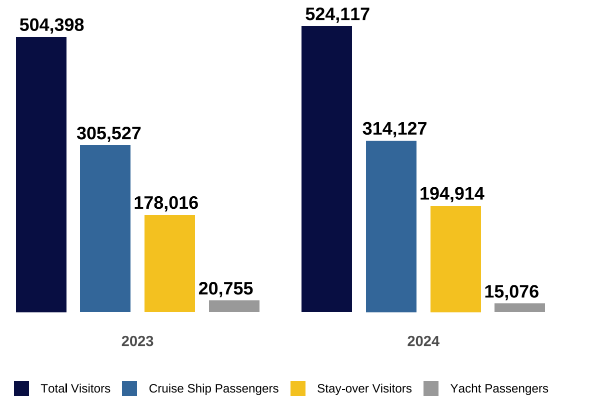
Sources: Central Statistics Office, Grenada and ECCB

Estimates for 2024 indicate that total visitor arrivals increased by 3.9 per cent (19,719), following growth of 50.7 per cent in 2023, as international travel further rebounded (Figure 2). The stay-over segment recorded the strongest growth, with the number of visitors rising by 9.5 per cent (16,898), while the number of cruise passengers increased by 2.8 per cent (8,500).

Moderating the overall increase in total visitor arrivals was a 27.4 per cent decline in yacht passengers. Of note, arrivals from all the major source markets, except Canada, showed improvement, year-on-year, led by the Caribbean and the United States of America at 9.0 per cent and 5.1 per cent, respectively.

Figure 2: Performance of Key Visitor Segments (2023-2024)

Growth dominated by the stay-over and cruise segments

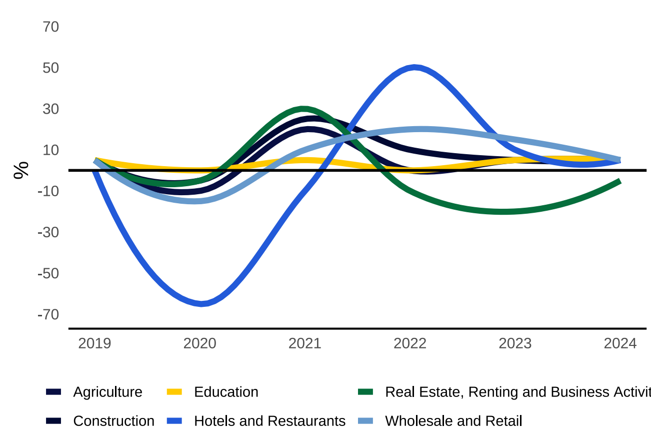


Sources: Central Statistics Office, Grenada and ECCB

Not only was the tourism sector the main driver of growth in 2024, but it has also been the fastest growing sector since 2021, influenced by more targeted marketing of the destination, increased airlift and the addition of new hotels to the domestic landscape (Figure 3). Relatedly, the construction sector has also benefitted from the completion of two new hotels and the start of a third, coupled with major public sector projects, including the Molinere Landslip Rehabilitation Project, as well as the reconstruction of homes, following the passage of Hurricane Beryl in July of 2024.

Figure 3: Growth of Key Sectors in Grenada (2019 - 20

Grenada's recovery has been led by the tourism, real estate, construction and wholesale and retail sectors



Sources: Central Statistics Office, Grenada and ECCB

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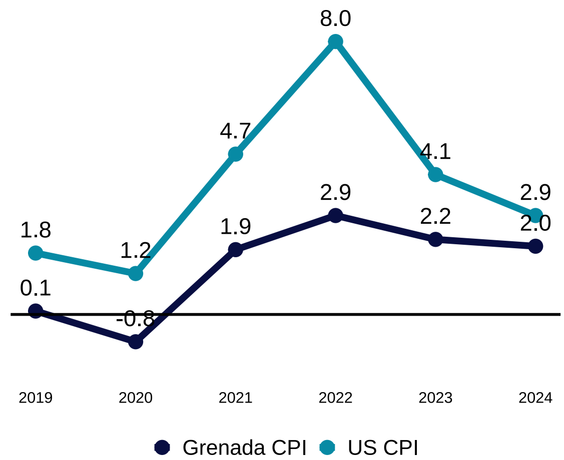
These projects, in both the public and private sectors, have had a ripple effect on the economy, helping to boost activity in the wholesale and retail sector, among others. Of note, the agricultural sector contracted in 2024, influenced by drought conditions in the first half of the year, followed by the devastation wrought by Hurricane Beryl. In respect of the composition of Grenada's Gross Domestic Product (GDP) as at end 2024, the education sector, dominated by the St. George's University, was the largest contributor to the economy, at 17.0 per cent (Figure 4).

Figure 5: Rate of Inflation (Grenada vs. USA)

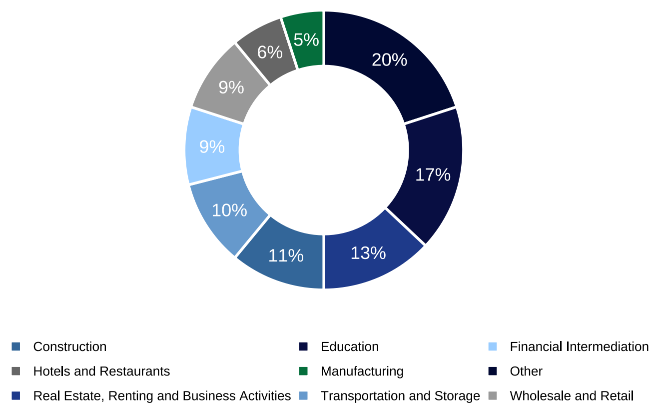
Inflation has been decelerating over the past two years



Sources: Central Statistics Office, Grenada and ECCB

Figure 4: Main Contributors to Grenada's GDP

Education, Real Estate and Construction constitute the largest sectors in Grenada's economy



Sources: Central Statistics Office, Grenada and ECCB

Tourism expansion and the activity at the St. George's University had positive spillovers on other sectors. Notably, the share of GDP of Real Estate, Renting and Business Activities and Construction stood at 13.0 per cent and 11.0 per cent, respectively.

Wholesale and retail trade contributed another 9.0 per cent, while the tourism sector accounted for 6.0 per cent of GDP. Output in the agricultural sector, which averaged 4.3 per cent of GDP over the past five years, declined to 2.6 per cent in 2024.

Inflation Developments

Domestic inflation, measured by the consumer price index, is primarily imported from the United States of America and is estimated to have risen by 2.0 per cent in 2024, marginally below the 2.2 per cent rate one year earlier (Figure 5). The increase in prices was mainly driven by higher costs associated with food, alcoholic beverages and fuel. Of note, domestic inflation trailed that of the United States of America, as supply chain disruptions eased, coupled with the mitigating impact of the cost-of-living measures instituted by the government. These include the removal of VAT on a larger range of essential items, the fixing of the price on the twenty-pound cylinder of cooking gas, and the electricity subsidy for residential consumers using up to 99 kWh per month.

Fiscal Developments

Consistent with an expanding economy, the government of Grenada generated both primary and overall surpluses (after grants) in 2024.[2] Preliminary estimates point to an overall surplus of 9.5 per cent of GDP ($353.2m), up from 7.9 per cent of GDP ($286.0m) in 2023. Likewise, a primary surplus of 11.1 per cent of GDP was generated, relative to 9.4 per cent, one year earlier (Table 1).

Table 1: Central Government Fiscal Operations (% GDP)

Indicators	2019	2020	2021	2022	2023	2024
Current Revenue	23.7	24.5	24.0	26.1	36.1	44.6
of which Value Added Tax	7.7	7.7	7.4	8.7	9.0	8.7
of which CBI	0.2	0.6	1.1	2.2	10.6	16.2
Current Expenditure	19.0	23.1	22.7	21.7	19.5	24.9
of which Personal Emoluments	8.1	9.8	10.2	8.5	8.1	8.7
Capital Expenditure	2.6	9.6	8.6	10.3	9.2	10.8
Primary Balance	6.8	-2.6	2.1	2.6	9.4	11.1
Overall Balance	5.0	-4.5	0.3	0.9	7.9	9.5
Financing	-5.0	4.5	-0.3	-0.9	-7.9	-9.5
of which Domestic	-5.1	0.6	-3.7	-1.9	-10.9	-10.2
of which External	0.2	4.0	3.4	1.0	2.9	0.6
Total Public Sector Debt to GDP	74.1	88.8	88.1	79.1	74.7	73.3

Sources: Ministry of Finance and ECCB

This fiscal outturn was primarily driven by a surge in Citizenship by Investment (CBI) receipts, which grew from 10.6 per cent of GDP in 2023 to approximately 16.2 per cent of GDP in 2024. Also contributing to higher government revenues was the EC$118.0m payout by the Caribbean Catastrophic Risk Insurance Facility (CCRIF), which was triggered by the devastation caused by hurricane Beryl.

On the current expenditure side, the government saw an expansion from 19.5 per cent to 24.9 per cent of GDP, largely influenced by a 4.0 per cent salary increase to public sector workers, the ongoing regularization of workers,[2] and larger transfers and subsidies to assist those affected by the passage of hurricane Beryl. Capital expenditure also rose, consistent with increased outlays associated with hurricane Beryl reconstruction efforts.

Importantly, the generation of primary surpluses for the fourth consecutive year bolsters Grenada's fiscal and debt sustainability objectives, resulting in a net downward movement in the country's debt to GDP ratio to approximately 73.3 per cent, from 74.7 per cent one year earlier.

External Developments

Grenada's merchandise trade deficit deteriorated for the fourth consecutive year in 2024,4 as imports grew with economic expansion and exports declined (Figure 6). A trade deficit equivalent to 39.8 per cent of GDP (EC$1,472.6m) is estimated, relative to 34.5 per cent of GDP (EC$1,245.8m) recorded one year earlier. This development was largely influenced by a decrease in goods exports of 2.3 per cent of GDP, while import payments remained steady at about 40.0 per cent of GDP (Table 2).

The decline in goods exports is consistent with the contraction of output in the agricultural sector due to climactic factors. In respect of services, total travel receipts amounted to 36.1 per cent of GDP, a 12.1 percentage point increase from 2023, driven by the 50th anniversary of independence celebrations, increased airlift and the addition of two new hotels to the domestic plant.

Table 2: Selected Components of the External Account (% GDP)

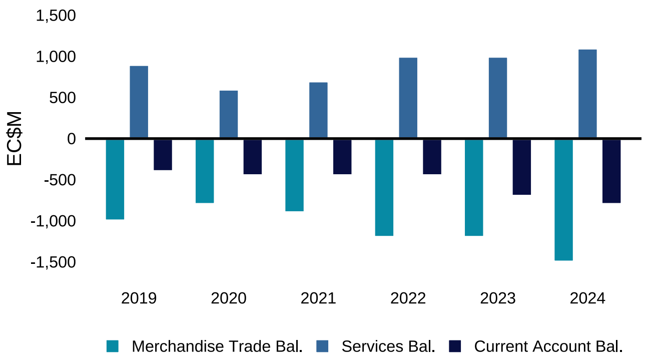
Indicators	2019	2020	2021	2022	2023	2024
Current Account	-10.3	-16.1	-14.4	-12.1	-18.2	-20.6
Trade Balance	-30.5	-30.4	-31.1	-37.3	-34.5	-39.8
Imports, FOB	34.4	33.1	35.0	42.3	40.0	40.4
Exports, FOB	4.0	2.7	3.9	5.0	5.5	3.1
Travel Receipts	17.4	5.5	5.3	26.3	24.0	24.0
Gov't Capital Grants	2.3	2.3	4.7	3.6	9.3	17.9
FDI	17.2	13.5	13.6	13.3	16.5	19.6

Source: ECCB

[2] Over two thousand public sector workers are to be regularized in a three-phase approach to be completed in 2025.

Figure 6: Trends in Current Account Components

Current account deficit has deteriorated over the past two years

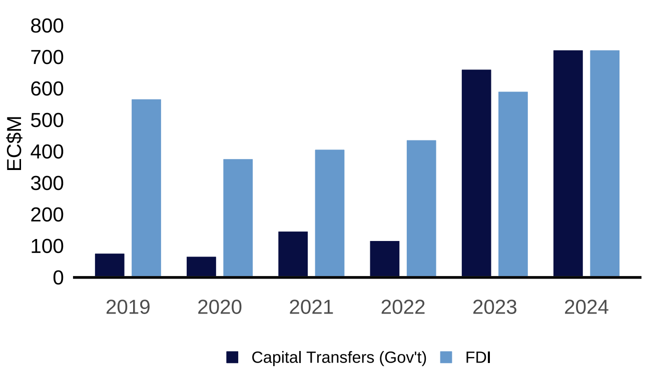


Source: ECCB

The increase in travel receipts tempered the widening in the current account deficit to 20.6 per cent of GDP, up by 2.4 percentage points, relative to the 6.1 percentage point widening in the previous year. Financing Grenada's current account deficit were increases in government grants, through the CBI programme, and foreign directs investments of 8.6 and 3.2 percentage points respectively (Figure 7)

Figure 7: Main Sources of Financing of External Defic

Current account deficits are primarily funded by Capital Grants and FDI



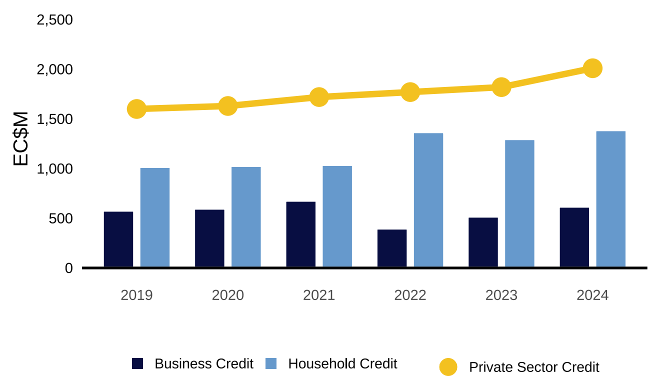
Sources: Central Statistics Office, Grenada and ECCB

Banking and Monetary Developments

Consistent with greater real sector activity, claims on the private sector (credit) rose by 10.4 per cent to $2,031.8m in 2024, with the larger share (68.3 per cent) going to households (Figure 8). However, within the private sector, claims to business expanded at a faster rate (19.8 per cent), compared with that of households (6.6 per cent). Of note, the net deposit position of the central government rose by 49.8 per cent to $738.4m, associated with increased flows from the Citizenship by Investment Programme as well as the larger fiscal surpluses generated throughout the year. The developments resulted in a contraction of net domestic claims (credit) of 4.5 per cent to $1,247.9m.

Figure 8: Trends in Private sector Credit

Private sector continues to grow, with household credit dominating



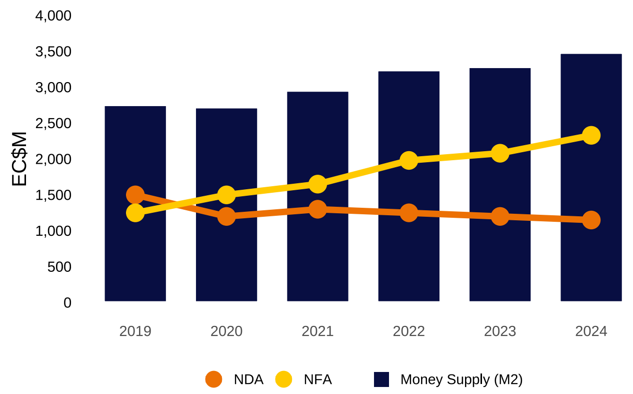
Source: ECCB

The expanding economy was also associated with an increase in broad money liabilities (M2) of 6.0 per cent to $3,482.7m, primarily driven by growth in net foreign assets, as high interest rates on fixed income securities persisted (Figure 9). Deposits in the banking system rose on aggregate, in particular, transferable deposits in national currency (22.4 per cent) and foreign currency deposits (9.3 per cent). However, other deposits in national currency saw an 11.2 per cent contraction, year-on-year.[3]

[3]Transferable deposits in national currency are demand deposits, like chequing accounts, that are readily exchangeable for currency. Other deposits in national currency are all claims other than transferable deposits in national currency and foreign currency deposits

Figure 9: Monetary Developments

Growth in M2 has been mainly influenced by NFA



Source: ECCB

In respect of financial sector stability, commercial banks strengthened both their liquidity and asset quality positions in 2024 and maintained strong capital levels. Accordingly, non-performing loans (NPLs) as a per cent of gross loans fell by fifty basis points to 2.9 per cent, two percentage points below the prudential benchmark of 5.0 per cent. Additionally, the capital adequacy ratio stood at 14.5 per cent, 6.5 percentage points above the regulatory minimum. The liquidity ratio, measured by liquid assets to short-term liabilities, also rose by 2.4 percentage points to 58.4 per cent, marking the third consecutive year of strengthening, and potentially indicating a need for greater intermediation by the banking sector.

Outlook and Risks

Outlook

The outlook for Grenada is broadly positive, with risks tilted to the downside. Barring any major global or climactic shocks, the economy is projected to expand by 4.5 per cent in 2025 and a further 3.1 per cent in 2026, driven by continued growth in the tourism and construction sectors (Table 3). This is based on ongoing targeted marketing of the destination, improved airlift and domestic capacity, as well as an uptick in construction activity as the building and restoration efforts gather pace in the wake of hurricane Beryl.

Indicators	2025	2026
Nominal GDP (EC$M)	3,967.7	4,193.7
Real GDP (EC$M)	2,740.6	2,824.9
Real GDP Growth	4.5	3.1
Inflation (end of period; per cent)	2.0	2.0
Current Revenue	30.4	29.7
Current Expenditure	22.5	21.4
Capital Expenditure	12.6	9.1
Primary Balance	-2.7	1.0
Overall Balance	-4.2	-0.2
Financing	4.2	0.2
Balance of trade	-36.7	-38.2
Travel receipts	24.0	24.0
Current account	-17.8	-18.1
Foreign Direct Investment	15.7	15.1
Money Supply(EC$M)	3,578.7	3,782.5
Net Foreign Assets(EC$M)	2,777.5	3,093.1
Net Domestic Assets(EC$M)	801.2	689.4
Domestic Credit (EC$M)	1,523.0	1,725.0
Of which credit to the private sector(EC$M)	2,140.7	2,262.6
Of which credit to businesses (EC$M)	765.6	809.3
Of which credit to households(EC$M)	1,375.0	1,453.3
Total public sector debt (EC$M)	2,912.3	2,985.6
Total public sector debt to GDP	73.4	71.2

Sources: Central Statistics Office, Grenada and ECCB

Consumer prices are expected to moderate over the short term, consistent with US inflation. In addition, the government's fiscal position is projected to worsen in 2025, as CBI receipts retreat and capital expenditure expand in tandem with greater reconstruction activity. The former is explained by the clearing up of the backlog of

CBI applications and more intense competition for new applicants.

In 2026, an improvement in the fiscal position is forecast, with a small primary surplus of about 1 per cent of GDP. Additionally, the external current account deficit is projected to narrow, consistent with an expansion in merchandise and services exports. The money supply is forecast to increase in tandem with expansions in net foreign assets and domestic private sector credit. Further, the liquidity, asset quality and capital positions of the banking system are expected to remain within prudential limits.

As stated earlier, risks are tilted to the downside and could significantly alter the baseline positions (Table 4). Specifically, growing geopolitical tensions could potentially derail global trade and reduce growth outcomes, thereby negatively impacting growth prospects, reducing the government's fiscal space and increasing the effort required to meet the country's debt target by 2035. Additional risks, associated with the climactic factors, volatility with CBI flows, and the rising incidence of crime and violence, also threaten to derail growth.

Risks

Table 4: Key Downside Risks

Risks	Likelihood	Impact
Global/External Risks		
Intensification of Geopolitical conflict. Escalation of conflict in the Middle East can disrupt trade routes and flows of key commodities including energy. Similarly, protectionist policies can upset global trade and worsen trade balances.	**High**	**High.** Intensified inflationary pressures can erode disposable incomes, stifle demand, widen fiscal and trade deficits, and impact food and energy security. Higher tariffs imposed on major suppliers such as China can result in increased prices within the U.S economy. This inflation is likely to be passed on to the domestic economy and impact living standards.
Commodity price volatility. Exacerbated supply chain woes due to conflict and OPEC+ decisions can result in commodity (food and energy) price upswings.	**High**	**High.** Higher international oil prices would increase inflation, slow down growth and affect living standards.
Domestic/Local Risks		
Intensified Climatic Events. Extreme temperatures can result in heat waves, droughts and devastating tropical cyclones.	**Medium/ High**	**High.** This can result in lower growth and worse fiscal and external positions. Continued slow recovery of the agriculture sector can threaten food security. Recurring climatic events can jeopardize fiscal response mechanisms as well as threaten debt sustainability and the achievement of the 2035 ECCU debt to GDP target.
Volatility of CBI Flows	**Medium/ High**	**High.** Could significantly influence the government's fiscal space and its ability to conduct countercyclical fiscal policies. This may lead to worsening fiscal outcomes, negatively affecting government's debt to GDP position and the attainment of its 2035 debt target.
Regularization of public sector workers	**Medium**	**Medium.** Could increase the cost of public sector compensation and negatively affect the primary balance, if not executed in a balanced way.
Rising incidence of crime and gun violence	**Medium**	**High.** Could weaken the social fabric and lead to domestic instability. This would have far-reaching consequences, negatively impacting the country's image and its key tourism and ancillary sectors.

Policy Recommendations

Grenada has recorded real growth of approximately 5.1 per cent since 2021 and has seen positive fiscal outcomes, achieving a primary surplus of 6.3 per cent of GDP, on average, over the same period. Given the need to sustainably grow its economy, with equity and inclusion as its hallmark, there are some key policy initiatives, which should be considered:

I. Agriculture:

Given the rising threat of climate change on food and nutrition security, efforts at improving resilience within the agriculture sector are critical. These would include bolstering relationships with international partners to use the latest technologies in farming, including hydroponics, the use of sheds as well as natural windbreakers. In addition, the more targeted use of subsidies to increase production of key root crops and vegetables would be crucial in achieving this objective.

II. Economic Diversification

Efforts to accelerate economic diversification should continue apace, with emphasis on increased diversification in tourism, for example, heritage, culture and sports tourism, together with supporting the growth of the creative economy, which is crucial for addressing youth unemployment. The establishment of the Grenada Office of Creative Affairs should be complemented with the requisite staff and funding to undertake a targeted approach towards developing this burgeoning and important sector.

Additionally, engaging in regional and international partnerships as well as learning from international best practices would be important to move the sector forward.

III. Allocation of credit

Closely aligned with the development of the creative economy, efforts should be made to increase the allocation of credit to emerging sectors. This would necessitate a reorientation of the lending policies of financial institutions and a deliberate effort to become more conversant with developments in burgeoning sectors.

IV. Skills development

Given the evolving needs of the work environment, greater efforts should be made to promote and expand skills development broadly, and digital skills, specifically. Importantly, increased skills in the labor force supports greater digitization in the public sector, removing bureaucratic delays with more efficient processing of permits, licenses and registrations, improving local business conditions.

The introduction of free tuition to students at the T.A. Marryshow Community College as well as the NEWLO technical and vocational school is a good start. However, this should be complemented with a recrafting of the curriculum at primary and secondary schools to ensure that Grenada is producing talent for the future. In this regard, close collaboration with the business community would be crucial in shaping programmes that are fit for purpose.

Overall, the modernization of the services sector with increased digitization, based on skilled labor, creates the potential for the expansion of non-tourism services exports to niche markets including the expansion of offshore university education in medical and other professions.

Selected Economic Indicators

in EC$M, unless otherwise stated

Indicators	2018	2020	2021	2022	2023	2024	2025	2026
Real Sector								
Nominal GDP (EC$M)	3,276.4	2,817.2	3,030.0	3,304.8	3,608.3	3,704.2	3,957.7	4,195.7
Real GDP (EC$M)	2,489.7	2,147.2	2,248.1	2,412.4	2,521.6	2,521.6	2,740.5	2,824.9
Real GDP Growth	0.7	−13.8	4.7	7.3	4.5	4.0	4.5	3.1
Inflation (end of period; per cent)	0.1	−0.8	1.9	2.9	2.2	1.7	2.0	2.0
Government Sector								
Current Revenue	778.0	689.6	727.1	863.9	1,302.2	1,651.4	1,204.8	1,247.1
Current Expenditure	623.5	650.8	585.8	717.4	702.2	920.7	892.7	898.9
Capital Expenditure	85.7	269.9	260.4	340.2	332.2	400.1	500.0	379.9
Primary Balance	223.0	−72.2		84.4	339.3	410.5	−108.9	42.3
Overall Balance	162.4	−128.1	9.9	30.7	286.0	353.2	−165.5	−9.2
External Sector								
Balance of trade	−998.3	−856.6	−941.0	−1,233.9	−1,245.8	−1,472.6	−1,455.7	−1,601.3
Travel receipts	570.6	156.1	160.3	869.9	866.9	888.6	957.1	1,004.5
Current account	−338.4	−453.7	−435.7	−400.8	−657.4	−764.6	−708.1	−760.7
Foreign Direct Investment	563.3	381.4	411.0	440.0	594.0	725.6	621.1	633.4
Monetary Sector								
Money Supply	2,691.3	2,658.8	2,884.7	3,169.8	3,213.0	3,482.7	3,578.7	3,782.5
Net Foreign Assets	1,400.4	1,720.7	1,919.1	2,211.7	2,405.0	2,711.8	2,777.5	3,093.1
Net Domestic Assets	1,290.8	938.1	965.5	958.1	808.0	771.0	801.2	689.4
Domestic Credit	1,326.2	1,243.9	1,348.7	1,464.2	1,306.4	1,247.9	1,523.0	1,725.0
Of which credit to the private sector	1,623.4	1,673.3	1,736.7	1,772.4	1,839.8	2,031.8	2,140.7	2,267.5
Of which credit to businesses	583.4	623.2	594.2	407.7	537.4	643.8	755.6	809.3
Of which credit to households	1,040.0	1,050.1	1,042.5	1,364.7	1,302.4	1,388.0	1,375.0	1,453.3
Memo Items								
Total public sector debt (EC$M)	1,955.1	2,053.2	2,164.4	2,132.7	2,244.7	2,243.7	2,409.2	2,418.3
Total public sector debt to GDP	59.7	72.9	71.4	64.5	62.2	60.6	60.7	57.7

Source: Central Statistics Office and ECCB Data as at September 2024