

GRENADA



ANNUAL ECONOMIC REVIEW 2018

&

ECONOMIC OUTLOOK

PREPARED BY THE MINISTRY OF FINANCE, PLANNING, ECONOMIC
AND PHYSICAL DEVELOPMENT

NOVEMBER 2018

ANNUAL ECONOMIC REVIEW 2018 AND ECONOMIC OUTLOOK

1. OVERVIEW

Preliminary estimates based on data for the first nine months of 2018 indicate that the economy will continue along a positive trajectory in 2018. Inflation will edge up in 2018 and the employment situation is expected to improve. Regarding public finances, the full year performance is expected to be strong, based on the outturns for the first three quarters of the year. Central Government's debt stock is estimated to decline further, relative to 2017. The economic prospects are positive, but can be affected by a mix of upside and downside risks. Short-term risks in particular, are tilted to the downside.

2. INTERNATIONAL AND REGIONAL DEVELOPMENTS

2.1 International Developments

According to the IMF's most recent World Economic Outlook (WEO) Report, released in October 2018, the global economic upswing that began in 2016 strengthened in 2017, with global growth accelerating to 3.7 percent from 3.2 percent in 2016. The rate of global growth in 2017 was the fastest since 2011 and was underpinned mainly by a recovery in private investment. Global growth was not only stronger in 2017 but it was broader, as output accelerated in more economies relative to 2016.

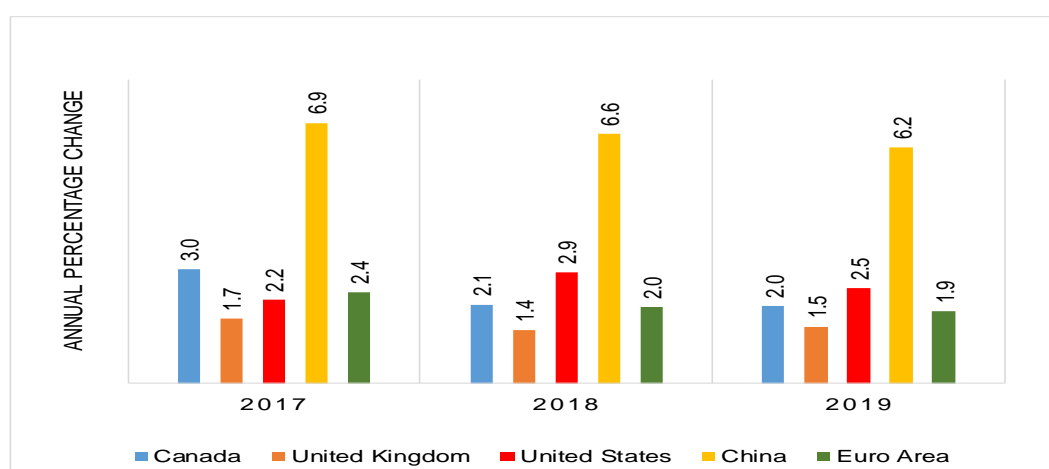
Global growth is estimated to plateau at 3.7 percent in 2018 and 2019. The October estimates are downward revisions relative to those that were done in April 2018, which had forecasted global growth of 3.9 percent for both years. The downward revisions are largely because of lower projected growth for major Advanced Economies, especially the United States (US) in 2019 because of the potential negative impacts of trade tariffs. On a whole, average growth in Advanced Economies is estimated at 2.4 percent in 2018 and is projected to decelerate to 2.1 percent in 2019.

Average growth in Emerging Market and Developing Economies is also forecasted to stagnate at 4.7 percent in 2018 and 2019, the same rate as in 2017. However, within this

category of economies, especially oil-exporters such as Nigeria and Russia, growth is forecasted to accelerate in 2019 relative to 2018 and 2017 because of rising oil prices that are expected to continue.

In relation to the economies of some of Grenada’s major trading partners (Figure 1), growth in the US is estimated to accelerate to 2.9 percent in 2018 from 2.2 percent in 2017, aided primarily by its sizable fiscal expansion, a recovery in private investment, and favourable financial conditions.

Figure 1: Selected Real GDP Growth Rates - International



Source: IMF WEO October 2018

However, notwithstanding the positive short-term prospects, there are a number of downside risks including (but not limited to) a potential escalation in the trade war with China that weigh on the short-term outlook for the US economy. As such, the pace of growth is projected to decelerate to 2.5 percent in 2019. In the United Kingdom (UK), growth is estimated to decelerate from 1.7 percent in 2017 to 1.4 percent in 2018, but is projected to pick up slightly to 1.5 percent in 2019 amid lingering post-Brexit uncertainties.

In Canada, growth is also projected to lose momentum, slowing down from 3.0 percent in 2017 to 2.1 and 2.0 percent in 2018 and 2019 respectively, amid the prospects of rising interest rates, waning private investment, and trade uncertainties in the context of the new North American Free Trade Agreement (NAFTA). In the Euro Zone (EZ), economic activity is forecasted to lose momentum, with growth in average economic output for the EZ projected at 1.9 percent in 2019, compared with 2.0 and 2.4 percent in 2018 and 2017 respectively. Underlying the EZ’s economic slowdown are projected stagnation in Germany and France and decelerations in Italy and Spain.

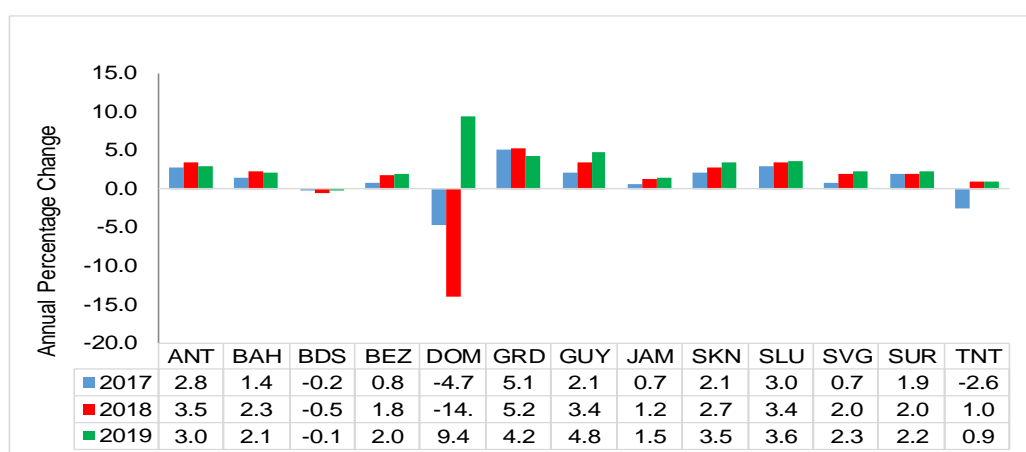
In China, a potential escalation in the trade war with the United States is a potential drag on economic activity. Growth is projected to moderate to a sustainable pace, slowing down from 6.9 percent in 2017 to 6.6 in 2018 and 6.2 per cent in 2019 (Figure 1).

Short-term risks to global growth are tilted to the downside mainly because of the possibility of sharper-than-expected monetary tighten especially in the US as fiscal policy becomes expansionary, the potential escalation of trade wars in advanced economies and heightened geopolitical tensions.

2.2 Regional Developments

Average GDP growth in the independent countries of CARICOM is estimated at 1.1 percent in 2018, roughly the same rate of increase as in 2017 (1.0 percent). However, the increase in regional output is projected to pick up speed in 2019, averaging 3.0 percent, fuelled largely by high rates of growth forecasted for Dominica, Grenada and Guyana (Figure 2).

Figure 2: Real GDP Growth Rates - Regional



Sources: WEO October 2018 and Government of Grenada

In the Eastern Caribbean Currency Union (ECCU), economic growth is estimated to average 0.4 percent in 2018, a deceleration relative to the average increase of 1.5 in 2017, largely because of a massive decline estimated for Dominica because of the damages associated with Hurricane Maria. However, a pickup is projected in 2019, with growth averaging 4.3 percent. In the non-ECCU countries, average growth is estimated at 1.6 percent in 2018 and is projected to edge up to an average of 1.9 percent in 2019.

Risks to the regional growth prospects are on the downside. Not only are regional economies susceptible to spillovers from risks to the global economy, they are also vulnerable to risks associated with natural disasters and other weather-related events. Furthermore, regional economies that are dependent on financial services will continue to face intense scrutiny from the Organisation for Economic Cooperation and Development in relation to offshore-related tax competition issues. De-risking and rising international oil prices also pose headwinds for regional economies.

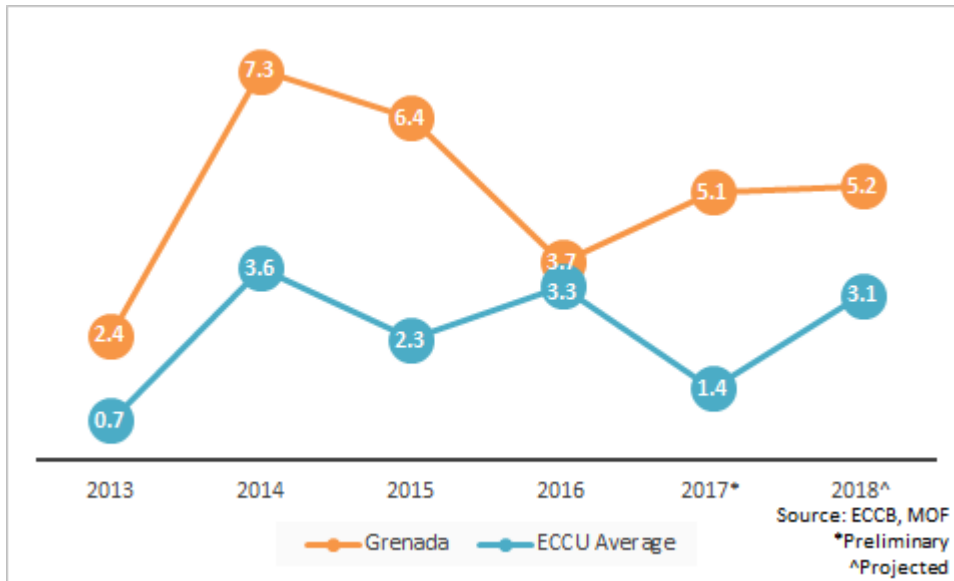
3. 2018 ECONOMIC REVIEW

3.1 Real Sector Developments

Preliminary data for the first half of 2018 indicate that the economy remains strong and is poised to experience its sixth consecutive year of growth. The economy is expected to grow by 5.2 percent in real terms¹ in 2018 after expanding by 5.1 percent in 2017. Grenada remains the fastest growing economy in the region, averaging real growth of 5.0 percent since 2013 (Figure 3). Increased economic activity in the Construction, Tourism, Transport and Retail Trade sectors have been the main drivers of this growth, as well as moderate expansion in the Private Education and Real Estate Sectors. Persistent challenges in Agriculture have resulted in a projected decline in that sector for the third consecutive year.

¹ Real GDP at Market Prices.

Figure 3: Real GDP Growth: Grenada vs. ECCU Average (2013-2018[^])



Agriculture

Production data for the first six months of 2018² indicate a decline in agriculture production compared to the same period in 2017. Abnormal weather patterns remain an issue with the frequency and distribution of rainfall affecting production of major crops including nutmeg and cocoa. Rainfall patterns have altered crop cycles in some cases. Historically, distinct wet and dry seasons have made production patterns more predictable. However, in recent times, weather patterns have become less distinct, with periods of heavy rainfall followed by prolonged dryness prevailing several times per year in some cases. This climate change phenomenon has affected the production of both nutmegs and cocoa.

Falling international prices for some crops has created an additional challenge in the sector, especially those where production is demand driven. However, it should be noted, that though crop production has declined for the last three years, it is still slightly above 2014 levels (Figure 4).

Nutmeg and Mace

For the first half of 2018, the volume of nutmegs produced declined by 26.9 percent relative to the corresponding period in 2017. Changing weather patterns, especially as it relates to rainfall has been cited as one of the main reasons for the decline as stated

² Latest period for which data are available.

previously. Given the first half performance and the production cycle for nutmegs, it is unlikely that crop yields will exceed that of 2017 and thus a decline in nutmeg production of around 13.1 percent is projected for 2018.

Mace production also decreased by 45.2 percent for the first two quarters of 2018 compared to the same period in 2017. This is consistent with the decline in the production of nutmegs as these two crops are intrinsically linked. Moreover, high moisture levels, especially in the first quarter of 2018 would have reduced the viability of the mace and thus contributed to the reduced production. Mace production is price driven. Hence, mace production is expected to pick up in the second half of 2018 and into 2019 as the Nutmeg Board has recently secured a stable market for mace and will be offering higher prices to farmers to meet required supply levels.

On the export side, despite fluctuating international prices, nutmeg exports increased by 34.0 percent in the first half of 2018 compared to the same period in the previous year. The country's nutmeg board, which has been under new management since the first quarter of 2018, has been stockpiling nutmegs during periods of depressed prices and selling large quantities when prices are more favourable.

Cocoa

Cocoa production for the period January to June 2018 rose by 2.0 percent relative to the corresponding period in 2017. This is encouraging as large amounts of spoilage were reported in the early months of 2018 due to damp weather conditions during that period. Abnormal rainfall patterns have affected cocoa production during the year, though reduced production was not recorded. Challenges relating to pests and diseases, though still present, have become less prevalent, with such issues being isolated to particular farms.

Sales on the international market declined by 11.5 percent in the first six months of 2018 compared to the same period in 2017 because of falling international prices. The Cocoa Board has been engaged in stockpiling cocoa beans while awaiting higher prices. A fixed price is paid to local cocoa farmers which is typically above the international price and so the Board must secure premium prices to ensure it makes a surplus.

MNIB Purchases of Other Crops³

From January to June 2018⁴, the quantity of MNIB purchases of “other crops” fell by 7.8 percent compared to the corresponding period in 2017. MNIB Purchases of other crops is the main indicator for production of fresh fruits, vegetables and root crops. As such, given current trends, this sub sector is projected to decline for the third consecutive year. However, it should be noted that an increased number of farmers and farmers’ co-operatives continue to sell directly to hotels and supermarkets which affects the correlation between MNIB purchases and production in the “other crops” sub sector. Efforts are therefore ongoing to improve data collection in that regard to better capture production levels.

Fishing

Preliminary data indicate growth in the fishing sector evidenced by increased catch during January to June 2018 of 2.0 percent compared to the same period in 2017. A similar moderate growth path is expected for the second half as well. However, several challenges persist in the Fishing industry. The Sargassum seaweed continues to be a challenge, especially for fishermen on the east coast of the island, and affects both long line and seine fishing. Additionally, the active Atlantic Hurricane season has affected fishing schedules as instances of tropical disturbances hinder the ability of fishing vessels to operate. Competition for bait has also been cited as a cause for concern. Vessels from neighbouring islands are purchasing bait in Grenada and thus lessening stocks available for local fishermen.

In terms of exports, key exporters of fish have indicated that international fish prices, primarily for Yellow Fin Tuna, are very favourable allowing local fisher folk the opportunity to fetch a fair price for their catch. Prospects for increased sales are also on the horizon as Grenada seeks to diversify its seafood exports and expand to markets in different parts of the world.

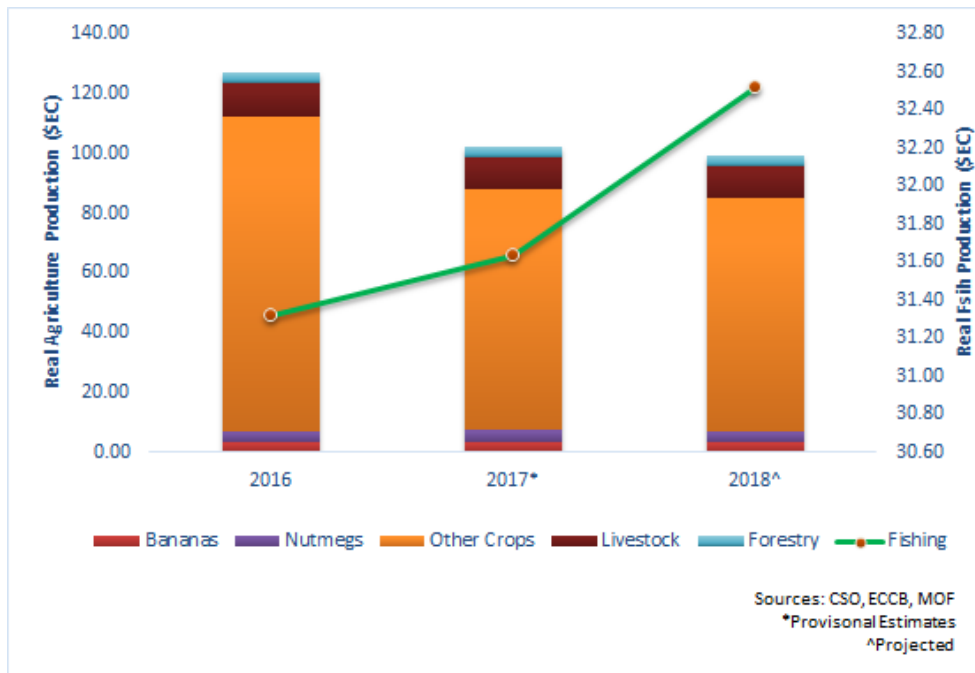
Logistical issues still remain with regards to exports, though some effort has been made to improve the process. A specialized cargo scanner has been purchased and will be installed

³In this section, “Other Crops” means crops other than Nutmegs, Cocoa and Bananas.

⁴ Latest period for which data are available

at the Maurice Bishop International Airport. Issues with the reliability of cargo airlift are still prevalent with commercial airlines being used to transport fish in some cases.

Figure 4: Agriculture and Fish Production (2016-2018[^])



Tourism

For the period January to September 2018⁵, preliminary data on arrivals show an increase in stay-overs of 10.3 percent over the same period in 2017. There were increases in all major source markets, including a 14.1 percent increase in visitors from the US and an 11.8 percent growth in Canadian arrivals (Table 1).

⁵ Latest period for which data are available

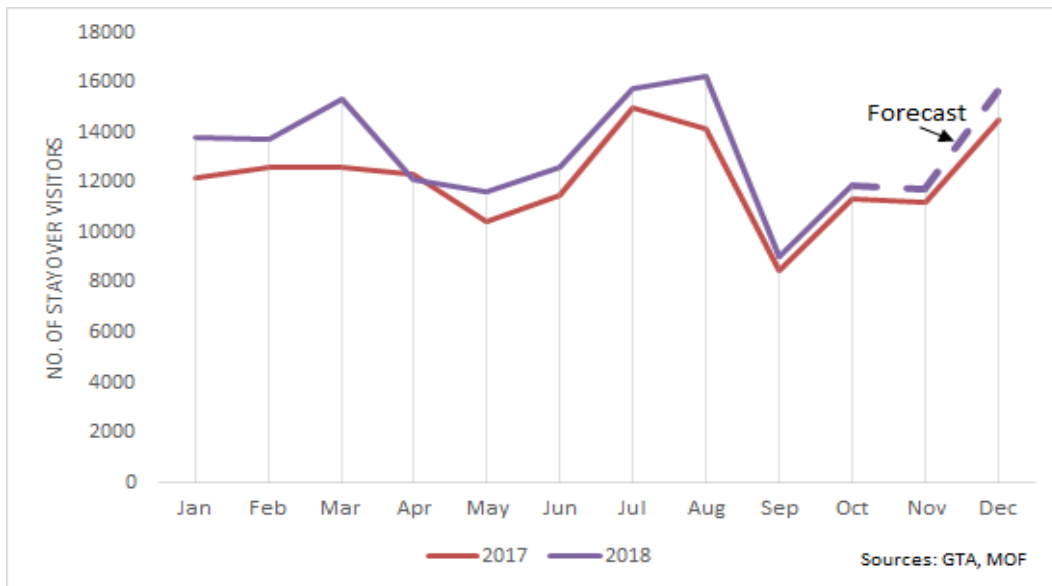
Table 1: Visitor Arrivals for January to September – 2017 vs. 2018

Visitor Arrivals	As at September		% Change
	2017	2018	2018/2017
United States	49,671	56,688	14.1
Continental Europe	5,221	5,469	4.8
United Kingdom	19,234	19,728	2.6
Canada	11,189	12,504	11.8
Caribbean	21,016	22,557	7.3
Other	2,958	3,547	19.9
Total Stay Over Arrivals	109,289	120,493	10.3
Cruise Passengers	176,734	224,759	27.2

Source: GTA

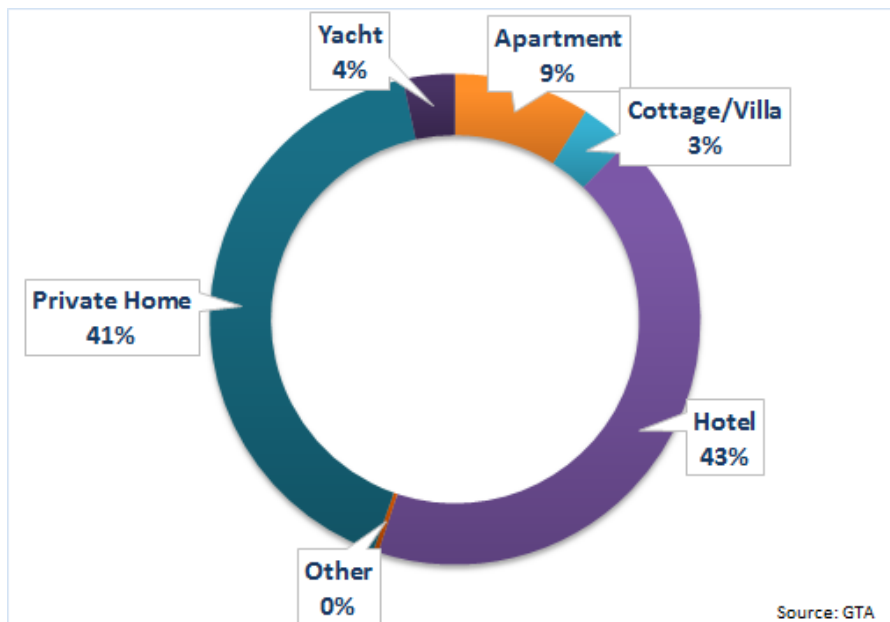
Amid BREXIT uncertainties, moderate increases in visitors from the UK (2.6 percent) and Continental Europe (4.8 percent) are encouraging. The amount of visitors from the Caribbean region rose by 7.3 percent during the period. Stayover arrivals also increased in every month in the period under review with the exception of April which was slightly lower in 2018 than in the previous year (Figure 5). Increased marketing efforts and destination promotion in the Caribbean region and Canada, as well as increased airlift in these two markets have been reported to be a key factor in the growth in arrivals during the period. Moreover, in 2018, Grenada hosted several regional and international events which would have also contributed to the influx of visitors in January to September 2018, including the Grenada Invitational Athletics Meet, Dive Fest, Pure Grenada Music Festival, SpiceMas, as well as several regional meetings and conferences.

Figure 5: Monthly Stayover Arrivals 2017 vs. 2018



In terms of paid accommodations, 42.8 percent of stay-over visitors chose to reside in hotels during their stay, while 8.9 percent and 3.3 percent stayed in apartments/guest houses and cottages/villas respectively (Figure 6). With an average length of stay of 9.3 days per visitor, total value added in the Hotels sector for the January to September period in 2018 increased by 8.9 percent⁶.

Figure 6: Stay-Over Visitor by Accommodation: January – September 2018

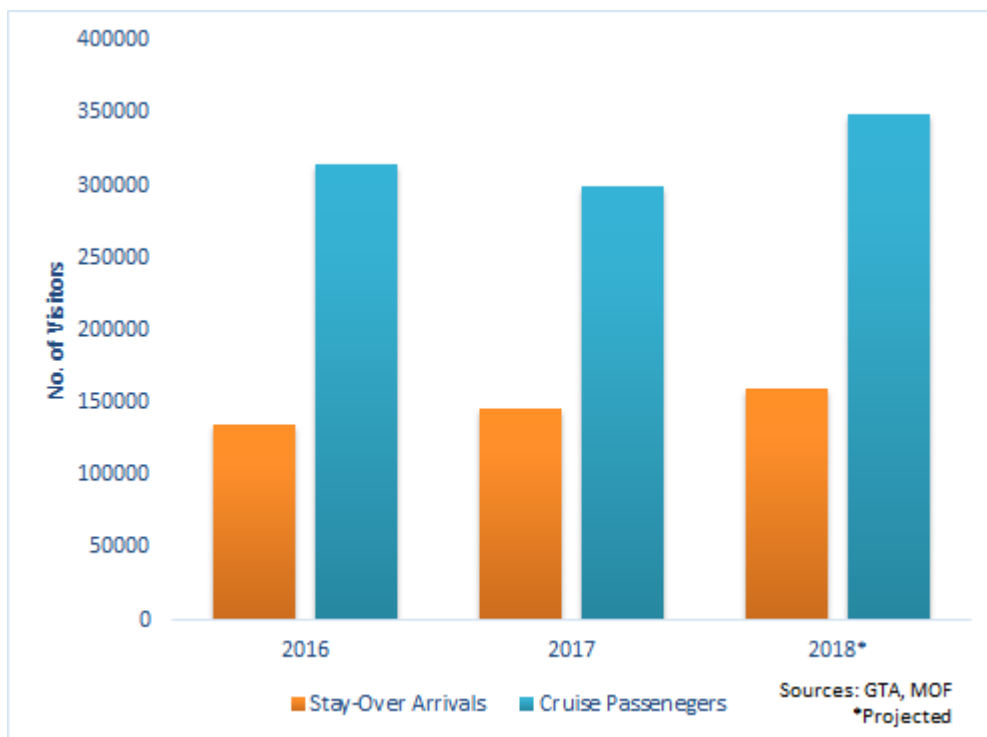


⁶ The Hotels sector includes all paid accommodation. Value added in the sector is calculated using “Bed nights” which is the number of visitors staying in paid accommodation multiplied by the average length of stay.

Based on performance in the first three quarters of 2018, as well as additional flights from the US, Canada and Europe announced for the last quarter, stayover arrivals are expected to increase by approximately 9.2 percent or 160,000 visitors, which would be the highest figure ever recorded for Grenada within the last five years.

Cruise ship arrivals rose by 27.2 percent in the first three quarters of the year from 176,734 passengers in 2017 to 224,759 in 2018. Grenada would have received a boost in cruise calls from cruise lines adjusting their routes for the 2017/2018 season due to the northern Caribbean islands being seriously affected by the active 2017 hurricane season. Scheduled cruise calls for the last quarter of 2018 totaled 119, including 7 new cruise lines. Cruise arrivals are therefore projected to grow by 16.8 percent in 2018 to approximately 350,000 visitors (Figure 7).

Figure 7: Visitor Arrivals: 2016-2018*



Construction

It is projected that growth in the Construction sector will continue on a positive trajectory in 2018 for the fourth consecutive year. After experiencing an expansion of 29.1 percent in 2017, projections are that the sector will expand a further 14.9 percent in 2018 (Figure 8). For the first half of 2018, preliminary data show a 26.7 percent increase in the value of construction materials imported compared to the corresponding period in 2017. Imports of construction materials is the main indicator used to estimate overall growth in the Construction sector. Conversely, retail sales of building materials fell during the period under review by approximately 3.6 percent. The difference in movement of these two indicators is as a result of large projects importing the majority of their building materials. Key construction projects in 2018 included the SGU expansion project, Silver Sands Resort (Phase One) and the Parliament Building (Phase One). Though some of these projects have already been completed and others are due to be completed by the end of 2018, the Construction sector shows no signs of slowing down with several new private and public sector projects already in the pipeline for 2019 and beyond.

Figure 8: Construction Indicators and Growth: 2012-2018*

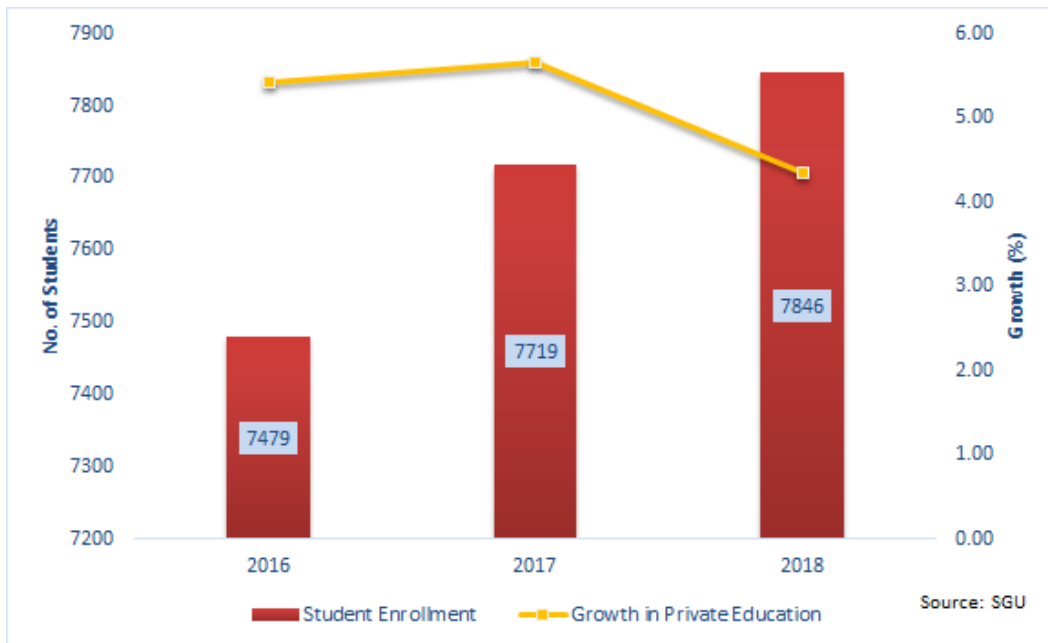


Private Education

Private Education remains the largest contributor to GDP, constituting approximately 19.3 percent in 2018, and has also been one of the main drivers of economic growth in recent years (Figure 9). Growth in Private Education is expected to be 4.3 percent in 2018 relative

to 2017. Though increases in student enrolment, increasing academic fees, as well as major investment in infrastructure at the St. George’s University indicate that the sector remains strong in 2018, some deceleration in growth is expected in the sector.

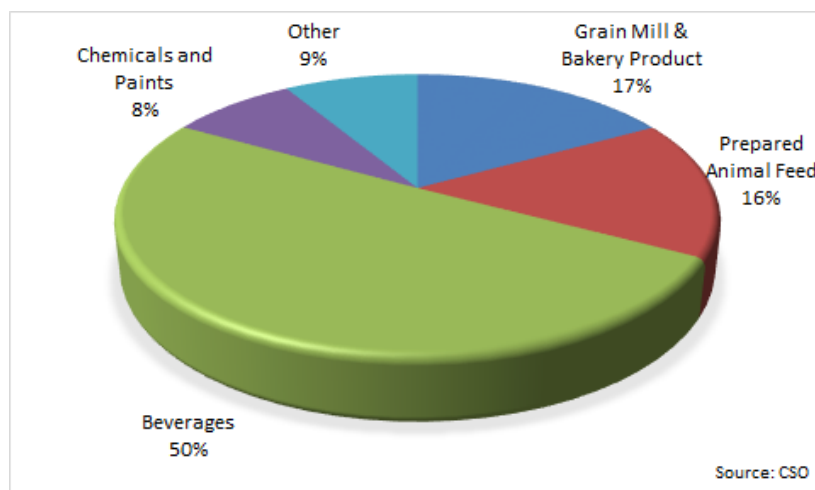
Figure 9: SGU Enrolment and Growth in Private Education: 2016-2018



Manufacturing

The Manufacturing sector grew by 2.0 percent in 2018 continuing from 2.7 percent growth in 2017. In the first half of 2018, Beverages made up 50.4 percent of manufactured goods, while Grain Mill & Bakery Products were approximately 16.9 percent (Figure 10).

Figure 10: Composition of Manufacturing Sector: Jan-Jun 2018



Preliminary estimates of production for the first half show that there was a 12.0 percent increase in the value of beverages manufactured compared to the corresponding period in 2017. The value of Chemicals & Paints produced during the period also rose by 14.6 percent. Since beverage and paint production are notably demand driven, increases are most likely the result of the general uptick in economic activity, especially in the construction sector. A further increase is expected in the last quarter during the festive season. Moreover, the reintroduction of an international soft drink brand has boosted production. This trend is expected to continue especially as Grenada is poised to supply these products to the OECS region as well.

Conversely, production of Grain Mill & Bakery Products and Animal Feed fell in the period under review by 30.8 and 2.6 percent respectively. Challenges on the export market has been cited as the main reason for such a major decline in the value of flour produced during the period. One such challenge is the non-implementation of Article 164 of the Revised Treaty of Chaguaramas⁷ in some of Grenada's main export markets for flour. This has made it difficult for Grenada's products to compete with those from the larger Caribbean countries which can produce much more cheaply. As a result, Grenadian flour producers have been forced to reduce the prices of their products to remain competitive. Additionally, the commissioning of a new flour mill in a neighbouring OECS territory has also affected demand for Grenada's products regionally. On the local front, competition from imported flour and pre-baked goods are also negatively affecting the flour industry. Recovery in the subsector would be hinged on these issues being addressed in the near future.

Other Sectors

Positive growth is also expected in 2018 for the Wholesale & Retail Trade sector and the Transport sector, with projected rates of 10.8 and 11.6 percent respectively. Robust activity in the Construction and Tourism sectors, as well as increased employment, are the main factors contributing to these projections. Marginal improvement is also expected in the Real Estate and Financial Intermediation sectors with projected growth rates of 2.2 and 2.6 percent respectively.

⁷ Article 164 of the Revised Treaty of Chaguaramas grants the Lesser Developed Countries (LDCs) of CARICOM, including Belize and Haiti, the authority to deny certain products originating in CARICOM and extra regional countries from preferential (duty free) entry into their markets.

Inflation and Unemployment

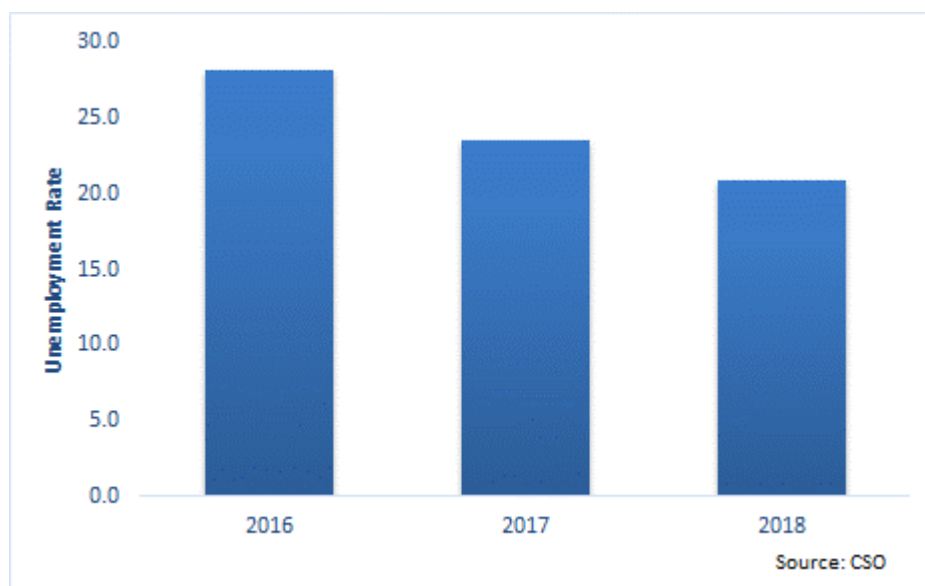
The average rate of inflation, as measured by the Consumer Price Index is estimated to be 2.8 percent in 2018. As Grenada's inflation is mainly imported, increases in international oil and food prices, as well the pickup in US inflation, are the main drivers of increases in local prices (Figure 11).

Figure 11: Inflation (CPI) 2012-2018*



Preliminary results of the 2018 Labour Force Survey indicate that the unemployment rate fell from 23.6 percent in 2017 to 20.9 percent in 2018.

Figure 12: Unemployment Rate: 2016-2018



3.2 Public Finances

The Central Government's fiscal accounts continue to improve in 2018. A Primary Surplus (including Grants) of \$199.6 million (6.2 percent of GDP) is provisionally estimated, making 2018 the fourth consecutive year that a primary surplus will be achieved. An Overall Balance after Grants of \$136.3 million (4.2 percent of GDP) is estimated (Table 2).

Table 2: Primary and Overall Balance after Grants 2017 vs 2018

	2017	2018	Variance	
	\$m	\$m	\$m	%
Primary Balance after Grants	172.6	199.6	27.0	15.6
Overall Balance after Grants	91.6	136.3	44.7	48.8

Source: MOF

The healthy fiscal performance was underpinned by enhanced compliance and enforcement in the Inland Revenue Department and the Customs & Excise Department, as well as Government's deliberate efforts to reduce its discretionary expenditure. Vibrant economic activity also contributed to the strong fiscal outturns. Public debt is estimated at 62.7 percent in 2018, a reduction of 6.2 percentage points relative to the ratio at end-2017.

Total Revenue and Grants are provisionally estimated at \$849.8 million for 2018, of which total revenue is \$747.2 million and total grants is \$102.6 million. Tax revenue and Non-tax Revenue are estimated at \$695.6 million and \$51.5 million respectively. The performance of total revenue in 2018 is expected to outperform that of 2017 because of an increase in collections of taxes on income and profits (4.3 percent); property tax (19.3 percent); tax on domestic goods and services (3.5 percent), taxes on international trade and transactions (8.4 percent) and non-tax revenue (5.3 percent). Grants are estimated to be 31.4 percent above the amount collected in 2017 (Table 3).

Table 3: Total Revenue & Grants 2017 vs 2018

	2017	2018	Variance	
	\$m	\$m	\$m	%
Total Revenue & Grants	778.1	849.8	71.7	9.2
Total Revenue	700.1	747.2	47.1	6.7
Tax Revenue	651.2	695.6	44.4	6.8
Taxes on Income & Profits	140.6	146.7	6.1	4.3
Taxes on Property	24.3	29.0	4.7	19.3
Taxes on Domestic Transactions	147.7	152.9	5.2	3.5
Taxes on International Transactions	338.6	367.0	28.4	8.4
Non-Tax Revenue	48.9	51.5	2.6	5.3
Total Grants	78.1	102.6	24.5	31.4

Source: MOF

Total Expenditure is estimated at \$713.5 million for 2018, which is 3.9 percent more than the amount in 2017. There was an overall decrease in Recurrent Expenditure of 1.9 percent when compared to 2017. Personal Emoluments are estimated to be 4.0 percent above the 2017 outturn due to a 3 percent salary increase given to public servants at the start of 2018 as per an agreement between the Government and the Unions and also the one-off payment of a maximum of \$750 to public servants for their sacrifice during the home-grown structural adjustment programme. These payments amounted to approximately \$7.3 million. Government's continuous efforts to manage its discretionary spending led to a reduction of 9.6 percent in expenditure on goods and services when compared to 2017. Interest payments are estimated to be 21.9 percent less than the 2017 outturn as a result of debt restructuring and re-profiling. The estimated 5.7 percent growth in Transfers over the 2017 outturn reflects an increase in Government's contribution to NIS and pension payments made to persons who joined the Public Service between 1983 and 1985. Despite implementation issues with Grant-financed projects, Capital Expenditure is estimated to be 47.5 percent more than the 2017 outturn (Table 4).


Table 4: Total Expenditure 2017 vs 2018

	2017	2018	Variance	
	\$m	\$m	\$m	%
Total Expenditure	686.5	713.5	27	3.9
Recurrent Expenditure	605.9	594.6	-11.3	-1.9
Personal Emoluments	246.8	256.6	9.8	4.0
Goods & Services	126.5	114.4	-12.1	-9.6
Interest	81.0	63.3	-17.7	-21.9
Transfers	151.6	160.2	8.6	5.7
Capital Expenditure	80.6	118.9	38.3	47.5

Source: MOF

In relation to the 2018 Budget, all fiscal variables are estimated to perform better than their respective budgeted amounts, with the exception of Transfers, Grants, and Capital Expenditure. The positive variance in the estimated outturn for Transfers and the budgeted amount reflects the \$100 increase in public assistance given to eligible elderly households from August 2018. With respect to Grants, though inflows were strong, project management and implementation challenges curtailed the amount of capital grants spent to execute Public Sector projects and programmes (Table 5).

Table 5: 2018 Performance – Estimated Outturns and Budget

Grenada Fiscal Projections			
<i>In millions of Eastern Caribbean Dollars</i>			
	2018		
	Estimated Outturn	Budget	Variance
Total Revenue & Grants	849.8	858.4	-1.0
Total Revenue	747.2	710.4	5.2
Tax revenue	695.6	658.1	5.7
Non - Tax Revenue	51.5	52.4	-1.5
Grants	102.6	148.0	-30.7
Total Expenditure & Net Lending	713.5	778.4	-8.3
Primary Expenditure	650.2	710.6	-8.5
Current Expenditure	594.6	607.1	-2.1
Personal Emoluments	256.6	265.6	-3.4
Goods and Services	114.4	117.8	-2.9
Interest Payments	63.3	67.8	-6.6
Transfers	160.2	155.9	2.8
Net Lending	0.0	0.0	0.0
Capital Expenditure	118.9	171.3	-30.6
Current Balance (before Grants)	152.6	103.3	47.7
Overall Balance (after Grants)	136.3	80.0	70.4
Primary Balance (after Grants)	199.6	147.8	35.1

In relation to the fiscal rules and targets stipulated in the Fiscal Responsibility Law (FRL), the estimated outturns for 2018 for the relevant fiscal variables are in full compliance as shown in Table 6.

Table 6: Compliance Matrix

	2018	
	Fiscal Rule	Estimated
Growth of Real Primary Expenditure less capital grants (Annual % change)	2.0%	2.0%
Wage Bill (% of GDP)	9.0%	7.9%
Primary Balance (% of GDP)	3.5%	6.2%
Contingent Liabilities related to PPPs	<5% of GDP	0.0%
Debt Anchor: 55 % of GDP[^]		
Public Debt (% of GDP)		62.7%
Notes: [^] the FRL does not stipulate a year in which the 55% is to be reached.		

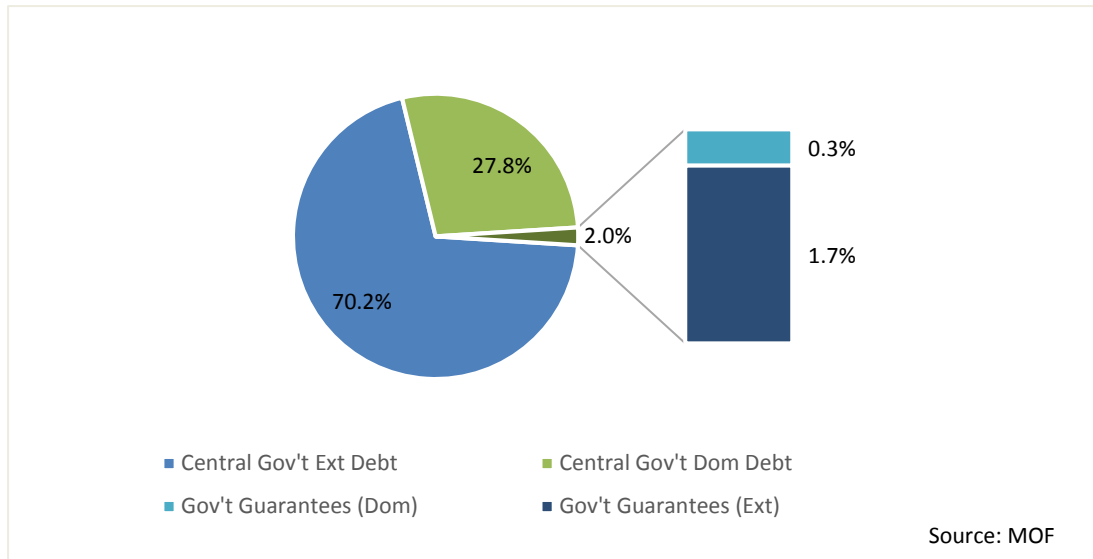
Source: MOF

Public Debt

Public sector debt outstanding (Central Government debt and Government guarantees) at the end of September 2018⁸ stood at \$2,058.9 million compared with \$2,070.5 million at the end of December 2017. Despite the overall decline of total public debt, Central Government debt stock increased by 1.0 percent to \$2,017.7 million because of an increase in external debt by \$44.3 million or 3.2 percent which reflected disbursements received from multilateral creditors predominantly Caribbean Development Bank (CDB) and World Bank (WB). Conversely, domestic debt of Central Government contracted by 4.2 percent to \$572.1 million. Based on estimated GDP, public debt is estimated to decline by 6.2 percentage points from 68.9 percent of GDP in 2017 to 62.7 percent at the end of 2018 (Figure 13).

⁸ Latest period for which data are available

Figure 13: Composition of Public Debt as at end September 2018



Central Government Domestic Debt

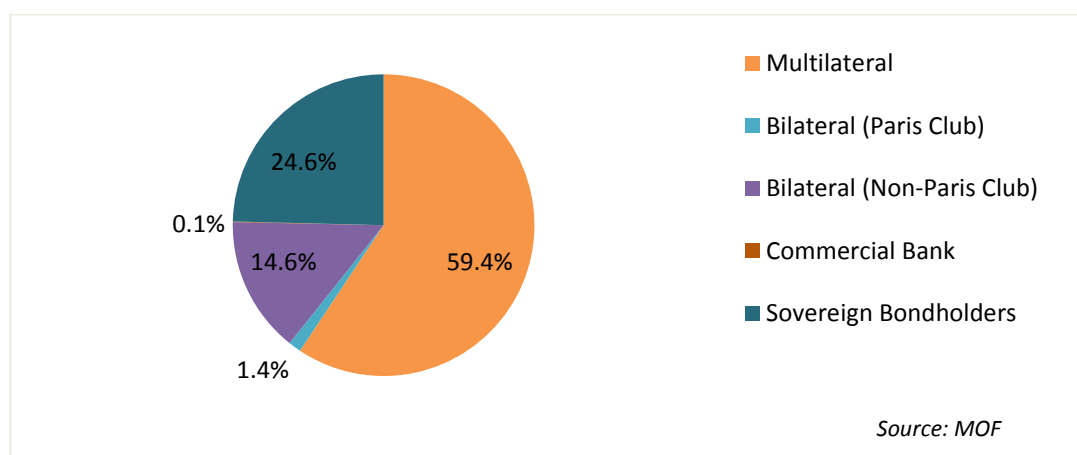
Central Government domestic debt, which accounted for \$597.1 million or 28.8 percent of total public sector debt at the end of 2017 declined to \$572.1 million or 27.8 percent at the end of September 2018. This decline in the debt stock was primarily due to: scheduled amortization payments during the period; retirement of Government's Series A 91-day Treasury Bills on the Regional Government Securities Market (RGSM) valued at \$12.4 million; redemption of a private placement 365 day Treasury Bill of \$4.0 million; a reclassification of investors based on residency of debt issued on the RGSM; and the decision taken by Government to remove the option of accepting additional bids on auctions on the RGSM. During the first nine months of this year, the Government re-issued \$90.0 million in debt on the RGSM for liquidity management purposes. This comprised of: a \$10.0 million, 2-year, 5.5 percent Treasury note; three issues of a \$15.0 million, 91-day Treasury Bill, with an average yield of 2.1 percent; a \$25.0 million, 365-day Treasury Bill, yielding 2.75 percent; and a \$10.0 million, 365-day Treasury Bill, with a yield of 2.0 percent. Central Government domestic debt is estimated to decline to \$568.4 million or a further 0.6 percent at the end of 2018.

Central Government External Debt

Central Government external debt accounted for 70.2 percent of public sector debt or \$1,445.6 million at the end of September 2018. Multilaterals accounted for the lion's share

of the external debt portfolio, \$858.0 million or 59.4 percent. These were followed by; sovereign bondholders, \$355.8 million or 24.6 percent; bilateral (Non-Paris Club) creditors, \$211.4 million or 14.6 percent; bilateral (Paris Club) creditors \$19.5 million or 1.4 percent; and commercial bank, \$0.9 million or 0.1 percent (Figure 14). During the first three quarters of 2018, disbursements of \$106.4 million were made from new and existing external facilities. Disbursements made from new facilities included: \$0.7 million in June on the Climate-Smart Agriculture and Rural Enterprise Programme (SAEP) facility with the International Fund for Agricultural Development (IFAD) and \$81.0 million in August on the First Resilience and Blue Growth Development Policy Financing from the WB. The remaining \$24.7 million was disbursed on existing facilities with multilateral creditors namely; CDB, \$7.6 million; WB, \$16.8 million; IFAD, \$0.1 million; and Organisation of Petroleum Exporting Countries (OPEC), \$0.2 million. It is estimated that external debt will record \$1,414.9 million or 69.6 percent of total public debt at the end of this year; a 1.0 percent expansion relative to end of December 2017.

Figure 14: External Debt by Creditor as at end September 2018



Debt Service

Total Central Government debt service for the first three quarters of 2018 was \$201.8 million, a decline of \$49.9 million compared to the corresponding period of 2017. This is as a result of collaborative debt restructuring completed in 2017 that included interest rate adjustments and face value reduction (50.0 percent) in some cases. Domestic debt service accounting for 57.3 percent of total debt service was \$115.7 million, of which \$13.5 million is attributed to interest and \$102.2 million to principal. The total for the first three quarters represented a 27.9 percent decline relative to the same period in 2017. Principal

repayments during the period were consequent to Treasury Bill re-issues on the RGSM and Over-the-Counter (OTC) Treasury Bills.

External debt service was reduced by 5.7 percent moving to \$86.1 million at the end of September 2018 relative to the corresponding period in 2017. External interest payments were \$27.4 million, a reduction of 21.3 percent compared to the same period of 2017 whilst external principal repayments were \$58.7 million, an increase of 3.9 percent. The ratio of debt service to revenue declined by 12.7 percentage points, moving from 48.6 percent to 35.9 percent at the end of the first nine months of 2018.

Update on Government Guaranteed Debt

Explicit Government guarantees outstanding at the end of September 2018 was \$41.2 million, a decrease of 42.9 when compared to end December 2017. This significant reduction in the stock of Government guarantees primarily reflected a reclassification of a portion of a public entity on a portion of its locally-issued debt. As a percent of public debt, Government guaranteed debt declined by 1.5 percentage points from 3.5 percent at the end of 2017 to 2.0 percent at the end of September 2018.

3.3 Monetary and Financial Sector Developments

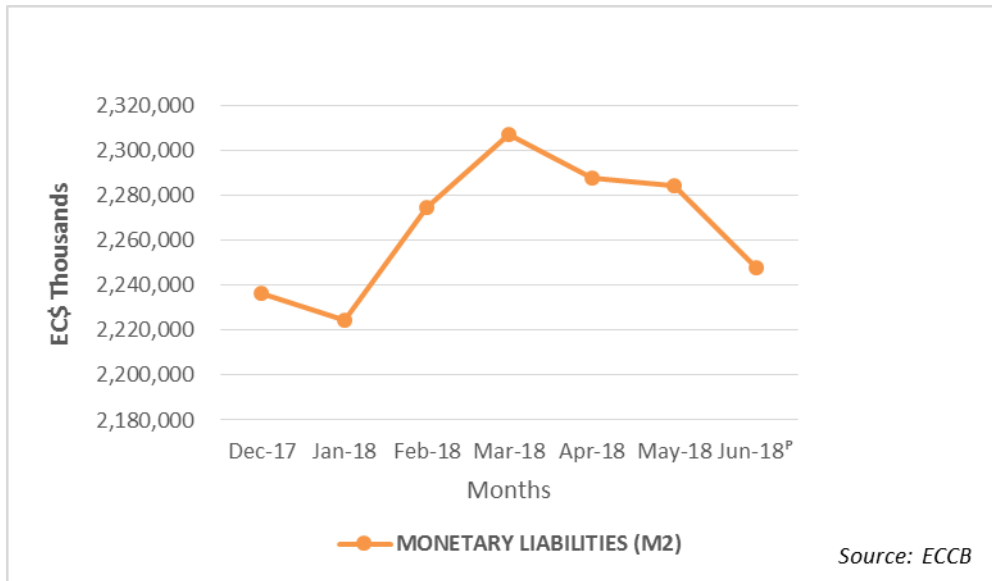
During the first half of 2018⁹, the Monetary and Financial Sector continued to strengthen as foreign assets rose during the period alongside improvements domestically, as deposits of both commercial banks and credit unions grew.

Monetary Liabilities (M2) continued to expand during the first half of 2018¹⁰, from \$2,224.4 million at end December 2017 to \$2,247.8 million at end June 2018, representing an increase of 1.1 percent, relative to growth of 1.2 percent in the corresponding period in 2017. (Figure 15). Of the components of M2, quasi money, the bulk of M2, decreased by 0.1 percent, moving from \$1,608.0 million at the end of December 2017 to \$1,606.4 million at the end of June 2018. The other component of M2, M1, expanded by 4.1 percent to \$641.4 million at end-June 2018, this increase was influenced solely by growth in private sector demand deposits of 7.6 percent.

⁹ Latest period for which data are available

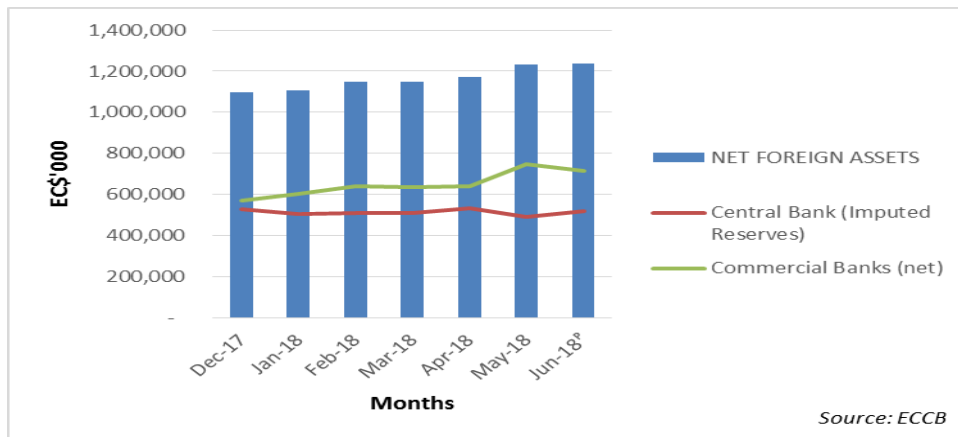
¹⁰ Latest period for which data are available

Figure 15: Monetary Liabilities December 2017 – June 2018(p)



Net Foreign Assets increased by 12.6 percent during the first six months of 2018 to \$1,236.5 million, compared to 8.0 percent in the corresponding period of 2017, on an account of growth in the Central Bank’s imputed reserves (3.4 percent) and commercial banks’ net (18.7 percent). Net Domestic Assets declined by 11.2 percent during the first half of 2018 to \$1,011.3 million compared to a rate of decline of 4.7 percent in the corresponding period. The higher rate of decrease was because of steeper contractions in Other Items (net) and domestic credit (Figure 16).

Figure 16: Net Foreign Assets end-December 2017 – end-June 2018

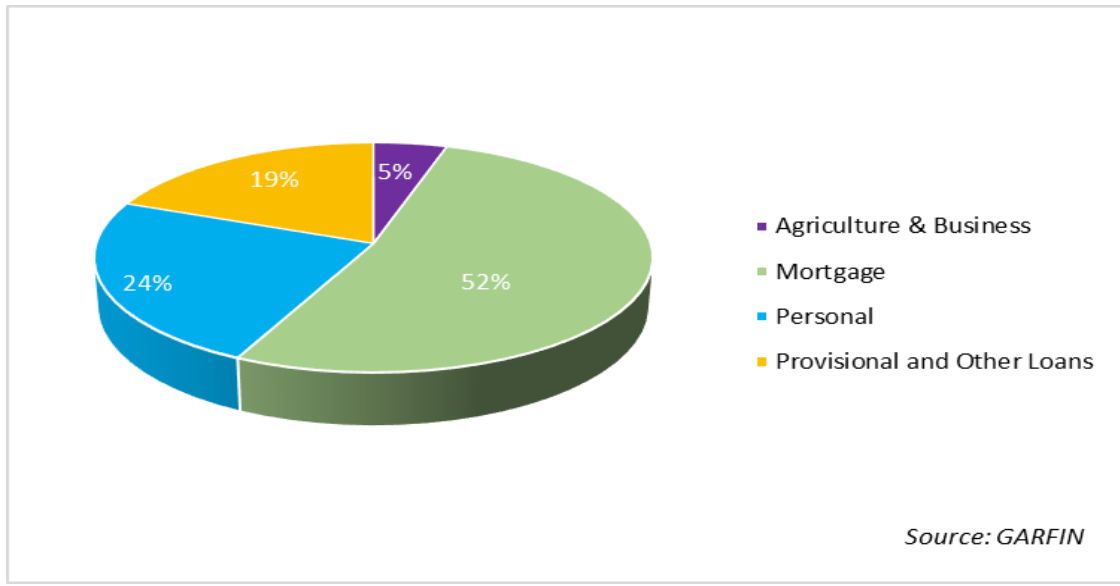


Domestic credit was reduced by 4.8 percent to \$1,148.6 million for the first half of 2018, when compared to the same period in 2017. The decline in domestic credit was underpinned by a reduction in credit to non-financial public enterprises (net) and net credit to general government by 39.6 percent and 13.0 percent respectively, which outweighed in the marginal increase in credit to the Private Sector.

For the first half of 2018, commercial banks registered a minimal increase in credit of 1.0 percent. This increase, despite being minimal, represents a turning point in the level of credit provided by commercial banks following consecutive declines during the period 2014 - 2016. Increases were in the Mining and Quarrying, Tourism, Fisheries, Entertainment and Transport sectors.

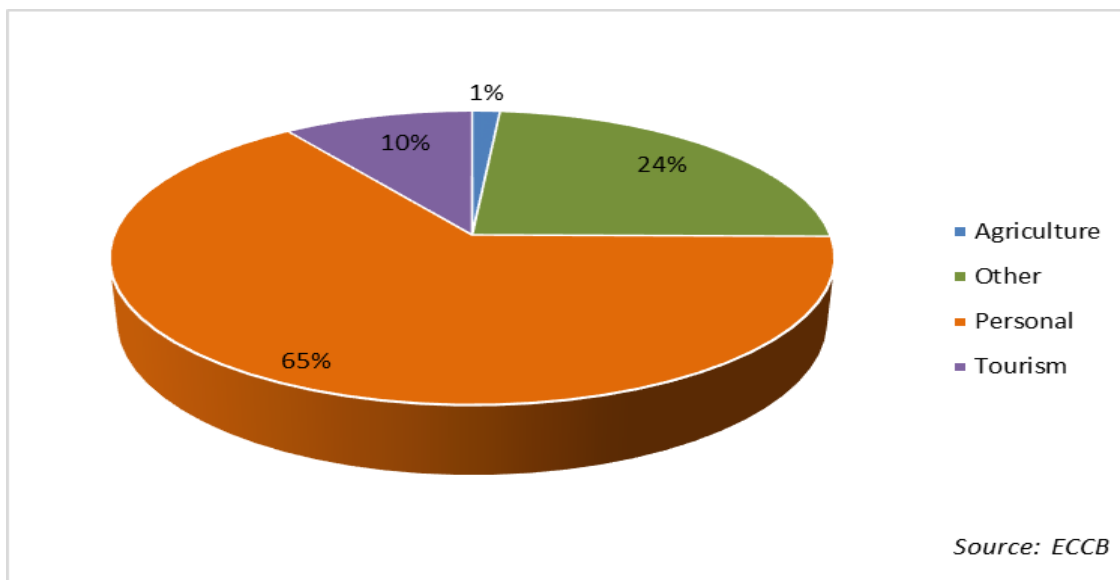
Credit unions' loan portfolio for the first half of 2018 was dominated by mortgages, personal and other loans, 52.4 percent 23.8 percent and 20.6 percent respectively (Figure 17).

Figure 17: Credit Unions Credit as at June 2018



Commercial banks' lending portfolio as at end June 2018 continued to be dominated by the Personal (65.0 percent), which consists mostly of loans for the acquisition of property (Figure 18).

Figure 18: Commercial Banks Credit as at June 2018



Total deposits of the banking sector increased by 2.8 percent to \$2,988.5 million for the first six months of 2018, while deposits in credit unions rose by 6.5 percent during the same period. With deposits outpacing the level of credit provided, both banks and credit

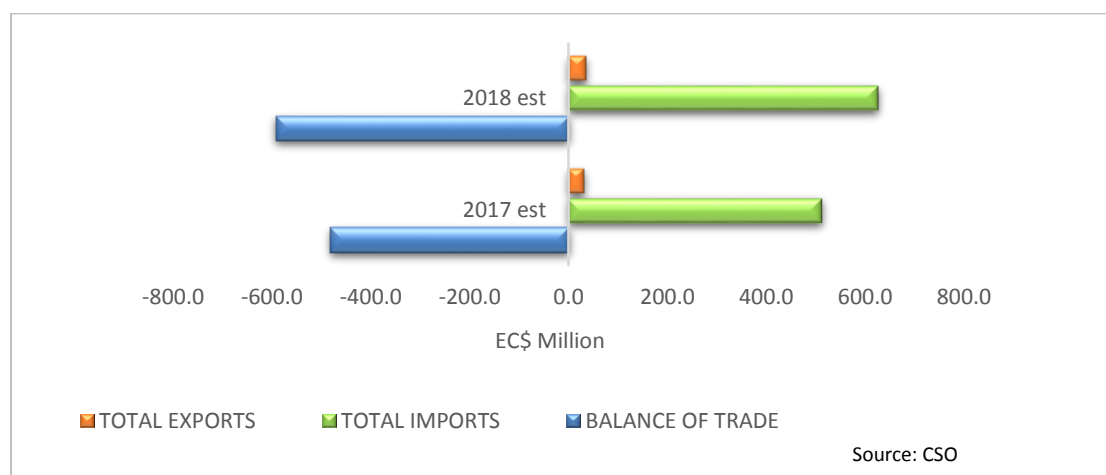
unions continue to build up excess liquidity. The total loan-to-deposit ratio of commercial banks increased to 56.2 percent as at end June 2018, while credit unions registered a much larger ratio of 86.1 percent during the same period.

The Non-performing Loans ratio (NPLs) of the banking sector has seen tremendous improvements moving from 3.9 percent at end-December 2017 to 3.1 percent end-June 2018, which is below the ECCB’s prudential benchmark of 5.0 percent. The overall financial system has maintained a prudential position in their levels of NPLs, associated with improved servicing of loans or balance sheet restructuring.

3.4 External Sector Developments

The merchandise trade balance continued to deteriorate at the end of the first half of 2018¹¹. A trade deficit of \$591.1 million was estimated for the end of June 2018 above the deficit of \$481.0 million recorded during the same period of 2017. This deterioration was driven by a 22.2 percent increase in the value of imports to \$626.2 million (Figure 19).

Figure 19: Balance of Trade (Jan- Mar)



The increase in the value of imports during the first half of 2018 relative to the comparable period of 2017 was primarily on account of the importation of: machinery and transport equipment (39.7 percent); mineral fuel, lubricants and related materials (37.1 percent); and animal and vegetal oils, fats and waxes (35.5 percent). Notably, there was a significant

¹¹ The latest period for which data are available.

reduction in the level of beverages and tobacco imported during the period (61.8 percent), however, these were inadequate to offset the increases in other import categories. Imports are expected to increase for the rest of 2018 mainly because of the importation of construction materials, as the sector continues to expand (Table 7).

Table 7: Goods Imports

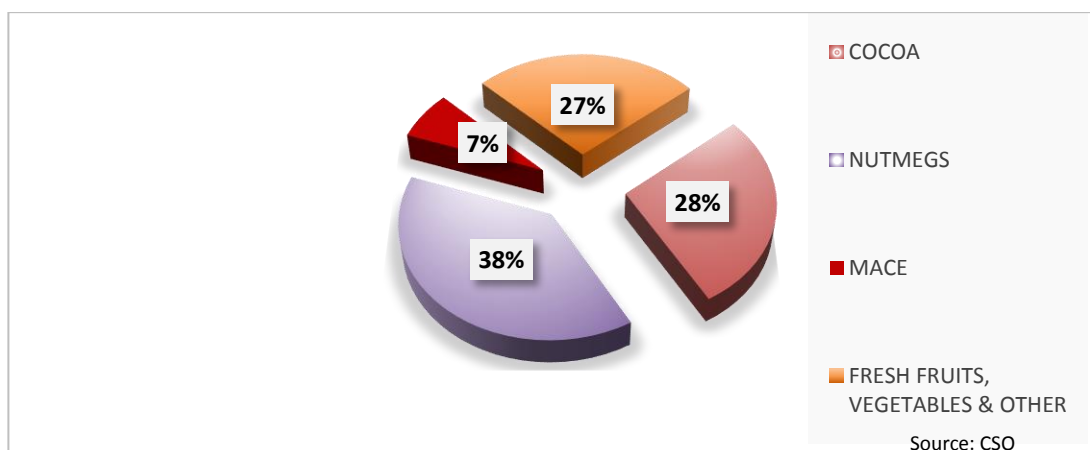
Category of Imports	2017	2018	2017/2018
	Jan-Jun	Jan-Jun	Jan-Jun
	EC\$ Million	EC\$ Million	% Change
Food	95.0	111.6	17.5
Beverages & Tobacco	42.1	16.1	-61.8
Crude Materials except fuels	13.3	16.9	27.3
Mineral Fuels, Lubricants & Related Materials	73.6	101.0	37.1
Animal & vegetable oils, fats & Waxes	1.8	2.4	35.5
Chemical & Related Products	35.0	42.4	21.3
Manufactured Goods chiefly classified by material	82.5	109.7	32.9
Machinery & Transport Equipment	102.1	142.6	39.7
Miscellaneous Manufacture Articles	67.1	83.3	24.3
TOTAL	512.5	626.2	22.2

Source: CSO

With respect to exports, its value is estimated to have increased by 11.2 percent to \$35.1 million, buoyed by growth in re-exports and domestic exports of 42.1 percent or \$3.3 million and 8.7 percent or \$31.8 million respectively. Re-exports expanded primarily because of machinery and transport equipment that were repatriated and to a lesser extent, miscellaneous manufactured articles. Domestic exports' expansion was driven mainly by higher earnings from agricultural exports of nutmegs with a 34.3 percent rise to \$5.8 million.

The value of agricultural exports¹² rose by 7.6 percent during the first half of 2018 relative to the first half of 2017. This rise was strongly influenced by nutmegs and mace exported, which recorded increases of 34.3 percent and 9.1 percent respectively during the period. Conversely, the value of cocoa exported declined by 10.7 percent. Cocoa holds the second largest share of agricultural exports at 28.0 percent, preceded only by nutmegs at 38.0 percent. Succeeding cocoa were fresh fruits and vegetables with 27.0 percent and mace with 7.0 percent of the total share of exports respectively (Figure 20).

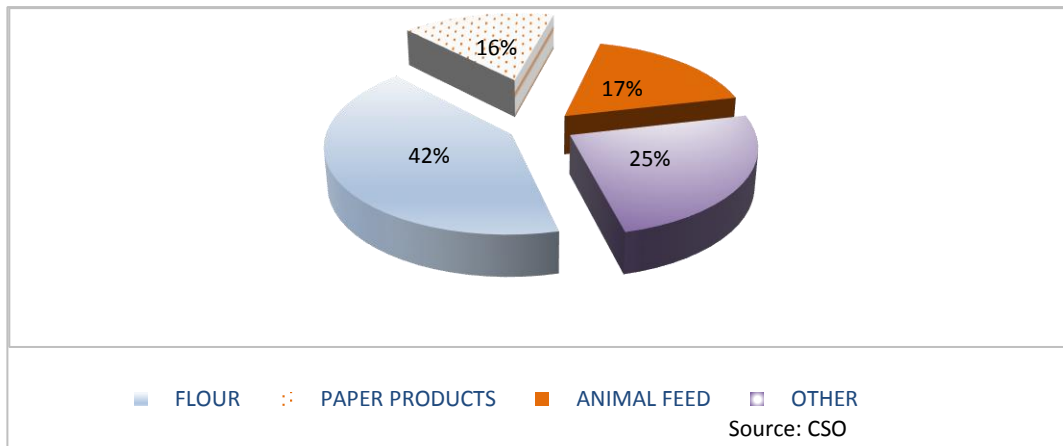
Figure 20: Agricultural Exports: Jan-Jun 2018



Manufactured exports grew by 9.8 percent during the first six months of 2018, compared to the same period of 2017. This expansion was driven mainly by increases in the export values of the categories: Clothing; Other; Animal Feed; and Paper Products by 85.9 percent, 83.3 percent, 33.9 percent and 17.9 percent respectively. However, nutmeg products and flour declined by 40.7 percent and 18.8 percent respectively over the same period. Additionally, earnings from manufactured goods namely, paper products and animal feed increased to \$2.5 million and \$2.7 million respectively (Figure 21).

¹² Agricultural exports exclude data for Fish, since it was unavailable at the time of this document's preparation.

Figure 21: Manufacturing Exports: Jan-Jun 2018



Overall, goods exports are expected to increase at the end of 2018. Improvements in the storage facilities for the air transport of goods, along with the continued implementation of the Export Strategy should help boost the performance of exports.

Table 8 presents the selected indicators for the period 2014 – 2018.

Table 8: Selected Indicators 2014 - 2018

	2014	2015	2016	2017	2018 (e)
Real Sector					
Real GDP Growth (Market Prices, %)	7.3	6.4	3.7	5.1	5.2
Inflation (period average, %)	-1.0	-0.6	1.7	0.9	2.8
Unemployment Rate (%)	29.3	29.0	28.2	23.6	20.9
Nutmeg Production (million lbs)	1.2	1.3	1.1	1.3	1.1
MNIB Purchases (million lbs)	2.5	3.8	3.0	2.3	2.2
Imports of Building Material (EC\$ million)	91.9	95.7	112.1	145.1	171.4
Sales of Building Material (EC\$ million)	36.3	42.2	46.7	48.5	44.6
SGU Enrollment (no. of students)	6,586	7,026	7,479	7,719	7,846
Stay Over Arrivals (no. of persons)	133,526	132,547	135,381	146,359	159,852
Cruise Ship Visitor Arrivals (no. of persons)	235,140	280,518	314,913	299,449	349,656
Fiscal Account					
Total Revenue & Grants (% of GDP)	24.5	24.1	26.2	25.6	26.3
Tax Revenue (% of GDP)	18.2	19.0	20.9	21.4	21.5
Non-tax Revenue (% of GDP)	2.2	2.2	1.8	1.6	1.6
Grants (% of GDP)	4.1	2.9	3.5	2.6	3.2
Total Expenditure (% of GDP)	29.2	25.6	23.9	22.6	22.1
Current Expenditure (% of GDP)	20.0	17.4	19.7	19.9	18.4
Capital Expenditure (% of GDP)	9.2	8.2	4.2	2.6	3.7
Primary Balance (including grants, % of GDP)	-1.2	1.9	5.2	5.7	6.2
Overall Balance (including grants, % of GDP)	-4.7	-1.5	2.3	3.0	4.2
* provisional estimates for 2018					
Public Sector Debt (Central Gov't & Gov't Guarantees) (% of GDP)	91.4	86.4	79.0	68.9	62.7
Principal Repayments (EC\$ million)	268.6	261.7	294.4	300.7	244.4
Interest Payments (EC\$ million)	86.8	91.7	82.3	81.0	63.3
External Account*					
Exports of Goods & Services (EC\$ million)	1,480.4	1,561.5	1,599.9	1,577.1	1,579.5
Imports (EC\$ million)	1,449.7	1,526.7	1,493.2	1,621.7	1,547.2
Gross Imputed Reserves	427.3	509.0	543.7	526.1	501.5
Gross International Reserves (in months of total imports)	3.5	4.0	4.4	3.9	3.9
Money and Banking**					
Net Foreign Assets (EC\$ million)	582.2	852.5	1,003.2	1,098.4	1,236.5
Domestic Credit (EC\$ million)	1,526.9	1,320.1	1,240.9	1,205.7	1,148.6
o/w Households (EC\$ million)	1,119.4	1,073.6	1,054.6	1,033.0	1,038.9
Firms (EC\$ million)	485.4	469.5	485.3	508.6	533.5
Non-Bank Institutions (EC\$ million)	9.1	9.3	8.7	6.2	5.8
Other Public Sector (net, EC\$ million)	(104.3)	(166.4)	(248.9)	(237.1)	(261.2)
Central Government (EC\$ million)	17.3	(65.9)	(58.8)	(105.0)	(168.4)
Currency in Circulation (EC\$ million)	124.1	131.5	194.8	171.3	175.9

* 2017 and 2018 figures are estimated

** 2018 figures represent values as at June 30th, 2018

(e) provisional estimates for 2018

Sources: CSO, ECCB, MOF

4. ECONOMIC OUTLOOK AND RISKS

4.1 *Economic Outlook*

Grenada's short-to-medium-term economic prospects are positive. Real GDP growth (at market prices) is projected to average 4.0 percent over the period 2019-2021. Growth will be carried by public infrastructure development. Major public sector projects include the Airport expansion project carded to commence in 2019, Phase Two of the Parliament Building, as well as projects under the UK-Caribbean Infrastructure Fund. Growth will also be buoyed by performances in the construction and Tourism sectors, which are expected to remain relatively strong.

Meanwhile, inflation is estimated to edge up in the short term on account of rising international oil prices, but it is expected to moderate over the medium term with expansions in global oil production. Price increases are expected to continue over the medium term, with inflation averaging 2.4 percent. The unemployment rate is expected to continue declining with increased economic activity, but it is likely to remain in double digits until reforms to address structural rigidities take root. Fiscal performance is expected to improve further in the short-to-medium-term, with continued fiscal prudence, consistent with the rules-based fiscal framework as prescribed by FRL. As an upshot of the expected fiscal improvement, public debt is projected to fall below its FRL's target of 55.0 percent of GDP by 2020. Table 9 is a summary of projections for key macroeconomic variables.

Table 9: Key Macroeconomic Projections

	2019	2020	2021
GDP (%)	4.2	3.9	3.9
Nominal GDP (market Price)	3,381.5	3,559.4	3,699.2
Total Revenue and Grants(% of GDP)	28.5	26.2	25.7
Total Expenditure (% of GDP)	24.7	21.9	20.7
Overall Fiscal Balance (after grants) (% of GDP)	3.8	4.3	4.9
Primary Balance (after grants) (% of GDP)	6.0	6.2	6.7
Public Debt (% of GDP)	56.5	50.6	44.7

Source: MOF

4.2 Risks to the Economic Outlook

A mix of upside and downside risks can affect Grenada's positive macroeconomic outlook. On the upside, Grenada's economic improvement and the investor confidence that it is likely to engender, together with potential upside surprises such as a faster-than-anticipated economic growth in Grenada's main trading partners, especially in the US, augur well for the outlook. Additionally, the country's oil and natural gas discovery bodes well for the medium-to-long-term outlook.

On the downside, the projected growth in the economies of Grenada's main trading partners is tenuous and vulnerable to setbacks with increasing risks of protectionism, the potential escalation of trade wars in advanced economies and low productivity, as well as ageing population especially in the EZ. These global headwinds pose potential downside risks for Grenada, through lower tourist arrivals, remittances and foreign direct investment.

Moreover, growth of the Private Education sector could be adversely affected by several factors that threaten enrolment at SGU. For example, Hurricanes Maria and Irma, which wreaked havoc in the region in 2017, has apparently reduced the appetite of US students for pursuing degrees in the Caribbean. Additionally, the announcement of Ross University's movement to Barbados in the near future, after it was severely affected by Hurricane Maria in Dominica, is also a potential threat to growth in SGU going forward. Furthermore, issues with Government funding and scholarships in key source markets for SGU also pose a threat to growth in enrolment. Revisions to the provisions made on the United States Federal Student Loan Programme for potential medical and veterinary students from the US, pose a serious threat to SGU's ability to attract students from the US, its main source market. Moreover, the reform of Trinidad and Tobago's Government Assistance for Tuition Expenses (GATE) programme, which included the discontinuation of tuition support to Trinidadian students attending SGU, as well as

Rising international oil prices is also a significant risk to the economic outlook, more so in the short term. Additionally, the cessation of oil refining by Trinidad's State-owned company –Pertrotrin-which was the main exporter of fuel to Grenada, can cause short-

run disruptions that might increase the local price of fuel, as well as cost of production, with negative consequences for economic activity.

The fiscal outlook in particular can also be affected should the strong inflows to the National Transformation Fund (NTF) as well as external grants from development partners not continue over the medium term. Furthermore, fiscal risks can also materialise should state-owned enterprises (SOEs) fail to remain within their funding constraints or should there be calls on the Central Government's resources where SOEs cannot service their obligations. Capacity and institutional constraints also pose risks to the execution of the capital budget as envisaged in the Medium-term Fiscal Framework. Pension reform, as well as the implementation of the National Health Insurance, if not properly managed, can also pose significant risks to public finances.

Finally, but by no means least, Grenada's vulnerability to natural hazards is an inherent risk; indeed, adverse effects of climate change can significantly affect economic activity, with adverse fiscal implications.