GRENADA

2020 ECONOMIC REVIEW
&
MEDIUM-TERM OUTLOOK

Prepared by the Ministry of Finance, Economic Development, Physical Development, Public Utilities and Energy

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1 Overview

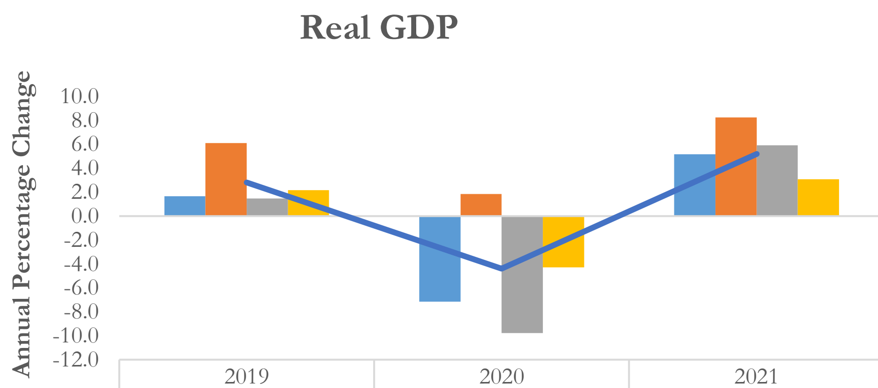
Consistent with global economic trends due to the impact of the coronavirus, Real GDP growth is projected to fall in 2020 by 12.2 percent underpinned by notable declines in key sectors such as Tourism, Wholesale and Retail Trade, and Transport. Activity in the Manufacturing Sector and the Agricultural Sector are also expected to fall relative to last year due to the effects of COVID-19. Average inflation, as measured by the Consumer Price Index was negative for the first 6 months of 2020 at -0.6 percent reflective of falling global oil prices. Preliminary data collected from the quarter two Labour Force Survey indicate increased unemployment at a rate of 28.4 percent compared to 15.7 percent in the second quarter of 2019.

Public finances have deteriorated in 2020, with the primary and overall surpluses estimated at 2.9 percent of GDP and 0.9 percent of GDP respectively, compared to 6.8 percent of GDP and 4.6 percent of GDP correspondingly in 2019. Public debt is expected to increase to 68.6 percent of GDP by year-end from 57.7 percent at the end of 2019.

2 International Developments

According to the International Monetary Fund's World Economic Outlook Report (WEO) released in October 2020, the global economy is recovering from the depths to which it had entered during the first half of this year because of the COVID-19 pandemic. Despite this gradual rebound, the world economy is projected to contract by an estimated 4.4 percent in 2020, compared to growth of 2.8 percent in 2019. However, this latest forecast is an upward revision relative to the June 2020 WEO Update where a decline of 4.9 percent was projected. The revision was driven by improved second-quarter GDP outturns in advanced economies, China's strong return to growth, and more signs of a rapid recovery in the third quarter. Global growth is projected at 5.2 percent in 2021, slightly lower than the June 2020 WEO Update of 5.4 percent.

Figure 1: Selected Real GDP Growth Rates - International



	2019	2020	2021
Canada	1.7	-7.1	5.2
China	6.1	1.9	8.2
United Kingdom	1.5	-9.8	5.9
United States	2.2	-4.3	3.1
World Growth	2.8	-4.4	5.2

Source: IMF's WEO, October 2020

The United States (US) economy is projected to contract by 4.3 percent in 2020 before growing at 3.1 percent in 2021, reflective of better-than-anticipated GDP outturns in the second quarter. Despite the sudden-stop in economic activity that occurred in the first quarter, activity normalized during the second quarter as US authorities' strong and proactive support to households and businesses took root whilst consumption and investment picked up.

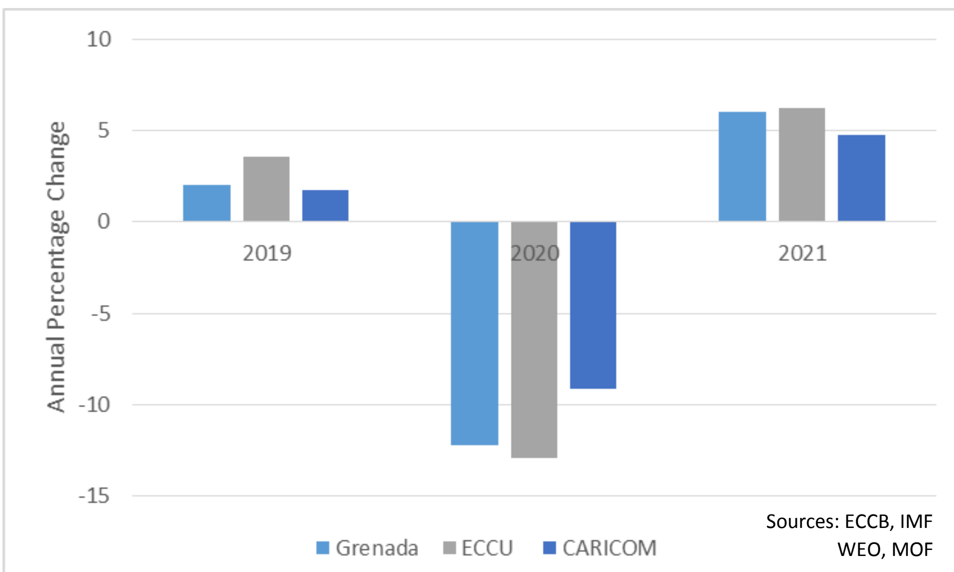
In the United Kingdom, where authorities continue to grapple with the debilitating consequences of the pandemic, a sharp contraction of 9.8 percent is estimated for 2020, compared to a growth of 1.5 percent witnessed in 2019. Notwithstanding this decline, growth is projected to rebound to 5.9 percent in 2021 led by the eventual effects of the unprecedented levels of accommodative fiscal and monetary policies. Canada's growth is projected to contract from the 1.7 percent achieved in 2019 to -7.1 percent in 2020, a direct result of weakened demand brought on by the COVID-19 viral outbreak and the downturn faced by the US, its largest trading partner. In 2021, growth is expected to return to 5.2 percent as the economy returns to some semblance of normalcy with the easing of restrictive measures and resumption of trade with the US. In China, where public investment was ramped-up and lockdown measures were eased in the second quarter, growth returned and is projected at 1.9 percent this year, 4.2 percentage points less than 2019. A stronger rebound is projected for 2021 with a growth of 8.2 percent catalyzed by an uptick in external demand and strong policy support by Chinese authorities.

The IMF warns that the path to growth ahead will likely be long, uneven, and uncertain and is hinged on public health and economic factors that are difficult to predict. Downside risks are significant and include; a recurrence of viral outbreaks; premature withdrawal of policy support; a resurgence of financial tightening in global markets; an escalation of geopolitical tensions; and weather-related natural disasters.

3 Regional Developments

In 2019, the average growth rate of the ECCU countries (3.4 percent) (not including Grenada) was higher than the growth rate in Grenada (2.0 percent) and the average of the CARICOM countries (1.73 percent). In 2020, it is estimated that all countries within the ECCU and CARICOM will experience negative growth. The average growth rate for ECCU countries is anticipated to decline by -12.9 (Figure 2). This noteworthy decline in GDP growth rates is significantly influenced by the COVID-19 pandemic, which put a pause in economic activities within the Caribbean region and caused a loss in production, jobs, and income.

Figure 2: Real GDP Growth Rates for Grenada, the ECCU and CARICOM



The data shows that the ECCU countries in 2020 have been significantly affected by the COVID-19 pandemic. Anguilla is expected to record the largest decline in the real GDP growth rate of the ECCU countries. A decline of 25.5 percent is estimated for that country in 2020. The country is also expected to record the largest growth rate in 2021 of 17.2 percent (Table 1).

Table 1: Real GDP Growth Rates (ECCU Excluding Grenada)

COUNTRY[1]	2019	2020	2021
ANGUILLA	5.4	-25.48	17.17
ANTIGUA AND BARBUDA	3.35	-17.82	4.69
THE COMMONWEALTH OF DOMINICA	3.56	-8.71	1.61
MONTSERRAT	5.92	-4.04	4.24
ST. KITTS AND NEVIS	2.84	-16.11	5.86
ST. VINCENT AND THE GRENADINES	0.49	-5.32	3.66

Source: ECCB

The global supply chain challenges have impacted the construction industry. The tourism sector has taken a major hit and is expected to continue in the medium term. Tourism is expected to take a while to recover from the effects of the pandemic. However, in 2021, the economies are expected to recover as it is anticipated that the effects of COVID-19 would subside by then. The average growth rate of the ECCU countries is projected at 6.2 percent.

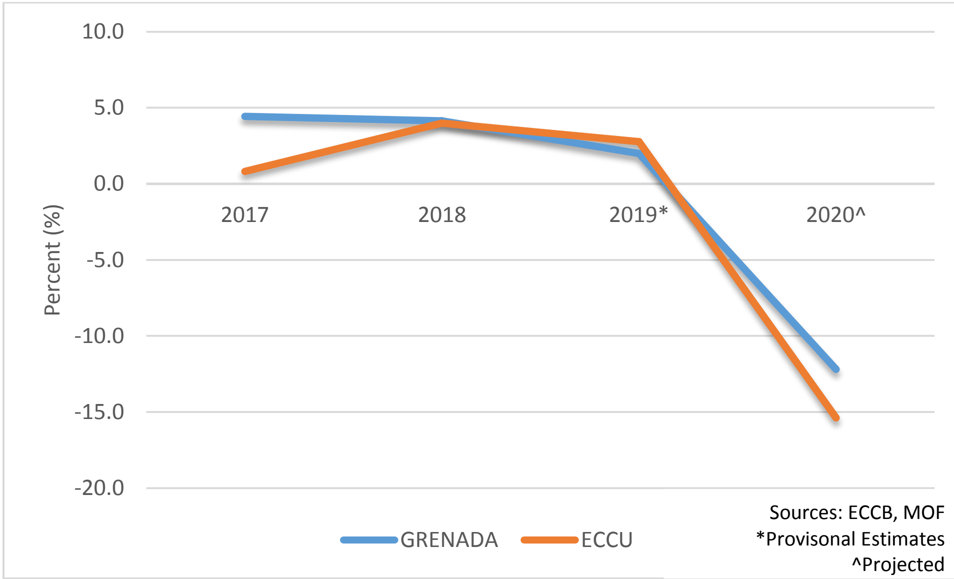
4 2020 Economic Review and Medium-Term Outlook

4.1 Real Sector Developments

Preliminary data for the first half of 2020 highlights the negative impact of the COVID-19 pandemic on the local economy. Despite being relatively diverse, most sectors of the economy recorded reduced activity from January to June compared to the same period in 2019. After seven consecutive years of growth averaging 4.4 percent, the economy is projected to register a double-digit decline of 12.2 percent in 2020, with notable declines in Tourism, Transport, Wholesale and Retail Trade, and Manufacturing (Figure 3). Prices fell an average of 0.6 percent during the first half of 2020 and inflation is projected to be -1.0 percent for the year, reflecting the steep decline in fuel prices due to the pandemic.

[1] St. Lucia recently completed their GDP rebasing exercise which means their GDP growth numbers are not comparable to the rest of the ECCU at this time. The numbers will be comparable once rebasing is complete for the other territories.

Figure 3: Real GDP Growth: Grenada vs. ECCU Average (2017-2020^)



4.1.1 Agriculture & Fishing

Data for the first six months of 2020[2] shows varying levels of decline among crop categories in the agriculture sector. After reduced production of 7.3 percent in 2019, preliminary estimates indicate agriculture production will again fall in 2020 by 13.1 percent (Figure 4). The sector was affected by both demand and supply-side issues directly related to the coronavirus. The temporary closure of Hotels, Restaurants, and the St. George's University Campus (SGU) reduced local demand for products resulting in pricing and supply adjustments in the market. Additionally, restricted movement implemented as a measure to curb the spread of the virus impeded farming efforts for some time. Trade disruptions also negatively affected the farming efforts of the crops mainly harvested for export.

4.1.1.1 Nutmeg and Mace

For the first half of 2020, the volume of nutmegs harvested fell by 11.8 percent relative to the corresponding period in 2019 while mace production decreased by 14.7 percent. These decreases are

[2] Latest period for which data is available.

consistent with the reduced harvesting effort as a result of restricted movement imposed for a period due to COVID-19. No nutmegs or mace are recorded as being harvested in April when lockdown measures were in place. The proximity of the majority of nutmeg trees from villages could have been a factor in this regard as trees are located largely in the island's mountainous interior. Moreover, with global trade disruptions, harvesting effort was reduced as the majority of nutmegs produced are for export.

Despite fluctuating international prices, nutmeg and mace exports resumed in May with the easing of COVID-19 restrictions globally. Exports for the first half of 2020 were 47.3 and 28.2 percent less than the same period in 2019 respectively.

4.1.1.2 Cocoa

Cocoa production for the period January to June 2020 declined by 16.5 percent relative to the corresponding period in 2019. Challenges for harvesting cocoa during the first half of the year were similar to that of nutmegs and mace. However, cocoa production was also affected by the closure of the borders to commercial air traffic and the early closure of the cruise ship season. Since a fair quantity of cocoa is processed into chocolate on the island for purchase by tourists and locals alike, reduced demand for chocolate and reduced business operating hours in the second quarter also negatively affected cocoa production.

Sales on the international market also fell by 40.5 percent in the first six months of 2020 compared to the same period in 2019 though prices remained fairly stable in the period under review.

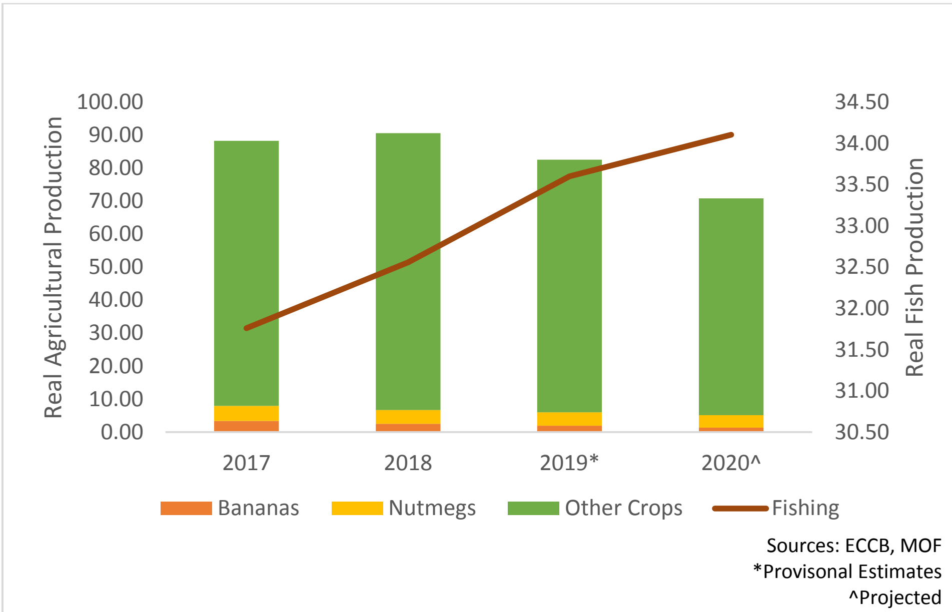
4.1.1.3 MNIB Purchases of Other Crops[3]

From January to June 2020[4], the quantity of MNIB purchases of "other crops" fell by 16.0 percent compared to the corresponding period in 2019. MNIB's purchases of other crops are the main indicator of the production of fresh fruits, vegetables, and root crops. However, it should be noted that an increased number of farmers and farmers' co-operatives also market their produce independently, which affects the correlation between MNIB's purchases and production in the "other crops" sub-sector.

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

The temporary closure of hotels, restaurants, and the SGU campus affected demand for these crops during the period under review, which resulted in farmers exploring various options for marketing their produce locally. However, reduced demand affected supply and farmers adjusted cultivation to match the prevailing demand.

Figure 4: Agriculture and Fish Production (2017-2020^)



4.1.1.4 Fishing

After recording growth of 3.2 percent in 2019, preliminary data indicates that for the first quarter of 2020[5], fish production rose by 1.5 percent compared to the same period in 2019. The shut-down implemented in the United States as a response to COVID-19 reduced the external demand for fish to almost zero for a while. As the U.S. is our main export market for fish, these events created a glut of fish on the local market, which caused prices to fall by as much as 50.0 percent. Despite the price challenges, and the temporary interruption of fishing activities due to local restrictions on movement, fish supply on the island remains consistent while external demand is steadily recovering. However, more stringent quality standards being utilized in the U.S. could frustrate efforts to bring exports back to pre-COVID levels.

[5] Latest period for which data is estimated.

4.1.2 Tourism

The tourism sector is the sector most affected by the coronavirus pandemic to date. Stay over arrivals plummeted by 54.8 percent for the first 6 months of 2020 compared to the same period in the previous year (Table 2). Before March 2020, stayover arrivals were up 2.1 percent and hotels reported increased activity at their respective establishments compared to the same period in 2019.

Table 2: Visitor Arrivals for Jan-Jun 2019 vs 2020

	2019	2020	% Change
	Jan-Jun	Jan-Jun	
United States	37,112	17,086	-54.0
Europe	4,866	2,826	-41.9
United Kingdom	13,882	6,857	-50.6
Canada	10,226	4,210	-58.8
Caribbean	13,819	5,060	-63.4
Other	2,494	1,234	-50.5
Stay-Over Arrivals	**82,399**	**37,273**	**-54.8**
Cruise Passengers	**223,051**	**162,517**	**-27.1**

Source: GTA

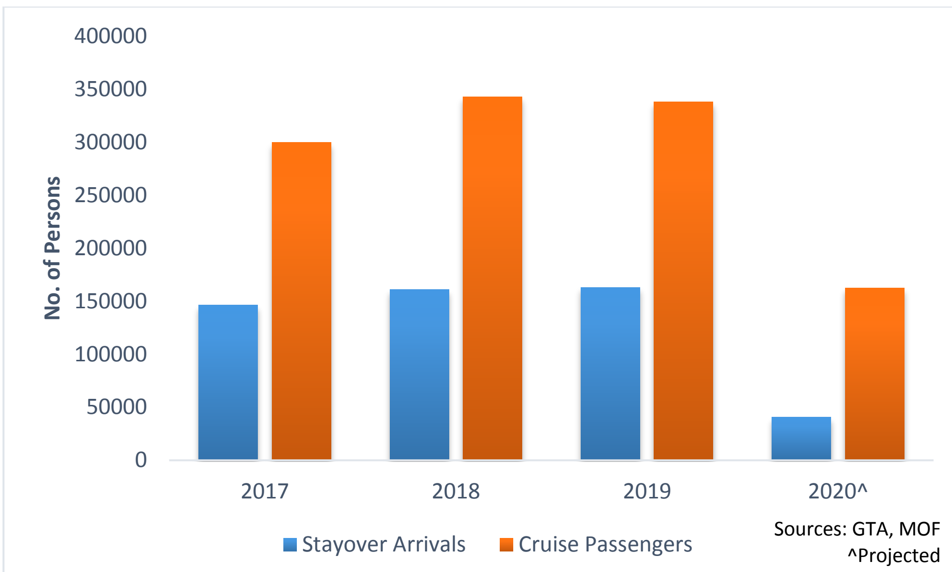
However, travel restrictions imposed from March 2020 as a response to COVID-19 brought activity in the sector to a virtual halt. Hotels reported mass cancellations of bookings and existing guests left the island before the closure of the Airport to commercial traffic. With no tourist traffic entering Grenada since the end of March 2020, most hotels on the island shut their doors and temporarily sent their staff home as they sought to navigate the crisis.

Through its economic stimulus package, the Government provided support to the sector in the form of payroll assistance which allowed hotels to retain most of their staff until activity restarts in the sector. Additionally, some properties implemented special products catered to locals to generate additional revenue during the second quarter.

The gradual reopening of the borders to commercial traffic and easing of restrictions is welcomed news for the sector. Most hotels have reopened after being inspected for "COVID-19 readiness" and tourists are slowly returning to the island. The Grenada Tourism Authority is also implementing targeted marketing strategies in light of the changing travel climate. However, flights have not yet returned to pre-pandemic scheduling as global travel is still affected by the pandemic. Consequently, a significant decline in arrivals is projected (Figure 5) resulting in a major decline for the sector in 2020.

Cruise arrivals for January and February 2020 were lagging behind 2019 arrivals for the same period before the effects of COVID-19. However, the early closure of the 2019/2020 cruise ship season in March 2020 due to the pandemic caused a much steeper decline than expected for the first half of the year of 27.1 percent. Additionally, with the delayed opening of the 2020/2021 cruise ship season, a major decline is anticipated for the fiscal year 2020. However, the authorities are in dialogue with cruise lines to safely welcome back cruise passengers to our shores in the last quarter of 2020.

*Figure 5: Visitor Arrivals: 2017-2020^*

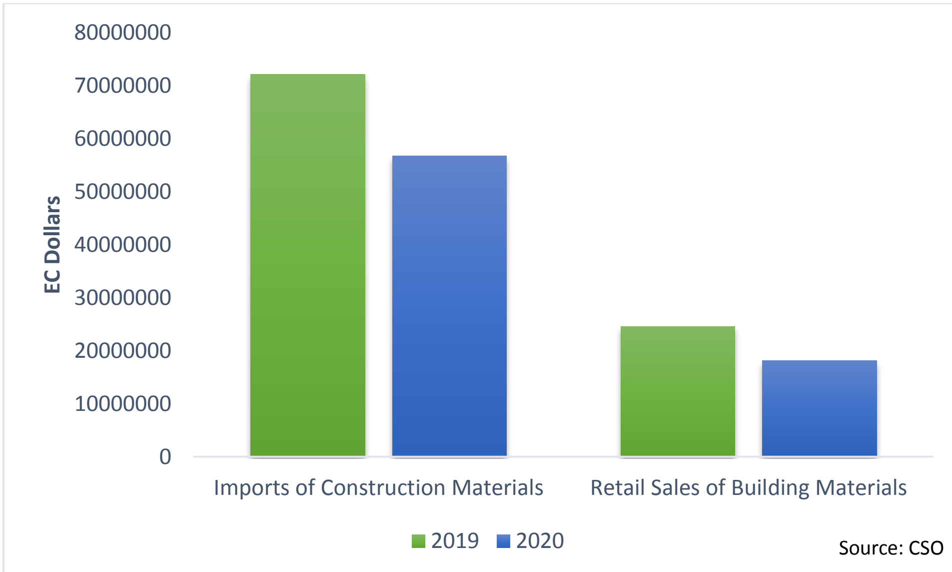


4.1.3 Construction

Construction-related imports is the main indicator used for activity in the Construction sector. Preliminary data indicates a 21.2 percent decline in the value of imports of construction materials for the first six months of 2020 compared to the same period in 2019. Furthermore, there was a similar decline in the secondary indicator, retail sales of building materials, of 26.2 percent during the same period (Figure 6). It is important to note that imports of construction material increased 8.0 percent in the first quarter, before the effects of COVID-19 being experienced locally. COVID-19 restrictions put in place from March to May 2020 froze all construction activity for several weeks and resulted in a loss of productivity in the sector.

Construction has since resumed under new COVID-19 protocols to ensure the safety of workers on the job as far as possible.

Figure 6: Construction Indicators: Jan-Jun 2019 vs 2020



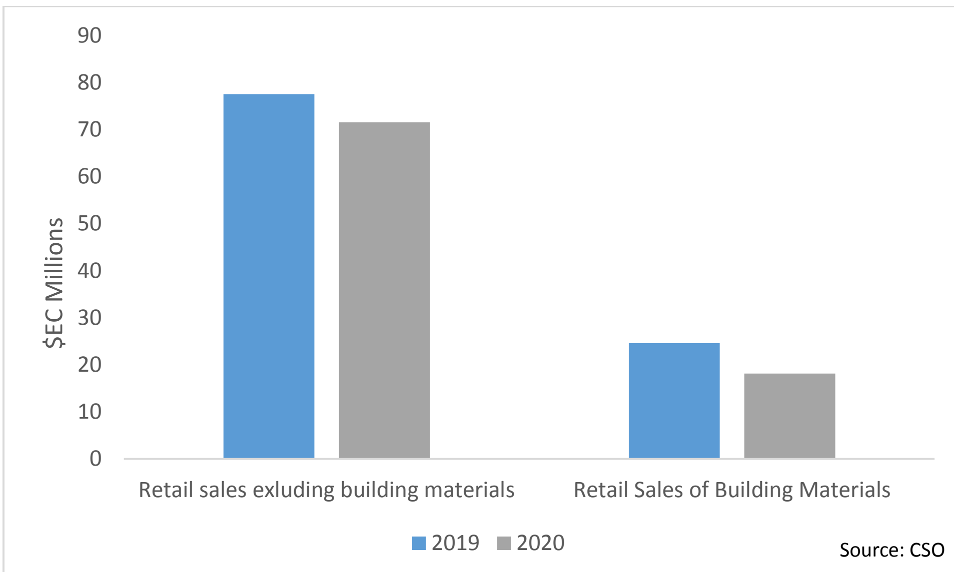
The sector faces some challenges with weakened investor confidence due to uncertainties related to COVID -19. Reports are that some projects have been put on hold as investors monitor events in the global economy. Notwithstanding, major private sector projects are still ongoing, including the Kawana Bay Resort and Six Senses Resort. Additionally, the commencement of the Levera Resort project and the Grenada Resort in Mt. Hartman in the second half will boost activity in the sector. Additionally, public sector projects continue, including low-income housing projects in several parishes, the Gouyave Health Centre, road works, school expansions, and repairs to public buildings.

4.1.4 Wholesale and Retail Trade

Preliminary data for the Wholesale and Retail Trade sector indicates a decline of 12.2 percent in January to June 2020 compared to the same period in 2019. Retail sales of building material fell 26.2 percent and there was a 7.7 percent drop in retail sales excluding building materials (Figure 7). It should be noted that before the effects of the pandemic, retail sales excluding building materials were 12.9 percent higher than the same period in 2019. The sector recorded double-digit growth numbers in January and February 2020, which was a good start to the year. With the impact of COVID-19 being felt from March 2020, the sector was still able to record growth due to panic buying and persons stocking up on food during the mandatory lockdown. Though the grocery aspect of wholesale and retail trade continued during the pandemic, the sector was impacted by reduced operating hours.

The temporary closure of hotels and SGU, the cancellation of carnival and the overall slow-down in the economy, would reduce demand for products in the sector, including consumer durables. Though some improvement is expected in the fourth quarter during the festive season, a decline is expected in the sector for the year.

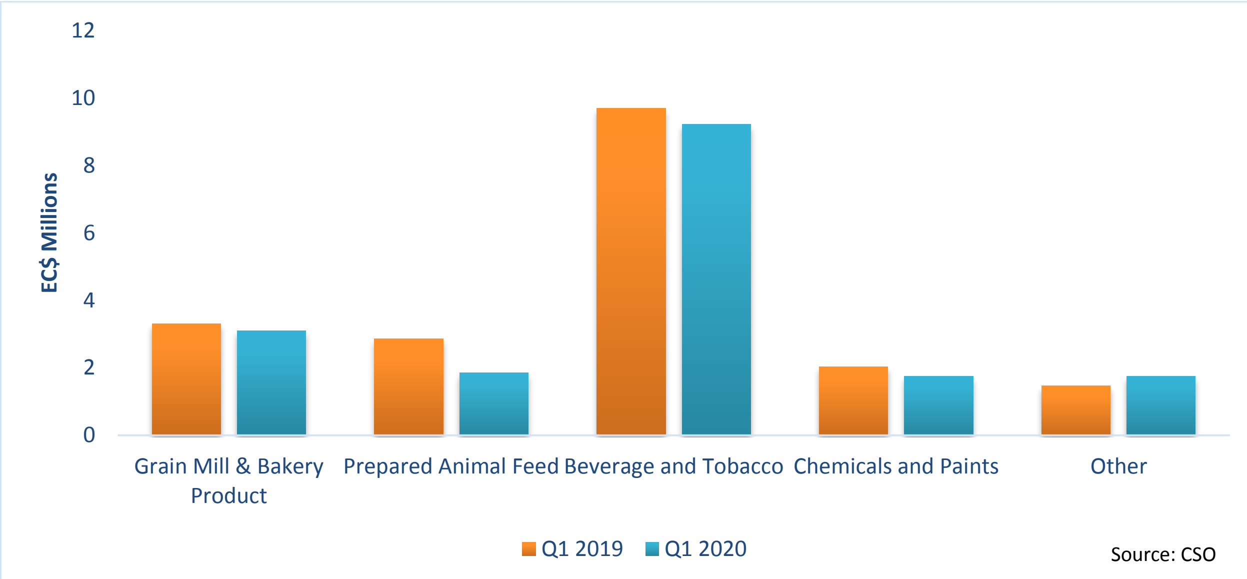
Figure 7: Retail Sales Jan-Jun 2019 vs. 2020



4.1.5 Manufacturing

The Manufacturing sector struggled in the first quarter of 2020 partly due to spill-over effects from the pandemic. The closure of local hotels and SGU, as well as restrictions placed on movement and social gatherings, reduced demand for some manufactured products. Preliminary data for the period shows an 8.9 percent decline in the value of products manufactured with the largest decline of 35.4 percent being recorded in animal feed. Additionally, Grain Mill & Bakery Products declined 6.3 percent while Beverage production fell by 4.9 percent. Production of Chemicals and Paints also fell by 13.9 percent during the period (Figure 8).

Figure 8: Industrial Production: Jan-Mar 2019 vs. 2020



In the second quarter, the manufacturing sector was negatively impacted by the lockdown, which completely halted production for some time. Local beverage manufacturers indicated that the disruption had a major impact on their ability to produce and are still experiencing difficulty getting their operations back to pre-COVID-19 levels. Additionally, a cluster of COVID-19 cases at a major local manufacturer caused that business to be shut down completely for two weeks with shortages being experienced in those products as a result. These disruptions resulted in entities losing local market share to regional and international competitors, and also lost market share in regional export markets which may take several months to recoup.

The production of goods under the category "other" increased by 19.9 percent in the first quarter of 2020 compared to the same period in 2019. This category includes products such as masks, hand sanitizers, and other sanitizing solutions that have increased in production since the pandemic.

4.1.6 Private Education

The St. George's University, the largest provider of private education on the island, decided in March 2020 to cease face-to-face classes. The international students returned to their respective countries and conducted their studies online. This measure was implemented as part of the University's strategy to cope with the COVID-19 pandemic. The University has yet to give a definitive date for the recommencement of on-site classes and given that the crisis has persisted into the fourth quarter, it is unlikely that students will return in 2020. As classes continue online, the University continues to receive tuition and other applicable fees from students. There are also reports of increased enrolment for the 2020/2021 academic year given the increased interest in health globally since the pandemic. Therefore, a relatively moderate decline is projected for private education in 2020. However, the effect of the closure has been felt in other sectors, most notably the Real Estate sector and the Wholesale and Retail Sector, which would have experienced decreased activity due to the absence of the students.

4.1.7 Other Sectors

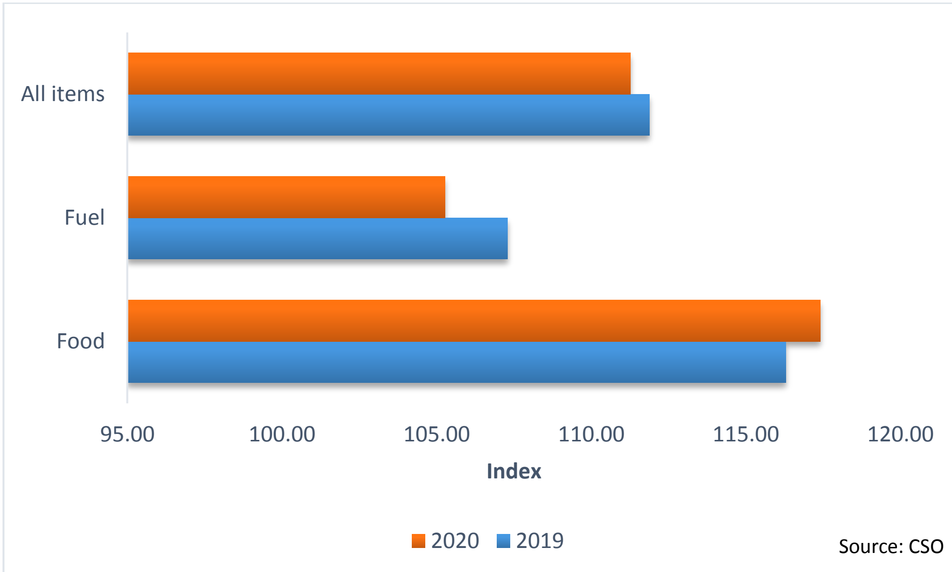
Data for the first half of 2020 show a decline in the use of public utilities compared to the same period in 2019. Electricity usage fell by 7.0 percent with industrial and commercial consumption falling by 11.2 and 12.8 percent respectively. Conversely, domestic electricity consumption increased during the period by 1.8 percent. This trade-off reflects the effects of the temporary lockdown measures and persons working from home due to social distancing protocols. Water usage fell marginally by 0.2 percent which is counterintuitive given the business closures which occurred in the first half. The marginal decline indicates greater domestic water usage, consistent with increased handwashing and sanitising practices due to COVID-19.

Despite the ports remaining open to cargo, the transport sector also experienced a decline in the first half with reduced cargo movements of 18.1 percent compared to the first half of 2019. Incoming sea cargo and air cargo fell by 6.8 percent and 19.7 percent respectively during the period reflecting the impact on imports due to the pandemic. Exports were also affected with outgoing sea and air cargo falling b 33.3 and 39.5 percent respectively.

4.1.8 Inflation

The consumer price index for January to June 2020 indicates a period average inflation rate of -0.6 percent compared to the same period in 2019. Local fuel prices fell 1.9 percent during the period reflective of international oil prices, which plummeted in the immediate aftermath of the global economic shutdowns. Conversely, food prices increased 1.0 percent also reflective largely of global supply chain disruptions (Figure 9).

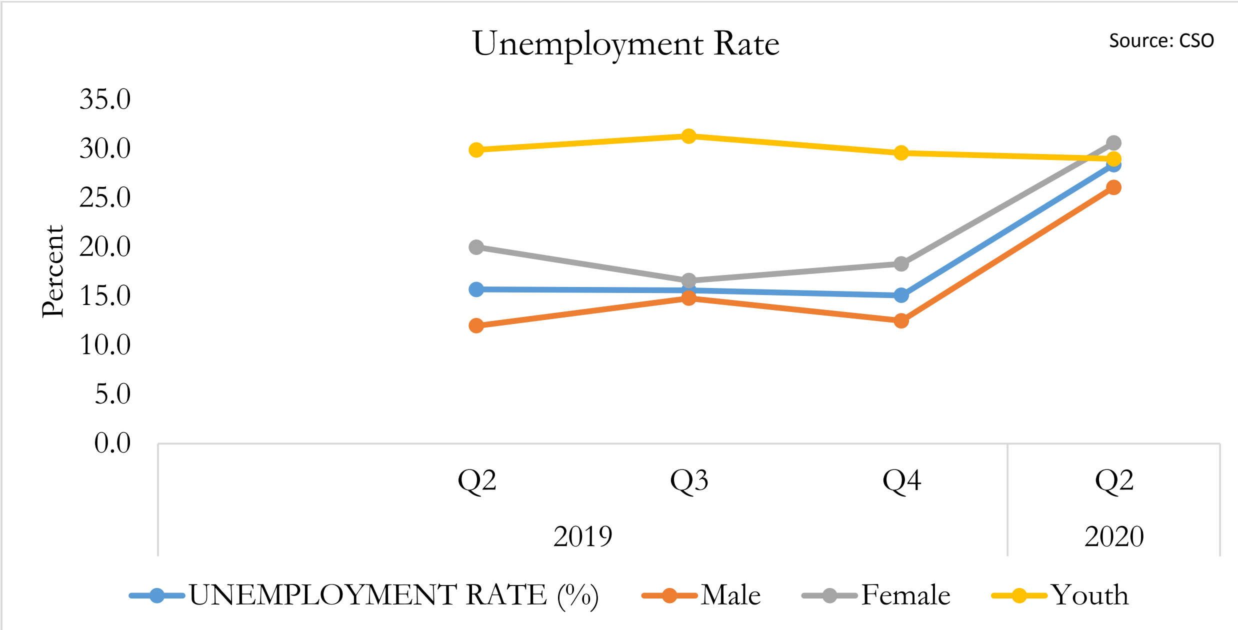
Figure 9: Consumer Price Index: Jan-Jun 2019 vs. 2020



4.2 Unemployment

The economic shock occasioned by the COVID-19 pandemic caused an implosion of the labour market, which saw the loss of close to 14,000 jobs from the employed labour force in Q2 2020 relative to the number in Q4 2019. This, based on Labour Force Survey conducted for Q2 2020, translated to a spike in the unemployment rate to 28.4 percent, reversing the persistent downtrend witnessed since Q2 2019 in which the unemployment rate reached a historic low of 15.1 percent in Q4. The unemployment rate remains higher for women than for men, though the rates for both sexes were falling pre-COVID-19. Similarly, though still high, the youth employment had been on a downtrend pre-COVID-19 (Figure 10).

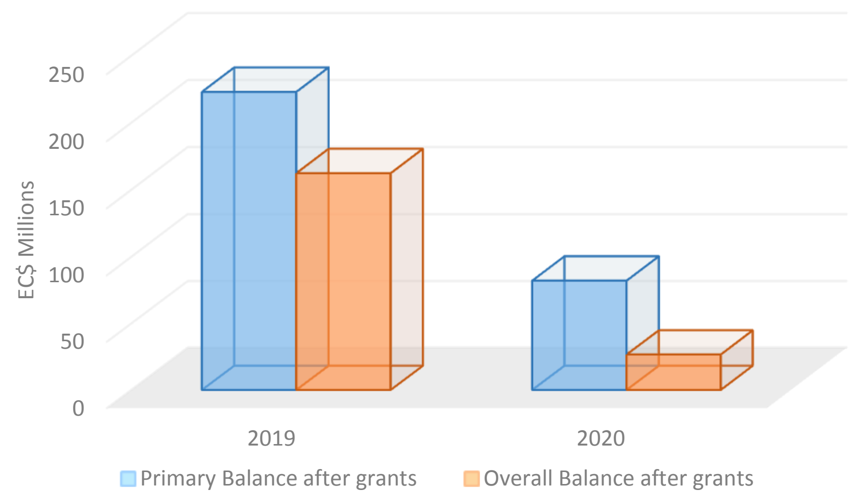
Figure 10: Quarterly Unemployment Rate



4.3 Fiscal Sector

Grenada's fiscal position deteriorated as the pandemic continues to batter the economy and world. During the first nine months of 2020, a primary balance (including grants) of $62.6 million was recorded, which is $89.1 million or 58.8 percent less than what was recorded for the January- September 2019 period. The Overall Balance (including Grants) in the third quarter of 2020 was $25.7 million, $87.4 million, and 77.3 percent less than what was achieved during the same period of 2019. At the end of 2020, the primary balance (including grants) is expected to be $82.2 million, $140.8 million less than what was achieved in 2019, while the overall balance (including grants) is expected to be $26.6 million, $135.8 million less than the 2019 total. (Figure 11). This weakened position was due to lower revenue collections and higher expenditures as a result of unavoidable COVID-19 spending.

Figure 11: Primary and Overall Balance After Grants 2019 vs. 2020

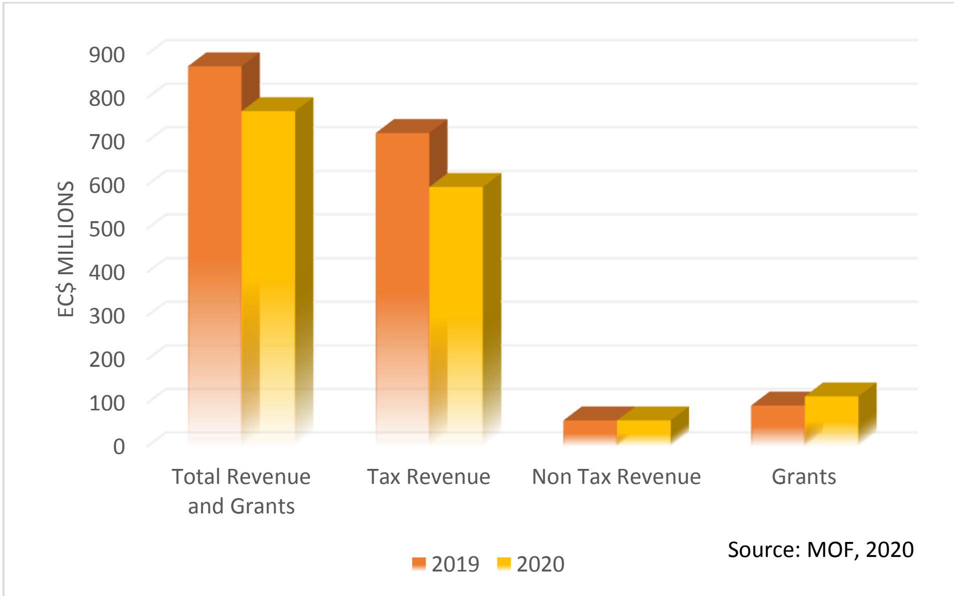


Source: MOF

Total Revenue and Grants in 2020 is estimated to be $ 768.6 million of which total revenue is $654.2 million and total grants, $114.6 million. Total revenue is estimated to be 15.9 percent less than the collections of 2019. This contraction in revenues is primarily as a result of a 16.9 percent decline in taxes on income[6], most notably a 23.1 percent decrease in Corporate Income Tax, a 23.2 percent fall in taxes on property[7], driven by a 34.9 percent contraction of property transfer tax, a 20.0 percent contraction in taxes on domestic goods and services[8], motivated by a 16.7 percent downturn in VAT, and a 15.6 percent decline in taxes on international transactions[9], driven by a 17.7 percent contraction in collections of import duty. At the end of 2020, Total Grants are anticipated to increase by 22.5 percent when compared to 2019 (Figure 12).

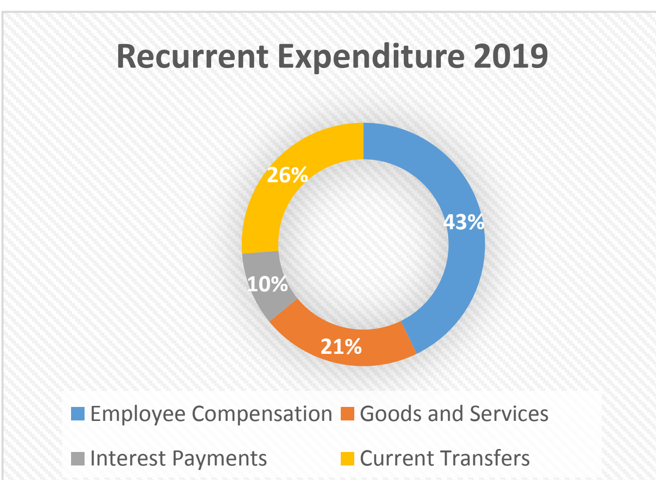
[6] Personal Income, Withholding taxes, and Corporate income tax
[7] Property Tax, Inheritance Tax, and Property Transfer Tax
[8] VAT, Stamp Duty, Embarkation Tax, Annual Stamp Tax, and Gaming Tax
[9] Import Duty, Petrol Tax, Customs Service Charge, Environmental Levy, and Miscellaneous Customs Revenue

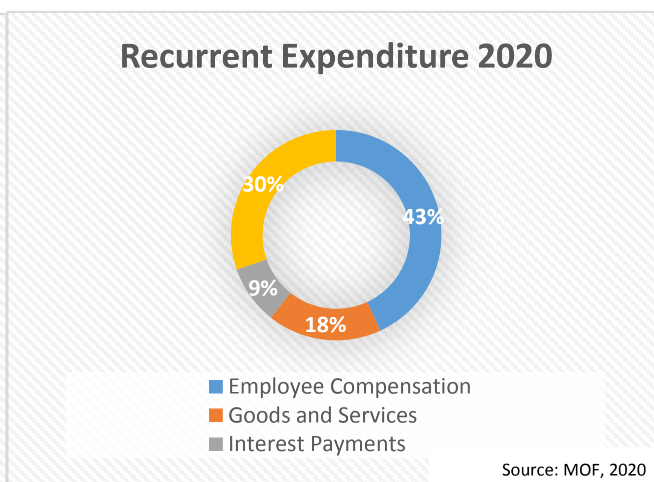
Figure 12: Total Revenue and Grants 2019 vs. 2020



Total Expenditure is anticipated to increase by 4.7 percent in 2020 when compared to 2019. It is expected that there will be a 0.5 percent decline in recurrent expenditure and a 42.5 percent increase in Capital Expenditure over the same period.

Figure 13: Components of Recurrent Expenditure 2019 vs. 2020





Of the components of recurrent expenditure, current transfers are estimated to record the largest increase (15.7 percent) as compared to 2019. This is reflective of the $ 23.6 COVID-19 stimulus package rolled out in the second quarter of 2020, which included income and payroll support ($ 13.3 million), contributions to Grenada Development Bank (GDB) for the small business support ($3.0 million), and to Grenlec for bill payment relief ($ 7.3 million). Employee compensation is anticipated to decline in 2020 by $1.3 million (0.5 percent).

Goods and Services are estimated to reduce by 17.1 percent to $110.2 million in 2020; this curtailing of expenditure is due to continued efforts by the Government to tighten its discretionary spending amid the economic downturn due to the pandemic. Interest payments are estimated at $55.6 million in 2020, an 8.3 percent decline over the previous year; this decline largely reflects the Debt Service Suspension Initiative (DSSI), initiated by the World Bank and the IMF for participating bilateral creditors as a result of the COVID-19 Pandemic economic shock (Figure 13).

Relative to the 2020 Budget, the Primary balance (including grants) is anticipated to deteriorate by 61.3 percent to $ 82.2 million and the Overall balance is expected to sharply contract by 81.7 percent to $26.6 million. Total revenue and grants are anticipated to be 23.5 percent lower than the budgeted estimate and total expenditure is estimated to be 13.6 percent lower than the budgeted amount (Table 3)

Table 3: Grenada Fiscal Projections 2020

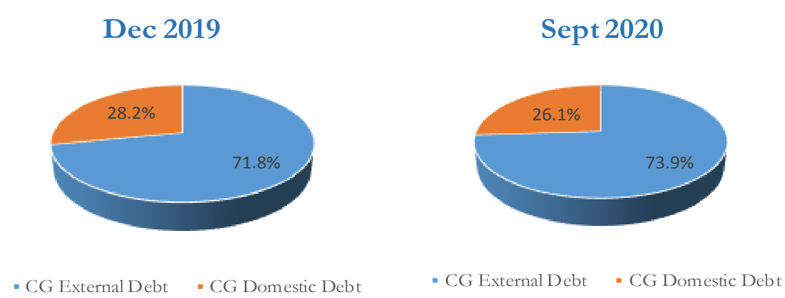
In millions of Eastern Caribbean Dollars, unless otherwise stated			
	2020		
	Esimated Outturn	Budget	Variance (%)
Total Revenue & Grants	**768.8**	**1004.8**	**(23.5)**
Total Revenue	**654.2**	**786.2**	**(16.8)**
Tax Revenue	594.8	727.7	**(18.3)**
Non-tax Revenue	59.4	58.5	**1.6**
Grants	**114.6**	**218.6**	**(47.6)**
Total Expenditure	**742.2**	**859.0**	**(13.6)**
Primary Expenditure	**686.6**	**792.0**	**(13.3)**
Current Expenditure	**620.1**	**633.7**	**(2.1)**
Employee Compensation	265.3	282.2	**(6.0)**
o/w Wages, salaries and allowances	252.4	268.2	**(5.9)**
Goods and Services	110.2	121.5	**(9.3)**
Interest Payments	55.6	67.0	**(17.0)**
Transfers	189.0	163.1	**15.9**
Capital Expenditure	122.1	225.3	**(45.8)**
Overall Balance	**26.6**	**145.8**	**(81.7)**
Primary Balance (including grants)	**82.2**	**212.8**	**(61.3)**

Source: MOF, 2020

4.4 Public Debt

Grenada's Public Sector debt increased year or year from September 2019 to September 2020, moving from $1,911.2 million or 58.4 percent of GDP to $1,996.0 or 70.6 percent of GDP. When compared to the end of December 2019 however, the public debt-to-GDP ratio increased by 12.9 percentage points. This rise reflected the decline in GDP due to the COVID-19 and disbursements received during the period. The public debt in September 2020 consists of Central Government debt only, because all Government Guaranteed debts were liquidated during the fourth quarter of 2019. External debt at the end of September 2020 was 73.9 percent of total public debt, a 2.2 percentage points increase relative to the end of 2019, whilst domestic debt was 26.1 percent of total public debt, a 2.2 percentage points decline. Preliminary estimates project public debt to increase by 10.9 percentage points from 57.7 percent of GDP in 2019 to 68.6 percent at the end of 2020.

Figure 14: Composition of Public Debt as at end December 2019 and September 2020

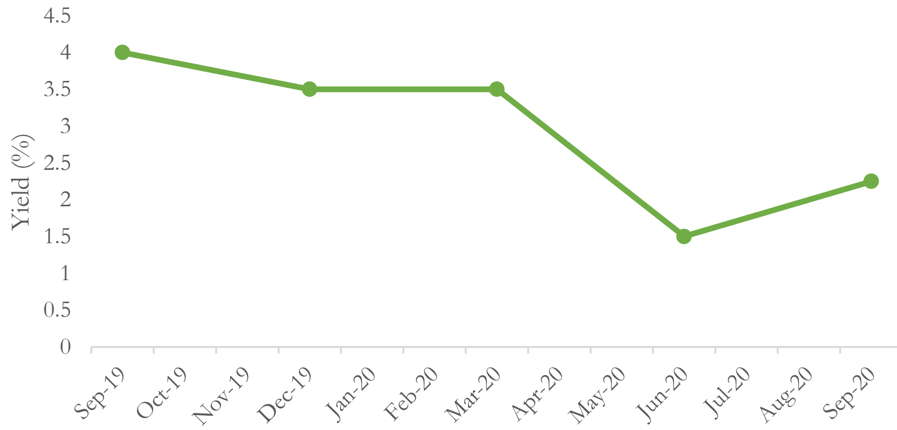


Source: MOF

4.4.1 Central Government Domestic Debt

At the end of September 2020, Central Government's domestic debt was $520.3 million or 18.4 percent of GDP, an increase of 11.0 percent compared to September 2019. This increase is largely attributable to a reduced forecast of nominal GDP for 2020 because of the COVID-19 pandemic. So far during this fiscal year, Government reissued $80 million in Treasury bills and notes on the RGSM, the proceeds from which were used as part of its liquidity management operations. These included the reissue of a $10.0 million 2-year Treasury note with a yield of 5.5 percent; three re-issues of a $15.0 million 91-Day Treasury bill. This Treasury bill, which was issued in March, yielded rates of 3.5, 1.5 and 2.25 percent respectively with each successive re-issue. Figure 15 shows the variations in the yields of the 91-Day Treasury bill from September 2019 to September 2020. In July, Government also re-issued a $25.0 million 365-day Treasury bill at 2.25 percent.

Figure 15: 91-Day Treasury Bill Yields September 2019 to September 2020



Source: MOF

4.4.2 Central Government External Debt

Central Government's external debt at the end of September was $1,475.7 million or 52.2 percent of GDP, which represented a 24.8 percent increase relative to September 2019. Table 4 summarizes the new concessional loans contracted during the first three quarters of this year. Additionally, during this period, disbursements totaling $44.5 million were received from existing external creditors.

Table 4: Summary of New Loans Contracted January- September 2020

Loan	Creditor	Amount ($m)	Currency
Caribbean Regional Air Transport Connectivity	World Bank - IDA	17.0	USD
Caribbean Digital Transformation Project	World Bank - IDA	8.0	USD
Disaster Risk Management Development Policy Credit with CAT-DDO	World Bank - IDA	20.0	USD
Second Fiscal Resilience and Blue Growth DPC	World Bank - IDA	20.0	USD
OECS Regional Health Project (Additional)	World Bank - IDA	2.5	USD
Caribbean Regional Communication Infrastructure Program	World Bank - IDA	3.0	USD
Rapid Credit Facility	IMF	16.4	SDR
Coronavirus Disease Emergency Response Loan	CDB	5.9	USD

Source: MOF

4.4.3 Debt Service

Total Central Government's debt service for the first three quarters of 2020 was $184.0 million, representing a 0.2 percent decline when compared to the corresponding period of 2019. Amortization payments accounted for $147.1 million or 79.9 percent of total debt service, whilst interest repayments were $36.9 million or 20.1 percent of total debt service. Domestic debt service, which was $99.5 million for the first three quarters of 2019 increased by 4.8 percent during the same period of 2020.

External debt service declined by 4.0 percent to $81.5million during the first three-quarters of 2020 when compared to the same period of 2019. External principal and interest repayments were $54.2 million and $25.5 million respectively. As part of the G20 Debt Service Suspension Initiative (DSSI), $4.1 million of interest and principal repayments were suspended for Grenada from three participating bilateral creditors. This amount represented debt service payments that would have accrued to these creditors over the period May to December 2020. The savings realized from this suspension allowed the Government to redirect spending toward priority areas to thwart the adverse impacts of the pandemic on the local economy. Central Government debt service as a percentage of total revenue for the first three quarters of 2020 was 36.4 percent, an increase of 3.6 percentage points relative to the corresponding period of 2019, mainly reflecting the decline in revenue relative to the comparable period in 2019.

4.5 Monetary and Financial Sector

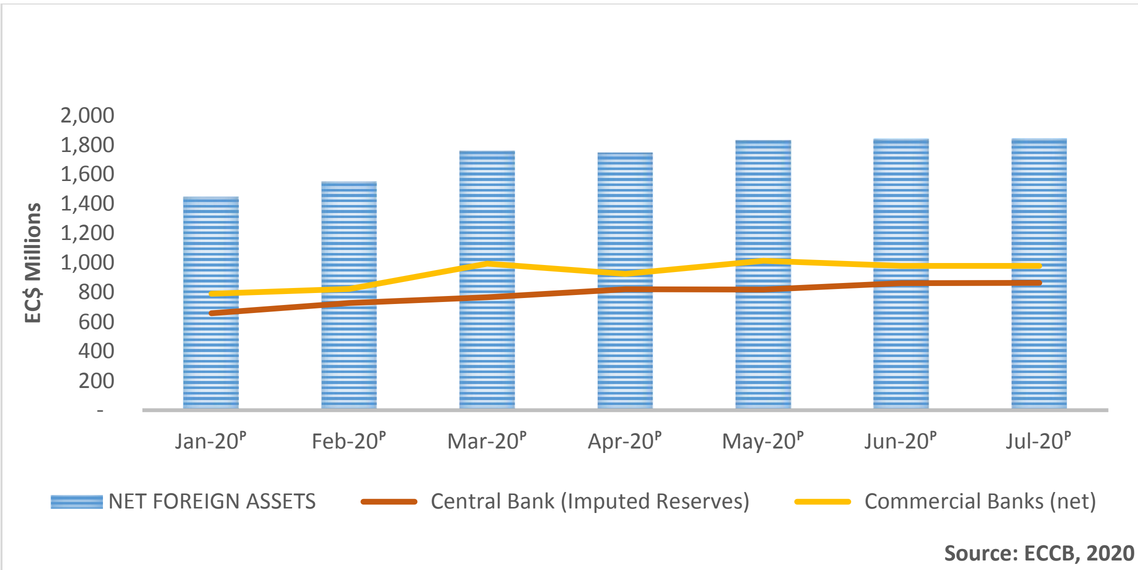
The Monetary and Financial System analyzed through the Bank and Non-Bank Financial Institutions continue to see improvements in its Assets. Despite COVID-19 financial pressures, deposits continue to increase at a faster rate than that of loans, further increasing already-high liquidity in the Sector. Domestic credit fell, but overall, the sector remains stable, with Non-Performing Loans remaining below the prudential benchmark.

4.5.1 Banking Sector

Net Foreign Assets at end-September 2020 increased to $395.6 million, a 27.3 percent improvement from the start of the year. This increase was driven by strong improvements in both Central Bank (Imputed

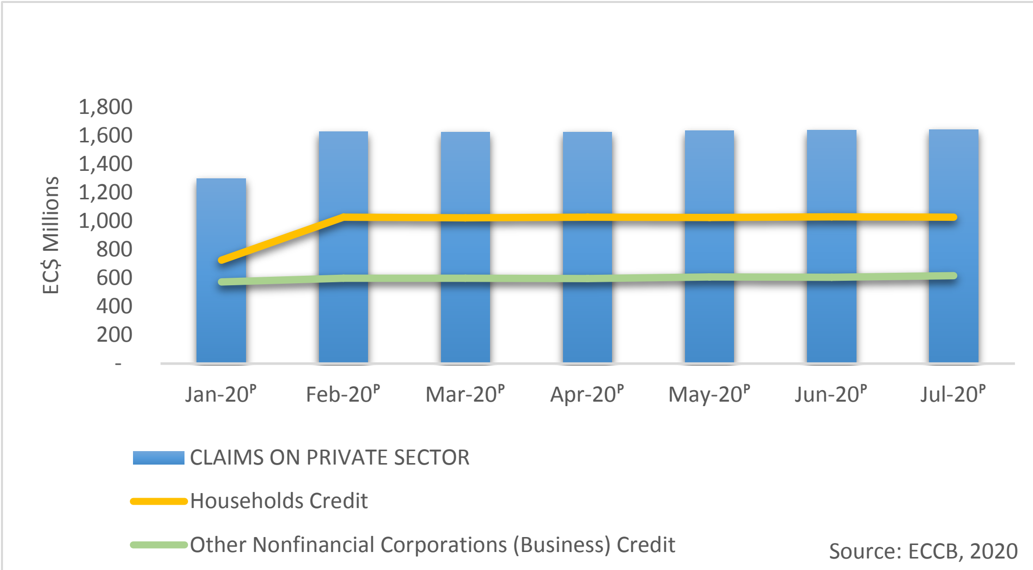
Reserves) and Commercial Banks (net), which improved by 31.3 percent and 24.0 percent, respectively (Figure 16).

Figure 16: Net Foreign Assets for the Period Jan-Jul 2020



Net Domestic Assets within the system continued a downward trajectory, moving from $972.0 million at the start of 2020 to $670 million at the end of July 2020 (31.1 percent decline). This decline was driven by a 3.7 percent or $39.3 million contraction in domestic credit, chiefly motivated by a 99.7 percent decline in claims on other financial corporations. Notably, private sector credit improved by 26.6 percent during the first 7 months of 2020. The improvement is mainly due to a 41.6 percent and 7.6 percent uptick in household credit and Other Nonfinancial Corporations (Business) Credit, respectively (Figure 17), but was insufficient to sway a decline of overall domestic credit.

Figure 17: Components (some) of Private Sector Credit for the period Jan-Jul 2020



Monetary Liabilities for the banking sector showed modest improvement during the first 7 months of 2020, by $93.0 million. During the same period, the money supply expanded by 4.1 percent to $772.0 million, propelled by a 65.0 percent increase in "other" subcategories, which include Public and Private Corporations' Demand Deposits and EC Cheques and Drafts Issued (Table 5). Quasi money also registered slight improvement throughout January- July 2020 (3.7 percent). The sharp decline of Other Financial Corporations EC Dollar Deposits by 90.4 percent was offset by sustained improvements in other subcategories, resulting in the moderate uptick in Quasi money.

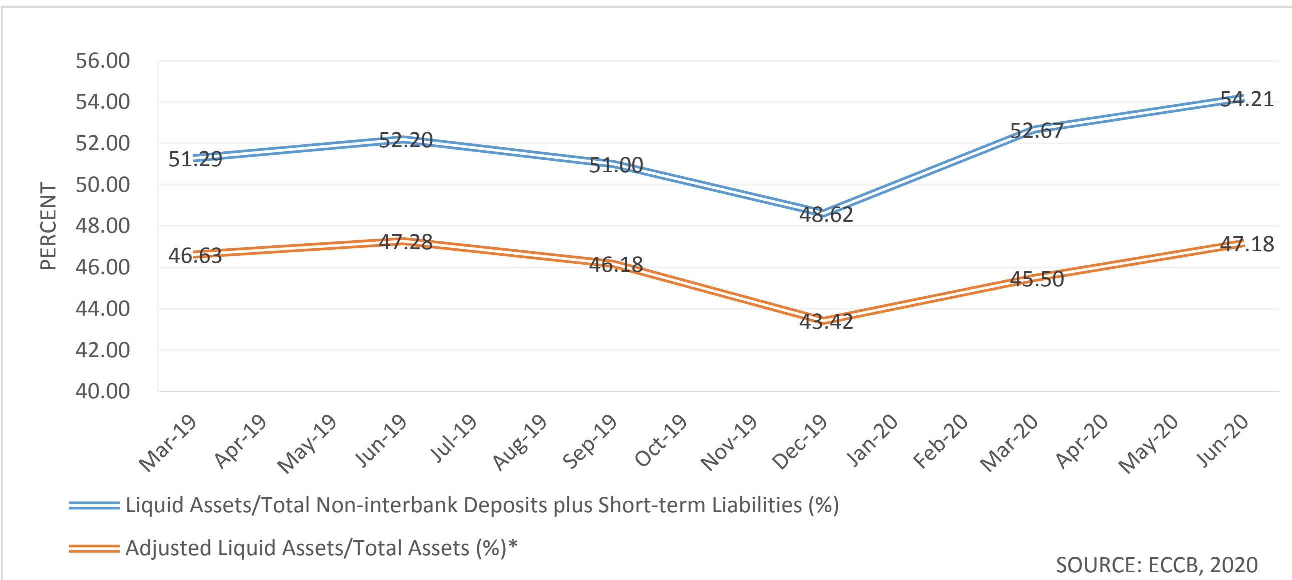
Table 5: Monetary Liabilities Jan-Jul 2020 in EC$ Millions

	Jan-20P	Jul-20P	Variance
MONETARY LIABILITIES (M2)	**2,420**	**2,513**	3.9%
MONEY SUPPLY (M1)	742	772	4.1%
Currency with the Public	141	149	5.9%
Private Sector Demand Deposits and EC Cheques and Drafts	533	511	-4.2%
Other	68	112	65.0%
QUASI MONEY	1,678	1,741	3.7%
Other Deposits (EC$)	1,450	1,517	4.6%
Other Financial Corporations EC Dollar Deposits	317	31	-90.4%
Private Sector Deposits	1,131	1,482	31.1%
Foreign Currency Deposits	229	224	-1.9%

Source: ECCB, 2020

Despite the financial strain placed on the economy as a result of the COVID-19 pandemic, liquidity continues to be excessively high in the commercial banking system. Liquid Assets/ Total non-interbank deposits plus short-term liabilities and Adjusted Liquid Assets to Total Assets continued on an upward trajectory, moving from 52.2 percent to 54.2 percent and 47.3 percent to 47.2 percent, respectively over the one year, June 2019-June 2020 (Figure 18). Deposits in the banking system continued on an upward trend at the end of July 2020, total deposits in the system stood at $3,363 million, a 3.4 percent improvement from the start of the year. Savings deposits saw a 4.0 percent increase over the first 7 months of the year.

Figure 18: Liquidity Ratios (Mar 2019 - Jun 2020)



Commercial Banks' credit marginally improved by 0.9 percent over the first half of 2020. Credit remained buoyant because of increased loans to the Private Households (3.4 percent), Construction and Land Development (0.5 percent), Professional or Scientific and Technical Services (5.3 percent), and Accommodation and Food Services (5.0 percent). Notable declines were in the sectors of Public Administration and Social Security ($1.03 million), Real Estate ($9.7 million), and Wholesale and Retail Trade or Repair - of Motor Vehicles and Motorcycles ($2.5 million), which all contributed to the dampening of the performance of the sector (Table 6).

Table 6: Credit by Sectors during Jan-Jun 2020 (EC$ Millions)

Sector	**Mar-20 P**	**Jun-20 P**	**Variance**
Agriculture or Forestry and Fishing	28.5	30.7	7.7%
Manufacturing	26.2	32.5	23.9%
Electricity or Gas or Steam and Air Conditioning	36.8	35.6	-3.2%
Construction and Land Development	426.7	428.7	0.5%
Wholesale and Retail Trade or Repair - of Motor Vehicles and Motorcycles	68.3	65.9	-3.6%
Accommodation and Food Service Activities	82.3	86.5	5.0%
Real Estate Activities	576.2	566.6	-1.7%
Professional or Scientific and Technical Services	102.4	107.8	5.3%
Public Administration and Social Security	41.6	40.6	-2.5%
Private Households	299.8	309.9	3.4%
Other	42.8	42.0	-1.9%
Total Commercial Banking Sector Loans	**1731.6**	**1746.6**	**0.9%**

Source: ECCB, 2020

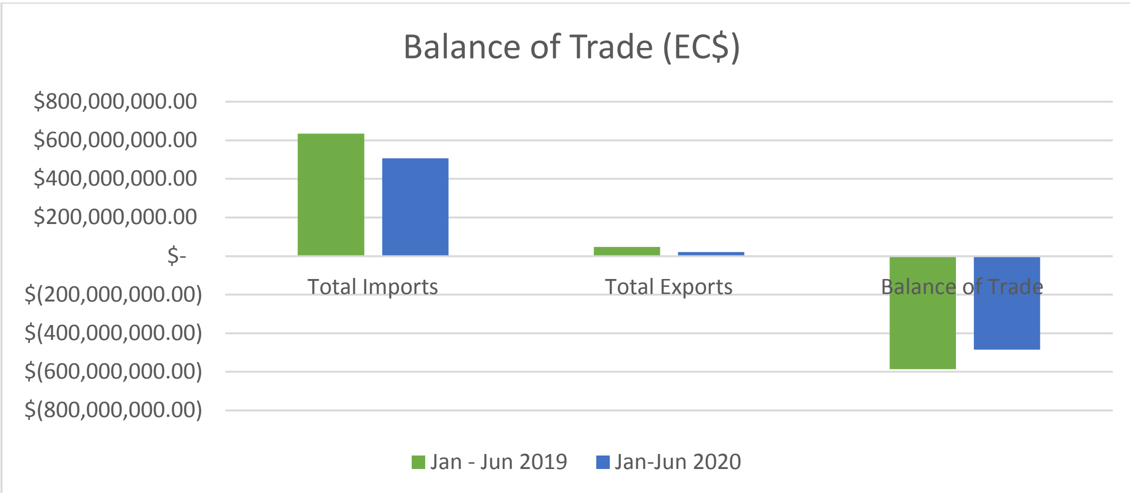
4.5.2 Non-Bank Financial Sector

Credit unions continued to register moderate improvement in assets of 3.9 percent for the first half of 2020. Amid the pandemic, cash in hand and bank at the end of June 2020 increased by 30.0 percent to $91.4 million, total loans rose to $ 751.3 million (2.2 percent), while investments for the period contracted by 9.2 percent to $103.5 million. Deposits rose to $881.3 million (3.8 percent) and capital and reserves rose by 7.3 percent to $134.9 million.

Non-performing loans in the sector averaged 3.9 percent at the end of June 2020, just shy of the prudential guideline of 5.0 percent. Additionally, liquidity continues to present in the system despite the financial strain faced by members due to the pandemic, deposits to total assets for the period averaged 80.7 percent, slightly above the prudential guideline of 80 percent.

4.6 External Sector Developments

Figure 19: Balance of Trade Jan-Jun 2019 vs. 2020



A comparison of the data for the first half of 2020 (the latest period for which data is available), shows some disparities when compared to the first half of 2019. Total imports, for example, decreased by -20.2 percent in the first half of 2020, decreasing from a value of $634.0 million to $506.0 million (Figure 19). The value of total exports decreased from $47.4 million at the end of June 2019 to $21.2 million at the end of June 2020. The decrease in both imports and exports can be attributed to the COVID-19 pandemic, which affected international trade and the external sector of Grenada. The decrease in the trade balance of -17.4 percent, was contributed by both decreases in imports and exports for the first half of 2020. This figure is likely to continue decreasing as COVID-19 continues to affect international trade.

A closer look at the category of imports for the first quarter of 2020 compared to the first quarter of 2019 revealed that the decrease in imports was significantly contributed by the declines in the importation of commodities and transactions by 61.8 percent, machinery & transport equipment by 11.0 percent, and mineral fuel, lubricants & related materials by 3.8 percent. Despite these decreases, there were increases in the importation of crude material, inedible, except fuels by 27.9 percent, manufactured goods classified chiefly by material by 3.4 percent, and beverage and tobacco by 2.2 percent (Table 7).

Table 7: Imports by Category (EC$ Millions)

CODE	SITC SECTIONS	Jan -Mar 2019	Jan - Mar 2020	Percentage Change
O	FOOD	60.6	58.9	-2.8
1	BEVERAGES & TOBACCO	8.1	8.2	2.2
2	CRUDE MATERIALS,INEDIBLE, EXCEPT FUELS	6.5	8.3	27.9
3	MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	53.4	51.3	-3.8
4	ANIMALS & VEGETABLE OILS, FATS & WAXES	1.1	1.1	0.2
5	CHEMICALS & RELATED PRODUCTS, N.E.S	22.7	21.2	-6.6
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	49.7	51.4	3.4
7	MACHINERY & TRANSPORT EQUIPMENT	70.0	62.3	-11.0
8	MISCELLANEOUS MANUFACTURED ARTICLES	35.9	36.3	0.9
9	COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC	0.0	0.0	-61.8
	TOTAL	**308.0**	**299.1**	**-2.9**

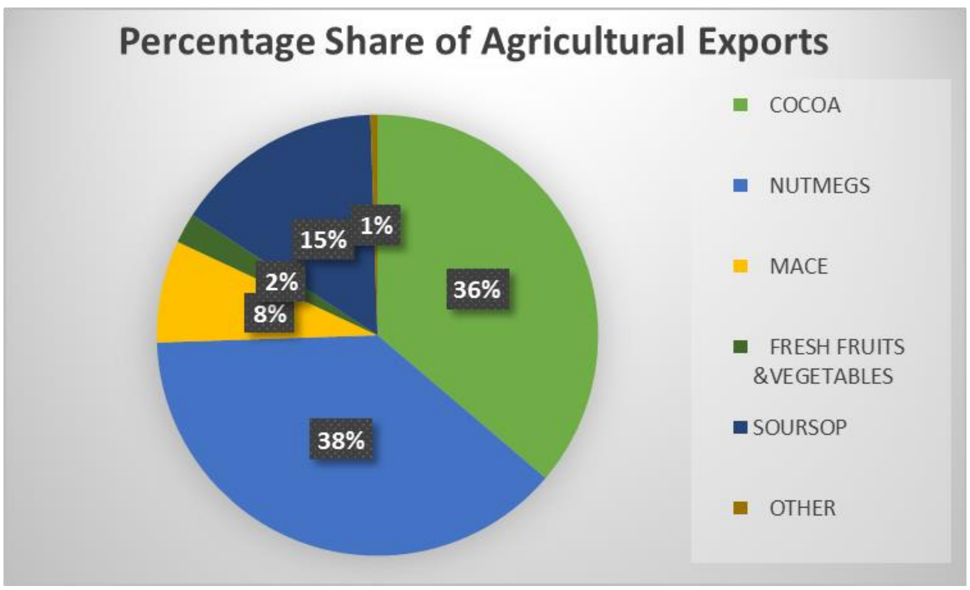
The value of domestic exports fell by 21.0 percent, which was the major contributor to the decrease in total exports. A deeper look shows declines in the exportation of animal & vegetable oils, fats & waxes by 100.0 percent, machinery & transport equipment by 76.9 percent, and miscellaneous manufacturing articles by 75.4 percent (Table 8). The only increase in exports realized, was that of food items, which rose by 3.6 percent.

Table 8: Domestic Exports by Category (EC$ Millions)

CODE	SITC SECTIONS	Jan -Mar 2019	Jan - Mar 2020	Percentage Change
O	FOOD	9.1	9.4	3.6
1	BEVERAGES & TOBACCO	3.1	2.1	-33.7
2	CRUDE MATERIALS,INEDIBLE, EXCEPT FUELS	0.4	0.1	-71.7
3	MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	0.0	0.0	0.0
4	ANIMALS & VEGETABLE OILS, FATS & WAXES	0.0	0.0	-100.0
5	CHEMICALS & RELATED PRODUCTS, N.E.S	1.7	0.5	-67.2
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	1.5	1.1	-26.3
7	MACHINERY & TRANSPORT EQUIPMENT	1.0	0.2	-76.9
8	MISCELLANEOUS MANUFACTURED ARTICLES	0.5	0.1	-75.4
9	COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC	0.0	0.0	0.0
	TOTAL	**17.2**	**13.6**	**-21.0**

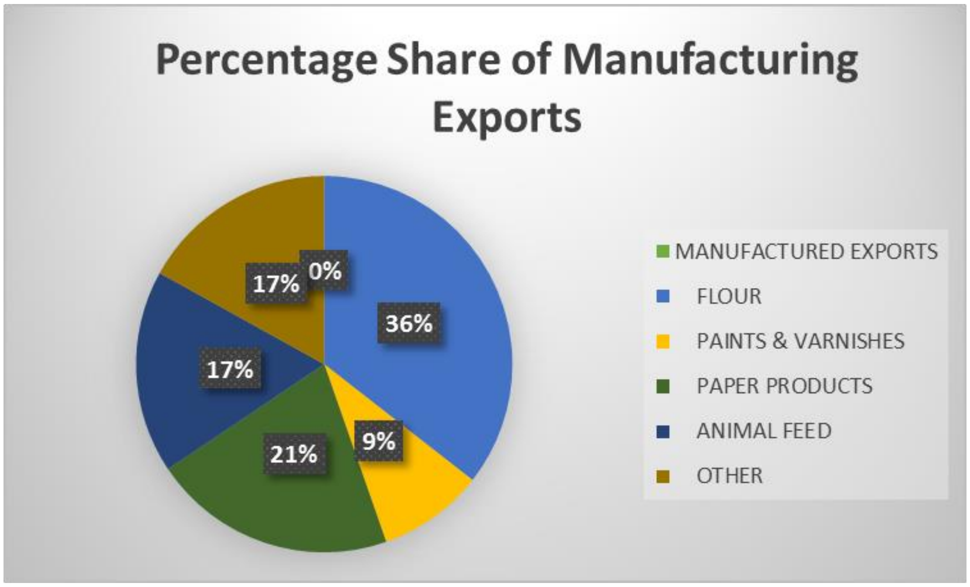
Agricultural Exports for the first half of 2020, made up 40.9 percent of domestic exports. A decline in Agriculture exports for the first half of 2020 by –72.0 percent compared to the same period in 2019, was recorded. This decline was a result of the reduction in Cocoa exports (-41.8), Nutmegs (-56.6), Mace (-28.5), Fresh Fruits & Vegetables excluding Soursop (-19.6), Soursop (-67.8) Fish (-100) and other products (-60.3) percent. For the first half of 2020, Exports in nutmeg occupied the largest share in total agricultural exports. Cocoa represented 36.0 percent, Soursop 15.0 percent, and Mace 8 percent (Figure 20). No exports in fish and bananas were recorded at the end of June 2020.

Figure 20: Share of Agricultural Exports (Jan-Jun 2020)



At the end of the second quarter of 2020, manufacturing products made up 59.1 percent of total domestic exports for the period. A -44.2 percent decline in total manufacturing exports at the end of June 2020, was realized when compared to the end of June 2019. Clothing recorded the largest decrease in manufacturing exports of -72.3 percent. Furthermore, declines in other exports were seen in Flour (-36.0), paints and varnishes (-25.6), animal feed (-41.9), and products classified as "other" (-71.9). On the other hand, two minor increases in manufacturing exports were seen in nutmeg products which increased by 46.2 percent, and paper products by 3.9 percent. Of the total manufacturing exports recording between January to June 2020, Flour represented the largest percentage share of 35 percent, which paper products occupied 21 percent, animal feed 17 percent, and "other" products 17 percent (Figure 21). Despite the increase in nutmeg exports at the end of June 2020, these products represented a small share of total manufacturing products of 0.02 percent, and clothing represented 0.5 percent.

Figure 21: Share of Manufacturing Exports (Jan-Jun 2020)



5 Economic Outlook

Economic growth is projected to average 4.6 percent over the medium term (Table 9). The main assumptions underpinning the projection are no further domestic lockdowns; the return (en masse) of SGU students to face-to-face classes; an acceleration in commercial activity, particularly construction and agriculture; favourable weather; and a rebound in global economic activity. The outlook for the tourism sector, in particular, is not sanguine. Indeed, COVID-19 has changed the nature of global travel, which has implications for tourism-based economies like Grenada. For this reason, a gradual recovery to pre-COVID levels is expected for the sector. Accordingly, the gloomy outlook for the tourism sector will weigh negatively on activity in other major sectors such as manufacturing, wholesale and retail trade, transport, real estate, and rentals.

Table 9: Real GDP Growth Rates and Medium-Term Projections

	Actual	Prelim	Proj	Forward Estimates		
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
Agriculture, Livestock and Forestry	5.3	-7.3	-13.1	2.7	3.9	3.1
Fishing	2.5	3.2	1.5	7.2	7.1	7.7
Mining & Quarrying	3.4	4.8	8.0	5.4	5.4	5.9
Manufacturing	9.4	6.9	-12.0	4.8	4.3	4.0
Electricity & Water	5.4	3.1	-5.9	5.0	4.5	3.6
Construction	12.6	-0.6	-18.5	17.1	12.9	11.6
Wholesale & Retail Trade	7.8	1.6	-12.3	8.5	7.9	4.7
Hotels & Restaurants	9.9	0.6	-51.0	9.1	7.8	7.5
Transport and Storage	8.1	9.2	-26.4	11.4	7.0	6.5
Communications	8.4	2.0	7.3	3.2	2.8	2.6
Financial Intermediation	7.0	3.0	-6.2	2.1	2.2	2.3
Real Estate, Renting and Business Activities	1.8	1.6	-4.4	2.3	2.0	2.0
Public Administration	-3.8	1.3	-5.0	1.6	1.8	1.7
Education	-4.8	4.2	-5.9	5.0	4.9	4.6
Health and Social Work	5.9	1.3	7.3	-1.0	1.9	2.3
Other Community, Social & Personal Services	1.9	1.9	1.8	2.3	1.7	1.8
Activities of Private Households as Employers	1.5	0.7	0.6	0.6	0.6	0.6
Real Gross Value added (not GDP)	3.8	2.4	-11.8	5.9	5.1	4.6
Real Gross Domestic Product at Market Prices	**4.4**	**2.0**	**-12.2**	**6.0**	**4.8**	**3.0**
Other key indicators						
Nominal GDP (EC$ Millions)	3152.4	3271.4	2825.9	3036.1	3259.6	3417.2
Inflation	0.8	0.6	-1.0	1.8	2.0	1.5

*Percent growth unless indicated

The trajectory for unemployment is expected to be downwards with the commencement of several public and private sector construction projects, though the projected lackluster growth in the short term is likely to thwart a sharp fall in the rate witnessed pre-COVID-19. Meanwhile, inflation is expected to strengthen over the medium term with forecasted increases in Grenada's top imports, namely, food and fuel. As economies recover, oil prices are expected to rise, while a shortfall in global production if supply chain disruptions persist, could see food prices rise in the coming years.

Fiscal performance is expected to improve in the short-to-medium term although it will not be back to pre-COVID-19 levels. Controls on discretionary spending will be strengthened in the context of expected weak growth in revenue. The Primary balance and Overall balance (after grants) are projected to average 3.9 percent of GDP and 1.9 percent of GDP respectively, while public debt is projected to average 62.6 percent of GDP over the medium term.

5.1 Risks to the Economic Outlook

A mix of upside and downside risks can affect Grenada's macroeconomic outlook, but risks are firmly tilted to the downside. On the upside, if Grenada's fiscal position strengthens more than anticipated and if concessional donor funding is accessed, public investment can be boosted significantly to support growth and job creation. On the downside, risks are linked to the current COVID-19 pandemic and its effects on the local economy should there be a second wave in Grenada that necessitates lockdowns and repression of economic activity. Additionally, should there be a worsening of the current second wave of the virus in the economies of Grenada's main trading partners, tourist arrivals, remittances and foreign direct investment would be acutely affected and take a longer time to recover. Furthermore, uncertainties regarding a vaccine could adversely affect the private education and tourism sectors in particular. Anticipated rising international oil and food prices are also a significant risk to the economic outlook. Grenada's vulnerability to natural hazards is an inherent risk; adverse effects of climate change can significantly affect agricultural output (in particular) over the medium term as well as the fiscal outlook. Macroeconomic risks, Budget risks, and Public Enterprises risks (discussed in depth in the Fiscal Risks Statement) can also pose fiscal risks over the medium term.