GRENADA

2021 MID-YEAR ECONOMIC REVIEW
&
ESTIMATED 2021 PERFORMANCE

Prepared by the Ministry of Finance, Economic Development, Physical Development and Energy
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1 Purpose

This Mid-Year Review Report 2021 is prepared in accordance with the requirements of Part IV, Section 25 (1) of the Public Finance Management Act, No. 17 of 2015.

2 Overview

The local economy continues to experience the lingering effects of the COVID-19 pandemic. Activity in most sectors for the first half of the year remain below what would be considered "normal" levels pre-covid. However, when compared to activity in 2020, there are indications of a gradual improvement in economic activity since the onset of the pandemic. Preliminary data for the first quarter of 2021 points to a contraction relative to the corresponding period of last year, during which time the economy experienced high levels of economic activity for approximately two and a half months. Most sectors of the economy declined, most notably the hotels and air transport sectors. However, there are indications of improved economic activity relative to 2020 as evidenced by second quarter data. It must be noted that the second quarter of 2020 was the "lock down period" where the economy came to a virtual halt in April of that year and was gradually reopened in the following months of the second quarter. Visitor arrivals grew strongly in the second quarter of 2021 due to the fact that only a limited number of visitors came to Grenada during that period in 2020. Nonetheless, the trend of increased visitor arrivals is expected to persist into the second half as vaccination rollouts continue and cross-border travel improves globally. Growth in 2021 is projected to be 5.2 percent. Inflation is expected to exceed the 1.6 percent initially projected as global commodity prices rise. On balance, Grenada's fiscal position has strengthened despite the continued global impact of the COVID-19 pandemic. A primary balance including grants of $109.0million is estimated for 2021, exceeding the budgeted amount of $45.5 million while an overall surplus of $45.3 million is estimated at the end of this year compared to a budgeted deficit of $18.2 million.

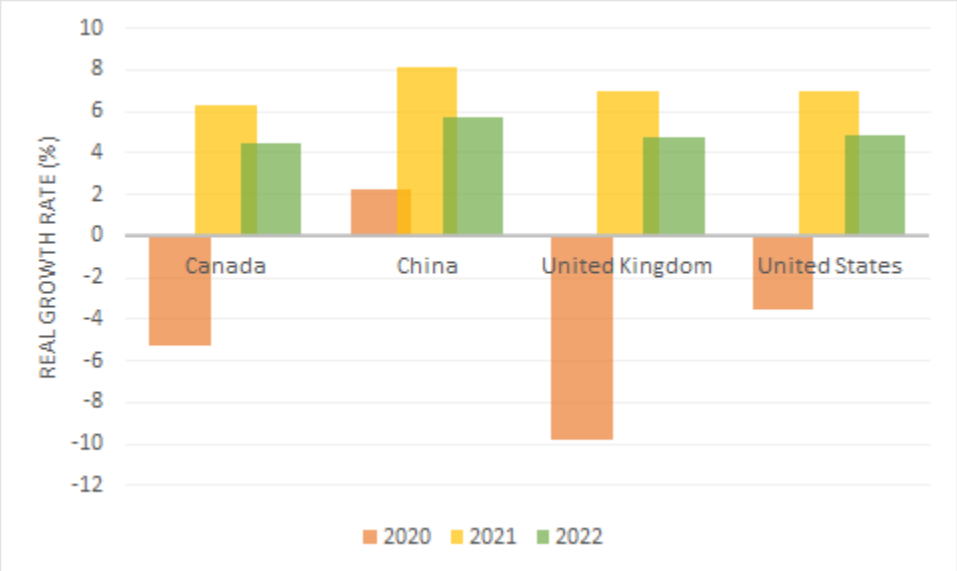
3 International Developments

The projection for global growth in 2021 remains 6.0 percent though offset by revisions to several economies, while the projection for 2022 was revised upwards to 4.9 percent, 0.5 percentage points higher than the April projection. Generally, there are greater prospects for growth in advanced economies premised on pandemic developments and additional policy support. Projections for

these economies have therefore been revised upwards. By contrast, emerging markets and developing economies were marked downwards reflecting slower recovery principally underpinned by unbalanced vaccine access. Indeed, the divergent nature of the recoveries has been attributed to unequal vaccine access with advanced economies with greater access and higher vaccination rates being more likely to rebound in the second half of 2021, while emerging markets and developing economies lag in this regard.

Several other factors are affecting the pace of global economic recovery, including new COVID-19 variants, aftershocks and supply and demand mismatches which are affecting global trade. Despite near-term disruptions, global trade of goods is expected to expand in 2021 by 9.7 percent and moderate to 7.0 percent in 2022. Services trade is projected to recover more slowly consistent with reduced cross-border travel since the onset of the pandemic. However, global travel is expected to pick up once COVID-19 transmission rates decline.

Figure 1: Real GDP Growth Rates – Major International Trading Partners



Source: IMF's World Economic Outlook, July 2021

The United States, one of Grenada's major trading partners, is now projected to grow by 7.0 percent in 2021, 0.6 percentage points higher than the April 2021 projection (Figure 1). This increase is derived from the impact of anticipated legislation to boost infrastructure investment

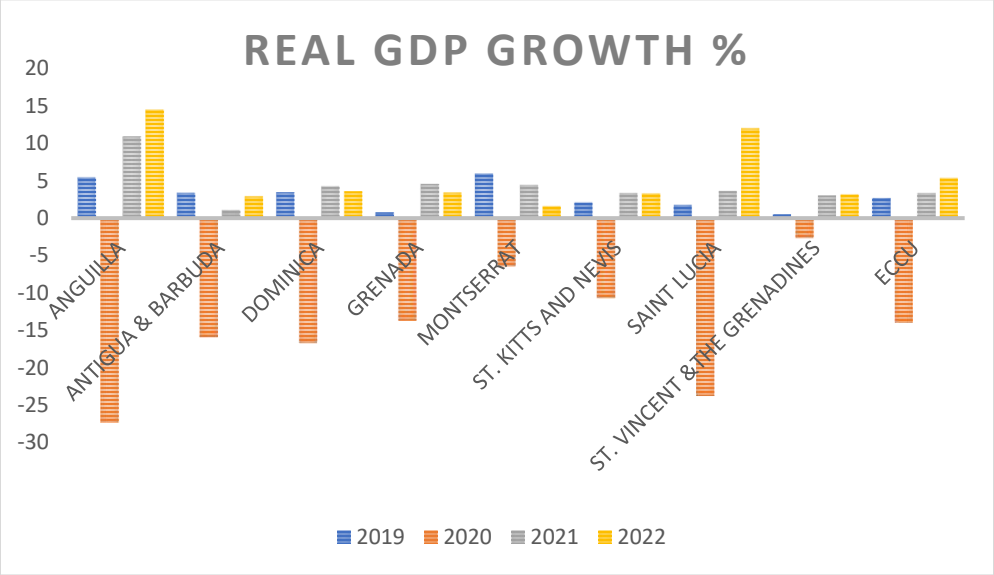
and additional support towards strengthening social safety nets in the second half of 2021. The positive effects from these measures are expected to spill over to its trading partners later this year into 2022. Other advanced economies are expected to see further strengthening in their economies, including several European nations as vaccination proceeds and their economies are fully re-opened. However, slower recovery is expected in the United Kingdom whose re-opening has been delayed by the spread of the delta variant of the COVID-19 virus, even though increased vaccination has reduced hospitalizations.

For the emerging markets and developing economies, the forecast was revised downwards by 0.4 percentage points from the April projection to 6.3 percent due to second and third waves of COVID-19 in several economies including India and the ASEAN-5 group (Indonesia, Malaysia, Philippines, Thailand and Vietnam) which have negatively impacted economic activity in the first half of the year. Slow vaccination rollouts in low-income developing countries have also been cited as a main factor for the downward revision for growth in this group.

4 Regional Developments

In 2020 real GDP growth declined in all countries of the Eastern Caribbean Currency Union (ECCU) mainly due to the COVID-19 pandemic. The average decline in real GDP growth rate for ECCU countries was 14.0 percent. Anguilla and St. Lucia experienced the largest declines of 27.4 and 23.8 percent respectively. COVID-19 has impacted the ECCU region significantly as business activity, production and spending decreased due to suppressions in economic and social activities, outright lockdowns, global supply chain disruptions and in turn, higher international prices experienced by major suppliers. In 2021, the average real GDP growth of the ECCU territories is expected to rebound to 3.4 percent on account of upticks (albeit tepid) in economic activity and deliberate policy measures to stimulate economic activity. Anguilla estimates the highest rate of recovery in GDP of 10.9 percent. Further growth is expected in 2022 with Anguilla again projecting the highest increase of 14.44 percent followed by St. Lucia (11.9 percent).

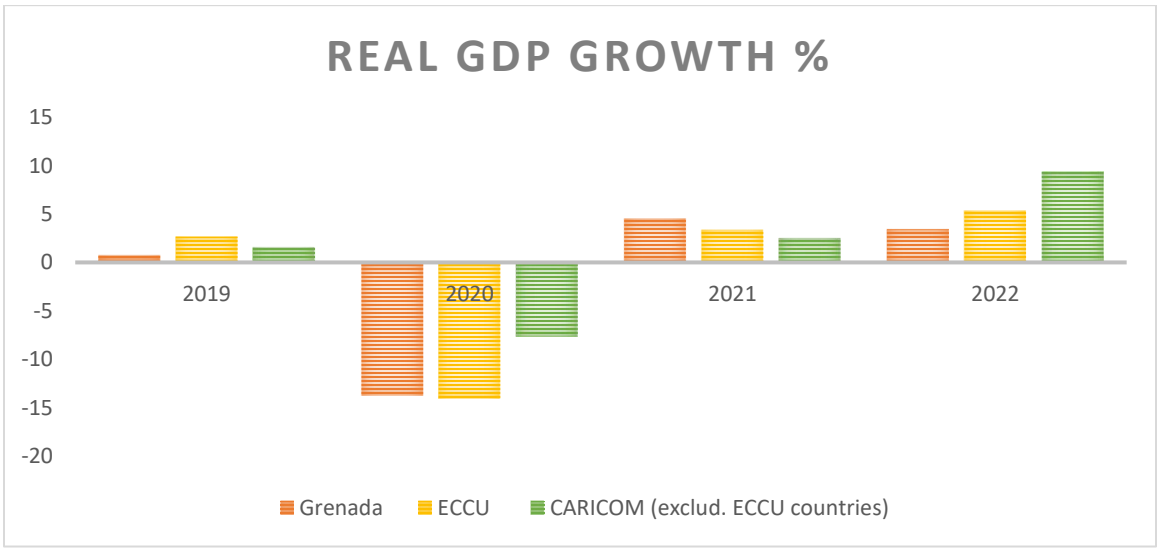
Figure 2: Real GDP Rates (ECCU Countries)



Source: Ministry of Finance, ECCB

In 2020, CARICOM's average real GDP declined by 7.7 percent compared with the 14.0 percent average contraction in ECCU members. Grenada's growth in 2021 is expected to be greater than both the averages of ECCU and CARICOM countries. However, in 2022 it is projected that the CARICOM countries will record a 9.4 percent increase in Real GDP.

Figure 3: Real GDP Growth (Grenada, ECCU and CARICOM)



Source: Ministry of Finance, ECCB, IMF

5 2021 Mid-Year Economic Review and Estimated 2021 Performance

5.1 Real Sector

The Grenadian economy is still experiencing the effects of the COVID-19 pandemic 15 months after the first case of the virus was recorded on-island. Activity in the tourism sector remains depressed with visitor arrivals being only a fraction of pre-covid levels. The sluggish recovery in global travel and the slower-than-anticipated vaccination rollout are contributory factors to the weak performance of the sector thus far. Notwithstanding, there are signs of a tepid recovery in the economy with some sectors such as construction and private education reporting growth relative to 2020. Preliminary data indicate that growth in 2021 will be in the range of 5.2 percent, a slightly downward revision from the 6.0 percent projected in October 2020. There was a marginal increase in inflation in the first half of 2021, and this is expected to rise further with projected increases in global food and fuel prices, as well as international shipping costs.

5.1.1 Agriculture & Fishing

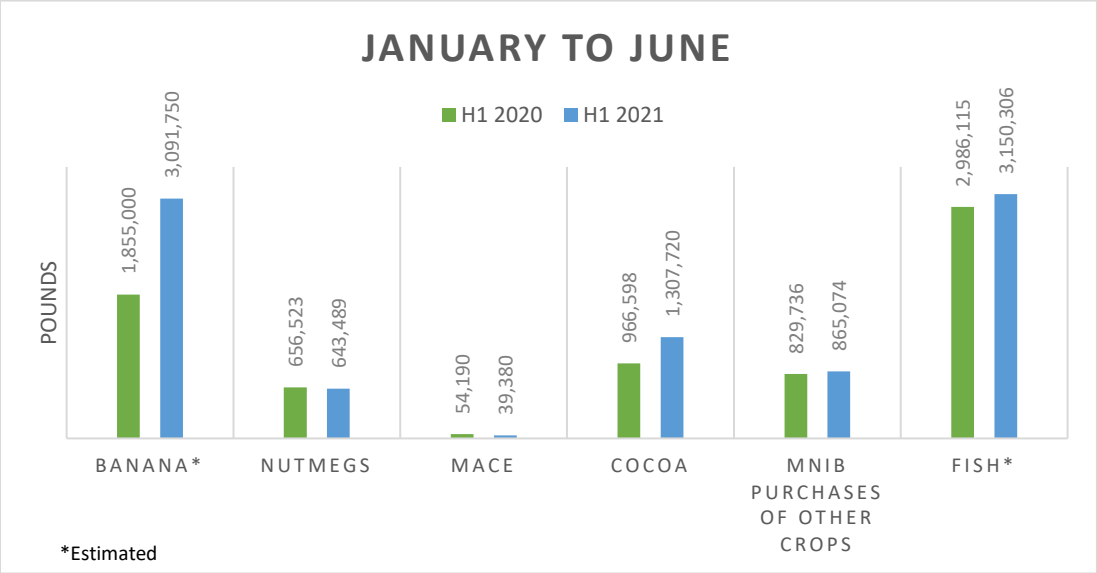
Preliminary data for the first half shows mixed results for the agriculture sector in 2021 compared to the same period in 2020 (Figure 4). There were reductions in the production of nutmeg and mace of 2.0 and 27.3 percent respectively. Nutmeg production was relatively low for the first half of 2021 partially due to lower-than-anticipated rainfall. Notwithstanding, participation in the sector increased as persons unemployed as a result of the impact of the pandemic used the resource-rich subsector as a vehicle for revenue generation.

Despite several challenges, the Marketing and National Importing Board (MNIB) increased its purchases of fresh produce (excluding bananas) by 4.3 percent during the period under review. The MNIB has been experiencing challenges that have reduced its capacity to maximize sales and purchases and ultimately improve its performance. These included increased competition in the banana market, the emergence of new local agents for the sale of fresh produce in the local market and trade barriers. These barriers were limited air cargo capacity and reduced international flights

directly affecting MNIB's ability to export fresh produce internationally, thus affecting its local purchasing patterns. Nonetheless, MNIB purchases give a fair indication of production of fresh fruits, vegetables and root crops during the period.

Moreover, cocoa production was extremely strong in the first half of 2021, increasing by 35.3 percent - the highest it has been for this period since 2016 (Figure 4). Moreover, the price of cocoa increased to $4 per pound, the highest price recorded since 2014. These developments have led to an increased interest by farmers in cocoa production, reflected by an increase in requests for cocoa cards from the Grenada Cocoa Association (GCA).

Figure 4: Production in Agriculture and Fishing



Source: Ministry of Finance, CSO

Exports of nutmegs rose by 119.1 percent while mace exports fell by 23.8 percent during the period under review. Cocoa exports also fell marginally by 0.6 percent, while exports of fresh fruits and vegetables (excluding soursop) increased by 1.5 percent. The increases are encouraging given the logistical challenges being experienced as a result of the pandemic.

In the fishing sector, production growth is estimated at 5.5 percent for the first half of 2021 compared to the same period in the previous year (Figure 4), but is still below 2019 production levels. The sector is currently confronting several challenges. On the local front, the relatively low activity in the tourism sector and the temporary halt of face-to-face classes at the SGU have decreased the demand for fish. Reduced airlift in 2021 has limited capacity to export to international markets. All exporters, including exporters of fresh fruits and vegetables, were required to share already limited space on one weekly flight from the main cargo aircraft servicing the island. In the past, commercial aircrafts were used as an alternative for exporting, but with reduced commercial flights, this was not possible during the first half of 2021. Consequently, fish exporters have reduced the volume of fish purchased from local fishermen causing fishermen to find alternative markets for their catch since the amounts caught cannot be readily absorbed in the local market. Increased freight and fuel costs, as well as trade disruptions, are also affecting fish exports. Should these issues persist, the return to pre-covid production levels could be delayed.

5.1.2 Construction

The value of construction-related imports, the main indicator used to measure activity in the construction sector, rose by 34.9 percent in the first half of 2021 against the comparable period of 2020. Moreover, there was a significant spike in the secondary indicator, retail sales of building materials, of 126.2 percent during the same period (Figure 5). This suggests a pick-up in both commercial and residential construction as evidenced by the increase in both indicators over the period. Improved implementation of Government's Public Sector Investment Program (PSIP), mainly as it relates to the construction and repairs of roads, bridges, schools and other public infrastructure, as well as several ongoing private sector projects, contributed to the performance of the sector thus far.

Figure 5: Construction and Mining Indicators

Source: Ministry of Finance, CSO

5.1.3 Tourism

The tourism sector remains the hardest hit sector by the COVID-19 pandemic to date. Data for the first half of 2021 shows a 73.1 percent decline in Stayover Arrivals compared to the same period in 2020 (Table 1). Travel was depressed for the first quarter of 2021 with a 61 percent reduction in flights compared to quarter one of 2020. However, second quarter data showed some improvement as several airlines added flights during that period.

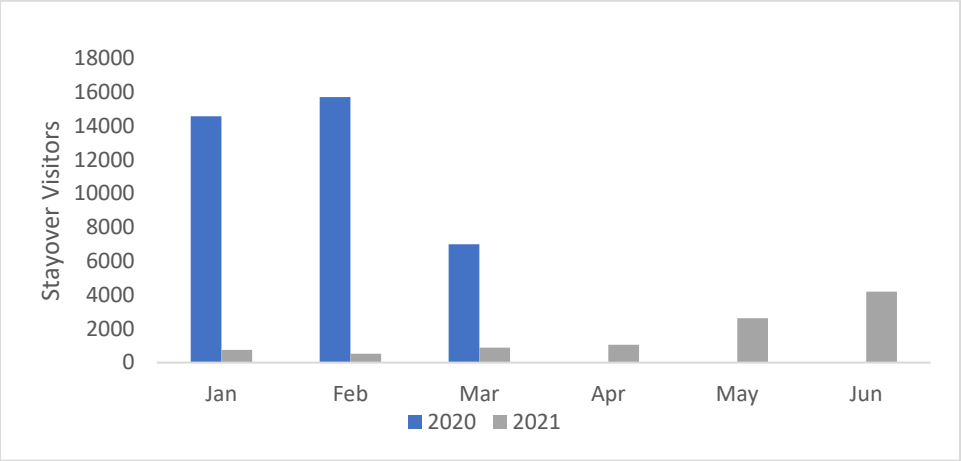
Table 1: Visitor Arrivals

Visitor Arrivals	Jan - Jun-20	Jan - Jun-21	% Change
United States	17,086	8,026	-53.0
Europe	2,828	226	-92.0
United Kingdom	6,858	390	-94.3
Canada	4,217	234	-94.5
Caribbean	5,063	705	-86.1
Other	1,235	446	-63.9
Total Stayover Arrivals	**37,287**	**10,027**	-73.1
Cruise Passengers	**162,517**	**-**	-100.0

Source: GTA

Quarter two of 2021 showed some signs of a rebound in visitor arrivals which was severely depressed in quarter one. From January to March 2021, monthly arrivals averaged 723 persons, while for the second quarter the average was 2620 persons. Arrivals reached an annual high in June of 4192 visitors (Figure 6).

Figure 6: First Half Monthly Stayover Arrivals (2020 vs 2021)



Source: GTA

The hotel sector has experienced several challenges since the economy was impacted by the pandemic in March 2020. The economic support programme implemented by the Government provided some relief in the sector, most notably with the payroll/income support. The financial sector also provided loan moratoria. However, in the first half of 2021, some challenges remained. Several hotels which temporarily closed their doors in 2020 have re-opened but are operating on a smaller scale, as visitor arrivals remain far below pre-covid levels. There have been reports of layoffs (largely temporary) where the property could not afford to pay staff during the period of closure. Additionally, there is a strong concern that the expiration of the moratoria later this year will put additional strain on already fragile businesses in the sector.

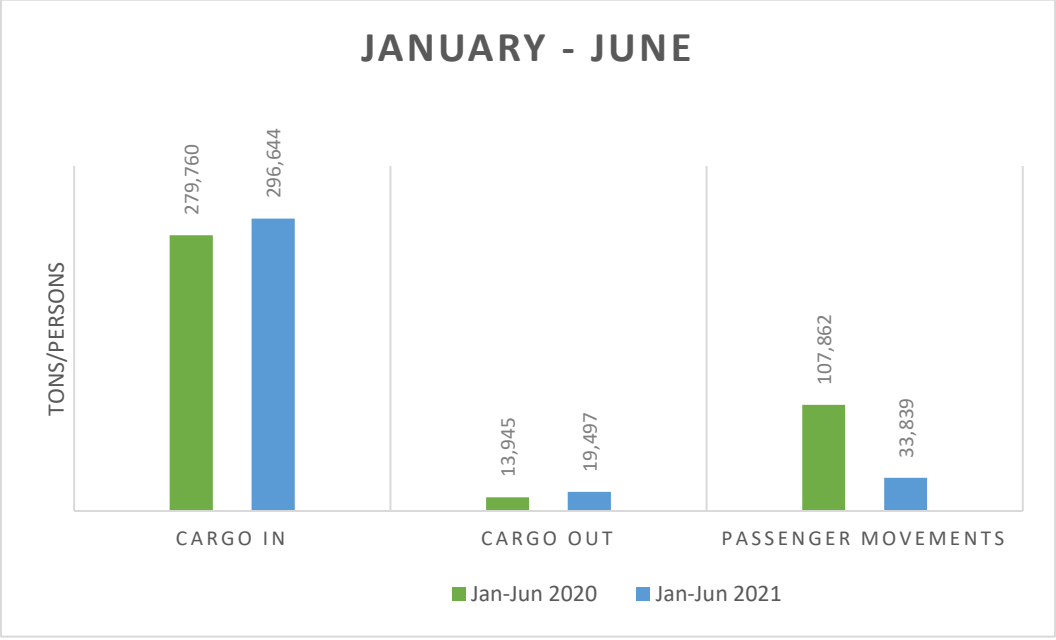
Nonetheless, hotels are implementing measures and protocols to ensure the safety of staff and guests as the sector recovers. Many properties are heavily promoting vaccination to staff. Tourism promoting agencies are also promoting vaccination island-wide as Grenada's relatively low vaccination rate has been cited as one of the reasons for the slow recovery in travel to the island, especially as it relates to travel from the United Kingdom.

In the Cruise sub-sector, there were no arrivals for the first half of 2021 since the Cruise season has remained closed since March 2020.

5.1.4 Transport and Storage

Indicators for activity in the transport and storage sector include passenger and cargo movements that relate to road, air, and sea transport. An increase of 7.6 percent was observed in overall cargo movements in the first half of 2021 compared to the same period in 2020. "Cargo in" grew by 6.0 percent to 296,644 tons while "cargo out" rose by 39.8 percent to 19,497 tons (Figure 7). It should be noted that approximately 99.6 percent of cargo movements pertained to sea cargo. There was a decline in cargo movements in the first three months of the year compared to the same period in 2020 attributed to international trade issues including shipping delays, production setbacks due to material shortages, shortage of containers, increased cost of freight and general product shortages. Conditions improved in the second quarter, resulting in the performance seen in the first half. Notwithstanding, challenges remain and are affecting the activity of most importers.

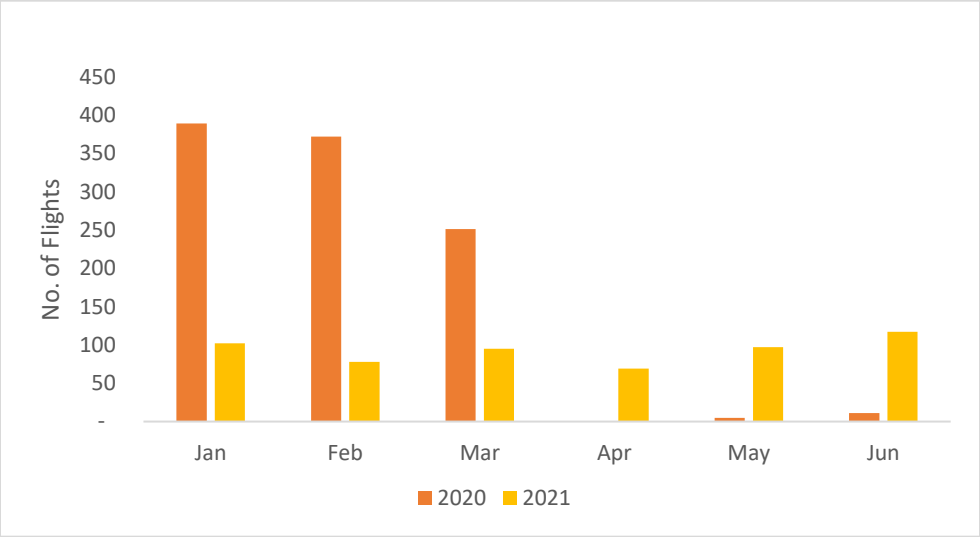
Figure 7: Passenger and Cargo Movements



Source: Ministry of Finance, CSO

Concerning road transport, activity in this sector is hinged on activity in the construction sector and cargo movements largely related to the wholesale and retail sector. Air and Sea Transport were affected by reduced cargo movements, visitor arrivals and commercial flights for the first half of 2021. Moreover, the continued closure of the cruise ship season contributed to the decline in sea transport for the period under review. For Air Transport, it is estimate that passenger movements fell by 68.6 percent in January to June 2021 compared to the same period in the previous year. The number of aircraft arriving in Grenada also fell during the period from 1,809 in the first half of 2020 to 1,103 in the same period in 2021. It should be noted that there were only 16 flights in the second quarter of 2020 (lockdown period) compared to 283 for the same period in 2021. There is therefore some indication of recovery in the sector (Figure 8).

Figure 8: First Half Commercial and Private Passenger Flights

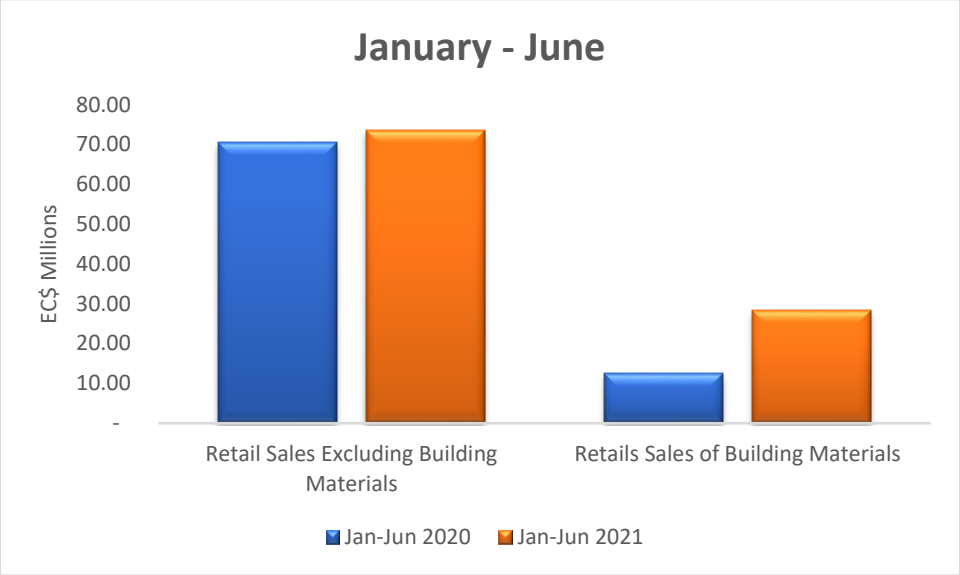


Source: GTA

5.1.5 Wholesale and Retail Trade

Preliminary data for the Wholesale and Retail Trade sector indicate some improvement in the sector for the January to June period of 2021 against the comparable period in 2020. Retail sales excluding building materials rose by 4.2 percent in the first half, indicative of increased spending power since the economic downturn caused by the pandemic. Additionally, retail sales of building material increased period on period by 126.2 percent, signalling a spike in residential construction (Figure 9).

Figure 9: Retails Sales



Source: Ministry of Finance, CSO

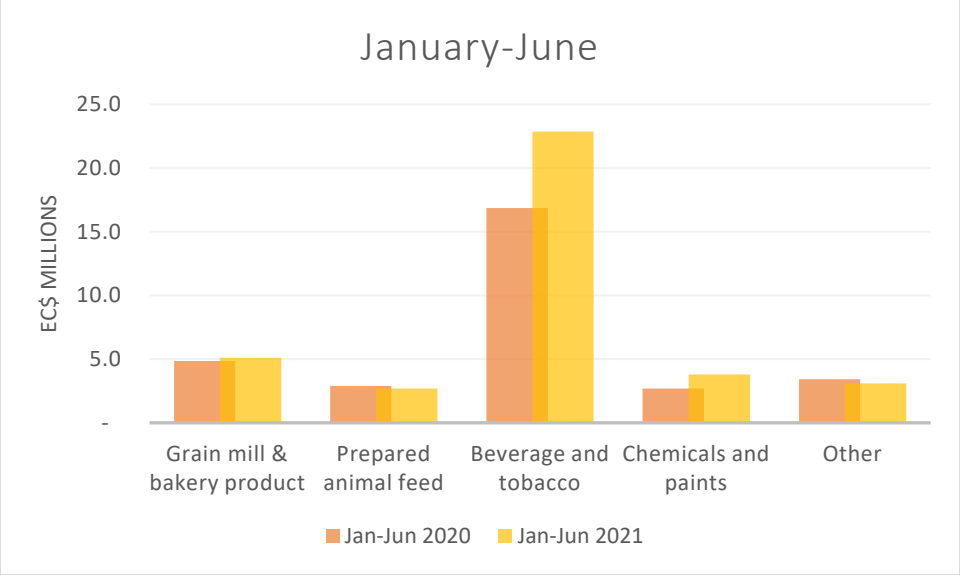
The sector has experienced several challenges in 2021 thus far, largely related to international trade issues highlighted previously in the transport section. Notwithstanding, there have been some improvements in the wholesale and retail sector brought on by the COVID-19 pandemic. More businesses are incorporating ICT into their operations, starting with the digitization of business processes and the development of online shopping websites and applications

5.1.6 Manufacturing

Overall, the value of products manufactured in the first six months of 2021 grew by 22.3 percent. However, the performance of products showed mixed outcomes. Animal feed declined by 6.9 percent, while "other" production fell by 9.4 percent (Figure 10). In the case of Grain Mill & Bakery Products, production increased by 5.4 percent during the period under review despite several factors affecting demand. On the export side, the non-implementation of Article 164 in some islands is affecting exports. Article 164 is meant to give a slight advantage to products produced in the lesser developed countries (LDCs) in the region. Without these special provisions, products, such as flour, that are produced in Grenada, cannot compete pricewise with products

produced in more developed countries (MDCs) such as Trinidad and Jamaica. Moreover, the increased cost of freight and inputs from September 2020 necessitated an increase in local flour prices early this year.

Figure 10: Industrial Production



Source: Ministry of Finance, CSO

By contrast, beverage production, which is by far the largest category of manufactured products rose by 35.7 percent. After some delays due to COVID-19, the island's newest Rum manufacturing company commenced production in January 2021. Although the final product will not reach the market for several years, as is the process with aged rum, production is progressing smoothly with the company moving to cultivate sugarcane in over 100 additional acres of land to facilitate production. There have also been reported increases in the production of beers, ciders, other brewed beverages, and water during the period under review, partially due to an increase in exports to the islands of Trinidad and Tobago and St. Vincent and the Grenadines. Additionally, the production of chemicals and paints also grew by 40.6 percent during the period, reflecting the increased activity in the construction sector (Figure 10).

5.1.7 Private Education

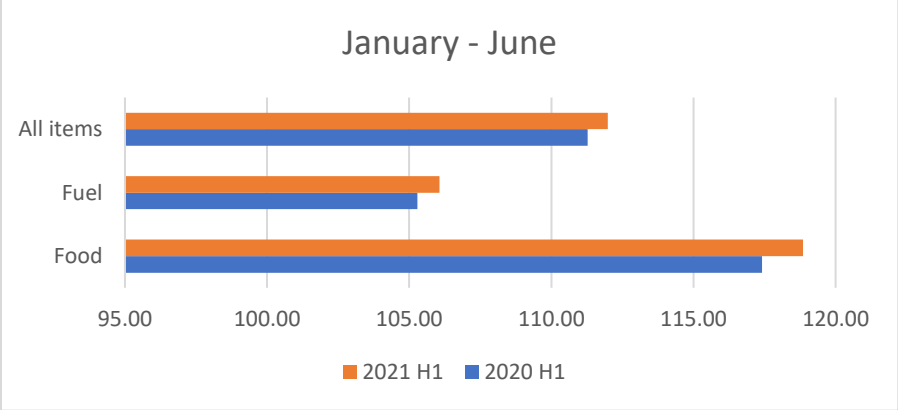
The St. George's University has been delivering its programmes online since it decided to cease face-to-face classes in March 2020, as a response to the pandemic. However, the University announced in April 2021 that it will resume in-person learning on campus for the August 2021 semester. The University has also implemented a strict vaccination policy where all faculty, staff, students, and service providers of the University must be fully vaccinated to be allowed onto the SGU campus. Therefore, students who are expected to return to the island during the second half of 2021 must be fully vaccinated.

The University is optimistic that enrolment for the 2021/2022 academic year will be at least on par with other years. Additionally, the University has adjusted its tuition fees upwards in 2021 after a temporary freeze in 2020. The return of the students should have a positive impact on other sectors, including the wholesale & retail and real estate sectors.

5.1.8 Inflation

The consumer price index (CPI) for January to June 2021 indicates a period average inflation rate of 0.6 percent compared to the same period in 2020. Local fuel prices, as measured by the CPI, rose by 1.0 percent during the period reflective of increases in international oil prices. Likewise, food prices increased 1.2 percent also reflective of international pricing conditions (Figure 11).

Figure 11: Consumer Price Index

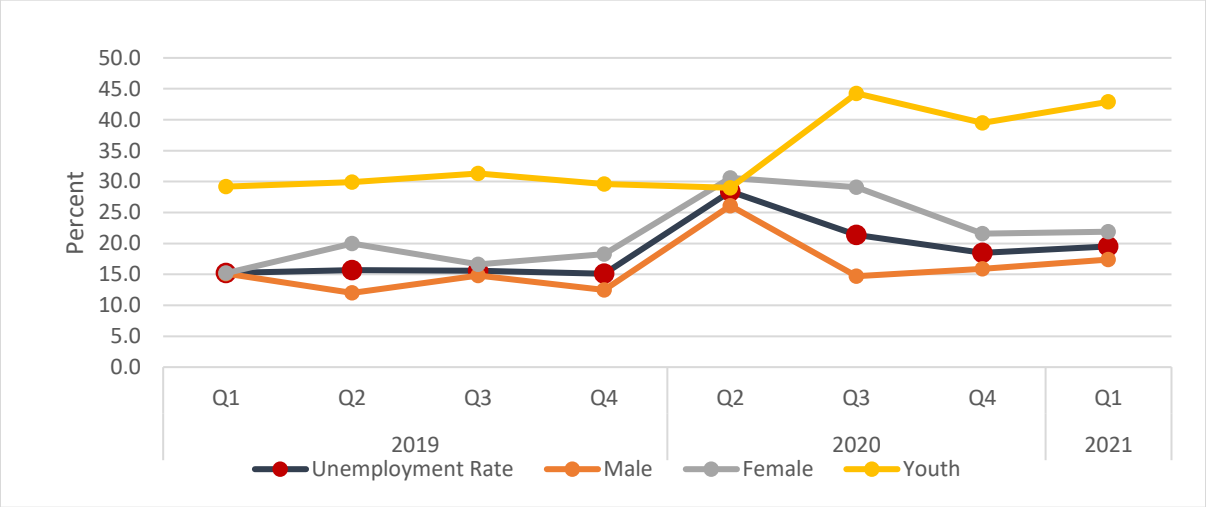


Source: Ministry of Finance, CSO

5.2 Unemployment

Unemployment was on a downward trajectory for two consecutive quarters, since the spike in quarter two 2020, reaching 18.5 percent in quarter four of 2020. It has since increased marginally to 19.5 percent in the first quarter of 2021. 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, youth unemployment had been on a downtrend pre-COVID-19 (Figure 12).

Figure 12: Unemployment Rate

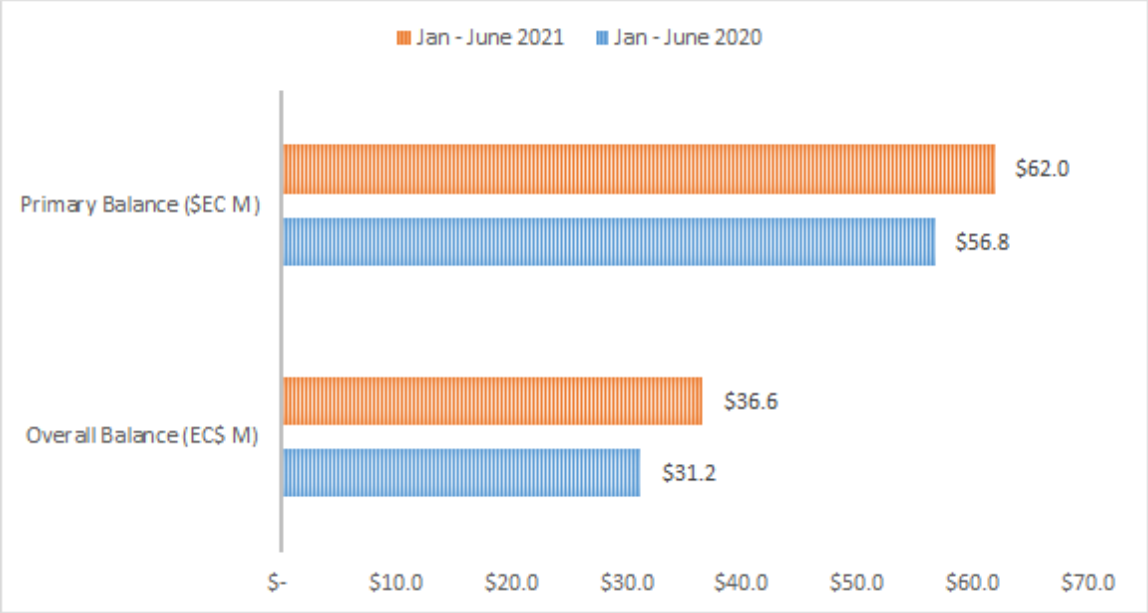


Source: CSO

5.3 Fiscal Sector

On balance, Grenada's fiscal position has strengthened despite the continued global impact of the COVID-19 pandemic. During the first half of 2021, the Primary and Overall balances including Grants were $62.0 million and $36.6 million respectively, which were more than the comparable period of 2020 by 17.3 percent and 9.2 percent respectively (Figure 13).

Figure 13: Primary Balance and Overall Balance after grants 2021 vs 2020 (Jan-Jun)



Source: Ministry of Finance

Total revenue and grants for the first half of 2021 amounted to $405.6 million of which total revenue was $353.4 million and total grants were $52.2 million. Total revenue and grants were 5.0 percent more than that collected in the same period of 2020, primarily because of improved performances in non-tax revenue and total grants received. During the period, capital grants of $20.4 million were transferred from the Citizenship by Investment (CBI) to the National Transformation Fund (NTF). Tax revenue was $304.0 million or $8.9 million less than 2020. All tax types recorded lower collections than in 2020 except for taxes on international transactions that gained a 3.0 percent increase in collections. In contrast, taxes on domestic transactions were 15.0 percent less than the amount collected in 2020. Taxes on income and profit and property taxes were 1.0 percent and 10.0 percent respectively, less than the collections of 2020. (Table 3).

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

	2020	2021	Variance	
	January - June			
	$M	$M	$M	%
Total Revenue and Grants	**386.3**	**405.6**	**19.30**	**5%**
Total Revenue	**349.0**	**353.4**	**4.40**	**1%**
Tax Revenue	**312.9**	**304.0**	**(8.90)**	**-3%**
Taxes on Income and Profit	65.5	65.0	(0.50)	-1%
Taxes on Property	21.6	19.5	(2.10)	-10%
Taxes on Domestic Transactions	70.7	60.0	(10.70)	-15%
Taxes on International Transactions	155.2	159.5	4.30	3%
Non-Tax Revenue	**36.1**	**49.4**	**13.30**	**37%**
Total Grants	**37.3**	**52.2**	**14.90**	**40%**

Source: Ministry of Finance

The total expenditure for the first half of 2021 was 4.0 percent more than the same period of 2020 driven by a 59.0 percent increase in capital spending as the Government continued its effort to bolster the Public Sector Investment Program (PSIP). Recurrent outlays decreased by 2.0 percent overall, despite a 4.0 percent increase in employee

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

	2020	2021	Variance	
	January - June			
	$M	$M	$M	%
Total Expenditure	**355.2**	**368.9**	**13.70**	**4%**
Recurrent Expenditure	**322.9**	**317.5**	**(5.40)**	**-2%**
Employee Compensation	**136.8**	**142.6**	**5.80**	**4%**
Personal Emoluments	129.6	134.7	5.10	4%
Social Contributions	7.2	7.9	0.70	10%
Goods and Services	62.3	71.9	9.60	15%
Interest Payments	25.6	25.3	(0.30)	-1%
Current Transfers	98.2	77.7	(20.50)	-21%
Capital Expenditure	**32.3**	**51.4**	**19.10**	**59%**

Source: Ministry of Finance

compensation. Current transfers at the end of the period were 21.0 percent less than the amount spent in the corresponding period of 2020 (Table 3). This decrease is a direct result of the partial withdrawal of the suite of stimulus measures introduced during the second quarter of last year to mitigate the adverse impacts of the COVID-19 pandemic on affected sectors. Employee compensation increased by 4.0 percent overall inclusive of 4.0 percent and 10.0 percent increases in personal emoluments and social contributions, respectively. Goods and services increased by 15.0 percent due to higher spending on outsourced service contracts whilst interest payments decreased by 1.0 percent when compared to the first half of 2020.

Reflective of favourable tax and non-tax revenue outturns during the first half of this year and the sluggish performance of capital expenditure, an overall surplus of $45.3 million is estimated at the end of this year compared to a budgeted deficit of $18.2 million. Likewise, a primary balance including grants of $109.0 million is estimated, exceeding the budgeted amount of $45.5 million. That said, higher levels of capital spending, including from the upcoming stimulus package, could result in a significant weakening of the fiscal position this year.

Table 4: Grenada Fiscal Projections

	2021			
	Estimated Outturn	Budget	Variance	
	EC$M	EC$M	EC$M	%
Total Revenue & Grants	**836.0**	**917.1**	**(81.1)**	**(8.8)**
Total Revenue	**702.9**	**653.5**	**49.5**	**7.6**
Tax Revenue	**625.0**	**590.2**	**34.8**	**5.9**
Taxes on Income	123.6	103.1	**20.5**	**19.9**
Taxes on Property	28.8	27.4	**1.4**	**5.1**
Taxes on Domestic Goods & Consumption	127.0	124.5	**2.5**	**2.0**
Taxes on International Trade & Transactions	345.5	335.2	**10.4**	**3.1**
Non - Tax Revenue	**77.9**	**63.2**	**14.7**	**23.2**
Grants	**133.1**	**263.6**	**(130.5)**	**(49.5)**
Total Expenditure	**790.7**	**935.2**	**(144.6)**	**(15.5)**
Primary Expenditure	**727.0**	**871.6**	**(144.6)**	**(16.6)**
Current Expenditure	**661.7**	**629.6**	**32.1**	**5.1**
Employee compensation	286.9	277.8	**9.1**	**3.3**
o/w wages, salaries & allowances	272.0	264.3	**7.7**	**2.9**
Goods and Services	142.6	121.8	**20.7**	**17.0**
Interest Payments	63.7	63.7	-	**(0.0)**
Transfers	168.6	166.3	**2.3**	**1.4**
Capital Expenditure	**128.9**	**305.6**	**(176.7)**	**(57.8)**
o/w Grant financed	**103.1**	**243.6**	**(140.4)**	**(57.7)**
Overall balance	**45.3**	**(18.2)**	**63.5**	**(349.4)**
Primary balance (including grants)	**109.0**	**45.5**	**63.5**	**139.6**

Source: Ministry of Finance

5.4 Public Debt

Total public debt[1] at the end of June 2021 stood at $2.1 billion or 71.4 percent of estimated GDP. This increase in the debt to GDP ratio can be attributed to the lower projected growth as well as new loan disbursements from multilateral and bilateral partners, including to help respond to the COVID-19 crisis.

5.5 Monetary and Financial Sector Developments

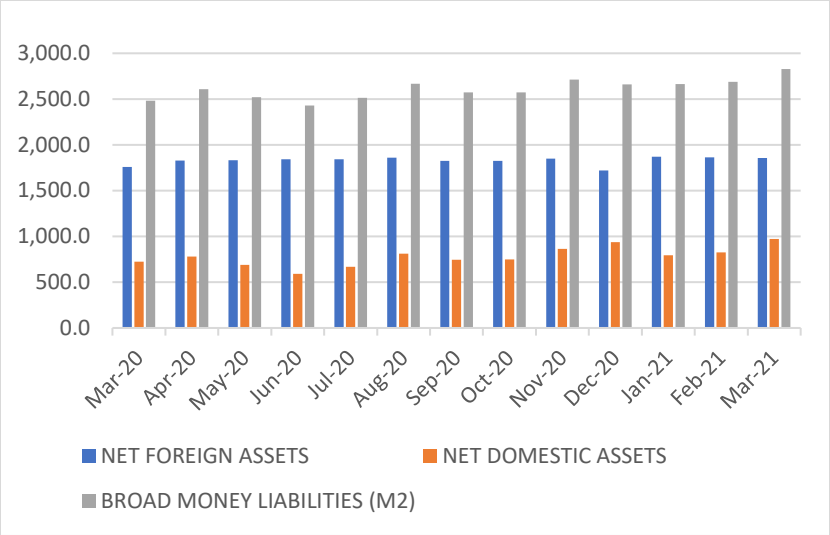
The Monetary and Financial System analysed through Banks and Non-Bank Financial Institutions, continue to see improvements in its assets. Despite financial pressures due to the onset of the COVID-19 pandemic, deposits continue to increase at a faster rate than that of loans- which further increases the already-high liquidity in the monetary sector. Overall, the monetary sector remains stable, with improvements in domestic credit over the period and non-performing loans remaining below the prudential benchmark.

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

5.5.1 Overview of the Monetary and Financial Sector

The Monetary and Financial Sector at the end of the third month of 2021[2] showed significant improvements. This was illustrated by the 14 percent overall growth of the monetary base from March 2020.

Figure 14: Monetary Survey Analysis of Money Aggregates



Source: ECCB

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

Net foreign assets increased by 5.0 percent, largely attributed to increased foreign assets held at the Eastern Caribbean Central Bank (ECCB) (imputed reserves).

Supporting these activities are the *sources of financing (Liabilities)*, the stock of Broad Money (M2). Monetary liabilities have been chiefly driven by improvements in foreign currency deposits or quasi-money of 40.0 percent, narrow money 32.0 percent and other deposits in national currency (28.0 percent).

Banks continued to be very liquid, with a ratio of total non-interbank loans/total non-interbank deposits greater than 50.0 percent. The stock of money continued to grow at a rate greater than net domestic assets and net foreign assets. Notwithstanding the high liquidity levels, there was a slight decline in liquidity of 3.0 percentage points from March 2020 to March 2021.

[2] Latest period for which data are available.

5.5.2 Detailed Analysis of Monetary Survey

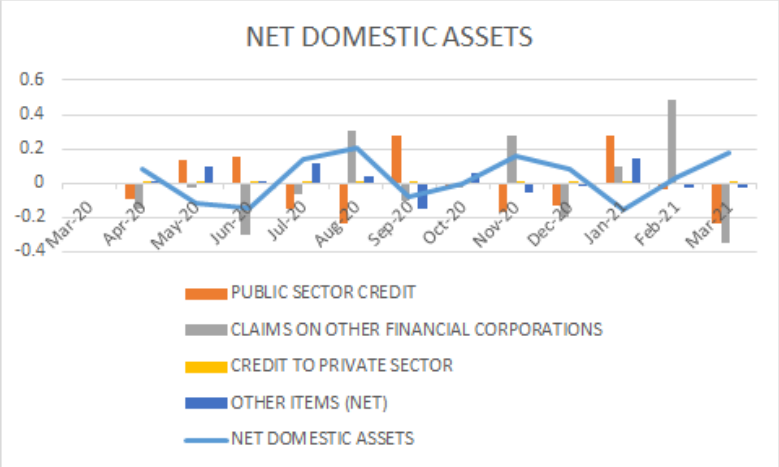
5.5.2.1 Assets

Net Foreign Assets (NFA)

At the end of March 2021, the NFA position had moderate improvements of $100.3 million. This growth was primarily driven by increases in the ECCB's (imputed reserve) of $88.2 million and an increase of 8.0 percent in Other Depository Corporations (Commercial Banks).

Net Domestic Assets (NDA)

Figure 15: Net Domestic Assets



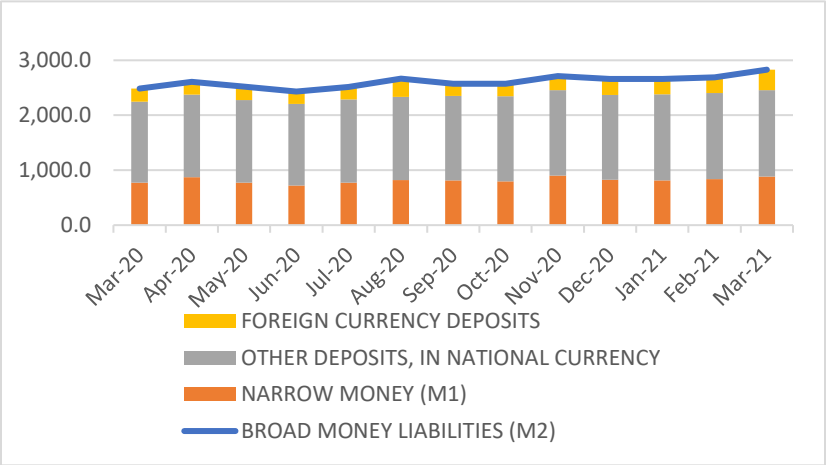
Source: ECCB

Despite the dampening effects of the COVID-19 pandemic, net domestic assets at the end of March 2021 showed considerable growth. Net domestic assets recorded a $250.1 million increase, equivalent to a 35.0 percent improvement compared to March 2020. Economic activities have been ramped up by expansionary fiscal policies geared towards the stabilization of the economy. This was evidenced by an increase in public sector credit of $218.4 million, which accounted for 87 percent of net domestic assets. Private sector activities, though slow, showed signs of improvement. At the end of March 2021, private sector credit rose by 5.0 percent- driven by a 4.0 percent uptick in commercial loans for construction and land development, and real estate over the period.

5.5.2.2 Liabilities

Monetary liabilities improved by 14.0 percent at the end of March 2021 compared to the same period in 2020. Quasi money, which includes Other Deposits in National Currency and Foreign Currency Deposits continued to dominate the stock of liabilities and registered: a 7.0 percent increase in Other Deposits, in National Currency and a 59.0 percent increase in Foreign Currency Deposits- moving the stock of Quasi Money from $1.7 billion at the end of March 2020 to $1.94 billion at the end of March 2021. This increase was influenced by the improvement in Private Sector Savings Deposits, Public Non-Financial Corporations and Private Sector Foreign Currency Deposits.

Figure 16: Disaggregation of Monetary Liabilities

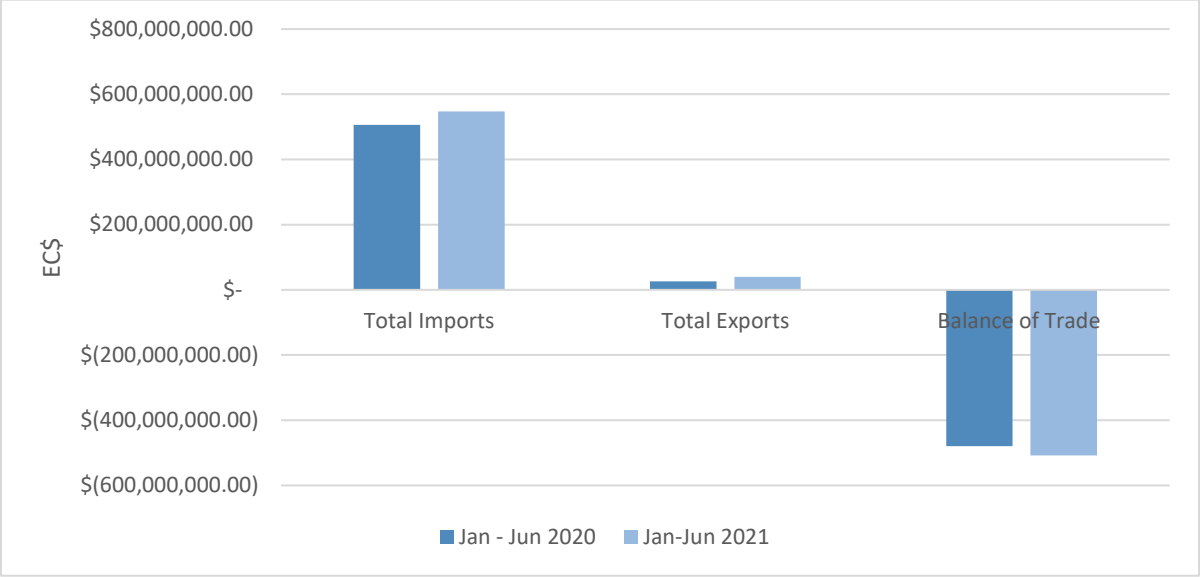


Source: ECCB

There was no improvement, however, in Private Sector Time Deposits as is evident from its 12.0 percent decline between the aforementioned periods. Narrow money though occupying a smaller share of monetary liabilities continued to grow steadily from $771.4 million in March 2020 to $883.4 million in March 2021. Not forgetting the contribution of the growth in EC Dollar Cheques and Drafts issued (increased by 100.0 percent) and Private Sector demand deposits which were major contributors to the growth of the money supply within the period.

5.6 External Sector Developments

Figure 17: Balance of Trade (EC$)



Source: CSO

The merchandise trade deficit worsened by 5.8 percent, moving from -$480.0 million at the end of the second quarter of 2020, to -$507.9 million at the end of the second quarter of 2021 (Figure 17). The deterioration in the trade deficit was the result of the increase in total imports by 8.2 percent, which increased in value from $506.0 million (Jan-Jun 2020) to $547.5 million (Jan-Jun 2021). Despite this increase in the total imports at the end of June 2021, total exports increased significantly by 52.5 percent. However, this increase was not significant enough to improve Grenada's Trade Balance, which continues to deteriorate year after year. Although there has been an increase in the manufacturing of local products, seldom do these local companies export their merchandise. The COVID-19 pandemic continues to affect international trade in 2021, but improvements are expected for the near future.

Table 5: Domestic Imports (est.)

CODE	SITC SECTIONS	Jan-Jun 2020	Jan-Jun 2021	Percentage Change
O	FOOD	111,233.9	105,549.5	-5.1
1	BEVERAGES & TOBACCO	15,322.4	12,555.3	-18.1
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	13,949.7	19,164.8	37.4
3	MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	81,696.2	86,891.2	6.4
4	ANIMALS & VEGETABLE OILS, FATS & WAXES	1,881.2	2,688.5	42.9
5	CHEMICALS & RELATED PRODUCTS, N.E.S	46,280.5	50,146.2	8.4
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	78,893.0	91,568.2	16.1
7	MACHINERY & TRANSPORT EQUIPMENT	102,270.5	111,629.9	9.2
8	MISCELLANEOUS MANUFACTURED ARTICLES	54,447.6	67,353.6	23.7
9	COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC	3.4	1.2	-64.7
	TOTAL	**505,978.4**	**547,548.4**	**8.2**

Source: CSO

Examination of domestic imports at the end of quarter two 2021 showed that the increase in imports was largely attributable to the increases in the importation of Animal & Vegetable Oils, Fats & Waxes by 42.9 percent; Crude Materials, Inedible, Except Fuels by 37.4 percent; Miscellaneous Manufactured Articles by 23.7 percent and manufactured goods by 16.1 percent. (Table 5). On the other hand, the importation of Commodities and Transactions was -64.7 percent less at the end of June 2021 compared to end June 2020. The importation of Beverages and Tobacco and Food items also decreased by -18.1 and -5.1 percent respectively in the period mentioned above. Despite the interruption in international trade which caused delays in the arrival of shipments, the importation of goods still increased and is expected to continue increasing at the end of 2021 compared to 2020.

Domestic exports increased by 65.5 percent, re-exports declined by 32.5 percent, and this led to an overall increase in total exports of 52.5 percent at the end of June 2021. The increase in total exports at the end of quarter two was mainly contributed by the 137.4 percent increase in exports of machinery & transport equipment (mostly scrap metal), 113.3 percent in Beverages & Tobacco, and the 73.6 percent increase in the exportation of Food. On the downside, the export of

Commodities & Transactions declined by 100 percent, Miscellaneous Manufactured Articles by 57.6 and Chemicals & Related Products by 20.8 percent (Table 6).

Table 6: Domestic Exports (Est)

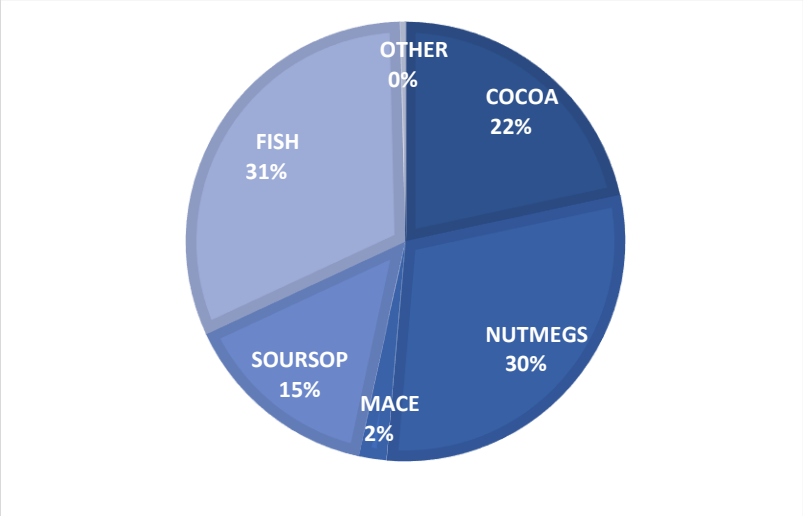
Source: CSO

CODE	SITC SECTIONS	Jan-Jun 2020	Jan-Jun 2021	Percentage Change
O	FOOD	14,768.8	25,645.1	73.6
1	BEVERAGES & TOBACCO	2,877.2	6,138.2	113.3
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	147.4	149.5	1.4
3	MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	0.0	0.0	0.0
4	ANIMALS & VEGETABLE OILS, FATS & WAXES	0.0	0.0	0.0
5	CHEMICALS & RELATED PRODUCTS, N.E.S	1,590.4	1,259.5	-20.8
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	2,593.0	3,104.5	19.7
7	MACHINERY & TRANSPORT EQUIPMENT	396.5	941.4	137.4
8	MISCELLANEOUS MANUFACTURED ARTICLES	166.8	70.7	-57.6
9	COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC	0.2	0.0	-100.0
	TOTAL	**22,540.3**	**37,308.9**	**65.5**

Agricultural exports increased by 76.3 percent at the end of Quarter 2 2021, compared to the same period in 2020, and represented 57.1 percent of total domestic exports. This increase in agricultural exports was contributed mainly by soursop exports, which grew by 181.3 percent, nutmegs by

127.4 percent, other products by 123.4 and fish by 38.2 percent. The significant increases in the exportation of fish, nutmegs, cocoa, and soursop (which represented 31, 30, 22 & 15 percent respectively of total agricultural exports), depict the growth in the agricultural sector at the end of June 2021 (Figure 18). The soursop market has been improving conspicuously as persons are becoming more conscious of the health benefits of this crop as they seek ways to improve their welfare. Several soursop farmers are capitalising on this new venture, and it is expected that this will continue for the rest of the year and beyond. Sea moss is also another popular agricultural crop that is gaining recognition as a health product. The anticipation is that sea moss' economic contribution would increase with the growing numbers of sea moss farmers across the island of Grenada.

Figure 18: Share of Agricultural Exports (Jan-Jun 2021)

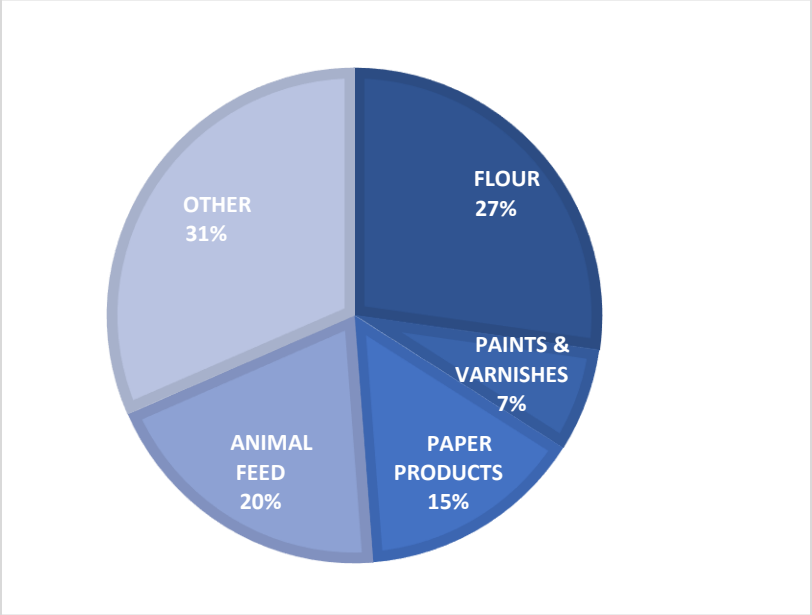


Source: CSO

Manufactured exports increased by 53.0 percent at the end of June 2021, compared to the end of June 2020, and represented 42.9 percent of total domestic exports. The increase in manufactured exports was driven by the increases in the exportation of animal feed by 73.0 percent, Flour by 17.7 percent and paints and varnishes by 14.1 percent. Clothing exports, however, decreased by 72.3 percent at the end of quarter two 2021 and nutmeg products also declined by 31.6. Flour

contributed 27.2 percent, paper products 14.8, and animal feed by 19.6 percent of total manufactured exports for the period Jan-Jun 2021 (Figure 19). Although the increase in manufactured products is not as impactful as that of agricultural products, it is still important to note this slight improvement as the economy recovers from the effects of COVID-19.

Figure 19: Share of Manufactured Exports (Jan-Jun 2021)



Source: CSO

6 Economic Outlook

The pace of Grenada's economic recovery is largely hinged on global recovery and the rate at which these positive impacts filter down through the local economy. Most notably, improved conditions in the United States, should positively influence trade of both goods and services as the United States is one of Grenada's main trading partners. The resumption of face-to-face classes at the SGU is a welcomed development that would not only impact private education but spill over into other sectors such as real estate activities, agriculture and wholesale & retail trade. Activity in the tourism sector is also projected to pick up over the medium-term with vaccination rollouts, especially in advanced economies. However, the low rate of vaccination locally could further delay recovery. Although vaccine access has been cited as a reason for the low rate of vaccination in developing countries, this has not been an issue in Grenada. By contrast, vaccine hesitancy among certain sectors of the population has slowed the rate of vaccination, with some expressing concern about the safety of the available vaccine. An alternative approach to public relations and/or offering a choice of vaccines may be needed to alleviate this issue. Moreover, the rising cost of food and fuel globally could impact local consumption and investment. Increased cost of living has the potential to negatively impact all sectors, especially the wholesale and retail trade, tourism, construction (more so residential construction) and real estate sectors which are key in achieving the 4.0 percent growth projected for the medium term. Notwithstanding, measures implemented by the Government, including a second economic support programme and improved implementation of the Public Sector Investment Programme (PSIP) should further stimulate the economy and increase investor confidence. Public sector projects continue, including, schools' construction/upgrades, low-income housing projects in several parishes, as well as road, drains and bridge construction and repairs. Major private sector projects are also ongoing, including the Six Senses Resort, SGU Expansion and the Beach House by Silver Sands.

Inflation is expected to strengthen over the medium term with forecasted increases in Grenada's top imports, namely food and fuel, as international price increases penetrate the local economy. Additionally, trade disruptions and demand and supply mismatches could impact the cost of trade over the medium term and further influence prices. Inflation is projected to average 2.2 percent for the period 2022-2024.

Fiscal performance is projected to further improve in the short-to-medium term though not at pre-COVID levels. The Primary balance and Overall balance are projected to average 5.3 percent and 3.4 percent of projected GDP respectively over the medium term.

6.1 Risks to the Economic Outlook

A mix of upside and downside risks remain to the outlook but are more tilted to the downside. On the upside, further improvements in the fiscal position through enhanced revenue mobilization can boost public investment and spur job creation and growth. Downside risks relate primarily to the COVID-19 pandemic and its prolonged effects on the global economy. A protracted health crisis can adversely affect tourist arrivals, remittances and foreign direct investment. The recovery path also depends on the pace of vaccination and a rebound of economic activities in the private and public sector. Vaccine hesitancy remains a hurdle to a return to normalization and a premature full reopening of borders and relaxation or removal of protocols pose the threat of a domestic outbreak and second wave of the COVID-19. Meanwhile, rising international oil and food prices are meaningful risks to the outlook through inflationary pressures. Grenada's high vulnerability to natural disasters is an inherent risk and its susceptibility to the adverse effects of climate change can retard agricultural production. Projections for the medium term were done based on projected GDP and inflation rate. Table 8 shows more details on the assumptions used for the medium-term projections.

Table 8: Medium Term Assumptions

CATEGORIES	2022	2023	2024
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected GDP except for Import Duty and Customs Service Charge. Import duty and Customs Service Charge use an average of the value of imports over the 11-year period 2009-2019.	All categories of tax and non-tax revenue are assumed to grow in line with projected GDP.	
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	Adjustment was made for the agreed 4 percent salary increase.	Inflation of the previous year was used to project employee compensation pending the salary agreement for the new negotiating cycle.	
Social contributions to employees			
Goods & Services	Categories under this item are adjusted for inflation		
Current transfers	Inflation of the previous year was used to project for each category with the exception of transfers abroad and pension. Transfers abroad reflect contractual agreements and pension values are adjusted by the 4 percent salary increase.	Inflation of the previous year was used to project for each category with the exception of transfers abroad. Transfers abroad reflect conditions as per ontractual agreements.	
Interest payment	External and domestic interest payments reflect the conditions stated in the contractual agreement.		
Grants			
Budgetary	Budgetary grants are equal to the expected inflow from donor agencies		
Capital	Capital Grants will be fully covered		
Capital expenditure & net lending			
Grant financed	Assumed to grow in line with inflation.		
Non Grant financed			

Source: Ministry of Finance