

GRENADA

2022 MID-YEAR REVIEW REPORT



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Contents

Figures and Tables	3
1 Overview	4
2 International Developments	4
3 Regional Developments	5
4 2022 Mid-Year Economic Review and Estimated 2022 Performance	6
4.1 Real Sector	6
4.1.1 Agriculture & Fishing	7
4.1.2 Construction	9
4.1.3 Tourism	10
4.1.4 Transport and Storage	12
4.1.5 Wholesale and Retail Trade	12
4.1.6 Manufacturing	13
4.1.7 Private Education	14
4.1.8 Inflation	15
4.2 Unemployment	16
4.3 Fiscal Sector	17
4.4 Public Debt	20
4.5 Monetary Sector Developments	20
4.5.1 Overview of the Monetary and Financial Sector	21
4.5.2 Detailed Analysis of Monetary Survey	21
4.6 External Sector Developments	23
5 Economic Outlook	27
5.1 Risks to the Economic Outlook	28
6 Opinion of the Cabinet pursuant to Section 25 (2) & (3) of the PFMA:.....	31

Figures and Tables

Figure 1: Real GDP Growth Rates – Major International Trading Partners	5
Figure 2: Real GDP Rates (Grenada, ECCU and CARICOM)	6
Figure 3: Production in Agriculture and Fishing	8
Figure 4: Construction and Mining Indicators	9
Figure 5: First Half Monthly Stayover Arrivals (2021 vs 2022)	11
Figure 6: Passenger and Cargo Movements	12
Figure 7: Retail Sales	13
Figure 8: Industrial Production	14
Figure 9: Consumer Price Index (half year average)	15
Figure 10: Consumer Price Index (End-of- period Year on Year)	16
Figure 11: Unemployment Rate	16
Figure 12: Primary Balance and Overall Balance after grants 2022 vs 2021 (Jan-Jun)	17
Figure 13: Monetary Survey Analysis of Money Aggregates	21
Figure 14: Net Domestic Assets	22
Figure 15: Disaggregation of Monetary Liabilities	22
Figure 16: Balance of Trade (EC\$)	23
Figure 17: Share of Agricultural Exports (Jan-Mar 2022)	26
Figure 18: Share of Manufactured Exports (Jan-Mar 2022)	26
Table 1: Visitor Arrivals	10
Table 2: Total Revenue and Grants 2021 vs 2022 (Jan-Jun)	18
Table 3: Total Expenditure 2021 vs 2022 (Jan-Jun)	18
Table 4: Grenada Fiscal Projections	19
Table 5: Domestic Imports (est.)	24
Table 6: Domestic Exports (est)	25
Table 7: Medium Term Assumptions	30

1 Overview

Grenada's economy continues to recover from the acute 13.8 percent decline in GDP experienced in 2020 because of the COVID-19 pandemic. Real output expanded by 4.7 percent in 2021 driven by recoveries in the tourism, construction, agriculture, and fishing sectors. This recovery is forecasted to persist in 2022 and real GDP growth is expected to be 3.3 percent at the end of this year. Visitor arrivals increased during the first half of the year and growth was also evident in the construction and wholesale and retail trade sectors. Public finances continue to bolster in 2022 with revenue collections for the first six months exceeding the target and the comparable period of 2021 by \$62.2 million and \$67.4 million respectively. A primary surplus including grants of \$58.2 million is estimated for 2022, surpassing the budgeted deficit of \$34.2 million while a modest overall deficit of \$1.6 million is estimated at the end of this year compared to a budgeted deficit of \$97.9 million.

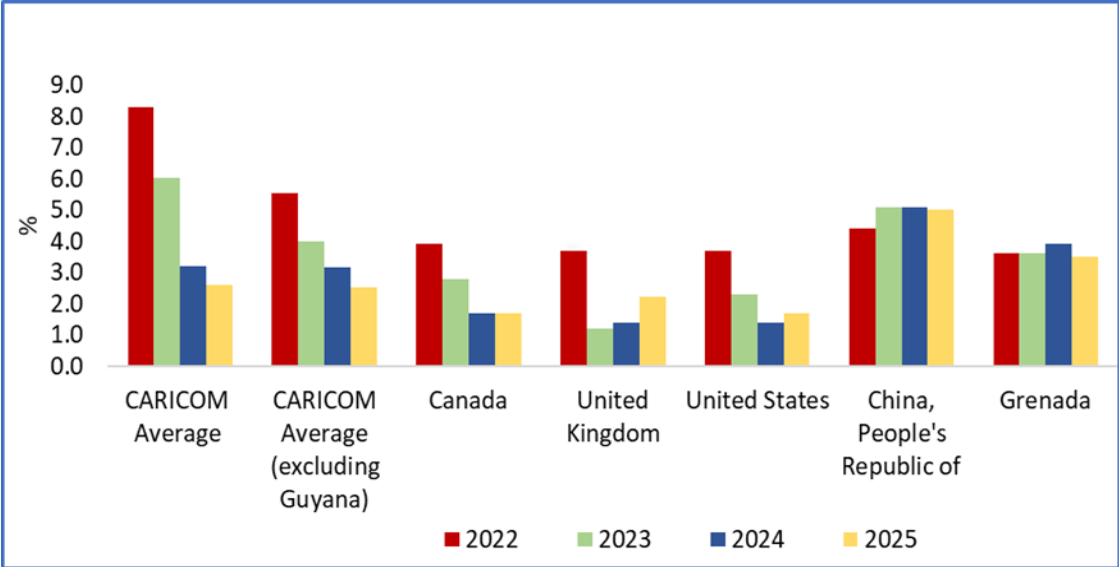
2 International Developments

According to the International Monetary Fund (IMF) July 2022 update of its World Economic Outlook (WEO), the global economy faces an acute economic slowdown and downside risks. In the IMF's baseline scenario, global growth decelerates from 6.1 percent in 2021 to an estimated 3.2 percent in 2022 and 2.9 percent in 2023, then picking up in 2024 and 2025 averaging 3.4 percent over those two years.

Growth in Grenada's major source markets for goods and services is projected to moderate over the medium term. In the United States, the largest source market for Grenada's tourists, growth is projected to slow down from 3.7 percent in 2022 to 1.7 percent in 2025. In the United Kingdom, the second largest source market for tourists, growth is projected to be tepid over the medium term, averaging 1.6 percent in 2023-2025. In Canada, the medium-term average growth is a modest 2.1 percent. In China, a major source market for manufactured goods, growth is projected to average 5.1 percent, a marked deceleration relative to pre-pandemic growth rates.

Several factors are affecting the pace of global economic recovery and pose significant downside risks to the global outlook, including the ongoing war in Ukraine that could lead to cessation of European imports of gas; higher than anticipated inflation that can be difficult to curtail; further tightening of financial conditions that can create debt distress in developing and emerging economies; new COVID-19 variants and lockdowns especially in China which is a global export hub; and geopolitical tensions that can adversely affect global trade.

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



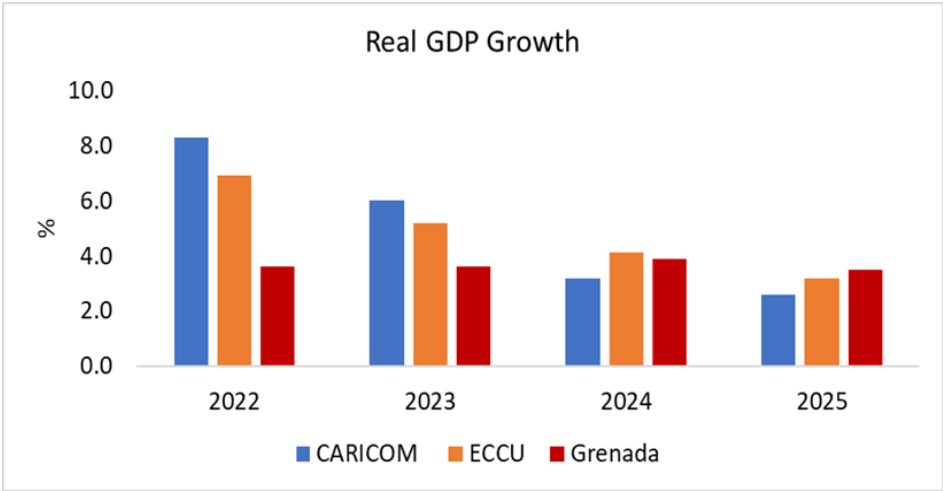
Source: IMF’s World Economic Outlook, July 2022

3 Regional Developments

Reeling on the heels of the severe decline in real output recorded by all the member states of the Eastern Caribbean Currency Union (ECCU) in 2020, the regional block recovered in 2021 with growth averaging 3.5 percent. St. Lucia and Antigua and Barbuda experienced the largest expansions of 6.8 percent and 4.8 percent of GDP respectively. Economic activities rebounded in all territories driven by the uptick in the tourism sector as visitors returned to the region and inter-regional travel advanced. Growth is forecasted to be 6.9 percent on average in 2022 for the ECCU sub-region. St. Kitts and Nevis and St. Lucia project the highest growths of 10.0 percent and 9.6 percent respectively. Over the medium-term, real output is expected to decelerate and average 4.2 percent. In the wider

CARICOM region, average growth is projected to be 8.3 percent in 2022 led by robust growth in Guyana of 47.0 percent and Barbados of 11.2 percent. Excluding Guyana, growth is anticipated to be 5.5 percent driven by Barbados (11.2 percent) and St. Kitts and Nevis (10.0 percent). Growth within CARICOM is expected to temper and average 3.9 percent over the medium-term.

Figure 2: Real GDP Rates (Grenada, ECCU and CARICOM)



Source: Ministry of Finance, ECCB

4 2022 Mid-Year Economic Review and Estimated 2022 Performance

4.1 Real Sector

The Grenadian economy thus far in 2022 looks more promising in contrast to 2021, despite the lingering effects of the COVID-19 pandemic. Preliminary data indicates that growth in 2022 will be 3.3 percent. Nevertheless, challenges affecting the global economy continue to spill over into Grenada, impacting various sectors. The Ukraine-Russian war poses further risk to the economy. Supply Chain disruptions, high freight costs, increased costs of raw materials, the elevated cost of food, and limited airlifts are some of the main impediments that pose serious threats to growth. Recent fiscal measures implemented by the Government has had a positive effect on businesses and improved business operations (based on the views of business owners who participated in the Ministry of Finance’s sectoral consultations in May 2022). However, more assistance is needed to help cushion the

inflationary pressures being experienced. Despite these challenges, the 2022 outlook is positive as many sectors are expecting growth. The increased activity within the construction sector is expected to have broad-based positive spin-offs, impacting the finance sector, manufacturing, wholesale and retail trade, and other sectors. It is anticipated that the tourism sector would continue to improve in 2022 as COVID-19 protocols are being relaxed globally and people are starting to travel again. However, there is uncertainty around the Monkeypox virus, which poses a serious threat to the outlook.

4.1.1 Agriculture & Fishing

Preliminary data for the first quarter¹ of 2022 points to declines in the production of most agricultural products compared to 2021 (Figure 3). Banana production at the end of March 2022 was 19.8 percent lower than in March 2021, while cocoa production also declined in the same period by 57.0 percent. Poor weather conditions and the infestation of rodents were the main contributors to the decline in cocoa production. In addition, the increased price of fertilizers and other inputs also affected the production of cocoa. Notwithstanding, cocoa production is expected to increase in the second quarter of 2022 compared to the first quarter.

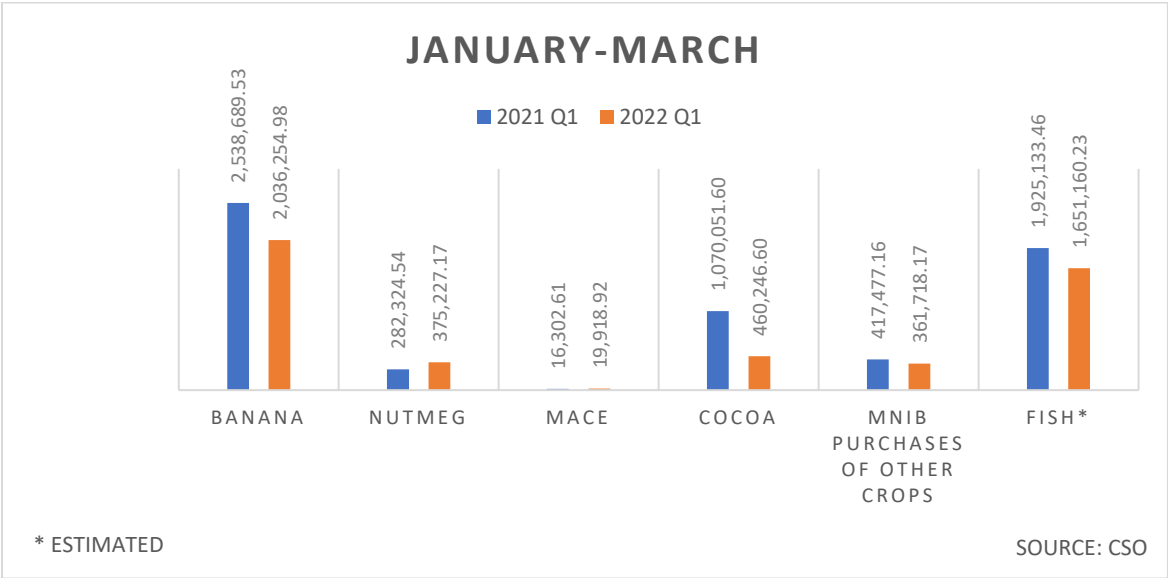
Additionally, the Marketing and National Importing Board's (MNIB) purchases of other crops such as fresh fruits, vegetables, and root crops declined by 13.4 percent. This decline is reportedly due to low production caused by limited or low access to water (little to no rain). However, it is expected that the rainy season will boost the production of these crops during the second and third quarters of 2022. There was also an upward adjustment in the price of produce, which is determined by the farmers. This prompted the MNIB to decrease the number of crops purchased from farmers.

Conversely, there was an increase in the production of nutmeg and mace at the end of Q1 2022 by 32.9 and 22.2 percent respectively. Despite this growth, nutmeg and mace production is severely impacted by limited roads to access the crops. Farmers are unable to produce at a higher capacity because they don't have proper access to nutmeg farms. Better access roads will further boost activity within this sector as the Government continues to roll out the Farm Roads project.

¹ Latest period for which data is available

On the export side, the quantity of nutmeg and mace exports increased by 3.2 and 150.0 percent respectively at the end of March 2022 compared to 2021. There is high demand for these commodities on the international market, however, limited supply severely affects the ability to meet demand in those markets and new markets. Cocoa exports increased by 27.0 percent during the period and will increase further for the rest of the year.

Figure 3: Production in Agriculture and Fishing



In the fishing sector, several challenges persist. Data for the first quarter of 2022 is estimated based on historical data and shows a decline of 14.2 percent in fish production for Q1 2022 compared to Q1 2021. The lack of fishing data remains an issue which needs to be rectified. Accurate data is needed so that the true state of the fishing sector could be ascertained, and proper policies can be put in place to address deficiencies.

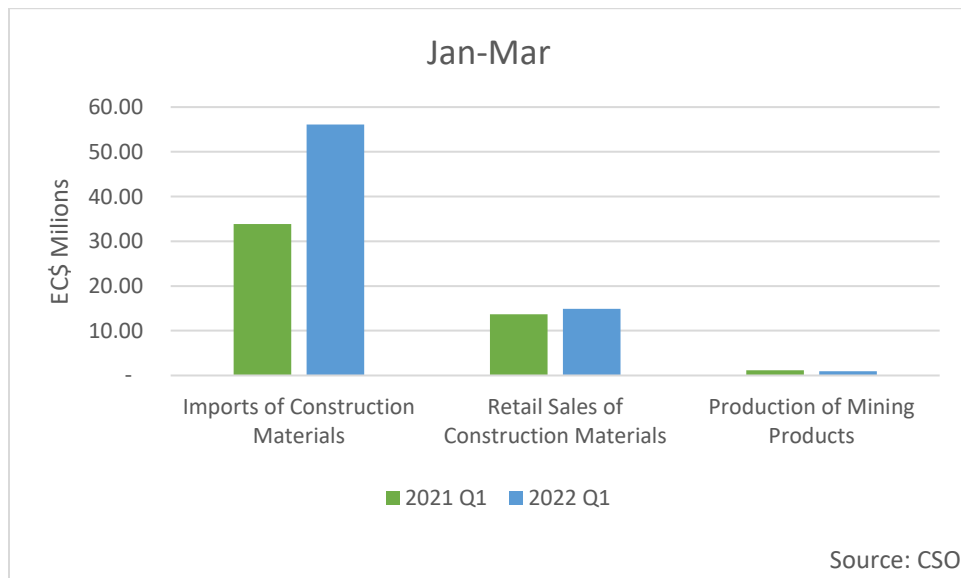
On the export side, the price of fish, packaging, and freight have all increased on the international market. Limited availability of airlift remains a major issue impacting the fishing sector in 2022, and fishing vessels are opting to land in other territories such as Trinidad and Tobago. The lack of airlift is expected to decrease fish exports this year. Inferiority in the quality of fish also affects this sector in the export market as fishing methods do not meet international standards. The low standards in fish catch and production could negatively affect the fishing industry of Grenada as a whole. More training

is required to ensure that fish production conforms to international standards. Growth in this sector is heavily dependent on adequate and proper fish production and increased airlift.

4.1.2 Construction

Preliminary data suggest that the value of construction-related imports, the main indicator used to measure activity in the construction sector, grew by 65.5 percent in Quarter 1 2022 compared to the same period in 2021. There was also growth in the retail sales of construction materials by 8.7 percent. This growth reflects the current boom in construction activities around the island. These activities include both private and public sector projects, such as the St. John’s River, the construction of the Grenville market, the Maurice Bishop International Airport rehabilitation project, and byroads. Growth in this sector is expected to progress throughout 2022, however, challenges in the global economy can transmit to the local economy and negatively affect the sector. Scarcity of materials, delays, price increases of construction materials and freight costs, are all issues that can determine sectoral growth. Foreign competition and shortages of skilled labour are other challenges that pose a threat to local construction companies. Nevertheless, growth is estimated at the end of 2022 as various private and public sector projects progress. The medium-term outlook, however, remains challenging amidst inflationary pressures and supply chain disruptions.

Figure 4: Construction and Mining Indicators



4.1.3 Tourism

The tourism sector is steadily recovering from the effects of the Covid-19 pandemic. The recorded growth for the first half of the year is expected to continue for the rest of the year. At the end of June 2022, stayover arrivals increased by 468.4 percent (Table 1) compared to the end of June 2021, which recorded historically low arrivals. The United States was the largest source market from which 34,300 visitors arrived, followed by 11,645 arriving from the United Kingdom. The increase in total stayover arrivals is due to the relaxation of the Covid-19 protocols globally and the resumption of international travel on a larger scale compared to the previous year. Events such as the West Indies vs England Cricket Match contributed to the increase in tourist arrivals in March 2022. The anticipated uptick in growth for the second half of 2022 will be attributable to the Carnival events and the Christmas Season. There is significant growth in the cruise sector because of the recommencement of the cruise ship season in December 2021. Total cruise passenger arrivals for the first half of 2022 were 100 percent greater than the first half of 2021 as the season was closed during that time. There were 122 cruise ship calls during the first half of 2022, carrying 107,937 passengers as seen in Table 1. A substantial amount of these passengers came from cruise ships such as the P&O Cruises (UK) Ltd., Princess Cruises and Royal Caribbean International.

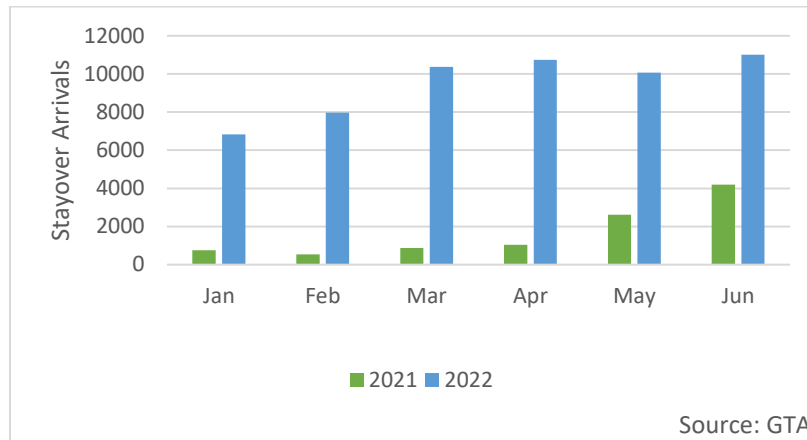
Table 1: Visitor Arrivals

Visitor Arrivals	Jan - Jun-2021	Jan - Jun-2022	% Change
United States	8,026	34,300	327.4
Europe	220	1,514	588.2
United Kingdom	390	11,645	2885.9
Canada	234	2,572	999.1
Caribbean	705	5,525	683.7
Other	446	1,403	214.6
Total Stayover Arrivals	10,027	56,991	468.4
Cruise Passengers	-	107,937	100.0

Source: GTA

Monthly comparison of stayover arrivals reveals that the largest number of stayover arrivals was recorded in June (11,013) (Figure 5). On average, quarter 2 2022 recorded a high influx of visitors (10,608) compared to quarter 1 2022 (8,389).

Figure 5: First Half Monthly Stayover Arrivals (2021 vs 2022)



Notwithstanding the relatively strong first half performance, the sector is yet to reach pre-pandemic levels and challenges are still being experienced by various hotels, restaurants, and other tourism-related businesses. Many hotels have resumed operations; however, most are operating at low occupancy levels. Many of these tourism-related businesses have benefited from the Government’s economic support programme in 2020 and continue to benefit from the programme. However, while some larger hotels are performing better than smaller ones, profit margins of many hotels are marginal, and some are only breaking even. Many small hotels have been engaging in different promotional deals to bring in much needed revenue to keep them afloat. Still, the income generated from these is minimal and does not have a profound impact on these organizations.

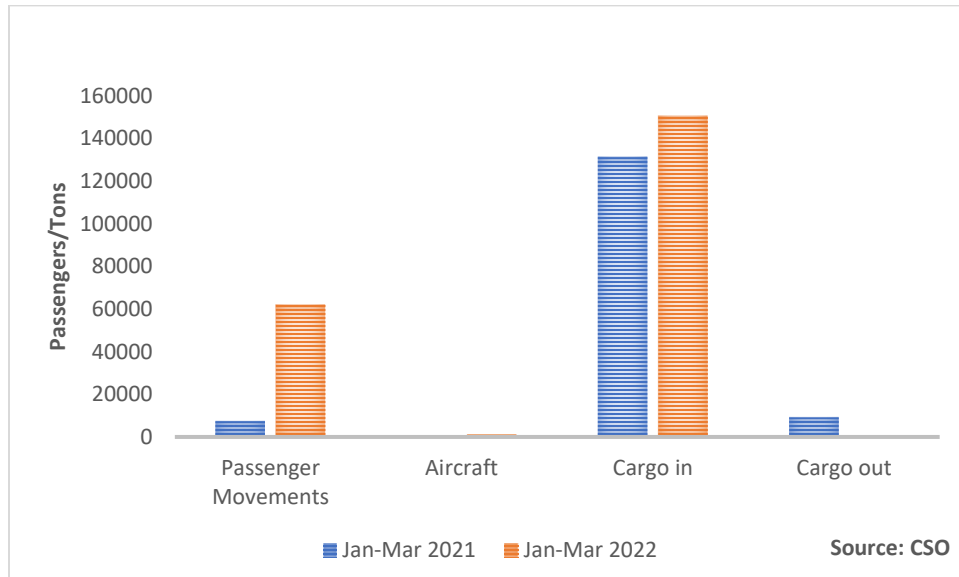
Notwithstanding, considerable efforts are being made to bring this sector back to pre-pandemic levels. Several airlines have resumed flights to Grenada, and more are expected to do so during the second half of this year. Additionally, extensive marketing campaigns are being undertaken by the Grenada Tourism Authority.

The cruise sector is expected to grow as efforts are being made to negotiate Grenada’s suitability as a home port for small cruise lines and cruise passengers’ appetite for travel reignite. Despite this promising near-term outlook, over the medium term, the sector will face challenges such as increased travel costs induced by inflation and shortages of airline workers globally. Additionally, the new development with the Monkeypox virus can again affect international travel amidst growing health concerns.

4.1.4 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 7.5 percent was observed in overall cargo movements in the first quarter of 2022 compared to the same period in 2021. “Cargo in” grew by 14.6 percent to 150,327 tons whilst “cargo out” declined by 93.9 percent to 558 tons (Figure 6). This decline is consistent with the decrease in airlifts being experienced. Passenger movements increased by 732.0 percent at the end of March 2022 and aircraft movements increased by 71.0 percent during the period.

Figure 6: Passenger and Cargo Movements



4.1.5 Wholesale and Retail Trade

Preliminary data for the wholesale and retail trade sector indicates an overall increase for the January to March period of 2022 against the comparable period in 2021. Retail sales excluding building materials grew by 21.8 percent in the first quarter, consistent with the general uptick in economic activity. Sales of food items and auto businesses are some of the drivers contributing to this increase. Retail sales of building materials also grew during the first quarter of 2022 by 8.7 percent in correlation

with the upswing in construction activity (Figure 7). Regardless of this positive outlook, this sector is being affected by supply chain delays and rising freight costs, and inflation.

Figure 7: Retail Sales



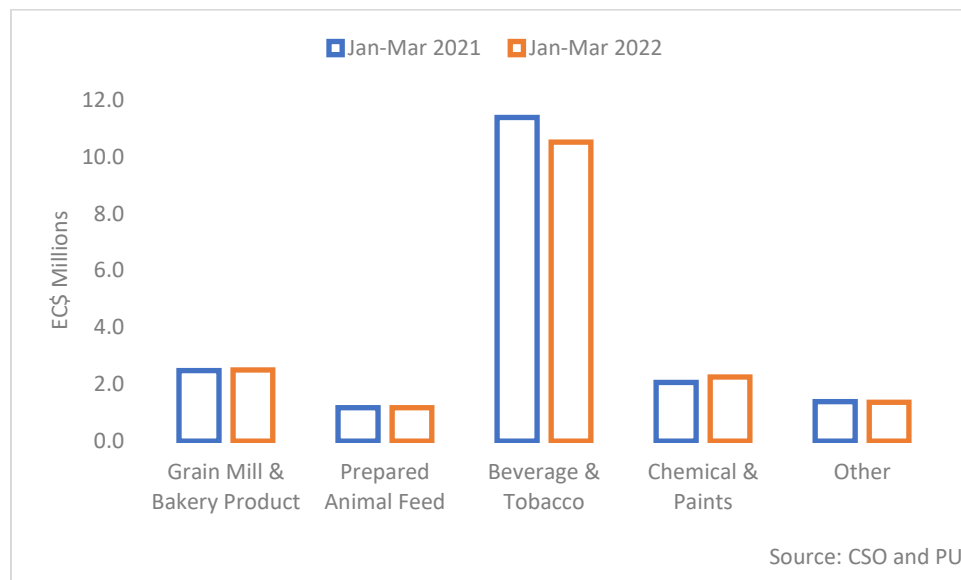
4.1.6 Manufacturing

An overall downturn in industrial production of 3.6 percent was realised at the end of March 2022 vs. 2021. The production of beverage & tobacco products was the major contributor to this overall decline. This commodity decreased by 7.6 percent at the end of March 2022. However, overall growth for beverage production is expected at the end of 2022, due to anticipated Carnival activities. So far, the production of beers and related products surpassed pre-COVID-19 levels. But increased production costs negatively affect output. Other industrial products declined by 1.0 percent. There was a 9.3 percent improvement in the production of chemicals and paints at the end of Quarter 1 2022 compared to 2021. This reflects the positive upturn in activities within the construction sector. The production of prepared animal feed grew by 0.2 percent during the period under review, while grain mill & bakery products rose by 1.0 percent (Figure 8).

There was a higher demand for flour in the first quarter of 2022 despite the increase in prices in March 2022. On the export side, the non-implementation of Article 164 continues to affect exports. Article

164 is meant to give a slight advantage to products produced in the Lesser Developed Countries (LDCs) within the CARICOM. Without these special provisions, products, such as flour, that are produced in Grenada, cannot compete price-wise with products produced in More Developed Countries (MDCs) such as Trinidad and Jamaica with greater mills and large economies of scale. Growth in the production of flour for export purposes is also affected by high freight costs, increased oil prices, and the high cost of raw materials.

Figure 8: Industrial Production



4.1.7 Private Education

The St. George's University resumed face-to-face classes in August 2021. Since then, the University has recorded low enrolment figures. It is anticipated that low enrolment figures will be recorded for the fiscal year 2022/2023 compared to the fiscal year 2021/2020. To boost enrolment, more scholarships were offered to students. In addition, more courses in the Arts & Science Department would be offered in the medium term to attract a new niche market.

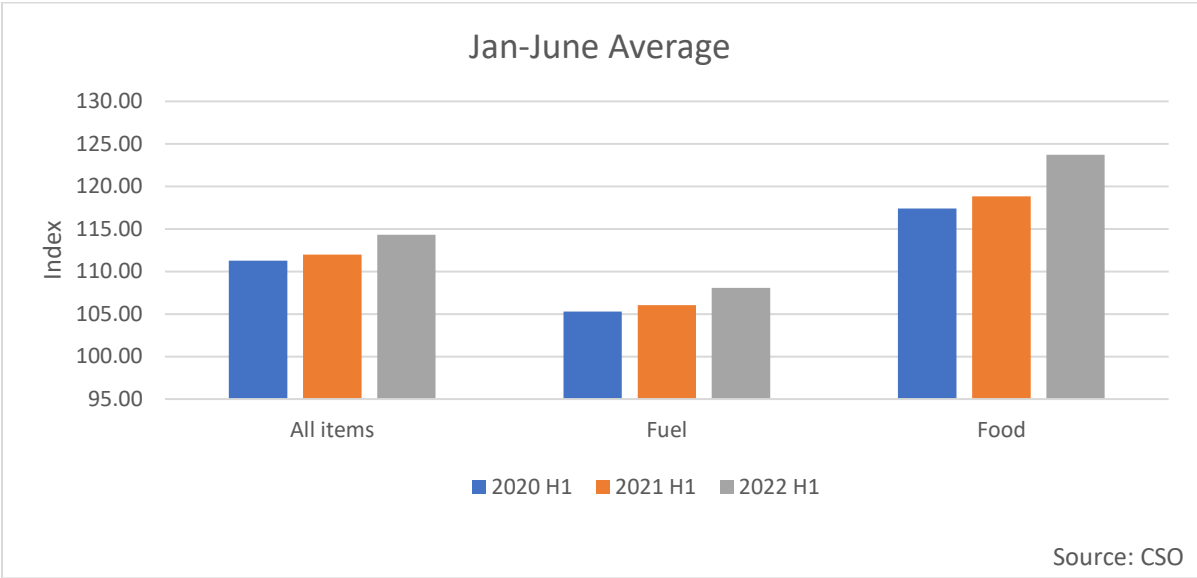
Because of the low enrolment figures for the 2022/2023 fiscal year, private education is projected to decline during the period 2022/2023. However, the University is optimistic that growth will be

recorded in the medium term and that it will record more typical enrolment figures for the fiscal year 2023/2024.

4.1.8 Inflation

The average consumer price index rose by 2.1 percent for all items for the period January to June 2022 in comparison to the same period in 2021. Consequently, average fuel prices increased by 1.9 percent, while food prices rose by 4.1 percent during the periods (Figure 9). Inflation in 2022 is driven by effects of the pandemic as the price of products increase on account of shortages. In addition, the Ukraine-Russian war has a negative effect on the global economy especially in the fuel/energy industry.

Figure 9: Consumer Price Index (half year average)



Year-on-year, the price of food increased by 5.7 percent at the end of June 2022 compared to end of June 2021. Fuel prices increased by 2.1 percent and all items increased by 3.1 percent (Figure 10). High inflation is notable in Grenada’s major trade markets, especially in the United States. Inflation is expected to linger over the medium-term if supply-side challenges persist.

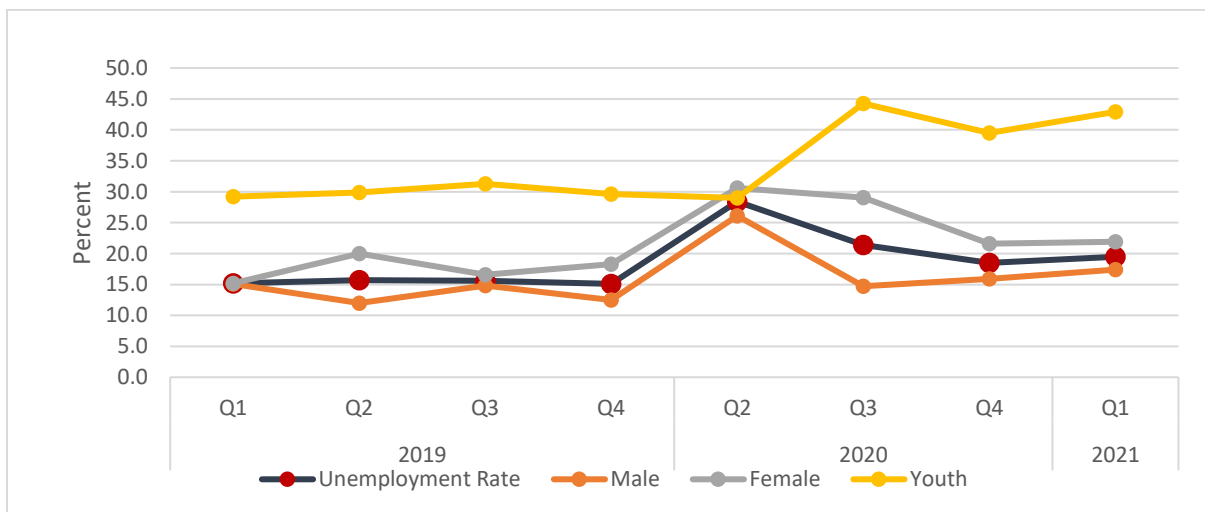
Figure 10: Consumer Price Index (End-of- period Year on Year)

CPI	Jun-21	Jun-22	Inflation (%)
Food	119.88	126.71	5.70
Fuel	106.54	108.81	2.12
Total	112.39	115.89	3.12

4.2 Unemployment

Updated unemployment statistics were unavailable for the review period due to the ongoing National Census, which is expected to be completed by year end. As of the end of the second quarter of 2021, the unemployment rate dropped to 16.6 percent from 28.4 percent at the end of the second quarter of 2020.

Figure 11: Unemployment Rate

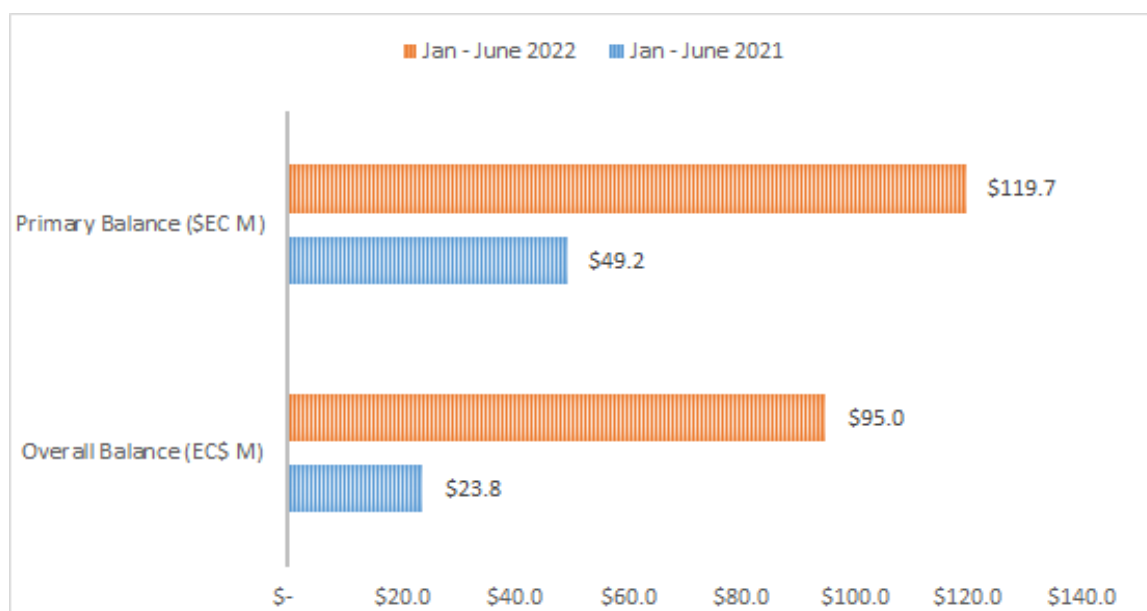


Source: CSO

4.3 Fiscal Sector

On balance, Grenada's fiscal position has strengthened despite the continued global impact of the COVID-19 pandemic, the War on Ukraine and Shipping and Logistics Issues. During the first half of 2022, the Primary and Overall balances including Grants were \$119.7 million and \$95.0 million respectively, which were more than the comparable period of 2021 by 143.3 percent and 299.2 percent respectively (Figure 12).

Figure 12: Primary Balance and Overall Balance after grants 2022 vs 2021 (Jan-Jun)



Source: Ministry of Finance

Total revenue and grants for the first half of 2022 amounted to \$575.6 million of which total revenue was \$424.2 million and total grants were \$151.4 million. Total revenue and grants were 34.1 percent more than that collected in the same period of 2021, primarily because of improved performances in tax revenue, non-tax revenue and total grants received. During the period, \$81m in Current Grants was received from S.G.U. Tax revenue was \$345.2 million or \$38.9 million more than 2021. All tax types recorded higher collections than in 2021 except for taxes on property that had a 4.6 percent decrease in collections. In contrast, taxes on domestic transactions were 31.6 percent more than the amount collected in 2021. Taxes on income and profit and international transactions were 5.7 percent and 10.3 percent respectively, more than the collections of 2021. (Table 2).

Table 2: Total Revenue and Grants 2021 vs 2022 (Jan-Jun)

	2021	2022	Variance	
	January - June		\$M	%
	\$M	\$M		
Total Revenue and Grants	429.1	575.6	146.5	34.1%
Total Revenue	357.5	424.2	66.7	18.7%
Tax Revenue	306.3	345.2	38.9	12.7%
Taxes on Income and Profit	65.0	68.7	3.7	5.7%
Taxes on Property	19.5	18.6	(0.9)	-4.6%
Taxes on Domestic Transactions	62.3	82.0	19.7	31.6%
Taxes on International Transactions	159.5	175.9	16.4	10.3%
Non-Tax Revenue	51.2	79.0	27.8	54.3%
Total Grants	71.6	151.4	79.8	111.5%

Source: Ministry of Finance

The total expenditure for the first half of 2022 was 18.6 percent more than the same period of 2021 driven by a 96.9 percent increase in capital spending as the Government continued its effort to bolster the Public Sector Investment Program (PSIP). Recurrent outlays decreased by 2.6 percent overall, with a significant decrease in goods and

Table 3: Total Expenditure 2021 vs 2022 (Jan-Jun)


	2021	2022	Variance	
	January - June		\$M	%
	\$M	\$M		
Total Expenditure	405.3	480.6	75.3	18.6%
Recurrent Expenditure	318.9	310.7	(8.2)	-2.6%
Employee Compensation	142.6	139.2	(3.4)	-2.4%
Personal Emoluments	134.7	131.1	(3.6)	-2.7%
Social Contributions	7.9	8.1	0.2	2.5%
Goods and Services	73.2	59.2	(14.0)	-19.1%
Interest Payments	25.3	24.7	(0.6)	-2.4%
Current Transfers	77.8	87.6	9.8	12.6%
Capital Expenditure	86.3	169.9	83.6	96.9%

Source: Ministry of Finance

services of 19.1 percent due to decreased spending in relation to Covid-19. Current transfers at the end of the period were 12.6 percent more than the amount spent in the corresponding period of 2021 (Table 3). Employee compensation decreased by 2.4 percent overall inclusive of 2.5 percent increase in social contributions, but a 2.7 percent decrease in personal emoluments. Interest payments decreased by 2.4 percent when compared to the first half of 2021.

Reflective of a beneficial performance of tax and non-tax revenue outturns during the first half of this year and a strong performance of capital expenditure, which is likely to persist for the remainder of the year, an overall deficit of \$1.6 million is estimated at the end of this year compared to a budgeted deficit of \$97.9 million. Likewise, a primary balance including grants of \$58.2 million is estimated, exceeding the budgeted deficit of \$34.2 million.

Table 4: Grenada Fiscal Projections

	2022			
	Estimated Outturn	Budget	Variance	
	EC\$M	EC\$M	EC\$M	%
Total Revenue & Grants	1008.5	897.6	110.9	12.4
Total Revenue	748.7	722.2	26.5	3.7
Tax Revenue	629.0	630.9	(1.9)	(0.3)
Taxes on Income	127.4	124.4	3.0	2.4
Taxes on Property	28.7	30.7	(1.9)	(6.3)
Taxes on Domestic Goods &	146.2	126.3	19.9	15.7
Taxes on International Trade &	326.7	349.5	(22.8)	(6.5)
Transactions				
Non - Tax Revenue	119.7	91.3	28.4	31.0
Grants	259.8	175.4	84.4	48.1
Total Expenditure	1,010.1	995.5	14.6	1.5
Primary Expenditure	950.4	931.8	18.5	2.0
Current Expenditure	709.3	661.7	47.5	7.2
Employee compensation	283.1	290.5	(7.4)	(2.6)
<i>o/w wages, salaries & allowances</i>	268.0	276.5	(8.5)	(3.1)
Goods and Services	124.4	132.6	(8.3)	(6.2)
Interest Payments	59.8	63.7	(3.9)	(6.2)
Transfers	242.1	174.9	67.2	38.4
Capital Expenditure	300.9	333.8	(32.9)	(9.9)
<i>o/w Grant financed</i>	178.8	175.4	3.4	1.9
Overall balance	(1.6)	(97.9)	96.3	(98.4)
Primary balance (including grants)	58.2	(34.2)	92.4	(270.0)

Source: MOF

4.4 Public Debt

Total public debt² at the end of June 2022 stood at \$2,092.7 million or 66.2 percent of estimated GDP and included Central Government's external and domestic debt and the Government guaranteed debt of SOEs. This was a 5.3 percentage point decrease relative to the corresponding period of 2021 primarily attributed to growth in GDP. During the first half of 2022, the majority (94.7 percent) of disbursement was received from multilateral creditors. These included \$67.5 million from the World Bank's (WB's) International Development Association (IDA), \$3.6 million from the Caribbean Development Bank (CDB), and \$0.6 million from WB's International Bank of Reconstruction and Development (IBRD). Additionally, \$4.0 million was disbursed from the People's Republic of China for the St. George's Airport Runway Project.

4.5 Monetary Sector Developments

The Monetary and Financial System analysed through Banks and Non-Bank Financial Institutions, continue to see improvements in its assets. Consistent with the general spur in economic activity, deposits continue to increase at a faster rate than that of loans. Overall, the monetary sector remains stable, with improvements in domestic credit over the period and non-performing loans remaining below the prudential benchmark.

² Total public debt includes both the external and domestic debt of Central Government and Government Guaranteed debt of state-owned enterprises

4.5.1 Overview of the Monetary and Financial Sector

Figure 13: Monetary Survey Analysis of Money Aggregates

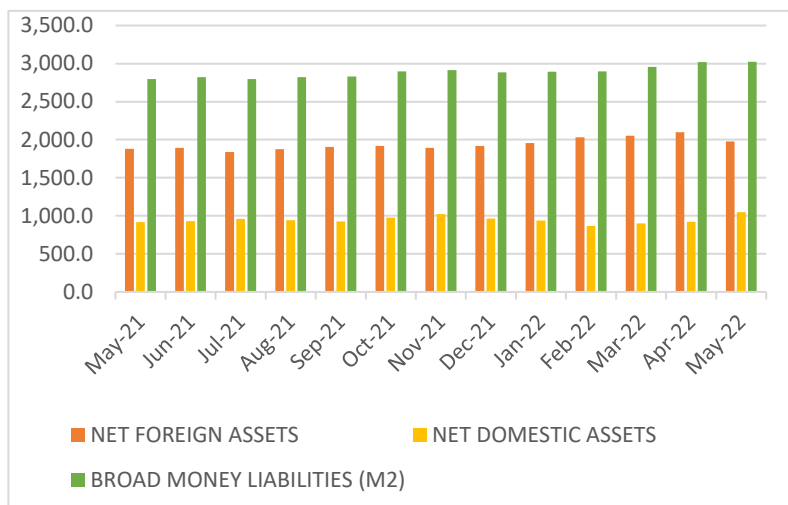
The Monetary and Financial Sector at the end of May 2022³ showed some improvements.

Net domestic assets grew by 14.3 percent due to increases in domestic credit, mainly to the private sector.

Net foreign assets increased by 5.0 percent, primarily due to increased foreign assets held at Commercial banks.

Monetary liabilities have been chiefly driven by expansions in narrow money of 36.6 percent and foreign currency deposits of 11.9 percent respectively.

Banks' liquidity remained relatively high with a ratio of total non-interbank loans/total non-interbank deposits of 49.4 percent at the end of March 2022.



4.5.2 Detailed Analysis of Monetary Survey

4.5.2.1 Assets

Net Foreign Assets (NFA)

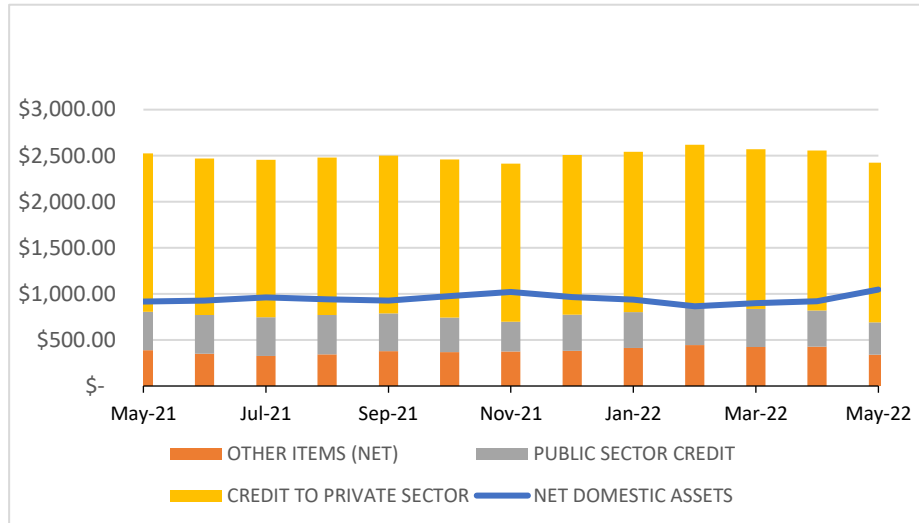
At the end of May 2022, the NFA position had moderate improvements of \$93.7 million driven by growth in commercial banks' assets of 12.8 percent.

³ Latest period for which data are available.

Net Domestic Assets (NDA)

Figure 14: Net Domestic Assets

Consistent with the domestic economic recovery, net domestic assets at the end of May 2022 recorded an increase of \$133.3 million or 14.3 percent when compared to the



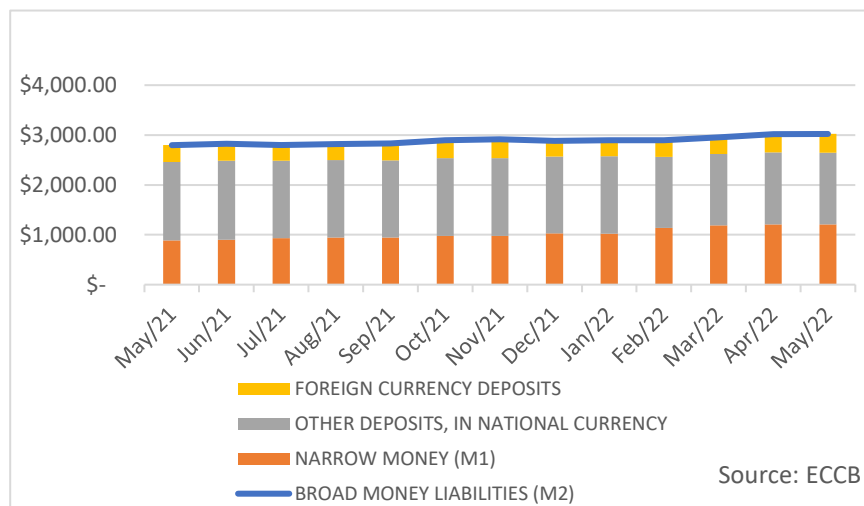
corresponding period of 2021. Private sector credit grew by 15.0 percent driven by commercial banks' lending primarily for construction purposes.

Source: ECCB

4.5.2.2 Liabilities

Monetary liabilities improved by 8.0 percent at the end of May 2022 moving to \$3,021.8 million when compared to the same period in 2021. The largest contributor, quasi money reflected a 5.2 percent decline to \$1,813.1 million whereas narrow money expanded

Figure 15: Disaggregation of Monetary Liabilities



Source: ECCB

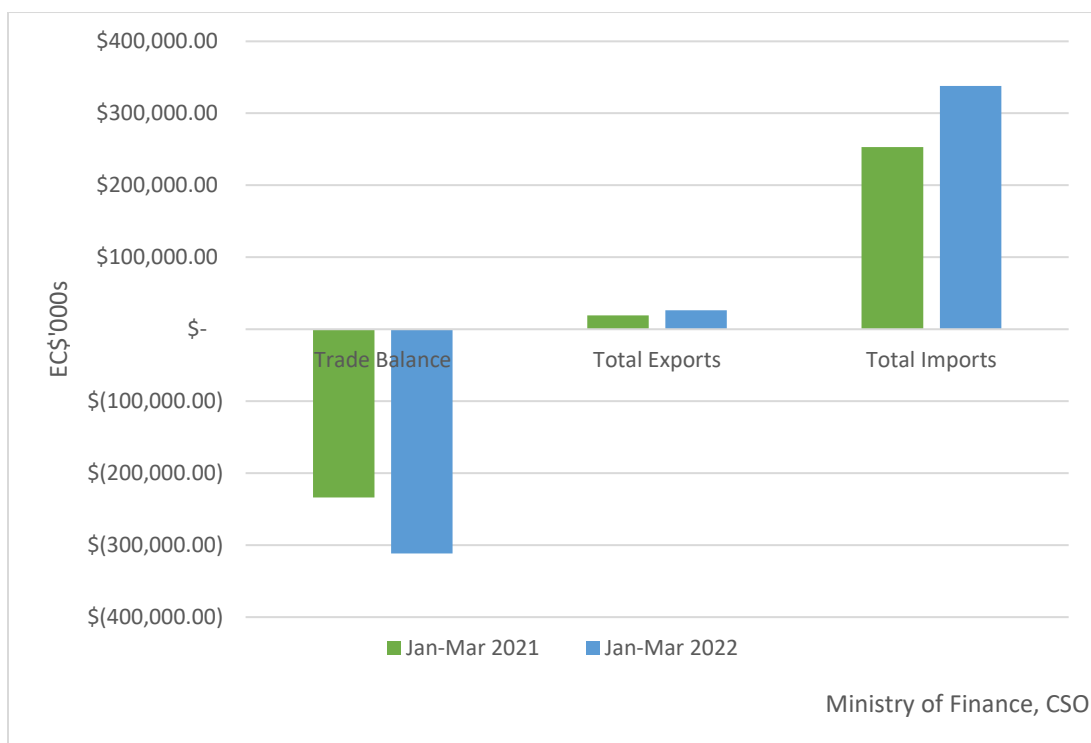
36.6 percent to \$1,208.6 million. Quasi money's decrease was driven by

Source: CSO

declines in private sector savings deposits of 9.9 percent and other financial corporation savings deposits of 69.9 percent. Foreign currency deposits increased by 11.9 percent to \$375.1 million in contrast to a decline of 8.8 percent in other deposits in national currency.

4.6 External Sector Developments

Figure 16: Balance of Trade (EC\$)



The merchandise trade deficit worsened by 33.3 percent, moving from \$233.7 million at the end of the first quarter of 2021, to \$311.5 million at the end of the first quarter of 2022 (Figure 16). Total Imports and total exports increased by 33.6 percent and 36.9 percent at the end of March 2022 compared to 2021, respectively. The Trade Balance continues to deteriorate as the country relies heavily on the importation of goods. Grenada’s export market is yet to develop substantially despite the increase in the manufacturing products and the increase in business activities. International Trade disruptions continue to affect the external sector, leading to delays in delivery of items and shortages.

Table 5: Domestic Imports (est.)

CODE	SITC SECTIONS	Jan-Mar 2021	Jan-Mar 2022	Percentage Change
0	FOOD	\$ 54,260,700	\$ 65,467,700	20.7
1	BEVERAGES & TOBACCO	\$ 5,826,700	\$ 9,332,000	60.2
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	\$ 8,060,300	\$ 13,027,800	61.6
3	MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	\$ 42,600,200	\$ 66,113,800	55.2
4	ANIMALS & VEGETABLE OILS, FATS & WAXES	\$ 1,339,500	\$ 1,887,900	40.9
5	CHEMICALS & RELATED PRODUCTS, N.E.S	\$ 22,829,800	\$ 29,435,700	28.9
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	\$ 42,035,900	\$ 51,046,700	21.4
7	MACHINERY & TRANSPORT EQUIPMENT	\$ 43,713,500	\$ 55,306,100	26.5
8	MISCELLANEOUS MANUFACTURED ARTICLES	\$ 32,202,400	\$ 46,147,900	43.3
9	COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC	\$ -	\$ 49,600	100.0
	TOTAL	\$ 252,869,000	\$ 337,815,200	33.6
Source: Ministry of Finance, CSO				

An analysis of the domestic imports based on the SITC sections shows that all sections recorded increases in imports at the end of Quarter 1 2022 compared to 2021. Commodities and transactions increased by 100.0 percent, crude materials by 61.6 percent, beverages and tobacco by 60.2 percent, and mineral fuel, lubricants & related materials by 55.2 percent. A closer look at the quantity of these items imported, reveals the effect of inflation on these commodities in some cases. For example, the importation of items classified under “animals & vegetable oils, fats & waxes” increased in value by 40.9 percent. However, the quantity decreased by 14.7 percent.

Domestic exports increased by 25.7 percent, re-exports increased by 217.4 percent, and this led to an overall increase in total exports of 36.9 percent at the end of March 2022. The increase in total exports at the end of quarter one was mainly contributed by the 437.9 percent increase in exports of crude materials, inedible, except fuels, 348.3 percent in miscellaneous manufactured articles, and 30.9

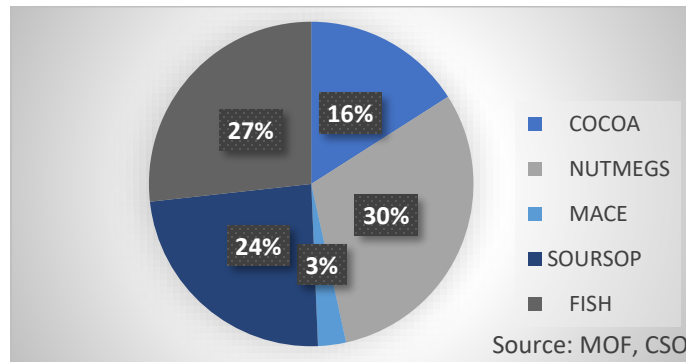
percent in food items. On the downside, the export of manufactured goods classified chiefly by material, declined by 10.4 (Table 6).

Table 6: Domestic Exports (est)

CODE	SITC SECTIONS	Jan-Mar 2021	Jan-Mar 2022	Percentage Change
0	FOOD	\$ 12,908	\$ 16,893	30.9
1	BEVERAGES & TOBACCO	\$ 2,575	\$ 2,877	11.8
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	\$ 64	\$ 346	437.9
3	MINERAL FUEL, LUBRICANTS & RELATED MATERIALS	\$ -	\$ -	-
4	ANIMALS & VEGETABLE OILS, FATS & WAXES	\$ -	\$ 0	-
5	CHEMICALS & RELATED PRODUCTS, N.E.S	\$ 609	\$ 739	21.3
7	MACHINERY & TRANSPORT EQUIPMENT	\$ 453	\$ 496	9.5
8	MISCELLANEOUS MANUFACTURED ARTICLES	\$ 17	\$ 78	348.3
9	COMMODITIES & TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC	\$ -	\$ -	-
Source: Ministry of Finance, CSO				

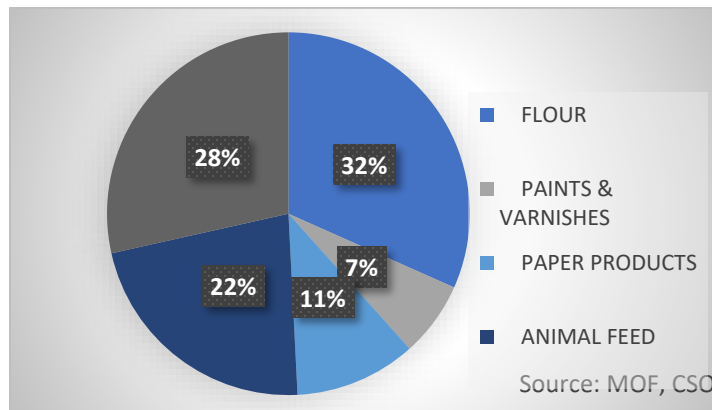
The value of agricultural exports increased by 14.3 percent at the end of Quarter 1 2022, compared to the same period in 2021, and represented 56.0 percent of total domestic exports. This increase in agricultural exports was contributed mainly by Mace exports, which grew by 75.5 percent, and soursop by 53.5 percent at the end of Quarter 1 2022. Nutmeg represented the largest percentage share of total agricultural exports (30 Percent), Fish (27 percent) and Soursop (24 percent) (Figure 17).

Figure 17: Share of Agricultural Exports (Jan-Mar 2022)



Manufactured exports increased by 44.1 percent at the end of March 2022, compared to the end of March 2021, and represented 44.0 percent of total domestic exports. The increase in manufactured exports was driven by the increases in the exportation of flour by 41.9 percent, animal feed by 96.1 percent and other products such as clothing and nutmeg products. Flour represented the largest share of total manufacturing products exported during the 1st quarter of 2022 of 32.0 percent, while animal feed represented 22.0 percent (see figure 18).

Figure 18: Share of Manufactured Exports (Jan-Mar 2022)



5 Economic Outlook

The outlook for Grenada's economy - linked to that of the global outlook – is subject to considerable downside risks, including the lingering pandemic, new public health concerns such as the Monkeypox virus, high and rising global inflation, and the possibility of a recession in economies of some of Grenada main source markets for tourism. Growth is estimated to decelerate to 1.9 percent in 2023 relative to 3.3 percent in 2022 and an average of 3.0 percent in 2024-2025. Underlying the growth forecasts are conservative assumptions about activity in key sectors such as Tourism, Construction, Private Education, and Agriculture over the medium term.

The recovery of the Tourism sector though underway, faces serious headwinds in the context of high travel costs owing to elevated international fuel prices; COVID-19 and its lingering effects; new viruses such as Monkeypox; shortages of workers in the global airline industry; and modest growth rates projected for the economies of Grenada's major trading partners (with the possibility of them being even lower than currently forecasted).

The outlook for the Construction sector is broadly positive over the medium term with several public and private sector projects ongoing and planned. Major hotel projects, including the Six Senses Resort and Intercontinental Resorts, as well as several private housing and commercial building projects, agriculture feeder roads, roads, and bridges repairs, and school upgrades are expected to sustain activity in the sector.

Activity in the Private Education subsector is expected to be sustained over the medium term; SGU aims to boost enrolment by offering more scholarships and increasing its course offerings in Arts & Science.

The Agricultural sector is likely to benefit from the Government's increased focus on boosting agricultural production and value-added through concrete initiatives to promote the use of modern technology, modern methods of farming, labour support, and mechanisation of the sector.

Activities in these major sectors should boost demand and spur increased activity in other sectors, including Manufacturing, Real Estate, and Wholesale & Retail, which should increase employment.

Consistent with the global outlook, domestic inflation is likely to remain elevated in the short term but is likely to moderate over the medium term in line with rates in the United States, as monetary

policy tightening takes hold. The domestic inflation rate is projected to average 3.5 percent over the period 2023-2025.

Fiscal performance is projected to further improve in the short-to-medium term though not at pre-COVID levels. Overall and primary surpluses (including grants) are expected to fairly improve from 1.9 percent and 3.7 percent of GDP respectively in 2023 to 2.4 percent and 4.0 percent of GDP correspondingly in 2025.

5.1 Risks to the Economic Outlook

The economy is susceptible to unprecedented uncertainty and risks are firmly on the downside, especially in the near term. According to the IMF in its July 2022 WEO, “the risks to the outlook are overwhelmingly tilted to the downside.” Lingering effects of the COVID-19 pandemic, new public health concerns such as the Monkeypox virus, Russia’s war in Ukraine, high and rising global inflation, global supply chain challenges, geo-political strains, and tighter financial market conditions (as major central banks hike interest rates) pose the greatest risks to the global economy, and by extension, Grenada’s macroeconomic and fiscal prospects in the near term. The global economic situation could be worse than what is projected in the baseline scenario should China’s economic slowdown be steeper than expected and should tighter global monetary and financial conditions trigger a full-blown debt crisis in emerging markets and developing economies.

A protracted global economic slowdown would adversely affect tourist arrivals, remittances, foreign direct investment, external grants receipts, and the Citizenship-by-Investment (CBI). The CBI programme is particularly at risk in the context of the pending legislation in both the European Union and the United States (US) to penalise nations offering CBI programmes. In March 2022, legislation intending to prevent countries that offer CBI beyond 2025 from accessing the US Visa Waiver Scheme, was introduced in the US Congress.

Meanwhile, high and rising international commodity prices (especially fuel and food) will stoke domestic inflationary pressures in the near term. These global forces can potentially complicate Budget execution by eroding any possible windfall revenue from duties and border taxes (because of imported inflation) through possibly expanded fiscal support to citizens especially the most vulnerable and higher cost of goods and services for the Government. Moreover, costs of construction inputs

are likely to remain high, which can trigger cost overruns of infrastructure projects in the PSIP. Active contract management by implementing ministries will be necessary to mitigate this risk.

Consistent with the global outlook, the growth of the economies of Grenada's main source markets for tourism should pick up over the medium term, albeit modestly, which would augur well for local economic activities and the medium-term fiscal outlook. Domestic inflation is likely to moderate over the medium term in line with rates in the United States, as monetary policy tightening takes hold.

Grenada's high vulnerability to natural disasters and susceptibility to the adverse effects of climate change are inherent risks.

Table 7: Medium Term Assumptions

CATEGORIES	2023	2024	2025
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected nominal GDP except for Import Duty and Customs Service Charge. Import duty and Customs Service Charge are moved by the average growth of import values from 2009-2021 and are assumed to gain windfalls due to elevated shipping costs despite the tentative implementation of freight caps schedule to expire in March. Petrol tax is assumed to reduce to \$4.75 per gallon with a complete cap removal. Revenue gain of 0.5% of GDP factored in because revenue-enhancement measures.	All categories of tax and non-tax revenue are assumed to grow in line with projected nominal GDP and a gain of approximately 0.1% of GDP in 2024 because of revenue enhancement measures is factored into the baseline.	
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	These categories were assumed to grow by 4.0%	Pending salary agreement for the new negotiating cycle, these categories were moved in line with projected inflation.	
Social contributions to employees			
Goods & Services	Items under these categories are adjusted for inflation except for transfers abroad. Expenditure rationalization measures estimated to yield cost savings of approximately 0.5% of GDP cumulative in 2023 & 2024. Transfers abroad reflect contractual agreements and pension values also incorporate estimated payments to eligible pensioners based on the court judgment equivalent to 2.3%, 2.8% and 3.3% of GDP over the period 2023-2025 .		
Current transfers			
Interest payment	External and domestic interest payments reflect the conditions stated in the contractual agreement.		
Capital expenditure & net lending			
Grant financed	Based on ongoing and pipelined projects in the PSIP. Averages about 7.9% of GDP over the medium term and is mostly grant-financed (5.2% of GDP) external developmental partners and other grant sources. Tapering off over the period reflects primarily the winding down of some PSIPs. Downward adjustment made in 2023 to local and loan financed Capex to account for streamlining of non-grant financed spending.		
Non Grant financed			

6 Opinion of the Cabinet pursuant to Section 25 (2) & (3) of the PFMA:

Cabinet broadly concurred with the analysis contained in the Mid-Year Review Report, but recommended improvements in the comprehensiveness and data quality of the Report, given that some of the analysis only covered the first quarter of 2022, as opposed to the first half of the year.

