



8/1/2023

# GRENADA

## 2023 MID-YEAR REVIEW REPORT

Prepared by the Ministry of Finance

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## 1 Overview

Following robust real growth of 7.4 percent in 2022, the economy is poised to continue on its strong recovery path in 2023 with growth of close to 7 percent, due in part to the strong performance of the construction and tourism-related sectors. Inflation is expected to remain above the historical trend of 2.0 percent in 2023. Anecdotal data indicates that the labour market continues to show signs of improvement with new jobs being generated. Public finances continue to show signs of strengthening this year, and debt vulnerabilities are expected to reduce further. The financial sector is expected to remain stable, liquid, and resilient to shocks throughout 2023. The external current account deficit is expected to widen this year but is estimated to be fully financed. The medium-term outlook remains favourable with average real GDP growth expected to exceed 4.0 percent during the period 2024-2026.

## 2 International Developments

The July 2023 Edition of the International Monetary Fund's (IMF) World Economic Outlook (WEO) indicates that recovery within the global economy is decelerating. Global prospects for economic growth as of July 2023 estimates a reduction in growth compared to 2022. Major forces that have retarded growth in 2022 such as the COVID-19 pandemic and geoeconomic fragmentation are still present today and impose considerable downside risks to the 2023 outlook.

The IMF's baseline projections assumes that the recent stresses in the financial sector will be contained. That notwithstanding, global output growth is projected to decelerate, from 3.5 percent in 2022 to an estimated 3.0 percent in 2023 and 2024. From all accounts, this suggests a relatively weak medium-term outlook based on historical standards.

Inflation in 2022 reached a multidecade high in some advanced economies. However, it is expected that inflation in 2023 will experience a notable decline on account of contractionary monetary policy implemented by major central banks, and a rapid fall in commodity prices. Global headline inflation is anticipated to decline from 8.7 percent in 2022 to 6.8 percent in 2023 and further decline to 5.2 percent in 2024. The decline in inflation will be visible among most advanced

economies such as the United States, the United Kingdom, and countries within the Euro Area. Exposure to changes in commodity prices will, of note, play a key role in the distribution and/or intensity of disinflation among advanced emerging and developing economies. Core inflation will continue to be above major central bank's targets for 2023 but will see some moderation in the coming months.

The April 2023 Edition of the WEO raised alarming concerns with respect to the fragility of the Global Financial Sector and the possible knock-on macroeconomic effects of the rapid rise in interest rates to cool down inflation. Failure of the two (2) specialized regional banks in the United States and the collapse of confidence in Credit Suisse in the first quarter of 2023 reinforced the need for greater supervisory and regulatory management to combat the inherent vulnerabilities within the banking sector especially for low- interest- rate- dependent banking models.

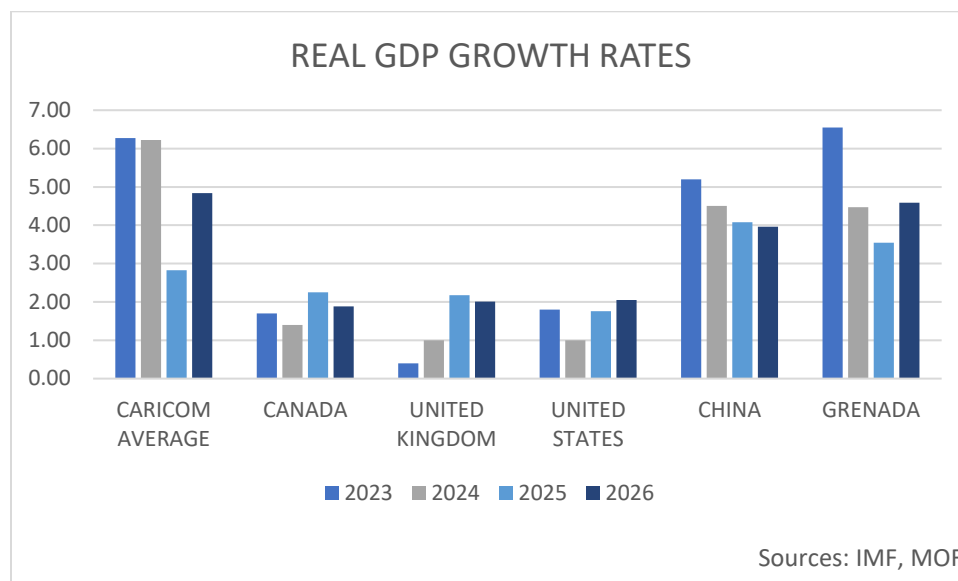
Of importance to note is that the rise in interest rate is a concern for both monetary and fiscal authorities in advanced, emerging and developing economies. "Policy tightening by central banks in response to inflation has raised the cost of borrowing, constraining economic activity. Although the immediate concerns as reported in the April Edition of WEO about the health of the banking sector have subsided, according to the July Update of WEO, high interest rates are filtering through the financial system, and banks in advanced economies have significantly tightened lending standards which may curtail the supply of credit. The impact of higher interest rates extends to public finances, especially for poorer countries grappling with elevated debt costs. As the cost of borrowing increase and the fiscal space narrows, it constrains room for priority investments. As a result, output losses compared with pre- pandemic forecasts will remain large, especially for the world's poorest nations".

In June 2023 the Federal Reserve paused further tightening measures however many other Central Banks such as Bank of England, European Central Bank and the Reserve Bank of Australia continue to raise interest rates.

The growth forecast for the United States, Grenada's largest source market, suggests a further decline over the medium-term, from 2.1 percent in 2022 to 1.8 percent in 2023 and 1.0 percent in 2024. The United Kingdom's outlook appears even more unfavourable with growth projections expected to move from 4.1 percent in 2022 to 0.4 percent in 2023. In 2024, modest growth of 1.0

percent is expected. Canada’s medium-term average growth is expected to be a modest 1.8 percent. In China, a major source market for manufactured goods, growth is projected to average 4.1 percent. Figure 1 shows real GDP growth rates for Grenada and its major trading partners.

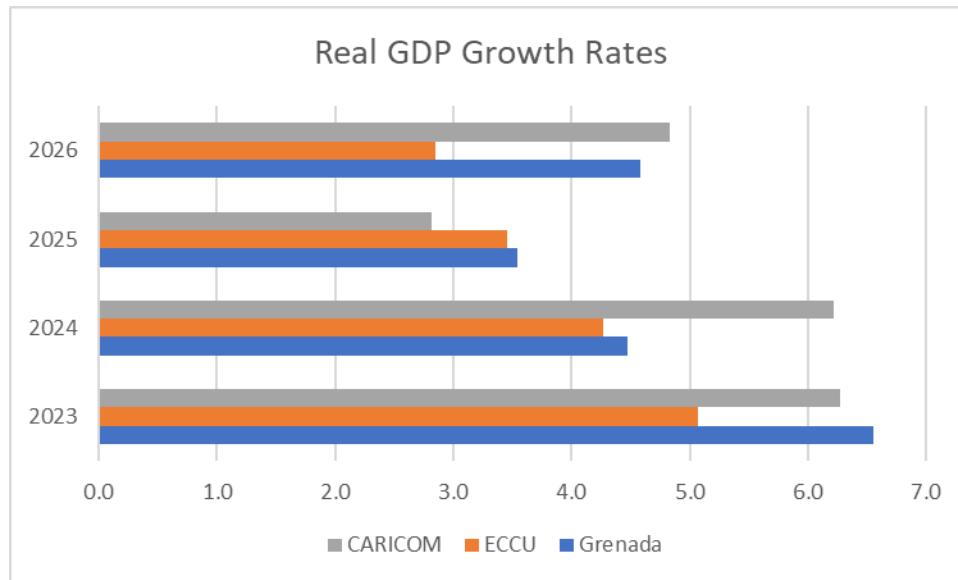
**Figure 1: Real GDP Growth Rates – Major International Trading Partners**



### 3 Regional Developments

The regional bloc continues to recover in 2023 on account of the uptick in economic activity and the resumption of inter-regional travel. For CARICOM countries, real growth is estimated at 6.3 percent in 2023. This estimated growth is a significant deceleration from the 10.7 percent recorded in 2022. Guyana is expected to record the largest growth in 2023 of 37.2 percent as the country’s petroleum sector continues to expand. On average, the CARICOM region is projected to grow by 4.6 percent in the medium term. In the ECCU, an estimated growth of 5.1 percent is anticipated for 2023. Antigua and Barbuda, Dominica and Grenada are expected to record the largest growth within the Union. The projected ECCU growth average for the medium-term is 3.5 percent. Grenada is performing considerably well in comparison to its regional partners. However, inflation remains a prominent issue throughout the ECCU and CARICOM regions. For 2023, CARICOM and the ECCU’s inflation will be approximately 11.1 and 4.4 percent respectively. Haiti and Suriname are the two CARICOM countries with the highest inflation forecasts of 44.5 and 42.7 percent. Nevertheless, inflation predictions for the medium-term are lower as countries make several efforts to lessen the inflationary pressures within their respective economies.

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



## 4 2023 Mid-Year Economic Review and Estimated 2023 Performance<sup>1</sup>

### 4.1 Real Sector

Recovery is taking hold in the Grenadian economy following the devastating impact of the COVID-19 pandemic. Real GDP is expected to grow by roughly 7 percent this year on the back of a strong recovery in 2022. Sectoral growth is evident in the tourism industry following the removal of Covid-19 protocols from most countries, and the downgrading of the pandemic by the World Health Organisation. The pent-up demand for travel has led to a high influx of tourists on the island and this trend is expected to continue for the rest of 2023 and the medium term. Growth is also seen in the construction, manufacturing, wholesale, and retail sectors driven by the boost in investment activities. However, Grenada remains vulnerable to external risks as inflation remains

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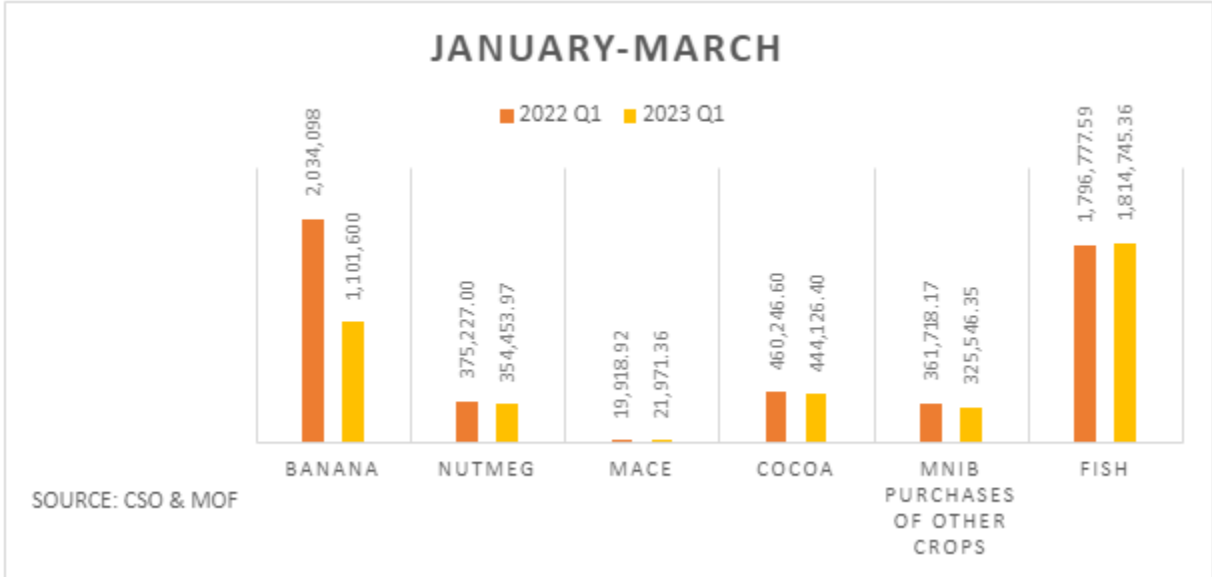
<sup>1</sup> This assessment is based on actual data for the first half (H1) of 2023 and projections for the rest of the year, and where actual data for H1, 2023 is not available due to lags in data collections or other factors, actual data for the first quarter (Q1) of 2023 is used.

a global phenomenon. Relatively high food and energy prices continue to affect the average Grenadian. Trade disruptions related to the ongoing Russian-Ukraine war is slowing but uncertainty remains. Nevertheless, the medium-term outlook remains positive with average growth expected to exceed 4 percent during the period 2024-2026.

4.1.1 Agriculture & Fishing

Based on the limited data received from the Central Statistical Office (CSO) and estimates by the Ministry of Finance, Banana production declined by 45.8 percent at the end of Q1 2023 compared to Q1 2022. An estimated decline of 5.5 percent is expected for nutmeg production, 3.5 percent for cocoa and 10.0 percent for MNIB Purchases of Other Crops. Given that the MNIB is undergoing restructuring, MNIB purchases is likely to be an inaccurate proxy for production of “Other Crops” for the rest of 2023. Mace and Fish Production is estimated to increase by 10.3 and 1.0 percent respectively at the end of Quarter 1 2023 compared to the previous year. Overall, a small decline is expected in the Agricultural Sector in 2023.

Figure 3: Production in Agriculture and Fishing



**Note:** Data remains a challenge for the agriculture sector, and as such, estimates are used where data gaps exist. However, efforts are being made to find more reliable and accurate

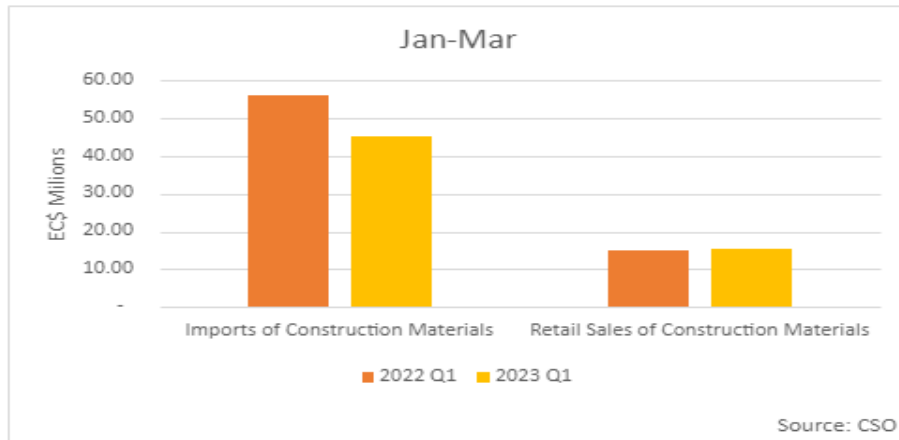
methodologies. CSO aims to gather data from Supermarkets and Hotels to compensate for the reduced availability of data from the MNIB.

#### 4.1.2 Construction

The value of construction materials imported declined by 19.1 percent at the end of the 1<sup>st</sup> Quarter of 2023 compared to the same period in 2022. This was largely the result of a drop in prices of construction materials since the quantity of imported materials increased by 10.8 percent. Retail sales of building materials also increased by 4.3 percent in value, pointing to the notable expansion of the construction sector. Anecdotally, growth in the construction sector can be surmised by the number and size of ongoing public and private investment projects. Several major public and private sector projects are ongoing, including the Molinere Landslip Rehabilitation Project, the Agricultural Feeder Roads, the St. John's River Flood Mitigation Project (Phase II) the Beach House Project, and the Six Senses Hotel Development.

It is anticipated that the current growth trajectory in this sector will persist as the appetite for foreign investment deepen in areas such as tourism and agro- processing. That said, supply chain disruptions, high shipping costs, and shortage of skilled labour supply can challenge the sector's productive capacity. Notwithstanding, growth is estimated for the rest of 2023 and the medium-term outlook remains positive.

*Figure 4: Construction Indicators*



### 4.1.3 Tourism

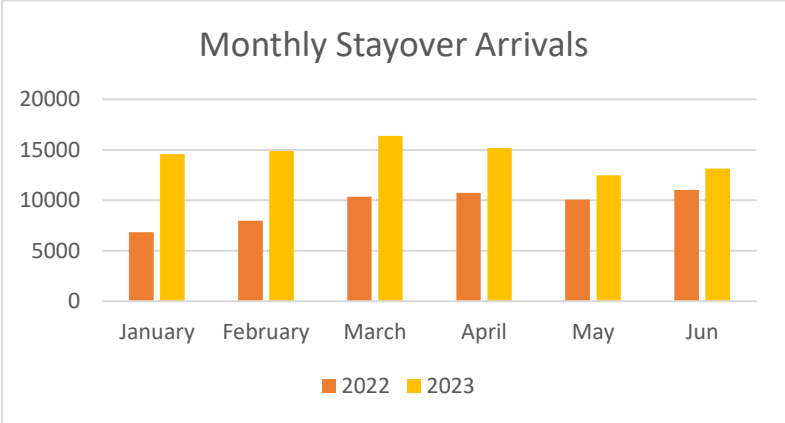
The expansion of the tourism sector is driven primarily by the growth in air and sea travel on a global scale. The free and frequent movement of people amidst the expiry of the Global Health Emergency in May 2023 continue and this development is likely to have spillover effect on other sectors. Data for the first half of 2023 depicts growth in stayover arrivals of 52.1 percent compared to the same period in 2022. The number of stayover arrivals for the first 6 months of 2023 surpassed 2020 and 2019 figures. Of these arrivals, 51.2 percent stayed in hotels/resorts, 31.9 percent stayed in private homes and the remaining stayed in apartments, yachts and villas.

*Table 1: Visitor Arrivals*

Visitor Arrivals	Jan -Jun 2022	Jan - Jun- 2023	% Change
United States	34,289	46,424	35.4
Europe	1,547	3,869	150.1
United Kingdom	11,645	13,377	14.9
Canada	2,570	9,563	272.1
Caribbean	5,524	11,351	105.5
Other	1,403	2,058	46.7
<b>Total Stayover Arrivals</b>	<b>56,978</b>	<b>86,642</b>	<b>52.1</b>
<b>Cruise Passengers</b>	<b>107,937</b>	<b>198,896</b>	<b>84.3</b>
			Source: GTA

A disaggregation of visitor arrival shows that a noteworthy number of visitors came from the United States (Grenada’s largest source market), the United Kingdom, Canada, and the Caribbean. Air travel has improved significantly as airlines such as British Airways, Air Canada, Jet Blue, American Airlines and Caribbean Airlines increased their airlift to Grenada. The largest number of stayover arrivals during the reporting period was documented in the month of March with a total of 16,369 people (1,482 more than February arrivals). This increase may be directly attributed to the number of visitors who came to attend the Grenada vs. USA football match which took place in March 2023. This sector is predicted to continue to thrive in the remaining months of 2023, on the back of an expected bumper Carnival and Christmas Seasons.

*Figure 5: First Half Monthly Stayover Arrivals (2022 vs 2023)*



Cruise ship passenger arrivals increased by 93.6 percent at the end of the first quarter of 2023 compared to 2022, whereas Cruise Ship Calls increased by 11.9 percent as 122 calls were recorded at the end of March 2023 compared to the 109 in March of 2022. A notable number of cruise passengers originated from cruise lines such as MSC cruises, P & O Cruises (UK) Ltd., Royal Caribbean International, Aida Cruises and Costa Cruises. However, cruise ship passenger arrivals and cruise call in Quarter 1 2023 were lower than Quarter 1 2019 (Pre-COIV-19) numbers.

This strong performance within the tourism sector is expected to extend for the remainder of the year. However, there are several challenges that continue to be a drag on the performance of the Sector. One such issue is inflation, which continues to impact the price of airfare and may hinder visitor arrivals through air travel. Shortage of skilled labour within the Tourism sector is also a major concern as many seasoned hospitality-oriented practitioners have retired or resigned from businesses within this sector. Several measures are being taken to boost activity within the tourism

sector which should boost economic activity in the near to medium term. Some of these include exploring different marketing strategies to attract tourists such as food tourism, taking advantage of sailing festivals to improve tourism marketing, Sports tourism, the provision of training in areas such as food safety and mixology, and improving linkages between the hotel sector and the agricultural sector. Furthermore, efforts to increase airlift to Grenada, including more direct flights from key markets are ongoing.

#### 4.1.4 Transport and Storage

Activity within this sector is influenced by both Construction and Tourism Sectors. Data was gathered from the airport authority, port authority and travel agents. At the end of the first quarter of 2023, the transport sector performed considerably well as the movement of people and goods became less rigid. Passenger movements grew by 85.5 percent over 2022 and aircraft movements increased by 17.5 percent. However, overall movement of Cargo loaded and landed, declined by 1.4 percent. Growth is expected in this sector as the uptick in tourism and construction remains on course. Growth in air transport will persist as airlift increases while road transport- which is also affected by tourism, is projected to expand as the demand for taxis and tours increase, and the demand for trucks and vans grow to support the activities of the construction and wholesale and retail sectors. The sea transport sector will continue to perform well as efforts are being made by the GTA to boost cruise ship arrivals for the 2023/2024 cruise season. The activity of the ferries and local cargo vessels will improve during the carnival season which is expected to further enhance the performance of this sector.

*Figure 6: Passenger and Cargo Movements*



#### 4.1.5 Wholesale and Retail Trade

This sector shows promising growth for the first quarter of 2023 based on preliminary data. The performance of this sector is measured by the following activities: retail sales of building materials and the retail sales of other products that are not building materials (such as food and drinks, household items, vehicles, etc.). The Wholesale and Retail Trade sector is heavily dependent on activities undertaken within different sectors of the economy. For example, the activities within the construction sector will spur knock-on economic activities within this sector. Preliminary data shows that retail sales of building materials increased by 4.3 percent during Quarter 1 2023 because of the uptick within the construction industry. On the other hand, retail sales of other commodities increased by 10.9 percent (see figure 7).

Increased visitors on the island and the return of the SGU students also contributed immensely to the growth of this sector through the boost in activities at retail outlets- primarily supermarkets. For the remainder of the year, this sector is expected to continue to progress, especially during the Carnival season, which is the second highest sales period after Christmas. As with any other sector, there are some challenges that may impede the growth of this sector, including supply chain disruptions due to limited availability of containers, inconsistent supply of cement and high freight costs. Nonetheless, this sector will continue to expand in tandem with growth prospects of the Tourism Sector.

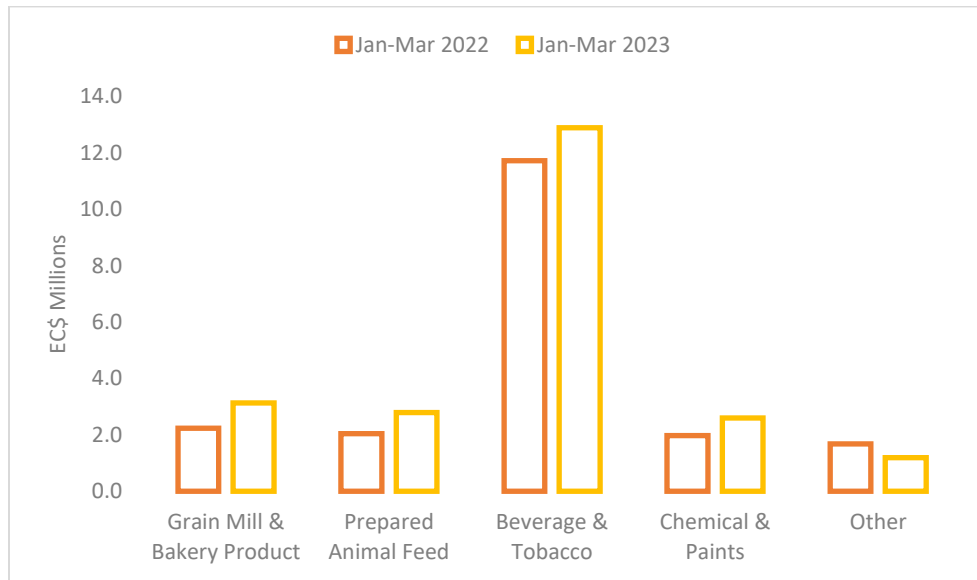
*Figure 7: Retail Sales*



#### 4.1.6 Manufacturing

Preliminary data shows a 15.0 percent increase in manufactured products at the end of March 2023 compared to 2022 (see Figure 8). The production of Grain Mill & Bakery products increased by 40.5 percent indicating higher demand for these products in Q1 2023 compared to Q1 2022. The increase in the price of flour in 2022 did not affect the demand for these items. The price of wheat, which doubled in 2022, remained unchanged to-date and no additional increases in the price of bakery products is expected in the immediate future. The production of prepared animal feed increased by 36.3 percent in the period, due to increase in the demand for the export of these products from key markets within the OECS. The Production of Beverages increased by 10.0 percent driven primarily by domestic demand. Chemical & paints increased by 31.4 percent which is also triggered by domestic demand in the construction sector.

*Figure 8: Industrial Production*



Although the sector is performing considerably well, there are some challenges that hinder manufacturers from producing at a higher capacity. Manufacturers have indicated that hindrances such as the high cost and limited supply of empty containers affect their ability to compete effectively on the export market. Several manufacturers have expressed their dissatisfaction with the landed cost of empty containers which deter shippers from absorbing such costs. Additionally, alleged delays in documentation by the Customs & Excise Division, lead to delays in the supply of products to customers. Further, the non-implementation of Article 164 by some Medium Developed Countries (MDC) continues to pose a major trade breach which creates a disadvantage for Grenadian manufactures/ exporters. Other issues such as the rising cost of raw materials and inputs, and lack of or limited port space for manufacturers were also flagged as having an adverse effect on their ability to grow. The creation of a Manufacturer’s Association was recommended to further growth within this sector.

Overall, it is likely that this sector will continue to show promising results for the rest of 2023 as we approach the Carnival and Christmas seasons. It is presumed that this sector would surpass pre-covid levels in 2023 as the economy continues to perform well.

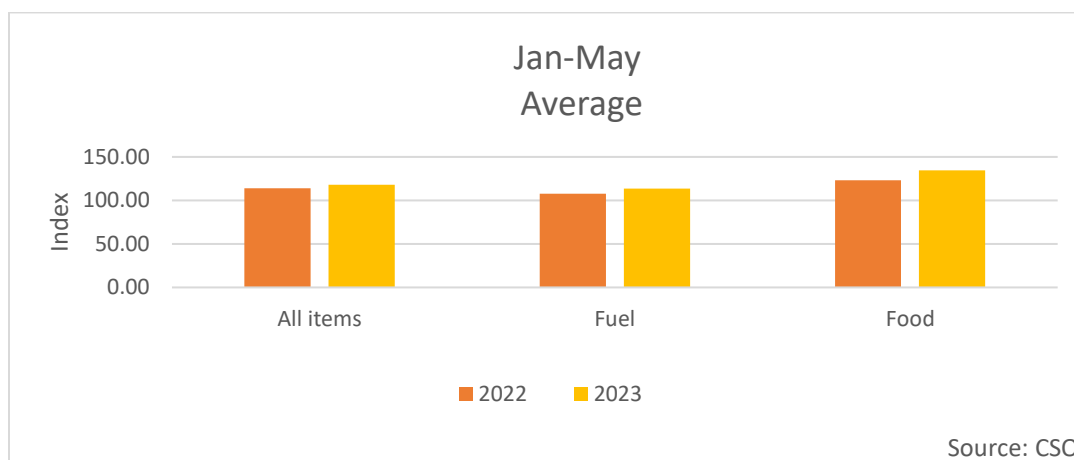
#### 4.1.7 Private Education

Preliminary data from the Grenada Tourism Authority for the first half of 2023 shows that student arrivals increased by 50.0 percent compared to the first half of 2022. A total of 4,662 students arrived on the island as SGU made the decision to allow all students to return for face-to-face classes. Of these students, 80 percent came from the United States while the remainder came from Canada, CARICOM countries, and the rest of the world. Student arrivals for Jan-June 2023 surpassed COVID-19 levels (half year 2019) by 4.0 percent. Of the total student arrivals, 52.1 percent stayed in apartments, 31.4 percent stayed in student dorms, and the remainder in private homes, guest houses, villas, etc. Growth in student enrolment at SGU is expected for the 2023/2024 financial year. This growth will be driven by increased scholarships offered to students, improved interest in the School of Veterinary medicine and the full return of SGU students on campus as all COVID protocols have been relaxed as of May 2023.

#### 4.1.8 Inflation

Grenada's inflation has been steadily increasing monthly since January 2021 after a period of deflation recorded in 2020. Period average inflation for January to May 2023 for all items was 3.6 percent compared to the January to May 2022 average. Food inflation was 9.3 percent, while Fuel was recorded as 5.6 percent (see figure 9).

*Figure 9: Consumer Price Index (5-month average)*



On a year-on-year basis, prices increased by 3.2 percent at the end of May 2023 compared to the end of May 2022. Food increased by 9.2 percent and Fuel increased by 1.5 percent (see Table 2). Grenada’s inflation is heavily impacted by international prices. As a net importer, Grenada imports most of its goods from its main source markets: the United States, Canada, the United Kingdom, Barbados, Trinidad & Tobago, and Jamaica. The rise in the price of goods within these source markets would therefore have trickled down effects for the Grenadian economy. Above historical average inflation is expected to persist for the rest of the year and over the medium term.

*Table 2: Year on Year Inflation*

CPI (YOY)	May-22	May-23	Inflation (%)
<b>Food</b>	<b>124.75</b>	<b>136.33</b>	<b>9.28</b>
<b>Fuel</b>	<b>108.44</b>	<b>110.08</b>	<b>1.52</b>
<b>Total</b>	<b>114.72</b>	<b>118.34</b>	<b>3.16</b>

## 4.2 Unemployment

Unemployment statistics were unavailable for the review period due to the ongoing National Census, which is expected to be completed by year end. Based on available data, there were a total of 49,306 employed persons registered with the NIS in 2022. This was 1,318 more workers than the total in 2021, but less (3,228) than the total employed persons registered with the NIS in 2019.

Of the 2022 total, 52.7 percent were females while 47.3 percent were males. Total employed youth (ages 15 to 24) registered with the NIS was 935 more than the total registered in 2021. The Quarterly Labour Force Survey – which has been suspended pending the completion of the Population and Housing Census- will resume later in the year. Notwithstanding, based on the NIS data, the employment situation is positive, reflecting robust activities across several economic sectors.

4.3 Fiscal Sector

On balance, Grenada’s fiscal position has strengthened reflecting strong intake from all tax types, strong receipts of the Citizenship-by-Investment (CBI) Programme, the tax amnesty, and relatively vibrant economic activity. During the first half of 2023, the Primary and Overall Balances-including Grants, were \$205.8 million and \$181.0 million respectively, which were more than the comparable period of 2022 by 62.9 percent and 78.1 percent respectively (Figure 10).

Figure 10: Primary Balance and Overall Balance after grants 2023 vs 2022 (Jan-Jun)



Source: Ministry of Finance

Total revenue and grants for the first half of 2023 amounted to \$633.6 million of which total revenue was \$624.7 million and total grants were \$8.9 million. Total revenue and grants were 8.8 percent more than what was collected in the same period of 2022, primarily because of improved performances in tax revenue and non-tax revenue. During the period. All tax types recorded higher collections than in 2022.

**Table 3: Total Revenue and Grants 2022 vs 2023 (Jan-Jun)**

	2022	2023	Variance	
	January - June		\$M	%
	\$M	\$M		
<b>Total Revenue and Grants</b>	582.2	633.6	51.4	8.8%
<b>Total Revenue</b>	430.8	624.7	193.9	45.0%
<b>Tax Revenue</b>	345.3	420.1	74.8	21.7%
Taxes on Income and Profit	68.7	85.0	16.3	23.7%
Taxes on Property	18.6	24.6	6.0	32.3%
Taxes on Domestic Transactions	82.1	98.8	16.7	20.3%
Taxes on International Transactions	175.9	211.7	35.8	20.4%
<b>Non-Tax Revenue</b>	85.5	204.6	119.1	139.3%
<b>Total Grants</b>	151.4	8.9	(142.5)	-94.1%

Source: Ministry of Finance

Taxes on property were 32.3 percent

more than the amount collected in 2022. Taxes on income and profit, domestic transactions and international transactions were 23.7 percent, 20.3 percent and 20.4 percent respectively, more than the collections of 2022. (Table 3). Total grants lagged last year's amount by \$142.5 million, reflecting the reclassification (which was introduced in 2023) of CBI receipts from capital grants to non-tax revenue.

The total expenditure for the first half of 2023 was 5.8 percent less than the same period of 2022 due to a 35.9 percent decrease in capital spending. The sharp decline in capital spending is largely due to higher-than-normal spending during the 2022 election period. Recurrent outlays increased by 10.6 percent overall. There was a

**Table 4: Total Expenditure 2022 vs 2023 (Jan-Jun)**


	2022	2023	Variance	
	January - June		\$M	%
	\$M	\$M		
<b>Total Expenditure</b>	480.6	452.6	(28.0)	-5.8%
<b>Recurrent Expenditure</b>	310.7	343.7	33.0	10.6%
<b>Employee Compensation</b>	139.2	141.7	2.5	1.8%
Personal Emoluments	131.1	133.1	2.0	1.5%
Social Contributions	8.1	8.6	0.5	6.2%
Goods and Services	59.2	67.0	7.8	13.2%
Interest Payments	24.7	24.8	0.1	0.4%
Current Transfers	87.6	110.2	22.6	25.8%
<b>Capital Expenditure</b>	169.9	108.9	(61.0)	-35.9%

significant increase in current

Source: Ministry of Finance

transfers of 25.8 percent reflecting additional spending to mitigate the high cost of living (fuel and electricity subsidies) and costs associated with the restructuring of the Marketing and National Importing Board (MNIB). Current transfers at the end of the period were 13.2 percent more than the amount spent in the corresponding period of 2022 (Table 4). Employee compensation increased by 1.8 percent which includes the 3.2 percent increase in social contributions, 1.8 percent increase in personal emoluments. Interest payments increased by 0.4 percent when compared to the first half of 2022.

Based on actual outturns for the first half of 2023, together with seasonality patterns, and other assumptions, Grenada's fiscal position is estimated to remain strong for the full year 2023 (Table 1). Total revenue and grants are preliminary estimated at \$1,162.9 million for the full year 2023, 4.0 percent higher (\$44.3 million more) than the 2023 budgeted amount, reflecting strong intake from all tax types. Total expenditure is estimated to be \$1,073.1 million for the full year 2023, 1.6 percent (\$17.3 million) more than the budgeted amount. Accordingly, an overall surplus including grants of \$89.8 million (2.5 percent of gross domestic product [GDP]) is estimated for 2023, higher than the budgeted surplus of \$62.7 million, while the primary surplus including grants is estimated to expand by 20.1 percent to \$149.4 million (4.1 percent of GDP), relative to the budget. The

	2023			
	Estimated Outturn	Budget	Variance	
	EC\$M	EC\$M	EC\$M	%
<b>Total Revenue &amp; Grants</b>	<b>1,162.9</b>	<b>1,118.6</b>	<b>44.3</b>	<b>4.0</b>
<b>Total Revenue</b>	<b>1,113.4</b>	<b>1,050.8</b>	<b>62.7</b>	<b>6.0</b>
<b>Tax Revenue</b>	<b>798.4</b>	<b>739.3</b>	<b>59.1</b>	<b>8.0</b>
Taxes on Income	153.8	139.0	14.8	10.7
Taxes on Property	34.1	29.7	4.4	14.9
Taxes on Domestic Goods & Consumption	177.9	160.3	17.6	11.0
Taxes on International Trade & Transactions	432.6	410.4	22.3	5.4
<b>Non - Tax Revenue</b>	<b>315.0</b>	<b>311.4</b>	<b>3.6</b>	<b>1.1</b>
<b>Grants</b>	<b>49.5</b>	<b>67.8</b>	<b>(18.3)</b>	<b>(27.1)</b>
<b>Total Expenditure</b>	<b>1,073.1</b>	<b>1,055.8</b>	<b>17.3</b>	<b>1.6</b>
<b>Primary Expenditure</b>	<b>1,013.5</b>	<b>994.2</b>	<b>19.3</b>	<b>1.9</b>
<b>Current Expenditure</b>	<b>781.4</b>	<b>741.9</b>	<b>39.5</b>	<b>5.3</b>
Employee compensation	367.9	325.6	42.3	13.0
<i>o/w wages, salaries &amp; allowances</i>	352.0	311.1	40.9	13.2
Goods and Services	142.0	157.0	(15.0)	(9.6)
Interest Payments	59.6	61.7	(2.1)	(3.4)
Transfers	211.9	197.6	14.3	7.2
<b>Capital Expenditure</b>	<b>291.7</b>	<b>313.9</b>	<b>(22.2)</b>	<b>(7.1)</b>
<i>o/w Grant financed</i>	<b>48.7</b>	<b>67.8</b>	<b>(19.1)</b>	<b>(28.1)</b>
<b>Overall balance</b>	<b>89.8</b>	<b>62.7</b>	<b>27.1</b>	<b>43.2</b>
<b>Primary balance (including grants)</b>	<b>149.4</b>	<b>124.4</b>	<b>25.0</b>	<b>20.1</b>

projected primary surplus is compliant with the floor of 3.5 percent of GDP as stipulated in the Fiscal Responsibility Act (FRA).

#### 4.4 Public Debt

Public Sector Debt as a ratio of GDP, a key indicator of debt sustainability, is expected to decline by 5.2 percentage points to 75.2 percent of GDP by the end of 2023, relative to the ratio at end-December 2022. The estimated improvement in the debt position is influenced by the improvement in GDP as well as the implementation of debt management strategies as contained in the 2023 Medium-Term Debt Management Strategy (MTDS), in particular, focusing on concessional borrowing.

#### 4.5 Financial and Monetary Sector Developments

##### 4.5.1 Bank and Non-Bank Sector Developments

###### *4.5.1.1 Financial Regulatory Developments*

Grenada's Authority for the Regulation of Financial Institutions (GARFIN) has made commendable progress in the execution of its duties within the Non-Bank Financial Sector. In 2019, GARFIN along with other regulatory bodies across the ECCU finalized and approved a Harmonized Cooperative Society regulation. In 2022 GARFIN undertook to review and revise Grenada's existing legislation for Cooperatives Societies with a view of creating closer alignment to the principal regulation thus strengthening GARFIN's enforcement function.

GARFIN currently monitors; 10 Credit Unions, 25 Insurance Companies, 1 Development Bank, 46 Pensions, 7 micro lending agencies, 2 money transmission companies.

###### *4.5.1.2 Commercial Banking Sector Developments*

The stability of the Commercial banking sector has remained solid. The resurgence of the tourism sector in 2022 and the full reopening of the St. George's University has augured well for the financial sector with increased requests for loan facilities particularly in the Construction, Home Renovation, Real Estate and Motor Vehicular Loan Portfolios.

Banks continue to be very liquid, with a total non-interbank loans/ total non-interbank deposits ratio being greater than 50.0 percent. The payment of pension to retired Public Officers in 2022 realised a small movement in the stock of debt however the bulk of these payments were transferred to the non-bank sector.

The volatility of the financial sector on the international market is expected to have minor implications for commercial banks; however, this is expected to take root in the medium-term and with minimal rippling effects. Despite these new developments within the financial sector banks are expected to continue to perform well in 2023 and over the medium- term.

#### *4.5.1.3 Non- Bank Sector Developments*

The Non- Bank financial sector has successfully navigated the economic downturn in activity on account of the Covid-19 Pandemic. Credit Union's asset portfolio increased in size from \$1.173 billion in 2021 to \$1.3 billion at the end of 2022. The observed growth in assets (10 percent or 1.1 billion) can be attributed to increased deposits on account of the payment of retroactive pension benefits of retired public officers and in general, the fast pace at which credit union membership have been growing.

All credit unions met the minimum liquidity requirements which is 15% of unencumbered deposits (deposits that are not tied against loans). However not all were successful in meeting the capital requirement which is 10% of total assets.

The Non-bank Financial Sector is cautiously optimistic about their performance in 2023. Growth prospects are tempered to veer along the trajectory of the macroeconomic outlook. In 2023 it is estimated that lending will remain below Pre-COVID Levels as the risk appetite of members remain subdued. Notwithstanding, Credit Union deposits and loan portfolio will continue to grow (Specific areas: Vehicle Loan, Land and Property).

The unaudited consolidated financial statement of Credit Unions points to a 9.5 percent non-performing loans (NPLs) ratio portfolio in September 2022 however this was quickly turned around in December 2022 to 8.4 percent on account of the payment of pension. As at the end of June 2023, NPLs stand at 8.6 percent and is expected to improve further in the latter part of 2023.

**NPLs by Economic Activity;** Personal Loans- 40%- 30 mil, Vehicle Loan- 17%- 5 mil, Agriculture 14%- 11mil, Mortgages 30%- 23mil Property, Construction, Home renovation

The Outlook of the Non-Bank Sector is promising as the sector pivots its focus on leveraging technology to improve its service delivery. Work is underway to have Credit Unions join the Connex network for the issuance of debit cards. As these new developments unfold major work is ongoing to ensure a secure service is provided.

#### 4.5.2 Summary of Monetary Survey Analysis

The Monetary and Financial Sector at the end of the first quarter of 2023 showed moderate improvements compared to the same period in 2022. This was illustrated by the 8.9 percent overall growth of the monetary base.

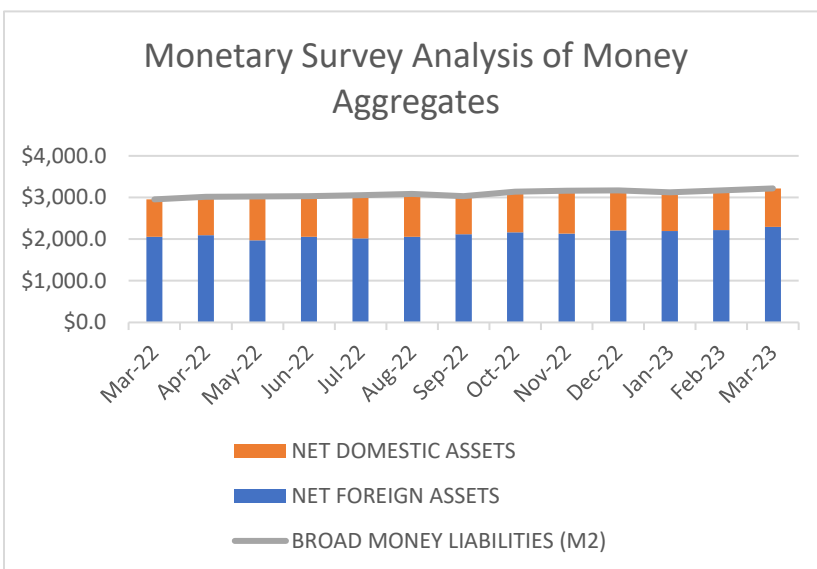
In like manner, there were recorded advances in the uses of finances. Net Domestic

Assets grew by 2.5 percent due to an increase in Domestic Credit, primarily in Public Sector credit, and to a lesser extent, Private Sector credit.

Net foreign assets substantially increased over the period (by 11.71 percent). Growth in NFA is- to a large extent, explained by increased foreign assets held at the Eastern Caribbean Central Bank (ECCB) (imputed reserves) and to a limited degree foreign asset held in other depository corporations (Commercial Banks).

Supporting these activities are the *sources of financing (Liabilities)*, the stock of Broad Money (M2). Monetary liabilities which have been chiefly driven by improvements in narrow money (M1) of 20.8 percent, foreign currency deposits increased by 37.5 percent and other deposits in national currency decreased by 7.6 percent.

**Figure 11: Monetary Survey Analysis of Money Aggregates**



The stock of money continues to grow at a rate greater than Net Domestic Assets and Net Foreign Assets. To-date and over the foreseeable future the Sector will remain stable with high levels of liquidity. Comparing the March 2022 and March 2023 liquidity levels, a meagre decline of less than 1.0 percent was observed pointing to the strength of the Sector amid the turbulence of the international financial markets.

#### 4.5.3 Detailed Analysis of Monetary Survey

##### 4.5.3.1 Assets

##### **Net Foreign Assets (NFA)**

At the end of March 2023, the NFA position stood at \$2,295.0 million. This represents an 11.7 percent increase primarily driven by an increase in the ECCB's (imputed reserve) of \$205.0 million. Other Depository Corporations (Commercial Banks) also increased by 2.8 percent or in nominal terms 35.6 million.

##### **Net Domestic Assets (NDA)**

Similar to Net Foreign Assets, moderate improvements in the first quarter of 2023 was observed in Net domestic assets. NDA realized a 22.6 million dollar increase equivalent to a 2.5 percent increase compared to the same period in 2022.

Deepened investment in Public Sector investment has translated into increased public sector credit improvements of \$55.1 million. This significant increase accounts for approximately 50 percent share in the increase of

*Figure 12: Net Domestic Assets*

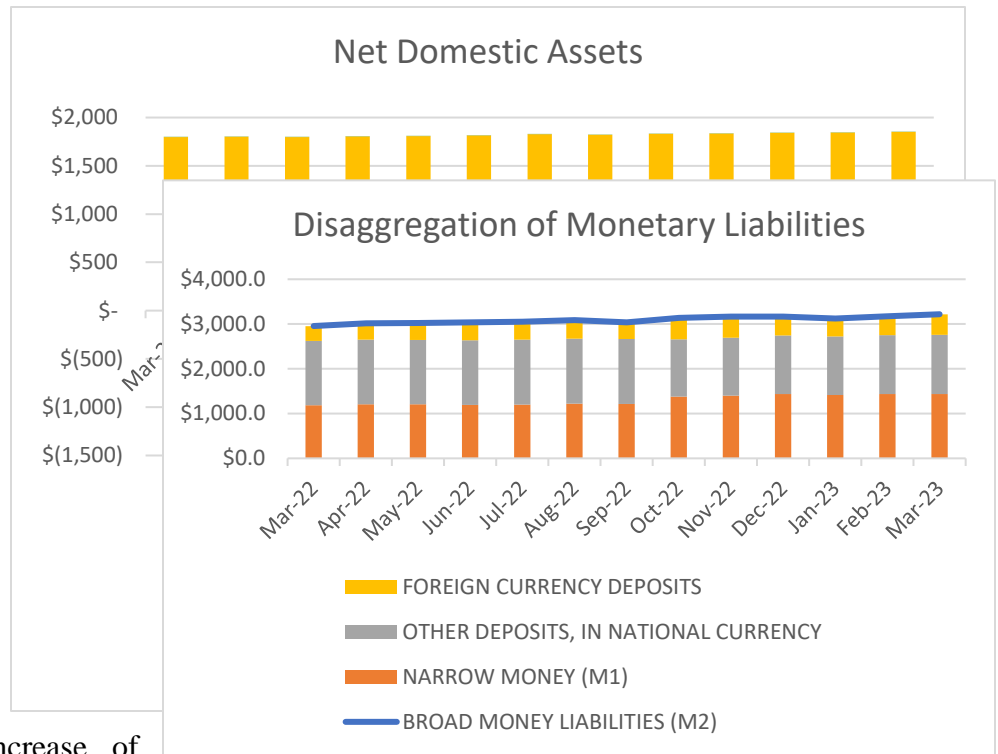
Net Domestic Assets. Private sector credit also played a crucial role in the overall improvements of NDA and accounts for 48 percent of NDA. Commercial loans across the sector retained a 7 percent uptick driven mainly by economic activities within the construction and land development

sector, Accommodation and Food Service Sector (which had an overall increase of 76 percent) and the Real Estate Sector over the period.

**4.5.3.2 Liabilities**

**4.5.3.3 Broad Money Liabilities (M2)**

Monetary liabilities improved by 8.9 percent at the end of March 2023 compared to the same period in 2022. This growth was equivalent to an increase in Broad Money (M2) of 263 million. This increase in Broad Money was chiefly driven by the sharp increase of



approximately 20.8 percent (246.8 million) in Money Supply (M1)- wherein Transferable Deposits in National Currency account for the largest share in the stock of liabilities.

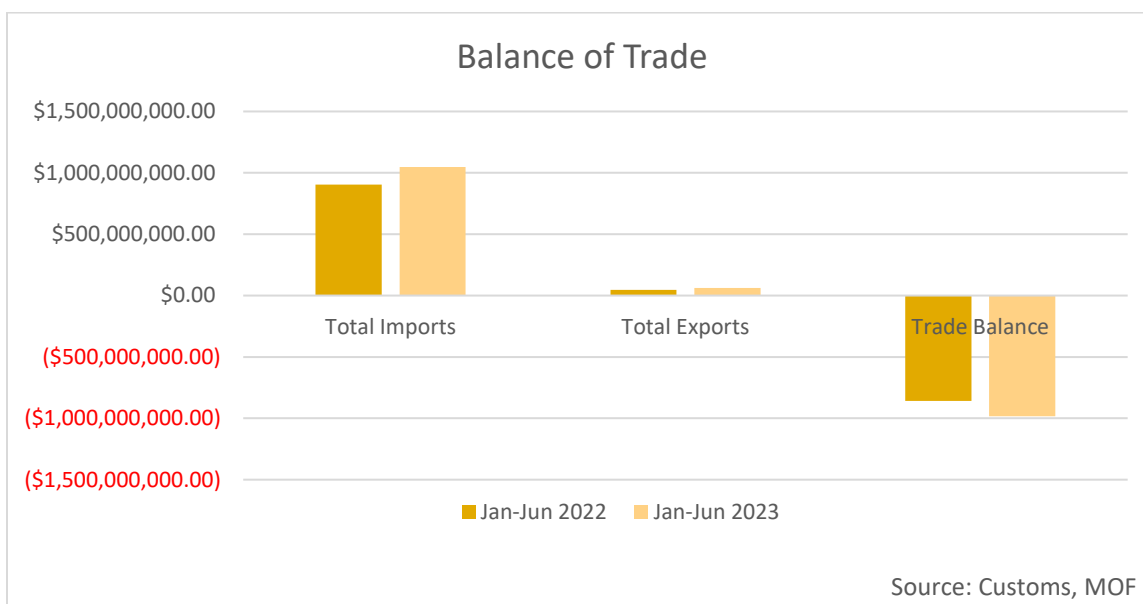
It was observed that the increase in Transferable Deposits in National Currency of 232.4 million which was influenced by the surge in the demand by Households for Deposits and EC Cheques and Drafts (296 million).

Foreign Currency Deposits also showed significant improvements as at March 2023 compared to the same period in 2022. Foreign currency Deposits increased by 37 percent which is equivalent to 125 million primarily driven by uptick in Public Nonfinancial Corporations Group 2, Foreign Currency Deposits in the amount of 62 million and Households' Foreign Currency Deposits which also accounted for a large share in the overall improvements in Foreign Currency Deposits.

#### 4.6 External Sector Developments

Data for this sector was unavailable from the CSO for 2023. Data from the Customs department was utilized to assess the performance of the external sector. Based on this data, a worsened trade balance for the first half of 2023 was observed compared to the same period in 2022. The trade balance worsened by 14.8 percent relative to the previous year. A trade deficit of 984.6 million was recorded for the first 6 months of 2023. Total imports were 1,046.5 million and total exports were 61.9 million (see Figure 15). The trade balance is expected to continue deteriorating at the end of 2023 and the medium-term as Grenada’s reliance on imported products persists.

*Figure 14: Balance of Trade (EC\$)*



An analysis of the category of imports based on statistical value for January to June 2023 reveals that the most imported products during that period were “Petroleum and bituminous minerals - oils other than crude”. There was also a high importation of motor cars, which is consistent with what is seen in the motor vehicles market. The importation of meats, construction materials and food products are also very high (see table 6).

*Table 6: Top10 Imports based on Statistical Values (Jan-Jun 2023)*

TOP	CATEGORY*	STATISTICAL VALUE
1	Petroleum oils and oils obtained from bituminous minerals, other than crude	\$123,653,650.26
2	Motor cars and other motor vehicles principally designed for the transport of persons	\$23,268,282.16
3	Meat and edible offal, fresh, chilled or frozen	\$22,881,045.52
4	Cement	\$12,654,766.67
5	Food preparations not elsewhere specified or included	\$10,135,791.73
6	Telephone sets	\$10,066,619.02
7	Waters, including mineral waters and aerated waters	\$9,917,175.49
8	Cheese and curd	\$9,509,609.37
9	Bread, pastry, cakes, biscuits and other bakers' wares	\$9,487,722.99
10	Medicaments	\$8,320,579.95
* Most Categories were simplified for clarity and should not be confused with SITC sections		

On the export side, the most popular exported products were “wheat or meslin flour”, and “nutmeg, mace and cardamoms” with a statistical value of \$8.6 and \$8.5 million respectively. Other major exports for the review period include bottles and containers, paints, fish cocoa beans etc. (see table 7).

*Table 7: Top 10 Exports based on Statistical Values (Jan-Jun 2023)*

TOP	CATEGORY*	STATISTICAL VALUE
1	Wheat or meslin flour	\$8,566,757.36
2	Nutmeg, mace and cardamoms	\$8,509,766.07
3	Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers	\$6,798,604.84
4	Preparations of a kind used in animal feeding	\$6,465,207.61
5	Paints and varnishes	\$3,538,774.97
6	Fish, fresh or chilled	\$2,998,646.83
7	Cocoa beans, whole or broken, raw or roasted	\$2,805,398.16
8	Tubes, pipes and hoses, and fittings of plastics	\$2,627,962.11
9	Toilet paper and similar paper, sheets and similar household	\$2,128,488.01
10	Waters, including mineral waters and aerated waters	\$1,855,836.68
* Most Categories were simplified for clarity and should not be confused with SITC sections		

## 5 Economic Outlook

Grenada's macro-fiscal context is heavily influenced by global economic developments. The outlook for Grenada's economy will depend on developments in the global economy as well as domestic policies. Real GDP is forecasted to grow by 4.5 percent in 2024. Underlying the growth forecasts are conservative assumptions about activity in key sectors such as tourism, construction, private education, and agriculture.

Recovery of the tourism sector is underway but faces headwinds in the context of modest economic growth and high inflation in Grenada's major tourist source markets. Regarding the construction sector, though the outlook is broadly positive with several public and private sector projects ongoing and planned, high import costs of construction materials could weigh on activity in the sector. Activity in the private education sector is also expected to be sustained in 2024 as SGU aims to boost enrolment by offering more scholarships and increasing its course offerings in Arts & Science in the 2023/2024 academic year. 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 through the World Bank-supported Food Security Enhancement Project.

The cautiously optimistic outlook for the major sectors bodes well for ancillary sectors such as manufacturing, real estate, and wholesale & retail. Sustained economic activity in the major sectors will provide a fillip to the other sectors, increasing the prospects of employment creation. Domestic inflationary pressures are expected to ease over the medium term.

Grenada's economic prospects for the upcoming Budget year 2024 are broadly positive but can be adversely affected by downside risks including high global inflation and tepid economic growth in some of Grenada's main source markets for tourism and investments. Accordingly, the 2024 Budget will be prepared amidst acute economic uncertainties, which will necessitate realism of policy objectives, proper sequencing of priorities, and built-in flexibility to minimise risks to implementation that can arise from an uncertain global macroeconomic environment.

## 5.1 Risks to the Economic Outlook

Grenada's economic recovery has taken hold following the series of compounding shocks that occurred in 2020 and 2021. However, key risks remain to the outlook that are firmly on the downside, stemming primarily from acute uncertainties in the global economy. Lingering effects of Russia's war in Ukraine, tepid growth and weak prospects in the economies of Grenada's main source markets for tourists and investments, high global inflation, tighter financial market conditions (as major central banks hike interest rates), and deepening geo-economic fragmentation pose the greatest risks to the global economy, and by extension, Grenada's macroeconomic and fiscal prospects in the medium term.

The global economic situation could be worse than what is projected in the IMF's baseline scenario should China's economic slowdown be steeper than forecasted, should tighter global monetary and financial conditions trigger a full-blown debt crisis in emerging markets and developing economies, and should there be further shocks stemming from banking sector fragilities from in the USA especially.

Indeed, a protracted global economic slowdown would adversely affect tourist arrivals, remittances, foreign direct investment, external grants, and inflows to the CBI Programme. The CBI programme is particularly at risk in the context of the AMIGOS Act that was passed in the Congress of the USA in December 2022, which prohibits immediate E2 visa privileges of an economic citizen and instead stipulates a 3-year domicile residency requirement. Additionally, new visa requirements by the UK for nationals of several countries in the region could potentially impact the CBI Programme. Any significant reductions in CBI revenues would weaken the fiscal position and complicate budget implementation. However, deliberate actions are being deployed to enhance the attractiveness of the Programme. Furthermore, the fiscal position could also be negatively affected should there be a negative result from the pending arbitration from the International Centre for Settlement of Investment Disputes (ICSID) involving a CBI-related tourism investor and the Government. Concerted efforts by Government are underway to mitigate this risk.

Meanwhile, persistent high global inflation will stoke domestic inflationary pressures in the near term. These macroeconomic risks can significantly impact the fiscal outlook, and by extension, Budget execution, both on the revenue and expenditure sides. On the expenditure side, given the forecasts for global inflation, the costs of procuring goods and services are likely to remain high, especially that of construction inputs, which can trigger cost overruns of infrastructure projects in the PSIP. Active contract management by implementing ministries will be necessary to mitigate this risk. High construction costs will dampen the robust activity of the construction sector altogether, which will be a drag on economic activity.

Astute macroeconomic management would be required to mitigate risks. However, were any macroeconomic risk to materialise, coherent and well-designed counter-cyclical policies would be necessary.

Grenada’s high vulnerability to natural disasters and susceptibility to the adverse effects of climate change are inherent risks that can have non-trivial macro-fiscal impacts. Systematic implementation of the Disaster Resilience Strategy would help to mitigate climate-related risks.

**Table 8: Medium Term Assumptions**

CATEGORIES	2024	2025	2026
<b>Recurrent Revenue</b>	All categories of tax revenue are assumed to grow in line with projected nominal GDP except for tax revenue from international transactions (IT). Tax revenues from IT move by the average growth of imports. Efficiency gains of 0.3% of GDP is applied in 2024 on the assumption of a robust implementation of Government's Compliance strategy, as well as the smooth rollout of IRD's new tax system. Higher efficiency gains averaging about 0.7% of GDP are assumed for 2025 and 2026. Non-tax revenue, except for CBI revenue, moves in line with nominal GDP. CBI revenue are tempered estimates from the CBI Unit based on counter-balancing assumptions about the possible impact of the AMIGOS Act and other risks to the Programme as well as various strategies to be deployed to enhance the attractiveness of the Programme over the medium term.		
<b>Recurrent Expenditure</b>			

Personal Emoluments, Wages, Salaries and Allowances	These categories reflect the negotiated 4.0% salary increase as well as fringe benefits. Additionally, 1% of 2023 GDP was assumed as the total cost of staff regularisation, of which 90% of that estimated total cost is assumed to be incurred in 2024 and 10% in 2023.	Categories reflect the negotiated 5% salary increase and fringe benefits in 2025 and inflation in 2026.
Social contributions to employees		
Goods & Services	Items under these categories are adjusted for inflation except for transfers abroad. Goods & Services reflect several initiatives such as free tuition up to tertiary level and revamped and new public assistance programmes, as well as the high cost of goods and services in general. The negotiated salary increases of 4%, 4% and 5% respectively are applied to pensions also. Gratuity in 2024 is assumed to increase by 10% over the 2023 budgeted figure to cater for possible increases in early retirements.	
Current transfers		
Interest payment	External and domestic interest payments reflect the conditions stated in the contractual agreement.	
<b>Capital Expenditure &amp; Net Lending</b>		
Grant financed	Capital expenditure over the medium term is driven by the Government's new and existing public sector investment plans that aligns with the Government's transformational agenda. Consistent with the proposed amendments to the FRA, expenditure is projected to average 8.8 percent of GDP over the medium term.	
Non-Grant financed		

## 6 Opinion of the Cabinet & Recommendations Concerning this Opinion

Pursuant to Section 25 (2) and (3) of the Public Finance Management Act #17 of 2015, the Minister has obtained the following opinion of the Cabinet on the Report.

“Cabinet at its meeting of 21 August 2023 considered and approved the 2023 Mid- Year Review Report as submitted by the Minister of Finance.

The Cabinet broadly concurred with the analysis contained in the 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 2023 as opposed to the first half of the year.”

The Minister of Finance notes Cabinet’s opinion and commits to improve the comprehensiveness and data quality of the Mid-Year Review Report.