GRENADA

Table 1	2021
Population, million	0.1
GDP, current US$ billion	1.1
GDP per capita, current US$	9910.4
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4
Total GHG emissions (mtCO2e)	2.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Grenada made significant progress in strengthening macro-fiscal stability and reducing poverty prior to 2019. However, the COVID-19-induced economic recession has reversed the trend, and Grenada's pre-existing vulnerabilities as a small state re-emerged, further compounded by inflationary pressures. The fiscal rule has been suspended for 2020-2022. A gradual exit of emergency measures, enhancing spending efficiency and prioritization, anchored by a timely return to the fiscal rule, are critical for sustainable and resilient medium-term growth.

Key conditions and challenges

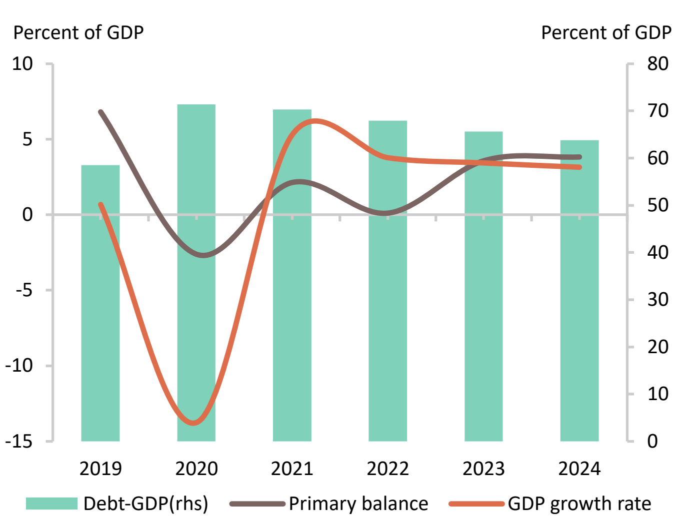
Before the pandemic, underpinned by a series of reforms, including the Fiscal Responsibility Act (FRA), Grenada had outperformed its regional peers, achieved higher growth and lower public debt, and made substantial progress in reducing poverty. Grenada started a series of structural reforms to strengthen fiscal sustainability and improve the business environment. The FRA adopted in 2015 provided a strong fiscal anchor and helps lowering public debt from 90 percent of GDP to 58.5 percent from 2015 to 2019. The accumulated fiscal space allowed for better resource allocation to cushion shocks, strengthen climate resilience, invest in human capital projects, and build essential infrastructure, which are critical to raising potential growth and reducing poverty. Real output growth in Grenada averaged 3.9 percent annually between 2015-2019, significantly outpacing the 2.4 percent average growth in the Organization of Eastern Caribbean States (OECS) region; this resulted in poverty rates going down from 37.1 percent in 2008 to 24.5 in 2018 (measured at national poverty lines).

However, vulnerabilities remain mainly due to the intrinsic characteristics of a small island developing state (SIDS), and the severe aggravation of these pre-existing challenges by the pandemic. As a SIDS, Grenada's economy and labor market rely heavily on tourism, a sector that is deeply affected by the global business cycle and natural disasters, accounting for the highest share of working women. Climate change and natural disasters have been the primary source of economic volatility, disproportionately affecting the poorest. The private sector and households have limited access to the financing market to cushion the external shocks and invest in new opportunities. The pandemic led to a sharp economic contraction of 13.8 percent in 2020 and had sizable negative impacts on poverty and equality. As a member of the Eastern Caribbean Currency Union with a fixed exchange rate, Grenada has largely relied on fiscal policy to respond to shocks; however, the pandemic increased public debt to above 70 percent of GDP in 2020 and further narrowed the fiscal space to mitigate economic volatilities and support resilient growth.

Recent developments

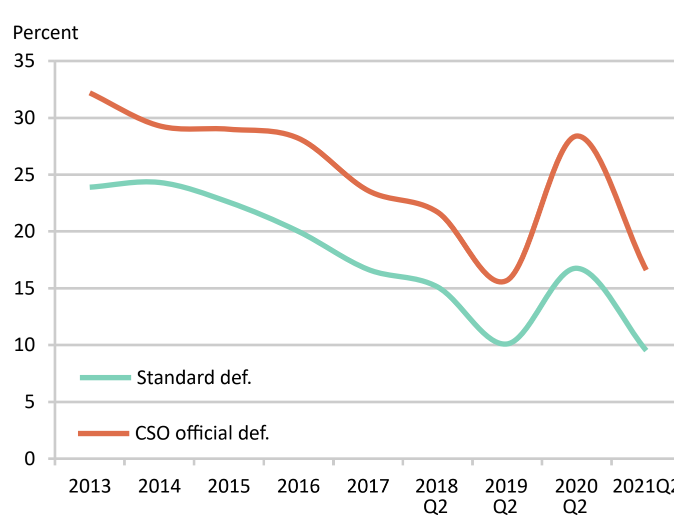
Economic activity and poverty are improving gradually from the deep contraction in 2020 but have not yet reached pre-pandemic levels. Construction projects, particularly those led by the public sector, drove the 2021 growth at 5.3 percent. Tourism picked up strongly in the second half of 2021 and total visitor spending grew by 8 percent from 2020 to 2021. Still, it remained far below the pre-pandemic level at only 30 percent of the 2019 value. Tourism data for 2022Q1 showed continued signs of solid recovery, with a 29 percent increase in total

FIGURE 1 Grenada / The evolution of main macro indicators



Source: World Bank, Macroeconomics and Fiscal Management Global Practice.
Note: e= estimate; f = forecast * The estimates for the primary balance for 2020 included the Grenlec related payment of EC$162 million.

FIGURE 2 Grenada / Unemployment rates



Sources: Labor Force Survey 2013-2021 and Central Statistical Office.

visitor spending from the previous quarter. Nevertheless, recovery is expected to be uneven, given the preexisting gaps between men and women.

Increased import demand from domestic activities offset the nascent recovery in tourism receipts and worsened the current account deficit to 24.4 percent of GDP in 2021. Remittances and Foreign direct investment remained robust and helped finance the external deficit, together with additional loans from multilateral and bilateral development partners and by withdrawing government deposits. Foreign reserves remained at sufficient levels in 2021, though they dropped to 4.5 months of imports from 5.1 months in 2020. Citizenship-by-Investment inflows more than doubled their 2019-level in 2021. Inflation rose to 2.2 percent in 2021 as economic activities started picking up while the pandemic continued the interruption to global supply chains.

Fiscal revenue recovered in 2021, although the extended fiscal measures offset the revenue improvement from resumed economic activities. Several new COVID-19 waves throughout 2021 led to the second fiscal package launched in September 2021, following the first one in 2020 and including extended support to the health sector; income support and unemployment benefits; and financing facilities for small businesses. To allow the temporary increase in fiscal spending in response to the crisis, the Government suspended the fiscal rule in 2020 and 2021. Though it remained below the 2015-19 average of 5.3 percent of GDP, the primary balance in 2021 managed to achieve a surplus of 2.1 percent, thanks to the fiscal consolidation efforts pre-pandemic and the partially recovered revenue. Public debt resumed a declining trend in 2021 and lowered to 70.3 percent of GDP.

Outlook

GDP is estimated to expand at 3.8 percent in 2022, driven by rebounding tourism and continued growth in public and private construction, though muted by the rising inflation. The 2022 recovery is expected to be hampered by the impacts of the war in Ukraine, which disrupted the global supply chain and increased import prices, especially for fuel and food. The consequential high inflation, estimated at 4.7 percent in 2022, raises traveling costs and erodes households' real income, delaying socioeconomic recovery and threatening the food security of the most vulnerable groups. Despite the high inflation, household incomes are expected to increase, and poverty to reduce from 31.3 percent in 2020 to 27.1 percent in 2021. Over the medium term, a decrease in the impacts of the pandemic continued economic recovery, and lower inflation are expected to support jobs and increase real household incomes, leading to a decline in unemployment and poverty. However, economic activity and the job market will only recover to pre-pandemic levels by 2024.

The primary surplus is expected to narrow in 2022 before increasing to 3.6 percent of GDP in 2023, above the FRA-required target of 3.5 percent. A recent court ruling in favor of public officers' claims is expected to incur an EC$ 60 million one-off retrospective fiscal payment in 2022 and additional annual obligations onwards, which level remains uncertain. In addition, public spending will go up in 2022 given the measures to mitigate inflationary pressures from the war in Ukraine, including a reduction on the electricity non-fuel charge, a cap on gasoline and diesel prices, and a VAT exemption on five food items. Despite the additional spending, the primary balance is expected to maintain a small surplus due to the stronger-than-expected revenue collection as of June 2022. Public debt will fall to 67.9 percent in 2022, as a result of positive growth. After 2022 over the medium term, mitigation measure rollbacks and continued revenue recovery are expected to bring back the primary surplus to above 3.5 percent of GDP and reduce public debt at a faster pace.

Risks to the economic outlook are high. Global inflationary pressures will impede real income recovery, increase traveling costs, and further delay the full return of tourism. Potential natural disasters and slower-than-expected growth in major economies may drag down tourism, with significant impacts on growth. Pension-related obligations are expected to worsen the pension system's financial position and give rise to additional fiscal liabilities. A timely return to the FRA is critical to anchoring market expectations and rebuilding fiscal space for risk mitigation and economic recovery. Other institutional reforms will help reduce risks. These include: a comprehensive pension reform, strengthened oversight of state-owned enterprises, improved spending efficiency, a digitally-enhanced tax system, reductions in arrears, and reforms to increase tax progressivity.

TABLE 2 Grenada / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices[a]	0.7	-13.8	5.3	3.8	3.4	3.1
Real GDP growth, at constant factor prices[a]	1.2	-13.7	5.3	3.8	3.4	3.1
Agriculture	-2.3	-14.5	5.2	3.3	2.8	1.9
Industry	-0.6	-14.8	6.5	4.2	2.9	2.0
Services	1.9	-13.4	5.0	3.7	3.6	3.5
Inflation (Consumer Price Index)	0.6	-1.2	2.2	4.7	2.6	1.9
Current Account Balance (% of GDP)	-14.6	-21.0	-24.4	-25.1	-20.1	-13.3
Fiscal Balance (% of GDP)[b]	5.0	-4.6	0.3	-1.7	1.8	2.3
Debt (% of GDP)	58.5	71.4	70.3	67.9	65.6	63.8
Primary Balance (% of GDP)[b]	6.8	-2.6	2.1	0.1	3.6	3.8
GHG emissions growth (mtCO2e)	0.6	-13.5	4.0	1.7	1.5	0.4
Energy related GHG emissions (% of total)	13.6	13.6	13.6	13.6	13.6	13.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ The estimates for the fiscal balance and primary balance for 2020 excluded the Grenlec-related payment.