Grenada

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COUNTRY		CREDIT RATING	REGION	
Grenada		Not Rated	Caribbean	
Real GDP growth (%) [2016]	3.00%		Major Trade Partners	USA 21.8%, St. Lucia 9.7%, Antigua 4.8%, Germany 6.8%
Next General Election	Feb-18		Major Exports (%)	Spices and coffee, Fish, Wheat or meslin flour, Ships, boats and other floating structures
Exchange Rate (XCD/USD)	2.7		GDP Composition	Agriculture 5.5%, Industry 16.6%, Services 77.9%

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK — **STABLE**

GDP growth was estimated at 4.6% in 2015, supported by growth in tourism, agriculture and construction. The agriculture sector benefitted from an uptick in banana production and increased output of cocoa. The tourism sector showed an improvement in 2015, with total arrivals growing 2.8% (406,090 visitors). Importantly, stay-over arrivals rose 4.4 % with the two major source markets, US and UK recording growth of 10.6% and 7.1% respectively, along with growth from the Caribbean (4.1%) and other countries (7.65). The Canadian market was the only decline falling by 25.4%. The increases were due to intensified marketing efforts and increased airlift and room capacity. The construction sector is estimated to have grown, based on the strong growth experienced in both volume and value of imports of construction materials of 21.5% and 10.6%. Credit granted to this sector rose 4.7%, compared to a decline of 19.2% recorded in the same period of 2014. According to ECLAC, the Grenadian economy is expected to moderate to growth of 2.4% in 2016.

INFLATION — **NEGATIVE**

Inflation averaged -1.35% in 2015. The deflation reflected lower prices in most categories particularly Food & non-alcoholic beverages (-1.1%), Housing, Utilities, Gas& Fuels (-2.6%) and Transport (-2.5%). The IMF forecasts prices to remain low with inflation of -0.1% in 2016.

TRADE BALANCE/ BOP — **STABLE**

The trade deficit widened by 5% (XCD857.52 million) in 2015 due to a 14.2% decrease in exports and a 2.9% increase in imports. The major increases in imports were in the Crude materials (20.4%), Chemicals & related products (22.0%) and Miscellaneous manufactured categories (33.8%) while the major decreases in exports were in the Beverages & tobacco (43.1%), Manufactured goods (29.7%) and Machinery & transport equipment categories (36.5%).The IMF estimates that the external current account ended 2015 at a deficit of 15.1% of GDP on the back of stronger tourism receipts and lower international oil prices. The current account was financed through tourism-related FDI and private capital inflows. As a result, foreign exchange reserves rose to 6 months of imports.

FISCAL ACCOUNTS — **STABLE**

The Grenadian government was able to meet all quantitative performance criteria under its IMF program at the end of December 2015. Stronger growth, recent revenue measures, improvements in tax administration and restraint in current expenditure all contributed to a better fiscal outturn. The primary surplus was at 2.2% of GDP (including revenue from citizenship by investment program). The government successfully concluded a debt restructuring program in 2015. The country's debt was reduced from a peak of 107% of GDP in 2013 to 92.7% at the end of 2015.

STRUCTURAL REFORMS

The government has made progress implementing structural reforms, though the pace has been slower than envisioned. In particular:
a.Passage of the Tax Administration Act, due at end-November 2015, was accomplished in early 2016 after a short delay.
b.The Large-Medium and Small Taxpayers Units within IRD, due to be operational by end-2015, were made operational in early 2016.
c.Putting into force the full tax incentive regime, due at end-December 2015, has been delayed and the legislation has undergone various amendments.
While broadly consistent with the intent of the original drafts, the amendments to the tax incentive regime could have revenue implications that will need to be monitored closely.
The key structural reforms for 2016 comprise a revised Labor Code, strengthening public debt management, reforms on the management of the public sector wage bill and steps to remove impediments to private sector activity.

OUTLOOK

The IMF projects a more sustainable rate of growth of 3% as agriculture and tourism moderates in 2016. Growth should be supported by ongoing private investments in major tourism projects, which should positively impact upon the construction sector. Lower fuel cost will support expansion in manufacturing activity as well. In June 2014, Grenada entered into an Extended Credit Facility Arrangement (ECFA) with the IMF in an amount of USD21.7 million. So far, Grenada has accessed about USD3 million after the completion of the third review. A debt exchange with the country's largest private creditor group was concluded in November 2015, which saw a 50% principal haircut of Grenada's external commercial bonds. Once the exercise is fully executed, public debt is projected to decline by 11% of projected 2017 GDP. Fiscal consolidation of 1.9% of GDP is required in 2016 to achieve the 3.5% of GDP primary surplus target under the IMF program and is mandated by the Fiscal Responsibility (FR) Act. Thus far, only one more measure is to be implemented, which is introducing VAT on fee-based banking services.