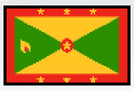

Grenada

Prepared by: Rajesh Ramroop
rajesh.ramroop@firstcitizenstt.com

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First Citizens
Research & Analytics

COUNTRY		CREDIT RATING		REGION	
Grenada		Not Rated		Caribbean	
Real GDP growth (%) [2016]	2.30%			Major Trade Partners	USA 21.8%, St. Lucia 9.7%, Antigua 4.8%, Germany 6.8%
Next General Election				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**

Growth in Grenada during 2014 measured 5.7% following a 3.18% expansion in 2013. Growth during 2014 was driven by a 54% increase in agricultural output, a 30% increase in hotel and restaurants and a 6% increase in logistics activity. Activity in the education sector expanded 5% driven by the expansion of St. Georges University under a new arrangement reached with two new investors, Atlas of Canada and Baring International from Asia. Activity in the construction sector contracted 12% while manufacturing expanded 1.6%. The completion of the Sandals resort in 2013 has continued to boost the tourism and its related services industries.
As at 3Q15 total visitors increased by 3.6% (269,685 visitors) compared to 3Q14. There were increases in arrivals from the U.S (+16%), U.K (+7%) and other countries (+7.7%) however visitors from Canada fell by 12.6%. Cruise ship passengers increased by 2.2% for the period. Tourism is expected to continue its growth pattern in the coming years due to the strengthening of the U.S economy as well as the U.K.
Growth is projected at 3.4% in 2015 and 2.4% in 2016 by the IMF.

INFLATION — **NEGATIVE**

Inflation as at Jul 2015 was reported at 0.07% (end of period). Inflation has continued its low trend (third year) due to depressed global oil prices and weak domestic demand but is expected to rebound in 2016 due to imported inflation. A target rate of -0.7% was projected for inflation in 2015 and 2.0% in 2016 by the IMF.

TRADE BALANCE/ BOP — **NEGATIVE**

Grenada operated a trade deficit of XCD661.46 million for 3Q15 from the XCD613.41 million deficit for 3Q14. Exports fell 18.4% for the period to XCD66.42 million mainly due to decreases in food and live animals (-11.8%), beverages and tobacco (-47.6%), manufactured goods (32.9%) and machinery and transport equipment(38.3%). Imports increased marginally by 4.8% to XCD727.87 million driven by increases in chemical and related products (+24.9%), manufactured goods (+10.5%) and misc. manufactured articles (+7.3%). Foreign currency reserves were estimated at USD100 million in 2015, providing 3.3 months of import cover (BMI).

FISCAL ACCOUNTS — **NEGATIVE**

Grenada's overall fiscal deficit was projected at XCD33.7 million in 2015, improving from XCD114.9 million in 2014. Revenue is projected to increase by 7.6% or XCD38 million mainly due to increases in taxes on goods and services (9.7%) and on international trade (12.1%). Current Expenditure was projected to have fallen 4.6% or XCD22.7 million mainly due to fall of 9.5% in wages and salaries. Capital expenditure and net lending fell 19.7% to XCD182.1 million. The primary balance is forecasted at XCD56.9 million in 2015 from –XCD27.6 million one year earlier.

DEBT / SOVEREIGN RATING

On Jan 8, 2015 the government of Grenada concluded a comprehensive agreement to restructure its USD36.6 million (XCD98.8 million) indebtedness to the Export-Import (Exim) Bank of Taiwan. The agreement reduces the principal outstanding on the loan by 50%, resolves Grenada's dispute with Exim Bank and puts an end to the bank's legal proceedings in the New York courts. Under the terms of the agreement, the reduced balance on the loan will be repayable over 15 years – including a grace period of three and a half years – at an interest rate of 7%. The agreement also includes a 'hurricane clause', which will allow Grenada to defer payments for a predetermined period should a natural disaster affect the government's ability to service debt in a timely manner in the future.

In April 2015, Grenada reached an agreement with creditors to restructure some USD262m-equivalent in defaulted international and local 2025 bonds. Bondholders agreed to an overall principal reduction of 50% after exchanging their holdings for a new 15-year amortizing bond that carries a 7% coupon. Half of the 50% haircut will take effect upfront. The remaining reduction will take effect on the successful completion of the International Monetary Funds' last review of an extended credit facility that is expected to end in late 2017 or early 2018. As an additional compensation for their losses, bondholders will also receive a portion of the revenues that may be generated by the island's Citizenship by Investment program.

On October 31, 2014 rating agency Standard and Poor's affirmed their 'SD/SD' long and short term sovereign issuer credit ratings on Grenada and its 'D' ratings on Grenada's senior unsecured debt and then subsequently withdrew their ratings from the country.

OUTLOOK

Following Grenada's default in 2013, public debt reached 107.9% of GDP and resulted in a debt restructuring deal with the IMF. The deal encompasses a three-year arrangement for a total amount of approximately USD21.7 million. Financing has also come from the Caribbean Development Bank (CDB) and World Bank (WB). Combined, the CDB (USD30 million) and WB (USD35 million) are providing USD65 million in concessional financing to Grenada over 2014-2017. Tourism and agriculture are Grenada's main revenue earning sectors. Grenada is the second largest nutmeg producer in the world. Positively, investments from the UN Development Program and the Canadian government have improved technology and boosted production levels in the nutmeg sector. Tourism is expected to grow due to the positive outlook for the United States, one of the country's major markets in 2015. The Citizenship-by-investment (CIB) program has come on-stream and will provide a boost to revenue. The government has stated that all CIB fees will be paid directly to the budget for general budget financing. There has also been a significant equity investment into St. George's University (USD750 million), the largest employer on the island which could provide positive spillovers to growth. The current low oil prices will have an effect on the country's import bill but can also put the Petrocaribe agreement under jeopardy. A change in the terms of agreement or cancellation of Petrocaribe can have a negative effect on the island's external position. Grenada's public debt remains negative in both short and long term and is forecasted at 96.9% of GDP for 2015 (90.2% of GDP - 2016). Grenada is slowly recovering from four years of decline but growth, domestic demand and private credit are expected to remain tepid.

First Citizens Research & Analytics holds a negative view on Grenada due to the country's high debt levels, low growth prospects and susceptibility to natural disasters.