GRENADA

Table 1	2020
Population, million	0.1
GDP, current US$ billion	1.1
GDP per capita, current US$	9513.7
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

The COVID-19 pandemic hit Grenada hard both socially and economically. The halt in tourism led to a massive economic contraction and a surge in public debt. Despite the government's support measures to the most affected, the poverty rate is expected to have increased significantly. With tourism resuming gradually over the medium term, the economy is expected to recover. However, risks to the outlook remain high depending on the pandemic's evolution and international travel restrictions.

Key conditions and challenges

Preceding the pandemic, a sustained demand for tourism and strong economic reforms in Grenada drove average real output growth of 4.3 percent annually between 2013 and 2019, higher than the average of 2.8 percent for countries in the Organization of Eastern Caribbean States. Prudent fiscal management anchored by the Fiscal Responsibility Law (FRL) and strategic debt restructuring resulted in a decline in the public debt stock from 108.1 percent of GDP to 59.4 percent in the same period.

Even though the virus' spread was broadly contained in Grenada by February 2021, the pandemic hit Grenada hard economically and socially. Tourism in Grenada fell sharply in 2020, following the almost complete halt of international travel. As a result, GDP is expected to contract for the first time in eight years, and unemployment will rise with a decreasing labor force participation rate. Unemployment among the youth is twice as high relative to the overall working-age population. With a high share of the young population depending on the tourism sector, this segment of the population will likely receive a hard hit. Loss of revenues and increases in public spending to mitigate the crisis' negative impacts have reversed the debt trajectory that had been declining pre-pandemic.

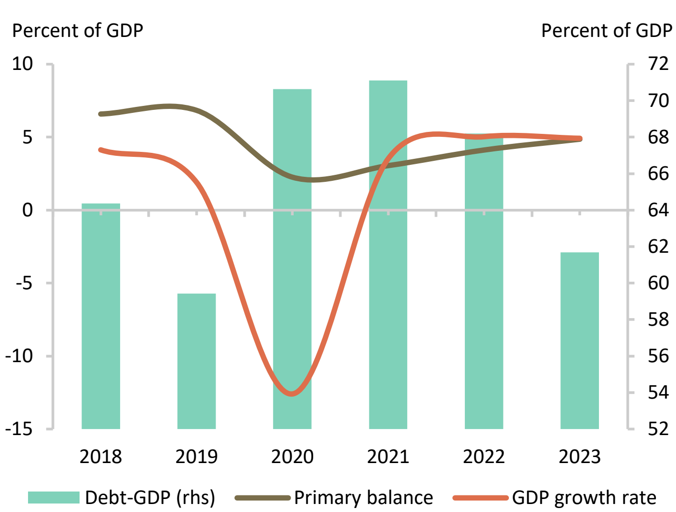
Risks remain substantial, associated mostly with the pandemic's uncertainty and severity, but also with challenges from institutional capacity constraints and Grenada's vulnerability to extreme weather events. The exposure to risks is especially high among the poorest and most vulnerable. Unemployment remained above 15 percent before the pandemic despite years of positive growth, restraining the potential for poverty reduction. Targeted short-term fiscal measures are necessary to contain temporary poverty increases that could otherwise result in long-term economic and social consequences. It is equally crucial for the government to return to the FRL targets once the pandemic abates and continue structural reforms to build resilience over the long term.

Recent developments

Real GDP contracted by an estimated 12.6 percent in 2020, almost doubling the recession following the Global Financial Crisis. Tourism, which accounts for about 40.5 percent of GDP, is expected to shrink by around 65 percent and drive the contraction in economic activities. The private education sector, which contributed to about 20 percent of GDP, is relatively more resilient. However, online learning of international students (more than 7000 in total) outside of the island has led to further domestic demand losses.

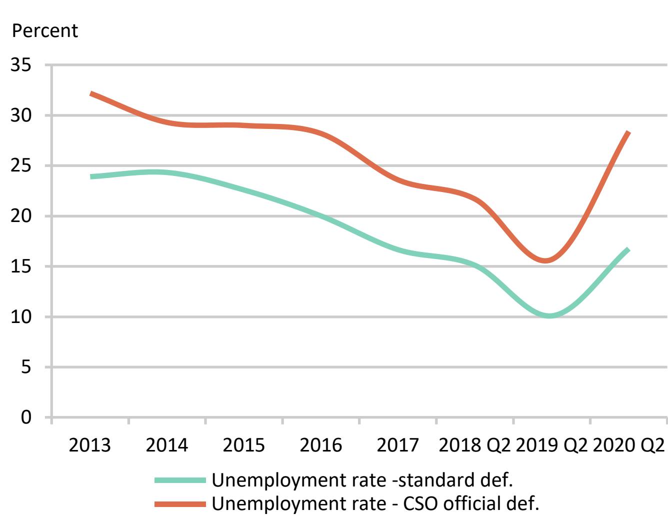
The primary surplus is estimated to have narrowed to 2.3 percent of GDP in 2020, compared with an average of 6.1 percent between 2016-19. Total expenditure increased by 4.5 percent of GDP largely from COVID-related expenditures, including

FIGURE 1 Grenada / The evolution of main macro variables



Sources: IMF; World Bank staff estimates; ECCB.

FIGURE 2 Grenada / Unemployment rate



Sources: Labor Force Survey 2013-2020, Central Statistical Office.

support to households given the fall in labor incomes. Lower tax collections on goods & services and international trade resulted in a decline in tax revenues by around 18 percent year-on-year. General government debt rose by 10 percent of GDP to 70.6 percent in 2020.

The current account deficit is estimated to have risen to 25.2 percent of GDP in 2020, from 15.9 percent in 2019. This reflected the sharp decline in tourism receipts and commodity exports due to interruptions in international transportation. Nevertheless, the slowdown in domestic economic activities also dampened the demand for imports, mitigating the growing external imbalance. After an initial sharp decline, remittances are expected to have rebounded in the second half of the year. Anecdotal information indicated that FDI remained solid, despite the temporary interruption of construction projects in the first half of 2020. The rest of the external financing needs were financed mostly by international development partners.

Outlook

In 2021, GDP is projected to recover modestly at 3.5 percent, given the assumed gradual resumption of international travel in 2021, the expected return of international students, and a rebound in construction projects. However, uncertainty is high depending on travel restrictions and the distribution of vaccines globally.

With the expected return to the FRL in 2022, the debt level is projected to decline gradually to around 62 percent of GDP by 2023, with a primary surplus averaging at 4 percent of GDP over the medium term. However, the gross financing needs are expected to remain high in 2021. Given the severe impacts of the pandemic, the government's support measures are likely to continue in 2021. The ongoing discussions surrounding the deferral of the agreed 4 percent public wage increase for 2021 may lead to additional savings. Public debt sustainability is threatened by the one-off increase in debt levels following the repurchase of the electricity company Grenlec at the end-2020.

While the pandemic's direct health impact has been contained by February 2021, the shock to labor markets remains significant and the poverty rate is expected to increase. With the income and payroll support program focusing on the formal sector, the policy may have limited impacts on the poorest groups. Individuals at the bottom of the distribution are expected to be significantly more affected by the crises, given their higher exposure to the shock and the lack of alternative income sources and limited access to insurance. The severity of the temporary shock may lead to long-term detrimental impacts on the poor households. Without adequate savings or insurance, poor households may be forced to make long-term decisions that are detrimental to their future welfare, such as selling productive assets, which will be hard to acquire or rebuild in the short term.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	4.1	1.9	-12.6	3.5	5.0	4.9
Real GDP growth, at constant factor prices[a]	3.5	2.4	-12.1	3.5	5.0	4.9
Agriculture	3.0	-4.8	-11.7	15.3	5.1	5.1
Industry	9.9	1.8	-14.2	10.9	4.0	4.0
Services	2.2	3.2	-11.6	0.9	5.3	5.2
Inflation (Consumer Price Index)	0.8	0.6	-0.8	1.2	1.7	1.5
Current Account Balance (% of GDP)	-15.9	-15.9	-25.2	-23.6	-20.9	-13.9
Fiscal Balance (% of GDP)[b]	4.6	5.0	0.3	1.0	2.1	3.1
Debt (% of GDP)	64.4	59.4	70.6	71.1	68.2	61.7
Primary Balance (% of GDP)[b]	6.6	6.8	2.3	3.1	4.1	4.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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.