INVESTMENT & SOVEREIGN RESEARCH

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GRENADA

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Overview

Located in the Eastern Caribbean, Grenada is a small island developing state with a population of 110,000. Frequently dubbed the 'spice island', Grenada was once one of the leading exporters of Nutmeg. Agriculture is one of the main sectors as it employs close to a quarter of the labor force. In addition to agriculture, tourism is another mainstay of the economy. Grenada is a member nation of the **Organization of Eastern Caribbean States (OECS)**, which is an inter-government organization between members of the Lesser Antilles. The member nations of the **OECS** have also formed an economic and currency union, governed by the **Eastern Caribbean Central Bank (ECCB)**. The **ECCB** controls and dictates monetary policy for the member nations under the **ECCU (Eastern Caribbean Currency Union)**.

While the member nations of the ECCU have no individual stock markets, there is a regional securities exchange. This securities exchange (Eastern Caribbean Securities Exchange), facilitates primary issuance and secondary market trading of securities. The ECSE has 13 listed equity assets and a wide range of government securities from all 8 member nations in the ECCU. Grenada has 4 listed equities on the ECSE. These entities are: Grenada Co-operative Bank Ltd, Grenada Electric Services Ltd, General Property Corporation Ltd and Republic Bank (Grenada) Ltd.

Tourism and travel employs 16% of the labour force while it contributes 40.5% to GDP directly and indirectly. Agriculture takes up 24% of the labour force but constitutes only 5.84% of GDP. The main exports from this sector are Nutmeg, mace, cardamom and fresh fish. The **Citizenship by Investment Program (CBI)** in Grenada has been fruitful and has provided a pool of funds which the government may use as an additional buffer in times of global economic shock or in the face of a natural disaster.

Over the past 5 years great economic transformation has been experienced as a massive debt overhang has been reduced, continuous and stable growth has been achieved and there has been an increase in private credit locally. How the government manages the fallout from the global pandemic is dependent upon how well they can balance livelihood with the preservation of lives. Maintaining low infection numbers and easing restrictions so as to have consumption and production return is the main challenge with which the government is faced currently. Any sufficient rebound in the economy depends heavily on the global macro situation improving and the virus subsiding.

Economic Transformation

Grenada, since 2014, has enjoyed a fruitful period of economic buoyancy. Growth averaged almost 5%, well over the 2% historical average and has been accompanied by growth in tourism, agriculture and construction. This economic transformation came about as a result of an IMF led restructuring program undertaken in 2014. This program was designed to stabilize public debt, create fiscal space for government and to mitigate any further economic fallouts that may come about. The program was also aimed at improving infrastructure in Grenada as a means of economic stimulation as well as to improve the efficiency and competitiveness of Grenada's main economic sectors.

Grenada has been plagued by a series of hurricanes and tropical storms which have set back agriculture and has ravaged the tourism infrastructure. Once the second leading nutmeg exporter in the world, Grenada has fallen out of the top 10, a testament to how much agricultural output has suffered since Hurricane Ivan in 2004. After the global financial crisis, with agriculture and tourism floundering along with massive unemployment, the government decided to embark on countercyclical policies. Being a member country of a currency union prevented Grenada from setting independent monetary policy so they decided to use fiscal policy to spark a rebuild after a decade of natural disasters and the 08/09 global financial crisis.

Consistent fiscal deficits were run and continuous borrowing ensued but there was however no commensurable growth recorded. Structural obstacles as well as haphazard fiscal rules and policies stood in the way of growth. After the derailment of Fund Supported Programs in 2012, there was a situation which saw persistent deficits, unsustainable debt and low growth. The government in March 2013, defaulted on their EC and US $ denominated 2025 bonds and said they would be seeking a 'comprehensive and collaborative restructuring of these bonds' as they do not have the finances to meet the payments.

The successful restructuring which was concluded in November of 2015 saw high creditor participation which triggered a collective action clause. Creditor groups agreed on a 50% haircut as well as a coupon rate of 7% along with a 15 year tenor for the new restructured bonds. For the few holdouts, they were contacted and allowed to participate in the exchange after it was concluded in November. These new restructured bonds include a "Hurricane Clause" which specifies an immediate debt moratorium in the event that a natural disaster strikes. In total, 64% of the total outstanding stock of debt was restructured by 2016. This set the platform for a growth renaissance, as now the government had fiscal room to implement better policies targeted at removing bottlenecks and fostering an investment friendly climate. This debt restructuring along with the IMF Extended Credit Facility arrangement set the precedence for the growth which ensued from 2016 onwards.

Figure 1: Grenada's Economic Performance

Grenada's Economic Performance						
Indicator	2015	2016	2017	2018	2019	2020F
Real GDP Growth	6.50%	3.70%	4.50%	4.10%	3.00%	-13.70%
GDP Per Capita ($US)	9097	9627	10165	10833	11088	9,736.00
Revenue (% GDP)	24.50	26.20	25.60	26.10	25.70	23.9
Expenditure (% GDP)	25.60	24.40	22.50	21.30	21.30	26.2
Fiscal Balance (% GDP)	-1.10	1.80	3.10	4.80	4.40	-2.30
Current Account Balance (% GDP)	-10.40%	-11.00%	-14.40%	-15.90%	-15.80%	-27.4
Debt/GDP	90.00%	82.10%	70.00%	64.30%	58.70%	68.75%
Interest Payment (% GDP)	0.61%	1.76%	1.85%	1.60%	1.24%	1.57
Total Visitor Expenditure - EC$m	392.52	372.40	407.59	537.15	458.00	114.5

Source: Fitch, JMMBIR

Grenada's macrofiscal numbers give a more definitive picture of the magnitude of economic stability that was achieved since the turnaround project commenced in 2014. Leading up to 2020, Grenada had recorded healthy growth in real GDP and per capita GDP. Their GDP per capita has moved from below the LATAM average of US $9,000 to well above this average as it stood at over US $11,000 in 2019. The government was also able to increase their revenue base while using fiscal consolidation measures to reduce expenditure which led to fiscal surpluses. This also aided in the great reduction in the level of public debt as with no additional need for financing, the government did not add to its current debt levels. The greatest contributor however to the falling Debt/GDP level was the successful debt restructurings after the 2013 default.

Since peaking at 6.5% in 2015, growth in real GDP has comfortably been above 3.5% per annum except for 2019 where it slowed marginally to 3%. This growth has stemmed from policy changes which has enabled the private sector to be the main driver for growth in the economy. The liberalization also of the nutmeg and cocoa sectors made them more efficient and globally competitive. Additionally, the investment in public infrastructure has also contributed to the growth in this economy.

In order to stabilize their fiscal position, Grenada made structural changes to not only expenditure, but also revenues. Along with the implementation of a more effective and mutually benefiting tax regime, Grenada also upgraded the Inland Revenue Department (IRD), which aided in better revenue collection measures. Since these upgrades and tax policy measures were enforced, the government has seen a climb in revenues. Since 2016, revenues as a percentage of GDP has consistently been above 25%. Since the onset of the global pandemic however, preliminary forecasts indicate that revenues as a percentage of GDP will decline to roughly 23.9%. This decline will be brought about due to the effect of the virus containment measures on local economic activity as well as international trade, from which the government generates 50% of tax revenues.

Fiscal consolidation measures have been implemented effectively and have seen Grenada contain expenditure. Covid-19 has however caused a greater than previously forecasted increase in expenditure for 2020. Streamlining of the spending on goods and services, containment of government's wage bill as well as capping expenditure based on the growth of GDP has seen the fiscal position of Grenada improve. Expenditure as a percentage of GDP fell from over 25% in 2015 to a low of 21.3% in 2019. Grenada also experienced a fiscal surplus for the first time in a decade in 2016, thanks to the revenue and expenditure measures implemented.

The effectiveness of the government's fiscal measures translated to the debt numbers. The capping of the expenditure led to less need for government to partake in deficit financing. The main drivers however for the reduction in the debt numbers, were the comprehensive debt restructurings undertaken. After the 2013 default, Grenada managed to effectively restructure their debt with both international and local creditor groups. These restructurings provided great liquidity relief as well as decreased the total stock of outstanding debt as the creditor groups took haircuts in the restructuring process. The multiple debt restructurings as well as the running of fiscal surpluses saw Grenada's Debt/GDP fall precipitously from over 100% to 59% in 7 years.

Grenada, being a small relatively uncompetitive economy has a relatively troubling external position. The significant reduction in nutmeg exports due to the impact of natural disasters on the crop has also compounded the issues faced by Grenada's external position. Grenada is yet to return to the top 5 exporters of nutmeg in the world, a place which it held prior to Hurricane Ivan in 2004. Imports of goods and services has grown faster than the exports of the same has grown. This coupled with Grenada's lack of competitiveness in many sectors including tourism, has seen the current account deficit continue to be sizeable. Recent booms in construction as well as the benefits gained from the presence of St. George's University (an offshore university), has kept the current account deficit stable between -11% and -15%. There has been significant concern however, as any global shock can pose a serious challenge for the country's external position, and this has been the case with Covid-19.

The stabilization of macroeconomic fundamentals over the past 5 years, has enabled Grenada to somewhat weather the global shock in the short to medium turn. The challenge however with the current shock is the uncertainty in the length of the shock as well as the overarching challenges it poses to most macroeconomic fundamentals. Containment measures have not only reduced the level of economic activity but reduced government revenues and has called for an increase in current expenditure. The effect of this shock has placed the economy in a semi-standstill state, where growth is expected to slump by greater than 13%. We expect that economic resurgence will be dependent upon how well the current economic fallout is mitigated, how quickly the pandemic takes to subside and how soon the global macroeconomy sees some semblance of normality.

Agriculture

As per 2019 estimates, Agriculture's contribution to GDP (5.84%) has been above the levels recorded prior to Hurricane Ivan in 2004 for only the 4th time. Grenada was once the second largest exporter of nutmegs in the world but hurricanes and tropical storms severely battered the crop. Recently however, production and exports of nutmeg have been ramped up. Nutmeg along with mace and cardamom currently accounts for 24.7% of total exports. Other main crops include cocoa and bananas, the latter of which has suffered from production related challenges as well as difficulties competing in export markets. Fish, excluding fillets accounts for 24.1% of exports. They are also among the top exporters of fish in the Caribbean. Grenada has a vibrant fisheries sector which has contributed to the growth in the overall economy.

The outlook for this sector is confined by headwinds and the risks are very elevated. Grenada is very exposed to the effects of climate change and their geographic composition make them very susceptible to damage that any tropical storm or hurricane may bring. The main counterbalance to these risks is Grenada being a member of the Caribbean Catastrophe Risk Insurance Facility. This facility acts as an insurance plan for disasters which may ravage the country, mainly the agriculture sector. Additional measures which the government could implement include tapping into the Citizenship by Investment Program funds to use as support for the sector in the event of a natural disaster.

Tourism

Contributing over 40% to GDP directly and indirectly, tourism and travel represent a huge portion of the Grenadian economy. Tourism also accounts for 16% of total employment. Grenada previously was seen as uncompetitive however public private partnerships improved this sector's competitiveness. The construction of new resorts which increased the available room stock improved the total number of visitor arrivals to Grenada. The best year for Grenada in tourism came in 2018 as total visitor expenditure increased by 32% to over EC $507 million.

There has been a continuous push to remove structural obstacles in order to unlock growth and gain a greater market share. The government had previously secured a US $66 million loan to expand the Maurice Bishop International airport. Prior to the start of 2020, there were plans in place for the construction of 6 new large luxury resorts by several private investors. Some of these plans may have been put on hold until there is some amount of certainty as to the speed of the recovery of this sector. Indicators such as tourism accounting for the second highest loans by sector, pointed to the viewpoint of tourism being a key area of opportunity for growth prior to 2020.

The onset of the novel coronavirus has totally changed the outlook on tourism. The sector is now one with substantial risks as any improvement in visitor arrivals not only depends on the virus being fully controlled, but also an improvement in the economies of the countries from which the bulk of tourist arrivals originate. Global travel and tourism has already decreased by over 70% year to date and will remain restrained for the short to medium term. This places pressure on the external position of Grenada as lower inflows of foreign exchange will lead to issues financing the balance of payments and may see reserves dwindle.

In recent times, international pharmaceutical companies Pfizer and Moderna have reported 90% and 95% success with new vaccines respectively. This is welcome news based on initial results and could help to slowly end the pandemic.

Citizenship by Investment (CIP)

The Citizenship by Investment Program (CBI), was launched in August of 2013. The government mandated an international citizenship agency to revitalize and re-launch the program in 2016. The conditions of the program state that interested applicants have the option of i) donating a minimum non-refundable contribution to the National Transformation Fund of USD 150,000 for a single applicant and USD 200,000 for a family of up to four members or ii) a minimum of USD 220,000 as a co-owner in qualified real estate to acquire property from a government real estate project and maintain this project for at least 5 years.

As per the 2019 estimates, the program has generated close to US $55 million. Since inception the program has granted just under 3000 passports. The funds generated by the CBI have impacted government's books and there are currently calls to use the pool of funds as a repository from which to draw in the event of a natural disaster.

Construction

Since economic conditions improved in 2016, construction started to flourish. The government's continuous investment in physical infrastructure coupled with an influx of private investments in real estate and tourism projects were the main contributors to this boom. An increase in hotel room stock was the main growth driver in 2017 as both the construction and the resulting visitor inflow led to a 3.1% growth. The **CBI** program also has contributed to the growth in construction as an investment in a real estate project is an avenue by which interested applicants may gain citizenship.

There was a slight slowdown in the construction industry, but by late 2019, the outlook for the sector improved. Trinidad Cement Limited (TCL) in October, incorporated a subsidiary in Grenada which would primarily engage in the business of selling cement and cement related products. TCL stated that this decision was because they plan to expand sales and capitalize on opportunities in new markets. Several projects were slated to begin in 2020, some of which have already started. Six luxury resorts as well as the expansion of the Maurice Bishop International Airport were scheduled to commence in 2020.

Banking in Grenada

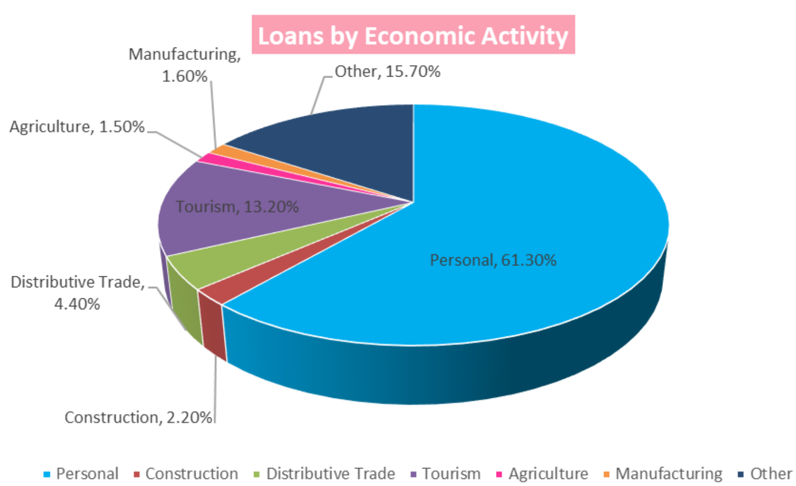
RBTT Bank Grenada Ltd, Grenada Co-operative Bank Ltd, CIBC First International Bank and Republic Bank (Grenada) Ltd are the main banks in the sector. The latter of these banks acquired Bank of Nova Scotia's operations in November of 2019 and consolidated it with their already existing subsidiary. These banks have enjoyed relatively smooth operations and in 2019 reported capital and liquidity above the regulatory norms.

While these banks have enjoyed smooth operating relationships, there is need for enhanced monitoring of financial sector vulnerabilities in order to maintain correspondent banking relationships. The banks continue to address AML/CTF requirements, which is somewhat easier for them to do than other banks in other ECCU countries based on their expertise, i.e. they are guided by strict restrictions from their parent companies.

The level of NPL/Gross Loans stands at 2.2% as at December 2019, the lowest in the ECCU region (ECCU average NPL ratio is 10%). Before the economic turnaround ensued, there was a period of deleveraging whereby bank credit to the private sector shrunk continuously. Enforcement procedures for delinquent loans as well as improved soundness and economic growth has seen this deleveraging period come to an end.

Figure 2 below shows the breakdown of commercial bank loans by economic activity. Personal loans make up the bulk of loans distributed by banks, at over 61.3%, while agriculture accounts for 1.5% of loans.

Figure 2: Loan Disbursements by Economic Activity

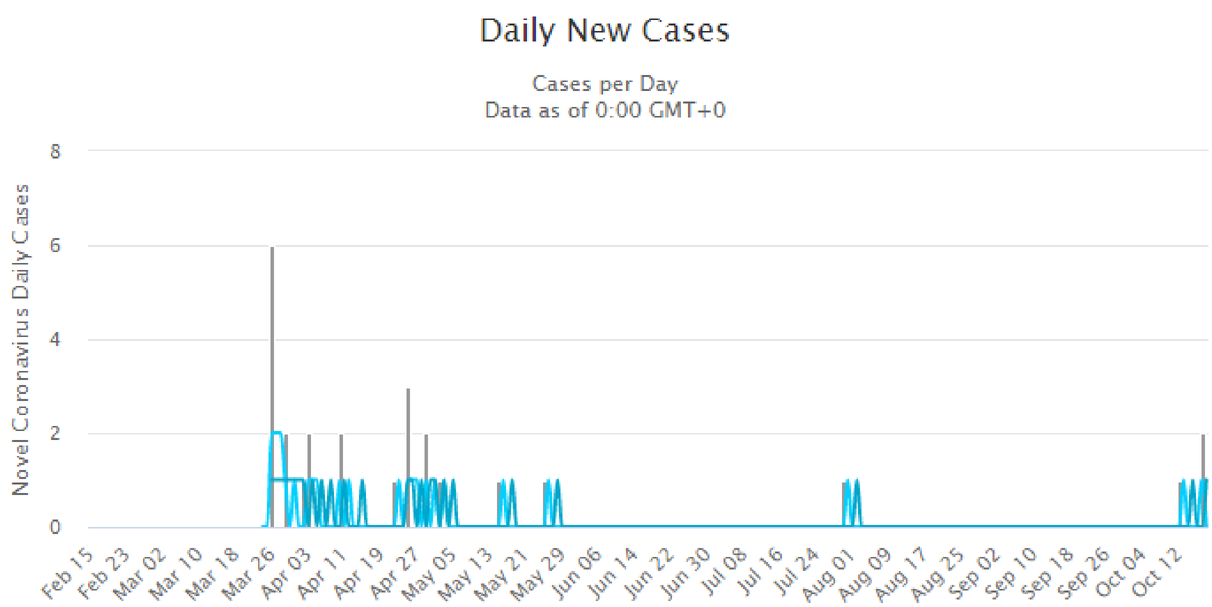


Source: ECCB, JMMBIR

Being one of the most sound banking sectors in the ECCU does not come without concerns. These concerns are however not directly related to the main banks themselves but more so the financial sector. The domestic credit union sector has been growing however their NPL ratio is slightly elevated at 5.5%. Additionally all financial intermediaries have significant exposure to the real estate and construction sector.

The ECCB recommended a 6 month moratoria as well as a waiver for late fees and charges in April of 2020. This recommendation is extendable upon review by the ECCB and key stakeholders. Going forward, we expect to see an increase in the level of non-performing loans as a steep fall in economic activity coupled with the composition of loans by sector point to creditors having difficulty honoring debts in the short term.

Covid-19



After the recording of the first positive Covid19 case, strict lockdowns were implemented in an attempt to control the spread of the virus. The measures implemented mainly include 24 hour curfews with designated shopping days as well as a full closure of the nation's airports to all passenger traffic. Despite these strict measures, community spread was seemingly reached within just one month. The ministry of health however, through a partnership with St. George's University, testing was amplified and 24 hour lockdown measures remained in place. Cases started to decline and ***in June, the health ministry declared that there were no more active cases***.

The fiscal space created from 7 consecutive years of economic growth allowed the government to be able to roll out a comprehensive stimulus package. Valued at close to 2% of GDP, this package contained assistance for the vulnerable, persons temporarily and permanently laid-off as well as hoteliers, farmers and small businesses. Other relief came in the form of loan moratoria and late fee waivers granted by the banks on the advice of the ECCB.

Both the virus and the measures implemented to halt and prevent further spread have done a number on the economy. Restrictions on movement have affected production, consumption and international trade, all of which are 3 main economic components of any small island developing state. Forecasts indicate that the economy will contract by 13%. This contraction is due in part to the total halting of the tourism sector, decreased international trade and the constricting of the country's general business activity. We also expect the government to run a fiscal deficit for the first time in 5 years and face balance of payment difficulties. The BOP difficulties will come about foreign exchange receipts dry up due to the cessation of tourism and the halting of operations at the St. George's University.

To help meet potential shortfalls and to help finance its operations, Grenada approached the IMF for a disbursement under the Rapid Credit Facility (RCF). This disbursement totaled SDR 16.4 million of USD $22.4 million. This disbursement almost doubled what was previously owed to the IMF (US $14 million). The nation received additional funding via a Caribbean Development Bank loan of US $5.9 million. These loans will weigh on the debt numbers and will push the level of Debt/GDP to 68%. These funds will be used to support balance of payment shortfalls, as well as finance budgetary deficits which will arise due to increased expenditure on health care to combat the virus and social security to ensure that the economically vulnerable are protected.

The Paris Club which represents a significant creditor group, approved a moratoria on Grenada's debt repayment from May 1 to December 31. This unprecedented grant received, will see the government having an extra USD $15.4 million which they have earmarked to assist in the fight against Covid-19. The government however decided to make debt repayments on May 12 so as to not be in default while a decision was pending. The Paris Club has stated that they will work closely with Grenada during the implementation stage of this moratoria and if possible may consider extending the moratoria period.

As it stands on October 19, 2020, Grenada has had 27 cases of the novel virus, 24 of which have recovered.

Outlook

Grenada is susceptible to global macroeconomic trends being a small open economy which relies on tourism and international trade. We expect that the continuation of the global downturn will weigh negatively on the economy of Grenada. The cessation of tourism for half of the year has derailed previously positive projections. Global travel and tourism has fallen and will remain subdued until the novel virus subsides. Forecasts indicate that global travel will not return to normal until 2022. While the government has reopened its borders and restarted tourism, occupancy still remains low. Global cruise lines will not resume operations for the foreseeable future and many persons remain apprehensive about traveling.

We expect the economy will remain weak and there will be challenges financing fiscal and balance of payment needs due to a drop in receipts from tourism and the St. George's University. The government is expected to run a fiscal deficit of close to 3% as there will be increased spending on the health sector and stimulus measures while government revenues fall. Loans from the IMF and the CDB will provide relief and will place some pressure on the debt numbers. A moratoria received from its main creditor group has however provided liquidity support.

Government's preliminary budget showed that a majority of its expenditure, 55%, was to be used for both physical and economic infrastructure. The budget has since been reworked to include expenditure related to the combating of the virus via health sector improvements as well as the rollout of stimulus packages. Due to the length of the pandemic, there may be further need to introduce additional stimulus measures which would put a further strain on finances. A streamlining of investment projects as well as delaying of some projects seems to be the way forward for this sovereign as they try to navigate through the crisis.

While we expect tourism to only return on-stream when global travel normalizes, agriculture and construction seem to have started to recover. The government will seek to stimulate the economy and help generate employment by commencing some of the already planned physical infrastructure projects while providing support for the agriculture sector so they may be able to return to previous production levels in the medium term. Agriculture however still faces elevated risks as a repeat of the previous decade's natural disasters would totally flatten the sector once again. Even though the government has Catastrophe Risk Insurance, a loss of crops would still be a major setback for industry players.

Local and global factors point to the economy of Grenada remaining subdued for the next 6-12 months with only a few sectors returning close to normality. That said, the recent announcements by ***Pfizer and Moderna are encouraging and suggest light at the end of the tunnel*** which could signal an end to the pandemic.

Source: Fitch-Connect, Bloomberg, S&P Global/RatingsDirect®, ECCB, NowGrenada, Moodys.com.

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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