

GRENADA

Key conditions and challenges

Table 1 **2023**

Population, million	0.1
GDP, current US\$ billion	1.3
GDP per capita, current US\$	10524.5
International poverty rate (\$2.15) ^a	0.3
Lower middle-income poverty rate (\$3.65) ^a	1.3
Upper middle-income poverty rate (\$6.85) ^a	13.8
Gini index ^a	43.8
School enrollment, primary (% gross) ^b	83.4
Life expectancy at birth, years ^b	75.3
Total GHG emissions (mtCO2e)	2.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2022).

Despite the devastation of Hurricane Beryl, Grenada's economy is anticipated to continue growing, supported by tourism and construction. Even with greater fiscal needs for post-Beryl reconstruction efforts, the country is expected to reduce its debt, helped by strong revenues. Building climate resilience and closing infrastructure gaps will be critical for Grenada to maintain inclusive growth and continue reducing poverty and inequality.

From 2015 to 2019, Grenada's economic performance surpassed those of its eastern Caribbean peers, with an average growth rate of 3.3 percent, relatively low public debt, and continued poverty reduction. Growth has been driven by construction and tourism, supported by structural reforms initiated in 2015. The 2023 Fiscal Resilience Act (FRA) further enhanced Grenada's fiscal policy framework by simplifying rules, broadening the definition of public debt to include State-Owned Enterprises (SOEs), and strengthening the role of the medium-term fiscal framework as a fiscal policy guiding tool. The Eastern Caribbean Currency Union's fixed exchange rate anchors low inflation and price stability. Grenada's financial sector remains stable and liquid.

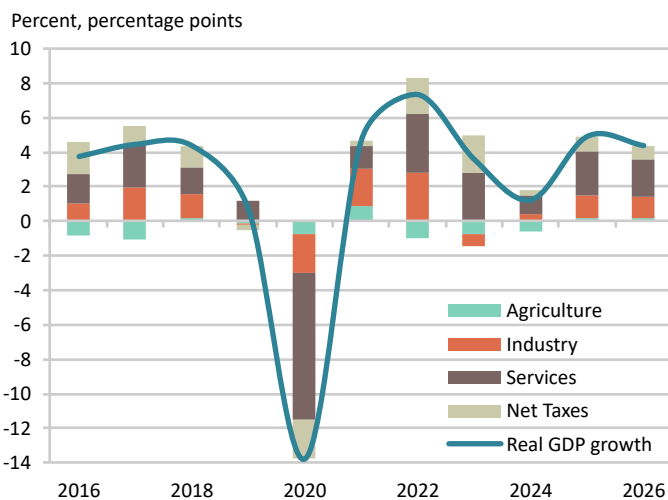
However, vulnerabilities remain. The country is highly vulnerable to natural hazards, which are expected to increase in intensity and frequency with climate change. Income inequality, measured by the Gini index, was estimated at 44 points in 2018 (the latest year with data available), which is a relatively high level by global standards. Gender disparities in access to economic opportunities persist, and youth unemployment remains significantly above the national average. The

management of the Investment Migration Agency (IMA) program, a critical source of financing for Grenada, needs to be further improved to increase spending efficiency. A post-Hurricane Beryl recovery plan, a return to the fiscal rules over the medium term, more effective social protection programs, and additional structural reforms are needed to sustain inclusive growth, reduce poverty and inequality, and strengthen climate resilience. Targeted policies to boost job creation and skill development for women and youth are also required.

Recent developments

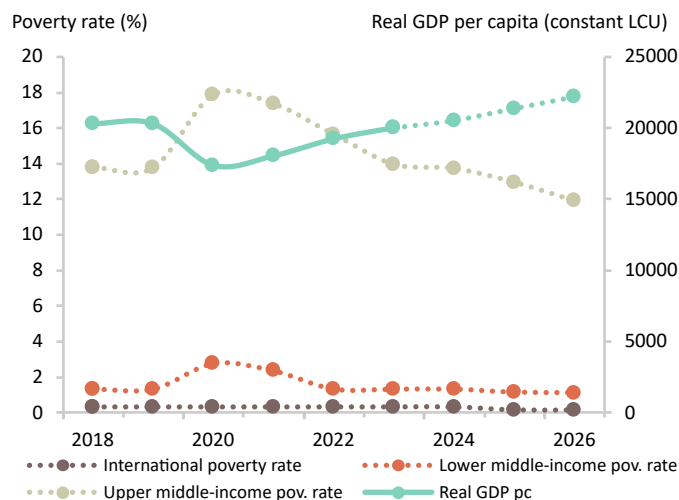
Economic growth decelerated to 4.7 percent in 2023 as the recovery in tourism was offset by a downturn in agriculture and construction, which were impacted by adverse weather and delays in project completions. Hurricane Beryl, which hit the island in July 2023 left damages currently estimated at 16.5 percent of 2023 GDP. Stayover arrivals that surpassed pre-COVID levels during the first six months of 2024, partially offsetting the economic impacts of Beryl. Inflation remained at 2.2 percent in 2023, mostly driven by increases in food prices, resulting from underperformance in the agriculture sector, but eased to an average 1.3 percent year-on-year in the first five months of 2024. The unemployment rate dropped from 12.0 percent in 2023Q2 to 8.5 percent in

FIGURE 1 Grenada / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank staff calculations.

FIGURE 2 Grenada / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

2024Q1. However, it continues to be significantly higher among women (10.8 percent) and the youth (19.1 percent). Poverty (\$6.85 a day in 2017 PPP) is estimated to have declined from 15.6 percent in 2022 to 13.9 percent in 2023, reaching pre-pandemic levels (13.8 percent in 2018).

The current account deficit reached 13.9 percent of GDP in 2023. Remittance inflows increased to 5.8 percent of GDP in 2023 from 5.5 percent of GDP in 2022, below their pandemic peak. IMA inflows were larger than expected in 2023, supporting both public and private investment. Foreign Direct Investment (11.3 percent of GDP in 2023) helped finance the external deficit, as did loans from multilateral and bilateral development partners.

The fiscal surplus reached 8.4 percent of GDP in 2023, as revenues increased to 35.8 percent of GDP owing to higher IMA revenue inflows and buoyant economic activity. Public sector debt ratio increased to 75 percent of GDP in 2023, reflecting the FRA that was introduced in 2023 and broadened debt coverage by including debt of all SOEs.

Outlook

Growth is projected at 3.2 percent in 2024, with an average of 4.4 percent over the medium term. This projection reflects the re-construction efforts and a recovery in both the agriculture and tourism sectors. Given Grenada's heavy reliance on imports, the high import prices will continue to impose considerable pressures on the restaurant and food industry. Inflation is projected at 2.1 percent in 2024 and converge to 2.0 percent thereafter. The current account deficit is projected to widen to 17.5 percent of GDP in 2024 and remain elevated, as reconstruction efforts and food import demand offset the expansion of tourism receipts. Gains in poverty reduction will stall in 2024, with poverty (at the line of \$6.85 a day in 2017 PPP) projected to stay around 14.0 percent. As the economy recovers, poverty is expected to return to its downward trend, reaching around 12.0 percent in 2026.

Fiscal expenditures are expected to rise in 2024 amid post-hurricane reconstruction and higher wages. However, it is projected

to decline thereafter as lower capital spending, coinciding with a reduction in IMA inflows. The robust implementation of compliance strategies by the Inland Revenue Department (IRD), substantial receipts from the IMA program, and relatively vibrant economic activity buoyed revenue collections to 40.2 percent of GDP in 2024. Nonetheless, tax revenue collection is projected to normalize in the medium term, reaching an average of 30 percent of GDP. As a result, the fiscal balance will remain in an average deficit of 0.7 percent of GDP. Public debt (71.5 percent of GDP in 2024) is expected to continue its downward trajectory, as the Government is not expected to rely on additional borrowing to finance its recovery efforts.

External risks are mainly on the downside and are associated with the uncertainty around geopolitical tensions, the possibility of a global economic slowdown, and renewed increases in commodity prices. Domestically, a faster implementation of construction projects could spur a new wave of economic growth. In contrast, the country's vulnerabilities to natural disasters, and volatility in CBI inflows could negatively impact future growth.

TABLE 2 Grenada / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.7	7.3	4.7	3.2	4.7	4.4
Real GDP growth, at constant factor prices	5.2	6.2	2.2	3.2	4.7	4.4
Agriculture	15.7	-16.8	-18.1	-6.5	5.1	4.5
Industry	15.3	17.4	-2.9	2.1	7.1	7.5
Services	2.0	5.5	5.2	4.0	4.0	3.5
Inflation (consumer price index)	1.4	2.6	2.6	2.1	2.0	2.0
Current account balance (% of GDP)	-14.5	-11.1	-13.9	-17.5	-13.2	-12.2
Fiscal balance (% of GDP)	0.3	0.9	8.4	-0.7	-1.5	0.0
Revenues (% of GDP)	31.6	32.9	35.8	40.2	30.0	29.7
Debt (% of GDP)^a	71.4	64.5	75.0	71.5	69.8	68.5
Primary balance (% of GDP)	2.1	2.6	10.1	1.0	0.2	1.7
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	0.3	0.3	0.3	0.3	0.1	0.1
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	2.3	1.3	1.3	1.3	1.1	1.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	17.3	15.6	13.9	13.7	12.9	11.9
GHG emissions growth (mtCO₂e)	0.8	1.1	1.2	0.9	1.7	1.6
Energy related GHG emissions (% of total)	13.0	13.2	13.3	13.4	13.8	14.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The debt coverage over the period 2023-2026 was expanded to include the non-guaranteed debt of all SOEs, aligned with the new FRA.

b/ Calculations based on CONLAC harmonization, using 2018-SLCHB. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.

c/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.