

COUNTRY REVIEW

Grenada



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EULER HERMES COUNTRY RISK GRADE: C

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

| | |
|---------------------|-----------------------------|
| Capital city: | St George's |
| GDP: | USD0.62bn (2009e) |
| Population: | 0.1mn (2009e) |
| GDP per capita: | USD 5,970(2009e) |
| Currency: | East Caribbean Dollar (ECD) |
| Form of state: | Parliamentary democracy |
| Head of government: | PM Tillman Thomas |
| Next elections: | 2013 |

Transfers of power have taken place within a democratic framework since 1983 when US forces invaded to remove a pro-Soviet Junta, ending a decade of instability that followed independence from the UK in 1974. The latest general elections in July 2008 were won by the National Democratic Congress (NDC) and Tillman Thomas took over as PM, replacing former PM Keith Mitchell and his New National Party (NNP) after three successive terms in office. The NDC have a comfortable parliamentary majority. Regional policy will remain dominated by membership of the Organisation of East Caribbean States (OECS) and the Caribbean Community.

Grenada is a small, island, upper middle income economy, which is highly vulnerable to the global, and particularly the US, business cycle owing to the importance of tourism and commodity exports. It is also prone to natural disasters in the form of hurricanes and tropical storms. Real GDP contracted by an estimated 7.7% in 2009 reflecting a sharp decline in tourist arrivals and a collapse in FDI-financed construction activity. A return to modest growth in 2010-2011 can be expected.

Macroeconomic policies operate within the framework of an IMF Extended Credit Facility, which was renewed in 2010. Fiscal consolidation is the main objective of the programme to reduce the public debt-GDP ratio to 60% in the medium-term from 122%. This requires a large fiscal adjustment as the deficit was 7.9% of GDP in 2009 and targeted in mid-2010 to fall to 3.8% of GDP in 2010. Debt sustainability will remain precarious for some time.

Monetary policy is determined by the ECCB and is based on a long-standing currency board arrangement which has pegged the East Caribbean Dollar to the USD for the past 28 years without any change in the exchange rate. Consumer prices fell in 2009 but inflation is expected to be 4-5% yr/yr by end-2010.

The chronically large current account deficit was around 25% of GDP in 2009 and is largely covered by net FDI flows. However, the ECCU has a pooled FX reserve arrangement and the vulnerability of the exchange rate peg depends on broad trends within the ECCU as a whole. As noted above, the peg is of long standing and has weathered the global financial crisis. Moreover, FX reserves increased during 2009 and provided more than 5 months import cover, while net foreign assets were stable over the twelve months to July 2010. However, the region has a large current account deficit, large fiscal deficits and high public debt ratios, which poses some risk to the peg.

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