BRIEFING ON THE ECONOMY

BY

MINISTRY OF FINANCE

JUNE 15, 2011
Overview

- Key Messages
- Recent Economic Developments
- Public Debt
- Wage Bill
- Summary of Challenges and Proposed Solutions
KEY MESSAGES
Key Messages

- The recent global and financial crises can best be described as an economic hurricane. It has derailed Grenada’s growth and reversed progress towards the Millennium Development Goals. **Grenada must increase her resilience to external shocks.**

- Key development priorities are being crowded out because almost 80 cents of every dollar earned goes to wages and salaries and debt payments. **The proportion of revenue spent on wages and debt must be reduced.**

- The reinvention of the Grenadian economy requires fundamental changes including Government not spending more than it earns, debt level reduction, sustainable wage bill management, disaster risk reduction and investments in the transformational sectors. **A social consensus is required to reinvent the Grenadian economy.**
You don’t know who’s swimming naked until the tide goes out

-Warren Buffet
A fairly diversified economy dominated by services...

GDP contribution by Sector 2010

- Agriculture: 5.8%
- Manufacturing: 4.3%
- Electricity & Water: 4.8%
- Construction: 4.6%
- Wholesale & Retail Trade: 6.1%
- Hotels & Restaurants: 4.6%
- Transport, Storage and Communication: 14.7%
- Financial Intermediation: 9%
- Social Security: 7.7%
- Real Estate, Renting and Business Activities: 14.7%
- Public Administration, Defence & Compulsory Social Security: 19.6%
Grenada has suffered multiple shocks in recent years...
FDI flows have dried up in recent years....
Travel receipts have declined in recent years...

Travel Receipts 2006-2011

- TRAVEL RECEPTIBLES (% of GDP)
- AVE. ECCU TRAVEL RECEIPTS (% of GDP)
Private Sector credit has declined precipitously

PRIVATE SECTOR CREDIT
2006-11

<table>
<thead>
<tr>
<th>Year</th>
<th>Ave. ECCU Private Sector Credit</th>
<th>Private Sector Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011p</td>
<td>6.2</td>
<td>7.8</td>
</tr>
<tr>
<td>2010</td>
<td>2.3</td>
<td>5.6</td>
</tr>
<tr>
<td>2009</td>
<td>2.4</td>
<td>4.5</td>
</tr>
<tr>
<td>2008</td>
<td>12.0</td>
<td>15.2</td>
</tr>
<tr>
<td>2007</td>
<td>14.7</td>
<td>20.1</td>
</tr>
<tr>
<td>2006</td>
<td>11.5</td>
<td>18.0</td>
</tr>
</tbody>
</table>
The Financial crisis in the Caribbean is far from over
US$648 million or about 15.3% of the ECCU’s GDP

Estimated loss of annual income: US$37 million, or about 1% of the regional GDP
Import-Export Gap remains wide....

Exports vs. Imports 2006-2011

- Exports (% of GDP)
- Imports (% of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>42.4</td>
<td>4.6</td>
</tr>
<tr>
<td>2007</td>
<td>43.2</td>
<td>5.4</td>
</tr>
<tr>
<td>2008</td>
<td>40.8</td>
<td>4.9</td>
</tr>
<tr>
<td>2009</td>
<td>34.5</td>
<td>4.6</td>
</tr>
<tr>
<td>2010</td>
<td>35.5</td>
<td>3.9</td>
</tr>
<tr>
<td>2011p</td>
<td>36.9</td>
<td>4.1</td>
</tr>
</tbody>
</table>
Inflation has been higher in recent years...
Fuel Prices Are High Across the ECCU …

Gasoline Prices in the ECCU as of June 10, 2011
(EC$ per gallon)

- ANG: 17.79
- ANT: 16.45
- DOM: 15.44
- GRE: 16.21
- MON: 17.50
- SKN: 17.12
- SLU: 15.63
- SVG: 13.60
- ECCU: 16.22
PUBLIC DEBT
Debt to GDP Ratio remains high

Public Sector Debt To GDP (%)

2004 2005 2006 2007 2008 2009 2010 2011
ECCU Debt Remains stubbornly high...

ECCU Public Sector Debt in 2010 (% of GDP)

- ANG: 25.3
- ANT: 82.8
- DOM: 67.0
- GRE: 97.2
- MON: 9.0
- SKN: 156.5
- SLU: 70.0
- SVG: 68.1
- ECCU: 84.5
The wage bill and debt payments is taking up 80 cents of every dollar collected ...
WAGE BILL
Principles of Economic Management to live by…

1. The growth of expenditure should not exceed the growth of revenue.

2. The growth of debt should not exceed economic growth.

3. The growth of the wage bill should not exceed inflation.

4. Only borrow when the social return is higher than the opportunity cost of the debt.
Expenditure has been growing faster than Revenue ...
Wage Bill Concerns

- Wage bill dominates Government spending leaving few resources for investment in public infrastructure and growth sectors.

- Remuneration in the Public Service is uncompetitive particularly for senior managers, policy level staff, some technical and professional staff
## Government Wage Bill 2006 – 2010

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal Emoluments</strong></td>
<td>129,822,142</td>
<td>134,440,733</td>
<td>174,327,416</td>
<td>160,040,483</td>
<td>161,529,118</td>
</tr>
<tr>
<td><strong>Wages</strong></td>
<td>5,511,797</td>
<td>5,806,486</td>
<td>6,155,615</td>
<td>5,424,813</td>
<td>4,900,768</td>
</tr>
<tr>
<td><strong>Professional and</strong></td>
<td>18,907,026</td>
<td>21,461,616</td>
<td>26,165,069</td>
<td>30,124,002</td>
<td>33,005,944</td>
</tr>
<tr>
<td><strong>Consultancy Services</strong></td>
<td>(340)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
<td>14,511,248</td>
<td>14,199,303</td>
<td>18,187,416</td>
<td>20,670,120</td>
<td>20,504,236</td>
</tr>
<tr>
<td><strong>Pensions and</strong></td>
<td>32,936,948</td>
<td>32,682,457</td>
<td>44,575,008</td>
<td>40,900,589</td>
<td>41,533,520</td>
</tr>
<tr>
<td><strong>Gratuities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$201,692,161</td>
<td>$208,590,595</td>
<td>$269,410,524</td>
<td>$257,160,007</td>
<td>$261,473,586</td>
</tr>
</tbody>
</table>
# Size of Public Service 2007 – 2010

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established</td>
<td>4,618</td>
<td>4,791</td>
<td>4,923</td>
<td>5,030</td>
</tr>
<tr>
<td>Unestablished</td>
<td>173</td>
<td>158</td>
<td>219</td>
<td>208</td>
</tr>
<tr>
<td>Professional and Consultancy</td>
<td>320</td>
<td>866</td>
<td>997</td>
<td>987</td>
</tr>
<tr>
<td>Project Staff</td>
<td>1,360</td>
<td>1,529</td>
<td>1,003</td>
<td>945</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,471</strong></td>
<td><strong>7,344</strong></td>
<td><strong>7,142</strong></td>
<td><strong>7170</strong></td>
</tr>
</tbody>
</table>
Wage Bill Growth vs Current Revenue Growth
The rising compensation bill has required cuts in capital expenditure that could have generated growth…
The proportion of compensation as a share of revenue in Grenada is high compared to other ECCU countries, especially after Antigua and Barbuda cut its wage bill as part of its fiscal consolidation efforts.
## Relative Take Home Pay Across the ECCU

<table>
<thead>
<tr>
<th>Country</th>
<th>Highest Income Tax Rate (%)</th>
<th>VAT (General %)</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>25</td>
<td>15</td>
<td>First $3,000 of monthly income</td>
</tr>
<tr>
<td>Dominica</td>
<td>36</td>
<td>15</td>
<td>$20,000</td>
</tr>
<tr>
<td>Grenada</td>
<td>30</td>
<td>15</td>
<td>$60,000</td>
</tr>
<tr>
<td>Montserrat</td>
<td>30</td>
<td>None</td>
<td>$15,000</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>8% social services levy</td>
<td>17</td>
<td>None</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>30</td>
<td>None (prep. underway)</td>
<td>$17,000</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>32.5</td>
<td>15</td>
<td>$19,000</td>
</tr>
</tbody>
</table>
Pensions

- The non-contributory aspect of the arrangement places *a burden on Government*.

- The absence of universal pension provision for all government employees is *unjust, inequitable and is a disincentive to attract the best talent*.

- Pensions are deferred salary payments. *Future salary negotiations recognise the impact of pensions on Government’s accounts.*
An Ideal Pension System

- Equitably shares the burden of the contribution rate such that it is neither a fiscal burden on the State nor is it a disincentive to work.

- Is contributory to inculcate the saving habit and minimize dependency.

- Integrates the State schemes into the national social security schemes so that the benefits dovetail and consistent with each other.
CHALLENGES AND PROPOSED SOLUTIONS
Summary of Challenges

- **Little or No Economic Growth**
  - Grenada has experienced a sharp reversal in growth especially in 2009-10
  - FDI has dried up – at least US$700 million in tourism projects on hold
  - Collapse of two regional insurance companies constraining recovery (15.3% of GDP of Eastern Caribbean Currency Union)

- **Rising Debt Servicing**
  - Growth assumptions in the DSA (2005) have not held
  - Step-up coupons on restructured commercial debt
  - 30% of current revenue

- **Rising Food and Fuel Prices**
  - Expanded safety nets required to deal with rising unemployment and poverty

- **Protracted Period of Fiscal Consolidation**
  - Cuts in capital expenditure compromising growth
  - Significant adjustment required to improve primary balance
Proposed Solutions – Put the Big Rocks First

- **Maintain fiscal discipline and macro-economic stability**
  - Enact fiscal responsibility legislation (entrench in Constitution)
  - Reduce debt level through a comprehensive restructuring
  - Cap wage bill and pursue sustainable wage bill management
  - Cap and streamline safety nets
  - Reduce tax rates and minimise concessions

- **Promote Growth**
  - Embrace and invest in the transformational sectors
  - Focus capital expenditure on growth sectors
  - Implement the Growth and Poverty Reduction Strategy
  - Implement Investment Promotion Strategy

- **Strengthen Implementation Capacity**
  - Establish National Economic and Business Council to advise and monitor implementation
Proposed Solutions - Tourism

- Invest in product enhancement and development
- Pursue flagship hotel
- Find balance between airlift support and marketing
- Training in service standards
Towards Sustainable Wage Bill Management

- Complete the HR Audit (Dec. 2011?)
- Avoid net increases in the size of the Public Service (across all categories)
- Avoid further salary compression at the higher levels of the Public Service
- Upcoming negotiations should focus on non-salary issues such as pensions and professional development
- Rationalise Government and NIS pensions
- Introduce a contributory pension scheme
Salary increase will be indexed to projected annual CPI inflation of 2 percent while there is no (net) new hire over the medium term.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Allowances in EC$M</td>
<td>193.7</td>
<td>198.5</td>
<td>203.5</td>
<td>208.6</td>
<td>213.8</td>
<td>219.2</td>
</tr>
<tr>
<td>Salaries and Allowances in % of GDP</td>
<td>11.1</td>
<td>10.8</td>
<td>10.4</td>
<td>10.0</td>
<td>9.6</td>
<td>9.2</td>
</tr>
<tr>
<td>Relative Savings</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>
The total wage bill will be fixed, in nominal terms, at the 2010 level.

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Allowances in EC$M</td>
<td>193.7</td>
<td>193.7</td>
<td>193.7</td>
<td>193.7</td>
<td>193.7</td>
<td>193.7</td>
</tr>
<tr>
<td>Salaries and Allowances in % of GDP</td>
<td>11.1</td>
<td>10.6</td>
<td>10.0</td>
<td>9.5</td>
<td>8.9</td>
<td>8.3</td>
</tr>
<tr>
<td>Relative Savings</td>
<td>0.0</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>
The reduction in total employment of 10 percent through attrition by 2015, implying a 2.09 percent reduction every year.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Allowances in EC$M</td>
<td>193.7</td>
<td>189.7</td>
<td>185.7</td>
<td>181.8</td>
<td>178.0</td>
<td>174.3</td>
</tr>
<tr>
<td>Salaries and Allowances in % of GDP</td>
<td>11.1</td>
<td>10.4</td>
<td>9.6</td>
<td>8.9</td>
<td>8.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Relative Savings</td>
<td>0.0</td>
<td>0.5</td>
<td>0.9</td>
<td>1.3</td>
<td>1.6</td>
<td>1.9</td>
</tr>
</tbody>
</table>
Pipeline of Some Key Government Projects

- Grenville Market Development (July 2011)
- Lowthers Lane Government Office Complex (July 2011)
- Regional Disaster Risk Reduction Project (October 2011)
- Parliament House (October 2012)
- Caribbean Regional Infrastructure Programme/ Broadband Project (2012)
- Agricultural Feeder Roads Phase II (to be determined)
- Teaching Hospital
- Joint Exploration Project
- Athletic Stadium
- Simon Centre of Performing Arts
- Sand Mining (not yet decided)
- St. George’s Renaissance (not yet decided)
We have no choice.

We must change to build stronger, more competitive, more resilient Grenadian economy.
Let’s do it for Grenada!

Knowing is not enough, we must apply.

Willing is not enough, we must do.

Let’s do it!

(Johan von Goethe)
Government of Grenada

Thank You
ANNEXES
Transformational Sectors

- Tourism and Hospitality
- Health, Wellness and Education Services
- Energy
- Agribusiness
- Information Communications Technology
Commercial Debt Restructuring

- A highly successful commercial debt exchange involving capitalization of past-due interest was completed in November 2005.
- Grenada issued a bond with 20-year maturity and coupons of 1 percent for the first three years and increasing gradually to exit yields of 9 percent.
- Overall participation reached 91 percent or about US$237 million (40 percent of total public debt).
- The restructuring involved an NPV haircut of 40-45 percent and reduced commercial debt service costs by 80 percent during 2005-2008 (US$135 million).
- Grenada has made good faith efforts to engage nonparticipating creditors and participation is now nearly 100 percent.