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1980

GRENADA

This preliminary version of the *Economic Survey of Latin America, 1980* is being distributed in separate parts: an Introduction of a general nature, bearing the symbol E/CEPAL/L.250 and various addenda to this document, each containing a study of the economic development of a country of the region. These addenda will not appear in alphabetical order, but in order of completion. The complete *Survey* will be published when the comments arising out of this preliminary version have been collected.

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#### **Notes and explanation of symbols**

The following symbols have been used in the tables in this Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (–) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (–) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (–) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

## GRENADA

### 1. Recent economic trends: Introduction and summary

Following a decade of sustained recovery from the massive destruction wreaked on the island by a hurricane in 1956, economic activity plunged at a precipitous rate in the early 1970s, owing to the combination of a recurrence of adverse weather conditions, the unfavourable evolution of the external sector, and an abrupt change in the pattern of land tenure, which was accompanied by a marked fall in output. In 1974, those factors were exacerbated by political disorders associated with the transition to Independence, which led to the closure of the port facilities for three months; the international recession, and the bankruptcy of the only airline serving the island's tourist industry, which provoked a severe crisis in this sector.

However, in 1975 and 1976, when the negative contingent factors eased appreciably, the economy rebounded sharply, and recovery also proceeded at a rapid pace in 1977 and 1978, owing mainly to a continued marked improvement in export prices and a sustained recovery in agricultural output.

Following an estimated average rate of expansion of 5.5% per year in 1977-1978, however, the rate of growth fell to approximately 3% in 1979.

For 1980, partial and preliminary statistics indicate that the real GDP suffered a drastic contraction, for it is estimated to have increased by only about 10% in current terms, while prices rose almost 21% on an annual average basis. All of the principal sectors registered declines. Agriculture was plagued, once again, by highly unfavourable climatic conditions, as the island was struck by Hurricane Allen in August, and was subject to flooding throughout much of the second half of the year. Manufacturing output dropped proportionately to the severe reduction in raw material inputs from agriculture, while tourism was adversely affected by the international recession.

In this context, it may be assumed that the current account deteriorated substantially, although complete data are not available. In any event, the current value of merchandise exports declined by more than one-fifth, and this reduction, together with the 15% rise in merchandise imports, resulted in a 50% leap in the deficit on visible trade. However, partial data suggest that the deficit was largely offset by grants and concessionary loans from abroad.

During the course of the year the rate of inflation accelerated appreciably from about 12% in the previous year to almost 21%, as a consequence mainly of imported inflation and the depreciation of the East Caribbean dollar with respect to the British pound, but also as a result of the drastic drop in the output of food crops.

Following an average rise in money wages of the order of 20% in 1979, which implied a substantial increase in real wages, wage agreements negotiated in 1980 registered a hike in money wages which averaged 16%: an increase substantially below the rate of price inflation, but appreciably above the nominal rate of growth of the economy.

After a huge increase in public spending in 1979, total government expenditure fell about 1% in nominal terms and declined markedly in real terms in 1980. This, together with a moderate increase in current government income, resulted in a substantial reduction in comparison with the enormous fiscal deficit registered in 1979, when it was equivalent to 27% of GDP. Even so, however, the 1980 deficit was still well over four times greater than the one recorded in 1978. Nevertheless, as occurred also in 1979, the supply of external finance in 1980 exceeded the deficit on total government spending, with the result that the internal public debt was reduced for the

second consecutive year. Moreover, fully 85% and 89%, respectively, of external finance in 1979 and 1980 was provided in the form of grants, while the remainder was extended on highly concessional terms. Consequently, notwithstanding much smaller increases in current income, the authorities were able to raise public expenditures to levels that implied a big advance on past ones without provoking a corresponding rise in the exceptionally modest external debt. In effect, in 1980 the external public debt outstanding was equivalent to only 18% of GDP, while the servicing of the debt claimed a mere 1.7% of the value of exports in 1979, the last year for which data are available. (See table 1.)

Table 1  
GRENADA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980(a)
<b>A. Basic economic indicators</b>					
Gross domestic product at market prices (millions of current dollars)	35.9	41.1	50.2	57.9	...
Population (thousands of inhabitants)	105	106	107	108	109
Per capita gross domestic product (current dollars)	342	388	469	536	...
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	14.4	14.6	22.2	15.3	...
Per capita gross domestic product	13.6	13.5	20.9	14.3	...
Current value of exports of goods and services	21.0	37.0	21.4	29.4	...
Current value of imports of goods and services	25.6	40.3	26.7	26.8	...
Consumer price index December-December	...	...	...	...	21.8
Variation between annual averages	...	...	...	...	20.6
<b>Money</b>					
Current income of government	45.2	21.6	39.9	19.1	10.8
Total expenditure of government	47.2	0.0	42.9	67.3	-1.2
Fiscal deficit/total expenditure of government (b)	29.0	15.8	20.3	44.0	37.2
<u>Millions of dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	-4.0	-6.3	-11.3	-13.3	...
Balance on current account	-1.4	0.7	-8.3	2.7	...
Variation in international reserves	4.7	1.3	-1.2	6.0	...
External debt (c)	5.8	7.3	7.3	9.3	11.6

Source: CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) Percentage.

(c) External public debt outstanding.

## 2. Trends in economic activity

### (a) Total supply and demand

Data for 1980 are not yet available, while the statistics for the period 1975-1979 are available only in current prices. Consequently, comments will be limited to highlighting the structural

modifications that have occurred during this time (see table 2). In this respect, two developments stand out: the pronounced rise in investment demand and an associated intensification of the degree of openness of the economy. In effect, the investment coefficient jumped from a mere 6.5% in 1975 to over 27% in 1979. Moreover, virtually the entire amount of this quantum leap took place between 1978 and 1979. This exceptional increase in the investment effort reflected the multiplication of public investment expenditures—which accounted for 90% of gross fixed investment in 1979—and was reflected in an increase of 44% in the current value of imports of goods and services. The augmentation of the import coefficient—from 70.5% to slightly over 88%—was made possible by a four-fold rise in transfers to the private sector (i.e., private remittances from abroad), a thirteen-fold increase in net official capital flows from abroad, and the achievement of a surplus on the public sector current account for the first time in the country's history. Furthermore, the generous increase in capital inflows permitted the authorities to obtain this extraordinary expansion of capital outlays without reducing consumption, which continued to be equivalent to almost 105% of GDP in 1979.

Table 2  
GRENADA: TOTAL SUPPLY AND DEMAND

	In current East Caribbean dollars at market prices		Percentage breakdown		Annual growth rates	
	1978	1979(a)	1975	1979(a)	1978	1979(a)
<b>Total supply</b>	<b>284.6</b>	<b>361.1</b>	<b>154.8</b>	<b>188.2</b>	<b>25.3</b>	<b>26.9</b>
Gross domestic product at market prices	166.9	192.1	100.0	100.0	24.3	15.1
Imports of goods and services	117.7	169.5	54.8	88.2	26.7	44.0
<b>Total demand</b>	<b>284.6</b>	<b>361.1</b>	<b>154.8</b>	<b>188.2</b>	<b>25.3</b>	<b>26.9</b>
Domestic demand	191.7	253.6	106.8	132.0	27.2	32.3
Gross domestic investment	16.7	52.4	6.5	27.3	-20.5	213.8
Gross fixed investment	11.8	48.4	6.5	25.2	20.3	310.2
Public	3.9	43.6	4.4	22.7	-38.1	1 017.9
Private	7.9	4.8	2.1	2.5	-7.1	-39.2
Changes in stocks	4.9	4.0	-	2.1	-21.0	-18.4
Total consumption	175.0	201.2	100.3	104.7	34.9	15.0
General government	50.4	48.6	21.7	25.3	60.0	-3.6
Private	124.6	152.6	78.6	79.4	26.9	22.5
<b>Exports of goods and services</b>	<b>92.9</b>	<b>108.0</b>	<b>48.0</b>	<b>56.2</b>	<b>21.4</b>	<b>16.3</b>

Source: Grenada, Ministry of Finance and World Bank.

(a) Preliminary figures.

(b) *Growth of the main sectors*

(i) *Introduction.* Between 1975 and 1979 the recuperation of the economy from the marked contraction suffered in the first half of the decade was led by the service sectors, and in particular, by government and commerce, the relative contributions of which rose from 17% to 22% and 11.6% to 15%, respectively of GDP. As a result, the overall participation of services in GDP increased from almost 60% to 63% in this period (see table 3).

With regard to the goods-producing sector, the biggest change took place in agriculture (including fisheries and forestry) which saw its share in the GDP fall from 39% to 32%. Nevertheless, the satisfactory performance of agriculture in this period was a crucial factor in the recovery of overall levels of activity, inasmuch as it is the principal sector of the economy in terms

Table 3

## GRENADA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of current East Caribbean dollars			Percentage breakdown		Annual growth rates		
	1977	1978	1979(a)	1975	1979(a)	1977	1978	1979(a)
<b>Total gross domestic product</b>	<b>110.9</b>	<b>135.5</b>	<b>156.3</b>	<b>100.0</b>	<b>100.0</b>	<b>14.6</b>	<b>22.2</b>	<b>15.3</b>
<b>Goods</b>	<b>42.9</b>	<b>47.7</b>	<b>57.6</b>	<b>44.1</b>	<b>37.0</b>	<b>10.0</b>	<b>11.2</b>	<b>20.7</b>
Agriculture, fisheries and forestry	36.2	40.6	49.8	38.7	31.9	9.1	10.6	22.6
Mining and quarrying	0.1	0.1	0.1	0.1	0.1	...	...	...
Manufacturing	3.1	3.9	4.3	2.8	2.8	19.2	25.8	10.2
Construction	3.0	3.1	3.5	2.5	2.2	20.0	3.3	12.9
<b>Basic services</b>	<b>10.2</b>	<b>11.3</b>	<b>12.7</b>	<b>7.6</b>	<b>8.1</b>	<b>37.8</b>	<b>10.8</b>	<b>12.4</b>
Electricity and water	2.1	2.4	2.8	2.0	1.8	5.0	14.3	16.7
Transport and communications	8.1	8.9	9.9	5.6	6.3	50.0	9.9	11.2
<b>Other services</b>	<b>57.8</b>	<b>76.5</b>	<b>85.5</b>	<b>48.3</b>	<b>54.8</b>	<b>14.6</b>	<b>32.3</b>	<b>11.8</b>
Wholesale and retail trade	16.3	18.5	23.5	11.6	15.0	45.5	13.5	27.0
Hotels and restaurants	3.7	4.4	4.5	2.8	2.9	42.3	18.9	2.3
Government services	20.5	32.7	34.6	16.9	22.1	-3.7	59.5	5.8
Miscellaneous services	17.3	20.9	22.9	17.0	14.7	13.1	20.8	9.6

Source: Grenada, Ministry of Finance and Ministry of Planning.

(a) Preliminary figures.

of both product and employment. The remaining goods-producing sectors all expanded at a rate similar to that of the economy as a whole, and therefore continued to provide only a marginal contribution to the GDP (see table 3).

(ii) *Agriculture*. Following a period of recuperation over the previous four years, when the production index rose by 50%, agricultural output plunged by almost one-third in 1980 as a consequence of the devastation wreaked on the island by Hurricane Allen in August and intermittent heavy rains and flooding throughout much of the rest of the year. The production of domestic crops was particularly hard-hit, dropping by more than one-half, with the result that the overall level of production was one-fifth less than that recorded in 1975. The harvest of vegetables and fruit was virtually wiped out (see table 4), and export crops only escaped a similar fate because the largest part of their output is harvested in the first half of the year. The full extent of the damage to the areas devoted to these crops will only be appreciated when the 1981 production figures become available.

As regards fishing, output in 1980 was 3.6 thousand tons, which represented a decline of 15% compared to the previous year's catch.

While contingent factors condition the year-to-year fluctuations in agriculture, the exceptionally poor performance of this sector over the course of the last decade has been shaped largely by underlying structural constraints, institutional rigidities, inadequate reforms and public sector neglect.

The total land area of Grenada (including the island of Carriacou) is some 39 120 hectares, or just 0.36 hectare *per capita*. Fortunately, almost two-thirds of the land area is fit for agricultural use, as evidenced by the fact that 62% of the island's area was under cultivation in 1961. However, this still amounts to only 2.2 hectares per person currently employed in agriculture, which is the lowest ratio in the Western Hemisphere and reflects not only demographic pressure, but also the extremely limited development of other sectors of the economy. This land constraint is thus the point of departure for any evaluation of the country's agricultural potential and the nature of the development path that necessarily must be followed, both in and outside of agriculture.

Table 4

## GRENADA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980(a)	Annual growth rates		
				1978	1979	1980(a)
<u>Index of agricultural production (1975 = 100)</u>	144	152	104	0.7	5.6	-31.6
Main export crops	114	138	119	1.8	22.1	-13.8
Domestic crops	186	168	81	-	-9.0	-52.3
<u>Metric tons</u>						
<u>Production of main export crops</u>						
Nutmegs	2 087	2 819	2 488	-15.0	35.1	-11.7
Mace	271	336	293	-18.2	23.9	-12.8
Cocoa beans	2 413	2 774	2 131	17.9	14.9	-23.2
Bananas	15 656	18 991	16 536	2.7	21.3	-12.9
<u>Production of domestic crops</u>						
Sugar cane	15 726	13 452	9 773	-4.4	-14.5	-27.3
<u>Root crops</u>						
Yams	496	506	34	-3.0	2.0	-93.3
Sweet potatoes	391	371	23	-3.5	-5.1	-93.8
Tannias	280	271	15	2.6	-3.2	-94.5
Dasheen and eddoes	166	164	36	4.0	-1.2	-78.1
Cassava	164	...	...	-9.4	-	-
<u>Vegetables</u>						
Carrots	42	34	8	-4.5	-19.0	-76.5
Tomatoes	55	42	24	-27.7	-23.6	-42.9
Cabbages	57	39	23.4	1.8	-31.6	-40.0
<u>Fruits</u>						
Oranges	961	1 000	26.4	7.9	4.1	-97.4
Mangoes	1 445	1 517	...	-0.7	4.9	...
Grapefruit	2 009	2 109	52.5	29.2	4.9	-97.6
Limes	499	488	41.5	12.1	-2.2	-91.5
Avocado	1 240	1 236	151.0	25.4	-0.3	-87.8

Source: Grenada, Ministry of Agriculture, Statistical and Grenada Statistical Office.

(a) Preliminary figures.

Nevertheless, the cultivated area fell by almost one-quarter between 1961 and 1975, and it is estimated that further reductions have taken place in ensuing years. Part of this decline was provoked by rising costs of production which made commercial farming on less productive and remote land unprofitable, owing to the deterioration of the island's internal transport<sup>1</sup> and water distribution networks, the destruction of watersheds through deforestation, and declining marginal fertility of land. Another part of it appears to have been associated with the reform of land tenure in the first part of the 1970s — when large estates were acquired by the government and/or broken up into tiny farms — without corresponding reforms in the areas of credit, marketing, extension, farm education, and agricultural investigation. In fact, the public sector provided only a meagre amount of ongoing support to farm operations and virtually neglected the need to formulate and execute an overall agricultural development policy.

Because of this, the new farmers were not in a position to maintain existing levels of land use and production, let alone make the investments required to augment land productivity

<sup>1</sup>It has recently been estimated that produce reaching the market could increase up to 40% if farmers were provided with reasonably-priced, efficient and timely transportation.

—something which is essential if agricultural production is to expand over the long term. On the other hand, the distribution of land to a significant proportion of the agricultural labour force led to a rise in labour costs and a reduction in the marketed surplus: a development which clearly favoured the beneficiaries of land tenure reform, but prejudiced the production performance in the rest of the agricultural sector, urban consumers, and the evolution of the external sector. At the same time, output on government-owned farms fell even further than that of the reformed sector.

Given the small and under-utilized land base, the excessive fragmentation of holdings —95% of the agricultural population resides on plots of less than 2.3 hectares—, low rural incomes, and the deteriorated state of the basic infrastructure, future agricultural growth will depend fundamentally on a concerted effort by the public sector to develop the economic and social infrastructure needed for the full use of existing resources, and in particular, for a sustained increase in the productivity of land.

The current government, which came to power in 1979, has embarked on an ambitious development programme including a major revision of traditional public sector policy towards agriculture. Thus, several major projects were begun in 1979: (a) a feeder road network designed to facilitate the marketing of products; (b) the expansion of the area devoted to bananas, cotton and coconuts; (c) the rehabilitation of cocoa plantations; (d) the establishment of a livestock station; (e) the commencement of a food crop diversification programme, and (f) a farm improvement and agricultural production credit programme. In addition, a fisheries training school has been established, and a project to boost production by artisanal fishermen has been initiated. Finally, a Forestry Development Corporation was formed to co-ordinate the development and marketing of the island's forest resources and promote the reforestation of marginal lands and watersheds. To this end the Corporation produced and distributed 30 000 forestry seedlings during its first year of operations.

(iii) *Manufacturing.* With the exception of garments, furniture and malt, the output of all the principal manufactures declined in 1980 owing to the marked reduction in the supply of intermediate inputs from agriculture. The production declines ranged from 3.5% in the case of rum to 27% for edible oils and 40% for laundry soap (see table 5). On the other hand, the output of clothing and furniture, which rely mainly on imported inputs and overseas markets, expanded considerably, as evidenced by increases of 123% in the current value of exports of each of these items.

Grenada has the relatively smallest manufacturing sector in the Western Hemisphere. At present, it accounts for a mere 2.8% of GDP and employs only 6% of the economically active population. As might be expected, both the number and size of firms and the range of products are very limited. Over 75% of the manufacturing establishments employ fewer than 10 workers, and 25 of the existing 120 firms account for 80% of the value of manufacturing production.

Apart from the tiny domestic market and the small resource base, the growth of manufacturing has been hampered in the past by a lack of appropriate and consistent public sector policies needed to strengthen and upgrade entrepreneurship and labour skills and to encourage the elaboration of domestic resources. In addition, recurrent political instability has created a great degree of uncertainty and dampened private sector initiative.

Within the Government's development plan for this sector, priority is attached to development of indigenous resources. Accordingly, the public sector has elected to promote forest products, fish processing, handicrafts and, in particular, agro-industry. Thus, a factory operated by the Ministry of Agriculture has been engaged since 1979 in producing nectars, fruit syrups, jams and jellies, condiments, sauces and vegetable soup, while the processing of fish products has commenced with the canning of small local varieties; the salting, dehydration and smoking of fish is also contemplated.

Still to be fully explored is the island's potential as a site for offshore assembly operations. In this respect, the formulation of an investment code and the implementation of more attractive incentives for foreign investors could be considered.

(iv) *Tourism.* In 1979 the Caribbean accounted for 3% of world tourism, and in that year Grenada accounted for 0.4% of the Caribbean total. During the 1970s, when tourism in the



Table 5

## GRENADA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1979(a)	1980(a)	Annual growth rates			
					1977	1978	1979	1980(b)
<hr/>								
<b><u>Production of some important manufactures (c)</u></b>								
Sugar (c)	592	524	-	494(d)	-	13.4	-11.5	-5.7
Rum (e)	337	359	282	272	-8.9	-15.3	6.5	-3.5
Beer (e)	1 447	1 674	1 357	1 133	115.7	27.7	15.6	-16.5
Malt (e)	187	485	411	429	37.4	-31.2	159.3	4.4
Edible oil (e)	290	308	278	202	-31.7	18.9	6.2	-27.3
Coconut meal (c)	153	296	259	215	-21.3	44.3	93.5	16.9
Laundry soap (c)	26	27	25	15	-24.2	4.0	93.5	-40.0
Cigarettes	13.4	113	-	-	-16.5	-6.3	-15.7	-
 <b><u>Other indicators of manufacturing production</u></b>								
Consumption of electricity by industry (thousands of kWh)	0.8	0.8	-	-	80.0	-11.1	-	-

Source: Grenada, Statistical Office.

(a) January-October.

(b) January-October 1980 with respect to January-October 1979.

(c) Tons.

(d) Full year data.

(e) Thousands of litres.

Caribbean as a whole rose from 4.26 million to 8 million visitors, the tourist industry in Grenada suffered an exceptionally severe contraction (in 1974) and it was not until 1979 that the previous peak was recovered.

Between 1967 and 1973 tourist arrivals in Grenada grew at an exceptionally fast pace, multiplying 4.5 times. Then, however, in addition to the leap in petroleum prices and the subsequent international recession which braked the growth of tourism throughout the Caribbean, Grenada was affected by political disorders, the closure of the port facilities for three months, and the bankruptcy of the only airline serving the country, which together led to a drop of 44% in the number of tourists visiting the island in 1974. Subsequently, the recovery of the industry was hindered appreciably by the fact that the country's tourist infrastructure was not prepared for, nor did it adjust to, the structural change in world tourism brought about by the rise of the charter business based on fuel-efficient jet aircraft. The existing airport, Pearls, is incapable of accepting jet aircraft or handling night flights. Thus, it was only in 1979 that the 1973 record of tourist arrivals was finally surpassed, and even then this recovery was due primarily to the relatively greater increase in cruise-ship visitors, as the number of stop-over visitors was still short of the 1973 level, for the reasons cited above.

In 1980, the overall number of tourists rose a mere 2.2%, in contrast with the 15% increase in 1979. Moreover, the number of stop-over visitors declined almost 9%, after a drop of 0.3% in the previous year. Consequently, estimated tourist expenditure actually fell by 2% in current values (see table 6). Poor weather had much to do with this unsatisfactory performance, but adverse publicity regarding the country's political situation may also have been a contributory factor.

Traditionally, Grenada's principal tourist markets have been the United States and Canada, Great Britain, and the West Indies itself. Recently, however, continental Europe is the most rapid growth market, while visits from North Americans have tailed off. Thus, between 1977 and 1980 the number of tourists arriving from the Federal Republic of Germany rose by 40%, while the number from the United States and Canada declined by 19%.

The performance of the tourist industry in Grenada over the last decade even after discounting downturns due to contingent factors, bears little relation to the enormous potential of the island in this area.

Table 6  
GRENADA: SELECTED TOURIST INDICATORS

	1977	1978	1979	1980(a)	Annual growth rates		
					1978	1979	1980(a)
Total visitors (b)	137.0	148.7	170.9	175.0	8.5	15.0	2.4
Stop-over visitors	28.5	32.3	32.2	29.4	13.3	-0.3	-8.8
Cruise-ship visitors	108.5	116.3	138.6	145.6	7.3	19.2	5.0
Average length of stay of stop-over visitors (days)	14.4	18.7	19.7	18.0	29.9	5.3	-8.6
Number of cruise-ship calls (c)	184	138	200	236	2.2	6.4	18.0
Number of yacht calls	1 609	2 079	926	1 863	29.2	-55.5	101.2
Hotel and guest house beds	1 500	1 500	1 500	1 500	-	-	-
Estimated visitors expenditure (c)	21.6	39.4	53.6	52.4	82.9	35.9	-2.2

Source: Grenada, Statistical Office, and Grenada Tourism Department.

(a) Preliminary figures.

(b) Thousands.

(c) Millions of East Caribbean dollars.

Grenada possesses some of the most beautiful scenery and beaches in the Caribbean. Moreover, the hotels (which are in the main small-scale locally-owned firms) and their staff offer one of the best categories of service in the region. These qualities are attested to by the fact that Grenada has an unusually high rate of repeat visitors. A recent survey revealed that 30% of summer-season tourists had visited the island before, and that fully 11% had vacationed in the country on four or more occasions. The corresponding figures for winter-season visitors were 31% and 15%. Furthermore, the average length of stay of stop-over visitors has traditionally been the longest in the Caribbean, ranging over the course of the last three years between 18 and 20 days, or approximately double the regional average.

In stark contrast to the potential is the room occupancy rate: even in 1978, when it reached its highest level in 6 years, it was a mere 32%. Consequently, no hotels have been constructed since 1972 and several have closed down, involving a loss of 17% in the number of tourist beds. Unless energetic measures are implemented in the near future, further closures would appear to be imminent.

The principal obstacle to exploiting Grenada's tourist potential is the completely out-of-date and totally inadequate transportation network that services the island. In addition, a virtual absence of organized marketing in both traditional and potential markets has left the industry adrift. Until 1979 the Government in fact lacked a cabinet-level department responsible for tourism. Finally, apart from the need for ongoing marketing efforts it would seem advisable to mount a campaign designed to counteract the adverse publicity that has affected the fortunes of tourism on the island during much of the past decade.

Pearls airport is located on the eastern side of the island and is approximately one hour by car from the capital and the main tourist attractions. As noted above, it can only receive propeller aircraft, and due to physical hazards night flights are not practicable. The island is serviced currently by small (40 seat capacity) aircraft on a LIAT feeder service run. There are no direct flights to Grenada. Consequently, it is difficult for tourists to make bookings to Grenada, and in any case they must spend at least one night elsewhere.

In 1979 the new Government began to tackle the constraints limiting the development of tourism, and the initiatives undertaken to date or to be executed during the course of the 1979/1983 development plan include the following: (a) the consolidation of public authority over tourist activities into one department and its elevation to cabinet-level status; (b) the introduction of a marketing campaign, through public relations agencies in North America and Europe; (c) the provision of improved transit facilities in Barbados for travellers to Grenada and the upgrading of the LIAT air service. Negotiations are also underway with other airlines in the region, to provide additional ways of reaching the country by air; (d) the expansion and refurbishment of the port at St. George's to expedite the transit of cruise ship arrivals; and most importantly, (e) the construction of a new jet airport at Point Saline, near the capital.

The construction of the Point Saline airport was begun in 1979, one year ahead of schedule, with the aid of capital and construction teams from Cuba. The airport will be able to handle wide-bodied jets and thus permit the island to start exploiting the enormous trade in charter-flight tourism. The first construction phase is due to finish in 1981, with overall completion scheduled for 1983.

In order to accommodate the expected influx of budget-conscious travellers (Grenada traditionally has catered to the luxury-class tourist) the Government has decided to create a public corporation which will operate the hotel and auxiliary properties confiscated from the former Prime Minister as medium-price establishments.

#### *(c) Employment and unemployment*

In 1978 it was estimated that the labour force participation rate was at the relatively low level of 33.5%, while unemployment was anywhere between 12% and 16% of the labour force. Total employment for 1980 is estimated at 30 520, which implies a rise in the rate of unemployment since 1978, taking into account the rate of growth of the working-age population. An increase in the unemployment rate would, moreover, be consistent with the sharp downturn in the level of economic activity in 1980. In any event, the true magnitude of the problem cannot be identified with any precision until such time as periodic employment surveys are conducted.

### 3. The external sector

#### *(a) Merchandise trade*

(i) *Exports.* Buoyed by successive steep rises in the international prices of Grenada's main export crops, the current value of merchandise exports rose by 10%, 19%, and 25% in 1977, 1978 and 1979, respectively. However, in 1980 the current value of exports of goods dropped by almost 23%, so that it was only slightly higher than that recorded in 1978 (see tables 7 and 8).

The unfavourable performance in 1980 was accounted for by the 26% decline in the value of traditional exports. The current value of the external sales of both nutmeg and cocoa fell over 30%, while that of mace decreased by 23%. Of the main traditional exports only bananas showed an increase, and even then it amounted to less than 1%. The principal cause of the contraction in the current value of traditional exports was the substantial decrease in the volume exported, which, in turn, was largely a consequence of adverse weather conditions. At the same time, moreover, the export price index declined by 2%. The international price of cocoa, the country's principal export, dropped almost 15%. On the other hand, that of bananas, the second most important export, rose by 23% and thus offset the sharp reduction in volume (see tables 7 and 8).

In contrast, the current value of the main non-traditional exports (garments and furniture) more than doubled, and compensated to a small extent the downturn in the performance of commodity exports.

(ii) *Imports.* The current value of merchandise imports grew almost 16% in 1980. Although a breakdown by type of goods is not available for that year, it would appear that much of the increase

Table 7

## GRENADA: EXPORTS OF GOODS

	Thousand of East Caribbean dollars			Percentage breakdown		Annual growth rates		
	1978	1979	1980(a)	1974	1980(a)	1978	1979	1980(a)
<u>Total merchandise exports</u>	44 388	56 016	44 522	100.0	100.0	19.9	26.2	-20.5
<u>Main traditional exports</u>	41 368	52 264	38 826	91.4	87.1	17.6	26.3	-25.7
Nutmegs	10 739	12 413	8 567	34.2	19.2	-33.0	15.6	-31.0
Mace	1 741	2 313	1 775	8.0	4.0	6.9	32.8	-23.2
Cocoa	19 574	27 078	17 959	30.7	40.3	120.2	38.3	-33.7
Bananas	9 314	10 460	10 525	18.6	23.6	7.8	12.3	0.6
<u>Main non-traditional exports</u>	1 728	1 356	3 025	3.9	10.7	52.1	-21.5	123.1
Clothing	1 012	991	2 213	2.3	5.0	36.2	-2.1	123.3
Furniture	716	365	812	1.6	1.8	82.2	-49.0	122.5
<u>Other exports</u>	595	828	307	1.4	0.7	431.3	39.2	-62.9
Cloves	521	751	194	1.2	0.4	2 642.1	44.1	-74.2
Cinnamon	44	37	74	0.1	0.2	-36.2	-16.0	100.0
Sauces and condiments	30	40	39	0.1	0.1	25.0	33.0	-2.5

Source: Grenada, Statistical Office.

(a) Preliminary figures.

Table 8

## GRENADA: EXPORT PRICE INDICES

	Index 1975 = 100				Annual growth rates			
	1977	1978	1979	1980(a)	1977	1978	1979	1980(a)
<u>Export price index</u>	97.0	125.6	150.1	147.4	15.4	29.5	19.5	-1.8
<u>Export price indices of main export commodities</u>								
Nutmegs	89.1	89.1	90.0	93.1	15.4	-	1.0	3.4
Mace	76.8	65.6	72.5	76.8	-4.0	-14.6	10.5	5.9
Cocoa	109.2	210.8	292.3	249.6	26.7	93.0	36.7	-14.6
Bananas	100.0	110.0	120.0	148.1	11.1	10.0	9.1	23.4

Source: Grenada, Statistical Office.

(a) Preliminary figures.

was related to an expansion of food imports —34% of the import bill in 1978— to cover the marked shortfall in domestic production, and to rising payments for petroleum products, which accounted for over 9% of merchandise imports in 1978, the last year for which data are available (see table 9). Domestic demand for intermediate and capital goods imports probably fell, as the level of economic activity contracted sharply, while overall government expenditure also declined.

(iii) *Terms of trade and purchasing power of exports.* Although an import price index is not compiled, the terms of trade undoubtedly worsened in 1980, judging from the downturn in the export price index (see table 8) and the pronounced increases in the domestic price levels of goods which are mainly or wholly imported (e.g., petroleum, textiles and household supplies).

Table 9

## GRENADA: IMPORTS OF GOODS, CIF

	Millions of dollars		Percentage breakdown		Annual growth rates	
	1977	1978	1974	1979	1977	1978
<b>Total</b>	<b>31.4</b>	<b>35.2</b>	<b>100.0</b>	<b>100.0</b>	<b>24.1</b>	<b>12.1</b>
<b>Consumer goods</b>	<b>20.5</b>	<b>22.9</b>	<b>73.5</b>	<b>65.1</b>	<b>25.8</b>	<b>11.7</b>
Food, beverages and tobacco	10.6	11.9	44.3	33.8	21.8	12.3
Others	9.9	11.0	29.2	31.3	30.3	11.1
<b>Intermediate goods</b>	<b>6.0</b>	<b>6.9</b>	<b>18.4</b>	<b>19.6</b>	<b>17.6</b>	<b>15.0</b>
Petroleum and fuels	3.0	3.3	8.6	9.4	15.4	10.0
Others	3.0	3.6	9.7	10.2	20.0	20.0
<b>Capital goods</b>	<b>4.9</b>	<b>5.4</b>	<b>8.1</b>	<b>15.3</b>	<b>25.6</b>	<b>10.2</b>

Source: Grenada, Ministry of Finance, IMF and World Bank.

(b) *The services trade and factor payments*

Owing to the contrasting evolution of exports and imports of goods, the traditional deficit on the merchandise account jumped from an amount equivalent to 51% of the current value of imports in 1979 to 66% in 1980. Complete data for the services trade and payments to foreign capital are not available for 1980. However, it may be pointed out that the decrease in receipts from tourism and the rise in imports of services implied by the overall increase in merchandise trade in 1980 suggest that the deficit on the commercial account probably expanded somewhat more than that on the merchandise account. At the same time, it should be noted that the absolute size of the deficit on the commercial account is always smaller than that on the merchandise account, by virtue of the traditionally large surplus on tourism. In 1979 the negative commercial balance was almost completely offset by the large flow of remittances from Grenadians residing abroad. In view of the marked increase in the deficit on the merchandise account in 1980, however, it is probable that the overall current account balance will show a substantial deficit for the year (see table 10).

(c) *The current account position and its financing*

Statistics on the capital account transactions are lacking for both 1979 and 1980, but it is known that the public sector received relatively large inflows of capital from official sources in both of these years. In 1979 the magnitude of this item led to an increase of US\$ 6 million in the reserves, given the small (US\$ 0.8 million) current account deficit, and at the end of the year international reserves were equivalent to almost 4 months' supply of imports of goods and services.

(d) *External indebtedness*

The external debt of Grenada is very modest. Thus, in 1979 the servicing of the debt claimed a mere 1.7% of the value of exports of goods and services. The smallness of the external debt reflects not only the meagre proportion of past public sector expenditure devoted to development programmes, but also the fact that the debt has been contracted on highly concessionary terms: in effect, the average rate of interest on the debt was only 5.5% in 1979 (see table 11). At the same time, the enormous expansion of the public sector development programme in 1979 and 1980 has been financed primarily by foreign grants.

Table 10

GRENADA: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1975	1976	1977	1978	1979	1980(a)
Exports of goods and services	24.1	24.3	28.3	34.0	44.0	...
Goods FOB	12.3	13.0	14.3	17.0	21.2	17.0
Services (b)	11.8	11.3	14.0	17.0	22.8	...
Transport and insurance	-	-	-	-	-	...
Travel	8.9	7.9	11.0	14.0	19.8	19.4
Imports of goods and services	27.2	28.3	34.5	45.2	57.3	...
Goods FOB	21.9	22.9	28.5	32.2	43.6	50.3
Services (b)	5.3	5.4	6.0	13.0	13.7	...
Transport and insurance	2.3	2.4	3.0	5.0	6.8	...
Travel	1.0	1.0	1.0	4.0	3.0	...
Trade balance	-3.1	-4.0	-6.3	-11.3	-13.3	...
Profits and interest	-0.2	-0.2	1.0	-1.0	-0.5	...
Profits	...	...	-	-	...	...
Interest	...	...	1.0	-1.0	...	...
Unrequited private transfer payments	3.0	2.9	6.0	4.0	16.0	...
Balance on current account	-0.3	-1.4	0.7	-8.3	2.7	...
Unrequited official transfer payments	0.8	-0.5	0.8	1.0	...	...
Long-term capital	-	-	1.6	0.5	...	...
Direct investment	...	...	-0.2	-0.2	...	...
Portfolio investment	...	...	-	-	...	...
Other long-term capital	-	-	1.8	0.8	...	...
Official sector (c) (d)	...	...	1.8	0.8	...	...
Loans received	...	...	1.9	1.5	...	...
Amortization payments	...	...	-0.2	-0.7	...	...
Commercial banks (d)	...	...	-	-	...	...
Loans received	...	...	...	...	...	...
Amortization payments	...	...	...	...	...	...
Other sectors (d) (e)	...	...	-	-	...	...
Loans received	...	...	...	...	...	...
Amortization payments	...	...	...	...	...	...
Basic balance	...	...	3.1	-6.7	...	...
Short-term capital	-	-	0.4	-	...	...
Official sector	...	...	-	0.2	...	...
Commercial banks	...	...	0.4	-0.2	...	...
Other sectors	...	...	-	-	...	...
Errors and omissions (net)	-0.2	-2.8	-3.2	6.4	...	...
Counterpart items (f)	...	...	0.9	-0.9	...	...
Global balance	-0.3	4.7	1.3	-1.2	...	...
Total variation in reserves (minus sign indicates an increase)	0.3	-4.7	-1.3	1.2	-6.0	...
Monetary gold	-	-	-	-	-	...
Special Drawing Rights	-0.1	-	0.1	-	-	...
IMF reserve position	-	-	-	-	-	...
Foreign exchange assets	0.6	-5.1	-1.3	1.2	-5.7	...
Other assets	-	-	-	-	-	...
Use made of IMF credit	1.0	0.5	-	-	-0.3	-0.9

Source: 1975-1979: International Monetary Fund, Balance of Payments Yearbook (magnetic tape, March 1981); 1980: CEPAL, on the basis of official data.

- (a) Preliminary figures.
- (b) Services also include other official and private transactions.
- (c) Including general government and Central Bank.
- (d) In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.
- (e) Including private and State non-bank enterprises.
- (f) Includes counterpart items in respect of monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Table 11

## GRENADA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1975	1976	1977	1978	1979	1980(a)
Total external indebtedness (b)	5.6	5.8	7.3	7.3	9.3	11.6
Servicing of external debt	0.58	1.19	0.46	1.01	0.68	...
Amortization payments	0.38	0.99	0.22	0.72	0.28	...
Interest payments	0.20	0.20	0.24	0.29	0.40	...
Servicing of external debt, as a percentage of total exports	2.7	5.6	1.6	2.9	1.7	...
Average interest rate	3.8	3.7	4.1	4.1	5.5	...

Source: World Bank.

(a) Preliminary figures.

(b) External public debt outstanding.

## 4. Prices and wages

## (a) Prices

Grenada's first consumer price index was compiled in 1979. In that year, the rate of inflation was 12.3%. In 1980, the rhythm of price inflation rose to 20.6%, with a slight tendency for the rate of increase to accelerate over the course of the year (see table 12).

The overall rate of inflation is determined principally by the behaviour of food prices, as spending on food accounts for an average of 59% of total consumer expenditures. Thus, the intensification in the pace of inflation between 1979 and 1980 mainly reflected the acceleration in the rate of food price rises from 13.3% to 18.9%, and this, in turn, was provoked by the poor results of the 1980 harvests of the main food crops. Nevertheless, there was an even faster rise in the prices of goods supplied mainly or entirely from abroad. Thus, the price levels of fuel and light and transportation rose by 44% and 37%, respectively, while those of clothing and footwear and household supplies increased by 21% and 29%, respectively.

Table 12

## GRENADA: EVOLUTION OF DOMESTIC PRICES

Group	Percentage weight	1979	1980	Annual average percentage change 1980	Percentage change between December 1979 and December 1980
Consumer price index	100.0	112.3	135.4	20.6	21.8
Food	59.0	113.3	134.7	18.9	17.6
Alcohol and tobacco	2.5	104.1	125.5	20.5	28.8
Clothing and footwear	8.0	116.3	140.8	21.0	33.1
Fuel and light	6.0	124.5	178.8	43.6	31.8
Housing	6.5	101.5	111.4	9.7	10.4
Furniture and appliances	3.0	100.1	105.3	4.1	5.7
Household supplies	3.5	119.7	154.1	28.7	11.6
Transport	4.0	118.5	162.4	37.0	26.9
Miscellaneous	7.5	102.3	128.5	25.6	35.2

(b) *Wages*

No index of the evolution of wages and salaries exists for Grenada. However, an examination of wage contracts shows an average rise of 21% in 1979 and 16% in 1980: percentages which imply a substantial increase in real wages in the former year and an appreciable decrease in the latter one, given the behaviour of the consumer price index.

## 5. Monetary and fiscal policy

(a) *Introduction*

In 1979 the Government entered into a stand-by agreement with the International Monetary Fund providing mainly for the supply of budgetary assistance to the central government and the implementation of a programme designed to upgrade fiscal administration. Customs officers are to be trained to staff the newly-created evaluation and field auditing units in the Department of Revenue. In addition, the IMF provided an advisor to assist in the formation of a budget division within the Ministry of Finance, which will monitor and control government expenditure and revenue flows. Finally, revenue collection procedures are to be improved. The ultimate purpose of these reforms is to generate a surplus on the current account in order to release public funds for the financing of development projects that require local counterpart funds, and to check the growth of the internal public debt, in order to augment the supply of credit available to the private sector.

The other major development in public sector finances and policy involves the initiation of a greatly enlarged public sector development effort, accompanied by the expansion of overseas aid. The principal project in this programme, both in terms of resources and of its potential impact on the growth prospects of the economy, is the construction of the airport at Point Saline. In 1979 and 1980 it accounted for approximately 70% of total capital expenditures and was financed by grants from Cuba.

(b) *Monetary policy*

Through the first ten months of 1979 the rate of expansion of the money supply fell to somewhat less than 18%, following a growth of 32% for the (entire) previous year (see table 13).

In 1979 the 46% increase in net foreign assets accounted for the bulk of the expansion of the money supply, as the modest growth of domestic credit was more than offset by the rise in savings and time deposits. For the first time since Independence in 1974 credit to the public sector actually declined in 1979, a development that was repeated in 1980. Apart from the data for this item and for the evolution of commercial bank credit no other monetary statistics are available for 1980.

While the central government's fiscal situation has permitted the release of additional resources for allocation to the private sector in the last two years, the evolution of commercial bank lending continues to show several decidedly negative trends. In particular, agriculture, which accounted for 32% of the GDP in 1979, received a mere 3.4% of commercial bank credit in that year—a proportion which represents a pronounced decline from that (7%) registered four years earlier. In fact, the nominal level of commercial credit to agriculture was reduced by almost two-thirds in 1979, and part-year data for 1980 reveal a further reduction (see table 14).

The exceptionally low credit coefficient (4.8%) for agriculture clearly suggests that the level of commercial lending to the sector is insufficient to finance recurrent production costs, let alone facilitate the long-term expansion of agricultural production.

(c) *Fiscal policy*

Current income rose about 11% in 1980, i.e., at approximately the same rate as the nominal increase in the GDP. Tax revenues expanded by less than 9%, however, because of the decrease in tax revenues from foreign trade due to the decline in exports. On the other hand, income tax receipts jumped almost 46%, primarily on account of improved collection methods, as the rates of



Table 13

## GRENADA: MONETARY BALANCE

(Millions of East Caribbean dollars)

	Balance at end of:				Growth rates		
	1976	1977	1978	1979(a)	1977	1978	1979(b)
<b>Money</b>	25	28	37	40	12.0	32.1	17.6
Currency outside banks	14	17	22	23	21.4	29.4	27.8
Demand deposits	11	11	15	17	-	36.4	6.3
<b>Factors of expansion</b>	80	92	114	130	15.0	23.9	15.0
Foreign assets (net)	13	15	21	32	15.3	40.0	45.5
Domestic credit	67	77	93	98	14.9	20.8	7.7
Government (net)	25	26	33	28	4.0	26.9	-12.5
Official entities	1	-	-	-	-	-	-
Private sector	41	51	60	70	24.4	17.6	18.6
<b>Factors of absorption</b>	55	64	77	90	16.4	20.3	13.9
Quasi-money (savings and time deposits)	55	61	71	82	10.9	16.4	10.8
Other items (net)	-	3	6	8	-	100.0	60.0

Source: International Monetary Fund, International Financial Statistics, April 1980.

(a) October.

(b) October 1979 with respect to October 1978.

Table 14

## GRENADA: SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT

	Millions of current East Caribbean dollars			Percentage breakdown		Annual growth rates		
	1978	1979	1980(a)	1976	1980(a)	1978	1979	1980(b)
<b>Total</b>	65.2	71.4	81.8	100.0	100.0	12.6	9.5	18.2
Agriculture	6.3	2.4	2.0	7.0	2.5	4.8	-62.4	-4.2
Manufacturing	1.1	3.9	6.5	3.3	8.0	-40.2	240.9	123.8
Distributive trade	18.5	22.5	23.2	28.3	28.4	20.8	22.2	2.4
Tourism	4.5	4.9	5.9	8.0	7.2	1.2	10.4	23.3
Transportation	2.8	4.3	5.3	3.1	6.4	37.5	55.0	1.8
Public utilities	1.1	0.5	1.4	2.5	1.7	-16.3	-50.0	145.5
Building and construction	4.1	3.3	5.0	6.4	6.1	-15.7	-20.7	44.6
Personal loans	14.1	18.0	19.1	16.8	23.4	34.4	27.5	11.5
Other advances	12.8	11.6	13.3	24.5	16.3	34.4	-9.0	29.0

Source: Grenada, Ministry of Finance, Trade and Industry.

(a) Through September.

(b) September 1980 with respect to September 1979.

taxation remained unchanged while personal income increased only marginally. Whereas direct taxes accounted for almost 29% of total tax revenues in 1977, they provided 45% in 1980 (see table 15).

Current expenditures climbed almost 13% in nominal terms, with outlays for wages and salaries rising by just 4%, after a mere 0.3% increase in 1979. The implementation of strict controls on spending for wages and salaries over the past two years followed the 250% jump in the

allocation for this item between 1975 and 1978. In contrast, "other" current expenditures were augmented by over 29% in both 1979 and 1980.

The relatively greater increase in current expenditures in 1980 translated into a 560% increase in the tiny deficit registered in the current account in 1979, and thus frustrated the goal of generating public sector savings. However, this failure was principally a consequence of the severe recession suffered by the economy in 1980.

Notwithstanding the bigger current account deficit, another large inflow of overseas aid enabled the public sector to maintain an exceptionally high level of capital expenditures (although lower than the year before) and to reduce for the second consecutive year the size of the internal debt. Following the ten-fold leap in 1979, capital outlays dropped by a fifth in 1980, although they still amounted to approximately nine times the average level of the 1974-1978 period.

Overall expenditures dropped by 1%, and the fiscal deficit declined from EC\$ 41.5 million in 1979 to EC\$ 32.4 million in 1980. As a proportion of total expenditures the fiscal deficit was reduced from 44% to 37%.

With a diminished fiscal deficit and another large inflow of external finance, the authorities were able to reduce, once again and by an appreciable amount, the internal debt. Moreover, almost 90% of external finance was accounted for by grants. Consequently, the maintenance of a large fiscal deficit entailed only a marginal increase in the external debt.

Table 15

GRENADA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of East Caribbean dollars			Annual growth rates		
	1978	1979	1980(a)	1978	1979	1980(a)
1. <u>Current income</u>	44.8	53.4	59.2	40.0	19.2	10.9
<u>Tax revenue</u>	27.3	31.8	34.5	28.8	16.5	8.5
Direct	8.9	10.7	15.6	46.5	20.2	45.8
Indirect	18.4	21.1	18.9	24.5	14.7	-10.4
On foreign trade	15.7	18.4	16.6	23.6	17.2	-9.8
Other current revenue	17.5	21.6	24.7	59.6	23.4	14.4
2. <u>Current expenditure</u>	48.8	53.9	61.8	51.5	1.5	14.7
Wages and salaries	31.7	31.8	33.2	96.9	0.3	4.4
Other	17.1	22.1	32.6	6.1	29.2	29.4
3. Saving on current account (1-2)	-4.0	-0.5	-2.6			
4. <u>Capital expenditure</u>	3.9	41.5	32.4	7.4	1 064.1	-21.9
5. <u>Total expenditure (2+4)</u>	52.7	95.4	94.2	47.0	81.0	-1.2
6. Fiscal deficit or surplus (1-5)	-7.9	-42.0	-35.0			
7. <u>Financing of the deficit</u>	7.9	42.0	35.0			
Domestic financing	6.3	-0.7	-3.1			
External financing	1.6	42.7	38.2			
Debt	1.4	6.3	4.2			
Grants	0.2	36.4	34.0			

Source: Grenada, Ministry of Finance, Trade and Industry.

(a) Preliminary figures.