

## chairman's review



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I am pleased to advise that for the year ended September 30, 2006 the Bank recorded a profit after tax of \$25.6 million. In light of this performance, the Board has declared a dividend of \$3.35 bringing the total dividend for the year to \$4.00 (compared to a total dividend of \$1.45 in 2005)

### **Economic review**

High growth rates, high oil prices and moderate inflation characterized the world economy in 2006. Overall, the global economy is expected to record its fourth consecutive year of strong growth with a forecast rate of 5.1 percent for 2006. This performance reflects the momentum seen in China, India, Japan and many of the European Union economies. China continues to record double digit growth rates and their contribution to the development of many international economies is accelerating. The momentum offset the slightly lower US growth of 3.4 percent. Sustained high crude oil prices

for most of the year are fuelling inflationary pressures while production capacity limits (in the industrial and agricultural) are undermining the living standards in smaller import-dependent economies.

Regionally, there was strong GDP growth of 5.8 percent in the member countries of the Eastern Caribbean Currency Union (ECCU) in 2005. Preliminary data released by the Eastern Caribbean Central Bank (ECCB) indicate that during the first half of 2006 the GDP of the ECCU continued to grow by 5.2 percent. This strong performance was caused by continued high levels of tourism-led activity.

Following rapid GDP growth of 12.1 percent in 2005, prompted by the national reconstruction effort, recent data suggests that the Grenada economy will grow by a mere 1.4 percent in 2006. This lower growth is due to a 20 percent decline in construction occasioned by the shortage of cement and the tapering off of rebuilding activity.

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The tourism sector is now almost fully recovered with 90 percent of hotel plant back in operation. While the number of stay-over visitors in 2006 is expected to exceed 2005 levels by 29 percent, a decline of 18 percent is forecast for cruise ship passengers. Grenada continues its tourism thrust and increased airlift arrangements have been negotiated to serve source markets in the UK and Europe. Unfortunately, the revival of the agricultural sector has not kept pace with that seen in either construction or tourism.

Grenada's finances remain fragile. For the first eight months of 2006, although revenue collection (\$236.8 million) was 1.2 percent higher than in the corresponding period in 2005, recurrent expenditure (\$207.6 million) was 4.7 percent higher than last year. The government's capital expenditure program is expected to exceed \$200 million in 2006, so that notwithstanding grants of \$127.1 million, the overall deficit is projected at \$31.5 million. Government recently announced its intention to implement Value Added Tax during the last quarter of 2007. While the proper enforcement of this measure is expected to increase revenue; expenditure control, both recurrent and capital, will be necessary if fiscal health is to be restored.

### **Regulatory environment**

A new legislative framework for the regulation of the non-bank financial sector, namely the Grenada Authority for the Regulation of Financial Institutions (GARFIN) Act is now in effect. We applaud the move to strengthen the supervision of the financial sector as the government seeks to ensure its sustainability.

The overhaul of the incentives and tax regimes now in progress coupled with plans to redefine the mission of the Grenada Industrial Development Corporation are also important positive signals to the private sector.

### **Outlook**

In the coming year the Caribbean hosts Cricket World Cup 2007. Grenada is one of several host countries and therefore stands to benefit from the economic activity such an event will create. Grenada should see moderate economic growth in 2007 notwithstanding the possibility of increasing interest rates and the high price of fuel.

I am pleased to report that on April 10, 2006 the Bank seamlessly changed its name from The National Commercial Bank of Grenada Limited to Republic Bank (Grenada) Limited. Our confidence in the Grenada economy remains strong and work is expected to commence on our new St. George's Branch on Melville Street during the first quarter of 2007. New products are also being worked upon as the Bank positions itself to provide a higher quality of service to the Grenada public and make the most of opportunities which are expected to be created by the CSME.

### **Acknowledgement**

Mr. Norman Rolle retired from the Board in February 2006 and I thank him for his contribution. In his place the Board appointed Mr. Edmund Lawrence whom I welcome. Due to Group considerations, a change in auditors has been proposed this year. Pannell Kerr Forster has for years provided sterling service to the Bank and I would like to record our sincere appreciation for their professional services.

I thank the management and staff for their efforts during the year, my fellow Directors for their support and the Bank's customers for their loyalty to the organization.