Medium-Term Debt Management Strategy

GOVERNMENT OF GRENADA

Medium-Term Debt Management Strategy

2023 - 2025

Medium-Term Debt Management Strategy (MTDS) 2023-2025

For comments and clarifications, kindly contact:

Debt Management Unit
Ministry of Finance
The Carenage
St. George's
Grenada

Tele: (473) 440-2214/ 435-8915

This document is also available on the website at http://www.finance.gd

Ministry of Finance

GRENADA

November 2022

ACKNOWLEDGMENT

Gratitude is extended to the staff in the Ministry of Finance (MoF), specifically the Macro-Economic Policy Unit and the Advisor for their contribution to the completion of this document.

Finally, special thanks to the staff of the Debt Management Unit (DMU). Their efforts paved the way for its timely completion.

NOTES

Fiscal Year	The Government of Grenada's fiscal year runs from January 01 to December 31
Local Currency	The domestic currency is the Eastern Caribbean Dollar (XCD) ($). The XCD is pegged to the United States dollar (USD) under the current fixed exchange rate regime (XCD$2.7 = USD$1); a system that has been in place since 1976 Unless otherwise stated, all values are in XCD ($)
Coverage	**The Medium-term Debt Management Strategy includes ONLY Central Government's existing debt and projected borrowing. The Government-guaranteed debt of public entities is not included in the analysis.**
Classification	Debt is classified by currency for this analysis only
Source	The source of all tables and figures is the Ministry of Finance

TABLE OF CONTENTS

ACRONYMS

ABP	Annual Borrowing Plan
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CBI	Citizenship by Investment
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
CNY	China Yuan Renminbi
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CUB	Committed Undisbursed Balances
DMU	Debt Management Unit
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EUR	Euro
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
FX	Foreign Exchange
GBP	Great Britain Pounds
GDP	Gross Domestic Product
GoG	Government of Grenada
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IRP	Investor Relations Programme
JPY	Japanese Yen
KWD	Kuwaiti Dinars
LIBOR	London Inter-Bank Offer Rate
MoF	Ministry of Finance
MTDS	Medium-Term Debt Management Strategy
MTFF	Medium-Term Fiscal Framework
OPEC	Organization of Petroleum Exporting Countries
PDM	Public Debt Management
PV	Present Value
RGSM	Regional Governments Securities Market

S1	Strategy 1
S2	Strategy 2
S3	Strategy 3
ST FX	Short-Term Foreign Exchange
T-Bills	Treasury Bills
T-Notes	Treasury Notes
USD	United States Dollar
WB	World Bank
XCD	Eastern Caribbean Dollar
XDR	Special Drawing Rights

DEFINITIONS

Average Time to Maturity (ATM) is a measure that focuses on the timing of repayment. It shows the share of debt falling due within a specific period – i.e., the shape of the redemption profile.

Average Time to Re-fixing (ATR) is a measure of the weighted average time until all the principal payments in the debt portfolio become subject to a new interest rate.

Bilateral Creditor is a donor government or its agency that provides loans to borrowers in other countries.

Bullet Repayment is the repayment of principal in a single payment at the maturity of the debt.

Debt Outstanding is the amount that has been disbursed from a loan but has not yet been repaid or forgiven.

Debt Restructuring is an action officially agreed upon between a creditor and borrower to alter the terms previously established for repayment. In Grenada's context, this has included haircuts/ debt service and debt service reduction exchanges, forgiveness, and refinancing.

Multilateral Creditor is an international institution with governmental membership that conducts all or a significant part of its activities in favour of development and aid recipient countries.

Domestic Debt is the gross outstanding amount, at any given time, of actual liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) and that are denominated in XCD.

External Debt is the gross outstanding amount, at any given time, of actual liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) and that are not denominated in XCD.

Executive Summary

The Medium-Term Debt Management Strategy (MTDS[1]) is prepared in fulfilment of the Requirements of Section 5(1) of the Public Debt Management (PDM) Act, No. 28 of 2015. The MTDS is a plan aimed at achieving the desired debt portfolio, consistent with Government's debt management objectives. It ensures the most suitable debt portfolio is designed by assessing the trade-offs between costs and risks. The MTDS, among other considerations, highlights a preferred strategy that can be used over the medium term (2023-2025). The PDM Act enacted in June 2015 provides the framework for effective debt management, which involves the establishment and execution of the strategy for managing public sector debt.

Following a rebound in economic output of 4.7 percent in 2021 relative to a sharp contraction in 2020, the economy is anticipated to continue recovering in 2022, expanding by 6.0 percent in real terms. This growth will be driven by robust activities in the construction, tourism, and wholesale and retail trade sectors. Therefore, growth is expected to average 4.1 percent over the medium term (2023-2025). The fiscal sector is projected to improve with primary and overall balances averaging 4.1 percent and 2.5 percent of gross domestic product (GDP) respectively. The monetary and financial sector remains stable, and growth is forecasted over the medium term in tandem with a spur in economic output. Consistent with global trade disruptions, tightening financial conditions, and elevated inflation levels, the trade deficit is estimated to expand over the period 2023-2025.

Central Government's debt at the end of 2022 is estimated at $1.9 billion of which external debt is $1.4 billion and domestic debt $ 0.5 billion. Total debt service for the year is estimated to be $361.2 million or 32.8 percent of revenue inclusive of re-issuance of Treasury Bills (T-Bills).

Concerning risks in the existing portfolio, the interest rate is subject to moderate risk. The Average Time to Re-Fixing (ATR) of the total portfolio is 8.8 years, of which 21.4 percent is subject to a change in interest rates in one year. The risk comes as a result of the high percentage (38.6 percent) of domestic debt, namely T-Bills, re-fixing in one year. Variable-rate debt accounts for 6.4 percent of the total portfolio and hence does not pose a significant risk in 2022. The refinancing risk profile of the portfolio has an Average Time to Maturity (ATM) of 9.2 years, which meets the set target of 8 years and above. The portfolio's exposure to foreign exchange risk is minimal. Foreign debt is 72.7 percent of the portfolio but 68.7 percent of foreign currency debt is denominated in USD to which the XCD is pegged.

Three strategies were analyzed, and all strategies were subject to various stress scenarios including interest rate and exchange rate shocks of moderate and extreme degrees. The analysis illustrates that Strategy 1

---

[1] IMF and World Bank (2009). "*Developing a Medium-Term Debt Management Strategy —Guidance Note for Country Authorities*" http://www.imf.org/external/np/pp/eng/2009/030309a.pdf.

(S1) represents the most feasible option for financing the Government's needs in the medium term (2023-2025) and it is firmly in line with Grenada's debt management targets and objectives. It assumes that Government's financing needs will be met by targeting external concessional debt from traditional multilateral creditors, the drawdown of committed undisbursed funds, and the re-issuance of Government securities on the domestic and regional markets.

1 OVERVIEW

This MTDS spans three years (2023-2025). The debt data utilized for the MTDS encapsulates the Central Government's external and domestic debt, but does not include Government-guaranteed debt in the analysis, except in cases where these debts were subsumed by the Government. T-Bills are recorded at their discounted values only for the purpose of this Strategy.

The report is divided into five sections. Following the Overview, Section 2 provides a review of the existing debt portfolio for 2022, which focuses on the Central Government. This section includes existing debt stocks and debt service payments, risk analysis, and the redemption profile at the end of 2022. Section 3 examines macroeconomic performance, medium-term outlook, and key risks. Section 4 highlights the alternative strategies to finance the Government's borrowing needs, based on its current economic constraints and the preferred strategy regarding the cost-risk trade-off. Finally, Section 5 gives an outline and proposal of the implementation methodology and a financing plan for the identified strategy.

1.1 Debt Management Objectives

Consistent with the Medium-Term Fiscal Framework (MTFF), the MTDS sets out the Government of Grenada's (GoG's) objectives and strategy for the management of its domestic and foreign debt for the period 2023- 2025. The Ministry of Finance (MoF), through its Debt Management Unit (DMU), is committed to implementing the debt management objectives as outlined by the PDM Act of 2015. These objectives are aimed at:

i. Ensuring that the financing needs of the Government are met on a timely basis and that its debt service obligations are met at the lowest cost over the medium-to-long term, in a manner that is consistent with an acceptable and prudent degree of risk;
ii. Providing a framework for the management of public debt in a manner that achieves and maintains sustainable debt; and
iii. Ensuring that public debt management operations support the establishment of a well-developed domestic debt market in the medium-to-long term.

1.2 Implementation of the 2022 Debt Management Strategy

The MTDS implemented for the financial year (FY 2022) emphasized the utilization of committed undisbursed balances (CUB) and concessional funding from Grenada's traditional external multilateral creditors. To reduce the cost of debt and refinancing risk, the FY 2022 MTDS recommended the re-issuance of existing domestic facilities as they mature, but no new issuances of short-term debt on the domestic market. This means that the share of both T–Bills and Treasury notes (T-Notes) remains stable. The MTDS target for domestic financing and external financing mix was 48.0 percent and 52.0 percent respectively. The actual position at the end of October 2022, however, shows a financing mix of 48.6 and

51.4 percent respectively.

For external debt, the actual position at the end of October 2022 indicates that the majority of external financing was concessional. New facilities contracted in 2022 accounted for 63.7 percent of external financing, disbursements from existing multilateral facilities accounted for 32.7 percent and the remaining 3.6 percent accounted for bilateral facilities. Of four (4) new International Development Association (IDA) loans (one budget support operation and three investment operations) contracted as at October 2022, only the budget support operation, which was a single-tranche one-time disbursement loan, was fully disbursed.

An increase in concessional financing resulted in an ATM of 9.2 years in 2022, which is a negligible decrease below 2021 of 0.2 years. The ATM still meets the established target of greater than 8 years. Similarly, the ATR of the total portfolio also decreased by 0.2 years when compared to 2021.

The weighted average interest rate of the portfolio is 2.8 percent in 2022, which is the same as it was in 2021.

2. Existing Debt Portfolio - 2022

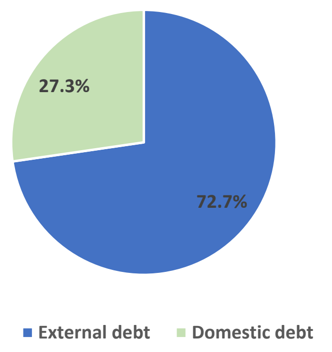
This section reviews in detail the composition of **Central Government's** outstanding debt.

2.1 Composition of Central Government's Debt Portfolio

2.1.1 Total Central Government Debt (Figure 1.)

The projected total Central Government debt for this report is classified by currency. External debt consists of all debt denominated in foreign currencies and domestic debt refers to all debt denominated in XCD. At the end of 2022, total Central Government debt is estimated to be $1,975.8 m. This comprises $1,436.3 m (72.7 percent) external debt and $539.5 m (27.3 percent) domestic debt.

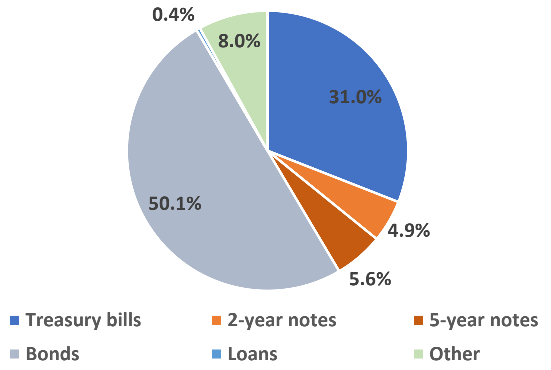
Figure 1: Composition of Central Government Debt



2.1.1.1 Domestic Debt (Figure 2)

Central Government's estimated domestic debt at the end of 2022 comprises 50.1 percent bonds, 31.0 percent T-Bills, 10.5 percent T-Notes, 0.4 percent loans and 8.0 percent of other liabilities[2] denominated in XCD.

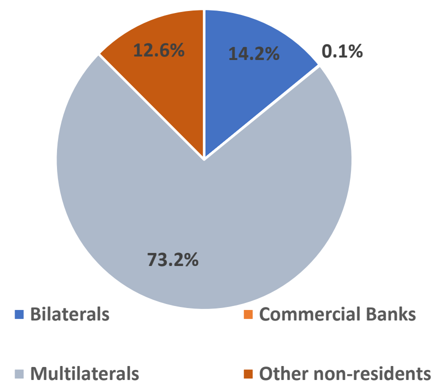
Figure 2: Domestic Debt by Instrument Type



2.1.1.2 External Debt (Figure 3)

The composition of Central Government's external debt at the end of 2022 is estimated to be as follows: multi-lateral creditors 73.2 percent; bilateral creditors 14.2 percent; other non-residents3 12.6 percent; and commercial loans 0.1 percent. Multi-laterals include IDA, Caribbean Development Bank (CDB), International Monetary Fund (IMF), Organization for Petroleum Exporting Countries (OPEC), International Bank for Reconstruction and Development (IBRD), International Fund for Agricultural Development (IFAD) and CARICOM Development Fund (CDF). Bilateral creditors include Kuwait, Trinidad, EXIM Bank of China, EXIM Bank of the US, and Bank of Alba.

Figure 3: External Debt by Creditor Category

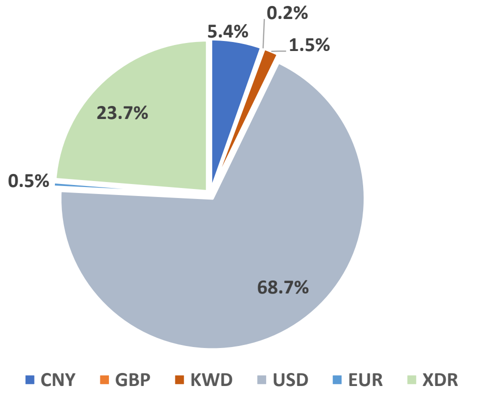


[2] Other liabilities consist chiefly of compensation claims.
[3] Other non-residents refer to international bond holders.

2.1.1.3 External debt by currency composition (Figure 4.)

The currency composition of external debt at the end of 2022 is estimated to be as follows: USD $986.5 m (68.7 percent), Special Drawing Rights (XDR) $340.7 m (23.7 percent), Yuan Renminbi (CNY) $76.8 m (5.4 percent), Kuwaiti Dinar (KWD) $22.1m (1.5 percent), Euro (EUR) $6.8 m (0.5 percent) and Great Britain Pound (GBP) $3.5 m (0.2 percent).

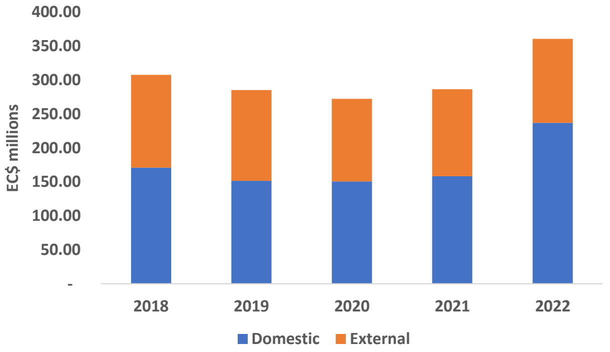
Figure 4: External Debt by Currency Composition



Debt Service Payments (Figure 5.)

Figure 5 shows debt service payments for the period 2018 to 2022. Total debt service payments decreased between 2018 and 2020 but increased in 2021 and further in 2022. Analysis of the debt numbers in 2022 revealed that a portion of reissuances were not captured

Figure 5: Debt Service (2018-2022)



2.2 Risk Analysis of the Debt Portfolio

The debt portfolio has inherent risks related to market conditions; basic cost and risk indicators were analyzed. The main portfolio risks in 2022 are covered in this Section.

2.2.1 Interest Rate Risk

The ATR of Grenada's total debt portfolio was approximately 8.8 years at the end of 2022, of which 21.4 percent is subject to a change in interest rate in one year (Table 1). Interest rate risk is mainly inherent in the domestic debt portfolio with an ATR of 5.1 years with 38.6 percent of its debt subject to re-fixing in one year. While this may seem high, the variation on the reissuances of T-Bills are capped as published in the annual Prospectus. The final interest rate on domestic borrowings therefore is kept between established boundaries. Conversely, the ATR of the external debt portfolio is 10.2 years with 14.9 percent of external debt re-fixing in one year. Additionally, 91.2 percent of external debt is contracted on fixed-rate terms and 8.9 percent on variable-rate terms all of which is owed to multilateral and bilateral creditors. Government is cognizant of the pending transition from London Inter-Bank Offered Rate (LIBOR), and any risks posed by this transition will continue to be closely monitored. These are the new rates that will be used: Secured Overnight Financing Rate, Sterling Overnight Index Average, and Euro InterBank Offered Rate.

2.2.2 Refinancing /Rollover Risk

Refinancing/rollover risk is the vulnerability of the portfolio to higher costs for refinancing maturing debt within a period or in extreme cases if the debt cannot be rolled over at all. The overall operational target is 8 years and above. The ATM of Grenada's debt portfolio is 9.2 years, which surpasses its target and is chiefly attributable to external debt, which has an ATM of 10.8 years. Of external debt, 7.1 percent will mature in one year. In contrast, domestic debt is mainly exposed to refinancing risk because of its relatively short maturity profile. The ATM of domestic debt is 5.1 years of which 38.6 percent will mature in one year since a significant portion of short-term debts, namely Treasury bills, are reissued.

2.2.3 Foreign Exchange Risk

Foreign exchange risk measures the exposure of the portfolio to changes in exchange rates. Grenada's debt portfolio is minimally exposed to foreign exchange risk. Debt contracted in foreign currency accounts for 72.7 percent of the total debt portfolio. This is in line with the target of less than or equal to 80.0 percent set for foreign exchange debt. It consists principally of the USD (68.7 percent) to which the XCD is pegged.

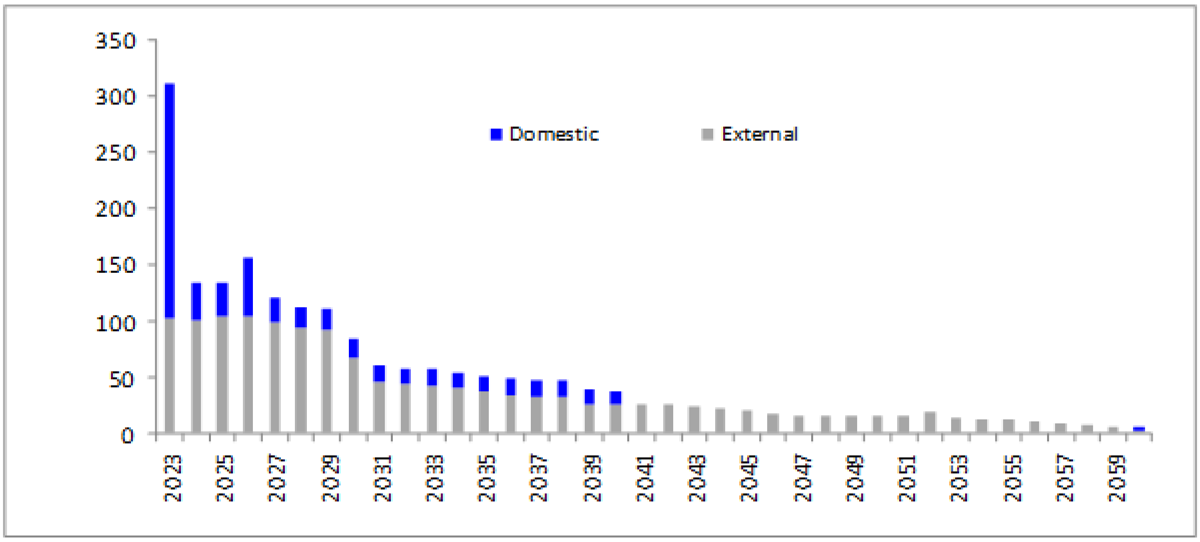
Table 1: Cost and Risk Indicators for the Existing Debt Portfolio as at year-end 2022

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of XCD)		1,436.3	539.5	1,975.8
Amount (in millions of USD)		532.0	199.8	731.8
Debt as % GDP		44.2	16.6	60.7
PV as % of GDP		34.0	17.1	51.1
Cost of debt	Interest payment as % GDP	1.1	0.6	1.7
	Weighted Av. Interest Rate (%)	2.5	3.6	2.8
Refinancing risk	ATM (years)	10.8	5.1	9.2
	Debt maturing in 1yr (% of total)	7.1	38.6	15.7
	Debt maturing in 1yr (% of GDP)	3.2	6.4	9.6
Interest rate risk	ATR (years)	10.2	5.1	8.8
	Debt re-fixing in 1yr (% of total)	14.9	38.6	21.4
	Fixed-rate debt (% of total)	91.2	100.0	93.6
Foreign exchange (FX) risk	FX debt (% of total debt)			72.7
	Short-term (ST) FX debt (% of reserves)			11.9

2.2.4 Redemption Profile

The risks inherent in the portfolio and the amortization of outstanding debt are depicted in the redemption profile (Figure 6). A high portion of domestic debt is due for redemption within one year because of the T–Bills maturing within that period. Also, two (2) T-Notes will mature in 2026, which explains the peak in 2026 for domestic debt, as opposed to other years. External debt has a relatively smooth redemption profile and a longer maturity that is characterised by concessional loans from multilateral and bilateral creditors. The redemption of short to medium term domestic debt is frequent by nature of the tenor. This presents no cause for concern given that historic market performances demonstrate a high demand for Grenada's T-Bills and T-Note.

Figure 6 Redemption profiles (based on Currency) as at the end of 2022 (XCD Million)



3 Macroeconomic Performance, Medium-Term Outlook, and Key Risks

3.1 Public Finance

Grenada's fiscal position has strengthened despite the lingering impact of the COVID-19 pandemic, the war on Ukraine, and shipping and logistics issues to date. During the first three quarters of 2022, the primary and overall balances including grants were $155.4 million and $123.4 million respectively, which were significantly higher than 2021's comparable period by $77.1 million and $80.9 million respectively. The estimated outturn for 2022 is anticipated to reflect an improved capital expenditure performance and an even stronger collection of tax and non-tax revenue resulting in an overall surplus of $4.8 million compared to a budgeted deficit of $97.9 million. Similarly, a primary balance including grants of $55.7 million is estimated, exceeding the budgeted deficit of $(34.2) million.

Following three consecutive years of Parliament's-approved suspension of the fiscal rules during the period 2020-2022, the MTFF 2023-2025 is framed to comply with all the fiscal rules and targets under the Fiscal Responsibility Law (FRL).

Table 2: Fiscal Projections for 2023-2025 (MTFF)

In millions of Eastern Caribbean Dollars, unless stated otherwise	2023		2024		2025	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	**1118.6**	**32.1%**	**1,170.6**	**31.8%**	**1277.4**	**32.8%**
Total Revenue	**1050.8**	**30.1%**	**1,099.0**	**29.8%**	**1201.6**	**30.8%**
Tax Revenue	739.3	21.2%	780.7	21.2%	826.4	21.2%
Non - Tax Revenue	311.4	8.9%	318.3	8.6%	375.2	9.6%
Grants	**67.8**	**1.9%**	**71.6**	**1.9%**	**75.8**	**1.9%**
Total Expenditure	**1,055.8**	**30.3%**	**1,094.6**	**29.7%**	**1131.3**	**29.0%**
Primary Expenditure	994.1	28.5%	1,037.2	28.2%	1080.5	27.7%
Current Expenditure	**741.9**	**21.3%**	**763.1**	**20.7%**	**780.4**	**20.0%**
Employee compensation	325.6	9.3%	335.9	9.1%	341.9	8.8%
wages, salaries & allowances	311.1	8.9%	320.8	8.7%	326.6	8.4%
Social Contribution to employees	14.5	0.4%	15.1	0.4%	15.3	0.4%
Goods and Services	157.0	4.5%	162.4	4.4%	166.1	4.3%
Interest Payments	61.7	1.8%	57.4	1.6%	50.8	1.3%
Transfers	197.6	5.7%	207.4	5.6%	221.7	5.7%
Capital Expenditure	**313.9**	**9.0%**	**331.5**	**9.0%**	**350.9**	**9.0%**
o/w: Grant financed	67.8	1.9%	71.6	1.9%	75.8	1.9%
Overall balance	**62.7**	**1.8%**	**76.0**	**2.1%**	**146.0**	**3.7%**
Primary balance (excluding grants)	**56.6**	**1.6%**	**61.8**	**1.7%**	**121.1**	**3.1%**
Primary balance (including grants)	**124.4**	**3.6%**	**133.4**	**3.6%**	**196.9**	**5.1%**
Memo Item						
GDP (Nominal market Prices)		3,487.7		3,682.8		3,898.2
Real GDP growth (%)		3.6%		4.0%		4.8%

Source: Ministry of Finance

3.2 Monetary Sector

The Monetary and Financial sector strongly navigated through the COVID-19 pandemic in 2020. Banks and Non-Bank Financial Institutions continue to see improvements in their asset base in 2021 and 2022. Domestic credit experienced improvements over the year June 2021-June 2022 as commercial bank loans to various sectors increased by 3.5 percent to $1.9 billion, owing to the general uptick in economic activity. Non-performing loans remain below the prudential benchmark whilst liquidity ratios continue to trend in the right direction on account of increased lending by commercial banks. The outlook for the sector over the medium term is positive and further improvement is envisioned as growth returns in many sectors of the economy.

The XCD remains pegged to the USD and this reduces the margin to maneuver monetary policy by the Eastern Caribbean Central Bank (ECCB). However, this peg provides stability for the portfolio because USD-denominated debt dominates the external portfolio so there is minimal exchange rate risk on Government's overall debt portfolio.

3.3 Real Sector

Macroeconomic and fiscal developments in Grenada depend in large measure on global macroeconomic developments. The economy recovered considerably well in 2022, in comparison to 2021; however, the improvement in economic performance was still below pre-COVID-19 levels. Data for the first half and estimates for the second half of 2022 indicate that overall growth in 2022 will be 6.0 percent driven by growth in the key sectors of tourism, construction, private education, and agriculture. However, challenges affecting the global economy continue to spill over into Grenada, impacting various sectors. The Russian-Ukraine war poses further risk to the economy. Supply Chain disruptions, high freight costs, increased costs of raw materials, and the elevated cost of food, pose serious threats to growth. Year-on-year inflation as measured by the Consumer Price Index was 3.3 percent in August and is expected to persist with increases in global food and fuel prices, and international shipping costs especially if the ongoing war in Ukraine continues.

3.4 External Sector

The visible trade deficit widened by 33.3 percent to -$311.5 million at the end of the first quarter of 2022[4] relative to the same period of 2021. Despite buoyant exports that increased by 36.9 percent over the period, there was a 33.6 percent expansion in total imports, predominantly because of high commodity prices that propelled the overall worsening of the trade balance. Over the medium term, the visible trade deficit is projected to widen if elevated global food and energy prices persist. Notwithstanding, exports are projected to pick up along with the overall growth in economic output.

[4] Latest period for which data is available.

3.5 Outlook for Debt Management

The development of a well-functioning Regional Government Securities Market (RGSM) provides an avenue through which the GoG can raise debt financing efficiently to meet the Government's needs. Albeit over-the-counter transactions also have their place in the borrowing program. The Government's investor relations plan (IRP), already approved in principle, is expected to gain some traction in the upcoming year as the front office of the Debt Unit prepares to operationalize the planned activities.

3.6 Risk Sources and Potential Impact Factors

Table 3 details sources of potential risk on the existing debt portfolio and the related impact on debt management.

Table 3: Risk Sources and Potential Impact

RISK SOURCE	IMPACT ON	DEBT-RELATED RISK
GDP decline	Revenues and Expenditure	Weak debt repayment capacity
Deterioration in the fiscal position	Primary balance	High financing needs
Current Account Deficit & reduction in foreign direct investment (FDI)	Balance of Payments	Need for external financing (private/public)
Currency depreciation	Debt Portfolio	High FX debt service
Terms of Trade	Commodities prices Exchange rate	High FX debt service
Low appetite for long-dated securities	ATM	Roll-over risk
Reducing stock of concessional external debt	Interest Rates and maturity	Potential drain on reserves/ pressure on the balance of payments

4 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

4.1 Targets and Ranges for Key Risk Indicators

In each of the strategies, the strategic benchmarks established to finance the Budget have resulted in a favorable structure for Central Government debt over the years.

Table 4: Risk Targets and Ranges

Risk Indicators	2022	2025
	Current	Target Range
*Central Government Debt as % of GDP	60.7	<=55%
Interest payment as % of GDP	1.7	<=2.5%
Debt maturing in 1yr (% of total)	15.7	<=20%
Debt maturing in 1yr (% of GDP)	9.6	<=10%
ATM Total Portfolio (years)	9.2	>=8 years
ATR (years)	8.8	>=10 years
FX debt as % of total	72.7	<=80%

**Central Government debt only*

One of the debt management objectives is to achieve and maintain sustainable debt. The target Public Debt[5]-to-GDP ratio for the 2023-2025 MTDS is guided by the FRL (2015), which states that it must not exceed 55.0 percent. The ratio declined from 84.7 percent (2015) to 57.7 percent (2019), but increased in 2020 to 70.6 percent as total debt grew due to the economic fallout occasioned by the COVID-19 pandemic. The ratio decreased the following year (2021) to 69.5 percent and is forecasted to decline even further in 2022 by 8.8 percentage points.

Interest payments as a percent of GDP declined from 3.6 percent (2015) to 1.8 percent (2021), which has been driven down primarily by lower interest rates achieved through highly-concessional loans. In 2022, interest payments to GDP declined even further to 1.7 percent. The GoG has also benefitted from declining yields on the RGSM.

[5] Public Debt according to the FRL includes:

(a) the total stock of public sector debt from domestic or external sources for any purpose including the total sum of debt guaranteed by the government including contingent liabilities assumed by the government, but excluding contingent arising from, as a result of, or in connection with public-private partnership;

(b) the debt and contingent liabilities of statutory bodies and state-owned enterprises; and

(c) such sums as may be necessary to defray expenses in connection with such liabilities.

Since it is one of GoG's debt management objectives to have a low cost of debt, the target is to maintain the current cost of debt below 2.5 percent.

As a share of total Central Government debt, debt maturing in 1 year is set to be less than or equal to 20.0 percent of the portfolio. This may appear as a high concentration of repayments in the short term but the issuance of T–Bills is necessary for the development of the domestic market and in meeting statutory requirements for the financial sector. Debt maturing in one (1) year declined from 17.8 percent (2015) to 15.7 percent (2022), reflective of the conversion of T–Bills to T-Notes in 2019 through 2021. As a share of GDP, the target is to keep the share of debt maturing in one (1) year below 10.0 percent which was achieved.

The target ATM and ATR of the total portfolio of 8 years or more and 10 years or more respectively reduces the refinancing risk and avoids pressures on GoG to secure new sources of financing. The existing debt is primarily from concessional sources and development partners with long maturities. The policy of the Government, as is reflected in this MTDS, emphasizes the implementation of existing Public Sector Investment Projects and draws down on CUB from external creditors on concessional terms.

The target ratio of foreign currency debt is 80.0 percent of total Central Government debt. It suggests high exposure to foreign currency risk but this is manageable because the largest share of foreign currency debt is denominated in USD, to which the XCD is pegged. Risks of valuation changes due to exchange rate movements and market expectations suggest that the XCD will appreciate against the XDR which can be beneficial for retiring debt. Non-USD foreign currency debt has increased slightly as a share of external debt in the portfolio; and will be monitored closely in the implementation of the strategy.

4.2 Assumptions and Potential Financing Sources

Over the medium term (2023 -2025), it is anticipated that funding will be received from multilateral institutions on concessional terms in USD to meet the financing needs. This includes CDB and traditional multilateral creditors, which may also be targeted to provide funding for upcoming projects. Table 5 displays proposed financial terms and indicative sources of financing over the medium term.

Table 5: Proposed Terms of new Financial Instruments

Creditor/Instrument	Maturity (Years)	Grace (Years)	Interest Type	Currency
Multilateral- Regional Development Bank	20 - 25	10	Fixed	USD
Multilateral- International Institutions	36 - 40	10	Fixed	USD

4.3 Alternative Strategies

Three (3) alternative debt management strategies were considered. Each strategy varies by the mix of borrowing between domestic and external sources, fixed and variable interest rates, and maturity and grace periods.

Strategy 1 (S1): This strategy reflects the Government's current borrowing practices. External financing is contracted chiefly from GoG's traditional multilateral creditors on concessional terms. It includes four (4) new loans totaling $194.4 million (USD72.0 million) one of which will be fully disbursed. Residual financing needs are met via the amended re-issuances of T-Bills and T-Notes on the local and regional markets. Terms of the RGSM auctions are amended to take up oversubscriptions on the auctions. This is primarily utilized as a part of cash flow management strategy. Funding will also be received from the drawdown of committed undisbursed funds.

Strategy 2 (S2): This strategy considers the development of the domestic market, which includes the extension of the maturity of the domestic debt profile. It suggests the issuance of a new 7-year bond in 2023 in the amount of $15.0 million and the option to take up the oversubscriptions of three (3) Treasury bills on the RGSM in that year. In 2024, S2 suggests that GoG issues a new private placement 5-year bond in the amount of $14.7 million and two (2) additional auctions on the RGSM of $10.0 million each. Also, S2 suggested an increase in the total value of GoG's sole RGSM 2-year note maturing in that year from $10.0 million to $25.0 million. In 2025, the option to take up an additional $5.0 million on each RGSM Treasury bill will be considered, a new 10-year private placement bond in the amount of $75.0 million and a new 3-year Treasury note in the amount of $29.2 million will be issued as well. All maturing over-the-counter and RGSM T-bills will be reissued. There will be drawdowns on committed undisbursed funds from external creditors and the funds from new instruments issued will be used to meet residual financing needs where necessary.

Strategy 3 (S3): This strategy places emphasis on a mix of domestic and external financing For this strategy, external, concessional financing is targeted chiefly from GoG's usual multilateral creditors and there will be a drawdown on committed undisbursed funds primarily in USD from both multilateral and bilaterals. Three (3) new loans totaling $121.5 million will be contracted and partially disbursed over the medium term. S3 supports government's drive to enhance project implementation in all sectors. On the domestic side, there will be the issuance of one (1) new private placement bond of $10.0 million in 2023, which will contribute to the lengthening of the domestic debt profile. The re-issuance of securities on domestic and regional markets will continue to meet residual financing needs.

Table 6: Strategy Considerations

Strategy	Average Financing Mix (%) (Ext: Dom)	Objectives
S1	52:48	Status quo- reflects a combination of domestic and external debt that mirrors current borrowing practices.
S2	35:65	Domestic Market Development- Focus on maintaining a presence on the domestic market and extending the maturity of the domestic debt profile with the introduction of longer-termed domestic instruments each year.
S3	49:51	Mixed Financing - Targets funding chiefly from external multilateral creditors on concessional terms and to a lesser extent domestic & regional creditors

The robustness of the alternative debt management strategies is assessed under three stress scenarios for interest and exchange rates with differing impacts: moderate and extreme. The shocks help to identify the vulnerabilities of the strategies to external shocks. The magnitude of the shocks was determined by the historical experiences of the interest rates in external markets and in Grenada. Possible macroeconomic risks facing Grenada's economy are also considered. For the shocks, it is assumed that the market variables (interest rates and exchange rates) will increase over the medium term. Also, the model assumes consistent growth in nominal GDP for the respective years in the period under consideration.

Baseline Scenario: In the baseline scenario the reference rates for 6-month re-fixed instruments are forecasted to increase marginally over the period 2023-2025. In addition, there are no expected exchange rate changes in the USD. However, the XDR is expected to depreciate marginally against the local currency while the CNY is projected to appreciate slightly over the projection horizon. Loans denominated in KWD were converted into USD as they only constitute 1.1 percent of the portfolio and it is likely that Kuwait will not be a future funding source.

Scenario 1: <u>Exchange Rate Shock</u>

a) <u>Moderate:</u> A 15 percent depreciation of the domestic currency against the XDR and CNY in 2023, which is sustained thereafter.

b) <u>Extreme:</u> A 30 percent depreciation of the domestic currency against the XDR and CNY in 2023, which is sustained thereafter.

Scenario 2: <u>Interest Rate Shock</u>

a) <u>Moderate</u>: A 100 basis points rise in the domestic T-Bill cap rate, and 200 basis points rise in the 6-month reference interest rate and any other floating rate instruments. The shock was applied to the projected baseline interest rate for each year of the Strategy period.

b) <u>Extreme:</u> A 200 basis points rise in the domestic T-Bill cap rate, and 400 basis points rise in the 6-month reference interest rate and any other floating rate instruments. The shock was applied to the projected baseline interest rate for each year of the Strategy period.

Scenario 3: <u>Combination Shock</u>- is the moderate interest rate scenario (200 basis points on floating rate debt) combined with a moderate exchange rate scenario (15 percent depreciation of the domestic currency vis-a-vis the XDR and CNY) in 2023 and sustained thereafter.

4.3.1 Cost Risk Analysis under Different Strategies

Table 7 illustrates the cost and risk indicators under each strategy. The robustness of the strategies is assessed by comparing the outcomes under the baseline and shock scenarios discussed. The debt-to-GDP ratio declined across each of the strategies compared to the ratio at end- 2022. The present value of the debt in each of the strategies was significantly reduced relative to the current period. Moreover, the interest payment as a percent of GDP was also lowered across all three strategies and the implied interest rate decreased across all strategies relative to the current period.

The associated risks with each of the strategies were assessed based on established targets outlined in Table 7. As it relates to refinancing risk, the results indicate significant improvements in S1 and S3 but not in S2 (Domestic Market Development Strategy) because of the high concentration of short-termed instruments recommended to run the strategy. Specifically, the percentage of debt maturing in one year fell in S1 and S3 only but the ATM, which is a key risk indicator improved significantly across all three strategies relative to the current period (2022) which is the desired movement.

With respect to the interest rate risk, the alternative strategies resulted in a lengthening of the average time in which the interest rate of the portfolio will be subject to change (ATR (years)). Additionally, there was a decline in the portion of variable rate debt subject to a new interest rate as a percent of total debt.

The foreign debt as a percentage of total debt ratio recorded an increase for S1 and S3 relative to 2022, but recorded a decrease in S2 as all short-termed instruments are denominated in XCD. These results are expected given the varying financing combinations considered under the different strategies over the period (2023 - 2025). A high level of foreign debt in the portfolio reflects heightened risk as the share of debt denominated in foreign currency (non-USD) is subject to exchange rate risk.

Table 7: Cost Risk Indicators of Alternative Strategies

Risk Indicators		2022	As at end 2025			Target
		Current	S1	S2	S3	
Debt as % of GDP		60.7	54.01	54.10	54.02	Max 55%
Present value debt as % of GDP		51.1	41.63	43.66	42.17	
Interest payment as % of GDP		1.7	1.33	1.39	1.34	Max 2.5%
Implied interest rate (%)		2.8	2.51	2.63	2.53	
Refinancing risk	Debt maturing in 1yr (% of total)	15.7	14.91	17.92	14.91	Max 20 %
	Debt maturing in 1yr (% of GDP)	9.6	8.05	9.69	8.06	Max 10 %
	ATM External Portfolio (years)	10.8	13.76	12.79	13.41	
	ATM Domestic Portfolio (years)	5.1	4.16	3.78	4.17	
	ATM Total Portfolio (years)	9.2	11.72	10.16	11.26	Min 8 yrs
Interest rate risk	ATR (years)	8.8	11.30	9.75	10.85	Min 10 yrs
	Debt refixing in 1yr (% of total)	21.4	19.67	22.63	19.62	
	Fixed rate debt (% of total)	93.6	94.71	94.75	94.76	
FX risk	FX debt as % of total	72.70	78.72	70.78	76.77	Max 80%
	ST FX debt as % of reserves	11.9	10.31	10.31	10.31	

4.4 Selected Strategy

S 1, which mirrors the current financing mix of GoG, was chosen as it outperformed the alternative strategies in terms of cost and risk. It best captures Government's debt management objectives over the medium term.

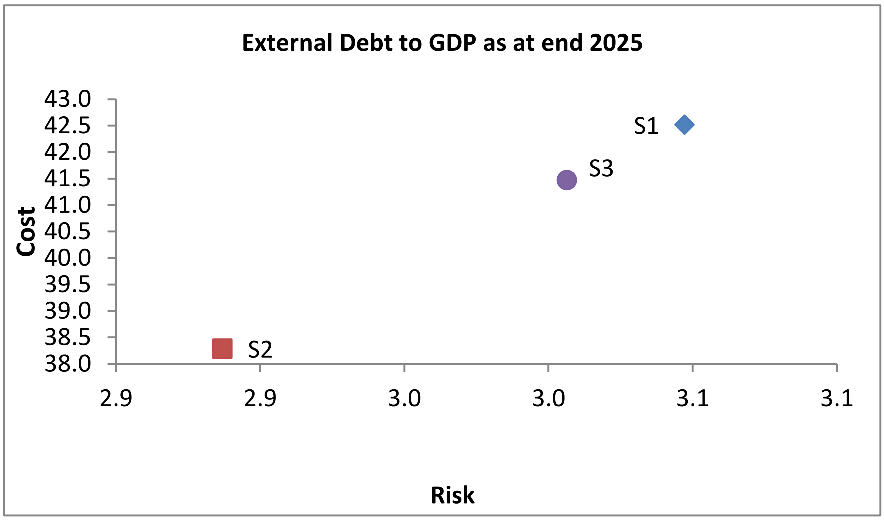
The preferred strategy, S1 recorded the highest ATM of 11.7 years at the end of 2025, an increase of 2.5 years compared to the current period. Its ATM was also higher than S2 and S3 by 1.6 years and 0.5 years respectively. S1 also recorded the highest ATR of 11.3 years, which is above that of the current period and the alternative strategies as well. Although the share of FX debt is lower in S2 than S1 and S3, the target of less than or equal to 80.0 percent was achieved for the chosen strategy.

In the chosen Strategy (S1) it is recommended that identified financing is obtained chiefly from concessional loans secured from existing external creditors (CDB and IDA) and the drawdown of committed undisbursed funds from multilateral and bilateral organizations, primarily denominated in USD. The ECCB, which is the monetary authority, maintains sufficient foreign exchange reserves to support the XCD that is pegged to the USD. Non-USD debt currently represents approximately 31.3 percent of the foreign currency debt portfolio.

Under S1, the planned financing option includes three (3) new loans from IDA totaling $167.4 million (USD 62.0 million) of which disbursements totaling $103.1 million will be received over the 3 years. It also includes one (1) new loan from CDB in 2024 totaling $27.0 million (USD 10.0 million), which will be fully disbursed by 2025. Additionally, as recommended, there will be a drawdown of committed undisbursed funds from traditional multilateral creditors and bilateral creditors including the Chinese Export-Import Bank ($81.7 million) over the medium term. Projected XDR and CNY principal repayments are equivalent to $55.1 million and $14.4 million respectively. Loans denominated in GBP and EUR represent approximately 0.7 percent of the foreign currency debt portfolio; despite the volatility of these two currencies, the impacts on the portfolio and debt servicing are considered negligible. The External Debt-to-GDP ratio fluctuated by a maximum of 3.0 percentage points after the application of 15.0 percent depreciation (moderate) and 30.0 percent depreciation (extreme) shock scenarios to the baseline; resulting in a ratio of 42.5 percent at the end of 2025 (Figure 7).

Foreign debt as a percentage of total debt is estimated to increase to 78.7 percent over the medium term from the current proportion of 72.7 percent, remaining marginally below the established maximum limit of 80.0 percent. This is expected as the share of USD debt in the portfolio is projected to increase with new borrowings. However, the peg between the XCD and USD mitigates this risk. The chosen strategy thus continues to limit the debt portfolio's exposure to foreign currency risk in the medium term.

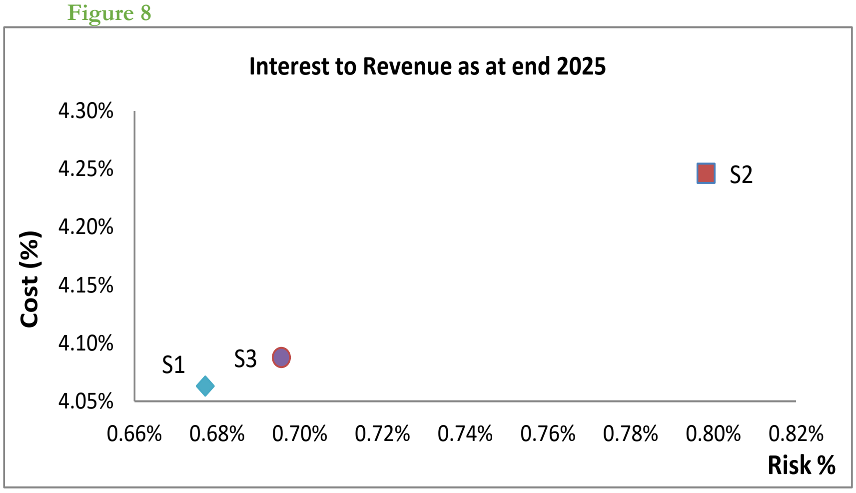
Figure 7



4.4.2 Market Risks – Interest Rate

At the end of 2025, variable-rate debt as a percentage of the total Central Government debt portfolio is projected to decline to 5.3 percent. The interest payments-to-revenue ratio is projected to fluctuate from the baseline by 0.003 percentage point under a moderate shock (2 percent) scenario and 0.007 percentage points under an extreme shock (4 percent) scenario. As at the end of 2025, under adverse interest rate movements, the ratio of interest payments to revenue would reflect a maximum of 0.05 percent (Figure 8). Exposure to interest rate risk is hence marginal under S1.

Figure 8



4.4.3 Refinancing Risk

S1 facilitates an extended ATM for the total portfolio given that the ATM for the external debt portfolio is improved by 3.0 years. Debt maturing in one year as a percentage of total debt and debt maturing in one year as a percentage of GDP would decline by the end of the year 2025, by 0.8 and 1.5 percentage points respectively, which is the desired movement.

Notwithstanding the extension in the ATM and the reduction in the ratio of debt maturing in one year as a percentage of GDP or total debt, the redemption profile is reflecting a spike in 2023. This is indicative of the high level of short-term securities in the portfolio. This implies exposure to refinancing risk. The chosen strategy, however, mitigates this risk as it suggests no new issuances of short-termed debt. It recommends only reissuing existing instruments over the medium term.

4.4.4 Development of the Domestic Market

S1 places more emphasis on external financing than domestic financing. RGSM, over-the-counter and private placement T-Bills and T-Notes will all be reissued upon maturity.

5 Annual Borrowing Plan

After revenues and expenditure have been considered, the Annual Borrowing Plan (ABP) is derived based on Government's financing requirement for the fiscal year. The ABP includes projected funding and recommendations of the most suitable sources for this funding. The ABP also gives an estimated ratio of what external and domestic funding for the year should be. In 2023, GoG's net financing needs are estimated to be $359.0 million or 10.3 percent of GDP.

The chosen strategy closely mirrors GoG's current borrowing practices. External financing is contracted chiefly from traditional multilateral creditors on concessional terms and domestic financing from the re-issuance of instruments on the domestic and regional markets (Table 8). It is recommended that the greater portion of funding be contracted from external sources and denominated in USD chiefly and at fixed interest rates. This will minimize foreign currency and interest rate risks.

Estimated external financing is projected to be $210.1 million or 58.5 percent of total financing. Estimated domestic financing is projected to be $148.9 million or 41.5 percent of total financing. This will be funded through the re-issuance of T-Bills, T-Notes and private placements on the domestic and regional markets.

Table 8: Annual Borrowing Plan 2023

Indicative Identified Financing	Projected Amt. (XCD Million)
External Financing	**210.07**
Multilateral	185.07
Bilateral	25.00
Domestic Financing	**148.93**
Treasury Bills	146.84
o/w RGSM	60.00
o/w Non-RGSM	86.84
Treasury Notes	2.09
TOTAL	**359.00**