GOVERNMENT OF GRENADA

MEDIUM-TERM DEBT MANAGEMENT STRATEGY REPORT 2024-2026

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GOVERNMENT OF GRENADA

Medium-Term Debt Management Strategy 2024 - 2026

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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.
Classification	Debt is classified by currency for this analysis only.
Source	The source of all tables and figures is the Ministry of Finance.

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ACRONYMS

ABP	Annual Borrowing Plan
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BOSL	Bank of Saint Lucia
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
FRA	Fiscal Resilience Act
FX	Foreign Exchange
GARFIN	Grenada Authority for the Regulation of Financial Institutions
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
NBFS	Non-bank Financial Sector

OPEC	Organisation of Petroleum Exporting Countries
PDM	Public Debt Management
RGSM	Regional Governments Securities Market
SAR	Saudi Arabia riyal
SB	Statutory Body
SGU	St. George's University
SOEs	State-owned Enterprises
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 local currency.

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 local currency.

EXECUTIVE SUMMARY

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

Grenada continued on a growth path, strengthening the recovery process, with firm growth of 5.5 percent estimated for the year 2023. This growth was broad-based, but primarily driven by activities in the Tourism and Construction Sectors. Activities in other sectors were also relatively robust. Growth is conservatively estimated to average 3.6 percent over the medium term. This takes into consideration key risks such as the island's susceptibility to external economic and climatic forces. The fiscal performance was strong, with the return to the fiscal rules following the 3-year suspension, arising due to the impacts of the COVID-19 pandemic. A primary and overall surplus (including grants) of $276.2 million and $225.0 million are estimated accordingly. The financial sector continued to be stable and sound. The trade deficit is estimated to expand given the widening gap between imports and exports.

Central Government's debt at the end of 2023 is estimated to be $2.1 billion of which external debt is $1.6 billion and domestic debt $0.5 billion. Total debt service (interest payments and principal repayments) for the year is estimated to be $289.3 million or 22.0 percent of revenue inclusive of re-issuance of Treasury Bills (T-Bills).

Regarding 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 9.9 years, of which 19.8 percent is subject to a change in interest rates in one year. The risk is chiefly attributable to the high percentage (38.6 percent) of domestic debt, namely T-Bills, re-fixing by the next year. Variable-rate debt did not pose a significant risk in 2023 as it only accounted for 6.7 percent of the total portfolio. The refinancing risk profile of the portfolio had an Average Time to Maturity (ATM) of 10.4 years, which meets the set target of 8 years or higher. The portfolio's exposure to foreign exchange risk was minimal. Foreign debt was 75.8 percent of the portfolio

[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.

but 69.8 percent of it was denominated in United States dollars (USD) to which the Eastern Caribbean dollar (XCD) is pegged.

Three strategies were analysed under various stress scenarios, which include interest rate and exchange rate shocks of moderate and extreme degrees. The analysis illustrates that Strategy 3 (S3) represents the best financing mix for the Government over the medium term (2024-2026) as it is firmly in line with Grenada’s debt management targets and objectives. It assumes that the Government’s financing needs will be met through borrowing on concessional terms from both multilateral and bilateral creditors, the drawdown of committed undisbursed funds, and the re-issuance of all existing Government securities on the domestic and regional markets. It also assumes additional domestic borrowing in 2026.

1. OVERVIEW

This MTDS covers a three-year period from 2024 to 2026. It encompasses debt data related to the Central Government's external and domestic debt. T-Bills are recorded at face value. Future MTDSs will incorporate all State-owned Enterprises (SOEs) as per the Fiscal Resilience Act (FRA) No. 11 of 2023.

This Report is divided into five sections:

- Section 1 - MTDS Overview: This section provides an overview of the MTDS.
- Section 2 - Review of Existing Debt Portfolio for 2023: This section focuses on the Central Government, presenting details about existing debt stocks, debt service payments, risk analysis, and the redemption profile as at the end of 2023.
    - Section 3 - Macroeconomic Performance and Outlook: In this section, the macroeconomic performance, the medium-term outlook, and key risks are examined.
    - Section 4 - Financing Strategies: This section highlights alternative strategies for financing the Government's borrowing needs, considering its current economic constraints and the preferred strategy regarding the cost-risk trade-off.
    - Section 5 - Implementation Methodology and Financing Plan: This section outlines and proposes the implementation methodology and a financing plan for the identified Strategy.

1.1 Debt Management Objectives

In alignment with the 2024-2026 Medium-Term Fiscal Framework (MTFF), this MTDS outlines the Government of Grenada's (GoG's) objectives and strategy for managing its domestic and foreign debt from 2024 to 2026. The Ministry of Finance (MoF), operating through its Debt Management Unit (DMU), is dedicated to the realisation of the debt management goals mandated by the PDM Act of 2015, as amended. These objectives are designed to:

i. Ensure that the Government's financial needs are met promptly and that its debt service obligations are fulfilled at the lowest possible cost over the medium-to-long term, while maintaining an acceptable and prudent level of risk.

ii. Establish a framework for public debt management that achieves and sustains sustainable debt levels.

iii. Ensure that public debt management operations contribute to the development of a well-functioning domestic debt market in the medium-to-long term.

1.2 Implementation of the 2023-2025 Debt Management Strategy

The MTDS implemented for the financial year 2023 emphasised the utilisation of committed undisbursed balances (CUB) and concessional funding from external multilateral creditors only. To reduce the cost of debt and refinancing risk, the 2023-2025 MTDS recommended the re-issuance of all existing domestic facilities as they matured. The MTDS' targets for domestic financing and external financing mix in 2023 were 41.5 percent and 58.5 percent respectively. The actual position at the end of October 2023 showed a slight variance as the financing mix was 42.0 percent and 58.0 percent respectively.

For external debt, the actual position at the end of October 2023 indicated that most of the external financing was concessional. New facilities contracted in 2023 accounted for 57.9 percent of external financing. Disbursements from existing multilateral facilities accounted for 14.8 percent, and the remaining 27.3 percent accounted for bilateral facilities. Only two new loans were contracted in 2023, Caribbean Development Banks's (CDB's) Health Sector Strengthening Project and Grenada Second Recovery and Resilience Programmatic Development Policy Credit from the International Development Association (IDA). The loan from IDA was fully disbursed.

The ATM of the total portfolio was 10.4 years at the end of 2023, which was higher than the previous year by 1.2 years due to additional concessional borrowing. It also met the established target of greater than 8 years. Similarly, the ATR of the total portfolio also increased when compared to 2022 by 1.1 years.

The weighted average interest rate of the portfolio was 2.7 percent in 2023, 0.1 percentage point lower than it was in 2022.

2. EXISTING DEBT PORTFOLIO – 2023

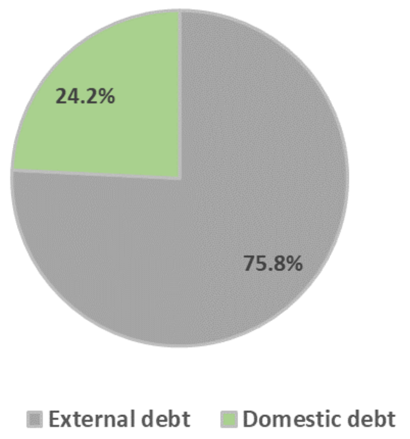
This section reviews in detail the composition of Central Government's outstanding debt.

2.1 Composition of Central Government's Debt Portfolio

2.1.1 Total Central Government Debt

For the purpose of this Report, the projected total Central Government debt 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 2023, total Central Government debt was estimated to be $2,127.5 million, which comprises $1,612.3 million (75.8 percent) external debt and $515.2 million (24.2 percent) domestic debt *(Figure 1)*.

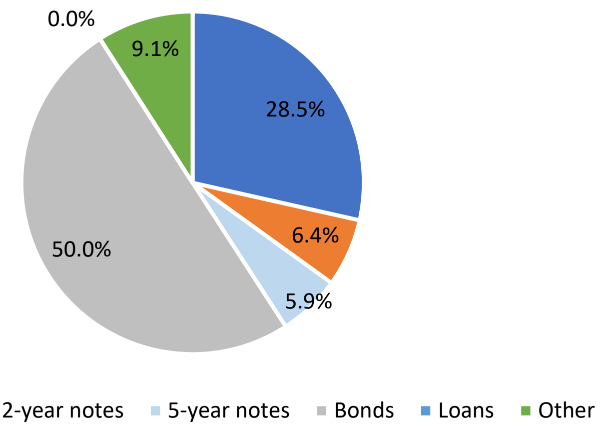
Figure 1: Composition of Central Government Debt



2.1.1.1 Domestic Debt

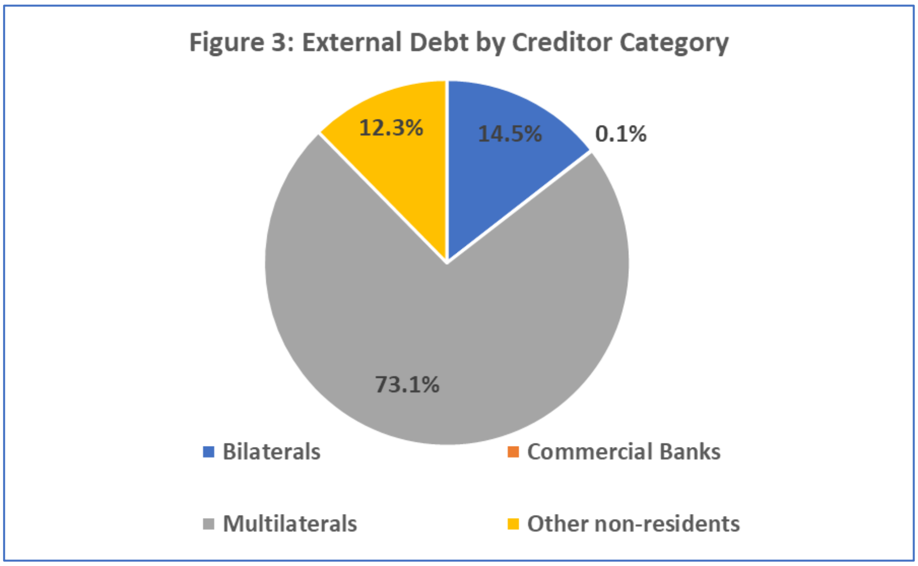
The Central Government's estimated domestic debt at the end of 2023 comprised 50.0 percent bonds, 28.5 percent T-Bills, 12.3 percent T-Notes, and 9.1 percent of other liabilities denominated in XCD *(Figure 2).*

Figure 2: Domestic Debt by Instrument Type



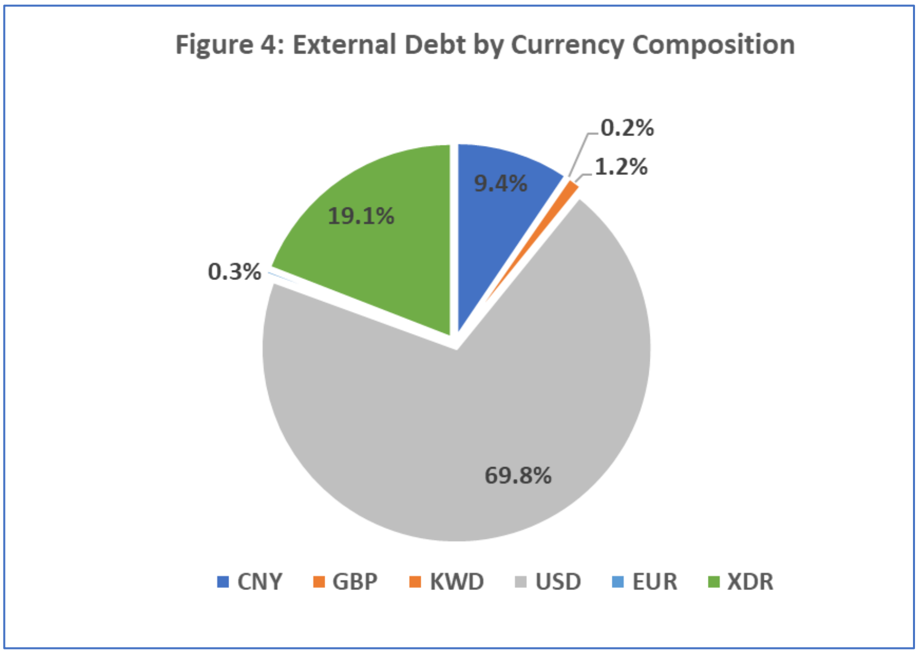
2.1.1.2 External Debt

The composition of Central Government's external debt at the end of 2023 was estimated to be as follows: multi-lateral creditors 73.1 percent; bilateral creditors 14.5 percent; other non-residents 12.3 percent; and commercial loans 0.1 percent. Multilaterals include IDA, CDB, International Monetary Fund (IMF), Organisation 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 included Kuwait, Trinidad, EXIM Bank of China, EXIM Bank of the US, and Bank of Alba (Figure 3).



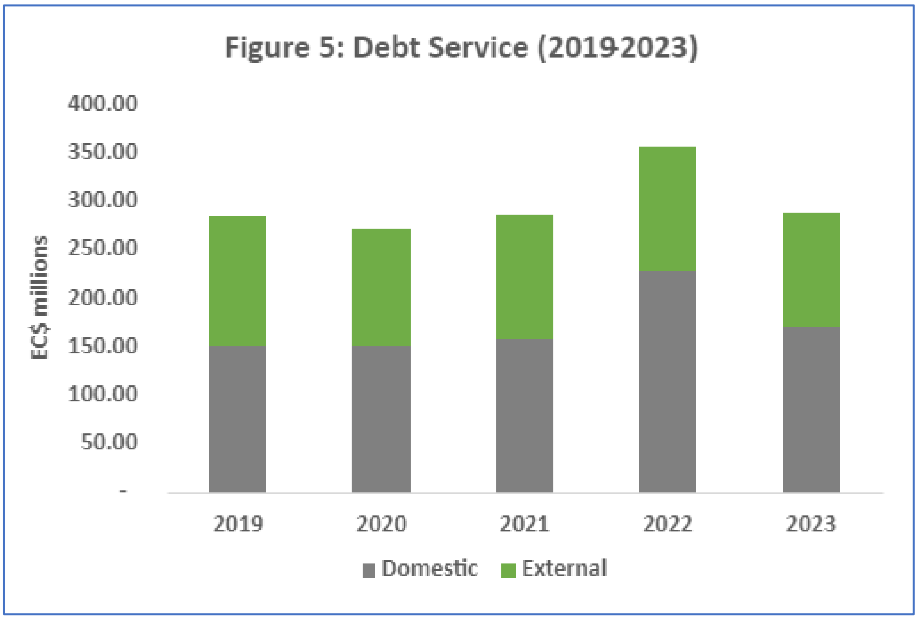
2.1.1.3 External Debt by Currency Composition

The currency composition of external debt at the end of 2023 was estimated to be as follows: USD $1,125.3 million (69.8 percent); Special Drawing Rights (XDR) $307.6 million (19.1 percent); Yuan Renminbi (CNY) $152.1 million (9.4 percent); Kuwaiti Dinar (KWD) $19.2 million (1.2 percent); Euro (EUR) $5.3 million (0.3 percent); and Great Britain Pound (GBP) $2.8 million (0.2 percent) (Figure 4).



2.1.1.4 Debt Service Payments

Figure 5 shows debt service payments have been stable around $300 million during the period 2019 to 2023, barring the spike in 2022 because of higher re-issuances.



2.2 Risk Analysis of the Debt Portfolio

Basic cost and risk indicators in the debt portfolio were analysed. The debt portfolio has inherent risks related to market conditions. The main portfolio risks in 2023 are covered in this Section.

2.2.1 Interest Rate Risk

Interest rate risk is the risk associated with an increase in interest rates. The ATR of Grenada's total debt portfolio at the end of 2023, is estimated to be approximately 9.9 years, of which 19.8 percent is subject to a change in interest rate in one year (Table 1). Interest rate risk is primarily due to the short life of the instruments in the domestic portfolio, which resulted in an ATR of 4.8 years, 38.6 percent of which is subject to re-fixing in one year. The ATR of the external debt portfolio is 11.6 years with 13.8 percent of external debt re-fixing in one year. Furthermore, 91.1 percent of external debt is contracted at fixed interest rates and the remaining 8.9 percent consists of floating-rate debt from both multilateral and bilateral creditors.

2.2.2 Refinancing /Rollover Risk

Refinancing/rollover risk is the vulnerability of the portfolio to higher costs for refinancing maturing debts within a period, or in extreme cases if the debts cannot be reissued at all. Grenada's overall operational target to refinance debt is 8 years and above. The ATM of Grenada's total debt portfolio is 10.4 years which is above target. This is primarily due to external debt with an ATM of 12.2 years, 5.9 percent of which will mature in one year. In contrast, domestic debt has higher exposure to refinancing risk because of its relatively short maturity profile. The ATM of domestic debt is 4.8 years of which 38.6 percent will mature in one year.

2.2.3 Foreign Exchange Risk

Foreign exchange risk measures the exposure of the portfolio to changes in exchange rates. Grenada's debt portfolio has minimal exposure to foreign exchange risk even though total foreign debt is estimated at 75.8 percent of the total portfolio at the end of 2023. This is because a significant portion of foreign currency-denominated debt (69.8 percent) is denominated in the USD to which the XCD is pegged. The target set for foreign exchange debt of less than or equal to 80.0 percent was also achieved.

Table 1: Cost and Risk Indicators for the Existing Debt Portfolio as at year-end 2023

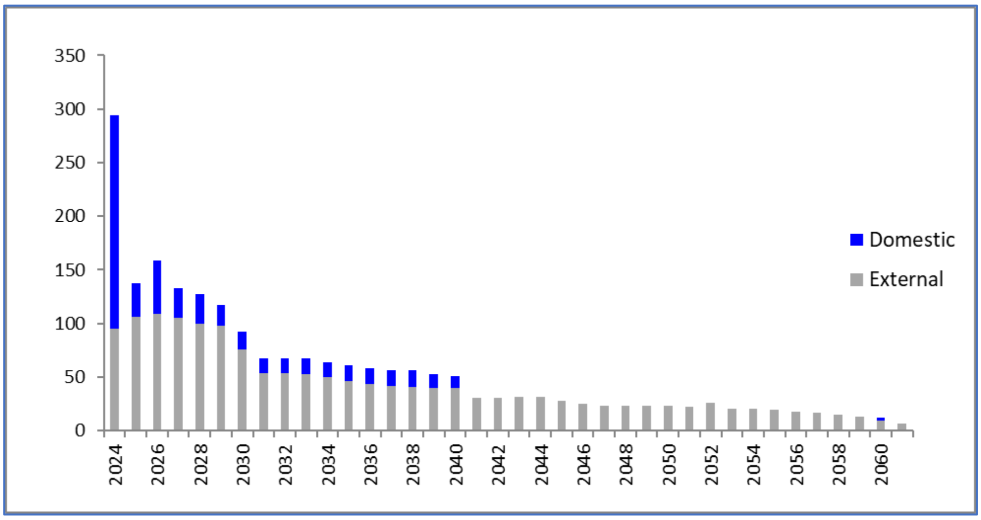
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of XCD)		1,612.3	515.2	2,127.5
Amount (in millions of USD)		597.2	190.8	788.0
Cost of debt	Interest payment as % GDP	1.1	0.5	1.6
	Weighted Av. IR (%)	2.5	3.5	2.7
Refinancing risk	ATM (years)	12.2	4.8	10.4
	Debt maturing in 1yr (% of total)	5.9	38.6	13.8
	Debt maturing in 1yr (% of GDP)	2.6	5.5	8.1
Interest rate risk	ATR (years)	11.6	4.8	9.9
	Debt refixing in 1yr (% of total)	13.8	38.6	19.8
	Fixed rate debt (% of total)	91.1	100.0	93.3
FX risk	FX debt (% of total debt)			75.8
	ST FX debt (% of reserves)			9.5

2.2.4 Redemption Profile

The redemption profile shows the risks inherent in the portfolio and the amortisation of outstanding debt (Figure 6). A significant portion of the domestic debt will fall due for redemption within one year, namely T-Bills maturing within that period. There will also be the maturity of two 2-year T-Notes in 2024.

In 2025 likewise, two T-notes will mature. Additionally, in 2026, four T-notes will, which explains the increase in the redemption profile in that year above 2025. External debt has a relatively smooth redemption profile and a longer maturity, which is characterised by concessional loans from multilateral and bilateral creditors.

Figure 6 Redemption profiles (based on Currency) as at the end of 2023 (XCD Million)



3. MACROECONOMIC PERFORMANCE, MEDIUM-TERM OUTLOOK, AND KEY RISKS

3.1 Public Finance

Grenada's fiscal operations strengthened in the first nine months of the year. The total revenue and grants collected amounted to $965.6 million, surpassing last year's collection by $129.0 million (15.4 percent).

For the same period, total expenditure was 3.2 percent less than in 2022, primarily due to a notable 31.6 percent decrease in capital spending. This decrease reflects a return to typical capital spending patterns compared to the elevated spending observed in the lead-up to the 2022 general election and some delays in project implementation, expected to be resolved in the last quarter of the year.

However, recurrent expenditure amounted to $525.6 million, a $52.3 million increase compared to the corresponding period in 2022. This increase includes a significant expansion in current transfers of 21.1 percent, addressing additional spending to mitigate the high cost of living. Employee compensation rose by 2.7 percent, encompassing a 6.6 percent increase in social contributions and a 2.4 percent growth in personal emoluments.

During the first nine months of 2023, the primary and overall balances including grants were $314.6 million and $277.2 million respectively, which were considerably more than the comparable period of 2022. Accordingly, based on actual outturns, seasonality patterns, and other assumptions, Grenada's fiscal position is estimated to remain robust for the full year 2023. Preliminary estimates indicate total revenue and grants at $1,317.9 million, a 17.8 percent increase ($199.3 million) from the 2023 budgeted amount, driven by strong intake from all tax types. Total expenditure is estimated at $1,092.9 million, a 3.42 percent ($35.8 million) increase from the budgeted amount, mainly due to planned acquisitions of non-financial assets (land and property for strategic purposes) and accelerated project implementation. Consequently, an overall surplus, including grants, is estimated at $225.0 million (6.25 percent of Gross Domestic Product [GDP]), exceeding the budgeted surplus, while the primary surplus, including grants, is estimated at $276.2 million (7.69 percent of GDP), significantly higher than the budgeted amount.

Table 2: Fiscal Projections for 2023

	2023			
	Estimated Outturn	Budget	Variance	
	EC$M	EC$M	EC$M	%
Total Revenue & Grants	**1,317.9**	**1,118.6**	**199.3**	**17.8**
Total Revenue	**1,262.6**	**1,050.8**	**211.9**	**20.2**
Tax Revenue	**813.0**	**739.3**	**73.7**	**10.0**
Taxes on Income	159.5	139.0	**20.5**	**14.8**
Taxes on Property	36.1	29.7	**6.4**	**21.6**
Taxes on Domestic Goods &	181.2	160.3	**20.9**	**13.0**
Taxes on International Trade & Transactions	436.2	410.4	**25.8**	**6.3**
Non - Tax Revenue	**449.6**	**311.4**	**138.2**	**44.4**
Grants	**55.2**	**67.8**	**(12.6)**	**(18.6)**
Total Expenditure	**1,092.9**	**1,057.1**	**35.8**	**3.4**
Primary Expenditure	**1,041.6**	**995.4**	**46.2**	**4.6**
Current Expenditure	**699.7**	**743.2**	**(43.5)**	**(5.8)**
Employee compensation	283.5	326.9	**(43.4)**	**(13.3)**
o/w wages, salaries & allowances	268.3	311.1	**(42.7)**	**(13.7)**
Goods and Services	136.7	157.0	**(20.3)**	**(13.0)**
Interest Payments	51.2	61.7	**(10.4)**	**(16.9)**
Transfers	228.3	197.6	**30.7**	**15.5**
Capital Expenditure	**393.2**	**313.9**	**79.2**	**25.2**
o/w Grant financed	**54.5**	**67.8**	**(13.3)**	**(19.6)**
Overall balance	**225.0**	**61.4**	**163.5**	**266.1**
Primary balance (including grants)	**276.2**	**123.1**	**153.1**	**124.3**

Source: Ministry of Finance

3.2 Monetary Sector

The banking sector in 2023 saw positive developments due to the revival of the Tourism Sector and the full reopening of St. George's University (SGU). This has led to increased deposits from the Tourism and Retail Trade Sectors. Across various sectors, domestic credit also experienced growth, with total credit to the private sector increasing by 1.0 percent or $22.18 million at the end of August 2023 compared to the total at the end of December 2022. Despite the expansion in bank loans to these sectors, commercial banks maintain ample liquidity, with the ratio of total non-interbank loans to total non-interbank deposits exceeding 50.0 percent. Notably, the average non-performing loans ratio across the entire sector was 3.6 percent, well below the regulatory benchmark of 5.0 percent. Additionally, all loan moratoria facilities implemented in 2020 to mitigate the impact of COVID-19 on creditors were successfully concluded during the third quarter of 2023.

The non-bank financial sector (NBFS) demonstrated robust performance in the first half of 2023, witnessing substantial growth in assets and profit across all sub-sectors. According to the Grenada Authority for the Regulation of Financial Institutions (GARFIN), the NBFS remained stable, and all entities exhibited favorable conformity to relevant regulatory requirements.

GARFIN has made noteworthy progress in executing its responsibilities within the NBFS. In 2022, GARFIN initiated a review and revision of Grenada's existing legislation for Cooperative Societies, aiming for closer alignment with the approved Harmonised Cooperative Society's 2019 Regulation of the Eastern Caribbean Currency Union (ECCU). The updated draft Bill has been submitted to the authorities for review and consideration. Furthermore, GARFIN has extended its regulatory oversight to include Fin-tech businesses in Grenada, aligning with the ECCU's Virtual Assets Act. Since June 2023, the Authority has been accepting applications for the registration of Virtual Asset Businesses.

3.3 Real Sector

The local economy is gradually rebounding in the aftermath of several significant external upheavals over the past three years, including the impacts of the COVID-19 pandemic and the Russia-Ukraine war. Real GDP growth is estimated at 5.5 percent for the year 2023. Despite Grenda's susceptibility to external economic uncertainties and natural disasters, the medium-term outlook, while positive, is not without substantial risks. Therefore, a conservative estimate suggests an average real growth rate of 3.6 percent for the period spanning 2024 to 2026.

Growth was observed in other major sectors, except for the Agriculture and Fishing Sectors, which is estimated to have contracted by 6.0 percent in 2023. Despite facing challenges such as a decrease in the value of materials and persistent supply chain disruptions, the Construction Sector experienced a notable upturn of 12.6 percent. This growth is attributed to the several major public and private sector projects in implementation in 2023. The Tourism Sector is expected to achieve an overall growth of 15.6 percent for the full year of 2023, while the Manufacturing Sector is projected to grow by 4.3 percent.

The average inflation rate, measured by the Consumer Price Index, was 3.0 percent during the first nine months of 2023, which is the latest period for which data is available. Notably, Food and fuel experienced period average inflation rates of 8.7 percent and 1.2 percent, respectively. Grenada's inflation is significantly influenced by price movements in the economies of its primary trading partners, including the United States (USA), United Kingdom (UK), and Canada. With inflation rates steadily decelerating in these partner countries, it is anticipated that inflationary pressures in Grenada will ease in the short term. An overall inflation rate of 2.7 percent is estimated for 2023 and forecasted at 2.0 percent in 2024.

It's important to note that ongoing global events, such as the Russia-Ukraine conflict and tensions in the Middle East will continue to impact supply chains and the cost of imports, affecting countries heavily reliant on imports, like Grenada.

3.4 External Sector

Based on data from the Customs and Excise Division, Grenada recorded an external trade deficit during the first nine months of 2023, with imports totaling $1472.6 million compared to exports of $66.0 million. Notably, food imports for the period were 13.7 percent lower than in 2022.

3.5 Outlook for Debt Management

GoG can raise debt financing efficiently to meet its needs due to the development of a well-functioning Regional Governments Securities Market (RGSM). Over-the-counter instruments also have their place in the borrowing programme. The Government’s Investor Relations Proramme (IRP), already approved in principle, is expected to continue to gain traction as the front office of the Debt Unit continues to operationalise 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	Taxes and revenues	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 foreign currency debt service
Terms of Trade	Commodities prices and exchange rate	High foreign currency 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

Strategic benchmarks established for each MTDS strategy were all met. All three Strategies resulted in a favorable structure for Central Government debt over the 3-year period.

Table 4: Risk Targets and Ranges

Risk Indicators	2023	2026
	Current	**Target Range**
*Central Government Debt as % of GDP	60.1%	<=57.1%
Interest payment as % of GDP	1.6%	<=2.5%
Debt maturing in 1yr (% of total)	13.8%	<=20%
Debt maturing in 1yr (% of GDP)	8.1%	<=10%
ATM Total Portfolio (years)	10.4 years	>=8 years
ATR (years)	9.9 years	>=10 years
Foreign currency debt as % of total	75.8%	<=80%

**Central Government debt only*

The target Central Government Debt-to-GDP ratio for the 2024-2026 MTDS is guided by the FRA (2023). The ratio declined from 84.7 percent (2015) to 57.7 percent (2019) but increased in 2020 to 70.4 percent as total debt grew due to the economic fallout occasioned by the COVID-19 pandemic. The ratio increased slightly in the following year (2021) to 70.7 percent but has been on a downward trajectory since and is expected to be 60.1 percent by end of 2023 (Table 4).

Interest payments as a percentage of GDP have been declining. It decreased from 3.6 percent in 2015 to 1.9 percent in 2021. In 2022, the ratio of interest payments to GDP remained at 1.9 percent but is expected to decrease marginally in 2023 to 1.6 percent. The downward trend is a result of borrowing on highly concessional terms for which the loans have low interest rates. The GoG has also benefitted from declining yields on the RGSM. The target is to maintain the current cost of debt below 2.5 percent, which was achieved in 2023.

Debt maturing in 1 year, as a share of Central Government debt is set to be less than or equal to 20.0 percent of the portfolio. Though this seems like a high concentration of repayments in the short term, the issuance of T–Bills is necessary for the development of the domestic market and in meeting statutory requirements for the financial sector. This indicator declined from 17.8 percent (2015) to 13.8 percent in 2023. The decline is chiefly attributable to the conversion of T–Bills to T-Notes over the period 2019 through 2021. As a share of GDP, the target is to keep the risk below 10.0 percent, which was achieved in 2023 (8.1 percent).

To reduce refinancing risk and reduce the need for Government to secure new sources of funding, the target ATM and ATR of the total portfolio are set at 8 years or more and 10 years or more respectively. 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, emphasises the implementation of existing Public Sector investment projects and drawdowns on CUB from external creditors on concessional terms. A predetermined limit is set for non-concessional borrowings consistent with debt sustainability targets and objectives to specifically aid with the roll out of major projects to advance the Government's agenda for transformation, resilience, and sustainable and inclusive development.

Foreign currency debt as a percentage of total Central Government debt is set at 80.0 percent maximum. It suggests high exposure to foreign currency risk, but this is manageable since a large portion 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 changes in the exchange rate of XCD to XDR are minimal and useful for retiring debt. Non-USD foreign currency debt has decreased slightly as a share of external debt in the portfolio, which is the desired movement.

4.2 Assumptions and Potential Financing Sources

Over the medium term (2024 -2026), it is anticipated that funding will be received from multilateral creditors and a sole bilateral creditor on concessional terms in USD to meet financing needs. This includes regional development banks, traditional multilateral creditors, and a single bilateral creditor. Also, funding will be received from the reissuance of domestic instruments. 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
Multilateral- International Institutions	30	10	Variable	USD
Bilateral-Government Agency	25	5	Fixed	SAR

4.3 Alternative Strategies

For the 2024-2026 MTDS, 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 status quo which tends to be a mix of both external and domestic financing. Financing is contracted chiefly from GoG's traditional multilateral creditors on concessional terms and the drawdown of CUB to meet financing needs. S1 is inclusive of three new loans: (i) the Caribbean Efficient Green Energy Building Project, totaling $81.0 million (USD30.0 million), which will be partially disbursed throughout the period 2024-2026; (ii) the Climate Smart Infrastructure Project of $269.9 million (375.0 million Saudi Arabia riyal [SAR]), which will also be partially disbursed; (iii) and a new loan for the improvement of healthcare services of $26.1 million (USD9.7 million), which will be contracted and fully disbursed in 2026. Domestic financing is used to meet residual financing needs via the re-issuances of T-Bills and T-Notes on the local and regional markets. In 2025, the option for an additional $5.0 million on each RGSM T-Bill will be reintroduced and held for the year 2026. In 2026, it is suggested that GoG's sole RGSM T-Note be increased from $10.0 million to $20.0 million upon maturity and a new 10-year blue bond of $10.4 million be introduced.

Strategy 2 (S2): This strategy suggests continued domestic market presence with a heavier reliance on domestic sources of funding. On the external side, disbursements will be received from traditional multilateral and bilateral creditors and two new loans will be contracted. One loan, the Caribbean Efficient Green Energy Building Project, in the amount of $81.0 million (USD30.0 million) will be contracted in 2024 but begin disbursing in 2026 and the other loan, the Climate Smart Infrastructure Project, in the amount of $269.9 million (SAR375.0 million) will be contracted at the end of 2023 and begin disbursing in 2024. There will also be drawdowns on committed undisbursed funds from external creditors.

On the domestic side, all maturing instruments will be reissued. In 2024, one new 2-year T-Note for $5.5 million and a new 5-year blue bond in the amount of $10.0 million will be issued. In 2025, a new 2-year private placement T-Note of $25.0 million will be issued, Bank of Saint Lucia's (BOSL's) maturing private placement T-Bill of $4.0 million will be increased to $16.0 million and BOSL's maturing EC$8.2 million, A 5-year T-note will be reissued at EC$15.0 million. A new green bond will also be introduced in 2025 of EC$15.0 million. In 2026, a new 2-year note of $8.0 million will be issued and there will be the option to take up an additional $5.0 million on each T-Bill on the RGSM. Additionally, a new 5-year and 10-year bond of $15.0 million and $20.0 million respectively will be issued. Funds from new instruments issued will be used to meet residual financing needs where necessary.

Strategy 3 (S3): This strategy emphasises the effective use of external financing as well as the utilisation of the CUB. S3 relies for the most part on funding from external, multilateral, and bilateral creditors on concessional terms. There will be a drawdown on committed undisbursed funds primarily in USD from both multilateral and bilateral sources and three new loans will be contracted of which only one will be fully disbursed. These loans include the Caribbean Efficient Green Energy Building Project, totaling $81.0 million (USD30.0 million), which will begin disbursing in 2026, the Climate Smart Infrastructure Project in the amount of $269.9 million (SAR375.0 million) from which disbursements will be received in 2025 and 2026, and a new loan to support the development of the green economy in the amount of $39.3 million (USD14.5 million) to be disbursed fully by 2026. This loan has a small variable portion of $4.6 million (USD1.7 million). Its purpose is mainly to improve wastewater management and conserve natural resources.

On the domestic side, there will be the reissuance of all maturing instruments and only in 2026 will there be the introduction of new instruments. These include one new 2-year T-Note in the amount of $5.0 million and a new 10-year blue bond in the amount of $20.0 million. The re-issuance of securities on the domestic and regional markets will continue to meet residual financing needs.

Table 6: Strategy Considerations

Strategy	Average Financing Mix (%) (Ext: Dom)	Objectives
S1	34:66	Status quo- reflects a combination of domestic and external debt that mirrors current borrowing practices.
S2	27:73	Domestic and regional market dominance- Focus on increasing GoG's presence in the domestic and regional markets and extending the maturity of the domestic debt profile by gradually introducing longer-term domestic instruments each year.
S3	38:62	Targets funding chiefly from external multilateral creditors on concessional terms and to a lesser extent domestic and regional creditors.

4.4 Sensitivity Analysis

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 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 2024-2026. In addition, there are no expected exchange rate changes in the USD. However, the XDR and CNY are expected to appreciate slightly against the local currency over the projection horizon. Loans denominated in KWD were converted into USD as they only constitute 1.2 percent of the portfolio, and it is highly unlikely that new funding will be contracted in KWD.

Scenario 1: Exchange Rate Shock

a) Moderate: A 15 percent depreciation of the domestic currency against the XDR, SAR and CNY in 2024, which is sustained thereafter.

b) Extreme: A 30 percent depreciation of the domestic currency against the XDR, SAR and CNY in 2024, which is sustained thereafter.

Scenario 2: Interest Rate Shock

a) Moderate: A 100 basis points rise in the domestic T-Bill cap rate, and 200 basis points increase 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) Extreme: A 200 basis points rise in the domestic T-Bill cap rate, and 400 basis points increase 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: Combination Shock- 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, SAR and CNY) in 2024 and sustained thereafter.

4.4.1 Cost Risk Analysis under Different Strategies

The robustness of the strategies is assessed by comparing the outcomes under the baseline and shock scenarios discussed. Cost and risk indicators under each strategy can be found in *Table 7*. Both the debt-to-GDP ratio and the present value of debt in each of the strategies were reduced relative to the current period. Likewise, interest payment as a percent of GDP and the implied interest rate decreased across all strategies relative to the current period.

Based on the established benchmarks, the associated risks with each of the strategies were assessed *(Table 7*). Refinancing risk was higher across all strategies when compared to 2023. This was expected as increases in domestic debt are suggested through the issuance of new instruments and the option to take up an additional $5.0 million on the RGSM in some cases. Additionally, two 2-year T-Notes totaling $31.0 will mature and be reissued twice during the period 2024 to 2026 and all three of GoG's 5-year T-Notes totaling $30.4 million will all mature and be reissued by 2026. The indicator of refinancing risk that showed improvement is the ATM of the external portfolio as it was higher across all three strategies due to new borrowing with lengthy maturity periods.

Concerning 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 percentage of total debt.

Regarding foreign currency risk, the foreign debt as a percentage of the total debt ratio recorded an increase for S3 relative to 2023 but recorded a decrease for S1 and S2. These results are expected given the varying financing combinations considered under each strategy over the period (2024 - 2026). 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. However, a large portion of foreign debt (69.8 percent in 2023) has been contracted in USD to which the XCD is pegged. This minimises the level of foreign currency risk in the portfolio.

Table 7: Cost Risk Indicators of Alternative Strategies

Risk Indicators				2023	As at end 2026				Target
				Current	S1	S2	S3	S4	
Interest payment as % of GDP				1.6	1.29	1.33	1.27	1.0	Max 2.5%
Implied interest rate (%)				2.7	2.53	2.60	2.49	2.4	
Refinancing risk	Debt maturing in 1yr (% of total)			13.8	17.33	18.20	15.71	8.7	Max 20 %
	Debt maturing in 1yr (% of GDP)			8.1	9.03	9.48	8.20	3.1	Max 10 %
	ATM External Portfolio (years)			12.2	13.11	13.02	13.23	11.7	
	ATM Domestic Portfolio (years)			4.8	3.38	3.38	3.62	6.4	
	ATM Total Portfolio (years)			10.4	10.65	10.25	10.95	10.9	Min 8 yrs
Interest rate risk	ATR (years)			9.9	10.39	9.99	10.68	10.5	Min 10 yrs
	Debt refixing in 1yr (% of total)			19.8	21.40	22.27	19.93	14.6	
	Fixed rate debt (% of total)			93.3	95.47	95.47	95.32	93.4	
FX risk	FX debt as % of total			75.8	75.26	71.64	76.67	84.7	Max 80%
	ST FX debt as % of reserves			9.5	9.38	9.38	9.38	9.4	

4.5 Selected Strategy

The preferred strategy is S3, which advocates for a balanced and strategic use of all of the financing sources. S3 outperformed the alternative strategies in terms of cost and risk and was therefore seen as the most suitable. S3 best captures Government's debt management objectives over the medium term.

S3 recorded the highest ATM of 11.0 years at the end of 2026, an increase of 0.6 years compared to the current period. Its ATM was also higher than that of S1 and S2 by 0.3 years and 0.7 years respectively. Furthermore, S3 recorded the highest ATR of 10.7 years, which surpasses that of the present period by 0.7 years and that of S1 and S2 by 0.3 years and 0.7 years respectively. The share of foreign debt is highest in S3, but it still managed to fall within the target of less than or equal to 80.0 percent.

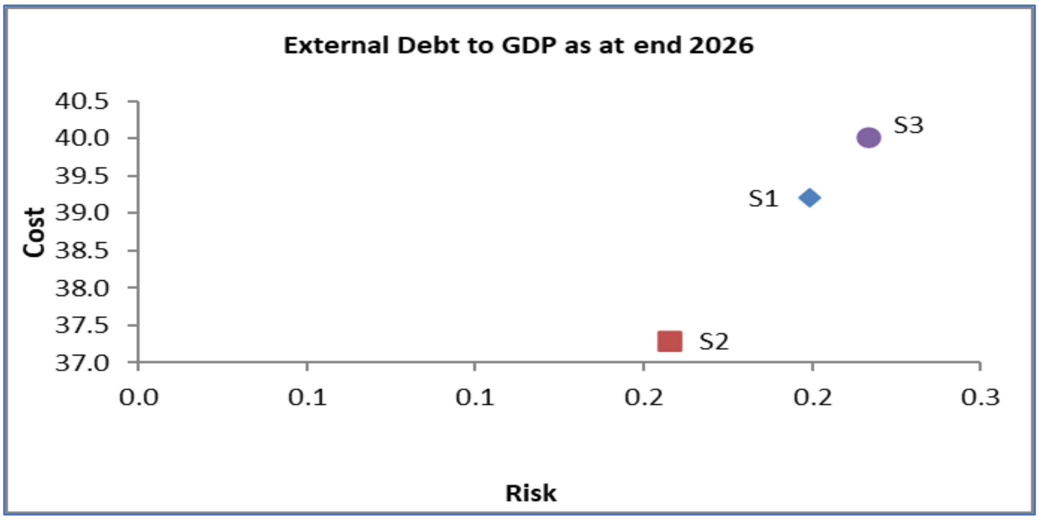
4.5.1 Market Risks – Exchange Rate

S3 recommended that identified external financing is obtained chiefly from GoG's traditional multilateral creditors on concessional terms, namely CDB and IDA, a new bilateral creditor, Saudi Arabia, and the drawdown of committed undisbursed funds from existing loans, primarily denominated in USD. It also recommended that domestic financing be contracted from reissuances and new instruments on the domestic and regional markets. The Eastern Caribbean Central Bank (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 30.2 percent of the foreign currency debt portfolio.

Under S3, the planned financing option includes three new loans totaling approximately $390.2 million. These include CDB's Caribbean Efficient Green Energy Building Project, totaling USD30.0 million, Saudi Arabia's Climate Smart Infrastructure Project totaling SAR375.0 million and a third loan from IDA for healthcare improvement in the amount of USD39.3 million. A total of $186.3 million in disbursements will be received over the 3 years. Additionally, as recommended, there will be a drawdown of committed undisbursed funds from traditional multilateral and bilateral creditors. Furthermore, the terminal disbursement of GoG's loan from The People's Republic of China is expected in 2025. Projected XDR and CNY principal repayments are equivalent to $58.5 million and $17.1 million respectively. Loans denominated in GBP and EUR represent approximately 0.5 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 0.2 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 40.2 percent at the end of 2026 *(Figure 7).*

Foreign debt as a percentage of total debt is estimated to increase to 76.7 percent over the medium term from 75.8 percent in 2023, remaining below the established maximum limit of 80.0 percent. The peg between the XCD and USD mitigates the risk this high share of foreign debt poses as it comprises chiefly of the USD. The chosen strategy thus continues to limit the debt portfolio's exposure to foreign currency risk in the medium term.

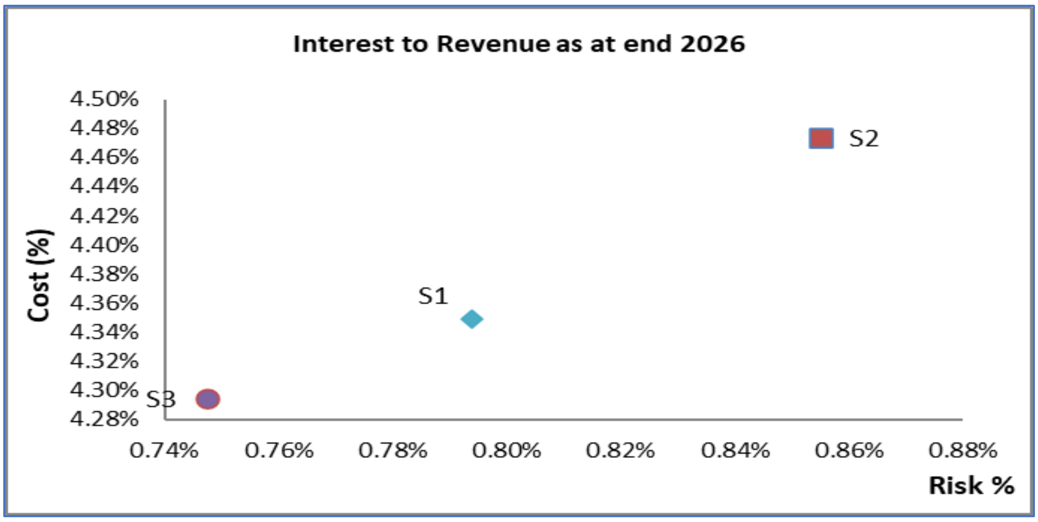
Figure 7: External Debt to GDP as at the end of 2026



4.5.2 Market Risks – Interest Rate

Variable-rate debt as a percentage of the total Central Government debt portfolio is projected to decline to 4.7 percent, at the end of 2026. The interest payments-to-revenue ratio is projected to fluctuate from the baseline by 0.004 percentage points under a moderate shock (2 percent) scenario and 0.008 percentage points under an extreme shock (4 percent) scenario. As at the end of 2026, under adverse interest rate movements, the ratio of interest payments to revenue would reflect a maximum of 0.008 percent *(Figure 8)*. Exposure to interest rate risk is hence marginal under S1.

Figure 8: Interest to Revenue as at the end of 2026



4.5.3 Refinancing Risk

Debt maturing in one year as a percentage of total debt and debt maturing in one year as a percentage of GDP will increase marginally by the end of 2026 by 1.9 percent and 0.1 percent respectively. The ATM of the total portfolio will increase by 0.6 percentage points with the introduction of two new instruments in 2026. 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 reflects a spike in 2023. This is indicative of the high level of short-term securities in the portfolio that will mature. This implies exposure to refinancing risk. The chosen strategy, however, mitigates this risk as it suggests no new issuances of short-term debt in the years 2024 and 2025. It recommends only reissuing existing instruments during those two years.

4.5.4 Development of the Domestic Market

S3 places major emphasis on external financing as opposed to domestic financing. RGSM, over-the-counter and private placement. T-Bills and T-Notes will all be reissued upon maturity.

5 ANNUAL BORROWING PLAN

Based on the Government's fiscal plan for 2024, an Annual Borrowing Plan (ABP) is established. The ABP uses revenue and expenditure figures to derive the most suitable funding plan for the Government. It does so by providing an estimate of what external and domestic funding should be and indicates the sources of this funding.

The chosen strategy suggests that external financing in 2024 should be contracted chiefly from multilateral and bilateral creditors on concessional terms and domestic financing from the re-issuance of instruments on the domestic and regional markets *(Table 8).* It also suggests that a greater portion of external funding be contracted in USD, to which the XCD is pegged. This will minimise foreign currency and interest rate risks.

Estimated external financing is projected to be $125.9 million or 36.1 percent of total financing whereas estimated domestic financing, consisting of reissued instruments on the domestic and regional market, is projected to be $223.3 million or 63.9 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 2024

Source	Projected Amount (XCD Million)
External Financing	**125.86**
Multilateral	91.96
Bilateral	33.90
Domestic Financing	**223.25**
Treasury Bills	192.25
o/w RGSM	105.00
o/w non-RGSM	87.25
Treasury Notes	31.00
TOTAL	**349.11**