GOVERNMENT OF GRENADA

DEBT PORTFOLIO REVIEW

2013 - 2017

COMPILED BY THE DEBT MANAGEMENT UNIT
OF THE MINISTRY OF FINANCE

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ACRONYMS & ABBREVIATIONS

ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
CG	Central Government
DMU	Debt Management Unit
DPR	Debt Portfolio Review
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EC$	Eastern Caribbean Dollar
ECF	Extended Credit Facility
EUR	Euros
GBP	Great Britain Pound
GDP	Gross Domestic Product
GG	Government Guarantees
GoG	Government of Grenada
IBRD	International Bank of Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
KWD	Kuwaiti Dinars
MTDS	Medium-Term Debt Management Strategy
OPEC	Organisation of Petroleum Exporting Countries
PDMA	Public Debt Management Act
T-bills	Treasury Bills
RGSM	Regional Governments Securities Market
SDR	Special Drawing Rights
USD	United States Dollar
XDR	Special Drawing Rights

1.0 EXECUTIVE SUMMARY

The Debt Management Unit (DMU) in the Ministry of Finance is the primary agent of the Government of Grenada (GoG) responsible for managing the country's public debt. The Public Debt Management Act (PDMA or "the Act") enacted in June 2015 provides the framework for effective debt management. In accordance with the Act, one of the functions of the DMU relates to the collection, analysis and dissemination of public debt statistics. The comprehensive and timely reporting of public sector debt statistics allows Government, stakeholders and other interest groups to monitor the movement of Grenada's public sector debt stock and flows over time. Debt statistics not only provides early warning signals of possible debt-servicing problems but it also serves as an indicator of the sustainability of Government's and public corporations' policies. In addition, public debt statistics serve as essential inputs for Government budget preparation and for the compilation of other macroeconomic statistics.

This report is a review of Grenada's external and domestic public debt portfolios over the five-year period spanning 2013- 2017 and contains an analysis of potential risks. The external debt portfolio review focuses on the evolution and composition of debt by creditor, currency and sector. The domestic debt portfolio review focuses on the main instruments and holders of domestic debt. The risk analysis gives an assessment of the risks associated with both the external and domestic debt portfolios.

Grenada participated in two sovereign debt restructurings, the second of which was in 2013 and is further detailed as part of this report. The restructuring was successfully completed in the second quarter of 2017 and culminated with debt relief in the form of haircuts as well as liquidity ease. The haircuts covered both external as well as domestic liabilities.

This review is based on debt data, which encompasses Public and publicly guaranteed debt. The debt stock shows significant reduction as a result of the debt restructuring. Government guaranteed debt continues on its downward trajectory, due to increased efforts to streamline guaranteed debt as part of the requirements of the PDMA. Strict adherence to the PDMA, coupled with fiscal reforms implemented over the time horizon, contributed to the observed trends of the debt numbers.

External concessional debt denominated in United States Dollars (USD) at fixed interest rates accounts for the largest portion of CG's portfolio hence this helps to contain currency risk and market risk associated with interest rates and refinancing. Domestic debt is also an important aspect of the CG debt portfolio, however, it is primarily contracted in the form of short-term instruments namely Treasury bills (T-bills). The authorities, over the years, have remained committed to developing the Regional Governments Securities Market (RGSM).

2.0 OVERVIEW OF THE ECONOMY

Grenada's economy can be characterised as one that is small, open and predominantly tourism-based. In the past, the economy has experienced periods of decline but strong growth has been recorded consistently since 2014.

Appendix 1 shows that the economy grew robustly at an annual average of 7.1 per cent during the period under review (2013-2017). In 2013, the economy experienced a rebound and real GDP growth climbed at a moderate level. Economic recovery continued to strengthen in 2014 as Government entered into a three-year reform programme with the IMF to restore fiscal sustainability and maintain growth prospects. Throughout the programme Grenada committed to ensuring that all the performance criteria were met and all structural benchmarks were implemented. Consequently, in 2017 the IMF announced that Grenada successfully completed the programme.

Historically the country's reliance on imports has served to worsen its current account balance. Grenada's imports have remained at elevated levels and on average hovered around EC$ 999.4 million (37.7 per cent of GDP) throughout the 5-year period while its exports have distantly lagged behind. Over the period 2013- 2017 the external position has strengthened however, supported primarily by increased tourism receipts and lower prices of fuel on the international market.

On the fiscal side, revenues grew between 2013 and 2017 on average by 12.3 per cent as Government continued to implement measures to improve its fiscal position mainly via improved tax administration and collection mechanisms. Efforts have also been made to curb expenditure to ensure alignment to revenue generation capacity. Improved fiscal performance is demonstrated by primary surpluses of 2.0 per cent, 5.2 per cent and 5.7 per cent of GDP in 2015, 2016 and 2017 respectively, in contrast to an average primary deficit of 2.3 per cent in the prior two years. Relatively high interest payments have contributed to a negative, overall balance in 2013 through 2015 before experiencing a surplus in 2016 and 2017. Although the overall balance was negative during the years 2013-2015, it increased each year as government sought to honour its interest obligations to all of its creditors.

3.0 PUBLIC DEBT STRUCTURE AND RATIOS

3.1 TOTAL PUBLIC DEBT

Total disbursed outstanding public sector debt as at the end of December 2017 stood at EC$ 2,069.3 million, or 68.0 per cent of Gross Domestic Product (GDP)[1]. This comprised EC$ 1,997.1 million of CG debt and EC$ 72.2 million of Government Guaranteed debt (GG). For the period under review (2013 - 2017) total debt decreased on average by 1.4 per cent [Figure 1 (a)]. CG debt was lowest in 2017 when GoG underwent its final phase of debt restructuring on completion of its IMF-supported Home-grown Structural Adjustment Programme. On completion, EC$ 158.3 million in principal reduction on external debt stock was received in the final quarter of 2017. CG debt decreased on average by 0.7 per cent (EC$ 14.8 million) over the period 2013-2017 and by 8.2 per cent (EC$ 177.8 million) in 2017 when compared to 2016.

Figure 1(a): Disbursed Outstanding Debt 2013- 2017 by Creditor Residency

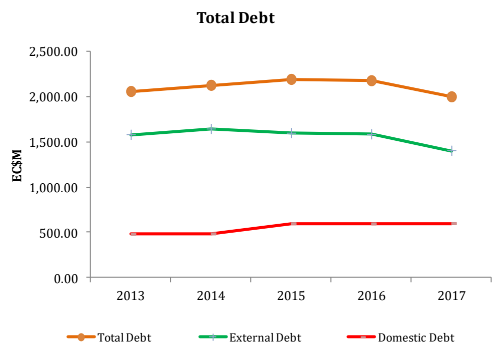
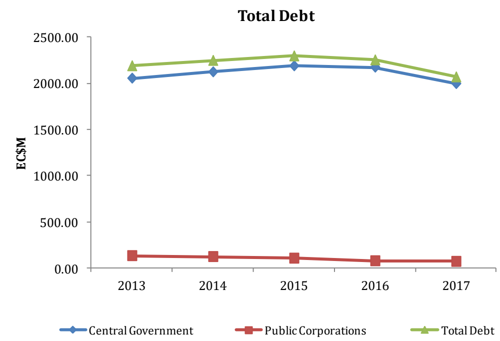


Figure 1(b): Disbursed Outstanding Debt 2013-2017 by Borrower



Government guaranteed debt has, on average, accounted for 4.7 per cent of total debt and has been on a downward trajectory moving from 6.1 per cent of total debt in 2013 to 3.5 per cent of total debt in 2017 [Figure 1 (b)]. This steady decline in Public Corporation debt is a result of GoG's decision to implement stricter controls on the issuance of guarantees. Provision has also been made to collect a fee for all guaranteed arrangements to reflect administrative costs incurred by government on issuing the government guarantee (GG). Over the period 2013-2017 GG debt declined on average by 14.4 per cent or EC$ 14.9 million.

3.2 EXTERNAL DEBT

Throughout the period under review external debt dominated the portfolio. Of CG debt, external debt was 70.2 per cent and domestic debt was 29.8 per cent in 2017 (Figure 2).

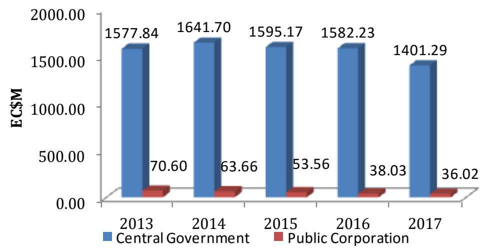
Figure 2: Composition of Central Government Debt

[1] GDP: ECCB's 2017 revised final estimate of Gross Domestic Product as at July 11, 2018.

External Debt Portfolio

At the end of 2017, external public debt (including Government guaranteed debt from external institutions) stood at EC$ 1,437.3 million. External debt held by CG decreased on average over the period 2013-2017 by 2.9 per cent while Public Corporations' external debt declined on average by 15.5 per cent. This resulted in an overall decrease in external debt of 3.4 per cent (Figure 3).

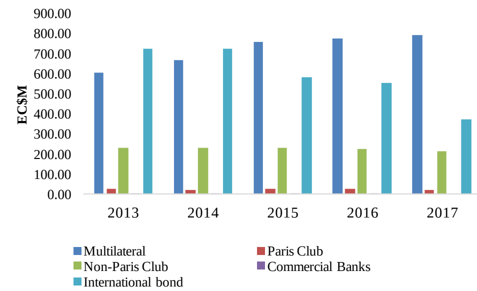
Figure 3: External Debt by Borrower



3.2.1 Creditor Category of External Debt

Figure 4 shows the composition of external debt by creditor category. Prior to the debt restructuring, the international bond dominated the external portfolio. Post restructuring, multilateral agencies dominate the portfolio. In 2017, multilateral debt consisted of CDB (46%), IDA (31.3%) , IBRD (4.3%), IMF (9.7%), IFAD (0.7%) OPEC (6.6%) and CDF (6.8%). Multilateral debt totalled EC$ 793.4 million, bilateral debt stood at EC$ 237.0 million, of which Paris Club debt and non-Paris Club debt were 9.3 % and 90.7% respectively, commercial banks debt was EC$ 0.9 million and the "international bond[2]" was EC$ 370.0 million.

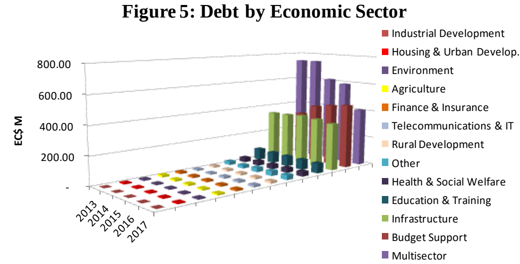
Figure 4: External Debt By Creditor Category



3.2.2 Debt by Economic Sector

External debt by economic sector is captured in Appendix 2. Over the period 2013-2017 funds contracted by GoG from external creditors were mainly used for multiple projects in various sectors of the economy (multi-sector), this was followed by loans contracted for budget support purposes and for infrastructural work. It is noteworthy that in 2017 funds contracted for budget support exceeded that contracted for work in multiple sectors. This is because in 2017 final disbursements of policy-based loans from IDA and IMF contracted under the IMF's Extended Credit Facility, for budget support were received by GoG (Figure 5).

Figure 5: Debt by Economic Sector



The major sectoral breakdown of external debt over the 5-year period averaged as follows: Agriculture EC$ 11.6 million (0.7%), Budget support EC$ 387.8 million (24.9%), Education & Training EC$ 73.5 million (4.7%), Environment EC$8.0 million (0.5%), Finance & Insurance EC$ 12.3 million (0.8%), Health & Social Welfare EC$33.1 million (2.1%), Housing & Urban Development EC$ 7.5 million (0.5%), Industrial Development EC$1.9 million (0.1%), Infrastructure EC$ 348.2 million (22.3%), Multi-sector EC$ 619.8 million (39.7%), "Other[3]" EC$ 29.6 million (1.9%), Rural Development EC$14.1 million (0.9%) and finally Telecommunications & Information Technology amounted to EC$ 12.3 million (0.8%).

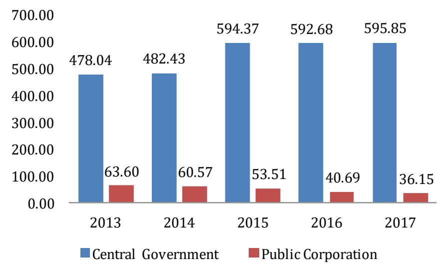
[2] The international bond is a restructured bond due in 2030 of which 25% haircut was received in 2015 and an additional 25% was received in 2017.

[3] Other includes Balance of Payments, Tourism & Energy sectors.

3.3 DOMESTIC DEBT[4]

Public domestic debt as at end December 2017 stood at EC$ 632.0 million and comprised of debt owed by the Central Government and Public Corporations. For the period under review, total public domestic debt grew on average by 3.9 per cent, with CG debt increasing on average by 5.7 per cent and public corporation debt declining on average by 13.2 per cent. The expansion in domestic debt is mainly due to Government's increased use of the RGSM. Figure 6 shows domestic debt by borrower category.

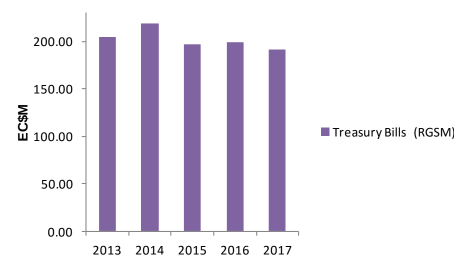
Figure 6: Domestic Debt by Borrower



3.3.1 RGSM Activity

In 2017, the total value of GoG's T-bills on the RGSM was EC$ 190.8 million. There were nine (9) 91-day T-bills and three (3) 365-day T-bills issued totalling EC$132.9 million and EC$ 57.9 million respectively. There was a slight decline in 91-day T-bill issuance in 2015 through 2017 in line with GoG's Medium-Term Debt Management Strategy (MTDS) which advocates a reduction in the issuance of short-term instruments (Figure 7).

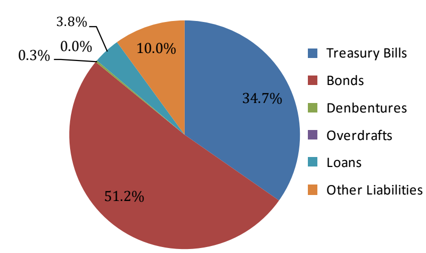
Figure 7: RGSM Securities



3.3.2 Domestic Debt by Instrument

Throughout the period 2013-2016, T-bills (RGSM & non-RGSM) dominated the domestic portfolio followed by bonds[5]. This changed in March of 2017, as a portion of GoG's T-bills (EC$116.1 million) was re-issued as bonds. Consequently, bonds dominate the domestic portfolio. In 2017, bonds accounted for 51.2 per cent or EC$ 305.3 million of the portfolio. T-bills accounted for 34.7 per cent or EC$ 206.8 million. Loans from the commercial banks and other liabilities, which include short-term liabilities represented 3.8 per cent and 10.0 per cent respectively. Debentures constituted 0.3 per cent.

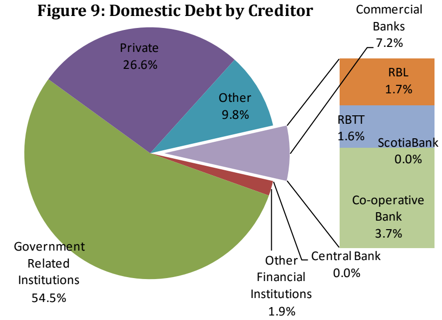
Figure 8: Domestic Debt by Instrument



3.3.3 Creditor Category of Domestic Debt

Debt owed to state-owned enterprises represented 54.5 per cent or EC$ 324.5 million of the domestic portfolio as at the end of 2017. Private individuals[6] accounted for 26.6 per cent or EC$ 158.8 million. Commercial banks represented only 7.2 per cent or EC$ 43.2 million of the portfolio. Other financial institutions represented 1.9 per cent or EC$ 11.3 million and other creditors[7] constituted 9.8 per cent or EC$58.1 million of the domestic portfolio (Figure 8).

Figure 9: Domestic Debt by Creditor



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[4] Domestic debt refers to all debt contracted in domestic currency with the exception of the EC$ portion of the international sovereign bond.

[5] "Bonds" includes all domestic bonds and an EC $4.0 million Treasury note.

[6] Private individuals include all of the private investors who hold Government issued bonds and T-bills both on the RGSM and Non-RGSM.

[7] Other creditors refers to compensation claims.

3.4 OTHER DEBT

During the period 2013-2017 other debt increased on average by 4.7 per cent. Other debt consists of the debt obligations of Petro Caribe. In an effort to promote transparence, the Government took a decision to report on the Petro Caribe debt, given that it is an implicit contingent liability to Government. Though actively monitored and reported on, it is not included in the total public debt figure in this report. In 2017, other debt totalled EC$ 372.1 million.

4.0 DISBURSEMENTS AND DEBT SERVICE

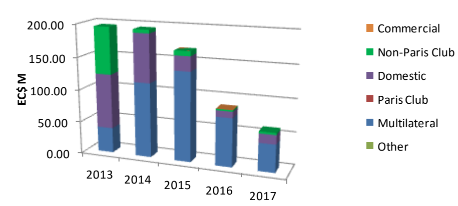
4.1 GOG EXTENDED CREDIT FACILITY WITH THE IMF

In order to support Grenada's efforts, the Structural Adjustment Programme was supported by a 3-year IMF Extended Credit Facility (ECF) in which the IMF approved SDR 14.0 million (approximately EC$ 53.7 million) in committed funds for Grenada. Throughout the life of the programme Grenada was also able to receive new external concessional financing from other key multilateral creditors namely CDB, IDA and IBRD (Appendix 3).

4.2 DISBURSEMENTS AND NEW BORROWING

In 2017, GoG received disbursements on 5 of a total of 11 loans contracted from external creditors including Kuwait, CDB, IBRD, IDA, OPEC and IMF. External disbursements grew from 2013 to 2015 but fell in 2016 and further in 2017. In 2017, EC$ 45.5 million in external disbursements was received.

Figure 10: Disbursements (2013-2017)

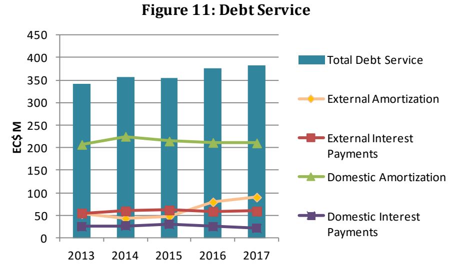


Disbursements from domestic creditors have decreased year-on-year over the period 2013-2016 with a slight increase in 2017 above 2016. There were no disbursements from commercial banks neither were there any new bonds, apart from those T-bills that were restructured, issued over the last five years (2013-2017). There was however, a new 2-year Treasury note issued in March of 2017 in the amount of EC$ 4.0 million and three (3) new T-bills issued, one (1) 91-day at EC$ 4.0 million and two (2) 365-day T-bills totalling EC$ 6.2 million (Appendix 4).

4.3 DEBT SERVICE

Over the period 2013-2017 debt service payments have fluctuated. External amortization increased on average by 14.0 per cent and interest payments by 1.9 per cent. Domestic amortization increased on average by 0.4 per cent but interest payments to domestic creditors declined on average by 3.8 per cent. Of total debt service, external debt service was 39.2 per cent and domestic debt service 60.8 per cent as at the end of 2017 (Appendix 5).

Figure 11: Debt Service



5.0 DEBT RESTRUCTURING

In 2013, GoG announced its plan to undergo massive debt restructuring and entered into an IMF-supported Home-Grown Structural Adjustment Programme which was approved in June of 2014, with the aim of restoring fiscal sustainability, strengthening the financial sector and setting the stage for sustainable growth. In light of this, GoG was able to successfully complete negotiations with some of its external creditors and to finalise agreements with its major domestic investors to restructure debt. All in all, 85.0 per cent of GoG's restructurable debt was restructured throughout the life of the programme (2014-2017). The restructuring took the form of face value reduction, as well as extensions of maturity of instruments where appropriate.

In December 2016, the IMF gave its sixth and final review of Grenada under the Structural Adjustment Programme and announced that Grenada succeeded in meeting its core objectives. The Programme was successfully completed in June of 2017 and by November 2017 the final phase of debt restructuring was completed. Table 1 is a summary of the debt restructuring. GoG was able to receive a total of EC$372.3 million in haircuts between the years 2014 and 2017.

Table 1

Debt Restructuring 2014-2017

	Creditors	Instrument Type	DOD [1] (Pre) EC$M	DOD (Post) EC$M	Hair Cut (EC$M)	Hair Cut (%)	Grace Period	Maturity Period	Interest Type	Interest Rate
External										
	Paris Club_Arrears_1	Loan	8.10	8.10	0.00	0	0	0	NA	NA
	Paris Club_Arrears_2	Loan	8.10	8.10	0.00	0	8	15	V&F	
	Paris Club_Program Years	Loan	5.43	5.43	0.00	0	8	15	V&F	
	Taiwan[1]	Loan	98.80	49.40	49.40	50	3	15	Fixed	7.0
	US$ Bond due 2030 [2]	Bond	614.44	315.32	262.73	50	0.5	15	Fixed	7.0
	Trinidad	Loan	87.25	87.25	0.00	0	0	0	Fixed	
	Libya	Loan	13.50	13.50	0.00	0	0	0	Fixed	
	Algeria	Loan	5.13	5.13	0.00	0	0	0	Fixed	
	FICS Judgement	Bond	2.55	3.804	-	0	-	5	Fixed	NA
	FICS (proposed)	Bond	6.38	6.38	0	0	-	2	Fixed	7.76
Sub-total External			**849.69**	**502.42**	**312.13**					
Domestic										
	EC$ Bond 2030 [2]	Bond	108.17	53.25	46.40	50	0.5	15	Fixed	7.0
	RBL Loan	Loan	5.91	3.56	2.95	50	1	12	Fixed	7.0
	RBL (T-Bill)	Bond	3.30	3.35	0.000	0	2	7	Fixed	3.0
	Grenada Port Authority (T-bill)	Bond	16.77	8.39	8.38	50	0.5	15	Fixed	3.5
	Grenada Housing Authority (Loan)	Bond	3.77	6.72	0.00	0	10	25	Fixed	3.0
	Gravel and Concrete (Loan)	Bond	4.84	4.40	2.42	50	0	15	Fixed	7.0
	NIS (T-Bill)	Bond	19.67	20.87	0.00	0	2	7	Fixed	3.0
	NIS (Contributions)	Loan	31.20	31.20	0.00	0	0	5	Fixed	3.0
	NIS (Serial Bond)	Bond	23.20	25.29	0.00	0	10	25	Fixed	3.0
	NIS (Bond 2025)	Bond	92.17	100.93	0.00	0	10	25	Fixed	3.0
	Petro Caribe (T-bill)	Bond	94.00	94.00	0.00	0	2	20	Fixed	3.0
	Petro Caribe (2014/2016 Serial Bonc	Bond	12.60	12.60	0.00	0	2	15	Fixed	3.0
	Bank of Commerce (T-Bill)	Bond	9.53	9.53	0.00	0	2	7	Fixed	3.0
Sub-total Domestic			**425.13**	**374.09**	**60.15**					
Total			**1,274.82**	**876.51**	**372.28**					

6.0 RISK ANALYSIS

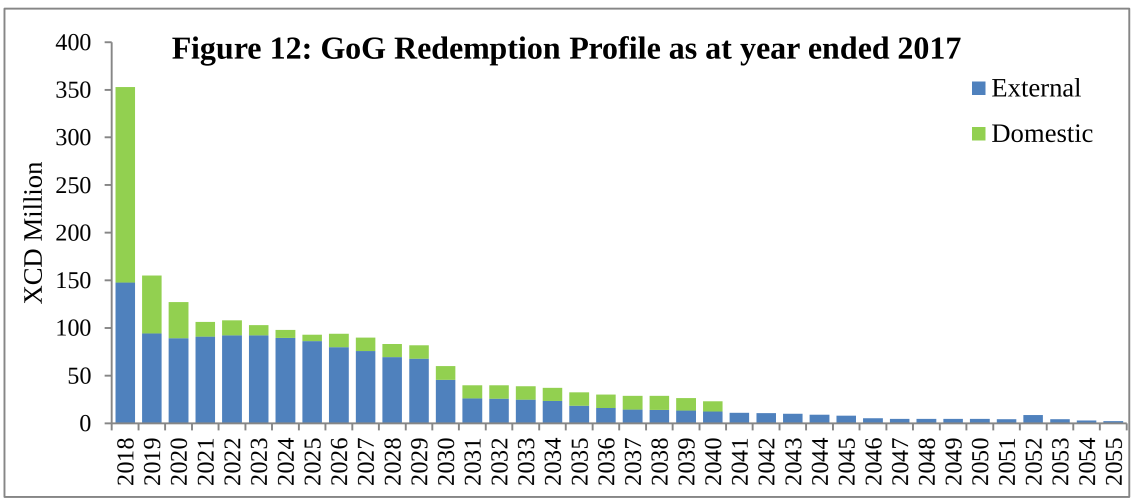
In this report, exposure of the debt portfolio to risk is captured using the following risk indicators: refinancing risk, interest rate risk and exchange rate risk.

6.1 REFINANCING RISK

Two measures are used to assess the exposure of CG's debt to refinancing risk, namely: (i) the Redemption Profile of the debt and; (ii) the Average Time to Maturity (ATM) of the debt stock.

Figure 12 shows the redemption profile of CG debt based on the stock of debt as at the end of 2017. The domestic debt profile shows a significant amount of debt falling due in 2018, as opposed to latter years, as it comprises short-term debt obligations, that accounted for 34.7 per cent (EC$ 206.8 million) of the domestic portfolio in 2017, that have been re-issued. Total debt falling due at the end of 2017 was approximately EC$ 353.0 million or 17.7 per cent of CG debt.

External debt comprises concessional loans from multilateral and bilateral creditors with longer terms to maturity which results in a smoother and longer redemption profile than the domestic debt profile. In line with GoG's MTDS rescheduling of selected domestic debt including the conversion of short-term instruments into longer-term instruments from 2018 onwards is expected to yield an overall smoother amortization schedule and alleviate potential liquidity risks.



6.2 REFINANCING RISK ANALYSIS USING AVERAGE TIME TO MATURITY (ATM)

As at end December 2017, the ATM of CG debt was 8.2 years. This is in line with GoG's MTDS target of 8 years or more. It means that on average, it will take 8.2 years before the total debt portfolio matures. A longer ATM is generally preferred as it means that there is more time to repay debt and implies that there is lower refinancing risk (Appendix 6).

6.3 INTEREST RATE COMPOSITION AND RISK

Two measures are used to assess the exposure of the debt portfolio to interest rate risk: (i) The ratio of debt with fixed/floating interest rates in the total portfolio and (ii) Average Time to Re-fixing (ATR).

6.3.1 Debt contracted at fixed/floating interest rates

As at end 2017, GoG's external debt portfolio, comprised 81.9 per cent of instruments with fixed interest rates. As such, GoG's debt is less susceptible to interest rate risk. Also, a significant portion of external loans are concessional and as a result, the contracted interest rates on these loans are well below the market rates. Variable rate loans only accounted for 11.5 per cent of the external portfolio and the remaining 6.6 per cent was interest free. This proves that GoG's exposure to interest rate risk is minimal and will remain as such once the contracting of external loans with fixed interest rates continues in the future.

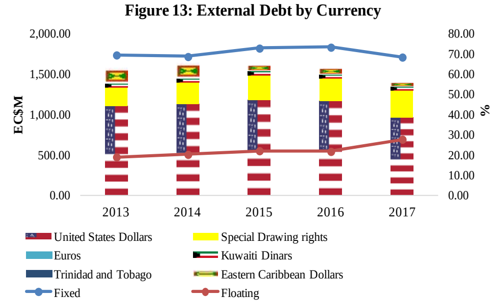
6.3.2 Average Time to Re-fixing (ATR)

The ATR of CG debt is 7.8 years. Thus on average it will take approximately 7.8 years to re-fix the interest rates of the portfolio (Appendix 6). This indicates moderate exposure to interest rate risks. The ATR will increase over time however as GoG plans to keep in line with its MTDS.

6.4 CURRENCY COMPOSITION AND EXCHANGE RATE RISK

6.4.1 Currency Composition

Figure 13: External Debt by Currency



The currency profile of GoG's external debt in nominal amounts can be seen in Figure 13. Over the five-year period the average percentage share of CG debt subject to floating exchange rates hovered around 22.1 per cent, while debt subject to fixed exchange rates averaged 77.9 per cent. As at the end of 2017, United States Dollar (USD) debt accounted for 68.4 per cent or EC$ 958.4 million and Special Drawing Rights (SDR) accounted for 24.1 per cent or EC$ 337.4 million bringing the USD to 78.4 per cent of the external debt stock as 41.73 per cent of the XDR consists of the US. Kuwaiti Dinars (KWD) accounted for 3.0 per cent of the portfolio or EC$ 42.2 million, Eastern Caribbean Dollar (XCD) accounted for 4.0 per cent or EC $55.6 million. The Euros (EUR) and the Great Britain Pound (GBP) accounted for the residual amount of 0.6 per cent or EC$ 7.8 million.

6.4.2 Exchange Rate Risk

During the period 2013-2017 exchange rate risk in the debt portfolio was relatively low. In 2017 the combined share of XCD, USD and the USD portion of the XDR[8] amounted to 82.4 per cent of the portfolio. This is in line with the MTDS target of greater than 75.0 per cent. Therefore, there is minimal exposure to foreign currency risk. The risk stems from 17.6 per cent of the portfolio which consists of debt denominated in KWD, EUR, GBP and any instability of the other currencies which constitute the XDR.

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[8] The XDR consists of the US dollar, Euro, Chinese Renminbi, Japanese Yen, and Great Britain Pound which constitute 41.73 percent, 30.93 percent, 10.92 percent, 8.33 percent, and 8.09 percent respectively.

7.0 SELECTED DEBT INDICATORS

Appendix 7 highlights some key ratios which can be used to determine the sustainability of GoG's debt. The debt to GDP ratio has decreased each year since 2013 and is on track to reaching the 60 per cent threshold well ahead of the 2030 deadline set by the Eastern Caribbean Currency Union (ECCU) Monetary Council. Debt sustainability concerns have waned considerably relative to 2013. Public debt is projected to be on a persistent downward trajectory over the medium term, reaching the FRL's target of 55.0 per cent of GDP by 2020.

The debt service ratio[9] was 77.4 per cent in 2013 and was on a downward trajectory throughout the five year period. This is due to the success of the debt restructuring, giving rise to significant improvement in the debt service ratio.

The external debt service to exports ratio rose on average by 19.5 per cent over the five-year period as debt service obligations surpassed the revenue gains from exports. The share of short-term debt to share of long-term debt decreased from 26.6 per cent in 2013 to 11.6 per cent in 2017 in keeping in line with GoG's MTDS.

The external portfolio is primarily denominated in foreign currency. The amortization of the EC portion of the 2030 sovereign bond will result in continued decline in local currency in the external portfolio. The share of fixed rate debt to floating rate debt in the total portfolio has remained relatively stable throughout the reporting period and is projected to remain stable in the medium term.

[9] Debt Service Ratio: Includes interest and principal payments and measures the government's ability to service its debt.

8.0 CONCLUSION

Grenada's economy has recovered from periods of deficit in 2013 and prior and has managed to achieve a positive overall balance in the past two years (2016 and 2017). During the period under review (2013 -2017) public debt, including Government guarantees has declined significantly moving Grenada's debt to more sustainable levels. In keeping in line with GoG's MTDS Grenada has made the move to issue more instruments with longer terms to maturity and has issued fewer short-term debt instruments. Consequently, GoG's portfolio is dominated by highly concessional loans from external multilateral creditors. Most of these loans have been used for multiple purposes in various sectors of the economy to aid national development.

GoG's portfolio's exposure to risk is minimal. The majority of GoG's loans has been contracted at fixed interest rates and is denominated in the USD, which is pegged to the XCD. Also, there is minimal risk as fewer instruments will have their interest rates reset in the near future. Overall, there has been a decline in disbursements but increased debt service as Government continues to honour its debt obligations. In addition, GoG's debt-to-GDP ratio has decreased each year since 2013, falling by 28.2 percentage points between 2013 and 2017.

The DMU, in conjunction with the authority operates according to the mandate of the PDMA and continues to demonstrate its commitment to public debt management.

Definition of Terms

Average Time to Maturity (ATM): the length of time it takes on average, to rollover or refinance maturing instruments in the debt portfolio.

Average Time to Re-fixing (ATR): the average time required to reset the interest rate in the debt profile. A high ATR indicates lower risk as this implies a relatively lower share of the debt portfolio will have its interest rate re-set in a short period of time.

Exchange risk: the exposure of the debt portfolio to changes in the exchange rate.

Interest rate risk: the exposure of the portfolio to changes in the market interest rates.

Liquidity risk: the risk that a company or bank may be unable to meet short-term financial demands.

Operational risk: the prospect of loss resulting from inadequate or failed procedures, systems or policies.

Redemption profile: refers to the outstanding debt stock falling due in a given period of time. This indicator therefore shows specific points of vulnerability as it relates to debt service payments in the repayment schedule.

Refinancing/Rollover Risk: the possibility of having debt roll over at a higher interest rate.

Risk: the potential for the cost of debt to deviate from its expected outcome. This may occur as a result of unexpected variation in different economic variables such as interest rate and exchange rate.

Appendix

Appendix 1: Grenada – Selected Economic Indicators

Fiscal and Real Sector Indicators	2013	2014	2015	2016	2017
	(In Percent of GDP Unless Otherwise Indicated)				
Total Revenue and Grants	20.73	24.5	24.13	26.22	25.57
Current Revenue	19.35	20.41	21.22	22.73	23.01
Total Expenditure	27.79	29.18	25.59	23.92	22.56
Current Expenditure	20.74	19.97	17.42	19.73	19.91
Primary Balance	-3.53	-1.15	1.95	5.2	5.7
Current Account Balance	-1.39	0.45	3.8	3	3.1
Overall Balance	-7.07	-4.68	-1.46	2.3	3.01
Memo items					
Nominal GDP at Market Prices (EC$M)	2,275.07	2,461.04	2,691.92	2,866.40	3,042.58
Merchandise Exports (EC$M)	99.40	99.75	87.86	79.82	67.15
Merchandise Imports (EC$M)	994.78	916.79	1,004.37	946.38	1,134.78
Real GDP (%)	5.34	8.17	9.38	6.48	6.15
Average Interest Rate (%)	4.66	4.61	4.61	3.96	3.10

Source: ECCB and Ministry of Finance (revised) staff estimates as at July 11, 2018

Appendix 2: External Debt by Economic Sector (EC$ millions)

Economic Sector	2013	2014	2015	2016	2017	Period Average	Average share of external debt
Agriculture	13.75	12.27	11.38	10.35	10.19	11.59	0.74
Budget Support	280.40	347.42	417.85	439.00	454.38	387.81	24.87
Education & Training	79.60	75.34	71.95	70.83	70.06	73.55	4.72
Environment	9.29	8.28	7.48	7.28	7.68	8.00	0.51
Finance & Insurance	13.65	12.69	11.95	11.38	11.63	12.26	0.79
Health & Social Welfare	32.94	32.45	32.51	33.23	34.19	33.06	2.12
Housing & Urban Develop.	8.17	7.69	7.35	6.95	7.18	7.47	0.48
Industrial Development	2.15	2.03	1.90	1.78	1.65	1.90	0.12
Infrastructure	346.87	350.63	359.52	349.79	334.16	348.2	22.33
Multi-sector	743.85	745.03	613.84	589.14	406.97	619.77	39.74
Rural Development	12.60	13.75	14.45	14.46	15.27	14.11	0.90
Telecommunications & IT	9.62	10.32	13.99	13.47	14.14	12.31	0.79

Other	24.93	23.80	31.00	34.57	33.80	29.62	1.90
Total	**1,577.84**	**1,641.70**	**1,595.17**	**1,582.23**	**1,401.29**		

Appendix 3: Policy Based Loans

Year	Creditor	Use of Funds	Amount (EC$ m)	Disbursed as at December 2017	Original Maturity (yrs)	Interest Rate
In Millions EC$						
2016	**IDA**	Development Policy Loan	24.50	24.90	40	0.75%
2016	**CDB**	Policy Based Loan	10.80	10.80	30	2.00%
2016	**CDB**	Policy Based Loan	16.20	16.20	10	2.97%*
2015	**CDB**	Policy Based Loan	16.20	16.20	10	2.97%*
2015	**CDB**	Policy Based Loan	10.80	10.80	29	2.00%
2015	**IDA**	Development Policy Loan	26.70	26.70	40	0.75%
2015	**IBRD**	Development Policy Loan	13.50	13.50	30	2.31%*
2014	**IMF**	Extended Credit Facility	53.70	53.70	10	0.00%
2014	**CDB**	Policy Based Loan	11.34	11.34	10	2.97%*
2014	**CDB**	Policy Based Loan	10.80	10.80	30	2.00%
2014	**CDB**	Policy Based Loan	4.86	4.86	38	0.50%
2014	**IDA**	Development Policy Loan	40.60	40.60	40	0.75%

*Variable interest rates which are subject to change

Appendix 4: Disbursements

Disbursements	2013	2014	2015	2016	2017
In Millions EC$					
	195.32	**194.19**	**167.04**	**86.36**	**59.69**
EXTERNAL	**111.35**	**120.28**	**144.69**	**76.76**	**45.49**
○ Multilateral	39.07	114.92	137.26	74.4	42.40
Bilateral	**72.28**	**5.36**	**7.43**	**2.36**	**3.09**
○ *Paris Club*	*0*	*0*	*0*	*0*	*0*
○ *Non-Paris Club*	*72.28*	*5.36*	*7.43*	*2.36*	*3.09*
Commercial	0	0	0	0	0
DOMESTIC	**83.97**	**73.91**	**22.35**	**9.60**	**14.20**
Commercial	0	0	0	0	0
Central Bank	20.00	15.00	0	0	0
Bonds	0	0	0	0	0
Other[10]	63.97	58.91	22.35	9.60	14.20

[10] Other: New issues of T-bills and Private Placements

Appendix 5: Debt Service Payments

Debt Service Payments (including arrears)	2013	2014	2015	2016	2017
In Millions EC$					
Total Debt Service	**340.90**	**355.41**	**354.99**	**375.40**	**381.72**
External Debt Service	***108.60***	***103.34***	***110.00***	***138.63***	***149.74***
Principal Repayments	53.50	43.51	48.17	79.72	90.30
Interest Payments	55.10	59.83	61.83	58.91	59.44
Domestic Debt Service	***232.30***	***252.07***	***244.99***	***236.71***	***231.98***
Principal Repayments	207.10	225.11	214.63	211.47	210.44
Interest Payments	25.20	26.96	30.36	25.24	21.54

Appendix 6: Grenada - Risk Indicators

Risk Indicators	**2017**
Average Interest Rate	**3.1**
○ ***External***	*3.3*
○ ***Domestic***	*2.7*
Average Time to Maturity (years)	**8.2**
○ ***External***	*8.8*
○ ***Domestic***	*6.8*
Average Time to Re-fixing (years)	**7.8**
○ ***External***	*8.2*
○ ***Domestic***	*6.8*

Appendix 7: Grenada Selected Debt Indicators

Debt Sustainability Indicators	2013	2014	2015	2016	2017
In Percent					
Total Debt to GDP	96.2	91.4	85.3	78.6	68.0
External Debt to GDP	72.5	69.3	61.3	56.5	47.2
Domestic Debt to GDP	23.8	22.1	24.1	22.1	20.8
Debt Service Ratio (including arrears)	77.4	70.8	62.1	57.6	54.5
External Debt Service Ratio (including arrears)	24.7	20.6	19.3	21.3	21.4
Domestic Debt Service Ratio (including arrears)	52.8	50.2	42.9	36.3	33.1
External Debt Service to exports (including arrears)	109.3	103.6	123.4	173.7	223.0
Share of Short Term Debt to Long Term Debt (Central Government)	26.6	24.2	17.0	16.4	11.6
Share of Foreign Currency to Domestic Currency (External portfolio)	1,393.9/184	1,457.7/184	1,540.9/84.9	1,501.5/80.7	1345.7/55.6
Share of Fixed Rate Debt to Floating Rate debt	1838.45/126.91	1914.9/114.3	2,045.7/143.8	1,930.9/151.2	1,743.4/161.5
Interest Free Debt	90.52	94.9	94.3	93.3	92.3