



Annual Debt Report

2019

ACRONYMS & ABBREVIATIONS

ATM- Average Time to Maturity

ATR- Average Time to Re-fixing

CARCIP- Caribbean Regional Communication Infrastructure

CDB- Caribbean Development Bank

CPI- Consumer Price Index

DMU- Debt Management Unit

ECCB- Eastern Caribbean Central Bank

ECRA- Eastern Caribbean Regulatory Authority

FY- Financial year

GDP- Gross Domestic Product

GGL- Government Guaranteed loans

GoG- Government of Grenada

IBRD- International Bank for Reconstruction & Development

IDA- International Development Association

IMF- International Monetary Fund

MTDS- Medium-Term Debt Management Strategy

OPEC- Organisation of Petroleum Exporting Countries

PDMA- Public Debt Management Act

PSIP- Public Sector Investment Program

RGSM- Regional Governments Securities Market

SAEP- Climate-Smart Agriculture and Rural Enterprise Development

SOE- State-owned Enterprise

USD- United States Dollar

XCD- Eastern Caribbean Dollar

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INTRODUCTION

This Debt Report provides an assessment of the Government of Grenada's (GoG) debt and debt management operations in the fiscal year 2019. The Report covers total debt as defined by the Government of Grenada, which includes the Central Government's (CG) debt and the Government guaranteed and non-guaranteed debt of all of Grenada's State-owned Enterprises (SOEs).

Government's debt portfolio has transformed over the years into one that is characterized by a lower concentration of short-term debt, moderate interest rate risk and an increasingly diversified regional and domestic investor base. These factors work together to mitigate inherent risks and contribute to the goal of long-term debt sustainability.

In 2019, the GoG continued to pursue prudent debt management activities to ensure that its budgetary requirements were financed per the approved Medium-Term Debt Management Strategy (MTDS). This was achieved while maintaining risks and costs at manageable levels.

MACROECONOMIC CONTEXT

Provisional estimates show that Grenada's economy grew by an estimated 3.1 percent in 2019. This growth was fueled primarily by increases in the Education and Tourism sectors of 4.5 percent and 3.1 percent respectively. The Agriculture sector recorded a growth of 20.3 percent in part largely due to an increase in sugar cane production. Persistent weather-related and pest and disease challenges with some crops, however, were not enough to offset the overall growth recorded in this sector. Implementation challenges with some public sector investment projects and the gradual winding down of some private sector-led projects resulted in an overall decline of 3.0 percent in Construction activity relative to growth of 12.3 percent in 2018. Inflation, as measured by the Consumer Price Index (CPI), was largely quelled in 2019 and rose by 0.6 percent, down from 0.8 percent measured in 2018.

Grenada recorded its fourth consecutive year of fiscal surplus in 2019 of \$162.3 million or 5.0 percent of gross domestic product (GDP). This performance was attributed to an increase in total revenue and a significant decrease in Government expenditure, as efforts continue to reduce discretionary expenditure. A primary balance after grants of 6.9 percent of GDP was recorded, which was 0.1 percentage point higher than in 2018. Total revenue as a percentage of GDP was 22.2 percent, a 1.4 percentage point increase relative to 2018. Grants receipts in 2019 were 3.0 percent of GDP, a marginal increase from the 2.9 percent of GDP received a year earlier. Total expenditure as a percentage of GDP was 21.9 percent, which included current expenditure and capital expenditures of 19.3 and 2.7 percent of GDP respectively. Table 1 presents key macroeconomic indicators for the period 2015-2019.

Source: ECCB and MOF

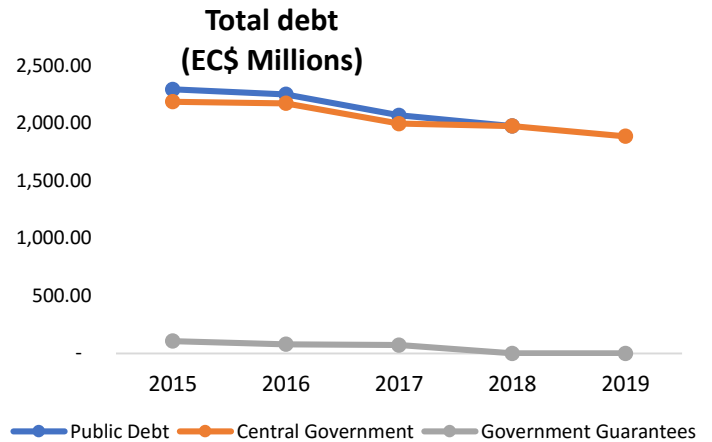
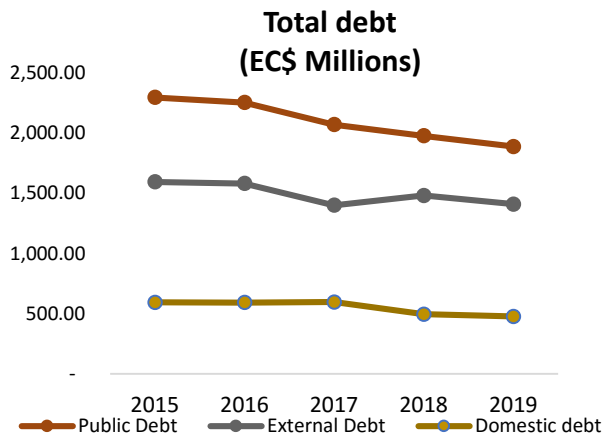
Table 1: Key Macroeconomic Indicators

	2015	2016	2017	2018	2019
Real Sector	<i>(Annual Percentage Change Unless Otherwise Indicated)</i>				
Real GDP Growth	6.4	3.7	5.1	4.1	3.1
Inflation (period average, %)	-0.6	1.7	0.9	0.8	0.6
Agriculture, Livestock and Forestry	44.9	-13.9	-19.5	3.1	20.3
Construction	7.0	13.1	29.1	12.3	-3.0
Education	5.2	3.1	4.6	-5.1	4.5
Hotels and Restaurants	0.5	10.7	5.0	9.5	3.1
Fiscal Account	<i>(As a Percentage of GDP)</i>				
Total Revenue & Grants	24.1	26.2	25.6	26.4	27.0
Tax Revenue	19.0	20.9	21.4	21.9	22.2
Non-tax Revenue	2.2	1.8	1.6	1.6	1.7
Grants	2.9	3.5	2.6	2.9	3.0
Total Expenditure	25.6	23.9	22.6	21.2	21.9
Current Expenditure	17.4	19.7	19.9	18.5	19.3
Capital Expenditure	8.2	4.2	2.7	2.7	2.7
Primary Balance	1.9	5.2	5.7	6.8	6.9
Overall Balance	-1.5	2.3	3.0	5.2	5.0
Nominal GDP at Market Prices (in EC\$ millions)	2,691.9	2,866.4	3,039.4	3,217.8	3,232.8

1.0 TOTAL PUBLIC DEBT of GRENADA

At the end of 2019, the total disbursed outstanding debt stood at EC\$ 1,888.8 million or 57.7 percent of GDP. The sole SOE with Government guaranteed debt obligations repaid its debt in full in October of 2019 and as a result, Government has zero outstanding guaranteed debt. For the period 2015 – 2019, total debt decreased on average by 3.4 percent (Figures 1 (a) & (b)). The largest decline for the period was in 2017 when GoG concluded its final phase of debt restructuring on completion

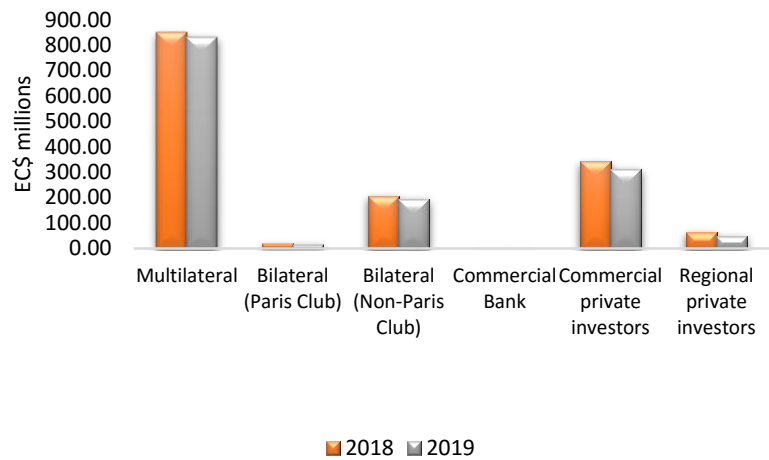
of its International Monetary Fund (IMF)-supported Home-grown Structural Adjustment Programme and received EC\$ 158.3 million in principal reduction on external debt stock in the final quarter of 2017. CG debt decreased on average by 2.3 percent over the period 2015-2019 and by 4.5 percent (EC\$ 88.9m) in 2019 when compared to 2018.



1.1 External Debt by Creditor Category

At the end of 2019, external CG debt decreased by 4.4 percent to EC\$1,410.9 million when compared to 2018. The external portfolio is dominated by loans from multilateral creditors (59.0 percent) followed by commercial private investors (22.2 percent) and bilateral non-Paris Club creditors (13.7 percent). Private regional investors, Paris Club creditors and Commercial bondholders together account for 5.1 percent of the external portfolio. (Figure 2).

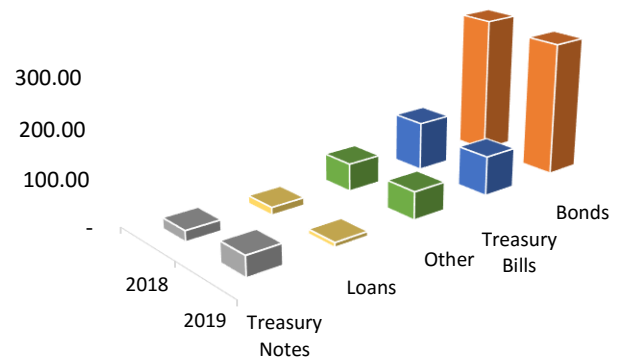
Figure 2: External debt by Creditor



1.2 Domestic Debt by Instrument

In 2019, domestic debt totaled EC\$ 477.9 million. It decreased by EC\$ 17.9 million (3.6 percent) below 2018 when it was EC\$ 495.8 million. Non-bank financial institutions are the leading holders of domestic CG debt. All domestic debts have been contracted in Eastern Caribbean Dollars (XCD) from local creditors at fixed interest rates. The domestic portfolio is dominated by bonds (59.3 percent), followed by Treasury bills (17.5 percent) and *other* which consists primarily of compensation claims (12.3 percent). Treasury notes (T-Notes) and loans account for 8.9 percent and 2.0 percent of the domestic portfolio respectively (Figure 3).

Figure 3: Domestic debt by instrument type (EC\$ Millions)



1.3 Regional Governments' Securities Market (RGSM)

The year 2019 gave rise to the lowest discount rate GoG ever recorded on the RGSM of 1.75 percent when a 91-day treasury bill of EC\$15.0 million was reissued in June of 2019. The lowest discount rate before this was 1.9 percent, which was also recorded in March of 2019 for the same Treasury bill (T/bill). However, the re-issuance of this T/bill in September returned a yield of 4.0 percent (cap). This was due to technical difficulties that hindered the participation of several investors. Discount rates on 365-day T/bills fluctuated throughout 2018 but were on a downward trajectory in 2019. The decrease in discount rates is a result of sound fiscal and economic reforms and prudent debt management operations which have helped to stabilize the economy and increase investor confidence in Grenada. Figures 4 ((a) & (b)) show movements in the discount rates of both 91-day and 365-day T/bills over the period 2018 to 2019.

Figure 4 (a)

91-day Treasury bill yields 2018-2019

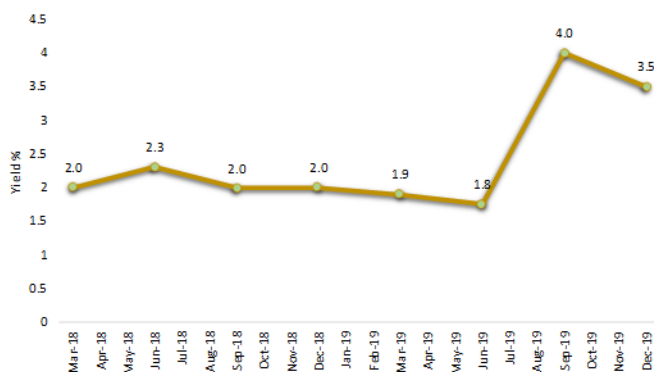
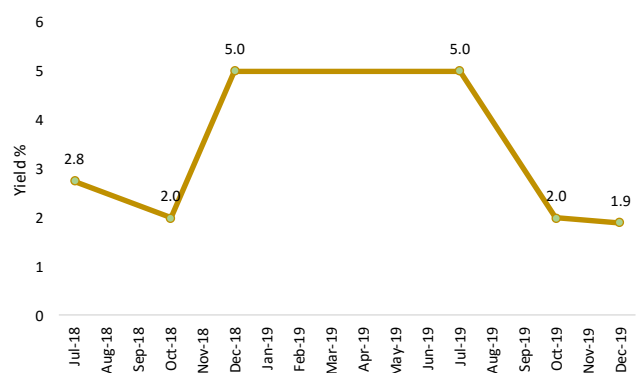


Figure 4 (b)

365-day Treasury bill yields 2018-2019



2.0 CONTINGENT LIABILITIES

2.1 Government Guarantees

Government guaranteed loans (GGL's) are one form of contingent liability that if called will directly affect CG's debt service cost. The primary beneficiaries of Government guarantees are SOEs and Statutory Bodies. Government guaranteed debt may be denominated in domestic or foreign currency and may be issued by external and/or domestic creditors. Through the issuance of loan guarantees, the Government contributes to the reduction in credit risk by making it possible for an SOE or Statutory Body to access funds at a lower cost.

Table 2 highlights the stock of Government guaranteed loans grouped according to the external and domestic components for the comparative periods 2018 and 2019. By the end of 2019, the stock of guarantees fell to zero.

Table 2: Government Guaranteed Loans 2018 -2019

	2018		2019		% change	
	EC\$ m	% of total	EC\$ m	% of total	EC\$ m	%
External GGL	0.2	100	0.0	-	-0.2	-100
Domestic GGL	0.0	-	0.0	-	-	-
Total	0.2		0.0		-0.2	-

2.2 On-Lent Loans

The Public Debt Management Act (PDMA), 2015, Part III Section 9 (d) stipulates that the Government may from time to time contract loans from either external or domestic sources and in-turn lend these funds to Statutory Bodies or SOEs to pursue a specific public policy purpose. As such, the outstanding debt stock for all on-lent loans to parastatals stood at EC\$ 36.7 million as of the end of 2019. The proceeds of these funds target various sectors of the economy as shown in Table 3.

Table 3: Disbursement by Creditor Category (in EC\$ Millions)

Public Body	Creditor Category	Committed Amount EC\$	Actual Disbursement EC\$	Economic Sector
GDB	Multilateral	8.1	8.1	Multiple Sectors
Grenada Solid Waste	Multilateral	12.9	1.6	Environment
GDB	Multilateral	27.0	22.6	Multiple Sectors
Gravel and Concrete	Commercial	4.4	4.4	Restructured
Grenada Airport Authority	Bilateral	189.0	0	Infrastructural Development
TOTAL		241.4	36.7	

Source: MoF

2.3 Implicit Contingent Liabilities

Contingent Liabilities also comprise borrowings by SOEs and Statutory Bodies for which no explicit Government guarantee was issued but constitutes a potential implied liability. That is, there may be a moral or expected obligation of the State with the materialization of an adverse event that hampers the SOE's ability to repay. As of the end of 2019, the outstanding non-guaranteed debt of SOEs stood at \$ 136.0 million, a 4.5 percent decrease from 2018 (Table 4).

Table 4: Summary of Non-Guaranteed Debt of State-owned Enterprises

Creditor	2018	2019	% change
		In EC\$ millions	
External Non-Guaranteed Debt	37.3	36.4	-2.4
Domestic Non-Guaranteed Debt	105.1	99.6	-5.2
TOTAL	142.4	136.0	-4.5

Source: MoF

2.4 Other Public Sector¹

The stock of other public sector debt stood at EC\$ 372.1 million or 11.4 percent of GDP at the end of 2019. This figure remained unchanged from the end of 2018.

3.0 MEDIUM-TERM DEBT MANAGEMENT STRATEGY IMPLEMENTATION

Borrowing activities over the financial year (FY) 2019 were guided by the MTDS prepared and published according to Part II Section 5 of the PDMA, 2015. The MTDS aims to ensure that the Government's financial requirement and payment obligations are met at the lowest cost, with a prudent degree of risk within the context of the Government's macroeconomic assumptions and budget framework.

The strategy approved for the FY 2019 entailed the extension of the maturity of instruments in the domestic portfolio via proposed issuance of new securities on the long end of the yield curve and conversion of short-term securities to longer maturities. On the external side, the strategy required no new borrowing, but rather the utilization of committed undisbursed debt. Further, a portion of the short-term debt is assumed to be paid off from the fiscal surplus.

¹ Other Public Sector: refers to Petrocaribe Grenada Ltd.

3.1 Funding Strategy

In fiscal 2019, total financing raised amounted to EC\$ 328.0 million contrasted with projected financing needs of EC\$ 337.0 million. Multilateral creditors were the main sources of funding as it accounted for approximately 98.0 percent of total external funding while bilateral sources accounted for a small share (2.0 percent). External financing was primarily concessional. Disbursements on existing facilities accounted for about 22.4 percent while the remaining 77.6 percent originated from new loans approved in 2019.

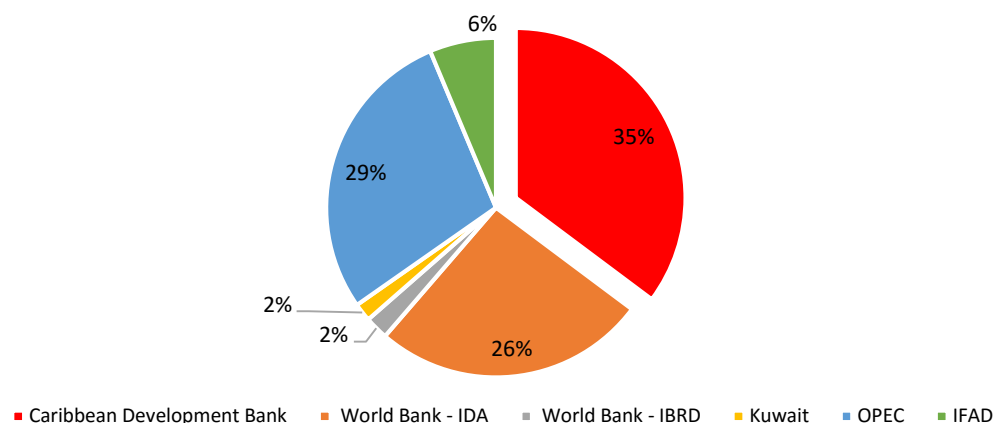
3.2 External borrowing

Three (3) new loans valued at EC\$ 110.7 million were secured from the World Bank and approved in 2019. These loans have been earmarked to provide budget support or to fund specific public projects in two economic sectors. Disbursements on these loans are expected to commence in 2020. The approved loans are as follows:

- Development Policy Credit (DPC2) - EC\$ 54.0 Million
- Digital Governance - EC\$ 40.5 Million
- OECS Regional Health – EC\$ 16.2 Million

During the year disbursements in the amount of EC\$ 31.9 million were received from existing external facilities. These included EC\$ 11.3 million from the Caribbean Development Bank (CDB) to fund various ongoing public projects. Some of these projects were; Market Access & Rural Enterprise Development, Extreme Rainfall, Education Enhancement, and the Climate-Smart Agricultural and Rural Enterprise Development project (SAEP). Disbursements totaling EC\$ 9.1 million were received from Organisation of Petroleum Exporting Countries (OPEC) to fund the St. Patrick's Road Rehabilitation project and the Agriculture Feeder Roads (Phase III). Disbursements received from the World Bank (International Development Association (IDA) & International Bank for Reconstruction and Development (IBRD)) totaling EC\$ 9.1 million were channeled into the following on-going projects: Caribbean Regional Communication Infrastructure (CARCIP) (EC\$ 7.5 million) and the remaining EC\$ 1.6 million was allocated to the Eastern Caribbean Regulatory Authority (ECRA), Safety Net Advancement, Regional Agricultural Competitiveness & Regional Tourism Competitiveness projects. Disbursements amounting to EC\$ 2.0 million were received from the International Fund for Agricultural Development (IFAD) to fund the SAEP project, which is jointly funded with the CDB. Figure 5 shows the breakdown of Disbursements received in 2019.

Figure 5 : Disbursement by Creditor (2019)



3.3 Domestic borrowing

3.3.1 Government of Grenada Securities Issuance Program 2018/2019

Although there was an overall decline in amounts issued, GoG’s activity on the RGSM remained strong during FY 2019. EC\$ 100.0 million of securities were forecasted to be issued on the regional market. Through six auctions, a total of EC\$ 88.1 million was raised, which comprised of EC\$ 43.1 million of 91-day and EC\$ 45.0 million of 365-day T/bills. This represented a 12.0 percent decline from the published calendar of issues and a 15.0 percent decline from 2018. There was a decrease in issue size of a 365-day T/bill from EC\$ 20.0 million to EC\$ 10.0 million as GoG redeemed part of the issue size in the fourth quarter in line with the approved MTDS (2019-2021).

Domestic investors rolled over EC\$ 45.2 million over-the-counter securities (365-day), which corresponded to a 9.2 percent decline in what was predicted at the start of the year primarily due to instrument conversion. During the year EC\$ 24.3 million (approximately 15.0 percent of short-term domestic debt) was re-issued with longer tenors contributing to a smoothing of the debt service payments going forward.

Table 5: Domestic Financing

Domestic	2018	2019
RGSM	<i>In Millions EC\$</i>	
91- Day	45.0	43.1
365- Day	48.8	45.0
2-year note	10.0	0
<i>Sub-total</i>	<i>103.8</i>	<i>88.1</i>
Non-RGSM*		
91- Day	0	0
365- Day	97.3	72.9
<i>o/w Private Placement</i>	27.7	27.7

2-yr note ²	14.5	24.3
Commercial Loans	0	0
<u>Sub-total</u>	<u>111.8</u>	<u>97.2</u>
<u>Total</u>	<u>215.6</u>	<u>185.3</u>

*includes private placements

At the end of 2019, debt payments were not made from the Government's surplus savings as contemplated in the MTDS, but amortization and interest payments proceeded as per scheduled arrangements. The external funding variance was attributed to lower-than-expected drawdowns on existing loans. Additionally, provisions made for a large initial disbursement on the Airport project did not materialize in 2019. On the domestic side, the variance was due to the re-issue of a private placement that was otherwise unaccounted for in the funding calendar.

Table 6: Summary of Net Financing

2019	External	Domestic	Surplus	Total
	<i>In EC\$ Millions</i>			
MTDS	163.6	173.5	91.0	428.1
Actual	142.6	185.3	0	327.9
Variance (+/-)	21.0	-11.8	91.0	100.2

4.0 COST AND RISK ANALYSIS OF THE EXISTING DEBT PORTFOLIO

Table 7 compares key cost and risk indicators in the debt portfolio at the end of 2018 and 2019 relative to established medium-term benchmarks. Overall, the key cost and risk indicators remained consistent with medium-term targets, where established, and were generally improved compared to 2018.

The combination of external concessional financing and maturity extension left the Average Time to Maturity (ATM) indicator of the total portfolio unchanged from 2018 (Table 7). Related to the ATM, the Average Time to Re-fixing (ATR) of the total portfolio also remained unchanged in 2019 relative to 2018. However, the weighted average interest rate of the total portfolio decreased from 3.6 percent in 2018 to 3.2 percent in 2019. This as concessional fixed interest loans were the main type of external debts contracted in 2019. Exchange rate risk remains subdued since a commanding share of the external portfolio (68.0 percent) is denominated in USD for which the XCD dollar is pegged.

² Grenada Co-operative Bank's 3-year investment note valued at EC\$ 22.2 million matured in 2019 and GARFIN's 365-day T/Bill valued at EC\$ 2.1 million also matured in 2019 and were both re-issued as 2-year notes.

Table 7: Cost and Risk Indicators in 2018 and 2019

Indicators	2018	2019	Indicative targets according to the strategy 2020-2022
Cost of Debt			
Interest payments as % of GDP	2.2	1.8	<=2.5%
Weighted Avg. (%)	3.6	3.2	No established Target
Refinancing Risk			
Debt maturing in 1 yr (% of total)	15.4	14.9	<=20%
ATM External Portfolio (years)	9.8	10.1	No established target
ATM Domestic Portfolio (years)	7.1	6.5	No established target
ATM (years)	9.0	9.0	>=8 years
Interest Rate			
Debt re-fixing in 1 yr (% of total)	21.4	21.2	No established target
Fixed-rate debt (% of total)	93.4	92.9	No established target
ATR (years)	8.6	8.6	>=10 years
Foreign Exchange Risk			
FX debt (% of total debt)	69.1	69.1	<=75%

5.0 SHORT AND MEDIUM-TERM DEBT FORECASTS

As at the end of 2019, total public debt amounted to \$ 1888.8 million (57.7 percent of GDP). Public debt is projected to increase in the medium term (2020 – 2022) from EC\$ 1,906.6 million, in 2020 to EC\$ 2,025.3 million in 2022 (6.2 percent) in part due to implementation of its Public Sector Investment Program (PSIP) (Table 8). GoG is committed to increasing the implementation rate of public projects already in progress, which will improve the drawdown rate of committed undisbursed balances.

Table 8: Projected Government Debt Stock

Debt Stock	2020	2021	2022
External Debt	1,341.7	1,435.4	1,518.9
Domestic Debt	564.9	535.6	506.4
Total Debt	1,906.6	1971.0	2,025.3
Memo items			
Nominal GDP	2,797.2	2,969.8	2,969.8

Source: Preliminary estimate, Ministry of Finance staff

The Government has earmarked several infrastructural and developmental projects scheduled to commence in 2020 for which funds were already secured. These include the St. Patrick's Road Rehabilitation project and the Agriculture Feeder Roads (Phase III) funded by the OPEC, CARCIP and the ECRA funded by the World Bank and SAEP funded by the IFAD and CDB. Additionally, new projects were identified and are expected to come on stream towards the end of 2020. On the domestic side, efforts will continue to extend the maturities of Government securities on the RGSM and Over the Counter.

6.0 APPENDIX

GOVERNMENT OF GRENADA STATEMENT OF PUBLIC DEBT AS AT DECEMBER 31, 2019 (includes non-guaranteed debt of SOEs)

	Ending Balance 2019
CURRENT LIABILITIES	
<i>Bank Overdraft</i>	
<i>Accounts Payable</i>	
<i>Treasury Bills</i>	105,227,500.00
<i>Private Placement</i>	27,680,831.00
<i>Other</i>	3,101,711.00
<i>Total</i>	136,010,042.00
NON-CURRENT LIABILITIES	
<i>Commercial banks</i>	-
<i>Social Security</i>	6,231,822.00
<i>Multilateral</i>	832,806,232.00
<i>Bilateral</i>	193,922,669.00
<i>Paris-Club</i>	15,956,452.00
<i>Total</i>	1,048,917,175.00
SECURITIES	
<i>Treasury Notes</i>	48,767,726.00
<i>Bonds (Domestic)</i>	284,783,536.00
<i>Bonds (International)</i>	312,990,445.00
<i>Total</i>	646,541,707.00
OTHER	57,327,608.00
CONTINGENT LIABILITIES	
<i>Guaranteed Debt</i>	-

Non- Guaranteed Debt	
	132,411,716.00
Other³	
	372,139,352.00
TOTAL	2,393,347,600.00

**GOVERNMENT OF GRENADA DEBT SERVICE STATEMENT FOR YEAR ENDED
DECEMBER 31, 2019**

CENTRAL GOVERNMENT DEBT	
INTEREST PAYMENTS	
<i>TREASURY BILLS -Domestic</i>	1,353,825.00
<i>TREASURY BILLS -RGSM</i>	1,861,778.70
<i>TREASURY BILLS -Private Placement</i>	2,048,775.15
<i>Sub-total</i>	5,264,378.85
<i>TREASURY NOTES -Private Placement</i>	924,262.09
<i>TREASURY NOTES -RGSM</i>	550,000.00
<i>Sub-total</i>	1,474,262.09
<i>BONDS - Domestic</i>	8,564,443.43
<i>BONDS - International</i>	22,455,707.96
<i>Sub-total</i>	31,020,151.39
<i>LOANS -Domestic</i>	550,378.00
<i>LOANS -External</i>	22,166,432.87
<i>Sub-total</i>	22,716,810.87
OTHER	164,790.84
TOTAL	60,640,394.04
AMORTIZATION	

³ Other refers to the debt obligations of Petro Caribe.

<i>TREASURY BILLS -Domestic</i>	-
<i>TREASURY BILLS -RGSM</i>	104,994,221.30
<i>TREASURY BILLS -Private Placement</i>	-
<i>Sub-total</i>	104,994,221.30
<i>TREASURY NOTES -Private Placement</i>	4,000,000.00
<i>TREASURY NOTES -RGSM</i>	-
<i>Sub-total</i>	4,000,000.00
<i>BONDS - Domestic</i>	12,361,405.75
<i>BONDS - International</i>	29,325,184.48
<i>Sub-total</i>	41,686,590.23
<i>LOANS -Domestic</i>	6,525,366.12
<i>LOANS -External</i>	59,766,511.00
<i>Sub-total</i>	66,291,877.12
<i>OTHER</i>	7,590,775.88
<i>TOTAL</i>	224,563,464.53
<i>TOTAL DEBT SERVICE</i>	285,203,858.57
GOVERNMENT GUARANTEED DEBT	
<i>INTEREST PAYMENTS</i>	2,567.08
<i>AMORTIZATION</i>	156,924.95
<i>TOTAL</i>	159,492.02
NON- GOVERNMENT GUARANTEED DEBT	
<i>INTEREST PAYMENTS</i>	1,841,224.77
<i>AMORTIZATION</i>	13,315,870.97
<i>TOTAL</i>	15,157,095.74