Medium-Term Debt Management Strategy

GOVERNMENT OF GRENADA

Medium-Term Debt Management Strategy

2020 - 2022

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2019 Medium-Term Debt Management Strategy (MTDS) 2020-2021

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NOTES

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

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ACRONYMS

ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CARICOM	Caribbean Community
CBI	Citizenship by Investment
CDB	Caribbean Development Bank
CNY	China Yuan Renminbi
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DETC	Department of Economic and Technical Cooperation
DMU	Debt Management Unit
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EUR	Euro
FAA	Finance Administration Act
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
FX	Foreign Exchange
GBP	Great Britain Pounds
GDP	Gross Domestic Product
GoG	Government of Grenada
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IRP	Investor Relations Programme
JYP	Japanese Yen
KWD	Kuwaiti Dinars
LIBOR	London Inter-Bank Offer Rate
MoF	Ministry of Finance
MTA	Medium –Term Agenda
MTDS	Medium-Term Debt Management Strategy
MTFF	Medium-Term Fiscal Framework
NIS	National Insurance Scheme
OCR	Ordinary Capital Resources

OPEC	Organization of Petroleum Exporting Countries
PDM	Public Debt Management Act
PRGF	Poverty Reduction and Growth Facility
PV	Present Value
RGSM	Regional Governments Securities Market
ROC	Republic of China
S1	Strategy 1
S2	Strategy 2
S3	Strategy 3
ST FX	Short -Term Foreign Exchange
T-bills	Treasury Bills
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 of time – i.e., 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 between 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 which 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 Eastern Caribbean Dollars.

EXECUTIVE SUMMARY

The Public Debt Management (PDM) Act enacted in June 2015 provides the framework for effective debt management, which involves the establishment and execution of a strategy for managing public sector debt. The Medium-Term Debt Management Strategy (MTDS[1]) is a plan aimed at achieving the desired debt portfolio consistent with the debt management objectives. It ensures that the Government's funding needs are met with due consideration of its cost and risk objectives. The MTDS, among other considerations, highlights a preferred strategy that can be used over the medium-term (2020-2022).

Grenada's economy expanded by 4.1 percent in 2018. A sixth consecutive year of real growth is estimated for 2019. Over the medium - term (2020-2022) growth is projected to average 3.6 percent buoyed by public infrastructure development, construction and tourism sector development. Overall and primary surpluses are forecasted to average 4.9 and 6.8 percent of GDP respectively over 2020-2022. The trade deficit is projected to widen at end 2019 due to higher oil prices and other imports. The economic prospects are positive but are susceptible to a mix of upside and downside risks.

At the end of 2019, **Central Government** debt is estimated to be $1.84 billion of which external debt amounts to $1.27 billion and domestic debt $ 0.57 billion. Total debt service for the year is estimated to be $371.7 million or 37.9 percent of revenue.

With regard to risks in the existing portfolio, the interest rate is subject to moderate risk. The Average Time to Re-Fixing (ATR) of the total portfolio is 8.6 years, of which 21.3 percent is subject to a change in interest rates in one year. The risk resides predominantly in the domestic portfolio given that 33.7 percent of debt is subject to re-fixing in one year, namely treasury bills. Variable rate debt accounts for 10.2 percent of the total portfolio and hence does not pose a significant risk. The refinancing risk profile of the portfolio has an Average Time to Maturity (ATM) of 9.0 years, which exceeds the set target of 8 years and above. The portfolio's exposure to foreign exchange risk is minimal as the majority of foreign currency debt is denominated in USD to which the EC dollar is pegged albeit, with an increasing share of non-USD foreign currency debts, the DMU remains vigilant.

Three strategies were analyzed, and all strategies were subject to various stress scenarios including interest and exchange rate shocks of moderate and extreme degrees. The analysis illustrates that Strategy 2 (S2) represents the most feasible option for financing the Government's needs in the

[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.

medium term and is firmly in line with debt management targets and objectives. It assumes that Government's financing needs will be met via targeting external concessional debt and Government securities on the regional market.

1 OVERVIEW

The debt data utilized for the MTDS encompasses Central Government external and domestic debt. T-Bills are recorded at their discounted value only for the purpose of this Strategy. Government Guaranteed debt, which as at the end of June 2019, accounted for 0.004 percent of public debt was not included in the analysis except in cases where these debts have been subsumed by the Government. The MTDS spans a three-year horizon (2020-2022) inclusive.

The report is divided into five sections. Following the Overview, section 2 provides a review of the existing debt portfolio with a focus on Central Government. This section includes existing debt stocks and debt service payments, risk analysis, and redemption profile at the end of 2020. Section 3 examines macroeconomic performance, medium-term outlook and key risks; section 4 presents alternative strategies to finance the Government's borrowing needs, based on its current economic constraints and the preferred strategy with regard to the cost-risk trade-off. Section 5 proposes the implementation methodology and financing plan for the identified strategy.

1.1 Debt Management Objective

The MTDS sets out the Government of Grenada's (GoG's) objectives and strategy for the management of its domestic and foreign debt for the period 2020- 2022; consistent with the medium-term fiscal framework. The MoF, through its DMU, is committed to implementing the debt management objectives as outlined by the Public Debt Management Act, 2015. These objectives are aimed at:

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

1.2 Implementation of the 2019 Debt Management Strategy

The MTDS implemented for the financial year (FY 2019) emphasized reliance on a mix of domestic borrowing of marketable securities and external concessional borrowing. The target for domestic financing and external financing mix was 48 percent and 52 percent, respectively. The actual position as at the end of September 2019 shows a financing mix of 53.3 percent and 46.7 percent respectively. In order to reduce the cost of debt and refinancing risk, the FY 2019 MTDS aimed to extend the maturity of domestic short-term over-the-counter debt. Consistent with the strategy, no new financing was raised on the RGSM in 2019, rather, projected outturn in 2019 indicates a decrease in the proportion of T-bills by 18.4 percent from 2018 while the share of T- notes remained stable.

On external debt, the FY 2019 MTDS envisaged concessional financing primarily from multi-laterals with a gradual increase in reliance on bilateral creditors in the outer years. The actual position at the end of September 2019 indicates that 100 percent of external financing was concessional. Disbursements from existing multilateral facilities accounted for 11.8 percent of external financing while the remaining 88.2 percent was received from new concessional loans contracted in 2019. However, as at September 2019 no disbursements from bilateral creditors were received.

The combination of concessional financing and maturity extension resulted in an ATM of the total portfolio of 9.0 years in 2019 which is unchanged from 2018; however, it surpasses the established target of greater than 8 years. Likewise, the ATR of the total portfolio is 8.6 years in 2019 and remains unchanged from 2018. However, the weighted average interest rate of the total portfolio declined to 3.2 percent in 2019 from 3.6 percent in 2018.

2 EXISTING DEBT PORTFOLIO - 2019

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

2.1 Composition of Central Government Debt Portfolio

2.1.1 Total Central Government Debt

For the purpose of this report, debt is classified by currency. External debt consists of all debt denominated in foreign currencies while domestic debt refers to all debt denominated in the EC dollar. At the end of 2019, total Central Government debt is estimated to be $ 1,840 million. This comprises $1,271.0 million (69 percent) external debt and $568.9 million (31 percent) domestic debt.

Figure 1: Composition of Central Government Debt

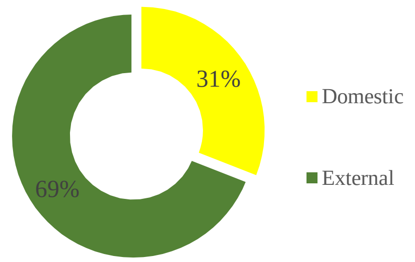
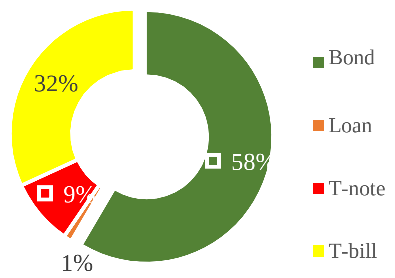


Figure 2: Domestic Debt by Instrument Type

2.1.1.1 Domestic Debt

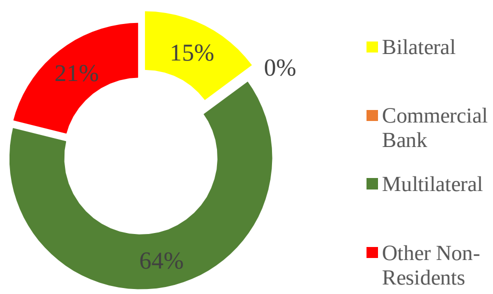
At the end of 2019, domestic debt is estimated to comprise 58.5 percent bonds, 31.9 percent Treasury bills, 8.9 percent Treasury notes 1.1 percent loans and other liabilities denominated in XCD.



2.1.1.2 External Debt

The composition of external debt as at the end of 2019 is estimated to be as follows: multi-laterals 64.0 percent, bilateral creditors 14.8 percent, other non-residents[2] 21.1 percent, and commercial loans 0.1 percent. Multi-laterals include IDA, CDB, IMF, OPEC, IBRD and IFAD. Bilaterals include Kuwait, Trinidad, EXIM Bank of China and Bank of Alba.

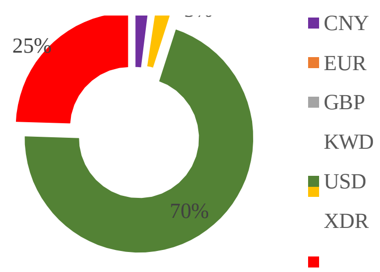
Figure 3: External Debt by Creditor Category



2.1.1.3 External debt by currency composition

At the end of 2019, the currency composition of external debt is estimated to be as follows: United States Dollar (USD) $896.3 million,

Figure 4: External debt by currency



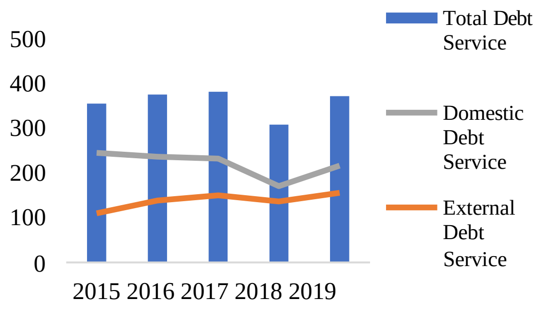
2Other non-residents refers to holders of the international commercial bond.

(70.5 percent), Special Drawing Rights (XDR) $311.7 million (24.5 percent), Kuwaiti Dinar (KWD) $32.9 million (2.6 percent), Yuan Renminbi (CNY) $25.0 million (1.9 percent), Great Britain Pound (GBP) $3.5 million (0.3 percent) and Euro (EUR) $1.7 million (0.1 percent).

2.1.1.4 Debt Service Payments

Figure 4 shows debt service payments for the period 2015 to 2019. Total debt service payments increased each year during the period 2015 to 2017 but decreased in 2018. Debt service is projected to increase by about 20.8 percent over 2018, as external loans exit their grace period and short-term instruments reach maturity.

Figure 5: Debt service payments 2015-2019



2.2 Risk Analysis of the Debt Portfolio

The debt portfolio has inherent risks related to market conditions; basic cost and risk indicators were calculated and analysed. The main portfolio risks are covered in this section.

2.2.1 Interest Rate Risk

The Average Time to Re-fixing (ATR) is a measure of the weighted average time until all the principal payments in the debt portfolio is subjected to a new interest rate. Grenada's debt portfolio has an ATR of 8.6 years of which 21.2 percent of total debt is subject to a change in the interest rate in one year (Table 1). Interest rate risk is mainly inherent in the domestic debt portfolio with a relatively short ATR of 6.5 years. As reflected, 33.7 percent of its debt is subject to re-fixing in one year due to the relatively short maturity profile of domestic instruments (less than one year). In contrast, the ATR for the external debt is 9.5 years with 15.7 percent of this debt re-fixing in one year. In addition, a relatively large proportion 89.8 percent of external debt is contracted on fixed-rate terms. The remaining 10.2 percent reflects variable rate debt owed to multilateral and bilateral creditors.

2.2.2 Refinancing /Rollover Risk

Rollover/refinancing risk shows the vulnerability of the portfolio to higher costs for refinancing maturing debt obligations within a period or in extreme cases if the debt cannot be rolled over at all. With an overall operational target of greater than 8 years, the Average Time to Maturity (ATM) of Grenada's debt portfolio is 9 years which surpasses its target. This is mainly skewed towards the external debt portfolio which has an ATM of 10.1 years of which 6.5 percent matures in one year. In contrast, domestic debt is mainly exposed to refinancing risk due to its relatively short maturity profile. The ATM of domestic debt is 6.5 years of which 33.7 percent will mature in one year and is subjected to refinancing/rollover risks since a significant portion of short-term debts are rolled over.

2.2.3 Foreign Exchange Risk

Foreign exchange risk measures the exposure of the portfolio to changes in the exchange rate. Grenada's debt portfolio is minimally exposed to foreign exchange risk. Debt contracted in foreign currency accounts for 69.1 percent of the total debt portfolio. This is in line with the target of less than or equal to 75 percent set for foreign exchange debt. Debt contracted in USD (70.5 percent) has the largest share of the total foreign debt. Non-USD denominated debt comprises of debt in XDR (24.5 percent), Kuwait (2.6 percent), GBP (0.3 percent) and EUR (0.1 percent).

Table 1: Cost and Risk Indicators for the Existing Debt Portfolio as at year-end 2019

Risk Indicators		**Foreign Currency Debt**	**Domestic Currency Debt**	**Total Debt**
Amount (in millions of XCD)		1,271.0	568.9	1,840.0
Amount (in millions of USD)		470.7	210.7	681.5
[3]**Central Government Debt** as % GDP		39.3	17.6	56.9
PV as % of GDP		32.3	17.6	49.9
Cost of debt	Interest payment as % GDP	1.2	0.6	1.8
	Weighted Av. IR (%)	3.2	3.3	3.2
Refinancing risk	ATM (years)	10.1	6.5	9.0
	Debt maturing in 1yr (% of total)	6.5	33.7	14.9
	Debt maturing in 1yr (% of GDP)	2.6	5.9	8.5
Interest rate risk	ATR (years)	9.5	6.5	8.6
	Debt re-fixing in 1yr (% of total)	15.7	33.7	21.2
	Fixed rate debt (% of total)	89.8	100.0	92.9
FX risk	FX debt (% of total debt)			69.1
	ST FX debt (% of reserves)			15.3

2.2.4 Redemption Profile

The redemption profile depicts the amortization of outstanding debt and it reflects the risks inherent in the structure of the existing debt portfolio (6 & 7). A high portion of domestic debt is due within one year for redemption. This is affected by short term debt maturing within one year. In addition, Government has signaled its intention to settle a portion of outstanding claims in 2020. External debt has a relatively smooth redemption profile and a longer maturity period. It is characterised by concessional loans from multilateral

[3] The scope of debt utilized for the MTDS analysis represents Central Government debt. Government Guaranteed debt of public entities was not used in this analysis.

and bilateral creditors. Debt service is delayed until 2024 with selected creditors to conclude negotiations on outstanding liabilities, hence the spike in the debt amortization in that year.

Figure 6 Redemption profiles (based on Currency) as at end 2019 (XCD Million)

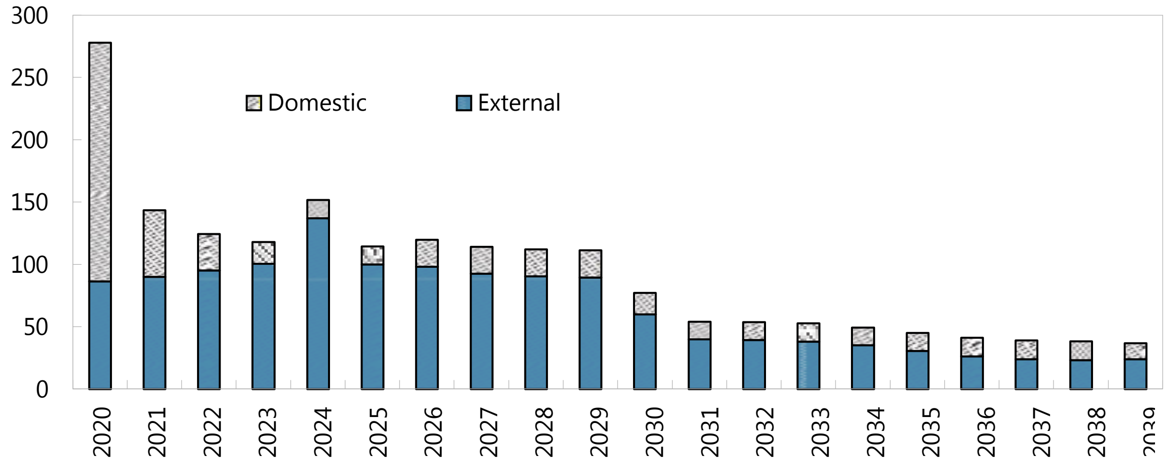
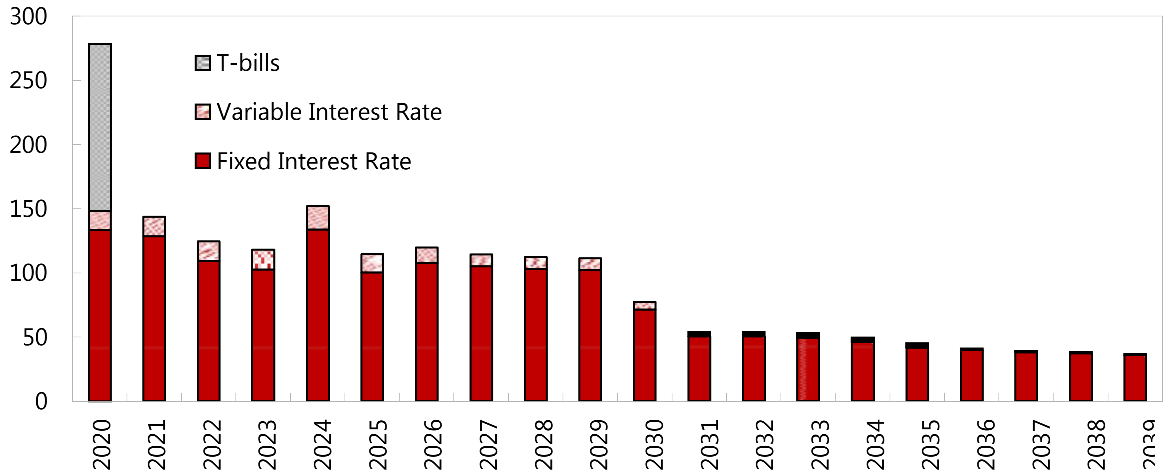


Figure 7 Redemption profiles (based on interest type) as at end 2019 (XCD Million)



3 MACROECONOMIC PERFORMANCE, MEDIUM -TERM OUTLOOK AND KEY RISKS

3.1 Public Finance

Grenada's fiscal position further improved within the first half of 2019 achieving a primary balance after grants of $116.2 million, 20.7 percent more than what was realized within the first half of 2018. Central Government's Overall Balance including Grants was $89.1 million during the first half, 31.0 percent higher than the comparable period of 2018. This strengthening was possible due to an increase in total revenue and a significant decrease in Government's expenditure.

Based on January to June actual data, Government expects to attain a primary balance after grants of $232.6 million or 7.2 percent of projected GDP at the end of 2019, 15.2 percent higher than the budgeted amount. This is achievable despite the underperformance in total revenue and grants by 10.6 percent. Consequently, this can exert downward pressure on future borrowing volumes. Public debt is projected to further reduce in 2020, converging to its FRL's target of 55.0 percent of GDP.

The GoG continues to maintain a prudent liquidity position, with the accumulation of deposits in the National Transformation Fund (NTF) of $ 35.6 million and a Sinking Fund of $37.1 million at the end of June 2019. This provides a level of financial protection to cover possible future losses or even for treasury operations.

The Government's Medium-term Fiscal Framework (MTFF) 2020-2022 has been prepared to ensure compliance with the Fiscal Responsibility Law (FRL) No. 29/2015 (as amended in 2017). The MTFF is framed to support the National Sustainable Development Plan (NSDP) which rests on three development pillars: Economy, Society & Environment. In relation to fiscal policy, the primary objective for the medium-term is debt reduction. Accordingly, the Government will continue to deploy revenue and expenditure strategies such that primary surpluses exceeding the FRL's fiscal rules are generated to keep public debt on a firm downward trajectory in the MTFF period.

Table 2: Fiscal Projections for 2020-2022 (MTFF)*

In millions of Eastern Caribbean Dollars unless otherwise stated						
	2020		2021		2022	
	Projected	% of GDP	Projected	% of GDP	Projected	% of GDP
TOTAL REVENUE AND GRANTS	**885.7**	**26.0**	**925.1**	**26.2**	**958.3**	**26.2**
Total Revenue	**800.5**	**23.5**	**830.0**	**23.5**	**860.4**	**23.5**
Tax revenue	747.9	22.0	775.4	22.0	803.9	22.0
Non - Tax Revenue	52.6	1.5	54.5	1.5	56.5	1.5
Grants	**85.1**	**2.5**	**95.1**	**2.7**	**97.9**	**2.7**
TOTAL EXPENDITURE & NET LENDING	**727.2**	**21.4**	**747.3**	**21.2**	**757.0**	**20.7**
CURRENT EXPENDITURE	**617.7**	**18.2**	**618.1**	**17.5**	**623.9**	**17.1**
Employee compensation	267.1	7.9	276.9	7.9	281.2	7.7
Personal Emoluments, Salaries, Wages and Allowances	251.3	7.4	260.5	7.4	264.1	7.2
Social contribution to employees	15.8	0.5	16.4	0.5	17.1	0.5
Goods and Services	118.5	3.5	114.3	3.2	110.8	3.0
Interest Payments	67.7	2.0	64.9	1.8	64.9	1.8
Transfers	164.4	4.8	162.0	4.6	167.0	4.6
Net Lending	-	-	-	-	-	-
Capital Expenditure	**109.5**	**3.2**	**129.2**	**3.7**	**133.1**	**3.6**
o/w: Grant financed	79.9	2.4	89.6	2.5	92.3	2.5
Non-grant financed	29.6	0.9	39.6	1.1	40.8	1.1
o/w: loan	15.6	0.5	23.3	0.7	24.0	0.7
local revenue	13.9	0.4	16.3	0.5	16.8	0.5
Current Balance (before Grants)	**182.9**	**5.4**	**211.8**	**6.0**	**236.5**	**6.5**
Overall Balance (after Grants)	**158.5**	**4.7**	**177.7**	**5.0**	**201.4**	**5.5**
Primary Balance (after Grants)	**226.2**	**6.7**	**242.6**	**6.9**	**266.2**	**7.3**
Memo item						
GDP (nominal market prices)	**3,400.2**		**3,525.2**		**3,654.4**	
Real GDP growth (%)	**4.0**		**3.4**		**3.4**	

***Projections are based on January to June 2019 actuals.**

Source: MOF

3.2 Monetary Sector

The fixed exchange rate regime under the Eastern Caribbean Currency Union (ECCU) remains pegged to the USD for over 40 years[4]. The currency peg reduces the margin to maneuver monetary policy within the ECCU, but it also provides stability for the portfolio because US dollar-denominated debt dominates the external portfolio so there is minimal exchange rate risk on Government's overall debt portfolio.

The monetary council of the ECCB reduced the minimum savings rate in 2015 from 3.0 percent to 2.0 percent and this translated to lower interest rates. The pass through of decreased spreads/interest rates

[4] The peg maintains a rate of 2.7 XCD per USD.

should result in savers seeking to increase their rates of return and to expand their investment portfolio thereby improving competition on the market.

3.3 Real Sector

The economy remains strong in 2019 with another year of growth projected. However, based on preliminary data for the first quarter of 2019, the estimated increase in GDP growth is at a slower pace relative to the increase in 2018. The Tourism and Transport sectors appear to be the main drivers of growth, complemented by continued recovery in the Agriculture sector. Construction remains an important contributor to GDP and a major source of employment in 2019 with several ongoing public and private projects. Average inflation, as measured by the Consumer Price Index (CPI), was 1.1 percent for January to March 2019[5] compared to 0.5 percent in the same period in 2018.

3.4 External Sector

As the economy continues to depend heavily on imported products, the trade balance continues to decline. Trade deficits of $1,075.7 million and $1,176.2 million were realized at the end of 2017 and 2018 respectively. The trade deficit in 2018 was greater than in 2017, due to the increase in the number of imports by 8.9 percent. The value of the imports increased with quantities from $1,134.8 million in 2017 to $1,260.7 million in 2018 (11.1 percent). There was a notable improvement in the number of exports in 2018 of $84.6 million from $59.0 million in 2017 (43.2 percent increase). Despite these increases, the external trade deficit is projected to widen because of higher levels of imports, general increase in economic activity and rising oil prices internationally. Any increases in commodity prices can be inflationary that may effectively increase the nominal debt stock and the cost of debt service of non -US foreign currency-denominated debt. Low foreign currency earnings because of worsening trade deficit can adversely affect the country’s ability to meet external debt service payments.

3.5 Outlook for Debt Management

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

[5] Latest period for which data is available.

3.6 Risk Sources and Potential Impact Factors

The table below 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 & FDI reduction	Balance of Payments	Need for external financing (private/public)
Currency depreciation	Debt Portfolio	High FX debt service
Terms of Trade	Commodities prices Exchange rate	High FX debt service
Low appetite for long-dated securities	ATM	Roll-over risk
Reducing stock of concessional external debt	Interest Rates and maturity	Potential drain on reserves/ pressure on the balance of payments

4. MEDIUM-TERM DEBT MANAGEMENT STRATEGY

4.1 Targets and Ranges for Key Risk Indicators

The strategic benchmarks established in the adopted strategies over the last four (4) years to finance the Budget have resulted in the structure of Central Government debt evolving favourably from 2015 to 2019.

Table 4: Risk Targets and Ranges

Risk Indicators	2019	2022
	Current	Target Range
*Central Government Debt as % of GDP	56.9	<=55%
Interest payment as % of GDP	1.8	<=2.5%
Debt maturing in 1yr (% of total)	14.9	<=20%
Debt maturing in 1yr (% of GDP)	8.5	<=10%
ATM Total Portfolio (years)	9.0	>=8 years
ATR (years)	8.6	>=10 years
FX debt as % of total	69.1	<=75%

**Central Government debt only*

One of the debt management objectives is to achieve and maintain sustainable debt. This target is guided by the FRL (2015) which states that the Public Debt[6]-to-GDP ratio must not exceed 55 percent. The target for 2022, is for Central Government debt-to-GDP to be less than or equal to 55.0 percent. This risk indicator has been declining from 84.7 percent (2015), to 61.2 percent (2018) and is currently estimated to be 56.9 percent (end 2019). This rapid decline was supported by the debt restructuring activities that have now ended, as well as fiscal improvement. The interim target for 2022 is to be equal to or below 55.0 percent. Meeting this target will require reducing the stock of debt and/or increasing economic growth.

Interest payments as a percent of GDP shows declines from 3.6 percent (2015) to 1.8 percent (2019) which has been driven by both lower interest rates achieved through highly concessional loans and a reducing stock of debt. The GoG has also benefitted from declining yields on the RGSM. Consistent

[6] Public Debt according to the FRL includes:

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

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

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

with the GoG's debt management objective to have a low cost of debt, the target is to maintain the current cost of debt below 2.5 percent.

Debt maturing in 1 year as a share of total Central Government debt is set to be less than or equal to 20.0 percent of the total debt. While this may appear as a high concentration of repayments in the short-term, it reflects the importance of Treasury-bills in the development of the domestic market and meeting statutory requirements for the financial sector. This indicator has declined from 17.8 percent (2015) to 14.9 percent (2019), reflective of the conversion of Treasury-bills to Treasury notes in 2018 & 2019. As a share of GDP, the target is to keep the risk below 10.0 percent.

Extending the ATM and ATR of the total portfolio to 8 years or more and 10 years or more respectively reduces the refinancing risk and avoids pressures on the GoG to securing new sources of finance. Also, in the short to medium term, the GoG will be running budget surpluses which covers a sizeable portion of the gross financing needs. Existing debt is primarily from concessional sources and development partners with long maturities. It is anticipated that lengthening the maturity is feasible. The policy of the Government, as is reflected in this MTDS, emphasizes the implementation of existing Public Sector Investment Projects (PSIP) and draws down on committed undisbursed balances from external creditors on concessional terms.

While the targeted ratio of 75.0 percent of the Central Government debt portfolio being denominated in foreign currencies suggests a high exposure to foreign currency risk, this is manageable as there is a large share of foreign currency debt denominated in USD. There is little volatility in the USD/XCD rate due to the peg. Risks of valuation changes due to exchange rate movements and market expectations suggest that the XCD will depreciate against the XDR. Non-USD foreign currency debt has been increasing as a share of external debt in the portfolio; and will be monitored closely in the implementation of the strategy.

4.2 Assumptions and Potential Financing Sources

Over the medium term (2020 – 2022), the existing official creditors including multilateral and bilateral creditors will continue to support Grenada's development programmes. Generally, external financing will be denominated mainly in USD and XDR, at fixed interest rates, although a portion of multilateral credit is contracted at a variable rate (Table 5).

Table 5: Proposed Terms of Financial Instruments

Creditor/Instruments	Maturity (Years)	Grace (Years)	Interest Type	Currency
Multilateral	20 – 25	10	Fixed	USD
Multilateral	13 – 20	6 – 7	Variable	USD

Multilateral	36 - 40	10	Fixed	XDR/USD
Bilateral_NPC[7]	18-20	5	Fixed	USD
2yr Note (Bullet)	2	1	Fixed	XCD
10yr Bond (Amortizing)	10	5	Fixed	XCD

4.3 Alternative Strategies

Three (3) alternative debt management strategies were considered. They vary 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 represents the status quo and reflects the current practice of re-issuing domestic debt (T-bills). Under this Strategy, drawdowns on committed undisbursed debt are expected to continue, while additional funding will be raised from concessional creditors. This assumption is maintained throughout the medium term, albeit, at an overall reduced amount. However, there will be a consistent level of project financing from the multi-laterals. Residual financing needs are met primarily by T-bill issuance.

Strategy 2 (S2): This strategy considers the extension of the maturity of the domestic portfolio by gradually introducing longer-dated securities. Consistent with this Strategy, the intent is to convert maturing short-term securities into two-year notes and introduce a 10-year bond in 2020. Like S1, this strategy utilizes committed undisbursed debt and targets external multilateral creditors for concessional funding over the medium term.

Strategy 3 (S3): This Strategy increases external financing relative to domestic financing while maintaining the extension of the Treasury-bill maturities. On the external side, this strategy targets concessional financing from multilateral and bilateral partners for climate-related projects.

Table 6: Strategy Considerations

[8]Strategy	Average Financing Mix (%) (Ext: Dom[9])	Objective
S1	47:53	Status quo- reflects a combination of the current borrowing practices and committed financing

[7] NPC – Non Paris Club Bilateral Creditor

[8] The Government of Grenada contracted debt denominated in Chinese Yuan from one of its strategic bilateral partners. The proceeds of this loan will be used to on-lend to a local SOE.

[9] Ext:Dom – Foreign Currency (external) Debt Sources : Domestic Currency Debt Sources

S2	49:51	Domestic Market Development- use of longer-term domestic instruments to fill the funding gap while extending maturing of existing T bills.
S3	50:50	Utilize more multilateral and bilateral creditors for climate funding

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 2020-2022. In addition, there are no expected exchange rate changes in the USD. However, the XDR & KWD are expected to appreciate marginally while the CNY is projected to depreciate slightly over the projection horizon.

Scenario 1: Exchange Rate Shock

a) Moderate: A 15 percent depreciation of the domestic currency against the XDR, KWD and CNY in 2020, which is sustained thereafter.

b) Extreme: A 30 percent depreciation of the domestic currency against the XDR, KWD and CNY in 2020, 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 rise in the 6-month reference interest rate and any other floating rate instruments. The shock was applied to the projected baseline interest rate for each year of the Strategy period.

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

Scenario 3: 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 KWD, XDR and CNY) in 2020 and sustained thereafter.

4.3.1 Cost Risk Analysis under Different Strategies

Table 7 illustrates the cost and risk indicators under each of the strategies. The robustness of the strategies is assessed by comparing the outcomes under the baseline and the shock scenarios discussed above. The debt-to-GDP ratio declines across each of the strategies compared to the current period end of 2019. The present value of the debt in each of the strategies was significantly reduced relative to the current period. Moreover, the interest payment as a percent of GDP was also lowered across all the strategies, likewise the implied interest rate decreased across all strategies relative to the current period.

The associated risks with each of the strategies were assessed based on established targets outlined in Table 7. As it relates to refinancing risk, the results indicated significant improvements across all three strategies relative to the current period. Specifically, the percentage of debt maturing in one year fell across all three strategies, which contributed to an increase in the ATM beyond the established target of at least eight years.

With respect to the interest rate risk, the alternative strategies resulted in a lengthening of the average time in which the interest rate of the portfolio will be subject to change- ATR- (years).

The foreign debt as a percentage of total debt ratio recorded an increase when Strategies 1 and 2 are considered however the greatest increase in this ratio was recorded in Strategy 3 relative to the current period (2019). These results are expected given the varying financing combinations considered under the various strategies over the period (2020 - 2022) and the bias towards external financing in Strategies 3. A high level of foreign debt in the portfolio reflects heightened risk as the share of debt denominated in foreign currency (non-USD) is subject to exchange rate risk.

Table 7: Cost Risk Indicators of Alternative Strategies

Risk Indicators		2019	As at end 2022			Target
		Current	S1	S2	S3	
Nominal debt as % of GDP		56.9	55.28	55.29	55.21	Max 55%
Present value debt as % of GDP		49.9	46.00	45.87	45.41	
Interest payment as % of GDP		1.8	1.66	1.66	1.60	Max 2.5%
Implied interest rate (%)		3.2	3.09	3.10	2.99	
Refinancing risk	Debt maturing in 1yr (% of total)	14.9	14.43	13.92	13.84	Max 20 %
	Debt maturing in 1yr (% of GDP)	8.5	7.97	7.70	7.64	Max 10 %
	ATM External Portfolio (years)	10.1	11.14	11.22	11.17	
	ATM Domestic Portfolio (years)	6.5	5.33	5.43	5.62	
	ATM Total Portfolio (years)	9.0	9.67	9.76	9.85	Min 8 yrs
Interest rate risk	ATR (years)	8.6	9.11	9.20	9.55	Min 10 yrs
	Debt refixing in 1yr (% of total)	21.2	21.56	21.06	18.70	
	Fixed rate debt (% of total)	92.9	92.23	92.23	94.51	
FX risk	FX debt as % of total	69.1	74.93	74.94	76.47	Max 75%
	ST FX debt as % of reserves	15.3	11.11	11.11	11.11	

4.4 Selected Strategy

Strategy 2 which targets external concessional financing and domestic market development outperformed the alternative strategies with respect to the exchange risk indicator and best captures Government's debt management objectives.

Relative to the current period, S2 recorded an increase in the ATM by 0.76 years and an increase in the ATR by 0.6 years over the medium run. The share of non-USD debt in the portfolio is projected to be lower at 74.94 relative to S3 by 2021. With respect to the cost and risk trade-off, although S2 is slightly more expensive relative to S3 lower foreign currency risk highlights the cost and risk trade-off.

Market Risks – Exchange Rate

In the chosen Strategy (S2) identified financing is restricted to securities denominated in domestic currency and concessional funds secured from external creditors as well as the drawdown of committed undisbursed funds from multilateral/ bilateral organizations that are primarily denominated in USD.

The ECCB, which is the monetary authority, maintains sufficient foreign exchange reserves to support the EC dollar that is pegged to the USD. The backing ratio's (i.e. foreign assets to demand liabilities) statutory limit is 60.0 percent and the Bank's minimum operational backing ratio is currently 80.0 percent. However, the ECCB has been able to maintain operational limits well above 90.0 percent over the last eight years.

Non-USD debt currently represents approximately 29.5 percent of the foreign currency debt portfolio. Under S2, the planned financing option includes XDR disbursements from IDA equivalent to $ 51.6 million and from Chinese Export-Import Bank equivalent to $ 149.1 million over the medium term, while projected XDR principal repayments are equivalent to $ 13.3 million & principal repayments on the Chinese loan is projected to commence in 2023. Loans denominated in GBP and EUR represent about 0.4 percent of the portfolio; despite the volatility of these two currencies, the impact on the portfolio and debt servicing are considered negligible. External Debt to GDP fluctuated by a maximum of 2.9 percent after the application of 15.0 percent depreciation (moderate) and 30.0 percent depreciation (extreme) shock scenarios to the baseline; resulting in a ratio of 42.2 percent as at the end of 2022 (Figure 8).

Foreign debt as a percentage of total debt over the medium term is estimated to increase to 74.9 percent from the current proportion of 69.1 percent, remaining marginally below the established maximum limit of 75.0 percent. This is expected as the share of USD debt in the portfolio is projected to increase by 2.71 percentage points over 2018. However, the peg between the XCD and USD mitigates this risk. The chosen strategy thus continues to mitigate the debt portfolio's exposure to foreign currency risk in the medium term.

Market Risks – Interest Rate

Variable-rate debt as a percentage of the total Central Government debt portfolio is projected to increase to 7.8 percent as at end 2022. The interest payments-to-Revenue ratio is projected to fluctuate from the baseline by 0.006 percent under a moderate shock (2 percent) scenario and 0.01 percent under extreme shock (4 percent) scenario. As at end 2022, under adverse interest rate movements the ratio of interest payments to Revenue would reflect a maximum of 0.1 percent (Figure 9). Exposure to interest rate risk is hence marginal under S2.

Refinancing Risk

S2 facilitates an extended ATM for the total portfolio given that the ATM for the external debt portfolio is improved by over a year. Debt maturing in one year as a percentage of total debt and debt maturing in one year as a percentage of GDP would decline by the end of the year 2022, by 3.5 percent and 9.4 percent respectively.

Notwithstanding the extension in the ATM and the reduction in the ratio of debt maturing in one year as a percentage of GDP or total debt, the redemption profile is reflecting a spike in 2020. This is indicative of the high level of short-term securities in the portfolio. This implies exposure to refinancing risk. The Strategy, however, mitigates this risk by retiring higher priced over-the-counter treasury bills on a phased basis. This will take effect over the years 2020 and 2021.

Development of the Domestic Market

Strategy 2 aims to support the development of the domestic capital market. Some of the measures that will be undertaken include further development of the IRP initiated in July 2018. This will provide a framework towards the plan identified that includes retiring over-the-counter instruments and encouraging these investors to participate in the auctions of GoG's securities on the RGSM. The introduction of a 10-year bond on the RGSM in the amount of XCD 10.0 million in the year 2020 and the re-issuance of the currently outstanding 2-year note are further measures aimed at utilizing the domestic capital market.

Figure 8: External Debt to GDP as at end 2022

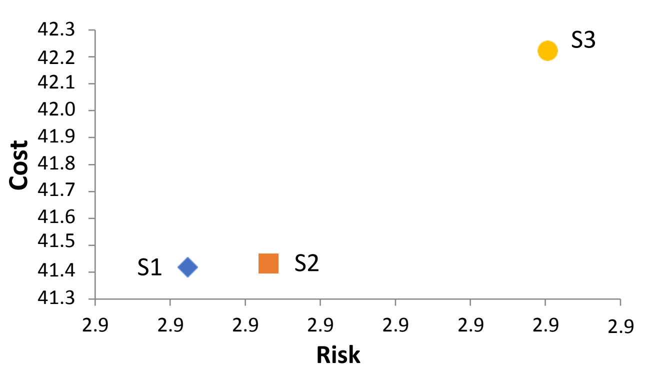
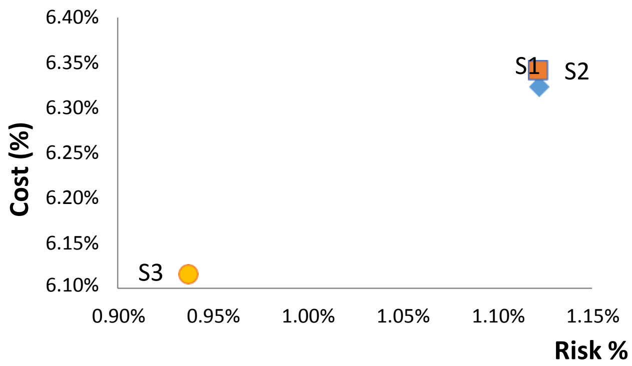


Figure 9: Interest to Revenue as at end 2022



5 BORROWING PLAN

The Annual Borrowing Plan (ABP) is developed based on the GoG financing requirement for the fiscal year. The ABP details the projected funding sources to cover financing after revenues and expenditure have been considered. The Government's financing requirement is projected at $ 339.53 million or 10 percent of GDP in 2020.

Table 8 illustrates the borrowing plan for the year 2020. The expected sources of funding include local currency issuances, projected at $ 187.4 million or 55.2 percent of total financing. This is consistent with the implementation of Government's strategic objective to foster development of the domestic securities market.

The funding from external sources is projected to be $ 152.14 million or 44.8 percent of financing requirements and will include multilateral and bilateral loans in the form of budget support and on-going support for PSIP.

Table 8: Annual Borrowing Plan 2020

	Budget Amt. EC$
External Funding	**152.14**
Multilateral	102.44
Bilateral	49.70
Domestic Funding	**187.39**
Treasury Bills	**152.91**
o/w RGSM	75
o/w Non-RGSM	77.9
Treasury Notes	**24.48**
Bonds	**10**
TOTAL	**339.53**