Medium-Term Debt Management Strategy

GOVERNMENT OF GRENADA

Medium-Term Debt Management Strategy

2021 - 2023

2021 Medium-Term Debt Management Strategy (MTDS) 2021-2023

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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 the 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 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 – i.e., the shape of the redemption profile.

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

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

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

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

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

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

Domestic Debt is the gross outstanding amount, at any given time, of actual liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) and that are denominated in 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 (2021-2023).

Grenada's economy expanded by 3.1 percent in 2019. However, consistent with global trends due to the impact of the coronavirus outbreak, growth is projected to fall by 12.2 percent in 2020. The medium-term (2021-2023) outlook is hinged on developments relating to the pandemic and growth is projected to average 4.6 percent. Overall and primary surpluses are forecasted to average 1.9 and 3.9 percent of GDP respectively over 2020- 2022. The trade deficit is projected to widen at the end of 2020 due to restrictions emanating from the viral outbreak.

At the end of 2020, **Central Government** debt is estimated to be $1.95 billion of which external debt amounts to $1.4 billion and domestic debt $ 0.56 billion. Total debt service for the year is estimated to be $ 349.9 million or 57.8 percent of revenue.

Concerning risks in the existing portfolio, the interest rate is subject to moderate risk. The Average Time to Re-Fixing (ATR) of the total portfolio is 8.5 years, of which 20.1 percent is subject to a change in interest rates in one year. The risk resides predominantly in the domestic portfolio given that 32.6 percent of the debt is subject to re-fixing in one year, namely treasury bills. Variable-rate debt accounts for 6.8 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 8.9 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 3 (S3) 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 this Strategy. Government Guaranteed 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 (2021-2023) 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 2021. 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 regarding 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 2021- 2023; consistent with the Medium-Term Fiscal Framework (MTFF). 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 2020 Debt Management Strategy

The MTDS implemented for the financial year (FY 2020) emphasized the extension of the maturity of the domestic portfolio by gradually introducing longer-dated securities, increased utilization of committed undisbursed balances (CUB) and concessional funding from external multilateral creditors. The target for domestic financing and external financing mix was 51 percent and 49 percent, respectively. The actual position at the end of September 2020 shows a financing mix of 45.7 percent and 47.9 percent respectively. To reduce the cost of debt and refinancing risk, the FY 2020 MTDS aimed to extend the maturity of the domestic short-term over-the-counter debt. However, the projected outturn in 2020 indicates an increase in the proportion of T-bills by 2.2 percent from 2019 while the share of T- notes remained stable.

On external debt, the FY 2020 MTDS envisaged intensified use of committed undisbursed debt and concessional financing primarily from multi-laterals creditors. The actual position at the end of September 2020 indicates that 100 percent of external financing was concessional. Disbursements from existing multilateral facilities accounted for 29.7 percent of external financing while the remaining 70.4 percent was received from new concessional loans contracted in 2020.

The combination of concessional financing and maturity extension resulted in an ATM of the total portfolio of 8.9 years in 2020 a marginal decline of 0.1 years from 2019; however, it surpasses the established target of greater than 8 years. Likewise, the ATR of the total portfolio is 8.5 years in 2020, a marginal decline of 0.1 years relative to 2019.

The weighted average interest rate of the total portfolio declined to 3.0 percent in 2020 from 3.2 percent in 2019.

2. EXISTING DEBT PORTFOLIO - 2019

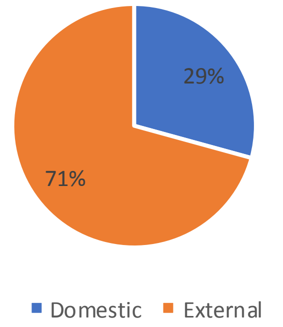
This section reviews in detail the composition of **Central Government's** outstanding debt.

2.1 Composition of Central Government Debt Portfolio

2.1.1 Total Central Government Debt

For 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 2020, the total Central Government debt is estimated to be $ 1,953.5 m. This comprises 1,397.1 m (71.5 percent) external debt and $556.4 m (28.5 percent) domestic debt.

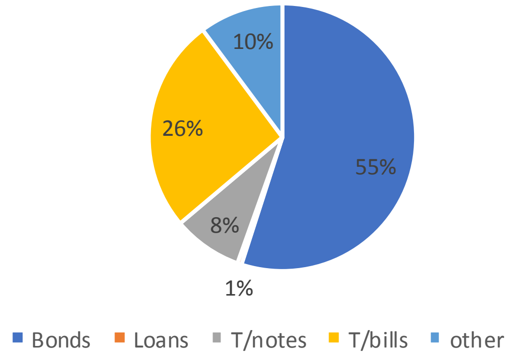
Figure 1: Composition of Public debt



2.1.1.1 Domestic Debt

At the end of 2020, domestic debt is estimated to comprise 55.0 percent bonds, 25.9 percent Treasury bills, 8.4 percent Treasury notes, loans 0.5 percent and 10.2 percent other liabilities denominated in XCD.

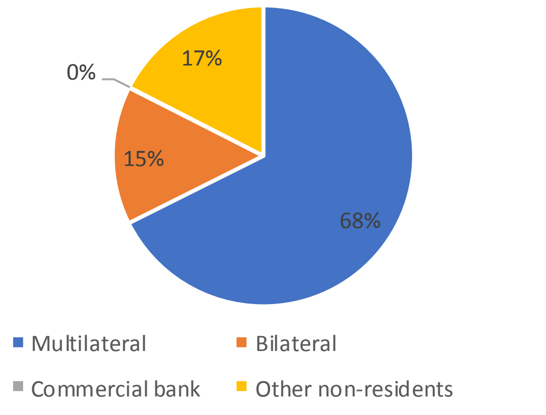
Figure 2:Domestic debt by Instrument type



2.1.1.2 External Debt

The composition of external debt as at the end of 2020 is estimated to be as follows: multi-laterals 67.6 percent, bilateral creditors 14.9 percent, other non-residents[2] 17.4 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.

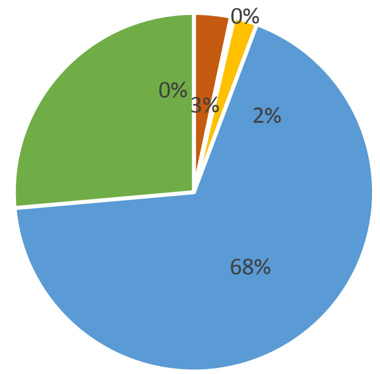
Figure 3: External debt by creditor category



2.1.1.3 External debt by currency composition

At the end of 2020, the currency composition of external debt is estimated to be as follows: United States Dollar (USD) $949.1m(67.9 percent), Special Drawing Rights (XDR) $369.1 m (26.4 percent), Kuwaiti Dinar (KWD) $29.2m (2.1 percent), Yuan Renminbi (CNY) $46.1 m (3.3 percent), Great Britain Pound (GBP) $2.8 m (0.2 percent) and Euro (EUR) $1.3 m (0.1 percent).

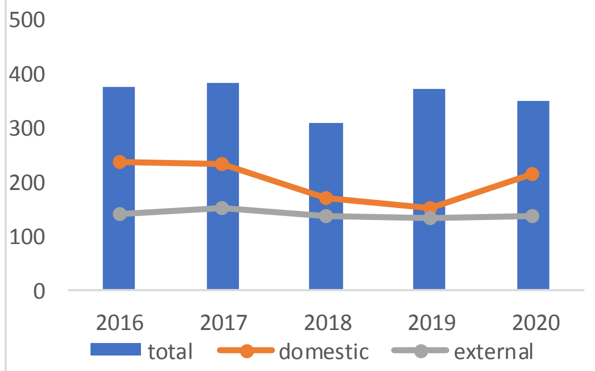
Figure 4: External debt by currency composition



Debt Service Payments

Figure 4 shows debt service payments for the period 2016 to 2020. Total debt service payments fluctuated over the period and were highest in 2019.

Figure 5: Debt service (2016-2020)



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 are subject to a new interest rate. Grenada's debt portfolio has an ATR of 8.5 years of which 20.1 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 6.1 years. As reflected, 32.6 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 9.4 years with 15.2 percent of this debt re-fixing in one year. Also, a relatively large proportion, or 90.5 percent of external debt is contracted on fixed-rate terms. The remaining 9.5 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 8.9 years which surpasses its target. This is mainly skewed towards the external debt portfolio which has an ATM of 10.0 years of which only 6.8 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 6.1 years of which 32.6 percent will mature in one year and is subjected to refinancing/rollover risks since a significant portion of short-term debts is 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. The debt contracted in foreign currency accounts for 71.5 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. The debt contracted in USD (67.9 percent) has the largest share of the total foreign debt. Non-USD denominated debt comprises of debt in XDR (26.4 percent), Yuan Renminbi (3.3 percent), Kuwait (2.1 percent), GBP (0.2 percent) and EUR (0.1 percent).

Table 1: Cost and Risk Indicators for the Existing Debt Portfolio as at year-end 2020

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of XCD)		1,397.1	556.4	1,953.5
Amount (in millions of USD)		517.4	206.1	723.5
Nominal debt as % GDP		49.1	19.5	68.6
PV as % of GDP		38.4	19.5	58.0
Cost of debt	Interest payment as % GDP	1.4	0.7	2.0
	Weighted Av. IR (%)	2.8	3.5	3.0
Refinancing risk	ATM (years)	10.0	6.1	8.9
	Debt maturing in 1yr (% of total)	6.8	32.6	14.2
	Debt maturing in 1yr (% of GDP)	3.3	6.4	9.7
Interest rate risk	ATR (years)	9.4	6.1	8.5
	Debt refixing in 1yr (% of total)	15.2	32.6	20.1
	Fixed rate debt (% of total)	90.5	100.0	93.2
FX risk	FX debt (% of total debt)			71.5
	ST FX debt (% of reserves)			15.5

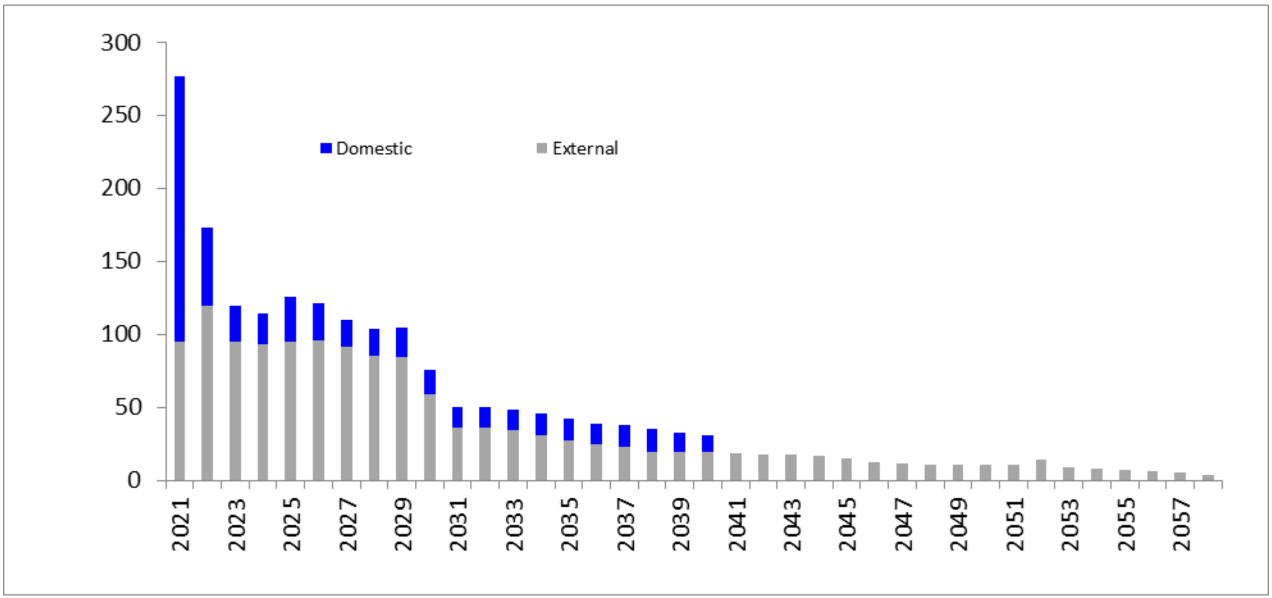
2.2.4 Redemption Profile

The redemption profile depicts the amortization of outstanding debt and it reflects the risks inherent in the structure of the existing debt portfolio (Figure 6). A high portion of domestic debt is due for redemption within one year affected by Treasury bills maturing within that year. 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.

Figure 6 Redemption profiles (based on Currency) as at end 2020 (XCD Million)



3 MACROECONOMIC PERFORMANCE, MEDIUM-TERM OUTLOOK AND KEY RISKS

3.1 Public Finance

Grenada's fiscal position deteriorated as the pandemic continues to batter the economy and world. During the first nine months of 2020, a primary balance (including grants) of $63.4 million) was recorded, which was 58.2 percent less than what was recorded for the January- September 2019 period. The Overall Balance (including Grants) in the third quarter of 2020 was $26.5 million, which was 76.5 percent less than what was achieved during the same period of 2019. This weakened position was due to lower revenue collections and higher expenditures as a result of unavoidable COVID-19 spending.

Relative to the 2020 Budget, the Primary balance (including grants) is anticipated to deteriorate by 66.1 percent to $ 82.2 million or 2.9 percent of GDP and the Overall balance is expected to sharply contract by 84.4 percent to $26.6 million or 0.9 percent of GDP. Total revenue and grants are anticipated to be $768.8 million 27.2 percent of GDP and total expenditure is estimated to be $742.2 million or 26.3 percent of GDP. Public debt to GDP is projected to rise at the end of 2020 relative to last year primarily due to reduced GDP forecasts and increased borrowing brought on by the pandemic.

The MTFF is framed to ensure compliance with the Fiscal Responsibility Law (FRL) in 2022 and 2023. Given the impact of, and Government's response to the COVID-19 crisis, the rules outlined in the FRL were suspended in April 2020 for one year and was further extended to the end of 2021. Compliance with the fiscal rules will resume in 2022.

Table 2: Fiscal Projections for 2021-2023 (MTFF)

In millions of Eastern Caribbean Dollars, unless otherwise stated	2021		2022		2023	
	Projected	% of GDP	Projected	% of GDP	Projected	% of GDP
Total Revenue & Grants	**917.1**	**30.2%**	**915.4**	**28.1%**	**910.5**	**26.6%**
Total Revenue	**653.5**	**21.5%**	**725.9**	**22.3%**	**763.8**	**22.4%**
Tax Revenue	590.2	19.4%	650.4	20.0%	684.6	20.0%
Non-tax Revenue	63.2	2.1%	75.5	2.3%	79.1	2.3%
Grants	**263.6**	**8.7%**	**189.6**	**5.8%**	**146.8**	**4.3%**
Total Expenditure	**935.2**	**30.8%**	**863.3**	**26.5%**	**748.4**	**21.9%**
Primary Expenditure	**871.6**	**28.7%**	**801.3**	**24.6%**	**690.1**	**20.2%**
Current Expenditure	**629.6**	**20.7%**	**636.5**	**19.5%**	**556.3**	**16.3%**
Employee Compensation	277.8	9.1%	285.2	8.8%	290.5	8.5%
Wages, salaries and allowances	264.3	8.7%	271.2	8.3%	275.9	8.1%
Social Contribution to employees	13.5	0.4%	14.0	0.4%	14.6	0.4%
Goods and Services	121.8	4.0%	124.0	3.8%	109.2	3.2%
Interest Payments	63.7	2.1%	62.0	1.9%	58.3	1.7%
Transfers	166.3	5.5%	165.2	5.1%	98.3	2.9%
Capital Expenditure	305.6	10.1%	226.8	7.0%	192.1	5.6%
o/w: Grant financed	243.6	8.0%	169.2	5.2%	126.0	3.7%
Overall Balance	**(18.2)**	**-0.6%**	**52.2**	**1.6%**	**162.1**	**4.7%**
Primary Balance (excluding grants)	**(218.1)**	**-7.2%**	**(75.4)**	**-2.3%**	**73.7**	**2.2%**
Primary Balance (including grants)	**45.5**	**1.5%**	**114.2**	**3.5%**	**220.4**	**6.5%**
Memo Items						
GDP (Nominal at Market Prices)		3036.1		3259.6		3417.2
Real GDP Growth (%)		6.0		4.8		3.0

Source: MOF

3.2 Monetary Sector

Despite COVID-19 financial pressures, deposits continue to increase at a faster rate than that of loans, further increasing already-high liquidity in the sector. Domestic credit fell, but overall, the sector remains stable, with Non-Performing Loans remaining below the prudential benchmark. The Eastern Caribbean Dollar remains pegged to the US dollar. This 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.

3.3 Real Sector

Preliminary data for the first half of 2020 highlights the negative impact of the COVID-19 pandemic on the local economy. Despite being relatively diverse, most sectors of the economy recorded reduced activity from January to June compared to the same period in 2019. After seven consecutive years of growth averaging 4.4 percent, the economy is projected to register a double-digit decline of 12.2 percent in 2020, with notable declines in Tourism, Transport, Wholesale and Retail Trade, and Manufacturing. Prices fell an average of 0.6 percent during the first half of 2020 and inflation is projected to be -1.0 percent for the year, reflecting the steep decline in fuel prices due to the pandemic.

3.4 External Sector

As the economy continues to grapple with the adverse effects of the COVID-19 pandemic shock, the trade balance deteriorated. Total imports during the first half of 2020 declined by 20.2 percent relative to the comparable period of 2019 moving from $634.0 million to $506.0 million reflective of restrictions on international trade created by the viral outbreak. Similarly, exports declined in value from $47.1 million to $21.2 million over the same period. The trade deficit is expected to languish further as the impact of the coronavirus pandemic continues to weigh heavily on demand. This will negatively affect foreign currency earnings which can adversely affect country's ability to meet the 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 to finance the Budget have resulted in the structure of Central Government debt evolving favorably over the past few years.

Table 4: Risk Targets and Ranges

Risk Indicators	2020	2023
	Current	Target Range
*Central Government Debt as % of GDP	68.6	<=55%
Interest payment as % of GDP	2.0	<=2.5%
Debt maturing in 1yr (% of total)	14.2	<=20%
Debt maturing in 1yr (% of GDP)	9.7	<=10%
ATM Total Portfolio (years)	8.9	>=8 years
ATR (years)	8.5	>=10 years
FX debt as % of total	71.5	<=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 2023, 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 57.7 percent (2019). However, CG debt is projected to increase by 10.9 percentage points at the end of 2020 as the Government increases borrowing to deal with increased gross financing needs, falling tax revenues and increased expenditures brought on by the onset of the global pandemic.

Interest payments as a percent of GDP decline from 3.6 percent (2015) to 2.0 percent (2020) which has been driven down primarily by lower interest rates achieved through highly concessional loans. 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 also meeting statutory requirements for the financial sector. This indicator has declined from 17.8 percent (2015) to 14.2 percent (2020), reflective of the conversion of Treasury-bills to Treasury notes in 2019 & 2020. 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 secure new sources of financing. The existing debt is primarily from concessional sources and development partners with long maturities. The policy of the Government, as is reflected in this MTDS, emphasizes the implementation of existing Public Sector Investment Projects (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 appreciate 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 (2021 -2023), it is anticipated that multilateral institutions will expand their concessional lending window and bilateral donors will commit to allocating a portion of their economic resources in aid to poorer countries. Regional Development Banks may also provide liquidity to countries seeking to raise funds to increase their capacity to cope with the health and economic impacts of the pandemic. The terms of new borrowing are outlined in table 5 below.

Table 5: Proposed Terms of Financial Instruments

Creditor/Instrument	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	18 - 20	5	Fixed	USD
Private Commercial Creditors	10	0	Fixed	USD
2yr Note (Bullet)	2	1	Fixed	XCD
5yr Bond (Bullet)	5	4	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 closely mirrors Government current borrowing practices. External financing originates primarily from the committed undisbursed debt of traditional official creditors and bilateral creditors. Residual financing needs are met via the re-issuances of securities (T-bills and T-Notes) on the local and regional market.

Strategy 2 (S2): This strategy introduces a mixed of official development assistance credit and private commercial credit from external sources to meet Governments financing needs. Also, this strategy utilizes committed undisbursed debt over the period as additional funding. Residual financing needs are met via the re-issuances of securities (T-bills and T-Notes) on the local and regional market.

Strategy 3 (S3): models the potential impact of the pandemic as well as climate change initiatives on financing. As such, S3 increases external financing relative to domestic financing. On the external side, this strategy targets concessional financing from multilateral and bilateral partners for covid-19 and climate-related projects. On the domestic market, the re-issuance of securities will continue to meet residual financing needs.

Table 6: Strategy Considerations

Strategy	Average Financing Mix (%) (Ext: Dom)	Objectives
S1	46:54	Status quo- reflects a combination of the current borrowing practices and committed financing.
S2	55:45	External concessional and private commercial debt while maintaining presence on the regional market.
S3	54:46	Multilateral and bilateral creditors for covid-19 relief expenditure and climate funding.

[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

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 2021-2023. In addition, there are no expected exchange rate changes in the USD. However, the XDR & KWD are expected to depreciate marginally against the local currency while the CNY is projected to appreciate 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 2021 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 2020. 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 the strategies when assessed relative to the current period. Specifically, the percentage of debt maturing in one year fell except for S1 where it increased marginally. The ATM which is a key risk indicator improved significantly across all the strategies relative to the current period (2020).

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

The foreign debt as a percentage of total debt ratio recorded an increase when Strategies 1 and 2 are considered however the greatest increase in this ratio was recorded in Strategy 3 relative to the current period (2020). These results are expected given the varying financing combinations considered under the various strategies over the period (2021 - 2023) and the bias towards external financing in S2 and S3. 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		2020	As at end 2023			Target
		Current	S1	S2	S3	
Nominal debt as % of GDP		68.6	61.32	61.52	61.26	Max 55%
Present value debt as % of GDP		58.0	50.12	51.27	48.15	
Interest payment as % of GDP		2.0	1.66	1.79	1.59	Max 2.5%
Implied interest rate (%)		3.0	2.77	2.98	2.66	
Refinancing risk	Debt maturing in 1yr (% of total)	14.2	14.37	13.28	11.32	Max 20 %
	Debt maturing in 1yr (% of GDP)	9.7	8.82	8.17	6.94	Max 10 %
	ATM External Portfolio (years)	10.0	11.57	10.29	12.58	
	ATM Domestic Portfolio (years)	6.1	4.63	5.01	5.35	
	ATM Total Portfolio (years)	8.9	9.82	9.10	11.04	Min 8 yrs
Interest rate risk	ATR (years)	8.5	9.45	8.83	10.58	Min 10 yrs
	Debt refixing in 1yr (% of total)	20.1	19.53	17.62	17.17	
	Fixed rate debt (% of total)	93.2	94.17	95.00	93.49	
FX risk	FX debt as % of total	71.5	73.89	77.56	77.40	Max 75%
	ST FX debt as % of reserves	15.5	11.65	13.34	11.65	

4.4 Selected Strategy

Strategy 3 which targets external concessional financing and domestic market development outperformed the alternative strategies both in terms of cost and risk and best captures Government's debt management objectives.

The preferred strategy S3 recorded the highest ATM of 11.0 years as at end 2023, an increase of 2.1 years compared to the current period and an increase of 1.2 years and 1.9 year relative to S1 and S2 respectively. The ATR was also highest in S3 at 10.6 years. Although the share of FX debt is highest in S3 it is also the least costly in terms of interest rate.

4.4.1 Market Risks – Exchange Rate

In the chosen Strategy (S3) 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 32.1 percent of the foreign currency debt portfolio. Under S3, the planned financing option includes XDR disbursements from IDA equivalent to $ 93.0 million and from Chinese Export-Import Bank equivalent to $ 137.2 million over the medium term, while projected XDR principal repayments are equivalent to $ 42.9 million & principal repayments on the Chinese loan is projected to commence in 2024. Loans denominated in GBP and EUR represent about 5.7 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 3.7 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 47.4 percent as at the end of 2023 (Figure 8).

Foreign debt as a percentage of total debt over the medium term is estimated to increase to 77.4 percent from the current proportion of 71.5 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 decline marginally by 0.1 percentage points from 2019. However, the peg between the XCD and USD mitigates this risk. The chosen strategy thus continues to limit the debt portfolio's exposure to foreign currency risk in the medium term.

4.4.2 Market Risks – Interest Rate

Variable-rate debt as a percentage of the total Central Government debt portfolio is projected to decline to 6.5 percent as at end 2023. The interest payments-to-Revenue ratio is projected to fluctuate from the baseline by 0.004 percent under a moderate shock (2 percent) scenario and 0.009 percent under extreme shock (4 percent) scenario. As at end 2023, 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.

4.4.3 Refinancing Risk

S3 facilitates an extended ATM for the total portfolio given that the ATM for the external debt portfolio is improved by over two years. Debt maturing in one year as a percentage of total debt and debt maturing in one year as a percentage of GDP would decline by the end of the year 2023, by 2.88 percentage point and 2.76 percentage point 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 2021. 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 over the medium term.

4.4.4 Development of the Domestic Market

Strategy 3 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 5-year bond on the RGSM in the amount of XCD 20.0 million in the year 2021 and the re-issuance of the currently outstanding 2-year note are further measures aimed at utilizing the domestic capital market.

Figure 8

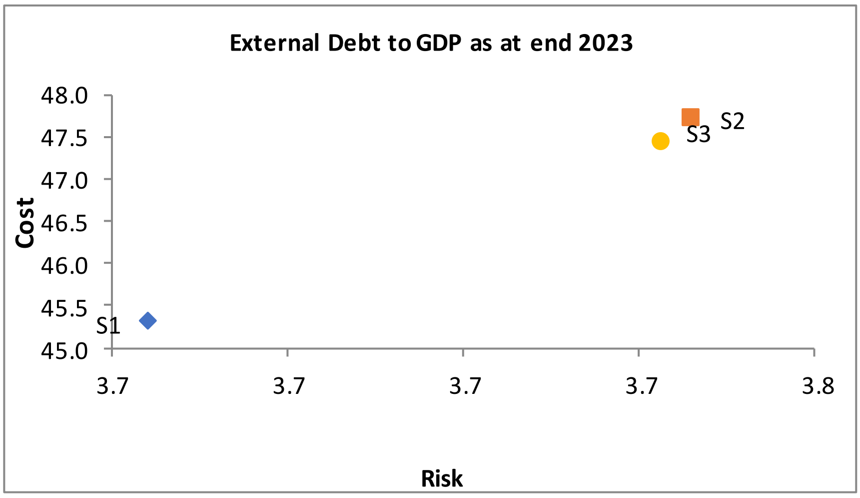
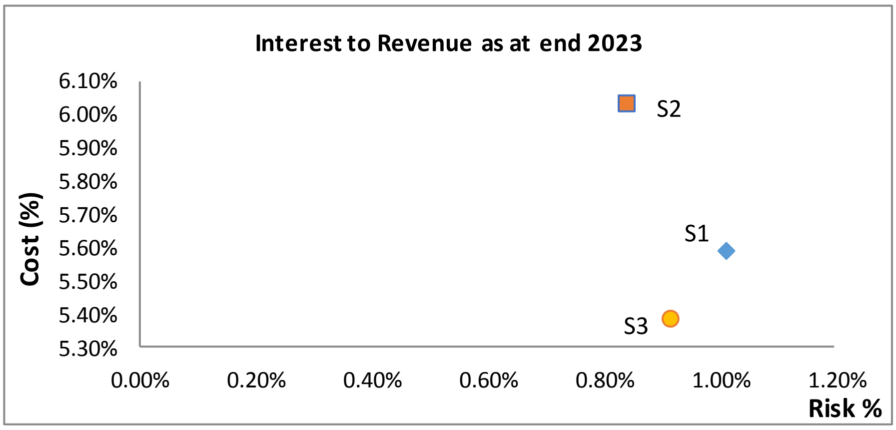


Figure 9



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 $ 330.33 million or 10.8 percent of GDP in 2021.

Table 8 illustrates the borrowing plan for the year 2020. The expected sources of funding include local currency issuances, projected at $ 152.45 million or 46.2 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 $ 177.9 million or 53.9 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 2021

	Budget Amt. EC$
External Financing	**177.88**
Multilateral	137.44
Bilateral	40.44
Domestic Financing	**152.45**
Treasury Bills	128.15
o/w RGSM	90
o/w Non-RGSM	38.15
Treasury Notes	24.3
TOTAL	**330.33**