Medium-Term Debt Management Strategy

GOVERNMENT OF GRENADA

Medium-Term Debt Management Strategy

2022 - 2024

2022 Medium-Term Debt Management Strategy (MTDS) 2022-2024

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NOTES

Fiscal Year	The Government of Grenada's fiscal year runs from January 01 to December 31
Local Currency	The domestic currency is the Eastern Caribbean Dollar ($). The EC dollar is pegged to the US dollar under the current exchange rate regime (EC$2.7 = US$1); a system that has been in place since 1976 Unless otherwise stated all values are in Eastern Caribbean Dollars ($)
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
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
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 (2022-2024).

Following a sharp decline in output of 13.8 percent in 2020 occasioned by the COVID-19 pandemic, the economy is anticipated to recover in 2021 expanding by 4.8 percent in real terms. The pace of recovery is contingent largely on global recovery and the path of the pandemic. Growth is expected to rebound over the medium-term (2022-2024) and will average 4.3 percent. The fiscal sector is projected to improve with primary and overall balances averaging 3.9 percent and 2.1 percent of GDP respectively. Consistent with global trade restrictions and tightening financial conditions, the trade deficit is estimated to expand in 2021.

At the end of 2021, Central Government debt is estimated to be $2.1 billion of which external debt amounts to $1.5 billion and domestic debt $ 0.6 billion. Total debt service for the year is estimated to be $ 277.3 million or 30.0 percent of revenue inclusive of rollover and reissuance of Treasury bills.

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 9.0 years, of which 20.7 percent is subject to a change in interest rates in one year. The risk resides predominantly in the domestic portfolio given that 36.7 percent of the debt is subject to re-fixing in one year, namely Treasury bills. Variable-rate debt accounts for 6.5 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 9.4 years, which exceeds the set target of 8 years and above. The portfolio's exposure to foreign exchange risk is minimal (72.8 percent) as most of the foreign currency debt is denominated in USD to which the EC dollar is pegged.

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 encapsulates the Central Government's external and domestic debt. Treasury Bills are recorded at their discounted values only for the purpose of this strategy. Government Guaranteed debt, was not included in the analysis except in cases where these debts were subsumed by the Government. The MTDS spans three years (2022-2024) inclusive.

The report is divided into five sections. Following the Overview, section 2 provides a review of the existing debt portfolio which focuses primarily on the 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. The 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 are presented in section 4. Section 5 gives an outline and proposal of 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 2022- 2024; 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 2021 Debt Management Strategy

The MTDS implemented for the financial year (FY 2021) emphasized the extension of the maturity of the domestic portfolio by gradually introducing longer-dated securities, utilization of committed undisbursed balances (CUB) and concessional funding from external multilateral creditors. To reduce the cost of debt and refinancing risk, the FY 2021 MTDS aimed to retire domestic short-term private placement Treasury bills and introduce a 5-year bond. The share of Treasury notes however remains stable. The MTDS target for domestic financing and external financing mix was 48 percent and 52 percent respectively. The actual position at the end of September 2021, however, shows a financing mix of 43.6 and 56.4 percent respectively.

For external debt, the actual position at the end of September 2021 indicates that 100 percent of external financing was concessional. Disbursements from existing multilateral facilities accounted for 67.1 percent of external financing while the remaining 32.9 percent accounted for bilateral facilities. No disbursements were received from new loans contracted 2021.

An increase in concessional financing and debt reprofiling resulted in the ATM of the portfolio moving to 9.4 years in 2021, an increase of 0.5 years from 2020 surpassing the established target of greater than 8 years. Similarly, the ATR of the total portfolio increased by 0.5 years to 9 years in 2021 when compared to 2020.

The weighted average interest rate of the portfolio declined to 2.8 percent in 2021 moving from 3.0 percent in 2020.

2. EXISTING DEBT PORTFOLIO - 2021

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 2021, total Central Government debt is estimated to be $ 2,056.1 m. This comprises 1,496.0 m (72.8 percent) external debt and $560.1 m (27.2 percent) domestic debt.

2.1.1.1 Domestic Debt

At the end of 2021, domestic debt is estimated to comprise 51.7 percent bonds, 27.1 percent Treasury bills, 10.2 percent Treasury notes, 0.5 percent loans and 10.5 percent of other liabilities[2] denominated in XCD.

2.1.1.2 External Debt

The composition of external debt as at the end of 2021 is estimated to be as follows: multi-laterals 75.6 percent, bilateral creditors 9.6 percent, other non-residents[3] 14.7 percent, and commercial loans 0.1 percent. Multi-laterals include IDA, CDB, IMF, OPEC, IBRD and IFAD and CDF. Bilaterals include Kuwait, Trinidad, EXIM Bank of China, EXIM Bank of the US, and Bank of Alba.

Figure 1: Composition of Public Debt

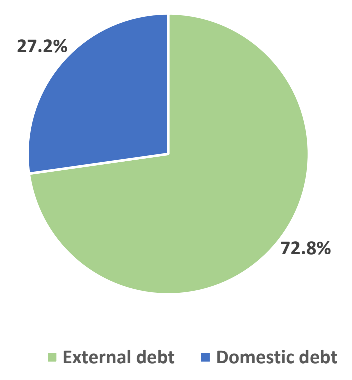


Figure 2: Domestic Debt by Instrument Type

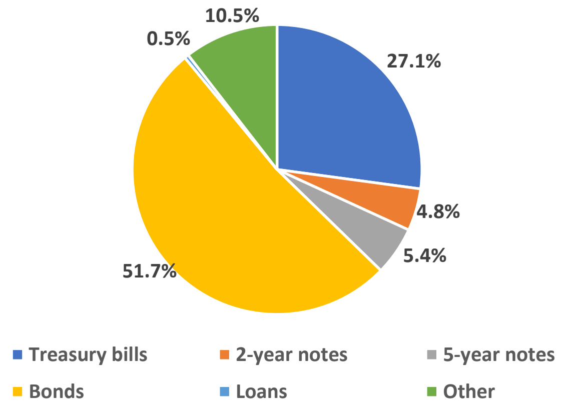
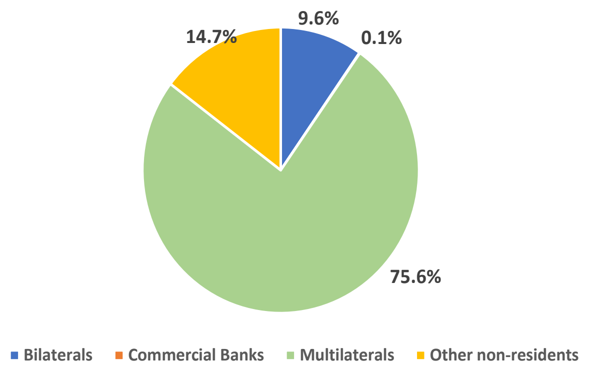


Figure 3: External Debt by Creditor Category

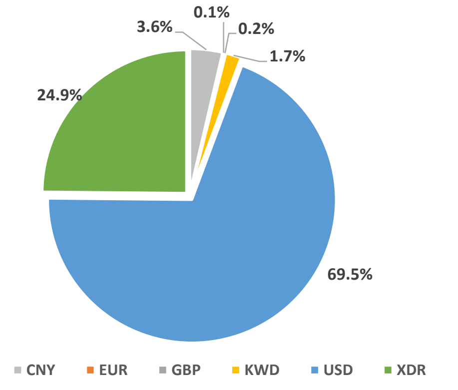


[2] Other liabilities consist chiefly of compensation claims.
[3] Other non-residents refer to international bond holders.

2.1.1.3 External debt by currency composition

At the end of 2021, the currency composition of external debt is estimated to be as follows: United States Dollar (USD) $1,039.9 m (69.5 percent), Special Drawing Rights (XDR) $371.8 m (24.9 percent), Kuwaiti Dinar (KWD) $25.5m (1.7 percent), Yuan Renminbi (CNY) $54.2 m (3.6 percent), Great Britain Pound (GBP) $2.9 m (0.2 percent) and Euro (EUR) $1.7 m (0.1 percent).

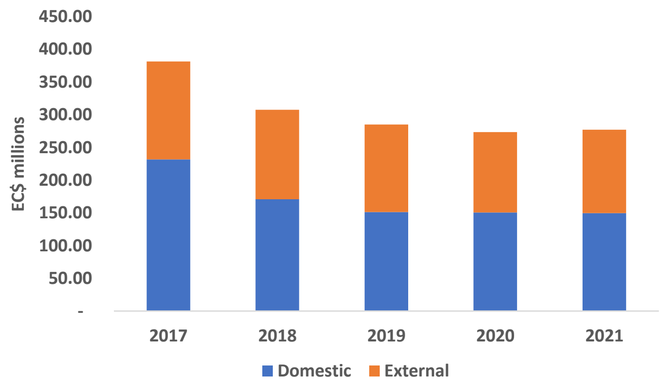
Figure 4: External Debt by Currency Composition



Debt Service Payments

Figure 4 shows debt service payments for the period 2017 to 2021. Total debt service payments decreased between 2017 and 2020 but increased in 2021. The increase in 2021 because of new borrowing incurred in 2020 due to the COVID-19 pandemic.

Figure 5: Debt Service (2017-2021)



2.2 Risk Analysis of the Debt Portfolio

The debt portfolio has inherent risks related to market conditions; basic cost and risk indicators were analysed. The main portfolio risks in 2021 are covered in this section.

2.2.1 Interest Rate Risk

Grenada's debt portfolio has an ATR of 9.0 years of which 20.7 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 an ATR of 5.7 years with 36.7 percent of its debt subject to re-fixing in one year. Conversely, the ATR for the external debt portfolio is 10.2 years with 14.8 percent of this debt re-fixing in one year. Additionally, 91.1 percent of external debt is contracted on fixed-rate terms. The remaining 8.9 percent reflects variable rate debt owed to multilateral and bilateral creditors. Notwithstanding, Government is cognizant of the pending transition from London Inter-Bank Offered Rate (LIBOR), and any risks posed this transition will continue be closely monitored.

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 9.4 years which surpasses its target. This is mainly skewed towards the external debt portfolio which has an ATM of 10.8 years of which only 6.9 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 5.7 years of which 36.7 percent will mature in one year and is subjected to refinancing/rollover risks since a significant portion of short-term debts is reissued.

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 72.8 percent of the total debt portfolio. This is in line with the target of less than or equal to 80 percent set for foreign exchange debt. The debt contracted in USD (69.5 percent) has the largest share of the total foreign debt. Non-USD denominated debt comprises of debt in XDR (24.9 percent), Yuan Renminbi (3.6 percent), Kuwait (1.7 percent), GBP (0.2 percent) and EUR (0.1 percent).

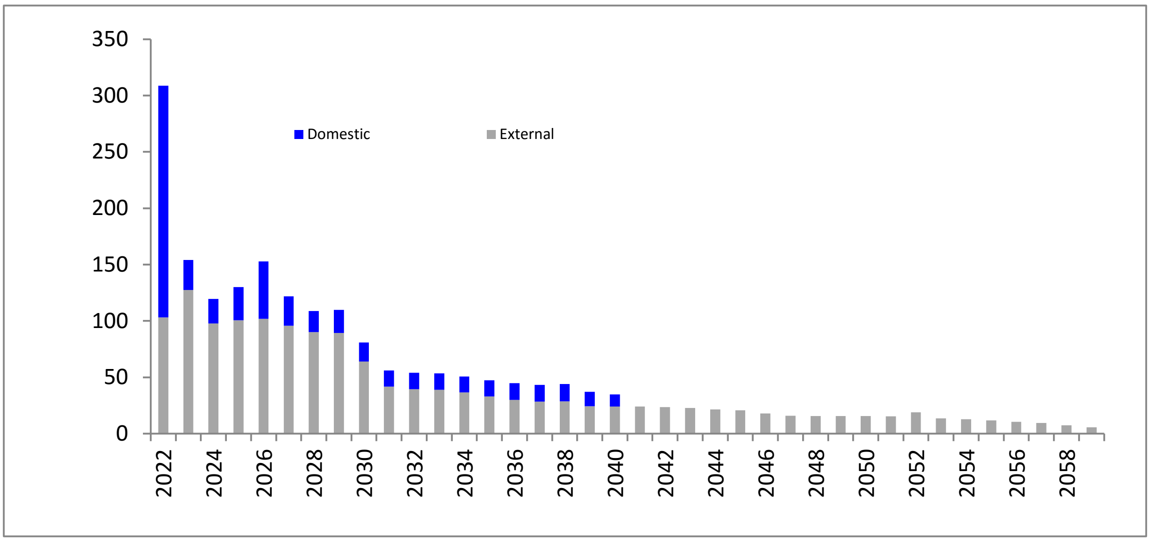
Table 1: Cost and Risk Indicators for the Existing Debt Portfolio as at year-end 2021

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of XCD)		1,496.0	560.1	2,056.1
Amount (in millions of USD)		554.1	207.5	761.5
Debt as a % GDP		50.2	18.8	69.0
PV as a % of GDP		38.9	18.8	57.7
Cost of debt	Interest payment as a % GDP	1.3	0.7	1.9
	Weighted Av. IR (%)	2.5	3.5	2.8
Refinancing risk	ATM (years)	10.8	5.7	9.4
	Debt maturing in 1yr (% of total)	6.9	36.7	15.0
	Debt maturing in 1yr (% of GDP)	3.5	6.9	10.4
Interest rate risk	ATR (years)	10.2	5.7	9.0
	Debt refixing in 1yr (% of total)	14.8	36.7	20.7
	Fixed rate debt (% of total)	91.1	100.0	93.5
FX risk	FX debt (% of total debt)			72.8
	ST FX debt (% of reserves)			12.5

2.2.4 Redemption Profile

The redemption profile depicts the amortization of outstanding debt[4] 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 because of Treasury bills maturing within that year. External debt has a relatively smooth redemption profile and a longer maturity that is characterised by concessional loans from multilateral and bilateral creditors.

Figure 6 Redemption profiles (based on Currency) as at end 2021 (XCD Million)



[4] 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.

3 MACROECONOMIC PERFORMANCE, MEDIUM TERM OUTLOOK, AND KEY RISKS

3.1 Public Finance

On balance, Grenada's fiscal position has strengthened despite the continued global impact of the COVID-19 pandemic. During the first nine months of 2021, the Primary and Overall balances including Grants were $93.3 million and $57.5 million respectively, which were more than the comparable period of 2020 by 47.9 percent and 119.5 percent respectively.

Reflective of better-than-budgeted tax and non-tax revenue outturns during the first nine months of this year and the under-performance of capital expenditure, an overall surplus of $62.7 million is estimated at the end of this year compared to a budgeted deficit of $18.2 million. Likewise, a primary balance including grants of $117.1 million is estimated, exceeding the budgeted amount of $45.5 million.

Public debt to GDP is projected to marginally decline at the end of 2021 relative to last year mainly because growth in output outpaced new borrowings driven by the pandemic.

The MTFF 2022 – 2024 does not forecast a return to the rules and targets under the Fiscal Responsibility Law until 2023. This will allow Government to adequately respond to ongoing challenges posed by the pandemic, including sustaining social programs and incentivizing growth.

Table 2: Fiscal Projections for 2022-2024 (MTFF)

In millions of Eastern Caribbean Dollars, unless stated otherwise

	2022		2023		2024	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	**897.6**	**28.2%**	**946.3**	**28.0%**	**963.7**	**27.1%**
Total Revenue	**722.2**	**22.7%**	**767.8**	**22.7%**	**812.2**	**22.9%**
Tax Revenue	630.9	19.8%	670.8	19.8%	710.4	20.0%
Non - Tax Revenue	91.3	2.9%	96.9	2.9%	101.8	2.9%
Grants	**175.4**	**5.5%**	**178.6**	**5.3%**	**151.5**	**4.3%**
Total Expenditure	**995.5**	**31.3%**	**890.1**	**26.3%**	**775.7**	**21.8%**
Primary Expenditure	931.8	29.3%	827.9	24.5%	718.8	20.2%
Current Expenditure	**661.7**	**20.8%**	**659.1**	**19.5%**	**573.8**	**16.2%**
Employee compensation	290.5	9.1%	293.5	8.7%	294.9	8.3%
wages, salaries & allowances	276.5	8.7%	278.9	8.3%	279.8	7.9%
Social Contribution to employees	14.0	0.4%	14.5	0.4%	15.1	0.4%
Goods and Services	132.6	4.2%	134.9	4.0%	119.8	3.4%
Interest Payments	63.7	2.0%	62.2	1.8%	56.8	1.6%
Transfers	174.9	5.5%	168.6	5.0%	102.2	2.9%
Capital Expenditure	**333.8**	**10.5%**	**231.0**	**6.8%**	**201.8**	**5.7%**
o/w: Grant financed	175.4	5.5%	178.6	5.3%	151.5	4.3%
Overall balance	**(97.9)**	**-3.1%**	**56.3**	**1.7%**	**188.0**	**5.3%**
Primary balance (excluding grants)	**(209.6)**	**-6.6%**	**(60.1)**	**-1.8%**	**93.4**	**2.6%**
Primary balance (including grants)	**(34.2)**	**-1.1%**	**118.5**	**3.5%**	**244.9**	**6.9%**
Memo Item						
GDP (Nominal market Prices)		3,185.7		3,380.6		3,551.7
Real GDP growth (%)		4.5%		4.4%		4.0%

Source: Ministry of Finance

3.2 Monetary Sector

Despite financial pressures due to the onset of the COVID-19 pandemic, deposits continue to increase at a faster rate than that of loans increasing the already-high liquidity in the financial sector. Overall, the monetary sector remains stable, with improvements in domestic credit over the period and 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

The effect of the COVID-19 pandemic continues to be visible in the economy 18 months after the first case was recorded on island. Activity in most sectors for the first half of the year remained below pre-covid levels, but there are indications of recovery in some sectors relative to 2020. Growth in 2021 is projected to be 4.8 percent largely driven by activity in the construction sector with private education, manufacturing and wholesale and retail trade showing signs of rebound. It is expected that recovery in the tourism sector will be gradual. There was a marginal increase in inflation in the first half of 2021, and this is expected to rise further with projected increases in global food and fuel prices, as well as international shipping costs.

3.4 External Sector

During the first half of this year, the trade balance worsened slightly relative to the comparable period of last year. The trade deficit expanded by 5.8 percent from -$480.0 million at the end June 2020 to -$507.9 million at the end of June 2021. Increases in imports and exports of 8.2 percent and 52.5 percent respectively, accounted the widening deficit. It is anticipated that the trade deficit will further widen as the adverse impacts of the protracted pandemic ensues. This will negatively affect foreign currency earnings that 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.

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	2021	2024
	Current	Target Range
*Central Government Debt as % of GDP	69.0	<=55%
Interest payment as % of GDP	1.9	<=2.5%
Debt maturing in 1yr (% of total)	15.0	<=20%
Debt maturing in 1yr (% of GDP)	10.4	<=10%
ATM Total Portfolio (years)	9.4	>=8 years
ATR (years)	9.0	>=10 years
FX debt as % of total	72.8	<=80%

**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[5]-to-GDP ratio must not exceed 55 percent. The target for 2024, is for Central Government debt-to-GDP to be less than or equal to 55.0 percent. This risk indicator has declined from 84.7 percent (2015) to 57.7 percent (2019) but increased in 2020 to 70.6 percent as total debt increased to finance emergency spending because of the Covid-19 pandemic. In 2021, debt-to-GDP is forecasted to decrease below 2020 by 1.6 percent.

Interest payments as a percent of GDP decline from 3.6 percent (2015) to 1.9 percent (2021) 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.

[5] 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.

Consistent with 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 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 15.0 percent (2021), 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 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 80.0 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 (2022 -2024), it is anticipated that funding will be received from multilateral institutions on concessional terms to meet the financing needs. This includes Regional Development Banks which may also be targeted to provide funding for upcoming projects and resilience building. Table 5 displays proposed financial terms and indicative sources of financing over the medium term.

Table 5: Proposed Terms of Financial Instruments

Creditor/Instrument	Maturity (Years)	Grace (Years)	Interest Type	Currency
Multilateral	20 - 25	10	Fixed	USD
Multilateral	36 - 40	10	Fixed	XDR/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's current borrowing practices. External financing originates primarily from GoG's traditional multilateral creditors on concessional terms and residual financing needs are met via the re-issuances of securities (T-bills and T-Notes) on the local and regional markets.

Strategy 2 (S2): This strategy considers the development of the domestic market including the extension of maturity of the domestic debt profile. It suggests the issuance of an additional T-bill on the RGSM and the introduction of two new private placement 3-year bonds, one of which will be issued after the conversion of two private placement T-bills. The strategy also recommends the issuance of a new 5-year bond to fund new projects. Over the counter and RGSM T-bills and T-notes will all be reissued to meet residual financing needs and to a lesser extent, external concessional funding will be sought to finance new projects when necessary.

Strategy 3 (S3): This strategy focuses on Economic Transformation and Resilience building. External, concessional financing is targeted from GoG's traditional multilateral creditors to fund resilience building and support strategies that reduce environmental risks and support adaptation to climate change. Also, funding will be received from the drawdown of committed undisbursed funds, primarily denominated in USD, from multilateral and bilateral creditors. On the domestic side, two private placement treasury bills will be retired and a new 5-year bond to finance climate resilience projects will replace them. This will lead to the lengthening of the domestic profile and a larger ATM and ATR of the total portfolio will be realised. The re-issuance of securities on domestic and regional markets will continue to meet residual financing needs.

Table 6: Strategy Considerations

Strategy	Average Financing Mix (%) (Ext: Dom)	Objectives
S1	51:49	Status quo- reflects a combination of the current borrowing practices.
S2	45:55	Domestic Market Development- Focus on maintaining presence on the domestic and regional markets. Also, the introduction of longer-termed domestic instruments to replace 1-year private placements.
S3	52:48	Economic Transformation & Resilience Building- Targets funding from external multilateral creditors on concessional terms and a continued presence on domestic & regional markets.

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 2022-2024. 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 2021, which is sustained thereafter.
b) Extreme: A 30 percent depreciation of the domestic currency against the XDR, KWD and CNY in 2021, 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 2022 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 declined across each of the strategies compared to the current period end of 2021. 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 three 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, and the ATM which is a key risk indicator improved significantly across all the strategies relative to the current period (2021).

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 for each strategy relative to the 2021 with the lowest increase in S2. These results are expected given the varying financing combinations considered under the different strategies over the period (2022 - 2024). 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		2021	As at end 2024			Target
		Current	S1	S2	S3	
Debt as % of GDP		69.0	62.09	62.16	62.11	Max 55%
Present value debt as % of GDP		57.7	48.01	48.88	48.09	
Interest payment as % of GDP		1.9	1.54	1.59	1.56	Max 2.5%
Implied interest rate (%)		2.8	2.53	2.61	2.56	
Refinancing risk	Debt maturing in 1yr (% of total)	15.0	13.66	13.47	13.21	Max 20 %
	Debt maturing in 1yr (% of GDP)	10.4	8.48	8.37	8.20	Max 10 %
	ATM External Portfolio (years)	10.8	12.72	12.58	12.90	
	ATM Domestic Portfolio (years)	5.7	4.34	4.12	4.37	
	ATM Total Portfolio (years)	9.4	10.78	10.40	10.92	Min 8 yrs
Interest rate risk	ATR (years)	9.0	10.48	10.10	10.62	Min 10 yrs
	Debt refixing in 1yr (% of total)	20.7	18.06	17.86	17.61	
	Fixed rate debt (% of total)	93.5	95.05	95.06	95.05	
FX risk	FX debt as % of total	72.8	77.23	74.53	77.14	Max 80%
	ST FX debt as % of reserves	12.5	10.51	10.51	10.51	

4.4 Selected Strategy

Strategy 3 which mainly targets external concessional financing for economic transformation and resilience building 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 10.9 years as at end 2024, an increase of 1.5 years compared to the current period and an increase of 0.1 years and 0.5 years respectively, relative to S1 and S2. The ATR was also highest in S3 at 10.6 years. Although the share of FX debt is lower in S2 than S3 the target of less than or equal to 80.0 percent was achieved.

4.4.1 Market Risks – Exchange Rate

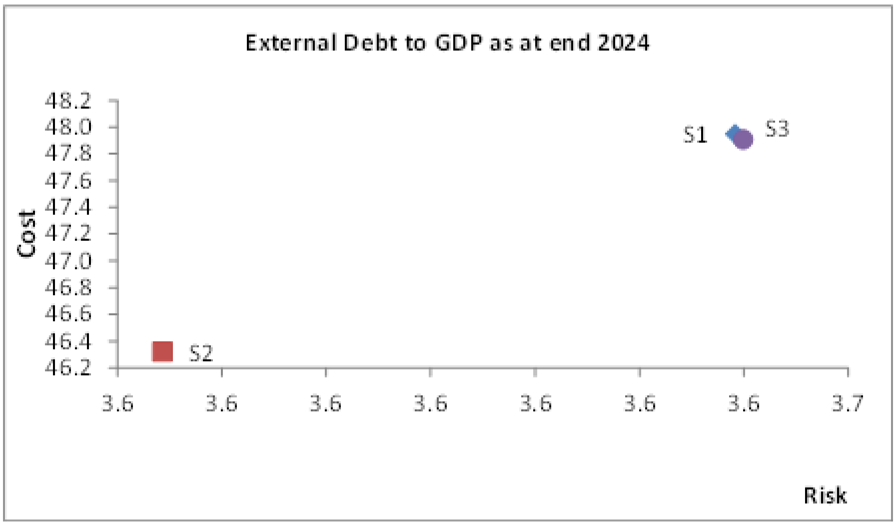
In the chosen Strategy (S3) it is recommended that identified financing is obtained chiefly from concessional loans secured from external creditors and the drawdown of committed undisbursed funds from multilateral and bilateral organizations that are primarily denominated in USD.

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 30.5 percent of the foreign currency debt portfolio. Under S3, the planned financing option includes negligible XDR disbursements from IDA amounting to $0.01 million and disbursements from Chinese Export-Import Bank equivalent to $ 96.0 million over the medium term, while projected XDR and CNY principal repayments are equivalent to $ 51.4 million and $6.8 million respectively. Loans denominated in GBP and EUR represent about 0.3 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 3.6 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 47.9 percent as at the end of 2024 (Figure 8).

Foreign debt as a percentage of total debt over the medium term is estimated to increase to 77.1 percent from the current proportion of 72.8 percent, remaining marginally below the established maximum limit of 80.0 percent. This is expected as the share of USD debt in the portfolio is projected to increase with new borrowing. 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.

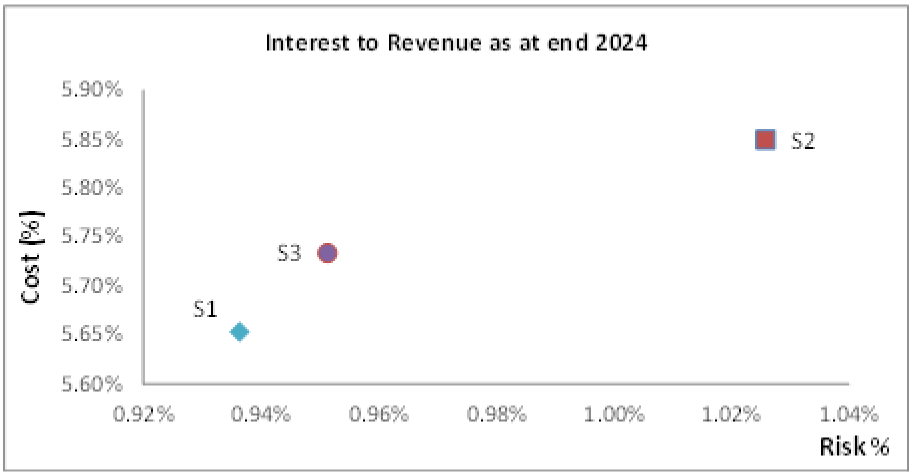
Figure 8



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 5.0 percent as at end 2024. 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 0.01 percent under extreme shock (4 percent) scenario. As at end 2024, 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 S3.

Figure 9



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 1.5 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 2024, by 1.8 and 2.2 percentage points respectively which is the desired movement.

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 2022. 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 private placement treasury bills on a phased basis over the medium term.

4.4.4 Development of the Domestic Market

Strategy 3 supports the development of the domestic capital market. There will be further development of the IRP initiated in July 2018. RGSM and over-the-counter T-bills and 2-year notes will be reissued and a 5-year private placement bond in the amount of $20.0 million will be introduced in the year 2023 leading to the lengthening of the domestic profile.

5 ANNUAL BORROWING PLAN

The Annual Borrowing Plan (ABP) details the projected funding sources to cover financing after revenues and expenditure have been considered. It is developed based on the GoG's financing requirement for the fiscal year. The Government's net financing needs in 2022 is estimated at

$ 367.8 million or 12.3 percent of GDP.

The objective of the chosen strategy is to build resilience and promote economic transformation. For this purpose, funding will include both the domestic and external market as shown in Table 8. A larger portion of funding is expected to come from external sources mainly denominated in USD currency. This mitigates foreign currency risk.

Estimated external financing is projected to be $200.5 million or 54.5 percent of total financing and will be funded through new loans and disbursements on existing loans. Estimated domestic financing is projected to be $167.3 million or 45.5 percent of total financing. This will be funded through the reissuance of T-bills on the domestic and regional markets, private placements, and the reissuance of Treasury notes.

Table 8: Annual Borrowing Plan 2022

	Projected Amt. (XCD Million)
External Financing	**200.46**
Multilateral	176.12
Bilateral	24.34
Domestic Financing	**167.34**
Treasury Bills	143.06
o/w RGSM	60.00
o/w Non-RGSM	83.06
Treasury Notes	24.28
TOTAL	**367.80**