GOVERNMENT OF GRENADA

MEDIUM -TERM DEBT MANAGEMENT STRATEGY DOCUMENT

2018 - 2020

Submitted To

The Parliament

By

The Minister of Finance and Energy

In Fulfillment of Section 5(1) to 5(3) of the Public Debt Management Act 2015

November, 2017

Section 5(1) to 5(3) of the Public Debt Management Act 2015, stipulates that:

(1) "The Minister shall cause to be prepared a medium-term debt management strategy document on an annual rolling basis, which shall take into account –

(a) the macroeconomic framework of the Government;

(b) the costs and risks embedded in the debt portfolio;

(c) estimated future borrowing requirements of the Government;

(d) relevant market conditions; and

(e) such other factors as may be relevant for the development of the strategy.

(2) The medium-term debt management strategy document under subsection (1) shall set out–

(a) risk-control benchmarks and risk-tolerance benchmarks, including guidelines or ranges for the acceptable market risks in the debt portfolio;

(b) medium-term targets for the composition, currency mix, interest rate mix, and maturity profile; and

(c) proposed measures to support development of the domestic public debt market

(3) The Minister shall lay the medium-term debt management strategy document before Parliament, no later than two months prior to the commencement of every fiscal year."

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ACKNOWLEDGEMENT

We express sincere gratitude to the Canada Eastern Caribbean Debt Management Advisory Services Unit (CANEC-DMAS) at the Eastern Caribbean Central Bank (ECCB) for providing technical assistance to develop the Medium-Term Debt Management Strategy (MTDS). Their guidance, enthusiastic encouragement and useful critiques stimulated an enabling environment for finalizing this Strategy. We are grateful for the generous sharing of their vast array of knowledge and expertise, which fostered a deeper understanding and appreciation of the MTDS toolkit.

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EXECUTIVE SUMMARY

The Grenadian economy has continued along a positive growth path having completed the IMF supported Home-grown Structural Adjustment Program. Real GDP growth has averaged 5.8 percent over the three-year period of the program and growth is estimated to be 4.5 percent for 2017 driven mainly by Construction, Tourism, Transport, Manufacturing and Private Education sectors. The primary balance is projected to average 4.7 percent over the medium term which would assist in keeping debt on a downward and sustainable path. Central Government debt is estimated to be EC$1.97 billion at the end of 2017 of which external debt amount to EC$1.40 billion and domestic debt EC$571.5 million. For the purpose of this Medium Term Debt Strategy, domestic debt includes Treasury Bill values quoted at discount value whereas in the 2018 Estimates of Revenue and Expenditure, Treasury Bills are stated at face value. Total debt service is estimated at EC$375.5 million or 55.3 percent of recurrent revenue.

Grenada has finalized restructuring of all Paris Club debt having reached agreements during the first half of this year with the UK and Russia. The government continues to actively engage other bilateral creditors such as Trinidad and Tobago, Algeria and Libya with an aim of concluding negotiations. Most of the domestic debts identified for restructuring have been restructured. Debt owing to Petro Caribe Grenada and a portion of the 2014/2016 Serial Bond have been restructured. The remaining domestic debt represents bond holders who have not yet come forward. The authorities continue to actively engage these holders to complete the restructuring exercise. Due to this successful restructuring, Grenada will benefit from stock reductions totalling 12.4 percent of projected 2017 GDP, which is vital to ensuring that public debt is reduced to sustainable levels. The authorities have set an operational target of 55 percent for public debt based on the Fiscal Responsibility Legislation.

With regards to risks of the existing portfolio, the interest rate is subject to a moderate risk with an Average Time to Re-Fixing of 7.8 years in which 24.1 percent of the portfolio is subject to a change in interest rates in one year. This risk resides predominantly in the domestic portfolio in which 35.9 percent of this debt is subject to re-fixing in one year due to short-term treasury bills in the portfolio. The refinancing risk profile of the portfolio has an Average Time to Maturity of 8.2 years which slightly exceeds the set target of greater than 8 years. The current portfolio is moderately subjected to foreign exchange risk as most of foreign currency debt is denominated in USD to which the EC dollar is currently pegged.

The selected strategy (Strategy 3) assumes that the financing gap will be filled by assigning 35 percent of new financing to multilateral and bilateral partners while 65 percent will be apportioned to domestic financing mainly through the RGSM. All strategies were subject to various stress scenarios including interest and exchange rate shocks of moderate and extreme degrees. Strategy 3 (S3) represented the most feasible strategy for financing government needs whilst adhering to the debt management targets and objectives as set forth in the Public Debt Management Act 2015.

Grenada's Medium-Term Debt Management Strategy (MTDS[1]) is a plan aimed at achieving a desired debt portfolio that is consistent with debt management objectives. Government debt management, therefore, is the process of establishing and executing a strategy for managing public sector debt. Effective debt management ensures that the government's funding needs are met with due consideration of its risk and cost objectives and any additional debt management goals such as developing and maintaining an efficient market for government securities. The MTDS is expected to bring into effect the objectives.

The MTDS was prepared by the DMU of the MoFE with technical assistance provided by the DMAS Unit at ECCB. The document covers a 3-year period (2018 - 2020). It builds on the existing Debt Management Strategy that is currently practiced. In this strategy financing is limited to concessional borrowing from multilateral creditors and domestic financing through short term T-Bill issuance on the RGSM and private placements (Section 3). This document, among other considerations, highlights a preferred strategy in which the Government of Grenada can achieve the desired debt portfolio consistent with the debt management objectives of the Public Debt Management Act 2015 over the medium term.

[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.

ACRONYMS

AFD	Agence Française de Développement
ALBA	Bolivarian Alliance of the Americas
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
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECF	Extended Credit Facility
ECSE	Eastern Caribbean Securities Exchange
EIB	European Investment Bank
EUR	Euro
FAA	Finance Administration Act
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Legislation
FX	Foreign Exchange
GBP	Great Britain Pounds
GDP	Gross Domestic Product
GoG	Government of Grenada
GSPS	Growth and Social Protection Strategy
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
JYP	Japanese Yen

KWD	Kuwaiti Dinars
LIBOR	London Inter-Bank Offer Rate
MoFE	Ministry of Finance and Energy
MTDS	Medium-Term Debt Management Strategy
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 Government 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 which 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 their 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 their 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

External Debt[2] is the outstanding amount of actual, current liabilities that are owed in a foreign legal tender.

[2] This definition is applied by the Government of Grenada in the MTDS only.

1. OVERVIEW

The Government of Grenada embarked on a comprehensive and collaborative debt restructuring exercise in 2013. The restructuring took the form of face value reduction (50 percent) where applicable, interest rate adjustments and maturity extensions. With the completion of the home - grown IMF supported structural adjustment program and a stronger legal framework (Fiscal Responsibility Act and the Public Debt Management Act), Grenada's economy has a positive outlook and the projections for public debt put it on a sustainable course over the medium term.

It is a legal requirement to develop and publish the MTDS. In keeping with the Government's commitment to promote accountability and transparency, the MTDS was developed to guide the Government's borrowing practices over the medium term (2018 – 2020), to achieve a desired composition of the Government's debt portfolio.

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 whereas in Appendix F of the 2018 Estimates of Revenue and Expenditure T-Bills are recorded at their face value**. Government Guaranteed debt which as at end September 2017 accounted for 3.0 per cent 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 (2018-2020) inclusive.

The report is divided in three parts. Following the Overview, Part 1 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 2017. Part 2 presents alternative strategies to finance the Government's borrowing needs, based on its current economic constraints and the preferred strategy based on the cost-risk trade-off. Part 3 proposes the implementation methodology and financing plan for the identified strategy.

1.1. Debt Management Objectives

The MoFE 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:

- 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;
- providing a framework for the management of public debt in a manner that achieves and maintains sustainable debt; and
- ensuring that public debt management operations support the establishment of a well-developed domestic debt market in the medium-to-long term.

1.2. Current Debt Management Strategy

The current borrowing strategy utilizes financing from external official creditor categories namely multilaterals[3] and bilateral in United States Dollars (USD); domestic financing encompasses short term issuance of T-Bills on the Regional Government Securities Market (RGSM) together with over the counter issuance of T-bills and longer- term bonds.

All expenditure arrears have been liquidated and no new external arrears have been incurred outside of debt currently under restructuring negotiations.

In terms of risk management of Government guarantees, the current policy limits the issuance of guarantees to strategic projects that are matter of public policy, which have significance for economic growth and or poverty reduction endeavours in the country.

The Government of Grenada's existing strategy integrates policy planning and Government spending with the projected availability and timing of funding. With the coming into force of the MTDS 2018-2020 to guide activities, this approved MTDS annuls the 2017-2019 MTDS.

[3] **Multilateral:** are international institutions with governmental membership which conduct all or a significant part of their activities in favour of development and aid recipient countries.

PART I: EXISTING DEBT PORTFOLIO OF CENTRAL GOVERNMENT DEBT

2. Review of Central Government Debt Portfolio

This section provides a detailed review of the outstanding debt and its composition.

2.1. Total Public Debt

Total Central Government debt as at the end of 2017 is estimated to be EC$ 1,976.10 million. This comprises EC $1,404.60 million (71.1 percent) foreign debt and EC$571.50 million (28.9 percent) domestic debt. Foreign[4] Debt consists of all foreign-currency denominated instruments while domestic debt refers to all EC dollar denominated instruments (Figure 1).

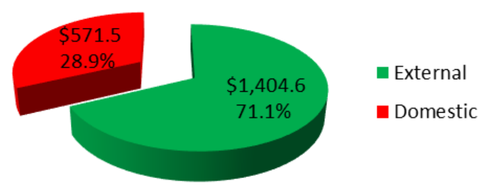

Figure 1: Composition of Central Government Debt

2.2. Domestic Debt

Domestic debt comprises 51.6 percent bonds, 42.4 per cent T-bills and the remaining 6.0 per cent are loans denominated in XCD. In 2016, T-bills dominated the domestic portfolio; however, in 2017 all T-bills held by Petro Caribe were restructured into bonds (Figure 2).

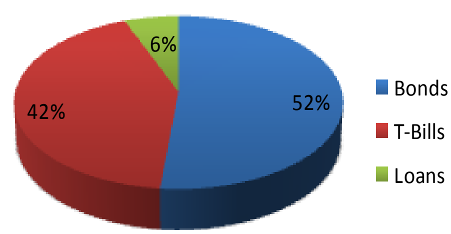

Figure 2: Domestic Debt by Instrument Type

2.3. Foreign Debt

Multilaterals account for the largest portion of foreign debt at 58.8 percent in 2017. Multilaterals include Caribbean Development Bank which disbursed the most during the year, followed by International Development Association (IDA), International Monetary Fund (IMF), Organization of Petroleum Exporting Countries (OPEC), International Bank

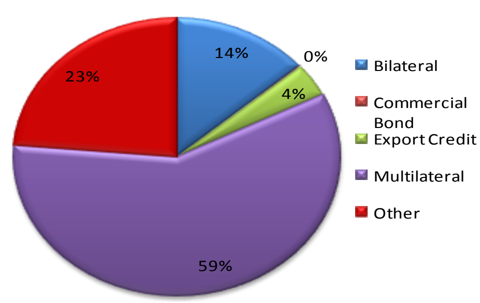

Figure 3: Foreign Debt by Creditor Category

[4] The IMF External Debt Statistics guide defines Foreign Debt as debt that is payable in a currency other than the domestic currency. https://www.imf.org/external/pubs/ft/eds/Eng/Guide/file2.pdf

for Reconstruction and Development (IBRD) and International Fund for Agricultural Development(IFAD). Bilateral creditors account for 13.7 per cent of the foreign debt portfolio of which Kuwait, Trinidad and Tobago, EXIM Bank of China and Bank of Alba were major creditors. International bondholders account for 23.7 percent of the external portfolio followed by export credit at 3.9 percent and commercial loans at 0.1 percent (Figure 3).

2.4. Debt Service Payments

Total debt service payments over the period 2013 to 2016 were on an upward trajectory. Debt service payments in 2016 amounted to EC$377.8 million or 58 percent of recurrent revenue which included principal and interest payments of EC$295.5 million and EC$82.3 million respectively. In 2017 however, debt service payments have decreased primarily due to a 25 percent haircut on the USD and XCD portions of the International bond resulting from debt restructuring.

3.0 Risk Analysis

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

3.1. Interest Rate Risk

The ATR of Grenada's debt portfolio is 7.8 years. Additionally, 24.1 percent ($475 million) of the debt portfolio is subject to a change in interest rates in one year. This indicates a moderate exposure to interest rate risks (Table 1). Interest rate risk is mainly inherent in the domestic debt portfolio with a short ATR of 6.8 years. 35.9 percent ($205 million) of domestic debt is subject to re-fixing within one year due to the relatively short maturity profile of most of the domestic instruments (<1 year). In contrast, the ATR for the foreign debt is 8.2 years with 19.2 percent ($269.7million) of debt re-fixing in one year. In addition, a relatively large proportion of foreign debt (90.4 percent) is contracted on fixed interest rate terms. The remaining 9.6 percent reflects variable rate debt owed to CDB, IBRD and IFAD.

3.2. 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 >8 years, the Average Time to Maturity (ATM) of Grenada's debt portfolio is 8.2 years which marginally surpasses its target. This is mainly skewed towards the foreign debt portfolio, which has an ATM of 8.8 years and 19.9 percent of its debt maturing in one year (Table 1). The external debt portfolio consists of debt contracted with a longer maturity profile. Domestic debt- including treasury bills and judgement claims- is mainly exposed to refinancing risk due to its relatively short maturity profile. The ATM of domestic debt is 6.8 years. Additionally, 35.9 percent ($205 million) will mature in one year and is subjected to refinancing/rollover risks since a significant portion of short term debts are rolled over.

3.3. Foreign Exchange Risk

Foreign exchange rate risk measures the exposure of the portfolio to changes in the exchange rate. The fixed exchange rate regime under the Eastern Caribbean Currency Union has been pegged to the USD for the past 40 years.[5] Consequently, there is limited (if any) vulnerability to changes in exchange rate against the USD. Grenada's debt portfolio is moderately exposed to foreign exchange risk since most of the loans contracted are denominated in USD. Debt denominated in foreign currency is approximately 71.1 percent of the total loan portfolio. Foreign Debt contracted in non-USD currencies represents 19.4 percent of the total loan portfolio. Non- USD denominated debt includes debt denominated in Special Drawing Rights (XDR) (16.9 percent), Kuwaiti Dinars (2.0 percent) and Euro (0.1 percent). The XCD is currently pegged to the USD at a rate of XCD 2.70 per 1.00 USD. Grenada's short term external debt as a percentage of foreign exchange reserves accounts for 2.0 percent indicating that the reserves are adequate to meet short term foreign debt service payments.

Table 1: Cost and Risk Indicators for the Existing Debt Portfolio as at year ended 2017

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of XCD)		1,404.6	571.5	1,976.1
Amount (in millions of USD)		520.2	211.7	731.9
Debt as % of Nominal GDP		46.8	19.0	65.8
PV as % of GDP		39.2	19.0	58.2
Cost of debt	Interest payment as % GDP	1.5	0.5	2.1
	Weighted Av. IR (%)	3.3	2.7	3.1
Refinancing risk	ATM (years)	8.8	6.8	8.2
	Debt maturing in 1yr (% of total)	10.5	35.9	17.9
	Debt maturing in 1yr (% of GDP)	4.9	6.8	11.7
Interest rate risk	ATR (years)	8.2	6.8	7.8
	Debt re-fixing in 1yr (% of total)	19.2	35.9	24.1
	Fixed rate debt (% of total)	90.4	100.0	93.2
FX risk	Non-USD FX debt (% of total debt)			19.3
	ST Non-USD FX debt (% of reserves)			2.0

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

3.4. Redemption Profile

The redemption profile depicts the debt servicing profile of outstanding debt and it reflects the risks inherent in the structure of the existing debt portfolio (Figure 4). The domestic debt profile shows a high proportion of debt falling due within the first year of scheduled redemptions. This is as a result of a significant portion of short term debt obligations maturing. The external debt is mainly characterized by concessional loans from multilateral and bilateral creditors with a longer maturity period. Consequently, external debt shows a smoother and longer redemption profile than domestic debt.

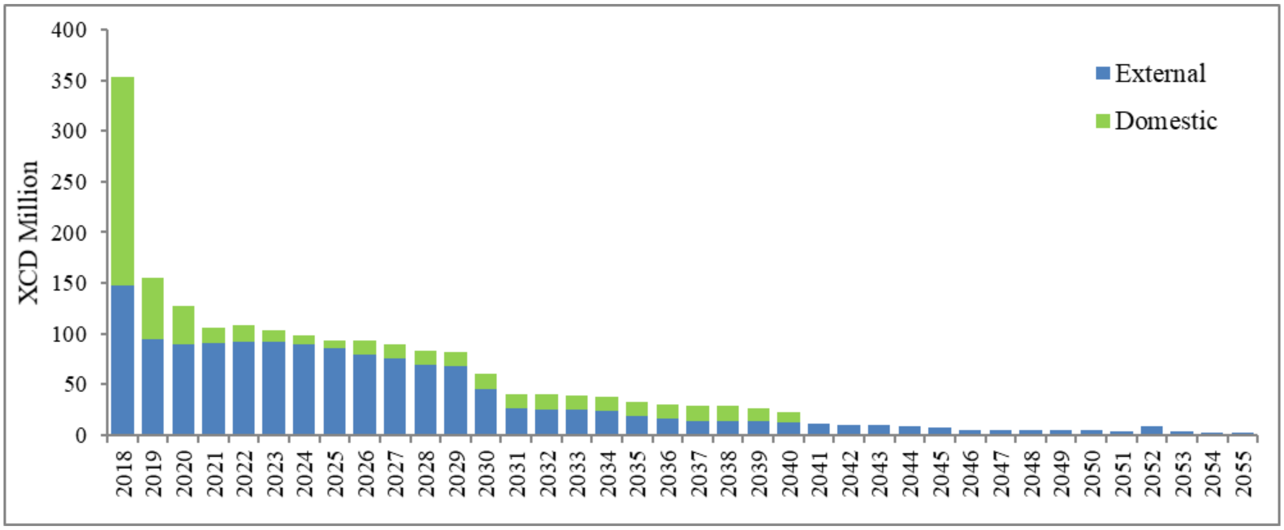

Figure 4: Grenada Redemption Profile as at year ended 2017

Part II: MEDIUM TERM DEBT MANAGEMENT STRATEGY 2018-2020

4. Key Macroeconomic and Market Environment Assumptions

This section provides information on the fiscal and monetary space in which the Government is operating. Baseline projections for key fiscal and market variables are provided. A clear and comprehensive set of country specific risk scenarios are tested. Possible debt management strategies were analysed and three alternative strategies were found to be possible. The performance of the strategies was compared, and the preferred strategy selected.

Table 2: Grenada Fiscal Performance, Historical and Forward Estimates

	2013	2014	2015	2016	2017 (e)	2018 (p)	2019 (p)	2020 (p)
in millions of EC$								
Total Revenue & Grants	471.6	602.9	649.7	751.6	774.4	858.4	817.1	842.8
Total Primary Expenditure	552.1	631.3	597.3	603.3	633.0	710.6	669.1	680.1
Total Expenditure	632.4	718.1	689.0	685.6	708.3	778.4	732.7	739.6
Interest Expenditure	80.3	86.8	91.7	82.3	75.3	67.8	63.6	59.5
Current Expenditure	471.9	491.4	468.9	565.5	590.8	607.0	618.5	616.7
Capital Expenditure	160.5	226.7	220.1	120.1	117.5	171.3	114.2	122.9
Primary Balance (including grants)	-80.4	-28.4	52.4	148.3	141.4	147.8	148.0	162.7
Overall Balance (including grants)	-160.7	-115.2	-39.3	66.0	66.1	80.0	84.4	103.2
percent of GDP								
Total Revenue & Grants	20.7	24.5	24.1	26.4	25.8	27.2	25.0	24.7
Total Primary Expenditure	24.3	25.7	22.2	21.2	21.1	22.5	20.5	19.9
Total Expenditure	27.8	29.2	25.6	24.0	23.6	24.7	22.4	21.6
Interest Expenditure	3.5	3.5	3.4	2.9	2.5	2.1	1.9	1.7
Current Expenditure	20.7	20.0	17.4	19.8	19.7	19.2	18.9	18.0
Capital Expenditure	7.1	9.2	8.2	4.2	3.9	5.4	3.5	3.6
Primary Balance (including grants)	-3.5	-1.2	1.9	5.2	4.7	4.7	4.5	4.8
Overall Balance (including grants)	-7.1	-4.7	-1.5	2.3	2.2	2.5	2.6	3.0
Percent								
Real GDP at market prices	2.4	7.3	6.4	3.7	4.5	3.3	3.2	3.3
Consumer prices (average)	0.0	-1.0	-0.6	1.7	1.7	2.0	2.0	2.0
Consumer prices (end of period)	-1.2	-0.6	1.1	0.9	1.7	2.0	2.0	2.0
Nominal GDP in current pirces (EC$million)	2275.1	2461.0	2691.9	2851.7	3003.9	3153.7	3269.5	3418.3
Imputed Net International Reserves (USD million)	135.4	158.3	188.5	201.4	197.7	199.7	201.7	203.7

Sources: CSO, ECCB, MOF

In the medium term, growth is expected to average 3.3 percent as the authorities continue to consolidate on the reforms implemented under the recently-concluded Home-grown Structural Adjustment Program. This growth is contingent on a recovery in the Agricultural sector, as the authorities implement measures to mollify the impact of adverse weather conditions and pest and diseases that affected output in 2016 and

2017. The Tourism sector is expected to expand, as the room stock increases with on-going construction of new resorts. Inflation is forecasted to average 2.0 percent over the period 2018 – 2020, as the US inflation rate, as well as international fuel prices are projected to rise. Debt is projected to continue along a downward trajectory barring any exogenous shocks and provided that the growth projections are achieved. Primary surpluses are projected to average 4.7 percent over the medium term, in line with the Fiscal Responsibility Legislation.

4.1. Principal Risks to Baseline Macroeconomic Assumptions

The forecasts for the medium term are subject to downside risks. Grenada is highly vulnerable to natural disasters and other external shocks. Declines in major tourist source markets such as the US also poses a significant risk to growth prospects. Lower-than-expected real output growth would imply weaker tax revenue collections, which can negatively impact the projected fiscal path. Lower-than- expected Grant receipts can adversely impact the fiscal accounts by affecting grant funded capital projects, and other social programs. Higher-than-expected pension liabilities can put a severe strain on public finances and the allocation of resources. While efforts are being made to mitigate the impact of these shocks, their incidence can seriously erode gains previously made, as well as jeopardize the positive economic and fiscal prospects.

During the medium term, the Government's debt program will continue to support its Public Sector Investment Program (PSIP) while seeking to adopt appropriate policies to control the cost of servicing the debt.

4.2. Potential Sources of Financing

Over the period (2018–2020), external funding is expected to be derived from the traditional multilaterals and non-Paris Club bilateral creditors.

These creditors will continue to support Grenada to finance ongoing PSIP projects and provide budget support in 2018. In 2018 to 2020, a similar borrowing trend is expected, except with increased reliance on the non- Paris Club bilateral (non-traditional) creditors.

Generally, external financing will be denominated mainly in USD and XDR. Projected borrowing would mostly be comprised of fixed interest rates, although a portion of multilateral credit is contracted at variable rate. Table 3 outlines proposed financial terms.

Table 3: Terms of Creditor Funding

Creditor/Instruments	Maturity (Years)	Grace (Years)	Interest Type	Currency
Multilateral	20 – 25	10	Fixed	USD
Multilateral	13 – 20	6 – 7	Variable	USD
Multilateral	36	10	Fixed	XDR
Bilateral_NPC[6]	18-20	5	Fixed	USD
2yr Note (Bullet)	2	1	Fixed	XCD
5yr Bond (Bullet)	5	4	Fixed	XCD
5yr Bond (Amortized)	5	0	Fixed	XCD

4.3. Description of the Strategies

Three 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 rolling over domestic debt (T-bills). Under this Strategy, external borrowing will be based on the current pattern. Multilateral and bilateral (non-Paris Club) sources are considered to provide budget support through 2020 and project financing based on committed and undisbursed debt. By 2020, the assumption has been made that there would be a greater reliance on bilateral (non-Paris Club) sources vis- a-vis multilateral debt financing for budget support, albeit, at an overall reduced amount. However, there will be a consistent level of project financing from the multilaterals. 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 (two-year and five-year) bond in 2018 to 2020 for residual financing, while extending a portion of the treasury bills into two-year treasury notes. A portion of the other short-term debt is also assumed to be repaid over a three-year period from surpluses. On the external side, the strategy is similar to Strategy one.

[6] NPC – Non Paris Club Bilateral Creditor

Strategy 3 (S3): This strategy increases external financing relative to domestic financing, while maintaining the extension of the Treasury bill maturities and repayment of short-term debt, as mentioned in Strategy two. However, compared to Strategy two, the financing raised from bonds would be less in favour of external creditors. On the external side, this strategy shifts the outer years (2019 - 2020) by replacing some of the traditional multilateral creditors with bilateral funding.

Table 4: Strategy Considerations

Strategy	Average Financing Mix (%) (Ext:Dom[7])	Objective
S1	15:85	Status quo- reflects a combination of the current borrowing practices and committed/identified financing
S2	33:67	Domestic Market Development- use of longer term domestic instruments to fill funding gap while extending maturing of existing T bills.
S3	35:65	Access more multilateral and bilateral funding to fill funding gap whilst extending maturity of existing T-Bills & use of longer term domestic instruments (lesser extent than S2)

4.4. Description of Shock Scenarios

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 risk facing Grenada's economy are also considered. For the shocks, it is assumed that the market variables (interest rates and exchange rates) will increase at a relatively low rate 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, there are no foreseen changes in the interest rates for the period 2018-2020. In addition, there are no expected exchange rate changes in our major foreign borrowing currencies that is, the USD and XDR.

Scenario 1: Exchange Rate Shock

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

a) Moderate: A 15 percent depreciation of the domestic currency against the XDR in 2018, which is sustained thereafter.

b) Extreme: A 30 percent depreciation of the domestic currency against the XDR in 2018, which is sustained thereafter.

Scenario 2: Interest Rate Shock

a) Moderate: A 200 basis points rise in the CDB floating rate, domestic T-bill discount rate, World Bank interest rate and any other floating rate instruments. The shock was applied to the projected baseline interest rate for each year for the strategy period.

b) Extreme: A 400 basis points rise in the CDB floating rate, domestic T-bill discount rate, World Bank interest rate and any other floating rate instruments. The shock was applied to the projected baseline interest rate for each year for 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 on the XDR) in 2018 and sustained thereafter.

4.5. Cost Risk Analysis under Different Strategies

Table 5 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 ending 2017. 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, while the implied interest rate increased negligibly across all strategies relative to the current period.

The risk associated with each of the strategies was assessed based on established targets outlined in Table 5. As it relates to refinancing risk, the results indicate that under the status quo (Strategy 1) at least one of the targets will be breached if the current strategy is continued. Specifically, if the financing gap is met primarily by use of short-term instruments (T-bills), the percentage of debt maturing in one year will surpass the established threshold, thus increasing roll over risk.

The ATM (years) of the total portfolio showed significant improvements over the current period under all strategies with Strategy 3 outperforming the other two Strategies. The status quo however indicates a slight decline in ATM (years) of the total portfolio.

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 percent of foreign debt as a ratio of the total debt increases when Strategies 2 and 3 are considered while the ratio decreases in Strategy 1 relative to the current period (2017). These results are expected given the varying financing combinations considered under the various strategies over the period (2018 - 2020) and the bias towards external financing in Strategies 2 and more so in Strategy 3. A high level of foreign debt in the portfolio reflects heighted risk as the share of debt denominated in foreign currency (non-USD) is subject to exchange rate risk.

Table 5: Cost-Risk Indicators of Alternative Strategies for the period 2018-2020

Risk Indicators		2017	As at end 2020			
		Current	S1	S2	S3	
Debt as % of Nominal GDP		65.8	56.3	56.4	56.3	**Thresholds**
Present value debt as % of GDP		58.2	49.8	49.1	48.8	
Interest payment as % of GDP		2.1	1.8	1.9	1.8	
Implied interest rate (%)		3.127	3.242	3.270	3.194	
Refinancing risk	Debt maturing in 1yr (% of total)	17.9	26.3	15.9	15.4	**< = 20%**
	Debt maturing in 1yr (% of GDP)	11.7	14.8	9.0	8.7	
	ATM External Portfolio (years)	8.8	14.5	13.0	13.6	
	ATM Domestic Portfolio (years)	6.8	4.5	5.5	5.8	
	ATM Total Portfolio (years)	8.2	11.9	11.3	12.0	**>=8 yrs**
Interest rate risk	ATR (years)	7.8	11.5	10.6	11.3	
	Debt refixing in 1yr (% of total)	24.1	32.6	25.2	25.7	
	Fixed rate debt (% of total)	93.2	93.1	90.2	89.1	
FX risk	FX debt as % of total	71.0	65.4	71.2	73.4	**<=75%**

5. Selected Strategy

The performance of the three alternative strategies was assessed based on cost and risk associated with each and conformance to the established targets. The path towards the legislated 55.0 percent target was also considered. A preferred strategy is one in which Government's debt management objectives are met at the least cost and a prudent degree of risk and one that is feasible given the current market conditions and opportunities. Generally, with respect to the cost and risk indicators, Strategy 3 achieves those objectives at the lowest cost and poses the least refinancing risk. Further, this Strategy reduces the interest rate risk as measured by the ATR and remains within the foreign currency risk threshold. Further, S**trategy 3** represents the most feasible strategy in terms of its financing options, while at the same time it adheres to established debt management objectives and targets.

As it relates to debt servicing to GDP, Strategy 3 performed slightly better when the cost and overall risk were considered. The difference between Strategy 3 and Strategy 2 is minimal (Figure 5); however, there is a trade-off on risk between Strategy 3 and Strategy 2 given that Government may be marginally exposed to slightly greater risk. The benefit of domestic market development outweighs this risk given the potential lengthening of the ATR and ATM above the current position and compared to the acceptable threshold.

Strategy 3 fills the financing gap by apportioning part of the financing to potential multilateral and bilateral partners. Additionally, domestic financing would be raised in part from domestic investors (RGSM) while extending the maturity of a portion of the short-term over-the-counter debt. To further reduce refinancing risk, Strategy 3 assumes the repayment of short-term claims over three years. This is in keeping with the core objectives of debt management. Strategy 3, however bridges the financing gap solely by use of potential bilateral creditors in the outer years. Exclusive reliance on bilateral funding introduces uncertainty in terms of the degree of concessionality of funding available from these sources; as well as can potentially increase the exchange rate risk of the portfolio given that funds may be contracted in non-USD currency.

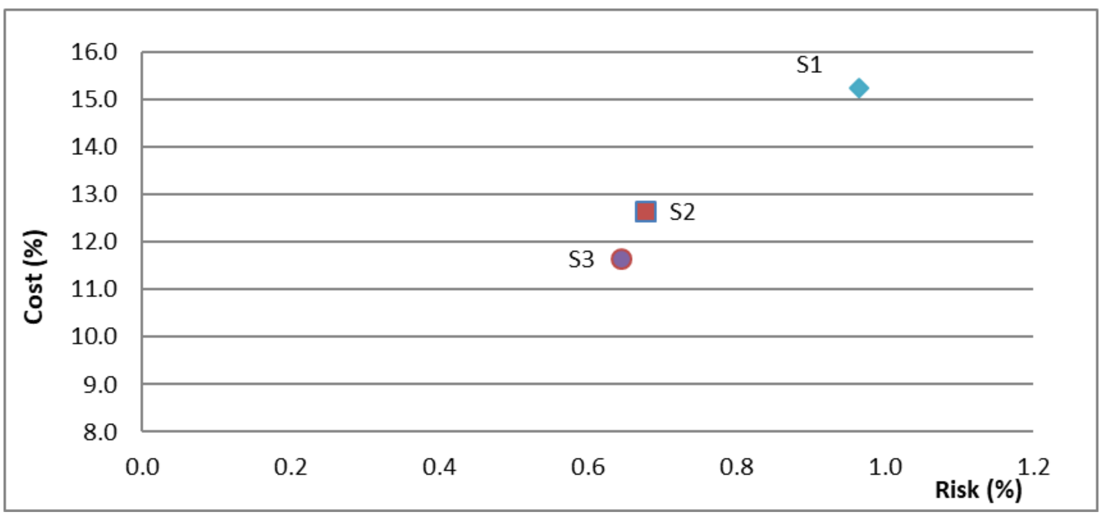

Figure 5: Cost-Risk Results for Alternative Strategies[8] - Total Debt Service to GDP (as at end of 2020)

[8] The risk shown on the X-axis represents the deviation from the baseline indicator results (e.g. Debt Service/GDP) when interest and exchange rate shocks are applied

PART III: IMPLEMENTING THE 2018 MEDIUM TERM DEBT STRATEGY

The preferred strategy was selected by the Debt Management Unit with technical input from DMAS. This section presents the legal environment in which it was proposed and approved. The operational focus to implement the strategy is briefly outlined.

6. Legal

The 2015 Public Debt Management Act makes specific provision for the development and implementation of a MTDS. This strategy document, following approval from Parliament should be implemented thereafter. Going forward it is anticipated that the MTDS be prepared annually with periodic quarterly updates.

Grenada's MTDS clearly outlines risk-control and risk tolerance benchmarks and guidelines for what is considered acceptable market risk. The document also outlines the medium-term targets for the composition, currency mix, interest rate mix, and maturity profile of the debt as well as proposed measures to support development of the domestic public debt market.

It is expected that once the MTDS has been finalised and signed off on by the respective authority it will guide the Government's borrowing decisions over the medium term. The DMU is responsible for ensuring that the right monitoring mechanism is in place to ensure that the Strategy is fully implemented by the Government.

7. Borrowing Plan

The Government will prepare a borrowing plan to accompany the MTDS (Strategy 3). Implementation of the preferred strategy (Strategy 3) essentially requires that Government's funds originate from both external sources and domestic sources. In 2018, funding from the traditional multilateral creditors (including disbursements of USD$20 million from the World Bank Policy-Based loan facility) will account for a significant share of (external) financing; however, additional bilateral funding sources need to be explored.

Moreover, the Government of Grenada would seek to lengthen the average time to maturity of the portfolio by reducing the proportion of short-term marketable securities being issued. For the financial year 2018, the proposal is to convert two 365-day Treasury bills into Two-Year Treasury Notes thereby providing some relief from the pressures of refinancing risk.

Table 6: Financing Summary

Financing Summary	**2018**	**2019**	**2020**
Armortization	161.9	113.9	152.3
Treasury Bills	175.9	200.8	167.1
Judgement Claims	15.0	16.0	17.0
Interest Payments	61.8	62.0	62.1
Total Needs	**414.6**	**392.6**	**398.6**
Financing Sources			
Debt Financing	**337.8**	**314.6**	**319.5**
of which:Treasury Bill roll overs	175.5	167.1	155.8
Surplus Financing*	**76.8**	**78.0**	**79.1**
Total Financing	**414.6**	**392.6**	**398.6**
Surplus remaining after Interest and Claims- Financial Assets	71.0	70.0	83.6

** portion of surplus used to finance interest payments and judgement claims*

Statistical Appendices

Appendix SA-I: Debt Restructuring 2014 – 2017

Table 7: Renegotiated Terms of Restructured Debt, 2014-2017

Debt Restructuring 2014-2017

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

Appendix SA-II: Assumptions for Medium-term Fiscal Framework

Table 7: Assumptions for Medium-term Fiscal Framework

CATEGORIES	2018	2019	2020
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected Nominal GDP		
Recurrent Expenditure			
Personnel Emoluments, Wages & Salaries and Allowances	The signed agreement between the Government and the Trade Unions for a 3 percent salary increase was taken into consideration for projections for the wage bill. It was also assumed that there will be no accumulation of arrears following the resumption of increment payments to public workers.	The signed agreement between the Government and the Trade Unions for a 4 percent salary increase was taken into consideration for projections for the wage bill. It was also assumed that there will be no accumulation of arrears following the resumption of increment payments to public workers	The fiscal rules were used i.e. each expenditure line is estimated to grow by 2% annually, adjusted by the previous year's inflation rate.
Goods & Services	The fiscal rules were used i.e. each expenditure line is estimated to grow by 2% annually, adjusted by the previous year's inflation rate.		
Current Transfers			
Interest Payments	External and domestic interest rate payments reflect the conditions stated in the contractual agreement		
Grants			
Budgetary	Budgetary grants are equal to the expected inflow from donor agencies		
Capital Expenditure & Net Lending	Projections for capital expenditure is based on the Public Sector Investment Programme (PSIP)		

Source: MOF

INFORMATIONAL APPENDIX

Appendix IA-1: Debt Restructuring

In 2015 and 2016, the Government announced agreements signalling successful renegotiations of its terms of debt obligations with the Export-Import Bank (EXIM) of the Republic of China (Taiwan), the bondholders of the international bond (2025 bond) and Paris Club creditors.

The Government also has ongoing debt restructuring negotiations with bilateral Non-Paris Club creditors, domestic debt holders and other non-bank financial institutions.

The agreed terms are summarised below for completed negotiations as at the end of 2017:

Table 8: Summary of Active Debt Restructuring

Creditor	Debt Relief	Terms	Actions in 2017	Notes
Republic of China (Taiwan)	*Haircut*: 50 percent reduction	*Maturity*: 15 years. *Grace Period*: 3 years *Interest Rate*: 7.0 percent	Haircut of $2.96m to be applied	Hurricane clause[9] included.
International Bond	*Haircut*: 50 percent reduction	*Maturity*: 15 years. *Grace Period*: 0.5 years *Interest Rate*: 7.0 percent	Following the successful completion of the IMF programme, Remaining 25.0 percent applied	
Bilateral Creditors	*Haircut*: Part 1-25 percent reduction in 2015 Part 2- 25 per cent reduction in 2017	***ODA Claims*** *Maturity*: 20years. *Grace Period*: 7 years *Interest Rate*: 7.0 percent ***Non-ODA Claims*** *Maturity*: 15years. *Grace Period*: 8 years *Interest Rate*: 7.0 percent	Haircut applied	Hurricane clause included
Domestic Debt	*Refinance:* *T-Bills converted to Bond*	*Maturity*: 7 years. *Interest Rate*: 3.0 percent		

[9] The hurricane clause allows Grenada to defer payments for a specific period in the event of a natural disaster