REPORT 1

BUDGET FRAME-WORK PAPER

GOVERNMENT OF GRENADA

BUDGET FRAMEWORK PAPER

Submitted To

The Parliament

By

The Minister of Finance and Energy

In Fulfillment of item 1(a) of the Schedule in the Public Management Act No. 17 of 2015

2018 – 2020

November 27th, 2017

BUDGET FRAMEWORK PAPER

2018 - 2020

1. Purpose

1.1 Item 1(a) of the Schedule in the Public Financial Management (PFM) Act No. 17 of 2015 requires the preparation of a medium-term budget framework based on estimates for the fiscal year and for two consecutive years thereafter, which take into account the economic and development policies that are consistent with the achievement of Government's macroeconomic objectives.

1.2 In keeping with this requirement of the PFM, this document assesses the medium-term implications of the proposed 2018 Budget and provides:

a. A summary assessment of recent economic performance including a summary of 2017 fiscal performance compared with the 2017 Budget.
b. A summary of the macroeconomic and fiscal forecasts for the period 2018-2020.
c. A summary of fiscal policy and the statement of the medium-term fiscal policy objectives.
d. Summary of fiscal risks.

2. Recent Economic Performance

2.1 The Grenadian economy maintained a positive growth path after the completion of its Home-grown Structural Adjustment Progamme. Public finances strengthened as a result of improved economic performance, as well as enhanced revenue administration and increased collection.

2.2 Over the 3-year period of the Structural Adjustment Programme, real growth averaged 5.8 percent, and in 2017 an overall growth of 4.5 percent is estimated, buoyed by strong performances of the Construction, Tourism, Transport, Private Education and Manufacturing sectors (Table 1).

2.3 Inflation is estimated to remain positive in 2017, as international oil prices recover and world food prices rise marginally.

2.4 The unemployment rate is estimated to have declined in 2017 to 24.0 percent from 28.2 percent in 2016.

Table 1: Real Gross Domestic Product 2015-2017

	Actual 2015	Revised 2016	Prelim 2017
Agriculture, Livestock and Forestry	44.8	-13.9	-5.7
Fishing	-3.1	6.4	-4.3
Mining & Quarrying	40.7	-34.6	27.7
Manufacturing	3.7	4.6	11.3
Electricity & Water	2.3	5.5	1.4
Construction	7.0	13.1	22.8
Wholesale & Retail Trade	9.5	-3.5	6.1
Hotels & Restaurants	0.5	9.2	7.8
Transport and Storage	4.7	9.5	8.0
Communications	-12.1	-5.3	1.0
Financial Intermediation	12.0	4.3	1.8
Real Estate, Renting and Business Activities	2.0	2.0	1.8
Public Administration	0.2	0.3	-0.4
Education	5.2	2.8	4.1
Health and Social Work	-2.0	-0.7	0.9
Other Community, Social & Personal Services	-1.0	3.6	0.5
Activities of Private Households as Employers	0.7	0.8	0.8
Real Gross Value Added	5.6	2.0	4.5
Real GDP (Market Prices)	**6.4**	**3.7**	**4.5**

*Percent Growth

Sources: ECCB, CSO, MOF

2.5 In the External sector, the current account balance continued to improve with a narrowing of the deficit, largely as a result of increased travel receipts (3.5 percent).

2.6 Financial market conditions remained stable with improvements in non-performing loans, despite excess liquidity and a decline in domestic credit.

2.7 The fiscal account continued to record impressive results with all tax categories comfortably exceeding their respective 2017 targets. A primary surplus was achieved in 2017 for the third consecutive year. Similarly, an overall surplus was realised for a second successive year.

2.8 Table 2 compares the provisional estimated fiscal outturns for 2017 with the budgetary targets.

Table 2: Summary of Provisional Fiscal Outturn 2017

	EC$M			as a % of GDP	
	Actual Provisonal	Budget	Variance (%)	Acutal Provisonal	Budget
TOTAL REVENUE AND GRANTS	**774.4**	**809.1**	**-4.3**	**25.8**	**27.7**
TOTAL REVENUE	**678.6**	**657.2**	**3.3**	**22.6**	**22.5**
CURRENT REVENUE	**678.6**	**657.2**	**3.3**	**22.6**	**22.5**
Tax revenue	**632.6**	**605.0**	**4.6**	**21.1**	**20.7**
Taxes on Income	132.3	120.1	10.1	4.4	4.1
Taxes on Property	24.2	22.4	7.7	0.8	0.8
Taxes on Domestic Goods & Consumption	259.2	250.0	3.7	8.6	8.6
Taxes on International Trade & Transactions	216.9	212.4	2.1	7.2	7.3
Non - Tax Revenue	**46.1**	**52.2**	**-11.8**	**1.5**	**1.8**
Grants	**95.7**	**151.9**	**-37.0**	**3.2**	**5.2**
TOTAL EXPENDITURE & NET LENDING	**708.3**	**753.3**	**-6.0**	**23.6**	**25.8**
CURRENT EXPENDITURE	**590.8**	**599.0**	**-1.4**	**19.7**	**20.5**
Personal Emoluments	254.0	249.6	1.7	8.5	8.6
Goods and Services	115.8	123.8	-6.4	3.9	4.2
Interest Payments	75.3	86.0	-12.5	2.5	3.0
Transfers	145.7	127.6	14.3	4.9	4.4
Net Lending	**0.0**	**0.0**	**-**	**0.0**	**0.0**
Capital Expenditure	**117.5**	**154.3**	**-23.9**	**3.9**	**5.3**
o/w: Grant financed	85.2	126.0	-32.4	2.8	4.3
Non-grant financed	32.3	28.3	14.1	1.1	1.0
Current Balance (before Grants)	**87.9**	**58.3**	**50.8**	**2.9**	**2.0**
Overall Balance (after Grants)	**66.1**	**55.8**	**18.4**	**2.2**	**1.9**
Primary Balance (before Grants)	**45.6**	**-10.0**	**-557.4**	**1.5**	**-0.3**
Primary Balance (after Grants)	**141.4**	**141.9**	**-0.4**	**4.7**	**4.9**
Memo Item					
GDP				3003.89	2915.8

Source: Ministry of Finance

2.9 Highlights of the 2017 fiscal performance are as follows:

i. A Primary Surplus (after grants) is estimated at $141.4 million (4.7 percent of GDP), 0.4 percent lower than the budgetary target of $141.9 million (4.9 percent of GDP). This however exceeds the target of 3.5 percent of GDP, which is stipulated by the Fiscal Responsibility Act.

ii. An Overall Surplus of $66.1 million (after grants) is estimated, exceeding the targeted amount by 10.3 percent.

iii. Alongside these improvements in fiscal performance, Central Government's cash position strengthened.

iv. Recurrent Revenue for 2017 is estimated at $678.6 million (22.6 percent of GDP); 3.3 percent above the budgetary target of $657.2 million (22.5 percent of GDP).

v. Tax revenue is estimated at 21.1 percent of GDP. This reflected a strong performance across the major tax types, resulting from a combination of robust real sector performance, the full impact of tax policy changes that were implemented during the Structural Adjustment Programme, and bolstered collection operations.

vi. Taxes on income, property, domestic goods and services and international trade are all expected to surpass their budgetary targets by 10.1, 7.7, 3.7 and 2.1 percent respectively.

vii. Non-tax Revenue is estimated to be less than the budgetary target by 11.8 percent despite increased collection in CBI-related fees.

viii. Total Expenditure is estimated at $708.3 million (23.6 percent of GDP) as compared to the budgeted amount of $753.3 million (25.8 percent of GDP).

ix. A major highlight of expenditure operations in 2017 was the payment of approximately $17.9 million to public workers for salary increase (3.0 percent), increments for 2015 and 2017, and a 'one-off' payment (maximum $1,000).

x. The wage bill is expected to be higher than the budgetary target of $249.6 million by 1.7 percent mainly as a result of the payments made to public workers. The estimated outturn is however within the legislated ceiling of 9.0 percent of GDP.

xi. Total public sector debt is estimated to decline to 68.9 percent of GDP at the end of 2017 - a reduction of 10.1 percentage points compared to 2016. This decline is due primarily to principal reductions as a result of successful debt restructuring. Central Government debt stock is estimated to contract to 66.3 percent of GDP by the end of 2017 from 76.3 percent in 2016.

xii. Grant receipts continued to be the principal source of capital expenditure financing. Total Grants are estimated at $95.7 million, 37.0 percent less than the budgeted target of $151.9 million.

3. 2018 Budget Priorities

3.1 Grenada achieved substantial economic and fiscal gains under its recently-concluded Home-grown Structural Adjustment Programme. Therefore, every effort is being made to: (1) consolidate the gains and stay the course of fiscal prudence; (2) embed fiscal and debt sustainability; (3) manage fiscal risk; (4) build economic resilience; (5) improve the doing-business environment; (6) promote job-rich and inclusive growth; (7) modernise and improve efficiency in the public sector; (8) and enhance social development.

3.2 Accordingly, the key priorities for the 2018 Budget are as follows:

(i) Continuing the restructuring of the Inland Revenue and Customs & Excise Departments to further strengthen the administration and collection of revenues, as well as the alignment between tax policy and growth objectives, particularly in the areas of investment promotion and job creation.

(ii) Containing expenditure pressures by: (a) improving the management of the wage bill; (b) streamlining capital expenditure that is not financed by grants; and (c) developing the policy framework and operational guidelines to keep the growth of primary expenditure aligned with the requirements of the Fiscal Responsibility Legislation. A collaboratively-designed wage bill management policy has been identified as a critical element of the framework required to support this objective. This exercise is being undertaken as a component of a comprehensive human resource management strategy which is being led by the Department of Public Administration.

(iii) Building and maintaining the capacity and institutional structures required to support longer- term fiscal and debt sustainability.

(iv) Implementing Cabinet-approved guidelines for strengthening the Public Investment Management System to align project cycle management operations with the requirements of the PFM legislation. An important objective is to ensure that, with the risk of a slowdown in the flow of grant resources (especially from the EU and Petrocaribe) any surplus resources will be carefully programmed to support overall growth and debt reduction effort. Initiatives will also be taken to reduce the reliance on external resources for the preparation of critical pre-investment work. This will facilitate more efficient dialogue with funding agencies in what will most likely be a very competitive resource mobilisation environment.

(v) Intensifying efforts to reap the growth dividends that should accrue from the adjustment effort by implementing outstanding structural reforms to boost growth, productivity, competitiveness and small business development.

(vi) Pursuing strategic and targeted investments in key focus areas including:

a. Education
b. Health
c. Youth development
d. Housing
e. Physical Infrastructure
f. Agriculture and Fisheries
g. Tourism
h. Energy development
i. Information Communication Technologies
j. Public sector modernisation

4. Medium-Term Macroeconomic Outlook

4.1 The baseline projections suggest that the medium-term outlook is positive. The recovery effort is being consolidated and growth is gaining momentum, partly in response to the structural reform measures that were implemented under the recently-completed Home-grown Structural Adjustment Programme. Over the period 2018-2020, real economic growth is projected to average 3.3 percent. Table 3 provides a summary of the key elements of the macroeconomic framework, which inform the design of the medium-term fiscal programme.

Table 3: Macroeconomic Assumptions

	Actual		Provisional Estimates	Forecasts		
	2015	2016	2017	2018	2019	2020
Nominal GDP ($m)	2,691.9	2,851.7	3,003.9	3,153.7	3,269.5	3,418.3
Nominal GDP Growth (%)	9.4	5.9	5.3	5.0	3.7	4.5
GDP Deflator	2.8	2.2	0.8	1.6	0.4	1.2
Real GDP Growth (%)	6.4	3.7	4.5	3.3	3.2	3.3
CPI (%)	-0.6	1.7	1.7	2.0	2.0	2.0
Population	110,096	110,910	111,725	112,541	113,362	114,190
Nominal GDP Per Capita ($)	24,450.7	25,711.9	26,886.5	28,022.6	28,841.3	29,935.0
Unemployment	29.0	28.2	24.0			

4.2 The growth projections are premised on the following assumptions:

i. Recovery of the agriculture sector in the short term will be based on the timely resolution of challenges encountered in 2016 and 2017 through the implementation of measures to mitigate the impact of adverse weather condition, as well as prevent the proliferation of pests and diseases.

ii. The Agriculture, Wholesale and Retail, Transport and Storage and Manufacturing (beverage production) sectors should benefit from increased domestic consumption levels associated with a boost in aggregate demand.

iii. The Construction sector will maintain its momentum over the medium term, initially through the continuation of ongoing private sector projects and the start-up of major infrastructure projects including the UK-funded road development works. Beyond 2018, growth in the Construction sector will be driven by the implementation of investment projects.

iv. Beyond 2017, the Tourism sector will benefit from the expansion of room stock as ongoing hotel development projects come on stream.

v. Moderate expansion will continue in the Private Education, Tourism, and Other Service sectors.

vi. Continued implementation of a range of demand and supply-side reforms that are designed to contain fiscal risks, improve the investment climate and support job creation.

vii. The population is projected to grow at its historic average rate of 0.74 percent.

viii. The forecasts for inflation are based on the outlook for international fuel and commodity prices.

5. Medium-Term Fiscal Projections

5.1 The principal objectives of fiscal policy over the medium-term are to generate primary surpluses and reduce public debt, within the context of the rules-based Fiscal Responsibility Framework.

5.2 The assumptions informing the medium-term fiscal projections are set out in Table 4.

Table 4: 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

5.3 Table 5 summarises the medium-term fiscal framework, which informed the design of the 2018 Budget.

Table 5: Fiscal Projections 2018-2020

In millions of Eastern Caribbean Dollars (unless otherwise stated)						
	2018		**2019**		**2020**	
	Estimates	**as a % of GDP**	**Forward Estimates**	**as a % of GDP**	**Forward Estimates**	**as a % of GDP**
TOTAL REVENUE AND GRANTS	**858.4**	**27.2**	**817.1**	**25.0**	**842.8**	**24.7**
TOTAL REVENUE	**710.4**	**22.5**	**731.9**	**22.4**	**762.6**	**22.3**
CURRENT REVENUE	**710.4**	**22.5**	**731.9**	**22.4**	**762.6**	**22.3**
Tax Revenue	658.1	20.9	680.4	20.8	709.0	20.7
Taxes on Income	136.6	4.3	141.2	4.3	147.2	4.3
Taxes on Property	24.8	0.8	25.6	0.8	26.7	0.8
Taxes on Domestic Goods & Consumption	269.0	8.5	278.1	8.5	289.8	8.5
Taxes on International Trade & Transactions	227.7	7.2	235.4	7.2	245.3	7.2
Non - Tax Revenue	**52.4**	**1.7**	**51.5**	**1.6**	**53.6**	**1.6**
Grants	**148.0**	**4.7**	**85.1**	**2.6**	**80.2**	**2.3**
TOTAL EXPENDITURE & NET LENDING	**778.4**	**24.7**	**732.7**	**22.4**	**739.6**	**21.6**
CURRENT EXPENDITURE	**607.0**	**19.2**	**618.5**	**18.9**	**616.7**	**18.0**
Personal Emoluments,Wages & Allowances	265.6	8.4	277.1	8.5	277.1	8.1
Goods and Services	117.8	3.7	119.7	3.7	119.7	3.5
Interest Payments	67.8	2.1	63.6	1.9	59.5	1.7
Transfers	155.9	4.9	158.1	4.8	160.4	4.7
Net Lending	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital Expenditure	**171.3**	**5.4**	**114.2**	**3.5**	**122.9**	**3.6**
o/w: Grant financed	143.0	4.5	79.9	2.4	74.7	2.2
Non-grant financed	28.3	0.9	34.3	1.0	48.3	1.4
Current Balance (before Grants)	**103.4**	**3.3**	**113.4**	**3.5**	**146.0**	**4.3**
Overall Balance (after Grants)	**80.0**	**2.5**	**84.4**	**2.6**	**103.2**	**3.0**
Primary Balance (before Grants)	**-0.2**	**0.0**	**62.8**	**1.9**	**82.5**	**2.4**
Primary Balance (after Grants)	**147.8**	**4.7**	**148.0**	**4.5**	**162.7**	**4.8**
GDP (Nominal Prices)		**3,153.7**		**3,269.5**		**3,418.3**

Source: MOF

5.4 The tax revenue projections are based on the assumption that following a 2016 nominal growth rate of 5.9 percent it will be 5.3 percent in 2017, 5.0 percent in 2018, 3.7 percent in 2019 and 4.5 percent in 2020.

5.5 VAT is expected to account for 36.3 percent of total tax revenue, while trade and income taxes will account for 52.3 percent and 20.8 percent respectively, in 2018.

5.6 Under the current structure of the Budget, it is projected that an average tax effort of about 20.8 percent of GDP over the medium term will be achieved. This level of tax revenue could adequately cover recurrent expenditure requirements.

5.7 The achievement of these tax revenue targets will be supported by a continued focus on efficiency improvements at both the Inland Revenue and Customs Departments.

5.8 The Primary Expenditure projections are based on the application of the expenditure rules set out in the Fiscal Responsibility Act (FRA), which specify that:

i. Primary Expenditure should not grow by more than 2.0 percent a year adjusted by the previous year's inflation rate. In the case of the capital programme, the application of this rule is restricted to primary expenditure that is financed by non-grant resources.

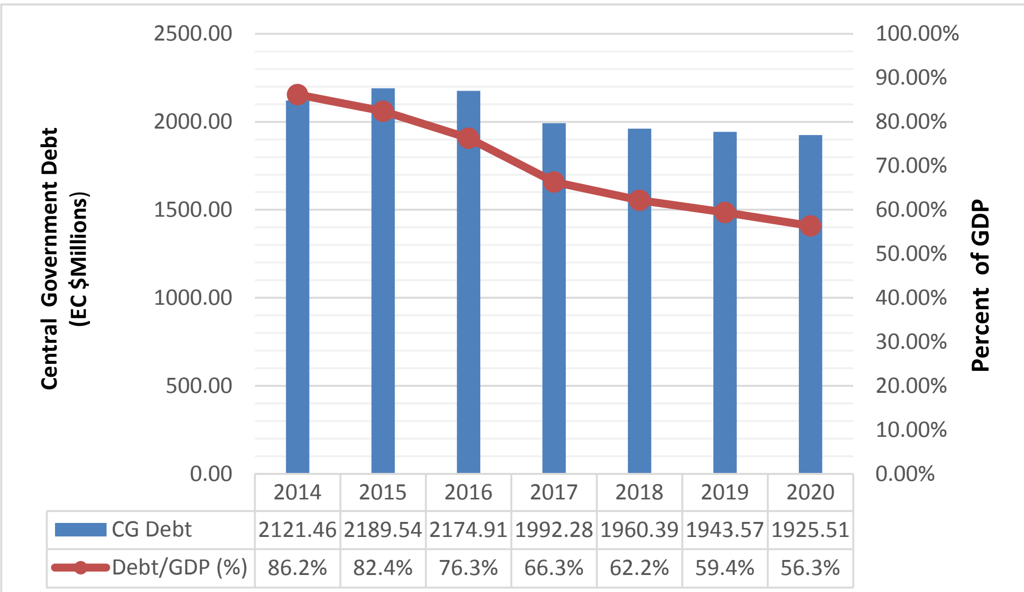
ii. The annual wage bill will not exceed 9.0 percent of GDP.

iii. The achievement of a primary surplus of 3.5 percent of GDP is the medium-term fiscal policy target until the public debt falls below the equivalent of 60.0 percent of GDP.

5.9 Capital Expenditure is projected to be 4.2 percent of GDP on average over the medium term. Non-grant funding (local revenues and loans) is projected to be 0.9 percent of GDP in 2018, 1.0 percent of GDP in 2019 and 1.4 percent of GDP in 2020. This reflects consistency with the focus of the Medium-Term Debt Management Strategy on containing indebtedness.

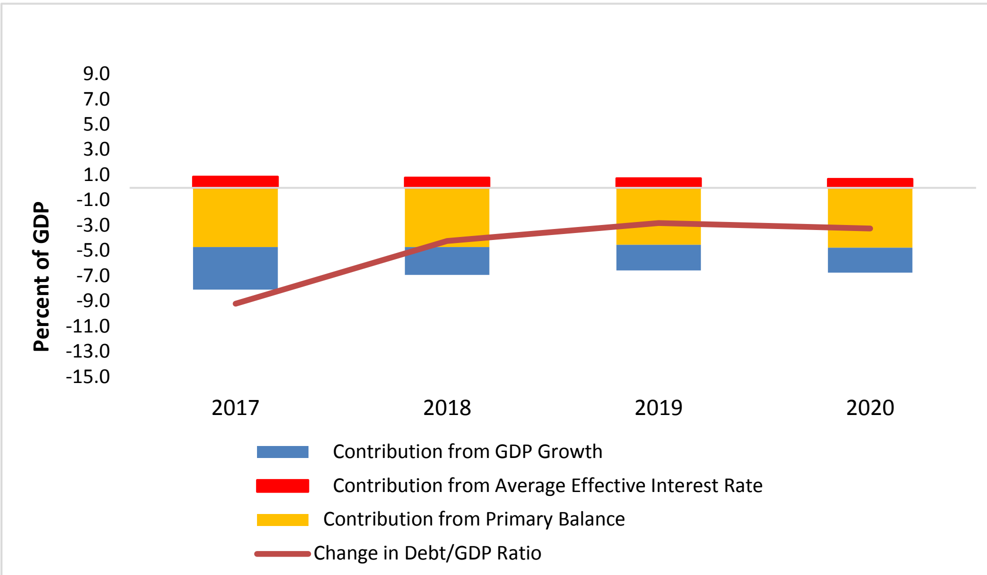
5.10 Central Government's debt is projected to be on a downward trajectory over the medium-term barring any exogenous shocks and provided that the growth projections are achieved. The debt stock is estimated to decline from 66.3 percent of GDP at the end of 2017 to 62.2 percent in 2018 and further decrease to 56.3 percent of GDP in 2020 (Figure 1).

Figure 1: Evolution of Central Government Debt



5.11 An analysis of the debt dynamics of public sector debt shows that the primary drivers of the projected decline in debt-to-GDP over the medium term are improvements in primary balances and sustained growth in GDP. The contribution of the average effective interest rate to the reduction in the debt to GDP ratio is forecasted to steadily moderate over the medium term. Results from the Ministry of Finance's debt sustainability analysis suggest that the debt is on a sustainable path over the medium term in keeping with the fiscal framework (Figure 2).

Figure 2: Debt Dynamics



6. Risk Assessment

Details of the fiscal risks are outlined in the Fiscal Risk Statement.

REPORT 2

COMPLIANCE ASSESSMENT REPORT: 2016-2017

GOVERNMENT OF GRENADA

Compliance Assessment Report: 2016-2017

Submitted To

The Parliament

By The Minister of Finance and Energy

In Fulfillment of Section 12 (1) (c) of the Fiscal Responsibility Act
No. 29 of 2015, as Amended

November, 2017

This Compliance Assessment Report to Parliament is in fulfillment of Section 12(1)(c) of the Fiscal Responsibility Act No. 29 of 2015, as amended (FRA), which stipulates that,

"The Minister of Finance shall prepare and submit to Parliament, along with the presentation of the annual and any supplementary budget, a statement showing the progress made towards compliance with the fiscal rules and targets under sections 7 and 8, in the relevant financial year."

More specifically, the FRA requires that the following information be provided in the Compliance Assessment Report:

i. A review of performance over the preceding two years in comparison with the fiscal rules and targets under Sections 7 and 8;

ii. The notional compensation primary balance;

iii. Explanations for every instance of underperformance or over performance and implications for future years; and

iv. The manner in which the annual budget or supplementary budget laid before Parliament complies with the fiscal rules and targets, and reflects improvement required for full compliance.

The FRA stipulates the following explicit fiscal rules and target:

1. **Primary Expenditure Rule**: the rate of growth of the primary expenditure[1] of the Central Government, and of every covered public entity, shall not exceed 2.0 percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate.

2. **Wage Bill Rule**: the ratio of expenditure on the wage bill shall not exceed 9.0 percent of GDP.

[1] Calculated as Total Expenditure less Interest Payments.

3. **Primary Balance Rule**: the targeted primary balance shall be a minimum of 3.5 percent of GDP.

4. **Contingent Liabilities Rule**: contingent liabilities arising from, as a result of, or in connection with Public-Private Partnerships shall not exceed 5.0 percent of GDP.

5. **Public Debt Target**: the total stock of public sector debt shall not exceed 55.0 percent of GDP.

As stipulated in the Act, the following are exempted from the fiscal rules and target:

a) Grants made to the Government for the financing of capital expenditures in Grenada and the associated expenditures.

b) Any capital expenditures made from or under the National Transformation Fund.

In accordance with the relevant stipulations of the FRA, the required details of this Report are set out as follows:

A. Review of Performance Over the Preceding Two Years in Comparison with the Fiscal Rules and Targets Under Sections 7 and 8:

- *Economic and Fiscal Performance in 2016 - 2017*

The economy is estimated to grow by 4.5 percent in 2017, buoyed by robust activity in the key economic sectors, especially in the Construction, Private Education and Tourism sectors. The estimated expansion in 2017 represents an acceleration relative to the growth of 3.7 percent in 2016.

Public finances continued to be healthy in 2017, despite a $13.9 million increase in the wage bill, weaker-than-expected grant receipts, and the reduction in the Personal Income Tax rate from 15.0 percent to 10.0 percent for individuals earning between $36,000 and $60,000 annually. A

Primary Surplus (after grants) of 4.7 percent of GDP is estimated for 2017, the third consecutive year of a strong primary surplus. The Overall Surplus (after grants) of 2.2 percent of GDP estimated for 2017 is roughly the same as the 2016 surplus. Improved revenue administration, continued expenditure discipline and increased economic activity underpinned the strong fiscal performance. As an upshot, the level of public debt maintained a downward trajectory, falling from 86.4 percent of GDP at the end of 2015 to 79.0 percent of GDP in 2016 and is projected to reach 68.9 percent at the end of 2017.

Table 1 presents a summary of the actual outturns of key fiscal indicators in 2016, as well as the Budgeted estimates and provisional outturns for 2017.

Table 1: Fiscal Summary

(EC$ millions except where otherwise stated)

	2015 (Actual)	2016 (Actual)	2017 (Provisional)	2017 (Budget)
Total Revenue and Grants	**649.5**	**751.6**	**774.4**	**809.1**
Current Revenue	**571.3**	**651.6**	**678.6**	**657.2**
Grants	**78.3**	**100.0**	**95.7**	**151.8**
Budgetary Grants	-	26.0	10.5	25.8
Capital Grants	78.3	74.0	85.2	126.0
Total Expenditure	**688.9**	**685.6**	**708.3**	**753.3**
Primary Expenditure	**597.3**	**603.3**	**633.0**	**667.3**
Current Expenditure	**468.9**	**565.5**	**590.8**	**599.0**
Personal Emoluments, Wages & Allowances	215.3	240.4	254.4	249.7
Current Balance after Grants	**102.4**	**86.1**	**87.9**	**58.3**
Primary Balance after Grants	**52.3**	**148.3**	**141.4**	**141.9**
Overall Balance after Grants	**(39.4)**	**66.0**	**66.1**	**55.8**
		Source: Ministry of Finance and		
Memo Items:				
Real GDP Growth (percent) (Market Prices)	6.4	3.7	4.5	-
Nominal GDP (Market Prices)	2,656.9	2,851.7	3,003.9	-
Public Debt (Included Guaranteed debt)	2,296.6	2,253.6	2,068.9	-
Inflation Rate (Period Average) (percent)	1.10	1.72	1.70	-

Based on the actual 2016 outturns and the 2017 provisional estimates for the wage bill, primary expenditure, primary balance, and contingent liabilities, the requirements under Sections 7 and 8 of the Act, with respect to the fiscal rules and targets were satisfied. Table 2 shows that all four fiscal rules were met in both years and the reduction in public debt puts it on track to meeting the operational target of 55.0 percent of GDP, which should be achieved by 2023.

Table 2: Compliance Matrix

Fiscal Variables	Fiscal Rule	2016 (Actual)	Rules/Target Complied with in 2016	2017 (Provisional)	Rules/Target Complied with in 2017
Primary Balance, After Grants (percent of GDP)	**3.5%** *(Not less than)*	5.2%	Yes	4.7%	Yes
Wage Bill (percent of GDP)	**9.0%** *(Not exceeding* **)**	8.4%	Yes	8.5%	Yes
Primary Expenditure less Capital Grants (real percent change)	**2.0%** **(***Not exceeding*)	0.9%	Yes	1.8%	Yes
PPP-related Contingent Liabilities (percent of GDP)	**5.0%** *(Not exceeding)*	0.0%	Yes	0.0%	Yes
	Debt Target				
Public Debt (percent of GDP)	**55.0%**	79.0%	On track	68.9%	On track

Source: Ministry of Finance and

In addition to the explicit rules and target, Sections 7 and 8 of the Act also set out other stipulations. An assessment of compliance with the additional stipulations is provided at Appendix 1.

B. The Notional Compensation Primary Balance:

Section 8(3)(d) of the Act, stipulates that *"a notional compensatory primary balance shall be calculated to reflect the cumulative difference between the targeted primary balance and the actual primary balance, by subtracting the actual primary balance from the targeted primary balance, as realized in any fiscal year from the first full fiscal year after commencement of this*

Act; if at any time the notional compensatory balance shows a value greater than 3.0 percent of GDP, revenue and/or expenditure corrective policies will be introduced to reduce the notional compensatory primary balance to zero over a period of three fiscal years to achieve compliance with the target, with at least one third of the adjustment in the first year."

As Table 3 shows, the notional compensatory primary balance (NCPB) was ($48.5) million or (1.7 percent) of GDP in 2016 and the cumulative NCBP is projected to reach ($84.8) million or (2.8 percent) of GDP by the end of 2017. Thus, both the actual outturn for 2016 and the projected outturn for 2017 are well below the stipulated threshold of 3.0 percent of GDP.

Table 3: Notional Compensatory Primary Balance

Key Fiscal Indicator	2016 (Actual) EC$ Million	2016 Target (Equivalent of 3.5% of GDP) EC$ Million	**2016 NCPB EC$ Million**	**2016 NCPB (% of GDP)**	2017 (Provisional) EC$ Million	2017 Target (Equivalent of 3.5 % of GDP) EC$ Million	**2017 NCPB EC$ Million**	**2017 NCPB (% of GDP)**
	a	**b**	**(b-a) = c**	**c/GDP**	**d**	**e**	**c+ (e-d) = f**	**f/GDP**
Primary Balance (After Grants)	148.3	99.8	(48.5)	(1.7)	141.4	105.1	(84.8)	(2.8)
Memo:								
Nominal GDP (Market Prices)	2,851.7				3,003.9			

Source: Ministry of Finance and

C. Explanations for every instance of underperformance or over performance and implications for future years

The NCPB satisfied the requirement of the Act in both 2016 and 2017, which means that no corrective fiscal policy actions were needed. The outturns reflected the over performance in the primary surplus relative to its target in both years, as a result of revenue expansion, expenditure containment and generally robust economic activity. Primary surpluses averaging 4.7 percent of GDP are forecasted over the medium term, which should underpin the projected downward trajectory of the debt-to-GDP ratio.

D. The manner in which the annual Budget or supplementary budget laid before Parliament complies with the fiscal rules and targets, and reflects improvement required for full compliance.

The 2017 Budget (summarized in Table 1), which was presented in December 2016, complied with the stipulations of the Act. Table 3 shows that all four fiscal rules were complied with and public debt was projected to fall to 79.0 percent of GDP at end-2016 from 86.4 percent of GDP in 2015. The medium-term debt projections that were done in 2016 had the ratio falling to 54.9 percent of GDP by 2020.

With respect to the Supplementary Budget that was passed in July 2017, it also complied with the requirements of the FRA. The supplementary expenditures are reflected in the 2017 provisional outturns, which are FRA-compliant.

Fiscal Variables	**Fiscal Rule**	**2017 (Budget)**	**2017 Budget Complied with Rules/Target**
Primary Balance, After Grants (percent of GDP)	**3.5%** *(Not less than)*	4.9%	Yes
Wage Bill (percent of GDP)	**9.0%** *(Not exceeding* **)**	8.5%	Yes
Primary Expenditure less Capital Grants (real percent change)	**2.0%** **(***Not exceeding*)	0.5%	Yes
PPP-related Contingent Liabilities (percent of GDP)	**5.0%** *(Not exceeding)*	0.0%	Yes
	Debt Target		
Public Debt (percent of GDP)	**55.0%**	79.0% (End-2016)	On track

Appendix 1

Table 3: 2017 Budget Compliance Matrix

Additional Provisions of Sections 7 and 8 of the FRA	Complied with in 2016 and 2017
Policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government and covered public entities shall be consistent with the targets under section 8 (1) and the policies and plans set out in the Medium-Term Fiscal Framework under Section 12(2) of the Public Finance Management Act 7 (1)(b).	Salary negotiations between Trade Unions and Government are guided by the stipulations of the FRA. Negotiations are forward looking; retroactive salary payments are essentially outlawed. Hence, public servants received one-off payments (not salary increases) in early 2017 for the period 2013-2016. Source: Ministry of Finance and Energy All requests for salary adjustments from covered SOEs are appraised by the Ministry of Finance, within the context of the FRA.
No multi-year commitment shall be entered during a period in which Parliament is dissolved 7(1)(c).	Parliament was prorogued in November 2016 and re-opened in December 2016. No multi-year commitment was entered into while Parliament was prorogued.
For purposes of subsection 1(b) the Minister must establish compensation negotiation cycles that allow for settlements for Government employees to be included in estimates of revenue and expenditure for the financial year to which settlement relates 7(2).	Three-year cycles are negotiated, which are included in the fiscal projections.

REPORT 3

FISCAL RISK STATEMENT

GOVERNMENT OF GRENADA

Fiscal Risk Statement

Submitted To

The Parliament

By

The Minister of Finance and Energy

In Fulfilment of Section 12(1)(e) of the Fiscal Responsibility Act No. 29 of 2015, as Amended

November, 2017

Section 12(1)(e) of the Fiscal Responsibility Act No. 29 of 2015, as amended, stipulates that:

> *"The Minister of Finance shall prepare and submit to Parliament, with the annual Budget Bill, a fiscal risk statement that shall reflect all decisions by Cabinet and the Minister and circumstances that may have a material effect on the economic and fiscal outlook.*
>
> *i. This statement must contain the following information: the sensitivity of economic and fiscal forecasts to changes in the economic outlook and economic shocks;*
>
> *ii. the exposure of the Government to contingent liabilities, including guarantees and obligations arising from judicial proceedings in progress;*
>
> *iii. fiscal risks arising from the financial sector, statutory bodies, state-owned enterprises, public-private partnerships, and any other institutions;*
>
> *iv. any commitment unaccounted for in the economic and fiscal forecasts;*
>
> *v. any other circumstance that may have a material effect on the economic and fiscal forecasts and is unaccounted for in the economic and fiscal forecasts; and*
>
> *vi. any measures implemented by Cabinet, or the Minister, to manage fiscal risks."*

The Government is committed to accelerating economic growth, reducing public debt to meet the operational target of 55.0 percent of GDP as set out in the Act, and ensuring the sustainability of public finances. This Fiscal Risk Statement outlines the Government's assessment of the key risks that can affect the achievement of these objectives in the short-to-medium term.

Table 1 presents the Risk Assessment Summary, organised into two broad categories: (i) Operational and (ii) Other. The following are deemed to be the most significant operational risks to public finances over the medium term: (i) lower-than-projected economic growth; (ii) lower-than-expected grant receipts; and (iii) higher-than-anticipated pension liabilities. Other risks include natural disasters.

Table 1: Risk Assessment Summary

Risk Type	Risk Description	Source of Risk	Risk Rating	Measures to Manage/Mitigate Risks
Operational	Macroeconomic.	Lower-than-projected economic growth.		Continue to implement reforms to build economic resilience, boost competitiveness, productivity and growth. Additionally, continue to build fiscal buffers by strengthening Government's cash position and increasing savings.
		Lower-than-expected grant receipts.		Continue to exercise fiscal prudence to contain discretionary expenditure, prioritise strategic capital investments and improve revenue administration and collection. Additionally, further strengthen country-readiness systems to reduce reliance on external resources for the preparation of critical pre-investment work.
		Higher-than-anticipated pension liabilities.		Complete assessment of records of public officers to determine the exact number of public officers eligible for pension and undertake pension restoration and reform in a phased and fiscally-sound manner.
		Operations of State-owned Enterprises.		Ensure that up-to-date audited financial statements are submitted in a timely manner and closely monitor management performance within the SOEs. Ensure that SOEs pursue their mandate and minimize competition among themselves.
Other	Natural Disasters.	Hurricanes, tropical storms, flooding.		Continue efforts to strengthen internal capacity to build resilience to natural hazards. The National Transformation Fund (NTF) Regulations require 40.0% of the monthly receipts to be set aside for arrears, debt reduction and natural disaster relief. Given the downward trajectory of the debt stock, this arrangement should allow for a

				progressively larger share of NTF resources to be available for disaster relief. Additionally, the successful negotiation of the inclusion of natural disaster clauses in the debt restructuring agreements will allow for a specified moratorium in debt service following a qualifying natural disaster. Further, as a member of the Caribbean Catastrophe Risk Insurance Facility, Grenada stands to benefit from insurance payments in the aftermath of a qualifying natural disaster.

Key	
	High Risk
	Medium Risk

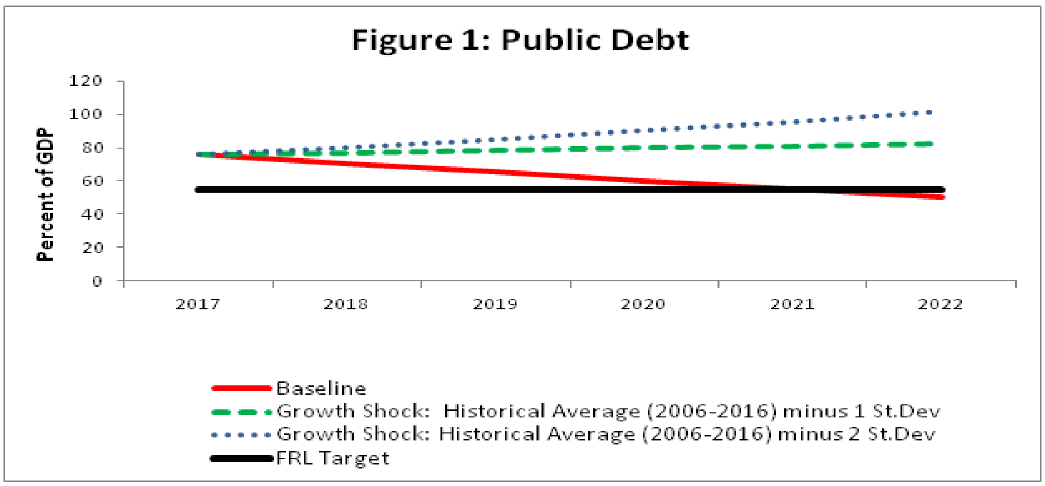
I. MACROECONOMIC RISKS

- **Lower-than-Projected Economic Growth**

As indicated by the International Monetary Fund in its World Economic Outlook Report that was released in October 2017, global risks are tilted to the downside over the medium term. Though the global economic recovery has picked up pace, it is subject to setbacks from the possibility of a more rapid tightening of global financial conditions, as well as a more pronounced shift towards inward-looking policies, which can affect trade and investments. Risks to the global economy also pose downside risks for Grenada through lower tourist arrivals, remittances and foreign direct investment, which can significantly affect public finances.

In addition to global risks, spillovers from adverse regional developments also pose downside risks for Grenada. For example, a protracted slowdown in Trinidad and Tobago's economy could impact Grenada's growth prospects given that Trinidad and Tobago accounts for a relatively large share (22 percent on average in the past decade) of Grenada's total Caribbean tourist arrivals. Moreover, the opening up of the Cuban tourist market may increase competitiveness pressures for Grenada's tourism sector over the medium term if the local sector is not adequately positioned to exploit any possible opportunities that may arise.

The results of a Debt Sustainability Analysis carried out by the Ministry of Finance are illustrated in Figure 1. The results show how vulnerable the baseline fiscal projections are to a growth shock. Based on the illustrative scenarios, the debt-to-GDP ratio increases to 82.5 percent in 2022, 32.2 percentages points above the baseline projection, as a result of a one-standard deviation growth shock that is assumed to occur in 2018. Under the more extreme scenario of a two-standard deviation growth shock, public debt expands to 101.4 percent in 2022, doubling the baseline projection.



Source: MOF

These vulnerabilities call for continued policy resolve to further improve deb order to firmly entrench medium-term debt sustainability. Building fiscal buffers and intensifying implementation of structural reforms to boost competitiveness, productivity and growth are therefore key policy imperatives. In particular, high priority should be given to: (a) accelerating reforms to improve the business environment for private investment; and (b) addressing implementation challenges that weigh on the performance of the public sector investment programme. In this regard, attention should be given to aligning the public investment management system to the project cycle management operations, consistent with the requirements of the PFM legislation.

- **Lower-than-Expected Grant Receipts**

Grant inflows from traditional partners, such as the European Union (EU) are likely to moderate significantly over the medium term as a consequence of Britain's exit from the EU. In this context, continued fiscal prudence will be important to contain discretionary spending, priorities strategic capital investments and improve revenue administration and collection. Additionally, improving country-readiness systems will be required to reduce the reliance on external resources for the preparation of critical pre-investment work. There may therefore be a need for foreign policy aggression to mobilize resources from alternative sources. This may require a grand pivoting to Asia, the Middle East and Sillicon Valley.

- **Higher-than-Anticipated Pension Liabilities**

Pension restoration and reform, if not deftly addressed, can pose significant risks to public finances. Therefore, the ongoing process must be carefully managed to prevent any major fiscal fallout. Accordingly, every effort must be taken to ensure that the records of eligible pensioners are as comprehensive as possible and in turn, the estimates of pension liabilities are as accurate as possible. It is crucially important that the restoration and reform process be carried out in a phased and fiscally-sound manner.

AA

- **State-Owned Enterprises**

The key fiscal risks that arise from SOEs are summarised as follows:

-*Large-scale future capital commitments* - Some SOEs have significant future capital expenditure plans, the funding for which in some case, is beyond the financial capacity of the entities concerned. This gives rise to potential fiscal risks for Government, either through direct funding or guaranteedborrowing on the part of SOEs..

- *Commercial risks* - Some SOEs have a large fixed-cost base and are leveraged to the success of their commercial operations. Negative external shocks could have a significant impact on the viability of these enterprises.

- *Unfunded liabilities* - There are unfunded pension liabilities in some of the SOEs, which may require funding assistance from the Central Government.

- *Guaranteed debts* **-** Where Government provides explicit or de facto guarantees of debts, there is the potential for short/medium-term calls on the Central Government resources where SOEs cannot service these debts.

- *Insufficient subvention funding / unfunded mandates* **-** Where SOEs fail to remain within their funding constraints, either through deliberate action or because of obligations imposed on them, the shortfall will ultimately fall on Central Government.

Within the framework of the "Letter of Expectations", Government will continue to closely monitor the operations of SOEs and enforce the requirement for audited financial statements to be submitted in a timely manner. Failure to maintain up-to-date audited financial statements makes it difficult to assess risks, and provides a red flag that Government should adopt a heighted awareness of management performance within SOEs.

II. OTHER RISKS

- ***Natural Disasters***

This is an inherent risk that Grenada faces given its vulnerability to natural hazards and environmental shocks. Environmental shocks have the potential to severely affect the productive sectors, with adverse fiscal consequences. Therefore, continued efforts are required to strengthen internal capacity to build resilience to natural hazards, while simultaneously protecting fiscal stability. The National Transformation Fund (NTF) Regulations require 40.0 percent of the monthly receipts to be set aside for arrears, debt reduction and natural disaster relief. Given the downward trajectory of the debt stock, this arrangement should allow for a progressively larger share of NTF resources to be available for disaster relief. The inclusion of natural disaster clauses in the debt restructuring agreements, which allow for a specified moratorium in debt service following a qualifying natural disaster, is intended to help preserve fiscal stability in the event of natural disasters. Furthermore, as a member of the Caribbean Catastrophe Risk Insurance Facility, Grenada stands to benefit from insurance payments in the aftermath of a qualifying natural disaster.

REPORT 4

MEDIUM -TERM DEBT MANAGEMENT STRATEGY

GOVERNMENT OF GRENADA

MEDIUM -TERM DEBT MANAGEMENT STRATEGY

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."

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.

Gratitude is also extended to the staff in the Ministry of Finance and Energy, specifically the Macro Policy Unit for their contribution to the document.

Finally, special thanks to the staff in the Debt Management Unit (DMU) for staying the course. Their efforts paved the way for the timely completion of this document.

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[2]) 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.

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[2] 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[3] is the outstanding amount of actual, current liabilities that are owed in a foreign legal tender.

[3] 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[4] 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.

[4] **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[5] Debt consists of all foreign-currency denominated instruments while domestic debt refers to all EC dollar denominated instruments (Figure 1).

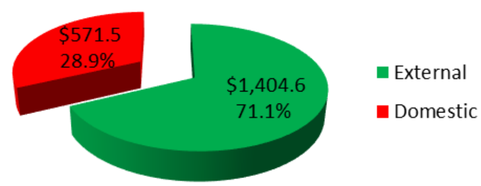

Figure 1: Composition of Central Government Debt

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).

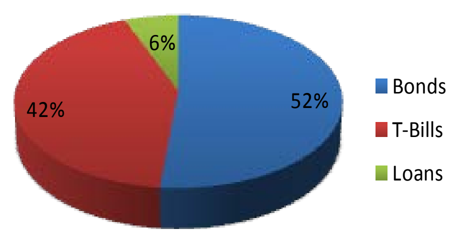

Figure 2: Domestic Debt by Instrument Type

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

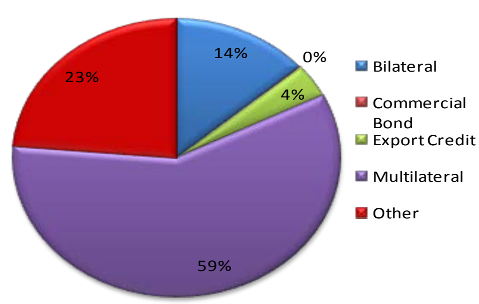

Figure 3: Foreign Debt by Creditor Category

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[5] The IMF External Debt Statistics guide defines Foreign Debt as debt that domestic currency. https://www.imf.org/external/pubs/ft/eds/Eng/Guide

Development Association (IDA), International Monetary Fund (IMF), Organization of Petroleum Exporting Countries (OPEC), International Bank 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 (**Error! Reference source not found.**). 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 (**Error! Reference source not found.**). 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.[6] 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.

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

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

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 (**Error! Reference source not found.**). 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.

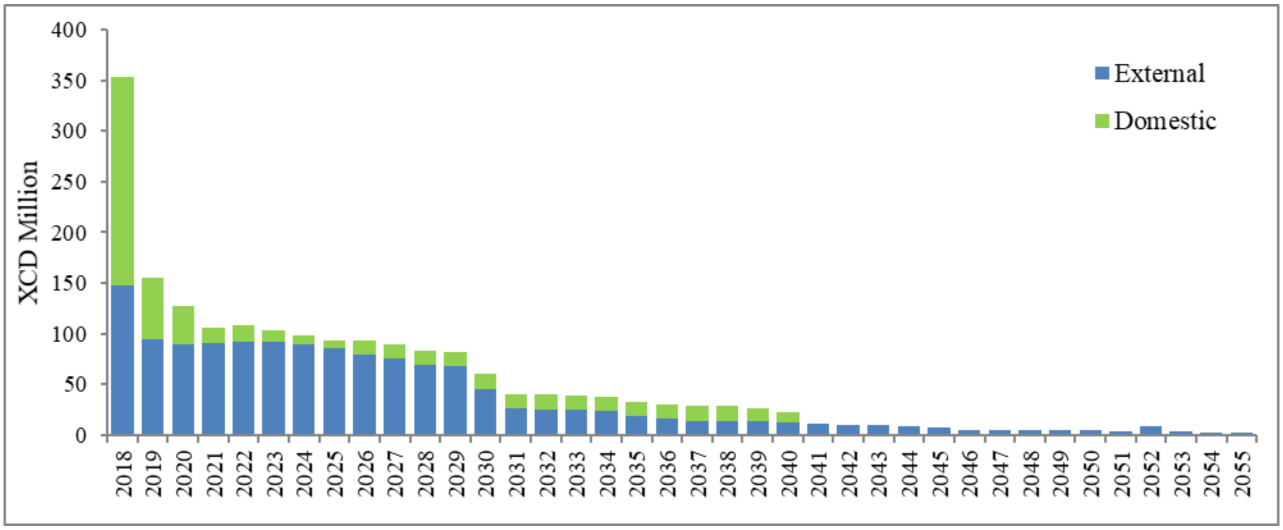

Figure 4: Grenada Redemption Profile as at year ended 2017

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[7]	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.

[7] 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[8])	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

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

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

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

Error! Reference source not found. 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.

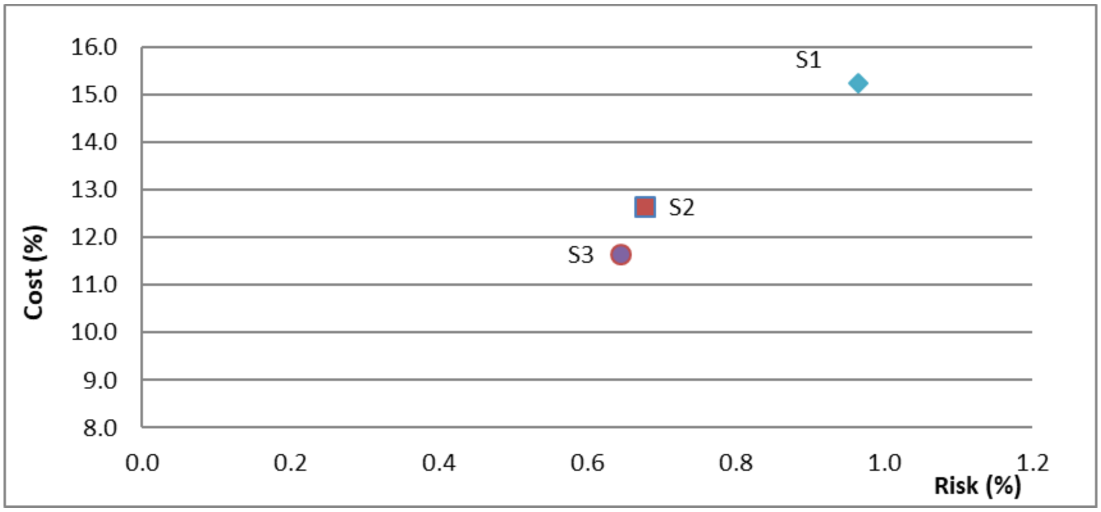

Figure 5: Cost-Risk Results for Alternative Strategies[9] - Total Debt Service to GDP (as at end of 2020)

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

[9] 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

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[10] 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	***ODA Claims*** *Maturity*: 20years. *Grace Period*: 7	Haircut applied	Hurricane clause included

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

	reduction in 2015 Part 2- 25 per cent reduction in 2017	years *Interest Rate*: 7.0 percent ***Non-ODA Claims*** *Maturity*: 15years. *Grace Period*: 8 years *Interest Rate*: 7.0 percent
Domestic Debt	*Refinance: T-Bills converted to Bond*	*Maturity*: 7 years. *Interest Rate*: 3.0 percent