GOVERNMENT OF GRENADA

PROSPECTUS

FOR

EC$35.0 MILLION

365-DAY TREASURY BILLS

FOR EC$10.0 MILLION

3 YEAR TREASURY NOTE

FOR EC$15.0 MILLION

365- DAY TREASURY BILLS

MINISTRY OF FINANCE
FINANCIAL COMPLEX
CARENAGE
ST.GEORGE'S

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DATE OF PROSPECTUS: JULY 2009

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1. ABSTRACT

The Government of Grenada proposes to raise a total of sixty million Eastern Caribbean dollars (EC$60.0 million) on the Regional Government Securities Market in 2009 as follows:

- Thirty-five (EC$35.0) million 365-day Treasury bill. The instrument is being issued to refinance an existing treasury bill currently listed on the RGSM which matures on July 20, 2009.
- A ten (EC$10.0) million 3- year Treasury note. This instrument is being issued primarily to finance Capital projects in the 2009 Budget.
- A fifteen (EC$15.0) million 365 day Treasury bill **is** intended to assist in the execution of Government's cash and liabilities management strategy.

The three- year issue will be repaid at the end of each term with the proceeds from a Sinking Fund which will be held at the ECCB**.**

In this Prospectus, references to "Grenada" are to the State of Grenada: references to the "Government" are to the Government of Grenada, and references to the "Managers" are to the Eastern Caribbean Securities Exchange.

The 365-day Treasury bill issues are being raised under the authority of the Revised Treasury Bills Act 2003. The 3yr-Note issue is being raised in accordance with Section 8 (2) of the Finance and Audit Act, Cap.102 of the Laws of Grenada, as amended. Under the Constitution of Grenada, principal and interest payments are direct charges on the Consolidated Fund.

The Government, having made all reasonable inquiries, hereby confirms that this Prospectus contains all information that is material in the context of the issue and offering of the Treasury Bill; that such information is true and accurate and not misleading in any material respect; that any opinions, predictions or intentions expressed herein on the part of the Government are honestly held or made and are not misleading in any material respect.

2. GENERAL INFORMATION

Issuer:	Government of Grenada
Address:	Ministry of Finance Financial Complex Carenage St. George's Grenada
Email:	finance@gov.gd ; grenadasecurities@gov.gd
Telephone No.:	473-440-2731 / 440-2928
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Date of Issue:	July – December 2009
Type of Security:	365 Day Treasury Bills & 3 Year Treasury Note
Amount of Issue:	EC $60,000,000.00
Purpose Security Issue:	The Treasury bill is being issued to refinance a maturing Treasury bill issue and as a tool in government's cash and liabilities management strategy.

Legislative Authority:	Revised Treasury bill Act 2003, Laws of Grenada. Section 8 (2) of the Public Finance Management Act 2007

3. INFORMATION ABOUT THE ISSUES

ISSUE 1: EC$35.0 MILLION 365 DAY TREASURY BILL

The Government of Grenada proposes to issue an EC $35, 000,000 Treasury bill on 17th July 2009.

Amount Of The Issue:	EC$35.0 million Eastern Caribbean Dollars
Tenor:	365 Day Treasury Bills
Security Trading Symbol:	GDB200710
Auction Date:	JULY 17, 2009
Settlement Date:	**JULY 20, 2009**
Maturity Date:	JULY 20, 2010
Bidding Period:	9:00 to 12:00 noon on auction day
Method of Issue:	The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.
Listing:	The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE).
Placement of Bids:	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange

Maximum Bid Price:	$94.00 (6.00%).
Minimum Bid:	EC$5,000
Bid Multiplier:	EC$1,000
Bids Per Investor:	**Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period**
Taxation:	Yields will not be subject to any tax, duty or levy by the Participating Governments of the Eastern Caribbean Currency Union (ECCU). The countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines.
Licensed Intermediaries:	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange.

- ABI Bank Limited Antigua and Barbuda
- Antigua Commercial Bank Limited
- Bank of Nevis Limited
- ECFH Global Investment Solutions Limited
- National Commercial Bank (SVG) Limited
- National Mortgage Finance Company of Dominica Limited
- National Bank of Anguilla Ltd.
- St. Kitts Nevis Anguilla National Bank Limited

- Republic Finance and Merchant Bank Ltd.(FINCOR) – Grenada
- Caribbean Money Market Brokers Ltd (CMMB Saint Lucia)
- Caribbean Money Market Brokers Ltd (CMMB) – Trinidad and Tobago

Currency: All currency references will be the Eastern Caribbean dollar unless otherwise stated.

ISSUE 2: EC$10.0 million 3- Year Treasury Note

The Government of Grenada proposes to issue an EC $10, 000,000 Treasury note on 29th September 2009.

Amount Of The Issue:	EC$10.0 million Eastern Caribbean Dollars
Tenor:	3- Year Treasury note
Security Trading Symbol:	GDN300912
Auction Date:	September 29, 2009
Settlement date:	**September 30, 2009**
Maturity Date:	September 30, 2012
Bidding Period:	9:00 to 12:00 noon on auction day
Method of Issue:	The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.
Listing:	The Treasury note will be issued on the Regional Government Securities Market (RGSM) and traded

on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE).

Placement of Bids: Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange

Maximum Bid Price: $93.25 (6.75%).

Minimum Bid: EC$5,000

Bid Multiplier: EC$1,000

Bids Per Investor: Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period

Taxation: Yields will not be subject to any tax, duty or levy of the Participating Governments of the Eastern Caribbean Currency Union (ECCU). The countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines.

Licensed Intermediaries: Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange.

- ABI Bank Limited Antigua and Barbuda
- Antigua Commercial Bank Limited
- Bank of Nevis Limited
- ECFH Global Investment Solutions Limited
  National Commercial Bank (SVG) Limited

- National Mortgage Finance Company of Dominica Limited
- National Bank of Anguilla Ltd.
- St. Kitts Nevis Anguilla National Bank Limited
- Republic Finance and Merchant Bank Ltd.(FINCOR) – Grenada
- Caribbean Money Market Brokers Ltd (CMMB Saint Lucia)
- Caribbean Money Market Brokers Ltd (CMMB) – Trinidad and Tobago

Currency: All currency references will be the Eastern Caribbean dollar unless otherwise stated.

ISSUE 3: EC$15.0 million 365 Day Treasury bill

The Government of Grenada proposes to issue an EC $15, 000,000 Treasury bill on 30th November 2009.

Amount Of The Issue:	EC$15.0 million Eastern Caribbean Dollars
Tenor:	365 Day Treasury Bills
Security Trading Symbol:	GDB011210
Auction Date:	November 30, 2009
Settlement Date	December 01, 2009
Maturity Date:	December 01, 2010
Bidding Period:	9:00 to 12:00 noon on auction day
Method of Issue:	The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.

Listing:	The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE).
Placement of Bids:	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange
Maximum Bid Price:	$94.00 (6.00%).
Minimum Bid:	EC$5,000
Bid Multiplier:	EC$1,000
Bids Per Investor:	Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period
Taxation:	Yields will not be subject to any tax, duty or levy of the Participating Governments of the Eastern Caribbean Currency Union (ECCU). The countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines.
Licensed Intermediaries:	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange.

- ABI Bank Limited Antigua and Barbuda
- Antigua Commercial Bank Limited

- Bank of Nevis Limited
- ECFH Global Investment Solutions Limited
  National Commercial Bank (SVG) Limited
- National Mortgage Finance Company of Dominica Limited
- National Bank of Anguilla Ltd.
- St. Kitts Nevis Anguilla National Bank Limited
- Republic Finance and Merchant Bank Ltd.(FINCOR) – Grenada
- Caribbean Money Market Brokers Ltd (CMMB Saint Lucia)
- Caribbean Money Market Brokers Ltd (CMMB) – Trinidad and Tobago

Currency: All currency references will be the Eastern Caribbean dollar unless otherwise stated.

4. EXECUTIVE SUMMARY

The Government of Grenada proposes to raise EC$60.0 million on the Regional Government Securities Market during the period July to December 2009, through the following issues:

- A Thirty-five (EC$35.0) million 365-day Treasury bill. This instrument is being issued to refinance an existing treasury bill currently listed on the RGSM which matures on July 17, 2009.
- A Ten (EC$10.0) million 3- year Treasury note. This instrument is being issued primarily to finance Capital projects in the 2009 Budget.
- A Fifteen (EC$15.0) million 365 day Treasury bill intended to assist in the execution of Government's cash and liabilities management strategy.

On May 15, 2009, Standard and Poor's Credit Rating agency reaffirmed Grenada's long term credit rating of B- with a stable outlook. The agency also mentioned that the outlook on Grenada remains stable with robust economic growth expected over the next several years.

Over the last four years, Grenada has witnessed a remarkable recovery following the devastating impact of Hurricanes Ivan and Emily in 2004 and 2005 respectively. The damage of Hurricane Ivan was estimated at US$900 million, more than 200% of Gross Domestic Product.

As a consequence of this economic catastrophe, Grenada was forced to restructure its commercial debt in 2005. This exercise was highly successful with 91% participation and resulted in a reprofiling of the debt from 2012 to 2025 with step up coupons. It should be noted that the Government of Grenada securities on the Regional Government Securities Market were not included in the debt restructuring exercise.

Following the commercial debt restructuring, Grenada approached the Paris Club for debt relief in 2006. The request was approved resulting in a rescheduling of its obligations to some of its bilateral creditors such as the Belgium, United Kingdom, United States and

France. These programs stipulate that Government should not default on any of its obligations and as such Government to date has ensured that all its creditors are serviced in full and on time.

On the road to recovery in 2006, Grenada engaged the IMF and entered into the Poverty Reduction and Growth Facility (PRGF). The PRGF is a comprehensive medium-term economic reform programme with the objectives of promoting sustained high economic growth, restoring fiscal and debt sustainability, reducing vulnerabilities, and alleviating poverty.

The programme is reviewed by an IMF team every six months against certain performance criteria and benchmarks. If most or all criteria are met, the team recommends completion of the next review to the IMF Executive Board. Following Board approval, a disbursement is made. To date, two reviews have been successfully completed - July 07, 2008 and December 12, 2008. The next review will be presented to the IMF's Executive Board early June 2009.

Grenada received another favourable report from the IMF following the Poverty Reduction Growth Facility (PRGF) third review mission in March 2009. In a press release[1] on the mission dated March 27, 2009, the IMF team alluded that "reflecting on the strong measures taken after the new government took office in July 2008, the authorities have made significant progress with their economic program, including a sizeable improvement in the fiscal balance." In addition The IMF stated that "the authorities have also made some progress with structural reforms to support improved economic management, and promote a foundation for broad-based growth."

In January 2009, Government restructured the Ministry of Finance and established a Debt Management Unit whose functions entail the re-organisation of central government's public debt to enable greater efficiencies and reduce the cost of debt servicing. In line

[1] IMF Press Release , External Relations Department, March 27, 2009

with this mandate, Government is exercising greater planning in relation to its financing. The newly reconstituted Debt Coordinating Committee within the Ministry of Finance has been charged with the responsibility of cash flow management and planning.

Although creditor risk is inevitable when purchasing securities, there are several positive signals which would help to mitigate any serious risks associated with Grenada's issues on the Regional Government Securities Market:

Grenada has one of the most diversified economies in the OECS region, as such its growth prospects are not dependent on a single major sector, but on several sectors. For the ten years prior to the Hurricane Ivan in 2004, Grenada growth averaged 4.8 per cent, higher than the ECCU average. Since then, the economy continued to grow as reconstruction and rebuilding programmes resulted in increased economic activity. Growth averaged 3.8 per cent for the period 2005 to 2008.

In 2008, the economy is estimated to have grown by 2.2 percent following real growth of 4.5% in 2007. Due to the current global economic crisis, it is projected that the Grenadian economy will contract by 0.5% in 2009 but return to positive growth in 2010.

Inflation was relatively high in 2008 (8.0%), on account of high food and fuel prices. With lower fuel prices in 2009, the rate of inflation is projected at 4.0 per cent.

The Government has honored its promise to ensure that all investors in securities issued on the RGSM are repaid in full and on time. To this end, all issues of treasury bills have repaid upon maturity.

5. 0 PUBLIC FINANCE

The Constitution and the Public Finance Management Act 2007 establish the legal framework for Government's budget process. The Minister of Finance is responsible for presenting the Estimates of Revenue and Expenditure (Budget) to the House of Representatives each year. Both houses of Parliament must approve the budget within four months after commencement of each fiscal year on January 1. The estimates of revenue are based on existing tax rates and projections of non-tax revenue by the various ministries. Changes to the tax regime or expenditures require Parliamentary approval. Generally, though not invariably, the Government implements new fiscal measures at the commencement of each fiscal year.

The Government's revenues and expenditures do not incorporate the revenues and expenditures of state-owned enterprises. Its accounts capture only its current and capital transfers to specified state-owned enterprises; dividends from state-owned enterprises, if any, are recorded as non-tax revenue. The budget constitutes the published central government fiscal accounts.

5.1 Audit and Review

Under the Constitution, Grenada's public finances must be audited annually by the Director of Audit (who heads the independent audit department of the Government). In addition, the International Monetary Fund, the Eastern Caribbean Central Bank and the Caribbean Development Bank review the Government's public finances annually. The Minister of Finance is required by the Constitution to lay the Audit Report and Statement of Accounts before Parliament.

The last Audit Report and Statement of Accounts which were tabled in Parliament gave an account of the period ended December 2007. The Accountant General will soon submit the 2008 Statement of Accounts to the Director of Audit.

The Government of Grenada places much emphasis on economic management, especially in areas of fiscal policy and financing and debt management. The Ministry of Finance is the organ within the Government of Grenada which administers, regulates and monitors programs and activities relating to fiscal policy and debt management.

Within the Ministry of Finance, the Accountant General's Department and the Economic Management & Planning Department in which the Debt Unit is situated are mainly responsible for the management of Government finances and the public debt.

5.2 The Department of the Accountant General

The main responsibilities and duties of this department are: to ensure the establishment and maintenance of proper accounting systems in every department of the Government of Grenada and to exercise supervision over public revenue and expenditure.

In order to properly perform these functions in an efficient, effective and timely manner, this department is divided into four operational units; Accounts, Treasury, Information Technology and Internal Audit.

5.3 The Budget and Debt Management Unit

This Unit discharges its functions by the following:

- The preparation of annual estimates of revenue and expenditure according to the macroeconomic and fiscal goals
- The facilitation and monitoring of the implementation of the annual budget
- The preparation of monthly, quarterly and annual reports on central government fiscal operations
- The preparations of monthly and quarterly debt reports
- The recording, updating and management of public debt

5.4 Risk Management Framework

The Government, in an effort to minimize its risk, has adopted an integrated approach to the management of Government finances and debt management. Some of these measures include:

- ❖ The requirement for Parliament to approve new debt contracted by Government save and except Treasury Bills;
- ❖ The legal authority for the issuance of Treasury Bills is the Revised Treasury Bill Act which limits new Treasury Bills issuance to no more than 25% of estimated current revenues in a given fiscal year.
- ❖ Only the Minister of Finance can incur debt on the country’s behalf;
- ❖ Competent staff for monitoring macroeconomic variables;
- ❖ An ex-ante analysis of new public debt by the Ministry of Finance
- ❖ Continuous staff training in debt management.

Additionally there is a debt co-ordinating committee at the Ministry of Finance which monitors the cash flow and assists with the planning and execution of debt payments and debt contraction decisions.

6. HISTORICAL BACKGROUND

Grenada was granted full Independence on 7 February 1974. After independence Grenada adopted the Westminster Parliamentary System. A Governor General (Grenada's Head of State), is appointed by and represents the British Monarch and a Prime Minister is both leader of the majority party and the head of government.

Sir Eric Gairy was Grenada's first Prime Minister. On 13 March 1979, the New Jewel Movement (NJM) ousted Gairy in a bloodless coup and established the People's Revolutionary Government headed by Maurice Bishop as Prime Minister. Maurice Bishop established close ties with Cuba, the Soviet Union and other eastern bloc countries, and suspended Grenada's Constitution.

In October 1983, a power struggle within the Government resulted in the murder of Bishop and several members of his Cabinet by elements of a faction of the NJM with the backing of sections of the People's Revolutionary Army.

Following a breakdown in civil order, U.S. President Ronald Reagan dispatched a U.S. military force to Grenada on 25 October 1983, who took control of the island. The Governor General named an interim advisory council to administer the Country until general elections were held in December 1984. The New National Party led by Herbert Blaize won 14 out of 15 seats in that election and formed the government and restored Grenada's Constitution.

7. GRENADA’S POLITICAL, JUDICIAL SYSTEM, DEMOGRAPHICS & SOCIAL CLIMATE

The State of Grenada consists of three islands situated between the Caribbean Sea and the Atlantic Ocean, 12.7 degrees north latitude and 61.4 degrees west longitude.

Grenada is the largest island, with a width of 12 miles and a length of 21 miles. Its topography is rugged, with a narrow coastal plain and volcanic mountain, the highest of which is Mount Saint Catherine, at 2,756 feet. It is divided into seven parishes: St. George, St. Mark, St. Patrick, St. Andrew, St. John, St. David and Carriacou and Petite Martinique. Carriacou has an area of 13 square miles and is much less mountainous than Grenada. Petite Martinique is about 586 acres and is dominated by a 750-foot high mountain in the middle of the island.

Grenada is 1,623 miles southeast of Miami, 80 miles north of Trinidad and 160 miles southwest of Barbados.

7.1 Political

Grenada is a parliamentary democracy closely modeled on the British Westminster model. The Grenada Constitutional Order of 1973, which established the Constitution of Grenada, granted Grenada independence from the United Kingdom on 07 February 1974. The Constitution prescribes Grenada’s form of government and guarantees fundamental rights and individual freedoms. Constitutional amendments require the affirmative vote of a two-thirds majority of each House of Parliament and passage of bills by referendum. Legislation requires passage by both Houses of Parliament and royal assent by the Governor General.

Queen Elizabeth II of the United Kingdom is the head of state, which, as sovereign of Grenada, has adopted the title Queen of Grenada. A Governor General, whom she appoints on the recommendation of the Prime Minister of Grenada, represents her in Grenada. The Governor General’s constitutional functions are largely of a formal or ceremonial nature.

The Parliament is a bicameral legislature, consisting of an elected House of Representatives and an appointed Senate. The House of Representatives has 15 members elected in accordance with the provisions of the Constitution. The Governor General appoints the Senate's 13 members, ten on the advice of the Prime Minister and three on the advice of the Leader of the Opposition. The Grenadian Parliament, unless dissolved earlier, continues for five years from the date of the most recent general election.

The National Democratic Congress who had been in opposition for the past thirteen years won 11 of the 15 seats contested in the July 2008 general elections.

7.2 Judicial System

Grenada's judicial system is based on the English system, including the principles and practice of English common law. The member states of the Organisation of Eastern Caribbean States (OECS) share a single supreme court, the Eastern Caribbean Supreme Court. In Grenada, this court is known as the Supreme Court of Grenada and the West Indies Associated States. The Supreme Court is headed by the Chief Justice, and administers the laws of each member of the Organisation of Eastern Caribbean States. It has two divisions, the High Court of Justice and the Court of Appeal. Two High Court judges are based in Grenada, but the judges of the Court of Appeal are resident in St. Lucia, and travel to Grenada to hear appeals from the High Court. Appeals from the Court of Appeal go to the Judicial Committee of the Privy Council in London, England, which is the final court of appeal.

7.3 Demographics

According to the last population census in 2001, Grenada had a population of 103,137 persons, evenly divided between males and females. The population growth rate in 2001 was 0.7%. At the beginning of 2007 the population was estimated at 107,165 persons with the same growth rate. Most of Grenada's population is of African descent, though there are some descendants of the early Arawak and Carib Indians. A few East Indians and a small community of descendants of early European settlers reside in Grenada. Approximately 65% of Grenada's population is under the age of 30. Grenada's official language is English, and its principal religions are Roman Catholic and Anglican.

7.4 Social Indicators

The following table sets out selected social indicators for Grenada.

Grenada: Selected Social Development Indicators

Human development rank out of 177 countries (2008)	82
Life expectancy at birth in years (2005)	73
Adult literacy rate in percent (2005)	96.0%
GDP per capita in U.S.$ (2006)	5,428
Population rate of growth (%)(2008)	2.2%
Infant mortality per 1,000 live births (2005)	17%
Access to improved water source (% of population)	98%

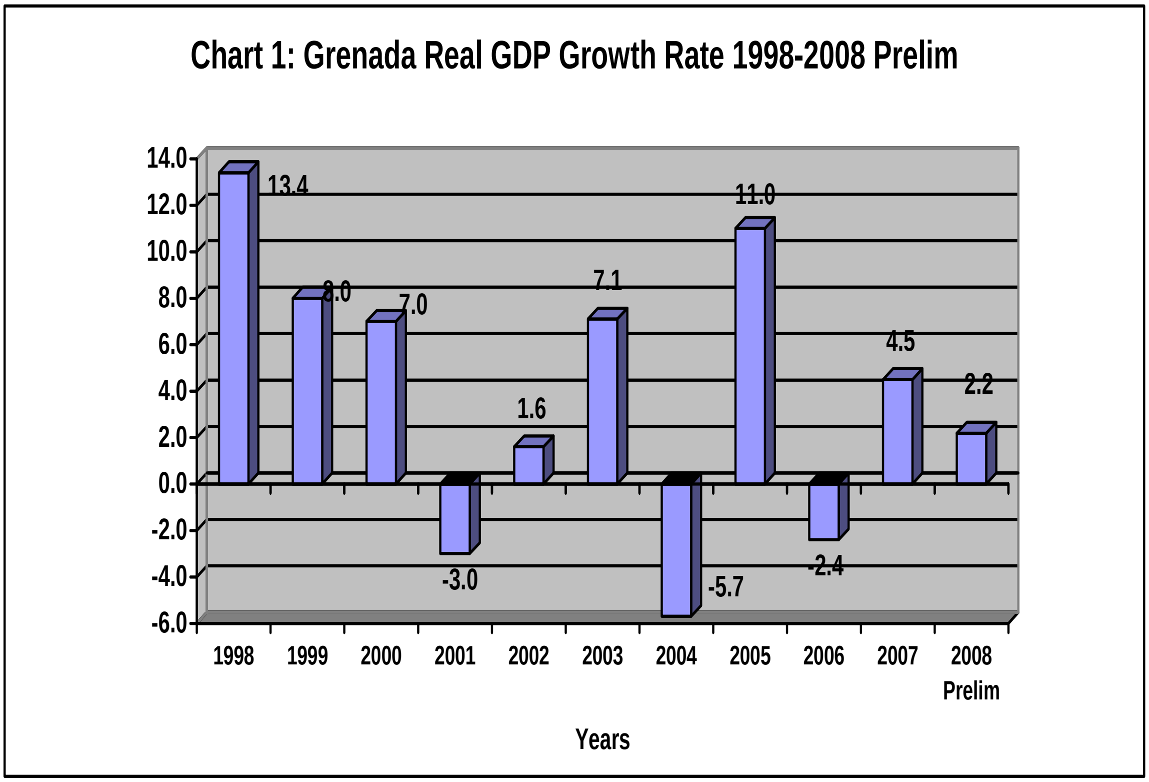
Source: 2008 United Nations Human Development Report and Ministry of Finance

8.0 MACRO-ECONOMIC PERFORMANCE

8.1 Economic Growth

Grenada has one of the most diversified economies in the OECS with its main sectors tourism, agriculture, construction and other services all making similar contributions to income, employment and output. Private enterprise dominates the economy accounting for approximately 80% of output with Government services accounting for the remaining 20%, primarily through the provision of physical infrastructure and social services.

The graph below shows Grenada's real GDP growth for the period 1998 to 2008.



Sources: Ministry of Finance and Eastern Caribbean Central Bank

In 2008, economic growth slowed to 2.2 % as the economic slowdown and the financial crisis in the United States resulted in less than favourable performance in some sectors (see chart 1). This contrasted with the 2007 outturn, when the economy rebounded slightly primarily on account of CWC World Cup cricket events hosted in Grenada.

The passage of Hurricane Ivan in 2004 resulted in a decline in economic activity by 5.7% with damages exceeding 200% of GDP (US$900 million). Prior to the hurricane, Grenada's economy was projected to grow by 4.7 per cent in that year. In July of 2005 Grenada was hit by Hurricane Emily, with the cost of the destruction estimated at 12.5 per cent of GDP.

Following the hurricanes the emphasis was on reconstruction and cruise tourism which enabled the economy to rebound in 2005 to record real positive growth of 11.0 per cent, mainly on account of an 83.1 per cent rise in construction activity, and a 25.4 per cent increase in value added in the communications sector. In 2006, the economy contracted by 2.4 per cent as activity in the construction sector declined by 30.1 per cent. The decline was due to ongoing projects, those related to reconstruction and those linked to preparation for CWC 2007, being negatively affected by a shortage of cement in the first half of the year. However, hotels and restaurants, agriculture, and manufacturing all recorded growth with higher levels of contributions to income, employment and output. By 2007 growth had moderated to 4.5 per cent, close to its normal trend, mainly on account of significant growth in other services. The economy is estimated to have grown by 2.2 per cent in 2008, a slowdown that is reflective of the global economic contraction.

8.2 Agriculture

In 2008, the agricultural sector grew by approximately 11.1 per cent over the 2007 output and increased its contribution to GDP to 6.4 per cent; due to. Government's continued efforts to revitalize the sector in 2007, by expanding the agricultural enterprise project. The project enabled the sector to grow by a further 4.2 per cent in 2007, returning to its 2006 real GDP contribution of 5.7 per cent.

In 2005, the agricultural sector contributed 4.5 per cent to the country's GDP, as compared to 8.6 per cent in the previous year. The fall in performance in 2005 followed the destruction of the sector with the passage of Hurricane Ivan, which resulted in lower output from the main crops.

8.3 Manufacturing

The manufacturing sector has traditionally been small in Grenada. However, with the establishment of the Grenada Industrial Development Corporation in the 1980s and, inflows of foreign direct investment into the sector aided by the creation of factory space for small and medium sized business, the sector has been increasing its contribution to GDP.

With the passage of Hurricane Ivan in 2004 value added in the sector had declined by 16.3 per cent from a 2003 level of 6.7 per cent of GDP. However, in 2005 the sector showed signs of good recovery when economic activity in the sector grew by 16.3 per cent.

In the wake of the 2008 global economic slowdown and financial crisis, particularly in the United States our largest trading partner, this sector's contribution to GDP fell to approximately 5.5 per cent. In 2007, the sector's contribution to GDP had increased to 6.2 per cent reflecting growth of 4.5 per cent, having declined slightly in 2006 by 2.8 per cent.

8.4 Tourism

The industry began to play a leading economic role at the start of the 1990s, with the operations of a number of new hotel plants. The Government decided then to target tourism as an engine of growth in order to reduce unemployment, increase foreign currency earnings and to strengthen the linkages with the agricultural and manufacturing sectors. Substantial foreign direct investment in new hotel facilities, mainly in Grenada's southern tourism belt, together with increased government outlays on promotion and human resources development, especially in hospitality management, resulted in the tourism sector increasing its contribution to GDP. Today, the sector is the largest single generator of foreign exchange in the Grenadian economy. In addition, efforts concentrated on improvements in the tourism sites with the implementation of the Tourism Enhancement Project.

With the passage of Hurricane Ivan in September 2004, over 75 per cent of the hotel plant was destroyed. Through assistance in the form of concessions provided by government, over 95 per cent of the hotels destroyed were rehabilitated at a much higher standard, in time for the staging of the 2007 Cricket World Cup. Additionally, in preparation for said event, over 1,300 rooms were added to the room stock through a special Home Stay programme.

Table 1 Key Tourism Indicators: 2001 to 2008

Key Indicators	2001	2002	2003	2004	2005	2006	2007	2008
Stay-Over Arrivals	123,351	132,416	142,355	133,865	98,548	118,654	130,096	123,770
Cruise Ship Passengers	147,381	135,061	146,925	229,800	274,956	218,684	270,323	292,710
Number of Cruise ship calls	287	259	267	249	260	221	259	219
Average length of stay	7.2	7.3	7.7	7.5	7.4	7.6	NA	NA
No. of rooms available	1734	1777	1758	860	1470	1537	NA	NA
No. of beds available	3142	3590	3844	1792	2326	NA	NA	NA
Total Recorded Visitor Expenditure (EC$M)	440.0	469.1	470.3	418.8	254.9	309.7	402.8	NA

Sources: Ministry of Finance and Grenada Board of Tourism.

Table 1 indicates an improvement in the performance of the industry since the passage of Hurricane Ivan in 2004. Following a 26.4 per cent fall in 2005, stay-over arrivals increased by 20.4 per cent in 2006 with improvements in the hotel plant and a corresponding increase in the number of rooms and beds available. In 2007, stay over arrivals increased by 9.6 per cent primarily on account of the CWC World Cup Cricket part-hosted in Grenada in that year. In 2008, there was a small drop in stay-over arrivals by 4.9 per cent to 123,770 arrivals, which was still higher than the stay-over arrivals for 2006. This fall was largely on account of the cancellation of flights by XL Airways in early September 2008.

Notwithstanding the passage of Hurricane Ivan, the number of cruise ship passengers visiting Grenada had increased. In December 2004, the Melville Street Cruise Terminal, which has the capacity to accommodate mega ships, was commissioned and in part, would have accounted for the rise in the number of cruise ship passengers. The number of cruise ship calls, moved from 249 ships in 2004, to 260 ships in 2005, an increase of 4.4 per cent. In 2007, cruise ship calls had risen to 259 calls from 221 calls in 2006 but fell to 219 calls in 2008 as calls were made by much larger ships.

In 2006, the hotel and restaurant sector's contribution to GDP stood at 5.8 per cent from 3.8 per cent of the previous year. By 2007, the sector had grown by 6.4 per cent, expanding its contribution to GDP to 5.9 per cent. In 2008 there was a slight decline of 3.0 per cent reflecting the impact of the global crisis and visitors' inability to take vacations. The sector nevertheless contributed 5.7 per cent to GDP.

8.5 Development

Infrastructure development is critical to Grenada's development since it provides strong positive externalities for the active participation of the private sector in the economy.

For this reason, Government has invested heavily in creating a strong economic and social infrastructure through the construction of roads, bridges, the rehabilitation of the country's seaport and airport, and the construction of schools and hospitals. This programme was intensified and accelerated with the reconstruction of the economy and meeting deliverables related to the preparation of CWC.

Today, Grenada boasts one of the best road infrastructures in the ECCU sub-region. Other recent infrastructural developments include: a newly constructed hospital, the expansion and modernization of the Maurice Bishop International Airport, the provision of adequate water supply even in the dry season with the construction of additional dams and the implementation of a metering programme, reliable electricity services throughout the country and modern telecommunications services. Most of the schools have been or are being rehabilitated through major projects.

In 2005, with the rehabilitation of the economy following Hurricane Ivan, valued added in the construction sector grew by 83.1 per cent; however, with many rehabilitation projects nearing completion activity declined by 30.1 per cent in 2006 and has declined by a further 5.0 per cent in 2007, despite the implementation of major private sector projects, especially in the hotel industry. In 2006, the sector contributed 11.4 per cent to the country's GDP, but this contribution fell slightly to 9.7 per cent in 2007. The downward trend in the sector continued in 2008, contributing 8.3 per cent to GDP on account of the slowdown in the world economy and the scarcity of financing for many private sector projects. This trend is expected to rebound in 2009 as alternative sources of financing have been identified for some of the major projects and, assuming a rebound in the US economy from the effects of the 2008 slowdown

9.0 GOVERNMENT FISCAL PERFORMANCE

The destruction caused by Hurricane Ivan in 2004, which was estimated at twice the 2003 GDP, resulted in a current fiscal deficit, for the first time in almost ten years, of EC$28.4m. Nevertheless, with budgetary support from the international community, Grenada was able to meet its current needs and close the financing gap.

During this time, government was able to implement measures to control non-essential expenditure. These factors have helped to improve the fiscal situation substantially resulting in current surpluses of EC$56.8m (3.8% of GDP), and EC$66.5m (4.4% of GDP) in 2005 and 2006 respectively (see Table 2). In 2007 the current account surplus increased further to EC$86.7m as activities such as Cricket World Cup (CWC) improved governments tax intake. The current account balance fell slightly in 2008 to EC$56.3 million, in line with the Pre World cup level.

The devastation of the economy also increased the development needs of the country. As a result, capital outlays grew sharply to EC$206m in 2005 and EC$285.8m in 2006 reflecting the acceleration in the implementation of ongoing and reconstruction projects.

Significant outlays were made in the areas of housing, agriculture, school rehabilitation, and in the replacement or repair of lost or damaged infrastructure.

The increased grants received in 2005 resulted in an overall surplus of 0.14 per cent of GDP in 2005. Grant receipts remained fairly buoyant in 2006 at $104.7m, but fell significantly in 2007 to $19.9m, followed by a recovery in 2008 to $51.5m. However higher outlays on capital spending led to the overall surplus recorded in 2005 being converted to a deficit in the following years. These deficits were financed by loans from domestic and external sources.

Table 2 Recent Fiscal Performance 2003-2009 First Quarter (EC$M)

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 Quarter 1**
Current Revenue	323.6	301.2	359.8	379.6	428.4	469.1	111.3
Current Expenditure	289.4	314.2	303.0	313.1	341.8	412.8	106.7
Current Account Balance	34.2	-13.0	56.8	66.5	86.7	56.3	4.5
Capital Revenue	0.3	1.3	0.3	0.1	0.1	0.1	0.0
Capital Expenditure	179.1	102.3	206.0	285.8	223.1	205.4	23.8
Grants	82.9	88.2	155.4	118.7	17.3	38.3	2.0
Overall Balance	-61.7	-25.8	6.5	-100.4	-119.0	-110.9	-17.2

Source: Ministry of Finance

9.1 Revenues

9.1.1 Current Revenues

In the first quarter of 2009, as illustrated in Table 2, current revenue collections were EC$111.3 million representing 23 per cent of the 2009 current revenue budget estimate of EC$488 million.

Current revenue collections grew in 2008 by 8.5% to $469.1million from $428.4 million in 2007. The improved revenue collection were due mainly to a higher intake from customs on account of higher prices, greater collections by Inland revenue from property tax, the strengthening administration in Inland Revenue and the effects of the National Reconstruction Levy. Moreover, an automatic fuel pricing mechanism was introduced in 2006 which included a flat tax of $3.00 per gallon. Petrol tax totaled $28.9 million in 2007 and 20.7 million in 2008 compared to $7.9 million in 2006.

9.1.2 Non-Tax Revenue

Non-tax revenue primarily represents earnings from government departments, dividends from state-owned enterprises and profits from the Eastern Caribbean Central Bank. Non-tax revenue increased from $39.7 million in 2007 to $46.8 million in 2008 an increase of 17.8%. For the first three months of 2009, non tax revenue intake is preliminarily estimated at $12.8 million, representing approximately 26 per cent of the 2009 budgeted EC$49.6 million.

9.1.3 Grants

During the first quarter of 2009, total grants received were 2.03 million. This is expected to increase as most of the grants are likely to be received in the second half of 2009. Total grants received in 2008 amounted to EC$38.3 million. These grants were utilized in the areas of housing, agriculture and schools rehabilitation. The main sources of these grants were the Government of the People’s Republic of China, the European Union, CARICOM and PetroCaribe.

9.2 Current Expenditure

During the first quarter of 2009, current expenditure was EC$106.7 million representing 25.4 per cent of 2009 budgeted current expenditure. Current expenditure grew by 21.0 % to EC$412.8 million in 2008 from EC$341.8 million in 2007, on account of growth in all categories of current expenditure. However outlays on wages and salaries grew by 28.3% reflecting payments of back-pay to public workers (2006-08) and gratuity payments to contract workers and pensioners. Expenditure on good and services also rose by 9.8 % reflecting higher prices on most items. In an effort to avoid these large disbursements in any one year going forward, government has now engaged the trade unions, civil society and NGO's in developing a social pact to link wage increases with productivity, as well as prices and likewise try to reflect the decisions made on a yearly basis instead of in cumulative payments. Additionally government has also formulated a waste reduction unit within the Ministry of Finance in an attempt to obtain greater efficiencies in government operations by pooling certain services that government procure.

9.3 Capital Expenditures

Preliminary data for the first quarter of 2009 indicated that capital expenditure was EC$23.8 million, representing only 13.2 per cent of the revised capital budget for 2009. In 2008, total capital expenditure fell by 4.1% to EC$205.4 million from $223.1 million in 2007. This outturn reflects the slowdown in the implementation of ongoing projects as a result of the world recession and financial crisis. This higher level of capital spending was financed in part by capital grants of EC$38.3m and the current account surplus of EC$56.3m, resulting in an overall deficit after grants of EC$110.9m which was financed by the sale of government lands and sales of a portion of government's shareholding in Cable & Wireless Grenada.

10.0 PUBLIC DEBT ANALYSIS

During the period 2004 to 2008, Grenada's public sector debt portfolio increased by approximately 17.9 per cent from EC$1.48 billion in 2004 to EC$1.75.billion in 2008, of which:

- Central Government Debt - EC$1.60 billion
- Government Guarantees - EC$148.9 million

During that period there was a reduction of 46.7% in government guaranteed debt from EC$279.5 million in 2004 to EC$148.9 million in 2008 as Government maintained its commitment not to issue new guarantees to Statutory bodies and private entities.

The level of Central government debt during the period 2004-2008 increased significantly as government was faced with some difficulties after the passage of Hurricane Ivan to revitalize the revenue earning sectors in the economy which In order to service its debt obligations.

Table 3 Central Government Debt (EC$ Millions) 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
Total Domestic	191.5	229.5	292.3	329.3	205.1	196.5	229.1	227.1
Treasury bills	45.5	60.6	87.5	72.5	68.9	71.4	78.2	78.1
Bonds	116.7	131.1	127.7	153.7	31.2	31.2	27.0	11.7
Loans	12.6	30.0	23.8	22.9	30.6	38.1	58.1	58.9
Others	16.7	7.8	53.3	80.3	74.5	55.8	65.8	78.4
Total External	387.5	684.8	733.9	874.7	1,215.8	1,297.4	1,354.3	1,369.9
Bilateral	161.8	152.1	138.3	134.5	177.8	210.1	226.5	212.2
Multilateral	154.1	186.8	230.9	271.1	308.1	357.4	401.9	398.4
Bonds	54.5	331.0	349.7	459.9	721.6	721.6	721.6	721.6
Others	17.1	14.9	14.9	9.2	8.2	8.2	4.2	4.2
Grand Total	579.0	914.3	1,026.2	1,204.0	1,420.9	1,493.8	1,583.3	1,607.3

Source: Ministry of Finance

In 2008, domestic debt fell to EC$227.1 million from EC$229.15 million in 2007 (see Table 3), as Central Government continued with its capital projects in the aftermath of the hurricanes of 2004 and 2005.

Although external debt is on the rise, growing by approximately 56.6 per cent from 2004 to 2008, the rate of growth of external debt has slowed from previous years. Government continues to seek cheaper sources of financing, mainly from multilateral and bilateral creditors to fund its capital programme. The significant rise in the external debt from its lower levels between 2001-2003 came in 2004, when shortly after the passage of Hurricane Ivan, Government announced its intention to seek the cooperation of its creditors to restructure its commercial debt. On November 15, 2005, EC$ 708.0 million of Grenada's commercial debts or approximately 47.2% of the total public debt was restructured. This resulted in the substantial lowering of debt service payments. Grenada will save approximately EC$365.0 million in interest payments over the next 10 years. The debt restructuring of commercial loans was completed in November 2005. Interest was capitalized and three of the loans guaranteed became part of the Central Government's debt stock. The maturity period was extended to 2025.

In addition, on May 12th 2006 the Paris Club agreed to reschedule EC$43.2m of Grenada's debt thereby reducing by over 90 per cent the debt service to the Paris Club creditors. This agreement follows the International Monetary Fund's (IMF) approval of Grenada's arrangement under the Poverty Reduction and Growth Facility (PRGF) on 17th April 2006.

Grenada's agreement with the Paris Club reduces over 90% of the debt service due to the Paris Club creditors during the Fund-supported programme under the PRGF. The agreement defers a very substantial part of the moratorium interest due under this rescheduling and defers, for the period 2009 through 2013, the repayment of arrears accumulated on short-term debt.

As part of the agreement, the Government of Grenada also agreed to seek comparable treatment from its other creditors. Additionally, the Paris Club agreed in principle to consider, if need be, a new treatment of Grenada's debt after December 31 2008, if Grenada fulfils the commitments under the present rescheduling

Notwithstanding the savings on interest payments, expenditure on goods and services grew strongly (31.1%) as arrears accumulated after Hurricane Ivan were liquidated in addition to the cost of replacement of lost or damaged material and supplies.

In 2008, Grenada's external debt only grew by 1.2 per cent reflecting mainly the proceeds of previously disbursed loans at EC$1.39 billion. In 2007, external debt grew by 4.4 per cent and reached EC$1.35 billion reflecting the expansion of the public sector investment programme (PSIP), which included the renovation of schools, the construction of bridges and road development in accelerating the preparations for the hosting of Cricket World Cup 2007.

TABLE 4: GRENADA INTEREST PAYMENT ON DOMESTIC AND EXTERNAL DEBT AS OF MARCH 2009			
	Year 2007	Year 2008	1st Quarter 2009
Medium and Long Term Debt 2007			
Interest Payments			
of which is External	21,830,823	22,253,115	11,324,399
of which is Domestic	5,168,886	6,123,613	6,752,456
Short Term Debt 2007			
Interest Payments			
of which is External	0	0	0
of which is Domestic	11,060,470	6,560,520	0
Total Interest Payment	38,060,179	34,937,248	18,076,855

Source: Ministry of Finance

In 2002, Grenada received an international credit rating from Standard and Poors of BB-/Stable. This rating was re-affirmed by Standard and Poors in June of 2004. After the passage of Hurricane Ivan on September 7, 2004, the rating was lowered and was further downgraded to Selective Default (SD) in December 2004 when Grenada was unable to pay interest on its two largest bond issues. After the successful debt restructuring exercise in 2005 Grenada's credit rating was raised to B-/Stable/C in 2006. On April 2, 2007 the rating was downgraded to CCC+/Stable/C due to the apparent late fulfillment of financial commitments with a local commercial bank and fiscal pressures in the first quarter of the year. However on August 2, 2007 Standard & Poor's raised its long-term sovereign credit rating to 'B-' from 'CCC+', reflecting steps taken by the government to improve debt management.

On May 15, 2009 Standard and Poor's again reaffirmed Grenada's long term credit rating of B-. The agency also mentioned that the outlook on Grenada remains stable with robust economic growth expected over the next several years. The recovery rating was lowered from 3 to 4 which is a probability of recovery in the event of default.

To ensure no adverse impact on the banking system, Government also announced in 2005 that it would continue to service its domestic debt obligations including Treasury Bills on the Regional Government Securities Market (RGSM) as they fall due. Government has continued to honor this commitment by ensuring that its obligations on the RGSM are met and continues to access the market for its short-term liquidity needs.

Grenada has requested debt forgiveness from its other bilateral creditors where possible. If not, it expects comparable debt relief as that sought from commercial creditors.

In respect of the multi-lateral creditors such as IMF, World Bank and CDB, assistance has been granted in the form of additional credit, interest rates and support for debt servicing.

PUBLIC DEBT RATIOS

As at December 2008 Public Sector Debt to GDP was approximately 108.6%, a slight decline from the 2007 level of Public sector debt to GDP of 109.1 %. Central Government debt was 94.0% of GDP in 2008, down from 99.9 % in 2007. The following table outlines the movement in the debt ratios over the period 2003 to 2008.

TABLE 5: Public Debt Ratios

	2003	2004	2005	2006	2007	2008
Public Sector Debt Stock to GDP (including Government Guarantees)(%)	100.8	116.7	104.9	108.2	109.1	108.6
Debt Stock to GDP (excluding Government Guarantees) (%)	79.1	95.0	95.0	98.6	99.9	94.0
Debt service to Current Revenue (%)	27.1	40.4	12.3	13.7	10.6	10.8
Debt Service to Export Earnings (%)	35.8	46.0	26.7	27.2	N/A	NA

Source: Ministry of Finance

Grenada's debt servicing to current revenues in 2008 rose slightly to 10.8 percent compared to 10.6 per cent in 2007 on account of the increase in the interest rate on the 2025 international bonds. Nevertheless the ratio remains within the internal benchmark of 15.0 per cent. However, while the debt to GDP ratio remains high government has indicated in its 2006-2008 Reform Programme, its intention to bring this ratio to about 60 per cent of GDP before the year 2020. Currently, Government has already commenced implementing several measures under its debt management strategy by:

- Ceasing to incur any new external commercial debt
- Conducting debt analysis of any new debt to be incurred
- Not incurring any new government guarantees

Currently the Government has re-established the Debt Management unit which is in the process of formalizing an official debt management strategy.

11.0 PROSPECTS FOR THE MEDIUM TERM 2008-2010

11.1 Medium-Term Economic Strategy

11.1.1 **Overview**

The Government's broad goal from 2008 to 2010 is in keeping with its Memorandum of Economic Policies 2008-2010 which focuses on fulfilling four main objectives namely promoting sustained high economic growth, restoring fiscal and debt sustainability, alleviating poverty, reducing vulnerabilities to natural hazards and maintaining financial stability.

While there are some signs of economic recovery as reflected in the positive growth rates averaging 4.0 per cent for the period 2005 to 2008, Government's major task for the medium term is the consolidation of that growth. The turnaround seen in the tourism, manufacturing and agricultural sectors to cater for the fall in construction activity, is a clear sign that the economic base of the country is being restored for sustained growth to take place over the medium term. As a result, government's fiscal position is likely to be strengthened.

The current global crisis is expected to also impact on Grenada in a similar way as most of the other OECS countries. Growth is expected to be minimal in 2009 as the recession is projected to lead to a slow down in the implementation of some of the major tourism projects. Unemployment is on the rise due to the slow down in this sector and there is a projected decline in remittances as nationals in the US and other countries also experience difficult times. Liquidity in the banking system is expected to tighten as Government's revenue collections for 2009 has also fallen behind 2009 projections.

Inflation is expected to average 4.0 per cent over the next two years largely due to higher food and energy prices. The deficit on the balance of trade is to narrow with slight growth in export earnings and a reduction in imports on account of increased domestic production and consumption. In addition, the expected growth in foreign direct investment in the tourism industry would lead to an overall balance of payments surplus of about 0.6 per cent of GDP in 2010. The following subsections summarize government's strategy for the primary sectors in the economy.

11.1.2 Agriculture

The Government remains committed to the development of a competitive and sustainable agricultural sector, which is capable of meeting domestic demand and competing externally. From 2008 through 2010, Grenada's strategy for the agriculture sector includes:

- Achieving greater food security (as Grenada currently imports approximately 90% of its food); through the commercialization of root tubers and vegetables. This includes the development of marketing and distribution channels for locally produced foods.
- Promote the establishment of a modern livestock sector that will provide quality meat to the local market;
- Promote a modern fishing sector through enhancing productivity and management of the fish resources;
- Establish a Station for Spice Research, Propagation and Farming Systems;
- Promote training and the enhancement of knowledge in the area;
- the continued construction of farm and feeder roads;
- the continued recultivation of watershed and forest areas; and
- Encouraging investment in, and financing of, existing and new agriculture production, in particular fruit trees.

11.1.3 Construction

The Government recognizes that the development of the construction sector is closely linked to other productive sectors of the economy, particularly tourism. The Government will provide opportunities for certification in a wide range of construction skills to ensure appropriate standards and techniques consistent with the Government's commitment to build back better.

11.1.4 Tourism

Over the last two years, Government's plans for the sector have focused on increasing the number of hotel rooms and transportation links to Grenada. Work also concentrated on improvements to attraction sites, product development and on the training of locals in hospitality arts.

The sector is well poised for a take off with a number of foreign investors undertaking major hotel projects in the sector. Plans are well advanced for the resumption of the Levera Hotel and Golf Course project in the north of the country. In 2008, work on the Four Seasons Development (a US$600 million project) commenced and will include hotel, condominiums and 18-hole golf course. The global crisis impacted slightly on the haste with which the project would have progressed in 2009 however work is expected to resume in the second half of 2009. The St. George's University Hotel expansion project is ongoing. The Government has also intensified its efforts to improve air links, especially with the United States, Canada and Europe. American Airlines resumed operation of a direct service to Grenada from Miami in November 2008.

The Government also intends to continue to pursue its policy of upgrading of all tourism attraction sites and placing the sites under commercial management. One new attraction will be a Hurricane Ivan museum. The National Stadium (has been)reconstructed at the cost of US$40 million is used as a venue for international cricket, sporting and other cultural events. The Government also plans to expand the use of the facility for sports tourism packages during winter months, to North America and Europe.

11.1.5 Manufacturing

The Government intends to encourage greater foreign direct investment in the manufacturing sector by providing tax incentive packages for local and foreign investors. The Government will encourage foreign investors to establish joint ventures with locals in agro-processing to strengthen the linkages among agriculture, manufacturing and tourism.

11.2 Fiscal Policy Strategy

As part of its overall economic management strategy, the Government has developed a medium-term strategy for the period 2006-2008, aimed at restoring growth, ensuring fiscal stability and debt sustainability.

11.3 Monetary Policy Strategy

Grenada is a member of the Eastern Caribbean Currency Union and of the Eastern Caribbean Central Bank. This arrangement includes a fixed exchange rate with the Eastern Caribbean dollar pegged to the US dollar at EC$2.70 to US$1 since 1976. The peg has withstood numerous external shocks, and has accounted in part for the stability of the exchange rate and the low inflation levels enjoyed by members of the ECCU. At present, the EC dollar is backed almost 100% by foreign reserves. Government will continue to pursue prudent fiscal policies to help preserve the stability of the Eastern Caribbean dollar.

11.4 Investment Management Strategy

In addition to Grenada's reconstruction programme and other direct efforts to promote Grenadian economic development, the Grenada Industrial Development Corporation (GIDC), a statutory corporation owned and partially financed by the Government, undertakes investment promotion.

The Grenada Industrial Development Corporation assists foreign investors in securing tax concessions, has constructed two industrial parks to attract businesses to Grenada and has engaged in investment and trade promotion activities in targeted areas.

11.4.1 Private Sector Development

Government strategy for private sector development is to continue to improve the climate for greater private investment in the economy. In May 2007, Government created a new Ministry of Economic Development & Planning, to facilitate the implementation of all measures aimed at improving the investment climate in the country. Some of the steps already taken to improve the business environment include addressing issues such as enforcing contracts, registering property and closing a business which were outlined in the World Bank's 2007 Doing Business report on Grenada. In September 2008, Government established an office for Private sector Development within the Ministry of Finance, to manage private sector relations and deliver on some key reform initiatives such as the new investment code, a Small Business Policy and promoting doing business reforms to allow faster processing of private sector transactions with Government.

Positive signs are already being seen from these efforts. A report from the GIDC indicated that in 2007 the value of private investment that actually commenced operations in the country amounted to $323m of which EC$233m were in the hotel sector and the balance were in the manufacturing and services sector. These investments would have created jobs for about 420 persons. A recent report from GIDC indicated EC$3.1 billion have been approved for investment in the country of which EC$4437.4 million have already been invested.

To be more specific a number of major foreign direct investments have already started in the country. The Port Louis Project of EC$1.5 billion is well underway. Upon completion, this project is expected to provide about 500 jobs. Other ongoing projects include the Bacolet Bay and Spa (EC$11.8m), the Grand Harbor Condominium (EC$81.3m), the Virgin Beach Development (EC$74M), the Point Marquis project

(EC$540M), the Cinnamon Hill of EC$538m and the Levera Resort project of EC$540m. In addition, plans are on the way for the start of the Four Seasons Hotel later in 2009. It is therefore expected that an estimated total of 3,200 jobs will be created upon completion of these projects over the next two to three years.

12.0 BALANCE OF PAYMENTS

Table 7: Grenada Summary of Balance of Payments (In million of EC dollars)

	2004	**2005**	**2006**	**2007**	**Prel. 2008**
Current Account Balance	-163.5	-526.1	-535.6	-703.9	-781.1
Exports (FOB)	86.5	74.6	68.5	90.2	74.2
Imports (CIF)	681.8	901.8	893.2	985.9	1,035.2
Services (net)	184.4	53.0	77.9	98.7	92.1
Of which Travel (net)	210.4	165.7	211.4	248.2	249.2
Income (net)	-176.0	-76.4	-78.0	-93.0	-98.0
Of which Public sector interest payments (gross)	44.3	1.3	0.3	0.3	0.7
Transfers (net)	326.4	222.2	97.5	65.8	68.6
Capital and Financial Account	288.6	452.1	550.8	732.9	764.0
Capital Account (transfers)	107.6	126.9	166.8	104.8	127.3
Financial account	181.0	325.2	384.1	628.1	636.7
Of which: Public sector borrowing	45.7	54.7	58.1	75.3	36.0
Of which: public sector amortization	29.4	17.2	87.5	44.6	50.4
Direct Investment (net)	175.5	189.4	242.4	470.5	435.4
Portfolio investment (net)	81.1	48.1	-2.0	-2.8	-12.3
Other investment	-75.6	87.7	143.7	160.4	213.6
Overall balance	125.1	-74.0	15.2	29.0	-17.2
In per cent of GDP					
Current account balance	12.9	35.2	35.2	42.9	45.4
Capital and financial account	22.8	30.2	36.1	44.7	44.4

Source: Ministry of Finance/ECCB 2008

Balance of payments data reflect the value of the transactions carried out between a country's residents and the rest of the world. Grenada has incurred an overall balance of payments surplus in each of the five years from 1997 through 2002. In 2004, the country's overall balance of payments position improved significantly and recorded a large overall surplus of $125.1 million because of budgetary support and the insurance receipts in the aftermath of Hurricane Ivan. In 2004 exports continued to decline and travel receipts also fell reflecting the damage to the country's hotel infrastructure with the passage of Hurricane Ivan.

In 2005 an overall balance of payments deficit of $74.0 million was realized reflecting deterioration from the surplus position achieved in 2004. This turnaround was partly attributable to diminishing donor support and high capital imports related to reconstruction needs. Also contributing to the turnaround in the current account was an increase in imports while receipts from tourism services continued to decline and income from transfers fell.

Data for 2006 indicate a small overall surplus of $15.2 million, mainly due to increased foreign direct investment in the hotel industry and larger capital transfers. At the same time, the current account deficit declined slightly reflecting lower levels of imports as the reconstruction neared completion and an increase in tourism receipts following the refurbishment and reopening of about 85 per cent of the hotel stock.

In 2007, the overall balance of the balance of payments increased to $29.0m due to significant increases in the capital and financial account which more than offset the deterioration in the current account. The surplus was however converted to a deficit of $17.2m in 2008, a reflection of the corroded economic position.

12.1 Remittances

According to Government estimates, between 50,000 and 100,000 Grenadians now live abroad. Countries with significant numbers of Grenadians include the United States of America, Canada and the United Kingdom. Remittances consist of funds sent to persons and entities in Grenada by Grenadians residing and working abroad. Approximately 75% of total remittances come from the United States. Remittances have been relatively stable prior to Hurricane Ivan and have been a key contributor to Grenada's balance of payments surplus in recent years. However, in 2004 there was a significant increase of 90.5 per cent to $129.8m. In 2005 remittances declined by 38.4 per cent to $68.5m, but still remained at a higher level than the years prior to Hurricane Ivan. In the years that followed, remittance grew marginally but steadily with $70.6m recorded in 2006, $72.3m in 2007 and $73.1m in 2008.

12.2 Capital and Financial Accounts

The capital and financial account reflects direct investments and monetary flows into and out of a nation. Grenada attracted significant inward capital transfers and direct foreign investment from 1997 through 2005. During this period, Grenada's capital and financial account registered annual surpluses.

Between 2001 and 2005, the capital and financial account of the balance of payments for Grenada moved from a surplus position of $242.4 million in 2001 to approximately $452.1m in 2005. This was due to a fall in other liability payments. The growth continued in the subsequent years. In 2006 the capital and financial account net increased to $550.8m and grew further to $732.9m in 2007. In 2008 the account recorded a net surplus of $764.0m.

12.3 Foreign Direct Investment

Foreign direct investment in Grenada has played an important role in the development of the secondary and services sectors of the Grenadian economy. The principal sectors to receive foreign direct investment in recent years have been the tourism, manufacturing, construction and tele-communications sectors. Foreign direct investment in Grenada has principally originated from the United States, followed by the United Kingdom, Canada and other Caribbean countries.

During the period 2002 to 2005,net foreign direct investment increased every year and totaled $189.4m in 2005. The performance in 2005 reflected higher level of economic activities attributed to the reconstruction of the economy after the passage of Hurricanes Ivan and Emily. Subsequently, in 2006, direct foreign investment is estimated at $242.4m, an increase of 28.0 per cent compared to 2005. In 2007, foreign direct investment almost doubled from the 2006 outturn to $470.5m as private investment activity in the tourism sector increased. The 2008 earnings declined slightly to $435.4m due to credit becoming increasingly difficult in the United States from which the vast majority of the investments originate.

13.0 FINANCIAL SECTOR ANALYSIS

Notwithstanding the passage of Hurricanes Ivan and Emily, the financial sector in Grenada has remained relatively stable. Shortly after Ivan the Government of Grenada requested the ECCB to conduct an on-site inspection of all commercial banks in Grenada. The report as presented to the Monetary Council of the ECCB indicated that all banks remained sound and have taken corrective measures to cushion the negative effects of the fall in economic activity and any default in debt servicing, would have had on their performance. In addition, the insurance companies remained stable with only a few not being able to meet their financial commitments with customers on time.

Nevertheless, given the need to maintain financial stability at all times the Government of Grenada has enacted the GARFIN[2] Act. The Act gives GARFIN, the authority to

[2] Grenada Authority for the Regulation of Financial Institutions

regulate and supervise all non-bank financial institutions.. Through GARFIN, The Government will ensure that the insurance sector, follows sound practices and does not pose risks to the financial system and insurance holders.

Furthermore in order to reduce vulnerabilities to natural disasters government is considering giving the Building Code force of law. As a step forward in mandating the Code and associated Guidelines, government plans to bring into force new planning regulations in the not too distant future. Government will endorse a Voluntary Construction Quality Assurance Mechanism which would see contractors, engineers, architects and financial institutions working together to ensure that all buildings are constructed to the required standards.

The Government has also signed up for the World Bank's Caribbean Catastrophe Risk Insurance Facility (CCRIF). As a participant in this facility, government will purchase parametric insurance on an annual basis that pays the government a predetermined amount in case of hurricane or earthquake. CIDA has generously agreed to pay Grenada's insurance premium for the first three years.

14.0 MONEY AND CREDIT CONDITIONS

In 2008, broad money M2 grew by 6.6 per cent to EC$1.8 billion from EC$1.6 billion in 2007, reflecting growth in quasi money.

Table 8: MONEY AND CREDIT CONDITIONS

GRENADA

MONETARY SURVEY

In Millions of Eastern Caribbean dollars

	2004	2005	2006	2007	2008
1. NET FOREIGN ASSETS	708.98	531.58	421.47	405.63	248.79
1.1 Central Bank (Imputed Reserves)	328.63	254.43	269.43	298.21	280.96
1.2 Commercial Banks (net)	380.35	277.16	152.04	107.42	(32.17)
2. NET DOMESTIC ASSETS	775.15	937.44	1,060.91	1,239.08	1,504.86
2.1 Domestic Credit	902.83	1,035.76	1,171.71	1,372.06	1,601.05
2.2 Other Items (Net)	(127.69)	(98.32)	(110.79)	(132,.98)	(96.19)
3. MONETARY LIABILITIES (M2)	1, 484.13	1,469.02	1,482.38	1,644.71	1,753.66
3.1 MONEY SUPPLY (M1)	340.46	315.34	309.46	355.76	355.52
3.2 QUASI MONEY	1,143.67	1,153.69	1,172.92	1,288.95	1,398.13

Domestic credit in 2008 grew by 16.6 per cent to EC$1.6 billion. Net credit to the private sector grew by approximately 10.9 percent for on account of a 12.3 percent increase to EC$995.7 million in household credit. Net credit to the central government also contributed to the increase, as it rose by 3.9 per cent to EC$108.9 million.

The monetary conditions in the banking system was also slightly higher in 2008 as the broad money supply M2 was up by 6.6 per cent to EC$1.8 billion reflecting growth in currency held with the public and quasi money.

A look at the distribution of credit by sector shows that for the period 2006-2008, credit to the agricultural sector averaged 1.2 per cent of the total credit by commercial banks; that credit to the tourism industry and the manufacturing sector averaged 7.7 per cent and 2.2 per cent respectively for the period stated; but that credit for personal uses (including house and land & durable consumer goods) averaged 58.8 per cent for the same period.

For the period 2006-2007, the agricultural sector on average received 1.1 per cent of the total credit granted by the commercial banks; while the corresponding figures for tourism and manufacturing was 7.7 per cent and 1.8 per cent respectively. Once again, the personal sector received the majority of the credit averaging 59.1 per cent for the same period.

In 2008, the distribution of credit by sector revealed marginal increase in credit to the agricultural sector to 1.4 per cent of total commercial banks credit, compared with 1.3 per cent in 2007. There were also increases in credit granted for manufacturing including mining and quarrying and distributive trade to 2.9 per cent and 8.2 per cent of total credit granted respectively.

The net foreign assets of the commercial banking system fell sharply in 2005 following substantial growth in 2004. The sharp fall in 2005 continued in 2006 but recovered to EC$107.4m in 2007. In 2008, the net foreign assets position moved to a net foreign liability position of 32.6 million on account of activity on the inter bank market however this is expected to rebound in 2009.

Liquidity in the commercial banking system remained stable over the period 2004 to 2008. The loans to deposit ratio increased from 57.6 per cent in 2004 to 66.0 per cent in 2005, to 73.2 per cent in 2006, reflecting the increased economic activity in the country.

In 2007 the ratio was 75.9 per cent, and this ratio rose even further to 80.0 per cent in 2008.

Since 2002 interest rates on savings have remained at 3.0 per cent. Prime lending rate fell from 9.5 per cent in 2003 to average 8.5 per cent for the period 2004-2008 and is expected to remain unchanged in 2009. Since 2006 other lending rates has steadily ranged from 7.5 per cent to 16.0 per cent.

15.0 INFLATION

Inflation, as measured by the change in consumer price index has remained relatively stable over the years, save and except for a period of high prices immediately after the passage of hurricane Ivan when inflation rose to about 8.0 per cent (on an end-of-period basis).

Inflation averaged 1.7% annually from 1997 through 2001. In 2002, the annual inflation rate, declined by 0.4 per cent (on a period average basis) compared with growth of 3.2 per cent. Inflation averaged 2.2 per cent in 2003 and 2004. However, in 2005 the average rate of inflation increased to 3.5 per cent mainly due to increases in fuel prices.

The spike in oil and food prices in 2008 resulted in higher than average levels of inflation. In 2007, inflation was 3.9 percent and in 2008 inflation reached an estimated 8.0 per cent. In 2009, inflation is projected at 4.0 % on account of lower oil and gas prices.

16.0 SECURITY ISSUANCE PROCEDURES AND SETTLEMENT AND SECONDARY MARKET ACTIVITIES

The treasury bills will be issued on the Regional Government Securities Market. This will operate on the Eastern Caribbean Securities Exchange trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be that of a competitive uniform price auction with open bidding. The ECSE and its subsidiaries are responsible for processing, clearance and settlement of securities and providing the intermediaries with access to their settlement projections report, which indicates the obligations of the intermediary.

Intermediaries are responsible for interfacing with prospective creditors, collecting applications for subscription and processing bids on the ECSE platform. A list of licensed intermediaries is provided in **Appendix II.**

Successful investors will be informed of their payment obligations and funds deducted from their respective accounts with the intermediaries. As an issuer on the RGSM the Government of Grenada will be subject to the rules and procedures established by the Regional Debt Co-ordinating Committee for the operation of the market including on going reporting and disclosure requirements.

17.0 CURRENT ISSUES OF GOVERNMENT SECURITIES ON REGIONAL AND INTERNATIONAL MARKETS

TREASURY BILLS

Issues Outstanding	EC$37.05M
Type of Issue	Government of Grenada Treasury Bills
Maturity in Days	365 Days
Date of Issues	July 17, 2008, 09 October, 2008
Yields	6.5 %, 6.50%
Discount Price	EC$93.50

BOND ISSUE

Issues Outstanding	EC $2.565M
Type of Issue	Government of Grenada International Bonds 2007-2012
Maturity	5 Years
Date of Issue	Oct. 5, 2007
Yield	2008 - 7.00%, 2009 - 7.00%, 2010 - 7.50%, 2011 - 7.50%, 2012 - 8.00%,

BOND ISSUE

Issues Outstanding	US $193.54M
Type of Issue	Government of Grenada International Bonds 2005-2025
Maturity	20 Years
Date of Issue	Nov. 15, 2005
Yields	1.00%, 2.5%, 4.50%, 6.00%, 8.00%, 8.50%, 9.00%

BOND ISSUE

Issue Outstanding	EC$183.95M
Type of Issue	Government of Grenada International Bonds 2005-2025
Maturity	20 Years
Date of Issue	Nov. 15, 2005
Yields	1.00%, 2.5%, 4.50%, 6.00%, 8.00%, 8.5%,9.00%

APPENDIX I: SUMMARY ECONOMIC DATA

This summary highlights some key economic data contained in this prospectus. You should read this summary together with the more detailed information contained in the prospectus.

SELECTED ECONOMIC INFORMATION: 2004-2008

Domestic Economy ($million)	2004	2005	2006	2007 Prel.	2008 Prel.
Nominal GDP at market prices	1267.2	1495.4	1524.0	1641.2	1739.2
Real GDP at factor cost	738.2	819.7	800.5	836.1	849.5
Per cent change in real GDP at factor cost	-5.71	11.03	-2.37	4.5	2.2
Consumer Price Index	2.3%	3.5%	4.3%	3.9%	8.0 %
Unemployment rate (annual average)	20.0%	18.8%	N/A	-	24.9
External Economy ($ million)					
Exports (fob)	86.5	74.6	68.5	90.2	74.2
Imports (fob)	599.9	813.7	720.2	885.3	926.2

Current Account Balance	-163.5	-526.1	-535.6	-703.9	-781.1
Direct Investment (net)	175.5	189.4	242.4	470.5	435.4
Capital and Financial Account Balance	288.6	452.1	550.8	732.9	764.0
Overall Balance of Payments	125.1	-74.0	15.2	29.0	-17.2
Tourism					
Stay-Over Arrivals	133,865	98,548	118,654	129,147	123,770
Total visitor expenditures (EC $M)	418.7	254.9	309.7	402.8	NA

Sources: Ministry of Finance, Eastern Caribbean Central Bank and Grenada Board of Tourism.

(1) All currency references will be the Eastern Caribbean dollar unless otherwise stated.

(2) For purposes of this table (and to facilitate comparisons with GDP figures of other sovereign issuers), certain nominal GDP amounts as specified are presented using market prices (including net indirect taxes) rather than factor cost (which excludes net indirect taxes).

APPENDIX II: LIST OF LICENSED INTERMEDIARIES

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Anguilla		
National Bank of Anguilla Ltd	P O Box 44 The Valley Tel: 264-497-2101 Fax: 264-497-3310 Email: nbabankl@anguillanet.com	**Principal** Selwyn Horsford **Representative** Idona Reid
Antigua and Barbuda		
ABI Bank Ltd.	ABI Financial Centre Redcliffe Street St John's Tel: 268 480 2824 Fax: 268 480 2765 Email: abibsec@candw.ag	**Principals** Casroy James Carolyn Philip **Representative** Laura Abraham
Antigua Commercial Bank Ltd.	ACB Financial Centre P O Box 3089 St John's Tel: 268 481 4200 Fax: 268 481 4158 Email: acb@candw.ag	**Principal** Peter N Ashe **Representative** Sharon Nathaniel
Dominica		
National Mortgage Finance Company of Dominica Ltd. (NMFC)	64 Hillsborough Street Roseau Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	**Principal** Caryl Phillip-Williams Linda Toussaint-Peter Curtis Clarendon **Representatives** Marilyn Edwards Debra Gordon-Peters Joel Denis

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Grenada		
Republic Finance and Merchant Bank Ltd. (FINCOR)	Melvin Street St George’s **Tel: 473 444 1875** Fax: 473 444 1879 Email: fincorec@caribsurf.com	**Principal** Wilma Williams **Representative** Mark Salina Sharlene Thomas
St Kitts and Nevis		
St Kitts Nevis Anguilla National Bank Ltd.	P O Box 343 Central Street Basseterre Tel: 869 465 2204 Fax: 869 465 1050 Email: national_bank@sknanb.com	**Principals** Winston Hutchinson Anthony Galloway **Representatives** Marlene Nisbett Petronella Edmeade-Crooke
The Bank of Nevis Ltd.	P O Box 450 Charlestown Nevis Tel: 869 469 5564 Fax: 869 469 5798 E mail: bon@caribsurf.com	**Principal** Hanzel Manners Kevin Huggins **Representatives** Lisa Jones Vernesia Walters
St Lucia		

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
ECFH Global Investment Solutions Limited	1 Bridge Street Castries **Tel: 758 456 6826** Fax: 758 456 6733 E- Mail: capitalmarkets@ecfhglobalinvestments.com	**Principals:** Donna Matthew Beverley Henry Carla Morton-Campbell **Representative:** Dianne Augustine Lawrence Jean
Caribbean Money Market Brikers Ltd. (CMMB St Lucia)	9 Brazil Street Castries Tel: 758 456 6826 Fax: 758 456 6733	**Principals** Carole Eleuthere-Jn Marie Sharmaine Rosemond **Representative** Anderson Soomer
St Vincent and The Grenadines		
National Commercial Bank (SVG) Ltd.	P O Box 880 Cnr. Bedford and Grenville Streets Kingstown Tel: 784 457 1844 Fax: 784 456 2612 Email: natbank@caribsurf.com	**Principals** Keith Inniss Jeffrey Ledger **Representatives** Patricia John Rashida Stephens
Trinidad and Tobago		

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Caribbean Money Market Brokers Ltd. (CMMB)	No. 1 Richmond Street, Ground Floor Furness Court, Independence Square Port of Spain Tel: 868 623 7815/5153 Fax: 868 624 4544/9833; 627 2930 Email: info@mycmmb.com	**Principals** Brent Salvary **Representative** Vishwatee Jagroop