GOVERNMENT OF GRENADA

PROSPECTUS

FOR $100.0 MILLION

91-DAY TREASURY BILLS

MINISTRY OF FINANCE
FINANCIAL COMPLEX
CARENAGE
ST.GEORGE'S

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DATE OF PROSPECTUS: JUNE 2007

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ABSTRACT

The Government of Grenada proposes to raise one hundred million Eastern Caribbean dollars (EC$100 million) during the period December 2007 to June 2008 through the issuance of 91-day Treasury Bills. The Treasury bills are being issued to finance the country's capital programmes.

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 91-day Treasury bills issues are being raised under the authority of the Revised Treasury Bills Act 2003. 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 Bills; that such information is true and accurate in all material respects and is 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.

The Government has not authorized the making or provision of any representation or information regarding the issue to you other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorized by the Government or the Managers or any of their affiliates. Investors should seek the advice of a licensed intermediary if there is any doubt about information stated in this Prospectus.

I. GENERAL INFORMATION

Issuer:	Government of Grenada
Address:	Ministry of Finance Financial Complex Carenage St. George's Grenada
Email:	finance@gov.gd
Telephone No.:	473-440-2731/440-2928
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Date of Publication:	December 2007
Type of Security:	91-day Treasury bill
Amount of Issue:	Twenty-five million (25,000,000) Eastern Caribbean Dollars (EC$)
Purpose Security Issue:	The Treasury bill is being issued to refinance a maturing Treasury bill.
Legislative Authority:	Revised Treasury Bills Act 2003, Laws of Grenada.

II. INFORMATION ABOUT THE ISSUE

a) EC $25,000,000.00 Treasury Bills to be auctioned during the period December 2007 to June 2008. The treasury bills will be auctioned on the following dates:

   05 December 2007 – trading symbol GDB060308

   25 January 2008 – trading symbol GDB280408

   07 March 2008 - trading symbol GDB090608

   29 April 2008 – trading symbol GDB300708

   19 May 2008 – trading symbol GDB190808

   10 June 2008 – trading symbol GDB100908

b) The Treasury bills will be issued with tenors of 91 (ninety one) days

c) The settlement dates will be:

   06 December 2007 – trading symbol GDB060308

   28 January 2008 – trading symbol GDB280408

   10 March 2008 – trading symbol GDB090608

   30 April 2008 – trading symbol GDB300708

   20 May 2008 – trading symbol GDB190808

   11 June 2008 – trading symbol GDB100908

d) The maximum bid price is $93.50 (6.50%).

e) Interest payments will be made at the end of the 91-day period.

f) 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.

g) The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary trading platform of the Eastern Caribbean Securities Exchange (ECSE).

h) The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.

i) The bidding period will be opened from 9:00 am on 05 December 2007 and will close at 12:00 noon on 05 December 2007.

j) The Treasury bills will mature:

06 March 2008 – trading symbol GDB060308

28 April 2008 – trading symbol GDB280408

09 June 2008 – trading symbol GDB090608

30 July 2008 – trading symbol GDB300708

19 August 2008 – trading symbol GDB190808

10 September – trading symbol GDB100908

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k) Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period.

l) The minimum bid amount is EC$5,000

m) The Bid multiplier will be set at EC$1,000

n) The Investors will participate in the auction through the services of a licensed intermediary

o) The current list of licensed intermediaries are as follows:

- ABI Bank Limited Antigua and Barbuda
- Antigua Commercial Bank Limited
- Bank of Nevis Limited
- Bank of Saint Lucia 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

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

III. HISTORY

Before the arrival of Europeans, Carib Indians inhabited Grenada. Columbus landed on Grenada in 1498 during his third voyage to the New World and named the island "Concepción". The origin of the name "Grenada" is obscure, but it is likely that Spanish sailors renamed the island for the Spanish city of Granada. By the early 18th century, the name "Grenada", or "la Grenade" in French, was in common use. Partly because of the presence of the Carib Indians, Grenada remained uncolonized for more than 100 years after its discovery, as early English efforts to settle the island were unsuccessful. The island remained under French control until its capture by the British in 1762 during the Seven Years' War. The Treaty of Paris formally ceded Grenada to Great Britain in 1763. Although France regained control of Grenada in 1779, the Treaty of Versailles restored the island to Britain in 1783. Grenada remained British for the remainder of the colonial period.

In 1833, Grenada became part of the British Windward Islands Administration. The Governor of the Windward Islands administered Grenada for the remainder of its colonial period. In 1958, the Windward Islands Administration was dissolved, and Grenada joined the Federation of the West Indies. After that Federation collapsed in 1962, the British Government unsuccessfully attempted to form a small federation out of its remaining dependencies in the Eastern Caribbean. Following this failure, the British and the islands developed the concept of associated statehood. Grenada assumed full autonomy over its internal affairs in March 1967 under the Associated Statehood Act of 1967. The British Government granted Grenada full independence on February 07, 1974.

After obtaining independence, Grenada adopted a modified Westminster parliamentary system based on the British model. 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 March 13, 1979, the New Jewel Movement (NJM) ousted Gairy in nearly bloodless coup, and established the People's Revolutionary Government headed by

Maurice Bishop, who became Prime Minister. His Marxist-Leninist government established close ties with Cuba, the Soviet Union and other communist bloc countries, and suspended Grenada's Constitution.

In October 1983, a power struggle within the Government resulted in the house arrest and subsequent murder of Bishop and several members of his cabinet by elements of the People's Revolutionary Government. Following a breakdown in civil order, U.S. President Ronald Reagan dispatched a U.S. military force to Grenada on October 25, 1983, which took control of Grenada to facilitate a return to parliamentary democracy. The Governor General named an interim advisory council to administer the Country until general elections in December 1984. The New National Party led by Herbert Blaize won 14 out of 15 seats in free and fair elections, formed a democratic government and restored Grenada's Constitution.

IV. 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.

Political

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 by referendum. Legislation requires passage by both Houses of Parliament and royal assent by the Governor General. Grenada is a parliamentary democracy closely modeled on the British Westminster model. 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 New National Party was re-elected in November 2003 for a third, five-year term. It has 8 seats in the House of Representatives, while the National Democratic Congress has 7 seats.

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 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 Organisation of Eastern Caribbean States member state. 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 Saint 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 Grenada's court of last resort.

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 the 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.

Social Indicators

The following table sets forth selected social indicators for Grenada.

Grenada: Selected Social Development Indicators

Human development rank out of 177 countries (2006)	85
Life expectancy at birth in years (2003)	65
Adult illiteracy rate in percent (2001)	4%
GDP per capita in U.S.$ (2006)	5,266
Population rate of growth (%) 2001	0.7%
Infant mortality per 1,000 live births (2006)	14%
Access to improved water source (% of population)	98%

[1]2006 United Nations Human Development Report

Source: International Monetary Fund

Ministry of Finance

School attendance is compulsory and primary and secondary education is substantially free. There are a number of vocational and technical schools, as well as, tertiary institutions, including St. George's University (which includes the School of Medicine), the T.A. Marryshow Community College and a branch of the University of the West Indies.

Healthcare in Grenada is largely government-funded. Hospital facilities in the public health sector include a 196-bed General Hospital in St. George's, and two rural hospitals in Mirabeau and Carriacou (Princess Alice and Princess Royal with 60 beds and 40 beds respectively). There are also three small, private hospitals. At the community level, there are six health centers and 30 medical stations scattered throughout the three islands, easily accessible by the entire population. Free medical and dental treatment is available at Grenada's public hospitals and clinics. Average life expectancy at birth in 2004 was 68 years for men and 73 years for women.

The 836 members of the Royal Grenada Police Force, which include a 96-member paramilitary special services unit and a 26-member coast guard, maintain security in Grenada. The country does not maintain a standing army but is a member of the Regional Security System, an organization headquartered in Barbados, which provides for law enforcement co-operation and assistance from other Caribbean Community (CARICOM) members.

V. FINANCIAL ADMINISTRATION AND MANAGEMENT

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 acts as an organ within the Government of Grenada which administers, regulates and monitors programs and activities relating to fiscal policy and financing and debt management.

Within the above named Ministry, the Department of the Account General and the Budget and Debt Unit primarily hold the responsibility for the efficient management of the Government finances and debt.

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 Other Accounts.

The Budget and Debt Management Unit

This department also holds primary responsibility for Government's debt and finances. The subdivision seeks to prepare annual budgets in a timely and accurate manner, on a consistent basis. Additionally, the unit pursues and safeguards the fiscal health of the State and ensures the proper management of public debt. As a means of adhering to its objectives, the Budget Unit has primary responsibility for:

- The preparation of annual estimates of revenue and expenditure according to the macroeconomic and fiscal goals
- The monitoring and facilitation 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

Risk Management Framework

Risk refers to the uncertainty that surrounds future events and outcomes. The Government in an effort to minimizing its risk and obtaining its objectives has taken a more integrated approach towards managing Government finances and debt management. Some of these measures include:

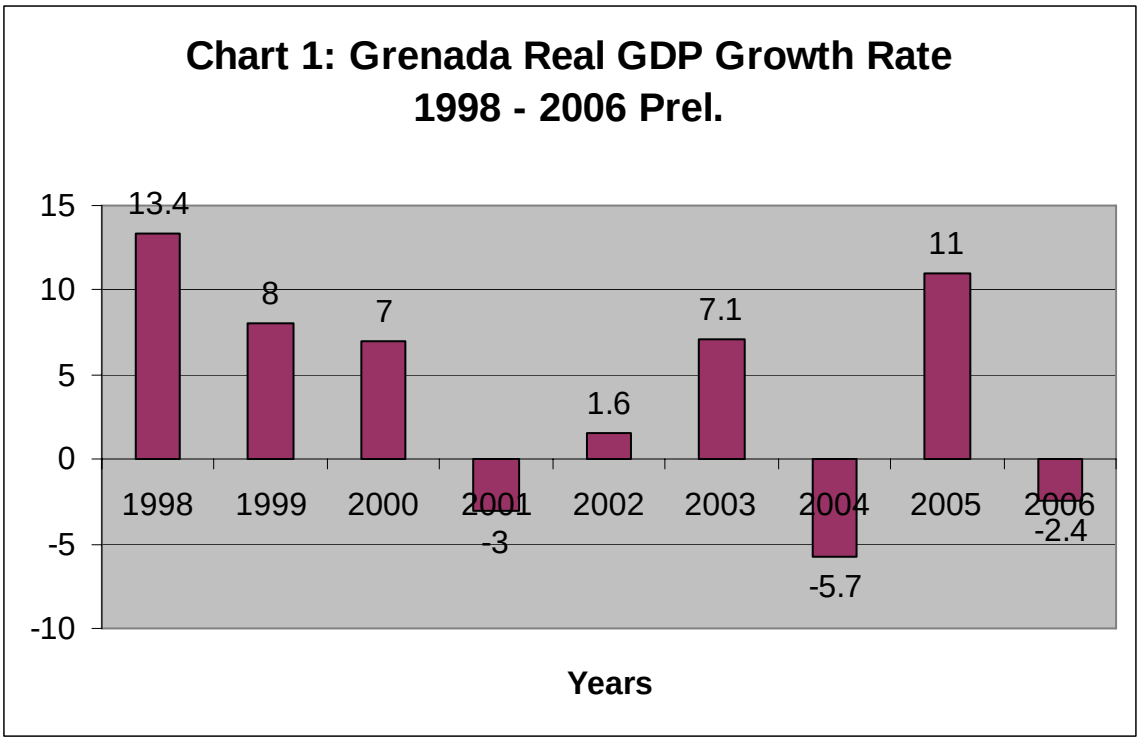
- Competent staffing for monitoring macroeconomic variables so as to take corrective measures on a timely basis;
- Parliament must approve any new debt that the Government undertakes;
- Only the Minister of Finance can incur debt on the country's behalf;
- An analysis of all public debt must be done and;
- Continuous training of staff.

VI. MACRO-ECONOMIC PERFORMANCE

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 while Government services accounts for approximately 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 2006.



Sources: Ministry of Finance and Eastern Caribbean Central Bank

From 1998-2000, Grenada's economy grew at an average 7.5 percent, higher than the average growth of 3.6 per cent in the OECS region for the same period.

The economy contracted by 3.1 per cent in 2001 because of global recession and the effects of the September 11th events. In 2002, there were some signs of recovery with growth of 1.6 per cent. In 2003, real GDP growth was 7.1 per cent primarily driven by higher level of activity in the construction, tourism and telecommunications sectors.

With the advent of Hurricane Ivan in 2004, economic activity declined by 5.7%. Prior to the hurricane, Grenada's economy was projected to grow by 4.7 per cent in that same year. In July of 2005 Grenada was hit by another hurricane, Emily, with the cost of the destruction estimated at 12.5 per cent of GDP.

With emphasis on reconstruction and cruise tourism following the hurricanes, the economy rebounded in 2005 to record real positive growth of 11.0 per cent mainly on account of a 83.1 per cent rise in construction activity and a 25.4 per cent increase in value added in the communications sector. Our preliminary data for 2006 indicates negative growth of 2.4 per cent as activity in the construction sector declined by 30.1 per cent as ongoing projects and those related to reconstruction and preparation of CWC 2007 were negatively affected by a shortage of cement in the first half of the year. However, hotels and restaurants, agriculture, and manufacturing all recorded increased economic activity and higher level of contribution to income, employment and output.

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 6 per cent (on an end-of-period basis).

Sectoral Developments

Agriculture

In 2005, the agricultural sector contributes 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 in its main sub-sector of crops.

In 2006, the Ministry continued to intensify its effort to revitalize the sector in a more organized manner. The EC$3m Agricultural Enterprise Development Programme provided soft loans to over 430 farmers involved in the rehabilitation of cocoa, nutmeg and banana fields. Special attention was also given to farmers involved in livestock, poultry and cash crop production.

In addition to providing loan financing, the Agricultural Enterprise Development Programme provided EC$300,000 in support of drainage; EC$433,000 for the purchase of fertilizer which was distributed to farmers and EC$986,000 for purchasing irrigation

equipment and supplies. Twenty-seven (27) farmers were also trained in Irrigation System Management and Operations.

A programme to strengthen the extension service was implemented by the Ministry in 2006. A total of ninety (90) persons were trained and these persons are now rendering assistance to the existing extension staff.

In 2006, the sector contributed 5.9 per cent of the country's GDP. In 2007, Government has continued its efforts to revitalize the sector by expanding the agricultural enterprise project. With this project, the agricultural sector is expected to grow by 17.5 per cent in 2007 and its contribution is expected to increase to 6.7 per cent of real GDP.

Tourism

The industry began to play a leading economic role at the start of the 1990s, with the operations of a number of new hotels. 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 linkage 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 and today being the largest 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. In addition, 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: 2000 to 2006(pre)

Key Indicators	2000	2001	2002	2003	2004	2005	2006 (pre)
Stay-Over Arrivals	128,864	123,351	132,416	142,355	133,865	98,548	118,654
Cruise Ship Passengers	180,308	147,381	135,061	146,925	229,800	274,956	218,684
Number of Cruise ship calls	360	287	259	267	249	260	232
Average length of stay	7.2	7.2	7.3	7.7	7.5	7.4	7.6
No. of rooms available	1822	1734	1777	1758	860	1470	1537
No. of beds available	3091	3142	3590	3844	1792	2326	NA
Total Recorded Visitor Expenditure (EC$M)	481.5	440.0	469.1	470.3	418.8	254.9	309.7

Sources: Ministry of Finance and Grenada Board of Tourism.

Table 1 clearly indicates an improvement in the performance of the industry since the passage of Hurricane Ivan. 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.

Notwithstanding the passage of hurricane Ivan, the number of cruise ship passengers visiting Grenada increased. 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 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.

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. In 2007, the sector is projected to grow by 12.0 per cent increasing its contribution to GDP to 6.3 per cent.

Manufacturing

The manufacturing sector has historically been small in Grenada; however with the establishment of the Grenada Industrial Development Corporation in the 1980s and with

foreign direct investment in the sector with the creation of factory space for small and medium sized business, the sector has been increasing its contribution to GDP. By 2003, the sector's contribution to GDP stood at 6.7 per cent, slightly lower than that of the Agriculture and tourism sectors. In that same year, the sector received a major boost with the establishment of an agro-processing plant for producing fruit juices. With the passage of Hurricane Ivan value added in the sector declined by 16.3 per cent but showed signs of good recovery in 2005 when economic activity grew by 16.3 per cent but contracted in 2006 by 2.8 per cent. In 2007, the sector's contribution to GDP is expected to increase to 6.4 per cent to reflect growth of 6.5 per cent.

Infrastructure Development

For many years government shared the philosophy that infrastructure development must form the base for the country's economic development since it possess strong positive external externalities for the active participation of the private sector in the economy. For this reason, over the years 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 preparation of CWC.

Today Grenada boasts of having one of the best road infrastructure in the ECCU sub-region; a newly constructed hospital; the expansion and modernization of the Point Salines 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; and with electricity now being supplied throughout the country. Over ten primary and secondary schools are presently being rehabilitated through a School Rehabilitation Programme funded by the European Union and implemented by the World Bank.

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 is expected to decline by a further 19.0 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 is expected to fall slightly to 9.0 per cent in 2007.

Inflation

Inflation has generally remained stable over the years reflecting the Eastern Caribbean Central Bank's commitment to a fixed exchange rate policy. Inflation averaged 1.7% annually from 1997 through 2001. In 2002, the annual inflation rate, as measured by the change in the consumer price index, 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. In 2006, the CPI estimated at 4.3 per cent and is expected to decline to 2.4 per cent in 2007.

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 of ECCB to conduct an on-site inspection of all commercial banks in the island. 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 failure 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[1] Act to give this institution the authority to regulate and supervise all non-bank financial institutions. GARFIN became operational as a Statutory Body with the mandate to regulate offshore banks, insurance companies, credit unions and all other non-bank money transfer institutions. Through GARFIN, government will ensure that the insurance sector, which is offering deposit interest rates above those of the commercial banks, follows sound practices and does not pose risks to the financial system, insurance holders and deposit 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 distance 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.

Money and Credit Conditions

The broad money supply M2 grew by 17.7 per cent to EC$1.5 billion in 2004 but fell by 1.0 per cent in 2005 as quasi money grew substantially in 2004 and declined in 2004. At the same time, net domestic credit in the banking system was down slightly in 2005 but grew substantially from EC$851.5m in 2004 to EC$1.1 billion in 2005. The rise in credit in 2005 was a result of the 10.0 per cent increase in net credit to the private sector

[1] Grenada Authority for the Regulation of Financial Institutions

reflecting rebuilding efforts after the passage of Ivan. At the same time, however, net credit to the central government declined by 15.5 per cent and 30.3 per cent in 2004 and 2005 respectively as government depended more on external grants to finance its reconstruction efforts.

The monetary conditions in the banking system increased slightly in 2006 as the broad money supply M2 was up by 3.4 per cent to EC$1.2 billion reflecting growth in currency held with the public and quasi money. The increase in monetary liabilities accounted in part for a growth of 18.2 per cent in net domestic credit to EC$1.3 billion. Net credit to the private sector increased by 9.1 per cent to EC$1.2 billion, while net credit to the public sector recorded further decline.

A look at the distribution of credit by sector shows that for the period 2002-2004, credit to the agricultural sector averaged 1.6 per cent of the total credit by commercial banks; that credit to the tourism industry and the manufacturing sector averaged 5.1 per cent and 3.2 per cent respectively for the period stated; but that credit for personal uses (including house and land & durable consumer goods) averaged 58.9 per cent for the same period.

For the period 2005-2006, credit to the agricultural sector on average received 0.5 per cent of the total credit granted by the commercial banks; while the corresponding figures for tourism and manufacturing was 6.2 per cent and 2.2 per cent respectively. Once again, the personal sector received the majority of the credit averaging 59.0 per cent for the same period.

The net foreign assets of the banking system fell sharply in 2005 following substantial growth in 2004. The sharp fall in 2005 is continued in 2006 but is projected to recover in 2007.

Liquidity in the commercial banking system remained stable over the period 2003 to 2006. The loans to deposit ratio fell by 9.5 percentage points in 2004 to 57.6 per cent but increased to 66.0 per cent in 2005 and even further to 73.2 per cent in 2006 reflecting the

increase economic activity in the country. Prime lending rate fell from 9.5 per cent in 2003 to average 8.5 per cent for the period 2004-2006 and is expected to remain unchanged in 2007.

Since 2002 interest rates on savings have remained at 3.0 per cent, but prime lending rates have ranged from 8.5 per cent to 9.5 per cent since 2002. In 2006, other lending rates ranged from 7.5 per cent to 16.0 per cent.

VII. PUBLIC FINANCE

The Constitution and the Finance and Audit Act (Chapter.102) of the Revised Laws of Grenada 1990, 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.

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 Statement of Accounts completed was for the year ended December 2006. The 2005 Statement of Accounts was audited and submitted to the Minister of Finance for onward transmission to Parliament. The department has also completed the 2006 Statement of Accounts which was submitted to the Director of Audit.

Fiscal Performance

Hurricane Ivan destroyed the economy of Grenada in September 2004. This was exacerbated with the passage of Hurricane Emily in July 2005.

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

At the same 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.

The central government's fiscal operations yielded an overall deficit of $28.4m in the first half of 2007, compared with one of $30.5m in the corresponding period of 2006. The deficit was largely financed from domestic sources, mainly commercial banks. The narrowing of the deficit stemmed from increases in current savings coupled with a reduction in capital expenditure. The current account surplus expanded by 32.7 per cent to $45.0m as growth in current receipts outpaced that in current expenditure. A primary deficit of $14.9m was realized, down from one of $20.1m in the corresponding period of 2006.

The destruction of the economy also increased the development needs of the country. As a result capital outlays grew sharply to EC$210.5m 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 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, but with the higher outlays on capital spending this surplus was converted to a deficit of 6.6 per cent of GDP in the following year. The deficit in 2006 was financed from loans from domestic and external sources.

On the capital account for the first half of 2007, inflows of grants amounted to $18.3m compared to $42.0m in the first six months of 2006. Grant receipts were primarily related to the building of the Grenada National Stadium, which was completed during the first quarter of 2007. At $91.7m, capital expenditure was 15.9 per cent less than the amount spent in the corresponding period of 2006.

Table 2 Recent Fiscal Performance 2002-2007(EC$M)

	2002	2003	2004	2005	2006	Estimates 2007
Current Revenue	292.5	323.6	301.2	359.8	380.0	417.5
Current Expenditure	286.3	289.4	314.2	303.0	319.6	346.7
Current Account Balance	**6.2**	**34.2**	**-13.0**	**56.8**	**60.4**	**70.8**
Capital Revenue	2.7	0.3	1.3	0.3	0.1	1.1
Capital Expenditure	244.4	179.1	102.3	210.5	285.8	193.8
Grants	23.5	82.9	88.2	155.4	118.7	29.8
Overall Balance	-212.0	-61.7	-25.8	2.1	-106.6	-92.1

Source: Ministry of Finance

Revenues

Government derives its revenues from a mix of direct and indirect taxes, including levies and taxes on incomes and profits, property, goods and services and imports. In addition, the Government imposes a number of miscellaneous licenses and user fees, which are included in the category of non-tax revenue.

Current Revenues

Current revenue collections rose sharply in 2006 by 5.6% to $380.0 million from $359.8 million. The improved revenue collection was due mainly to higher collections from property tax, strengthening administration in Inland Revenue and Customs and the introduction of the National Reconstruction Levy. Moreover, an automatic fuel pricing mechanism was introduced in October 2006 which isolated fiscal revenues from fluctuations in international oil prices.

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 $29.7 million in 2005 to $42.9 million in 2006 a sharp rise of 44.4%.

Grants

Total grants received in 2006, were estimated at EC$118.7 million of which, $18.4m represented current grants and was utilized for the payment of utilities, wages and salaries and other operating expenses. The remaining capital grants were utilized in the areas of housing, agriculture and schools rehabilitation. The main sources of these grants were the Governments of Venezuela and Trinidad & Tobago.

Current Expenditure

Current expenditure grew by 5.5% to EC$319.6m in 2006 from EC$303.0m in 2005, on account of growth in all categories of current expenditure. However outlays on wages and salaries grew marginally in an effort to keep the wage bill down.

Shortly after the passage of Hurricane Ivan in September of 2004, 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.

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.

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.

Capital Expenditures

Total capital expenditure rose sharply by 35.8% from EC$210.5 million in 2005 to $285.8 million in 2006 reflecting the acceleration in the implementation of ongoing and reconstruction projects. This higher level of capital spending was financed in part by capital grants of EC$79.5m and the current account surplus of EC$66.5m, resulting in an overall deficit after grants of EC$100.5m (6.7 per cent of GDP) which was financed by net loans from domestic and external sources.

In spite of the higher outlays on capital spending, the fiscal performance of Government in 2006 represents an improvement over 2005, to the extent that Government achieved a surplus on its current activity and as a result, was able to mobilize higher levels of capital grant to finance the country's capital programme.

VIII. PUBLIC DEBT ANALYSIS

At December 2006, Grenada's Public debt including government guarantees was EC$1.63 billion, of which

- Central Government Debt - EC$1.5 billion
- Government Guarantees - EC$133.9 million

In 2005 government issued Treasury Bills amounting to EC$25 million on the Regional Government Securities Market. This was oversubscribed. In 2006, this amount was re-issued. There is however, a legal limit on the amount of Treasury Bills that can be issued. That amount is 25 per cent of the estimated revenue of the current year.

There was a reduction in the guarantees of Government from EC$275.35 million in 2004 to EC$133.78 million in 2006. This was due to the restructuring of three loans in 2005, which became part of Central Government debt.

Table 3 Central Government Debt (EC$ Millions)

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**June 2007**
Total Domestic	**191.5**	**229.5**	**292.3**	**329.3**	**205.1**	**196.5**	**203.10**
Treasury bills	45.5	60.6	87.5	72.5	68.9	71.4	66.44
Bonds	116.7	131.1	127.7	153.7	31.2	31.2	31.15
Loans	12.6	30.0	23.8	22.9	30.6	38.1	38.06
Others	16.7	7.8	53.3	80.3	74.5	55.8	67.45
Total External	**387.5**	**684.8**	**733.9**	**874.7**	**1,215.8**	**1,297.4**	**1,319.0**
Bilateral	161.8	152.1	138.3	134.5	177.8	210.1	208.19
Multilateral	154.1	186.8	230.9	271.1	308.1	357.4	380.93
Bonds	54.5	331.0	349.7	459.9	721.6	721.6	721.64
Others	17.1	14.9	14.9	9.2	8.2	8.2	8.24
Grand Total	**579.0**	**914.3**	**1,026.2**	**1,204.0**	**1,420.9**	**1,493.8**	**1522.10**

Source: Ministry of Finance

There was also a reduction in domestic debt from EC$329.3 million in 2004 to EC$196.5 million in 2006. ***Part of the domestic debt restructured in 2005 was incorporated with the two new bonds in the sum of EC$183.95 million and US$193.54 million.***

External debt however increased over the same period from EC$874.7 million in 2004 to EC$1.2 billion in 2005. The two new bonds issued in 2005 were included as external debt.

In order to assist in the reconstruction process after the passage of Hurricanes Ivan and Emily, the Government of Trinidad and Tobago issued a bond of US$16.5 million to the Government of Grenada.

In 2006 external debt reached EC$1.30 billion reflecting the expansion of public sector investment programme (PSIP), which includes bridges and road development in accelerating the preparations for the hosting of Cricket World Cup 2007.

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 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 has raised its long-term sovereign credit rating to 'B-' from 'CCC+', reflecting steps taken by the government to improve debt-payment management.

On May 12, 2006 the Paris Club creditors agreed to a restructuring of US$16 million of Grenada's debt with the Paris Club. 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.

TABLE4: GRENADA INTEREST PAYMENT ON DEMESTIC AND EXTERNAL DEBT AS OFJUNE 2007

	January	*February*	*March*	*April*	*May*	*June*
Medium and Long Term Debt 2007						
Interest Payments	3,013,126	798,613	4,311,530	2,748,696	1,559,562	1,287,601
of which is External	2,897,207	648,707	3,926,777	1,960,972	596,943	889,142
of which is Domestic	115,919	149,906	384,753	787,724	962,619	398,459
Short Term Debt 2007						
Interest Payments	45,270	3,000	58,560	304,570	817,150	43,500
of which is External						
of which is Domestic	45,270	3,000	58,560	304,570	817,150	43,500
Total Interest Payment	3,058,396	801,613	4,370,090	3,053,266	2,376,712	1,331,101

Source: Ministry of Finance

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, 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.

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 intends to honour its obligations on the RGSM and continue 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.

As at December 2006 Public Sector Debt to GDP was approximately 112.8% of which Central Government debt was 98.6% and guarantees by Government accounted for 14.2% of public debt.

Table 5: Debt Ratios

	2003	2004	2005	2006
Debt Stock to GDP (with Government Guarantees) (%)	100.8	116.7	104.8	112.8
Debt Stock to GDP (without Government Guarantees) (%)	79.1	95.0	95.0	98.6
Debt service to Current Revenue (%)	27.1	40.4	12.3	13.7
Debt Service to Export Earnings (%)	35.8	46.0	26.7	27.2

Source: Ministry of Finance

Also, as indicated in the above table, Grenada's debt servicing to current revenues of 13.7 per cent in 2006 is within the established benchmark of 15.0 per cent established by the Monetary Council. 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. This is to be achieved through the following strategy:

- Cease incurring any new commercial debt
- Conduct debt analysis of any new debt to be incurred
- Use 50 per cent of the proceeds of the sale of assets to reduce the debt stock
- Not incurring any new government guarantee
- Maintaining capital expenditure at 10 per cent of GDP
- Along with 50 per cent of the proceeds of the sale of assets going towards reducing the debt stock, a Sinking Fund will be set up at the ECCB to be further invested to obtain more revenue.

So far Government has been consistent in the implementation of this strategy as since the passage of Hurricane Ivan government has not incurred any new commercial debt and has not guaranteed any new debt for statutory bodies.

IX. EXTERNAL ECONOMY: BALANCE OF PAYMENTS

Table 6: Grenada Summary of Balance of Payments (In million of EC dollars)

	2003	**2004**	**2005**	**Prel. 2006**	**Proj. 2007**
Current Account Balance	-393.5	-149.8	-508.2	-497.2	-476.2
Exports (fob)	123.0	89.1	102.6	84.8	105.2
Imports (fob)	616.9	612.2	813.7	686.9	741.9
Services (net)	137.7	183.0	55.7	84.8	145.5
Of which Travel (net)	257.4	202.5	165.7	210.5	284.0
Income (net)	-135.8	-136.0	-75.1	-77.4	-84.6
Of which Public sector interest payments (gross)	31.2	40.0	1.3	0.3	14.1
Transfers (net)	98.5	326.4	222.2	97.5	99.6
Capital and Financial Account	**358.9**	**203.6**	**470.2**	**548.7**	**489.5**
Capital Account (transfers)	116.6	107.6	126.9	166.8	155.7
Financial account	242.3	96.0	343.3	382.0	333.7
Of which: Public sector borrowing	46.8	45.7	54.7	74.0	49.2
Of which: public sector amortization	26.6	29.4	17.2	19.0	31.8
Direct Investment (net)	240.8	175.5	189.4	230.0	246.7
Portfolio investment (net)	78.6	81.1	48.1	-2.5	-0.9
Other investment	-77.0	-160.6	105.8	154.5	88.0
Overall balance	**-34.6**	**125.3**	**-87.3**	**15.6**	**20.0**
In per cent of GDP					
Current account balance	-32.6	-12.8	-36.8	-35.9	-33.2
Capital and financial account	29.7	17.5	34.1	39.6	34.2

The External Sector

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. Nevertheless, in 2003 there was a deficit of $34.6 million mainly on account of high interest payments and a fall in other investments. In 2004, the country's overall balance of payments position improved significantly and recorded a large overall surplus of $125.3 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.

The overall balance of payments surplus achieved in 2004 was turned into a deficit in 2005 of $87.3 million, which could be attributed to diminishing donor support and high capital imports related to reconstruction needs. The surplus on the current account achieved in 2004 was turned into a deficit in 2005 as imports continued to rise and receipts from tourism services continued to decline and income from transfers fell.

Preliminary data for 2006 indicates a small overall surplus of $15.6 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 importing as the reconstruction neared completion and tourism receipts increased with about 85 per cent of the hotels refurbished and reopened for business.

Although net direct investment is increasing, the fall in net public sector borrowing is adversely affecting the overall surplus. The figures do not indicate a higher capital and financial account surplus in 2007 however; the account is expected to remain in surplus in 2006 of $548.7 million and 2007 of $489.5 million.

Remittances

Remittances consist of funds sent to persons and entities in Grenada by Grenadians residing and working abroad. 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%. In 2005 remittances declined by 38.4%, but still remained at a higher level than the years prior to Hurricane Ivan. Approximately 75% of total remittances come from the United States. 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 totaled $79.91 million in 2005 as compared with $129.80 million in 2004.

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 $313.5m in 2005. This was due to a fall in other liability payments.

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.

Net foreign direct investment has increased every year since 2002 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 $230m, an increase of 21.4% compared to 2005. In general, levels of foreign investment and, consequently, Grenada's overall balance of payments, are affected by economic conditions and political, financial and other developments in the United States and other major countries, which have historically maintained close economic relationships with Grenada.

Grenada maintains close commercial ties with the United States, its principal trading partner. Other significant trading partners include the other member states of CARICOM, Canada and the European Union.

X. PROSPECTS FOR THE MEDIUM TERM 2007-2008

Medium-Term Economic Strategy

Overview

The Government's broad goal from 2007 to 2008 is in keeping with its Memorandum of Economic Policies 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. In summary, the intention is to return Grenada to macro-economic stability and place the country on a path of sustainable economic growth.

With the recovery well underway reflected in the positive growth rates in 2005 and 2006, government's major task for the medium term is the consolidation of that growth. The expected turnaround 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. The sustained growth in the economy is expected to strengthen and sustain government's fiscal

position. The deficit on the primary balance after grants in 2006 is to be converted to a surplus of about 2.5 per cent of GDP in 2008. At the same time, with the completion of major infrastructural projects related to reconstruction and CWC, capital expenditure is to return to the accepted benchmark of 10 per cent of GDP by 2008.

Inflation is expected to remain stable averaging 2.0 per cent over the next two years. The deficit on the balance of trade is also expected to narrow with a slight growth in export earnings and a reduction in imports on account of increased domestic production. Huge receipts from travel would account for a smaller current account deficit by 2008. In addition, the expected growth in foreign direct investment in the tourism industry would lead to an overall balance of payments of surplus of about 0.2 per cent of GDP in 2008.

The following table sets forth the projected growth of the sectors that are expected to be major contributors to economic recovery over the medium term.

Table 7: GDP Annual Change by Sector

	2007	**2008**
Agriculture	17.5%	7.5%
Construction	-19.0	6.0
Hotels	12.0	-9.2
Transportation	1.5	5.9
Communications.	10.0	-2.5
Banks	4.0	3.0
Overall GDP Growth	**3.1**	**1.5**

Source: Ministry of Finance, ECCB

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 2006 through 2008, Grenada's strategy for the agriculture sector includes:

1 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.

2 Promote the establishment of a modern livestock sector that will provide quality meat to the local market;

3 A modern fishing sector through enhancing productivity and management of the fish resources;

4 A nationwide program of replanting nutmeg and cocoa trees;

5 The construction of farm and feeder roads;

6 The recultivation of watershed and forest areas; and

7 Encouraging investment in, and financing of, existing and new agriculture production.

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.

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.

Today the sector is well poised for a spectacular takeoff with a number of foreign investors undertaking major hotel projects in the sector. In November of 2006, the Port Louis Project started. This EC$1.6 billion project involves the construction of a world famous marina, a modern five star hotel and night facilities, and the renovation of a 250 room facility. In addition, plans are well advanced for the resumption of the Levera Hotel and Golf Course project in the north of the country, and arrangements are being made for the start of the Four Seasons Hotel in the South of the country. Also the St. George's University Hotel project is expected to commence soon. The Government will also intensify its efforts to improve air links, especially with the United States, Canada and Europe.

The Government in its effort to rebuild the sector has commissioned the New Cruise Ship Terminal and Shopping Mall, which made a substantial difference to the landscape of the country. The Government 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 reconstructed at the cost of U.S. $40 million will be used as a venue for international cricket and athletic meets. Grenada also plans to expand the use of the facility for sports tourism packages to North America and Europe during their winter months.

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 the agriculture, manufacturing and tourism sectors.

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, reducing poverty, ensuring financial stability and reducing the country's vulnerability to natural disasters. Some of the fiscal elements of this strategy include:

- developing a tripartite agreement among Government, labor unions and the private sector on issues such as prices, wages and productivity;
- reducing tax concessions and replacing it with accelerated depreciation and loss carried forward
- enhancing revenue collection through improved tax administration at Customs and Inland Revenue departments; implementation of VAT;
- improving the efficiency of capital expenditure;
- Introducing the National Reconstruction Levy as part of the effort of the Grenadian people to share the burden of filling the large financing gaps which emerged in the aftermaths of the hurricanes;
- Creating a unit in Inland Revenue to focus on the collection of tax arrears;
- Reassessing the value of real estate, a move to market valuation could raise substantial revenue without changing rates;
- containing growth in expenditure on goods and services; and
- tapping the Grenadian Diaspora to garner funds for reconstruction and productive investment and to build networks for trade and tourism promotion.

For the period 2007 to 2008, Grenada will implement a capital programme averaging 10 per cent of GDP to consolidate the economic base of the country. Efforts will also be concentrated on achieving a current account surplus in excess of 5 per cent of GDP and to achieve a primary surplus of 2.5 per cent of GDP in 2008.

The Government has targeted revenue growth of, on average, 5.8% per annum during the period from 2007 to 2008, with the expectation that current expenditure growth will be kept in line with inflation, which should not exceed 3% per annum.

In its reform Programme (2006-2008), which has received the support of the International Monetary Fund, the Government has announced and implemented certain revenue measures.

Among the implemented were:

1. The introduction of a flexible pricing mechanism that allows fuel prices to change periodically to reflect changes in international crude oil prices;

2. The introduction of the National Reconstruction Levy in 2006 as part of the effort of the Grenadian people to share the burden of filling the large financial gaps which emerged in the aftermath of hurricane Ivan. The levy is placed at 3 per cent on all salaries in excess of EC$1,000 per month.

3. Increase in the general consumption tax on liquor and tobacco products;

4. The creation of a unit in the Inland Revenue Department to focus on the collection of tax arrears, with the aim of collecting annually EC$1.5m in arrears.

Some of the measures to be implemented over the medium term include:

- Progressively reduce the amount of tax concessions over the period 2006 to 2010;

- Introduce the Value Added Tax by the first quarter of 2008. VAT will replace the GCT, the Airline Ticket Tax and the Motor Vehicle Purchase Tax.

- Prepare and implement a framework to reassess the value of real estate by end-July 2007;

- Improve collection of taxes and fees including (1) automating the records of Lands and Survey Department in 2007, (2) automating the Supreme Court Registry in 2007, (3) introducing revised user fees for selected Government services such as electrical inspections, (4) enhancing revenue capacity of Inland Revenue and (5) strengthen customs functions.

- Improve fiscal transparency by disseminating information on the overall economic and fiscal situation in the country, starting June 2007.

Government has also implemented measures aimed at expenditure restraint. These include:

1 Keeping the growth of current expenditure on goods and services in line with inflation; in addition, the Ministry of Finance will carefully review proposals to spend above the budgeted levels before they go to Cabinet.

2 Conduct of cost benefit analysis of all capital projects in excess of EC$5million to ensure consistency with the country's absorptive capacity and available financing;

3 Forming a tripartite agreement described above among Government, labor unions and the private sector on issues such as keeping wages in line with inflation and productivity.

Monetary Policy Strategy

The Government remains committed to the Eastern Caribbean Central Bank and to the maintenance of a fixed exchange rate of $2.70 to US$1 since 1976. The peg has withstood numerous shocks, including the default of several members and various external shocks. Government intends to pursue prudent fiscal policies to help to preserve the Eastern Caribbean dollar's stability.

Investment Management Strategy

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

The Grenada Industrial Development Corporation was established to attract foreign direct investment into the country, to promote the export of Grenadian goods and services and to foster the development of viable indigenous businesses. Its aims include:

1. Increasing foreign exchange earnings through the promotion of exports and direct capital investment;

2. Guiding the industrial sector toward higher value-added activities;

3. Expanding the tourism, information technology and financial services sectors;

4. Improving the efficiency and competitiveness of the manufacturing sector; and

5. Creating jobs in a broad range of economic sectors.

Among other things, the Grenada Industrial Development Corporation assisted 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.

XI. 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.

XII. CURRENT ISSUES OF GOVERNMENT SECURITIES ON REGIONAL AND INTERNATIONAL MARKETS

I. TREASURY BILLS

Issues Outstanding	EC$2.05M
Type of Issue	Government of Grenada Treasury Bills
Maturity in Days	365 Days
Date of Issue	October 8, 2007
Discount Rate	N/A
Yield	6.0 %
Discount Price	EC$94.00
Number of Bids	7
Value of Bids	EC$1.927M

II. 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
Discount Rate	N/A
Yields	7.00%, 7.00%, 7.50%, 7.50%, 8.00%,
Discount Price	N/A
Number of Bids	1
Issued Amount	EC$30M

III. TREASURY BILLS

Issues Outstanding	EC$34.66M
Type of Issue	Government of Grenada Treasury Bills
Maturity in Days	365 Days
Date of Issue	July 17, 2007
Discount Rate	N/A
Yield	6.5 %
Discount Price	EC$93.50
Number of Bids	8
Value of Bids	EC$32.407M

IV. 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
Discount Rate	N/A
Yields	1.00%, 2.5%, 4.50%, 6.00%, 8.00%, 8.50%, 9.00%
Discount Price	N/A

V. 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
Discount Rate	N/A
Yields	1.00%, 2.5%, 4.50%, 6.00%, 8.00%, 8.5%, 9.00%
Discount Price	N/A

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: 2003-2006

Domestic Economy ($million)	**2003**	**2004**	**2005**	**2006 *Prel.***
Nominal GDP at market prices	1296.6	1267.2	1495.4	1515.6
Real GDP at factor cost	783.0	738.2	819.7	800.3
Per cent change in real GDP at factor cost	7.11	-5.71	11.03	-2.37
Consumer Price Index	2.2%	2.3%	3.5%	4.3%
Unemployment rate (annual average)	13.0%	20.0%	18.8%	N/A
External Economy ($ million)				
Exports (fob)	123.0	89.1	102.6	84.8
Imports (fob)	616.9	612.2	813.7	686.9
Current Account Balance	-393.5	-149.8	-508.2	-497.2
Direct Investment (net)	240.8	175.5	189.4	230.0
Capital and Financial Account Balance	358.9	203.6	470.2	548.7
Overall Balance of Payments	-34.6	125.3	-87.3	15.6
Tourism				
Stay-Over Arrivals	142,355	133,865	98,548	118,654
Total visitor expenditures (‘000)	470,304.2	418,746.8	254,923.7	309,711.6

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
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
ABI Bank Ltd.	***ABI Financial Centre*** ***Redcliffe Street*** St John's Tel: 268 480 2824 Fax: 268 480 2765 Email: abibsec@candw.ag	*Principal:* Casroy James **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	*Principals:* Peter N Ashe Sharon Nathaniel **Representative:** Sharon Nathaniel
National Mortgage Finance Company of Dominica Ltd.	64 Hillsborough Street ***Roseau*** Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	**Principal:** ***Caryl Phillip-Williams*** **Representatives:** **Dawn Yankey** Marilyn Edwards
Republic Finance and Merchant Bank Ltd. (FINCOR)	NCB House Grand Anse St George's Tel: 473 444 1875 Fax: 473 444 1879 Email: fincorec@caribsurf.com	**Principals:** Heather Titus Wilma Williams **Representatives:** Heather Titus Wilma Williams
St Kitts Nevis Anguilla	P O Box 343 Central Street	**Principals:** Winston Hutchinson

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
National Bank Ltd.	Basseterre Tel: 869 465 2204 Fax: 869 465 1050 Email: national_bank@sknanb.com	Anthony Galloway **Representatives:** Marlene Nisbett Desilu Smithen 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 **Representatives:** Lisa Jones Vernesia Walters
Bank of St Lucia Ltd.	P O Box 1862 Bridge Street Castries Tel: 758 456 6000 Fax: 758 456 6190 Email: bankofsaintlucia@candw.lc	**Principals :** ***Donna Matthew*** ***Beverley Henry*** ***Benard Fevrier*** **Representatives :** Trevor Lamontagne Lawrence Jean
Caribbean Money Market Brokers Ltd. *(CMMB St Lucia)*	***9 Brazil Street*** ***Castries*** Tel: 758 450 2662 ***Fax: 758 451 7984*** Email: info@mycmmb.com	Principals : Leslie St Louis Brent Salvary Sharmaine Rosemond Carole Eleuthere-Jn Marie **Representatives:** Sharmaine Rosemond Leslie St Louis Vishwatee Jagroop
National Commercial Bank (SVG) Ltd.	**P O Box 880** Cnr. Bedford and Grenville Streets Kingstown	**Principals:** Keith Inniss

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
	Tel: 784 457 1844 Fax: 784 456 2612 Email: natbank@caribsurf.com	Jeffrey Ledger **Representatives:** ***Patricia John*** La Fleur Dublin
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 Leslie St Louis Sharmaine Rosemond **Representatives:** Leslie St Louis Vishwatee Jagroop Sharmaine Rosemond