



GOVERNMENT OF GRENADA

ADDENDUM II – 24TH AUGUST, 2017

PROSPECTUS FOR GOVERNMENT
SECURITIES

FOR THE PERIOD

APRIL 2017 – NOVEMBER 2017

EC\$75 MILLION 91-DAY TREASURY BILLS

EC\$60 MILLION 365-DAY TREASURY BILLS

MINISTRY OF FINANCE
FINANCIAL COMPLEX
CARENAGE
ST. GEORGE'S
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DATE OF PROSPECTUS: FEBRUARY 2017

Grenada Carriacou and Petite Martinique



ABOUT THE STATE OF GRENADA

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

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.

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 Parliament is a bicameral legislature, consisting of an elected House of Representatives and an appointed Senate. The last general election was held in February 2013 and the New National Party (NNP) who was in opposition in the preceding five years contested and won 15 out of the 15 seats in the House of Assembly. Grenada's judicial system is based on the English system, including the principles and practice of English common law. The following table sets out **selected social indicators for Grenada**.

Table 1: Grenada Selected Social Development Indicators

| | |
|--|----------------------|
| <i>Human development rank out of 187 countries (2014)</i> | 79.0 |
| <i>Life expectancy at birth in years (2014)</i> | 73.4 |
| <i>Adult literacy rate in per cent (2007)</i> | 96.0 per cent |
| <i>GDP per capita (PPP) in U.S.\$ (2013)</i> | 11,272 |
| <i>Population rate of growth (per cent)(2010/2015 Est)</i> | 0.4 per cent |
| <i>Infant mortality per 1,000 live births (2013)</i> | 10.7 |
| <i>Access to improved water source (2010) (per cent of population)</i> | 97 per cent |

Source: 2015 United Nations Human Development Report and Ministry of Finance

NOTICE TO INVESTORS

The Government of Grenada is issuing this prospectus for the purpose of providing information to the public. The Government accepts full responsibility for the accuracy of the information given and confirms having made all reasonable inquiries to ensure the accuracy of this that to the best of its knowledge and belief there are no other facts, the omission of which would make any statement in this Prospectus misleading.

The Prospectus has been drawn up in accordance with the rules of the Regional Government Securities Market. The Regional Debt Co-ordinating Committee and Eastern Caribbean Central Bank accept no responsibility for the content of this Prospectus, make no representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or reliance upon the whole or any part of the contents of this Prospectus.

This Prospectus and its content are issued to cover the series of government securities to be issued over the period April 2017 to November 2017. If in need of financial or investment advice please consult a person licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of government instruments or other securities.

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REASON FOR ADDENDUM

The purpose of the Addendum is to adjust the auction date and trading symbol for the Series B - 91 Day Treasury Bills, on account of the adjustment made to the 30th August 2017 auction date which is changed to 31st August 2017.

1.0 ABSTRACT

During the period April 2017 to November 2017, the Government of Grenada is seeking to issue the following government securities on the Regional Government Securities Market to refinance its existing treasury bills currently on the market as follows:

91 Day Treasury Bills

Series A: Ten (EC\$10.0) Million in each of 3 issues

Series B: Fifteen (EC\$15.0) Million in each of 3 issues

The maximum coupon rate of the new bills being 4 per cent per annum.

365 Day Treasury Bills

- Thirty (EC\$30.0) million in 365 day treasury bills on July 14, 2017.
- Twelve (EC\$10.0) million in 365 day treasury bills on October 10, 2017.
- Twenty (EC\$20.0) million in 365 day treasury bills on November 29, 2017.

The maximum coupon rate of the new bills being 5 per cent per annum.

In this Prospectus, references to "Grenada" are to the State of Grenada and references to the "Government" are to the Government of Grenada. The Treasury bill issues are being

raised under the authority of the Public Debt Management Act 2015, Part 3 section 13, Laws of Grenada. The Constitution of Grenada stipulates that principal and interest payments are direct charges on the Consolidated Fund.

All Government of Grenada treasury bills will be opened for bidding at 9:00 a.m. and close at 12:00 noon on the respective auction dates.

A competitive uniform price auction will be used.

2.0 INFORMATION ABOUT THE 2017 SECURTY ISSUANCE (2nd Revision)

| SYMBOL | AUCTION DATES | ISSUE/SETTLEMENT DATE | MATURITY DATE | ISSUE AMT. EC\$M | OVER SUBSCRIPTION AMOUNT ALLOWED EC\$M | TENOR (DAYS) | INTEREST RATE CEILING % |
|------------------|----------------------|------------------------------|----------------------|-------------------------|---|---------------------|--------------------------------|
| SERIES A | | | | | | | |
| GDB030817 | 3 MAY | 4 MAY | 3 AUGUST | 10 | 5 | 91 | 4% |
| GDB061117 | 4 AUGUST | 7 AUGUST | 6 NOVEMBER | 10 | 5 | 91 | 4% |
| GDB060218 | 7 NOVEMBER | 8 NOVEMBER | 7 FEBRUARY 2018 | 10 | 5 | 91 | 4% |
| SERIES B | | | | | | | |
| GDB290817 | 29 MAY | 30 MAY | 29 AUGUST | 15 | 5 | 91 | 4% |
| GDB011217 | 31 AUGUST | 1 SEPTEMBER | 1 DECEMBER | 15 | 5 | 91 | 4% |
| GDB050318 | 1 DECEMBER | 4 DECEMBER | 5 MARCH 2018 | 15 | 5 | 91 | 4% |
| GDB210718 | 20 JULY | 21 JULY | 21 JULY 2018 | 30 | 0 | 365 | 5% |
| GDB111018 | 10 OCTOBER | 11 OCTOBER | 11 OCTOBER 2018 | 10 | 0 | 365 | 5% |
| GDB301118 | 29 NOVEMBER | 30 NOVEMBER | 30 NOVEMBER 2018 | 20 | 0 | 365 | 5% |

ALL ISSUES ON THE MARKET ARE IN EC DOLLARS

SUBJECT TO REVISION BASED ON FINANCING METHOD EMPLOYED

3.0 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 |
| Facsimile No.: | 473-440-4115 |
| Contact Persons: | Dr. The Right Honorable Keith Mitchell, Minister for Finance, finance@gov.gd Dr. Wayne Sandiford, Permanent Secretary Ag. psfinancegrenada@gmail.com Ms. Ophelia Wells-Cornwall, Deputy Permanent Secretary Ag. psfinancegrenada@gmail.com Ms. Isha Abraham, Accountant General Ag. accountant.general@agd.gd |
| Date of Issue: | April 2017 – November 2017 |
| Type of Security: | Treasury Bills |
| Amount of Issue: | EC\$135 million |
| Purpose Security Issue: | The Treasury bills are being issued as part of government's debt management strategy to reduce the cost of government borrowing by reducing reliance on the overdraft facility. |
| Legislative Authority: | Public Debt Management Act 2015, Part 3 section 13, Laws of Grenada. |
| Bidding Period: | 9:00 am 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: | \$95.00 (5.00 per cent). |
| 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. <ul style="list-style-type: none"> • Bank of Nevis Limited • Bank of St. Lucia Ltd • Bank of St Vincent and the Grenadines Ltd • St. Kitts Nevis Anguilla National Bank Limited • First Citizens Investment Services Ltd (Saint Lucia) • Grenada Co-operative Bank Ltd. |
| Currency: | All currency references will be the Eastern Caribbean dollar unless otherwise stated. |

4.0 EXECUTIVE SUMMARY

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. Preliminary estimates at the end of 2016 indicated that the economy, as measured by the change in GDP grew by 4.2 per cent above the mid-year growth of 3.1 per cent in 2016. The continued recovery, albeit at a slower rate is buoyed mainly by expansions in Tourism, Transportation and Communication and Construction sectors. Inflation moved into positive territory, primarily on account of a notable increase in the communication index.

Reflecting the results of the range of adjustment measures implemented since 2014 and the rebound in economic activity, fiscal outturns continued to strengthen in 2016. After decades of deficits, Grenada recorded its second consecutive primary surplus of 5.3 per cent against a target of 3.5 per cent in 2016 and a positive overall balance of 65.7m.

The current account has also displayed signs of improvement as the deficit continued to narrow attributed to low fuel prices on the international market which contained import values. Financial markets have remained relatively stable as the banking system maintained its focus on strengthening its balance sheets.

At the onset of 2016, the Government of Grenada continued to take steps to reorganize its outstanding liabilities to external and domestic creditors. To date, agreements were finalized and payments have commenced on debts owed to its commercial creditors, its Paris Club bilateral creditors including USA, France and UK and Export-Import Bank of Taiwan.

Further, the authorities have established contact with its non-Paris Club bilateral creditors and continue to work towards concluding negotiations on this portion of the debt.

On the domestic market, government continues to engage its investors in an effort to restructure existing debt. To date, agreements were successfully negotiated with several domestic investors including institutional and commercial investors.

Despite the restructuring, Grenada maintains an exemplary record on the Regional Government Securities Market. All issues of treasury bills have been repaid upon maturity since Government's entry into the market in 2013. In this regard, we would seek to maintain our record of credit worthiness in any and all securities issued on the market.

The Debt Management Unit which resides in the Ministry of Finance has responsibility for the re-organization of central government's public debt to enable greater efficiencies and reduce the cost of debt servicing. In June 2015, Government further strengthened the framework for debt management by introducing the Public Debt Management Act which placed the responsibility for all Public Debt within the Ministry of Finance and the Debt Management Unit. The reconstituted Debt Coordinating Committee within the Ministry of Finance was also defined in this act and given specific responsibility for overseeing the debt management function as well as cash flow management and planning.

5.0 FINANCIAL ADMINISTRATION & MANAGEMENT

In the latter half of 2014, a new Public Finance Management Act was passed by Parliament. This took effect in 2015. In June 2015, the Public Debt Management Act was passed by Parliament as well as a Fiscal Responsibility Act which sets the public debt target at 55% of GDP by 2020.

The 2015 Public Debt Management Act which was enacted in August 2016 outlines in some detail the functions and deliverables of the DMU which reports, through the Minister of Finance, to the Parliament and people of Grenada. The Act also puts into law requirements such as the preparation and implementation of a Medium Term Debt Management Strategy, Debt Sustainability Analysis and Annual Borrowing Plan. Further it statutorizes the Public Debt Co-ordinating Committee which is expected to be a technical committee which monitors the cash flow and assists with the planning and execution of debt payments and debt contraction decisions.

Debt Management Objectives

Part I section (4) of the 2015 Public Debt Management Act outlines Grenada's debt management objectives as follows;

- (a) ensuring that the financing needs of the Government are met on a timely basis and that its debt service obligations are met at the lowest cost over the medium-to-long term, in a manner that is consistent with an acceptable and prudent degree of risk;
- (b) providing a framework for management of public debt in a manner that achieves and maintains sustainable debt; and
- (c) ensuring that public debt management operations support the establishment of a well-developed domestic debt market in the medium-to long term.

As part of its mandate the Debt Management Unit is therefore committed to continue striving towards actively managing Grenada's debt portfolio by adopting debt management objectives aimed at:

- ❖ Reducing the cost of debt servicing by borrowing primarily on concessional terms.
- ❖ Reorganizing the structure of the debt portfolio to increase efficiency, avoid bunching and ensure effective utilization of the proceeds
- ❖ Supporting the development of the Regional Government Securities Market

- ❖ Managing the risk and financial cost associated with borrowing choices by refinancing higher cost debt and in so doing adjusting the maturity profile of the portfolio which will ultimately lead to lower debt service costs.

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 with the exception of Treasury Bills;
- ❖ The legal authority for borrowing in any one year is the loan authorization Bill for that year.
- ❖ The legal authority for the issuance of Treasury Bills is the Public Debt Management Act 2015, Part 3 section 13, Laws of Grenada.
- ❖ The 2015 Public Finance Management Act and the 2015 Financial Responsibility Legislation, which authorizes only the Minister of Finance to contract debt on the country's behalf and sets a public debt to Gross Domestic Product target.
- ❖ In-house monitoring of macroeconomic variables and contraction of any new debt
- ❖ An ex-ante analysis of new public debt by the Debt management Unit in the Ministry of Finance

6.0 MACRO-ECONOMIC PERFORMANCE

PERFORMANCE OF THE DOMESTIC ECONOMY¹

In 2015, Grenada registered the highest growth in the ECCU, for the second consecutive year. In 2016, Grenada posted the second highest level of growth in the ECCU, in the

¹ Excerpts from the Government of Grenada 2016 Economic Review & Medium Term Outlook published with the National Budget Address

same position as Antigua and Barbuda. Grenada’s 2014 revised real GDP growth rate at market prices was 7.3 percent with a preliminary estimate of 6.2 percent real growth in 2015 - well above the ECCU average in both years (See Table 3.1). However, there has been some deceleration in 2016, largely on account of a sharp contraction in agricultural output. Despite this deceleration, growth remained on a positive trajectory at an estimated rate of 4.2 percent, still above the ECCB average, driven mainly by expansion in construction, tourism and private education.

Table 3.1 Real GDP at Market Prices in the ECCU (2013-2016*)

| Real GDP Growth at Market Prices in the ECCU | | | | |
|--|------------|------------|------------|------------|
| | 2013 | 2014 | 2015 | 2016* |
| Anguilla | -0.6 | 5.1 | 2.9 | 4.8 |
| Antigua and Barbuda | -0.2 | 4.6 | 4.1 | 4.2 |
| Dominica | 0.8 | 4.2 | -1.8 | 1.0 |
| Grenada | 2.4 | 7.3 | 6.2 | 4.2 |
| Montserrat | 5.1 | 2.0 | 0.4 | 3.1 |
| St Kitts and Nevis | 6.2 | 6.0 | 3.8 | 3.7 |
| Saint Lucia | 0.1 | 0.4 | 1.9 | 2.1 |
| St. Vincent and the Grenadines | 1.8 | 1.2 | 1.6 | 2.8 |
| ECCU | 1.5 | 3.8 | 3.0 | 3.2 |

Source: ECCB, Ministry of Finance

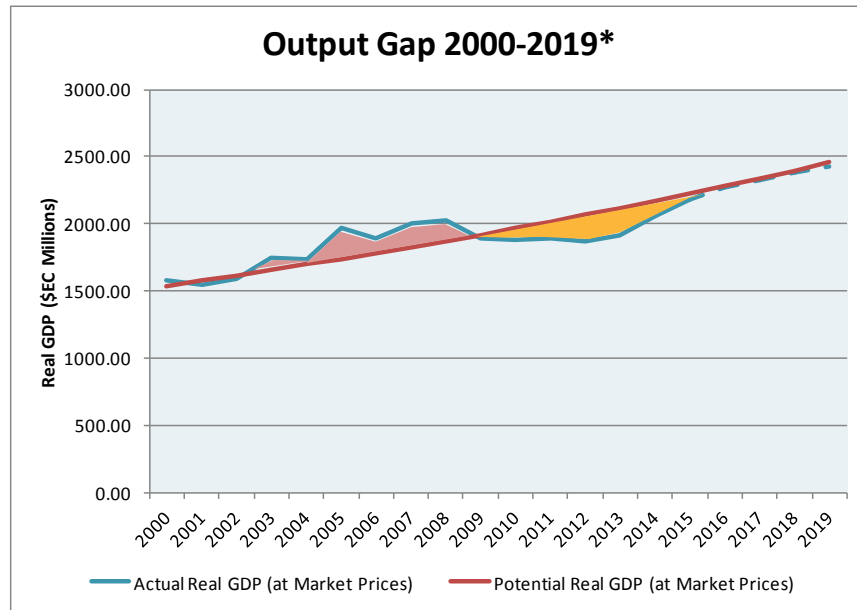
* Preliminary

BROAD-BASED GROWTH AND NARROWING OUTPUT GAP

Growth continues to be broad-based with positive performance being registered by most sectors in 2016. On average, the Grenadian economy grew by 2.5 percent in real terms from 2000 to 2015 with the strong recovery over the last 3 years contributing to the ongoing narrowing of the output gap (See Figure 3.1).

Sectoral composition remained largely unchanged. Education continues to be the largest sector in the economy, contributing roughly 19.5 percent to GDP in 2016. Agriculture & Fishing and Tourism (as measured by Hotels and Restaurants), two major sectors in the economy, accounted for 6.4 and 5.4 percent respectively. Construction and Mining activities contributed 6.0 percent while derivative sectors, such as, Transport and Storage and Real Estate activities also made major contributions in 2016.

Figure 1.1 Output Gap (2009-2019*)

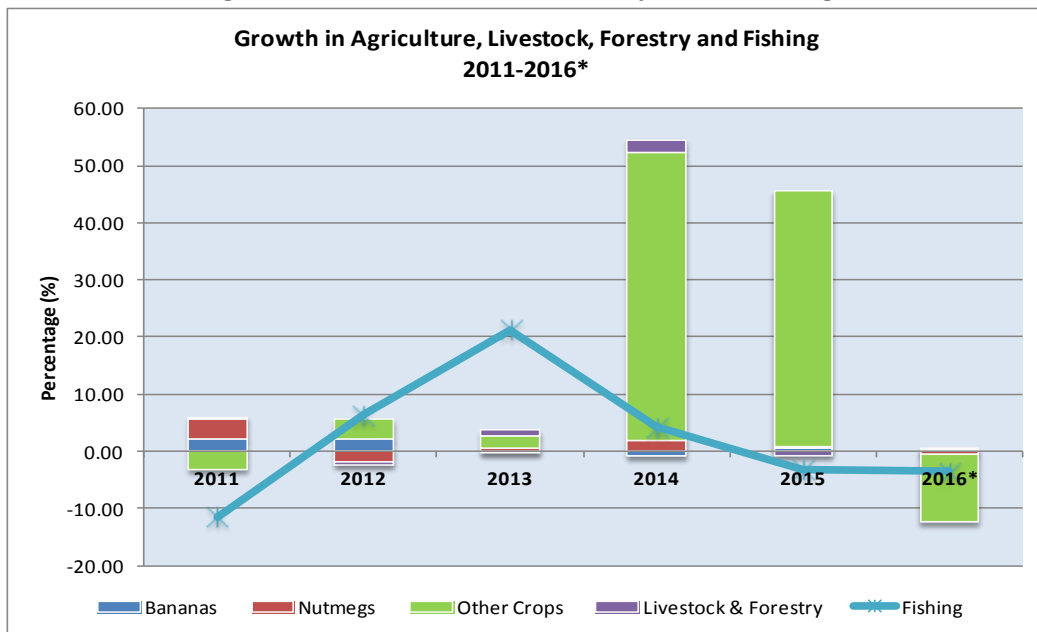


Source: ECCB, Ministry of Finance

AGRICULTURE

In the agriculture sector, following very impressive performances in 2014 and 2015, severe drought conditions negatively impacted performance in the first six months of 2016 with production declines being experienced across a variety of crops.

Figure 3.2 Growth in Agriculture, Livestock, Forestry and Fishing 2011-2016*



Source: CSO, ECCB Ministry of Finance

*Projected

There was a 20.7 percent decline in the volume of “Other Crops” purchased by the Marketing and National Importing Board in 2016. The reduction in purchases was a direct result of the unavailability of a wide range of crops from farmers due to the severe dry season. Though weather patterns improved somewhat in the third quarter of 2016 in terms of rainfall, this was insufficient to offset the effect of drought conditions in the first half of the year. Cocoa production volumes declined by 1.8 percent, while nutmeg and mace production also decreased by 16.7 percent and 32.2 percent respectively in 2016.

On the export side, there was a 0.4 percent decline in the volume of nutmegs exported in 2016 over 2015 while mace and cocoa exports fell by 26.1 and 15.0. Overall, the agriculture sector declined by 12.0 percent in 2016 (See Figure 3.2).

FISHING

Following a 3.1 percent decline in 2015, fish production recorded a 4.1 percent reduction during the first ten months of 2016 compared to the same period in 2015². Though the challenges which affected the sector in 2015 have more or less subsided, fish production continues to struggle with an overall decline of 3.5 percent expected in 2016.

Additionally, the export thrust is reportedly being constrained by logistical challenges which include the following:

- i. Loss of direct airlift to the US market (Grenada’s main export market for Fish), due to a major airline discontinuing this service in 2015.
- ii. Insufficient refrigeration facilities at the airport to store chilled cargo prior to shipment
- iii. Lack of critical equipment for loading cargo into large aircraft
- iv. Inefficient services provided by various entities involved in the handling and shipment of goods for export.

These factors were the main contributors to the 32.5 percent reduction in the volume of fish exports in the first ten months of 2016. Efforts are however underway by the government and other entities to rectify these issues. The effects of these improvements are expected to impact exports in 2017.

² Data for November and December 2016 was unavailable at the time this report was written.

TOURISM

In the tourism sector, stay-over arrivals in 2016 exceeded arrivals in 2015 by 2.6 percent – reflecting some moderation following the 5.4 percent growth recorded in 2015. Cruise visitor arrivals increased by 12.3 percent while there was a 8.6 percent decline in yachting arrivals (See Table 3.2).

Table 3.2 Tourist Arrivals (2012-2016*)

| Tourist Arrivals | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Stay Over Arrivals | 112,335 | 112,812 | 133,526 | 140,735 | 144,333 |
| % Change | | 0.4 | 18.4 | 5.4 | 2.6 |
| of which: US Arrivals | 26,367 | 42,707 | 50,291 | 57,629 | 64,958 |
| | | 62.0 | 17.8 | 14.6 | 12.7 |
| Cruise Passengers | 242,757 | 197,308 | 235,140 | 280,518 | 314,913 |
| % Change | | -18.7 | 19.2 | 19.3 | 12.3 |

Source: CSO, Ministry of Finance

The US market led the growth in stay over arrivals – registering a 14.6 percent increase on the heels of the 17.8 percent growth recorded in 2015. Increased airlift with the addition of Delta and Jet Blue in June 2015 was a major contributor to this growth in the US market segment which was supported by an increase in flights. Despite continuing airlift challenges, arrivals from the other Caribbean countries also increased by 4.9 percent compared to the 2.5 percent growth recorded in 2015. Following a 13.4 percent decline in 2015, Canadian arrivals grew by a mere 0.9 percent while UK arrivals fell by 1.4 percent. In both cases, recent trends are partly attributable to the weakening of currencies vis-à-vis the US dollar as a result of which the cost of vacation travel increased. Arrivals from the European market declined by 13.7 percent, mainly reflecting the slowdown in arrivals from Germany, France and Italy. These declines were offset by strong performances in the leading US and Caribbean segments.

The cruise sub-sector experienced robust growth in both passenger arrivals and ship calls. Passenger arrivals increased by 12.3 percent from 280, 518 in 2015 to 314, 913 in 2016 period while there was a 30.5 percent increase in the number of cruise ship calls in 2016.

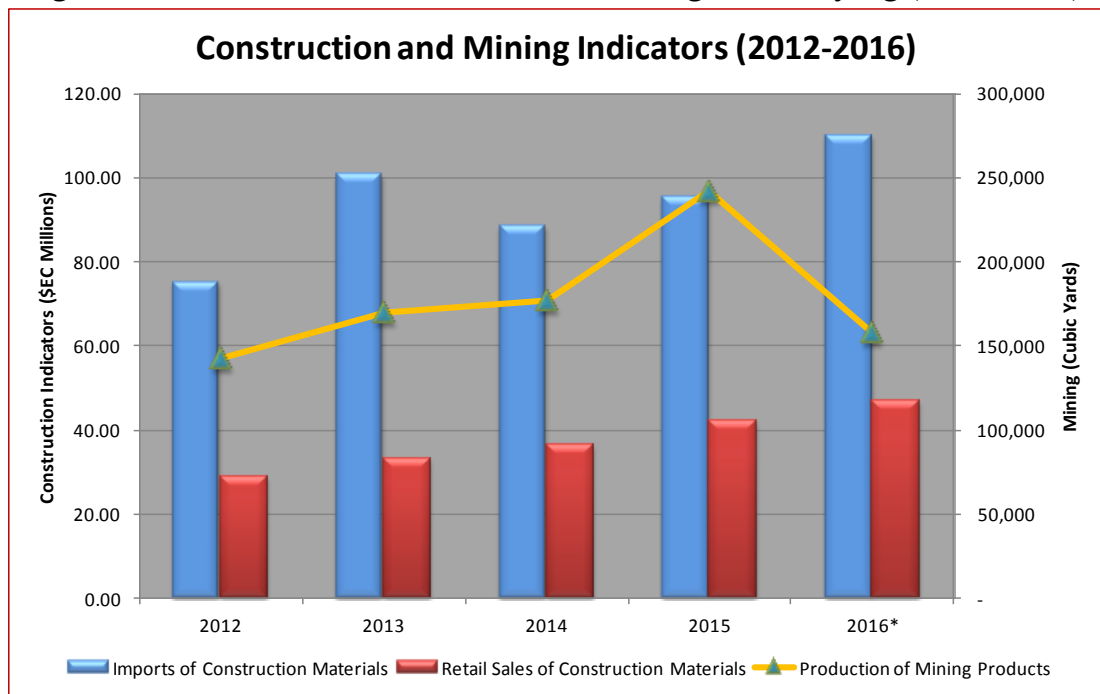
The near-term outlook for tourism remains positive as the sector should benefit from the continuing recovery of household incomes in the leading US source market, continuing improvements in cruise ship arrivals and capacity expansion resulting from increased room stock and airlift. However, it is expected that arrivals from the UK market could be

negatively affected by any further weakening of the currency and the general economic uncertainty being experienced in that country as a result of the “Brexit” vote. The UK accounted for roughly 21.0 percent of total visitor arrivals over the last five years.

CONSTRUCTION

The construction sector continued on a positive growth path in 2016 with ongoing private sector developments being complemented by the implementation of public sector investments, including the start of work on the Parliament building, continuing work on Phase II of the St. George’s Hospital expansion project, the Disaster Vulnerability Reduction Project and various road development works.

Figure 1.2 Growth in Construction and Mining & Quarrying (2000-2016*)



Source: CSO, ECCB, Ministry of Finance
*Projected

The value of imports of construction materials for 2016 increased by 15.4 percent over 2015 while retail sales of building materials increased by 10.8 percent. This uptick in activity also induced growth in the transport sector, particularly road transport, which is estimated to have expanded by approximately 8.8 percent in 2016.

EDUCATION

The Education Sector continues to account for the largest share of GDP, estimated at 19.5 percent in 2016, of which 16.3 percent is Private Education. Increased enrolment at the St.

George's University of approximately 5.9 percent was the main driver of growth in Private Education in 2016. Overall, the sector expanded by 4.3 percent in 2016 with Private Education growing by 5.4 percent in that year. Growth in the sector is expected to moderate in 2017. However, recently announced plans for infrastructural expansion at SGU indicate a possible boost to growth over the medium term.

INDUSTRIAL PRODUCTION & OTHER SECTORS

Data for 2016 show a 5.7 percent increase in overall electricity production while domestic and commercial consumption increased by 9.6 and 5.2 percent respectively. Industrial consumption also rose by 1.7 percent. Largely reflecting the impact of fuel price declines, the unit cost of electricity (cost per kilowatt hour) fell by about 13.8 percent. As a reflection of increased confidence in the economic conditions, domestic demand is expected to strengthen. Accordingly, positive growth is projected for the wholesale and retail sector, the transport and storage sector along with marginal expansion in the communications sector. Expansion is also projected in the other service sectors.

Growth in the manufacturing sector is expected to continue in 2017 on the heels of an estimated 4.3 percent expansion in 2016. Increased beverage production is expected to be the main driver of this growth. Production of alcoholic beverages increased by 11.6 percent in 2016, while production of non-alcoholic beverages increased by 6.8 percent.

Production of flour and wheat also increased by 2.4 percent and 2.2 percent respectively in the period under review while production of animal feed declined by 10.4 percent. On the export side, flour and animal feed exports decreased in 2016 compared by 0.2 percent and 21.7 percent respectively. This decline is attributed to extra-regional competition which resulted in the loss of market share in some OECS islands.

7.0 GOVERNMENT FISCAL PERFORMANCE

In June 2014, Grenada implemented its Home Grown structural adjustment programme 2014-2016, which sought to: boost job creation, improve fiscal sustainability and improve debt sustainability.

Reflecting the results of the range of adjustment measures implemented since 2014 and the strong rebound in economic activity, fiscal outturns continued to strengthen. Highlights of the fiscal results achieved over the 2014 -2016 period are summarized in Table 4.³

Table 4: Grenada Fiscal Performance (2014-2016)

| Grenada: Fiscal Performance 2014-2016 | | | |
|--|----------------|----------------|----------------|
| <i>(in millions of EC\$)</i> | | | |
| | 2014 | 2015 | 2016 |
| Total Revenue & Grants | 602.8 | 649.5 | 751.3 |
| Tax Revenue | 448.1 | 511.8 | 600.5 |
| Non-tax revenue | 54.2 | 59.4 | 51.1 |
| of which: CBI-related revenue | 0.3 | 16.3 | 8.1 |
| Grants | 100.5 | 78.3 | 99.7 |
| Total Expenditure | 718.1 | 688.9 | 685.6 |
| Current Primary Expenditure | 404.6 | 377.2 | 483.2 |
| of which: Wage bill | 212.4 | 215.3 | 240.4 |
| Non-grant financed | 136.1 | 141.8 | 46.1 |
| Current Account Balance | 11.0 | 102.4 | 86.1 |
| Overall Balance (excluding grants) | -215.7 | -117.6 | -34.0 |
| Overall Balance (including grants) | -115.2 | -39.3 | 65.7 |
| Primary Balance (excluding grants) | -128.9 | -25.9 | 48.3 |
| Primary Balance (including grants) | -28.4 | 52.4 | 148.0 |
| Primary Balance (as a percent of GDP) | -1.2 | 2.0 | 5.3 |
| Memo Item | | | |
| GDP | 2,461.2 | 2,657.0 | 2,804.8 |

The fiscal consolidation effort continued to yield positive results in 2016. As at December 2016 primary balance (after grants) at \$148.3 million (5.3 percent of GDP), exceeding both the budgetary target of 3.5 per cent of GDP and the 2015 outturn for the same period by 171.8 per cent. The overall balance moved from a deficit of \$39.3 million (1.5 percent of GDP) in 2015 to an estimated surplus of \$66.0 million (2.4 percent of GDP) in 2016.

³ Extract from 2016 Economic Review and Medium Term Outlook, published in Government of Grenada 2017 Budget Statement

8.0 PUBLIC DEBT ANALYSIS

As at end December 31, 2016, the total Public Sector Debt was estimated to be \$2,613.4 million or 93.2 per cent of 2016 GDP broken down as follows:

Central Government debt – \$2,175.39 million

Government Guarantees – \$78.72 million

Other Public Sector Debt – \$359.26 million

Total Public Sector Debt – \$2,613.4 million

During that period the level of guaranteed debt continued to decline. Over the five year period 2012 – 2016, there has been a 47.3 per cent reduction in government guaranteed debt from EC\$149.4 million in 2012 to EC\$78.72 million in 2016.

Table 5: Grenada Central Government Debt (EC\$ Millions) 2012-2016

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------|----------|---------|---------|---------|----------|
| Total Domestic | 427.5 | 477.9 | 474.5 | 594.37 | 592.68 |
| Treasury bills | 259.4 | 324.4 | 331.1 | 318.25 | 305.8 |
| Bonds | 58.1 | 60.7 | 60.7 | 184.51 | 206.85 |
| Loans | 37.5 | 28.8 | 23.4 | 50.09 | 38.53 |
| ⁴ Others | 72.5 | 63.9 | 59.3 | 41.52 | 41.52 |
| Total External | 1,498.03 | 1,580.3 | 1,639.5 | 1,590.7 | 1,582.71 |
| Bilateral | 95.6 | 199.8 | 199.6 | 193.7 | 252.72 |
| Multilateral | 585.5 | 596.5 | 657.7 | 742.9 | 770.17 |
| Bonds | 721.6 | 721.6 | 721.6 | 596.0 | 553.82 |
| Others | 95.3 | 62.4 | 60.4 | 58.1 | 6.0 |
| Grand Total | 1,925.03 | 2,058.2 | 2,113.9 | 2,185.1 | 2,175.39 |

Source: Debt Management Unit, Ministry of Finance

⁴ Other includes category of debt that cannot be classified in the categories listed above.

Based on table 5 above domestic debt stood at EC\$ 592.68 million equivalent to 21.1 per cent of 2016 GDP, while external debt accounted for the 56.4 per cent of GDP. Over the reported period domestic debt steadily increased moving from EC\$427.5 million to EC\$592.68 million a 38.6 percent increase. The continuous on-going restructuring of the domestic liabilities has resulted in a re-profiling of the portfolio to longer dated instruments reflective in the 204 per cent increase in the stock of bonds in 2015 when compared to 2014. And overall by end 2016, the domestic debt stock decreased marginally by 0.3 per cent compared to 2015.

External debt fluctuated over the reported period however have remained relatively stable as government continues to meet its commitment to its external creditors. In 2013, external debt increased marginally to EC\$ 1,580.3 million from EC\$ 1498.03 in 2012 as the authorities sought to close the financing gap. However, by end 2015 a decline of 3.0 per cent was recorded attributed in part to 25 per cent haircut received on the US dollar bond which reduced the face value amounts outstanding on the bond and contributed to an overall reduction in the debt stock in 2015. By the end of 2016, external debt decreased marginally by 0.5 per cent from 2015 primarily due to repayments on existing debt.

Debt Restructuring⁵

The adverse effects of the 2008/2009 global financial crisis imposed negative shocks on the local economy and once again Grenada found itself in a difficult fiscal situation which resulted in significant shortfalls in revenues and grants collections for the period. Left without an alternative the government was forced to defer its September 2012 coupon payment on the international bond. In light of the economic reality, Grenada entered into an Extended Credit Facility arrangement with the International Monetary Fund in order to restore debt sustainability, boost growth prospects and strengthen financial stability.

⁵ Extract from the Fiscal and Economic Review 2016, published in Government of Grenada 2017 Budget Statement

At the start of the adjustment program in 2014, external arrears averaged 2.1 percent of GDP while domestic arrears averaged 0.4 percent of GDP. However, in line with the performance targets, the stock of domestic and external arrears has been eliminated as at November 2016. Interest payments fell to 3.2 percent of GDP in 2016 from 3.7 percent of GDP at the end of 2013. Following the conclusion of negotiations with Paris Club creditors in November 2015, bilateral restructuring agreements were executed in 2016 with the Government of the United States in May and the Republic of France in October. The finalization of formal restructuring agreements with the United Kingdom and Russia should be completed by the first quarter of 2017.

Similar to the arrangement with the Commercial bond restructuring, the Paris Club creditors undertook to consider specific weather events that may impact Grenada’s ability to service its debt by embedding into the agreement the first ever “hurricane clause”.

Table 2.3 summarizes the debt restructuring arrangements that were concluded over the period January 2015 to December 2016.

Summary of Debt Restructuring (2015)

Table 6 : Summary of external debt restructuring operations

| Date | Creditor | Type of Instrument | Debt Outstanding as % of GDP | |
|--------|---------------------------------------|--------------------|------------------------------|--------------------|
| | | | Pre-restructuring | Post-restructuring |
| Jan-15 | Republic of China (Taiwan) | Bilateral Loan | 3.7% | 1.9% |
| Apr-15 | International Commercial Bond Holders | Commercial Bond | 27.2% | 20.4% |
| Nov-15 | Paris Club | Bilateral Loan | 0.9% | 0.9% |

Source: Ministry of Finance

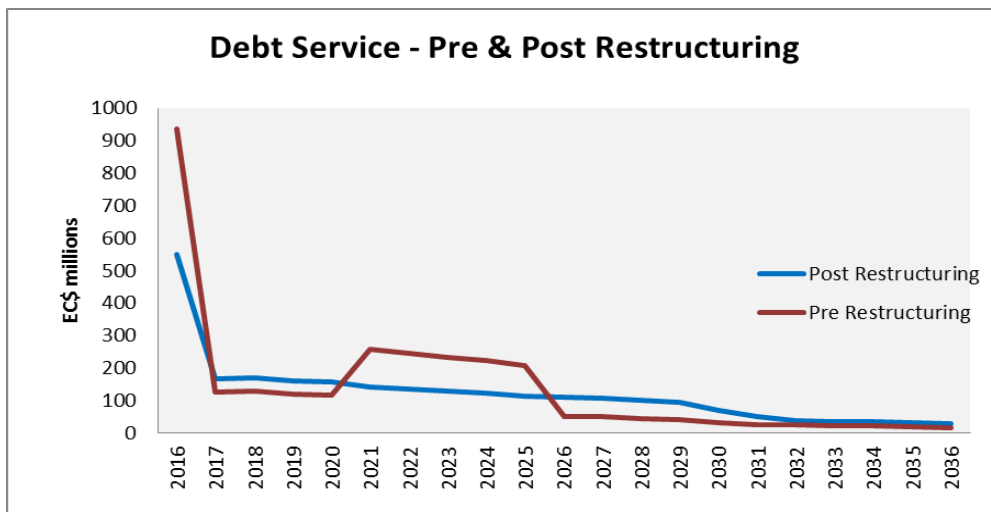
Government has established contact with the non-Paris Club bilateral creditors and is working towards concluding negotiations on that portion of the debt.

Restructuring of domestic debt is also on-going. Government has continued to engage local investors in its efforts to restructure its debt. To date the Government has successfully renegotiated its obligations with a number of local investors including institutional and commercial investors.

All domestic budgetary arrears were cleared by the end of 2015 and Government has continued to remain current with domestic suppliers. Finally, Government has reached agreement on a payment plan for the settlement of arrears with regional and international agencies.

As a result of the progress of the restructuring agenda, coupled with improved fiscal management systems and the continuation of strong economic growth, public debt is now on a much more sustainable trajectory.

Figure 2: Debt Service Pre and Post Restructuring (2016-2030)



A total of EC\$ 857.79 million dollars or approximately 32.0 per cent of total public debt was restructured in 2015. Estimates have shown that the restructuring exercise has resulted in considerable lowering of debt service payments from EC\$ 2,813.0 million to

EC\$ 2,374.2 million over the period 2016 – 2030 (as illustrated in the Figure above). This represents potential savings of approximately EC\$ 293.06 million over 15 years.

Credit Rating

On October 9th 2012, Standard & Poor's lowered its foreign currency sovereign credit ratings to "SD," or selective default, from "B-/B," while also lowering its local currency sovereign credit ratings to "CCC+/C" from "B-/B." Its outlook on Grenada's long-term local currency ratings is negative." The report alluded that "The downgrade to "SD" follows the government's failure to pay the coupon due Sept.15, 2012 on its \$193 million bond due in 2025."

"According to our criteria, we consider an obligation in default unless payment is made within five business days of the due date, regardless of any grace period," "Once the government cures its foreign currency debt default, we will assign forward looking foreign currency ratings," stated Richard Francis, a credit analyst for Standard and Poors.

Grenada's responded by issuing a release which stated that the action by Standard & Poor's was " premature considering the terms of the agreement for the 2025 Notes which provide a grace period of thirty (30) days after the due date and the notice was duly issued by Government to note-holders before the due date. This 30-day grace period had not yet expired. On October 16th 2012, Standard and Poors partially reversed the rating action as the bondholders were paid on October 15th with the paying agent receiving the funds on October 12, 2012.

To ensure no adverse impact on the banking system, Government also announced as it had done in 2005 after the passage of hurricane Ivan in 2004 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

honour this commitment by ensuring that its obligations on the RGSM are met and continues to access the market for its short-term liquidity needs.

With the restructuring of the bonds completed the government commenced payments on the 2030 US and Eastern Caribbean dollar bond and is schedule to make its third payment on these instruments in the second quarter of 2017.

PUBLIC DEBT RATIOS

The Public Debt to GDP ratio fell from 104.0 per cent in 2015 to 93.2 per cent in 2016 reflecting in part the effects of the on-going restructuring of domestic and external debt. At the completion of the Debt Restructuring (2017), the Debt/GDP ratio is projected to further decline. The following table outlines the movement in the debt ratios over the period 2012 to 2016.

TABLE 7: Grenada Public Debt Ratios

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------|-------|-------|-------|------|
| Public Sector Debt Stock to GDP (including Government Guarantees & other public sector) (per cent) | 108.0 | 107.0 | 107.1 | 104.0 | 93.2 |
| Debt Stock to GDP (excluding Government Guarantees) (per cent) | 89.0 | 90.0 | 89.0 | 85.1 | 80.4 |
| Interest payments to Current Revenue (per cent) | 17.3 | 9.2 | 16.5 | 18.5 | 10.9 |

Source: Ministry of Finance

The interest rate on the 2025 International bonds was at a rate of 4.5 per cent in 2012 and was paid hence the ratio was up to 17.3 per cent in that year. However, in 2013, the interest payments to current revenue ratio fell to 9.2 per cent as Government announced in

March of that year that it was going to pursue “*a comprehensive and collaborative debt restructuring*” which included the bonds due in 2025 whose payment accounted for a significant portion of the budgeted interest for the year.

Grenada’s interest payment to current revenue increased to 18.5 per cent in 2015 as government resumed payments on its external restructured debt. However by end 2016, interest payments to current revenues fell to 10.9 per cent primarily due to a 15.7 per cent increase in current revenues in 2016 over 2015.

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
- Adopting a risk management framework in the management of its debt portfolio

The Government re-established the Debt Management unit in January 2010, which produced a draft debt management strategy for the medium term which expires in 2018. With the on-going restructuring this strategy is being continuously updated to capture the changes in the debt portfolio.

9.0 BALANCE OF PAYMENTS

The gap between exports and imports has been steadily widening since 2012 with the rate of growth of imports outpacing that of exports as reflected in the current account balance.

Table 8: Grenada Summary of Balance of Payments (In million of EC dollars)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|---------|---------|---------|
| Current Account Balance | -521.6 | -597.6 | -489.51 | -533.62 | -548.25 |
| Exports (FOB) | 115.6 | 122.7 | 118.83 | 101.94 | 104.78 |
| Imports (CIF) | 810.9 | 875.4 | 806.8 | 829.93 | 846.52 |
| Services (net) | 184.4 | 185.5 | 229.17 | 241.59 | 243.90 |
| Of which Travel (net) | 299.3 | 297.8 | 345.12 | 356.23 | 369.40 |
| Income (net) | -92.6 | -79.9 | -89.39 | -91.15 | -95.80 |
| Of which Public Sector interest payments (gross) | 0.75 | 0.96 | 0.96 | 0.96 | 0.96 |
| Transfers (net) | 81.7 | 49.4 | 58.7 | 43.9 | 45.4 |
| Capital and Financial Account | 466.7 | 625.3 | 492.9 | 558.8 | 548.3 |
| Capital Account (transfers) | 158.3 | 118.6 | 255.8 | 321.2 | 170.3 |
| Financial Account | 308.4 | 506.7 | 237.2 | 237.7 | 377.9 |
| Direct Investment (net) | 85.0 | 305.3 | 101.8 | 162.3 | 169.9 |
| Portfolio Investment (net) | -8.3 | 46.8 | 32.3 | -2.4 | 20.9 |
| Other Investment | 231.7 | 154.6 | 103.1 | 77.7 | 187.1 |
| Overall balance | -5.1 | 84.8 | 61.7 | 81.7 | 26.4 |

Source: Ministry of Finance/ECCB 2016

Positive and improving overall balance of payments positions were recorded for 2013 through 2015. This was due to improvements in the current account as a result of low prices of oil on the international market as well as increased capital transfers. However, the overall balance deteriorated between 2015 and 2016.

10.0 FINANCIAL SECTOR ANALYSIS

Given the need to maintain financial stability at all times the Government of Grenada has enacted the GARFIN⁶ Act. The Act gives GARFIN, the authority to 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 has passed in its Parliament the Building Code and the associated Guidelines. In addition, government has also brought into force new planning regulations in 2015.

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

11.0 MONEY AND CREDIT CONDITIONS

Developments in the banking system continued to be characterized by excess liquidity and declining credit flows while the level of non-performing loans remained elevated. In this environment, the focus of the commercial banking system was on rationalization of their operations and the mitigation of asset quality risks to the balance sheets of individual banks.

Reflecting deleveraging operations by the private and public sectors, loan deposit ratios remained below the Central Bank's recommended threshold of 85.0 per cent and continued to trend downwards - moving from 61.2 per cent in December 2015 to 58.8 per cent in December 2016. Other indicators reflecting this trend of rising liquidity over the same period were:

⁶ Grenada Authority for the Regulation of Financial Institutions

- i. The ratio of net liquid assets to total deposits which moved from 39.8 to 43.4 per cent;
- ii. The ratio of liquid assets to total assets which moved from 37.5 to 40.8 per cent and
- iii. The ratio of liquid assets to total deposits which moved from 41.4 to 46.1 per cent.

12.0 INFLATION⁷

At an estimated value of -0.51 percent, the average rate of inflation in 2015, as measured by the Consumer Price Index, was negative for the third consecutive year. Unlike 2013 and 2014 however, where decreases in the price of communication services contributed to the decline in overall prices, plummeting oil prices fuelled the negative value in 2015. The fuel price index decreased by 3.26 percent on average in 2015, whereas the food price index rose by 1.03 percent. Average core inflation⁸ stood at 1.7 percent with an increase in telecommunication rates causing the communication index to rise by 8.24 percent in 2015.

As at September 2016, average inflation was estimated at 1.9 percent, underpinned by a 25.4 percent increase in the communications index compared to the same period in 2015. Telecommunication providers increased the rates for mobile calls in September 2015 by 25.7 percent and again in June 2016 by 5.7 percent. As the communication index carries a 10.03 percent weighting in the consumption basket, these price adjustments would have had a major impact on the overall index and are largely responsible for the positive inflation recorded thus far in 2016. Conversely, the indices for “food” and “housing, water, gas, electricity & other fuels” both declined during the period under review by 2.5 and 1.7 percent respectively. In the case of food, reductions in the cost of poultry, milk and cheese were, for the most part, responsible for the decline in that index. Similarly, decreases in the prices for gas and electricity by 7.8 and 6.6 percent respectively, weighed down the housing, water, gas, electricity & other fuels index.

⁷ Adopted from 2016 Economic Review and Medium Term Outlook, 2017 Budget Statement Grenada

⁸ Core Inflation represents the overall change in prices of all items excluding food and fuel.

As world oil prices are expected to increase and food prices stabilize over the medium term, inflation is projected to increase moderately in 2016 to an average value of 2.1 percent, with a similar medium term trajectory.

13.0 PROSPECTS FOR 2017⁹

Baseline projections suggest that the medium term outlook is positive as the recovery effort is consolidated and growth gains momentum, partly in response to the structural reform measures that are being implemented. Over the 3-year period 2017-2019, real economic growth is projected to average 2.4 percent. The growth projections are premised on the following assumptions:

- a. In the short term, recovery of the agriculture sector will be based on the timely resolution of the challenges encountered in 2016 through the implementation of measures to mitigate the adverse impact of drought-like weather conditions on production and to address the logistical constraints that affected the export of fish and fresh produce (airlift, equipment, etc.).
- b. The agriculture, communications, wholesale and retail, transport and storage and manufacturing (beverage production) sectors should benefit from increased domestic consumption levels associated with public sector wage settlements and increased confidence in economic prospects.
- c. The construction sector will maintain its momentum over the medium term, initially through the continuation of ongoing private sector projects and, beyond 2017, through the implementation of the strong pipeline of foreign investment projects and the start-up of major infrastructure projects including the UK funded road development works.

⁹ Adopted from the Budget Framework Paper 2017-2019, published in the Government of Grenada 2017 Budget Statement, page 69

- d. Beyond 2017, the tourism sector will benefit from the expansion of room stock as ongoing hotel development projects come on stream.
- e. Moderate expansion will continue in the private education, tourism, financial intermediation and other service sectors.
- f. Successful implementation of the range of demand and supply side reforms that are currently being implemented – in particular, those designed to contain fiscal risks, improve the investment climate and support job creation.

On the central government's fiscal accounts, the overall deficit is projected to narrow in 2017 on account of revenue gains from tax reforms being undertaken as part of the Home Grown Structural Adjustment Programme. Beyond 2017, the capital expenditure projections reflect some conservatism in the context of the risks of declining grant flows. Expenditure is held at the equivalent of 5.3 percent of GDP, of which funding from non-grant sources (revenue and/or loans) will not exceed the equivalent of 1.0 percent of GDP in 2017, 1.2 percent in 2018 and 0.9 percent in 2019- reflecting consistency with the focus of the Medium Term Debt Management Strategy on containing the debt build up. Commencing 2017, a provision of 2 percent of current revenue is made for a contingency fund. This is in line with the requirements of the Public Finance Management Act.

14.0 SECURITY ISSUANCE PROCEDURES AND SETTLEMENT AND SECONDARY MARKET ACTIVITIES

The treasury bills will be issued on the Regional Government Securities Market using 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 ongoing reporting and disclosure requirements.

15.0 CURRENT ISSUES OF GOVERNMENT SECURITIES ON THE REGIONAL AND INTERNATIONAL MARKETS

RGSM TREASURY BILLS

| | |
|--------------------|--------------------------------------|
| Issues Outstanding | EC\$97.00M |
| Type of Issue | Government of Grenada Treasury Bills |
| Maturity in Days | 91 and 365 Days |
| Date of Issues | July 2016 to February 2017 |
| Yields | Max 5.0per cent, |
| Discount Price | EC\$95.00 |

16.0 UPCOMING ISSUES OF GOVERNMENT SECURITIES ON REGIONAL MARKET 2017 (Revised)

| SYMBOL | AUCTION DATES | ISSUE/SETTLEMENT DATE | MATURITY DATE | ISSUE AMT. EC\$M | OVER SUBSCRIPTION AMOUNT ALLOWED EC\$M | TENOR (DAYS) | INTEREST RATE CEILING % |
|------------------|----------------------|------------------------------|----------------------|-------------------------|---|---------------------|--------------------------------|
| SERIES A | | | | | | | |
| GDB030817 | 3 MAY | 4 MAY | 3 AUGUST | 10 | 5 | 91 | 4% |
| GDB061117 | 4 AUGUST | 7 AUGUST | 6 NOVEMBER | 10 | 5 | 91 | 4% |
| GDB060218 | 7 NOVEMBER | 8 NOVEMBER | 7 FEBRUARY 2018 | 10 | 5 | 91 | 4% |
| SERIES B | | | | | | | |
| GDB290817 | 29 MAY | 30 MAY | 29 AUGUST | 15 | 5 | 91 | 4% |
| GDB011217 | 31 AUGUST | 01 SEPTEMBER | 01 DECEMBER | 15 | 5 | 91 | 4% |
| GDB050318 | 1 DECEMBER | 4 DECEMBER | 5 MARCH 2018 | 15 | 5 | 91 | 4% |
| GDB210718 | 20 JULY | 21 JULY | 21 JULY 2018 | 30 | 0 | 365 | 5% |
| GDB111018 | 10 OCTOBER | 11 OCTOBER | 11 OCTOBER 2018 | 10 | 0 | 365 | 5% |
| GDB301118 | 29 NOVEMBER | 30 NOVEMBER | 30 NOVEMBER 2018 | 20 | 0 | 365 | 5% |

ALL ISSUES ON THE MARKET ARE IN EC DOLLARS

SUBJECT TO REVISION BASED ON FINANCING METHOD EMPLOYED

APPENDIX I¹⁰: LIST OF LICENSED ECSE MEMBER BROKER DEALERS

| Territory | Institution | Name of Licencee | Type of Licence | |
|----------------------------------|--|---------------------|-----------------|--|
| ST KITTS AND NEVIS | St Kitts-Nevis-Anguilla National Bank Ltd | Anthony Galloway | Principal | |
| | | Angelica Lewis | Representative | |
| | | Marlene Nisbett | Representative | |
| | | Petronella Crooke | Representative | |
| | | | | |
| | The Bank of Nevis Ltd | Brian Carey | Principal | |
| | | Judy Claxton | Representative | |
| | | | | |
| | | | | |
| SAINT LUCIA | Bank of St. Lucia Ltd | Medford Francis | Principal | |
| | | Lawrence Jean | Principal | |
| | | Deesha Lewis | Representative | |
| | | | | |
| | First Citizens Investment Services Ltd | Norlann Gabriel | Principal | |
| | | Samuel Agiste | Representative | |
| | | Shaka St Ange | Representative | |
| | | | | |
| ST VINCENT AND THE GRENADINES | Bank of St Vincent and the Grenadines Ltd | Monifa Latham | Principal | |
| | | Patricia John | Representative | |
| | | Laurent Hadley | Representative | |
| | | Chez Quow | Representative | |
| | | | | |
| GRENADA | Grenada Co-operative Bank | Mr. Aron Logie | Principal | |
| | | Mr. Carla Sylvester | Representative | |

¹⁰ Revised