

# **GOVERNMENT OF GRENADA**



## **PROSPECTUS**

**FOR \$25.0 MILLION**

**365-DAY TREASURY BILLS**

**MINISTRY OF FINANCE  
FINANCIAL COMPLEX  
CARENAGE  
ST. GEORGE'S**

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**DATE OF PROSPECTUS: JUNE 2005**

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## ***ABSTRACT***

The Government of Grenada proposes to raise twenty-five million Eastern Caribbean dollars (EC\$25.0 million) through the issue of 365-day treasury bills. This instrument is being issued primarily to refinance existing debt. The EC\$25.0 million Treasury bill issue will be repaid at the end of the term with the proceeds from a new issue.

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.

This Issue is 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***

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**Date of Publication:** June 2005

**Type of Security:** Treasury Bills

**Amount of Issue:** Twenty-five million (25,000,000)  
Eastern Caribbean Dollars (EC\$)

**Purpose Security Issue:** To refinance existing government debt of similar maturity as part of Government's liabilities management.

**Legislative Authority:**

Revised Treasury Bills Act 2003,  
Laws of Grenada.

***I. INFORMATION ABOUT THE ISSUE***

- a) The Government of Grenada proposes a 365-day twenty five million dollar (EC\$25.0m) Treasury bill issue.
- b) The maximum bid price is \$94.0 (6.00%)
- c) Interest payments will be made at the end of the 365-Day period
- d) 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, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines
- e) 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)
- f) The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding
- g) The Treasury-Bills will be auctioned on 12 July 2005
- h) The Treasury Bill is identified by its trading symbol GDB130706
- i) The bidding period will be opened from 9:00 am on 12 July 2005 and will close at 12:00 noon on 12 July 2005
- j) The Treasury-Bills will be settled on 13 July 2005
- k) The Treasury Bills will mature on 13 July 2006
- l) Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period.
- m) The minimum bid amount is XCD\$5,000
- n) The Bid multiplier will be set at XCD\$1,000

o) The Investors will participate in the auction through the services of a licensed intermediary. Commission to intermediaries for this service will be payable by Investors.

p) The current List of licensed intermediaries are as follows:

- ABI Bank
- Antigua Commercial Bank Ltd
- St. Kitts Nevis Anguilla National Bank Ltd
- Bank of Nevis Ltd
- Bank of St. Lucia Ltd
- National Commercial Bank (SVG) Ltd
- National Mortgage Financial Company – Dominica
- Republic Finance & Merchant Bank (FINCOR) – Grenada
- Caribbean Money Market Brokers Ltd

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 is appointed by and represents the British monarch (Grenada’s head of state), 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 a 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 mountains, 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 St. Lucia, and travel to Grenada to hear appeals from the High Court. Appeals from the Court of Appeal go to the Judicial Committee of the Privy Council in London, England, which is Grenada's court of last resort.

## **Demographics**

According to the last population census in 2001, Grenada has a population of 102,398 persons, evenly divided between males and females. The population growth rate in 2001 was 0.7%. The size of Grenada's population has grown only slightly since 1997. 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

<b>Human development rank<sup>(1)</sup></b>	93
<b>Life expectancy at birth (in years)</b>	73
<b>Adult literacy (%)</b>	94.4%
<b>GDP per capita (in U.S.\$)</b>	4,205
<b>Population rate of growth (%)</b>	-0.3%
<b>Infant mortality (per 1,000 live births)</b>	13
<b>Access to improved water source (% of population)</b>	95%

<sup>(1)</sup>2004 United Nations Human Development Report

*Source: International Monetary Fund*

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 240-bed General Hospital in St. George's, and two rural hospitals in Mirebeau 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 800 members of the Royal Grenada Police Force, which include a 96-member paramilitary special services unit and a 29-member coast guard, maintain security in Grenada. Grenada 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. PUBLIC FINANCE**

The Constitution and the Finance and Audit Act (Cap. 102) of the Revised Laws of Grenada 1990, establish 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 IMF, 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 2003. The 2004 Statement of Accounts will be presented to Parliament in the last quarter of 2005.

### **Fiscal Performance**

The fiscal performance of Central Government was adversely affected by the passage of Hurricane Ivan on September 7, 2004. It inflicted extensive damages in Grenada estimated in the amount of E.C.\$2.4 billion which is over 200% of GDP.

For the first time in more than a decade, Grenada experienced a deficit on its current operations and had to seek budgetary support from friendly governments and institutions to help meet its recurrent obligations and immediate reconstruction needs.

#### **Recent Fiscal Performance 2000-2005 (EC\$M)**

	2000	2001	2002	2003	2004 Preliminary	2005 Budget
Current Revenue	297.2	284.9	292.5	330.0	301.2	317.2
Current Expenditure	230.5	258.0	285.4	291.6	329.6	368.8
Current Account	<b>66.7</b>	<b>26.9</b>	<b>7.1</b>	<b>38.4</b>	<b>-28.4</b>	<b>-51.6</b>

Balance						
Capital Expenditure	135.2	162.6	244.4	179.1	93.8	236.0
Overall Balance	-35.2	-90.0	-211.1	-57.6	-32.7	-104.7

The Government has incurred an overall budget deficit for each of the five years (2000 through 2004). This overall deficit throughout the period has mainly been the result of capital expenditures, which peaked in 2002 and had been reducing till 2005 as a result of the effects of Hurricane Ivan.

In 2004, the current account deficit was approximately EC28.4m. Capital expenditure was EC\$93.8m resulting in an overall deficit (after grants) of \$32.7m or roughly 2.8% of GDP.

### **Revenues**

The Government derives 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 for the year ended December 2004 was EC\$301.2m compared with the budgeted revenue of \$370.2m (roughly 18.64% below target). This shortfall was largely due to lower receipts in Tax Revenue of roughly EC\$42.2m and Non-Tax Revenue of EC\$26.8m respectively. This slump in revenues was a direct result of the impact of the hurricane, which precipitated a sharp decline in economic activity. For example, in September 2004, Government expected to collect \$28.5m in current revenues but was only able to collect \$8.5m.

### **Non-Tax Revenue**

Non-tax revenue primarily represents dividends the Government receives from state-owned enterprises and profits from the Eastern Caribbean Central Bank. Non-tax revenue was up from \$28.2 million in 2001 to \$39.8 million in 2003 but declined to \$22.3 million in 2004.

### **Grants**

The Government receives grants from various governments and multilateral organizations. The Government uses these grants to finance capital development projects thereby reducing its overall budget deficit.

In 2004 after the passage of the hurricane Ivan on September 7<sup>th</sup> 2004, grants were received, as a form of budgetary support to meet Government's recurrent and immediate reconstruction needs. Grenada received EC\$71.6 million in budgetary support and grants to reduce the fiscal gap in 2004.

### **Current Expenditure**

For the period January to December 2004, current expenditure amounted to approximately EC\$329.6m (3.4% below budget). Current expenditure increased from \$230.5 million in 2000 to \$329.6 million in 2004. The growth in current expenditure in 2004 was primarily on account of increases in wages and salaries based on recent wage settlements and debt servicing.

### **Capital Expenditures**

The Government's capital expenditure increased from \$135.2 million in 2000 to \$179.1million in 2003. In 2004, however capital expenditure was \$93.4 million approximately 47.9% less than the amount expended in the previous year. The lower capital spending in 2004 was due to the deferral of major capital works to focus on the more immediate rehabilitation needs of Grenada after Hurricane Ivan.



### **Fiscal Performance in 2005**

The table below indicates fiscal performance of Government for the first five months of the year.

<b>Key Indicators</b>	<b>Year to Date -2005</b>		<b>% YTD</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Recurrent Revenue</b>	317,210,361	141,853,420	44.7
<b>Recurrent Expenditure</b>	368,812,541	112,816,135	30.7
<b>Current Balance</b>	(51,602,180)	29,037,285	N.A
<b>Capital Expenditure</b>	236,000,000	67,491,373	28.6
<b>Overall Deficit / Surplus Before Grants</b>	(287,602,180)	(38,454,088)	13.4
<b>Grants</b>	215,600,000	77,250,198	35.8
<b>Overall Deficit / Surplus After Grants</b>	(72,002,180)	(15,203,891)	21.1

In reviewing fiscal performance in 2005, the following points should be noted:

1. The budget projections do not reflect the impact of debt restructuring since the exercise has not yet been completed;

2. Lower revenues are projected in 2005 than 2003 (2003 is a more typical year than 2004) because of the reduced level of economic activity. The economy is projected to grow by 1.9% in 2005;
3. The debt servicing is currently low because creditors have been asked to roll over their claims pending the restructuring. For this reason, current expenditure and current account balance are lower than they would otherwise be for the first five months of 2005. ?;
4. Retroactive wage payments for public officers will be made at the end of June 2005. This payment is approximately \$4million. These were salary increases which were due at the start of 2005 but were deferred because of the fiscal imbalance;
5. Customs revenue collection has been robust because of importation of building materials for reconstruction;
6. Incomes from Inland Revenue Department have been slightly lagging because of lower profits, loss of jobs and generally lower level of economic activity.

At this juncture, the revenues are on track to meet the budget forecasts for 2005.

## **VI. PUBLIC DEBT ANALYSIS**

As at December 2004, the Public Debt was EC\$1.48 billion, of which

Central Government Debt – EC\$1.20 billion

Government Guarantees - \$275.35 million

The Public Sector Debt-to-GDP ratio as of December 2004 was approximately 126.1%, of which central government debt was 102.6% and guarantees of the Government accounted for approximately 23.5% of the Public Debt.

The Public Debt rose from \$587.6 million in 2001 to EC\$1.2 billion in 2004. This increase in total debt came from external debt, which increased from \$401.7 million in 2001 to \$874.7 million in 2004, while domestic debt grew from \$185.8 million in 2001 to \$329.80 million in 2004.

The increase in external debt in 2002 marked Grenada's inaugural bond issue on the international capital market, approximately 50 percent of which was used to purchase the leases on the Queens Park Stadium and the Ministerial Complex. In 2004, external debt was further increased by another bond issue on the regional market in the sum of USD\$41.5 million.

The increase in domestic debt for 2004 included a provision for compensation claims from judgment debts and land acquisition in the sum of EC\$40 million.

In April 2002, Grenada received an international credit rating from Standard and Poors of a BB-/ Stable. In April 2003 and June 2004, this rating was re-affirmed by Standard and Poors. After the passage of Hurricane Ivan on September 7<sup>th</sup> 2004, Grenada's long-term foreign and local currency ratings were lowered from BB- to B+. Moreover, Grenada was placed on Credit Watch with negative implications. The rating was further downgraded from 'B-' to 'SD' when Government did not pay coupons on its two largest bond issues in December 2004. At that time, Grenada asked its creditors to roll over these claims pending their orderly restructuring.

When the debt restructuring is complete, Standard and Poors will revise its 'SD' rating to a rating that incorporates a forward-looking assessment of Grenada's debt -servicing capacity.

### **Debt Restructuring**

On observing the slump in government revenues, it became immediately apparent that Government would not be able to meet its debt obligations as they fell due.

Accordingly, the Ministry of Finance issued a press release on October 04, 2004 announcing Grenada's intention to seek the cooperation of creditors in light of the economic crisis precipitated by the hurricane.

In late December 2004, when coupon payments were due on Grenada's two largest bond issues, Government issued a statement requesting the rollover of these claims pending the orderly restructuring of debt obligations. Each commercial creditor was formally requested to roll over their claims pending their orderly restructuring.

On January 10, 2005, Government announced the appointment of its debt advisers: Cleary Gottlieb, Steen and Hamilton (Legal) and Bear Stearns & Co. Inc (Financial). They are both reputable firms with experience in sovereign debt restructuring.

To ensure no adverse impact on the banking system, Government also announced it will 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 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, lower coupon rates and support for debt servicing.

In April 2005, a meeting was held with commercial creditors in Trinidad to brief them on the debt restructuring exercise and the timetable.

In May 2005, following review and analysis of the Public Debt by the debt advisers, the debt sustainability analysis was posted on Government's website ([www.gov.gd](http://www.gov.gd))

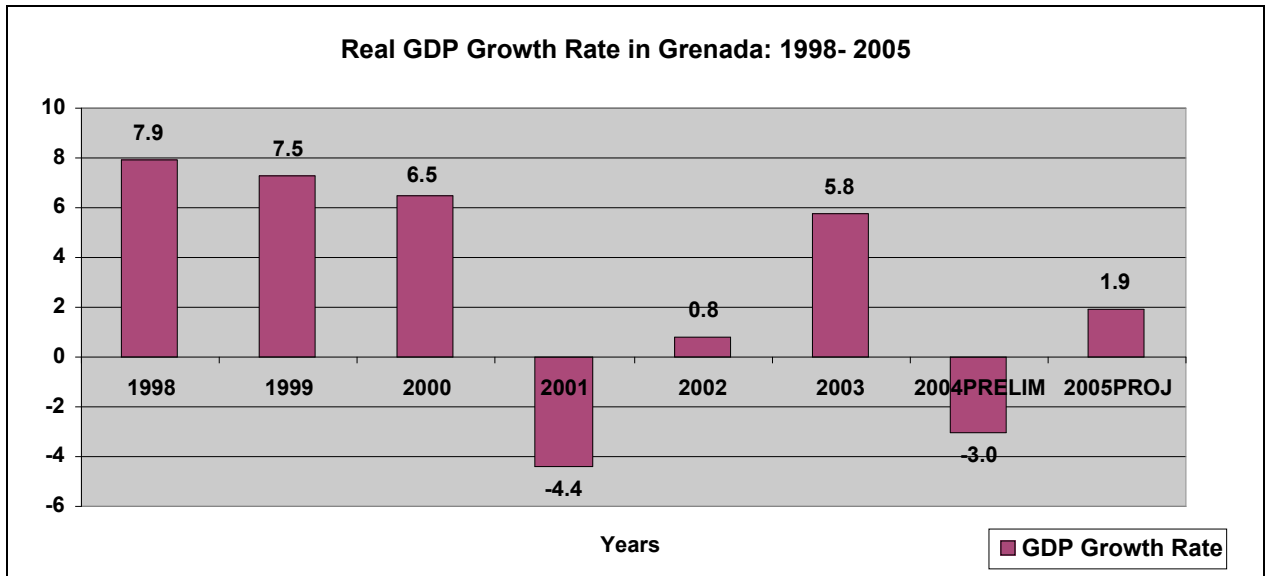
Government met with representatives of a creditor committee in June 2005 and reaffirmed its commitment to a transparent and cooperative approach to the debt restructuring programme.

## ***VII. MACRO-ECONOMIC PERFORMANCE***

### **Economic Growth**

Grenada's economy is one of the most diversified economies in the OECS with its main sectors being tourism, agriculture, construction and other services. Private enterprise dominates the economy accounting for approximately two-thirds of output while Government services accounts for approximately one-third primarily through the provision of physical infrastructure and social services.

The graph below shows Grenada's real GDP growth for the period 1998 to 2005.



Sources: Ministry of Finance and Eastern Caribbean Central Bank.

From 1998-2000, Grenada’s economy grew at an average 7.3 percent, the fastest growth in the OECS region, which during that period was averaging growth of 3.4 percent.

Affected by global recession and the effects of the September 11 events, the economy contracted by 4.4 percent in 2001. In 2002, there were some signs of recovery with growth of 0.8 percent.

In 2003, real GDP growth was 5.8% primarily driven by activity in the construction, tourism and telecommunications sectors.

The economy has been estimated to decline by 3.0% due to the effect of Hurricane Ivan. Prior to the hurricane, Grenada’s economy was on track to grow by 4.7 percent. For 2005, growth is projected at 1.9 percent, on account of activity in the construction and tourism sectors.

## **Sectoral Developments**

### **Agriculture**

The agricultural sector continued to play an important role in the social and economic transformation of the country despite its reduced contribution to real GDP and employment in the past decade. Preliminary data for 2004 indicates that the agriculture sector contracted slightly on account of the four main export crops. Traditionally, primary products including nutmeg and mace, cocoa and bananas have dominated Grenada's agriculture sector. Output of nutmeg and mace, cocoa and bananas slowed for most of the decade but showed a tendency to rise during the period from 1998 to 2000, though falling again in 2001. Earnings from these traditional agricultural crops fluctuated during 1998 to 2004.

### **Tourism**

Tourism is the most important generator of foreign exchange earnings in the Grenadian economy. The tourism industry began to play a leading economic role at the start of the 1990s, though certain statistics have registered a decline in 2001. The Government has decided to target tourism as an area of growth in order to reduce unemployment, increase foreign currency earnings and to strengthen the linkage with agriculture and manufacturing.

Government has invested in capital improvement in the tourism industry, increased promotion of Grenadian tourism and invested in human resources, especially in hospitality management.

The Government believes that growth in the tourism industry will improve economic activity in most other sectors of the economy. Substantial foreign direct investment in new hotel facilities, mainly in Grenada's southern tourism belt, resulted in the tourism sector increasing its contribution to GDP.

### Key Tourism Indicators: 1999 to 2004

Key Indicators	1999	2000	2001	2002	2003	2004
Stay-Over Arrivals	125,289	128,864	123,351	132,416	142,355	132,866
Cruise Ship Arrivals	245,461	180,308	147,381	135,061	146,925	226,944
Number of Cruise ship calls	369	360	287	259	267	248
Occupancy Levels						
Room Night	N/A	N/A	69.2	71.0	NA	NA
Bed Night			38.2	35.3	NA	
Total Recorded Visitor Expenditure (EC\$M)	458.9	481.5	440.0	469.1	470.3	417.8

*Sources: Ministry of Finance and Grenada Board of Tourism.*

Annual data for 2004 indicate that stay-over arrivals decreased by 6.7 per cent to 132,866 arrivals when compared to the same period of 2003. This decline was a result of the passage of Hurricane Ivan, which devastated the Country and rendered 70% of the room stock inoperable. In contrast, the number of cruise ship passengers visiting the Grenada increased by 54.5 per cent in 2004, despite a reduction of 7.1 per cent in the number of cruise ship calls from 267 ships in 2003 to 248 ships in 2004. The increase in the number of cruise ship passengers was a direct result of the availability of the newly constructed US\$25 million Cruise Ship terminal, which was officially opened in December 2004. This Terminal has the capacity to accommodate megaships. How many?

### **Inflation**

The Government believes that the Eastern Caribbean Central Bank's commitment to a fixed exchange rate policy has enabled it to maintain relatively low inflation rates. In 2002, the annual inflation rate, as measured by the change in the consumer price index, averaged 0.72%, compared with an average of 2.2% in 2001. Inflation averaged 1.7% annually from 1997 through 2001. In 2003, and 2004 inflation averaged roughly 1.6 per cent and 2.3% respectively.



## **VIII. EXTERNAL ECONOMY: BALANCE OF PAYMENTS**

### **Overview of Current Account**

Balance of payments data reflect the value of the transactions carried out between a country's residents and the rest of the world. Grenada has incurred an overall balance of payments surplus in each of the five years from 1997 through 2002. In 2004, preliminary data suggests that the overall balance of payments position of Grenada may have improved significantly with the budgetary support and the insurance receipts in the aftermath of Hurricane Ivan. In 2004, the balance of payments registered a surplus of \$81.9 million, as compared to a deficit of \$34.6 million in 2003 and a surplus of \$4.3 million in 2002. Both the current account deficit and the capital and financial account surplus were smaller in magnitude in 2004, as compared with 2003.

### **Remittances**

Remittances consist of funds sent to persons and entities in Grenada by Grenadians residing and working abroad. Remittances have been relatively stable and have been a key contributor to Grenada's balance of payments surplus in recent years. 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, followed by Canada and the United Kingdom. Remittances totaled \$65.1 million in 2004, as compared with \$62.9 million in 2003.

## **IX. OVERVIEW OF CAPITAL AND FINANCIAL ACCOUNT**

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 2004. During this period, Grenada's capital and financial account registered annual surpluses.

Between 2001 and 2004, the capital and financial account of the Balance of Payments for Grenada moved from a surplus position of \$242.4 in 2001 to approximately \$305.9m in 2004. This was due to a fall in other liability payments.

The chief components of the capital and financial account within the balance of payments consist of the capital transfers account (which is within the capital account) and the direct investment account (which is within the financial account). Grenada's capital account is dominated by capital transfers, which consist of foreign direct investment and foreign loans and grants for private and public sector projects.

### **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 recipients of the foreign direct investment in recent years have been the tourism, manufacturing, and construction and communications sectors of the economy. Foreign direct investment in Grenada has principally originated from the United States, followed by the United Kingdom, Canada and other Caribbean countries.

Foreign direct investment totaled \$156 million in 2002, as compared with \$108 million in 2004. The decline in foreign investment in 2002 was primarily attributable to the economic slowdown in the United States, and in certain other key trading partners. In 2004 however this was attributed to a downturn in economic activities caused by the passage of Hurricane Ivan. 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 2005-2007***

### **Medium-Term Economic Strategy**

#### ***Overview***

The Government's broad goal from 2005 to 2007 is to fully implement its comprehensive debt management program and its reconstruction and development program, thereby returning Grenada to macro-economic stability and placing it on a path of sustainable economic growth.

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.

#### **GDP Annual Change by Sector**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(Annual percentage)</i>		
Agriculture.....	(39.7%)	21.3%	5.8%
Construction .....	35.0	12.0	8.0
Hotels .....	(3.5)	12.0	8.0
Transportation.....	4.9	5.0	5.0
Communications.....	3.0	5.0	5.0
Banks.....	2.5	2.5	5.0
<b><u>Overall</u></b> GDP Growth.....	<b>1.5</b>	<b>7.0</b>	<b>5.0</b>

*Source: Ministry of Finance*

Beyond 2007, Grenada is expected to average growth of 4%.

### ***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 2005 through 2007, Grenada's strategy for the agriculture sector includes:

- achieving greater food security (as Grenada currently imports approximately 90% of its food); for example, the Government of Grenada will facilitate the construction of a poultry farm in St. Mark, a rural parish, through the use of tax incentive packages;
- a nationwide program of replanting nutmeg and cocoa trees;
- the construction of farm and feeder roads;
- the recultivation of watershed and forest areas; and
- 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***

The tourism sector began to play a leading role in Grenada's development in the early 1990s. Substantial foreign direct investment in new hotel facilities, mainly in Grenada's southern tourism belt, resulted in the tourism sector increasing its contribution to real

GDP from 5.8% in 1990 to 8% in 2004. In recent years, the Government's plans have focused on increasing the number of hotel rooms and transportation links to Grenada. From 2005 through 2007, Grenada will focus its efforts on promoting the development of four major upscale hotels: the Levera Beach Resort, the Mt. Hartman and Hog Island Hotel, the Silver Sands Hotel and Cinnamon Hill. The Government will also intensify its efforts to improve air links, especially with the United States, Canada and Europe.

The Government is currently facilitating Phase II of the Cruise Ship Complex. Phase II is estimated to cost approximately U.S.\$25 million and includes construction of duty-free shops and related amenities. 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 reconstruction of the National Stadium at the cost of U.S.\$40 million will enable Grenada to host the World Cup Cricket matches in 2007. The World Cup Cricket matches are expected to generate significant benefits to the economy and enhance Grenada's presence in the tourism market. In addition to World Cup cricket matches, the facilities will also 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 agricultural, manufacturing and tourism.

## **Fiscal Policy Strategy**

As part of its overall economic management strategy, the Government is developing a medium-term strategy. The key 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;
- Reduced Tax concessions
- Enhanced revenue collection through improved tax administration;
- Efficient capital expenditure;
- Containment of expenditure growth 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 from 2005 through 2007, Grenada will minimize its current fiscal account deficits. It projects a current account surplus by 2008 as a result of the implementation of fiscal adjustment measures.

The Government has targeted revenue growth of, on average, 4.5% per annum during the period from 2005 through 2007, with the expectation that current expenditure growth will be kept in line with inflation, which should not exceed 3% per annum.

The Government has announced certain fiscal measures that are to commence in 2005.

***Revenue enhancement*** measures include:

- Raising the retail price of fuel (both diesel and gasoline) from \$7.50 per gallon to \$8.50 per gallon and introduce a flexible pricing mechanism that

allows fuel prices to change periodically to reflect changes in crude oil prices;

- Employee contributions (including self-employed) to contribute 5% of their salaries to the Grenada Reconstruction and Development Fund. See “— Reconstruction Fund” below; and
- Increase the general consumption tax on liquor and tobacco products;
- Progressively reduce the amount of tax concessions over the period 2005 to 2010; and
- Improve collection of taxes and fees including (1) automating the records of Lands and Survey Department in 2005, (2) automating the Supreme Court Registry in 2006, (3) introducing revised user fees for selected Government services such as electrical inspections, and (5) enhancing revenue capacity of inland revenue and (6) strengthen customs functions.

***Current expenditure restraint measures*** include:

- Keeping growth of current expenditure on goods and services in line with inflation from 2006. Allowance will be made for replacement of furniture and equipment to Government ministries and departments in 2005; and
- Careful selection of capital expenditure consistent with the country’s absorptive capacity and available financing; and
- Forming a tripartite agreement described above among Government, labor unions and the private sector on issues such as keeping wages in line with inflation.

***Reconstruction Fund***

In March 2005, the Government established The Grenada Reconstruction and Development Fund to finance Grenada's Reconstruction and Development Program. The Agency for Reconstruction and Development will be responsible for the administration of the Fund with oversight from the Ministry of Finance, Department of Audit and Parliament.

For the next three to five years, every Grenadian worker (with the exception of workers who earn less than \$1,000 per month) will be required to contribute to the Fund. Persons earning over \$5,000 per month and up to \$9,000 per month will pay a monthly contribution of \$225.00. Persons whose income, exceed \$9,000 per month will pay a monthly contribution of \$350.00.

All contributions will go directly to the Fund to finance the reconstruction priorities of housing, agriculture and youth skills training and employment.

The current regime of personal income tax will remain unchanged. Under the regime, persons who earn in excess of \$5,000 per month are subject to a tax rate of 30%.

### **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 the U.S. dollar. Moreover, the 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 Government established the Grenada Industrial Development Corporation to attract foreign direct investment, to increase the exports of Grenadian goods and services and to foster the development of viable indigenous businesses. Its aims include:

- Increasing foreign exchange earnings through the promotion of exports and direct capital investment;
- guiding the industrial sector toward higher value-added activities;
- expanding the tourism, information technology and financial services sectors;
- improving the efficiency and competitiveness of the manufacturing sector; and
- creating jobs in a broad range of economic sectors.

Among other things, the Grenada Industrial Development Corporation assisted foreign investors in securing customs and other 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 competitive uniform open price auction. 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\$25.0M
Type of Issue	Government of Grenada Treasury Bills
Maturity In Days	365 Days
Date of Issue	July 12, 2004
Discount Rate	N/A
Yield	5.0 %
Discount Price	EC\$95.0

### **II. BOND ISSUE**

Issues Outstanding	US \$100.0M
Type of Issue	Government of Grenada

International Fixed Rate Bonds

Maturity	10 Years
Date of Issue	July 3, 2002
Discount Rate	N/A
Yields	9.375 %
Discount Price	EC\$94.0

## 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 elsewhere in the prospectus.

### Selected Economic Information: 2000-2004

*(In millions of \$)*

<b>Domestic Economy</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Nominal GDP at factor cost	904.33	878.23	899.37	964.30	960.01
Nominal GDP at market prices	1103.46	1068.89	1075.3	1180.92	1170.61
Real GDP at factor cost	701.2	670.65	676.3	715.55	693.91
Per cent change in real GDP at factor costs	7.03	-4.4	-0.84	5.8	-3.02
Consumer Price Index	2.2%	3.2%	1.5%	2.2%	2.3%
Unemployment rate (annual average)	11.0%	10.0%	12.0	13.0%	20.0%
<b>External Economy</b>					
Exports	636.46	531.78	472.57	496.38	N/A
Imports	837.38	761.80	737.67	846.63	N/A
Current Account Balance	-237.87	-284.03	-330.30	-367.37	N/A
Direct Investment	74.5	90.04	86.48	65.91	N/A
Capital and Financial Account Balance	258.89	242.39	364.87	350.44	N/A
Overall Balance of Payments	17.82	15.77	84.28	-34.59	N/A
<b>Tourism</b>					
Stay-Over Arrivals (in thousands)	128,864	123,351	132,416	142,355	132,866
Total visitor expenditures	481.5	440.0	469.1	470.3	417.9

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

(1) Unless otherwise indicated.

(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 IV - LIST OF LICENSED INTERMEDIARIES***

<b>Institution</b>	<b>Contact Addresses</b>	<b>Associated Persons</b>
<b>Antigua</b>		
ABI Bank Ltd.	ABI Financial Centre Redcliffe Street St John's <b>Tel: 268 480 2824</b> Fax: 268 480 2765 Email: <a href="mailto:abibsec@candw.ag">abibsec@candw.ag</a>	<b>Principal</b> Casroy James  <b>Representative</b> Laura Abraham
Antigua Commercial Bank Ltd.	ACB Financial Centre <b>P. O. Box 3089</b> St John's <b>Tel: 268 481 4200</b> Fax: 268 481 4229 E Mail: <a href="mailto:acb@candw.ag">acb@candw.ag</a>	<b>Principal</b> Peter N Ashe  <b>Representatives</b> Sharon Nathaniel Barbara Martin
<b>Dominica</b>		
National Mortgage Finance Company of Dominica Ltd.	64 Hillsborough Street Roseau  <b>Tel: 767 448 4401/4405</b> Fax: 767 448 3982 Email: <a href="mailto:ncbdom@cwdom.dm">ncbdom@cwdom.dm</a>	<b>Principal</b> Ralph Blaize  <b>Representatives</b> Dawn Yankey Marilyn Edwards
<b>St Kitts and Nevis</b>		
St Kitts Nevis Anguilla National Bank	P O Box 343 Central Street Basseterre Tel: 869 465 2204 Fax: 869 465 1050 Email: <a href="mailto:national_bank@sknanb.com">national_bank@sknanb.com</a>	<b>Principals</b> Anthony Galloway Winston Hutchinson  <b>Representatives</b> Marlene Nisbett Desilu Smithen
Bank of Nevis Ltd.	P O Box 450 Charlestown Nevis Tel: 869 469 5564 Fax: 869 469 5798 E mail: <a href="mailto:bon@caribsurf.com">bon@caribsurf.com</a>	<b>Principals</b> Rawlinson Isaac Hanzel Manners  <b>Representatives</b> Lisa Jones Wanda Pinney
<b>St Lucia</b>		
Bank of St Lucia	P O Box 1862	<b>Principals</b>

<b>Institution</b>	<b>Contact Addresses</b>	<b>Associated Persons</b>
Ltd.	Bridge Street Castries Tel: 758 456 6000 Fax: 758 456 6190 Email: <a href="mailto:bankofsaintlucia.candw.lc">bankofsaintlucia.candw.lc</a>	Donna Mathew  <b>Representative</b> Trevor Lamontagne Lawrence Jean
<b>Saint Vincent</b>		
National Commercial Bank (SVG) Ltd.	P O Box 880 Cnr. Bedford and Grenville Streets Kingstown <b>Tel: 784 457 1844</b> Fax: 784 456 2612 Email: <a href="mailto:natbank@caribsurf.com">natbank@caribsurf.com</a>	<b>Principals</b> Keith Inniss  <b>Representative</b> Patricia John
<b>Grenada</b>		
Republic Finance and Merchant Bank Ltd.	NCB House Grand Anse Saint Georges <b>Tel: 1-473-444-1875</b> Fax: 1-473-444-1879 Email: <a href="mailto:finrec@caribsurf.com">finrec@caribsurf.com</a>	<b>Principals</b> Bernard McClean Heather Titus Wilma Williams  <b>Representative</b> Tarlle Francis Bernard McClean Heather Titus Wilma Williams
<b>Trinidad and Tobago</b>		
Caribbean Money Market Brokers Ltd. (CMMB)	No. 1 Richmond Street, Ground Floor Furness Court, Independence Square <i>Port of Spain</i>  <b>Tel: 868 623 7815/5153</b> Fax: 868 624 4544/9833 ; 627 2930 Email: <a href="mailto:info@mycmmb.com">info@mycmmb.com</a>	<b>Principals</b> Brent Salvary Leslie St Louis  <b>Representatives</b> Leslie St Louis Vishwatee Jagroop