

# **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 2004**

# TABLE OF CONTENTS

<b>ABSTRACT</b> .....	<b>1</b>
<b>I. GENERAL INFORMATION</b> .....	<b>2</b>
<b>II. INFORMATION ABOUT THE BISSUE</b> .....	<b>3</b>
<b>III. HISTORY</b> .....	<b>4</b>
<b>IV. GRENADA’S POLITICAL, JUDICIAL SYSTEM, DEMOGRAPHICS &amp; SOCIAL CLIMATE</b> .....	<b>5</b>
<b>Political</b> .....	<b>5</b>
<b>Judicial System</b> .....	<b>6</b>
<b>Demographics</b> .....	<b>7</b>
<b>Social Indicators</b> .....	<b>8</b>
<b>V. PUBLIC FINANCE</b> .....	<b>9</b>
<b>Audit and Review</b> .....	<b>9</b>
<b>Fiscal Performance</b> .....	<b>10</b>
<b>Revenues</b> .....	<b>10</b>
Current Revenues.....	11
Non-Tax Revenue.....	11
Grants.....	11
<b>Current Expenditure</b> .....	<b>12</b>
<b>Capital Expenditures</b> .....	<b>12</b>
<b>VI. PUBLIC DEBT ANALYSIS</b> .....	<b>13</b>
<b>VII. MACRO-ECONOMIC PERFORMANCE</b> .....	<b>13</b>
Economic Growth.....	13
<b>Sectoral Developments</b> .....	<b>15</b>
Agriculture.....	15
Tourism.....	15
Inflation.....	18
<b>VIII. EXTERNAL ECONOMY: BALANCE OF PAYMENTS</b> .....	<b>16</b>
<b>Overview of Current Account</b> .....	<b>16</b>
<b>Remittances</b> .....	<b>17</b>
<b>IX. OVERVIEW OF CAPITAL AND FINANCIAL ACCOUNT</b> .....	<b>17</b>
<b>Foreign Direct Investment</b> .....	<b>18</b>
<b>X. PROSPECTS FOR THE MEDIUM TERM 2003-2007</b> .....	<b>19</b>
Medium Term Economic Strategy.....	19
Monetary Policy Strategy .....	19
Fiscal Policy Strategy .....	19
Economic Growth.....	21

<b><i>XI. SECURITY ISSUANCE PROCEDURES AND SETTLEMENT AND SECONDARY MARKET ACTIVITIES.....</i></b>	<b><i>21</i></b>
<b><i>XII. CURRENT ISSUES OF GOVERNMENT SECURITIES ON REGIONAL AND INTERNATIONAL MARKETS.....</i></b>	<b><i>21</i></b>
<b><i>XIII. CALENDAR OF EVENTS – UPCOMING ISSUES.....</i></b>	<b><i>22</i></b>
<b><i>APPENDIX I: SUMMARY ECONOMIC DATA.....</i></b>	<b><i>0</i></b>
<b><i>APPENDIX II: LIST OF LICENSED INTERMEDIARIES.....</i></b>	<b><i>1</i></b>

## ***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 long-term bond, which has already been approved by Parliament.

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, interest and principal 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 advise of a licensed intermediary if there is any doubt about information stated in this Prospectus.**

## **I. GENERAL INFORMATION**

**Issuer:** Government of Grenada

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Grenada

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**Date of Publication:** June 2004

**Type of Security:** Treasury Bills

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

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

**Legislative Authority:** Revised Treasury Bills Act 2003, Laws of Grenada.

## II. 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 (6.0%).
- c) Interest payments will be made at the end of the 365-Day period.
- d) The treasury bills will be traded on the Regional Government Securities Market (RGSM) using the platform of the Eastern Caribbean Securities Exchange (ECSE).
- e) The method of issue will be determined by a Competitive Uniform Open Price Auction.
- f) The Treasury Bill is identified by its trading symbol GDB130705.
- g) The bidding period will be opened from 9:00 am on 12 July 2004 and will close at 2:00 p.m. on 12 July 2004.
- h) The Treasury Bills will mature on 13 July 2005.
- i) Each investor is allowed one bid with the option of increasing the amount being tendered for reduce their interest rates up until the close of the bidding period.
- j) The minimum bid amount is XCD\$5,000.
- k) The Bid multiplier will be set at XCD\$1,000.
- l) The Investors will participate in the auction through the services of a licensed intermediary.
- m) The current List of licensed intermediaries are as follows:
  - Antigua-Barbuda Investment Bank Ltd
  - 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
- n) 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 7, 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 and facilitated a return to parliamentary democracy. The Governor General named an interim advisory council to administer the country until the country held 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 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 eroded 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

Appeals 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>	50
<b>Life expectancy at birth (in years)</b>	72
<b>Adult literacy (%)</b>	95
<b>GDP per capita (in U.S.\$)</b>	3,210
<b>Population rate of growth (%)</b>	0.7
<b>Infant mortality (per 1,000 live births)</b>	13
<b>Access to improved water source (% of population)</b>	94

<sup>1</sup>2001 United Nations Human Development Report rank out of 162 countries.

*Sources: Standard & Poor's, U.S. Department of State and World Bank.*

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 2001 was 72 years (68 years for men and 73 years for women).

The 800 members of the Royal Grenada Police Force, which include an 80-member paramilitary special services unit and a 30-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 the 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 three months after commencement of each fiscal year on January 1. The budget of revenue is 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 2002.

## Fiscal Performance

The fiscal performance of recent years has been built on consistent current account surpluses (current revenues less current expenditures).

### Recent Fiscal Performance 1999-2003 (EC\$M)

	1999	2000	2001	2002	2003 Preliminary	2004 Budget
Current Revenue	267.3	297.2	284.9	292.5	323.5	370.2
Current Expenditure	218.6	230.5	258.0	283.2	285.1	341.2
Current Account Balance	<b>48.7</b>	<b>66.7</b>	<b>26.9</b>	<b>9.3</b>	<b>38.3</b>	<b>29.0</b>
Capital Expenditure	104.2	135.2	162.6	244.4	155.4	179.7
Overall Balance	-35.9	-35.1	-90.1	-208.9	-57.7	-56.9

The Government has incurred an overall budget deficit for each of the four years (1999 through 2002). This overall deficit throughout the period has mainly been the result of capital expenditures, which have grown steadily over the period, as the Government increased its implementation rate of the Public Sector Investment Programme (PSIP).

For the year ended December 2003, preliminary data indicates that the current account surplus was approximately EC\$38.3m. Capital expenditure was EC\$155.4m resulting in an overall deficit (after grants) of \$57.7m or roughly 4% of GDP.

The Government's overall budget deficit (including grants) increased to \$208.9 million in 2002 from \$94.9 million in 2001. For 2002, this deficit amounted to 19.4% of GDP at market prices, as compared to a deficit amounting to 8.4% of GDP at market prices in 2001.

## 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 includes in the category of non-tax revenue.

## **Current Revenues**

Current revenue for the year ended December 2003 was EC\$323.5m (roughly 3.1% below target). This shortfall was largely due to lower receipts in Non-Tax Revenue of roughly EC\$10.0m.

Current revenue increased from \$284.9 million in 2001 to approximately \$323.5 million in 2003. From 1997 through 2000, current revenue increased each year. Tax revenue increased from \$256.7 million in 2001 to \$283.7 million in 2003. In addition, non-tax revenue increased from \$28.2 million in 2001 to \$39.8 million in 2003.

The increase in tax revenue resulted from a rise in all the major tax categories with the exception of taxes on income and profits, which fell by 12.8 per cent. Of significant importance was the rise in property tax intake by over 60.0 per cent. The higher revenues from property taxes reflected a property revaluation exercise of existing properties and the registration of additional properties by the Government. Revenue from indirect taxes fell as a result of decreases in collections from taxes on domestic transactions and taxes on international trade and transactions.

## **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. Non-tax revenue grew in each year from 1997 through 1999. Non-tax revenue grew from \$20.1 million in 1997 to \$35.5 million in 1999.

## **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.

The Government received \$23.5 million in grants in 2002, as compared with \$45.2 million in 2001. For 2003, grants received amounted to approximately EC\$59.2m.

### **Current Expenditure**

For the period January to December 2003, current expenditure amounted to approximately EC\$285.1m (6.6% below budget). Current expenditure increased from \$258.0 million in 2001 to \$285.1 million in 2003. Current expenditures have grown for each of the five years from 1997 through 2001, although at a slower rate than current revenue. In 1997, current expenditure represented 23.5% of GDP at market prices; by 2002 it had increased slightly to 26.3% of GDP at market prices. The growth in current expenditure in 2003 was primarily on account of increases in wages and salaries fueled by recent wage settlements and increases in interest payments.

Of the Government's current expenditures, approximately 70% is comprised of non-discretionary expenses, including wages and salaries, interest payments and transfers. In terms of current expenditure, the most significant categories are education, health, public debt, pensions and security.

### **Capital Expenditures**

The Government's capital expenditure increased from \$162.6 million in 2001 to \$244.4 million in 2002 and \$155.4 million in 2003. Capital expenditure has increased significantly for each of the five years from 1997 through 2001. These increases represent expenses associated with the Government's ongoing public infrastructure construction and renovation activities. In 2001, capital expenditure outlays increased as a result of the Government's drive to increase the implementation rate of its major public projects, including the Coastal Erosion and Sea Defense (Phase II) project, the road construction program and the Basic Education Reform project.

Capital expenditures include acquisitions of property, capital formation and capital transfers. Appendix I outlines some of the details of the Governments actual revenues and expenditures for the fiscal years 1998 to 2002.

## **VI. PUBLIC DEBT ANALYSIS**

In June 2002, Grenada received an international credit rating from Standard and Poors of a BB-/ Stable. In April 2003 and subsequently in December 2003, this rating was re-affirmed by Standard and Poors.

As of December 2003, the Public Debt was at EC\$1230.9 million broken down as follows:

Central Government Debt - EC970.9 million

Government Guarantees - \$260.0 million

The Public Debt-to-GDP ratio as of December 2003 was approximately 105.0%, of which central government debt is approximately 82.0% and guarantees of the Government account for approximately 23.0% of the total debt.

The Government's debt service ratio (ratio of interest payments to GDP at market prices) has increased from 2.3% in 1997 to 5.1% in 2003.

Government increased its debt from \$587.6 million in 2001 to \$912.7 million in 2002 and further to \$970.9 million in 2003. This increase in total debt came from external debt, which increased from \$401.7 million in 2001 to \$702.7 million in 2002 to \$729.3 million in 2003, while domestic debt grew from \$185.8 million in 2001 to \$210.0 million in 2002 and \$241.6 million in 2003.

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.

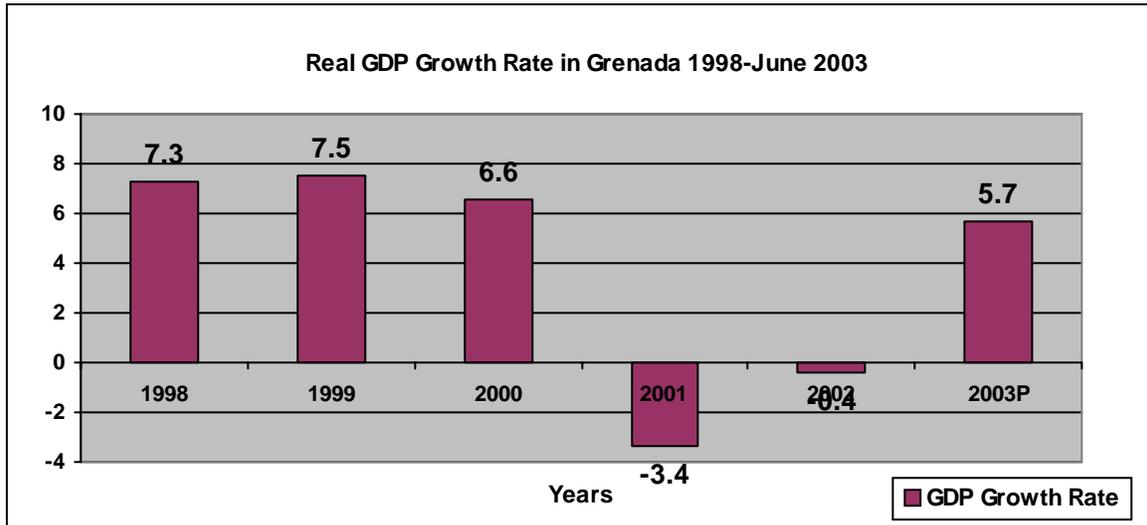
## **VII. MACRO-ECONOMIC PERFORMANCE**

### **Economic Growth**

Grenada's economy is a fairly diversified economy with its main sectors being tourism, agriculture, construction and manufacturing. 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 2003.



Sources: Ministry of Finance and Eastern Caribbean Central Bank.

From 1998-2000, Grenada's economy grew at an average 7.1 percent, the fastest growth in the OECS. Indeed, the average growth in the OECS during that period was 3.4 percent.

In 2001, the economy contracted by 3.4 percent before showing some signs of possible rebound in 2002 with a smaller decline of 0.4 percent.

Preliminary estimates for 2003 indicate that economic activity has increased, compared to the same period in 2002. The real GDP growth rate was estimated at 5.7% for 2003, driven primarily by activity in the construction, tourism and telecommunications sectors.

Led by activity in construction, manufacturing and various service sectors, the Grenadian economy registered economic growth in four of the six years through 2003. The performance of the manufacturing, construction, tourism and communications sectors accounted for a significant portion of this growth. In 2001, the Grenadian economy

suffered the effects of the downturn in the global economy and the September 11th terrorist attacks as real GDP decreased by 3.4%.

## **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 2003 indicates that the agriculture sector contracted slightly on account of a decline in nutmeg production. 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 2002; mace, banana and cocoa improved slightly in 2002 after the dip in earnings in 2001. However, the intake from nutmeg fell in 2002.

### **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 2000 and 2001. The Government has decided to target tourism as an area of growth in order to reduce unemployment and to increase foreign currency earnings.

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 Year ended December 1998 to 2002 and June 2003

Key Indicators	1998	1999	2000	2001	2002	2003
Stay-Over Arrivals	115,794	125,289	128,864	123,351	132,416	142,355
Cruise Ship Arrivals	265,875	245,461	180,308	147,381	135,061	146,925
Number of Cruise ship calls	328	369	360	287	259	267
Occupancy Levels Room Night Bed Night	N/A	N/A	N/A	69.2 38.2	71.0 35.3	NA NA
Total Recorded Visitor Expenditure (EC\$M)	416.9	458.9	481.5	440.0	469.1	470.3

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

For 2003, stay- over arrivals increased by 7.6 per cent to 142,355 arrivals when compared to the same period of 2002. Cruise ship passenger arrivals was also up by 8.8 per cent for 2003, as the number of cruise ships calls to Grenada increased from 259 calls in 2002 to 267 calls in 2003. Stay-over visitor arrivals increased from 123,351 in 2001 to 132,416 in 2002. While cruise ship passengers fell from 147,381 in 2001 to 135,061 in 2002.

### **Inflation**

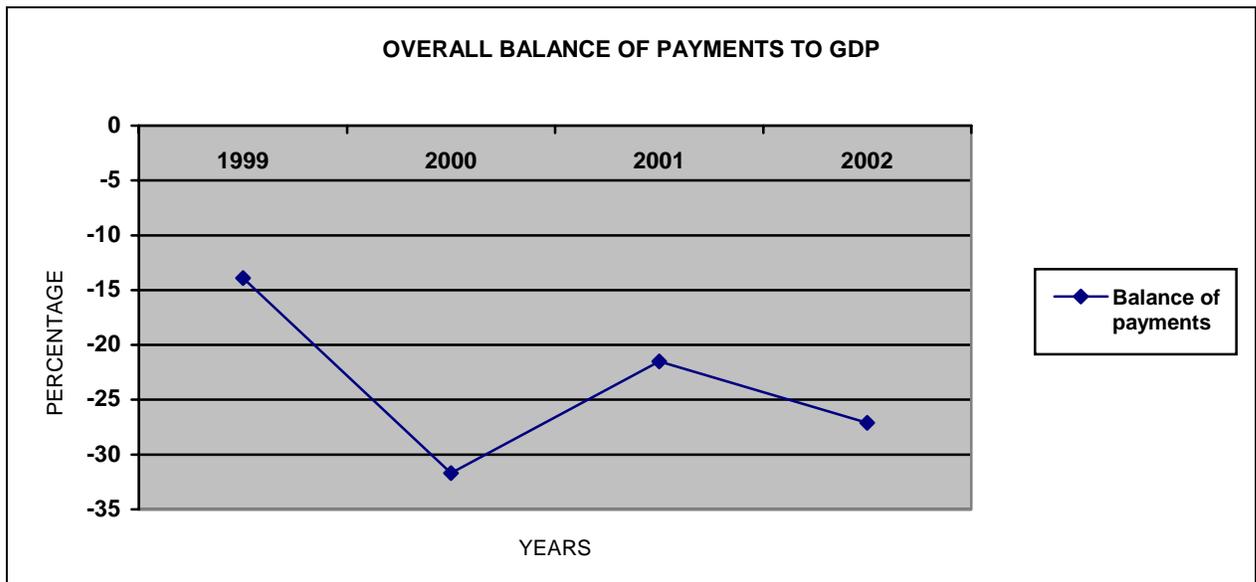
The Government believes that the Eastern Caribbean Central Bank's commitment to a fixed exchange rate policy has enabled it to maintain relatively low inflation rates. In 2002, the annual inflation rate, as measured by the change in the consumer price index, averaged 0.72%, compared with an average of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

## **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 2003, preliminary data suggests that the overall balance of payments position of Grenada may have deteriorated slightly associated with the importation of items for construction and tourism related purposes. In 2002, the balance of payments registered a surplus of \$83.4 million,

as compared to surpluses of \$15.8 million in 2001 and \$27.1million in 2000. Both the current account deficit and the capital and financial account surplus were higher in magnitude in 2002, as compared with 2001. The graph below shows the overall balance of payments as a percentage of GDP from 1999 to 2002.



### 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 \$56.4 million in 2002, as compared with \$51.5 million in 2001.

## 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 2001. During this period, Grenada's capital and financial

account registered annual surpluses. Between 2002 and 2003, the capital and financial account of the Balance of Payments for Grenada moved from a surplus position of \$278.9m in 2002 to approximately \$284.9m in 2003. This was due to a fall in other liabilities 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 \$110.8 million in 2002, as compared with \$131.9 million in 2001. 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 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 2004-2007**

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

The Government's broad goal over the medium term is to develop a diversified, competitive, flexible economy that permanently enhances the quality of life for all of its citizens. Specifically, the Government's aim is to encourage sustained economic growth and poverty reduction within a policy framework of macro-economic stability.

Through 2004-2007, the Government projects that Grenada will achieve positive annual growth averaging 4%. Government expects the private sector to take the lead in the medium-term development of Grenada's economy through increased private investments in the following sectors – tourism, agriculture, manufacturing, telecommunications and construction.

Government's fundamental role in the medium term will be the creation of the physical infrastructure; provision of appropriate fiscal incentives and strong yet adaptable regulatory frameworks.

Over the medium term economic prospects for Grenada are expected to improve, influenced mainly by developments in the tourism, agriculture, construction and telecommunication sectors.

### **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.

### **Fiscal Policy Strategy**

For the period from 2004 through 2007, the Government will seek to achieve a current account budget surplus of approximately 3.5 per cent of GDP by implementing measures aimed at increasing revenue and controlling current expenditures. The Government has targeted revenue growth of, on average, 8% per annum during the period from 2004

through 2007, with the expectation that expenditure growth will not exceed 4%. Government has been reforming its tax assessment and collection system, which has contributed to increased tax revenues for the five-year period from 1997 through 2001. Government is committed to an ongoing review of the existing fiscal system in order to broaden the Grenadian tax base. Over the medium term, Government does not expect capital expenditure to exceed 10% of GDP, thereby keeping the overall deficit at an average of 3% of GDP.

### **Economic Growth**

The economy is expected to grow in real terms by an average of 4.0 percent from 2004 - 2007.

Economic growth in 2004 is predicated on the steady recovery of the global economy particularly the US economy. Several projects including the completion of the new Cruise Ship Terminal, the La Sagesse Agro-processing Plant and continued investments in the physical infrastructure will spur economic activity next year,

The agricultural sector is expected to recover slightly in 2004 as the performance of the traditional crops particularly nutmegs improves. The manufacturing sector is expected to grow by 2.0 percent in 2004 and further in subsequent years with the coming on stream of a major agro processing plant. With the anticipated completion of the Cruise Ship terminal and other tourism related projects, contributions from the hotels & restaurant are expected to improve over the medium term. While the wholesale & retail trade, construction, banking & insurance sectors are expected to record significant increases in economic activity.

## **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 16, 2003
Discount Rate	N/A
Yield	6.0 %
Discount Price	EC\$94.0

## **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

## **XIII. CALENDAR OF EVENTS – UPCOMING ISSUES**

The Government of Grenada has parliamentary approval to float a US\$67.0 million bond issue, for refinancing and financing the several capital projects. The government may wish to issue some of this bond on the regional government securities market.



## 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 for the Years ended 1998-2003

*(in millions of \$)*

<b>Domestic Economy</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Nominal GDP at factor cost	833.09	899.62	881.49	891.29	947.07
Nominal GDP at market prices	1020.19	1103.46	1068.89	1075.3	
Real GDP at factor cost	651.29	697.54	670.29	668.08	706.02
Per cent change in real GDP at factor costs	7.51	6.57	-3.4	-0.38	5.68
Consumer Price Index	0.5%	2.2%	3.2%	0.7%	N/A
Unemployment rate (annual average)	12.5%	11.0%	12.2%	12.5	N/A
<b>External Economy</b>					
Exports	588.6	638.6	532.3	489.8	N/A
Imports	710.2	822.9	724.0	729.3	N/A
Current Account Balance	-141.5	-221.0	-229.6	-292.0	N/A
Direct Investment	55.9	74.5	84.7	73.0	N/A
Capital and Financial Account Balance	155.2	267.2	214.1	330.3	N/A
Overall Balance of Payments	12.7	27.1	15.8	83.4	N/A
<b>Tourism</b>					
Stay-Over Arrivals (in thousands)	125,289	128,864	123,351	132,416	142,355
Total visitor expenditures	458.9	481.5	440.0	469.1	470.3

(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).

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

**APPENDIX II: LIST OF LICENSED INTERMEDIARIES**

INSTITUTION	CONTACT ADDRESSES	ASSOCIATED PERSONS
<b>ANTIGUA AND BARBUDA</b>		
Antigua Barbuda Investment Bank Ltd	PO Box W1137 Woods Centre Friars Hill Road St. Johns  Tel: 268-480-2824 Fax: 268-480-2765 Email: <a href="mailto:abibsec@candw.ag">abibsec@candw.ag</a>	<b>Principal</b> Casroy James  <b>Representatives</b> Laura Abraham Thad Wharton
Antigua Commercial Bank	ACB Financial Centre PO Box 3089 St. John's  Tel: 268-481-4200 Fax: 268-481-4229 Email: <a href="mailto:acb@candw.ag">acb@candw.ag</a>	<b>Principal</b> Geoffrey Joseph  <b>Representatives</b> Sharon Nathaniel Osmond Gore Barbara Martin Dorothea Blackman-Brown
<b>DOMINICA</b>		
National Mortgage Finance Company of Dominica Ltd.	64 Hills borough Street Roseau  Tel: 767-448-4401/4405 Fax: 767-448-3982 Email: <a href="mailto:ncbdom@cwdom.dm">ncbdom@cwdom.dm</a>	<b>Principals</b> Ralph Blaize Al Monelle  <b>Representatives</b> Dawn Yankey Marilyn Edwards
<b>ST KITTS &amp; NEVIS</b>		
St. Kitts Nevis Anguilla National Bank Ltd.	PO 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
The Bank of Nevis Ltd.	PO Box 450 Charlestown Nevis  Tel: 869-469-5564 Fax: 869-469-5798 Email: <a href="mailto:bon@caribsurf.com">bon@caribsurf.com</a>	<b>Principals</b> Rawlinson Isaac Hanzel Manners  <b>Representatives</b> Lisa Jones Wanda Pinney

INSTITUTION	CONTACT ADDRESSES	ASSOCIATED PERSONS
<b>ST LUCIA</b>		
Bank of St. Lucia Ltd.	PO Box 1862 Bridge Street Castries  Tel: 758-456-6000 Fax: 758-456-6190 Email: <a href="mailto:bankofsaintlucia@candw,lc">bankofsaintlucia@candw,lc</a>	<b>Principals</b> Jean Francois Sonson Sharmaine Rosemond  <b>Representatives</b> Trevor Lamontagne Lawrence Jean
<b>ST VINCENT</b>		
National Commercial Bank (SVG) Ltd.	PO 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 Jacqueline Quashie  <b>Representative</b> Patricia John
<b>Grenada</b>		
Republic Finance and Merchant Bank Ltd. (FINCOR)	NCB House Grand Anse St. Georges  <b>Tel: 473-444-1875</b> Fax: 473-444-1879 Email: <a href="mailto:fincorec@caribsurf.com">fincorec@caribsurf.com</a>	<b>Principals</b> Darrel C P Nunes Bernard McClean Heather Titus  <b>Representatives</b> Tarlie Francis Bernard McClean Heather Titus