

# GOVERNMENT OF GRENADA

## PROSPECTUS



FOR  
EC\$59.0 MILLION  
365- DAY TREASURY BILLS

MINISTRY OF FINANCE  
FINANCIAL COMPLEX  
CARENAGE  
ST.GEORGE'S

TEL: 473-440-2731 FAX: 473-440-4115 EMAIL: [finance@gov.gd](mailto:finance@gov.gd)

**DATE OF PROSPECTUS: JULY 2011**

## **NOTICE TO INVESTORS**

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

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

*This Prospectus and its content are issued for the specific Treasury bill issue described herein. If in need of financial or investment advice please consult a person licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of government instruments or other securities.*

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## **1. ABSTRACT**

In 2011, the Government of Grenada is seeking to raise a total of fifty nine million Eastern Caribbean dollars (EC\$59.0 million) on the Regional Government Securities Market in the form of three 365 day Treasury bill issues, as follows:

- Thirty-five (EC\$35.0) million on July 19, 2011. The instrument is being issued to refinance an existing Treasury bill currently listed on the RGSM which matures on July 20, 2011.
- Twelve (EC\$12.0) million on October 12, 2011 intended to refinance maturing Treasury bills on October 13, 2011.
- Twelve (EC\$12.0) million on November 30, 2011 intended to refinance an existing Treasury bill issue on December 1, 2011, 2011.

In this Prospectus, references to “Grenada” are to the State of Grenada; references to the “Government” are to the Government of Grenada, and references to the “Managers” are to the Eastern Caribbean Securities Exchange. The Treasury bill issues are being raised under the authority of the Revised Treasury Bills Act 2003. The Constitution of Grenada stipulates that principal and interest payments are direct charges on the Consolidated Fund.

A competitive uniform price auction will be used.

## 2. GENERAL INFORMATION

<b>Issuer:</b>	Government of Grenada
<b>Address:</b>	Ministry of Finance Financial Complex Carenage St. George's Grenada
<b>Email:</b>	<a href="mailto:finance@gov.gd">finance@gov.gd</a>
<b>Telephone No.:</b>	473-440-2731 / 440-2928
<b>Facsimile No.:</b>	473-440-4115
<b>Contact Persons:</b>	Hon. V. Nazim Burke, Minister for Finance <a href="mailto:finance@gov.gd">finance@gov.gd</a> Mr. Timothy Antoine, Permanent Secretary <a href="mailto:Timothy.antoine@gov.gd">Timothy.antoine@gov.gd</a> Mr. Mike Sylvester, Deputy Permanent Secretary <a href="mailto:Mike.sylvester@gov.gd">Mike.sylvester@gov.gd</a> Mr. Ambrose Obike, Accountant General <a href="mailto:anl.obike@gmail.com">anl.obike@gmail.com</a>
<b>Date of Issue:</b>	July – November 2011
<b>Type of Security:</b>	365- Day Treasury Bills
<b>Amount of Issue:</b>	EC \$59,000,000.00
<b>Purpose of Issues:</b>	The Treasury bills are being issued to refinance existing Treasury bills currently listed on the RGSM.
<b>Legislative Authority:</b>	Revised Treasury bill Act 2003, Laws of Grenada.

### 3. INFORMATION ABOUT THE ISSUES

#### **ISSUE 1: EC\$35.0 MILLION 365 DAY TREASURY BILL**

The Government of Grenada proposes to issue an EC \$35, 000,000 Treasury bill on 19<sup>th</sup> July 2011.

<b>Amount Of The Issue:</b>	EC\$35.0 million Eastern Caribbean Dollars
<b>Tenor:</b>	365 Day Treasury Bills
<b>Security Trading Symbol:</b>	GDB190712
<b>Auction Date:</b>	JULY 19, 2011
<b>Settlement Date:</b>	<b>JULY 20, 2011</b>
<b>Maturity Date:</b>	JULY 19, 2012
<b>Bidding Period:</b>	9:00 to 12:00 noon on auction day
<b>Method of Issue:</b>	The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.
<b>Listing:</b>	The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE).
<b>Placement of Bids:</b>	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange
<b>Maximum Bid Price:</b>	\$94.00 (6.00%).
<b>Minimum Bid:</b>	EC\$5,000

<b>Bid Multiplier:</b>	EC\$1,000
<b>Bids Per Investor:</b>	<b>Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period</b>
<b>Taxation:</b>	Yields will not be subject to any tax, duty or levy by the Participating Governments of the Eastern Caribbean Currency Union (ECCU). The countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines.
<b>Licensed Intermediaries:</b>	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange. <ul style="list-style-type: none"> <li>• ABI Bank Limited Antigua and Barbuda</li> <li>• Antigua Commercial Bank Limited</li> <li>• Bank of Nevis Limited</li> <li>• ECFH Global Investment Solutions Limited</li> <li>• Bank of St. Vincent and The Grenadines Limited</li> <li>• National Mortgage Finance Company of Dominica Limited</li> <li>• National Bank of Anguilla Ltd.</li> <li>• St. Kitts Nevis Anguilla National Bank Limited</li> <li>• Financial Investment and Consultancy Services Limited – St. Lucia</li> <li>• First Citizens Investment Services Limited- St. Lucia</li> <li>• First Citizens Investment Services Limited- Trinidad and Tobago</li> </ul>
<b>Currency:</b>	All currency references will be the Eastern Caribbean dollar unless otherwise stated.

## **ISSUE 2: EC\$12.0 MILLION 365 DAY TREASURY BILL**

The Government of Grenada proposes to issue an EC \$12,000,000 Treasury bill on 12 October 2011.

<b>Amount Of The Issue:</b>	EC\$12.0 million Eastern Caribbean Dollars
<b>Tenor:</b>	365 Day Treasury Bills
<b>Security Trading Symbol:</b>	GDB121012
<b>Auction Date:</b>	OCTOBER 12, 2011
<b>Settlement Date:</b>	OCTOBER 13, 2011
<b>Maturity Date:</b>	OCTOBER 12, 2012
<b>Bidding Period:</b>	9:00 to 12:00 noon on auction day
<b>Method of Issue:</b>	The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.
<b>Listing:</b>	The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE).
<b>Placement of Bids:</b>	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange
<b>Maximum Bid Price:</b>	\$94.00 (6.00%).
<b>Minimum Bid:</b>	EC\$5,000
<b>Bid Multiplier:</b>	EC\$1,000

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

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

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

- ABI Bank Limited Antigua and Barbuda
- Antigua Commercial Bank Limited
- Bank of Nevis Limited
- ECFH Global Investment Solutions Limited
- Bank of St. Vincent and The Grenadines Limited
- National Mortgage Finance Company of Dominica Limited
- National Bank of Anguilla Ltd.
- St. Kitts Nevis Anguilla National Bank Limited
- Financial Investment and Consultancy Services Limited – St. Lucia
- First Citizens Investment Services Limited- St. Lucia
- First Citizens Investment Services Limited- Trinidad and Tobago

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

### **ISSUE 3: EC\$12.0 MILLION 365 DAY TREASURY BILL**

The Government of Grenada proposes to issue an EC \$12, 000,000 Treasury bill on 30 November 2011.

<b>Amount Of The Issue:</b>	EC\$12.0 million Eastern Caribbean Dollars
<b>Tenor:</b>	365 Day Treasury Bills
<b>Security Trading Symbol:</b>	GDB301112
<b>Auction Date:</b>	November 30, 2011
<b>Settlement Date</b>	December 01, 2011
<b>Maturity Date:</b>	November 30, 2012
<b>Bidding Period:</b>	9:00 to 12:00 noon on auction day
<b>Method of Issue:</b>	The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.
<b>Listing:</b>	The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE).
<b>Placement of Bids:</b>	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange
<b>Maximum Bid Price:</b>	\$94.00 (6.00%).
<b>Minimum Bid:</b>	EC\$5,000
<b>Bid Multiplier:</b>	EC\$1,000

<b>Bids Per Investor:</b>	Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period
<b>Taxation:</b>	Yields will not be subject to any tax, duty or levy of the Participating Governments of the Eastern Caribbean Currency Union (ECCU). The countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines.
<b>Licensed Intermediaries:</b>	Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange. <ul style="list-style-type: none"> <li>• ABI Bank Limited Antigua and Barbuda</li> <li>• Antigua Commercial Bank Limited</li> <li>• Bank of Nevis Limited</li> <li>• ECFH Global Investment Solutions Limited</li> <li>• Bank of St.Vincent and The Grenadines Limited</li> <li>• National Mortgage Finance Company of Dominica Limited</li> <li>• National Bank of Anguilla Ltd.</li> <li>• St. Kitts Nevis Anguilla National Bank Limited</li> <li>• Financial Investment and Consultancy Services Limited – St. Lucia</li> <li>• First Citizens Investment Services Limited- St. Lucia</li> <li>• First Citizens Investment Services Limited- Trinidad and Tobago</li> </ul>
<b>Currency:</b>	All currency references will be the Eastern Caribbean dollar unless otherwise stated.

#### **4. EXECUTIVE SUMMARY**

The Government of Grenada is proposing to issue three 365-day Treasury bill issues on the Regional Government Securities Market during the period July 2011 to November 2011 as follows:

- Thirty-five (EC\$35.0) million 365-day Treasury bill on July 19, 2011. The instrument is being issued to refinance an existing treasury bill currently listed on the RGSM which matures on July 20, 2011.
- Twelve (EC\$12.0) million 365-day Treasury bill on October 12, 2011 intended to refinance maturing treasury bills which matures on October 13, 2011.
- Twelve (EC\$12.0) million 365-day Treasury bill on November 30, 2011 to refinance an existing treasury bill issue which matures on December 1, 2011

On June 2, 2010, Standard & Poor's Ratings Services affirmed its 'B-' long-term and 'C' short-term foreign and local currency sovereign ratings on the Government of Grenada. The outlook remains stable balancing the risk of fiscal underperformance with the relatively favorable amortization profile of Grenada's debt. The report alluded that “Grenada will need to focus on successfully managing the risks arising from the weak global economic recovery and high levels of unemployment in its key tourism markets while continuing to address the fundamental issues of fiscal and debt sustainability.”

In his 2011 budget Speech, The Minister for Finance, Hon. V. Nazim Burke stated that “Grenada’s economy is projected to have declined by 1.4 per cent in 2010 compared to a contraction of 7.7 per cent in 2009.” All projections indicate that Grenada is expected to experience some growth in 2011 which will further strengthen in the medium term and as such Grenada presents a good prospect for investment.

“Grenada was among the 10 economies worldwide that most improved their business environment in the past year, according to *Doing Business 2011: Making a Difference for Entrepreneurs*, the eighth in a series of annual reports published by

IFC and the World Bank.”<sup>11</sup> After improving contract enforcement and customs administration in 2008-2009, Grenada implemented three more business regulation reforms in the past year, boosting its ranking on the ease of doing business from 98 to 92 among the 183 economies surveyed by *Doing Business*. Grenada eased business start-up by transferring responsibility for its commercial registry from the courts to the civil administration; nearly halved the time needed to transfer property, and improved customs administration. Clearly this improvement further enhances Grenada’s future prospects in relation to attracting investments and revitalizing growth.

Grenada has one of the most diversified economies in the OECS region, as such its growth prospects are not dependent on a single major sector, but on several sectors. For the ten years prior to the Hurricane Ivan in 2004, Grenada growth averaged 4.8 per cent, higher than the ECCU average. Since then, the economy continued to grow as reconstruction and rebuilding programmes resulted in increased economic activity. Growth averaged 3.8 per cent for the period 2005 to 2008. In 2009 primarily due to the current global economic crisis Grenada experienced some slight setbacks and experienced a decline of -7.7% in GDP.

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

As a consequence of this economic catastrophe, Grenada was forced to restructure its commercial debt in 2005. This exercise was highly successful with 91% participation and resulted in a reprofiling of the debt from 2012 to 2025 with

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<sup>11</sup> “Grenada among Global Leaders in Improving Business Regulation for Local Firms”, International Financial Corporation Press release, 2010

step up coupons. It should be noted that the Government of Grenada securities on the Regional Government Securities Market were not included in the debt restructuring exercise.

Following the commercial debt restructuring, Grenada approached the Paris Club for debt relief in 2006. The request was approved resulting in a rescheduling of its obligations to some of its bilateral creditors such as the Belgium, United Kingdom, United States and France. These programs stipulate that Government should not default on any of its obligations and as such Government to date has ensured that all its creditors are serviced in full and on time. On June 15, 2010, the Paris Club granted further relief in the form of an extension on the repayment of medium and long term debt to Paris Club members.

On the road to recovery in 2006, Grenada engaged the IMF and entered into the Poverty Reduction and Growth Facility (PRGF). The PRGF is a comprehensive medium-term economic reform programme with the objectives of promoting sustained high economic growth, restoring fiscal and debt sustainability, reducing vulnerabilities, and alleviating poverty. The programme was reviewed by an IMF team every six months against certain performance criteria and benchmarks. The programme ended in February 2010 and on April 2, 2010, the Executive Board of the International Monetary Fund (IMF) approved Grenada's request for a new three-year arrangement under the Extended Credit Facility (ECF),<sup>1</sup> totaling SDR 8.775 million (about US\$13.3 million). To date two disbursements have been made under this program to the Government of Grenada.

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

cost of debt servicing. In line with this mandate, Government is exercising greater planning in relation to its financing. The reconstituted Debt Coordinating Committee within the Ministry of Finance has been charged with the responsibility of overseeing the debt management function as well as cash flow management and planning.

Although creditor risk is inevitable when purchasing securities, there are several positive signals which would help to mitigate any serious risks associated with Grenada's issues on the Regional Government Securities Market. The Government has honored its commitment to ensure that all investors in securities issued on the RGSM are repaid in full and on time. *Grenada has an exemplary record to date on the Regional Government Securities market, all issues of treasury bills have been repaid upon maturity since Government's entry into the market. In this regard we would seek to maintain our record of credit worthiness in any and all issues on the market.*

Preliminary data for 2010 suggest that the rate of inflation was higher than 2009 at 6.5 % as higher fuel prices and the initial impact of the value added tax (VAT) in February 2010 affected the prices of most goods. Although in 2009, the rate of inflation was **0.03** %, the 2010 inflation did not reach the relatively high level of inflation experienced in 2008 when the rate had reached 8.0 %. In 2011 it is projected that the inflation level will return to its levels prior to 2008 at roughly 4.0 %.

## **5.0 FINANCIAL ADMINISTRATION & MANAGEMENT**

The Constitution and the Public Finance Management Act 2007 establish the legal framework for Government's budget process. The Minister of Finance is responsible for presenting the Estimates of Revenue and Expenditure (Budget) to the House of Representatives each year. Both houses of Parliament must approve the budget within four months after commencement of each fiscal year on

January 1. The estimates of revenue are based on existing tax rates and projections of non-tax revenue by the various ministries. Changes to the tax regime or expenditures require Parliamentary approval. Generally, though not invariably, the Government implements new fiscal measures at the commencement of each fiscal year.

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

### ***5.1 Audit and Review***

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

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

The Government of Grenada places much emphasis on economic management, especially in areas of fiscal policy and financing and debt management. The Ministry of Finance is the organ within the Government of Grenada which

administers, regulates and monitors programs and activities relating to fiscal policy and debt management.

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

### ***5.2 The Department of the Accountant General***

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

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

### ***5.3 The Budget Management Unit***

This Unit discharges its functions by the following:

- ❖ The preparation of annual estimates of revenue and expenditure according to the macroeconomic and fiscal goals
- ❖ The facilitation and monitoring of the implementation of the annual budget
- ❖ The preparation of monthly, quarterly and annual reports on central government fiscal operations

### ***5.4 The Debt Management Unit***

This unit was reconstituted in January 2009 with its functions now focused on

- ❖ The recording, updating and management of Grenada's public debt

- ❖ Preparation of Debt Sustainability Analysis Framework for Grenada
- ❖ Risk assessment for new borrowing and devising innovative ways to reduce government's debt service costs
- ❖ Utilization of the Government Securities Market to access low cost financing to meet government's financing needs.
- ❖ Preparation of a formal Debt Management Strategy for Grenada

During the last year the unit has managed to accomplish several of its objectives including;

- ❖ Development of a Debt Management Strategy for the General administration and management of Grenada's Public Debt
- ❖ Development of a Debt sustainability Analysis Framework for Grenada
- ❖ Increased Grenada's utilization of the Regional Government Securities Market

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

- ❖ Reducing the cost of debt servicing by borrowing primarily on concessional terms.
- ❖ Reorganising the structure of the debt portfolio to increase efficiency, avoid bunching and ensure effective utilization of the proceeds
- ❖ Supporting the development of the Regional Securities Market
- ❖ Managing the risk and financial cost associated with borrowing choices by refinancing higher cost debt and in so doing adjusting the maturity profile of the portfolio which will ultimately lead to lower debt service costs.

## ***5.5 Risk Management Framework***

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

Some of these measures include:

- ❖ The requirement for Parliament to approve new debt contracted by Government save and except Treasury Bills;
- ❖ The legal authority for the issuance of Treasury Bills is the Revised Treasury Bill Act which limits new Treasury Bills issuance to no more than 40% of estimated current revenues in a given fiscal year.
- ❖ The 2007 Public Finance Management Act which authorizes only the Minister of Finance to contract debt on the country's behalf;
- ❖ In-house monitoring of macroeconomic variables;
- ❖ An ex-ante analysis of new public debt by the Debt management Unit Ministry of Finance

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

## **6. HISTORICAL BACKGROUND**

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

Sir Eric Gairy was Grenada's first Prime Minister. On 13 March 1979, the New Jewel Movement (NJM) ousted Gairy in a bloodless coup and established the People's Revolutionary Government headed by Maurice Bishop as Prime

Minister. Maurice Bishop established close ties with Cuba, the Soviet Union and other eastern bloc countries, and suspended Grenada's Constitution.

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

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

## **7. GRENADA'S POLITICAL, JUDICIAL SYSTEM, DEMOGRAPHICS & SOCIAL CLIMATE**

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

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

## *7.1 Political System*

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

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

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

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

## ***7.2 Judicial System***

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

## ***7.3 Demographics***

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

## ***7.4 Social Indicators***

The following table sets out selected social indicators for Grenada.

## *Grenada: Selected Social Development Indicators*

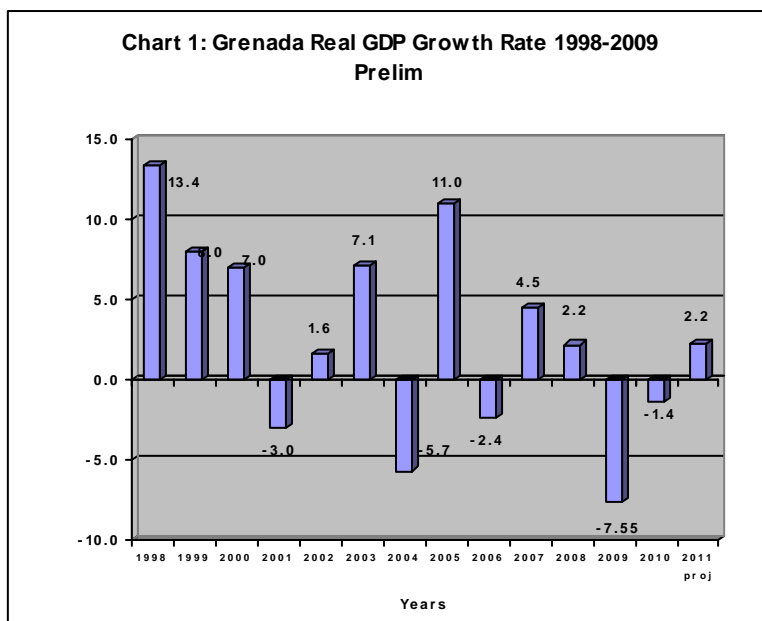
Human development rank out of 177 countries (2009)	74
Life expectancy at birth in years (2007)	75.3
Adult literacy rate in percent (2007)	96.0%
GDP per capita in U.S.\$ (2007)	7,344
Population rate of growth (%) (2009)	1.3%
Infant mortality per 1,000 live births (2005)	17%
Access to improved water source (% of population)	98%

Source: 2009 United Nations Human Development Report and Ministry of Finance

## 8.0 MACRO-ECONOMIC PERFORMANCE

### 8.1 *Economic Growth*

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



services accounting for the remaining 20%, primarily through the provision of physical infrastructure and social services.

Chart 1 shows Grenada's real GDP growth for the period 1998 to 2010 with projections for 2011.

Preliminary data for 2010 indicates that although economic growth in Grenada still declined the fall was much smaller when compared to 2009, when economic growth in Grenada had declined by 7.65 % as the global financial and economic crisis took its toll. Economic growth had slowed to 2.2 % in 2008 as the economic slowdown and the financial crisis in the United States resulted in less than favourable performance in some sectors (see chart 1). This contrasted with the 2007 outturn, when the economy rebounded slightly primarily on account of CWC World Cup cricket events hosted in Grenada.

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

Following the hurricanes the emphasis was on reconstruction and cruise tourism which enabled the economy to rebound in 2005 to record real positive growth of 11.0 per cent, mainly on account of an 83.1 per cent rise in construction activity, and a 25.4 per cent increase in value added in the communications sector. In 2006, the economy contracted by 2.4 per cent as activity in the construction sector declined by 30.1 per cent. The decline was due to ongoing projects, those related to reconstruction and those linked to preparation for CWC 2007, being negatively affected by a shortage of cement in the first half of the year. However, hotels and restaurants, agriculture, and manufacturing all recorded growth with higher levels of contributions to income, employment and output. By 2007 growth had moderated to 4.5 per cent, close to its normal trend, mainly on account of significant growth in other services. The economy grew by 2.2 per cent in 2008, a slowdown that was reflective of the initial impact of the global economic contraction. This crisis worsened in 2009 resulting in an actual decline in

economic growth in Grenada by 7.65 %. In 2010, the economy declined by 1.4 %, indicating some level of recovery when compared to the decline in 2009. However in 2011, economic growth is expected at 2.2 %.

## ***8.2 Agriculture***

In the 2011 budget speech the Minister for Finance, Honourable V. Nazim Burke alluded that in 2010, “the agricultural sector continued to be a bright spot in the economy with growth estimated at 8.25 per cent. This performance is remarkable having regard to the severe drought experienced in the first half of 2010.” Increased agricultural output in 2010 was driven primarily by a 12 per cent growth in crops. The main contributor was increased production of fruits and vegetables which grew by 26.3 per cent. The volume of Fish caught also rose by 5.7 per cent. The agriculture sector as a whole increased its contribution to GDP in 2010 to 5.9 %.

The agriculture sector grew by 9.4 per cent in 2009 over the 2008 output and increased its contribution to GDP to 5.3 per cent. The growth of Agriculture in the crop sub sector demonstrates that the renewed focus on Agriculture by the Government. Areas of support included the farm labour, planting material and fertilizer programmes. In 2009, nutmeg production was 739,000 pounds an increase of 22.3 per cent, cocoa production was 996,000 pounds, an increase of 33 per cent. However, fish production of 4.15 million pounds showed little change from the previous year. In 2008, the agricultural sector grew by approximately 11.1 per cent over the 2007 output and increased its contribution to GDP to 6.4 per cent; due to Government’s continued efforts to revitalize the sector in 2007, by expanding the agricultural enterprise project. The project enabled the sector to grow by a further 4.2 per cent in 2007, returning to its 2006 real GDP contribution of 5.7 per cent.

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

### ***8.3 Manufacturing***

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

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

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

In 2009, Output in the manufacturing industry declined by 7.0 percent. This performance was a result of declines recorded in the production of most commodities with the exception of oxygen, feeds, flour and wheat bran. Soft drinks, which has the largest weight in the manufacturing index, declined by 21.4 percent, resulting mainly from the temporary closure of the Coca Cola bottling plant which reopened in April 2009. Signs of recovery have been registered since the re-opening of the plant with increases of more than six fold

during the third quarter of 2009. Declines were also recorded for the production of paint (30.7 percent), macaroni (30.1 percent), rum (29.0 per cent), malt (20.8 percent), stout (17.6 percent), and beer (5.7 percent).

During 2010, there was significant growth in the manufacturing sector, which grew by 25.7 per cent as the production of most commodities recorded increases. The increase in the sector was largely attributed to increased production from the coca cola plant which was re-opened in the second quarter of 2009.

#### ***8.4 Tourism***

Today, this sector continues to be one of the largest single generators of foreign exchange in Grenada's economy. In addition, efforts have been concentrated on improvements in the tourism sites with the implementation of the Tourism Enhancement Project, increasing airlift to Grenada and support to accommodation providers.

The hotel and restaurant sector which is used as a proxy for value added in tourism contracted by 9% compared to a decline of 19% in the previous year, when the full impact of the global and financial crisis had a devastating impact on Grenada's tourism sector.

The tourism industry is very sensitive to external shocks and events. In 2010, Government supported the industry by assigning a special VAT rate of 10%, spending \$10 million in support for airlift and granting tax concessions including a 50% reduction in VAT for September, October and November. These measures all helped to cushion the effect of the recession on the industry.

The industry began to play a leading economic role at the start of the 1990s, with the operations of a number of new hotel plants. The Government decided then to target tourism as an engine of growth in order to reduce unemployment,

increase foreign currency earnings and to strengthen the linkages with the agricultural and manufacturing sectors. Substantial foreign direct investment in new hotel facilities, mainly in Grenada's southern tourism belt, together with increased government outlays on promotion and human resources development, especially in hospitality management, resulted in the tourism sector increasing its contribution to GDP.

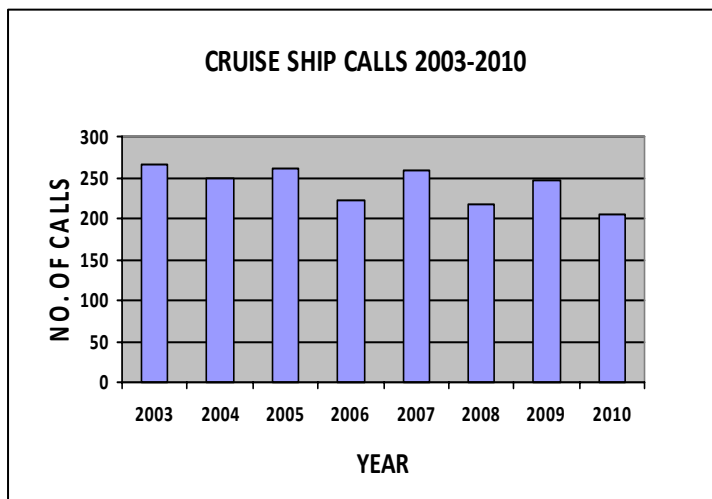
With the passage of Hurricane Ivan in September 2004, over 75 per cent of the hotel plant was destroyed. Through assistance in the form of concessions provided by government, over 95 per cent of the hotels destroyed were rehabilitated at a much higher standard, in time for the staging of the 2007 Cricket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

**Table 1 Key Tourism Indicators: 2003 to 2010**

Key Indicators	2003	2004	2005	2006	2007	2008	2009	2010 PRELIM
Stay-Over Arrivals	142,355	133,865	98,548	118,654	130,096	130,363	109,474	104,694
Cruise Ship Passengers	146,925	229,800	274,956	218,684	270,259	292,712	342,852	333,765
Number of Cruise ship calls	267	249	260	221	259	217	246	206
Average length of stay	7.7	7.5	7.4	7.6	NA	NA	NA	NA
No. of rooms available	1758	860	1470	1537	NA	NA	NA	NA
No. of beds available	3844	1792	2326	NA	NA	NA	NA	NA
Total Recorded Visitor Expenditure (EC\$M)	470.3	418.8	254.9	309.7	290.78	293.2	267.22	259.7

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

Table 1 indicates an improvement in the performance of the industry since the passage of Hurricane Ivan in 2004. Following a 26.4 per cent fall in 2005, stay-over arrivals increased by 20.4 per cent in 2006 with improvements in the hotel plant and a corresponding increase in the number of rooms and beds available. In 2007, stay over arrivals increased by 9.6 per cent primarily on account of the CWC World Cup Cricket part-hosted in Grenada in that year. Revised data for 2008 indicate a small increase in stay-over arrivals by 0.2 per cent to 130,363 arrivals. In 2009, stay-over arrivals fell further to 109, 474 as the global crisis made it more difficult for persons to have long vacations. Preliminary data for 2010 indicate that stay-over arrivals is expected to decline though at a slower rate increases to 120,313 as a result of efforts made to boost the industry.

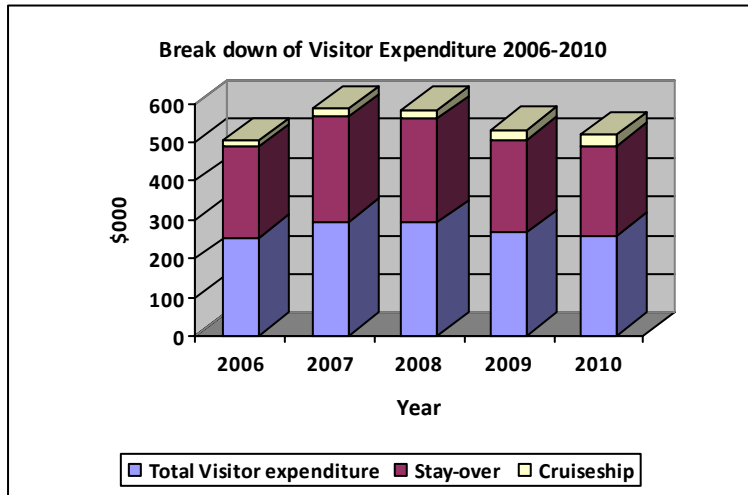


There was a fall in the number of cruise ship passengers visiting Grenada in 2009. Cruise ship calls in 2010 declined from 246 calls in 2009 to 206 calls. In 2008, cruise calls had fallen to 217 calls from the elevated levels in 2007 as a result of World

Cup cricket. In 2007, cruise ship calls had risen to 259 calls from 221 calls in 2006. In December 2004, the increased capacity of the Melville Street Cruise Terminal, to accommodate mega ships, would have accounted in part for the rise in the number of cruise ship passengers. The number of cruise ship calls, moved from 249 ships in 2004, to 260 ships in 2005, an increase of 4.4 per cent.

During 2010, the impact of the global crisis still overshadowed the level of economic activity in tourism sector, as evidenced by the smaller decline of 9 %

compared to a decline of 19% in 2009 when the global crisis was still in its early stages. The sector's contribution to GDP in 2010 was slightly lower at 4.8 per cent compared to 2009 when the sector contributed 5.01 per cent to GDP.



In 2003 and 2004, total visitor expenditure was relatively high at \$470.8 and \$418.9 respectively. Since then the level of visitor expenditure has never returned to its pre-Ivan levels.

Over the last five years (2006-2010) as shown in the chart above, the level of expenditure has fluctuated annually. The greatest contributor to visitor expenditure continues to be the stay-over visitors as on average they spend 90 percent of the tourist expenditures every year. In 2010, preliminary estimates indicate that there was a 2.81 % fall in tourist expenditure compared to the 8.9 % decline in expenditure in 2009. This indicates that although still sluggish, the sector is showing signs of recovery.

### ***8.5 Development***

Grenada's development over the last five years has been focused to a large extent on a critical area- Infrastructure development. In addition to the benefits this has provided for the citizen's, it also provides strong positive externalities for the active participation of the private sector in the economy.

For this reason, Government has invested heavily in this area through the construction of roads, bridges, the rehabilitation of the country's seaport and

airport, and the construction of schools and hospitals. This programme was intensified and accelerated with the reconstruction of the economy and meeting deliverables related to the preparation of CWC.

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

In 2005, with the rehabilitation of the economy following Hurricane Ivan, valued added in the construction sector grew by 83.1 per cent; however, with many rehabilitation projects nearing completion activity declined by 30.1 per cent in 2006 and has declined by a further 5.0 per cent in 2007, despite the implementation of major private sector projects, especially in the hotel industry. In 2006, the sector contributed 13.75 per cent to the country's GDP, but this contribution fell slightly to 12.58 per cent in 2007. The downward trend in the sector continued in 2008, contributing 11.16 per cent to GDP on account of the slowdown in the world economy and the scarcity of financing for many private sector projects. In 2009, the percentage contribution of construction dipped further to 6.34 per cent as the global crisis intensified and financing for several major projects became even scarcer. Preliminary estimates for 2010 also indicate that the sector's contribution to GDP has declined further to 4.65 per cent as the commencement of several major projects was delayed however expectations for 2012 indicate some recovery in this regard.

## **9.0 GOVERNMENT FISCAL PERFORMANCE**

During the first quarter of 2011, there was a small current account deficit of EC\$2.1 million. Grenada's fiscal performance for the year 2010 improved slightly when compared to 2009 as there appeared to be some minor recovery from the effects of the global economic and financial crisis as Government implemented the value added tax and attempted to curtail certain expenditures.

The estimated out turn for 2010 indicate there was a current account surplus of \$13.9 million in 2010 which was approximately 0.7 percent of GDP and an increase of 2.3 % over 2009. In 2009, the current account balance was negative roughly -0.5 % of GDP as the full impact of the global financial crisis put further pressure on Government's fiscal position.

The destruction caused by Hurricane Ivan in 2004, which was estimated at twice the 2003 GDP, resulted in a current fiscal deficit, for the first time in almost ten years, of EC\$28.4m. Nevertheless, with budgetary support from the international community, Grenada was able to meet its current needs and close the financing gap. During this time, government was able to implement measures to control non-essential expenditure. These factors have helped to improve the fiscal situation substantially resulting in current surpluses of EC\$56.8m (3.8% of GDP), and EC\$66.5m (4.4% of GDP) in 2005 and 2006 respectively (see Table 2). In 2007 the current account surplus increased further to EC\$86.7m as activities such as Cricket World Cup (CWC) improved governments tax intake. The current account balance fell slightly in 2008 to EC\$56.3 million, in line with the Pre World cup level.

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

and reconstruction projects. Significant outlays were made in the areas of housing, agriculture, school rehabilitation, and in the replacement or repair of lost or damaged infrastructure. In 2009, the capital budget had to be revised downwards as financing sources for projects were diverted to alleviating the effects of the crisis in other countries. The capital budget in 2010 was \$118.4 million, approximately 24.9 per cent lower than 2009 as there continued to be some delays in the start of projects on account of the global crisis.

The increased grants received in 2005 resulted in an overall surplus of 0.14 per cent of GDP in 2005. Grant receipts remained fairly buoyant in 2006 at \$104.7m, but fell significantly in 2007 to \$19.9m, followed by a recovery in 2008 to \$68.2m. In 2009, there was a slight increase in Grants by approximately 0.2% to \$68.2m. There was a further increase in the level of grants in 2010 by approximately 14.5 % to \$78.3 m.

**Table 2 Recent Fiscal Performance 2006-2010 & Budget 2011 (EC\$M)**

	2006	2007	2008	2009	2010	2011 BUDGET	2011 Quarter 1
Current Revenue	379.6	428.4	465	405.3	428.4	454.2	105.9
Current Expenditure	313.1	341.8	421.1	415.3	415.1	446.0	108.0
Current Account Balance	66.5	86.7	44.0	-10.0	13.3	8.1	-2.1
Capital Revenue	0.1	0.1	0.1	0.1	0.2	0.0	0.0
Capital Expenditure	285.8	223.1	207.6	157.8	118.4	203.7	14.4
Grants	118.7	17.3	68.2	68.3	78.3	47.6	5.6
Overall Balance	-100.4	-119.0	-95.3	-99.3	-26.7	-148.0	-10.9

**Source: Ministry of Finance**

The 2011 budget which was presented on January 14<sup>th</sup> 2011 indicated an estimated current revenue intake for 2011 at EC\$454.2 million while current expenditure was estimated at EC\$446.0 million resulting in a current account

surplus of EC\$8.2 million. Capital expenditure was projected at EC\$203.7 million for 2011 with expected grant funding of EC\$79.5 million and EC\$35.3 million in loan funds from concessional sources.

## ***9.1 Revenues***

### ***9.1.1 Current Revenues***

Preliminary data for the first quarter of 2011 indicate that current revenue was 23.3 per cent of the projected budget revenue for the year at EC\$105.9 million. The estimated outturn for 2010 indicate that current revenue collections was up by approximately 5.7 per cent to EC\$428.4 million when compared to collections in 2009. The improvement in tax revenue collections was primarily on account of increases of 49.1 % in taxes on domestic goods and services and 3.2 % in taxes on international transactions. This increase was affiliated to the introduction of the Value added tax on February 1<sup>st</sup> 2010 and improvements in the institutional framework of both Inland Revenue and customs.

In 2009 current revenue collections had dipped slightly to EC\$405.3 million as the impact of the global economic crisis affected collections at both Inland revenue and Customs for several tax types including taxes on international transactions which fell by 8.4 % reflecting lower imports on account of the crisis. Current revenue collections had grown in 2008 to \$465 million from \$428.4 million in 2007.

### ***9.1.2 Non-Tax Revenue***

Non-tax revenue primarily represents earnings from government departments, dividends from state-owned enterprises and profits from the Eastern Caribbean Central Bank. In the first quarter non-tax revenue was 22 % of the budget for the year at EC\$9.4 million. Non-tax revenue in 2010 declined by approximately 3.8 %, from \$41.7 million in 2009 to \$40.2 million as the profits, dividends and shares were still minimal on account of the global crisis. In 2009, non- tax revenue was

down by 11.4 per cent after having increased from \$39.7 million in 2007 to \$47.0 million in 2008 an increase of 18.2%.

### ***9.1.3 Grants***

Grants for 2010 totaled EC\$78.3 m, which was higher than the previous year when only EC\$68.3 m was received in grants. Total grants received in 2008 amounted to EC\$68.2 million. These grants were utilized in the areas of agriculture, tourism and school rehabilitation. The main sources of these grants were the Government of the People's Republic of China, the European Union, other CARICOM countries and Petro Caribe.

### ***9.2 Current Expenditure***

Current expenditure at the end of the first quarter of 2011 was 24.2 per cent of the budget recurrent expenditure for 2011. At December 2010, the estimated outturn for current expenditure was EC\$415.1 million representing a slight reduction of 0.04 % in current expenditure from 2009. In 2009 current expenditure was down by 0.7 % to EC\$409.9m as government adjusted its expenditure in line with the reduction in revenue intake as a result of the global crisis. Current expenditure grew by 21.0 % to EC\$412.8 million in 2008 from EC\$341.8 million in 2007, on account of growth in all categories of current expenditure.

Outlays on wages and salaries in 2010 were up by 1.5% as the implementation of the industrial agreements for the police and prisons officers came into force as well as annual increments for the general public service. Expenditure on goods and services also increased by 22.0 % reflecting higher prices on most items on account of the introduction of VAT in February 2010. Additionally government has also formulated a waste reduction unit within the Ministry of Finance in an attempt to obtain greater efficiencies in government operations by pooling certain services that government procure. Interest payments fell in 2010 as some domestic debt redemption resulted in lower domestic interest being paid.

### ***9.3 Capital Expenditures***

Preliminary data on capital expenditure for the first quarter was 0.07% of the budget for 2011. The estimated outturn for Capital expenditure in 2010 was EC\$118.4 million, 24.9 per cent lower than the revised capital expenditure in 2009 of EC\$157.8 million. This outturn was a result of project delays and a conscious effort on account of the slowdown in the implementation of ongoing projects as a result of the world recession and financial crisis. In 2008, total capital expenditure fell by 6.9% to EC\$207.6 million from \$223.1 million in 2007.

## **10.0 PUBLIC DEBT ANALYSIS**

Grenada's public sector debt portfolio increased by approximately 27.7 % during the period 2004 to 2010, from EC\$1.48 billion in 2004 to EC\$1.89 billion in 2010, consisting of:

- Central Government debt - \$1.76 billion
- Government Guarantees - \$129.8 million

During that period there were no new guarantees granted and as such the level of guaranteed debt continues to decline. The reduction of 49.2% in government guaranteed debt from EC\$279.5 million in 2004 to EC\$131.3 million in 2009 continued to approximately EC\$129.8 million in 2010.

The level of Central government debt in 2010 represented 92.9 % of GDP at EC\$1,755.89 million, an increase of approximately 1.7 per cent above EC\$1725.8 million in 2009. During the period 2004-2009 increased significantly as government was faced with the spiral effects of the global slowdown in economic activity as a result of the financial crisis after having experienced some difficulties and a very vigorous rebuilding process after the passage of Hurricane Ivan to revitalize the revenue earning sectors in the economy which was necessary in order to service its debt obligations.

**Table 3 Central Government Debt (EC\$ Millions) 2003-2010**

	2003	2004	2005	2006	2007	2008	2009	2010
<b>Total Domestic</b>	292.3	329.3	205.1	196.5	229.1	227.1	262.4	282.78
Treasury bills	87.5	72.5	68.9	71.4	78.2	78.1	99.7	112.00
Bonds	127.7	153.7	31.2	31.2	27.0	11.7	11.7	11.7
Loans	23.8	22.9	30.6	38.1	58.1	58.9	64.9	53.98
Others	53.3	80.3	74.5	55.8	65.8	78.4	86.1	83.8
<b>Total External</b>	733.9	874.7	1,215.8	1,297.4	1,354.3	1,369.9	1,463.4	1,473.10
Bilateral	138.3	134.5	177.8	210.1	226.5	212.2	207.2	203.3
Multilateral	230.9	271.1	308.1	357.4	401.9	398.4	530.4	544.0
Bonds	349.7	459.9	721.6	721.6	721.6	721.6	721.6	721.6
Others	14.9	9.2	8.2	8.2	4.2	4.2	4.2	4.2
Grand Total	1,026.2	1,204.0	1,420.9	1,493.8	1,583.3	1,607.3	1,725.8	1,755.9

*Source: Debt Management Unit, Ministry of Finance*

Domestic debt in 2010 increased by 7.8 per cent to EC\$282.8 million after having risen by approximately 35.3 per cent in 2009 to EC\$262.4 million as government attempted to utilize the regional government securities market to meet some of its short term financing needs by issuing more treasury bills. In 2008, domestic debt had fallen to EC\$227.1 million from EC\$229.15 million in 2007 (see Table 3), as Central Government continued with its capital projects in the aftermath of the hurricanes of 2004 and 2005.

Although external debt increased further in 2009, growing by approximately 67.3 per cent from 2004 to 2009, the rate of growth of external debt has slowed from previous years. Government continues to seek cheaper sources of financing, mainly from multilateral and bilateral creditors to fund its capital programme. The significant rise in the external debt from its lower levels between 2001-2003 came in 2004, when shortly after the passage of Hurricane Ivan; Government announced its intention to seek the cooperation of its creditors to restructure its

commercial debt. On November 15, 2005, EC\$ 708.0 million of Grenada's commercial debts or approximately 47.2% of the total public debt was restructured. This resulted in the substantial lowering of debt service payments. Grenada will save approximately EC\$365.0 million in interest payments over the next 10 years. The debt restructuring of commercial loans was completed in November 2005. Interest was capitalized and three of the loans guaranteed became part of the Central Government's debt stock. The maturity period was extended to 2025.

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

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

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

On June 15, 2009, the Co-chairman of the Paris club issued a letter granting further debt relief to the Government of Grenada. The Paris Club creditors

agreed to extend the consolidation period of the 2006 Paris Club Agreed Minutes from 1 January to 31 December 2009.

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

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

The cost of Grenada's public debt over the last four years has fluctuated ranging from approximately EC\$34.9 million in 2008 to as high as EC\$48.1 million in 2009. In 2010, total interest paid on public debt fell by approximately 3.6 percent to EC\$46.4 million. Interest cost on short term domestic debt declined from EC\$11.1 million in 2007, approximately 15.6 per cent to EC\$9.3 million in 2010. Interest payments on external debt was up during the period under review from EC\$21.8 million in 2007 to EC\$30.99 million in 2010.

**TABLE 4: INTEREST PAYMENT ON DOMESTIC AND EXTERNAL DEBT 2007- 2011**

	Year 2007	Year 2008	Year 2009	Year 2010	Year 2011 Q1 Prelim
Medium/Long Term Debt					
Interest Payments					
of which is External	21,830,823	22,253,115	30,859,614	30,989,627	14,100,000
of which is Domestic	5,168,886	6,123,613	6,086,794	6,075,210	1,600,000
Short Term Debt					
Interest Payments					
of which is External	0	0	0	0	0
of which is Domestic	11,060,470	6,560,520	11,201,097	9,338,480	N/A
<b>Total Interest Payment</b>	<b>38,060,179</b>	<b>34,937,248</b>	<b>48,147,505</b>	<b>46,403,317</b>	<b>15,700,000</b>

**Source: Ministry of Finance**

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

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

On June 2, 2010, Standard & Poor's Ratings Services reaffirmed its 'B-' long-term and 'C' short-term foreign and local currency sovereign ratings on the Government of Grenada. The outlook remained stable balancing the risk of fiscal underperformance with the relatively favorable amortization profile of Grenada's debt.

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

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

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

## **PUBLIC DEBT RATIOS**

At the end of December 2010, Public sector debt to GDP was approximately 110.5%, a slight decline from the level of Public sector debt to GDP of 113.3 % in

2009. Central Government debt was approximately 92.9% of GDP in 2010, down from 103.9 % in 2009. The following table outlines the movement in the debt ratios over the period 2003 to 2010.

**TABLE 5: Public Debt Ratios**

	2003	2004	2005	2006	2007	2008	2009	2010
Public Sector Debt Stock to GDP (including Government Guarantees)(%)	100.8	116.7	104.9	108.2	109.1	108.6	113.3	110.5
Debt Stock to GDP (excluding Government Guarantees) (%)	79.1	95.0	95.0	98.6	99.9	94.0	103.9	92.9
Interest payments to Current Revenue (%)	27.1	40.4	12.3	13.7	10.6	10.8	11.9	10.9
Debt Service to Export Earnings (%)	35.8	46.0	26.7	27.2	16.9	15.5	24.8	18.4

**Source: Ministry of Finance**

Grenada's interest payments to current revenues in 2010 fell slightly to 10.9 percent compared to 11.9 per cent in 2009 on account of payments on some Paris Club restructured loans which came due. The ratio has however remained within the internal benchmark of 15.0 per cent. While the debt to GDP ratio remains high government has indicated in its 2006-2008 Reform Programme, it is our intention to bring this ratio on a downward trajectory towards the target of 60 per cent of GDP by the year 2020.

Currently, Government has already commenced implementing several measures under its debt management strategy by:

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

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

Currently the Government has re-established the Debt Management unit which is finalizing Grenada's official debt management strategy.

## **11.0 PROSPECTS FOR THE MEDIUM TERM 2012-2014**

### *11.1 Medium-Term Economic Strategy*

#### **11.1.1 Overview**

The 2011 Budget address outlines in some details the focus of Grenada's medium term plan to revitalize and re engineer growth in the Grenadian economy. The Minister of Finance in his address identified the five key sectors which has the "greatest potential to transform the Grenadian economy", namely;

- Health and Wellness services
- Tourism and Hospitality Services
- Agri-Business
- Energy Development
- Information Communication Technology

Over the last two years Government has through technical assistance under various projects been able to streamline its policy initiatives and focus its development plan for Grenada on key sectors and key issues. In this regards there is already a Growth and Poverty Reduction Strategy which aims to chart the course for alleviating poverty and promoting economic growth in Grenada. There is also the Investment promotion act which attempts to streamline our efforts at attracting investment into the key sectors identified above. In direct relation to this act is the development of an investment promotions strategy which is currently ongoing. Grenada, as previously mentioned is also on the

IMF Extended Growth Facility Programme which is aimed at fiscal sustainability. In addition we are currently in the process of updating the National Strategic Plan which will encompass all of these items and ensure that Grenada in the medium to long term undergoes the expected economic transformation.

Efforts to date have focused on fulfilling four main objectives namely promoting sustained high economic growth, restoring fiscal and debt sustainability, alleviating poverty, reducing vulnerabilities to natural hazards and maintaining financial stability.

While there are some signs of economic recovery as reflected in the positive growth rates averaging 4.0 per cent for the period 2005 to 2008, the economy was again plagued by the result of global economic and financial crisis during the 2009-2010 period. Government's major task for the medium term is the consolidation of that growth. The transformation of the economy over the medium term is expected to come from ten priority industries/sectors listed in the Investment Promotions 2009 as follows; Tourism, Manufacturing, Agriculture and agri-business, Education and Training, ICT Training, Financial services, Health and Wellness services, Creative Industries, Energy and Research and Development.

The fact that the economic base of the country will remain diversified is a clear sign that it is being restored for sustained growth to take place over the medium term. As a result, government's fiscal position is likely to be strengthened.

The current global crisis impacted as expected on Grenada in a similar way as most of the other OECS countries. The decline in economic growth in 2009 and 2010 as the effects of the global recession and financial crisis lead to a slow down in the implementation of several major tourism projects, however this is situation

is expected to be alleviated over the medium term. Unemployment is on the rise due to the slow-down in this sector and there is a projected decline in remittances as nationals in the US and other countries also experience difficult times. Liquidity in the banking system is expected to tighten as Government's revenue collections is expected to improve as the introduction of VAT in 2010 and some other revisions should assist in achieving the revenue targets over the medium term.

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

### **11.1.2 Agriculture**

The Government remains committed to the development of a competitive and sustainable agricultural sector, which is capable of meeting domestic demand and competing externally. In the medium term the intention is to focus the agricultural efforts on agribusiness, primarily on organic farming with a view to have synergies with the health and wellness sector. It is expected that the agricultural sector will make further progress when one considers the advancement in the area of cocoa production and the anticipated rise in the demand and price for Grenada's cocoa.

### **11.1.3 Health and Wellness Construction**

The Government recognizes that the development of this sector as one of the engines in transforming the economy. The focus is expected to be on Spa development using organic botanicals. The presence of the St. George's

University, Tourism plant and an array of spices and other plant life are assets which can make this sector a viable one.

#### **11.1.4 Tourism**

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

The sector is well poised for a take off with a number of foreign investors undertaking major hotel projects in the sector. The global crisis however impacted slightly on the haste with which the project would have progressed in 2009 however work is expected to resume in the second half of 2009. The St. George's University Hotel and Campus expansion project is completed. The Government has also intensified its efforts to improve air links, especially with the United States, Canada and Europe. American Airlines resumed operation of a direct service to Grenada from Miami in November 2008.

The future of the sector however is focused on upgrading of all tourism attraction sites, introducing new attractions and promoting easy international communication. New suites introduced in 2010 include the Discovery Train operating in St. George's and the Spice Basket which is in Beaulieu, St. George's.

#### **11.1.5 Energy Development**

As one of the engines of transforming the Grenadian economy, energy development is intended develop alternative sources of energy to improve the competitive advantage of the potential for solar and geothermal.

### ***11.2 Fiscal Policy Strategy***

As part of its overall strategy for stronger economic management, the Government is in the process of developing a medium-term economic strategy for the period 2011-2015, aimed at restoring growth, ensuring fiscal stability and debt sustainability. Currently Grenada is engaged in an Extended Growth Facility Programme with the IMF which has established fiscal targets which are used to ensure fiscal prudence and guide the current policies adopted.

### ***11.3 Monetary Policy Strategy***

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

### ***11.4 Investment Management Strategy***

In July 2009, the Government of Grenada passed its Investment Promotions Act which identified ten priority industries/sectors which the Government considers will make a substantial contribution to the socio-economic development of the country. These are; Tourism, Manufacturing, Agriculture and agri-business, Education and Training, ICT Training, Financial services, Health and Wellness services, Creative Industries, Energy and Research and Development. Currently the preparation of an investment Promotions strategy is being undertaken to define the road map for transforming the economy through these sectors.

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

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

#### ***11.4.1 Private Sector Development***

Government strategy for private sector development is to continue to improve the climate for greater private investment in the economy. In September 2008, Government established an office for Private sector Development within the Ministry of Finance, to manage private sector relations and deliver on some key reform initiatives such as the new investment code, a Small Business Policy and promoting doing business reforms to allow faster processing of private sector transactions with Government. "After improving contract enforcement and customs administration in 2008-2009, Grenada implemented three more business regulation reforms in the past year, boosting its ranking on the ease of doing business from 98 to 92 among the 183 economies surveyed by *Doing Business*. Grenada eased business start-up by transferring responsibility for its commercial registry from the courts to the civil administration; nearly halved the time needed to transfer property, and improved customs administration."

In December 2010, the Ministries of Finance, Foreign Affairs and the Grenada Industrial Development Corporation mounted a joint investment promotion seminar in Brussels, in which representatives of major tourism sector projects participated. These developers, representing Bacolet, Levera and Secret Harbour, were provided with an opportunity to market their projects before

representatives of financial institutions such as Kommerz Bank of Germany and KBC Bank of Belgium, for possible financing. These missions, when appropriate, will continue.

Government is also facilitating the attempts by local developers to raise capital from international institutions. In this regard, Government of Grenada recently signed an agreement with the OPEC Fund for International Development (OFID) to facilitate concessionary borrowing to at least two major local developments in the tourism sector.

## 12.0 BALANCE OF PAYMENTS

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

	2004	2005	2006	2007	2008	2009	Prel. 2010
Current Account Balance	-163.5	-526.1	-535.6	-703.9	-781.1	-578.1	-674.2
Exports (FOB)	86.5	74.6	68.5	90.2	74.2	95.3	80.7
Imports (CIF)	681.8	901.8	893.2	985.9	1,035.2	709.8	816.2
Services (net)	184.4	53.0	77.9	98.7	92.1	112.7	83.9
Of which Travel (net)	210.4	165.7	211.4	248.2	249.2	261.0	232.5
Income (net)	-176.0	-76.4	-78.0	-93.0	-98.0	-178.2	-125.6
Of which Public sector interest payments (gross)	44.3	1.3	0.3	0.3	0.7	0.7	0.7
Transfers (net)	326.4	222.2	97.5	65.8	68.6	70.2	77.0
Capital and Financial Account	288.6	452.1	550.8	732.9	764.0	579.8	613.8
Capital Account (transfers)	107.6	126.9	166.8	104.8	127.3	104.4	100.4
Financial account	181.0	325.2	384.1	628.1	636.7	475.4	513.4
Of which: Public sector borrowing	45.7	54.7	58.1	75.3	36.0	102.3	123.9
Of which: public sector amortization	29.4	17.2	87.5	44.6	50.4	32.7	29.7
Direct Investment (net)	175.5	189.4	242.4	470.5	435.4	276.9	240.2
Portfolio investment (net)	81.1	48.1	-2.0	-2.8	-12.3	37.9	37.9
Other investment	-75.6	87.7	143.7	160.4	213.6	160.6	235.4
Overall balance	125.1	-74.0	15.2	29.0	-17.2	69.8	-18.2

<b>In per cent of GDP</b>							
Current account balance	12.9	35.2	35.2	42.9	45.4	34.8	39.9
Capital and financial account	22.8	30.2	36.1	44.7	44.4	34.9	36.4

*Source: Ministry of Finance/ECCB 2008*

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

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

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

In 2007, the overall balance of the balance of payments increased to \$29.0m due to significant increases in the capital and financial account which more than

offset the deterioration in the current account. The surplus was however converted to a deficit of \$17.2m in 2008, a reflection of the corroded economic position.

There was an overall balance of payments surplus of EC\$69.8 million in 2009 largely on account of increases in the capital and financial account. In 2010, the overall balance on the balance of payments was in deficit mainly on account of a reduction in direct investment.

### ***12.1 Remittances***

According to Government estimates, between 50,000 and 100,000 Grenadians now live abroad. Countries with significant numbers of Grenadians include the United States of America, Canada and the United Kingdom. Remittances consist of funds sent to persons and entities in Grenada by Grenadians residing and working abroad. Approximately 75% of total remittances come from the United States. Remittances have been relatively stable prior to Hurricane Ivan and have been a key contributor to Grenada's balance of payments surplus in recent years. However, in 2004 there was a significant increase of 90.5 per cent to \$129.8m. In 2005 remittances declined by 38.4 per cent to \$68.5m, but still remained at a higher level than the years prior to Hurricane Ivan. In the years that followed, remittance grew marginally but steadily with \$70.6m recorded in 2006, \$72.3m in 2007 and \$73.1m in 2008. During the period 2009--2010, worker's remittances fell marginally to EC\$70.2m and EC\$71.1m respectively as the impact of the global crisis resulted in nationals remitting less funds to Grenada.

### ***12.2 Capital and Financial Accounts***

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

Between 2001 and 2005, the capital and financial account of the balance of payments for Grenada moved from a surplus position of \$242.4 million in 2001 to approximately \$452.1m in 2005. This was due to a fall in other liability payments. The growth continued in the subsequent years. In 2006 the capital and financial account net increased to \$550.8m and grew further to \$732.9m in 2007. In 2008 the account recorded a net surplus of \$764.0m. During 2009, the position on the Capital and financial account was in surplus at EC\$579.8 million lower than the 2008 surplus. However in 2010, there was some improvement on this account as the surplus improved to EC\$613.8 million.

### *12.3 Foreign Direct Investment*

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

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

Net foreign direct investment for 2009 was EC\$148.8 million, which reflects the delay in investment on several large projects on account of the global financial crisis. In 2010, there was a further decline in direct investment to EC\$240.2 million.

### **13.0 FINANCIAL SECTOR ANALYSIS**

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

Nevertheless, given the need to maintain financial stability at all times the Government of Grenada has enacted the GARFIN<sup>2</sup> Act. The Act gives GARFIN, the authority to regulate and supervise all non-bank financial institutions. Through GARFIN, The Government will ensure that the insurance sector, follows sound practices and does not pose risks to the financial system and insurance holders.

Furthermore in order to reduce vulnerabilities to natural disasters government is considering giving the Building Code force of law. As a step forward in mandating the Code and associated Guidelines, government plans to bring into force new planning regulations in the not too distant future. Government will endorse a Voluntary Construction Quality Assurance Mechanism which would

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<sup>2</sup> Grenada Authority for the Regulation of Financial Institutions

see contractors, engineers, architects and financial institutions working together to ensure that all buildings are constructed to the required standards.

The Government has also signed up for the World Bank's Caribbean Catastrophe Risk Insurance Facility (CCRIF). As a participant in this facility, government will purchase parametric insurance on an annual basis that pays the government a predetermined amount in case of hurricane or earthquake. CIDA had generously agreed to pay Grenada's insurance premium for the first three years and since then government has been its payment for 2010 and has made provision for its payment in 2011.

#### **14.0 MONEY AND CREDIT CONDITIONS**

Broad money M2 fell slightly EC\$1.822b from in the first quarter of 2011. In 2010, broad money M2 grew by 1.0 per cent to EC\$1.824 billion from EC\$1.820 billion in 2009, reflecting growth in quasi money of 0.5 per cent and in the money supply (M1) of 3.0 per cent.

**Table 8: MONEY AND CREDIT CONDITIONS****In ECS million**

	2005	2006	2007	2008	2009	2010	2011 Q1
<b>1. NET FOREIGN ASSETS</b>	<b>531.58</b>	<b>421.47</b>	<b>405.63</b>	<b>248.79</b>	<b>283.67</b>	<b>242.30</b>	<b>210.78</b>
1.1 Central Bank (Imputed Reserves)	254.43	269.43	298.21	280.96	303.45	277.46	274.55
1.2 Commercial Banks (net)	277.16	152.04	107.42	(32.17)	166.31	170.93	(63.77)
<b>2. NET DOMESTIC ASSETS</b>	<b>937.44</b>	<b>1,060.91</b>	<b>1,239.08</b>	<b>1,504.86</b>	<b>1536.36</b>	<b>1595.09</b>	<b>1610.83</b>
2.1 Domestic Credit	1,035.76	1,171.71	1,372.06	1,601.05	1641.81	1699.04	1719.84
2.2 Other Items (Net)	(98.32)	(110.79)	(132,.98)	(96.19)	(105.44)	(103.95)	(109.02)
<b>3.MONETARY LIABILITIES (M2)</b>	<b>1,469.02</b>	<b>1,482.38</b>	<b>1,644.71</b>	<b>1,753.66</b>	<b>1,820.03</b>	<b>1,837.39</b>	<b>1821.60</b>
3.1 MONEY SUPPLY (M1)	315.34	309.46	355.76	355.52	332.27	342.29	318.72
3.2 QUASI MONEY	1,153.69	1,172.92	1,288.95	1,398.13	1,487.77	1,495.11	1,502.89

Source: Eastern Caribbean Central Bank

In the first quarter of 2011, domestic credit was up by 1.22 % to EC\$1.72 billion compared to 2010 when domestic credit in 2010 grew by 3.5 per cent to EC\$1.7 billion from 2009. Net credit to the central government was the main contributor to this due to an increase of 28.5 % in the first quarter to EC\$141.38 million. Net credit to NFPE's/Statutory bodies/NIS was also up by 4.67% to EC\$181.2 million

in the first quarter. In contrast net credit to the private sector fell by 0.14 per cent largely on account of a drop in credit to Non Bank financial institutions.

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

The distribution of credit in the first quarter of 2011 was similar to 2010 with 59.04 per cent of the credit being given for personal use, primarily for the acquisition of property. During 2010, a look at the distribution of credit by sector indicated that 59.4 per cent of the credit given by banks was for personal use, mainly for the acquisition of property. Credit to the tourism sector in the first quarter was 8.71 per cent of total credit compared to approximately 8.8 per cent of total credit in 2010. Credit for distributive trade, construction and land development and professional and other services was 7.3 percent, 5.0 per cent and 5.0 per cent respectively.

Commercial bank credit to some sectors increased in 2010 when compared to 2009, including Utilities, Tourism, Manufacturing, Construction and Development, Entertainment and Distributive trades. There were also reductions in credit to Public Administration, Professional and Other services, Transport, Mining and Quarrying and Agricultural sectors.

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

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

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

Preliminary data for the first quarter of 2011 indicate that the net foreign assets position fell by approximately 0.13 per cent to EC\$210.78 million when compared to 2010, when the net foreign assets position fell by roughly 14.6 percent to EC\$242.3 million. In 2008, the net foreign assets position moved to a net foreign liability position of 32.6 million on account of activity on the interbank market after having recovered in 2007 from the sharp reductions in 2005 and 2006. In 2004 the net foreign assets of the commercial banking system had experienced substantial growth mostly affiliated with the inflow of funds following the passage of Hurricane Ivan.

Liquidity in the commercial banking system remained stable over the period 2005 to 2008. The loans to deposit ratio increased from 66.0 per cent in 2005 to 73.2 per cent in 2006, reflecting the increased economic activity in the country. In 2007 the ratio was 75.9 per cent, and this ratio rose even further to 80.0 per cent in 2008. In 2009 the ratio increased further to 83.3 per cent and was up slightly in 2010 to 83.61 per cent. During the first quarter of 2011, the liquidity ratio dipped slightly to 83.38 per cent.

Since 2002 interest rates on savings have remained at 3.0 per cent. Prime lending rate fell from 9.5 per cent in 2003 to average 8.5 per cent for the period 2004-2009 and remains unchanged in 2010. Since 2006 other lending rates has steadily ranged from 7.5 per cent to 17.0 per cent.

## **15.0 INFLATION**

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

Likewise in 2010, annualized inflation was 6.5 percent driven mainly by rising prices on most categories of consumer expenditure except educational expenses. At December 2009, inflation was -0.3 primarily on account of lower oil and gas prices. The spike in oil and food prices in 2008 resulted in higher than average levels of inflation of approximately 8.0% while in 2007, inflation much lower at 3.9 percent.

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

## **16.0 SECURITY ISSUANCE PROCEDURES AND SETTLEMENT AND SECONDARY MARKET ACTIVITIES**

The treasury bills will be issued on the Regional Government Securities Market. This will operate on the Eastern Caribbean Securities Exchange trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be that of a competitive uniform price auction with open bidding. The ECSE and its subsidiaries are responsible for

processing, clearance and settlement of securities and providing the intermediaries with access to their settlement projections report, which indicates the obligations of the intermediary.

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

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

## **17.0 CURRENT ISSUES OF GOVERNMENT SECURITIES ON REGIONAL AND INTERNATIONAL MARKETS**

### **TREASURY BILLS**

Issues Outstanding	EC\$74.531M
Type of Issue	Government of Grenada Treasury Bills
Maturity in Days	365 Days
Date of Issues	20 Jul 2010, 13 October 2010, 1 December 2010, 5 April 2011 and 4 May 2011.
Yields	6.0 %, 6.0%, 6.0%
Discount Price	EC\$94.00

### **BOND ISSUE**

Issues Outstanding	EC \$2.565M
Type of Issue	Government of Grenada International Bonds 2007-2012
Maturity	5 Years

Date of Issue Oct. 5, 2007  
Yield 2008 - 7.00%, 2009 - 7.00%, 2010 - 7.50%, 2011 - 7.50%,  
2012 - 8.00%,

**BOND ISSUE**

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

**BOND ISSUE**

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

**18.0 UPCOMING ISSUES OF GOVERNMENT SECURITIES ON REGIONAL MARKET 2011-2012**

<b>PROPOSED AUCTIONS</b>	<b>INSTRUMENT TYPE</b>	<b>ISSUE AMOUNT</b>
<b>3<sup>rd</sup> Quarter</b>		
5 July 2011	91-day Treasury Bill	EC\$15,000,000
19 July 2011	365 Day Treasury Bills	EC\$35,000,000
4 August 2011	91-day Treasury Bill	EC\$15,000,000
<b>4<sup>th</sup> Quarter</b>		
7 October 2011	91-day Treasury Bill	EC\$15,000,000
12 October 2011	365-day Treasury Bill	EC\$12,000,000
3 November 2011	91-day Treasury Bill	EC\$15,000,000
30 November 2011	365-day Treasury Bill	EC\$12,000,000

## APPENDIX I: SUMMARY ECONOMIC DATA

This summary highlights some key economic data contained in this prospectus.

### SELECTED ECONOMIC INFORMATION: 2005-2010

<b>Domestic Economy (\$million)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 Rev.</b>	<b>2009 Rev.</b>	<b>2010 Prel.</b>
Nominal GDP at market prices	1495.4	1524.0	1647.9	1831.9	1691.7	1708.6
Real GDP at factor cost	819.7	800.5	840.0	859.4	815.2	1401.27
Per cent change in real GDP at factor cost	11.03	-2.37	4.9	2.2	-7.65	-1.4
Consumer Price Index	3.5%	4.3%	3.9%	8.0 %	-.03%	6.5 %
Unemployment rate (annual average)	18.8%	N/A	-	24.9	N/A	29%
<b>External Economy (\$ million)</b>						
Exports (fob)	74.6	68.5	90.2	81.7	78.1	80.7
Imports (fob)	901.9	893.2	985.8	1,018.6	760.0	816.2
Current Account Balance	-521.8	-628.71	-709.0	-745.2	-515.0	-674.2
Direct Investment (net)	189.4	242.4	409.4	384.1	245.5	240.2
Capital and Financial Account Balance	515.0	559.8	672.6	717.4	469.4	613.8
Overall Balance of Payments	-87.26	15.2	29.0	-21.3	69.8	-18.2
<b>Tourism</b>						
Stay-Over Arrivals	98,548	118,654	130,096	130,363	109,474	104,694
Total visitor expenditures (EC \$M)	254.9	309.7	NA	267.6	238.9	259.7

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

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

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

## APPENDIX II: LIST OF LICENSED INTERMEDIARIES

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
<b>Anguilla</b>		
<b>National Bank of Anguilla Ltd</b>	<b>P O Box 44</b>  <b>The Valley</b>  <i>Tel: 264-497 2101</i> Fax: 264-497 3870 / 3310 Email: <a href="mailto:nbabankl@anguillanet.com">nbabankl@anguillanet.com</a>	<b>Principal</b> Selwyn Horsford  <i>Representative</i> Idona Reid Shernika P. Connor
<b>Antigua and Barbuda</b>		
<b>ABI Bank Ltd.</b>	ABI Financial Centre Redcliffe Street St John's  <i>Tel: 268 480 2837 / 2824</i> Fax: 268 480 2765 Email: <a href="mailto:abibsec@candw.ag">abibsec@candw.ag</a>	<b>Principals</b> Casroy James Carolyn Philip  Representative Heather williams
Antigua Commercial Bank Ltd.	ACB Financial Centre P O Box 95 St John's  <i>Tel: 268 481 4200</i> Fax: 268 481 4158/ 4313 Email: <a href="mailto:acb@candw.ag">acb@candw.ag</a>	<b>Principal</b> Peter N Ashe  <i>Representative</i> Sharon Nathaniel

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
<b>Dominica</b>		
National Mortgage Finance Company of Dominica Ltd. (NMFC)	64 Hillsborough Street Roseau  <i>Tel: 767 448 4401 / 4405</i>  Fax: 767 448 3982  Email: <a href="mailto:customersupport@nbd.dm">customersupport@nbd.dm</a>	<b>Principal</b> Caryl Phillip-Williams Linda Toussaint-Peter Stephen Lander <b>Representatives</b> Joel Denis Curtis Clarendon
<b>St Kitts and Nevis</b>		
St Kitts Nevis Anguilla National Bank Ltd.	P O Box 343 Central Street Basseterre  <i>Tel: 869 465 2204</i>  Fax: 869 465 1050  Email: <a href="mailto:national_bank@sknanb.com">national_bank@sknanb.com</a>	<b>Principals</b> Winston Hutchinson Anthony Galloway  <b>Representatives</b> Marlene Nisbett Petronella Edmeade-Crooke
The Bank of Nevis Ltd.	P O Box 450 Main Street Charlestown  <i>Tel: 869 469 5564 / 5796</i>  Fax: 869 469 5798  E mail: <a href="mailto:info@thebankofnevis.com">info@thebankofnevis.com</a>	<b>Principal</b> Kevin Huggins Brian Carey  <b>Representatives</b> Vernesia Walters Kelva Merchant Lisa Jones
<b>St Lucia</b>		

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
ECFH Global Investment Solutions Limited	5 <sup>th</sup> Floor, Financial Centre Building 1 Bridge Street Castries  <i>Tel: 758 456 6826 / 457 7233</i>  Fax: 758 456 6733  E-mail : <a href="mailto:capitalmarkets@ecfglobalinvestments.com">capitalmarkets@ecfglobalinvestments.com</a>	<b>Principals</b> Beverley Henry Donna Matthew  <b>Representatives</b> Dianne Augustin Lawrence Jean
First Citizens Investment Services Limited	9 Brazil Street Castries  <b>Tel: 758 450 2662</b>  Fax: 758 451 7984	<b>Principals</b> Carole Eleuthere-Jn Marie  <i>Representative</i> Samuel Agiste
Financial Investment and Consultancy Services Limited	#15 Bridge Street Castries <b>Tel: 758 453 0225</b> Fax: 758 453 2303	<b>Principals</b>  <i>Sharmaine Francois</i>  <i>Representative</i> Anderson Soomer
<b>St Vincent and The Grenadines</b>		
Bank of St Vincent and the Grenadines Ltd	<b>P O Box 880</b> Cnr. Bedford and Grenville Streets Kingstown  <b>Tel: 784 457 1844</b>  Fax: 784 456 2612/ 451 2589 Email: <a href="mailto:natbank@svgncb.com">natbank@svgncb.com</a>	<b>Principals</b> Monifa Latham Keith Inniss  <b>Representatives</b> Patricia John

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
<b>Trinidad and Tobago</b>		
First Citizens Investment Services Limited	<b>No. 1 Richmond Street, Ground Floor</b> Furness Court, Independence Square Port of Spain  <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>	<i>Representative</i> Vishwatee Jagroop