

GOVERNMENT OF GRENADA



PROSPECTUS

**FOR EC\$2.05 MILLION
365-DAY TREASURY BILLS**

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

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DATE OF PROSPECTUS: OCTOBER 2008

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1. ABSTRACT

The Government of Grenada proposes to raise two million and fifty thousand Eastern Caribbean dollars (EC\$2.05 million) through the issuance of a 365-day Treasury Bill. The issue will be used to refinance the Treasury Bill which matures on October 7, 2008.

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 365-day Treasury Bill issue is being raised under the authority of the Revised Treasury Bills Act 2003. Under the Constitution of Grenada, principal and interest payments are direct charges on the Consolidated Fund.

The Government, having made all reasonable inquiries, hereby confirms that this Prospectus contains all information that is material in the context of the issue and offering of the Treasury Bill; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein on the part of the Government are honestly held or made and are not misleading in any material respect.

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

2. GENERAL INFORMATION

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Date of Issue: October 9, 2008

Type of Security: Treasury Bills

Amount of Issue: \$2,050,000

Purpose Security Issue:

The Treasury Bill is being issued to refinance the maturing Treasury Bill issue.

Legislative Authority:

Revised Treasury Bill Act 2003, Laws of Grenada.

3. INFORMATION ABOUT THE ISSUE

The Government of Grenada proposes to issue an EC \$2,050,000 Treasury bill on 8th October 2008. This bill will be issued on the Regional Government Securities Market (RGSM) using the primary platform of the Eastern Caribbean Securities Exchange (ECSE).

- a) The amount to be issued is EC\$2.05 million dollars
- b) The Treasury Bill will be issued with tenors of 365 (three hundred and sixty-five) days
- c) The Treasury Bill is identified by the symbol GDB091009
- d) The Treasury Bill will mature on October 9, 2009
- e) The settlement date will be October 9, 2008
- f) The maximum bid price is \$93.50 (6.50%).
- g) Interest payments will be made at the end of the 365-day period.
- h) 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.
- i) 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).
- j) The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding.
- k) The bidding period will be opened from 9:00 to 12:00 noon on auction day
- l) Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period.
- m) The minimum bid amount is EC\$5,000
- n) The Bid multiplier will be set at EC\$1,000
- o) The Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange

p) The current list of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange are as follows:

- ABI Bank Limited Antigua and Barbuda
- Antigua Commercial Bank Limited
- Bank of Nevis Limited
- Bank of Saint Lucia Limited
- National Commercial Bank (SVG) Limited
- National Mortgage Finance Company of Dominica Limited
- National Bank of Anguilla Ltd.
- St. Kitts Nevis Anguilla National Bank Limited
- Republic Finance and Merchant Bank Ltd.(FINCOR) – Grenada
- Caribbean Money Market Brokers Ltd (CMMB) - Saint Lucia
- Caribbean Money Market Brokers Ltd (CMMB) – Trinidad and Tobago

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

4. FINANCIAL ADMINISTRATION AND MANAGEMENT

The Government of Grenada places much emphasis on economic management, especially in areas of fiscal policy and financing and debt management. The Ministry of Finance 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 Budget and Debt Unit are responsible for the management of Government finances and the public debt.

4.1 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.

4.2 The Budget and Debt 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 monitoring and facilitation of the implementation of the annual budget

- ❖ The preparation of monthly, quarterly and annual reports on central government fiscal operations
- ❖ The preparations of monthly and quarterly debt reports
- ❖ The recording, updating and management of public debt

4.3 Risk Management Framework

Risk refers to the uncertainty that surrounds future events and outcomes. The Government in an effort to minimize its risk while pursuing its objectives 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 saves and except Treasury Bills;
- ❖ The legal authority is given for issuance of Treasury Bills is the Revised Treasury Bill Act which limits new Treasury Bills issuance to no more than 25% of estimated current revenues in a given fiscal year.
- ❖ Only the Minister of Finance can incur debt on the country's behalf;
- ❖ Competent staffing for monitoring macroeconomic variables;
- ❖ An ex-ante analysis of new public debt by the Ministry of Finance and;
- ❖ Continuous training of staff.

5. 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. However 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 in December 1984. The New National Party led by Herbert Blaize won 14 out of 15 seats in that election formed the government and restored Grenada's Constitution.

6. GRENADA'S POLITICAL, JUDICIAL SYSTEM, DEMOGRAPHICS & SOCIAL CLIMATE

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

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

Grenada is 1,623 miles southeast of Miami, 80 miles north of Trinidad and 160 miles southwest of Barbados.

6.1 Political

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

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

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

The National Democratic Congress who has been in opposition for the last thirteen years has won 11 of the 15 seats contested in the recent July 08, 2008 general elections.

6.2 *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 Organisation of Eastern Caribbean States member state. It has two divisions, the High Court of Justice and the Court of Appeal. Two High Court judges are based in Grenada, but the judges of the Court of Appeal are resident in St. Lucia, and travel to Grenada to hear appeals from the High Court. Appeals from the Court of Appeal go to the Judicial Committee of the Privy Council in London, England, which is Grenada's court of last resort.

6.3 *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 the descendants of early European settlers reside in Grenada. Approximately 65% of Grenada's population is under the age of 30. Grenada's official language is English, and its principal religions are Roman Catholic and Anglican.

6.4 *Social Indicators*

The following table sets forth selected social indicators for Grenada.

Grenada: Selected Social Development Indicators

Human development rank out of 177 countries (2008)	82
Life expectancy at birth in years (2005)	73
Adult literacy rate in percent (2005)	96.0%
GDP per capita in U.S.\$ (2006)	5,428
Population rate of growth (%)	0.6%
Infant mortality per 1,000 live births (2005)	17%
Access to improved water source (% of population)	98%

Source: 2008 United Nations Human Development Report and Ministry of Finance

7.0 MACRO-ECONOMIC PERFORMANCE

7.1 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.

The graph below shows Grenada's real GDP growth for the period 1998 to 2007



Sources: Ministry of Finance and Eastern Caribbean Central Bank

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

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

With the passage of Hurricane Ivan in 2004, economic activity declined 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 same year. In July of 2005

Grenada was hit by another hurricane, Emily, with the cost of the destruction estimated at 12.5 per cent of GDP.

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

Inflation, as measured by the change in consumer price index has remained relatively stable over the years, save and except for a period of high prices immediately after the passage of hurricane Ivan when inflation rose to about 6 per cent (on an end-of-period basis).

The recent spike in oil and food prices has also resulted in higher than average levels of inflation. In 2007, inflation was 4 percent.

7.2 Agriculture

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 in its main sub-sector of crops.

In 2006, the Ministry continued to intensify its effort to revitalize the sector in a more organized manner. The EC\$3m Agricultural Enterprise Development Programme provided soft loans to over 430 farmers involved in the rehabilitation of cocoa, nutmeg

and banana fields. Special attention was also given to farmers involved in livestock, poultry and cash crop production.

In addition to providing loan financing, the Agricultural Enterprise Development Programme provided EC\$300,000 in support of drainage; EC\$433,000 for the purchase of fertilizer which was distributed to farmers and EC\$986,000 for purchasing irrigation equipment and supplies. Twenty-seven (27) farmers were also trained in Irrigation System Management and Operations.

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

In 2006, the sector contributed 5.9 per cent of the country's GDP. In 2007, Government has continued its efforts to revitalize the sector by expanding the agricultural enterprise project. With this project, the agricultural sector is has grown by a further 4.2 per cent in 2007 and has maintained its contribution of 5.9 per cent of real GDP.

7.3 *Manufacturing*

The manufacturing sector has historically been small in Grenada; however with the establishment of the Grenada Industrial Development Corporation in the 1980s and with foreign direct investment in the sector with the creation of factory space for small and medium sized business, the sector has been increasing its contribution to GDP. By 2003, the sector's contribution to GDP stood at 6.7 per cent, slightly lower than that of the Agriculture and Hotels and Restaurant sectors. In that same year, the sector received a major boost with the establishment of an agro-processing plant for producing fruit juices. With the passage of Hurricane Ivan value added in the sector declined by 16.3 per cent but showed signs of good recovery in 2005 when economic activity grew by 16.3 per cent but contracted in 2006 by 2.8 per cent. In 2007, the sector's contribution to GDP increased to 6.2 per cent to reflect growth of 4.5 per cent.

7.4 Tourism

The industry began to play a leading economic role at the start of the 1990s, with the operations of a number of new hotels. The Government decided then to target tourism as an engine of growth in order to reduce unemployment, increase foreign currency earnings and to strengthen the linkage with the agricultural and manufacturing sectors. Substantial foreign direct investment in new hotel facilities, mainly in Grenada's southern tourism belt together with increased government outlays on promotion and human resources development, especially in hospitality management, resulted in the tourism sector increasing its contribution to GDP and today being the largest generator of foreign exchange in the Grenadian economy. In addition, efforts concentrated on improvements in the tourism sites with the implementation of the Tourism Enhancement Project.

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

Table 1 Key Tourism Indicators: 2000 to 2007

	2000	2001	2002	2003	2004	2005	2006	2007
Key Indicators								
Stay-Over Arrivals	128,864	123,351	132,416	142,355	133,865	98,548	118,654	129,147
Cruise Ship Passengers	180,308	147,381	135,061	146,925	229,800	274,956	218,684	216,452
Number of Cruise ship calls	360	287	259	267	249	260	221	221
Average length of stay	7.2	7.2	7.3	7.7	7.5	7.4	7.6	-
No. of rooms available	1822	1734	1777	1758	860	1470	1537	-
No. of beds available	3091	3142	3590	3844	1792	2326	NA	-
Total Recorded Visitor Expenditure (EC\$M)	481.5	440.0	469.1	470.3	418.8	254.9	309.7	402.8

Sources: Ministry of Finance and Grenada Board of Tourism.

Table 1 clearly indicates an improvement in the performance of the industry since the passage of Hurricane Ivan. Following a 26.4 per cent fall in 2005, stay-over arrivals increased by 20.4 per cent in 2006 with improvements in the hotel plant and a corresponding increase in the number of rooms and beds available.

Notwithstanding the passage of hurricane Ivan, the number of cruise ship passengers visiting Grenada increased. The number of cruise ship calls, moved from 249 ships in 2004, to 260 ships in 2005, an increase of 4.4 per cent. In December 2004, the Melville Street Cruise Terminal, which has the capacity to accommodate mega ships, was

commissioned and in part, would have accounted for the rise in the number of cruise ship passengers.

In 2006, the hotel and restaurant sector's contribution to GDP stood at 5.8 per cent from 3.8 per cent of the previous year. In 2007, the sector has grown by 10.0 per cent increasing its contribution to GDP to 6.1 per cent.

7.5 Infrastructure Development

Government holds the view that infrastructure development is critical to Grenada's development since it provides strong positive external externalities for the active participation of the private sector in the economy.

For this reason, Government has invested heavily in creating a strong economic and social infrastructure through the construction of roads, bridges, the rehabilitation of the country's seaport and airport, and the construction of schools and hospitals. This programme was intensified and accelerated with the reconstruction of the economy and meeting deliverables related to the preparation of CWC.

Today Grenada boasts of having one of the best road infrastructure in the ECCU sub-region; a newly constructed hospital; the expansion and modernization of the Point Salines International Airport; the provision of adequate water supply even in the dry season with the construction of additional dams and the implementation of a metering programme; reliable electricity services throughout the country and modern telecommunications services. Most of 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 11.4 per cent to the country's GDP, but this has fallen slightly to 10.5 per cent in 2007.

8.0 GOVERNMENT FISCAL PERFORMANCE

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

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

At the same time government was able to implement measures to control non-essential expenditure. These factors have helped to improve the fiscal situation substantially resulting in current surpluses of EC\$56.8m (3.8% of GDP), and EC\$66.5m (4.4% of GDP) in 2005 and 2006 respectively.

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

The destruction of the economy also increased the development needs of the country. As a result capital outlays grew sharply to EC\$210.5m in 2005 and EC\$285.8m in 2006 reflecting the acceleration in the implementation of ongoing and reconstruction projects.

Significant outlays were made in the areas of housing, agriculture, school rehabilitation, and in the repair of lost or damaged infrastructure.

The increased grants received in 2005 resulted in an overall surplus of 0.14 per cent of GDP in 2005, but with the higher outlays on capital spending this surplus was converted to a deficit of 6.6 per cent of GDP in the following year. The deficit in 2006 was financed from loans from domestic and external sources.

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

Table 2 Recent Fiscal Performance 2002-2008(EC\$M)

	2002	2003	2004	2005	2006	Estimates 2007	Projections 2008
Current Revenue	292.5	323.6	301.2	359.8	379.6	420.9	496.8
Current Expenditure	286.3	289.4	314.2	303.0	313.1	348.5	385.1
Current Account Balance	6.2	34.2	-13.0	56.8	66.5	72.4	111.7
Capital Revenue	2.7	0.3	1.3	0.3	0.1	0.1	0.1
Capital Expenditure	244.4	179.1	102.3	210.5	285.8	193.8	174.2
Grants	23.5	82.9	88.2	155.4	118.7	25.5	50.0
Overall Balance	-212.0	-61.7	-25.8	2.1	-100.4	-113.9	-12.74

Source: Ministry of Finance

8.1 Revenues

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

8.1.1 Current Revenues

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

8.1.2 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. Non-tax revenue increased from \$29.7 million in 2005 to \$42.9 million in 2006 a sharp rise of 44.4%.

8.1.3 Grants

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

8.2 Current Expenditure

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

8.3 Capital Expenditures

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

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

After the July 8th elections, the new administration has taken the decision to revise the capital budget down to \$184 million from \$241.8million.

9.0 PUBLIC DEBT ANALYSIS

At June 2008, Grenada's Public debt including government guarantees was EC\$1.75 billion, of which

- Central Government Debt - EC\$1.60 billion
- Government Guarantees - EC\$147.6 million

There was a reduction in the guarantees of Government from EC\$146.05 million in 2006 to EC\$145.59 million in 2007 as Government remains committed to its 2006-2008 Reform Programme by not issuing new guarantees to Statutory bodies and private entities.

Table 3 Central Government Debt (EC\$ Millions)

	2001	2002	2003	2004	2005	2006	2007	June 2008
Total Domestic	191.5	229.5	292.3	329.3	205.1	196.5	229.1	235.7
Treasury bills	45.5	60.6	87.5	72.5	68.9	71.4	78.2	78.1
Bonds	116.7	131.1	127.7	153.7	31.2	31.2	27.0	18.3
Loans	12.6	30.0	23.8	22.9	30.6	38.1	58.1	61.2
Others	16.7	7.8	53.3	80.3	74.5	55.8	65.8	78.1
Total External	387.5	684.8	733.9	874.7	1,215.8	1,297.4	1,354.2	1,364.9
Bilateral	161.8	152.1	138.3	134.5	177.8	210.1	226.5	219.4
Multilateral	154.1	186.8	230.9	271.1	308.1	357.4	401.9	419.7
Bonds	54.5	331.0	349.7	459.9	721.6	721.6	721.6	721.6
Others	17.1	14.9	14.9	9.2	8.2	8.2	4.2	4.2
Grand Total	579.0	914.3	1,026.2	1,204.0	1,420.9	1,493.8	1583.3	1,600.6

Source: Ministry of Finance

In 2007, however, there was an increase in the domestic debt from EC\$196.5 million in 2006 to EC\$ 229.1 million as Central Government continued with its capital projects in the aftermath of the hurricanes of 2004 and 2005.

External debt is on the rise as Government continues to seek cheaper sources of financing, mainly from multilateral and bilateral creditors to fund its capital infrastructure projects.

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

Shortly after the passage of Hurricane Ivan in September of 2004, Government announced its intention to seek the cooperation of its creditors to restructure its commercial debt. On November 15, 2005, EC\$ 708.0 million of Grenada's commercial debts or approximately 47.2% of the total public debt was restructured. This resulted in the substantial lowering of debt service payments. Grenada will save approximately EC\$365.0 million in interest payments over the next 10 years. 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 12th 2006 the Paris Club agreed to reschedule EC\$43.2m of Grenada's debt thereby reducing by over 90 per cent the debt service to the Paris Club creditors. This agreement follows the International Monetary Fund's (IMF) approval of Grenada's arrangement under the Poverty Reduction and Growth Facility (PRGF) on 17th April 2006.

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

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

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 2007 external debt 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.

TABLE4: GRENADA INTEREST PAYMENT ON DOMESTIC AND EXTERNAL DEBT AS OF JUNE 2008

	1 st Quarter		
	Year 2007	2008	1 st Half 2008
Medium and Long Term Debt 2007			
Interest Payments			
of which is External	21,830,823	9,029,707	13,681,153
of which is Domestic	5,168,886	439,211	1,197,067
Short Term Debt 2007			
Interest Payments			
of which is External	0	0	0
of which is Domestic	11,060,470	272,560	958,345
Total Interest Payment	38,060,179	9,741,478	15,836,565

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

On June 16, 2008 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.

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

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

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

As at December 2007 Public Sector Debt to GDP was approximately 109.1% of which Central Government debt was 99.9% and guarantees by Government accounted for 9.2% of public debt.

Table 5: Debt Ratios

	2003	2004	2005	2006	2007
Debt Stock to GDP (with Government Guarantees) (%)	100.8	116.7	104.9	108.2	109.1
Debt Stock to GDP (without Government Guarantees) (%)	79.1	95.0	95.0	98.6	99.9
Debt service to Current Revenue (%)	27.1	40.4	12.3	13.7	10.6
Debt Service to Export Earnings (%)	35.8	46.0	26.7	27.2	N/A

Source: Ministry of Finance

Also, as indicated in the above table, Grenada's debt servicing to current revenues of 10.6 per cent in 2007 is within the established benchmark of 15.0 per cent established by the Monetary Council of the ECCB. However, while the debt to GDP ratio remains high government has indicated in its 2006-2008 Reform Programme, its intention to bring this ratio to about 60 per cent of GDP before the year 2020. This is to be achieved through the following strategy:

- Cease incurring any new commercial debt
- Conduct debt analysis of any new debt to be incurred

- Use 50 per cent of the proceeds of the sale of assets to reduce the debt stock
- Not incurring any new government guarantee
- Maintaining capital expenditure at 10 per cent of GDP
- Along with 50 per cent of the proceeds of the sale of assets going towards reducing the debt stock, a Sinking Fund will be set up at the ECCB

10.0 PROSPECTS FOR THE MEDIUM TERM 2008-2010

10.1 Medium-Term Economic Strategy

10.1.1 Overview

The Government's broad goal from 2008 to 2010 is in keeping with its Memorandum of Economic Policies 2006-2008 which focuses on fulfilling four main objectives namely promoting sustained high economic growth, restoring fiscal and debt sustainability, alleviating poverty, reducing vulnerabilities to natural hazards and maintaining financial stability. In summary, the intention is to return Grenada to macro-economic stability by the year 2008 and place the country on a path of sustainable economic growth.

With the recovery of the economy almost completed as reflected in the positive growth rates averaging 4.2 per cent for the period 2005 to 2007, government's major task for the medium term is the consolidation of that growth. The turnaround now seen in the tourism, manufacturing and agricultural sectors to cater for the fall in construction activity, is a clear sign that the economic base of the country is being restored for sustained growth to take place over the medium term. As a result, government's fiscal position will be strengthened. The deficit on the primary balance after grants in 2006 is to be converted to a surplus of about 2.5 per cent of GDP in 2008.

Inflation is expected to average 4.0 per cent over the next two years 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. Huge receipts from travel would account for a smaller current account deficit by 2009. In addition, the expected growth in foreign direct investment in the tourism industry would lead to an overall balance of payments surplus of about 0.0 per cent of GDP in 2008.

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

Table 6: GDP Annual Change by Sector

	2008	2009
Agriculture	9.85%	4.25%
Construction	(11.23)	(3.0)
Hotels	1.0	3.9
Transportation	(2.16)	10.22
Communications	2.5	2.0
Banks.....	2.0	2.5
<u>Overall</u> GDP Growth	2.17	6.54

Source: Ministry of Finance

10.1.2 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. From 2008 through 2010, Grenada's strategy for the agriculture sector includes:

- Achieving greater food security (as Grenada currently imports approximately 90% of its food); through the commercialization of root tubers and vegetables. This includes the development of marketing and distribution channels for locally produced foods.
- promote the establishment of a modern livestock sector that will provide quality meat to the local market;
- Promote a modern fishing sector through enhancing productivity and management of the fish resources;
- Establish a Station for Spice Research, Propagation and Farming Systems;
- Promote training and the enhancement of knowledge in the area;
- the continued construction of farm and feeder roads;
- the continued recultivation of watershed and forest areas; and
- Encouraging investment in, and financing of, existing and new agriculture production, in particular fruit trees.

10.1.3 Construction

The Government recognizes that the development of the construction sector is closely linked to other productive sectors of the economy, particularly tourism. The Government will provide opportunities for certification in a wide range of construction skills to ensure appropriate standards and techniques consistent with the Government's commitment to build back better.

10.1.4 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.

Today the sector is well poised for a spectacular take off with a number of foreign investors undertaking major hotel projects in the sector. In November of 2006, the Port Louis Project started. This EC\$1.6 billion project involves the construction of a world famous marina, a modern five star hotel and night facilities, and the renovation of a 250 room facility. In addition, plans are well advanced for the resumption of the Levera Hotel and Golf Course project in the north of the country. Recently, work on Four Seasons Development (a US\$600 million project) commenced and will include hotel, condominiums and 18-hole golf course. The St. George's University Hotel expansion project is ongoing. The Government has also intensified its efforts to improve air links, especially with the United States, Canada and Europe. American Airlines will operate a direct service to Grenada from Miami in November 2008.

The Government in its effort to rebuild the sector has commissioned the New Cruise Ship Terminal and Shopping Mall, which made a substantial difference to the landscape of the country. The Government intends to continue to pursue its policy of upgrading of all tourism attraction sites and placing the sites under commercial management. One new attraction will be a Hurricane Ivan museum.

The National Stadium reconstructed at the cost of US\$40 million is used as a venue for international cricket, sporting and other cultural events. Grenada also plans to expand the use of the facility for sports tourism packages to North America and Europe during their winter months.

10.1.5 Manufacturing

The Government intends to encourage greater foreign direct investment in the manufacturing sector by providing tax incentive packages for local and foreign investors. The Government will encourage foreign investors to establish joint ventures with locals

in agro-processing to strengthen the linkages among agricultural, manufacturing and tourism.

10.2 Fiscal Policy Strategy

As part of its overall economic management strategy, the Government has developed a medium-term strategy for the period 2006-2008, aimed at restoring growth, ensuring fiscal stability and debt sustainability. The overall deficit will be reduced from 8 per cent in 2007 to 4.1% in 2008.

10.3 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 currency deposits. Government will continue to pursue prudent fiscal policies to help preserve the stability of the Eastern Caribbean dollar.

10.4 Investment Management Strategy

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.

10.4.1 Private Sector Development

Government strategy for private sector development is to continue to improve the climate for greater private investment in the economy. In May 2007 Government created a new Ministry of Economic Development & Planning, to facilitate the implementation of all measures aimed at improving the investment climate in the country. Some of the steps already taken to improve the business environment include addressing issues such as enforcing contracts, registering property and closing a business which were outlined in the World Bank's 2007 Doing Business Indicators report on Grenada.

Positive signs are already being seen from these efforts. A report from the GIDC indicated that in 2007 the value of private investment that actually commenced operations in the country amounted to \$323m of which EC\$233m were in the hotel sector and the balance were in the manufacturing and services sector. These investments would have created jobs for about 420 persons. A recent report from GIDC indicated EC\$3.1 billion have been approved for investment in the country of which EC\$4437.4 million have already been invested.

To be more specific a number of major foreign direct investments have already started in the country. The most talked about and impressive Port Louis Project of EC\$1.5b is well underway. This project on completion will provide jobs for over 500 persons; the Bacolet Bay and Spa (EC\$11.8m) on completion will provide jobs for some 600 Grenadians; the Grand Harbor Condominium (EC\$81.3m) will on completion provide jobs for some 600 Grenadians; the Virgin Beach Development (EC\$74M) is expected to provide jobs for over 500 Grenadians; the Point Marquis project (EC\$540 M) a totally local investment will on completion provide jobs for 700 Grenadians; the Cinnamon Hill of EC\$538m will provide jobs for 400 persons; and the Levera Resort project of EC\$540 m, in the northern

part of the island, will on completion provide jobs for 300 Grenadians. In addition, plans are well advanced for the start of the Four Seasons Hotel early in the New Year. In short, an estimated total of 3,200 jobs will be created in this country over the next two to three years.

11.0 Table 7: BALANCE OF PAYMENTS

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

	2003	2004	2005	2006	Prel. 2007
Current Account Balance	-394.0	-160.0	-523.4	-526.0	-608.4
Exports (fob)	123.0	101.3	88.7	84.8	134.0
Imports (fob)	616.9	612.2	813.7	715.6	879.7
Services (net)	137.7	176.9	55.7	84.8	122.6
Of which	257.4	202.5	165.7	210.5	284.0
Travel (net)					
Income (net)	-136.3	-152.3	-76.4	-77.5	-84.9
Of which	31.2	44.3	1.3	0.3	0.3
Public sector interest payments (gross)					
Transfers (net)	98.5	326.4	222.2	97.5	99.6
Capital and Financial Account	358.9	203.6	470.2	548.7	489.5
Capital Account (transfers)	116.6	107.6	126.9	166.8	155.7
Financial account	271.0	84.7	356.8	356.7	451.0
Of which: Public sector borrowing	46.8	45.7	54.7	74.0	57.3
Of which: public sector amortization	26.6	29.4	17.2	19.0	21.8
Direct Investment (net)	240.8	175.5	189.4	230.0	326.7
Portfolio investment (net)	78.6	81.1	48.1	-2.0	1.8
Other investment	-48.3	-172.0	119.3	128.6	122.6
Overall balance	-34.6	125.1	-74.0	15.2	13.2

In per cent of GDP					
Current account balance	30.4	12.6	35.0	34.7	38.4
Capital and financial account	27.7	16.1	31.4	36.2	30.8

Ministry of Finance/ECCB/IMF: March 2007

Balance of payments data reflect the value of the transactions carried out between a country's residents and the rest of the world. Grenada has incurred an overall balance of payments surplus in each of the five years from 1997 through 2002. Nevertheless, in 2003 there was a deficit of \$34.6 million mainly on account of high interest payments and a fall in other investments. In 2004, the country's overall balance of payments position improved significantly and recorded a large overall surplus of \$125.3 million because of budgetary support and the insurance receipts in the aftermath of Hurricane Ivan. In 2004 exports continued to decline and travel receipts also fell reflecting the damage to the country's hotel infrastructure with the passage of hurricane Ivan.

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

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 importing as the reconstruction neared completion and tourism receipts increased with about 85 per cent of the hotels refurbished and reopened for business.

Although net direct investment is increasing, the fall in net public sector borrowing is adversely affecting the overall surplus. The figures do not indicate a higher capital and

financial account surplus in 2007 however; the account is expected to remain in surplus in 2006 of \$548.7 million and 2007 of \$489.5 million.

11.1 Remittances

Remittances consist of funds sent to persons and entities in Grenada by Grenadians residing and working abroad. Remittances have been relatively stable prior to Hurricane Ivan and have been a key contributor to Grenada's balance of payments surplus in recent years. However, in 2004 there was a significant increase of 90.5%. In 2005 remittances declined by 38.4%, but still remained at a higher level than the years prior to Hurricane Ivan. Approximately 75% of total remittances come from the United States. According to Government estimates, between 50,000 and 100,000 Grenadians now live abroad. Countries with significant numbers of Grenadians include the United States of America, Canada and the United Kingdom. Remittances totaled \$79.91 million in 2005 as compared with \$129.80 million in 2004.

11.2 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 \$483.7m in 2005. This was due to a fall in other liability payments.

11.3 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.

Net foreign direct investment has increased every year since 2002 and totaled \$189.4m in 2005. The performance in 2005 reflected higher level of economic activities attributed to the reconstruction of the economy after the passage of Hurricanes Ivan and Emily. Subsequently, in 2006, direct foreign investment is estimated at \$230m, an increase of 21.4% compared to 2005. In general, levels of foreign investment and, consequently, Grenada's overall balance of payments, are affected by economic conditions and political, financial and other developments in the United States and other major countries, which have historically maintained close economic relationships with Grenada.

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

12.0 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 of ECCB to conduct an on-site inspection of all commercial banks in the island. The report as presented to the Monetary Council of the ECCB indicated that all banks remained sound and have taken corrective measures to cushion the negative effects of the fall in economic activity and failure in debt servicing would have had on their performance. In addition, the insurance companies remained stable with only a few not being able to meet their financial commitments with customers on time.

Nevertheless, given the need to maintain financial stability at all times the Government of Grenada has enacted the GARFIN¹ Act to give this institution the authority to regulate and supervise all non-bank financial institutions. GARFIN became operational as a Statutory Body with the mandate to regulate offshore banks, insurance companies, credit unions and all other non-bank money transfer institutions. Through GARFIN, government will ensure that the insurance sector, which is offering deposit interest rates above those of the commercial banks, follows sound practices and does not pose risks to the financial system, insurance holders and deposit holders.

Furthermore in order to reduce vulnerabilities to natural disasters government is considering giving the Building Code force of law. As a step forward in mandating the Code and associated Guidelines, government plans to bring into force new planning regulations in the not too distance future. Government will endorse a Voluntary Construction Quality Assurance Mechanism which would see contractors, engineers, architects and financial institutions working together to ensure that all buildings are constructed to the required standards.

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

¹ Grenada Authority for the Regulation of Financial Institutions

13.0 Table 8: MONEY AND CREDIT CONDITIONS

GRENADA
MONETARY SURVEY

In Thousands of Eastern Caribbean dollars

	2003	2004	2005	2006	2007
1. NET FOREIGN ASSETS	395,090	624,103	334,840	421,465	405,935
1.1 Central Bank (Imputed Reserves)	224,699	328,631	254,427	269,430	298,207
1.2 Commercial Banks (net)	170,391	295,472	80,413	152,035	107,728
2. NET DOMESTIC ASSETS	865,277	859,249	1,134,183	1,060,914	1,238,770
2.1 Domestic Credit	991,916	926,564	1,035,756	1,171,707	1,372,056
2.2 Other Items (Net)	126,639	67,315	-98,427	-110,793	-133,285
3. MONETARY LIABILITIES (M2)	1,260,368	1,483,352	1,469,023	1,482,379	1,644,705
3.1 MONEY SUPPLY (M1)	241,083	340,245	315,335	309,458	355,756
3.2 QUASI MONEY	1,019,285	1,143,107	1,153,688	1,172,921	1,288,949

The broad money supply M2 grew by 17.7 per cent to EC\$1.5 billion in 2004 but fell by 1.0 per cent in 2005 as quasi money grew substantially in 2004 and declined in 2004. At the same time, net domestic credit in the banking system was down slightly in 2005 but

grew substantially from EC\$851.5m in 2004 to EC\$1.1 billion in 2005. The rise in credit in 2005 was a result of the 10.0 per cent increase in net credit to the private sector reflecting rebuilding efforts after the passage of Ivan. At the same time, however, net credit to the central government declined by 15.5 per cent and 30.3 per cent in 2004 and 2005 respectively as government depended more on external grants to finance its reconstruction efforts.

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

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

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

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

Liquidity in the commercial banking system remained stable over the period 2003 to 2006. The loans to deposit ratio fell by 9.5 percentage points in 2004 to 57.6 per cent but increased to 66.0 per cent in 2005 and even further to 73.2 per cent in 2006 reflecting the increase economic activity in the country. Prime lending rate fell from 9.5 per cent in 2003 to average 8.5 per cent for the period 2004-2006 and is expected to remain unchanged in 2007.

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

14.0 INFLATION

Inflation has generally remained stable over the years reflecting the Eastern Caribbean Central Bank's commitment to a fixed exchange rate policy. Inflation averaged 1.7% annually from 1997 through 2001. In 2002, the annual inflation rate, as measured by the change in the consumer price index, declined by 0.4 per cent (on a period average basis) compared with growth of 3.2 per cent. Inflation averaged 2.2 per cent in 2003 and 2004. However, in 2005 the average rate of inflation increased to 3.5 per cent mainly due to increases in fuel prices. In 2007, the CPI estimated at 3.8 per cent and is expected to increase to 6.5 per cent in 2008.

15.0 PUBLIC FINANCE

The Constitution and the Finance and Audit Act (Chapter.102) of the Revised Laws of Grenada 1990, establish the legal framework for Government's budget process. The Minister of Finance is responsible for presenting the Estimates of Revenue and Expenditure (Budget) to the House of Representatives each year. Both houses of Parliament must approve the budget within four months after commencement of each fiscal year on January 1. The estimates of revenue are based on existing tax rates and projections of non-tax revenue by the various ministries. Changes to the tax regime or expenditures require Parliamentary approval. Generally, though not invariably, the Government implements new fiscal measures at the commencement of each fiscal year.

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

15.1 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 tabled was for the year ended December 2006. The 2007 Statement of Accounts will soon be submitted to the Director of Audit.

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\$35M
Type of Issue	Government of Grenada Treasury Bills
Maturity in Days	365 Days
Date of Issue	July 17, 2008
Yield	6.5 %
Discount Price	EC\$93.50

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%

APPENDIX I: SUMMARY ECONOMIC DATA

This summary highlights some key economic data contained in this prospectus. You should read this summary together with the more detailed information contained in the prospectus.

Selected Economic Information: 2003-2007

Domestic Economy (\$million)	2003	2004	2005	2006	2007 Prel.
Nominal GDP at market prices	1296.6	1267.2	1495.4	1515.6	1585.1
Real GDP at factor cost	783.0	738.2	819.7	800.3	828.7
Per cent change in real GDP at factor cost	7.11	-5.71	11.03	-2.37	3.55
Consumer Price Index	2.2%	2.3%	3.5%	4.3%	3.9%
Unemployment rate (annual average)	13.0%	20.0%	18.8%	N/A	-
External Economy (\$ million)					
Exports (fob)	123.0	101.3	88.7	84.8	134.0
Imports (fob)	616.9	612.2	813.7	686.9	879.7
Current Account Balance	-394.0	-160.0	-523.4	-526.0	-608.3
Direct Investment (net)	240.8	175.5	189.4	230.0	326.7
Capital and Financial Account Balance	387.6	192.2	483.7	523.3	606.7
Overall Balance of Payments	-34.6	125.1	-74.0	15.2	13.2
Tourism					
Stay-Over Arrivals	142,355	133,865	98,548	118,654	129,147
Total visitor expenditures (EC \$M)	470.3	418.7	254.9	309.7	402.8

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 WHOARE MEMBERS OF THE EASTERN CARRIBBEAN SECURITIWS EXCHANGE

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Anguilla		
<i>National Bank of Anguilla Ltd</i>	P O Box 44 The Valley Tel: 264-497-2101 Fax: 264-497-3310 Email: nbabankl@anguillanet.com	Principal Selwyn Horsford Representative Idona Reid
Antigua and Barbuda		
ABI Bank Ltd.	ABI Financial Centre Redcliffe Street St John's Tel: 268 480 2824 Fax: 268 480 2765 Email: abibsec@candw.ag	Principals Casroy James Carolyn Philip Representative Laura Abraham
Antigua Commercial Bank Ltd.	ACB Financial Centre P O Box 3089 St John's Tel: 268 481 4200 Fax: 268 481 4158 Email: acb@candw.ag	Principal Peter N Ashe Representative Sharon Nathaniel
Dominica		
National Mortgage Finance Company of Dominica Ltd. (NMFC)	64 Hillsborough Street Roseau Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	Principal Caryl Phillip-Williams Representatives Marilyn Edwards Debra Gordon-Peters
Grenada		

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
Republic Finance and Merchant Bank Ltd. (FINCOR)	NCB House Grand Anse St George's Tel: 473 444 1875 Fax: 473 444 1879 Email: fincorec@caribsurf.com	Principal Wilma Williams Representative Mark Salina
St Kitts and Nevis		
St Kitts Nevis Anguilla National Bank Ltd.	P O Box 343 Central Street Basseterre Tel: 869 465 2204 Fax: 869 465 1050 Email: national_bank@sknanb.com	Principals Winston Hutchinson Anthony Galloway Representatives Marlene Nisbett Desilu Smithen Petronella Edmeade-Crooke
The Bank of Nevis Ltd.	P O Box 450 Charlestown Nevis Tel: 869 469 5564 Fax: 869 469 5798 E mail: bon@caribsurf.com	Principal Hanzel Manners Kevin Huggins Representatives Lisa Jones Vernesia Walters
St Lucia		
Bank of St Lucia Ltd.	P O Box 1862 Bridge Street Castries Tel: 758 456 6000 Fax: 758 456 6190 Email: bankofsaintlucia@candw.lc	Principals Donna Matthew Beverley Henry Carla Morton-Campbell Representatives Trevor Lamontagne Lawrence Jean Dianne Augustine

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
St Vincent and The Grenadines		
National Commercial Bank (SVG) Ltd.	<p>P O Box 880 Cnr. Bedford and Grenville Streets Kingstown</p> <p>Tel: 784 457 1844 Fax: 784 456 2612 Email: natbank@caribsurf.com</p>	<p>Principals Keith Inniss Jeffrey Ledger</p> <p>Representatives Patricia John Rashida Stephens</p>
Trinidad and Tobago		
Caribbean Money Market Brokers Ltd. (CMMB)	<p>No. 1 Richmond Street, Ground Floor Furness Court, Independence Square Port of Spain</p> <p>Tel: 868 623 7815/5153 Fax: 868 624 4544/9833; 627 2930 Email: info@mycmmmb.com</p>	<p>Principals Brent Salvary Leslie St Louis</p> <p>Representative Vishwatee Jagroop</p>