# GOVERNMENT OF GRENADA

## PROSPECTUS FOR GOVERNMENT SECURITIES FOR THE PERIOD MARCH 2016 - NOVEMBER 2016

## EC$75 MILLION 91-DAY TREASURY BILLS

## EC$62 MILLION 365-DAY TREASURY BILLS

**MINISTRY OF FINANCE**
**FINANCIAL COMPLEX**
**CARENAGE**
**ST.GEORGE'S**
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**DATE OF PROSPECTUS: MARCH 2016**

# NOTICE TO INVESTORS

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

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

*This Prospectus and its content are issued to cover the series of government securities to be issued over the period March 2016 to November 2016. 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

During the period March 2016 to November 2016, the Government of Grenada is seeking to issue the following government securities on the Regional Government Securities Market to refinance its existing treasury bills currently on the market as follows:

<u>91 Day Treasury Bills</u>

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

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

<u>365 Day Treasury Bills</u>

- Thirty (EC$30.0) million in 365 day treasury bills on July 14, 2016.
- Twelve (EC$12.0) million in 365 day treasury bills on October 10, 2016.
- Twenty (EC$20.0) million in 365 day treasury bills on November 29, 2016.

***The maximum coupon rate of the new bills being 6per cent per annum.***

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

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

A competitive uniform price auction will be used.

## 2. INFORMATION ABOUT THE ISSUES

### Table 1.0

| SYMBOL | AUCTION DATES 2016 | ISSUE/SETTLEMENT DATE | MATURITY DATE | ISSUE AMOUNT EC$M | OVERSUBSCRIPTION AMOUNT ALLOWED EC$M | TENOR (DAYS) | INTEREST RATE CEILING |
|---|---|---|---|---|---|---|---|
| **SERIES A** | | | | | | | |
| GDB190716 | 18 APRIL 2016 | 19 APRIL 2016 | 19 JULY 2016 | 10 | 5 | 91 | 6per cent |
| GDB171016 | 15 JULY 2016 | 18 JULY 2016 | 17 OCTOBER 2016 | 10 | 5 | 91 | 6per cent |
| GDB170117 | 17 OCTOBER 2016 | 18 OCTOBER 2016 | 17 JANUARY 2017 | 10 | 5 | 91 | 6per cent |
| **SERIES B** | | | | | | | |
| GDB110816 | 11 MAY 2016 | 12 MAY 2016 | 11 AUGUST 2016 | 15 | 5 | 91 | 6per cent |
| GDB101116 | 10 AUGUST 2016 | 11 AUGUST 2016 | 10 NOVEMBER 2016 | 15 | 5 | 91 | 6per cent |
| GDB090217 | 9 NOVEMBER 2016 | 10 NOVEMBER 2016 | 9 FEBRUARY 2017 | 15 | 5 | 91 | 6per cent |
| GDB150717 | 14 JULY 2016 | 15 JULY 2016 | 15 JULY 2017 | 30 | 0 | 365 | 6per cent |
| GDB111017 | 10 OCTOBER, 2016 | 11 OCTOBER 2016 | 11 OCTOBER 2017 | 12 | 0 | 365 | 6per cent |
| GDB301117 | 29 NOVEMBER 2016 | 30 NOVEMBER 2016 | 30 NOVEMBER 2017 | 20 | 0 | 365 | 6per cent |

**All ISSUES ON THE MARKET ARE IN EC DOLLARS**

**SUBJECT TO REVISION BASED ON FINANCING METHOD EMPLOYED**

## 3. GENERAL INFORMATION

| | |
|---|---|
| **Issuer:** | Government of Grenada |
| **Address:** | Ministry of Finance<br>Financial Complex<br>Carenage<br>St. George's<br>Grenada |
| **Email:** | finance@gov.gd |
| **Telephone No.:** | 473-440-2731 / 440-2928 |
| **Facsimile No.:** | 473-440-4115 |
| **Contact Persons:** | Dr. The Right Honorable Keith Mitchell, Minister for Finance, finance@gov.gd<br>Mr. Mike Sylvester, Permanent Secretary Ag.<br>Mike.sylvester@gov.gd<br>Ms. Kim Frederick, Deputy Permanent Secretary<br>Kim.frederick@gov.gd<br>Mr. Ambrose Obike, Accountant General<br>anl.obike@gmail.com |
| **Date of Issue:** | February 2016 – November 2016 |
| **Type of Security:** | Treasury Bills |
| **Amount of Issue:** | EC$137 million |
| **Purpose Security Issue**: | The Treasury bills are being issued as part of government's debt management strategy to reduce the cost of government borrowing by reducing reliance on the overdraft facility. |
| **Legislative Authority:** | Revised Treasury bill Act 2003, Laws of Grenada. |
| **Bidding Period:** | 9:00 am to 12:00 noon on auction day |

| | |
|---|---|
| **Method of Issue**: | The price of the issue will be determined by a Competitive Uniform Price Auction with open bidding. |
| **Listing:** | The Treasury Bills will be issued on the Regional Government Securities Market (RGSM) and traded on the Secondary Market trading platform of the Eastern Caribbean Securities Exchange (ECSE). |
| **Placement of Bids:** | Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange |
| **Maximum Bid Price:** | $94.00 (6.00 per cent). |
| **Minimum Bid:** | EC$5,000 |
| **Bid Multiplier:** | EC$1,000 |
| **Bids Per Investor:** | Each investor is allowed one (1) bid with the option of increasing the amount being tendered for until the close of the bidding period. |
| **Taxation:** | Yields will not be subject to any tax, duty or levy by the Participating Governments of the Eastern Caribbean Currency Union (ECCU). The countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines. |
| **Licensed Intermediaries:** | Investors will participate in the auction through the services of licensed intermediaries who are members of the Eastern Caribbean Securities Exchange.<br><br>• Bank of Nevis Limited<br>• ECFH Global Investment Solutions Limited<br>• Bank of St Vincent and the Grenadines Ltd<br>• St. Kitts Nevis Anguilla National Bank Limited<br>• First Citizens Investment Services Ltd (Saint Lucia)<br>• Grenada Co-operative Bank Ltd. |
| **Currency:** | All currency references will be the Eastern Caribbean dollar unless otherwise stated. |

## 4. EXECUTIVE SUMMARY

The Government of Grenada is proposing to issue 91-day and 365-day treasury bills on the Regional Government Securities Market during the period February to November 2016.

Grenada has one of the most diversified economies in the OECS region, as such its growth prospects are not dependent on a single major sector, but on several sectors. Preliminary data indicated that the Grenadian economy, as measured by the change in real GDP is projected to grow by 4.6 per cent, following a revised growth of 5.7 per cent in 2014. The continued recovery, albeit at a slower rate is buoyed mainly by expansions in Agriculture, Tourism and Education. In 2011, the growth rate improved slightly to 0.76 per cent but declined again in 2012 to -1.16 per cent before picking up again in 2013 at a rate of 2.35 per cent. In 2009 primarily due to the current global economic crisis Grenada experienced some setbacks and experienced a decline of -6.61 per cent in GDP. The crisis continued in 2010 resulting in a further decline of -0.51 per cent.

Grenada had 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 per cent 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 per cent participation and resulted in a re-profiling of the debt from 2012 to 2025 with 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.

On March 8th 2013, the Government of Grenada announced **"that circumstances have forced it to undertake a comprehensive and collaborative restructuring of its public debt, including its United States (U.S.) and Eastern Caribbean (EC) Dollar Bonds due in 2025." In the release, Grenada's Prime Minister and Minister of Finance, Dr. The Right Hon Keith Mitchell alluded that "The global financial crisis has taken a heavy toll on the country, and aggravated the severe debt overhang that continues to weigh down our economy."**

As a result of Grenada's announcements on March 8, 2013, Standard and Poors lowered its foreign and local currency sovereign credit ratings on Grenada to 'SD' (selective default) from 'CCC+/C'. The Standard and Poors report stated that "the downgrade to 'SD' follows the Government of Grenada's announcement that it will not pay the coupon due March 15, 2013, on its U.S. dollar and Eastern Caribbean dollar bonds due in 2025. As part of the release the government also confirmed that "Grenada's Treasury Bills registered on the Regional Government Securities Market (RGSM) will not be affected by the restructuring exercise."

On June 27 2014, the International Monetary Fund pledged its support for Grenada's Home Grown Structural Adjustment Programme. The **International Monetary Fund** (IMF) approved an Extended **Credit** Facility for Grenada in the sum of US$ 21.7 mover a three year period.

In January 2009, Government restructured the Ministry of Finance and established a Debt Management Unit whose functions entail the re-organization of central government's public debt to enable greater efficiencies and reduce the cost of debt servicing. In June 2015, Government further strengthened the framework for debt management by introducing the Public Debt Management Act which placed the responsibility for all Public Debt within the Ministry of

Finance and the Debt Management Unit. The reconstituted Debt Coordinating Committee within the Ministry of Finance was also defined in this act and given specific responsibility for overseeing the debt management function as well as cash flow management and planning.

***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 2013. In this regard we would seek to maintain our record of credit worthiness in any and all securities issued on the market.***

In relation to the international bonds, a formal exchange agreement with commercial creditors of the 2025 Government of Grenada bond was closed on November 12, 2015. This is expected to reduce Grenada's debt by approximately 10 per cent of 2017 GDP once fully executed and places Grenada on a path to achieve a debt to GDP ratio of 60 per cent by 2030. For the international bonds, the first half of the haircut (25 per cent) was implemented immediately. The creditors will await the final IMF review before providing the second haircut of 25 per cent in 2017.

Agreement was also reached with the Paris Club in November 2015 to restructure bilateral debt with Paris Club creditors. The arrangement reschedules USD$ 8 million consisting of arrears due as of October 2015, half of which will be repaid upfront in two installments, as well as maturities falling due from 1$^{st}$ November 2015 to 30$^{th}$ June 2017.

At end December 2014, Grenada concluded the restructuring of its debt with Taiwan on the disputed outstanding loans with the EXIM Bank of Taiwan. Grenada had contracted four loans with the EXIM Bank of Taiwan and the sum outstanding inclusive of interest was approximately US$36.6 million. The agreement reached involved a 50 per cent hair cut, 47per cent at the conclusion of the discussions in 2014 and the remaining 3per cent at end 2017 after the final IMF review.

## 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.

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

## 5.1 *Transparency and Accountability*

The Government has adopted a system for strengthening the institutional framework for accountability and monitoring of fiscal matters. The fiscal position of the Government is reported monthly to the Cabinet. Additionally the fiscal and debt position are reported annually in the Government Estimates of Revenue and Expenditure, which is available to the public from the Government Printery and also posted on government's website (www.gov.gd). The ECCB conducts quarterly economic and financial reviews, which are published across the region annually. Article IV Country Reviews conducted by the IMF are also published and are available on the fund's external website.

## 5.2 *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 2011. The Statement of Accounts for 2012 has already been audited and is pending submission to parliament. The Accountant General will soon submit the 2013, 2014 and 2015 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 Debt Management Unit are the main entities responsible for the management of Government finances and the public debt.

### 5.3 *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.

### 5.4 *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

## 5.5 *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 data to facilitate the completion of Debt Sustainability Analysis
- 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

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

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

## 5.6 *Risk Management Framework*

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

- ❖ The requirement for Parliament to approve new debt contracted by Government with the exception of Treasury Bills;
- ❖ The legal authority for borrowing in any one year is the loan authorization Bill for that year.
- ❖ The legal authority for the issuance of Treasury Bills is the Revised Treasury Bill Act which limits new Treasury Bills issuance to no more than 60 per cent 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 in the 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 last general election was held in February 2013 and the New National Party (NNP) who was in opposition in the preceding five years contested and won 15 out of the 15 seats in the House of Assembly.

### *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*

The preliminary count of the 2011 Housing and Population Census puts Grenada's population at 103,328 persons; an increase of 696 persons over the 2001 Census. In contrast to the 2001 Census, the male population has now surpassed the female population revealing 52,651 males and 50,677 females. Most of Grenada's population is of African descent, though there are some descendants of the early Taino and Kalinago Indians. A few East Indians and a small community of descendants of early European settlers reside in Grenada. Approximately 65 per cent 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**.

***Table 2: Grenada Selected Social Development Indicators***

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

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

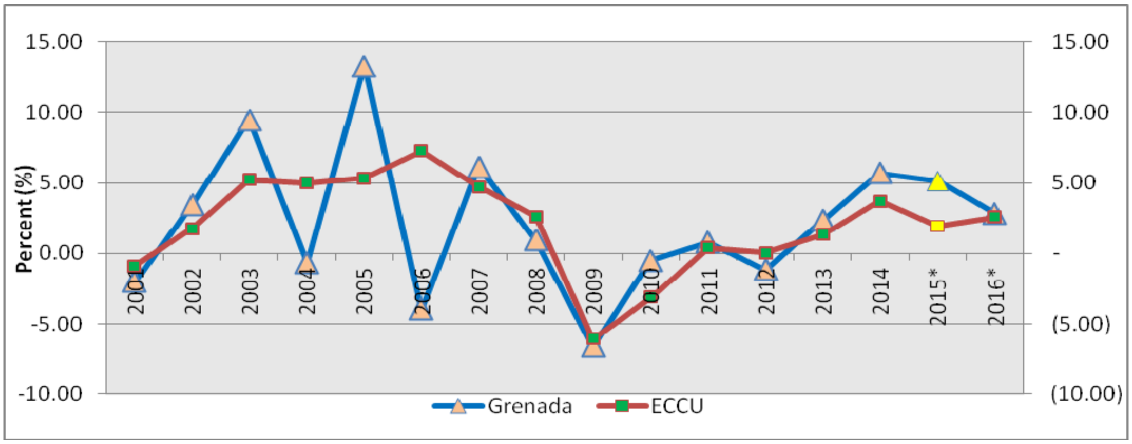
## 8.0 MACRO-ECONOMIC PERFORMANCE

**PERFORMANCE OF THE DOMESTIC ECONOMY[1]**

Based on preliminary data, a real GDP growth rate at market prices of 5.1 per cent is projected for 2015, following a revised growth rate of 5.7 per cent in 2014. At this rate, the Grenadian economy is expected to exceed the average rate of the ECCU countries for the third consecutive year. Continued strong performances in agriculture and tourism are the main drivers of this growth, accompanied by a fairly strong recovery of the construction sector and moderate expansion in private education. Growth is becoming more broad-based, with positive projections for sectors accounting for more than 80 per cent of total output.

[1] Extract from the Fiscal and Economic Review 2015, published in Government of Grenada 2016 Budget Statement

**Figure 1: Real GDP Growth Rate (at Market Prices) – Grenada vs. ECCU 2001-2016**




Source: ECCB, CSO, Ministry of Finance *Projected

### 8.1 *Agriculture and Fishing*

Available indicators suggest that the agriculture sector has been playing a major role as a macroeconomic shock absorber during the adjustment period. Agricultural production accounted for roughly 5 per cent of GDP in 2014 with growth in the sector vastly exceeding expectations at 53.8 per cent in that year. Continued strong performance is expected in 2015 and, on the basis of indicators for the first three quarters, a growth rate of 49.4 per cent is projected. Growth in Agriculture is being buoyed mainly by increased production of Other Crops[2] as a result of renewed efforts by the Marketing and National Importing Board (MNIB) in the promotion of Grenadian produce on the domestic and international markets.

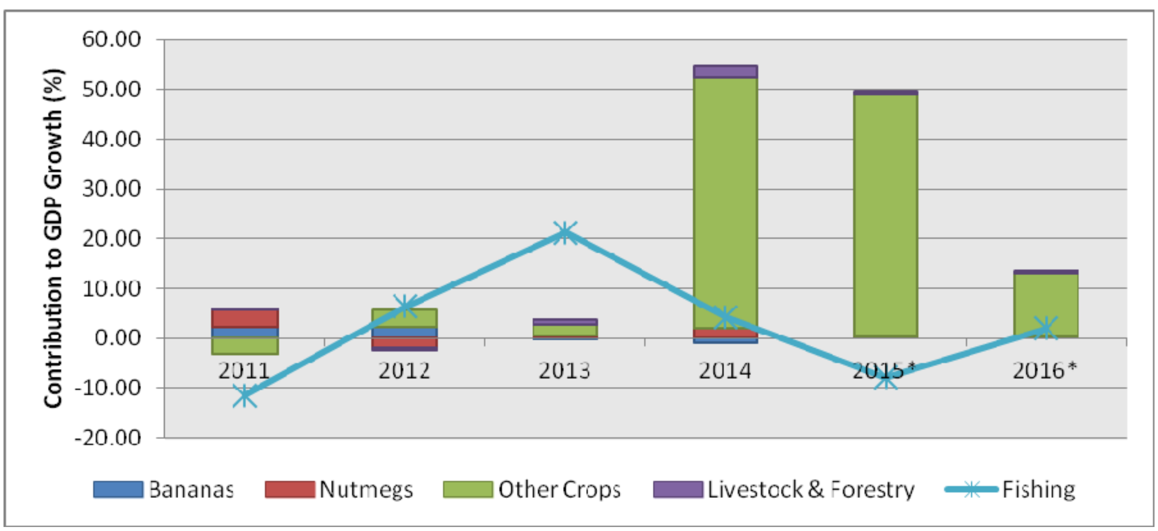
MNIB's continued success in penetrating export markets has proven to be an important incentive to farmers who have responded enthusiastically. In the first

[2] Other Crops are all produce excluding Banana and Nutmegs (Two of Grenada's historical export crops). Other Crops include fruits, vegetables, ground provisions, cocoa, mace and other spices.

three quarters of 2015, MNIB purchases of other crops exceeded purchases made in the comparable 2014 period by 58.5 per cent. In an effort to ensure that the quality of produce meets international standards, MNIB is also providing technical support to the farming community, thus increasing prospects for continued export market access and long term growth in the sector.

Additionally, the cocoa industry is showing signs of recovery from a 12 per cent decline in 2014. Data for the first nine months of 2015 show an increase of 7.5 per cent over the same period in 2014. The industry is projected to register a 4.1 per cent growth rate in 2015. Production of nutmeg and mace, however, is expected to decline in 2015 with data showing a negative growth of 2.4 per cent and 20.3 per cent respectively compared to the first 3 quarters in 2014. This decline in spice production should be more than offset by the strong performances in other crops. Overall, growth in agriculture is expected to maintain its buoyancy with a projected expansion of 13.5 per cent in 2016.

**Figure 2: Primary Sector Contribution to GDP Growth: 2011-2016**




Source: ECCB, CSO, Ministry of Finance

*Projected

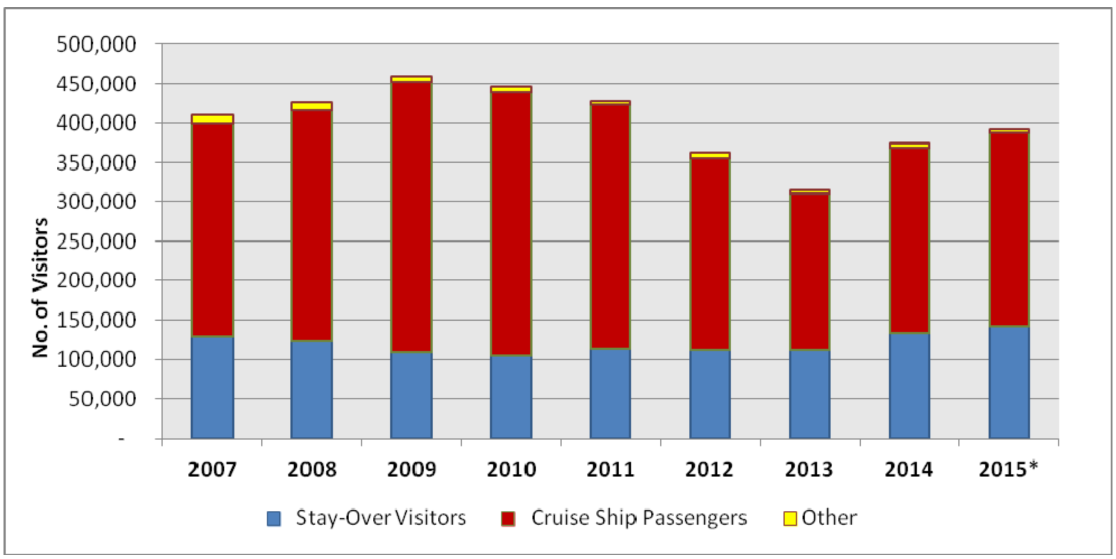
The fishing industry is expected to decline by 7.9 per cent in 2015 following growth of 4.2 per cent recorded in 2014. Data as at the end of September 2015 show a 9.0 per cent decline in fish production in relation to the same period in the previous year. Productivity levels were adversely affected by the influx of the sargassum seaweed which affected fishermen's ability to operate normally. On the demand side, export operations encountered price competitiveness pressures on the major markets as a result of the appreciation of the US dollar which resulted in price advantages for some of the country's major competitors. As a result of both supply and demand side challenges, fish exports also declined by 22.2 per cent in the period under review relative to the same period in 2014.

### *8.2 Tourism*

Growth in the tourism sector in 2014 was robust at 30.4 per cent, significantly above the projection for that year. This strong performance was mainly attributed to the continued recovery of the US economy and household incomes as well as the first full year of operations of a new resort on the island. Performance in 2015 is expected to continue on the same upward trajectory, albeit at a slower rate. The sector performed fairly better in the first nine months of 2015 when compared to the same period in 2014 as evidenced by a 4.1 per cent expansion in total Visitor Arrivals. Stay-Over arrivals increased by 7.9 per cent from 100,784 to approximately 107,839 visitors for the January to September period. This growth is partly the result of increased capacity from the addition of two new airlines commencing service to Grenada in June 2015. Additionally, the Grenada Tourism Authority continues with its aggressive marketing campaign, especially in the targeting of niche markets. Cruise Ship arrivals also increased marginally for the first nine months of the year, from 155,199 in 2014 to 158,537 in 2015, an expansion of 2.2 per cent. The hosting of the English cricket test match in April also contributed to the sector's strong performance in the first half of the year. It is estimated that this event attracted 1,805 visitors over a two week period with event-related visitor expenditure estimated at $16.3 million.

Notwithstanding these positive developments, the sector has not yet fully recovered from the effects of the global economic crisis. Visitor stay-over arrivals are still marginally below pre-crisis levels averaging 123,167 visitors over the last two (2) years compared to 126,429 visitors over the 2007/2008 period. The sector also has to position itself to deal with new competitive pressures that could result from the opening up of the Cuban market.

**Figure 3: Visitor Arrivals: 2007-2015***



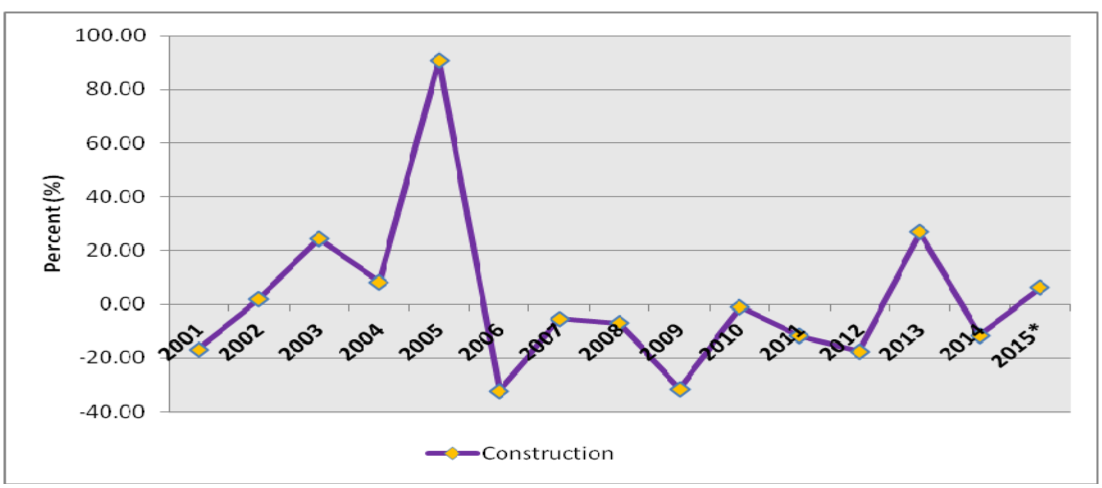

Source: ECCB, CSO, Ministry of Finance
*Projected

In 2015 and continuing into the medium term, the sector is expected to benefit from the start-up of operations by a new boatyard and marina facility which recently installed one of the largest boat lifts in the region, capable of lifting vessels up 242 tons. Phase I of this project is now complete with boat lifting services currently being offered. Phase II and Phase III are expected to be completed by 2017. The sector is also expected to be positively impacted by increased airlift, a planned upgrade of visitor attraction sites, the on-going expansion of room stock and the 2017 scheduled completion of a major resort development which started construction in 2015. Overall, the Tourism sector is projected to expand by 4.8 per cent in 2015.

### *8.3 Construction*

Preliminary data points to a relatively strong recovery of the construction sector in 2015 after experiencing a contraction of 11.6 per cent in 2014. For the first nine months of 2015, imports of construction materials, the main indicator for performance in the sector; increased by 21.5 per cent over the same period in the previous year. Notably in the private sector, construction continues on a major resort development and a marina complex. Various public sector projects are also ongoing, including several in the area of infrastructure development. Conversely, issuance of building permits fell by 34.1 per cent in the first nine months of 2015. Despite the decline in this secondary indicator, the sector is expected to register positive growth of 6.2 per cent in 2015 and continue along this trajectory in 2016 as more private and public sector projects come on stream.

**Figure 4: Construction Growth: 2001-2015***



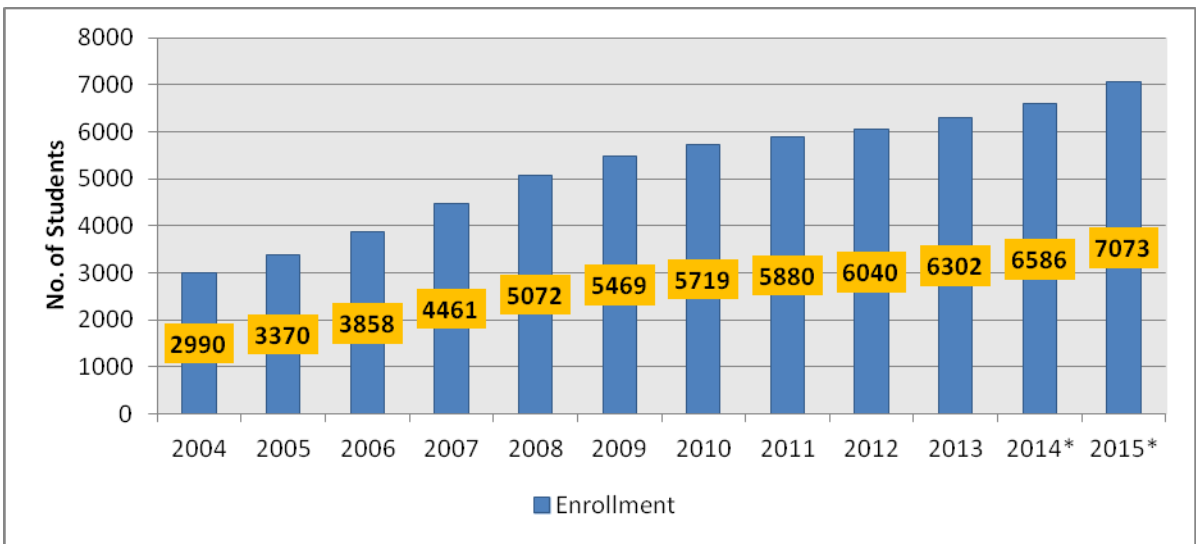

Source: ECCB, CSO, Ministry of Finance

*Projection

## 8.4 *Education*

The education sector accounted for 19.7 per cent of GDP in 2014 of which private education was 15.6 per cent. Growth in 2014 was moderate at 4.5 per cent with positive growth continuing in 2015 at approximately 1.9 per cent. Student enrollment increased from 6,586 in 2014 to 7,073 as at October 2015[3], that is, positive growth of 7.4 per cent. Private Education continues to be a major contributor to GDP with spillover effects in other sectors such as Tourism, Real Estate and Wholesale & Retail Trade.

**Figure 5: St. George's University Enrollment (2004-2015*)**




Source: SGU, Ministry of Finance
*Estimated

## 8.5 *Industrial Production*

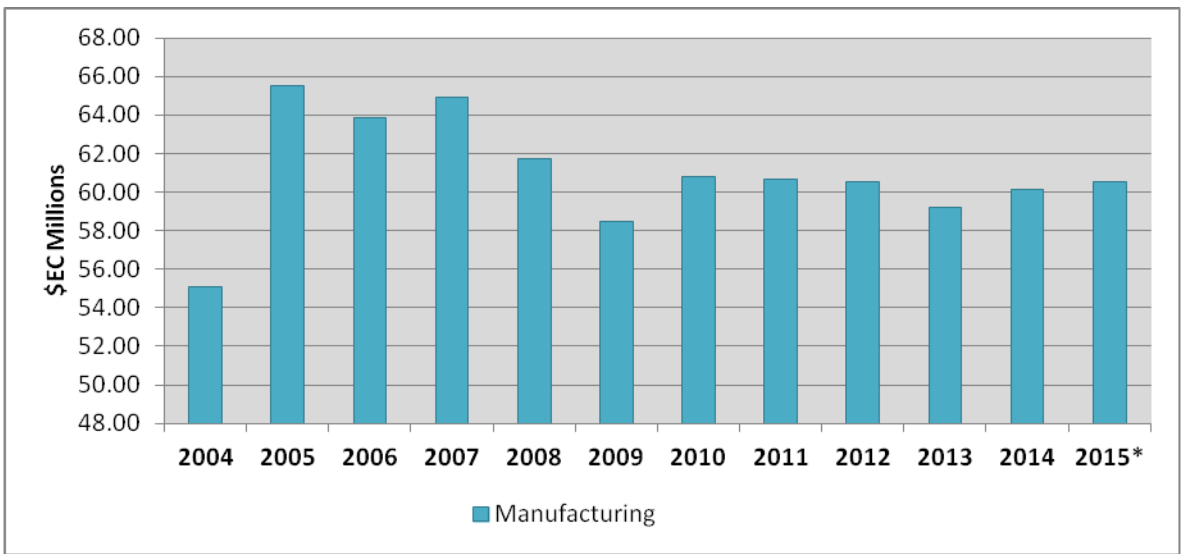
Performance in the manufacturing sector remains subdued with a marginal expansion of 0.7 per cent projected for 2015 after recording growth of 1.6 per cent in the previous year. In terms of the subcomponents of the sector, data as at September 2015 shows a 9.0 per cent decline in the production of Grain Mill and

[3]Source: http://www.sgu.edu/about-sgu/university-enrollment.html

Bakery Products, reportedly due to some issues with the production of flour. This decline, added to a 2.4 per cent drop in the production of animal feed, did not overwhelm expansion in other subsectors during the same period. Beverages and tobacco rose by 9.2 per cent while Chemicals & Paints increased by 4.3 per cent. Growth in the other smaller subsectors was 5.7 per cent for the period under review.

There was also a 4.6 per cent reduction in industrial consumption of electricity for the first nine months of 2015 compared to the same period in 2014 which also indicates a slowing down of growth in manufacturing in 2015.

**Figure 6: Manufacturing Sector: 2004-2015***



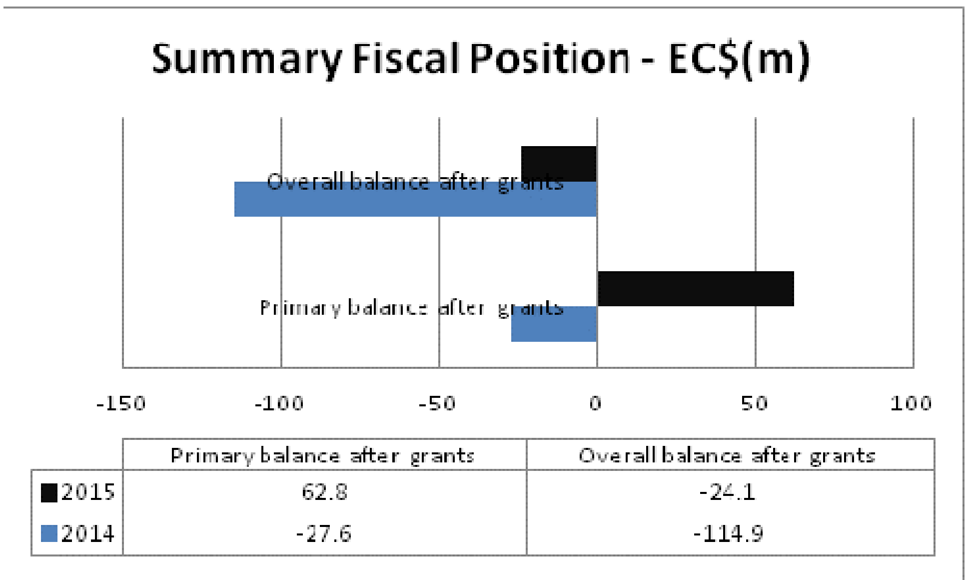

Source: ECCB, CSO, Ministry of Finance
*Projection

## 9.0 GOVERNMENT FISCAL PERFORMANCE

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

Grenada's fiscal position showed a significant turnaround in 2015 over the 2014 performance. The primary balance (after grants) moved from a large deficit of $27.6 m or 1.2 per cent of GDP in 2014 to a surplus of $62.8 million or 2.4 per cent of GDP in 2015. This outturn compares very favorably with the primary balance target under the Home Grown Structural Adjustment (HGSAP) Programme (a surplus of $31 m or 1.3 per cent).[4]

**Figure 7**




The overall balance also showed considerable improvement from around $114.9 million or 4.9 per cent of GDP in 2014 to $24.1 million or 0.94 per cent of GDP in 2015. The strong fiscal performance can be directly attributed to: (i) reforms undertaken by Government as part of the HSAP; and, (ii) continued expansion in the local economy.[5]

[4] Extract from the IMF 2nd Review under the Extended Credit Facility, published July 20 2015 and Ministry of Finance Revenue Expenditure and Financial Projections for the Public Sector

[5] Extract from the Fiscal and Economic Review 2015, published in Government of Grenada 2016 Budget Statement, page 105

**Table 3: Grenada Recent Fiscal Performance 2010-2015 (EC$ Million)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | Estimated 2015 |
|---|---|---|---|---|---|---|
| Current Revenue | 428.9 | 425.9 | 425.6 | 443.4 | 502.3 | 569.6 |
| Current Expenditure | 436.8 | 442.0 | 468.0 | 479.2 | 491.0 | 462.6 |
| Primary balance | -30.3 | -57.2 | -53.4 | -89.6 | -27.6 | 62.8 |
| Capital Expenditure | 151.3 | 163.2 | 108.4 | 160.5 | 226.7 | 203.3 |
| Grants | 83.9 | 70.5 | 23.7 | 31.3 | 100.5 | 72.0 |
| Overall balance | -75.3 | -108.8 | -127.0 | -164.9 | -114.9 | -24.1 |

**Source: International Monetary Fund and Ministry of Finance**

Grenada's fiscal performance has improved significantly over the period 2010 to 2015 as is evident from the trajectory of the primary balance over the period. The primary deficit of $30.3m, which was -1.5per cent of GDP in 2010 deteriorated over the period 2011 to 2013 but recovered from 2014 and is projected to be a surplus in 2015 amounting to $62.8m, 2.4per cent of GDP. This is due to the strong recovery of current revenues over the 2010 to 2015 period coupled with the efficient management of current expenditure. The overall balance peaked in 2013 at $164.9m, -7.3per cent of GDP and is being projected to amount to $24.1m, -0.94 per cent of GDP in 2015.

Revenues from grants proved to be volatile over the 2010 to 2015 period. In 2010 grant receipts totaled $83.9m, 4.0 per cent of GDP but dipped to a period low of $23.7m, 1.1per cent of GDP then rose to $100.5m, 4.3per cent of GDP in 2014 but is projected to amount to $72.0 million, 2.8per cent of GDP in 2015.

Current expenditures amounted to $436.8 million, 21per cent of GDP in 2010 grew annually over the period 2011 to 2014 but the trajectory is projected to be reversed in 2015 due to expenditure control measures and kept under control going forward as a result of mandatory expenditure rules introduced in the fiscal responsibility legislation that comes into effect from 2016. Current expenditures are projected to be $462.6 million in 2015, 18per cent of GDP.

Capital expenditure has improved over the 2010 to 2015 period, moving from $151.3 million, 7.3per cent of GDP in 2010 to a projected $203.3 million , 7.9per cent of GDP in 2015.

## 10.0 PUBLIC DEBT ANALYSIS

At December 31, 2015, the total Public Sector Debt was estimated to be $2,671.3 million or 102.6 per cent of 2015 GDP broken down as follows:

Central Government debt – $2,185.0 million

Government Guarantees – $107.94 million

Other Public Sector Debt – $378.4 million

Total Public Sector Debt – $2,671.3 million

During that period there were no new guarantees granted and as such the level of guaranteed debt continued to decline. Over the ten year period 2005 – 2015, there has been a 27 per cent reduction in government guaranteed debt from EC$147.12 million in 2005 to EC$107.94 million in 2015.

**Table 4: Grenada Central Government Debt (EC$ Millions) 2009-2015**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| **Total Domestic** | 262.4 | 282.2 | 360.7 | 427.5 | 477.9 | 474.5 | 594.37 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Treasury bills | 99.7 | 133.5 | 220.3 | 259.4 | 324.4 | 331.1 | 318.25 |
| Bonds | 11.7 | 9.9 | 20.9 | 58.1 | 60.7 | 60.7 | 184.51 |
| Loans | 64.9 | 53.4 | 55.5 | 37.5 | 28.8 | 23.4 | 50.09 |
| Others | 86.1 | 85.4 | 64.0 | 72.5 | 63.9 | 59.3 | 41.52 |
| | | | | | | | |
| **Total External** | 1,463.4 | 1,497.3 | 1,485.1 | 1,498.03 | 1,580.3 | 1,639.5 | 1,590.7 |
| Bilateral | 207.2 | 173.1 | 168.7 | 95.6 | 199.8 | 199.6 | 193.7 |
| Multilateral | 530.4 | 572.0 | 568.7 | 585.5 | 596.5 | 657.7 | 742.9 |
| Bonds | 721.6 | 721.6 | 721.6 | 721.6 | 721.6 | 721.6 | 596.0 |
| Others | 4.2 | 30.6 | 26.1 | 95.3 | 62.4 | 60.4 | 58.1 |
| Grand Total | 1,725.8 | 1,779.5 | 1,845.8 | 1,925.03 | 2,058.2 | 2,113.9 | 2185.1 |

***Source: Debt Management Unit, Ministry of Finance***

Based on table 4 above, it is evident that over the reported period (2009-2015) domestic debt continued to increase primarily due to increased issuance of T-bills on the RGSM as government sort to meet some of its short term financing needs. Additionally the stock of bonds increased significantly in 2012 through to 2015.

By end 2015 the domestic debt stock increased by 25.3 per cent over 2014. This increase in domestic debt was mainly due to the reallocation of EC$ 92.17 million of the NIS portion of the EC$ 2030 Bond to domestic debt as a result of the restructuring. Also stemming from the restructuring EC$ 31.0 m of contributions owed to NIS was converted to a new loan adding to the existing loan portfolio.

Conversely, external debt fluctuated over the reported period. In 2013, external debt increased marginally to EC$ 1,580.3 million from EC$ 1498.03 million in 2012 as Government sought to close the financing gap. However, by end 2015 a decline of 3.0 per cent was recorded mainly as a result of the 50 per cent haircut received on the US dollar bond which reduced the face value amounts outstanding on the bond and contributed to an overall reduction in the debt stock. Moreover, Government continues to seek cheaper sources of financing, mainly from multilateral and bilateral creditors to fund its capital programme.

## ***Debt Restructuring***

The adverse effects of the global financial crisis imposed negative shocks on the local economy and once again Grenada found itself in a difficult fiscal situation which resulted in significant shortfalls in revenues and grants collections for the period. Left without an alternative the government was forced to defer its September 2012 coupon payment on the international bond.

On March 8th 2013, the Government of Grenada announced **"that circumstances have forced it to undertake another comprehensive and collaborative restructuring of its public debt, including its United States (U.S.) and Eastern Caribbean (EC) Dollar Bonds due in 2025." In the release, Grenada's Prime Minister and Minister of Finance, Dr. The Right Hon Keith Mitchell alluded that "The global financial crisis has taken a heavy toll on the country, and aggravated the severe debt overhang that continues to weigh down our economy."**

The International Monetary Fund on June 27 2014, pledged its support for Grenada's Home Grown Structural Adjustment Programme. The **International Monetary Fund** (IMF) approved an Extended **Credit** Facility for Grenada in the sum of US$ 21.7 million over a three year period.

On January 5th 2015, Ministry of Finance announced that "**Grenada Concludes 50 per cent haircut deal with the Export-Import Bank of the Republic of China (Taiwan).** The terms of the agreement involved a reduction of the principal outstanding by 50 per cent; the post-haircut balance on the loan will be repayable over 15 years–including a grace period of three and a half years–at an interest rate of 7 per cent. Currently Grenada's outstanding debt to Taiwan is approximately USD$19.39 million

The Agreement also includes a 'hurricane clause', which will allow Grenada to defer payments for a predetermined period should a natural disaster compromise the Government's ability to service debt in a timely manner in the future."

In relation to the international bonds, a formal exchange agreement with commercial creditors of the 2025 Government of Grenada bond was closed on November 12, 2015. The agreement reached includes a reduction in the outstanding principal of 50.0 per cent. The restructured bond would be issued in US and EC dollars and will carry an interest rate of 7.0 percent and is set to mature in 2030. The bond will be amortised over the 15 year maturity period with payments beginning in March 2016. The outstanding amount for the international bond as at end September 2015 was EC$733.1m (includes interest arrears). The restructuring of the international bond is expected to be completed in two stages; half of the agreed haircut would be applied up-front while the remaining amount would be applied after the successful completion of the sixth review of Grenada's existing Extended Credit Facility (ECF) arrangement with the IMF which is scheduled for 2017.

In addition, on November 19th 2015 the Paris Club agreed to reschedule EC$21.6 million of Grenada's debt thereby reducing the debt service to the Paris Club creditors during the Fund-supported programme under the PRGF. The agreement rescheduled US$ 8 million consisting of arrears (US$ 6 million) due as of October 31st 2015 half of which is to be repaid upfront in two installments, as well as maturities falling due from 1st November 2015 to 30 June 2017 (US$ 2 million).

As part of the agreement, the Government of Grenada also agreed to seek comparable treatment from its other creditors. Additionally, the Paris Club creditors undertook to consider specific weather events that may impact Grenada's ability to service its debt by embedding into the agreement the first ever "hurricane clause".

A total of EC$ 857.79 million dollars or approximately 32.0 per cent of total public debt was restructured in 2015. Estimates have shown that the restructuring exercise has resulted in considerable lowering of debt service payments from EC$ 2,813.0 million to EC$ 2,374.2 million over the period 2016 – 2030. This represents potential savings of approximately EC$ 293.06 million over 15 years.

## ***Credit Rating***

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.

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

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

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

To ensure no adverse impact on the banking system, Government also announced as it had done in 2005 after the passage of hurricane Ivan in 2004 that it would ***continue to service its domestic debt obligations including Treasury Bills on the Regional Government Securities Market (RGSM) as they fall due.*** Government has continued to honour this commitment by ensuring that its obligations on the RGSM are met and continues to access the market for its short-term liquidity needs.

As a result of Government's announcement on March 8, 2013, Standard and Poors on March 12, 2013, lowered its foreign and local currency sovereign credit ratings on Grenada to 'SD' (selective default) from 'CCC+/C'. The Standard and Poors report stated that "the downgrade to 'SD' follows the government of Grenada's announcement that it will not pay the coupon due March 15, 2013, on its U.S. dollar and Eastern Caribbean dollar bonds due in 2025.

With the restructuring of the bonds completed the government is poised to make its first payment on the US and Eastern Caribbean dollar bond now due in 2030 within the schedule time.

## PUBLIC DEBT RATIOS

The Public Debt to GDP ratio is expected to fall from 107.1 per cent in 2014 to 102.6 per cent in 2015 reflecting in part the effect of the restructuring on the commercial debt. At the completion of the Debt Restructuring (2017), the Debt/GDP ratio is projected to further decline.

At the end of December 2013, Public sector debt to GDP was approximately 107 per cent, a slight decline from the level of Public sector debt to GDP of 108 per cent in 2012. Central Government debt was approximately 90.0 per cent of GDP in 2013, down from 89.0 per cent in 2012. The following table outlines the movement in the debt ratios over the period 2009 to 2015.

**TABLE 5: Grenada Public Debt Ratios**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Public Sector Debt Stock to GDP (including Government Guarantees) (per cent) | 88.9 | 90.0 | 88.6 | 108.0 | 107.0 | 107.1 | 102.6 |
| Debt Stock to GDP (excluding Government Guarantees) (per cent) | 82.9 | 84.1 | 83.2 | 89.0 | 90.0 | 89.0 | 85.1 |
| Interest payments to Current Revenue (per cent) | 11.9 | 10.9 | 12.1 | 17.3 | 9.2 | 16.5 | 18.5 |

**Source: Ministry of Finance**

In 2013, the interest payments to current revenue ratio fell to 9.2 per cent as Government announced in March of that year that it was going to pursue "a comprehensive and collaborative debt restructuring" which included the bonds due in 2025 whose payment accounted for a significant portion of the budgeted interest for the year. In 2012, the interest rate on these bonds had also increased but were paid hence the ratio was up to 17.3 per cent in that year. Grenada's interest payment to current revenue increased to 12.1 per cent on account of the step up interest rates in 2011. Interest payments to current revenues in 2010 fell slightly to 10.9 per cent 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 international 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 2030.

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

- Ceasing to incur any new external commercial debt
- Conducting debt analysis of any new debt to be incurred
- Not incurring any new government guarantees
- Adopting a risk management framework in the management of its debt portfolio

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

## 11.0 BALANCE OF PAYMENTS

The gap between exports and imports has been steadily widening since 2010 with the rate of growth of imports outpacing that of exports. However, the trade balance closed slightly in 2014 by approximately 9 per cent, a much welcomed improvement from previous years.

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

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| | | | | | |
| Current Account Balance | -550.5 | -558.9 | -521.6 | -597.6 | -453.8 |
| Exports (FOB) | 84.0 | 100.3 | 115.6 | 122.7 | 123.1 |
| Imports (CIF) | 771.0 | 797.3 | 810.9 | 875.4 | 806.8 |
| Services (net | 158.3 | 158.8 | 184.4 | 185.5 | 253.2 |

| | | | | | |
|---|---|---|---|---|---|
| Of which Travel (net) | 273.1 | 287.5 | 299.3 | 297.8 | 354.8 |
| Income (net)<br>Of which Public Sector interest payments (gross) | -107.7<br>0.11 | -85.8<br>0.02 | -92.6<br>0.75 | -79.9<br>0.96 | -93.6<br>0.96 |
| Transfers (net) | 85.8 | 65.0 | 81.7 | 49.4 | 70.4 |
| Capital and Financial Account | 515.8 | 563.6 | 466.7 | 625.3 | 460.9 |
| Capital Account (transfers) | 160.2 | 140.5 | 158.3 | 118.6 | 176.3 |
| Financial Account<br>Of which: Public sector borrowing<br>Of which: Public sector amortization | 355.6<br>73.4<br>39.3 | 423.1<br>18.2<br>33.7 | 308.4<br>25.1<br>53.9 | 506.7<br>106.1<br>57.1 | 284.6<br>116.8<br>45.0 |
| Direct Investment (net) | 163.1 | 115.2 | 85.0 | 305.3 | 107.7 |
| Portfolio Investment (net) | 7.8 | 27.2 | -8.3 | 46.8 | 32.3 |
| Other Investment | 184.7 | 280.8 | 231.7 | 154.6 | 144.6 |
| Overall balance | -25.9 | 5.5 | -5.1 | 84.8 | 61.7 |
| **In per cent of GDP** | | | | | |
| Current Account Balance | 26.4 | 26.6 | 24.2 | 26.3 | 18.4 |
| Capital and Financial Account | 24.8 | 26.8 | 21.6 | 27.5 | 18.7 |

*Source: Ministry of Finance/ECCB 2015*

Estimates for 2013 show a positive overall balance of payment position of $84.8 million, compared to a deficit of EC$5.1 million in the previous year. A positive overall balance of payments position is also recorded for 2014 ($61.7 million) due to improvements on the current account, as well as increased capital transfers in that year.

There was an overall balance of payments surplus of EC$70.2 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.

### 11.1 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 per cent 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 to $222.7 million compared to $73.1 million in the previous year. In 2005 remittances declined to $141.6 million, but still remained at a higher level than the years prior to Hurricane Ivan. In the years that followed, remittances remained relatively steady, averaging $82.6 million from 2006-2014. The lowest inflows during that period were recorded in 2008 and 2009 ($79.5 million and $75.7 million respectively) during the global financial crisis.

### 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 $242.5 million in 2001 to approximately $528.5 million in 2005. This was due to a fall in other liability payments. This growth continued in the subsequent years. In 2006 the net balance on the capital and financial account increased to $616.4 million and further grew to $711.9 million in 2007. In 2008 the net surplus fell to $677.2 million with this decline continuing in 2009 and 2010 to $638.1 million and $515.8 million respectively. However in 2011, there was some improvement on this account as the surplus moved to EC$563.6 million.

Net surplus on this account reached $625.3 million in 2013; the highest balance since 2009; as a result of significant inflows into the financial account. The balance then declined to an estimated $460.9 million in 2014.

### *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.

The performance in 2005 reflected a higher level of economic activity attributed to the reconstruction of the economy after the passage of Hurricanes Ivan and Emily. Subsequently, in 2006, direct foreign investment is estimated at $242.4 million, an increase of 28.0 per cent compared to 2005. In 2007, foreign direct investment increased almost 75per cent from the 2006 outturn to $422.7 million as private investment activity in the tourism sector increased. The 2008 earnings declined to $364.1 million due to credit becoming increasingly difficult in the United States from which the vast majority of the investments originate.

Net foreign direct investment continued on this downward trajectory in 2009 at $276.9 million, reflecting the delay in investment on several large projects on account of the global financial crisis. Net Foreign direct investment continued to decline and reached its lowest point in 2012 at $85.02 million. There was however a rebound in 2013 as net FDI was recorded at $305.2 million due to a large investment of equity into the economy. This rebound was however short lived as Net foreign direct investment in 2014 was estimated at $107.8 million, marginally higher than the 2012 balance.

## 12.0 FINANCIAL SECTOR ANALYSIS

Given the need to maintain financial stability at all times the Government of Grenada has enacted the GARFIN[6] 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 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 has

[6] Grenada Authority for the Regulation of Financial Institutions

purchase parametric insurance on an annual basis that pays the government a predetermined amount in case of hurricane or earthquake.

## 13.0 MONEY AND CREDIT CONDITIONS[7]

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

Reflecting deleveraging operations by the private and public sectors, loan deposit ratios remained below the Central Bank's recommended threshold of 85.0 per cent and continued to trend downwards – moving from 72.0 per cent in June 2014 to 64.0 per cent in June 2015. Other indicators reflecting this trend of rising liquidity over the same period were:

i. The ratio of net liquid assets to total deposits which moved from 31.0 to 38.8 per cent;
ii. The ratio of liquid assets to total assets which moved from 30.0 to 36.7 per cent and
iii. The ratio of liquid assets to total deposits which moved from 33.0 to 40.4 per cent.

Alongside the liquidity challenges, a major ongoing focus of monetary policy is on asset quality and the containment of associated systemic risks. This concern is driven in part by the level of non-performing loans (NPLs) which currently exceeds the central bank's 5.0 per cent prudential threshold. These concerns are currently relevant to all member countries of the Eastern Caribbean Currency Union (ECCU) and, in this context; a regional asset quality review was

[7] Adopted from ECCB Report Economic and Financial Review 2015. Pg 58

completed during 2015, the results of which are being used as inputs into the design of a regional strategy to be coordinated by the Eastern Caribbean Central Bank (ECCB).

Monetary liabilities (M2) increased by 3 per cent during the first nine months of 2015 compared to the rate of growth of 4.1 per cent recorded over the corresponding period of 2014. This development was partly on account of a 9.9 per cent expansion in narrow money supply (M1), resulting from growth of 15.4 per cent in private sector demand deposits.

Net foreign assets grew by 24.1 per cent to$722.5 million at the end of September 2015. This outturn mainly resulted from the transactions of commercial banks whose net foreign assets increased by 76.4 per cent to $273.2 million. A 72.5 per cent reduction in the net liabilities position with institutions outside the ECCU, combined with growth of 4.6 per in the net asset position with institutions in other ECCU territories, resulted in the outturn of commercial banks. Grenada's imputed share of ECCB's reserves increased by 5.2 per cent to $449.3 million.

Domestic credit fell by 5.4 per cent to $1,445.3 million. Private sector credit declined by 1.9 per cent, resulting from a contraction of 3.4 per cent in credit to households. Business credit rebounded, growing by 1.6 per cent, in contrast to a decline of 7.5 per cent in the corresponding period of 2014, perhaps indicative of improved business sentiments amid the growing economy.

Net credit to the government trended downwards by 30.4 per cent to $12.1 million reflecting reductions in both credit from the Central Bank (34.8 per cent) and the commercial banks (3.3 per cent). There was a concurrent decline of 6.7 per cent in the deposits of the government in the entire banking system.

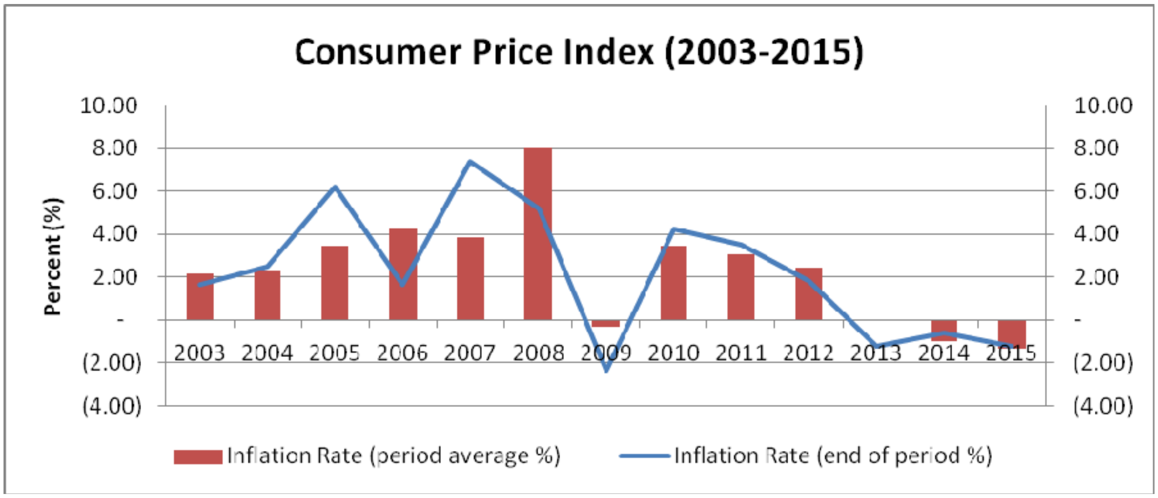
Credit declined for most economic sectors. There were notable declines in credit for distributive trades (12.4 per cent), manufacturing, mining and quarry (3.2 per cent), and tourism (3.1 per cent). Lending for personal use, which constitutes the largest credit allocation, fell by 2.4 per cent, mainly associated with a contraction in loans for the acquisition of property. By contrast, there was growth in credit for public administration (7.6 per cent), agriculture and fisheries (4.7 per cent), construction (4.7 per cent), professional and other services (1.4 per cent) and transportation and storage (0.1 per cent).

## 14.0 INFLATION

Prices remained subdued in 2015. The consumer price index (CPI) for the period fell by 1.4 per cent on average compared to the same period in the previous year. The decline in prices was mainly driven by the pass-through effect of depressed global fuel prices on key components of the basket of goods on which the CPI is calculated. The appreciation of the US dollar has also exerted some downward pressure on the price of imports.

There were reductions in the sub-indices for housing, water, electricity, gas, and other fuels (2.8 per cent) and transport (4.0 per cent) attributable to the lower international oil prices. There was also a fall in the sub-indices clothing and footwear (1.6 per cent) and communications (0.3 per cent). Together, these items account for more than 60.0 per cent of the typical consumer basket. Growth in the sub-indices education (3.1 per cent), health (3.0 per cent), alcoholic beverages, tobacco and narcotics (1.1 per cent) and food and non-alcoholic beverages (1.3 per cent) helped to temper the overall decline in the CPI.

**Figure 8: Consumer Price Index: 2003-2015**




Source: CSO

## 15.0 PROSPECTS FOR 2016[8]

Looking forward to 2016, the Grenadian economy is still on the road to recovery. With over a year of implementation of the Home Grown Structural Adjustment Program in place, economic growth in 2016 is anticipated to be moderate, as the economy continues to face significant challenges in terms of high unemployment, a large debt overhang, and weak competitiveness.

Real GDP growth is estimated to be 3.3 per cent in 2015 and thereafter, increase at an average rate of 2.0 – 3.0 per cent in the medium term. It is anticipated that growth will be supported by expansion in the traditional sectors namely Agriculture and Tourism with moderate growth in private education and fairly strong recovery in the construction sector with the development of new hotel projects and public sector investment programmes such as; the Agriculture

[8] Adopted from the Macroeconomic & Fiscal Review 2015, published in the Government of Grenada 2016 Budget Statement, page 89

Feeder Road Project, Disaster Vulnerability Reduction Project, the New Parliament Building, school rehabilitation among others.

Agricultural production is expected to increase further, relative to the outturn of 2014. The commercialization of the government estates is expected to contribute significantly to the overall output of the sector. This is anticipated to be translated into an increase in the volume of exports, as some of our major trading partners are beginning to see signs of economic growth in their economies.

Tourism activity is expected to strengthen, mirroring modest recoveries in the major source markets and as a result of the continued presence of the Sandals brand, increased marketing effort by the Grenada Tourism Authority and expected increases in airlift and cruise calls to Grenada.

The Current Account balance is expected to worsen slightly with the deficit increasing by approximately 3.0 per cent. This is largely due to predicted increases in imports as additional hotel projects come on stream in 2015. These developments in the tourism sector, however, are expected to bring additional direct investment to the Financial Account. The increase in travel receipts is expected to continue as the number of stay-over visitors increase as a result of the marketing and establishment of the Pure Grenada brand.

On the central government's fiscal accounts, the overall deficit is projected to narrow in 2016 on account of revenue gains from tax reforms being undertaken as part of the Home Grown Structural Adjustment Programme. Additionally, a decline in expenditure mainly associated with reduced outlays for goods and services within the context of expressed policy reforms such as; the Attrition policy, Treasury Single Account, and Capital spending controls being pursued by the government will also contribute to the smaller overall deficit.

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

The treasury bills will be issued on the Regional Government Securities Market using the Eastern Caribbean Securities Exchange trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be that of a competitive uniform price auction with open bidding. The ECSE and its subsidiaries are responsible for processing, clearance and settlement of securities and providing the intermediaries with access to their settlement projections report, which indicates the obligations of the intermediary. Intermediaries are responsible for interfacing with prospective creditors, collecting applications for subscription and processing bids on the ECSE platform. A list of licensed intermediaries is provided in **Appendix II.**

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

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

### RGSM TREASURY BILLS

| | |
|---|---|
| Issues Outstanding | EC$97.00 Million |
| Type of Issue | Government of Grenada Treasury Bills |
| Maturity in Days | 91 and 365 Days |
| Date of Issues | January 2015 to December 2015 |
| Yields | Max 6.0per cent, |
| Discount Price | EC$94.005 |

### BOND ISSUE

| | |
|---|---|
| Issues Outstanding | US$183.68 Million (Restructured) |
| Type of Issue | Government of Grenada International Bonds 2015-2030 |
| Maturity | 15 Years |
| Date of Issue | Nov. 12, 2015 |
| Yields | 7.00 per cent |

### BOND ISSUE

| | |
|---|---|
| Issue Outstanding | EC$84.97 Million (Restructured) |
| Type of Issue | Government of Grenada International Bonds 2015-2030 |
| Maturity | 15 Years |
| Date of Issue | Nov. 12, 2015 |
| Yields | 7.00 per cent |

## 18.0 UPCOMING ISSUES OF GOVERNMENT SECURITIES ON REGIONAL MARKET 2016

### Table 7.0

| SYMBOL | AUCTION DATES 2016 | ISSUE/SETTLEMENT DATE | MATURITY DATE | ISSUE AMOUNT EC$M | OVERSUBSCRIPTION AMOUNT ALLOWED EC$M | TENOR (DAYS) | INTEREST RATE CEILING |
|---|---|---|---|---|---|---|---|
| **SERIES A** | | | | | | | |
| GDB190716 | 18 APRIL 2016 | 19 APRIL 2016 | 19 JULY 2016 | 10 | 5 | 91 | 6per cent |
| GDB171016 | 15 JULY 2016 | 18 JULY 2016 | 17 OCTOBER 2016 | 10 | 5 | 91 | 6per cent |
| GDB170117 | 17 OCTOBER 2016 | 18 OCTOBER 2016 | 17 JANUARY 2017 | 10 | 5 | 91 | 6per cent |
| **SERIES B** | | | | | | | |
| GDB110816 | 11 MAY 2016 | 12 MAY 2016 | 11 AUGUST 2016 | 15 | 5 | 91 | 6per cent |
| GDB101116 | 10 AUGUST 2016 | 11 AUGUST 2016 | 10 NOVEMBER 2016 | 15 | 5 | 91 | 6per cent |
| GDB090217 | 9 NOVEMBER 2016 | 10 NOVEMBER 2016 | 9 FEBRUARY 2017 | 15 | 5 | 91 | 6per cent |
| GDB150717 | 14 JULY 2016 | 15 JULY 2016 | 15 JULY 2017 | 30 | 0 | 365 | 6per cent |
| GDB111017 | 10 OCTOBER, 2016 | 11 OCTOBER 2016 | 11 OCTOBER 2017 | 12 | 0 | 365 | 6per cent |
| GDB301117 | 29 NOVEMBER 2016 | 30 NOVEMBER 2016 | 30 NOVEMBER 2017 | 20 | 0 | 365 | 6per cent |

**All ISSUES ON THE MARKET ARE IN EC DOLLARS**

**SUBJECT TO REVISION BASED ON FINANCING METHOD EMPLOYED**

## APPENDIX I[9]: LIST OF LICENSED ECSE MEMBER BROKER DEALERS

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

[9] Revised