# ADDENDUM IV- October 27, 2016

# 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**
**TEL: 473-440-2731**
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**DATE OF PROSPECTUS: JULY 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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## Reasons for Addendum:

**This Addendum serves to adjust the interest rate ceiling and maximum bid price for the auctions scheduled for the 91 day Treasury bills Series A and B for the period November 2016 and for the 365 day treasury bills scheduled to be issued on November 29, 2016 (See table 1 below for new details in bold). In addition the legislative authority was amended to reflect the new 2015 Public Debt Management Act which came into force in August 2016.**

## 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:

91 Day Treasury Bills

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

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

365 Day Treasury Bills

- Thirty (EC$30.0) million in 365 day treasury bills on July 20, 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 5 per 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<br>GDB211016<br>GDB240117 | 18 APRIL 2016<br>21 JULY 2016<br>24 OCTOBER 2016 | 19 APRIL 2016<br>22 JULY 2016<br>25 OCTOBER 2016 | 19 JULY 2016<br>21 OCTOBER 2016<br>24 JANUARY 2017 | 10<br>10<br>10 | 5<br>5<br>5 | 91<br>91<br>91 | 6per cent<br>6per cent<br>6per cent |
| **SERIES B** | | | | | | | |
| GDB180816<br>GDB211116<br>**GDB220217** | 18 MAY 2016<br>19 AUGUST 2016<br>**22 NOVEMBER 2016** | 19 MAY 2016<br>22 AUGUST 2016<br>**23 NOVEMBER 2016** | 18 AUGUST 2016<br>21 NOVEMBER 2016<br>**22 FEBRUARY 2017** | 15<br>15<br>15 | 5<br>5<br>5 | 91<br>91<br>91 | 6per cent<br>6per cent<br>**4per cent** |
| GDB200717 | 20 JULY 2016 | 21 JULY 2016 | 20 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** | **5 per 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. Public Debt Management Act 2015 |
| **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:** | $95.00 (5.00 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 0.8 per cent but declined in 2012 to -1.2 per cent before picking up in 2013 at a rate of 2.4 per cent. In 2009 primarily due to the current global economic crisis Grenada experienced some setbacks and experienced a decline of -6.6 per cent in GDP. The crisis continued in 2010 resulting in a further decline of -0.5 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 million over 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 1st November 2015 to 30th 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 % hair cut, 47% at the conclusion of the discussions in 2014 and the remaining 3% at end 2017 after the final IMF review.

## 9.0 GOVERNMENT FISCAL PERFORMANCE

In June 2014, Grenada entered into an IMF arrangement to facilitate implementation of its Home Grown structural adjustment programme which seeks to: boost job creation, improve fiscal sustainability and improve debt sustainability.

Preliminary estimates for 2016 continue to indicate favorable fiscal performance (see Table 3). At the end of June 2016, the primary balance was recorded at a surplus of $ 81.0m. Moreover, the overall balance in the first half of 2016 has also recorded a surplus of EC$40.1 million or 1.45 per cent of 2016 GDP estimate. 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.[1]

In 2015, Grenada's fiscal position showed a significant turnaround 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 m 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).[2]

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

[2] 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

**Table 3: Grenada Recent Fiscal Performance 2011-2016 (EC$M)**

| | 2011 | 2012 | 2013 | 2014 | 2015 | As at June 2016 |
|---|---|---|---|---|---|---|
| Current Revenue | 425.9 | 425.6 | 443.4 | 502.3 | 571.3 | 325.2 |
| Current Expenditure | 442.0 | 468.0 | 479.2 | 491.4 | 468.9 | 279.4 |
| Primary Balance | -57.2 | -53.4 | -89.6 | -28.4 | 52.4 | 81.0 |
| Capital Expenditure | 163.2 | 108.4 | 160.5 | 226.7 | 220.1 | 42.6 |
| Grants | 70.5 | 23.7 | 31.3 | 100.5 | 78.3 | 34.8 |
| Overall Balance | -108.8 | -127.0 | -164.9 | -115.2 | -39.3 | 40.1 |

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

Grenada's fiscal performance has improved significantly over the period 2011 to 2015 as is evident from the trajectory of the primary balance (Table 3) over the period. The primary deficit deteriorated over the period 2011 to 2013 but recovered from 2014 and reached a surplus in 2015 amounting to $52.4m, 2.4per cent of GDP. This is due to the strong recovery of current revenues over the 2011 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 amounted to $39.3m, -0.94 per cent of GDP in 2015.

Revenues from grants proved to be volatile over the 2011 to 2015 period. In 2011 grant receipts totaled $70.5m, 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 fell slightly to $78.3m in 2015.

Current expenditures amounted to $442.0m, in 2011 and grew annually over the period 2012 to 2014 but fell in 2015 to EC$468.9m due to expenditure control measures implemented as a result of mandatory expenditure rules introduced in the fiscal responsibility legislation that comes into effect from 2016.

Capital expenditure has improved over the 2011 to 2015 period, moving from $151.3m, 7.3per cent of GDP in 2010 to $203.3m, 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 104.0 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) 2009-2016**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | As at June 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Domestic** | 262.4 | 282.2 | 360.7 | 427.5 | 477.9 | 474.5 | 594.37 | **593.56** |
| Treasury bills | 99.7 | 133.5 | 220.3 | 259.4 | 324.4 | 331.1 | 318.25 | **306.45** |
| Bonds | 11.7 | 9.9 | 20.9 | 58.1 | 60.7 | 60.7 | 184.51 | **206.3** |
| Loans | 64.9 | 53.4 | 55.5 | 37.5 | 28.8 | 23.4 | 50.09 | **39.29** |
| Others | 86.1 | 85.4 | 64.0 | 72.5 | 63.9 | 59.3 | 41.52 | **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 | **1,574.69** |
| Bilateral | 207.2 | 173.1 | 168.7 | 95.6 | 199.8 | 199.6 | 193.7 | **253.12** |
| Multilateral | 530.4 | 572.0 | 568.7 | 585.5 | 596.5 | 657.7 | 742.9 | **747.3** |
| Bonds | 721.6 | 721.6 | 721.6 | 721.6 | 721.6 | 721.6 | 596.0 | **568.13** |
| Others | 4.2 | 30.6 | 26.1 | 95.3 | 62.4 | 60.4 | 58.1 | **10.37** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Grand Total | 1,725.8 | 1,779.5 | 1,845.8 | 1,925.03 | 2,058.2 | 2,113.9 | 2,185.1 | **2,172.49** |

***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 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".

The Government commenced domestic debt restructuring in the last quarter of 2015 and has continued to seek debt relief from domestic creditors in 2016. To date it has completed debt restructuring with several local investors which has resulted in an extension of maturities and reduced interest rates.

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 16th 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

**Based on estimates of debt for the first half of 2016, it is evident that public debt is moving on a downward trajectory.**

The Public Debt to GDP ratio fell from 107.1 per cent in 2014 to 104.0 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**

| | 2011 | 2012 | 2013 | 2014 | 2015 | As at June 2016 |
|---|---|---|---|---|---|---|
| Public Sector Debt Stock to GDP (including Government Guarantees) (per cent) | 88.6 | 108.0 | 107.0 | 107.1 | 104.0 | 94.8 |
| Debt Stock to GDP (excluding Government Guarantees) (per cent) | 83.2 | 89.0 | 90.0 | 89.0 | 85.1 | 82.94 |
| Interest payments to Current Revenue (per cent) | 12.1 | 17.3 | 9.2 | 16.5 | 18.5 | 11.9 |

**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.

## 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$97.00M |
| 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$179.18 (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$84.97M (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 |
| GDB211016 | 21 JULY 2016 | 22 JULY 2016 | 21 OCTOBER 2016 | 10 | 5 | 91 | 6per cent |
| GDB240117 | 24 OCTOBER 2016 | 25 OCTOBER 2016 | 24 JANUARY 2017 | 10 | 5 | 91 | 6per cent |
| **SERIES B** | | | | | | | |
| GDB180816 | 18 MAY 2016 | 19 MAY 2016 | 18 AUGUST 2016 | 15 | 5 | 91 | 6per cent |
| GDB211116 | 19 AUGUST 2016 | 22 AUGUST 2016 | 21 NOVEMBER 2016 | 15 | 5 | 91 | 6per cent |
| **GDB220217** | **22 NOVEMBER 2016** | **23 NOVEMBER 2016** | **22 FEBRUARY 2017** | **15** | **5** | **91** | **4per cent** |
| GDB200717 | 20 JULY 2016 | 21 JULY 2016 | 20 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** | **5per cent** |

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

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

## APPENDIX I[3]: 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 |

[3] Revised