# The Government of St. Vincent and the Grenadines

# Medium-Term Debt Strategy 2023-2025

**Ministry of Finance and Economic Planning**
**Cash Debt Investment Management Unit (CDIMU)**

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# 1. Acronyms

| | | | |
|---|---|---|---|
| **AT** | Analytical Tool | **LIBOR** | London Inter -Bank Offer Rate |
| **ATM** | Average Time to Maturity | **MTDS** | Medium-Term Debt Strategy |
| **ATR** | Average Time to Re-fixing | **OPEC** | Organization of Petroleum Exporting Countries |
| **CDB** | Caribbean Development Bank | **PV** | Present Value |
| **CDIMU** | Cash Debt Investment Management Unit | **RGSM** | Regional Government Securities Market |
| **ECCB** | Eastern Caribbean Central Bank | **S1** | Strategy one |
| **ECCU** | Eastern Caribbean Currency Union | **S2** | Strategy two |
| **EXIM** | Export Import Bank of China | **S3** | Strategy three |
| **FX** | Foreign Exchange | **S4** | Strategy four |
| **GDP** | Gross Domestic Product | **SDR** | Special Drawing Rights |
| **GOSVG** | Government of St. Vincent and the Grenadines | **ST FX** | Short-term Foreign Exchange |
| **IBRD** | International Bank for Reconstruction and Development | **SVG** | St. Vincent and the Grenadines |
| **IDA** | International Development Association | **T-Bills** | Treasury Bills |
| **IMF** | International Monetary Fund | **XCD** | Eastern Caribbean Dollars |

## 2. INTRODUCTION

The main objective of the MTDS is to satisfy the government's financing needs at minimum cost with a prudent degree of risk over the medium-term. The scope of the analysis in this MTDS is limited to Central Government's debt. Notwithstanding the foregoing, the stock of debt owed by Public Corporations or State-owned Enterprises (SOEs) with a Government Guarantee is excluded and therefore do not form part of the analysis. However, the monitoring of these explicit contingent liabilities continues to be a major focus of the government's overarching debt management objectives.

The legislative framework for debt management which governs and explicitly authorizes the government to borrow is the Finance Administration Act (FAA) 2004. Annually, a Public Sector Investment Loan Act[1] is assented to, authorizing the Government to raise financing in or out of the country on the best and most favorable terms that can be obtained to assist with Public Sector Investment Programmes. The maximum financing to be raised in 2023 under this act amounts to $135.0 million. The Treasury Bills Act Cap 444 governing the issuance of Treasury Bills with section 3 (4) of the Act stipulating that the principal sum of T-bills outstanding at any one time, shall not exceed 15.0 percent of the estimated annual revenue of St. Vincent and the Grenadines for the current financial year. The estimated revenue for 2023, 2024 and 2025 is $756.22, $849.85 and $885.67 million respectively with outstanding T. Bills amounting to $84.0 million. The CDB Loans Act covers all loans borrowed from the CDB, borrowing from the World Bank and the IMF is governed by the International Financial Organizations Act. Similar acts authorize borrowing from other creditors. There is no act that limits the amount that can be

[1] PSIL Act No.26 of 22 authorized borrowing for the fiscal year 2023

borrowed by the government but the Overdraft Resolution 2023[2] sets a limit on the overdraft facility.

The Fiscal Responsibility Framework published in the Government Gazette on the 7th January 2020 reinforces the GOSVG commitment to maintaining strong macroeconomic fundamentals by continuing to implement sound fiscal policies and reducing the debt-to-GDP ratio to a prudential level within the overall macro-economic context of financial stability, growth, competitiveness and equity. It has further committed, that the long-term debt and fiscal rule is to reduce public debt to no more than sixty (60) percent of GDP by 2035. The primary balance rule during the period 2021 - 2024 is to achieve primary deficits on average of 1.2 percent of GDP annually due to the implementation of the Port Modernisation Project which would account for approximately 20.7 percent of GDP. From 2024 onwards, the fiscal rule for the primarily balance is to target an improvement in the primary balance to a surplus of 2.7 percent of GDP.[3]

As at 31st December 2022, the total domestic debt amounted to $601.3 million, total external debt amounted to $1,659 million respectively. Total Central Government debt amounted to $2,221.8 million, which represented 83.2 percent of GDP. Domestic and External debt representing 21.6 percent and 61.6 percent respectively. The main risks facing the current debt portfolio continue to be refinancing and interest rate risks, while exposure to exchange rate risk remains low.

Preliminary macroeconomic data for 2022 indicated that economic activity is estimated to have grown by 5.7 percent mainly influenced by developments in the Construction, Wholesale & Retail Trade and Tourism sectors. Preliminary data for 2023 indicates that real output growth is estimated at 5.9 percent.

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[2] The Overdraft Resolution, approved in the House of Assembly on 13 December, 2022, sets a limit to an amount not exceeding $50.0 million

[3] This primary balance rule was approved in the MTFF 2020-2025

Over the medium term, real economic activity is projected to grow at an average 4.0 percent per annum. This outlook is expected to be supported mainly by buoyant economic activity in the Agriculture & Fishing, Construction, Tourism and Transportation & Storage sectors. Growth in the Wholesale & Retail and Manufacturing sectors, is also expected to contribute to the outlook.

The analysis of the MTDS output revealed that under all of the strategies modelled, it reflected an increase in the following: nominal debt as a percentage of GDP; interest cost as measured by interest payment as a percent of GDP as well as the implied interest rate. All strategies showed improvements in some indicators such as debt maturing in one year as a percent of the total, the ATM total portfolio (years) and ST FX debt as a percent of reserves. All other indicators resulted in mixed outturn based on the strategy being modelled. Nevertheless, S3 however was the strategy that produced the best results.

All of the alternative financing strategies modelled, namely S2, S3 and S4 incorporated the withdrawal of treasury bill issuance from the market as a way of improving the domestic ATM. Notwithstanding this, in order to prevent or limit a shock to the regional market by a complete withdrawal of all treasury bills, a gradual reduction would be recommended as modelled by (S2). S2 can be considered a more conservative strategy as it relates to the gradual reduction in treasury bills offered to the market as well as in the level of expected external disbursements. The chosen strategy requires a reduce reliance on short-term financing and the discipline to adhere to same. It also assumes that the market would respond positively to the increase issuance of securities in the form of notes and bonds by the government. The results of the strategy can improve if the level of external disbursements outperforms what was modelled.

The remainder of this MTDS document is organized as follows: Section (III) provides an analysis of the implementation of the 2022 Medium-Term Debt Management Strategy; Section (IV) outlines the profile of the existing debt portfolio for 2022. Section (V) presents an overview of the Macro-economy over the medium-term. Section (VI) provides an analysis of the Medium-Term Debt Strategy (2023 - 2025). Section (VII) presents the output of the World bank/IMF Analytical Toolkit. Section (VIII) presents the indicative borrowing plan over the medium-term based on the chosen strategy. The document then concludes with section (IX), followed by the attached appendices on selected debt indicators for the period 2012 - 2022

## 3. The implementation of the 2022 Medium Term Debt Management Strategy

The strategy of choice for the last annual update of the MTDS review done in fiscal year 2022 proposed a continuation of the current borrowing practices with a target for external and domestic financing mix of 60:40 respectively. External financing was more predominantly utilized in 2022. Disbursements were derived primarily from multilateral creditors (76.0 percent) with bilateral financing as the preferred source of the remaining external financing needs.

The majority of domestic financing was raised by the issuance of securities with emphasis placed on instruments with tenor of at least 7 years, thereby achieving the aim of lengthening the domestic ATM. The overdraft was to be maintained within its limit as it was envisaged that less reliance would be placed on its utilization and treasury bills were to be kept constant at $84.0 million. There was to be no commercial borrowing but financing accessed from the ECCB was to be higher than the previous period.

The table below presents the projected outturn of the chosen strategy and compared with the actual outturn for 2022.

| | 2022 | | |
|---|---|---|---|
| | Actual | Forecasted | |
| | XCD $million | | Variance |
| **Gross Financing Needs** | **560.8** | **539.3** | **4.0%** |
| | | | - |
| **Borrowing plan** | | | - |
| | | | - |
| **External Borrowing** | | | - |
| Multilateral loans | 182.9 | 192.0 | -4.8% |
| Bilateral loans | 48.3 | 26.9 | 79.2% |
| Commercial loans | 0.0 | 0.0 | 0.0% |

| | | | |
|---|---|---|---|
| **Total foreign currency borrowing** | **231.1** | **219.0** | **5.6%** |
| | | | - |
| **Domestic Borrowing** | | | - |
| **Loans** | | | - |
| Short term, including overdraft | 161.7 | 107.3 | 50.7% |
| Medium/long term | | - | - |
| **Securities** | | | - |
| Treasury bills (change in stock) | 0.0 | **0.0** | - |
| Treasury notes and bonds | 154.7 | 129.1 | 19.9% |
| 3 year | 22.5 | 11.5 | 95.8% |
| 5 year | 73.3 | 48.9 | 49.9% |
| 10 year | 83.9 | 68.7 | 22.1% |
| **Total local currency borrowing** | **270.6** | **236.4** | **14.5%** |
| | | | - |
| **Total borrowing** | **476.8** | **455.3** | **4.7%** |
| **add treasury bill re-issuance** | **84.0** | **84.0** | **0.0%** |
| **Total Gross Financing Needs** | **560.8** | **539.3** | **4.0%** |

The actual financing mix for 2022 mirrored the forecast. Financing was in the ratio of 60:40 (external: domestic) but the financing needs was higher by 4.0 percent. The second largest capital project:- the Port Modernization project commenced significant activity in 2022 after experiencing delays due to unforeseen circumstances resulting from the effects of the COVID-19 pandemic and the explosive eruptions of the La Soufriere Volcano. The port project accounted for $106.4 million in disbursements in 2022 with funding predominantly from the CDB and the EXIM-bank. The external portfolio received funding solely through Multilateral (79.3 percent) and Bilateral (20.7 percent). Disbursements from the EXIM-bank doubled to reach 50.1 percent of what was forecasted as a result of new borrowings related the port project via a supplementary bridging loan during the year. This financing facility was needed to cushion the inflationary impacts resulted from the knock-on-effects brought about by the Russian-Ukraine war which caused the cost of building the port to increase. Disbursements on this new loan represented 58.9 percent of total EXIM-bank disbursements. Multilateral disbursements fell short of forecast by 4.8 percent mainly due to the actual disbursements on the port from CDB being less than forecasted.

On the domestic portfolio front, anticipated financing raised by the issuance of securities surpassed its projected amount by 20.0 percent. Medium to long-term securities ranging from tenors of 5 years and above accounted for 47.4 percent and 38.1 percent respectively and short-term instruments of less than five years accounted for the remaining 14.5 percent.

Domestic short-term debt had an adverse variance from what was forecasted by 50.7 percent. The major contributor was the actual accounts payables being significantly higher. The Overdraft was within its limit as at December 31, 2022. However, on average, the overdraft deviated from its limit by $10.0 million per month during 2022.

| Risk Indicators | | Target | S1 Forecast | 2022 Actual | 2021 Actual |
|---|---|---|---|---|---|
| Nominal debt as % of GDP | | | 92.4 | 83.3 | 83.6 |
| Present value debt as % of GDP | | | 75.0 | 67.9 | 68.7 |
| Interest payment as % of GDP | | 2.1 | 2.8 | 2.4 | 2.7 |
| Refinancing Risk | Debt maturing in 1yr (% of total) | | 12.7 | 18.1 | 18.6 |
| | Debt maturing in 1yr (% of GDP) | | 11.7 | 15.1 | 15.6 |
| | ATM External Portfolio (years) | | 14.3 | 13.6 | 13.5 |
| | ATM Domestic Portfolio (years) | | 2.6 | 3.0 | 3.3 |
| | ATM Total Portfolio (years) | >7.0 | 10.9 | 9.8 | 9.8 |
| Interest Rate Risk | ATR (years) | >5.5 | 9.7 | 8.6 | 8.9 |
| | Debt re-fixing in 1yr (% of total) | | 26.4 | 32.4 | 31.4 |
| | Fixed rate debt (% of total) | | 91.1 | 84.2 | 85.5 |
| FX Risk | Non-XCD and USD debt as % of total | | 26.7 | 12.3 | 19.8 |
| | ST FX debt as % of reserves | | 11.7 | 14.4 | 16.3 |

Despite an increase in the stock of Central Government debt from $1.965 billion in 2021 to $2.221 billion in 2022, in terms of its relative share of GDP it remained fairly constant at around 83.0 percent. The portfolio registered a marginal improvement in the interest payment as a percent of GDP reaching 2.4 percent. There was also a modest decline in debt maturing in one year which fell from 18.6 percent to 18.1 percent. The ATM of the total portfolio remained unchanged. However, there was a slight improvement in the ratio of short-term fixed rated debt as a percent of reserves falling from 16.3 percent to

14.4 percent. The ATR, which represents debt re-fixing in one year and fixed rate debt as a percent of the total have slightly worsened from their 2021 position.

# 4. PROFILE OF CENTRAL GOVERNMENT DEBT PORTFOLIO 2022

Total Central Government debt at the end of 2022 was $2.221 billion and increase of 13.0 percent from $1.965 billion in 2021. External debt represented $1.429 billion, 53.5 percent of GDP and 64.3 percent of total debt, with domestic debt accounting for the remaining $792.1 million, or 29.7 percent of GDP and 35.7 percent of total debt respectively. The classification of the debt for the MTDS analysis is based on the currency criterion and not by residency/ownership. As such, all domestic debt is denominated in XCD (local currency). Loans comprised 71.6 percent of the overall portfolio ($1.589.2 billion), securities excluding treasury bills 18.3 percent ($407.7 million) and short-term obligations including treasury bills 10.1 percent ($224.1 million). The major external creditors are the World Bank; Caribbean Development Bank; and the Republic of China (on Taiwan). The major domestic creditor comprised of securities holders.

In 2022, total securities issued amounted to $154.7 million. Tenors on these instruments ranged from three (3) to fifteen (15) years. A fifteen year debenture bond was issued to the ECCB with an interest rate of 2.0 percent and a two-year grace period. Two other securities issued at an interest rate of 2.0 percent to two IADC land owners as settlement for outstanding payments for lands acquired during the building of the international airport at Argyle. Securities issued to the market however were medium to long-term in nature, with tenors of five, six and seven years being offered. The exception was the issuance of a three-year note and a fifteen year ECCB debenture bond.

Sinking Fund contributions for the repayment of bullet bonds amounted to $6.0 million. However, no bullet bond or note was redeem/payable from the Fund in 2022 given that there was no maturity due. Twelve treasury bills were issued with an average interest rate of 2.0 percent versus 2.6 percent for the previous period. Within the external portfolio, 71.9 percent of the outstanding debt is denominated in USD, 15.8 percent in XCD, 11.3 percent in XDR, 0.95 percent in Kuwaiti Dinars with the remaining 0.5 percent in Euro and TT dollars. As such, the portfolio's foreign exchange risk remains relatively low.

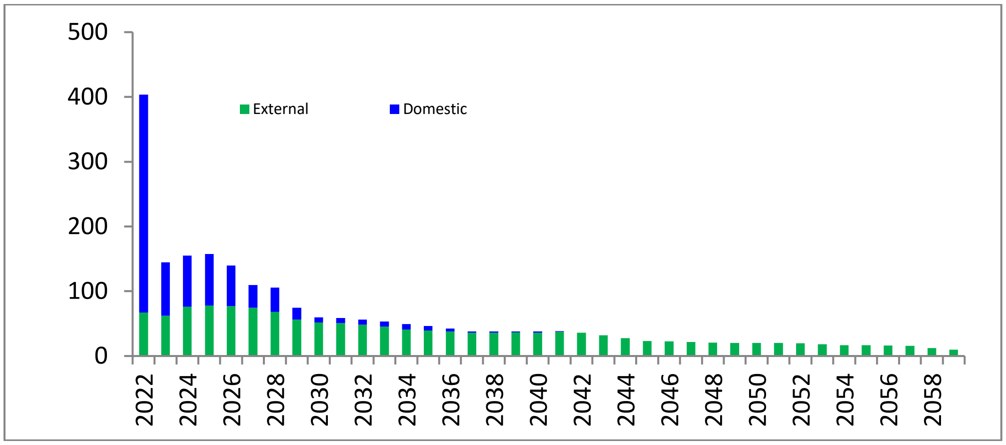
The interest rate composition is made up of 84.2 percent in fixed rate debt ($1,873.0 million) and 15.8 percent variable rate debt ($351.0 million). External fixed rate debt stood at $1,079.7 million with all domestic debt being fixed rate denominated. Loans with floating rate were all external and mainly contracted from multilateral creditors with the remaining portion from international commercial banks such as MEGA and EXIM and the Kuwait Fund for International Development. In general, the interest rate risk exposure to debt portfolio can be classified as moderate.

### 4.1 Redemption Profile of 2022 Debt Portfolio

Figure 1 depicts the maturity profile of the forecasted principal repayments of the Central Government's debt portfolio. It shows that the external redemption profile remains relatively smooth until it is fully repaid in 2060. The domestic redemption profile has 42.4 percent of debt maturing in 2022 comprised of short-term instruments[4] amounting to $336.3 million of the total domestic debt due for repayment. From 2022 - 2026, 80.9 percent of the domestic debt is due to be repaid, with all debt being repaid by 2041. Spikes in repayment in 2024 and 2025 are the result of bullet bonds due and the final payment of maturing amortized bonds in the given year.

[4] Short term instruments (i.e less than 1 year old) consist of Accounts Payables, Treasury Bills, Insurance Deposits and the Overdraft

**1: Redemption Profile of the Debt Portfolio as at Dec 31, 2022**




Source: MTDS Analytical Toolkit

## 4.2 Risk Analysis of 2022 Debt Portfolio

The ratio of nominal debt/GDP at the end of 2022 stood at 83.3 percent, a marginal reduction over the 2021 ratio which was 83.6 percent. This ratio also performed better than the chosen strategy forecast of 92.4 percent. The ATM of the external portfolio also saw a marginal increase from 13.5 years to 13.6 years. All other risk indicators showed a slight deterioration when compared to those recorded at the end of 2021. The portfolio's ATR, which measures the exposure of the portfolio to changes in interest rate went from 8.9 years to 8.6 years, with domestic ATM moving from 3.3 years to 3.0 years. There was an increase in the debt that is to be refixed in the short-term from 31.4 percent to 32.4 percent with a decrease in fixed rate debt from 85.5 percent to 84.2 percent. Similarly, the portfolio's refinancing risk indicators which measures the portfolio's exposure to rollover or refinancing risk for maturing debt obligations all showed that the expected outturns were not achieved. The ATM of the total portfolio however remained unchanged at 9.8 years with debt maturing in one year decreasing from 18.6 percent to 18.1 percent. When the risk of exchange rate is taken into consideration as a measurement of the exposure of the portfolio to changes in currency fluctuations, this risk is relatively low due to the high concentration of central government's foreign currency debt denominated in USD. It is premised on the fact that the XCD has been pegged to the USD since 1976 under a fixed exchange rate regime. Accordingly, there is no reason to believe that in the medium-term the portfolio will be susceptible to changes in exchange rate against the USD. Additionally, the short-term external debt as a percent of foreign exchange reserves has decreased from 16.3 percent to 14.4 percent.

In respect to debt service as reflected by the cost of debt, as measured by interest payment as a percent of GDP, the portfolio total cost decreased from 2.7 percent to 2.6 percent.

**Figure 2: Central Government Existing Debt Portfolio and Risk Indicators**

| 2022 | | | | |
|---|---|---|---|---|
| Central Government Existing Debt Portfolio and Risk Indicators | | **External debt** | **Domestic debt** | **Total debt** |
| Amount (in millions of XCD) | | 1,429.7 | 792.1 | 2,221.8 |
| Amount (in millions of USD) | | 530.0 | 293.8 | 823.9 |
| Nominal debt as % GDP | | 53.5 | 29.7 | 83.3 |
| PV as % of GDP | | 38.2 | 29.7 | 67.9 |
| Cost of debt | Interest payment as % GDP | 1.2 | 1.4 | 2.6 |
| | Weighted Av. IR (%) | 2.1 | 4.4 | 2.9 |
| Refinancing risk | ATM (years) | 13.6 | 3.0 | 9.8 |
| | Debt maturing in 1yr (% of total) | 4.7 | 42.4 | 18.1 |
| | Debt maturing in 1yr (% of GDP) | 2.7 | 13.5 | 16.1 |
| Interest rate risk | ATR (years) | 11.8 | 3.0 | 8.6 |
| | Debt refixing in 1yr (% of total) | 26.8 | 42.4 | 32.4 |
| | Fixed rate debt (% of total) | | 100.0 | 84.2 |
| FX risk | Non XCD & USD debt (% of total debt) | | | 19.8 |
| | ST FX debt (% of reserves) | | | 14.4 |

Source: CDIMU, Ministry of Finance

# 5. Macroeconomic Overview

The MTDS was developed within the context of the medium-term fiscal projections, the level of development of the domestic debt market and the macroeconomic developments. Preliminary data for 2022 indicates a 5.7 percent growth in real output. The growth in real economic activity compares favourably with the 0.8 percent recorded for 2021 and was influenced mainly by developments in the Construction, Wholesale & Retail Trade and Tourism sectors. Growth in the Construction sector was partly attributable to the increased construction activity related to the continued rehabilitation and reconstruction activity post the April 2021 volcanic eruptions, ongoing hotel construction and the Port Modernization Project. Meanwhile, the Wholesale and Retail Trade sector benefitted from higher levels of merchandise imports during the period and the Tourism sector increased mainly on account of a significant rise in stayover visitors as a result of further relaxed travel protocols, the reopening of borders and the increase in international flights.

The economic outlook for St. Vincent and the Grenadines is positive, and reflects improved prospects following the resumption of international trade and growth in the advanced economies including the major trading partners of the USA, UK and Canada. Early indications are for real output growth of 5.9 percent, in 2023. The robust increase in economic activity is anticipated on account of strong growth in most sectors, particularly Construction, Agriculture, Transportation and Storage, Wholesale & Retail Trade, and Tourism.

Over the medium term, real economic activity is projected to grow at an average 4.0 percent per annum. This outlook is expected to be supported mainly by buoyant economic activity in the Agriculture & Fishing, Construction, Tourism and Transportation & Storage sectors. Growth in the Wholesale & Retail and Manufacturing sectors, is also expected to contribute to the outlook. Strong growth is also projected in the Agriculture Sector, averaging 11.6 percent over the medium term. The crops subsector is forecasted to grow at approximately 17.3 percent per annum with on-going initiatives aimed at reducing the food importation bill. Moreover, the impact of the post-eruption production support to the crops sub-sector is expected to be felt. Growth in the fishing sub-sector is anticipated to increase in the medium term given the government's fleet expansion initiative and the growth in the operations of Rainforest Seafood SVG Ltd and the significant increase in the number of Fish Aggregating Devices being installed.

Value added in the Construction Sector is forecasted to increase throughout the medium term at an average of 4.2 percent annually. This growth is anticipated with the construction of the Port Modernization Project and investments in hotels to boost the tourism sector. In addition, a number of other projects in the PSIP pipeline, including the construction of secondary, village and feeder roads, volcano-related reconstruction expenditure and investment in climate resilient infrastructure are expected to contribute to growth in the sector. Further, construction of the Acute Referral Hospital which is expected to enhance the healthcare sector is expected to contribute to the growth outlook. Growth averaging 9.3 percent per annum over the medium term is projected for the Tourism Sector. It is anticipated that stay over visitors will increase substantially during the medium term given the discontinuation of COVID-19 restrictions and the resurgence of travel. Furthermore, the completion and opening of hotels currently under construction, as well as continued increases in scheduled International flights over the period support this outlook. In 2024, Cruise & Yacht tourism are expected to grow well above 2023 levels (by approximately 249,000 and 64,000 visitors respectively) as arrivals are projected to approach and surpass pre-pandemic levels in the medium term. Stay-over arrivals are expected to return to trend by 2024 with the significant increase in the hotel room stock as hotels such as Sandals Resort and Holiday Inn are projected to open within the medium term.

Growth in the Wholesale and Retail Trade sector is expected to increase at an average of 6.2 percent per annum based on the anticipated improvement in domestic economic activity. The manufacturing sector is also projected to grow, at an average of 3.2 percent, over the medium term. This is mainly on account of the various planned investments aimed at bolstering capacity and increased consumer spending fueled by a more buoyant economy.

On the fiscal front, the overall deficit is anticipated to increase from $244.92 million (or 9.9 percent of GDP) in 2022 to $267.85 million (or 10.0 percent of GDP) in 2023. Similarly, the primary deficit is expected to move from $169.41 million (6.8 percent of GDP) to $183.39 million (6.7 percent of GDP). In 2024, the overall deficit is expected to worsen (to $374.79 million or 13.0 percent of GDP) as the majority of spending on some important projects are expected to be undertaken; these include the Port Redevelopment Project, the Acute Care Hospital, The Volcano Eruption Emergency Project, the Digital Transformation and a couple of hotel projects. After 2024, it is anticipated that the overall deficit will improve consistently with revenue growth and lower levels of expenditure on capital projects.

# 6. MEDIUM TERM DEBT STRATEGY 2023-2025

The objective of this MTDS is to determine the most appropriate borrowing strategy for the government with respect to the cost and risk trade-offs. The formulated strategies continually seek to address the portfolio's risks as cost effective as possible with past adopted strategies resulting in favourable improvements over the past few years.

## 6.1 Macro-Economic Assumptions

**Table 1: Macro Economic Assumptions 2023-2025**

| | 2022 Actuals | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| | | XCD $ Million | | |
| **Revenues and grants** | 739.3 | 831.1 | 875 | 861.1 |
| **Total primary expenditures** | 915.3 | 888 | 1,159.10 | 1,122.20 |
| **Total expenditures** | 975.5 | 1,243.20 | 1,474.10 | 1,273.60 |
| **Total interest expenditure** | 60.2 | 78.7 | 80.7 | 82.2 |
| **International reserves (USD million)** | 172 | 183.5 | 202.1 | 219.1 |
| **GDP at market prices** | 2,497.90 | 2,727.60 | 3,000.10 | 3,168.10 |

## 6.2 Creditor's Financing Terms

**Table 2: Creditor's Financing Terms**

| Creditor | Creditor Category/ Instrument | Interest Rate | Avg Maturity (yrs) | Grace (yrs) | Currency |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| IDA/IBRD | Multilateral | Fixed | 40 | 6 | XDR |
| **CDB** | Multilateral | Fixed | 20-30 | 5 | USD |
| **CDB** | Multilateral | Variable | 20-25 | 5 | USD/EURO |
| **OPEC** | Bilateral | Fixed | 20 | 5 | USD |
| **EXIM** | Bilateral | Floating | 20 | 5 | USD |
| **Kuwait** | Bilateral | Fixed | 20 | 4 | KWD |
| **BOSVG/NIS** | Domestic Commercial | Fixed | 10 | 0 | XCD |
| **10 yr Bond** | 7, 8 &10 yr Bond | Fixed | 8.3 | 0 | XCD |
| **5 yr Bond** | 5 & 6 yr Bond | Fixed | 5.5 | 0 | XCD |
| **3 yr Note** | 3 & 4 yr Note | Fixed | 3.5 | 0 | XCD |
| **Insurance Deposits,** | Insurance Deposits, | Fixed | 1 | 0 | XCD |
| **Accounts Payables,** | Accounts Payables, | Nil | | | XCD |
| **Overdraft, T.Bills, ECCB Advance** | Overdraft, T.Bills, ECCB Advance | Fixed | 1 | 0 | XCD |

## 6.3 Baseline Pricing Assumptions

**Table 3: Baseline Pricing Assumptions**

| Source of Financing | Interest Rates | Interest Rate Type |
|---|---|---|
| **Commercial** | 6.5 - 8.5 | Fixed |
| **CDB/IDA** | 0.75 - 2.5 | Fixed |
| **CDB/IBRD** | 1.0 - 4.8 | Floating |
| **Bilateral** | 2.0 - 6.0 | Fixed |
| **T-Bills** | 3.5 | Fixed |
| **Bonds(3y/5y/7y)** | 3.25/5.7/6.0 | Fixed |
| **Bonds(8y/10y)** | 6.75/7.25 | Fixed |
| **ECCB** | 2.0 | Fixed |
| **Overdraft** | 8.0 | Fixed |

## 6.4 Shock Assumptions

**Table 4: Shock Assumptions**

| Type | Moderate | Extreme |
|---|---|---|
| **Interest rate shock** | 2% ↑ | 4% ↑ |
| **Exchange rate** | 15% ↓ (XCD v XDR) | 30% ↓(XCD v XDR) |

## 6.5 Targets for Key Central Government Risk Indicators

| Risk Indicators | 5 years ago (2017) | Current (2022) | Target (2025) |
|---|---|---|---|
| **Interest Payment as a % of GDP** | 2.4 | 2.6 | <=2.5 |
| **Debt maturing in 1 yr (% of total)** | 21.9 | 18.1 | <=16.1 |
| **ATM Total Portfolio (years)** | 5.5 | 9.8 | >=10.0 |
| **ATR (years)** | 4.0 | 8.6 | >=9.0 |
| Non XCD and USD **debt as % of total** | 8.9 | 9.9 | <=10.0 |

An analysis of the results from the various MTDS showed that steady improvements have been realized by the portfolio over a five-year comparative period from the implementation of the recommended strategies and the continuous efforts to balance the cost and risk trade-offs. Despite the positive results, central government debt levels over this period have increased due mainly to the response as a result of numerous exogenous shocks that necessitated additional new borrowings. In spite of this, interest payment as a percent of GDP has increased marginally over the period and the risks to the portfolio have declined as measured by the respective indicators.

Underpinning all of the proposed medium-term debt strategies were the following objectives:

i. To reduce short-term debt obligations aimed at lowering debt maturing in one year as a percent of total debt. There has been an improvement from 2017 of 21.9 percent to 18.1 percent in 2022.

ii. To access more multilateral concessional borrowings and issue longer tenor securities to lengthen the maturity profile of the debt in an effort to reduce refinancing risk, as measured by the ATM. The results have shown a steady improvement, moving from 5.5 years in 2017 to 9.8 years in 2022.

iii. To reduce borrowings contracted with floating interest rates to mitigate against interest rate risk as measured by the ATR. This indicator has improved from 4.0 years in 2017 to 8.6 years in 2022. And,

iv. To undertake new borrowings as much as possible in local currency or US Dollars, to which the EC Dollar is pegged to manage foreign currency risk, which is measured by debt not denominated in local currency or USD.

### 6.6 Propose Strategies 2023-25

As shown in the key risk indicators table above, the portfolio has made improvements based on the results generated from the borrowing strategies adopted and implemented using the MTDS analytical toolkit. The portfolio has seen beneficial results from the implementation of the past chosen strategies. However, it is noteworthy to mention that the domestic debt portfolio continues to be exposed to an elevated level of both interest rate and refinancing risk as evidenced by the low ATR and ATM (see figure 2).

Short-term financial instruments such as the overdraft facility; treasury bills; and the ECCB advance are the domestic instruments in the portfolio which attract a positive interest rate and contribute significantly to the downward bias in both the ATR and ATM. The other instruments such as the insurance deposits and account payables attract an interest rate of zero.

For the 2023 - 2025 MTDS, the following strategies, with the exception of Strategy One (that is, status quo) and Strategy Four are crafted to target the shortcomings in the domestic debt portfolio. However, given the medium-term which is fast approaching, it may be too soon to see any appreciable/meaningful improvement in the aforementioned risk indicators. As such, the strategies will require a longer timeframe to be implemented in order to see improve results and may have to be repeated as needs be. Additionally, the cost and risk trade-offs cannot be ignored, as in order to reduce risk to the domestic portfolio it will necessitate an increase in cost.

Given the foregoing, the description of these strategies are presented below and they are crafted taking into consideration the following constraints such as the domestic portfolio has limited instrument types; limited size of the investor base; the government's commitment to the development of the RGSM through the frequent issuance of monthly treasury bills; and the need to improve cash management. These constraints in and of themselves also speak to the limited options within the domestic portfolio in which to craft plausible strategies. Constraints also exist within the external portfolio as well, given the quantum of committed undisbursed funds from multilateral and bilateral creditors and that the existing instrument type in this portfolio is limited to only loans.

| Strategy | Objective |
|---|---|
| **S1** | Status Quo: reflects a continuation of the current borrowing practices. External disbursements are from multilateral and bilateral creditors and assumes project disbursements funded by these sources would continue as forecast. Domestic financing is anticipated to raise $135.0 m in securities. Residual financing is to be met by using domestic short-term financing instruments. |
| **S2** | External disbursements are sourced from multilateral and bilateral creditors and assumes a more conservative disbursement of funds forecast for 2024 (70 percent). Short-term debt reduction to include zero short-term borrowing of one year or less, a reduction in outstanding treasury bills by the retirement of one treasury bill per quarter (4 per year) and keeping the overdraft facility within its limit each year. Residual financing to be met by an increase in bonds and notes issued as well as via raising domestic commercial loans facilities. |
| **S3** | Satisfy the government's commitment to the development of the domestic market through the issuance of securities only (no treasury bills issuances), the replacement of the ECCB advance, with a commercial loan, securities issued with tenors of three years and above with external committed disbursements continuing as forecast with residual financing to be met by a mix of multilateral (primarily) and bilateral financing. |
| **S4** | Mitigation of floating rate risk on external instruments by swapping-out for fixed rate external and domestic instruments. A gradual but sizeable reduction in major domestic short-term instruments (accounts payables; overdraft facility; the ECCB advance etc). Additionally, one treasury bill will be retired. |

# 7. Analysis of Output from Toolkit

The table below shows the output from the AT with respect to the risk indicators at the end of 2025 for the four strategies analysed.

Table 5: Risk Indicators

| | | 2022 | As at end 2025 | | | |
|---|---|---|---|---|---|---|
| | | Current | S1 | S2 | S3 | S4 |
| Nominal debt as % of GDP | | 83.3 | 110.03 | 110.03 | 110.03 | 110.03 |
| Present value debt as % of GDP | | 67.9 | 92.25 | 92.13 | 91.72 | 91.74 |
| Interest payment as % of GDP | | 2.64 | 3.41 | 3.38 | 3.40 | 3.31 |
| Implied interest rate (%) | | 2.93 | 3.35 | 3.31 | 3.34 | 3.25 |
| Refinancing risk | Debt maturing in 1yr (% of total) | 18.13 | 13.93 | 11.58 | 11.38 | 14.41 |
| | Debt maturing in 1yr (% of GDP) | 16.38 | 15.33 | 12.74 | 12.52 | 15.86 |
| | ATM External Portfolio (years) | 13.57 | 13.17 | 13.30 | 13.34 | 13.34 |
| | ATM Domestic Portfolio (years) | 2.98 | 2.35 | 2.59 | 2.56 | 2.35 |
| | ATM Total Portfolio (years) | 9.79 | 10.32 | 10.29 | 10.46 | 10.15 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate risk | ATR (years) | 8.62 | 8.49 | 8.56 | 8.78 | 8.84 |
| | Debt re-fixing in 1yr (% of total) | 32.39 | 33.97 | 30.65 | 30.01 | 29.54 |
| | Fixed rate debt (% of total) | 84.21 | 79.04 | 80.00 | 80.44 | 83.94 |
| FX risk | Non XCD and USD debt as % of total | 19.80 | 32.47 | 21.91 | 21.91 | 21.91 |
| | ST FX debt as % of reserves | 14.43 | 13.18 | 13.18 | 13.18 | 13.18 |

Source: CDIMU, Ministry of Finance

To meet the gross financing needs of the government, all of the strategies modelled resulted in an increase in the debt to GDP ratio to around 110 percent. Foreign currency risk as measured by non XCD and USD debt as a percent of total debt also increased. Cost indicators such as the interest payment as a percent of GDP and the implied interest rate also increased under all of the proposed strategies with S4 performing the best of all the strategies, achieving the lowest costs (3.31 percent and 3.25 percent respectively). With regards to refinancing risk as measured by debt maturing in one year, there was a reduction across all strategies with S3 having the lowest proportion of debt due to mature (11.4 percent). The ATM of the total portfolio also improved from 9.78 to 10.46 years respectively (the highest under Strategy 3).

However, no strategy was able to improve the domestic ATM. This reflects a continuous reliance/dependency on short-term instruments in the domestic portfolio, for example the rolling-over of treasury bills; ECCB Advance; and the use of overdraft facility. To address this, it would require a strong commitment and discipline to swap-out the aforementioned instruments for longer term ones in order to effect changes in the domestic ATM. Despite the above, S2 yielded the best ATM of 2.59 years. Interest rate risk as measured by the ATR, improved under S3 and S4 as well as debt re-fixing in one year. S4 performed the best for both indicators with 8.84 years and 29.5 percent respectively. Fixed rate debt turned out the best performance under strategy 4, as this involved swapping-out floating rate debt for fixed rate debt. Overall, strategy S3 performed the best.

The results of targeting a reduction in the level of short-term debt in the portfolio are highlighted as follows:

- The best outturn is achieved when the assumption is made that an aggressive strategy under S3 and the discontinuation of all treasury bill issuances. This is deemed as an ambitious strategy once the financing to do so is available, as treasury bills do not generate any actual new financing. However, there is a cost attached to each re-issue that is borne by the government as part of facilitating the continued development of the RGSM. Nevertheless, the recommended strategy is that the quantum of bills issued to the market be gradually reduce and replace by increased issuance of notes and bonds once the appetite exists (that is, via strategy, S2).

Additionally, there is an important need to improve cash management operations in order to maintain the overdraft facility within prudent limit, as well as to manage the accounts payables. Further policy actions are needed to improve project implementation rates to ensure committed external financing are disbursed in a timely manner barring any unforeseen events. The cost associated with implementing S2 is higher, but it is also immaterially different from that of any other strategy. Benefits would be realised on the debt maturing and re-fixing in one year and on the ATM of the total portfolio. The average financing mix for S2 is expected to be 49:51 (external: domestic) with the gross financing needs and external financing increasing in 2024 then reducing in 2025.

Given the above analysis, the recommended strategy is S2. However, in the light of the limitations posed above, failure to implement S2 would necessitate a default to the status quo (S1) as the chosen borrowing strategy.

# 8. INDICATIVE BORROWING PLAN

| | 2023 | 2024 | 2025 |
|---|---|---|---|
| | | XCD $million | |
| **Gross Financing Needs** | **679.86** | **801.64** | **606.27** |
| | | | |
| **Borrowing plan** | | | |
| | | | |
| **External Borrowing** | | | |
| Multilateral loans | 227.35 | 276.14 | 150.48 |
| Bilateral loans | 97.08 | 135.93 | 142.06 |
| Commercial Loans | - | - | - |
| **Total foreign currency borrowing** | **324.43** | **412.07** | **292.54** |
| | | | |
| **Domestic Borrowing** | | | |
| **Loans** | | | |
| Short term, including overdraft | 157.42 | 148.58 | 119.03 |
| Medium/long term | 11.00 | 50.00 | 16.69 |
| **Securities** | | | |
| Treasury bills (change in stock) | **-** | **(28.00)** | **(28.00)** |
| Treasury notes and bonds | 103.02 | 135.00 | 150.00 |
| 3 year | 23.00 | 40.00 | 45.00 |
| 5 year | *30.01* | *50.00* | *55.00* |
| 10 year | *50.01* | *45.00* | *50.00* |
| **Total local currency borrowing** | **271.43** | **333.58** | **285.72** |
| | | | |
| **Total borrowing** | | | |
| **add treasury bill re-issuance** | **84.00** | **56.00** | **28.00** |
| **Total Gross Financing Needs** | **679.86** | **801.64** | **606.27** |

The Annual Borrowing Plan is developed according to the Government's financing requirements for medium-term based on the implementation of the recommended strategy. It provides details on how the government is going to fund its spending needs by sources of funds (external versus domestic debt).

The main expected sources of external financing will come from multilateral institutions such as CDB and World Bank, IDA. Bilateral financing is expected primarily from EXIM-bank and Kuwait which would involve the utilization of funds from committed undisbursed monies that are largely denominated in USD. Domestic financing is expected from securities issuance which would increase yearly over the medium-term. It is envisaged that there will be a reduced reliance on the use of short-term instruments and a reduction in treasury bills issued to the market. The utilization of commercial loans is to be tapped into to assist with the reduction in the use of domestic short-term instruments over the period. Any additional financing shortfall would be financed from external sources.

## 9. CONCLUSION

The MTDS AT generated the outputs from the strategies proposed based on alternative assumptions on interest rates and exchange rates within the context of the medium-term fiscal and macroeconomic outlook. The recommended borrowing strategy chosen is meant to provide policy makers with an indicative guide in helping to decide on the best choice of trade-off between costs and risks within the central government debt portfolio. Strategy two is focused mainly at trying to mitigate the risks associated within the domestic portfolio. Thus the output for S2 revealed that the nominal debt as a percent to GDP would increase from 83.3 percent to 110.0 percent. When the cost/risk trade-offs are taken into account, the ATM and ATR indicators revealed that S2 would result in superior outcomes for both the ATM of 10.3 years and ATR of 8.6 years respectively.

# Appendix I: Selected Central Government Debt Indicators

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *($m)* | | | | | | |
| **Total Public Debt** | **1,336.6** | **1,445.8** | **1,562.5** | **1,594.4** | **1,746.5** | **1,572.0** | **1,657.0** | **1,674.0** | **1,871.5** | **2,118.2** | **2,261.1** |
| **Total Central Gov't** | **1,140.0** | **1,229.7** | **1,348.8** | **1,379.8** | **1,429.3** | **1,322.2** | **1,404.8** | **1,505.7** | **1,714.0** | **1,965.9** | **2,221.8** |
| **External Debt** | **738.1** | **809.5** | **887.7** | **922.5** | **1,201.8** | **1,003.6** | **1,080.4** | **1180.8** | **1291.4** | **1575.7** | **1,659.8** |
| **Central Government** | 652.7 | 728.7 | 811.2 | 855.7 | 962.0 | 830.1 | 899.9 | 1040.7 | 1160.8 | 1449.3 | 1,646.2 |
| **Public Corporations** | 85.4 | 80.8 | 76.5 | 66.8 | 239.7 | 173.5 | 180.5 | 140.1 | 130.6 | 126.4 | 13.6 |
| **Domestic Debt** | **598.5** | **636.3** | **674.8** | **671.8** | **544.7** | **568.4** | **576.5** | **493.2** | **580.1** | **542.5** | **601.3** |
| **Central Government** | 487.3 | 501.0 | 537.6 | 524.0 | 467.3 | 492.1 | 504.9 | 465.0 | 553.2 | 516.5 | 575.6 |
| **Public Corporations** | 111.2 | 135.3 | 137.2 | 147.8 | 77.4 | 76.3 | 71.7 | 28.2 | 26.9 | 25.9 | 25.7 |
| **Private Guaranteed External Debt** | **16.6** | **19.5** | **24.5** | **25.2** | **26.7** | | | | | | |
| **Debt Servicing** | | | | | | | | | | | |
| **External** | **87.7** | **88.3** | **77.0** | **78.1** | **80.2** | **98.0** | **91.3** | **103.2** | **100.2** | **78.6** | **96.8** |
| **Central Government** | 72.7 | 72.7 | 60.8 | 62.9 | 65.1 | 83.3 | 76.8 | 90.8 | 92.4 | 76.2 | 95.4 |
| **Public Corporations** | 12.1 | 18.6 | 16.2 | 15.3 | 15.1 | 14.7 | 14.4 | 12.4 | 7.8 | 2.4 | 1.4 |
| **Domestic** | | | | | | | | | | | |
| **Central Government** | **48.7** | **58.1** | **72.0** | **72.8** | **83.3** | **82.7** | **93.8** | **114.6** | **105.6** | **104.2** | **103.1** |
| **(of which sinking fund)** | 4.0 | 5.5 | 7.6 | 7.6 | 12.1 | 14.0 | 22.0 | 32.4 | 45.0 | 19.5 | 6.0 |
| **GDP (at market price)** | **1,971.1** | **2,064.9** | **2,081.4** | **2,123.7** | **2,198.6** | **2,288.6** | **2,387.7** | **2,457.4** | **2,354.8** | **2,399.4** | **2,670.8** |
| **Current Revenue** | 472.6 | 491.3 | 535.2 | 519.1 | 592.6 | 592.2 | 594.1 | 600.5 | 606.3 | 681.4 | 669.5 |
| **Central Gov'T Debt/GDP** | 57.8 | 59.6 | 64.8 | 65.0 | 65.0 | 57.8 | 58.8 | 61.3 | 72.8 | 81.9 | 83.2 |
| **Total Debt/GDP (%)** | 67.8 | 70.0 | 75.1 | 75.1 | 79.4 | 68.7 | 69.4 | 68.1 | 79.5 | 88.3 | 84.7 |
| **External Debt/GDP (%)** | 37.4 | 39.2 | 42.6 | 43.4 | 54.7 | 43.9 | 45.3 | 48.0 | 54.8 | 65.7 | 62.1 |
| **Domestic Debt/GDP (%)** | 30.4 | 30.8 | 32.4 | 31.6 | 24.8 | 24.8 | 24.1 | 20.1 | 24.6 | 22.6 | 22.5 |
| **Central Government Debt Service/Current Revenu** | 24.8 | 25.5 | 23.4 | 24.7 | 23.0 | 25.7 | 25.0 | 28.8 | 25.2 | 23.6 | 28.8 |
| **External Debt Service/ Current Revenue (%)** | 18.6 | 18.0 | 14.4 | 15.1 | 13.5 | 16.5 | 15.4 | 17.2 | 16.5 | 11.5 | 14.5 |
| **Domestic Debt Service/ Current Revenue (%)** | 9.5 | 10.7 | 12.0 | 12.6 | 12.0 | 11.6 | 12.1 | 13.7 | 10.0 | 12.4 | 14.5 |
| **Guarantee Debt % of GDP** | 0.11 | 0.11 | 0.11 | 0.11 | 0.16 | 0.11 | 0.11 | 0.07 | 0.07 | 0.06 | 0.01 |

# APPENDIX II: DISBURSEMENTS OF EXTERNAL DEBT BY CREDITOR AND PROJECT 2022

| CREDITORS | PROJECT/ PROGRAMME | Disbursed XCD ($) |
|---|---|---|
| **<u>LOANS</u>** | | |
| **Caribbean Development Bank** | Port Modernization Project | 81,414,886 |
| | School Improvement Project - phase 1 | 12,311,641 |
| | Technical and Vocational Education and Training Development | 307,675 |
| | NDM - Rehabilitation and Reconstruction (December 2013 trough event) | 149,867 |
| | Canouan Airport Runway Rehabilitation | 280,467 |
| | Energy Efficiency Measures and Solar Photovoltaic Plant | 1,966,940 |
| | Sandy Bay Sea Defenses Resilience Project | 13,149 |
| | NDM- Rehab. and Reconstruction - Hurricane Tomas/North Windward | 2,298,218 |
| | NDM - Disaster Risk Reduction and Climate Change Adaptation | 1,978,830 |
| | Project Management Support for the Ministry of Transport, Works etc | 837,374 |
| | South Leeward Highway Rehab and Upgrade | 237638 |
| | Safety Nets for Vulnerable Population affected by Coronavirus Disease | 16,081,200 |
| | Port Rationalisation and Development Study | 3,289 |
| | **Subtotal for Caribbean Development Bank** | **$117,881,174** |
| **Caribbean Development Fund** | Country Assistance Programme | 10,143,252 |
| | **Subtotal for Caribbean Development Fund** | **$10,143,252** |
| **World Bank (IDA)** | OECS Human Development Delivery Service | 9,465,353 |
| | OECS Tourism Competitiveness Project | 1,350,000 |
| | OECS Regional MSME Guarantee Facility Project | 327839 |
| | SVG Volcano Eruption Emergency Project (VEEP) | 30,967,862 |
| | SVG Regional Health Project | 2,970,000 |
| | SVG Digital Caribbean Project | 4,531,772 |
| | **Subtotal for World Bank** | **$49,612,826** |
| **OPEC Fund for International Development** | Agriculture and Feeder Road | 5,238,136 |
| | **Subtotal for OPEC Fund for International Development** | **$5,238,136** |
| **Export Import Bank of China** | Hotel Development Project | 10,800,000 |
| | Modern Court House | 6,750,000 |
| | Port Modernization Support Loan | 25,110,000 |
| | **Subtotal for Export Import Bank of China** | **$42,660,000** |

| | | |
|---|---|---|
| **Kuwait Fund for Arab Development** | Feeder and Agriculture Road | 5,597,275 |
| | **Subtotal for Kuwait Fund for Arab Development** | **$5,597,275** |
| | **TOTAL LOAN DISBURSEMENTS** | **$231,132,663** |
| **GRANTS** | | |
| **Caribbean Development Bank** | Port Modernization Project | $24,683,238 |
| | National Standardization and Certification of Exportable Services Providers | $354,519 |
| | **Subtotal for Caribbean Development Bank** | **$25,037,757** |
| **CARICOM Development Fund** | Country Assistance Programme | 1,399,245 |
| | **Subtotal for Caribbean Development Fund** | **$1,399,245** |
| **World Bank (IDA)** | Volcanic Eruption Emergency Project | 4,623,462 |
| | **Subtotal for World Bank** | **$4,623,462** |
| | **TOTAL GRANT DISBURSEMENTS** | **$31,060,464** |
| | **TOTAL LOANS AND GRANTS DISBURSEMENTS** | **$262,193,127** |