The Government of
St. Vincent and the Grenadines

Medium-Term Debt Strategy 2021-2023

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**	Organisation of Petroleum Exporting Countires
CAT-DDO	Catastrophe Deferred Drawdown Option	**PV**	Present Value
CDB	Caribbean Development Bank	**RGSM**	Regional Government Securities Market
CDIMU	Cash Debt Investment Management Unit	**S1**	Strategy one
ECCB	Eastern Caribbean Central Bank	**S2**	Strategy two
ECCU	Eastern Caribbean Currency Union	**S3**	Strategy three
EXIM	Export Import Bank of China	**S4**	Strategy four
FX	Foreign Exchange	**SDR**	Special Drawing Rights
GDP	Gross Domestic Product	**ST FX**	Short-term Foreign Exchange
GOSVG	Government of St. Vincent and the Grenadines	**SVG**	St. Vincent and the Grenadines
IBRD	International Bank for Reconstruction and Development	**T-Bills**	Treasury Bills
IDA	International Development Association	**XCD**	Eastern Caribbean Dollars
IMF	International Monetary Fund		

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 (2021-2023) is limited to Central Government's debt. Accordingly, the stock of debt contracted by Public Enterprises or State-owned Enterprises (SOEs) with government guarantees is excluded and therefore, do not form part of the analysis. Nevertheless, the monitoring of these explicit contingent liabilities continues to be a major focus of the government's overarching debt management objectives.

The overarching legislative framework for debt management which governs and explicitly authorizes the government to borrow is the Finance Administration Act (FAA) 2004. On a yearly basis, the Public Sector Investment Loan Act is assented to which authorizes 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 authorized limit to raise financing in 2021 under this act amounts to $125.0 million. The Treasury Bills Act Cap 444 governs 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 2021, 2022 and 2023 is $702.06, $728.99 and $743.47 million respectively with outstanding T. Bills amounting to $84.0 million. The CDB Loans Act covers all loans contracted from the Bank, borrowings from the international financial institutions such as the World Bank and the IMF is governed by the International Financial Organizations' Act.

The Fiscal Responsibility Framework published in the Government's Gazette on the 7th January 2020 reinforces the GOSVG commitment to maintain strong macroeconomic fundamentals by continuing to implement sound fiscal policies and reducing the debt-to-GDP ratio to a prudential level taking into account the overall macro-economic context of financial stability, growth, competitiveness and equity. It has further committed, that the long term fiscal rule is to reduce public debt to no more than sixty (60) percent of GDP by 2030. The primary balance rule during the period 2021- 2024 is to achieve a primary deficit on average of 1.2 percent of GDP annually, mainly as a result of the projected impact of spending related to the construction of a Modern Port Project which would account for approximately 20.7 percent of GDP. From 2024 onwards, the fiscal rule for the primary balance is to target an improvement in the primary balance to a surplus of 2.7 percent of GDP.[1]

For the period under review, it shows that central government debt to GDP increased from 66.2 percent in 2019 to 77.9 percent in 2020 largely due to the impact of the COVID-19 pandemic on government public finances and the like, and for which the effects continued into 2021. On the 9th April 2021, the La Soufriere volcano erupted explosively which negatively impacted growth and livelihoods for the Vincentian population. Accordingly, preliminary data for 2021 indicate that real GDP growth is estimated at negative 3.6 percent compared to its pre-volcanic eruptions forecast of 5.0 percent. The level of central government debt is projected to increase over the medium-term to 91.4 percent, while debt to GDP will rise to 92.7 percent in 2023. The growth in debt is expected to be driven by the Port Modernization project funded by CDB, the construction of the Marriot Hotel project funded by Taiwan and local counter-part financing.

Given the foregoing, the remainder of the document is organized as follows: Section (III) provides an analysis of the implementation of the 2020 Medium-Term Debt Management Strategy; Section (IV) outlines the profile of the existing debt portfolio for 2020. Section (V) presents an overview of the Macro-economy over the medium term. Sections (VI) provides an analysis of the Medium-Term Debt Strategy (2021-2023). Section (VII)

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

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 (2010 - 2020).

3. The implementation of the 2020 Medium Term Debt Management Strategy

The strategy of choice for the last MTDS review done in fiscal year 2020 prioritized cost over risk by targeting cost minimization. The strategy proposed the swapping out of high cost domestic debt such as commercial loans and marketable securities of tenors of 5 years and above, with low cost domestic debt in the form of notes with tenors of 2- 4 years including the issuance of an additional $28.0 million in treasury bills. The issuance of $100.0 million in securities was proposed and the use of short-term facility such as the overdraft facility was to be kept at or below its December 2019 level. External borrowings were targeted to be part of the financing mix of both multilateral and bilateral, with a greater reliance placed on multilateral financing.

The table below presents the expected outturn of the chosen strategy with comparisons of the actual outturn for 2019 and 2020 respectively.

Risk Indicators		Target	S2 Forecast	2020 Actual	2019 Actual
Nominal debt as % of GDP			71.2	77.7	68.7
Present value debt as % of GDP			59.6	63.7	61.8
Interest payment as % of GDP		2.1	2.42	2.8	2.8
Refinancing Risk	Debt maturing in 1yr (% of total)		16.6	22.0	24.5
	Debt maturing in 1yr (% of GDP)		11.8	17.1	16.8
	ATM External Portfolio (years)		12.3	10.9	9.6
	ATM Domestic Portfolio (years)		2.5	3.1	2.9
	ATM Total Portfolio (years)	>7.0	9.5	7.6	6.6
Interest Rate Risk	ATR (years)	>5.5	8.6	6.6	5.6
	Debt re-fixing in 1yr (% of total)		30.6	36.8	42.1
	Fixed rate debt (% of total)		84.6	83.1	80.0
FX Risk	Non USD debt as % of total		27.2	22.3	19.8
	ST FX debt as % of reserves		12.8	15.3	14.0

Source: World Bank AT Toolkit, Ministry of Finance

The effects of the pandemic necessitated unplanned borrowings in 2020 which led to a deviation from the above chosen strategy and resulted in an increase in the level of nominal debt. The implementation of the Port Modernization project in 2020 was delayed due to the onset of the coronavirus.

Notwithstanding the foregoing, several of the debt parameters registered improvements as COVID-19 related external borrowings intensified during the year, even though albeit unforeseen. This contributed to a re-balancing of the chosen strategy and led to a higher reliance placed on external financing to meet the larger gross financing needs of the government. Domestic borrowing was raised at much softer interest rates with 31.9 percent of securities issued in the form of notes with tenors of less than 5 years in accordance with the chosen strategy. The Public Sector Investment Programme raised $99.2 million out of the stated authorized limit of $100.0 million in 2020. The authorities utilized the overdraft facility to add some flexibility in its short-term borrowing plan. The proposed issuance of an additional treasury bill did not materialized as it was not a necessary requirement in the borrowing plan.

The financing mix that was undertaken in 2020, resulted in an improvement in the portfolio's ATM and ATR. There was also an increase in the portfolio's percentage of fixed rate debt and a decrease in debt re-fixing in one year, while from a cost perspective the interest payment as a percent of GDP remained constant. The monitoring of foreign exchange risk is continually given priority in the portfolio.

4. PROFILE OF CENTRAL GOVERNMENT DEBT PORTFOLIO 2020

Total Central Government debt at the end of 2020 was $1705.6 million. External debt represented $1066.0 million or 62.5 percent of total debt with domestic debt accounting for the remaining $639.6 million or 37.5 percent[2]. The majority of domestic debt is held by investors who hold securities in the form of bonds, notes and t. bills.

During 2020, total securities issued amounted to $99.22 million, an amount of $50.64 million less than what was issued in 2019. Tenors on these instruments ranged from three (3) to ten (10) years with an average tenor of 7.5 years versus the average tenor of 7.9 years in the previous year. The average (coupon) interest rate on the notes issued by the government was 3.62 percent with an average interest rate of 5.25 percent on longer term government bonds. During the year, a total of $45.0 million in bullet bonds and notes matured and were fully repaid from Sinking Fund contributions. Twelve (12) Treasury Bills were issued with an average interest (discount) rate of 2.03 percent. Total domestic borrowings amounted to $49.05 million. External disbursements from new and existing loans amounted to $200.5 million of which $195.5 million were from multilateral creditors, see appendix II.

Table 1: Domestic New Borrowings for 2020

Loans					
Creditor	**Loan Amount (EC $M)**	**Tenor**	**Rate (%)**	**Issue Date**	**Maturity Date**
BOSVG	20.00	1.5 yrs	6.5	31-Jan-20	30-May-21
ECCB	25.00	1 yr	2.0/6.5	2-Nov-20	2-Nov-21
VINLEC	4.05	5 yrs	4.0	24-Jan-20	24-Jan-25
Total	**49.05**				

Source: DMU, Ministry of Finance

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An analysis of the structure of the debt by currency criterion indicates that foreign debt comprised 55.8 percent of the debt portfolio with non XCD and non USD debt accounting for 12.1 percent of total central government debt. The existence of foreign exchange risk is associated with borrowings being done via multilateral institutions in XDR's and Euro

[2] The debt stock is disaggregated based on residency criterion.

currencies; and bilateral loans in Kuwaiti Dinars. The World Bank's and IMF'S XDR 'currency' represent the majority of foreign exchange risk in the portfolio accounting for 11.6 percent of total external central government debt with the remaining currencies representing 0.59 percent of the external portfolio. Based on the analysis, foreign exchange risk is not a major concern at this time.

Table 2: Central Government Debt by Currency

	2020 ($M)	% of Total	2019 ($M)	% of Total	Change
Eastern Caribbean Dollars	754.63	44.24	703.67	46.73	**7.24%**
US Dollars	744.02	43.62	680.42	45.19	**9.35%**
Special Drawing Rights	196.95	11.55	112.66	7.48	**74.82%**
Kuwait	8.64	0.51	7.41	0.49	**16.60%**
Other	1.35	0.08	1.52	0.10	**-11.18%**
Total	**1705.59**	**100.00**	**1505.68**	**100.00**	**13.28%**

Source: DMU, Ministry of Finance

Interest rate risk however can be more of a concern, thus at the end of 2020, an amount of $287.3 million or 27.0 percent of the external central government debt portfolio was denominated in floating rates. Loans with floating rate debt were mainly contracted from multilateral creditors such as the CDB and the World Bank. International commercial banks such as MEGA and EXIM as well as the Kuwait Fund for International Development are also tied to Libor.

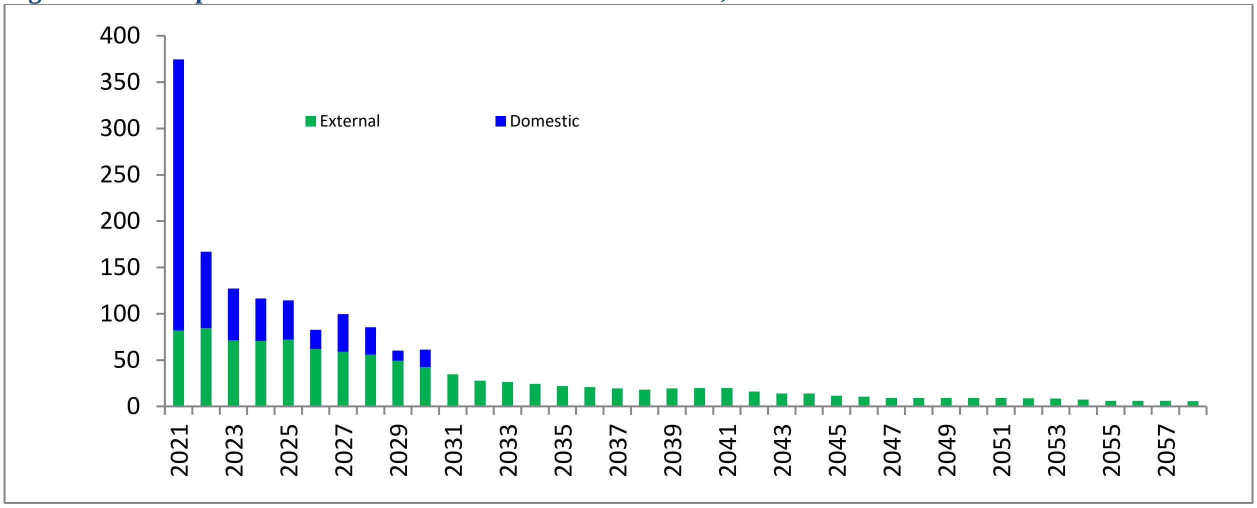
4.1 Redemption Profile of 2020 Debt Portfolio

Figure 1 depicts the maturity profile of forecasted principal repayments of the Central Government's debt portfolio. It shows that the external redemption profile is relatively smooth whereas in 2021 the servicing of domestic amortized instruments, along with short-term instruments[3] and bullet bonds due to mature within the current year has resulted in a spike in domestic repayments. The profile also shows that the domestic repayment does not follow a gradual reduction as like the external profile, but that it is

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

prone to more fluctuations. This is evidenced by the fact that it will decline in 2026 then rise in 2027 and 2028 due to bullet bonds that will mature. By the year 2044, the existing domestic debt would have matured as these instruments have a shorter tenor compared to external instruments whose grace periods are longer and hence, have longer maturities. As such, it would result in the external debt portfolio maturing in the year 2058.

Figure 1: Redemption Profile of the Debt Portfolio as at Dec 31, 2020



Source: MTDS Analytical Toolkit

4.2 Risk Analysis of 2020 Debt Portfolio

The portfolio's risk indicators have all improved at the end of 2020 in comparison to the previous year. The portfolio's ATR, which measures the exposure of the portfolio to changes in interest rates was 6.6 years. There was an improvement in both the external and domestic ATR with the most significant improvement recorded on the external debt component moving from 7.7 years to 9.3 years. There was also reduction in the debt that is to be re-fixed in the short-term from 42.1 percent to 36.8 percent with an increase in fixed rate debt from 80.0 percent to 83.1 percent. Similarly, the portfolio's refinancing risk indicators which measures the portfolio's exposure to rollover or refinancing risk for maturing obligations all showed improvements over the previous year. The ATM increased from 6.6 years to 7.6 years with debt maturing in one year decreasing from 24.5 percent to 22.0 percent of the total debt.

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 limited reason to believe that in the medium-term the portfolio will be susceptible to changes in exchange rate, thus ameliorating any impact of exchange risk on the portfolio. However, the short-term external debt as a percent of foreign exchange reserves has decreased from 14.0 percent to 12.7 percent.

In respect to debt servicing as reflected by the cost of debt, as measured by interest payment as a percent of GDP, the portfolio total cost remained constant at 2.8 percent.

Figure 2: Central Government Existing Debt Portfolio and Risk Indicators 2020

Central Government Existing Debt Portfolio and Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of XCD)		972.5	732.0	1,704.5
Amount (in millions of USD)		360.2	271.1	631.3
Nominal debt as % GDP		44.3	33.4	77.7
PV as % of GDP		33.9	33.4	67.3
Cost of debt	Interest payment as % GDP	1.1	1.7	2.8
	Weighted Av. IR (%)	2.4	5.2	3.6
Refinancing risk	ATM (years)	10.9	3.1	7.6
	Debt maturing in 1yr (% of total)	7.2	41.6	22.0
	Debt maturing in 1yr (% of GDP)	3.2	13.9	17.1
Interest rate risk	ATR (years)	9.3	3.1	6.6
	Debt refixing in 1yr (% of total)	33.2	41.6	36.8
	Fixed rate debt (% of total)	70.4	100.0	83.1
FX risk	FX debt (% of total debt)			57.0
	ST FX debt (% of reserves)			12.7

Source: DMU, 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. Following several years of positive, albeit modest growth, St. Vincent and the Grenadines is estimated to have experienced a contraction in economic activity in the magnitude of around 4.7 percent in 2020. This decline in economic output was mainly related to the impact of the COVID-19 pandemic on the Tourism, Transportation and Wholesale & Retail sectors. The drop in activity in the tourism sector is mainly on account of the decrease in stayover visitors as a result of the halt in regional and international flights due to the pandemic. Similarly, the transportation sector suffered, mainly as air and sea traffic was significantly lowered during the period. The fall-off in wholesale and retail trade reflects a reduction in domestic aggregate demand due principally to the slow-down in business activity in the tourism sector. In 2021, economic activity is expected to record a negative growth of 3.6 percent, on account of the lingering adverse effects of the pandemic and the impact of the April 09, 2021 explosive volcanic eruptions. The reduction in economic activity is expected to be influenced mainly by major contractions in the agriculture, fishing, transport and storage, manufacturing and tourism sectors. Over the medium term, 2022-2024, real economic activity is projected to pick-up and grow at an average 6.2 percent per annum largely reflecting the 9.5 percent rebound in economic activity anticipated for 2022. This outlook is expected to be supported mainly by buoyant economic activity in agriculture, tourism, transport & storage, and fishing. In particular, the construction and hotel sectors are anticipated to benefit from hotel developments, the Port Modernisation Project and an anticipated increase in international flights.

On the fiscal front, primary deficits are projected over the period from 2021-2023. The primary deficit in 2021 is expected on account of increased expenditure associated with the social and economic support and reconstruction spending approved by the government in response to the April 2021 volcanic eruptions. In the medium term, capital spending is expected to increase significantly as the Government undertakes the Port Modernisation Project. These deficits are expected to bring about a worsening in the public debt indicators over the medium-term. In this regard, the Ministry of Finance is committed to undertaking the fiscal adjustments necessary to improve the fiscal outlook and reduce the debt to GDP ratio to the regional benchmark of 60 percent by 2035.

6. Medium Term Debt Strategy 2021-2023

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 have arisen from consideration of the current global and local situation; analysis of future planned activities; the debt management objectives with a degree of cautiousness built in for possible future shocks. Previous risk analysis points to the fact that although improvements have been made on the portfolios risk indicators, there is still need for improvement on the domestic risk indicators in terms of its ATM, ATR, debt maturing and re-fixing in one year. Possible actions to address these deficiencies include but are not limited to:

- Reduce the amount of short-term debt contracted in the portfolio.
- Incentivise brokers to expand the investor outreach in terms of geography, type and size to reduce cost.
- Provide to the market, an indicative securities issuance calendar for treasury notes and bonds to facilitate advance planning for decision-making purposes.

- Increase data publication to improve transparency.
- Integrate more strategically an Investor Relations Program into the debt management function and develop a mechanism to gather independent market intelligence.

Within the current climate, investor hesitancy remains a major concern as a result of the lingering effects of the pandemic, which has been further exacerbated by the explosive eruption of the La Soufriere volcano. This poses a real downside risk in going to the market to raise domestic financing from the issuance of securities. Despite this, as a consequence of the volcanic eruption of La Soufriere, there was an inflow of volcano-related financing, coupled with existing pipeline funding related to general exante resilience and ex-post recovery for disaster management and the like from the World Bank IDA window, in the amount of $242.0 million in the forms of a CAT DDO and a Fiscal Resilience Development Policy Credit. There were also specific disbursements in the form of a Volcano Relief Rapid Credit Facility from the IMF in the amount of $43.1 million. These disbursements accounted for more than half of the financing required in 2021 based on the pre-volcanic eruption gross financing needs of the government. The previous MTDS was modelled based on already identified financing that were earmarked to projects that were to come on stream during the medium-term. These included for example, the Port Modernization and Hotel Development projects which were delayed in 2020 with a new commencement date of 2022. Similar assumptions and strategies of the prior (2020-2022) MTDS would therefore be maintained and executed in this MTDS analysis (2021-2023), with the exception of the issuance of an additional treasury bill and with a view to address the domestic shortcomings stated above. It must be noted that the medium term expected external disbursements limits the room on the external portfolio to create alternative financing strategies.

The various macro-economic indicators and assumptions that were used in the AT analysis can be found in the tables below:

6.1 Macro-Economic Assumptions

Table 1: Macro Economic Assumptions 2020-2022

Macro and Fiscal Indicators	*2020*	*2021*	*2022*	*2023*
	Actual	*Proj*	*Proj*	*Proj*
			XCD $M	
Total revenues and grants	*715.68*	*702.06*	*728.99*	*743.47*
Total primary expenditures	*801.38*	*866.93*	*928.71*	*853.95*
Total expenditures	*852.99*	*929.05*	*999.27*	*930.19*
Total interest expenditure	*51.61*	*62.11*	*70.56*	*76.24*
International Reserves (USD$M)	*204.15*	*225.16*	*239.79*	*251.34*
GDP	*2193.16*	*2131.89*	*2343.87*	*2522.94*
			% of GDP	
Total revenues and grants	*32.6*	*32.9*	*31.1*	*29.5*
Total primary expenditures	*36.5*	*40.7*	*39.6*	*33.8*
Total expenditures	*38.9*	*43.6*	*42.6*	*36.9*
Total interest expenditure	*2.4*	*2.9*	*3.0*	*3.0*
International Reserves	*9.3*	*10.6*	*10.2*	*10.0*

Source: DMU, Ministry of Finance

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	20-30	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	10 yr Bond	Fixed	10	0	XCD
5 yr Bond	5 yr Bond	Fixed	5	4	XCD
3 yr Bond	3 yr Bond	Fixed	3	2	XCD
Insurance Deposits, Accounts Payables, Overdraft, T.Bills, ECCB Advance	Insurance Deposits, Accounts Payables, Overdraft, T.Bills, ECCB Advance	Fixed	1	0	XCD

Source: DMU, Ministry of Finance

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

Source: DMU, Ministry of Finance

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)

Source: DMU, Ministry of Finance

6.5 Strategies

Strategy	Objective
S1	**Status Quo:** reflects a continuation of the current domestic borrowing practices and disbursements of already committed external flows. Securities issuance reverts to their pre-COVID-19 and volcanic eruption levels.
S2	**Cost Minimization:** Financing is sourced from external sources as much as possible with residuals financing coming from domestic low cost debt. There is a reduction in 2021 in the amount of securities to be issued such that it does not return to pre –COVID-19 and volcanic eruption levels in the medium-term.
S3	**Cost Minimization & Market Development:** No new external financing is contracted. Domestic preference is a mix of long-term securities and low cost short-term instruments
S4	**Bias towards re-financing risk and Commercial Credit:** less reliance on the issuance of securities instead additional financing obtained primarily from bilateral sources and short-term domestic debt.

Source: DMU, Ministry of Finance

Commonalities among Strategies:

- o External financing flows mirror its projected disbursement schedules. These disbursements are associated with the identified projects, most of which are existing with effectiveness to the loan agreements already in place.

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 2023 for the four strategies analysed.

Table 5: Risk Indicators

Risk Indicators		2020	As at end 2023			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		77.7	91.6	91.4	91.4	91.4
Present value debt as % of GDP		67.3	76.4	75.1	76.7	76.2
Interest payment as % of GDP		2.80	2.87	2.61	2.70	2.69
Implied interest rate (%)		3.6	3.4	3.1	3.2	3.1
Refinancing risk	Debt maturing in 1yr (% of total)	22.0	11.8	10.7	9.2	13.8
	Debt maturing in 1yr (% of GDP)	17.1	10.8	9.8	8.4	12.6
	ATM External Portfolio (years)	10.9	12.5	12.8	12.5	12.4
	ATM Domestic Portfolio (years)	3.1	2.8	2.8	3.3	2.4
	ATM Total Portfolio (years)	7.6	9.9	10.4	9.9	10.1
Interest rate risk	ATR (years)	6.6	8.0	8.4	7.9	7.8
	Debt refixing in 1yr (% of total)	36.8	33.6	33.0	31.0	39.1
	Fixed rate debt (% of total)	83.1	77.1	76.6	77.1	73.6
FX risk	Non USD debt as % of total	19.8	32.5	24.8	22.9	24.2
	ST FX debt as % of reserves	12.7	9.3	9.3	9.3	9.3

Source: World Bank AT Toolkit, Ministry of Finance

An increase in the nominal debt as a percent of GDP has been recorded under all strategy scenarios. The debt is projected to rise above 90.0 percent of GDP from its current level of 77.7 percent at the end of the medium term. This increase is driven by anticipated disbursements from creditors to finance the aforementioned projects 2which is not off-set by a commensurate repayment of debt over the medium-term.

The implied interest rates under all the strategies decreased. However, the interest payments registered mixed results, with S2 recording the lowest interest payments of 2.61

as a percent of GDP. Most of the risk indicators improved with the exception of the fixed rate debt and non USD debt as a percent of total debt. Under S3, domestic ATM improved and under S4 debt re-fixing in one year improved, while all other positions worsened over the medium-term.

The impact of COVID-19 continues to be a global challenge that has yet to be abated enough to allow the economy to revert to its normal growth path. Its effect on St. Vincent and the Grenadines has been exacerbated by the eruption of the La Soufriere volcano. Whilst multilateral financing has been made readily available in the wake of these crises, the corollary remains a worsening of the fiscal position due mainly to expenditure increases, which is accompanied by a concomitant rise in the level of central government debt. The previous MTDS (2020-22) recommended strategy, placed reliance on the securities market to raise additional financing. Although the current MTDS (2021-23) is a continuation of the previous strategy, it deviates somewhat from it, in part as a result of placing less reliance on the issuance of securities to satisfy the financing needs of the government. This is evidenced by firstly showing a reduction in the value of securities to be issued in the medium term, then secondly, by replacing a preference for issuing securities with more short-term debt instruments. This shift in strategy is necessitated and informed by market intelligence pointing to the fact that there is a lack of bullishness of investors to subscribe to government's paper in the current market climate. However, in the medium term, it is expected that the pessimism will wane and optimism will be recovered as the Government continues to demonstrate its commitment in meeting its debt obligations, thus helping to regain investor confidence in the market.

All of the strategies were modelled to address some of the domestic portfolio shortcomings. With this being said, the recommended strategy *is S2: "Cost Minimization: financing is sourced from external sources as much as possible with residuals financing coming from domestic low cost debt. There is a reduction in 2021 in the amount of securities to be issued such that it does not return to pre –COVID-19 and volcanic eruption levels in the medium-term"* in the light of the fact that considerable downside risks still persist in the global, regional and domestic economy and the challenges of raising financing via the issuance of securities. This strategy would seek to finance the government's borrowing needs with external financing from the CDB, IDA, EXIM, Kuwait and OPEC being the primary source for financing with the remaining financing to be sourced from domestic short-term borrowing. The financing mix ratio is 60.0 percent external and 40.0 percent domestic. S2 would achieve the lowest implied interest rate and the lowest interest payment as a percent of GDP. It would also yield an outcome of achieving cost minimization despite the challenging times.

8. Indicative Borrowing plan

	2021	2022	2023
Gross Financing Needs	**585.73**	**606.31**	**465.73**
Borrowing plan			
External Borrowing			
Multilateral loans	340.18	265.09	245.38
Bilateral loans	13.63	85.29	45.59
Commercial Loans	0.00	0.00	0.00
Total foreign currency borrowing	**353.81**	**350.39**	**290.97**
Domestic Borrowing			
Loans			
Short term, including overdraft	116.98	101.92	45.76
Medium/long term	0.00	0.00	0.00
Securities			
Treasury bills (change in stock)	0.00	0.00	0.00
Treasury notes and bonds	**30.95**	**70.00**	**45.00**
3 year	-	*35.00*	*25.00*
5 year	*17.92*	*35.00*	*20.00*
10 year	*13.03*	-	-
Total local currency borrowing	**147.92**	**171.92**	**90.76**
Total borrowing	**501.73**	**522.31**	**381.73**
add treasury bill re-issuance	84.00	84.00	84.00
Total Gross Financing Needs	**585.73**	**606.31**	**465.73**

Source: DMU, Ministry of Finance

The government's borrowing plan for the medium term is one heavily focused on external concessional borrowing which entails long maturity periods and low interest rates. A large proportion of funding over the medium-term would be derived from the CDB for the Port Modernisation Project; EXIM bank and CARICOM Development Fund for financing of two major hotel development projects; and continued disbursements related to existing and on-going projects in relation to natural disaster management and the like.

9. Conclusion

The MTDS AT generated the outputs from the strategies proposed based on alternative assumptions on interest rates and exchange rates. The data for the assessment of the costs and risks associated with each scenario is based on the cash flows of the debt existing as at 31st December 2020; macroeconomic and market projections as well as simulated alternative borrowing strategies to meet the financing need. The output for S2 revealed that the nominal debt as a percent to GDP would increase from 77.7 percent to 91.4 percent. When the cost/risk trade-offs are taken into account, the ATM and ATR indicators revealed that S2 would result in an ATM of 10.4 years and an ATR of 8.4 years respectively, thus increasing the maturity profile of the debt portfolio. With regards to the cost/risk trade-offs using the interest payment to GDP and the implied interest rate payment to GDP ratios, the output showed that S2 had relatively the lowest cost of all the strategies modelled.

Appendix I: Selected Central Government Debt Indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	($m)										
Total Public Debt	**1,188.5**	**1,233.2**	**1,336.6**	**1,445.8**	**1,562.5**	**1,594.4**	**1,746.5**	**1,572.0**	**1,657.0**	**1673.97**	**1863.10**
Total Central Gov't	**986.6**	**1,040.7**	**1,140.0**	**1,229.7**	**1,348.8**	**1,379.8**	**1,429.3**	**1,322.2**	**1,404.8**	**1505.66**	**1705.60**
External Debt	**734.8**	**764.9**	**738.1**	**809.5**	**887.7**	**922.5**	**1,201.8**	**1,003.6**	**1,080.4**	**1180.77**	**1285.40**
Central Government	623.1	668.0	652.7	728.7	811.2	855.7	962.0	830.1	899.90	1040.70	1154.8
Public Corporations	111.6	96.9	85.4	80.8	76.5	66.8	239.7	173.5	180.55	140.1	130.6
Domestic Debt	**453.7**	**468.3**	**598.5**	**636.3**	**674.8**	**671.8**	**544.7**	**568.41**	**576.51**	**493.20**	**577.70**
Central Government	363.5	372.7	487.3	501.0	537.6	524.0	467.3	492.12	504.85	464.96	550.8
Public Corporations	90.2	95.6	111.2	135.3	137.2	147.8	77.4	76.30	71.66	28.24	26.9
Private Guaranteed External Debt		**15.2**	**16.6**	**19.5**	**24.5**	**25.2**	**26.7**				
Debt Servicing											
External	**84.4**	**87.2**	**87.7**	**88.3**	**77.5**	**83.6**	**81.7**	**101.6**	**99.3**	**109.7**	**107.2**
Central Government	71.7	74.6	72.7	72.7	60.8	62.9	65.1	83.3	76.83	90.8	92.39
Public Corporations	12.7	12.6	15.0	15.6	16.7	20.8	16.6	18.3	22.5	18.88	14.8
Domestic											
Central Government	**64.8**	**47.2**	**48.7**	**58.1**	**72.0**	**72.8**	**83.3**	**82.7**	**93.8**	**114.59**	**105.57**
(of which sinking fund)	12.0	6.0	4.0	5.5	7.6	7.6	12.1	14.0	22.0	32.37	45.00
GDP (at market price)	**1,839.3**	**1,825.5**	**1,871.0**	**1,947.3**	**1,963.5**	**2,038.9**	**2,082.7**	**2,123.7**	**2,189.0**	**2,273.40**	**2,196.55**
Current Revenue	490.0	462.5	472.6	491.3	535.2	519.1	592.6	592.2	594.1	600.53	605.26
Central Gov'T Debt/GDP	53.64	57.01	60.93	63.15	68.69	67.67	68.63	62.26	64.17	66.23	77.65
Total Debt/GDP (%)	64.6	67.6	71.4	74.2	79.6	78.2	83.9	74.0	75.7	73.6	84.8
External Debt/GDP (%)	39.9	41.9	39.4	41.6	45.2	45.2	57.7	47.3	49.4	51.9	58.5
Domestic Debt/GDP (%)	24.7	25.7	32.0	32.7	34.4	32.9	26.2	26.8	26.3	21.7	26.3
Central Government Debt Service/Current Revenue (%	25.4	25.0	24.8	25.5	23.4	24.7	23.0	25.7	25.0	28.8	25.3
External Debt Service/ Current Revenue (%)	17.2	18.9	18.6	18.0	14.5	16.1	13.8	17.2	16.7	18.3	17.7
Domestic Debt Service/ Current Revenue (%)	10.8	8.9	9.5	10.7	12.0	12.6	12.0	11.6	12.1	13.7	10.0
Guarantee Debt % of GDP	0.11	0.11	0.11	0.12	0.12	0.12	0.17	0.12	0.12	0.07	0.07

APPENDIX II: DISBURSEMENTS OF EXTERNAL DEBT BY CREDITOR AND PROJECT AS AT 31ST DECEMBER, 2020

CREDITORS	PROJECT/ PROGRAMME	Disbursed Amounts XCD ($)
Caribbean Development Bank	NDM Disaster Risk Reduction and Climate Change Adaptation	$911,981
	TECHVOC Education and Training Development	$480,767
	NDM - Hurricane Tomas/ North Wd. Highway	$1,579,610
	NDM- Rehabilitation and Reconstruction	$4,005,449
	South Leeward Highway Rehab and Upgrade Project	$2,509,513
	UWI Open Campus Development	$3,115,074
	Energy Efficiency Measures and Solar Photovoltaic Plant	3,947,896
	Sandy Bay Sea Defence Resilience Project	$231,054
	Coronavirus Disease Emergency Response Support	$12,692,350
	Subtotal for Caribbean Development Bank	**$29,473,694**
International Monetary Fund	Rapid Credit Facility	$43,127,634
	Subtotal for International Monetary Fund	**$43,127,634**
World Bank (IDA & IBRD)	OECS Regional Tourism Competitive Project	$1,080,000
	OECS Regional Agriculture Competitiveness Project	$931,500
	Regional Disaster Vulnerability Project	$41,091,729
	OECS Human Development Delivery Service	$1,377,000
	Caribbean Regional Communication infrastructure Program	8660506
	OECS MSME Guarantee Facility	$4,760,875
	Fiscal Resilience Development Policy Credit	$54,000,000
	SVG Regional Health Project	$6,221,880
	Subtotal for World Bank	**$118,123,490**
OPEC Fund for International Development	Agriculture and Feeder Road	$4,848,309
	Subtotal for OPEC Fund for International Development	**$4,848,309**
Kuwait Fund for Arab Development	Feeder and Agriculture Road	$1,248,601
	Subtotal for Kuwait Fund for Arab Development	**$1,248,601**
Damien Shipyard Group	Financing Supplier Facility	$3,709,625
	Subtotal for Damien Shipyard Group	**$3,709,625**
	Grand Total	**$200,531,353**