The Government of
St. Vincent and the Grenadines

Medium Term Debt Strategy 2015-2018

Ministry of Finance and Economic Planning
Debt Management Unit
May, 2015

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Acronyms

AFD	Agence Française de Développement	**IMF**	International Monetary Fund
ALBA	Bolivarian Alliance of the Americas	**JPY**	Japanese Yen
AT	Analytical Tool	**KWD**	Kuwait Dinars
ATM	Average Time to Maturity	**LIBOR**	London Inter-Bank Offer Rate
ATR	Average Time to Re-fixing	**MTDS**	Medium Term Debt Strategy
BH	Bondholders	**NIS**	National Insurance Services
BoSVG	Bank of St. Vincent and the Grenadines	**OCR**	Ordinary Capital Resources
CARICOM	Caribbean Community	**OPEC**	Organization of Petroleum Exporting Countries
CDB	Caribbean Development Bank	**PV**	Present Value
CDF	CARICOM Development Fund	**RGSM**	Regional Government Securities Market
CS-DRMS	Commonwealth Secretariat Debt Resource Management System	**ROC**	Republic of China
DaLa	Damage and Loss Assessment	**S1**	Strategy one
DMU	Debt Management Unit	**S2**	Strategy two
ECCB	Eastern Caribbean Central Bank	**S3**	Strategy three
ECCU	Eastern Caribbean Currency Union	**S4**	Strategy four
EIB	European Investment Bank	**SDR**	Special Drawing Rights
EUR	Euro	**SFR**	Special Fund Resources
FAA	Financial Administration Act	**ST FX**	Short-term Foreign Exchange
FCIB	First Caribbean Investment Bank	**SVG**	ST. Vincent and the Grenadines
FDI	Foreign Direct Investment	**T-Bills**	Treasury Bills
FX	Foreign Exchange	**TTD**	Trinidad and Tobago Dollars
GBP	Great Britain Pounds	**US**	United States
GDP	Gross Domestic Product	**USD**	United States Dollars
GoSVG	Government of St. Vincent and the Grenadines	**WB**	World Bank
IBRD	International Bank for Reconstruction and Development	**XCD**	Eastern Caribbean Dollars
IDA	International Development Association		

1. ACKNOWLEDGEMENT

We express our appreciation to the Eastern Caribbean Central Bank (ECCB) and its Debt Management Advisory Services (DMAS) team and the teams from the International Monetary Fund and the World Bank who provided technical assistance for the crafting of this Medium Term Debt Management Strategy during their mission to SVG in March 2014. Your patient guidance, enthusiastic encouragement and useful critiques stimulated an enabling environment for finalizing this strategy. We are grateful for your selfless sharing of your vast array of knowledge and expertise which made the training invaluable and fostered a deeper understanding and appreciation of the MTDS toolkit.

We thank too, the staff in the Ministry of Finance and Economic Planning including the Accountant General's Office and the Central Planning Division for participating in the training exercise and providing such valuable input.

Finally thanks to the staff in the DMU for staying the course. Your efforts paved the way for effective capacity building in the area of debt management within the Ministry.

2. EXECUTIVE SUMMARY

This Medium Term Debt Strategy (MTDS) is prepared to provide information on the GoSVG's debt management objectives and outlines its plan for achieving a desired composition of its debt portfolio over the period 2015 to 2018. It is crafted within the context of the medium term macroeconomic framework and with the aid of the IMF/World Bank MTDS analytical Toolkit which provided quantitative analysis to evaluate the costs and risks of four alternative strategies examined. The analysis was carried out using the end of 2013 data as the base year. A summary of activities in 2014 is presented in section 9.

As at 31st December 2013 the total public debt stood at $1,439.3 million, an increase of 6.8 percent, from the December 31st, 2012 amount of $1,3567million. Of this amount, Central Government Debt stood at $1,222.8 million increasing by 6.7 percent from $1,145.8 million in 2012. Of the total central government debt, external debt accounted for $720.9 million or 37.5 percent of GDP and domestic debt accounted for $501.9 million or 26.1 percent of GDP. The scope of this MTDS is confined to Central Government debt as at the end of 2013.

In 2010 the government prepared its first MTDS to cover the period 2010 to 2013. It provided a qualitative analysis of the debt portfolio and proposed policies and strategies to mitigate the risks identified. This 2015 – 2018 MTDS, is an enhancement, as it incorporates a quantitative analysis facilitated by the MTDS Toolkit. Four (4) alternative strategies were assessed and the cost and risk trade off of each strategy was examined. Of the alternative strategies analyzed, S1 which is the existing strategy provided the most optimal combination of cost and risk trade-off for achieving the debt management objectives. The main objective of strategy 1 is to maintain the proportion of external and domestic debt in the ratio 60:40. This can be achieved by maintaining but not exceeding the limits on short term instruments on the domestic side while accessing the funds available under the CDB's Country Strategy for SVG. Remaining financing needs would come from bilateral and commercial creditors based on their share of the debt portfolio as at December 31, 2013.

3. INTRODUCTION

The Government of SVG (GoSVG) penned its first MTDS in 2010 to cover the period 2010-2013. It provided a qualitative analysis of the risks of the debt and outlined a framework for mitigating the risk identified within which the debt management objectives may be achieved. This 2015/2018 MTDS is an improvement on the 2010 methodology as it is supported by quantitative analysis using the cost-risk analytical toolkit designed by the IMF and World Bank. The toolkit generates outputs which facilitate the evaluation of the costs and risks of the various alternative strategies proposed and discussed in Section 8.3.

The slow recovery following the global financial crisis as well as the debacle in the regional financial sector contributed to a sluggish domestic economy. In addition to this, the country's vulnerability to natural disasters and the construction of the largest single capital project, the Argyle international airport, necessitated borrowings which contributed to the increase in debt as a percent of GDP. Consequently, in 2010, Central Government debt as a percent of GDP was 50.8 percent; by the end of 2013 the ratio had increased to 63.6 percent. As at the end of 2014 the debt increased to 70.0 percent of GDP. Debt servicing as a percent of current revenue was 27.9 percent in 2010 and increased to 28.5 percent at the end of 2013. A summary of debt activities in 2014 is presented in section 9 followed by the debt strategy for the period 2015 – 2018 presented in Section 10.

In developing this MTDS the context of the medium term fiscal framework was reviewed. The data provided for the analysis was gleaned from the projections compiled using 2013 as the base year. Section 6 reviews the debt portfolio as at the end of the base year.

The choice of the final strategy was guided by analyzing the results of the outputs of the Toolkit with regard to cost-risk trade-offs between alternative instruments in tandem with the debt objectives. Section 11 provides the analysis and justification for the selection of the strategy.

The MTDS demonstrates the Government's commitment to carrying out the debt management objectives identified in Section 4, by implementing best practices aimed at achieving medium to long term debt sustainability. Further, its publication and dissemination promote transparency and democratic accountability of matters relating to the Central Government's debt.

4. DEBT MANAGEMENT OBJECTIVES

The main debt management objectives of the Government are:

(i) To satisfy the financing needs of the public sector at minimum cost over the medium to long term, in a prudent and sustainable manner;

(ii) To limit the exchange rate risk exposure by minimizing the non-US dollar denominated debt;[1] and

(iii) To promote the development of an efficient functioning money and capital market within the East Caribbean Currency Union (ECCU).

5. DEBT RECORDING

The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS)[2] has been used by the Government of SVG for recording, reporting and analysing its debt since 1987.

The external debt is fully recorded in CS-DRMS while the domestic debt is only partially covered by CS-DRMS. In addition to CS-DRMS, an excel spreadsheet is used to record the domestic debt. Technical support for the database is provided by the IT Unit in the Accountant General's Office and each month, a copy of the database is uploaded to the ECCB for offsite storage.

6. THE SCOPE

In principle, a MTDS covers total non-financial public sector debt which includes both central government and government guaranteed debt of public corporations. However, since information for Central Government is more readily available, the scope of this MTDS is limited to Central Government's debt at this time. Accordingly, debt of public enterprises with government guarantees is excluded and therefore not part of the analysis. Efforts would be made to cover the total non-financial public sector debt in a future MTDS.

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[1] The XCD is pegged to the USD at an exchange rate of 1XCD=2.7USD

2The CS-DRMS is an integrated tool for recording, monitoring, analyzing and reporting public debt. It is in operation in 59 countries both within and outside of the Commonwealth. Its functionalities allow for interface with a number of external systems.

7. REVIEW OF CENTRAL GOVERNMENT DEBT PORTFOLIO 2013

The total Central Government debt outstanding as at December, 2013 stood at EC$1,222.8 million or 63.6 percent of GDP. This amount is an increase of 6.7 percent when compared with the amount of $1,139.9 million as at December 31, 2012. The External component of the Central Government debt amounted to $720.9 million representing 58.9 percent of the total debt outstanding and 37.5% of GDP. The remaining $501.9 million was held domestically and stood at 26.1 percent of GDP.

7.1 EXTERNAL

7.1.1 Creditor Composition

As at the end of December 2013, of the total central government external debt, 62.2 percent ($448.4 million) was owed to multilateral creditors and 29.5 percent ($212.7 million) to bilateral creditors, with the remaining 8.3 percent ($59.8 million) was attributable to commercial and export creditors as shown in chart 1.

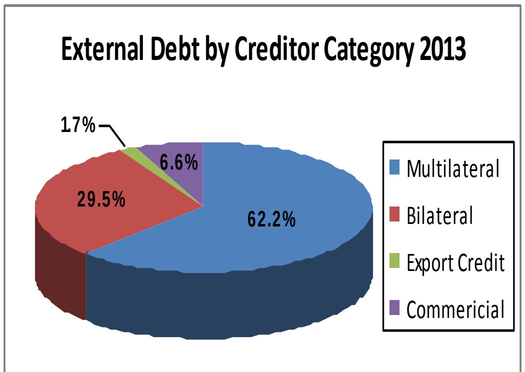


Chart 1

7.1.2 Currency Composition

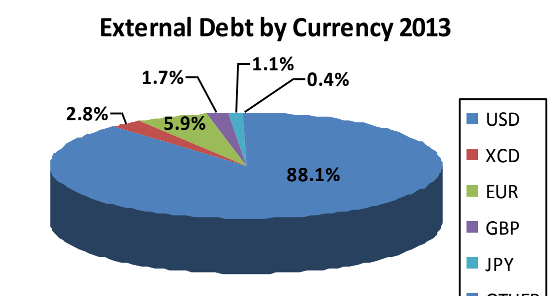
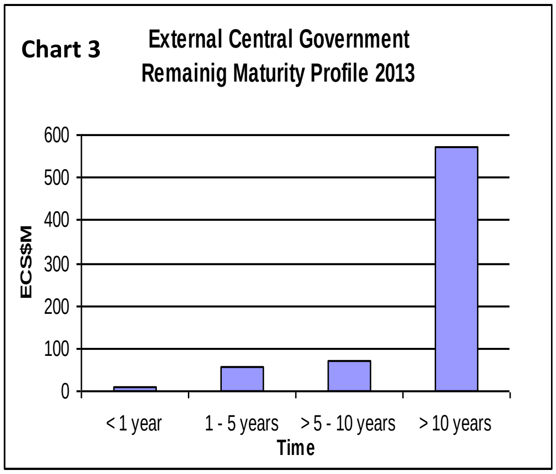


Chart 2

The majority, 88.1 percent ($637.05 million) of the external portfolio, was denominated in United States Dollar while the Euro currency accounted for 5.9 percent ($42.66 million) and the Eastern Caribbean Dollar (XCD) accounted for 2.8 percent ($20.25 million). The remaining 3.2 percent ($23.14 million) was contracted in various other currencies.

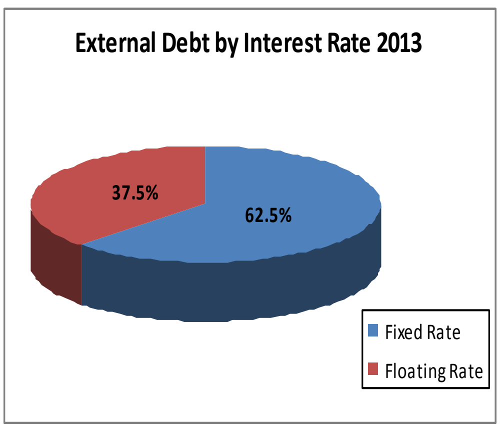


7.1.3 Remaining Maturity

Loans with remaining maturity of over 10 years accounted for 80.8 percent of the total external loan stock. Loans with remaining maturity between 5 and 10 years accounted for 9.8 percent, while loans with maturity between 1 and 5 years accounted for 7.9 percent. Loans with a maturity of less than one year

Chart 3

accounted for 1.6 percent of the external debt portfolio.



7.1.4 Interest Rate Composition

Sixty-two point five (62.5) percent ($450.6 million) of the external debt was contracted on fixed rate terms with the remaining 37.5 percent ($270.3 million) contracted on floating rate terms. Of the floating rate amount 80.8 percent ($218.5 million) was based on CDB's Ordinary rates (CDBOR) and 19.2 percent ($51.8 million) on LIBOR

Chart 4 6 month rate for IBRD loans

7.2 DOMESTIC DEBT

As at December 31, 2013 the total central government domestic debt stood at $501.0 million. Of this amount government securities, accounting for 58.1 percent ($290.9 million), while Commercial bank loans and the overdraft facility accounted for 23.3 percent ($116.5 million). All other domestic instruments accounted for the remaining 18.6 percent ($93.6 million).

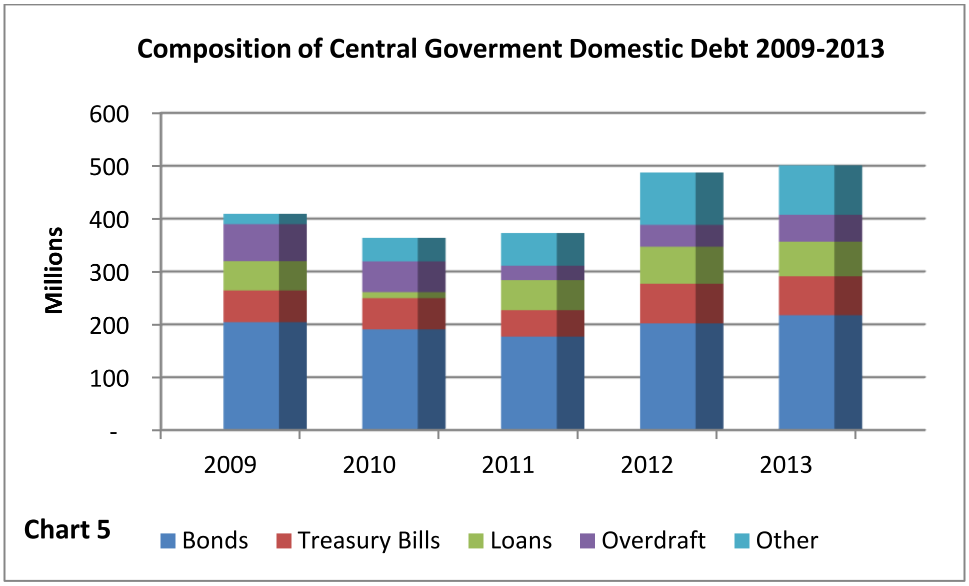


Chart 5

All domestic debt is contracted or issued at a fixed rate with the exception of Treasury Bills which are issued on a competitive basis and capped at a rate of 5.82 percent; the average coupon rate for 2013 was 3.4 percent. Bonds are issued with 5 and 10 year tenors at an average coupon rate of 6.5 percent and 7.0 percent respectively.

7.3 RISK ANALYSIS

The analysis of the existing debt portfolio reveals that interest rate risk exposure as measured by the ATR, poses significant risk to the portfolio. The ATR of the domestic debt is 2.3 years while the ATR for the external debt is 8.6 years. When combined the ATR of the total portfolio is 6.0 years. This shows that the debt portfolio is exposed to changes in interest rates. The domestic debt is especially vulnerable, as a consequence of its short maturity profile having 53.7 percent maturing in one 1 year. The majority of this short-term domestic debt consists of T-Bills, the accounts payable and the overdraft which become due in less than 1 year. In addition, a relatively large proportion of external debt is contracted on floating rate terms with 42.5 percent becoming due for re-fixing in one year. Of the total debt stock, 47.1 percent is due for re-fixing within one year.[3]

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[3] Repayment in full of short term obligations was not considered.

Additionally, the debt portfolio shows susceptibility to rollover/refinancing risk, revealing the vulnerability of the portfolio to higher costs for refinancing maturing obligations at that point.[4] This is consistent with the nature of the maturity structure of domestic debt where short-term debt dominates, accounting for 54.6 of the total. This resulted in an ATM of 2.1 years on domestic debt. The ATM of external debt is 8.6 years and consists of debt with relatively longer maturity periods, 6.7 percent of the portfolio becomes due within in 1 year.

In contrast, the level of exposure of the debt portfolio to foreign exchange rate risk is relatively low due to the high proportion of the debt denominated in USD. The XCD has been pegged to the USD since 1976. Accordingly, there is limited vulnerability to changes in exchange rate against the USD. The short term external debt as a percentage of foreign exchange reserves accounts for 13.5 percent of the total indicating that the reserves adequacy for meeting foreign debt service payments is sufficient.

Table 1: Debt Risk Indicators 2013

Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of USD)		267.0	185.5	452.6
Nominal debt as % GDP		37.5	26.1	63.6
PV as % of GDP		31.3	26.1	57.3
Cost of debt	Weighted Av. IR (%)	2.6	5.2	3.6
Refinancing risk	ATM (years)	8.6	2.3	6.0
	Debt maturing in 1yr (% of total)	6.7	53.7	26.0
Interest rate risk	ATR (years)	5.9	2.3	4.4
	Debt re-fixing in 1yr (% of total)	42.5	53.7	47.1
	Fixed rate debt (% of total)	62.6	100.0	77.9

[4] This is the extent that the debt might have to be rolled over at higher interest rates, including changes in credit spreads.

7.4 Redemption Profile

The redemption profile reflects the risks inherent in the structure of the existing debt portfolio. The domestic debt profile shows a high proportion of debt falling due within the first year of scheduled redemptions. This is as a result of the high accumulated value of short term instruments including treasury bills, the balances on the overdraft facility and on accounts payable. These constitute 54.6 percent of domestic debt. In contrast, the external debt shows a smoother and longer redemption profile since it is characterized by two types of instruments, concessional loans and bonds, with medium and long term original maturities.

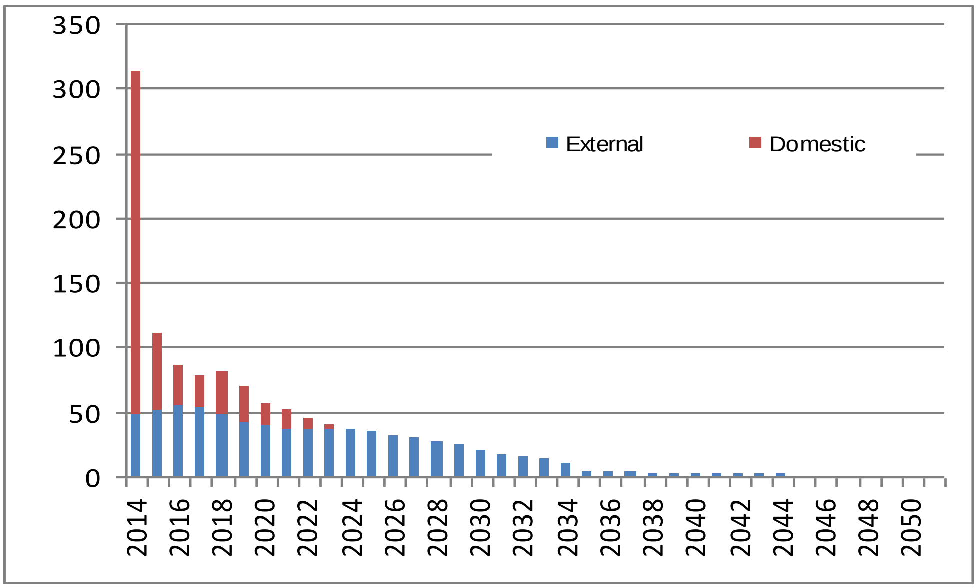


Chart 6: Redemption profile of existing debt stock (USD M)

8. Macroeconomic Overview

The MTDS was developed within the context of the medium-term fiscal framework, the level of development of the domestic debt market and the macroeconomic developments. The weak global economic recovery following the global financial crisis as well as SVG's vulnerability to natural disasters have adversely impacted the domestic economy. These have contributed to the relatively high levels of public debt and the low growth rates which caused a deterioration of the primary balance In 2013 the economy grew by 2.4 percent and growth for 2014 is estimated at 1.1 percent.

Over the projected period of this MTDS growth is expected to pick up modestly led by the tourism and construction sectors as the international airport at Argyle becomes operational and rehabilitation and reconstruction of infrastructure damaged during recent natural disasters move apace.

9. OVERVIEW OF DEBT ACTIVITIES 2014

Preliminary indicators show that the total Central Government debt stood at $1,346.0 million at the end of 2014. This was comprised of external debt of $808.3 million and domestic debt, $537.7 million. Increases were recorded in both the external and domestic debt of 11.0 percent and 7.0 percent respectively when compared with the corresponding period in 2013. The increase was mainly due to net inflows resulting from disbursements on external loans totaling $137.2 million (see Table 2), new securities raised through the RGSM and Private Placement arrangements totaling $39.5 million, and the increase in the overdraft limit from $35m to $50m. The inflows outpaced amortization which totaled $86.5 million.

Table 2: 2014 Disbursements by Creditor and Economic Sector on existing External Loans

CREDITOR	Education	Roads & Bridges	Sea Port	Air Transport	Balance of Payment	Natural Disaster Mgmt	Information Technology	Multi-Sector	TOTAL
ALBA Bank				40,381,957					40,381,957
International Monetary Fund					17,130,786				17,130,786
Bank of Nova Scotia (Canada)				21,498,078					21,498,078
Caribbean Development Bank	267,242	3,156,415	63,582	4,953,225		2,946,146			11,386,610
CARICOM Development Fund				5,899,597					5,899,597
Export-Import Bank of China				27,000,000				4,050,000	31,050,000
World Bank						8,946,028	876,327		9,822,355
TOTAL	267,242	3,156,415	63,582	99,732,857	17,130,786	11,892,174	876,327	4,050,000	137,169,383

In 2014, the government continued to offer 91-day Treasury Bills in tranches of twenty-five ($25) million dollars on the RGSM. A total of twelve auctions took place with each auction being fully subscribed. The average coupon rate for the auctions was 3.3 percent with the September auction settling at 1 percent, the lowest rate received on the RGSM since the market's inception. In addition a total of $40.0m in securities of varying tenor was proposed to be raised on the RGSM. Table 3 shows the outcome of the issues compared with the proposal.

Table 3: Securities Proposed in 2014 compared with the Actual Outcome.

Instrument Symbol	Tenor (years)	Rate (%)	Platform	Proposed Amount	Actual Outcome	
					Amt Offered	Settlement Amount
VCN240717	3	5.25%	RGSM	\$10.00m	\$10.00m	\$5.19m
VCN2417AA	3	5.25%	Private Placement	\$0.00m	\$3.00m	\$3.00m
VCG070821	7	7.00%	RGSM	\$15.00m	\$15.00m	\$16.04m
VCN110919[5]	5	6.00%	RGSM	\$15.00m	\$0.00m	\$0.00m
VCN110919	5	6.00%	Private Placement	\$0.00m	\$15.00m	\$15.29m
			Total	\$40,00m	\$43.00m	\$39.52m

As shown in table 3 above, VCN240717, a three (3) year Note which was the first tranche of the \$40.0 million issue was under-subscribed. Insufficient marketing as well as limited market appetite for medium to long term instruments may have accounted for the shortfall. Consequently, the five (5) year Note was cancelled. The shortfall in the issue was gleaned by private placement Notes of three (3) and five (5) years respectively (VCN2417AA and VCN110919). The seven (7) year Bond was however over-subscribed by \$1.04m and settled at the maximum rate of 7 percent.

9.1 Debt Servicing

In 2014, Central Government debt service increased slightly by 0.8 percent when compared with 2013, moving from \$131.8 million to \$132.9 million. The external debt service declined by 12 percent, while the domestic debt service increased by 11.7 percent. This increase occurred primarily as a result of the repayment of short term facilities including a one (1) year \$15.0 million Fiscal Reserve Loan from the ECCB and \$3.0 million from PetroCaribe for budget support. Notwithstanding the increase in the nominal amount, the debt service to revenue ratio decreased from 28.5 percent in 2013 to 24.8 percent in 2014 as a result of improved revenue performance.

[5] This issue was cancelled and replaced with a private placement.

10. MTDS 2015-2018

During the medium term, the government's debt programme will continue to support its Public Sector Investment Programme (PSIP), while seeking to adopt appropriate policies to control the size of the debt itself and the cost of servicing the debt.

Over the period (2015-2018), most of the external funding is expected to come from the traditional sources mainly the CDB, IDA and IBRD, since these creditors provide funds on concessional terms which will contribute to the long maturity of the external debt profile. In addition, financing from bilateral sources including ALBA[6] and the Republic of China on Taiwan where prudent will continue as identified. In addition to the traditional sources in the domestic market, the government plans to seek new investors through the issuance of 3-year and 5-year instruments on the RGSM.

Based on the analysis of the portfolio, the main risks that the government faces are interest rate risks and rollover/refinancing risks. In 2013 the average time for re-fixing the interest rate as measured by the ATR was 4.4 years which is low. In an effort to increase the ATR, the government will as far as possible avoid floating rate debt, and minimize bunching of loan payments through the use of reducing debt instruments and the sinking fund. The sinking fund will also be used as a means of managing refinancing risk by setting aside funds over time to repay bullet bonds. Efforts will be made to minimize the proportion of short term debt by as far as possible, remaining within the established limits. In addition in collaboration with the broker efforts will be made to maintain contact with the investors while broadening the base to increase the pool of investors. New strategies for marketing securities including direct contact and Road shows where applicable would be initiated.

Table 4: Established limits for short term instruments 2015

Instrument	Limit
Treasury Bills	15% of current revenue[7]
Overdraft	$50,0m[8]

[6] Although the ALBA Bank is owned by mult-inations it is classified in the Bilateral category.

[7] Treasury Bills Act Cap 444 Section 3(4)

[8] Resolution of Parliament, 22 December 2014

11. Selection of Strategy

The MTDS AT produced output on different borrowing strategies based on alternative assumptions on interest rates and exchange rates. It provided data for the assessment of the costs and risks associated with each scenario given the cash flows on the existing debt, macro and market projections and alternative borrowing strategies.

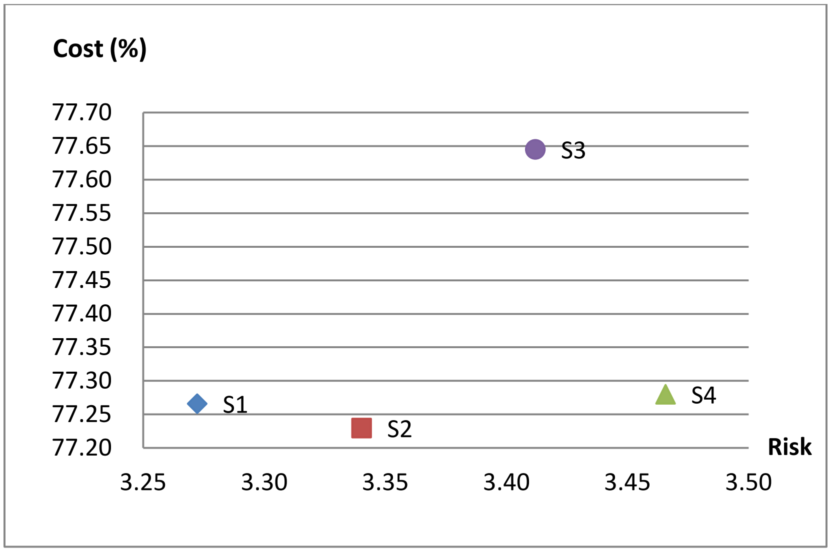
The analysis compared the alternative strategies under the baseline and shocks scenarios. The costs indicators were the debt-to GDP ratio and the interest cost-to-GDP ratio. The highest risk outcomes in the final year (2018) of the scenarios were compared. The best alternative strategy was selected based on this analysis. The results of the assessment are provided below.

11.1 Debt to GDP Indicator

The analysis of the outcome of the debt to GDP ratio revealed that S1 had the lowest risk and the second lowest cost. This was followed by S2 with the lowest cost but a higher degree of risk. S4 had a slightly higher level of cost and the highest level of risk, while S3 was the most costly with a risk outcome that was higher than S1 and S2. The interest rate shock was applied to all four strategies due to the low share of non-USD denominated debt.

Under S2 there was a shift from external to domestic for new financing, This resulted in about 50 percent of the portfolio attributed to the Domestic debt including low/no cost short term instruments, hence the slightly lower cost and higher risk for S2 compared with S1. With respect to cost and risk under the debt to GDP indicator, S3 and S4 were more costly and more risky than both S1 and S2 and were not considered to be effective strategies given the debt objectives. Chart 7 below shows the outcome of analysis of the four strategies under the debt to GDP indicator.

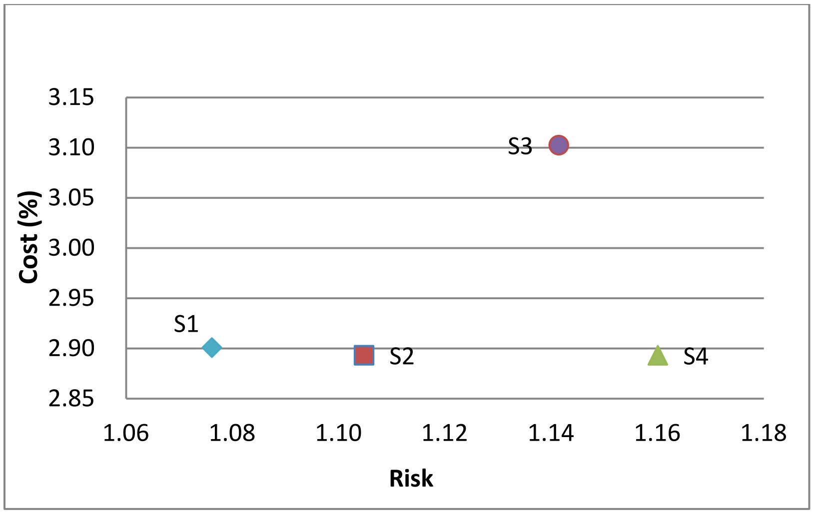
Chart 7: Central Government Debt to GDP, in percent by the end of 2018



11.2 Interest Payments to GDP Indicator

This indicator revealed that at the end of 2018 two strategies (S2 and S4) yielded outputs that were slightly lower than S1. However with respect to risk, S1 had the lowest risk. Of the alternative strategies analyzed, S1 provided the most optimal combination of cost and risk trade-off. The indicators support a slight bias in favor of S1 relative to S2 since S1 proved to be more effective at risk mitigation. The objective of S1 is to maintain the proportion of external and domestic debt in the ratio 60:40. On the domestic side short term instruments are to be maintained but not to exceed their limits, while on the External debt provisions were made to include committed undisbursed balances and maximize the use of the CDB envelope of USD$101m available under the CDB's Country Strategy for SVG. The envelope is apportioned between fixed and floating rate loans. The remaining financing needs would come from bilateral and commercial creditors based on their share of debt as at December, 2013. The results of the cost risk analysis of the alternative strategies are shown in chart 7 below. A synopsis of the four alternative strategies reviewed is appended at Appendix 2.

Chart 8: Interest payments to GDP, in percent by the end of 2018



Additionally, under S1 at the end of the projected period 63.0 percent of the total loan portfolio is expected to be contracted at fixed exchange rates compared to 54.2 percent under S2. This supports the objective of minimizing the foreign exchange risk by contracting where possible the debt at fixed exchange rates. Further in 2014, the government's funding proposal included the issue of $40.0 million in securities of varying tenor on the RGSM. This was essential the objective of S2 which focused on domestic financing that could be raised through additional instruments of 3, 5 and 7 tenor on the RGSM. The outcome of the proposal resulted in under subscription of the 3-year instrument and the cancellation of the 5-year instrument, indicating a lack of appetite at the time for the instruments.

12. Conclusion

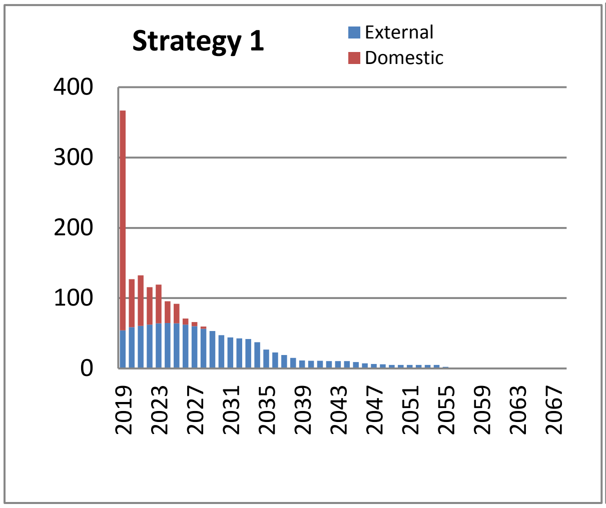
The MTDS analytical tool generated the outputs on the strategies proposed based on alternative assumptions on interest rates and exchange rates. The data for the assessment of the costs and risks associated with each scenario are based on the cash flows of the debt existing as at December 2013, macroeconomic and market projections and alternative borrowing plans. It revealed that while the nominal debt as a percentage to GDP will increase from its current percentage, the differences under each of the four strategies is insignificant.

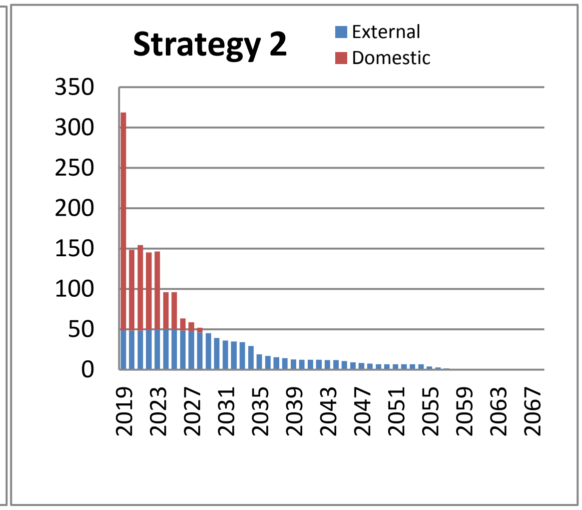
The indicator of interest payments to GDP and the improvement in the exchange rate risk indicator provide sufficient justification for the selection of S1.

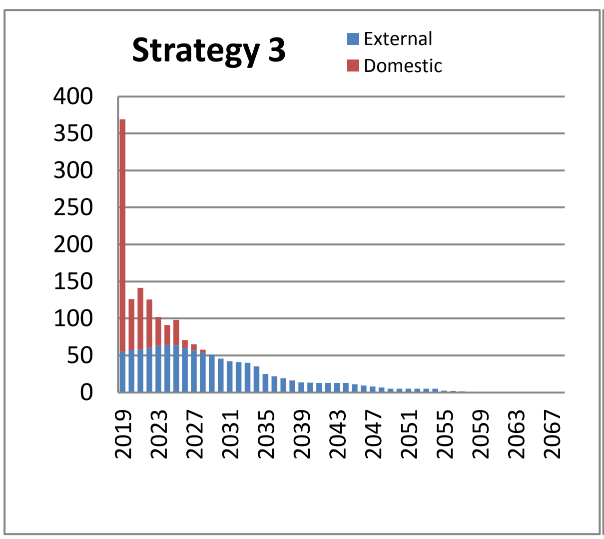
The strategy would be monitored continuously and reviewed annually for adjustments in line with the global and domestic economic environment.

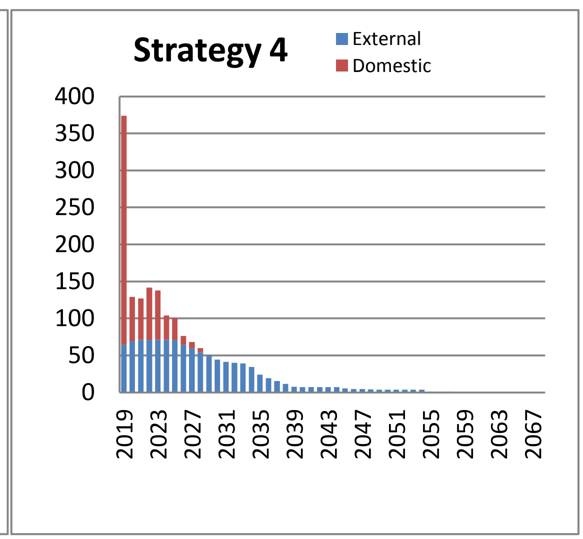
This Government of St. Vincent and the Grenadines Medium Term Debt Strategy for the period 2015-2018 was approved by the Cabinet on Wednesday 13 April, 2016.

APPENDIX I: REDEMPTION PROFILES OF ALTERNATIVE STRATEGIES, BASED ON DEBT STOCK AT THE END OF 2018, IN XCD MILLION









APPENDIX II: SUMMARY OF ALTERNATIVE STRATEGIES.

Strategy 1 (S1): Current Strategy - The objective of this strategy is to maintain the proportion of external and domestic debt in the ratio 60:40. On the domestic side short term instruments are to be maintained but not to exceed their limits, while on the External debt provisions were made to include committed undisbursed balances and maximize the use of the CDB envelope of USD$101m available under the CDB's Country Strategy for SVG. The envelope is apportioned between fixed and floating rate loans. The remaining financing needs would come from bilateral and commercial creditors based on their share of debt as at December, 2013.

- **Strategy 2 (S2): Domestic Capital Market Development** - This strategy focuses on domestic financing that could be raised through additional instruments on the RGSM. In addition to the existing securities, new instruments in the form of 3, 5 and 7 year securities are to be issued. Consequently, external bilateral and commercial borrowing declined compared with S1. This resulted in an increase in the proportion of domestic debt from 40 percent at the end of 2013 to 46 percent by the end of 2018. The objective of this strategy is to develop the domestic capital market.
- **Strategy 3 (S3): Less Bilateral Concessional Financing** – This strategy reflects limited access to bilateral funding. It assumes that concessional borrowing from expected bilateral sources does not materialize. However it assumes that undisbursed balances already committed will be disbursed and these amounts are included in the analysis. . The residual of the gross financing need will be met by increased borrowing from commercial sources in the external market. The debt outstanding to commercial creditors is expected to increase from 4 percent to 5 percent by end 2018 under this strategy. The objective of this strategy is to limit the reliance of funding from bilateral.
- **Strategy 4 (S4): Reduce Floating Rate Risk** - this strategy reflects reduced reliance on floating rate external debt. It assumes that there would be no new IBRD and bilateral floating rate debt contracted over the period. The mix of the CDB floating and fix rates is assumed to remain at the 2013 levels. The residual financing needs would be compensated by increasing the bilateral and commercial fixed rate borrowing. Consequently, floating rate debt as a share of total debt is reduced from approximately 4.0 percent to 2.0 percent by end 2018.

APPENDIX III: COST/RISK ANALYSIS OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES

Risk Indicators		2013	As at end FY2018			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		63.6	77.3	77.2	77.6	77.3
PV as % of GDP		57.3	69.6	69.4	70.7	69.6
Implied interest rate (%)		3.6	3.9	3.9	4.2	3.9
Refinancing risk	ATM External Portfolio (years)	8.6	11.0	12.0	11.4	9.9
	ATM Domestic Portfolio (years)	2.3	2.7	3.2	2.7	2.8
	ATM Total Portfolio (years)	6.0	7.9	8.0	8.1	7.2
Interest rate risk	ATR (years)	4.4	6.6	6.9	6.5	6.5
	Debt re-fixing in 1yr (% of total)	47.1	39.3	33.7	41.4	33.9
	Fixed rate debt (% of total)	77.9	80.8	83.6	78.8	86.7
FX risk	FX debt as % of total	59.0	63.0	54.2	62.3	62.3
	ST FX debt as % of reserves	13.5	12.5	11.3	12.8	14.9

APPENDIX IV: SELECTED PUBLIC DEBT INDICATORS

	2010	2011	2012	2013	2014
Central Government External Debt by Creditor Category	**571.5**	**667.9**	**652.7**	**720.9**	**808.3**
Multilateral	431.9	443.5	438.1	448.4	467.5
Bilateral	88.8	141.2	139.8	212.7	249.4
Commercial	50.8	83.2	64.0	47.4	48.5
Export Credit	0.0	0.0	10.8	12.4	42.9
Central Government Domestic Debt by Creditor Category	363.5	372.7	487.3	502.0	537.7
Eastern Caribbean Central Bank	-	2.0	16.3	19.7	15.0
Bank of SVG	143.7	159.8	173.0	116.1	126.8
Other Banks	63.3	60.5	88.9	115.4	81.3
Other Financial Institutions	77.7	43.4	61.6	57.7	90.7
Insurance Companies	39.1	46.0	40.5	49.9	59.1
National Insurance Scheme	12.9	16.8	21.1	41.3	48.6
Other	26.7	44.2	85.8	101.8	116.2
Debt Servicing	**136.5**	**121.8**	**117.4**	**131.8**	**132.9**
External Central Government	71.7	74.6	72.7	68.2	60.9
Domestic	64.8	47.2	44.7	63.6	72
(of which sinking fund)	12.0	6.0	4.0	5.5	7.6
GDP (at market price)	1,839.7	1,827.9	1,871.8	1,945.7	1970.27
Current Revenue	490.0	462.5	472.6	462.6	535.19
External Debt/GDP (%)	31.1	36.5	34.9	37.1	41.0
Domestic Debt/GDP (%)	19.8	20.4	26.0	25.8	27.3
Debt Service/Current Revenue (%)	27.9	26.3	24.8	28.5	24.8
External Debt Service/Current Revenue (%)	14.6	16.1	15.4	14.7	11.4