The Government of
St. Vincent and the Grenadines

Medium Term Debt Strategy 2019-2021

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

June 2019

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1.0 Acronyms

AT	Analytical Tool	**IMF**	International Monetary Fund
ATM	Average Time to Maturity	**LIBOR**	London Inter -Bank Offer Rate
ATR	Average Time to Re-fixing	**MTDS**	Medium Term Debt Strategy
CARICOM	Caribbean Community	**PV**	Present Value
CDF	CARICOM Development Fund	**RGSM**	Regional Government Securities Market
CS-DRMS	Commonwealth Secretariat Debt Resource Recording and Management System	**S1**	Strategy one
CDIMU	Cash Debt Investment Management Unit	**S2**	Strategy two
ECCB	Eastern Caribbean Central Bank	**S3**	Strategy three
ECCU	Eastern Caribbean Currency Union	**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

2.0 ACKNOWLEDGEMENT

The Cash, Debt and Investment Management Unit (CDIMU) of the Ministry of Finance would like to express sincere gratitude to the Eastern Caribbean Central Bank (ECCB) team for providing feedback, oversight and technical advice during the preparation of this 2019-2021 MTDS. We are indeed grateful to the mission team for the sharing of their knowledge and expertise, which has further enhanced and strengthened our understanding of the MTDS Analytical Toolkit.

We also thank the staff within the CDIMU and the Economic Research and Policy Unit (Fiscal Unit) of the Ministry of Finance; the Audit Department; Treasury Department and Central Planning (Public Sector Investment Programme Monitoring Unit) for their commitment and dedication to this process in developing and formulating the production of this MTDS 2019-2021; as well as the Director General and the Budget Director for their guidance, support and feedback throughout the preparation of this document.

3.0 EXECUTIVE SUMMARY

The CDIMU within the Ministry of Finance and Economic Planning prepared the 2019 to 2021 Medium Term Debt Strategy (MTDS) which articulates the objectives and strategies for achieving a desired composition of government's debt portfolio over the period 2019 to 2021, at the lowest cost with a prudent degree of risk. This strategy will be monitored and updated annually. The proposed strategy was selected following an in-depth and rigorous review of central government's debt management activities in 2018 and the outlook for the fiscal performance and economic growth prospects in the medium term. The base period of the analysis is 31st December 2018 and strategies were crafted within the context of the Medium Term Macroeconomic and Fiscal Framework (2018 - 2021) using the IMF/World Bank MTDS Analytical Toolkit (AT) which provided the quantitative analysis required to evaluate the costs and risks of the four (4) alternative strategies developed.

Macroeconomic data for 2018 indicated that a moderate growth in real output of 2.0 percent was realized. Growth was driven by improvements in Wholesale and Retail trade, Manufacturing, Tourism and Fishing. A further expansion in growth of 2.6 percent is forecasted to occur in 2019, with continued growth in these sectors coupled with an uptick in Construction activities. Over the medium term, 2020-2022, real economic activity is expected to improve, at an average of 2.7 percent per annum. The country is expected to benefit from developments in the Tourism and Construction sectors. On the fiscal front, sustained primary surpluses are also projected over the medium-term due to enhanced revenue measures; expenditure controls; and improvements in tax administration efficiencies and tax reform policy. The rebound in growth and primary fiscal surpluses are expected to bring about a gradual decline in public debt over the medium term.

As at 31st December 2018, the total Central Government debt represented 84.7 percent of the total public debt portfolio. This reflected an increase of 6.0 percent from EC$1,322.5 million recorded at the end of December 2017 to EC$1,402.5 million. Of the total central government debt, external debt accounted for EC$897.6 million or 64.1 percent and domestic debt accounted for EC$504.9 million or 35.9 percent. Total central government debt represented 64.0 percent of GDP[1].

At the end of the fiscal year 2018, an evaluation of the portfolio indicates that the weighted average total interest rate was 4.3 percent of total debt and total interest payments at 2.8 percent of GDP. The average time to maturity (ATM) of the total portfolio was 5.2 years with 49.4 percent of domestic debt maturing in one year. The interest rate risk, as measured by the average time to maturity (ATR), for the portfolio was 3.9 years with external and domestic debt re-fixing in one year totalling 49.3 and 49.4 percent respectively. The main risks facing the current debt portfolio continue to be interest rate and refinancing risks, while exposure to exchange rate risk remains relatively low.

The analysis of the output indicates that all of the formulated strategies resulted in improvements in most of the risk indicators by the end of the medium-term in 2021 relative to the base year 2018, with S4 having the best results in all categories. However, S3 has been selected as the recommended strategy as it is the most practical and achievable over the medium-term. **This strategy envisages a reduction in some high cost domestic debt with partial utilization of proceeds from a concessionary multi-lateral loan.** In terms of targets set for the portfolio, S3 would achieve all targets except for that of refinancing risk. The implementation of S3 would extend the ATM of total central government debt to 6.83 years whereas the portfolio's target is 7.0 years and more.

[1] Preliminary GDP for 2018 is 2190.54

Nonetheless, S3 would result in the lowest debt re-fixing in one year and fixed rate debt as a percent of total debt of 38.4 percent and 80.9 percent respectively.

In terms of interest rate risk as measured by the ATR, where the central government debt stock is susceptible and exposed to variable interest rate re-fixing, S3 would lengthen the re-fixing period in years, from the current average of 3.9 years to 5.74 years at the end of the medium-term period in 2021. In sum, when evaluating the cost/risk trade-offs using the debt to GDP ratio and the interest payment to GDP ratio, S2 would result in the lowest possible cost. The differences between the results obtained from both S2 and S3 were marginal at best. Hence, there is an indifference between the two strategies.

4. 0 IMPLEMENTATION OF THE 2018 MEDIUM TERM DEBT MANAGEMENT STRATEGY

The recommended strategy that guided the debt management borrowing activities for 2018, was Strategy 2 (S2), which outlined a cost minimization objective with a targeted financing mix ratio of 54:46 percent, being external versus domestic instruments respectively. The main aim of this strategy was to reduce high cost debt using highly concessional external instruments. It also proposed that domestic financing, mainly by the issuance of securities, be raised with an equal mix of medium and long term[2] securities in the ratio 50:50.

The actual outturn of new borrowings at the end of 2018 was a financing mix of 16:84 percent external versus domestic instruments respectively. On the external portfolio, disbursements from existing loans with committed undisbursed balances were not received as projected and identified concessional external financing loans expected to be

[2] Medium term refers to 3-5 years while long term refers to 6 years and above

fully effective and disbursed within the year were affected by a longer than anticipated loan negotiation process.

The external portfolio recorded financing primarily from multilateral sources (74.3 percent) with the remaining being financed from bilateral sources. No international bonds were issued during the period. Multilateral financing, represented the bulk of disbursements on existing loans whereas 93.2 percent of bilateral financing was received from new loans contracted in 2018.

Financing on the domestic portfolio consisted 68.3 percent of short-term instruments, 1.0 percent of medium-term instruments and 30.7 percent of long-term instruments. In sum, 96.7 percent of domestic securities issued were long-term securities with tenors of at least seven years. Overall, the financing mix for 2018 resulted in a marginally higher interest payment to GDP; a deterioration in average time to maturity (ATM) and average time to re-fixing (ATR) at the end of 2018 when compared to 2017.

5.0 OVERVIEW

The main objective of the MTDS is to satisfy the government's financing needs at lowest possible cost with a prudent degree of risk over the medium-term. The scope of the analysis in this MTDS (2019-2021) is limited to central government debt. Accordingly, government guaranteed debt of Public Enterprises is excluded and therefore, does not form part of the analysis. Notwithstanding this, the monitoring of these explicit contingent liabilities continue to be a major activity of the government's overarching debt management objectives.

This MTDS (2019-2021) was prepared by the CDIMU in the Ministry of Finance. The CDIMU is responsible for debt strategy formulation and analysis; assisting with debt raising activities; supporting the policy-making framework on debt management issues;

debt recording and monitoring as well as facilitating debt service payments. In developing this MTDS, the macroeconomic and fiscal data used in the analysis were obtained from the Economic Research and Policy Unit, Ministry of Finance and Economic Planning 2019 Medium Term Fiscal Framework.

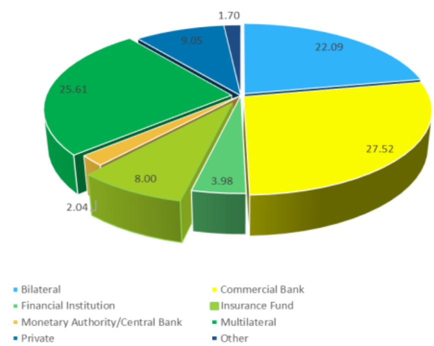
In preparing this MTDS, four (4) strategies were developed based on various characteristics and assumptions. With the aid of the World Bank/ IMF Analytical Toolkit (MTDS AT) these scenarios were assessed. The choice of the final strategy was guided by analysing the results of the output with regard to cost-risk trade-offs between the alternative financing paths in tandem with the overarching debt management objectives.

The MTDS demonstrates the government's commitment in carrying out the debt management objectives through responsible financing and management of central government's debt portfolio in such a way that limits the cost and risk to the overall portfolio. This augurs well in helping to complement the attainment of the debt sustainability target set by the Monetary Council of the ECCB of a debt-to-GDP ratio of not more than 60 percent by the year 2030. Furthermore, this MTDS report is premised on the fact that its publication and dissemination will promote transparency and democratic accountability of matters relating to the central government's debt.

6.0 PROFILE OF CENTRAL GOVERNMENT DEBT PORTFOLIO 2018

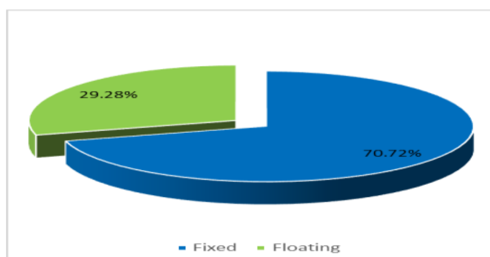
Total Central Government debt outstanding as at 31st December 2018 stood at EC$1,402.5 million or 64.0 per cent of GDP. The amount increased by 6.0 percent when compared with EC$1,322.5 million in 2017. The external component of the central government debt amounted to EC$897.6 million representing 64.0 percent of the total central government debt outstanding or 41.0 percent of GDP. The remaining EC$504.9 million or 36.0 percent was held domestically[3] and stood at 23.0 percent of GDP. Central Government debt by creditor category indicated that commercial banks, multilaterals, followed by bilateral are the largest creditor category, representing 27.5 percent, 25.6 percent and 22.1 percent respectively. These three categories account for 75.2 percent of the total central government debt.

Figure 1: Central Government debt by Creditor Category



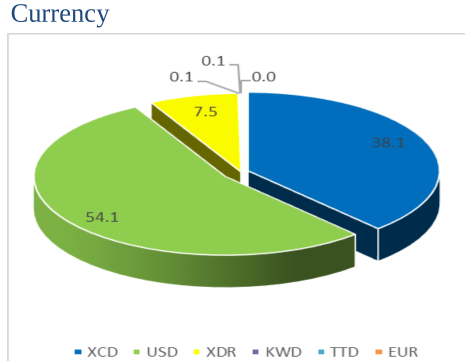
The interest rate composition reveals that 70.7 percent of all instruments are contracted on a fixed rate basis. The major currencies in the portfolio as depicted in figure 3, are USD, 54.1 percent and XCD, 38.1 percent respectively.

Figure 2: Central Government debt by Interest



The debt portfolio consists of short-term instruments, such as insurance deposits, accounts payables, treasury bills and an overdraft facility. Loans and bonds account for the entire medium to long-term instruments within the portfolio, and represent 86.5 percent.

Figure 3: Central Government debt by Currency

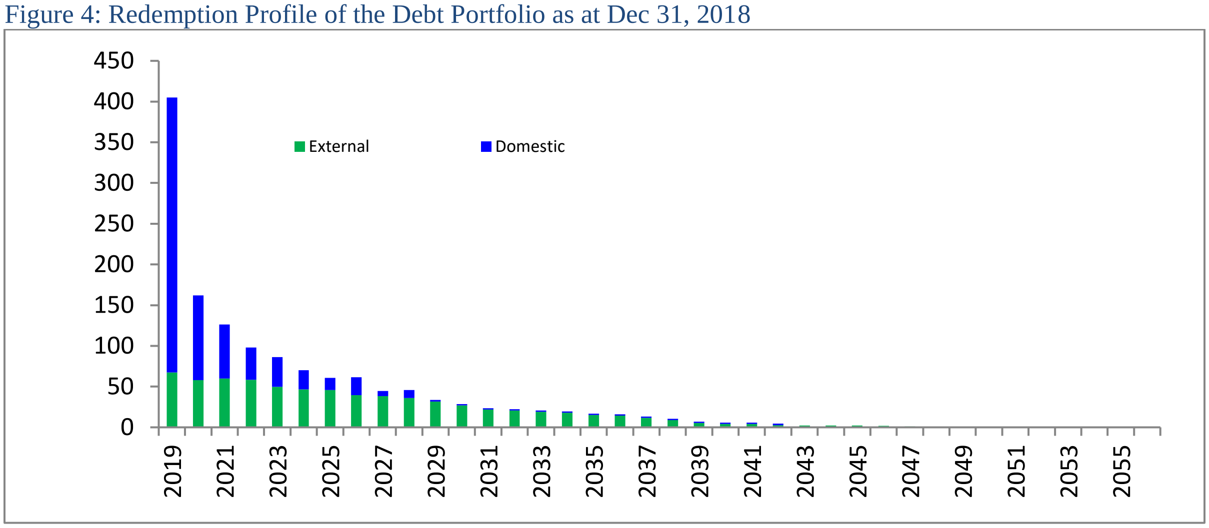


[3] This includes all EC denominated treasury bills, bonds and notes.

6.1 Redemption Profile

The redemption profile (Figure 4) shows the amortization outlook of the total debt portfolio by remaining maturity and decomposed by local (domestic) and foreign (external) currency composition. In contrast to a relatively smooth external redemption profile, the domestic profile is significantly high in 2019 on account of the maturing of some short-term instruments[4] and $65.0 million in bullet bonds. The profile also shows that by the year 2042 the existing domestic debt would have matured as these instruments have a shorter tenor compared to external instruments, which have grace periods and longer maturities, resulting in the external debt maturing in the year 2054.

Figure 4: Redemption Profile of the Debt Portfolio as at Dec 31, 2018



Source: CDIMU, Ministry of Finance

6.2 Cost and Risk Analysis

The analysis of the existing central government debt portfolio reveals a high exposure to interest rate risk (as measured by ATR, debt re-fixing in 1 year and fixed rate debt as a percentage of total) and refinancing risk (as measured by ATM, debt maturing in 1 year as a percentage of total debt and debt maturing in 1 year as a percentage of GDP).

[4] Short term instruments are those with maturities of less than one year. For GOSVG they consist of Accounts Payables, Treasury Bills, the Overdraft, Insurance deposits and an ECCB Advance.

Table 1: Comparison of 2018 and 2017 Debt Portfolio Cost and Risk Indicators

Risk Indicators		Targets	2017			2018		
Central Government Existing Debt Portfolio and Risk Indicators			External	Domestic	Total debt	External	Domestic	Total debt
Amount (in millions of XCD)			744.4	577.8	1322.5	717.7	683.3	1401.0
Amount (in millions of USD)			275.7	214.0	489.7	265.8	253.1	518.9
Nominal debt as % GDP			35.3	27.4	62.7	32.8	31.2	64.0
PV as % of GDP			29.1	27.4	56.5	28.3	31.2	59.5
Cost of debt	Interest payment as % GDP	>2.1	0.8	1.6	2.4	1.0	1.8	2.8
	Weighted Av. IR (%)		2.3	5.7	3.8	3.0	5.7	4.3
Refinancing risk	ATM (years)	>7.0	7.8	2.6	5.5	7.8	2.5	5.2
	Debt maturing in 1yr (% of total)		8.7	38.9	21.9	9.4	49.4	28.9
	Debt maturing in 1yr (% of GDP)		3.1	10.7	13.7	3.1	15.4	18.5
Interest rate risk	ATR (years)	>5.5	5.1	2.6	4.0	5.3	2.5	3.9
	Debt refixing in 1yr (% of total)		49.2	38.9	44.7	49.3	49.4	49.3
	Fixed rate debt (% of total)		55.5	100.0	75.0	55.5	100.0	77.2
FX risk	FX debt (% of total debt)				56.3			51.2
	ST FX debt (% of reserves)				4.9			14.5

Source: CDIMU, Ministry of Finance

The portfolio's ATR is 3.9 years, representing a slight deterioration from the 4.0 years recorded at the end of 2017 from the last MTDS output. The relatively short ATR implies that the debt portfolio is susceptible to increases in interest rates (specifically, variable interest rates re-setting) if short-term domestic debt[5] and floating rate external debt are to be re-fixed. When compared with the MTDS output for 2017, the ATRs on the external portfolio, marginally improved from 5.1 years to 5.3 years while the ATR on the domestic portfolio deteriorated, moving from 2.6 years to 2.5 years. Moreover, with an ATM for the total portfolio in 2018 being 5.2 years, it can be implied that the portfolio is exposed to rollover/refinancing risk for maturing obligations. The shorter ATM on domestic debt of 2.5 years is reflective of the high volume of short-to-medium-term debt instruments as opposed to longer-term debt instruments in the external portfolio. The ATM on the external side is 7.8 years.

In contrast, the level of exposure of the debt portfolio to foreign exchange rate risk is relatively low at this time due to the high concentration of central government's foreign

[5]The majority of this short-term domestic debt consists of T-Bills, the accounts payable and the overdraft.

currency debt denominated in USD. This 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 there will be vulnerability to changes in exchange rate against the USD.

With regards to debt servicing, as reflected by the measurement of interest payment as a percentage of GDP, the total cost of the portfolio increased marginally from 2.4 percent to 2.8 percent in 2018. The external component showed an increase in cost of debt from 0.8 percent to 1.0 percent in 2018, whereas the domestic debt's cost increased from 1.6 percent to 1.8 percent.

7.0 Macroeconomic Overview

The MTDS was developed within the context of the following broad parameters: - Medium-Term Fiscal Projections; the level of development of the domestic capital market; and the forecasted macroeconomic developments. Following three consecutive years of real GDP growth, of less than 1.0 percent, preliminary data indicated that real economic activity expanded by 2.0 percent in 2018. Growth was driven by improvements in the following sectors, Wholesale and Retail trade, Manufacturing, Tourism and Fishing. The increase in Wholesale and Retail trade reflected a 7.1 percent rise in merchandise imports during the year. As a result of severe infrastructural damage after Hurricanes Irma and Maria in 2017, demand for construction materials rose significantly which led to robust growth in the manufacturing sector. The Tourism and Fishing sectors expanded on account of positive spill-off effects from the opening of the Argyle International Airport. New international airlines and routes resulted in an increase in stay-over visitors and new export markets for seafood occasioned by increased fish landings. For 2019, a further 2.6 percent expansion in economic activity is anticipated with continued growth in these sectors and a boost in construction activity.

Over the medium-term, 2020-2022, real economic activity is expected to improve moderately, at an average of 2.7 percent per annum. The main impetus for this upward trend will emanate from the anticipated increase in Tourism and associated activities with increased international flights and several major construction projects scheduled to be completed in the medium-term including hotel construction, the Port Modernisation Project and the Regional Disaster and Vulnerability Reduction Project and a number of road rehabilitation projects.

On the fiscal front, sustained primary surpluses are also projected over the period due to enhanced revenue measures from tax administration and policy reforms and expenditure control measures. The rebound in growth and fiscal surpluses are expected to bring about gradual improvements in the public debt indicators over the medium-term. In this regard, the CDIMU has established some indicative debt management targets to be met by 2021. These include: an interest payment to GDP of 2.1 percent, together with an ATM greater than 7 years and an ATR greater than 5.5 years.

8.0 MEDIUM TERM DEBT STRATEGY 2019-2021

The objective of this MTDS is to determine the most appropriate borrowing strategy for the Government of SVG with respect to the cost and risk trade-offs. The strategy aims to address the main risks facing the Government which were identified in Section 6. Four strategies with varying financing scenarios were modelled on the assumptions below and analysed.

Table 2 below shows the various macro-economic indicators that were used in the analysis as well as those that formed the basis for assessing the economic performance of St. Vincent and the Grenadines.

8.1 Macro-Economic Assumptions

Table 2: Macro Economic Assumptions 2018-2021

Macro and Fiscal Indicators (EC$M)	2018 Actual	2019	2020	2021
Revenues (inc. grants)	618.57	663.03	692.57	720.63
in percent of GDP	28.24	29.09	29.13	29.01
Primary expenditures	592.12	659.70	687.28	706.47
in percent of GDP	27.03	28.95	28.91	28.44
Expenditure	642.01	726.30	754.76	780.13
in percent of GDP	29.31	31.87	31.74	31.41
Interest expenditure	49.89	66.60	67.49	73.67
in percent of GDP	2.28	2.92	2.84	2.97
Primary fiscal balance	26.45	3.33	5.29	14.16
in percent of GDP	1.21	0.15	0.22	0.57
Overall fiscal balance	(23.44)	(63.27)	(62.20)	(59.50)
in percent of GDP	(1.07)	(2.78)	(2.62)	(2.40)
Nominal **GDP**	2,190.54	2,279.03	2,377.59	2,484.10

Source: Ministry of Finance Projections

Tables 3 and 4 below show the baseline pricing and shock assumptions that were used to analyse and assess the four (4) strategies of the MTDS 2019-2021.

8.2 Baseline Pricing Assumptions

Table 3: Baseline Pricing Assumptions

Source of Financing	Interest Rates	Interest Rate Type
Commercial	7.5-8.5	Fixed
CDB/IDA	2.25 – 2.5	Fixed
CDB/IBRD	3.0 – 4.8	Floating
Bilateral	2.0- 6.0	Fixed
T-Bills	4.8	Fixed
Bonds(3y/5y/7y)	4.0/6.5/7.5	Fixed
ECCB	6.5	Fixed
Overdraft	8.5	Fixed

8.3 Shock Assumptions

Table 4: Shock Assumptions

Type	Moderate	Extreme
Interest rate shock	An increase in variable rates by 2% applied in each year 2019-2021	An increase in variable rates by 4% applied in each year 2019-2021
Exchange rate shock	A 15% depreciation of the domestic currency against the XDR in 2019, sustained thereafter	A 30% depreciation of the domestic currency against the XDR in 2019, sustained thereafter
Combination shock	The moderate interest rate shock of 2% combined with a 15% currency depreciation (XCD vs XDR) in 2019	

8.4 Strategies

The common features included in the four strategies proposed are:

- The existing 91-day treasury bills auctions in the amount of $84.0 million in the base year are re-issued at maturity throughout the period.
- Contracted obligations are disbursed as expected over the period.
- Shock assumptions stated above are applied to all scenarios

Using the AT the four strategies were assessed based on the various characteristics and assumptions to determine the cost/risk trade-offs at the end of the targeted year.

- **Strategy 1 (S1): Current Strategy (Status Quo)** - The objective of this strategy is to continue 2018's borrowing pattern which involves a financing mix for new borrowing of 75 percent external funding versus 25 percent domestic. On the domestic side, short-term instruments are to be maintained but not to exceed their statutory limits.

- Strategy **2 (S2): Replace high cost domestic debt with the issuance of marketable securities -** The objective of this strategy is cost reduction. The strategy envisages a gradual reduction in the reliance on the overdraft facility via issuance of an additional $20.0 million treasury bill. This option also aims at promoting the use of the domestic capital market.

- **Strategy 3 (S3): Refinance some high cost domestic debt with partial utilization of proceeds from a concessionary multi-lateral loan** - This strategy proposes to obtain financing from a multi-lateral creditor in the form of a policy-based loan, where some proceeds will be utilized to partially reduce some high cost domestic debt. The aim of the strategy is to reduce cost while at the same time, lengthen the average time to maturity on the domestic portfolio.

- **Strategy 4 (S4): Refinance maturing high cost securities with low cost loans from official creditors** - This strategy reflects increased reliance on multilateral and bilateral debt by utilizing funding from international financial institutions, along with a reduction in the level of short and medium-term securities being issued.

9.0 ANALYSIS OF OUTPUT

The table below shows the risk indicators at the end of 2021 for the four strategies analysed.

Table 5: **Central Government:** - Cost and Risk Indicators for the proposed strategies

Risk Indicators		**2018**	**As at end 2021**				
		Current	**S1**	**S2**	**S3**	**S4**	**Targets**
Nominal debt as % of GDP		64.0	61.1	61.0	61.1	61.1	
Present value debt as % of GDP		59.5	56.1	56.1	55.7	54.9	
Interest payment as % of GDP		2.8	2.5	2.4	2.4	2.4	2.1
Implied interest rate (%)		4.3	4.1	4.0	4.0	4.1	
Refinancing risk	Debt maturing in 1yr (% of total)	28.9	21.4	22.4	21.4	20.5	
	Debt maturing in 1yr (% of GDP)	18.5	13.1	13.6	13.1	12.5	
	ATM External Portfolio (years)	7.8	9.5	9.5	9.7	10.3	
	ATM Domestic Portfolio (years)	2.5	2.6	2.5	2.6	2.3	
	ATM Total Portfolio (years)	5.2	6.5	6.3	6.8	7.6	> 7 years
Interest rate risk	ATR (years)	3.9	5.2	5.1	5.7	6.1	> 5.5 years
	Debt refixing in 1yr (% of total)	49.3	40.8	40.8	38.4	41.7	
	Fixed rate debt (% of total)	77.2	78.5	79.4	80.9	76.7	
FX risk	Non USD debt as % of total	19.8	32.5	13.9	16.2	13.9	
	ST FX debt as % of reserves	14.5	9.9	9.9	9.9	9.9	

Source: CDIMU, Ministry of Finance

Based on the output of the AT all of the strategies showed improvements in most of the risk indicators when compared to the base year 2018 with S4 having the best results in all categories. However, when the total portfolio is considered, S3 is the preferred strategy to achieve the debt management objectives in the medium-term ending 2021.

Risk Analysis:

In terms of targets set for the portfolio, S3 would achieve all targets except for that of refinancing risk, although an improvement in the indicators are evident. The implementation of S3 would extend the ATM of total central government debt to 6.8 years whereas the portfolio's target is 7 years or more. Nonetheless, S3 would result in the lowest debt re-fixing in one year and fixed rate debt as a percent of total debt of 38.4 percent and 80.9 percent respectively.

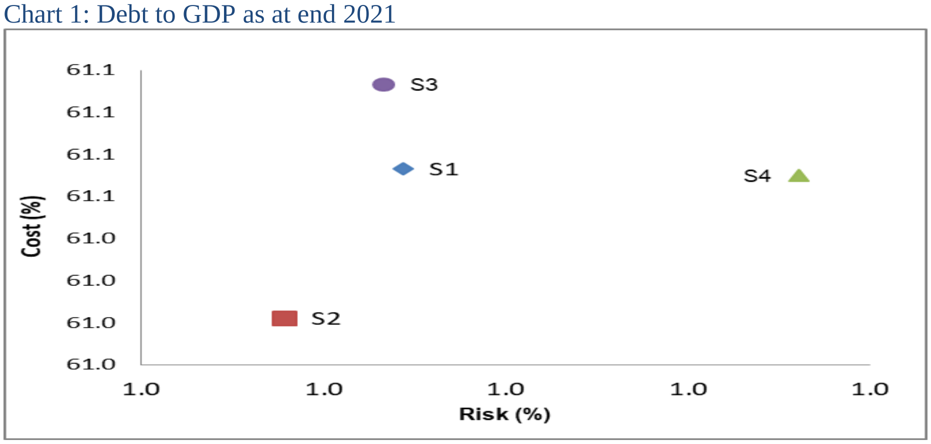
Cost Analysis:

Nominal debt as a percentage of GDP declined across all four strategies when compared to the 2018 base year. S2 has the lowest outcome (61.0%) although the difference from the other three strategies are negligible. The present value of the debt as a percentage of GDP also declined across all four strategies; S4 emerged with the best outturn (54.9%) while S3 was the next best with an indicator of 55.7%. Similarly, all four strategies showed improvements in the interest payment to GDP ratio despite not achieving the target of 2.1%. Both strategies, S3 and S2 also emerged with the lowest implied interest rate for the portfolio at 4.0%.

Cost/Risk Trade-offs:

In terms of the cost/risk trade-offs, the indicators assessed were the debt-to-GDP ratio and the interest payment cost-to-GDP ratio. The results are shown below in chart 1 and chart 2. Although at first glance, it appears that S3 is the costliest (highest cost) of the strategies, the scale used would indicate that the variance in cost and risk of all four strategies are negligible.

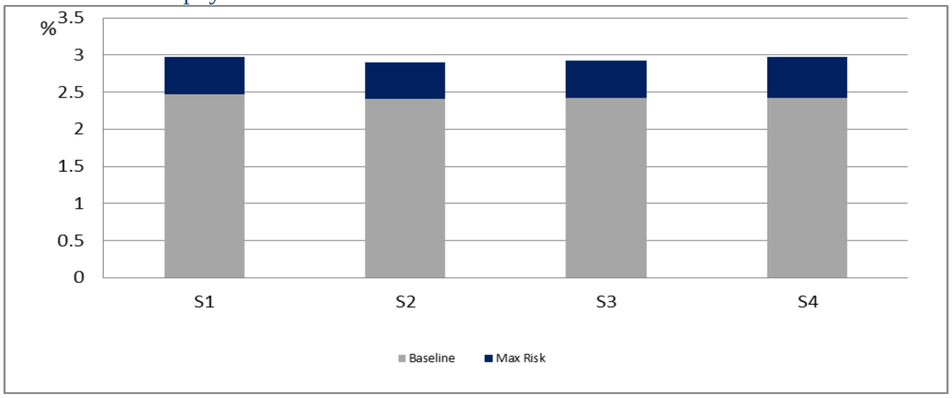
Chart 1: Debt to GDP as at end 2021



Source: CDIMU, Ministry of Finance

In terms of the measurement of interest payment to GDP ratio, the results of the assessment revealed that S2 and S3 had relatively similar cost, with S1 and S4 being marginally higher in cost, as shown in Chart 2 below.

Chart 2: Interest payment to GDP at the end of 2021



Source: CDIMU, Ministry of Finance

9.1 The Preferred Strategy, S3

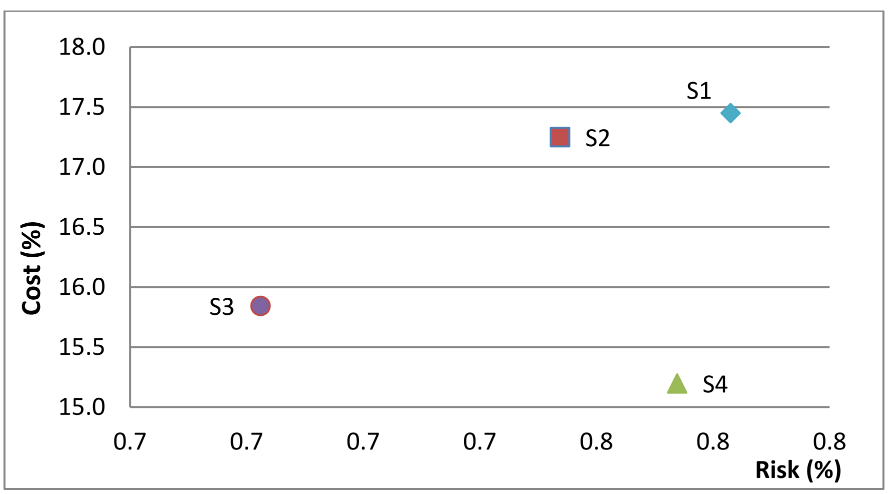
The preferred strategy was not solely based on the AT assessment of all four strategies, but took into consideration the ability to implement the chosen strategy successfully in the medium-term. Therefore, although the AT's results of cost and risk would suggest that the recommended strategy be S4 these results were just marginally better when compared with Strategy S3. And though S3 did not meet the targeted ATM, it is was considered that S3 is the most feasible of the strategies to implement in the short-term and it would still greatly improve the portfolio's debt position relative to the base year 2018.

In comparison to the base year (current 2018 period), S3 recorded reductions in all cost indicators thereby satisfying the objective of lowering the portfolio's cost over the medium term. In terms of the present value of debt to GDP, S3 out-performed S1 and S2 whereas for interest payments as a percent of GDP, S3 out-performed S1 and S4. Strategy S3, also aimed to extend the ATM on the domestic portfolio. The results showed that it marginally increased the domestic ATM to 2.6 years over the medium term from the baseline of 2.5 years. At the same time, the ATM of the total portfolio increased from the current 5.2 years to 6.8 years at the end of 2021. In terms of interest rate risk, debt re-fixing in one year is lowest at 38.4 percent under S3 while fixed rate debt as a percent of the total is highest at 80.9 percent. The portfolio's ATM increased to 5.7 years from the current 3.9 years at the end of 2021.

As the XCD is pegged to the USD and therefore does not pose any imminent exchange rate risk, the risk indicator in the template captures the foreign exchange risk associated with the other currencies in the portfolio; mainly the XDR and Kuwait Dinar. The non USD debt currently represents 19.8 percent of the total debt portfolio and would decrease to 16.2 percent over the medium term.

In the event of shocks to variable interest rates, the interest payments to GDP ratio is projected to increase from the baseline by 0.3 percent under a moderate shock of 2.0 percent and 0.5 percent under an extreme shock of 4.0 percent. The effects of a combined shock to variable interest rates (a 15.0 percent depreciation of the XCD and a moderate 2.0 percent shock) is projected to increase the baseline by 0.3 percent.

Figure 3: Total Debt servicing to GDP ratio as at end 2021



10.0 Borrowing plan

The Government's borrowing plan for 2019 would require financing from both external and domestic sources with an ideal financing mix of domestic funding being 29 percent and external financing 71 percent. Identified sources of funding have already been earmarked in the 2019 Estimates of Revenue and Expenditure[6] and are primarily draw-downs of committed undisbursed funds. As a consequence, this would reduce the level of new financing required. The identified multi-lateral financing would, once effective[7], be partially used to reduce some high cost domestic debt which have short-term maturity period. Domestic bonds issued would require medium to long term tenors, with the operations of temporary and other short-term related facilities being maintained within their limits. This would result in both a reduction in cost and a lengthening of the portfolio's average time to maturity for the government once executed.

11.0 Conclusion

The MTDS AT generated the cost and risk indicators for the four proposed strategies as at the end of 2021 using baseline data as at December 31, 2018 on the cash flows of the existing debt; macroeconomic and market projections; as well as simulated alternative borrowing strategies to meet the financing need. The output for S3 revealed that the nominal debt as a percent to GDP would decrease from 64.0 percent to 61.1 percent, the same as S1 and S4 at the end of 2021. When the cost/risk trade-offs are taken into account, the ATM and ATR indicators revealed that S3 would result in an ATM and ATR of 6.8

[6] Passed in the House of Assembly on the 29th January 2019. It contains projections for 2020 and 2021

[7] The World Bank's Board of Executive Directors approved a US$30 million Development Policy Credit to support Saint Vincent and the Grenadines in strengthening its climate and fiscal resilience for promoting a blue economy on June 6, 2019.

years and an ATR of 5.7 years respectively, thereby increasing the maturity profile of the debt portfolio. With regard to the cost/risk trade-offs using the debt to GDP and interest payment to GDP ratio, the output showed small variations in costs among all four strategies. The risk factor however showed slightly more variation, with S2 and S3 having the lowest risks.

The strategy selected for the period 2019-2021 would be guided by the benefits of lowering the cost of the debt while lengthening the maturity profile. In this regard the variation in the cost/risk trade-offs between S3 and S4 is negligible. ***Accordingly, S3 is selected as the preferred strategy for the 2019-2021 medium-term borrowing/financing period***. This strategy would be monitored continuously and reviewed annually for adjustments in line with changes in the dynamics of the domestic and global economic environment.

APPENDIX 1: SELECTED PUBLIC DEBT INDICATORS 2008-2018

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							($m)				
Total Public Debt	**993.6**	**1104.10**	**1188.47**	**1233.22**	**1336.58**	**1445.80**	**1562.51**	**1594.36**	**1693.35**	**1572.20**	**1654.94**
Total Central Gov't	**731.3**	**836.70**	**986.64**	**1040.68**	**1139.96**	**1229.71**	**1348.77**	**1379.76**	**1362.86**	**1322.50**	**1402.49**
External Debt	**518.3**	**559.00**	**734.77**	**764.92**	**738.08**	**809.50**	**887.70**	**922.55**	**1148.61**	**1047.80**	**1078.19**
Central Government	423.6	457.10	623.14	667.98	652.66	728.71	811.18	855.75	895.56	874.30	897.64
Public Corporations	94.7	101.90	111.64	96.94	85.42	80.79	76.52	66.80	253.05	173.50	180.55
Domestic Debt	**475.3**	**545.10**	**453.70**	**468.30**	**598.50**	**636.30**	**674.81**	**671.81**	**544.74**	**524.40**	**576.75**
Central Government	307.7	379.60	363.50	372.70	487.30	501.00	537.59	524.01	467.30	448.20	504.85
Public Corporations	167.6	165.50	90.20	95.60	111.20	135.30	137.22	147.80	77.44	76.20	71.90
Private Guaranteed External Debt		**0.00**	**0.00**	**15.15**	**16.64**	**19.47**	**24.49**	**25.20**	**26.70**	**9.60**	**12.19**
Debt Servicing											
External	**72.6**	**79.80**	**84.40**	**87.20**	**87.70**	**88.30**	**77.50**	**83.64**	**81.66**	**101.60**	**99.33**
Central Government	66.2	70.70	71.70	74.60	72.70	72.70	60.80	62.87	65.06	83.30	76.83
Public Corporations	6.4	9.10	12.70	12.60	15.00	15.60	16.70	20.77	16.60	18.30	22.50
Domestic											
Central Government	**41.7**	**52.80**	**64.80**	**47.20**	**48.70**	**58.10**	**72.00**	**72.84**	**83.28**	**82.70**	**93.82**
(of which sinking fund)	5.2	6.00	12.00	6.00	4.00	5.50	7.60	7.64	12.08	14.00	22.00
GDP (at market price)	**1,877.6**	**1822.10**	**1839.30**	**1825.50**	**1871.00**	**1947.30**	**1963.50**	**2038.90**	**2082.70**	**2123.70**	**2189.00**
Current Revenue	489.5	544.80	490.00	462.50	472.60	491.30	535.19	519.10	592.58	592.20	596.40
Central Gov'T Debt/GDP	38.95	45.92	53.64	57.01	60.93	63.15	68.69	67.67	65.44	62.27	64.07
Total Debt/GDP (%)	52.9	60.60	64.60	67.60	71.40	74.25	79.58	78.20	81.31	74.03	75.60
External Debt/GDP (%)	27.6	30.70	39.90	41.90	39.40	41.57	45.21	45.25	55.15	49.34	49.25
Domestic Debt/GDP (%)	25.3	29.90	24.70	25.70	32.00	32.68	34.37	32.95	26.16	24.69	26.35
Central Government Debt Service/Current Revenue (%)	23.1	23.80	30.30	27.60	26.50	27.70	26.23	27.62	27.07	30.40	32.30
External Debt Service/ Current Revenue (%)	14.8	14.60	17.20	18.90	18.60	17.97	14.48	16.11	13.78	17.16	16.65
Domestic Debt Service/ Current Revenue (%)	9.6	10.79	15.67	11.50	11.15	12.95	14.87	15.50	16.09	16.33	19.42
Guarantee Debt % of GDP	0.14	0.15	0.11	0.11	0.11	0.12	0.12	0.12	0.17	0.12	0.12

Source: CDIMU, Ministry of Finance