The Government of
St. Vincent and the Grenadines

Medium-Term Debt Strategy 2020-2022

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

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TABLE OF CONTENTS

1. 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
CDB	Caribbean Development Bank	**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. EXECUTIVE SUMMARY

The Cash Debt Investment Management Unit within the Ministry of Finance, Economic Planning, Sustainable Development and Information Technology prepared the 2020 to 2022 Medium Term Debt Strategy (MTDS) which articulates the objectives and strategies for achieving a desired composition of government's debt portfolio over the period 2020 to 2022, 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 review of central government's debt management activities conducted during the year 2019 and the outlook for the fiscal performance and economic growth prospects in the medium-term (2020-2022). The base year period of the analysis is at 31st December 2019 and strategies were crafted within the context of the Medium Term Macroeconomic and Fiscal Framework, using the IMF/World Bank MTDS Analytical Toolkit (AT) which provided the template for the quantitative analysis required to evaluate the costs and risks of the four (4) alternative strategies developed.

An overview of the macroeconomic data indicated that, in 2019, growth in economic activity slowed to 0.3 percent. This slowdown in economic growth was mainly related to weaker performances in the Manufacturing, Wholesale & Retail and Construction sectors. The fall-off in growth in the manufacturing sector came as galvanise production returned to normal levels, following a significant boost in production in 2018 related to reconstruction activity in neighbouring islands. The fall-off in construction activity as well as wholesale and retail trade reflected a slowdown in domestic business activity during the period. In 2020, economic activity (real GDP) is expected to decline to -4.8 percent, mainly due to the impact of the COVID-19 pandemic on a number of major sectors in the economy namely, Tourism, Transportation, Wholesale & Retail Trade among others. Over the medium term, 2021-2022, real economic activity is expected to pick up as it is hopeful that the COVID-19 pandemic will begin to subside. An average growth of 3.6 percent per annum is anticipated over the period. In 2021, higher than normal growth is anticipated based on recovery in all sectors impacted by the pandemic.

A review of the existing debt portfolio indicates that as at 31st December 2019, the total central government debt stood at EC$1,505.2 million. This reflected an increase of 7.3 percent from EC$1,402.0 million recorded at the end of December 2018. Of the total central government debt, the external component as classified by the criterion of residency, amounted to EC$1,038 million or 69.1 percent whilst the domestic component amounted to EC$465.0 million or 30.9 percent. In sum, the total central government debt represented 68.7 percent of GDP[1] as at 31st December, 2019.

For the purposes of the MTDS analysis, the debt stock parameters are classified based on the criterion of currency instead of residency as described above when describing the characteristics/trends in the debt portfolio. The currency criterion for evaluating the MTDS is used as the basis for anchoring the analysis of the exchange rate risks inherent within the portfolio. As such, total central government external debt amounted to $832.2 million and domestic debt amounted to $672.9 million, some 38.0 percent and 30.7 percent of GDP respectively as at 31st December 2019.

On the macroeconomic front, during the medium-term the Government intends to embark on several major projects including the Port Modernisation Project to be financed primarily by CDB; two major government-financed hotel development projects are earmarked to commence and will be financed from bilateral and central government resources; as well as the construction of an acute referral hospital. Continued spending is

[1] Preliminary GDP for 2019 is 2190.5

anticipated to occur in the areas of natural disaster management, rehabilitation and feeder roads; ICT through the Caribbean Regional Communications Infrastructure Project (CARCIP) and the Digital Transformation Project; educational projects as well as continued spending related to the COVID-19 pandemic will be financed from domestic and multilateral loans, including other in-kind support and resources.

The debt strategies modelled were crafted and formulated within the context of a constrained menu of borrowing options due mainly to the inflexibility (lack of degrees of freedom) from tapping into any new additional external financing during the medium-term. This is due to the fact that a number of projects have already been earmarked to come on stream in the medium-term (2020-22), for which funding has already been identified via external sources. As such, when evaluating the strategies to be implemented, there was less flexibility to use any new sources of external financing vis-a-vis domestic financing. Simply put, there was limited room on the external portfolio to create alternative strategies to close the financing gap. Therefore, the strategies crafted were more biased toward the trade-off between costs and risks on the domestic portfolio. To this end, it was shown that over the medium-term the main risks facing the debt portfolio continues to be interest rate and refinancing risk, while exposure to exchange rate risk remains relatively low, but is continuously monitored as more multilateral loans are contracted and disbursed in other non-fixed currencies.

The analysis of the outputs from the AT indicates that all of the formulated strategies showed improvements in most of the risk indicators by the end of the medium-term in 2022 relative to the base year 2019. The macroeconomic outlook revealed that in the light of the unfolding dynamics within the global economy and the on-going uncertainty and protracted unpredictability surrounding the COVID-19 pandemic on the domestic economy, and the ability to implement the chosen strategy successfully, makes *Strategy 2, which reflects the issuance of securities (bonds, notes and t-bills) as the central pillar of the recommended strategy to be implemented in meeting the financing gap.* It is also felt that the securities market presents the best option for the government to execute its borrowing plan for the medium-term. This will also be bolstered by a consistent issuance of securities that will help to strengthen and enhance predictability and transparency in the market in an effort to meet investors' and other stakeholders' needs and expectations.

As explained in more detailed in Section (7) below, although Strategy 2 emerged as the best in terms of longer ATR and ATM, there were some limitations in its performance in relation to some risk indicators. Notwithstanding this, Strategy 2 achieved a debt to GDP ratio which was slightly lower but somewhat indifferent to the other strategies; ATM was much better when compared with the other strategies; debt maturing in one year is significantly reduced from 24.5 percent to 16.6 percent; and the ATR showed an improvement over the base year registering an average of 8.6 years. In sum, Strategy 2 is considered to be the preferred strategy for implementation to achieve the desired outputs of longer ATM and ATR, whilst balancing the trade-offs between costs and risks inherent in the portfolio under consideration. Nevertheless, if Strategy 2 is not implemented, the defacto strategy will be the Status Quo (S1) which will maintain the current borrowing patterns and will be somewhat indifferent to S2 in terms of its MTDS outputs.

3. The implementation of the 2019 Medium Term Debt Management Strategy

The strategy of choice for the last review (MTDS 2019 - 2021) was one that replaced high cost domestic debt with an external source Policy-Based loan. This strategy proposed to obtain fixed rate financing from the World Bank/IDA in the form of a policy-based loan which was to be fully disbursed in 2019, to sufficiently reduce the reliance on high cost domestic debt. The aim was to reduce interest and refinancing costs while lengthening the average time to maturity on the domestic portfolio. The strategy was partially implemented with some of the proceeds being utilized for the retirement of high cost short-term debt. This meant that the bulk of the remaining loan proceeds was however diverted into unanticipated budgetary support needs during the period under review.

The table below shows the MTDS outputs of the chosen strategy for 2019 with comparison to 2018.

Risk Indicators		Targets	2019 Actual	Strategy 3 Projected	2018 Actual
Nominal debt as % of GDP			68.7	61.1	64.0
Present value debt as % of GDP			61.8	55.7	59.5
Interest payment as % of GDP		2.1	2.8	2.4	2.8
Implied interest rate (%)			4.1	4.0	4.3
Refinancing Risk	Debt maturing in 1yr (% of total)		24.5	21.4	28.9
	Debt maturing in 1yr (% of GDP)		16.8	13.1	18.5
	ATM External Portfolio (years)		9.6	9.7	7.8
	ATM Domestic Portfolio (years)		2.9	2.6	2.5
	ATM Total Portfolio (years)	>7.0	6.6	6.8	5.2
Interest Rate Risk	ATR (years)	>5.5	5.6	5.7	3.9
	Debt re-fixing in 1yr (% of total)		42.1	38.4	49.3
	Fixed rate debt (% of total)		80.0	80.9	77.2
FX Risk	Non USD debt as % of total		19.8	16.2	19.8
	ST FX debt as % of reserves		14.0	9.9	14.5

Given the outturn for 2019 versus 2018, it revealed that all costs and risks indicators showed improvements with the exception of interest payments to GDP which remained unchanged. However, nominal debt as a percentage of GDP increased. The 2019 actual output/outturn however fell short of the projected outcome of the preferred strategy due to the fact that all of the proceeds from the policy-based loan was not utilized to retire a large portion of the high cost domestic debt as was modelled in the strategy.

4. 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 (2020-2022) is limited to Central Government's debt. Accordingly, debt of Public Enterprises or akin to State-Owned Enterprises (SOEs) with a government guarantee is excluded and therefore, do not form part of the analysis. Notwithstanding this, the monitoring of these explicit contingent liabilities continues to be a major focus of the government's overarching debt management objectives.

This MTDS report (2020 - 2022) was prepared by the CDIMU within 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; and executing debt service payments. In developing this MTDS, the macroeconomic and fiscal data as well as the 2020 Financial Programming projections were gleaned from the Economic Research and Policy Unit, Ministry of Finance. On the other hand, all debt data were extracted from our internal software for debt recording which is called the Commonwealth Secretariat Debt Recording Management System (CS-DRMS).

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 Toolkit-AT) these scenarios were assessed. The choice of the final strategy was guided by analysing the results of the output with regards to the cost-risk trade-offs between the alternative financing paths in tandem with the overarching debt management objectives and the practicality of implementation of the strategy.

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 costs and risks to the overall portfolio. Furthermore, this MTDS report is premised on the fact that its publication and dissemination will promote transparency and accountability with regard to matters relating to the Central Government's debt.

The document is divided into ten (X) sections, including the Acronyms as contained in Section (I) of the body of the document. Section two (II) outlines the executive summary. The remainder of the document is organized as follows: Section (III) provides an analysis of the implementation of the 2019 Medium-Term Debt Management Strategy; and Section (IV) outlines the introduction to the document. Sections (V) presents the analysis of central government debt portfolio during 2019. Sections (VI) provides an overview of the macroeconomic and fiscal outlook during the period under review. Section (VII) provides an analysis of the Medium-Term Debt Strategy (2020-2022). Section (VIII) presents the output of the World bank/IMF Analytical Toolkit. Section (IX) presents the indicative borrowing plan based on the chosen strategy. The document then concludes, followed by the attached appendix on selected debt indicators for the period (2009 - 2019).

5. PROFILE OF CENTRAL GOVERNMENT DEBT PORTFOLIO 2019

Total Central Government debt at the end of 2019 increased by 7.0 percent to $1, 505.2 million or 68.7 percent of GDP when compared to $1,404 million or 64.1 percent of GDP in 2018. The external component of the total debt increased by 15.4 percent and accounted for $1,038 million driven by issuance of securities and drawdowns on new loans whilst total domestic central government debt decreased by 7.9 percent, amounting to $465.0 million, due to a significant reduction in accounts payables.

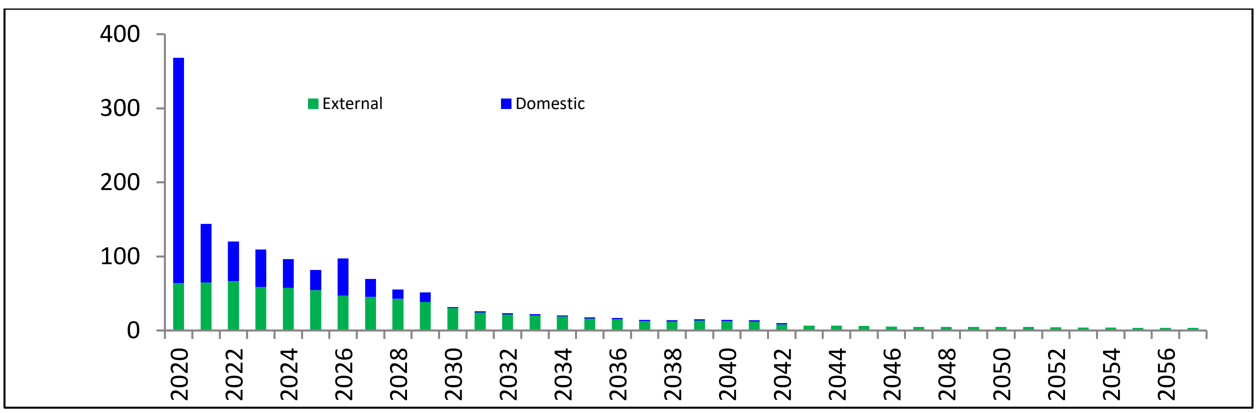
Total securities issued in the form of bonds and notes during the year amounted to $149.8 million. Tenors on these instruments ranged from five (5) to ten (10) years with an average tenor of 7.9 years. The interest rate on the treasury note issued by the government was 6.25 percent with an average interest rate of 7.0 percent on longer term government bonds. These securities were issued through a mix of private placement and the RGSM in a 7:3 ratio, with 70.0 percent of the instruments offered being amortized. During the year under review, $65.2 million in bullet bonds and notes matured and were fully repaid.

During 2019, the largest creditor disbursement was $104.1 million from IDA, of which $81.0 million was targeted as a Fiscal Reform and Resilience Development Policy loan. The remaining amounts was to finance activities in CARCIP and RDVRP projects. Disbursements from CDB during 2019 was mainly to NDM and Techvo projects which amounted to $28.6 million. Other disbursements include $5.4 million from Kuwait and OPEC relating to feeder roads and $5.1 million from IBRD associated with the RDVRP. Additionally, a total of $37.5 million in domestic loans was contracted during 2019, of which both were short-term loans, totaling $12.5 million from BOSVG and $25.0m from ECCB.

5.1 Redemption Profile of 2019 Debt Portfolio

Figure 1 depicts the maturity profile of the forecasted principal repayments of Central Government's debt portfolio. It shows that the external redemption profile is relatively smooth whereas short-term instruments[2] and bullet bonds due to mature in the current year (2020) have resulted in a spike in the redemption profile of the domestic component. The profile also shows a small spike in the domestic repayment schedule in 2026 due mainly to bullet bonds that will mature. By the year 2042, 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, 2018



Source: MTDS Analytical Toolkit

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

5.2 Risk Analysis of 2019 Debt Portfolio (figure 2 below)

The portfolio's exposure to changes in interest rate as measured by the ATR was 5.6 years. This represented not only a significant improvement over the 2018 outturn of 3.9 years but it also achieved the target set for the portfolio of greater than 5.5 years. However, the ATR achieved on the domestic debt was 2.9 years, as 45.2 percent of the domestic debt would be due for re-fixing after one year. This amount is representative of the high volume of short-term domestic debt instruments due. Nevertheless, the greatest improvement was recorded on the external debt which had an ATR of 7.7 years moving from 5.3 years. Another contributing factor to interest rate re-fixing would be the amount of debt within the portfolio that is contracted on a floating/variable interest rate basis. In respect to the domestic debt portfolio, all of the debt stock is contracted on a fixed interest rate basis, with 36.2 percent of external debt contracted as floating rate debt.

The portfolio's exposure to rollover or refinancing risk for maturing obligations as measured by the ATM was 6.6 years. This was a slight shortfall from the target of greater than 7 years, but represented an improvement from the 5.2 years achieved in 2018. The domestic debt ATM of 2.9 years mirrored that of the ATR. The external debt recorded an ATM of 9.6 years, as most of the portfolio is comprised of loans with longer maturities.

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 at this time due to the high concentration of central government's foreign 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 a relative high degree of confidence to believe that in the medium-term the portfolio will be insulated from the susceptibility to changes in exchange rate against the USD. Additionally, the percentage of short-term external debt as a percentage of foreign exchange reserves has marginally decreased from 14.5 percent to 14.0 percent.

In respect of debt servicing cost as reflected by the interest payment as a percentage of GDP, the portfolio total cost remained constant at 2.8 percent. The external component recorded an increase in cost of debt from 1.0 to 1.1 percent, whereas the cost of domestic debt decreased from 1.8 to 1.7 percent.

Figure 2: Central Government Existing Debt Portfolio and Risk Indicators

2019				
		External debt	**Domestic debt**	**Total debt**
Amount (in millions of XCD)		832.2	672.9	1,505.2
Amount (in millions of USD)		308.2	249.2	557.5
Nominal debt as % GDP		36.9	30.7	67.6
PV as % of GDP		31.1	30.7	61.8
Cost of debt	Interest payment as % GDP	1.1	1.7	2.8
	Weighted Av. IR (%)	2.8	5.7	4.1
Refinancing risk	ATM (years)	9.6	2.9	6.6
	Debt maturing in 1yr (% of total)	7.7	45.2	24.5
	Debt maturing in 1yr (% of GDP)	2.9	13.9	16.8
Interest rate risk	ATR (years)	7.7	2.9	5.6
	Debt refixing in 1yr (% of total)	39.7	45.2	42.1
	Fixed rate debt (% of total)	63.8	100.0	80.0
FX risk	FX debt (% of total debt)			55.3
	ST FX debt (% of reserves)			14.0

Source: CDIMU, Ministry of Finance

6. MACROECONOMIC OVERVIEW

The MTDS was developed within the context of the Medium-Term Fiscal projections; the level of development in the domestic debt market; and the overall macroeconomic development outlook in the medium-term. Following four consecutive years of minimal growth (less than 1.0 percent), St. Vincent and the Grenadines experienced a 2.1 percent growth in 2018. However, macroeconomic data indicated that, in 2019, growth in economic activity slowed to 0.3 percent. This slowdown in economic growth was mainly related to weaker performances in the Manufacturing, Wholesale & Retail and Construction sectors. The fall-off in growth in the manufacturing sector came as galvanise production returned to normal levels, following a significant boost in production in 2018 related to reconstruction activity in neighbouring islands. The fall-off in construction activity as well as wholesale and retail trade reflected a slowdown in domestic business activity during the period.

In 2020, economic activity is expected to drop to negative 4.8 percent, mainly due to the onset and impact of the COVID-19 pandemic on a number of major sectors in the economy, namely, Tourism, Transportation, Wholesale & Retail Trade. Over the medium term, 2021-2022, real economic activity is expected to pick up as the COVID-19 pandemic is anticipated to subside. An average growth of 3.6 percent per annum is anticipated over the period. In 2021, higher than normal growth is projected based on recovery in all sectors impacted by the pandemic. In the later years, robust growth is expected to continue as the construction and hotel sectors benefit from hotel developments; the Port Modernisation Project; and an anticipated increase in international flights.

On the fiscal front, primary deficits are also projected over most of the period from 2020-2023. The primary deficit in 2020 is expected on account of the anticipated fall off in revenue in 2020 along with increased expenditure associated with the fiscal stimulus package approved by the government in response to the COVID-19 pandemic. In the medium-term, capital spending is expected to increase significantly as the government undertakes the Port Modernisation Project. These deficits are expected to worsen the public debt indicators over the medium-term. In this regard, the Ministry of Finance is committed to meeting the fiscal rules established in the approved Fiscal Responsibility

Framework[3] which limits primary deficits to an average of 1.2 percent of GDP over the medium-term.

7. Medium Term Debt Strategy 2020-2022

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 strategy aims to address the main risks inherent in the government's debt portfolio as identified in Section 6. Four strategies with varying financing scenarios were modelled on the assumptions below and analysed using the MTDS Analytical Toolkit. As mentioned previously, due to the already committed projects earmarked to come on stream during the medium-term there was limited scope on the external portfolio to create alternative financing strategies. Therefore, the strategies developed were biased toward a trade-off between costs and risks on the domestic portfolio.

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

7.1 Macro-Economic Assumptions

Table 1: Macro Economic Assumptions 2020-2022

Macro and Fiscal Indicators	2019	2020	2021	2022
	Actual	Proj	Proj	Proj
		XCD $M		
Total revenues and grants	680.0	626.1	706.0	799.4
Total primary expenditures	704.1	705.2	700.4	897.7

[3] The Fiscal Responsibility Framework can be found at http://finance.gov.vc/finance/images/PDF/Publications/Fiscal_Responsibility_Framework.pdf

Total expenditures	760.0	763.9	762.2	965.8
Total interest expenditure	55.9	58.6	61.8	68.1
International Reserves (USD$M)	169.1	161.7	164.0	169.6
GDP	2,190.5	2,279.0	2,377.6	2,484.1
		% of GDP		
Total revenues and grants	31.0	28.6	32.2	36.5
Total primary expenditures	32.1	32.2	32.0	41.0
Total expenditures	34.7	34.9	34.8	44.1
Total interest expenditure	2.6	2.7	2.8	3.1
International Reserves	20.85	19.16	18.63	18.44

7.2 Creditor's Financing Terms

Table 2: Creditor's Financing Terms

Type of Creditors and Instruments	Interest Rate	Avg Maturity (yrs)	Grace (yrs)	Currency
Multilateral	Fixed	38	6	XDR
Multilateral	Fixed	20-30	5	USD
Multilateral	Variable	20	5	USD
Bilateral	Fixed	20	5	USD
Bilateral	Floating	20	5	USD
Bilateral-Kuwait	Fixed	20	4	KWD
Domestic Commercial	Fixed	10	0	XCD
10 yr Bond	Fixed	10	0	XCD
5 yr Bond	Fixed	5	4	XCD
3 yr Bond	Fixed	3	2	XCD
Insurance Deposits, Accounts Payables, Overdraft, T.Bills, ECCB Advance	Fixed	1	0	XCD

7.3 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	4.8	Fixed
Bonds(3y/5y/7y)	4.8/6.5/7.5	Fixed
ECCB	6.5	Fixed
Overdraft	8.0	Fixed

7.4 Shock Assumptions

Table 4: Shock Assumptions

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

7.5 Strategies

Strategy	Objective
S1	Status Quo: reflects a continuation of the current borrowing practices and disbursements of already committed balances
S2	Cost Minimization: External low cost via highly concessional financing, with residual financing by low cost domestic instruments; issuance of additional treasury bill.
S3	Risk Minimization & Market Development: reflects using a combination of long-term domestic securities and an additional treasury bill vs high cost short-term domestic instruments
S4	Cost & Risk Minimization: less reliance on the issuance of securities instead additional financing obtained primarily from bilateral sources

- **Strategy 1 (S_1): Current Strategy (Status Quo)** – In this strategy, external financing flows follows its projected disbursement schedules. These disbursements are associated with identified projects, most of which are existing with effectiveness to the loan agreements already in place. The GOSVG however would be embarking on a large capital project: - The Port Modernisation project to begin over the medium-term. This is to be financed by a mixture of multilateral loans and grants. Additional external financing is primarily from multilateral sources with no commercial borrowing. Domestic financing is from traditional sources such as short-term loans; treasury bills reissuance; and bonds and notes issuance which are anticipated to be reduced over the medium-term.

- **Strategy 2 (S_2): High cost domestic debt is swapped-out with low cost domestic debt-** The identified existing external financing remains the same, but the residual bridging domestic financing will target swapping out high cost domestic debt such as commercial loans; bonds; and notes of tenors 5 years and above, are swapped for low cost domestic debt, in the form of notes with tenors of 2 to 4 years, including the propose issuance of an additional $28.0 million in treasury bills. The use of the overdraft is kept to a minimum.

- **Strategy 3 (S_3): Reliance on the issuance of securities for residual financing–** Only 75.0 percent of projected external financing are assumed to materialize, this shortfall would be financed domestically through the issuance of bonds; notes; and the propose issuance of an additional T.Bill. There will be no commercial borrowing or the usage of other short-term facilities in this strategy.

- **Strategy 4 (S_4): Funding for the Public Sector Investment Programme, normally raised through the issuance of bonds and notes, to be raised via bilateral funding instead**. Like strategy 3, only 75.0 percent of projected external disbursements are assumed to take place.

8. Analysis of Output from Toolkit

The table below shows the output from the AT with respect to the risk indicators at the end of 2022 for the four strategies analysed.

Table 5: Risk Indicators

Risk Indicators		2019	As at end 2022			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		68.7	71.3	71.2	71.4	71.3
Present value debt as % of GDP		61.8	59.5	59.6	61.3	60.9
Interest payment as % of GDP		2.8	2.49	2.42	2.55	2.46
Implied interest rate (%)		4.1	3.8	3.7	3.9	3.7
Refinancing risk	Debt maturing in 1yr (% of total)	24.5	14.5	16.6	16.6	20.0
	Debt maturing in 1yr (% of GDP)	16.8	10.3	11.8	11.9	14.2
	ATM External Portfolio (years)	9.6	12.2	12.3	11.8	11.8
	ATM Domestic Portfolio (years)	2.9	2.7	2.5	2.8	2.4
	ATM Total Portfolio (years)	6.6	9.4	9.5	8.3	8.5
Interest rate risk	ATR (years)	5.6	8.5	8.6	7.5	7.6
	Debt refixing in 1yr (% of total)	42.1	28.5	30.6	29.3	33.9
	Fixed rate debt (% of total)	80.0	84.6	84.6	86.0	84.7
FX risk	Non USD debt as % of total	19.8	32.5	27.2	22.6	24.3
	ST FX debt as % of reserves	14.0	12.8	12.8	12.8	12.8

Source: CDIMU, Ministry of Finance

Based on the output of the AT, the nominal debt as a percent of GDP under all of the strategies increased over the medium-term with very marginal differences in the results. However, all of the strategies recorded a reduction in interest payment as a percent of GDP as well as with the implied interest rate. Most of the risk indicators also improved with the exception of the ATM on the domestic portfolio and the exposure of the portfolio to foreign exchange risk. Significant improvement has been recorded with the ATR as well as the level of debt due to mature in one year.

Given the prevailing and future uncertainty regarding the on-going dynamics in the global and domestic economy as a result of the COVID-19 pandemic, and our ability to implement the chosen strategy successfully. When those factors are taken into consideration, Strategy S2, emerged as the preferred recommended strategy, as it is felt that the securities market presents the best option for the government to raise the additional financing to cover the Gross Financing Needs. Notwithstanding this, the efficacy of strategy 2 will be dependent upon the signalling effect given by the government as it relates to meeting its debt servicing obligations. If fully implemented, Strategy 2 will achieve the lowest foreign exchange risk and a relatively high ATM and ATR on the overall portfolio when compared with the base year (2019). Debt maturing in one year is also significantly reduce from 24.5 percent to 16.6 percent of total debt. As such, strategy 2 is considered the most feasible and practical to implement in the short-term and it would still allow for an improvement in the portfolio's debt parameters relative to the base year. However, as stated before, if Strategy 2 is not implemented then the defacto strategy is a continuation of the existing borrowing pattern, which is the Status Quo (S1), and the evidence shown, is that this strategy is somewhat indifferent to Strategy 2 based on the MTDS outputs.

9. BORROWING PLAN

	2020	2021	2022
Gross Financing Needs	**463.9**	**435.6**	**409.0**
Indicative Borrowing plan			
External Borrowing			
Official			
Multilateral loans	86.2	141.2	108.2
Bilateral loans	6.8	47.6	50.9
Commercial Loans	0.0	0.0	0.0
Total foreign currency borrowing	**92.9**	**188.8**	**159.0**
Domestic Borrowing			
Loans			
Short term, including overdraft	187.0	54.8	73.0
Medium/long term	0.0	0.0	0.0
Securities			
Treasury bills (change in stock)	0.0	28.0	28.0
Treasury notes and bonds	100.0	80.0	65.0
3 year	*31.7*	*35.0*	*25.0*
5 year	*25.1*	*25.0*	*20.0*
10 year	*43.3*	*20.0*	*20.0*
Total local currency borrowing	**287.0**	**162.8**	**166.0**

Total borrowing	**379.9**	**351.6**	**325.0**
add treasury bill re-issuance	84.0	84.0	84.0
Total Gross Financing Needs	**463.9**	**435.6**	**409.0**

The government's indicative Borrowing Plan for 2020 and the medium-term outlook for raising finance 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 will finance two major hotel development projects; and continued disbursements from on-going projects relating to natural disaster management and the like. The Government will explore the option of issuing an additional treasury bill in the amount of $28.0 million on the RGSM and bonds and notes in various tenors both on the RGSM and through Private Placement. The Borrowing Plan does not foresee borrowing from any commercial sources (ceteris paribus), thus there would be less reliance on the overdraft and short-term commercial facilities.

10. 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 cashflows of the debt existing as at 31st December 2019; macroeconomic and market projections; as well as simulated alternative borrowing strategies to meet the financing need. The output for strategy 2 revealed that the nominal debt as a percent to GDP would increase from 68.7 percent to 71.2 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 9.5 years and an ATR of 8.6 years respectively, thus 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 ratios, the output showed that S2 had the lowest. Taken altogether, Strategy 2 if implemented will achieve the desired results of improving the ATM and ATR over the medium-term.

APPENDIX I: SELECTED CENTRAL GOVERNMENT DEBT INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	($m)										
Total Public Debt	1,104.1	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	1,674.0
Total Central Gov't	836.7	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	1,505.7
External Debt	559.0	734.8	764.9	738.1	809.5	887.7	922.5	1,201.8	1,003.6	1,080.4	1,180.8
Central Government	457.1	623.1	668.0	652.7	728.7	811.2	855.7	962.0	830.1	899.9	1,040.7
Public Corporations	101.9	111.6	96.9	85.4	80.8	76.5	66.8	239.7	173.5	180.5	140.1
Domestic Debt	545.1	453.7	468.3	598.5	636.3	674.8	671.8	544.7	568.4	576.5	493.2
Central Government	379.6	363.5	372.7	487.3	501.0	537.6	524.0	467.3	492.1	504.9	465.0
Public Corporations	165.5	90.2	95.6	111.2	135.3	137.2	147.8	77.4	76.3	71.7	28.2
Private Guaranteed External Debt			15.2	16.6	19.5	24.5	25.2	26.7			
Debt Service											
External	79.8	84.4	87.2	87.7	88.3	77.5	83.6	81.7	101.6	97.6	106.3
Central Government	70.7	71.7	74.6	72.7	72.7	60.8	62.9	65.1	83.3	76.8	90.8
Public Corporations	9.1	12.7	12.6	15.0	15.6	16.7	20.8	16.6	18.3	20.8	15.5
Domestic Debt Service											
Central Government	52.8	64.8	47.2	48.7	58.1	72.0	72.8	83.3	82.7	97.9	115.9
(of which sinking fund)	6.0	12.0	6.0	4.0	5.5	7.6	7.6	12.1	14.0	22.0	32.4
GDP (at market price)	1,822.1	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	2,273.4
Current Revenue	544.8	490.0	462.5	472.6	491.3	535.2	519.1	592.6	592.2	594.1	600.5
Central Gov'T Debt/GDP	45.9	53.6	57.0	60.9	63.1	68.7	67.7	68.6	62.3	64.2	66.2
Total Debt/GDP (%)	60.6	64.6	67.6	71.4	74.2	79.6	78.2	83.9	74.0	75.7	73.6
External Debt/GDP (%)	30.7	39.9	41.9	39.4	41.6	45.2	45.2	57.7	47.3	49.4	51.9
Domestic Debt/GDP (%)	29.9	24.7	25.7	32.0	32.7	34.4	32.9	26.2	26.8	26.3	21.7
Central Gov't Debt Service, exclu Sinking Fund /Current Revenue (%)	21.6	25.4	25.0	24.8	25.5	23.4	24.7	23.0	25.7	25.7	29.0
External Debt Service, Central Gov't , excl SF/ Current Revenue (%)	13.0	14.6	16.1	15.4	14.8	11.4	12.1	11.0	14.1	12.9	15.1
Domestic Debt Service, Central Gov't, excl SF / Current Revenue (%)	8.6	10.8	8.9	9.5	10.7	12.0	12.6	12.0	11.6	12.8	13.9
Guarantee Debt % of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1