

# Grenada: Fiscal Risk Statement

## State-Owned Enterprises

Contingent Liabilities are identified through the conceptual framework of the Fiscal Risk Matrix, which focuses on non-guaranteed debt and other sources of liabilities. These contingent liabilities do not add to Central Government's budget expenditures immediately, however an unexpected future exogenous shock could require direct payments of the Government. SOEs are encouraged to report timely and complete information to avoid the imposition of potential risks to the budget should they become insolvent at any time.

**Table 1: Fiscal Risk Matrix**

Sources of Fiscal Risk from SOEs for Central Government	Direct Liabilities (Millions LCU) (Obligations in any event)			Contingent Liabilities (Million LCU) (Obligations if a particular event occurs)		
	Categories	Fiscal Cost Estimates	Risks	Categories	Contingent Liability	Risks
<b>Explicit Liabilities</b>	-	-	-	Actuarial Deficit of NIS (National Insurance Scheme)	2048 deficit equivalent to 83% of GDP in 2021 (based on <sup>1</sup> 2018 NIS Actuarial Review)	Liquidity Risk, Sustainability risk to aging
<b>Implicit Liabilities</b>	-	-	-	Total SOEs Debt (Unguaranteed)	\$158.04 million 5% GDP as at October 2021	Interest Rate Risk, Risk to domestic prices for services provided
	-	-	-	o/w Debt in arrears	\$10.47 million 0.4% of GDP as at October 2021	Interest Rate Risk, Risk to domestic prices for services provided
	-	-	-	o/w Debt Service due in 2022	\$17.25 million 0.5% of GDP as at October 2021	Interest Rate Risk, Risk to domestic prices for services provided
	-	-	-	Increased employee remuneration as a	TBD	Sustainability Risk

<sup>1</sup> Latest available Actuarial review from the National Insurance Board

				result of Salary negotiations		
	-	-	-	Unfunded SOE Pension Scheme (NAWASA)	TBD	Sustainability Risk

Source: MoF (Ministry of Finance), 2021

Contingent Liabilities with respect to SOEs remain low. However, given the turbulence of the current economic environment on account of the COVID-19 pandemic, these liabilities may still present a moderate degree of fiscal risks as the debt stock (domestic and external), which comprises strictly of non-guaranteed debt that could require Government’s intervention should the SOE default on its financial obligations.

**SOE non-guaranteed debt amounts to \$158.04 million at end-2021** (Error! Reference source not found.). The largest portion of the debt stock is attributed to lending arrangement of the Grenada Airport Authority. Though Government’s exposure to this debt is limited, the accumulated arrears for the Grenada Airport Authority accounts for 47 percent of the total arrears or 0.17 percent of GDP. Debt service is estimated to increase to \$17.25 million in 2022 (or 0.5 percent of GDP) but is projected to steadily decline from \$17.23 million (or 0.5 percent of GDP) in 2023 to 9.47 million in 2026 (0.3% of GDP) as reported in Table 3. Error! Reference source not found.

**Table 2:****Non-Guaranteed SOE Debt Outstanding at end-2021***(In EC\$ million)*

	Domestic	External	Total	o/w Arrears
<b>SOEs</b>				
Petro Caribe	-	-	-	-
Grenada Airports Authority	47.62	-	47.62	4.92
Grenada Ports Authority	-	-	-	-
Grenada Development Bank	25.81	36.62	62.43	4.94
GIDC	3.32	1.27	4.59	0.34
Gravel, Concrete & Emulsion Production Co.	3.30	-	3.30	-
TAMCC	1.75	-	1.75	0.28
Housing Authority of Grenada	0.55	-	0.55	-
Grenada Bureau of Standards	-	-	-	-
Grenada Postal Corporation	8.00	0.90	8.90	-
Grenada Food & Nutrition Council	0.00	-	0.00	-
Grenada Solid Waste Management Authority	28.89	-	28.89	-
<b>Total</b>	119.24	38.80	158.04	10.47
In % of GDP	4%	1%	5%	0.4%

*Source: MoF, 2021*

**The vast majority of non-guaranteed debt are issued domestically and at fixed interest rates.** Most borrowings are conducted through commercial banks, regional banking institutions (such as the Caribbean Development Bank), other SOEs- in particular, the National Insurance Scheme and PetroCaribe, or through on-lending arrangements with the Government of Grenada. It should be noted that debt owed to other SOEs also represents implicit contingent liabilities- as the risk of non-repayment can ultimately be borne by the Government of Grenada should these arrangements results in losses for the lenders. Borrowings are generally long term, with an amortising structure and fixed interest rate (which limits vulnerability to interest rate changes). The average interest rate paid on a non-guaranteed debt is 4 percent.

**Table 3:**

<b>Debt Service on Non-Guaranteed SOE Debt</b>						
<i>(In EC\$ Million)</i>						
	2021	2022	2023	2024	2025	2026
	Actual			Proj.		
<b>SOEs</b>						
Petro Caribe	-	-	-	-	-	-
Grenada Airport Authority	-	-	-	-	-	-
Grenada Port Authority	-	-	-	-	-	-
Grenada Development Bank	2.04	2.30	2.29	2.25	2.21	2.13
GIDC	0.07	0.78	0.78	0.75	0.73	0.38
Gravel, Concrete & Emulsion Production Corporatio	-	-	-	-	-	-
TAMCC	0.07	0.11	0.11	0.11	0.11	0.11
Housing Authority of Grenada	0.02	0.12	0.12	0.11	0.10	0.10
Grenada Bureau of Standards	-	-	-	-	-	-
Grenada Postal Corporation	0.02	0.33	0.33	-	-	-
Grenada Food & Nutrition Council	0.00	0.00	0.00	0.00	0.00	0.00
Grenada Solid Waste Management Authority	-	6.30	6.30	6.18	6.07	0.23
<b>Total</b>	<b>2.23</b>	<b>9.93</b>	<b>9.92</b>	<b>9.40</b>	<b>9.21</b>	<b>2.95</b>
<b>Excluding Petrocaribe</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Principal</b>						
Domestic	0.96	13.15	13.15	12.82	12.82	6.67
External	0.42	12.13	12.13	12.13	12.13	5.98
<b>Interest</b>						
Domestic	0.53	1.02	1.02	0.69	0.69	0.69
External	1.94	3.80	3.78	3.35	2.92	2.56
Domestic	1.94	3.80	3.78	3.35	2.92	2.56
External	0.65	0.31	0.30	0.28	0.26	0.24
<b>Total debt service</b>						
Domestic	3.55	17.25	17.23	16.45	16.00	9.47
External	2.36	15.93	15.91	15.48	15.05	8.54
In % of GDP	1.18	1.33	1.32	0.97	0.95	0.93
Excluding Petrocaribe	0.1%	0.5%	0.5%	0.5%	0.4%	0.3%
Excluding Petrocaribe	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GDP	2,978.8	3,185.7	3,380.7	3,554.2	3,570.5	3,588.6

*Source: MoF, 2021*

**There are other implicit contingent liabilities that remain relevant.** These include:

- The projected actuarial deficit of the NIS defined benefits pension system. Given the current rates of contribution into the national pension scheme, benefits and administrative expenses, the reserves managed by NIS are projected to be exhausted between 2033 and 2034. The 2018 Review estimates that this deficit will be valued at \$2,469.4 million in 2048 which is approximately 83 percent of GDP in 2021. However, it is likely that this will

be circumvented through the implementation of the proposed amendments to the National Insurance Act.

- Unfunded pension systems from NAWASA. In addition to the National Insurance Scheme (Old Age Benefit), some SOEs possess their own retirement schemes. NAWASA in particular administered a pension scheme that was largely unfunded in the past and is currently paid as part of the operational expenses, reducing profits. While NAWASA started collecting contributions in the past 5 years, the estimated actuarial deficit amounts to \$60 million (2% of GDP in 2021). Projections show that annual pension contributions would peak at \$6 million in 2030.
- Possible higher salaries as a result of wage negotiations. The higher salaries would result in lower SOE profits.

**Table 4:**

<b>Expected Loss from Non-Guaranteed SOE Debt</b>					
(weighted by assigned probabilities, in unit indicated)					
	2022	2023	2024	2025	2026
<i>(In EC\$ millions)</i>					
Present value of total debt <sup>1</sup>	49.8	43.1	36.5	30.0	23.6
External debt	49.6	37.0	30.4	23.9	17.5
Domestic debt <sup>2</sup>	0.2	6.1	6.1	6.1	6.1
o/w Arrears	10.5	...	...	...	...
Debt service	8.6	8.6	8.2	8.0	4.7
Expected Loss	...	19.1	8.2	8.0	4.7
<i>(In percent of GDP)</i>					
Present value of total debt <sup>1</sup>	1.7	1.4	1.1	0.8	0.6
External debt	1.7	1.2	0.9	0.7	0.5
Domestic debt <sup>2</sup>	0.0	0.2	0.2	0.2	0.2
o/w Arrears	0.4	...	...	...	...
Debt service	0.3	0.3	0.2	0.2	0.1
Expected Loss	...	0.6	0.2	0.2	0.1
<u>Memo item</u>					
GDP (In EC\$ million)	2,978.8	3,185.7	3,380.6	3,551.7	3,658.3

*Source: MoF, 2021*

The present value of the stock of implicit contingent liabilities comprised mainly of debt under the Grenada Airport Authority, is projected to amount to be \$ 22.08 million. Included in the expected loss for the year 2023 is: Debt service of 45 percent and accumulated arrears 55 percent (47.2 percent of which are related to arrears outstanding from the Grenada Development Bank and 46.99 percent belonging to the Grenada Airport Authority). The expected loss will amount to 0.6 percent of GDP in 2023.