Debt Watch - Caribbean

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News

Standard and Poor's revises its outlook on the Bahamas to negative

The international ratings agency, Standard and Poor's, has revised its outlook for The Bahamas from stable to negative while, at the same time, affirming the country's A-/A-2 sovereign credit rating.

The revised outlook reflected Standard and Poor's concerns over the rapid slowing of economic growth in The Bahamas and its impact on the country's fiscal and external accounts. The ratings agency said that in light of the bleaker tourism, investment and consumer demand expected in 2008 and 2009, real GDP growth rates have been revised for those years to 1.1% and 1% respectively, down from the previously projected 3% and 4%.

Source: Standard and Poor's

Moody's announces possible downgrade of Jamaica's ratings

Moody's Investor Service, one of the leading international ratings agencies, has placed Jamaica's ratings on review for downgrade. Jamaica presently has a B1 foreign currency and Ba2 local currency government bond rating.

Moody's said that despite the government's adequate policy response and continued commitment to servicing its obligation, the challenges imposed by the global financial crisis and economic slowdown are simply too severe for Jamaica to avoid an increase in credit risk.

During the review period, which could last up to three months, Moody's will assess the extent of the fiscal deterioration and the ability of the government to access multilateral financing to replace planned bond issuance.

Source: Moody's Investors Service

Antigua and Barbuda obtain US$20 mn loan for housing

The Antigua and Barbuda government is to obtain a US$20 million loan from the Venezuelan bank, Banco de Desarrollo Economico Social de Venezuela, to develop a residential community for housing.

The loan is a soft loan and US$10 million will be immediately disbursed to start construction work.

Source: Caribbean Net News

US$60 mn IADB loan to Jamaica to improve government efficiency

The Inter-American Development Bank (IADB) is to provide Jamaica with a US$60 million loan to improve fiscal expenditure and performance management under a government reform programme. The reform programme combines policy initiatives and government actions in four key areas: fiscal responsibility, financial management, public procurement and performance management and accountability.

The IADB loan has a 20-year term with a 5-year grace period, and attracts a variable interest rate. It is the first of a series of three independent single-tranche operations of a fast-disbursing policy-based loan. The following two operations are also expected to be up to the amount of US$60 million each.

Source: Inter-American Development Bank

Belize to improve solid waste management with IADB support

The Government of Belize is to receive a US$11.15 million loan from the Inter-American Development Bank (IADB) to improve solid waste management practices, reduce environmental pollution and enhance the image of Belize in the eco-tourism market through better management of its municipal dump sites.

The IADB loan, to be disbursed over 4 years, has a 25-year term with a 4-year grace period at a variable interest rate. Local counterpart funds, amounting to US$3.64 million, include financing from the OPEC Fund for International Development (OFID).

Source: Inter-American Development Bank

China defers Cuba's debt payments

The Chinese government has agreed to defer some of Cuba's debt payments and to give the Cuban government US$80 million for hospital modernisation and other projects.

During a two-day visit of Chinese President, Hu Jintao, the two countries signed accords that postponed for 10 years, payments for an unspecified trade debt Cuba contracted in 1995, and for five years, a US$7.2 million credit China granted in 1998.

China is Cuba's second largest trading partner after Venezuela at US$2.3 billion in 2007. It buys sugar and close to half of Cuba's annual output of 75,000 tons of nickel.

Source: Caribbean Net News

Dominica signs 4 mn Euro grant for geothermal energy development

The Government of Dominica has signed three financing agreements for a 4 million euro grant with the Agence Francaise de Development (AFD) and the Fonds Francais pour l'Enironment Mondial (FFEM), for geothermal energy development in the Wotten Waven area of Dominica.

Source: Caribbean Net News

St. Kitts & Nevis Parliament approves EC$20 mn T-Bill guarantee

The St. Kitts and Nevis National Assembly has approved a resolution guaranteeing an EC$20 million Treasury bill issue on the Eastern Caribbean Securities exchange (ECSE) by the Nevis Island Administration.

The Federal Minister of Finance, Dr. Timothy Harris, said that the benefits to the Nevis Island Administration of placing these instruments on the Regional Government Securities Market include the competitive bidding process by which the market operates, increasing the likelihood of the best rates for its Treasury bills.

Source: Caribbean Net News

Jamaica's move to access multilateral financing paying dividends, says Finance Minister

The Jamaican Minister of Finance and Public Service, Audley Shaw, has said that the government's major policy shift away from expensive loans from the international commercial markets to increased reliance on multilateral lending agencies is paying dividends.

The Finance Minister said that loans amounting to some US$300 million had already been secured with a further commitment of US$110 million due shortly. He further disclosed that significant additional flows were expected from the World Bank and the Caribbean Development Bank.

The Government's intention, Mr. Shaw said, was to re-engage and significantly expand its relationship with the multilateral lending agencies, the World Bank, the Inter-American Development Bank, and the Caribbean Development Banks, as well with the European Union. The Finance minister has consistently said that borrowing from these multilateral agencies is prudent because their lending rates are lower and more stable than those from the commercial markets.

The Jamaican government has indicated that it is embarking on major reforms aimed at achieving higher economic growth, with fiscal sustainability and debt reduction at the cornerstone of the new reform agenda.

Source: Caribbean Net News

Feature

The Eastern Caribbean's Regional Government Securities Market[1]

With the global credit crunch, Caribbean governments have had to rely increasingly on financing budget gaps from their domestic markets. In the Eastern Caribbean, member states of the Eastern Caribbean Currency Union, which comprise Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, have access to regional financing through the Regional Government Securities Market (RGSM).

Established in November 2002, the RGSM is a facility for participating governments to raise financing at the lowest possible cost. The RGSM is also intended to provide investment opportunities to businesses and the public.

The RGSM is regulated under the Eastern Caribbean Securities Act. All eight participating member countries have passed the act which establishes the rules of the market. In addition, the Eastern Caribbean Securities Regulatory Commission (ECSRC) ensures compliance with the regulations. A Regional Debt Coordinating Committee (RDCC), comprising the governor of the Eastern Caribbean Central Bank (ECCB) and the financial secretaries and financial directors from each of the eight participating governments, has direct oversight for the RGSM. It is responsible for ensuring that the market operates efficiently and that the governments comply with established disclosure requirements. The RGSM uses the Eastern Caribbean Securities Exchange (CSE) as the platform for primary market activities as well as the Eastern Caribbean Central Securities Registry and the Eastern Caribbean Central Securities Depository for the trading, recording and settlement of securities.

Prior to the establishment of the RGSM, six of the eight countries issued Treasury bills and seven out of eight countries issued bonds. Little cross border activity occurred and the market issuance was small and limited in frequency. Notably, coupon rates did not reflect market conditions and in many instances the yield curve for government securities was flat or inverted. The absence of market-determined rates distorted other interest rates in the ECCU economies.

Since the inception of the RGSM, activity within the securities market has increased steadily. The value of securities issued on the RGSM has grown from EC$184 million in 2003 to EC$690 million at the end of 2008. With the exception of Anguilla, Dominica and Montserrat, all participating governments, starting with Kt. Kitts and Nevis in November 2002, have used the market. St. Lucia and St Vincent and the Grenadines have been the heaviest users of the RGSM, issuing a cumulative total of EC$891.3 million and EC$1,130 million respectively between 2003 and 2008.

[1] Main information Source: Eastern Caribbean Central Bank

Two major types of securities are traded in the RGSM: short-term discounted Treasury bills and medium- to long-term fixed-coupon bonds with maturities of up to 10 years. Securities are issued through an auction, using a uniform price format.

The RGSM has provided a number of benefits to its ECCU members. The volume of issues has risen and has allowed investors to spread their risks across a wider number of governments. Governments have enjoyed the wider investor pool which has allowed them to lengthen the maturity structure of their securities.

Still, the RGSM faces challenges. The response by governments in entering the market has been slow, the marketing of issues has been weak, and the disclosure of information has not been as timely as required. At the same time, the investor base remains narrow and secondary market trading has been limited. The issuance preference of participating government has been for shorter-term securities, mainly Treasury bills. On average, over the 5-year period between 2003 and 2008, Treasury bills accounted for over 80 per cent of the securities issued.

Some of the proposals to address these challenges include marketing government securities to other Caribbean countries and the wider Caribbean diaspora; getting credit ratings for sovereign issuers to attract investors; issuing a calendar of issues to enhance transparency; and increasing dialogue with the market.

Certainly, deepening the government securities market will help lower government financing costs and reduce the reliance on dwindling aid flows. *Michele Robinson*

Debt Statistics

National

St Lucia

St. Lucia is one of seven island nation states that, along with associate members Anguilla and the British Virgin Islands, comprise the Organisation of Eastern Caribbean States (OECS). It is a small open economy mainly dependent on tourism. The once dominant agricultural sector, led primarily by banana exports, has declined in recent decades. A more marked decline in recent years is due largely to changes in the European Union trade preference regime coupled with increased competition from Latin American bananas.

St. Lucia is also very vulnerable to external shocks, and is categorised by the World Bank as one of the world's most disaster-prone countries. In 2007, St. Lucia suffered from both a devastating hurricane (Hurricane Dean in August) as well as a strong earthquake later in the year.

While low relative to other OECS member states, St. Lucia has a large and growing public debt. At the end of 2007, St. Lucia's public debt-to-GDP ratio was 72%, double the level of a decade ago. External debt amounted to 42% of GDP while domestic debt accounted for 30% of GDP.

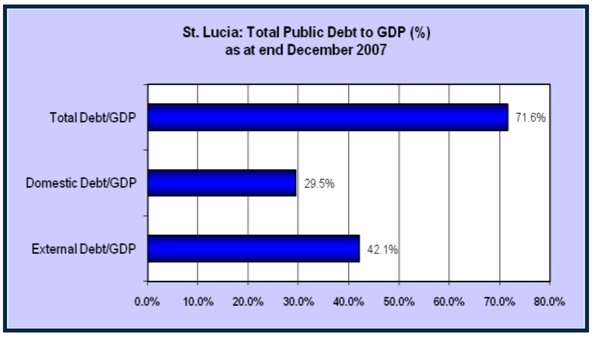
The table below provides data on key indicators in relation to the total public debt of St. Lucia.

St. Lucia: Public Debt Indicators

in percent of GDP (%)

	2005	**2006**	**2007**
Total Public Debt	70.3	70.7	71.6
External Debt	45.6	44.3	42.1
Domestic Debt	24.7	26.4	29.5

Source: IMF, Eastern Caribbean Central Bank



St. Lucia's public debt growth in recent years has been due mainly to large fiscal imbalances. Public sector wage increases, as well as large increases in capital expenditures, have led to an overall fiscal deficit of 6.7% between 2005 and 2006 compared to a deficit averaging 3.3% over the period 2003-2004. Over the period 2003 to 2006, public debt to GDP has jumped from 60.3% to 70.7%, rising further to 71.6% at the end of 2007.

The composition of St. Lucia's debt has also changed markedly during the 2000s. External financing from commercial creditors has declined significantly since 2000 and so too have aid and grant flows from donor governments. As a result, the St. Lucian government has relied increasingly on funding from multilateral sources. Lending from official multilateral institutions accounted for almost half of the total external debt outstanding at the end of 2007.

The shift in the composition of external debt has been accompanied by a growing share of domestic debt. Domestic debt currently accounts for just over 37% of total public debt, with commercial banks being the primary source of domestic financing to the government.

A recent debt sustainability analysis by the IMF estimates that St. Lucia's public debt will remain high in the absence of "continued fiscal consolidation". In effect, unless the authorities increase revenue, through a combination of strengthened tax policy and administrative reforms, and curtail expenditures, through wage restraint and prioritizing capital projects, the public debt will remain above 70% over the next five years. However, should the St. Lucian government maintain a primary surplus of 1.5% over the medium-term, then the public debt-to-GDP ratio should decline below 60% - the benchmark established by the Eastern Caribbean Central Bank (ECCB) – by 2012.

The slowdown in global economic activity poses significant challenges for St. Lucia's economy. Growth is likely to slow as a result of dampened demand for tourism combined with the fallout in the agricultural sector. The government's need to reduce fiscal imbalances will come under severe pressure as demands for higher social spending increase. The authorities have already emphasised that part of their medium-term policy initiative is to increase capital spending to boost tourism infrastructure and attract large capital inflows.

Given prospects of a continued global slowdown, declining donor inflows and high vulnerability to natural disasters, the authorities may have to rethink their current strategy if the public debt burden is to be eased over the medium to long term. *MR*

Upcoming Events/Courses

March 2009

- March 19 - 23: Annual Meetings of Board of Governors, Inter-American Development Bank in Medellin, Columbia.

January 2009

- January 19 - 23: Crown Agents hosts *Workshop on Debt Management and Public Finance Management Systems* in London, United Kingdom.

If you have information about an important event or development related to public debt management in or relevant to the Caribbean, please email Michele Robinson at:

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