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 asses 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 firs 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 US3.64 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 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 the multilateral agencies is prudent because of 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

Economic Aid to the Caribbean – The Evolving Role of China

The Caribbean is benefiting significantly from China's emergence on the world stage. At a time when aid flows to the region from traditional Western donors are dwindling, China's advance into the region is filling a large gap not only in terms of trade but in economic aid.

The Caribbean region is already benefiting from an US$530 million economic assistance package from China over a three-year period ending in 2010. Participating Caribbean governments with access to this aid programme will receive preferential loans for investment in various sectors, including agriculture, fishing, manufacturing, construction and infrastructure development. This assistance, China says, is being extended without any political strings.

In addition, China has funnelled aid of some US$30 million to the Caribbean through the Caribbean Development Bank (CDB). An additional US$350 million in aid will now be available to the Caribbean through a commitment that China has made to the Inter-American Development (IADB) as its newest donor member. Of this amount, US$125 million has been specifically been earmarked as soft loan for five countries, including Guyana and Haiti, under the IADB's funds for special operations.

What are the key benefits of the aid packages Caribbean countries are receiving? Loans from the Government of China are highly concessional, meaning that they have relatively long repayment terms – 25 years or more - and carry low rates of interest, ranging between 1% and 3%. Moreover, aid packages are sizeable, helping to close the gaps of many Caribbean fiscal budgets.

The growing relationship between China and the Caribbean is not, however, a one-way street. China continues to be on a drive for natural resources and minerals. Cuba with its nickel, Guyana with its timber, Jamaica with its bauxite and Trinidad and Tobago with its oil are therefore of strategic interest to China. Smaller Caribbean countries stand to benefit too as several have been given "approved travel destination" status by China including Antigua and Barbuda, the Bahamas, Barbados, Dominica, Jamaica and St. Lucia. This is of particular significance as it is estimated that by 2020 China will be the fourth largest source of global leisure travellers.

While China states that there are no strings to its aid, a political requirement is that beneficiary Caribbean states support China's "One China" policy and refrain from having official ties or contacts with Taiwan. The Chinese government is unequivocal about its "One China" policy; a principle that maintains that there is one China and that mainland China, Hong Kong, Macau, and Taiwan are all part of that China. In this regard it is notable that four CARICOM member countries - Belize, Haiti, St. Kitts & Nevis and St. Vincent & the Grenadines - continue to have diplomatic relations with Taiwan. The Dominican Republic also continues to formally recognise Taiwan.

Caribbean countries that have switched support from Taiwan to China have been well rewarded. Dominica, for example, in return for recognising China and supporting the "One China" principle, benefited from a commitment of over US$100 million in aid, estimated at one-third of the government's revenue over 5 years. Similarly, Grenada in resuming diplomatic relations with China in 2005 benefited considerably in terms of an aid package that allowed the expansion of the national stadium for the Cricket World Cup in 2007 and the construction of 2000 housing units. Grenada was also offered a US$6 million grant to compensate for the loss of support from Taiwan.

As a sign of its growing presence in the Caribbean, the government of the People's Republic of China, (China), in November 2008, released its first ever Policy Paper on Latin America and the Caribbean. It spoke to specific benefits which would accrue to the 10 CARICOM (Caribbean Community) member countries as well as the wider Caribbean, including Cuba and the Dominican Republic. Included among these were aims to: deepen cooperation and achieve win-win results, expand two-way trade, promote investment, and find ways to discuss with relevant Caribbean countries ways to relieve their debts as China's ability permits.

Amidst all of these benefits, there are some issues to consider in securing assistance from China.

- First, China aid is tied. In effect, goods and services funded by the loan must be procured from China. This tying of aid comes at a time when most donors have untied their aid to ensure that recipients get "value for money" and optimise development assistance. This is true for almost all donors from the major industrial (OECD) countries.

- Second, many loan agreements are governed by Chinese law, a jurisdiction with which there is little familiarity, especially in the area of financial litigation. The major concern is to what extent are the borrower's rights protected under Chinese law? This may prove a thorn in the side of Caribbean states should a legal dispute occur. This is a growing concern and was recently raised in Antigua by the Opposition Leader.

- Finally, there is the notion that China is providing a "golden handcuff" through its economic aid. In other words, the Caribbean faces the risk that as its appetite for, and dependence on, Chinese aid grows, Chinese demands, financially and otherwise, may harden. The Caribbean may be forced to make increasing concessions to China in exchange for continued aid. It is notable that the Caribbean Development Bank remarked that Dominica's increased reliance on grant financing (China being one of two main donors) may make the country vulnerable to "sudden stops" in grant flows.

The Caribbean stands to gain much from the increased assistance from China. Aid can do much to promote long term development of the region. Care must be taken, however, to avoid overdependence on Chinese aid. The cost may be higher than we anticipate. *Michele Robinson*

Debt Statistics

Regional

In the Caribbean, ten Caribbean countries have diplomatic relations with China. The table below shows those Caribbean countries with diplomatic relations with the Republic of China.

1. Antigua & Barbuda	Jan 01, 1983
2. Bahamas	May 23, 1997
3. Barbados	May 30, 1977
4. Antigua & Barbuda	Jan 01, 1983
5. Bahamas	May 23, 1997
6. Barbados	May 30, 1977
7. Cuba	Sep 28, 1960
8. Grenada	Jan 20, 2005*
9. Guyana	Jun 27, 1972
10. Jamaica	Nov 21, 1972
11. St. Lucia	Sep 01, 1997
12. Suriname	May 28, 1976

Source: Foreign Ministry, Peoples Republic of China

National

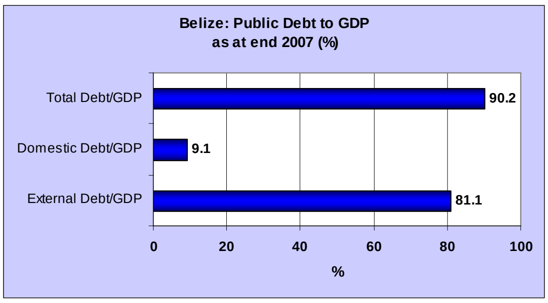
Belize 

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

Belize: Public Debt Indicators in percent of GDP (%)

	2005	2006	2007
Public and Public Guaranteed Debt	98.3	92.1	90.2
External Debt	90.9	83.8	81.1
Domestic Debt	7.4	8.3	9.1

Source: International Monetary Fund



Belize, with total public and publicly guaranteed debt amounting to 90.2% of GDP at the end of 2007, is among the most heavily indebted countries in the Caribbean.

While Belize's domestic debt is relatively low amounting to 9.1% of GDP, its external debt remains high at 81.1%. At the end of 2007, Belize ranked second as the most heavily indebted Caribbean country behind only Grenada (91.2%) in terms of its external debt to GDP.

In the early 1990s much of Belize's debt was owed to official creditors, primarily bilateral donors, and the external debt burden was moderate amounting to some 30% of GDP. However, in the late 1990s, the Belizean authorities embarked on an aggressive effort to stimulate economic growth. A sharp rise in public investments along with a lowering of taxes led to a sharp rise in the overall deficit of the central government. Belize's debt surged. Total public debt to GDP rose from 60% in 2000 to more than 100% by 2004.

The escalation in the debt was accompanied by a significant change in its composition. The Government of Belize shifted its reliance on multilateral project financing and bilateral aid towards financing from the commercial markets. From a share of the total external debt of only 7% in 1995, commercial creditors accounted for than 50% of the debt by 2006. Foreign banks and institutional investors became the major lenders to the Government of Belize.

High borrowing costs associated with commercial borrowing and increasingly limited access to the international capital markets led to mounting payments difficulties for the Government of Belize. By 2006, the authorities faced imminent default on their commercial debt. In a pre-emptive move, the authorities approached its external commercial creditors in late 2006 to seek a cooperative agreement to restructure its debt.

In February 2007, the authorities finalised an agreement with its commercial creditors for a voluntary bond exchange. Under the terms of the arrangement, outstanding external commercial debt obligations were exchanged for a 22-year bond maturing in 2029. The bond, due to begin amortising in 2019, is repayable semi-annually. It carries a low coupon rate of 4.25% for the first two years, 6% for the next two years and then a fixed coupon rate of 8% for the remaining years. The bond exchange was highly successful with a 98% participation rate among affected commercial creditors.

Although there was no official restructuring with bilateral donors, they, as well as the Inter-American Development Bank and the Caribbean Development Bank, supported the restructuring effort by providing new financing to Belize. Belize's credit ratings benefited from the debt exchange and the more favourable debt servicing outlook. Additionally, in late 2007, both Moody's and Standard and Poor's ratings agency upgraded Belize's ratings. Sovereign debt ratings of Caa1 and B were assigned by Moody's and Standard and Poor's respectively.

While the debt restructuring has afforded Belize some breathing space, Belize's future long-term debt sustainability is predicated on strong fiscal restraint by the authorities over the medium term. Projections are that debt could become unsustainable by the time that payments on the restructured debt begin falling due in 2019. The IMF, in its most recent Article IV Consultation with Belize stated that unless there is significant fiscal adjustment, Belize's debt dynamics remain unsustainable, with debt ratios set to increase by 2013.

Belize faces a number of challenges. Above-projected budgetary spending has already occurred in 2008 in order to address major infrastructural damage caused by the passage of a number of tropical storms and hurricanes. In addition, increases in civil service salaries and the introduction of a universal health scheme for the Belizean population will further exacerbate fiscal pressures. The unfavourable external environment is also likely to exert further pressure on the authorities. They will be pressed to relax spending in the face of lower tourism earnings and remittances from abroad so as to avoid a steep downturn in economic activity.

The authorities, however, have stated that they are committed to prudent fiscal management and improving debt management. If they exercise fiscal restraint by maintaining a primary surplus of 4-5% and refrain from further recourse to external commercial borrowing, they may well achieve the 2019 debt-to-GDP target of 40%. Belize will require significant resolve given the present global financial situation. The long-term benefit of sustainable debt, improved creditworthiness, and available resources for development is worth it. *MR*

Upcoming Events/Courses

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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