



CONTINGENT LIABILITIES

**MINISTRY OF FINANCE AND THE ECONOMY
TRINIDAD AND TOBAGO**

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OVERVIEW

DEFINITION

- * AGENCIES RESPONSIBLE FOR CONTINGENT DEBT IN T&T
- * INSTITUTIONAL ARRANGEMENTS FOR OPERATIONALIZING THE CONTINGENT DEBT
- * CURRENT COMPOSITION
- * IMPLICATIONS OF HIGH CONTINGENT DEBT
- * SYSTEMS IN PLACE TO MANAGE THE DEBT
- * CONCLUDING REMARKS

DEFINITION

- * obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of Government.
- * **when does a contingent liability actually become a liability?**

Differing views

- * become liabilities when they are entered into or become so when the event actually occurs
- * once you enter into a contractual obligation the contingent liability itself is not conditional and it becomes a liability in its full right. What is conditional is the amount required to settle the obligation because it depends on the nature and extent of the occurrence
- * In Trinidad & Tobago it is any debt incurred by the State Enterprises and the Statutory Bodies that is guaranteed by the state .
- * Two types
 - * Letters of Comfort
 - * Government Guarantees

Explicit & Implicit Contingent Liabilities

- * *Explicit* – normal Guarantees or contingent liability obligations based on contracts, which are entered into and guaranteed by the Republic of Trinidad and Tobago . (GORTT)
- * *Implicit* – political or moral obligations that arise from the expectation that GORTT would intervene in the event of a crisis or a disaster. Or when the opportunity cost of not intervening would be considered unacceptable.
 - * Bailout of public enterprises, financial institutions, private firms that are strategically important or considered too big to fall. (CLICO)
 - * Natural disaster relief
 - * Environmental cleanup spending.

Debt in Trinidad and Tobago

1. State Enterprises Eighty Two (82)

* Guarantee of Loans (Companies) Act, Chap. 71:82

2. Statutory Authorities Ten (10)

✗ Guarantee of Loans (Statutory Authorities) Act, Chap.
71:81

State Enterprises

The **Minister of Finance (Corporation Sole)** is responsible for the State's Enterprises. They are governed by The Corporation Sole Act No 3 of 1973; Chapter 69:03 of the Laws of Trinidad and Tobago.

Of the (82 companies) in the portfolio

- ✓ Forty-five (45) wholly-owned companies
- ✓ Seven (7) majority-owned companies
- ✓ Four (4) minority-owned (i.e. less than fifty percent holdings)
- ✓ Twenty-six (26) companies held indirectly as subsidiaries.

Categorisation of State Enterprises

* Holders of the Guaranteed Debt

* **Normal State Enterprises (74) seventy four**

* **Special Purpose Companies (SPV'S) (8) eight**

* Holders of the Non Guaranteed Debt

- Some borrow on their own balance sheet and therefore do not require a guarantee from GORTT to incur debt- this is therefore referred to as the non guaranteed debt.

- Companies that operate in the oil and gas sectors
(NGC /PETROTRIN)

Special Purpose Companies (SPV) (8)

- * Created in 2005
- * To execute capital projects on behalf of GORTT
- * REASON –State Enterprises were not executing projects quickly enough in line with vision of the administration (vision 2020)
- * Too many lags within the system
- * 8 SPV's
 1. Education Facilities Company (EFCL)
 2. Urban Development Corporation (UDECOTT)
 3. CPEP Company Limited (CPEP)
 4. National Infrastructure Development Company (NIDCO)
 5. Rural Development Company (RDC)
 6. East Port of Spain (EPOS)
 7. Community improvement Company ITD (CISL)
 8. Estate Management Development Co Ltd (EMBD)

List of Statutory Authorities

Statutory Authorities that are holders of Contingent Debt

1. Port Authority of Trinidad and Tobago (PATT)
2. Water and sewerage authority (WASA)
3. Tobago House of Assembly (THA)
4. University of the west indies (UWI)
5. Trinidad and Tobago Electric Company (T&TEC)
6. Regional Health Authorities (north west , Central , south) (RHA)
7. Airport Authority of Trinidad and Tobago (ATT)
8. Public Transport Service Corporation (PTSC)

INSTITUTIONAL ARRANGEMENTS FOR OPERATIONALIZING THE CONTINGENT DEBT

* NEW LOANS

- * **If State Enterprise/ Statutory Authority needs a loan.**
- * **Request made through their line ministry**
- * **Line Minister takes a Note to Cabinet**
- * **Note is approved with certain trigger phrases**
 - * **In collaboration with the Ministry of Finance**
 - * **To be vetted by the Office of the Attorney General**
 - * **Minister of Finance be given the authority to enter into and execute on behalf of GORTT**
 - * **MOF raises then raises loan**

* TYPE OF FINANCING

* LOCAL

- * **Request for proposals (RFP) (Letters of comfort and Guarantees) (LOAN)**
- * **Central Bank Auction (GSS) (LARGER ISSUES –BOND)**

* EXTERNAL

- * **Gov't to Gov't Arrangements (CHINA AUSTRIA CANADA) Capital projects- hospitals. Sporting Facilities etc**
- * **International Bond**

* EXISTING LOANS

- * **Service is done through budget allocations**
- * **Entity submits their estimates annually to the budget division**

THIS IS HOWEVER IN THE NORMAL SCHEME OF THINGS.

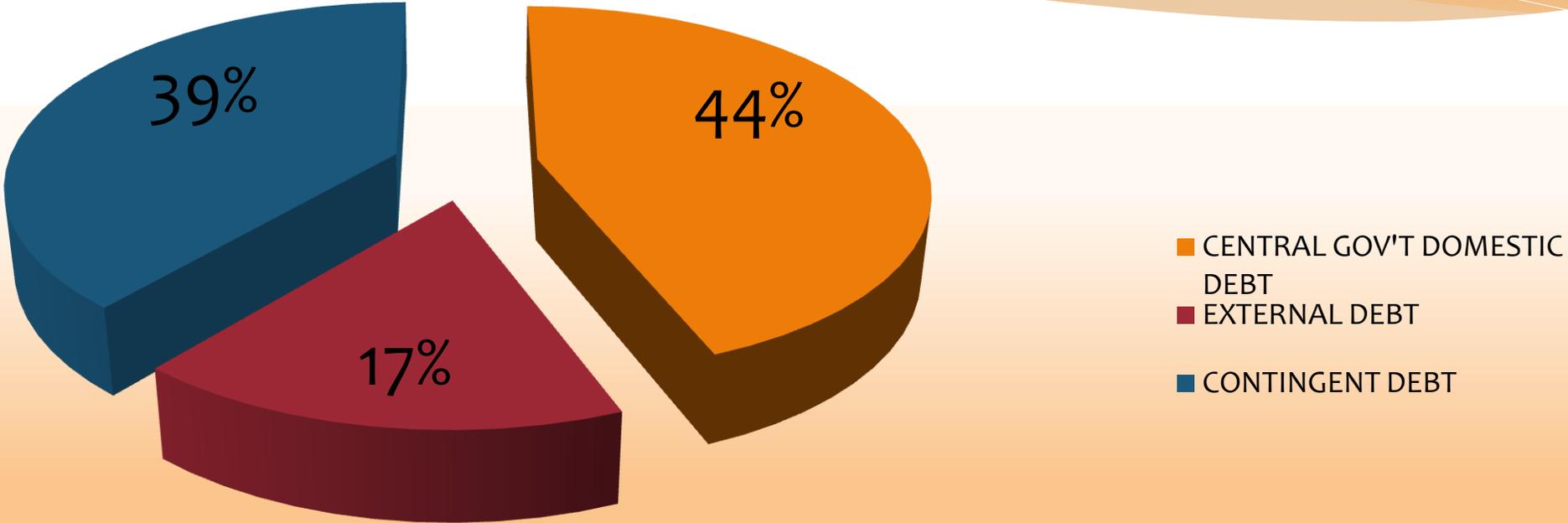
- * instances where the entities do not follow the norm because they feel that MOFE is taking too long to raise the loan
- * Do it themselves.
- * Invite probably 3 out of the eleven (11) Banks
- * Agree to terms that are higher than the market rate
- * Then forward it to MOFE to Approve all in a bid to hasten the process
- * We will off course do over the process from scratch
 - * And choose the best terms
 - * Interest ate
 - * Tenor
 - * Facility type
 - * bridge / then take it out later wiht a long term facility
 - * letter of comfort /convert to a guarantee
 - * overdraft

SHORTFALL IN THE OPERATING BUDGET

- * **MID YEAR REVIEW**

- * EXPECTED EXPENDITURE BY THE ENTITY IS HIGHER THAN THE ALLOCATION
- * PREVIOUS ALLOCATION TO THE ENTITY IS RE-EXAMINED
- * ALLOCATIONS TOPPED UP OR DECREASED
- * FUNDS MAY BE MOVED FROM ONE VOTE TO THE NEXT TO FACILITATE THE INCREASE IN EXPENDITURE

CONTINGENT DEBT AS A PERCENTAGE OF TOTAL NET DEBT 2012



IMPLICATIONS OF A HIGH CONTINGENT DEBT

IMF FINDINGS

- * In terms of incidence
 - * contingent liabilities are found in all countries – Guarantees are the most wide spread
- * In terms of impact
 - * Implicit liabilities are the most serious
- * FACT STATISTICS
 - * FINANCIAL SYSTEM BAILOUTS (fiscal bill was very costly)
 - * IN SOME 40 EPISODES OF CRISIS the cost averages 13% OF GDP (IMF WORKING PAPER A. CEBOTARI)
 - * SOME WENT AS HIGH AS 55 %
 - * ACROSS 75 COUNTRIES IN BANKING CRISIS OF 2008 cost- 27% OF GDP (STANDARD & POORS 2008)
 - * FOR THE USA –ESTIMATED AT 24.5% OF GDP
 - * NATURAL DISASTERS-(CARIBBEAN IS IN THE HURRICANE BELT)
 - * STATISTICS SHOW ROSE TO 200% OF GDP (HURRICANE IVAN IN GRENADA IN 2004)

IMPLICIT LIABILITY (CLICO) IMPACT OF THE FISCAL COST ON TRINIDAD & TOBAGO

* VARIOUS INTEREST

- * Energy/Methanol
- * Insurance (T'dad & 15 Caricom States)
- * Finance & Banking (CMMB & CIB Republic Bank HMB)
- * Real Estate (HCL group Clico Development Property ltd)
- * Angostura ltd (alcohol)

* PROBLEM

- * Using short term projects to fund long term investments
- * Maturities on short term products were due
- * Liquidity issues arose
 - * Financial crisis (2008) hit – they were heavily leveraged
 - * major investment in methanol – depressed prices
 - * real estate market-also depressed

IMPLICIT LIABILITY (CLICO)

IMPACT OF THE FISCAL COST ON TRINIDAD & TOBAGO

* **SYSTEMATIC RISK /CONTAGION EFFECT**

- * Approached GORTT for assistance and in Jan 2009 GORTT intervened
- * WHY?
- * Majority ownership of largest bank in Trinidad -Republic Bank 56%
- * Largest insurance company 50%
- * Spill over effects in all 15 Caricom states
- * Exposure as high as 17 % of GDP in the Eastern Caribbean States
- * Placed at risk –
- * Depositors, investors, policy holders, corporates, public pension schemes, individuals, and financial institutions

* **COST OF BAILOUT**

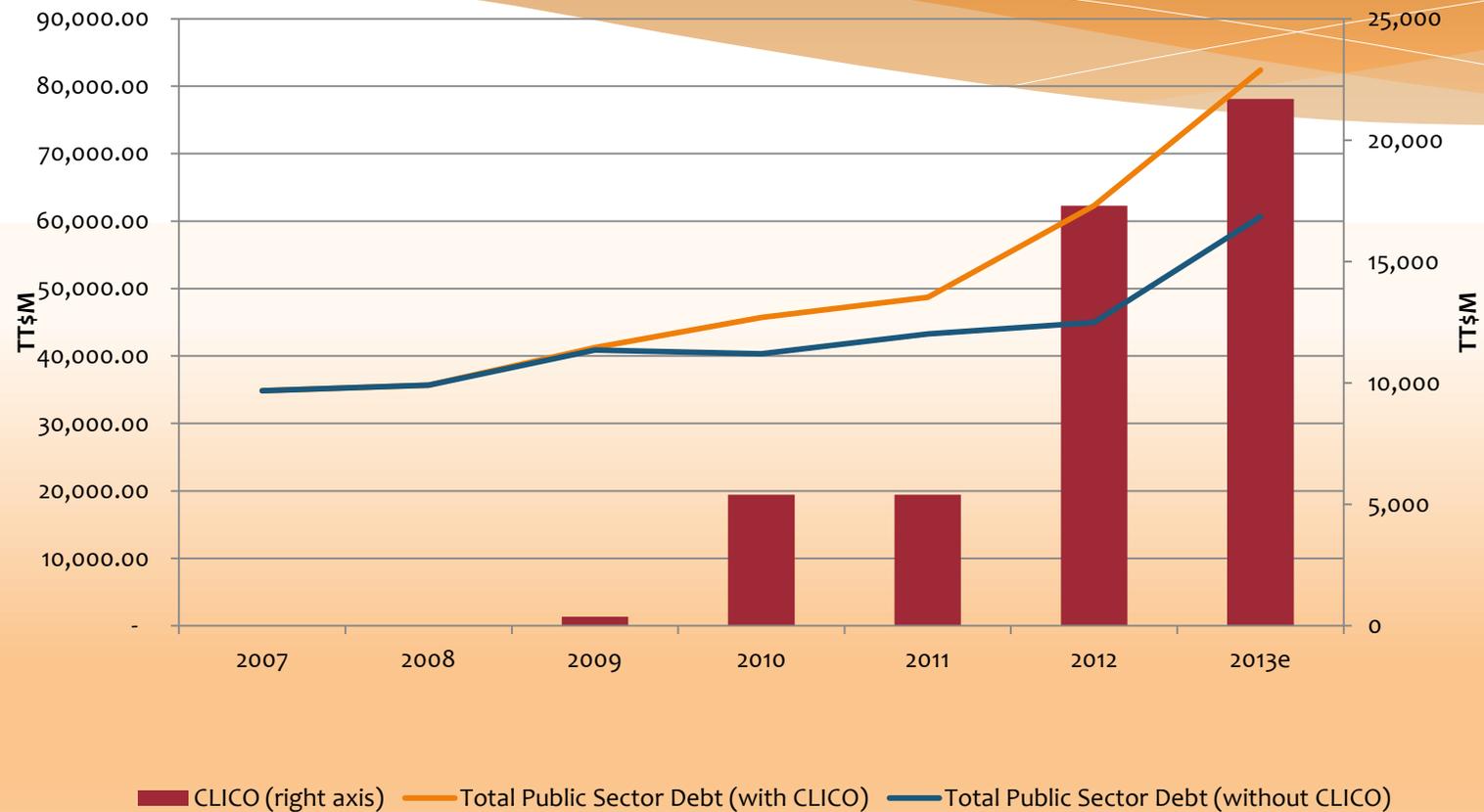
* BONDS 2009-2013 TTD \$21.6Bn (USD \$3.4 Bn)

* Increased GDP by 13%

* **OTHER COST**

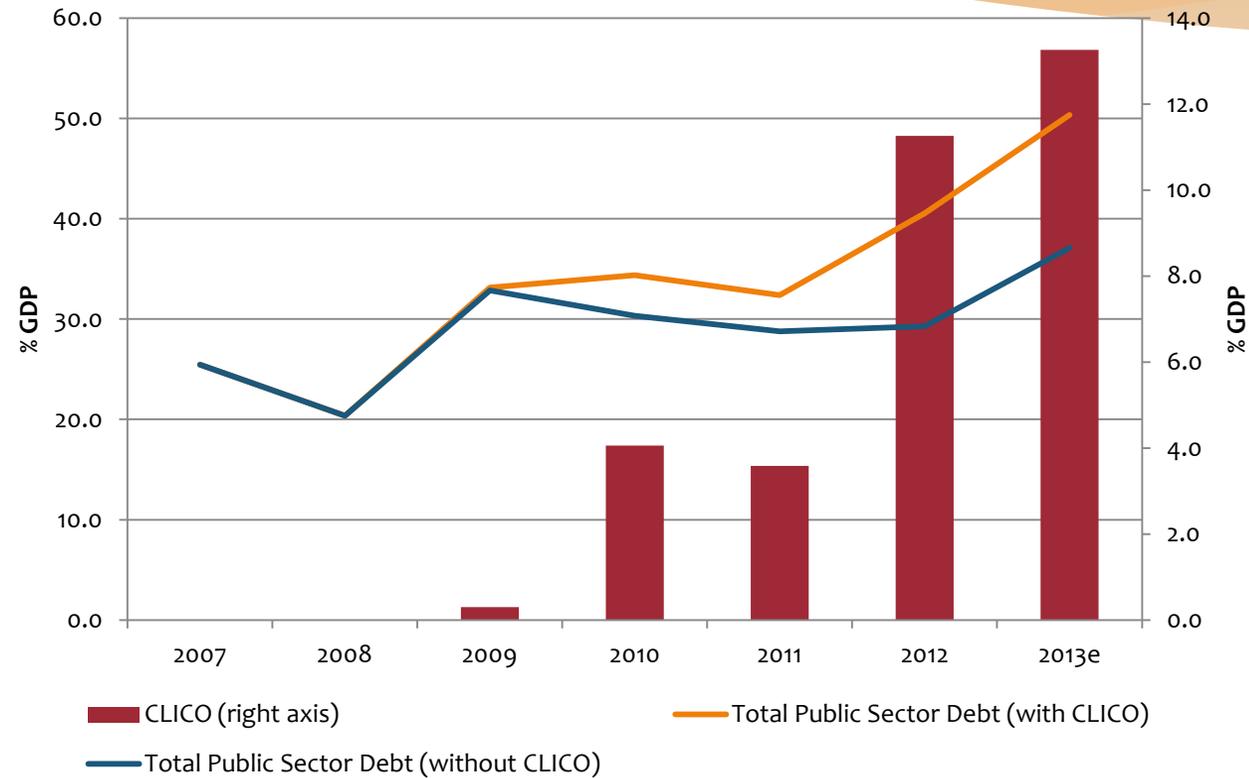
- * Financial assistance to other Caribbean countries USD 50Mn (caricom petroleum fund)
- * Clico enquiry TTD \$ 70 mn
- * Litigation cost (clico policy holders Group)
- * Litigation cost (external to Trinidad) USD 52mn

Net Public Debt Stock Effect of CLICO Bailout



Debt to GDP

Effect of CLICO Bailout



SYSTEMS IN PLACE TO MANAGE THE DEBT

* **Parliamentary Approval**

- * State Enterprise/Statutory must have parliamentary Approval to incur debt

* **Annual reconciliation at year end with the treasury**

- * **STATUTORY REQUIREMENT -TREASURY HAS TO REPORT TO AUDITOR GENERAL AND THE AUDITOR GENERAL REPORTS TO THE PARLIAMENT (PUBLIC ACCOUNTABILITY)**
- * **Second opinion with the Central Bank**
- * EXECUTING - SWAPS AND HEDGES

* **MID YEAR REVIEW**

- * **Viring of funds from one entity to one another – this helps to stay on track and expedite projects**

* **MOFE is the sole Agency assigned to raise the debt to ensure;-**

- * **That the Debt ceilings are not breached**
- * **Composition of the portfolio is maintained**
 - * **Maturity profile (bunching of repayments)**
 - * **Debt Sustainability indicators remain with acceptable limits (DEBT to GDP 50%)**

SYSTEMS IN PLACE TO MANAGE THE DEBT

- * **MAINTAIN A HEALTHY RELATIONSHIPS WITH INTERNATIONAL AGENCIES**

- * **IMF**

- * ARTICLE 1V CONSULTATIONS
 - * OTHER IMF MISSION VISITS

- * **World Bank**

- * TECHNICAL ASSISTANCE MTDS /DSA
 - * FEE BASED CONTRACTS – UNDERTAKE LIABILITY MANAGEMENT EXERCISES

- * **COMMONWEALTH SECRETARIAT**

- * DEBT RECORDING SOFTWARE

- * **Rating Agencies**

- * Standard & Poors (A/-A1)
 - * Moodys (Baa1 August 2012)

Why Manage Contingent Liabilities?

- * **HIGH CONTINGENT LIABILITIES HAS A FISCAL COST**

- * IT CAN PUT THE PUBLIC DEBT ON AN UNSUSTAINABLE DEBT PATH
- * PUTS PRESSURE ON DEBT CEILINGS
 - * CHANGES FACE OF THE PORTFOLIO
 - * CENTRAL GOVT DEBT
 - * SWAPS /HEDGES
- * MAY RESULT IN AN INVESTMENT DOWNGRADE
- * BORROWING THEREFORE BECOMES VERY EXPENSIVE
- * POSSIBLE DEFAULT ON LOCAL BONDS
- * INTERNATIONAL BONDS ARE NEXT
 - * CROSS DEFAULT CLAUSES
- * STRUCTURAL ADJUSTMENT IS AT THE DOOR

Concluding remarks

- * **Strengthening of institutional framework**

- * Limits on borrowing
- * Limits on Deficits, Risk-taking
- * Monitoring of financial positions by a central institution

- * **CONTINGENCY RESERVE FUNDS**

- * LOAN GUARANTEES (CHILE COLUMBIA SWEDEN USA) FINANCED BY GUARANTEE FEES PAID BY THE BENEFICIARIES OF THE GUARANTEES OR BY PUBLIC ENTITIES SPONSORING GUARANTEES CARIBBEN COUNTRIES CAN DESIGN A MODEL THAT CAN WORK FOR OUR PARTICULAR SITUATION AND THIS IS A FORUM WHERE THIS CAN BE DISCUSSED AND HAMMERED OUT)

Concluding remarks

- * GENERAL BUDGET CONTINGENCIES (INDIA KENYA UK)
 - * SUMS ARE TRANSFERRED OUT OF OUT BUDGET CONTINGENCY RESERVES INTO GENERAL CONTINGENCY FUNDS TO BE USED FOR EXPENDITURES THAT DO NOT HAVE THE APPROVAL OF THE LEGISLATURE , IN ANTICIPATION OF SUCH APPROVAL BECOMING AVAILABLE
- * TRINIDAD (HERITAGE AND STABILISATION FUND) ACT 6 2007
 - * STRICT RULES FOR WITHDRAWAL
 - * ACTUAL TAX REV MUST BE BELOW 10% OF BUDGETED REVENUE
 - * CAN ONLY WITHDRAW 60% OF SHORTFALL BUT NOT MORE THAN 25% OF THE FUND IN ONE YEAR
 - * HAS A FLOOR OF USD 1 Bn.
 - * CANNOT BE USED TO FUND CAPITAL EXPENDITURE
 - * OR USED AS COLLATERAL FOR GOVERNMENT BORROWING

Concluding remarks

- BUILD CAPACITY IN DEBT MANAGEMENT OFFICE
- TRAINING
- MIDDLE OFFICE
- OPERATING ACCORDING TO INTERNATIONAL BEST PRACTICE
- PROPER RENUMERATION PACKAGES

LIST OF BORROWING ACTS AND LIMITS

Borrowing Acts	Statutory Limit (TT\$)
External Loans Act, Chap. 71:05	15.Bn
Development Loans Act, Chap 71:04	30.Bn
Treasury Notes Act, 1995 (5yr Maturity)	5,Bn.
*Treasury Bills Act, Chap 71:40	15Bn.
Guarantee of Loans (Companies) Act, Chap. 71:82	25Bn.
Guarantee of Loans (Statutory Authorities) Act, Chap. 71:82	No Limit
IBRD Act 2, 1967, Chap. 7:06	No Limit
IADB Act 32, 1967, Chap. 71:07	No Limit
Treasury Bonds Act (5.5 - 10yr Maturity)	No Limit