



## JOINT COMMONWEALTH SECRETARIAT/CARADEM FORUM

Iberostar Rosehall, Montego Bay, JAMAICA, WI

17-18 June 2013



### COMMUNIQUE OF THE CARIBBEAN ASSOCIATION OF DEBT MANAGERS (CARADEM)

1. The 3<sup>rd</sup> CARADEM Management Forum was convened over the period 17-18 June 2013 to discuss issues and challenges in debt management relevant to Caribbean member states. This Forum was held jointly with the Commonwealth Secretariat. Ten<sup>1</sup> of 15 Caribbean countries were represented at this Debt Management Forum.
2. This meeting was held against the background of low growth, persistent fiscal deficits and worsening debt dynamics in many Caribbean countries. The region continues to be characterised by chronically high debt-to-GDP levels, many countries at risk of moderate or high debt distress, and an increase in the number of countries undertaking debt restructuring. Two countries, Belize and Jamaica, have undertaken debt restructuring operations in 2013, with Grenada announcing its intention to undertake a comprehensive debt restructuring in the near term.
3. The Forum focused on several key debt management issues of immediate concern to Caribbean members states, namely: (i) Restoring Public Debt Sustainability in the Caribbean Region; (ii) Instilling Strategic Public Debt Management; (iii) Managing Fiscal Risks beyond Debt Management; (iv) the Challenges in Managing Contingent Liabilities; (v) Strengthening Public Debt Management through Institutional Reforms; (vi) Restoring Debt Sustainability through Debt Restructuring; (vii) Issues and Challenges with Bond Financing; (viii) Public Debt Statistics and Enhanced Dissemination and (ix) Capacity Building in Debt Management. The Forum concluded with a keynote address by Dr. the Honourable Peter Phillips, Minister of Finance and Finance and Planning, Jamaica.
4. The participation of senior representatives from international financial and development organisations, including the Caribbean Development Bank (CDB); the Commonwealth Secretariat; the Eastern Caribbean Central Bank (ECCB); the Inter-American Development Bank (IDB); the International Monetary Fund (IMF), and the World Bank) underscored the high importance accorded to this annual regional reform. Participation was further bolstered by the participation of senior executives from several private financial institutions and private sector firms including Allen and Overy law firm; the Caribbean Catastrophe Risk Insurance Facility (CCRIF); Citigroup; Deutsche Bank; Geoffrey Bell and Associates; and Scotia Investments.
5. CARADEM shares the concerns raised in the welcome remarks by Jamaica's Financial Secretary, Mr. Devon Rowe, in which he highlighted the serious debt accumulation in the region, particularly in Jamaica and the spate of recent restructurings including those by Belize, Jamaica and St. Kitts and Nevis. We agree that high debt levels were inimical to growth and that greater efforts at fiscal consolidation across countries were necessary. The need to actively engage in peer-to peer sharing and apply the knowledge gained in-country is strongly endorsed.

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<sup>1</sup> Countries attending were Antigua and Barbuda, The Bahamas, Barbados, Belize, Guyana, Jamaica, St. Kitts and Nevis, St Lucia, Suriname and Trinidad and Tobago.



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6. We appreciate the opening remarks made by Mr Arindam Roy, Head, Debt Management Section in the Commonwealth Secretariat, in which he took stock of the serious debt problem faced by the Caribbean noting that this was not a short-term liquidity issue but an increasingly intractable structural problem that was negatively impacting growth. He urged CARADEM members to address the issues of debt unsustainability without further delay. He stressed that authorities could no longer delay wider structural adjustment in order to return to a sustained growth path and medium term debt sustainability. He encouraged countries to avoid ad hoc restructurings but instead implement restructurings in the context of stronger fiscal management and wider economic reforms to make restructuring efforts credible. He stressed the need for Caribbean debt managers to expand their role in terms of rigorous analysis and research and argued strongly for more resources to be allotted to strengthen middle office capacity. On a final note he strongly urged CARADEM to develop a template for evaluating and reporting on debt management performance at these meetings. CARADEM strongly endorses this proposal.
7. CARADEM was pleased to receive the report by CARADEM President, Mrs. Pamela McLaren. She stressed the need for debt managers to be practical and pro-active in their efforts to finance government's borrowing requirement at acceptable levels of cost and risk. She noted the increasing challenge of meeting this objective given the persistence of low growth rates and high fiscal deficits across the region and noted, that at the end of 2012, only three CARADEM member states, Haiti, Suriname, and Trinidad and Tobago had sustainable debt levels. We share the President's concerns about the weakened performance of market-access countries, particularly Barbados, Belize and Jamaica, all of whom have been assigned negative outlooks or downgraded or both over the past twelve months. The widening of credit spreads for market-access countries is cause for concerns and places an additional burden on the fiscal accounts. CARADEM fully supports the view of the President that debt managers must play a more pro-active role in minimising debt service costs and mitigating portfolio risk and must work alongside their fiscal counterparts to find solutions to reduce debt levels across the region.
8. On the issue of restoring debt sustainability in the Caribbean, CARADEM carefully considered the thought-provoking proposals of Mr. Gene Leon, Senior IMF Representative to Jamaica. He urged debt managers to think of debt management more holistically, and consider debt management as not an outcome in itself but part of a larger macroeconomic policy framework to promote national welfare. CARADEM members endorsed the view that technicians and policy makers should adopt a cross functional approach that incorporated fiscal consolidation, interest cost management, monetary management and debt management to ensure sustained economic growth. CARADEM fully supports the view that fiscal consolidation measures are integral to achieving sustained debt reduction over the medium-term.
9. We recognise the constraints to growth faced by Caribbean small states as outlined by the Caribbean Development Bank and agree that key institutional reforms must be implemented to



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improve economic management to help improve access to multilateral financing. Further, we support the view that countries need to make a greater effort at streamlining public investment to focus on high return, priority projects that can improve competitiveness and economic prospects in the region.

10. CARADEM welcomes the discussions on designing a medium-term strategy within a debt management framework. We fully support the World Bank's view that building a debt strategy is at the heart of public debt management and should be underpinned by clear cost/risk objectives. Members share the view that a key challenge to public debt management is making debt management operational and welcomed the ensuing discussion on using an asset-liability management (ALM) framework to help develop a comprehensive debt management strategy.
11. We note with interest Barbados' experience with developing a medium-term debt strategy. It notes, in particular, the use of a multi-agency technical team in developing the strategy and encourages other member countries with limited middle office capability in their debt offices to adopt a similar approach. CARADEM also supports other member countries following Barbados' lead in using other analytical tools to develop their debt management strategy when the IMF/World Bank toolkit is not available.
12. We welcome the Commonwealth Secretariat's recent Launch of Horizon - the new and innovative planning and risk management tool for public debt managers. We are pleased that Horizon allows public debt managers to formulate and implement a debt management strategy within a risk management framework. We note with keen interest the extensive functionality of this latest software product in supporting debt management, including the facility to undertake scenario and portfolio analysis; risk analysis; debt strategy implementation; and liability management/debt restructuring operations. We applaud the Commonwealth Secretariat's effort at ensuring that the new planning tool supports the development of the government securities market. We note the ability of the software to generate an issuance calendar based on auctioning and issuance conventions as well as provide a management tool for the building of benchmark bond through re-openings. We are pleased that through the use of the state of the art technology platform, Horizon is web-based and can be accessed through Microsoft Internet Explorer, Firefox and Google Chrome browsers. Given the powerful nature of the tool in supporting active public debt management, we urge the Commonwealth Secretariat to accelerate the programme of implementation across member countries, especially the Caribbean, where high public debt is the most pressing economic policy issue facing the region.
13. CARADEM welcomes the deliberations on managing contingent liabilities. We regard the Inter-American Development Bank's work in designing a toolkit to better manage and measure a range of contingent liabilities (both explicit and implicit) as an important advancement in mitigating risks and macroeconomic vulnerabilities. We are particularly interested in the ability of the toolkit to aid in estimating the costs associated with natural disasters and systemic crises in the financial system



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especially in the wake of the collapse of the regional insurance giant Caribbean Life Insurance Company (CLICO). We share Trinidad and Tobago's serious concerns about the significant costs on the fiscal budget and indebtedness levels imposed by implicit liabilities. We have grave concerns about the CLICO collapse and take note of its spill-over effects in all 15 CARICOM states. We are further troubled that exposure is as high as 17 percent of GDP in Eastern Caribbean states and that in Trinidad and Tobago alone the fiscal cost of the CLICO bailout was 13 percent. Against this background, CARADEM urges member countries to take the necessary steps to monitor and effectively manage government's contingent liabilities.

14. CARADEM welcomes the presentation by regional public debt management expert, Michele Robinson, on the need to strengthen public debt management through strong institutional reforms. Members were made keenly aware that much more needs to be done to strengthen the institutional arrangement for public debt management especially in the areas of debt legislation; policy coordination and oversight; debt data recording and reporting; managing operational risk, modernising the structures and organisation of debt offices and building staff capacity. We too are concerned about the slow pace of institutional reform, learning that only two of 15 CARICOM states (Jamaica and Suriname) had enacted modern debt management legislation and had formally organised their debt offices along functional lines with clearly delineated front, middle and back offices; that few countries had clear operational procedures guiding their activities; and disappointingly, that no CARICOM country had published an annual debt statistical bulletin, despite the long-time use of debt recording and reporting software.
15. CARADEM appreciates members from Antigua and Barbuda, Guyana, and Jamaica, sharing their experiences in implementing institutional reforms for public debt management. We are encouraged by the progress made by Antigua and Barbuda especially in improving its governance framework by establishing a national debt coordinating committee and a formal debt management unit. We are also pleased with the approval by Jamaica's parliament of the new Public Debt Management Act that embodies all the features of modern debt management legislation. We welcome the preparation by both countries of national medium-term debt strategies underpinned by rigorous quantitative analysis of cost/risk tradeoffs in the respective debt portfolios. CARADEM notes the slow pace of implementing debt management reforms in Guyana, especially in modernising debt legislation. We urge that a "champion" or advocate be identified either locally or internationally to help provide the necessary push for institutional reform.
16. CARADEM members, along with all the participating international organisations, fully endorse the proposal by Mrs. Robinson to implement a 10-point action plan of institutional reforms over the short- to medium term so as to strengthen the effectiveness of public debt management. CARADEM members resolve further that, as suggested by the IMF Jamaica Country Representative, over the next 12 months, at least one actionable item on the 10-point plan will be implemented and reported on in the next annual meeting.



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17. CARADEM fully supports the initiative and commitment of Jamaica's Financial Secretary, Mr. Devon Rowe, to enlist the support of permanent secretaries in ministries of finance across the region in adopting and implementing institutional reforms in public debt management. We further endorse the steps to be taken by the Financial Secretary to have the Minister of Finance and his regional counterparts request that the Commonwealth Secretariat convene a special meeting of Caribbean Finance Minister at the upcoming Commonwealth Finance Ministers meeting to discuss and take steps to implements well-needed institutional reforms in public debt management. CARADEM calls on the Financial Secretary to quickly press ahead with garnering the support of his regional colleagues and also calls on the Commonwealth Secretariat to vigorously advance the proposal for a special meeting of Caribbean ministers to deliberate on public debt management and institutional reform.
18. We have carefully noted of the comments by the new IADB Country Representative to Jamaica, Mrs. Therese Turner Jones, on the need for decisive and sustained fiscal consolidation and strong growth to address the high debt levels in the Caribbean. We concur with her findings that fiscal adjustment in the Caribbean has generally not been sustained and is often characterised by revenue measures rather than reductions in fiscal expenditures. We note her finding that while debt restructuring played a role in reducing public debt, a sustained reduction require a package of comprehensive reforms that relied on fiscal consolidation as well as structural reforms to improve institutional debt management capacity and contain the growth of contingent liabilities. CARADEM strongly agrees that fiscal rules are imperative and will help increase the discipline and credibility of fiscal policy.
19. CARADEM welcomes the discussion on sovereign debt restructuring especially in view of the increase in the number of debt restructurings by Caribbean states since 2010. Citigroup Managing Director, Greg Makoff, urged countries to avoid delays in implementing debt restructuring. He pointed to the damage to the Greek economy arising from postponing implementation. He also illustrated various burden sharing options highlighting the substantially damaging impact to investors of principal haircuts and long maturity extensions. He emphasised the need to maximise the fairness of the restructuring process and also encourage countries to get the possible advisors when undertaking a debt restructuring operation. CARADEM members took heed of his call to carefully analyse the legal risks and constraints of restructuring; to safely manage creditor consultations and to manage the involvement of the IMF and other international financial institutions through the process.
20. CARADEM finds the debt restructuring experiences of Belize and Jamaica particularly instructive. We note that both Belize and Jamaica have undertaken two debt restructuring operations within the past 6 years; both countries undertaking their second restructuring in early 2013. CARADEM further noted that both countries found the debt relief provided to be transient and short-term relief and that their first restructuring exercise did not provide a basis for a sustained debt reduction. Members found that this underscored the point made earlier by Dr. Gene Leon that debt



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restructuring only provides a short-term fix and does not guarantee long term debt reduction or sustainability.

21. We welcome Belize's commitment to embark on several initiatives to improve the management of its public debt, including developing a medium-term debt management strategy; reforming debt management legislation; establishing a debt management committee; and modernising the process for securities trading. CARADEM also applauds the significant debt management reforms already undertaken by Jamaica and its strong commitment to implementing strong fiscal reforms, adhering to sustained fiscal discipline and pursuing an active growth agenda to support its recent debt restructuring exercise.
22. CARADEM found the extensive deliberations on the issues and challenges of bond financing very useful, especially for those member countries that issue sovereign bonds or are contemplating first time issuance in the near-term. The points raised by Mr. Geoffrey Bell on first time bond issuers were highly instructive and CARADEM took keen note of his call for issuers to be fully transparent in their communication with investors and in their debt management operations in general. Members reflected on the assertions by Carlos Mendoza of Deutsche Bank that emerging market investors maintain a strong appetite for Caribbean debt as an asset class. He stressed that while emerging market demand for Caribbean debt is likely to persist, bond prices are increasing. He also cautioned that the Caribbean is likely to be most challenged by issuance size and informed of the strong investor preference for bonds with a benchmark size of US\$500 million and upwards which then allow for inclusion in the emerging market bond index (EMBI). He urged Caribbean sovereign issuers to develop a credible plan to address fiscal issues and become fiscally sustainable to ensure market access.
23. We appreciate the interventions by Allen and Overy noting that sovereigns must carefully consider the regulations governing sovereign bond issues particularly those related to US Securities Exchange Commission (SEC) offerings as well as issues permitted under Rule 144A and Regulation S. We urge member countries to take due care when approaching the international capital markets and notes the numerous considerations surrounding the term of the notes, disclosure and documentation, legal processes and investor relations.
24. CARADEM recognises that far more needs to be done in the area of public sector debt statistics. Members realise that the Caribbean is lagging behind its peers in developing comprehensive public debt statistics that are consistent with international definitions and compilation guidelines. CARADEM heeds the call by the IMF's Mr. Mike Seiferling to increase transparency by publishing comprehensive debt statistics that cover not only the general government but the public sector as well and that extends instrument coverage beyond loans and debt securities to other debt instruments.





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25. We are concerned that only two countries, Suriname, and Trinidad and Tobago, have agreed to participate in the IMF Public Sector Debt Statistics (PSDS) database. We encourage all countries to quickly take the necessary steps to improve their compilation of debt statistics and disseminate under the PSDS and the Quarterly External Debt Statistics (QEDS). We know that as debt managers we need to promote transparency in government operations and provide a harmonised view of the debt. As a key CARADEM objective, we therefore undertake to quickly take the necessary actions steps to disseminate standardised public debt data and agree to report on or progress at the next CARADEM meeting.
26. CARADAM is very pleased with the further enhancements to the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS). We view with great interest the added features to the software especially the interactive portfolio dashboard; the embedded options facility which allows debt managers to undertake hedging transactions; the new on-lending module; the expansion of interest conventions to capture non-business days; and the facility to now export data to the World Bank's Public Sector Debt Statistics database. We believe that the new version of CS-DRMS will greatly enhance our reporting and operational capability and look forward to the quick installation of the new version of the software.
27. CARADEM welcomes Trinidad and Tobago into the community of CS-DRMS users and are encouraged that they are making to build their public database. We agree that the value of the database is in the quality of the data that is entered and the wide and consistent use and application of the technology. We are pleased that the building of the new database is being accompanied by comprehensive institutional reforms. CARADEM notes the separate databases maintained by the Bank of Guyana and the Ministry of Finance in respect of domestic and external debt. We strongly encourage Guyana to establish the necessary links between the two CS-DRMS databases to form a comprehensive database, founded on a single methodology, so as to provide a holistic view of the public debt.
28. We wish to thank the Commonwealth Secretariat sponsoring and co-hosting this 3<sup>rd</sup> annual meeting. CARADEM is especially pleased with programme format and content and the high quality of the presentations delivered.
29. CARADEM commits to ongoing communication, networking and sharing of debt management experiences and information so as to continue to strengthen the development of a community of best practice in public debt management in the Caribbean.
30. We look forward to the 4<sup>th</sup> annual meeting in 2014 and in particular to reporting on their countries' progress in implementing the 10-point plan of institutional reforms.