Debt Watch - Caribbean

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News

IMF to provide US$100 million in emergency assistance to Haiti

The International Monetary Fund announced that it will provide US$100 million very rapidly in emergency financing to Haiti to assist it in dealing with the aftermath of the massive and devastating earthquake that has hit the country. The emergency financing would be provided as an augmentation to the existing IMF-Supported arrangement with Haiti under the Extended Credit Facility. The US$100 million in new funding is subject to approval by the IMF Executive Board which could consider the augmentation under accelerated procedures.

Source: International Monetary Fund

World Bank to provide an additional US$100 million to Haiti

In response to the 7.0 earthquake that caused extensive damage and casualties in Haiti, the World Bank announced that it would provide an additional US$100 million in emergency grant funding to support recovery and reconstruction in the Caribbean nation.

The World Bank Group is sending experts to work with the Government and its international partners to assess needs and losses and plan for recovery and reconstruction. The Global Facility for Disaster Reduction and Recovery has allocated US$250,000 for this assessment.

Going forward, the World Bank plans to provide seed resources to establish a multi-donor trust fund, the Haiti Reconstruction Fund, to mobilise international support for recovery and reconstruction process.

Source: The World Bank

IADB considers additional relief to Haiti

The Inter-American Development Bank (IADB), the largest multilateral source of assistance and debt relief for Haiti, is considering a mechanism for the further alleviation of Haiti's US$441 million IADB debt in the wake of the destruction caused by the January 12, earthquake.

In 2009, the IADB provided Haiti with US$511 million in debt relief as part of an international agreement that included other multilateral lenders. The relief covered all of Haiti's outstanding debt to the IADB at the end of 2004.

Source: Inter-American Development Bank

G7 to cancel Haiti's debt

The world's seven most industrialised countries have pledged to cancel their remaining bilateral debt with Haiti. Haiti's debt to Britain, Canada, France, Germany, Italy, Japan and the United states is already relatively small after being reduced by past relief efforts. Haiti's debt is about US$890 million.

Source: PressTV

Jamaica launches domestic debt exchange (JDX)

The government of Jamaica launched its J$700 billion (US$7.9 billion) Jamaica Debt Exchange (JDX) involving the exchange of existing bonds, excluding Treasury bills, issued in the domestic market for new bonds of the same principal value but which lower interest rates and longer maturities.

The exchange ratio will see each $100 old bond exchange for a new $100 bond. The offer was scheduled to expire on January 25, with settlement expected on February 16.

The exchange initiative is pivotal to Jamaica securing up to US$2.4 billion in low-cost financing from the International Monetary Fund (IMF) and other multilateral institutions, including the World Bank and the Inter-American Development Bank.

Source: Caribbean Net News

IADB lends Jamaica US$170 million to support reform programme

The Inter-American Development Bank (IADB) has approved three loans for a total of US$170 million to help Jamaica advance social safety net reforms, boost business competitiveness, and support public sector reforms to improve effectiveness of expenditure and performance management.

A $50 million credit, the first of a policy based loan series, will help consolidate ongoing social safety net reforms and reduce vulnerability of the poor during a period of economic downturn. The second loan, a $50 million credit, will support efforts to address key constraints to Jamaica's competitiveness by promoting reforms to reduce the cost of doing business. The third loan, in the amount of US$60 million, is to improve expenditure and performance management in the public sectors, following a country-driven harmonised approach that demonstrates the government's commitment to reforms.

Source: Inter-American Development Bank

Bahamas credits ratings lowered by Standard and Poor's

Standard and Poor's has lowered its ratings on the Bahamas stating that the nation's fiscal position has deteriorated due to increased spending while its narrow revenue base has declined. Bahamas long-term credit rating has dropped one-notch to 'BBB+' with a stable outlook. Bahamas debt has increased to 30% of GDP from 22% of GDP in 2008 and is set to increase to 35%-39% by 2012.

Source: *tax-news.com*

IMF tells Grenada to rethink China loan

The International Monetary Fund has advised the Grenada government to rethink plans to seek a US$107 million loan from China to finance the construction of a 100-room luxury hotel in the island. The IMF has told the country that a loan of that magnitude, which translates into 17% of the country's GDP, could jeopardise debt sustainability.

The authorities in Grenada are seeking the concessional loan from the Export-Import Bank of China for the project that is a joint venture with private investors, but the IMF said it is not the right move. In its 2009 Article IV Consultation with Grenada, the IMF said that, "in order for such a project to be a sound investment for the government, it would need an objective and outside assessment, substantial equity participation from private investors, and shared risks amongst all parties."

Source: *Caribbean 360.com*

IMF expresses concern over Grenada's high risk of debt distress

The International Monetary Fund in its Public Information Notice announced the conclusion of its Article IV consultation with Grenada and expressed concern over Grenada's high risk of debt distress.

The Fund encouraged the authorities to sustain efforts to put debt on a sustainable trajectory and to regularise financial relations with external creditors. They urged vigilance in contracting an external loan for a joint venture under consideration, stressing the need for an objective assessment of the project's financial viability as well as substantial equity participation from private investors. They also called on the authorities to adhere to their plan to reduce the stock of arrears.

Source: *Caribbean Net News*

Guyana gets US$1.5 million grant from Iran

The government of Guyana is to benefit from a US$1.5 million grant for its health and education sector from the Islamic Republic of Iran. The grant will be used to construct an educational institution that will focus on specialised medical training.

Guyana will also receive Iranian assistance to map its mineral resources.

Source: *Caribbean Net News*

IMF Board approves UD$1.27 billion Stand-By Arrangement with Jamaica

The Executive Board of the International Monetary Fund (IMF) has approved a 27-month Stand-By Arrangement with Jamaica in the amount of SDR820.5 million (about US$1.27 billion) to support Jamaica's plan to recover from mounting government debt, weak economic growth, and the effects of the global economic crisis. A disbursement of SDR 414.3 million (about US$640 million) will become available to Jamaica immediately.

The money will help Jamaica implement its two-year plan which includes:

- Reform of the public sector to substantially reduce the large budget deficit
- A debt strategy to reduce debt servicing costs
- Reforms to the financial sector to reduce risks.

"The planned legislative and regulatory reforms will help reduce systemic risk to the financial system and strengthen the overall resilience of the economy to shocks", the IMF said.

Source: *International Monetary Fund*

Fitch says Jamaica's debt exchange a coercive debt exchange

Fitch Ratings downgraded Jamaica's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'RD' following the successful execution of Jamaica's domestic debt exchange. Fitch believes that the recent exchange constituted a coercive debt exchange (CDE) based on its Coercive Debt Exchange Criteria.

The domestic debt exchange included foreign-currency denominated instruments to which Fitch's foreign currency rating applies. In Fitch's opinion, a material share (over 10%) of the total central government's foreign-currency denominated debt owed to private creditors was subjected to the exchange.

Fitch placed Jamaica's foreign currency rating into 'RD' (Restricted Default). Fitch has also downgraded the short-term foreign currency debt to 'D' (Default).

Source: *Fitch Ratings*

Moody's says Jamaica's debt exchange an event of default

Moody's Investor Services has announced that it considers Jamaica's debt exchange proposal for domestic creditors as an event of default.

Moody's had previously assigned Jamaica a credit rating to "Caa1" with a negative outlook on both domestic and foreign currency debt.

Source: *Moody's Investor Services*

World Bank approves US$200 million for Jamaica

The World Bank has approved a US$200 million for Jamaica to support the government's comprehensive reform programme to address fiscal and debt sustainability.

The First Programmatic Fiscal Sustainability Development Policy Loan will support a series of measures to enhance fiscal and debt sustainability, increase the efficiency of public financial management and budgeting processes, and increase tax revenues through improved taxation.

The loan is to be repaid over 30 years including a grace period of 5-1/2 years.

Source: World Bank

Fitch upgrades Jamaica's credit ratings after JDX

Fitch Ratings has upgraded Jamaica's credit rating to 'B-' and noted the ratings outlook as stable.

Fitch expects that with IMF support and the domestic debt exchange, Jamaica's near term balance of payments and fiscal pressures should subside. Global recovery, lower interest rates and greater investor confidence supported by the IMF programme could boost Jamaica's growth. They noted that meeting the programme targets will remain challenging given the vulnerability of public finances to external and weather related shocks.

Source: Caribbean360.com

Standard and Poor's upgrades Jamaica's credit ratings

Standard and Poor's international ratings agency raised its ratings on Jamaica out of selective default, assigning a rating of 'B-' on Jamaica's long-term foreign and local-currency debt and a rating of 'C' on the country's short-term foreign and local currency debt. The ratings outlook was stated as stable.

Standard and Poor's said that although the recent domestic debt restructuring did not reduce the stock of government debt, it lengthened its maturity, improved the debt composition, and decreased interest payments.

Source: Caribbean360.com

Turks and Caicos to get US$85 million loan

The Turks and Caicos Islands have received approval from the United Kingdom government to secure a US$ 85 million loan from an international lending agency. The funds are to go towards redeeming part of the central government debt.

Source: SunTCI.com

Feature

Beauty and the Beast – The Jamaica Debt Exchange

On January 14, 2010, the government of Jamaica launched its domestic debt exchange to restructure virtually its entire portfolio of domestic debt securities. The objective was to achieve significant debt service (flow) relief by swapping existing bonds for new bonds with lower interest rates and longer maturities.

The debt exchange was significant in a number of ways. First, it was the first debt exchange to be undertaken by Jamaica. Second it involved many private creditors – bondholders – who were not a homogenous group, save that they were all Jamaican residents. Third, it was domestic debt to be exchanged which had potentially worrisome implications for the stability of the local financial sector.

The debt exchange came against the backdrop of high levels of domestic indebtedness. Domestic debt not only constituted more than 50% of total public debt but, at the end of 2009, it amounted to 69% of GDP. In addition, the huge domestic debt mainly comprised of securities with relatively short maturities. More than half of the securities in the portfolio were variable rate instruments which meant that the portfolio was poorly insulated against adverse interest rate movements. Foreign currency instruments also made up a significant share of the portfolio. Instruments denominated in or indexed to US dollars comprised 12% of domestic portfolio.

Domestic debt has placed a huge burden on the fiscal accounts. Interest payments accounted for over 40% of government recurrent revenues in 2009. In turn, domestic interest payments constituted 76% of total interest payments. Given the overall magnitude of the public debt, 123% of GDP at the end of 2009, Jamaica's debt was not only unsustainable but the country was at risk of high debt distress.

Jamaica's debt exchange involved exchanging all marketable securities issued prior to December 31, 2009 and maturing after February 16, 2010. In total, the affected securities amount to J$700 billion (US$7.9 billion). The affected debt, including fixed rate, variable rate and US dollar securities, were to be exchanged for 24 new benchmark bonds with maturities varying from three to thirty years. The pricing of the new bonds represented a marked reduction in rates, with Jamaica dollar bonds priced in the range of 12-13% (compared to existing rates as high as 17%) and US dollar denominated bonds priced near 7%. The terms of the exchange also required that:

- Fixed rate instruments could only be exchanged for new fixed rated bonds;
- US dollar denominated bonds could only be swapped for new US dollar denominated bonds; while
- Old variable rate bonds could be exchanged for either new variable rate, new fixed rate, or new Consumer Price indexed bonds.

All exchanges would be from shorter dated bonds to longer dated bonds.

Jamaica's debt exchange was a success. After an extension of the January 26 closing date, when the offer finally closed on February 3, 2010, the authorities had met their target of a participation rate among bondholders of 'substantially 100%'. The debt exchange achieved four important objectives:

- *Extension of maturities*. The debt exchange significantly altered the maturity profile of the domestic debt portfolio with new maturities extending as far as 30 years to 2040. More importantly, the volume of debt maturing within three years from the date of the exchange was reduced by 65%.
- *Lowering of interest costs*. The average rate on the new bonds was some 250 basis points below the average rate of the old bonds. The authorities estimated that an interest savings of JS$40 billion (US$449 million) or 3% of GDP had been achieved in 2010/2011. Interest payments were forecast to fall to 9.7% of GDP in 2013/2014 from 16.2% in 2009/2010.
- *Reduction in interest risk exposure*. The exchange resulted in a notable increase in the fixed rate share of the portfolio. Fixed rate securities accounted for 41% of the total debt (up from 34%) while the floating rate share of the debt fell by 10 percentage points to 44%. The share of US dollar debt remained unchanged at 12%.
- *Consolidation of issues*. The debt exchange resulted in a less fragmented debt portfolio. Some 350 small bonds were swapped into 24 benchmark bonds.

The beauty of the debt exchange was that it was well executed and it met its stated objectives. The authorities in conjunction with the financial advisors, Citigroup, carried out extensive consultations with the financial sector over several months. The final terms of the exchange offer reflected the inputs from the financial sector especially the inclusion of a long-term CPI indexed bond. The authorities also met with a wide cross section of civil society and political organisations. This heightened public awareness about the fiscal constraints and the need to urgently address the debt situation. A broad national consensus emerged about the need for the debt exchange and more than likely helped contribute to its success. In addition, innumerable stress tests of the financial sector were conducted beforehand by the central bank along with the IMF to ensure the stability of the financial sector in the aftermath of the exchange. No doubt also that the US$1.27 billion in financial support from the IMF, which was conditional on a successful exchange, provided huge impetus to the authorities to have the exchange succeed..

While there is no doubt about the exchange's success, what is the overall picture of Jamaica's debt and how far does it propel the country towards achieving debt sustainability?

Jamaica's debt exchange succeeded in providing the country with immediate debt service relief. However, it did not result in an overall reduction in the country's debt levels. In fact, with US$2.4 billion in exceptional support to be provided by a number of multilateral institutions, over the next two years, Jamaica's public debt is set to increase significantly.

The IMF's most recent debt assessment (DSA), conducted prior to the debt exchange and new multilateral financing commitments, forecast that even with a balanced budget, Jamaica's public debt-to-GDP would not likely fall below 100% by 2013. The greater fear, however, is that debt-to-GDP may rise. Government's commitment to economic and fiscal reforms is critical in ensuring that debt-to-GDP is positioned on a downward trajectory.

Another concern is that with the high level of commitments from multilateral financial institutions, the share of foreign currency debt will expose Jamaica to greater exchange rate risk. Any depreciation of the Jamaica dollar will immediately translate into higher debt servicing costs. These would be further exacerbated by adverse movements in the major international currencies. The presence of foreign currency external debt along with a fair share of foreign-currency domestic debt results in more than half of Jamaica's total public debt being exposed to exchange rate risk. This exposure is likely to increase as Jamaica's relies more heavily on external rather than domestic financing.

At the same time, while interest rate exposure in the domestic debt portfolio has declined, it still is significant. Variable rate instruments comprise some 44% of the domestic debt portfolio. Should rates rise, Jamaica will again face a rising interest cost burden. Fixed rate instruments protect the portfolio against adverse interest movements. The higher the share of fixed rate debt the more the portfolio is protected. However, there is a downside. If high interest rates are locked into fixed rate instruments then there is no scope for a reduction in interest costs should interest rates fall. In the case of Jamaica's debt exchange, even though interest rates have fallen, at nominal rates averaging 12%, they are still high. Jamaica therefore will continue to face relatively high interest costs over the medium term.

While Jamaica's debt exchange is not a panacea for its entrenched debt problem, it has provided the authorities with some breathing space. The debt exchange has resulted in significant debt service relief and some fiscal space. However, the authorities still have to grapple with a high debt burden. Avenues need to be found to promote growth to help lower the high debt-to-GDP ratios. At the same time, government must adhere to its programme of fiscal reforms to narrow the budget deficit and reduce the need for debt financing. Failing that, Jamaica will have to contend with the beast of debt well into the medium term.

Michele Robinson

Debt Statistics

National

Jamaica

The table below shows the terms of Jamaica's domestic debt exchange launched on January 14, 2010.

Terms of Jamaica Debt Exchange (JDX)	
Opening Date	▪ January 14, 2010
Settlement Date	▪ February 16, 2010
Eligible bonds	▪ J$700 billion local law bonds (including fixed rate, variable rate and US dollar denominated or US indexed bonds)
Transaction Type	▪ Par-to-par exchange
New Bonds	▪ Twenty four-new benchmark bonds varying in maturity
Pricing	▪ New local currency bonds priced in range of 12-13%
	▪ New US dollar bonds priced near 7%
	▪ New CPI bond priced near
Allocation Rules	▪ All exchanges from shorter-dated bonds to longer-dated bonds
	▪ Fixed rate old bonds only to fixed rate new bonds
	▪ US dollar old bonds only to US dollar new bonds
	▪ Variable rate old bonds to variable rate, fixed rate or Consumer Price Indexed (CPI) new bonds
Target participation	▪ Bonds maturing within two years and high coupon fixed rate bonds

***Source**: Debt Management Unit, Jamaica*

Upcoming Events/Courses

March 2010

- March 2-4: Commonwealth Secretariat – Round Table on Public Debt Analytical Tool; London, United Kingdom
- March 19: Inter-American Development Bank – IADB-IIC Annual Meetings; Cancun, Mexico.

April 2010

- April 8-9: OECD/International Monetary Fund/World Bank – Eleventh OECD/World Bank Group/IMF Global Bond Market Forum; Washington, D.C. United States.
- April 19-30: Crown Agents – Loan Evaluation and Negotiation; United Kingdom.
- April 24-25: IMF/Wold Bank – Annual Spring Meetings of the International Monetary Fund and the World Bank Group; Washington, D.C., United States.

May 2010

- May 3-4: Commonwealth Secretariat - Review Mission to Guyana on CS-DRMS project and Commonwealth Securities Auctioning System (CS-SAS); Georgetown, Guyana.
- May 10-14: Commonwealth Secretariat - Mission on Debt Strategy in Dominica; Rousseau, Dominica.
- May 10-21: Crown Agents – Introduction to CS-DRMS; Sutton, UK.
- May 31-June4: World Bank Treasury – Implementing Government Debt Management Strategies; Vienna, Austria.

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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