

Montserrat Debt Profile Review



**Prepared by the Debt Management Advisory Service (DMAS) Unit
Eastern Caribbean Central Bank (ECCB)**

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ACRONYMS

CDB	Caribbean Development Bank
ECCB	Eastern Caribbean Central Bank
EU	European Union
GDP	Gross Domestic Product

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SECTION 1.0: EXECUTIVE SUMMARY

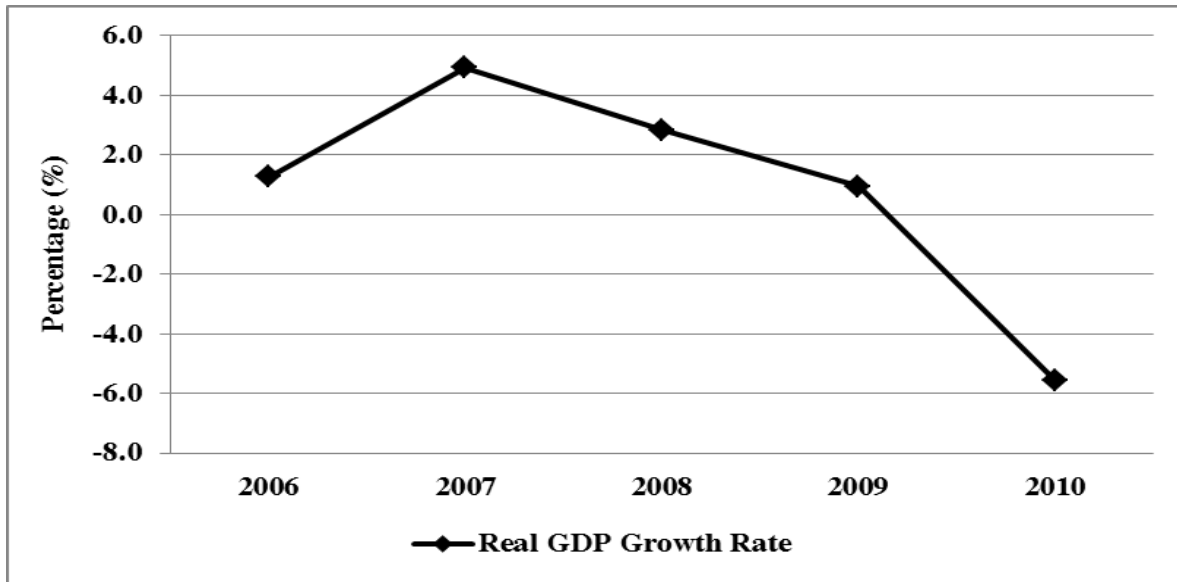
The Debt Profile Review provides a comprehensive look at the debt situation of Montserrat over the period 2006 to 2010. As at December 2010, the total public debt stock stood at \$8.7m and was comprised of both central government and government guaranteed debt. The report examines the composition of the public debt portfolio highlighting the external and domestic portions as well as the currency composition of the debt. The report also takes a look at the inherent risk indicators in the public debt portfolio including interest rate and financing (average time to maturity). In addition, the report provides a summary of the country's debt service obligations for 2010.

SECTION 2.0: OVERVIEW OF THE MONTSERRAT ECONOMY

Montserrat continues to recover from devastation of the volcanic eruption which occurred in 1995. This disaster rendered more than half of the island uninhabitable thus creating drastic changes to the island's demographic makeup. As at December 2010, Montserrat's population stood at just above 5,000 persons. The emigration of Montserratian nationals has resulted in a severe shortage of skilled labour thus impacting productivity and economic growth.

After experiencing an increase in growth of 3.7 per cent over the period 2006 to 2007, Montserrat has seen a steady decline in growth, averaging -3.5 per cent, from 2007 to 2010. This negative growth trend was due largely to the effects of the global economic crisis which began in 2007 (Figure 1). Montserrat's economy continues to be buoyed by financial support from the Government of the United Kingdom and the European Union (EU).

Figure 1: Real GDP Growth Rate



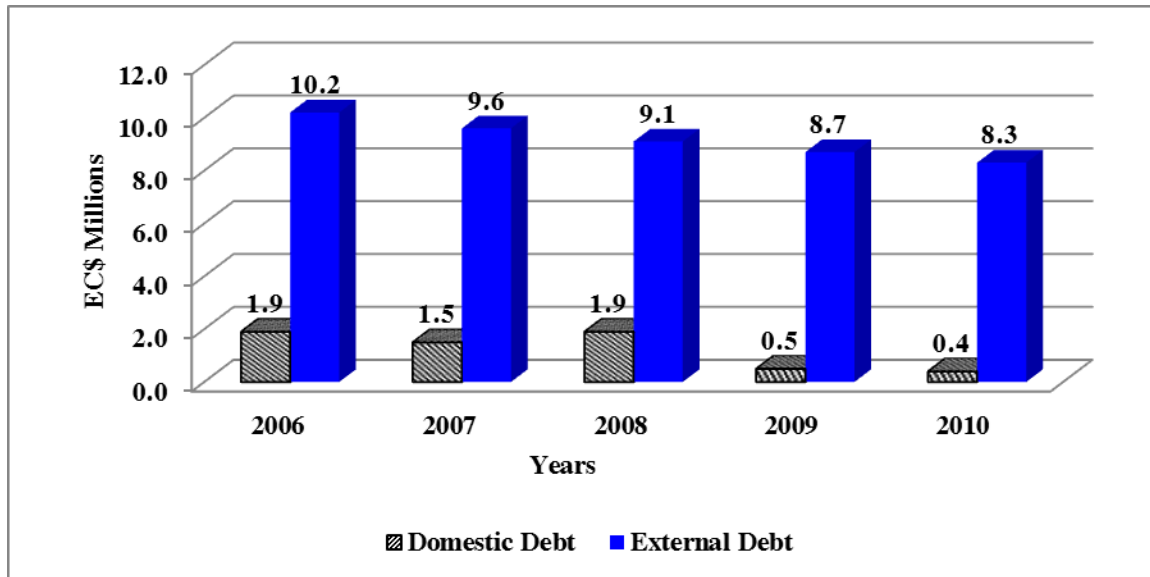
The fiscal operations of the central government resulted in an overall surplus of \$2.5m in 2010, lower than the \$5.9m recorded in 2009. The smaller surplus resulted primarily from a decline in grant receipts. A primary surplus of \$2.6m (1.7 per cent of GDP) was recorded, compared with one of \$6.0m (3.6 per cent of GDP) in the previous year. The financial support that Montserrat received from the Government of the United Kingdom and the EU has served to assist in financing the Government's operations, as such there was no need to incur new debt.

SECTION 3.0: PUBLIC DEBT STRUCTURE AND RATIOS

3.1 Total Public Debt

At the end of 2010, the total disbursed outstanding public sector debt stood at \$8.7m (5.6 per cent of GDP). Over the period 2006 to 2010, the public debt has shown a steady decline moving from \$12.1m to \$8.7m, thus recording a decrease of \$3.4m (28.1 per cent). The fall in the disbursed outstanding debt stock is attributable primarily to scheduled amortization payments. (Figure 2)

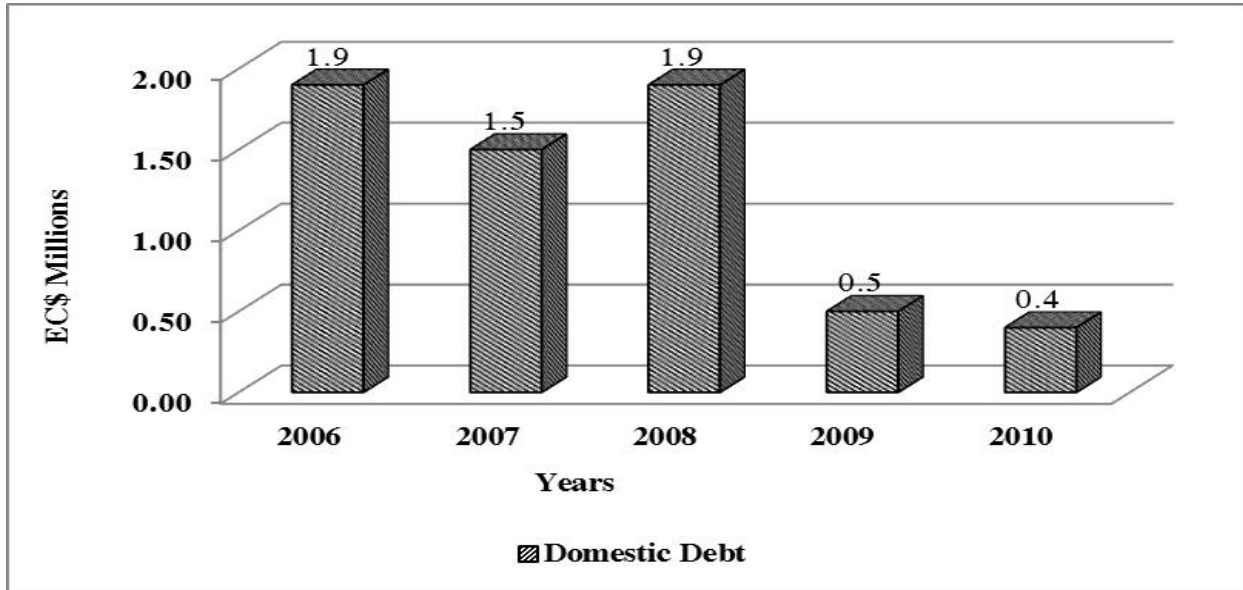
Figure 2: Total Public Debt



3.2 Domestic Debt

The total disbursed outstanding domestic debt as at December 2010 stood at \$0.4m and reflects the total central government debt held by a commercial bank. For the period under review, total domestic debt declined by 78.9 per cent (\$1.5m); primarily due to scheduled debt service payments and given that no new debt was incurred (Figure 3).

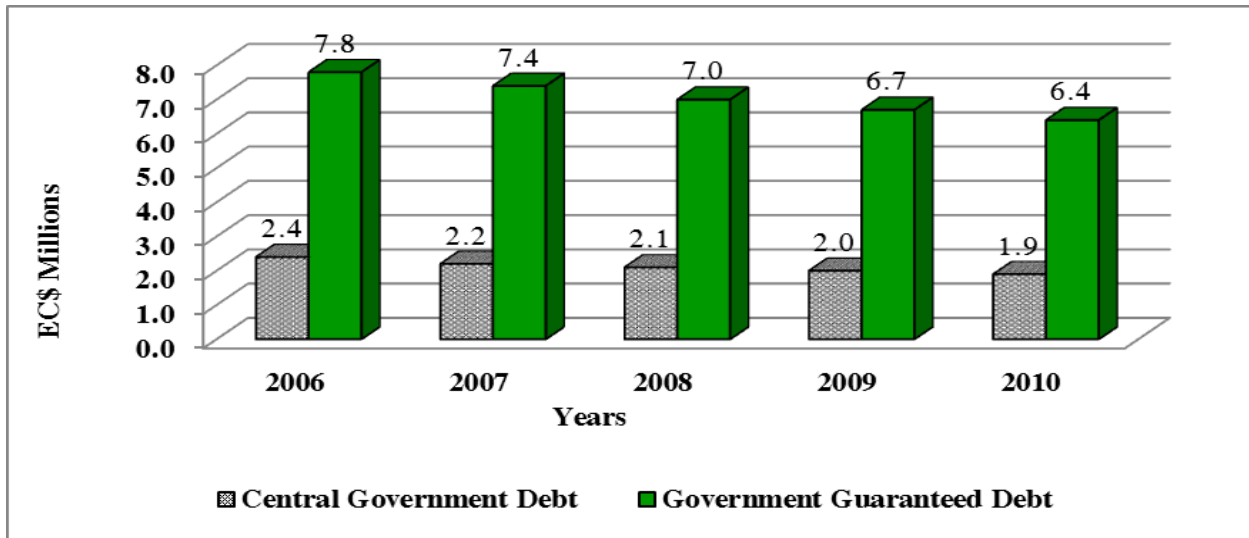
Figure 3: Total Domestic Debt



3.3 External Debt

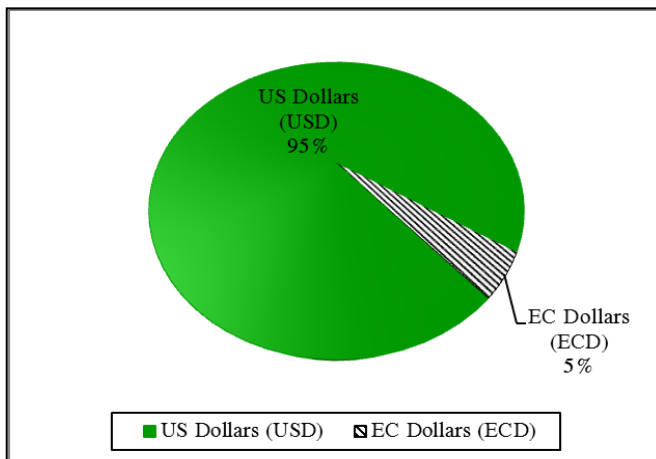
As at December 2010, the total external debt stood at \$8.3m and was comprised of both central government and government guaranteed debt. The central government accounted for 22.9 per cent (\$1.9m) while the remaining 77.1 per cent (\$6.4m) is attributed to government guaranteed external debt (figure 4). Over the review period, both categories of external debt declined steadily as a result of scheduled debt service payments and no new debt being incurred. The total external public debt is held with the Caribbean Development Bank (CDB). The government guaranteed debt is comprised of two loans which were contracted for port development while the loan to the central government represents a consolidated line of credit.

Figure 4: Total External Debt



3.4 Public Sector Debt Composition

Figure 5: Currency composition of Public Debt



As at December 2010, the total domestic debt portfolio (\$0.4m) was held by a commercial bank in the form of a loan and an overdraft facility. Loans (\$8.3m) account for the total external debt portfolio and are held by the CBD. The external debt which represents 95.0 per cent of the total public debt was contracted in United States dollars (Figure 5).

3.5 Debt Service

The debt service ratio is recorded at 0.5 per cent as at December 2010. Debt service payments to the external creditor totaled \$0.12m in 2010 while domestic debt service payments amounted to \$0.08m.

3.6 Risk Analysis

As at December 2010, the weighted average cost of the total public debt was 2.5 per cent. This is mainly due to the large portion of the public debt (95 per cent) that is held by the CDB and was issued on concessional terms. The total public debt portfolio was contracted with fixed interest rates as such the Government's exposure to interest rate risks is minimal.

The average time to maturity (ATM) of a debt portfolio is an indicator of the weighted average time to maturity of all principal repayments in the debt portfolio. It shows on average how long it takes to rollover the debt portfolio. A shortening of this indicator suggests that the portfolio is being rolled over more frequently and is more exposed to refinancing risks. As at December 2010, the ATM for public debt portfolio of Montserrat stood at 17.6 years.

SECTION 4.0: CONCLUSION

Over the review period, the public debt has decreased mainly because of scheduled debt service payments and no new debts were incurred. The current debt to GDP ratio is well below the 60.0 per cent prudential benchmark recommended by the Monetary Council of the ECCB. As such, the government must continue its efforts in ensuring that the public debt continues on a sustainable path.