



Towards Sound Debt Management in the Caribbean

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Caribbean Debt Management Forum

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Montego Bay, Jamaica



CARTAC



Outline

Debt situation in the Caribbean

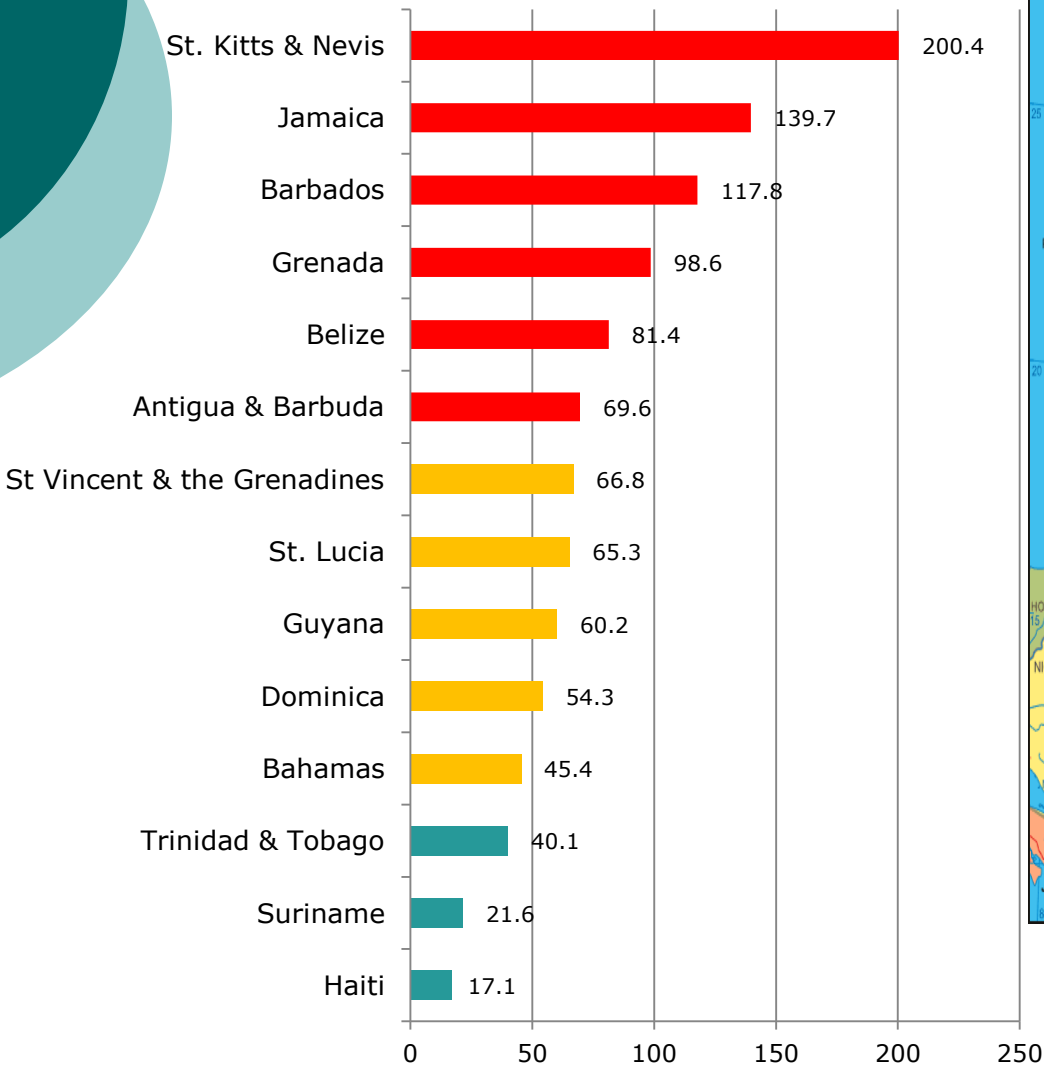
Sound debt management - components

Performance in debt management

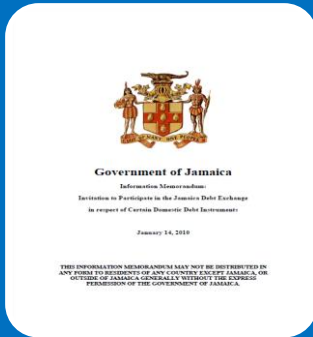
CARTAC assistance in debt management



The Caribbean: Public Debt-to-GDP(end 2010)



Trends are worrying...



Comprehensive Debt Restructuring

- Between 2000-2004: Belize, Dominica, Guyana
- Between 2005-2008: Grenada, Guyana
- 2010: Antigua and Barbuda, Jamaica
- 2011: St. Kitts and Nevis (in process of negotiation)



Credit Ratings

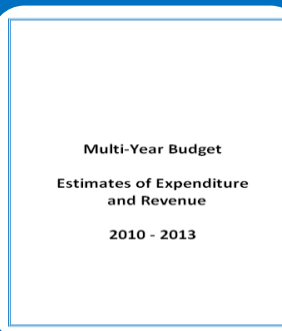
- 2010: 3 countries downgraded by S& P (The Bahamas, Barbados, Jamaica)
- 2011: Barbados further downgraded; negative outlook in the Bahamas
- Main concerns fiscal challenges, increase in debt burden, contingent liabilities

Trends are worrying...



Exceptional Financing

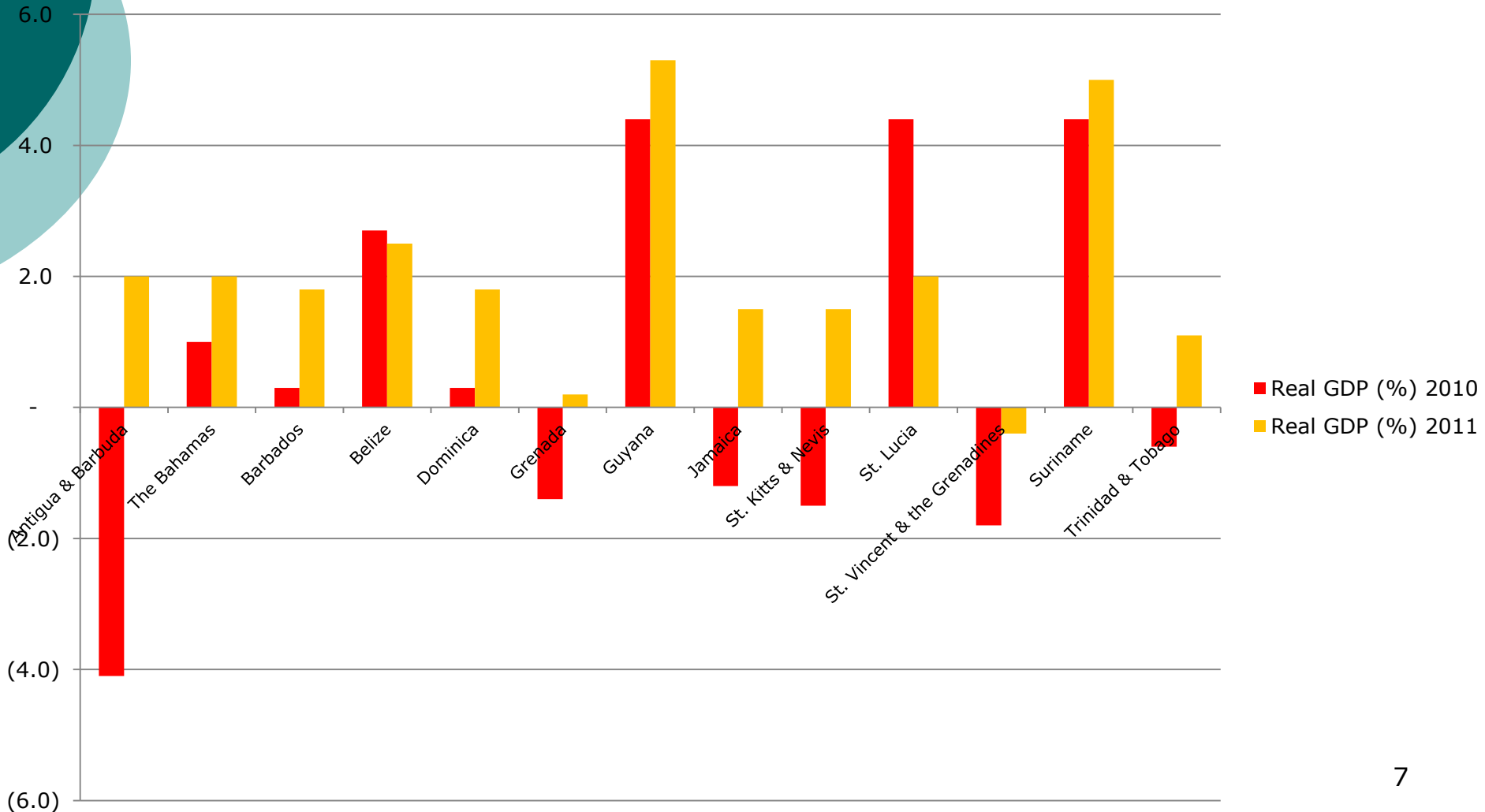
- Increasing number of countries sought IMF assistance
 - 2010: Antigua and Barbuda, Grenada, Jamaica
 - 2011: St. Kitts and Nevis
- Some overseas territories (Cayman, Turks and Caicos) received extraordinary approval to borrow



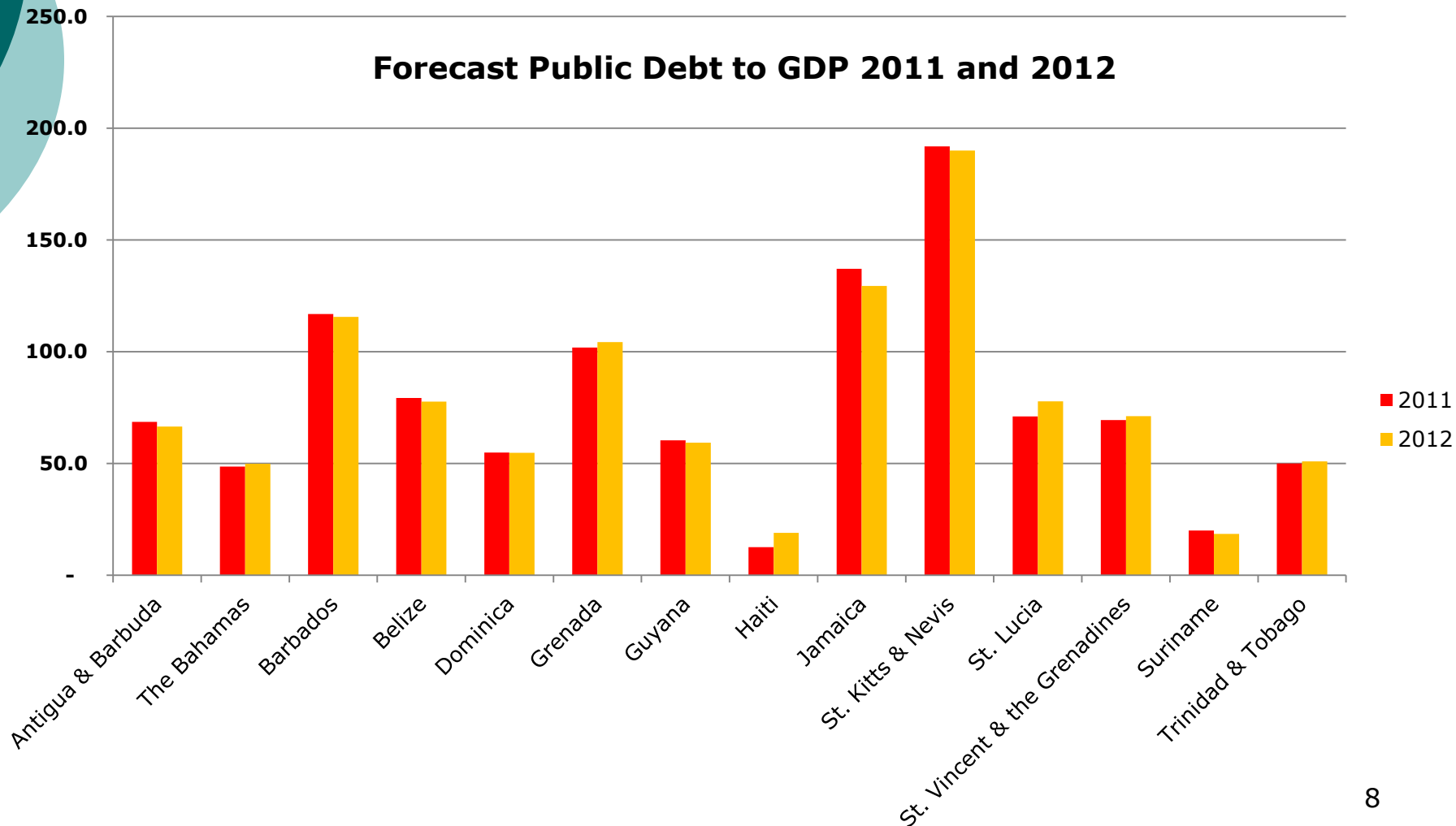
Deficits and Debt

- Revenue flat or declining for 9 of 13 countries
- Deficits high and debt increasing rapidly

Growth is weak for the near future

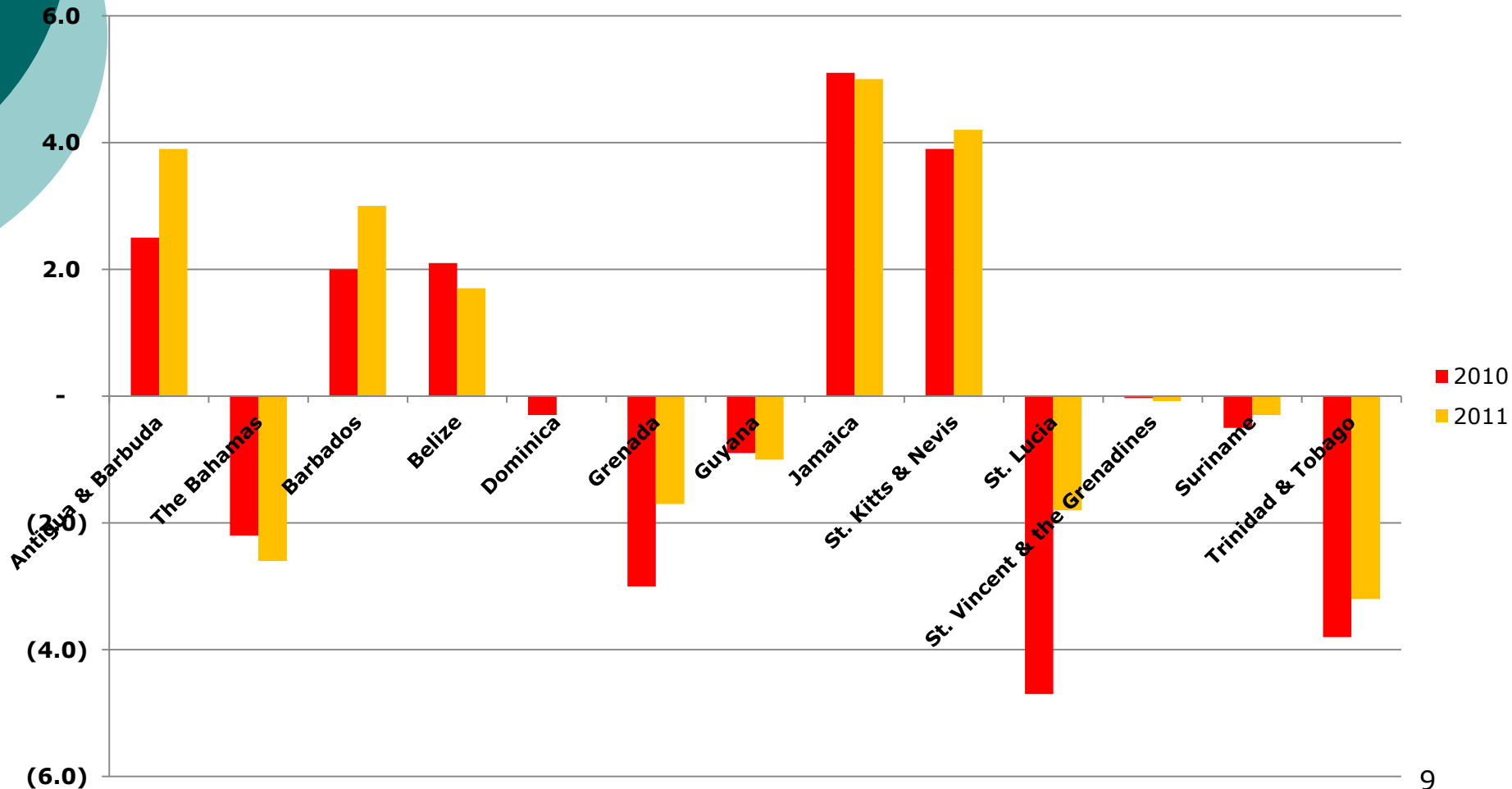


...and debt-to-GDP will remain high in the near term, forecasted to continue to rise in 6 Caribbean countries



Large fiscal deficits and increasing interest rates, main contributors to debt accumulation, yet less than half of Caribbean Countries forecast to have a primary surplus in near future...

Forecast Primary Surplus - 2011 and 2012



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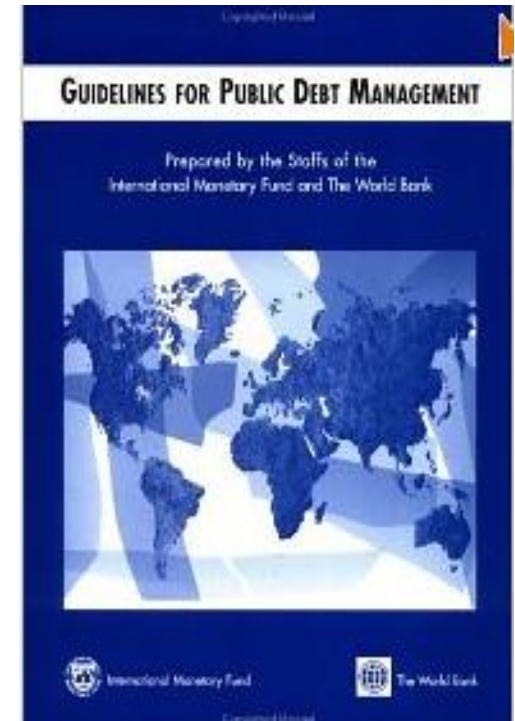
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What is public debt management?

- “Public debt management is the process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other public debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.”

IMF/World Bank - February 2001

(Guidelines for Public Debt Management)



Legal Framework

- Strong legal framework for debt management should:
 - Establish the authority to borrow
 - Specify purpose of borrowing
 - Set clear debt management objectives
 - Require the preparation of a debt management strategy
 - Require mandatory reporting to parliament on debt management activities
- Key indicators
 - Modern debt legislation
 - Single debt management act



Institutional Arrangements



Institutional framework requires:

- Clearly articulates mandates and roles
- Consolidation of debt management activities
- Skilled staff who are subject to code of conduct and conflict of interest guidelines

Key indicators

- Clear role for MOF, DME and CB
- Principal debt management entity
- Well defined organisational structure organised along functional lines
- Clearly articulated job descriptions
- Well trained and competent staff

Debt Management Objectives and Coordination



- Core debt management objective :
 - “Ensure that financing needs and payment obligations are met at the lowest possible cost over medium to long run, consistent with a prudent degree of risk”
- Coordination requires:
 - A common understanding of the objectives of debt management, fiscal and monetary policies
- Key indicators
 - Active debt advisory committee
 - Established cash management activities
 - Routine information exchange within principal debt entity, and between principal debt entity and central bank and fiscal/budget authorities

Debt Strategy and Risk Management

- Need to develop and implement an effective medium-term debt strategy (MTDS)
 - Provides a framework to guide new financing to ensure debt management objectives are met
- Also need a risk management framework to:
 - Identify and manage trade-off between cost and risk in the debt portfolio
 - Consider the impact of contingent liabilities
- Key indicators
 - Portfolio analysis and stress tests
 - Published medium-term debt strategy

THE WORLD BANK AND INTERNATIONAL MONETARY FUND



DEVELOPING A MEDIUM-TERM DEBT MANAGEMENT
STRATEGY (MTDS):
THE ANALYTICAL TOOL

USER GUIDE

May 2009

Borrowing Activities



- Domestic debt:
 - Ensure policies and operations are consistent with an efficient government securities market
- External debt:
 - External funding is secured on the most cost effective terms
 - Legal advisors are involved in the negotiation process from the outset
- Key indicators
 - Auction of government securities
 - Issuance calendar and borrowing plan
 - Loan evaluation
 - Documented guidelines for approving/issuing guarantees

Operational Risk Management

A technical glitch was blamed for the reappearance on a newspaper's website of a six-year-old article describing **United Airlines'** bankruptcy. The item was picked up by Google's news service and UAL's share price fell by 75% before the airline reassured investors that the story was old news—it left bankruptcy protection in 2006.

Missing out on the bonanza
Stockmarkets briefly rallied on the news of Fannie's and Freddie's rescue. However, stockbrokers in the City lost millions of pounds in potential commission when the **London Stock Exchange** suspended trading because of a computer failure.

- Good practices requires development of operational risk policies and procedures
- Key indicators
 - Maintenance of loan documentation in secure environment
 - Operational procedures manual
 - Routine payment confirmation against internal records
 - Two person authorisation processes
 - Disaster recovery procedures

Debt Recording and Reporting

- Debt Recording
 - Compilation of accurate, timely and comprehensive debt statistics
- Debt Reporting
 - Wide dissemination of debt data to inform policy and strategy development
 - Transparency and accountability
- Key indicators
 - Comprehensive debt management system
 - Prompt data entry and timely generation of outputs for analysis and reporting
 - Debt statistics bulletin/official website
 - Reporting to the World Bank Debt Reporting System



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Findings among selected Caribbean countries

Factor	General Findings	Progress indicators
Institutional Framework	<ul style="list-style-type: none"> • Narrow legal framework - debt management objectives, reporting requirements not specified • Very fragmented organisational framework • Low staff capacity 	<ul style="list-style-type: none"> • Modernised debt legislation in single debt management act (Suriname) • Draft legislation for modernised single debt management act (Jamaica)
Coordination	<ul style="list-style-type: none"> • Very limited coordination with monetary and fiscal policies • Irregular information exchange 	Debt management committees (Barbados, Grenada, Jamaica)
Debt Management Strategy	<ul style="list-style-type: none"> • No explicit or comprehensive debt management strategy in most countries based on cost/risk analysis • No formal risk management strategy 	Published medium-term debt strategy (Jamaica)

Findings among selected Caribbean countries

Factor	Findings	Progress indicators
Borrowing Activities	<ul style="list-style-type: none"> • Government securities market inefficient • Few documented loan evaluations or borrowing plan • Limited involvement of government legal advisors 	<ul style="list-style-type: none"> • Growing use of RGSM in ECCU • Move to dematerialisation in (Barbados, Jamaica) • Competitive auctions (Jamaica, Trinidad and Tobago) • Primary dealers (Jamaica, Trinidad and Tobago)
Operational Risk Management	<ul style="list-style-type: none"> • Documented operational risk management procedures • Few, if any, compliance monitoring with existing policies and procedures 	<ul style="list-style-type: none"> • Clearly articulated or documented job descriptions for debt management (Jamaica, Guyana, Suriname) • Debt recording and reporting procedures (Guyana)
Debt	<ul style="list-style-type: none"> • Few countries have consolidated 	<ul style="list-style-type: none"> • Comprehensive debt

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Background to TA

- Economic and financial crisis has highlighted need for stronger debt management functions and institutions
- CARTAC responding to request to increase role in area of debt management
- TA plan for debt management developed in early 2010 with the focus on:
 - Unmet needs
 - Coordinated effort

TA programme

Three main components

- **Institutional reviews**
 - Organisational framework, staff capacity, business processes, manuals, data systems, information exchange)
- **Workshops**
 - Interpretation & assessment of loan agreements
 - Negotiation strategies with creditors
 - Debt portfolio analysis
- **Forum**
 - One-day forum targeting senior officials from member nations contemplated
- Some assistance in data validation
- Shared backstopping and oversight: IMF Fiscal Affairs Dept and Monetary & Capital Markets Dept
- Work with other partners, providers:
 - IMF on MTDS, WB on DSA; CIDA-funded DMAS Unit in ECCB, ComSec

Where do we go from here?



Thank you