Debt Watch - Caribbean

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News

CARICOM seeks to address regional debt crisis

The CARICOM Heads of Government have proposed that the World Bank establish a technical group to help address the regional debt crisis. The group comprising World Bank, CARICOM Secretariat, and Caribbean Development Bank representatives would be mandated to develop recommendations to address debt restructuring and the establishment of special windows for development financing for the region's heavily indebted middle-income countries.

This proposal is the outcome of discussions among leaders at the recently concluded 29th CARICOM Heads of Government meeting in Antigua.

Source: Caribbean Net News

PetroCaribe terms made easier

Venezuela's president, Hugo Chavez, has announced changes in the financial terms of his PetroCaribe agreement at the Fifth Extraordinary PetroCaribe Summit held in Maracaibo, Venezuela from July 14 – 16.

Under the new terms, participating countries will pay 40% of their oil purchases within 90 days instead of the current 50%, as long as oil prices surpass US$100 a barrel. The remainder will be paid over 25 years at an interest rate of 1% per annum.

Should the price of oil surpass US$200 per barrel, PetroCaribe members will only be required to pay 30% of their oil bill within 90 days, with the remaining 70% to be repaid under new long-term conditions. Participating countries will be eligible to repay some of the debt in goods or services such as crops, materials, and tourism.

Members of the PetroCaribe initiative are the Caribbean Community (CARICOM) countries of Antigua and Barbuda, Bahamas, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Suriname. Cuba is also a PetroCaribe member.

Source: Caribbean360

IMF approves US$4.8mn for Grenada

The International Monetary Fund (IMF) has approved the disbursement of US$4.8 million for Grenada under its Poverty Reduction and Growth Facility (PRGF). The disbursement comes after the completion of the IMF's first review of Grenada's economic performance under the PRGF.

Source: International Monetary Fund

Grenada's new PM cites urgent need for efficient debt management

Grenada's newly elected Prime Minister, Tillman Thomas, has cited the urgent need for a programme of efficient debt management and fiscal accountability in order to reduce Grenada's debt and allow more resources to be channelled into productive economic activity.

He said further that a key component of his economic agenda would be to accelerate the rate of economic growth in order to reduce the national debt.

Source: The Nation (Barbados)

World Bank approves US$1.6 mn grant to Haiti for Avian Flu

Haiti is to receive a World Bank grant of US$1.6 million for a project to respond to the risk of avian flu.

The World Bank Country Director for the Caribbean, Yvonne Tsikata, stated that the project is intended to "confront the threat posed by Avian influenza infection to the poultry sector and to prevent a potential human influenza pandemic."

A strain of avian flu, H5N2 was detected in December 2007 in the Dominican Republic, Haiti's neighbour, and in early June 2008, Haiti reported that the virus was detected in a few local poultry.

Source: World Bank

St. Lucia gets US$3 mn World Bank credit for disaster management

The World Bank has approved a US$3 million credit for St. Lucia to fund Phase 2 of its Disaster Management project.

The project aims to reduce St. Lucia's vulnerability to natural disasters, such as hurricanes and flooding, by strengthening the country's infrastructure and improving emergency preparedness and response.

The credit, approved on IDA terms, has a maturity of 35 years and a 10 year grace period.

Source: World Bank

Fitch affirms Suriname's IDR ratings

Fitch ratings, a leading international rating agency, affirmed the "B" foreign currency and "B+" local currency issuer default ratings (IDR) for Suriname.

The ratings were supported by Suriname's relatively low external and public debt ratios as well as manageable debt service requirements. However, it was noted that Suriname's vulnerability to international commodity price shocks, a weak macroeconomic policy framework and slow progress in the implementation of structural reforms constrained the ratings.

Outstanding arrears to Brazil and the US, which account for 45.6% of total public external debt, also negatively affected the ratings.

Source: Fitch ratings

IMF welcomes Antigua & Barbuda's debt management effort

In its recently concluded Article IV Consultation with Antigua & Barbuda, the Executive Board of the International Monetary Fund welcomed the authorities' commitment to strengthen debt management and to their ongoing efforts to normalise relations with creditors.

The IMF Directors noted, however, that additional fiscal measures were necessary over the medium term to ensure a sustained reduction in Antigua & Barbuda's debt-to-GDP ratio. They stated that expenditure restraint was critical to this effort and, in particular, civil service reform to contain the wage bill and enhance efficiency in the public sector.

The Directors also indicated that they looked forward to the early clearance of external and internal arrears.

The IMF assessment highlighted that while Antigua and Barbuda had recently enjoyed favourable economic growth, it remained vulnerable to external shocks given its dependence on oil imports and its exposure to volatile tourism receipts and natural disasters.

Antigua and Barbuda's high debt levels also leave it vulnerable to adverse regional and international financing conditions.

Source: International Monetary Fund

US$5.8 mn IFAD aid for Guyana's farmers

The International Fund for Agricultural Development (IFAD) has extended US$5.76 million in financial assistance to Guyana to fund a project to help farmers diversify their agricultural production.

Under the project, small farmers will be assisted in financing alternative sources of income in non-traditional agricultural products such as root crops, vegetables, tropical fruits and spices and livestock products. Some 5,200 poor rural households are expected to benefit.

Source: International Fund for Agricultural Development

Feature

Commonwealth Secretariat Debt Management Forum 2008

An international Debt Management Forum was hosted by the Commonwealth Secretariat in London from June 26 – 27. More than 100 delegates from Commonwealth countries, key international financial institutions and some non-Commonwealth countries attended.

The issues covered at the forum were wide ranging but all with the intention of improving the Commonwealth Secretariat's debt management programme. Participants at the forum discussed, among other things: emerging trends in sovereign debt management; developing a public debt management strategy; accessing capital markets; institutional arrangements and capacity for sovereign debt management; emerging areas of debt management for developing countries; and improving debt data quality, reporting and dissemination.

A number of issues discussed at the forum were of particular interest and relevance to the Caribbean. Foremost among these was the call for a comprehensive debt framework to address the significant debt accumulation among many small state economies. Within the framework, the international community and donors will be urged to continue grant and concessional financing and to ensure no sudden withdrawal of financial support. Also proposed was the establishment of insurance and grant financing mechanisms for timely assistance with reconstruction needs following natural disasters to avoid adding to the debt burden. The call for such an initiative resonated with Caribbean participants especially as six Caribbean countries – the Caribbean-6 - are ranked among the ten most heavily indebted middle-income countries in the world.

Also of interest to the Caribbean delegates was the thrust by the International Monetary Fund and the World Bank to jointly develop a medium-term debt strategy (MTDS) framework which will allow countries to assess the relevant costs and risks associated with a government's desired composition of debt. The MTDS framework results in a document that describes the strategy that the government will implement to achieve the particular debt level and composition. As many Caribbean countries grapple with increasing exchange rate and interest rate risk in their debt portfolio, it is recognised that the formulation of a medium-term debt strategy that will improve risk measurement and measurement and help governments avoid expensive mistakes will be of tremendous benefit.

There was also extensive discussion at the Forum about the need to improve debt data quality, reporting and dissemination. A noteworthy development was the initiative being undertaken by the IMF in conjunction with other international partners to encourage the widespread dissemination of debt data through its Quarterly External Debt Statistics (QEDS) database. Initially confined to low-income countries, efforts are underway to invite all IMF members who provide data under the General Data Dissemination Standards (GDDS) to participate in the QEDS database.

With the exception of Trinidad and Tobago, almost all the countries in the Caribbean are users of the Commonwealth Secretariat's debt recording and management system, CS-DRMS. It was particularly encouraging for delegates to learn that the Secretariat intends to a) integrate CS-DRMS with government financial management systems and b) increase the functionality of the analytical module in CS-DRMS. With the significant growth of domestic debt in the region, the facility to undertake analytical modelling of domestic debt was especially welcomed.

Just prior to the closing of the Forum, it was announced that the Inter-American Development Bank (IADB) is opening a dialogue with the Secretariat to explore ways in which it can contribute to the capacity building work of the Secretariat in Commonwealth countries. Given the need to strengthen its debt management capability, the Caribbean region should benefit significantly from such a strategic partnership.

The Caribbean was represented at the Forum by delegates from Anguilla, Antigua and Barbuda, Barbados, Belize, the British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Also representing the Caribbean were delegates from the Eastern Caribbean Central Bank (ECCB). *Michele Robinson*

Debt Statistics

Regional

Of the ten most heavily indebted middle-income countries in the world, six Caribbean countries are listed among them. Referred to as the **Caribbean-6**, they comprise Antigua and Barbuda, Belize, Dominica, Grenada, Jamaica, and St. Kitts & Nevis. For many of these countries, domestic debt is, or is emerging as, a serious problem.

The table below shows the ratio of total domestic debt to gross domestic product (GDP) for the Caribbean-6 over the period 2005 to 2007.

Caribbean – 6 Heavily Indebted Countries:

Total Public Domestic Debt to GDP (%)

		2005	2006	2007
1.	St. Kitts & Nevis	116.4	116.2	112.9
2.	Jamaica	79.3	78.7	73.7
3.	Antigua & Barbuda	61.1	109.2	54.4
4.	Grenada	31.3	30.5	30.5
5.	Dominica	36.9	32.6	29.1
6.	Belize	7.3	8.3	9.1

Source: Eastern Caribbean Central Bank, IMF

National

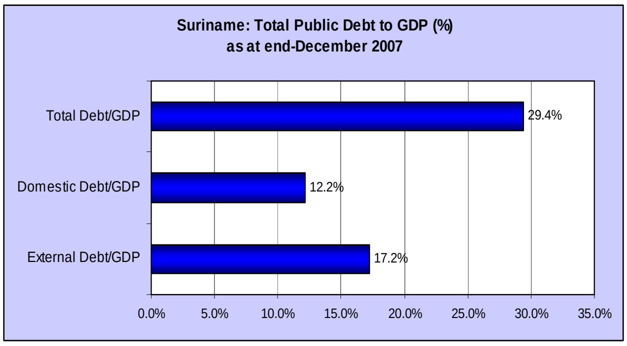
Suriname

The table below provides data on key debt ratios in relation to the total public debt of Suriname.

Suriname: Public Debt to GDP

in percent (%)

	2005	2006	2007
Total Debt/GDP	37.0	30.4	29.4
External Debt/GDP	21.6	18.5	17.2
Domestic Debt/GDP	15.4	12.0	12.2



Source: IMF and Suriname Debt Office

Suriname, recently reclassified by the World Bank as an upper middle-income country, has had gradually improving debt ratios. At the end of 2007, Suriname had a total public debt to GDP ratio of 29.4% - well within debt sustainability limits. The ratio compared favourably with a total debt to GDP of 37.0% in 2005.

In recent years, the Surinamese authorities have taken considerable steps to strengthen their public debt management. In 2002, the authorities passed the Government Debt Act (GDA) which set a ceiling on total public debt of 60% of GDP and sub-limits of 45% and 15% of GDP for external and domestic debt respectively. A separate debt management office was established in late 2003 and entrusted with the responsibility of managing Suriname's public debt. Within this context, good progress has been made towards reducing the public debt.

Despite the low debt and debt service ratios, Suriname has accumulated significant debt arrears. The arrears build-up is as a result of the government assuming the debts of several private sector companies. Arrears amount to 5% of Suriname's GDP and are due primarily to Brazil and the United States.

While there has been progress in clearing these arrears, the sizeable amount remaining has acted as a major constraint on assessments of Suriname's overall creditworthiness. Fitch, in its recent July 2008 assessment of Suriname, stated that Suriname's creditworthiness would "benefit from the clearance of bilateral creditor arrears".

Fitch has assigned Suriname a foreign currency Issuer Default Rating of "B" and a local currency Issuer Default Rating of "B+". *Michele Robinson*

Upcoming Events/Courses

September 2008

- September 8-19: Crown Agents workshop on *Debt Reorganisation - Issues and Solutions* to be held in Worthing, UK.

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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