Debt Watch - Caribbean

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News

Standard and Poor's downgrades Barbados credit rating

The international rating agency, Standard and Poor's (S&P), downgraded Barbados credit ratings to BBB from BBB+ on the basis that the government's counter-cyclical policies will put further pressure on the country's debt ratios. The outlook on the new rating is stable, as S&P expects the Barbadian government to tighten its fiscal accounts as of 2010 when the economy is likely to stabilise. The ratings agency expects Barbados economy to contract by 2.5 percent in 2009, followed by a flat performance in 2010 before gradually recovering to a 2.5 percent growth in 2011.

Source: Caribbean Net News

Suriname receives funding from Islamic Development Bank

In a recently concluded meeting of the Board of Executive Directors of the Islamic Development Bank (IsDB), new financing for various projects was agreed for a number of countries, including Suriname.

The IsDB also agreed to US$5.5 million in additional financing to Suriname towards the upgrading of the New Nickerie Seaport. The project is aimed at reducing the cost of exporting Suriname's agricultural products to neighbouring countries and at encouraging regional integration through the improvement of infrastructure of the port.

Suriname is the only country in the Western Hemisphere to belong to the IsDB.

Source: Caribbean Net News

World Bank approves US$121 million Haiti lending plan

The World Bank has approved a new four-year, US$121 million lending strategy for Haiti that focuses on economic growth, jobs and reducing the impact from natural disasters. The World Bank said its lending plan provides assistance through a mix of investment projects and development policy measures. At the same time, the Bank said it aims to stimulate private sector development with help from the International Finance Corporation, the Banks private-sector lender.

Source: Caribbean Net News

World Bank approves Guyana's Country Assistance Strategy

The World Banks has approved a new Country Assistance Strategy (CAS) for Guyana for the period, 2009 to 2012. The CAS is in support of the country's development agenda in the areas of improving education, social safety nets and strengthening its ability to mitigate the effects of natural disasters and climate change. The Bank stated that Guyana has made significant progress in laying the foundation for macroeconomic stability and higher pro-poor growth. The Country Assistance Strategy (CAS) continues this partnership and supports the country in areas where the Bank's support could strategically complement other donor's areas of engagement.

Source: Inter-American Development Bank

IADB extends debt relief to Haiti

The Inter-American Development Bank is to forgive some US$511 million in debt relief to Haiti. The debt relief, which combines the cancellation of loan principal and future interest payments, was approved by the IADB's Board of Governors in March 2007, subject to Haiti's finishing the HIPC (Highly Indebted Poor Countries) process, under which governments agree to meet a set of economy and policy targets.

Source: Inter-American Development Bank

IADB provides US$120 mn in grants to Haiti

The Board of Governors of Inter-American Development Bank Development Bank has approved US$120 million in grants for Haiti in 2010, to help Haiti make investments in key sectors such as infrastructure, basic services and disaster prevention.

Source: Inter-American Development Bank

Jamaica government guarantees Air Jamaica loans

The Jamaican House of Representatives approved a government guarantee for loans valued at US$101.8 million to Air Jamaica Limited. The loans are in support of the funding requirements for its approved business plan for the financial year 2009/10.

Source: Caribbean Net News

Jamaica receives Euro 1.9 mn from the European Commission

The European Commission (EC) has approved Euro 1.9 million for disbursement to assist the Jamaican government with the budgetary impact and infrastructure repairs resulting from Tropical Storm Gustav in 2008. Another Euro 2 million is to be allocated to projects designed to alleviate the suffering caused by the storm and its aftermath.

Source: Caribbean Net News

IADB approves US$48.75 mn loan to Trinidad and Tobago

The twin-island republic of Trinidad and Tobago has secured a loan of US$48.75 million from the Inter-American Development Bank Development Bank (IADB). The loan is in support of the first phase of a programme to improve the quality and equity of education, with a focus on early childhood education.

Trinidad and Tobago is attempting to address a range of issues in order to achieve its goal of developing a Seamless Education System capable of fostering life-long learning. The IADB will support a three-phase programme to transform Trinidad and Tobago's education system along the lines of its national strategic plan, Vision 2020.

Source: Inter-American Development Bank

IMF approves US$5.7 mn for St. Vincent and the Grenadines

The Executive Board of the International Monetary Fund has approved an SDR 3.735 million (US$5.7 million) disbursement for St. Vincent and the Grenadines under the Exogenous Shock Facility (ESF). This is the outcome of a request by the country's authorities for the rapid-access component of the ESF to help the economy to adjust to the decline in Foreign Direct Investment and tourism receipts which has caused a sharp output slowdown.

Source: International Monetary Fund

IMF approves US$5.7 mn for St. Kitts and Nevis

St. Kitts and Nevis has had their request for SDR 2.225 million (US$3.4 million) in Emergency Natural Disaster Assistance approved by the International Monetary Fund (IMF). St. Kitts and Nevis was hit by Hurricane Omar in October 2008 causing significant damage. This in turn aggravated the economic slowdown, with significant impact on unemployment, fiscal revenues and tourism receipts particularly on the island of Nevis. The IMF financing will help offset the balance of payments impact of the hurricane estimated at US$19 million or 3.5 percent of Gross Domestic Product (GDP).

Source: International Monetary Fund

Export-Import Bank of Taiwan demands immediate repayment of loans to Grenada

The Export-Import (EXIM) Bank of Taiwan has issued a formal demand notice to the government of Grenada for the immediate repayment of approximately US$25 million borrowed by the previous administration by way of four loans. The loans were contracted in July 1990 (US$10 million); April 1997 (US$2 million); October 1997 (US$6 million) and January 2001 (US$10 million).

The EXIM Bank has stated that it intends to proceed vigorously to enforce the judgement against Grenada within the US following the failure of the then Government to service the loans.

The government of Grenada severed diplomatic ties with Taiwan in January 2005 and re-established diplomatic relations the Peoples Republic of China.

Source: International Monetary Fund

Belize Supreme Court declares US33.5 mn loan unlawful

A judgement delivered by the Supreme Court of Belize has ruled that a loan note in the sum of Belizean (BZ) $33.5 million is unlawful. The case was brought by the Association of Concerned Belizeans and other persons.

The Supreme Court ruled that the loan note contravened section 7(1) and (2) of the Finance and Audit (Reform) Act, 2005, which requires a resolution of the National Assembly before the government can enter into loan agreement of or above the equivalent of BZ$10 million.

Source: CaribbeanPressReleases.com

Jamaica holds pre-emptive talks with the IMF

The government of Jamaica has begun talks with the International Monetary Fund on a credit facility in light of the fallout in the bauxite sector, and a slowdown in tourism receipts and remittances from abroad.

Source: Jamaica Gleaner

Antigua explores the possibility of approaching the IMF for assistance

The Antigua and Barbuda authorities, in a national symposium, explored the possibility of approaching the International Monetary Fund for assistance as the global economic crisis takes a toll on the economy. Finance Minister, Harold Lovell, has said that because of a 25 percent fall in revenue, the government does not have the money to carry out its programmes and therefore has to explore all its options and the financing sources available to them.

Source: Caribbean360.com

Feature

Managing Contingent Liabilities

Some eight years ago, the IMF/World Bank wrote the following in their publication, *Guidelines for Public Debt Management*: "Debt managers should consider the impact that contingent liabilities have on the government's financial position, including its overall liquidity, when making borrowing decision."

This was written in the immediate aftermath of the series of financial crises in East Asia, Russia and Mexico in the late 1990s and early 2000s. A key lesson learned from these crises was that large contingent liabilities pose a significant risk to government debt portfolios. Left unmonitored and unmanaged, contingent liabilities can lead to significant build-up of public debt. Events over the past ten years are replete with examples of governments assuming unplanned-for liabilities in the wake of bank failures, corporate collapses or natural disasters. The message was clear enough then: governments need to monitor the risks in their portfolio particularly those associated with contingent liabilities. The message is equally relevant today.

But what are contingent liabilities? What impact do they have on government debt portfolios and what steps should governments take to manage these liabilities?

Contingent liabilities represent potential financial claims against government. They are financial claims that may become government liabilities if certain events, beyond the control of government, occur. A government guaranteed loan is a good example of a contingent liability. In the event of a payment default by the beneficiary of the guarantee, the government is contractually obligated to assume the payment obligation. Other contingent liabilities of the government may not be so obvious. For instance, bailouts of public enterprises or financial institutions, emergency spending on infrastructure as a result of natural disasters, underfunded public pension funds all represent contingent liabilities.

There are two main types of contingent liabilities: explicit and implicit contingent liabilities. Explicit contingent liabilities are based on contracts, laws or clear policy commitments. Many explicit contingent liabilities have explicit guarantee provisions. It is calls on these guarantees which trigger the automatic assumption of these liabilities in the government budget. Explicit contingent liabilities include: financial guarantees issued by governments on loans, bank deposits, pension savings and public private partnerships; government insurance schemes for crops failures or natural disasters; legal claims against government related to privatisations or provisions of service; and uncalled capital such as membership contributions in international organisations.

Implicit contingent liabilities are often more difficult to identify and quantify. These are liabilities based on moral or political obligations arising from the expectation that governments will intervene in a crisis or disaster. Contingent liabilities falling in this category could include: disaster relief, bailouts of public or private enterprises, and defaults on non-guaranteed debt issued by public enterprises or by sub-national governments.

Experience in the Caribbean, particularly over the last decade, shows that both explicit and implicit contingent liabilities have often become major debts of governments. However, as is well documented, it is frequently implicit contingent liabilities that are the more costly. This is amply demonstrated in the Caribbean. In Jamaica, for example, the rescue of the financial sector after the 1996-97 financial sector collapse added significantly to the domestic debt. In 2001, the government assumed obligations amounting to J$79 billion or 24% of GDP. Domestic debt grew by over 36% in FY2001/02 with the assumption of these obligations. In Grenada, damage caused by Hurricane Ivan in 2004 was estimated at US$800 million or twice Grenada's GDP. Such was the extent of government losses in the aftermath of the hurricane that it prompted a debt and fiscal crisis and the declaration by the authorities that the public debt was unsustainable. In a single year, Grenada's public debt increased from 110% to 131% of GDP. Between 2003 and 2009, Grenada (on two occasions), Dominica and Belize have all had to seek emergency financing from the IMF as a consequence of natural disasters.

Contingent liabilities now pose even more of a threat in the Caribbean given the present global economic environment. A growing number of public enterprises are struggling to stay afloat as economic activity slows and revenues decline. This increases the possibility that guarantees will be called in as entities find it increasingly difficult to honour their obligations. As a result, governments are likely to see a significant increase in debt associated with explicit contingent liabilities.

At the same time, the number of non-performing loans in the Caribbean banking sector is increasing. For example, in Jamaica, between June 2008 and June 2009, the ratio of non-performing loans to total loans while relatively low, nonetheless increased by 50%. Other Caribbean countries have observed a similar trend. In addition, many governments in the Eastern Caribbean have experienced challenges to the stability of their financial sectors in the aftermath of the collapse of a number of non-bank financial institutions including Colonial Life Insurance Company (CLICO), British American Insurance Limited and the Antigua-based Stanford Financial Group. The impact of these implicit contingent liabilities is, through higher fiscal expenditures and budget deficits, translating into rising debt levels. Already Trinidad and Tobago is to issue US$800 million in over the next two years to support liabilities related to Colonial Life (CL) Financial Group.

It is clear that contingent liabilities pose a significant risk to government debt portfolios. Yet many governments find these liabilities attractive and have significant exposures to them. One of the primary reasons for their appeal is, of course, that they are off-budget items. Therefore, not only are they more difficult to scrutinize and debate in the normal budget process but, generally, they allow governments to sidestep fiscal budget constraints.

A number of steps can be taken to manage government's exposure to contingent liabilities. First, in the case of explicit contingent liabilities, governments need to know the size of these liabilities. As a start, governments should compile and publish accurate and timely information on loan and other types of guarantees. Second, they should also clearly state under what conditions and terms they will issue such guarantees. Limits should be set on the amount of guarantees and other explicit contingent liabilities that are issued. Many countries now set annual limits on the stock of guarantees that can be issued. Fees can also be charged for the guarantees as a means of offsetting the costs of this type of liability.

Often contingent liabilities create a moral hazard as beneficiaries have little incentive to minimise risks to ensure that the debt is repaid. To minimise moral hazard, governments should leave some of the risks of be borne by the beneficiary party. In the case of explicit contingent liabilities this may result in only issuing partial guarantees. For example, in Canada, guarantees are limited up to 85% of a loan. Other countries guarantee up to a limit of 80% of the total loan. Limits can also be established for bank deposits where these are guaranteed through a governments deposit insurance scheme. Depositors typically bear some risk as only deposits up to a certain value are covered.

In the case of implicit contingent liabilities, there are a number of measures that governments can also adopt. Insurance against catastrophic risk is one way in which to minimise contingent liability costs associated with natural disasters. Many Caribbean governments have insured against natural disaster through the Caribbean Catastrophe Risk Insurance Facility. It is a quick disbursing facility whose payments are triggered by the occurrence of the event. This facility helps Caribbean governments better insulate their debt portfolios from the cost of natural disasters as insurance payments give rise to debt creating financial claims. Caribbean governments may need to increasingly rely on this facility in future years given the progression of climate change and the higher incidence of natural disasters in the region.

Government can also include contingency provisions in the budget. Some governments channel guarantee fees into their contingency reserves while others earmark taxes for this purpose. While budget strapped governments In the Caribbean and elsewhere may find this difficult to accommodate, the benefit is well worth the price. Needless to say, continued strengthening of the financial sector regulatory framework is another means by which contingent liabilities associated with financial sector performance can be minimised. Governments need to actively monitor the financial positions of public enterprises and the banking sector.

Finally, governments should seek to publicly disclose the level and risks associated with contingent liabilities. Obtaining Parliamentary approval for such liabilities is one step further in the process. Increased awareness of the costs and risks associated with contingent liabilities is a powerful tool in making governments more accountable. Public disclosure enables the public to better assess the true costs involved of government operations.

With countries facing ballooning fiscal deficits and limited access to securing financing, governments face increasing exposure to contingent liabilities. The potential costs are great and could lead to countries becoming severely debt-distressed. Now more than ever, prudent debt management requires the careful monitoring of government contingent liabilities.

Michele Robinson

Debt Statistics

Regional

The table below shows the rates for members of the Organisation of Eastern Caribbean States (OECS) and other selected Caribbean countries.

Caribbean: Rates on Government Securities (%)

as at end June 2009

Selected Countries	3-mo T-bill	6-mo T-bill	5-yr Note
OECS			
Anguilla	..	..	..
Antigua & Barbuda	6.50	..	8.25
Dominica	6.00	..	..
Grenada	6.00	..	7.00
Montserrat	..	..	..
St. Kitts & Nevis	6.50	..	
St. Lucia	5.05	..	5.91
St. Vincent & the Grenadines	5.63	..	..
Other Caribbean			
Barbados	4.31	..	..
Guyana	4.18	4.29	..
Jamaica	19.58	21.05	..
Trinidad and Tobago	2.56	..	5.85[1]

.. Not available

[1]Represents yield on 7-year bond

Sources, Bank of Jamaica, Central Bank of Barbados, Central Bank of Guyana, Central Bank of Trinidad and Tobago, Eastern Caribbean Central Bank

Upcoming Events/Courses

October 2009

- October 19-20: CARTAC/IADB – LAC Debt Management Workshop on Debt Sustainability and Debt Statistics in Washington DC, USA.
- October 10: Eastern Caribbean Central Bank (ECCB) – Meeting of the ECCU Regional Debt Coordinating Committee in Basseterre, St. Kitts.
- October 6-7: IMF/World Bank – Annual Meetings of the World Bank Group and the International Monetary Fund in Istanbul, Turkey.
- October 5-19: Crown Agents – Advanced CS-DRMS User Training Workshop in Worthing, United Kingdom.

September 2009

- September 17-18: Commonwealth Secretariat - Private Sector External Debt workshop on Capturing Debt Data in London, United Kingdom.
- September 1-4: Central Bank Publications Ltd - Residential Workshop on Government Debt Management: New Trends and Challenges in Cambridge, United Kingdom.

July 2009

- July 20-31: Crown Agents - Training Workshop on New Challenges in Debt Management in Worthing, United Kingdom.

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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