Debt Watch - Caribbean

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News

IADB increases its capital by US$70 billion

The Inter-American Development Bank (IADB) has agreed to increase its capital by US$70 billion, doubling its capacity to make loans to the Caribbean and Latin America. Reflecting the impact of the global financial crisis, the IADB approved a record US$15.5 billion in financing in 2009 – an increase of 38% over the previous year.

Source: Inter-American Development Bank

IMF to open new resident representative offices in the Caribbean

The International Monetary Fund (IMF) is to open two new resident representative offices, in Jamaica and in Antigua and Barbuda, the latter to cover IMF member countries in the Eastern Caribbean Currency Union.

The establishment of these offices will further deepen the IMF's dialogue with the countries' authorities and other important regional stakeholders, including trade unions, the private sector, academics, and non-governmental organisations.

Mr. Gene Leon has been named to serve as the IMF's Senior Resident Representative in Jamaica. Mr. Wendell Samuel will head the newly created Regional Representative Office for the Eastern Caribbean, based in Antigua and Barbuda.

Source: International Monetary Fund

World Bank to review debt situation in Caribbean

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 the recovery and reconstruction process.

Source: The World Bank

World Bank opens access to all information on its database

For the first time, the World Bank has opened access to all the information on its database, providing information on health, education, poverty and debt, for economies worldwide.

Source: The World Bank

Antigua and Barbuda signs US$7.5 million agreement with China

The government of Antigua and Barbuda has signed two Economic Cooperation Agreements with China totalling 50 million Yuan (US$7.5 million) allowing for the completion of a number of projects around the country.

The first loan for 20 million Yuan is in the form of an interest-free loan and is to be used within 5 years from 2010. The second loan is in the form of a grant. The funds are to be used to continue infrastructural projects being carried out by Chinese construction teams around the country.

Source: Caribbean Net News

Barbados and IADB sign loans valued at US$80 million

Barbados has signed three development loans for some US$80 million during a meeting with the President of the Inter-American Development Bank (IADB), Luis Alberto Moreno.

The three loans which were negotiated recently include US$10 million for the Barbados Competitiveness Programme which is to rationalise incentives to the business sector and undertake other reforms to enhance business. The second loan, worth US$50 million, will be used for the Barbados Water and Sanitation Systems Upgrade project. The establishment of the Agricultural Health and Food Control Programme will be funded by the third loan at a cost of US$20 million.

Source: Caribbean Net News

First Caribbean lends Barbados US$40 million for housing project

FirstCaribbean International Bank has committed to lend the Barbados government a B$40 million loan to construct residential houses for sale over a five year period. The loan is to assist the Barbados National Housing Corporation (NHC) meet the demand for residential housing by the entity's clients.

Source: Caribbean Net News

IMF approves US$13 million Credit Facility for Grenada

The Executive Board of the International Monetary Fund (IMF) has approved Grenada's request for a new three-year arrangement under the Extended Credit Facility (ECF) amounting to SDR 8.755 million (about US$13 million). The approval of the programme makes an initial disbursement of SDR 1.275 million (about US$1.9 million) available immediately.

The new arrangement aims at helping Grenada cushion the effects of the global crisis and support the country agenda of economic reforms aimed at boosting growth, reducing poverty, strengthening the private sector and the business climate, and reducing vulnerabilities in the financial sector.

Source: International Monetary Fund

Guyana and IADB sign US$24.8 million loan agreement

The government of Guyana and the Inter-American Development Bank (IADB) have signed a US$24.8 million agreement for transport infrastructure.

The Road Improvement and Rehabilitation Loan Agreement will support implementation by the government of a project aimed at enhancing urban and sub-urban mobility and safety for Guyanese, along with improving access to agricultural areas by upgrading specific elements of transport infrastructure.

Source: Inter-American Development Bank

IFAD approves debt relief programme for Haiti

The International Fund for Agricultural Development (IFAD) – an international financial institution and a specialised United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries – has approved a debt relief programme that covers the money which the earthquake ravaged country owes it.

IFAD stated that the agreement provides the basis for permanent debt forgiveness of Haiti's debt burden to the organisation.

Source: Caribbean360.com

Haiti receives US$50 million grant from IADB for budget support

The Inter-American Development Bank (IADB) has approved a US$50 million grant to provide budget support for Haiti, which expects its fiscal revenues to drop by as much as half this year due to the impact of the January 12 earthquake.

The grant resources, which will be disbursed in a single tranche, will help the Haitian government in its efforts to re-establish some of the essential functions of key fiscal institutions such as the national tax agency (DGI), whose headquarters were completely destroyed.

The programme will support fiscal reforms that were underway before the earthquake, as well as the preparation of a modernisation plan for the DGI, and a comprehensive reform plan for the Customs service (AGD). It will also support efforts to improve the management of government expenditures and public sector debt and to increase fiscal transparency and combat corruption.

Source: Inter-American Development Bank

Haiti receives US$30 million grant from IADB

The Inter-American Development Bank (IADB) will provide a US$30 million grant to Haiti to help relocate 5,000 families from tent camps in high-risk areas in Port-au-Prince to a new settlement with transitional housing and basic sanitation services.

In addition, the IADB grant will support the Shelter Sector Response Plan's Build Back Safer Programme by improving the Haitian Planning Ministry's capacity for land use planning and the Public Works Ministry's National Building and Public Works laboratory.

Source: Inter-American Development Bank

Haiti benefits from US$10 million grant from Spanish Fund

Haiti will be able to expand access to water and sanitation to 60,000 individuals in rural communities of the Artibonite department with a US10 million grant provided by the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (Spanish Fund).

The Inter-American Development Bank (IADB), which provided technical assistance for the project's preparation and will monitor its execution, will develop it together with the Haitian government and the Spanish Fund. The programme will be executed by Haiti's National Water and Sanitation Directorate (DINEPA).

Source: Inter-American Development Bank

Moody's upgrades Jamaica's credit ratings after debt exchange

Moody's Investor Services Standard and Poor's has upgraded Jamaica's local and foreign currency bond ratings on the Government's improved liquidity following the Jamaica Debt Exchange (JDX) which has led to lower interest costs and inflows of funds from multilateral institutions.

Moody's increased the ratings to B3 from Caa1 on foreign currency and Caa2 on local currency citing diminished credit risks following the domestic debt exchange completed in February 2010. Moody's said that the new ratings take into account a significant improvement in the Government's liquidity position due to lower debt servicing cost and substantial multilateral inflows while acknowledging medium term credit vulnerabilities due to a debt burden that remains very high.

Over the next year, Moody's will closely monitor Jamaica's adherence to the structural benchmarks and quantitative targets set out by the IMF programme in order to assess whether public debt dynamics have entered into a virtuous cycle that would reduce the debt burden to more sustainable levels.

Source: Jamaica Observer

CariCRIS rates St. Lucia's debt issue as 'adequate'

A US$38 million debt issue by the government of St. Lucia has been granted a *CariBBB+* by the regional credit rating agency, CariCRIS. The agency stated that it reaffirmed the ratings of *CariBBB+* for both its foreign and local currency rating indicating that the level of creditworthiness of St. Lucia's debt obligation was adequate in relation to other obligations in the Caribbean island.

CariCRIS made it clear that these ratings depended critically on the St. Lucia government's containment of its fiscal deficit, through revenue growth or expenditure control, so as to stall the growth of the public debt in relation to GDP.

Source: *Caribbean360.com*

Feature

GDP Indexed Bonds – Can they help to stabilise Caribbean debt?

Like most small, vulnerable economies, Caribbean countries are facing the brunt of the effects of the global economic slowdown. Growth has slowed in the entire Caribbean over the past two years. Even more strikingly, nine of thirteen Caribbean community (CARICOM) countries are in economic decline.

Preliminary ECLAC figures indicated that the economy of St. Kitts and Nevis contracted the most, by 8.5 percent in 2009, while that of Antigua and Barbuda also shrank markedly by 6.6 percent. Another four countries (Bahamas, Barbados, Grenada and Saint Lucia) recorded economic declines of more than 3.5 percent.

Accompanying the regional economic slowdown have been increases in the level of public debt. This, perhaps, is not surprising. Amid weak economic activity and declining government revenues, expenditure cuts have not been sufficient to close the holes in the budget. Many governments have had no recourse but to increase their borrowing. This trend, however, is disturbing. Public debt in many Caribbean countries is already at unsustainable levels.

At the end of 2009, four of thirteen CARICOM countries (Barbados, Guyana, Jamaica and St. Kitts and Nevis) had public debt to GDP exceeding 100 percent. A further three countries (Antigua and Barbuda, Belize and Grenada) had public debt to GDP above 85 percent. Indeed, only two CARICOM countries (Suriname and Trinidad and Tobago) had public debt to GDP below 50%. At a time when growth has slowed, debt service payments are absorbing an increasing share of government revenues leaving little room for increases in social safety net spending or on spending to revitalise the economy.

Are there instruments available to governments to link debt service payments to the level of economic activity in their country? In effect, are there debt instruments which would allow Caribbean governments to make smaller debt service payments during an economic slowdown and higher payments when economic activity picks up? The answer is yes; if Caribbean governments issue GDP or growth-indexed bonds.

Consider a bond which, unlike conventional bonds, is indexed to GDP growth. Debt service payments would be higher during an economic upturn and lower when economic activity slowed or contracted. This is how GDP-indexed bonds are structured. They are designed to account for the GDP growth rate as well as current market rates of interest.

Let's say an economy was expected to grow by 6 percent and conventional bonds were issued at a fixed rate of 8 percent. A GDP-indexed bond could be structured to pay an additional 1 percent in interest for each 1 percent increase in growth above the expected growth rate. Similarly, the indexed instrument would pay 1 percent less in interest for each 1% drop below the base or expected GDP growth rate. So, if the economy was projected to grow by 5% in a particular year but grew only by 2%, then interest paid on a GDP-indexed bond might be expected to fall 3% below the instrument's base rate commensurate with the 3% unanticipated decline in growth.

The benefits of such a bond are two-fold.

- First, the burden of debt service payments is automatically eased during an economic slowdown as payments would be lower than those paid on conventional bonds.
- Second, GDP-indexed bonds help stabilise government spending. With smaller debt service payments occurring during an economic slowdown, governments have less need to make expenditure cuts. Governments are better able to protect the poor and vulnerable in their economies and help buoy growth. At the same, government spending is automatically restrained during an economic upturn, as debt payments increase.

There is a third benefit. GDP-indexed bonds can help avert debt defaults or a full-blown debt crisis. This is because payments are more directly linked to a government's income capacity to pay. Such an instrument should therefore not only be attractive to issuers but to investors who have a greater assurance of the government ability to meet its obligations and who face less risk of an undesirable and costly debt default.

Why then have so few GDP-indexed bonds been issued not only regionally but internationally? There are five main concerns.

- First, there are concerns about the accuracy, reliability and timeliness of GDP figures in many countries. Such data is essential in calculating payments on GDP indexed bonds.
- Second, there are concerns about GDP data revisions as these can complicate payment calculations.

- Third, there are concerns about whether such instruments would be callable. Such a provision runs the risk of allowing a government to benefit from lower payments in an economic downturn but prevents investors from benefiting from higher payments during an upturn, because the government exercises its option to recall the bond (mature it early).
- Fourth, there are concerns about the pricing of the instrument, especially if there is limited liquidity and GDP is difficult to forecast.
- Finally, there are concerns about issuance costs especially since such bond would pay a premium over the rate on conventional bonds when GDP growth is in line with expectations.

In previous years, these concerns have limited the acceptability of these bonds. However, the momentum is shifting as: (i) the quality of GDP accounting in many countries has improved and guidelines for GDP data revisions have been developed, (ii) relatively simple pricing formulas have been constructed, and (iii) there is scope to limit the callability of such instruments. Notably, Argentina issued GDP-indexed bonds as part of its debt restructuring package. The outcome has been positive and interest in these bonds has increased.

One proposal for greater acceptability is for multilateral financial institutions (MFIs) to take the initiative to help develop the market for GDP-indexed bonds. It is suggested that the World Bank could play a key role by making loans linked to GDP growth. They could then on-sell packages of such debt to the financial markets. Alternately, the Bank could purchase GDP-indexed bonds from those borrowing members who chose to issue them and again possibly sell them on to the financial markets. Finally, the MFIs could provide technical assistance to those countries who wished to issue GDP-indexed bonds in the international capital markets.

GDP-indexed bonds are an innovative financial instrument for Caribbean countries that issue securities, particularly in the regional or international capital markets, to consider. Given the vulnerability of Caribbean economies to external shocks and the recent sharp declines in growth and rising levels of debt, issuing bonds linked to a government's capacity to repay may be an option whose time has come.

Michele Robinson

Recent Developments

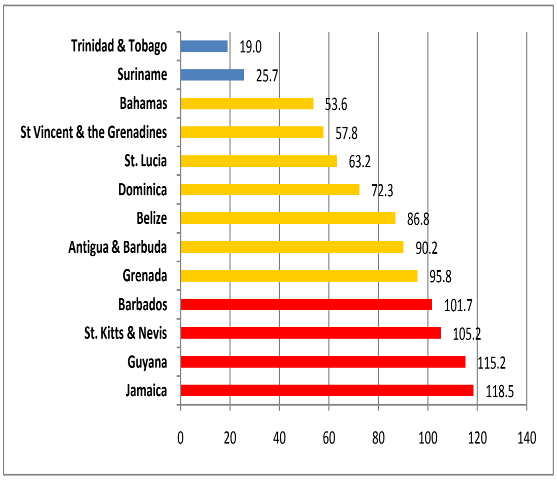
Passing of the Head of Suriname Debt Management Office

- Condolences to the Suriname Debt Management Office (SDMO) on the recent passing of Mr. Enrico Abrahams, the Head of the SDMO. Mr Abrahams headed the SDMO from 2004 until April 2010, the time of his passing.

Debt Statistics

Regional

The table below shows the public debt to GDP of CARICOM countries at the end of 2009.



***Source**: Economic Commission of Latin America and the Caribbean (ECLAC), selected Annual Reports*

Upcoming Events/Courses

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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