Debt Watch - Caribbean

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News

CDB approves 150% expansion of capital

The Board of Governors of the Caribbean Development Bank (CDB) has approved an increase in the Bank's ordinary capital by US$1 billion, the largest expansion of resources in the Bank's history. The capital increase will include a 22 percent paid-up component equivalent to approximately US$216 million to be paid over the next six years.

The injection of funds will enable the Bank to increase its financial assistance to its Borrowing Member Countries (BMCs) helping them to deal with the impact of the global financial and economic crisis as well as to execute their medium-term programmes for poverty reduction and economic and social development.

It will also ensure that the Bank is adequately resourced to implement the programmes of assistance envisaged in the recently approved Strategic Plan 2010-2014 and beyond.

Source: *Caribbean360.com*

EU approves grant for Antigua and Barbuda

The European Commission has approved a grant of 10 million Euros (approx. EC$30 million) for Antigua and Barbuda. The financing will be provided under the European Union's Vulnerability Flex (V-Flex) mechanism, which was introduced in August 2009 in the wake of the global financial crisis. The V-flex provides budget support to the African, Caribbean and Pacific countries most affected by the world economic downturn.

In order to qualify for the grant, requesting countries must have, "a high degree of economic, social and political vulnerability, the right policies in place to fight the crisis and sufficient absorptive capacity as well as a financing gap in their budgets where EU support can make a difference by closing or significantly reducing this gap"

Antigua and Barbuda is the second member of the Eastern Caribbean currency union (ECCU) to be approved for the V-Flex. Grenada has received 5 million Euros.

Source: Caribbean Net News

IMF approves US$117.8 million loan for Antigua and Barbuda

The International Monetary Fund (IMF) has approved a US$117.8 million loan to support Antigua and Barbuda's plan to recover from mounting government debt, weak economic growth and the effects of the economic crisis.

The money will help Antigua and Barbuda implement its three-year plan, which includes: (i) spending cuts and revenue raising measures to substantially reduce the large budget deficit, (ii) a debt strategy to reduce debt servicing costs, and (iii) policy reforms to mitigate risks in the financial sector.

The government plan includes the restructuring of domestic debt owed mainly to the social security scheme, and the country's external creditors will also participate in Antigua and Barbuda's return to sustainable debt levels.

Source: International Monetary Fund

UK gives approval for Cayman Islands to borrow

The United Kingdom government has given overseas territory Cayman Islands the go ahead to borrow and get its finances on track. The Foreign and Commonwealth Office (FCO) has approved US$155 million in borrowing to help the Cayman Islands deliver its three-year plan to deal with the impact of the global slowdown. The three-year plan had to be submitted before the UK government would decide on whether it would allow the Cayman Islands to take out any more loans.

Source: *Caribbean360.com*

World Bank cancels debt to Haiti

The World Bank announced that the remaining US$36 million of debt owed by Haiti to the International Development Association (IDA), the Bank's fund for the world's poorest countries, has been cancelled. Haiti now has no further amounts payable to the World Bank. The cancellation by the World Bank of Haiti's debt to IDA was made possible by contributions from Belgium, Canada, Finland, France Germany, Ireland, Italy, Japan, the Netherlands, Norway, Spain, Sweden and Switzerland. In July 2009, Haiti obtained US$1.2 billion in debt relief from the World Bank, the International Monetary Fund and other creditors.

Source: *The World Bank*

Haiti to benefit from US$200 million in grants from the IADB

The Inter-American Development Bank (IADB) will make available US$200 million in grants over five years to strengthen land tenure rights, boost agricultural production, increase market access for farmers and reinforce food security in Haiti. The grants will cover a quarter of the total cost of a Haitian plan to revamp farming after the January 12 earthquake.

Source: Inter-American Development Bank

CDB approves Student Loans funding for Jamaica

The Students' Loans Bureau (SLB) of Jamaica is to receive a loan equivalent to US$20 million from the Caribbean Development Bank (CDB) to enable the SLB to provide loans to eligible students under the CDB's Student Loan Scheme. The project is expected to contribute to the national goal of poverty reduction and sustainable economic development through human resource development, by upgrading the skills of at least 5,000 persons in tertiary level technical, vocational, and professional programmes.

Source: Caribbean Development Bank

IMF approves US$93.9 million disbursement to Jamaica

Jamaica is to receive Special Drawing Rights (SDR) 63.7 million, equivalent to just under US$94 million, having successfully met the first quarterly economic performance test of the International Monetary Fund (IMF) under its US$1.2 billion 27-month Stand-By Arrangement.

The pillars of Jamaica's Stand-By Arrangement include: (i) fiscal consolidation and institutional reform, including fiscal responsibility legislation and Central Treasury Management; (ii) public debt restructuring, which was completed as a prior action under the programme; and (iii) financial sector reform, including the consolidated supervision and the regulation of non-banks.

Source: International Monetary Fund

Suriname benefits from Islamic Development Bank financing

Suriname is among 19 member-countries of the Islamic Development Bank to benefit from approved loans worth US$780.7 million.

Suriname joined the Islamic Development Bank (IsDB) in 1997 when relations with the Netherlands, Suriname's former colonial ruler, were strained. Suriname's main objective in joining the IsDB is to find new sources for financing development projects while lessening its dependence on Dutch aid. Suriname submitted 15 projects totalling US$160 million from 1999 to 2010. Six of these projects were approved.

Source: Caribbean Net News

CDB approves additional tranche of policy-based loan for St. Lucia

The government of St. Lucia is to receive a loan equivalent to US$15 million from the Caribbean Development Bank (CDB). This will constitute the third tranche of al loan already approved for St Lucia. In July 2008, the CDB's Board of Directors approved a Policy-Based Loan (PBL) to the government of St. Lucia in an amount not exceeding the equivalent of US$30 million which was to have been paid in two tranches of US$18 million and US$12 million.

The original PBL was designed to pre-empt fiscal distress in light of planned capital investment that was intended to place the country on a higher growth trajectory. However, since approved, the global economy entered a deep recession which has led to lower revenue collections. At the same time, the recession has increased the need to provided some stimulus to the economy and maintain social expenditures.

The revised loan amount is now US$45 million. The first tranche of the PBL was disbursed in March 2009.

Source: Caribbean Development Bank

Turks and Caicos Islands receives US$79 million in aid from UK

The government of the Turks and Caicos Islands has secured US$79 million of the US$85 million approved by the UK in order to offset the public debt. The loan is the consolidated amount of US$74 million from First Caribbean International Bank with the remaining US$5 million secured from Scotia Bank.

Source: Caribbean Net News

UK aid cuts could affect region

The Caribbean could be affected when the United Kingdom cuts multilateral aid at the end of an assessment of its funding to various agencies. The UK's Department for International Development (DFID) currently funds over 30 organisations, including the Caribbean Development Bank.

Britain's International Development Secretary, Andrew Mitchell, has written to all institutions that last year shared around £3 billion (US$4.3 billion) from the UK aid budget to alert them to the Multilateral Aid Review. Each organisation will be tested to ensure that the UK is getting maximum value from its aid money. This will include an assessment of the relevance of each body to the UK's objectives on poverty reduction as well as their ability to deliver results on the ground. Organisations that demonstrate value for money and the greatest impact on poverty could receive a cash boost. Those that fail to meet the tough criteria could have their funding reduced or stopped altogether.

Source: Caribbean360.com

Feature

Jamaica's experience with debt restructuring – A need for a fresh start

Jamaica's recent restructuring of virtually all of its domestic debt has been lauded as one of the most successfully debt exchanges in recent history - deservedly so.

The debt exchange (JDX) launched in January 2010, not only had a participation rate of over 99 percent but also realised a significant reduction in interest payments and a lengthening of debt maturities. Average interest rates were reduced from 17 to 11 percent leading to interest savings of US$525 million in 2010 and 2011, equivalent to 3.5 percent of GDP. In addition, the average maturity of the country's domestic debt was extended by almost 3 years. That fiscal space was created is beyond debate. Debt service payments as a share of the government budget will fall from 61 percent in FY2009/2010 to 48 percent in FY2010/2011, the first time in over a decade that the ratio will be below 50 percent. Yet, despite this success, Jamaica's debt remains unsustainable at 135 percent of GDP at the end of 2009.

This is not Jamaica's first foray into debt restructuring. Jamaica has been involved in comprehensive debt restructuring arrangements in every decade since the 1980s.

Jamaica first entered into a debt restructuring agreement in April 1981, when it sought relief on its external commercial bank obligations. Relief of US$63 million or 87.5 percent of principal repayments falling due between April 1, 1979 and March 31, 1981, was negotiated. Subsequent refinancing arrangements with overseas commercial banks were negotiated in June 1981 as well as in 1984, 1985, 1987 and 1990.

These commercial bank (London Club) refinancing arrangements were reflective of the rapid growth of Jamaica's external debt and debt service in the 1970s and 1980s. External debt which amounted to a mere US$154 million or 12 percent of GDP at the end of 1970 increased tenfold to US$1.87 billion or 63 percent of GDP at the end of 1980. Debt service was consuming 18.5 percent of export earnings compared to 2.6 percent a decade earlier. At the time, commercial bank debt accounted for more than 20 percent of Jamaica's debt.

Jamaica's rapid accumulation of debt during this period was no mystery. It was primarily the result of significant external and fiscal imbalances caused by the oil crises in the 1970s. The country's mushrooming import bill combined with low commodity prices for exports led Jamaica to resort to significant borrowing to ease the pain of adjustment. Similar to other countries which borrowed heavily from commercial banks, payments difficulties began to emerge in the late 1970s and early 1980s. As an added factor, rising world interest rates, exacerbated the growing external debt burden.

By the early 1980s, Jamaica was not only unable to service its commercial bank debt but also its bilateral external debt – debt owed to donor governments. Debt owed to bilateral creditors accounted for over 40 percent of total external debt for the first half the 1980s.

It was in 1984 that Jamaica first sought debt relief from the Paris Club, an informal association of creditor governments and their agencies mainly from industrialised countries. Jamaica sought and obtained the rescheduling of US$207 million in bilateral debt service payments falling due between 1984 and 1985. Paris Club creditors involved in the debt rescheduling included Canada, France, Germany, the Netherlands, Norway, Switzerland, the United Kingdom and the United States.

Jamaica returned to the Paris Club six times subsequently: in 1985, 1986, 1987, 1988, 1990, 1991, and 1993. On the last occasion in January 1993, Jamaica negotiated its most comprehensive rescheduling package with its Paris Club creditors. Involving US$281 million, some which previously had been rescheduled, Jamaica negotiated a multi-year rescheduling agreement, where payments falling due over a three-year period from October 1, 1992 to September 30, 1995 were rescheduled.

Both the commercial bank (London Club) and the bilateral (Paris Club) debt renegotiations afforded Jamaica a fair measure of debt relief. However, in the case of the Paris Club, the amount eligible for debt relief began to decline. This was largely because debts eligible for relief had to be contracted before the Paris Club determined cut-off date of October 1, 1983. Over time, fewer debts became eligible for relief given this fixed cut-off date. In addition, while there was an ease in debt service payments, there was no relief on the debt stock. Notably, as a consequence of the repeated capitalisation of interest payments in Paris Club reschedulings, these restructuring were actually causing small net increases in the debt stock.

Jamaica's concluded its final London Club restructuring in 1990 and its final Paris Club rescheduling in 1993. At the end of 1990, Jamaica's external debt amounted to US$4.2 billion or 101 percent of GDP declining to US$3.7 billion at the end of 1993, and to a historic low of US$3.0 billion or 46 percent of GDP at the end of 1999.

Three factors were responsible for the decline. First, a number of donor governments, including Canada, Netherlands, Norway, the US and the UK, unilaterally cancelled debts owed to them by the Jamaican government. The US cancelled the largest amount of debt, amounting to US$272 million under the Enterprise for the Americas (EAI) initiative. Second, donor governments and commercial banks significantly reduced new commitments to Jamaica. Third, debt accumulation slowed as a result of fiscal surpluses recorded in FY1994/1995 and FY1995/1996. By the late 1990s, there was a net outflow of external payments, as debt service payments far outweighed disbursements and external debt fell.

Jamaica's only other opportunity for debt reduction came by way of its debt-to-equity conversion programme which was launched in 1987. The programme aimed at converting US$185 million or half of Jamaica's external commercial bank debt outstanding at the end of 1987. However, only US$107 million was actually converted over the life of the programme which ended in 1993. This represented less than a third of Jamaica's commercial bank debt and only about 3 percent of Jamaica's total external debt.

With successive debt reschedulings, fewer external loan commitments and a growing reliance on domestic debt, Jamaica's external debt declined. By 2000, external debt accounted for less than half of Jamaica's total public debt and approximately 45 percent of GDP. However, the fiscal space provided by successive debt reschedulings was soon overcome by the 1996 to 1997 crisis in the local financial sector. As part of a financial sector rescue, the government, in 2001, assumed substantial financial sector obligations on its budget. This led to a 33 percent increase in country's domestic debt. As a consequence, Jamaica's domestic debt-to-GDP jumped from 69 percent to 81 percent at the end of FY2002. Overall, the government's rescue of the financial sector increased Jamaica's debt-to-GDP ratio by 40 percent during this period.

Despite numerous debt restructuring agreements, Jamaica's debt remains at unsustainably high levels. Except for a brief interlude, from 1996 to 1998, when debt-to-GDP averaged 92%, Jamaica's debt has exceeded 100 percent of GDP for more than three decades. Since the start of the 2000s, debt service payments have consumed, on average, over 65% of the government's budget annually. Debt-to-GDP is projected to climb to 140 percent by the end of 2010.

Arguably what Jamaica needs is significant debt reduction - not just a deferral in debt service or relief on interest payments. Without debt reduction, economic growth is likely to continue to elude Jamaica. Perhaps what is needed is a major debt initiative, akin to the Highly Indebted Poor Country (HIPC) Initiative or Multilateral Debt Relief Initiative for low-income countries, which included the cancellation of up to a 100% of debt claims. No doubt such an initiative would be difficult to implement given Jamaica's classification as an upper-middle income country and that most of its debt is in the form of securities held by local and overseas securities. The impact on its credit ratings would be punitive.

Nonetheless, radical debt reduction would provide more than just fiscal space. It would provide an opportunity to jump start the Jamaican economy – an economy that is extremely vulnerable to external shocks and one in which annual growth rates have averaged less than 1 percent over the past 20 years. Reschedulings have provided Jamaica with needed breathing space but only in the short term. Truly, what Jamaica needs is a fresh start.

Michele Robinson

Debt Statistics

Jamaica

The table below shows the details of Jamaica's restructuring of its external bilateral (Paris Club) debt and external commercial bank (London Club) debt.

Paris Club Rescheduling (bilateral debt)		
Agreement Date	Amount Restructured (US$ million)	Consolidation Period (months)
July 16, 1984	105	15
July 19, 1985	62	12
March 5, 1987	124	15
October 24, 1988	147	18
April 26, 1990	179	18
July 19, 1991	127	13
January 25, 1993	291	36
London Club Refinancing (commercial bank debt)		
Agreement Date	Amount Restructured (US$ million)	Consolidation Period (months)
April 1981	126	24
June 1981	89	21
June 1984	164	21
September 1985	359	24
May 1987	366	39
June 1990	14	24

***Source**: Paris Club, World Bank (Global Development Finance)*

Recent Developments

CARTAC Technical Assistance mission to Barbados

- A CARTAC mission to Barbados was recently concluded to review the institutional arrangements for debt management. At the request of the Barbados government, the mission sought to identify and recommend steps to strengthen public debt management in Barbados.

Upcoming Events/Courses

June 2010

- June 7-11: World Bank Treasury – Implementing Government Debt Strategies; Vienna, Austria.
- June 21-30: Commonwealth Secretariat – Regional Workshop on Developing a Debt Bulletin through use of CS-DRMS; Bridgetown, Barbados.
- June 23-24: Commonwealth Secretariat – Expert Meeting on Dealing with the Looming Debt Problem of Small Vulnerable Economies, London, United Kingdom.

July 2010

- July 14-16: Inter-American Development Bank – VI Annual Meeting of the Latin American and Caribbean Debt Management Specialists Group; Mexico City, Mexico.
- July 19-August 2: Commonwealth Secretariat – Debt Data Validation in Guyana; Georgetown, Guyana.
- July 26-August 6: Crown Agents – Best Practice in Public Debt Management; Sutton, United Kingdom.

August 2010

- August 9-18: Commonwealth Secretariat – CS-DRMS IT Workshop for Eastern Caribbean Currency Union (ECCU) countries; Basseterre, St. Kitts and Nevis.

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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