Debt Watch - Caribbean

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News

IDB launches US$500 mn credit line to ease impact of rising food prices

The Inter-American Development Bank (IADB) has launched a US$500 million credit line to help ease the impact of rising food prices in Latin America and the Caribbean. The programme is directed primarily at small, poor, and externally vulnerable economies in the region. Countries will be able to use the funds to strengthen their social protection networks and improve agricultural productivity.

The IADB decision comes amidst rioting in Haiti as a result of sharply rising food and fuel prices which has led to the resignation of Haiti's prime minister.

The IADB noted that between January 2006 and March 2008, world food prices have, on average, increased by 68%. The prices of some basic food items have increased even more significantly. Over the period the price of rice has doubled, corn has increased by 128%, while wheat prices have risen by 168%.

Source: Inter-American Development Bank

World Bank approves US$10 mn grant to Haiti for food price crisis

In the wake of violent unrest in Haiti as a result of rising food prices, the World Bank has approved a US$10 million grant to the Republic of Haiti to help the government respond to the crisis. The grant is part of a Fast-Track Facility launched by the World Bank to support global efforts to overcome the global food crisis.

The World Bank will further assist the Haitian government by extending a school-feeding programme currently underway in the country. The Bank will also provide technical assistance to help Haiti develop medium-term solutions towards agricultural productivity, risk management, and a well-functioning social safety net.

Source: World Bank

CDB approves US$5 mn grant for Haiti

The Caribbean Development Bank (CDB) has approved a grant of US$5 million to Haiti. The grant is to help poor young Haitians between the ages of 15 and 24 gain access to technical and vocational education and training.

Under the project, three vocational schools will be rehabilitated, expanded, and transformed into reference centres. These centres are designed to serve as model centres to respond to the needs of the region in which they are located.

Source: Caribbean Development Bank

IADB US$100 mn transport improvement loan for the Bahamas

The Inter-American Development Bank (IADB) has approved a US$100 million loan to the Bahamas to support a programme to improve transport in New Providence Island.

The 25-year loan will assist the Ministry of Public Works and Transport in completing the New Providence Transport programme which involves the construction of 15 kilometers of new roads as well as the improvement of 23 kilometers of existing roads. The loan will also support key studies in traffic management as well as road maintenance.

Source: Inter-American Development Bank

US$65mn in World Bank loans to Jamaica

Three loans totaling US$65 million were approved by the World Bank for Jamaica. The loans are aimed at strengthening the country's social safety net, improving services for young children and their parents, and for supporting HIV/AIDS prevention and control.

Of the three loans, US$40 million is earmarked for strengthening Jamaica's social insurance and social assistance system by supporting activities including the Programme of Advancement through Health and Education (PATH).

Source: World Bank

UK to help Jamaica in seeking reform of the World Bank and IMF

The government of the United Kingdom has agreed to provide Jamaica with technical assistance in seeking reforms of the international financial institutions on issues of financing and debt relief.

The Jamaican Prime Minister, Bruce Golding, has urged that institutions such as the International Monetary Fund and World Bank reform their approach to middle-income countries like Jamaica when dealing with debt relief and debt servicing.

Jamaica's total public debt (external and domestic) amounted to some US$14 million at the end of March 2008. The Jamaican government reports that 50 cents of every dollar earned by the government goes towards debt servicing.

Source: Caribbean Net News

Inflation poses risk to Jamaica and Suriname's creditworthiness

In a special report, Fitch Ratings warned of risks to emerging market (EM) sovereign creditworthiness from rising inflation. Fitch Ratings reported that rising inflation, rather than slowing economies, is the principal challenge facing policy-makers in emerging economies. The ratings agency said further that the impact of higher fuel and food prices was exacerbated by the reluctance of some EMs to allow their currencies to adjust.

Fitch has developed a ranking of Fitch-rated emerging economies based on their vulnerability to inflationary shocks. Of the 73 Fitch-rated EM economies, Jamaica and Suriname were listed as among the top ten most vulnerable. According to the index, Jamaica is ranked number one, as the most vulnerable to inflation shocks, while Suriname is ranked fifth.

Fitch's index is based on inflation dynamics the degree of domestic overheating, monetary conditions and the importance of the domestic government debt market to the sovereign.

As at the end of May, both Jamaica's long-term foreign currency and local currency debt each have attracted a "B+" rating.

Suriname attracted a rating of "B" on its long-term foreign currency debt and "B+" on its long-term local currency debt. Jamaica and Suriname currently both enjoy a stable outlook on their ratings.

Source: Fitch Ratings Limited

Standard and Poor's affirms ratings for three Caribbean sovereigns

During May, the leading international rating agency, Standard and Poor's, affirmed the credit ratings of three Caribbean sovereigns - Grenada, Jamaica, and Montserrat.

For long-term sovereign debt, Standard and Poor's affirmed a "B-" rating for Grenada, "B" for Jamaica, and "BBB-" for Montserrat.

For short-term sovereign debt, the rating agency affirmed a "C" rating for Grenada, "B" for Jamaica, and "A-3" for Montserrat.

The credit outlook for all three countries remained stable.

The table below shows the sovereign ratings assigned by Standard and Poor's for long-term and short-term sovereign debt as at May 20, 2008.

Country	Long-term	Short-term
Grenada	B-	C
Jamaica	B	B
Montserrat	BBB-	A-3

Source: Standard and Poor's

Feature

Debt and the Food Crisis in the Caribbean

The food riots in Haiti in April underscore the potential threat that rising food and fuel prices pose to economic and political stability in the Caribbean.

Haiti has seen food inflation increase from 6.4% in July 2007 to 20.8% in April 2008 and the prices of some food staples such as rice, beans, flour, and cooking oil have more than doubled. Other Caribbean countries have seen similar jumps in food inflation.

High food and fuel prices will adversely affect the external accounts on two counts. Higher prices will significantly increase the import bill. At the same time tourism earnings are likely to decline. Fewer US flights to the Caribbean, as the cost of airline fuel soars, and sluggish US economic growth will underpin the decline. Tourism, a major income earner for the Caribbean, is expected to be very subdued over the next 12 months.

The fiscal accounts of many Caribbean countries are also likely to deteriorate. Any effort by governments to maintain social safety nets for its poorest and most vulnerable citizens is likely to lead to worsening fiscal imbalances. This, in turn, is likely to increase reliance on borrowing, making the already high levels of debt for many Caribbean economies even more unsustainable.

The prime minister of St. Kitts and Nevis in his address to the Summit on World Food Security in Italy made the case for "special and differential measures for the small island states of the Caribbean." He noted that high food prices will make it a challenge to achieve the first of the Millennium Development Goals which is to reduce by half extreme poverty and hunger in the world by 2015.

While the Jubilee Debt Campaign advocates full debt cancellation for Haiti, no such relief is expected for the rest of the Caribbean. External assistance will be in the form of loans rather than grants and the prospect of any debt cancellation is remote. The Inter-American Development Bank has already announced a US$500 million credit line to ease the impact of rising food prices in the region. However, it is unlikely that with surging oil and food prices such funding will suffice.

Many Caribbean countries are rethinking their agricultural and rural development policies recognizing the need for significant increases in productivity and investment in the sector. The challenge for the Caribbean, all of which with the exception of Haiti and Guyana are middle-income countries, is how to secure low-cost assistance to boost the agricultural sector and to protect its poorest from high food prices, without adding to its long-term debt burden.

With bilateral aid to the region in marked decline and high financing costs in the international capital markets, international financial institutions may have a large role to play in the long-term food security and debt sustainability of the Caribbean. *MR*

Debt Statistics

Regional

The table below shows the ratio of total public and publicly guaranteed debt (external and domestic) to Gross Domestic Product for members of the Organisation of Eastern Caribbean States (OECS).

OECS: Long-Term Public Debt Outstanding[1] to Gross Domestic Product (%)

As at end period

	2005	2006	2007
Anguilla	24.0	19.7	20.2
Antigua & Barbuda	114.8	166.7	100.0
Dominica	117.8	111.1	101.6
Grenada	119.3	120.3	121.8
Montserrat	10.9	9.8	9.2
St. Kitts & Nevis	187.4	178.0	165.2
St. Lucia	70.3	70.7	71.6
St. Vincent & the Grenadines	82.6	76.9	67.3

[1] Includes publicly guaranteed debt

Source: Eastern Caribbean Central Bank

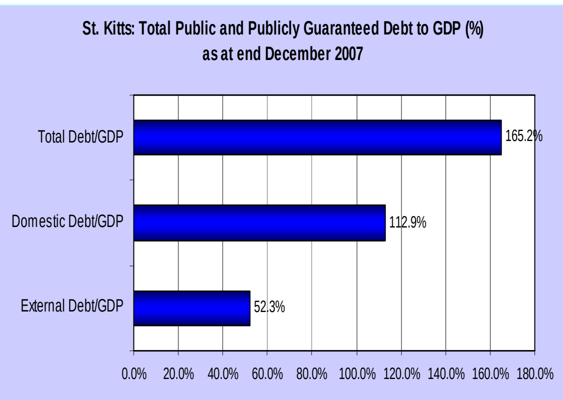
National

St. Kitts & Nevis

The table below provides data on key debt indicators in relation to the long-term public and publicly guaranteed debt of St. Kitts and Nevis.

St Kitts & Nevis: Public Debt to GDP in percent (%)

	2005	2006	2007
Total Debt/GDP	187.4	178.0	165.2
External Debt/GDP	71.0	61.8	52.3
Domestic Debt/GDP	116.4	116.2	112.9



Source: Eastern Caribbean Central Bank

The total public debt to GDP of St. Kitts & Nevis amounted to 165% of gross domestic product at the end of 2007. While there has been a gradual decline in the total debt to GDP over the past three years, total debt levels remain unsustainably high.

In recent years, St. Kitts & Nevis has relied increasingly on domestic borrowing as conditions in the international capital markets have made it difficult to borrow externally.

In April, at the conclusion of its Article IV consultation with the St. Kitts & Nevis government, the International Monetary Fund warned that the high public debt left little room for manoeuvre in the event of an adverse shock. They further indicated that the public debt was likely to remain high over the medium-term

While the IMF remarked on the recent strong economic growth and promising prospects in St. Kitts and Nevis over the medium-term, they urged the authorities to continue their efforts to strengthen debt management capacity and to explore options for rapid debt reduction.

St. Kitts & Nevis is vulnerable to natural disasters, especially hurricanes. This poses a serious challenge to meeting fiscal targets. The surge in food and fuel prices threatens to exacerbate the problem as spending pressures intensify.

On-going fiscal discipline and prudent debt management will be crucial in ensuring the continue reduction in public debt to GDP ratios. *MR*

Upcoming Events

June 2008

- June 26 – 27: Commonwealth Secretariat Debt Management Forum (formerly CS-DRMS User Group Meeting) in London, United Kingdom.
- June 23 – July 4: Crown Agents training workshop on New Challenges in Debt Management, in Worthing United Kingdom.
- June 13 – 14: G8 Finance Ministers Meeting in Osaka, Japan.

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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