

---

# Debt Watch - Caribbean

Issue No. 3: June 2008

---

## News

### Regional debt could be written off

The democratic candidate for President of the United States, Senator Barack Obama, has stated that he would extend 100% debt relief to the Caribbean if he becomes the next leader of the US.

*Source: Gleaner extra.com*

### International NGOs call for Haiti debt cancellation

A group of international NGOs have called on the finance ministers of the Group of Eight (G8) industrial countries to cancel Haiti's debt. The G8 finance ministers held their summit in Osaka, Japan on June 13-14.

In an open letter to the G8 ministers, the NGOs urged the ministers to "support the immediate multilateral and bilateral debt cancellation for Haiti or a moratorium on all debt service payments until such a time as the debt is cancelled".

The NGOs further stated that "with food prices on the rise in Haiti and social unrest in the impoverished nation increasing, Haiti can ill afford to make debt service payments of US\$58.2 million in 2008".

Twenty-eight NGO's from UK, Continental Europe, the US and Canada were signatories to the letter.

*Source: Caribbean Net News*

### Moody's affirms credit ratings for the Bahamas

Moody's Investor Services, one of the leading international rating agencies, affirmed the A3 foreign currency and A1 local currency credit ratings for the Bahamas.

Moody's stated that the country benefits from a long history of political stability, a well regulated banking sector, well established tourism and financial services, and a low external debt.

Moody's also stated that the Bahamas had one of the lowest external vulnerability indicators of countries in its rating category. The Moody's vulnerability index measures the degree of a country's exposure to external shocks.

Moody's Vice President, Gabriel Torres, said, however, that the Bahamas' ratings remains constrained by the country's narrow economic base, fiscal inflexibility, and relatively high government debt.

*Source: Moody's Investor Services*

### Chinese delegation visits Antigua to finalise power plant loan agreement

A 13 member team of officials from the Exim bank of China will visit Antigua to meet with the Antiguan government to finalise arrangements for a concessional loan to fund a new power generation plant and other development projects.

The team, headed by the president of the China Exim bank will also finalise arrangement for the construction of a new airport terminal at the VC Bird International airport.

*Source: Government of Antigua and Barbuda*

### Jamaica signs US\$1.5 mn grant agreement with IDB

The government of Jamaica has signed an agreement with the Inter-American Development Bank (IADB) to receive US\$1.6 million in grant funds.

The Jamaican government will use the funds, provided under the IADB's Programme to Implement the External Pillar of the Medium Term Action Plan for Development (PRODEV) to improve its public management systems. Specific activities will include enhancing the accountability framework, improving the linkages between planning and budgeting, and modernizing the public procurement and financial management and information systems.

*Source: Inter-American Development Bank*

### Jamaica raises US\$350 mn in international capital markets

The government of Jamaica issued US\$350 million in bonds maturing in 2019. The bonds were issued at a discounted price of 97.498. The bond, with a coupon rate of 8.00%, carries a yield-to-maturity of 8.375%.

The bond will be redeemed in three equal tranches over the years 2017 to 2019.

*Source: Caribbean Net News*

### Trinidad & Tobago issues TT\$1.2 bn in local bonds to RBTT investors

The government of Trinidad and Tobago has issued TT\$1.2 billion in bonds to shareholders and other investors of the Royal Bank of Trinidad and Tobago (RBTT).

The bond's issue was in an effort to absorb the liquidity expected to be created by the payment of TT\$4.7 billion (US\$750 million) in cash to RBTT shareholders on the acquisition of RBTT by the Royal Bank of Canada.

The bond, the first government issue for the year, will have a coupon rate of 8.25% and will be redeemed in 2017.

*Source: The Guardian (Trinidad)*

### **World Bank approves US\$17.5 mn grant to Haiti for urban projects**

The World Bank has approved a US\$15.7 million grant for urban community-driven development in Haiti. The grant will provide basic infrastructure and social services for disadvantaged urban communities.

The project will involve a participatory process in which community-based organizations propose, select, implement, and maintain the sub-projects.

The projects include increasing access to water, increasing access to sanitation, rehabilitating street and drainage infrastructure, and improving social infrastructure and services.

Some 85,000 individuals are expected to directly benefit from the project.

*Source: World Bank*

### **Commonwealth leaders discuss reform of international institutions**

Ten Commonwealth heads of government met in London at a mini-summit convened by the Commonwealth Secretariat to discuss reform of the World Bank, International Monetary Fund (IMF) and the United Nations (UN).

In the global context of food shortages, fuel price rises and the credit crunch, the leaders spoke of the need for effective responses from international institutions. British Prime Minister Gordon Brown argued that "these problems need global action". He said further that a coordinated global response was required in response to the challenges and added that "we cannot deal with these challenges without reform [of these global institutions]."

The Commonwealth heads agreed that the activities and governance of the international institutions must be flexible. They emphasised the need for these institutions to respond to new challenges, national priorities and specific circumstances in countries.

Concluding the summit, the Heads of Government conveyed their intention to redefine the purposes and governance of the Bretton Woods institutions (IMF, World Bank). They pledged to work towards a Commonwealth consensus and wider international support for an international conference to achieve these goals.

Representing the Caribbean at the mini-summit were President Bharrat Jagdeo of Guyana and Prime Minister Patrick Manning of Trinidad and Tobago.

*Source: Commonwealth Secretariat*

## **Feature**

### **Towards a Caribbean Debt Initiative**

The growing debt burden of many small state economies has come starkly into focus in recent months. Small state economies are generally defined as countries with populations of 1.5 million or less and tend to very open and vulnerable.

At the recently concluded Commonwealth Secretariat Debt Management Forum, a most telling statistic was that small, middle-income countries, especially those in the Caribbean, were among the most heavily indebted countries in the world. Six Caribbean countries – Antigua & Barbuda, Belize, Dominica, Grenada, Jamaica, and St. Kitts & Nevis – widely referred to as the Caribbean-6, are ranked among the top ten most heavily indebted middle-income countries. All have public debt-to-GDP ratios above 90%. St. Kitts & Nevis tops the list with a public debt-to-GDP ratio of 165.2% at the end of 2007.

A number of factors account for the surge in Caribbean indebtedness. Large fiscal deficits, real interest rate rises and exchange rate changes are all major factors. Also a significant cause has been the general economic slowdown in the region largely a consequence of the dismantling of preferential trade arrangements for sugar and bananas, lower tourism receipts after the 9/11 terrorist attacks in the US, more stringent offshore banking regulation, and the spate of natural disasters, especially hurricanes, that have devastated the region.

Increasingly, the international community is being pressed to address the debt problem of small state economies. Jamaican prime minister, Bruce Golding, on behalf of CARICOM, recently made the case that small state economies need to be given a better deal in multilateral financial arrangements. He questioned the assumption that small, heavily indebted, middle-income countries would eventually be able to grow out of their debt problems suggesting instead that the onerous debt burden threatened to derail economic growth and development in the region.

Seeking a common solution to the Caribbean debt problem is not new. In 1987, CARICOM adopted a proposal by then Jamaican prime minister, Edward Seaga, to address the problem of small middle income developing countries. Then, as now, small, middle-income economies fell through the cracks. In the 1980s, the attention was focused on those middle-income countries heavily indebted to commercial banks, in the 1990s, attention was primarily focused on heavily indebted poor countries (HIPC). The Baker and Brady plans, implemented in the 1980's, successfully alleviated the problems of the highly-indebted commercial borrowers. Similarly, the HIPC initiative in the late 1990s and multilateral debt relief initiative (MDRI) in 2006 have provided significant relief to low-income countries.

The time is now for the international community to tackle the debt problems of highly vulnerable small state economies, particularly those in the Caribbean. *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.

St. Kitts & Nevis is ranked as the most heavily indebted middle-income country in the Caribbean, followed by Jamaica and then Grenada.

The table below shows the ratio of total public debt (external and domestic) to Gross Domestic Product for the Caribbean-6.

Caribbean - 6: Public Debt <sup>1</sup> to GDP (%)				
As at end period				
		2005	2006	2007
1.	St. Kitts & Nevis	187.4	178.0	165.2
2.	Jamaica	136.7	135.8	130.8
3.	Grenada	119.3	120.3	121.8
4.	Dominica	117.8	111.1	101.6
5.	Antigua & Barbuda	114.8	166.7	100.0
6.	Belize	98.4	92.1	90.2

<sup>1</sup> Includes publicly guaranteed debt

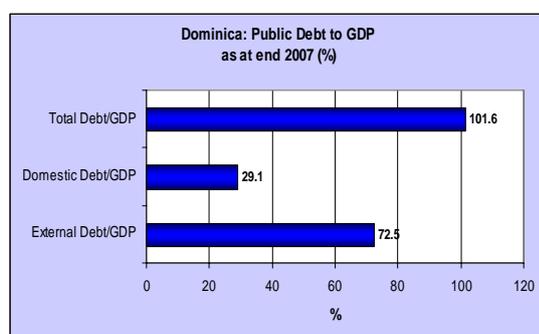
Source: Eastern Caribbean Central Bank, IMF

### National

Dominica 

The table below provides data on key debt indicators in relation to the long-term public and publicly sector debt of Dominica.

Dominica: Public Debt to GDP			
in percent (%)			
	2005	2006	2007
Total Debt/GDP	117.8	111.1	101.6
External Debt/GDP	80.9	78.5	72.5
Domestic Debt/GDP	36.9	32.6	29.1



Source: Eastern Caribbean Central Bank

At the end of 2007, Dominica had a total public debt to GDP ratio of 101.6%. This is notably lower than the ratios of 117.8 and 111.1 in 2005 and 2006 respectively. Despite these declines, Dominica's debt levels remain very high. Of all the middle-income countries in the Caribbean, Dominica had the fourth highest debt-to-GDP ratio at the end of 2007.

While Dominica's economic performance has been affected by rising international oil prices, adverse weather conditions, and a slowdown in the main tourism and agricultural sectors, tighter fiscal management and significant grant inflows have contributed to the improved debt-to-GDP ratios.

The Government of Dominica has committed to implementing a debt reduction strategy, one element of which entails a tight reign on recurrent expenditures. Wages, which account for roughly 50% of government recurrent expenditure, have recently been more closely linked to productivity increases and plans are underway to embark on a public sector employment rationalization programme.

Increased inflows in the form of external grants have also contributed to the reduction in Dominica's debt burden. China and Venezuela have been the main sources of grant assistance.

The Caribbean Development Bank has remarked that Dominica's increased reliance on grant financing may make the country vulnerable to "sudden stops" in grant flows. In that regard, they urged the Dominican authorities to continue to adhere to tight fiscal discipline while taking steps to diversify the economy. Such measures were crucial in reducing Dominica's external vulnerability and ensuring the continued reduction in public debt-to-GDP ratios. *MR*

### Upcoming Events

#### August 2008

- July 28: Commonwealth Secretariat hosts Commonwealth Executive Leadership Programme on Public Private Partnerships for officials from the Caribbean and Mediterranean regions in Australia.
- July 01 - 04: 29<sup>th</sup> CARTAC hosts regional conference on Public Financial Management, Castries, St. Lucia, WI.
- July 07 - 09: Group of Leaders from the eight leading industrial countries (G8) holds their Summit in Toyako, Japan.
- July 01 - 04: 29<sup>th</sup> CARICOM Heads of Government meeting in Bolans, Antigua & Barbuda, WI.

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:

[consult@michelerobinson.net](mailto:consult@michelerobinson.net)