Debt Watch - Caribbean

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News

Aruba's notes graded "BBB" by Fitch

Fitch ratings agency has assigned Aruba's upcoming US$57.3 million, five year bond, a "BBB" rating. The rating is consistent with Aruba's foreign currency Issuer Default Rating (IDR) of "BBB" which has a Stable Rating Outlook.

Aruba's ratings are supported by its relatively high per capita income (over US$20,000); its market-friendly institutional environment; and its continued political and social stability. The ratings are also supported by Aruba's external solvency ratios.

Aruba's ratings, however, are constrained by the country's narrow revenue base; a high level of budgetary rigidity and a relatively high level of public debt.

Aruba's public debt amounted to 45.6% of GDP at thee end of 2007 compared to 46.6% at the end of 2006. However, in Fitch's view, the government needs to continue its efforts to restrain and restructure its public spending to achieve a balanced fiscal position and facilitate a faster convergence of public debt to the "BBB" median of 28% of GDP.

Source: Fitchratings.com

Cuba's debt grows by US$1.1 bn

Cuba's central bank has announced that the country's foreign debt increased by US$1.1 billion to US$16.5 billion in 2007.

The increase arose from a rise in Cuba's "active debt"; debt accumulated after the 1991 collapse of the Soviet Union and on which interest and principal is paid. Active debt jumped from US$7.8 billion to US$8.9 billion in 2007.

Venezuela is Cuba's largest creditor followed by China in second place.

Source: Caribbean Net News

Belize receives aid funds from Taiwan

The Government of Belize has received aid funds totalling US$13 million from the Taiwanese government.

Of the total amount, US$12.5 million represents the second instalment of a US$25 million grant for budgetary support for the period 2008-2013, while US$416,500 is to fund the second stage of a project to enhance its foreign ministry.

Source: Caribbean Net News

Trinidad to provide hurricane relief to three Caribbean states

The Government of Trinidad and Tobago has stated that it will contribute TT$26 million (US$4.2 million) in hurricane relief to three Caribbean countries: Cuba, Haiti, and Jamaica.

Jamaica and Haiti will receive TT$10 million (US$1.6 million) while Cuba will receive TT$6 million (US$1 million) to help with their recovery efforts.

The funds for Jamaica and Haiti will be taken from the Government's Caribbean Community (CARICOM) Petroleum Fund which was established to deal with such disasters. Cuba, which is not a CARICOM state, will be funded from the Government's contingency fund.

Source: news.tradingcharts.com

IADB announces US$400,000 in emergency grants for Haiti

The Inter-American Development Bank (IADB) has announced that it has approved US$400,000 in emergency grants for Haiti. The announcement came as the country declared a state of emergency following a succession of hurricanes, torrential rains and devastating floods.

The IADB stated further that it will work closely with the Haitian government and the international donor community in the coming months to seek to provide Haiti with additional resources and support to reconstruct or rehabilitate infrastructure damaged by the recent hurricanes.

Source: Inter-American Development Bank

Canada provides emergency relief to the Caribbean

The Government of Canada is to provide C$600,000 to assist people affected by recent hurricanes and tropical storms in Haiti, Cuba and Jamaica.

Canada's contribution includes the provision of emergency relief supplies for 2,000 families in Haiti; a $43,000 contribution to Médecins du Monde to provide water, hygiene kits and primary health care; and C$100,000 to the International Federation of the Red Cross (IFRC) Preliminary Emergency Appeal to assist 7,000 families affected by devastation in Cuba, Haiti and Jamaica.

Source: Canadian International Development Agency

USAID provides disaster relief to Jamaica

The United States Agency for International Development (USAID) has provided the Office of Disaster Preparedness and Emergency Management (ODPEM) in Jamaica with disaster relief amounting to US$300,000.

The assistance comes in the wake of damage sustained across the island after the passage of Tropical Storm Gustav.

Source: Caribbean Net News

CariCRIS rates St. Lucia creditworthiness "adequate"

CariCRIS, the Caribbean credit rating agency, has assigned the rating of "Cari**BBB+**" ratings for both the Government of St. Lucia's foreign currency and local currency debt.

The rating reflects St. Lucia's monetary and exchange stability, its relatively diversified economic base, and consistent real GDP growth. Also supporting the rating was a favourable external account, characterised by a balance of payments surplus, and strong foreign direct investment. However, tempering the rating were persistent central government deficits leading to increased debt levels and limited fiscal flexibility.

Source: CariCRIS.com

IADB offers grants for water and sanitation projects

The Caribbean is to benefit from a new source of financing from the Inter-American Development Bank (IADB), the Aquafund, which will provide grants to fund water and sanitation projects.

The Aquafund has been established as a fast-disbursing vehicle intended to hep accelerate the development of projects in the water, sanitation and solid waste disposal sectors. The fund can be used to finance activities ranging from pre-feasibility studies to technical training and knowledge dissemination, depending on specific local needs.

During the rest of 2008, the Aquafund could disburse up to US$15 million in grants from the IADB's ordinary capital. Beginning in 2009, the fund will also mobilise matching contributions from multiple donor countries providing up to US$35 million in grants during the calendar year.

Source: Inter-American Development Bank

Canada unties its development aid

The Government of Canada has announced that it plans to fully untie its development assistance by 2012-13. The Government said that moving to global procurement will increase efficiency by ensuring that Canada gets the best value for money with its aid dollars.

Source: Canadian International Development Agency

Feature

Caribbean debt and the global financial crisis

In the course of just a few weeks, the US has seen the fall of the two giants of its mortgage industry, Fannie Mae and Freddie Mac; the collapse of two of the world's largest investment banks Lehman Brothers and Merrill Lynch; the largest bank failure in US history with the dive into bankruptcy of US bank Washington Mutual, and the US government's US$85 billion rescue of the world's biggest insurer, American International Group (AIG). Topping this all, the US Congress has just approved a US$700 billion bailout plan for the US financial sector.

The crisis has extended beyond US shores. The British Government has now announced a £400,000 bailout for the UK banking sector, Russia has temporarily shutdown its stock exchange and Iceland, impacted by the scarcity of credit in its banking sector, is teetering on the edge of national bankruptcy.

The Caribbean is not immune to these developments. The shortage of credit in US financial markets will have adverse implications for Caribbean economies which are already grappling with record increases in food and fuel prices. The US financial meltdown, now percolating into Europe, will pose major challenges for public debt management in the Caribbean.

For many Caribbean economies, the US credit crisis is already having an effect. Remittances, which represent a major source of foreign exchange revenue to many Caribbean countries, are declining notably. In Jamaica, where remittances amount to some US$2 billion annually, there are indications that these inflows are falling off. Tourism, which accounts for over 50% of Caribbean export revenues, is now forecast to decline significantly as the nearest and largest travel market, the US, is threatened with a sharp economic downturn. The Caribbean exports of primary commodities and manufactures are also expected to be adversely affected by the downturn in US demand.

The economic slowdown predicted for the Caribbean downturn will impact government's fiscal budgets and, in turn, debt levels. Fiscal deficits are likely to widen as expenditures on food and fuel increase at the same time that government revenues decline. With a relatively narrow tax base and limited fiscal flexibility, budgetary financing gaps are likely to be met through increased government borrowing.

Obtaining external financing is going to prove difficult for the region. For Caribbean countries that have access to the international capital markets, bond financing will be expensive. Credit spreads, as reported by EMBI+ sovereign emerging market bond index, have already widened notably in recent weeks on the heels of the US credit crisis. Spreads are at their highest level over US Treasuries in five years.

Donor funds from bilateral governments are also expected to shrink as US and European governments divert funds from development assistance to address problems in their own domestic financial markets. Where funds are available, Caribbean countries may face much tighter financing conditions as fears of credit default by borrowers mount.

With external financing likely to be scarce and costly, many Caribbean countries will have little option but to rely more heavily on financing from their domestic markets. This, too, poses problems for public debt management.

Interest rates in domestic markets have already begun to rise as central banks in the region have begun to increase interest rates in an effort to curb rising inflation spurred by increases in food and fuel prices. Borrowing in the domestic markets is likely to further push up interest rates, increasing the cost of domestic debt. In Jamaica, domestic interest rates are trending upwards with the 6-month Treasury bill yield increasing by 45 basis points between late August and early October.

Increased reliance on funding from the domestic markets will also lead to higher levels of domestic debt. This will further exacerbate the debt problems of many Caribbean countries, in particular Jamaica and St. Kitts where domestic debt already surpasses 70% of gross domestic product (GDP).

While it is yet too early to determine the extent or the duration of the impact of the current global crisis on the Caribbean, the region will no doubt be adversely affected. Governments will have to respond with tight fiscal controls to avoid substantial increases in the cost and level of debt. Public debt managers will need to carefully monitor their portfolios, identify low-cost sources of financing, and carefully monitor their debt indicators to ensure that goals of long-term debt sustainability are not further jeopardised. *Michele Robinson*

Debt Statistics

Regional

On July 1st each year, for operational and analytical purposes, the World Bank classifies economies as low income, middle income (sub-divided into lower middle and upper middle) or high income based on their gross national income (GNI) per capita.

Based on 2007 GNI per capita, the classification for country groups are: low income, $935 or less; lower middle-income, $936 - $3705; upper middle-income, $3,706 - $11,455; and high income, $11,456 or more.

For the 2008 classification period, **Haiti** is the only country in the Caribbean that is classified as a low-income country. **Guyana** is the only Caribbean country that is currently classified as a lower middle-income country.

Three Caribbean countries, **Cuba**, **Jamaica** and **Suriname**, have had their income categories changed. These three countries were all reclassified from lower middle-income countries to upper middle-income countries.

Six of seventeen Caribbean states are classified as high income countries with GNI per capita of over $11,456. The Cayman Islands has the highest per capita income (over $40,000) followed by the Bahamas (over $22,000) and Barbados ($18,000).

These analytical income categories are frequently used by creditors to determine loan terms and the eligibility for debt relief. For the World Bank, the categories help guide the Bank's lending operations. The categories help determine countries eligibility for highly concessional financing through the World Bank's soft window, the International Development Association (IDA).

At present, countries that qualify for IDA financing are those countries that had per capita income in 2007 of less than $1,095 and lack the financial ability to borrow International Bank for Reconstruction and Development (IBRD). At present, Haiti and Guyana both qualify for IDA assistance based on income criteria.

The table below shows the income classification of Caribbean countries based on World Bank's per capita criterion.

Caribbean: Income Classification by GNI per capita

High Income	Antigua & Barbuda, Aruba, Bahamas, Barbados, Cayman Islands, Trinidad & Tobago
Upper Middle Income	Belize, Cuba, Dominica, Grenada, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent, Suriname
Lower Middle Income	Guyana
Low Income	Haiti

Source: World Bank

National

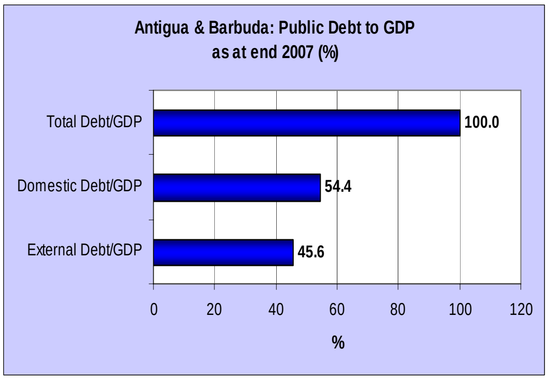
Antigua & Barbuda

As at the end of 2007, Antigua and Barbuda was ranked the fifth most heavily indebted country in the Caribbean with a total public debt to GDP ratio of 100.0%. The ratio, while high, is a significant improvement from 2006 when total public debt to GDP amounted to 166.7%.

The table below provides data on key debt ratios in relation to the total public debt of Antigua and Barbuda.

Antigua and Barbuda: Public Debt to GDP in percent (%)

	2005	2006	2007
Total Debt/GDP	114.8	166.7	100.0
External Debt/GDP	53.7	57.5	45.6
Domestic Debt/GDP	61.1	109.2	54.4



Source: IMF, Eastern Caribbean Central Bank

The accumulation of debt in Antigua and Barbuda had its genesis in the 1980's when fiscal balances widened significantly as the economy shifted from sugar to tourism. With the government acting as employer of last resort, the transition led to a significant expansion of the public sector and a surge in the wage bill. This, combined with wide scale damage caused by a series of hurricanes in the 1990s, led to a further deterioration in the fiscal accounts financed largely by the accumulation of debt arrears.

In 2004, a number of reforms were introduced by the Antigua and Barbuda government, most notably, an overhaul of the tax system and the suspension of discretionary tax concessions. This along with a rebound in economic activity was expected to help reduce the large fiscal deficits which amounted to 6% of GDP in 2004. Despite these efforts, Antigua and Barbuda's fiscal imbalances remained large growing to 8.0% of GDP in 2006.

Large and growing fiscal deficits translated into substantial debt accumulation. Total public debt grew from 135% of GDP at the end of 2000 to a peak of 166.7% at the end of 2006. In 2005, the Government of Antigua and Barbuda took the decision to normalise relations with creditors and prevent a further accumulation of arrears. During the year 90% of the US$185 million debt owed to the Italian government was forgiven. Since then, efforts to clear arrears and restructure the debt have been on-going and a number of restructuring agreements have been concluded with creditors.

Since 2006, Antigua and Barbuda's public debt to GDP, while still high, has declined. Due mainly to debt relief, the public debt was 100% of GDP at the end of 2007. The authorities have stressed their commitment to strengthening debt management and have begun to develop and implement a debt strategy with the help of international financial advisors.

The IMF, in its latest IMF Article VI Consultation with the Antigua and Barbuda government, has welcomed the authorities' efforts to normalise relationships with creditors. However, they have stressed that strong fiscal measures are still required if the debt burden is to be reduced over the medium term. They have also urged the authorities to develop a contingency plan in the event that access to regional financial markets becomes limited and that the capacity of the debt management unit be strengthened.

With the contagion of the US financial crisis spreading worldwide, the challenge to the Antigua and Barbuda government is huge. However with a strong commitment to fiscal reforms, a tight rein on budgetary expenditures, and prudent debt management, the challenge is not insurmountable.
Michele Robinson

Upcoming Events/Courses

October 2008

- October 27-29: World Bank Treasury hosts *Fourth Sovereign Debt Management Forum* in Washington, DC.
- October 23: Eastern Caribbean Central Bank (ECCB) convenes *Meeting of Regional Debt Coordinating Committee* in Basseterre, St. Kitts, WI.
- October 13: Annual meetings of the IMF and World Bank in Washington, DC.
- October 6-8: Commonwealth Finance Ministers Meeting (CFMM) in Castries, St Lucia, 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:

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