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DOMESTIC DEBT ISSUES IN THE CARIBBEAN

INTRODUCTION

In recent years, a great deal of attention has been devoted to severe debt problems of Caribbean countries. This is a reflection of the fact that most countries have ratios of Public Debt to GDP in excess of 60%, with a few of them in the region of 90%-130%. The focus of attention is usually external debt perhaps because of its implications for the availability and use of foreign exchange. However domestic debt though relatively neglected is also important for the macro-economy because of its implications for public revenues and expenditures. In this article we seek to focus attention on the domestic component of that debt. We begin with a reminder of the general profile of the debt.

TOTAL DEBT PROFILE

The debt ratios for 2012/2013 are depicted in Figure 1. It can be seen that there are nine countries that can be described as heavily indebted with total debt/GDP ratios between 72% and 131% in 2012/2013. Especially striking are the cases of Antigua and Barbuda, Barbados, Grenada, St. Kitts-Nevis and Jamaica. At the low end of the debt spectrum are Suriname and Trinidad and Tobago with debt/GDP ratios of 28% and 37% respectively. The ratio of external debt/GDP in many cases is a significant component of the total debt/GDP ratio as Figure 2 shows. As is shown in the next section the ratio of domestic debt/GDP is no less significant a component of the total debt/GDP ratio.

FIGURE 1: RATIO OF PUBLIC DEBT TO GDP 2012/2013

COUNTRY	TOTAL DEBT %	EXTERNAL DEBT %	DOMESTIC DEBT %
ANTIGUA & BARBUDA	75	32	43
BAHAMAS	72	18	54
BARBADOS	92	30	62
BELIZE	79	67	12
DOMINICA	64	19	45
GRENADA	91	66	25
GUYANA	66	50	16
JAMAICA	131	57	73
ST KITTS-NEVIS	112	39	73
ST LUCIA	72	32	40
ST VINCENT & GRENADINES	61	43	18
SURINAME	28	11	17
TRINIDAD & TOBAGO	59	24	35

DOMESTIC DEBT

Domestic debt is the liabilities of the government or public sector that is owed to individuals, enterprises and institutions within the domestic economy. The ratio of domestic debt/GDP as shown in Figure 3 range between 11% and 73% in the thirteen countries covered. The ratio was less than 20% in Belize, Guyana, St. Vincent and the Grenadines and Suriname; between 20% -40% in Grenada, St. Lucia and Trinidad and Tobago; between 41%-60% in Antigua and Barbuda, The Bahamas and Dominica; and over 60% in Barbados, Jamaica and St Kitts-Nevis. There is no obvious correlation between the highly indebted status of a country and its ratio of domestic debt/GDP; similarly for the ratio of external debt/GDP.

THE IMPORTANCE OF DOMESTIC DEBT

The size of domestic debt is important because debt service and amortization constitute claims on the use of current fiscal revenues and therefore compete with other claims on government expenditures. Another implication is the future tax burden associated with repayment of debt. It is sometimes argued that this is not a major issue because government has the powers of taxation but depending

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on how high is the overall level of taxation and the public's tolerance for taxes, there will be political limits on the ability of governments to meet domestic debt obligations by increasing taxes. There is also an inter-generational issue stemming from the fact that the beneficiaries of debt finance expenditures might not be part of the taxable cohort in future years because they are no longer in the labour force. Domestic debt could also lead to inflationary pressures by facilitating deficit financing. For this reason in some countries there are statutory limits on the extent to which governments might engage in domestic borrowing from the Central Banks. Another point is that when governments borrow domestically, at least theoretically, they are in competition with other potential users of domestic savings. This might not be a problem if there is a lot of liquidity in the financial system.

DEBT COMPOSITION

From the information available on several of the countries, it appears that the major debt instruments used domestically by governments are short term Treasury Bills, Bonds and other long-dated securities, bank loans and overdrafts. Financial institutions especially commercial banks are the main holders of Treasury Bills and short-dated instruments. Life insurance companies, pension funds and mutual funds tend to be prominent in the market for bonds and long-dated securities. The household sector is also an investor in government debt, taking advantage in some cases of fiscal incentives offered by governments and seeking investment opportunities in response to increases in personal wealth. The national insurance funds and schemes have traditionally been substantial holders of government domestic debt, being regarded sometimes as captive investors because of the heavy weight of government debt in their asset portfolios. Overexposure to government debt might also become a problem with private financial institutions.

**By Professor Compton Bourne, Executive Director
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REGIONAL NEWS SUMMARY

CLICO

- Aided by \$50 million in dividends, the Clico Investment Fund reported net income of \$56.52 million, in its unaudited statement of comprehensive income for the quarter ended June 30, released on the T&T Stock Exchange on August 26. In the previous quarter, ended March 31, the fund posted a \$6.99 million net income (TG 1 Sep)
- On September 1, Colonial Life Insurance Company of (Trinidad) Ltd ceased writing new business with limited exceptions. The company's insurance agents will demit office on September 24 but measures are in place to continue providing services for CLICO's customers. (TE 9 Sep)
- CLICO's 56.53% shareholding in Methanol Holdings Trinidad Ltd has been valued at US\$1.175 billion (TT\$7.485 billion) by the Europe-based International Court of Arbitration. CLICO now has to offer the shares for sale in two tranches to its minority shareholder, Consolidated Energy Ltd, for this sum within 14 days. (TE 13 Sep)
- The Central Bank said the interests of Clico, which is under the control of the bank, will be "best served" by complying with the award of the arbitration tribunal in its valuation of Methanol Holdings (Trinidad) Ltd, which is 56.53% owned by Clico. (TG 21 Sep)
- The state has paid \$258 million to the OECS to insulate that region from the fallout of the collapse of the CL Financial group, Finance and Economy Minister Larry Howai said (Newsd 23 Sep)

- Minister of Finance Larry Howai confirmed that Colonial Life Insurance Co Ltd is to be sold. He stressed however that the price must be right. (TE 23 Sep)
- Clico and CL Financial yesterday made offers to sell their shares in Methanol Holdings (Trinidad) Ltd to Consolidated Energy Ltd, the minority shareholder of the methanol company, in keeping with the 14-day deadline to do so (TG 26 Sep)
- The CLICO Policyholders Group has said it welcomes the news that Consolidated Energy Ltd will put about 4% of its shareholding of Methanol Holdings Trinidad Ltd on the local market just after it concludes the purchase of CLICO's 56.53 per cent shareholding of MHTL. (TE 29 Sep)

CARIBBEAN

- The Economic Commission for Latin America and the Caribbean has lowered its growth projections for Latin American and Caribbean economies in 2014. (TE 1 Sep)
- As many as 320 jobs that were expected to be generated this year for the refurbishing of a South Coast hotel and later, for its operation, are now on hold because of difficulties in acquiring certain permissions to import duty-free materials as promised by Government. (BN 2 Sep)
- The European Union has signed off €339 million in Developmental Programmes for 21 African, Caribbean and Pacific Group of Countries, with Guyana receiving €34 million (G\$9,184,523,567 (GuyTim 3 Sep))

REGIONAL NEWS SUMMARY CONT'D

- The De Surinaamsche Bank has voiced its concern over the increasing financial deficits of the government. In its biannual report, DSB, the biggest bank in Suriname, reports about the enormous pressure on the government's finances due to the dropping revenues from the gold mining sector (die Ware Tijd 3 Sep)
- Central bank governor Dr DeLisle Worrell has told business leaders that the island's foreign reserves have stabilised and he expects about \$3 billion in tourism investments over the next three years. (BN 4 Sep)
- The IMF says it has approved an extension of the Extended Credit Facility it has with Haiti. (JO 4 Sep)
- Moody's Investors Service on Tuesday downgraded The Bahamas' sovereign credit rating yet again, citing massive debt and soft economic growth as the main factors behind the move. (CNnow 4 Sep)
- Trinidad and Tobago has climbed three not-ches on the Global Competitiveness Index 2014-2015. But it pointed to inefficient Government bu-reaucracy as the most problematic factor for doing business in this country. (TE 4 Sep)
- The Trinidad and Tobago economy is embarking on sustainable growth, but the country needs to reduce fuel subsidies and rationalise social programmes, the IMF has said. (TE 4 Sep)
- Jamaica has moved up eight places on the Global Competitiveness Index and is now ranked 86 out of 144 countries for 2014/15. (JO 4 Sep)
- The International Finance Corporation, a member of the World Bank Group, has completed a \$185 million financing package for the construction and development of Guyana Goldfield's Aurora gold mine, located 170 km west of Georgetown. (GCO 4 Sep)
- Jamaica is to embark on the large scale production of bamboo for the construction of low-cost houses and value added products such as furniture and charcoal for the export market. (Carib360 5 Sep)
- New Jersey has signed a partnership agreement with ConnectAmericas.com, a new social media platform that connects Latin American and Caribbean enterprises with business opportunities throughout North America. (CNnow 5 Sep)
- A partnership between the New York Institute of Finance, the University of T&T and the T&T International Financial Centre will bring international best practice in capital markets in this country. (TG 5 Sep)
- The Surinamese economy will continue to suffer slow growth unless all areas in the country receive the same level of development as Paramaribo. (die Ware Tijd 6 Sep)
- T&T banks are facing increasing competition from the capital markets as they offer an alternative to financing, Ernst & Young has said. (TG 7 Sep)
- Scores of entrepreneurs are now better equipped to run their companies following a series of small business seminars held recently by Scotiabank. Tips on accounting, entrepreneurship, record keeping, profit maximisation and employee management were shared at the seminars (BN 8 Sep)
- Arrangements are being made to ship about 10,000 tonnes monthly to Africa, through a trade group (GuyTim 8 Sep)
- Suriname's Minister of Finance, Andy Rusland emphasizes that the government will continue its strategy of curbing its expenditures in order not to disrupt society. (die Ware Tijd 8 Sep)
- Barbados' credit rating descent from investment grade to junk territory has had a negative effect on mutual funds operated by a leading investment company (BN 9 Sep)
- Jamaica real estate experts are noting a rise in new residential construction as the local currency weakens against the US dollar (JG 10 Sep)
- The IDB approved a US\$530,000 (J\$60-million) grant to help expand the ongoing mobile money for microfinance project in Jamaica. (JO 10 Sep)
- T&T's largest business group, the T&T Chamber of Industry and Commerce, said that billions are being spent annually and the country is not seeing value for money. (TG 10 Sep)
- By the end of this year, the Central Bank's National Financial Literacy programme will be developed into a National Training Institute for Financial Inclusion. (TG 11 Sep)
- Approximately 85% of local small businesses are in the business of supplying services rather than producing goods and this not only represents what is happening at the macro level, but is a significant shift from what was the norm some years ago, when the Small Business Association got started. (BAdv 11 Sep)
- Seventeen years after the economic decline in the late 90s entrepreneurs in Suriname can again borrow money to establish or expand a firm without collateral. Minister Andy Rusland of Finance says that the government will again offer guarantees to starting and small entrepreneurs who submit feasible and innovative ideas and only need the financial support. (die Ware Tijd 11 Sep)
- In Barbados, statistics show that more men and women in the 25 - 34 age category were becoming entrepreneurs; a shift from prior years where those in the 35 - 44 category led the way. (BAdv 12 Sep)
- Barbados will not be coerced into backing away from its longstanding preference for double taxation agreements. (BN 12 Sep)
- A bewildering mountain of bureaucratic red tape is strangling Barbados' economic and social development. (BN 12 Sep)
- Suriname recently signed an agreement with China for investment in industry zones. Minister Don Tosendjojo of Trade and Industry says the project aims at creating special zones where large industries can settle. (die Ware Tijd 13 Sep)
- Three Jamaicans who are competing for US\$15,000 are semi-finalists in the Global Innovation through Science and Technology Tech-I competition. (JO 15 Sep)
- The Statistical Institute of Jamaica is reporting that the inflation rate for August was 1.1%, which is a point three percentage point decline when compared with July. (JG 16 Sep)

REGIONAL NEWS SUMMARY CONT'D

- Female entrepreneurs are finding it difficult to access financing to start up their businesses (BAdv 16 Sep)
- The GraceKennedy Group announced the acquisition of an additional 50% of the shares in St Lucian company, EC Global Insurance Company Limited, bringing its shareholdings to 80%. (Newsd 16 Sep)
- Red Stripe plans to train and employ 2,400 persons in cassava production over the next five years. (JO 17 Sep)
- Barbados is to get a share of \$2 billion in new investment that telecommunications company Cable & Wireless plans to spend. (BN 18 Sep)
- Scotiabank Trinidad and Tobago culminated its "diamond jubilee" celebrations with a grand affair at the Hyatt Regency (Trinidad) hotel in Port of Spain. (TE 18 Sep)
- Caribbean Tourism officials have been urged to ensure that tourism sector is run like a business. (Carib360 19 Sep)
- Chairman of the Telecommunications Services of Trinidad and Tobago, Everaldo Snaggs, said the loss the company suffered in the last financial year was because of the huge undertaking of a five-year strategic plan. (Newsd 19 Sep)
- Guyana's Minister of Finance, Dr. Ashni Singh; Minister of Amerindian Affairs, Pauline Sukhai, and UNDP Resident Representative, Khadija Musa, signed a \$1.3B agreement that will facilitate Phase II of the Low Carbon Development Strategy- Amerindian Development Fund Project. (KN 19 Sep)
- The film industry has the potential to make a significant contribution to the economic development of Barbados. (BAdv 19 Sep)
- Digicel has acquired majority ownership of International Media Content Limited, the parent company of regional sports broadcasting company, SportsMax, and North American broadcaster CEEN-TV (JG 19 Sep)
- The unemployment rate in Trinidad and Tobago increased slightly last year, the latest available data from the Central Statistical Office has shown. The rate increased marginally from 3.7% in the third quarter of 2013 to 3.8% in fourth quarter 2013. (TE 20 Sep)
- Calls are being made for the Bridgetown-based CARICOM Development Fund, set up in 2008 to assist disadvantaged countries, regions and sectors within the Caribbean Community, to adopt a regional rather than country-specific approach to financing. (BN 22 Sep)
- Representatives from 11 Caribbean countries have received training in the implementation of new technologies for cassava production, with the aim of improving competitiveness and promoting technological innovations and value added in cassava products. (JO 23 Sep)
- Jamaica can now access roughly US\$68.8 million in loan following a successful review of the economy by the Executive Board of the IMF. (JO 24 Sep)
- Guidance for accountants advising small and medium sized enterprises about establishing and operating carbon accounting, and the associated tax advantages, was recently published by the Association of Chartered Certified Accountants (TG 24 Sep)
- Local manufacturers must prepare for competition by developing quality products whether they are exporting or selling in the local market, Norris Hebert, deputy permanent secretary of the Ministry of Trade and Communications said yesterday. (TG 24 Sep)
- Tertiary Education and Skills Training Minister Fazal Karim has announced that his ministry is making \$6 million available to local entrepreneurs. (Newsd 25 Sep)
- In Jamaica, persons banking on loans to invest in commercial and productive enterprises are being forced to reform their approaches to prudent business practices (JG 25 Sep)
- The Tourism Linkages Hub is seeking to develop Jamaica's craft industry which, it says, has the potential to earn billions annually. (JO 25 Sep)
- The Caribbean Export Development Agency has awarded over US\$255,000 or €197, 000 in financial assistance to CARIFORUM agro-processing firms as part of the Regional Private Sector Development Programme funded by the European Union under the 10th European Development Fund (CNnow 25 Sep)
- Standard and Poor's has improved its outlook on Jamaica from stable to positive. (CNnow 25 Sep)
- For the first time in four years, the Central Bank of T&T has relaxed its accommodative monetary policy stance and has increased the repo rate by 25 basis points to three per cent. (TG 27 Sep)
- The National Commercial Bank of Jamaica Ltd is the most undervalued stock trading on the T&T Stock Exchange right now, First Citizens Research and Analytics said in its September Market Insights released to investors on September 19. (TG 28 Sep)
- Jamaica will be able to export mangoes to the US come January. The conditional approval, which was granted by the US Animal and Plant Health Inspection Service, opens up a US\$500 million market to local farmers. (JO 29 Sep)
- President Donald Ramotar has called on Guyanese living in the USA to return home and invest in the country's booming economy. (GuyTim 30 Sep)
- The Dominica government has introduced a new travel tax on visitors to raise funds for port upkeep. The EC\$27 entry tax and a EC\$5 security fee took effect on July 14, but was revealed in parliament a month later. (JG 30 Sep)
- Jamaica has reported that since signing an Extended Fund Facility with the IMF, the island has attracted in excess of a billion US dollars in investments (Carib360 30 Sep)
- Central Bank Governor Jwala Rambarran has called for more powers for the Office of the Financial Services Ombudsman. (Newsd 30 Sep)
- The Central Bank would like to see interest rates rise gradually, Governor Jwala Rambarran told reporters (TG 30 Sep)

SOME DIGITAL PUBLICATIONS OF INTEREST

THE NEW FRONTIER OF COMPETITIVENESS IN DEVELOPING COUNTRIES : IMPLEMENTING TRADE FACILITATION

Since the First Ministerial Conference in 1964, UNCTAD has aimed to "promote, within the United Nations family, arrangements for: (c) Inter-governmental action for research into improved marketing techniques, the organization of trade fairs, the dissemination of market intelligence and the simplification of formalities relating to Customs procedure, commercial travel, etc." UNCTAD's role in Trade facilitation is well detailed. The following report consolidates results from 26 national implementation plans (comprise of LDCs, middle income developing economies, landlocked countries, and small island economies in Africa, Asia, the Caribbean, and Latin America.) to help assess the progress thus far achieved in the implementation of the trade facilitation agreement (TFA) as negotiated at the WTO. The challenges remaining will be examined and addressed. The report is intended to serve as a guidance tool for trade facilitation policy makers at the national, regional, and multilateral levels in both developed and developing countries.

Available at:

http://unctad.org/en/PublicationsLibrary/dtlitlb2013d2_en.pdf

TRADE IN ENVIRONMENTAL GOODS AND SERVICES : OPPORTUNITIES AND CHALLENGES

The report provides an overview of environmental goods and services markets, intended for trade support institutions, business associations and firms in environmental goods and services sectors - discusses trends and factors underpinning growth in the global market for environmental goods and services; draws attention to the impact of increasing environmental awareness, regulation and enforcement; discusses international efforts to agree on environmental goods and services lists for trade negotiating purposes especially in APEC and the World Trade Organization (WTO); highlights the opportunities and challenges for small and medium-sized enterprises (SMEs) in developing countries; features a case study from the Philippines; and includes bibliographical references (pp 32 -35).

Available at:

<http://www10.iadb.org/intal/intalcdi/ExternoCarta.aspx?signatura=339.1%2520/%2520ITC-TRA%2520/%25202014>

46TH ANNUAL MONETARY STUDIES CONFERENCE

The 46th Annual Monetary Studies Conference will be hosted by the Central Bank of Trinidad and Tobago in Port-of-Spain, Trinidad and Tobago, 18 – 20 November , 2014. The theme of the conference is "Macro-Prudential Supervision, Financial Stability and Monetary Policy."

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