Saint Lucia

Debt Profile Review

Prepared by: Debt and Investment Management Unit

Department of Finance, Economic Affairs and Social Security

December 2015

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ACRONYMS

AGD	Accountant General Department
CCB	Caribbean Commercial Bank
CDB	Caribbean Development Bank
CS-DRMS	Commonwealth Secretariat Debt Recording Management System
DIU	Debt and Investment Unit
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ESF	Exogenous Shocks Facility
FAA	Finance Administration Act
GDP	Gross Domestic Product
NDU	National Development Unit
RGSM	Regional Government Securities Market
SLAPSA	Saint Lucia Air and Sea Authority
VAT	Value Added Tax

SECTION 1.0 EXECUTIVE SUMMARY

This report is compiled by the Debt and Investments Unit (DIU) of the Ministry of Finance and gives a comprehensive review of Saint Lucia's debt portfolio over the period 2011 to 2015. The report gives an overview of Saint Lucia's economy along with a detailed description of the composition of the debt management activities of the Government of Saint Lucia over the past five years.

The composition of the debt and the risks embedded in the portfolio form the core of this review. Details of debt holders by residency, creditor categories, instrument types, currency composition, maturity profile and types of risks are outlined in this report. Some of the risk indicators examined include the exchange rate, interest rate and re-financing (average time to maturity and average time to re fixing). In addition to examining the financing risks, the report also shows the maturity profile of the central government debt over the next decade.

The report concludes with a look at the main tenets of the Government's debt management strategy and some of the challenges faced in effectively undertaking the task of managing the public debt.

SECTION 2.0 OVERVIEW OF SAINT LUCIA'S ECONOMY

Saint Lucia has experienced weak economic growth over the last five years accentuated by the impact of the global crisis but more fundamentally reflecting the structural weaknesses of the economy. Real GDP growth over the period 2011 to 2015 averaged -0.6 percent as output fell in most sectors of the economy.

During the review period foreign direct investment, a primary source of financing for the construction sector and a major driver of economic growth in the past, has fallen significantly resulting in an average growth rate of -4.3 percent over the period 2011 to 2015. Declines in the manufacturing and distributive trade sectors over the last five years also contributed to this negative growth outurn over the review period. This negative outurn was however cushioned by positive growth rates in the real estate and hotel and restaurants sectors which recorded growth rates of 1.1 and 1.0 percent respectively.

Consistent with the weak economic performance, the rate of unemployment worsened from 20.6 percent in 2011 to 24.1 percent in 2015. Similarly the rate of inflation as measured by the 12 month moving average stood at an average of 2.2 percent over the period 2011 to 2015.

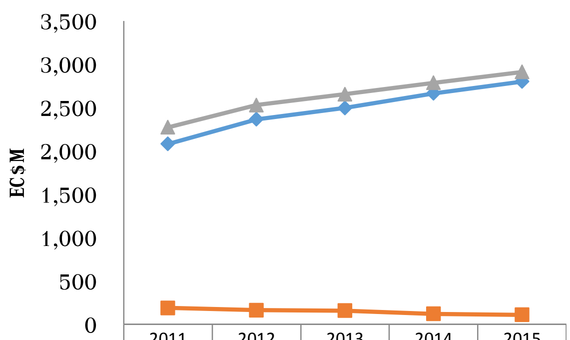
Although the fiscal deficit has been reduced from 6.5 percent of GDP in 2011/12 to an estimated 3.1 percent in 2015/16, the fiscal situation still remains precarious. With revenues already averaging 26.1 percent of GDP, there is little scope to further increase revenues. However with Saint Lucia's debt to GDP ratio approaching 80 percent, there is little fiscal space for the government to use active fiscal policy to manage the economic cycles given that interest payments continue to increase reflective of higher debt levels. Interest payments at the end of 2015/16 stood at 4.3 percent of GDP.

Over the period, the financial sector continued to face several challenges including declines in commercial bank credit to the private sector, high non-performing loans and threats of loss of international correspondence banking relationships. Despite a reduction in the minimum savings deposit rates from 3.0 percent to 2.0 percent, commercial bank credit to the private sector continued to fall, declining by 6.8 percent in 2015. In particular credit to businesses plummeted by 13.9 percent as commercial banks continued to maintain tight lending standards in response to the high default rate on loans. Monetary liabilities expanded at an accelerated rate of 5.8 percent mainly influenced by increases in foreign currency deposits. Liquidity continued to ease as deposits accelerated while lending fell.

SECTION 3.0 PUBLIC DEBT STRUCTURE AND RATIOS

3.1 Total Public Debt

Figure 1: Total Public Sector Debt

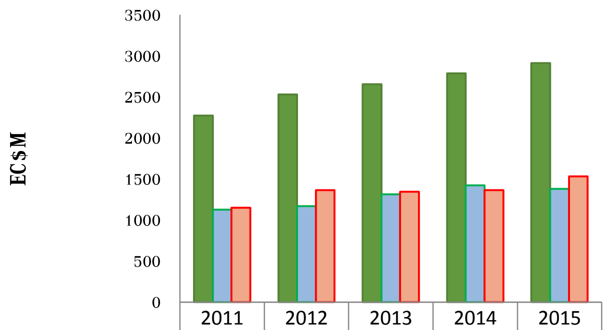


	2011	2012	2013	2014	2015
Central Government	2082.80	2366.80	2497.50	2665.61	2802.23
Public Corporations	190.30	164.40	158.60	121.99	110.64
Total Debt	2273.10	2531.20	2656.10	2787.61	2912.87

As at end of 2015, the total public sector debt stood at $2,912.9 million. During the period under review 2011-2015, the total public sector debt increased at an average of 7.47 percent with central government debt increasing on average at 8.94 percent while total public corporation debt decreased at an average of 11.28 percent. (Figure 1). This increased trend in total public sector debt is evident as a result of increased new borrowings by the Government to finance the budget deficits during the period. Government guaranteed debt averaged about EC$32.2 million over the review period while non-guaranteed debt averaged EC$56.1 million. Total public Corporation debt reflects a gradual decline in both the government guaranteed and non-guaranteed debt over the review period, due mainly to payments made to the existing debts.

3.2 Public Sector Debt Composition

Figure 2: Total Debt by Holder Residence

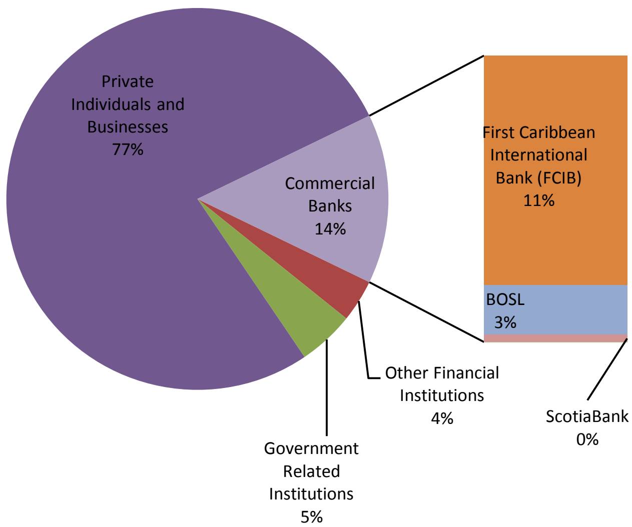


	2011	2012	2013	2014	2015
Total Debt	2273.12	2531.20	2656.10	2787.61	2912.87
External Debt	1124.42	1167.30	1313.00	1422.05	1380.13
Domestic Debt	1148.70	1363.90	1343.10	1365.55	1532.74

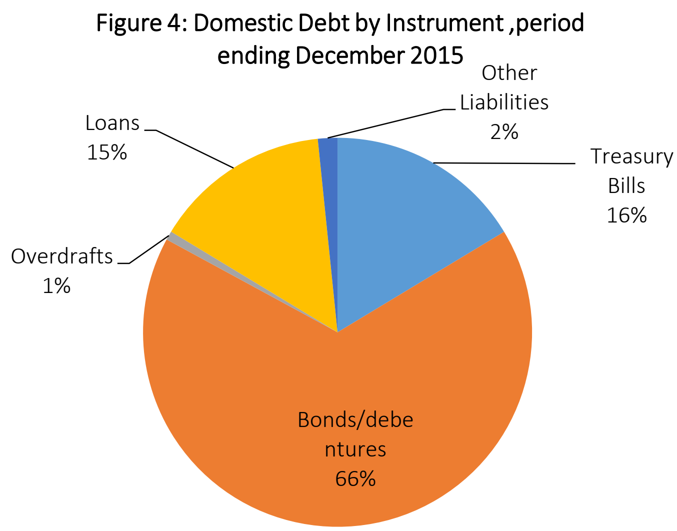
For the period under review (2011 to 2015), total domestic debt grew on average by 9.83 percent while external debt increased at 5.48 percent. Central government debt continues to be a key factor in the overall growth of the total public sector debt influenced by an average increase of 8.94 percent. (Figure 2). Domestic debt have increased over the review period due primarily to increase in Government treasury bills while the rate of growth in external debt have shown signs of slower growth.

Domestic Debt

Figure 3: Domestic Debt by Creditor for period ending December, 2015



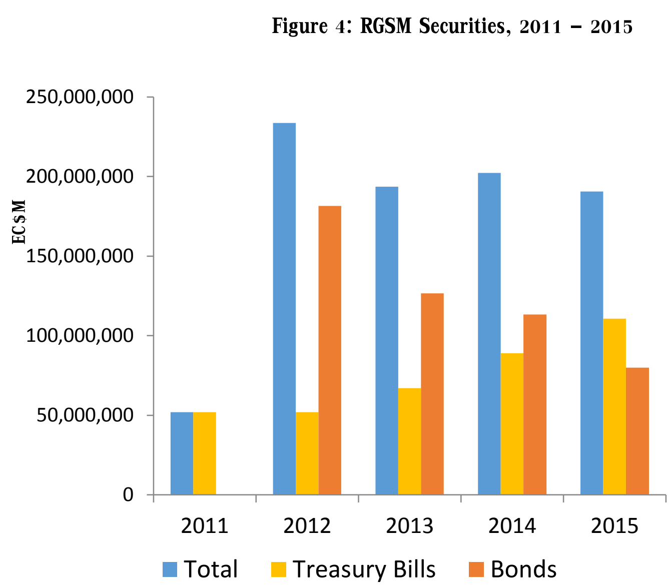
The largest portion of the domestic government debt is held by private individuals and businesses within the local economy (See Figure 3). This is followed by commercial banks of which First Citizens International Banks (FCIB) is the largest holder (80.0 percent). The domestic debt by instrument for the period ending December 2015, consists largely of treasury



bonds and notes at 66 percent followed by 16 percent of treasury bills. Loans make up 15 percent of the total domestic debt. See figure 4.

RGSM

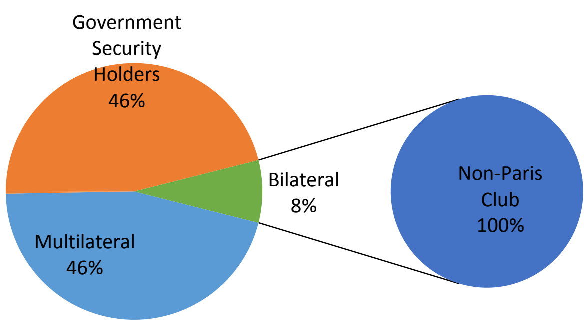
For the period under review, total RGSM issued instruments picked in 2012 after the issuance of a government EC$140.0M amortized bond. Activity on the RGSM have since seen gradual increases in the treasury bill instrument category, moving from EC52.0 million in 2011 to EC110.7 million in 2015. Issuance of Bonds and Notes issued on the RGSM have shown a gradual decline from 2012 to 2015 with the total amount of bonds and notes outstanding being EC$79.9 million in 2015 from EC$181.6 million in 2012. The repayment of the amortized bonds and the decline in market appetite for Government longer term



instruments have contributed to this decline.

External Debt

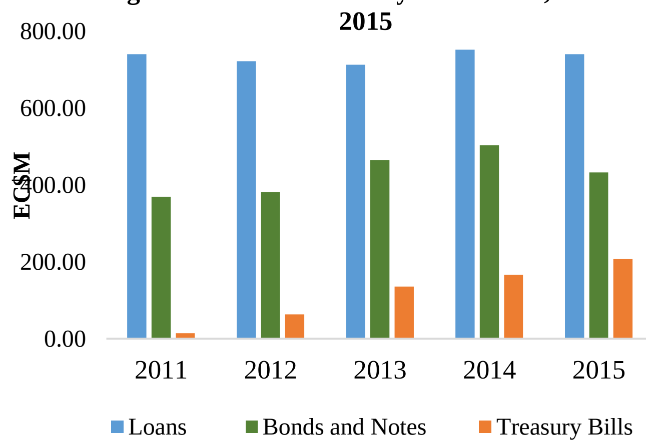
Figure 5: External Debt by Creditor category, ending December 2015



For the review period, change in external debt stock have fluctuated moving from 5.74 percent in 2011 to a peak of 12.48% in 2013, subsequently declining to a negative 2.95 percent at period ending 2015. Changes in the total external debt stock is largely influenced by payments to outstanding debts and increases in the holdings of government instruments by external holders. Of the total outstanding at period ending December 2015, external debt 46 percent are from multilateral sources such as the CDB and World Bank and the same percent are government security holders. The Bilateral creditors make up 8 percent of the total external debt, all of which are Non-Paris club debt.

From Figure 6, it can be seen that changes in the levels of loans outstanding has been negligible over the review period, with an average decline of 0.26 percent. Bonds and Notes have increased on average of 10.0 percent while treasury bills continue to climb on average of 81.0 percent. This significant average increase in the

Figure 6: External Debt by Instrument, 2011 - 2015

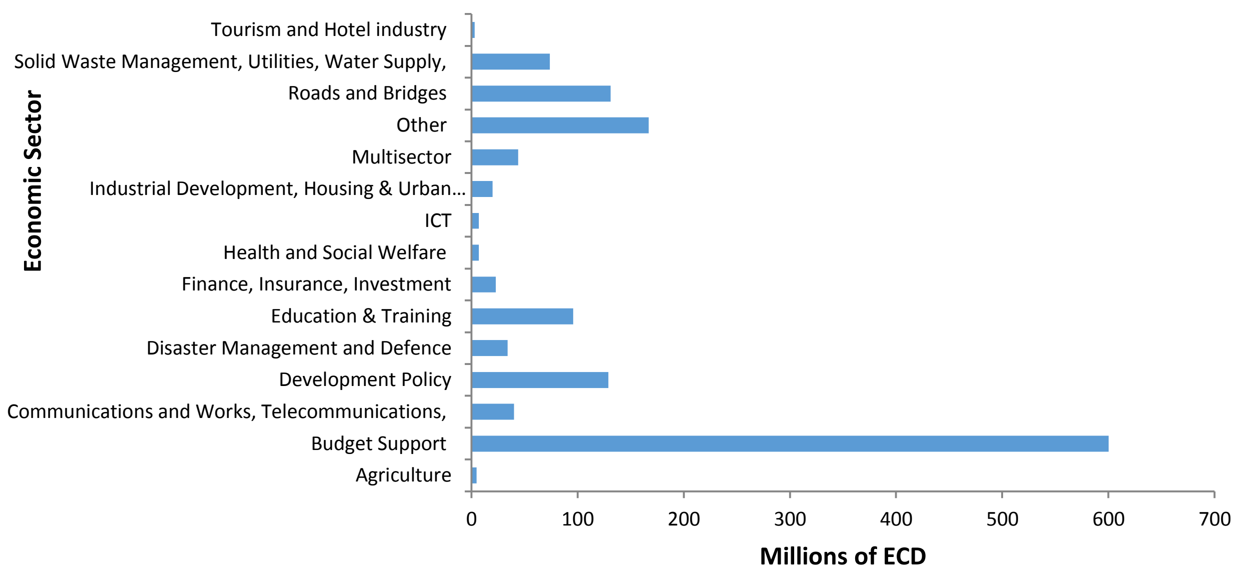


external debt was influenced by the stock of treasury bills owed to external holders moving from 14.0 million in 2011 to 63.7 million in 2012. Total treasury bills increased at an average of 33.8 percent over the five year period.

3.3 Public Debt by Economic Sector

As at end of December 2015, the largest share of external public sector debt went to finance budget support through the Ministry of Finance, Economic Affairs, Planning and Social Security. The other sectors contributing to the external debt were the Development Policy, by the implementation of the Policy Based Loan facility and Roads and Bridges through the Hurricane Tomas rehabilitation and reconstruction loans from multilateral creditors. Education and Training sector contributes EC96.0 million to the total debt stock. (See Figure 7)

Figure 7: External Debt by Economic Sector, ending December 2015



3.4 New Borrowings and Debt Service Payments

3.4.1 New Borrowings

For the financial year 2015/2016, total new borrowing was $317.7 million of which $51.6 million represents loans, $138.0 million in bonds and $128.0 million in treasury bills. The drawdown on loans were from the CDB and the World Bank for which funds were used to facilitate the completion of on-going projects such as the Basic Education Enhancement Project, the Disaster Vulnerability Reduction Project (DVRP), and the Caribbean Regional Communications Infrastructure Program (CARCIP). Borrowings from domestic creditors totaled EC$12.9 million representing disbursement for a demand loan and the partitioning of the Point Seraphine Financial Complex.

Of the $138.0 million bonds and notes issued, EC$58.2 million was used for non-budget financing to acquire property in various parts of the island. The remaining $79.4 million raised was issued through private placements using the brokerage services of First Citizens Investment Services and the ECFH Global Investments Solutions Ltd. It is worth noting that of the new issues of bonds raised $42.9 million had tenors of over 5 years. New Treasury bill issues totaled $128.0 million of which $9.7 million was raised on the RGSM and $118.3 million through private placement

3.4.2 Debt Service Payments

Table 1: Debt Service Payments

	2011	**2012**	**2013**	**2014**	**2015**
Total Debt Service	191.90	218.00	197.80	213.69	254.75
External Debt Service	113.60	118.60	99.30	99.95	127.90
Principal Repayments	71.90	69.20	50.10	46.50	76.18
Interest Payments	41.70	49.40	49.20	53.45	51.71
Domestic Debt Service	78.30	99.40	98.50	113.75	126.86

Principal Repayments	19.90	24.30	13.50	20.09	29.35
Interest Payments	58.40	75.10	85.00	93.66	97.51

Over the period 2011 to 2015, total debt service payments increased on average by 7.7 percent. Domestic debt service payments expanded by an average of 15.1 percent while the external payments increased by 3.1 percent on average. The share of domestic debt service to total debt service gradually increased from 40.8 percent in 2011 to 49.8 percent in 2015, due to greater reliance on domestic creditors. The trend was reverse for external debt service where the share as a percentage of total debt service gradual decline from 59.2 percent in 2011 to 50.2 percent in 2014. Total interest payments have increased steadily over the period coinciding with increase outstanding debts.

Table 2: Debt Service Payments by Creditor Category (EC$M)

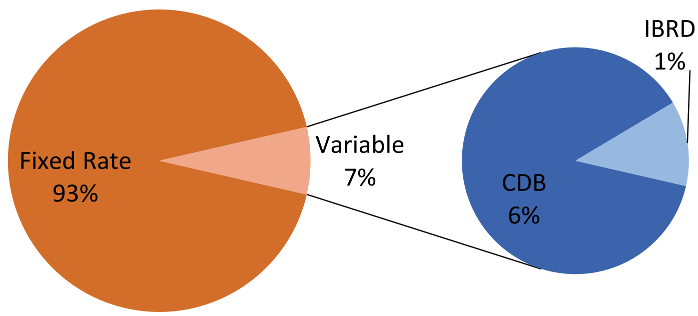
Creditor Category	**2015**
Multilateral	**51.0319**
Principal	38.7566
Interest	12.2753
Bilateral	**11.841**
Paris Club	***0***
Principal	0
Interest	0
Non-Paris Club	***11.841***
Principal	7.9985
Interest	3.8425
Commercial	**23.2654**
Principal	10.4707
Interest	12.7947
Other	**168.5863**
Principal	48.5974
Interest	119.9889
Total	**254.7246**
Principal	105.8232
Interest	148.9014

Table 2 shows the debt service payments by creditor category at the period ending December 2015. From the table, it can be seen that the largest amount of debt service payments was made to investors in government instruments categorized as "Other" and accounted for 66 percent or $168.6 million of total debt service. 71 percent of the payment constituted interest payments to instrument holders. The multilateral category which comprises the Caribbean Development Bank (CDB) and World Bank (WB) formed the second largest creditor category for central government debt service payments.

3.5 Risk Analysis

3.5.1 Interest Rate Composition and Risk

Figure 7: Total Debt by Interest Rate Composition for period ending December 2015



As at December 2015, the interest rate risk embedded in the existing portfolio continues to be minimum. Fixed interest rate debt account for 93 percent or $2,709.5 million of total debt. The remaining 7 percent is subject to interest rate changes every six-months and therefore likely interest rate risk. Those debt are held by CDB and IBRD.

Average Time to Re-fixing (ATR) – the average time to re-fixing is a measure of the weighted average time until all principal payments in the debt portfolio become subject to a new interest rate. The ATR as at December 2015 was 3.3 years compared to 5.1 in 2014. This shortening of the average time for the re-fixing of variable interest rate debt in the portfolio indicates that in the event of an adverse change in the market interest rates, the portfolio is on average facing a new interest rate more frequently and is therefore more exposed to refixing.

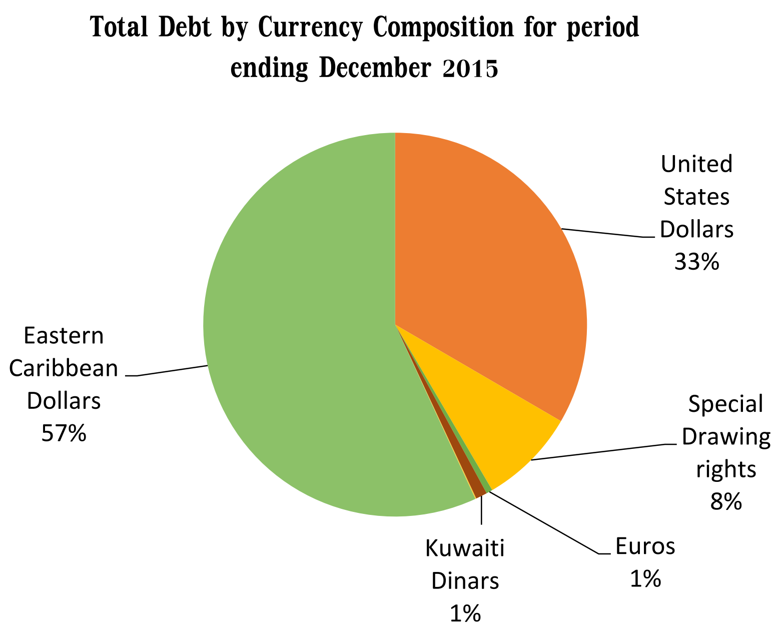
Weighted Average Cost of Debt – The weighted average cost of debt (WACD) remained relatively stable in 2015. Over the review period it averaged 5.28%.

As at December 2015, there was a slight decrease in the cost of debt for each category of instrument. (Table 3) The average cost of bonds is trending downward due to the decrease in the amount of bonds being issued. High demand for treasury bills issues have contributed to the gradual decline in the average cost of Treasury Bills.

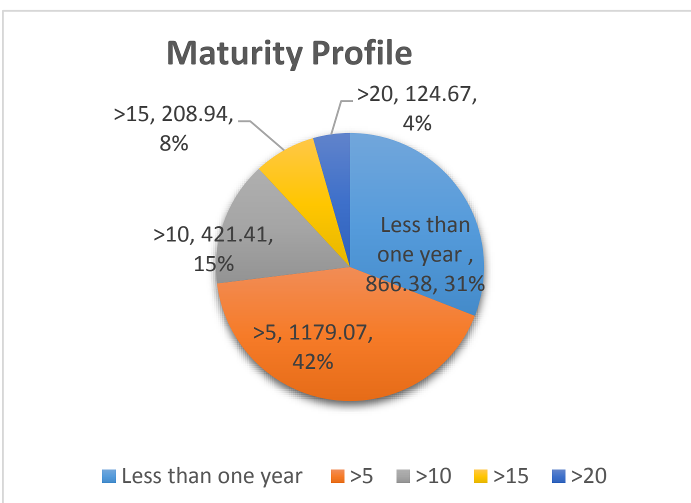
Table 3: Weighted Average Cost of Debt					
	2011	**2012**	**2013**	**2014**	**2015**
Bonds	7.26%	7.00%	7.03%	7.07%	6.81%
Loans	2.79%	3.46%	3.12%	3.16%	3.10%
Treasury Bills	5.45%	5.05%	4.80%	4.93%	4.55%
WACD	5.48%	5.50%	5.49%	5.52%	5.28%

3.5.2 Currency Composition and Risk

Like the interest rate risk, the foreign exchange risk inherent in the portfolio is at a minimum since 57 percent of the total debt is denominated in local currency, followed by 33 percent in US dollar (to which the EC dollar is pegged). Accordingly, the debt portfolio is relatively buffered from related currency risk. The exposure of the portfolio to foreign currency risk comes from the Kuwait Dinar, Euro, and the Special Drawing Rights. A weakening of the US dollar against these currencies can pose significant risks, given the concurrent increase in debt service payments



3.5.3 Maturity Profile

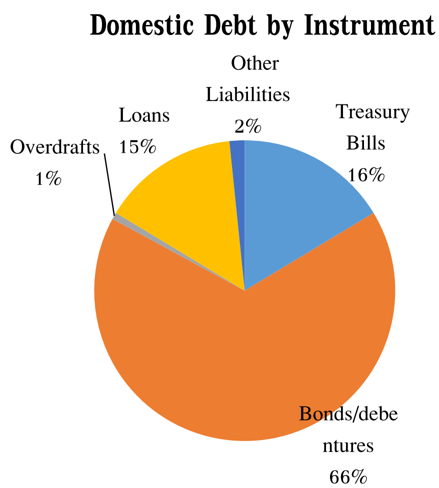


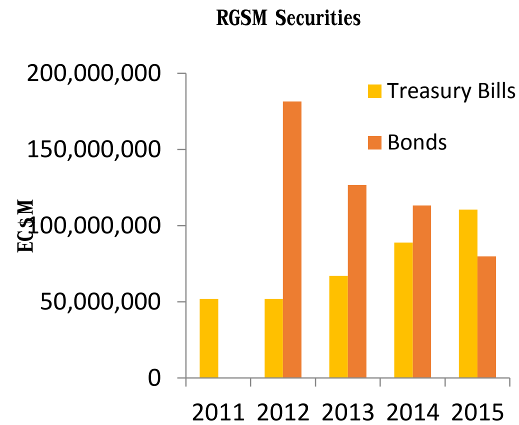
The maturity profile of the Central Government debt is skewed to the medium term with 42 percent or $1,179.0 million of the debt maturing within five years or less. The debt maturing in one year or less amounts to 31.0 percent or $866.4 million whilst 15.0 percent matures between five to ten years and 12.0 percent over ten years. Given the above profile, St Lucia's refinancing risk continues to be high as the total amount of treasury bills increased by $128.0 million within the year.

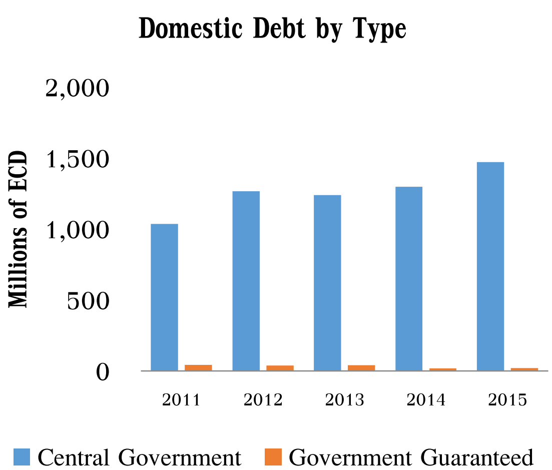
Average Time to Maturity (ATM) - the average time to maturity (ATM) of a debt portfolio is an indicator of the weighted average time to maturity of all principal repayments in the portfolio. It shows on average how long it takes to rollover the debt portfolio. As at December 2015, the ATM for the central government debt portfolio stood at 4.74 years from 5.2 years of 2014. By lengthening the ATM, this eases the cash flow pressure which is placed on the government for meeting short term obligations.

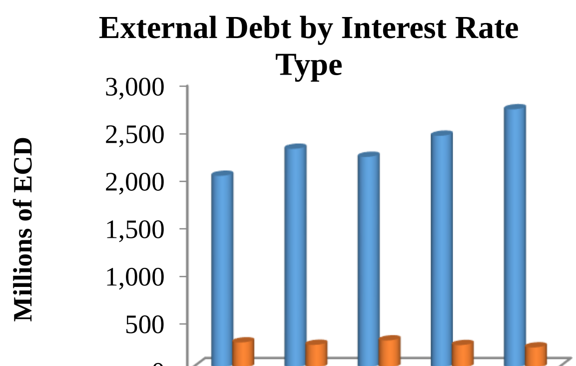
APPENDIX

Charts and Tables depicting Central Government Debt

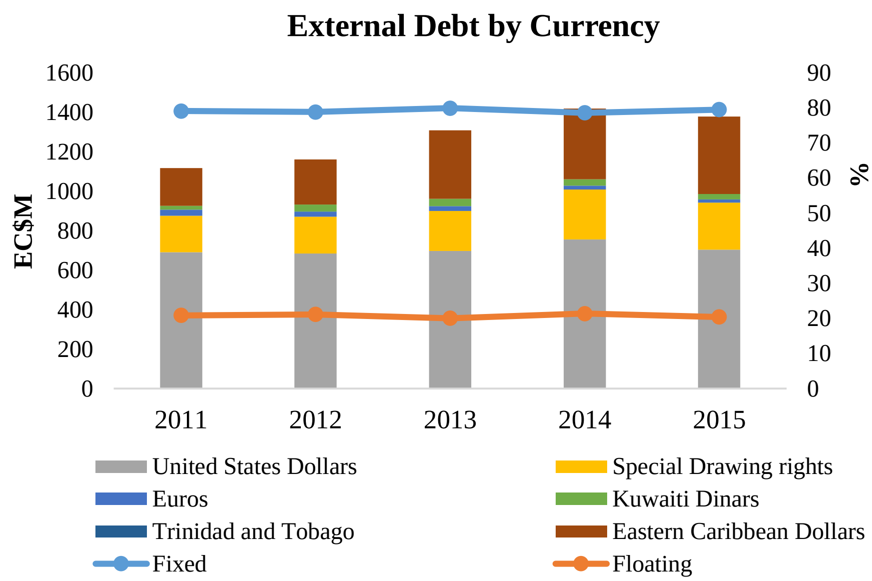


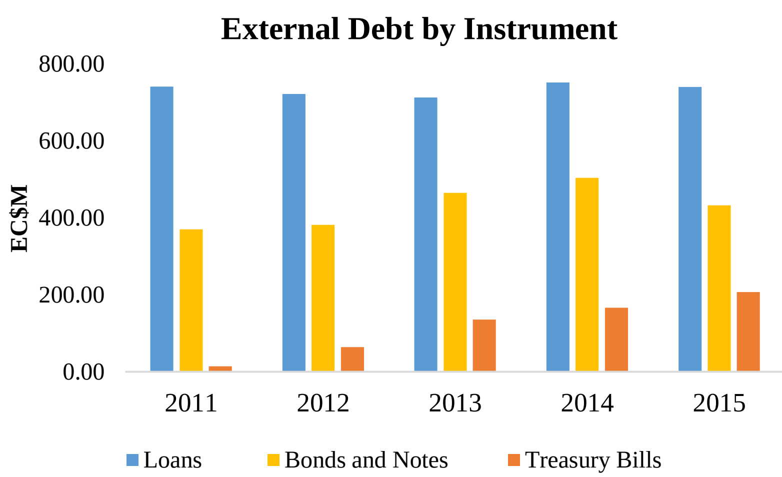






	2011	2012	2013	2014	2015
Fixed Rate	2011.24	2294.76	2210.00	2431.66	2709.51
Variable Rate	261.96	236.49	282.94	233.94	209.38


External Debt by Currency
1600
1400
1200
1000
800
600
400
200
0
EC$M
90
80
70
60
50
40
30
20
10
0
%
2011
2012
2013
2014
2015
United States Dollars
Special Drawing rights
Euros
Kuwaiti Dinars
Trinidad and Tobago
Eastern Caribbean Dollars
Fixed
Floating


External Debt by Instrument
800.00
600.00
400.00
200.00
0.00
EC$M
2011
2012
2013
2014
2015
Loans
Bonds and Notes
Treasury Bills

Debt Sustainability Indicators

Debt Sustainability Indicators	**2011**	**2012**	**2013**	**2014**	**2015**
	(In Percentage Unless Otherwise Indicated)				
Total Debt to GDP (in per cent)	65.74	72.18	74.64	74.48	75.38
Debt Service Ratio (in per cent)	23.50	26.74	22.89	23.60	26.86
External Debt Service Ratio (in per cent)	13.91	14.55	11.49	11.04	13.48
Domestic Debt Service Ratio (in per cent)	9.59	12.19	11.40	12.56	13.37
External Debt to exports (in per cent)	471.5523	615.5313	629.9835	681.1585	558.1469
Short term debt to total debt (in per cent)	10.29	8.24	5.35	5.00	8.61

Fiscal and Real Sector Indicators	**2011**	**2012**	**2013**	**2014**	**2015**
	(In Millions of ECD Unless Otherwise Indicated)				
Total Revenue and Grants	895.1744	869.8864	925.4708	968.8668	1021.082
Current Revenue	816.4845	815.2002	863.9899	905.376	948.5212
Total Expenditure	1101.773	1169.123	1169.725	1117.666	1206.02
Current Expenditure	758.3818	836.6749	872.0282	868.2535	916.5097
Current Account Balance	58.10275	-21.4747	-8.0383	37.12243	32.01149
Primary Balance	-106.499	-199.137	-144.154	-48.6989	-84.8381
Overall Balance	-206.599	-299.237	-244.254	-148.799	-184.938
Memo items					
Nominal GDP at Market Prices (EC$M)	3,457.68	3,506.80	3,558.74	3,742.71	3,864.07
Merchandise Exports (EC$M)	238.45	189.64	208.42	208.77	247.27
Merchandise Imports (EC$M)	1,889.10	1,813.85	1,675.93	1,574.63	1,539.08
Real GDP (%)	0.01	(0.01)	(0.02)	(0.01)	0.01
Average Interest Rate (%)	5.48	5.50	5.49	5.52	5.28