Saint Lucia

Debt Profile Review

Prepared by: Debt and Investment Management Unit

Department of Finance, Economic Affairs and Social Security

December 2016

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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 2012 to 2016. The report gives an overview of Saint Lucia's economy along with a detailed description of the composition of the debt management activities 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

Preliminary data suggest that economic activity in Saint Lucia expanded slightly in 2016 relative to 2015. The primary factors contributing to this positive growth forecast were positive developments in the construction, distributive trade and agriculture sectors. Tempering this development were negative growth outturn for hotel and restaurants, transport and manufacturing sectors. The decline in hotel and restaurant activity is predicated on lower cruise and stagnant stay-over arrival growth. Cruise arrivals in 2016 fell by 13.2 per cent to 587,749 while the number of stay over arrivals grew by 0.9 percent to 347,872 during the same period.

All major agricultural subcomponents grew during the year except banana exports to the UK and the region which fell by 0.9 percent. This however was offset by increased output in all sub-components of livestock production. With regard to the construction sector increased expenditures relating to the construction of the Royalton, Habour Club Resort and Courts/Unicomer contributed to positive economic activity in the construction sector. Further supporting this outurn was the 8.6 per cent growth in the value of construction related imports during 2016 compared to 2015. The positive outturn in the distributive trade sector is supported by a 6.4 percent growth in the value of imports in 2016 compared to 2015.

The reduction in the transport sector is consistent with indicators which suggest lower activity in two sub-components namely sea and air transport. Sea transport which is proxied by developments in containerized cargo decline by 13.4 percent in the volume of cargo tonnage loaded and unloaded during the year while road transport contracted in line with reduced cruise passengers.

Inflation and Unemployment

Data for 2016 shows that the price level in Saint Lucia fell by 3.1 per cent during 2016 relative to the comparable 2015 period. This episode of deflation is being driven primarily by lower prices of food and non-alcoholic beverages and housing, electricity, gas and other fuels. Tempering the fall in the price level were increased cost of alcoholic beverages and clothing and footwear products. The fall in foods prices was driven by lower prices of fruits and meats while lower prices of fuel at the pump drove developments in the electricity, gas and other fuels category.

The rate of unemployment in 2016 fell to 21.6 percent compared to 24.1 percent in 2015. Unemployment among females remained higher in 2016 at 24.0 percent compared to male unemployment at 19.4 percent. The rate of youth unemployment was higher in 2016 at 43.1 percent compared to 2015 where youth unemployment was 41.1 percent.

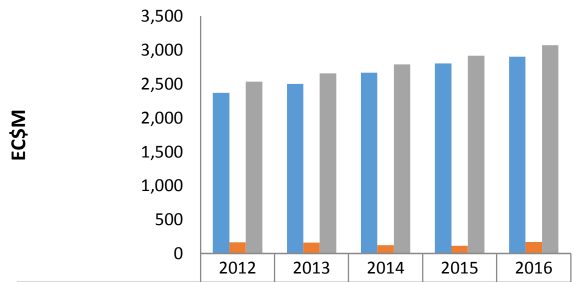
Fiscal Operations of Central Government

Preliminary estimates suggests that fiscal balances of central government will deteriorate in 2016/17 relative to fiscal year 2015/16. The overall deficit is expected to increase approximately -3.8 per cent of GDP at the end of fiscal year 2016/17 from -2.6 a year ago. A lower primary surplus, 1.0 per cent of GDP is expected relative to a 1.5 per cent of GDP surplus in 2015/16. These developments are consistent with expectations of a 3.7 per cent increase in capital outlays to $242.9m, a 6.4 percent growth in current expenditures to $959.4m and 2.0 per cent total revenue growth to $1,056.1m. Contributing factors to the growth of recurrent expenditures include higher levels of wages and salaries and interest payments while revenue growth is forecasted to be influenced by higher receipts of taxes on international trade.

SECTION 3.0 PUBLIC DEBT STRUCTURE AND RATIOS

3.1 Total Public Debt

Figure 1: Total Public Sector Debt



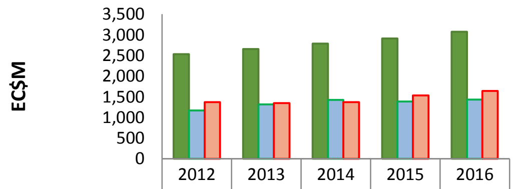
	2012	2013	2014	2015	2016
Central Government	2,366.80	2,497.50	2,665.61	2,802.23	2,902.23
Public Corporations	164.40	158.60	121.99	110.64	169.19
Total Debt	2,531.20	2,656.10	2,787.61	2,912.87	3,071.42

As at end of 2016, the total public sector debt stood at $3,071.42 million an increase of 5.44 percent over last year. During the period under review 2012-2016, the total public sector debt increased at an average of 6.24 percent with central government debt increasing on average at 6.94 percent while total public corporation debt changed by an average of 0.68 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$99.09 million over the review period while non-guaranteed debt averaged EC$46.64 million. Total public corporation debt reflects a gradual decline in the government non-guaranteed debt while the government guaranteed debt has shown a gradual increase over the review period. Debt owed to the National Insurance Corporation (NIC) continued to climb during the review period, particularly from key statutory corporations such as Saint Lucia National Housing Corporation (SLNHC), Saint Lucia Development Bank (SLDB), and Saint Lucia Air and Sea Ports Authority (SLASPA). From this current year, these liabilities have been added to the government guaranteed debt category and as a result we have seen a significant increase in the debt owed by public corporation category from $110.64 million in 2015 to $169.19 in 2016. The Debt and Investments Unit will continue to provide closer monitoring and publish reports on the guaranteed debt of the government.

3.2 Public Sector Debt Composition

Domestic Debt

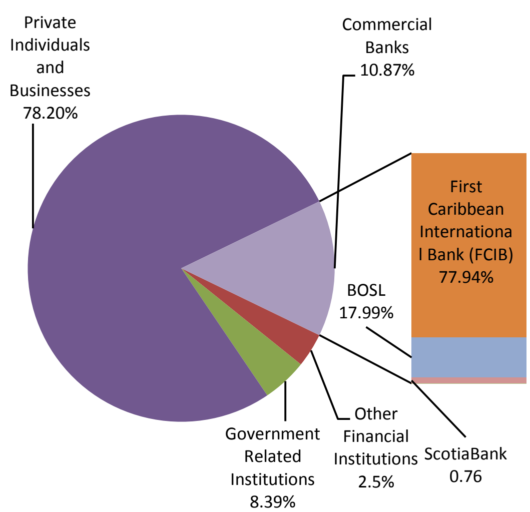
Figure 2: Total Debt by Holder Residence



	2012	2013	2014	2015	2016
Total Debt	2,531.2	2,656.1	2,787.6	2,912.8	3,071.4
External Debt	1,167.3	1,313.0	1,422.0	1,380.1	1,428.8
Domestic Debt	1,363.9	1,343.1	1,365.5	1,532.7	1,642.5

Domestic Debt may be defined as liability owed to the local residents of a country by the sovereign. For the period under review, total domestic debt averaged EC$1,449.58 million and grew on average by 9.83 percent while external debt increased at 7.66 percent. Central government debt continues to be a key factor in the overall growth of the total domestic sector debt. (Figure 2). Domestic debt have increased over the review period due primarily to increases in the issuance of government treasury bills while the rate of growth in external debt have shown signs of slower growth.

Figure 3: Domestic Debt by Creditor for period ending December, 2016



The largest portion of the domestic debt is held by private individuals and businesses within the local economy (See Figure 3). This is followed by commercial banks of which First Caribbean International Banks (FCIB) is the largest holder (77.9 percent). Other financial institutions constitutes non-bank financial institutions and investment companies. Government related institutions constitute the like of the National Insurance Corporation (NIC) and Statutory Corporations.

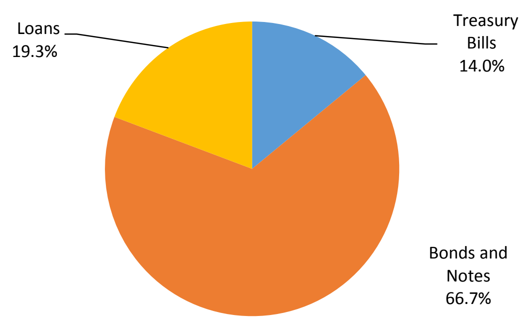
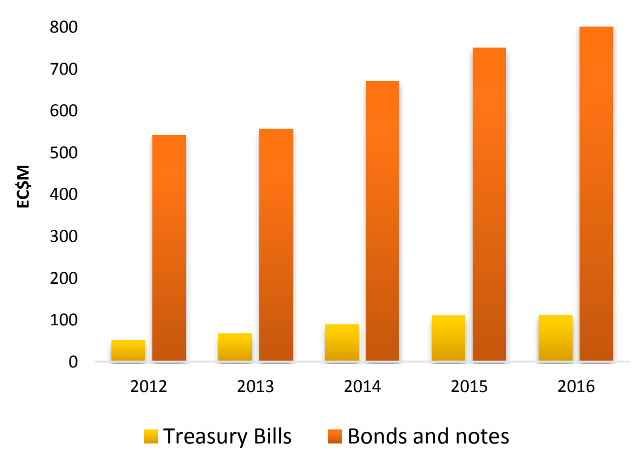


Figure 4 shows the composition of the domestic debt by instruments for the period ending December 2016. This consists largely of bonds and notes with a weighting of 66.7 percent followed by loans which make up 19.3 percent and treasury bills of 14.0 percent. Over the review period, the rate of change in the bonds and notes held by domestic investors have increased continually from 5.0 percent in 2013 to 7.4 percent in 2016.

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 EC$52.0 million in 2011 to EC$112.0 million in 2016. Issuance of new bonds and notes on the RGSM have shown a gradual decline from 2012 to 2016. While the total amount of bonds and notes outstanding have increased from EC$540.8 million in 2012 to EC$810.7 million

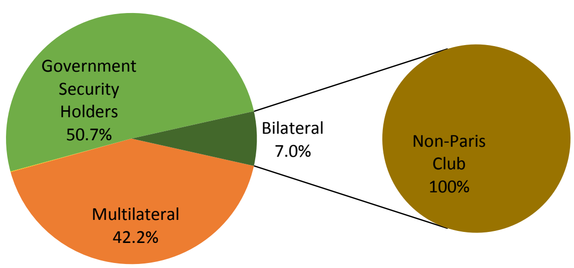


in 2016[1], the rate of growth has decreased particularly over the last three years. The decline in market appetite for Government longer term instruments over the review period have contributed to this decline in growth.

External Debt

For the review period, change in external debt stock have fluctuated moving from 3.81 percent in 2012 to a peak of 12.5 percent in 2013 and subsequently declining to 3.53 percent at period ending 2016. 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 2016, the largest share of external debt (50.7 percent) is held by investors in government securities. Multilateral sources such as the CDB and World Bank account for 42.0 percent followed by the bilateral creditors which make up 7.0 percent of the total external debt, all of which are Non-Paris club debt. The Paris Club (French: Club de Paris) is a group of officials from major creditor

Figure 6: External Debt by Creditor as at December 2016

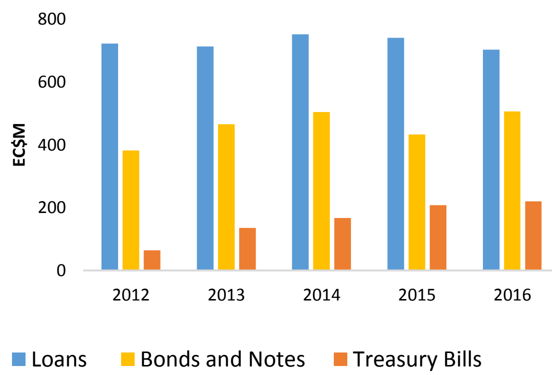


[1] Based on original maturity

countries whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.[2]

From Figure 6, it can be seen that the level of loans outstanding has gradually declined from ECD751.8 million in 2013 to ECD702.9 million in 2016. External Bonds and Notes holders have increased within the last calendar year, by 16.9 percent, after a decline in year end 2015 by 14.1 percent. The rate of growth in external treasury bills outstanding have declined significantly from 12.24 percent in 2015 to 7.17 percent in 2016. This is attributed to the strategic move of the government to decrease the stock of treasury bills in the portfolio.

Figure 6: External Debt by Instrument

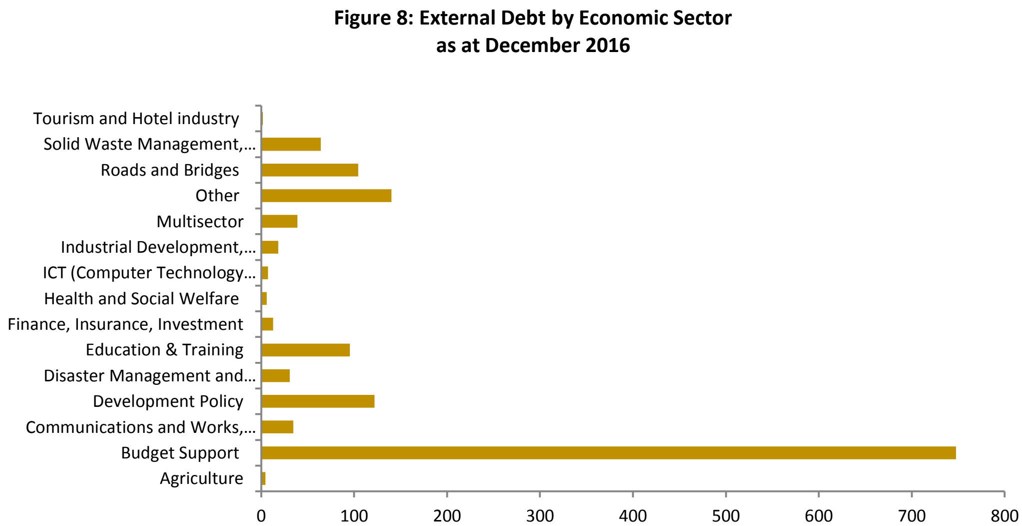


3.3 Public Debt by Economic Sector

As at end of December 2016, the largest share of external public sector debt went to finance budget support through the Ministry of Finance, Economic Growth, Job Creation, External Affairs and the Public Service. 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

[2] https://en.wikipedia.org/wiki/Paris_Club

creditors. Education and Training sector contributes EC95.3 million to the total debt stock. (See Figure 8)



3.4 New Borrowings and Debt Service Payments

3.4.1 New Borrowings[3]

For the financial year 2016/2017, budgeted new funding totaled $249.3 million. The breakdown of the funding components are shown below:

Table 1: Fund Raising 2016/2017			
Funding Component	**Budgeted Amounts (Million)**	**Actual (Million)**	**Variances**
Treasury Bills	$78.50	$25.60	-$52.90
Bonds	$96.60	$139.80	-$43.20
Loans	$74.20	$24.33	$49.87
Total	$249.30	$182.60	-$66.70

[3] Information on New Borrowings are reported on a fiscal year basis.

Bond funding surpassed the budgeted amount because of the need to lengthen the average time to maturity of the debt portfolio. Similarly, new issues of treasury bills have been below budget because of the strategic move of the government to lengthen the maturity profile of the debt portfolio. The drawdown on loans totaled $17.2 million and were from the CDB and the IDA. Those funds were used to facilitate the completion of on-going projects such as the Basic Education Enhancement Project, the Sixth water Supply Project- Vieux Fort Water Supply Redevelopment, Settlement Upgrade Project, and the Disaster Vulnerability Reduction Project (DVRP). There were no disbursements on domestic loans for the year 2016.

3.4.2 Debt Service Payments

Table 2: Central Government Debt Service Payments

Debt Service Payments	**2012**	**2013**	**2014**	**2015**	**2016**
Total Debt Service	218.00	197.80	213.69	254.75	274.69
External Debt Service	118.60	99.30	99.95	127.90	129.34
Principal Repayments	69.20	50.10	46.50	76.18	74.07
Interest Payments	49.40	49.20	53.45	51.71	55.27
Domestic Debt Service	99.40	98.50	113.75	126.86	145.34
Principal Repayments	24.30	13.50	20.09	29.35	42.56
Interest Payments	75.10	85.00	93.66	97.51	102.79

Over the period 2012 to 2016, total debt service payments increased on average by 7.8 percent. Domestic debt service payments expanded by an average of 15.1 percent while the external payments increased by 4.5 percent on average. The share of domestic debt service to total debt service gradually increased from 45.6 percent in 2012 to 52.9 percent in 2016, 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 54.4 percent in 2012 to 47.1 percent in 2016. Total interest payments have increased steadily over the period coinciding with increase outstanding debts.

Table 2 shows the debt service payments by creditor category at the period ending December 2016. 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 $183.0 million of total debt service. EC$122.4 million of the payment constituted interest payments to security 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 followed by the payments to Commercial Banks.

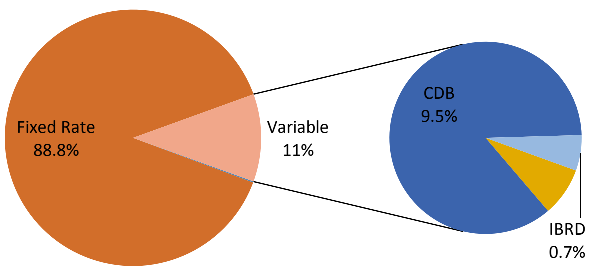
Table 3: Debt Service Payments by Creditor Category (EC$M)

Creditor Category	2016
Multilateral	**62.22**
Principal	50.80
Interest	11.43
Bilateral	**6.95**
Paris Club	0.00
Principal	0.00
Interest	0.00
Non-Paris Club	**6.95**
Principal	5.31
Interest	1.64
Commercial	**22.61**
Principal	13.65
Interest	8.96
Other	**183.01**
Principal	60.63
Interest	122.38
Total	**274.80**
Principal	130.39
Interest	144.40

3.5 Risk Analysis

3.5.1 Interest Rate Composition and Risk

Figure 9: Total Debt by Interest Rate Composition for period ending December 2016



As at December 2016, the interest rate risk embedded in the existing portfolio continues to be minimum. Fixed interest rate debt account for 89 percent or $2,641.0 million of total debt. The remaining 10 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 2016 was 4.8 years compared to 3.3 in 2015. This lengthening 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 less frequently and is therefore less exposed to refixing.

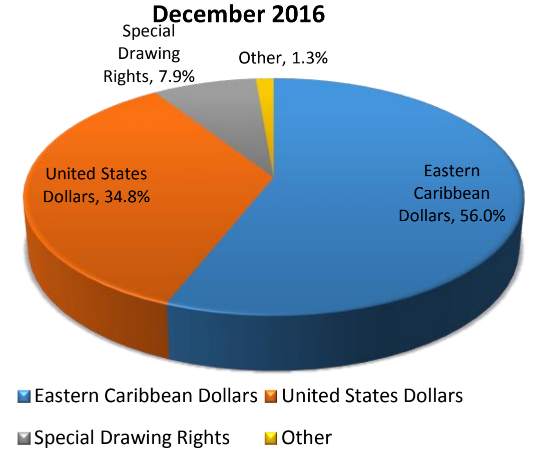
Weighted Average Cost of Debt – The weighted average cost of debt (WACD) remained relatively stable at an average cost of 5.4 percent as at December 2016. There was a slight decrease in the cost of debt for each category of instrument. (Table 4) The average cost of bonds have remained relatively flat over the last two periods. High demand for treasury bill issues have contributed to the gradual decline in the average cost of treasury bills particularly for issues traded on the RGSM.

Table 4: Weighted Average Cost of Debt					
	2012	**2013**	**2014**	**2015**	**2016**
Bonds	7.00%	7.03%	7.07%	6.81%	6.82%
Loans	3.46%	3.12%	3.16%	3.10%	3.01%
Treasury Bills	5.05%	4.80%	4.93%	4.55%	4.29%
WACD	5.50%	5.49%	5.52%	5.28%	5.23%

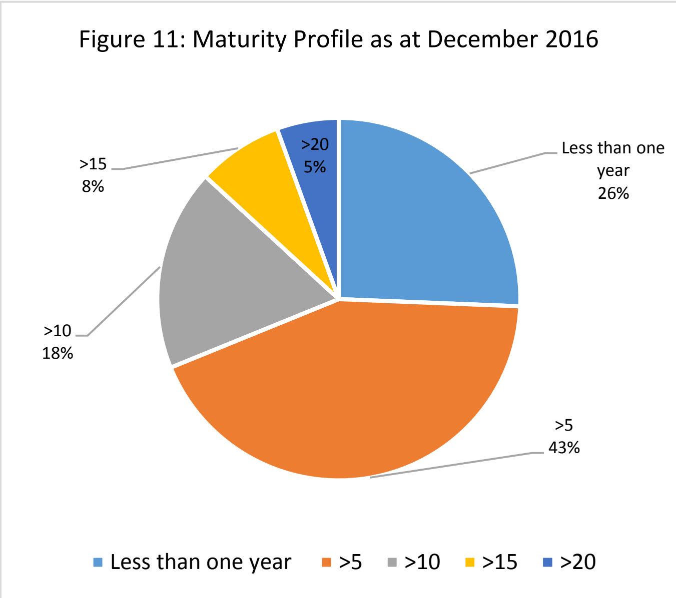
3.5.2 Currency Composition and Risk

Like the interest rate risk, the foreign exchange risk inherent in the portfolio is at a minimum since 56.0 percent of the total debt is denominated in local currency, followed by 34.8 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.

Figure 12: Debt by Currency Composition, December 2016



3.5.3 Maturity Profile

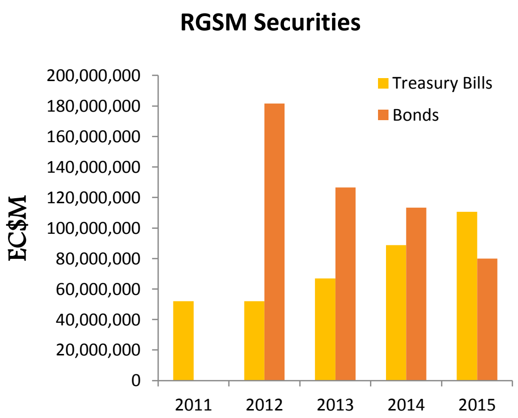


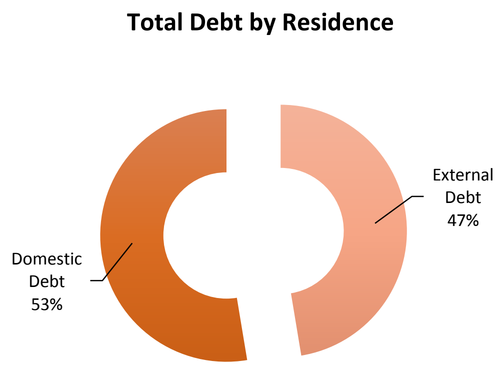
The maturity profile of the Central Government debt is skewed to the medium term with 43 percent or $1,283.6 million of the debt maturing within five years or less. The debt maturing in one year or less amounts to 26.0 percent or $761.6 million whilst 18.0 percent matures between five to ten years and 8.0 percent over ten years. While St Lucia's refinancing risk continues to be high based on the volume of short term debt in the portfolio, 2016 has seen a significant decline in the rate of change in treasury bills stock compared to the previous two years.

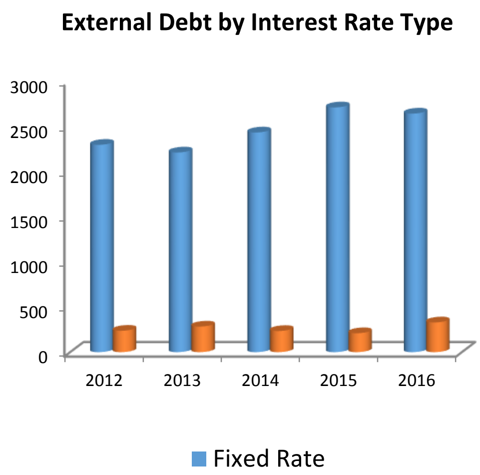
Average Time to Maturity (ATM) - the average time to maturity (ATM) of a debt portfolio is an indicator of the weighted average time to maturity of all principal repayments in the portfolio. It shows on average how long it takes to rollover the debt portfolio. As at December 2016, the ATM for the central government debt portfolio stood at 5.36 years from 4.74 years of 2015. One of the objectives of the current debt management strategy of the Department of Finance is to increase the ATM. By lengthening the ATM, this eases the cash flow pressure which is placed on the government for meeting short term obligations, and allows for greater cushioning of fluctuations in exchange and interest rates.

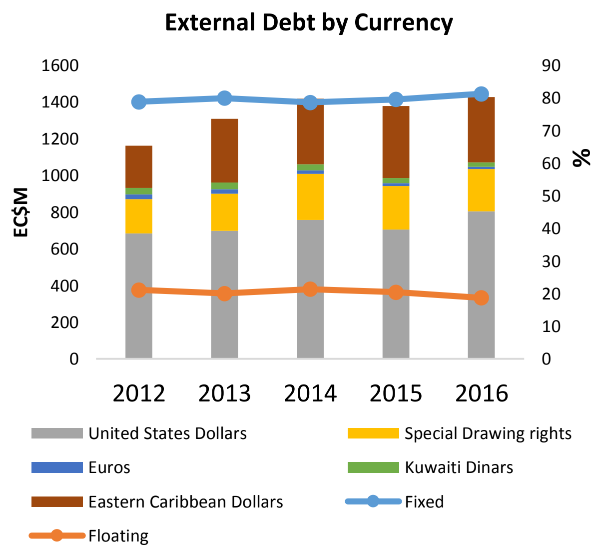
APPENDIX

Charts and Tables depicting Central Government Debt









Debt Sustainability Indicators

Debt Sustainability Indicators	2012	2013	2014	2015	2016
	(In Percentage Unless Otherwise Indicated)				
Total Debt to GDP (in per cent)	72.18	74.64	74.48	75.38	82.14
Debt Service Ratio (in per cent)	615.53	629.98	681.16	558.15	662.51
External Debt Service Ratio (in per cent)	54.40	50.20	46.77	50.20	47.09
Domestic Debt Service Ratio (in per cent)	45.60	49.80	53.23	49.80	52.91
External Debt to exports (in per cent)	615.53	629.98	681.16	558.15	662.51
Short term debt to total debt (in per cent)	10.76	10.45	10.97	15.72	14.67

Fiscal and Real Sector Indicators	2012	2013	2014	2015	2015
	(In Millions of ECD Unless Otherwise Indicated)				
Total Revenue and Grants	869.9	925.5	968.9	1022.6	1054.1
Current Revenue	815.2	864.0	905.4	963.2	1015.6
Total Expenditure	1169.1	1169.7	1117.7	1140.0	1117.5
Current Expenditure	836.7	872.0	868.3	900.1	904.5
Current Account Balance	-21.5	-8.0	37.1	63.1	111.0
Primary Balance	-169.2	-97.5	-40.9	35.5	95.6
Overall Balance	-299.2	-244.3	-148.8	-117.4	-63.4
Memo items					
Nominal GDP at Market Prices (EC$M)	3506.8	3558.7	3742.7	3864.1	3739.5
Merchandise Exports (EC$M)	189.6	208.4	208.8	247.3	215.7
Merchandise Imports (EC$M)	1813.9	1675.9	1574.6	1539.1	1637.5
Real GDP (%)	-1.20%	-2.10%	-0.70%	1.30%	-0.90%
Average Interest Rate (%)	5.50%	5.49%	5.52%	5.28%	5.38%