Document of the Inter-American Development Bank

**Guyana**

**Contingent Loan for COVID-19 Public Health Emergency**

**GY-O0006**

**Economic Analysis**

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1. Introduction
   1. On 11 March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19, the disease caused by the 2019 novel coronavirus, or nCoV-2019, which affects the respiratory system, a pandemic. To date (June 22, 2020), the WHO has reported more than 8,860,331 confirmed cases in 188 countries, resulting in more than 465,740 deaths.[[1]](#footnote-2) The first cases in Latin America and the Caribbean (LAC) were reported in late February. Since then, their number has been rising fast, with 1,420,261 confirmed cases of COVID-19 and 69,669 deaths reported in all 26 borrowing member countries. The number of cases and deaths is expected to keep growing.
   2. **Guyana’s response.**The first case of COVID-19 in Guyana was reported on March 11. Since then, the number of cases has been rising steadily.As of June 24,there are 206 confirmed cases and 12 deaths.[[2]](#footnote-3) Projections by the Pan-American Health Organization (PAHO) suggest that the country could have about 1,400 cases of the disease. NPIs and social distancing measures[[3]](#footnote-4), together with the promotion of institutional quarantine for contacts of confirmed cases and suspected cases, have contributed to slow the spread of the virus in the country. Presently, the infection’s effective reproductive number (Re) is estimated at 1.4[[4]](#footnote-5). On June 18, the country began a six-phase reopening plan[[5]](#footnote-6). As the country begins to lift NPIs and social distancing measures, the Re is expected to gradually start rising[[6]](#footnote-7).
   3. Although Guyana’s operational capacity to manage a pandemic is classified as medium (level 3) by the WHO, the country faces many challenges regarding its immediate public health response. To respond to these challenges, the WHO has prepared guidelines for drafting a COVID-19 Strategic Preparedness and Response Plan (SPRP) (optional link 4).[[7]](#footnote-8) Moreover, the Pan American Health Organization (PAHO) and the Caribbean Public Health Agency (CARPHA) are leading technical support initiatives to help the region’s governments prepare their own SPRPs, including priorities, actions, and financing needs. In Guyana, the plan was prepared with support from PAHO and validated by all sector stakeholders.
   4. **Guyana’s financial vulnerability.** Guyana is a small, open, commodity-based economy. The country’s population is approximately 782,000 with a GDP per capita of US$ 4,650, placing Guyana 19th out of 26 countries in LAC and last among Caribbean countries. In 2019, before the coronavirus pandemic, GDP grew approximately 4.7 percent, higher than in previous years (2.1 percent in 2017 and 4.1 percent in 2018).[[8]](#footnote-9) These expansions reflect areas affected by increased economic activity as both the public and private sector prepared for the beginning of oil production, which began in December 2019. Currently, the largest sectors of the Guyanese economy are agriculture and mining, representing almost 30% of GDP and more than 90% of exports. After 2020, oil production is expected to become the largest productive sector. Despite low oil prices and the coronavirus pandemic, oil exports are expected to reach US$ 1.3 billion in 2020 and macroeconomic outlook remains positive. However, Guyana’s economic growth will likely be lower than expected[[9]](#footnote-10). With the commencement of oil exports, fiscal deficit is expected to be -0.28% in 2020 and -1.66 in 2021.[[10]](#footnote-11)
   5. Early financial liquidity is important during the emergency response phase, as the overall costs of the emergency can dramatically increase the longer it takes to organize a comprehensive response. In the context of a recent marked drop in average oil prices and increased market volatility, the trajectory of oil-related revenue growth will be uncertain and lower than previously estimated. Even though government revenues are expected to grow by 12.8% in 2020, new incoming oil revenues are channeled to the recently created Natural Resource Fund (NRF) and subject to restrictions.[[11]](#footnote-12) [[12]](#footnote-13) Furthermore, fiscal policy, as well as access to NRF resources, is currently uncertain given the state of the political economy, constraining the government’s financing capacity to respond to the public health emergency.[[13]](#footnote-14) Therefore, the availability of funds provided by this operation will contribute to ease the liquidity pressures that the country is facing as a result of increased unplanned expenditures to face the COVID-19 pandemic outbreak, and thus will allow a faster implementation of immediate health response measures.
   6. The costs of the immediate emergency response will be borne by the public sector, primarily through expenditures incurred in the health sector to contain and control the Coronavirus and save lives in the very near term. Moreover, COVID-19 patients required specialized care and the resources needed for testing and treatment can be significant, particularly in low capacity countries. In general, the estimated resource requirements, including essential supplies, and critical technical and operational support, for treating a COVID-19 cluster of transmission of up to 100 cases, during a period of 3 months, ranges from US$3.7 million to US$5.5 million.[[14]](#footnote-15) For the case of Guyana, the government with support from PAHO advisors, estimated a total budget of US$ 29 million for the implementation of strategic activities under each of the eight main areas or pillars of the COVID-19 response plan for a 6-month period.[[15]](#footnote-16)
   7. **Rationale.** In this challenging context,while the government faces the challenge of strengthening the health system’s capacity to contain the transmission of the disease, it also confronts the financial and liquidity constraints that limit its capacity to close gaps in preparedness and response capacity. As the number of COVID-19 cases increases in the country, it is critical to ensure that the government has the funding to quickly implement early detection and containment measures to reduce contagion and control the outbreak.[[16]](#footnote-17) Providing fast-access financing for emergency response not only saves lives, but also reduces the risk of even worse impact scenarios in terms of economic recovery and public finances because the overall costs of the health emergency can dramatically increase the longer it takes to organize a comprehensive response. For this reason, the Government of Guyana has requested the Bank’s support through a CCF loan with COVID-19 coverage that would provide significant financing to cover extraordinary public expenditures needed during the emergency response phase, while ensuring the efficient allocation of resources.
   8. The objective of the operation is to contribute to strengthen the country’s immediate public health response to the COVID-19 emergency. The specific objective is to increase the country’s availability and efficiency of financing to cover extraordinary public expenditures related to the COVID-19 emergency.
   9. Consequently, this document aims to examine the efficiency of the financing arrangement provided by the Bank, through comparison with market-based financing alternatives that Guyana could choose to mitigate its contingent fiscal liabilities associated with natural disasters and public health emergencies. The rapid and timely availability of funds to finance unforeseen public expenditures during emergencies helps reduce the risks of large and long-lasting impacts on public finances,[[17]](#footnote-18) and contains human and material losses that are critical for a speedy post-emergency recovery of economic activity.[[18]](#footnote-19) [[19]](#footnote-20)
   10. The proposed CCF loan operation delivers a financial coverage to the government for immediate response to the COVID-19 pandemic outbreak, that is efficient in terms of financial cost and how quickly the resources are disbursed to cover the immediate funding needs for emergency response. The availability of secure funds provided by this operation help ease the liquidity pressures that governments face during emergencies as a result of increased unplanned expenditures, lower tax revenues, and incremental constrains in terms of cost and access to loans.
2. Objectives, Assumptions and Alternatives
   1. The general objective of the operation is to contribute to strengthen the country’s immediate public health response to the COVID-19 emergency. The specific objective is to increase the country’s availability and efficiency of financing to cover extraordinary public expenditures related to the COVID-19 emergency.
   2. The proposed operation contemplates a single component for US$22 million to structure an efficient financial coverage for extraordinary public expenses that arise during the immediate public health response to the COVID-19 emergency.
   3. As in other CCF loans, the efficiency of this operation will be determined through an economic analysis that uses a cost-effectiveness methodology. This approach is appropriate because a cost-benefit methodology would entail the estimation of potential uncertain benefits[[20]](#footnote-21) during an emergency, which is a demanding and costly exercise, with little expected return. Thus, the analysis will focus on the efficiency conditions of the financial coverage provided by this operation.
   4. From a financial perspective, the efficiency conditions of a financial coverage for emergencies are (i) its financial cost, and (ii) the speed of access to resources. Hence, the analysis will be limited to these two measures:
3. how fast the Bank makes the CCF loan proceeds available to the borrower to cover unexpected public expenditures during the emergency, as compared to the time that takes through other IDB debt instruments; and
4. the cost of the resources, that is, the financial cost per unit of extraordinary emergency expenditure financed by the loan proceeds, compared to that of financing alternatives available to the country.
5. Economic Costs and Measurement of Effectiveness in terms of Cost
   1. As mentioned in paragraph 2.4, the analysis uses two key indicators to determine the efficiency of the financing alternatives. Table 1 details the indicator used for each criterion.

**Table 1: Criteria and indicators**

|  | **Criterion** | **Indicator** |
| --- | --- | --- |
| 1 | Speed of access to resources to cover the emergency needs. | Number of days between the activation of the coverage (date the country fulfills the contractual conditions for general eligibility to request disbursements) and the value date of the first disbursement |
| 2 | Financial cost per unit of extraordinary emergency expenditure financed by the loan proceeds. | Interest rate |

1. Availability of Resources
   1. The availability or speed of access to loan proceeds will be measured as the number of days between the activation of the coverage (date the country fulfills the contractual conditions for general eligibility to request disbursements) and the value date of the first disbursement. For Guyana’s CCF operation this period is estimated to be 20 days at most. The estimation is based on the Bank’s operational rules for Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF),[[21]](#footnote-22) which include the time the Bank takes to process an operation and a disbursement request.
   2. Concerning the estimated average time for the Bank to make loan proceeds available to the borrower through other IDB debt instruments, it is 25 days. For the CCF loan, this period is estimated to be within 20 days at most, therefore the proposed loan would be more efficient in terms of how quickly the country can access to the resources to cover unexpected public expenditures during the emergency. That is, CCF loan provides a reduction of 20% in the number of days to access IDB loan resources.
2. Financial Cost
   1. Following the second criterion, the Bank’s proposed contingent loan is an efficient option as long as its financial cost is lower than a comparable alternative, that is, an international bond issue by the Government of Guyana.
   2. The Bank has classified Guyana as eligible to access the allocation of concessional resources. Therefore, the final cost of the resources of an IDB loan for Guyana would be a combination of the cost of regular Ordinary Capital (OC) resources and the cost of OC concessional resources according to the combination established for the country (currently, 70% OC regular - 30% OC concessional). Given that the interest rate on OC concessional resources remains fixed (25bp) and that the positive evolution of the country's macroeconomic performance could imply a lower allocation of concessional resources, the analysis presented below, including sensitivity analysis, focuses on the portion of financial cost that corresponds to OC regular resources. The cost of the OC concessional resources will be incorporated in the final calculations necessary to determine the evaluation of the effectiveness based on the cost of the project.
   3. The financial cost of the Bank’s loan[[22]](#footnote-23) is set by the 3-month LIBOR rate (currently at 122 basis points), plus a funding margin of 9 basis points (bps) and a lending spread of 80 bps, which is determined by the Finance Department every 6 months. This implies a financial cost of **211 bps** that would apply to resources from Ordinary Capital. The LIBOR rate could still increase during the short lifespan of the Bank’s loan since it is still low by historical standards. Nevertheless, the country could opt for a fixed LIBOR rate to hedge against the risk of unfavorable movements in interest rates. If that were the case, the cost of the Bank’s loan would be **185 bps**.[[23]](#footnote-24),[[24]](#footnote-25)
   4. Regarding the option of issuing sovereign bonds with a 10-year maturity, Guyana has not made any recent bond issuance that would provide an estimated financing cost of the country to access international financial markets. In 2017, the government-owned National Industrial and Commercial Investments Limited (NICIL) issued a 5-year syndicated external bond at a rate of 475bps. However, the bond issuance also had company’s assets as collateral in addition to the sovereign guarantee thus it does not provide an adequate estimation of Guyana’s market access financing conditions. Guyana has no credit rating by any major credit rating agency either, therefore other information was used to determine market rates for the country. On the one hand, the country’s credit default spread was estimated at508 bps, which added to the risk-free rate would entail a rate of 578 bps.[[25]](#footnote-26) On the other hand, a shadow rating of BB- has been estimated for Guyana.[[26]](#footnote-27) Using this rating, yields of sovereign international bonds with similar rating were averaged to estimate a rate for Guyana. The resulting comparable rate is **553** **bps**. This is the rate used as a conservative estimation for the purposes of this study which is to estimate IDB loan’s cost-efficiency.
   5. If the country’s current borrowing conditions are likely to continue in the near‑to‑medium term, the team expects the Bank’s loan to remain the most efficient option throughout the entire lifespan of the loan. Thus, the spread between the cost of the Bank’s loan (floating LIBOR) and the cost of issuing sovereign bonds (current yield) is estimated as **369 bps**.
   6. Moreover, in the case of deteriorating public financial position of the country and increased restrictions in access to international financial markets, the spread between the Bank’s CCF loan and a 10-year sovereign bond issuance would probably be greater.[[27]](#footnote-28) However, this cost-effective analysis takes a conservative approach and assumes that the financial conditions for the government to issue bonds will remain stable.
3. Indicators
   1. Table 2 summarizes the values of the two efficiency indicators for the proposed CCF loan and comparable benchmarks.

**Table 2: Summary of efficiency indicators**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Indicator** | **IDB CCF loan  (fixed rate)** | **Comparable benchmark** |
| 1 | Number of days between the activation of the coverage (date the country fulfills the contractual conditions for general eligibility to request disbursements) and the value date of the first disbursement | 20 | 25 |
| 2 | Financial cost (interest rate) | 185 bps | 553 bps |

1. Cost-Effectiveness Analysis
   1. Based on the information discussed in section III, the conclusion is that the CCF loan is the most efficient for Guyana. The Bank’s proposed option would be efficient not only in terms of how fast the loan proceeds would be made available to the country to fund the unplanned financial needs, but also in terms of financial cost per unit of extraordinary public expenditure.
   2. Saving in financial costs will enhance the government’s ability to properly finance the extraordinary expenditures caused by the public health emergency. Likewise, faster access to resources will ease the liquidity pressures, and help contain human and material losses during emergencies, which in turn increases the likelihood of a speedy post-emergency economic recovery.
   3. It is important to stress that the assumptions used in the analysis are conservative because financing conditions of alternative options, both in terms of quickness and cost, are assumed to remain constant in the immediate aftermath of the emergency. Notwithstanding, historical evidence shows that financing conditions tend to tighten right after natural disaster emergencies as governments usually face lower tax revenues and increased unforeseen expenditures. This implies that the expected comparative benefit of the Bank’s proposed loan might be even higher, though the real benefits can only be properly measure ex post.
2. Sensibility Analysis
   1. This section analyzes whether the Bank’s loan will remain, and to what extent, the most efficient option for Guyana if the assumptions and financing conditions set in the previous sections change. The analysis shows that the Bank’s loan is the most efficient option in terms of the indicators established in ¶3.1, since its financial cost would be lower than any other financing alternatives and loan resources will be made available faster.
   2. Though it is not impossible that the credit rating of the Government of Guyana could worsen during the lifespan of this contingent loan operation, in which case the Bank’s option would be even more appealing, the analysis focuses on a scenario where the country reaches macroeconomic and macro financial conditions levels comparable to the best cases in the region. The financial cost for a comparable better performing country, whose credit rating is higher, of issuing similar debt instruments in the financial markets is around **528 bps**, which can be interpreted as the lower limit for Guyana should the country improves its credit ratings. Clearly, the Bank’s loan (**185 bps**) would be more efficient in that optimistic scenario (Table 3).

**Table 3: Credit ratings and financing cost**

|  |  |  |
| --- | --- | --- |
| **Country** | **Rating** | **Yield (bps)** |
| Trinidad and Tobago1 | BBB- | 528 |
| Guyana2 | BB- | 553 |
| IDB loan3 | AAA | 185 |

1/ Sovereign bond trading levels [Bloomberg, IDB Finance Department. May 15, 2020].

2/ Rating reflects estimated shadow rating calculated by Roubini Global Economics.

3/ AAA is the credit rating that the IDB would likely receive as debt issuer given its funding cost.

* 1. The only exogenous variable (to the Bank and the country) that could make the Bank’s loan less attractive would be the LIBOR rate. It would only not be efficient should (i) the LIBOR rate increases substantially during the coverage period, and (ii) the country reaches credit ratings that are on par with that of comparable better performing countries. However, given the short lifespan of this operation, it is not reasonable to assume a substantial LIBOR increase without an increase in the mentioned sovereign yields. More likely, the yields would rise as well, therefore keeping the favorable cost differential of the Bank’s loan.
  2. As mentioned before, the country has the option to opt for a fixed LIBOR rate instead of floating LIBOR rate. Given that the LIBOR rate is low by historical standards (Figure 2), it is reasonable that the country would choose a fixed rate. If that were the case, the cost of the contingent loan would be 185 **bps**, which is less expensive than issuing sovereign bonds under the best possible conditions (Table 3).
  3. In case the country chooses floating LIBOR rate, the financial cost of the Bank’s loan would be 211 **bps**, though it would be exposed to unfavorable movements in interest rates throughout the lifespan of this operation. Based on the historical behavior of the LIBOR (Figure 2), the annual standard deviation is 43%, or 52bps over 3-month LIBOR.

**Figure 2: 3-month LIBOR, US$ (%)**

A screenshot of a map

Description automatically generated

Source: ICE Benchmark Administration Limited (IBA), 3-Month London Interbank Offered Rate (LIBOR), based on U.S. Dollar [USD3MTD156N], retrieved from FRED, Federal Reserve Bank of St. Louis

|  |  |
| --- | --- |
| **LIBOR analysis** | |
| **Minimum** | 0.2229 |
| **Maximum** | 10.6300 |
| **Mean** | 3.7014 |
| **Median** | 3.4400 |
| VOLATILITY: |  |
| **Annualized standard deviation (%)** | 43.0774 |

* 1. Further analysis would be done if the country prefers the option of floating LIBOR rate. The expected future volatility of the LIBOR would be estimated through Monte Carlo simulations, which in turn serves as input to define probabilistic scenarios of the ranges of the LIBOR rate for the next 5 years. Thus, the simulations would provide a good estimation of the probability that the financial cost of the Bank’s loan would increase substantially over the period of analysis.
  2. The NPV of the cost of financing US$22 million through the Bank’s CCF loan, with a discount rate of 12%, would be US$ 5.26million. In contrast, using the same discount rate, the NPV of issuing sovereign bonds to raise the same amount would be US$13.96million. Therefore, the Bank’s loan is 62.3% cheaper than the alternative option. For more information, please refer to the calculation spreadsheet.

1. Conclusions
   1. A cost-effective CCF loan that provides financial coverage is necessary for countries highly exposed to the effects of the COVID-19 pandemic outbreak such as Guyana. The absent of a proper financing solution makes the country’s public finances vulnerable and could even put the incipient economic recovery in jeopardy.
   2. The economic analysis shows that the Bank’s CCF loan is the most efficient and cost-effective option to cover the extraordinary expenditures in the COVID-19 pandemic outbreak, when contrasted with comparable benchmarks for the two efficiency criteria analyzed: i) in terms of financial cost, the loan is less expensive than a sovereign bond issue; and ii) in terms of speed of access, the CCF loan is more efficient in terms of how fast the country can access to the proceeds.
   3. In terms of financial cost, the NPV of the cost of financing US$ 22 million through the Bank’s CCF loan, with a discount rate of 12%, would be US$ 5.26million. In contrast, using the same discount rate, the NPV of issuing sovereign bonds to raise the same amount would be US$ 13.96million. Therefore, the Bank’s loan is 62.3%cheaper than the alternative option. Even in the event of minimally probable variations in the main indicators, there is a wide range of values in which the IDB’s CCF loan alternative remains the most efficient.

1. See [WHO Coronavirus disease (COVID-2019) situation reports](https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports). [↑](#footnote-ref-2)
2. [WHO’s latest Coronavirus disease (COVID-2019) situation report](https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200622-covid-19-sitrep-154.pdf?sfvrsn=d0249d8d_2). [↑](#footnote-ref-3)
3. After the first confirmed case of COVID-19 in the country, Guyana took a series of measures aimed at controlling the spread of the pandemic, among them borders were closed, schools and educational centers were shut, international airports were closed, large gatherings and assemblies were banned, a “stay at home” order was stated and a mandatory curfew was established, reducing all activities considered non-essential. Additionally, on March 18, the President enacted a National Public Health Ordinance, asserting that COVID-19 constitutes an emergency that threatens national security and granting comprehensive powers to government, particularly the Ministry of Public Health (MoPH), to take the necessary measures to control the epidemic. [↑](#footnote-ref-4)
4. Estimates by PAHO. [↑](#footnote-ref-5)
5. During phase 1, all food establishments will be permitted to operate takeout and delivery, hardware stores will be allowed to operate, exercise for up to 90 minutes will be allowed in open public spaces, and public transportation will continue to operate at 50% passenger capacity. The stay-at-home order and the curfew remain, and gatherings of more than five people are prohibited. Schools are expected to remain closed until at least September. The opening of Guyana’s international airports would take place on phase 6. [↑](#footnote-ref-6)
6. As with other countries in LAC and the world, Guyana has been facing a lot of social and economic pressure to start loosening some of the restrictions imposed to slow the spread of the pandemic. Most countries have started lifting measures as they approach a Re closer to 1 (at a Re of less than 1, the epidemic tends to die out). As Guyana starts to lift NPIs and social distancing measures, the Re is estimated to gradually rise to about 2. [↑](#footnote-ref-7)
7. The SPRP proposes eight pillars of intervention: (i) coordination, planning, and monitoring; (ii) risk communication and community engagement; (iii) surveillance, rapid-response teams, and case investigation; (iv) points of entry; (v) national laboratories; (vi) infection prevention and control; (vii) case management; and (viii) operational support and logistics. There is evidence of the effectiveness of the proposed interventions (optional link 5) [↑](#footnote-ref-8)
8. The sectors with the greatest estimated growth rates in 2019 include construction, and finance and insurance, growing 10.5 percent and 6 percent, respectively. Other areas of significant growth include real estate activities and wholesale and retail trade with grow rates of 5.5 percent [↑](#footnote-ref-9)
9. The IMF cut the country’s GDP growth in 2020 from 85.5% to 52.8%. [↑](#footnote-ref-10)
10. World Economic Outlook. International Monetary Fund, 04/2020; Bank of Guyana, 2019. [↑](#footnote-ref-11)
11. The NRF currently holds approximately US$ 95 million and it is estimated to reach around US$ 115 million in 2020. Resources from the NRF can only be withdrawn with Parliament approval and subject to the limits of an Economically and Fiscally Sustainable amount. [↑](#footnote-ref-12)
12. World Economic Outlook. International Monetary Fund, 04/2020. [↑](#footnote-ref-13)
13. The results of a close-run election held on March 2nd, 2020, is delaying the installation of a new Parliament. The former parliament was dissolved at the end of 2019. [↑](#footnote-ref-14)
14. IDB calculations based on Operational Planning Guidelines to Support Country Preparedness and Response, WHO, 2020 for 100 cases and a 3-month period excluding international staff and training. Estimates depend largely on underlying starting conditions of equipment and human resources. [↑](#footnote-ref-15)
15. Budget figures were calculated, assuming 1,400 confirmed cases in Guyana, 28,000 suspect cases tested, 8,400 contacts identified from COVID-19 positive cases of which 70% quarantine in a facility supervised by MoPH. [↑](#footnote-ref-16)
16. WHO (2018). [Managing Epidemics](https://www.who.int/emergencies/diseases/managing-epidemics/en/). [↑](#footnote-ref-17)
17. The literature of natural disasters and their fiscal impact is extensive and well documented. Government spending tends to increase, budget balances usually worsen, and public debt typically rises. See, for example, The Dealing with Increased Risk of Natural disasters (Freeman et al. 2003); Economics of Natural Disasters. (Cavallo and Noy, 2009); and The Fiscal Implications of Hurricane Strikes in the Caribbean (Quattara and Strobl, 2013). [↑](#footnote-ref-18)
18. IDB (2010). Natural Disasters Financial Risk Management. Technical and Policy Underpinnings for the Use of Disaster-Linked Financial Instruments in Latin America and the Caribbean, [IDB-TN-175](https://publications.iadb.org/bitstream/handle/11319/1564/Natural%20Disasters%20Financial%20Risk%20Management.pdf?sequence=1&isAllowed=y). [↑](#footnote-ref-19)
19. Though the scope of the study only covers natural hazards of low probability of occurrence and significant impact, these risks are inherently similar in certain important ways to emerging public health risks such as pandemics and epidemics. Both types of events are unpredictable, low-frequency, high impact and exogenous shocks. Similarly, public health risks are an important source of fiscal contingent liabilities and, when materialized, can represent a significant burden for public finances and endanger public debt sustainability. Governments, therefore, need adequate financial instruments to handle these public health risks. [↑](#footnote-ref-20)
20. Given the nature of CCF loans, the single component of this operation is the provision of a financial coverage, therefore specific use of resources is not yet determined at the time of elaboration of this document. [↑](#footnote-ref-21)
21. Document GN-2502-3. [↑](#footnote-ref-22)
22. The calculation is based on the latest information on interest rates and loan charges for OC regular resources published by the Finance Department for the second quarter of 2020. [↑](#footnote-ref-23)
23. Information provided by the Finance Department, as of May 15, 2020. The IDB fixed rates assume a fixed rate conversion by the Bank through a swap with the same tenor as the remaining life of outstanding sovereign bonds (approximately 10 years), plus a lending margin. Since there are no outstanding sovereign bonds for Guyana, an average of IDB fixed rates for comparable countries was used for this analysis. [↑](#footnote-ref-24)
24. It is worth to note that IDB fixed rate is lower than its variable lending rate. This is a reflection of current market conditions in which the USD swap rates are lower than the Libor rates. The current scenario of lower interest rates in the US, the rate cuts by the FED and the inversion of the US yield curve, among other factors, are driving the swap rates down. [↑](#footnote-ref-25)
25. Damodaran, Aswath, Country Risk: Determinants, Measures and Implications – The 2016 Edition. New York University, Stern School of Business. Results from this study were updated in 2019: Country Default Spreads and Risk Premiums. [↑](#footnote-ref-26)
26. Roubini Global Economics, 2017. [↑](#footnote-ref-27)
27. Although no specific study has yet been carried for pandemic outbreaks, according to a report by Standard & Poor’s, a once-in-250 years natural disaster would have strong effects on public finances, mainly due to increased government spending and the resulting economic downturn. Negative impacts could lead to downgrades of credit ratings of up to two notches, and therefore, raising the cost of financing. See: The Heat is On: How Climate Change Can Impact Sovereign Ratings (Standard & Poor’s, 2015). [↑](#footnote-ref-28)