Recent Sovereign Debt Restructuring in the Caribbean

Outcomes, Lessons and Issues

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Structure of the Presentation

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- The Case for Debt Restructuring
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- Lessons of Experience
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The Policy Imperatives for Debt Reduction

- Increase the primary balance
- Increase the rate of GDP growth
- Reduce the average effective interest rate on the debt stock
- Reduce debt through principal haircut or debt buyback

The Case for Debt Restructuring

- High indebtedness makes debt changes very sensitive to growth/interest rate shocks
- High indebtedness reduces the ability to engage in development expenditures
- Anticipated austerity creates uncertainty and reluctance to invest
- Debt restructuring can provide liquidity relief, improve debt dynamics or effect immediate reduction in debt stock

Recent Sovereign Debt Restructuring in the Caribbean

– Dominica (2004)

– Grenada (2005)

– Belize (2006, 2013)

– Jamaica (2010, 2013)

– Antigua and Barbuda (since 2010)

– St. Kitts and Nevis (2011)

Debt Restructuring Outcomes in the Caribbean: A Comparison

Item	Average Global Outcomes	Caribbean Outcomes
Delays in Reaching Agreement	7.4 years	Most within 1 year (Dominica 8.5 years, SKN and ANT ongoing)
Debt Reduction	38%	Debt reduction in SKN (50%), Dominica (25%) and Belize II (10%)
Debt-to-GDP Change	Most countries have increased Debt-to-GDP	Dominica and Belize had lower ratios at completion year-end

Lessons of Experience

- Debt difficult to manage beyond 90% of GDP
- Debt restructuring should be a last resort
- Debt restructuring should be part of a comprehensive reform program supported by key stakeholders
- Restructuring should take cognizance of medium-term resource capacity plus make allowance for a reasonable shock

Lessons of Experience Cont'd

- Step-up interest rate instruments that assume significantly better medium-term prospects can be risky
- Debt profile limits restructuring options
- Consultation with creditors is key to high participation rates, but can be at expense of relief
- Domestic debt is easier to settle than external debt
- Non-Paris Club credits are more difficult to settle

Some Issues in Debt Restructuring

- Financial sector vulnerabilities
- Reputational risk and access
- Creditor coordination
- De facto sovereign ownership of debt
- The use of guarantees and state contingent debt
- Litigation and vulture funds

Thank You