

# RESOLVING SOVEREIGN DEBT DISTRESS IN THE CARIBBEAN

## TOWARDS A HEAVILY INDEBTED MIDDLE INCOME COUNTRY (HIMIC) INITIATIVE

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# INTRODUCTION

The purpose of the presentation is to introduce a proposed framework towards **RESOLVING SOVEREIGN DEBT DISTRESS IN THE CARIBBEAN** through **A HEAVILY INDEBTED MIDDLE INCOME COUNTRY (HIMIC) INITIATIVE**.

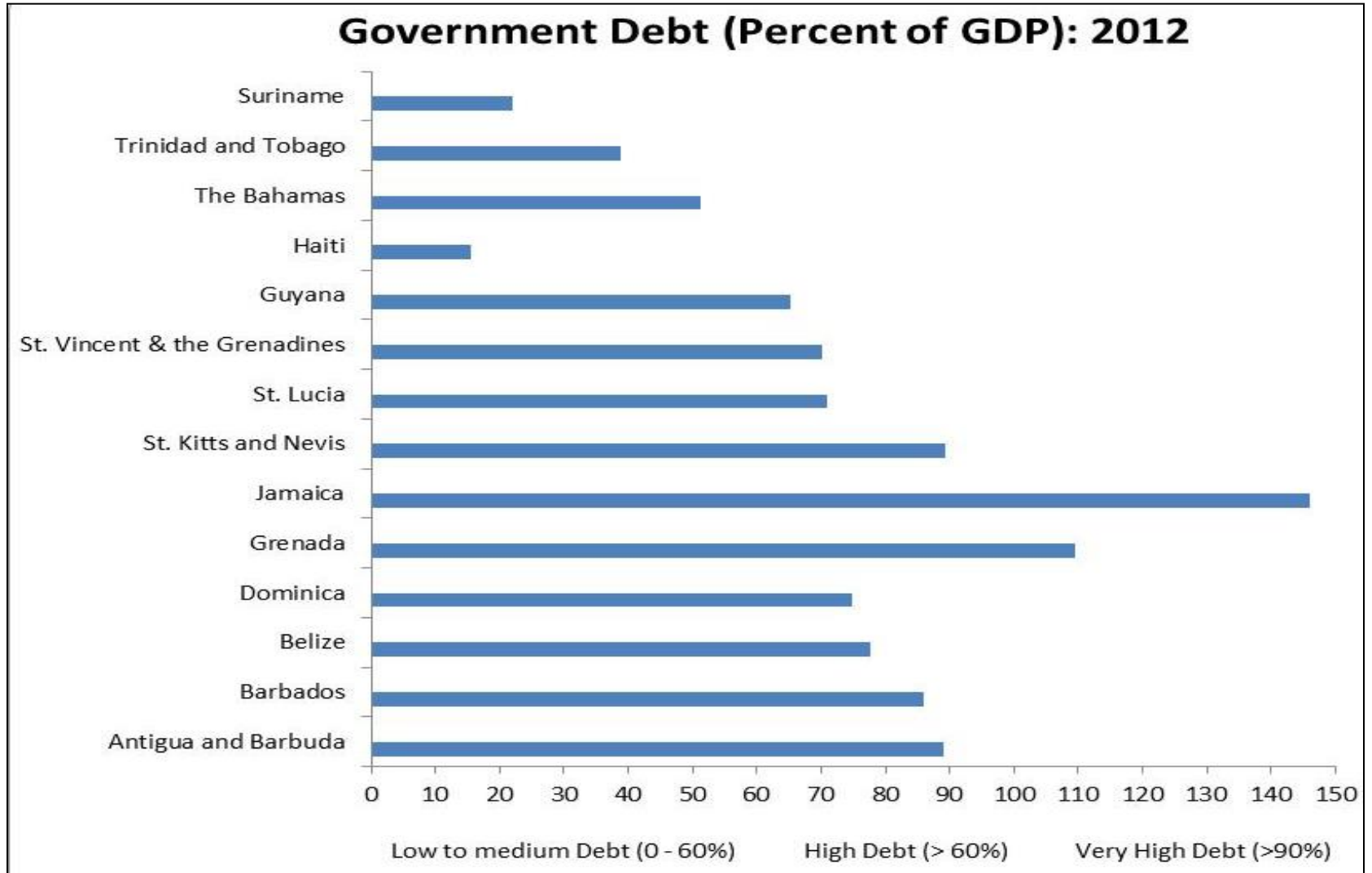
No international consensus exists on a global framework (legal or otherwise) to undertake an orderly, predictable and equitable restructuring of sovereign debt.

This significant weakness in the global financial architecture is of critical concern to many Caribbean small states caught in a high debt – low growth trap for the past two decades. The situation is particularly serious for a group of Caribbean heavily-indebted, middle-income countries (HIMICs) who are considered neither poor enough nor severely indebted enough to benefit from international debt relief initiatives such as the Heavily Indebted Poor Country (HIPC) Initiative, even though some have benefited from bilateral debt rescheduling mainly through the Paris Club under IMF-supported programs.

# OVERVIEW OF CARIBBEAN HIMICs

DESCRIP	COUNTRY	GEOGRAPHY	POPULATION MILLIONS (2011)	INCOME CLASSIFICATION (2013)	DEGREE OF OPENNESS	MAIN EXPORTS	TOP 3 EXPORTS/TOTA L EXPORTS	ENVIRONMENTAL VULNERABILITY
HIMIC	Antigua & Barbuda	Island	0.089	Upper Middle	1.05	Tourism	38.2	Vulnerable
HIMIC	Barbados	Island	0.273	High	1.00	Tourism	47.49	Extremely Vulnerable
HIMIC	Belize	mainland	0.357	Upper Middle	1.31	Agri & Fisheries	64.92	At Risk
HIMIC	Dominica	Island	0.068	Upper Middle	0.90	Bananas	59.73	Extremely Vulnerable
HIMIC	Grenada	Island	0.105	Upper Middle	0.74	Nutmeg & Tourism	41.64	Extremely Vulnerable
HIMIC	Jamaica	Island	2.709	Upper Middle	0.85	Tourism	55.34	Extremely Vulnerable
HIMIC	St. Kitts and Nevis	Island	0.053	Upper Middle	0.73	Tourism	73.27	Highly Vulnerable
HIMIC	St. Lucia	Island	0.176	Upper Middle	1.14	Tourism	40.49	Extremely Vulnerable
HIMIC	St. Vincent and the Grenadines	Island	0.109	Upper Middle	0.83	Agriculture	48.84	Highly Vulnerable
HIPIIC	Guyana	mainland	0.756	Lower Middle	2.04	Agriculture	59.05	Resilient
HIPIIC	Haiti	mainland	10.124	Low		Agriculture	N.A.	Highly Vulnerable
MIC	The Bahamas	Island	0.347	High	1.01	Tourism	58.56	At Risk
MIC	Suriname	mainland	0.529	Upper Middle		Bauxite, Oil & Gold	N.A.	Resilient
MIC	Trinidad & Tobago	Island	1.346	High	0.92	Oil & Gas	60.84	Extremely Vulnerable

# PUBLIC SECTOR DEBT



## PUBLIC SECTOR DEBT SERVICE INDICATORS - 2012

Select Caribbean Countries	External Debt to Exports (%)	External Debt Service to Exports (%)	Total Debt Service to Revenues (%)
Antigua and Barbuda	79.5	3.5	*21
Barbados	96.5	n.a.	*29
Belize	118.5	11.3	29
Dominica	144.5	10.0	5.4
Grenada	296.0	7.7	*19
Jamaica*	304.7	38.2	63
St. Kitts and Nevis	157.2	25.7	*24
St. Lucia	78.1	6.9	*26
St. Vincent and the Grenadines	132.3	16.6	*32
Guyana	113.3	8.7	*9.4
Haiti	103.6	0.3	*2
The Bahamas	38.7	7.4	15
Suriname	37.3	n.a.	19
Trinidad and Tobago	11.7	0.5	7

Source Data: World Bank International Debt Statistics, IMF World Bank Database, Article IV Consultations

\*Projections for 2012 from most recent IMF Article IV Consultation Reports

# Debt Restructuring of Caribbean HIMICs

## 2004-2014

Caribbean HIMICs	Domestic Creditors	External Private Creditors	External Official Creditors
Antigua & Barbuda (2010)	Debt Exchange		Paris Club
Dominica (2004)	Debt Exchange	Debt Exchange	Debt Rescheduling
Belize (2007, 2013)		Debt Exchange	
Grenada (2006, 2010, 2013)	Debt Exchange	Debt Exchange	Paris Club
Jamaica (2010)	Debt Exchange		Paris Club
Jamaica (2013)		Debt Exchange	
St Kitts & Nevis (2011)	Debt Exchange	Debt Exchange	Paris Club

## CURRENT SITUATION OF CARIBBEAN HIMICs

- No international consensus exists on a global framework (legal or otherwise) to undertake an orderly, predictable and equitable restructuring of sovereign debt.
- Caribbean heavily-indebted, middle-income countries (HIMICs) are considered neither poor enough nor severely indebted enough to benefit from international debt relief initiatives such as the Heavily Indebted Poor Country (HIPC) Initiative
- Part of the rapid debt accumulation in Caribbean HIMICs can be traced to the high cost associated with the frequent reoccurrence of natural disasters, usually hurricanes and floods. Successive years of fiscal deficits, public enterprise borrowing and off-balance sheet spending, including for financial sector bailouts, have also contributed to the onerous debt overhang.

# SOVEREIGN DEBT RESTRUCTURING INITIATIVES

## BRADY PLAN

Some of the lessons from more successful sovereign debt restructuring initiatives are considered in crafting a debt solution for Caribbean HIMICs. These initiatives are the Brady Plan, the enhanced HIPC Initiative and the Joint Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution.

Basis of Brady Plan - Resolution of Commercial Debt – The US treasury stepped in to protect the interest of US banks – done without IMF involvement.

### Main elements of the Brady Plan:

- Exchange of bank loans into sovereign bonds
- Menu approach
- Capitalization of arrears
- Link to economic reforms

### Key Lessons:

- Reviving the Market
- Reduced risk of borrower default.
- Clarified or resolved the balance sheet problems of U.S. financial institutions.

### Issues Arising:

- The step-up of interest payments inherent in some of the new bonds threatened the debt sustainability of some debtors years later, thus contributing to renewed default risks.



# SOVEREIGN DEBT RESTRUCTURING INITIATIVES

## ENHANCED HIPC INITIATIVE

Introduced in 1996 by the WB and IMF by found to be inadequate. The civil society lobbied for an enhanced HIPC for faster and deeper debt relief which was introduced 3 years later.

### Main elements of the Enhanced HIPC Initiative:

- Limited to external debt that is public and publicly guaranteed.
- The criterion for being “poor” is to be an “IDA-only” country.
- Provision of interim debt relief between decision and completion points.
- HIPC debt relief linked to the preparation of a country-owned PRSP.

### Key Lessons:

- Debt reduction alone is not sufficient for facilitating improved debt sustainability.
- Depriving middle income countries of assistance.
- Creditors are under no obligation to participate in debt relief under voluntary initiatives, therefore agreement is required among all stakeholders.
- Required an IMF Framework

### Issues Arising:

- Inappropriate eligibility criteria (such as IDA-Only) and inappropriate debt sustainability indicators (such as the use of the level of debt stocks).

# SOVEREIGN DEBT RESTRUCTURING INITIATIVES

## PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING

**Market Oriented Solution pushed by the G20 Countries.**

**Main elements of the “Principles”:**

- **Shared responsibility among the three groups of major stakeholders** (the debtor country, official sector and private investors)
- **use of good faith negotiations to work toward voluntary, orderly and effective debt restructuring** based on fair burden sharing that balances moral hazard, respect for creditor rights and restoration of market access
- **implementation of meaningful fiscal and structural reforms by the Debtor country**, with the support of the IMF and other international financial institutions.
- **willingness to accept appropriate haircuts by the Creditors** to provide sufficient cash flow and debt stock relief as a fair contribution to the country’s adjustment efforts.

**Key Lessons:**

- Provision of an additional layer of certainty in debt contracting.
- Implementation of a more transparent process, more information sharing, more accountability, and better allocation of responsibilities.
- Creating consensus around a core set of principles applied to sovereign financing.

## PROPOSAL FOR A CARIBBEAN HIMIC INITIATIVE

The situation of Caribbean HIMICs is an extraordinary problem requiring extraordinary and non-traditional solutions. It calls for a sovereign debt initiative with the purpose of :

- providing a permanent exit for Caribbean HIMICs from repeated debt rescheduling;
- remove their onerous debt overhang; and
- safeguard the balance of rights of private creditors, the official sector and a Caribbean HIMIC debtor country.

# **GUIDING PRINCIPLES OF THE CARIBBEAN HIMIC INITIATIVE**

- **Shared Responsibility of All Stakeholders**
- **Responsibilities of Caribbean HIMIC**
- **Responsibilities of Official Sector**
- **Participation by all Relevant Creditors**

## **PROPOSED OPERATIONAL FRAMEWORK OF CARIBBEAN HIMIC INITIATIVE**

- **Use of Appropriate Debt Sustainability Targets**
- **Fixing HIMIC Debt Relief at a Decision Point**
- **Provide Most Debt Relief at a Floating Completion Point**
- **Creditors Provide Some Discretionary Interim Assistance**
- **Retroactivity of Assistance**

## CONCLUSION

- In the Caribbean there is a select group of countries that are both heavily indebted and middle income that are excluded from International Debt Relief.
- By utilizing specific characteristics of 3 debt restructuring initiatives, the proposed framework would allow the Caribbean HIMICs to exit from the onerous debt overhang.
- The proposed framework would be applicable to any middle income country that is heavily indebted.