

# RESOLVING SOVEREIGN DEBT DISTRESS IN THE CARIBBEAN

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

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## INTRODUCTION

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 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.

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## OVERVIEW OF CARIBBEAN HIMICS

DESCRIP	COUNTRY	GEOGRAPHY	POPULATION MILLIONS (2012)	INCOME CLASSIFICATION (2014)	MAIN EXPORTS	ENVIRONMENTAL VULNERABILITY
HIMIC	Antigua & Barbuda	Island	0.089	High	Tourism	Vulnerable
HIMIC	Barbados	Island	0.283	High	Tourism	Extremely Vulnerable
HIMIC	Belize	mainland	0.324	Upper Middle	Agri & Fisheries	At Risk
HIMIC	Dominica	Island	0.072	Upper Middle	Bananas	Extremely Vulnerable
HIMIC	Grenada	Island	0.105	Upper Middle	Nutmeg & Tourism	Extremely Vulnerable
HIMIC	Jamaica	Island	2.708	Upper Middle	Tourism	Extremely Vulnerable
HIMIC	St. Kitts and Nevis	Island	0.054	Upper Middle	Tourism	Highly Vulnerable
HIMIC	St. Lucia	Island	0.181	Upper Middle	Tourism	Extremely Vulnerable
HIMIC	St. Vincent and the Grenadines	Island	0.109	Upper Middle	Agriculture	Highly Vulnerable
HIPIIC	Guyana	mainland	0.795	Lower Middle	Agriculture	Resilient
HIPIIC	Haiti	mainland	10.174	Low	Agriculture	Highly Vulnerable
MIC	The Bahamas	Island	0.372	High	Tourism	At Risk
MIC	Suriname	mainland	0.535	Upper Middle	Bauxite, Oil & Gold	Resilient
MIC	Trinidad & Tobago	Island	1.337	High	Oil & Gas	Extremely Vulnerable

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## VULNERABILITY TO NATURAL DISASTERS

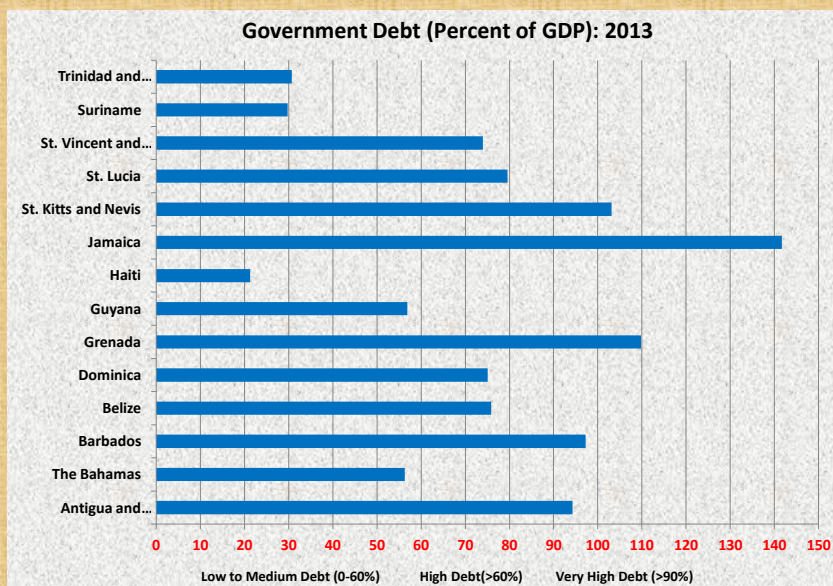
Country	Hurricanes	Earthquakes	Volcanoes	Floods	Drought
Antigua & Barbuda	●	●	●	●	●
Bahamas	●	●	●	●	●
Barbados	●	●	●	●	●
Belize	●	●	●	●	●
Dominica	●	●	●	●	●
Grenada	●	●	●	●	●
Guyana	●	●	●	●	●
Haiti	●	●	●	●	●
Jamaica	●	●	●	●	●
St. Kitts and Nevis	●	●	●	●	●
St. Lucia	●	●	●	●	●
St. Vincent and the Grenadines	●	●	●	●	●
Suriname	●	●	●	●	●
Trinidad and Tobago	●	●	●	●	●

high vulnerability ● medium vulnerability ● low vulnerability ●

Source: United Nations Environment Programme (Global Environment Outlook)

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## PUBLIC SECTOR DEBT



Source: International Monetary Fund, World Economic Outlook Database, October 2014

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## DEBT INDICATORS - 2013

Select Caribbean Countries	External Debt to Exports (%)	External Debt Service to Exports (%)	Reserves to External Debt (%)
Belize	117.5	12.7	32.2
Dominica	168.1	10.7	29.7
Grenada	270.2	16.5	25.7
Jamaica	308.3	26.9	13.2
St. Kitts and Nevis	108.3	8.2	79.0
St. Lucia	77.0	5.9	39.5
St. Vincent and the Grenadines	140.3	13.5	46.1
Haiti	79	0.6	136.6

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

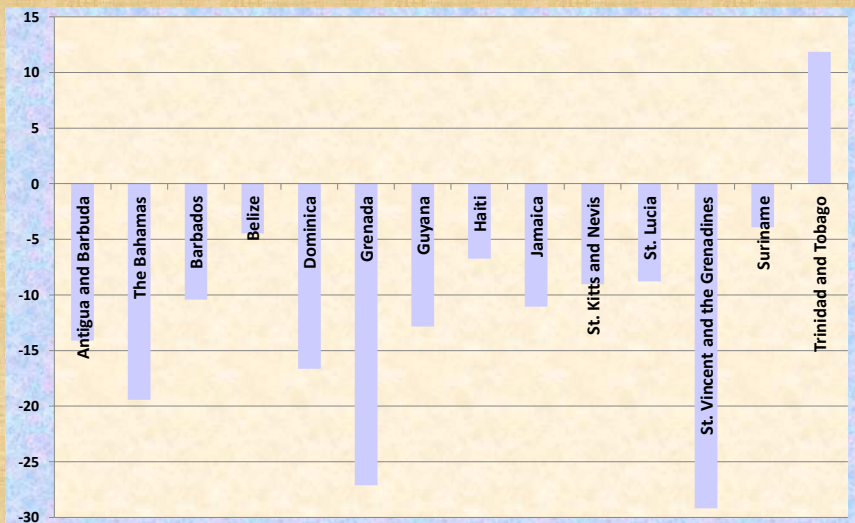
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## DEBT RESTRUCTURING OF CARIBBEAN HIMICS 2004-2014

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, 2014)	Debt Exchange	Debt Exchange	Paris Club
Jamaica (2010, 2013)	Debt Exchange	Debt Exchange	Paris Club
St Kitts & Nevis (2011, 2013)	Debt Exchange	Debt Exchange	Paris Club

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## CURRENT ACCOUNT BALANCE - 2013



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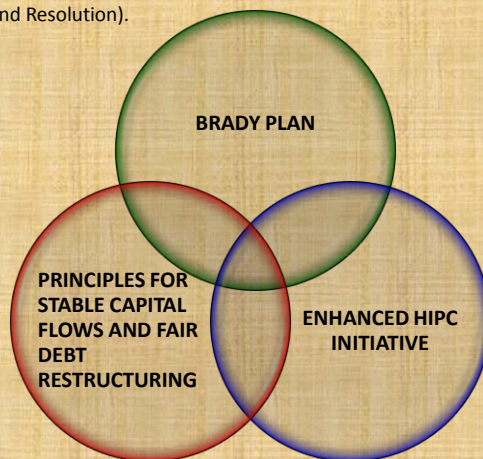
## CURRENT SITUATION OF CARIBBEAN HIMICs

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

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## SOVEREIGN DEBT RESTRUCTURING INITIATIVES

- 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 Principles for Stable Capital Flows and Fair Debt Restructuring (Joint Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution).



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## SOVEREIGN DEBT RESTRUCTURING INITIATIVES

### BRADY PLAN

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.

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## SOVEREIGN DEBT RESTRUCTURING INITIATIVES

### ENHANCED HIPC INITIATIVE

Introduced in 1996 by the WB and IMF but 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).
- Exclusion of vulnerability variables in assessment

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## 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
- use of good faith negotiations to work toward voluntary, orderly and effective debt restructuring
- implementation of meaningful fiscal and structural reforms by the Debtor country,
- willingness to accept appropriate haircuts by the Creditors

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.

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## 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.

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## GUIDING PRINCIPLES OF THE CARIBBEAN HIMIC INITIATIVE

Shared  
Responsibility of  
All Stakeholders

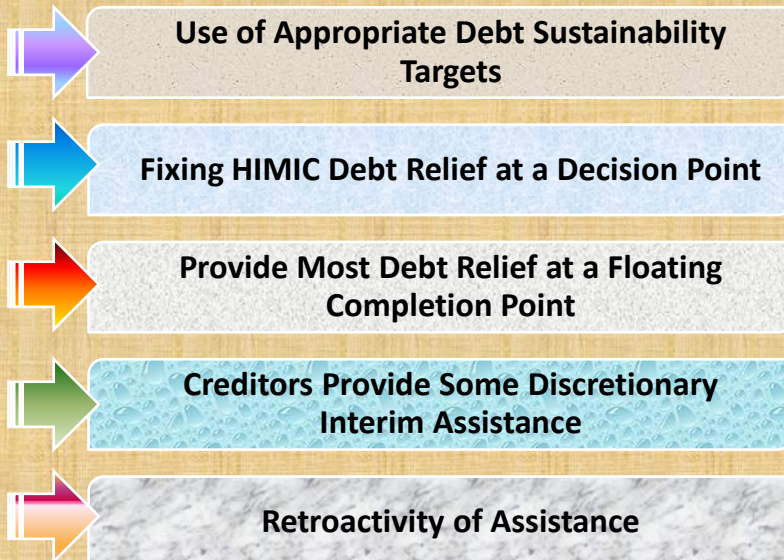
Responsibilities  
of Caribbean  
HIMIC

Responsibilities  
of Official Sector

Participation by  
all Relevant  
Creditors

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## PROPOSED OPERATIONAL FRAMEWORK OF CARIBBEAN HIMIC INITIATIVE



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## 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.

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THANK YOU

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