Creditor Update

Government of Barbados

11 June 2019

Ongoing Consultations

Since the last Creditor Update, the Government of Barbados (GoB) has continued to consult with holders of its US dollar-denominated commercial debt on the restructuring terms that will be required to place the public debt firmly on a sustainable footing, in conjunction with the October 2018 restructuring of its B$12 billion domestic debt stock, and the far-reaching economic reforms being implemented under the current four-year Extended Fund Facility (EFF) with the IMF.

The GoB's 60% debt-to-GDP by FY2033/34 target is a key anchor for the IMF-supported programme under the EFF, with an intermediate target of 80% by FY2027/28. This anchor has guided the position of the GoB during the consultations with external commercial creditors on the restructuring of their claims, along with the need to achieve a smooth repayment profile post-restructuring and broad comparability with the domestic debt restructuring concluded in October 2018.

Latest GoB Proposal

As part of these consultations, various rounds of discussions have been held with the bondholder committee, mostly within the context of a non-disclosure agreement (NDA). As part of these discussions, the GoB has sought to improve its proposals from the point of view of bondholders, whilst respecting the debt targets as agreed with the IMF under the EFF-supported programme. The GoB has also received and analysed various counter-proposals from the bondholder committee.

For the benefit of its broader creditor community, the GoB presents on the following pages the last scenario that was shared with the bondholder committee (Scenario 1), as well as a new scenario based on a par structure (Scenario 2) . The combined proposal assumes that Barbados will offer holders of its 7.25% Notes due 2021, 7.0% Notes due 2022, 6.625% Notes due 2035 (collectively, the “Eurobonds”), and the Credit Suisse 2018 and 2019 loans the option to exchange their existing instruments either into new Amortising Step-Up Notes due 2033 (issued at a discount to face value), or for new 3.25% Amortising Notes due 2044 (issued at par).

Scenario 1: Amortising Step-Up Notes due 2033

Exchange Basis:	Issued at 66.67% of the face value of eligible claims tendered, before consideration for capitalised past due and accrued interest
Structure:	14-year bond with 24 equal semiannual amortisations, denominated in US dollars
PDI and Accrued Interest:	100% capitalised
Grace Period on Principal:	Two years
Coupon:	❖ 3.5% per annum fixed for years 1-2 ❖ 7.5% per annum fixed for years 3-14
Payment Frequency:	Semiannual
Natural Disaster Clause:	Yes

Scenario 2: 3.25% Amortising Notes due 2044

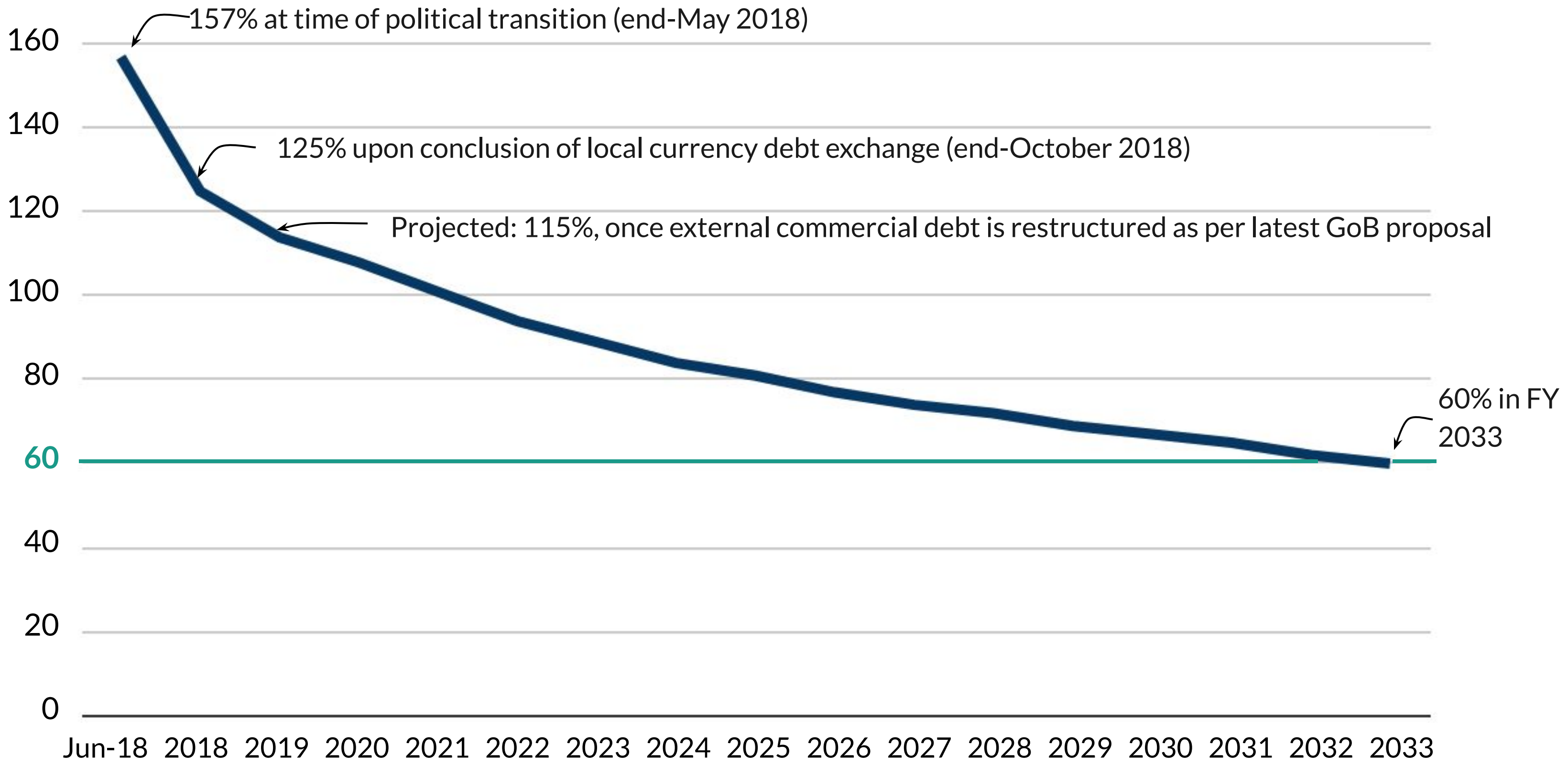
Exchange Basis:	Issued at par relative to the face value of eligible claims tendered
Structure:	25-year bond with 20 equal semiannual amortisations, denominated in US dollars
PDI and Accrued Interest:	100% written off
Grace Period on Principal:	15 years
Coupon:	3.25% per annum fixed throughout
Payment Frequency:	Semiannual
Natural Disaster Clause:	Yes

Impact of Latest GoB Proposal

Scenario 1 of the GoB's latest restructuring proposal was presented to the bondholder committee in May 2019 and is the outcome of the consultations that the GoB has maintained with its creditor community over the course of the year. Both scenarios are at the limits of what is compatible with the debt sustainability framework that underpins the EFF. In particular, both scenarios:

- Make full use of the cash flows available over the four years of the EFF
- Allow the debt-to-GDP ratio to reach 60% in FY2033/34, together with the October 2018 local currency debt restructuring and the fiscal correction presently underway
- Result in a relatively smooth and manageable repayment profile, that will not leave Barbados exposed to material levels of refinancing risk.

Projected Trajectory for Debt-to-GDP Ratio



Note: Based on fiscal years (Apr-Mar); assumes 100% of Eurobonds and CS loans are restructured as per proposal, with new instruments equally divided between Scenarios

Next Steps

In the coming weeks, the GoB will continue discussions with its creditor community around these Scenarios, with a view to adjusting the structure of the bonds to meet creditor preferences so long as they are compatible with the debt sustainability criteria laid out in its EFF with the IMF. The GoB will remain engaged in good faith negotiations with the bondholder committee and welcomes further opportunities for constructive dialogue.

Once this final consultative phase has concluded, the GoB intends to launch a formal exchange offer open to holders of its Eurobonds and the Credit Suisse 2018 and 2019 loans. It is expected that affected holders will have a period of approximately three weeks to consider and respond to the offer. It is anticipated that holders of other unsecured US-dollar denominated instruments will receive separate but comparable offers around the same time.

Frequently Asked Questions

1) *Is the GoB's latest proposal final?* It is not. However, the GoB believes that it has improved the proposed terms as much as it possibly can given its commitment under the IMF-supported programme. Creditors are still free to propose alternative structures that are fully compatible with the EFF FY2027/28 and FY2033/34 debt anchors, but if no such alternative structures are put forward, the latest proposal is likely to form the basis of the GoB's forthcoming exchange offer.

2) *Why is the 60% debt-to-GDP by FY2033/34 target so important?* This is the overall public debt-to-GDP ratio target that was agreed with the IMF, consistent with other recent IMF programmes in the region (for example, Jamaica). The 60% debt-to-GDP by FY2033/34 target also serves as <u>the</u> anchor for the macro framework that underpins the EFF. If the GoB were to agree to a debt restructuring deal with holders of its US dollar-denominated debt that is incompatible with the target, Barbados would go "off track" with its EFF. This would cause IMF disbursements under the EFF to be suspended (along with disbursements from other multilaterals), jeopardising the considerable progress that has been made in stabilising the economy since May 2018. The GoB cannot allow this to happen.

FAQs (continued)

3) *Why does the GoB's latest proposal comprise two options?* The GoB understands that some bondholders will prioritise relatively shorter maturities and interest rates that are more or less market-based, whereas others will value principal preservation above all else. The two options are intended to cater to both sets of broad preferences.

4) *Why is Barbados pushing "haircuts" on holders of US dollar-denominated claims?* The GoB remains agnostic as to whether the debt is restructured on the basis of a principal haircut or on the basis of an exchange at par. However, given the need to return the public debt to sustainable levels as per the parameters of the EFF-supported programme, there is an inherent trade-off between tenor/interest rate, on the one hand, and principal preservation, on the other; the only way that a shorter maturity with higher interest rates can work is on the basis of a reduction in the face value of claims.

FAQs (continued)

5) *Is there scope to shorten tenors or raise coupons further?* The simple answer is no. The considerable improvements that have been introduced by the GoB since it first published indicative scenarios in November 2018 have taken the fiscal projections to their limit. With the improved terms, the debt-to-GDP ratio is projected to hit 60% during fiscal year 2033, with little buffer against the downside risks to the projections; Barbados is, and will remain, a small economy that is highly exposed to exogenous shocks and will continue to be one of the world's most highly indebted countries for some time to come, even post-restructuring. As displayed in the Annex, even at 60% of GDP, Barbados's debt target is well above the average for emerging markets.

6) *How does the proposal compare to what was agreed to by holders of Barbados dollar-denominated debt in late 2018?* The proposals are comparable in net present value terms to the ones accepted last year by holders of local currency debt (taking into account the interest payments received by those creditors on the old terms between June and September 2018).

FAQs (continued)

7) *Has the IMF approved the GoB's latest proposals?* Because of its remit, the IMF is not in a position to approve or disapprove a sovereign borrower's proposals to its creditors; however, IMF staff has analysed the proposal and concurs with GoB's assessment of its likely impact on the future trajectory of the debt-to-GDP ratio.

8) *What about the counter-proposals put forward by the bondholder committee?* The bondholder committee has put forward a number of different counter-proposals since September 2018. By admission of "people familiar with the committee's negotiations" as quoted by a Bloomberg report on 30 May 2019, the committee's most recent proposal is not compatible with the debt anchor underpinning the EFF as it would not allow the GoB to reach its debt-to-GDP target by 2033. As such, it cannot form the basis for a resolution of the external commercial debt overhang.

9) *When does Barbados expect to launch its exchange offer?* The GoB cannot be precise about the exact timing of an offer whilst negotiations with creditors are ongoing, but its current expectation is that the offer will be launched during the next three months.

FAQs (continued)

10) *What is the liquidity of the new bonds expected to be like?* The GoB cannot predict the extent to which investor interest will lead to an active trading market for the new instruments or how liquid those markets may become. That said, the GoB does not expect the new instruments to be any less ‘marketable‘ than the existing ones; if anything, liquidity should be enhanced by the process of consolidation.

11) *What will happen to those holders that choose not to tender?* There are two possible scenarios. In the case of the Eurobonds, if the 75% voting thresholds embedded in the bonds are reached, any amounts that are not tendered will be automatically restructured as per the terms of the exchange offer. If these thresholds are not reached in the bonds, or if the lenders choose not to tender the Credit Suisse loans for exchange, it is likely that untendered holdings will remain outstanding indefinitely. Barbados does not expect to have the resources available to resume servicing the existing debt instruments on current terms, and does not intend to offer affected creditors better terms in the future due to the constraints of the EFF and its commitment to inter-creditor equity.

Annex: Debt-to-GDP Comparison

Country	2018 Debt / GDP (%)
Barbados	125
Region	
Jamaica	99
Belize	95
OECS	72
Suriname	70
Dominican Republic	42
All Emerging Markets	
IMF Aggregate	51

Source: IMF World Economic Outlook, April 2019