



MINISTRY OF FINANCE, ECONOMIC AFFAIRS & INVESTMENT

June 18, 2018

FAQs

Q1. Why did Barbados announce the suspension of payments on the external commercial debt so suddenly?

A1. Barbados is facing a structural debt crisis, as well as an external liquidity crisis. Upon coming into office, the new administration was confronted with international reserves at critically low levels on the eve of very heavy debt payments that would have reduced reserve levels by well over 25% in that month alone. The very late timing of the general elections left the incoming administration with very little time to make critical decisions. Ultimately, the new government took the view that stemming the haemorrhaging of the little external liquidity that the country has was the only viable alternative if the currency peg is to be preserved.

Q2. How is the Government defining external commercial debt?

A2. Any commercial debt facility denominated in currencies other than the Barbados dollar, irrespective of the residency of the holder or creditor.

Q3. Were the looming debt service payments the only factor that led the Government to decide to include the external commercial debt in restructuring?

A3. No. The reserve levels at the time of the political transition and the schedule of external debt payments were the catalysts for the decision, but

the fact remains that the Government believes that the public debt is unsustainable from a structural perspective; as such, it takes the view that a permanent and credible solution will require adjustments to both the domestic and external commercial debt. It is worth noting that the IMF concurs that the public debt is unsustainable

At over US\$1.5 billion, the external debt is by no means small for a country such as Barbados. It appears small in relative terms, but only because of the sheer quantum of the domestic debt.

It is also the case that the looming Eurobond bullet maturities in 2021/22 would have complicated the financing outlook under any programme, and the process of rebuilding confidence in the external liquidity position of the country.

Q4. Why has the Government suspended the servicing of the external commercial debt, whilst it continues to service the domestic debt?

A4. The Government is suspending debt servicing on commercial debt facilities denominated in foreign currency, and not on debts owed to external commercial creditors as such. Again, the decision goes back to the availability of external liquidity.

In order to avoid placing liquidity pressures upon the domestic financial system, interest payments will continue to be made on Barbados dollar-denominated debt instruments until restructuring agreements can be reached with affected creditors. However, holders of such instruments will be required to roll-over principal maturities.

In keeping with its commitment to inter-creditor equity, the Government expects that any restructuring terms that are eventually put to holders of claims denominated in currencies other than the Barbados dollar will include an adjustment (in net present value terms) to take into account any discrepancy in the payments received by creditors between now and the time of closing.

Q5. Does the recently-announced suspension of payments also affect foreign currency-denominated commercial debt facilities contracted by public sector entities beyond the central government?

A5. Yes. Again, this goes back to the availability of foreign exchange.

Q6. What is the scope of the restructuring? What debt instruments are to be included and/or excluded?

A6. The Government will make information about the scope of the exercise in the coming days.

Q7. Will all creditors be offered the same terms?

A7. Not necessarily. The forthcoming restructuring will involve a variety of different instruments, held by diverse creditor categories. The Government recognises that this may call for different approaches, structures, and terms when it comes to implementing the restructuring. That being said, the Government is committed to the principle of inter-creditor equity across all creditor categories. This means that all creditors will be offered terms that are comparable, even if there are differences in actual restructuring terms.

Q8. Does the Government envisage extending different treatment to holders of foreign currency debt on the one hand, and holders of Barbados dollar-denominated debt on the other?

A8. See A4 and A7 above. Equitable treatment in net present value terms across creditor and instrument categories will be a guiding principle of the exercise.

Q9. The National Insurance Scheme (NIS) and the Central Bank of Barbados (CBB) are important holders of government paper. Does the Government intend to include these creditors in the restructuring?

A9. Yes. The Government believes that the NIS and the CBB will be central to a comprehensive resolution of Barbados's public debt.

Q10. The local financial system is heavily exposed to the Government. How will you ensure that the solvency and integrity of the local banking and insurance sector is not impaired?

A10. The Government will be looking very carefully at the situation of specific segments of the local financial system and, if necessary, at individual institutions; the emphasis throughout will be on identifying structures and solutions together with domestic creditors that enable them to contribute to the debt restructuring process in a way that does not imperil their financial integrity

Q11. And what about the NIS?

A11. Any viable solution will have to ensure that the NIS has the resources it needs to meet its commitments over the long term, on the basis of the public sector no longer accumulating fresh contrition arrears.

Q12. Will the Government be aiming for a principal ‘haircut’

A12. It is too early to talk about specific terms. The Government does not have any preconceptions in this regard, and will be open to suggestions from creditors. However, given the fact that Barbados’s debt burden is unsustainable, the Government expects that the restructuring will have to be comprehensive. Ultimately though, the terms will be largely dictated by projected payment capacity based on medium-term macro framework that the Government will be discussing with the IMF. What the Government will insist on, though, are terms that are likely to put the debt firmly on a sustainable footing, in conjunction with its forthcoming economic programme.

Q13. How long do you expect the process to take?

A13. Given the scale of the challenge, it is difficult to put a precise timeframe on the process. The Government would like the process to be concluded sooner rather than later, and will be working hard to ensure that steady progress is made; however, and given the complexities, the Government believes that it is preferable for both sides to take the time necessary to arrive at an appropriate and credible solution, than for a wrong solution to be rushed.

Q14. What are the next steps?

A14. The discussions between the Government and the IMF are gathering pace, and the next Fund mission is now expected to arrive back in Barbados on 2 July 2018 in order to start the process of negotiating a lending arrangement. Once these discussions give rise to an agreed macro framework and a set of medium-term macro projections, the Government will be in a position to determine its forecast payment capacity over the medium-to long-term. It will be on this basis that the Government and its advisors will engage creditors to discuss repayment terms that are compatible with this projected payment capacity.

In the interim, information that is of relevance to creditors will be posted periodically on the GIS website <http://gisbarbados.gov.bb/creditors/>; creditors should also feel free to contact the financial advisor at barbados@whiteoakadvisory.com with any questions, suggestions, or comments.
