

Recent Developments In Debt Management

“The Nevis Experience”



The Second Forum of Caribbean Debt Managers
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Outline

- Background
 - Fiscal and debt data (historical)
 - Fiscal Balance
- IMF Programme
 - Data requirements
- Debt Restructuring
- Challenges
- The way forward





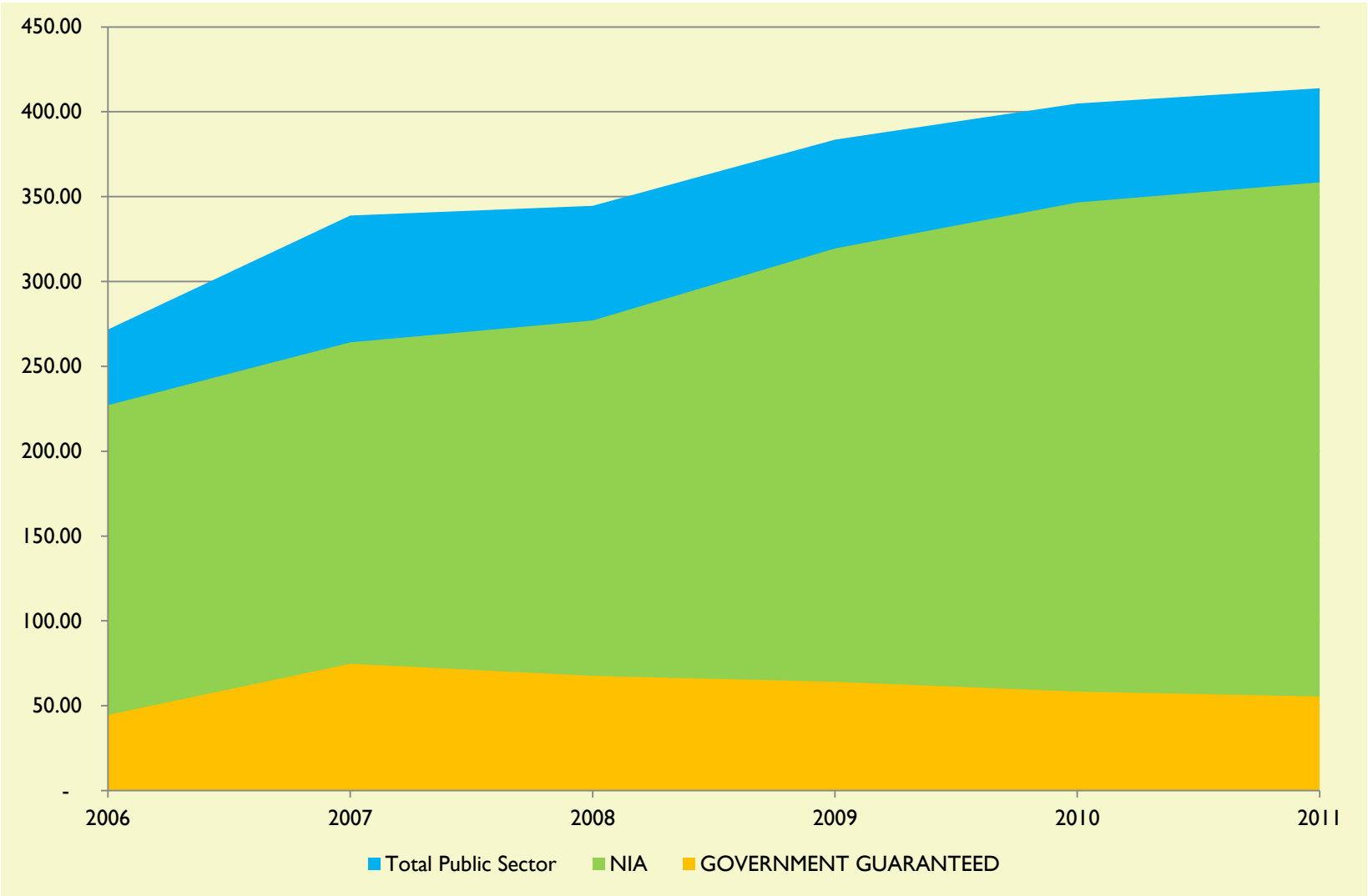
Public Debt and Debt Service (in millions of EC\$)

	Public Debt Stock	Debt Service	Total Revenue	Debt Service As a % of Revenue
2006	271.71	33.88	89.26	37.95
2007	338.87	36.53	104.93	34.82
2008	344.59	30.96	111.54	27.75
2009	383.58	28.41	90.07	31.55
2010	404.89	55.76	93.99	59.32
2011	413.88	47.75	119.59	39.93

Sources: Ministry of Finance, Nevis



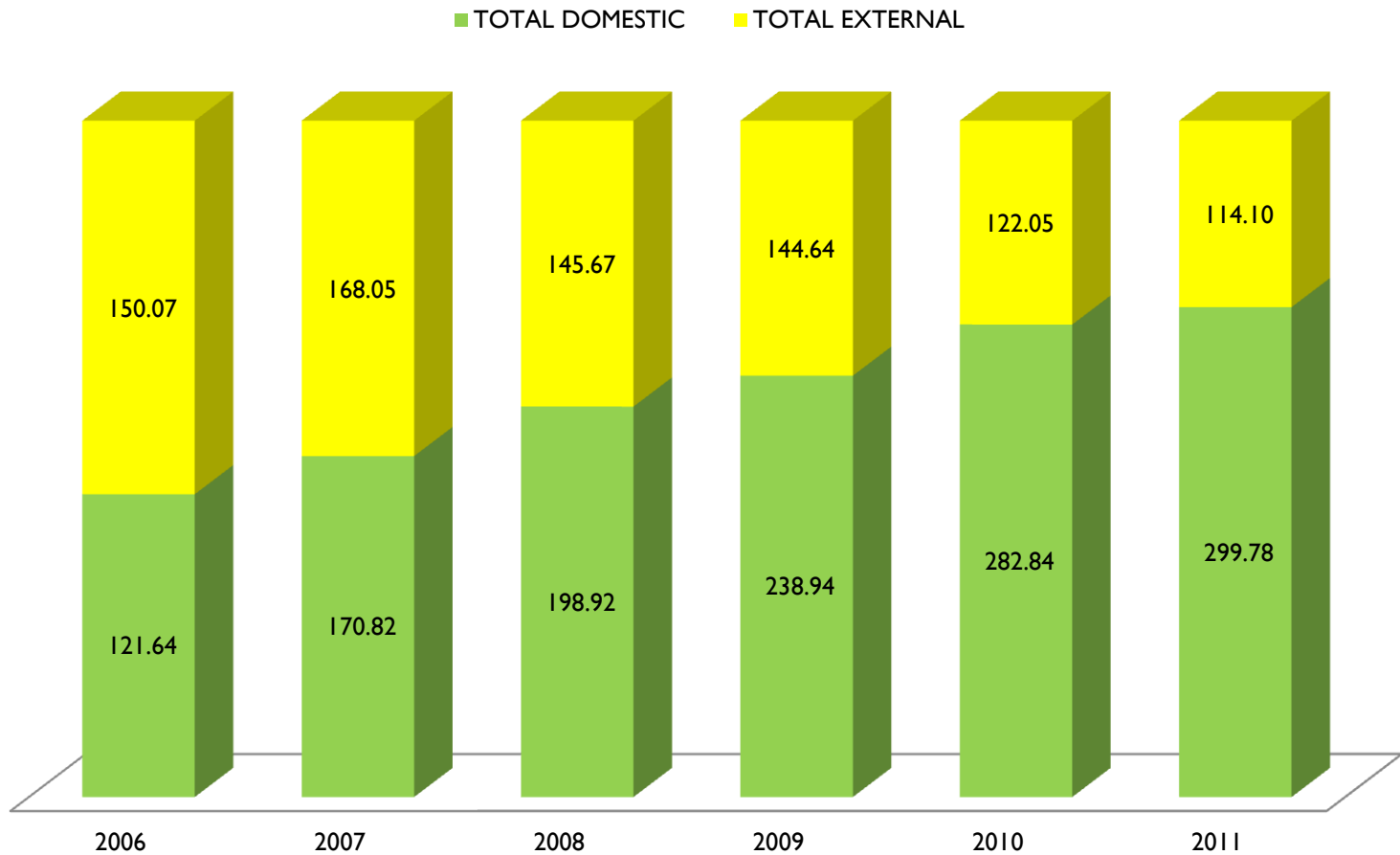
Public Sector Debt





Public Sector Debt

Domestic and External Public Sector Debt



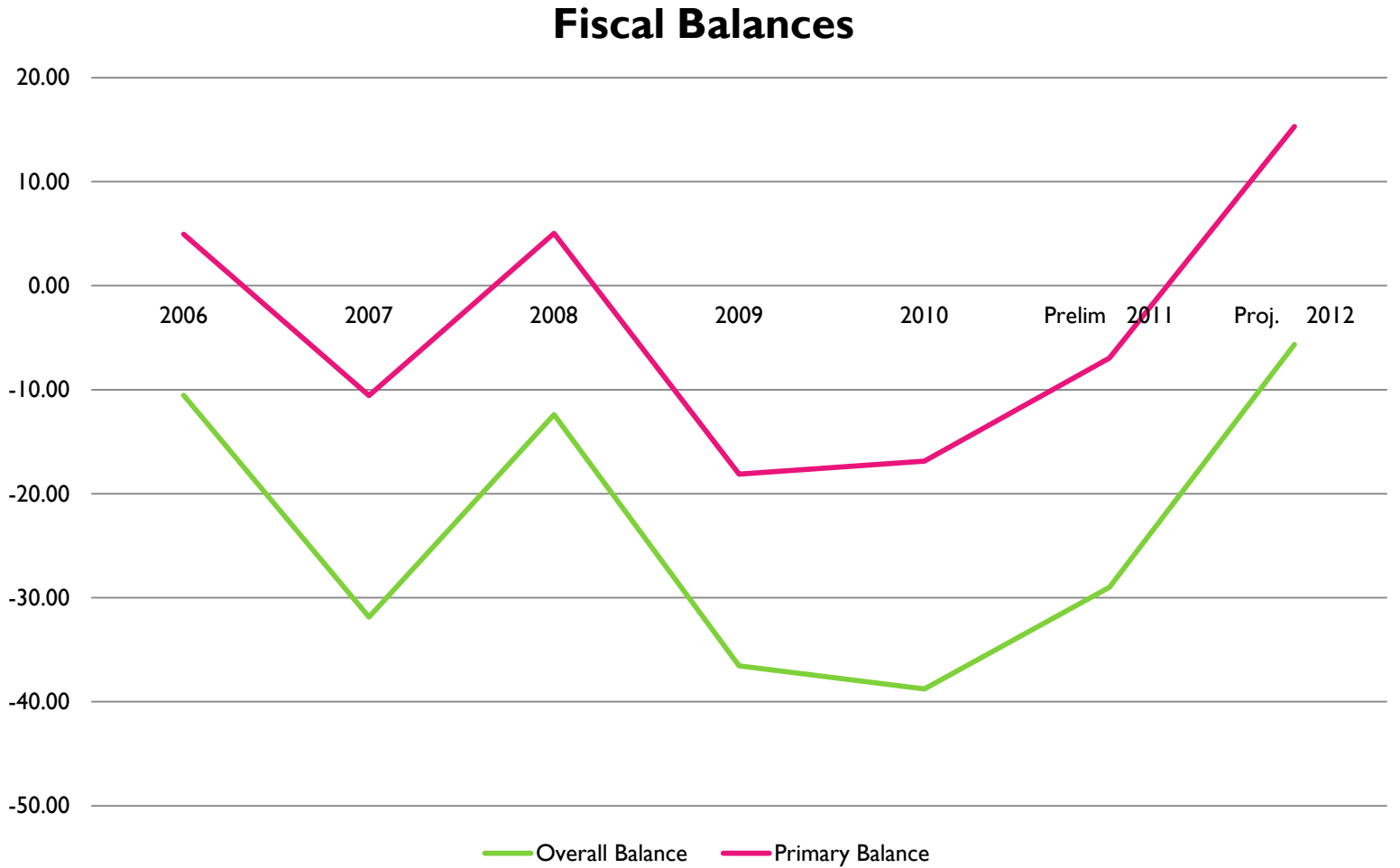


Reasons for Fiscal Imbalance

- **Exogenous shocks**
 - Financial and economic crisis
 - Significant drop in tourism stay over arrivals
 - Slowdown in FDI inflows and tourism related construction activities
- **Hurricane Omar in 2008**
 - Closure of the Four Seasons Resort
 - Over 600 unemployed workers
 - Drop in Government Revenue



Fiscal Balances





Fiscal Balances (Cont'd)

	Total Revenue and Grants	Total Expenditure	Capital Exp.	Interest Payment	Fiscal Primary Balance	Overall Fiscal Balance
2006	89.26	99.79	17.89	15.47	4.94	-10.53
2007	105.09	136.94	41.79	21.27	-10.58	-31.85
2008	112.24	124.63	22.20	17.42	5.03	-12.39
2009	91.53	128.09	20.74	18.42	-18.13	-36.55
2010	94.78	133.56	23.58	21.91	-16.88	-38.78
2011	119.64	148.65	38.30	22.05	-6.95	-29.01

Sources: Ministry of Finance, Nevis.



IMF Programme

- Objectives
 - Boost Growth
 - Reduce Public Debt Levels
- A three-pronged approach
 - Fiscal consolidation
 - Comprehensive debt restructuring
 - Strengthening the financial sector



IMF Programme (Cont'd)

- Performance Criteria
 - Overall balance – measured from the financing side as the sum of the net domestic financing , net external financing plus proceeds from sale of public assets minus clearance of arrears.
 - Stock of Short Term Debt- debt owed or guaranteed by central government with an original maturity of up to and including one year.



IMF Program (Cont'd)

- External Arrears – External debt service obligations falling due after Dec 31, 2010 that have not been paid at the time due taking into account the grace period specified by contractual arrangements
- Budget Expenditure arrears
 - This should not surpass the ceiling set at end Dec 2010.



IMF Program (Cont'd)

- Indicative target on Central Government Primary Balance
 - The floor of the primary balance will be monitored from the financing side as the sum of the net domestic financing, net external financing, proceed from sale of assets plus domestic and external interest payments on a due basis



Data requirements

- **Fiscal Sector:**
 - Fiscal data
 - Debt data
 - Debt service arrears
 - Budget expenditure arrears
 - Copies of any new loan agreements



Data requirements (Cont'd)

- Financial Sector
 - Monetary survey (ECCB)
- Real Sector
 - Economic indicators



Restructuring

- Purpose – to bring the debt level on a downward path and provide debt relief to the wider public sector
- External Commercial Creditors were initially given three options
- Domestic Debt to receive different treatment
- Government advised to refrain from making debt payments during negotiations



Restructuring (initial discussions)

- Scenario 1: 30 yr discount bond
 - Amortizing Bonds due 2041
 - Face value to be reduced by 60%
 - Remaining principal to be repaid in Semi-annual installments over 23 yrs, following a 7 year grace period
 - Interest fixed at 4% per annum until maturity



Restructuring (initial discussions)

- Scenario 11: 25 yr discount bond
 - Level payment Bonds due 2036
 - Face value to be reduced by 60%
 - Remaining principal to be repaid in mortgage style installments over 25 yrs, with no grace period
 - Coupons to step-down over life of bonds as principal repayment step-up
 - From issuance through 2015: 6% per annum, paid monthly
 - From 2016 onwards: 3% per annum, paid monthly



Restructuring (initial discussions)

- Scenario III: 50-year Par Bond
 - Level Payment Bonds due 2061
 - No reduction in face value
 - Principal to be repaid in mortgage style monthly installments over 30 yrs, following a 20 year grace period
 - Interest fixed at 1% per annum until maturity



Debt exchange

- Press release launched debt exchange offer on February 27th 2012
- Partial guarantee provided by CDB
- Two offers:
 - New discount bonds issued at 50% discount on the principal amount
 - Monthly mortgage-style repayment with no grace on principal
 - Final maturity of 20 years – last payment due in march 2032
 - Coupon: 6% for 4 years, then 3% from March 2016



Debt exchange (Cont'd)

- The New Par Bonds
 - Final maturity of 45 years
 - Monthly mortgage-style payments
 - Coupon of 1.5%
 - 15 years grace period on principal repayments
- The New discount bond would benefit from partial guarantee from CDB of up to \$12M but the new Par bonds would not benefit from partial guarantee



Debt exchange (Cont'd)

- Offer expired March 14, 2012
- Holders of two-thirds of the debt selected New discount Bond
- A one-off “goodwill” payment will be made in lieu of interest one month after the issuance of the new instruments

Debt Exchange Offer Closes



- On 18 April 2012 New Discount Bond with FV of US\$43.3M and New Par Bonds with FV of EC\$134.4 M were issued
- Goodwill payments on May 18, 2012
 - New Discount Bonds – US\$130 per US\$1000 FV plus first principal and interest payment
 - Holders of New Par Bonds received EC\$11.25 per EC\$1000 FV plus first interest payment

(Holders who did not tender their claims received New discount bonds in exchange for their original instruments)



Treatment of Domestic Debt

- Debt for land swap
- EC\$900M in debt owed to domestic creditors included in agreement
- Special Purpose Vehicle (SPV)



Challenges

- Meeting IMF targets (Nevis)
 - Accumulation of arrears
- Receiving timely information from Public Corporations
- Involvement in restructuring process
 - Lack of co-ordination
- Global environment
 - Uncertainty in economic sectors
- Zero growth projected in 2012



The Way Forward

- Development
 - MTDS
 - Bulletin
 - DSA (a joint DSA was done in 2011)



Thank you!