DMF Stakeholders Forum 2011 (Berne)
Recent Experiences with Debt Restructuring and Emerging Challenges:

The Case of Grenada
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Context and Key Messages
Scope and Results of Debt Restructuring
Emerging Challenges
Context and Key Messages

The Caribbean has emerged as a highly indebted region with 16 of the top 30 most indebted countries in the world.

- **Loss of geo-political significance**
  - Result: Reduced access to concessionary financing/More commercial borrowing

- **Graduation from World Bank lending**
  - Result: Reduced access to concessionary financing/More commercial borrowing

- **Erosion of preferential access in Europe for bananas and sugar**
  - Result: Larger deficits to smooth adjustment

- **Debt creating external shocks**
  - Global and Economic Crisis (2008–10)
Backdrop

*Grenada suffered a direct hit from Hurricane Ivan on September 7, 2004, one of the strongest storms to ever hit the Caribbean region*

- Damages estimated to be over 200% of 2003 GDP (US$890mn)
- 29 persons were killed
- Nearly 90% of the country’s housing stock damaged or destroyed
- Productive sectors decimated
- Economy contracted by almost 6% (*compared to pre–hurricane projection of positive growth of 4.7%*)

It was clear that burden sharing among donors, creditors and the Government and People of Grenada would be absolutely essential for economic recovery.

Grenada At A Glance *(2010 outturn)*

- GDP Per capita: US$6,867
- Population: 108,632
- Real GDP growth: (2.0)
- Poverty: 37.7%
- Unemployment: 29.0%
- Public Debt to GDP: 97.2%
- Public External Debt to GDP: 70.3%
- S&P Rating: BB-/stable
Key Messages

- Debt restructuring has provided significant debt servicing relief and helped expedite post-hurricane recovery in Grenada.

- The recent global economic and financial crisis can best be described as an economic hurricane. It has derailed Grenada’s growth performance and undermined the prospect of debt sustainability.

- While Grenada continues to take significant steps to improve fiscal and debt sustainability, a more fundamental approach including fiscal and structural reforms, disaster risk reduction and debt level reduction is urgently required.

Growth has been reversed due to Great Recession

![Growth Chart](chart.png)

- Column 1
- Growth Rate
Debt to GDP Ratio remains high

Scope and Results of Debt Restructuring
Scope of Grenada’s Debt Restructuring

- Multilateral, bilateral and commercial debt (domestic and external) were considered
  - Multilateral creditors regarded as preferred creditors so multilateral debt was not restructured
  - Multilateral creditors did provide reconstruction financing

- Bilateral creditors were asked to forgive debt and or accept similar terms to commercial creditors (though outside a formal Paris Club process)

- Commercial Debt posed the most significant challenge
  - Largest creditor category: 45% of public debt
  - Diversity of Claims: domestic and external bonds, commercial bank loans, treasury bills, compensation claims, project debt guaranteed by Government
  - Multiple Currencies and Formats of Claims: EC$ and US$, in both electronic and bearer form
  - Varying Maturities and Coupons: short-to-intermediate dated loans and longer-term bonds, fixed and floating

- Grenada did not have an IMF programme

Obstacles Faced

- Stripped Securities - Several regional institutions stripped their claims and sold off principal and interest separately, or as participations, into the regional retail markets. Strips and participations needed to be tracked down individually and incorporated into the Exchange Offer

- Unfunded Financing Gaps - Although unusual, a decision was made, with the consent of creditors, to proceed with an unfunded financing plan for the sake of efficiency and timeliness

- Hurricane Emily - The category 1 storm, hitting the island 10 months after Ivan, caused delays and called for further revision of the restructuring terms (US$60mn)

- Absence of Official Programmes - Grenada had no IMF program or Paris Club arrangement in place

- Government Resources - significant constraints on Government resources which was limited and also focused on hurricane recovery
Commercial Debt Restructuring

- A highly successful commercial debt exchange involving capitalization of past-due interest was completed in November 2005.

- Grenada issued a bond with 20-year maturity and coupons of 1 percent for the first three years and increasing gradually to exit yields of 9 percent.

- Overall participation reached 91 percent or about US$237 million (40 percent of total public debt).

- The restructuring involved an NPV haircut of 40–45 percent and reduced commercial debt service costs by 80 percent during 2005–2008 (US$135 million for tenor of new bond).

- Grenada has made good faith efforts to engage nonparticipating creditors and participation is now nearly 100 percent.

- Grenada’s credit rating improved following the restructuring.

Unique Characteristics of Commercial Debt Restructuring

- Diversity of Claims - Claims consisted not only of bonds, but also of bank loans and guaranteed project debt

- Multiple Currencies - Claims were denominated in both US$ and EC$ (the local currency)

- Format of Claims - Many claims were not in book-entry form, but rather bearer form

- Creditor Group - An organized creditor group controlling a majority of claims (65%) formed quickly and hired its own financial and legal advisors; the group was engaged in dialogue and formally endorsed the restructuring terms

- Structure - US$ Bonds issued via an indenture under US law; EC$ bonds issued via a fiscal agency agreement under Grenada law
### Key Terms and Other Elements of Commercial Restructuring

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<tr>
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<tbody>
<tr>
<td>Currency</td>
<td>US$ and EC$ New Bonds offered. Creditors did not have the option to switch currencies on debt tendered into the exchange, which would have added an extra layer of complexity to an already difficult process.</td>
</tr>
<tr>
<td>Exit Consents</td>
<td>Exit consents were not included in the Offer, considered by holders to be too coercive.</td>
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<tr>
<td>CAC's</td>
<td>Each new series of Bonds (both US$ and EC$) contain separate provisions allowing for collective action clauses that take effect with a vote of 75% of the aggregate principal amount of that series.</td>
</tr>
<tr>
<td>Past Due Interest</td>
<td>PDI was fully recognized; however, a cut-off date of Sept. 15, 2005 was chosen to provide flexibility in amending the post-launch expiration date. Grenada has the option to call either series of New Bonds at par, in whole or in part, at any time after issuance. In addition, at least 20% of the original principal amount of the New Bonds must be retired each year during the last 5 years prior to maturity.</td>
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<tr>
<td>Debt Management Provisions</td>
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### Key Terms and Other Elements of Commercial Restructuring

<table>
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<tr>
<th>Bondholder Meetings and Voting Proxies</th>
<th>Some of the Eligible Claims contained provisions whereby the terms of the existing claim could be amended to conform them to those of the New Bonds if certain requirements were met.</th>
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<tbody>
<tr>
<td>GDP Kickers</td>
<td>Although suggested by creditors, it was deemed inappropriate to structure such a mechanism.</td>
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<tr>
<td>Guaranteed Debt</td>
<td>Evaluated on a case-by-case basis. Non-performing guaranteed obligations were eligible for Exchange Offer; participating claims waived rights to any security or collateral.</td>
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<tr>
<td>Participation Threshold</td>
<td>Targeted 85% as the minimum level of participation.</td>
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| Economics | • No principal haircut  
• Coupon rates step-up gradually to market levels  
• NPV reduction designed to provide significant relief to Government while preserving access to regional and international capital markets. |
Paris Club Rescheduling

- Grenada entered into a Fund programme in April 2006
- **US$16 million treated** under “classic” terms (3.7% of total debt) in 2006
- **Reduced debt service by 90%** from 2006-09
- Classic Terms included:
  - Repayment of credits over 12 years with a 5 year grace period
  - Cutoff period for debt was June 30, 2004
  - Arrears from December 31, 2005 and maturities falling due from January 2006 to December 2009
  - A goodwill clause to assess Grenada’s debt sustainability under the Evian approach at the conclusion of Fund programme

Non-Paris Debt Treatment

- No agreements reached
- Taiwan is Grenada’s largest bilateral creditor
- Grenada switched diplomatic ties to People’s Republic of China in January 2005
- Taiwan demanded full and immediate on the four outstanding loans (US$25 million) in 2005
- In March 2006, the Ex-Im Bank of Taiwan sued Grenada
- Grenada has offered a restructuring proposal comparable to recent restructurings
- Taiwan has persisted with legal action
Emerging Challenges

- **Little or No Economic Growth**
  - Growth assumptions in the DSA (2005) have not held
  - USA and UK in a slow and uncertain recovery
  - Grenada has experienced a sharp reversal in growth especially in 2009-10
  - FDI has dried up - at least US$700 million in tourism projects on hold
  - Collapse of two regional insurance companies constraining recovery (15.3% of GDP of Eastern Caribbean Currency Union)

- **Rising Debt Servicing**
  - Step-up coupons on restructured commercial debt

- **Protracted Fiscal Consolidation**
  - Cuts in capital expenditure compromising growth
  - Significant adjustment required to improve primary balance

- **Rising Food and Fuel Prices**
  - Expanded safety nets required to deal with rising unemployment and poverty
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Debt to GDP Ratio remains high
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- While Grenada continues to take significant steps to improve fiscal and debt sustainability, a more fundamental approach including fiscal and structural reforms, disaster risk reduction and debt level reduction is urgently required.

Government of Grenada

Thank You