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Remarks by Mr. Cleviston Haynes
Governor, Central Bank of Barbados
at
"Debt Exchange – Risks and Opportunities: Leveraging the Jamaican Experience"
Courtney Blackman Grande Salle
Thursday, November 15, 2018

On behalf of the Management and staff of the Central Bank, I welcome everyone to this workshop, which is geared towards sharing insights on the functioning of the money and capital markets in the aftermath of the restructuring of Barbados' domestic debt. I take this opportunity to thank NCB Capital Markets Barbados Limited for its willingness to share with us their experience and knowledge gained from the Jamaica Debt restructuring exercise in 2013.

On June 1, 2018, the newly-elected administration announced the unprecedented decision that Barbados had decided to suspend the servicing of commercial foreign debt payments and restructure both domestic and external debt. The purpose was to limit foreign reserves outflows, while securing meaningful and gradual debt reduction, thereby reducing financing needs and restoring debt sustainability.

The subsequent launch of a comprehensive domestic debt restructuring exercise on September 7 2018, as a critical component of the Barbados Economic Recovery Transformation (BERT) Programme, achieved near unanimous acceptance of the debt exchange proposals, with 97% participation by creditors. The terms of the new instruments involve some sacrifice by all bondholders, as Government seeks to balance the fiscal imperatives, including anchoring the BERT programme through a reduction in the debt-to-GDP ratio to 60% by 2033, against the need to preserve financial stability and protect the long-term interests of small bondholders.

The restructuring comes in the intermediate aftermath of the adoption of the new accounting standard IFRS9. This will have implications for how financial institutions, regulators and auditors assess balance sheets going forward. From a capital market perspective, the fundamental question is how will the domestic capital market behave? Will activity decline and, if so, for how long? Will investors be predisposed to some instruments over others?

These questions are relevant given the size and comprehensive nature of the restructuring and the limited availability of alternative investment instruments. At the same time, new instruments and institutional arrangements are likely to influence the functioning of the market. The new debt instruments are markedly different from those that existed before. The new coupons are lower and maturities are longer, with limited issuance of short-term Treasury bills. In addition, several of the new instruments will be redeemed in tranches rather than as bullets, enabling a gradual reduction in the debt stock. An added feature of some of the new securities structures is a Natural Disaster Clause, which takes account of our nation's vulnerability to natural disasters by affording Government the option to defer debt service payments, on the occurrence of a catastrophic weather event.

Apart from the passage of the Debt Holder (Approval of Debt Restructuring) Act 2018, which gives effect to the debt restructuring, there have been consequential amendments to the existing body of legislation governing public debt issuances, namely the Local Loans, Treasury Bills and Tax Certificates and the Savings Bonds Acts. In addition, Parliament also passed the Dematerialisation of Government Securities Act 2018 to provide for the issuance of statements rather than physical certificates for the new instruments.

This change to the issue format, as well as in the nature of the securities, has resulted in the need for the Bank to alter its pre-existing software to facilitate ease of issue of statements. The process has taken somewhat longer than originally envisaged, but our staff has been working assiduously with our software providers to manage this transition in an effort to enable the timely issuance of the new statements. I have been advised that, pending any last minute technical glitches, the process for issuing statements in the new format should begin today.

An important benefit of the issuance of securities in this book-entry format is the resultant settlement efficiency that can be facilitated. Currently, the trading of government securities on the secondary capital market is characterised as thin and one impediment to trading activity is the length of time it takes for securities' transfers, with respect to the registration of ownership. With securities now being issued in a dematerialised, book-entry format, it is envisioned that secondary market activity will be executed more timely and efficiently, compared to what was feasible with physical certificates.

The Central Bank is planning to introduce a web-based interface between its bond registry, the brokers and the Barbados Stock Exchange, whereby brokers will have read-only access to verify the holdings of investors seeking to divest their securities. This will be supported by a messaging facility with the Central Bank to ensure that the transfer process is effectively completed.

At the outset, it is unlikely that there will be any significant issuance of domestic debt in the short-term, partly because the fiscal consolidation will remove the need for Government to raise new financing. However, institutional investors will continue to require instruments for investment and an adequate means to facilitate the pricing of these instruments. The newly-issued securities in the format of varying maturities allow investors to select the maturity desired to satisfy their investment needs. Experience shows that post debt restructuring, default risk spreads narrow and sovereign credit ratings improve, enabling reductions in the yields on government paper. The Bank will shortly publish an indicative yield curve for domestic debt to provide guidance to the market, and will also use this benchmark to price trades with its own account holders.

We do hope that these initiatives will contribute to the development of an active secondary securities market and advance the development of the local capital market.

Many of you would have observed that during 2017 the Bank increased the securities reserve ratio for commercial banks as a temporary measure until Government could strengthen its public finances. Before I close, therefore, I want to indicate that the Bank's Board of Directors has approved a reduction in the securities reserve ratio from 20% to 17.5%, effective November 29, 2018. This decision reflects the Bank's commitment to reduce this ratio as Government's fiscal situation improves, and further phased reductions are anticipated in the coming months.

I wish you an informative workshop.