German Bundestag Committee on Economic Cooperation and Development:

Public debt and the possibility of a sovereign debt work-out mechanism

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United Nations Development Programme

The true face of public debt

"Every year for many years, we have been spending more than we earn. Every year, we have to borrow to make up the difference, so, each year, the debt gets bigger and bigger and each year we have to set aside more money to pay the interest on that debt. [...] For the last 10 years, all of the taxes we collect have had to be used to service that debt. So, before we can pay one teacher or nurse or policeman, before we can patch one pothole, before we can put one bottle of medicine in our hospitals or provide one school lunch for a needy child, we have to borrow more money, piling up the debt even further and the cost of servicing that debt even higher."

Prime Minister Bruce Golding, Jamaica, 13 January 2010

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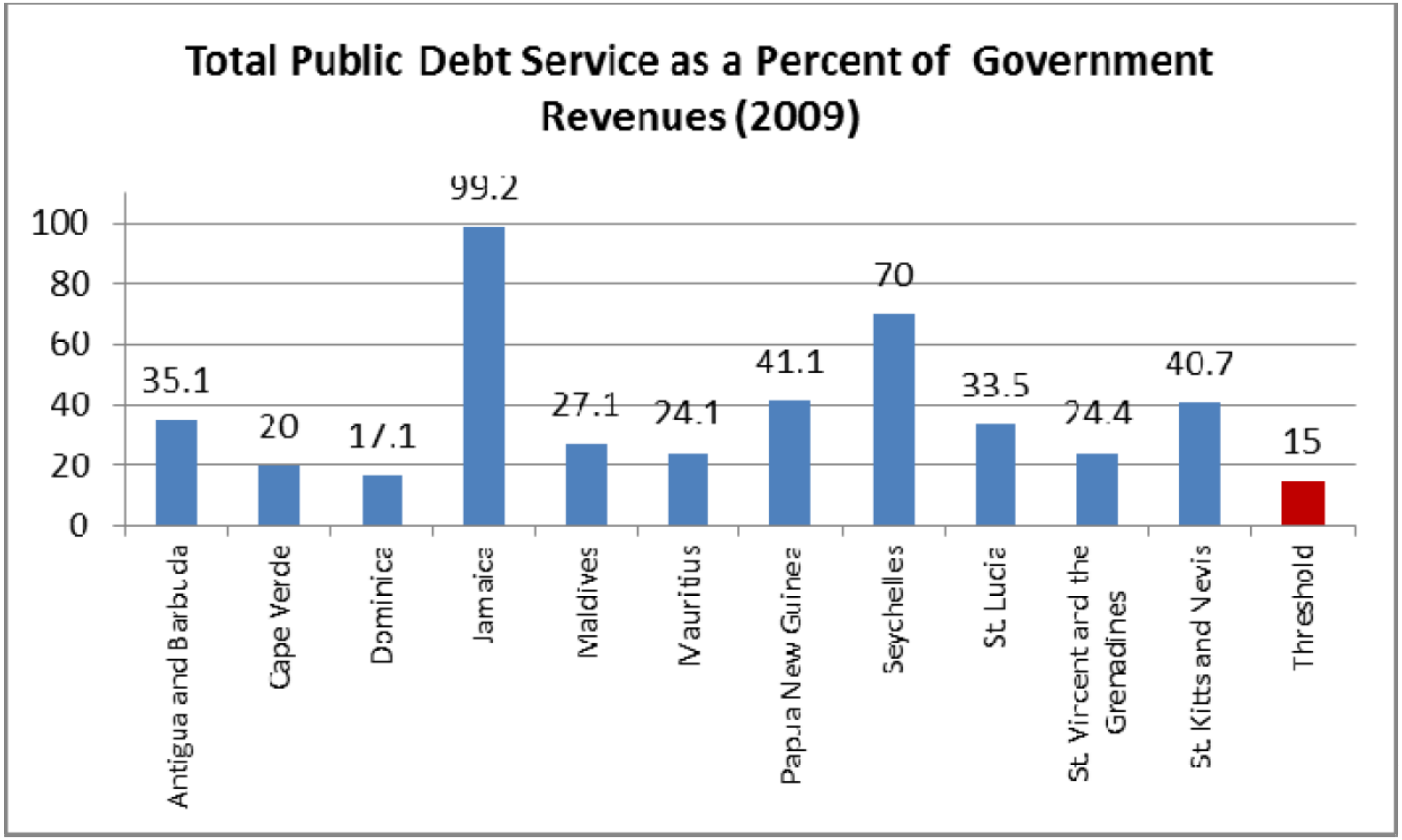

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ECCU countries' public debt levels

Eastern Caribbean Central Bank target: 60 percent debt to GDP

Country	2010	2011	2012	2013	2014
Antigua and Barbuda	120.5	128.5	134.0	137.0	139.6
Dominica	74.3	70.3	66.4	62.5	58.8
Grenada	119.1	116.3	111.8	104.5	96.8
St. Kitts and Nevis	192.1	196.1	200.2	206.5	213.2
St. Lucia	79.1	80.7	82.1	82.7	83.3
St. Vincent and the Grenadines	80.0	83.6	84.3	85.6	86.8
ECCU Overall	**103.8**	**106.8**	**108.4**	**109.3**	**110.3**

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•The IMF has identified nine small island developing states as either already in debt distress or at high risk of it

1. Comoros
2. Grenada
3. Guinea-Bissau
4. Haiti
5. the Maldives
6. São Tomé and Príncipe
7. St. Lucia
8. St. Vincent and the Grenadines
9. Tonga

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- **Concurrent food-fuel-financial crises have worsened public debt ratios**

- **Between 2007 and 2010, public debt levels in 20 small island developing states increased by on average 8.8 percent of GDP**

- **This compares to less than 3 percent for developing countries as a whole over the same period**

- **Climate change has increased (and will further increase) SIDS' vulnerabilities to natural disasters and public debt accumulation**

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•Extensive fiscal contraction currently underway in many small islands

•Poverty remains widespread in many countries despite many countries' categorisation as middle-income countries, e.g. 37 percent of people live below the poverty line in Grenada.

•Many small island developing states are implementing large public expenditure cuts in 2010 and 2011. These include: Comoros, Papua New Guinea, Grenada, Jamaica, Marshall Islands, Antigua and Barbuda, Maldives, São Tomé and Príncipe, St. Lucia and Timor-Leste.

•Current approaches rely on small island developing states to resolve debt problems themselves via fiscal retrenchment, increased taxation and ad-hoc debt restructuring.

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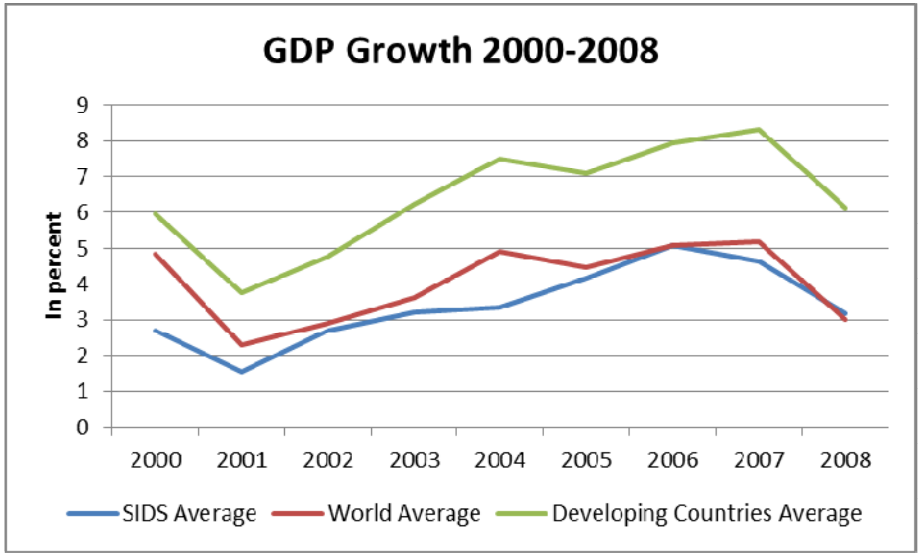
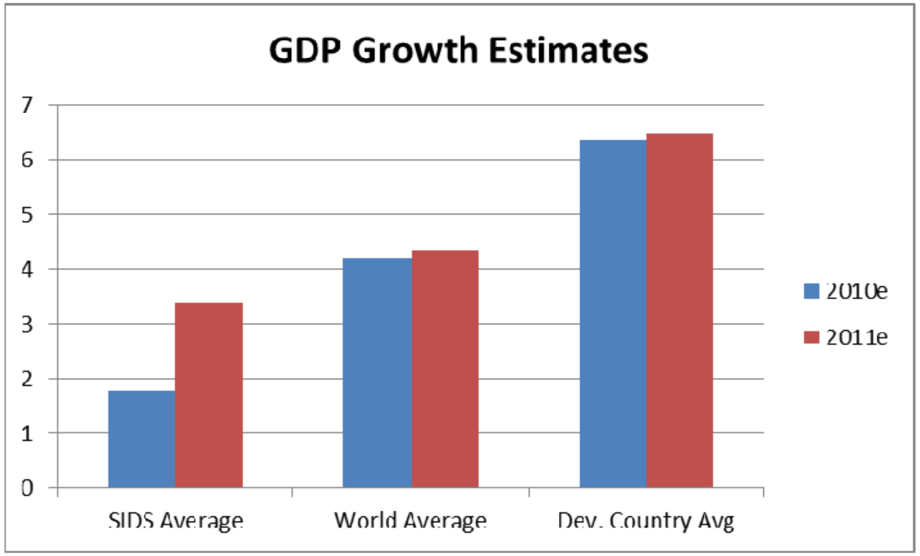
- **Policy options to reduce debt to sustainable levels:**

- **GDP growth for SIDS in 2010 was 1.7 percent on average compared to 6.3 percent for developing countries: SIDS unlikely to 'grow-out' of debt**

- **In many cases, the size of the debt overhang is so large debt restructuring must be ruled-in**





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•The ineffectiveness of current debt relief instruments:

•HIPC Initiative and MDRI now closed to ALL further entrants in the future thus these instruments are ineffective for these countries

•Much debt is owed to non-Paris Club creditors (e.g. emerging lenders, private bondholders, domestic creditors etc.) thus the Paris Club would address only a small proportion of bilateral debt

•Private bondholders have shown themselves willing to renegotiate in some cases and in others not. This leads to unpredictable and unfair outcomes

•The rapid increase in the number of lenders on the scene over the last few years makes debt resolution more complicated. Strengthens urgency of new internationally agreed rules.

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Country	Multilateral debt	Bilateral debt	Private external debt	Private domestic debt
Antigua and Barbuda		2010	2008	
Belize				2007
Comoros	At decision point under the HIPC Initiative: interim relief provided	2009		
Dominica			2004	
Dominican Republic		1985, 1991, 2004, 2005	2005	
Grenada		2006	2005	
Guinea-Bissau	At decision point under the HIPC Initiative: interim relief provided	1987, 1989, 1995, 2001		
Guyana	Received full multilateral debt relief under the HIPC Initiative and MDRI	1989, 1990, 1993, 1996, 1999, 2004		
Haiti	Received full multilateral debt relief under the HIPC Initiative and MDRI	1995, 2006, 2009		
Jamaica		1984, 1985, 1987, 1988, 1990, 1991, 1993		2010
São Tomé and Príncipe	Received full multilateral debt relief under the HIPC Initiative and MDRI	2000, 2005, 2007		
Seychelles		2009	2010	
Solomon Islands			2010	
St. Vincent and the Grenadines		2007		
Suriname		2009		
Trinidad and Tobago		1989, 1990		

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•The ineffectiveness of current debt relief instruments:

•Asymmetrical outcomes:

•Jamaica was not able to obtain a reduction in its overall debt stock from creditors: it merely extended maturities (by on average 2.5 years) and reduced interest rates (from on average 17 percent to 11 percent). It is once again in debt difficulties.

•Wealthier Seychelles managed to obtain a 50 percent reduction in the face value of some external bonds from bondholders.

•Arguably, the same set of internationally agreed rules should apply to most, if not all, cases of sovereign debt restructuring to ensure efficient, predictable and fair outcomes for all parties.

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Thank you!

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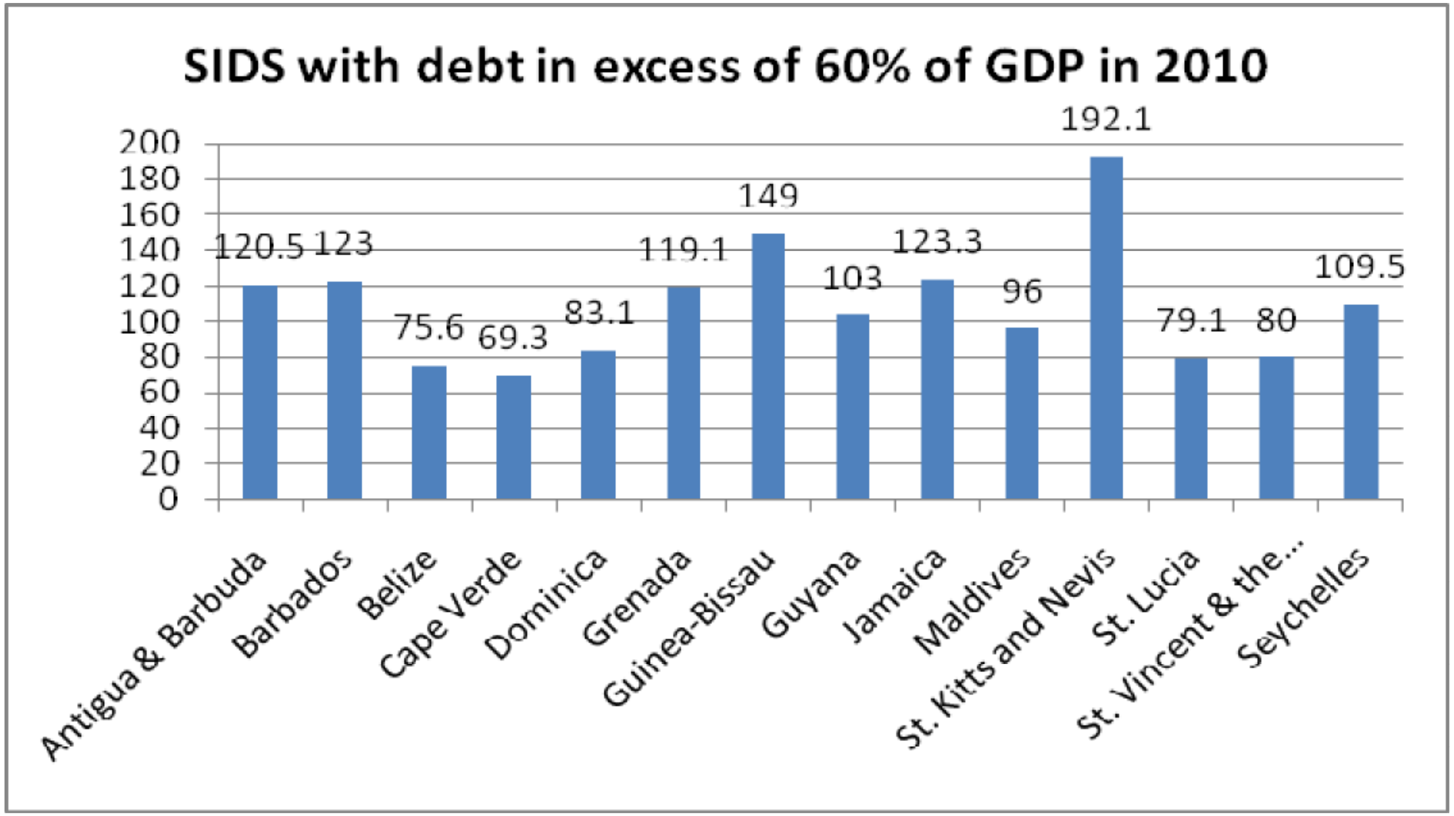

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