Government of Belize
Press Conference
Statement by the Prime Minister
on Debt Restructuring
Wednesday, August 22, 2012

Ladies & Gentlemen,

Good morning,

The Nation has been aware for months now of Government's debt restructuring exercise, announced before the March 7th General Election and commenced almost immediately thereafter. As the process accelerated, press releases have been periodically issued in an effort to update the public. Recently we published our indicative restructuring scenarios, our proposals as to how the Superbond might be reconfigured to provide Belizeans with the relief we both need and deserve. Then we announced last week that we would be unable to make the interest payment that was due on Monday. This last development in particular has greatly intensified attention, at home and abroad, on the issue. Hence this press conference now to fully address the matter.

The objective today is to provide all information possible. But it is also, I tell you plainly, to seek support, to rally the country behind what is a necessary and just endeavour.

Let me begin, then, with the all-important background.

As the facts make clear and the records reveal, the current mountain of public debt was accumulated during the period 2000 to 2005. This was when, for the first time in our history, the then administration resorted to short-term, high-priced, external commercial loans to fund bloated and corrupt financing needs.

During those six years alone, those loans totaled BZ$1,124,200,000, and eventually became the Superbond. The loans were contracted by the then Government at interest rates exceeding 11%, and with so-called bullet maturities, or lump sum payment, due as early as five years after commencement. All this meant that for that 2000-2005 period, Belize's commercial external debt increased by BZ$190 million annually. By 2008 when the present Administration took over, the national debt had more than quadrupled.

Together with this seismic increase in debt overhang, my Government was also confronted with the commodity and oil price shocks that greeted the start of our first term. This was when, for example, the per barrel price of petroleum surged to US$147. And compounding the disaster scenario was the onset of the most severe global financial and economic convulsion since the Great Depression of the 1930's. This was a nightmare. And in the middle of it the pressing priorities of poverty reduction, education, healthcare, security and infrastructure development still had to be managed. In this context it is nothing short of a small miracle that this UDP Administration proceeded to fulfill every debt obligation after taking office, including the almost BZ$300 million in interest payments on the Superbond.

But the price that we paid, the sacrifices that we made, to meet fiscal and debt targets, became increasingly unendurable. And earlier this year, we recognized that despite our unrivaled fiscal discipline, the level of public debt had remained too stubbornly elevated. This was contributed to by the step-up Superbond interest rate; and was in combination with the protracted nature of global contraction, the decline in our oil production and revenues, and the unavoidable intervention in the public utilities sector leading to the acquisition of BTL and BEL.

It was against this backdrop that I announced the intention to seek a mandate from the voters, at the last General Election, to renegotiate the terms of the Superbond. On March 7th the people of Belize gave this mandate. And thus was consecrated this mission to place our country once and for all on the road to long term debt sustainability.

Within days of our re-election, the Debt Review Team had been appointed and a comprehensive debt review had commenced.

Then on June 20th, the Government published a Financial and Economic Update, signaling the completion of the review process and confirming the formal decision to restructure (our external commercial debt) the Superbond.

That Update included estimates of the financing gaps Belize would face in the short term, in the absence of material debt relief. And those gaps were as large as 8% of GDP.

Subsequent to the release of the Update, our Negotiating Team, assisted by our external debt advisors, White Oak Advisory, reached out across continents. We thus engaged with multiple individual creditors amounting to, by face value, over 85% of the Superbond holders. Preliminary views were also exchanged with advisors to a Creditor Committee formed to represent some individual bondholders that had banded into a group. Belize's circumstances were explained in great detail; queries were addressed; and suggestions made by the bondholders were recorded, all in good faith.

After this period of consultation, Belize posted Indicative Restructuring Scenarios on August 8. Three alternatives to the current Superbond terms were put forward, namely:

- a 50-year "par" option, with a 15 year principal grace period and a 2% interest rate
- a 30-year, 45% "discounted" option, with semi-annual repayment installments, without any principal grace period and with a step-up interest rate starting at 1% and gradually rising to 4%
- a 30-year, 45% "discounted" option, with a 5 year principal grace period, and with a mortgage style repayment at an interest rate of 3.5%

On Tuesday, 14 August, the Government announced that it was unable to make the step-up interest payment that was due on August 20th. Although debt service payments for 2012 were included in our annual budget, we made it clear at the time of the presentation that the Government had not yet identified the source of funding for the August payment. And I intimated in the speech that the payment, or all of it, was not a sure thing. In the end, as might have been surmised by those that had listened, no source of funding for the payment did materialize. We therefore could not pay. And that will remain the case unless we get the relief that can affect the dynamics and impact our ability to pay.

I also need to make clear that the published "Indicative Scenarios" are not a formal offer to the bondholders. They set out our calculations as to the nature and relief that our circumstances demand, and are intended to serve as a basis for the detailed discussions now with bondholders. They have, of course, been derived directly from-and are fully supported by-the projections published in June. Those projections clearly indicate that we face significant and persistent financing gaps. And the projections are in turn based on finely drawn calculations arising straight out of the known data and consequential computations. These latter have been shared with the creditors.

Now we are confident that our "Indicative Scenarios" would achieve the objective of closing the financing gaps that we identified in June. But we acknowledge that there may be alternative structures and approaches that could achieve similar ends. Consequently, we are prepared to consider and discuss any proposal that creditors may wish to put on the table. However, I am obliged to underscore that the Government of Belize will only accept a resolution that fully reflects the country's capacity to pay. Debt sustainability is the whole and entire object of the exercise, which brooks no other possibility.

And although our readiness for a face-to-face meeting is as yet to be taken up by the creditor committee, serious, good-faith negotiations are the only route to a consensual solution.

Apart from the initial debt review, and now the full-bore restructuring operation, the Belize Team has also been exploring the possibilities for settling the so-called additional liabilities; namely, compensation for the BTL and BEL shares. However, initial contacts in this regard have not to date yielded serious progress.

As well, to verify our projections and to widen support for our debt operation, our Team has maintained consistent communications with our IFI partners, especially the IDB and the IMF. A package of fiscal policy measures was negotiated with the former and has been fully implemented. This is in further earnest of Government's commitment to reform, development and growth.

Most important of all, since releasing the "Indicative Restructuring Scenarios", GoB's Team has consulted with a host of social partners including the Belize Chamber of Commerce and Industry, Belize Tourism Industry Association, the National Trade Union Congress of Belize, COLA, ORINCO, APAMO, representatives of the banking sector, and the Council of Churches. I am pleased to say that every group we met has been positive; and today's nationwide outreach is meant to expand on that solidarity. But undoubtedly the support for this debt exercise is already broad and deep. The dialogue with the people and the social partners will continue, even as the negotiations with Superbond holders intensify. Every effort will be expended to maintain the current lockstep in which the nation is marching, down this path to reclaimed stability and sustainability.

I close with this recapitulation: Superbond holders are NOT being asked to serve as first responders to Belize's public debt crisis. In fact, our approach to these creditors comes only after making painful sacrifices and satisfying ourselves that no other choice any longer exists.

This debt blaze is truly a bonfire of the last administration's obscene financial vanities. And it was foreordained between 2000 and 2005 when the match of short term, high interest debt was lit. Five years of prudent macro-economic management and non-commercial borrowing temporarily contained the flames. But now, the conflagration once again is upon us. And for the benefit of Belizeans, and our long-term creditors, it is time to put out this fire once and for good.

My Administration is thus unshakeable in its determination to secure the relief necessary to place the public debt on a sustainable footing and remove the prospect of immolation. And we will go as long as we have to and do whatever we must to accomplish this. For it is neither bluff, bluster nor bravado, when we say that nothing else will suffice.

I now invite your questions.