The implications of the proposed settling of outstanding claims with bonds:

The exchange of debt for debt

The government recently proposed legislation (The Debt Settlement (Arrears) Act 2021) to use bonds to settle payment due to persons whose lands were compulsory acquired or who were awarded legal claims against the government and other outstanding liabilities of the government. This legislation provides for the issuance of Series J bonds to meet these outstanding claims with some of these claims dating back decades and persisting over several administrations, both BLP and DLP. On the positive side, this appears to be a good move by this administration to deal with these claims once and for all. The affected persons will be pleased that they now have a definitive timeframe for the payment of monies due to them from the government. The failure to settle many of these long-standing claims would no doubt have imposed a heavy financial and mental toll on the affected persons directly impacting their livelihoods and depriving them of the use of their assets. The proposed Series J bonds, which pays no interest, will fully mature in three and a half years (42 months) from the date of issue.

Unfortunately, those persons desiring immediate cash will be sorely disappointed as their claims will be settled in 42 equal monthly payments beginning the month after issue. These payments could be further deferred if Barbados is impacted by a natural disaster because of the inclusion of a natural disaster clause in terms of the bonds. Those persons requiring immediate cash will have to trade their bonds, probably at a very steep discount given the supply of bonds on the market and the lack of appetite in the market for government paper. Investor interest in Barbados government paper has waned in light of the recent restructuring of the public debt and the issue of new bonds to replace this, the issue of Barbados Optional Savings Scheme (BOSS) bonds to settle claims of public servants and the recent issue of $125 mn in Treasury Notes. Institutional investors, such as financial institutions with deep pockets, may find these bonds a worthwhile investment if the price is right. Where these bonds are sold at a steep discount, this will represent a transfer of wealth from the long-suffering government creditors to the investors. In the absence of a vibrant competitive secondary market for bonds and in order to meet the bondholders' need for cash and to prevent the steep discounting of the bonds, the Central Bank could facilitate the sale of these bonds as in the case of the BOSS bonds.

Even if the bonds are held to maturity, taking in to account the time value of money[1] persons will see the present value of their settlement eroded by some 12%. Further, to date the payments owed to dispossessed land owners, legal claimants and other creditors would have been accruing interest. It is assumed that the issued bonds will include this accrued interest. Once the bonds are issued, even though this is in effect another IOU from the government (*ie*. the debt is still outstanding), interest will no longer be paid. This of course will reduce the interest cost of the government and stop the public debt from accumulating, positively impacting the fiscal and the debt position. Given the current inflationary environment, the settlement of the outstanding claims via non-interest-bearing bonds will further erode the real value of the settlement.

In summary, while concrete steps are being taken to settle some long-standing claims, persons won't be receiving cash in hands. Moreover, one kind of debt is being substituted for another type of government debt. Persons will begin receiving monthly cash payment after the issue of the bonds, spread over three and a half years, while receiving zero interest. The cash needy will most likely have to

[1] Based on a discount rate of 7%.

sell their bonds at a steep discount to financial institutions and other investors with an appetite for government paper. Therefore, bondholders are likely to suffer a decline in both the nominal value (where the face value is discounted) and the real value of the settled claims. Many persons though pleased that at last they can look forward to the imminent settlement of their claims, some receiving Series J bonds to settle their claims may not feel so comforted given the precedent set with the restructuring of government debt in 2018 and the rising debt stock.

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