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Debt Burden and Fiscal Sustainability in the Caribbean Region

(Updated notes)

Intra-Regional Relations

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Debt Burden and Fiscal Sustainability in the Caribbean Region: 2012 Update (02/03/2014)

The document Debt Burden and Fiscal Sustainability in the Caribbean Region was finished in March 2013. The paper examines data for the period 1999-2011 obtained from two main sources: the International Monetary Fund World Economic Outlook database (IMF-WEO), and the World Bank International Debt Statistics database (WB-IDS). This note extends to 2012 some of the data and analyses included in this study that were based on the IMF-WEO data. The external debt information contained in the WB-IDS has not been updated to 2012.

It is important to note, that the IMF-WEO database as of October 2013 also includes revisions of the data for the previous years, thus some of the information used in this note for the 1999-2011 period may be different to that in the paper.

1. Public debt to GDP

Table 1 contains detailed data on the evolution of the gross public debt to GDP ratio of the fourteen Caribbean countries included in the International Monetary Fund – World Economic Outlook database (IMF-WEO) as of October 2013.

In 2012 the average public debt to GDP ratio of the fourteen countries included in the IMF-WEO database reached a value of 72.13 percent compared to 74.41 percent in 2011. This slight reduction in the average debt/GDP ratio for the region is due mainly to a substantial fall in this ratio for St. Kitts-Nevis from 153.4% in 2011 to 89.30% in 2012. St. Kitts-Nevis initiated in 2011 a process of renegotiation of its very high debt burden that was above the 90 percent threshold since 2000. The 2012 debt to GDP ratio of this country is similar to the one observed in 1989.

TABLE 1

Public Gross Debt/ GDP (%) Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average 1999-2011	Average 1999-2012
Antigua and Barbuda	96.99	108.60	113.45	128.15	127.51	122.96	94.99	90.86	79.20	77.27	102.46	90.77	92.89	89.14	102.01	101.09
The Bahamas	24.46	23.86	23.85	24.43	26.90	28.43	28.12	29.01	30.18	32.75	38.93	44.62	47.78	50.31	31.03	32.40
Barbados	34.74	39.88	46.44	47.74	48.09	49.01	47.33	45.46	52.40	53.85	60.88	70.08	77.34	86.09	51.79	54.24
Belize	n/a	n/a	86.64	93.83	103.24	100.24	98.65	92.46	87.12	80.56	85.85	86.03	83.19	78.41	90.71	89.69
Dominica	64.24	72.12	101.13	102.29	99.89	87.37	86.80	82.17	76.48	67.40	63.67	70.05	72.16	75.98	80.44	80.13
Grenada	34.54	41.60	44.63	79.10	79.57	94.68	87.75	93.43	90.04	86.91	95.15	101.20	106.36	109.47	79.61	81.74
Guyana	121.07	120.19	129.66	133.75	121.25	118.64	116.07	94.16	59.88	61.65	64.81	65.30	65.16	65.29	97.81	95.49
Haiti	39.92	55.48	49.60	54.41	60.88	49.95	47.19	39.05	34.78	37.80	28.16	17.74	12.21	15.45	40.55	38.76
Jamaica	85.62	93.69	110.65	122.24	128.65	123.23	122.23	121.10	118.29	128.91	144.71	145.56	143.95	148.70	122.22	124.11
St. Kitts and Nevis	89.91	97.60	105.77	120.39	143.21	156.07	159.94	145.24	133.94	130.98	148.52	163.81	153.64	89.30	134.54	131.31
St. Lucia	34.75	38.68	46.01	59.16	55.86	60.21	62.87	58.48	56.97	56.24	61.08	63.41	66.51	71.66	55.40	56.56
St. Vincent and the G	57.87	58.69	56.33	57.26	58.95	64.09	66.58	63.80	55.66	57.29	64.58	66.23	67.85	70.06	61.17	61.80
Suriname	38.67	51.85	39.85	40.06	33.71	31.44	28.89	23.97	17.38	15.64	15.56	18.48	20.38	21.97	28.91	28.42
Trinidad and Tobago	54.55	52.59	55.59	58.74	50.43	43.49	35.28	31.50	25.09	20.35	34.00	34.83	32.38	37.93	40.68	40.48
Simple average	59.79	65.76	72.11	80.11	81.30	80.70	77.34	72.19	65.53	64.83	72.02	74.15	74.41	72.13	72.33	72.31

IMF-WEO; author's own calculations

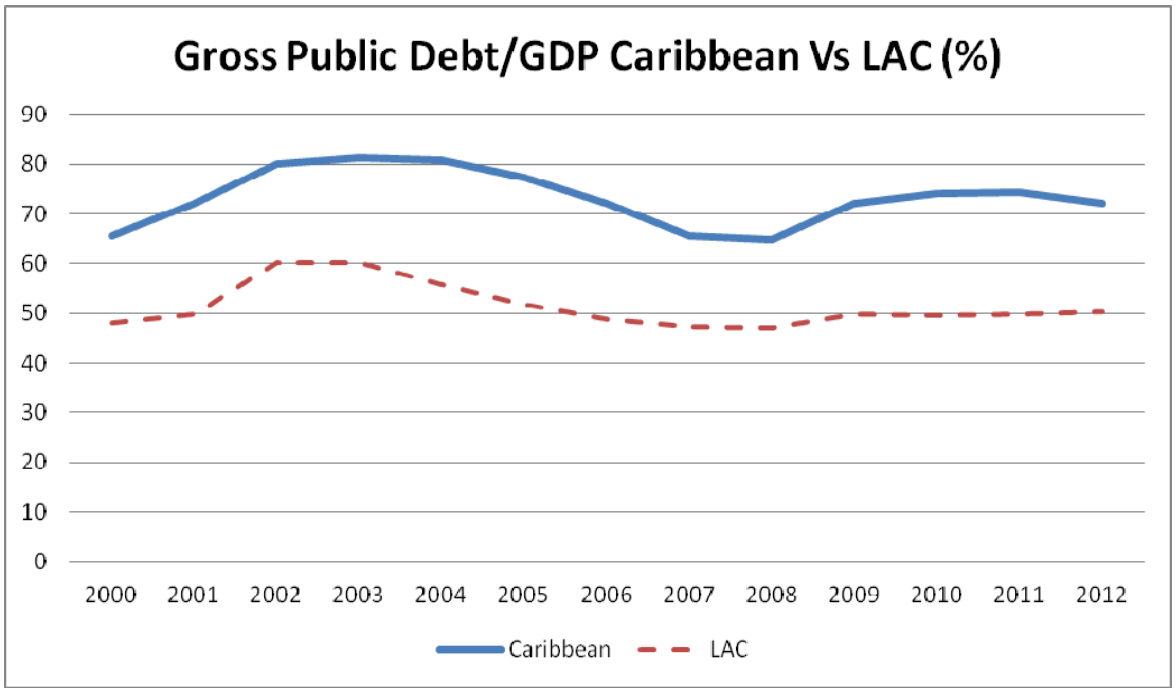
Apart from St. Kitts-Nevis, only two other countries in the region exhibit reductions in the debt to GDP coefficient, but these reductions are relatively minor. One country maintains a stable debt/GDP ratio, and the rest of the countries in the region show increases in their debt/GDP indicator. This explains that the simple mean debt to GDP ratio in the Caribbean for the 1999-2012 period is practically equal to the value registered for the period 1999-2011.

In 2012 we find two countries in the 0-30 percent interval; two in the 30-60 percent; eight in the 60-90 percent; two in the 90 percent above. Grenada and Jamaica maintain debt to

GDP ratios well above 100 percent. Thus we have ten countries above the Mendoza and Ostry 60 percent critical value for sustainability.

Graph 1 compares the gross public debt to GDP ratio of the Caribbean with that of Latin America and the Caribbean (LAC) as a whole.

GRAPH 1



IMF-WEO; author's own calculations

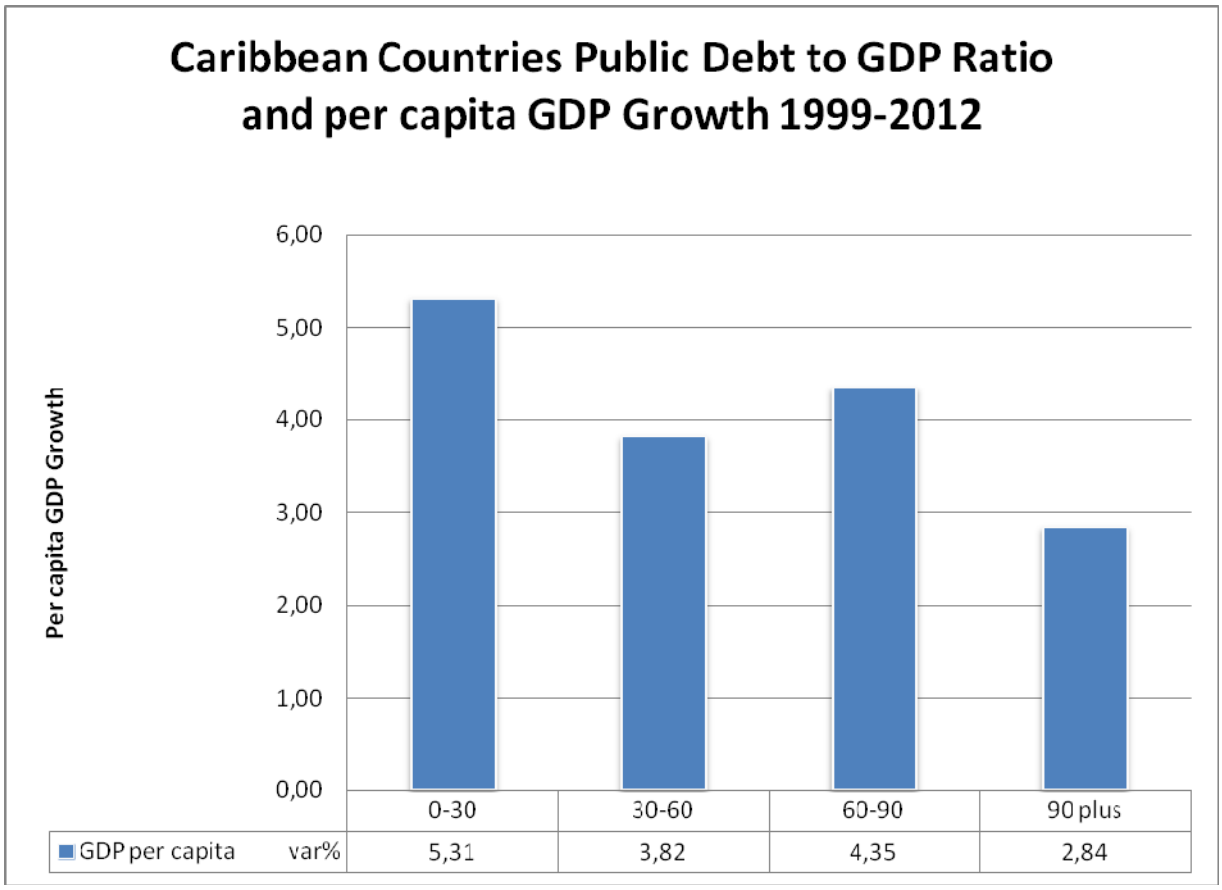
The average public debt to GDP ratio of LAC as a whole shows a small increase from 49.82 percent in 2011 to 50.4% in 2012. As noted previously, the debt/GDP coefficient in the Caribbean region decreased in 2012 with respect to 2011. Therefore the gap between the debt/GDP ratio in the Caribbean compared to LAC registered a reduction to 21.72 percentage points in 2012 compared to 24.59 percentage points in 2011.

2. Debt and growth

In the document, we present evidence of a negative relationship between the average gross public debt/GDP ratio and the average growth rate of GDP per capita for the 1999-2011 period. This result is unaltered when we update the data for the 1999-2012 period.

Graph 2 shows that GDP per capita growth in the 0-30 percent debt interval averages 5.31%. When the average debt/GDP ratio is between 30-60 percent growth reduces 1.49 percentage points to 3.82 percent. In the 60-90 percent debt interval, growth accelerates slightly (0.53 percentage points) with respect to the 30-60 percent interval up to 4.35 percent, but is still 0.96 percentage points lower with respect to the 0-30 debt range. In the 90 percent above range, average GDP per capita growth slows down to 2.84 percent, 1.51 percentage less than in the 60-90 debt interval. The average growth rate of per capita GDP in the 90 percent plus interval is almost half of that registered in the 0-30 percent.

GRAPH 2



IMF-WEO; author's own calculations

As in the original paper, this graph suggests a negative relationship between debt and growth, but we do not observe any sudden changes that suggest that this relation is nonlinear.

3. Conventional Sustainability Analysis

When we extend the conventional sustainability analysis based on the government intertemporal budget constraint to the 2012 data, we obtain similar results to those presented in the paper for 2011 (Table 2).

TABLE 2

Fiscal Sustainability in the Caribbean						
	r Long-run (%) (i)	g Long-run Avg (%) (ii)	b 2012 (%) (iii)	pb* Infinite horizon (%) (iv)	pb* b=60% J=10 years (%) (v)	pb 2012 (%) (vi)
Country						
Antigua and Barbuda	6.03	1.70	89.14	3.80	6.20	1.14
The Bahamas	6.03	1.54	50.31	2.22		-3.30
Barbados	6.03	0.91	86.09	4.37	6.43	-3.95
Belize	6.03	4.89	78.41	0.85	2.61	1.26
Dominica	6.03	2.06	75.98	2.95	4.29	-2.07

Fiscal Sustainability in the Caribbean						
Grenada	6.03	2.40	109.47	3.88	8.09	-1.97
Guyana	6.03	2.58	65.29	2.20	2.65	-3.40
Jamaica	6.03	0.66	148.70	7.94	14.88	5.41
St. Kitts and Nevis	6.03	2.26	89.30	3.29	5.77	9.17
St. Lucia	6.03	2.02	71.66	2.82	3.79	-6.87
St. Vincent and the Grenadines	6.03	2.45	70.06	2.45	3.31	-0.47
Suriname	6.03	4.12	21.97	0.40		-3.03
Trinidad and Tobago	6.03	5.08	37.93	0.34		1.41

IMF-WEO; author's own calculations

Column (vi) shows that in 2012 eight out of the thirteen countries included in the table, registered primary deficits.

Column iv shows the constant primary surplus that has to be achieved on an infinite horizon to maintain the debt to GDP ratio observed in 2012 (Column iii). For the thirteen Caribbean countries included in the IMF-WEO database (excluding Haiti), Belize, St. Kitts-Nevis, and Trinidad and Tobago exhibit primary surpluses larger to what is required to stabilize their debt to GDP ratios at the 2012 level. As in 2011, all countries except Belize, Suriname, and Trinidad and Tobago need to generate primary surpluses above two percent to maintain their 2012 debt coefficients.

Column v contains the constant primary surplus that would have to be generated on a ten-year horizon to achieve a debt target level of 60%. As expected, countries that start with levels of debt close or beyond the 90 percent threshold, need to generate large primary surpluses to reduce their debt burden to manageable levels. Countries like Antigua and Barbuda, Grenada, and St. Kitts and Nevis, with debt ratios near 90%, would have to generate primary surpluses well above 5% to achieve the indicative target. Grenada, with a debt/GDP ratio of 109.47 percent requires a primary surplus of 8.09% to attain the benchmark debt level. Jamaica with its very high debt to GDP ratio of 148.7 percent and its low average GDP growth, needs an elevated 14.88 percent primary surplus to reach the 60% target in ten years.

4. Final Comments

When we update to 2012 some of the data and analyses included in the document Debt Burden and Fiscal Sustainability in the Caribbean Region, we do not find evidence that alter the main conclusions and recommendations stated in the study.

The aggregated data continue to indicate clear signs of a situation of excessive debt burden and potential fiscal insolvency. The simple mean for the public debt to GDP ratio of the region (72.31 percent) is well above the 50-60 percent threshold value suggested in the paper by Mendoza and Ostry (2007). The Caribbean average debt level is also substantially larger than the value for Latin America and the Caribbean as a whole (50.4 percent).

Using descriptive statistics, the negative relationship between debt and growth that we observe for the period 1999-2011, stills prevails when the data is extended to 2012.

Similar to 2011, in 2012 most countries in the Caribbean present fiscal primary deficits or primary surpluses that are insufficient to stabilize their current debt levels.

The results derived from the aggregated data reflect the fact that most countries in the Caribbean region exhibit excessive debt levels. Of the fourteen countries included in the IMF-WEO database, ten countries had in 2012 debt/GDP ratios above the 60 percent threshold that we define in the study.

Countries in the high public debt level range (60-90 percent) include: Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. Countries in the very high debt level interval (90 percent plus) include: Grenada and Jamaica. Compared to the analysis in the main paper, Antigua and Barbuda and St. Kitts and Nevis abandoned the 90 percent plus interval, but their debt/GDP ratios are still very close to the 90 percent threshold value.

Given their relatively high debt burdens and weak primary results, many countries in the region require a substantial fiscal effort to attain fiscal sustainability.

Therefore the main recommendation from the study remains valid: "an adequate combination of fiscal consolidation and debt restructuring/relief is crucial to achieve a debt level compatible with fiscal sustainability in the Caribbean region. The Caribbean countries should attempt to negotiate and obtain the maximum debt restructuring/relief possible. Nevertheless the excessive debt burden of most countries in the Caribbean makes impossible to attain the debt reduction required without fiscal adjustment."

In fact this is the road that seems to be following St. Kitts and Nevis after the process of debt restructuring reported in Amo-Yartey et al (2012). As previously mentioned, the public debt to GDP ratio of this country fell sharply from 153.4 percent in 2011 to 89.3 percent in 2012, and its primary surplus stands at 9.17 percent of its GDP (2012). With this primary surplus and some improvement in growth, this country could attain fiscal sustainability in approximately five years.

The data analyzed suggests that the excessive debt level of the region is severely limiting the use of fiscal policy as a tool for managing cyclical fluctuations, and affecting negatively economic growth in the medium/long-run. In 2012 the simple mean of the GDP growth of the Caribbean countries reached 1.17 percent versus 2.93 percent for LAC. For the period 1999-2012, the average growth of the Caribbean stood at 2.51 percent compared to 3.24 percent for LAC.

It is also important to consider, that the current and forecasted global economic situation may be another factor favoring a prompt debt restructuring and fiscal consolidation in the region. Most multilateral agencies foresee a modest but sustain recovery of the US economy and the main countries in the Eurozone. If this development materializes, it may contribute to reduce the cost of the process of fiscal consolidation in the Caribbean.

Another reason to reduce the debt burden, comes from the increase in the cost of access to international resources that will generate the gradual reversing of the extraordinary monetary stimulus implemented until recently by the US Federal Reserve.