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ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

FOCUS

Newsletter of the Caribbean Development and Cooperation Committee (CDCC)

WHAT'S INSIDE:

EVOLUTION OF THE CARIBBEAN DEBT

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AN APPROACH TO THE CARIBBEAN DEBT PROBLEM

DEBT SUSTAINABILITY IN THE CARIBBEAN

ISSUE 4 / OCTOBER-DECEMBER 2013

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was established in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the subregional headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the subregional headquarters for the Caribbean. Nine years later, the Commission's widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

Key Areas of Activity

The ECLAC subregional headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organization's mandate. At present, the overarching articulation of this mandate is the Millennium Declaration, which outlines the Millennium Development Goals.

Towards meeting these objectives, the Secretariat conducts research; provides technical advice to governments, upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialisation include trade, statistics, social development, science and technology, and sustainable development; while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, climate change, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC subregional headquarters for the Caribbean also functions as the Secretariat for coordinating the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the subregional headquarters in Port of Spain.

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- Barbados
- Belize
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago

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- Aruba
- Bermuda
- British Virgin Islands
- Cayman Islands
- Curaçao
- Guadeloupe
- Martinique
- Montserrat
- Puerto Rico
- Turks and Caicos Islands
- United States Virgin Islands

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Director's Desk OVERVIEW

Like many other countries, the Caribbean territories have struggled to emerge from the global financial crisis of 2008. These small island economies have since been posting meagre growth and a considerable debt burden, which threatens macroeconomic stability and programs aimed at social protection. As is to be generally expected, the financial crisis created an adverse impact on debt sustainability of many of the economies in the sub-region. These challenges however, did not begin with the crisis but are a reflection of more fundamental structural weaknesses in the economics of the region.

Among these are the overreliance on a few industries and activities, heavy concentration of exports in a few markets, namely the United States and Europe, and limited ability to engage in countercyclical fiscal policy. In the short term, especially with the recent expansion of the debt resulting from the difficult economic conditions, the international community needs to re-examine the approach to highly indebted middle income countries.

In consideration of this, the articles in this issue were prepared as an attempt to assess the extent of the debt situation in the Caribbean and to identify a number of recommendations that can help reduce the burden of the debt overhang while stimulating medium term growth.

A number of points are made about the debt profile of Caribbean states. First, while the average debt burden is high (debt as a percentage of GDP), and in a few cases unsustainable, the situation varies considerably in terms of impact. The high debt burden, in the context of low growth, creates limited fiscal space and restricts public policy.

As a result, when we categorise countries based on the severity of the debt burden, it is observed that the tourism dependent economies are more challenged than those that are specialist primary commodity producers. The former group of countries have also experienced very meagre growth relative to the pre-crisis period.

Secondly, the debt problem did not arise as a consequence of the crisis, but had its origins in the declining competitiveness of



Ms. Diane Quarless, Director, ECLAC subregional headquarters for the Caribbean

Dale Alexander / ECLAC

major sectors of the economy and falling labour productivity which manifest itself in the burgeoning current account and fiscal deficits of a number of countries.

Public investment would be useful to stimulate the economies, but there has been compression of capital spending. Where the domestic debt is high, interest rates go downwards, which crowds out the private sector.

Thirdly, the fiscal stresses have reduced the ability of governments to engage in countercyclical fiscal policies and their ability to maintain programs of social protection. In addition, the adjustment has taken place on the capital side of the budget, which is likely to negatively affect medium term growth.

Therefore, a number of recommendations are made in response to the reduced fiscal space and meagre growth which has persisted since the crisis. First, the fiscal situation is not merely a reflection of excessive spending, but a response to a decline in competitiveness in key sectors. Understandably, to address the situation in a sustainable manner requires

structural reforms whether home grown or external programmes managed by the International Monetary Fund.

Secondly, the international community needs to re-examine the categorisation of many Caribbean economies as middle income states, since their structural weakness require considerable financial and capacity building support for sustainable development. This categorisation has curtailed their access to concessionary finance.

Thirdly, more effective fiscal systems must be developed in order to generate fiscal space and allow for early warning with respect to the escalation of debt. To tackle the debt problem, the most indebted countries will need to embark on a bold fiscal consolidation and growth programme. The aim of this programme is to bring down government debt to a sustainable level over the medium to longer-term.

Finally the fiscal problems, while being addressed by fiscal consolidation policies must also focus on structural reforms including tax reform to stimulate growth and development. Among the tax reform measures should be the reduction of tax concessions, which are a loss of revenue and a broadening of the tax base and lowering of tax rates. We must also heed the call for a fiscal covenant that fosters wider consideration among all stakeholders of the costs and benefits of the necessary adjustment to be undertaken.

Yours in Focus,
Diane

EVOLUTION OF THE CARIBBEAN DEBT

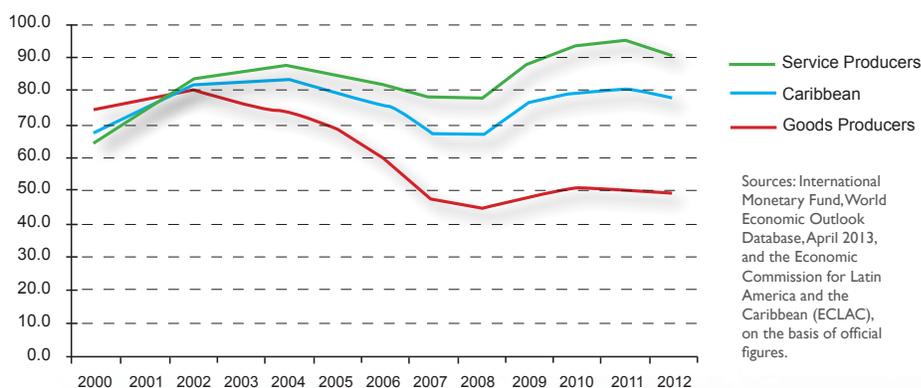


In the aftermath of the global economic crisis the Caribbean has found itself struggling with a considerable debt challenge and difficulties in igniting positive growth. Many Caribbean economies have only recently emerged from the global recession and now confront high rates of unemployment and considerable fiscal stress. Ironically these economies are categorised as upper middle or high income countries, and as a result there has been limited access to concessional financing. This article examines the evolution of the public debt in the Caribbean and considers the consequences of high debt overhang in these economies.

TOTAL PUBLIC DEBT OF CARIBBEAN STATES

In order to understand the situation, it is important to note that not all countries in the region are facing the same difficulties. For this reason it is convenient to categorise countries as specialist service producers versus goods producers, since their debt profiles vary considerably. The figure below shows the debt to GDP ratio for the Caribbean, between the years 2000 and 2012, disaggregated by goods and service producers¹.

CARIBBEAN GENERAL GOVERNMENT GROSS DEBT, 2000-2012
(Percent of GDP)



Over the period 2008-2012, the overall debt to GDP ratio for the Caribbean was 77 per cent which was very much above the sustainable threshold set by the IMF of 65 per cent². The general view is that such a high debt overhang negatively impacts economic growth³. With respect to goods producers, the ratio was 48.9 per cent of GDP with Belize (82 per cent) and Suriname (18.1 per cent) at the upper and lower ends respectively. In the case of the service producers, the average debt to GDP ratio was 89.4 per cent of GDP with Jamaica (138.8 per cent) and the Bahamas (52.7 per cent) at the upper and lower ends of the range respectively. In the first

group, Guyana has benefited from the Highly Indebted Poor Countries (HIPC)⁴ and other concessional arrangements which have helped to reduce its debt burden substantially.

The Composition of the public debt

In addition to the size of the debt, its composition is also important. When a large proportion of the debt is in foreign exchange, currency depreciation increases the debt service costs. The debt service costs could also increase due to future interest rate increases. In addition, substantial public domestic debt helps to maintain high interest rates and stifle local

investment. Another aspect to consider is the maturity structure of the debt. When the bulk of the debt is short term there may be difficulties in repayment due to liquidity problems. The goods producers exhibit an increasing proportion of external to total debt; from 63.9 per cent in 2008 to 80 per cent in 2011. For the service economies it was 62.2 per cent and 61.9 per cent over the same period. In addition, given the foreign exchange requirements of external debt service, the ratio of external debt to exports and primary income is also revealing. For the goods producers, this ratio was 114 per cent in 2008 and 134 per cent in 2011,

(continued on page 11) ▶

¹ The goods based economies are Guyana, Belize, Suriname and Trinidad and Tobago. The service based economies are Bahamas, Barbados, Jamaica and countries in the ECCU, which are Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Anguilla and Montserrat.

² Preserving Debt Sustainability in LICs in the wake of the global crisis". Available at <https://www.imf.org/external/np/pp/eng/2010/040110.pdf>

³ The IMF ratios are usually in present value terms.

⁴ Heavily Indebted Poor Countries (HIPC) are a group of 39 developing countries with high levels of poverty and debt overhang which are eligible for special assistance.

FISCAL CHALLENGES IN THE CARIBBEAN

High and unsustainable debt remains one of the most pervasive challenges facing the Caribbean. Debt in individual member states has evolved based on their tendency to sustain fiscal deficits due to weak fiscal management, and also in response to economic and environmental shocks. As a result, there is now largely a two-tier pattern of moderately and heavily indebted countries. In these countries, unsustainable debt is now a major threat to growth and improved living standards. This article analyses the debt challenges and responses in the six most indebted Caribbean countries and proposes some policies for reducing their debt burden.

The evolution and main drivers of debt

The six most indebted economies before the recent global financial crisis (2000 ~2007) were St. Kitts and Nevis, Jamaica, Guyana, Antigua and Barbuda, Belize, and Dominica. After the crisis (2008-2012), Guyana and Dominica were replaced by St. Lucia and Grenada. Public debt in the countries most indebted after the crisis, with a cut-off debt of just below 70%, ranged from an average of 69.8% of the GDP in St. Lucia to 139.4% of Jamaica's GDP. Two other countries, St. Kitts and Nevis and Grenada had debt levels in excess of 100% of their GDP.

Apart from high debt, debt servicing in particular, which averaged 12.9% of exports of goods and services, and 38.4% of government revenue is a significant drain on resources that could otherwise have been used for productive spending in these economies. Debt servicing severely limits government's ability to undertake development infrastructure and uses up vital foreign exchange.

The debt reflects higher fiscal deficits, particularly after the crisis as governments undertook stimulus programmes to cushion the fall-out in incomes and employment. The question is what was behind this growth in deficits and debt?

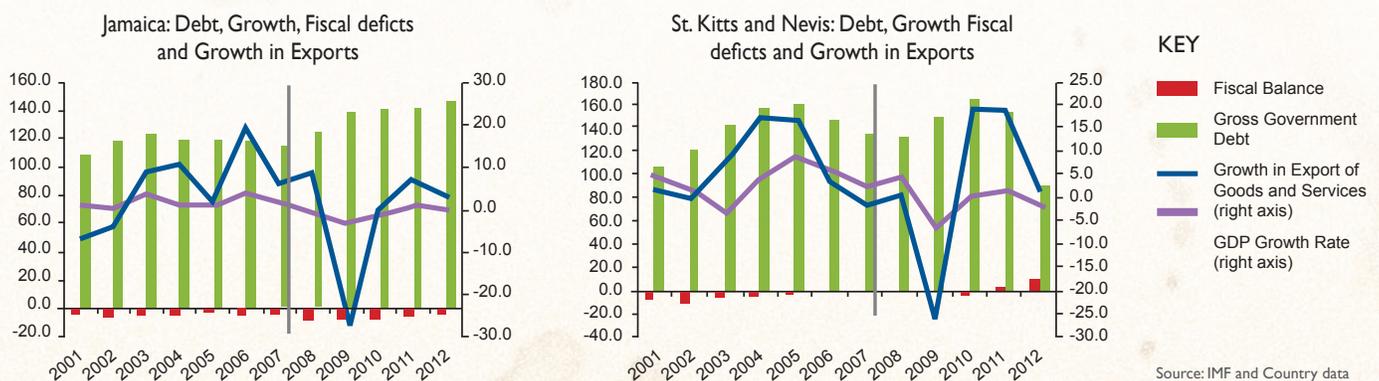
In the first place, the increase in the debt ratio was driven by the decline in

economic growth, due in part to the slowdown in exports caused by sluggish world demand for tourism and other services (see figure 1 below). This has squeezed country revenues, even as governments ratcheted-up spending through stimulus programmes¹. Growth in debt was also fuelled by expenditure on rehabilitation and reconstruction after natural disasters in the 1990s and 2000s. The most heavily indebted countries were also those most affected by tropical weather systems. Hurricane Ivan in 2004, for instance, accounted for 200% of Grenada's GDP, necessitating major reconstruction spending.

Additionally, data for the countries indicated that except for St. Lucia, growth in concessional external debt slowed after

(continued on page10) ►

Figure 1: Debt, growth, fiscal deficits and growth in exports in selected most indebted Caribbean countries



¹ Indeed, this pattern of deficit-financed stimulus occurred after the fall-out from the September 11 attacks, reflecting the demands on governments to cushion the fallout of downturns on citizens.

AN APPROACH TO THE CARIBBEAN DEBT PROBLEM



The Caribbean debt problem represents a major challenge to the economic and social viability of the region and a correct interpretation of its causes is important to achieving a resolution. This article suggests that while the traditional approach to debt management focuses on expenditure compression and tax increases, including some level for debt restructuring, additional challenges must be overcome if the economies are to be put on a sustained growth path. Among these are the narrow economic base due to reliance on a few major products, reduced competitiveness as reflected in the persistent current account, fiscal deficits, and low technology content of exports. These challenges occur in the context of reduced FDI and remittances which are important sources of foreign exchange inflows. Other challenges are the limited capacity of governments for countercyclical fiscal policies and a domestic private sector that has remained risk averse in the aftermath of the global crisis.

The origins of the debt problem

In the early 1990s the Caribbean public debt, except for a few countries, was in the respectable range. The restrictions on government expansion, following on the heels of structural adjustment programs in the 1980s, saw a reduction in the productive and administrative role of the public sector in the economy. The trajectory of government policy was changed as a result of a number of challenges that emerged in the late 1990s. Among these were the expansion of expenditure to address the damage due to a series of natural

disasters, the restructuring of the global trading system which saw the Caribbean producers facing intense external competition, and the need for government intervention in a number of countries to address financial sector crises.

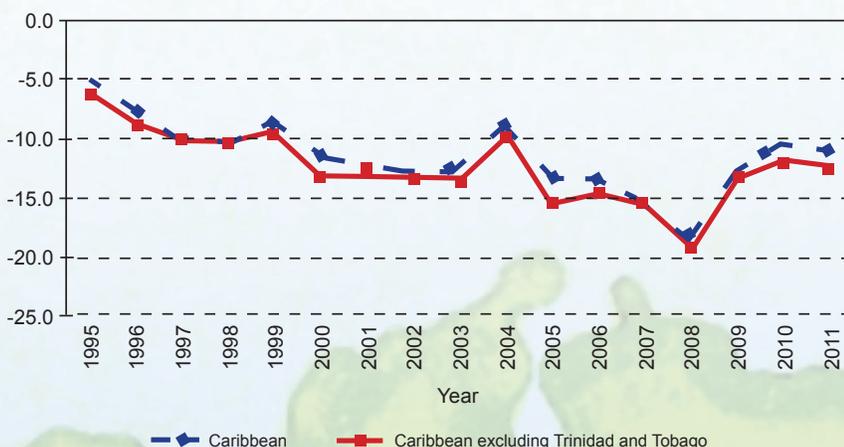
The early years of the 2000s saw healthy growth especially in tourist dependent economies, but by the middle of the decade these economies began to lose steam due to increasing competition from emerging markets. Some economies, especially those based on goods production, fared better in this period as higher primary commodity exports increased, which boosted revenue.

Figure 1 shows the current account balance between 1995 and 2011 for the Caribbean with and without Trinidad and Tobago which benefited from elevated hydro carbon prices in early 2000. The evidence also suggests that there was both declining total factor productivity and labour productivity in the last two decades. The recent global crisis served to aggravate the situation, as growth rates declined and expenditure was expanded, without the corresponding increases in revenue.

Causation between the current account and fiscal balance

The usual evidence of debt accumulation shows up in expanding fiscal deficits. To determine what motivated such borrowing, formal tests were carried out to examine the relationship between the current account (CA) and fiscal balances (FB) (See ECLAC 2011)¹. The results suggest that for most Caribbean countries, the current account balance drives the fiscal balance. This is an important result because it suggests that in response to declining capacity to generate foreign exchange through exports, governments respond as the employer of last resort by maintaining investment and consumption through debt accumulation. In instances in which the CA balance did not strictly cause the FB, the causation was either in reverse or in both directions². The implication is that deeper structural issues lie at the root of the Caribbean debt problem and merely restructuring the debt

FIGURE 1: CURRENT ACCOUNT BALANCE, 1995-2011
(as a percentage of GDP)



without appropriate structural reforms will not address obstacles to sustained growth. The data also suggest a declining capacity to use foreign exchange efficiency (declining import productivity), similarly to declining labour productivity, impacts negatively on competitiveness.

Issues of competitiveness, falling FDI and domestic investment

While the debt problem is more severe among the service producers, the goods producers face the challenge of over reliance on natural resources which are subject to price volatility. This calls for diversification over the medium term and greater sectoral linkages. The development of heritage and stabilisation funds to save windfall revenues are an important first step in catering for such down turns, and so far only Trinidad and Tobago and Suriname have moved in this direction. For the service producers, the evidence shows a declining market share of arrivals and the maturity of the product (See Figure 2).

This may be due to lack of product upgrade plus the emergence of the Caribbean as a high cost destination. Perhaps even more challenging has been the persistence of an economic structure based on a few activities with very low

technology content.

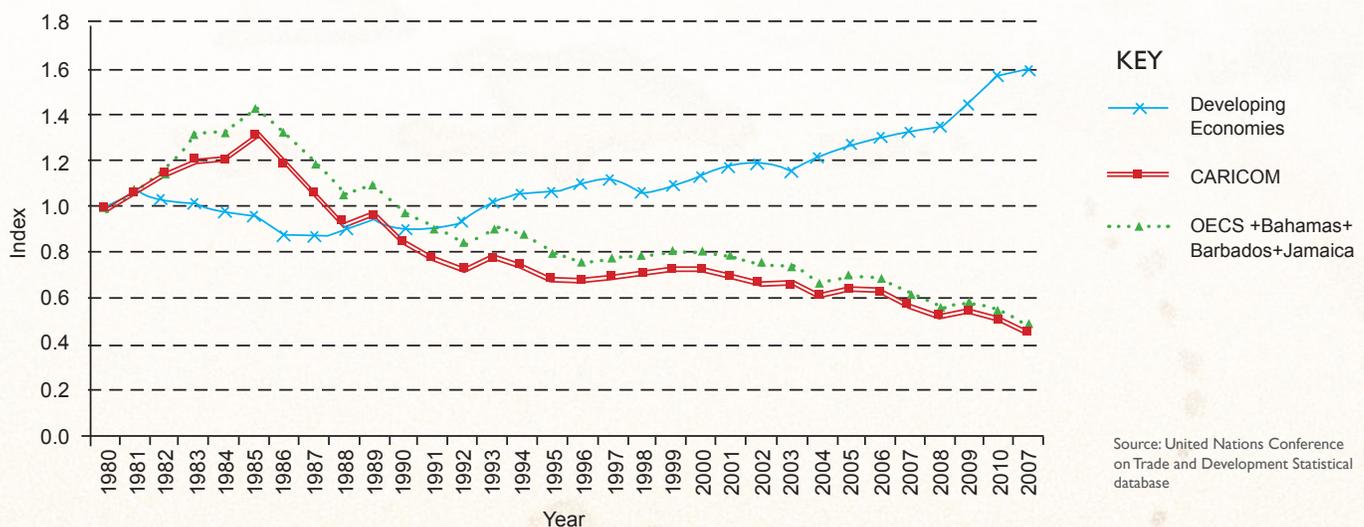
In addition, the decline in FDI and remittances, especially on the heels of the global crisis has put pressure on the international reserves of some countries. This in turn was accompanied by increasing risk premiums as some countries have had their credit rating downgraded by the international rating agencies. In addition, the relative decline in domestic investment, despite the softening of interest rates, has placed pressure on governments to maintain expenditures in circumstances in which revenues have not been buoyant. In such circumstances, the debt burdens have actually risen for some countries and in others have remained stubbornly high.

Some conclusions and recommendations

A variety of strategies are being employed to reduce the debt and create more fiscal space. For example Antigua and Barbuda (2010), Dominica (2004) and Grenada (2005, 2013) have pursued debt rescheduling and debt exchanges, while Belize (2006, 2012) and Jamaica (2010, 2012), have had debt exchange, and Suriname (2008), debt rescheduling. Guyana benefited from debt relief in 2003 and 2006,) and until recently

received funding under the Highly Indebted Poor Countries (HIPC) from the Multilateral Debt Relief Initiative. In addition, three countries have been retained under the IMF Poverty Reduction and Growth Trust (PRGT) for concessional financing. Other countries, because of their middle income status are not eligible for concessional financing despite their challenges. In many cases, the debt burden has declined but these strategies, unless accompanied by broad structural reforms, are likely to be less impactful over the medium term. Within the period of the global crisis, it is clear that a facility for countercyclical financing would have helped the Caribbean to sustain incentives and create better conditions for growth. Some countries have begun home growth consolidation programs and others have sought IMF assistance, as it has become clear that resilience financing for risk prevention strategies must be strengthened. This can take the form of timely grant financing for rehabilitation and reconstruction needs. At the domestic level, better use must be made of public expenditure to improve infrastructure and a better business environment, and where possible policies to promote public-private partnerships, with appropriate accountability, must be pursued. ■

FIGURE 2: INDEX OF TRAVEL SERVICE EXPORTS 1980-2011



¹ ECLAC, 2011. The Relationship between the fiscal and current account balances in the Caribbean. I/CAR/L.345

² In three countries, Antigua and Barbuda, Saint Lucia and Trinidad and Tobago, no statistical relationship was found between the CA balance and the FB.

DEBT SUSTAINABILITY IN THE CARIBBEAN



The recent global financial crisis has had a negative impact on the debt burden of many Caribbean economies, and this has raised concerns in some instances of fiscal insolvency. Looking at the data over the last decade, it is evident that the current challenges were merely aggravated by the global financial crisis. This article examines the debt composition and its sustainability before and after the crisis to assess its impact and to consider the way forward.

Debt Sustainability Analysis

We first examine the debt sustainability of each economy in the sub-region, by using an indicator found in Contessi (2012)¹. The basic idea is that government expenditures including interest payment on outstanding debt must be funded by revenues, which consist of taxes, changes in the stock of money, and new borrowing from the private sector.

In order to realize debt sustainability, there must first be fiscal balance which does not require a high level of new borrowing. The ease with which government can do so is affected by two factors: the real interest rate and real GDP growth rate. Higher interest rates will make it more difficult

to reduce debt, as interest payments will negatively affect the fiscal balance². Conversely, higher growth rates will ease it, through increased government revenues, and by reducing the debt-GDP ratio. The sustainability indicator used therefore, is the difference between the real interest rate and real GDP growth rate, namely an interest-growth differential. The larger the difference is, the more difficult it is to reduce debt.

(Table 1 shows the differential of real interest rate and GDP growth of Caribbean economies for three periods.)

All the countries experienced an increase in this differential from the 2003-2007 to 2008-2009 in the context of lower growth rates of the economies. As is to be generally expected, the financial

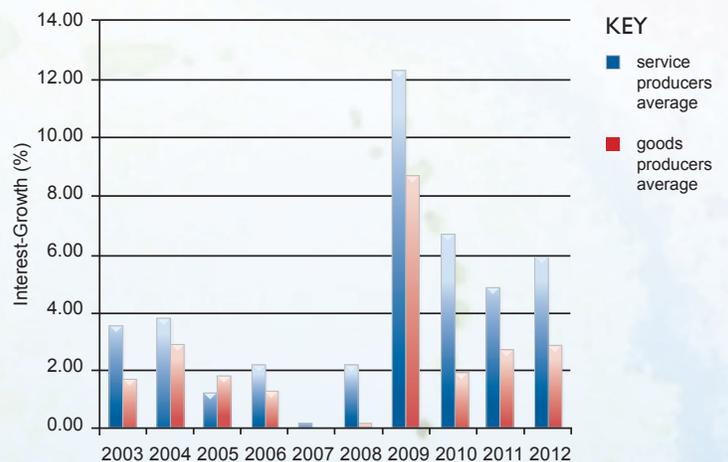
crisis created an adverse impact on debt sustainability of many of the economies in the sub-region.

The table also shows that in some countries, the interest-growth differential tended toward the pre-crisis level. However, there are countries whose differentials did not fall, but instead increased in 2010-2012 due to insufficient decline in interest rates or sluggish growth of the economies. If we divide these countries into two groups (service producers and goods-producers), the goods-producers' debt sustainability indicators recovered more, when compared to the service-producers (Figure 1). The implication is that because of the inherent difficulties of the service-producers to maintain decent growth, public debt sustainability is more difficult to achieve, compared to most goods-producers.

TABLE 1: INTEREST-GROWTH DIFFERENTIALS FOR THREE PERIODS

	2003-2007 average	2008-2009 average	2010-2012 average
Service producers			
Antigua and Barbuda	0.13	14.26	9.50
Bahamas, The	7.46	11.26	7.47
Barbados	3.01	6.04	2.40
Dominica	2.49	3.78	6.69
Grenada	0.92	11.55	6.93
Jamaica	3.12	7.32	10.55
St. Kitts and Nevis	1.22	5.48	5.71
St. Lucia	2.63	6.52	4.89
St. Vincent and the Grenadines	0.83	6.09	7.35
Goods producers			
Suriname	1.83	2.10	-2.58
Trinidad and Tobago	-6.07	4.08	1.37
Guyana	5.63	6.44	5.43
Belize	6.27	9.57	8.41

FIGURE 1: INTEREST GROWTH DIFFERENTIALS



¹ Contessi, S. (2012). "An Application of Conventional Sovereign Debt Sustainability Analysis to the Current Debt Crises." Federal Reserve Bank of St. Louis Review May/June 2012.

² "Fiscal balance" here refers to the difference between, on the earning side, tax revenues and the proceeds of assets sold, and on the spending side, any government expenditure and interest payments.

Debt Decomposition

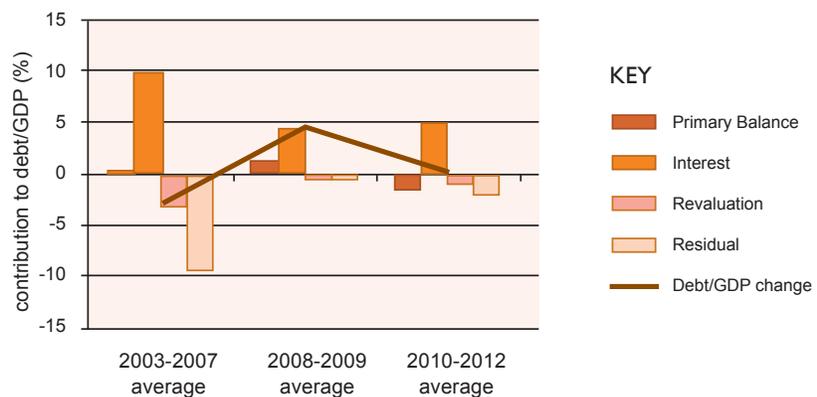
The change in debt/GDP ratio can be disaggregated into several components which contribute to the increase or decrease of the ratio. The next step in examining what happened to the debt burden after the crisis, is to decompose debt into four constituent components using a standard method³. These four components include:

- **Primary Balance:** fiscal balance less interest payment. Namely, this is the difference between tax revenue and government expenditure without interest payment,
- **Interest:** interest payment in real terms,
- **Revaluation:** the change in value of existing debt caused by exchange rate changes, change in GDP, and inflation, and
- **Off-budget:** payment obligations arising from outside of central government. However, since this is calculated as residual, it may include error and omissions.

The main objective of this analysis is to see which of the above factors contributed to the debt/GDP ratio the most, and to see if there are different patterns from country to country.

Figure 2 shows the trends of region's average debt/GDP ratio and its components in three periods - 2003-2007, 2008-2009, and 2010-2012. The region managed to decrease its debt/GDP ratio before the crisis, but the ratio increased during the crisis and is still

FIGURE 2: REGION AS A WHOLE



slightly increasing after 2010 though the rate of increase was less (by 0.49% on average). The results suggest that the real interest payment has been an important factor in placing upward pressure of debt/GDP ratio. On average, primary balance ran a deficit in 2003-2007 and 2008-2009, but turned into a slight surplus after 2010. However, the marginal primary surplus after 2010 was offset by the interest payment and the total fiscal balance (primary balance and interest payment) remained, thus contributing to the rise in debt/GDP ratio. Revaluation factors, and affecting the debt/GDP ratio. On the back of sound economic growth before the crisis, this factor served to push down the debt/GDP ratio. However, it became less significant after the crisis probably due to the low economic growth rate.

The economies in the region can be categorized into five groups according

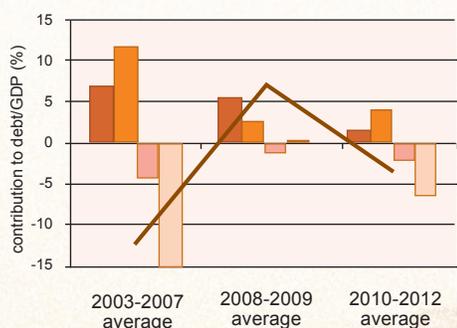
to the trends of debt/GDP ratio. The five figures below show the trends of the debt/GDP ratio and its relation to the five groups.

Conclusion

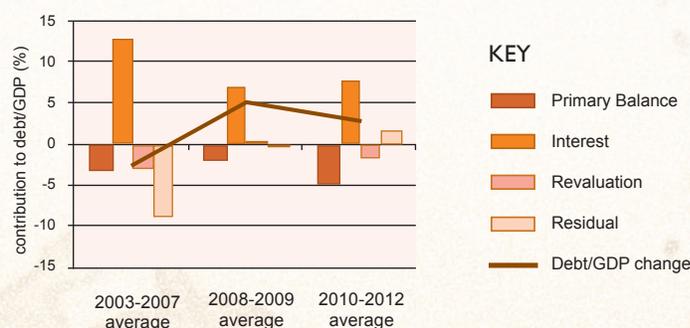
Most countries in the Caribbean have sought to address the debt problem, and the difficulties vary from country to country. However, there are some common challenges identified within the region. The high debt burden, in the context of low growth, creates limited fiscal space and restricts public policy. Public investment would be useful to stimulate the economies, but there has been compression of capital spending. Where the domestic debt is high, interest rates are going downwards which crowds out the private sector. It is therefore necessary that policy focus should be on fiscal consolidation to stabilise the debt which will diminish uncertainty and help stimulate growth. ■

GROUP OF COUNTRIES ACCORDING TO DEBT/GDP RATIO TREND

Group 1 - Antigua and Barbuda, Guyana



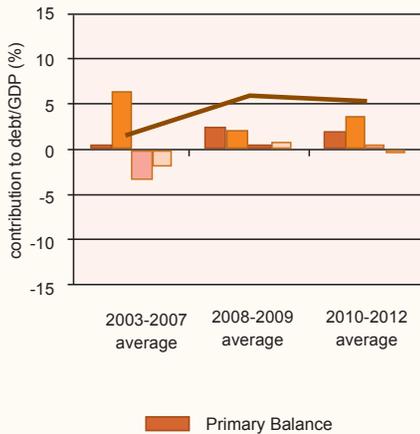
Group 2 - Jamaica, Saint Lucia, St. Vincent and the Grenadines, Trinidad and Tobago



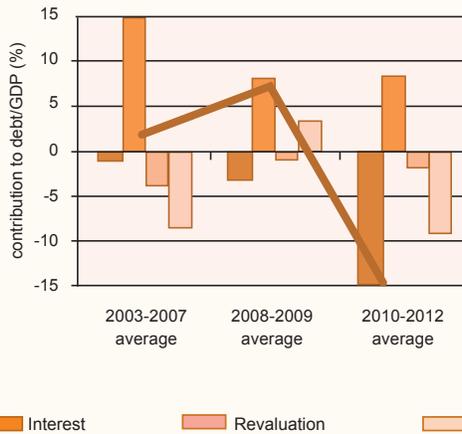
³ A similar approach is employed in CaPRI (Caribbean Policy Research Institute) (2010). "Achieving Fiscal Sustainability in Jamaica: The JDX and Beyond."

► GROUP OF COUNTRIES ACCORDING TO DEBT/GDP RATIO TREND

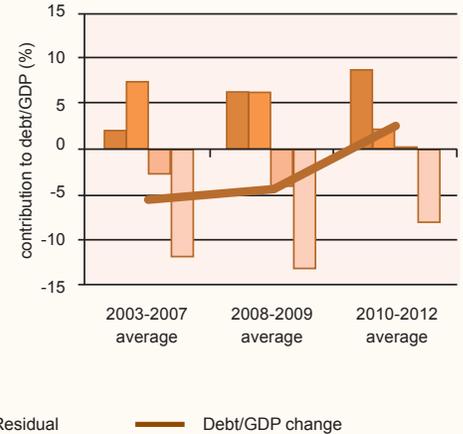
Group 3 - Bahamas, Barbados, Grenada



Group 4 - St. Kitts and Nevis



Group 5 - Dominica



► (continued from page 5)

Fiscal Challenges In the Caribbean

the crisis, aggravating the debt situation. This stemmed in part from the downgrading of credit ratings of some countries and increased discrimination among creditors. For instance, interest costs in the most indebted countries rose from 43.9% of total debt service in 2008 to 47.4% in 2012.

Debt restructuring measures

Since the global crisis, the most indebted countries in the region have adopted a number of measures to reducing their debt burden. Antigua and Barbuda, Jamaica, and St. Kitts and Nevis have undertaken debt restructuring under the auspices of the IMF, while Belize has restructured through a consortium of creditors.

In 2010, Antigua and Barbuda entered into debt restructuring arrangement with the IMF under a three-year Stand-By Arrangement (SBA) with financing of US \$117.8 million. The overall objective of the programme was to achieve medium-term fiscal and debt sustainability as a platform for a sustained recovery in the economy. The SBA expired in June 2013 with the aims deemed largely to have been achieved, with the debt ratio falling from 102.5% of GDP to 89% of GDP and the economy staging a modest recovery.

Jamaica concluded an SBA with the IMF in 2010 to the tune of US \$1.27 billion. The balance on this facility was converted to an Extended Fund Facility amounting to US \$932.3 million in 2013. Both programmes included a debt exchange and are aimed at achieving sustainable debt levels to stimulate growth and improve social protection programmes.

In 2011, St. Kitts and Nevis embarked upon a comprehensive debt restructuring programme under an IMFSBA amounting to US \$84.5 million. The country restructured its debt with the Paris Club and domestic creditors and has received EC \$117.9 million in debt forgiveness. Belize restructured its Superbond² (please explain what this is) debt, gaining a 10% haircut on principal and an extension of its maturity by nine years.

Grenada has embarked on a consolidation programme, including an EC \$60 million cut in spending, while St. Lucia introduced a 15% VAT and other measures to contain current expenditure.

Although the debt restructuring programmes have improved short to medium-term fiscal outcomes, they are inadequate for achieving long-term fiscal sustainability. This stems from the fact that the programmes are not well anchored

in a growth and competitiveness strategy, which is essential to sound public finances in the region. Such a strategy should articulate how policy makers plan to re-engineer traditional sectors such as tourism and agriculture, and to develop new sectors such as the creative industries as drivers of growth.

Conclusions and recommendations

To tackle the debt problem, the most indebted countries will need to embark on a bold fiscal consolidation and growth programme. The aim of this programme is to bring down government debt to a sustainable level over the medium to longer-term. This should entail realistic targets for primary savings that do not choke off the weak recovery in these states. The programme should be built on targeted cuts in current spending, while preserving development-oriented capital expenditure and social protection for the poor. Fiscal consolidation should be bolstered by a strategy to boost growth. Also, governments should strive to reduce administrative and other hurdles to doing business. Governments should also seek to strengthen fiscal management that would encourage public savings when revenues are growing, and expand expenditure when growth is in decline. ■

² The Super bond was a restructuring of Belize's BZ\$1.1 billion commercial debt in 2007. It entailed the consolidation of the debt into a bond with a lengthened maturity and a step-up interest rate structure and its terms were deemed onerous by analysts.



► (continued from page 4)

Evolution of the Caribbean Debt

while for the service producers the ratios were 175.1 per cent and 199.6 per cent.

The ratio of short term external to total debt, for the Caribbean, has declined from between 13-14 per cent in early 2000s to 11.1 per cent in 2011, which is positive from a liquidity point of view. Due to the middle income status of Caribbean countries, concessional debt has been in general decline. For example, in the 1990s, concessional debt in some OECS countries was 70 per cent of total debt and this has fallen to about 40 per cent in 2011.

Negative impact of debt

The debt challenge has impacted negatively on many areas of the economy, including programmes for social protection and investment in infrastructure, as fiscal retrenchment has been more severe in the capital budget. The high debt servicing costs to total revenue, along with the

inability of the economies to generate large primary surpluses due to the global recession, has placed many countries in challenging circumstances. Home-grown programmes of fiscal consolidation have been pursued in some countries and others have had to engage the IMF to address intense debt challenges. Despite strong efforts, including debt restructuring, debt equity swaps, and some debt relief in a few cases, the debt burden of the region is still considerable. The high debt has also sent negative signals to financial markets, resulting in higher risk premia on new loans, despite relatively low international interest rates.

Some conclusions and recommendations

The immediate policy focus must be to control any expansion of the debt in the medium term, and this must emerge from a fiscal consolidation programme that aims at reigniting growth. For the more

indebted countries, debt restructuring on favourable terms must be part of any reform agenda. Structural reforms designed to energise the private sector are important in this regard. Among these must be the reform of the tax systems in the region to remove the considerable concessions which are a loss of revenue. The objective must be to broaden the tax base and lower rates which are high, relative to other competing regions. Given the necessary trade off, a fiscal covenant offers an important approach to getting social consensus on reforms. In the immediate short run however, given that the recent expansion of the debt resulted from the difficult economic conditions, the international community needs to re-examine the approach to highly indebted middle income countries. Counter cyclical loans and mechanism for climate change financing can help buffer the challenges these countries face. ■

UPCOMING EVENTS

1st QUARTER

2014

16 January, 2014

Expert group meeting on draft report of preliminary study of impact of EU-CARIFORUM Economic Partnership Agreement on CARIFORUM countries
Port of Spain, **Trinidad and Tobago**.

17 - 28 February, 2014

National training workshop on the development of REDATAM applications for the dissemination of the 2011 Census Data
Port of Spain, **Trinidad and Tobago**.

25 - 26 February, 2014

Evaluation of ECLAC post-disaster assessments in the Caribbean / Linking the post-disaster needs assessment to the damage and loss assessment methodology
Rodney Bay Village, **Saint Lucia**.

LIST of Recent ECLAC Documents and Publications

Listed by Symbol Number, Date and Title

No. L.428

November 2013

Report of the Caribbean forum on population, migration and development

No. L.427

November 2013

Report of the Caribbean regional preparatory meeting for the third international conference on Small Island Developing States

No. L.426

November 2013

Report of the subregional workshop on information and communication technologies for disaster risk management in the Caribbean

No. L.425

November 2013

Report of the Caribbean regional strategic consultation on the Mauritius strategy for the further implementation of the Barbados programme of action for the sustainable development of small island developing states

No. L.424

October 2013

Evaluation report of training workshop on the use of trade competitiveness analysis of nations, module to analyze the growth of international commerce and world integrated trade solutions software

No. L.423

October 2013

Report on symposium to discuss paper entitled "introducing the convergence model of integrated production"

No. L.422

October 2013

Report of the expert group meeting on unpaid work and gender in the Caribbean

No. L.419

October 2013

Report of the expert group meeting on Information and communication technologies for disaster risk management in the Caribbean

No. L.417

October 2013

Report of the sixteenth meeting of the Monitoring Committee of the Caribbean Development and Cooperation Committee

No. L.416

October 2013

Report of the Caribbean preparatory meeting for the twelfth session of the regional conference on women in Latin America and the Caribbean

No. L.415

October 2013

Report of the expert group meeting to explore and promote wider use of the results of the 2010 population and housing census



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