

Debt Sustainability in the Caribbean

Andrew Powell

Regional Economic Advisor

Caribbean Department

Inter American Development Bank

Strictly authors' opinions only

Overview

- The recent economic crisis has been an economic hurricane for the region
- Four countries in recession (not including OECS), prospects for 2010 unclear.
- Some countries had high existing debt levels and may be in a type of debt-growth trap, others are close to it and need to take urgent action.
- An aside: the global financial architecture remains incomplete, the IMF remains in an almost impossible position, the world continues to need an SDRM, Collective Action Clauses are not enough..
 - See Arozemena and Powell JIMF 2003
 - IDB's "Living with Debt"

In This Presentation

- I will focus on three cases:
 - Bahamas
 - Jamaica
 - Barbados
- But before that two more general slides..

The IMF's Forecasts for Seven Caribbean Countries

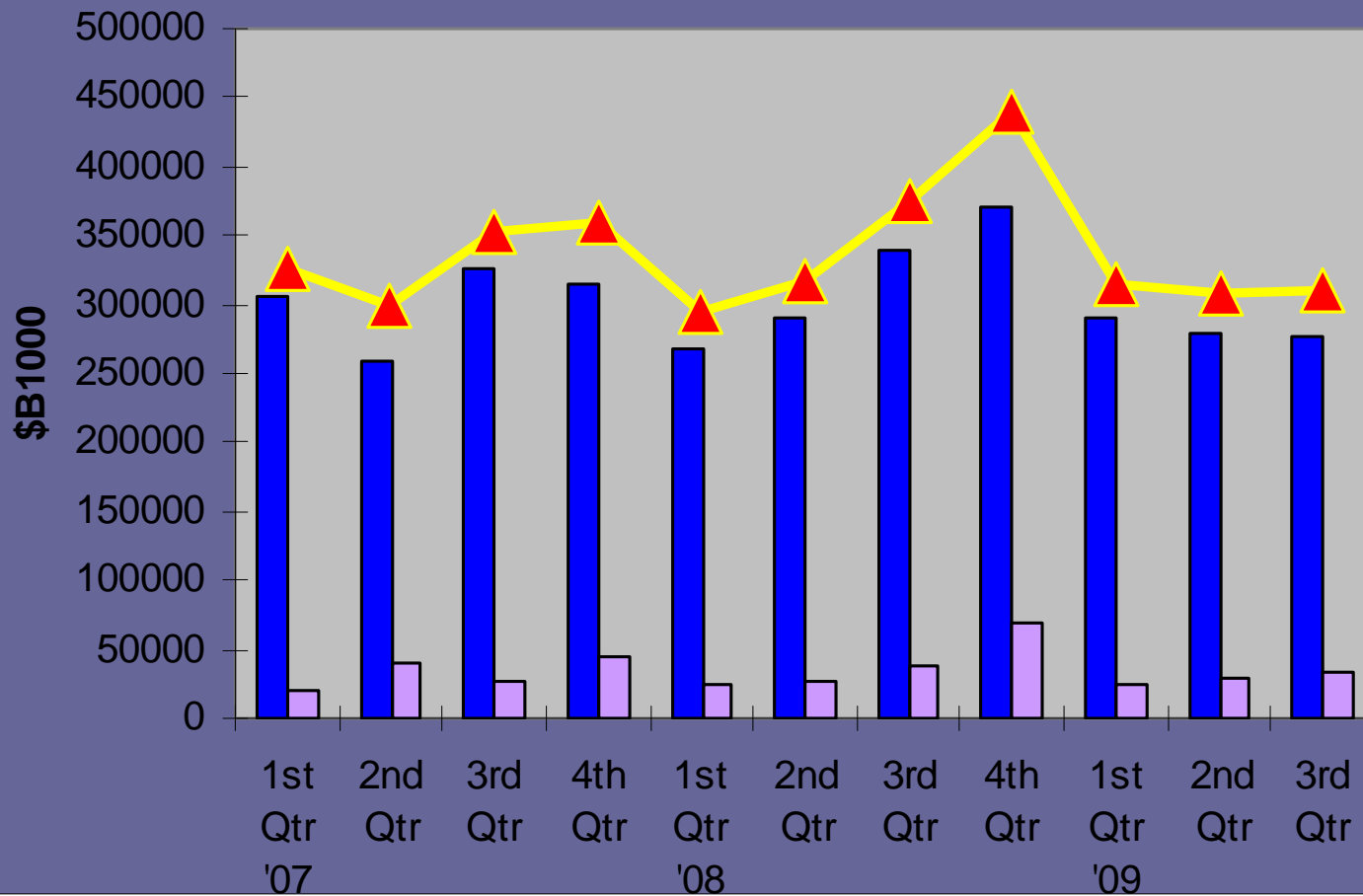
	IMF April 2009 Forecast		IMF October 2009 Forecast		Difference (Outlook)	
	2009	2010	2009	2010	2009	2010
<i>Bahamas</i>	-4.5	-0.5	-3.9	-0.5	0.6	0.0
<i>Barbados</i>	-3.5	0.5	-3	0	0.5	-0.5
<i>Guyana</i>	2.6	3.4	2	4	-0.6	0.6
<i>Haiti</i>	1	2	2	2.7	1.0	0.7
<i>Jamaica</i>	-2.6	-0.3	-3.6	0.2	-1.0	0.5
<i>Suriname</i>	2.8	2.5	1.5	3.5	-1.3	1.0
<i>Trinidad and Tobago</i>	0.5	2	-0.8	2	-1.3	0.0

Forecasts for the US have improved but the Caribbean's own problems have not allowed that improvement to be passed through as much as might have been expected

Guyana and Haiti

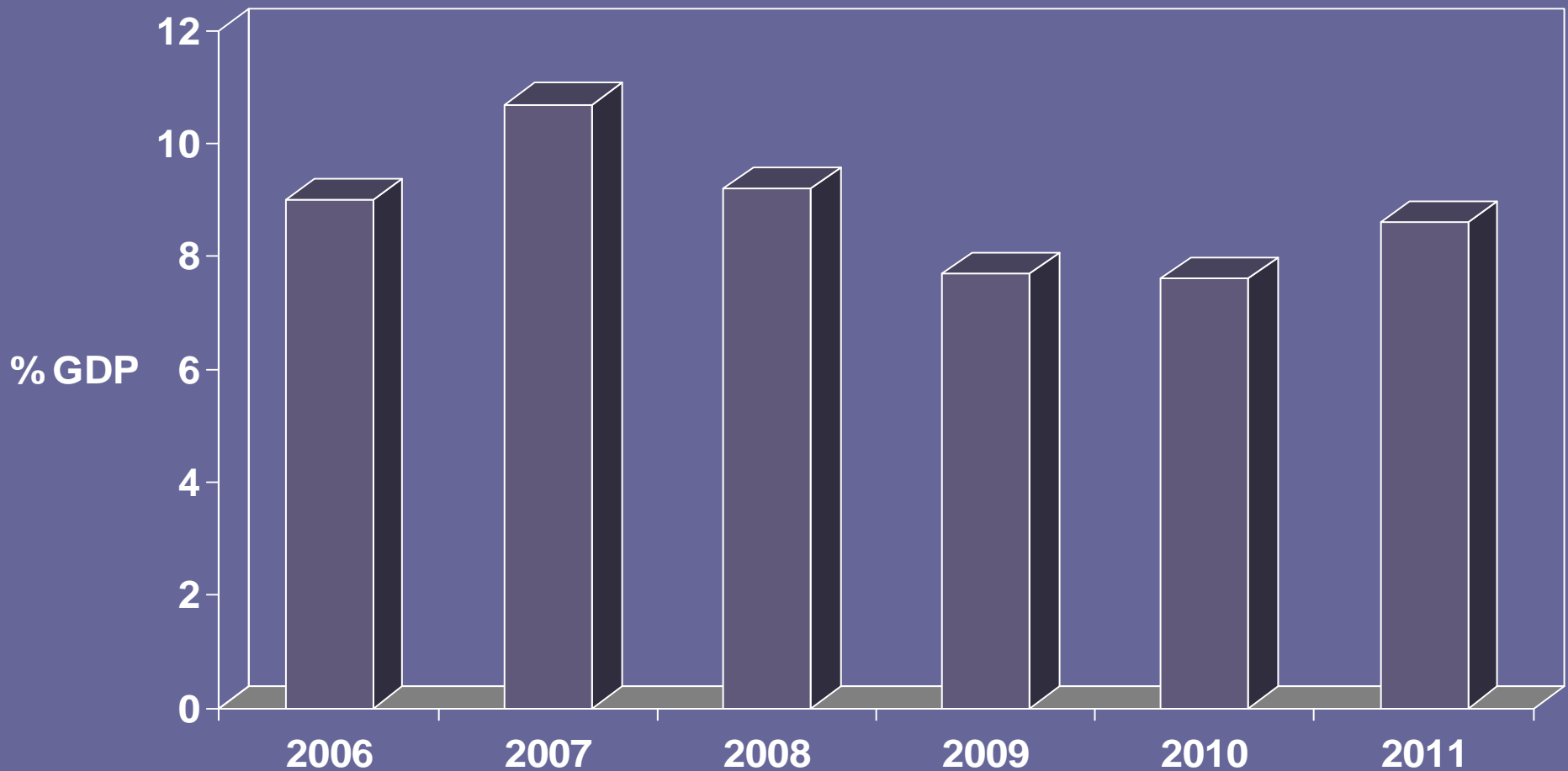
- Guyana
 - Debt Relief on March 16th 2007
 - Classified as “Medium Debt Distress”
 - Total debt some 105% of GDP
 - External debt largely official debt (multilateral and bilateral)
- Haiti
 - Debt Relief on June 30th 2009
 - Even after debt relief “High Debt Distress”
 - External debt some 13% of GDP (after debt relief), but 100% of exports
 - But external debt virtually all multilateral (IDB) and bilateral (Venezuela).

The Bahamas: Decrease in Fiscal Revenues

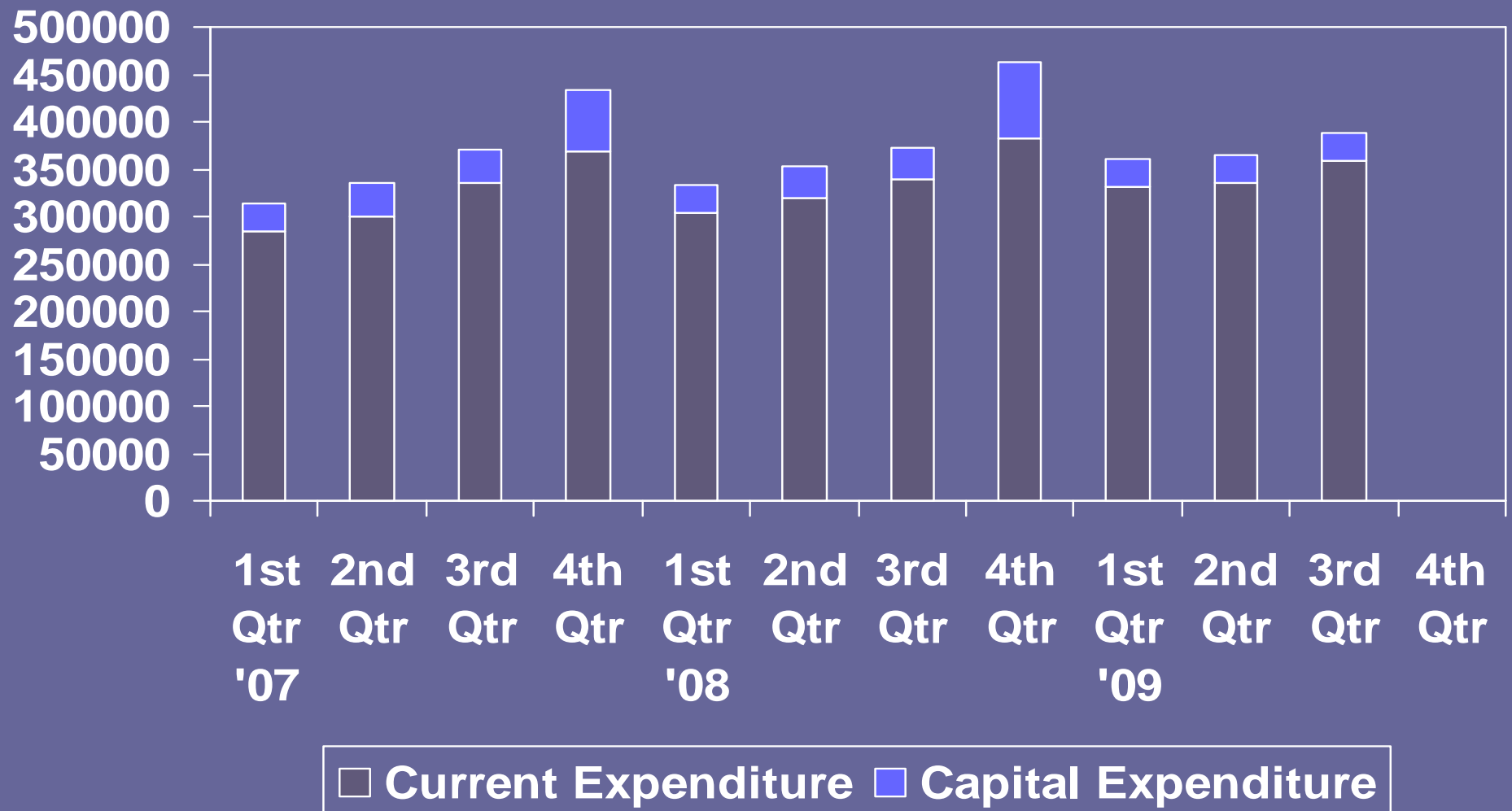


■ Tax Revenue ■ Non Tax including capital revenue ▲ Total Revenue

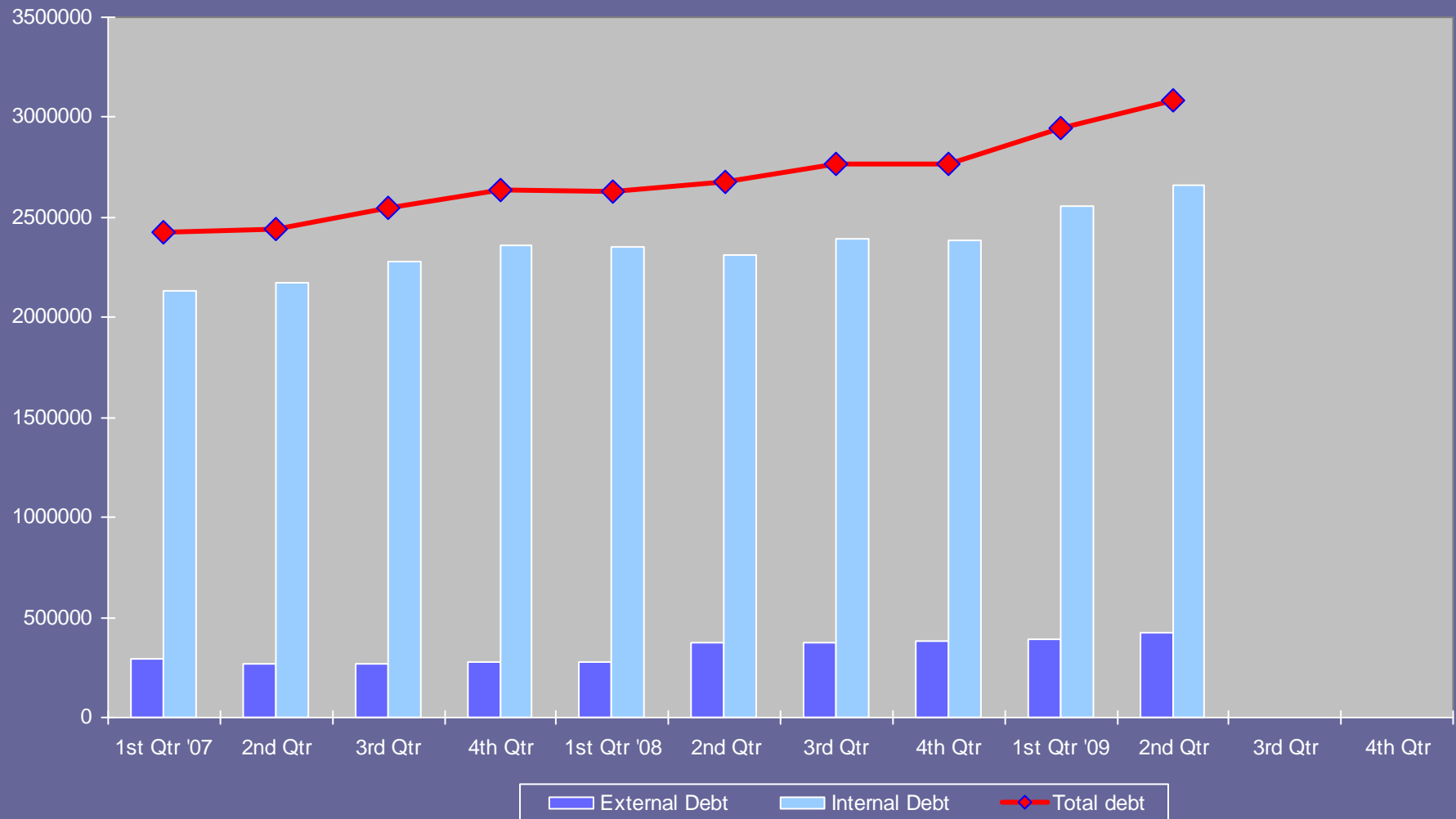
The Bahamas: No Income Tax, International Trade Taxes fell by 17% in FY09, A Slow Recovery Expected



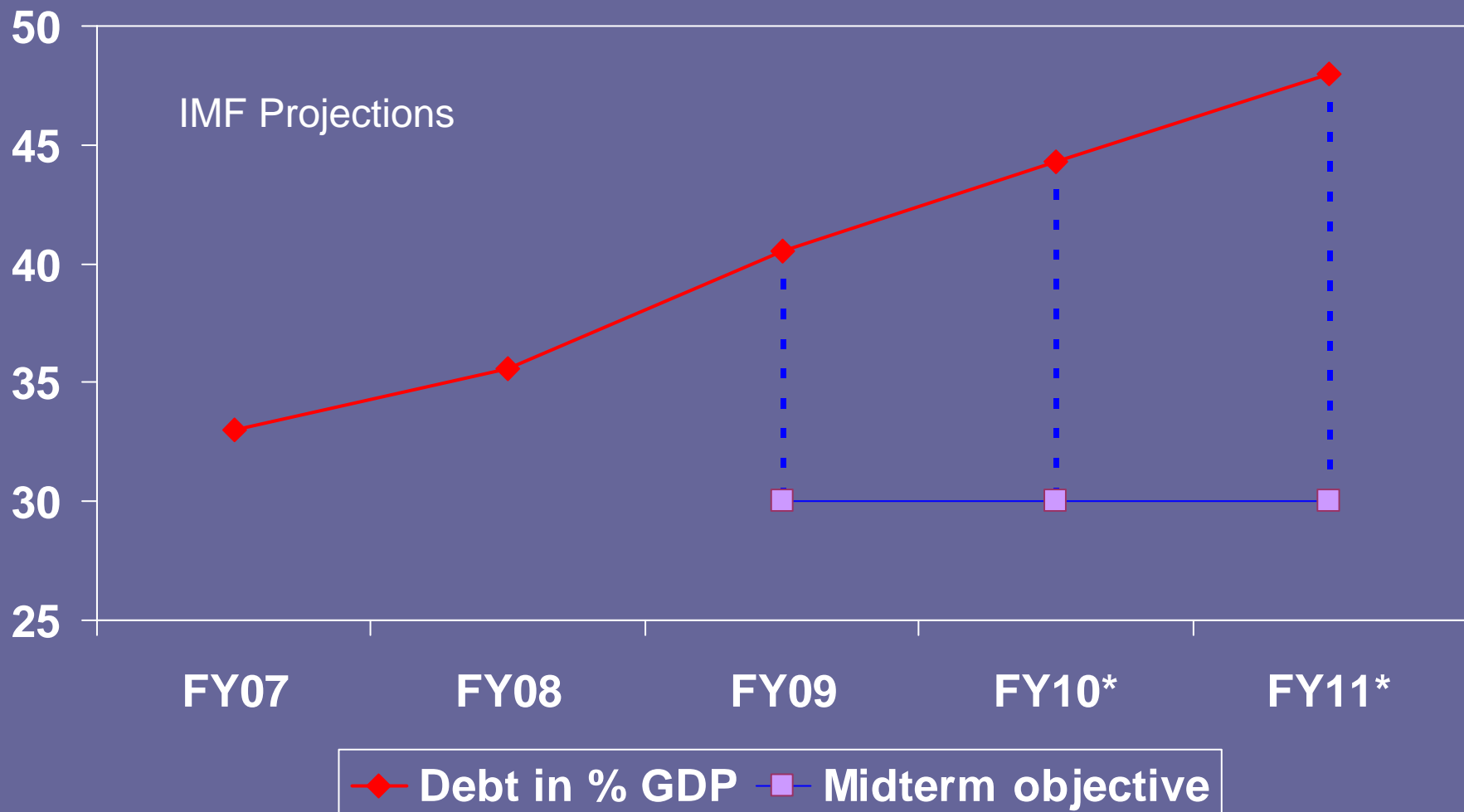
Stimulus package increased current expenditures while capital expenditures declined..



Overall deficit doubled forcing increases in debt



Debt as a % of GDP moving further away from mid-term objectives



Jamaica

- Public Expenditures: first 5 months of 2009/10 FY:
 - Recurrent expenditure is 32% above 08/09 figures
 - Capital expenditure is 40% above 08/09
 - Interest payments are 50% above 08/09
 - 4% below the budgeted expenditure
 - Under execution of programmes (24% below budgeted)

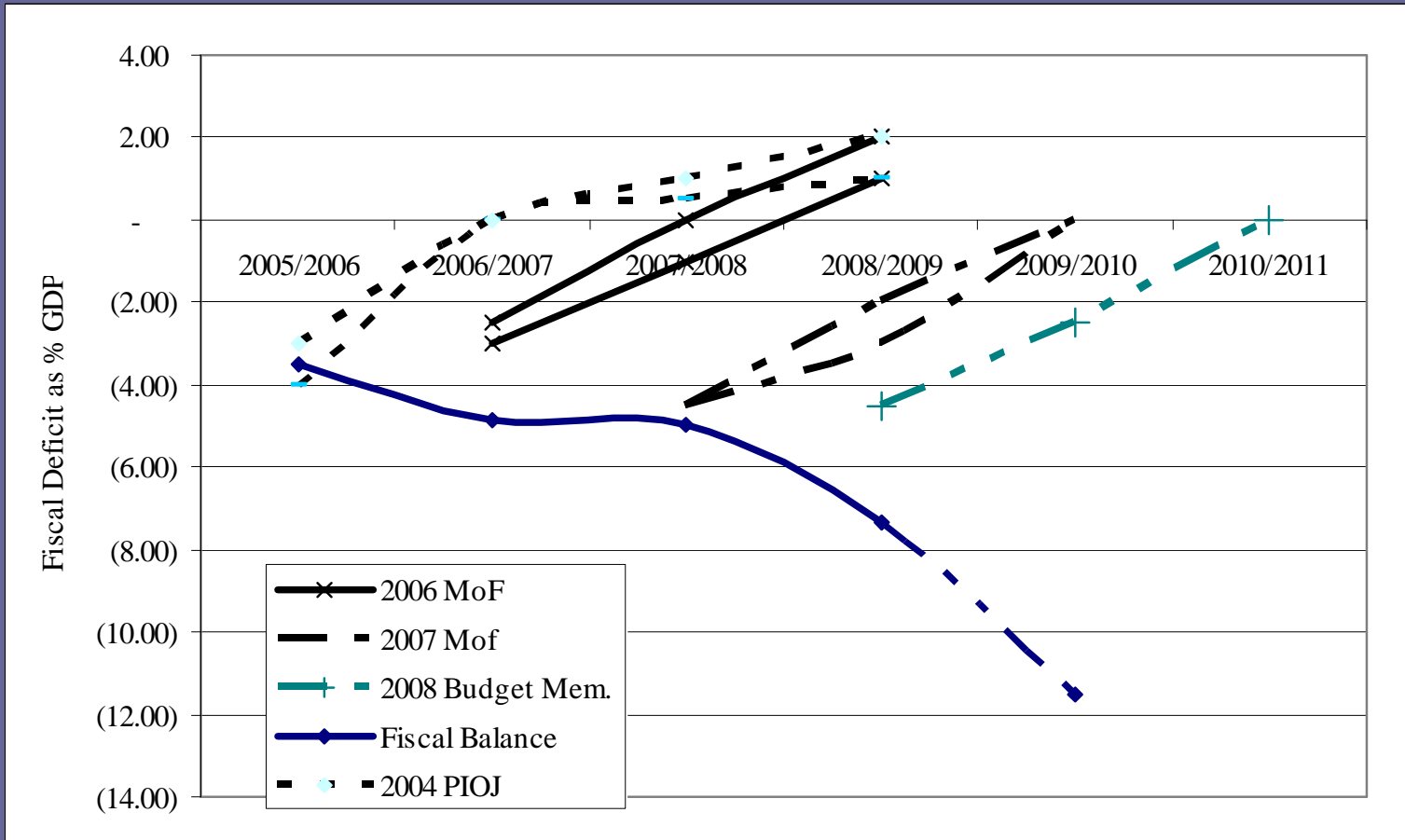
Jamaica Fiscal Revenues

- Tax collection
 - 8 months of 2009:
 - 1% higher in nominal terms compared to 2008
 - GCT is 6% lower in Jan-Aug 09 vs. Jan-Aug 08 despite removal of some GCT exceptions
 - GCT revenues in July 2009 are 10% below July 2008 and 1% above in August 2009.
 - 2009/10 Fiscal year:
 - 7.8% below estimates for the first 5 months of the 2009/10 FY.
 - GCT is 8.7% below its expected value

Jamaica: Supplementary Budget

- Supplementary on Sept 23rd
 - Net Increase of expenditures of J\$6billions (1%)
 - Increase in Interest payments J\$16 billions
 - Capital expenditure was reduced by J\$6 billions
 - The overall deficit is expected to be at least 11.5% of GDP this fiscal year

Jamaica: fiscal targets and outcomes



Jamaica: Public Debt

- Debt-to-GDP: 106% (December 2008)
- Debt-to-GDP: around 128% (August 2009)
 - Domestic debt: 55% of total debt and mainly in JMD (83%)
 - External debt held by private sector (67%), MDB (22%) – IDB (11%), and bilateral
 - Holders of total debt: 23% foreign banks, 21% security dealers, 20% BOJ, pensions and other public enterprises, 8% domestic banks, 11% MDBs and 8% bilateral organizations.

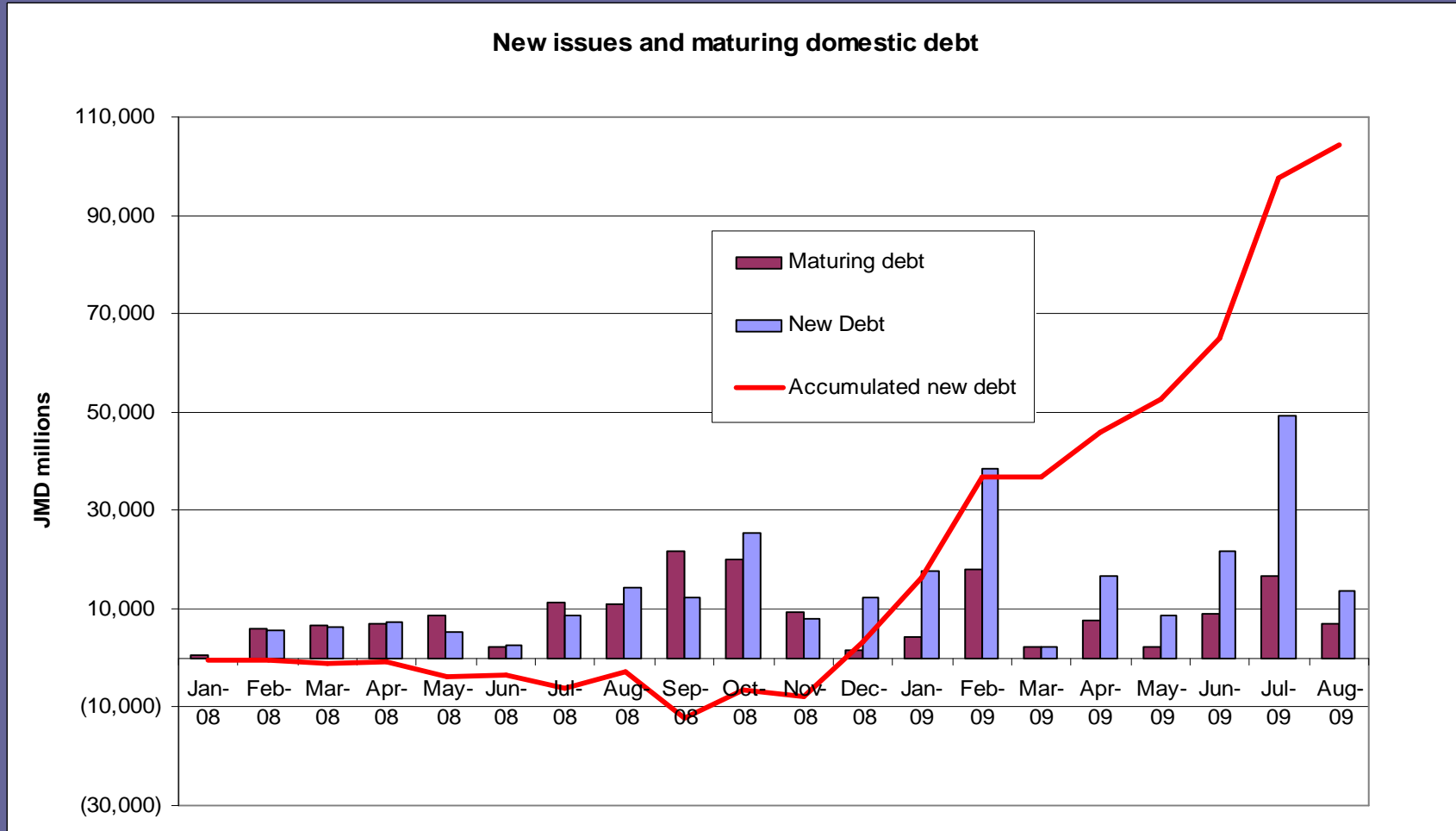
Jamaica: Public Debt Maturing

- External Debt: US\$131Mn (principally MDBs) in 2009 and US\$ 280Mn in 2010.
- Domestic Debt: US\$ 620mn in 2009/10 and US\$ 1.947bn in 2010/11.
- New issues: shorter maturity than before (4.3 years in 2009 vs. 7.46 years in 2007)

Jamaica: Structure of the Debt Changing

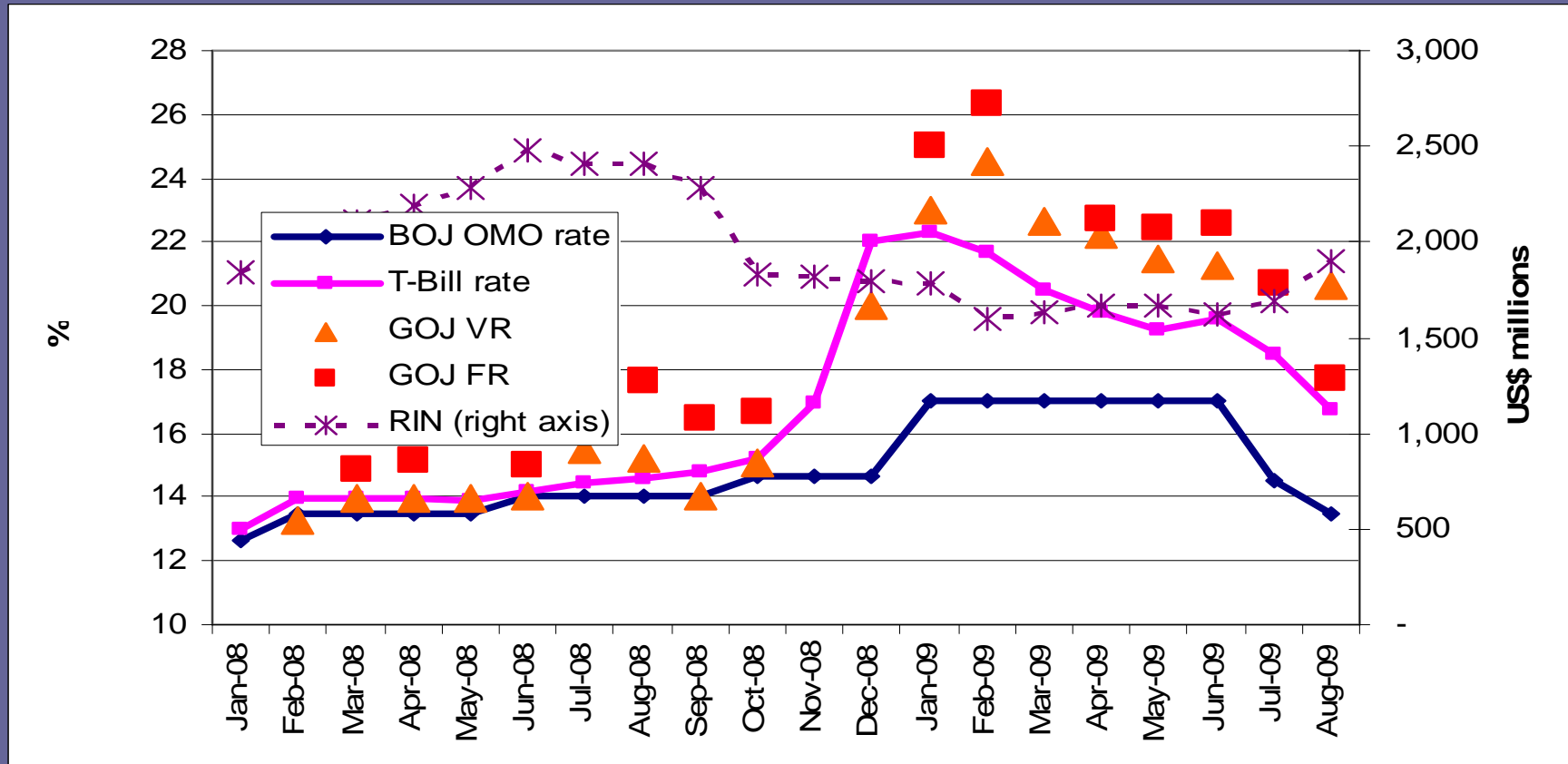
- External: 23% with Variable Rate (VR)
- Domestic: 54% with VR.
- Shorter term FR papers have increased in the last months.
- GOJ paid 28.25% for a FR debenture in February 2009.
- Average interest rate on domestic debt is 20.06% (July 2009), last auction was 17.5% as inflation has fallen significantly

Public Debt Rising

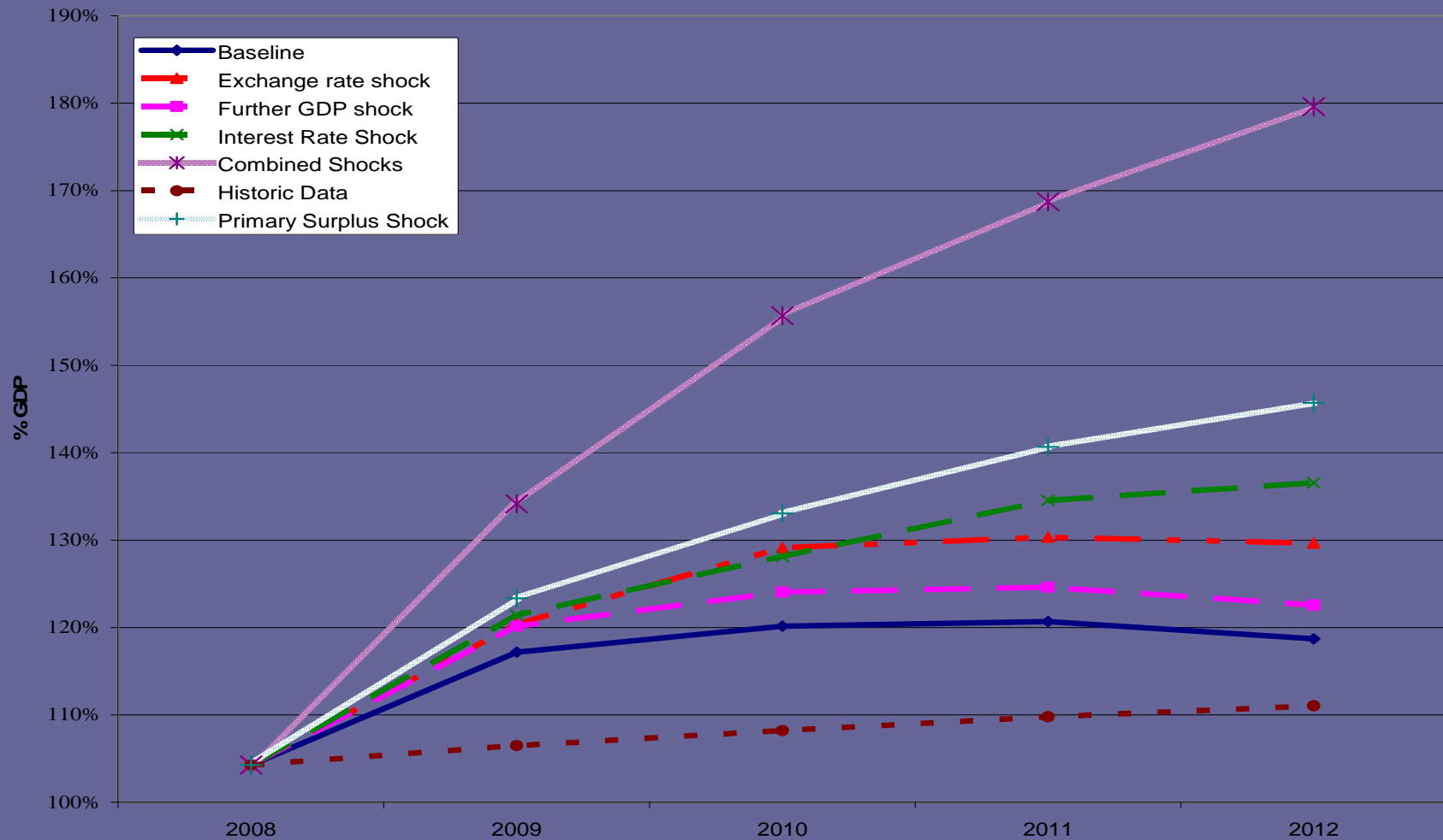


Jamaica: Interest Rates

- BOJ Treasury Bills set the VR on debt papers. The rate has increased substantially. Peak was 22.33% for 182 days paper in February 2009. It has been decreasing since then with inflation. Last auction was 17.5%, inflation declined from a peak of 26% to less than 10%.



Jamaica: Stress Tests



Not updated to latest figures

Jamaica: Conclusions

- Its difficult to see Jamaica growing with these interest rates and debt levels, unless the world changes quite quickly.
- Jamaica is currently in advanced negotiations with the IMF and is attempting to find a strategy to change its fiscal parameters.

Barbados' Debt has Escalated During the last Decade

- Debt stock more than doubled from 2000 to 2009, going from US\$1.6bn. To US\$3.5bn.
- In this same period, Debt/GDP rose from 64% to 106%
- The share of domestic debt rose from 68% to 71% in the same period
- Interest payments on public and private external debt = 18% of exports.
- Interest payments on total government debt = 5% of GDP. Primary balance = -3% of GDP.

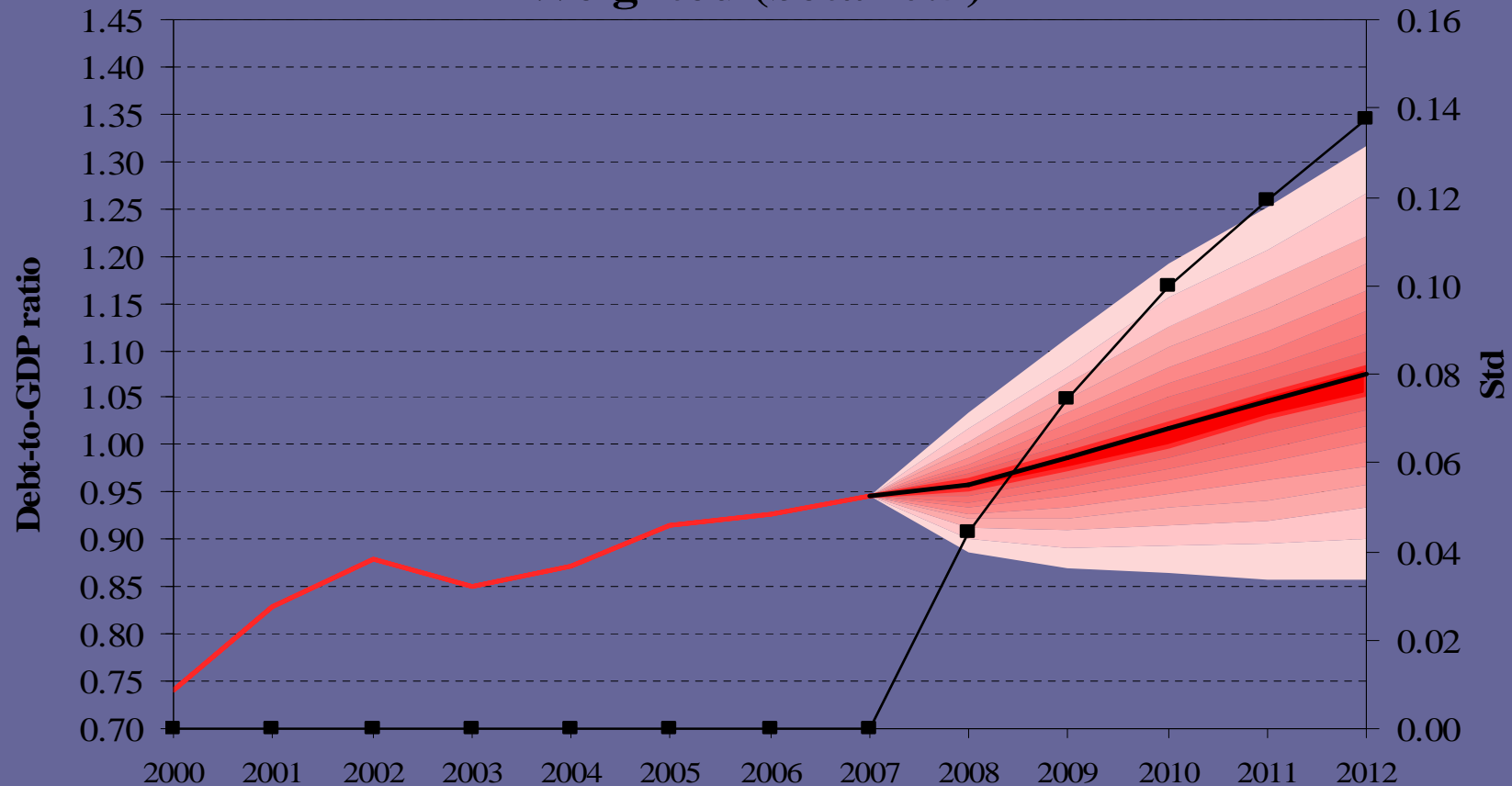
Barbados: The Current Conjecture

- Current Debt to GDP Ratio is 106%.
- A fiscal stimulus program and recession is increasing debt levels substantially this year and most likely next. The fiscal deficit will be some 8.4% this year.
- The Government is committed to a very sharp fiscal adjustment plan from 2011
- To go from a primary deficit of 3% of GDP to a primary surplus of 5.9% GDP in 2011.

Barbados:

Weighted VAR-External Forecasts

Weighted (beta=0.5)



Underlying VAR shows Volatility in GDP and in Fiscal Primary Surplus are Significant Drivers.

Conclusions

- Jamaica needs to seek a solution to its debt issues quite urgently with IMF and MDB assistance.
- Barbados is also potentially in a serious situation, it needs to take forceful actions to avoid a sustainability problem.
- Bahamas has a little more space but will end up in 2-5 years time as a country with higher debts relative to its history; this may threaten its no-income/only trade taxes approach