Caribbean Economic Research Team

The Impact of COVID-19 on Caribbean Countries' Debt Dynamics and Debt Sustainability[1]

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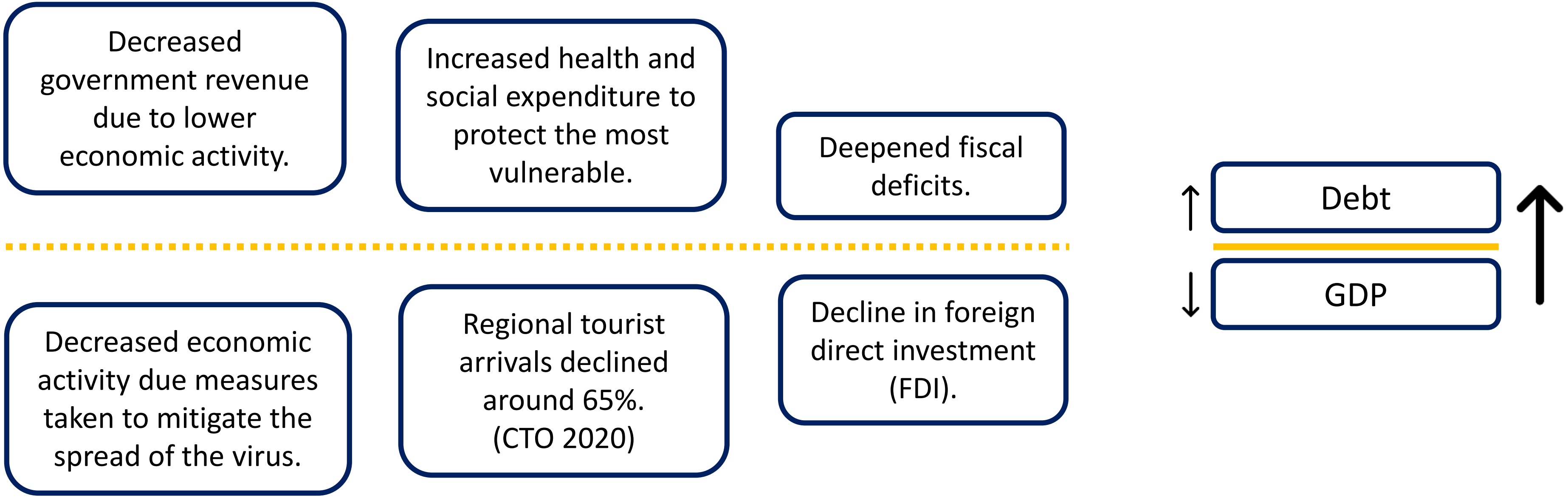
Introduction

- The COVID-19 pandemic plunged the world into the deepest global recession in more than 50 years and may eradicate decades of poverty and inequality gains.

- The economic impacts of the pandemic have also been disproportionately felt across middle and lower-income countries and economic prospects remain a major concern.

Introduction

Within the Caribbean region, the pandemic has been overwhelmingly disruptive and has called into question regional fiscal sustainability.



Decreased government revenue due to lower economic activity.

Increased health and social expenditure to protect the most vulnerable.

Deepened fiscal deficits.

Decreased economic activity due measures taken to mitigate the spread of the virus.

Regional tourist arrivals declined around 65%. (CTO 2020)

Decline in foreign direct investment (FDI).

↑ Debt

↓ GDP

↑

Introduction

	Debt-to-GDP			Change in Debt-to-GDP	
Country	2018	2019	2020	2019/2018	2020/2019
Anguilla	59.7	47.5	61.7	-12.2	14.2
Antigua and Barbuda	64.4	63.3	81.4	-1.1	18.1
Bahamas	57.6	57	69.8	-0.6	12.8
Barbados	125.4	117.3	142.2	-8.1	24.9
Belize	90.8	90.6	115.9	-0.2	25.3
Virgin Islands	12.3	11	13.5	-1.3	2.5
Cayman Islands	9.1	5.8	9.2	-3.3	3.4
Dominica	62.1	56	69.6	-6.1	13.6
Grenada	62.7	57.7	67.6	-5.0	9.9
Guyana	41.4	39.2	47.8	-2.2	8.6
Haiti	39.7	47.7	57.8	8.0	10.1
Jamaica	99.7	93.4	104.1	-6.3	10.7
Montserrat	5.4	4.8	4.8	-0.6	0.0
St. Kitts and Nevis	57.3	57.6	66.3	0.3	8.7
Saint Lucia	55.8	55.6	81.7	-0.2	26.1
St. Vincent and the Grenadines	64.1	67.5	77.6	3.4	10.1
Suriname	72.4	83.1	137.7	10.7	54.6
Trinidad and Tobago	59.2	58.5	82.1	-0.7	23.6
Turks and Caicos Islands	0.8	0.3	0.3	-0.5	0
Regional Average	67.1	65.2	84.1	-1.9	18.9

Introduction

The debt-to-GDP ratio remains an important indicator of sustainability for several reasons that relate to macroeconomic stability and development.

1. *As debt increases relative to GDP, more resources are dedicated to servicing debt.*

2. *A continuous rise in the ratio suggests that the expected impact of public expenditure on GDP is not keeping pace with the debt created by that expenditure.*

3. *The ratio becomes more sensitive to shocks as it grows larger.*

4. *As the ratio rises, investors delay investments in order to safeguard anticipated returns.*

5. *As debt increases, the risk premium on government debt increases making new borrowing more expensive.*

Analytical Framework

The budget constraint can be summarised and expressed symbolically as:

$$D_t - D_{t-1} = i_t D_{t-1} - PB_t + \Delta F_t \qquad (1)$$

Where: D represents debt; i represents the average effective interest rate on debt; PB is the primary balance; ΔF represents a residual or the stock-flow adjustment; and t represents time.

Equation (1) can be manipulated to express the terms as percentages of nominal GDP to obtain the following equation:

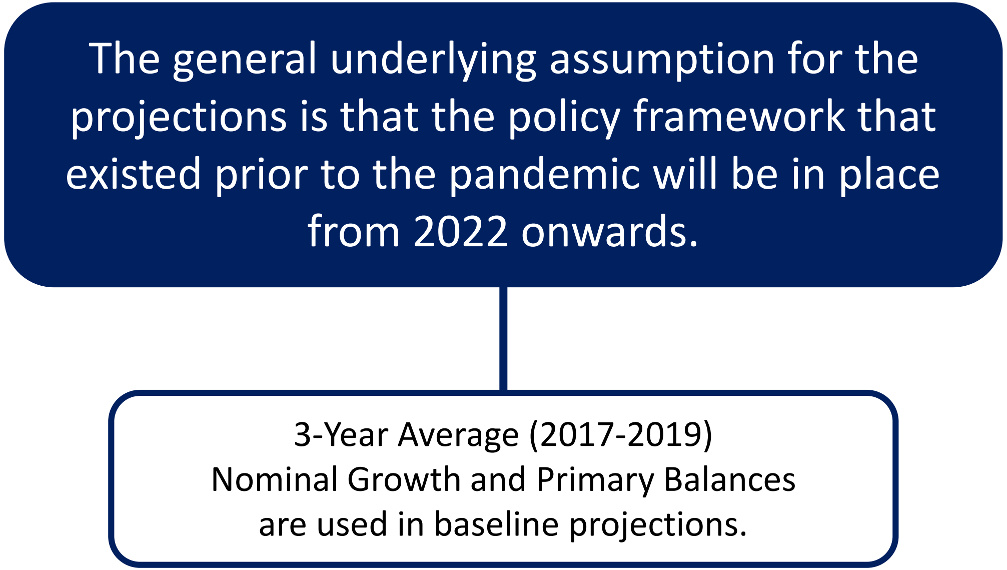
$$\Delta d \;\; = \left[\frac{i_t - g_t}{1 + g_t}\right] d_{t-1} - pb_t + \Delta f_t \qquad (2)$$

Where: d^T represents the total debt stock in relation to GDP; g represents the growth rate in nominal GDP; and all other lower-case letters represent their upper-case counterparts in equation (1) expressed as a percentage of nominal GDP.

Sample

Anguilla	Dominica	Saint Lucia
Antigua and Barbuda	Grenada	St. Vincent and the Grenadines
The Bahamas	Guyana	Suriname
Barbados	Haiti	Trinidad and Tobago
Belize	Jamaica	Turks and Caicos Islands
The Virgin Islands (British)	Montserrat	
Cayman Islands	St. Kitts and Nevis	

Underlying Assumption



The general underlying assumption for the projections is that the policy framework that existed prior to the pandemic will be in place from 2022 onwards.

3-Year Average (2017-2019)
Nominal Growth and Primary Balances
are used in baseline projections.

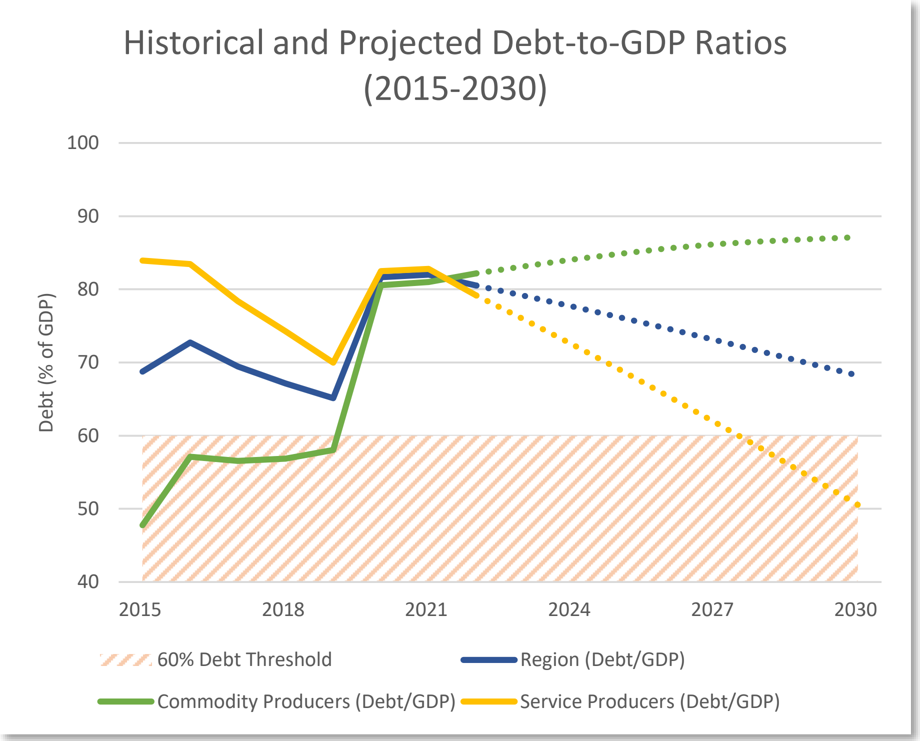
Findings

The findings show that given the current policy framework, the regional average debt level will be above the 60% threshold by 2030.

Out of the 19 Countries examined, 10 will likely have Debt-to-GDP ratios above 60% by 2030.

Out of these 10, four will have Debt-to-GDP ratios that exceed the 2020 level.

These findings suggest that in many cases, a significant fiscal adjustment will be required to achieve a debt-to-GDP ratio of 60% by 2030.



Findings

Average level of Primary Balance adjustment needed during 2022-2030 in order to achieve a debt ratio of 60% by 2030.

Country	Baseline (2017-2019) Average Primary Balance (% of GDP)*	Primary Balance to Achieve 60% (% of GDP)	Average Level of Adjustment (% of GDP)
Antigua and Barbuda	-0.6	1.9	2.5
The Bahamas	-1.0	2.8	3.8
Barbados	4.2	8.6	4.4
Belize	0.8	6.5	5.7
Dominica	-10.5	8.2	18.7
St. Kitts and Nevis	0.2	0.7	0.5
Saint Lucia	0.4	2.5	2.0
St. Vincent and the Grenadines	1.0	2.8	1.9
Suriname	-10.8	5.7	16.4
Trinidad and Tobago	-2.2	3.7	5.9

Policy Imperatives

What is required for Debt Sustainability?

Stimulating sustainable and inclusive economic growth.

- ✓ *Upgrade and maintenance of critical economic infrastructure.*
- ✓ *Improve budget public financial management systems.*
- ✓ *Improve public sector regulatory and institutional frameworks, including through digital transformation.*
- ✓ *Optimize efficiency, equity and simplicity of tax system.*

Fiscal frameworks aimed at maximising revenue and minimizing expenditure.

- ✓ *Improve tax collection and target optimal level of taxation while maintaining the simplicity of tax systems.*
- ✓ *Contain expenditures without diminishing protection for the most vulnerable.*
- ✓ *Seek out disaster insurance to relieve pressures on government finances following natural disasters.*

A comprehensive public sector debt management strategy.

- ✓ *Seek out lower cost debt wherever possible.*
- ✓ *Debt restructuring.*
- ✓ *Negotiate disaster clauses into debt contracts.*
- ✓ *Actively manage the risks inherent in the debt portfolio.*

Thank you!