

ECLAC SUBREGIONAL
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FOR THE CARIBBEAN

Drivers of public debt reduction in the Caribbean

A case study of Jamaica,
Saint Kitts and Nevis
and Suriname

Dillon Alleyne
Michael Hendrickson
Machel Pantin



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This document was prepared by Dillon Alleyne, Deputy Chief of the Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean, and by Michael Hendrickson, Economic Affairs Officer, and Machel Pantin, Associate Economic Affairs Officer, both of the Economic Development Unit of the ECLAC subregional headquarters for the Caribbean.

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Abstract

The Caribbean's long-running public debt challenge has been worsened by COVID-19. Recent international interest rate increases and the looming threat of climate change impacts place even more burden on Caribbean governments' budgets. While the Caribbean's average debt burden has risen in the past 13 years, some countries have been able to lower their debt ratios. This study closely examines the performance of two Caribbean countries which over the past 13 years, have seen a sustained downward trend in their debt ratios, Jamaica and Saint Kitts and Nevis, and one country that has seen a sustained upward trend in its debt ratio, Suriname. Based on these case studies, a number of recommendations are made for Caribbean countries to help in their debt reduction. The study finds that a commitment to fiscal rules and having deep haircuts when restructuring debt contribute to lowering debt, while inconsistent commitment to fiscal consolidation and macroeconomic imbalances can contribute to increasing debt.

Introduction

In 2020 and 2021, with the reduction in economic activity and shutdowns caused by the COVID-19 pandemic, many governments turned to fiscal policy and borrowed heavily to support their economies and vulnerable populations. As a result, global debt¹ has soared to unprecedented levels. Total global public debt has more than quadrupled from 2000 to 2022, increasing from US\$ 22 trillion to US\$ 92 trillion (United Nations, 2023). Most of the increase has taken place in developing countries, which accounted for approximately 30% of global public debt in 2022. In the Caribbean,² the total public debt more than tripled from US\$ 19 billion in 2000 to US\$ 63 billion in 2022. While the aggregate Caribbean debt is just a fraction of global debt, given these countries' small economies, public debt can be very high³ as a per cent of Gross Domestic Product (GDP) and is a major challenge to sustainable development.

The Caribbean has struggled with high public debt ratios that have remained stubbornly elevated during the past 23 years. Over this period, Caribbean debt ratios have been consistently higher than the world average (see figure 1). The average debt to GDP ratio in the Caribbean increased from 56% of GDP in 2000 to 66% in 2016 before falling to 61% in 2019. With the pandemic's effects in 2020, average public debt rose to 80% of GDP before decreasing to 69% by 2022.

Taking on public debt is critical to advance sustainable development. Countries with limited domestic resources must borrow for investment and to smooth revenue inflows. What is important is the extent to which the debt is used for investment in quality infrastructure and other areas that boost growth, employment and competitiveness. At lower levels, taking on debt can have a positive impact

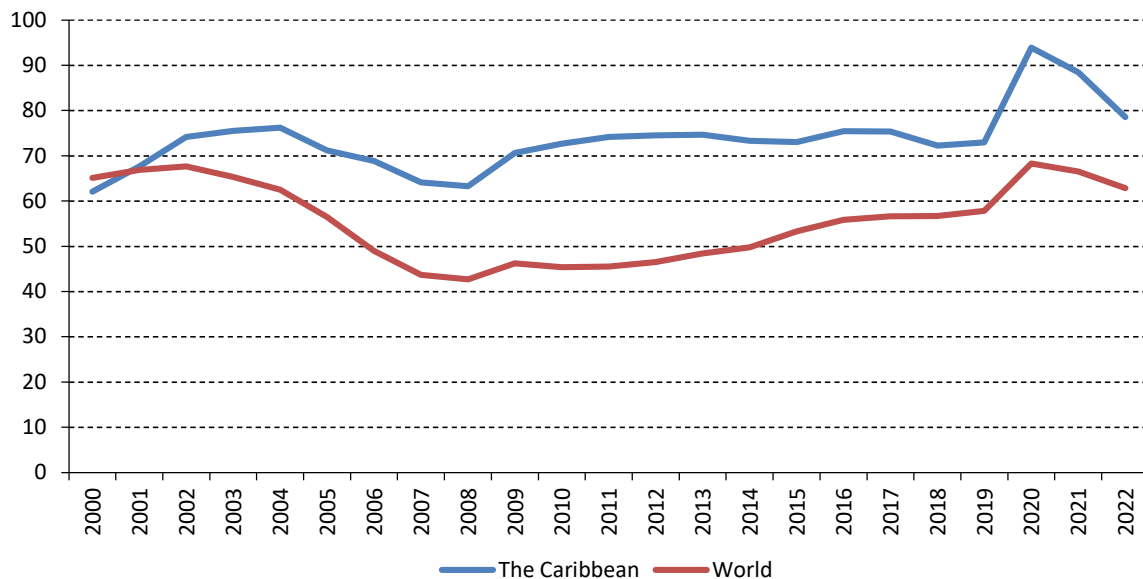
¹ There are a few definitions of public debt. The first is central government debt which is debt owed by the budgetary central government. The next is general government debt, which is owed by the central government, state and local governments, extrabudgetary units and social security funds. The third is public sector debt, which is general government debt plus debt owed by public corporations and any other debt that the public sector has an obligation to cover (Hakura 2020). The definition used in this document is central government debt, except where indicated otherwise.

² In this document the Caribbean refers to the 13 independent English and Dutch speaking countries: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

³ A public debt ratio over 60% of GDP is considered to be high, by UNCTAD (2023), based on IMF benchmarks.

on GDP growth (IDB, 2023, Worrel 2023). The problem occurs when debt service costs cannot be sustained. Many developed countries can sustain high debt levels with little effect on their borrowing costs due to low interest rates, stronger and wider tax bases and strong confidence in their fiscal institutions. However, for most developing countries, with high debt to GDP ratios often comes high debt service payments, which limits government's fiscal space and ability to invest in development initiatives, including climate adaptation and mitigation measures. Additionally, high debt and debt service increases the risk of debt default and therefore the cost of and access to further borrowing. More expensive borrowing costs limits further investment and raises the spectre of future default and debt restructuring. Further, high levels of external debt make countries vulnerable to monetary policy changes in creditor countries (IDB, 2023). Also, changes in interest and exchange rates can drastically increase debt ratios in a short space of time.

Figure 1
General government gross debt, 2000–2022
(Percentage of GDP)



Source: Authors, on the basis of IMF World Economic Outlook October 2023 database.

In the immediate aftermath of the first COVID-19 lockdowns, the Group of 20 countries introduced the Debt Service Suspension initiative (DSSI) to allow low-income countries to apply for a pause in bilateral debt service payments from May 2020 to December 2021. While some Caribbean countries participated (Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines), most were ineligible because they were not part of the World Bank's International Development Association (IDA) classification, which consists mostly of lower income countries. The DSSI was followed by the Common Framework for Debt treatments beyond the DSSI which is meant to coordinate debt treatments for countries that were eligible for the DSSI. Most Caribbean small island developing States (SIDS) are middle- or high-income countries which precluded access to the DSSI or Common Framework, most development assistance, or concessional finance. There have been many calls for reform of the international finance system, including the Bridgetown Initiative (Reuters, 2023), which demands a redesigned Common Framework that would allow debt-distressed middle-income countries to participate on fairer terms that recognize their vulnerabilities. The United Nations has proposed reforms to the international financial architecture (United Nations, 2023). Most Caribbean countries find

themselves in a somewhat difficult position, being too rich to access affordable finance, yet too small and economically vulnerable to grow themselves out of debt.

The governments of the subregion, with few exceptions, also face additional threats to their debt sustainability. In 2022 and 2023 monetary policy interest rates rose in many developed countries as a means of curbing post-pandemic inflation; these rising interest rates increase the cost of external debt for variable interest rate debt holders. Also, higher imported inflation increased the cost of living for citizens especially the poor and vulnerable. In the medium- to long-term, Caribbean SIDS face the additional mitigation and adaptation costs related to climate change. These threats highlight the importance of debt management in the Caribbean, and the need to lower excessive public debt.

The persistence of high debt ratios in many Caribbean countries suggests that debt is likely unsustainable, and some countries need assistance in reducing their public debt to acceptable levels. The aggregate trend between 2020 and 2022, however, masks a heterogeneity of experiences among Caribbean countries. Some countries have been able to achieve a sustained decline in their public debt to GDP ratio, while others have seen their debt grow substantially. A closer examination at the country level can reveal underlying reasons for the sustained trend with policy implications for the wider Caribbean.

The broad aim of the study is to examine in detail those countries with sustained declining or increasing trends in their public debt ratios since 2010 with a view to determining the reasons for the sustained trend. The case studies will look at the policies implemented as well as the costs incurred or trade-offs made because of these measures, along with any external contributing factors.

The results of the analysis in the case studies will contribute to an understanding of best practices and strategies for debt reduction. While the focus of this study is strategies for debt reduction, it is recognised that growth outcomes are a complementary aspect of macroeconomic policy. The case studies, where necessary, will comment on this aspect of the analysis.

The structure of this study will be as follows: chapter one takes a broad look at public debt trends in the Caribbean. It presents stylized facts about public debt and debt service indicators in the Caribbean. It begins with a brief overview of general global debt trends, then outlines the criteria used to select the case study countries. It ends with a debt decomposition of the selected countries. The next chapter includes case studies on the selected countries. The fourth chapter will present recommendations and the fifth will summarize key findings.

I. Evolution of public debt in the Caribbean

The chapter presents stylized facts about public debt and debt service indicators in the Caribbean. It begins with a brief overview of general global debt trends, then outlines the criteria used to select the case study countries. It ends with a debt decomposition of the selected countries.

A. Debt trends

Over the past two decades, the Caribbean has been recorded as one of the most indebted regions in the world, using the most common measure of the burden of debt – the debt to GDP ratio. Figure 2 below depicts public debt ratios⁴ for several country groups over time: high-income, middle-income, low-income, Caribbean and the world. The low-income group had the highest debt ratio (131% of GDP) in the 2000–2004 period. It included several countries which averaged debt over 200% of GDP over those five years, including Liberia with debt over 500% of GDP. The debt crisis in low-income countries prompted the Heavily Indebted Poor Countries initiative (HIPC) which provided debt relief and low interest loans to countries with unsustainable⁵ debt levels. As a result, the debt ratio in low-income countries fell significantly in the 2005-2009 period. Since 2010, the Caribbean has had the highest average general government debt ratio among all developing country groups. The only country groups⁶ with higher general government debt ratios over this span were North America and the euro area⁷.

The average central government debt ratio in the Caribbean grew from 52% in 2000 to 74% in 2005 before falling to 57% by 2008. During this period, Guyana benefited from the HIPC and its public debt fell from over 200% of GDP to 39% by 2007. This contributed to the fall in the Caribbean average. In the years that followed, public debt in the Caribbean rose again partly due to the effects of the global

⁴ The data used for this international comparison is general government gross debt as a per cent of GDP, as defined by the IMF. These values are slightly different from the central government debt data used in other parts of the document, which come from country sources.

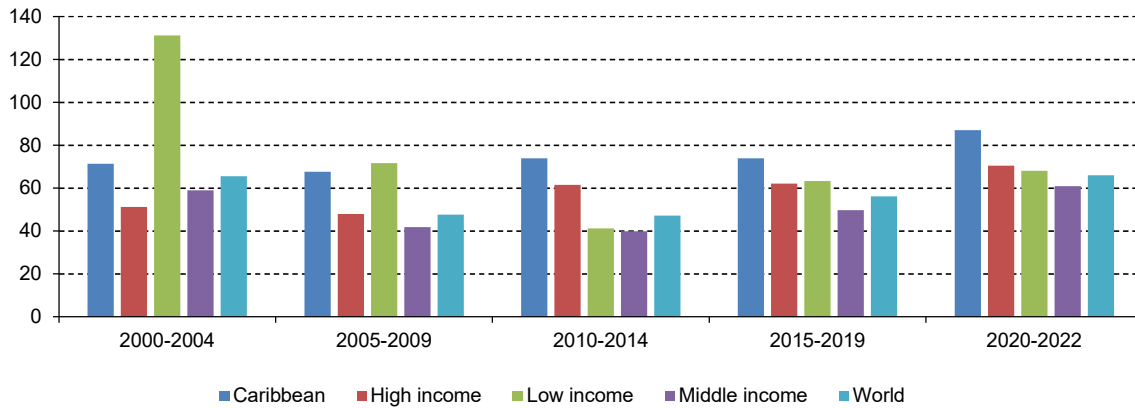
⁵ Public debt is defined as unsustainable when a country's government is unable to meet its current and future payments without financial assistance or going into default.

⁶ Using groups defined by the IMF.

⁷ The euro area refers to countries that use the euro currency.

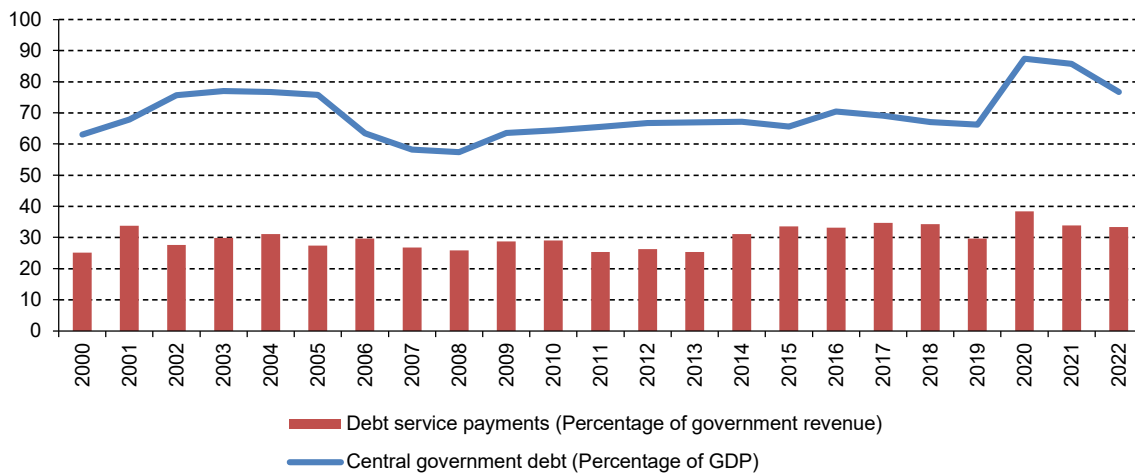
financial crisis. It stabilized at around 67% of GDP from 2012–2015. In 2016, debt increased to 70%, driven by large increases in Barbados and Suriname. From there, it fell slowly to 66% by 2019 before the COVID-19 pandemic resulted in debt leaping to 87% in 2020. In the two years that followed, public debt fell to 77% by 2022. From 2000–2019, no more than 4 Caribbean countries had public debt ratios over 80% of GDP in any year. In 2020 and 2021 this number increased to 8.

Figure 2
Average general government gross debt in 5-year groups, 2000–2022
(Percentage of GDP)



Source: Authors, based in data from the IMF World Economic Outlook October 2023 database.

Figure 3
Average Caribbean central government debt and debt service payments, 2000–2022
(Percentages)



Source: Authors, on the basis of official figures.

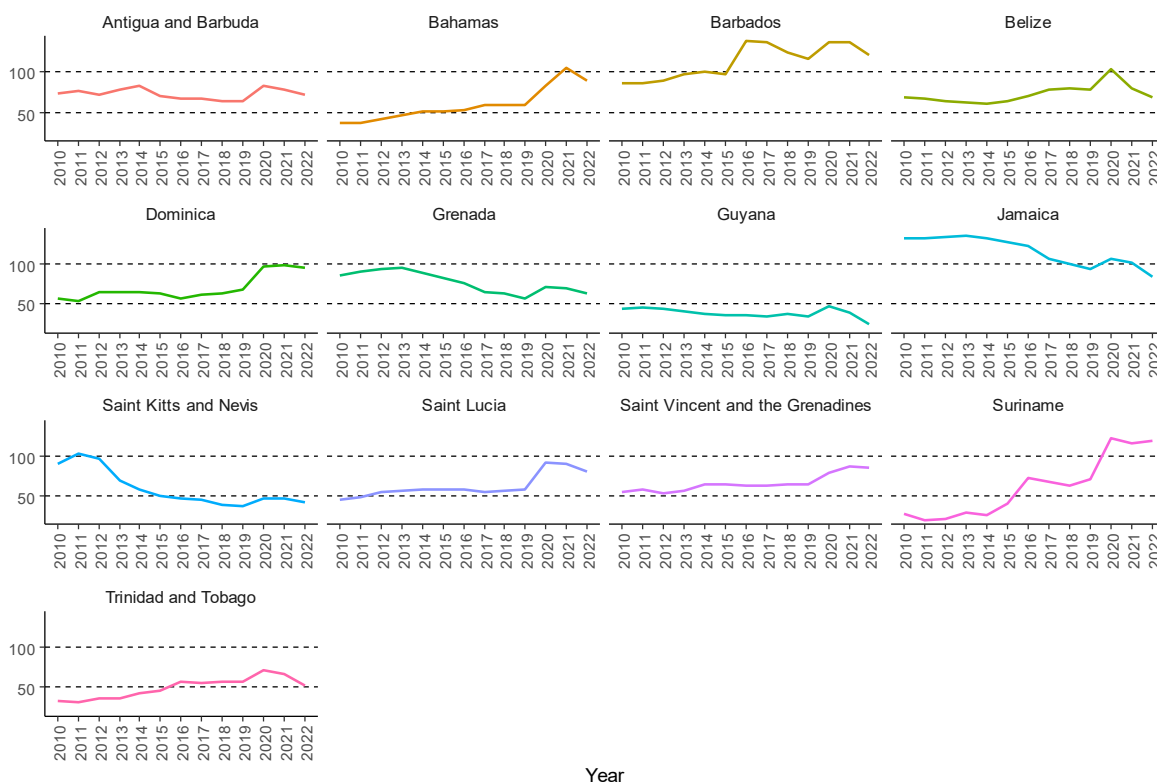
Another measure of the debt burden is the debt service paid by the governments each year. On average in the Caribbean, total debt service payments as a per cent of government revenue fluctuated around an average of 26% from 2000–2014 (see figure 3). From 2015–2022, this debt service ratio was above 30% in every year except 2019. There is a lot of variability in debt service payments from country to country. Over the period 2013–2022, the countries with the three highest average debt service ratios

were The Bahamas (74%), Antigua and Barbuda (59%) and Jamaica (52%). The Bahamas' debt service payments were actually greater than 100% of government revenue in 2020 and 2022.

B. Selection criteria

While public debt in the Caribbean as a whole has been increasing, the average obscures individual situations. This paper aims to examine the countries that have been able to sustain downward trends in their debt ratios and those who have experienced a sustained upward trend. There have been periods of debt reduction for different countries in the Caribbean over the past few decades. For example, Trinidad and Tobago experienced an extended period of decreasing debt from 1993–2008, where debt fell by almost 50 percentage points of GDP. In Antigua and Barbuda, the debt ratio fell by 29 percentage points from 2001–2007. This study, however, focuses on more recent debt reduction spells. This allows for focus on initiatives based in the current international debt architecture.

Figure 4
Central government debt by country, 2010–2022



Source: Authors, on the basis of official figures.

Given the impact of the pandemic on public debt ratios in the last few years, the study looks at the trend in public debt in the 10 years before 2020, and then in the three years since then. The countries with the largest declines in central government debt before the pandemic were Jamaica and Saint Kitts and Nevis, as seen in figure 4. Jamaica's debt decreased by 39 percentage points of GDP over this period, from 132% (the highest in the region) to 93% in 2019. After rising to 106% in 2020, it fell even lower than 2019 levels (84%) by the end of 2022. In Saint Kitts and Nevis, central government debt fell from 90% of GDP in 2011 to 38% in 2019, a 52 percentage point decline. The government's debt increased to 47%

in both 2020 and 2021 before falling to 4.1% by 2022. Although some other countries experienced debt declines from 2010 to 2019, Jamaica and Saint Kitts and Nevis were selected due to their sizable, sustained declines.

In addition to the two countries with the largest declines, this study also selected one country that had debt difficulty in order to use their experience as a basis for making further recommendations that offer pertinent response to the challenges faced by debt strapped economies. From 2010 to 2019, Suriname had the largest increase in government debt in the Caribbean. Central government debt in this country grew from 28% of GDP in 2010 to 71% in 2019, a 43 percentage point increase. Since then, it increased to 118% by 2022, which amounts to a very large 90 percentage point increase in the debt ratio from 2010 to 2022.

C. Debt decomposition

A debt decomposition⁸ was conducted as a preliminary exercise for the selected countries. The annual changes in central government debt ratio from 2012 to 2022 for the three selected countries were decomposed into the separate key factors of debt: interest payments, inflation, the exchange rate, real GDP growth, the primary balance, and stock flow adjustments (SFA), which would include debt obligations from public or private enterprises, accounting errors and any other discrepancies. Increases in the interest rate and the exchange rate increase the debt ratio; increases in the inflation rate, GDP growth and the primary surplus all decrease the debt ratio; while stock flow adjustments can push debt up or down. In figure 5 below, all factors with values below zero serve to lower debt while all those above zero serve to increase debt.

The results from the decomposition are largely in line with expectations based on the debt trajectory. The primary balance effect is strong and negative for Jamaica and Saint Kitts and Nevis, illustrating the large impact fiscal effort has had in reducing public debt. Jamaica's inflation also contributed significantly to its debt ratio reduction by increasing the denominator of the debt ratio, nominal GDP. The effect on the debt ratio of Suriname's large devaluations in 2016 and 2021 can be clearly seen. Also, the impact of Suriname's inflation following the devaluations is captured in the strong negative inflation effects in 2017, 2021 and 2022. All of the selected countries exhibited large SFAs in at least two years, but they were smaller, on average, in Jamaica and Saint Kitts and Nevis.

The cumulative contributions from each factor in each country are outlined below:

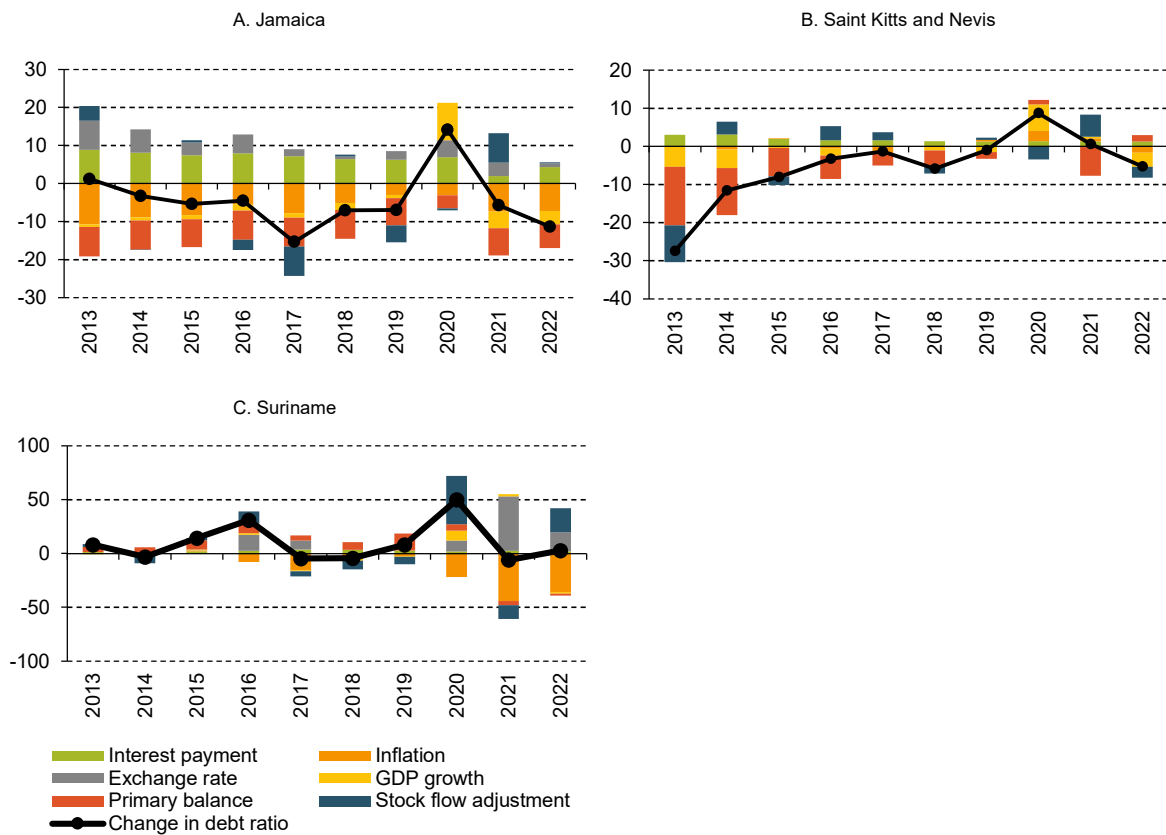
- Jamaica's central government debt ratio decreased 44.4 percentage points from 2012 to 2022. The largest cumulative positive contribution (which increased debt) to this change was the interest payments effect (65.1 percentage points), followed by the exchange rate effect (36 percentage points). The negative contributions (which reduced debt) were the primary balance effect (-69.6 percentage points), the inflation effect (-67.2 percentage points), GDP growth (-6.2 percentage points) and the stock flow adjustments (-2.5 percentage points).
- Saint Kitts and Nevis' central government debt ratio decreased 55 percentage points over the same period. The only cumulative positive contribution was from the interest payment effect, at 17.4 percentage points. The exchange rate effect was zero due to the fixed exchange rate with the United States while the other factors were negative: primary balance effect (-55.6 percentage points), GDP growth (-11.1 percentage points), stock flow adjustments (-4.4 percentage points) and inflation (-1.4 percentage points).

⁸ A debt decomposition analyses a country's debt dynamics by decomposing the change in public debt to GDP into its main factors. The method for decomposition used in this study is based on FDL (2013).

- In Suriname, the central government debt ratio increased by 96.1 percentage points over the same period. The only cumulative negative contributor was inflation with -132.1 percentage points, while the others were all positive. The exchange rate effect contributed 101.8 percentage points, the primary balance contributed 55.1 percentage points, stock flow adjustments contributed 41.7 percentage points, the interest payment effect contributed 22.2 percentage points and GDP growth contributed 7.4 percentage points.

While the debt decomposition is a good starting point for an analysis of debt trends, it does not reveal many details about what worked for each country. The following chapter includes case studies offering an in-depth analysis of the debt dynamics in each of the three selected countries.

Figure 5
Debt decomposition, 2013–2022
(Percentage of GDP)



Source: Authors, on the basis of official figures and IMF World Economic Outlook October 2023 database.

II. Country experiences with debt reduction

In this chapter, careful attention is given to the individual experiences of the three case countries, Jamaica, Saint Kitts and Nevis and Suriname, in managing their public debt between 2010 and 2022. A deeper examination of each country will reveal some of the lessons learned and the challenges they encountered. These insights will be used to produce a set of recommendations for Caribbean States.

A. Jamaica

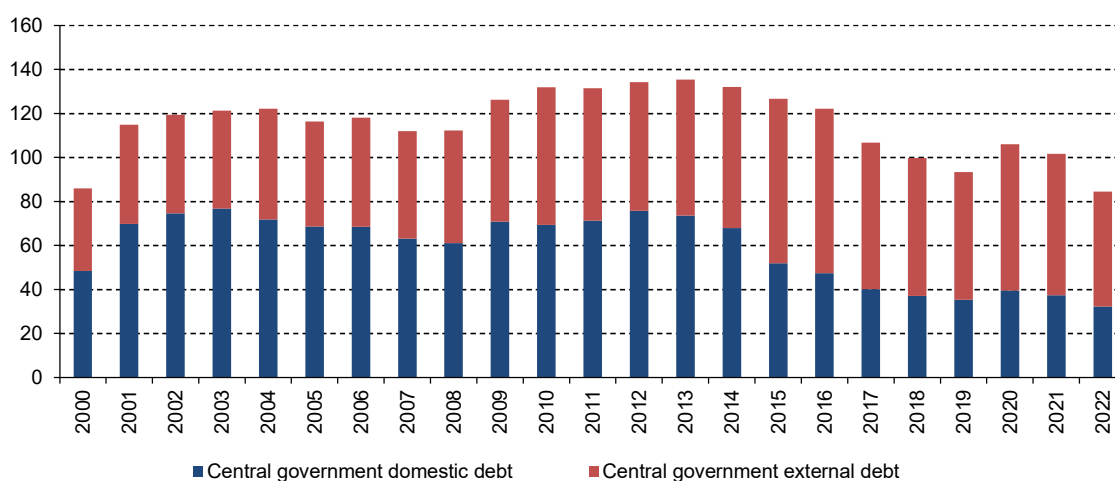
1. The evolution of public debt in Jamaica

While Jamaica has a long history of debt distress and was often the most indebted country in the Caribbean, from 2010 to 2022 Jamaica has been an example of fiscal discipline and sustained debt reduction. Figure 6 below depicts the evolution of Jamaica's central government debt from 2000 to 2022. It is observed that the debt to GDP ratio for Jamaica climbed from 86% in 2000 to 122% in 2004, fell between 2005 and 2008, then rose again following the global financial crisis in 2009 to 126 %, with a further increase to 135% in 2013. It then declined thereafter to 84% in 2022. The figure also shows the evolution of the composition of the debt over time, which shifted from mostly domestic debt to mostly external debt. This could further expose the country to interest rate and exchange rate risks in major creditors.

The Jamaica debt challenge can be traced back to the domestic financial crisis of the 1990s. According to Johnston and Montecino (2011, p.5), Jamaica's debt problems are not the result of excessive government spending, which is a popular narrative on the origins of high debt. They assert that the central government ran sizeable budget surpluses during the early 1990s and large primary surpluses in every one of the last 18 years from 1992–1993 to 2009–2010, except fiscal year 1997–1998.

Instead, the near doubling of the public debt that took place between 1996–1997 and 2002–2003 was the result of government interventions during Jamaica's financial crisis. The government was forced to intervene through the creation of the Financial Sector Adjustment Company (FINSAC), which managed the breakup, nationalization and merging of troubled financial institutions. The debts assumed by FINSAC, which were eventually transferred to the central government in 2000 and 2001, amounted to over 34% of GDP (Johnston and Montecino, 2011).

Figure 6
Jamaica: central government debt, 2000–2022
(Percentage of GDP)



Source: Authors, on the basis of official figures.

2. Measures implemented in Jamaica

Two major IMF agreements had a marked effect on Jamaica's economic performance over time. The considerably high debt burden due to mounting debt servicing costs had to be addressed and, in January 2010, the Jamaican government launched the Jamaican Debt Exchange (JDX), a pre-emptive debt-restructuring strategy intended to reduce interest costs and unlock funding from the IMF. Most importantly, the exchange was limited to domestic debt and did not include a reduction of the principal. The main objective was to lower the public debt burden by renegotiating its interest rate and maturity structure. The JDX enabled the restructuring of the entire domestic debt stock. As a result, its average maturity⁹ was lengthened from 5.3 to 8.7 years. Also, the average coupon rate¹⁰ was lowered from 17% to 11%. This was an estimated 3% of GDP reduction in annual interest payments during the subsequent three fiscal years, however there were still large amortization costs in the medium term. On 4 February 2010, the IMF Executive Board approved a 27-month Stand-by Arrangement¹¹ (SBA) in an amount equivalent to 300% of quota (SDR¹² 820.5 million). In this case, there was another debt exchange called the national debt exchange. The strategy was standard: (i) fiscal consolidation and institutional reform,

⁹ Maturity refers to the length of time until a debt obligation is to be repaid in full.

¹⁰ The coupon rate is the fixed annual interest rate paid to bondholders based on the face value of the bond when it is issued.

¹¹ The Stand-by Arrangement is the IMF's lending instrument that is most used by advanced and emerging market countries. It provides short-term financial assistance to countries with balance of payments problems.

¹² The Special Drawing Right (SDR) is an international reserve asset created by the IMF meant to supplement the reserve assets of member countries.

including fiscal responsibility legislation and Central Treasury Management; (ii) public debt restructuring, which was completed as a prior action under the program; and (iii) financial sector reform, including to improve consolidated supervision and the regulation of non-banks.¹³

On 1 May 2013, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) in the amount of SDR 615.38 million (about US\$ 932 million at the time of approval) for Jamaica. The main pillars of the program were: (i) structural reforms to boost growth; (ii) actions to improve price and non-price competitiveness; (iii) upfront fiscal adjustment, supported by extensive fiscal reforms; (iv) debt management operations that place public debt on a sustainable path, while protecting financial system stability; and (v) improved social protection programmes to help the most vulnerable. As part of this agenda, inflation targeting and a fiscal rule were initiated.

The fiscal reforms included a medium-term expenditure framework, a centralized treasury management system and the adoption of a Fiscal Responsibility Framework. The Minister of Finance (Financial Secretary) took on expanded powers to receive information from public entities with budget implication and responsibility to report on fiscal performance to parliament (CDB, 2013).

In addition to the reforms, Jamaica also created a public-private body, the Economic Programme Oversight Committee to monitor adherence to the targets of the IMF programme (Wigglesworth, 2020). This committee, which included representatives from the government, the business community, and labour and civil society organizations met regularly to monitor implementation of the reforms. It served to ensure coordination of policy and assisted in the continuity of the programme during a change in government.

The orthodox IMF position can be summed up in the words of Brian Langrin (2013), who argued that both debt exchanges, underpinned by strong fiscal consolidation, were necessary to reverse the adverse fiscal dynamics and reduce the debt overhang that had plagued Jamaica for the previous two decades. These significant efforts to reduce fiscal dominance were aimed at encouraging private sector investment in order to catalyze the underlying conditions for robust economic growth.

3. Results

The reforms implemented after the JDX had a major impact on Jamaica's fiscal and debt indicators. As a result of this agreement, interest payments, though still significant, began declining. Interest payments as a share of expenditure fell from 36.3% in 2010 to 26.0% in 2017 and to 19.9% in 2022. Central government debt peaked in 2013 at 135% of GDP and fell steadily until 2019. In 2020, the debt ratio increased by 13 percentage points to 106%; by 2022 it had already fallen to 84%, lower than its 2019 level.

Jamaica's debt service payments were still high after the JDX but were much improved. The average debt service payments from 2010 to 2022 was 58% of government revenue, which is just over half of the average from 2000–2009, 113%. In 2005, Jamaica's debt service ratio was 4.5 times the Caribbean average; by 2022, this had fallen to equal the average. It should be noted that the external debt service as a share of exports of goods and services had stayed roughly steady at around 20%. This was partly due to the changing structure of Jamaica's debt. From 2010–2022, the share of external debt in total central government debt increased from 47% to 62%. This presents a potential area of concern

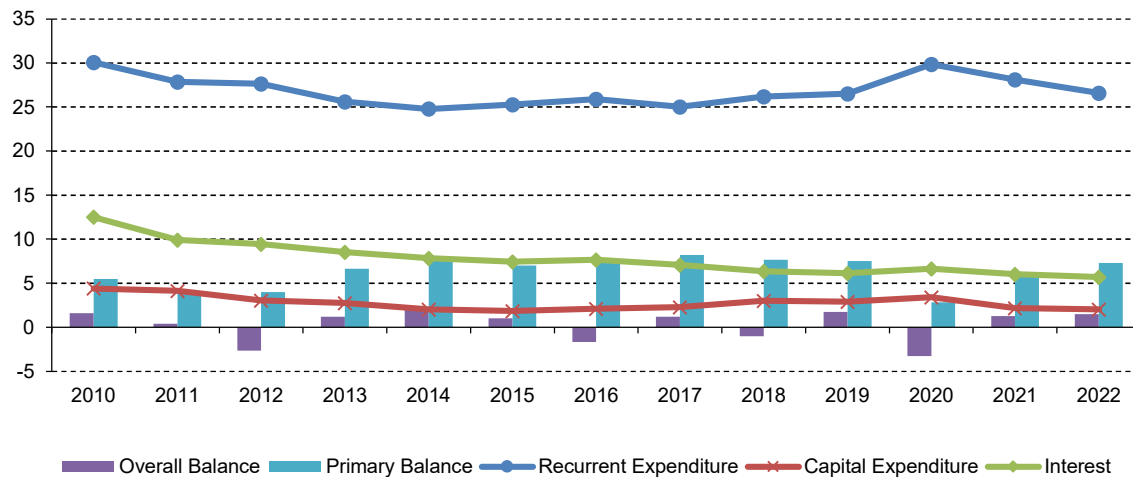
¹³ Johnston and Montecino (2011) pointed to the rigidity of the IMF stance as follows. "The IMF has shown a reluctance to allow any fiscal easing, even after the negative shock of Tropical Storm Nicole in the fall of 2010, despite GDP growth being revised downwards for FY2010/11 to -0.5 percent, from 0.6 percent in the second review, and storm damages estimated at 1.7 percent of GDP. This may have a particularly negative effect since, as the IMF explains, 'Given that Tropical Storm Nicole did not have hurricane-force winds, the government was not eligible for relief under the World Bank-administered Caribbean Catastrophe Risk Insurance Facility (CCRIF). In that context, staff agreed to support the inclusion of an adjuster (with an upward limit of 0.2 percent of GDP) to accommodate expenses related to the storm', while noting the 'limited room for flexibility in that area.' Despite the damage from the storm equalling 1.7 percent of GDP, Jamaica was only allowed to increase spending by 0.2 per cent of GDP. Overall, for FY 2010/11, unbudgeted expenditures totalled 1.4 per cent of GDP, but that was entirely offset by tax and revenue measures, including the delaying of more capital expenditure."

as the greater share of external debt, along with some domestic debt, is also denominated in foreign currency, which makes the country more vulnerable to external shocks.¹⁴

As the debt decomposition indicated, the primary contributor to the reduction in debt was the high primary balances that the government was able to achieve over the period. The primary balance rose from an already high 5.5% of GDP in 2010 to 8.2% of GDP in 2017 (see figure 7). Between the years 2010 and 2022, Jamaica had the sixth highest primary balance (as a per cent of GDP) in the world (IMF WEO, 2023). The primary surplus declined in the years 2020-2021 as the government expanded expenditure to address the pandemic. Given the pandemic's effect on economic activity, financial support was provided to businesses, particularly micro, small and medium enterprises (MSMEs), the tourism sector and farmers who sold produce to hotel operators. Overall, according to the Ministry of Finance and the Public Service, the government delivered direct and indirect support across the 2020-2021 and 2021-2022 fiscal years for a total of 40.6 billion Jamaican dollars (J\$), equivalent to 2% of GDP.¹⁵ Despite the major shock of the pandemic, Jamaica was still able to post a primary surplus in 2020; by 2022, the surplus was already back above 7% of GDP.

Jamaica's external accounts also benefited from the policies implemented. The current account deficit averaged -10% from 2000 to 2009 and then -5% from 2010 to 2022. It moved from as much as 1.5 times the average Caribbean current account deficit in 2008 to 0.2 of the Caribbean average in 2022.

Figure 7
Jamaica: government operations, 2010–2022
(Percentage of GDP)



Source: Authors, on the basis of official figures.

Much of Jamaica's fiscal success came from a reduction in spending. Recurrent expenditure fell from 30.1% of GDP in 2010 to 26.6% in 2022. Capital expenditure fell from 4.4% of GDP to 2.0% in 2022. The structure of the spending also shifted, as capital expenditure fell from 12.8% of total expenditure in

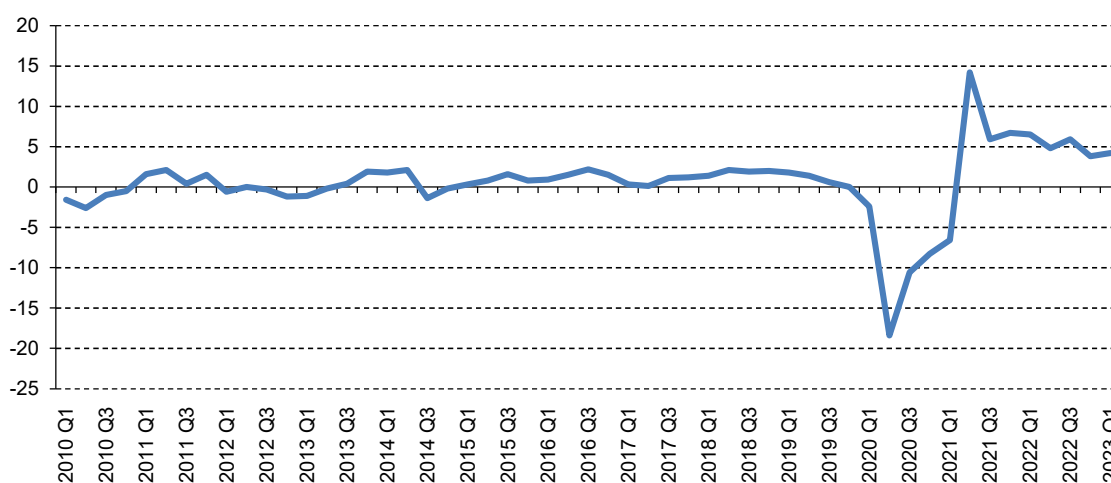
¹⁴ When global financial conditions change or international investors become more risk-averse, borrowing costs can shoot up suddenly. Similarly, when a country's currency devalues, debt payments in foreign currency can skyrocket, leaving less money for development spending.

¹⁵ In March 2023, the Executive Board of the International Monetary Fund (IMF) approved a 24-month arrangement under the Precautionary and liquidity Line (PLL) with access of US\$ 968 million (190% of quota) to provide insurance against risks from higher commodity prices, a global slowdown, tighter-than-envisaged global financial conditions, and new COVID outbreaks. The Executive Board also approved an arrangement under the Resilience and Sustainability Facility (RSF) for US\$ 764 million (150% of quota) to strengthen physical and fiscal resilience to climate change, advance decarbonization of the economy, and manage transition risks. The RSF was expected to catalyze funding for climate priorities from other official lenders and the private sector.

2010 to as low as 6.8% in 2015; it was 7.0% in 2022. The cost of the policy change was wage stagnation, as government wages were frozen from 2010 to 2013 (Wigglesworth, 2020).

While both recurrent and capital expenditure were affected by the fiscal compression, the more impactful change may have been the fall in capital expenditure. Given that capital spending is an important complement to private sector expansion in small economies, this compression in public spending was likely to impact private sector investment in some areas.

Figure 8
Jamaica: year over year change of total value added at constant (2007) prices (seasonally unadjusted),
Q1 2010–Q1 2023
(Percentages)



Source: Authors, on the basis of official figures.

The impact of the fiscal compression seems to have been a stagnation in economic growth. Quarterly GDP growth in Jamaica averaged just 0.6% from the first quarter of 2010 Q1 to the fourth quarter of 2019 and did not exceed 2.2% in any quarter (see figure 8). During the pandemic, the economy contracted by as much as 18% in the second quarter of 2020. Since the start of 2021, growth averaged 5.2%, but the data suggested that the economy was returning to its long run growth path. The idea that developing countries can shrink the government and open space for the private sector is often challenged by the evidence. While it is correct to argue that excessive fiscal spending linked to unproductive expenditure can be a challenge, there is a direct relationship between government spending and private expansion, especially productive capital expenditure. By using public capital expenditure as an adjustment mechanism, the economy was likely to stall as it did, despite considerable periods of fiscal consolidation. Interestingly, Langrin (2013) acknowledges that in addition to adjustment policies, a favorable external environment favorable to export-led growth is necessary.

The policies implemented by Jamaica since 2010 were successful at managing and reducing debt. Due to robust primary balances, a successful debt restructuring and a public and private commitment to fiscal reform the country saw improvements in public debt, debt service and its current account. The fact that public debt fell below 2019 levels just three years after the start of the pandemic signalled the programme's resilience to external shocks. On the other hand, these policies served to keep economic growth stunted, and Jamaica remained plagued by high levels of crime and poverty. Nonetheless, its recent experience in debt reduction could provide insights for other Caribbean countries. Jamaica's example points to the fact that you can reduce the debt burden while economic growth remains elusive.

B. Saint Kitts and Nevis

Saint Kitts and Nevis, like some other Caribbean countries, has been challenged by high and unsustainable debt in recent decades. As a small economy with an underdeveloped private sector, the state has been an important driver of development. Further, as a capital-scarce, middle-income country, Saint Kitts and Nevis had to borrow, often on commercial terms to finance critical infrastructure in the decades of the 1980s and 1990s. Also, the erosion of preferences for the country's sugar sector in the 1990s led to a substantial accumulation of debt by the St. Kitts Sugar Manufacturing Corporation (SSMC) (Sugar Adaptation Strategy, 2006). Even after the closure of the sugar industry in 2005, the carried-over debt from the defunct SSMC averaged over US\$ 19 million from 2005 to 2010.

In addition, in recent decades, the islands have been impacted by a series of hurricanes and tropical storms that have led to debt-financed reconstruction. For example, Hurricane Omar impacted Saint Kitts and Nevis in 2008, resulting in significant damage and losses and the closure of the Four Seasons Resort, a major employer. This aggravated the fallout in the tourism sector that resulted from the global financial crisis in the United States of America and other key tourism markets.

By 2009-2010, the economy was in crisis with growth of -4.2% in 2009 and 0.0% in 2010. In 2010, inflation was elevated at 5.2% while the central government fiscal deficit stood at 7.8% of GDP. Public sector¹⁶ debt stood at 132.9% of GDP. In addition, the balance of payments current account deficit was quite wide at 22.4% of GDP in 2010. Therefore, the government committed to a programme of adjustment to get the debt under control and to revive growth. However, it was recognized that these were insufficient and there was need for a comprehensive debt restructuring programme to achieve longer-term, sustainable public finances.

This section of the study therefore analyses the evolution of public debt in Saint Kitts and Nevis, the adjustment programme to bring down the debt, and an evaluation of the success of the restructuring based on basic indicators.

1. The evolution of public debt in Saint Kitts and Nevis

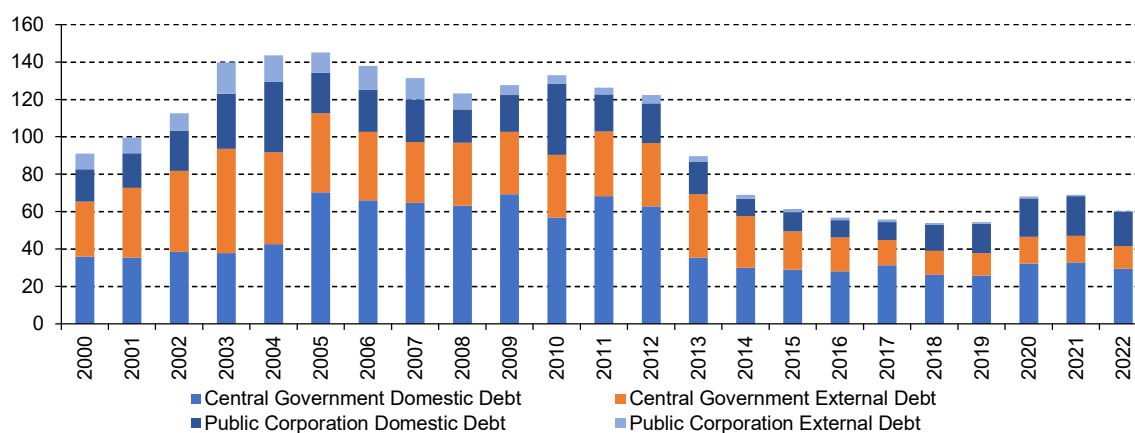
Public debt trends in Saint Kitts and Nevis have been marked by two distinct episodes in the last two decades: during and after the debt restructuring programme. From 2000 to 2012, the average public sector debt stood at 125.6%¹⁷ of GDP based on the rebased GDP. Domestic creditors held the bulk of public sector debt, averaging 78.4% of GDP. Central government debt averaged 92.8% of GDP, with the domestic portion accounting for 54.7%, while external debt was lower at 38.1%. Debt to public corporations was sizeable at 32.8% of GDP and had long been a concern in the country. According to the IMF (2011), the average debt of the former St. Kitts Sugar Manufacturing Corporation (SSMC) from 2005 to 2010 was US\$ 19.5 million, representing 14% of public debt over the period. Similar to the central government, the bulk of public corporations' debt (23.7% of GDP) was domestic debt and presented a risk to the local banking sector.

The restructuring had a radical impact on debt dynamics in Saint Kitts and Nevis. In the decade after (2013-2022), average public debt almost halved from an average of 125.6% of GDP from 2000-2012 to 63.8% of GDP from 2013-2022.

¹⁶ Public sector debt refers to central government debt plus debt of public corporations.

¹⁷ The IMF noted that the debt ratios were higher base on the previous series of GDP (IMF, 2011).

Figure 9
Saint Kitts and Nevis: evolution of public debt by type, 2000–2022
(Percentage of GDP)



Source: Authors, on the basis of official figures.

2. Measures implemented in Saint Kitts and Nevis

By 2009–2010, Saint Kitts and Nevis faced a poly-crisis of unsustainable debt, low growth, a balance of payments imbalance and high exposure of the domestic banking sector to government debt. To address these imbalances, the country embarked on a comprehensive debt restructuring and economic adjustment programme in 2011. A debt exchange was used to restructure external commercial debt amounting to US\$ 135 million, with 97% of creditors participating in the initial offer in April 2012. Thereafter, the collective action clauses¹⁸ (CACs) in the debt contracts were used to get the remaining 3% of creditors to participate. To provide flexibility, two options were offered to creditors. The first was a United States dollar discount bond, with a 50% cut in face value (50% haircut)¹⁹ with the remainder of the debt to be repaid over 20 years, with a step-down coupon of 6% in the first four years and 3% for the subsequent sixteen years (Ministry of Finance, Saint Kitts and Nevis, 2012 and IMF, 2011). The significant nominal haircut was important, as Reinhart and Trebesch (2016) found that Paris Club²⁰ debt restructurings that include a nominal haircut²¹ contributed to an improvement in the economic situation in countries in terms of growth, credit ratings and debt sustainability. However, mere rescheduling, temporary payment standstills and bridge lending operations did not have a similar beneficial impact.

The second option was a 45-year Eastern Caribbean dollar-denominated par bond²² with a 15-year grace period on principal payments. The interest rate on this debt was set at a fixed rate of 1.5% for the duration of the bond. Notably, two-thirds of eligible creditors chose the new discount bonds, with the rest opting for the new par bond. The total restructured external debt was provided a partial guarantee of up to US\$ 12 million on a rolling and non-accelerable basis by the Caribbean Development Bank (CDB), which holds 85% of the country's multilateral debt. The externally restructured debt also contained a clawback clause, which allowed creditors to be issued additional bonds if the authorities

¹⁸ Collective action clauses enable a qualified majority of bondholders to bind all bondholders to restructuring terms, which prevents a minority from derailing restructuring processes.

¹⁹ Haircuts refer to the reduction in the interest payments or value of a bond that has to be repaid.

²⁰ The Paris Club is a group of major creditor countries that aim to assist debt countries in renegotiating debt agreements.

²¹ Nominal debt relief refers to cuts in the face or current value of the debt, while Net Present Value relief relates to the present value of debt relief into the future and usually relates to interest rate reductions and maturity extensions on the debt.

²² A par bond is a bond that is sold or trades at its exact face value.

failed to undertake the reforms and to achieve the conditionalities under the IMF Standby Arrangement. This was deemed necessary to keep the government on track in pursuing fiscal and institutional reforms that aided in the success of fiscal and debt sustainability.

The restructuring of domestic debt posed a tightrope challenge for the government. This stemmed from the fact that the bulk (51%) of domestic debt was owed to the local banking sector. Therefore, the restructuring approach had to consider systemic risks that could affect the stability, liquidity and profitability of the banking sector. To address these concerns, the authorities implemented an innovative debt-for-land swap. The swap sequestered 1200 acres of government land, to be managed by a special purpose vehicle, with the funds from the land sales being used to settle the debt to domestic banks, the social security scheme and other domestic creditors. At the time of the restructuring, central government domestic debt was 72.2% of GDP, relative to 110.5% of GDP for total central government debt. The overall objective of the programme was to achieve a sustainable fiscal position by reducing public debt, generating fiscal savings and achieving higher long-term and more equitable economic growth.

Saint Kitts and Nevis' debt restructuring was supported by a home-grown adjustment and economic recovery programme. First, the country embarked upon a home-grown adjustment programme supported by a three-year IMF Stand-by Arrangement (SBA), with funding amounting to special drawing rights (SDR) 52.51 million or roughly US\$ 84.5 million to provide a platform for debt sustainability and economic revival. The key planks of the programme were:

- (i) The introduction of revenue measures, including a value-added tax (VAT) at a standard rate of 17%. However, the rate at 10% for accommodation, guest houses, tours and restaurants in order to cushion the fallout on the mainstay tourism sector.
- (ii) The creation of a one-stop-shop for entrepreneurs that facilitates incorporation of a company, obtaining a business license, applying for a social security registration number and other processes, to strengthen the ease of doing business.
- (iii) The corporatization of the Electricity Department (the Electricity Services Bill) that privatized the company to boost efficiency and service delivery. This led to an increase in electricity rates to consumers to ensure the profitability and viability of the new company.
- (iv) Implementation of a medium-term framework and strengthening expenditure control through a new Procurement Act and other measures (IMF, 2012).
- (v) Civil service reform and improved human resource management by upgrading the organizational structure of the civil service and wage policy.
- (vi) Completion of the actuarial review of the Social Security Scheme to inform reform and to ensure the viability of the scheme.

3. Results

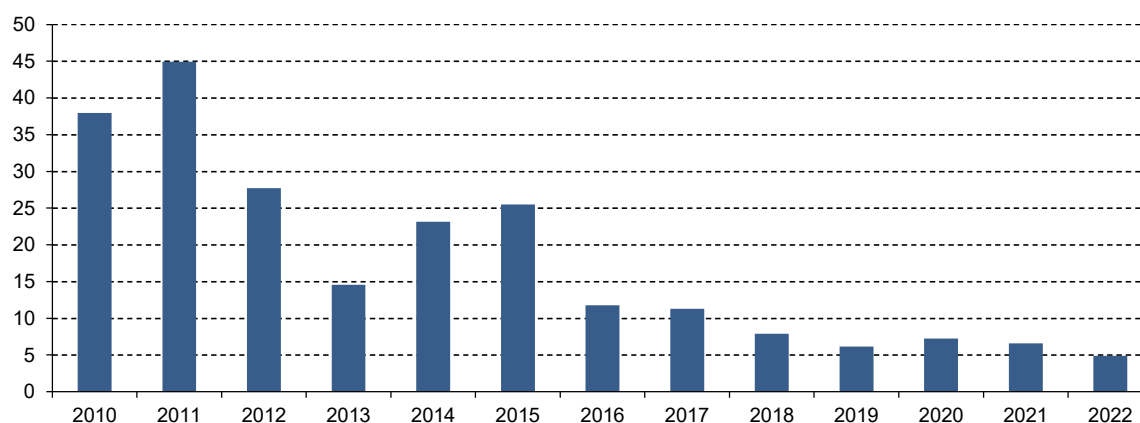
Debt restructuring in developing countries is often unsuccessful in resolving severe debt overhangs (Asonuma, 2016). The success of debt restructuring in Saint Kitts and Nevis can be measured by proximate and ultimate indicators. The proximate indicators are the levels of debt reduction²³ and changes in interest terms, changes in international credit rating and the impact on the profit margins of the domestic banking system. The ultimate or longer-term impacts relate to the effects on GDP growth, especially the extent to which restructuring helps to ensure that GDP grows faster than the rate of

²³ The level of debt reduction must be benchmarked against the ECCB's target of public debt of 60% of GDP, which is considered sustainable for the subregion.

interest on the debt; and the impact on other key macroeconomic variables, including the balance of payments current account deficit, inflation and employment.

By most of those metrics, Saint Kitts and Nevis' debt restructuring can be considered to have been relatively successful. This stemmed in part from the fact that the country secured a deep restructuring with a significant haircut on its debt.²⁴ One of the main objectives of the restructuring –to reduce public debt to sustainable levels– has been achieved for the most part. As figure 9 shows, public sector debt declined from 122.3% of GDP in 2012, the year when the restructuring took full effect, to 60.3% of GDP in 2022. This is just above the country's and the ECCB's debt target of 60% of GDP, in spite of the challenges posed by the pandemic. Central government debt was cut in half from 96.7% of GDP in 2012 to 47.9% of GDP in 2022. Similarly, public corporation debt contracted from 25.6% of GDP to 18.8% of debt. Importantly, the longer-term trend also confirms the relative success of the restructuring.

Figure 10
Saint Kitts and Nevis: debt service payments 2000–2022
(Percentage of government revenue)



Source: Authors, on the basis of official figures.

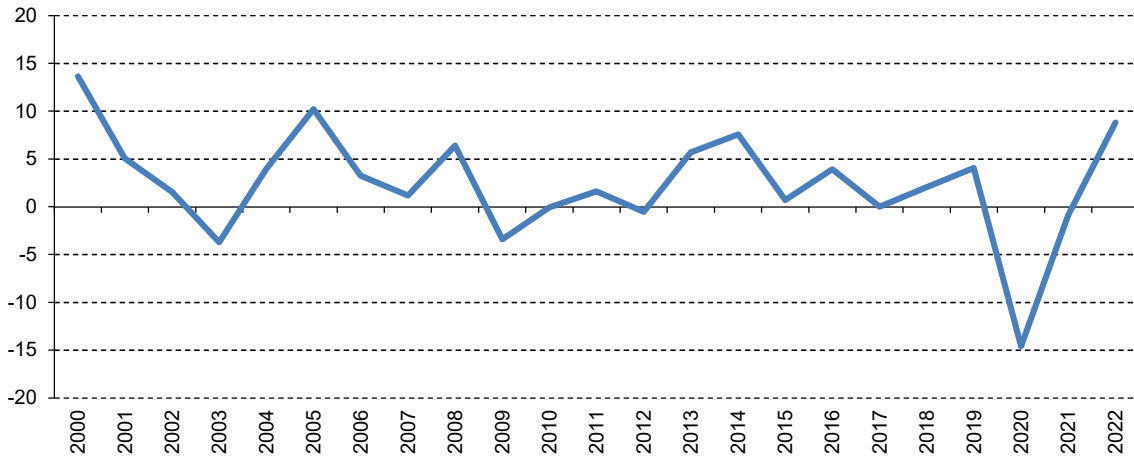
The average public debt declined significantly from 133.0% of GDP during the decade before the restructuring (2003 to 2012) to 63.8% of GDP in the decade after (2013 to 2022). Therefore, the country almost achieved the target of 60% target that it had set under its adjustment programme. Although the target is a useful benchmark, in a small, open, price-taking economy that is subjected to varied external shocks, it would be expected that debt will overshoot the target based on the need for countercyclical fiscal policy. What would be important is that the government remained vigilant and returned to fiscal consolidation soon after the shock that necessitated higher spending had abated.

The evolution of debt service payments after the restructuring is a crucial benchmark for measuring its success as it indicates the ability of the government to meet its servicing obligations. Government's average debt service payments to revenue declined from 33.9% of government revenue from 2000–2012, before the restructuring to 11.9% after (2013–2022). This was a significant cut in debt service costs, which represented just over a third of the Caribbean average of 33% from 2013–2022. Lower debt service costs created fiscal space for the government to invest in infrastructure and other development activities. There was some reduction in the volatility of debt service payments after the restructuring as the standard deviation fell from 33.9 before to 11.9 after the restructuring. This trend,

²⁴ According to Meyer (2024), debt crises with serial restructurings tend to lead to greater losses for creditors than a major one-off restructuring.

if maintained, would be welcomed as more stable debt service costs would enable the government to better plan fiscal operations as servicing costs would not be subjected to major swings.

Figure 11
Saint Kitts and Nevis: annual GDP growth, 2000–2022
(Percentages)



Source: Authors, on the basis of official figures.

Crucially, economic growth during the period of the crisis (2009–2011), before the debt restructuring, averaged -0.6% (see figure 11 above). This partly reflected the impact of the global financial crisis and the fallout in the mainstay tourism sector. The debt restructuring and economic reform programme contributed to a revival of growth, which averaged 3.4% from 2013 to 2019, before the pandemic. In general, Saint Kitts and Nevis' debt restructuring was largely successful. This stemmed from key factors, including a timely commitment and staying the course with its economic adjustment and IMF Standby programme; securing a deep cut in the face value of the debt and the use of step-down interest rates that made future debt servicing more manageable. The country also benefited from fortuitous inflows from its Citizen by Investment Programme (CIP). The CIP offers citizenship for applicants who make a significant contribution to the economy after background checks and due diligence have been done.

C. Suriname

Suriname experienced the largest increase in their public debt ratio across the Caribbean over the period under study. The country, which has experienced a number of economic challenges over the past decade, saw its public debt ratio increase from 28% of GDP in 2010 to 118% in 2022, after peaking at 121% in 2021. This 90-percentage point increase was the largest in the Caribbean over that period. While the other countries examined in the study can provide examples of how to reduce debt, Suriname provides an example of rapidly rising debt due to major challenges faced. At the time of writing, this country was in the midst of a debt restructuring process. Consequently, this case study does not include a results section.

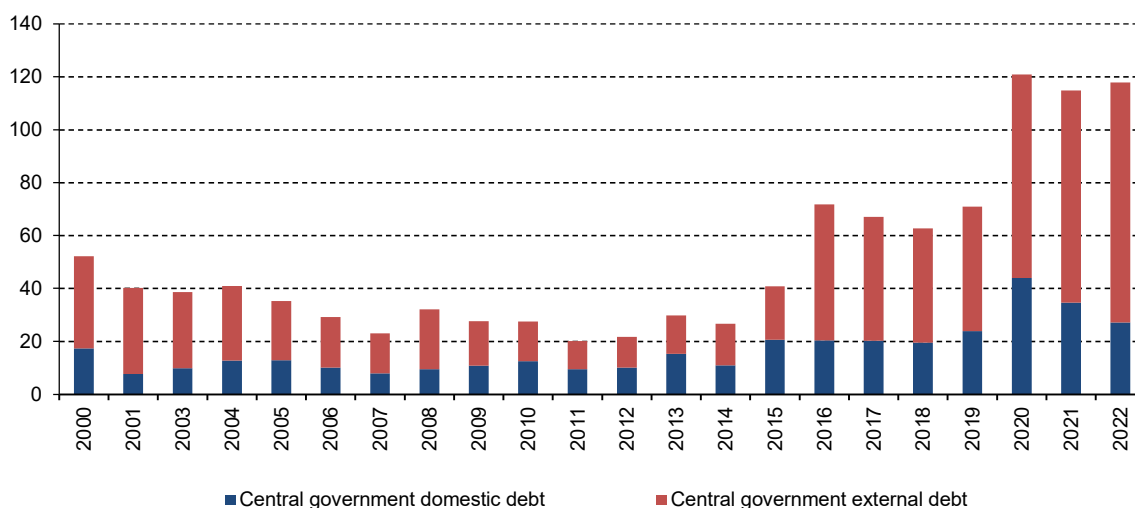
Suriname's recent crisis began in 2015 when the alumina producing local subsidiary of Alcoa, Suralco, was closed. The production of alumina, which accounted for 13% of total exports in 2014 (Simoes and Hidalgo 2011) ceased, which began a major balance of payments crisis. In 2015, the current account deficit widened to 15% of GDP, the largest since 2001. Suriname's stock of international

reserves fell as low as 1.5 weeks of import cover²⁵ in 2015. The overall fiscal deficit widened to 9.0% of GDP. The country, faced with twin fiscal and current account deficits and dwindling reserves reached out to the IMF for assistance. Since then, the country has seen its public debt and debt service increase rapidly. After averaging less than 15% of government revenue between 2002 and 2014, Suriname's debt service payments shot up to 40% in 2015 and 73% in 2016. From this point, it fell to 21% by 2022. The country has experienced repeated bouts of high inflation, the most recent of which is ongoing. The following subsection will outline some of the factors contributing to the sharp increase in public debt levels.

1. The evolution of public debt in Suriname

From 2000 to 2014, Suriname's public debt ratio remained fairly low, and was among the lowest in the Caribbean (see figure 12). For the first few years of the past decade, Suriname's public debt also remained low and fell slowly since 2000. In the following years however, the government of Suriname began increasing subsidy payments to cover the cost of electricity provided by Suralco's (Alcoa's Suriname subsidiary) Afobaka Dam (Munevar 2021). Prior to 1999, the Suriname government purchased 10% of the electricity produced by the Afobaka Dam. In 1999, Suralco closed its aluminum smelter, and the government was able to purchase a greater share of the electricity produced. The purchasing agreement, however, was changed to base the purchase price on the market price of oil rather than the cost of production. When oil prices rose in the next decade, the price to consumers was held fixed. As a result, the government accumulated significant arrears to the energy company.

Figure 12
Suriname: central government debt, 2000–2022
(Percentage of GDP)



Source: Authors, on the basis of official figures.

Suriname's economic situation worsened in 2014, when global commodity prices began falling. In response to the crash in prices, Suralco shut down its bauxite mining activities and closed the Suralco plant in 2015. Given the linkages of alumina production throughout the economy, the closure of the plant and cessation of production had widespread effects in the country. This resulted in a major fall in exports, government revenue and international reserves, leading to major fiscal and current account deficits. Suriname's official reserve assets were significantly impacted by the fall in exports. Over the

²⁵ Import cover refers to the value of international reserves expressed in the number of months of imports of goods and services that they could pay for.

past 17 years, the country's reserves peaked at 4.7 months of import cover in 2012. It then fell steadily to 1.5 months by the end of 2015. Facing this crisis, the government began negotiations with the IMF for balance of payments support. In late 2015, the currency was devalued by 20%, and subsidies on utilities were reduced. While the adjustment to the exchange rate was announced to be a float, in actuality, the rate remained steady at 7.52 Surinamese dollars (Sur\$) to US\$ 1. This shock led to inflation climbing to over 79% in the following year. In 2016, the economy contracted by 4.9% and debt grew to 72% of GDP.

In 2016, the government entered into a two-year Stand-by Arrangement with the IMF, which included balance of payments support of US\$ 478 million over two years. The agreement came with a suite of required structural reforms meant to stabilize the economy, including exchange rate and monetary policy reforms. The programme targeted a narrowing of the fiscal deficit from 8.8% of GDP to 1.1% in three years (IMF, 2016). After one year, the government cancelled the agreement due to the stringent restrictions. In the following years, Suriname borrowed from international capital markets, the Inter-American Development Bank, the Islamic Development Bank, the Caribbean Development Bank and the Inter American Development Bank to support the economy, which led to the debt stock increasing steadily.

The structure of public debt also changed, with the share of debt owed to commercial creditors increasing significantly. Suriname entered international bond markets for the first time with two bonds, one in 2016, and one in 2019. The first bond was valued at US\$ 550 million with a maturity of ten years and an interest rate of 9.25%. The second bond was valued at US\$ 125 million with a maturity of five years and an interest rate of 9.875% with a 3% penalty in the event of missed payments. This second bond was specifically to fund the acquisition of Suralco from Alcoa, including clearing outstanding arrears. The size of these bonds along with their high interest rates served to significantly increase government's debt service payments.

2. Measures implemented in Suriname

In 2020, the COVID-19 pandemic added an additional burden to Suriname's economic challenges and nudged it back into crisis. Like other countries around the world, Suriname implemented restrictions on travel and economic activity with the onset of the pandemic while simultaneously increasing spending on health care and supporting vulnerable populations. In the early months of the pandemic, a new government was elected. This new administration reached out to the IMF for assistance and began a series of prior actions in preparation for a new arrangement, including a new monetary policy framework. In September 2020, the exchange rate was devalued by almost 90% as the authorities began a shift to a fully floating exchange rate; the rate increased immediately to Sur\$ 14.29 to US\$ 1 USD. The authorities continued the shift by moving to an exchange rate band in March 2021 and then to a freely floating regime in June 2021. By December 2021 the exchange rate had increased to Sur\$ 21.682 to US\$ 1 USD. Over the course of 2020 to 2021, Suriname made request to bondholders to defer payments on three occasions, which led credit rating agencies to downgrade the government to default status.

In late 2021, Suriname entered into a 36-month Extended Fund Facility (EFF) agreement with the IMF for US\$ 688 million. As a part of this agreement, the government began a process of fiscal consolidation, which included removal of subsidies and amendment of tax laws, including the introduction of VAT in early 2023.

Suriname also began a series of complex debt restructuring talks with several of its bilateral and private creditors. At the end of 2020, 42% of external debt was owed to private creditors and 20% was owed to bilateral creditors (IMF, 2021). One of the prerequisites for the IMF programme was a commitment from bilateral creditors to provide some debt relief in the restructuring process. Agreements were negotiated with the Paris Club of creditors in June 2022 and India in January 2023.

Negotiations with China were protracted but resulted in an “agreement in principle” in early 2024. Talks began with private bondholders in 2022 but no agreement was reached until May 2023, when an agreement was reached with Suriname’s Eurobond committee.²⁶ The agreement included a value recovery instrument linked to future oil revenues with an end date of December 2050 (Reuters, 2023).

The importance of debt restructuring negotiations in situations such as these was highlighted in this case. After the disbursement of funds following the first review of the EFF in March 2022, loan disbursements stalled due to slow implementation of reforms and uncertainty about the debt restructuring process with some creditors. Payments were resumed in June 2023 following the second review of the EFF.

Suriname’s National Debt Act was amended in 2023 to require a debt plan, which includes a medium-term debt strategy. The medium-term debt strategy was created by the Suriname Debt Management Office using the Bretton Woods Institute’s Medium Term Debt Management Strategy Framework. The strategy was created in conjunction with the Central Bank van Suriname and the Ministry of Finance and Planning of Suriname. The loan plan would be evaluated and adjusted, if necessary, every six months.

The main risks to Suriname’s debt sustainability is the high share of foreign currency debt (88%) and debt with a variable interest rate (34%). Suriname’s 2022 debt plan allowed only new debt from multilateral agencies on concessional terms. New loans or guarantees of loans were not allowed during this period. Because of this condition, the share of debt in foreign currency was expected to increase to approximately 90% by the end of 2027. On the other hand, the interest costs on the public debt would decrease because of the lower interest rates on foreign loans.

²⁶ The Eurobond committee holds approximately 75% of outstanding bonds (Reuters, 2023).

III. Recommendations for reducing public debt in the Caribbean

Given the challenges and the findings outlined previously, the study proposes the following recommendations for Caribbean countries to reduce debt.

- (i) Caribbean countries undertaking debt restructuring should strive to secure sizeable haircuts on principal, step-down interest rates and maturity extensions. These allow for both liquidity and solvency benefits that can reduce the net present value of the debt substantially. The practical experience of countries in different regions indicate that these steps are helpful in enabling countries to achieve rates of economic growth that surpass the rate of interest on the debt, which is necessary for reducing the debt to sustainable levels. Moreover, as noted by Meyer (2024), a one-off deep restructuring tends to be beneficial to both debtors and creditors. It is also more likely to stimulate higher growth that reduces the risk of future restructurings ultimately increasing the likelihood that creditors will be repaid on time.
- (ii) Debt restructuring programmes should be supported by a credible and sustained fiscal consolidation and economic adjustment programme. This programme should be supported by the IMF, where necessary, to provide both crucial financing and credibility capital that could incentivize Paris Club and other creditors to support the restructuring. Further, this oversight, which includes prudential benchmarks and conditionalities, is often critical for encouraging countries to stay the course until the adjustment bears fruit.
- (iii) To lock in fiscal reform and debt reduction on the path towards debt sustainability, Caribbean countries should implement fiscal rules. Fiscal rules should include a mix of expenditure to GDP, primary balance, overall deficit and public debt to GDP targets. The rules should seek to entrench countercyclical rather than pro-cyclical fiscal policy, so that countries save in times of growth to be able to undertake stimulus during downturns.

Importantly, the rules should provide for curbs on election spending that could lead to unnecessary and unproductive supplementary budget expenditure that drives up public debt.

- (iv) Given the consistent and intensifying risks from natural disasters, due in part to climate change, state-contingent debt instruments, including disaster clauses, should be mainstreamed in debt contracts for Caribbean countries. Grenada and Barbados have already adopted these instruments, with Barbados' providing greater fiscal space after a disaster. Arguably, disaster clauses are as important as collective action clauses for the Caribbean.
- (v) The global debt resolution architecture is in need of urgent reform. In the first place, the G20 Common Framework for Debt Treatments needs to be reformed to include highly indebted middle-income countries, especially SIDS. Further, debt restructuring under the Framework and other mechanisms should strive to provide adequate debt relief that is not too late to facilitate debt sustainability and economic recovery in debt-distressed countries. Crucially, debt service payments should be suspended during the negotiation of debt restructuring to provide fiscal space for debtor countries. In addition, a reformed debt architecture under the auspices of the United Nations should give greater priority to reviving GDP growth in debtors and not just debt sustainability and the ability to repay creditors. It is also vital that SIDS and other developing countries be provided adequate permanent representation on the any reconfigured global debt reform body.
- (vi) While Caribbean countries prioritize debt reduction to achieve sustainable debt levels that do not hurt growth, they need to balance this with maintaining adequate social protection. Countries should establish benchmarks for minimum levels of social protection that ensure that vulnerable groups, such as pensioners, poor children and the youth are not further marginalised due to unduly harsh conditionalities and targets in striving to achieve sustainable debt levels.

IV. Conclusion

High public debt continues to be a challenge to Caribbean SIDS. Nonetheless, in a time of slowly rising global debt, some countries have been able to make major strides in reducing their debt burdens. Debt restructuring has been the main mechanism used by Caribbean countries to address unsustainable debt levels. Jamaica, Saint Kitts and Nevis and Suriname have all implemented restructurings in recent history when it was deemed that debt posed significant liquidity, solvency and growth risks. The three countries have underpinned debt restructuring with economic reform and adjustment programmes that included establishing benchmarks for fiscal deficits and debt over a given time period, the introduction of a VAT in the case of Saint Kitts and Nevis and other conditionalities under the auspices of the IMF. For Jamaica and Saint Kitts and Nevis, these restructurings, which took place just over ten years ago, and the reforms that followed resulted in a significant decline in public debt. Conversely, Suriname began a restructuring exercise two years ago after a significant increase in debt over the past decade.

Jamaica and Saint Kitts and Nevis have both had success in reducing established debt sustainability benchmarks, although Saint Kitts and Nevis has performed better at reviving economic growth. Altogether, these countries achieved commendable success in bringing their debt to more manageable levels. This stemmed from a commitment to fiscal rules and staying the course with fiscal consolidation in Jamaica, and a deep cut in the face value of the debt, adherence to the debt and economic adjustment programme and fortuitous inflows from the Citizen by Investment Programme in the case of Saint Kitts and Nevis.

On the other hand, Suriname experienced an enormous increase in public debt from 2010 to 2022. The large increase was due to a slow adjustment to the changing structure of the economy and an inconsistent commitment to fiscal consolidation and economic reform in the context of mounting public pressure against the necessary austerity measures. Major macroeconomic imbalances also contributed to large devaluations that served to quickly inflate the debt burden. Their recent restructuring experience has been challenged by the slow engagement of some creditors.

While there can be no blueprint produced that is applicable in all cases, within limits, the experiences of the three countries with debt restructuring and reduction provides some lessons that

could inform future restructurings and policy choices in other Caribbean and small middle-income countries. Three key lessons stand out. First, countries should undertake debt restructuring in a timely manner once faced with a liquidity and payment crisis. Delays are often costly as they often allow the crisis to become entrenched and can transform a liquidity crisis into a full-blown solvency and default crisis. By undertaking an early debt restructuring backed by a balanced programme of reforms to restore fiscal health and growth the chance of success increases significantly.

Second, countries should strive to get sizeable principal haircuts during restructurings to increase the likelihood of bringing down the debt ratio to sustainable levels. This is often difficult but is supported by the practical experience of countries in different regions. Creditors need to be persuaded that by offering generous haircuts, they increase the probability that they would be repaid on the restructured debt. Finally, Caribbean and other SIDS should negotiate their debt agreements to include collective action clauses and state contingent debt instruments, especially hurricane clauses and GDP-linked bonds. Both of these are important given that the Caribbean subregion is one of the most vulnerable to hurricanes and other weather-related disasters, the impact of which can be exacerbated given their predominantly small open economies.

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