



Monitoring Private Sector External Debt in the Caribbean:

An updated and revised analysis

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Private Sector External Debt (PSED)

Prevailing myth for many years that rising private sector debt was not a significant economic threat

This notion was dispelled with the advent of globalization and the internationalization of financial markets

Within the past decade, low and middle income countries have seen a marked increase in vulnerability to private non-guaranteed external debt

As we look to the private sector as a conduit for growth, the need for information on the size, composition and characteristics of PSED becomes more important

This is a critical and missing part of the Caribbean literature

Objectives

To answer:

- 1** Why is it important to compile and monitor PSED data?
- 2** What does the available data tell us about PSED in the Caribbean?
- 3** What are the issues and challenges in compiling data on PSED?

Conceptual Framework

PRIVATE SECTOR

Defined as that part of a country's economic system that is not controlled by the government. It excludes the general government, the central bank and public sector corporations.

PUBLIC SECTOR CORPORATION


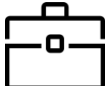

Defined as a nonfinancial or financial corporation that is subject to control by government units. Control over a corporation is defined as the ability to determine general corporate policy: the key financial and operating policies relating to the corporation's strategy objectives as market producer.

Conceptual Framework

PRIVATE SECTOR EXTERNAL DEBT (PSED)





Defined as the outstanding amount of those current liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by private residents of an economy.

PSED INSTRUMENTS

FUNCTIONAL CATEGORY	INSTRUMENT
 Direct Investment	Intercompany lending
 Portfolio Investment	Debt securities
 Other Investment	Currency and deposits Loans Trade credits and advances Other debt liabilities

International Investment Position

Institutional Sectors

INSTITUTIONAL SECTOR	DESCRIPTION
 General government	Institutional units with the principal function of government
 Central bank	Financial institution that exercises control over key aspects of the financial system including issuing currency, managing international reserves, transacting with the IMF, and providing credit to deposit-taking corporations
 Deposit-taking corporations, except the central bank	Have financial intermediation as their principal activity. Such institutions have liabilities in the form of deposits or financial instruments that are close substitutes for deposits
 Other sectors	Consist of other financial corporations and nonfinancial corporations and households and nonprofit institutions

Source: International Monetary Fund, Balance of Payments and International Investment Position Manual (Sixth Edition).

Institutional Sector Approach vs. Public/Private Sector Approach

International Investment Position (IIP) statistics use an institutional-sector approach to classify data

Since IIP data are compiled using an institutional-sector approach, additional analysis is required to aggregate PSED

To do so, external debt liabilities of resident institutional units not subject to control by the government must be determined

In other words, PSED is a calculation of the external debt liabilities of deposit-taking corporations, except the central bank, and other sectors that are not public sector corporations

Why compile and monitor PSED data?

- In the event of an external shock or crisis in the private sector, the public sector may be forced to assume at least a portion of the private debt.
- Untenable private sector debt can negatively impact economic growth and financial stability.
- Servicing of the private sector's external debt may exert pressure on a country's exchange rate.

Methodology

- Utilizes Quarterly External Debt Statistics (QEDS) to analyze private external liabilities using descriptive statistics and external vulnerability ratios.
- While data on private sector external debt not publicly guaranteed are not required for participation, such data are encouraged to be reported once available.
- At present only three countries: Jamaica, Suriname and Trinidad and Tobago report PSED in the QEDS.
- To expand the scope of the study, IIP data was also utilized for the ECCU.
- While the study endeavored to also estimate PSED for other Caribbean territories, the lack of published, detailed IIP data constrained these efforts.

Private Sector External Debt (US\$MN)

	2012	2013	2014	2015	2016	2017
JAMAICA						
GROSS EXTERNAL DEBT	12,076	13,545	13,935	13,238	13,442	13,647
<i>of which:</i>						
PSED	2,574	3,168	2,993	3,541	3,871	3,466
Long-Term	935	1,768	1,571	2,074	2,294	1,827
Short-Term	1,639	1,399	1,422	1,467	1,577	1,639
SURINAME						
GROSS EXTERNAL DEBT	1,509	1,843	2,098	2,549	2,959	3,113
<i>of which:</i>						
PSED	590	707	582	579	580	639
Long-Term	527	622	454	471	476	546
Short-Term	63	86	127	107	104	93
TRINIDAD AND TOBAGO						
GROSS EXTERNAL DEBT	n.a.	n.a.	n.a.	12,804	13,997	14,355
<i>of which:</i>						
PSED	n.a.	n.a.	n.a.	6,694	6,355	6,635
Long-Term	n.a.	n.a.	n.a.	5,171	5,117	5,444
Short-Term	n.a.	n.a.	n.a.	1,523	1,238	1,191
ECCU						
GROSS EXTERNAL DEBT	n.a.	6,448	6,333	6,252	6,686	6,687
<i>of which:</i>						
PSED	n.a.	3,456	3,252	3,253	3,675	3,790
Long-Term	n.a.	1,577	1,420	1,473	1,996	2,102
Short-Term	n.a.	1,879	1,833	1,780	1,679	1,688

Source: QEDS database and authors' calculations.

1. PSED reported by Jamaica, Suriname and Trinidad and Tobago are all non-guaranteed.

2. Data for ECCU are based on authors' calculations from IIP statistics. The following assumptions were made: (i) PSED is the sum of external debt liabilities of deposit-taking corporations, other sectors and direct investment debt instruments; (ii) direct investment debt instruments were assumed to be long-term and (iii) all private sector debt was assumed to be non-guaranteed.

Private Sector External Debt Indicators (%)

	2012	2013	2014	2015	2016	2017
JAMAICA						
PSED to International Reserves	128.9	174.2	121.0	121.5	117.6	91.7
Long-Term	46.8	97.2	63.5	71.2	69.7	48.3
Short-Term	82.1	77.0	57.5	50.4	47.9	43.3
PSED to Exports	148.9	200.4	206.6	275.3	325.8	263.9
Long-Term	54.1	111.9	108.5	161.3	193.1	139.1
Short-Term	94.8	88.5	98.2	114.1	132.7	124.8
SURINAME						
PSED to International Reserves	66.3	95.6	101.1	201.9	164.2	165.0
Long-Term	59.3	84.0	78.9	164.4	134.9	141.0
Short-Term	7.0	11.6	22.1	37.4	29.3	24.1
PSED to Exports	21.8	29.3	27.1	34.8	40.3	31.5
Long-Term	19.5	25.7	21.1	28.3	33.1	26.9
Short-Term	2.3	3.6	5.9	6.4	7.2	4.6
TRINIDAD AND TOBAGO						
PSED to International Reserves	n.a.	n.a.	n.a.	67.4	67.1	79.3
Long-Term	n.a.	n.a.	n.a.	52.1	54.1	65.0
Short-Term	n.a.	n.a.	n.a.	15.3	13.1	14.2
PSED to Exports	n.a.	n.a.	n.a.	58.6	77.3	66.8
Long-Term	n.a.	n.a.	n.a.	45.3	62.2	54.8
Short-Term	n.a.	n.a.	n.a.	13.3	15.0	12.0
ECCU						
PSED to International Reserves	n.a.	283.3	223.5	203.7	213.6	213.7
Long-Term	n.a.	129.3	97.6	92.2	116.0	118.5
Short-Term	n.a.	154.0	126.0	111.5	97.6	95.2
PSED to Exports	n.a.	721.7	855.9	973.5	1,285.2	948.9
Long-Term	n.a.	329.3	373.6	440.8	698.1	526.3
Short-Term	n.a.	392.4	482.4	532.7	587.2	422.6

Reporting of External Sector Statistics*

	BOP	IIP	BPM6	QEDS
Anguilla	X	X	X	
Antigua & Barbuda	X	X	X	Public
The Bahamas	X			Public
Barbados	X	X	X	
Belize	X	X	X	Public
Bermuda	X	X	X	
British Virgin Islands				
Cayman Islands	X	X	X	
Dominica	X	X	X	Public
Grenada	X	X	X	
Guyana	X			
Haiti	X	X	X	

	BOP	IIP	BPM6	QEDS
Jamaica	X	X	X	X
Montserrat	X	X	X	
St. Kitts & Nevis	X	X	X	
St. Lucia	X	X	X	Public
St. Vincent & the Grenadines	X	X	X	
Suriname	X	X		X
Trinidad & Tobago	X	X	X	X

Source: Websites of relevant central banks/statistics offices and QEDS database.

*As at August 31 2018.

It is noteworthy to mention however that there has been an appreciable improvement in the coverage and quality of external sector statistics reported by Caribbean countries, a process in which the Caribbean Regional Technical Assistance Centre (CARTAC) has been instrumental.

What are the issues and challenges in compiling data on PSED?



**Inadequate Survey
Response Rates**



**Weak Legislation
and Enforcement**



**Weak Institutional
Frameworks**



**Limited Human and
Technical Capacity**



**Loss of Administrative
Records**



**Identifying transactions
outside of the banking
system**

Conclusions

External debt of the private sector is comprised largely of long-term instruments in Jamaica, Suriname, Trinidad and Tobago and the ECCU

Data suggest that the composition of private sector external debt is dissimilar among these countries

There is no discernible trend in the data for the region

An assessment of external vulnerability ratios suggests that private sector external debt appear to be quite important in these territories

Given its importance in assessing possible macro-financial risks associated with rising external liabilities, this paper recommends that greater effort be placed on the compilation and reporting of external debt of the private sector