Private Sector External Debt in the Caribbean:
The Stylized Facts

J. Jason Cotton[1]

Vishana Jagessar[2]

JEL: F20, E13, F00

Key words: Private Sector, External Debt, Caribbean, External Vulnerability, Direct Investment

[1] The author is an Economist in the Economics Department of the Caribbean Development Bank. Corresponding author Address: Caribbean Development Bank, P.O. Box 408, Wildey, St. Michael, Barbados, W.I. Tel: (246) 431-1725. Email: cottonj@caribank.org.

[2] The author is an Economic Analyst II in the Information Services Department-Statistics of the Central Bank of Trinidad and Tobago. Other author Address: Central Bank of Trinidad and Tobago, P. O. Box 1250 Eric Williams Plaza, Independence Square, Port-of-Spain, Trinidad and Tobago, W.I. Tel: (868) 621-2288, Ext. 4893. Email: vjagessar@central-bank.org.tt.

Disclaimer

Acknowledgements

We gratefully acknowledge our colleagues at the Caribbean Development Bank and the Central Bank of Trinidad and Tobago for their useful comments.

Table of Contents

Abbreviations

BOP	Balance of Payments
BIS	Bank for International Settlements
ECCU	Eastern Caribbean Currency Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
IIP	International Investment Position
LAC	Latin America and the Caribbean
PSED	Private Sector External Debt
QEDS	Quarterly External Debt Statistics
WB	World Bank

Abstract

This paper analyses the external liabilities of the private sector using external vulnerability ratios and descriptive statistics to provide insights into the size and maturity structure of private sector external debt (PSED) data in the Caribbean Region. The analysis revealed that PSED data is limited in the Region. This notwithstanding, the external debt of the private sector comprised mainly of long-term instruments in Jamaica, Suriname, Trinidad and Tobago and the Eastern Caribbean Currency Union. Further, external vulnerability ratios suggest that PSED appears high in relation to the stock of international reserves and exports. Data limitations hindered a deeper investigation into the characteristics and riskiness of private sector external borrowing. The paper recommends that greater effort be placed on the compiling and reporting of PSED data, as it is an important data source that can be used to assess possible macro-financial risks associated with rising external liabilities and fostering sustained private sector-led growth.

1. Introduction

In the Caribbean, much attention has been placed on rising public sector debt and its effect on economic activity, but relatively little focus given to private sector debt. This may be because the debt of the private sector is considered small and inconsequential, or that it is market determined and therefore should be allocated efficiently. However, there is evidence [Williams (2012); Reinhart and Rogoff (2010); and Polius (2012)] that inappropriate borrowing by the private sector can have pass-through effects to sovereign liabilities and slow the development of countries. Of course, this relationship will be strongest in cases where private sector entities are large and of systemic importance and/or where they have significantly increased their risk appetite.

Within the past decade, there has been a shift in the vulnerability of debt stocks in low and middle-income countries towards a sharp increase in private non-guaranteed external debt. Prior to 2015, the external debt stock of low and middle-income countries rose consistently for two decades. The number of low and middle-income countries whose private sector borrows externally has also risen sharply, according to the World Bank (WB)[3]. The external debt trends in low and middle-income countries are dominated by the regions of East Asia and the Pacific, Europe, Central Asia, and Latin America and the Caribbean (LAC). In LAC, the stock of private non-guaranteed external debt rose sharply to 37.6% of total external debt in 2016 from 29.7% in 2000[4]. It should be noted that external borrowing patterns in LAC are generally dissimilar and, as we shall highlight, are further complicated by the fact that many Caribbean countries do not yet compile comprehensive data on external borrowing activities of the private sector.

As we pay attention to the private sector as a conduit for growth, the need for additional information on the size, composition and riskiness of this debt becomes more important. This is a critical, but less frequently discussed, component of the private sector-led growth discourse. Further, much attention has been placed in the academic literature on public sector debt and threshold levels at which it begins to adversely affect economic activity, but relatively little attention has been placed on the potential threats associated with Private Sector External Debt (PSED). A critical and missing part of the Caribbean literature relates to knowing the nature, maturity and characteristics of the external borrowing of the private sector.

In the Caribbean, large and entrenched conglomerates[5] and financial groups dominate the landscape. These systemically important institutions operate across many jurisdictions, engage in cross-border lending, and at times operate within fragmented regulatory frameworks. These

[3] WB, Quarterly External Debt Statistics Bulletin, June 2016.

[4] WB, International Debt Statistics, 2018.

[5] The liberalisation of financial systems in the Caribbean has led to increasing regional financial integration and the intensification of cross-border financial activity.

conditions can possibly lead to riskier borrowing practices and problems in the private sector's balance sheet that can have spillover effects on public debt, growth and financial stability. Despite this, data on external corporate liabilities remain scarce.

In this regard, this paper aims to investigate the available PSED data for the Caribbean Region and analyses its trends, characteristics and challenges in compilation. This paper seeks to highlight the stylised facts related to PSED through answering three questions: (a) what do the available data tell us about PSED in the Caribbean; (b) what are the issues and challenges in compiling data on PSED; and (c) why is it important to compile and monitor PSED data. The paper is structured as follows: Section 2 provides a review of key definitions, concepts and theoretical literature on PSED. Section 3 reviews the methodology used in the paper; and Section 4 provides insights into the results of the analysis, limitations of the data and the challenges in the compilation of PSED data. The paper then concludes and provides policy recommendations in Section 5.

2. Definitions, Concepts and Literature Review

Definitions and Concepts

In this paper, the private sector is defined as that part of a country's economic system that is not controlled by the government. It excludes the general government, the central banks and the public sector corporations. Specifically, a public sector corporation is 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.

Much of the discussion on the private sector in this paper refers to banks and corporations. More generally, the private sector can be disaggregated into the following categories: (a) the private financial sector (mainly banks and insurance corporations); and (b) the private non-financial sector (non-financial corporations and households). The paper acknowledges that, in practice, the distinction between the public and private sector can become blurred with increasing use by governments of market mechanisms and the private sector providing public services.

External debt includes public and private debt, of which PSED is the focus of this research. This focus is linked to the critical importance of having sufficient levels of foreign exchange reserves in these small, very open economies, and its implications on their vulnerability and

macroeconomic stability. It should be noted, that the determination of external debt lies in the concept of residency and not currency[6].

Gross external debt, at any given time, is the outstanding amount of those actual 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 non-residents by residents of an economy[7].

PSED can be 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 non-residents by private residents of an economy. PSED can be either publicly guaranteed or not publicly guaranteed[8].

Non-debt liabilities in equity (both equity shares and other equity), investment fund shares, and financial derivatives are not included in the gross external debt position, since these are not debt liabilities.

The International Investment Position (IIP) statistics categorise external debt instruments into three broad categories: (a) direct investment; (b) portfolio investment; and (c) other investment.

(a) Direct investment refers to cross-border investment when a resident in one economy (the direct investor) has control or a significant degree of influence on the management of an enterprise that is resident in another economy (the direct investment enterprise). Of the direct investment components, inter-company lending, when owed to non-resident affiliated enterprises, is included in the gross external debt position. Inter-company lending includes debt instrument positions and is not limited to loans[9].

(b) Portfolio investment covers debt and equity securities (other than those included in direct investment and reserve assets). Portfolio investment covers securities usually traded in organised and other financial markets, including over-the-

[6] The residency of an institutional unit is the economic territory with which it has the strongest connection, expressed as its centre of predominant economic interest (International Monetary Fund (IMF), BOP and IIP Manual, Sixth Edition).

[7] IMF, External Debt Statistics, Guide for Compilers and Users.

[8] Publicly-guaranteed PSED is defined as the external debt liabilities of the private sector, the servicing of which is contractually guaranteed by a public unit resident in the same economy as the debtor (IMF External Debt Statistics, Guide for Compilers and Users).

[9] Debt between selected affiliated financial corporations (deposit-taking corporations, investment funds and other financial intermediaries except insurance corporations and pensions funds), is not classified as direct investment because it is not considered to be so strongly connected to the direct investment relationship.

counter markets. Of the portfolio investment components, only debt securities are included.

(c) Other investment covers all financial instruments other than those classified as direct investment, portfolio investment, financial derivatives or reserve assets. The components of other investment that are included as PSED are currency and deposits, loans, trade credit and advances and other debt liabilities.

Appendix 1 provides descriptions of the instruments that constitute PSED.

IIP statistics use an institutional-sector approach to classify data. In this approach, institutional units with common economic objectives and functions are grouped as in Table 1. 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, can be determined by using a public-sector based approach. In other words, PSED is a calculation of the external debt liabilities of deposit-taking corporations, except the central bank, other financial corporations and non-financial corporations that are not public sector corporations.

TABLE 1: IIP INSTITUTIONAL SECTORS

Institutional Sector	Description	PSED	Public Sector External Debt
General Government	Institutional units with the principal function of government.		✓
Central Bank	Financial institutions that exercise control over key aspects of the financial system, including issuing currency, managing international reserves, transacting with 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 non-financial corporations and households, and non-profit institutions.	✓	✓

Source: IMF, Balance of Payments (BOP) and IIP Manual (Sixth Edition) and External Debt Statistics Guide for Compilers and Users.

Literature Review

The private sector-led growth discussion, particularly as it relates to private capital flows as the mechanism to foster this growth, follows from the neoclassical model of growth. This model allows for capital mobility or the ability of a country to borrow and lend, which increases transitional growth (Pattillo, Poirson and Ricci 2002). This capital mobility buttresses the importance of external factors, which equally include foreign private capital flows (direct investment, portfolio investment and external debt), which are regarded as important facilitators of this long-run growth.

Bailliu (2000) provided evidence that supported the existence of a positive and significant relationship between private capital flows and economic growth. (Eaton, 1992) noted that external finance serves as a capital inflow that positively affects the level of domestic savings and investment and, hence, affects a country's growth. Izak (2014) suggests that when private sector debt levels rise above trend, the likelihood of a strong economic downturn increases. High levels of private debt are problematic for two reasons. First, when the balance sheets of households and firms are overstretched, consumption and investment dwindle as debt servicing consumes a large share of private sector income. Strained balance sheets also tend to impair access to credit, and reduce aggregate demand. Second, rapid increases in private debt results in financial crises. While these studies clearly establish the positive relationship between private sector debt and growth, they do not provide guidance on the threshold level at which high levels of private debt can constrain growth. Such thresholds for public sector debt are well known. The "Inverted U curve" illustrates the relationship between public debt and growth[10]. Greenidge, Craigwell, Thomas and Drakes (2012) estimated that growth would be reduced by 1.65% per annum as a result of the high central government debt/gross domestic product (GDP) ratio, which was about 80% of GDP at the time of the study.

Developing countries faced with inadequate internal capital due to low productivity, income and savings will need external financial support to bridge the gap (Adepoju et. al., 2007). In the Caribbean, in particular, the small domestic capital pool has propagated a growth strategy over the past few decades that was heavily reliant on private capital flows, whether through direct investment, portfolio investment or other external borrowing, to plug the domestic resource gap and boost foreign exchange reserves.

Private companies with solvency problems should be allowed to fail without government interference. However, possible large-scale consequences of the financial failure of

[10] The inverted "U" shape relation captures that for a debt-to-GDP ratio lower than 30%, any increase has a positive marginal and average effect on economic growth. However, above that level (the turning point on the inverted U curve), any further increase has a negative marginal effect, and above 60% the impact (marginal and average) becomes negative.

systemically-important firms have often resulted in swift government intervention. Authorities must be aware of the size and composition of PSED, since an adverse shock in the private sector may result in the government assuming at least a portion of the private debt. Cecchetti, Mohanty and Zampolli (2011) indicate that there is a clear interaction between private and public debt. This occurs when private borrowing has fiscal backing and often results in a default on private debt frequently leading to a corresponding increase in public debt.

Lahnsteiner (2013) noted that the collapse of Lehman Brothers and the associated financial crisis was a stark reminder that private sector indebtedness may constitute a core macro financial vulnerability. Furthermore, the root cause of the recent debt crisis in many European countries is debt owed by the private sector, particularly banks. Within the Caribbean, there have also been instances of private and public sector failures/challenges that constituted a major risk for macro-financial stability. Such instances include the Jamaican financial sector crisis of 1995, the collapse of CL Financial in Trinidad and Tobago in 2009, and the banking sector challenges in the Eastern Caribbean Currency Union (ECCU). Notably, these challenges are concentrated in large and entrenched conglomerates and financial groups, which are a dominant feature in the Caribbean financial landscape. As a result, Caribbean researchers such as Layne (2010), Polius (2012), Seerattan (2013), and DaCosta, Grenade and Polius (2012), have argued for greater emphasis on the supervision and regulation of these systemically-important institutions as their failure can threaten the smooth functioning of domestic financial markets and the economy and have socio-economic implications.

3. Methodology

This paper utilises Quarterly External Debt Statistics (QEDS) to analyse private, external liabilities using descriptive statistics and external vulnerability ratios. The paper seeks to provide insight into the size, maturity structure and limitations of PSED data in the Caribbean.

The QEDS provides quarterly statistics on external debt classified by maturity, borrowing entity and debt instrument. Reporting is voluntary and, at the end of 2015, 121 countries reported[11]. Provision of data on public and publicly-guaranteed PSED position data broken down by maturity is mandatory for participation in the QEDS. While data on PSED not publicly guaranteed are not required for participation, such data, once available, should reported.

As mentioned previously, since IIP data are compiled using an institutional-sector approach, additional assumptions are required to aggregate PSED for the QEDS. This involves a determination of the external debt liabilities of resident institutional units not subject to control by the government. For this study, estimates for ECCU were constructed based on available IIP data and feedback from external sector statistics compilers at the Eastern Caribbean Central Bank. Specifically, PSED for ECCU was calculated as the sum of the external debt liabilities of deposit-taking corporations, except the central bank, other sectors and direct investment

[11] WB, International Debt Statistics, 2017.

intercompany lending. While the study endeavoured to estimate PSED for other Caribbean territories, the lack of published, detailed IIP data constrained these efforts.

The study also investigated alternative data sources to supplement the national source data, including the Bank for International Settlements (BIS) locational statistics. However, BIS definition for the non-bank sector includes the government and public sector corporations and could not be used to gauge PSED.

4. Results

The following results and analysis are based on available QEDS data for Jamaica, Suriname and Trinidad and Tobago, and IIP data for ECCU.

The data on PSED generally displayed invariable patterns for the countries reviewed, but seemed to be increasing in Suriname and ECCU during the period 2015-17 (see Table 2). PSED appeared to account for a larger proportion of gross external debt in Trinidad and Tobago and ECCU. Specifically, in Trinidad and Tobago and ECCU, latest data showed that PSED accounted for approximately 50% of gross external debt in these territories (see Table 3). In contrast, external debt incurred by the private sector accounted for a much smaller proportion of gross external debt in Jamaica and Suriname (approximately 25% in Jamaica and 20% in Suriname as at end 2017). Further, for the three countries reporting private sector debt on the QEDS, all the external debt originating in the private sector was non-guaranteed.

In terms of maturity, PSED was comprised of long-term instruments. Maturity is based on the formal criterion of original maturity with long-term debt, and is defined as debt with an original maturity of more than one year; and short-term debt is defined as debt repayable on demand or with an original maturity of one year or less. While QEDS reporting does not require an instrument breakdown for PSED, an examination of gross external debt by institutional sector reported in the QEDS can provide some insights into the instrument breakdown. These data suggests that much of the debt incurred by the private sector in Jamaica may have been mainly in the form of long-term loans, whereas in Suriname, PSED may be concentrated in both direct investment intercompany lending and long-term loans. In the case of Trinidad and Tobago, the private sector appears to have incurred external debt mainly in the form of direct investment intercompany lending – this is likely to be associated with firms in the energy sector. A review of detailed IIP data for ECCU suggests that since 2016, PSED largely comprised of long-term debt securities and direct investment intercompany lending. These long-term debt securities were mainly in Anguilla, while direct investment intercompany lending was related to Antigua and Barbuda, St. Kitts and Nevis, St. Vincent and the Grenadines, and Saint Lucia.

In the four countries, PSED has increased in recent years. In 2017, compared to 2012, PSED increased by approximately 35% in Jamaica and 8% in Suriname. Estimates for ECCU showed that PSED rose by approximately 10% in 2017, compared to 2013. Meanwhile, available data for

Trinidad and Tobago revealed that the stock of outstanding PSED increased by 7% between 2015 and 2017.

TABLE 2: PRIVATE SECTOR EXTERNAL DEBT[1]
(US$ Million)

	2012	2013	2014	2015	2016	2017
Jamaica						
Gross External Debt	12,076	13,545	13,935	13,238	13,442	13,647
of which:						
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	2,961	3,126
of which:						
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	14,004	14,617
of which:						
PSED	n.a.	n.a.	n.a.	6,250	6,135	6,710
Long-term	n.a.	n.a.	n.a.	5,171	5,123	5,694
Short-term	n.a.	n.a.	n.a.	1,079	1,011	1,016
ECCU[2]						
Gross External Debt	n.a.	6,448	6,333	6,252	6,686	6,687
of which:						
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

Sources: QEDS database and the authors' calculations.

1. PSED reported by Jamaica, Suriname and Trinidad and Tobago are all non-guaranteed.
2. Based on the authors' calculations from IIP statistics. The following assumptions were made: (a) PSED is the sum of external debt liabilities of deposit-taking corporations, other sectors and direct investment debt instruments; (b) direct investment debt instruments were assumed to be long-term; and (c) all private sector debt was assumed to be non-guaranteed.
3. Maturity is based on the formal criterion of original maturity with long-term debt defined as debt with an original maturity of more than one year, and short-term debt defined as debt repayable on demand or with an original maturity of one year or less.

Latest data show that the stock of PSED is high in relation to the stock of gross international reserves in the three countries and ECCU (see Table 4). Notably, as at end 2017, PSED was larger than the reserve assets held by Suriname and ECCU. While the ratio was much lower in Trinidad and Tobago, PSED as a percentage of international reserves has been increasing. In contrast, this ratio has been steadily declining in Jamaica.

The stock of PSED was shown to be high in relation to exports. The external debt of the private sector was much higher than exports reported by ECCU and Jamaica, with the ratio steadily increasing before declining in 2017 (see Table 3). Notably, the ratio was much lower in Trinidad and Tobago (68% as at end 2017) and Suriname (32% as at end 2017).

These external vulnerability ratios suggest that the external debt of the private sector is important to these economies, and may warrant closer investigation and additional information to assess the extent of the vulnerability to sudden changes in PSED flows.

Data Availability and Limitations

The paper was unable to provide additional details on the: (a) interest rate profile (e.g. fixed or variable); (b) currency of the external debt; (c) rationale for the borrowing; or (d) insight into the nature of the creditors, due to existing data limitations. Furthermore, the data series had limited data points that restricted the ability to conduct meaningful empirical analysis. A major issue in this regard is that, unlike public sector debt, PSED is not owned, or may not be guaranteed, by the government; and the government's ability to exert authority and control to collect information is much lower.

However, recognising the growing need to monitor external debt, international organisations launched several initiatives aimed at enhancing the recording and reporting of such data within recent years. One of these initiatives is QEDS database, which was jointly developed, by IMF and WB in 2014. The database collates comprehensive external debt data of countries that subscribe to IMF's Special Data Dissemination Standard and selected countries that participate in IMF's General Data Dissemination System. QEDS database is an important resource that facilitates economic analysis and comprehensive cross-country analysis.

PSED data in the Region is quite limited. As at August 2018, while most countries compile an IIP, data for only eight Caribbean countries were available on QEDS database[12]. In addition, apart from Jamaica, Suriname and Trinidad and Tobago, countries only reported debt data for the public sector (Table 4).

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

TABLE 3: PRIVATE SECTOR EXTERNAL DEBT INDICATORS
(Percent)

	2012	2013	2014	2015	2016	2017
Jamaica						
PSED to GDP	17.4	22.3	21.6	25.0	27.6	23.5
Long-term	6.3	12.4	11.3	14.7	16.4	12.4
Short-term	11.1	9.8	10.3	10.4	11.2	11.1
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
PSED to Gross External Debt	21.3	23.4	21.5	26.8	28.8	25.4
Suriname						
PSED to GDP	11.8	13.7	11.1	12.0	17.7	18.7
Long-term	10.6	12.1	8.7	9.8	14.5	16.0
Short-term	1.3	1.7	2.4	2.2	3.2	2.7
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
PSED to Gross External Debt	39.1	38.4	27.7	22.7	19.6	20.4
Trinidad and Tobago						
PSED to GDP	n.a.	n.a.	n.a.	24.8	28.1	30.0
Long-term	n.a.	n.a.	n.a.	20.5	23.5	25.5
Short-term	n.a.	n.a.	n.a.	4.3	4.6	4.5
PSED to International Reserves	n.a.	n.a.	n.a.	62.9	64.8	80.2
Long-term	n.a.	n.a.	n.a.	52.1	54.1	68.0
Short-term	n.a.	n.a.	n.a.	10.9	10.7	12.1
PSED to Exports	n.a.	n.a.	n.a.	54.8	74.6	67.6
Long-term	n.a.	n.a.	n.a.	45.3	62.3	57.4
Short-term	n.a.	n.a.	n.a.	9.5	12.3	10.2
PSED to Gross External Debt	n.a.	n.a.	n.a.	48.8	43.8	45.9
ECCU						
PSED to GDP	n.a.	58.4	52.1	49.2	53.7	54.1
Long-term	n.a.	26.6	22.7	22.3	29.2	30.0
Short-term	n.a.	31.7	29.4	26.9	24.6	24.1
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

PSED to Gross External Debt	n.a.	53.6	51.4	52.0	55.0	56.7

Sources: QEDS database; IMF World Economic Outlook October 2018 database; IMF International Financial Statistics database; ECCB and the authors' calculations.

TABLE 4: REPORTING OF EXTERNAL SECTOR STATISTICS*

	BOP	IIP	BPM6	QEDS
Anguilla	X	X	X	
Antigua and 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	
Jamaica	X	X	X	X
Montserrat	X	X	X	
St. Kitts and Nevis	X	X	X	
Saint Lucia	X	X	X	Public
St. Vincent and the Grenadines	X	X	X	
Suriname	X	X		X
Trinidad and Tobago	X	X	X	X

Source: Websites of relevant central banks/statistics offices and QEDS database.
*As at August 31, 2018.

Factors Contributing to Challenges in the Reporting ff PSED Data

Baball (2002) noted there are several factors that contribute to the challenges related to the reporting of PSED data within Caribbean countries. These factors are: (a) inadequate survey response rates; (b) weak legislation and enforcement; (c) the need to develop adequate institutional frameworks; (d) limited human and technical capacity; (e) the loss of administrative records; and (f) to identify the existence of transactions that pass outside the domestic banking system. Unstructured reporting of these activities can lead to the under-statement of reported positions and unknown risks. The following paragraphs discuss the issues and challenges.

Inadequate Survey Response Rates

Information on PSED in the Caribbean is compiled using survey data. In most instances, participation in these surveys is mandatory and under the Parliamentary authority of a statistics

act, which guarantees the confidentiality of data about individual businesses. However, statistical agencies rarely enforce the mandatory provisions of the Act through the courts, preferring to rely on gentle, albeit persistent, persuasion and the good corporate citizenship of enterprises. This has resulted in low-to-moderate response rates to these surveys, although they are improving in some cases. Amongst other reasons, challenges in completing the survey and understanding its usefulness to the economy and the private sector, may be partly attributed to the modest survey response rate

Weak Legislation and Enforcement

As mentioned previously, legislature supports the surveys and there are associated penalties for non-compliance. However, in some cases, these penalties are not onerous enough to be a major deterrent for non-compliance or are not rigidly enforced. Although punitive actions to boost compliance rates to surveys are deemed the less-desirable strategy, they should be meaningful enough to be a deterrent, even if used as a strategy of last resort.

Weak Institutional Frameworks

The institutional frameworks for monitoring PSED are notably more complex than public debt. For instance, public sector debt information is usually readily available in a few departments within the government and/or central bank, while government agencies will have information on public enterprises and guaranteed debt. However, with PSED, the institutional arrangements can vary from simple to complex, depending on the exchange rate regime prevalent in the country. As a result, there is need to develop adequate institutional frameworks, including appropriate legislation, communication between agencies, and resourcing to better facilitate the monitoring of PSED.

Limited Human and Technical Capacity

Given the relatively small population of several Caribbean economies, human resource constraints are a common challenge. In particular, the compilation of external sector statistics, including IIP and BOP, requires specialist training for compilers and analysts. While staff in government statistical agencies and central banks are routinely exposed to training to assist in compilation, these efforts are thwarted by other circumstances such as small departments with heavy workloads, staff turnover, and priorities in other pressing areas. These circumstances result in some countries not reporting all the external sector statistics, delays in compilation, and large errors and omissions. However, policymakers recognise the importance of these data, but are challenged by lack of resources and technical capacity. Monitoring PSED debt is more complex than tracking debt of public sector borrowers. Detailed data are only readily available when countries have registration requirements in place, and these typically disappear when exchange controls are liberalised, leaving national compilers reliant on financial surveys.

Measurement is compounded by the multiplicity of participants involved and the complex structure of borrowing instruments.

Loss of Administrative Records

As countries move towards liberalised financial markets, the potential sources of available data on private external transactions are limited. For instance, capital controls are usually connected to administrative sources of data but when these controls are relaxed, capturing PSED transactions and positions becomes more complex.

Identifying Transactions Outside of the Banking System

Identifying the existence of transactions that pass outside the domestic banking system can be very challenging, in particular intercompany lending. These transactions have become a major area of concern, particularly for Caribbean economies where high, related party exposure could adversely affect all the other members of the group of companies.

5. Discussion and Conclusion

This paper examined data on PSED in the Caribbean to provide insight into the size and composition of the debt. It benefited from considerable data development conducted by international and regional organisations on the External Sector Statistics (particularly for IIP and BOP) within recent years, although the paper acknowledges that some data gaps still exist in QEDS.

The paper revealed that data on PSED in the Caribbean Region is limited. This limitation notwithstanding, appears that broadly, PSED was on the rise between the years 2015-17 for Suriname and ECCU, while Jamaica and Trinidad and Tobago displayed invariable trends. PSED appeared to account for a larger proportion (approximately 50%) of gross external debt in Trinidad and Tobago and ECCU. In contrast, external debt incurred by the private sector accounted for a much smaller proportion of gross external debt in Jamaica and Suriname (roughly 25% in Jamaica and 20% in Suriname as at end 2017).

While instrument breakdowns are not a requirement for PSED reporting on QEDS, an examination of gross external debt by institutional sector provided some insights into the instrument breakdown for the countries and ECCU. PSED is comprised largely of long-term instruments in Jamaica, Suriname, Trinidad and Tobago and ECCU. These data suggest that much of the debt incurred by the private sector in Jamaica may have been in the form of long-term loans, whereas, in Suriname, PSED may be concentrated in both direct investment intercompany lending and long-term loans. In the case of Trinidad and Tobago, the private sector appears to have incurred external debt mainly in the form of direct investment intercompany lending – this is likely to be associated with firms in the energy sector. While in ECCU, a review of detailed IIP data suggested that PSED is comprised of long-term debt securities and direct investment intercompany lending. These long-term debt securities were mainly in Anguilla, while direct investment intercompany lending were related to Antigua and Barbuda, St. Kitts and Nevis, St. Vincent and the Grenadines and Saint Lucia.

Baball (2002) noted that data capture is particularly challenging for intercompany lending and debt transactions that do not flow through the domestic financial system. For intercompany loans, the arrangements and flows can be internal to the company and, hence, are difficult to trace and monitor. Further, companies can receive non-cash disbursements and payments

made through offshore accounts or in goods and services. In these cases, data will not flow through the financial system and data capture is more challenging.

An assessment of external vulnerability ratios suggests that PSED appears high in relation to the stock of international reserves and exports. These external vulnerability ratios suggest that the external debt of the private sector is important to these economies and may warrant closer investigation and additional information to assess the extent of the vulnerability to sudden changes in PSED flows. The paper was unable to provide additional details on the: (a) interest rate profile (e.g. fixed or variable); (b) currency of the external debt; (c) rationale for the borrowing; or (d) insight into the nature of the creditors, due to existing data limitations. Furthermore, the data series had limited data points that restricted the ability to conduct meaningful empirical analysis.

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 PSED in the Caribbean Region. Firstly, this effort may require adopting more intensive and proactive means of following up, such as interviewing senior executives and finance managers, to ensure timely, quality responses and to emphasise the benefit of completing the survey. Secondly, reviewing, strengthening and enforcing existing legislation, and sustaining technical capacity and resources can reduce the extent of non-compliance by survey correspondents.

References

[1] Adepoju, A. A., Salau, A. S. and Obayelu, A. E. (2007), —The Effects of External Debt Management on Sustainable Economic Growth and Development: Lessons from Nigeria, Munich Personal RePEC Achieve (MPRA), Paper No. 2147. [On-line] Available at: ideas.repec. org/p/pra/mprapa/2147.html.

[2] Baball, Balliram (2002). "Private Sector External Debt: Main Issues and Challenges for Monitoring". Debt Relief International Limited, Publication No.7, 2002.

[3] Bailliu, Jeannine, 2000, "Private Capital Flows, Financial Development, and Economic Growth in Developing Countries," Bank of Canada Working Paper No. 2000-15.

[4] Cecchetti, S., G. , Mohanty, M., S. , Zampolli, F. (2011). "The Real Effects of Debt". BIS Working Paper, no. 352, July 2012.

[5]Cotton, J. (2015). "Monitoring Private External Debt in the Caribbean" (online). Available from: http://ccmf-uwi.org/files/publications/conference/2015/2_1-Cotton-p.pdf. Accessed (16, October, 2018).

[6]DaCosta, M., Kari Grenade, and Tracy Polius (2012). "The Caribbean: Rethinking Policy Frameworks in the wake of the Recent Financial Failures" (online). Available from: http://www.ccmfuwi.org/files/publications/conference/2012/5_3-Grenade_Polius_DaCosta-pp.pdf. Accessed (16, October, 2018).

[7]Greenidge, K., Craigwell, R., Thomas, C. and Drakes, L., 2012, "Threshold Effects of Sovereign Debt: Evidence from the Caribbean". IMF Working Paper WP/12/157 (Washington: International Monetary Fund).

[8]International Monetary Fund (2009). "Balance of Payments and International Investment Position Manual, Sixth Edition" (Washington, International Monetary Fund).

[9]International Monetary Fund (2013). "External Debt Statistics Guide of Compilers and Users" (Washington, International Monetary Fund).

[10]Izak, Vratislav (2014). "Private and Public Debt". European Financial and Accounting Journal, 2014, vol.9, no.1, pp.4-21.

[11]Lahnsteiner, Mathias (2013). "Private Sector Debt in CESSE EU Member States. Focus on European Economic Integration Q3/2013.

[12]Layne, William (2010), "Recent Financial Failures In the Caribbean – What Were the Causes and What Lessons Can be Learnt." Online - Bajan WordPress.

[13]Pattillo, C., Poirson, H., & Ricci, R. (2002). External debt and growth (Working Paper, No. 02/69): IMF.

[14]Polius, T. (2012). "Financial Risk in the Context of a Financially Integrating Caribbean: A Rudimentary Analysis (online). Available from: http://www.ccmf-uwi.org/files/publications/newsletter/Vol5No3.pdf
Accessed (16, October, 2018).
[15]Reinhart, C.M., and K.S. Rogoff (2010). "From Financial Crash to Debt Crisis". Washington, D.C. National Bureau of Economic Research, WP, number 15795.

APPENDIX 1

PRIVATE SECTOR EXTERNAL DEBT INSTRUMENTS

Debt Instrument	Description
Direct Investment	
Intercompany Lending	Cover borrowing and lending of funds among direct investors and related subsidiaries, branches, and associates.
Portfolio Investment	
Debt securities	Negotiable instruments serving as evidence of a debt. Includes bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, money market instruments, and similar instruments normally traded in the financial markets.
Other Investment	
Currency and Deposits	Currency consists of notes and coins issued or authorised by central banks or governments. Deposits include all claims represented by evidence of deposit on the central bank, deposit-taking corporations other than the central bank, and, in some cases, other institutional units.
Loans	Financial assets created when a creditor lends funds directly to a debtor. The debtor is given documents that are not negotiable.
Trade Credit and Advances	Includes credit extended directly by the suppliers of goods and services to their customers, advances for work that is in progress (or is yet to be undertaken), and prepayment by customers for goods and services not yet provided. They usually have short maturity periods of not more than one year.
Other Debt Liabilities	Comprise insurance, pension, and standardised guarantee schemes, and other accounts payable.

Source: IMF, BOP and IIP Manual (Sixth Edition).