



# Monitoring Private Sector External Debt in the Caribbean: *The Stylized Facts*

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50<sup>th</sup> Annual Monetary Studies Conference  
November 6, 2018

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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 do 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


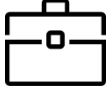

Defined as a nonfinancial or financial corporation that is subject to control by government units. Control over a corporation is defined as the ability to determine general corporate policy: the key financial and operating policies relating to the corporation's strategy objectives as market producer.

# 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
 <b>Direct Investment</b>	Intercompany lending
 <b>Portfolio Investment</b>	Debt securities
 <b>Other Investment</b>	Currency and deposits Loans Trade credits and advances Other debt liabilities

# International Investment Position

## Institutional Sectors

INSTITUTIONAL SECTOR	DESCRIPTION
 <b>General government</b>	Institutional units with the principal function of government
 <b>Central bank</b>	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
 <b>Deposit-taking corporations, except the central bank</b>	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
 <b>Other sectors</b>	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
<b>JAMAICA</b>						
<b>GROSS EXTERNAL DEBT</b>	<b>12,076</b>	<b>13,545</b>	<b>13,935</b>	<b>13,238</b>	<b>13,442</b>	<b>13,647</b>
<i>of which:</i>						
<b>PSED</b>	<b>2,574</b>	<b>3,168</b>	<b>2,993</b>	<b>3,541</b>	<b>3,871</b>	<b>3,466</b>
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
<b>SURINAME</b>						
<b>GROSS EXTERNAL DEBT</b>	<b>1,509</b>	<b>1,843</b>	<b>2,098</b>	<b>2,549</b>	<b>2,961</b>	<b>3,126</b>
<i>of which:</i>						
<b>PSED</b>	<b>590</b>	<b>707</b>	<b>582</b>	<b>579</b>	<b>580</b>	<b>639</b>
Long-Term	527	622	454	471	476	546
Short-Term	63	86	127	107	104	93
<b>TRINIDAD AND TOBAGO</b>						
<b>GROSS EXTERNAL DEBT</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>12,804</b>	<b>14,004</b>	<b>14,617</b>
<i>of which:</i>						
<b>PSED</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>6,250</b>	<b>6,135</b>	<b>6,710</b>
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
<b>ECCU</b>						
<b>GROSS EXTERNAL DEBT</b>	<b>n.a.</b>	<b>6,448</b>	<b>6,333</b>	<b>6,252</b>	<b>6,686</b>	<b>6,687</b>
<i>of which:</i>						
<b>PSED</b>	<b>n.a.</b>	<b>3,456</b>	<b>3,252</b>	<b>3,253</b>	<b>3,675</b>	<b>3,790</b>
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
<b>JAMAICA</b>						
<b>PSED to International Reserves</b>	<b>128.9</b>	<b>174.2</b>	<b>121.0</b>	<b>121.5</b>	<b>117.6</b>	<b>91.7</b>
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
<b>PSED to Exports</b>	<b>148.9</b>	<b>200.4</b>	<b>206.6</b>	<b>275.3</b>	<b>325.8</b>	<b>263.9</b>
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
<b>SURINAME</b>						
<b>PSED to International Reserves</b>	<b>66.3</b>	<b>95.6</b>	<b>101.1</b>	<b>201.9</b>	<b>164.2</b>	<b>165.0</b>
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
<b>PSED to Exports</b>	<b>21.8</b>	<b>29.3</b>	<b>27.1</b>	<b>34.8</b>	<b>40.3</b>	<b>31.5</b>
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
<b>TRINIDAD AND TOBAGO</b>						
<b>PSED to International Reserves</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>62.9</b>	<b>64.8</b>	<b>80.2</b>
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
<b>PSED to Exports</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>54.8</b>	<b>74.6</b>	<b>67.6</b>
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
<b>ECCU</b>						
<b>PSED to International Reserves</b>	<b>n.a.</b>	<b>283.3</b>	<b>223.5</b>	<b>203.7</b>	<b>213.6</b>	<b>213.7</b>
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
<b>PSED to Exports</b>	<b>n.a.</b>	<b>721.7</b>	<b>855.9</b>	<b>973.5</b>	<b>1,285.2</b>	<b>948.9</b>
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\*

	<b>BOP</b>	<b>IIP</b>	<b>BPM6</b>	<b>QEDS</b>
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	

	<b>BOP</b>	<b>IIP</b>	<b>BPM6</b>	<b>QEDS</b>
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**