

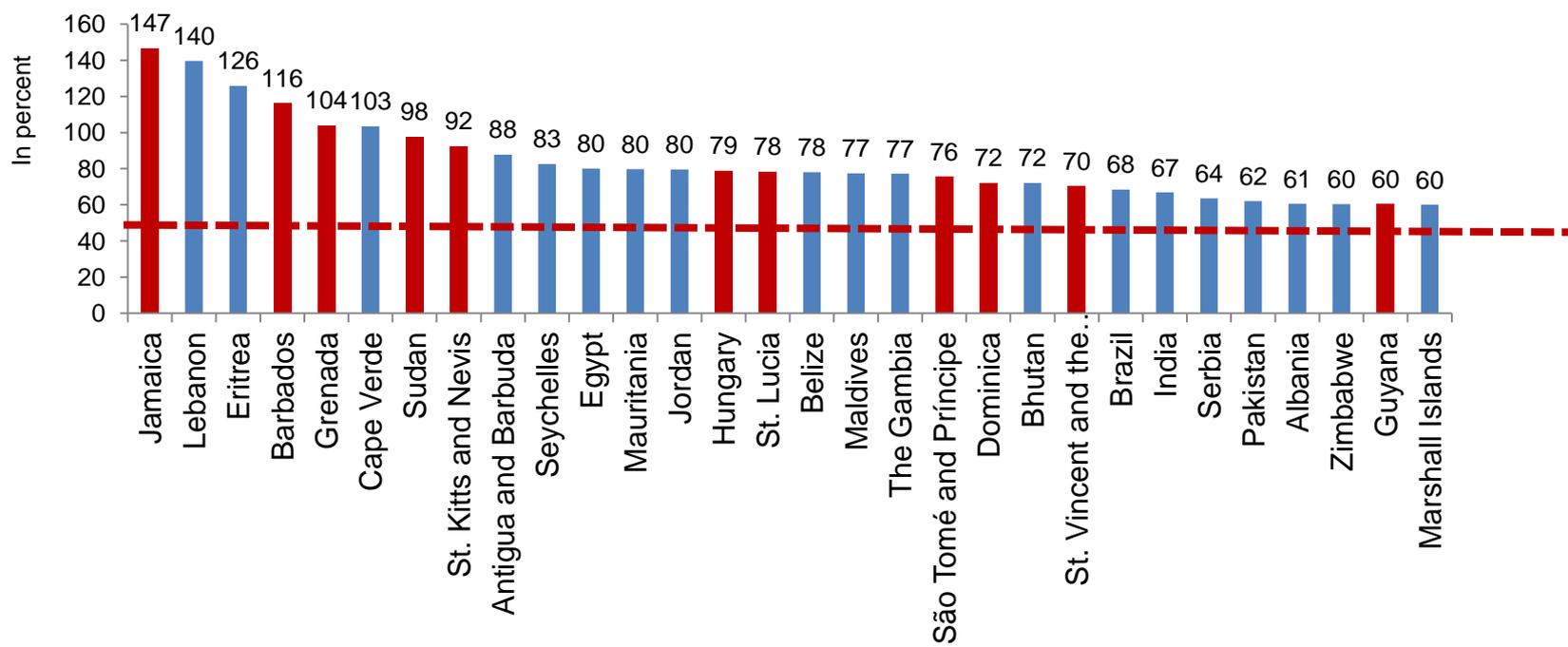
THE CHALLENGE OF MANAGING HIGH DEBT



Sona Varma
High Level Caribbean Forum
Bahamas, September 20, 2013

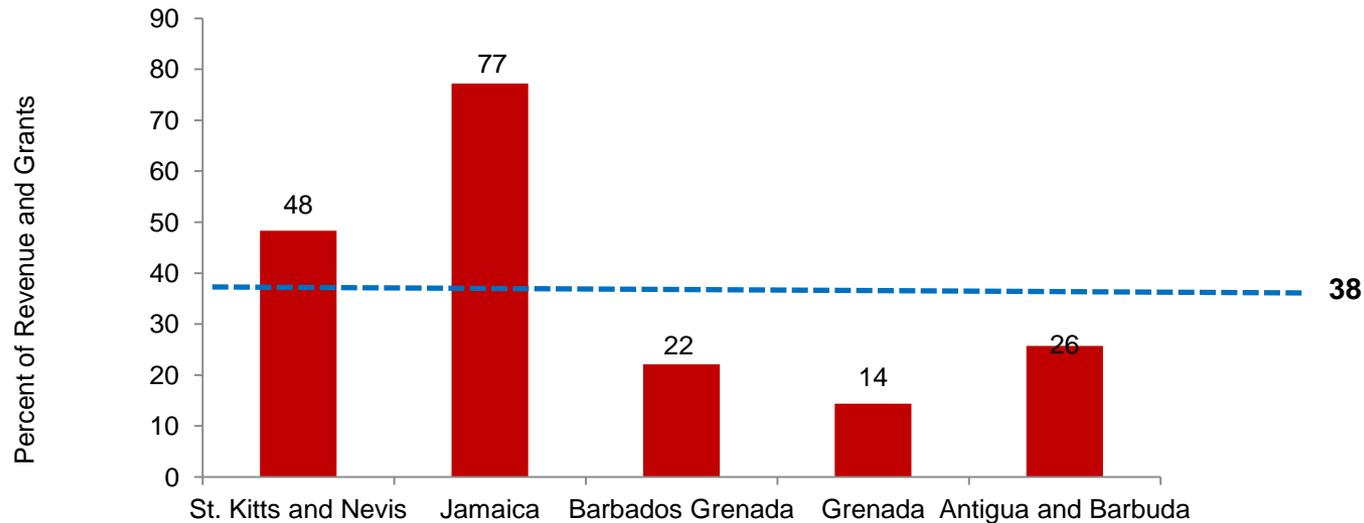
Caribbean Countries are amongst the most highly indebted in the World

Average debt/GDP ratio for 139 emerging markets and developing countries was 44 percent at end-2012



In many countries, debt service payments are crowding out private investment and financing for development

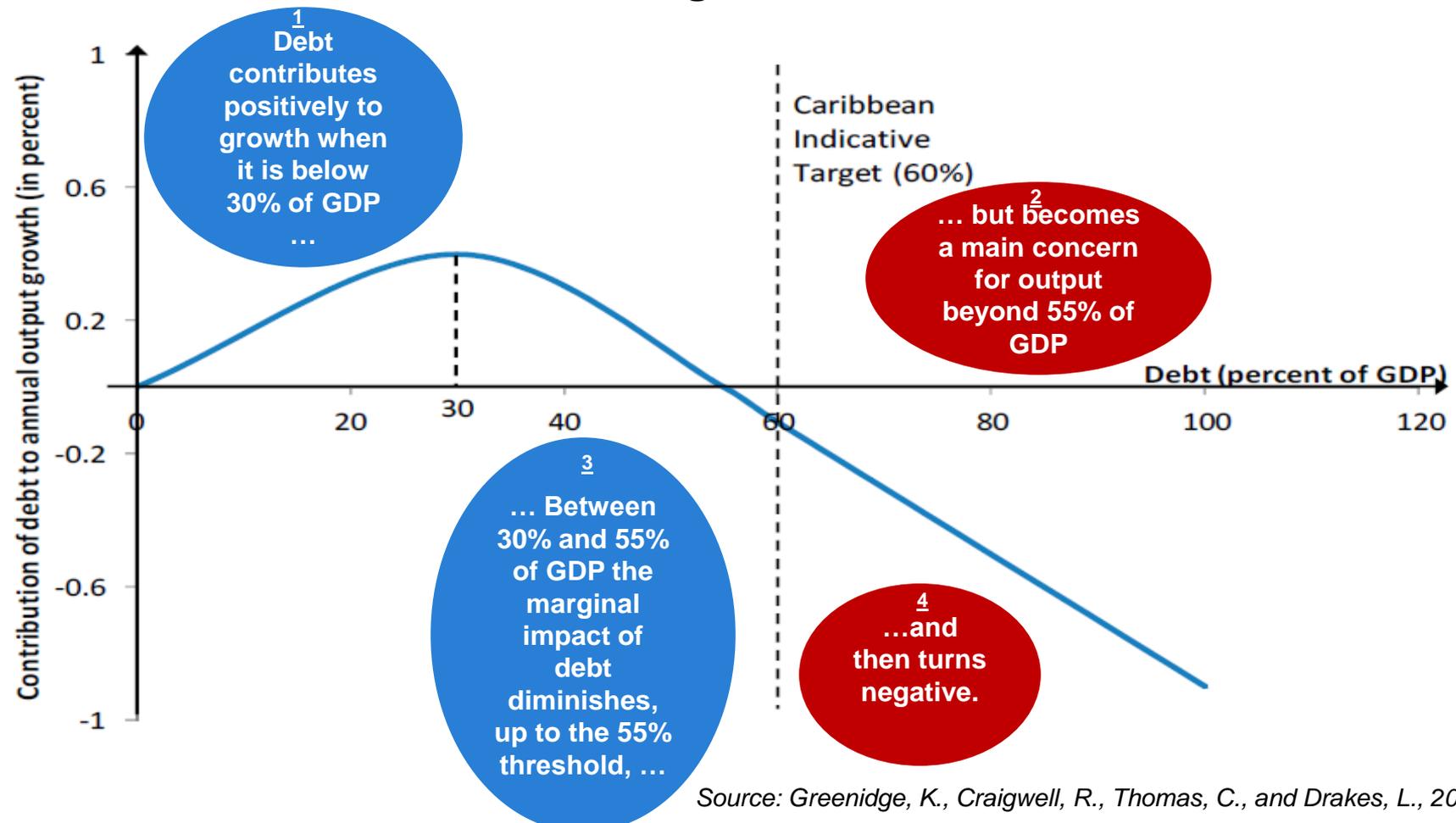
2011 debt service to revenue ratio for countries in the Caribbean with debt/GDP > 90 percent



Source: IMF, Peron, G.N. (2013), forthcoming, "A Brewing Storm in Paradise: Tackling Fiscal and Debt Challenges in the Caribbean."

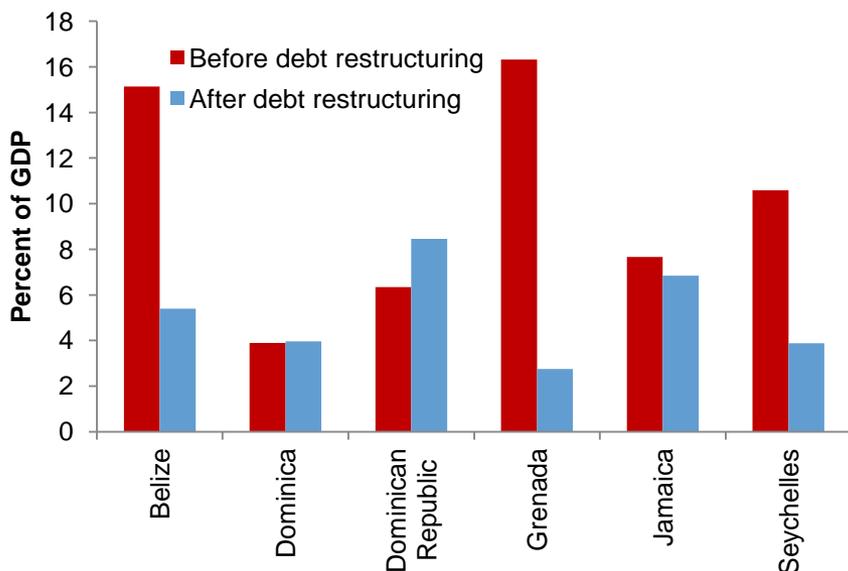
Low growth is related to the problem of debt overhang

Stylized shape of the threshold effect of public debt on growth



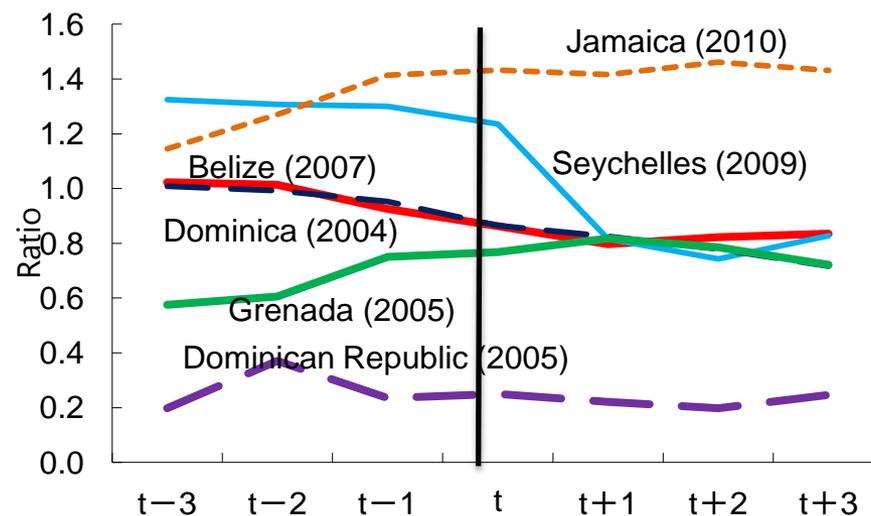
Debt Restructuring has been useful, but its benefits were limited

Debt service ratio before and after restructuring



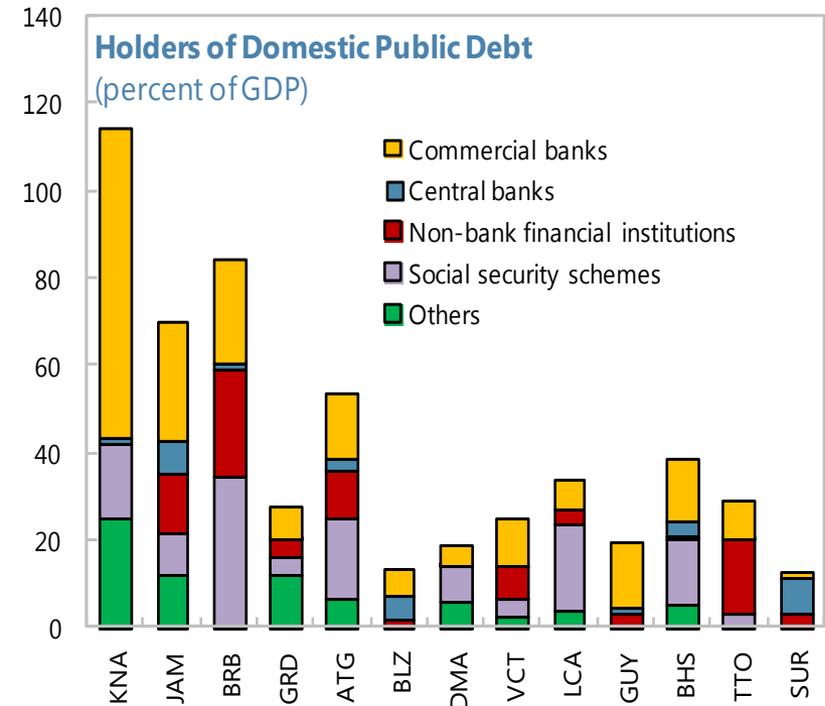
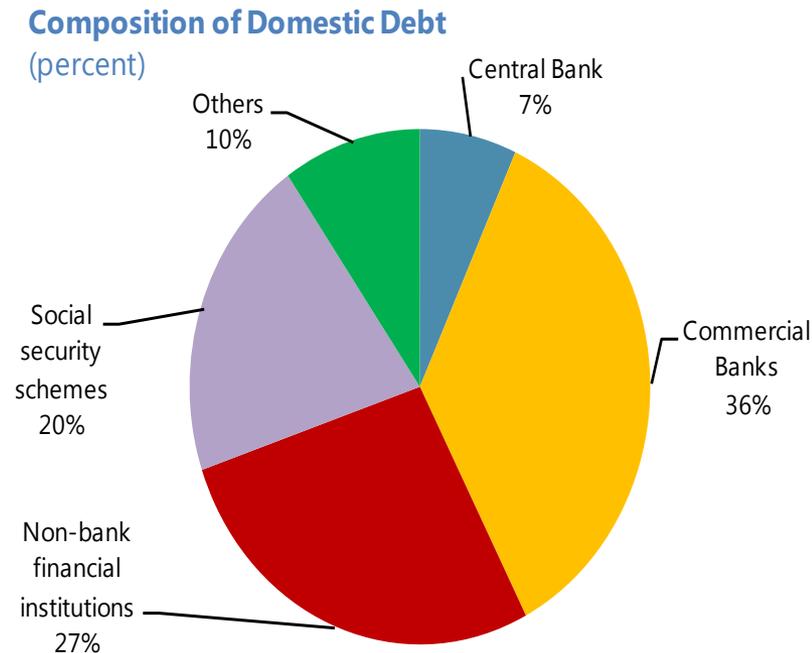
Three year average before and after the debt restructuring

Ratio of public debt to GDP before and after restructuring



t indicates the launch of the debt restructuring.

Domestic financial stability needs to be carefully assessed as it can be impacted by debt restructuring



Sources: National authorities; and author's calculations.

1/ ATG stands for Antigua and Barbuda, BHS for the Bahamas, BRB for Barbados, BLZ for Belize, DMA for Dominica, GRD for Grenada, GUY for Guyana, JAM for Jamaica, KNA for St. Kitts & Nevis, LCA for St. Lucia, VCT for St. Vincent and the Grenadines, SUR for Suriname, and TTO for Trinidad and Tobago.

How Can Caribbean Countries work with IFIs to develop better solutions?

- Leveraging financial support through multilateral guarantees
- Maintaining eligibility for concessional financing on the basis of vulnerability (IDA, PRGT)
- Supporting resilience building through policy based loans
- Securing contingent credit lines to supplement CCRIF
- Leveraging climate change funds for debt reduction
- Using national assets to facilitate debt reduction

Thank you!