Fiscal Policy, Public Debt and Growth

By

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1.0 Introduction

- The Caribbean countries are largely small states, very open to international trades and highly exposed to natural disaster.

- Over the last ten years, a number of countries have experienced higher public debt levels from weak fiscal balances and low growth.
## SELECTED INDICATORS FOR 2000 TO 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>External Debt (% of GDP)</th>
<th>Domestic Debt (% of GDP)</th>
<th>Overall Fiscal Balance (% of GDP)</th>
<th>External Current Account (% of GDP)</th>
<th>Growth Rates of Real GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Barbados</td>
<td>20.6</td>
<td>28.3</td>
<td>26.9</td>
<td>43.0</td>
<td>-2.3</td>
</tr>
<tr>
<td>Belize</td>
<td>73.6</td>
<td>70.3</td>
<td>22.0</td>
<td>12.5</td>
<td>-6.1</td>
</tr>
<tr>
<td>ECCU</td>
<td>46.7</td>
<td>41.6</td>
<td>35.7</td>
<td>40.9</td>
<td>-3.5</td>
</tr>
<tr>
<td>Guyana</td>
<td>77.9</td>
<td>46.0</td>
<td>21.0</td>
<td>19.6</td>
<td>-3.9</td>
</tr>
<tr>
<td>Jamaica</td>
<td>46.1</td>
<td>56.8</td>
<td>69.8</td>
<td>46.8</td>
<td>-4.8</td>
</tr>
<tr>
<td>Suriname</td>
<td>32.2</td>
<td>17.3</td>
<td>8.9</td>
<td>11.2</td>
<td>-1.2</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>12.6</td>
<td>7.4</td>
<td>14.6</td>
<td>13.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>

**Note:**

A - Represents the average for the period 2000 to 2007 for each category.
B - Represents the average for the period 2008 to 2012 for each category.
1.0 Introduction (Con’d)

- The current situation can be explained by both internal – characteristics of the economies, policies, etc and external factors – loss of preferential markets, external trade agreements, etc.

- The outline of this presentation will include the: Characteristics; factors influencing economic performance – economic growth, fiscal and external balances as well as public debt and; policies to ameliorate the debt situation.
2.0 Characteristics

- The Caribbean countries are a diversified group of commodity exporters and service based economies.

- Commodities exporters include Belize, Guyana, Surinam and Trinidad and Tobago supplying oil, gas, minerals and agricultural output.

- Service based economies include Bahamas, Barbados, ECCU countries supplying tourism and financial services.
3.0 Factors Influencing Growth

- Low productivity growth due to brain drain and outmigration.
- Weak competitiveness from limited capacity, weak institutions, high labour cost, electricity cost, overvaluation exchange rates, shallow financial systems and small states characteristics.
- Higher volatility from external demand and vagaries of commodity prices.
2.0 Characteristics (Con’d)

- Most countries have fixed exchange rate regime which is a key policy anchor.

- Diseconomies of scale and lack of specialization exist in providing public goods.

- High fixed and trade costs are the norm in these countries.

- The characteristics tend to influence the economic performance of these small states.
4.0 Factors Influencing Fiscal Balances

- Both the current and overall balance have increased, averaging ..
- Relatively high expenditure on public goods, infrastructure, wages, and natural disasters.
- High public expenditure to offset slow growth from external global financial crisis and erosion of trade preference.
- Relatively higher volatility in revenue collections because of greater reliance on trade taxes and foreign demand which have been adversely affected.
5.0 Factors Influencing Public Debt

- Debt levels have increased during the last decade, ranging between (Guyana) 65 and 154 (St Kitts and Nevis) as a percent of GDP.
- Weak fiscal balances have contributed to accumulation of debt as shown in the Table.
- Slow and low GDP have contributed to debt accumulation.
6.0 Policy Options for Debt Sustainability

- Fiscal Consolidation with focus of public sector reforms with adjustment efforts on structural and governance reforms to promote growth. These should include strengthening fiscal and debt management institutions; growth enhancing policies to improve competitiveness and making the private sector the engine of growth.
- Debt restructuring but this may adversely affect future capital market development and also required sustained fiscal consolidation efforts.
- Exchange rate adjustments to provide the necessary response to both trade and services balances. Otherwise, adjustments would be required from employment, real growth and fiscal account.
- Financial sector deepening to improve the allocation of savings and investments through financial access, reduced spread, enhanced legal and regulatory framework as well as adoption to new technologies.
- Donor assistance to help with structural reforms and capacity building.
7.0 Conclusions

- Both fiscal deficits and low growth have resulted in rising levels of debt which also affected the former. This was compounded by the global financial crisis.
- Countries have tried to reduce debt through fiscal consolidation and debt restructuring but with limited success.
- Therefore, for debt sustainability, greater and sustained efforts would have to be made with appropriate policies.