Available online at www.sciencedirect.com
ScienceDirect
Journal of Policy Modeling 32 (2010) 418–431
Journal of Policy Modeling
www.elsevier.com/locate/jpm

The external public debt in the Caribbean Community

Kevin Greenidge[a], Lisa Drakes[a,*], Roland Craigwell[b]

[a] Research Department, Central Bank of Barbados, Barbados
[b] Department of Economics, University of West Indies, Cave Hill Campus, Barbados

Received 1 November 2009; received in revised form 1 February 2010; accepted 1 February 2010
Available online 7 March 2010

Abstract

A notable build-up in the foreign debt stock of the Caribbean Community (CARICOM) has been observed in recent years. By employing recent developments in panel unit root and co-integration analysis, this paper finds the major contributing factors to be: the output gap, real effective exchange rate, exports, real interest rate and current deviation of government expenditure from its trend value. Scenario analyses suggest that the time periods required to achieve the benchmark foreign debt to GDP ratio of 30%, for some countries, are too long, given the assumed parameters, but greater fiscal effort or more output growth can shorten these periods considerably.
© 2010 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

JEL classification: H63; C33

Keywords: External public debt; CARICOM; Panel data analysis

1. Introduction

The external public debt of the Caribbean Community (CARICOM)[1] has risen significantly, particularly during the 2000s. In fact, by 2003, fourteen of these countries were among the top thirty highly indebted emerging market economies (Sahay, 2005). Servicing of this debt is constrained by most Caribbean nations being net foreign exchange-users, the increased likelihood of capital

* Corresponding author at: Research Department, Central Bank of Barbados, Tom Adams Financial Centre, P.O. Box 1016, Bridgetown, Barbados. Tel.: +246 436870; fax: +246 4271431.
E-mail address: ledrakes@centralbank.org.bb (L. Drakes).

[1] The CARICOM countries include Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.

0161-8938/$ – see front matter © 2010 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.
doi:10.1016/j.jpolmod.2010.02.004

flight and the possibility of reduced investment as well as limited government resources that must be channelled toward meeting these obligations rather than utilised for growth and development.

Clearly, appropriate policy reactions must be identified which requires one to first determine the factors contributing to this rapid rise in external debt. Thus, this paper empirically evaluates the major variables influencing the growth of such debt in twelve CARICOM countries. A model of debt accumulation is developed and estimated using non-stationary panel data analysis over the annual period between 1987 and 2005. Based on this model, the paper also assesses how the international financial institutions benchmark for external debt to GDP, of 30%, can be reached through changes in the output and government expenditure gaps.

The remainder of this paper is structured as follows. Section 2 provides an overview of how the external debt of the countries investigated has evolved, as well as the factors accounting for these changes. The third section gives a review of the relevant theoretical and empirical literature. Section 4 describes the debt accumulation model, the methodology and the data used. Section 5 presents the empirical analysis and results of the study. Conclusions and their policy implications are noted in the sixth section.

2. The behaviour of external debt in the caricom economies

After rising sharply over the 1987–1990 period, total external public debt of the CARICOM countries under review fell steadily until 1999 but escalated thereafter (see Fig. 1). The indebtedness has been influenced by similar factors such as natural disasters, fluctuations in export prices, large amounts of development expenditure, and events that affected international travel.

The impact of terms of trade shocks is best exemplified in Trinidad and Tobago, an oil-based economy. For instance, a slump in oil prices eventually led to a sharp increase in external debt from 1987 to 1989. However, these liabilities generally declined since the early 1990s, mostly reflecting the relative ease of repayment afforded by strong export performance of the country's energy and manufacturing industries.

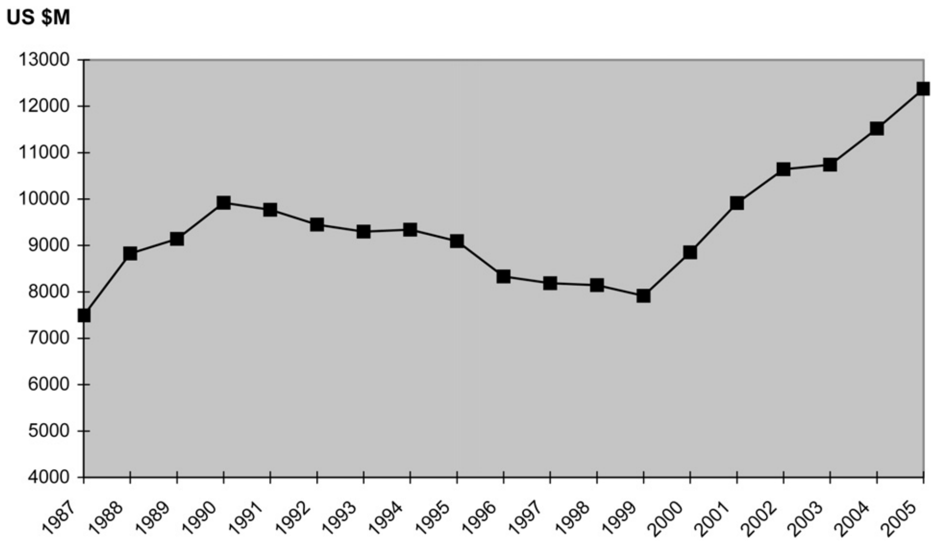

Fig. 1. Total external public debt of the CARICOM countries.

متن کامل مقاله
دریافت فوری

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات