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THE IMPACT OF JAMAICA'S EXTERNAL DEBT
ON THE LEVEL OF ECONOMIC DEVELOPMENT

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Prepared by: Paula Anderson of the
Research and Development Division,
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The views expressed in this paper are those of the author and
not necessarily those of the Bank of Jamaica.

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THE IMPACT OF JAMAICA'S EXTERNAL DEBT
ON THE LEVEL OF ECONOMIC DEVELOPMENT

Introduction

Any third world developing economy with limited and under-developed natural resources and a primary product export base aspiring towards self sustained growth and ultimately economic development, has of necessity to depend heavily, on the use of external financing as the main engine for growth. This financing may either be in the form of direct investment or loan financing, and it is the combination of these two methods of financing which to a large extent will determine the success or failure of any developmental policy.

Direct investment by its very nature always has implications for the sovereignty of a country, and as a result, is usually utilized with much caution. In the early 1960's Jamaica sought to develop its bauxite and alumina industry through direct investment. By the mid 1970's it was realized that the full benefits from the industry were not accruing to the country and there was widespread Jamaicanization of the industry. Loan financing, on the other hand, provides a country with much more flexibility in the use of resources and it is to this end that far more emphasis has been placed on this method of financing by the Jamaican authorities.

There has been much discussion lately about the growing debt problem of the non-oil producing developing countries. There is, however, the tendency to focus primarily on the size of the stock of debt of a country rather than the debt service capacity of a country. The size of a country's stock of debt indicates only the extent to which the country is able to command loan inflows and is not in itself indicative of a debt problem. The

debt service capacity of a country measures the extent to which the debt can be paid for by the total earnings from the export of goods and services. This paper will therefore not concern itself so much with the size of the Jamaican debt stock but instead, look at the growth of the debt in relation to the debt service capacity; the composition of the Jamaican debt, and the economic consequences of the growth in the debt between the years 1972-1986 using some general economic indicators as the main yardstick of economic development.

There are a number of possible definitions widely used for determining the level of a country's external debt. The ideal definition in the case of Jamaica's debt would be one which includes Government direct, debt; public and private debt guaranteed by the Government; the external debt of the Bank of Jamaica and the external debt of the private sector. The existing data source on the Jamaican external debt is such that there is no consistent set of data that can be used from 1972 through to 1986. Although the trends remain the same, there is inconsistency both in definitions and in measurements vis-a-vis exchange rate valuations. Therefore for purposes of this paper the best proxy was chosen. All valuations will be done in U.S. currency, unless otherwise stated. For the period (1972-1979), the debt stock includes only Government direct and Government guaranteed debts, while the period from 1980-1986 will have an additional component; that being the external debt of Bank of Jamaica which will include the use of IMF credit. Estimates of private non-guaranteed debts are very crude and only passing reference will be made of those.

Growth of Jamaica's External Debt

In attempting to trace the growth in Jamaica's external debt since ¹⁹⁷²1982 to present, it is necessary first to look at developments in the international market which led to the current debt crisis in the developing countries and which, to a great extent, mirrors the debt problems now being faced by Jamaica. Secondly, it will be necessary to trace the growth in specific periods as factors other than economic ones impacted on the growth of the debt.

In the early 1970s the developing countries were going through a phase where they were anxious to implement ambitious growth projects aimed at diversifying their economies. This coincided with a period of high international liquidity and as a consequence, the international commercial banks were willing to expand their exposure, and moreover, up to then, they had considered this type of lending to be relatively risk free. By 1975, international commercial banks had replaced the multilateral development agencies as the single most important source of credit to the Third World.

The first oil shock of 1973 intensified the need for further borrowing on the part of the developing countries to cushion their increased oil bills as there was rapid deterioration in their current account balances. Notwithstanding this increased level of borrowing, the creditor banks were still willing to lend as they considered the investments relatively safe. On the part of the developing countries, their debt service capacity was such that as long as interest rates remained relatively low and commodity prices and exports remained buoyant, they would be able to service the new debt.

By 1979, the second oil shock led the industrialized countries to adopt strong anti-inflationary policies to help counteract the adverse effect of higher oil prices on their economies. As a consequence there was a sharp upward movement in real interest rates, which led to a weakening of the export markets of developing countries, and a deterioration in their terms of trade as commodity prices reacted to lower levels of demand.

For the developing countries the second oil shock had two adverse repercussions. Apart from increasing the need for further foreign financial assistance there was a fall off in the demand for their export commodities. This led to a deterioration in their terms of trade and thus debt service capacity. At the same time there was still the need to continue the developmental projects which they had begun in the early seventies and this was the genesis of the now existing debt crisis.

Up to 1972, the growth in Jamaica's external debt was relatively small, increasing at a moderate rate of between 3-6 per cent. At the end of 1972, total external debt amounted to US\$212.7 million with debt payments accounting for 4.2 per cent of export earnings. Total debt as a percentage of GNP amounted to 12.1 per cent and total reserves amounted to US\$160 million which, measured in months of imports, amounted to 2.2 months. At this time, the policies of the new political directorate were geared towards structural transformation to attain a more self-reliant mixed economy. The international scenario was such that there was a coincidence of needs as there was excess liquidity in the international markets and they were looking for new sources of investments. Capitalizing on this, the Jamaican Government embarked on a number of project tied loans with the ultimate aim being structural adjustment. Towards the latter part of 1973 escalation in the Arab/Israeli war led to a strengthening of the OPEC group to take a more aggressive stance.

A trade embargo was placed on exports of oil and oil products to the United States and the immediate impact of this was a massive escalation in the prices of these commodities. Because the major marketing companies of these products were domiciled in the U.S., it had serious repercussions for the non-oil producing countries of the World like Jamaica.

By the end of 1973, therefore, the Jamaican economy began to feel the effects of its own expansionary programme and to a lesser extent the new oil prices. At the end of 1973, total external debt grew by US\$136.1 million or 64 per cent and amounted to US\$348.8 million. The ratio of debt to total export earnings increased from 31.2 per cent to 49.8 per cent while debt service requirements accounted for 5.4 per cent of export earnings. Total debt to Gross National Product was 18.6 per cent and total reserves declined to US\$128 million from US\$160 million in 1972, and measured in months of imports was 1.6 months. This meant that although there was an increase in inflows, the net transfer effect was negative as the incremental increase in export earnings was not sufficient to finance the level of imports and consequently there was a draw-down on the already diminishing level of reserves.

During the two year period 1974-1975, there were a number of exogenous developments which continued to influence the growth of the external debt in Jamaica. There was a noticeable slow-down in world trade; high levels of inflation and consequently a sharp decline in direct foreign investment. Recession in the economies of the industrialized countries was beginning to affect the development of economies like Jamaica. Consequently, Jamaica experienced a substantial reduction in the rate of growth in export earnings towards the end of 1975. At the end of 1975, total export earnings amounted

to US\$1,169 million as against US\$1,105 million in 1974, an increase of US\$64 million or 5.8 per cent. This is a significant fall-off over the previous year when export earnings increased by US\$405 million or 57.8 per cent. At the same time, total debt outstanding amounted to US\$690.2 million, an increase of US\$167.5 million over 1974 and represented an increase of 32.0 per cent. The ratio of total debt to export earnings increased to 59.0 per cent and debt service accounted for 6.9 per cent of export earnings. The ratio of total debt to GNP was 23.8 per cent and total reserves declined marginally during the two-year period to US\$125 million and measured in months of exports was 1.0 months.

This pattern of development was further aggravated by a fall in the level of export prices in 1976. Coupled with this was a decline in the volume of exports following cut backs in the bauxite/alumina industry and other factors which resulted in low productivity levels in the agricultural sector. Also at this time, due to socio-political conditions there was a fall-off in export earnings from tourism and there was a massive outflow of private capital and investment income. This impacted severely on the balance of payments accounts and the need for external financing became even more acute. At the end of 1976, exports of goods and services totalled US\$993 million, some US\$176.0 million below the level of the previous year.

Consequent on this, the ratio of total debt to export earnings from goods and services increased to 89.1 per cent from 59.0 per cent in the previous year and debt service requirements accounted for 11.2 per cent of export earnings up from 6.9 per cent. The ratio of the debt to GNP also increased by 6.6 per cent to 30.4 per cent and there was a substantial drawdown on the level of reserves. The level of international reserves fell from US\$125 million in 1975 to US\$33.0 million in 1976. Measured in months of

imports, the country would only be able to finance 0.3 months of imports. By 1976 the balance of payments which in 1970 was showing a surplus of US\$21.1 million was now showing a deficit of US\$30.5 million.

In the face of all this, the political administration viewed the difficulties being faced in the world economy as being only temporary. They pursued a policy of fiscal expansion geared towards stimulating growth and investment. The fiscal expansion was to be financed by external borrowing and increased government expenditure would increase aggregate demand and induce increased output and employment. Import restrictions were imposed to curb the level of import demand and this it was hoped would create the opportunity for developing import substitution. Inflation was to be controlled by restrictive credit policies. The level of expectations placed on these policies did not materialize. The world recession did not abate but continued, the local economy contracted, the level of inflation soared and the demands on the budget increased to finance social programmes. These problems culminated in a suspension of lending by the transnational commercial banks pending a new IMF programme aimed at rectifying the balance of payments problem.

The new IMF programme brought with it a massive devaluation of the Jamaican currency along with measures aimed at correcting the balance of payments, i.e. curbs on the level of government expenditure and restrictive monetary policies. At the end of 1977, total debt outstanding amounted to US\$926.2 million increasing during the year by US\$55.2 million. The ratio of total debt to exports of goods and services moved from 87.9 per cent in 1976 to 88.4 per cent in 1977 with debt service accounting for 14.5 per cent of export earnings while the ratio of total debt to GNP moved from 29.9 per cent to 29.1 per cent. There was a marginal improvement in the level of international reserves which increased from US\$32 million to US\$50 million and measured in months of imports was 0.6 months.

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During the years 1978-80, the Jamaican economy with a new IMF programme in place was able to attract more foreign inflows than in previous years. However, the impact of this was more than offset by a significant outflow of private capital. In 1978 inflows of official capital amounted to US\$167.5 million but was more than offset by private capital outflows of US\$246.0 million. In 1980 there was some improvement as official inflows amounted to US\$187.4 million while private outflows totalled US\$80.3 million. For the three-year period, total debt grew at a rate of 12.9 per cent while export of goods and services grew at 12.0 per cent, and the level of imports grew at 16.1 per cent. At the end of 1980 the stock of total debt outstanding amounted to US\$1,734.0 million. Exports of goods and services totalled US\$1,421.0 million. The ratio of total debt outstanding to export earnings amounted to 122.0 per cent with the debt service accounting for some 24 per cent of export earnings. The level of international reserves continued to improve although marginally and amounted to US\$105 million which when measured in months of imports was 0.8 months.

A change in the political directorate at the end of 1980 brought about a change in the socio-economic policies of the country. The bottom line however, remained the same in that substantial foreign borrowing was to be the main stimulus for economic growth. It was felt that economic growth depended heavily on the amount of foreign exchange available for capital imports given the structure of our type of production. At the same time the attitude of the transnational banks and multilateral agencies had softened to the extent that the terms attached to new loans were less stringent.

Between 1981-1982, total debt outstanding grew at an average annual rate of 24.5 per cent. At the end of 1982, the total stock of debt was US\$2,690.0 million as against US\$1,734.0 million in 1980. Export of goods and services amounted to US\$1,394.0 million some US\$50.6 million less than in 1980 with the ratio of debt to total export earning moving from 122 per cent in 1980 to 193 per cent in 1982 and debt service payments absorbing 39.8 per cent of total export earnings. The level of imports of goods and services increased by US\$246.5 million over the two years to 1982 and there was a marginal increase in the level of reserves up some US\$7.0 million to US\$109.0 million at the end of 1982. Measured in months of imports the level of reserves was 0.7 months.

By 1983, the expectations of a substantial turn around of the economy did not materialize as the new export thrust in the area of non-traditional exports fell below projected levels. As a result of this, there was a noticeable reduction in the level of official capital inflows to the extent of some US\$146.0 million. Coupled with this was an upsurge in the level of private capital outflows, a problem which had abated in 1980.

Since 1983 to present, there has been a significant reduction in the rate of increase of the total debt outstanding. This grew at an annual average rate of 7.3 per cent during 1983 - 1986 in contrast to 24.5 per cent between 1981 - 1982. The new debt management thrust towards debt rescheduling and refinancing and more recently debt capitalization may have contributed to this new phenomena. In addition to this, the authorities have been relying more on fiscal and monetary policies as a means of stimulating the domestic economy rather than injected foreign inflows. At the end of 1986, total debt outstanding amounted to US\$3,580.0 million and it is estimated to have fallen marginally to US\$3,500.0 million at the end of September 1987. Exports of

goods and services totalled US\$1,392.0 million and as a consequence, the debt service payments accounted for 59.0 per cent of total export earnings before rescheduling and 42.9 per cent after rescheduling. The ratio of total debt to exports rose to 257.2 per cent while that of total debt to GDP was 147.8 per cent. Although still relatively high, there has been a noticeable reduction in the level of imports of goods and services moving from a high of US\$1,960.9 million in 1981 to US\$1,273.6 million in 1985.

Since 1984 there has been a concerted attempt to build up the level of international reserves as this is an indicator of the credit-worthiness of a country and will determine future long run inflows. To this end, resources made available through the rescheduling and refinancing of loans have been channelled into building up the level of reserves. As a consequence, the level of reserves amounted to US\$161.3 million at the end of 1986, higher than it has been for well over 15 years. Measured in months of imports it was 1.5 months of imports.

Estimates of private non-guaranteed external debt show that the size of this debt has been greatly reduced over the period 1972-1986. During 1972-1975 total debt outstanding grew steadily at approximately 9.8 per cent and peaked at US\$903.2 million in 1975. In the subsequent five years to 1980, the total private debt fell by 92 per cent to US\$75.0 million. Since 1980 there has been marginal increases in the level of private debt and at the end of 1986 it was estimated to be US\$95.0 million.

Having traced the growth of the external debt from 1972 to present, it is clear that apart from the structural dependency of the Jamaican economy on external refinancing and exogeneous international developments, the policies of the various political administrations since 1976, have led to unprecedented levels of accumulation of external indebtedness and has been one

of the causes of the current debt problem. It is a known fact that external borrowing is a necessary evil which has to be endured as a prerequisite to the development of Third World countries but it should always be borne in mind that the costs of borrowing increases in relation to the amounts borrowed and the terms under which new loans are contracted. The Jamaican experience shows us that as the debt crisis developed, the maturity profile of the loans shortened in direct contrast to what was really needed at the time. Increased borrowing will generate new inflows from loan disbursements and outflows for contracted debt service payments; the net benefit to the debtor country will therefore be the extent to which the loan and conditions of repayment will allow a net transfer of funds to the debtor country. I am of the view that need took precedence over prudent debt management in many instances of loan negotiations over the past fifteen years.

The Structure of the Jamaican Debt

It is now necessary after tracing the growth in the external debt to look at the structure of the debt in terms of creditors by institutional category and the maturity profile of the debt as these are both important considerations if one is to assess the economic consequences of the pattern of growth on external indebtedness.

In the early 1970's, the transnational commercial banks were the main source of loan funds as at this time, they were engaged in finding new markets for their surplus funds and thus Third World developing countries were a ready market. At the end of 1980, the share of commercial banks in total debt outstanding amounted to 26.0 per cent down from 40.3 per cent in 1978. Loans from official multilateral agencies were now the main source of loan funding accounting for 37.0 per cent of debt outstanding compared to 18.2 per cent in 1978. This was a period of increased exposure by institutions such as the IMF and the World Bank and IBRD and investments were mainly of a project-tied nature. It was the general feeling that structural adjustment was of utmost importance as without this there could be no improvement in the balance of payments. These institutions were willing to give balance of payments support as well as to assist in long-term structural adjustment programmes.

At this time also, the new political directorate was able to obtain funding from "friendly" Governments who were more than anxious for change in the socio-economic policies of the country. There was therefore a noticeable increase in the exposure of the bilateral institutions.

At the end of 1980, the main creditor institutions were the official multilateral agencies accounting for some 37 per cent of total outstanding debt. Commercial banks contributed 26 per cent, official bilateral agencies 25 per cent and other commercial 12 per cent.

By 1985, the structural adjustment which the multilateral agencies had anticipated had not yet taken place, and as a consequence, there were problems with the continued disbursements of some of these loans. More reliance was therefore placed on funding from the bilateral agencies. At the end of 1985, bilateral agencies were financing 42 per cent of the total debt stock compared to 25 per cent in 1980. Official multilateral agencies still maintained a relatively high level of exposure - 39 per cent of total debt stock, and there was a substantial cut back in commercial bank lending. They accounted for only 12 per cent of total loan funds compared to 26 per cent in 1980.

The pattern established in 1985 continued through to 1986 with the official bilateral institutions increasing their exposure as the main source of loan funds. At the end of 1986, bilateral institutions provided 51 per cent of the loan funds available while multilateral agencies provided 37 per cent and commercial banks 11 per cent. The present distribution of creditors by institutional categories allows the country greater flexibility in terms of debt management as more than 50 per cent of the external debt is now in a category that can either be rescheduled, refinanced or converted.

The maturity structure of the external outstanding debt shows that there has been a general shift towards shorter term loans over the past 15 years. This was not a deliberate strategy, but resulted from the type of financing which was available. In 1972, 30 per cent of the debt outstanding fell due between 1-10 years. By 1983 this this percentage increased to 60.2 per cent.

At the end of December 1983, 47.9 per cent of the outstanding stock of debt matured in the five years, compared to 7.0 per cent in 1972. Conversely, medium and long term debt comprised 52.1 per cent in 1983 compared to 92.4 per

cent in 1972. This structure reflects the increased utilization of commercial credits which when combined with the market plus interest rates associated with such credits suggests a bunching of debt service in the 1984 and 1989 period.

This type of maturity structure can have serious consequence for development and has in fact proven to be so; hence the increasing emphasis on rescheduling and refinancing of existing loans. Structural adjustment programmes require medium- to long-term financing. Short-term balance of payments support cannot in itself generate this type of change.

The Economic Consequences of the Growth in Jamaica's
External Debt between 1972-1986

The economic consequences of the growing external debt on the economy has to be assessed in terms of the impact on the balance of payments; the impact on fiscal accounts and the impact on broad macro-economic policies.

Increased outflows of foreign exchange to service new debts will impact firstly on the balance of payments accounts and can have negative influences which over time can be self reinforcing. Increased debt service payments can severely reduce the amount of foreign exchange needed to meet minimum import needs. If this problem continues unabated, this could lead ultimately to currency depreciation and restrictive monetary and fiscal policies aimed at depressing demand. This could then give rise to a vicious cycle of spiraling inflation and a continuous expansion of the external debt. In the Jamaican context, this is an ever-growing problem as the increase in external indebtedness is invariably accompanied by falling export earnings and higher import demands.

Impact on Balance of Payments Accounts

In the early 1970's, balance of payments developments were characterized by a continuous widening of the deficit on current account. In every year but one, during the period 1972-1980, the overall balance of payments has been in deficits averaging the equivalent of 9.5 per cent of Gross Domestic Product.

External borrowing in the earlier period was intended to provide the stimulus for structural adjustment whereby the economy would be able to improve its net export earnings significantly. In the post oil-shock period 1973, although the initial intention was not shelved, borrowing was geared towards financing growing food imports and the fuel bill.

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The expansionary social programme being pursued within the domestic economy during 1972 coupled with other external factors resulted in the authorities having to resort to very severe monetary policies. A sharp increase in consumer goods imports as well as a substantial decline in direct foreign investment caused the imposition of import restrictions and a devaluation of the Jamaican currency. Despite these corrective measures, the growing imbalance continued through to 1973. On the domestic side, there was an acceleration of credit expansion while on the external side, sluggish performance in the export sector depressed the level of export earnings. At the same time, the terms of trade deteriorated as the foreign prices of principal export products remained virtually stable and there was a rapid rise in import prices, particularly food and fuel.

By 1974, with all the ensuing domestic problems, there was an unprecedented level of Central Government borrowing on commercial terms as well as borrowing by the private and decentralized public sector with Government guarantee. The general feeling was that the international recession would be but temporary and export earnings would improve. Borrowing on commercial terms meant that there was a shortening of the maturity structure, higher interest rates and stricter terms and conditions. The implication of this type of borrowing was increased debt service payments and "bunching" in particular periods. The imposition of a bauxite production levy as well as improvements in the commodity prices for banana and sugar brought about an improvement in the terms of trade and a reduction in the current account deficit notwithstanding an increase in the level of imports. These occurrences together with the increase in the level of external borrowing resulted in a turnaround in the overall balance. At the end of 1974, gross official reserves were raised to the equivalent of 2.5 months of imports at the 1974

rate. Despite these improvements in the external accounts, between 1975-1977, the terms of trade deteriorated by 13 per cent stemming from a 20 per cent rise in import prices and a 4 per cent increase in export. Between 1977 and 1979 there was a slight ease as the increase in export prices were marginally higher than that of imports.

In the face of all these developments, the economy continued to experience rising domestic cost which impacted on the wider economy in increased demands for wages and improved social services. The response by the authorities was tighter trade and exchange control measures and a splitting of the foreign exchange market. These measures followed increased borrowing from the IMF and bilateral institutions.

These new inflows together with the depreciation of exchange rates resulted in an expansion in non-traditional exports by approximately 30 per cent between 1977 - 1979. This however, was not sufficient as the current account deficit and overall deficit each expanded from about 2 per cent of GDP in 1977 to 6 per cent in 1979. By the end of 1979, the economy was unable to meet international payment amounting to US\$55 million and the level of reserves was down to only one week's import payments.

During the five years from 1980 - 1984 Jamaica's external debt almost doubled as the economy began a new restructuring effort aided by large infusions of foreign assistance. As a result of these inflows, export earnings from non-traditional exports rose by 27 per cent over the four year period and tourism earnings by 76 per cent. The effects of these were however, substantially offset by declines in the level of export earnings from bauxite and alumina and sugar and bananas. As a result, total export of goods and services rose by only 3 per cent and the debt service capacity deteriorated significantly. Once again the economy had to resort to large

scale balance of payments support from official bilateral creditors, multilateral institutions and to a lesser extent commercial banks.

Since 1980 Jamaica received US\$60 million in balance of payments support from the US Government, US\$242 million from the World Bank. These inflows were, however, not enough to cover the current account deficits as well as repayments of external debt and as a consequence, Jamaica had to enter into rescheduling arrangements with commercial banks and official bilateral creditors. Debt relief from these sources totaled some 60 per cent of the cumulative current account deficits at the end of 1984.

Since 1984 there was a marked reduction in the level of external borrowing. This was achieved partly through a fall in the level of petroleum prices and international interest rates. On the domestic side, improved performances in the bauxite/alumina and tourism sectors, rescheduling exercises and private capital inflows were the main contributors. As a result of these factors, the current account deficit in the balance of payments narrowed sharply to US\$100 million from US\$250 million in 1985/86 or from 12 per cent of GDP to 4 per cent of GDP. For the first time in years the economy recorded growth in real GDP of approximately 4 per cent in contrast to a decline of 4 per cent in 1985/86 and inflation amounted to 8 per cent.

Projected

The review of the balance of payments performance during 1972-1986 shows that external factors exerted major influences in its development. In the earlier years 1972-1980 the injection of new foreign inflows had little or no impact on export earning potentials. In cases of marginal improvements in export earnings these were more than offset by increases in imports. At the same time, because of the shortening of the maturity structure of loans and an increase in interest payments there was a massive increase in the debt service. The net effect of the increase in borrowing over the period was an

expansion of domestic inflation which led to restrictive monetary and fiscal policies and resulted in more pressure on the balance of payments and thus the requirement for more foreign financing.

The period 1981 - 1986 there were more positive returns from increased external borrowing on our export earning potential. There were substantial improvements in the earning from non-traditional exports and tourism as particular emphasis was placed in these areas. The net effect of this was however, not significant as other external factor impacted on this. The successful rescheduling and refinancing of a part of the external debt also provide some relief on the balance of payment accounts. As a consequence the pressure for external financing abated somewhat, the current account deficit declined, the rate of domestic inflation declined and there was real growth in GDP.

Impact on Fiscal Accounts

The portion of the debt which is a direct liability to government apart from being a charge on the economy, is a direct charge on the fiscal budget. The servicing of interest on government's external debt reduces the resources available for recurrent expenditure on the provision of social and economic services, while the repayment of principal pre-empts resources from the capital budget which should be used for expansion of the economic and social infrastructure. As a result of this relationship, in the content of development, the benefits to be derived from new borrowing should exceed the debt service payment in the budget so as to effect a net transfer to the government from abroad.

During the 1970's, the expansionary fiscal policies of the government resulted in a growing deficit on the fiscal account of Central government and as a substantial portion of the fiscal deficit was financed by

external sources it had severe repercussions on the balance of payments accounts. Between 1972-1976 foreign funding was an important source of financing (approx. 50 per cent) and was mainly from transnational commercial banks. A significant portion of these new inflows, however, were used to finance the governments recurrent operations. As a significant portion of government's capital expenditure is related to foreign financed projects, the amortization of these growing debts resulted in increased pressure on the recurrent expenditure account. Amortization of these debt have in recent times accounted for up to 50 per cent of capital payments.

At the end of fiscal year 1985/86, total debt servicing amounted to J\$1,375.0mn. or ~~32~~^{35.8} per cent of total government expenditure up from J\$373.0mn. or ~~24~~^{17.6} per cent in fiscal year 1980/81. Over the period 1973-85, foreign financing of government's operations increased from 2.9 per cent of GDP to 11.1 per cent of GDP. It should be noted that a significant contributor to this level of increase has been the depreciation of the Jamaica currency; as during the period there has been a noticeable fall-off in the use of external financing. The net effect of the devaluations during the period has been the pre-empting of additional funds away from development projects to service the existing stock of debt plus new ones generated.

During the period 1980-1986, there has been a concerted effort by the administration to reduce the level of the budget deficit. At the end of fiscal year 1985/86, the budget deficit amounted to J\$659.6mn. as against J\$849.1mn. at the end of 1981/82 fiscal period. Over the same period the level of foreign financing moved from 59.3 per cent in 1981/82 to a negative 74.4 per cent, indicating net repayment of foreign debt during the period. Following a sharp rise in 1980/81 the central government deficit averaged about 15 per cent of GDP up to the end of 1983 and was further reduced to

^{5.5}
~~6.6~~ per cent of GDP in fiscal year 1984/85 through a cut in expenditure, an increase in revenue and the favourable impact of the depreciation of the Jamaican dollar. These developments are aided by the fall in oil prices as well as the successful rescheduling and refinancing of a portion of the debt.

Impact on broad macro economic policies

Movements in the balance of payments accounts and the fiscal accounts have to be compensated for by the use of broad macro-economic monetary policies. Developments during the period 1972-1986 have manifested this. Growing foreign exchange imbalances and rising fiscal deficits have led the authorities to utilize a series of restrictive monetary and foreign exchanges measures to try and counteract the imbalances.

These measures have included among others a cut back in the level of government expenditure, rising domestic prices, wage restrictions, devaluations increased taxation and an increase in interest rates. These have at varying times had serious repercussions on the domestic economy as they are all aimed at restricting the level of effective demand and generating higher productivity levels particularly in the export sectors.

The Jamaican experience between 1972-1986, has shown that as the debt burden increases, external as well as internal factors result in an even greater need for foreign funds. To the extent that the new inflows do not result in increased output this will always be a problem, and the continuous use of restrictive monetary policies can have serious social consequences and a negative impact on economic development.

CONCLUSION

Ideally, the economic consequences of an increase in the level of external indebtedness should be positive for the whole exercise to be beneficial. Jamaica in the early seventies through to the early eighties

relied heavily and rightly so on this source of financing. However, the net benefits which should have accrued to the economy were not all realized.

A number of factors were responsible for these shortfalls both externally and internally. The external factors have already been enumerated, they include worldwide recession, fall in export demand and a fall in the bauxite and alumina industry. On the domestic side, the inflows of new foreign exchange were not utilized in a manner which would result in the maximum rate of return. Throughout the seventies, the fiscal programmes were such that the emphasis was on social programmes which would increase aggregate demand and induce increase output and employment. Despite stop-gaps to iron out the kinks in the system, the level of inflation soared and the demands on the budget increased for the financing of more social programmes. The injection of foreign funds had very little overall positive effects on the export earning capacity of the country.

Over the past five years, the new administration utilized new foreign inflows primarily in the export generating sectors. As a result, there has been a significant increase in the area of non-traditional export earnings. This, together with falling oil prices and a significant expansion in the tourism sector has resulted in an improvement in the current account deficit of the balance of payments. The full impact of these positive movements was, however, partly offset by a decline in the earnings from bauxite/alumina. For the period 1984-1986, it is interesting to note that whereas the rate of growth in net external borrowing has declined, there has been indications of improvements in the overall economy. For the first time in many years, the GDP has recorded positive real growth in 1984 of between 3.4 per cent, the level of inflation has been substantially reduced to approximately 8 per cent; there has been an improvement in the balance of payments deficit and a reduction in the level of the fiscal deficit.

These new developments could well be an indication that Jamaica has reached a stage where the incremental gains from external financing have been diminishing and the economy is now at a point where it can generate self propelled growth with tight monetary and fiscal policies and substantially reduced foreign inflows.

STATISTICAL APPENDIX

Table 1	External Public Debt Operations and Indicators 1970-1986
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TABLE 1

JAMAICA: EXTERNAL PUBLIC DEBT OPERATIONS AND INDICATORS
US\$mn.

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
1. Total Debt (End of Period)	154	688	1,734	2,212.0	2,690.0	2,920.0	3,207.0	3,355.0	3,580.0
Government Direct	-	-	865.1	1,091.1	1,447.0	1,643.0	1,776.7	1,841.0	2,218.0
Govt. Guaranteed	-	-	322.4	306.6	295.1	269.2	294.5	330.8	287.0
Bank of Jamaica	-	-	546.5	814.3	947.9	1,007.8	1,135.8	1,183.2	1,075.0
2. Debt Service (Accrual Basis)	14	83	341.0	574.0	555.0	573.0	736.0	734.0	821.0
3. Debt Service (Actual Payments)	14	83	263.0	438.0	409.0	372.0	394.0	490.0	598.0
4. Export of Goods and Services	538	1,123	1,421	1,500.0	1,394.0	1,332.0	1,378.0	1,198.0	1,392.0

PERCENTAGES

5. Total Debt/ GDP Ratio	15.8	31.2	82.2	105.0	128.5	140.5	135.3	154.1	147.8
6. Total Debt/ XGS Ratio	28.6	63.4	122.0	147.5	193.0	219.2	232.7	280.1	257.2
7. Debt Service Ratio (Accruals)	2.6	7.4	24.0	38.3	39.8	43.0	52.7	61.3	58.9
8. Debt Service Ratio (Actual)	2.6	7.4	18.5	29.2	29.3	27.9	28.6	40.9	42.9
9. Interest Payments Ratio	1.5	4.4	10.8	12.5	15.9	14.6	13.5	24.7	18.0

SOURCE: BANK OF JAMAICA
WORLD BANK - DEBT TABLES

TABLE 2

CREDITORS BY INSTITUTIONAL CATEGORY (1980/85/86)

	<u>1978 Debts Outstanding US\$mn.</u>	<u>% of Total</u>	<u>1980 Debts Outstanding US\$mn.</u>	<u>% of Total</u>	<u>1985 Debts Outstanding US\$mn.</u>	<u>% of Total</u>	<u>1986 Debts Outstanding US\$mn.</u>	<u>% of Total</u>	<u>1987 Debts Outstanding US\$mn.</u>	<u>% of Total</u>
1. Commercial Banks	414	40.4	440	26.0	393	12.0	388	11.0	400	11.0
2. Official (Bilateral)	310	30.3	420	25.0	1,417	42.0	1,809	51.0	1,800	51.0
3. Official (Multilateral)	186	18.2	620	37.0	1,313	39.0	1,294	37.0	1,300	38.0
4. Others	113	11.1	204	12.0	232	7.0	79	1.0	-	-
Total	<u>1,023</u>	<u>100.0</u>	<u>1,684</u>	<u>100.0</u>	<u>3,355</u>	<u>100.0</u>	<u>3,520</u>	<u>100.0</u>	<u>3,500</u>	<u>100.0</u>

SOURCE: BANK OF JAMAICA

TABLE 3

EXTERNAL DEBT - MATURITY PROFILE

	<u>1972</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
1 - 5 years	7.0	7.7	12.8	20.6	17.4	21.8	25.0	44.1	47.9
6 - 10 years	23.0	33.7	28.8	22.8	24.9	24.8	27.3	20.6	12.6
11 - 15 years	14.7	33.1	30.7	22.7	20.0	15.4	14.0	19.3	27.6
15 years	<u>55.2</u>	<u>25.5</u>	<u>27.8</u>	<u>33.9</u>	<u>37.7</u>	<u>38.0</u>	<u>33.7</u>	<u>16.0</u>	<u>11.9</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

SOURCE: BANK OF JAMAICA

TABLE 4RESCHEDULED DEBTS 1981 - 1986

	<u>Commercial Banks</u>	<u>Bilateral Agencies</u>	<u>Total</u>
1981	40.1	95.7	135.8
1982	42.2	104.7	146.9
1983	58.8	142.7	201.5
1984	87.9	243.8	331.7
1985	95.6	185.0	280.6
1986	92.0	171.1	263.1

SOURCE: BANK OF JAMAICA

TABLE 5

BALANCE OF PAYMENTS 1960 - 1984 (Continued)

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Merchandise	-141.6	-177.3	-117.6	-159.3	-135.2	83.9	44.5	-67.9	-75.4	-322.7	-441.5	-438.5	-291.7	-435.6
Exports (f.o.b.)	353.8	392.9	693.8	810.3	656.4	750.6	794.5	814.7	962.7	974.0	767.4	685.7	745.3	568.6
Imports (f.o.b.)	495.4	570.2	811.4	969.6	791.6	666.7	750.0	882.6	1,038.1	1,296.7	1,208.9	1,124.2	1,037.0	1,004.2
Services (net)	-21.7	-29.8	-72.8	-149.6	-173.4	-138.5	-156.9	-154.7	-181.7	-138.4	-96.8	-143.5	-118.7	-81.4
Foreign Travel	87.2	99.4	97.4	76.2	46.9	93.7	136.4	184.5	228.9	270.6	306.1	374.3	386.6	375.3
Investment Income	-50.5	-58.1	-67.6	-102.8	-112.3	-128.6	-178.6	-202.6	-251.7	-201.5	-183.5	-266.1	-301.8	-305.7
Other	-58.4	-71.1	-102.6	-123.0	-108.0	-103.6	-114.7	-136.6	-158.9	-207.5	-219.4	-251.7	-203.5	-151.0
Goods & Services (net)	-163.3	-207.1	-190.4	-308.9	-308.6	-54.6	-112.4	-222.6	-257.1	-461.1	-538.3	-582.0	410.4	-517.0
Unrequited Transfers (net)	26.1	26.4	23.4	26.2	6.0	20.0	25.7	80.0	90.8	124.3	150.4	101.5	120.6	221.2
Private	32.4	33.8	32.5	21.0	2.0	15.1	15.2	70.0	81.8	123.3	134.5	94.7	80.4	153.2
Official	6.3	-7.4	-9.1	5.2	4.0	4.9	10.5	10.0	9.0	1.0	15.9	6.8	40.2	68.0
Current Account Balance	-137.2	-180.7	-167.0	-282.7	-302.6	-34.6	-86.7	-142.6	-166.3	-336.8	-387.9	-480.5	-289.8	-295.8
Net Capital Movements	70.0	137.1	243.2	280.9	126.7	34.3	-78.5	-10.2	107.1	225.4	465.6	190.5	482.7	237.1
Official	21.8	36.7	90.1	124.2	79.2	2.9	167.5	65.7	187.4	240.2	446.0	300.7	362.9	68.9
Private	48.5	100.4	153.1	84.7	47.5	31.4	-246.0	-75.9	-80.3	-14.8	19.6	-110.2	119.8	168.2
Allocation of SDRs	5.5	-	-	-	-	-	-	10.0	10.0	10.0	-	-	-	-
Change in Reserves	59.6	25.9	-59.5	80.8	180.9	30.5	165.8	137.4	57.8	95.6	-86.0	289.1	-225.7	72.6
Net Errors & Omissions	2.1	-17.7	-16.7	-7.0	-5.0	-30.2	-0.6	5.4	-8.6	5.8	8.3	0.9	32.8	-13.9

1/ Provisional

TABLE 6

JAMAICA: TERMS OF TRADE(INDEX 1974 = 100)

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Unit value of exports ^{1/}	71	65	100	143	149.5	157.7	163.4	187.4	219.2	218.4	214.5	196.8
Unit value of imports	69	74	100	117	124.4	138.9	139.7	160.3	204.3	216.4	218.6	210.9
Terms of Trade	103.0	88.0	100	122	120.2	113.5	117.0	116.9	107.3	100.9	98.1	93.3

^{1/} Provisional

TABLE 7

GOVERNMENT - REVENUE AND EXPENDITURE ACCOUNT

	<u>ISmn.</u>													
	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
Revenue	292.3	366.6	587.1	697.9	730.5	762.4	1,137.2	1,292.2	1,432.0	1,173.4	1,820.5	2,020.3	2,955.0	3,150.7
Expenditure	359.7	446.5	717.3	955.8	1,153.0	1,195.8	1,599.1	1,686.2	2,123.0	2,480.9	2,676.4	3,052.2	3,410.0	3,843.8
Overall Balance	-67.4	-79.9	-130.2	-257.9	-422.5	-433.4	-461.9	-394.0	-691.0	-707.5	-855.9	1,031.9	455.0	-659.6
Financing	83.8	79.9	130.2	257.9	422.5	433.4	461.9	394.0	691.0	707.5	855.9	1,031.9	455.0	659.6
Net Foreign Financing	19.1	53.9	55.2	99.4	86.2	21.1	283.5	115.0	212.2	503.6	375.6	410.3	1,045.0	636.7
Net Domestic Financing	64.7	26.0	75.0	158.5	336.3	412.2	178.4	279.0	478.8	203.9	480.3	621.6	-590.0	22.9
	<u>PERCENT OF GDP</u>													
Revenue	17.1	19.5	24.9	26.0	26.3	24.0	29.3	29.4	29.5	33.0	30.9	27.7	31.2	26.2
Expenditure	21.1	23.8	30.5	35.6	41.4	37.6	41.1	38.4	43.7	46.2	45.4	41.8	36.0	32.0
Overall balance	-3.9	-4.3	-5.5	-9.6	-15.2	-13.6	-11.9	-9.0	-14.2	-13.2	-14.5	-14.1	-4.8	-5.5
Foreign Financing	1.1	2.9	2.3	3.7	3.1	0.7	7.3	2.6	4.4	9.4	6.4	5.6	11.1	5.3
Domestic Financing	3.8	1.4	3.2	5.9	12.1	12.9	4.6	6.4	9.8	3.8	8.1	8.5	-6.3	0.2

TABLE 8

ELECTED ECONOMIC INDICATORS - 1970/71 - 1987/88

	1970/ 1971	(a) 1971/ 1972	(a) 1972/ 1973	(a) 1973/ 1974	(a) 1974/ 1975	(a) 1975/ 1976	(a) 1976/ 1977	(a) 1977/ 1978	(a) 1978/ 1979	(a) 1979/ 1980	1980/ 1981	1981/ 1982	1982/ 1983	1983/ 1984	1984/ 1985	1985/ 1986	1986/ 1987
1. GDP Growth Rate (Real) %	9.9	4.2	6.5	-1.6	-3.1	-1.9	-5.3	-1.7	-0.1	-2.4	-3.6	1.9	1.5	1.7	-1.4	-3.7	3.7
2. National Savings to GDP Ratio	26.7	23.3	19.9	19.6	14.5	13.9	9.9	12.6	16.8	16.4	12.8	10.0	9.6	13.5	13.2	11.2	14.3
3. Total Investment to GDP Ratio	31.7	30.7	28.6	29.4	24.8	23.9	16.8	13.2	16.3	18.1	17.0	20.8	21.3	22.7	24.0	23.1	18.2
4. Public Sector Investment to GDP Ratio																4.7	6.4
5. Import/GDP Ratio	36.5	35.3	33.8	36.1	40.0	37.9	28.8	27.6	36.6	34.2	43.9	49.1	42.6	40.8	54.0	48.6	39.5
6. Growth of Imports (c.i.f.) %	14.1	6.4	9.7	29.6	37.4	9.6	-20.0	9.3	63.1	29.0	18.7	23.8	-6.5	-9.1	-3.5	-15.3	-0.2
7. Growth Rate - Exports (f.o.b.) %	13.2	0.3	8.9	32.0	71.3	-8.7	-7.2	18.9	66.9	14.6	26.5	-11.9	-17.4	-1.7	-6.7	-19.9	3.6
8. Inflation Rate (i.e. point-to-point - i.e. rate comparable to 7.7% for FY 1986/87)	7.9 ^(d)	5.0 ^(d)	11.7	30.7	16.3	10.8	9.6	16.6	45.4	25.4	19.6	6.7	8.8	21.0	29.7	19.7	9.4
9. Balance of Payments Current A/c Deficit to GDP Ratio	-10.9	-10.4	-12.6	-10.4	-5.6	-10.0	-7.8	-2.0	-3.3	-5.9	-6.9	-14.6	-15.7	-9.2	-10.6	-11.9	-3.9
10. Current A/c Deficit (Value - US\$m)	-157.8	-178.4	-209.4	-208.7	-139.6	-287.8	-237.5	-44.1	-72.2	-145.7	-189.0	-438.0	-541.0	-279.0	-239.0	-253.0	-101.8
11. Balance of Trade (Value - US\$m)	-178.8	-230.8	-214.1	-269.4	-216.0	-380.2	-213.3	-109.6	-127.7	-262.0	-192.1	-599.2	-737.0	-528.9	-548.1	-495.0	-435.0
12. Balance of Trade Deficit to GDP Ratio	-12.4	-13.3	-12.9	-13.4	-8.7	-13.2	-7.0	-4.9	-5.8	-10.5	-7.0	-19.9	-21.4	-17.2	-24.2	-23.3	-16.6
13. Balance on Goods and Services A/c - (US\$m)	-166.2	-147.1	-174.3	-202.9	-220.0	-308.9	-245.2	-69.1	-140.0	-231.3	-380.1	-562.0	-691.0	-432.0	-386.0	-408.0	-250.0
14. Balance on Goods and Services A/c - GDP Ratio	-11.1	-8.5	-10.5	-10.1	-8.9	-10.7	-8.1	-3.1	-6.4	-9.4	-11.3	-18.7	-20.0	-14.1	-17.1	-19.2	-9.5
15. Reserve Change (US\$m) (Increase = -)	-39.4 ^(d)	22.0 ^(d)	47.9 ^(d)	-69.8 ^(d)	39.1 ^(d)	188.7 ^(d)	14.5 ^(d)	62.4 ^(d)	165.9 ^(d)	-80.0 ^(d)	152.0	-43.0	220.0	-448.0	-497.0	76.0	-55.0
16. Fiscal Deficit to GDP Ratio	-3.0	-3.9	-4.5	-6.0	-7.8	-10.3	-15.3	-15.2	-16.4	-16.8	-16.5	-15.8	-14.1	-15.8	-6.3	-5.5	-2.6
17. Overall Public Sector Deficit to GDP Ratio (1980/81 - 1987/88)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-17.8	-15.9	-15.7	-19.6	-15.1	-13.6	-6.4
18. Money Supply Growth (M2)	17.2	16.0	15.2	10.9	7.9	15.7	13.9	19.2	9.8	19.1	17.6	22.5	24.5	22.4	17.7	26.1	17.0
19. Debt Service Ratio	3.6 ^(c)	4.9 ^(c)	5.0 ^(c)	5.4 ^(c)	7.0 ^(c)	13.9 ^(c)	19.7 ^(c)	21.6	22.9	20.9	29.5	28.6	45.8	45.6	55.2	61.1	65.4
20. Debt to GDP Ratio	6.5	7.3	10.0	12.8	10.7	14.0	16.4	18.2	32.3	32.4	34.0	71.1	73.3	91.1	136.2	160.7	130.0

Notes: (a) Fiscal year estimates of GDP for period 1970/71 to 1979/80 obtained from 3/4, 1/4 estimate of calendar year data;

(b) Kingston Metropolitan Area only;

(c) Relates only to Public Debt Service ratio for calendar years 1970-1977, (d) Calendar years 1971-1980

SOURCE: BANK OF JAMAICA

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