Discussion of:
Sustained Debt Reduction:
The Jamaica Exception
by Arslanalp, Eichengreen, and Henry

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The Jamaica Exception

• This is a fascinating paper
  • Documents Jamaica’s large public debt-to-GDP reduction: 143% in 2012 to 77% in 2022
  • Finds that debt reduction was achieved through large primary surpluses
  • Careful narrative discussion of how large primary surpluses were sustained through:
    (i) Fiscal rules that were credible, ambitious, but not overly rigid
    (ii) Consensus building and fair burden sharing
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• My comments:
  1. Understanding how Jamaica did it
  2. Jamaica’s experience compared to other large debt reductions
1. Understanding How Jamaica Did It
Jamaica: Government Debt-to-GDP

Source: WEO database.
Jamaica: Government Debt-to-GDP and Primary Surplus

Source: WEO database.
What Changed After 2012?

- Primary surpluses were large already in the 2000s. Why did sustained debt reduction only begin after 2012?

- Extend debt dynamics decomposition back to 2006

\[ \Delta b_t = d_t + \frac{(r_t - g_t)}{1 + g_t} b_{t-1} + \frac{z_t a_t}{(1 + g_t)(1 + p^*_t)} b_{t-1} + \frac{(p_t - p^*_t) a_t}{(1 + g_t)(1 + p_t)(1 + p^*_t)} b_{t-1} + \text{residual}_t \]

- \( d \) = primary deficit
- \( r \) = real interest rate
- \( g \) = real GDP growth rate
- \( z \) = real exchange rate depreciation
- \( a \) = share of FC denominated debt
- \( p \) = growth rate of GDP deflator; \( p^* \) = growth rate of US GDP deflator
Debt Dynamics Decomposition

Source: WEO database and own calculations.
Debt Dynamics Decomposition

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary deficit</th>
<th>Real interest rate</th>
<th>Real GDP growth</th>
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Source: WEO database and own calculations.
How Did Jamaica Reduce Debt Starting in 2013?

1. Increase in primary surplus?
   - To some extent, from 2011 (3.2%) to 2013 (>7.5%)
   - But primary surpluses were also very large in 2000s

2. \( r - g \) differential?
   - Bad \( r - g \) realization in 2009, but otherwise \( r - g \) stable

3. Foreign currency debt and depreciation?
   - Matters in some years, though not substantially worse in 2000s

4. Residual?
   - This seems to be an important part of the story. What’s in the residual before 2013?
   - Bad residuals in 2000s: extra-budgetary expenditures, contingent liabilities, losses on SOEs...
   - Measurement issues: Surpluses overstated in 2000s?
   - Understanding this matters for the story, since this is the main component that changed after 2010-13, when fiscal rules and EPOC introduced
   - Perhaps there is more fiscal consolidation than the paper claims
2. Jamaica’s Debt Reduction in an International Perspective
Jamaica’s Debt Reduction in International Perspective

- How does Jamaica compare to other large sustained debt reductions?
- Identify episodes of > 20 percentage point reduction in government debt-to-GDP over a 5-year period in the WEO database
- Exclude reductions accompanied by a default/haircut
- Episodes:
  (i) $N = 38$ episodes with complete data coverage (advanced+emerging, starting in 1990)
  (ii) Also consider $N = 6$ emerging market country episodes with complete data coverage reported in Table 1 of the paper
Event Study of Large Debt Reductions

Government Debt-to-GDP (normalized)

Year Relative to Large Debt Reduction

- Large debt reductions (N=38)
- Large debt reductions in EM/DC since 2000 (Table 1, N=6)
- Jamaica (time 0=2013)
Event Study of Large Debt Reductions

Real GDP Growth, g (%)

Real Interest Rate, r (%)

r-g (%)

Primary-surplus/GDP (%)

Large debt reductions (N=38)
Large debt reductions in EM/DC since 2000 (Table 1, N=6)
Jamaica (time 0=2013)
In 2016, Jamaica’s primary surplus-to-GDP was only surpassed by Kiribati, Tuvalu, Iceland, Dominica, and Macau (average population: 255 thousand)
Why Did the Jamaican Public Not Revolt?

- Improving social indicators after 2012, despite low growth
- Poverty rate:
  2012=14.4%, 2017=13.3%
- Gini:
  2012: 39.9%, 2017=37.5%
- Consistent with paper's argument of fair burden sharing
Final Remarks

• Very interesting paper on a remarkable episode of sustained government debt reduction

1. Fiscal consolidation around 2010-13 may have been more important than argued in the paper
   • See also IMF (2023)

2. Reducing debt with primary surpluses in excess of 5% is exceptional in an international perspective
   • Recent large sustained debt reduction have mostly occurred through favorable $r - g$ dynamics