

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

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MIT & NBER

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# The Jamaica Exception

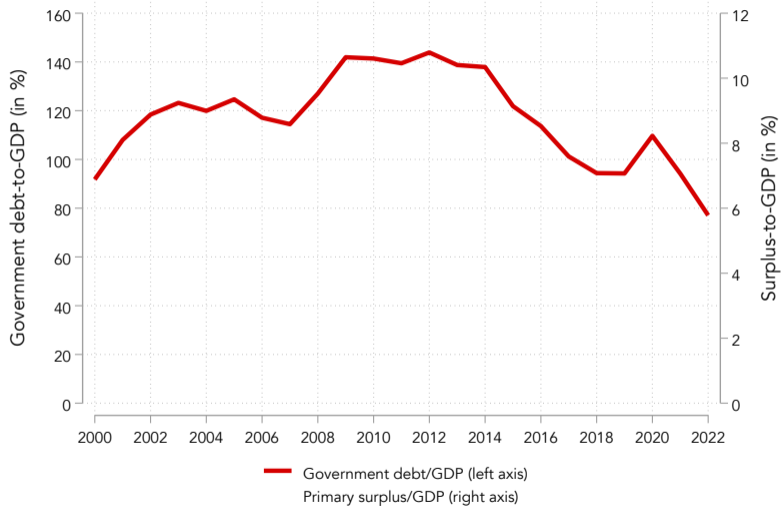
- This is a fascinating paper
  - Documents Jamaica's large public debt-to-GDP reduction: 143% in 2012 to 77% in 2022
  - Finds that debt reduction was achieved through large primary surpluses
  - Careful narrative discussion of how large primary surpluses were sustained through:
    - (i) Fiscal rules that were credible, ambitious, but not overly rigid
    - (ii) Consensus building and fair burden sharing

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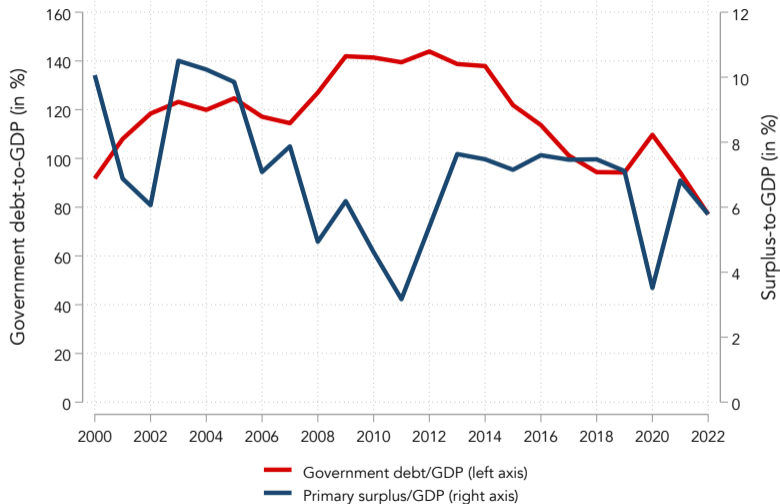
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- My comments:
  1. Understanding how Jamaica did it
  2. Jamaica's experience compared to other large debt reductions

# 1. Understanding How Jamaica Did it

## Jamaica: Government Debt-to-GDP



# Jamaica: Government Debt-to-GDP and Primary Surplus



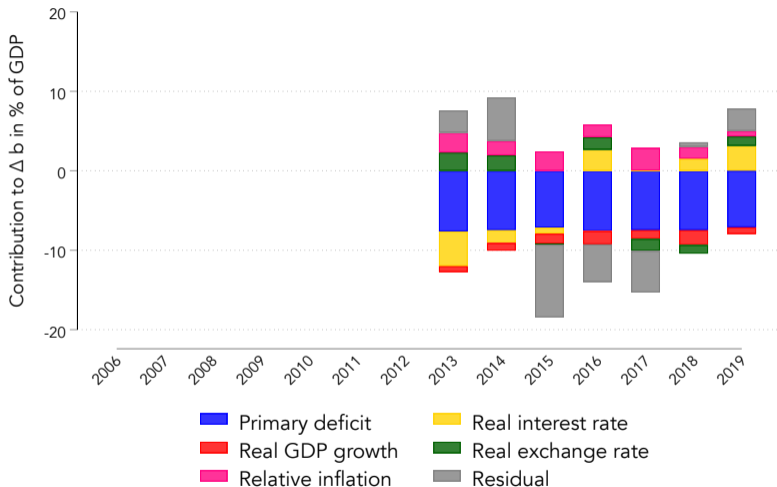
## What Changed After 2012?

- 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

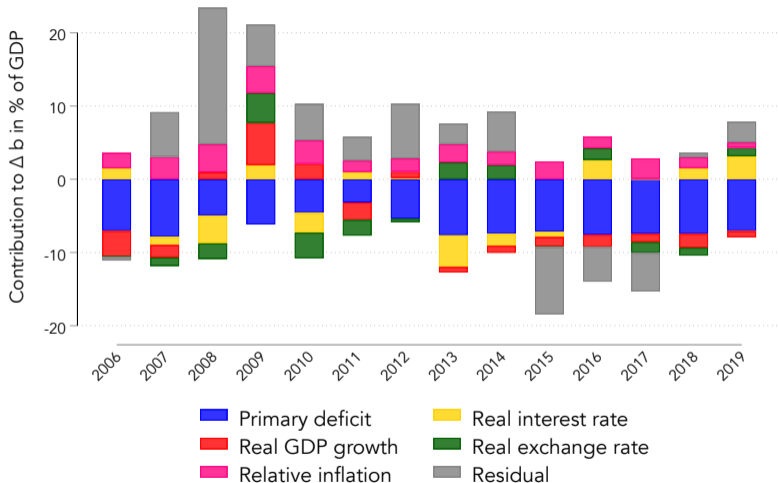
# Debt Dynamics Decomposition



Source: WEO database and own calculations.



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# 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

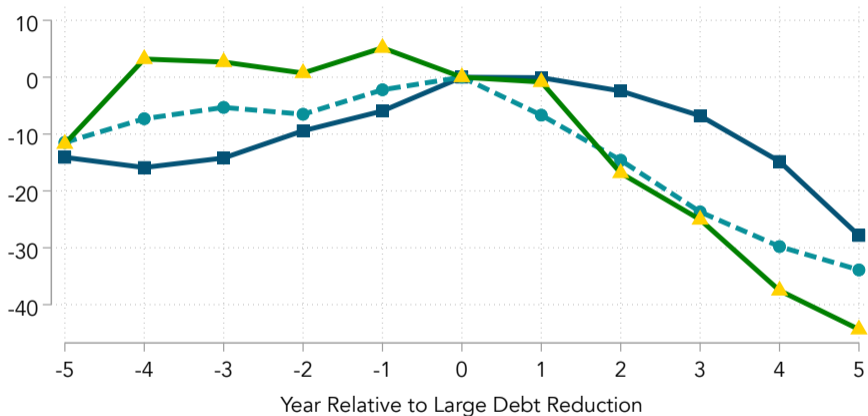
## 2. Jamaica's Debt Reduction in an International Perspective

# 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  
Cruces-Trebesch (2014), Asonuma-Trebesch (2016)
- 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

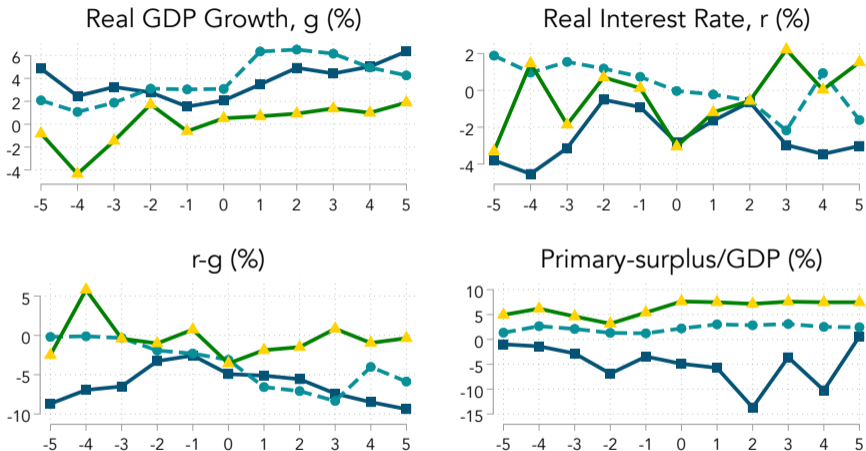
# Event Study of Large Debt Reductions

## Government Debt-to-GDP (normalized)



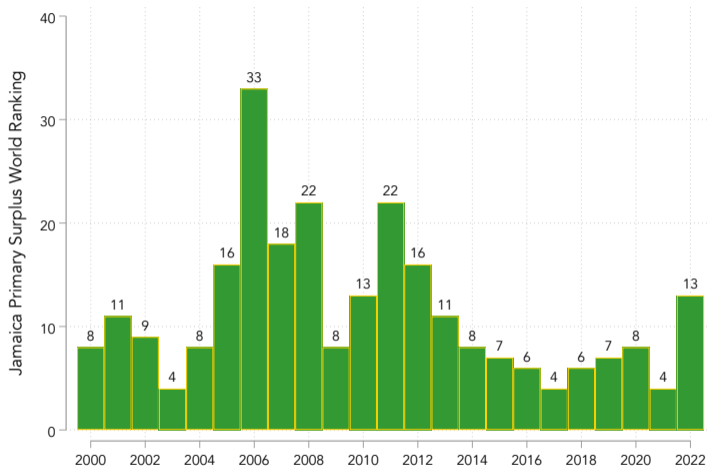
- Large debt reductions (N=38)
- Large debt reductions in EM/DC since 2000 (Table 1, N=6)
- ▲ Jamaica (time 0=2013)

# Event Study of Large Debt Reductions



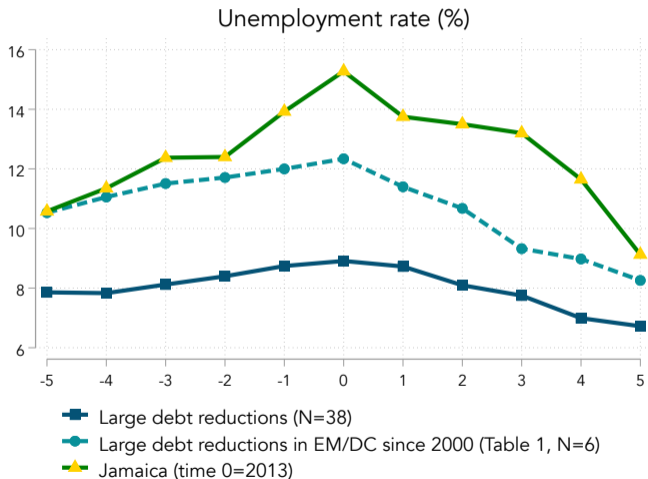
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## Jamaica's Primary Surplus World Ranking



- 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