



***RETHINKING POLICY TO ADDRESS LOW GROWTH AND HIGH DEBT IN
THE CARIBBEAN***

REMARKS BY DR. W^M. WARREN SMITH

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the

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Madam Chair; Prime Ministers; Premiers; Chief Ministers; Ministers of Finance;

Distinguished Guests; Ladies and Gentlemen:

It is a great honour to be asked, along with the Minister of Foreign Affairs of Trinidad and Tobago and the Deputy Managing Director of the International Monetary Fund, to welcome you, this morning, to this very important discourse on the subject “Rethinking Policy to Address Low Growth and High Debt in the Caribbean.” I believe that it would be difficult to argue with the relevance of this topic if our objective of improving the lives of working people in Caribbean countries.

Most of us, perhaps, would subscribe to the view that our world continues to be characterised by deep uncertainty. The depth and severity of the global financial and economic crises pose a clear and present danger to the livelihoods of most Caribbean people and have given the lie to those forecasts which anticipated a “normal” business cycle-type recovery.

Even the few Caribbean economies which, driven by surging demand in the fast-growing economies of the Far East and South America, were able to ride the wave of escalating commodity prices, now face the prospect of slowing growth as the debt crisis in Europe and anemic growth in the United States begin to adversely affect these dynamic poles of growth. For the first time in close to half a century, our Region and the rest of the world face a collective vulnerability whose redress requires collective action.

Surmounting this challenge requires that we turn a new page. We must assemble fresh ideas and novel approaches to resolving old issues and for tackling new challenges.

I am of the view that the optimal strategy in these circumstances calls for a broad-based collective and collaborative response. Ultimately, we need the private sector, government, civil society, labour and the donor community at the table. We are more likely to succeed, as a Region, if we share our burdens and learn from the experiences of our Caribbean neighbours.

Finding appropriate solutions also entails a willingness to study carefully and to draw relevant lessons from global experiences. I am, therefore, heartened that our deliberations over the next few days eschew parochialism and embrace the broader international spectrum.

The Caribbean Development Bank's partnership with the IMF in this Conference is itself on the ethos of cooperation and collaboration.

It is my hope that the discussions around the conference theme will underscore the lesson that, daunting as the challenges are, our willingness to adopt the right policy actions to enable us, as a Region, in time, to arrive at a better place.

Above all, it is my expectation that we will leave Port of Spain with a much better understanding of how to come to grips with the "unholy trinity" of financial sector fragility, fiscal and debt sustainability, and low or anemic growth.

Let me highlight quickly, some recent efforts by CDB to address each component of this trinity.

First, to strengthen financial sector stability in the ECCU area, CDB is working closely with the Eastern Caribbean Central Bank, the IMF, and the World Bank to fully understand the dimensions of the financial sector issues in the sub-region and to design a strategy that is both credible and sustainable.

Our goal is an ECCU defined by strong, resilient financial institutions, undergirded by a strengthened regulatory framework that is appropriate to the heightened risk characteristic of today's international environment. This will represent an important bulwark against financial sector crises which inevitably morph into fiscal and debt crises.

Second, fiscal and debt sustainability has become a much studied and multi-faceted problem. A recent unpublished work by CDB entitled "Public Sector Debt in the Caribbean: An Agenda for Reduction and Sustainability" has underscored the significance of off-balance sheet or contingent liability-related expenditures in sovereign debt accumulation. Indeed, in some instances, this phenomenon accounted for as much as 75% of the increase in national indebtedness. Designing

policy to effectively mitigate these risks will have to feature prominently in any effort at successful debt management.

The **final** strand of the trinity - low growth - represents a perennial problem in some regional economies. While recognising that there are other determinants, I wish to draw attention to the well established nexus between low growth and high debt. CDB has been working with other development partners to promote 'conversations on growth' across the Region.

The World Bank, the Inter-American Development Bank, CIDA, DFID, UWI and CARICOM are strong supporters of the Caribbean Growth Forum. The Growth Forum seeks to engage stakeholders from across the Caribbean and representatives from 'successful small countries' in dialogue about strategies that can unlock our Region's growth potential. Based on the overwhelming response by stakeholders when the Forum was launched in Jamaica a few months ago, I am anticipating very positive results from follow-up activities scheduled for the rest of 2012 and 2013.

So ladies and gentlemen, I conclude where I began.

I am convinced that the challenges confronting our region are surmountable. That said, sustainability of an upward growth trajectory demands that policymakers commit to pursuing credible policies, and to securing full stakeholder support by engaging them in early dialogue.

The task ahead of us is a mammoth one. But I am confident that our Region can rise to that challenge.

Therefore, I am looking forward to an engaging and rich dialogue over the next day and a half.

I expect that we will dig deep and draw on our collective experiences.

I anticipate that we will debate fully the merits and demerits of various options and appropriate responses available to this Region.

And I am satisfied that we will leave here with a better understanding of the role that development partners like the IMF and CDB can play in assisting every country in this Region to realise its development potential and create the right conditions for a sustainable reduction in poverty.

I thank you.