Statement

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Outline
Good morning all: journalists, colleagues, members of the audience including those who are online. My presentation will begin by looking at the Global Picture followed by an overview of regional economic performance. I will end by sharing our vision for the Caribbean economy and some policy prescriptions to help us get there, emphasising why—as a Region—we need to take urgent action now.

First the Global Picture
2016 proved to be a difficult year for economies around the world. Advanced economies’ output growth decelerated; emerging markets stagnated and the Latin America and Caribbean region declined. Collectively this amounted to a slight deceleration in global growth. However, modest acceleration in global output is expected in 2017. The uptick in global growth is expected to be supported by a return to positive growth in Latin America and the Caribbean, following a marginal decline in 2016, as well as strengthening of economic activity in the rest of the world.

The way forward for the global economy is marked by some profound risks - Global outlook is shaped by subdued recovery and weak trade. The pace of US economic growth is expected to increase but with risks due to an uncertain policy environment and a Bull market that is now
long in the tooth. China is rebalancing and the full impact of BREXIT is still not known.

But there are some opportunities as well. Continued low levels of commodity prices, albeit with a mild recovery in recent months, and advancement in Artificial Intelligence, could improve productivity and lead to the creation of new industries. Prospects for emerging markets are expected to strengthen as several economies currently in recession (Brazil, Russia) are expected to recover gradually.

Let Me Now Turn To The Regional Picture – Where Are We and Where Are We Going?

Most of CDB’s borrowing member countries’ economies grew in 2016, but there were contractions also. The mainly service oriented economies of the Bank’s BMC’s recorded positive growth in 2016; while the predominant commodity exporters, except Guyana, contracted. Belize recorded a modest decline while significant contractions were recorded in Trinidad and Tobago (5%) and Suriname (9%). Average growth across the region was -0.9%, compared with 0.4% in 2015.

Our purpose as a development bank is summed up in the words of CDB’s first president, Sir Arthur Lewis, “the conditions under which people live.” So with unemployment remaining unfortunately high in
most countries, we are forced to ask ourselves some serious questions – namely; What is the cause of this high unemployment? High unemployment continues to be a challenge for most countries in the region and even in those countries with comparably low unemployment rates, the notion of underemployment is a consideration. The unemployment outturn for 2016 was mixed across the BMCs with most countries for which data is available showing declines. In particular, unemployment declined markedly in Saint Lucia due to increased construction sector activity. But at 20%, it is still too high. In Trinidad and Tobago the trend is heading in the wrong direction. In addition to what is reflected on the slide here, we must recognize the high unemployment among the youths of the region with rates close to 30% and higher. This perhaps explains the uptick in crime in some countries. Employment of women also lags that of men leading to higher levels of poverty amongst female-headed households.

So we must begin to ask ourselves some fundamental questions about our social and economic progress. Growth is still consistently lower than in other Small Island Developing States. Even as the region recorded positive growth in past years, it continues to lag behind other small states. It might be necessary to find out what some of these states are doing right, since small size alone does not seem to be a constraint.
Our BMC economies are either commodity based or service oriented specifically, tourism. Analysis shows us that commodity prices are still relatively low and the pace of growth in visitor arrivals has decelerated. Despite the recent uptick in crude oil and natural gas prices following the OPEC decision in November to cut supply, these prices are still relatively low. The price of gold has also recorded a steady decline in recent months. In the case of tourist arrivals, assuming observed growth rates persisted through to the end of the year, then 8.3m overnight visitors are estimated to have visited the BMCs in 2016. This is an increase of about 1.7% over 2015. However, this compares poorly with 4% in 2015, and with 5.9% in 2014.

In addition to this, the ability to do business has deteriorated in most BMCs. Doing business in the region continues to be plagued by our economies’ lack of competitiveness and, with the exception of Guyana, which moved up 16 places to 124 in the World Bank 2017 Global Doing Business ranking, all other territories lost ground. Guyana benefited from reforms particularly related to the advancement in the use of its credit bureau. However, an aggressive and ownership-driven reform agenda puts Jamaica as consistently the best regional performer in the doing business ranking; notwithstanding the slight fallback in ranking in 2017 relative to 2016. Overall, the region’s ranking fell three places to 120 in 2017.
There is a correlation between adverse doing business conditions and weak economic performances which ultimately leads to a cocktail of fiscal pressures and high debt. The region continues to be characterized as an area of low economic growth and high public debt. More than half of the BMCs are saddled with debt ratios in excess of 60 percent of GDP (the level at which debt becomes a drag on growth). Looking at the comparable data between 2015 and 2016, only five territories were able to reduce their debt burdens: Antigua and Barbuda - 5.5%; Grenada - 5.1%; Jamaica - 4.5%; St Kitts and Nevis - 3.5%; and Guyana - 2.2%. Importantly, these countries all recorded positive growth and all but one had primary fiscal surpluses in 2016. All other territories recorded an increase in their debt ratios of varying degrees.

The economic cocktail also extended to foreign currency reserves which were below benchmark levels in some BMCs in 2016. These declined year-on-year to less than the equivalent value of the global benchmark of three months of imports, for example, in Barbados. There were improvements in The Bahamas and Suriname but reserves remained below the three months threshold in these countries as well. In other territories, foreign exchange reserves remained above the threshold though the year-on-year changes were mixed. Trinidad and Tobago,
despite its challenges with foreign currency in circulation locally, continues to have the largest stock of foreign exchange reserves.

Looking forward to full year 2017 growth, the region is projected to record positive growth across the board this year. Growth among BMCs is expected to average 1.7% in 2017: better than 2016, but well below other SIDSs and well below where it needs to be to stimulate employment and reduce the persistently high debt levels. Growth is expected to be driven by increased tourism activities and construction activities mainly related to the tourism industry. The Caribbean Tourism Organisation (CTO) is forecasting that tourism arrivals will increase by between 2.5 and 3.5%. Slightly higher commodity prices are expected to incentivize increased production in those industries; but the higher prices are not expected to be sufficiently high enough to derail growth prospects in the non-commodity producers.

**Given This Backdrop, It’s Important That We Have A Vision – Where Do We Need To Be, And How Do We Get There? We Need To Act Now**

Where we need to be is on a higher consistent growth trajectory that is inclusive and which unfolds in a safe, crime-free environment for all citizens. This must also be done in a way that is environmentally sustainable, provides buffers to the possible effects of climate change,
and which prepares our young people for the demands of the new labour market, including skills that will be complimentary to automation and artificial intelligence. How we get there requires an action plan with an all-hands-on-deck approach.

Our region needs an action plan which better enables it to participate in global supply chains and increase labor demand, and targeted social development assistance. But policymakers must be prepared to set the right environment to tackle the obstacles to growth (doing business environment, access to financing for MSMEs and labor market reforms), which could increase productivity and enhance competitiveness. In this endeavor, it would be necessary to reform governance structures and institutions to support the new paradigm. Governments would have to be willing to stabilize their economies through fiscal and debt consolidation and to develop strong targeted social development programs.

This reform agenda begins with the notion that inclusive growth is an imperative. As the region navigates the challenging global economic environment it is important to work together; and by the same token, the benefits of positive growth outcomes should be enjoyed by all. This can be done through targeting the Sustainable Development Goals. The chart, which is an extract from CONEVAL in Mexico, depicts how public policies could be used to improve the lives of the less fortunate
among us; to move them to a higher level of standard of living. We therefore need social development policies, such as quality education and good housing, and institutions that can target where support is needed. Our social development agencies must also have the capacity to continuously evaluate and improve their performance to help achieve the desired outcomes.

Secondly, in order to break the unhappy cycle of high debt and low growth, economic stability is a precondition. Fiscal discipline is crucial to restoring and supporting economic stability and this would require some consideration for fiscal reforms in both expenditure and revenue. In addition to the implementation of reform policies, BMCs would also need to implement targeted technical assistance programmes for MSMEs in sectors that have potential to contribute significantly to economic development and employment.

The academic literature is replete with evidence that a high debt burden compromises a country’s economic stability, its economic growth agenda and government’s ability to support social programmes. With that in mind, proper institutions and frameworks to manage debt, identify risks and craft mitigating measures is important. And given the vulnerabilities to natural disasters and how this has contributed to debt accumulation, it is important for countries to use revenue windfalls to set
up contingency funds or sovereign wealth funds to reduce the debt burden and ensure greater economic and social resilience.

Let me now turn to growth enhancing reforms. In order to place macroeconomic performance on a higher plane, there are some structural reforms which can be easily undertaken immediately to enhance inclusive growth. Focus should be on growth-enhancing structural reforms that help businesses to grow; reduce barriers to trade and strengthen the financial sector. Such reforms should also allow for increased use of public private partnerships or PPPs through divestment, to help unlock value from underutilized assets. They should facilitate and promote green energy production; provide incentives for raising capital, for example, on the junior stock exchange markets; and foster access to global supply chains. Efforts should also be made to engage the region’s vast diaspora in the growth agenda.

As I conclude, it is important to note that a significant platform for consistent positive growth outcomes is good governance. It is therefore an imperative for the region to move forward with a good governance agenda. A well-functioning governance system can effect change through: predictable, open and enlightened policymaking; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in
public affairs; and all behaving under the rule of law. Systems of
government should be transparent, foster inclusion, security and growth.
Moreover, government operations and resources should be managed in
such a way to ensure good value for money.

So the vision and action plan must be one of shared prosperity -
prosperity that is sustainable with renewed institutions and greater
reliance on the private sector for economic growth. Ladies and
gentlemen, we know that action changes things and, as a Region, we
must act now.

THANK YOU.