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Statement

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Introduction

Good Morning Ladies and Gentlemen, Colleagues, journalists, those present and those listening and viewing online.

This morning I will review the economic performance of the 19 borrowing member countries (BMCs) of the Caribbean Development Bank.

But, first I will examine the global picture, including 2017 economic performance and the forecast for 2018. I will also provide you with some insights about the global risks and opportunities as they pertain to the Caribbean.

The global economy continued to expand in 2017 and we anticipate that this will continue and accelerate in 2018. As the President mentioned, the projected expansion in global output will be shaped in large part by the stimulus created by tax reforms that were recently passed in the United States.

Although the reforms will likely lead to increased output in 2018, there are medium-term risks associated with larger fiscal deficits in America due to the tax cuts.

As a whole, Gross Domestic Product (GDP) growth in advanced economies is forecast to remain at 2.3%. Latin America and the Caribbean Region is likely to strengthen as a result of increases in commodity prices, and a boost from a stronger Brazilian economy, as well as reforms in Argentina.

The global outlook is shaped by some uncertainty. The downside risks include U.S. policy on trade, geopolitical risks, Brexit uncertainty, a weakening U.S. dollar, and recent stock market volatility.

Other notable risks for us in the Caribbean include the threat associated with environmental hazards, and the loss of correspondent banking relationships, although this has retracted somewhat recently.

On the other hand, opportunities emerge for some BMCs due to rising commodity prices; the short-term benefits of the U.S. stimulus; and a strengthening pound. Our Region is also poised to take advantage of increased output in Brazil and advances in technology.

So how did the Caribbean perform in 2017?

Most of our BMCs grew in 2017. Grenada had the highest growth rate of 4.5%. It is a figure that the country should be particularly proud of, since this growth rate shows that reforms do bear fruit. Antigua and Barbuda, and the Turks and Caicos Islands also recorded strong growth despite being impacted directly by hurricanes.

Five BMCs experienced negative growth in 2017. Anguilla, the British Virgin Islands and Dominica had the largest declines due to severe damage caused by Hurricanes Irma and Maria. Notably, the Trinidad and Tobago economy continued to contract. Given that the country's economy accounts for a third of regional output, this meant that on average, the region only grew by 0.6% in 2017.

The Caribbean's economic performance as a whole continues to lag that of all other groups, most notably other small developing states. This comparison with other small states suggests that small size is not an obstacle to growth but rather, that other structural impediments might be the reason for the Caribbean's tepid performance.

Now, let's take a look at what happened to our major trading sectors. Gold prices remained steady, which was good news for Guyana and Suriname; and since October 2017, oil prices have started to increase.

This increase indicates a strengthening global recovery, but prices are unlikely to get to the highs last seen in 2014, due to changes in the oil market as a result of U.S. shale oil.

Stayover arrivals increased in 2017, which is good news for service-based economies. There are also opportunities for our Region to capture more value from tourism. We can further capitalise on new technological platforms like Airbnb; the shared economy; and emerging fintech payment systems. We must make efforts to better understand the millennial tourist and traveler, and be creative in designing campaigns and strategies to get them to our Region.

Let us now examine unemployment. On average, BMCs, for which data are available, face double-digit unemployment rates. Although still high, there were notable improvements. For example, unemployment in Grenada and Saint Lucia has fallen by about five percentage points since 2014.

However, joblessness remains high throughout the Region for young persons. Youth unemployment is as high as 40% in some BMCs.

I want to take a moment to examine the Ease of Doing Business in the Caribbean. It is still too difficult to do business in the Region and the Caribbean is still uncompetitive in many indicators. Research suggests that if BMCs implement reforms, GDP could increase by as much as 0.15%.

Let us now turn to the governments' accounts. Government debt in BMCs is trending downwards. We commend Anguilla, Grenada, Jamaica, St. Vincent and the Grenadines, and Suriname for their fiscal effort applied over the last year. If the debt ratio is to trend closer to the benchmark of 60%, then fiscal balances will need to be improved.

Improving fiscal balances can also have a positive impact on foreign exchange reserves. Two BMCs - The Bahamas and Barbados - report foreign exchange reserves below the three-month import cover threshold.

For countries with fixed exchange rates, policymakers must monitor domestic inflation and competitiveness. In countries with floating exchange rates, there is a need for greater flexibility. Drawing down reserves to maintain artificially high rates is unsustainable.

Export competitiveness is critical for building reserves, and the real exchange rate is an important determinant of competitiveness.

So what do we expect in 2018?

Considering the risks mentioned previously, we anticipate that the economies of all BMCs will grow in 2018. We expect the regional economy to grow by 2% compared with 0.6% in 2017. This will be driven mainly by the return to growth in Trinidad and Tobago and a 2.3% uptick in Jamaica, which accounts for about a fifth of regional GDP.

The highest growth rates are projected for Anguilla and Dominica as they rebuild from the damage caused by the 2017 hurricanes. Antigua and Barbuda, and the Turks and Caicos Islands are also expected to have strong growth.

Now turning to policy. What will it take to shape a more resilient Caribbean economy?

Our Region’s challenges might best be characterised within four quadrants:

(1) **Macroeconomic**: On average, we face very low growth and high debt, exacerbated by external and environmental shocks.

(2) **Low Productivity and Competitiveness**: It is difficult and costly to do business in the Region.

(3) **Poor human development:** High unemployment, particularly among the youth; further fuels crime and insecurity. There is also a skills mismatch in the labour market.

(4) **Environmental vulnerability:** From 1950-2014, 148 disasters resulted in USD52 billion in damage and losses across the Caribbean.

Any blueprint for building resilience in the Caribbean must take into account all of the pillars identified in the four quadrants. In addition, we must ensure that we consider regional integration and gender equality - cross-cutting themes that support and reinforce the four elements.

It is important that we build resilience in all four areas, which are interconnected. How do we do this?

At the macroeconomic level, this means implementing fiscal rules that encourage savings and debt sustainability.

At the Human Development level, if we have effective fiscal rules then governments will also have more resources available to dedicate to social interventions targeted at those who need it most. We must also ensure that all children have access to good quality education, so that they can function in the labour market.

Turning to productivity and competitiveness, countries must implement business-friendly reforms that encourage the private sector to become the engine of growth and provide opportunities for our young people when they leave school. Increased use of public-private partnerships can lead to improved delivery of public goods and services.

And on environmental preparedness, strict enforcement of building codes, adequate insurance coverage through mechanisms like CCRIF SPC, the development of indemnity insurance markets and the establishment of microcredit facilities to help MSMEs recover after natural disasters.

In addition, to the four pillars, two cross-cutting themes – gender equality and regional cooperation – could improve the outcome.

As I close, the good news is the expectation that all of our borrowing member countries are forecast to grow in 2018. I have also highlighted the challenges facing the region, but these challenges are not insurmountable. There are in fact opportunities to build sustainable and inclusive economies if we focus on building resilience. Doing this will ensure that all households are resilient. So as we focus on the urgent task of rebuilding, let us remember the importance of securing sustainable and lasting economic wellbeing for all persons who call this beautiful region their home.

Thank you.