AS PREPARED FOR DELIVERY

Advancing Caribbean Economic Prosperity

Dr. Warren Smith

President

Caribbean Development Bank

50th Anniversary Business Conference
of the Institute of Chartered Accountants
of Jamaica

October 30, 2015
Jamaica Pegasus Hotel, Kingston, Jamaica

INTRODUCTION

Good morning

I am delighted to join you in this 50^{th} anniversary conference of the Institute of Chartered Accountants of Jamaica (ICAJ).

I wish to congratulate the Institute on reaching this impressive milestone.

In 50 years, ICAJ would have seen many developments and faced many challenges, the most recent being the 2007 global financial crisis. ICAJ and its members would have been center-stage throughout the upheaval, working with clients to make strategic decisions to protect businesses whilst also coping with adjustments in financial reporting rules and procedures.

The Institute has emerged as the successful national body it is today because its members have remained committed to its core values of trust, integrity, confidence, transparency, and accountability.

The topic of my address, this morning, is "***Advancing Caribbean Economic Prosperity.***"

As I struggled to pitch this presentation at the appropriate level, given the obvious gravitas of this audience, I toyed with several formulations. I must confess that because of the vast differences in complexity and size of our Caribbean economies, and the inherent difficulty in succinctly characterising their economic condition, I fervently wished that you would have allowed me to simply borrow from Dr. Seuss and to declare that Caribbean countries are "…*in pretty good shape for the shape (they're) in*!"

But, alas, I know you expect much more…

I trust that you will consider this topic timely **and** appropriate, coming on the heels of the recently adopted 2030 Agenda for Sustainable Development. The 2030 Agenda sets out a time-bound action plan for people, planet and prosperity.

Caribbean countries have all signed onto this ambitious and transformative plan. If realised, extreme poverty will end; the lives of our people will profoundly improve; and this planet will be safeguarded for future generations.

I propose to examine the prospects for Caribbean economies, many of them still navigating a difficult transition as they adjust to the effects of the Great Recession.

My emphasis will be Jamaica. I will anchor my view of Jamaica's prospects within the framework of the critical challenges this country faces; the policy choices it has made; and the "unfinished" reform agenda, as it were.

I will also draw on the experiences of other Caribbean countries, comparing and contrasting approaches, along the way.

ECONOMIC PROSPECTS

According to the October 2015 World Economic Outlook , "[s]*ix years after the world economy emerged from its broadest and deepest postwar recession, a return to robust and synchronised global expansion remains elusive*". Moderate growth of 3.1% is projected for 2015, slightly below performance in 2014. This trend should continue into 2016.

The slow pace of world recovery is attributed mainly to low productivity growth; high debt; financial sector weakness; low investment levels in advanced economies; ongoing adjustment in many emerging markets following the post-crisis credit and investment boom; a growth realignment in China; and a downturn in commodity prices.

What does all of this mean for us in the Caribbean? And what does it mean for Jamaica, in particular?

We know very well that Caribbean economic performance is intricately tied to that of developed countries, which are our main trading partners. It is not surprising, therefore, that our economic growth since the Great Recession has been very fragile.

I am, nevertheless, cautiously optimistic about the outlook for the Region. In fact, at the Caribbean Development Bank (CDB), we have estimated that our borrowing member countries will grow, on average, by 1% - 1.5%, with some modest, but positive spin-off on employment.

Anguilla, Grenada, St. Kitts and Nevis, Turks and Caicos Islands are expected to be among the growth leaders, this year. Growth in these countries is being driven by tourism and tourism-related construction. Tourism should also influence growth in Antigua and Barbuda, the Bahamas, Barbados, British Virgin Islands, St. Lucia, and St. Vincent and the Grenadines. Lower fuel costs; income growth in source markets; and increased marketing by major hotel brands have helped the recovery in the tourism sector across the Region.

While many countries in the region benefitted from lower prices, oil producers such as Trinidad and Tobago have been adversely affected. Economic growth, this year, is now expected to be a modest 0.2%, with implications for overall regional growth, given the relative size of the Trinidad and Tobago economy.

Closer to home, Jamaica should report a growth rate of 1.4% in fiscal year 2015/16, as tourism and business services show strong improvements. Manufacturing and agriculture, which have been affected by prolonged drought, continue to underperform. The successful USD2 billion bond placement by the Government in July 2015 was indicative of strong market support for the country's economic programme.

It was also in keeping, with the credit rating upgrades in May by both Standard and Poor's and Moody's Investors Service, and Jamaica's successful completion of the ninth review of economic performance by the International Monetary Fund under the Extended Fund Facility. Benefiting from the growth in tourism, and a decline in oil prices, the external current account moved into surplus, for the first time in more than 10 years.

In July, inflation dropped to its lowest level in 48 years, but is expected to increase again as fuel price declines are countered by drought-induced food price increases.

The downside risks remain high in Jamaica and across the rest of the Caribbean. Macro-economic uncertainties, including a tenuous economic recovery in the United States and United Kingdom; a slowdown in Canada; and a deceleration in developing Asia increase the intensity of our region's development challenges.

For example, further weakening of commodity prices could easily curtail mining and quarrying output, as it did in 2014, and undermine the sustainability of the PetroCaribe arrangement, under which many Caribbean countries finance petroleum imports on extremely concessional terms.

These challenges are made even more complex by environmental sustainability concerns linked to climate change and other weather-related phenomena; limited economic resilience on account of undiversified production bases; labour market rigidities coupled with extremely high levels of unemployment, especially among the youth; and declining export competitiveness due, in part, to an over-reliance on fossil fuel imports.

Progress in addressing poverty is moving much too slowly. Efforts to reduce it appear to have stalled since the global recession, which put further limits on access to economic opportunities and has exacerbated gender imbalances.

In spite of the difficult odds, I am optimistic about the medium-term prospects. Several countries have begun to implement a coherent set of reforms to deal with the macro-economic imbalances they face. These can lead to outcomes which are necessary conditions for the transformation that will bring about prosperity for our Region.

SUSTAINABLE OUTCOMES

This morning, I will address only four of the sustainable outcomes that are important for Caribbean prosperity – macro-economic stability; improved competitiveness; environmental sustainability; and energy security.

(a) Macro-economic stability

Macro-economic stability, underpinned by a sustainable level of debt, is critical to the advancement of the development process. All Caribbean countries aspire to reach a state of fiscal and debt sustainability, which is key to realising sustainable economic growth. Excessive Government has been largely responsible for pushing up the overall fiscal deficit to almost 4% of GDP, in some countries. Huge debt accumulation was the source of financing for this deficit.

Debt overhang breeds uncertainty and crowds out development expenditure. In countries where the level of indebtedness is high, investors anticipate corrective policy measures. Not knowing how these measures might affect future returns, they become reluctant to invest.

Moreover, the servicing burden of a large debt stock crowds out other expenditures. These factors can lock a country into a low-growth-high-debt vortex, from which escape is difficult.

Many Caribbean economies are dogged by debt overhang. Research suggests that a debt stock that exceeds 60% of GDP begins to weigh heavily upon growth. Eleven of CDB's nineteen borrowing members have debt levels that exceed this threshold.

Collectively, we must find ways to wrestle this monster to the ground, or at least to below 60%. Admittedly, the need to reduce debt comes at a difficult time of fragile growth and tensions in the global financial markets.

Nevertheless, we have seen some progress towards debt reduction Grenada, Jamaica and St. Kitts and Nevis, where noteworthy progress with the implementation of “home grown” structural adjustment programmes has been made.

In Grenada, the Government has exceeded its fiscal targets, and made significant progress in restructuring the public debt. An exchange offer launched earlier this month is expected to reduce public debt by 13 percentage points of projected 2017 GDP and to 60% of GDP by 2020.

In St. Kitts and Nevis, the Government has remained committed to fiscal adjustment, even after completing its adjustment programme in mid-2014. In that year, an overall fiscal surplus of 9.5% of GDP was recorded; and debt declined to 80% of GDP (from 160% of GDP in 2010), reflecting higher GDP growth, debt restructuring of their external debt with assistance from CDB and a pre-payment of debt to the IMF.

Here, in Jamaica, the Government has also remained committed to its economic programme. The recent Petrocaribe debt buyback has lowered the public debt by about 10 percentage points to 125% of GDP in fiscal year 2015/16. This decline should help to maintain the ongoing fiscal consolidation firmly on a downward path.

Fiscal consolidation is part of the policy imperative; but so is spurring growth. These two objectives can sometimes present us with a dilemma. Reducing debt levels requires making every effort to borrow at coupons that are as low as possible in order to reduce the internal momentum of the debt stock.

The options also include swaps of various kinds, depending on what is available - whether tangible assets, environmental services, or simply goodwill. As a last resort, there is the option of debt restructuring; but this option must be weighed carefully against the implications.

Jamaica is slowly pulling itself out of the high-debt-low-growth vortex. Importantly, Jamaica has also engaged in a level of fiscal consolidation that is courageous and painful but **absolutely** necessary.

The result is that the Government has generated primary surpluses above 7% of GDP for the last two fiscal years, and intends to continue reaching this target into the medium term. Measures have been taken to reduce expenditure, while reforming revenue systems to take account of the multiple needs of sufficiency, equity, simplicity and economic efficiency.

In 2014, Jamaica also took the bold step to adopt fiscal rules enshrined in law and which are intended to impose financial discipline in the Government. Other countries in the Region are interested and are observing the Jamaican experience closely.

Implementation success will depend upon the actual commitment to and enforceability of the fiscal rules as well as the optimal forms of escape clauses.

(b) Improved Competitiveness

Improving competitiveness is also critical to advancing the development process in Jamaica and the rest of the Region. As small open economies, our countries must be able to earn their way in the world. In other words, sustained growth can only be underpinned by export growth.

At the same time, exports must be diverse in order to reduce the vulnerability and volatility that come from export concentration. In turn, diversification requires competitiveness, so that the Region can move beyond the few industries in which it currently has a comparative advantage.

Jamaica has implemented several structural reforms aimed at improving competiveness. Apart from adequate infrastructure, competitiveness also requires an appropriate institutional and regulatory environment for doing business.

The processing time for various institutional and regulatory procedures related to businesses has been reduced; efforts are being made to increase small business access to equity resources; reforms to improve labour market flexibility have been undertaken; and efforts to reform the energy sector and reduce energy costs have been implemented.

Ranked at 64 in the World Bank 2016 Doing Business Index, Jamaica is, once again the highest ranked Caribbean country. This agenda must continue. The job is not finished; and Jamaica is becoming a model for the types of hard choices that are necessary for sustained growth among Caribbean states.

(c) Environmental Sustainability

Climate change represents a significant challenge to the Region's economic prospects and could seriously derail any plan to increase the prosperity of these countries. Our small island, developing states (SIDs) and low-lying coastal states are already being impacted by climate variability and sea level rise.

Along with other SIDS, our Region is expected to bear the brunt of impacts from climate variability, sea level rise, and climate change.

Furthermore, the Caribbean is one of the world's most vulnerable regions, facing intense and frequent natural disasters.

In the past two months alone, Dominica and the Bahamas have suffered considerable damage to infrastructure and loss of life as a result of tropical storms. Jamaica, likewise, is highly vulnerable to climate change impacts; faces direct threats from climate change because of its geographic location; and suffers huge economic losses as a result of the environmental effects of climate change.

Over the last 25 - 30 years, Jamaica has experienced an increase in the frequency of natural events, primarily floods related to inclement weather, tropical depressions, tropical storms, hurricanes, droughts and landslides. Billions of dollars have already been lost in recuperation efforts.

Consequently, our Region faces disproportionately high economic, social and environmental consequences as well as burdensome reconstruction costs. Estimates of the negative impact on GDP range from 5% to 30%. To change the growth trajectory, the Caribbean would need to undertake major reforms across sectors, including the energy sector. I will say more about energy and energy security later.

As a Region, we need to commit to building resilience to natural hazards by climate-proofing key social and economic infrastructure. Increasingly, Governments are becoming aware that adaptation and capacity building are crucial to communities' continued survival.

In the area of financing, developed nations have committed to raise jointly USD100 billion annually by 2020 for climate change mitigation and adaptation in developing countries. It is anticipated that this target will be reached in December 2015 at COP 21, a global climate conference being held in Paris.

We must then redouble our efforts to make sure that the Caribbean gets its fair share of these resources. A concerted regional approach to identify viable mitigation and adaptation projects and to package them for technical and economic appraisal by development partners would greatly enhance our access to such resources.

(d) Energy Security

An indispensable pillar upon which sustainable growth for the Caribbean must be built is sustainable energy. The price volatility of the international petroleum markets, on which most Caribbean countries rely, has adversely impacted the international competitiveness of critical export industries, such as mining and tourism, both of which are energy intensive. Spikes in the price of these commodities have also exacerbated the fiscal and external trade balances.

A confluence of factors has now made possible the attainment of greater energy independence, sustainability, and less price volatility for Caribbean countries.

One such factor is technological advancements in the harnessing of energy from several renewable sources, especially solar PV and wind energy. Such improvements in technology have rendered these and other renewables more competitive.

Another factor in favour of greater energy independence is the increasing availability of low-cost climate financing for investments in energy efficiency and for de-risking investments in renewables.

Appropriate financing is indispensable for mitigating high up-front capital costs and in the absence of economies of scale in small energy markets.

Several of these renewable sources of energy are available in abundance in all Caribbean countries, in one form or the other. The good news is that countries across the region have been responding to the energy challenge; are making greater efforts to reduce their dependence on fossil fuels; and are setting targets for the transition to renewable usage.

Transitioning to renewable energy and energy efficient technologies is consistent with the international commitment to a sustainable development paradigm, with its emphasis on climate resilience and low-carbon energy options.

CDB's ROLE

Before I conclude, let me turn to some of the major initiatives by the Caribbean Development Bank (CDB) to help our borrowing member countries build resilient, dynamic and competitive economies.

Over the past three years, we have intensified our efforts to better support initiatives by our borrowing member countries to deal with the threat of climate change and to transition successfully to a sustainable low-carbon development path.

Climate change is not only about threats. It is also about opportunity. Many of the responses to climate change require adaptation and mitigation measures that involve sizeable investment in infrastructure. Such investments, in turn, will stimulate increased economic activity, with enhanced employment benefits.

A former Jamaican Prime Minister famously reminded his people, "*It takes cash to care*". In the spirit of this sage advice, CDB is mobilising appropriately priced financing which will turn the threat of climate change into opportunity for our people.

Over the past three years, we have achieved significant milestones in the mobilisation of climate finance. In the past two weeks alone, CDB signed a number of agreements that will make concessional resources available for sustainable energy.

This included an agreement signed with the United Kingdom's Department for International Development (DFID) for a £2.5 million grant to finance the Sustainable Energy for the Eastern Caribbean (SEEC) Programme. The DFID financing supplements European Union-Caribbean Investment Facility grant resources of €4.45 million, agreed in June 2015, for the same purpose.

SEEC is designed to reduce dependency on imported fossil fuels in participating OECS countries by displacing fossil fuels in electricity generation with economically viable investments in renewable energy and energy efficiency. A key emphasis is energy efficiency improvements and renewable energy interventions in government buildings.

CDB also recently signed agreements with the Inter-American Development Bank (IDB) for a USD71.5 million financing package to establish the Sustainable Energy Facility (SEF). Financing from this facility will be targeted primarily at geothermal development in the OECS countries.

Geothermal energy can provide stable base-load generation, directly displacing imported diesel, and increasing the potential of these countries to achieve energy security.

Right here in Jamaica, the British Prime Minister announced in late September 2015 that his Government was providing a £300 million grant for the creation of a Caribbean Infrastructure Fund to be managed by CDB and to be used for investments in new infrastructure.

Jamaica and other Commonwealth Caribbean countries which are also eligible for UK Overseas Development Assistance, will have access to this Fund. We estimate that Jamaica will be eligible to receive up to USD80 million for infrastructure development, including sustainable energy and climate adaptation projects.

CONCLUSION

This morning, I have contended that economic growth and prosperity will be the outcome for our people, if we focus on building economies that are resilient and sustainable.

Whilst not being sanguine about our prospects, I am cautiously optimistic about our region's future. With varying degrees of commitment, we have begun to make the difficult policy choices that will help us build and maintain our resilience as we work to create a better life for Caribbean people.

Taking into account our Caribbean reality, I have proposed four inescapable imperatives for success - macro-economic stability, international competitiveness, environmental sustainability, and energy security. There are others, of course; but these four are core! Ignore them, and "*history will not absolve us*!"

In closing, let me leave you with an old African adage of which I was recently reminded by the Hon. Peter Phillips, Minister of Finance, at the Small States Forum in Lima, Peru. *"If you want to go fast, go alone; if you want to go far, go together."*

Development is not a race for the swift. We are all in this together. Every government, every citizen, the private sector, and the development partners must commit to work collaboratively to make our Caribbean prosperous for all.

Ladies and gentlemen, it has, indeed, been a pleasure to share my thoughts with you today.

I thank you.