The Caribbean Challenge:

Fostering Growth and Resilience Amidst Global Uncertainty

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1.0 Introduction and Road Map

Good evening, everyone.

It is a great pleasure to join you here in Brasilia for the 55th Annual Meeting of the Caribbean Development Bank (CDB or the Bank).

Thank you Valerie for your very kind introduction. I also take this opportunity to thank the Bank for giving me the honor of delivering this year's lecture in memory of Dr. William Gilbert Demas.

It is highly symbolic that this year's meeting takes place in Brazil for the very first time. This symbolizes a new beginning and demonstrates the CDB's broad and international coalition of shareholders all vested in CDB's success.

The CDB is an incredibly important institution that has a vital role to play in the Caribbean's development. It must be cherished, and supported, even as it delivers value to its borrowing and non-borrowing membership in harmonious partnership with all its stakeholders.

This is also the first CDB Annual General Meeting under the presidency of Mr. Daniel Best. It is therefore in order to, again, congratulate President Best and to wish him tremendous success.

Dr. Demas's contributions throughout his career—as a policymaker, as an academic, and as an economist—cannot be overstated. He left a legacy of far-sighted vision and Caribbean excellence. A legacy that the whole region can be proud of.

We need to channel that vision and that excellence to meet two urgent priorities for the region. First, to lift growth prospects and living standards. And second, to build resilience against persistent economic shocks and natural disasters. These two objectives go hand in hand. We need the second to sustainably deliver on the first.

At a moment of exceptional uncertainty in the global economy, these tasks become even harder—and our efforts become even more urgent.

Today, I will address the growth and resilience challenge: both in the global context and in the context of the Caribbean region.

I will then discuss how regional policymakers can respond—by implementing sound macroeconomic policies and by following through on necessary structural reforms.

Finally, I will share how the IMF is supporting our members to boost growth prospects and build resilience in today's uncertain global environment.

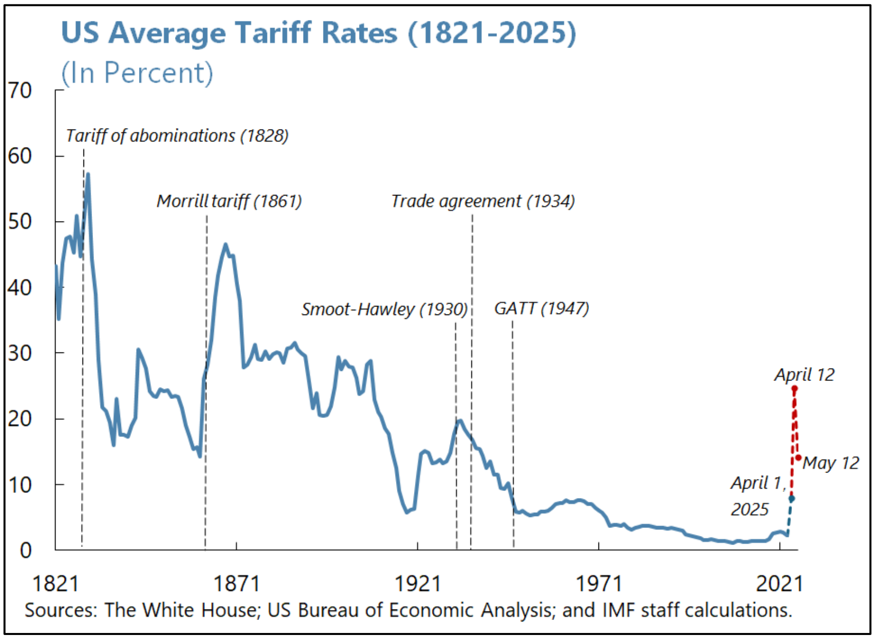
2.0 The Global Growth Challenge

Let me start with the global growth outlook.

After a series of shocks over the past five years, the global economy seemed to have stabilized—at steady but underwhelming rates, as compared with recent experience.

However, the landscape has now changed. Major policy shifts have signaled a resetting of the global trading system. In early April, the US effective tariff rate jumped to levels not seen in a century (Figure).

And, while trade talks continue and there's been a scaling back of some tariffs, trade policy uncertainty remains off the charts.



As a result, we significantly downgraded our most recent global growth projections in the April World Economic Outlook—by 0.5 percentage point for this year, from 3.3 to 2.8 percent; and 0.3 percentage point in 2026, from 3.3 to 3.0 percent. This represents the lowest global growth in approximately two decades, outside of 2020, the year of the pandemic.

A natural question is: if trade tensions and uncertainty persist, what could be the impact on global growth?

To start, we know that uncertainty imposes huge costs. With complex modern supply chains and changing bilateral tariff rates, planning becomes very difficult. Businesses postpone shipping and investment decisions. We also know that the longer uncertainty persists, the larger the costs imposed.

In addition, rising trade barriers hit growth upfront. Tariffs do raise fiscal revenues but come at the expense of reducing and shifting economic activity—and evidence from past episodes suggests higher tariff rates are not paid by trading partners alone. These costs are passed on to importers and, ultimately, to consumers who pay higher prices.

Protectionism also erodes productivity over the long run, especially in smaller economies. Shielding industries from competition reduces incentives for efficient resource allocation. Past productivity and competitiveness gains from trade are given up, which hurts innovation.

Tariffs will impact economic growth differently across countries, but no nation is immune. The IMF's most significant downgrades to growth are concentrated in countries affected the most by recent trade measures. Low-income countries face the added challenge of falling aid flows, as donor countries reprioritize resources to deal with domestic concerns.

And we have already seen an increase in global financial market volatility. Equity market valuations declined sharply in response to the April tariff announcements. Unusual movements in the US government bond and currency markets followed.

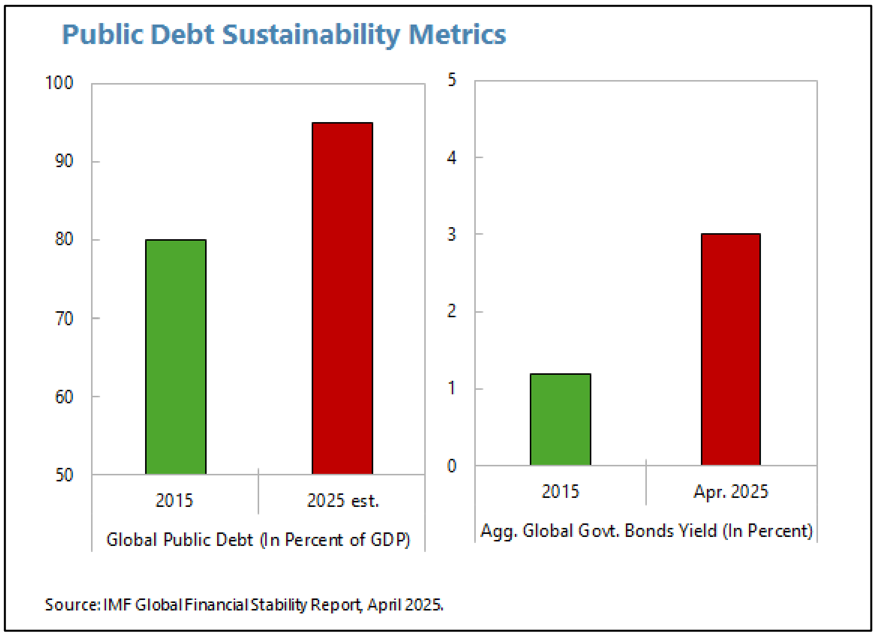
Equity markets have since regained ground on the hopes of a swift resolution of trade tensions. But with continued uncertainty and tighter financial conditions, we assessed in our most recent Global Financial Stability Report that risks to global financial stability have increased significantly.

These global realities result in three main vulnerabilities.

First, valuations remain high in some key segments of global equity and corporate bond markets. If the economic outlook worsens, these assets are vulnerable to sharp adjustments. This could, in turn, affect emerging markets’ currencies, asset prices, and capital flows.

Second, in more volatile markets, some financial institutions could come under strain, especially highly leveraged nonbank financial institutions, with implications for the interconnected financial system.

Third, sovereign bond markets are vulnerable to further turbulence, especially where government debt levels are high. Emerging market economies—which already face the highest real financing costs in a decade—may now need to refinance their debt and finance fiscal spending at even higher costs (Figure).



These vulnerabilities, and the potential for impact in emerging economies, should not be underestimated nor ignored.

But let me step back from these most recent economic and financial developments. As I mentioned, global growth prospects were already underwhelming.

And looking over the medium term, these global growth prospects, as I mentioned previously, remain at their lowest levels in decades.

What is driving this? Our analysis shows that a significant and broad-based slowdown in productivity growth accounts for more than half of the decline in global growth.

This is partly because global labor and capital have not been flowing to the most dynamic firms. Lower private investment after the Global Financial Crisis and slower working-age-population growth in major economies exacerbated the problem. Our studies show that, without a course correction, global growth rates by the end of this decade would be below the pre-pandemic average by about 1 percentage point.

Simply put, new uncertainties on top of already weak economic prospects make for a very challenging global growth backdrop.

3.0 The Caribbean Growth and Resilience Challenge

It is not surprising, then, that *most* Caribbean countries also face a challenging outlook.

In our latest World Economic Outlook, we already projected tepid growth in the Caribbean region overall—even before accounting for the US trade policy announcements. Stronger performance in some countries—such as Jamaica and Trinidad and Tobago—was offset by slower growth in others.

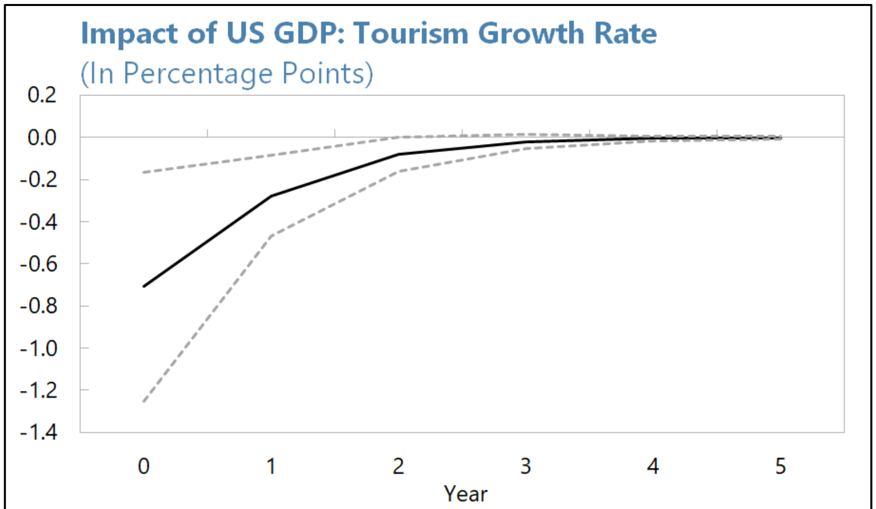
And in several countries, crime weighs on growth prospects. Particularly in Haiti, where the security situation hampers efforts to sustain economic activity, implement reforms, and attract aid and foreign direct investment.

On top of that, we estimate that the April tariff announcement and its global spillovers would lower Caribbean regional growth by at least 0.2 percentage point on average.

But the impact varies across countries.

In tourism-dependent economies, where growth is closely tied to US economic activity, the impact will mainly depend on the size of the US tourist base (Figure).

In oil-exporting countries, lower commodity prices and higher volatility are the main channels of transmission. Lower global growth means lower demand for these commodities which adversely impacts the economies of commodity exporting countries.



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The solid line shows the average effect of a one percentage point decrease in the U.S. GDP growth rate on the tourism growth rate in Caribbean countries. The dotted lines represent the 95 percent confidence interval.

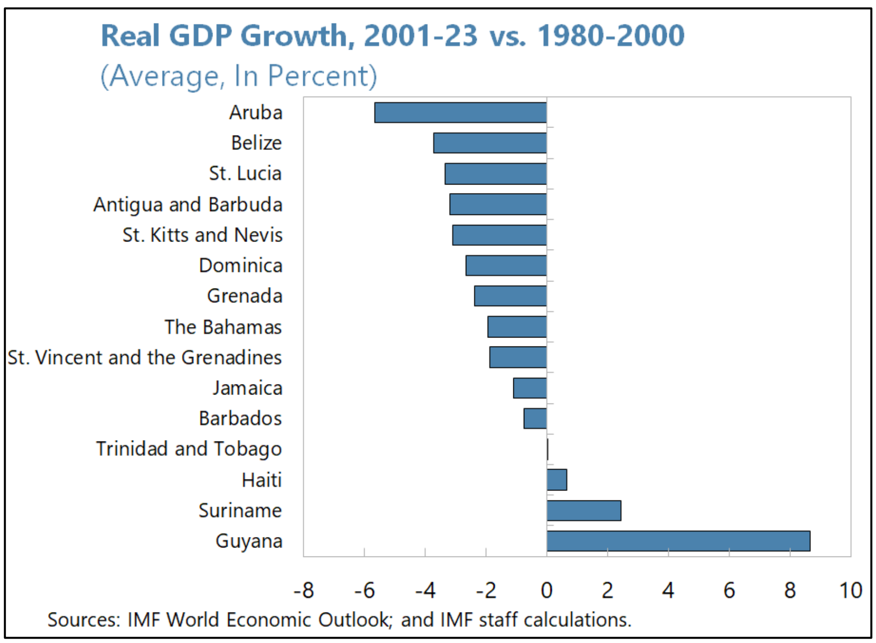
Slower growth, while a relatively recent phenomena from a global perspective, is, unfortunately, not new to the Caribbean. Declining growth trends in the Caribbean region have loomed over the longer horizon as well. Recent IMF analysis finds that most Caribbean countries had significantly slower growth over the last decades: 2001–2023, as compared with the previous two decades: 1980–2000 (Figure).

For tourism-dependent Caribbean economies, we estimate a decline in potential growth from 3.3 percent over the 1981 – 2000 period to 1.6 percent over the following two decades, 2001-2019.

This presents the Caribbean with an aggravated challenge – to reverse the trend of slower growth *at a time when global growth is* *also declining*. That is, the challenge is to reverse the trend of slower growth when the wind in the proverbial sail is weaker and has changed direction.

Let's be clear about what is at stake.

Slower growth in the Caribbean slows the improvement in living standards and stymies the aspirations of Caribbean people for better opportunities. Slowing growth, in the past, has also meant that convergence in income levels between the Caribbean and advanced economies has stalled. In other words, the gap between the economic fortunes of the Caribbean national and that of her counterpart in the advanced world is growing wider.

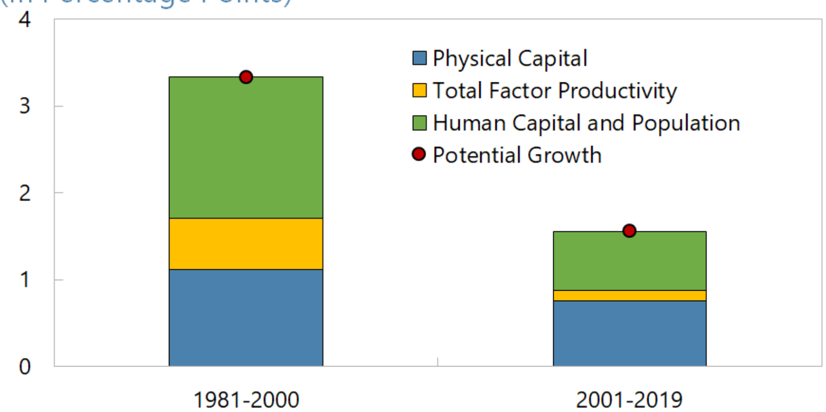


Of course, there are exceptions to the regional trend. In particular, Guyana's economy has grown rapidly over the past two decades, progressing from low-middle-income to high-income status. Growth accelerated to over 45 percent on average in the past three years, making Guyana the fastest growing economy in the world!

But for the Caribbean more broadly, the questions on which we should focus is - what explains the pattern of declining growth? And, what is the appropriate menu of policy responses to this pattern?

With respect to the first question, and as in the rest of the world, a key explanation for declining growth is weak productivity growth (Figure).

Factor Contribution to Potential Growth in the Caribbean
(In Percentage Points)



Sources: Barro and Lee (2015); EM-DAT database; IADB database, Penn World Table (10.1 version); World Bank; and IMF staff calculations.
Note: Countries included are Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

The growth challenge is not a mystery. Growth potential can be decomposed into its constituent factors and we can compare how the Caribbean’s growth potential has decline over time. Such an analytical and data-driven approach reveals that the Caribbean’s growth potential is a half of what it was a few decades ago. Addressing the Caribbean growth challenge requires systematic and comprehensive policies to strategically improve the factors that contribute to growth potential. Zooming in on one of the important factors: the Caribbean’s productivity growth has declined to almost zero. This is at the root of the Caribbean’s growth challenge. In addition to productivity growth, physical and human capital development need to be accelerated. So, ladies and gentlemen, there is no magic solution to the Caribbean growth challenge. There is no quick fix either. In fact, great danger exists if we believe that the growth challenge can be addressed with quick fixes. Solving the growth question will require as much effort as the effort put into the macro stability reforms successfully undertaken in Jamaica, Barbados and Suriname.

4.0 What Should Policymakers Do? – Maintain and Entrench Macro Stability

The goal for policymakers is clear: to foster resilient and inclusive growth that *sustainably* raises living standards.

How should this be achieved?

(1) Maintain and entrench macro-economic stability and

(2) Decisively and comprehensively address the factors that raise growth potential (figure)

As a pre-requisite, countries should strive to pursue policies that restore, maintain and entrench macroeconomic stability – stable prices, sustainable fiscal trajectories, adequate foreign exchange reserves and financial sector stability.

The collective Caribbean experience powerfully demonstrates the transformative potential of macroeconomic stability. Jamaica, for example, which was burdened with unemployment rates that averaged 20% between the early 1970's and the end of the 1980's and 15% between over the 1990's to the mid 2000's only achieved the previously unimaginable result of low single digit unemployment rates, in the region of 4% and lower, when stability became entrenched.

Stability is also a friend to the poor as Jamaica's experience also highlights.

Jamaica achieved the lowest rate of poverty in its history in 2023, again on the back of entrenched macroeconomic stability in the context of an institutionalized social protection framework supplemented by temporary and targeted counter-cyclical measures at times of distress.

Friends, our history and global economic history clearly demonstrate that economic stability is indispensable to national success, regardless of chosen social and political organization. Economic stability should therefore be guarded and protected as a national asset, allowing for focus on higher order challenges like structural reforms to unlock growth potential. Also, the requirements of stability should act as a constraint on policy. Any proposed policy action that has the prospect of jeopardizing any of the components of stability should not make it through the policy formation gauntlet. Securing economic stability into the future requires laws but laws are insufficient. Stability over the long term is best preserved by developing, empowering, and strengthening institutions.

4.1 Build fiscal buffers, strengthen fiscal frameworks, and bolster resilience.

The Caribbean region hosts different currency regimes. The key requirement is internal consistency within the chosen currency regime. Floating rate and fixed rate currency regimes impose their own constraints. These need to be observed for success.

While there is always room for improvement in monetary frameworks, the areas within the macro stability complex, that require urgent attention in the Caribbean, are rebuilding fiscal buffers, strengthening fiscal frameworks and bolstering resilience.

Let’s face it: on top of all the other challenges, government budgets in the region are strapped. Providing extraordinary support in response to extraordinary shocks has depleted buffers.

Public debt ratios have come down since the pandemic—this is good news. However, in many countries—including Caribbean countries—debt and financing needs are still too high.

In fact, for some Eastern Caribbean Currency Union (ECCU) members, achieving their regional debt target of 60 percent of GDP by 2035, a full decade from now, will require sizeable efforts.

With timely fiscal consolidation, countries can bring down debt ratios and by so doing, they can protect themselves against future shocks. And they can make space to invest in crucial human and physical capital—an investment in their own future.

In addition, some Caribbean countries have pegged exchange rates, which have been a long-standing anchor of stability—for example, in the Eastern Caribbean. The ECCU is one of only four currency unions in the entire world[1] and stands as a testimony to the capacity of Caribbean people to collaborate, cooperate and innovate.

However, to safeguard the stability provided by this currency union long into the future, fiscal policies must be sustainable, resilient, and consistent with the exchange rate regime. Inconsistency only serves to compromise the currency union with the potential for destabilizing consequences.

Our advice to policymakers on how to rebuild buffers and strengthen frameworks is straightforward: mobilize tax revenue, spend wisely, and plan ahead.

Let's start with mobilizing tax revenue. The tax revenue yield in Eastern Caribbean countries is falling short of peers (Figure). Inefficient tax exemptions and weak tax administrations are leading to large revenue losses.

Broadening the tax base and removing distortions will not only increase revenues but also support investment and growth. The Fund has provided technical assistance to our members in the Caribbean to support their ongoing efforts in this area.

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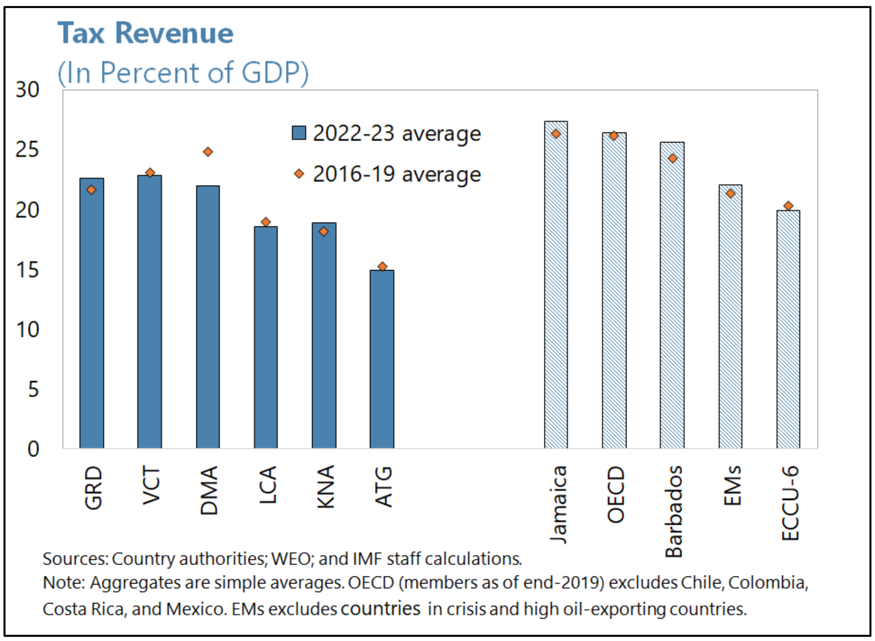
[1] The other currency unions are: Economic Community of Central African States (CEMAC); West African Economic and Monetary Union (WAEMU); and the European Economic and Monetary Union (EMU).

Let me turn to spending wisely. Not all spending is productive spending. With limited fiscal space focus must be on spending that has the potential to deliver quantifiable social and economic returns within reasonable timeframes. Policymakers should keep the quality and composition of spending under review, including by containing unproductive spending, enhancing efficiency, and digitalizing government services.



Finally, plan ahead. With conviction. Credibility is critical to allow fiscal consolidation to proceed gradually with lower financing costs and better growth results.

Strong medium-term fiscal frameworks, with well-designed fiscal rules and specific plans for fiscal policies and reforms, can help bring debt down and investment up.

Frameworks that combine debt and operational targets—and are backed by adequate capacity and institutions—can be particularly powerful.

This approach worked well in Jamaica, where fiscal responsibility was written into law under the Financial Administration and Audit Act. The Act established a public debt goal of 60 percent of GDP and a rule that determines the annual target fiscal balance consistent with that objective. An Independent Fiscal Commission is the arbiter of Jamaica's fiscal rules and provides an opinion on fiscal policy sustainability, strengthening credibility and accountability.

Planning ahead also means being ready for the certainty of economic shocks. A golden rule in policymaking in a country is to design policies that fit the country's circumstances. Shocks are a permanent feature of Caribbean small state reality. Caribbean economic policy ought, therefore, to make provisions for the inevitability of economic shocks. In Jamaica's Act, there are clear escape clauses for large shocks and an automatic adjustment mechanism to secure a return to the debt target.

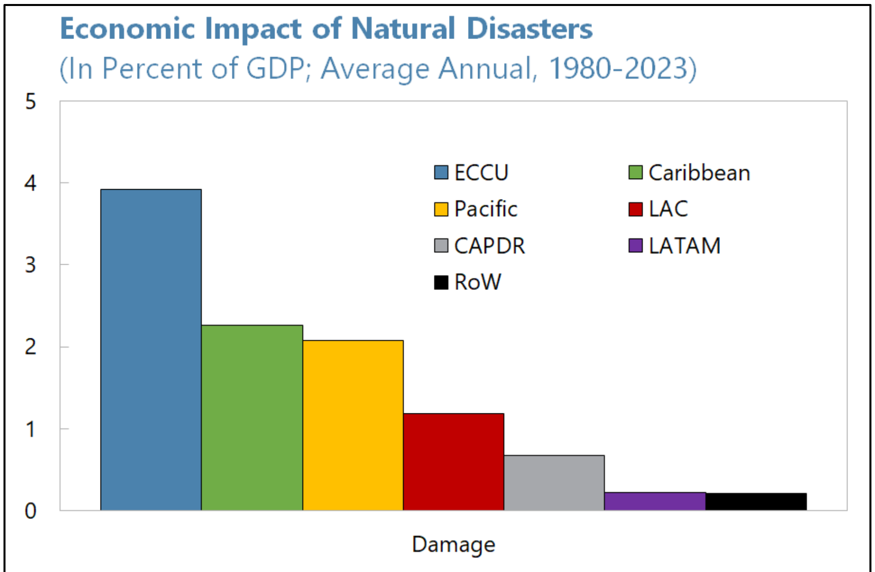
Well-designed and transparent sovereign wealth funds can also help stabilize public finances when shocks hit. For example, Trinidad and Tobago's sovereign wealth fund insulates fiscal policy from oil price fluctuations. Guyana's fund helps manage its natural resource revenues, finance investment, and save for the future. And St. Kitts and Nevis is considering a fund to smooth volatile revenues from the Citizenship-by-Investment program.

Planning for shocks is ever more important in regions like the Caribbean that face recurrent threats from natural disasters.

Our countries need to be prepared *before* disasters hit.

Recurring natural disasters impair productive infrastructure and hinder human development, constraining productivity growth even further.

Major natural disasters cost an average of 2 percent of GDP per year in Caribbean countries and close to 4 percent of GDP in the Eastern Caribbean countries (Figure).



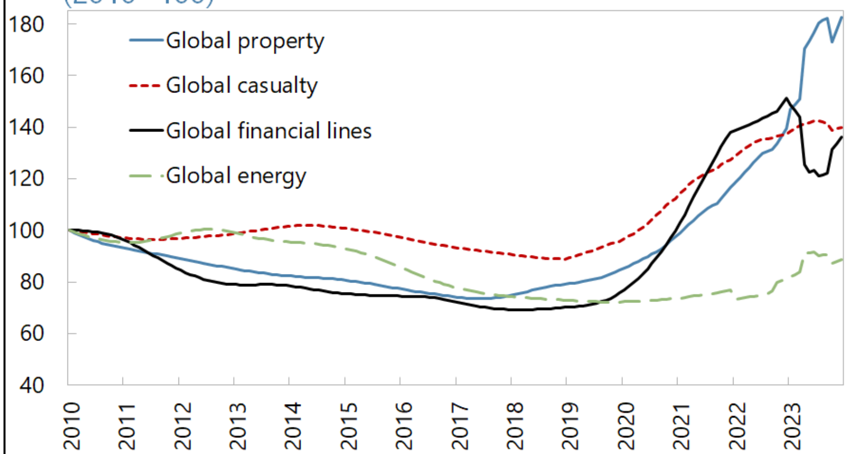
Sources: EM-DAT, World Bank, World Economic Outlook; and IMF staff calculations.
Note: Group of WHD, Pacific and rest of the world are exclusive.

There is a physical dimension to disaster preparedness, which involves investing in resilient infrastructure.

There is also a financial dimension, which involves developing resilient risk transfer, contingent claim and insurance mechanisms.

Unfortunately, rising global private re-insurance premiums are making the task even harder (Figure). Domestic insurance premiums have also been rising. The result is lower insurance coverage in the private sector, and thus potentially more burden on governments when a natural disaster strikes.

Global Commercial Insurance Pricing Indices
(2010=100)



Sources: Howden NOVA[1]; and IMF staff calculations.
[1] Howden Group, one of Europe's largest insurance brokers, offers NOVA, a market insight platform that combines data from 300+ sources, including placement and financials.

Caribbean countries can secure a comprehensive insurance framework with multiple layers: self-insurance through their own fiscal buffers, participation in pooled risk transfer arrangements, contingent financing and catastrophe bonds.

With respect to the first layer, in Jamaica, there is a legislated requirement to save annually in a natural disaster fund. I recognize, however, that for some countries individual buffers have declined since the pandemic and need to be restored.

On the second layer, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) helps fill an important gap. Coverage has steadily improved since its inception, and the CCRIF has made prompt payouts after various natural disasters. This included US$85 million across five countries, Grenada, St Vincent & the Grenadines, Trinidad and Tobago, the Cayman Islands and

Jamaica, in a matter of days after Hurricane Beryl, underscoring the Facility's regional importance. Further expanding coverage would pay off in the long term.

On the third layer of contingent financing, the World Bank has approved catastrophe deferred drawdown options for Barbados, Dominica, Grenada, Jamaica, St. Lucia, St. Vincent and the Grenadines, among other countries in the pipeline. Furthermore, Grenada and St. Vincent and the Grenadines have already drawn on these instruments following natural disasters.

In addition, the IDB has credit contingent facilities with Antigua and Barbuda, the Bahamas, Barbados, Jamaica, St Vincent and the Grenadines among other countries.

On the fourth layer, Jamaica has, with World Bank assistance, independently sponsored two catastrophe bonds.

Now, to be clear, stability, resilience and risk transfer by themselves, do not *automatically* deliver the elevated growth needed. However, elevated levels of economic growth cannot be achieved without stability. Furthermore, stability and resilience set the stage for elongating the economic cycle by significantly lowering a country's risk premium, lowering the cost of capital, expanding the frontier of project economic viability and providing the counter-cyclical capacity to respond to shocks, thereby limiting the duration and intensity of downturns, and providing for longer unbroken periods of consecutive economic growth. The Jamaican experience demonstrates these relationships.

To achieve higher growth, in addition to stability, policymakers have to decisively address factors that elevate growth potential beginning with the productivity gap.

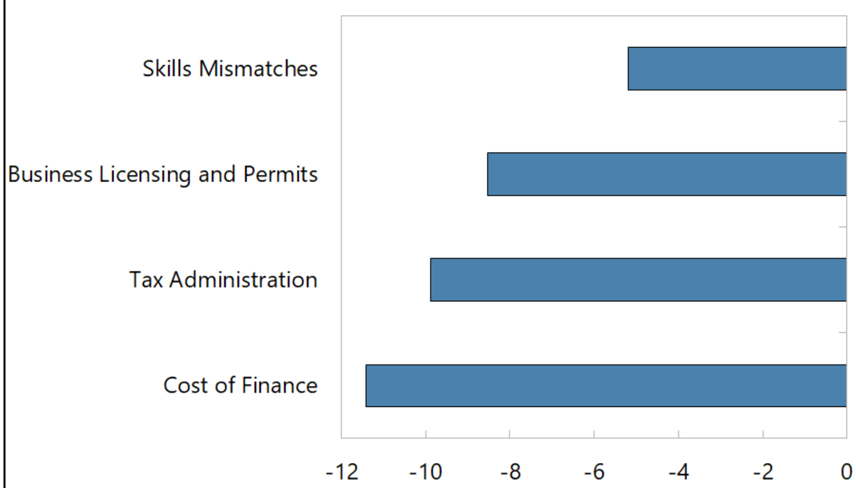
5.0 Decisively address structural obstacles to lift firm level productivity

Addressing the growth challenge requires reversing the decline in the Caribbean's growth potential by 1) improving total factor productivity and 2) boosting investment in physical and human capital.

Our analysis for the ECCU shows that the bulk of total factor productivity losses come from high costs of finance, cumbersome tax administration, inefficient business licensing and permits, and skills mismatches in the workforce (Figure). From my experience, this can also be applied to most of the Caribbean beyond the ECCU.

Overcoming these obstacles could bring substantial productivity gains ranging from 34 to 65 percent— which would be an incredible result! This could close the gap in income per capita with the US by 9 to 27 percentage points.

Firm-Level TFP Loss Associated with Structural Obstacles
(In Percentage Points)



Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.

5.1 Simplify and Digitalize Regulation, Business Licensing, Permits and Tax Payment Procedures

One practical step is to promote digitalization of Caribbean societies which can significantly boost productivity. This will require a multifaceted strategy including investment in digital infrastructure, digital transformation of government, reducing the cost and increasing the availability of data transmission, improving digital literacy, among other factors.

Application of digital tools and digital technologies to improve access to government services, while reducing time, ought to be seen as a non-negotiable imperative. As an obvious example, further enhancing taxpayer access to digital government services—through e-payment, e-filing, and e-registration—would not only reduce the administrative burden but also encourage compliance, fostering a better environment for entrepreneurship.

In much of the Caribbean, businesses have to navigate a complex labyrinth of licensing, permitting and regulatory regimes. This is a drag on productivity. While the largest enterprises have the scale to absorb the inefficiencies, smaller firms suffocate from overly burdensome processes. We know that the economic vitality of a country is linked to the level of hospitability of the business environment to its small and medium-sized firms.

There is, therefore, *tremendous* scope in the region to greatly simplify regulatory processes and eliminate unnecessary steps. Furthermore, the digitalization of licensing, permitting and regulatory procedures promises to enhance the efficiency of firms, boosting productivity.

5.2 Improving Access to Finance

That leads me to another practical step: improving access to finance, which can encourage new businesses and support a transition into the more productive formal sector. Finance is the oxygen of business, and its affordable and widespread availability is essential for having a dynamic business environment.

There could be an entire session on improving access to finance as it is so fundamental, yet so multifaceted and complex.

Many factors hinder access to finance in the Caribbean. I will touch on a few.

First, legacy weaknesses in banks' balance sheets limit access to credit, investment, and growth across the region. So it is important to address vulnerabilities in the banking sector. This includes timely compliance with regulatory standards and easier ways to dispose of impaired assets. Progress is happening: banks are building buffers and reducing non-performing loan ratios. But more work is needed to ensure all banks meet regulatory minimums.

Reducing the costs of non-performing loan resolutions, ultimately reduces the cost of loans. This can be achieved by modernizing insolvency regimes to encourage faster out-of-court debt workouts. Asset management companies—if they are properly funded—would facilitate asset disposals.

Collateral infrastructure should also be strengthened through effective credit registries and partial credit guarantee schemes. For example, the recently created regional credit bureau in the Eastern Caribbean can help lower the cost and time of credit risk assessments and close information asymmetry gaps. This will help small and medium enterprises access credit while safeguarding credit quality.

Stronger anti-money laundering and anti-terrorism financing frameworks can help protect the financial system from external threats and retain correspondent banking relationships, the absence of which impedes access to credit.

The above financial sector measures are absolutely necessary but hardly revolutionary.

Revolutionizing access to credit in the region could be achieved by the enabling mobile real-time, instant, 24/7, payment system platforms as exists in India through their Unified Payments Interface (UPI) and right here in Brazil through Pix.

In both India and Brazil access to finance and to financial services have been transformed, and inclusiveness expanded, by these innovations. Transactions are free, or ultra-low cost, and these payment platforms are integrated into banking apps and into e-commerce platforms.

Of course, these systems only exist within the context of national identification systems that provide the necessary identity verifications as required.

5.3 Seize the Opportunities from the Renewable Energy Transition.

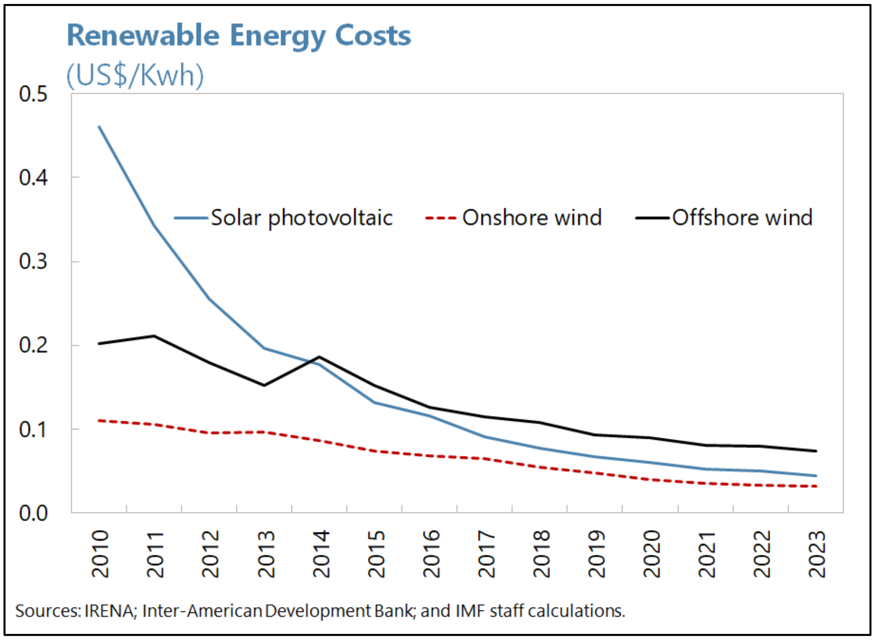
The use of oil imports for electricity generation is costly and has led to very high electricity prices which undermines competitiveness—particularly for the tourism industry—at the expense of potential growth.

As we explored last December in the Caribbean Forum in Barbados, a successful energy transition can foster inclusive, sustainable, and resilient growth.

That transition will look different for energy-importing and energy-exporting countries.

For energy importers, diversifying into renewable energy, with fast declining costs, can reduce reliance on expensive and volatile oil imports (Figure). It would also offer relief from some of the highest electricity costs in the world. Consider this key fact: electricity in many countries in the Caribbean costs, a minimum of, twice as much as in advanced economies. We have been discussing this in the region for a long time. Too long.

The energy transition would enhance external sustainability for energy importers, while making them more competitive, more resilient to shocks, and more likely to grow faster and on a sustainable basis.



But seizing these opportunities requires tackling key obstacles. For example, high upfront investment costs. Limited fiscal space. Regulatory hurdles for private investment. And small market sizes and isolated grids that hinder economies of scale.

So, the transition to renewables will take time and investment. It will also take efforts coordinated on a regional scale.

One immediate, cost-effective step is to implement energy efficiency measures. For example, both Barbados and Jamaica have retrofitted government buildings with energy-efficient equipment. This delivers quick savings, typically without large upfront costs.

On the regional front, initiatives like the Resilient Renewable Energy Infrastructure Investment Facility—championed by the

Eastern Caribbean Central Bank and supported by the World Bank—offer a promising step forward.

Regional mechanisms to promote pooled procurement and to harmonize regulatory frameworks will also be key.

Energy exporters in the Caribbean face a different set of challenges. Most notably, they have the difficult task of managing changes in fossil fuel demand and fiscal revenues while maximizing the value of existing reserves.

But the energy transition is also an opportunity to diversify into the green energy sectors of the future, such as green petrochemicals and green hydrogen.

Energy exporters will also need to watch out for spillovers from other regions' climate policies, such as border carbon adjustment mechanisms. For example, Trinidad and Tobago faces exposure to the EU Carbon Border Adjustment Mechanism, which could, potentially, affect over 5 percent of the country's total exports. And a further 5 percent is at risk if the EU expands its Mechanism.

But energy exporting countries can also turn this type of spillover into an advantage. By introducing their own carbon pricing systems, they can retain revenue in their economies rather than have it collected by their trading partners.

6.0 Invest in Human Capital, Bridge the Skills Gap and Invest in Physical Infrastructure

The most important investment Caribbean countries can make is in boosting the human capital of the region. Human capital development is multifaceted, but today I will focus on the central elements of education and skills.

6.1 Invest in Human Capital; Address the Skills Gap

Given the small size of Caribbean economies, and the absence of economies of scale, economic success will be determined by the level and quality of human capital in the region.

Elevated levels of economic growth will require substantial improvements in education and skills outcomes across the region, and in some countries more than others. This is deserving of the region's energy and focus.

A recent survey for the ECCU highlights a shortage of skilled labor as a key constraint for businesses. I know this skills gap is also a reality in Jamaica and can be generalized across much of the Caribbean.

What can be done? The answer is twofold: enhance the skills of those employed *and* provide opportunities to those who have skills but are not in the labor market.

Expanding vocational training and modernizing education systems, coupled with active labor market policies, can help mitigate the skills gap. And digital tools can connect employers with potential employees.

Emerging technologies—such as artificial intelligence—make closing the skills gap all the more important. The opportunity is that rapidly evolving technologies could bring high productivity gains, with the threat that failure to upgrade skills could expose industries important to the region such as business process outsourcing.

Harnessing that potential in Caribbean countries includes, for instance, integrating AI and data science into all levels of education.

The good news is that many countries in the region are facing the skills challenge head on.

For example, my home country of Jamaica launched a national initiative—supported by the World Bank—for secondary school students in the areas of Science, Technology, Engineering, Arts, and Mathematics, also known as the STEAM initiative.

In Barbados, the 2022 Economic Recovery and Transformation Plan aims to enhance the business environment by advancing digitalization and skills training.

In St. Vincent and the Grenadines, an ongoing education reform is focused on modernizing and expanding post-secondary technical and vocational education to better align skills with labor market needs.

And in Antigua and Barbuda, the planned expansion of the University of the West Indies Five Islands Campus will provide new opportunities for higher education and regional talent development.

However more can be done, and should be done, in each of these countries. The goal of policy should be to have Caribbean schools rank in the upper quartile of the Program for International Student Assessment (PISA) benchmarks.

On creating more opportunities, bringing more women into the labor market can contribute to economic growth.

We estimate that eliminating the gender gap in the ECCU—which is over 11 percentage points, on average—could boost regional GDP by roughly 10 percent. That is a powerful economic case for inclusive labor policies, such as enhanced access to childcare and elderly care.

It is also imperative to foster opportunities for youth. Caribbean countries have some of the highest youth unemployment rates in the world, ranging from 10 to 40 percent. Empowering future generations is at the core of addressing the growth and resilience challenge in the region.

I want to acknowledge the important efforts led by the Caribbean Community, CARICOM, to work towards deeper social and economic integration.

Earlier this year, we saw tangible progress. CARICOM members are working to enable free movement of CARICOM nationals for willing countries. Importantly, this initiative also includes access to primary and secondary education, emergency healthcare, and primary healthcare for migrating individuals.

6.2 Boost Investment in Infrastructure

Improved infrastructure enhances the productivity of capital as well as the productivity of labor. The Caribbean will need much higher levels of investment to restore and boost its growth potential.

Workers depend on public transportation to get from home to work and back home again. If this, for example, routinely takes an hour and a half each way, on average, and costs a third of weekly wages, then labor productivity will suffer. Efficient, affordable, accessible mass transportation enhances productivity. While taxis complement bus transportation, they cannot be an effective substitute. This is more of a problem in larger Caribbean territories and I know that Jamaica is tackling this problem head-on.

Similarly, road and highway connectivity that opens new investment opportunities and reduces the cost of transportation of people and goods enhances productivity of capital as well as the productivity of labor and enhances growth potential.

Modern commerce relies on communication and, importantly, on data. I mentioned this earlier. There is scope for telecommunications and broadband infrastructure to be improved, for data costs to be lowered, and for data access to be expanded. This will require investment. Hopefully, private investment, but investment that will need to be facilitated by government policy.

Water is the source of life. Without water, communities are less productive, and businesses cannot function. Across the region, significant investment in water treatment, storage, and distribution infrastructure will be required to support economic growth and improve standards of living over the medium term.

All of these elements of infrastructure – transportation, broadband, roads, water, and energy, dealt with earlier, – need considerable investment to keep Caribbean societies competitive and to raise the growth potential.

However, Caribbean governments will not have the required resources to finance these investments from tax revenues, and at the same time fund education, health, security and other essential services.

As such, governments will need to consider attracting local, regional, and international private capital in well-structured transactions to finance the productivity enhancing infrastructure needs of the region.

This can be accomplished through the variety of Public Private Partnerships (PPP) modalities that exist and with the advice of multilateral partners, such as the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB) who are very experienced in structuring these kinds of transactions, and who know what is required to generate investor interest.

I can speak from experience – the IFC has been instrumental in assisting Jamaica to develop its pipeline of PPP's.

My advice however is to not develop PPP's sequentially, one at a time, starting one as the other concludes. Given the preparation period required for each, sequential PPP development will take too long. Instead, pursue PPP's using a programmatic approach. That is, develop a pipeline of infrastructure PPP's in parallel so you can bring these to market in rapid succession. The time and resources required for investors to familiarize themselves with the macro-environment, the legislative framework, the regulatory architecture, the country risks etc.., with uncertainty around bid success, needs to be amortised over a number of transactions – in order to attract deep pocketed and experienced investors prepared to provide competitive bids.

Open, transparent and competitive PPP's, that are well structured, can help bridge the infrastructure gap and boost productivity.

7.0 The Role of the IMF

These are not easy times, and these are not easy steps to take. They require clarity of vision, coordination, partnerships, technical expertise and lots of energy.

But these steps can put Caribbean countries on a path toward greater growth and resilience.

Rest assured that the IMF remains fully committed to supporting our members across the region.

Our near-universal membership provides us with a unique global perspective and we are informed by a large range of cross-country experiences over the last 80 years.

With 191 member countries the IMF, as compared to the United Nations with 192 member countries, is a global as it gets. We engage with each of our members on a country-by-country basis, as well as on a regional basis with currency unions, including the Eastern Caribbean Currency Union.

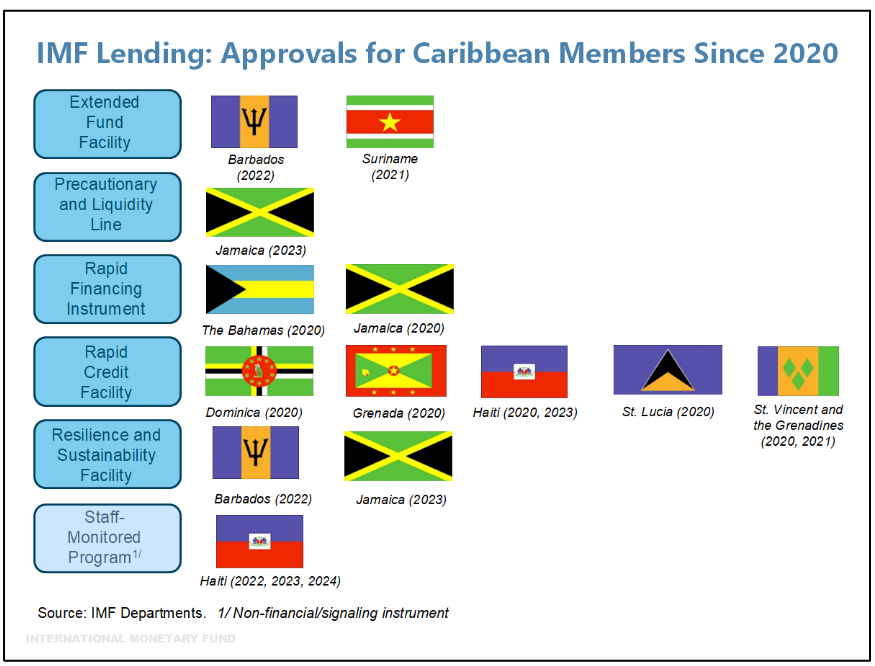
Our member countries, including Caribbean states, are shareholders and owners of the IMF. We work for you. And we do so through three primary modalities – (i) surveillance, where we provide a review and analysis of our member countries' economy on an annual or biennial basis. This review, called the Article IV Consultation report, named after the clause in our articles that mandates this exercise, is a principal obligation of IMF membership. This review, which contains country specific policy advice, is published, and freely available, online. I encourage media practitioners, economists, financial analysts, public policy advocates, and citizens interested in their country and region to access these Article IV reports for your country and make good use of the information and analysis contained therein.

The second modality through which the IMF provides a service to its member countries is capacity development. Here we provide technical analysis and tailor-made policy advice on specific issues that countries may be grappling with. For example, designing of tax policy measures, improving efficiency in public spending, optimizing public debt management, bolstering the capacity of statistics agencies and the development of monetary policy tools to name a few. Under this modality we also provide training courses for public officials through regional institutions such as CARTAC and also in courses at the IMF's headquarters in Washington, DC.

Our third modality is the one that most are familiar with – the IMF provides financing designed to address balance of payments challenges. Our long-established lending toolkit helps countries restore macroeconomic stability. In this goal of restoring macroeconomic stability many countries have had successful engagements with the IMF. In the region, Jamaica, Barbados, and Suriname come immediately to mind.

At the recent IMF Spring Meetings I moderated a panel where the Greek Finance Minister made the point that at this juncture of very challenging fiscal circumstances in the Eurozone, only six countries within the 27 member EU have fiscal surpluses, and it so happens that four of these had IMF programs during the Global Financial Crisis.

And the IMF continues to evolve to meet the needs of our member countries. Our rapid facilities provide emergency financing when shocks hit. And our newer Resilience and Sustainability Facility provides affordable long-term financing to support resilience-building efforts.



In the Caribbean, Barbados and Suriname have made great strides in positioning their economies for growth while reducing vulnerabilities under their economic programs supported by the Extended Fund Facility (Figure). These countries' ownership of the reforms has been critical to their success.

Jamaica had access to—but did not draw on—the Fund's Precautionary and Liquidity Line, which provided an insurance buffer against external shocks. It supported efforts to keep the economy growing, reduce public debt, enhance financial frameworks, and upgrade macroeconomic data.

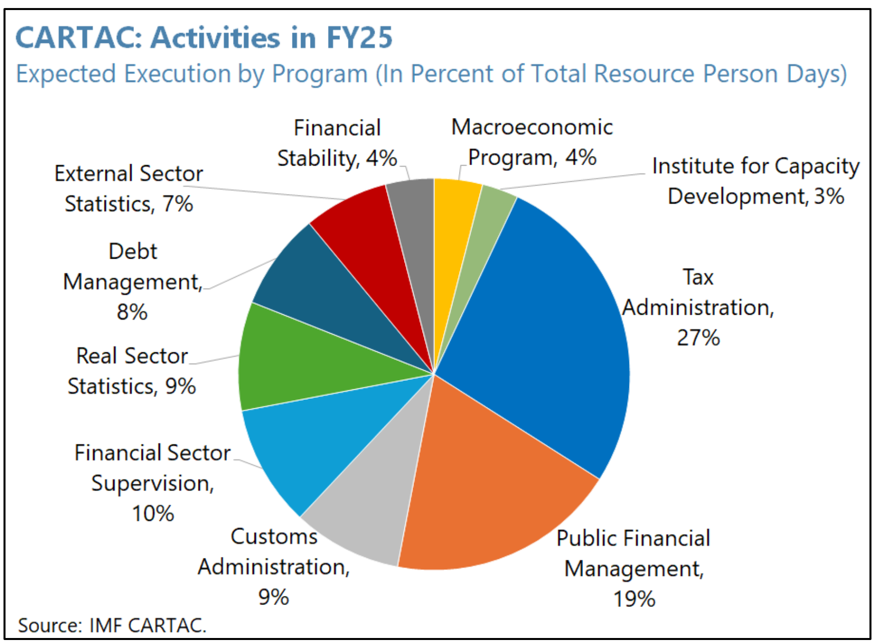
The Fund also provided rapid financing to seven Caribbean member countries during the pandemic.

And Barbados and Jamaica have benefitted from the Resilience and Sustainability Facility. Reforms have helped integrate climate-related risks in macroeconomic frameworks, provide incentives for renewable energy to support growth, and catalyze financing for investment in resilience.

We are also engaging closely with Haiti through a Staff-Monitored Program. This Program is designed to support the authorities' economic policy objectives and build a track record of reform implementation, which could pave the way for financial assistance from the Fund.

Of course, the effectiveness of our advice and financial support is enhanced by our continued efforts in capacity development. In particular, I would like to highlight the work of CARTAC, which has been operating since 2001.

CARTAC offers capacity building and policy advice to our Caribbean members across several areas: from public finance management, to tax and customs administration, to financial sector supervision and financial stability, and beyond (Figure).



We greatly appreciate the generous support received so far for CARTAC. But more is needed to close the financing gap. I hope we can count on your advocacy with development partners to sustain CARTAC's essential work.

In my time at the Fund thus far, I have seen how much advanced countries rely on, and use, the IMF's intellectual output to the benefit of their countries and how this output features in, and informs, public discourse in many member countries. The IMF is an incredibly powerful resource that works for you and I strongly encourage Caribbean countries to strategically maximize their use of the IMF and what it has to offer.

8.0 A Call to Action

Let me conclude.

Policymakers in the Caribbean are facing a complex set of old and new challenges.

But challenging times can also be times of opportunity, action, and resolve.

The Caribbean is a region of immense promise, with rich cultural heritage, natural beauty, and vibrant population.

The world is undergoing profound change. This change introduces global vulnerabilities to which the Caribbean is not immune. The resilience of small open economies like those in the Caribbean is likely to be tested.

It is imperative, therefore, that Caribbean countries work to put their macro-fiscal houses in order while engaging in deep and meaningful structural reforms to increase the growth potential of Caribbean economies.

You hold the keys to the future of the region. You have the tools, the talent, and the tenacity to chart a new path for growth and resilience. Your actions can make a difference to the Caribbean’s prospects.

We have seen many steps in the right direction to address bottlenecks and boost productivity. And we encourage you to keep going.

Implement those reforms that are under your control.

Continue to work together across the region.

Capitalize on CARICOM to achieve a larger market for the movement of people, investment, and trade.

Stay focused on the goal: delivering more economic resilience, higher growth prospects, and better living standards for people across the Caribbean.

And, you can count on the Fund along the way.

Thank you.