

# UNLEASHING GROWTH AND STRENGTHENING RESILIENCE IN THE CARIBBEAN

Sebastian Acevedo

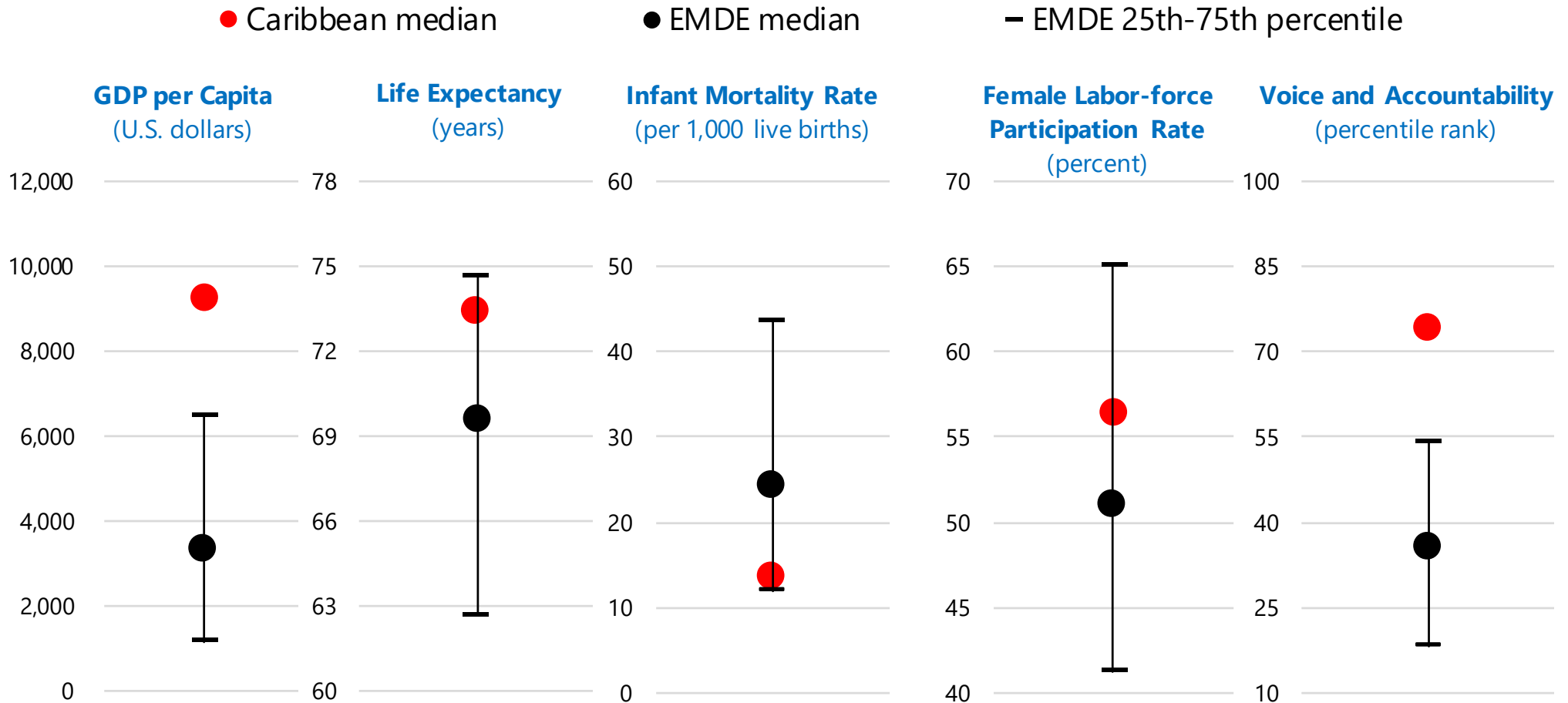
IMF Western hemisphere Department

Central Bank of Curaçao and Sint Maarten

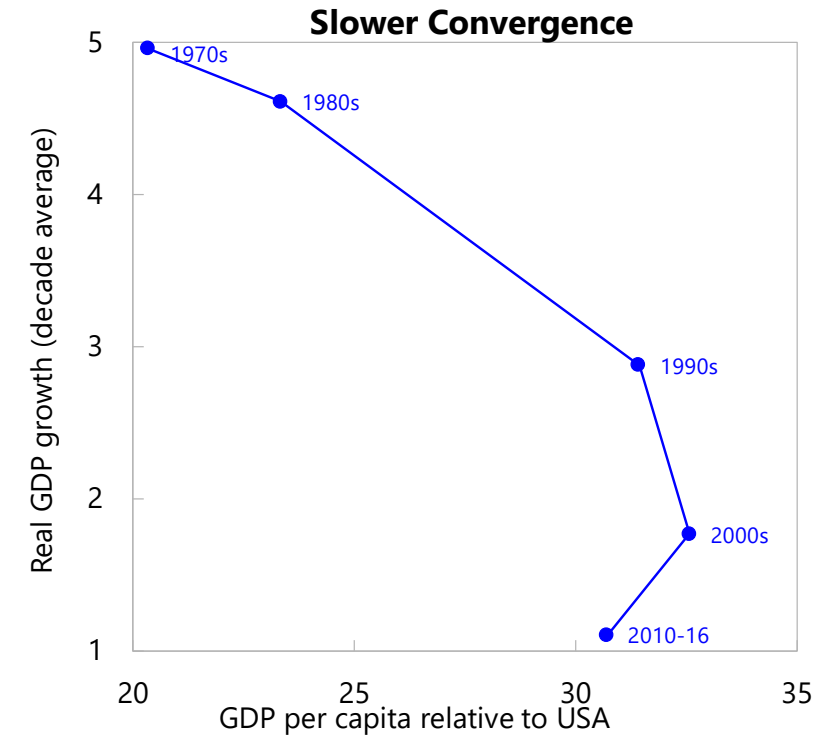
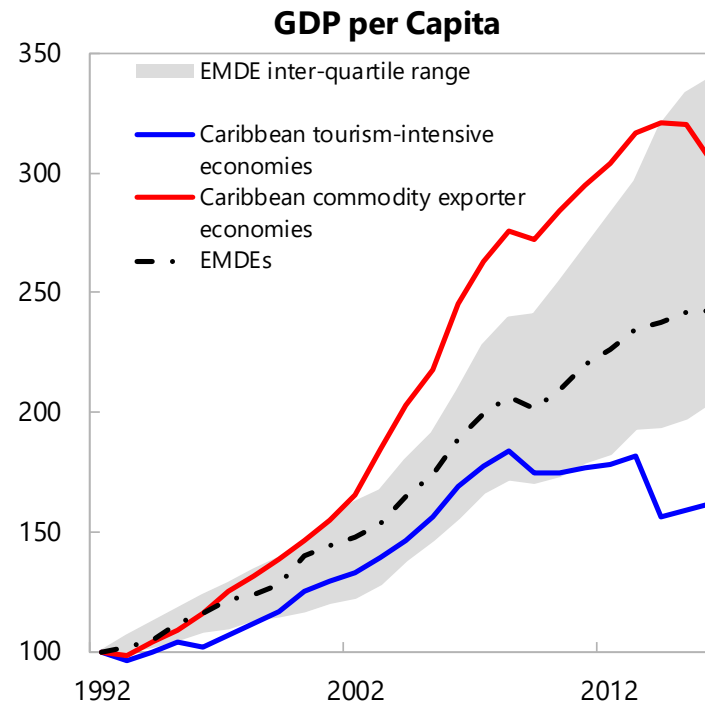
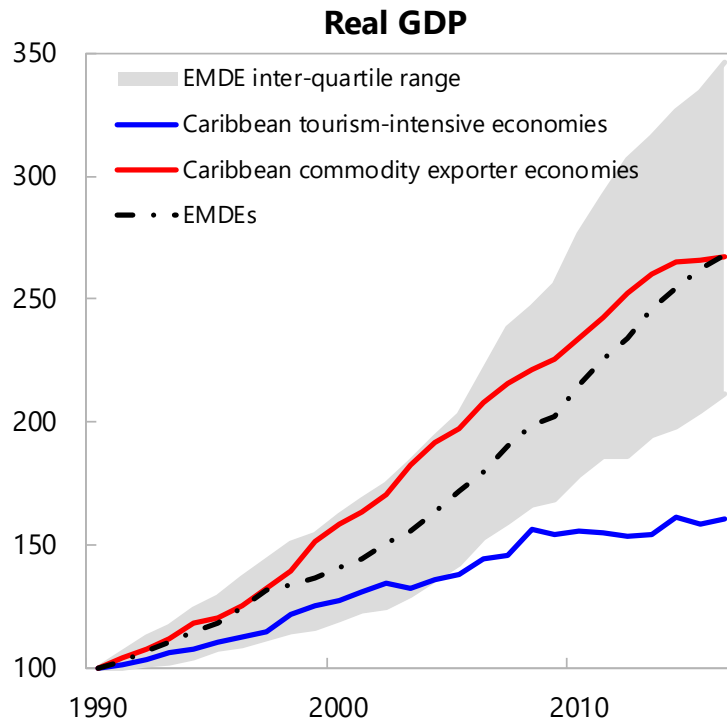
March 22, 2018

# The Caribbean has made significant strides...

## Demographic, Economic, and Social Indicators 2015 or latest available



*... but real GDP has lagged since the 2000s for tourism-intensive economies.*



Notes: Commodity exporter economies are Belize, Guyana, Suriname, and Trinidad and Tobago. Tourism-intensive economies includes all other Caribbean countries.

# *Self-reinforcing structural and macro impediments to growth*

## **Structural Impediments**

- Natural disasters
- Violent crime
- Brain drain
- High costs of doing business
- Loss of preferential trade access and official development assistance



**Declining Growth**

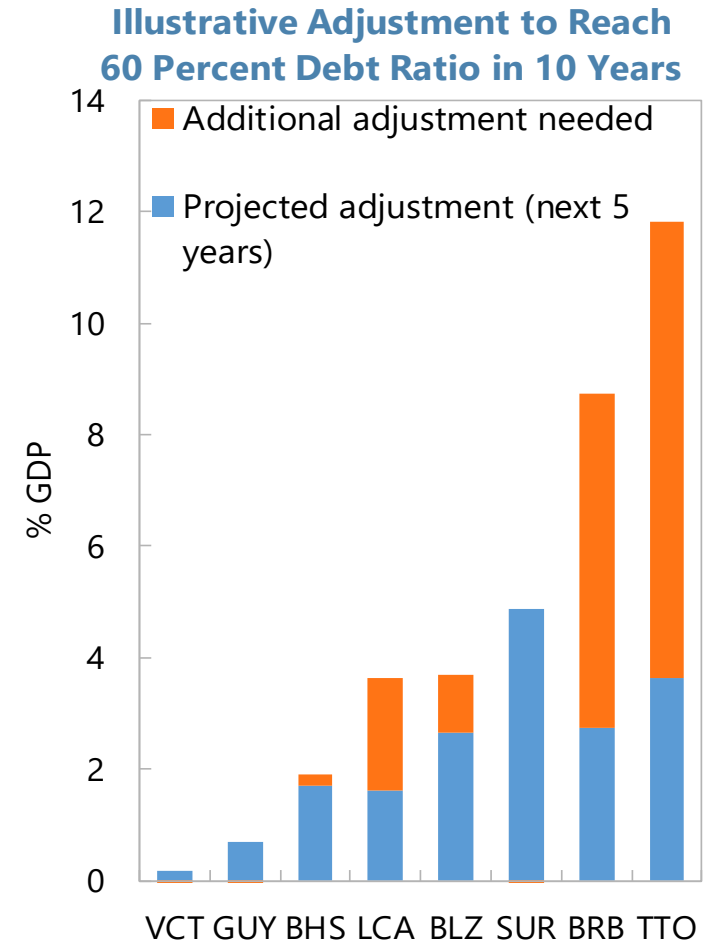
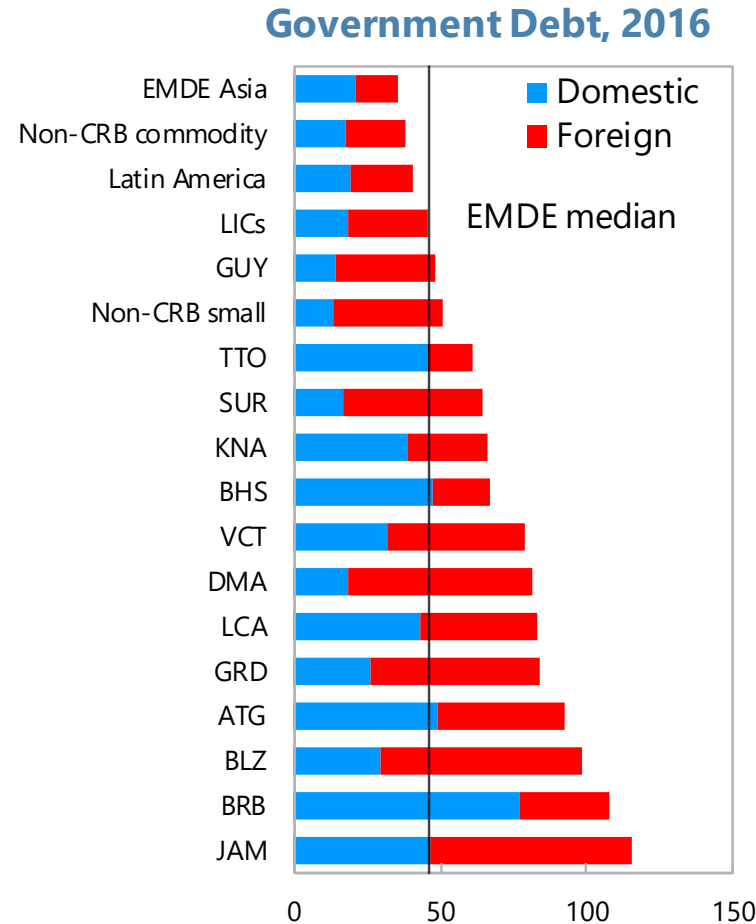
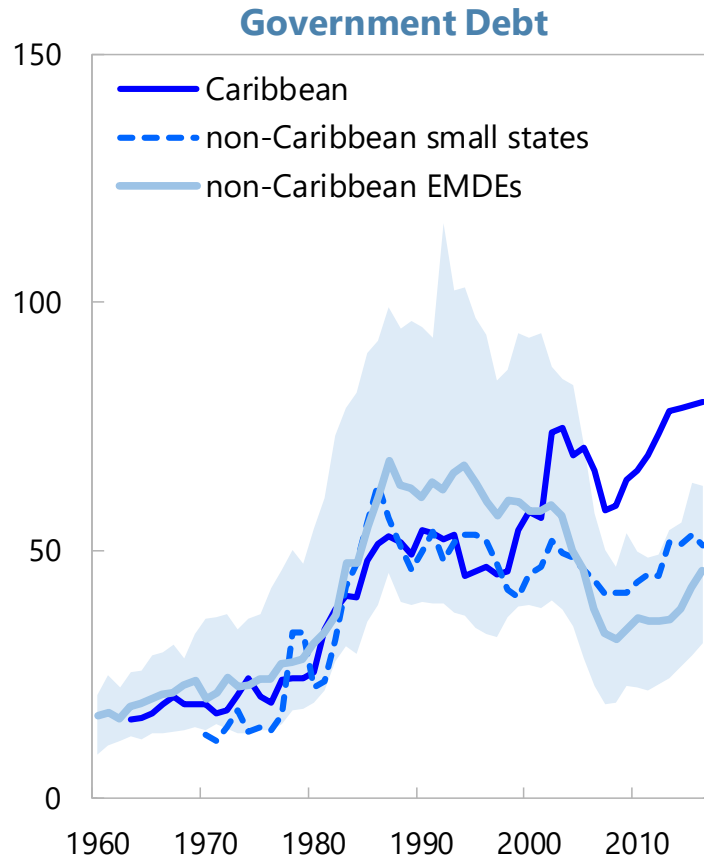
## **Macroeconomic Impediments**

- Weak fiscal positions and elevated levels of public debt
- High non-performing loans
- Low financial deepening and inclusion

A DIAGNOSTIC

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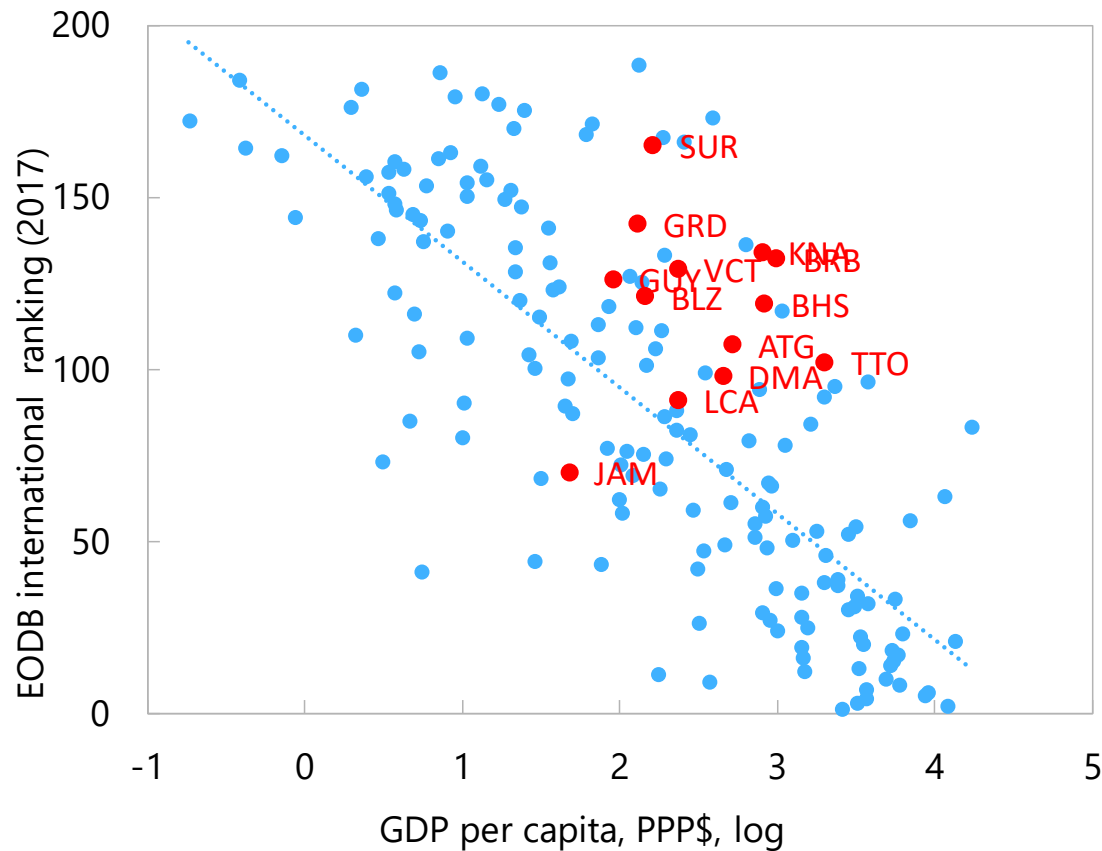
# High levels of debt mean very little fiscal buffers...



**Median debt in Caribbean highest in ½ century and 30 percentage points higher than EMDE**

# ... and structural factors constrain growth

## High Costs of Doing Business



Source: World Bank and IMF Staff Calculations.

## Heat Map: Characteristics Relevant for Growth and Prosperity (Ranking across country groups)

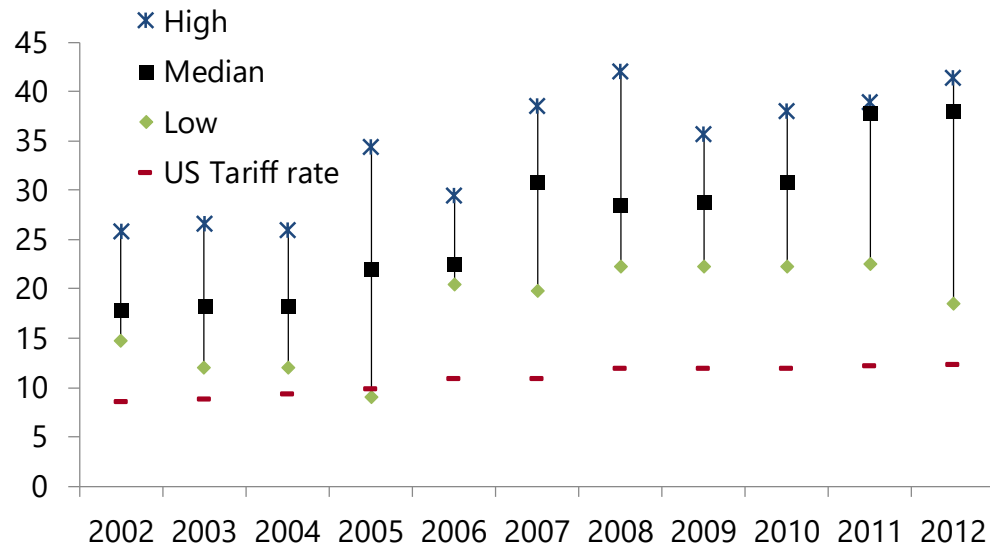
	Tourism-Intensive CRB Economies	Commodity Exporter CRB Economies	Non-CRB small states
Violent Crime	Orange	Orange	Green
Emigration	Red	Red	Yellow
Skilled Emigration	Red	Red	Yellow
Human Capital	Orange	Green	Orange
Natural Disasters	Red	Orange	Yellow
Government Debt	Red	Yellow	Yellow
Taxation	Yellow	Yellow	Light Green
NPLs	Red	Orange	Orange
Ease of Doing Business	Yellow	Orange	Orange
Competitiveness	Light Green	Red	Orange
Bureaucracy	Light Green	Yellow	Orange
Regulatory Quality	Light Green	Orange	Orange
Rule of Law	Light Green	Orange	Light Green
Control of Corruption	Green	Orange	Light Green
Trade Openness	Yellow	Light Green	Light Green
Trade Tariff	Red	Orange	Yellow
Trade Connectivity	Orange	Orange	Red
Gvc Participation	Yellow	Red	Yellow
High-Tech Export Share	Orange	Red	Light Green
Export Diversification	Orange	Red	Red

Note: Red = less favorable ranking; green = more favorable ranking.

# Energy costs are high and volatile in the Caribbean

## Caribbean Residential Electricity Tariffs (2002-2012) <sup>1/</sup>

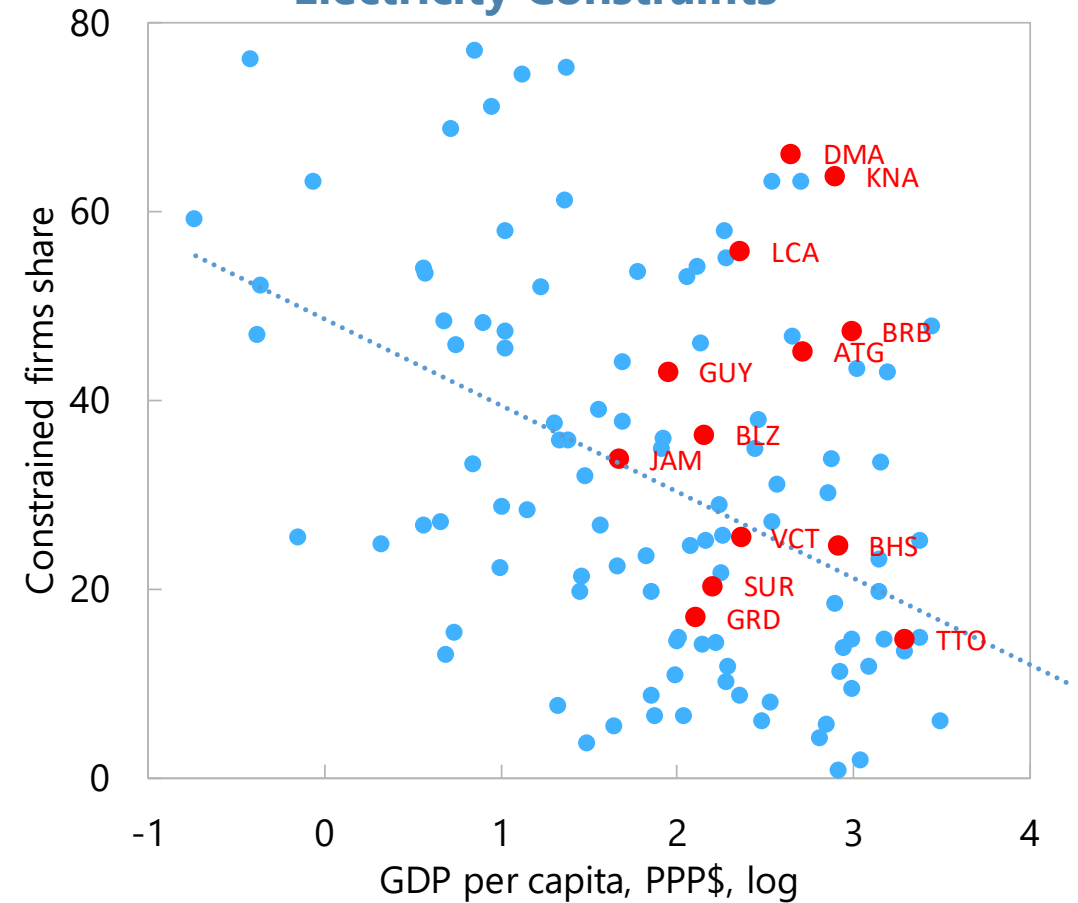
(In US ¢/kWh)



<sup>1/</sup> includes data for the Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Lucia and St. Vincent and the Grenadines; limited data available for Antigua and Barbuda and Nevis; excludes Trinidad and Tobago and Suriname

Source: CARILEC Tariff Survey (2012) and U.S. EIA database.

## Electricity Constraints

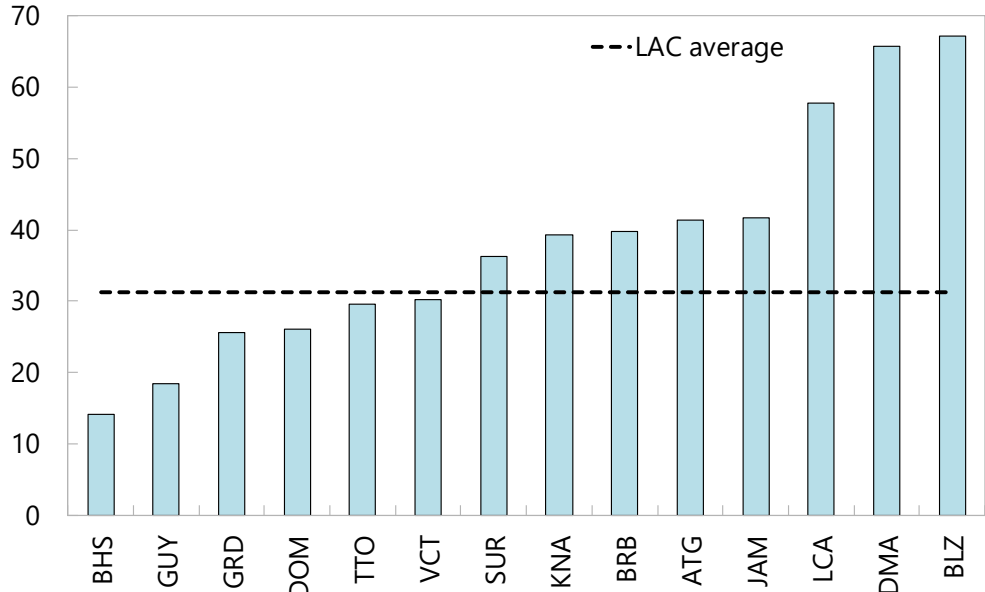




# Access to finance remains constrained for SMEs

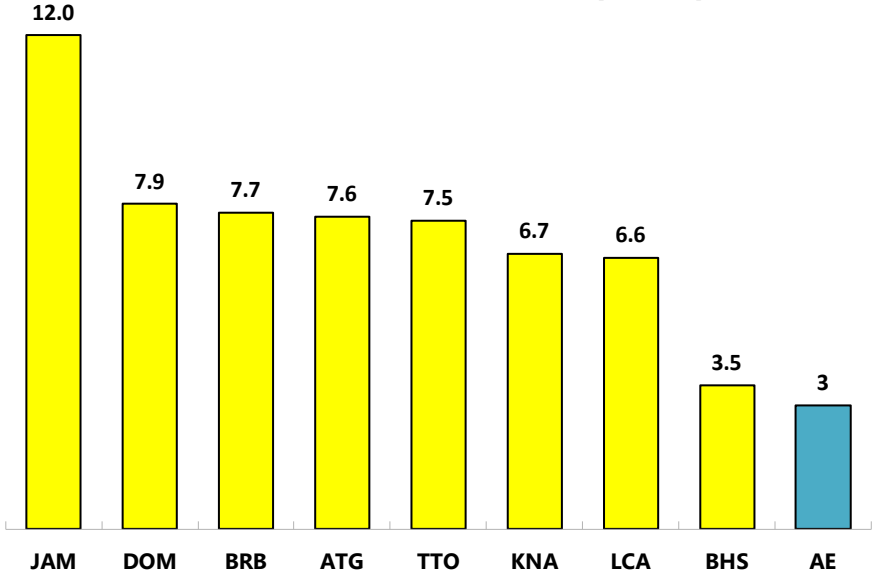
## Caribbean: Access to Credit as Major Constraint

(% SMEs that responded "yes")



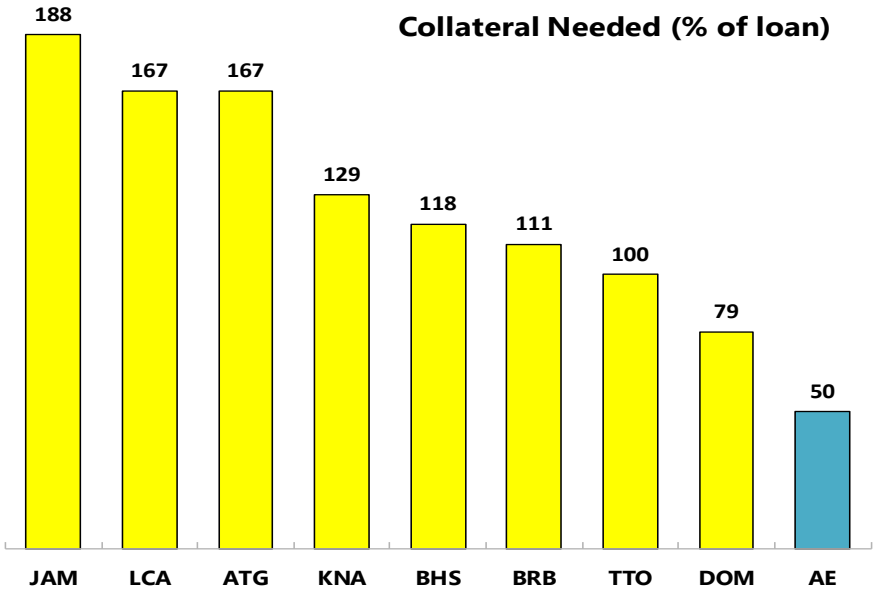
Sources: : World Bank Enterprise Survey and IMF staff calculations

## Loan-Deposit Spreads (%)



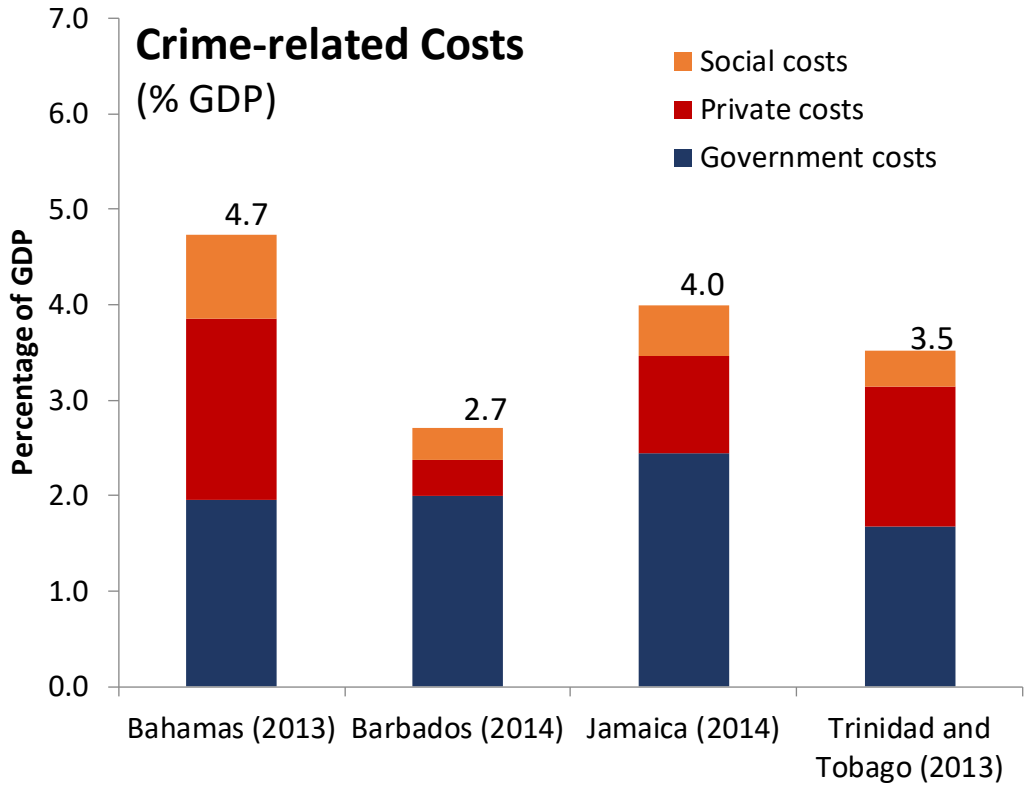
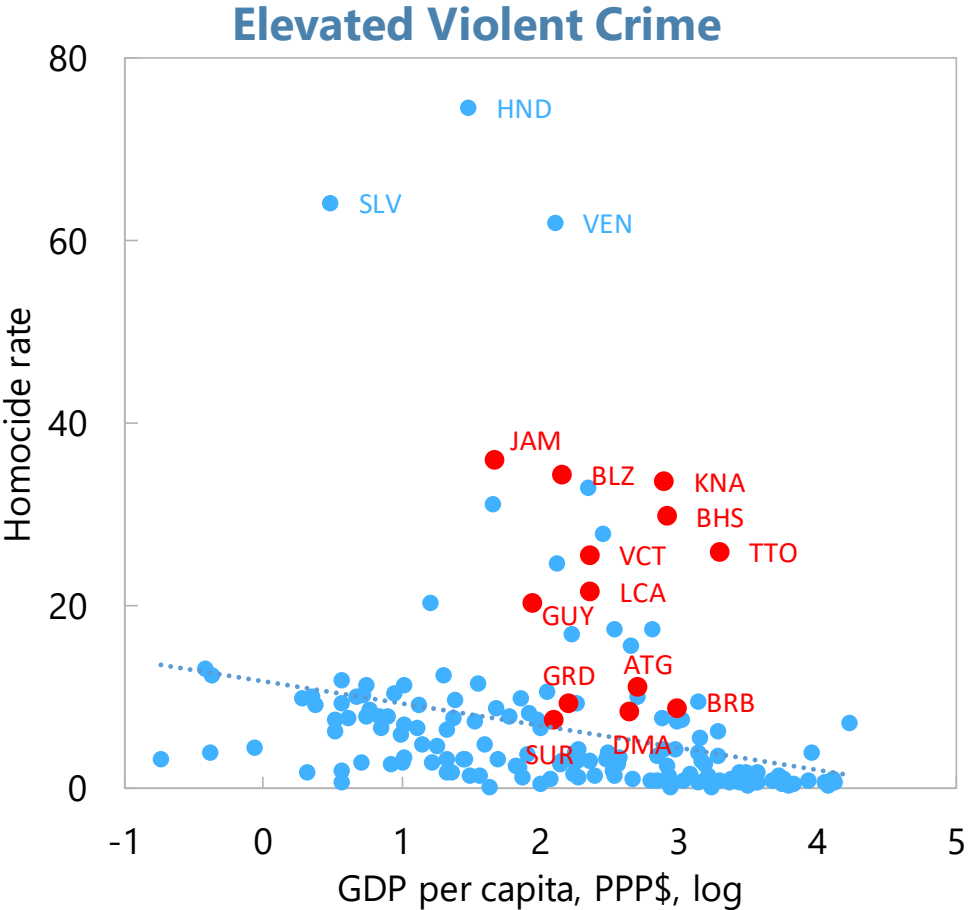
Source: World Bank Enterprise Survey and IMF staff calculations.

## Collateral Needed (% of loan)



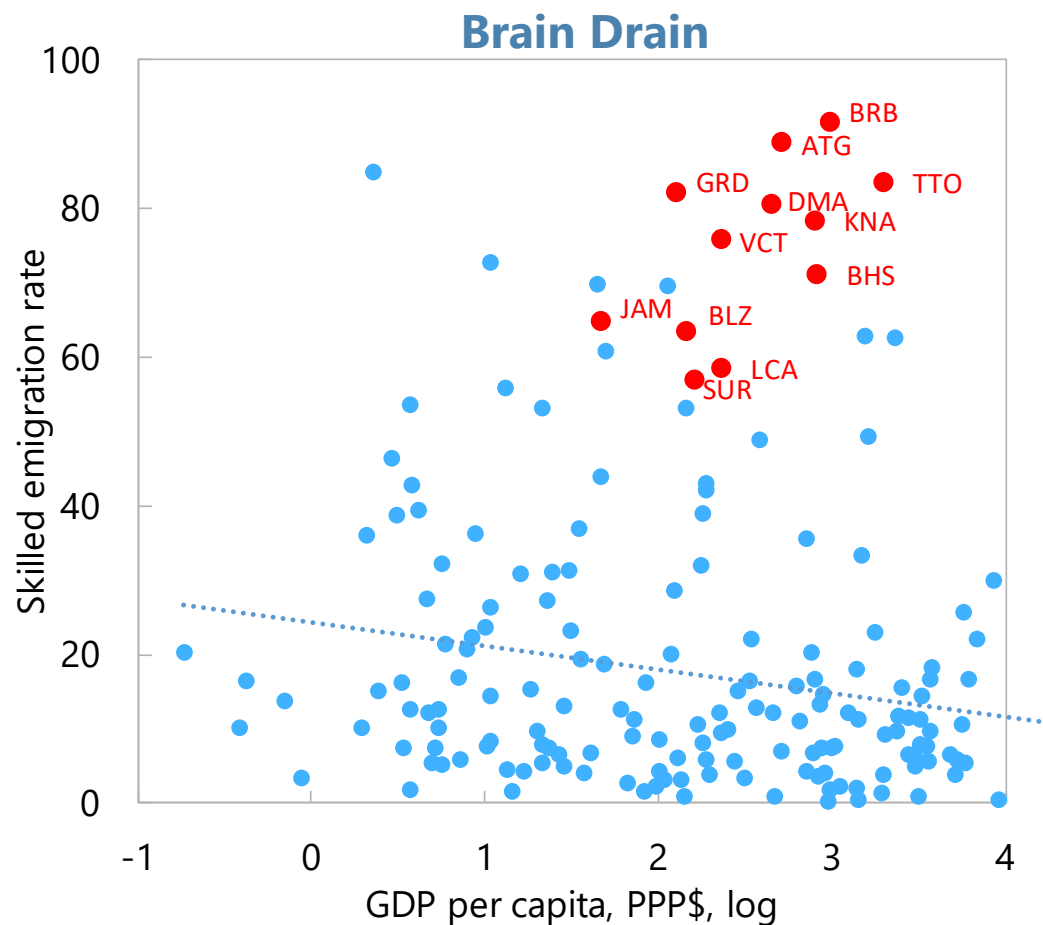
Source: World Bank Enterprise Survey and IMF staff calculations.

# Elevated crime rates impose significant costs on the economy

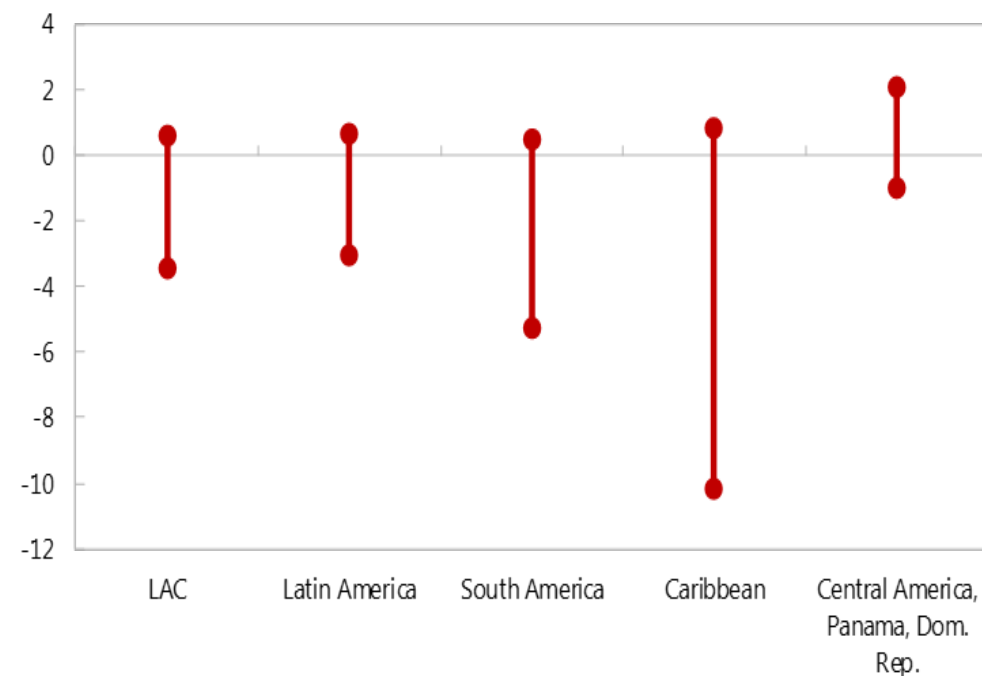


Sources: InterAmerican Development Bank

# Brain drain is a drag on growth despite positive effect of remittances



### Net Effect of Migration and Remittances on GDP Growth, 2003-13 (percent of GDP)

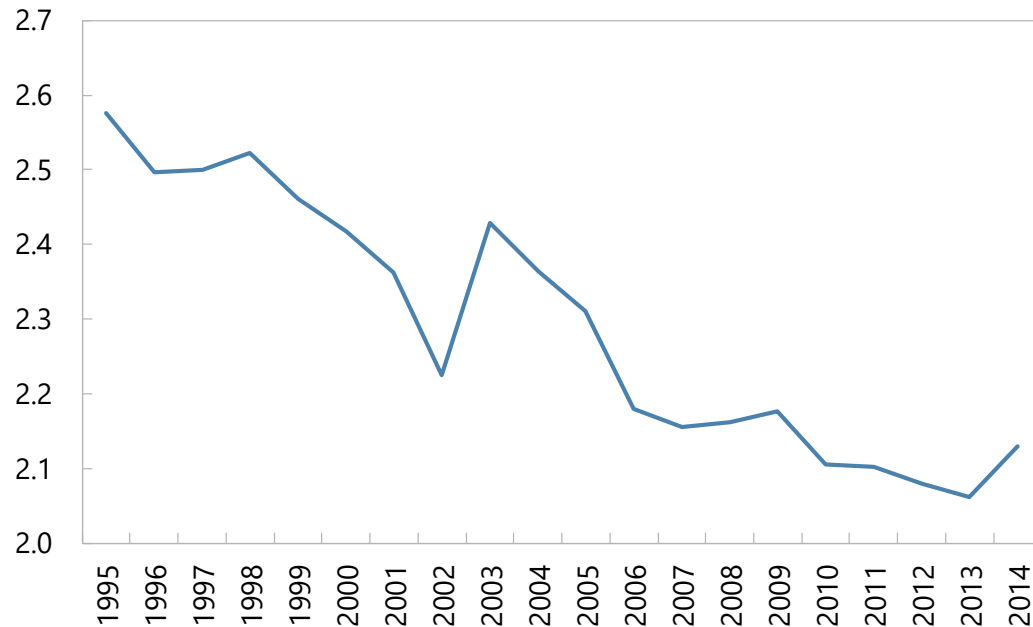


Sources: IMF Staff calculations

# Loss of competitiveness, particularly in tourism, partly driven by higher prices

## Caribbean Tourist Arrivals, Market Share

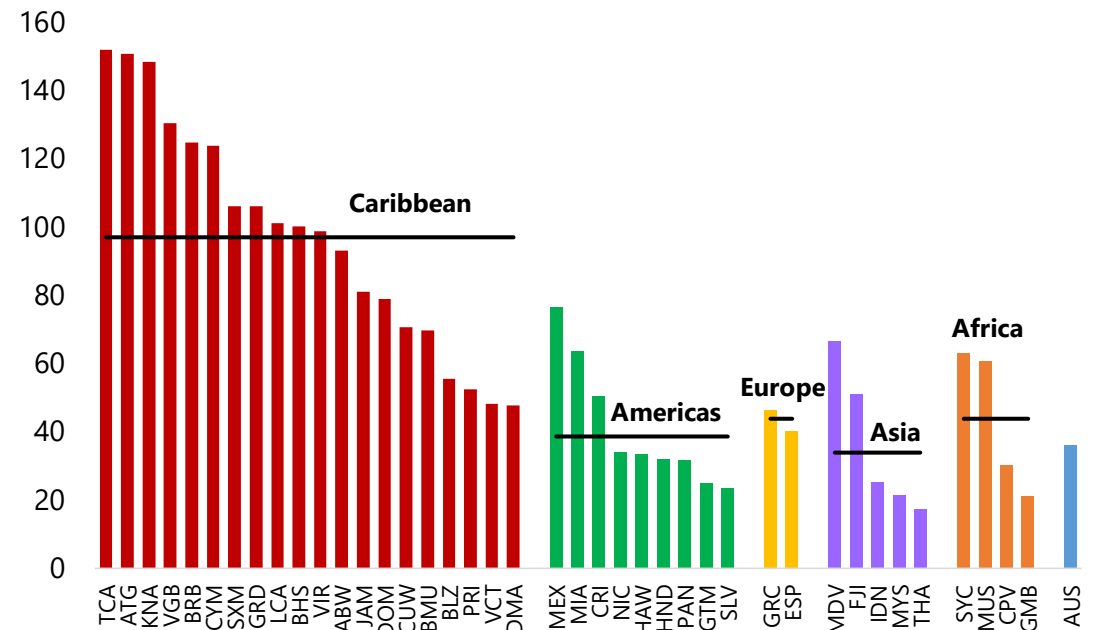
(In percent)



Sources: WDI; and IMF staff calculations.

## W@tB Index— Expedia, January 2017

(3-5 star hotel average, Bahamas = 100)



Sources: UNDP/UN Daily Subsistence Allowance (DSA) Rates and Fund staff calculations.

Notes: Room rate: see [www.travelocity.com](http://www.travelocity.com); [www.trivago.com](http://www.trivago.com)/ Taxi, Meals, Water, Beer, Coffee: see [www.numbeo.com/cost-of-living/](http://www.numbeo.com/cost-of-living/) and [www.worldcabfares.com/index.php](http://www.worldcabfares.com/index.php)

Total Cost without Tax = 7 \* (3 star hotel) + 2 \* (average taxi ride from main international airport to capital city) + 7 \* (1 inexpensive meal + 2 mid-range meals) + 7 \* (2 liters water) + 7 \* (0.5 liter beer) + 7 \* (coffee).

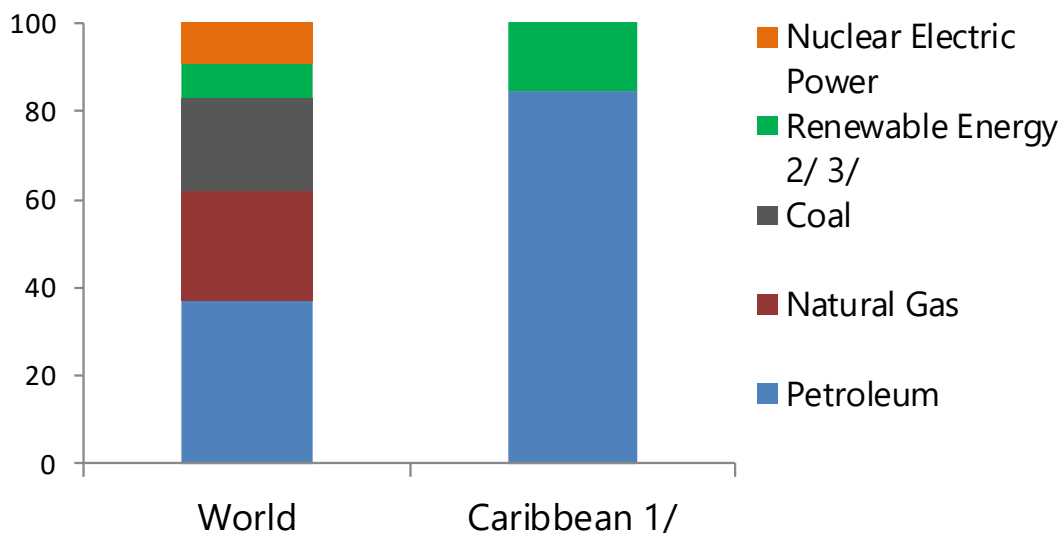
# UNLEASHING GROWTH

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# Diversifying the energy matrix to shield prices from oil fluctuations

## Primary Energy Consumption by Source and Use

(In Percent of Total)



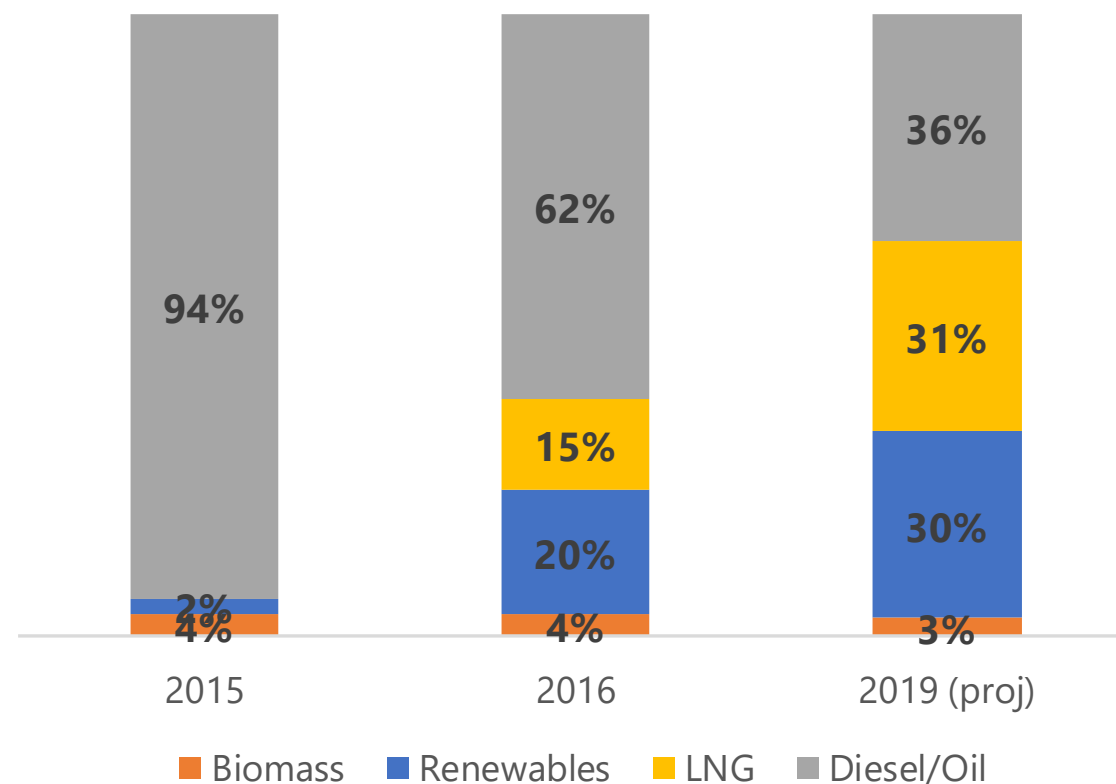
1/ Excludes T&T and Haiti

2/ Includes hydroelectric power, geothermal, solar/PV, wind, and biomass

3/ For the Caribbean, renewables include hydropower and biomass

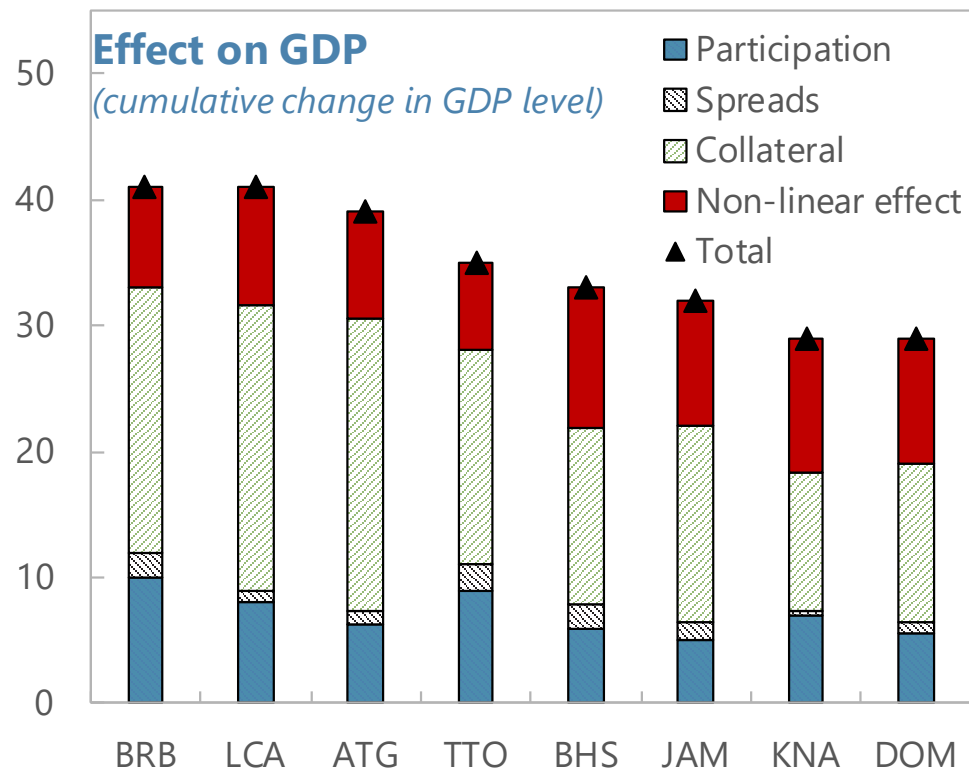
Source: EIA; IDB; and IMF staff Calculations

## Jamaica: Energy Generation Matrix

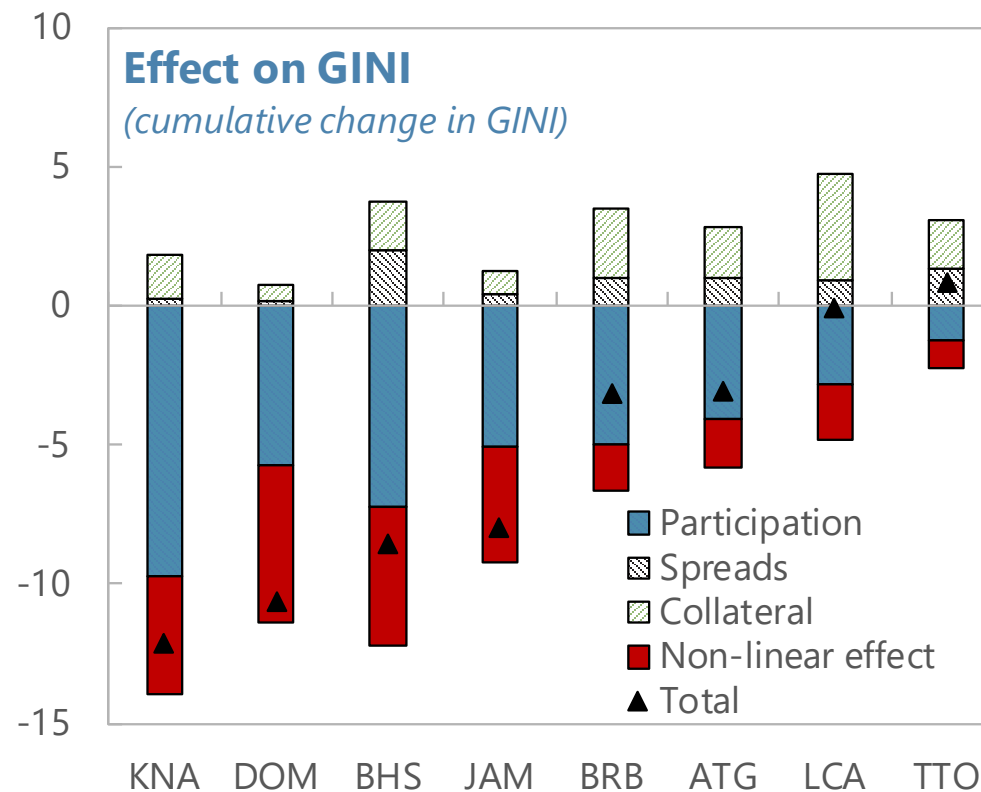


Sources: Jamaica Ministry of Science, Energy and Technology and IMF Staff calculations

# Loosening constraints to financial inclusion and improving access to finance



Sources: IMF Staff Calculations



Sources: IMF Staff Calculations

# *A multi-pronged approach to reduce crime*



Prevention and deterrence

- Parenting and mentoring programs
- Urban Renewal
- Victims' support



Enforcement and detection

- Data collection and sharing
- Targeted measures
- Rigorous evaluation of approaches



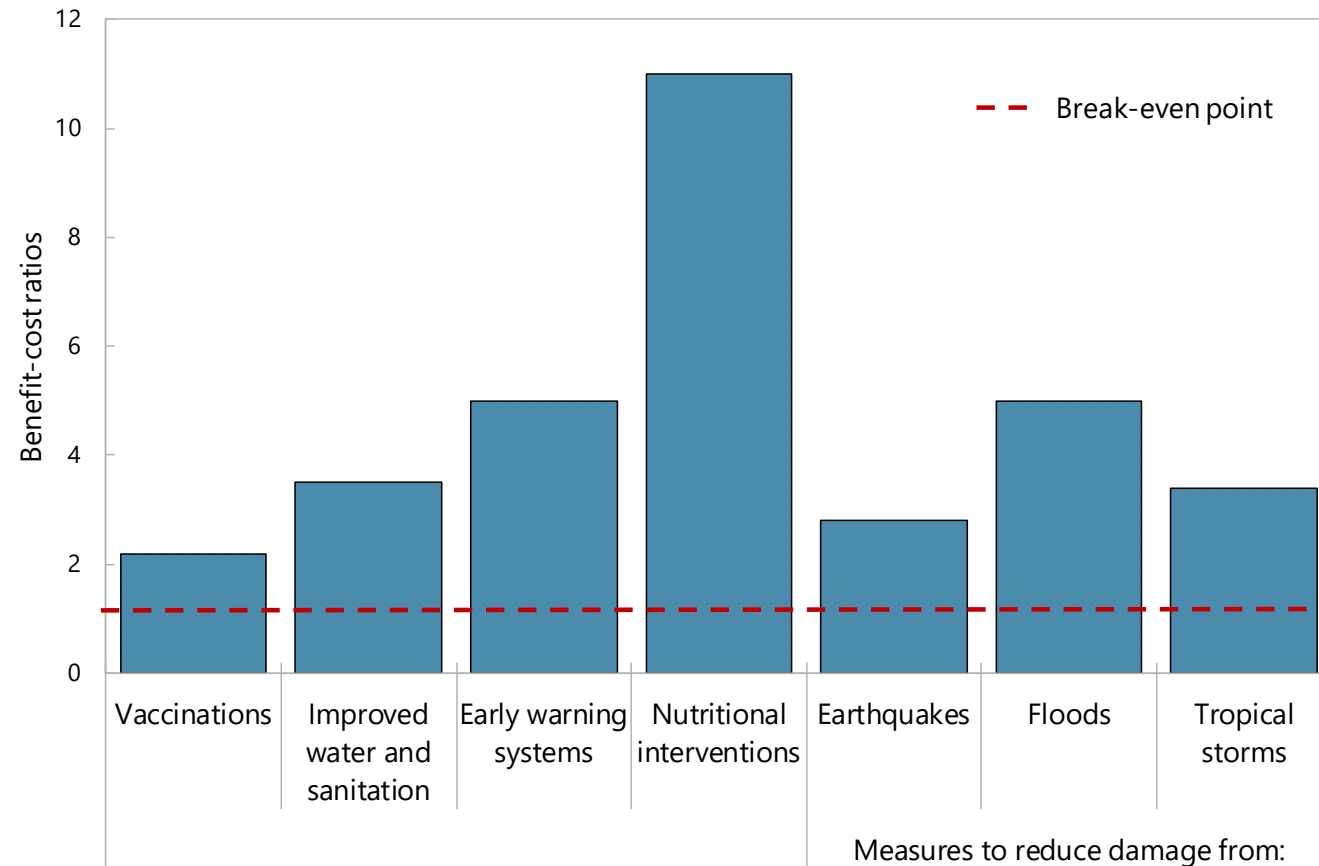
Rehabilitation and integration

- Treatment
- Skills training
- Job market opportunities



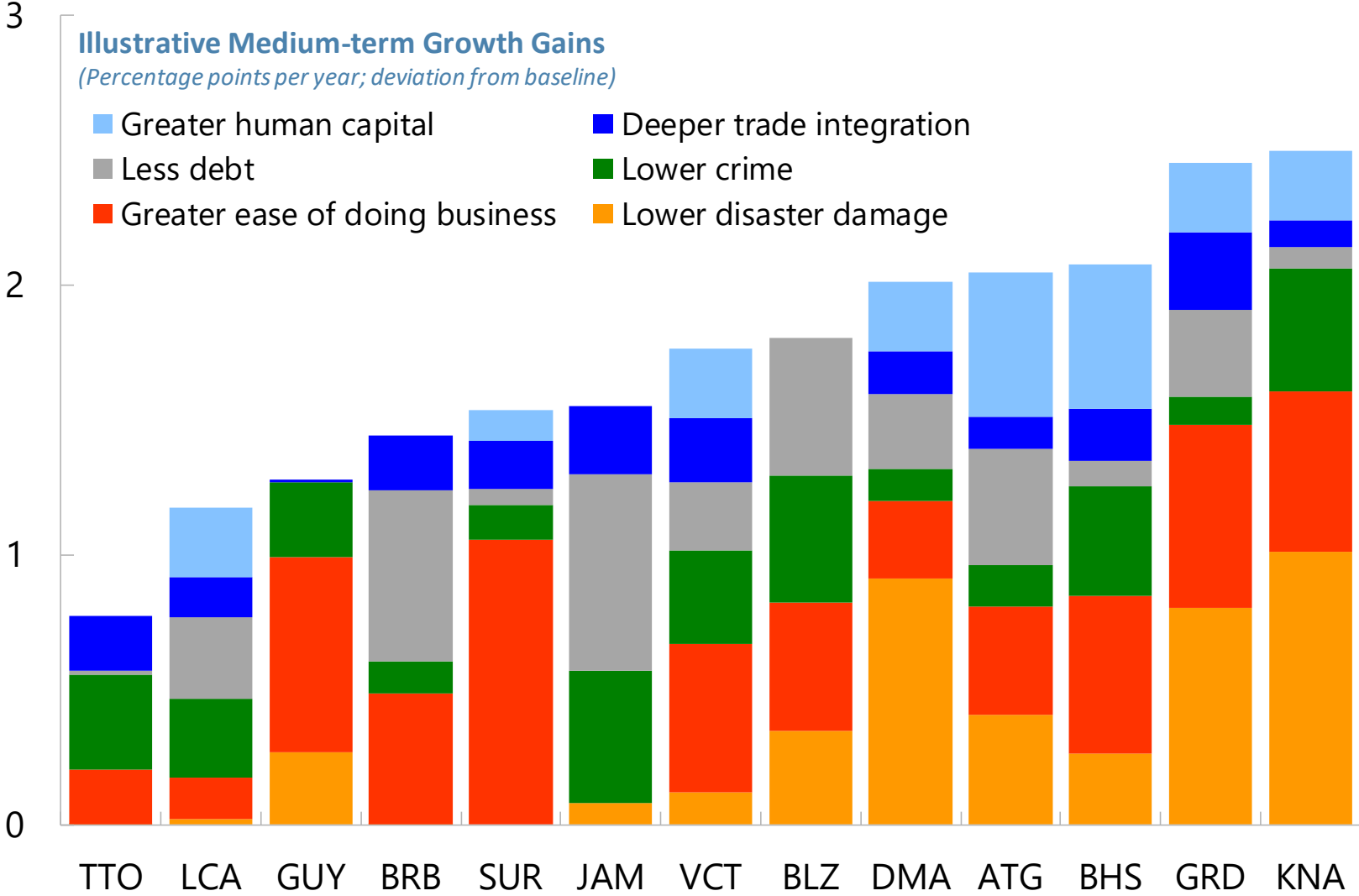
# Essential to build resilience to natural disasters

## Does it Pay to Prepare/Prevent?



Sources: World Bank and IMF Staff Calculations

# Unleashing Growth in the Caribbean



Sources: IMF Staff calculations

## *Conclusions and Key Takeaways*

- **Macro stability is necessary but not sufficient**
  - Thin fiscal buffers to serve as shock absorbers
  - Strengthen macro fundamentals and fiscal sustainability
  - Structural reforms are key to unleashing sustained and resilient growth
- **Need multipronged approach**
  - Energy costs
  - Financial inclusion
  - Crime
  - Strengthen resilience to natural disasters

THANK YOU!

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