

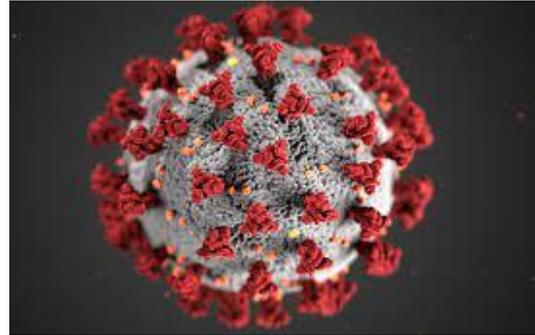
A Confluence of Shocks & Structural Deficiencies: The Existential Challenges Facing
Caribbean Economies

Dr. Wayne Robinson
Inaugural Macroeconomic Caribbean Conference
Nassau Bahamas

09 February 2023

Motivation

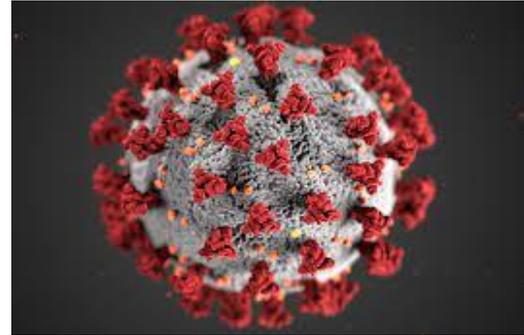
- The Caribbean is faced with a confluence of recurring shocks and structural challenges.



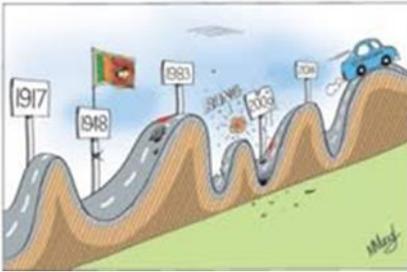
Main Message

- The main challenge:
Structurally adjust economies to
build greater resilience

Building resilience requires sequenced and integrated structural reforms and investments that simultaneously address the macroeconomic constraints and climate risks within a tight fiscal envelope.



Outline



Structure of Caribbean Economies

Narrow economic base

Weak PFM

Fossil fuel dependent

Human capital

Vulnerable Infrastructure



Economic Challenges

Low growth and high debt

High and rising inflation

Spillovers from tighter financial conditions

Natural disaster shocks



Policy Options for Building Resilience

Fiscal resilience

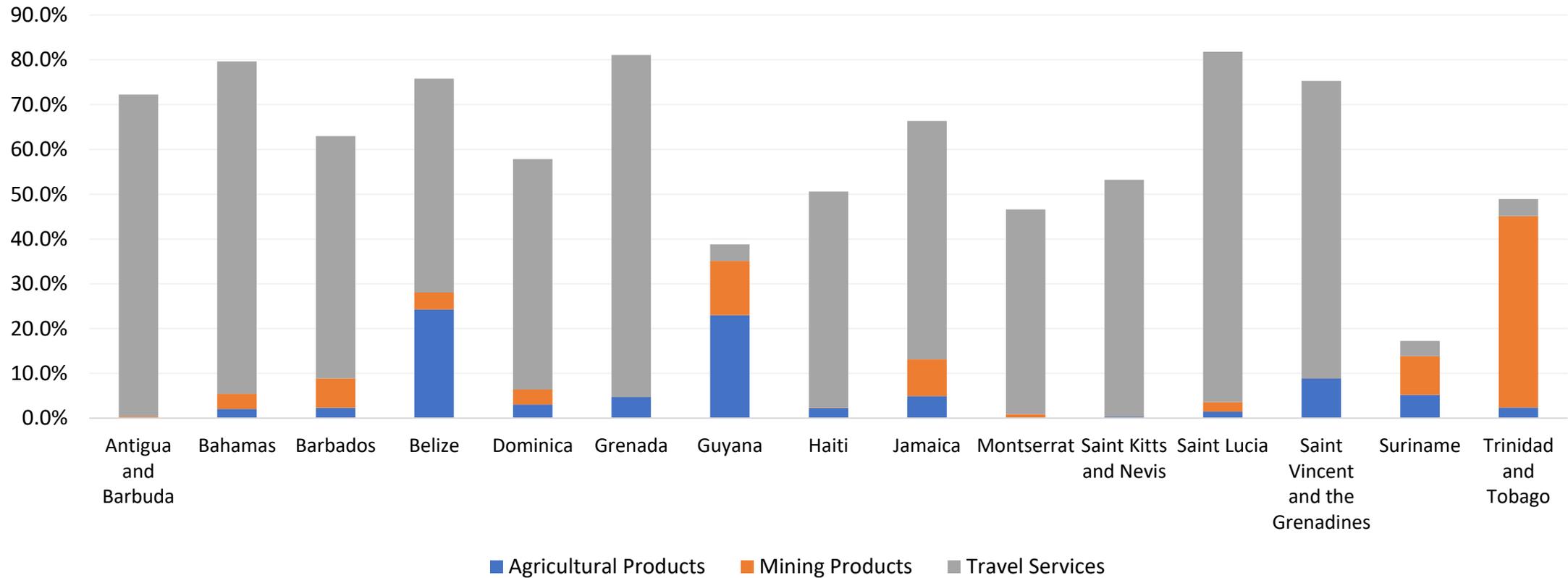
Monetary framework

I. Structure of Caribbean Economies



Main export industries (tourism, agriculture and mining) are vulnerable to global economic and natural disaster shocks...

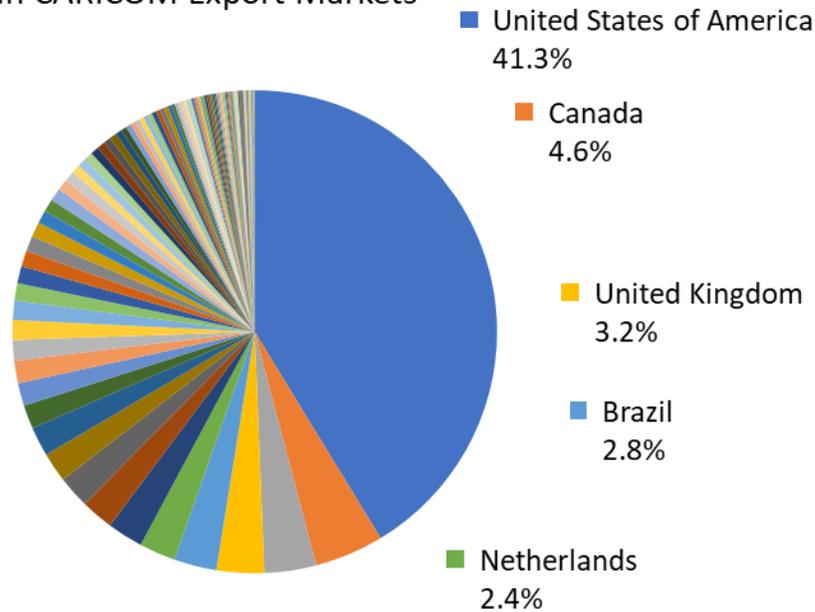
Share of Select Exports in total exports (average), 2013-2022



Dependence on a limited set of export markets and remittances..

Export markets are concentrated suggesting heightened sensitivity to changes in US demand ...

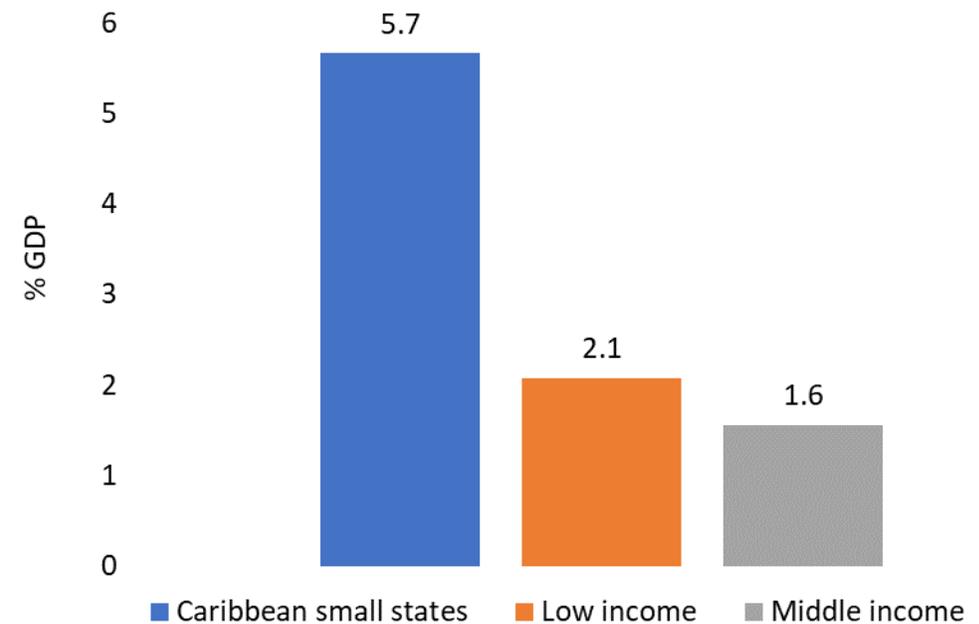
Main CARICOM Export Markets



Source: International Trade Centre. Trade Map Database

... and remittances as a major source of foreign exchange earnings

Remittances (% GDP) for Select Country Groupings



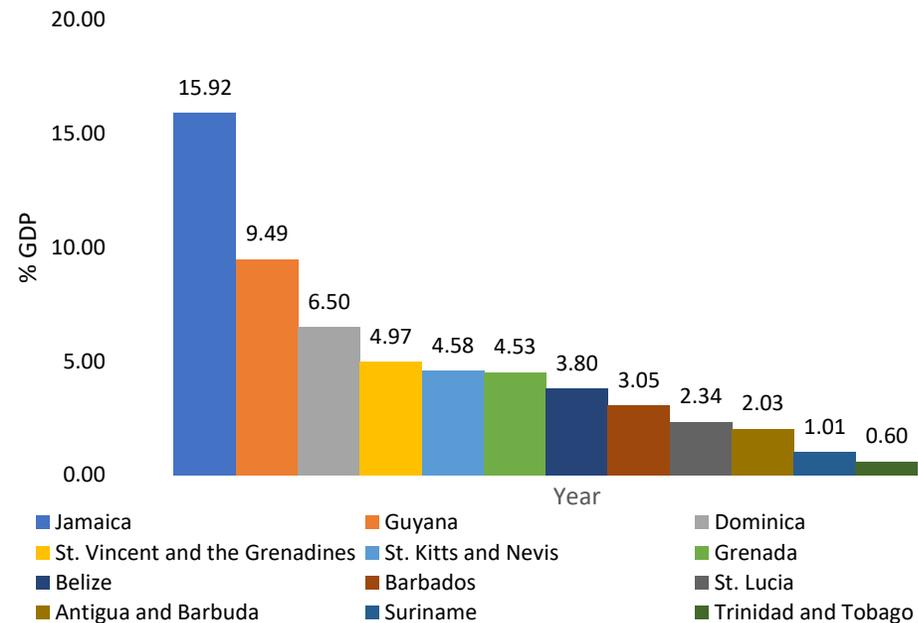
Source: World Bank

Remittances are an important source of FX flows.....

Remittances are more important for tourism dependent economies...

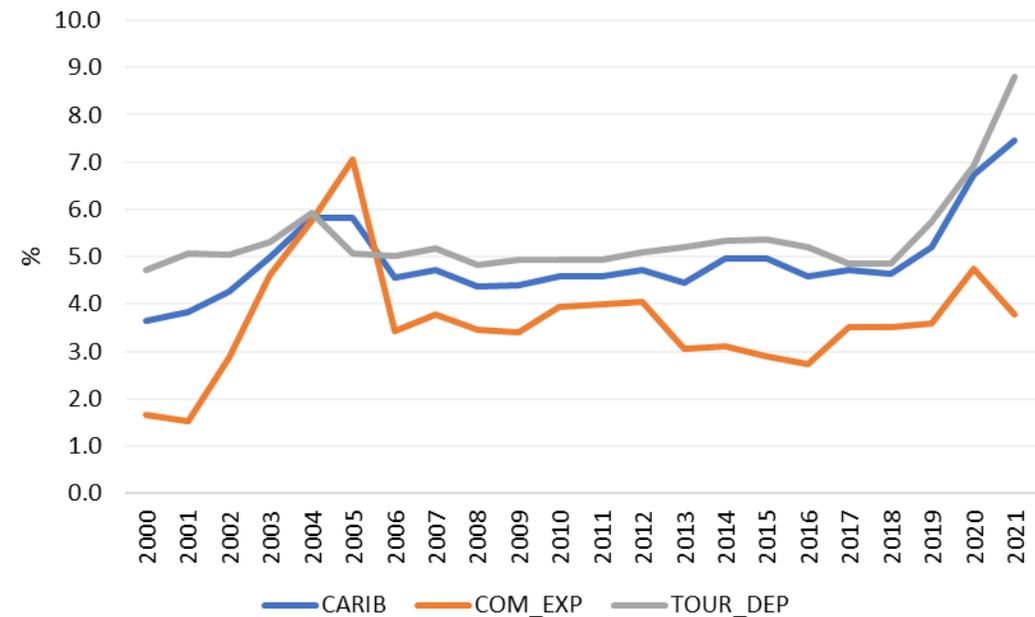
... are potentially stabilizing forces but can raise the reservation wage, impair productivity and growth

Average Personal Remittances Received (% GDP), 2000-2021



Source: World Bank

Trajectory of Remittance Inflows (% GDP) for Select Country Groupings

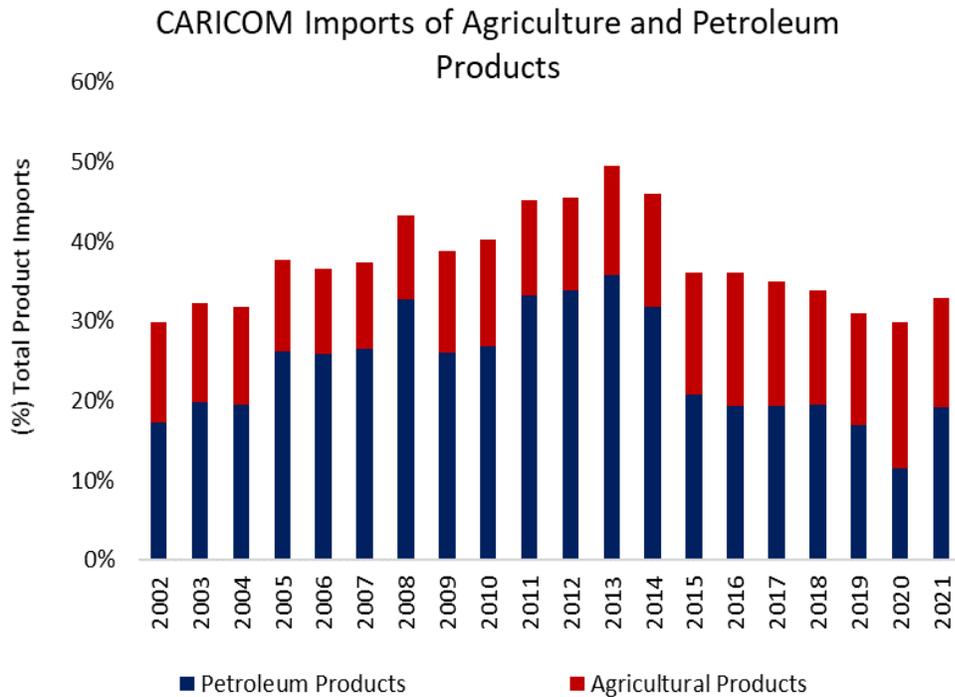


Source: World Bank

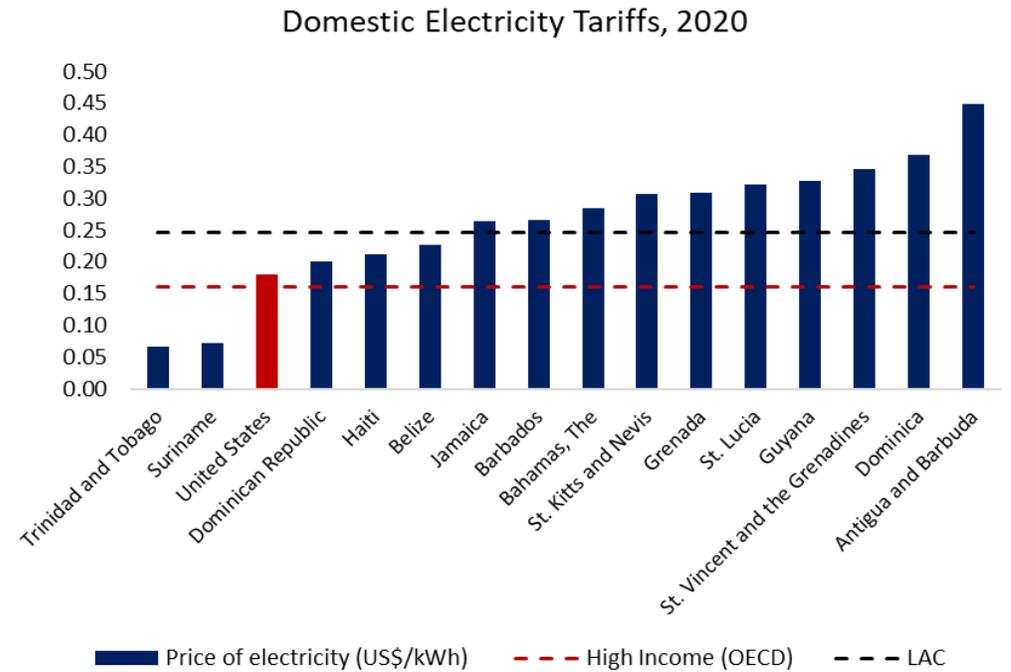
Heavy reliance on imports...

Caribbean economies are highly import dependent, particularly on food and fuel ...

... which exposes the region to food and energy security risks associated with high and volatile prices



Source: International Trade Centre. Trade Map Database



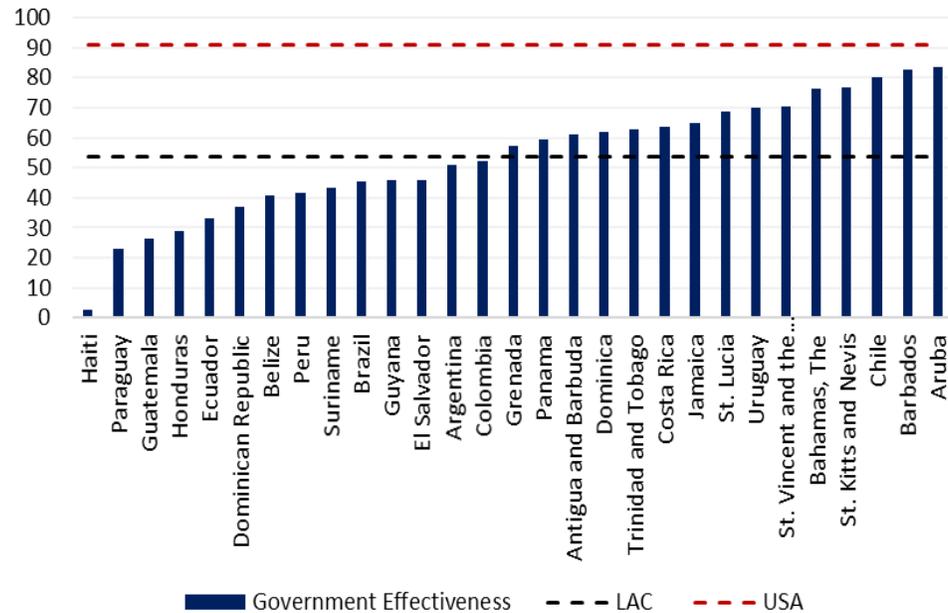
Source: World Bank Doing Business Report, 2021

Weak public financial management...

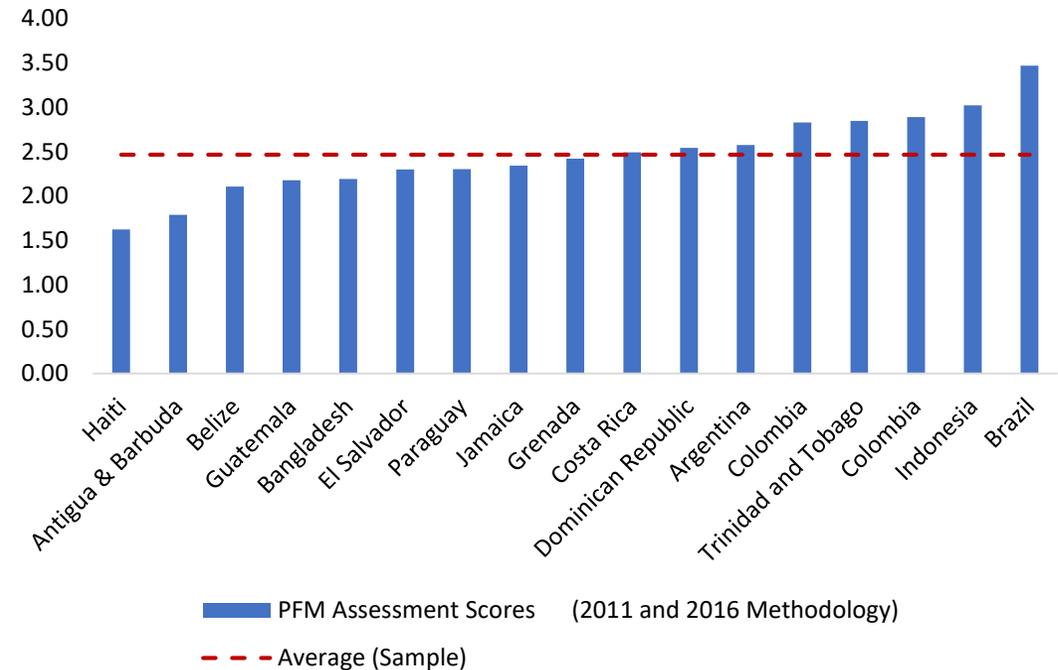
Weak Government Effectiveness rankings relative to more advanced economies ...

... reflect in generally weak PFM assessment scores and poor fiscal outcomes for Caribbean economies

Percentile Ranking on Government Effectiveness (2005-21)



PFM Assessment Scores (Methodology 2011 and 2016)

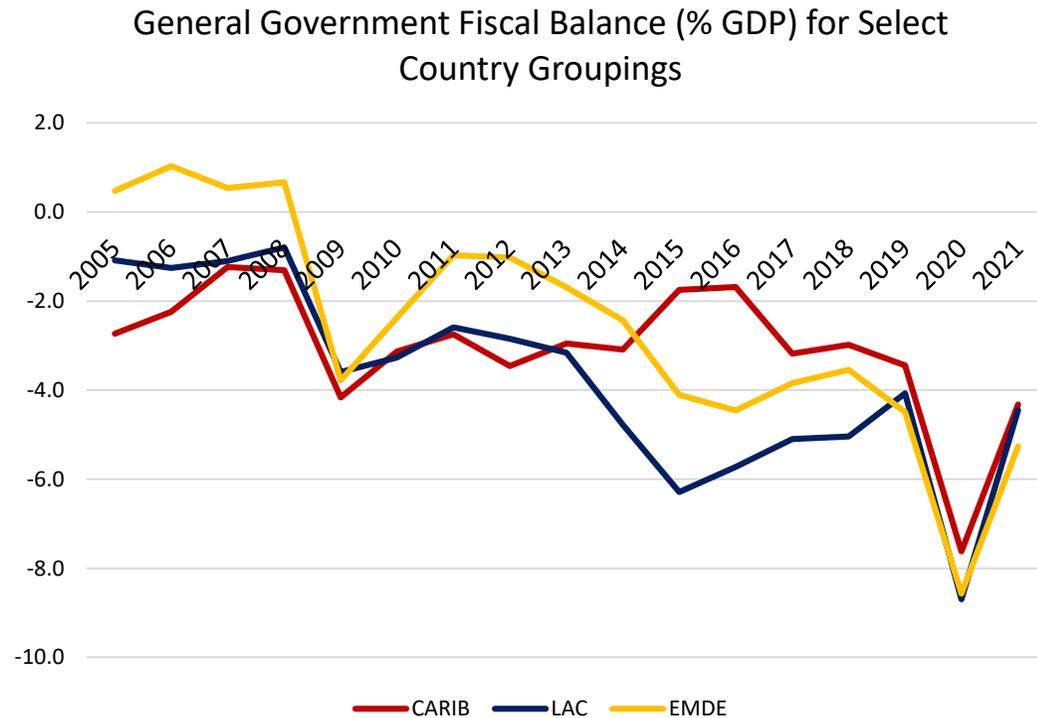


Source: World Development Indicators (WDI), World Bank

Source: Public Expenditure and Financial Accountability (PEFA) Secretariat

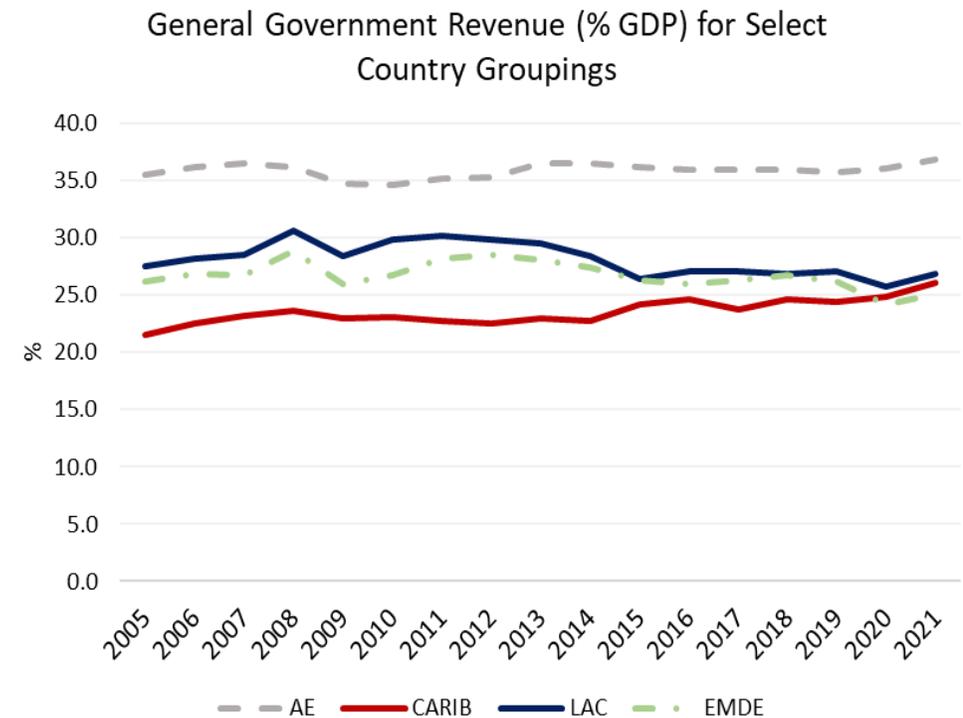
Persistent deficits & low revenue yields due to weak fiscal institutions...

Sustained fiscal deficits (in the context of relatively high public debt) ...



Source: World Development Indicators (WDI), World Bank

... reflect revenue mobilization challenges on the part of Caribbean economies

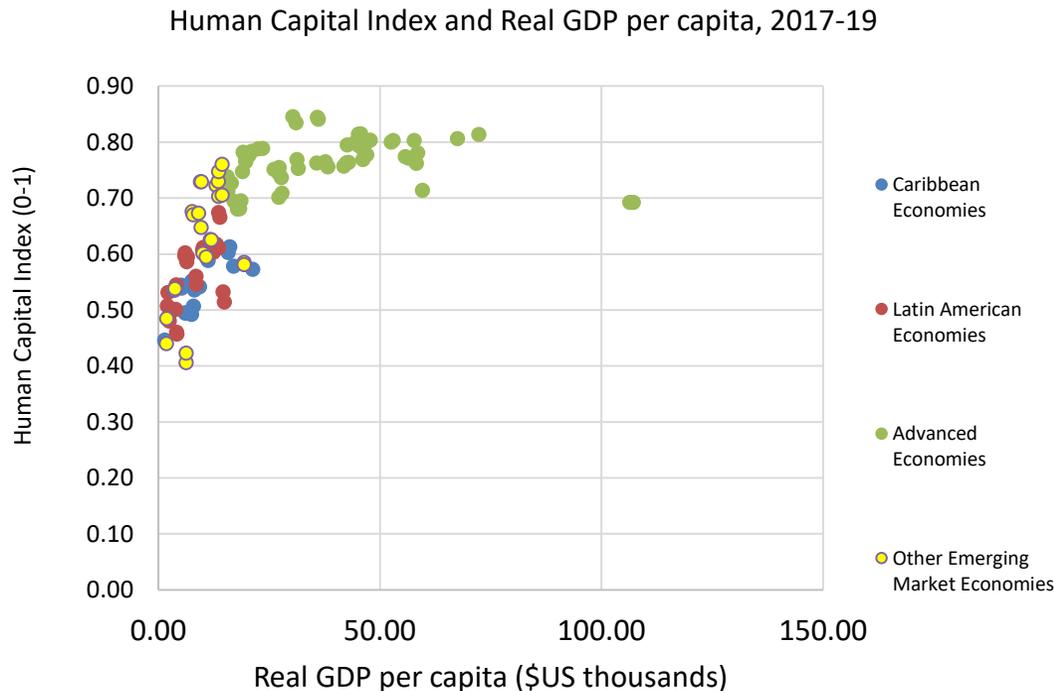


Source: World Development Indicators (WDI), World Bank

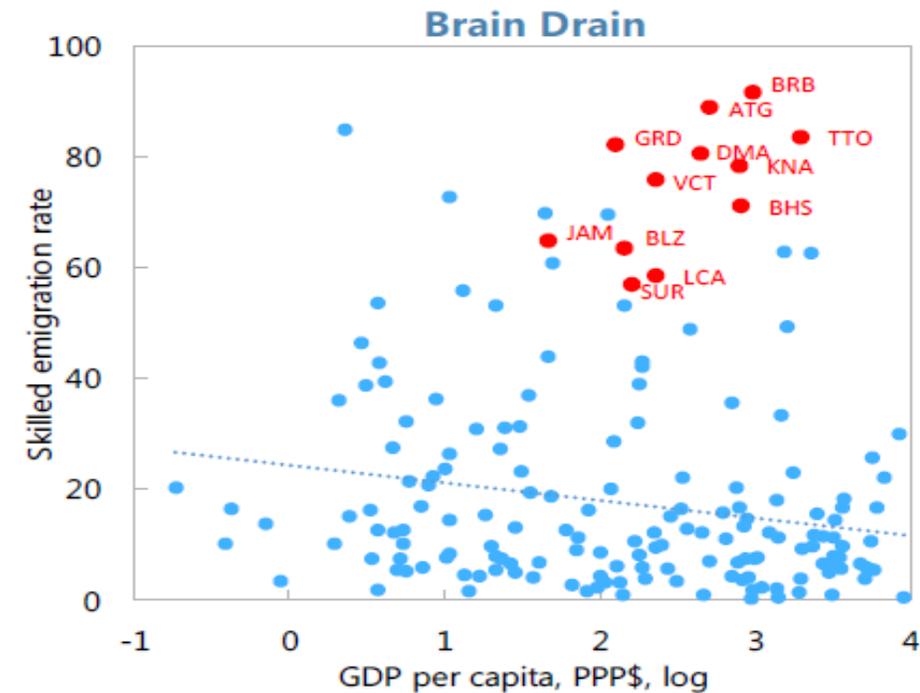
Lower rates of human capital development and relatively high skills biased emigration...

Lower HCI rankings suggests lower contribution from health and education to productivity for Caribbean economies compared to more advanced economies ...

...and our skilled workers are leaving in droves



Source: WDI, World Bank



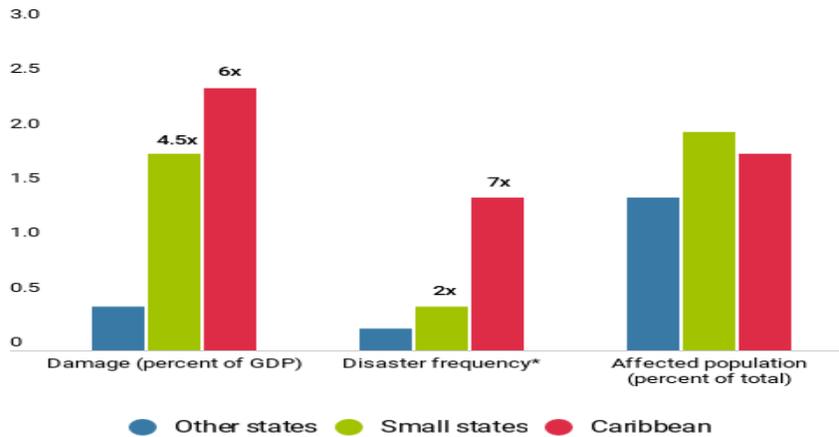
Source: IMF(2021). Unleashing Strong, Sustainable, and Inclusive Growth in the Caribbean

Vulnerable infrastructure...

Hurricanes are much more frequent in the Caribbean compared to other small states

.... and are getting more severe with significant economic costs

Highly vulnerable
 Caribbean countries experience frequent natural disasters with high human and economic costs.
 (frequency and effects of natural disasters, 1990-2014)

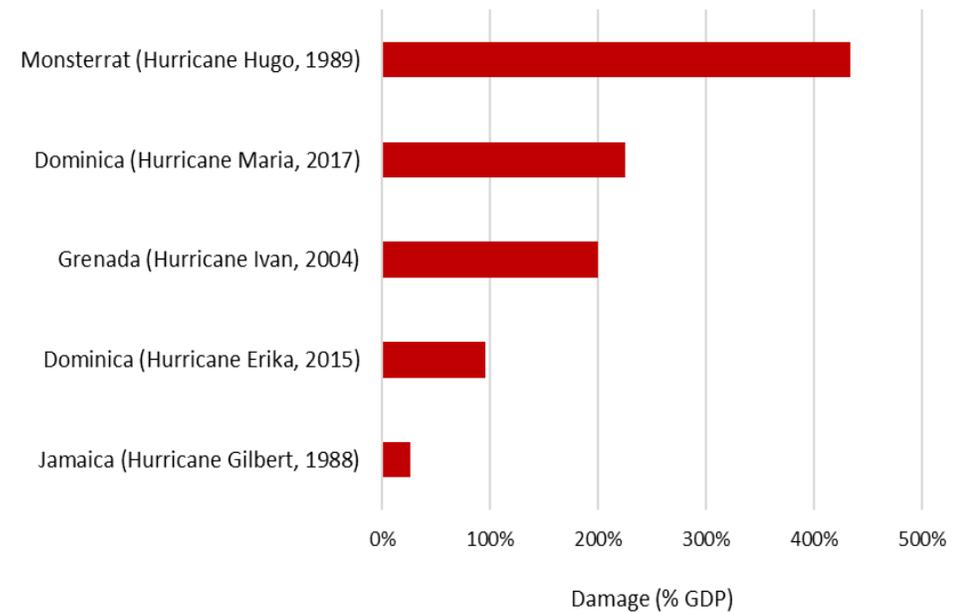


Source: IMF staff calculations.



Source: Taken from IMF 2016 Blog

Damage (est) from Select Hurricanes in the Caribbean

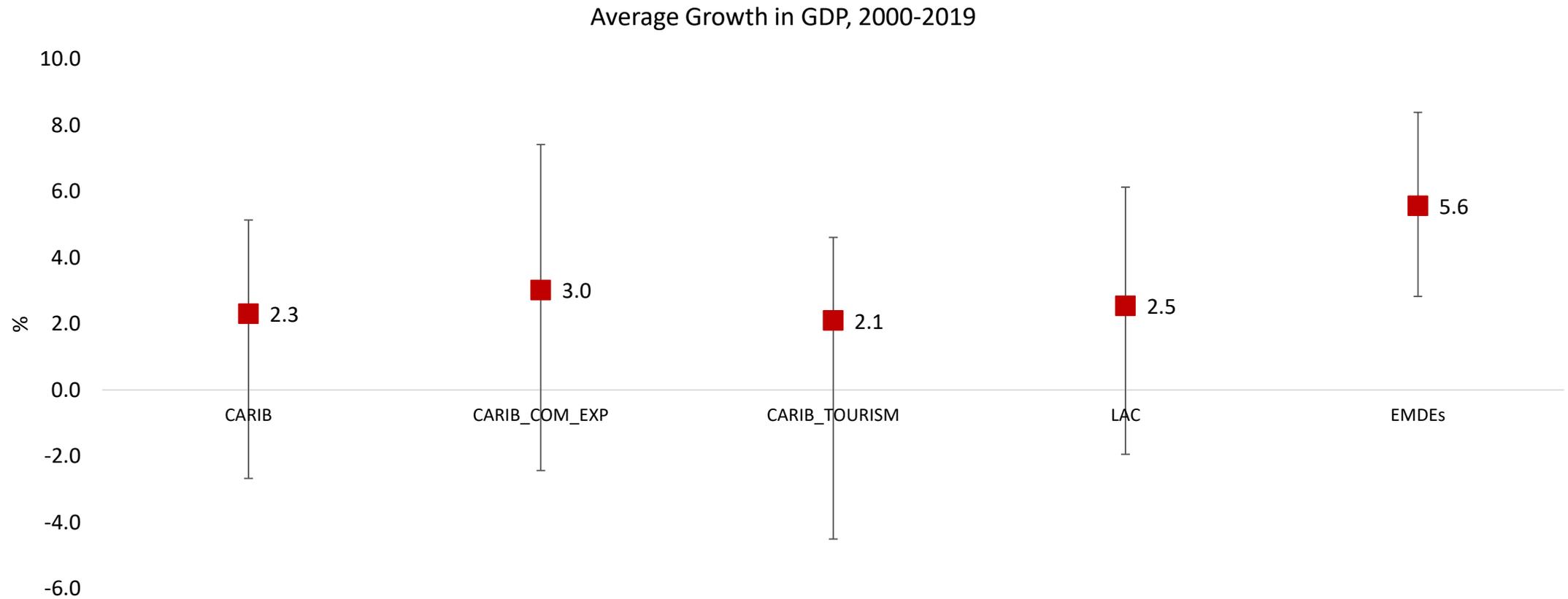


Source: EM-DAT emergency events data base and authors calculations

II. Main Challenges



Low growth outcomes in the Caribbean...

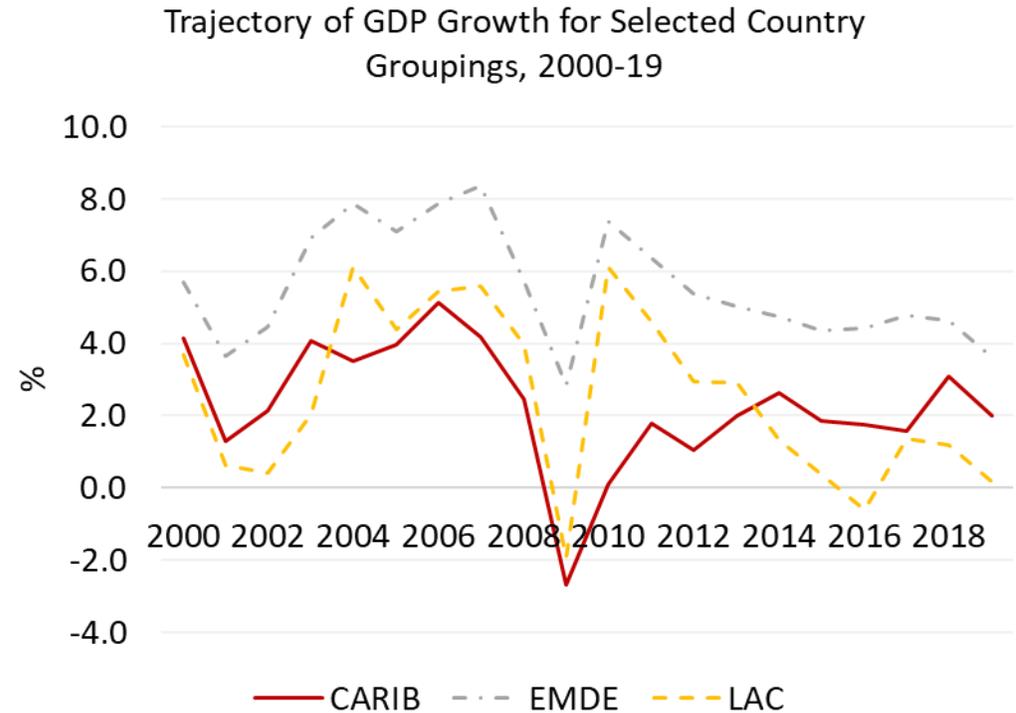
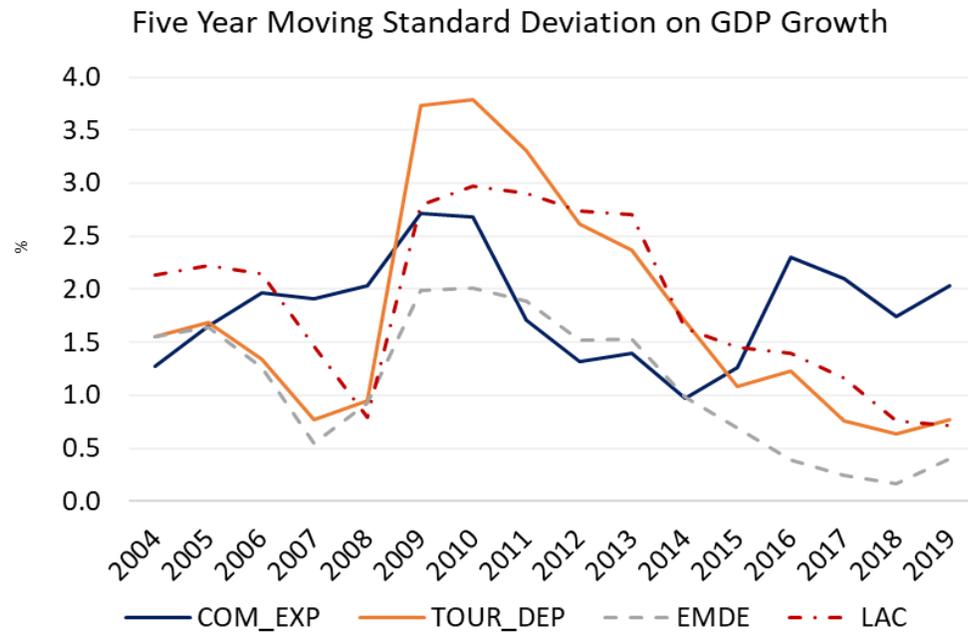


Source: IMF, WEO. October 2022

Higher growth volatility within the Caribbean...

Caribbean's growth has been volatile particularly for tourism dependent economies ...

... reflecting larger sensitivities to shocks and more protracted recoveries relative to EMDEs and LAC economies



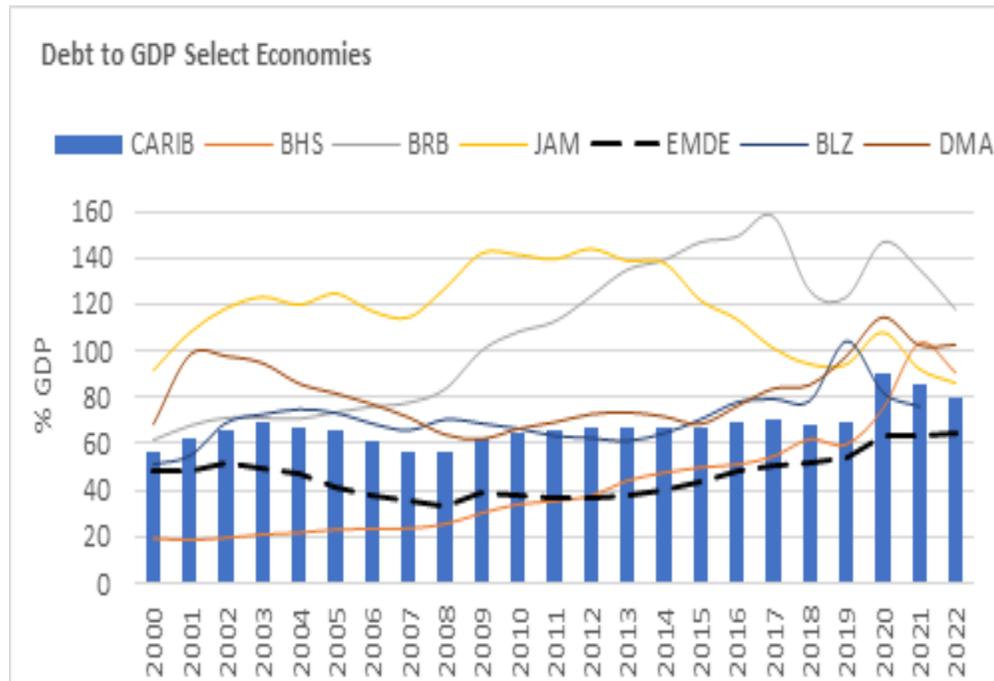
Strong post Covid-19 growth recovery expected...

	2020	2021	REO - October 2022	
			2022	2023
Caribbean: Tourism Dependent	-9.4	7.8	5.2	3.6
Antigua and Barbuda	-20.2	5.3	6.0	5.6
Aruba	-22.3	17.2	4.0	2.0
The Bahamas	-14.5	13.7	8.0	4.1
Barbados	-13.7	0.7	10.5	5.0
Belize	-16.7	16.3	3.5	2.0
Dominica	-11.0	4.8	6.0	4.9
Grenada	-13.8	5.6	3.6	3.6
Haiti	-3.3	-1.8	-1.2	0.5
Jamaica	-10.0	4.6	2.8	3.0
St. Kitts and Nevis	-14.0	-3.6	9.8	4.8
St. Lucia	-20.4	12.2	9.1	5.8
St. Vincent and the Grenadines	-5.3	0.5	5.0	6.0
Caribbean: Commodity Exporters	4.0	6.1	24.6	12.8
Guyana	43.5	23.8	57.8	25.2
Suriname	-15.9	-3.5	1.3	2.3
Trinidad and Tobago	-7.4	-0.7	4.0	3.5



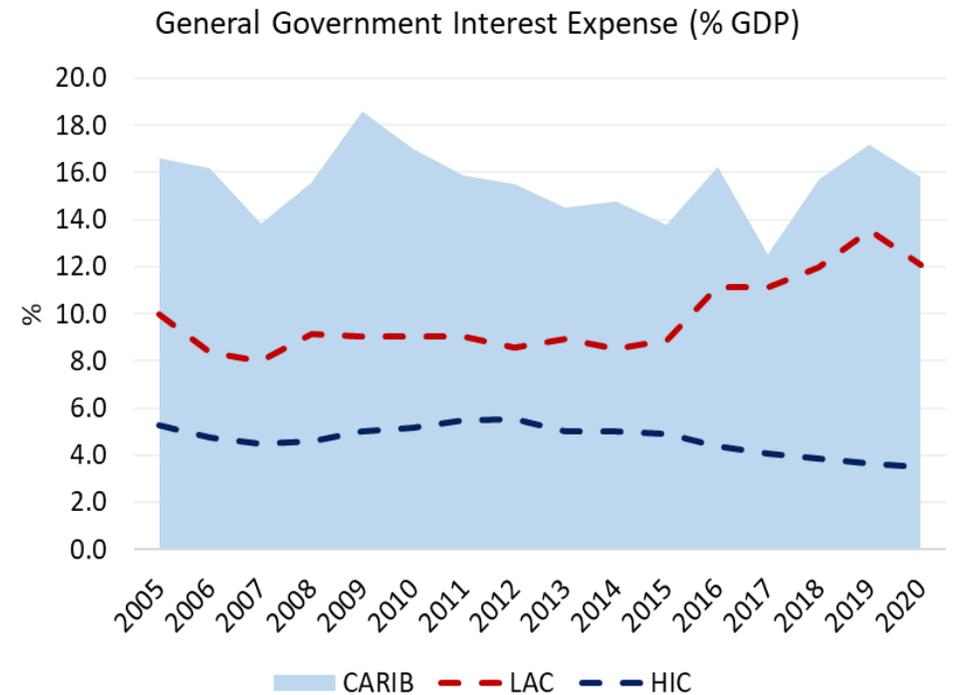
High and rising debt in Some Caribbean economies...

Debt trajectory for some major Caribbean economies are high and rising and is above the 60% benchmark ...



IMF, WEO. October 2022

High interest costs reduces resources available for other government expenditures including on capital and social spending

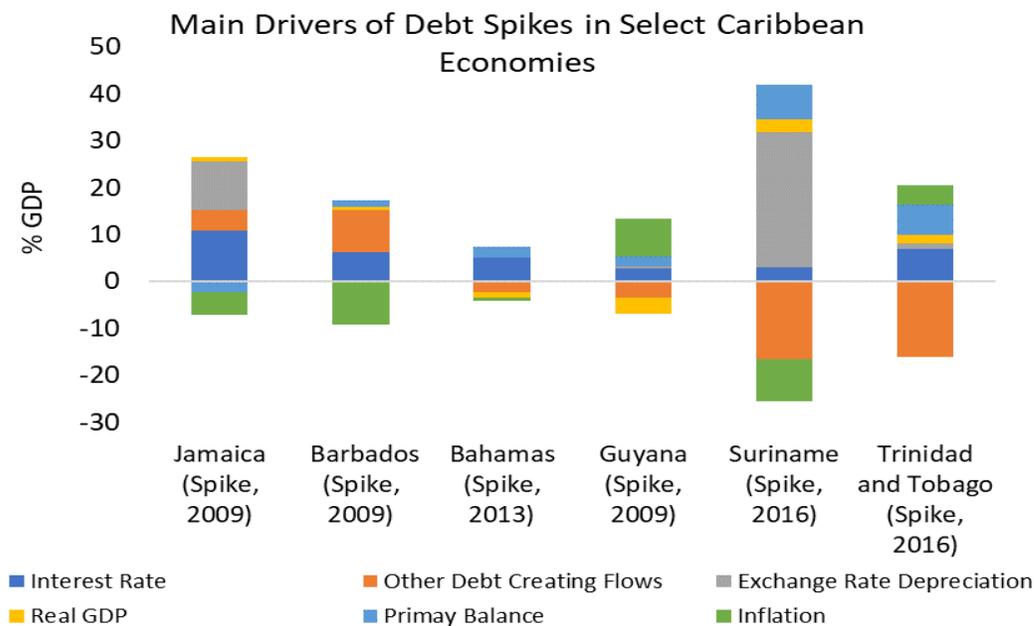
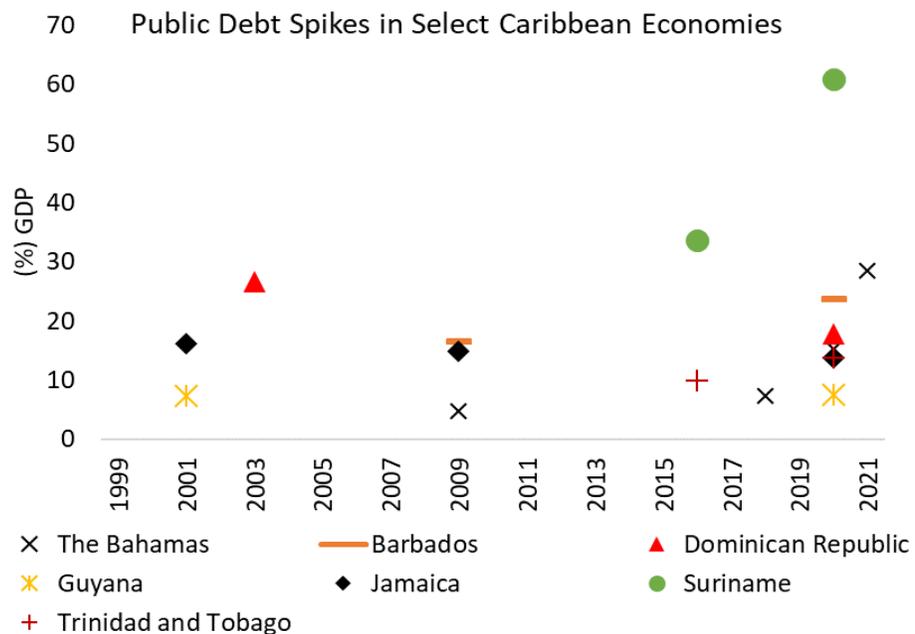


World Bank, WDI

Caribbean economies vulnerable to economic, health and climate shocks...

Spikes in public debt across Caribbean economies are driven by shocks to

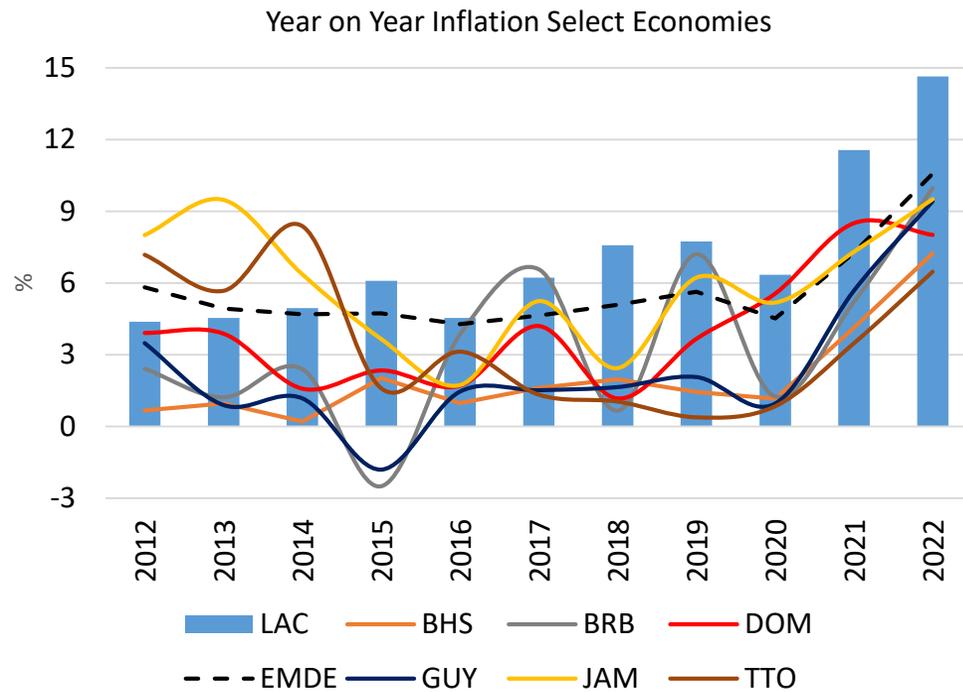
Interest rate, exchange rate and other debt creating flows were the main contributors to spikes in public debt in the Caribbean ...



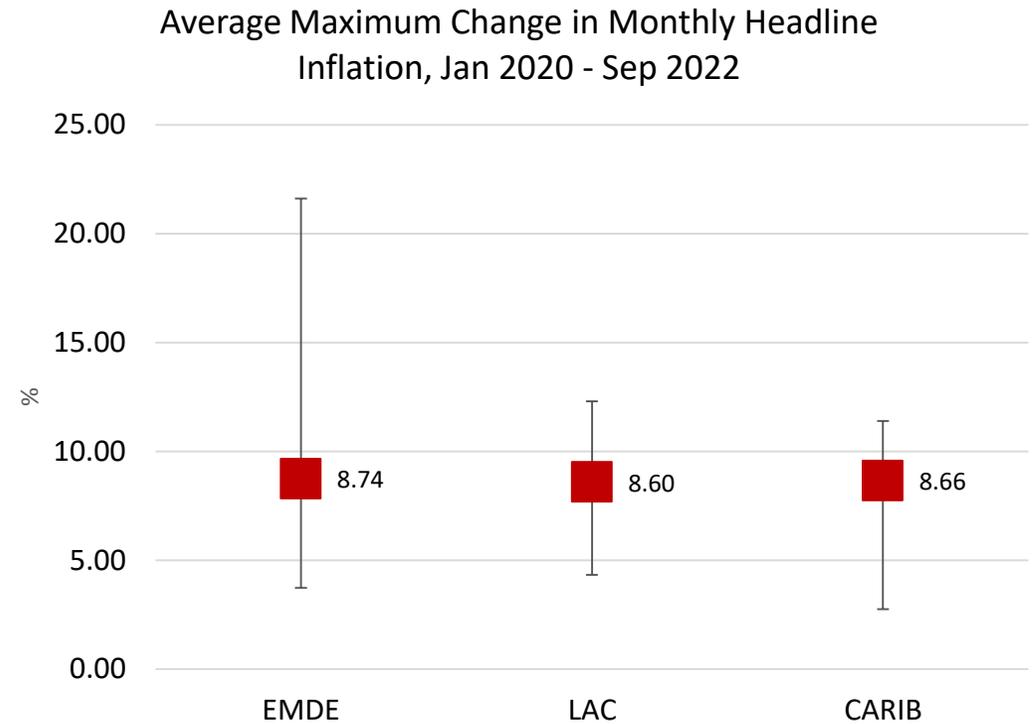
High and rising inflation rates in the region...

COVID / Ukraine shock...

Average maximum change in headline inflation between 2020-2021 is similar across the country groups ...

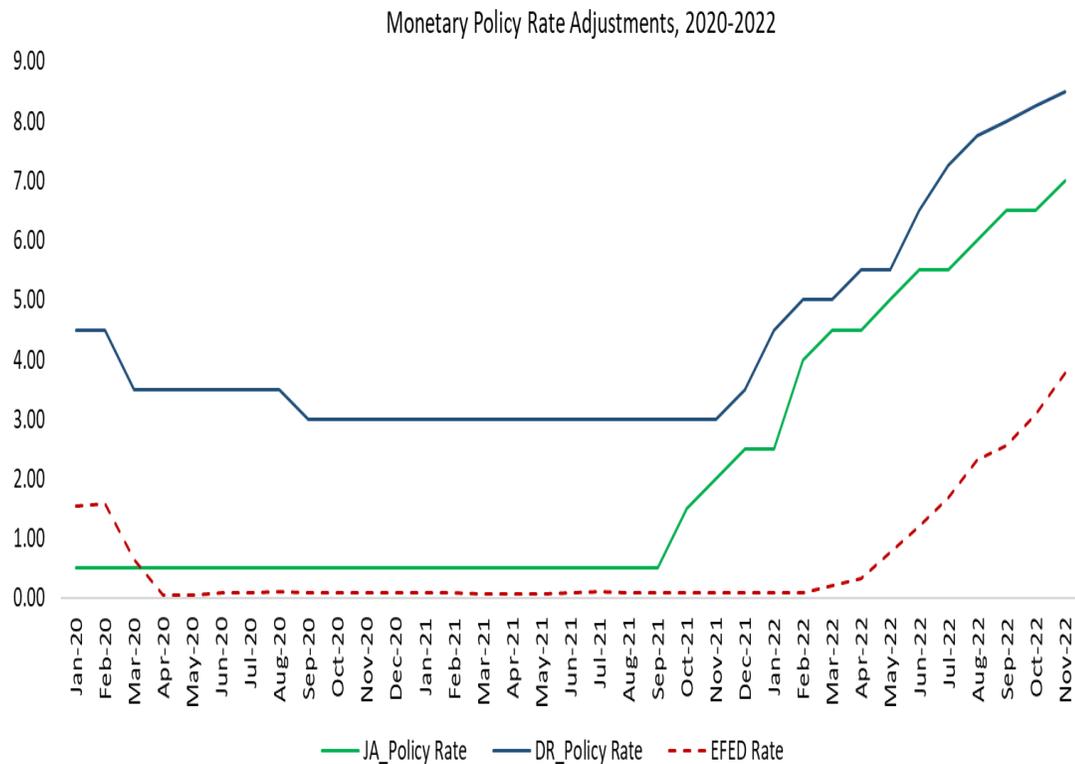


Source: IMF WEO



Source: Country statistics office, Trading Economics Database

Quick actions by monetary authorities....



Jamaica and the Dominican Republic effected sharp increases in policy rates several months before the FED...

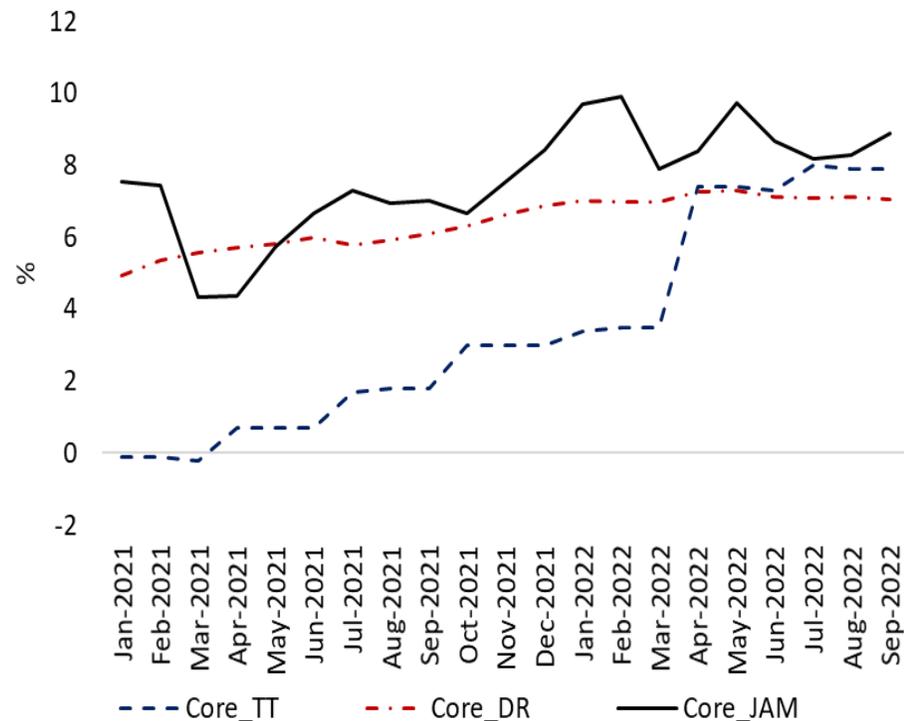
Source: Bank of Jamaica, Central Bank of the Dominican Republic and FRED, Federal Reserve Bank of St Louis

Fiscal policy used as well to combat rising prices across the region...

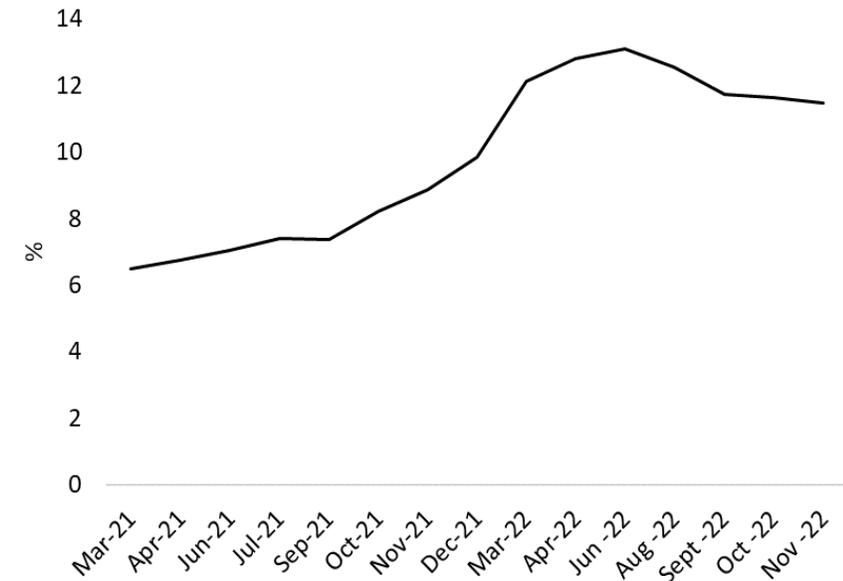
Country	Inflation Measures
Bahamas	<ol style="list-style-type: none"> 1. Implements price controls on selected goods including some prescription and OTC drugs 2. Reduced or eliminated import tariffs on several bread basket items 3. Raised the VAT exemption for electricity bills 4. Increased spending on social assistance by 50% to be disbursed via conditional cash transfer programme 5. Increased funding to NGOs by 10%
Barbados	<ol style="list-style-type: none"> 1. Reduction in VAT rate from 17.5 percent to 7.5 percent for the supply of electricity on the first 250 kilowatt hours (KWh) used by households - introduced for a six-month period 2. Caps on the cost of freight used for the purpose of calculating customs duties and on the maximum VAT to be applied to gasoline and diesel were extended to limit the impact of high costs.
Jamaica	<ol style="list-style-type: none"> 1. Targeted subsidy of 20 percent of electricity bills of households consuming 200 kWh or less. The programme lasted a period of four months. 2. provided one-off vouchers to taxi operators, and permanently increased the transportation benefit for participants in the country's conditional cash transfer program, the Programme of Advancement Through Health and Education (PATH).
Guyana	<ol style="list-style-type: none"> 1. Reduction in the excise tax on petroleum from 20 per cent to 10 per cent 2. Fixed the tariffs on public utilities (Water and electricity) with the Government absorbing the cost 3. Distribution of farm subsidies 4. One-time cash grants to households in the rural interior of the island 5. Increased public assistance payments from US\$57.0 to US\$67.0, benefitting approximately 18,000 people. 6. Increased the value of old age pension from US\$98.0 to US\$134.0
Trinidad and Tobago	<ol style="list-style-type: none"> 1. Increased the eligibility threshold for personal income taxes, exempting those with a monthly income of US\$1,100 or less, 2. Increasing the value-added registration threshold, providing support for small and medium-sized enterprises. 3. Provided targeted support for vulnerable groups on government assistance programs, providing a one-time transport grant of approximately US\$150 for 175,000 people
Dominican Republic	<ol style="list-style-type: none"> 1. Fiscal consolidation 2. Energy subsidies to lower income household under the BONOLUZ programme which provided cash transfers to beneficiaries to pay energy bill up 100kWh. This was a pre-existing programme but the benefits were more salient in the context of higher energy costs.

Risks to inflation persistence seen in high core inflation...

Elevated and sticky core inflation in some economies signals persistence in price pressures...



Significant rise in inflation expectation in Jamaica

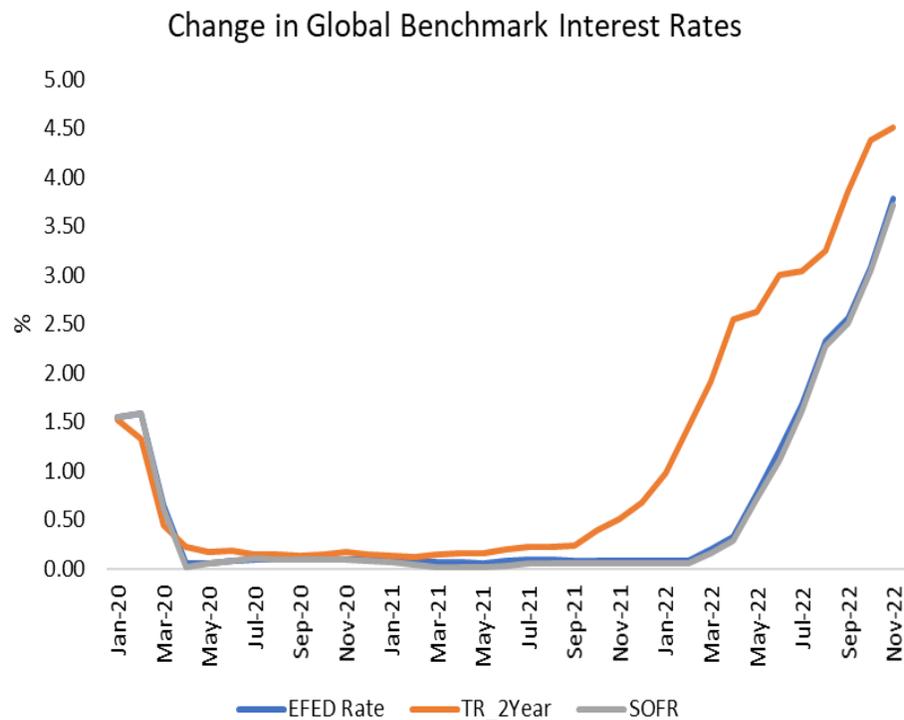


Source: Bank of Jamaica Calculation

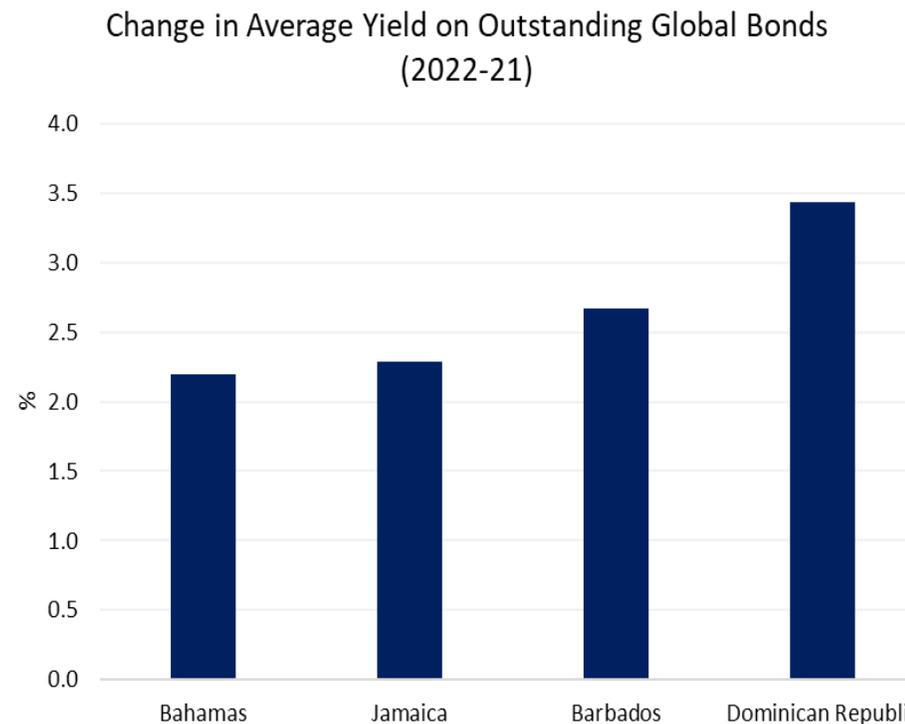
Significant spill-over effects to Caribbean economies from global financial conditions...

Global benchmark interest rates increased sharply as the FED tightened its policy stance ...

... impacting financing costs for regional economies in both the international and domestic markets



Source: Federal Reserve Economic Database (FRED). Federal Reserve Bank of St. Louis



Source: Bloomberg

III. Policy Options for Building Resilience



Requires strengthening of fiscal institutions and a commitment to fiscal responsibility...

Key elements of an effective fiscal framework

1. Strengthen PFM Framework.
2. Strengthen IT (digital) capabilities to support registration, filing and payment of taxes.
3. Establish supporting fiscal responsibility legislation, with clearly defined fiscal rules and targets.
4. Establishment of an independent body to monitor and ensure accountability in respect of the established rules.
5. Close monitoring and management of exposure to risks from PEs.

Fiscal rules help to strengthen PFM institutions but must be flexible enough to allow for a response to shocks (climate and otherwise) ...

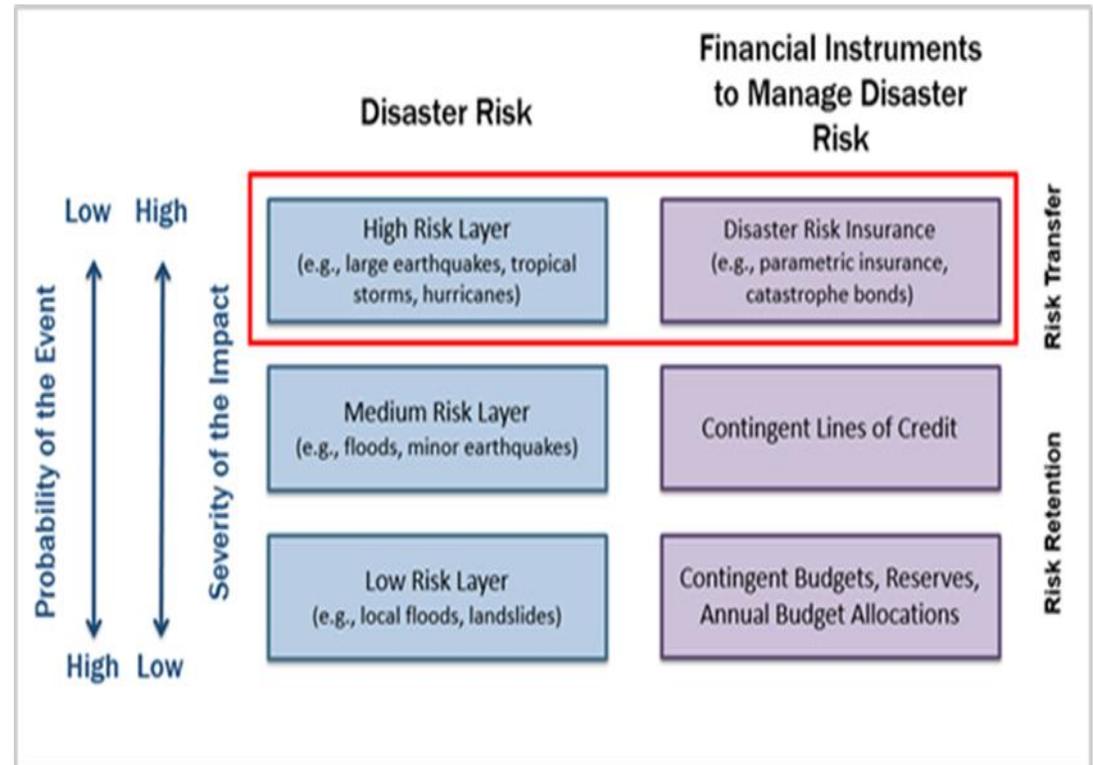
Country	ER: Expenditure rule	RR: Revenue rule	BBR: Budget balance rule	DR: Debt rule	Year Implemen ted
Antigua and Barbuda	-	-	-	1	1998
Bahamas, The	1	-	1	1	2018
Dominica	-	-	-	1	1998
Grenada	1	-	1	1	1998
Jamaica	-	-	1	1	2010
St. Kitts and Nevis	-	-	-	1	1998
St. Lucia	-	-	-	1	1998
St. Vincent and the Grenadines	1	-	1	1	1998

Prioritizing Disaster risk financing (DRF)...

DRF strategy aims to maximize the financing flows and minimize the cost of funding across a range of natural disasters ...

1. Layered with complementary financing options
 - a. Contingencies fund or fiscal buffers.
 - b. Catastrophic insurance.
2. Engagement with multilateral organizations to assist in underwriting risks

Incorporating climate risks in medium term fiscal policy frameworks can mitigate the effects of natural disaster shocks ...



Source: Advancing Disaster Risk Finance in Jamaica, 2021. World Bank

Quick monetary policy response needed...

- Key elements of a resilient monetary policy framework:
 1. Fiscal and monetary policy coordination.
 2. Strong external accounts.
 3. Deep financial markets.
 4. Resilient financial system.
 5. Clear communication.



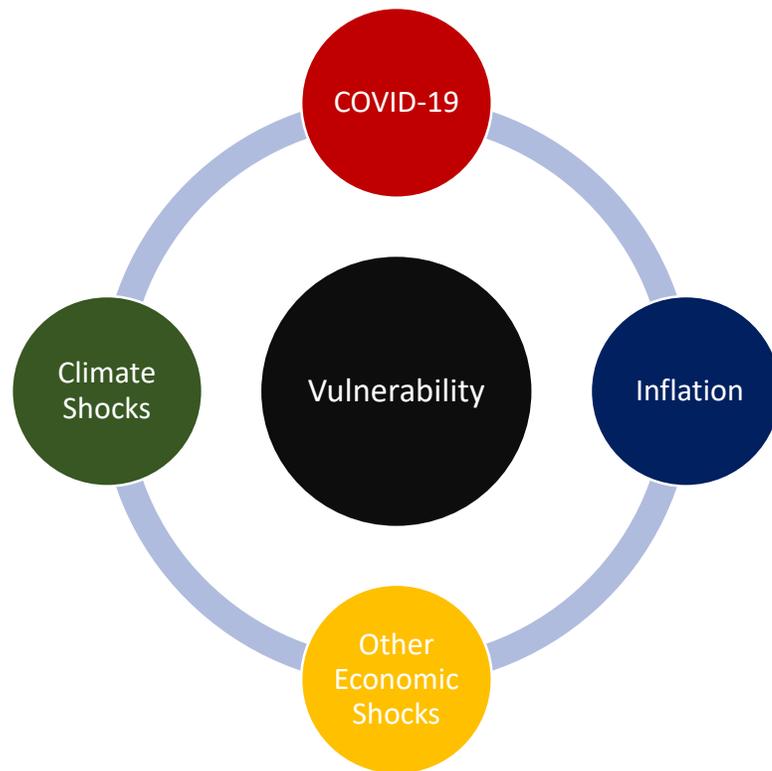
Other Key Policies for building resilient economies...

1. Catalyse investments to drive climate, mitigation, adaptation and transition.
2. Diversifying the economy.
3. Human capital development.
4. Deepen financial markets.



Summary

The Caribbean faces a confluence of shocks and structural weaknesses ...



Constraints.....

- a. Smallness and openness
- b. Undiversified export base
- c. Public Finance
- d. Human capital
- e. Vulnerable infrastructure

... need to build resilience

- a. Building resilience in macro-framework and institutions
- b. Economic diversification (green, blue and orange economy)
- c. Develop domestic financial markets, including a market for sustainable financing
- d. Climate transition to build resilience o natural disasters.

Thank you for your attention!