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## SOVEREIGN DEBT AND GROWTH IN THE CARIBBEAN

The fiscal management process in the Caribbean has come under intense scrutiny in the last decade because of severely weakened government finance, concerns about the sustainability of public debt and the negative impact of this dynamic on economic growth and stability. The fact that fiscal and sovereign debt problems have coincided with a prolonged period of low growth highlights the challenge fiscal problems pose for growth and development. Low growth has now become almost endemic especially in the services-based countries of the region driven by a combination of problems with international competitiveness, their small and highly open structure, susceptibility to natural disasters, limited resilience to shocks and policy mistakes. These factors have all led to rapid sovereign debt build-up with many Caribbean countries now ranked amongst the most indebted in the world.

It has been estimated<sup>1</sup> that once debt levels on average reach the threshold of approximately 55% of GDP in the Caribbean any further increase in debt has a negative impact on growth. This growth-limiting debt threshold of course varies by country but the important implication of this finding is that given the high debt levels in the Caribbean many countries would only be able to improve their growth performance if the rationalisation of their sovereign debt was a fundamental part of their overall economic strategy.

The logic of this link between high debt and low growth hinges on uncertainty and confidence. That is, at high debt levels concerns about sustainability leads to uncertainty, macroeconomic instability and low business confidence which hamper growth. Once individual country thresholds are reached therefore the priority should be fiscal consolidation to reduce debt rather than trying to use fiscal stimulus to spur growth. Even countries such as The Bahamas, Suriname and Trinidad and Tobago, which still have some latitude because their debt levels are still relatively low, should look to increase their resilience through fiscal consolidation over the medium term since, as we have seen in many countries, debt levels can get out of control in a relatively short space of time.

The current debate about the pace of fiscal consolidation is therefore central to the efforts of government to promote stronger growth. In this regard, countries can use front-loaded rapid consolidation to encourage a return to more robust growth in the medium term while others prefer a more moderate pace so as not to restrain short-run growth but which runs the risk of prolong-

ing the low-growth period because the necessary policy changes takes much longer. IMF estimates (IMF, World Economic Outlook October 2010) have suggested that aggressive fiscal consolidation can significantly lower economic growth in the short run. This is likely to be the case in depressed economic conditions where private demand has receded to historical lows. In normal times and even mild downturns, however, the situation is subject to much ambiguity. Caribbean countries have all generally opted for the second approach. This had not helped the situation with low growth persisting and many countries have only very recently come around to the need for more comprehensive consolidation when they had no option. The debt and fiscal problems have now reached levels in many countries where a lack of confidence and uncertainty is hampering growth significantly more than the direct short-term negative impact of fiscal consolidation. In this situation a more aggressive fiscal consolidation programme is now critical to the strengthening of the fiscal account and the improvement in growth prospects.

Most countries in the region have now begun to fully take on board the advice from the IMF in the area of debt management. In particular, most of them have implemented IMF advice in the following areas:

1. The introduction of a formal debt management framework for government and government-guaranteed debt which should include a dedicated debt management unit;
2. The use of a medium term fiscal and debt management plan to achieve fiscal consolidation and sustainable debt levels over the medium term;
3. Debt restructuring including use of less debt from commercial sources and more from multilateral sources to reduce interest payment on debt;
4. Preparing consolidated accounts for non-financial public sector and incorporating off-budget transactions which were the main sources of increased debt;
5. Front load fiscal adjustment to place debt levels on a declining part by using a combination of restraining wage costs, cutting subsidies to public enterprises, reducing expenditure on goods and service and instituting revenue measure such as increase in the VAT rate and the elimination of tax exemptions.

Most jurisdictions have generally implemented items 1 to 4 but less so in terms of recommendation 5. In particular, they have generally opposed front loaded adjustment arguing that it would have a negative effect on social welfare and hamper already weak growth. Some of the jurisdictions have only belatedly starting to acknowledge the need for such an approach in the

<sup>1</sup>Threshold Effects of Sovereign Debt: Evidence from the Caribbean by K. Greenidge, R. Craigwell, C. Thomas and L. Drakes, IMF Working Paper No. 157, 2012.

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context of severe problems with respect to debt sustainability and because they often form part of IMF structural adjustment programmes.

Policymakers in the region have generally preferred to exercise more forbearance rather than use preemptive action where fiscal consolidation efforts were concerned, in many instances opting to put off adjustment until there was little room to maneuver. This has led to a situation where fiscal policy is generally pro-cyclical with fiscal consolidation being implemented in periods when aggregate demand and growth is weak, precisely when it is very costly to do so. To counter this dynamic the authorities must build a level of counter-cyclicality into their fiscal policy stance and be more proactive in dealing with problems at the earliest stages when the scale and cost of adjustment is relatively small. This is only part of the solution, however, since countries

also need to deal frontally with their structural weaknesses which lowers their competitiveness and restrains growth. A two-pronged approach involving a change in the fiscal management culture in the Caribbean to focus on “value for money” in which fiscal consolidation is the first step, combined with structural reforms to increase international competitiveness is the strategic approach which can bring lasting solutions to the region’s problems in the area of debt sustainability and growth.

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### REGIONAL NEWS SUMMARY

#### CARIBBEAN

- Team NewAge, a Jamaica-based tech start-up, thinks its game 'Project Exit', currently in test-mode, can generate US\$750,000 (J\$83m) a month from downloads. (JO 1 Aug)
- Financial outfit Jamaica Money Market Brokers has raised US\$20 million (J\$2.2 b) in a private placement to Jamaican investors. It's the first such disclosure from the group this year and comes as investors are clamouring for hard currency investments amid a depreciating dollar. (JO 1 Aug)
- Ambassador Aydin Evirgen, who was recently appointed to the region at the same time that a Turkish embassy was opened in Santo Domingo, Dominican Republic, conveyed to the Grenadian prime minister that Turkey, through its International Development Agency, has committed to support six projects in Grenada. (CNnow 1 Aug)
- An economic study of the viability of the Eagle Mountain gold project near Mahdia in Region 8 has yielded positive results. Gold-source Mines Inc., the Canadian company conducting exploration, announced that conceptually, the Preliminary Economic Assessment results suggest that the project has low capital and operating costs, minimized technical risk, a short development timeline and very attractive rates of return. (GCO 3 Aug)
- Small business persons in Barbados are annoyed about the lack of progress being made in E-commerce in Barbados, the run-around they continue to encounter because of the attitudes of some banks to small businesses, and not enough push by Government. (BADV 4 Aug)
- The executive board of the IMF on Friday approved a disbursement of an amount equivalent to SDR 4.15 million (about US\$6.4 million) for St Vincent and the Grenadines to be drawn equally from the Rapid Credit Facility and the Rapid Financing Instrument at SDR 2.075 million or about US\$3.2 million each. (CNnow 4 Aug)
- Energy experts meeting in Washington recently discussed the question of how much longer will Venezuela be able to subsidize cheap oil for its political allies throughout the Caribbean and Central America. . (CNnow 5 Aug)
- The Central Bank of T&T has injected another US\$75 million into the financial market, amid mounting complaints by businessmen of a shortage of the currency. (TE 5 Aug)
- The Central Bank of T&T has sold a total of US\$940 million to authorised foreign exchange dealers so far for this year. The Bank said this figure is equivalent to 25% of total supply to the foreign exchange market. (Newsd 5 Aug)
- The Caribbean is expected to see two per cent economic growth by year's end, with a slight increase of 0.5 per cent next year, for projected growth of 2.5 per cent in 2015, according to the outlook contained in the Economic Commission for Latin America and the Caribbean's "Economic Survey of the Caribbean, 2014". (Newsd 5 Aug)
- Haiti says it has signed a multi-million dollar agreement with the US-based Carnival Cruise Lines to build a tourism port on the island of Latortue, north of the capital. (Carib360 7 Aug)
- Barbados Prime Minister Freundel Stuart has urged Barbadians living overseas to contribute to the socio-economic development of the country as it grapples with the prolonged global economic crisis. (Carib360 7 Aug)
- The Caribbean Catastrophe Risk Insurance Facility says it is now providing excess rainfall insurance coverage to eight regional countries as the Caribbean continues to take precautions against possible damage caused by storms and hurricanes during the 2014 Atlantic hurricane season. (Carib360 7 Aug)
- Barbados has not adequately utilised the \$484 million it borrowed from the IDB in the last four years. The bank's Office of Evaluation and Oversight has produced a programme evaluation report on Barbados for the period 2010 to 2013, which has concluded that its portfolio here "has been persistently characterised by slow execution, delaying or preventing the achievement of results" (BN 7 Aug)
- State owned National Petroleum Marketing Company Limited will spend a total of US\$20 million to establish a new chain of service stations and LPG bottling plant in Haiti. (Newsd 7 Aug)

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- Executive Director of the Small Business Association (SBA), Lynette Holder, has identified distribution into key market exports as one of the areas in which Barbadians living abroad could assist their country in establishing. (BAAdv 8 Aug)
- The Governor of the Central Bank of Barbados, Dr. DeLisle Worrell says the authorities are applying the appropriate remedies to deal with the economic problems facing the country and “and all that remains is to be confident and persistent”. (Carib360 8 Aug)
- The government of Suriname is embarking on operations to double its oil production from the current 16,000 barrels of oil per day, and is asking local companies and citizens to make investments. (TE 8 Aug)
- Guyana’s finance minister, Dr Ashni Singh, said that, under the PetroCaribe deal with Venezuela, the fourth debt compensation arrangement has been written off by Venezuela for rice supplied to the neighbouring country. (CNnow 11 Aug)
- A group of Canadians visited Jamaica recently exploring investment opportunities in the agriculture, energy, tourism, and housing sectors. (JO 11 Aug)
- The Caribbean Export Development Agency will sponsor one representative from each of five Cariforum business support organisations to participate in the 8th China-Latin America and the Caribbean Business Summit to be held September 12 and 13 in Changsha City, Hunan Province, China. (TG 11 Aug)
- Guyana has earned over \$100 billion in exports so far for this year, Finance Minister, Dr Ashni Singh has announced in his Mid-Year Report. The figure, however, reflects a 10.3% decline. (GuyTim 11 Aug)
- Gold declarations for the first half of this year have dropped by 17.2% with export earnings from the precious mineral sliding by 25% and the decline is likely to continue for the remainder of the year, Minister of Finance Ashni Singh says. (SN 11 Aug)
- Scaling down of operations, worked-out lands and migration of Brazilians are three of the main reasons for a drop in gold production for the first half of this year, a preliminary report on a Guyana Gold and Diamond Miners Association-sponsored study says. (SN 11 Aug)
- Business confidence in the Caribbean grew in the second quarter, according to the Global Economic Conditions Survey organised by the Association of Chartered Certified Accountants and the Institute of Management Accountants (TG 12 Aug)
- The Caribbean Export Development Agency has announced the award of over US\$1million to firms and business support organisations in Jamaica via its flagship programme the direct assistance grant scheme as part of the regional private sector development programme funded by the European Union (CNnow 12 Aug)
- St Kitts and Nevis continued to be the leading exporter of goods and services to the United States in June this year, more than all other OECS nations, as well as St Maarten, Guadeloupe and Martinique. (CNnow 12 Aug)
- The Paris-based OECD has told the Freundel Stuart administration that it is only “partially compliant” with “the legal and regulatory framework for the exchange of information” it has signed onto as one of the Global Forum On Transparency And Exchange Of Information For Tax Purposes’ 122 members. (BN 13 Aug)
- Recent data suggest that a gradual economic recovery is underway in Jamaica, but risks to the four-year programme with the IMF remain high because of, among other things, the possibility of reform fatigue. (JG 13 Aug)
- Jamaica’s trade deficit declined by 8% during the first four months of 2014. Exports were less during the period but imports fell more dramatically, mainly due to a lower oil bill. (JO 13 Aug)
- Guyana’s external debt is estimated at US\$1.23 billion, down 1.6% over the 2013, figure, according to the 2014 mid-year economic report. (Carib360 14 Aug)
- The Caribbean Community has started work towards creating a harmonized framework within which companies and other businesses can be established and operate in the CARICOM Single Market and Economy (CNnow 15 Aug)
- Bico Limited has joined the growing list of Barbadian companies converting to alternative energy and in just one month, has cut its energy bill by about \$20 000. (BN 15 Aug)
- St Kitts and Nevis International Ship Registry has moved up to Paris MoU’s grey list ahead of schedule as the flag looks to improve its standing in the industry. (CNnow 15 Aug)
- The Paris-based Organization for Economic Cooperation and Development has rated St. Lucia, Antigua and Barbuda, and Anguilla as “partially compliant” with international standards on tax transparency. (TG 17 Aug)
- Buoyed by an improved British economy and a stronger pound sterling, UK investors are returning to the high end of the Barbados property market, buying up properties as was done in the pre-recession times. (BAAdv 18 Aug)
- The Development Bank of Jamaica is projecting the creation of 12,000 jobs over the next five years which are to come as a result of a massive flow of capital being made available to the business sector, particularly the micro, small and medium enterprise sectors. (JG 18 Aug)
- Canadian firm, Carube Resources, has already drilled through well over a kilometre of rock in its search for copper and gold in Jamaica. Over the last three years, the company pumped CAD\$3 million into prospecting the Bellas Gate in St Catherine. Yet, they are still at least five years away from establishing commercial mines. (JO 18 Aug)
- The governments of Guyana and Panama have signed an agreement that will see Panama purchasing approximately 5,000 tonnes of rice per month from Guyana, following a recent meeting between delegations from both countries. (CNnow 18 Aug)
- There are already great expectations among business interests and state officials that Jamaica will benefit significantly from the North/South Link of Highway 2000, which will provide a shortened journey between Kingston and Ocho Rios, St Ann. (JO 19 Aug)
- Guyana is open for business, and the fact that the country continues to attract investors is not only encouraging, but inspir-

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- ing as well, said President Donald Ramotar during a tour of the Guyana Gold Fields Inc., Aurora Gold project. (GCO 19 Aug)
- The IMF in its 2014 Spillover Report released August 18 said it sees potential spillovers including “macroeconomic difficulties” into the economies PetroCaribe now helps. (TG 19 Aug)
  - A US\$20 million loan from the IDB will help develop T&T as an ICT hub in the region, said Dr Bhoë Tewarie, Minister of Planning and Development. (TG 19 Aug)
  - The Central Bank (T&T) sold US\$50 million to the banking system as part of what it said was a programme of scheduled foreign exchange interventions. (TE 20 Aug)
  - The Government of T&T is expected to close the country’s 2013/2014 fiscal year with a T\$6.4 billion deficit, the IDB said in its second quarter Caribbean bulletin released August 7. (TG 20 Aug)
  - There has been yet another call for rum-producing nations in the Caribbean to come together and confront the issues of subsidies which are affecting rum exports from this region to the United States. (BAdv 20 Aug)
  - Systems are in place for measuring forest protection but insufficient action has been taken to reduce the mining operations that are the main cause of deforestation, the Norwegian government agency through which funds are channelled to pay Guyana for protecting its forests, has said. (SN 20 Aug)
  - Venezuela will soon allocate the US\$ 20 million from the Petro Caribe Fund for three large farming projects in Suriname. (die Ware Tijd 20 Aug)
  - Eliot Engel, a top Democrat on the House of Representatives influential Foreign Affairs Committee has said: “I think that what is being planned for Africa is a good move and we must act on it; the Caribbean island nations are going through tough economic times and we should be doing more to help them. (BN 21 Aug)
  - Jamaicans living overseas have remitted US \$16 billion to the island over the past 10 years. (JO 21 Aug)
  - Lydford Mining Company Limited will enter its third joint-venture deal in 2015, this time for a new manufacturing operation to extract ground calcium carbonate from limestone for use in the production of food additives and pharmaceutical products, says Managing Director Leo Cousins. (JG 22 Aug)
  - It is believed that not only can agriculture generate significant employment in Barbados, but it could also help to lift the country out of the current financial crisis. (BAdv 22 Aug)
  - Jamaica has met all its IMF targets again. As a result, the Government will likely receive an additional US\$72 million under the Extended Fund Facility when the IMF board reviews the programme next month. (JO 24 Aug)
  - The Jamaica Submarine Company has invested US\$4.2 million (\$475M) in the island's first submarine, which is docked in Ocho Rios. (JO 24 Aug)
  - Trade between Mexico and T&T has grown 28% year on year, according to the August 2014 issue of the Mexican Foreign Affairs Ministry magazine *Protocolo*. (TG 25 Aug)
  - The Central Bank of T&T has sold its entire 15% stake in the Home Mortgage Bank to the National Insurance Board, effective August 14, but neither the seller nor the buyer have revealed the price paid for the 2.4 million shares. (TG 26 Aug)
  - As the new school year approaches, many dressmakers and tailors are swamped with work; however, the owner of L.S. Vidal Tailoring in downtown Kingston, says the work is plenty but the labourers are few. (JG 27 Aug)
  - Prime Minister of Antigua and Barbuda the Hon. Gaston Browne has successfully negotiated an assistance package for Antigua and Barbuda for over two hundred million RMB from the People’s Republic of China. (Caribseek 27 Aug)
  - The Jamaican Ministry of Tourism and Entertainment hopes to finally pinpoint the value of the local entertainment industry. It is implementing a National Entertainment Registry to authenticate persons within the industry covering production of music; film; visual and performing arts; and animation. The Planning Institute of Jamaica estimated that the recreational, cultural and sports sector accounted for 2.7% of GDP in 2012. (JO 27 Aug)
  - Governor of the Bank of Jamaica, Brian Wynter, has praised the government’s economic reform programme saying it has helped keep inflation to a low despite significant economic shocks over the past two years. (Carib360 28 Aug)
  - An IMF delegation ended a 10-day visit to Grenada warning that the local economy continues to face significant challenges from high unemployment, a large debt overhang, and balance sheets weakened by impaired loans. (Carib360 28 Aug)
  - National Alliance leader Member of Parliament William Marlin says dollarization will have serious financial consequences for St. Maarten, as the expenses to take this route are exorbitant (Caribseek 28 Aug)
  - The government has allocated an additional SRD four million for micro entrepreneurs who want to borrow up to SRD 5,000. The De Surinaamsche Bank (DSB) and the government have extended the Micro Credits Program (MKP) with an additional four years. (die Ware Tijd 28 Aug)
  - Barbados is not creating the right atmosphere for the development of an e-commerce industry, according to Minister of Industry, International Business, Commerce and Small Business Development, Donville Inniss. (BAdv 29 Aug)
  - One of the strategic visions that the current administration has for Barbados is to make it a hub for information and communication technologies within the rest of the Caribbean and the world. (BAdv 29 Aug)
  - Natural Resources and Environment Minister Robert Persaud announced that an international mining firm is looking at large-scale magnesium mining in Guyana. (GuyTim 29 Aug)
  - Cable and Wireless Communications Plc is entering three new markets and deepening its business in Panama via its acquisition of Grupo Sonitel, an IT and telecoms business. (JG 29 Aug)
  - By 1 January 2015 the official hourly rate should be SRD. 4, 29. The Minimum wage Law adopted by parliament, along with two other social laws, will finally take effect in Suriname. (die Ware Tijd 30 Aug).

## SOME DIGITAL PUBLICATIONS OF INTEREST

### **THE STRATEGIC PLAN FOR THE CARIBBEAN COMMUNITY 2015 - 2019: REPOSITIONING CARICOM. VOLUME I: THE EXECUTIVE PLAN"**

The Strategic Plan has been prepared after consultation with the widest possible range of stakeholders and the intense engagement with Member States, Institutions, the CARICOM Secretariat and other stakeholders has resulted in a much wider mandate. In that regard, the first Strategic Plan for the Caribbean Community outlines the strategic repositioning of the Community, and captures a development agenda that encompasses: i) a review of development needs; ii) a Resilience Model for socio-economic progress; iii) strategies to renew the commitment to and strengthen actions for enhancing regional unity; and, iv) an agenda for the reform of governance mechanisms to achieve these two major forward thrusts. The Strategic Plan also allows for selection of, and agreement on, the narrow range of actions that are pursued each year of the plan period in pursuit of the Region's development goals. As well, the Plan outlines the implementation imperatives, strategic and change management modalities with the necessary monitoring, measurement and evaluation frameworks.

Available at:

<http://caricom.org/jsp/secretariat/EXECUTIVE%20PLAN%20VOL%20I%20-%20FINAL.pdf>

### **THE 2014 HUMAN DEVELOPMENT REPORT - SUSTAINING HUMAN PROGRESS: REDUCING VULNERABILITIES AND BUILDING RESILIENCE**

provides a fresh perspective on vulnerability and proposes ways to strengthen resilience. According to income-based measures of poverty, 1.2 billion people live with \$1.25 or less a day. However, according to the UNDP Multidimensional Poverty Index, almost 1.5 billion people in 91 developing countries are living

in poverty with overlapping deprivations in health, education and living standards. And although poverty is declining overall, almost 800 million people are at risk of falling back into poverty if setbacks occur. Many people face either structural or life-cycle vulnerabilities.

Available at:

<http://hdr.undp.org/en/2014-report/download>

### **THE NEW FRONTIER OF COMPETITIVENESS IN DEVELOPING COUNTRIES : IMPLEMENTING TRADE FACILITATION**

Since the First Ministerial Conference in 1964, UNCTAD has aimed to "promote, within the United Nations family, arrangements for: (c) Inter-governmental action for research into improved marketing techniques, the organization of trade fairs, the dissemination of market intelligence and the simplification of formalities relating to Customs procedure, commercial travel, etc." UNCTAD's role in Trade facilitation is well detailed. The following report consolidates results from 26 national implementation plans (comprise of LDCs, middle income developing economies, landlocked countries, and small island economies in Africa, Asia, the Caribbean, and Latin America.) to help assess the progress thus far achieved in the implementation of the trade facilitation agreement (TFA) as negotiated at the WTO. The challenges remaining will be examined and addressed. The report is intended to serve as a guidance tool for trade facilitation policy makers at the national, regional, and multilateral levels in both developed and developing countries

Available at:

[http://unctad.org/en/PublicationsLibrary/dtlftlb2013d2\\_en.pdf](http://unctad.org/en/PublicationsLibrary/dtlftlb2013d2_en.pdf)

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