

Macroeconomic Stability and Sustainable Growth

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Main Propositions

- ▶ To realize growth with equity, countries need integrated socio-political-economic strategies:
 - Strong policies for macroeconomic stability
 - Proactive efforts to foster competitiveness
 - Reasonably fair social agenda
 - Strong governance structure
- ▶ The economy is an ecosystem
 - Macroeconomic stability is a necessary but not sufficient condition for growth.
- ▶ Strong vision is needed: we can not simply continue to react

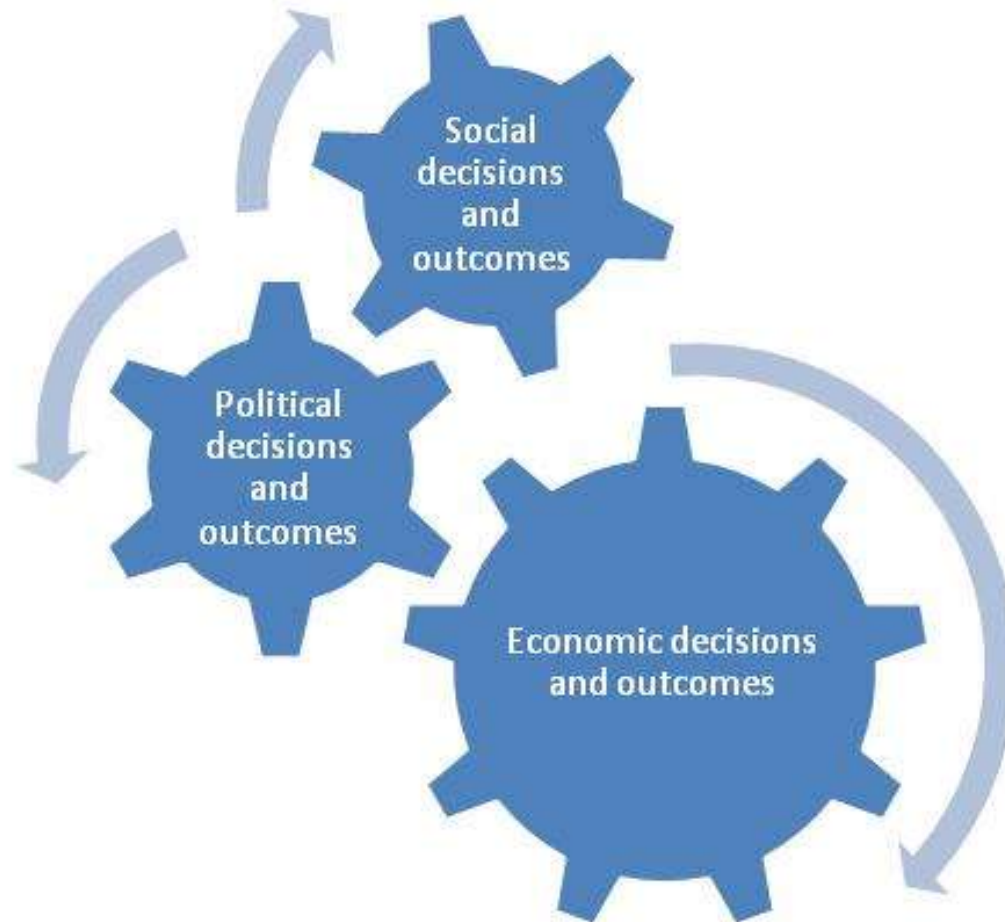
Goal: sustained holistic growth

- ▶ Elements of weighted measure of holistic growth:
 - Sustained headline growth
 - Improved living standards
 - Reduced poverty
 - Less inequality
 - Balanced resource use (environment)
 - Greater resilience to shocks
- ▶ Weights and initial conditions (SWF?)

A Functional Perspective



Economic–Political–Social Nexus



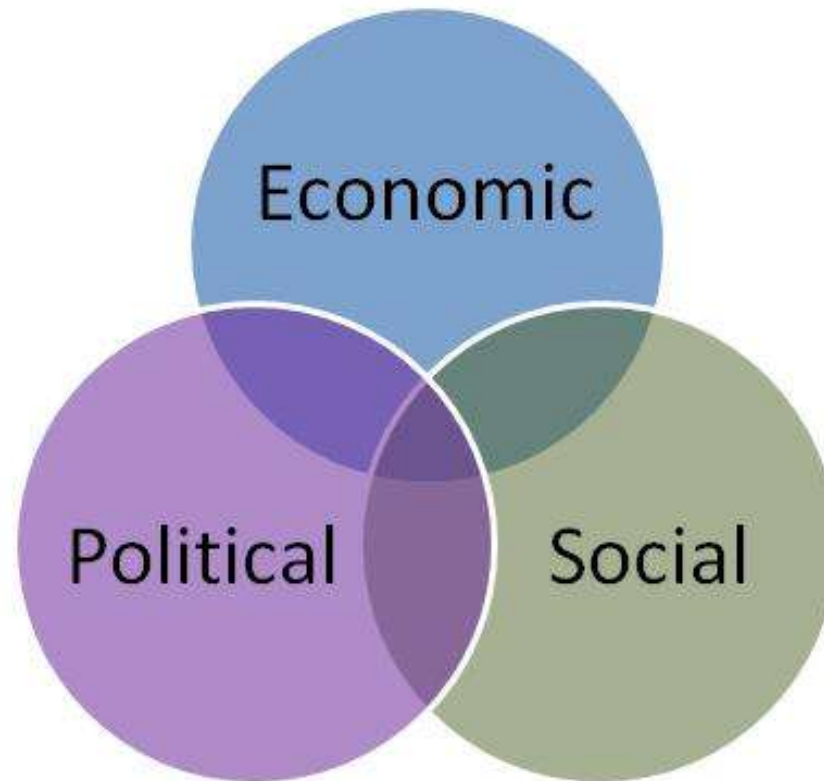
Operational considerations

- ▶ Need a balanced development of spheres
- ▶ Emphases depend on initial conditions in each sphere and interactions
- ▶ Intensity of phase development can vary over cycles or with circumstance
- ▶ Need “social consensus” on ranking and relative weights
- ▶ Transparency and accountability for outcomes

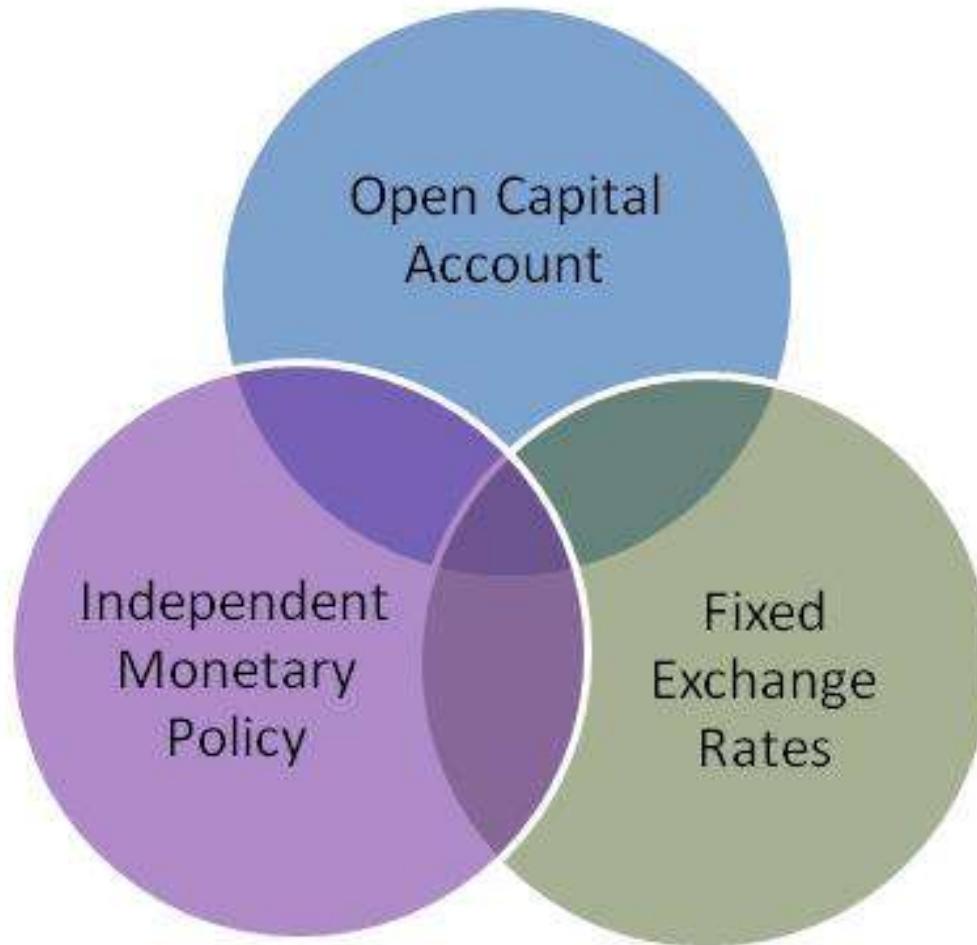
Choices determine our paths

- ▶ Short-term vs. long-term
- ▶ Desired targets
- ▶ Three key tradeoffs:
 - Political Economy Trilemma (Domestic desires – Economic, Political, and Social).
 - Trilemma of open-economy macroeconomics (TOEM – domestic policy matrix). (Obstfeld et al, 2005).
 - The political trilemma of the world economy (PTWE – international partnership). (Rodrik, 2000).

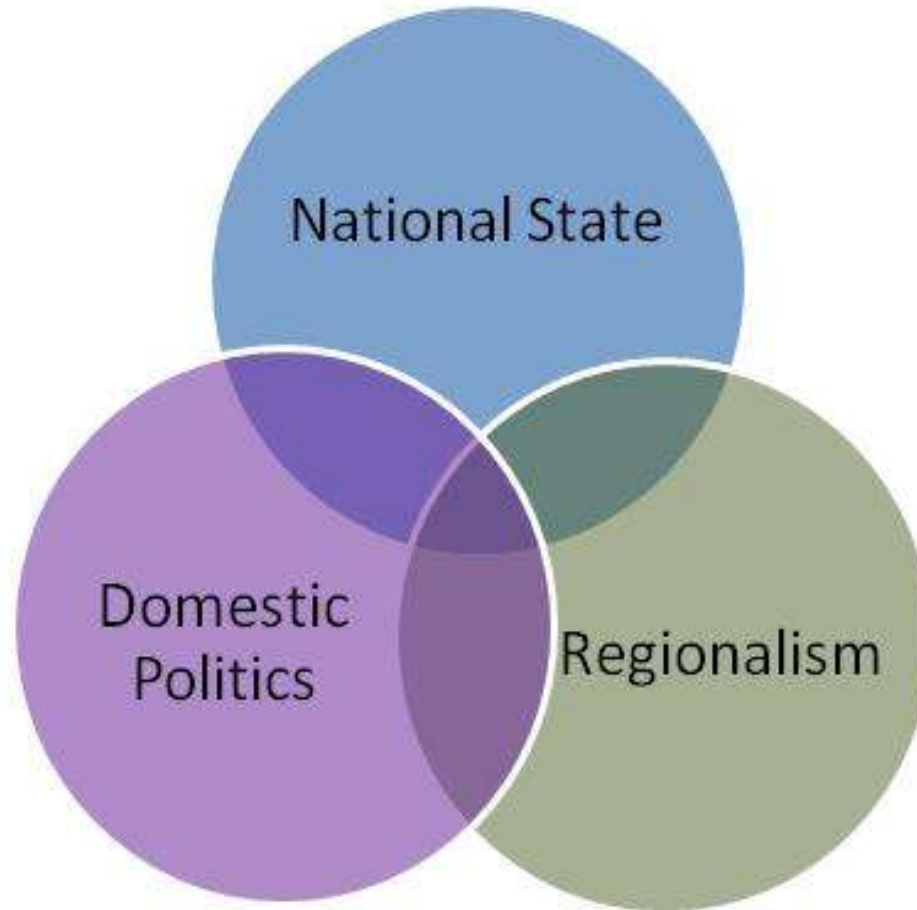
The National Political Economy Trilemma



The Open Economy Trilemma (TOEM)



The Political Trilemma of World Economy



Where are we now?



Macro – *region doing poorly*

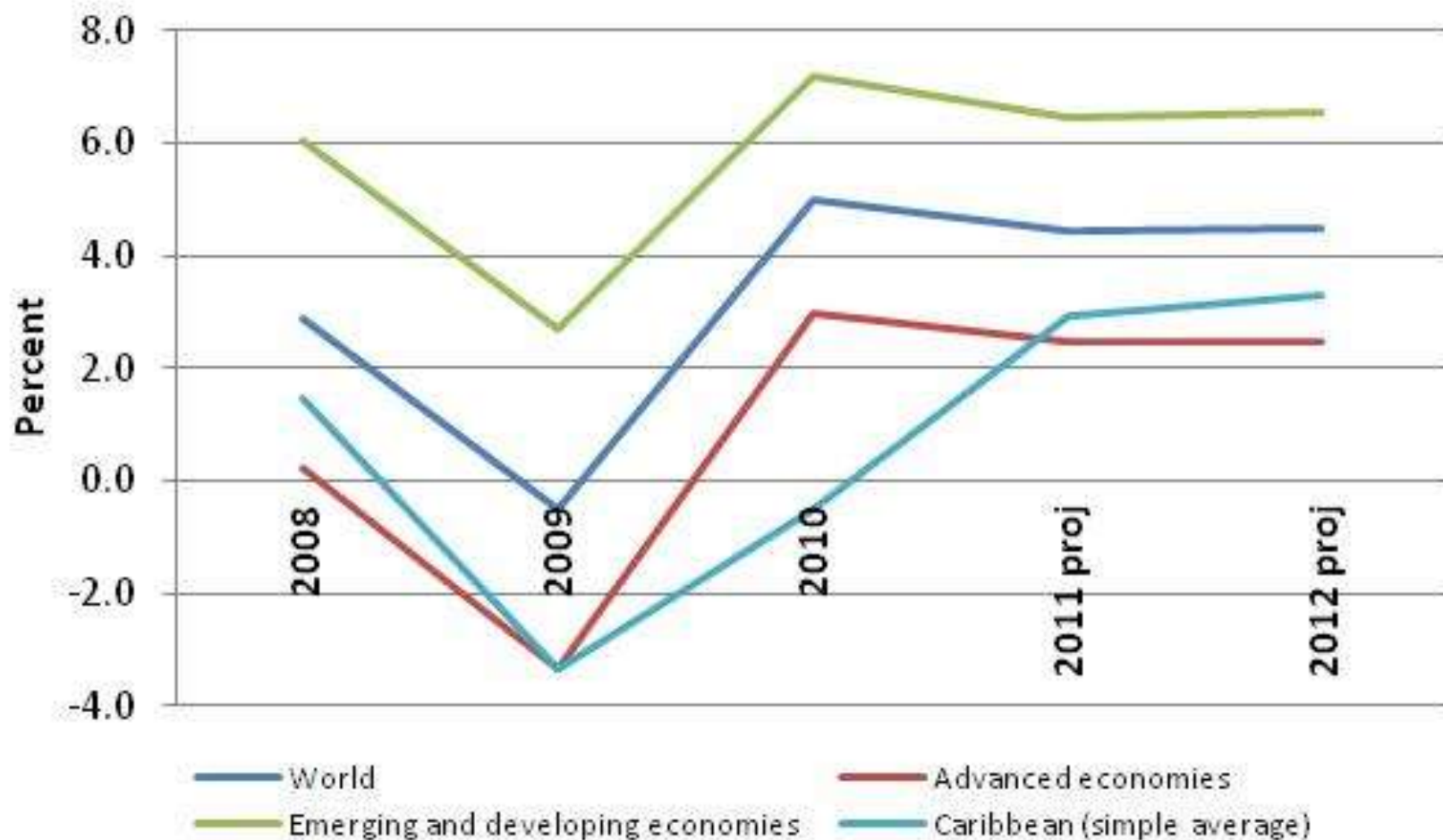
Social – *region compares well*

Institutional – *about average*

External – *not well positioned,
and highly vulnerable*

»» Macroeconomic Stability

Real GDP Growth – lagged regional and world averages



Macroeconomic Environment Ranking – lowest global competitors

	OVERALL	Government Budget	Gross National Savings	Inflation	Interest Rate Spread	Government Debt	Credit Rating
Country							
Barbados	126	115	125	95	81	137	51
Dominican Republic	96	45	138	107	94	41	84
Guyana	119	62	131	68	124	110	105
Jamaica	142	106	133	137	127	140	111
Trinidad and Tobago	57	81	20	131	99	72	43

1/ Index ranks 142 countries

Source: Global Competitiveness Report 2011-2012

»» Social Development

Social indicators – LAC region has generally performed well

	HDI	Life Expectancy at Birth	Mean Years of Schooling	GNI per capita (PPP 2008 \$)
Developed				
OECD	0.879	80.3	11.4	37,077
Non-OECD	0.844	80.0	10.0	42,370
Developing				
Arab States	0.588	69.1	5.7	7,861
East Asia and the Pacific	0.643	72.6	7.2	6,403
Europe and Central Asia	0.702	69.5	9.2	11,462
Latin America and the Caribbean	0.704	74.0	7.9	10,642
South Asia	0.516	65.1	4.6	3,417
Sub-Saharan Africa	0.389	52.7	4.5	2,050
World	0.624	69.3	7.4	10,631

Source: UNDP International Human Development Indicators

»» Institutional and Capacity Building

Institutional Indicators – generally poor performance, Barbados shines

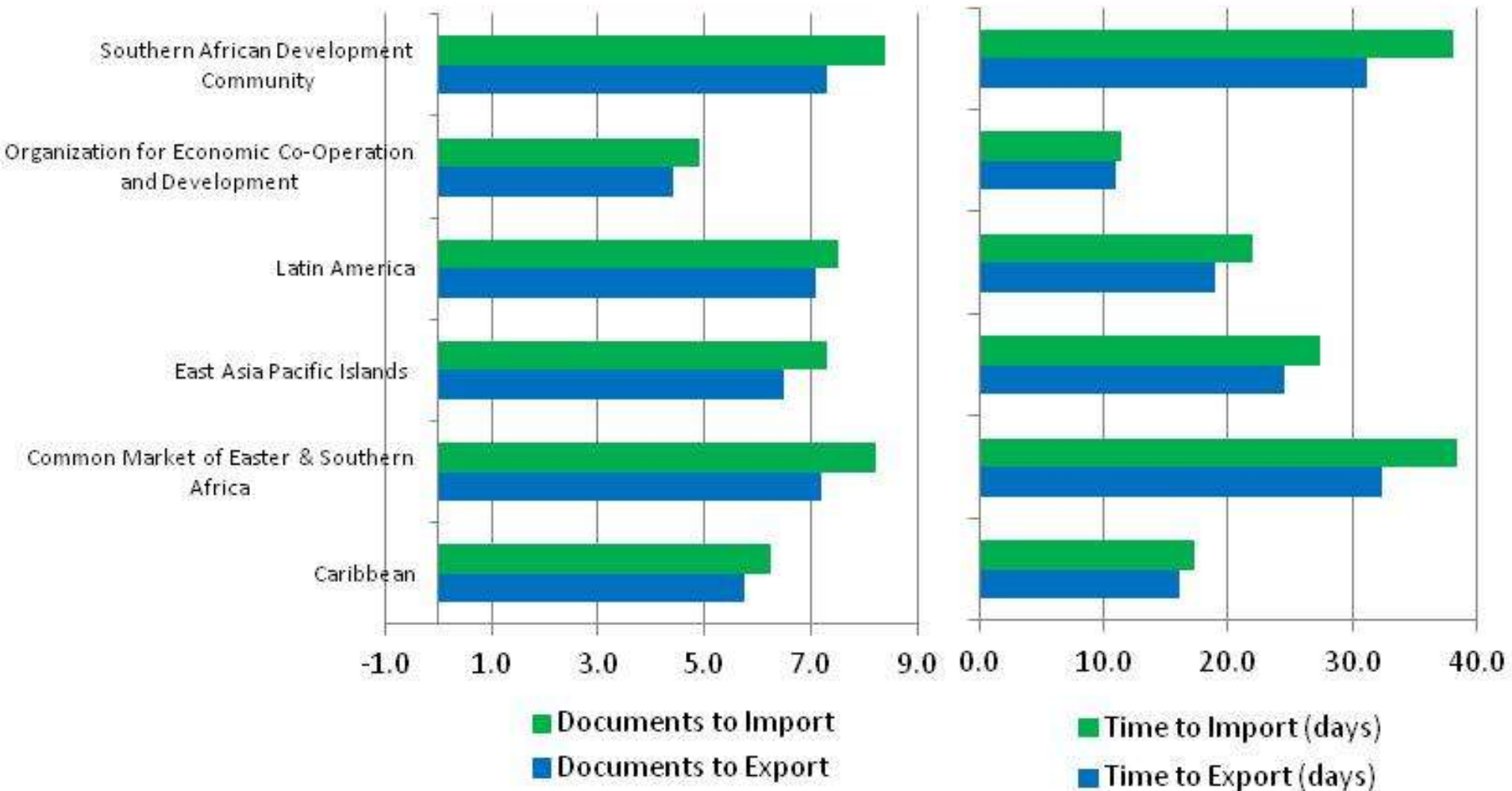
	OVERALL	Judicial Independence	Transparency of Government Policymaking	Business Cost of Crime and Violence	Strength of Auditing and Reporting Standards	Public Trust in Politicians
Barbados	18	17	12	57	14	16
Dominican Republic	126	115	54	122	85	135
Guyana	93	87	82	130	79	69
Jamaica	86	48	98	140	37	112
Trinidad and Tobago	82	47	94	135	58	98

1/ Index ranks 142 countries

Source: Global Competitiveness Report 2011-2012

»» The External Environment

Costs to trading across Borders – comparable, but unequal across region



Re-engineering a New Vision



A shared responsibility

World Stage

- ▶ Weak and uneven growth – low in advanced economies
- ▶ Sovereign debt (US, Europe)
- ▶ Social instability
- ▶ Lack of consensus on policy implementation
- ▶ Low market/investor confidence

Vulnerabilities in region

- ▶ Macroeconomic fundamentals fragile
- ▶ Not diversified or aligned to new growth poles
- ▶ Subject to external shocks
- ▶ High frequency of natural disasters
- ▶ Undeveloped pre-emptive crisis management

Points of focus: Macro stability

- ▶ Reduce fiscal deficits and debt to restore confidence
- ▶ Foster price stability
- ▶ Remove structural impediments and undertake reforms to spur growth and improve productivity
- ▶ Encourage strengthening of private sector balance sheets
- ▶ Develop downstream value-added and cross-sector linkages, leverage endowments – diversify products/markets

Points of focus: Social, institutional, and external

- ▶ Education: – innovation, outcome-based
- ▶ Improve governance
- ▶ Enhance social cohesiveness
- ▶ Create more opportunities for investment across the region (Caricom, PPPs)
- ▶ Inter-sector partnerships (training, social protection, preservation of environment)
- ▶ Embrace potential of integration (awareness, political consensus, and commitment)

Conclusion

- ▶ Can we develop dynamic and sustainable new Caribbean?
- ▶ Do we have the will?
- ▶ Macroeconomic Stability is necessary but not sufficient
- ▶ A holistic view is needed, embracing social, political, institutional, and cross-border dimensions

Conclusion

- ▶ Guiding principles:
 - Articulate a strong vision
 - Create a sense of urgency to act
 - Establish good governance with defined accountability
 - Recognize change is a transition, not an end itself
 - Stay the course

Thank You.