

RE-IGNITING GROWTH AS A PLATFORM FOR MORE EQUITABLE SOCIETIES

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- Region **must not let the Crisis go to Waste**

Recovery in Global Economy, but Downside Risks are a Threat

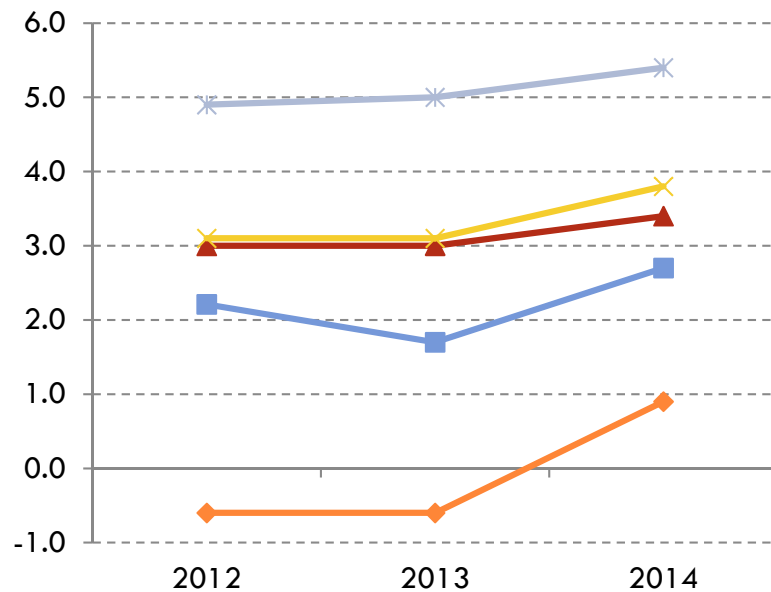
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- The world economy is projected to grow by 3.1% in 2013 and 3.8% in 2014.
- Outlook in 2013 is affected by headwinds from weakening of US recovery, weaker growth in emerging economies and recession in Euro Area.
- Growth in major markets in 2013: US 1.7%, Euro Area - 0.6%, Japan 2.0%, Emerging markets and Developing countries 5.0%
- Growth in world trade is expected to pick up from 3.1% in 2013 to 5.4% in 2014.

International Trends

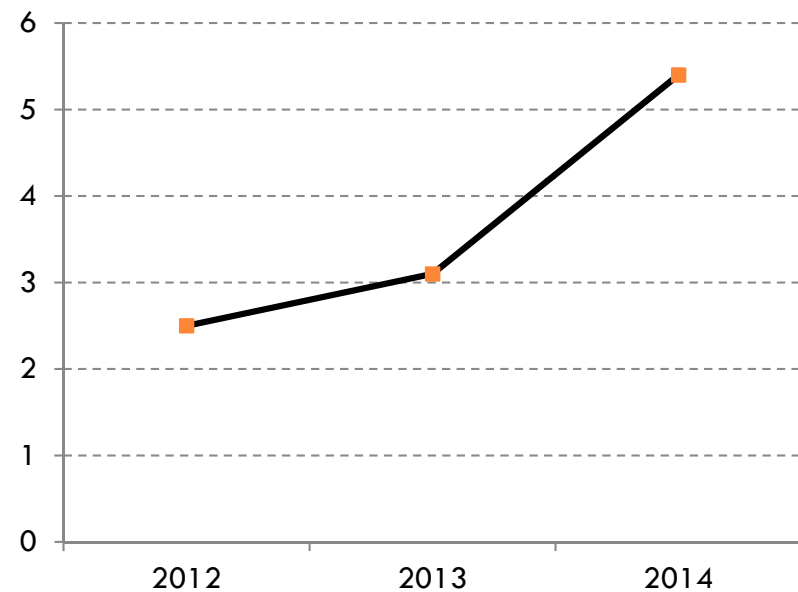
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GDP Growth (Percent)



- ◆ Euro Area
- United States
- ▲ Latin America and the Caribbean
- ✕ World
- * Emerging market and developing economies

World Trade Volume (Percentage growth)



Caribbean Economic Performance

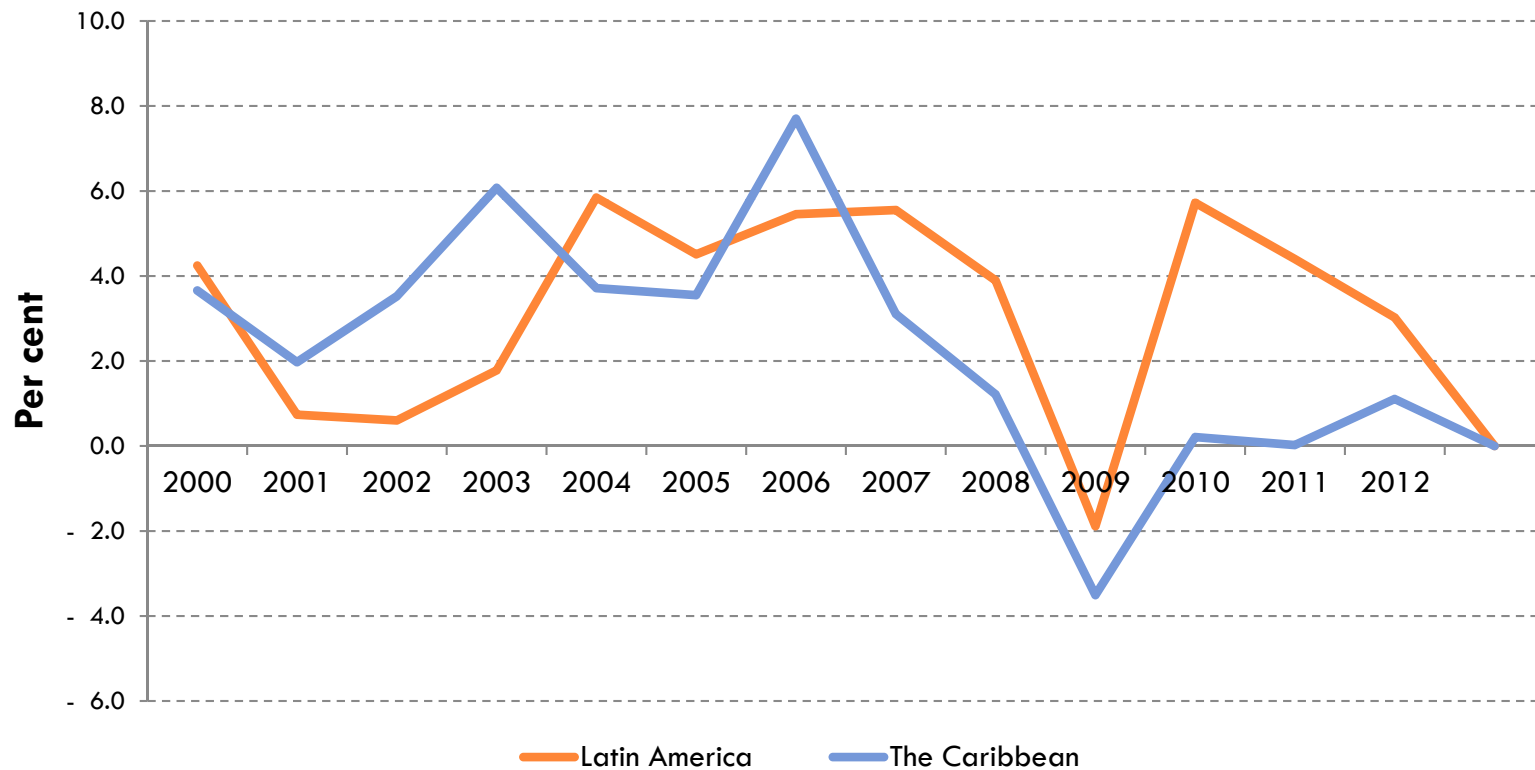
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- **Caribbean economy stumbled on the path to recovery in 2012**
- This led to higher unemployment and reduced incomes and human welfare
- Economic growth slowed from 1.4% in 2011 to **0.6% in 2012**
- Growth pegged back by contraction in service producers (-0.6%), as growth in goods producers rose to 3.7%

Caribbean was losing ground to LA, this was only aggravated by the crisis

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Latin America and the Caribbean Real GDP Growth

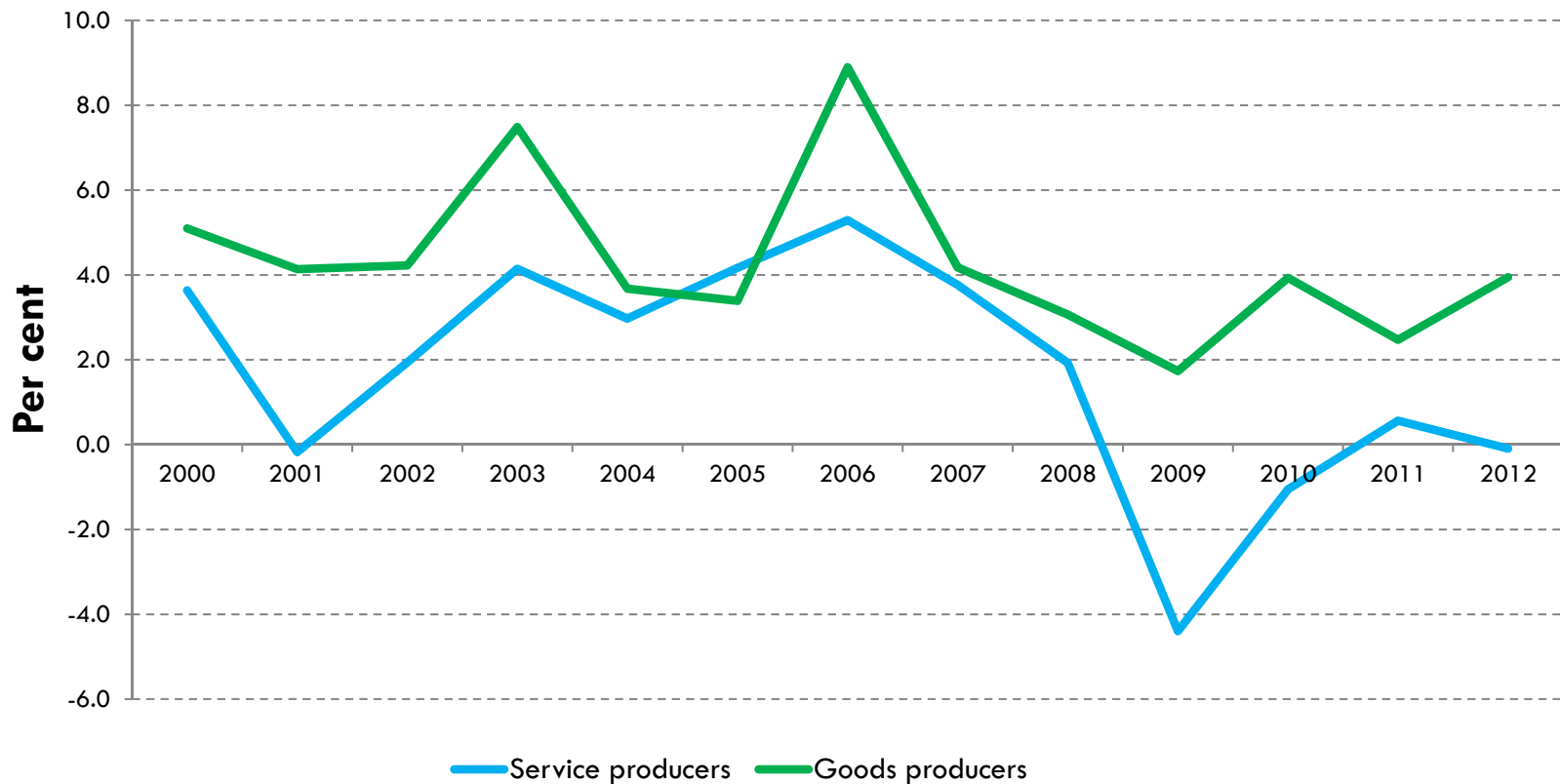


Source: ECLAC based on official data

Goods producers have performed better in last decade...

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Real growth rates for CARICOM goods and service producers



Source: ECLAC, based on official

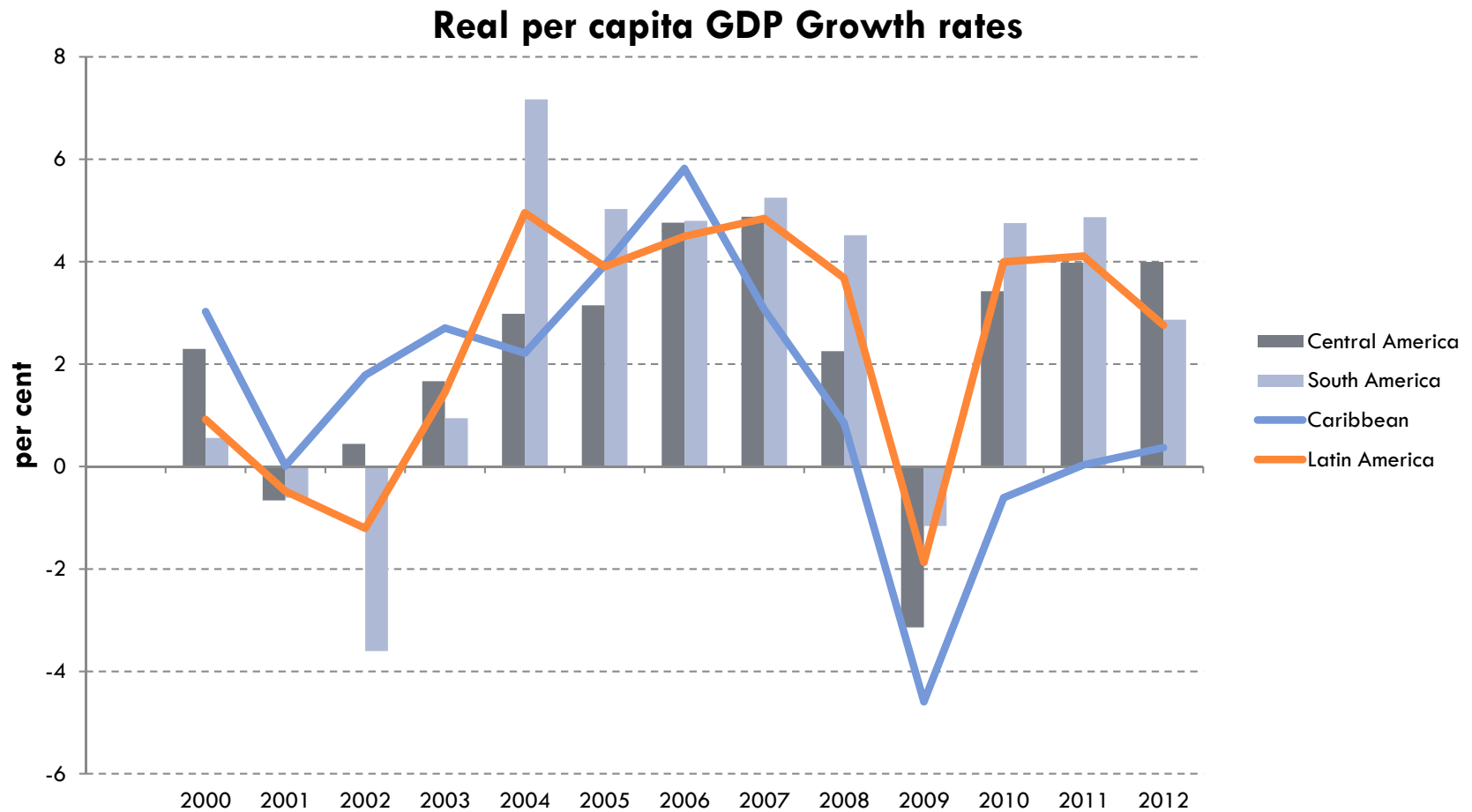
Caribbean Economic Performance

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- Over half of service producers had slower growth; steepest declines (-6.8% and -3.0%) in Anguilla and St. Lucia
- Jamaica contracted by 0.3% due to lower output in mining and construction
- Trinidad and Tobago grew by 0.2% in 2012 reversing the decline of (-2.6%) in 2011.

But crisis only aggravated Situation in Caribbean

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Source: ECLAC, based on official data

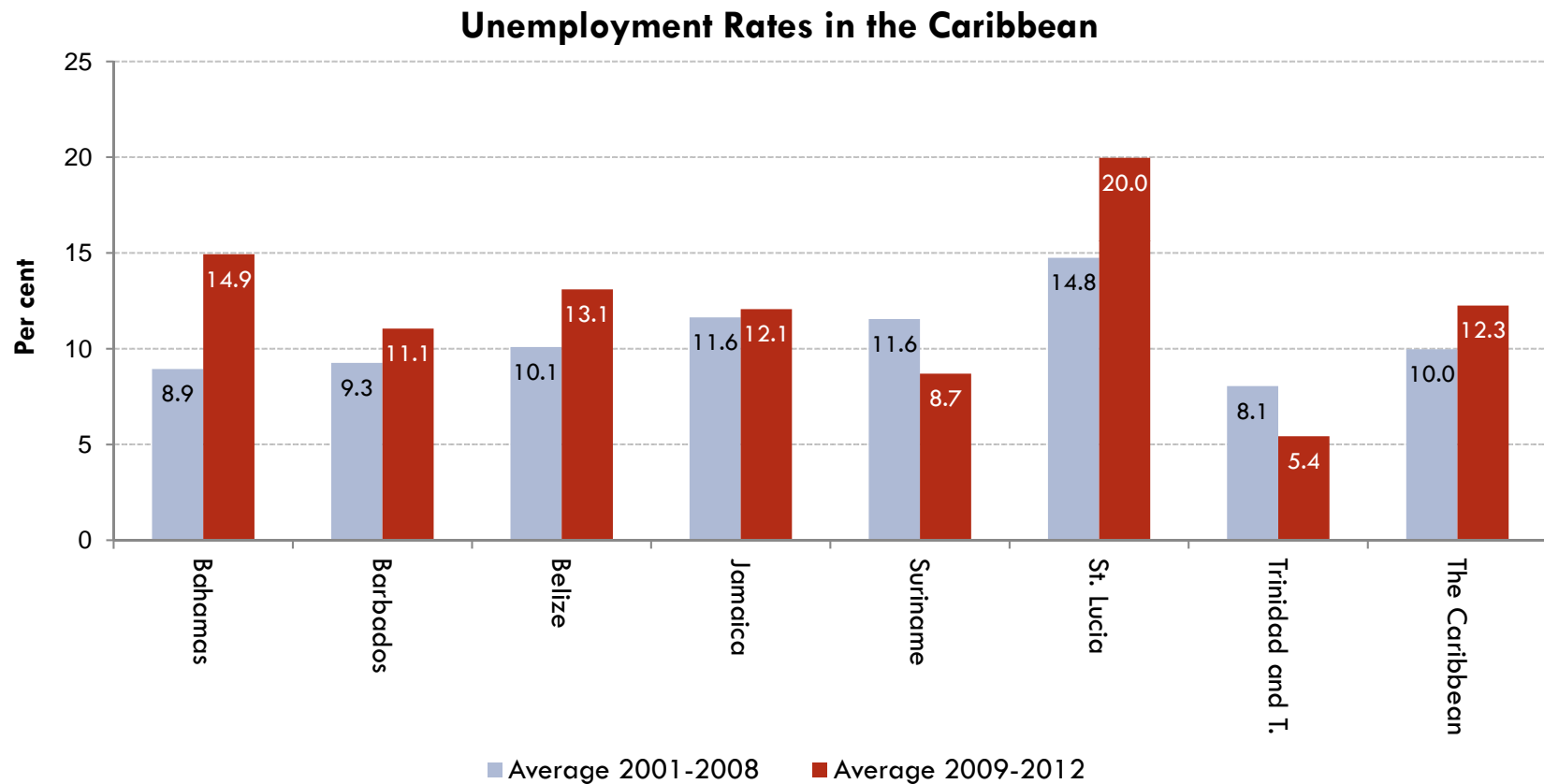
High unemployment remains a key Challenge

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- With decline in activity, unemployment increased slightly to average 12.6%
- Nevertheless, 5 of the 7 countries with data had unemployment rates above 10% , with St. Lucia's as high as 21%
- High youth unemployment is a veritable wasting of the human capital stock in region
- High costs in human and social welfare
- Inflation fell to 3.15 in 2012, and is expected to remain fairly stable in 2013

High unemployment remains a key Challenge

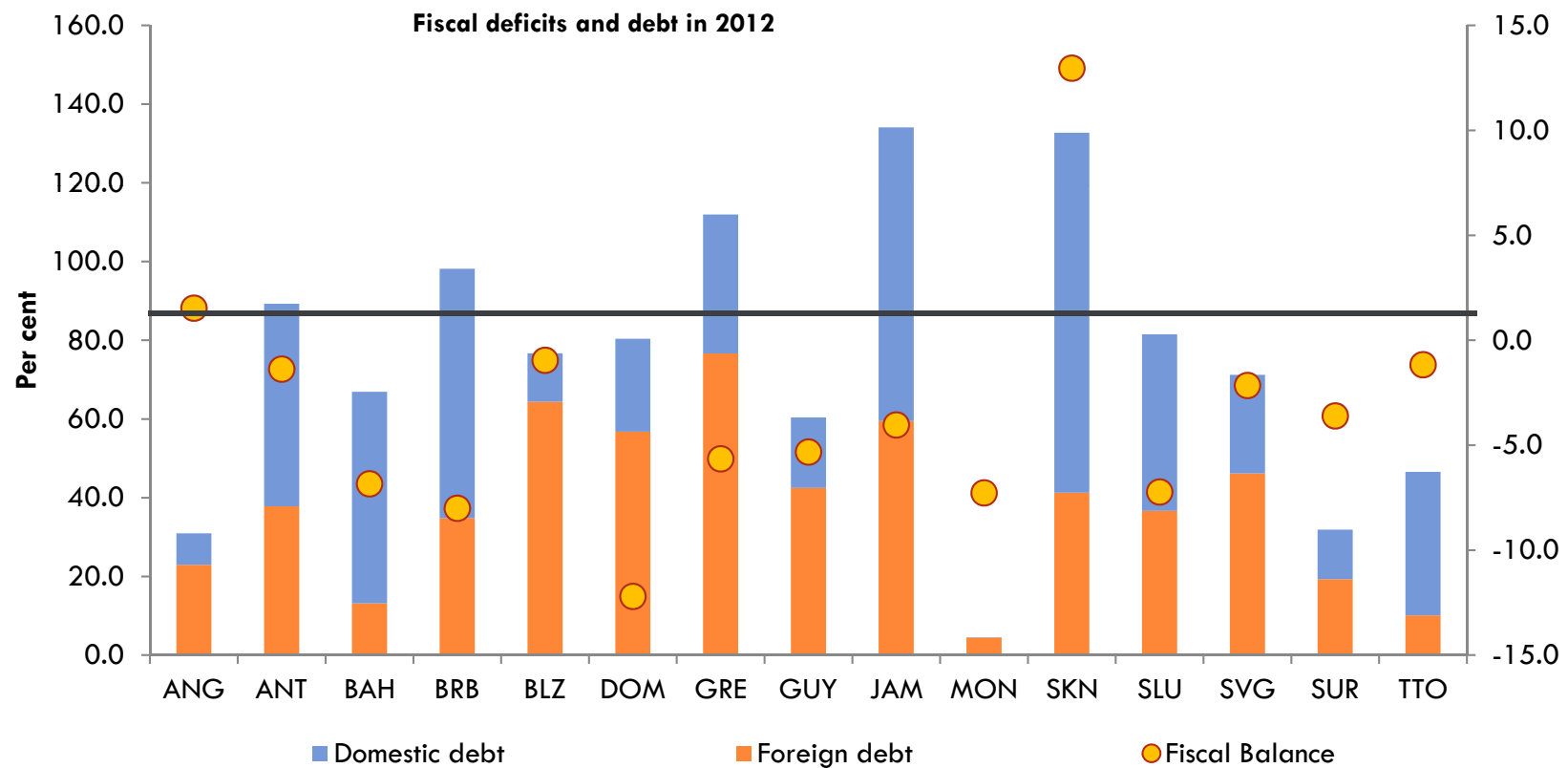
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Source: ECLAC , based on official data

High Fiscal deficits and debt overhang could hurt growth...

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Source: ECLAC , based on official data

High Fiscal Deficits and Debt

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- The Caribbean remains **one of the most highly indebted regions in the world.**
- Public debt increased from **72.2%** of GDP in 2011 to **74.5%** of GDP in 2012
- This is far above threshold of around **55%** where research has shown that debt could hurt growth in the Caribbean
- Higher growth in domestic debt
- Efforts at debt restructuring- Jamaica, Belize, St. Kitts and Nevis and Grenada
- **Debt Service Payments absorb a full 26.3% of government revenue in region.** Range from 1% in T&T to 58% in Jamaica

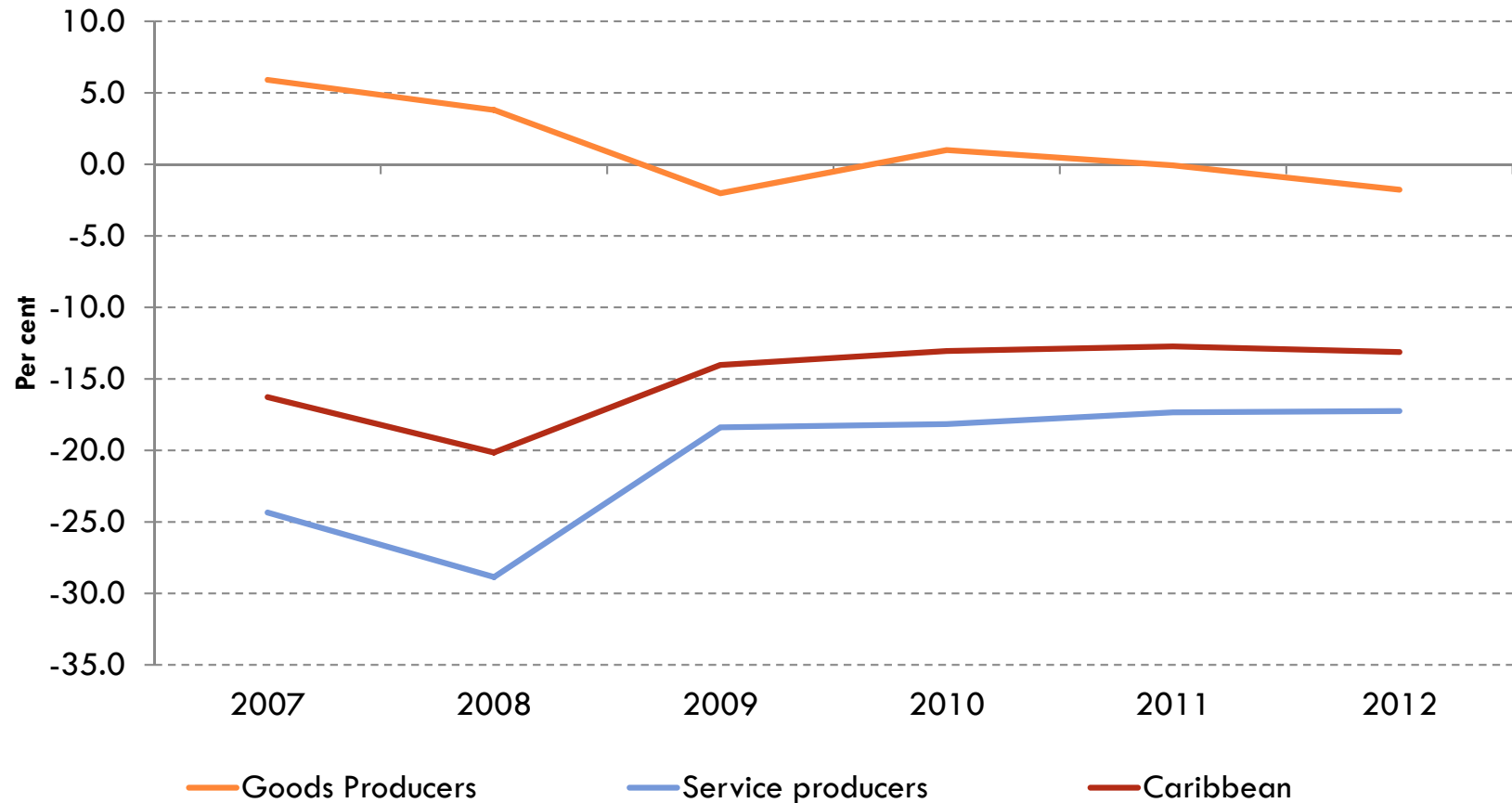
Monetary and BOP current account

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- Monetary developments did not facilitate growth
- **Private credit fell by 0.7%**, especially to productive sectors, despite fall in lending rates
- Private sector seems to be deleveraging debt and weighing up investment risks, **wait and see attitude**
- The CA deficit widened to 13.1% of GDP from 12.9% of GDP in 2011.
- Deficit resulted from a turnaround of the merchandise surplus in goods producers to a small deficit
- This offset the services surplus in service producers that was due to higher tourism receipts

Current Account Balance, 2007-2012

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Source: ECLAC, based on official data

Prospects for 2013

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- Regional economy is expected to strengthen in short-term
- Growth projected at 2.1% in 2013 and 2.3% in 2014
- Growth premised on recovery in tourism and small decline in commodity prices
- Based on continued recovery in US and stabilisation in Eurozone
- Two speed growth pattern will continue with the service producers growing by 1.5% and 1.8% in both years and the goods producers by 3.7% in both years
- Downside risks remain

Possible new Normal of lower Growth for World Economy

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- An important group of economists, CEO's and investors have suggested that world might be in a “**New Normal**” of lower growth
- This is on **credible trends** including:
 - ▣ **The Increasing costs of resources** (high demand and costs acting as drag on world growth)
 - ▣ **The world's labour force is peaking** => perpetual growth in productivity to maintain past growth levels
 - ▣ **No big technological game-changer** is on horizon (internet now a mature technology)
 - ▣ Pierre Azoulay and Ben Jones () [Total productivity of worker in R&D in 2000 was 15% of what it was in 1950]

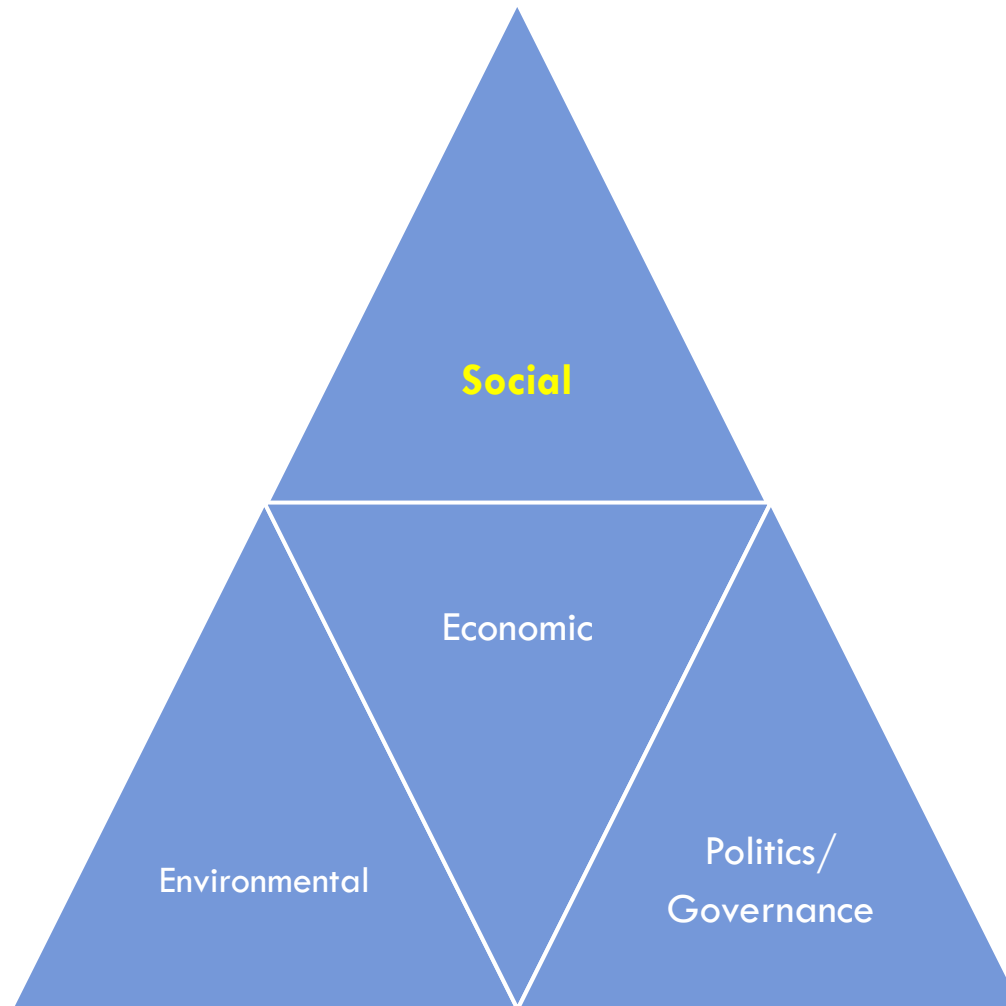
Possible new Normal of lower Growth for World Economy

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- New era of **hyper-competition** for markets
- **Climate change**- our **Damocles sword**
- How Should the **Caribbean respond** to these threats?
- **A crisis is a precious thing to waste..**
- **Hope for the best, prepare for the worst**
- **What is required...**

An Integrated Sustainable Development Model... UN Post 2015 Agenda

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Economic Restructuring... the Foundation

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- Global recession has provided an opportunity for region to rethink its development strategy
- **Re-ignite Growth**
- Focus on **economic restructuring** to increase value added in traditional areas of comparative advantage
- **Comparative advantage following** sectors –**Yes**, but should **comparative advantage defying** sector/s be considered? (Justin Lin vs. Ha-joon Chang, 2009)
- Economic diversification- **intensive** and **extensive margin**
- **Role of industrial policy** (state vs. market)

Sustainable public finances essential for growth strategy

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Fiscal Consolidation

- ▣ Improved expenditure programming and management, including procurement practices (cost overruns),
- ▣ Improved revenue collections, including back taxes; reduce exemptions and concessions
- ▣ Debt restructuring on as favourable terms as possible

A major Competitiveness Drive is needed

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- Strong public finances are not enough
- Must be complemented by a **Strong Competitiveness programme**
- **Radical upgrading of traditional sectors**, especially tourism and agriculture and search for new activities
- **Tourism**: focus on upgrading **product/service quality**, linkages with other sectors and improved **airlift**
- **Agriculture**: Big productivity push, investment in **farm management and R&D**, pharmaceuticals, gourmet foods, cut flowers...

Competitiveness Drive

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- Diversification into new areas of comparative advantage e.g. sports, cultural industries, professional services; also new markets e.g. BRICS
- Clusters and Value chains important
- New forms of PPPs are required given weak private investment; public sector might need to absorb part of upfront financial risk
- Fully leverage **regional integration**: Surplus and deficit capital countries and “**learn tricks of trade for exporting**”

Creative more Equal and Inclusive Societies

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- Finally, systems of education, training and **social protection** need to be strengthened to create more inclusive societies
- Policies to **reduce inequality** and **marginalisation-**
- **“Teach people to fish”**
- Governance reform is also critical
- Crime and deviance should be tackled by ‘carrot and stick’
- **Complete the mission**

Thank You for Listening