

A Review of the Regional Economy

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INTRODUCTION

- The global crisis aggravated challenges noticeable for some time
- Post 2015 agenda of SDGs will view development in a broader context-this could augur well for Caribbean
- Deep structural changes are needed to address current challenges
- Greater planning and a process of industrial restructuring



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CONTENTS

- Growth outcomes and prospects for 2014 and 2015
- Regional Unemployment
- Fiscal issues
- Monetary policies and inflation
- The external sector
- Addressing deep-seated issues
- The Caribbean business environment
- A way forward.



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GROWTH OUTCOMES AND PROSPECTS FOR 2014 AND 2015

CARIBBEAN GDP GROWTH RATES, 2010-2015
(Percentage)

	2010	2011	2012	2013	2014 ^a	2015 ^a
The Caribbean	-0.6	1.7	0.7	1.1	2.0	2.5
Service producers	-1.9	1.4	-0.3	0.5	1.5	2.0
Goods producers	3.0	2.6	3.5	3.0	3.4	3.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Projected Growth rates

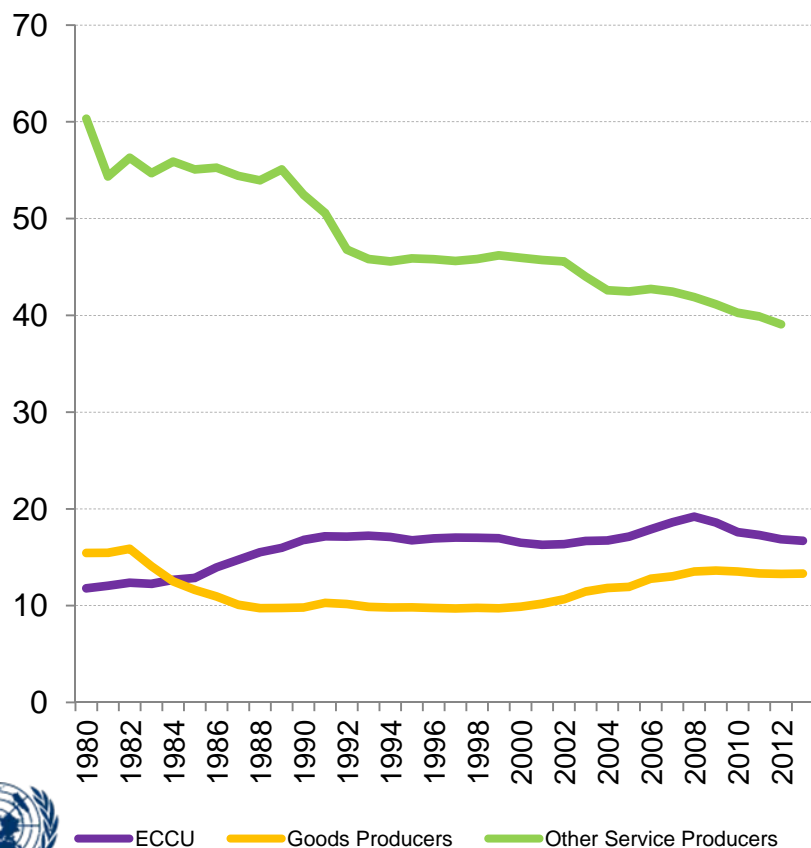
Note: Figures are computed as simple averages of GDP growth rates for Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.



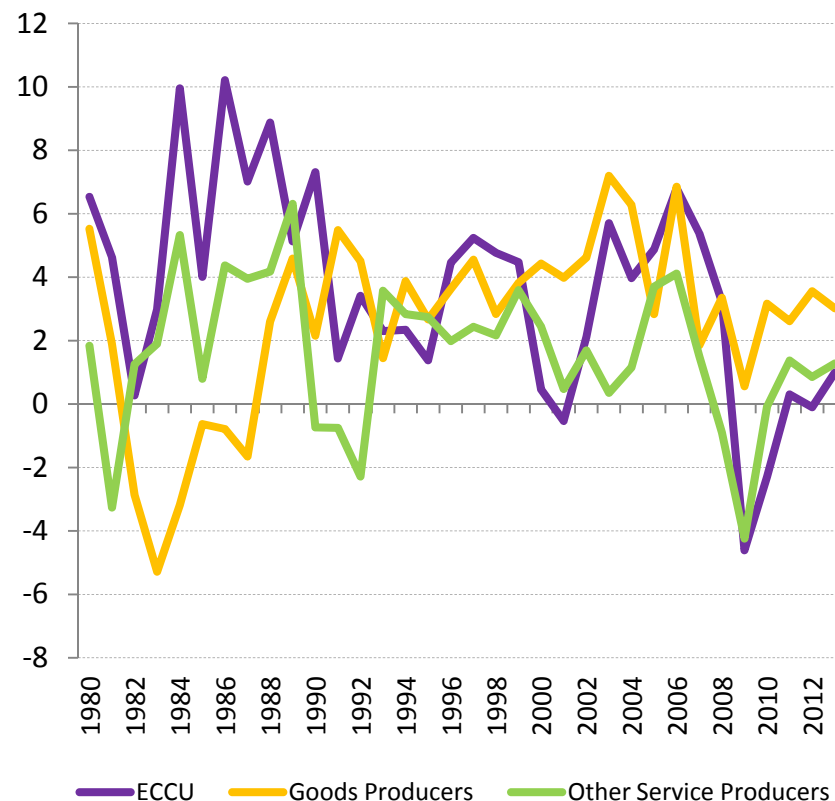
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GDP per capita and Real Growth Rates

REAL GDP PER CAPITA (2005 US\$), 1980-2013
(Ratio to US GDP per capita)



AVERAGE REAL GDP GROWTH RATES, 1980-2013



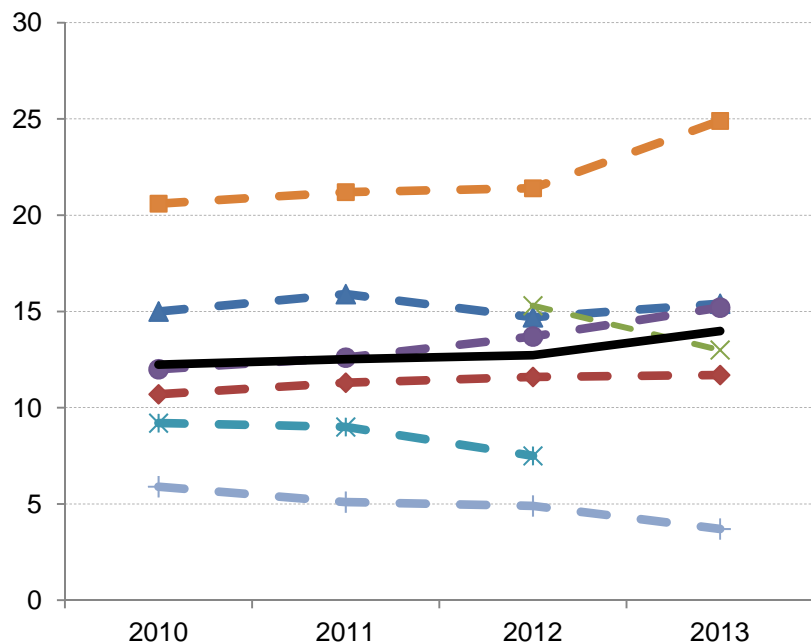
Source: World DataBank, World Development Indicators



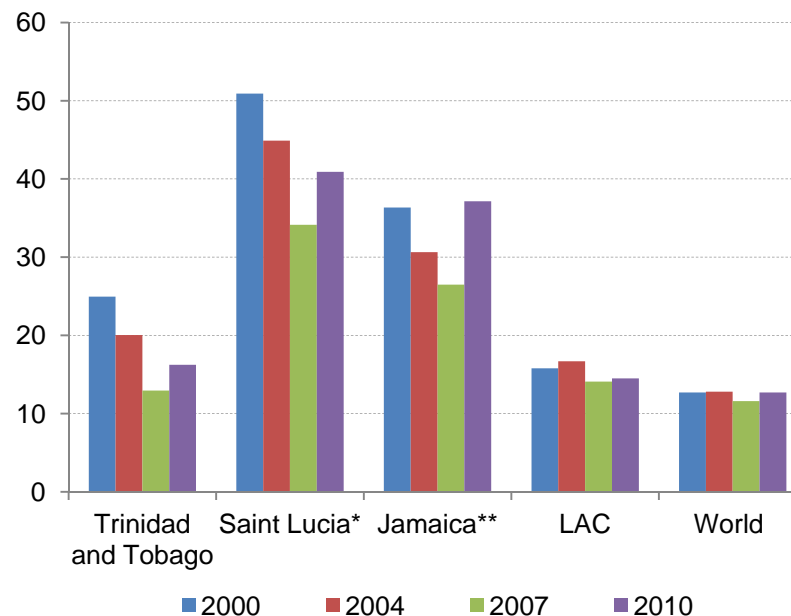
ECCU Goods Producers Other Service Producers

UNEMPLOYMENT

UNEMPLOYMENT RATES, 2010-2013
(Percentage)



YOUTH UNEMPLOYMENT RATES (15-24 YEARS) IN SELECTED CARIBBEAN COUNTRIES, LATIN AMERICA AND THE WORLD
(Percentage)



Source: National Labour Force Data and ILO Key Indicators of the Labour Market (KILM) 7th Edition
 * Data from 2010 was not available so data from the 3rd and 4th quarters of 2011 has been used for this year
 ** Available data was for the age group 14-24



CHALLENGES IN THE CARIBBEAN: FISCAL ISSUES

Poor fiscal management combined with negative shocks.

- Fiscal Deficit large-contingent liabilities
- Role of government as employer of last resort
- Domestic private sector risk averse since the crisis-credit expansion mainly for consumption

FISCAL BALANCE FOR GOODS AND SERVICE PRODUCERS, 2010-2013
(Percent of GDP)

	2010	2011	2012	2013
Goods producers	-1.7	-1.7	-2.4	-3.0
Service producers	-3.0	-2.6	-3.6	-4.4
Caribbean	-2.6	-2.4	-3.3	-4.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



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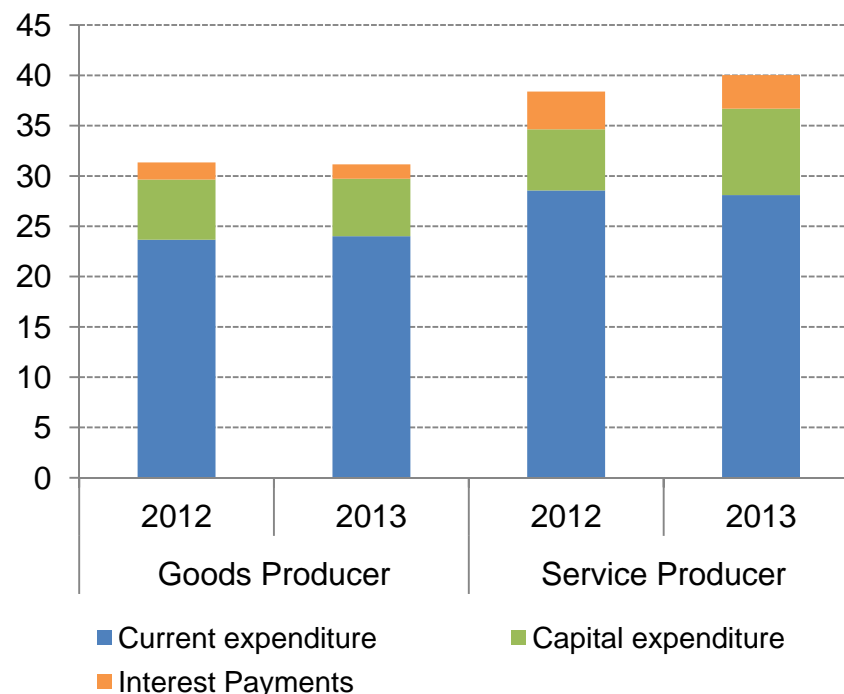
Government Expenditure

- Current exp large vs Capital spending
- In the last year increase in government spending for region has been driven by increase in capital expenditure
- Capital expenditure key to future economic growth



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CARIBBEAN CENTRAL GOVERNMENT FISCAL EXPENDITURE BY GOODS AND SERVICE PRODUCERS, 2012-2013
(Percent of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Public Debt

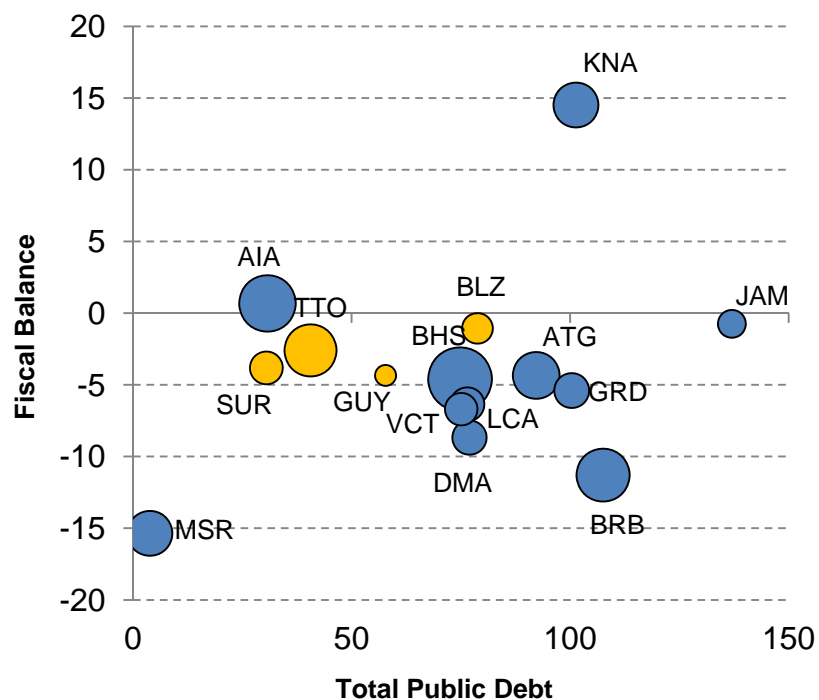
- Public debt is a major challenge to development in the Caribbean. Debt > 50% GDP a problem
- Situation moderated slightly in 2013, but debt still constraining growth and shifting resources away from development projects to debt servicing
- “Middle-Income” status of most Caribbean countries prevents access to concessionary finance



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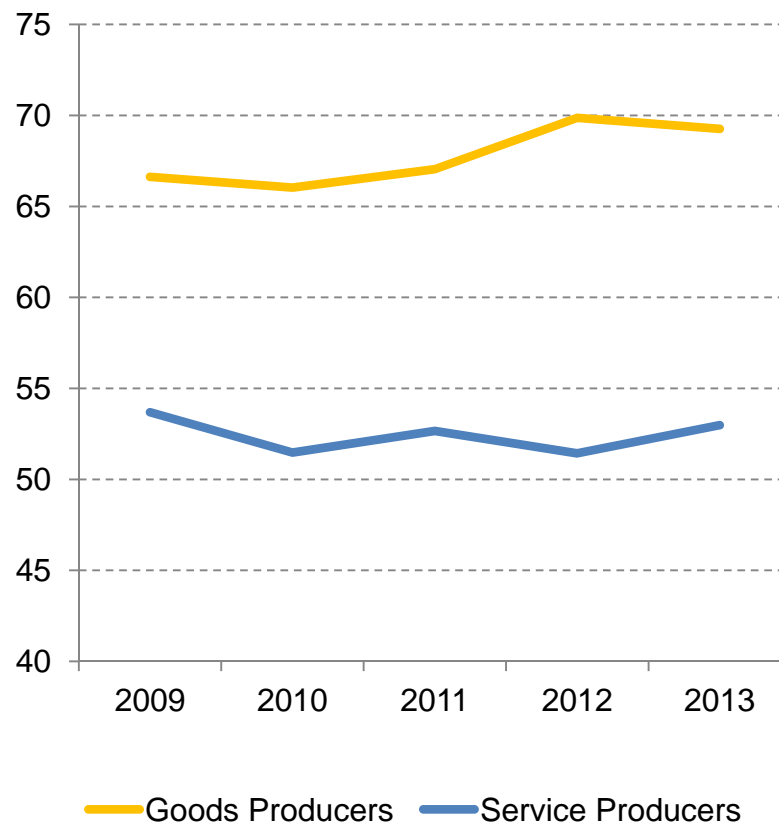
Debt and Fiscal

TOTAL PUBLIC DEBT AND FISCAL BALANCE, 2013
(Percentages of GDP)



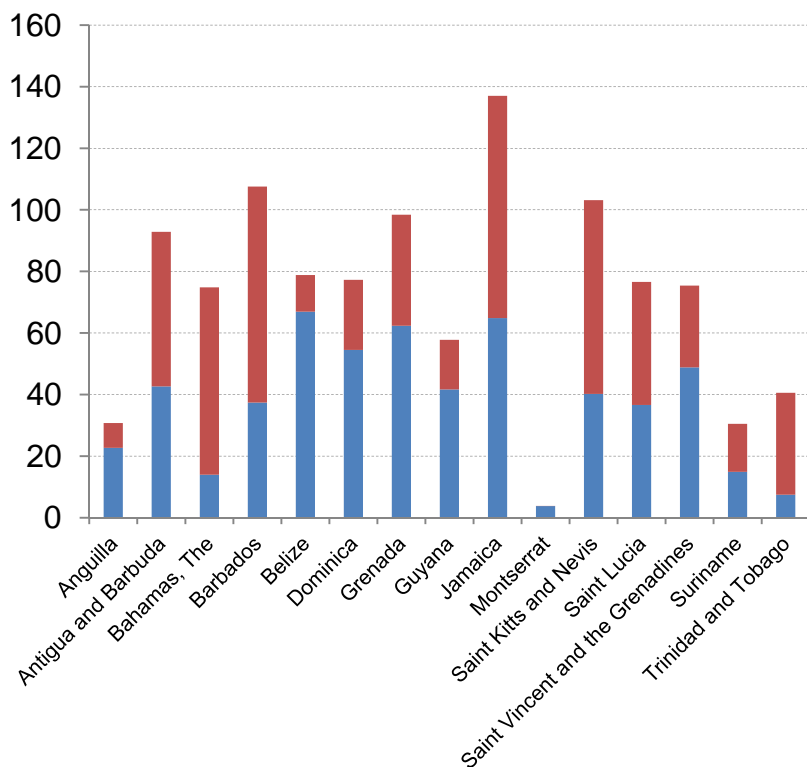
Note: Bubble Size - 2012 GDP per capita in 2005 US dollars.
Orange - Goods Producers; blue - service producers.

FISCAL FLEXIBILITY INDEX

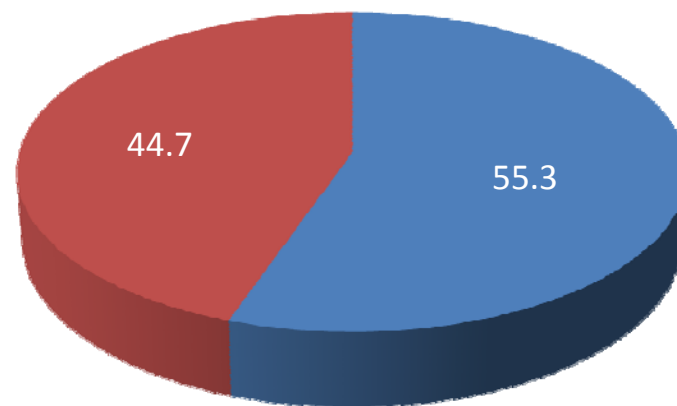


Composition of Debt

EXTERNAL DEBT VS. DOMESTIC DEBT
(Percent of GDP)



COMPOSITION OF CENTRAL GOVERNMENT DEBT 2013
(Percent of Total Public Debt)



■ External Debt ■ Domestic Debt

■ External ■ Domestic



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Other Debt Issues

- Debt service for the Caribbean averaged 24% of government revenue over the period 2011-2013, but crossed 30% for two countries in 2013. One as high as 57%.
- Lack of social compact to address costs and benefits except for a few examples.
- Emerging debt obligation as a result of the Petro Caribe agreement with Venezuela. Many countries have amassed large debts as a result of the agreement's conditions.



MONETARY POLICY AND INFLATION

- Monetary authorities generally maintained a neutral policy stance.
- Average deposit and lending rates, as well as interest rate spreads declined marginally in 2013.
- Credit expansion weak and directed to consumption spending. Credit to the private sector increased slightly while credit to the public sector grew marginally in 2013.
- Inflation rates on average have been in consistent decline since 2011. Those countries with increasing rates saw exchange rate depreciation, rising domestic food prices and tax and utility rate charges.



THE EXTERNAL SECTOR

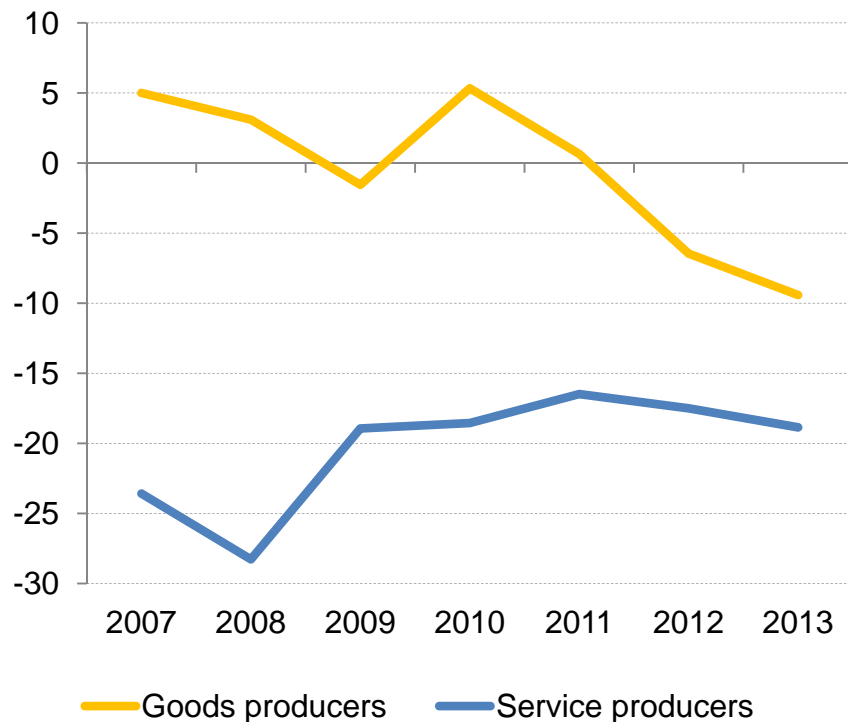
- In general we see current account deficits and limited counterbalancing capital inflows unlike LA. FDI/Remittances/Tourism growth
- In 2013 there was an increase in the current account deficit and less than adequate capital flows, leading to a deterioration of the BOP.
- Deterioration of CA linked to falling productivity and declining of average competitiveness



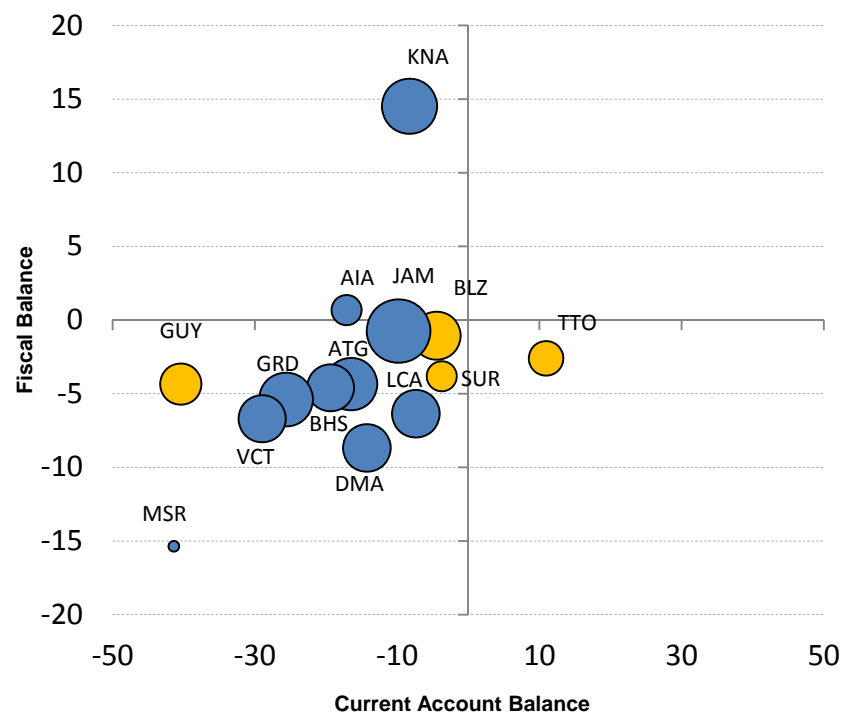
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Twin Deficit Problem

CURRENT ACCOUNT BALANCE
(Percent of GDP)



FISCAL BALANCE, CURRENT ACCOUNT BALANCE AND TOTAL PUBLIC DEBT, 2013
(Percent of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: Size of bubble indicates 2013 Total Public Debt. Yellow represents Goods Producers, blue represents service producers.

ADDRESSING DEEP-SEATED ISSUES

- Development aid more difficult to come by
- Model of development based on factor endowments may have reached limit
- Unilateral fiscal consolidation programmes(except OECS) affects regional trade flows.
- Weak business environment and barriers to integration/including free movement of Caribbean people.

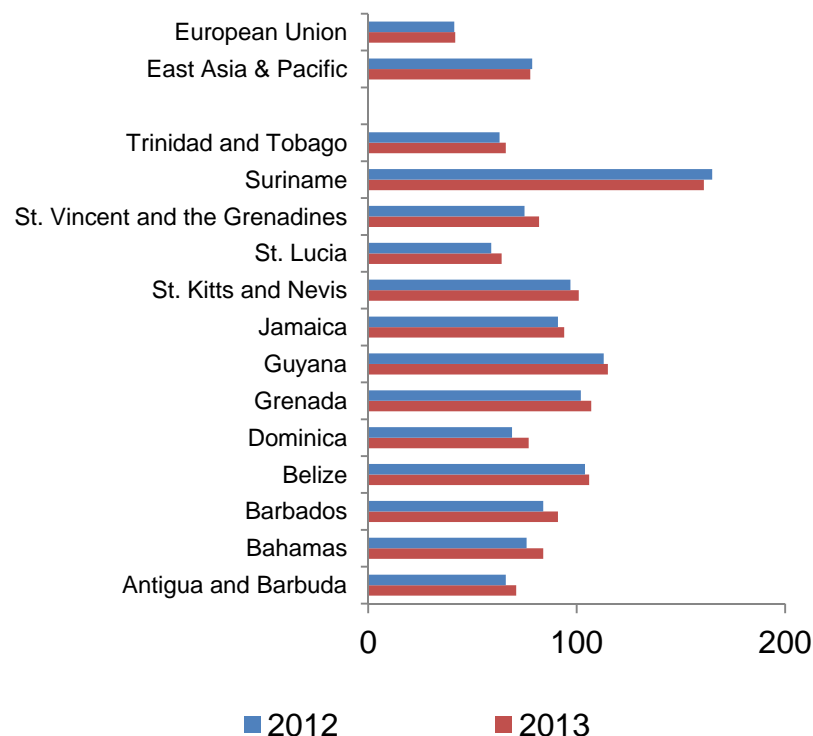


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Caribbean Business Environment

- Higher time costs in starting a business
- Obstacles to doing business:
 - Corruption, Accessing permits, Customs and trade regulations, crime
 - Limited access to finance by SME.
 - Hard time exporting relative to ROSE

EASE OF DOING BUSINESS INDEX RANK 2012-2013 - (Lower is Better)



Source: World Bank, World Development Indicators
Note: 1 = most business-friendly regulations



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THE WAY FORWARD

- Measures in areas that do not require new resources:
 - Improving the business environment
 - Increasing efficiency of government expenditure and seek opportunities for public-private partnerships-with accountability
 - Fiscal consolidation in the context of structural reforms and emphasis on protecting the most vulnerable
- Gains in the medium term can come through:
 - Diversifying markets and activities
 - Building technical capacity-at regional level
 - Removing barriers to joint production and cooperation to develop value chains which now dominate production
 - Pursuing renewable energy opportunities
 - New strategies to encourage FDI



THE WAY FORWARD

- Regional integration
 - Member states must identify priorities and timelines
 - Arguments for Debt reduction must be based on regional strategy- debt for climate change swaps etc
 - Investment in public goods to move integration process beyond the Caribbean
 - Main areas of focus are:
 - Maritime and other transport (airlift)
 - Information and Communication Technologies for interconnection
 - Customs and trade facilitation
 - Greater economic space through initiatives in Latin America/Suriname and Guyana are good examples



Thank You!



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