



The Landscape for Financing Growth in the Caribbean

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Structure of Presentation

- The Role of Growth in Debt Dynamics
- Growth in the Caribbean: A Comparison
- The Financing of Investment in the Caribbean: Recent Experience
- Factors Affecting the Development Finance Environment
- Operating in the Current Environment: Key Policy Imperatives
- Conclusions

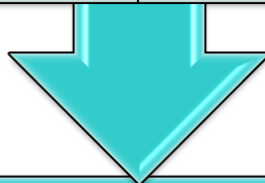


The Role of Growth in Debt Dynamics

Government's budget constraint determines debt dynamics:

$$D_t - D_{t-1} = (PE_t - R_t) + iD_t + O_t + F_t - F_{t-1}$$

where D-Debt; PE-primary expenditure; i- average effective interest rates; O- other flows; F- financial assets.



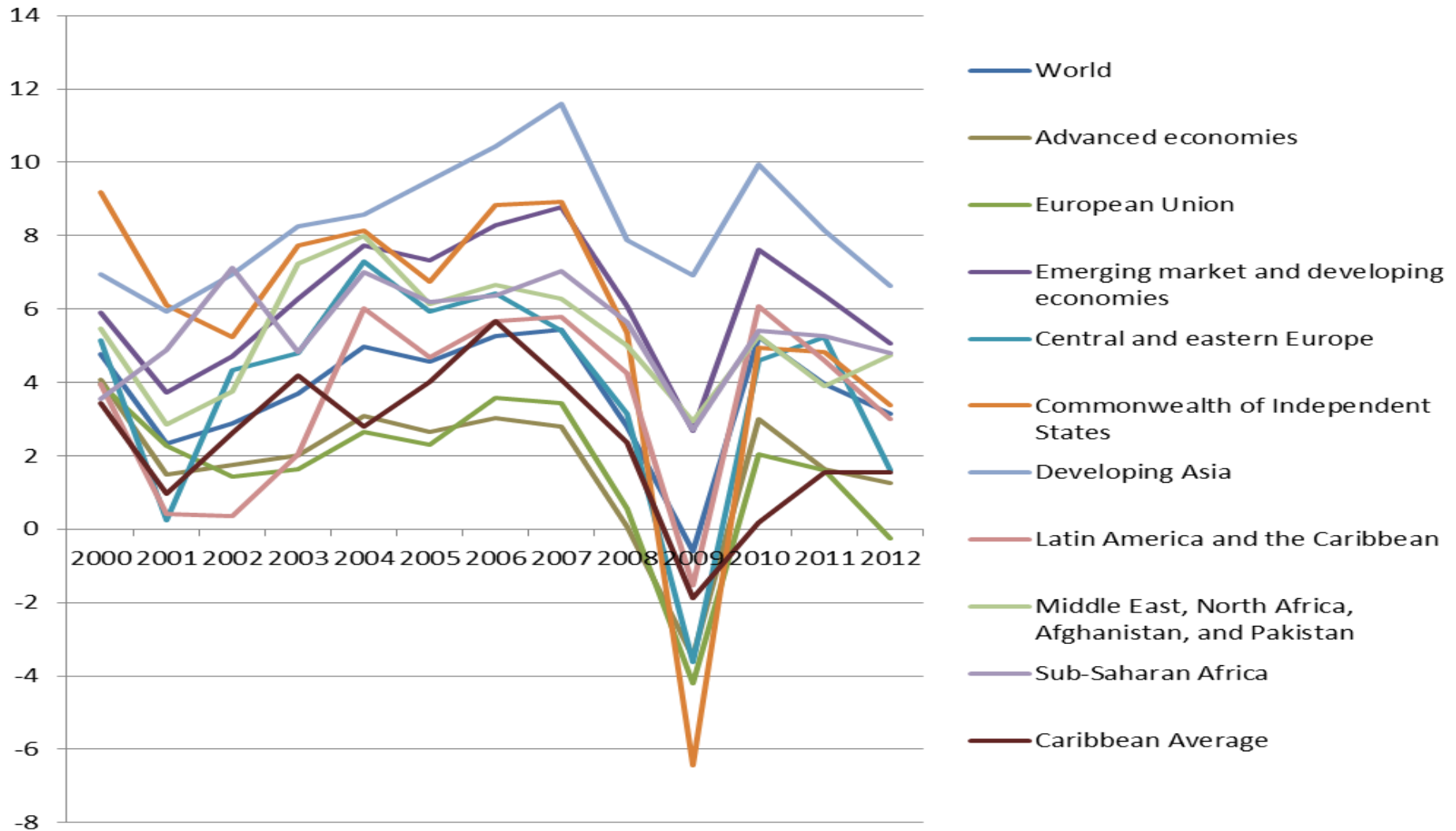
Expressing aggregates as percentages of GDP gives, and assuming no change in financial assets:

$$\Delta d_t = \left[\frac{i_t - g_t}{1 - g_t} \right] d_{t-1} + pb_t + o_t$$

Where Δ represents a one-period change; pb represents primary balance; g is nominal GDP growth;

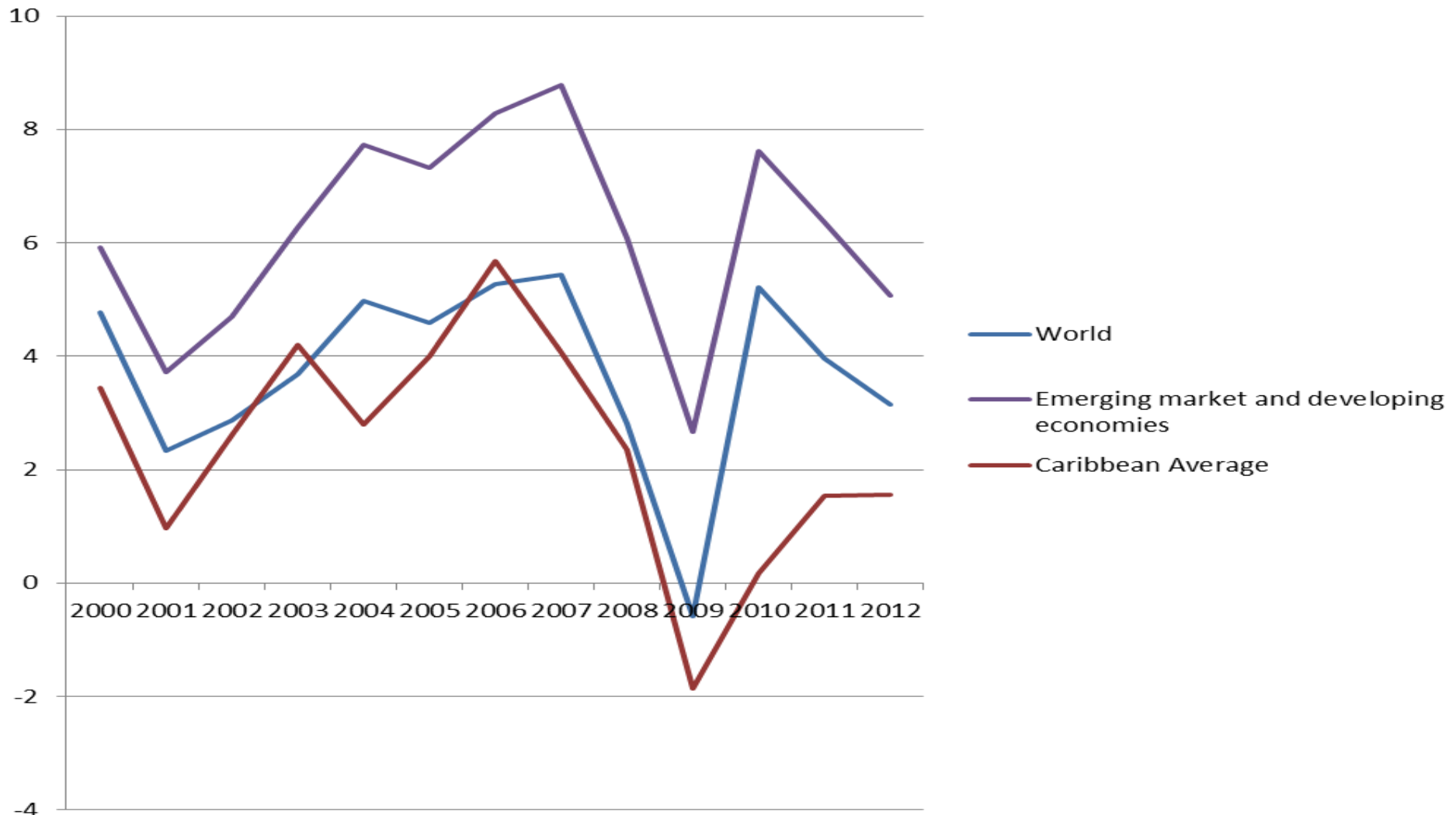


Growth in the Caribbean: A Comparison



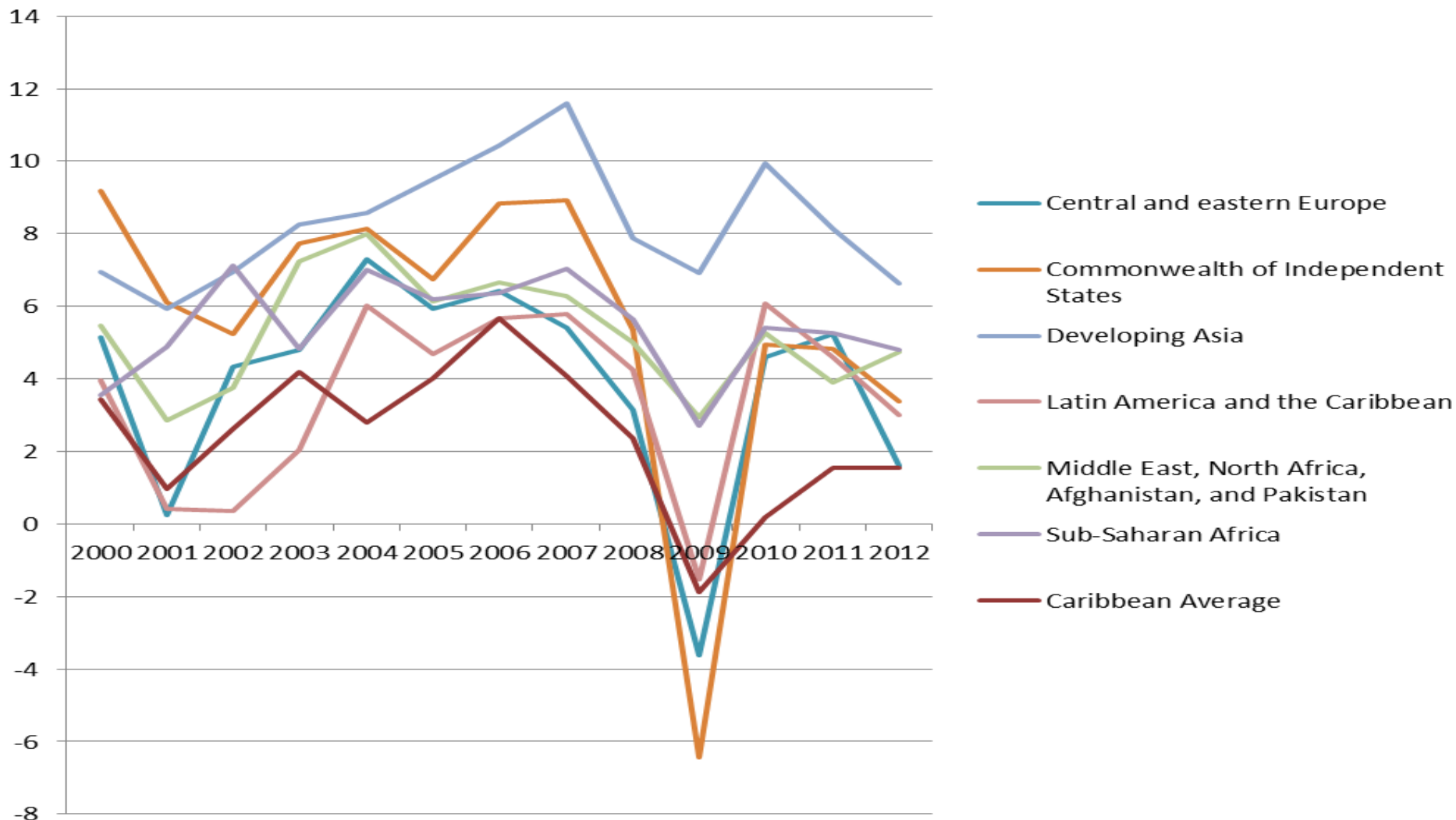


Growth in the Caribbean: A Comparison



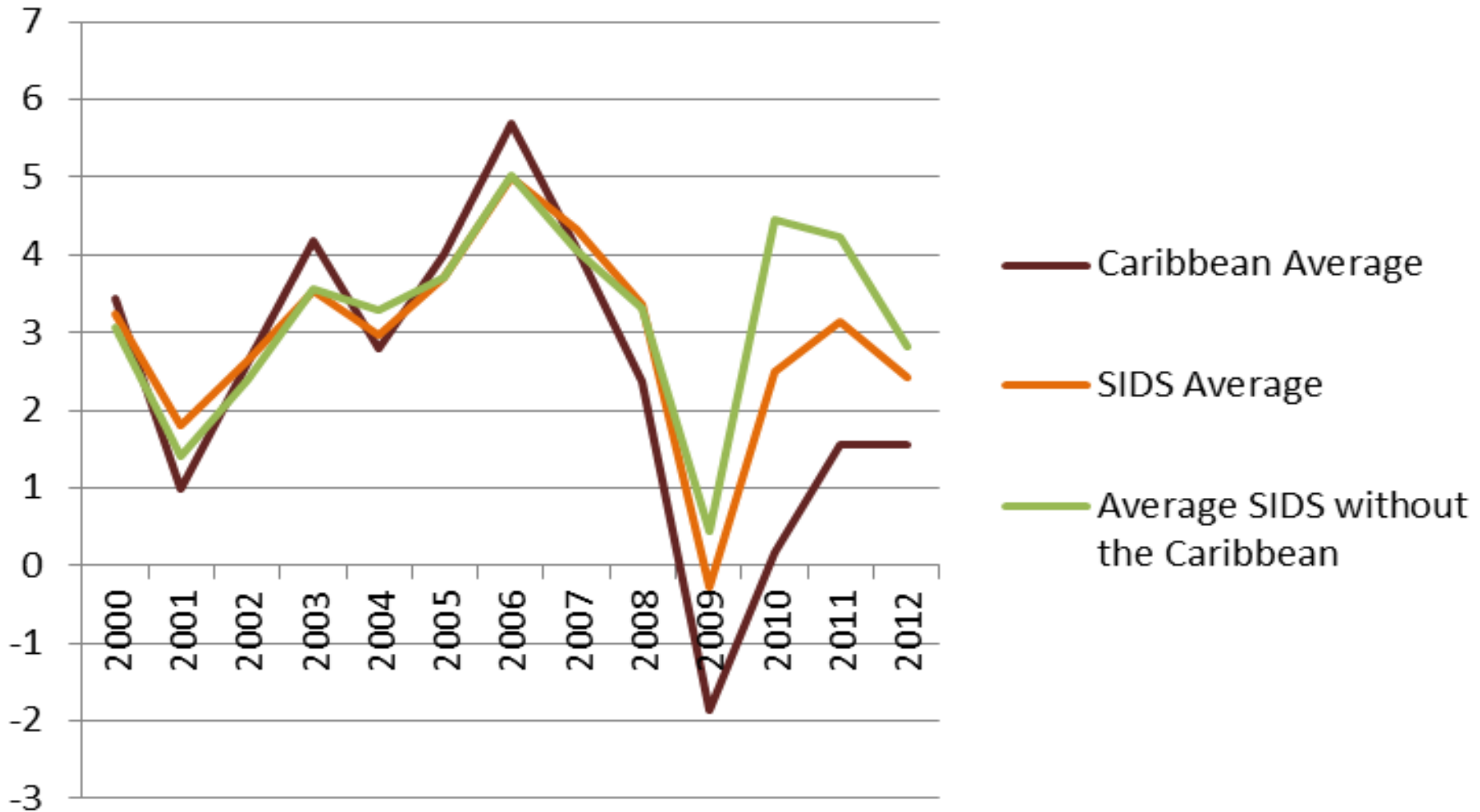


Growth in the Caribbean: A Comparison





Growth in the Caribbean: A Comparison



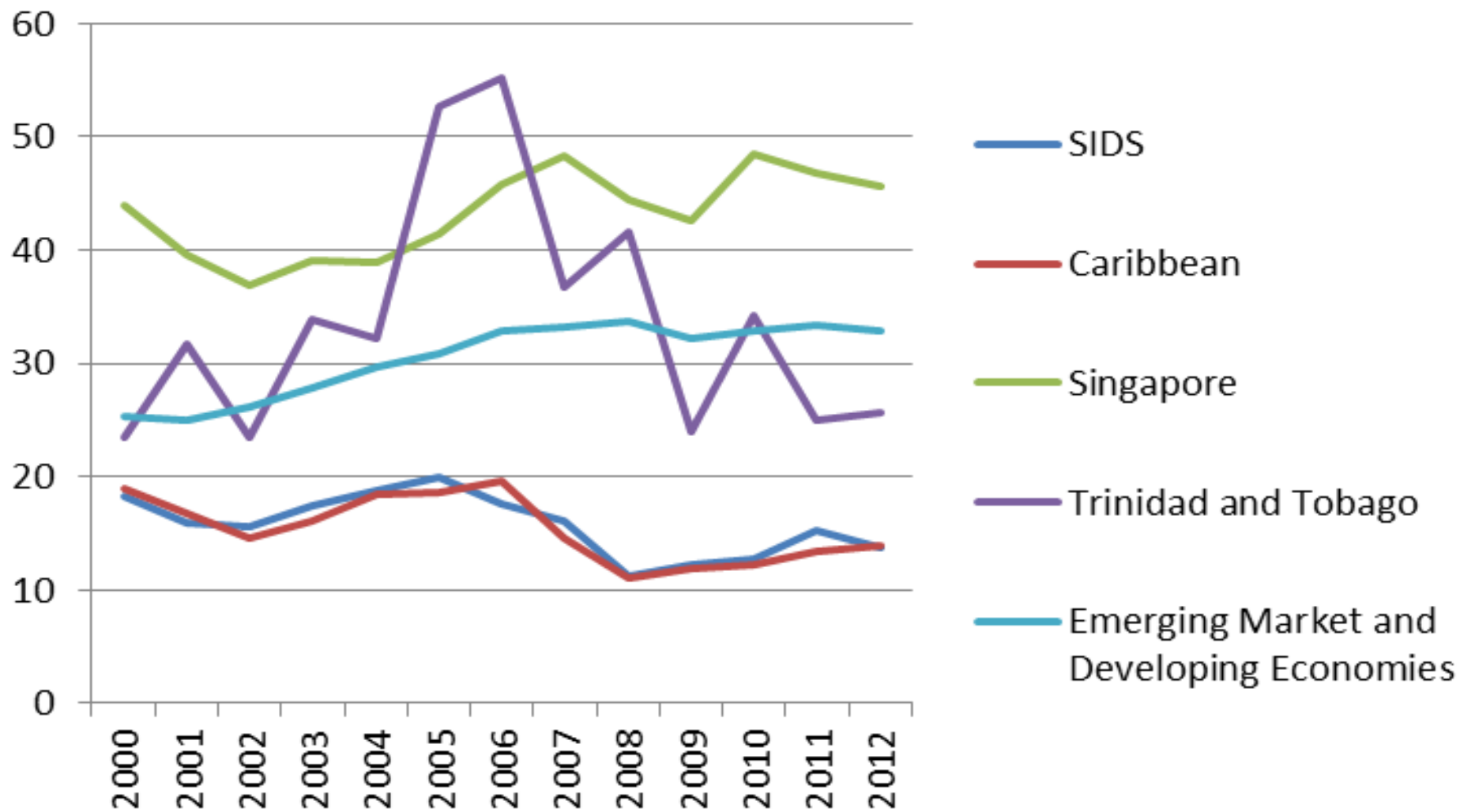


Some Major Impediments to Growth

- Vulnerability to natural hazards
- Competitiveness problems
 - High labor costs
 - High electricity costs
 - Institutional weaknesses
- High export concentration
- Migration of skilled labor
- Low returns on investment (high ICORs)

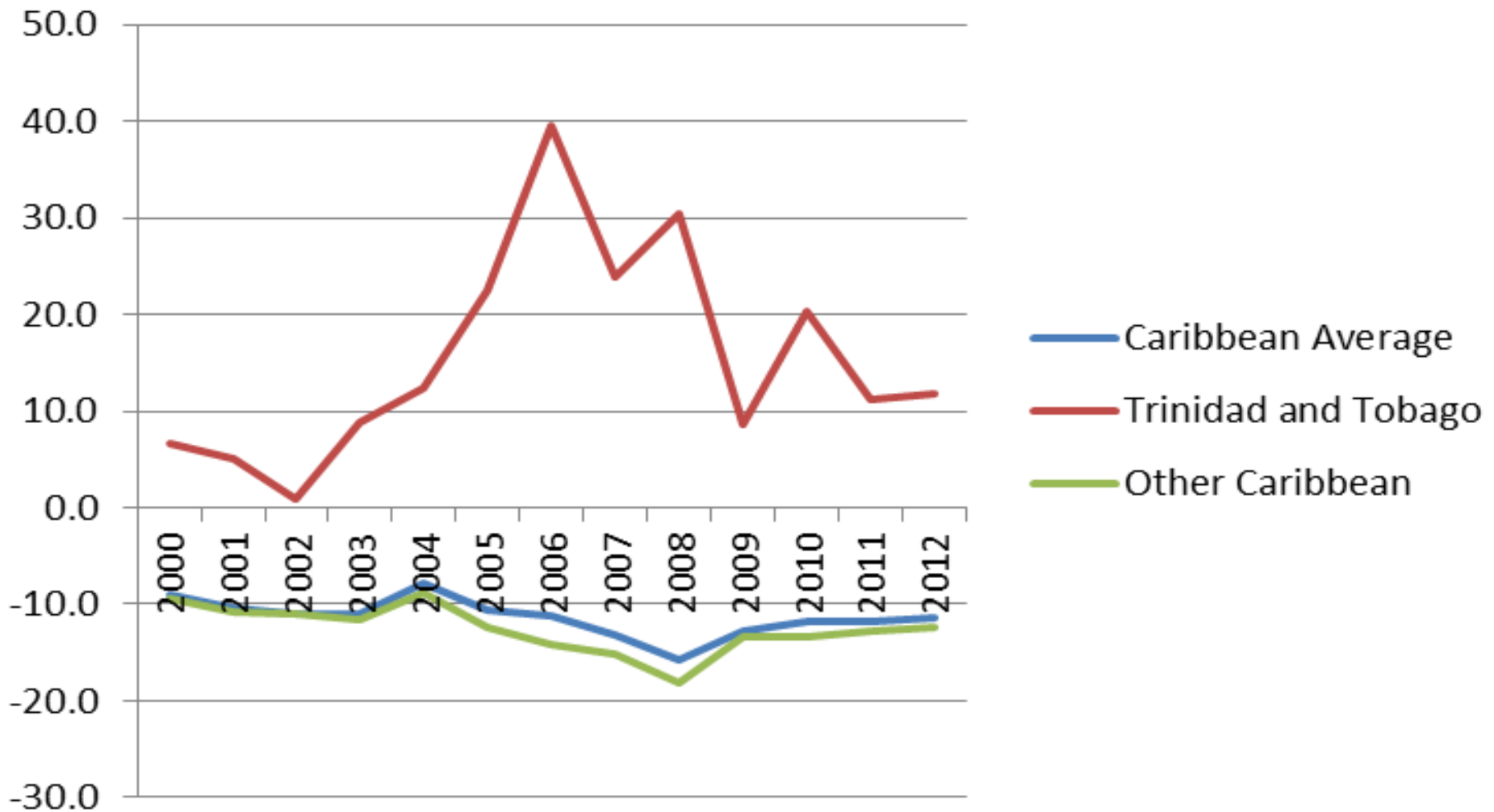


Financing Investment in the Caribbean: National Savings



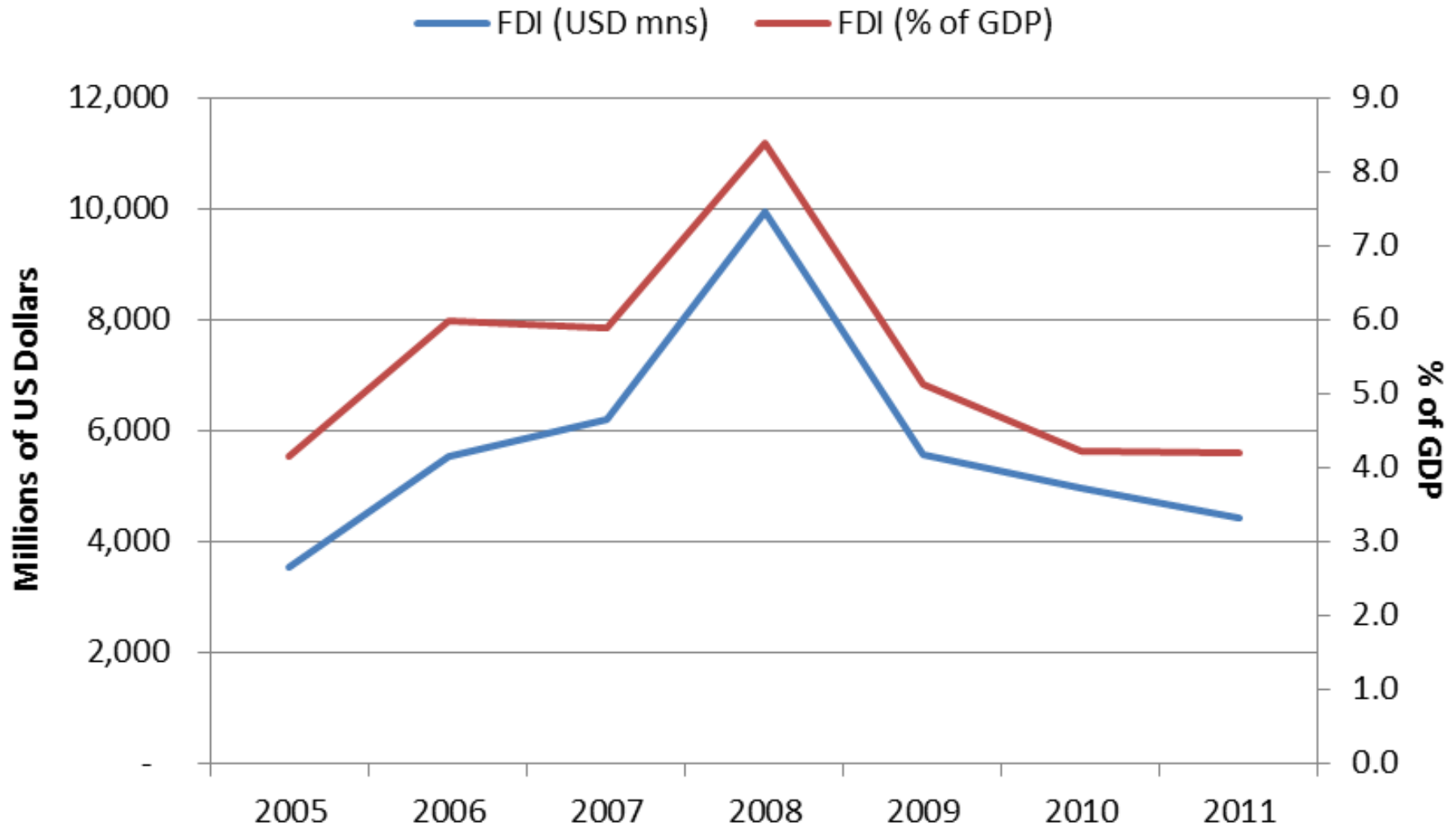


Financing Investment in the Caribbean: Saving-Investment Gap





Financing Investment in the Caribbean: Foreign Direct Investment





Financing Investment in the Caribbean: MDB Disbursements

	2008	2009	2010	2011	2012
<i>USD millions</i>					
IDB Disbursements	405.87	457.66	1,122.55	827.40	442.49
WB Disbursements	59.23	191.07	364.98	203.54	121.14
CDB Disbursements	149.32	209.86	326.90	167.78	116.34
EIB Disbursements	7.32	0.66	37.55	48.56	19.57
Total MDB Disbursements	621.74	859.24	1,851.99	1,247.27	699.54
<i>As a percent of GDP</i>	0.80	1.28	2.63	1.64	0.87
<i>Percent of Total</i>					
IDB Disbursements	65.28	53.26	60.61	66.34	63.26
WB Disbursements	9.53	22.24	19.71	16.32	17.32
CDB Disbursements	24.02	24.42	17.65	13.45	16.63
EIB Disbursements	1.18	0.08	2.03	3.89	2.80
Total MDB Disbursements	100.00	100.00	100.00	100.00	100.00



Factors Affecting the Development Finance Environment

- National savings sluggish
 - Reduces the ability to finance investment from domestic savings
- Public sector savings anemic
 - Limiting the ability of government to engage in investment
- Capital is flowing to emerging markets ... but not to the Caribbean
 - Fell from 6.1% of GDP in 2005-08 to 4.5% of GDP in 2019-11
 - Reflects risky economic prospects in the region



Factors Affecting the Development Finance Environment

- MDB flows have become more important in the last three years
 - Rose to 2.6% of GDP in 2010
- However deteriorating fiscal performance limiting the ability of MDBs to lend to countries
 - Shrinking capital programs
 - Poor fiscal indicators limit PBLs



Factors Affecting the Development Finance Environment - CDB

- CDB accounted for almost 20% of MDB disbursements in 2008-12
- Not expected to rise to 2008-12 levels
 - Ceiling on PB lending
 - Shrinking capital programs from which capital projects can emerge



Operating in the Current Environment: Key Policy Imperatives

- Intensify the implementation of key institutional reforms aimed at improving economic management systems
- Streamline public investment to focus on high-return, priority projects that can improve competitiveness



Operating in the Current Environment: Key Policy Imperatives

- Intensify the implementation of revenue reforms aimed at achieving equity, simplicity, economic efficiency and revenue sufficiency
- Intensify the implementation of PFM reforms
- Implement sound debt strategies to optimize debt dynamics
 - Risk premiums are likely higher given the environment, making commercial debt more expensive



Conclusion

- Growth in the Region has been relatively low
- Largely financed through the accumulation of external liabilities
- MDBs are playing an increasing role, but affected by declining fiscal performance
- MDB financing will continue to be important, but reforms are necessary to optimize on the usage of MDB finance



Thank you!