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A strategy for Robust Growth and debt reduction in the Caribbean: The ECLAC perspective

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ECLAC proposal on debt for climate adaptation swaps

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Structure of the Presentation

1. Debt profile Caribbean Vs Other SIDS

2. Underlying causes of the debt burden

3. Current challenges to reducing the debt

4. Structural transformation and resilience building – The case for investment in Green Industries

5. A regional response to the Caribbean's debt challenge

6. Conclusion

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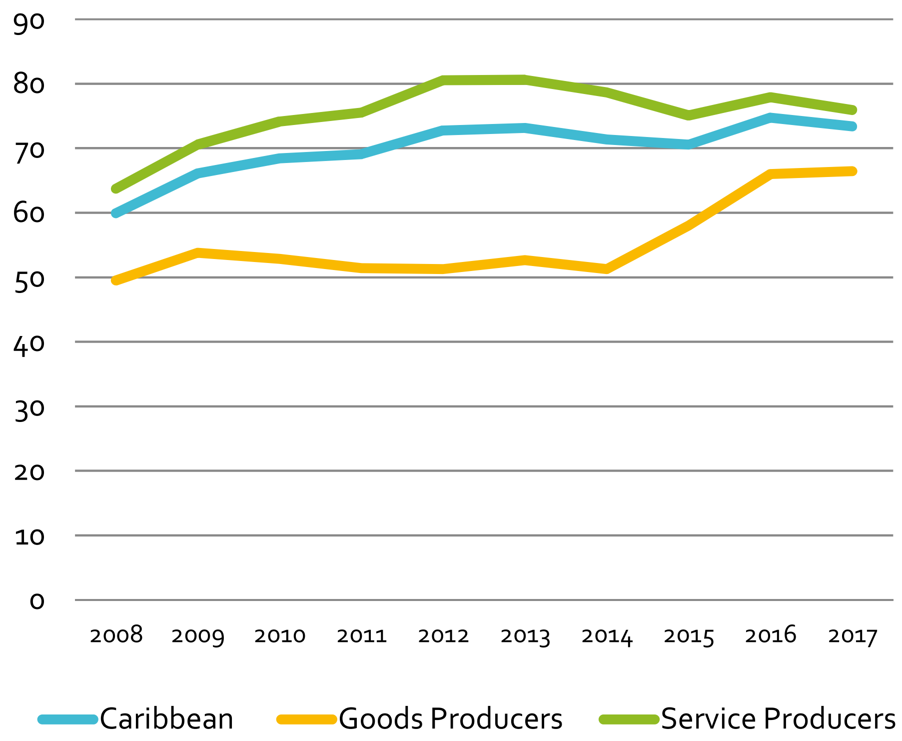
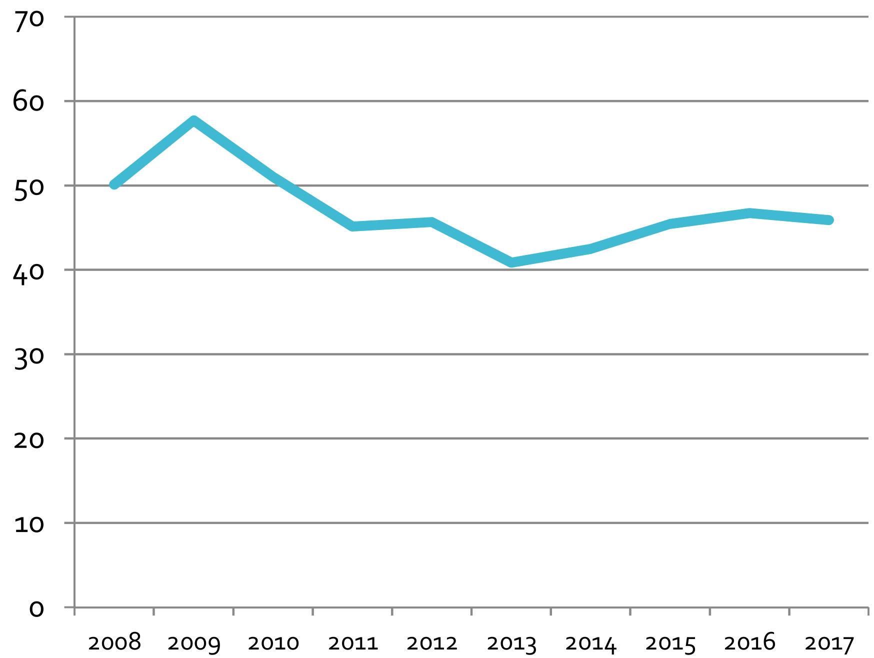
Debt profiles: Caribbean vs SIDS

CARIBBEAN TOTAL PUBLIC DEBT, 2008-2017
(Per cent of GDP)



Source: Economic Commission for Latin America and the Caribbean

SIDS TOTAL PUBLIC DEBT AVERAGE, 2008-2017
(Per cent of GDP)



Source: : Economic Commission for Latin America and the Caribbean

Size of the Debt/Heterogeniety

ECLAC Caribbean total debt owed was US$56b, the total external was US$25b and the total domestic was 31b in 2017.

In 2017 the debt burden was:

- 73.4% GDP for the Caribbean. 75.9% for service producers. 66.4% for goods producers.
- The Caribbean's external debt was 0.1% of world external debt, which is 55.7% of SIDS debt. A solution poses no systemic global financial risks.
- The four largest debtors excluding T and T account for US32b.
- Bilateral/multilateral debt large for some countries.

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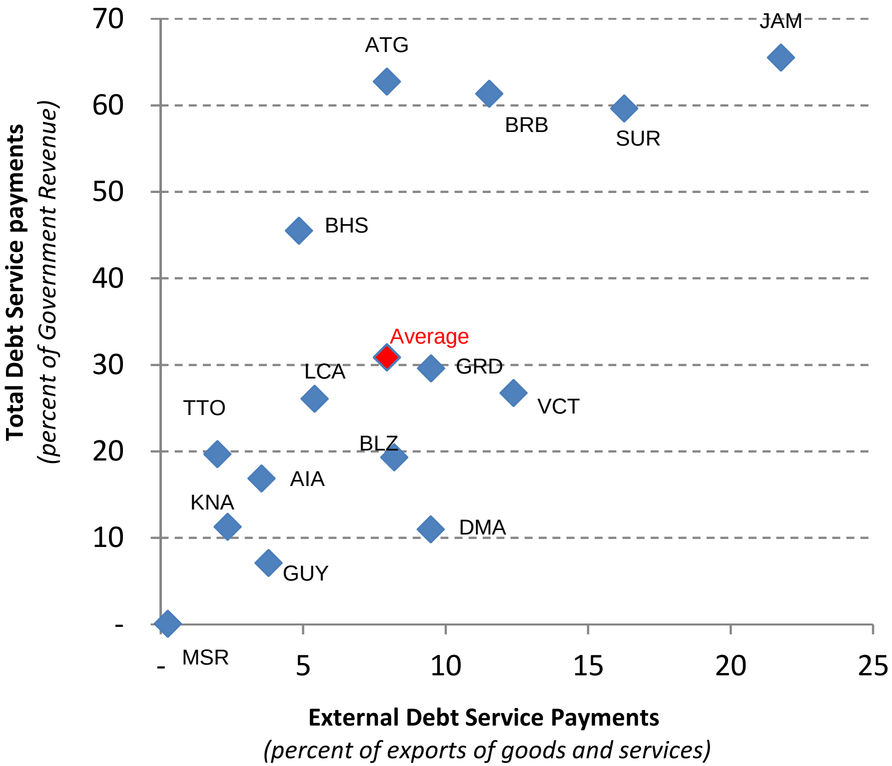
Debt structure

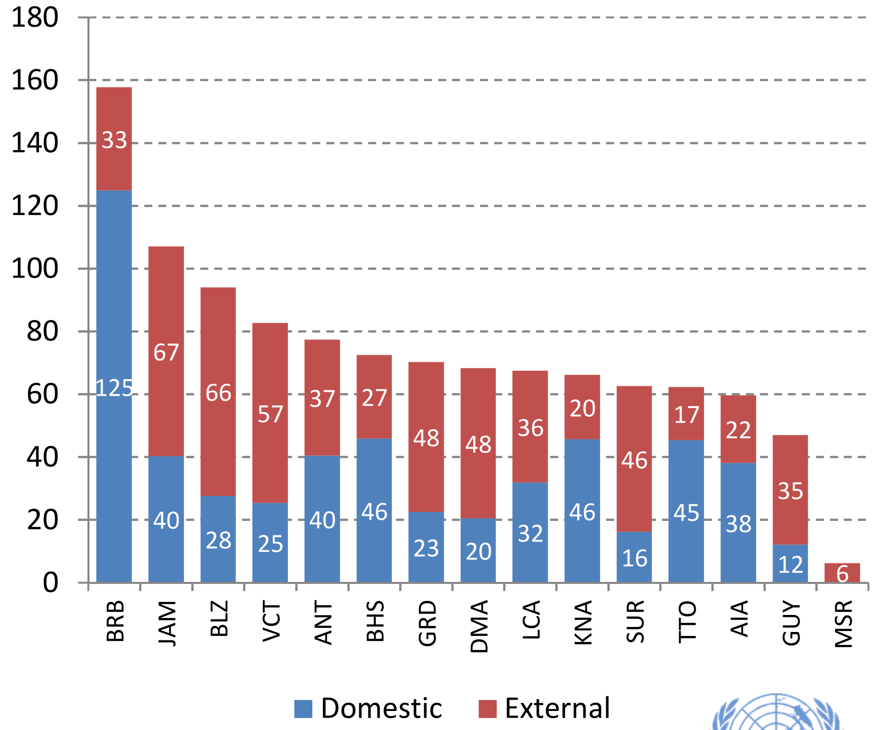
Debt service and debt structure

CARIBBEAN DEBT SERVICE BURDEN, 2017



Source: ECLAC based on official data
Note: Data for Barbados is for 2015 and The Bahamas is for 2016.

COMPOSITION OF TOTAL PUBLIC DEBT, 2017
(Per cent of GDP)



Source: ECLAC based on official data

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Debt service payments

EXTERNAL DEBT SERVICE PAYMENTS
(Per cent of exports of goods and services)

Source: ECLAC based on official data
Note: Goods Producers are Belize, Guyana, Suriname and Trinidad and Tobago. Service Producers are Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
No data are available for Barbados for 2016 and 2017, and for the Bahamas for 2017.

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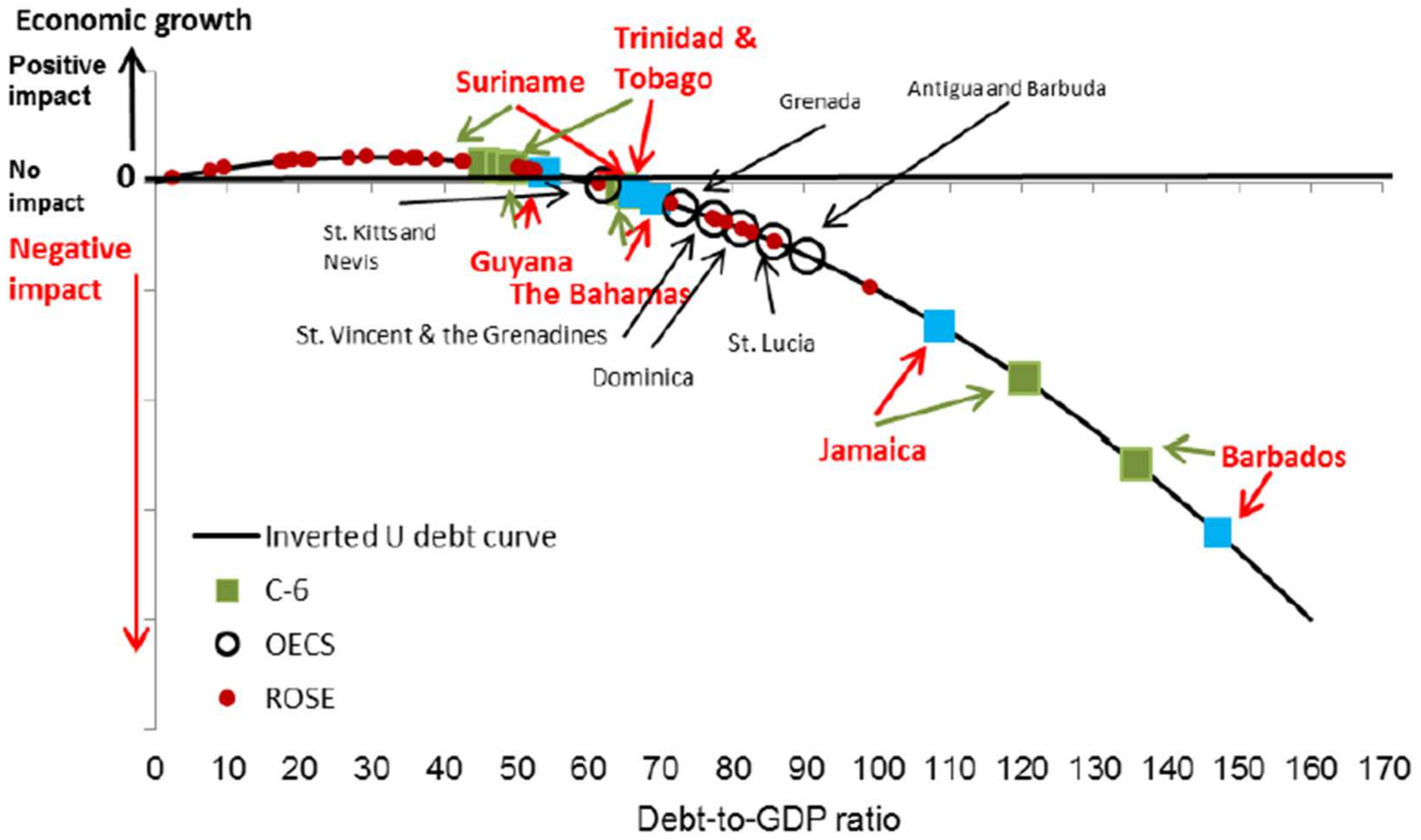
Debt-to-GDP Ratio and Economic Growth (2015 and 2017)



Sources: IDB calculations; and International Monetary Fund, World Economic Outlook (April 2017).

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Underlying causes (Beyond fiscal excesses)

- Structural weaknesses which lead to falling import productivity /falling labour productivity/loss of tourism competitiveness
- These give rise to export challenges at the internal and external margin.
- Low technological intensity of exports-firms operating outside of global value chains.
- . Pro-cyclical approach to fiscal policy and already high tax burden relative to Latin America.

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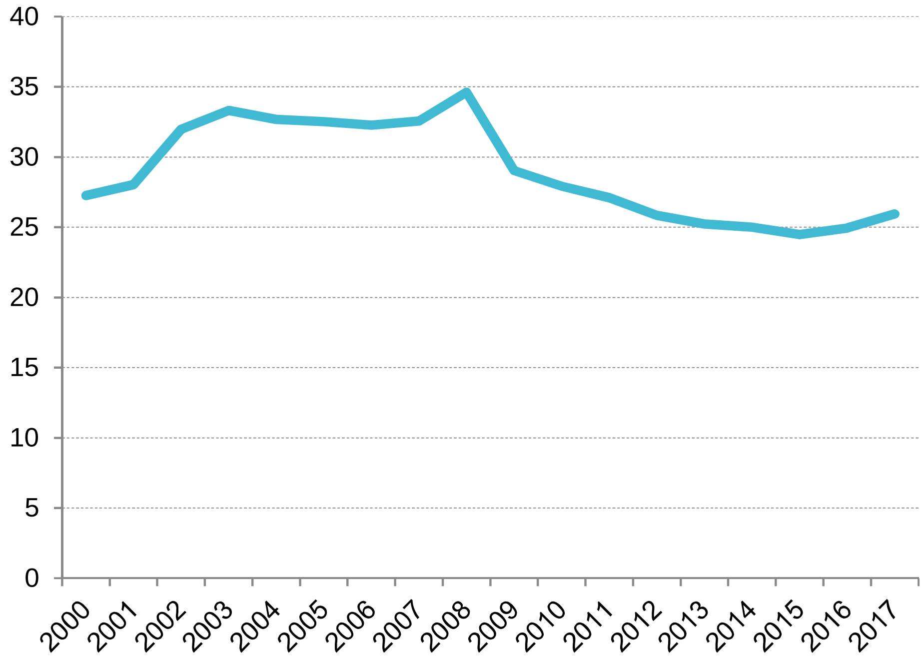
Underlying causes (Beyond fiscal excesses)

- Low growth since the global crisis. High debt service costs despite a low interest rate regime. Difficult for government to deploy complementary expenditure to incentivise the private sector. Negative relationship between debt and growth.
- Investment to GDP fairly high relative to SIDS but efficiency of investment low.
- High vulnerability to external shocks-commodity prices and tourism volatility.
- Region vulnerable to Extreme weather events and climate change .Since 1990 328 natural disasters and US30 billion in damage and losses(ECLAC).

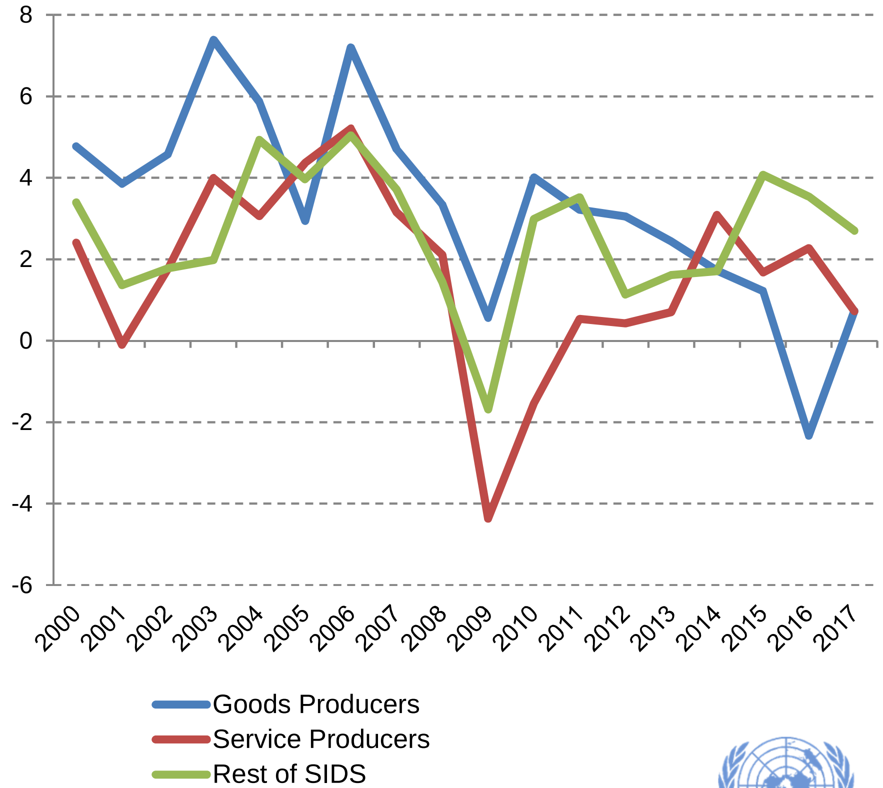
Low growth : Caribbean Vs Rest of SIDS

CARIBBEAN GDP RELATIVE TO REST OF SIDS, 2000-2017
(Percentage)



Source: World Bank World Development Indicators Database

CARIBBEAN AND REST OF SIDS GDP GROWTH
(Percentage)



Source: ECLAC and World Bank World Development Indicators

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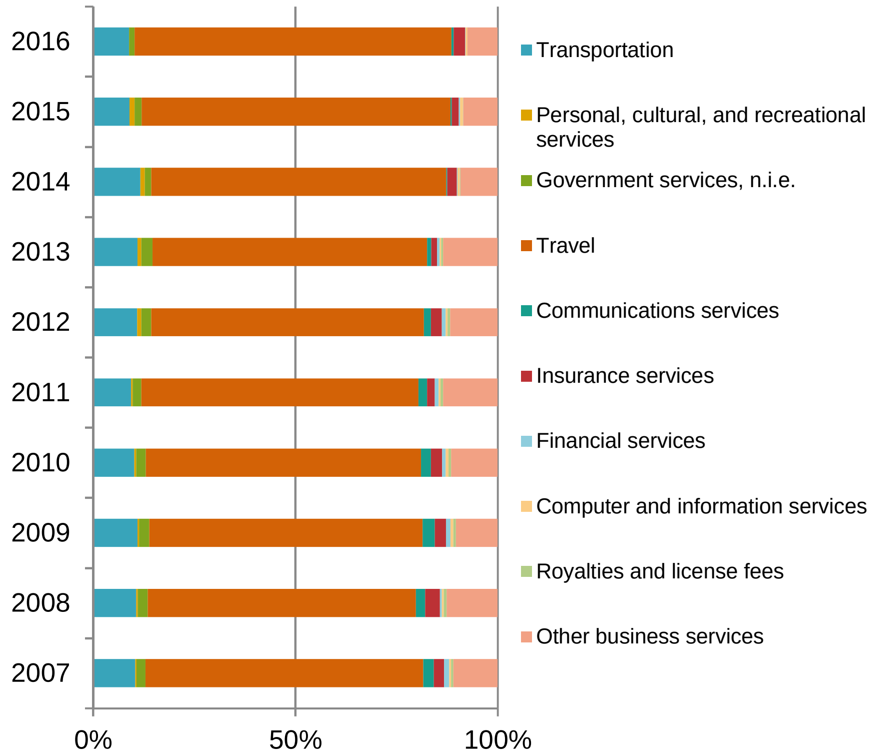
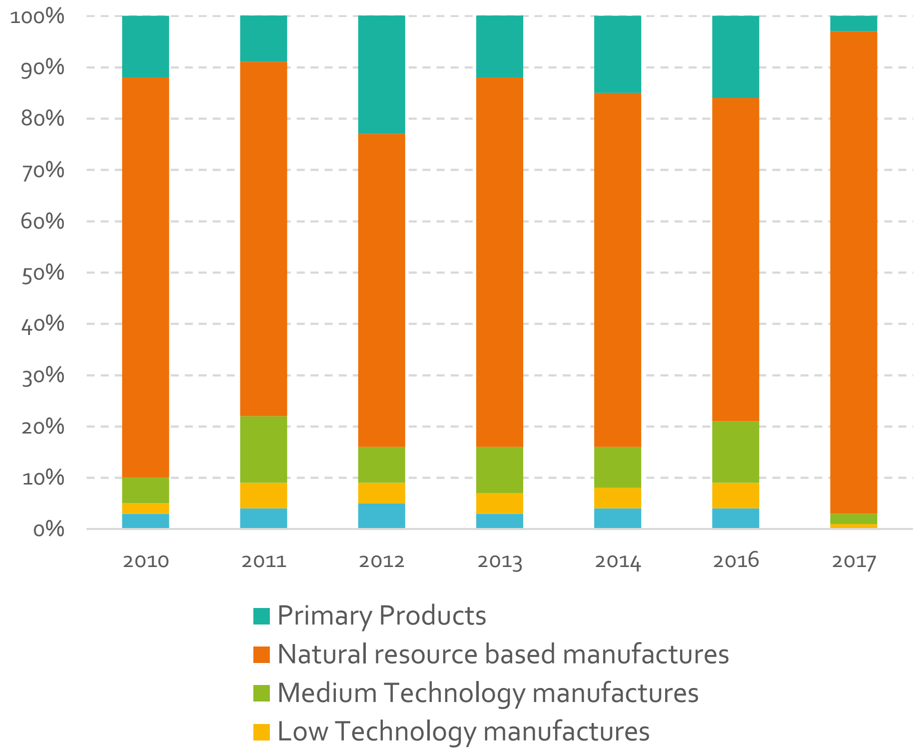
Growth volatility due to Export concentration and the low technology intensity of exports

COMPOSITION OF CARIBBEAN SERVICE EXPORTS, 2007-2016
(Percentage)



Source: UN Service Trade Database, 2016

TECHNOLOGY INTENSITY OF CARIBBEAN EXPORTS
(Percentage of total exports)

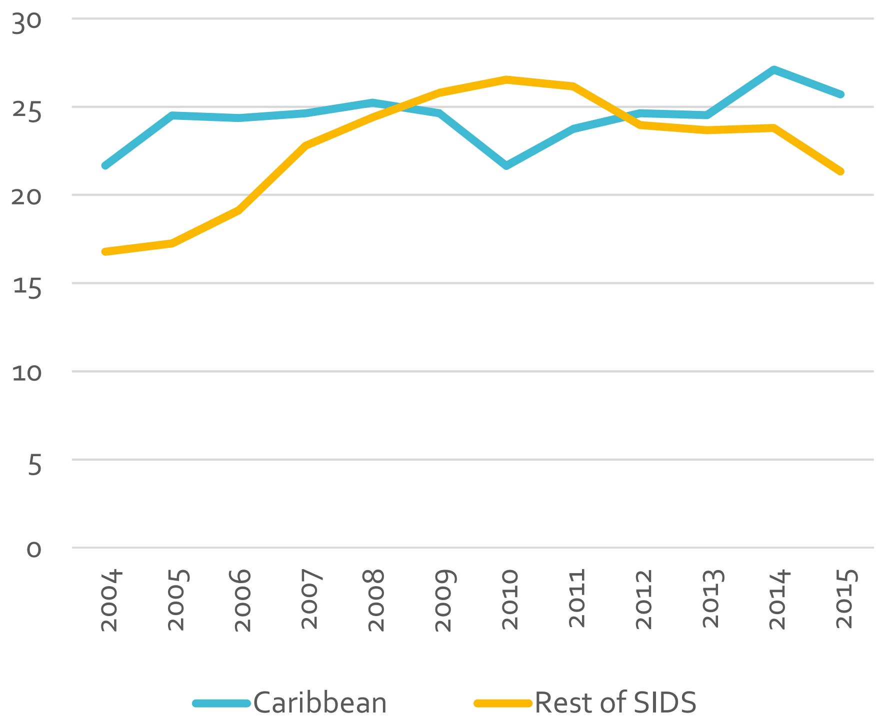


Source: UN Comtrade via WITS

Productivity of Investment is Low

GROSS FIXED CAPITAL FORMATION, 2004-2015

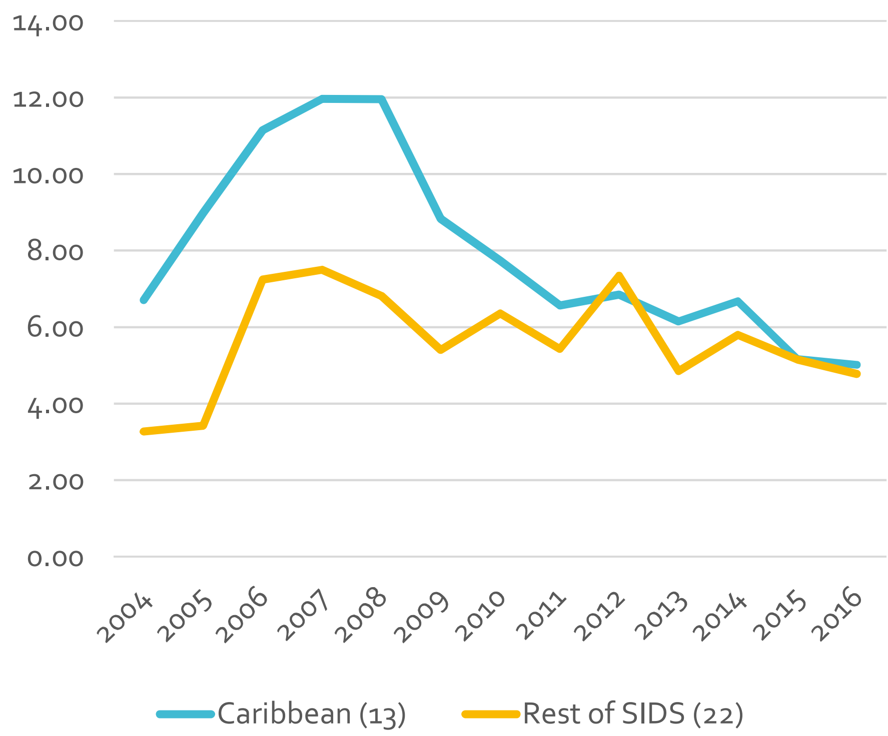
(Per cent of GDP)



Source: World Bank World Development Indicators Database

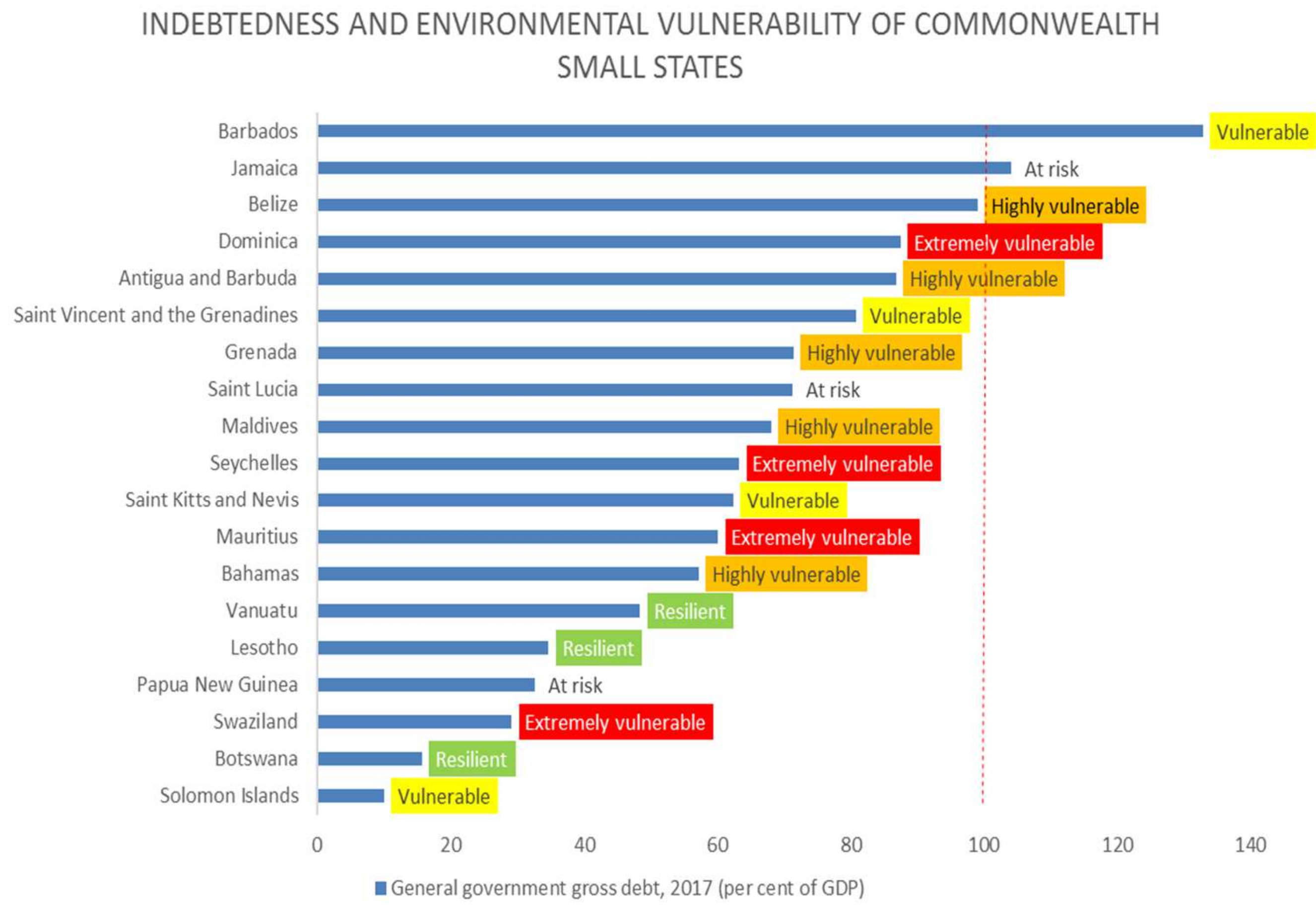
FOREIGN DIRECT INVESTMENT, NET INFOWS, 2004-2016

(Per cent of GDP)



Source: World Bank World Development Indicators Database

Underlying causes



Source: IMF World Economic Outlook, April 2018 database and South Pacific Applied Geoscience Commission Environmental Vulnerability Index 2004

A key driver of Caribbean debt

2017 Hurricane season:
(2017 US dollars millon)

Countries	Damage	Loses	Additional costs	Total cost
Anguilla	188	123	16	327
Sint Maarten	1,049	988	53	2,089
British Virgin Is.	1,650	444	198	2,292
Turks & Caicos Is.	290	230	39	559
The Bahamas	32	87	12	131
Antigua and Barbuda	136.1	18.9	-	222.2 (recovery needs
Dominica	931	382	-	1,370 (recovery needs/BBB)
	4,276.1	**2,272.9**	**318**	**6,990.2**

Source: ECLAC´s assessment teams and World Bank PDNAs

Challenges to reducing the debt

Middle income status of Caribbean SIDS. Reduced access to concessional finance.

Largest contributors to the changing debt burden: interest rate effects(despite a low interest rate regime) , low growth and unanticipated shocks (including contingent liabilities)

With projected low growth, possibility of US rates rising and existing borrowing requirements, debt service will remain high.

Intense fiscal adjustments necessary to reduce the debt are growth reducing. Aggravated by the historically high primary surpluses.

Note: Debt sustainability analysis by Commonwealth/WB/IMF suggest unsustainability. The first two have proposals for debt reduction/limited approach.

Structural transformation and resilience building –

The case for investment in Green Industries

- A sustainable development strategy must enhance growth while reducing debt.
- World trade in green goods, technologies and services in 2014 totalled some US$1.4 trillion (CIGI, 2014).
- Green industries can contribute to sustainable development- Opportunities in/energy/education /health/labour export etc Jamaica's 2030 agenda.
- Green sectors can expand employment creation through the provision of global services.EG BPO sector mindful of automation focused on high level returns.
- Caribbean countries have prioritised self-sufficiency in renewable energy
- Pathway to resilient development which is the SDGs.

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A regional response to the Caribbean's debt challenge

The ECLAC Proposal

Channeling pledged climate funds to write down Caribbean debt

Creation of the Caribbean Resilience Fund (CRF)

Need for Interaction between multilateral institutions, donor countries, and small states debtor counties without proper debt workout mechanism.

A regional response to the Caribbean's debt challenge

How it works: for multilateral and bilateral debt

- GCF funds and others will be used to finance a gradual write down of 100% of the Caribbean SIDS' multilateral and bilateral debt stock
- Debtors agree to make annual payments into the CRF in an amount equal or less than the discounted debt service payments
- CRF will also be capitalized by contributions from bilateral donors and funds raised through PPPs

A regional response to the Caribbean's debt challenge

How it works: for debt to private creditors

- GCF and other funds used to buyback debt to private creditors, but at a deep discount
- New loan agreements will have lower interest rates and longer maturities, leading to savings that can be invested in climate projects and green industries
- Debt for equity swaps can be employed in cases where much of the debt is held by domestic commercial banks

Complementary strategies (Closing structural gaps)

- Continuation of structural reforms including support for PERs. This orients public spending with government priorities/ intensify PPPs.
- Improve and expand the space for new Business activities/raise the share of new sectors in total economic activity.
- Search for new markets including improving airlift to LA/China- open the space for full engagement of the diaspora.
- Improve logistics and regional interconnection (especially through ICT) to advance sub-regional & regional value chains. Firms must be global in outlook. Fewer Caribbean firms export relative to SIDS
- Improve local technological capacity/best sought at the regional level
- Invest carefully in expanding and upgrading labour skills/focus on learning by doing/learning by experimentation/learning to learn and the enhancement of tacit learning.
- Public policy must focus on longer term planning horizons.

Conclusions

In moving forward…

A number of member states have endorsed the proposal

Governments , creditors and climate donors would need to come together to negotiate the details of the arrangement

ECLAC stands ready to engage key stakeholders and partners in order to advance this initiative.

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Thank You