Jwala Rambarran: Countercyclical loans for the management of exogenous shocks in small vulnerable economies (SVEs) and non-traditional sources of development finance

Opening remarks by Mr Jwala Rambarran, Governor of the Central Bank of Trinidad and Tobago, at the Joint Commonwealth Secretariat and United Nations Development Program workshop on "Countercyclical loans for the management of exogenous shocks in small vulnerable economies (SVEs) and non-traditional sources of development finance", Port of Spain, 29 January 2013.

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Ladies and Gentlemen,

I thank the Commonwealth Secretariat and the United Nations Development Program (UNDP) for the invitation to deliver opening remarks at this joint workshop on what I consider to be one of the more critical issues facing small vulnerable economies, but which ten years after the Monterrey Consensus on Financing for Development has been largely ignored by the international policy community.

While developing countries have made much progress in meeting the 8 Millennium Development Goals (MDGs) to free humanity from extreme poverty, hunger, illiteracy and disease by 2015, substantial challenges still remain, especially in reaching the most vulnerable. Multiple financial, food, energy and economic crises, which often respect no borders, further aggravate matters. As the deadline approaches, we have the opportunity to design a post-2015 framework that builds on successes, learn from past shortcomings, and addresses the gaps in the current MDGs.

Jeffrey Sachs, Professor of Sustainable Development at Columbia University, warns us in his January 24th 2013 article entitled "Writing the Future" that humanity faces no greater challenge than to ensure a world of prosperity rather than a world of ruins. Professor Sachs strikes a prescient note when he states "*Like a novel with two possible endings, ours is a story yet to be written in this new century. There is nothing inevitable about the spread – or the collapse – of prosperity. More than we know (or perhaps care to admit), the future is a matter of human choice, not mere prediction."*

I therefore commend the Commonwealth Secretariat and the UNDP for mounting this first of three workshops here in the Caribbean, with the other two to be held in the African and Pacific regions. Perhaps this will be the first chapter on the post-2015 development story of new financing arrangements for small vulnerable Caribbean economies, whose future might be partly based on the choices you make at this workshop.

I certainly look forward to the outcomes of all three workshops, and hope that the shared positions will help to influence African, Caribbean and Pacific governments in their advocacy for innovative sources of development finance to be a front-burner issue on the international economic agenda.

Ladies and Gentlemen, it is no secret that small vulnerable economies in the Caribbean have grappled with external shocks of varying magnitudes and duration over the past two decades. These shocks include a compression of aid flows, dismantling of preferential trade arrangements for sugar and bananas, interventions related to anti-money laundering and combating the financing of terrorism.

More recently, the Caribbean has been gradually recovering from the shock of the global financial crisis, which originated in the United States and spread to Europe, the region's two closest trading and investment partners. The untold story, however, is that the combined influence of these multiple shocks has led to a dramatic and fundamental shift in the composition of external financing flows to the Caribbean.

In my respectful view, the most significant change in the regional pattern of external resource flows stemmed from the sharp compression in Official Development Assistance (ODA). Flows of ODA to many Caribbean countries began falling in the 1990s, as donors redirected their aid priorities to the newly emerging Commonwealth of Independent States and the Least Developed Countries. This is certainly ironic because the eighth MDG recognizes that developing countries require more generous development aid to have the best chances of reducing poverty and accelerating development within the stipulated 15 year timeframe.

Faced with declining aid resources, many Caribbean governments resorted to more expensive commercial borrowing to bridge their funding gaps. This, combined with the growing inability of regional governments to generate high enough primary fiscal surpluses for debt servicing, contributed to a large public debt overhang.

Gross public debt in the Caribbean climbed rapidly from 65 percent of GDP in 1998 to a peak of almost 100 percent of GDP in 2002, before falling to a still elevated 80 percent of GDP in 2012. The accumulation of public debt was even faster in the Eastern Caribbean, moving from just over 60 percent of GDP in 1998 to a high of almost 120 percent of GDP in 2004, before falling to 95 percent of GDP in 2012.

Generally, a public debt ratio of over 90 percent of GDP is considered exceptionally high. By this measure, four countries in the Caribbean are projected to hold exceptionally high public debt in 2013: Jamaica (140 percent), St. Kitts & Nevis (139 percent), Grenada (109 percent), and Antigua & Barbuda (93 percent). Another six countries are projected to have heightened debt vulnerabilities, averaging in the range of 50 to 90 percent of GDP, in 2013. These are the Bahamas, Belize, Dominica, Guyana, St. Lucia and St. Vincent and the Grenadines.

Ladies and Gentlemen, the magnitude of the fiscal adjustment required to stabilize and eventually reduce the Caribbean's public debt overhang is neither socially nor politically feasible. Only two small island developing states in the Caribbean – Guyana and Haiti – have been able to access comprehensive debt relief under the enhanced Heavily Indebted Poor Country (HIPC) Initiative and under the Multilateral Debt Relief Initiative (MDRI).

Other small vulnerable Caribbean economies are considered not poor enough and/or not severely indebted enough to benefit from similar international debt relief measures. In the meantime, a few Caribbean small island developing states have engaged in debt restructuring operations, sometimes more than once, but debt problems persist.

The sombre picture, Ladies and Gentlemen, is one of wide external current account deficits, heavy public debt and slowing capital flows which are placing undue pressure on the region's international reserves and predominantly fixed exchange rate regimes (inclusive of a currency board arrangement in the Eastern Caribbean). Caribbean countries are unwilling to devalue their currencies to support their weaker external positions. Barbados, in particular, remains vehemently opposed to devaluation, which it considers ill-conceived and unsuccessful at correcting the low growth, high debt dilemma facing small, vulnerable Caribbean economies.

An appropriate balance is yet to be struck between adjustment and financing. Since September 2008, nine small island developing states in the Caribbean have turned to the IMF for increased financial support under various lending facilities. These are Antigua and Barbuda, Belize, Dominica, Grenada, Haiti, Jamaica, St. Kitts/Nevis, St. Lucia and St. Vincent and the Grenadines.

Yet, it is arguable whether the current lending facilities of the IMF, the World Bank and other international financial institutions are sufficient enough to help mitigate the impact of large, unforeseen external shocks on Caribbean and other small vulnerable economies.

Over the past decade, the international community has championed several initiatives to help mobilize more resources for development or to make them more effective. Well known examples include the International Finance Facility for Immunization, debt conversions, emissions trading, a financial transactions tax and use of the IMF's Special Drawing Rights

(SDRs). The jury is still out on whether these major schemes have created additional financial flows for development.

For many Caribbean countries, remittances have become an important and promising source of non-traditional external financing. In fact, the Caribbean is among the larger recipient of remittances in proportion to its GDP. For countries such as Haiti, Jamaica and Guyana, remittances represent a lifeline, contributing to smoothing household consumption, easing balance of payments pressures, and financing domestic investments.

In effect, the Caribbean has created its very own large, highly educated diaspora pool that represents a potential alternative source of long-term funding. The stock of the Caribbean diaspora is estimated to be around 3.5 million people or more than one-fifth of the region's population. Preliminary estimates place the annual savings of the Caribbean diaspora at over 15 percent of the region's GDP. Despite this impressive potential market, regional governments are yet to adopt innovative financing solutions such as diaspora bonds to tap into the wealth of its diaspora.

Ladies and Gentlemen, I have noted the wide scope of this workshop agenda, which ranges from exploring the feasibility of countercyclical loan instruments from the IMF and World Bank to identifying new sources of revenues including new regional financing mechanisms for small vulnerable economies. I am also most impressed with the caliber of the presenters. I have no doubt that you have the right ingredients for stimulating and fruitful discussions over the next two days.

But we must be realistic. There is no silver-bullet solution to the deep-rooted, financing challenges facing small vulnerable economies. Stabilizing the Caribbean's debt overhang as a priority is only a start. Putting in place the policies and institutions to allow pro-poor growth and achievement of the MDGs in the Caribbean will require persistent action from governments across the region. In this regard, I see both the Commonwealth Secretariat and UNDP continuing to play an active role.

Conclusion

In closing, Ladies and Gentlemen, I must remind our foreign participants that even as you devote attention to the rigors of the workshop, you have come to Trinidad and Tobago during the Carnival season, a most opportune time to witness the creativity, energy and passion of our people. So do take time if only to experience Super Blue's "Fantastic Friday".

Let me assure you all of the continued support and collaboration of the Central Bank of Trinidad and Tobago in helping to move development finance issues facing small vulnerable economies onto the international agenda.

I thank you.