Jwala Rambarran: Re-engineering growth – doing business in the new global environment

Opening remarks by Mr Jwala Rambarran, Governor of the Central Bank of Trinidad and Tobago, at the 5th Biennial International Business, Banking and Finance Conference, jointly hosted by the Department of Management Studies, The University of the West Indies, St. Augustine, 2 May 2013.

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Ladies and Gentlemen, Let me first thank the organizers for inviting me to deliver opening remarks at this 5th Biennial Business, Banking and Finance Conference. This is my first official visit to the St. Augustine Campus, where some 25 years ago I entered as a student of economics, and I am heartened to be "home". I am also indeed proud to see an event that I helped to conceptualize and plan almost a decade ago now emerge as one of the leading fora for the exchange of views on critical issues facing emerging economies, particularly those in the Caribbean. This year's BBF Conference on "***Re-engineering Growth: Doing Business in the New Global Environment***" is taking place against the backdrop of a "three-speed" global economy. Countries are either doing well (mainly the emerging markets and developing countries), or they are on the mend (such as the United States), or they still have some distance to travel (such as the Euro area and Japan).

Ladies and Gentlemen, it is no secret that the small island states in the Caribbean are among those countries with some economic distance to travel. Several reasons account for the region's relatively weaker economic performance. I would like, however, to briefly touch on four main challenges facing the Caribbean which find resonance with the Conference's sub-theme 2 on re-engineering finance and sub-theme 4 on re-igniting growth: austerity versus stimulus. These challenges are as follows: low growth, high debt, mitigation of natural disaster risk and managing financial sector stress. Firstly, on growth, the good news is that the Caribbean has been gradually recovering from the impact of the global financial crisis, even though the region was ill-prepared to deal with such a protracted external shock. The IMF estimates that real GDP growth in the Caribbean is likely to bounce back to around 3 per cent over the medium term, from a cumulative flat performance in 2009 – 2012.

Even within the Caribbean region, growth trends vary. The largely tourism intensive economies (Barbados and the Eastern Caribbean) still face headwinds from the lukewarm jobs recovery in North America and Europe. Growth prospects seem somewhat better for the commodity-based exporters (Belize, Guyana, Suriname and Trinidad and Tobago). Secondly, many Caribbean countries face unsustainably high public debt burdens, which jeopardize their medium term growth prospects. In 2013, three countries are projected to hold exceptionally high public debt at over 90 per cent of GDP, while another seven countries are projected to have heightened debt vulnerabilities, averaging in the range of 50 to 90 per cent of GDP. Only two countries (Suriname and Trinidad and Tobago) have public debt ratios less than 50 per cent of GDP. Thirdly, the Caribbean has the unenviable reputation as one of the most disaster-prone regions in the world. Over the last 60 years, Caribbean countries have suffered from 187 natural disasters (mainly hurricanes and floods). The effects on growth and debt associated with the frequent recurrence of these natural disasters are also significant.

Sir Dwight Venner, Governor of the Eastern Caribbean Central Bank, captures these effects quite vividly: "*Almost every year, we [St. Lucia] have a hurricane season, which can destroy the country's GDP. In some countries, it can also lead to high debt levels. Their infrastructure is destroyed before they paid for it, so they borrow again. Then it is destroyed a second and sometimes even a third time".* Finally, financial systems in the Caribbean are becoming increasingly integrated with the emergence of major cross-border financial groups. The collapse of the insurance subsidiaries of the CL Financial Group is perhaps the most widely cited example of the systemic importance of cross-border financial groups. Another indicator of the degree of cross-border ownership is that seven of the ten largest firms (by asset size) listed on the stock exchanges of Barbados, the Eastern Caribbean, Jamaica and Trinidad and Tobago are financial institutions. Given the multi-faceted nature of the challenges facing Caribbean small states, no single solution exists to address all of their problems. In fact, I remain convinced that bold and new regional solutions are absolutely essential to help individual countries mitigate the colossal challenges associated with their small size. Allow me to briefly discuss four potential regional solutions which come to mind.

First, we need to find more effective ways to speed up the implementation of proposals and recommendations stemming from regional initiatives to stimulate and sustain potential growth. Three noteworthy regional projects are already underway that can help to inform the Caribbean's growth strategy. These are the ECCB Debt, Growth and Development Task Force, the World Bank's Caribbean Growth Forum, and the IMF's Group on Small States. We need champions. The UWI is one such regional champion and well positioned to drive the knowledge and innovation-based model of growth which Principal Sankat spoke about in his welcoming remarks. Trinidad and Tobago is another such champion, over the last two years, we have been actively championing the case for small states in the halls of international financial community. We are now seeing a new awakening and awareness of this issue from global policymakers, especially at the IMF and the G-20 Presidency.

Second, we need to consider developing a regional approach to sovereign debt restructuring. With the exception of Guyana and Haiti, all other Caribbean countries are considered either not poor enough and/or not severely indebted enough to access traditional international debt restructuring and relief mechanisms such as the enhanced Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). This leaves fiscal consolidation as the only option. However, the degree of fiscal austerity necessary to stabilize and eventually reduce the Caribbean's public debt overhang is neither socially nor politically feasible. While a few Caribbean economies have engaged in ad hoc sovereign debt restructuring operations, sometimes more than once, these have not yielded lasting gains. Further work is needed to assess under what conditions innovative, debt-based instruments can generate additional regional resources for growth and development.

Third, we need to seriously consider tapping into the wealth of the Caribbean's very own large, highly educated diaspora. The minimum size of the Caribbean diaspora is estimated at around 3.5 million people, or more than one-fifth of the region's population, whose annual savings amount to over 15 per cent of the region's GDP. The Caribbean's diaspora pool therefore represents a potential alternative source of long-term funding. Diaspora bonds are viable instruments which enable the region to borrow from its diaspora community. For diaspora investors, these bonds offer the opportunity to help their country of origin while also providing an investment opportunity.

Finally, we need to consider a regional approach to managing risks arising from financial integration in the Caribbean. Growing cross-border linkages requires Central Banks and other regulators to strengthen arrangements for crisis management, develop mechanisms for early coordinated intervention in cross-border institutions, and review adequacy of deposit insurance schemes.

In closing, Ladies and Gentlemen, the challenges facing Caribbean countries demand innovative economic solutions in the new global environment. I give you the assurance of the Central Bank's continued support for this Conference and for the wider work of the UWI, St. Augustine. I look forward to this 5th BBF Conference generating fruitful discussions, stimulating new thoughts and ideas on re-igniting growth in the Caribbean. As the 1992 Report of the West Indian Commission exhorted some twenty years ago "*The Time for Action is Now*".

I thank you.