



Caribbean Corner

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Western Hemisphere

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[2015 Caribbean Forum](#)

Caribbean Matters at the IMF. The International Monetary Fund maintains a strong partnership with the Caribbean region, with dedicated country teams in its Western Hemisphere Department's Caribbean I and II, and Latin Caribbean Divisions.

With a total population of 40 million and a cumulative land area of just over 1 million sq miles, the region consists of multiple island nations in the Caribbean Sea and the surrounding coasts. Its people are a macrocosm of ethnic groups from four continents. Mostly tourism- and natural resources-based, the Caribbean economies were hard-hit by the unwinding global financial crisis, and most experience low growth, high public debt and vulnerability to natural disasters. These island states are very diverse in income levels. In 2013, GDP per capita (PPP) ranged from US\$32,037 in The Bahamas to US\$1,315 in Haiti.

For audiences within and outside of the IMF, the Caribbean Corner provides a communication platform three times a year for the institution's work on the region.

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INTERVIEW

Interview with Michael Halkitis, Minister of State for Finance of The Bahamas

By Jarkko Turunen

On December 11, 2015, IMF mission chief Jarkko Turunen sat down with Minister of State for Finance Michael Halkitis in his Nassau office to discuss the newly introduced VAT, other fiscal reforms and policies to support growth and competitiveness. In the context of subdued growth, the January 2015 introduction of a broad-based VAT, with a low standard rate and few exemptions, has brought in significant revenue, thus contributing to fiscal consolidation in The Bahamas.

A year ago, you launched a Value Added Tax (VAT) that has brought in significant tax revenue. What are the key ingredients for successful tax reform?

The introduction of the VAT regime in January 1, 2015 was a fundamental change in the way the government raises revenue. For years we relied primarily on customs duties, excises, stamp and property taxes, and various fees. With no personal income tax, no corporate profit tax and no broad-based consumption tax, the base for tax revenue was narrow, increasing our vulnerability to shocks. Soon after the Global Financial Crisis, which pushed up government deficits and debt, it became clear that we needed a change. With no history for income taxation, we began preparing for VAT introduction.

Key to success has been our extensive pre-reform public consultation process.

I would say that the key to success has been our extensive pre-reform public consultation process. Recall that initially, in early 2013, we proposed a 15 percent VAT rate, to be introduced in July 2014, for consultation. This proposal generated several reactions from the private sector. After reviewing these reactions, as well as various expert reports, we eventually decided on a VAT regime with a lower 7 percent rate and few exemptions to be introduced six months later than initially planned.

What is your assessment of the VAT thus far and what are your next steps as regards fiscal reforms?

Thanks to a broad agreement on the shape of the new regime and our campaign to educate taxpayers, the VAT has performed well in its first year. It has brought in significant revenue, \$219 million (about 2.5 percent



Minister of State for Finance Michael Halkitis

Photo: The Bahamas Information Services.

of GDP) in the first six months, and has helped reduce our short-term financing needs. The fact that the broad based VAT regime has few exemptions (mainly relating

The fact that the broad based VAT regime has few exemptions has been important to its success—contributing to strong revenue gains despite the relatively low VAT rate.

to exports and some services) has been important to its success—contributing to strong revenue gains despite the relatively low VAT rate. It has also made the new tax regime easier for us to implement and for taxpayers to understand. We expect that these gains will help us stabilize and, eventually, reduce government debt looking forward.

As regards next steps, on the revenue side, we are now focusing on making it even easier for taxpayers to achieve compliance by focusing on online and mobile payments, and, more generally, modernization of revenue administration. On the spending side, we continue to implement plans to reform public financial management, including program-based budgeting, and procurement. During the public consultation process for the VAT we also initiated a discussion on a medium-term, rules based, budget framework, and continue to believe that such a framework would help further strengthen fiscal sustainability.

Our first priority is to continue steadily on the fiscal consolidation path from the past few years.

Near-term growth prospects have been tempered by the Baha Mar delay. What can the government do to support growth and competitiveness looking forward?

There is no doubt that the delay in opening of the Baha Mar resort has been a big disappointment for everyone. It also delays the growth boost we expected to see from higher tourism revenue and its spillovers to the rest of the economy. However, there is also positive news for the economy: the Bahamas economy continues to benefit from the economic recovery in the United States, and more recently, from lower global oil prices. We also think that the near-term prospects for the completion of Baha Mar are very good.

In order to support growth and competitiveness looking forward, we continue to focus on strengthening our tourism offering and diversifying our economy. I can point to several recent projects financed by foreign direct investment (FDI) where results have been favorable. For example, as regards tourism, investments in resorts in Bimini (Resort World Bimini) and New Providence (Albany Resort) have been very successful and there are good prospects for large scale FDI in the Exumas. Outside of tourism, several international energy companies, such as Statoil and Buckeye, have continued their investments in the sector. While all these investments are smaller in scale than Baha Mar, they nevertheless collectively have a positive impact on our growth prospects. Looking forward, we have made good progress in finalizing our National Development Plan, which crafts a comprehensive tourism, export, and economy wide diversification and growth strategy, together with supporting social policies.

What are your economic priorities and expectations for the New Year?

Our first priority is to continue steadily on the fiscal consolidation path from the past few years. We target balancing our budget through growing our revenue base and continuing to control spending. This we believe will create an enabling environment for further FDI and economic prosperity for the Bahamas.



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CARIBBEAN OUTLOOK

Caribbean Growth Prospects for Tourism- and Commodity-Based Countries Are Shifting

By Marie Kim and Robert Price

Growth prospects for tourism- and commodity-based Caribbean countries are following diverging paths. Economic recovery in key tourism source markets—the U.S., Canada, and U.K.—for the Caribbean and lower energy costs have boosted the growth outlook and improved the external balances for tourism-intensive economies (The Bahamas, Barbados, Jamaica and the countries of the Eastern Caribbean Currency Union, ECCU). Meanwhile, lower energy and other commodity prices have reduced the growth prospects for commodity-based exporters (Belize, Guyana, Suriname, and Trinidad and Tobago) and increased fiscal and external pressures.

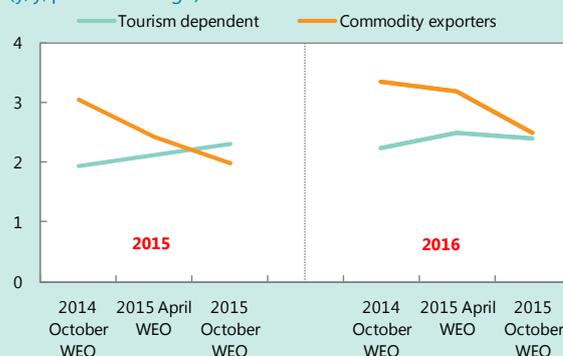
Real GDP growth was revised up to 2.3 percent for tourism-based economies in the October 2015 World Economic Outlook (WEO). This mainly reflected a strong increase in tourist arrivals and the positive effect of lower energy prices, which reduces costs for major tourist businesses while promoting further consumption and investment with the savings.¹ For 2016, growth is projected to average about 2½ percent.

Tourist arrivals have been on the rise since early 2015. On average, long-stay arrivals are up over 5 percent through June 2015, with some countries experiencing much stronger results: cumulative arrivals in the first 6 months in Barbados' are up close to 15 percent, and 9 percent in St. Kitts and Nevis.

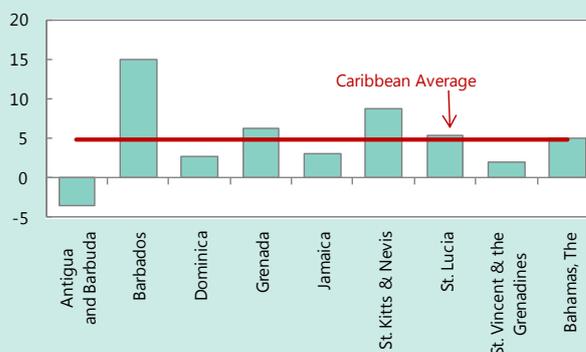
Reflecting the decline in commodity prices, the October 2015 WEO lowered the 2015 **real GDP growth projections for the commodity-exporting countries** to 2.0 percent. However, the recent announcement of negative growth in Trinidad and Tobago and developments in other countries suggest that the outturn for the year is likely to have been somewhat lower. For 2016, growth prospects will continue to be challenging as key commodity prices—for oil, gold, aluminum and natural gas—have fallen significantly over the past year, and are projected to remain low. Meanwhile, inflation in most Caribbean countries has continued to fall and expected to remain low in 2016, with the exception of Suriname.²

Increased tourist arrivals and lower oil prices have strengthened **external balances** in tourism-based economies. Current account deficits for this group are estimated to have narrowed from 12.5 percent of GDP in 2014 to 10.5 percent in 2015. This has eased the pressures on international reserves faced by a few countries and resulted in a slight increase in reserve

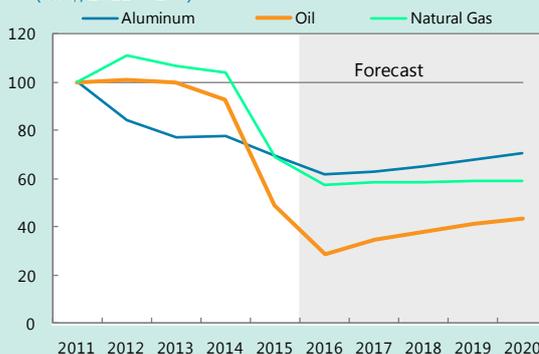
Caribbean: Evolution of IMF Real GDP Growth Forecasts
(y/y, percent change)



Caribbean: Tourist Arrivals
(Cumulative percent change; data for 2014H1 to 2015H1)



Commodity Prices
(US\$, 2011 = 100)

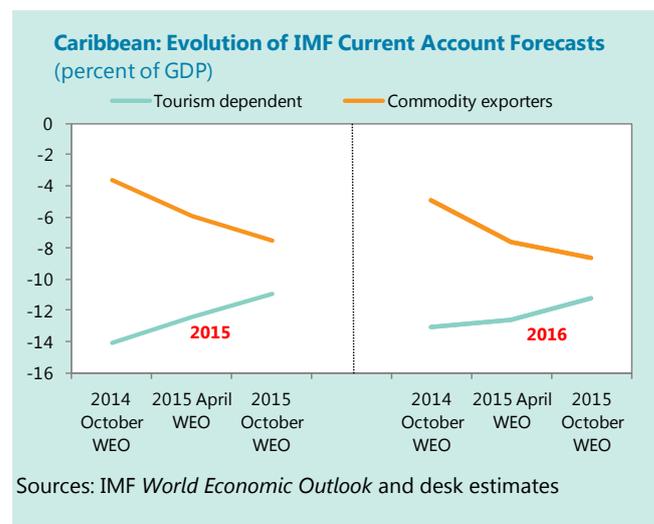


Sources: IMF *World Economic Outlook*, IMF Primary Commodity Prices, and desk estimates

coverage from 5.6 months of imports at end-2014 to 5.8 months at end-October 2015. On the other hand, current account balances have deteriorated for commodity-based economies in the face of the negative terms-of-trade shock. The new government in Trinidad and Tobago is facing policy challenges of lower energy prices (see Article on pages 6–8), while in Suriname reserves have come under pressure and the country has recently approached the International Monetary Fund to discuss the possibility of IMF financial support for their economic reform program.³

Taking advantage of the benign external environment, some tourism-based countries have made progress in their efforts to address their large **fiscal imbalances and high public debts**. Grenada successfully completed debt restructuring operations which would directly reduce debt by 13 percent of GDP by 2017, and the buyback of PetroCaribe debt in Jamaica yielded a 10 percent of GDP instant reduction in its debt burden. Other countries, including The Bahamas, Barbados and Grenada reduced their fiscal deficits in 2015 through a combination of budget measures to raise revenues and reduce expenditure. However, declining commodity revenues have increased fiscal pressures in the commodity-based countries. The fiscal deficit of this group is estimated to have widened by

around 2 percentage points of GDP in 2015, and some policy makers have signaled fiscal tightening plans in their 2016 budgets.



¹ See October 2015 WEO for details.

² Suriname inflation is reported at 25 percent (y/y at end-December) on the back of an energy tariff increase and the exchange rate devaluation.

³ See: <http://www.imf.org/external/np/sec/pr/2016/pr1622.htm>

Latin America and the Caribbean in 2016: Adjusting to a Harsher Reality



By [Alejandro Werner](#)

It's been a rough start to 2016, as seen by the recent bouts of financial volatility, stemming from uncertainties related to the slowdown in China, lower commodity prices, and divergent monetary policy in advanced economies.

The [global recovery](#) continues to struggle to gain its footing, with strains in some large emerging market economies weighing on growth prospects. For Latin America and the Caribbean, growth in 2016 is now expected to be negative for the second consecutive year—the first time since the debt crisis of 1982–83, which triggered the “lost decade” for the region.

The regional recession, however, masks the fact that most countries continue to grow modestly but surely. In particular, country specific developments are being determined by the interplay between external shocks and domestic fundamentals. While countries with strong policy frameworks have been adjusting to external shocks smoothly, countries with weaker domestic fundamentals are experiencing significant downturns. [Read the full analysis.](#)

COUNTRY BRIEFS



Dominica: Tropical Storm Erika and Fund Response

By Alejandro Guerson and Saji Thomas

After a catastrophic storm hit Dominica, the IMF approved the maximum-allowed disbursement under the Fund's Rapid Credit Facility to address urgent balance of payments and fiscal needs associated with the rehabilitation and reconstruction efforts.



Debris covered road caused by Tropical Storm Erika.

Photo: Robert Tonge, Minister for Tourism and Urban Renewal / Reuters.

Tropical Storm Erika hit Dominica on August 27, 2015, causing substantial damage to crops and physical infrastructure, and loss of life. The flooding and landslides severely damaged roads, bridges, and the main airport, with the latter's operations heavily curtailed. The storm also rendered the water and sewerage network non-operational and heavily impacted the agriculture and tourism sectors. The total damage and loss was estimated at 96 percent of GDP, including about 65 percent of GDP in reconstruction costs.

Soon after the storm, the Dominican authorities requested emergency financial assistance from the IMF. On October 21st, 2015, the IMF Board approved the maximum-allowed disbursement under the Fund's Rapid Credit Facility (RCF), in amount of SDR 6.15 million (US\$8.7 million, equivalent to 75 percent of quota) to address urgent balance of payments and fiscal needs associated with the rehabilitation and reconstruction efforts.¹ The IMF team also provided technical support in developing a sustainable

macroeconomic framework that could accommodate the extensive storm-related reconstruction expenditures.

The fiscal program accommodated an increase in reconstruction spending, while also making available assistance to meet the most pressing social needs. The planned reconstruction is estimated to amount about 50 percent of GDP over the next seven years, with smaller amounts thereafter. This will be financed by new fiscal measures and donor funding. The authorities expressed a strong commitment to fiscal sustainability, consistent with the achievement of the ECCU public debt target of 60 percent of GDP by 2030. To this end, the government is working on the details of a medium-term plan, including the identification of fiscal measures to improve the fiscal balance by about 6 percent of GDP over a period of five years. A novelty of the program was the inclusion of a fiscal balance buffer of about 1½ percent of GDP to cushion possible future reconstruction expenditures, so that Dominica is better prepared for other natural disasters in the future.

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The Fund's initial efforts focused on supporting the urgent need for financial assistance, as the authorities focused on immediate social assistance and rehabilitation activities. Reconstruction efforts have been slow because of financing constraints and implementation capacity challenges. The RCF would provide bridge financing (equivalent to 1.7 percent of GDP) while donor assistance and official loans are mobilized, giving the authorities time to work out the details of their medium-term plan. The authorities are

¹ The RCF provides low-access, rapid, and concessional financial assistance to LICs facing an urgent balance of payments need, without the need for program-based conditionality.

also seeking grants and additional concessional financing from multilateral and bilateral donors to cover the remaining financing needs. The pace of recovery will depend on donor support.

Dominica has limited fiscal space, and grant financing for reconstruction will remain an important factor of the reconstruction strategy given the high level of public debt (80 percent of GDP). Under the government's baseline scenario, Dominica will be able to cover reconstruction needs while maintaining a

sustainable debt trajectory. A donor conference was held in Dominica on November 16, 2015 with the participation of the IMF along with other official creditors and representatives of several countries willing to provide financial assistance. The contributions promised by many bilateral partners were generous. However, additional grants remain necessary to finance the large reconstruction cost. The IMF remains hopeful that the Government's commitment to a sustainable macroeconomic framework will trigger additional donor support.



Trinidad and Tobago: New Government Takes on the Challenges of Lower Energy Prices

By Elie Canetti and Robert Price

The decline in world energy prices presents a large shock to Trinidad and Tobago's macro-finances and a significant challenge to policy-making. The new government is already responding.



Source: Petrotrin.

Most Caribbean countries are reaping benefits from today's sharply reduced world energy prices, but not Trinidad and Tobago, which is a major producer and exporter of oil, natural gas and petrochemicals. In 2014, more than one-third of its economic output was directly tied to the sector; in 2015, that ratio is expected to fall to just over one-quarter, primarily due to the fall in prices. The decline in world energy prices thus presents a large shock to its macro-finances and a significant challenge to policy-making.

Even before mid-2014, public debt had been increasing in recent years despite energy prices around

historic highs, and that trend has accelerated with the fall in those prices. From 24½ percent of GDP at the end of FY13/14 (ending September 30th), central government debt is estimated to have risen to 34 percent at the end of FY 2014/15. Partly as a consequence (and also citing rigid public expenditures and the lack of a medium-term fiscal framework), Moody's, a credit ratings agency, downgraded Trinidad and Tobago's sovereign debt rating (to Baa2 from Baa1) in April 2015.

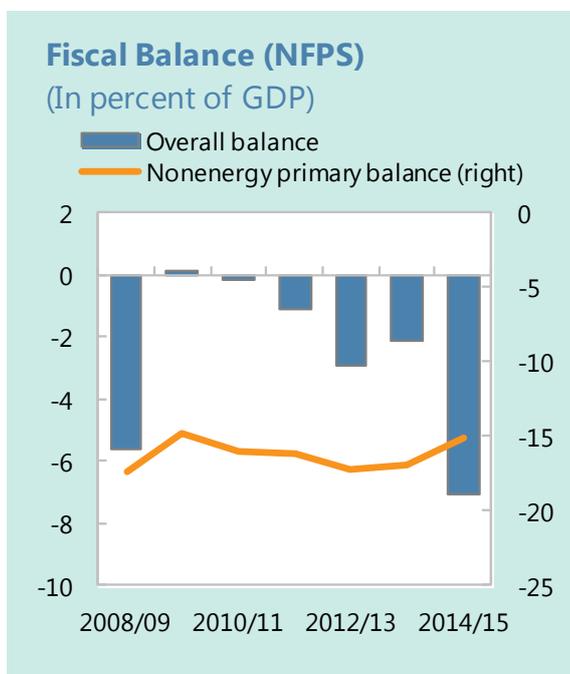
When oil prices began their sharp fall in mid-2014, the then ruling government began to recognize the fiscal risks of significant energy price declines that were turning out to be more than just a temporary blip. They adopted a "budget variation" to try to maintain the original 2.3 percent of GDP deficit target for fiscal year 2014/15.¹ The goal was to achieve this by curtailing both current and capital expenditures, with a further assist from the fact that falling global energy prices would lower the amount to be spent on domestic fuel subsidies. In the event, the response did not fully contain the deficit, which the new government

¹ This was equivalent to a 3.1 percent of GDP deficit using IMF accounting principles, which require the proceeds of asset sales (then estimated to equal 0.8 percent of GDP for FY 14/15) to count as financing rather than revenue.

now estimates to have come in at 4.2 percent of GDP for FY 14/15.²

The decline in world energy prices presents a large shock to Trinidad and Tobago's macro-finances and a significant challenge to policy-making.

A new government led by Prime Minister Keith Rowley of the Peoples' National Movement (PNM) was elected on September 7, 2015. With less than a month to produce a budget, and lower energy prices increasingly recognized to be a long-lasting trend, it found itself facing a significant fiscal gap that threatened to grow in future years. More broadly, as with all previous administrations in Trinidad and Tobago, it also faced longer-term structural challenges to diversify an economy (and public purse) so dependent on the energy sector.

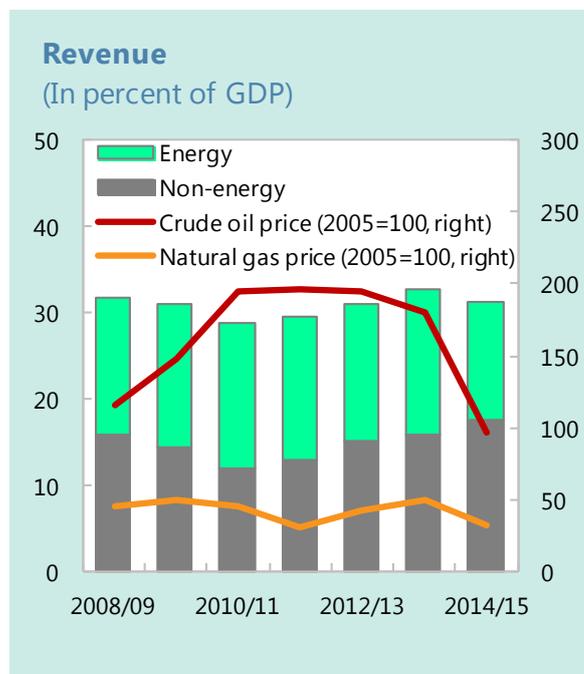


The budget recognized the **need for fiscal adjustment**, but was also mindful of the risk of aggravating the current economic slowdown. The new government estimated, with no new measures to address lower energy sector revenues that the deficit would balloon significantly in FY 2015/16. To fill the budget gap, Finance Minister Colm Imbert proposed a mix of revenue and expenditure adjustments. The overall goal is to reduce the deficit to 1.7 percent in 2015/16, with a longer term goal to achieve budget balance by FY 2017/18.³ The budget is based on oil

² An estimated 7.1 percent of GDP on an IMF accounting basis, as proceeds from asset sales are now estimated to have totaled 2.9 percentage points of GDP.

³ Relying, however, on the receipt of extraordinary dividends and substantial asset sales for FY 15/16, equivalent to 5.7 percent of GDP.

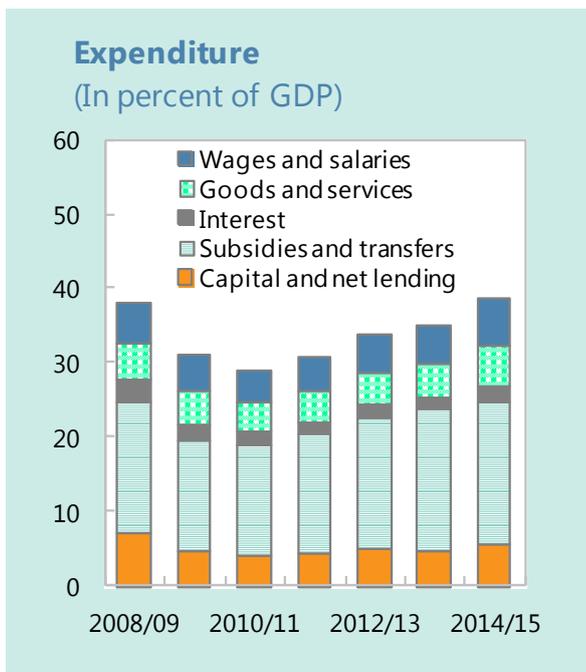
and natural gas price assumptions that were below consensus forecasts at the time, though so far, energy prices have fallen well below the budget assumption.⁴ Fortunately, the country has strong buffers—official foreign reserves resulting from years of accumulated energy savings of US\$9.8 billion, plus an energy-revenue based sovereign wealth fund (the Heritage and Stabilization Fund) that totaled US\$5.8 billion as of June 2015.



The budget sets as a goal raising some TT\$5.2 billion in **revenue measures** (equivalent to 3.2 percent of GDP). The key areas are VAT reform (broadening the base and reducing zero-ratings and exemptions, which the government expects will help offset a reduction in the VAT rate from 15 to 12.5 percent); enhancing tax collection and compliance; increases in business and "green fund" levies; and new taxes on property and the gaming industry. The budget also relies on significant asset sales and extraordinary dividends projected to yield TT\$13.4 billion, the latter chiefly from the diversified state-owned National Gas Company (NGC).

The latter, as noted earlier, would be "below-the-line" financing items under IMF fiscal accounting standards.

⁴ The budget assumes \$US45/bbl for oil, and a mix of \$US2.75/mmBTU (Henry Hub) and \$US8.00/mmBTU (Indonesia) for natural gas.



On the expenditure side, the budget will cut the capital expenditure program from TT\$ 8.4 billion (5.0 percent of GDP) in FY 2014/15 to TT\$7.0 billion (about 4.3 percent of GDP). Importantly, the government began reforming the national fuel subsidy, which has comprised a hefty share of the country's large subsidies and transfers, totaling some TT\$4.8 billion in FY 2015, although with the drop in energy prices, it was estimated at budget time to drop to TT\$1.7 billion in FY 2015/16. The government raised the prices of super gasoline and diesel by 15 percent each and is embarking on a national dialogue on the issue.

Another important element is the settling of an estimated TT\$5 billion for back-pay on public sector salaries, based on the conclusion of collective agreements with a number of trade unions.

At year-end, Prime Minister Rowley addressed the nation and forthrightly highlighted the challenges of the continuing fall in oil and gas prices. Among measures he announced was a call for government entities (including state enterprises and ministries) to identify reductions of seven percent in operating expenses not relating to job cuts. He also proposed separating the Heritage and Stabilization Fund into two distinct funds and using approximately US\$1.0 billion for stabilization purposes in FY 2016 and perhaps another US\$0.5 billion in FY 2017.

What about the country's medium-term prospects? It is too early to assess the overall impact of lower energy prices on energy exploration and development investments in Trinidad and Tobago, but such activity is typically in the pipeline for an extended period—in the case of offshore wells, it can stretch out as long as 7 years. Regardless whether energy prices are expected to remain lower "permanently", or "temporarily", the full impact on the oil and gas sector may not be felt for several years. Nevertheless, it is appropriate and prudent that the people and government of Trinidad and Tobago have recognized the need to begin adjusting to the possible new world order in energy markets today.

Historic Reforms Double Quota Resources and Enhance Voice of Emerging and Developing Economies

The 2010 IMF quota and governance reforms that took effect yesterday will strengthen the voice and representation of emerging and developing economies in the institution; reinforce the legitimacy of its decision-making process; and equip it with more permanent resources to better respond to future crises.

"I commend our members for ratifying these truly historic reforms," IMF Managing Director Christine Lagarde [said](#). She noted that a more representative, modern IMF will ensure that the institution is able to better meet the needs of its members in a rapidly changing global environment.

"Today marks a crucial step forward and it is not the end of change as our efforts to strengthen the IMF's governance will continue," Lagarde added.

This historic change marks an important step forward for the IMF. [Read the full analysis.](#)



ON THE RADAR

Antigua and Barbuda: An Examination of Contingent Liability Management

By Nadia Spencer-Henry, Antigua and Barbuda Public Debt Manager

The authorities have set a debt target of 60 percent of GDP by year 2030; and in order for this to be achieved concrete solutions must be put forward. In part, the government could adopt a number of measures to limit and better manage contingent liabilities.

Risks to Antigua and Barbuda public debt sustainability have risen since the expiration of the Fund-supported Stand-by Arrangement (SBA) in 2013. This was, partly, due to challenges that arose from addressing failing banks as well as financially strained social security system and other state-owned enterprises. During the three-year SBA program (2010–13), the government undertook a number of actions to assume timely payments of its obligations. In this context several contingent liabilities were also assumed by the government. However, in the face of rising public debt, driven in part by increasing contingent liabilities, the fiscal consolidation efforts achieved during the SBA period have been eroded, posing new challenges for contingent liability management.

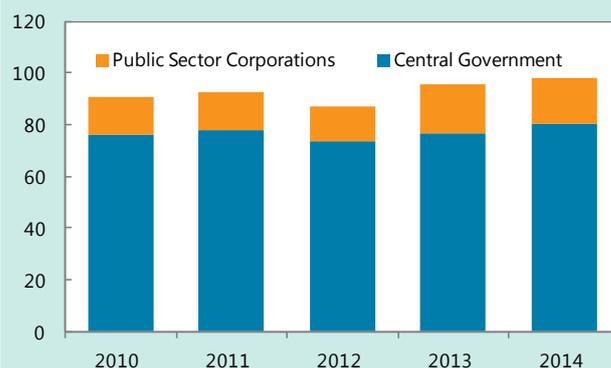
This article seeks to examine the framework developed by the Antigua and Barbuda authorities to assess and manage public debt, including risks from contingent liabilities. The government of Antigua and Barbuda has developed a comprehensive debt management framework that takes into account explicit and implicit contingent liabilities namely, government obligations outside of the budgetary system, legal obligations that the government may have to pay if events occur, guaranteed debt to state-owned enterprises, and bank resolution. The focus of the analysis is on the policy options available to government to strengthen contingent liability management and minimize fiscal risks. The article focuses on the known contingent liabilities.¹

Public Debt Structure and Recent Trends

During the three-year Fund-supported program debt declined sharply from 102.5 percent of GDP in 2009 to 87 percent in 2012. Thereafter debt began to rise

moving to 95.5 percent of GDP in 2013, and further to 98.2 percent of GDP in 2014 (Chart) and is estimated to have reached 105.9 percent of GDP at end-2015. The increase in public debt since 2013 (Chart) was driven by bank resolution costs, the calling of direct guarantees, litigation brought against the government and the arrangement with the Government of Venezuela for the supply of petroleum products.

Antigua and Barbuda: Public Sector Debt, 2010–14
(In percent of GDP)



Central government debt, which was estimated at 80.5 percent of GDP in 2014, account for a large portion of public sector debt. Debt held by the State-Owned Enterprises for which the Government has given a direct guarantee has risen markedly since 2010 reaching about 18 percent of GDP by 2014 from 14 percent of GDP in 2010. Arrears had been on a downward trend since 2010 but began to rise after 2013 with recent cash flow problems. However the government is making a concerted effort to reverse the recent uptick in arrears and remain current on all obligations. On the external arrears, the government reached an agreement to clear its arrears with Kuwait over the next 15 years, thus removing these obligations (1.6 percent of GDP) from the stock of arrears, which brought the stock of arrears to 7.8 percent of GDP at end-2015.

¹ Other implicit or unknown liabilities will not be discussed in this article either because they have not yet been quantified or due to lack of information.

Some Policy Options for Managing Contingent Liabilities

The authorities of Antigua and Barbuda have set a debt-to-GDP target of 60 percent by year 2030, and in order for this to be achieved concrete solutions must be put forward. Achieving the long-term debt-to-GDP target will require decisive actions in various areas including measures to limit and better manage contingent liabilities. These could include:

- **Strengthening the legislative framework for borrowing, especially for state-owned enterprises.** The government of Antigua and Barbuda has guidelines for issuing guarantees. However, it remains weak as state-owned enterprises do not generally comply with the guidelines. Going forward, the solution will lie in a public debt law that strengthens the provisions for borrowing by state-owned enterprises.
- **Developing a Medium Term Fiscal Framework (MTFF).** The MTFF should assess the fiscal risks associated with the medium term fiscal framework by taking into account contingent liabilities accumulated over many years.
- **Undertaking a systematic and regular assessment of inter-government debt.** There is no clear policy on how debts between government agencies should be treated and the existing legislation does not account for these liabilities. An initial step requires the quantification of all cross debts, specifically between the central government and state owned enterprises. Going forward, the government could adopt a systematic strategy guided by the MTFF to periodically assess cross-debts and this could significantly help to reduce contingent liabilities.
- **Encouraging the establishment of deposit Insurance.** While this is outside of the country's direct remit (under the responsibility of the ECCB), the government may want to work closely with the ECCB Bank to ensure that the insurance identified would adequately address the risks for Antigua and Barbuda.
- **Considering increasing coverage of catastrophe risk insurance.** Antigua and Barbuda currently has catastrophe risk insurance with the Caribbean Catastrophe Risk Insurance Facility (CCRIF). However the current coverage could not cover a hurricane of large magnitude. This means that Antigua and Barbuda may want to consider increasing this coverage and additional fiscal buffers.

Weak Pickup in Global Growth, with Risks Pivoting to Emerging Markets

The pickup in global growth is weak and uneven across economies, with risks now tilted toward the emerging markets, says the IMF's latest World Economic Outlook (WEO) Update.

Advanced economies will see a modest recovery, while emerging market and developing economies face the new reality of slower growth.

The *WEO Update* now projects global growth at 3.4 percent this year and 3.6 percent in 2017, slightly lower than the forecast issued in October 2015.

"This coming year is going to be a year of great challenges and policymakers should be thinking about short-term resilience and the ways they can bolster it, but also about the longer-term growth prospects," said Maurice Obstfeld, IMF Economic Counsellor and Director of Research.



"Those long-term actions," he continued, "will actually have positive effects in the short run by increasing confidence and increasing people's faith in the future." [Read the full analysis.](#)

REGIONAL EVENTS

The 2015 Caribbean Forum: Financing Growth

By Marcio Ronci

The forum highlighted the authorities' concerns about the potential disruption connected with global banks' de-risking; the erosion of competitiveness associated with dollar appreciation; and the challenges to the region, especially the tourism industry, from the re-integration of Cuba. In addition, there was general agreement that reducing the energy bill and diversifying energy sources would have a material impact on growth.

The 2015 Caribbean Forum was organized by the St. Kitts and Nevis authorities, the Eastern Caribbean Central Bank (ECCB), and the IMF and took place on September 3-4, 2015 in Frigate Bay, St. Kitts. This was the fourth annual forum and attending were policymakers from twelve countries (plus Anguilla and Montserrat), with five prime ministers as well as finance ministers, central bank governors, and senior representatives from the World Bank, IDB, CDB, Canada, EU, UK, and US.

While growth has resumed, Caribbean countries have become more aware of the risks from the external environment and from debt overhang.

In addition to an overview session on macroeconomic developments, the forum focused on three main themes: energy sector reform; access to credit; and correspondent banking challenges. Participants congratulated the St. Kitts and Nevis authorities and the ECCB for the excellent organization of the event and hospitality.

Macroeconomic and environmental challenges

The tragedy associated with Tropical Storm Erika—which devastated Dominica—was a sobering reminder of the vulnerability of the region to natural disasters. In this regard, there was agreement that preparedness and response to these events require both appropriate financing instruments and better planning by countries, including by creating adequate fiscal buffers.

Macroeconomic challenges were at the top of the authorities' concerns. While growth has resumed, Caribbean countries have become more aware of the risks from the external environment—a further erosion of competitiveness associated with dollar appreciation and the opening of Cuba—and of debt overhang, which is a drag on growth.

Seminar participants agreed that energy sector reform is a priority.



IMF Deputy Managing Director Min Zhu with students at an outreach event in St. Kitts.

Energy sector reform

Seminar participants agreed that energy sector reform is a priority. Most countries have articulated energy strategies aimed at raising the share of renewable energy sources and improving energy efficiency. As emphasized by Gerard Johnson (IADB), those strategies need to be complemented by regulatory reform of the energy sector. Recent work by Fund staff, which was presented at the conference, shows that the macroeconomic impact of these reforms can be substantial. In particular, savings would be significant and their impact on growth in most cases would be large enough to justify the required investment. Indeed, for most countries, the additional spending would be offset by output gains with no long-term adverse effect on debt sustainability. Nonetheless, in most cases there are clear gains in sharing costs with the private sector. As to funding sources, the IDB and OPIC (U.S.) representatives advised countries on the options available to them. Strategic partnerships were also seen as an important opportunity, and Prime Minister Gonsalves shared St. Vincent's experience with the Clinton Foundation as a successful example.

Access to credit and global banks' de-risking

As regards access to credit, both bankers and policymakers agreed that more could be done to reduce the cost and improve the availability of credit—by strengthening the legal and financial infrastructure, enhancing information sharing, and fully enforcing creditors' rights. Moreover, more extensive use of instruments such as factoring and leasing could supplement traditional bank credit. On their part, firms need to improve their ability to design and present their business strategies and governments should avoid crowding out the private sector.

Prime Ministers and central bankers asked the Fund to support their efforts to stem the consequences of global banks' de-risking in the region. The associated loss of correspondent banking relationships could create large disruptions in the financial system of some countries. Deputy Managing Director Min Zhu reiterated the Fund's commitment to work, in collaboration with other international bodies, to establish the causes and seek solutions to this problem. In the meantime, countries were encouraged to engage with regulatory bodies, explore alternative means of intermediation, and reduce dependence on

cash transactions.

In the closing discussion on priorities for the region in 2016, the authorities appreciated the discussion of Financing for Development in the energy and credit sessions. They also appreciated Fund's efforts to expand the financial safety net. They pointed out, however, that small states may be just as vulnerable as low-income countries and have not benefited from debt relief by the Heavily Indebted Poor Countries (HIPC) Initiative.

Both bankers and policymakers agreed that more could be done to reduce the cost and improve the availability of credit.

IMF Deputy Managing Director Zhu's closing remarks underscored the Fund's commitment to working with the Caribbean countries in addressing their most urgent economic problems. As part of its contribution to the post-2015 Development Agenda, the Fund is developing the Growth and Resilience Initiative, a more comprehensive strategy to assist small vulnerable countries in managing natural disasters.

<https://www.imf.org/external/np/seminars/eng/2015/caribbean/>



First row (from left to right): Alejandro Werner (Director, Western Hemisphere Department, IMF), Jorge Familiar (Vice President, World Bank), Keith Mitchell (Prime Minister, Grenada), Ralph Gonsalves (Prime Minister, St. Vincent and the Grenadines), Min Zhu (Deputy Managing Director, IMF), Timothy Harris (Prime Minister St. Kitts & Nevis), Sir K. Dwight Venner (Governor of the ECCB), Victor Banks (Chief Minister, Anguilla), Donaldson Romeo (Premier, Montserrat), Dr. Warren Smith (President, CDB).

Back row (from left to right): Glenford Ysaguirre (Governor, Central Bank of Belize), Embert St. Juste (Director at Ministry of Finance, St. Lucia), Serge Dupont (Executive Director, IMF), Gerard Johnson (IADB), Brian Wynter (Governor, Central Bank of Jamaica), Marc Thill (Delegation of EU to the Eastern Caribbean Countries), Winston Jordan (Finance Minister, Guyana), Gobind Ganga (Governor, Central Bank of Guyana), Sandra Sookram (Deputy Governor, Central Bank of Trinidad Tobago), Lennox Weston (Finance Minister, Antigua and Barbuda), Michael Halkitis (Minister of Finance, The Bahamas).

IMF-World Bank 2015 Annual Meetings



The World Bank-IMF Annual Meetings took place on October 9-11, 2015 in Lima, Peru. The discussion on the near-term prospects for Latin America and the Caribbean underscored the risks associated with China's slowdown, the normalization of monetary policy in the U.S., and lingering instability in Europe. These risks are alleviated in some countries by the strong policy response they have undertaken to adjust to the loss in commodity revenues.

There was significant concern that slowing growth could undercut the progress made in recent years in reducing poverty and inequality, and by the loss of correspondent banking relationships in the region associated with global banks' de-risking. The Fund was asked to take a leading role in formulating an appropriate policy response and providing advice on these issues.

Small states called for including vulnerability—in addition to income levels—among the criteria to determine eligibility for concessional financing. In their view, this would be necessary, together with some form of debt relief, to enable small states to respond to the challenges related to climate change.

There were also calls on the Fund to do more work in a number of areas, including:

Integration: The region has low levels of trade, and agreements such as the Trans-Pacific Partnership (TPP) could help reignite growth and foster diversification. The TPP will have direct effects on the countries involved, indirect effects on others, and serve as a template for other arrangements.

Inequality and inclusion: Targeted social programs, which have helped to make growth more inclusive, will need to be made sustainable in a more difficult environment. The region lags behind in terms of financial inclusion, and difficult efficiency/stability trade-offs in several areas challenge financial regulators and supervisors.

Institutions: Capacity development in areas of Fund expertise (revenue mobilization and local public finance) should continue and possibly be extended to other areas (governance and corruption).

International monetary system: Assessments of large currency depreciations in commodity exporter countries, not just for individual countries, but from a regional and multilateral perspective.

Web link: <http://www.imf.org/external/AM/2015/>

IMF CAPACITY BUILDING CARTAC Updates

By David Kloeden, CARTAC Coordinator

Following a highly successful stakeholder event in Barbados in June 2015 that looked to CARTAC's next five-year phase, in the subsequent CARTAC Steering Committee meeting in Guyana on November 23, these earlier strategy discussions were further elaborated in light of three global development events held in the second half of 2015.

2015 was a big year for global development with three major events where the IMF was a key partner. These events laid out far reaching targets to drive the international agenda for years to come. They also began to define stakeholders' roles, whether beneficiary or donor at all levels of income and economic development, as well as multilateral institutions like the IMF. The challenges of mobilizing the financing resources needed to help meet the Sustainable Development Goals (SDG) were discussed at the Third United Nations Conference on Financing for Development in Ethiopia in July. This conference concluded with agreement on an Addis Ababa Action Agenda to boost development financing. In September, the global community agreed on the SDGs, which set out development objectives for the next 15 years. Finally, the global 'year of development' closed with a global accord reached at the UN Framework Convention on Climate Change conference in Paris in December on reducing carbon emissions.



2015 was a year of action on global development with three major events that laid out far reaching targets for sustainable development

In September 2015, member states of the UN adopted 17 SDGs which will guide global and national policies over the next 15 years based on the five key elements of sustainable development: people, planet, peace, prosperity, and partnership. The SDGs have replaced the Millennium Development Goals (MDGs), which were to be attained by 2015, and are broader in scope than the MDGs, reflecting the view that development needs to be not only economically and socially, but also environmentally sustainable. The IMF is strongly committed to the post-2015 development agenda and

has identified various initiatives and areas for deepened focus with respect to economic, social, gender inclusion, and environmental protection.



In 2015, member states of the United Nations adopted 17 SDGs based on the five key elements of sustainable development.

The work of the IMF, including technical assistance (TA) through regional centers like CARTAC will contribute on several fronts, primarily on facilitating sustainable growth (SDG8) and eradicating poverty (SDG1). IMF's policy advice and TA to enhance domestic revenue mobilization (DRM) and further development and deepening of financial systems will make financing available for public infrastructure spending as well as other social development objectives. Widening economic and social disparities pose a threat to sustainable growth, so CARTAC and the IMF's policy advice and TA will contribute to achieving gender equality (SDG5) and reducing inequality (SDG10). Moreover, environmental sustainability is of utmost importance to sustainable growth, particularly in the Caribbean, one of world's most disaster prone regions comprising many vulnerable small states. The IMF will contribute to combating climate change (SDG13) through its expertise in taxing and managing natural

resources (particularly relevant for several Caribbean commodity exporters), developing resilience to climate-related shocks through sound policies and fiscal and financial buffers, as well as through IMF shock-related financing.

| CARTAC EXPERTISE | SDG PRIORITIES |
|-------------------------------------|--|
| Public Financial Management | Scaled-up public infrastructure |
| Revenue and Customs Administration | Domestic resource mobilization |
| Macroeconomic Analysis | Resilience to natural disasters |
| Financial sector | Promoting financial inclusion and financial deepening, |
| Real and external sector statistics | Improved data dissemination; monitoring SDG outcomes |

Given how contemporary and critical the post-2015 development agenda is to the unique challenges of the Caribbean, the November 23 CARTAC Steering Committee meeting in Georgetown Guyana included presentations by staff from IMF headquarters focusing on these issues, with informative discussions with

member countries, CARICOM on behalf of the region, and several CARTAC donors. Subject to successful fund raising, CARTAC will enter its fifth operational phase in January 2017.

While continuing to contribute to macroeconomic stability and regional growth through its TA and training programs, these programs are being updated to reflect the SDGs priorities, while building on the successes of the past. CARTAC will leverage the IMF's experience and intellectual resources for the benefit of CARTAC members through training and dissemination of research and best practices relevant to the region. CARTAC is also working collaboratively with other development partners to respond to member country needs, weaving cross cutting gender and environmental themes into its mainstream work. CARTAC will also tap a more extensive toolkit to support DRM such as Tax Administration Diagnostic Assessment Tool (TADAT)—the tax administration equivalent of Public Expenditure Framework Assessment (PEFA)—, and RA-FIT, RA-GAP, and FARI.¹ Public Investment Management Assessment (PIMA) will be added to the recently enhanced PEFA within the PFM toolkit.

¹ RA-FIT (Revenue Administration – Fiscal Information Tool); RA-GAP (Revenue Administration – Gap Analysis Program); and FARI (Fiscal Analysis of Resource Industries).

IMF Publications and Recent Country Reports on the Caribbean Economies

1. Dominica

Request for Disbursement Under the Rapid Credit Facility- Press Release; and Staff Report; IMF Country Report No. 15/316.

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43402.0>

2. Grenada

Third Review Under the Extended Credit Facility, Request for Modification of Performance Criteria, and Financing Assurances Review-Press Release; and Staff Report; IMF Country Report No. 15/333.

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43435.0>

3. Jamaica

Ninth Review Under the Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria- Press Release; Staff Report; and Statement by the Executive Director for Jamaica; IMF Country Report No. 15/270.

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43304.0>

Tenth Review Under the Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria; Press Release; Staff Report; and Statement by the Executive Director for Jamaica; IMF Country Report No. 15/343.

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43463.0>

4. St. Kitts and Nevis

2015 Article IV Consultation- First Post-Program Monitoring Discussion- Press Release; and Staff Report; IMF Country Report No. 15/248

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43254.0>

Ex Post Evaluation of Exceptional Access Under the 2011 Stand-By Arrangement- Press Release; and Staff Report; and Statement by the Executive Director for St. Kitts and Nevis; IMF Country Report No. 15/297.

<HTTP://WWW.IMF.ORG/EXTERNAL/PUBS/CAT/LONGRES.ASPX?SK=43366.0>

5. St. Vincent and the Grenadine

2014 Article IV Consultation- Staff Report; IMF Country Report No.15/259

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43279.0>