INSIDE

1 Dr. Hon. Keith Mitchell, Prime Minister of Grenada
Prime Minister Keith Mitchell discussed Grenada’s home-grown program, his relationship with the IMF, and the challenges facing the region in an interview with Wayne Mitchell.

2 Caribbean Growth Outlook Improves for 2015 amid Uncertainties
The Caribbean is expected to expand 1.7 percent in 2015, up from 1.3 percent in 2014. However, this outlook is subject to substantial downside risks. Prepared by Marcio Ronci and Saji Thomas.

3 Structural Reforms: Energy and VAT
Guyana’s high electricity costs are holding back growth ... The role of The Bahamas’ new value added tax (VAT) in restoring public finances. Prepared by Wendell Samuel, Kalin Tintchev, and Joel Okwuokei.

6 Economic Citizenship Programs in the Caribbean
An increasing number of Caribbean countries are launching Economic Citizenship Programs to attract foreign capital for investment and growth. Prepared by Ahmed El-Ashram and Xin Xu.

8 Min Zhu on Mainstreaming the Fund’s Work on Small States
IMF Deputy Managing Director Min Zhu sat with Jacques Bouhga-Hagbe of the Caribbean Corner to discuss progress in mainstreaming the Fund’s work on small states.

9 External Devaluations: Are Small States Different?
A staff paper examines whether the macroeconomic effects of exchange rate devaluations are systematically different in small states from larger ones. Prepared by Geoffrey Keim.

11 Caribbean Energy Investment Network

12 CARTAC 2020: An Opportunity to Shape the Next Phase of CARTAC
The Caribbean Regional Technical Assistance Center (CARTAC) Steering Committee will hold its annual meeting on June 2 in Barbados. Prepared by David Kloeden.
INTERVIEW

Dr. The Right Hon. Keith Mitchell, Prime Minister of Grenada

By Wayne Mitchell

On Thursday, March 12, 2015, IMF Resident Representative Wayne Mitchell sat down with Grenada’s Prime Minister Keith Mitchell at his residence to discuss his long career in public service, Grenada’s home-grown program, his relationship with the IMF, and the challenges facing the region.

This is your second time around as Prime Minister of Grenada. How has the previous experience and time in opposition changed your perspective about governing?

It is said that experience is the greatest teacher. After 30 years as an elected parliamentarian and at least half of it as Prime Minister, I have learned a thing or two about people and governance. I know that I have done some good work but I am also the first to admit that I made mistakes.

I am a better person and Prime Minister today because of these experiences. I am humbled by the overwhelming mandate given to me to govern the country at this difficult yet exciting time and I am determined to lead differently. For me, this time is a lot about moving beyond political tribalism, bridging the political divide and uniting the people around what I term Project Grenada.

I agree with the statement Christine Lagarde (IMF Managing Director) made last Fall that the most fertile ground is common ground. To that end, I have reached out to all Social Partners and political opponents as we seek to leave a legacy of opportunity and self reliance for our people, especially the next generation. Our historic signing of the Social Compact in January 2015, and the monitoring of our Home-grown Program, supported by the Fund, by our social partners bear testimony to my current approach to governance.

Grenada embarked on a home-grown program in 2013 to improve prospects for growth and job creation, restore fiscal sustainability, and entrench financial stability. What were the main challenges in establishing this program and how have the results to date measured up against expectations?

The major challenge was to accept our reality and to take the tough but necessary decisions to resolve the problems. Asking our people to make enormous sacrifices after a prolonged recession and with very high unemployment has not been easy. Can you imagine imposing taxes and asking people to accept a cut in disposable income at a time like this? However, I am committed to doing what is right and not what is popular, fortified in the knowledge that history will prove me right.

Getting the various groups with different expectations and philosophies working together with the government for the common good was critical. Without consensus the program could not work no matter how technically sound it was. We approached the nation and the different groups with humility, explained the issues and the need for sacrifices and asked for their support. I think that approach was viewed positively. We also had to make sure that everything we did was consistent with the elements of the program because we would be under scrutiny. I think now there is more trust in my determination to do the best job in this period for the benefit of the country. The Program is off to a very good start and in some instances it has exceeded expectations. However, we know there is still much to be done and so we press on.

In your view, how has the current program been different from Grenada’s previous engagement with the IMF, particularly with respect to the Fund’s approach to program design, and program implementation and monitoring?

The Fund approach is different in several respects. First, we have embarked on a comprehensive engagement with our Social Partners, which the Fund has complimented. Second, the Fund understands the need to protect the vulnerable and the program set a floor on spending for social safety nets. This is a welcome change from my early experience with the Fund when I was a professor at a University in Washington. I was involved with a consulting firm and worked as a consultant with Fund teams in several countries. They gave sound technical advice and behaved professionally but the plight of people was not a major consideration in their recommendations. It was just get the numbers right and balance the books. Third, there is a more deliberate attempt to grow the economy. The emphasis on growth is different from what I saw in the 2006 program.

continued on page 10
CARIBBEAN OUTLOOK

Caribbean Growth Outlook Improves for 2015 amid Uncertainties

By Marcio Ronci and Saji Thomas

After a disappointing growth rate of only 1.3 percent in 2014, the Caribbean economy is expected to expand 1.7 percent in 2015, reflecting stronger growth in trading partners, as well as low transport and fuel prices. However, the outlook is subject to substantial downside risks.

According to the April 2015 World Economic Outlook (WEO), GDP growth for the Caribbean region in 2014 was about 1.3 percent (weighted average), down from 1.5 in 2013, as the growth slowdown of commodity exporters (Belize, Guyana, Suriname, and Trinidad and Tobago) more than offset the recovery of tourism-based economies, which was driven mainly by tourism and construction.

Commodity exporters’ growth, which accounts for nearly two fifths of the region’s total GDP, slowed considerably to 1.6 percent in 2014, down from 2.3 percent in 2013. A significant drop in the price of oil and other commodities weakened oil and mining sector output. In Trinidad and Tobago, solid expansion in the nonpetroleum sector, which was boosted by the economic recovery in the rest of the region, and construction have partially offset the decline in the petroleum sector.

Growth in tourism-based economies recorded a small recovery to 0.8 percent in 2014, up from 0.5 percent in 2013, supported by tourism and construction. The ongoing recovery in tourism appears to have strengthened in 2014, with almost all regional destinations recording increased visitor arrivals. At same time, there was continued expansion in construction activity in most countries in the region, primarily led by the private sector, and mostly related to tourism and other commercial developments. In a few other countries, continued underperformance in key sectors contributed to flat or declining economic activity. In Jamaica, growth was weakened by the adverse impact of a drought on agriculture. Barbados stagnated for the seventh consecutive year in 2014 as good performance in tourism, international business and construction were not enough...
Guyana Energy Sector Reform: An Imperative for Growth

By Wendell Samuel and Kalin Tintchev

Guyana has an abundant yet unrealized hydropower potential. Its hydropower resources are among the largest in the Central American and Caribbean region, by far exceeding its electricity consumption. Interest in developing hydropower dates back to the first global oil shock of 1974-75 and has ebbed and flowed with the volatility of international oil prices. Although at least 67 sites have been identified as suitable for hydropower generation, none of them have yet been developed. Guyana’s quest for hydropower has been delayed by several roadblocks including small domestic demand, long distance of the load centers from the hydropower sites, and limited fiscal space to implement capital-intensive projects.

At present, Guyana relies almost entirely on imported fuel to generate electricity. Small oil-fired generators supply 95 percent of electricity with the remainder provided by co-generation in sugar production. The primary producer and supplier of electricity, Guyana Power and Light (GPL), functions as a state-owned vertically integrated utility, which owns and operates the grid. Small independent providers supply electricity to the hinterland but coverage remains limited. This energy matrix is at variance with Guyana’s natural endowment and energy security. Costly and unreliable supply has caused large firms to resort to self-generation and has constrained access to electricity in the hinterland. The country aspires to shift to a matrix that is mainly based on hydropower and other renewables.

Dependence on imported fuel for electricity generation exposes Guyana’s fiscal and external positions to volatility from large oil price fluctuations. At the macro level, high oil prices lead to weakening terms of trade, a large oil import bill and a deteriorating trade balance. As fuel imports represent about 20 percent of total imports, oil price shocks can cause large swings in the external current account. High oil prices also lead to increased fiscal transfers to GPL and falling tax revenues because of the limited pass-through in the domestic fuel pricing regime.

High electricity costs are holding back competitiveness and investment for inclusive growth. Electricity generation costs and tariffs are among the highest in the region, especially as a percentage of per capita income, increasing the burden on residential customers. They also raise the input costs of production, particularly in energy-intensive sectors such as agriculture and mining, which are the backbone of Guyana’s economy. High electricity costs suppress investment in value-added manufacturing industries such as food processing, the smelting of aluminum, and sugar refining that could help Guyana move up the value chain.

In order to deal with these development challenges, Guyana launched a novel Low Carbon Development Strategy (LCDS, http://www.lcds.gov.gy) in 2009. The strategy aims to transform the economy while reducing its carbon footprint through a shift to a low cost green technology energy matrix. Its vision for the energy sector rests on three pillars. The central pillar revolves around the construction of the Amaila Falls Hydroelectric Project (AFHP), which will become the principal supplier of lower-cost green-technology electricity. The second pillar aims to expand electrification of the hinterland using mini hydropower stations and solar panels. The third pillar focuses on developing nontraditional low carbon sectors to enhance economic diversification. LCDS is financed by Norway under a partnership agreement that would provide up to US$250 million by 2015 for Guyana’s progress in preventing deforestation.

AFHP is expected to provide a more reliable source of energy but should be implemented judiciously to...
curb fiscal risks. AFHP will help curtail Guyana’s dependence on fuel imports and unlock its growth potential by reducing the cost of production and promoting diversification into higher-margin industries. Lowering electricity costs would help reduce transfers to GPL over the medium term, freeing up fiscal resources to invest in human capital and inclusive growth. However, to achieve its goals, the project should remain financially and economically viable. Fiscal risks for the government could be mitigated by strengthening GPL’s finances and pursuing international best practices in the project’s management.

Reducing GPL’s commercial and technical losses could also help lower electricity costs. GPL’s commercial and technical losses represent more than 25 percent of gross generation. Given the region’s average loss rate of about 12 percent, the margin for loss reduction is significant. In an effort to limit losses, GPL is currently implementing several programs funded by multilateral donors to strengthen its institutional capacity and upgrade its transmission network.

The Bahamas
Restoring Public Finances: The Role of the New VAT by Joel Okwuoke

In May 2013, the government of The Bahamas announced a medium-term fiscal consolidation plan with the aim of returning public finances to a healthy position, and lowering the debt level, which had risen steeply since the onset of the global financial crisis. The plan proposes a mix of revenue and expenditure measures to achieve a primary surplus in 2015/16, and a nearly balanced budget in 2016/17 during which the debt-to-GDP ratio is expected to fall to 58 percent.

After extensive consultation, including with the private sector, the IMF, and independent consultants, The Bahamian authorities launched a value added tax (VAT) on January 1, 2015, reaffirming their commitment to fiscal consolidation. Until now for the most part, the tax system had been excessively dependent on trade taxes, numerous fees and levies. Thus, the new VAT, which is the centerpiece of the ongoing tax reforms, is the first substantive conventional tax to be implemented.1 The Bahamian VAT structure has the potential to be one of the most efficient in the region. It has a broad base covering goods and services, the lowest standard rate of 7.5 percent in the region, few exemptions, a relatively high registration threshold (BH$100,000), and a robust IT infrastructure. The VAT replaces the 10 percent hotel room tax but covers all tourism services. Also, import duties for about a hundred items were reduced as the VAT became effective and further reductions are expected in the context of WTO accession.

The Bahamian VAT has the potential to be one of the most efficient in the region. It has a broad base, the lowest standard rate in the region, and few exemptions.

The Bahamian VAT is estimated to yield about 3 percent of GDP annually (1.5 percent of GDP in 2014/15). With this, government revenue could rise to about 21 percent of GDP in the medium term from 17 percent of GDP in 2013/14, bringing the revenue to GDP ratio close to the regional average. Despite some hiccups, which are usual for a new tax system, the implementation of the new VAT so far appears to have been relatively smooth, partly reflecting a high level of preparation and public education. Early indicators of performance are encouraging, and suggest that the authorities are on course to achieve the initial revenue targets from the VAT. Efforts are ongoing to resolve outstanding VAT-related issues, and

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1 Until now, the Bahamian tax system relied on a very narrow tax base. Unlike most Caribbean countries, The Bahamas does not have neither a personal income tax nor a corporate profit tax...
plans are in place to transition the current administrative structure to a full-fledged VAT Department.

The authorities must be commended for a successful introduction of the VAT. Now, they should advance other revenue reforms, including establishing a central revenue agency to manage tax administration more efficiently to further raise revenue. With the debt level projected to remain elevated, IMF staff in a recent report, advised the authorities to enhance spending discipline, especially on wages and salaries, goods and services, and transfers and subsidies. Staff also urged accelerated implementation of reforms of public corporations to further strengthen the fiscal position. Despite ongoing efforts, only a small saving in expenditure (½ percent of GDP) is envisaged under the fiscal consolidation plan. To secure the hard-won benefits of the VAT, restore public finances to a sound footing, and place the debt level on a declining path, the authorities should rationalize current expenditures in the context of a medium-term budgetary framework.

![The Bahamas: Economic and Fiscal Indicators](image)

**IMF Publications and Recent Country Reports on the Caribbean Economies**

1. **Antigua and Barbuda**

2. **Belize**

3. **St. Kitts and Nevis**

4. **St. Vincent and the Grenadines**
TOPIC ON THE RADAR

Economic Citizenship Programs in the Caribbean

By Ahmed El-Ashram and Xin Xu

A n increasing number of Caribbean countries are launching Economic Citizenship Programs (ECPs) in an attempt to attract foreign capital for investment and growth. St. Kitts and Nevis and Dominica have two long-standing programs in the region dating back to 1984 and 1993, respectively. In recent years, inflows to these countries under the ECPs have increased significantly spurring interest by neighboring islands facing economic challenges. In 2013, Antigua and Barbuda launched its own version of the program, while Grenada revived its previously retired scheme. In 2014, St. Lucia appointed a taskforce to study the issue.

A growing pool of applicants—the bulk of which appear to be from China and, to a lesser extent, Russia and the Middle East—has recently fuelled demand for these programs, in pursuit of enhanced visa free travel, a safe haven from political turmoil, and/or a tax haven.

Notwithstanding the potential positive impact in small states, if not managed properly, large revenue windfalls under ECPs could also pose significant risks to macroeconomic stability.

ECPs are not unique to the Caribbean. In Europe, Cyprus and Malta also administer ECPs, which grant citizenship with minimal residency requirements. Similar immigrant investor programs, which offer residency permits in return for investment, also exist in Europe, the US and the Province of Quebec in Canada. Like ECPs, some of these programs have experienced a remarkable rise in applications. The U.S. EB-5 visa for immigrant investors has hit its 10,000 applications ceiling for the first time in 2013, while Portugal’s Golden Visa program generated around €1 billion in investments in 2014, about 13 percent of gross FDI.

The economic impact of ECPs in small states could be large and substantial. In St. Kitts and Nevis, inflows to the central government of about 13 percent of GDP in 2013 boosted the overall fiscal surplus to an unprecedented 12.3 percent of GDP. An equivalent amount is estimated to have flowed to the National Development Fund (NDF) in the same year. The country’s net foreign asset position more than tripled since 2010, while investments in the real estate sector, together with enhanced public investment spending, also largely funded through ECP resources, fuelled real GDP growth reaching an estimated 5 to 7 percent for 2014. In Dominica, inflows have been more modest at around 3½ percent of GDP in 2013, perhaps because of the more limited visa-free access for its citizens.

A comprehensive governance framework is critical to preserving the integrity of ECPs.

Notwithstanding the potential positive impact in small states, if not managed properly, large revenue windfalls under ECPs could also pose significant risks to macroeconomic stability. Xu et al (2015) propose a tentative framework to prudently manage large and potentially volatile ECP inflows primarily through saving most of the inflows to the public sector and regulating the pace of private sector investments. The framework aims to shield the economy by preventing a buildup of unsustainable dependency and containing overheating pressures. This is facilitated by the adoption of a medium-term fiscal framework anchored by the primary balance, excluding ECP revenues; as well as

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1 Higher ranking means higher visa-free access. Sources: The Henley & Partners Visa Restriction Index 2013.
adequate prudential regulations for the private sector. The accumulation of public sector savings through the proposed framework can be used to reduce public debt, particularly in highly indebted small states, build precautionary fiscal buffers, and support sustainable public investment in these countries. In the case of St. Kitts and Nevis, accumulated assets, estimated at around 40 percent of GDP at end-2014, may already justify the creation of a dedicated fund (or a Sovereign Wealth Fund) to ensure proper management of saved resources as well as alleviate pressure on the domestic financial system to intermediate these savings. ECP inflows are potentially volatile and subject to significant sudden stop risks, which can trigger sharp and destabilizing adjustments in the fiscal and external accounts of host countries. Adverse actions by the international community, in particular the suspension of visa-free travel for the citizens of ECP countries, can suddenly diminish inflows under these programs. The elevated global security concerns and the rising geopolitical tension may also magnify the risk of such actions. These challenges must be properly addressed through a rigorous due diligence process and a comprehensive governance framework to preserve the integrity of ECPs. Meanwhile, prudent management of the revenue upsurge should minimize vulnerabilities in the medium term.


Caribbean Outlook, continued from page 2

to offset a decline in manufacturing and agriculture. Elsewhere, sizeable economic contractions in St. Lucia and St. Vincent and the Grenadines in 2014 partly reflected the impact of a severe storm just before the start of the year. The WEO forecasts growth at about 1.7 percent (weighted average) in 2015 for the Caribbean region. Individual countries are projected to experience growth between 0.8 and 3.8 percent this year, while inflation generally is expected to remain subdued in line with international commodity prices. Growth in tourism-based economies is expected to strengthen to 1.8 percent in 2015 reflecting stronger growth in trading partners as well as low transport and fuel prices. The Caribbean Tourism Organization expects the recovery in the tourism sector to continue, mainly driven by rising incomes in source markets such as the U.S. and to a lesser extent, by lower transport and fuel costs. It is of the view that stay-over arrivals should also be supported by negotiated airlift increases to several regional destinations, along with additional room capacity and enhanced marketing associated with current investments by major hotel brands. Commodity exporters will grow by 1.6 percent in 2015 partly because of expansionary fiscal policies and partly because of the positive impact of low transport and fuel prices on non-oil commodity exporters.

Downside risks to both the global outlook and domestic factors may have significant implications for the region’s prospects. Regarding the global outlook, tourism destinations that are highly dependent on the United Kingdom may see some fallout from any fiscal tightening there. Further Euro area weakening may reduce tourist arrivals from continental Europe. For the regional commodity exporters, a major concern is the possibility of a further decline in commodity prices, which would cut back oil and mining activity. For some countries, the impact of the loss of some correspondent banking relationships with US banks could be significant. Regarding domestic risks, fiscal deficits are expected to remain high at 4 percent of GDP on average, despite some narrowing in recent years. Six out of the thirteen countries will continue to have fiscal deficits above 5 percent of GDP, mostly those that are heavily indebted. Additional vulnerabilities stem from financial sectors with high levels of nonperforming loans in the Eastern Caribbean Currency Union as well as other countries in the region.
INTERVIEW

Min Zhu on Mainstreaming the Fund’s Work on Small States

By Jacques Bouhga-Hagbe

IMF Deputy Managing Director Min Zhu (right) with Jacques Bouhga-Hagbe.

On March 20, 2015, following the second IMF Board meeting on small states, IMF Deputy Managing Director Min Zhu sat with Jacques Bouhga-Hagbe of the Caribbean Corner to discuss progress in mainstreaming the Fund’s work on small states.

Mr. Zhu, thank you for the opportunity to discuss a few issues of importance to the Caribbean. First of all I would like to congratulate you for the recent Board paper and meeting on small states, which illustrate progress in mainstreaming the Fund’s work on small states.

What are the most important messages that can be drawn thus far for small states in the Caribbean?

First of all, thank you very much for reporting on this. I think it is very important to get the message across to the authorities and to the people in the region. I had a very good Board meeting this morning, which lasted more than two hours in which Board members spoke and gave very helpful comments.

The first message I would like to send is that this joint effort to push this small states program and enhance the cooperation between the authorities and ourselves should continue. The Board initiated the small states working group and we have really worked hard in the last three years to help small states improve their macroeconomic situation. Our cooperation, communication quality, and our traction with the authorities have improved dramatically. For example, the conversation at the Caribbean breakfast at the Annual Meetings is much different than it was three years ago. I think everyone agrees that the Fund understands their situation and tailors policies to suit. So I really appreciate staff’s effort in streamlining and tailoring Fund-supported programs to members’ needs.

The second and main message for the region is that there has been a significant improvement in the past few years, particularly in macroeconomic stability. Fiscal and current account balances have improved, debt has been stabilized and growth is picking up despite mediocre global growth, but there is still room for improvement. Caribbean growth is still relatively low because of small size, a lack of competitiveness, and high energy prices, among other things. Very high public debt is still a key vulnerability for the region, while the financial sector remains weak.

The third important message is that weak institutional capacity is a big drag for growth and macroeconomic stability. Our technical assistance is therefore more tailored today to the local needs of small states, helping to improve institutional capacity. However, building capacity will be a continuing challenge for the Fund and for the authorities.

The Board paper this year focused on ways to strengthen fiscal management, how exchange rate devaluation could support growth and how financial inclusion enhances growth. Currently, we are also devoting a lot of technical assistance to strengthening the banking system in the Eastern Caribbean.

In the next twelve to eighteen months, what would be the key priority for the Caribbean and how will the Fund be helping?

The key objective is to raise growth and maintain macroeconomic stability. In the Caribbean annual conference last year, we agreed that for the next twelve months, we will focus on the energy sector. Energy prices are very high and achieving energy security involves reform of state owned enterprises, which are the main suppliers. We will work on the macroeconomic aspects of the energy sector; this year, every Article IV report will have an analysis of the energy sector. A combined paper will provide the basis for discussions with the Ministers of Finance and Energy and international development partners to see how best to approach a solution to this issue. The current low price of oil offers a window of opportunity to undertake this.

In the Caribbean, debt remains a top priority but this is broader than debt restructuring, and includes debt

continued on page 13
External Devaluations: Are Small States Different?

By Geoffrey Keim

Fixed exchange rates have been long-standing policy anchors in most small states, affording significant benefits in terms of price and macroeconomic stability. However, with small states’ growth generally lagging over the past decade, competitiveness challenges building up and policy space dwindling in many countries, the role of exchange rates has come under increased debate. Policy makers in small states have repeatedly voiced reservations about the efficacy of using the nominal exchange rate as a policy tool. This is because the contractionary effects of a nominal devaluation are seen as more likely to dominate due to a large share of imported goods in consumption and production, potential balance sheet costs, the social impact of a likely surge in inflation, and lack of diversification that would bridle the economy’s response to a change in relative prices.

To examine whether the macroeconomic effects of exchange rate devaluations are systematically different in small states from larger ones, Fund staff recently conducted a study that employed three different methodologies: simulations with a dynamic general equilibrium model, event studies of country experiences with large (over 20 percent) devaluations; and econometric analysis. Preliminary results of this study were presented at the 2013 high-level Caribbean Conference in The Bahamas. The study was also included in the forthcoming IMF paper titled “Macroeconomic Developments and Selected Issues in Small Developing States.”

The study finds that whether a devaluation is contractionary or expansionary overall does not appear to be related to country size but to other factors at play. Devaluations can successfully boost growth in small states and improve the external position, as they did in slightly more than half of the devaluation cases in small states.

While the growth impact of devaluation was not found to differ discernibly between large and small states, there was however a significant difference in the channels through which devaluation affects macroeconomic outcomes.

Other countries

Sources: WEO and staff estimates.

Events Study: Real GDP Growth (Percent)

Small countries

Events Study: Distribution of Changes in Average Growth (diff. in 3-yr avg real GDP growth, t+2 to t+4 from t-4 to t-2)

While the growth impact of devaluation was not found to differ discernibly between large and small states, there was however a significant difference in the channels through which devaluation affects macroeconomic outcomes.

- The investment response can counteract the slack from weak consumption; and while it takes longer to manifest itself in small states, the medium and long-term response of investment is stronger.
- The improvement in the external current account may be initially stronger in small states, but in large part it is also due to a pronounced import compression.

The findings suggest that devaluations need not be ruled out as a policy tool in small states; however, more specifically:

- Consumption may be relatively harder hit in small states due to adverse income and distribution effects, combined with limited scope for import substitution or a rapid scaling up of the export sector due to size-related constraints.

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The findings suggest that devaluations need not be ruled out as a policy tool in small states; however,
other tools can also be employed to address external imbalances, including internal devaluations, which entail policies to restore price competitiveness by directly lowering costs, particularly wages, as well as structural reforms. This study found that whether or not a devaluation is successful depends, largely on the extent to which it is supported by strong conditions and policies, including strong external demand, a healthy financial system that can support credit growth, wage restraint, and a successful scale-up of investment. These factors give rise to some policy considerations that should be kept in mind to increase the probability that they are successful. These include: (i) appropriately tight incomes policies to contain inflation post-devaluation, which would erode competitiveness gains and real incomes; (ii) strong social policies to address the adverse social effects of expenditure compression; (iii) structural reforms to allow a robust investment response post-devaluation; (iv) a favorable external environment to increase the chances of growth staging a strong response following the relative price change; (v) credible supporting policies to stem market perceptions of any further devaluation, including sustainable fiscal positions; and (vi) attention to balance sheet effects, which could have a strongly contractionary effect if debts are dollarized (although alternative adjustment tools, such as internal devaluations, could have equally detrimental balance sheet effects).


Prime Minister Keith Mitchell, continued from page 1

And fourth, there is a more realistic assessment of our capacity constraints. I knew that our capacity to implement a serious program of reforms was lacking and I stressed the need for technical support. The Fund listened and has responded.

The Treaty of Basseterre calls for strong action toward regional integration. Are you happy with the progress? What are the obstacles? What should be the priority areas for action?

No, I am not satisfied and I do not know any leader who would tell you that he is satisfied. We need to adopt a less theoretical and a more pragmatic approach to regional integration. We have a tendency, despite claiming to be integrationists, to focus on national interests at the expense of pursuing the regional agenda. And, if we continue with the national approach we will never obtain the level of development that is achievable with regional integration. We are just too small to operate effectively in this global village as individual entities. The key priorities, as I see it, include addressing the unreliable and high cost of transportation, the limited application of information and communications technology, and the high cost of energy. Addressing these will allow us to realize our potential in tourism, agriculture production and food security, make manufacturing more competitive, improve children’s access to education and knowledge, and improve health services, etc.

Speaking of energy, what can be done to reduce its cost? What are your main takeaways from the U.S. Caribbean energy summit in January?

The energy situation in the Caribbean requires urgent attention. At the Summit in Washington, I pointed out that for us in Grenada the high cost of electricity is not just a developmental issue, it is a national security issue. The situation where a private company has a monopoly for electricity generation, transmission and distribution until 2073 and seems to be unaware of the absolute importance and critical role that service plays in the survival of the nation is untenable. The requirement that persons investing in renewables, for example solar energy, sell to GRENLEC and then purchase electricity at a higher cost than their generation is wholly unsatisfactory and a disincentive to investment and our efforts at energy diversification. The United States leadership displayed a willingness to help address this current situation with GRENLEC’s monopoly. Let me state that I am not against private sector institutions even monopolies, far from it, but this situation is in my view unsatisfactory. The US promised to help Grenada and I expect them to keep their word.

Prime Minister, thank you for taking the time to chat with me.

You are very welcome.
REGIONAL EVENTS

Caribbean Energy Investment Network

By Meredith Arnold McIntyre

The Caribbean Energy Investment Network (CEIN) was launched in Washington, DC on January 26, 2015 in the context of the Caribbean Energy Security Initiative (CESI) meeting presided by United States Vice President Joe Biden. Eighteen Caribbean countries and territories were represented, mostly by their Prime Ministers or Ministers of Energy, as were the international financial institutions, Canada and New Zealand. U.S. businesses attended some events.

The goal of the summit was to underscore the commitment of the U.S. and international community to supporting the transformation of the Caribbean energy sector—in the direction of sustainable, cost-effective, and clean energy. As Vice President Biden suggested, the timing is propitious for this transformation (given lower oil prices and better outlook for U.S. growth).

The discussions focused on concrete steps Caribbean countries and development partners could take to attract investments in sustainable energy initiatives, while promoting the development of a diverse mix of energy solutions, including renewable energy, energy efficiency, and energy integration, and cleaner fossil fuels.

In an effort to enhance donor coordination and improve the efficiency of donor and investor/developer activities, the meeting launched the CEIN. At the summit, it was agreed that the World Bank would be the first institution to chair the CEIN in what will be a rotating chairmanship among the international financial institutions. Numerous external organizations are active in assisting the region to address its energy sector challenges, leading to a proliferation of activities. Players include multilateral organizations, bilateral partners (EU, US, Spain) and the private and non-profit organizations (Carbon War Room and the Clinton Climate Initiative). New partners are also keen to provide support e.g. Colombia, Mexico, and New Zealand.

Given the limited capacity of Caribbean governments to deal effectively with such a wide array of institutions and countries, it was agreed that the region would benefit from an across-the-board discussion of primary energy objectives, and greater coordination between the donor community and Caribbean governments, and among donors and bilateral partners.

The CEIN is a multi-stakeholder coordination mechanism that will strengthen cooperation to support the Caribbean countries’ efforts to tackle the energy challenges facing the region. CEIN’s objectives will include:

- Mobilizing greater private sector investments in the energy sector;
- Facilitating better planning and execution of energy transformation programs by Caribbean governments;
- Supporting governments in preparing energy security strategies and related execution; and
- Working to improve coordination and alignment of development partners support strategies in the energy sector in the region.

The Fund is contributing within its core areas of expertise to support the region’s efforts to transform the energy sector. At the 2014 Caribbean Forum, IMF Deputy Managing Director Min Zhu stated that energy sector challenges would be a flagship issue for the Fund in 2015, including in its surveillance work. As a key deliverable, the Fund will prepare an analytical paper focused on the macro-impact of high and volatile energy prices, financing envelopes consistent with fiscal and debt sustainability, and key regulatory reforms in the electricity sector to promote energy efficiency.
CARTAC 2020: An Opportunity to Shape the next phase of CARTAC – June 2 Event to Chart the Future

By David Kloeden, CARTAC Coordinator

The Caribbean Regional Technical Assistance Center (CARTAC) is an IMF institution launched in 2001 to provide technical assistance and promote capacity building in key areas of macroeconomic management. Today CARTAC supports twenty member countries, including all of CARICOM and the British Caribbean overseas territories. Financial support comes from donors, most notably Canada, the United Kingdom, the European Union, and Australia. Barbados, as CARTAC’s host, as well as the IMF, provide in-kind support, and member countries also make voluntary contributions.

Areas of expertise and support include Public Financial Management (PFM), Revenue Administration, Statistics, Financial Sector Supervision and Stability, and Macroeconomic Analysis and Programming. Advice is delivered by a team of ten highly experienced resident experts (four currently recruited from the region) that is augmented from the IMF’s roster of international experts for additional specialized expertise. In-country technical assistance by the resident and short-term experts is the main delivery mode, working closely with senior and mid-level government officials with key economic operational, policy, and reform responsibilities.

CARTAC’s capacity building efforts have been extensive. Several dozen regional workshops and seminars are delivered annually across the array of CARTAC topics. These workshops serve to impart knowledge of international reform developments, and most importantly are appreciated by participants, to facilitate peer sharing of national achievements and challenges that is often the impetus for other countries to launch similar initiatives and seek CARTAC assistance. The peer sharing model is supported by CARTAC facilitating the exchange of staff between member institutions. In addition, the next generation of economic policy makers and administrators is being nurtured through a highly successful annual internship program. Through this program, CARTAC assists and finances the placement of about a dozen of the best post graduate students within central banks, fiscal institutions, and CARTAC annually.

CARTAC’s Activities: Mission Days, FY12-FY14

CARTAC’s activities have had an important positive impact on national and regional economic outcomes. The program of technical assistance provided to develop, launch, and administer Value Added Tax (VAT) regimes in eight countries is an excellent example of CARTAC’s contribution in helping governments boost revenue. Other examples include strengthened budget and PFM processes in Ministries of Finance; enhanced forecasting of macroeconomic and fiscal vulnerabilities allowing for forward planning and corrective actions by policy makers; financial sector strengthening with commitments and implementation towards Basel II principles; modernized customs administrations that are better facilitating trade as well as collecting revenues; and improvements in the quality of national statistics.

With the current phase of CARTAC financing ending in April 2016, attention is now turning to the future. Views in the region are unanimous that CARTAC remains essential. What changes could be considered for CARTAC’s future? With a large unfinished agenda more will be needed in the areas already being tackled. But a new phase provides a chance to take stock of changing priorities, challenges and opportunities. With most countries now having a VAT, what would be the next tax priority – maybe addressing ballooning tax concessions, or possibly property taxation? How can incipient growth be kick-started – would greater focus on gender help unleash untapped potential? How can CARTAC contribute to further regional integration: perhaps through a regional statistical office; revenue authority; or a regional budget office that assists countries in policy analysis? How can the efforts of others be leveraged in areas beyond CARTAC’s focus but are critical to success; like civil service reform, information technology, and leadership development? How can sustainability of CARTAC’s efforts be enhanced? Building regional capacity is not only beneficial when it contributes to CARTAC deliverables but also in the longer term as demonstrated by CARTAC alumni in key roles like Bank of Jamaica Governor Wynter, Dominica Senator Blanchard, and others.

These are just a few of a wide range of topics that will be explored on June 2, 2015 at an event in Barbados to help define the strategy and focus for the next phase of CARTAC. The CARTAC Steering Committee will hold its annual meeting on June 1, with its members joining a broader stakeholder group at this forward-looking strategy event.
management, structural change, fiscal policies and access to financial markets. The Fund-supported program in Grenada could be a model for the region. Grenada is one of the few countries in the region that had a debt restructuring of the stock of debt and not of debt service. I would like to use this opportunity to thank the Prime Minister of Grenada for his determination to tackle this issue and move the whole economy back on a sustainable path.

Recently some banks in the US have been closing their correspondent banking relationships with important banks in small states partly because of rising compliance costs of the new Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime in the US. How should small states respond to this new development?

Banks are withdrawing from many places, including the Caribbean. We at the Fund are still assessing the situation and will soon come up with our message on these issues. For now, I encourage countries to do more to enhance their legal frameworks and their supervisory capacity on AML/CFT so that their business environment is more attractive. This will encourage international banks to stay. Regional financial integration will also help the region further develop its financial markets.

Do you have any concluding message for small states in the Caribbean or in general?

Well, once again, I thank the authorities and all the people in small states for their support for our work. Together, we really made progress in the last three years. In this morning’s Board meeting, we had very strong support from the Board, which clearly indicates that we at the Fund are very committed to small states, their authorities, and their people. So let us continue working together.

Follow the 2015 Spring Meetings: [https://www.imf.org/external/am/index.htm](https://www.imf.org/external/am/index.htm)