Interview with Alexandre Tombini, IMF Executive Director

The Executive Director discusses developments in the Caribbean countries of his constituency. By Joshua Charap, Qiaoe Chen and Dominique Simard.

Caribbean Outlook: Recovering from a Difficult Year

Growth is picking-up in a very uncertain global context. By Mark Lutz and Gonzalo Salinas.

Jamaica: A New Measure of Success: Growth, Jobs, and Poverty Reduction

A new program to better support growth while reforms to restore economic stability are beginning to bear fruit. By Joyce Wong.

Haiti: The IMF Responds to Hurricane Matthew

The IMF responded quickly to provide funds for reconstruction and recovery. By Robert Price.

Selected IMF Reports and Publications

Topics on the Radar:

Caribbean Vulnerabilities to Natural Disasters and Climate Change

The IMF is exploring options to boost resilience to natural disasters and climate change. By Leo Bonato.

Getting More out of the VAT in the Caribbean: Further Reforms of the Revenue Administration

To boost VAT performance, it is time to launch the next phase of revenue administration reform. By Stephane Schlotebeek.

Tourism Spillovers from US-Cuba Normalization

What can the region expect from and how to cope with the normalization of US-Cuba relations? By Sebastian Acevedo.

Ongoing and Upcoming IMF Activities:

CARTAC Capacity Development—Supporting Individuals, Organizations, and the Region.

A hands-on and inclusive approach to build technical skills and strengthen institutional performance. By Elizabeth Cunningham.

Report on the 2016 Caribbean Forum:

High level officials and representatives of the private sector discuss growth, the US-Cuba normalization and maintaining correspondent banking relationships. By Jarkko Turunen.
INTERVIEW

Interview with Alexandre Tombini, IMF Executive Director

By Joshua Charap, Qiaoe Chen, and Dominique Simard

After serving as president of the Central Bank of Brazil, Mr. Tombini returned to the International Monetary Fund on July 29, 2016 as Executive Director of a constituency that includes Brazil, the Dominican Republic, Guyana, Haiti, Suriname, and Trinidad and Tobago.

Now that you are back at the Fund, what do you consider to be the most striking changes in members of your constituency such as Guyana, Haiti, Suriname, and Trinidad and Tobago?

Despite the challenges now facing these countries due to the current stage of the global economic cycle, over the last decade they have achieved tremendous growth especially when compared with high income countries. According to IMF statistics, GDP per capita in purchasing power terms in Guyana has increased almost 80 percent over the period 2006 – 2015, while in Suriname and Trinidad and Tobago it has increased by 51 percent and 38 percent, respectively over the same period. In Haiti, the increase in GDP per capita over the last ten years has been more moderate, partly due to the tragic 2010 earthquake but still over 20 percent. In contrast, GDP per capital in high income countries has stagnated over that period.

Overall, the rise in GDP has been associated with a fair degree of infrastructure development and poverty reduction over the years. Countries have taken this opportunity to modernize their cities, build new hospitals and schools as well as expand their transportation networks. For example, in my visit to Port of Spain (Trinidad and Tobago) in November 2016 for the Caribbean Forum, I could witness the notable additions to the skyline including the Water Front Towers, the Government Campus Plaza and an ambitious performing arts theater – all of which came into being over the last decade.

There has also been a sharp increase in the use of information technology, particularly at the individual level. Numbers from the World Bank show that internet users in Guyana increased from 14 per 100 persons in 2007 to 38 per 100 persons in 2015. In Suriname and Trinidad and Tobago, internet users per 100 persons rose from 9 and 30 respectively in 2006, to 43 and 69 respectively in 2015. Trends in mobile phone subscriptions paint a similar story for these countries. The point is that the Caribbean is becoming more integrated with the rest of the world, not only through traditional trade and tourism inflows, but also through technology and communications.

Three Caribbean members of your constituency were affected adversely by the fall in global commodity prices. What lessons should they learn from each other – both good and bad?

What is notable is that the three countries in question – Trinidad and Tobago, Guyana and Suriname – had differing experiences. Guyana with a more diversified production base – gold, bauxite, sugar, timber, rice – was able to weather the commodity price downturn better than both Trinidad and Tobago and Suriname.

It probably goes without saying that diversification is critical for the Caribbean economies going forward. In addition, one of the main lessons that can be taken...
from the experiences of the three countries is the need to accumulate buffers during the boom years – e.g., international reserves, a robust sovereign wealth fund and relatively low public sector debt. This increases resilience and allows a better management of terms of trade and other exogenous shocks. Using exchange rate flexibility as a key mechanism for adjusting the economy to new circumstances is greatly facilitated by having sufficient buffers and a sound fiscal framework.

In summary, the experiences from the three Caribbean countries show the importance of economic diversification, accumulating sufficient buffers during boom periods, prudent fiscal management and appropriate exchange rate policies.

Drawing from the lessons of Haiti and the Executive Board discussion, we believe that Caribbean countries as best as possible should try to develop an "ex ante" natural disaster preparedness plan. There are several elements of an "ex ante" preparedness framework, including appropriate infrastructure planning, incorporating potential natural disaster costs into the national budgets, as well as building fiscal buffers and accumulating international reserves as self-insurance measures. There may also be scope for seeking contingent grant and loan arrangements, and risk transfer instruments.

However, one caveat is that given the limited fiscal space confronting several Caribbean countries, there may be little room for building fiscal buffers and including ‘potential’ natural disaster damages in their public financial management frameworks. Here I call the attention to the opportunity that it presents for the international community to come up with a global solution for such small or poor countries that are more vulnerable to natural disasters. This is even more warranted as we realize that the likelihood of such disasters seems to have increased, partially due to the effects of global warming.

Securing correspondent banking relationships has been a growing concern throughout the region and one that you understand very well, including based on your past responsibilities on the Financial Stability Board. How are members of your constituency burdened and/or impacted by these considerations?

Indeed, maintaining correspondent banking relationships (CBRs) have been occupying the attention of governments and policy makers throughout the Caribbean over the last few years, including in my constituency. In the region, given the size and the openness of many countries, preserving CBRs is critical for supporting international trade, foreign direct investment, and remittances.

One of the most commonly cited drivers for the withdrawal of banking services is concerns surrounding money laundering and the financing of terrorism. As such, for the most part, members in my constituency

Trinidad and Tobago: Ferry
Photo Credit: IMF

Haiti has been struck by another hurricane and has come to the Fund for support. What advice do you have for other Caribbean countries to boost their natural disaster preparedness?

Firstly, I would like to once again express my condolences to the Haitian people on the loss of life and property following Hurricane Matthew. I would also like to express my appreciation for the staff and management of the IMF, as well as its Executive Board for their support to Haiti in its time of need.

I also recognize the efforts of the Fund to engage with the membership to help mitigate the effects associated with natural disasters and climate change. One such initiative was the staff paper "Small States Resilience to Natural Disasters and Climate Change – Role for the IMF," which came before the Executive Board in November 2016. Although this paper was discussed in the context of small states and Haiti is far from being one, the policy recommendations are valid to any country vulnerable to natural disasters such as Haiti.
have introduced or strengthened the necessary legislation to be compliant with the Financial Action Task Force (FATF) international standards on Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT). While more work still needs to be done, significant progress has been made in this regard. At the same time, we all know that a strong AML/CFT regime is not a sufficient condition for maintaining macro-critical correspondent banking relationships.

As members of CARICOM, countries in the constituency are part of the Caribbean Financial Action Task Force (CFATF), in which the members agree to “implement common countermeasures to address the problem of Money Laundering, Terrorist Financing and the Financing of the Proliferation of Weapons of Mass Destruction.” Additionally, Caribbean leaders in general have been very vocal on the withdrawal of CBRs, and have engaged in discussion with their developed economies counterparts as well as the IMF, World Bank, Financial Stability Board and FATF on such issues in various forums.

To date, while there has been some loss of CBRs in Trinidad and Tobago, Guyana and Suriname, in most cases systemically important banks have been able to maintain their CBRs or replace them. In Haiti the situation was a bit more severe, with the Caribbean Development Bank in May 2016 reporting that many local banks have had their relationships with correspondent banks either withdrawn or reduced. For the region as a whole, the potential for future loss of CBRs still represents a “clear and present danger” as noted by IMF Deputy Managing Director Mr. Zhang in his opening remarks at the High Level Caribbean Forum held in Port of Spain in November 2016.

While governments must continue to work on addressing deficiencies in their AML/CFT frameworks, we note that there are other factors which impact on CBRs including profitability, scale, and risks considerations by international banks. Here, I encourage again institutions such as the IMF, World Bank and the Financial Stability Board to play a role in assisting small developing countries maintain these vital banking services.

Tell us a bit about yourself, how do you spend your time outside of work?

While the work load as Executive Director at the IMF is demanding, I now have more scope for managing my time and leisure than I did during the twelve years when I worked at the Central Bank of Brazil. I enjoy playing tennis and spending time with my family, including following my son’s soccer matches. Soccer is a lifelong interest of mine. I used to play center forward for my team and have followed my favorite professional team, the Internacional from Porto Alegre (in Southern Brazil, where I grew up) my entire life. I watch their games from Washington, thanks to the internet.

I recently read a very interesting book by the economist Robert Gordon “The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War.” He claims that innovations today do not have the same impact on growth than at the beginning of the 20th century. In any case, our quality of life has improved thanks to technological progress. In my leisure time, it facilitates my ability to follow Brazilian culture and watch movies. I am also enjoying reading Michael Lewis’s new book, “The Undoing Project: A Friendship that Changed Our Minds,” based on the body of work of Israeli psychologists Daniel Kahneman and Amos Tversky, who demonstrated how people get fooled by mental traps. Their work created the field of behavioral economics, revolutionized Big Data studies, advanced evidence-based medicine, and led to a new approach to government regulation.

Suriname: Presidential Palace, Paramaribo
Photo Credit: IMF
CARIBBEAN OUTLOOK

Recovering from a Difficult Year

By Mark Lutz and Gonzalo Salinas

Economic growth is expected to return to commodity-exporting countries and accelerate in tourism-based countries. Nevertheless, fiscal and external imbalances are anticipated to persist amidst higher global uncertainty.¹

After widely divergent economic experiences in 2016, virtually all Caribbean countries are projected to grow this year. Growth averaged only 0.9 percent in 2016, dragged down by falling output on average among commodity exporters (including Suriname, and Trinidad and Tobago). Caribbean economies are now projected to grow by 2.3 percent in 2017. Commodity-exporting economies, which contracted by 1.4 percent in 2016, are projected to rebound by an average 2.4 percent in 2017 (although growth is expected to remain subdued in Trinidad and Tobago and Suriname). This recovery is expected amid a modest increase in commodity prices. Tourism-based economies are expected to experience faster growth, from 1.9 percent to 2.3 percent between 2016 and 2017, as buoyant North American economies continue supporting tourist arrivals.

The Caribbean’s mild recovery and medium term outlook are subject to a number of uncertainties. While possible upside risks to US growth could generate additional tourism, a tightening of US monetary policy could appreciate currencies tied to the US dollar, making tourism in these countries relatively more expensive and less competitive compared with countries with flexible exchange rate regimes. Meanwhile, growth in the UK, a major source of tourists for Barbados and remittances to the Caribbean as a whole, depends on the eventual terms of Brexit. Other potential regional risks include natural disasters, significant decline in revenues from Citizenship by Investment (CBI) programs, the Zika epidemic, and more severe effects from ongoing losses of correspondent banking services. The latter could have significant repercussions as it potentially affects remittances, trade financing and other cross-border financial activities. A recent survey by the World Bank has identified the Caribbean as the region most affected by this global development. For the most part, Caribbean banks have replaced lost correspondent banking relationships with new ones, so the correspondent banking challenge has not yet caused serious economic disruption. Nevertheless, in the most affected countries, the loss of correspondent banking relationships has led to a rise in the cost of processing international transactions.

¹ Tourism-based countries are The Bahamas, Barbados, Jamaica, and the countries of the Eastern Caribbean Currency Union, ECCU. Commodity-based exporting countries are Belize, Guyana, Suriname, and Trinidad and Tobago.
The external current account projections for 2017 are mixed. Commodity-based economies anticipate on average an improvement in their external balances. On the other hand, tourism-based economies are projected to experience some deterioration in their current account deficits despite their tourism-led recoveries—the result, inter alia, of higher oil import bills and lower projected net CBI receipts (including St. Kitts and Nevis in the latter case). The international reserve positions of most countries remain adequate although some countries (Barbados and Suriname in particular) have experienced low reserves.

Despite improved growth prospects, fiscal balances are projected to worsen on average this year. With the exception of Suriname, fiscal deficits are projected to increase among Caribbean commodity-exporting economies. This is somewhat surprising in light of higher commodity prices, and results, in the case of Trinidad and Tobago, from the waning of some “one-off” fiscal measures and slower growth in the energy sector. Fiscal performance among tourism-based economies is expected to be varied, ranging from improvements, most notably in Dominica, to deteriorations, such as in St. Kitts and Nevis (due to lower CBI receipts) and in St. Lucia (owing to tax policy measures).

The projected fiscal deterioration would increase debt levels among commodity exporters. Additional fiscal adjustment, partly to respond to lower commodity prices, will be needed to either stabilize the government’s debt/GDP ratio among commodity exporters (Guyana and Trinidad and Tobago) or to place public debt on a sustainable footing (Belize, Suriname). For tourism-based economies, although their debt levels are projected to stabilize or decline slightly, they remain high, averaging 85 percent of GDP.
Jamaica: A New Measure of Success: Growth, Jobs, and Poverty Reduction
By Joyce Wong

The IMF Executive Board approved a new three-year precautionary Stand-By Arrangement (SBA) with Jamaica for US$1.64 billion on November 11, 2016. This SBA comes on the heels of a 4-year Extended Fund Facility approved in 2013, which supported significant strides in restoring economic stability.

Jamaica made substantial progress during the 4-year extended arrangement under the Extended Fund Facility (EFF) approved in May 2013. The country successfully entrenched macroeconomic stability through sustained fiscal discipline, reforms to enhance financial sector resilience, reduction in public debt by 25 percent of GDP—including through a PetroCaribe-related debt buyback operation with Venezuela, fully restored access to capital markets, and a much-improved external position. Nevertheless, the reforms produced unsatisfactory growth and job creation, partly due to a two-year drought and an outbreak of the chikungunya virus.

Recognizing that macroeconomic stability is necessary but not sufficient to improve living standards, the Government of Jamaica (GOJ) sought a new 3-year SBA with the IMF. With this arrangement, the government will continue supporting macroeconomic stability through sustained fiscal consolidation and debt reduction, while pursuing reforms to achieve higher growth, create jobs, and reduce poverty. The program aims to (i) redirect public resources toward infrastructure, social protection, and security, while promoting an efficient and results-based public sector; (ii) modernize the monetary policy framework and prepare for an eventual move to inflation targeting; (iii) bolster the resilience of the financial system; and (iv) partner with the newly created Economic Growth Council (EGC) to implement reforms in citizen security, financial access and inclusion, simplify the bureaucratic process, privatizations, and public-private partnerships. The program is also expected to induce the diaspora to contribute further to Jamaica’s growth potential and promote private sector jobs.

With their comfortable foreign reserves position, the authorities are treating the SBA as precautionary—i.e., as an insurance policy against unforeseen economic shocks beyond Jamaica’s control. The move to a precautionary arrangement signals strength, reflecting ongoing policy credibility and strong macroeconomic management.

Public sector transformation (PST) is a key reform pillar, to be phased-in with measureable outcomes and stakeholder consultations. The final goal is to improve public sector efficiency to better serve citizens with fewer resources. With other development partners, the authorities also intend to reduce poverty by rebalancing spending towards social programs and strengthening the social safety net.

Broad civil society buy-in and reform monitoring has been a keystone of Jamaica’s economic turnaround. Under the SBA, the GOJ has expanded monitoring to three entities, all of which hold the government accountable for implementing reform: (i) the Economic Program Oversight Committee (EPOC), which will remain responsible for the macro-fiscal reforms; (ii) the Public Sector Transformation Oversight Committee (PSTOC), which will monitor public sector transformation; and (iii) the EGC, which will monitor growth enhancing reforms. The strong and broad-based ownership and public accountability will be key to ascertaining sustained reform implementation and program success.
COUNTRY BRIEF

Haiti: The IMF Responds to Hurricane Matthew
By Robert Price

Hurricane Matthew left a path of death and destruction. The IMF quickly responded, lending Haiti US$42 million under its Rapid Credit Facility to support reconstruction and recovery.

Haiti—the poorest nation in the Western Hemisphere—has suffered more than its share of hardships and natural disasters, including the 2010 earthquake that devastated the capital, a subsequent cholera outbreak, hurricanes in 2004 and 2008, and, more recently, a multiyear drought that severely damaged agriculture. On October 4, 2016, the nation suffered a direct hit from Hurricane Matthew, a Category 4 storm that crossed into Haiti’s southwestern peninsula with winds exceeding 140 mph and torrential rains, killing over 500 people and leaving another 1.4 million in urgent need of humanitarian assistance. The hurricane severely damaged transportation and other infrastructure, and substantially diminished the productive capacity of agriculture. A joint estimate by the World Bank, IADB and the Government of Haiti put total damage and loss at US$1.9 billion, or 23 percent of GDP.

The international community responded with pledges of humanitarian assistance and financial aid to help Haiti rebuild. On November 18, only 6 weeks after the devastating impact from the hurricane, the IMF’s Executive Board approved Haiti’s request for financial assistance under the Rapid Credit Facility (RCF), amounting to US$41.6 million, to help meet urgent balance of payments needs in the storm’s aftermath.

The RCF provides immediate financial assistance with limited conditionality to low-income countries and carries a zero interest rate. It is expected to encourage further assistance from international donors by providing a framework for the orderly execution of public expenditure. The disbursement was equivalent to 18.75 percent of Haiti’s IMF quota, the maximum allowed under the normal RCF window, in the form of a credit to the nation’s central bank.

Photo Credit: United Nations Stabilization Mission in Haiti (MINUSTAH)
Discussions with the authorities over the RCF centered on ensuring that the funds are used effectively, without creating macroeconomic distortions. Based on their experience following the 2010 earthquake and other natural disasters, Haiti’s authorities recognize the importance of managing relief inflows effectively. In the past, large aid inflows have pushed up imports, increased the current account deficit, raised consumer prices and put upward pressure on the real exchange rate. To reduce the chance of disruptions, the authorities committed to limit the (non-hurricane) budget deficit to the level previously announced in the 2016/17 budget, of approximately 2.3 percent of GDP. To help ensure that the funds are used transparently and efficiently, all financial support from donors and lenders is expected to be channeled through a single treasury account, and hurricane-related expenditures are to be detailed and tracked in monthly reports.

Haiti has long struggled to deliver stability and growth to its many vulnerable citizens. The recent presidential election, which was won by Jovenel Moïse, marked the end of a long period of political turmoil, during which it proved difficult to implement significant reforms. Haiti now has the opportunity for a fresh start to address the impediments to economic growth. The authorities have welcomed Fund staff to visit Haiti in upcoming weeks to assist in the recovery and the formulation of a staff-monitored program.

Source: WEO Database; and IMF Staff Calculations.
SELECTED IMF REPORTS AND PUBLICATIONS

IMF Publications and Recent Country Reports on the Caribbean Economies

1. Grenada
Fifth Review Under the Extended Credit Facility, Request for Modification of Performance Criteria, and Financing Assurances Review-Press Release; and Staff Report.

2. Jamaica
Request for Stand By Arrangement and Cancellation of the Current Extended Arrangement Under the Extended Fund Facility-Press Release and Staff Report.

3. International Monetary Fund
Small States’ Resilience to Natural Disasters and Climate Change - Role for the IMF.
Western Hemisphere Region Update - Latin America and the Caribbean: Are Chills Here to Stay?
Global and Regional Challenges to Caribbean Economic Development - 2016 High Level Caribbean Forum on Shifting Tides: Challenges and Opportunities
Tao Zhang, IMF Deputy Managing Director

4. International Monetary Fund Staff Working Papers
Non-Performing Loans in the ECCU: Determinants and Macroeconomic Impact
Author/Editor: Kimberly Beaton | Alla Myrvoda | Shernnel Thompson
Series: Working Paper No. 16/229

National Insurance Scheme Reforms in the Caribbean
Author/Editor: Koffie Ben Nassar | Joel Chiedu Okwuokei | Mike Li | Timothy Robinson | Saji Thomas
Series: Working Paper No. 16/206

Gone with the Wind: Estimating Hurricane and Climate Change Costs in the Caribbean
Author/Editor: Sebastian Acevedo Mejia
Series: Working Paper No. 16/199

Highways to Heaven: Infrastructure Determinants and Trends in Latin America and the Caribbean
Author/Editor: Valerie Cerra | Alfredo Cuevas | Carlos Góes | Izabela Karpowicz | Troy D Matheson | Issouf Samaké | Svetlana Vtyurina
Series: Working Paper No. 16/185

Power It Up: Strengthening the Electricity Sector to Improve Efficiency and Support Economic Activity
Author/Editor: Gabriel Di Bella | Francesco Grigoli
Series: Working Paper No. 16/85

Author/Editor: Kevin Greenidge | Meredith A. McIntyre | Hanlei Yun
Series: Working Paper No. 16/82

Caribbean Energy: Macro-Related Challenges
Author/Editor: Arnold McIntyre | Ahmed El-Ashram | Marcio Ronci | Julien Reynaud | Natasha Xingyuan Che | Ke Wang | Sebastian Acevedo Mejia | Mark Scott Lutz
Series: Working Paper No. 16/53

Flying to Paradise: The Role of Airlift in the Caribbean Tourism Industry
Author/Editor: Sebastian Acevedo Mejia | Lu Han | Hye S Kim | Nicole Lframboise
Series: Working Paper No. 16/33
ON THE RADAR

Caribbean Vulnerabilities to Natural Disasters and Climate Change

By Leo Bonato

The IMF is paying closer attention to the challenges posed by natural disasters and climate change for small states and is exploring options to boost their resilience to these risks, in collaboration with the international community.

Caribbean states are highly vulnerable to natural disasters and climate change. In large countries, disasters typically affect one region while sparing others. However, disasters are devastating for small islands—potentially destroying a large part of their crops, housing, and infrastructure. Moreover, Caribbean islands are located in the cyclone and hurricane belts bordering the equator and therefore exposed to more frequent weather shocks. Finally, climate change may affect small states disproportionately by exacerbating natural disasters and through rising sea levels. A recent IMF paper examines these challenges to small states and explores how they can boost their resilience to such risks with the help of the IMF and the international community.

Natural disasters and climate change entail significant costs for small states. Nearly one in ten disasters causes damages costing over 30 percent of GDP in small states, compared to less than one percent of GDP in larger countries. The average annual cost of disasters for small states is almost 2 percent of GDP, more than fourfold that for larger countries. Recent experience underscores the particular vulnerability of Caribbean countries to natural disasters. Overall, their average annual cost for Caribbean states is 2.4 percent of GDP, and is likely underestimated. In Dominica, the 2015 floods cost the equivalent of 96 percent of GDP. In Grenada, the damage by the 2004 hurricane amounted to twice the GDP.

Natural disasters have significant macroeconomic implications for small states, causing reduced investment, lower per capita GDP, higher poverty, and greater volatility in revenue. In addition, these countries lack resources to address climate change as well as administrative capacity for complex risk management programs. A range of approaches is needed to help small states deal with catastrophe.

<table>
<thead>
<tr>
<th>Average Annual Effects of Natural Disasters</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart.png" alt="Graph showing average annual effects of natural disasters" /></td>
</tr>
</tbody>
</table>

Source: EM-DAT; World Economic Outlook; WDR; IMF Staff Calculation.
1/ Average annual disasters per 1,000 km²

Countries need to reduce their risks and better prepare their response to natural disasters. This includes proactively improving the design of domestic policies to address natural disasters and integrate these policies into investment, debt, and public financial management frameworks. Countries should assess risks from natural disasters, including to financial stability, and adopt adequate crisis management

---

1 Adjusting for under-reporting, Acevedo (2016) suggests that damages for the Caribbean could be up to 3.6 times larger than typically estimated.
frameworks. Countries should arrange disaster financing before the event through a combination of fiscal buffers, contingent financing plans, and insurance.

The international community needs to ensure adequate support for financing and capacity building. Small states with weak capacity often face complex and administratively cumbersome procedures to qualify for climate change financing. Access to global climate funds by small states remains limited and their adjustment needs are under-funded by as much as US$1 billion annually.

The IMF is considering scaling up its current support of small states. It helps countries strengthen their macroeconomic framework and capacity through its Article IV consultation and technical assistance. In particular, the IMF advises countries on carbon taxation, energy subsidy reform, and other policies to mitigate carbon emissions under the Paris Agreement. In this respect, the IMF works closely with the World Bank and other organizations with expertise on natural disasters and climate change. Beyond this support, on a pilot basis, the IMF could assess the macroeconomic aspects of climate change policies in small states to help showcase their policy efforts and improve their access to global climate finance. Finally, the IMF is considering further strengthening its facilities (such as the Rapid Credit Facility and Rapid Financing Instrument) to permit quick access to post-disaster finance.
Getting More out of the VAT in the Caribbean: Further Reforms of the Revenue Administration

By Stephane Schlotterbeck

Caribbean countries saw immediate revenue gains from replacing their consumption taxes by a VAT. Yet, over time, VAT receipts lost their momentum as the pace of administrative reforms slowed and tax policies eroded the tax base. To boost VAT performance, it is time to kick-off the next phase of reforms in revenue administration.

Numerous Caribbean countries have modernized tax systems by introducing a Value-Added Tax (VAT), aiming to bolster income more quickly than by engaging in lengthy structural reforms to mobilize tax revenue. Typically, the VAT provides stable revenue by replacing inefficient consumption taxes. It also permits greater reliance on domestic revenue.

Caribbean countries that introduced a VAT between 2005 and 2013 saw an increase in their tax revenue by a range of 0.9 percent to 5.4 percent of GDP.

Nevertheless, this performance had lost momentum in several countries after a few years. It could be improved by narrowing the compliance gap between actual and potential collections and through tax policy changes to broaden the VAT base and simplify the rate structure.

Narrowing the compliance gap requires improving revenue administration effectiveness. Reforms launched about five years ago—to address organizational inefficiencies, data integrity issues, out-of-date processes, and operational ineffectiveness—are expected to yield more dividends over the medium-term. Further efforts are also needed to reorganize field operations by taxpayer type, manage taxpayers’ obligations as a whole, improve information technology and modernize human resource management regulations.

Administrative efforts to improve VAT performance should be supported by policy changes to restrict zero rating and minimize the use of differentiated rates.

How do VAT Revenue Endure the Test of Time?

Source: IMF World Revenue Longitudinal Dataset.
Tourism Spillovers from US-Cuba Normalization
By Sebastian Acevedo

The recent normalization of US-Cuba relations prompted a sharp increase in US visitors to Cuba. Strategies to improve competitiveness and stimulate intra-regional travel are key for other destinations to successfully face the increased competition.

Cuban tourism had another bumper year in 2016, surpassing 4 million arrivals, 13 percent more than in 2015 when tourist arrivals increased by an extraordinary 17.4 percent. The relaxation of US travel restrictions to Cuba since end-2014, and the reestablishment of scheduled flights between the countries after 50 years has contributed to this tourism boom. In 2016, the number of US visitors to Cuba rose by 74 percent to over 280,000.

What does this mean for the rest of the Caribbean? A recent IMF working paper shows that while concerns about the impact of US-Cuba tourism are understandable, they are likely unwarranted.

Tourism in the Caribbean was partly shaped by the Cuban revolution and the subsequent US embargo on Cuba, which set the stage for the birth and growth of alternative destinations (particularly The Bahamas and Cancun). Nevertheless, the region’s recent history has shown that it is possible for all destinations to grow despite large changes in market shares. Over the last 20 years, tourist arrivals to the Caribbean increased from 12 million in 1995 to 26 million in 2014. Almost all countries benefited from this growth, despite the faster expansion experienced by Cuba, Cancun and the Dominican Republic.

The case of Canada is an interesting example of fast growth in one destination which coexists with tourism growth for the rest of the Caribbean. Canada has been the fastest growing tourism source throughout the Caribbean with Cuba as the preferred regional destination. At the same time Canada has become Cuba’s largest source market. This suggests that a rapid and sustained expansion in US tourist arrivals to Cuba would not be incompatible with continued US tourism growth in the rest of the region.

The estimations suggest that a full opening up of US tourism to Cuba will boost US tourists to Cuba by 3 to 5.6 million, mostly from new tourists to the region. This will occur gradually, as Cuba scales up investment and improves the quality of its tourism services. Meanwhile, other Caribbean destinations could adapt to this new situation while overall tourism flows to the region will continue to grow. The models also suggest that some Canadian and European tourists would switch from visiting Cuba in favor of other Caribbean countries to avoid mass market and the resulting higher prices in Cuba.

The case of Canada is an interesting example of fast growth in one destination which coexists with tourism growth for the rest of the Caribbean. Canada has been the fastest growing tourism source throughout the Caribbean with Cuba as the preferred regional destination. At the same time Canada has become Cuba’s largest source market. This suggests that a rapid and sustained expansion in US tourist arrivals to Cuba would not be incompatible with continued US tourism growth in the rest of the region.

1 On December 2014 the US allowed travel without prior authorization for 12 categories (including family, journalism, professional research and meetings, education and humanitarian work), and in August 2016 the first scheduled flights took off from the US.
These offsetting effects are difficult to measure precisely, but the analysis shows that countries most vulnerable to possible spillovers from the US-Cuba opening up are: i) the ones with a larger dependence on the US as a source market, ii) the countries that have become more reliant on US tourists in recent times, and iii) the countries that the model suggests could lose some US tourists after further relaxing the US travel policy towards Cuba, as summarized in the figure.

To mitigate the potential negative impact of free tourism flows between the US and Cuba, Caribbean destinations should: diversify tourism sources to other advanced economies and large emerging markets in Latin America; improve competitiveness both in quality and costs; and consider facilitating intra-regional travel by adopting regional strategies to induce new tourists visiting Cuba to also travel to other Caribbean destinations. Countries in the region are already actively working on tackling some of these challenges.
CARTAC Capacity Development — Supporting Individuals, Organizations, and the Region

By Elizabeth Cunningham

CARTAC supports capacity development at all levels. It builds individuals’ technical skills, provides tools for institutions to strengthen their performance, and offers recommendations to address systemic regional issues. Over the past year, CARTAC has used a hands-on and inclusive approach to address these dimensions.

CARTAC’s Macroeconomic program, supporting the Eastern Caribbean Currency Union (ECCU) since 2014, has contributed to further sharpening the skills of economic advisors to governments in the region. It successfully ran practical workshops aimed at building forecasting models of national and fiscal accounts, and improving the quality of briefings for Ministers of Finance and Cabinet in the ECCU. A recent review found significant improvements in the capability of Grenada, St Lucia, and St Kitts and Nevis to undertake macroeconomic projections, while St Lucia, Anguilla, and Grenada have also taken steps to frame their annual budgets in a sustainable medium-term framework.

CARTAC is helping the Customs Department of Belize to strengthen controls along its porous borders with Mexico and Guatemala. In January 2017, a CARTAC mission accompanied Customs risk management and enforcement teams to the borders and held interactive workshops with customs officers on risk management. This included practical advice on developing information and skills to identify traders who require supervision, and helping management develop more flexible practices to better use available resources to address identified risks.

CARTAC is assisting several regulators to develop a common set of financial health and stability indicators for credit unions. These institutions are playing an increasing role in the region and accumulating risks, including as they adopt a more commercially oriented strategy to respond to increased competition from banks. In turn, this phenomenon requires a more focused approach to financial risk management, governance and supervision. CARTAC has helped regulators raise their standards in risk-based supervision, operational risk assessments, and risk based-capital adequacy. Moreover, for the first time in the Caribbean, Barbados, St. Vincent and the Grenadines, and Dominica undertook stress-tests of credit unions.

CARTAC is also significantly contributing to rolling out the updated 2016 Public Expenditure and Financial Accountability assessment (PEFA) methodology, which captures Public Financial Management (PFM)’s evolving landscape. A milestone workshop was held in St. Lucia in January 2017, attended by 34 officials from 17 CARTAC members. Participants reflected on their countries’ situations through case studies and other exercises. CARTAC also advised on identifying and implementing new PFM systems to improve country operations.

---

1 In Barbados, Belize and the ECCU, credit unions’ asset base is equivalent to over 15 percent of these territories’ GDP.
Report on the 2016 Caribbean Forum

By Jarkko Turunen

High-Level officials from the region, the IMF, international financial institutions, academia and the private sector met to discuss: growth, the normalization between the U.S. and Cuba, and securing correspondent banking relationships.

The Fifth Annual High-level Caribbean Forum “Shifting Tides: Challenges and Opportunities”—co-hosted by the IMF and the government of Trinidad and Tobago—was held in Port of Spain on November 2, 2016. The forum was attended by: Prime Ministers of Antigua and Barbuda, Jamaica, St. Lucia, and the host country; Ministers of Finance and Central Bank Governors from the region; IMF Deputy Managing Director Tao Zhang, as well as academics, and representatives from international financial institutions and the private sector.

The Forum included panel discussions on global and regional challenges, spillovers from the normalization of U.S. relations with Cuba, and policies to maintain correspondent banking relationships. Key takeaways were:

- Structural transformation and a fundamental rethink of growth strategies are needed to tackle the region’s multiple challenges. Solutions include funding development through growth rather than debt, catalyzing greater private sector participation, economic diversification, and regional integration to lift common growth obstacles. Regarding a greater private sector role, the creation of an Economic Growth Council in Jamaica, chaired by a private sector representative, is an example to emulate. Financial sector resilience is also expected to create job and growth opportunities.

- Normalization of relations between the U.S. and Cuba is an opportunity, not a threat, for bolstering tourism—an opportunity to become competitive and build the Caribbean brand. Current tourists from other countries may be displaced by U.S. tourists and could possibly look to travel elsewhere in the region. Further work is warranted to assess the value proposition for investors and the potential growth dividend from building the tourism industry.

- Urgent solutions are needed to address the withdrawal of correspondent banking relationships. Among potential options, there is a strong interest in a “collective solution” that would achieve efficiencies through economies of scale. Rigorous implementation of AML/CFT regulations, supported by IMF technical assistance, is also recommended.

Finally, in an inspiring presentation, Gervase Warner—President and CEO of the Massy group in Trinidad and Tobago—challenged leaders of Caribbean countries to take collective ownership of the region’s difficulties, and called for economies of scale through regional integration in the Caribbean and with countries in Latin America.
Third (Last row from left): IMF Western Hemisphere Department Director Alejandro Werner and central bank governors: Gobind Ganga (Guyana), Glenn Gersie (Suriname), Brian Wynter (Jamaica), John Rolle (The Bahamas), Jean Baden Dubois (Haiti), Timothy Antoine (Eastern Caribbean Central Bank), Delisle Worrell (Barbados), Joy Grant (Belize), Alvin Hilaire (Trinidad and Tobago).

Second Row from left, Ministers of Finance: Colm Imbert (Trinidad and Tobago), second from left, Gilmore Hoefdraad (Suriname), Winston Jordan (Guyana), Yves Bastien (Haiti), Oliver Joseph (Grenada), Lennox Weston (Minister of State - Antigua and Barbuda), Ubaldus Raymond (Minister of State - St. Lucia), Carla Barnett (Minister of State - Belize).

First row from left: Premier Vance Amory (Nevis), Prime Minister Keith Rowley (Trinidad and Tobago), IMF Deputy Managing Director Tao Zhang, Prime Minister Holness (Jamaica), Prime Minister Alan Chastanet (St. Lucia).

*Photo credit: IMF*