

# INSTITUTE OF CHARTERED ACCOUNTANTS OF THE CARIBBEAN 31<sup>ST</sup> ANNUAL CARIBBEAN CONFERENCE

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# Caribbean Small States: *Stylized Facts*

## **Caribbean small states are a diverse set of countries.**

- The countries can be grouped as commodity exporters, service-based economies, mainly tourism and financial services, and the micro-states of the ECCU.
- Commodities exporters (Belize, Guyana, Suriname, and Trinidad and Tobago) together produce oil/gas, minerals, and agricultural goods, and have had an overall better economic performance in the last decade due to the positive impact of high commodity prices.
- Service-based economies (Bahamas, Barbados, and the ECCU countries) are heavily dependent on tourism and, in some cases, international business services.
- Based on the PPP measure, GDP per capita varies significantly in the region, ranging from US\$32,000 of the Bahamas to US\$8,000 of Guyana.
- The Bahamas and Trinidad and Tobago enjoy investment grade credit ratings.

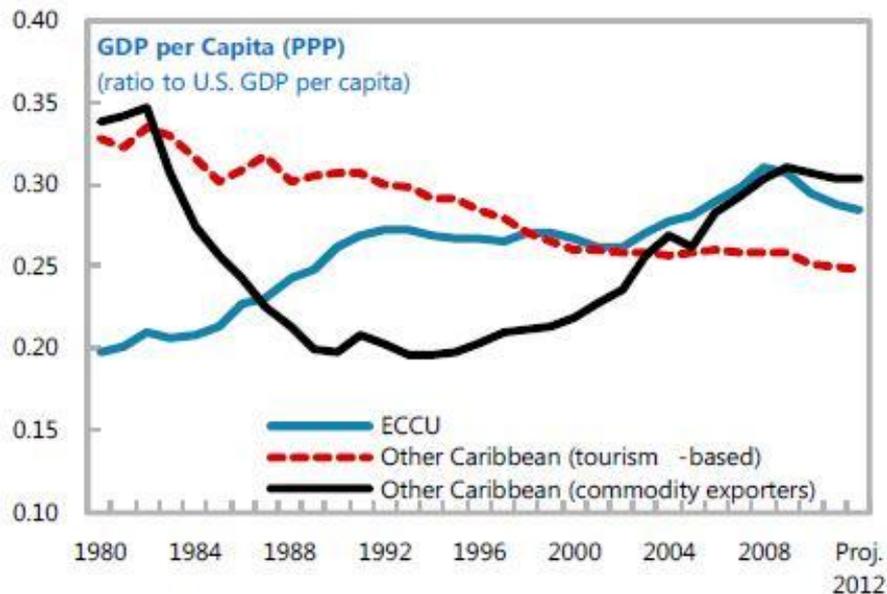
# Caribbean Small States: *Stylized Facts*

## **Many countries in the region share similar economic characteristics.**

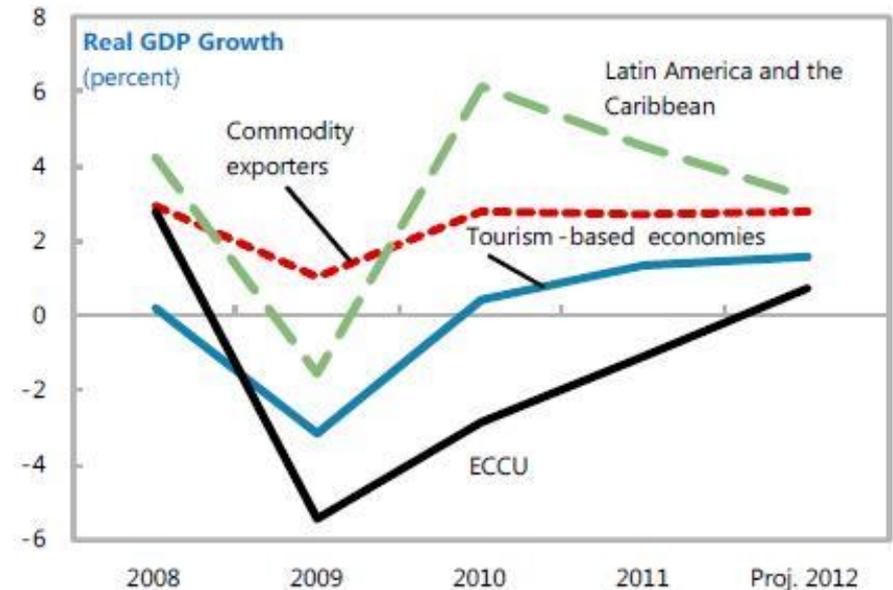
- Small economies, very open to international trade, and highly exposed to natural disasters and economic shocks.
- Smallness constrains the achievement of economies of scale and economic specialization.
- In most countries, exchange rate regimes are effectively fixed, and this arrangement constitutes a key policy anchor.
- Extensive emigration in recent decades has led to the rapid growth of private remittances, which in some countries exceed the value of exports.
- A number of countries, especially the service-based economies and ECCU, face very high debt levels and low growth, while some indigenous banks have significant capital shortfalls.

# Developments in the Caribbean

*Caribbean has been getting poorer over recent decades.*



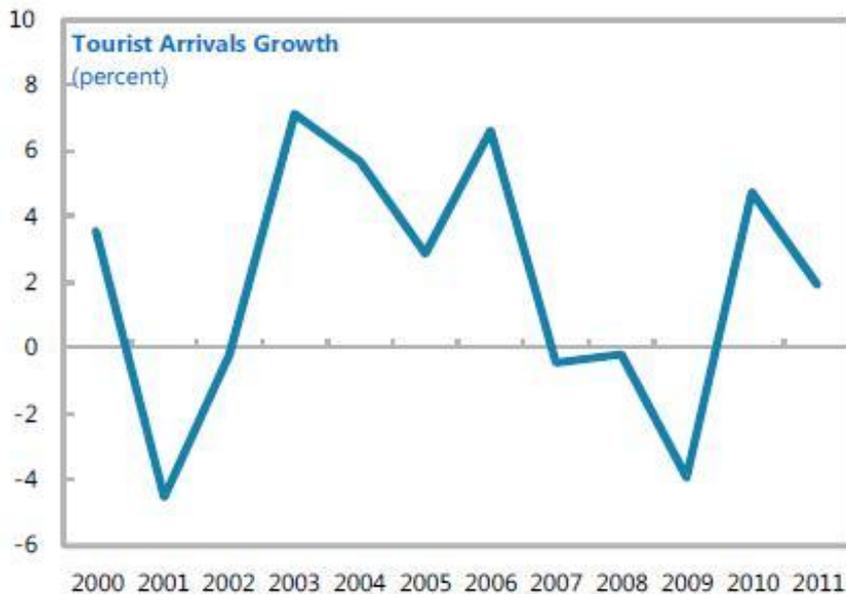
*Growth has been elusive in noncommodity producing states.*



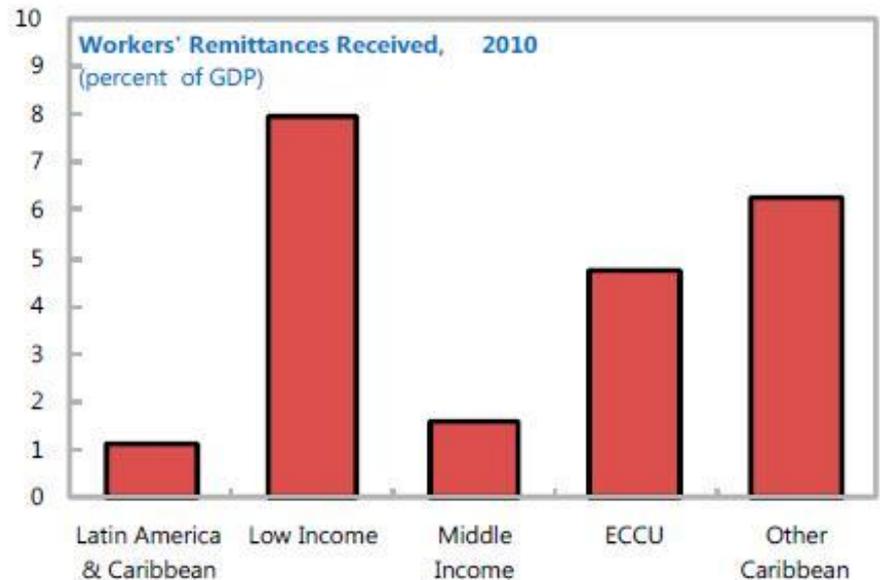
Sources: World Economic Outlook (Fall 2012); World Development Indicators; Direction of Trade Statistics; Caribbean Tourism Organization; and IMF staff calculations.

# Developments in the Caribbean

*Tourism growth has been erratic and worsened by recent shocks*



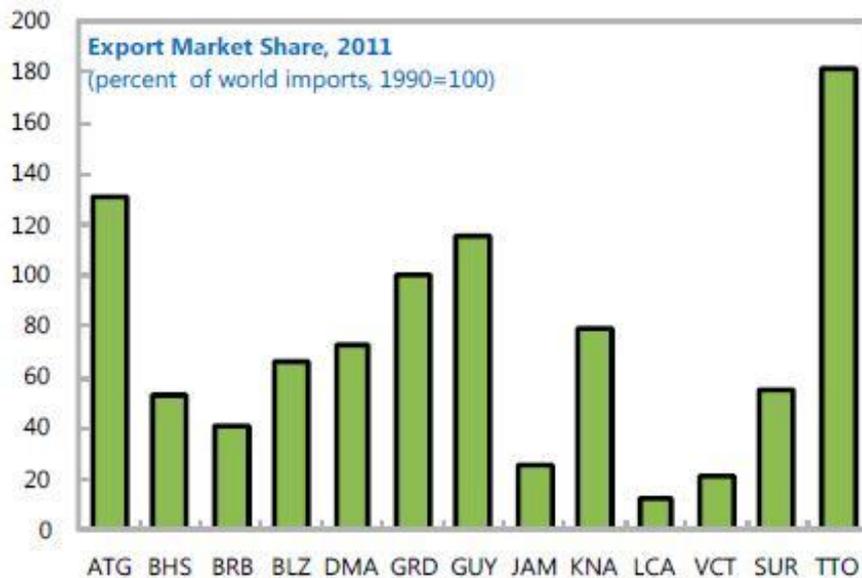
*Remittances are a steady source of income in several countries.*



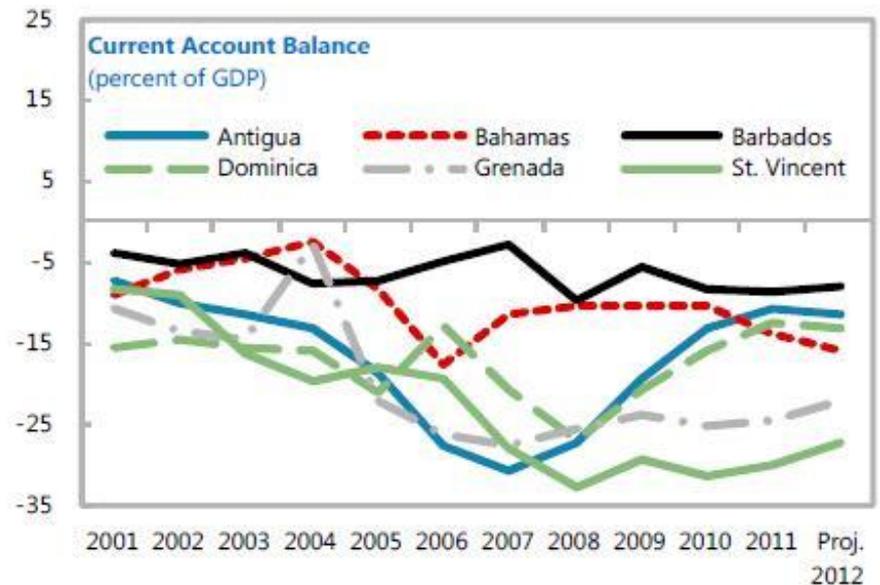
Sources: World Economic Outlook (Fall 2012); World Development Indicators; Direction of Trade Statistics; Caribbean Tourism Organization; and IMF staff calculations.

# Developments in the Caribbean

*Export competitiveness has declined over the years.*



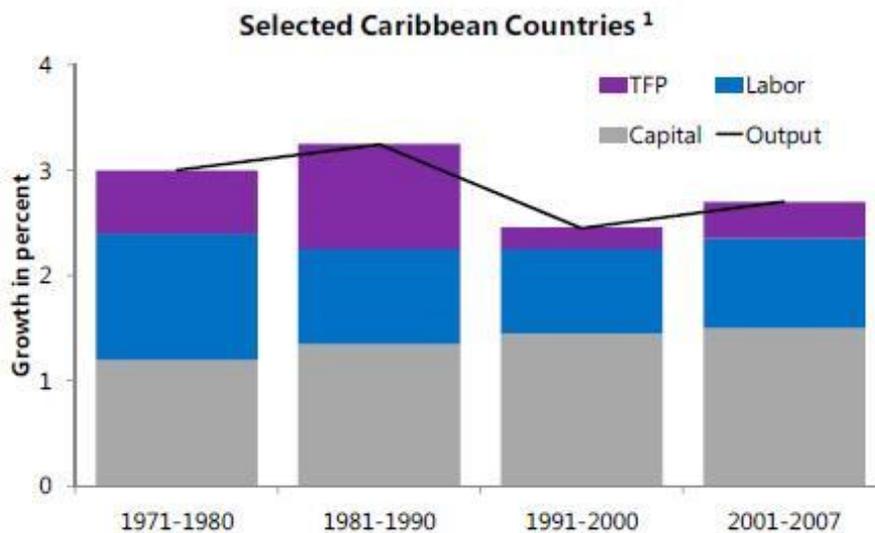
*External sustainability remains an ongoing concern.*



Sources: World Economic Outlook (Fall 2012); World Development Indicators; Direction of Trade Statistics; Caribbean Tourism Organization; and IMF staff calculations.

# Caribbean: Low Productivity and High Costs

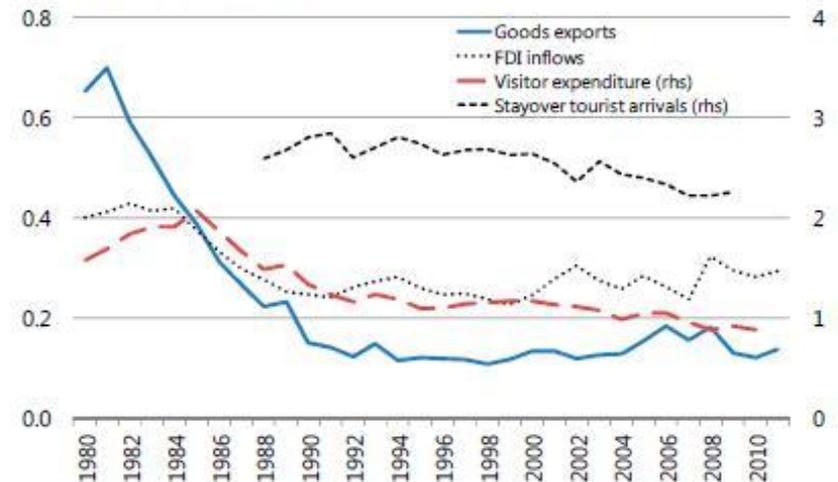
*There is general consensus that low and declining productivity has been a major drag on growth in the Caribbean.<sup>1/</sup>*



Sources: Heston, Summers and Aten (2009); and IMF staff calculations.  
 1/ Antigua and Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, St. Vincent & Grenadines, the Bahamas, Barbados, Belize, Guyana, Jamaica, and Suriname.

*Goods and services exports have been losing ground to competitors, with many manufacturing lines closing due to inability to cope with high input costs.*

**Caribbean: Market Shares**  
 (Percent share to world total)

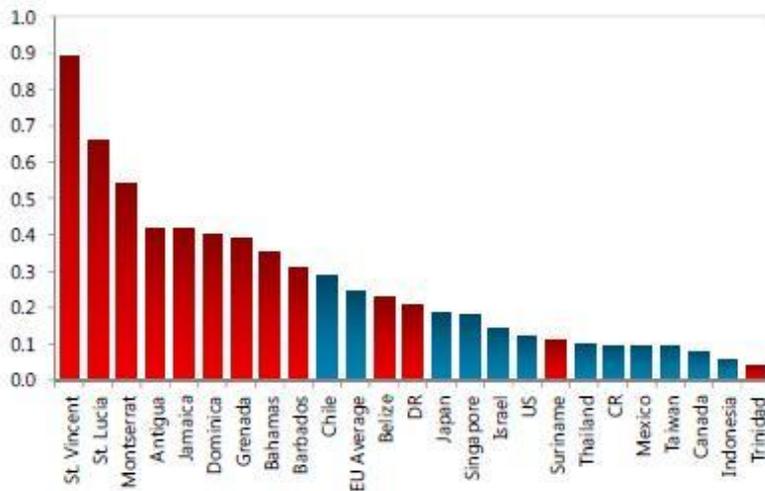


Sources: IMF (IFS and BOP Statistics) and UNCTAD online databases, accessed on 3/8/2012

# Caribbean: Low Productivity and High Costs

*Electricity costs are particularly high, in many cases reflecting economies of scale constraints, ...*

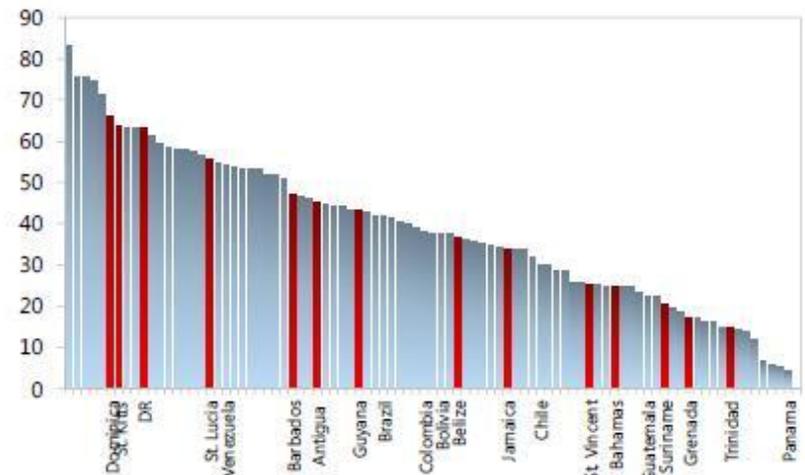
Household Electricity Tariffs, per kwh (US dollars), June 2011



Sources: Utility Companies, International Energy Agency, U.S. Energy Information Administration, Europe's Energy Portal.

*... and many firms identify this as a major constraint to doing business.*

Percent of Firms Identifying Electricity as A Major Constraint (2010)



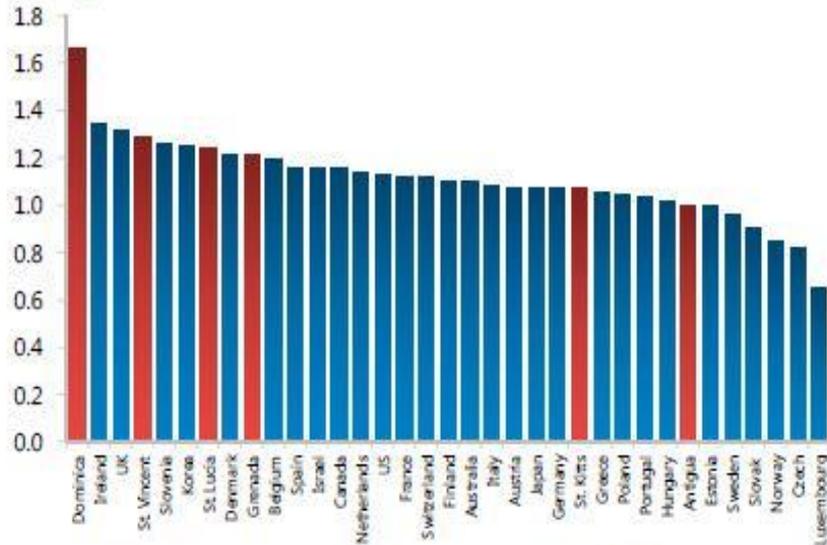
Source: World Bank, Enterprise Survey.

*Other high costs include wages, in part reflecting strong bargaining power of trade unions ...*

*... high tariffs, ...*

# Caribbean: Low Productivity and High Costs

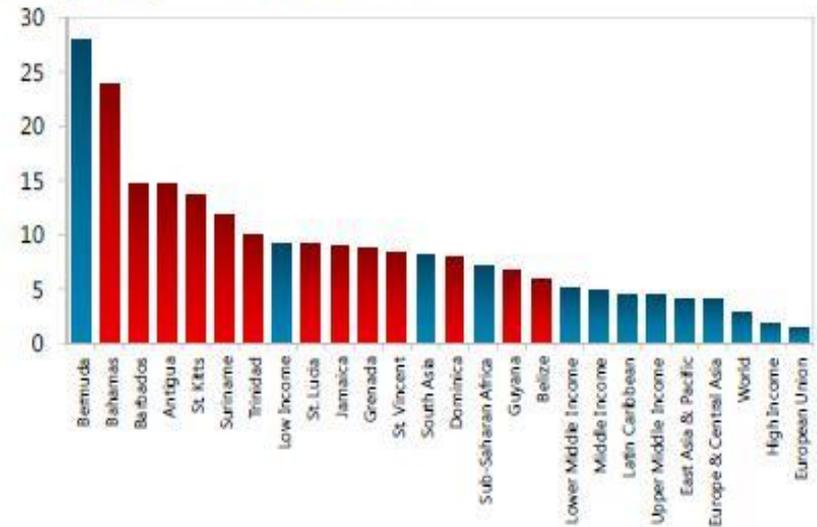
**Wages as Share of Per Capita Income**  
(2010)



Sources: National pension companies for ECCU countries and OECD.Stat for the rest.

**Effective Tariff Rates**

(Average of all products, latest available)



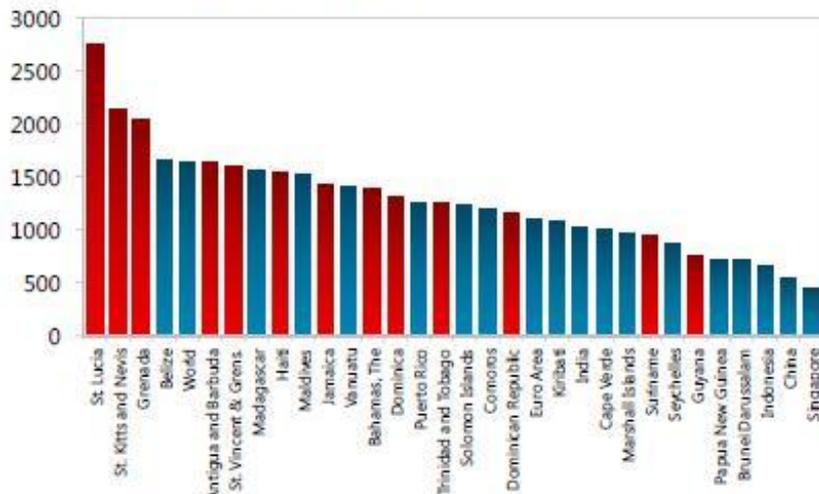
Source: World Bank World Development Indicators Database.

# Caribbean: Low Productivity and High Costs

... and high import costs.

## Cost to Import

(2010, US\$ per 20 Foot Container)

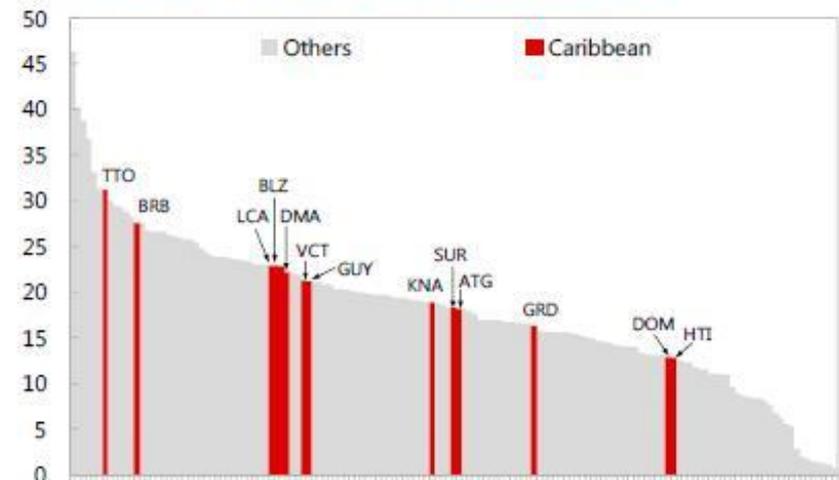


Source: World Bank, Doing Business Indicators

*Effective business tax rates are also high in many economies, with a significant share of firms identifying the tax burden as a bottleneck to doing business.*

## General Government Tax Revenues, 2011

(percent of GDP, fiscal years; world sample of 143 countries)



Sources: World Economic Outlook.

# Caribbean: Low Productivity and High Costs

*The business communities in most Caribbean countries blame access to finance as a major constraint to doing business, possibly a result of high real interest rates (which in many cases reflect mandated floors on deposit interest).*



Sources: World Development Indicators.

1/ Thacker, Nita; Acevedo, Sebastian; and Perrelli, Roberto, forthcoming, "Caribbean Growth in an International Perspective: The Role of Tourism and Size" IMF Working Paper.



Thank You.