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Possible Role Reversals as Caribbean Economies Face Slow Growth

by Gregory Scruggs

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The Caribbean economy grew only 1.3% in 2013, according to the UN Economic Commission for Latin America and the Caribbean (ECLAC). This rate is half that of Latin America, and the 2014 forecast shows a marginal improvement to 2.1%. As a result, many Caribbean governments are pursuing public sector cuts to stave off high debts and declining revenues, whether from sluggish tourism or lower global commodity prices.

In December 2013, Barbados announced the dismissal of 3,000 government workers in order to correct a high debt ratio. The layoffs began in March, along with salary cuts for remaining public sector employees. Also in late March, Jamaica passed its third International Monetary Fund (IMF) test in order to receive further disbursements from the multilateral organization.

The IMF divides the Caribbean into two categories: tourism dependent and commodity exporters. The former include Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The latter include Belize, Guyana, Suriname, and Trinidad and Tobago.

When separated out, the commodity exporters are performing better as they hold steady from 3.5% in 2013 to a projection of 3.7% in 2014, well above the Latin American growth rates during those years. Tourism-dependent economies narrowly escaped their close-to-zero figure in 2012 by growing 0.9% in 2013, with a projection of 1.6% growth in 2014. Tourist visits and vacation spending continue to perform below expectations, although the commodities markets, especially in Caribbean natural resource categories of mining and energy, have experienced price declines in recent years.

The outcomes of this economic situation have reversed many of the traditional assumptions about individual Caribbean economies. Barbados, known for its high per capita GDP and quality of life, is cutting jobs. Jamaica, a frequent target of IMF structural adjustment programs with mixed results, has met its three tests with little trouble. Finally, Haiti and Guyana, statistically the poorest countries in the region, are poised to have the highest growth rates in 2014.

Barbados cuts public sector jobs amid debt concerns

The impetus for Barbados Prime Minister Freundel Stuart’s decision to let go 3,000 government employees and institute a wage freeze for the remaining public sector workers was an annual budget gap of BDS$143 million (US$286 million), as well as a debt-to-GDP ratio of 94%, reached in September 2013. That ratio is higher than the 93% that prompted a European Union (EU) bailout of Cyprus earlier last year. Such a figure caused Standard & Poor’s to downgrade Barbados’ investment rating in November 2013 from BB+ to BB−, the same category as Jordan and Vietnam. However, Euromoney magazine’s annual guide, published April 4, disputes this characterization and argues that Barbados is underrated because of its economic competitiveness, reputation for fiscal transparency, highly skilled and educated work force, and plans for an international securities stock market.
Nevertheless, the Central Bank of Barbados recorded a loss of BDS$3.7 million (US$1.85 million) in 2013 according to its annual report, published March 31. Most of these losses are attributable to poor performance by the bank’s securities, as well as expenditures on efforts to jump-start the economy. The report says, "The Bank continued to encourage the revitalisation of economic activity through growth in the tourism, agro-processing, international business and financial services, and alternative energy industries."

Damien King, director of the Caribbean Policy Research Institute (CaPRI) and head of the department of economics at the University of the West Indies, Mona (Jamaica), explains, "Barbados has always had better economic governance than its neighbors. So its quick correction of the suddenly ballooning fiscal deficit was more a return to its norm than a significant change of direction toward a newly discovered prudence."

To that extent, the island’s economic leaders continue to push for financial services. Jeremy Stephen, president of the Barbados Economic Society, tells Euromoney, "Our ambition is to become like Singapore, where you can set up a business in minutes."

The job cuts, however, have rankled trade unions, which endured smaller cuts in 1991 and 2008. They have complained that the list of agencies and positions under threat was withheld from the National Union of Public Workers (NUPW) despite promises to consult on the list and that longtime employees who have held their jobs for 15 years were among the dismissed.

While neighboring Antigua and Barbuda is suffering similar economic woes, Prime Minister Baldwin Spencer declared publicly on Jan. 8 that he will not lay off public sector workers. "What is happening in Barbados and in certain other countries, we could have adapted the same position here because the same issues do exit, but we have taken a different position," he said.

**Jamaica passes third IMF test; Grenada to follow**

On May 1, 2013, the IMF Executive Board allocated US$932.2 million to Jamaica in a four-year Extended Fund Facility (EFF). At the time, Jamaica’s public debt stock was an unsustainable 134% of GDP and the IMF set a target of reducing it to below 100% by 2020. Achieving this goal has necessitated fiscal discipline by the Jamaican government, including lower public sector spending, higher revenues from a new tax package, a domestic debt swap to reduce financing needs, and inflation targeting by the Bank of Jamaica. Policy changes are also warranted to change the country’s poor business investment climate.

Following an initial disbursement of US$207.2 million upon signing, the IMF has closely monitored the progress of Prime Minister Portia Simpson-Miller’s People’s National Party (PNP) government. On March 19, the IMF completed its third test of the country’s budget and overall economic program, approvingly dispersing an additional US$71.4 million.

Such success in the first year of the EFF has been a surprise, given Jamaica’s checkered past with the IMF. From 1973-1996, Jamaica’s finances were governed by an array of borrowing arrangements with the IMF. In 1977, Prime Minister Michael Manley publicly declared, "We are not for sale," at a campaign rally as a rebuff to the IMF. From that year onward, Jamaica failed performance tests that led to the cancelation of seven of 12 IMF agreements. However, in recent years, the IMF has been welcomed more readily. In 2001, the country agreed to participate in the Intensified Surveillance Program, whereby IMF staff closely monitors the country’s economy. Nine years later, in 2010,
Jamaica entered its first borrowing arrangement since the 1990s, which failed in year one of three. The current EFF is slated to run until 2017.

King argues, "Jamaica had a difficult time adhering to fiscal prudence in general, whether in or out of an IMF program, because the political economy impels the politics toward populist policies which are inimical to growth. This is why IMF programs have always failed. This program has benefitted from the determination of a single minister in a so-far-willing-to-go-along-but-only-just cabinet. The current opposition continues to nakedly exploit the government’s adherence to fiscal prudence. All this does not auger well for its continued sustainability."

In addition to Jamaica, regional neighbors St. Kitts and Nevis, Grenada, Belize, and Antigua and Barbuda have entered IMF programs following debt restructuring since 2010. Grenada signed a US$21.9 million, three-year Extended Credit Facility with the IMF in March to spur sputtering economic growth and manage fiscal instability.

Haiti and Guyana poised to lead Caribbean economic growth in 2014 despite "recession-type" fears

While Haiti is often cited as the poorest country in the Western Hemisphere and Guyana was the hemisphere’s second poorest as late as 1992, these two Caribbean economies have the highest forecasted growth rates in 2014, according to the UN’s annual World Economic Situation and Prospects (WESP) report. Both are anticipated to grow by 4.5% this year, more than double the projected growth rate of Trinidad and Tobago, one of the region’s richest countries.

Haiti’s forecast is based on heavy spending for reconstruction from the 2010 earthquake that devastated the country, as well as growing agricultural and textile exports. Guyana and neighboring Suriname are expected to grow on the basis of commodities, especially gold, bauxite, sugar, rice, shrimp, and timber. In Guyana, gold surpassed traditional export sugar as the country’s top export in 2013, but gold prices have dropped significantly in the last two years, raising economic worries. Indeed, Moody’s downgraded Suriname’s bond rating in February because of lower anticipated commodity prices.

However, public debt remains a concern for Caribbean countries across the board, currently an unhealthy 70% of GDP. On April 27, former Jamaica prime minister Bruce Golding warned of "recession-type conditions" for many years to come and further austerity measures. "The impact of the global recession plus the slow reluctant uncertain recovery that is taking place is one thing, but the recession has brought Caribbean governments, in particular, face to face with the necessity, indeed the inevitability, of harsh structural adjustments, so the recession that hit us in the latter part of 2007 and 2008 is like the earthquake and what we are experiencing now are the aftershocks," he said at the Sales Congress of the Caribbean Association of Insurance and Financial Advisors.

Nevertheless, King warns that current events do not herald a deeper change. Assessing the situation in Jamaica and Barbados, he asserts, "We are likely not seeing a new trend in fiscal management in the Caribbean."