



Caribbean Corner

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Western Hemisphere Department

Caribbean Matters at the IMF. The International Monetary Fund maintains a strong partnership with the Caribbean region, with dedicated country teams in its Western Hemisphere Department, as well as staff in other departments.

With a total population of 40 million and a cumulative land area of just over 1 million sq. miles, the region counts multiple island nations in the Caribbean Sea and the surrounding coasts. Its people represent ethnic groups from four continents. Mostly tourism- and natural resources-based, the Caribbean economies were hard-hit by the unwinding global financial crisis, and most experience low growth, high public debt and vulnerability to natural disasters. These island states have very diverse income levels. In 2015, GDP per capita ranged from US\$24,309 in The Bahamas to US\$4,125 in Guyana.

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

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INTERVIEW

Interview with Timothy N.J. Antoine, Governor of the Eastern Caribbean Central Bank

By Alla Myrvoda, Gonzalo Salinas, and Dominique Simard

Timothy N.J. Antoine was appointed as the third Governor of the Eastern Caribbean Central Bank (ECCB) on February 1 2016. The Governor discusses priorities and policy agenda to increase resilience to shocks for its member countries.

Your appointment as Governor of the ECCB started on February 2016, after a distinguished career with the Government of Grenada, the ECCB Board of Directors, the World Bank, and serving on several Caribbean-wide boards and committees. What are your main priorities as Governor of the ECCB?

On my first day of assuming office, I articulated four strategic priorities: 1. Financial Stability; 2. Fiscal and Debt Sustainability; 3. Growth, Competiveness and Employment; and 4. Enhancing Organizational Effectiveness. Clearly, the first and the fourth priorities are directly within the remit of the ECCB. However, they are not enough to sustain the growth and development of the Eastern Caribbean Currency Union. Consequently, the ECCB is committed to working closely with our governments and development partners on the second and third priorities. At this stage, we are well advanced with the articulation of our strategic plan for the next five years.

Caribbean countries are faced with the intensifying challenge of securing correspondent bank relationships. Could you please comment on how important this challenge is for the ECCU jurisdictions? What are your key recommendations for the regional banks?

The issue of correspondent banking relations, so called Derisking, poses an existential threat for many of the national banks in our region. By implication this is a risk to financial stability. Consequently, we are taking this matter very seriously and have proffered a four-prong strategy:

1. **Advocacy:** Using political and diplomatic channels to (a) help the international community understand the unintended consequences of this



Governor Timothy Antoine

Photo Credit: Eastern Caribbean Central Bank

issue for our region; (b) open a balanced dialogue on how we continue to address AML/CFT risks; and (c) insist that all parties respect the international stand setting bodies such as the Financial Action Task Force and its affiliate CFATF and the Global Forum to which most Caribbean countries subscribe and are in compliance.

2. **Bank registration on the SWIFT KYC Portal:**

This will help the tractability of wire transfers and is intended to provide further comfort to correspondent banks. To date, 11 of the 12 national banks in the ECCU have registered.

3. **Consolidation/amalgamation of national banks:**

To provide them with more financial and technical muscle to address rising compliance demands and costs, among other issues.

4. **Explore the feasibility of establishing a non-deposit bank in the USA:**

Such an entity would have a strong and nuanced understanding of Caribbean risks and a commitment to our region.



Kingstown, St. Vincent

Photo Credit: IMF

Tight monetary conditions, combined with the reported lack of “bankable” projects, continue to inhibit the growth of private sector credit in the ECCU. What needs to be done to address the provision of finance for the development of the productive sectors?

We believe that a comprehensive approach is required to address the gaps in financing for the productive sectors and for SMEs. Consequently, we are proposing a framework that covers both the supply and demand side factors impacting financing to the private sector.

On the supply side, we propose an increased range of instruments such as partial credit and export credit guarantee schemes; junior stock exchange/SME exchange; venture capital and equity platforms; and asset-based finance such as factoring and leasing.

On the demand side, we propose SME capacity building services by financial institutions as part of their business models in lending to SMEs; business incubation programs to support start-up companies; and strengthening the functioning of the OECS Business Council. The proposed framework ought to be situated within the OECS single economic and

financial space. Consequently, the ECCB will work very closely with the OECS Commission on the proposed interventions.

The ECCB has recently and effectively intervened three regional banks without causing any significant disruption to the system. What are the main lessons that you derive from these experiences and what are now your main priorities to further strengthen the banking system?

Some of the main lessons include:

- Necessity for a modern legislative and regulatory framework with provisions to take prompt corrective action in banks and resolution tools to address distressed or failing banks. We now have such legislation in all member territories. Indeed, the new Banking law was used to effect the bank resolutions in Antigua and Barbuda and Anguilla.
- Imperative of consolidation of national banks in pursuit of a strong and resilient financial system.
- Need for full line of sight of all players in the financial system not just banks. In this regard, the work to establish a regional regulator for non-banks or other financial institutions such as insurers and credit unions is critical. The current timetable for the establishment of the Eastern Caribbean Financial Services Commission is 2018.
- Need for modern deposit insurance. Work is being intensified on this front.

Furthermore, we have enhanced the Bank’s supervisory capacity and increased the frequency of onsite examinations and significantly improved the timeliness of these reports to the banks. I wish to record the ECCB’s appreciation to all our partners on the bank resolution strategy including the IMF, World Bank, Caribbean Development Bank, and the Governments of Antigua and Barbuda, Anguilla and the United Kingdom.

Without a flexible exchange rate as an adjustment mechanism and in light of major external shocks in recent years, what specific policies should the ECCU area pursue to increase its resilience to external shocks?

Given our longstanding monetary policy decision to maintain a strong EC dollar with an appropriately high backing in foreign reserves, supportive fiscal policy is imperative. In short, fiscal discipline is critical. In this regard, we are strongly

advocating the adoption of fiscal rules facilitated by fiscal responsibility legislation. To date, two of eight members (25%) have already adopted such legislation. They are Anguilla and Grenada. We are strongly encouraging all members to adopt similar legislation. The target is for member territories to attain debt/GDP ratios of no more than 60 percent by 2030. We continually make the point that rather than be seen as constraints, fiscal rules ought to be recognized as helping governments with flexibility such that in times of downturn, they spend more and in times of economic expansion, they spend a bit less. Had we had such buffers/flexibility in the ECCU, the Great Recession would have been less severe and less protracted. We are also encouraging that some flows from economic citizenship programs be used to pay down debt and create resilience funds. In addition, we aim to leverage climate funds to increase our resilience to climatic shocks. Finally, we must press on with key structural reforms to raise growth and competitiveness such as ease of doing business, delivery of single space, curriculum relevance, more flexible labor markets and lower electricity costs.

We understand that reading is one of your favorite leisure activities. Which book did you really enjoy recently and why?

As a leader, I am committed to continuously raising my leadership capacity.

I recently read *The Power of Full Engagement* by Jim Loehr and Tony Schwartz. It was a fascinating read. The book's big idea is that managing energy, not time, is the key to high performance, individually and organizationally. This idea is insightful at every level and for every region and has tremendous relevance for the Caribbean. In the context of our region's high unemployment compounded with an estimate that only 30 percent of persons employed are actually engaged (the other 70 percent being disengaged or severely disengaged), the costs of a disengaged workforce in the Caribbean are staggeringly high. Frankly, it is double jeopardy. Accordingly, the onus is on leaders in our region (at all levels) to pursue the full engagement of the people we employ and with whom we work. As leaders, the starting point is the management of our own energy.



St. George, Grenada
Photo Credit: IMF

INTERVIEW

Interview with Min Zhu, Former Deputy Managing Director of the International Monetary Fund

By Marie Kim, Gonzalo Salinas, and Dominique Simard

Min Zhu, Deputy Managing Director of the IMF since July 2011, granted Caribbean Corner an interview on his final day, July 26, 2016.

Mr. Zhu, under your leadership, there were annual high-level conferences on policies to foster growth in the Caribbean and you are known as a champion of small states. Where do you see the remaining key challenges for the Caribbean and the most promising areas for its development?

Caribbean countries face several key challenges. First is to maintain resilience to shocks amidst persistently low global growth and increased political uncertainty. The world is waiting to see the outcome of Brexit negotiations; forthcoming elections in the US, France, and Germany; and the referendum in Hungary. This uncertain political sphere weighs on the investment climate, causes market volatility and pressures exchange rates.

The second challenge is to address the impact of low growth and high levels of public debt on public debt sustainability. Growth needs to be supported by appropriate monetary and fiscal policies. Other important challenges are the high cost of energy and frequent natural disasters. The latter entail sizeable macroeconomic and fiscal costs which need to be incorporated into Caribbean countries' baseline projections and to well-articulated fiscal frameworks. In that regard, countries need to continue improving their public finances and debt management and, when indicated, aim for more flexible exchange rates.

Building on the experience of the IMF's engagement in the Caribbean during the last five years, how do you see the best way for the IMF to support the region going forward?

The IMF needs to continue helping Caribbean countries through technical assistance for the design of macroeconomic policies, and policies to foster growth. We have been engaging with Caribbean member countries through the high level Caribbean

Forum, the Caribbean breakfast during the Annual meetings of the IMF and the World Bank, Article IV consultations, and technical assistance missions. While these vehicles of communication and engagement with Caribbean member countries remain very important, the IMF needs to help Caribbean countries strengthen their regional ties to better leverage the possibilities offered by the UN's Sustainable Development Goals (SDG) and the Climate Action initiatives. Formulating a collective action plan for the Caribbean, including for tackling climate change and its devastating effects on the region, can help in that regard.



Former Deputy Managing Director of the IMF Min Zhu

Photo Credit: IMF

The success of recent IMF programs in the region would have been unthinkable ten years ago, but the program with Grenada has been very productive and led to a successful debt restructuring. The program in Jamaica is also successful, targeting an impressive primary surplus which remained at 7 ½ percent of GDP until it was slightly lowered recently. After these successes, it is time for us to take stock of our programs in the region and conduct further outreach with Caribbean countries.

How do you see the Caribbean economy changing with an eventual full incorporation of Cuba to the global economy and what can Caribbean countries do to maximize the benefits?

The reopening of the US-Cuba relationship and full incorporation of Cuba to the international community are extremely positive developments for the region. Cuba is a big country with beautiful beaches, which will surely attract more tourists to the region rather than intensify competition for a fixed number of visitors. Many other Caribbean countries in the region can share their tourism expertise with Cuba through joint ventures and there will be business opportunities benefiting all countries. There is strong potential for cooperation between Cuba and other Caribbean countries, considering their different income levels. Caribbean countries should be the first to move and bring the expertise and technical assistance to Cuba to form regional clusters and supply chains. Cuba can cooperate by providing education assistance to other countries in the region. It is important that the Caribbean Working Group bring Cuba into the dialogue, depending on the timetable for engagement with the Cuban authorities. Maybe the next Caribbean Conference can be in Havana so participants will enjoy its sugar and rum, and maybe cigars. Businessmen should be invited to this conference to explore and discuss investment opportunities.

You have worked at the IMF for 6 years now. How would you describe the nature of the work and your professional experience at the IMF? What would you consider to be the most rewarding experience of your Fund career?

I oversaw ninety countries—including most Caribbean countries—fragile states, low income countries, small states, and the agenda for jobs and growth. I also managed the IMF's external cooperation with other international institutions. My professional experience at the IMF has been very rewarding and wonderful. I am glad to have contributed to bring the themes of jobs and growth to the IMF framework and to have fostered interconnectivity. I am also proud to have led the initiative on small states. I remember well the first Caribbean breakfast with the IMF's Managing Director in Tokyo. Our Caribbean authorities told us that the IMF policy framework was too rigid and did not pay sufficient attention to the specificities of each country. We listened and changed. In doing so, we have gained further traction on our policy advice and improved relationships as our work became more member-

focused. I have made many friends in the Caribbean and am proud to have received well-wishing calls from them as I leave the IMF. Caribbean people are very warm.

If you were to visit the Caribbean islands for a vacation, what would be your ideal day there?

The Caribbean islands have beautiful beaches and mountains—some of them pretty high. If I return to the region, I want to talk more with its people and learn the local culture. Caribbean food is always good, with very fresh fish and local vegetables. The local music which accompanies dinner further enhances the appetite. I very much look forward to returning to the Caribbean as a tourist. That will be fun and will make IMF staff feel jealous!

What are your future plans, as you depart the IMF?

I am returning to Beijing as a retiree. I want to work on philanthropic causes. One of my objectives is to provide more opportunities to less fortunate children in China. It is very important that poor children have a future as well, so that they are able to compete against any difficulties and move up the chain. Unfortunately, social mobility is low. When we talk about income inequality, we talk about minimum wages, taxes, equal opportunity issues, but social mobility is very important. My mission will be to ensure that poor children have hope and a future.

What final words would you like to convey to Caribbean Corner readers?

To all my Caribbean friends, I will miss you and wish you farewell. Thank you for all your support. Come and visit me in Beijing, and I will prepare some hot and spicy food for you!

Facing an uncertain global environment

By Gonzalo Salinas and Marcio Ronci ¹

Growth in the Caribbean economies continues to show substantial variation across countries this year. On the one hand, growing tourist arrivals and cheap oil are sustaining growth in tourist destinations, while commodity exporters are feeling the brunt of the slump in commodity prices.

Average output growth in tourist destinations should inch up from 0.8 percent in 2015 to 1.4 percent in 2016, still sustained by growing tourist arrivals and cheaper fuel imports (World Economic Outlook, October 2016).² Among these countries, it is worth noting that growth will recover in Dominica following the contraction brought by tropical storm Erika in 2015. On the other hand, output in commodity exporters is projected to contract—largely owing to Suriname and Trinidad & Tobago—caused by the effect of lower oil prices and weaker domestic demand.

Buoyant tourism and cheaper oil imports will lead to a narrowing of the current account deficit in tourism-dependent countries from -7.8 percent of GDP in 2015 to -6.8 percent in 2016.^{3,4} For commodity exporters, current account balances are expected to remain virtually unchanged, as the continued deterioration in oil-exporting Trinidad and Tobago is offset by improvements in Guyana and Suriname related to a recovery in gold prices.

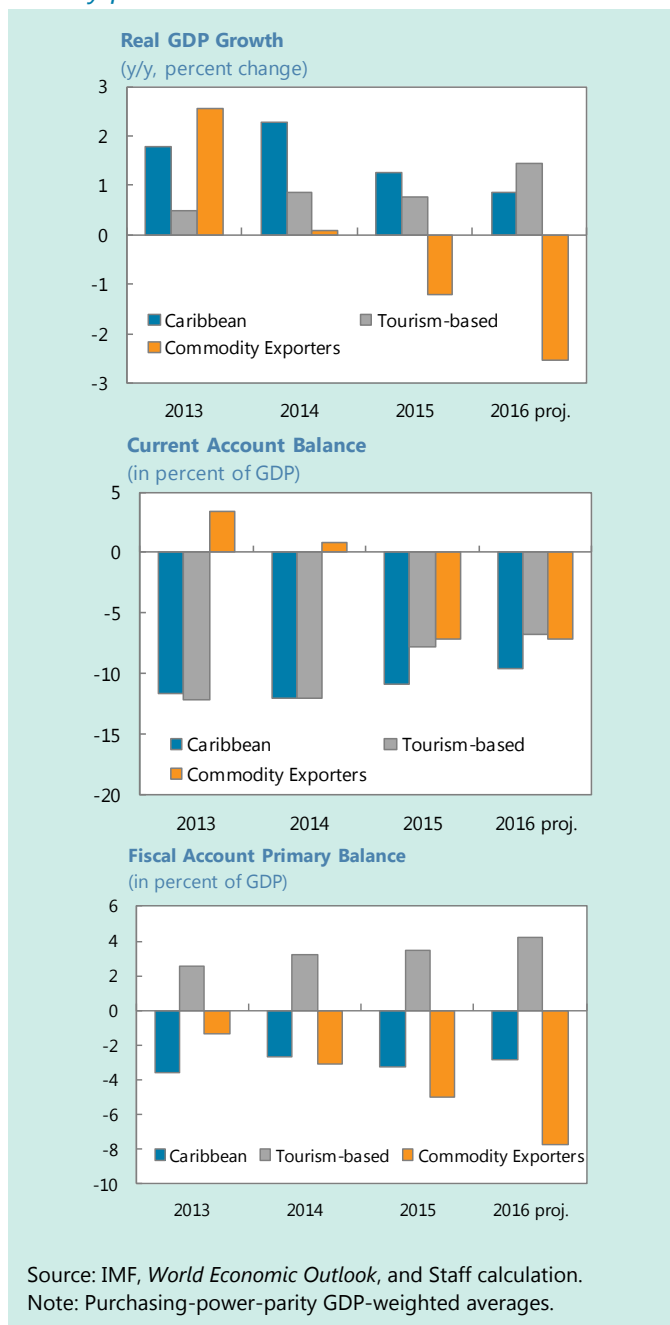
Most Caribbean countries are expected to continue fiscal consolidation in 2016. The average primary fiscal surplus is projected to increase from 3.4 percent of GDP in 2015 to 4.2 percent in 2016 among the tourism dependent economies (excluding Jamaica the averages are -0.6 and 1.2 percent in 2015 and 2016, respectively). Yet, many of these countries will need further fiscal consolidation to bring high debt down to sustainable levels. Meanwhile, the average primary balance is projected to worsen from -5.0 percent of GDP in 2015 to -7.7 percent in 2016 among commodity exporters, which will need to consolidate in the new global environment.

¹ Including excerpts from the October 2016 Regional Economic Outlook Update.

² All average figures are purchasing-power-parity GDP-weighted. Commodity-based exporting countries are Belize, Guyana, Suriname, and Trinidad and Tobago. Tourism-based countries are The Bahamas, Barbados, Jamaica, and the countries of the Eastern Caribbean Currency Union, ECCU.

³ The latest World Economic Outlook (October, 2016) projects the average oil price at US\$ 42.3 per barrel in 2016, below the US\$ 50.8 registered in 2015.

⁴ ECCU countries are revising external sector statistics using an improved methodology and wider coverage of surveys.



Financial sector risks remain high in a number of countries that continue to struggle with high levels of non-performing loans. In these countries, bank credit growth has been weak, placing a drag on economic activity. Some countries have also had to deal with the withdrawal of correspondent bank relationships, which can add further stress to the affected institutions and the businesses that rely on them.

The Caribbean's ties with the United Kingdom make it vulnerable to Brexit related risks. However, the direct adverse spillovers are likely to remain modest, unless there are significant second-round effects in the global economy. Important region-specific risks include developments in Venezuela, given the region's reliance on Petro-Caribe, and the opening of the Cuban economy, which can increase competition in the tourism market. The Zika epidemic has spread throughout the Caribbean, and it may adversely affect tourism and further burden already strained public health systems.



Staatsolie Refinery, Suriname

Photo Credit: Staatsolie

2016 High Level Caribbean Forum, Trinidad and Tobago



This year's High Level Caribbean Forum will be held in Port of Spain on November 2, 2016. The IMF will be co-hosting the Forum with the Trinidad and Tobago authorities. The Forum will feature panel discussions on key topics affecting the region such as global and regional macro-challenges (including growth, competitiveness and oil prices), the impact of Cuba opening on the Caribbean, and policies to address the loss of correspondent banking relations. Participants include the IMF's new Deputy Managing Director Tao Zhang along with prime ministers and finance ministers, governors, other senior officials from the region, as well as representatives from international financial institutions, academia and the private sector. The keynote speech on prospects for the Caribbean will be given by the Trinidad and Tobago's own Gervase Warner, President and Group CEO of the Massy Group, one of the leading business groups in the region. For more information, visit

<http://www.imf.org/external/np/seminars/eng/2016/caribbean/index.htm>

COUNTRY BRIEF



Jamaica: Strong Recovery but Bold Reforms Still Needed

By Joyce Wong

Jamaica's reforms are beginning to bear fruit, but growth remains too low. While fiscal discipline is crucial to restore economic stability, the focus must also be on growth-enhancing structural reforms.

After decades of low growth and rising public debt, Jamaica has made significant progress in restoring economic stability thanks to strong policies and ownership. The government's reform program—supported by a four-year IMF loan approved in 2013—has been pivotal for the Jamaican economy and a model of ownership and collaboration. The government launched the program to break the cycle of high debt and low growth that has afflicted Jamaica for decades. Although Jamaica's economic recovery continues, its growth remains weak. In its latest assessment, the IMF projects growth at 1.7 percent in fiscal year 2016/2017. The government will therefore need to implement bold structural reforms to unleash Jamaica's potential.

An unhappy cycle of debt and low growth.

Years of high fiscal deficits, public enterprise borrowing, and financial sector bailouts led to rapid debt accumulation, crowded-out private credit, and stifled growth. Low growth, in turn, further weakened the fiscal situation and raised social pressures as standards of living stagnated.

Jamaica's historical vulnerability to natural disasters materialized when, in October 2012, Hurricane Sandy brought the economy to a screeching halt. The current account deficit soared, reserves plummeted, and public debt reached 147 percent of GDP—among the highest in the world. The government adopted an economic reform program to boost growth and employment, improve external competitiveness, achieve fiscal and debt sustainability, strengthen the financial system, and protect the poor by setting a minimum spending on social programs.

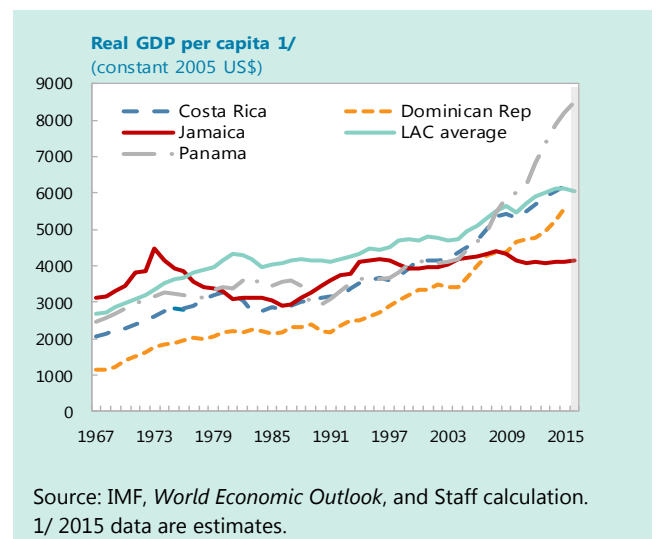


Aerial view of Kingston

Photo credit: IMF

Proving the skeptics wrong

Skeptics regarded the IMF-supported program's bold targets—including a primary balance of 7.5 percent of GDP subsequently relaxed in December 2015 to 7 percent of GDP for fiscal year 2016/17—as unattainable. Jamaica's patchy track record of reform did not help.



Yet, implementation has been extraordinary—over 95 percent of program conditions were met. The creation of the Economic Program Oversight Committee (EPOC)—a civil society group comprising representatives from the private and public sectors, and civil society—has ensured strong program ownership. This innovative tool for an IMF program was used to build recognition of the challenges, keep an open channel of communication with both the IMF and the government, and hold all accountable for achieving the program’s commitments.

Three years into the program, the macroeconomic landscape has improved dramatically. Inflation is at a historical low and business confidence is at an all-time high. The current account has drastically improved and Jamaica has regained access to both domestic and international financial markets. Public debt dropped by over 18 percentage points of GDP, helped by a strong fiscal consolidation and the Petro-Caribe debt buyback. Furthermore, Jamaica’s credit ratings have moved up while its bond spreads have fallen to the emerging market average.

In February 2016, a new government took office. With broad public support for the IMF program already ensured, continued commitment to the economic reforms was never in question. The new government closely collaborated with the IMF and other international partners to advance the reforms, including on a bold and necessary package that shifts the tax burden from direct to indirect taxation.

The road to more jobs and better living standards

Jamaica is not out of the woods yet. Despite impressive progress with reforms, growth remains unacceptably low and unemployment excessively high.

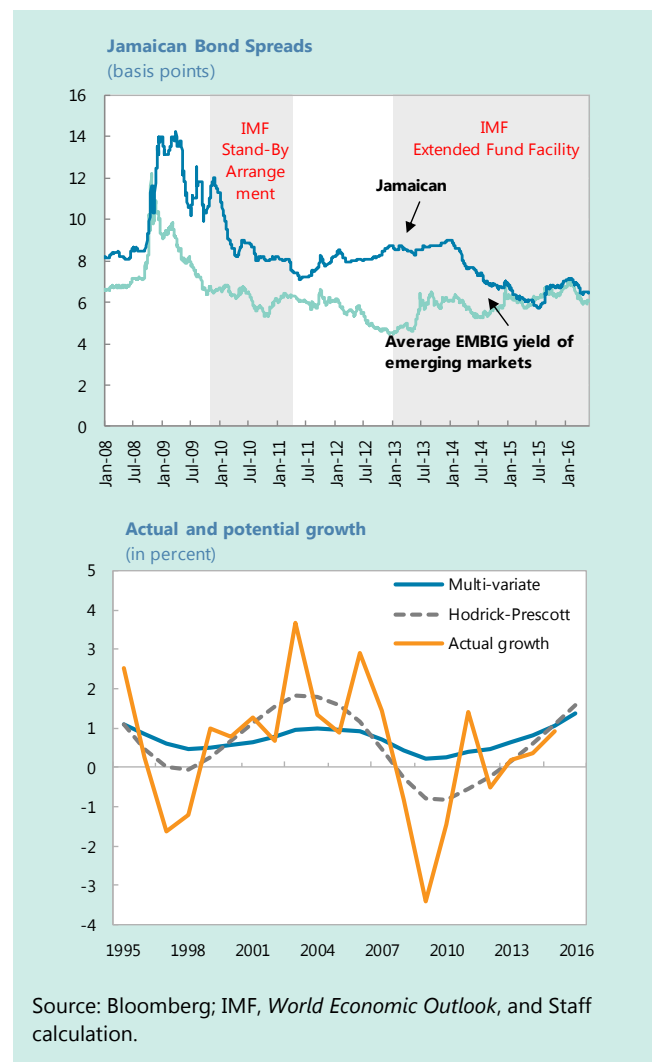
Obstacles to Jamaica’s growth and job creation are numerous and severe. Key ones are: crime, the cost and availability of credit, tax compliance costs, unreliable and expensive electricity, and a large informal economy. The private sector was stifled by the large public sector, reflecting excessive emphasis placed on government as the engine of growth and employment.

The new government aims to tackle key roadblocks to development and help expand the private sector. It has identified five main reform priorities:

- Increasing access to finance by fostering bank competition and reforming financial sector taxation.

- Downsizing the public sector through efficiencies and reallocating public functions back to the private sector.
- Cutting red tape and unnecessary “gatekeeping” at all levels of government to aid the business climate and strengthen productivity and competitiveness.
- Implementing labor market reforms that strengthen the link between pay and performance and increase market dynamism.
- Reducing crime and tackling both its economic and broader social ramification.

These measures will take time to bear fruit, but they can only occur in an environment of fiscal discipline and economic stability. Despite the difficult road ahead, Jamaica can rise to the challenge and seize the moment.



SELECTED IMF REPORTS AND PUBLICATIONS

IMF Publications and Recent Country Reports on the Caribbean Economies

1. Dominica

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/244

<http://www.imf.org/external/pubs/ft/scr/2016/cr16244.pdf>

2. Barbados

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/279

<http://www.imf.org/external/pubs/ft/scr/2016/cr16279.pdf>

3. St. Kitts and Nevis

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/250

<http://www.imf.org/external/pubs/ft/scr/2016/cr16250.pdf>

4. St. Vincent and the Grenadines

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/243

<http://www.imf.org/external/pubs/ft/scr/2016/cr16243.pdf>

5. Suriname

Request for Stand-By Arrangement, Staff Report; IMF Country Report No.--16/141

<http://www.imf.org/external/pubs/ft/scr/2016/cr16141.pdf>

6. Belize

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/92

<http://www.imf.org/external/pubs/ft/scr/2016/cr1692.pdf>

7. Kingdom of the Netherlands – Curacao and Sint Maarten

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/276

<http://www.imf.org/external/pubs/ft/scr/2016/cr16276.pdf>

8. Bahamas

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/224

<http://www.imf.org/external/pubs/ft/scr/2016/cr16224.pdf>

9. Guyana

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/216

<http://www.imf.org/external/pubs/ft/scr/2016/cr16216.pdf>

10. Trinidad and Tobago

2016 Article IV Consultation- Staff Report; IMF Country Report No.--16/204

<http://www.imf.org/external/pubs/ft/scr/2016/cr16204.pdf>

11. Jamaica

2016 Article IV Consultation, Eleventh and Twelfth Reviews under the Extended Fund Facility Program Staff Report; IMF Country Report No.--16/181

<http://www.imf.org/external/pubs/ft/scr/2016/cr16181.pdf>

ON THE RADAR

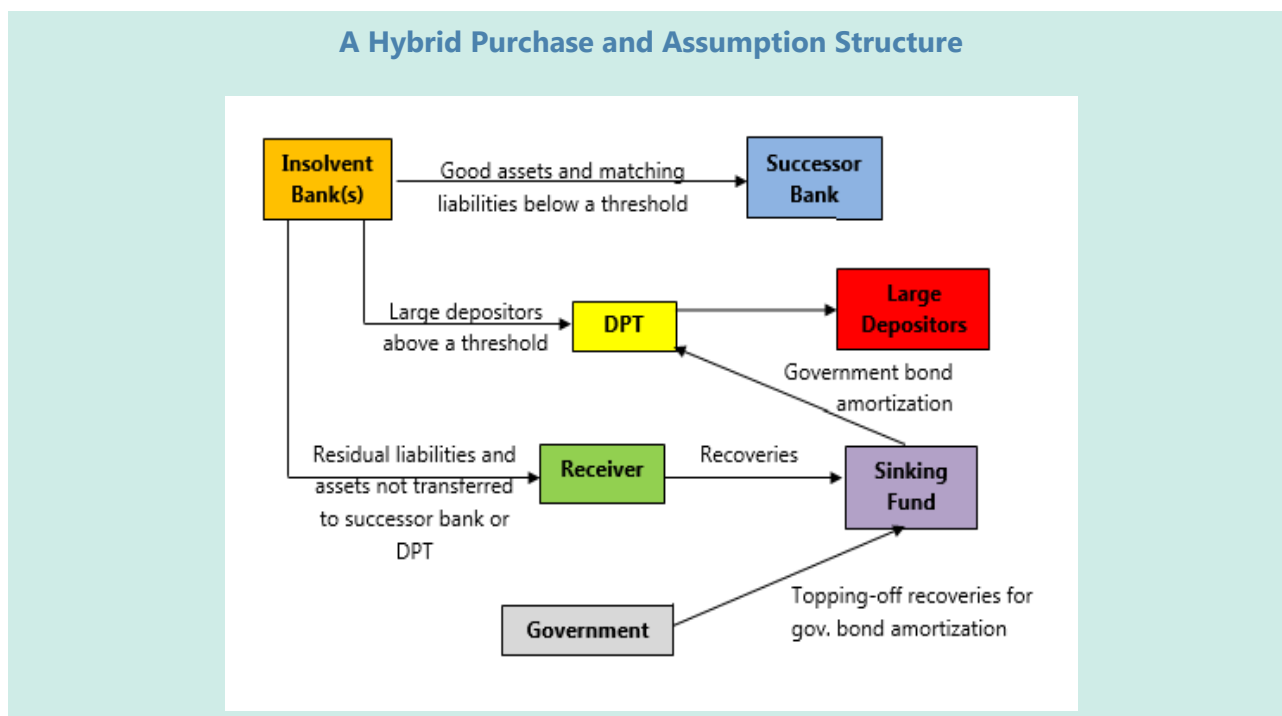
Bank Resolution and the Road to a Stronger Banking System

By Michael Moore, Marcos Souto, and Gonzalo Salinas

The Eastern Caribbean Central Bank (ECCB) successfully launched the resolution of three insolvent banks without causing any significant disruption to the banking system. Further steps are needed to finalize the resolution and continue strengthening ECCU banks.

After the Global Financial Crisis, ECCU banks saw their capital and earnings deteriorate substantially, while non-performing loans (NPLs) reached 18 percent of total loans. Three banks became insolvent and were taken over by the ECCB: Antigua Barbuda Investment Bank (ABIB) in Antigua in 2011, and Caribbean Commercial Bank (CCB) and National Bank of Anguilla (NBA)—both in Anguilla—in 2013. The ECCB, with technical assistance from international financial institutions, designed a hybrid purchase and assumption resolution strategy (see Figure) for these banks while committing to protect all domestic depositors and creating a regional institution to purchase and collect distressed assets (Eastern Caribbean Asset Management Company, ECAMC).¹

The resolution strategy for the three banks bore many similarities: the viable assets, along with matching liabilities (mostly deposits up to a threshold), were transferred to either a bridge bank or a successor bank. The remaining deposits above the threshold were protected in a trust (special purpose vehicle) funded by government bonds, while bad assets and remaining liabilities remained with the failed banks in receivership. Despite some delays in getting underway, the bank resolutions went well and were not followed by any deposit runs. The resolution of ABIB started with its closure on November 27, 2015, while the resolution of CCB and NBA started on April 22, 2016.



¹ The resolution strategy was based on a hybrid Purchase and Assumption structure.

The authorities now need to finalize the transition of the management of the three receiverships over to the ECAMC, as well as address the high NPLs that still trouble other ECCU indigenous banks. Legislation establishing the ECAMC is now in place in all ECCU countries. Once operational, the ECAMC is expected to take over the receiverships in Anguilla and Antigua and Barbuda. A successful recovery of assets of the intervened banks may induce other ECCU

banks to sell some of their NPLs to the ECAMC and thus improve banks' asset quality. Beyond cleaning the banks' balance sheets, a sound business strategy to ensure the viability of indigenous banks needs to be developed and implemented, which may include some mergers. Finally, leveraging all the technical assistance provided on strengthening supervision is critically important to further sharpen banks' oversight.

Financial Development and Inclusion in the Caribbean

By Joyce Wong

Financial systems are relatively deep in some Caribbean countries but not in others, and do not always reach all segments of the region's population. Further careful financial development could spur additional growth. Credit unions could potentially support more inclusion, building on their significant role in the region.

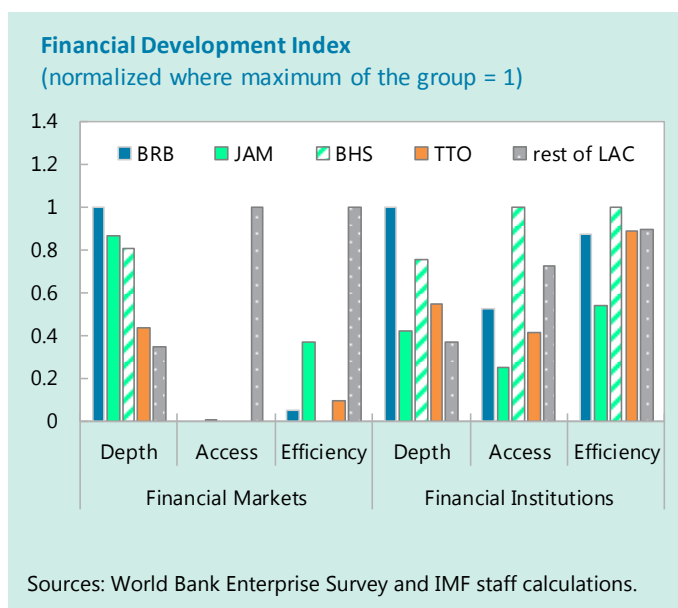
Caribbean countries have relatively well-developed financial systems: some have large offshore financial centers (OFC) and others have significant debt markets. However, the small country sizes have fostered bank concentration, which weakens competition and service delivery. In particular, access to financial services could be more inclusive by being extended to more segments of the population.

Deeper financial systems (improved market access, liquidity and diversity of instruments) promote diversification, growth, and financial stability (IMF). Well developed and inclusive financial systems can provide households with "shock-absorbers" (by favoring saving and borrowing) and stimulate business activity. Further financial development and inclusion in the Caribbean could foster sustained and inclusive growth while improving insurance against external shocks, such as natural disasters.

A relatively deep system....

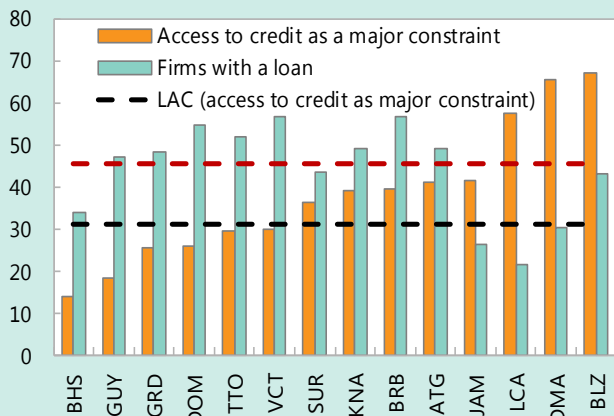
Larger Caribbean countries have relatively deep financial markets and institutions relative to the overall Latin American and Caribbean (LAC) region, based on the broad-based IMF index¹. Barbados, Jamaica and Bahamas feature in the top 5 deepest financial markets in LAC, ahead of much more financially developed countries like Chile, Brazil, or Peru. However, this is largely due to substantial debt issuance by the public

sector, and thus subject to cautious interpretation. Among LAC countries, Barbadian financial institutions show the most depth (with high deposits-to-GDP due to high domestic savings driven by controls on capital account transactions) while Bahamian institutions are the most accessible and efficient (with low interest rate spreads). Trinidad and Tobago is broadly on par with the rest of LAC while Jamaican institutions match LAC in depth but lags in access and efficiency (reflecting low levels of credit-to-GDP and high interest rate spreads driven by a history of fiscal dominance).



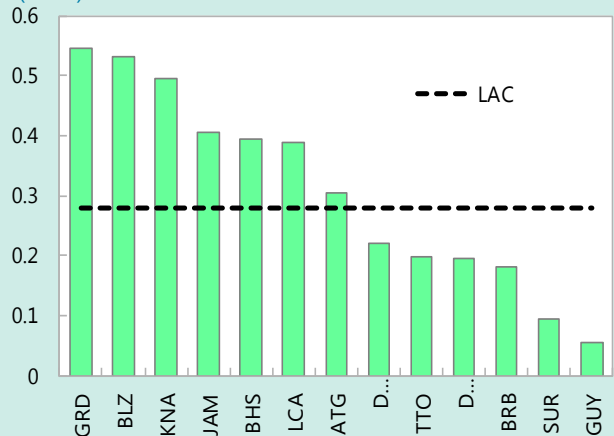
¹ Due to data constraints, only four Caribbean countries were included in the sample: Bahamas, Barbados, Jamaica, and Trinidad and Tobago.

Access to credit as major constraint and firms with a loan
(percent of firms responded "yes")



Sources: World Bank Enterprise Survey and IMF staff calculations.

Physical Access to Finance
(Index)



... but with weak inclusion

Access to financial services is difficult in many Caribbean countries, implying weak inclusion (IMF). ECCU countries fare relatively well, despite their small size, given the prominence of their credit unions, which serve the lower-income population not usually served by banks. However, commodity exporting countries, such as Trinidad and Tobago, Suriname and Guyana have much lower levels of physical access than the LAC average, possibly driven by the banks' focus on corporate clients in the commodity sector.

Caribbean firms have identified access to credit as a major constraint on conducting business. This partly reflects high collateral constraints for some countries, and the strong presence of smaller enterprises, which

cannot easily borrow from banks or credit unions. These constraints have pushed small enterprises to rely on informal finance and suppliers' credit². Caribbean firms generally report higher reliance on suppliers' credit and self-financing compared to the other countries in LAC.

The way forward

Accelerating the deepening of financial market and making them more inclusive requires comprehensive programs and clear mandates. As more people access financial services, stronger financial education and protection are needed to safeguard the benefits from financial inclusion. Finally, maintaining sound macroeconomic fundamentals is critical to maximize the benefits of financial development.



JOIN US for the 2016 Annual Meetings events from October 7–9 on <http://www.fundbankmeetings.org>, TUNE IN to our [seminars](#) and FOLLOW the conversation on Twitter with [#IMFMeetings](#).

² The top one-fifth of largest companies in the Caribbean countries employ only 66 percent of workers on average, compared to 76 percent in the LAC sample of [IME.2016b](#).

IMF ACTIVITIES

CARTAC–Strengthening Institutions by Enhancing Skills

By Elizabeth Cunningham

CARTAC is increasing and tailoring the training programs to meet the needs of participants and the region.

The Caribbean Regional Technical Assistance Center (CARTAC)'s training programs are growing in depth and breadth, in synergy with CARTAC's better known and extensive program of technical assistance (TA) to its membership. Building on its in-depth institutional knowledge, CARTAC is tailoring the content of its programs to the needs of participants and the region. Most of CARTAC's training complements its TA delivery and is aimed at practitioners. From May 2015 to April 2016, CARTAC delivered 52 seminars and workshops (both regional and country-specific), accounting for 254 training days and involving over 1,430 participants.

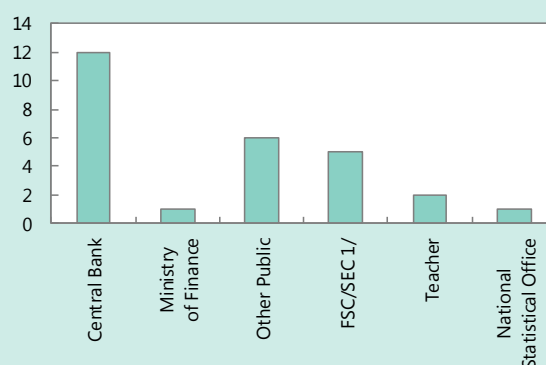
CARTAC has recently expanded its training program to work with the IMF's Fiscal Affairs Department (FAD) in implementing new fiscal tools such as the Public-Private Partnership Fiscal Risk Assessment Model (PFRAM) and the Tax Administration Diagnostic Assessment Tool (TADAT). Representatives from all 20 CARTAC members assessed their planned or ongoing public-private partnerships using the PFRAM tool ([Caribbean Corner issue 6](#)), with the lessons learned used in further developing the PFRAM. The TADAT seminar familiarized senior staff of CARTAC members' revenue administrations with their own reforms.

CARTAC's Macroeconomic Programming and Analysis Advisor works closely with Macro Policy Units (primarily in the ECCU) and Ministries of Finance, both through country-specific training and an annual regional 'boot camp' (providing hands on support for developing adjustment programs in the ECCU). A periodic review of capacity at the macro-policy units highlights gaps and areas for further focus. The Macroeconomic Advisor also oversees CARTAC's expanding internship program, with 28 interns placed with Central Banks, regulatory bodies, Ministries of Finance, and CARTAC over the past two years. Based on a 2016 survey of 65 past interns, 90 percent have remained in the region, with 74 percent of these as public sector employees.



Training of Interns Photo credit: CARTAC

CARTAC: Interns Post-Internship Employment
(Number of person)

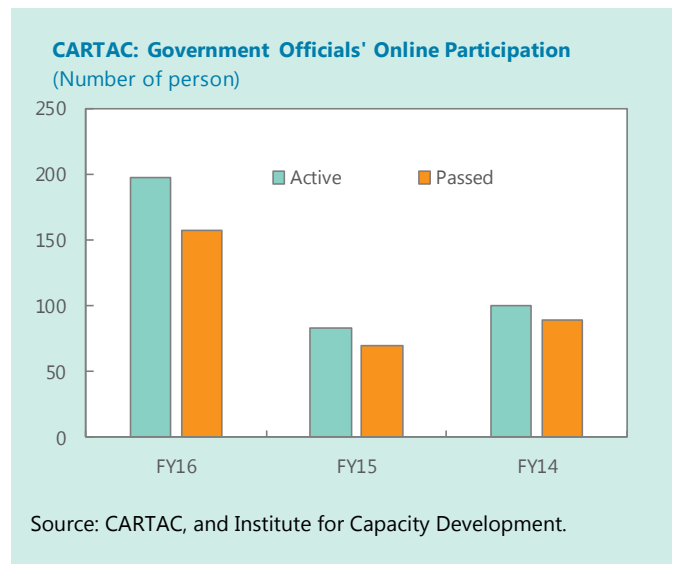


Source: CARTAC, and Institute for Capacity Development.
1/ Financial Services Commission and Securities and Exchange.

To further strengthen regional cooperation and peer-to-peer learning, CARTAC's attachment program—much-valued by its membership—supports placement of practitioners in administrations that have implemented similar reforms. CARTAC also partners with the IMF's Institute for Capacity Development (ICD) to deliver an annual training course. In 2016, the Surinamese authorities hosted the Financial Policies and Programs (FPP) course. In March 2017, ICD will deliver its week-long Inclusive Growth course, including Caribbean case studies developed by CARTAC.

Caribbean authorities have demonstrated a strong interest in acquiring further technical skills. From May 2014 to April 2016, interest in ICD's online learning (OL) almost doubled among government officials, with CARTAC members representing 5 percent of all government participants worldwide who passed ICD's OL Financial Policies and Programming (FPP) course

Next steps for CARTAC are to develop and disseminate updated training manuals in various areas, partnering with regional institutions such as the ECCB and the Caribbean Development Bank. Training will cover new themes and be further improved through new online survey tools facilitating post-training feedback and analysis.



Correspondent Banking Relationships: Policy Responses and Industry Solutions

By Francisca Fernando and Jacques Bouhga-Hagbe

A high level conference was held at the IMF on October 4, 2016 to consider possible responses to intensifying pressures on correspondent banking relationships and their potential harmful economic implications.

Correspondent banking relationships are essential to domestic and cross-border payments between countries, and facilitate a number of related transactions and services. For example, when a Bahamian company wants to send USD 100,000 to a Barbadian company to pay for imports, the respective banks of the Barbadian and Bahamian companies (the "respondent" banks) wire funds using intermediary banks connected to the U.S. payment system (the "correspondent" banks). The same happens when a worker in the Bahamas sends money to his family back in Haiti. This defines correspondent banking relationships (CBRs).

However, in recent years, several countries in the Caribbean and elsewhere have reported termination of their CBRs with major global banks, resulting in difficulties to conduct basic transactions such as those mentioned above. As of May 2016, at least 16 banks in the region across at least 5 countries had reported having lost all or some of their CBRs. Pressure on CBRs can affect access to financial services for customers including money remitters, casinos and offshore businesses. Where pressure is more critical, if unaddressed, this could have broader implications on a country's macroeconomic and financial stability.

The conference provided a forum for a global policy dialogue on public sector responses from affected countries and home countries of global correspondent banks. Representatives from correspondent and respondent banks also shared their concerns and presented possible industry initiatives. The conference is part of the ongoing IMF work on this issue, which includes a [staff discussion note](#) published in June 2016.

IMF Managing Director Christine Lagarde opened the conference, urging among other things participants to examine what further steps can be taken to better clarify regulatory expectations, how technology can help, and contingency measures that can be considered by public officials in case a country were to lose almost all its CBRs.

In his keynote speech, Mr. Svein Andresen, Secretary General of the Financial Stability Board (FSB) noted that the CBR challenge has been taken up by the G20, which now has an action plan based on four pillars, including strengthening data collection; clarifying regulatory expectations; intensifying capacity building efforts in the home countries of respondent banks; and promoting the use of tools to facilitate customer-due-diligence (CDD) such as Know Your Customer (KYC) utilities. The FSB will publish a progress report on this action plan in the coming months.

The conference also featured two panel discussions. The first, which included Eastern Caribbean Central Bank (ECCB) governor Timothy Antoine, focused on public sector policy responses and the second, which included Ian De Souza of Republic Bank (Barbados), on banking industry solutions. There was broad agreement that the global standards, which help safeguard financial systems, must be well understood and enforced. This required not only a better dialogue between regulators, law enforcement, and banks in the home countries of correspondent banks to clarify what is expected from banks, but also a close dialogue between correspondent banks and respondent banks to share these expectations with respondent banks and indicate areas where respondent banks could improve. It was also agreed that the economic implications of the loss of CBRs needed to figure more in the decision-making of the correspondent banks and their regulators.

Panelists in the second session noted that the cost of compliance has increased substantially, several folds for both correspondent banks and respondent banks, because of the investment required in building adequate compliance infrastructure. Technical assistance will be required for most respondent banks

and their regulators, but some panelists noted that the political will to revise legislation, especially to facilitate the sharing of information across countries or to better identify ultimate beneficiary owners of entities or bank accounts, remains a major obstacle. There was general agreement that the adoption of new technologies, including central registries of customer and transaction information, will be part of the solution to reduce the cost of compliance.

Some panelists warned that not addressing the CBR challenge will have the unintended consequences of moving legitimate transactions to illicit or less transparent channels, which would end up undermining anti-money laundering and combatting terrorism financing efforts.

In conclusion, Tao Zhang, Deputy Managing Director at the IMF, reiterated the need for coordinated efforts by the public and private sectors to mitigate the risk of financial exclusion and the potential negative impact on economic and financial stability arising from the withdrawal of CBRs. The IMF will follow up on ideas raised during the conference in the context of its dialogue with its member countries and its technical assistance.



Mr. Milton Weeks, Governor, Bank of Liberia; Mr. Abdulrahman Al Hamidy, Director General and Chairman, Arab Monetary Fund; Ms. Marisa Lago, Assistant Secretary for International Markets and Development, U.S. Department of the Treasury; Mr. Sean Hagan, IMF General Counsel and Director of the Legal Affairs Department, moderator; Mr. Juan Manuel Vega Serrano, President, Financial Action Task Force (FATF); Mr. Timothy Antoine, Governor, Eastern Caribbean Central Bank; Ms. Atalina Ainuu Enari, Governor, Central Bank of Samoa.

Photo credit: IMF

Caribbean Business Climate and Tourism

By Dominique Simard

Improving the business climate and unleashing tourism's full potential to achieve growth in the Caribbean were the subjects of two seminar panels jointly organized by the IMF and the World Bank during their Annual Meetings.

In **The Business Climate: Successful Strategies and Challenges**, panelists presented avenues for Caribbean countries, with small population and limited domestic markets, to enhance their business environment. Finance Minister Avdullah Hoti of Kosovo, whose country has made substantial gains in global Doing Business rankings over the last five years, described how his government had forged a close dialogue between the public and private sectors, and established transparent processes to prioritize and implement reforms. Kosovo lowered hurdles to business registration and leveled the playing field by reforming procurement. Economic Planning Minister Gonsalves, of St. Vincent and the Grenadines, noted that, notwithstanding the importance and usefulness

of the World Bank's Doing Business reports, there were a number of areas that these reports did not capture. He indicated that his country was focusing on addressing areas directly identified by investors, such as building infrastructure—including through PPPs—to improve connectivity and lower energy costs; overhauling regulations; and raising the skills base. Panelists from the World Bank and International Finance Corporation stressed the importance of clarifying, streamlining, and regionally harmonizing regulations. They also warned countries to ensure that their regulatory environment did not foster the formation of cartels that could hamper growth by pushing up input prices.



From left to right: The moderator Ms. Cecile Fruman, Director of Trade and Competitiveness Global Practice, World Bank; Mr. Avdullah Hoti, Minister of Finance of Kosovo; Mr. Camillo Gonsalves, Minister of Economic Planning, Sustainable Development, Industry, Information and Labour of St. Vincent and the Grenadines; Ms. Martha Licetti, Global Lead, Competition Policy, World Bank; Ms. Michelle Ottey, Senior Investment Officer, International Finance Corporation.

Photo credit: IMF

In **Tourism Competitiveness and the Potential for Future Growth**, panelists discussed strategies to address the declining tourist market share of CARICOM countries and enhance their competitiveness. Panelists focused on two topical areas: harnessing the opportunities offered by the growing sharing economy (such as Airbnb), and improving international and regional air connectivity. It was noted that the sharing economy provides a great opportunity for Caribbean individuals to become entrepreneurs and participate directly in the tourism sector, but may also negatively affect existing tourism operators. Panelists agreed that appropriate regulation and taxation of the sharing economy would be required to ensure that both tourism platforms can thrive and allow countries to

reap the full benefits. Improving air connectivity offers strong potential to enhance tourism inflows. Some panelists argued that the main impediment to achieving this objective, which would imply a liberalization of the air transport sector, was political will. Panelists also highlighted other strategies to boost competitiveness including collective marketing of the region as a whole; more consistent standards of service; improved access to finance for tourism operators—particularly to improve energy efficiency; and greater collaboration between the public and private sectors.



From left to right: The moderator Ms. Nicole Laframboise, deputy division chief of the ECCU division, IMF; Mr. Frank Comito, CEO and Director General, Caribbean Hotel and Tourism Association; Mr. Charles Schlumberger Lead Air Transport Specialist, World Bank; Professor Stuart Levy, George Washington University; and Mr. Hugh Riley, Secretary General, Caribbean Tourism Organization.

Photo credit: IMF