<u>Inclusive and Resilient Growth in the Caribbean</u>

Summary: Slow and uneven growth in Caribbean economies over the past few decades can largely be accounted for by inauspicious domestic policies, high indebtedness and outside shocks. To reverse this trend, an economic programme focusing on increased social welfare though greater equity and access to opportunity ought to be implemented.

The pace and pattern of economic growth in the post-Independence Caribbean has traditionally been described as stuttering and anaemic. Consequently, the defining challenge of our time has involved the development of many analyses aimed at transforming this sequence of growth into one that is not only more broad-based, but sustainable. For the Caribbean to collectively harness the benefits of a fully-optimized economy, regional Governments ought to focus on addressing the major impediments to our desired levels of growth, namely our unfavourable investment climate, public-debt containment, and lack of external competitiveness by creating an enabling environment to mitigate investor risk and facilitate investment; fashioning an effective debt management strategy; and becoming increasingly open and integrated into the global economy, respectively.

Firstly, macro-economic stability, undergirded by sound fiscal policy; transparent and enforceable fiscal rules; adequate fiscal buffers; and appropriate legislative, and regulatory frameworks are essential ingredients for creating that enabling environment.

Second, a debt management plan which balances the mix of local and foreign borrowings whilst maintaining prudential debt limits is needed. Highly indebted Caribbean Small Island Development States (SIDS) must commit to this reform path and, at the same time, vigorously and persistently make the case for access to donor-assisted debt relief.

Third, improving external competitiveness can be achieved by restraining production costs and progressively removing barriers to trade while investing in appropriate disaster risk management and climate adaptation tools to protect critical infrastructure. Moreover, political administrations can reduce the impact of external shocks by diversifying the structure of exports. Diversification can be encouraged by removing mechanisms that impede markets from working efficiently, such as wage and price controls and restrictive labour laws. Furthermore, Governments should expand trade liberalization to increase the net benefits for the region by further reducing the cost of imports and improving the allocation of resources.

Conversely, in addressing domestic shocks, Governments must deepen financial markets and improve banking sector efficiency, thus reducing the costs of financial intermediation in the region. For this purpose, they should accelerate the privatization of state-owned financial institutions, reduce barriers to entry for new banks that meet prudential standards, and strengthen banking supervision, and privatization of public enterprises.

As we progress towards the future, the mission of the current generation becomes one in which the result is an enlarged economy, increasing productive employment opportunities for all. In this regard, the notions of equity and protection in market and employment transitions must be paramount in the development of any successfully inclusive growth strategy. Special emphasis must be placed on the idea of equality of opportunity in terms of access to markets, resources and an unbiased regulatory environment for individuals and businesses. Moreover, those parts of the labour force trapped in low-productivity activities or completely excluded from the growth process altogether should be utilized fully to cauterize income inequality and decrease both absolute and relative poverty rates. Finally, the manner in which the growth critical for accelerating poverty reduction is generated should include strategies that are tailored to country-specific circumstances.

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