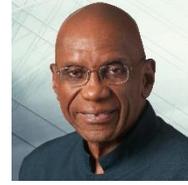
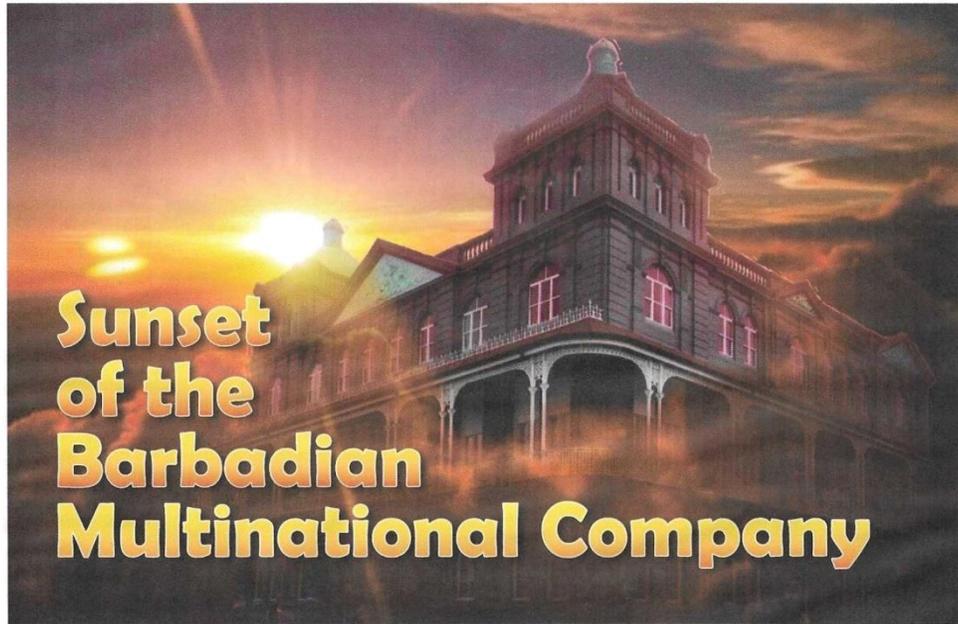


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Report for 2025



My favourite of Marc Hollingsworth's illustrations for 2025 Economic Letters



Marc Hollingsworth, Media Support International

Commentary and Research in 2025

My *Economic Letters* are observations on the economic realities of life in the Caribbean, accompanied by suggestions about government policies that might help to make for a better quality of life for people born in this region. We live in an interconnected world, something that Caribbean people are comfortable with because we all came to these islands - and to the Caribbean littoral - from elsewhere. Most of the Caribbean is now sovereign, but that does not change the nature of our economic relationship among ourselves and with the wider world in any way. This dichotomy between political independence and economic dependence on the rest of the world is a challenge for us all because it imposes limits on the scope and effects of public policies. Our experiences over the past six decades of political independence have taught us much about the limits of economic dependence. My commentaries aim to suggest how the

region may adapt to its circumstances and devise policies that advance our prosperity in spite of our economic dependence. Admittedly, the policies that are in our best interests often appear counter-intuitive.

Here is the gist of each of my commentaries for 2025.

January The independent economies of the Caribbean have been outperformed by countries that have retained some degree of political connection with rich countries. The latter have benefited from their relationships with larger, wealthier countries that have provided expertise, economic and financial guidance, and financial assistance.

February Caribbean countries are obliged to invest very large amounts of foreign currency in U.S Government securities to protect their local currencies against devaluation. Were countries to adopt the US dollar for all local transactions (by using a small percentage of foreign reserves to retire all local currency notes and coins), the remainder of their investments in U.S Government securities would be available for financing local infrastructure and other capital projects.

March The hallmark of a prudent government is a modest surplus of government revenues over current spending, with all borrowing devoted to physical capital projects.

April Caribbean countries may earn foreign currency from a diverse number of markets and market segments of the products and services in which they are internationally competitive. However, with their small populations they cannot produce a large enough quantity of many diverse products to achieve a wide range of competitive exports.

May The small size of the domestic market in Caribbean countries means that import-competing firms struggle to attain a scale of production which enables them to match the prices of imported items of comparable quality.

June Regrettably, most of the venerable Caribbean-owned regional companies have now failed or have been sold to non-Caribbean interests.

July Emigration and immigration from and to the Caribbean should be facilitated by government policy, to support talented Caribbean people to reach their full potential and to allow the import of skills that can fill niches in the labour market.

August The most important government strategy for the promotion of foreign direct investment is the maintenance of economic stability.

September Caricom's importance is as a regional consultative forum, but it lacks a mandate and structure for formulating common regional policy on any issue.

October The cultural industries provide tangible economic benefits to the producers, but it is impossible to domesticate these benefits or to realise any spin-offs to other local activities, as is the case with tourism.

November Booming imports are usually a sign of economic prosperity in Caribbean economies because they reflect an abundant supply of foreign currency.

December Forty years ago cruise tourism generated significant retail business activity in Caribbean ports where ships docked. The retail spin-off is now very little, and Main Street retail establishments in port cities have closed across the Caribbean.

Research

My Working Paper “The Development Mandate of the Central Bank in the Small Open Economy,” was posted to the *Social Sciences Research Network*, where it may be downloaded. The abstract follows:

This paper makes the case for a central bank mandate that includes the mobilization of finance for growth in small open economies. I draw on the literature analyzing the performance of the "Asian Tigers" and the more recent literature on the entrepreneurial state to show that innovation costs are a barrier to investment and growth in export-led economies. The state plays an essential role in subsidizing the return on innovation to increase it to an internationally competitive rate. It falls naturally to the central bank to mobilize the finance for this state subsidy. However, the funds raised by the bank should be intermediated to investors through development banks, equity and venture capital institutions, and similar entities.

The citation is: Worrell, DeLisle, The Development Mandate of the Central Bank in the Small Open Economy

(March 31, 2025). Available at

SSRN: <https://ssrn.com/abstract=5239504> or <http://dx.doi.org/10.2139/ssrn.5239504>

My paper “Dollarisation and Inequality in Central America and the Caribbean,” was revised in May 2025 and has been accepted for publication in the forthcoming volume *Inequality and its Solutions in Latin America and the Caribbean*, edited by Kevin Williams, Warren Benfield, and Dacia Leslie (London and New York: Routledge). The abstract follows:

This paper explores the relationship between the extent of dollarisation – the use of US dollars for local transactions in countries that have their own currencies – and the distribution of income in the small open economies (SOEs) of Central America and the Caribbean. Because SOEs are import-dependent and the US dollar is the currency in which all international transactions are priced, residents of the SOE who earn dollars are protected against depreciation in the value of the domestic currency. Over time, we should expect currency depreciation to worsen income distribution, because the wealthier segments of the income distribution, with access to US dollars, will be unaffected by the loss of purchasing power which the remainder of the population suffers. The redistribution effects of exchange rate depreciation do not appear in the national inequality statistic for any of the 17 Central American and Caribbean countries in our sample. However, our simulations with three countries in the sample provide an indication that the effects are too large to be ignored.

A copy of the paper may be downloaded at this link: https://drive.google.com/file/d/153_e-OPXHtC3Fk1s6Deo4cKDn_t5OmPY/view?usp=sharing.