

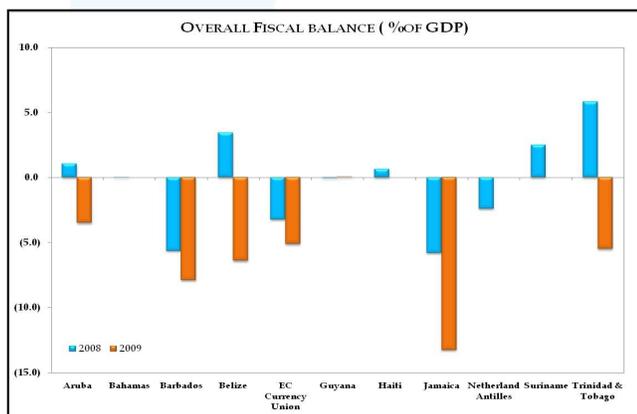


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CARIBBEAN GOVERNMENTS BUDGETING THROUGH TROUBLED TIMES IN 2010

Two distinct budgetary features emerged as Caribbean governments presented budgets in 2010. On the one hand there are government budgets with some degree of fiscal slack, such as in Guyana and Trinidad and Tobago, with funds pledged towards economic diversification. On the other, there are budgets that reflected tight fiscal space which laid emphasis on fiscal consolidation and debt reduction, such as in The Bahamas, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, Suriname and St. Vincent and the Grenadines.

The Government of Trinidad and Tobago was the most recent (September 8th) to present its budget. Presenting the largest in the region, the budget contained measures for the medium to long term, delving explicitly into diversification as the government proposed to examine new areas. These areas included the development of alternative energy inclusive of wind and solar, establishment of a recycling industry, a shipbuilding industry, greenhouses for food production, the development of heritage parks and the development of a fashion industry. Measures to embark on diversification were seen as critical to lessening the dependence on oil and gas. A budget deficit of 5.4 per cent was projected and the government projected that it can cover 30 per cent of the deficit from domestic sources and 70 per cent by borrowing from multilateral institutions.



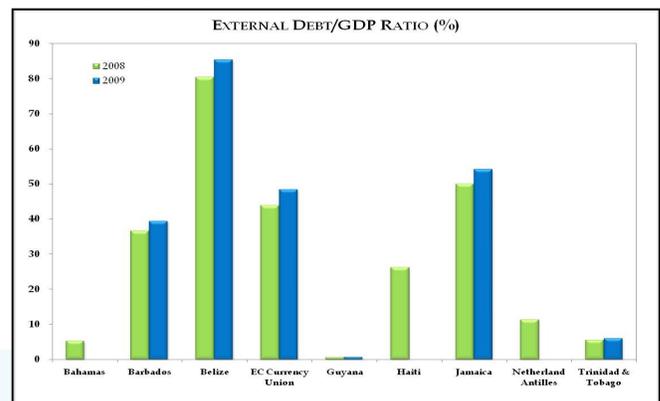
Guyana also had fiscal space given the favourable external performance and fiscal performances that were accompanied by economic growth. As a result, the government used the opportunity in the February 8th budget to improve on the competitiveness of the existing export sector, take measures to diversify the economy, as well as take further steps to develop the physical infrastructure. Significantly, the government landed an important agreement with the Government of Norway whereby Guy-

ana would be compensated for preserving its vast forest reserves to contribute to low carbon development in the global economy.

Given the fiscal space, the Guyanese government earmarked strategies in the budget to modernise leading export sectors, particularly, measures to enhance sugar and rice production, with steps to upgrade production to improve profitability, viability and competitiveness. In addition, steps were outlined for the development of new and emerging sectors in a bid to diversify the economy. Specifically, plans were made to diversify the agricultural base, to develop non-traditional agriculture for exports and improve quality and consistency. The budget also mentioned tourism, small business incubation, information and communications technology as important sectors to diversify into the economy.

On the other hand, the governments in territories that reflected tighter fiscal space laid emphasis on public sector management to reduce costs and sizable allocations were dedicated to debt servicing. This was particularly the case as large fiscal imbalances and high and rising debt continued to plague these economies.

In its budget communication in May 2010, The Bahamian government announced that it was restraining expenditure while seeking revenue enhancement, in a bid to control its debt which was forecast to rise to over 49 per cent of GDP by the end of the fiscal year as the economy suffered its third consecutive year of economic decline, following the fall out in the tourism sector. As a result, the government announced no capital expenditure for the new fiscal year.



Jamaica had to curtail its fiscal expenditure in the face of a weakened revenue base. Its budget, presented on April 8th 2010, pro-

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jected a deficit of 6.5 per cent, in contrast to a deficit of 10.9 per cent in the previous fiscal year. The government sought to restrain expenditure by attending to public sector expenditure reform, inclusive of measures geared towards divestment while at the same time seeking measures to foster revenue enhancement. Measures were taken to restructure the debt by converting to longer term maturities. Debt servicing is high at 47 per cent of GDP, though this is down from 60 per cent in the previous year.

Suriname presented its budget in February 2010. The budget was expected to reflect a fiscal deficit of 11.3 per cent of GDP. Just over 75 per cent of the deficit was expected to be financed from domestic resources while the rest was to be sourced through foreign financial assistance.

The Eastern Caribbean Currency Union (ECCU) member countries that have already presented their budgets also reflected measures to grapple with tight fiscal space. Most of the member countries reflected debt to GDP ratios above the ECCU convergence target of 60 per cent. The Grenada government, in the delivery of its January 15th budget, forecast the fiscal deficit to be 4 per cent of GDP. However the debt overhang was large as the debt to GDP ratio was noted to be 106 per cent of GDP. Indeed 19 per cent of fiscal revenue went towards debt servicing.

The Dominica revenue base was also challenged though there was a reduction in its current account deficit from 32 per cent of GDP in the previous year to 28 per cent in the current fiscal year. In its budget presented in July 13, they still anticipated a primary fiscal surplus of 2 per cent of GDP, but this surplus benefitted from grants and loans. The government budgeted for capital projects through infrastructural works, 65 per cent to be financed by grants. The infrastructural work included the building of roads

and coastal protection. However, the debt overhang was high at 72 per cent of GDP.

The Government of St. Kitts and Nevis had to embark on the containment of expenditure given its limited revenue earnings as it presented its budget on March 3rd. The fiscal revenue was shared between debt servicing (24%), emoluments (41%) and 35 per cent was left to execute already existing programmes. Given its constraints, the government announced that it was embarking on prioritisation and cutbacks of fiscal expenditure as well as engaging in tax reform in order to enhance fiscal revenue.

The St. Vincent government attempted a countercyclical fiscal policy, the latest being the provisioning of economic stimuli primarily through subsidies and transfers to agriculture inputs, substantial wage increases and focussed public sector investment. The government budgeted for infrastructure development and the continuation of the airport project. Public Debt was contained at 60 per cent of GDP.

The St. Lucia government also announced measures in its April 19th budget to enhance revenue through taxes, while at the same time containing expenditure by improving the efficiency of the public sector. However, the government undertook measures to improve the business climate by offering incentives, primarily in terms of tax incentives to attract foreign investment. Agencies were established to support small, medium and large businesses.

Given the severe fiscal constraints, many countries in the region will face challenges to undertake any new capital expansion projects. These countries will be in dire need for access to grants and concessionary loans in order to allow for capital expansion.

REGIONAL NEWS SUMMARY

CL FINANCIAL

- Clico (Guyana) invested US\$34 million (53% of its assets) in Clico (Bahamas) which was tied up in real estate investments that Clico (Bahamas) had in Florida through subsidiaries. Clico (Bahamas) was ordered liquidated in February last year. (SN 2 Sep). Guyana's Acting Chief Justice Ian Chang ordered the liquidation of CLICO (Guyana) in a long delayed ruling that said available material pointed "unerringly" in the direction of its insolvency and against the interests of policyholders that it be allowed to continue. (SN 11 Sep)
- The Supervisor of Insurance in Barbados ordered top management of CLICO International Life to stop selling its controversial Executive Flexible Premium Annuities to companies, credit unions and institutions 4 years before the parent company's collapse. (BN 15 Sep)
- A total of \$3.6 billion has already been earmarked to fully repay 11,290 policyholders of Clico (Guyana), President Bharrat Jagdeo announced, saying the process should begin within three weeks (SN 17 Sep)
- The Government's plan to deal with Clico depositors could cause some of this country's credit unions to collapse, says manager of the Credit Union League, Dianne Joseph. (TG 17 Sep)
- The former PNM government has legally tied the hands of the People's Partnership because of the PNM's promises that all CLICO investors would get their money back after the insurance giant collapsed, attorney Bindra Dolsingh has said. (TE 17 Sep)
- Two groups of CLICO investors have come together to call for a meeting with Finance Minister Winston Dookeran within 48 hours as they try to get their money back in less than 20 years.
- Government's decision to pay CLICO depositors, whose principal balances exceed \$75,000, through a government IOU, amortised over 20 years at zero interest, is illegal, contravening section 44D of the Central Bank Act, Chapter 79:02, as amended by the Central Bank Amendment Act, 2009, which grants the Central Bank sole authority over CLICO, according to attorney Ramesh Lawrence Maharaj (TE 26 Sep) but Finance Minister Winston Dookeran yesterday stood firm saying it was definitely within his purview. (TE 27 Sep). Meanwhile, billionaire businessman Lawrence Duprey is ill. (TE 28 Sep)

REGIONAL NEWS SUMMARY cont'd

- Former finance minister Gerald Yetming has been selected by the Government as the new chairman of CL Financial. (TG 28 Sep)
 - Investigations into alleged wrong-doings at CL Financial Ltd, conducted by the Central Bank and the Office of the Attorney General, are completed and the files have been forwarded to Director of Public Prosecutions (TE 29 Sep)
- THE STANFORD GROUP**
- Jailed businessman Allen Stanford knew that investments he was promoting could not be converted quickly to cash, and financial data emphasizing their liquidity was "fictional information on its face," an accountant testified in federal court (CaribbeanNewsNow 27 Aug)
- CARIBBEAN**
- The Parliament of the Netherlands Antilles has voted to amend the document that controls its relations with the Kingdom of the Netherlands. The intention is that on October 10, 2010, the Netherlands Antilles is to be dissolved as a single political entity. (CaribbeanNewsNow 26 Aug)
 - The Jamaican central bank has reduced the interest rate on its sole open-market instrument by 50 basis points, and has also set a new overnight rate payable to financial institutions of 0.25 per cent, down from 0.5 per cent. (JG 27 Aug)
 - The Bank of Jamaica advanced an additional half a billion dollars to the Government of Jamaica in a two-week span, sending the central bank deeper into the red at August 11. (JG 27 Aug)
 - The Jamaican economy continued to contract into the second quarter of 2010, with the Planning Institute of Jamaica reporting an even more dismal performance of the real sector when output in all sectors, with the exclusion of mining, lost value. (JG 27 Aug)
 - The Jamaican Government received a \$4-billion grant from the European Union towards its Debt Reduction, and Sugar Cane Sector budget support programmes (JO 27 Aug)
 - Net income of BCB Holdings, the most recent edition to the local stock exchange, plunged by 39% in the quarter ended June 30, the company's financial results indicated. The principal operations of the Bank are commercial lending, consumer lending, deposit-taking and related banking activities TG 27 Aug)
 - Rising food prices brought on by bad weather have resulted in the country's rate of inflation rising to 14.1% in July from 13.7% a month earlier. (TE 28 Aug). Headline inflation jumped again in August to 16.2 per cent, the highest rate in nearly 27 years; private sector credit declined for the 11th month, leading to a cut in the repo rate to 4.25 per cent. (TG 24 Sep)
 - Jamaica has aced the second International Monetary Fund (IMF) quarterly test despite unplanned expenditure related to the west Kingston incursion and emergency spending in the health sector (JG 28 Aug)
 - Scotiabank Jamaica has seen a significant jump in credit- and debit-card fraud, which hit J\$150 million over nine months to July. (JG 29 Aug)
 - An IADB report on Jamaica's catastrophe risk profile has revealed that the country is at risk of average annual losses of US\$105 million due to hurricanes and US\$30 million from earthquakes. (JG 30 Aug)
 - The Caribbean Catastrophe Risk Insurance Facility is preparing to make a payout to the government of Anguilla as a result of Tropical Cyclone Earl which passed close to Anguilla recently. (CaribbeanNewsNow 1 Sep)
 - The 2010 sugar cane crop in Belize ended on August 28, after 256 days, making it the longest crop in the history of Belize Sugar Industries; the quality of cane delivered to the mill was also the poorest in recent history (Belize News 2 Sep)
 - FirstCaribbean International Bank, the largest indigenous banking entity in the region, continues to struggle to make its presence felt. (JO 3 Sep)
 - Curaçao has a new Executive Council, a draft constitution for the future country has been passed and the incoming Island Council took a decision to participate in the Round Table Conference on the dismantling of the Netherlands Antilles effective 10-10-10. (Caribseek 6 Sep)
 - A meeting between President Bharrat Jagdeo and his Surinamese counterpart Desi Bouterse saw an agreement to conduct a feasibility study into bridging the Corentyne River, as both countries pledged to pursue a closer working relationship. (SN 7 Sep)
 - Bad debt across commercial banks in Jamaica grew by another J\$900 million during the three months to June 30, 2010. (JO 8 Sep)
 - Guyanese gold miners may have made a killing from the doubling of gold prices, from US\$550.00 an ounce early in 2006 to the current price of more than US\$1,200.00 an ounce. (SN 10 Sep)
 - Guyana's rice industry may be set to surpass sugar as the country's principal money earner from agriculture, according to a recent review of the sector's performance done by the Ministry of Agriculture (SN 10 Sep)
 - After what was considered to be a "rough 2009", the World Bank says remittances are on the rise again in the Caribbean. (JO 14 Sep)
 - Britain's controversial Air Passenger Duty has been a factor in Barbados' falling tourist arrivals for the first six months of this year, believes the secretary general of the Caribbean Tourism Organisation, Hugh Riley. (BN 15 Sep)
 - Guyana is reaping tremendous commercial benefit from the presence of the Takutu Bridge link with Brazil a year after it was officially commissioned and it is set for take off and expansion, Trade and Commerce Minister Manniram Prashad has said. (SN 15 Sep)
 - The Trinidad and Tobago Stock Exchange is pleased Government has heeded its budgetary advice to divest State enterprises (Newsday 16 Sep)
 - The over 269.2 million shares offered on the market by three of Lasco's companies in an initial public offering yesterday were oversubscribed in three minutes raising some J\$650 million, beating the targeted J\$415 million that was set. (JG 16 Sep)
 - Eight months after the devastating earthquake, Haiti still has no housing minister, policy or approved strategy. Also, despite the signing of an executive order in March giving the government the right to seize 17,297 acres through eminent

REGIONAL NEWS SUMMARY cont'd

- domain, the government still does not yet own the land. But people are using the land without permission. (CaribbeanNewsNow 16 Sep)
- Jamaicans are increasingly transmitting their tax returns online and revenue officials say they anticipate growth in this payment system in the coming years. (JO 17 Sep)
 - The Corporate Bond Market witnessed its first trade on Friday as the \$200 million bond issued by Scotiabank Trinidad & Tobago Limited with a coupon rate of 6.30 per cent maturing in 2011 recorded a volume of 100 and value of \$100,000.00. (TG 20 Sep)
 - The unemployment figure (T&T) for the first quarter of 2010 has increased to 41,100 from 31,000 in the last quarter of 2009 (TG 20 Sep)
 - International rating agency Standard and Poor's affirmed that First Citizens Bank Limited's maintained its counterparty credit rating of BBB+/A-2 (Newsday 21 Sep)
 - Belize Prime Minister, Dean Barrow, on Tuesday announced that his government is issuing shares to the public in Telemedia, the telephone company that the government nationalised about a year ago (CaribbeanNewsNow 22 Sep)
 - Close to 120 workers will be on the breadline when the Silver Sands Resort in Christ Church Barbados closes its doors permanently at the end of September. The management said the decision was taken after heavy financial losses in the current economic downturn (BN 23 Sep)
 - The dramatic reduction of interest rates in Jamaica has led commercial banks to impose several charges on customers, including opening an account, withdrawing from a savings account, accounts that fall below the minimum balance, closing an account, balance inquiry, certification of balance in some cases, transferring of funds between your accounts (BN 27 Sep)
 - Stay-over visitor arrivals in Barbados for the period January to August 2010 increased by 4.1 per cent on the comparable period last year. (BN 28 Sep)

ANNOUNCEMENTS

42ND ANNUAL MONETARY STUDIES CONFERENCE

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