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FISCAL STRESS IN THE CARIBBEAN FOR 2011-12

The Caribbean economies will be under pressure to control fiscal imbalances in 2011 and 2012 as they strive desperately to raise government revenues and contain expenditures. This comes up in an environment where many countries in the region have recorded large fiscal and external imbalances accompanied by high debt levels. The situation has been exacerbated by natural disasters and adverse terms of trade that have plagued the region for several years. Many CARICOM member countries have found themselves having to turn to the IMF for much needed assistance given the desperate fiscal situation which confronted the governments. The magnitude of debt has caused high debt servicing

which accounts for a sizable proportion of fiscal outlay - as much as 20 to 50 per cent of fiscal expenditure.

The current situation in the Caribbean comes on the heels of the recent global economic crisis which have resulted in the advanced industrialised countries struggling to come to terms with the fiscal stimulus packages that they dished out in 2009 and 2010 in an attempt to limit the fallout from the crisis. The major advanced industrialized economies have been projected by the IMF in its October 2010 World Economic Outlook report, to run fiscal deficits through to 2015, though with less intensity as the years progress.

The crisis has left CARICOM governments with the dilemma as to whether to embark on austerity measures in a bid to contain the damage, or to try to ride out the crisis by borrowing to make up for revenue shortfalls. In this respect, two distinct patterns can be expected for future budgets of the Caribbean economies: those with fiscal slack and those with tight fiscal space. Those with some degree of fiscal slack showed such gains as a result of external current account surpluses, low debt, and prudent fiscal management during times of plenty. These countries may have more room to explore economic diversification by engaging in self-funded capital investments. As a result these countries would have larger capacities to borrow and provide fiscal incentives to attract FDI. This can be already seen as Guyana, Suriname and Trinidad and Tobago were able to place economic diversification measures in their budget presentations in 2010.

Very few economies were in this privileged position, however. Unfortunately, the majority of countries record perennial external current account and fiscal deficits, so that they instead rely on external capital inflows to restore some balance to their external accounts. Capital inflows come in through borrowing and foreign direct investments. Given the severe fiscal constraints, many countries in the region will face challenges to undertake new capital expansion projects. These countries will be in dire need of access to grants and concessionary loans in order to allow for capital expansion.

Unless there is a strong recovery in their respective external positions, many regional economies may face challenges with respect to generating new jobs and economic growth as governments come under pressure by multilateral institutions to restrain expenditure and embark on public service reform. What is instructive here is that expenditure is quick to rise when external revenues increase, but slow to adjust when external revenues fall. That is because increased fiscal expenditures are often associated with job creation activities which are politically difficult to reverse. As a result, 2011 and 2012 can see regional governments under severe political pressure to unwind a great deal of their expenditure commitments which may consequently have adverse effects on employment.

BOX 1: CARICOM NEW LOAN ARRANGEMENTS WITH THE IMF 2009-2010

COUNTRY	IMF LENDING PROGRAM	LOAN SIZE (\$US)	REMARKS
Jamaica	Macroeconomic and Debt Restructuring Programme	\$1.27 billion February 4, 2010	1. Reform of the Public sector to reduce deficit 2. Debt restructuring to reduce debt restructuring costs 3. Reforms to the financial sector to reduce risk
Grenada	Extended Credit Facility	\$13.3 million April 2010	1. To cushion the effects of the global crisis 2. Support agenda of economic reforms aimed at boosting growth, reducing poverty and strengthening the private sector
Antigua	Standby Arrangement	\$125 million Agreement in principle (executive board would have considered in May 2010)	1. Restore fiscal sustainability and put Antigua on the path to sustainable growth 2. Reforms aimed at strengthening revenue collection, public financial management and long term sustainability of the pension fund
Haiti	Extended Credit Facility	\$100 million January 15, 2010	1. To assist Haiti in dealing with the aftermath of a massive and devastating earthquake
Belize	Emergency Assistance	\$6.9 million February 18, 2009	1. To support the nation's recovery efforts from serious storm damage and flooding in 2008
Dominica	Exogenous Shocks Facility	\$5.1 million July 10, 2009	1. To assist in recovery efforts following the passage of two hurricanes in 2007-08, and to mitigate the impact of the global downturn on the Dominica economy
Saint Vincent and the Grenadines	Exogenous Shocks Facility	\$5.7 million	1. To assist the economy in adjusting to tourism and FDI shocks
Saint Lucia	Exogenous Shocks Facility	\$10.65 million July 2009	1. To assist in mitigating the impact of the global downturn.
Saint Kitts Nevis	Emergency Assistance	\$3.5 million	1. To assist with recovery from hurricane

REGIONAL NEWS SUMMARY

CL FINANCIAL

- Attorney Bindra Dolsingh says he has proof that the CL Financial group was allowed access to the money in CLICO's Statutory Reserve Funds, although the law forbids it. He said under the former regime, he was approached to negotiate with the Central Bank governor to liquidate some of CL Financial's assets, but there was no move to actually do it. (TE 29 Nov)
- The CLICO Policyholders Group voted unanimously to take legal action against the State (TE 29 Nov) but attorney-at-law Ramesh Lawrence Maharaj is advising Clico policyholders against filing an injunction that would tie up payments in the courts for years. (TG 30 Nov)
- The German company Proman issued a cheque for CLICO Energy for US\$47 million but the government objected to the quick sale and instructed that the transaction be reversed; to date this has not been done, and the company has indicated that they were interested in getting a 10% stake in CL's Methanol Holdings as a condition for returning CLICO Energy. Government sources confirmed that CLICO Energy is valued at US\$250 million, not the US\$47 million it was sold for. (TE 2 Dec)
- T&T Government will establish the Economic Partnership Agreement Implementation Unit of the Ministry of Trade and Industry in February 2011 to encourage the local private sector to take advantage of the trade opportunities offered under the agreement between CARIFORUM and the European Union. (TG 7 Dec)
- The IDB approved US\$945 million in funding for budget support for Trinidad and Tobago, \$630 million of which is expected to be made available to the Ministry of Finance before Christmas. (Newsday 7 Dec)
- The cabinet will consider a proposal submitted by CL Financial chairman Gerald Yetming, to Finance Minister Winston Dookeran, over a possible renegotiation of the State's June 2009 agreement with CL Financial over the disposal of assets. (Newsday 11 Dec)
- A US Court has ordered First Citizens Bank to hand over US\$527,340 plus accumulated interest, to Clico (Bahamas) liquidator. (Newsday 13 Dec)
- Approximately 4,000 jobs are expected to be created in the cassava industry next year as agriculture stakeholders move to ramp up production in T&T. (TG 13 Dec)
- Three Appeal Court judges ruled that Carl Hiralal, the Government-appointed manager of CLICO Investment Bank had the authority to wind up the failed subsidiary of the CL Financial group to pay off its debts. (TE 14 Dec)
- Lawrence Duprey is disappointed about what is described as the People's Partnership Government's poor management of the collapsed CL Financial conglomerate and he is willing to return to Trinidad and Tobago "to set things right" (TE 13 Dec) but the Government is not willing to allow him to return to lead CL Financial and fix the problems. (TE 14 Dec)
- In the face of moves by a Bahamian liquidator to have disclosure of documents in relation to a web of over 65 companies with ties to Clico (Bahamas) Limited and to get an order for \$773.4 million in the Trinidad and Tobago courts from CL Financial, former CL Financial chairman Lawrence Duprey filed a court motion to block surrender of documents arguing that this would violate his personal privacy. (Newsday 15 Dec)
- Profits at the Neal & Massy conglomerate have declined this year because of the tough economic conditions around the Caribbean. (TE 17 Dec)
- Deputy chairman of the CLICO Policyholders Group Peter Permell has advised policyholders with less than \$75,000 invested in the failed financial institution to take full advantage of Finance Minister Winston Dookeran's bailout plan; this will not stop the group's planned legal action against the State. (TE 20 Dec)
- T&T Central Bank Governor Ewart Williams, when presenting the bank's financial stability report for November, said while Trinidad and Tobago's macroeconomic indicators remain strong, there is a lack of confidence in the economy. (Newsday 21 Dec)
- The group representing CLICO policyholders yesterday refused advice that legal action against the State could hurt policyholders' chances of getting their money back from the collapsed insurance company. (TE 22 Dec)
- Lascelles deMercado and Co Ltd—a subsidiary of CL Financial—has announced that it would pay out Ja\$111 per share to holders of its 96 million stock units. The CL Financial group and its subsidiaries hold 86.89% of the shares, so about TT\$68 million will flow to the Trinidad and Tobago Government. (TE 23 Dec)

THE STANFORD GROUP

- The latest bail bid by Alan Stanford accused of carrying out a multi-billion dollar fraud through his bank in Antigua has seen his attorney claiming that the accused is too medicated to be of any use to himself in preparation for, or during, his upcoming trial. (Carib360 8 Dec)
- A newly revealed US cable portrays American diplomats in the Caribbean as being so concerned about bribery and money-laundering rumours related to Allen Stanford that they warned embassy officers to steer clear of him as early as 2006. (JO 21 Dec)
- A WikiLeaks cable has revealed how the Governor of the Eastern Caribbean Central Bank agonized about the impact of the indictment of Allen Stanford on the Bank of Antigua. (SN 22 Dec)
- The Caribbean Information and Credit Rating Services Limited lowered its ratings on the debt issue (notional) of the size of US\$300 million of the Government of Barbados by one notch to CariAA—(Foreign Currency Rating) and CariAA (Local Currency Rating) on its regional scale. (TG 23 Dec)
- Leaked US Embassy correspondence has revealed that American diplomats saw the current United Progressive Party and former Antigua Labour Party administrations as

REGIONAL NEWS SUMMARY cont'd

"likely equally dirty" as far as their dealings with Allen Stanford were concerned. (CNnow 28 Dec)

- Lawyers for Allen Stanford want to delay his trial for at least two more years so they can prepare their case. (Caribseek 29 Dec)

CARIBBEAN

- Legislation passed in the Jamaican Parliament recently for the establishment of a credit bureau will give persons without the traditional type of collateral an opportunity to access funds and start businesses. (JG 29 Nov)
- The Eastern Caribbean Amalgamated Bank, ECAB (formed from the old Bank of Antigua) is owned by five of the largest indigenous banks in the region and the Government of Antigua and Barbuda, and is supported by the financial expertise and resources of the OECS sub-region. (Caribseek 30 Nov)
- The Digicel Group is taking a US\$65 million (J\$5.6 billion) bet on downtown Kingston, representing the size of the investment in its new Caribbean headquarters on which construction will last around 18 months. (JG 1 Dec)
- Jamaica recorded earnings of just over US\$1.4 billion from stop over and cruise ship visitor arrivals for the July to September quarter this year, representing a 2.2 per cent increase over the corresponding period last year. (CNnow 1 Dec)
- The International Finance Corporation's US\$75 million investment in local insurance conglomerate Guardian Holdings is like a "good housekeeping seal of approval" said GHIL chief executive officer Jeffrey Mack. (TE 2 Dec)
- The Bahamas could benefit to the tune of \$10 million annually when Royal Caribbean's Allure of the Seas sails into Nassau's port carrying roughly 6,000 passengers and hundreds of thousands of dollars in cruise passenger spend, justifying the \$42 million recently spent enlarging the port. (CNnow 2 Dec)
- Crime is having a negative impact on economic activity and growth in the region. Governor of the ECCB, Sir Dwight Venner, said a study showed that the cost of fighting crime in Jamaica in 2001 was \$12.4 billion or 3.7 per cent of gross domestic product. (BN 3 Dec)
- The Institute of Private Enterprise Development and the Inter American Investment Corporation are partnering to deliver a training and technical assistance programme aimed at helping small and medium-sized enterprises in Guyana to enhance their competitiveness abroad. (SN 3 Dec)
- FirstCaribbean International Bank's chairman Michael Mansoor says the region's largest bank has operated in a "very challenging environment" but recorded a profit US\$157.4 million for the financial year ended October 31. Unaudited results represented a 10% decline on its 2009 performance. (BN 7 Dec)
- The Development Bank of Jamaica has further cut its interest rates on loans for energy-saving projects, bringing the rate to an all-time low of 9.5%, down from 12.5% a year ago. (JG 7 Dec)
- The aging of the population of developed countries, in particular the US and Canada, creates enormous economic opportunities for Jamaica in the areas of health care/wellness, retirement communities, the demand for young workers in the US and tourism for older people. The prospects are particularly good in the export of health and wellness services supplied to persons who travel to Jamaica for that purpose and by tele-medicine. (JO 8 Dec)
- Chairman Emeritus of the ANSA McAL Group of Companies, Dr Anthony N Sabga says this country has a "sleeping giant" in the Diaspora as far as business and economic possibilities go, but he stressed that incentives and tax relief need to be strengthened. (SN 8 Dec)
- High electricity costs, inadequate incentives for manufacturers investing in new technology and lack of access to investment funding and trade financing are among the obstacles to the growth of Guyana's manufacturing and services sector, according to President of the Guyana Manufacturing and Services Association. (SN 13 Dec)
- St Maarten's Minister of Finance Hiro Shigemoto met on Monday with the soon to be established New Tax Reform Committee to discuss a plan of approach for the reform of the countries tax system by 2012. (Caribseek 14 Dec)
- Aruba, Curaçao and St. Maarten, as countries within the Dutch Kingdom, see joint opportunities in both the Netherlands and Europe as a whole as well as the Caribbean. (Caribseek 14 Dec)
- Barbados is getting up to \$130 million dollars (approximately 50 million euros) from the European Union to boost human resource development in the island. (BN 16 Dec)
- The Dutch Caribbean Securities Exchange is now fully operational and trading can begin. Services are offered to both local and international issuers of corporate and government-owned bonds, funds and stock of companies and governments. (Caribseek 16 Dec)
- The owners of the Valero Oil refinery in Aruba have announced that they plan to restart operations at the plant shortly. (Caribseek 16 Dec)
- 'Destination Guyana' continues to show positive trends, boasting yet another record breaking increase in visitor arrivals in November. Guyana's tourism product is unique in that it offers adventure, nature and eco-tourism, unlike its Caribbean counterparts, which offer the traditional sun, sand and sea. (CNnow 17 Dec)
- Barbados is being encouraged by the IMF to make its recent 2.5% value added tax increase permanent, and also to go up by another 0.5%. (Carib360 17 Dec)
- The Interim Commission for the Reconstruction of Haïti has approved new projects amounting to \$500M co-president William Clinton said. (Caribseek 17 Dec)
- Facing a J\$35 billion imbalance in the 2011/2012 budget in addition to its failure to collect the budgeted J\$33 billion for the April to October period, the Jamaican government now finds itself having to tax the country at an exorbitant rate. (JO 17 Dec)

REGIONAL NEWS SUMMARY cont'd

- RBTT Bank Jamaica Limited announced a reduction in its prime lending rate, which will cut the cost of borrowing by 130 basis points. As of January 1, 2011 the Bank's prime lending rate will move from 18.25% down to 16.95%. (JO 19 Dec)
- Australia will provide A\$63.8M (US\$63M) in assistance to Caribbean countries over the next four years and will support the region's efforts to adapt to climate change and to manage the impacts of natural disasters. (SN 20 Dec)
- Jamaica has been invited by the World Travel and Tourism Council to sit on its executive for the first time in its history. (Carib360 20 Dec)
- A multi-sectoral trade mission from Barbados has unveiled significant opportunities for trade and investment between Barbados and the islands of Martinique and Guadeloupe. (CNnow 20 Dec)
- IMF has acknowledged the relatively good business environment in Barbados. However, in light of the country's weak productivity growth, it sees merit in further streamlining Government agencies and procedures, and looking for ways to broaden growth sources. (BN 21 Dec)
- The government of Belize will benefit from grants valued at close to 24.9 million euros or BZ\$62.3 million to assist with projects geared towards rural development, poverty reduction and the sugar sector. (CNnow 21 Dec)
- The Canadian government says it has signed an open skies agreement with Jamaica and Trinidad and Tobago, giving airlines more flexibility in selecting new routes, schedules and prices. (JG 22 Dec)
- Jamaica has missed deadlines on 10 key reforms set under the qualitative conditionalities of the IMF stand-by arrangement, a document released this month revealed. The missed deadlines affect the island's competitiveness but not the flow of funds. (JO 22 Dec)
- A regional NGO, Global Water Partnership-Caribbean, has come out in support of the push for higher pricing by utility companies, including Jamaica's monopoly water producer, which have long maintained that their service is underbilled. (JG 24 Dec)
- After-tax profits for the Banks DIH group rose by 25% in 2010 compared to 2009 on the back of higher sales of its products and robust performance by its key subsidiary Citizens Bank Inc. (SN 27 Dec)
- Business Monitor International has expressed doubt about the ability of the People's Partnership administration to create a long-term plan to boost growth in the non-energy sector because of the difficulties it perceives in the Government building consensus on the way forward. (TG 30 Dec)

ANNOUNCEMENTS

DR. DANIEL BOAMAH RETIRES



Dr. Daniel Boamah

Dr. Daniel Boamah retired from the Central Bank of Barbados on December 23, 2010 after nearly 31 years of service to the Bank and the Region. Dr. Boamah served the Bank as Senior Economist, Director of Research and finally as Deputy Governor. He has also made a sterling contribution to the Regional Programme of Monetary Studies and its successor insti-

tution the Caribbean Centre for Money and Finance, serving as a member of the Executive Committee of the Centre. Dr. Boamah has also contributed actively to the Centre's research on monetary and financial issues in the Caribbean, presenting numerous papers at the Centre's Annual Monetary Studies Conference on topics such as macroeconomic model building, external competitiveness, external debt, the determinants of investments and growth. We wish Dr. Boamah all the best in his future endeavours.

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**HAPPY NEW YEAR FROM
THE STAFF OF CCMF**