

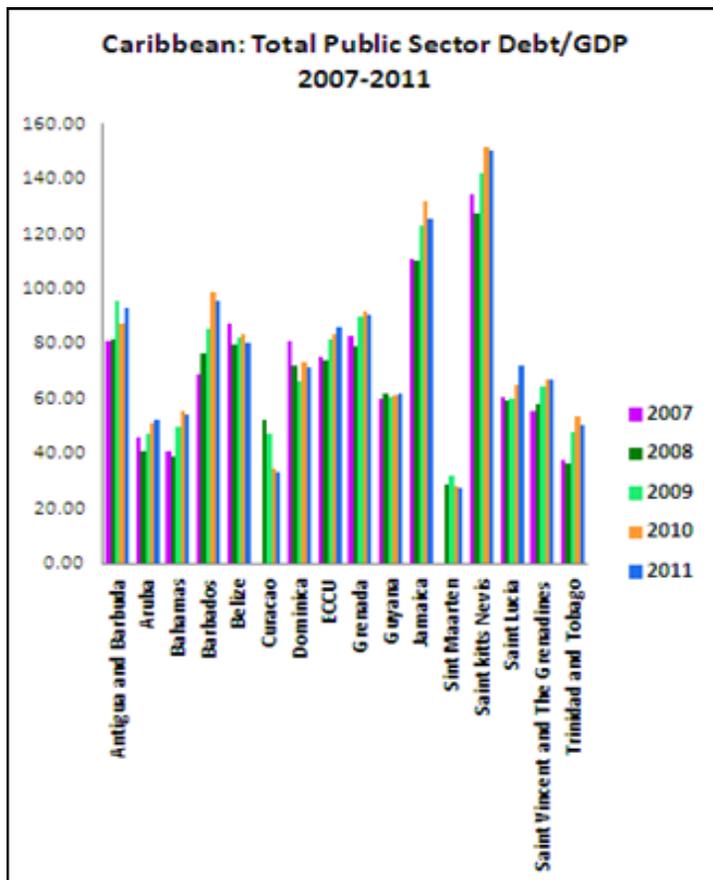


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## A GROWTH ORIENTED DEBT REDUCTION STRATEGY FOR THE CARIBBEAN: IS IT FEASIBLE?

The relationship between national debt and long term growth has been the subject of debate in both academic and policy circles for decades. A significant portion of this debate concerns the question: “at what point and under what conditions does a country’s debt become unsustainable and hence militate against its long-term growth prospects?” In more recent times these debates have shifted from this academic line of inquiry to the more immediate and politically challenging question of maintaining or igniting growth within the context of fiscal consolidation. The crisis in the Euro-zone (Greece and Spain in particular), the austerity programme in the UK and the ‘fiscal cliff’ debates in the US are testaments to the ascendancy of the issue of managing the deleveraging process in a manner that is not inimical to growth.

The need to find deleveraging mechanisms that are growth enhancing is a challenge that is also acutely relevant to Caribbean economies. Many Caribbean countries are saddled with high and, in some cases, still climbing debt to GDP ratios against the backdrop of the implementation of counter cyclical fiscal measures within a deteriorating global economy and massive infrastructure rehabilitation programmes following natural disasters. Moreover, six Caribbean countries fall within the ranks of the top ten most heavily indebted middle income countries in the world and 14 Caribbean countries are among the top 30 most indebted emerging market countries in the world. Confronting this stark reality means that Caribbean countries face the challenge of designing and implementing growth friendly debt management strategies that will return them to more sustainable debt levels without significantly compromising long term growth prospects.



Source: IMF and Country Reports

The key to developing growth-friendly debt-reduction strategies resides in the concept of debt sustainability. Debt sustainability implies that a country can meet its debt service obligations using existing resources at its disposal without having to seek relief or accumulate arrears. Debt sustainability therefore suggests that the country has enough access to liquid resources to allow for servicing of its obligations and that the operations of government remain solvent in the long term. A growth-oriented debt management strategy therefore must contemplate implementing policies that will allow for a country to remain liquid in the short term and solvent in the medium to long term.

Liquidity in the context of a government refers to the ability to maintain access to financial markets to facilitate short-term debt service obligations. Thus, it is crucial for a country to preserve or possibly bolster its credibility within the financial market. Actions and pronouncements that demonstrate and reinforce commitment to honour debt service obligations are critical. In addition, countries should develop and articulate a debt management strategy that has broad base support from major socio-political actors. The US experience where political wrangling in Congress over the need to raise the debt ceiling created market uncertainty leading to a downgrade of its triple-A rating status in August 2011 is instructive in this regard.

## A GROWTH ORIENTED DEBT REDUCTION STRATEGY FOR THE CARIBBEAN: IS IT FEASIBLE? CONT'D

Solvency, unlike liquidity, is concerned with the ability of the government to finance from own resources its debt service obligations over the long run. Solvency requires that the discounted value of future primary surpluses equals or exceeds the discounted value of future debt service obligations. It is important to note the role that expectations play in the definition of solvency. Again this underscores the need for clearly articulated debt management strategies that identify realistic timelines for reducing debt to GDP ratios to more acceptable levels. The credibility of the debt reduction plan must be maintained through effective performance monitoring and reporting, adherence to debt schedules and maintaining commitments made to creditors. Furthermore, this strategy must be framed within the context of policy initiatives that seek to improve medium to long-term growth prospects through the reduction of structural impediments to growth.

Even as governments implement measures to contain growth in expenditure, eliminate duplication and recurrent waste, Caribbean economies must engage in reform exercises that will focus on enhancing the competitiveness of current export sectors, create new export niches, strengthen the skill base of the labour force and continued enhancement of the business and regulatory environment. Thus, policies aimed at improving the investment environment and the ease of doing business are very important. Relatively inexpensive reforms that seek to improve contract enforcement, property registration, customs administration, construction permits, investor protection and business registration will definitely act as a signal to potential investors on the importance the

country places on investment and the attendant economic opportunities which it can create. According to the World Bank "Doing Business Report 2011" Grenada is the only Caribbean country which featured among the top ten most improved countries in doing business. Moreover, countries have generally not implemented significant reforms leading to very small cumulative changes on the nine doing business indicators used by the World Bank. This suggests that there is significant scope for implementing non costly reforms which have the potential to create significant gains for the Caribbean.

In summary the debt dynamic of many Caribbean countries necessitates in varying degrees programmes of fiscal consolidation. Increasingly financial markets are becoming less tolerant of any perceptions of credibility failures. This further accentuates the need for decisive action on the part of Caribbean states. A debt reduction strategy can be growth friendly if inter alia it has broad-based socio-political support, is accompanied by actions and pronouncements that reinforce commitment to honour debt service obligations and by strategies aimed at reducing structural impediments to growth.

**By Ms. Tracy Polius**

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### REGIONAL NEWS SUMMARY

#### CL FINANCIAL

- Government-controlled CL Financial is to sell its 81.4% ownership stake in Lascelles deMercado to the Italian spirits company Campari for US\$338 million in a transaction that values 100% of the Jamaican conglomerate's rum assets at US\$414.7 million (or TT\$2.6 billion) (TG 3 Sep)
- The pursuit of the Jamaican conglomerate Lascelles de Mercado by CL Financial has been described as the "one that broke the camel's back". It cost CL Financial about US\$700 million. After a bond was issued and several loans as well as inter-company loans were sought, the sale was eventually concluded in June 2008. But CL never recovered from the massive investment (TE 9 Sep)
- Consumers are again re-investing in products being designed and offered by local insurers, three years after the near collapse of CL Financial and Hindu Credit Union, says Douglas Camacho, chairman of the board of governors at the T&T Insurance Institute (TG 11 Sep)
- Finance Minister Larry Howai promised that by year's end there would be a resolution to the Government's Enhanced Pay-

off Regime geared towards CLICO/BAT policyholders (TE 17 Sep)

#### STANFORD

- Former Stanford chief investment officer Laura Pendergest-Holt has been sentenced to three years in prison for her role in helping the businessman defraud investors out of more than US\$7 billion, This was part of a plea agreement she had reached with federal prosecutors (TG 14 Sep)

#### CARIBBEAN

- First Citizens Bank announced that regulators in both Barbados and Trinidad and Tobago have approved the purchase of Butterfield Bank (Barbados) Ltd by the local Group and that payment has been made by First Citizens for 100% of the shares of Butterfield Bank (Barbados) Ltd from the Bank of NT Butterfield & Son Ltd. The shares cost First Citizens US\$45 million (TE 29 Aug)

## REGIONAL NEWS SUMMARY CONT'D

- Suriname's state-owned Hakrinbank says it is seeking a "strategic partnership" with the Trinidad-based Republic Bank Ltd (TG 29 Aug)
- T&T Residential mortgage rates are continuing to trend downward, according to the Central Bank (TE 31 Aug)
- The African, Caribbean and Pacific group of states is expressing concern over new European policy that could result in the exclusion of some countries from bilateral aid. The proposed policy seeks to deliver EU development assistance more efficiently by focussing on key priority areas and targeting resources towards least developed countries, while cutting national allocations to high income and upper middle income countries (JG 3 Sep)
- Valero Energy Corp said that it will convert its shuttered oil refinery in Aruba into a fuel storage facility. It said it stopped producing gasoline and other fuels at the site due to high oil prices and "unfavourable refinery economics." (JG 4 Sep)
- The Guyana economy grew by 2.8% during the first six months of this year, Finance Minister Dr Ashni Singh has said (TG 4 Sep)
- Trinidad and Tobago has had its most successful deepwater bid round since the exercise was launched in 1998. Five out of the six deepwater blocks put up for bid received a total of 12 offers (TE 5 Sep)
- Healthcare tourism in Barbados is expected to receive a boost following the announcement of a partnership between Winners Development and American World Clinics to jointly develop an international medical centre in the island. The \$100 million project will be located on a 21.5-acre site in the northern parish of St Peter (Carib360 5 Sep)
- A key advisor to The Bahamas government says income tax or VAT must be considered if the country is to curb its rising debt levels (CNnow 5 Sep)
- The insurance division of Guyana National Shipping Corporation Limited was officially asked by Lloyd's in London to represent them in Suriname, automatically extending the shipping company's territory of involvement to that country (GuyTim 5 Sep)
- Guyana will serve as chair of the Economic and Financial Committee (second committee) of the United Nations General Assembly for the 67th session. Ambassador Talbot is the first representative of a Caricom member state at the UN to hold the position (GuyTim 5 Sep)
- Finance ministers, central bank governors and senior technocrats from across the Caribbean have been encouraged to eschew parochialism and embrace a broad-based, collective and collaborative response to the economic crises facing the region. This as the IMF embarks on a radical reorganization of its policy to tackle the daunting challenges of low growth and high public debt facing Jamaica and its regional counterparts (JG 6 Sep)
- Trinidad and Tobago is not able to financially assist its Caribbean neighbours as it has in the past, Finance Minister Larry Howai said, adding that while the country donates to CARICOM neighbours through its Petroleum Fund it is very "unlikely" that it will be able to make the same level of contribution to the Fund (TE 6 Sep)
- A high level forum organized by the IMF and CDB to discuss the challenges of low growth and high debt facing the Caribbean has suggested that decisive reforms to boost competitiveness and private sector investment are of the essence. In particular, policymakers have been encouraged to continue focusing on lowering relative (domestic versus foreign) costs of goods and services to foster exports and reduce external current account deficits (Carib360 6 Sep)
- Jamaica's University of Technology and the IADB are combining resources to develop a Sport Entrepreneurship Project that will see a sports business model developed for Jamaica (Carib360 6 Sep)
- The IADB has approved a supplemental loan of up to US\$65 million to complete the expansion and rehabilitation of the road network under The Bahamas' New Providence Transport Programme (CNnow 6 Sep)
- Some 40,000 Jamaicans are likely to gain employment in the private sector through an initiative of the Government and the Jamaica Chamber of Commerce (JG 10 Sep)
- At least one small garment manufacturer in Barbados has reported an increased demand for locally made garments, so much so that she had to turn away some people for lack of financing (BN 10 Sep)
- The French government has given its approval for Surinam Airways to resume service to Cayenne, French Guiana (CNnow 11 Sep)
- More than 2 000 jobs could be created over the next five years as a result of the Caribbean Digital Media Centre which was recently launched in Barbados (BN 11 Sep)
- Brazilian Ambassador to Guyana Luiz Seixas De Andrade has given his country's commitment to remove the bottlenecks to bilateral trade between Guyana and its southern neighbour (GuyTim 11 Sep)
- The African, Caribbean and Pacific group of countries says it has launched a study to examine the feasibility of opening a trade and investment bank to service 79 member states. The ACP Bank for International Trade and Investment is intended to address gaps in existing financing methods which prevent valid projects from being realised, the ACP secretariat said (JG 12 Sep)
- Barbados' Cabinet has approved plans for a new multi-purpose factory that will transform the sugar industry, and potential financiers seem enthusiastic about it. The factory's products will include specialized and refined sugar, and refined molasses geared to producing quality rum (Caribseek 12 Sep)
- The engineering procurement and construction agreement between Guyana and China for the construction of the Amaila Falls Hydro project and transmission line has been signed (CNnow 12 Sep)
- Jamaica scored a marked improvement on the Global Competitiveness Index to rank 97th among 144 countries, but high crime and low growth threaten its gains (JG 12 Sep)

## REGIONAL NEWS SUMMARY CONT'D

- Barbados is looking to stop the export of sugar to Europe, as it makes no sense producing sugar at BDS \$4 100 per ton, and then selling it to the Europeans for \$980. Sugar will be produced for domestic consumption; for regional consumption, within the context of the revised Treaty of Chaguaramas and for other value-added products (BAAdv 12 Sep)
- The U.S. Geological Survey has assessed the potential for undiscovered conventional oil and gas fields within priority geologic provinces of South America and the Caribbean as part of the USGS World Petroleum Resources Project (Caribseek 13 Sep)
- The broadcasting and telecommunication sectors represent 3.3% of the GDP of T&T says Cris Seecheran, Executive Director, Telecommunication Authority of Trinidad and Tobago (TG 13 Sep)
- A new state-of-the-art cruise terminal expected to cost over US\$300 million is being built in Barbados with the capacity to berth some of the world's largest cruise ships (Carib360 13 Sep)
- The Economic Commission for Latin America and the Caribbean has warned that foreign trade in the region will suffer from the global economic slowdown that started in the second half of 2011 (JG 17 Sep)
- Compliance with international anti-money laundering and combating the financing of terrorism standards is expensive and could drive small market actors out of business, but must be done urgently if Trinidad and Tobago is to get onto the list of transparent countries due out in January 2013 (TG 17 Sep)
- The T&T Stock Exchange Ltd is now demutualised with 32 shareholders owning 1,545,600 issued shares and equity of \$60 million. Demutualisation refers to the change in legal status of an exchange from a mutual association with one vote per member into a for-profit limited liability company with one vote per share (TG 18 Sep)
- The Caribbean Association of Banks is looking to expand its membership, covering institutions that are not indigenous to the region. Given that issues which affect banks that are native to the Caribbean also affect non-indigenous banks, the CAB has invited international financial institutions that operate in the region to become a part of its membership (JO 18 Sep)
- Total loans are at record levels while bad debts are down, indicating increased health within the financial system, new Bank of Jamaica data indicate (JG 19 Sep)
- Executives at the Bahamas Chamber of Commerce and Employers' Confederation believe that agriculture and construction are the top areas to be explored as potential business opportunities between The Bahamas and Haiti (Caribseek 19 Sep)
- Haiti will receive millions of dollars from Qatar through a special fund that aims to help the impoverished nation in the areas of health, education and housing (Caribseek 19 Sep)
- More work needs to be done to inform the public on how they can take advantage of benefits the Economic Partnership Agreement can offer the Caribbean region, says Justice Winston Anderson of the Caribbean Court of Justice (TG 20 Sep)
- Sale of Jamaica's recyclable materials could be worth well past US\$10 million a year, but the low level of used plastics, old corrugated cardboard and newspapers exported last year, totalling just US\$2.4 million, suggests there is a gaping hole waiting to be filled. This relatively large, untapped potential has interested US investors, who have set up Jamaica Recycles to go after a sizable chunk of the market starting next month (JO 21 Sep)
- The T&T Government intends to pay its liabilities to contractors and wages of public sector staff, among other bills, through the issuance of a \$2.5 billion bond on the local market (Newsd 21 Sep)
- A US\$2.7 million technical cooperation programme is to provide individualized capacity-building training to 15 microfinance institutions in the Caribbean from the end of this month. Carib-Cap II, as the programme is known, will build on the successes of Carib-Cap I through facilitating new client outreach and improved financial performance among 15 microfinance institutions in The Bahamas, Belize, Guyana, Jamaica, Suriname, St. Lucia, Trinidad and Tobago (Carib360 21 Sep)
- The government of Jamaica has secured several investment opportunities that will result in more than a dozen new investment projects, some of which will commence soon and which will generate some 7,000 jobs (CNnow 21 Sep)
- Trinidad and Tobago has secured a multi-million dollar deal with its first major client in the international financial services sector, Trade Minister Vasant Bharath said, and this will create about 200 new jobs. The initial investment is about \$100 million (TE 21 Sep)
- The existence of a proper policy for Micro and Small Enterprises is vital to the sustainability and expansion of Trinidad and Tobago's economy, since MSEs comprise an estimated 85% of all registered businesses in the country, said policy analyst in the Ministry of Labour and Small and Micro Enterprise Development (Newsd 22 Sep)
- The EU has provided more than G\$247M in supplementary funds to assist in supporting Guyana's economic development. In 2003, the EU started a €24 million European Development Fund programme implemented through CARIFORUM to 'Support the competitiveness of the rice sector in the Caribbean', aimed at increasing the efficiency and sustainability of the rice industry, primarily, in Guyana and Suriname (GCO 25 Sep)
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- The Tobago House of Assembly has commissioned the first factory shell at the \$150 million Cove Eco-Industrial and Business Park in Tobago. The first two local manufacturers, Rojas Metal Works and Cove Door Manufacturing Company Ltd, have been waiting to start operations, having already obtained orders from Trinidad, the USA and Africa (TE 25 Sep)

## UPCOMING CONFERENCES

The Caribbean Centre for Money and Finance in conjunction with the Central Bank of Suriname will be hosting the 44<sup>th</sup> Annual Monetary Studies Conference on 7-9 November, 2012, in Paramaribo, Suriname. The theme of the conference is **Global Financial Shocks, Regional Macroeconomic Challenges and Their Impact on Regional Economic Integration**, and will include sub-themes such as:

1. Banking, Finance and Regulation
2. Strategies and Policies to Strengthen Regional Economic Integration
3. Inflation and Economic Management
4. Fiscal Challenges and Debt Management in the Aftermath of the Global Financial Crisis
5. Improving Stock Market Performance in the Region
6. Understanding the Workings of Financial Markets in Small Open Economies
7. Public Sector Operations and Macroeconomic Stability
8. Sectorial Linkages and Economic Development
9. Financial Sector Stability

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The Caribbean Association of Banks, Inc.(CAB) formerly the Caribbean Association of Indigenous Banks Inc (CAIB) will host its first conference under the CAB name and brand at the world-class Montego Bay Convention Centre, Rose Hall, St. James, from November 14-17, 2012. This conference will mark the 39<sup>th</sup> staging of the Annual General Meeting and Conference, and will be held under the theme: **Partnering for Regional Transformation, Development and Growth: Empowering the Financial Services Sector**.

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