



<b>THE LESSONS FROM IMF FISCAL POLICY ADVICE AND POLICY IMPLEMENTATION IN THE CARIBBEAN</b>	<b>Pg 1</b>
<b>REGIONAL NEWS SUMMARY</b>	<b>Pg 2</b>
<b>CONFERENCE SET TO EXAMINE THE SIGNIFICANCE OF VENTURE CAPITAL TO THE REGIONAL TRANSFORMATION AGENDA</b>	<b>Pg 5</b>

## **THE LESSONS FROM IMF FISCAL POLICY ADVICE AND POLICY IMPLEMENTATION IN THE CARIBBEAN**

The present difficult international economic environment and the seemingly intractable fiscal and debt sustainability problems that confront many Caribbean governments, present them with a serious 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. Given this very challenging fiscal situation, much of the policy advice from the multilateral institutions over the last decade had focused on the need to promote fiscal and debt sustainability<sup>1</sup>.

Recent IMF policy advice has generally highlighted the need for Caribbean economies to reduce public debt, increase savings and resist the pressure to increase wages and subsidies<sup>2</sup>. The Fund encourages greater efforts to generate fiscal savings to stabilize and reduce public debt over the medium term as their debt sustainability analysis suggests that the average Caribbean country will need to increase its primary balance by at least four percentage points of GDP through revenue-raising, expenditure-cutting or a combination of these measures. Much of the policy discussions have also centered on the growth implications of the fiscal strategy adopted given that renewed growth remains a central policy objective in all countries, especially those where growth has been muted for some time. In any case, all the stakeholders recognise that there can be no long-term solution to the fiscal and debt problems in the region if growth remains muted.

The national authorities have in most cases agreed with the policy proscriptions of the IMF in most areas but have often disagreed with the pace and scale of policy implementation. In particular, they have generally preferred to exercise more forbearance rather than use pre-emptive action where fiscal consolidation efforts were concerned, in many instances opting to put off necessary adjustment until there was little room to manoeuvre. This perspective is informed by the political unpopularity of fiscal consolidation efforts, especially during periods of relatively strong growth but also current thinking which indicates the fiscal consolidation during depressed economic conditions prolongs the bust cycle.

The years following the international financial crisis therefore saw many countries in the region attempt to mitigate the adverse impact of falling demand by practicing counter-cyclical fiscal policy financed by borrowing with a view to eliminating deficits in the medium term, rather than front loading fiscal adjustments to deal with imbalances. This strategy was predicated on the global economy recovering in the timelines projected by many leading multilateral institutions. These timelines have, however, not only proven to be optimistic with signs of global economic

recovery taking longer than expected to appear but global growth resuming at relatively muted levels, especially in developed market economies. This meant the anticipated rebound in fiscal revenues flowing from more robust foreign demand was slow in coming and was also muted. Weak fiscal accounts in the region therefore continued to be a feature of the regional landscape with the attendant increase in indebtedness. When it became apparent that this strategy was flawed because of optimistic assumptions about the rebound of the global economy and given the already high vulnerability of many countries in the region in this area, many had no choice but to take the hard decision to institute some level of fiscal consolidation to arrest the situation. This was also informed by the growing realisation that the uncertainty that comes from unsustainable fiscal and debt dynamics can be as, or even more, damaging to growth prospects than consolidation efforts. In many cases these policies were also tied to the receipt of funding from multilateral institutions.

These developments highlight one of the main weaknesses of the fiscal policy strategy of many countries in the region, that is, fiscal policy has generally been pro-cyclical with fiscal consolidation not being implemented when demand was buoyant but rather in periods when aggregate demand and growth was weak, leading to greater costs in terms of lost growth and employment. The highest uptake of the IFIs more sensitive advice therefore tends to occur in bust conditions when it is very costly to do so. The most important lesson to be learned from the interplay of IMF fiscal policy advice and the implementation of fiscal consolidation in the Caribbean is that governments must be more proactive in implementing needed and often unpopular policy advice and initiatives since delays in the implementation of needed reforms generally tend to make a bad situation worst.

<sup>1</sup>See forthcoming IADB policy brief "To Cut or not to Cut" by V. Mercer-Blackman and D. Seerattan.

<sup>2</sup>Western Hemisphere: Regional Economic Outlook, April 2012, International Monetary Fund.

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## REGIONAL NEWS SUMMARY

### CL FINANCIAL

- The Barbados government says it will shortly approve a new plan for the restructuring of the operations of the Colonial Life Insurance Company here. (Carib360 9 Jan)
- For the second time in less than two months, a High Court judge has ruled that the T&T Central Bank Amendment Act of 2011, which protects the cash-strapped CL Financial and its subsidiaries from legal action, is unconstitutional and void. (TG 15 Jan)
- Claims filed by two insurance agents challenging the constitutionality of the Central Bank (Amendment) Act 2011, which prevented them from taking legal action against failed insurance company CLICO were dismissed by High Court judge Justice Ricky Rahim. (TE 15 Jan)

### CARIBBEAN

- A new United Nations report says economic growth in Latin America and the Caribbean declined in 2013 but is predicted to improve over the next two years. (TG 1 Jan)
- A Barbadian restaurant now operating at Limegrove Lifestyle Centre is on the verge of branching out with the investment of thousands of dollars by an award-winning Scottish chef. The foreign shareholders who own and operate Wedgwood The Restaurant are said to be investing B\$60 000 in the business to make the expansion a reality. (BN 2 Jan)
- The IDB has announced the approval of a \$40.5 million grant to expand the Caracol Industrial Park, a modern manufacturing facility in northern Haiti. The resources will bolster the Haitian government's efforts to attract more job-generating investments in an economically disadvantaged but potentially productive region. (CNnow 3 Jan)
- Royal Dutch Shell plc announced completion of the acquisition of Repsol's LNG portfolio outside North America for a headline cash consideration of US\$4.1 billion. As part of the transaction, Shell will also assume US\$1.6 billion of balance sheet liabilities relating to existing leases for LNG ship charters, substantially increasing the shipping capacity available to Shell's LNG marketing business. (TG 3 Jan)
- Global credit ratings agency Standard and Poor's has predicted a 2.6% per capita GDP rise in Trinidad and Tobago for 2014 thanks to both recovering energy output and continued growth in the non-energy sector. (TE 4 Jan)
- T&T's inflation rate has fallen from 7% at the beginning of 2013 to 4% at the end of November, data from the Central Statistical Office has confirmed. (TG 6 Jan)
- The closure of several horse racing betting shops across T&T has, over the past months, put scores of people on the breadline. The latest closure is businessman Peter George's betting shop in Port of Spain, which has resulted in approximately 300 people being sent home. (TE 6 Jan)
- The Government of The Bahamas has approved the sale of Esso operations in that country to the Barbados-based Simpson Oil Limited. According to reports from Nassau, the sale is expected to cost around US\$80 million and is subject to requirements including the "protection" of local gas station operators. (BN 6 Jan)
- The landscape of the East Bank of Demerara, in addition to the expansion of the four-lane highway, has seen another change with the opening of the multimillion dollar Park Vue Hotel at Farm. (GCO 6 Jan)
- In Jamaica, the new National Minimum Wage of J\$5,600 per 40-hour work-week, or \$140 per hour, took effect on January 6, 2014. (JO 6 Jan)
- Surinam Government retirees are eager to take to the streets to demonstrate. They fume because their pensions have dropped in value since December 2012. (die Ware Tijd 7 Jan)
- The government of Dominica has received the second fixed tranche of funds under the 10th European Development Fund Multi-Sector General Budget Support Programme. The GSPS is the main tool to foster economic development and poverty reduction in Dominica. (CNnow 7 Jan)
- Barbados' Minister of Finance Chris Sinckler served up a mixture of bitter medicine and hope under his 2014 economic revival programme, but assured no more taxation at this time (BN 7 Jan)
- Acting Finance Minister, Vasant Bharath, met with members of the US-Based consultancy firm, The Medici Group, to discuss the further development of Trinidad and Tobago's financial services sector. "The Medici Group has done work of this nature throughout the world and we've just engaged them to really develop the financial services sector, particularly with regard to business process outsourcing (and) developing capital markets in Trinidad." (Newsd 7 Jan)
- T&T has been ranked among the best places in Latin America for the economic freedom it offers to foreign direct investors (TG 7 Jan)
- National Commercial Bank (Jamaica) says it has taken a decision to quit the remittance business effective January 22, because the continued provision of remittance services has negatively impacted the global risks facing the NCB Group. (JO 7 Jan)
- In response to serious damage caused by a Low Level Trough System in the Eastern Caribbean region, the European Commission's Department of Humanitarian Aid and Civil Protection has released more than €300,000 to bring immediate relief to the populations most affected by floods. (GCO 8 Jan)
- Faced with the fluctuating prices for gold on the world market, a number of miners in Guyana have been forced out of the industry while some who have not paid their bills have seen the banks repossessing more than 100 excavators that they had taken loans to purchase. (GuyTim 8 Jan)
- RedStripe expects to create 2,500 jobs in five years as part of a project to replace imported inputs with locally grown cassava in the production of beer in Jamaica. (JO 8 Jan)
- Trinidad and Tobago will be the first country in the region to undergo the fourth round of mutual evaluation utilizing the revised Financial Action Task Force's 40 recommendations,

## REGIONAL NEWS SUMMARY CONT'D

- said Central Bank of Trinidad and Tobago governor, Jwala Rambarran. (CNnow 8 Jan)
- The Antigua and Barbuda Development Bank says it has signed a memorandum of understanding with the Barbados-based Caribbean Export Development Agency allowing legally registered firms and individuals to be in a better position to export their products and services throughout the Caribbean. (Carib360 9 Jan)
  - While neighbouring countries such as Barbados have announced a mass lay-off of civil servants in the near future, Suriname is not likely to follow suit. The country's economic prospects here are better and the financial position of the Government is also more favourable than in surrounding countries. (die Ware Tijd 9 Jan)
  - An IMF institution based in Barbados is planning to pursue new efforts to help Barbados and other Caribbean countries manage their finances over the next 12 months. (BN 9 Jan)
  - Suspicious monetary transactions with an estimated value of \$ 1.12 billion were intercepted by reporting entities, according to a report by the Financial Intelligence Unit of Trinidad and Tobago. (TE 11 Jan)
  - Trinidad and Tobago's low productivity levels are driving production costs up, Minister of Labour Errol McLeod said. (TE 11 Jan)
  - Rum producers in Barbados and the Caribbean may have gained a reprieve from harmful American rum subsidies from an unlikely source – the United States Congress. Reports indicate that among 55 tax breaks which were allowed to expire at the end of last year were controversial excise tax rebates to Puerto Rico and the USVI from a tax on rum imported into the US. (BN 13 Jan)
  - Governor of the Central Bank of Barbados, Dr. DeLisle Worrell, says tourism-related investment will impart some stimulus to the local economy this year, but this effect will be largely eroded by the fiscal contraction, and the forecast is for growth of less than one per cent. (Carib360 13 Jan)
  - In order to take away the gaps between rich and poor, the government should direct its efforts at the richest people in society. Sociologist and professor at Aton de Kom University, Marten Schalkwijk, is convinced a new strategy will help to take away inequalities. (die Ware Tijd 13 Jan)
  - The Jamaican Government has acknowledged that the smoking ban introduced last July by the minister of health is having a significant negative impact on its revenue projections for the current fiscal year. (JO 13 Jan)
  - Jamaica's Prime Minister Portia Simpson-Miller said linkages between tourism and other sectors of the economy should be developed and strengthened as there is enormous potential within the Caribbean to supply the sector's collective needs. (TG 14 Jan)
  - CIBC FirstCaribbean International Bank has said that it is planning to cut its workforce of 3,500 by 10%, or about 350 staff, under a restructuring plan aimed at addressing recent losses. The bank reported annual losses of US\$27.5 million at year end October 2013 (JG 15 Jan)
  - Jamaica's Finance ministry has repaid US\$150 million of debt that was issued to the big banks Scotiabank and NCB back in 2012, different sources confirmed. Well-placed sources say the repayment of the fixed-rate US-dollar bond was financed from multilateral funds received by the Government of Jamaica as budgetary support. (JG 15 Jan)
  - There has been a 30.8% increase in the fee income of commercial banks since 2010, the Bank of Jamaica has said. (JG 15 Jan)
  - There have been increasing reports, particularly regarding remittances, of the impacts resulting from the warning by the Caribbean Financial Action Task Force after Guyana missed the given deadline for the passage of the Anti-Money Laundering/Countering the Financing of Terrorism Bill. (GCO 16 Jan)
  - St Kitts and Nevis has received EC\$23 million in budgetary assistance from the European Union, according to Barbados-based European official, Ambassador Mikael Barford. (CNnow 16 Jan)
  - Although the Caribbean suffers from enormous debts and slow economic growth, Suriname continues to be an example worth studying, according to CDB officials as they concluded a week long orientation in Suriname (die Ware Tijd 17 Jan)
  - Carol Birchwood-James, vice president of the Tobago Hotel and Tourism Association, is appealing to banks to assist in the economic development of the island's hotel industry by granting loans guaranteed under the Government's Tourism Development Plan (TG 17 Jan)
  - Prime Minister Perry Christie says the task of maintaining the local economy has become a "daunting" task in light of the slow and recovering global economy. He said 18 months into his administration, it has had to deal with strengthening the economy, increase jobs, address social ills including poverty and crime. (Carib360 17 Jan)
  - Jamaican consumers handed more than J\$2 billion over to banks by swiping their debit cards last year, according to Sunday Finance calculations. It is reported that "some debit card users may be paying upwards of \$2,000 of their hard earned money in ATM and point of sale fees each month". (JO 19 Jan)
  - Businessmen in Linden (Guyana) are prepared to collectively invest G\$0.5B in 2014 to develop an industrial park and commercial complex along the Amelia's Ward stretch. (SN 20 Jan)
  - It is time for Barbadian tourism officials and their counterparts in the Caribbean to support efforts to promote the region as one destination. (BN 21 Jan)
  - T&T has started a second round of negotiations with El Salvador for partial scope trade agreements, a bilateral investment treaty and a tourism co-operation agreement. (TG 21 Jan)
  - Latin American and Caribbean countries registered an average global deficit of 2.4% of GDP in 2013, but their fiscal revenues rose and kept their public debt situation stable, giving them more room to increase investment and social spending. This is according to a new study by ECLAC. (GuyTim 22 Jan)
  - Efforts to mould a cohesive, harmonious Caribbean Community got under way with the launch of phase two of the CARICOM trade and competitiveness project on harmonisa-

## REGIONAL NEWS SUMMARY CONT'D

- tion and standardisation of administrative practices and procedures, hosted at the CSME Unit in Barbados. (CNnow 22 Jan)
- The non-passage of the Anti-Money Laundering and Countering the Financing of Terrorism (Amendment) Bill 2013 and Guyana's subsequent blacklisting has helped to drive up foreign exchange rates. (GuyTin 23 Jan)
  - There has been "a continuous increase in suspicious transactions" in the \$10 billion credit union sector, according to Nigel Stoddard, deputy director of T&T's Financial Intelligence – the watchdog body for the finance sector. (Newsd 23 Jan).
  - Now is the time to invest in Barbados, that country's Minister of Industry, International Business and Commerce Donville Inniss said when he addressed the quarterly luncheon meeting of the T&T Chamber of Industry and Commerce (TG 23 Jan)
  - Barbados' Fortress Fund says its Caribbean Growth Fund is awash with cash but it is struggling to find suitable investments in Barbados and the region. Fortress said CGF had cash reserves of about \$52 million – 15 per cent of the fund's assets – ready to be invested but the opportunities were few. (BN 23 Jan)
  - Barbados says it expects to earn BDS\$10 million by the second year of the development of an animation industry, which is part of the multibillion-dollar multimedia and entertainment sector. (Carib360 24 Jan)
  - Business and consumer confidence in Jamaica inched up in the last quarter of 2013 from record lows three months before. However, current job prospects dipped to a record low, while devaluation trumped crime as a major concern. (JO 24 Jan)
  - With its global US\$8 billion asset base, a presence in 22 countries and a coveted A-rating from AM Best, New India Assurance Company remains very upbeat about its prospects in Trinidad and Tobago, says its global chairman Gopalan Srinivasan. (Newsd 25 Jan)
  - UNICOMER Group of companies which is responsible for Courts Ltd and other companies in Trinidad has purchased Valpark Shopping Plaza, which along with Atlantic Plaza were put up for sale last year by Home Construction Ltd, a subsidiary of CL Financial. (Newsd 25 Jan)
  - Investors are being sought for two major tourism projects being spearheaded by the Chaguaramas Development Authority – an amusement park and family entertainment centre in Chaguaramas and an ecotourism resort on Chacachacare Island (TG 26 Jan)
  - The International Financial Corporation, a member of the World Bank Group, has signed a memorandum of understanding with the Caribbean Development Bank to support public-private partnerships that are crucial to building better infrastructure in the Caribbean. (BN 27 Jan)
  - Reunion Gold has signed a memorandum of understanding with the National Energy Corporation of T&T setting out the terms under which the parties will collaborate to evaluate the potential development by Reunion of a silico-manganese plant in T&T. (TG 27 Jan)
  - There has been an increase in the number of persons in Barbados reporting as self-employed from 14 000 in 1996 to 17 500 in 2001. (BAAdv 28 Jan)
  - Sagicor Group Jamaica is on the verge of acquiring RBC Royal Bank's Jamaican operations, according to highly reliable sources in the region. (JO 29 Jan)
  - Despite a decline in crude oil production from 2012 to 2013, this country received \$20 billion in taxes from oil and gas last year. (Newsd 29 Jan)
  - A parliamentary oversight committee is expressing fears that customers of the various banking institutions in Jamaica will remain at the mercy of some financial entities in relation to increased banking fees as the proposed enforceable code of conduct does not speak to the vexed issue of exorbitant bank rates. (JG 29 JN)
  - Although Suriname's economic structure differs much from that of most members of the Caricom, the country is not a standout. Ramesh Dookhoo, Guyanese and chairman of the Caribbean Association for Trade and Industry is convinced Suriname fits in perfectly in the Caribbean. (die Ware Tijd 29 Jan)
  - Negotiations on a trade agreement between Canada and Caribbean Community countries have limped along for over five years. Unless political will and energy is now put into the process, the negotiations could fizzle out by the end of June – a 'drop-dead' date now accepted by both sides. (Caribseek 30 Jan)
  - The Trinidad and Tobago energy sector benefitted from more than two billion US dollars in foreign direct investments during the period 2010-12, Energy Minister Kevin Ramnarine has said. (Carib360 30 Jan)
  - The IMF said that despite two consecutive financial arrangements with Grenada, totalling more than US\$28 million, the island missed the key programme objectives of securing a sustainable fiscal position and a higher growth path. (Carib360 30 Jan)
  - The United Nations says foreign direct investment to the Caribbean reached a new high last year. In a report, the UN Conference on Trade and Development said flows to Latin America and the Caribbean increased by 18%, the fourth consecutive year of growth, to an estimated US\$294 billion. (Carib360 30 Jan)
  - Royal Bank of Canada will take a CAD\$60 million (J\$5.9 billion) loss on the sale of its Jamaican operations to Sagicor Group Jamaica, due to an estimated writedown for the proportionate share of RBC Jamaica's goodwill and other intangibles acquired by RBC in connection with its acquisition of RBTT Financial Group in 2008. (JO 31 Jan)
  - The decision by the Caribbean hotel group, Sandals Resorts International, led by Gordon "Butch" Stewart to invest in two hotel projects in Barbados should help to boost that country's economy at a time when it is experiencing fiscal difficulties. (JO 31 Jan)
  - Grenada and St Kitts and Nevis have both announced that they will join the Bolivarian Alliance for the Peoples of the Americas, known by its Spanish acronym ALBA. (CNnow 31 Jan)

## CONFERENCE SET TO EXAMINE THE SIGNIFICANCE OF VENTURE CAPITAL TO THE REGIONAL TRANSFORMATION AGENDA

Despite the existence of a highly liquid financial market in the Caribbean, many regional entrepreneurs believe that the ability to capitalize on opportunities is stymied due to the unavailability of an appropriate mix of financial capital. While traditional loan financing has been responsible for the success of many regional businesses, there is the view that new and innovative instruments beyond traditional debt financing are also required to fund entrepreneurial ventures. Venture/risk capital has been utilized in different jurisdictions; however in the context of the Caribbean, its effectiveness as a financing tool has not been optimized.

It is against this background, this year The Caribbean Centre for Money and Finance Caribbean Business Executives Seminar will focus on venture capital financing. The seminar entitled **"Venture Capital and its Relevance to the Regional Transformation Agenda."** is scheduled for **April 4th 2014 at the Hyatt Regency in Trinidad.** It is expected to attract a wide cross-section of financial services practitioners, members of the private sector and academia, policy-makers, investors and representatives of regional and international development organizations with a focus on enterprise development.

Topics to be addressed include venture capital mobilization and allocation, and the significance of the Caribbean financial market structure and legislation to the venture capital process, effective fund management strategies, aligning fund raising to investment strategy, sourcing and structuring deals, valuations and exits. Participants will also gain practical insights through shared investor/investee Caribbean ex-

periences of the venture capital process from pre-entry to post-exit.

The distinguished team of regional and international presenters who have already confirmed their participation include Senator Larry Howai, Minister of Finance and the Economy, Government of Trinidad and Tobago; Mr Jwala Rambarran, Governor of the Central Bank of Trinidad & Tobago; Mr Nicholas Galt, Chairman of the Association of American Chambers of Commerce in Latin America (AACCLA); Mr Alan Slusher, Advisor to the Prime Minister of Belize and former Governor of the Central Bank of Belize; Professor Jay Mitra, Director of the International Centre for Entrepreneurship Research at Essex Business School, University of Essex, UK; Professor Compton Bourne, Executive Director, Caribbean Centre for Money and Finance and former President of the Caribbean Development Bank; Mr Wain Iton, Chief Executive Officer, Trinidad and Tobago Securities Commission and former CEO, Trinidad and Tobago Stock Exchange; Professor Ajit Battacharya, Professor of Entrepreneurship, University of Trinidad and Tobago.

The event is expected to result in a more in-depth understanding of venture capital and how it can be utilised as an effective complementary financing tool to accelerate entrepreneurial development, an activity that is necessary for meaningful transformation. Details on the Seminar will be provided on the Seminar website ([cbes.ccmf-uwi.org](http://cbes.ccmf-uwi.org)) or from Mrs Kathleen Charles (email: [Kathleen.Charles@sta.uwi.edu](mailto:Kathleen.Charles@sta.uwi.edu)) or Mrs Pamela Joseph (email: [Pamela.Joseph@sta.uwi.edu](mailto:Pamela.Joseph@sta.uwi.edu)).

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