Caribbean Centre for Money & Finance

March 2009 **Newsletter :Volume 2, No. 3**

Inside this issue:

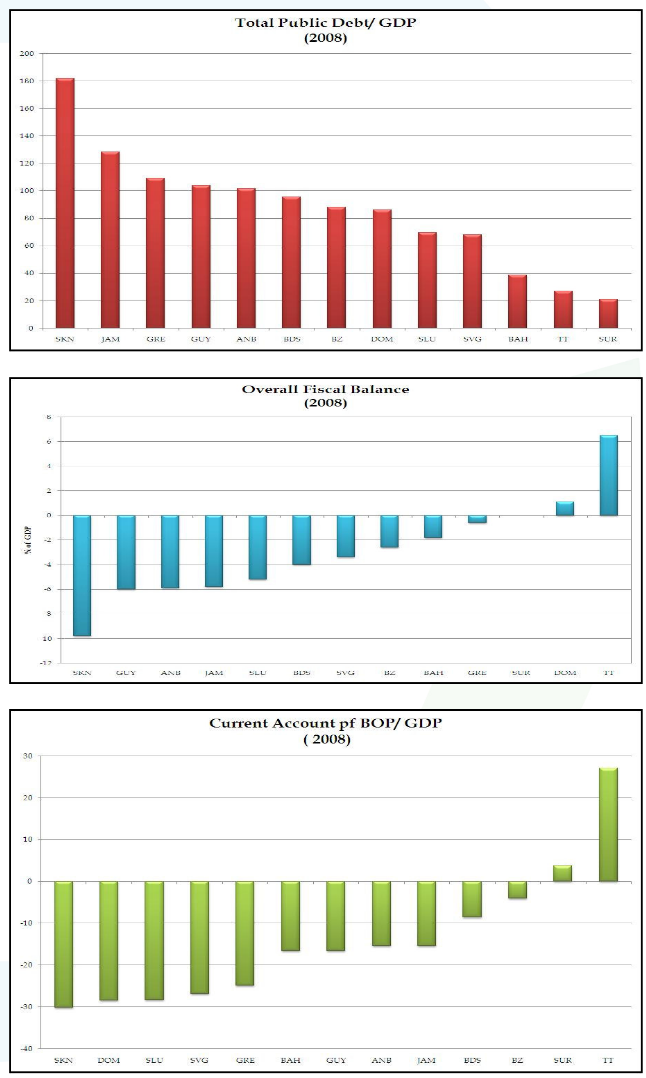
Debt and Fiscal Sustainability in the Caribbean

The Caribbean accounts for 7 of the 10 most indebted countries in the world, reflecting the build-up of fiscal and balance of payments deficits. Because of the worsening of the global economy, the negative spillovers to the real economy in the Caribbean and the challenges of debt and fiscal sustainability in some Caribbean countries, the degree to which countries in the region can use counter-cyclical fiscal policy to sustain growth and employment during this turbulent economic period is limited.

There are considerable differences between countries in terms of debt and fiscal sustainability and therefore their capacity to practice counter-cyclical fiscal policy. Jamaica, Guyana and St. Kitts and Nevis have been plagued by relatively high fiscal deficits, high deficits on the current account of the balance of payments and relatively high debt overhangs. On the other hand, countries such as Trinidad and Tobago and Suriname have relatively strong fiscal, external and debt accounts, allowing them more leeway to practice counter-cyclical fiscal policy (See Figure 1). Trinidad and Tobago's case is more complicated because even though it has recorded strong overall fiscal surpluses it had a large non-oil fiscal deficit of approximately 14.8% of GDP which makes it vulnerable to the recent dramatic fall in energy prices.

The most vulnerable countries such as Jamaica, St. Kitts and Nevis, Guyana and Antigua and Barbuda do not necessarily have short-term financing problems if they have relatively easy access to financing at reasonable costs and/or there are income streams to comfortably cover debt payments. Countries such as Jamaica and St. Kitts and Nevis which already have high external debt service ratios (See Figure 2) may

Fig. 1 Economic Vulnerability Factors



find that their debt service burden increase to unsustainable levels as a result of the expected negative real spillovers from the current global eco-

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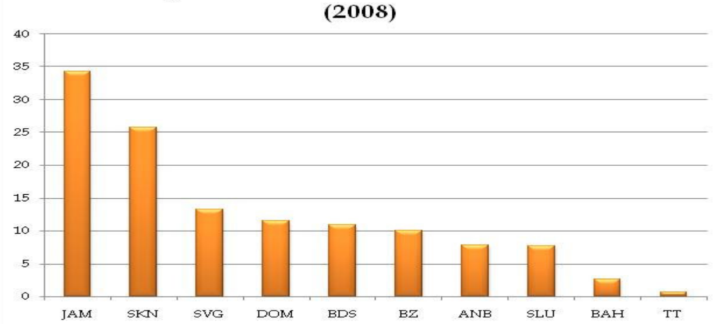
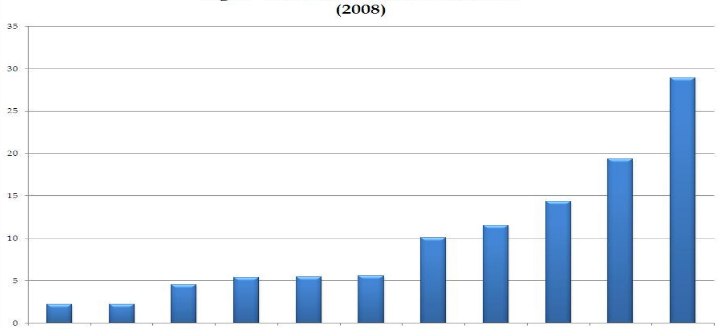
nomic problems on the external accounts. At the same time they may have difficulty raising funds from the international financial markets for public projects, reducing their ability to practice counter-cyclical fiscal policy.

Fig 2. External Debt Service Ratio (2008)



Countries can still resort to domestic financing for counter-cyclical fiscal policy since domestic liquidity is high and interest rates are relatively low and likely to decrease further in the current economic environment. Additionally, the domestic debt service burden is very manageable in most cases except Jamaica and possibly St Kitts and Nevis (See Figure 3). In Jamaica's case if amortization on domestic debt is included its domestic debt service ratio is expected to rise to 59.7%.

Fig. 3 Domestic Debt Service Ratio (2008)



In the most vulnerable cases such as Jamaica and St. Kitts and Nevis governments need to focus on fiscal consolidation, improvement of debt management systems and negotiation of debt restructuring and/or debt forgiveness with creditors. In less vulnerable countries such as Trinidad and Tobago and Suriname where there is more scope for counter-cyclical fiscal policy efforts should focus on carefully targeted expenditure programmes giving priority to projects which have the greatest impact on employment and direct productive capacity. Moreover, projects for which financing has already been approved should be brought forward. Projects that involve significant increases in recurrent expenditure on an ongoing basis with little or no revenue streams to offset these increased recurrent costs should be avoided.

Policy initiatives in this vein have already been adopted in many jurisdictions. The form and scope of these initiatives reflect individual country environment and circumstance. In the most vulnerable countries policy initiatives include efforts to enhance revenue collection such as the introduction of VAT in Antigua and Barbuda and Guyana while Antigua and Barbuda has moved to a market valuation based property tax system. Efforts to reduce expenditures include the decision to close unprofitable state enterprises in St. Kitts and Nevis and Belize. Jamaica is also moving to privatize Air Jamaica and the Sugar Company of Jamaica. Antigua and Barbuda has also started to implement civil service reform in the form of a voluntary separation programme to contain the wage bill. Direct efforts to control the escalation in debt include re-negotiation with creditors which has been pursued by Grenada and Belize in response to the crisis.

In terms of countries with more space for counter-cyclical fiscal policy, Barbados has introduced a B$80-120 million fiscal stimulus package which is not expected to threaten the country's external accounts or its international credit rating. The Bahamas has also budgeted for an 11% increase in capital expenditure for road and port development which is to be funded largely by domestic financing. Trinidad and Tobago in spite of an estimated TTS6.0 billion short-fall in revenue for 2009 has still maintained some fiscal stimulus choosing to make up the shortfall in part through deficit financing.

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New CCMF Research Associates

* Dr. Brian Langrin

Brian Langrin is the Head of the Financial Stability Department at the Bank of Jamaica and serves as a Regional Director (Caribbean) for the Global Association of Risk Professionals.

Dr. Langrin has been working extensively on financial risk modelling and measurement as well as areas related to financial system stability. He has published articles in international scholarly journals and has been an invited presenter in a number of risk management conferences and workshops internationally.

Dr Langrin has also lectured in the MSc. Degree programme at the Department of Economics, University of the West Indies, Mona, and in the MBA programme at the Mona School of Business.

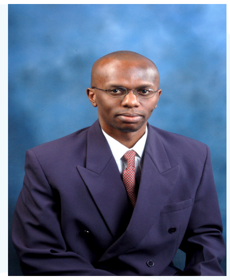
Dr. Langrin holds a Ph.D. in Economics from Penn State University as well as MSc. and BSc. Degrees in Economics from the University of the West Indies, Mona.

*Dr. Thomson Fontaine

Dr. Thomson Fontaine is currently an economist at the International Monetary Fund (IMF) a position he has held for the past nine years. At the IMF he has provided economic policy advice to several country governments including those of Afghanistan, Vietnam, Turkey and Niger and several other African countries; and provided training to central bankers in the Caribbean and the Middle East. His publications include research on currency crises, economic growth issues and the Diaspora. He is a graduate of the University of the West Indies (UWI) and Clemson University.

A national of Dominica, he is currently President of the Caribbean Association of World Bank IMF Staff (CAWI), an executive member of the Dominica Academy of Arts and Sciences (DAAS), and founder and editor of TheDominican.Net an online news magazine. He previously lectured at Clemson University, Limestone College and the University of the West Indies distance learning.

*Dr. Winston Moore



Winston Moore is a Lecturer in Economics at The University of the West Indies, Cave Hill Campus (2006–present). Prior to joining the Department, he was Senior Economist at the Central Bank of Barbados. Dr. Moore has also served as an Associate Consultant to the Barbados National Productivity Council, helping to develop the methodological approach for the National Productivity Survey. Dr. Moore research has focused on three major areas in economics: Industrial Economics, Tourism Economics and International Macroeconomics, publishing more than 40 articles in peer-reviewed journals and books. His research has appeared in major journals such as the Journal of Forecasting, Journal of Policy Modeling, Annals of Tourism Research, Applied Economics and Contemporary Economic Policy. Dr. Moore holds a PhD in economics from the University of Surrey; an MSc in Economics from the University of Warwick, and; a BSc in Economics from the University of West Indies, Cave Hill.

* Dr. Wendell Samuel

Wendell Samuel, a national of St. Vincent and the Grenadines, is Senior Economist in the Caribbean 1 Division of the IMF's Western Hemisphere Department, Mr. Samuel holds Bachelor and Master in Economics degrees from the University of the West Indies, and a Ph.D. in Economics from New York University. Prior to joining the Western Hemisphere Department, Mr. Samuel was Senior Director of Research and Information at the Eastern Caribbean Central Bank, and a lecturer in the Department of Economics at the University of the West Indies. His current research interests are: monetary and financial integration, international reserve adequacy, cyclicality of fiscal policy and remittances.

*Dr. Aronld McIntyre

Dr. Arnold McIntyre currently holds the position of Resident Representative (Ghana) within the Africa Department of the International Monetary Fund (IMF), where he has held other senior positions since 2002. Prior to working with the IMF he was Lead Adviser at the Caribbean Regional Negotiating Machinery, Program Manager for the Caribbean Export Development Agency and Chief Consultant (Trade and Policy) with the OECS. Dr. McIntyre has published many articles in the area of International Trade.

The University Of The West Indies
Sir Arthur Lewis Institute Of Social And Economic Studies (SALISES)

Tenth Annual Conference

Cave Hill Campus, Barbados

March 25-27, 2009

Theme: "NAVIGATING RISKS AND BUILDING RESILIENCE IN SMALL STATES"

CALL FOR PAPERS

Papers and Panels are welcomed for the following topics:

- Climate Change and Small States
- The EPA and Doha (WTO) Agreement: Opportunities and Challenges
- Frontiers of Risks: Considering Caribbean Entrepreneurship
- Finance, Investment and Risks: International and Local Dimensions
- Testing Neoliberalism: National Development, Social Care and International Competitiveness
- Crime, Violence and Regional Security
- The HIV/AIDS Pandemic, Well-being and Lifestyle Challenges
- Charting New Areas in Innovation and Enterprise Development
- Identity at Risk: The Pillaging of Regional Cultures
- Tourism at Risk
- Cultural Industries in Small States: Copyright, Piracy and Technology
- Caribbean Manufacturing: In the Doldrums
- Vulnerable Populations, Social Exclusions and Poverty
- Gender, Health and Risk
- The Rights of Children and Youth at Risk
- Risk Management and Disaster Mitigation
- Social Capital and Survival Strategies
- Human Resources Development and Building Resilience
- Macroeconomic Management in Small States

The Sir Arthur Lewis Distinguished Lecture Series

The 2009 Sir Arthur Lewis Distinguished Lecturer will be Prof. Dani Rodrik, Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. The title of the lecture is:

"One Economics, Many Recipes"

Submission Deadlines:

The deadline for submission of abstracts is December 15, 2008**.** Authors of papers accepted for presentation at the Conference will be notified by ***January 16, 2009***. The deadline for submission of full papers in PDF Format is ***February 15, 2009***.

Please check our website for updates at

www.cavehill.uwi.edu/salises

or email us at

salises@cavehill.uwi.edu

The Institute can also be reached at **(246) 417-4477/8 (Tel); or (246) 424-7291 (Fax).**

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