

FISCAL DEFICITS - THE NEW TREND FOR CARIBBEAN COUNTRIES? CON'TD

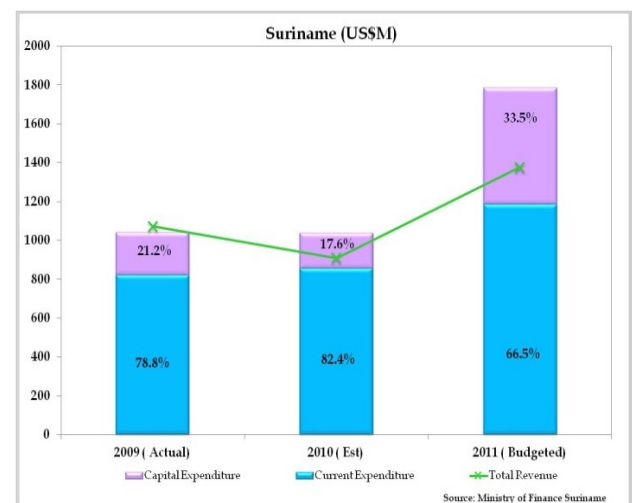
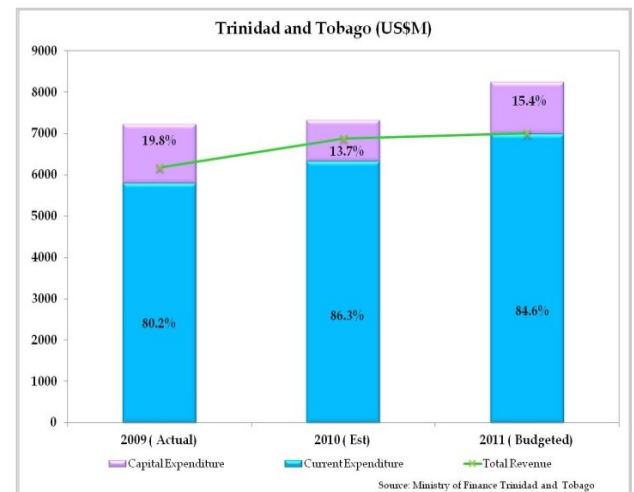
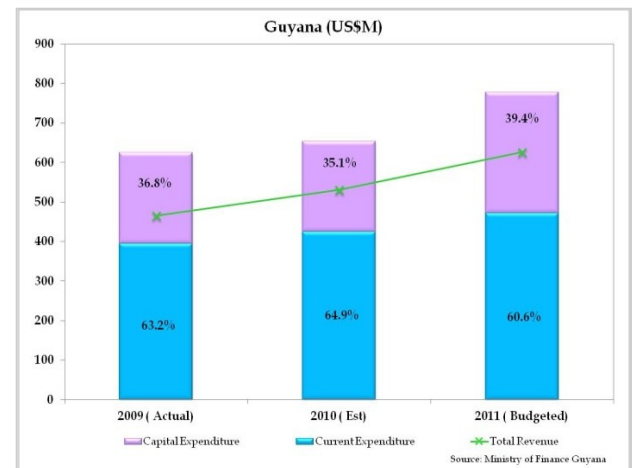
their recent budget presentations for 2011/2012 (Figure 2) in part because they have adopted an expansionary fiscal policy strategy to sustain growth.

Having a fiscal deficit is not as bad as it appears to be. The problem with a fiscal deficit arises from the manner in which it is financed and the way the money is used. The question then is – how can the Caribbean economies continue along their projected growth path while they continue to be hindered by fiscal imbalances and high debt levels? One of the major problems that exist internationally as well as regionally, is the fact that governments have become the major contributor to GDP and by extension the driving force behind the country's economic growth since the onset of the financial crisis. If governments are to reduce their fiscal deficits by cutting expenditure, there is a high possibility the economies will experience lower, and in some cases negative, growth rates.

The IMF has highlighted the need for Caribbean economies to reduce public debt, increase savings and resist the pressure to increase wages and subsidies. Greater efforts are necessary 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 a combination of revenue-raising and expenditure-cutting measures. The Caribbean economies' fiscal and debt issues are not that precarious when compared to the advanced economies; they require an eight per cent of GDP adjustment in the cyclically-adjusted primary balance over the next 10 years to stabilize and reduce debt levels.

Each Caribbean economy have unique challenges so an appropriate fiscal consolidation policy must be adopted by each country; the common link must be to have a fiscal plan that will enable the country to achieve meaningful fiscal savings and revenues, have expenditure reductions rather than tax-based consolidation and cuts in current spending rather than in capital spending. This would foster sustainability in the deficit and debt position of countries in the region, because a fiscal deficit that is a result of capital expenditure as opposed to current expenditure will have a positive impact on the economy in the long run.

Figure 2:
Central Government Fiscal Overview



REGIONAL NEWS SUMMARY

CL FINANCIAL

- A High Court judge ordered defunct CLICO Investment Bank to repay a \$700 million deposit to the National Insurance Board. (TE 28 Sep)
- A forensic audit is to be undertaken to trace as much as US\$17 million in assets of the failed CLICO International Life Insurance, the Barbados and Eastern Caribbean operations of the CL Financial conglomerate (GuyTim 3 Oct)
- The Central Bank is ready with the bonds for CLICO depositors, according to Finance Minister Winston Dookeran (TE 13 Oct)
- Jamaican noteholders have agreed to accept an immediate US\$20-million payout from Trinidad-based CL Financial with a second tranche by year end (JG 14 Oct)
- High Court judge Ronnie Boodoosingh has given CLICO Investment Bank the green light to proceed with its winding-up (TE 18 Oct)
- The probe into Clico, which dates back to the company's meltdown in 2009, has cost the State \$105 million in forensic and legal fees, Attorney General Anand Ramlogan revealed (Newsday 21 Oct)
- The caretaker management of CL Financial has sued a former executive over an alleged unpaid loan related to his 2007 acquisition of the group's media unit, CL Communications Ltd (TE 28 Oct)

THE STANFORD GROUP

- A three-person organization has stepped up to represent over 20,000 people across 112 countries who were victimised when the Ponzi scheme of Allen Stanford collapsed over two years ago (Carib360 30 Sep)
- District Judge David Godbey said he is concerned that court-appointed receiver Ralph Janvey is duplicating efforts of U.S. prosecutors in tracking overseas assets of accused Ponzi schemer Allen Stanford and should provide a plan to repay Stanford's investors (Carib360 14 Oct)

CARIBBEAN

- Fitch Ratings upgraded the sovereign foreign currency credit rating for Suriname one notch to B-plus, citing a stronger credit position and improvements in its balance of payments (Reuters 29 Jul)
- Jamaica attracted roughly US\$1 billion in net investment last year when factoring all business activity, including foreign direct investment, according to a central bank report (JG 28 Sep)
- The Cayman Islands' economy recorded positive growth in the first six months of 2011 (Caribseek 30 Sep)
- The Bank of Jamaica has disclosed that net remittances for July were US\$149.7 million, an improvement of US\$15.1 million or 11.2 per cent relative to the corresponding period of 2010 (JO 30 Sep)
- Starting September 30, Scotiabank customers in Barbados will be able to conveniently bank-on-the-go with the new Scotia Mobile App for Blackberry and iPhone (BAdv 30 Sep)
- T&T's headline inflation was 0.6% in August, down from 1.4% in July, the Central Bank said (TE 1 Oct)
- President Desi Bouterse of Suriname announced a projected 5% deficit for the fiscal year 2012 -- 3.7% down from the previous year (CNnow 3 Oct)
- Johnston International Limited, at one time a major construction company in the Turks and Caicos Islands, has gone into liquidation for the non-payment of millions of dollars owed to it by the Urban Development Corporation of Trinidad and Tobago Limited (CNnow 3 Oct)
- Trinidad Cement Limited has reached a deal with the majority of its creditors that gives the struggling producer eight years in which to make good on its outstanding debt (JG 5 Oct)
- Tax activists set their sights on the Cayman Islands on Wednesday, demanding that Britain bring one of the world's best known tax havens to account (CNnow 6 Oct)
- The representative bodies in Aruba, Curacao, St. Eustatius & Saba and St. Maarten have come together to form the Association of Dutch Caribbean Chambers of Commerce & Industry (Carib360 7 Oct)
- Barbados recorded increases in stay-over visitor arrivals from all source markets during September. This means 8 079 more visitors came to the island than during the same month in 2010. The most significant increases came from Germany and Trinidad and Tobago (BN 7 Oct)
- The T&T economy is projected to decline by 1.4% in 2011 as a result of flat growth in the petroleum sector coupled with lower levels of economic activity in the non-petroleum sector (TE 12 Oct)
- St Kitts and Nevis's Robert L. Bradshaw International Airport saw an increase in inbound and outbound passengers during the second quarter of this year compared to the same period last year (CNnow 12 Oct)
- PanCaribbean Bank, the smallest of 7 commercial banks by assets, has announced that it will be cut-

REGIONAL NEWS SUMMARY CONT'D

- ting its Jamaican dollar prime lending rate by 50 basis points to 16.40% (JG 12 Oct)
- Governor of the Central Bank Dr Delisle Worrell said at least 1 000 jobs were lost between June and September, and lamented that this trend would continue until the upcoming tourist season starts in December (BN 13 Oct)
- The IMF has called for Caribbean governments to act decisively to address “persistent” weakness in the financial sector while stressing the need for stronger resolve to reduce high public debt (Carib360 14 Oct)
- A two-year wage freeze in the Public Service and immediate cuts in Government spending form part of a new IMF prescription for the flagging Barbados economy (BN 18 Oct)
- The Air Jamaica divestment committee has reported, the process to offload the national airline has cost US\$40 million less than was projected (JG 19 Oct)
- Jamaica's total liabilities to Venezuela under the PetroCaribe Development Fund has been increasing steadily since its creation in 2006 and is expected to reach J\$164 billion at the end of this fiscal year (JG 19 Oct)
- Caribbean countries would enjoy a growth spurt if they traded and invested more among themselves and with Central America, says Albert Ramdin, of the OAS (JO 19 Oct)
- Barbados and its Caribbean neighbours are being urged to take advantage of a trade expert being provided by the Commonwealth to help build export capacity (BN 21 Oct)
- Antigua Commercial Bank celebrated its 56th anniversary of service to the people of Antigua and Barbuda and beyond (Caribseek 21 Oct)
- Jamaica dipped seven spots to rank 88 in the Doing Business Report 2012 representing its seventh straight year of decline due to difficulty obtaining electricity supply and a burdensome tax structure (JG 21 Oct)
- The economic growth outlook for the ECCU has been revised downwards, with real growth for 2011 now projected at 0.4% (CNnow 25 Oct)
- The World Bank and the International Finance Corporation have ranked Saint Lucia first in the Caribbean for doing business (CNnow 26 Oct)
- T&T's exports of liquefied natural gas to Japan are on the increase with Japan's second-largest power utility, Kansai Electric, importing almost four times as much LNG from T&T this year than last (SN 28 Oct)
- Director of the Financial Intelligence Unit of Trinidad and Tobago said more money laundering cases were being recorded in T&T as more businesses report to the Unit (TE 28 Oct)

UPCOMING EVENT

43RD ANNUAL MONETARY STUDIES CONFERENCE

“Financial Architecture and Economic Prospects beyond the Crisis in the Caribbean”

15th – 18th November, 2011 – Hilton Barbados, Needham's Point, St. Michael, Barbados

Interested in **Attending** - <http://www.centralbank.org.bb/WEBCBB.nsf/webpage/54E744FADE7F76FD042578EF006037A1?OpenDocument>

STAFF OF THE CARIBBEAN CENTRE FOR MONEY AND FINANCE

Research Fellow / Officer in charge :

Mr. Dave Seerattan

662-2002 ext 82552

Dave.Seerattan@sta.uwi.edu

Research Fellow :

Mr. Anthony Birchwood

662-2002 ext 82545

Anthony.Birchwood@sta.uwi.edu

Research Fellow :

Ms. Tracy Polius

662-2002 ext 82547

Tracy.Polius@sta.uwi.edu

Research Assistant:

Ms. Julia Jhinkoo

662-2002 ext 82546

Julia.Jhinkoo@sta.uwi.edu



**CARIBBEAN CENTRE
FOR MONEY & FINANCE**

The University of the West Indies
St. Augustine
Trinidad and Tobago
Phone: 868-645-1174
E-mail: ccmf@sta.uwi.edu