



# Caribbean Corner

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Western Hemisphere Department

[2015 Caribbean Forum](#)

**Caribbean Matters at the IMF.** The International Monetary Fund maintains a strong partnership with the Caribbean region, with dedicated country teams in its Western Hemisphere Department, as well as staff in other departments.

With a total population of 40 million and a cumulative land area of just over 1 million sq miles, the region counts multiple island nations in the Caribbean Sea and the surrounding coasts. Its people represent ethnic groups from four continents. Mostly tourism- and natural resources-based, the Caribbean economies were hard-hit by the unwinding global financial crisis, and most experience low growth, high public debt and vulnerability to natural disasters. These island states have very diverse income levels. In 2014, GDP per capita (PPP) ranged from US\$25,075 in The Bahamas to US\$1,757 in Haiti.

The *Caribbean Corner* provides a communication platform three times a year on the institution's work on the region, for audiences within and outside of the IMF.

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## INTERVIEW

# Interview with Alvin Hilaire, Governor of the Central Bank of Trinidad and Tobago

By Elie Canetti and Robert Price

*Alvin Hilaire was appointed Governor of the Central Bank of Trinidad and Tobago (CBTT) on December 23, 2015. He takes over the post at a very challenging time for the country—a major producer and exporter of oil, natural gas and petrochemicals—as it faces the shock of sharply lower prices for these products. The Governor shares his views on what monetary policy can, and cannot, do to assist in the country's adjustment.*

**Let me first congratulate you on your appointment. You have taken over at a very challenging time. What are your main priorities as Governor?**

Thank you. We have three things I want to focus on: First is to formulate a strategic plan for the operations of the central bank for the next few years, along with my staff, including developing our systems and controls to address issues like cybercrime and IT challenges. Second is to work with other policymakers to formulate an appropriate adjustment to deal with the large terms of trade shock. It's a major event and we want the CBTT to be part of the solution. Third is to look very carefully at some current issues in the financial sector-- including mergers, acquisitions and cyber issues. We want to shore up our capabilities in those areas.

**Starting in late 2014, the CBTT began tightening monetary policy, raising the repo rate 200 basis points through end-2015, but pausing in January. What were the main factors in pausing and what will you be looking at to determine policy going forward? How can monetary policy support the fiscal adjustment that the new government has embarked upon?**

When we looked at the economic situation at the beginning of 2016, we were concerned about the fragile indicators we were seeing and also the fact that oil prices had plummeted even further. We thought it was important to recognize these factors, as well as looking at interest rate differentials. While we would still be zeroing in on keeping inflation in check as our main target, we felt that there was some space to hold interest rates at the current level so as not to create disincentives for investment. Inflation doesn't seem to be a threat right now. But we look at liquidity conditions and international interest rates (for instance,

the U.S. Federal Reserve Bank has also been pausing in its rate hikes) and then judge what to do with policy.

We are awaiting the full shape of the fiscal adjustment, before we can give a final answer as to how monetary policy will fit in. We think it should be supportive, not leading, so we will be working very closely with whatever comes out on the fiscal side in terms of timing our interest rate movements. We also want to collaborate at the technical level with the fiscal authorities to help them in debt management. So ultimately we see fiscal adjustment as the key policy, and given that, we will have an interest rate program that will still be geared to keeping inflation contained, but to the extent that inflation conditions allow, to gear monetary policy towards letting economic conditions strengthen.



**Central Bank Governor Alvin Hilaire**

*Photo Credit: Central Bank of Trinidad and Tobago*

**Ready access to foreign exchange has been an issue of concern to the private sector. How do you plan to address this issue?**

Our first priority is to give a clear policy direction. The Central Bank currently intervenes in the foreign exchange market on a bi-weekly basis. The exchange rate at which we intervene and the volume of interventions will be dictated by how we view economic conditions, particularly foreign exchange inflows and outflows. We won't try to equilibrate the market at each point in time because we think there is a major adjustment going on that needs to settle down. For example, we can't be sure whether the shock will be temporary or permanent—we are treating it as permanent while hoping things get better. In terms of setting the price at which we intervene, we are targeting exchange rate volatility more than a certain exchange rate level. So we will let the market determine the rate. Our level of foreign exchange reserves will also be important as to how we look at our intervention.

**So-called “derisking” has been a key concern across the Caribbean over the last year. Is this an important concern for the Trinidad and Tobago financial system?**

Our commercial banks have not been directly affected so far because of the foreign banks we have here and their strong correspondent relationships. It is important for the rest of the Caribbean and we want to be able to engage with them and support their efforts to get proper relationships with their correspondent

banks. We do think it is important to keep our own Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT) efforts on the front burner to make sure our banking system conforms to international rules, and is very cognizant and respectful of the riskiness of certain activities.

**You worked at the IMF before joining the CBTT. Are there any perspectives or lessons from that experience that you feel will help in your new position?**

Yes. Having worked in many different countries, not only in the Western Hemisphere Department, but in Africa, Asia and Europe, the international experience helped because it puts perspective on what we do. The key takeaways are the rigor of working at the Fund, the review process and attention to detail, and the importance of communicating with different partners. Ultimately, it's the economics that matters and one learns that countries have to live within their means. But one should not underestimate the difficult political choices that often need to be made.

**Please tell us a little bit about how you like to spend your time outside of your professional life? For instance, do you play the steel pan?**

I'm still working out that aspect. I used to play the pan many years ago at university, and it's still in my heart. My main activities outside include going to aerobics classes twice a week—as I used to at the Fund and generally working out at the gym, which is important to me. I also enjoy the rhythm of salsa music.



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## CARIBBEAN OUTLOOK

# Caribbean Economic Prospects in 2016

By Marie Kim and Gonzalo Salinas

*Amidst concerns over a slowdown in the global economy, a mild recovery is projected in the Caribbean. However, the economic outlook differs considerably across countries. Tourism-dependent economies are projected to improve their performance,<sup>1</sup> while the negative terms-of-trade shock is expected to dampen growth of commodity-exporting countries and intensify fiscal and external pressures.<sup>2</sup>*

The **growth outlook** for the Caribbean is projected to improve moderately, with the average growth rate increasing to 2.1 percent in 2016 from 1.3 percent in 2015 (World Economic Outlook April 2016). Downside risks include the loss of corresponding bank relationships, natural disasters, and the possible spread of the Zika epidemic. The main upside risk is related to higher than projected revenues from citizenship by investment (CBI) programs.

The growth outlook is markedly different between tourism-based and commodity-exporting countries. GDP growth for the tourism-dependent economies is expected to improve to 2.6 percent in 2016 from 1.5 percent in 2015, reflecting a revival in tourist arrivals and a positive income effect from lower energy prices. In contrast, average growth in commodity exporters is projected to stall at around 0.7 percent in 2016 after a period of higher growth (at around 3 percent) during the commodity boom.

The **overall external current account deficit** for the region is projected to improve in 2016. Cheaper oil imports and stronger growth in tourist arrivals are expected to reduce external imbalances in tourism-dependent economies.<sup>3</sup> The average current account balance is also expected to improve in non-oil commodity-based countries, partly driven by gold exporters (Suriname and Guyana) that would benefit from increasing gold prices and opening of new gold mines. Meanwhile, oil exporters (mainly Trinidad & Tobago) are expected to see current account deficits in 2016.

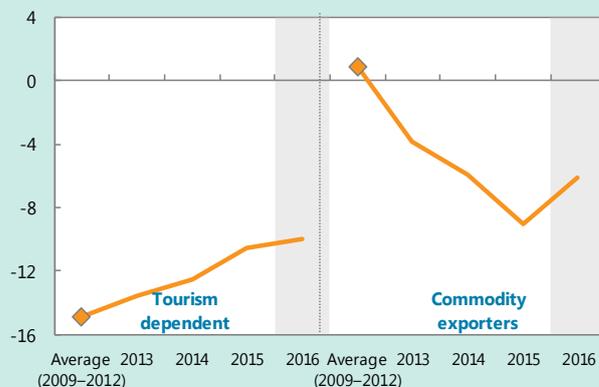
**Fiscal tightening** is expected to be broad based in 2016. Many tourism-based economies, leveraging the benign external environment, have signaled fiscal consolidation plans in 2016 and (with some help from CBI programs) their fiscal deficit is expected to decline to 1.2 percent of GDP in 2016 from 2.6 percent of GDP in 2015. After deteriorating sharply in 2015, fiscal balances in commodity exporting countries (Suriname and Trinidad & Tobago) are projected to stabilize on average this year based on announced fiscal consolidation measures.

**Caribbean: IMF Real GDP Growth Forecasts**  
(y/y, percent change)

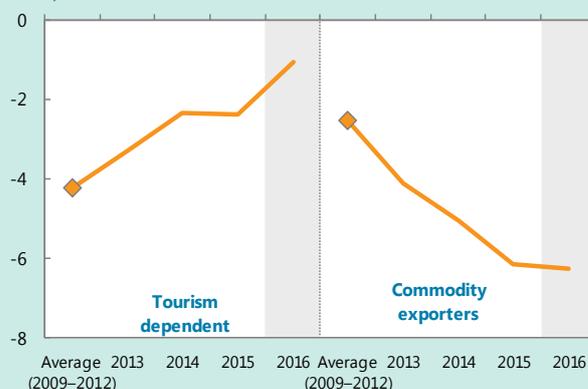


Source: World Economic Outlook, IMF; and Staff calculation.

**Caribbean: IMF Current Account Forecasts**  
(in percent of GDP)



**Caribbean: IMF Fiscal Account Forecasts**  
(in percent of GDP)



Source: World Economic Outlook, IMF; and Staff calculation.

**However, more significant fiscal adjustment is needed to put debt on a sustainable trajectory** for many Caribbean countries. On average, the debt-to-GDP ratio for tourism-dependent countries is forecast at around 82 percent of GDP in 2016, only a marginal decline from previous years. Moreover, buoyant CBI revenues cannot be relied on in future years. Despite the fiscal measures announced in commodity exporting countries, public debt is projected to rise—

on average—to 63 percent of GDP in 2016 from about 55 percent of GDP in 2015.

<sup>1</sup> Tourism-based countries are The Bahamas, Barbados, Jamaica, and the countries of the Eastern Caribbean Currency Union, ECCU.

<sup>2</sup> Commodity-based exporting countries are Belize, Guyana, Suriname, and Trinidad and Tobago.

<sup>3</sup> ECCU countries are revising external sector statistics using an improved methodology and wider coverage of surveys. Preliminary information points to lower current account deficits. Revised statistics are expected to be published later this year.



Trinidad and Tobago Energy Minister Nicole Olivierre (right), Public Utilities Minister Brigadier Ancil Antoine (center) and Namdeo Boodram (left) CEO of Trinidad Generation Unlimited (TGU) as they tour the TGU Power Plant on La Brea.

*(Photo Credit: Government of the Republic of Trinidad and Tobago, Ministry of Energy and Energy Industries)*

## IMF Publications and Recent Country Reports on the Caribbean Economies

[St. Lucia: 2015 Article IV Consultation—IMF Country Report No. 16/52](#)

[Caribbean Energy: Macro-Related Challenges](#)

Arnold McIntyre; Ahmed El-Ashram; Marcio Ronci; Julien Reynaud; Natasha Xingyuan Che; Ke Wang; Sebastian Acevedo Mejia; Mark Scott Lutz

[Flying to Paradise: The Role of Airlift in the Caribbean Tourism Industry](#)

Sebastian Acevedo Mejia; Lu Han; Hye S Kim; Nicole Laframboise

[Structural Reform and Growth: What Really Matters? Evidence from the Caribbean](#)

Kevin Greenidge, Arnold McIntyre, Hanlei Yun



# Grenada: On Track for Success

By Kimberly Beaton

*Under its Home Grown economic program, supported since June 2014 by an IMF arrangement under the Extended Credit Facility, Grenada has made significant progress toward restoring fiscal and debt sustainability.*

## Covering all the bases

To tackle the widening fiscal imbalances and financing constraints that culminated in a fiscal crisis and sovereign default in 2013, the authorities in 2014 adopted a three-pronged approach under their Home Grown adjustment program: i) fiscal consolidation, ii) structural fiscal reforms, and iii) debt restructuring. The progress achieved to date has been noteworthy. For the first time in a decade, Grenada achieved a primary surplus (fiscal balance excluding interest payments) in 2015 of 2.2 percent of GDP. This represents a fiscal adjustment of over 6 percent of GDP in under two years, a feat surpassed by few others. Combined with the impact of debt restructuring, public debt has fallen from a peak of 106.8 percent of GDP in 2013 to 92.7 percent at end-2015.

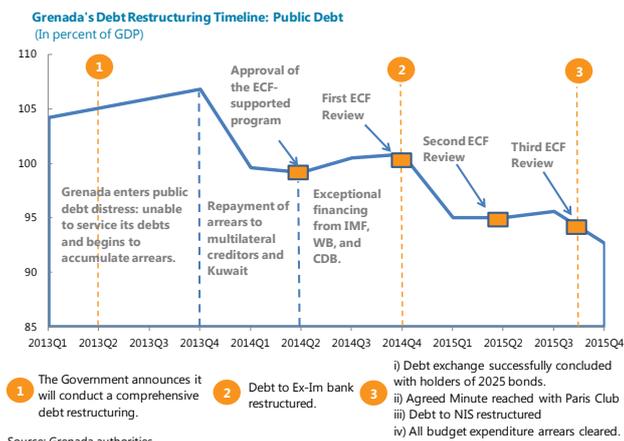
To lock-in the gains achieved and anchor fiscal policy over the long term, Grenada has overhauled its fiscal policy framework. With the landmark Fiscal Responsibility Act (FRA) of 2015, Grenada is the first independent ECCU country to implement fiscal responsibility legislation and the second CARICOM country (after Jamaica) to legislate a rule-based fiscal policy framework. To restore and maintain debt sustainability, the framework establishes a general government debt ceiling of 55 percent of GDP, more ambitious than the ECCU target of 60 percent of GDP by 2030, to be achieved through a primary balance target implemented with an expenditure rule.<sup>1</sup> To complement this strengthened fiscal discipline and improve the efficiency and accountability of fiscal policy, the legislative frameworks for public finance management, debt management, tax administration, and tax incentives have also been reformed.

	Phase I	Phase II	Phase III
<b>Overall Objective:</b>	To restore and maintain debt sustainability by establishing a debt ceiling of 55 percent of GDP achieved through a primary balance target implemented with an expenditure rule.		
<b>Period/ Milestone</b>	<b>2015-2016</b>	<b>2017 until debt reaches 55%</b>	<b>After debt reaches 55%</b>
<b>Target</b>	ECF-supported homegrown program targets	3.5% primary surplus over the economic cycle	Debt-stabilizing primary surplus over the economic cycle
<b>Rules</b>	2% real expenditure growth cap	2% real expenditure growth cap	2% real expenditure growth cap
<b>Corrective Measures</b>	-	Revenue/expenditure measures if notional deficit exceeds 3% of GDP	Revenue/expenditure measures if debt exceeds 60% of GDP

## Tackling debt head on

A broad restructuring of Grenada's public debt has been an integral part of Grenada's efforts to restore fiscal and debt sustainability. A debt exchange with Grenada's external commercial creditors was completed in 2015 with a principal haircut of 50 percent, half of which became effective immediately and the remainder to be effective upon completion of the sixth review of the ECF-supported arrangement in 2017. Restructuring of Grenada's official bilateral debts is progressing and includes a successful agreement with Paris Club creditors in November 2015. Domestic debt is also being regularized; debts to the National Insurance Scheme have been restructured, with net present value savings comparable to those received on external debt.

<sup>1</sup> General government debt includes central government, statutory bodies, and state-owned enterprises.



## Leading with innovation

With the reforms undertaken to date, Grenada leads the region in many key areas. First, to build resilience to natural disasters, Grenada negotiated the inclusion of natural disaster clauses in several debt restructuring agreements that allow for a delay in debt service following a qualifying natural disaster—an international precedent. This will provide important cash flow relief if a natural disaster materializes. Second, Grenada is the first Caribbean country to mandate contingency financing for natural disasters, with the FRA requiring that 40 percent of proceeds from the citizenship-by-investment (CBI) program

transferred into the National Transformation Fund are saved. Third, as part of a comprehensive strategy, the government is strengthening the accountability and performance of state-owned enterprises and statutory bodies and has put in place an oversight framework unparalleled in the Caribbean. Lastly, the government is finalizing a comprehensive reform of the tax incentive regime to make it rules-based and transparent, the only Caribbean country other than Jamaica to implement such a reform.

## Not yet at the finish line

The impressive efforts to implement a fortified, durable fiscal policy framework have laid the foundation needed to support fiscal discipline and sustainability over the long-term. That said, the policy resolve displayed thus far will need to be steadfastly maintained for Grenada to meet its medium term goals. Moreover, to spread the benefits of the reforms and sacrifice so far across a broader swath of the population, efforts this year should also focus on removing impediments to private sector growth and lowering structural unemployment. Staff inputs on these issues will be featured in the 2016 Article IV consultation report expected midyear.



## Saint Lucia: Stronger Buffers for Natural Disaster Resilience

By Geoffrey Keim, Alla Myrvoda, and Gonzalo Salinas

*Fiscal policies in the Caribbean should aim to break the vicious cycle between natural disasters and public debt. Recent advice provided to St. Lucia demonstrates a three-pronged approach that includes forecasting potential losses, creating buffers, and building resistance that could help with this objective.*

Frequent tragic storms that harm Caribbean islands, including St. Lucia, call for advance planning to contain their fallout. Internalizing costs is a key challenge for policymakers around the Caribbean. St. Lucia's recent Article IV consultation aimed to advance the dialog on reconciling debt sustainability with disaster preparedness by (i) providing reasonable estimates of potential natural disaster costs; (ii) building adequate buffers for these contingencies in the macroeconomic framework; and (iii) strengthening the resilience of infrastructure.

**Key Challenges: Internalizing costs of natural disasters and placing them in a sustainable macroeconomic framework**

St. Lucia's annual disaster-related costs are expected to amount to about 1.3 percent of GDP, equal to the average since 1990. The public sector's share is

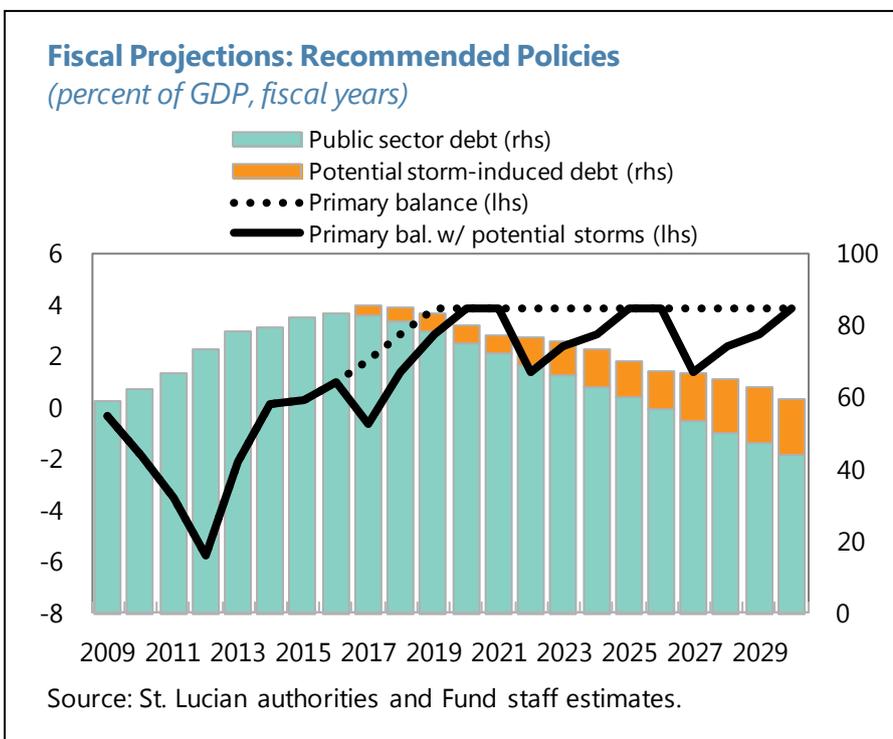
estimated at 1 percent of GDP (mainly from damaged roads and bridges), based on World Bank disaster assessment reports for other Caribbean countries. Thus, in a hypothetical scenario of a five-year interval between storms, cumulative costs to the public sector of 5 percent of GDP would result, with reconstruction spread over, say, three years.<sup>1</sup>

Fiscal policy should aim to build buffers to break the vicious cycle between natural disasters and public debt. Debt would need to come down from current levels to build space for these contingencies. For example, the authorities could achieve this as well as the ECCU 60 percent of GDP public debt target by 2030 if they gradually improve the primary balance by 3½ percent of GDP and maintain it thereafter. Investment in resilient infrastructure can be preserved if savings are achieved on compensation, healthcare, and non-targeted subsidies.

The existing budget envelope can be reconfigured to build further resilience against potential future natural disasters. Infrastructure project selection and design

**Designing physical assets to withstand adverse climatic conditions and strengthening insurance against disasters.**

should focus on key assets that can withstand adverse climatic conditions. Additionally, the use of insurance against disasters, currently only partly covered under the Caribbean Catastrophic Risk Insurance Facility, should be further strengthened. The new Citizenship by Investment Program can have an important role in supporting these efforts. For instance, citizenship revenues should finance either high-quality physical capital or public debt reduction—although care will be needed to limit risks of overdependence on the program or of a sudden stop, including by enforcing strong governance standards and capping approved applications.



<sup>1</sup> As all reconstruction would be completed within three years after the storm, costs would be zero in the two years that elapse before the next storm.

# Caribbean Energy: Macro-Related Challenges

By Arnold McIntyre

*IMF research reconfirms that cutting energy costs—by meeting targets for energy efficiency and expansion of renewables—can strengthen competitiveness and help growth; reform of the regulatory framework is also needed to attract private investment. The required public investment in the power sector is large but, if well-managed, consistent with debt sustainability for most countries.*

## Improving Energy Efficiency to Improve Competitiveness

High energy costs harm Caribbean competitiveness and potential growth. The cost of electricity has been high over the past two decades, largely due to inefficient power sectors and overdependence on expensive imported petroleum products. This has contributed to a high cost of doing business in the Caribbean and enhanced external vulnerabilities.

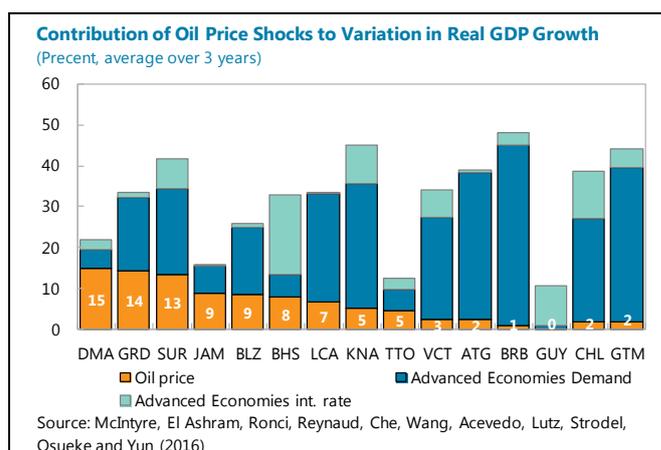
Energy sector challenges need to be addressed despite the recent dramatic drop in global oil and gas prices. Lower oil prices are welcome but unlikely to alter the Caribbean’s relative international competitiveness. To improve competitiveness, the region needs to become more cost efficient than the rest of the world.

## Reducing Energy Costs Boosts Growth

Recent IMF analysis suggests that reducing energy costs would enhance growth—though without offering a panacea. Staff estimates suggest that around 7 percent of GDP variation can be explained by oil price changes, and that improving energy efficiency by 10 percent would raise GDP by 4 percent in the long run. Hence, while other factors are more important drivers of regional growth, energy sector reform could materially contribute to higher growth.

## Need to Stick to Energy Strategies

Most countries already have national energy strategies, almost all broadly aligned with CARICOM’s regional strategy. The strategies set specific targets for diversifying the energy generation mix and improving energy efficiency in the power sector. For instance, Antigua and Barbuda committed to improve its overall energy efficiency (including for transport) by 20 percent by 2020. If achieved, the IMF estimates that this would reduce oil imports by 20 percent; shrink the national energy bill by 13 percent; and cumulatively



increase the level of GDP by 4 percent over the long run. Targets have also been set for expanding renewable energy. For example, Grenada aims to increase renewable energy supply by 20 percent by 2020. The IMF estimates that this could reduce oil imports by 49 percent, boost national energy savings by 31 percent, and cumulatively increase the long-run level of GDP by 3 percent. Overall, countries that fully implement their national strategies and achieve their targets should derive significant macroeconomic benefits. One gap in the strategies that needs to be filled first is to strengthen the regulatory framework.

## Energy Investments vs. Debt Sustainability?

The upfront investments associated with countries’ energy strategies are substantial but in most cases not insurmountable. The regional average investment in each country to implement its energy strategy is broadly quantified at about 7 percent of estimated GDP in 2015. While significant, these investments should remain affordable to some Caribbean countries without jeopardizing their public debt sustainability, particularly if they are covered by private investment.

Public financing of energy investments is likely to be feasible only in countries with sustainable debt dynamics and reasonably low risk of debt distress. Caribbean countries with high fiscal vulnerabilities need to ensure that undertaking energy investments does not derail their long-run public debt trajectory or undermine necessary fiscal adjustment efforts over the medium term. To achieve this, investments need to provide a rate of return sufficiently high to be self-financing.

### Upgrading the Regulatory Framework is Important

Policymakers should implement the regulatory and legislative reforms needed to attract more private sector investment. Enhancing the private sector's role, including through public-private partnerships, would alleviate public debt sustainability pressures from energy investments. To foster sustainable and affordable energy solutions, measures are needed to facilitate the adoption of alternative energy sources, including clear procedures for licensing Independent Power Producers (IPPs) and integrating them in the

power sector through net-metering and net-billing schemes. Strengthening institutional capacity by creating independent national and/or regional energy sector regulators will also help promote a predictable and transparent regulatory environment. Moreover, establishing national energy efficiency standards (e.g. energy labeling and energy-efficient building codes) will encourage the adoption of energy-efficient technologies by households and businesses, particularly hotels.

Going forward, the IMF will support the region's efforts by featuring energy policy in Article IV consultations with Caribbean countries. IMF staff will continue to evaluate the impact of energy costs on growth, the cost of investments in energy infrastructure, and the implications of both for debt sustainability. Country teams will also collaborate with authorities and IFIs in monitoring the implementation of country strategies. The IMF will continue to encourage country authorities to further improve the overall business environment to facilitate private sector investments, including in energy generation.

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## The Week-@-the-Beach Index

By Nicole Laframboise

*IMF staff have constructed an index of the nominal cost of a one-week beach holiday in the Caribbean and in other beach destinations around the world. This provides a snapshot of relative prices, which could contribute to a better understanding of Caribbean tourism, the largest sector in many countries of the region as well as the main driver of growth and employment.*

The W@tB index first appeared in the January 2015 edition of the [Caribbean Corner](#). It is a simple index—inspired by the 'Big Mac Index'—measuring the prices of a basket of typical expenditures during a beach holiday, i.e., hotel rates at three star hotels, taxi fares, beverages, and meals. The index does not include air travel costs. Recently IMF staff updated and improved the index by expanding the sample; experimenting with different 'big data' sources; refining some of the regional groupings to control for outliers; and fine tuning the components to improve comparability. Four similar indices were constructed using different data sources, two of which include Cuba.

The data for two indices are drawn from Travelocity and Trivago (for hotel rates), and worldcabfares, and numbeo. The data for the other two indices are based on the *per diems* paid to employees of the United Nations and the U.S. State Department, which in turn

are based on semiannual surveys by these organizations.

The W@tB index has some obvious limitations: there are quality variations between hotels even though they all have the same 'three star' rating; prices do not account for country-specific costs, such as the costs of non-tradable goods like property; and most importantly, the index does not capture non-price features, for example specific tourist attractions, or crime-related issues.

That said, the updated W@tB index shows that the nominal cost of an average one-week beach holiday in the Caribbean is higher than elsewhere in the world—consistent with the [2014 findings](#). The cost of a one-week beach holiday in the Caribbean (dark red bars) is consistently higher across the different indices. This finding is based on three-star hotel averages and also

a larger sample of three-five-star hotel averages, with even wider cost differentials due to the average cost of five-star hotels being much higher in the Caribbean.

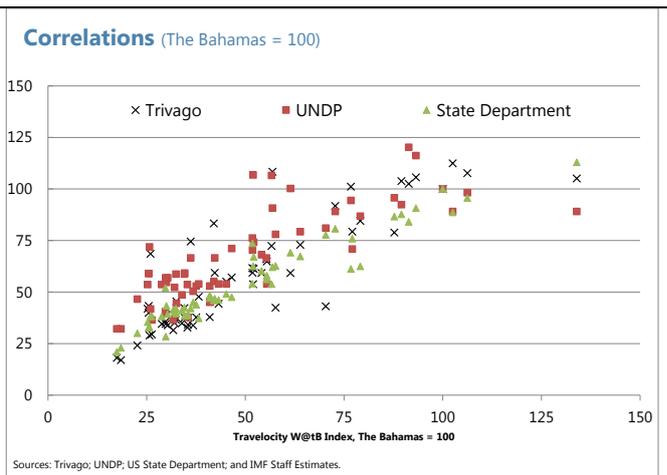
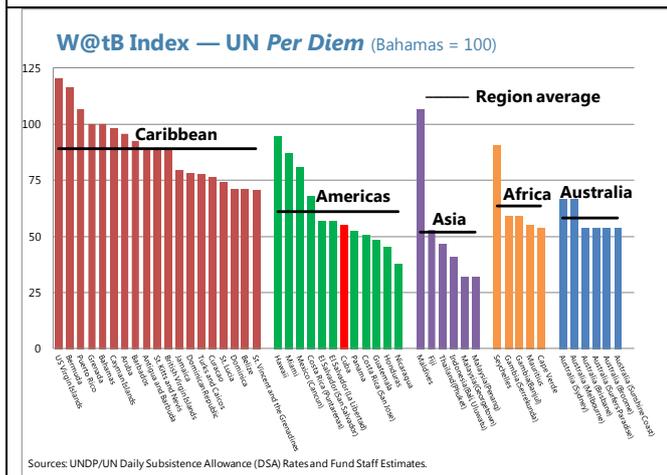
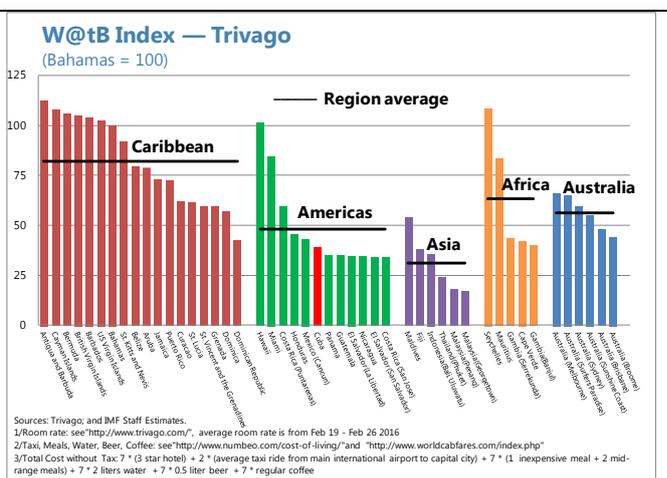
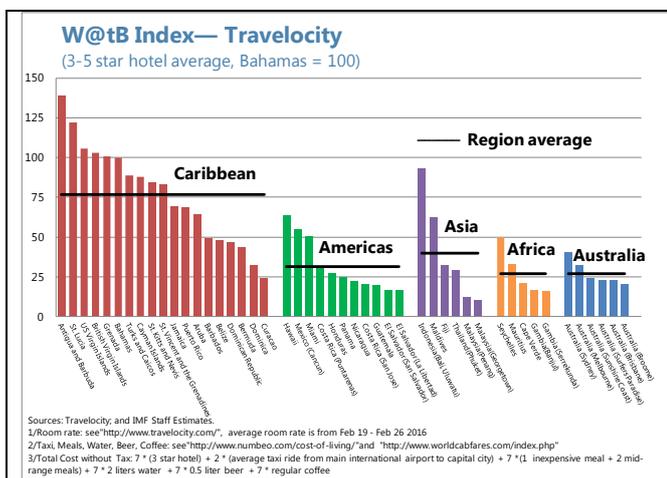
Two of the indices capture costs in Cuba (bright red bar among green bars). Average costs in Cuba are comparable with average costs in the Americas (Central America), and significantly lower than in the sample's Caribbean countries. The cost of a one-week Caribbean cruise (not shown) was found to be at the cheapest end of the Caribbean scale, but further work would be needed to include cruise travel since it is all inclusive and covers transportation, by definition.<sup>1</sup>

To control for quality—moving closer to an “identical basket” like the Big Mac—IMF staff also constructed the index using one international hotel chain. The findings were similar, although the sample size was

much smaller and there were also different classes (star ratings and prices) even within the global hotel chain. In general, the findings of all four indices were consistent, and strongly correlated.

This exercise aims to supplement existing indicators on tourism. As a time series is compiled, the index could be used as a variable in empirical work and to supplement economic analysis. But the W@tB is only one piece of a much bigger puzzle. Any policy implications would need to take into account broader factors like price and income elasticities, growth rates, and market share, among other indicators.

Looking ahead, the goal is to select the best measure and compile an internal time series that could support empirical and analytical work. We would welcome feedback from our readers on this exercise, which can be sent to the [Caribbean Corner](#).



<sup>1</sup> Work to ensure comparable treatment of “all inclusive” hotels in the index is ongoing.

## REGIONAL EVENTS

# Caribbean Officials Meet to Discuss Property Tax Reforms

By Russell Krelove



*Photo Credit: CARTAC*

All Caribbean countries have some form of tax on real property. However, it generally raises little revenue, particularly by international standards, and is administratively costly due to lax or outdated legislation, weaknesses in procedures, and resource gaps. Since property tax receipts are important to fund essential government services—including those provided by local governments—strengthening the fairness and yield of the property tax is key.

A seminar on property taxation—held in Castries, St. Lucia on February 15-19 and informed by individual countries' reform experiences—identified challenges and surveyed best practices in the Caribbean and elsewhere. Led by property tax experts<sup>1</sup> from the Caribbean Regional Technical Assistance Center (CARTAC), it was attended by representatives from all 20 CARTAC countries and sponsored jointly by CARTAC and the Canadian-funded project 'Strengthening Fiscal Management in the Caribbean',

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<sup>1</sup> Professors Franzsen of South Africa and McCluskey of Northern Ireland; Messrs. Doherty, formerly a senior property tax administrator in the United Kingdom; Krelove of FAD's Tax Policy Division; and Blashuck, Director of Strategic Initiatives of the International Property Tax Institute, a Canada-based technical assistance organization.

managed by the IMF's Fiscal Affairs Department (FAD). The seminar featured presentations by the authorities of Anguilla, Belize, Bermuda, Dominica, Jamaica, and St. Lucia on the state of their property tax systems and recent and planned reforms. It drew on a FAD study on reforming the immovable property taxation in the Eastern Caribbean Currency Union (ECCU),<sup>2</sup> and on subsequent CARTAC support for the authorities of St. Lucia in strengthening property tax legislation and administration.

There was general agreement among participants that Caribbean countries must address several policy and administrative challenges. Tax bases are eroded by multiple exemptions and preferences, and legislation often needs to be updated, including for further clarity to facilitate the property tax administration. With a few exceptions, tax administration is manual and digitalization remains at an early stage. Compliance could be boosted by raising penalties and fines, which would reduce arrears—currently high. Administrative challenges could be addressed by providing additional resources, bridging the skills gap, consolidating

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<sup>2</sup> John Norregaard et al. (2014) Tax Incentives and Property Taxation in the ECCU, IMF/FAD technical assistance report.

responsibilities within one agency, enhancing data integrity, tackling obsolescence, simplifying the valuation process, and strengthening enforcement powers.

The seminar also covered the scope for improving the structure of stamp duties and property transfer taxes levied by Caribbean countries. These charges are relatively easy to administer and raise most of the property-related revenue in the Caribbean, but can introduce significant distortions to property markets

due to their high rates, tax duplication, and higher tax rates for non-citizens.

Many participating countries identified the need for further technical assistance, and CARTAC is considering enhancing its resources in this area. A publication on property tax in the Caribbean is being planned, based on the seminar's outcome and questionnaires completed by each participating country.

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## Managing the Fiscal Impact of PPP operations in the Caribbean

By Maximilien Queyranne



Photos: Left: Arawak Container Port Development in the Bahamas (Credit: The Bahamian authorities); Right: Highway 2000 in Jamaica. (Credit: Ministry of Transport and Mining, Government of Jamaica).

**Raising growth in the Caribbean hinges on improving access to and quality of infrastructure over the medium-term.** With limited fiscal space for additional public investment, Public-Private Partnerships (PPPs) are particularly appealing for the region. The private sector can provide infrastructure services more efficiently than governments and bring additional financing to support public investment. However, PPPs are complex operations that entail fiscal costs and risks for the government. Therefore, successful PPP projects require strong institutions for governments to effectively negotiate them, and manage and monitor their long-term fiscal impact.

**To support 21 Caribbean countries and territories to better manage PPP costs and risks, the IMF's Fiscal Affairs Department (FAD) and CARTAC are organizing several activities this year.** The World Bank, the Public-Private Infrastructure Advisory Facility (PPIAF) and the Caribbean Development Bank (CDB) are participating in these activities, supported by the Canada-funded project on "Strengthening Fiscal Management in the Caribbean". This builds on previous FAD workshops—for the Caribbean in 2014 and in Jamaica in 2015—which presented best practices for managing PPP fiscal risks within an overall public investment management strategy and the macro-fiscal implications of alternative funding options

of PPP projects. Participants were also trained in reflecting them in public sector financial statements and statistics.

In this context, the first workshop (April 5-7 2016, Trinidad) provided hands-on training to nominated officials who play a key role in public investment, PPP, and fiscal management in their country on new PPP tools recently developed by FAD and the World Bank:

- The PPP Fiscal Risks Assessment Model (P-FRAM) developed by FAD and the World Bank, evaluates PPPs' macro fiscal costs and risks. This tool estimates the impact of a specific PPP contract on fiscal indicators, and identifies fiscal risks arising from PPP contracts. It also aims to facilitate a country's full anticipation of the fiscal impact of a PPP operation at an early phase of the investment.
- The PPP Readiness Diagnostic Tool developed by the World Bank focuses on the institutional framework and practices for adequately managing

fiscal risks arising from PPPs. It helps countries to diagnose their PPP institutional gaps and identify appropriate solutions to strengthen fiscal and public financial management.

Following this first workshop, countries will use the P-FRAM on one of their projects, or undertake a PPP Readiness Diagnostic assessment, supported by FAD and the World Bank. This aims to help Caribbean countries effectively use these tools for managing PPP projects.

A follow-up seminar in November 2016 will build on these experiences to recommend improvements to fiscal management of PPPs in the Caribbean. Priority will be given to coordinated and cooperative cross-country solutions that can both improve investment management and fiscal reporting for PPPs.

These activities will inform a joint FAD-CARTAC publication on managing fiscal risks arising from PPPs in the Caribbean. It will analyze regional and cross-country issues for managing PPPs and present country-specific case studies and recommendations.

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## 2016 High Level Caribbean Forum will be held in Trinidad and Tobago



Photo Source: Trinidad and Tobago Ministry of Tourism website.

The IMF and the Government of Trinidad and Tobago will host the 2016 High Level Caribbean Forum on November 3 in Port of Spain, Trinidad and Tobago. The forum, the sixth in the annual series, will bring together finance ministers and central bank governors from across the Caribbean to exchange views on solutions to key challenges as well as on opportunities for growth in the region. Mitigating risks and financing recovery from natural disasters, addressing climate change, assessing Cuba's potential spillovers to the rest of the Caribbean region, and addressing risks to the banking sector, are among the key issues for discussion at this year's forum.

The 2016 High Level Caribbean Forum website is coming soon at [imf.org](http://imf.org).