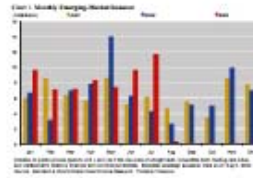




Emerging Markets Weekly



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'D' Journey Now Start

The International Monetary Fund recently completed its Article IV Consultations for St. Kitts Nevis, St. Lucia and Antigua and Barbuda. Arising out of the discussions with the respective authorities, the IMF provided a brief overview of the findings in the form of Public Information Notices (PINs) released earlier this month. The IMF Executive Board outlined a host of recommendations, placing utmost importance on the need to address fiscal imbalances and by extension the worrisome growth in public debt.

All three OECS countries because of their location and/or economic structure are highly susceptible to exogenous shocks. St. Kitts and Nevis has been hit by a spate of hurricanes within the past few years and did not escape the negating effects on tourism arising out of the September 11 attacks. In a similar vein, Antigua and Barbuda has also felt the blow from hurricanes while dealing with restructuring its economy away from sugar into tourism. St. Lucia, in turn, has been grappling with a declining banana industry and a reduction in preferential trading arrangements from its EU counterparts.

Despite these setbacks, the trio has been recovering modestly. The IMF was encouraged by the fact that economic growth for all three was within the range of 3-5% over the past two years. The report also highlighted the sound decisions being made by the various Governments including St. Kitts' decision to close its unprofitable sugar industry, St. Lucia's prudent public debt management (making it the best within the ECCU) and Antigua's active engagement in increasing awareness of the major reform effort that lies ahead. All three governments were commended for their efforts in revisiting and amending fiscal policies and recognizing the need for implicit fiscal reform and solidification.

Delving into the realities of the situation, the Fund immediately recognized the persistent fiscal deficits on the internal accounts and has called for a closer and longer term look at the revenue generation and expenditure process. Proposals were made for more equitable and efficient taxation policy in all three countries. In particular, rising oil prices have prompted a reappraisal of petroleum taxation and pricing formulas.

In St. Lucia, the IMF recommended an outright conversion of the petroleum tax into an excise tax while suggesting a mere need to revisit the petroleum pricing mechanisms were in St. Kitts and Antigua. Other tax initiatives in St. Kitts included extending coverage of consumption taxes to services, making the taxation system more equitable so that a large proportion of revenue comes from higher income households and the gradual introduction of the Valued Added Tax in the medium term. The VAT proposal was also extended to St. Lucia. On a final taxation note, the IMF Executive Board supports regional phasing out of tax concessions so as to foster a freely competitive environment for investments. With regards to spending, suggestions included implementing public sector wage constraints and keeping a vigilant eye on capital spending, especially in anticipation of massive construction initiatives for the upcoming 2007 Cricket World Cup.

Rising debt was another major concern for the IMF, especially in the case of St. Kitts and Nevis. Despite economic recovery, contained inflation, a lowered fiscal deficit (-4.1% of GDP in 2005) and projections for a primary surplus of 3% of GDP in 2005, public debt had risen to an astonishing 180% of GDP by the end of 2005. This suggests inefficiency in debt management on the part of publicly owned enterprises. In response, the IMF advises implementing measures to curb spending while improving transparency, accountability and fiscal oversight. They are also looking forward to the speedy implementation of the Financial Administration Act.

The now-closed St. Kitts Sugar Manufacturing Company has resulted in the accumulation of large debt. The IMF

proposes the conversion of this debt into a bond issue which will be financed by the sale of former sugar-owned lands. Public debt has been less acute in St. Lucia and Antigua and Barbuda (see table of 2005 Economic Indicators) In the former, public debt had been rising albeit at a slower rate, reaching approximately 67.6% of GDP in 2005, and while this is less than that of ECCU countries, it is high by international standards. The Fund suggests that the government of Antigua maintain open dialogue with creditors and establish a reputation that upholds reliability in order to gain access to capital markets and financial institutions.

Questions have also arisen over the banking sector sustainability. The large portion of debt raised in the St. Kitts domestic financial market has increased banking sector vulnerability, especially where locally owned banks are concerned. The Board has suggested the ardent supervision over the financial industry in all three countries and has specifically proposed the full implementation of the amendments to the Uniform Banking Act in both St Kitts and Antigua to prevent possible problems. Non-performing loans have also been a problem in St. Lucia and Antigua.

In addition to the above recommendations, the IMF recognized the importance of reducing trade barriers within the region as mandatory for economic and trade development. This regional cooperation will support economic diversification and allow for economies of scale. In each of the 2005 Article IV Consultations, increasing labor flexibility has been emphasized, given that a large portion of labor is employed in sectors that are highly vulnerable to market shocks.

Regional 2005 Economic Indicators

(%)	St. Lucia	St. Kitts & Nevis	Antigua & Barbuda
Real GDP growth	5.1	4.9	3.0
Inflation	3.0	2.0	1.5
Public debt/GDP	67.6	179.9	127.3
Primary balance/GDP	-2.6	3.0	-3.4
External current account balance/GDP	-16.4	-20.9	-11.6

Source: IMF 2005 Report

FINANCIAL & ECONOMIC INDICATORS

As at 23 February 2006

Exchange Rate/US\$	Closing Value	Previous Week
Yen	117.14	117.58
Euro	1.19	1.19
Jamaica	65.13	65.05
Guyana	200.90	200.30

Commodity Prices	Closing Value	Previous Week
Crude oil (US\$/bbl)	60.54	59.30
Natural Gas (US\$/mmbtu)	7.25	7.17
Gold (US\$/Troy Ounce)	548.84	552.45

Eurobond Indices (Returns, % YTD as of 16-Feb-06)

Lehman Brothers Global Aggregate Index	0.14
JP Morgan EMBI+	-0.19
CMMB Eurobond Index	0.46

Policy Interest Rates (%)	Closing Value	Previous Month
United States	4.50	4.50
Euro Zone	2.25	2.25
Japan	0.00	0.00
Brazil	17.25	17.25
Trinidad	6.25	6.25
Jamaica	12.60	12.60
Barbados	4.75	4.75

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	4.48	4.42
US 10-Yr Treasury	4.52	4.58
3-month UK Libor	4.57	4.57
Japan 90-day T-Bill	.07	.07
Brazil 90-day T-Bill	16.25	16.45
TT 90-day T-Bill	5.00	5.00
Jamaica 90-day T-Bill	12.43	12.42
Barbados 90-day T-Bill	5.83	5.83

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, Bank of Guyana

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