

Press Statement by Dr. Clyde Mascoll, BLP Advisor on the Economy

The numbers in the Press Release for June 2014 suggest that the Fiscal adjustment package of August last year has failed to achieve any of its objectives. There is no evidence of economic growth, there is no improvement in the fiscal deficit in spite of a barrage of taxes and expenditure cuts. The unemployment rate has to be over 13% in the face of over 3,000 public sector job losses in the first quarter of this year. The Central Bank's foreign reserves declined by \$51 million in spite of the foreign borrowing of almost \$450 million between December 2013 and the first quarter of 2014.

In September of last year the Central Bank said that the fiscal adjustment package provided a platform for economic growth. This is at variance with what most economists believe and even the Minister of Agriculture David Estwick repeated as recently as yesterday, his criticisms of Government's fiscal adjustment strategy.

It is impossible for a fiscal adjustment package to meet the two objectives of growth and foreign reserves at the same time.

The Governor of the Central Bank needs to answer the following questions:

Why is it that the Government and the NIS continued to be the main financier of the fiscal deficit through the printing of money providing some 83% of Government's domestic financing requirement in April to June of this year?

Is this printing of money not contrary to the commitment given by the Central Bank to the IMF in the Article IV report in February of this year?

The Governor needs to explain the decline in the foreign reserves, notwithstanding the borrowing of \$450 million since December of 2013 and would the reserves not be \$650 million or about eight weeks of import cover were it not for that loan from Credit Suisse?

And finally, why has the fiscal deficit not improved in the face of the fiscal adjustment package of the Government?

July 15, 2014