

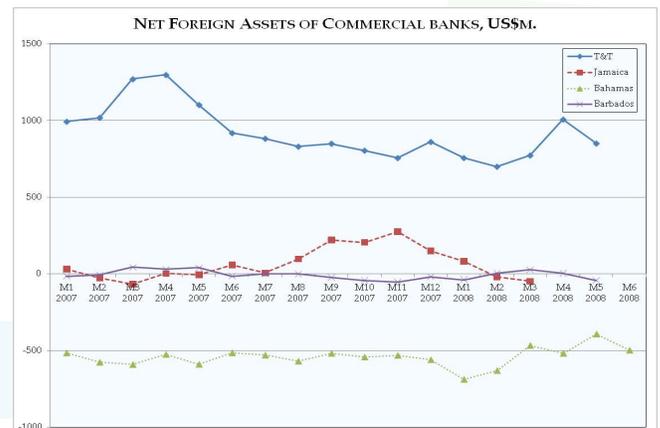
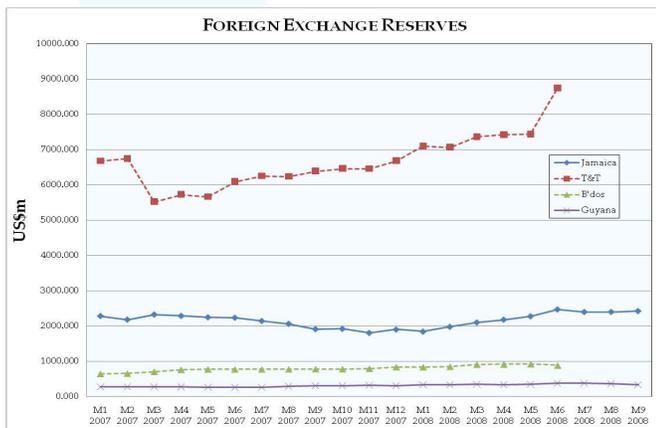
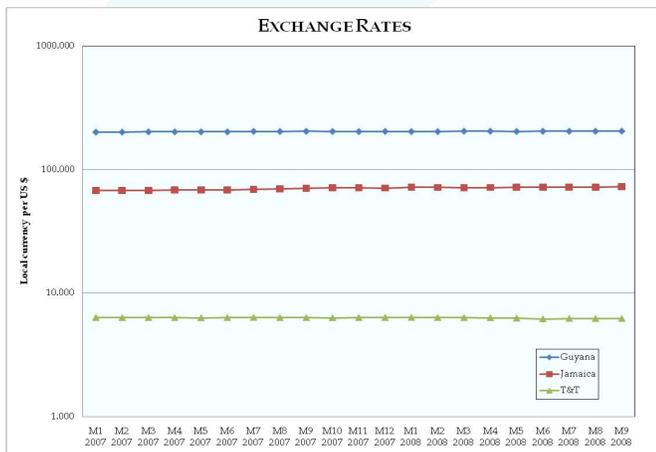
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THE IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS

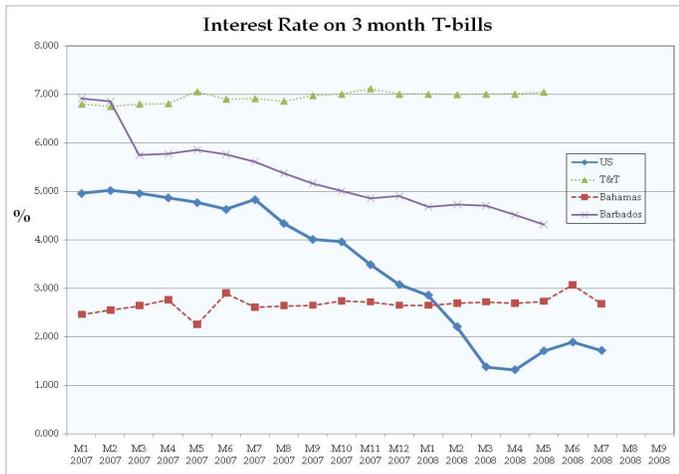
As the financial crisis in the US deepens and spreads to Europe and beyond, there has so far been no adverse impact on exchange rates or foreign exchange reserves of Caribbean countries. The exchange rates of Guyana, Jamaica and Trinidad and Tobago have remained essentially unchanged from the beginning of 2007 to the end of September. Foreign exchange reserves in the third quarter of 2008 were generally higher than in the same period in 2007.

Commercial banks in Barbados and Jamaica tend to maintain a balanced net foreign position on the whole, and their behaviour does not appear to have changed much since January 2007, except for the last quarter last year, when Jamaican banks held significant net foreign assets, temporarily. Bahamian banks tend to have a net foreign liability position, taken all together, and there has been tendency to reduce that exposure, since February 2008. Banks in Trinidad and Tobago have strong net foreign asset positions in the aggregate. The net balance has been falling steadily from the second quarter of 2007, but it has increased somewhat in the second quarter of 2008.

US short term interest rates have fallen sharply since the second quarter of 2007, as the Federal Reserve has worked to maintain liquidity in the US financial system. Interest rates in The Bahamas followed the US rates downwards for most of 2007, but The Bahamas has been much less aggressive than the US in reducing rates in

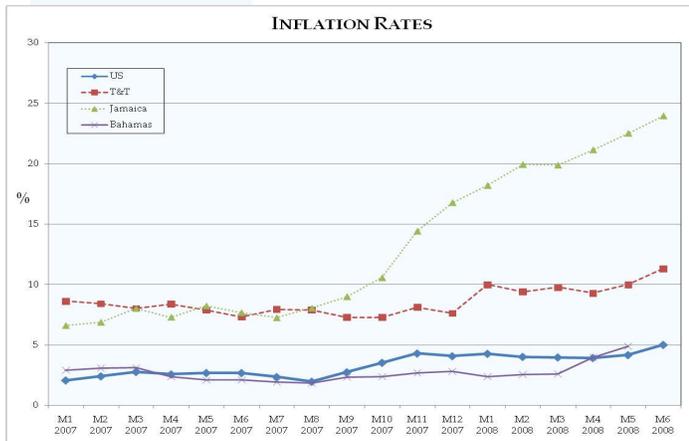


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2008. Interest rates elsewhere in the Caribbean have not yet begun to respond to the reduction in US rates. Caribbean countries such as The Bahamas and the Netherlands Antilles have been remarkably successful in containing inflation, with rates comparable to those in the US. However, in most Caribbean countries inflation has risen well above rates recorded in the US.

Among the unknown factors in predicting the future impact

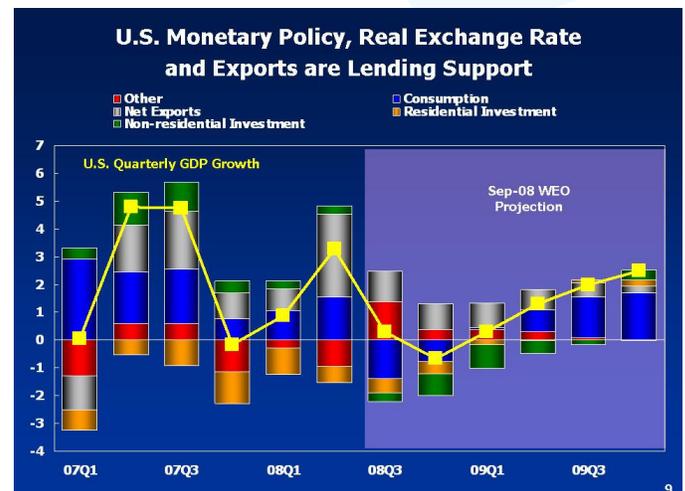


on the Caribbean as the financial crisis intensifies, are the lack of information on the foreign exposure of nonbanks and nonfinancial institutions, and the limited information on the composition of the foreign asset portfolios of all institutions. Central banks have traditionally held US treasury securities almost exclusively; those that continued to do so would expect to see an increase in the value of these assets, as fund

managers seek a safe haven, although the yields will fall correspondingly.

Any attempt to anticipate the impact of a US recession on the Caribbean is plagued with a large number of unknowns. For one thing, it is not yet clear what the impact of the financial crisis will be on the real economy in the US. In an address to a UCLA forecasting conference on September 24, IMF First Deputy Managing Director John Lipsky projected positive growth for the US economy in 2008 and 2009, albeit at a slower pace than in 2007. Although the outlook may worsen, as things now stand, and based on the opinion of the world's best informed financial institution, no recession is expected in the US.

The impact of the slowdown on overseas tourism by US citizens, the crucial factor for most of the Carib-



bean, is unknown. It is unclear whether there will be a reduction of remittances, a major source of foreign exchange for Guyana and Jamaica, among others. Also, the impact of financial uncertainty on oil prices is a source of unpredictability for Trinidad and Tobago.

The risk of a serious adverse impact on exports, tourism, remittances and the real economies of the Caribbean is a major imponderable.

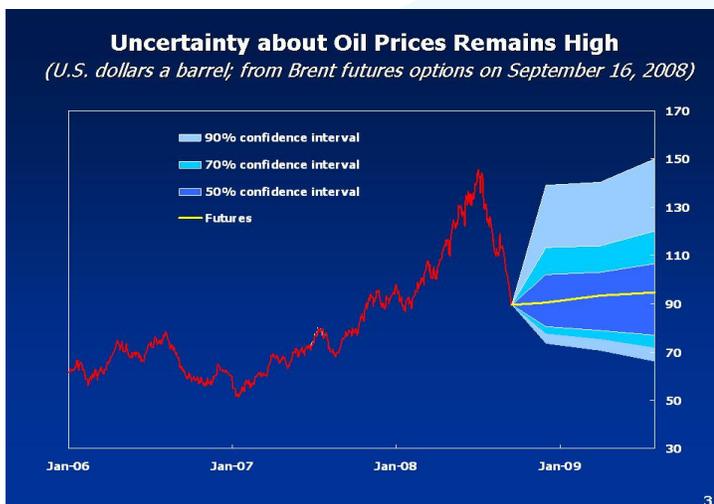
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The danger would seem to be the possible fallout from a severe US recession. Therefore, while the Caribbean should remain alert to the possibility of a worsening of the outlook, there is as yet no basis for anticipating severe losses in tourism, exports or remittances.

However, the degree of uncertainty associated with forecasts of the US and international economies is very great. In the address mentioned earlier, Mr. Lipsky presented a one-year forecast for oil prices with a range from US\$70 – US\$150 per barrel. Moreover, the depth and scope of the infection in the US financial system is unknown; we may not have seen the last of the defaults in the US and Europe. Also, there is inadequate information on the links between the financial and real economy in the US; it is puzzling that up to now there has been no measurable impact on output, even though the country is now 18 months into the sub-prime crisis.

Note: Data for the charts are from the International Financial Statistics; except for the last two charts which are from "The global economy and the financial crisis," speech by John Lipsky, UCLA, September 24, 2008.



HIGHLIGHTS OF THE TRINIDAD AND TOBAGO

BUDGET FOR 2009

The T&T budget presentation on September 22 included increases in government grants to senior citizens, and persons on disability and public assistance. Civil service pensions were increased, tax exemptions for pension fund contributions were increased, and there were additional government scholarships and assistance for tertiary education. Revenue measures included increases in transfer tax, motor vehicle tax

and the tax on premium gasoline. The budget is projected to be in balance, with total revenue and expenditure both of TT\$ 49 billion. Revenues are based on an average oil price of US\$70 per barrel and a GDP growth rate of 5.6%. The non-energy deficit is projected at TT\$20 billion.

STATISTICS PORTAL ON CCMF WEBSITE

The CCMF website (www.ccmf-uwi.org) now features a page which provides links to all the major online providers of statistics on Caribbean economies: the IMF, the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC), the United Nations Development Programme (UNDP), the Caribbean Development Bank, the Caricom Secretariat, the central banks and statistical agencies of Caribbean countries, the World Bank, and the International Labour Office (ILO). The site provides a brief

description of the data available from each source, including all the main economic series of interest to policy makers and scholars: GDP, inflation, interest rates, balance of payments data, fiscal data, national debt, exchange rates, employment and wages, etc. Most of the information is provided annually, but the IMF and some other sources provide information on a monthly and quarterly basis as well. All data is available free of cost, except for the IMF data.

HIGHLIGHTS FROM THE EXECUTIVE COMMITTEE MEETING AND COCKTAIL RECEPTION OF CCMF Held on 9th September, 2009.



From L-R: Dr. Patrick Watson , Dr. DeLisle Worrell , Ms. L. Mignon Wade, Dr. Daniel Boamah, Dr. Marion Williams and Dr. Shelton Nicholls



From L-R: Dr. Lester Henry, Prof. Ramesh Ramsaran, Mr. Anthony Birchwood, Prof. Timothy Shaw, and Prof. Karl Theodore



From L-R: Dr. Patrick Watson , Dr. Shelton Nicholls, Prof. Denis Pantin and Dr. Delisle Worrell



From L-R: Dr. Patrick Watson , Dr. Shelton Nicholls , Prof. Norman Girvan and Dr. DeLisle Worrell

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