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## CREDIT DOWNGRADES IN THE CARIBBEAN

In spite of their culpability in the origins of the international financial crisis, credit rating agencies remain a key component of the international financial system providing one of the main bases for benchmarking the access to and cost of finance to corporate and sovereigns alike. Credit rating downgrades as a result of economic and financial crisis and shocks have been relatively frequent events over the last 25 years. These episodes are problematic since the impact of downgrades tends to spread through the system because of rating protocols and triggers. For example, a downgrade for a sovereign may cause a cascade of downgrades for corporates in that jurisdiction since corporates generally cannot be rated higher than their sovereigns. This builds in a certain degree of pro-cyclicality into the system which can increase the problem of contagion.

None of the sovereigns so affected have had any part to play in the causes of the crisis but a few have paid a high price since they have little capacity to absorb the impact of the shocks on their external and government financial accounts which were already highly vulnerable. In this regard, Jamaica and some countries in the Eastern Caribbean seem to be the most susceptible to rating downgrades.

Anguilla and Barbados have therefore been recently downgraded by the regional credit rating agency Caribbean Information and Credit Rating Services Limited (CariCris). The ratings from different rating agencies also tend to move in concert so Standard and Poor's (S&P), Moody's and Fitch generally mirror the ratings trajectory of Caricris. In this regard, Barbados was also downgraded by S&P and placed on a negative watch. Jamaica was also downgraded by S&P, Moody's and Fitch in November 2009. The Bahamas and Jamaica were also placed on a negative watch which means a ratings downgrade is possible. In contrast, Moody's outlook for The Bahamas and Barbados is stable so there is some difference of opinion among the rating agencies, at least on a temporal basis (See Table 1).

In the case of Barbados, the rating by CariCris was downgraded from CariAA+ to CariAA on its foreign currency debt and from CariAAA to CariAA+ on its domestic currency debt. CariCris cited the severe impact of the global recession on Barbados as the reason for the downgrade. In particular, they pointed to an expected sharp contraction in economic activity (-4.0%), a widening fiscal deficit, increasing debt overhang and a deteriorating external current account. Standard and Poor's had already downgraded Barbados in June citing the economic contraction and Government's counter-cyclical fiscal policies. Nevertheless, even with the downgraded rating Barbados's credit rating is still high.

In the case of Anguilla, CariCris lowered their rating from CariAA to CariA+ on its local and foreign currency debt in October 2009. CariCris cited the impact of the global economic crisis on the fiscal and external accounts of Anguilla, in spite of the oversight provided by the British Foreign Office. In spite of this downgrade Anguilla's credit worthiness is still rated as good. In the case of Jamaica, the factors identified by S&P as driving the ratings downgrade were the high debt burden and limited options to meet the fiscal challenges given that it is increasingly difficult to cut public expenditures to service an interest burden

**Table 1: Credit Ratings of Selected Caribbean Entities as at November 30, 2009**

Entities	Standard & Poor's (LT Foreign Currency)	Outlook	Moody's (LT Foreign Currency)	Outlook	CariCRIS (Regional Foreign Currency)
Anguilla	Not Rated		Not Rated		CariA+
The Bahamas	A-	Negative	A3	Stable	
Barbados	BBB	Negative	Baa3	Stable	CariAA
Belize	B	Stable	B3	Stable	
Dominican Republic	B	Stable	B2	Stable	
Grenada	B-	Stable	Not Rated		
Guyana	Not Rated		Not Rated		
Jamaica	CCC	Negative	Caa1	Negative	
Trinidad & Tobago	A	Stable	Baa1	Stable	CariAAA
Montserrat	BBB-	Stable	Not Rated		
Suriname	B+	Stable	B1	Stable	
Cayman Islands	Not Rated		Aa3	Stable	
St. Vincent & the Grenadines	Not Rated		B1	Stable	

Source: Caribbean Information and Credit Rating Services Limited

In the Caribbean the ratings downgrades that have occurred recently are driven in most part by the fallout from the crisis.

## CREDIT DOWNGRADES IN THE CARIBBEAN cont'd

estimated to be 60% of general government revenues. Moody's also indicated that their decision to lower the rating was driven by their view that the size of the debt means that Jamaica is unlikely to achieve medium term debt sustainability without some form of debt restructuring.

Moreover, rating agencies placed a negative outlook on Jamaica which reflects uncertainty about the length of time needed to reach an agreement with the IMF. Jamaica now has a rating which is below investment grade and therefore remains the country in the region most seriously affected by the crisis. This has led to rating downgrades for Air Jamaica, National Commercial Bank of Jamaica (NCB) and credit card merchant voucher receivables. In the case of the corporate downgrades this is more of a policy matter since corporations cannot be rated higher than the sovereign. The key to the resolution of this situation is the finalization of the IMF support programme which will provide the resources to start the process of debt restructuring.

The global economic crisis therefore contributed to ratings downgrades in some countries in the Caribbean but this occurred in jurisdictions which already had pre-existing vulnerabilities. In any event countries with rating downgrades are expected to suffer minimal impacts since downgrades still left most with an investment grade rating with the notable exception of Jamaica. Jamaica is therefore the only country in the region which seems to have suffered significant negative fallout from a rating downgrade.

### REGIONAL NEWS SUMMARY

#### CL FINANCIAL

- The T&T Government has given Colonial Life Insurance Company Ltd TT\$1.9 billion so far, as part of the \$5 billion state bailout which had been promised at the beginning of the year (TE 23 Oct).
- The governments of the OECS have opted to pursue a plan involving the creation of a new company that will take over some of the assets of British American in the Eastern Caribbean. (SN 6 Nov). The cost of this has been put at US\$400 million (TG 10 Nov).

#### THE STANFORD GROUP

- The Stanford Victims Coalition and their law firm have sent a letter to over 50 US Senators and Congressmen asking them to block Antigua from receiving any funding from the IMF. Antigua is accused of profiting from its relationship with Stanford for many years and now it has taken steps to expropriate properties that were purchased with up to US\$1 billion of investors' funds (Cnn 26 Oct).

#### OTHER NEWS

- The Caribbean Community is to benefit from an injection of 165 million Euros in funding from the European Commission as part of its ongoing support for regional integration (Cnn 28 Oct).
- Cruise tourism boosted revenues for ports and businesses in Florida, Latin America and the Caribbean, generating more than US\$2.2 billion in direct expenditures, 56,000 jobs and US\$720 million in employee wages among 29 destinations surveyed (Cnn 29 Oct).

- Barbados' economy declined by 4.4 % during the first three quarters of 2009. The main foreign exchange earner - tourism - suffered an 11.4 % decline in long-stay arrivals up to September. The manufacturing sector was hit hard by the recession, plummeting by 11.8%. The construction sector dropped by 16.4 %.
- The unemployment rate at the end of June 2009 was of 9.9 % compared to 8.6 % at the end of June 2008 (BN 29 Oct).
- Standard & Poor's Ratings Services revised its outlook on Barbados to negative from stable. This came a week after the local ratings agency Caribbean Information and Credit Rating Services Ltd lowered its rating to CariAA (foreign currency rating) and CariAA+ (local currency rating) on its regional scale (BN 14 Nov).
- A fiscal stimulus would not be prudent for Barbados at this time, because it would have a negative impact on imports, says Prime Minister David Thompson (BN 18 Nov).
- Reducing Barbados' high debt and dealing with the gap between state revenue and expenditure remain priorities for the Government (23 Nov).
- An additional 24,000 persons are expected to cruise to Barbados over the coming winter season following the inaugural call of the Mein Schiff cruise ship (Cnn 23 Nov).
- CARICOM has denied Jamaica an extension of the cement duty waiver, scoring a victory for Caribbean Cement Company and its Trinidad parent, TCL Group (BN 12 Nov).
- S&P downgraded Jamaica's credit rating to "CCC" from "CCC-plus" and kept a negative outlook on the ratings, signalling the growing risk of a debt exchange operation that could be an event of selective default (Cnn 3 Nov).
- Foreign investors now own 60 per cent of tourism assets in Jamaica, the tourism minister said, adding that just a few years ago it was Jamaicans who held that share. The biggest foreign investors are the Spanish (JG 25 Oct).
- The laws preventing the disclosure of banking information is proving to be a major stumbling block for Jamaican authorities trying to go after tax cheats (JG 29 Oct).
- Derick Latibeaudiere, governor of Jamaica's central bank governor demitted office on 30<sup>th</sup> November. (JG 30 Oct). Standard and Poor then downgraded Jamaica from CCC+ to CCC (JO 3 Nov). Brian Wynter has been appointed to take up the position (JG 23 Nov).
- The chairman of the Jamaica Productivity Council said that Jamaica has recorded a progressive decline in labour productivity, with a much lower GDP per capita than Trinidad, Barbados and St Lucia, all of which have shown growth while Jamaica continues to show decline (JO Nov 6).
- An estimated 40,000 Jamaicans have lost their jobs since the worldwide recession started (JG 8 Nov).
- A special team has been set up in Jamaica to rationalise the public sector; about 15,000 public service jobs may have to go (JG 9 Nov).

## REGIONAL NEWS SUMMARY cont'd

- Government of Jamaica global bond prices dipped over the week following Standards and Poors downgrade of Jamaica's debt (JO 12 Nov).
- The deadline for the Jamaican Government to wrap up a multi-billion-dollar deal with the International Monetary Fund has been pushed back to December. (JG 16 Nov). The US\$200-million divestment cost of the national carrier Air Jamaica could be one of the major factors causing this delay (JG 20 Nov).
- Jamaica and the World Bank are currently in close collaboration which could see the bank providing US\$100 million in budgetary support to the country early next year (JO 20 Nov).
- Jamaica Money Market Brokers (JMMB) has acquired a 80 % stake share in Corporacion de Credito America S.A. (CCA) a Dominican Republic-based savings and loans institution. The deal is subject to regulatory approval (JG 18 Nov).
- Claiming Jamaica appears close to defaulting on its debts, ratings agency Moody's Investors downgraded the country's local and foreign currency bonds from B2 to Caa1 with a negative outlook (JG 19 Nov).
- Two international development banks are to finance a US\$500 million hydro electricity project in Guyana, aimed at bringing down energy costs in the country (Cnn 16 Nov).
- A clue that all is not well with T&T's private pension plans comes in the Central Bank's Financial Stability Report which was released to the public in late September (TG 5 Nov).
- From January 2007 to the end of the current fiscal year, the T&T Government intends to borrow more than \$13.6 billion to finance the budget deficit, pay for several large government projects and to fund the government's money supply management strategy for the economy (TG 20 Nov).
- Guardian Holdings Limited (GHL) has suffered a massive loss of just over TT\$715.5 million on its operations in the third quarter to September this year, due primarily to the write-off of its loss-making British motor insurance operation, Zenith (JG 20 Nov).
- A Belize-based banking group was listed on the Trinidad and Tobago Stock Exchange on 28 Oct. By the close of the markets, BCB's stock which opened at TT\$12.38 per share, sold at \$12.75 and traded a solid 10,000 shares in volume on its first day of trading (TE 29 Oct).
- Republic Bank recorded an annual net profit attributable to shareholders of TT\$948.4 million for 2009, a decline of 21.2 % over 2008 (TE 6 Nov).
- Central Bank Governor Ewart Williams confirmed what the business sector and the labour force have been reeling from for months - that the local economy contracted for the third consecutive quarter, so is officially in recession (TE 13 Nov).
- One billion dollars is the targeted goal for investment and business opportunities from the Commonwealth Business Forum. The Forum promotes practices and policies for the enhancement of global trade and investment. It provides new opportunities for business networking and partnerships, drawing on the Commonwealth's comparative advantage in areas such as services, information and communications technology, banking and financial services, manufacturing, agriculture and natural resources (TE 23 Nov).

## THE 41<sup>ST</sup> ANNUAL MONETARY STUDIES CONFERENCE



The Bank of Guyana and the Caribbean Centre for Money and Finance co-hosted the 41<sup>st</sup> AMSC at the Bank of Guyana, Georgetown, Guyana over the period 10<sup>th</sup>-13<sup>th</sup> November, 2009. The conference was held under the theme of: "Building Financial Sector Resilience in the Caribbean,"

the 41 papers presented fell under the following subthemes:

- Financial Development and related Issues
- Commercial Banking Efficiency and Stability
- Modeling Bank Behaviour
- Financial Development
- Finance and Macroeconomic Stability
- Fiscal Policy and Debt Sustainability in the Caribbean
- Macroeconomic Dynamics in Small Open Economies
- International Finance and Foreign Exchange Markets
- Financial Integration and Risk Management in the Caribbean
- Economic Uncertainty and Economic Planning

- Economic Dynamics in High Open Economies
- The Informal Economy and Development in the Caribbean

A flagship event of the conference is the Aldith Brown Memorial lecture; this year marked the 24<sup>th</sup> anniversary of the lecture which was eloquently delivered by Dr. S.R. Insanally at the Umana Yana, Georgetown, Guyana on the 12<sup>th</sup> November, 2009. Dr. Insanally was Guyana's Minister of Foreign Affairs from 2001-2008, and now serves as an advisor to the President on Foreign Affairs. In keeping with the conference's theme, his presentation was on the topic: "Financing for Development-Challenges and Opportunities for CARICOM", highlighting the fact that as a region we must persevere in order to overcome the obstacles that are inherent to small states, if we want to acquire developed status .

Reiterating Dr. Insanally's views, President Bharrat Jagdeo also challenged the participants of the conference present to look for unconventional means of promoting and sustaining development within their respective countries, using Guyana's government Low Carbon Development Strategy as an example. All papers presented are available for download at: [http://www.ccmfuwi.org/?q=conference\\_paper&field\\_date\\_of\\_publication\\_iso\\_value=2009](http://www.ccmfuwi.org/?q=conference_paper&field_date_of_publication_iso_value=2009).



## ANNOUNCEMENTS ....

## CARIBBEAN BUSINESS EXECUTIVE SEMINAR

### The Future of the Financial Industry after the Crisis

April 30, 2010  
Port of Spain, Trinidad

The CCMF announces the 14<sup>th</sup> in its series of seminars for top Caribbean executives, on the above theme. The seminar will feature a roster of international and regional financial experts, who will speak on the following:

- Should there be a return to traditional banking?
- Do regulatory reforms adequately address the critical sources of the financial crisis?
- Should there be new guidelines for investment strategies for insurance?
- The gaps in indicators of financial stability for the Caribbean as a whole
- Should some aspects of financial liberalisation be reversed in order to reduce threats to financial stability?
- The role of macroeconomic policies in ensuring financial stability
- Revisiting Basel II
- Regulation of under-regulated and unregulated institutions in the financial sector

In addition to the featured speakers, there will be a panel comprising representative of each type of financial institution, drawn from different countries in the region. Reports and presentations on our past seminars can also be found at this website.

The most recent executive seminar hosted by the CCMF took place in Kingston, Jamaica on September 4, 2009, on the topic "Strategies to cope with global uncertainty – choices for Caribbean business and finance".

A report and presentations from this seminar, and presentations from previous seminars may be found at [www.ccmf-uwi.org](http://www.ccmf-uwi.org). Updates and registration information for the 14<sup>th</sup> Caribbean Business Executive Seminar 2010 will also be posted at this address.

Queries can be addressed to: Caribbean Centre for Money and Finance, The University of the West Indies, St. Augustine Campus, Trinidad and Tobago, Tel: (868) 645 1174; (868) 645 1610, Fax: (868) 645 6017, Email: [ccmf@sta.uwi.edu](mailto:ccmf@sta.uwi.edu)

### NEW REPORT: INTERNATIONAL FINANCE CENTERS AND THE WORLD ECONOMY

The positive role that offshore financial centres play in supporting growth around the world is highlighted in a new report, International Finance Centers and the World Economy.

The report was commissioned by the Society of Trust and Estate Practitioners (STEP) from prominent US economist Professor James R Hines Jr of the University of Michigan and NBER.

The report gives a strong indication of the key role that well-regulated offshore centres now play in the global economy by providing capital to support business activity in neighbouring economies.

This report may be accessed at:

<http://www.step.org/showarticle.pl?id=2736>.

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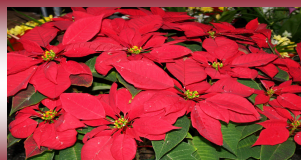


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*Season Greetings and  
Best Wishes for 2010*