



SLOW CARIBBEAN GROWTH AND HIGH LIQUIDITY ... WHERE ARE THE ANIMAL SPIRITS!?

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REGIONAL NEWS SUMMARY	Pg 2
UPDATES	Pg 4

Progress out of the recession in CARICOM member countries during 2010 has been slow following negative to low growth recorded in the previous year. In the first half of 2010 most Caribbean countries reported negative or low growth rates, the exceptions being Belize (3.5%), Guyana and the Netherland Antilles (0.8%). The largest CARICOM economy, Trinidad and Tobago, showed first quarter growth of 1.9% but this was followed by a decline of -0.9% in the second quarter. Regional growth rates for the other CARICOM countries ranged from a decline of -2.84% for the Eastern Caribbean Currency Union (ECCU) countries as a whole, to 0.4% for Barbados.

Caribbean economic performances appeared to be tied to the slow growth of their trading partners emanating from the advanced industrial countries (AICs). This is in contrast to the Emerging and Developing Economies which stormed ahead with growth forecast to be 7.1% for 2010. The AICs are expected to record growth of around 2.7% for 2010 but this is laced with uncertainties as fiscal consolidation measures in some AICs have resulted in expenditure cutbacks, tax increases and slackening confidence. Such modest growth is to be contrasted with forecast growth for China and India of 10 and 9% respectively, and around 6% and 4.5% for Brazil and Mexico, respectively.

The Caribbean economies are mired in high liquidity that refuses to be transformed into domestic credit. Business and consumer demand for credit is more than a little sluggish. Growth in total deposits in the banking system throughout the region has outpaced growth in credit demand. The most extreme case is perhaps Trinidad and Tobago which showed a 22.7% increase in total deposits year on year to June 2010. Loans outstanding grew by only 2.3% of which there was a 2.4% fall in Total Domestic Credit to the Private Sector. Whilst the magnitudes are smaller for the other economies the stories are similar for the majority of them as growth in total deposits occurred with little or no business or consumer loans, in spite of historically low interest rates. Along with the high levels of liquidity, most countries exhibited strong demand for short term government securities and this was associated with a lowering of short term average deposit rates and a marginal decline in average loan rates. Consequently, interest rate spreads widened in all countries, which no doubt contributed to the continuing growth in profitability of the banking sector. The challenge for policymakers across the CARICOM region is to engender some 'animal spirits', that spontaneous urge to action that is a defining characteristic of human behaviour and a fundamental part of entrepreneurial behaviour, that Keynes writes of in Chapter 12 of the General Theory.

Food and fuel prices were sources of inflationary pressures in the Caribbean. Since the last quarter of 2009 inflation rates have

steadily increased in most countries with rates ranging from 1.78% (Aruba) to around 13% for Jamaica and Trinidad and Tobago. Imported food prices played a major role in the acceleration of inflation in some countries such as Jamaica. Inflation in Jamaica was also influenced by taxes on fuel and public transport fares.

On the fiscal side, in the first half of 2010 there were improvements in recurrent fiscal accounts for most Caribbean countries when compared to the current fiscal outturns for the first half of 2009. Regionally, for the period January to June 2010, most Caribbean countries registered improvements on their overall fiscal accounts relative to the performances over the comparable period of 2009.

The CARICOM territories varied in terms of debt accumulation in the first half of 2010. New debt was incurred by Guyana, Haiti and Trinidad and Tobago, causing the debt stock to expand by 3.5%, 22.7% and 2.5%, respectively. However the debt stock contracted in The Bahamas (0.5%), Belize (0.2%) and ECCU (14.7%) owing to debt servicing. Suriname recorded an 18.8% increase in debt in the second quarter of 2010.

There were generally improved performances on the external current accounts as evidenced by improved showing in the major exporting sectors and reductions in imports. There were mixed performances in the external current account balances of the Caribbean territories with most countries recording better performances in the first quarter of 2010 than in the second quarter. This seemed to underscore the uncertainty of price and output recovery for the region and follows the uncertain second quarter fortunes of the AICs in general.

From among the countries which recorded surpluses in the first quarter of 2010, surpluses were reduced compared to the corresponding period of the previous year. For those territories which registered current account deficits in first the quarter of 2010, preliminary results show that in the majority of cases the territories exhibited lower current account deficits than for the corresponding period of the previous year.

Export revenues continued to be buoyed by credible performances in exports of energy, chemicals and manufacturing. However, the improved performances were not widespread. Tourism performances showed signs of rebounding for most of the territories. This was in many cases due to the intensification of marketing efforts and promotional programmes with significant price reductions and special offers such as free companion airfare, free nights and other such inducements.

REGIONAL NEWS SUMMARY

CL FINANCIAL

- The CLICO Policyholders Group is prepared to take legal action against the Central Bank, the Government and former directors of the insurance company and its parent, CL Financial. Policyholders said they believed the Central Bank was misleading in its response on its level of responsibility to protect CLICO investors and protect their assets. (TE 29 Oct)
- While some have argued that the Bank failed to effectively police CLICO products such as the controversial Executive Flexible Premium Annuity (EPPA), Williams said the Bank had sought expert advice on the issue and was advised that the EPPAs—which today account for \$12 billion in policyholder debt—were bona fide annuities.
- In relation to the issue of the CLICO board, and the board of its parent company CL Financial Limited being too intertwined, Williams said this has been a concern of successive Central Bank governors for years. However, he argued, the law governing the Central Bank's role is not designed to deal with insurance companies that form a part of a conglomerate. (Newsday 3 Nov)
- Half of the credit unions with funds at CLICO now face collapse because of their exposure to the insurance giant, President of the Association of Corporate Credit Union Presidents, Lincoln Beckles, said. He estimated that half of the credit unions with funds at CLICO (invested on behalf of members) now face collapse if the State fails to follow-up on a \$262 million liquidity window which was announced by the Finance Minister recently. (Newsday 9 Nov)
- Ronald Harford, chairman of Republic Bank, said the relationship between the bank and CLICO was "adversarial" and the practice of accepting the Executive Flexible Premium Annuity as collateral for bank loans was stopped. This was a liability from CLICO and this was an operation that was considerably over-extended," he said. (TE 10 Nov)
- Colm Imbert said apart from CLICO's holdings in Angostura, in shopping malls- Trincity, Valpark, in supermarkets like Tru-Valu, One Caribbean Media, the shareholding in One Woodbrook Place, there were two specific assets of CLICO which were not encumbered, according to a March 2010 Credit Suisse Report commissioned by the former PNM government and received by this government—its 56% shareholding in Methanol Holdings Ltd which attracted approximately \$400 million a year in dividends and its 34% direct stake in Republic Bank which earned \$184 million in dividends. He asked where is this money going? (TE 16 Nov)
- Even as it is in liquidation, the Hindu Credit Union has filed a lawsuit against CLICO asking for \$100 million stemming from an alleged settlement made by CLICO under the terms of a 2005 "bailout". (TE 19 Nov)
- Colm Imbert, speaking during his contribution to the Finance Bill in Parliament said that what in fact Government has done is made it very easy for policyholders to seek relief from the courts, which he said would rule that CLICO's assets be liquidated and from the time the policy holders put CLICO into liquidation, they will get back every cent, and the billions Government injected to solve the problem would be lost. (TE 25 Nov)
- The dividends from CLICO subsidiary Methanol Holdings are being used to pay the bills of CLICO, to pay some 500 workers and to keep all the troubled company's various commitments intact, the Finance Minister stated in Parliament. He said with respect to Republic Bank dividends, they were already incumbent because most of them were placed in the Statutory Fund. (TE 22 Nov)

THE STANFORD GROUP

- The Government of Antigua-Barbuda continues to build its defense against a lawsuit brought by the Stanford Victims Coalition which is seeking to recover financial losses as a result of the Stanford debacle. The Coalition is alleging that Government has benefited from Stanford's investments and on that basis should compensate the members for their losses. (CaribNewsNow 18 Oct)
- A US District Court Judge has given Allen Stanford his sixth set of lawyers, only three months prior to the scheduled January 24 start date for Stanford's criminal trial. Stanford was officially declared indigent in Federal District Court in Houston. (CaribNewsNow 29 Oct)

CARIBBEAN

- A US\$9.5 million loan approved by the IDB for Guyana will be utilized in financing the reconstruction of the Georgetown sewerage system, improving the efficiency of the Guyana Water Inc. and combating transmission of neglected tropical diseases. (SN 29 Oct)
- A significant increase in local rice production during the month of September coupled with various worldwide disasters that have affected global rice and wheat production, have created the prospects for improved prices for Guyana, according to the Ministry of Agriculture. (SN 29 Oct)
- The Jamaican Government and trade unions have reactivated the Public Sector Monitoring Committee, which will address issues such as wages, employment, productivity enhancement and cost-savings measures relating to the public sector. (JG 29 Oct)
- A number of employees of Victoria Mutual Insurance Company and British Caribbean Insurance Company (Jamaica), for which a plan to merge was announced in June, have been made redundant. (JG 29 Oct)
- The Republic Bank Group has achieved earnings attributable to equity holders of \$993.9 million for the year ended September 30, 2010; this figure represents an increase of 4.8% over the performance of 2009. (TE 4 Nov)
- Jamaican customs revenue for the first six months of the 2010-2011 financial year has exceeded the department's projections by \$3 billion. The Commissioner of Customs attributed the increase to several measures that had been introduced to modernise the department's operations, such as the electronic manifest system used in tracking cargo shipments, as well as leadership adjustments. (JG 4 Nov)
- The Jamaican Government has been slapped with another massive bill arising from the controversial deal for the forward sale of bauxite. It is now struggling to find US\$31 million to pay ALCOA, the company which has a controlling interest in Jamalco. (JO 8 Nov)

REGIONAL NEWS SUMMARY cont'd

- The implementation of the Jamaica Debt Exchange as a means of reducing interest payments on the country's huge debt burden has proven successful beyond expectations said the World Bank Group's Vice-President for Latin America and the Caribbean. (JO 8 Nov)
- Prime Minister of St Lucia Stephenson King says it could take up to US\$500 million to repair the massive infrastructural damage caused by Hurricane Tomas. (Carib360 8 Nov)
- Between 1996 and 2009, the government received G\$3.520 billion from the Guyana Lottery Company, and by the end of last year had spent \$3.153 billion of this amount without the appropriate consent from the National Assembly, according to the Auditor General's report for 2009. (SN 9 Nov)
- The Urban Development Corporation of Trinidad and Tobago owes \$8 billion dollars to contractors, Food Production Minister Vasant Bharath has said. (TE 9 Nov)
- The IMF has told T&T Government it may have to pay local contractors billions of dollars owed to them if it wants to bolster confidence in the economy. (TE 10 Nov)
- The European Union has signalled willingness to help Jamaica fund its bauxite liabilities, after the Prime Minister said he was struggling to identify funds to pay Glencore AG. Jamaica owes the bauxite company J\$2.5 billion under a forward sale arrangement that was negotiated back in 2005, under which the country got funds upfront as a loan to be repaid in 10-year supply contracts at a fixed price. (JG 10 Nov)
- A detailed analysis of how the UK controversial Air Passenger Duty is affecting Caribbean economies and recommendations for change has been presented to the British Government. (Carib360 10 Nov)
- Jamaica currently ranks fifth highest for remittances in Latin America and Caribbean, fuelled by the second highest brain drain in the world, according to a just released World Bank study. (JO 10 Nov)
- The Jamaican agricultural ministry last week secured US\$15 million in loan financing from the Inter American Development Bank to boost exports, as output geared towards the domestic market closes on demand after substantial growth in the sector in recent years. (JO 10 Nov)
- Nevis' Renewable Energy and Environment Minister, Carlisle Powell, has urged Barbadian businessmen to take hold of the many investment opportunities available in green technology. (Carib 360 11 Nov)
- Economists say T&T Government's intention to borrow US\$1.3 billion during the next three to five years from the IDB is a good decision, because interest rates are very low in the international market. (TE 11 Nov)
- Barbados is to get a Tourism Master Plan to chart the direction of the industry for the next decade, and Barbadian input at all levels is being sought. Minister of Tourism Richard Sealy said Barbados' \$1.2 billion-dollar tourism industry was too important to continue to be operated in an "ad hoc, loose manner". (BN 11 Nov)
- Jamaica's central bank says it is ready to receive applications for the establishment of credit bureaux, now that the requisite laws and regulations have been passed. (JG 12 Nov)
- RBC International Banking said this week that it has appointed Suresh Sookoo as CEO of its Caribbean operation. (JG 12 Nov)
- The Morgan Stanley Capital International, a leading global index stock provider, says that T&T may be removed from the MSCI Frontier Market Index, because of T&T's persistent deterioration of liquidity. (TG 12 Nov)
- Scotiabank Jamaica is reducing interest rates again, cutting one point off its base rate, which falls to 16.75 per cent, effective December 1 (JG 14 Nov), but do not intend to lower bank charges at the time. (JG 15 Nov)
- The assistant secretary general of the Organization of American States, Albert Ramdin, says recent competitiveness and productivity indicators in the Caribbean have not been positive. What is required, he said, is a creative development structure focused on business education, entrepreneurship, the modernization of regulatory frameworks and the strengthening of state institutions to support productivity and export. (CaribNewsNow 16 Nov)
- Despite their size and strength, even commercial banks are challenged to convince Barbadians that their investments are safe. A major challenge for banks in Barbados during 2009, and currently, is convincing customers that their investments are safe," the PriceWaterhouseCoopers noted in their banking report. (BN 17 Nov)
- Avinash Persaud, the executive chairman of Paradise Ltd., said that the restart of the Four Seasons Project could not have happened without the assistance of late Prime Minister David Thompson. The Democratic Labour Party Government provided the Four Seasons project with a loan of US\$60 million in return for a 20% stake in the project. (BN 18 Nov)
- The Caribbean Catastrophe Risk Insurance Facility has completed insurance payments to Barbados, St Lucia and St Vincent and the Grenadines following the passage of Hurricane Tomas. (CaribNewsNow 18 Nov)
- Scotia Bank (T&T) has lowered its prime lending rate to customers to 8.25%, down from 8.75% , its lowest level since 1994. (TE 19 Nov)
- Part of the reason for local investor indifference to the agriculture sector has to do with the absence of risk management mechanisms in the sector. Local commercial banks have learnt a costly lesson from their losses in the sector, notably in the rice industry. (SN 19 Nov)
- Gold prices have been setting nominal records in 2010 as prices moved from US\$1,148 in April to over US\$1,400 in November. Even though prices have dropped under US\$1,400, they remain attractively high. For Guyana, this means higher export revenues since gold exports are on track to exceed the 312,000 ounces that left the country through official trade in 2009. (SN 19 Nov)
- In Jamaica, three industries registered positive growth during the July to September quarter. The strong-performing industries were mining and quarrying; tourism and agriculture; and forestry and fishing. (JG 23 Nov)
- Alfred Schipke of the IMF recently revised growth projections for St Kitts-Nevis for 2011 from 0.5% to 1.5% of GDP. Expressing confidence in the prospects of the economy in

REGIONAL NEWS SUMMARY cont'd

- terms of macro-economic stability, Mr. Schipke said conditions were being created to generate high growth. (Caribseek 23 Nov)
- In August the consumer price index for Sint Maarten decreased by 0.3 percent compared to June. (Caribseek 23 Nov)
 - The Planning Institute of Jamaica reports that 21,300 jobs were created between April and July this year, which the agency said was a sign that economic recovery was beginning to emerge. (JO 23 Nov)
 - BCB Holdings Ltd, the Belize-based financial institution listed on the local stock market, reported net income of US\$16.5 million for the six months ending September 30, 2010, a decline of 41% compared with the comparable period in 2009. (TG 23 Nov)
 - The cost of setting up a business legally in Barbados criminalises entrepreneurship, says economist Professor Avinash Persaud during the recently concluded Barbados National Entrepreneurship Summit at Hilton Barbados. Persaud called for size-appropriate regulation since legislation that governed a one-man operation should not be the same as for a business employing 1,000 people. (BN 25 Nov)
 - The EU has approved a nine million Euro (US\$12.5 million) grant to Antigua and Barbuda to help the country deal with the effects of the global economic crisis. (Carib360 25 Nov)
 - The deal has been sealed for the East Caribbean Financial Holding Limited in St Lucia to take over majority interest in the state-owned National Commercial Bank (SVG) Limited. The next step is rebranding and renaming. (Carib360 25 Nov)
 - The T&T Government recognises that there is a foreign exchange shortage in the country, and therefore it supports the Central Bank initiative to increase its commitment to the foreign exchange market from the current level of US\$115 million per month to US\$200 million per month. (TE 25 Nov)
 - The government in Belize has come to the rescue of the sugar industry by offering a \$10 million loan to pay cane farmers. Prime Minister Dean Barrow, in initiating the move, said that the sugar industry has to be preserved because more than 6,000 families depend on. (CaribNewsNow 25 Nov)
 - The Jamaican government's Export-Import Bank announced this week that it still has a portfolio of J\$2.8 billion to lend to businesses in the current financial year and says it is on a drive to find firms to borrow the cash. (JG 25 Nov)
 - Talks between the Barbados Government and Republic Bank of Trinidad and Tobago over the sale of 17 million Barbados National Bank shares have broken down, but the shares are still up for sale. (BN 26 Nov)

UPDATES

42ND ANNUAL MONETARY STUDIES CONFERENCE



Participants at the 42nd AMSC, 2010

The Caribbean Centre for Money and Finance held its 42nd Annual Monetary Studies Conference hosted by the Central Bank of Trinidad and Tobago at the Bank's conference facilities on November 9-12, 2010. This year's conference was held in tribute to Professor C Y Thomas, a luminary of regional economic thought, who has had a profound impact on the work of many

young economists in the region. The theme of the conference was "Financial Stability, Crisis Preparedness and Risk Management in the Caribbean". Forty two papers were presented on various topics including exchange rates and foreign policy, financial risk, various issues associated with monetary policy, fiscal policy, cyclicity of credit and financial instruments, financial market development, efficiency of banking, remittances, foreign direct investment and tourism flows. The conference drew a wide range of presenters from regional central banks, local and international academia, the IMF and the US Federal Reserve. Papers presented at the Conference can be viewed on CCMF's website at <http://www.ccmfuwi.org/>.

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**HAPPY HOLIDAYS FROM
THE STAFF OF CCMF**

