



THE TURKS AND CAICOS ECONOMY IN MELTDOWN - PARADISE SUSPENDED

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The Turks and Caicos Islands' economy is reported as being in economic meltdown. The property development-led and high-end tourism boom years that were initiated by former Premier Michael Misick came to an abrupt end with the onset of the 2007 sub-prime induced financial crisis. Whereas in economies such as the US and the UK, the governments have pumped billions into protecting the finance and, in some cases, other industries to enable the economy to ride out the worst of the global recession, in the Turks and Caicos Islands the government is doing the opposite. Civil servants are to have their pay cut by 10 per cent as the government is unable to meet recurrent expenditures amid charges of systemic corruption and amorality.

There are some interesting features about the Turks and Caicos. It is a former dependency of Jamaica that became a crown colony when Jamaica gained its independence in 1962. Although a UK Crown Colony, the official currency is the US\$ which is also its major trading partner. UK Foreign Office official statistics record that the GDP peaked in 2007 at US\$632m recording a whopping 11.2% growth over the previous year. Merchandise Exports in 2007 were only US\$16m while Merchandise Imports were US\$580m. This massive deficit was made up through its foreign exchange earnings from Tourism and International Finance.

The onset of the economic decline abruptly halted the super-rich property development and the revenues and duties this brought into the government. It also severely affected the earnings from tourism. The collapse of the primary revenue sectors of the government brought public finance to deficit in 2008 and 2009 from surpluses in previous years. The collapse of one of the country's leading locally-owned banks, which wiped out the savings of thousands of depositors and businesses, signaled the severity of the Turks and Caicos collapse. The adverse impact on the Turks and Caicos household incomes was widespread as foreign demand for Turks and Caicos land, labour and resources disappeared.

The macroeconomic lesson for the Turks and Caicos is worthy of note. There is no exchange rate to adjust in order to enable exports to become more competitive. There are no financial reserves to call on and there is very little the government can do in order to increase fiscal revenues; therefore reducing expenditures has to take the brunt of the fiscal adjustment. The response to balance of payments deficits has been therefore, a reduction in household incomes and growing unemployment.

This is one of the major downsides of using the currency of another nation or being dollarized. In the face of negative shocks, adjustment is likely to be focused on real-side reductions.

As the good times ended, the slow progression of the Turks and Caicos Island towards full independence has now been interrupted. Reminiscent of Northern Ireland during its 'troubled' years, parts of the constitution have been suspended and the islands are now under direct rule from Whitehall. Under the direct rule, a British governor, Gordon Wetherell, has been sent to assume power from the islands' elected assembly and courts, among other things.

The simultaneous inability of the government to credibly address the economic crisis and mounting allegations of debilitating levels of central government corruption led to the UK Foreign Office launching a commission of inquiry into the Islands' administration. The enquiry report, which was concluded in March 2009, stated that the boom had gone hand-in-hand with a culture of "political amorality", and it reported that the Premier, Mr. Misick, and some senior ministers had enriched themselves through bribes and corrupt land deals. This resulted in the Foreign Office suspending parliamentary democracy in the Turks and Caicos Islands (TCI) in August 2009.

The slide to direct rule from Whitehall is not without its own ethical issues however, since a major financial stakeholder in the Turks and Caicos Islands, Lord Ashcroft, has significant personal influence in the Foreign Office through his well known relationship with the UK Foreign Secretary. The Independent reported recently, "Islanders are calling for their future to be made a top priority by the new Foreign Secretary, William Hague. But political calculations in the UK could be complicated because Lord Ashcroft, the Conservative peer who helped bankroll the party's election campaign in marginal seats, is the biggest financier in the TCI and much of his wealth is tied up there. ... Decisions on the future of the islands now fall to Mr Hague, Lord Ashcroft's closest political ally. And since the peer's bank, British Caribbean Bank (BCB), is the largest lender in the country, those decisions could have significant economic consequences!"

¹The Independent on Sunday, UK newspaper Monday 21 May 2010, <http://www.independent.co.uk/news/uk/politics/uk-faces-revolt-in-caribbean-as-islanders-demand-bailout-1987492.html>

REGIONAL NEWS SUMMARY

CL FINANCIAL

- CLICO International Life Insurance Limited (Barbados) says it is withdrawing its audited accounts for the 2008 financial year. Because they have been banned from underwriting new business, they must prepare them on a different accounting basis. (BM 27 May)
- Barbados Public Workers' Co-operative Credit Union has signed a sale and purchase agreement for CLICO Mortgage and Finance with officials of CLICO Holdings Barbados Limited. The sale should be completed by month end. (BN 4 Jun)
- CLICO Investment Bank Ltd (CIB), a subsidiary of the CL Financial Group that the T&T Government agreed to bailout in January 2009, has applied to the High Court to be officially wounded up. (TG 22 Jun)
- Dr Shafeek Sultan-Khan resigned as chairman of the insurance conglomerate and all CL Financial subsidiaries. His major accomplishments included the restructuring of Home Construction Ltd and Angostura Ltd. He was also involved in the formation of a five-year strategic plan which was approved unanimously by the board of directors. (TE 23 Jun)
- The government of Dominica has advised the branch manager of CLICO International Life Ltd to discontinue the issuing of new policies in Dominica until further notice. (TG 23 Jun)
- CLICO International Life Insurance (Barbados) has been issuing letters of apology to policyholders for their inability to honour its financial obligations. (BN 23 Jun)

THE STANFORD GROUP

- Allen Stanford will face trial by himself, a US federal judge has said, granting motions by Stanford co-defendants to have a separate trial. Stanford's jury trial will proceed on January 24, 2011. (Cnn 24 Jun)

CARIBBEAN

- Guyana's National Insurance Scheme is in court attempting to recoup G\$191M from delinquent employers and self-employed persons. (SN 27 May)
- The Private Sector Organisation of Jamaica called for the Government to cease the awarding of state contracts to businesses with reputed criminal partners and associates, and recommended that political parties stop accepting donations from tainted individuals and entities. (JG 27 May)
- Farmers in Guyana's coconut industry are currently benefiting from significantly increased prices, resulting from the availability of more lucrative markets in some Caribbean territories. (SN 28 May)
- Gerry Brooks, chief financial officer at the Ansa McAl Group, said the group generated \$861 million before profit in 2009, this being was the second consecutive year in which the group exceed \$5 billion in revenue. (Newsday 28 May)
- Inflation in T&T rose to 7.3 % in April, according to the Central Bank. (TE 29 May)
- The World Bank cancelled Haiti's remaining debt to help the impoverished country recover from January's devastating

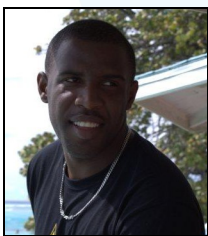
earthquake. The World Bank has made available US\$479 million in grants to support Haiti's post-quake recovery and development through June 2011 and is also the trustee of the multi-donor Haiti Reconstruction Fund. (Cnn 29 May)

- Securities dealer and investment house, Jamaica Money Market Brokers Limited, has reported a 10.5 per cent net profit decline for the year ended March to J\$986 million. (JG 2 Jun)
- T&T's fashion industry earned \$26.5 million in gross revenues from 2005-2008. The local fashion industry employs about 3,700 people. (TG 2 Jun)
- Business losses from missed sales and property damage for operators in Kingston's shopping district exceeded J\$600 million during the week of violence at the end of May (JG 2 Jun)
- Jamaica's Contractor General has launched an investigation into the government's proposed sale of its 45 % stake in bauxite mining company, Jamalco, to a Chinese firm, amid concerns that the deal had raised very serious concerns about transparency, value for money, competition, conflicts of interest, propriety, merit and impartiality. (TG 4 Jun)
- A Bill which grants a tax waiver to lending institutions on income earned from loans given to small businesses in a specified manner could potentially benefit 5,000 vulnerable persons in Guyana. (SN 4 Jun)
- The Trinidad and Tobago Stock Exchange has launched its corporate bond market with the listing of three Scotiabank investment instruments valued at a total of \$1 billion. The objective of this market is to offer new opportunities to help investors diversify their portfolios. (TE 5 Jun)
- Jamaica's central bank cut the rate payable on its 30-day instrument this past week to 9.5 per cent, from the previous 10 per cent, set in February. (JG 6 Jun)
- Using general consumption tax returns as a measure of business buoyancy for micro and small enterprises, these entities registered major sales declines in 2009, as evidenced by a \$96.4 billion fall-off in business over 2008. (JG 6 Jun)
- The latest data from the Central Statistical Office (T&T) said the unemployment rate fell to 5.1% in the fourth quarter of 2009 from 5.8 % in the third quarter of last year. (TE 8 Jun)
- The Barbados Government has approved the US \$60 million (BDS \$120 million) required to get the Four Seasons project restarted. (BN 8 Jun)
- Jamaicans can buy major currencies including the US dollar nearly seven per cent cheaper than three months prior following the influx of capital into the economy. The local dollar appreciated by 4.3 %, 1.7 % and 1.26 % against the British pound, US dollar and Canadian dollar respectively (JO 2 Jun), and it appreciated again (by 1 - 3 %) against its three major traded currencies over the week to June 8, 2010 (JO 9 Jun)

REGIONAL NEWS SUMMARY cont'd

- The IMF approved Antigua and Barbuda's application for a Stand-By Arrangement that will render financial assistance in the amount of USD117.8m over three years, provided a number of mutually agreed fiscal targets are met. (Cnn 9 Jun)
- Non-performing loans across Jamaica's financial sector jumped 78 % over 12 months to J\$19.4 billion to March 2010. (JO 9 Jun)
- Manufacturers in T&T are complaining about the steady increases in shipping rates and the implementation of a local administrative charge. (Newsday 10 Jun)
- The Caribbean will benefit from a wide-ranging aid package of some US\$300 million, US Secretary of State Hillary Clinton announced at a recent visit to Barbados. (TE 11 Jun)
- The Caribbean Tourism Organisation says tourist arrivals in the region are on the rebound with aggregate visitors to the wider Caribbean increasing by 4.5 % so far in 2010. (JG 14 Jun)
- Urban unemployment throughout 24 regional nations positioned Jamaica the fourth worst and T&T third best performer despite both nations being statistically tied seven years ago, according to a report by ECLAC and ILO. (JO 16 Jun)
- T&T's debt is increasing much faster than monetary policy officials would like and the local economy faces tough challenges in the coming months. Also, non-performing bank loans are rising, public sector debt is close to 50 % and private sector credit demand has dried up, according to Central Bank Governor Ewart Williams (TE 16 Jun)
- The Small Business Development Finance Trust in Guyana has reported a 51.2% increase in lending for 2009. The value of the loans for 2009 amounted to \$214.1 million, an increase from the \$147.2 million in 2008. Micro housing loans were given to families who had a house lot and very little money and could not qualify for a mortgage. (SN 18 Jun)
- There is now a submarine cable network linking Guyana, Suriname and Trinidad and Tobago resulting in fibre optic access for both Guyana and Suriname to Port of Spain, providing both countries with onward submarine networks that will provide a significant improvement in the telecommunications capabilities of the two South American countries. (SN 18 Jun).
- Continued delisting of companies from the Barbados Stock Exchange and inactive trading could spell trouble for the local stock market. Chairman of the Securities Commission Sir Neville Nicholls said that Government might have to offer tax incentives to investors to encourage trading, and to companies to list on the BSE and raise capital there. (BN 21 Jun)
- First Caribbean International Bank Jamaica will cut its prime lending rate by two percentage points effective July 1, lowering it to 18.25 % in a move the bank is attributing to the success of the debt swap in February and the performance of interest rates. (JG 23 Jun)
- Jamaican business stakeholders are urging investors to seek lower cost funds via the equity and capital markets, which in turn can grow the economy. Interest rates from capital markets can be half that of bank lending rates whilst raising equity bears no interest. (JO 23 Jun)
- Construction of a smelter-specific silo project on the Labidco Industrial Estate, La Brea, has been stopped, leaving some 350 workers jobless. (TE 23 Jun)

STUDENT INTERNS - SUMMER 2010



MARLON LEON STEWART is a budding and astute financial professional. He is a native of the paradise, Jamaica. However, as a result of his love for the entire Caribbean region, he considers himself as a Caribbean citizen. At present, he is pursuing the Master of Science Degree in Financial and Business Economics at the Cave Hill Campus of the University of the West Indies. In 2007, he completed his undergraduate degree in Actuarial Science at the Mona Campus of the same Institution.

Marlon's interest in the Mathematics and Economics stemmed from his success in the subjects that he pursued which were of a quantitative nature. Today, his interest lies in applying mathematical techniques to solving risk management related problems. His ultimate goals are to pursue a Doctoral Degree in Financial Mathematics or Economics and to qualify as a Fellow of the Faculty and Institute of Actuaries, UK.

Marlon has honed his skills in commercial banking operations at the National Commercial Bank, Jamaica. He has also taught Mathematics at both the CXC and Advanced Level, at the Wolmer's High School for Girls in Kingston, Jamaica. He has also served in several leadership capacities. Notably, he was a mem-

ber of the University of the West Indies, Mona Campus' Guild Council in 2007, where he serves as Hall Chairman for Irvine Hall. Marlon is also an avid basketball fan.



NADINE QUARRIE is a graduate of the University of the West Indies where she obtained a B.Sc. in Economics with a minor in Statistics. She is currently pursuing a M.Sc. in Economics at UWI; Mona (expected completion date is 2011). The M.Sc. Programme requires that its students do an internship, for this reason Nadine will be at CCMF for three months.

At CCMF she will be assisting in writing a research paper that focuses on the "Fiscal convergence in the Caribbean, 1970-2009." The Caribbean has since the inception of CARICOM sought to attain integration which has been hinged on convergence criteria: fiscal, exchange rate, inflation, debt and import cover. The proposed research paper could be deemed relevant as it will distinctively focus on fiscal convergence with respect to the Caribbean experience, the sustainability of such a convergence and whether or not such a convergence is a plausible idea.

MEETING OF THE EXECUTIVE COMMITTEE OF THE CARIBBEAN CENTRE FOR MONEY AND FINANCE

The Executive Committee of the Caribbean Centre for Money and Finance (CCMF) met at the offices of the Centre, UWI, St. Augustine on Friday 25 June 2010. The Executive Committee is the body which has oversight of the work of the Centre. The meeting was chaired by the former Executive Director, who is now Governor of the Central Bank of Barbados, Dr. De Lisle Worrell.

The Committee greeted the new Executive Director who took up his position May 2010. Members of the committee acknowledged the continued developments in the routine output of the Centre such as the Newsletter, free downloads of economic data series, and the twice yearly Caribbean Economic Performance Report, as well as the new projects un-

dertaken during the year 2009/2010. The Centre reported that the funding for the three year (US\$470,000) Financial Stability Analysis and Reporting Project was approved by the International Development Bank (IDB). This project will, among other things, develop a set of national and regional financial stability indicators, in response to a demand from CARICOM Heads of Government at their 2009 Georgetown meeting for an Architectural Framework for Regional Financial Stability. The meeting considered the Work Programme and budget for the Centre for the next financial year 2010/2011 that included the implementation of the Financial Stability Analysis and Reporting Project and the Price Formation and Inflation Dynamics in the Caribbean among other things.

CALL FOR PAPERS

42ND ANNUAL MONETARY STUDIES CONFERENCE

“Financial Stability, Crisis Preparedness and Risk Management in the Caribbean”

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Submissions are invited for the 42ND Annual Monetary Studies Conferences on the following sub-themes :

- Debt Management and Financial Stability
- Procyclical Economic Policy and its Impact on Financial Stability
- Financial Regulation and its Role in Promoting Financial Stability
- The Link between Currency/Exchange Rate Crises and Financial Stability
- Financial Integration, Contagion and Financial Stability
- Aspects of Monitoring Financial Stability: Issues and Tools for Measurement
- Best Practices for Resolution of Financial Sector Difficulties
- Risk Management, Accounting Practices and Corporate Governance and Financial Sector Stability
- Equity Markets and the Action of Market Participation in Promoting Financial Stability
- Economic Management in Times of Crisis

Abstracts of the papers to be presented must be submitted in Microsoft word Format by **Monday, August 2ND, 2010** to the Caribbean Centre for Money and Finance (CCMF) at: ccmf@sta.uwi.edu or Kathleen.Charles@sta.uwi.edu and to ahenry@central-bank.org.tt at the Central Bank of Trinidad and Tobago. Please include the title of the paper (s). For more information please contact: CCMF at (868) 645-1174/1610; email us at ccmf@sta.uwi.edu or visit our website at <http://www.ccmf-uwi.org>

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