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GROWTH PROSPECTS: MORE CAUTION LESS OPTIMISM

In the first quarter of 2010 commentators were surprised at the vigour with which the major industrial economies emerged from the recession. The cautious optimism that accompanied most forecasts reflected some degree of unanticipated growth. Increasingly, however, concerns about the size of the public debts across some major industrial economies have given rise to calls for governments to curb their enthusiasm for economic stimulus packages. This has caused growth prospects in these economies to be tempered by an increasing degree of uncertainty. Growth forecast continues to be "cautiously optimistic" but there is more caution and less optimism.

Table 1: Caribbean Growth in Stay over Visitors

Country	Period	Growth in Tourist Arrivals (%)
Antigua & Barbuda	January	-1.9
Aruba	Jan-May	3.9
Bahamas	Jan-March	1.6
Barbados	Jan-May	3.1
Belize	Jan-April	1.6
Dominica	Jan-April	9.2
Grenada	Jan-May	-7.9
Guyana	Jan-May	7.4
Jamaica	Jan-April	7.3
Montserrat	Jan-March	-8.4
Saint Lucia	Jan-May	11.1
St. Vincent & the Grenadines		2.1
Trinidad & Tobago		-11.4

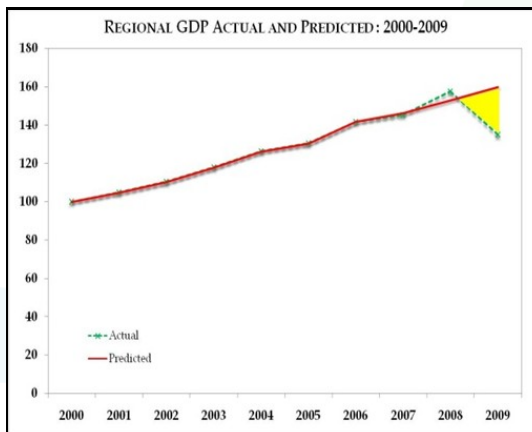
The IMF on July 8, 2010 projected global growth at 4.6 percent for 2010 up from their earlier projection of 4.2 percent. However, their forecasts for growth in 2011 remained unchanged at 4.3 percent. While the experts have

shrugged off the possibility of a double dip, there is the recognition that fiscal problems in many European states, persistent weakness in the US labour and housing markets and slower growth in the manufacturing sector of many Asian countries are all downside risks to recovery prospects. The growth forecast for the Eurozone remained unchanged at one percent, while that for 2011 was trimmed to 1.3 percent. The 2011 forecasts for Britain, Canada, the Eurozone, emerging economies and Japan were all reduced during the latest IMF announcement on global growth. The debt crises in Greece, Spain and elsewhere in the Eurozone has placed additional pressure on governments to implement austerity fiscal measures which may have further dampening effects on recovery. In the United States, the Obama administration also faces the politi-

cal economy question prior to November midterm elections of boosting government spending in the short term to protect the fragile recovery, against the need to immediately embrace longer term austerity measures as advocated by the republican side.

The downgrading of growth prospects for the major economies does not augur well for the Caribbean, especially those countries that are dependent on tourism. The Caribbean Tourism Organization (CTO) in its June report indicated aggregate growth of about 4.5 percent for the Caribbean for the first five months of the year, with recovery led by the larger CARICOM countries (average 5%), followed by the OECS with average growth of 3.3 percent. The World Travel and Tourism Council (WTTC) estimates growth in global tourist arrivals at 5.1 percent for the period January to May 2010, significantly moderated by the impact of volcanic ash clouds in Europe earlier this year. The WTTC expects that global tourism will be largely driven by activity in the emerging markets. It is expected that the performance of the European markets will continue to be sluggish. Outbound tourism from the United States market to Caribbean countries improved for the first half of 2010. However, the recovery in the United States has largely been without the improvements to the structural weaknesses in that economy. Thus, the subdued recovery in the US labour market will likely impact negatively on tourism prospects for the Caribbean.

Economic growth in the Caribbean has been significantly affected by the subprime-generated economic crisis. The regional



output in 2006 was 41% greater than the 2000 value, but due to the crisis, output in 2009 was only 34% greater. Figure 1 shows the predicted level of regional output

GROWTH PROSPECTS: MORE CAUTION LESS OPTIMISM cont'd

based on the trend over 2000-2006. It suggests that the regional output loss over 2007-2009 was 21.5 %. The distribution of the loss as shown in Table 1 was however uneven across the period.. The table suggest that in 2007 there was a 1% loss in regional output; followed by some degree of on trend recovery with a 4.5% output gain in 2008 but as the recession peaked in 2009 there was a 25% regional output loss.

In light of the above and given that most regional economies depend on demand arising from the major industrial econo-

mies, the prospects for regional economic growth must as a consequence be cautiously less optimistic.

Year	Actual Regional GDP	Predicted Regional GDP	Loss Of Output
2007	145.25	146.13	0.88
2008	157.45	152.99	-4.46
2009	134.77	159.85	25.07
Total			21.49

*Base year 2000=100

CARTAC SPONSORS CCMF SEMINAR ON “PRICE FORMATION AND INFLATION DYNAMICS IN THE CARIBBEAN”

The CCMF hosted a one day seminar on “Price Formation and Inflation Dynamics in the Caribbean” on Friday July 23rd, 2010. The seminar, which was sponsored by CARTAC, brought together participants from regional central banks to discuss issues related to price rigidity and inflation persistence in the Caribbean. The papers presented represent the output from a wider Price Formation Project which is being implemented by the CCMF with the support of two of the Centre’s Research Associates from UWI Cave Hill; Professor Roland Craigwell and Dr. Winston Moore.

Papers were presented by representatives from the Central Bank of Belize, Central Bank of the Netherlands Antilles, UWI, Cave Hill/ Central Bank of Barbados and the CCMF. The general theme which emanated from all the presentations was that prices in the Caribbean are far less rigid than prices in industrial countries, with price increases occurring more frequently than price decreases. Further, work under the project will involve studies related to the identification of factors which influence price setting

behaviour.

Papers presented at the seminar could be viewed on CCMF’s website via the following link: http://ccmfuwi.org/?q=workshop_presentation&field_name_of_conference_value=Price%20Formation%20and%20Inflation%20Dynamics%20in%20the%20Caribbean.



REGIONAL NEWS SUMMARY

CL FINANCIAL

- The price for the rescue of the CL Financial Group has been increased to the seven-figure mark by lawsuits filed by two state-owned companies against Clico Investment Bank (CIB) which has been put into liquidation by the Central Bank.
- The National Insurance Board has filed claims seeking to recover TT\$46.5 million and US\$102.5 million while the National Gas Company is seeking to get back its US\$177.24 million (both in the form of Investment Note Certificates (INC). The legal battle is over the technicalities of whether the CIB-issued INCs fall under the category of third party deposit liability under the government issued guarantee. (TE 3 Jul)
- In the 17 months since its bailout, CLICO has sucked up more than \$5 billion in taxpayers’ money, is facing a slew of policy-holder lawsuits stemming from its inability to pay claims as they fall due and is weighed down with policy-holders liabilities of about \$12 billion. (TE 5 Jul)
- Foreign attorneys and one international forensic investigator have been retained by AG Anand Ramlogan in the State's probe into CL Financial and its subsidiary CLICO. Local lawyers who

were working on the matter have submitted their legal briefs. (TE 14 Jul)

- St Vincentian Prime Minister Dr Ralph Gonsalves says he expects Trinidad to get involved in the formation of a new entity to replace the financially troubled British American Insurance Company (BAICO) which has been placed under judicial management. (JG 23 Jul)

THE STANFORD GROUP

- A federal judge in Houston has denied Allen Stanford's request for bail a third time, saying the Texas financier can properly prepare his defense while locked up against charges he ran a \$7 billion Ponzi scheme . (Cnn 8 Jul)

CARIBBEAN

- Headline inflation in T&T edged up to 9.6% in May from 7.3% in April. (TE 26 Jun) Food prices pushed headline inflation up again in June, to 13.7%. (TG 26 Jul)
- While many individuals and sectors welcome the recent strengthening of the Jamaican dollar against major currencies, the development is worrying for producers whose businesses rely on overseas trade. (27 Jun JG)

REGIONAL NEWS SUMMARY cont'd

- The downward trend of interest rates expected from the Jamaica Debt Exchange appears to have outpaced initial projections made by the IMF, while at least one investor has taken below 3% on treasury bills. At the end of April interest rates were already well ahead of the March 2011 target. (JO 1 Jul)
- The Bank of Jamaica has cut by two percentage points the cash reserve requirements for Jamaican-dollar liabilities of deposit-taking institutions, moving it to 12 %, with a similar reduction in the liquid assets requirement. The adjustment brings liquid assets that must be parked with the central bank to 26 % (JG 2 Jul).
- In the first six months of 2010, the T&T and Jamaican equity markets showed signs of improvement, while the Barbados market continued its decline from last year. (TE 5 Jul)
- In Barbados the unemployment rate continues to rise, with as many as 800 more jobless between the first quarter of 2009 and the end of March this year; the total number now stands at 15,000 plus. (BN 8 Jul)
- Colgate-Palmolive (Caribbean) Inc is in voluntary liquidation and close of business was set for July 18. (Newsday 8 Jul)
- T&T Energy Minister Carolyn Seepersad-Bachan confirmed that Government has pulled the plug on the Alutrint aluminium smelter project at the La Brea Industrial Estate, but work on a port facility and power plant has continued in La Brea. (TE 8 Jul)
- The Vision 2020 plan of the previous PNM government has not been totally scrapped, but it does not support the economic goals of the current administration, says the minister in charge of economic restructuring, Mary King. (TE 8 Jul)
- Two years after dismantling a number of revenue-draining tax waivers it said it found on assuming office in 2007, the Jamaican Government still does not have a comprehensive policy to guide its approach to the issue. In 2006/07, discretionary waivers by the finance minister alone amounted to J\$12.5 billion, or more than J\$1 billion per month. The current data suggests little change. (JG 9 Jul)
- Finance Minister Winston Dookeran has described the decision by national carrier Caribbean Airlines Ltd to acquire Air Jamaica routes as a "good deal". (TE 9 Jul)
- After 23 years in operation Ideal Agencies/Ideal Office Supplies, a leading business supplies company in Barbados, is shutting down. 34 employees will be affected. (BN 13 Jul)
- Consumer and business confidence in Jamaica rebounded in the second quarter of the year erasing the entire 11.3 points decline recorded in the first three months of the year, with consumers and businesses expressing a more optimistic outlook of the future. (JG 14 Jul)
- Jamaica's National Meats and Food Distributors Ltd, in an acknowledgement of its weakened financial position, has cut 131 staff members. (JG 14 Jul)
- Trinidad and Tobago's natural gas reserves have fallen again. The country now has ten years of natural gas left in its proven reserves. (TE 14 Jul)
- All money from Port-of-Spain to assist Haiti must benefit T&T businessmen, said Prime Minister Kamla Persad-Bissessar. (TG 14 Jul)
- Jamaicans need to save approximately 20 % of pre-taxed income throughout their entire working life, should they hope to meet the financial needs for retirement under current economic conditions, according to former Governor General (JO 14 Jul)
- Central Bank Governor Dr Delisle Worrell, in his review of the economy for the first 6 months of 2010, says the outlook for Barbados' economy is uncertain and the economy is likely to feature unemployment, increased inflation and marginal growth in real output to year-end. (BN 14 Jul)
- Jamaica's Sugar Divestment Team is to finalise a deal soon with China's Complant International Sugar Industry Company, for the sale of its three remaining sugar factories and their lands, for US\$9 million. (TG 15 Jul)
- The recent spate of violent incidents that have occurred in various mining communities in Guyana could pose a serious threat to the stability of the sector if allowed to persist without a robust corrective response. Last year the gold mining sector produced 305.178 ounces of gold. (SN 16 Jul)
- Small and medium-sized enterprises grabbed up lower-cost loans made available through Scotiabank Jamaica's Productive Sector Growth Fund, while the high demand pushed the bank to approve more than the \$500 million it put aside for the lending facility. (JO 18 Jul)
- Jamaica's Minister of Foreign Affairs and Foreign Trade has said that criminals and gangs linked to transnational criminal networks threaten new opportunities for development and progress in developing countries. "Crime is the single most important deterrent to Foreign Direct Investment (FDI) and accelerated tourism growth. (Cnn 19 Jul)
- St Kitts and Nevis is planning a new 17 % sales tax and a 10% hotel levy to boost revenue, taking a page from other Caribbean nations that have overhauled their tax schemes as tourism replaces sugar as the main source of income. (JG 20 Jul)
- The two largest commercial banks in Jamaica by branch network charge depositors a fee for balances below a certain amount. Scotiabank charges \$150 per month for balances below \$5,000, while the National Commercial Bank charges \$50 per month for balances below \$2,000. (JO 21 Jul)
- Barbados' economy has contracted sharply; imports have not fallen as far as inward foreign direct investment, and so the country is running a sizeable balance of payments deficit. Government expenditure has jumped by 25% in a couple of years. Consequently, public debt has risen by a massive B\$1,500 million. (BN 21 Jul)
- Penta Paints Ltd – a subsidiary of the ANSA McAL Group – is taking the company global by investing \$1 million in its new line of paints, Glidden. (TG 22 Jul)
- Caribbean economies need to be more diverse and innovative in manufacturing and private sector investments, said an official of UNECLAC. (TG 22 Jul)
- The IMF cancelled Haiti's outstanding liabilities of 268 million dollars and approved a new programme to support reconstruction and economic growth in the country. (Cnn 22 Jul)

REGIONAL NEWS SUMMARY cont'd

- There are indications that the marketing initiative undertaken by Jamaica's Tourism Ministry in key overseas markets, to counter the negative publicity generated by the West Kingston unrest, is yielding fruit. (Cnn 23 Jul)
- Medium, small and micro enterprises contribute 15 to 18 per cent of T&T's GDP, said Curtis Mayers, of the National Entrepreneurship Development Company Ltd. (TG 23 Jul)
- More than 600 people are to get direct employment while hundreds more will benefit indirectly as the Windalco bauxite plant resumes full operation in Ewarton, St Catherine.. (JG 23 Jul)
- Sagikor Life Jamaica Limited has been lumped with its Barbadian parent in a downgrade of the group that rating agency A.M. Best suggests is too exposed to the vicissitudes of the Jamaican economy. (JG 23 Jul)
- Foreign Direct Investments into Jamaica fell by 26% in 2009 to just over US\$1 billion, according to the UNCTD. (JO 23 Jul)
- National Commercial Bank of Jamaica will cut its base lending rate by three percentage points, moving it to 17.75% from August 1st. For the 9-month period to June 30th, the bank earned net profit of J\$8.08 billion, a year-on-year increase of 10.1%. (JG 25 Jul)
- Aubyn Hill has accused Jamaica's bankers of holding on to their risk-free mindset to the detriment of the productive sector, noting that cane farmers were in urgent need of financing but were unable to access loans from banks. (JO 27 Jul)
- Guardian Asset Management's Jamaican operation will be downscaled to a department and merged with the operations of Guardian Life Limited, but its Trinidad operations will continue as a stand-alone company. (JG 28 Jul)

CALL FOR PAPERS

42ND ANNUAL MONETARY STUDIES CONFERENCE

"Financial Stability, Crisis Preparedness and Risk Management in the Caribbean"

To be held in honour of Professor C. Y. Thomas on November 9th-12th 2010, Port of Spain, Trinidad

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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