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COMMODITY PRICE INFLATION AND CARIBBEAN GROWTH PROSPECTS IN 2011

The Caribbean economies struggled to grow over 2010 following a year of output decline over 2009. Caribbean interest rates are still low and liquidity in the financial system uncommonly high, as monetary policies across the region seek to facilitate economic expansion. Consumption and investment demand remain sluggish. As regional economies strive to emerge from the recession however, increases in food and energy prices threaten the living standards of Caribbean households.

The two largest economies in the CARICOM region, Trinidad and Tobago and Jamaica, that together account for roughly 50% of regional output, show an overall inflation rate of around 10% over 2010. However, food prices in Trinidad and Tobago rose by 30%, contributing significantly to the annual rate of inflation. Food prices in Jamaica recorded an 11% increase and fiscal consolidation measures contributed to a 16.4% increase in the transportation component of the consumer price index.

The rates of inflation for the year to October 2010 in Barbados and Suriname were 5.4% and 9.4%, respectively. In Suriname the food prices provided the highest inflationary pressure, recording an increase of 16.4%. Rent, energy and water prices in Haiti increased by 12.9% and food prices rose by 7.85%. For Haiti, these categories led to consumer price inflation that averaged 6.2% over the year.

Three broad sets of explanations are generally forwarded to explain the significant upward movement in commodity prices: (i) a shift in global production; (ii) government policy initiatives such as the US inducements for ethanol production; and (iii) random weather shocks.

Table 1: Gross Domestic Product GDP (Constant 2000 US\$, Trillions)^a

Year	World	High Income OECD Countries	East Asia and the Pacific	China	LAC
1960	7.3	6.0 [0.82]	0.95 [0.13]	0.7 [0.01]	0.46 [0.006]
1970	12.2	10.0	2.3	1.0	0.78
1980	17.8	14.3	3.7	1.8	1.4
1990	24.2	19.5	5.9	4.5	1.5
2000	32.0	25.1	8.0	1.2	2.1
2009	39.6	28.4 [0.71]	10.8 [.27]	2.0 [0.05]	2.8 [0.07]

^a Proportion of World Output in [brackets].

Source: World Bank, *World Development Indicators*, September 2010 edition.

Global output has shown a clear structural shift in production since the 1970s. World output which stood at US\$ 39.6 trillion in 2009 was 5.4 times the 1960 value. High income OECD countries' proportion of World Output fell from 82% to 71% over 1960-2009 while the countries of East Asia and the Pacific more than doubled their share, rising from 13% to 27% - within that group China's share of World Output grew from less than 1% to in excess of 7%.

The recent recession has served to accelerate the shift of World production from the Advanced Industrial Economies to the Emerging and Developing countries. Table 2 shows that World Output increased by 7.1% from 2007 to 2010. Over the same period the output of the Advanced Industrial Countries (US, Canada, EU, Japan and the UK) fell to 99.6% of its 2007 level whilst the output of the Emerging Market Economies rose by 10.5% with China and India increasing their output by 32.1% and 23.4%, respectively, so that the Advanced Industrial Countries (AICs) share of World Output has declined since the 1970s as the Emerging and Developing Economies share has increased. Figures not reported suggest that, along with the AICs, the Caribbean has lost relative share in world output as regional output has grown slower than world output over 1970-2009.

Table 2: Volume Index of GDP

Year	World	AIC	EME	Brazil	China	India
2007	100	100	100	100	100	100
2008	102.8	100.2	106	105.1	109.6	106.4
2009	102.18	96.99	108.65	104.89	119.57	112.46
2010	107.08	99.61	116.36	112.76	132.13	123.37
2011	111.58	101.8	123.81	117.38	144.81	133.73

Source: IMF, *International Financial Statistics*, January 2011.

Commodity prices on the rise so early in the economic cycle before solid output recovery signal troubling times for regional economies that continue to struggle to grow. In Trinidad and Tobago the energy sector's contribution to GDP grew by 3% as it benefited from energy price increases, while the non-energy sector fell by 2%, leaving GDP almost constant with 0.1% growth for 2010. The quest for regional economies is for output recovery and structural change that will allow Caribbean economies to mirror more the dynamism of the Emerging Market Economies rather than the Advance Industrial Economies.

REGIONAL NEWS SUMMARY

CL FINANCIAL

- Deputy Chairman of the CLICO Policyholders Group, Peter Permell, revealed that he has information that Government was secretly moving to sell off assets belonging to CL Financial. As a result, he said, the group is seeking to speed up its legal proceedings against the State. (TE 10 Jan)
- Anand Ramlogan has said that CLICO policyholders should get their promised payout before Carnival. Policyholders who opt to accept government's proposed payout will not be able to sue the State afterwards. A clause is being included in the terms and conditions of the payout to make certain of this, Ramlogan said. (TE 11 Jan)
- The sale of three companies within the CL Financial group, CL Marine, Primera and Trinidad Bulk Traders, is nearing completion, chairman Gerald Yetming has said. (TE 13 Jan)
- Businessman Lawrence Duprey and other former CL Financial executives, including Carlos John, are willing to provide evidence at the Commission of Enquiry into the failure of the Port of Spain conglomerate and its subsidiary insurance companies. (TE 13 Jan)
- Some 4,567 policyholders of the now defunct Colonial Life Insurance Company (CLICO) Guyana Limited have uplifted their cheques, totalling G\$ 3.1 billion. Government allocated \$ 3.6 billion for this purpose in 2010. (GuyTimes 13 Jan)
- Over 200 sugar plantation workers have been sent on temporary leave, as CLICO Holdings (Barbados) continues to face serious money challenges. (BN 20 Jan)
- Central Bank Governor Ewart Williams said that poor financial management left credit unions exposed to the unfolding CL financial issue; for some credit unions the impairment of these investments could threaten their viability. (TE 27 Jan)

THE STANFORD GROUP

- The prosecution in the Allen Stanford fraud case is not objecting to a postponement in his trial, but it says the two-year delay defence attorneys want is excessive. However, court-appointed defence attorneys say they won't be ready because they don't have enough time to properly analyze more than five million documents and dozens of potential witnesses. (Carib360 6 Jan)
- Allen Stanford takes heavy doses of anti-anxiety and anti-depressant drugs that render him incompetent to stand trial, a psychiatrist has said. (CNnow 7 Jan)
- Victims of Allen Stanford's alleged multi-billion dollar fraud are racing against time to sue the US government in an attempt to get back the money they lost. Because of the Statute of Limitations of two years, they have just a few days to get their chance to sue the US government for the failure of the Securities and Exchange Commission to conduct appropriate enforcement in Stanford's fraud. (Carib360 7 Jan)
- Allen Stanford cannot be tried until he undergoes detoxification from addictions to medications he's received in jail, a federal judge has said. (CNnow 8 Jan)
- The legal battle over the liquidation of the business empire of R. Allen Stanford, is heading to the Eastern Caribbean Court

of Appeal shortly. Liquidators are to unravel the remaining assets of Stanford International Bank, based in Antigua. (JG 12 Jan)

CARIBBEAN

- The Central Bank of Curaçao and St. Maarten estimates no economic growth for 2010 for St. Maarten, compared to a 0.9% contraction in 2009 and for Curaçao a rather weak economic growth of 0.4 % in 2010, after the 0.5% contraction in 2009. (3 Jan Caribseek)
- The island council of St. Eustatius approved the 2011 budget unanimously valued at some 22.3 million guilders. (3 Jan Caribseek)
- Trinidad and Tobago prime minister, Kamla Persad Bissessar said that her administration has been approached by local and foreign investors who were willing to invest billions in the country. These investments, she said, which are currently being considered by the Cabinet, do not require money from government and will not be a debt burden to the treasury. (3 Jan CNnow)
- Despite a downturn in business, a number of private sector companies in Barbados managed to pay Christmas bonuses, though smaller than in the past. (BN 5 Jan)
- The real estate market is still an important foreign exchange earner in Barbados even though the second-home market has taken a hit due to the global economic crisis. (BN 5 Jan)
- Economic growth in the ECCU is predicted to show marginal improvement in 2011 amid projections of a two per cent contraction last year. (6 Jan Carib 360)
- Guyana's gold industry topped 300,000 ounces for the second year running, earning the country USD346 million. (SN 7 Jan)
- Neal & Massy Holdings says that it has written off its investment in Joey Issa's Cool Petroleum Ltd and that Cool is a looking for a new equity partner to pump cash into the business that has failed to return a profit over the past two years. (JG Jan 7)
- Increased tourist arrivals during 2010 have resulted in a 3.2 % increase in Jamaica's gross foreign exchange earnings, amounting to \$J1.98 billion compared with J\$1.92 billion in 2009. (JG 7 Jan)
- Trinidad and Tobago, which comprises fifty percent descendants from India in its population, is moving to the subcontinent to boost its tourism and trade. (CNnow 8 Jan)
- Bank charges do not factor heavily in the competitiveness of Jamaican commercial banks and is a major reason why consumers continue to get hammered by exorbitant service fees, a report by the Fair Trading Commission suggests. (JO 9 Jan)
- Guyana's tourism has evolved notably over the years as Government continues to invest in Guyana which has been branded the Amazon adventure. (GuyChronicle 10 Jan)
- The year 2010 was historic for the Guyana Office for Investment (Go-Invest), since, for the first time in the history

REGIONAL NEWS SUMMARY cont'd

- of Guyana, the entity facilitated over 300 investment agreements and dealt with 681 companies both of which are the largest in the history of GO-Invest. A total of 228 companies, both foreign and local, were given concessions, waivers of duties and taxes and other incentives with the collaborative intervention of GO-Invest and the Guyana Revenue Authority. (GuyChronicle 10 Jan)
- From January 1 this year, First Caribbean International Bank customers (Barbados) started paying more for their personal banking, small business and corporate banking services under the newly revised prices for products and services. (BN 10 Jan)
 - President Bharrat Jagdeo said that based on tax collections, there was a significant increase in business activities since there have been no tax increases which means that all of the successes have come from stronger enforcement and expansion in economic activities. (GuyChronicle 11 Jan)
 - In a bid to increase state revenues from the small-scale gold mining industry, the Bouterse administration in Suriname has started registration of miners; the government needs to bring order to this sector so that its revenues will benefit the entire nation. (CNnow 11 Jan)
 - Authorities of the Haitian government and the U.S. State Department and executives of the IDB and the Korean textile manufacturer Sae-A Trading Co. Ltd. have signed a framework agreement to support the creation of an industrial park in northern Haiti. (IADB News 11 Jan)
 - Digicel won a US\$2.5 million grant from USAID and the Bill and Melinda Gates Foundation to help the company provide mobile banking financial services in Haiti. (JO 11 Jan)
 - The recession in the Barbados economy has slowed and it is projected that growth of about 2% should be achieved during 2011, as tourism continues to improve and other key sectors rebound, according to the Central Bank of Barbados. (BN 12 Jan)
 - 234 employees of Associated Brands Industries, Sunshine Snacks division are to receive a 15% wage increase over the next three years effective from January 1, 2011. (TG 12 Jan)
 - Government will not need to borrow from the international capital market this year, says Governor of the Central Bank of Barbados, Dr Delisle Worrell. (BN 13 Jan)
 - The monetary system for St. Maarten will be a point of discussion, when the president of the joint Central Bank of St. Maarten and Curacao meet with government officials shortly. (Caribseek 13 Jan)
 - The Fair Trading Commission is standing by its findings that revenues generated from bank fees far exceed the costs of providing those services, despite criticisms of its report by the Jamaica Bankers' Association. (JG 13 Jan)
 - Downtown Owners and Merchants Association (DOMA) says the business community is expressing great concern about the continued shortage of foreign exchange. (TG 13 Jan)
 - The IMF approved a combined SDR 5.36 million (about US\$8.19 million) in emergency assistance for St Lucia to cope with the economic consequences of Hurricane Tomas. (CNnow 13 Jan)
 - Jamaica Money Market Brokers Limited said it received J\$2.76 billion of applications for its new preference shares, or 33 per cent above the target of J\$2.075 billion. (JG 14 Jan)
 - Jamaica has passed the third review of its economic performance under an IMF Stand-By Arrangement. (Carib360 17 Jan)
 - The value of the Trinidad and Tobago dollar against foreign currencies has slipped to its lowest level since it was floated in 1993. (TE 17 Jan)
 - While the country's banking sector has weathered the global economic crisis relatively unscathed, the Central Bank Governor criticised the banks for the high cost of doing business. (TG 18 Jan)
 - Guyana Finance Minister unveiled a national budget of GY\$161.4 billion (US\$795 million), 13.1% higher than the 2010 budget and into which the Norway forestry funds have been incorporated and tagged for spending this year. (CNnow 19 Jan)
 - Standard and Poor's recent research update for Trinidad and Tobago affirmed its 'A' foreign currency and 'A+' local currency long-term sovereign credit ratings Trinidad and Tobago. (TE 19 Jan)
 - Guyana's balance of payment for 2010, the overall report of the country's economic transaction with the rest of the world, reflected an overall surplus of US\$ 90.1 million. (GuyTimes 19 Jan)
 - EX-IM Bank Jamaica on Tuesday urged Jamaican producers to begin retrofitting their operations for energy efficiency to contain costs, as oil prices climb on the world market. (JG 19 Jan)
 - Trinidad Cement Limited said it will cease paying its debts until a new turnaround plan is crafted and agreed to by lenders and investors in the company. (JG 19 Jan)
 - With the current IMF agreement slated to end in 2012, the CEO of Scotia DBG Investments Limited is advising the Jamaican Government to explore a longer-term arrangement with the lending agency. (JG 21 Jan)
 - Jamaican lawmakers have approved changes to the Deposit Insurance Act that expand the scope for protection of depositors connected to trust accounts, and in circumstances where institutions merge. (JG 21 Jan)
 - Bank of Jamaica Governor Brian Wynter is paid a salary package of \$29,789,842, plus an education allowance of \$500,000 per annum, Finance Minister Audley Shaw told Parliament. (JO 21 Jan)
 - An injection of \$20 million into irrigation programmes and more access roads for farmers could bring down the inflation rate, Vasant Bharath, Minister of Food Production believes. (TE 21 Jan)
 - Caribbean Information and Credit Rating Services Limited (CariCRIS), the region's credit rating agency, has been selected by the Bankers Association of Trinidad and Tobago (BATT) to carry out the credit rating of 25 selected Small

REGIONAL NEWS SUMMARY cont'd

- and Medium Enterprises (SMEs) as part of a pilot project to launch SME Ratings in the Trinidad and Tobago market. (TG 22 Jan)
- The Kuwaiti government has approved several cooperation deals between the Middle Eastern country and Guyana, among them the avoidance of double taxation and prevention of fiscal evasion. (GuyTimes 24 Jan)
 - Over 100 micro, small and medium enterprises are expected to benefit from an IDB funded project that will lend technical support and capacity building to them, while creating more tourism-related jobs. (BN 25 Jan)
 - A Brazilian construction firm, Constructora OAS, has been awarded the TT\$7.2-billion dollar construction contract for the San Fernando to Point Fortin highway. (CNnow 26 Jan)
 - Jamaica Labour Minister Parnell Charles has announced a J\$430 increase in the minimum wage, The increases, which take effect on February 28, will see the minimum wage moving from J\$4,070 to J\$4,500 for a 40-hour work-week. (JG 26 Jan)
 - Jamaica yesterday received a J\$3.4-billion grant from the European Union at a brief ceremony at Jamaica House.
- The funds have been channelled through the Budget Support for the Security Sector Reform Programme, under which over 7.3 million Euros or J\$850 million was disbursed, and the Debt Reduction and Growth Enhancement Programme through which 21.5 million Euros or J\$2.5 billion was disbursed. (JO 26 Jan)
- More than 900 Globe Trust Depositors with balances in excess of \$ 100,000 will be repaid only up to about 5% of their deposits. (GuyTimes 27 Jan)
 - The demand for private dwelling mortgages in Barbados has slowed down in the past year due to the ongoing recession, according to Butterfields Bank. (BN 27 Jan)
 - The subsidy for diesel (in T&T) was TT\$1.3 billion last fiscal year while the overall fuel subsidy was \$2.8 billion, and this is one of the reasons that the government is offering an alternative fuel in the form of CNG. (TG 27 Jan)
 - The Governments of Trinidad and Tobago and Ghana will be embarking on a joint venture to develop Ghana's oil and gas industry, Prime Minister Kamla Persad-Bissessar revealed. (TG 27 Jan)

ANNOUNCEMENTS

JBF3E—DECEMBER 2010

The January 2011 issue of the Journal of Business, Finance and Economics in Emerging Economies is now out. This issue contains *External Capital Structures for Managing Oil Price Volatility* by John Burger, Alessandro Rebusci, Francis Warnock, Veronica Warnock; *Causal Chains between Savings, Investment and Growth:: Evidence for Latin America and the Caribbean* by Kevin Greenidge, Chris Milner; *A Computable General Equilibrium (CGE) Model of Banking System Stability: Case of Jamaica* by Jide Lewis and *Financing Recovery: Implications of Natural Disaster Indebtedness on the Fiscal Sustainability of the Eastern Caribbean Currency Unit (ECCU)* by Ankie Scott-Joseph. The journal publishes papers over a range of topics and welcomes submissions in general areas of Fi-

nance and Economics. Papers are available for free online at <http://www.ccmfuwi.org/?q=journal/papers/2010/>

WEBSITE UPDATES

The December 2010 Caribbean Economic Performance Report is available at http://ccmf-uwi.org/?q=economic_report and you can download related data and much more at http://ccmf-uwi.org/?q=statistical_data_and_charts. Also, visit our YouTube channel at <http://www.youtube.com/user/ccmfuwi> where you can look at newly uploaded presentations from the CCMF 2010 Caribbean Business Executive Seminar and please subscribe to get all our latest videos. You can find these links on our homepage at <http://ccmf-uwi.org/>.

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