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A PERSPECTIVE ON SAFEGUARDING FINANCIAL STABILITY IN THE CARIBBEAN

Financial institutions in the Caribbean Community are in the main stable. The instances of substantial impairment of capital are few despite the difficulties some of their clients have had in servicing debts during this period of relative economic stagnation caused by the global economic crisis. A tradition of financial conservatism and careful risk management has served the banking industry and non-banking financial institutions well. Financial adventurism is rare, although as in the most recent case of CL Financial, the consequences for the personal sector can be devastating.

The phrase “stable in the main” admits the existence of troubled institutions. The known cases are in small, island economies heavily reliant on tourism. The public policy stance towards such institutions has to be influenced by their centrality to the overall health and stability of the financial sector. In some circumstances, recapitalization of troubled financial institutions should become a national economic policy imperative. Recognition of this point is what motivated the unprecedented massive injection of fiscal resources into private financial institutions in the US and the UK in the first 12 months of the current global economic crisis.

Fiscal crises are another dimension of financial instability. The early years of the current global economic crisis were marked by rapid growth of fiscal deficits as governments sought to stabilize national economies by a variety of economic stimulus programmes, all entailing substantial expansion of public expenditures in excess of revenue growth. In several member countries of the Caribbean Community the global crisis intensified fiscal imbalances already present in the economies. In the Caribbean, as in Europe, financial sector difficulties have sometimes co-existed with acute fiscal weaknesses in the government sec-

tor.

More recent episodes of financial crisis in Europe, notably in Portugal, Ireland, Greece, Italy and Spain, have exposed the fact that national governments might not always have the fiscal capacity to single-handedly bail out endangered financial institutions

The European response has been to fashion a regional capacity based on the pooling of the economic and financial strengths of Euro area member states. The European Financial Stability Facility was founded on 7 June 2010. Its shareholders are the Euro area member states. The EFSF website states that its “mandate is to safeguard financial stability in Europe by providing financial assistance to euro area Member States.”

The EFSF lends to countries experiencing financial difficulties and finances recapitalisation of financial institutions through loans to governments. It can also intervene in primary and secondary markets. It derives its financial capacity from issue of bonds and other debt instruments backed by guarantees from its shareholders. The lending capacity of the EFSF is EUR440 billion. In November 2010, the EFSF together with the IMF agreed a EUR85 billion programme for Ireland which included EUR35 billion for “immediate strengthening and comprehensive overhaul of the banking sector,” and a 50 billion euro component for fiscal adjustment.

On 17 May 2011, EFSF jointly with the IMF agreed a EUR78 billion programme for Portugal which included a component for recapitalization and orderly deleveraging in the financial sector as well as a fiscal consolidation strategy.

Caribbean Community governments have not taken

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a regional approach to rescuing endangered financial institutions in member countries even where there is evident that there is serious systemic risk.

The European model of creating a special purpose institution backed by member states financial commitments might not be feasible in the Caribbean sub-region at this time given the deteriorated international capital market standing of many Caribbean Community countries. It may not even be necessary, not because there is no need for such a facility but because to some extent one already exists. The Caribbean Development Bank is a regional financial institution owned by Caribbean Community member states together with Colombia, Mexico and Venezuela within the Caribbean and Canada, China, Germany, Italy and the UK outside of the Caribbean. On the strength of its balance sheet and the international capital market standing of its non-regional members, the CDB is able to place bonds on the international market to support its lending to Caribbean Community members. In 2007, it designed a loan product called policy based loan which is targeted to fiscal strengthening and consolidation in countries under fiscal stress. By the end of 2010, there were at least 7 country recipients of policy based loans. An economic stabilization role for the CDB could be said to have been firmly established by the end of that year.

Not so for financial sector stabilization. In 2010 after much internal debate and deliberation by Board directors, CDB granted a loan to St Vincent and the Grenadines to facilitate recapitalization of the major commercial bank. The principal issue at the time was the departure of the CDB from an economic development modus operandi specialized in project loans to acceptance of a financial sector stabilization role. Part of the policy conundrum then and now is the fact that in each Caribbean Community country there is already a

public institution, viz. the central bank, with primary responsibility for safeguarding the stability of the financial sector. However to make too much of that fact is to ignore the matter of financial capacity which might be inadequate nationally. It is this kind of inadequacy which gave legitimacy to a regional approach in Europe and which similarly would legitimize a regional approach in the Caribbean Community. Each Euro area member has a central bank. There is also a European Central Bank and a European Development Bank. Yet the countries decided it made sense to create the EFSF. Exceptional times demand exceptional measures.

The key issue for decision within the Caribbean Community now is whether it makes better sense to establish de novo a special purpose institution or to expand the modus operandi of the regional development bank to facilitate in conjunction with national and multilateral institutions the provision of funds for financial sector stabilization programmes. In contemplating this issue, one should bear in mind that financial sector development is integral to economic growth and development and that the major global financial crisis preceding the current one, i.e. 1929-1933, reversed to an extent that could not have been imagined the economic progress made by leading industrial nations and developing economies alike. Financial sector stability should therefore not be seen as a fringe issue for development bankers.

**By: Professor Compton Bourne
Executive Director
Caribbean Centre For Money & Finance**

REGIONAL NEWS SUMMARY

CL FINANCIAL

- Payments to some Clico and British American Insurance clients with short-term investments where the principal was TT\$75,000 and over began on December 1 (Carib360 1 Dec).
- United Policyholders Group which represents 400 Clico Policyholders together with four individual applicants filed an application for Judicial Review in the San Fernando High Court; they are challenging the decision and actions of the Government to refuse to pay them the full sum of monies due on their Executive Flexible Premium Annuities (Newsday 2 Dec).
- In its latest Article IV Consultation report on Barbados, the IMF has urged the Barbados government to stay away from funding any solutions in the restructuring of collapsed insurance group CLICO Holdings (Carib360 8 Dec).
- New evidence obtained by the Sunday Express shows that State and Government officials knew the country's number one insurer was not only routinely breaking the rules, but was operating well outside the law (TE 18 Dec).

THE STANFORD GROUP

- The U.S. Securities and Exchange Commission and the Securities Investor Protection Corporation are heading to court to resolve a dispute involving coverage for thousands of victims of Allen Stanford's alleged US\$7 billion Ponzi scheme (Carib360 15 Dec).
- All direct and indirect aid to Antigua and Barbuda from the United States could be suspended if a band of US Senators get their way. The proposed sanctions are prompted by the Antigua and Barbuda government's handling of the assets of Allen Stanford and Half Moon Bay (Carib360 15 Dec).
- At the heart of Stanford's alleged fraud are certificates of deposit sold by his Antigua-based Stanford International Bank Ltd to about 28,000 investors, making Antigua and Barbuda the legal centre of interest (CNnow 22 Dec).
- U.S. District Judge David Hittner has denied Allen Stanford's request to have his fraud trial delayed by three months paving the way for jury selection

to proceed Jan 23 (Carib360 30 Dec)

CARIBBEAN

- A top official of the Barbados Stock Exchange has reiterated a call to Government for tax exemptions to small businesses that would encourage them to list on the junior market (BN 29 Nov).
- Haiti and its international partners broke ground on a US\$257 million, 604-acre industrial park that represents the largest foreign investment since the earthquake. It is expected to employ up to 95,000 workers when complete (Caribseek 29 Nov).
- In the third quarter of 2011 retrenchment notices at the Ministry of Labour (T&T) were more than double the amount filed in the corresponding period of 2010. This was due in part to the closure of a food processing company, but the spate of retrenchment has continued during the last quarter of 2011 (TE 1 Dec).
- Jamaica has missed out on a rare US\$6 million a year opportunity to supply ginger to a United States-domiciled drinks company listed in the NASDAQ (JG 2 Dec).
- St. Kitts and Nevis said it is in advanced discussions with the CDB on a partial guarantee for new instruments to be issued to creditors as part of an ongoing comprehensive debt restructuring exercise (Carib360 5 Dec).
- Trinidad and Tobago will strengthen its financial sector supervisory and regulatory framework with a US\$50 million loan from the IDB (CNnow 6 Dec).
- The Barbados Government is seeking a B\$35 million line of credit from the Barbados National Bank to meet its spending commitments over the next two years (BN 6 Dec).
- The IDB says Jamaica will modernise its fiscal administration to improve customs and tax revenue collections and better manage debt and government operations, in a programme partly funded by a US\$65 million loan (JG 7 Dec)
- Advances in the agriculture sector must continue at an accelerated pace, so that Guyana is recognised as a brand on world markets, said

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- the Agriculture Minister, Dr. Leslie Ramsammy (GCO 7 Dec).
- The impact of the State of Emergency and curfew was more pronounced on the local economy than originally envisaged, Central Bank Governor Ewart Williams said (TE 8 Dec).
- The harsh economic realities now facing Grenada has led government to consider offering overseas investors citizenship in exchange for large financial injections into the island (Carib360 8 Dec).
- The Caribbean Tourism Organisation and the Caribbean Hotel and Tourist Association condemned the UK Treasury's decision to increase the controversial Air Passenger Duty by 8% as of April 2012 (JG 8 Dec).
- Digicel's 4G network was officially launched on the Barbados market with an investment of over BDS \$20 million (BAdv 8 Dec).
- Stay-over visitor arrivals in Barbados for the period January to October 2011 were 465 275, representing an increase of 7.2% over the previous year (BN 8 Dec).
- Barbadians may be forced to live with a 17.5 % Value Added Tax permanently, if IMF advice is followed (BN 8 Dec).
- The IDB has approved a US\$ 15 million loan for the Social Protection Support Programme in Suriname. The project will support the efforts of the government to enhance the effectiveness of spending on social protection programmes (GuyTim 8 Dec).
- Haiti's foreign minister, Laurent Lamothe, said what his country needs now is not emergency aid but solid investments (TE 9 Dec).
- With overall economic activity remaining subdued, the unemployment rate in Barbados almost doubled from 6.7% in 2007 to 12.1% in June 2011 (BN 9 Dec).
- The IDB has approved a US\$55 million grant to Haiti to help upgrade key highway sections and pave streets. The investments will improve transportation among urban areas and with the neighbouring Dominican Republic, as well as generate temporary jobs in several cities (CNnow 9 Dec).
- Digicel, the Caribbean's largest mobile telephone service provider reported strong financial performance for the six months ended September 30, 2011 (JO9Dec).
- The Central Bank of T&T has published a draft Credit Union Bill, which places the thrift and savings institutions under the control of the Central Bank (TG 10 Dec).
- A well-constituted film industry in T&T can generate billions in revenue, not just for the major players, but many of this country's average citizens says Trade and Industry Minister Stephen Cadiz (TG 11 Dec).
- President Donald Ramotar contends that a consensus approach to moving Guyana forward in the interest of all Guyanese can deliver both economic success and strong national unity (GCO 12 Dec).
- Suriname will strengthen its public capital expenditure management with a US\$20 million loan from the IDB (CNnow 12 Dec).
- The St Martin government has said that financing the 2010 cost-of-living adjustment for teachers and public servants – including the pension reserves – will cost approximately NAf. 17 million (Caribseek 13 Dec).
- Government has had to subsidise the Water and Sewerage Authority to the tune of TT\$1.8 billion in 2011, says Public Utilities Minister Emmanuel George (TG 13 Dec).
- A study undertaken by PwC, the World Bank and the International Finance Corporation identified Jamaica as the 11th worst in terms of the ease of paying taxes in the world (JG 14 Dec).
- The Bahamas "is just not earning enough to make ends meet", according to the lead economics specialist for the Caribbean at the IDB (CNnow 15 Dec).
- Acting Minister of Finance and the IDB signed two loan agreements for a total of US\$130 million. These comprise US\$80 million in support of climate change policy, legislative and institutional reform and similarly US\$50 million to ensure strengthening of the financial sector (TE 15 Dec).
- Secretary General of CARICOM Irwin LaRocque has hailed the pivotal role of Suriname in the community as he ended his official visit to that country on Tuesday (GuyTim 15 Dec).
- Guyana Goldfields Inc disclosed that an updated Mineral Resource Estimate for the location known

REGIONAL NEWS SUMMARY CONT'D

- as Sulphur Rose, shows it contains some 277,580 ounces of gold in the indicated category, including 275,550 ounces in the open pit (GCO 16 Dec).
- China Investment Corporation has signed off on an agreement to purchase 10% of the shares of LNG producer Atlantic at Point Fortin (TE 20 Dec).
- Economic growth has slowed throughout the Caribbean region, with decreased private sector activity, creating an environment for meagre growth in output, employment and income despite eased monetary policy by central banks, an analysis by ECLAC has shown (TE 21 Dec).
- China and Cuba have agreed to work on the development of a bilateral economic agenda in the medium term, a decision that highlights the strategic nature of their relationship (Caribseek 27 Dec).
- St Vincent and the Grenadines has been ranked number five in the "World's Top Destinations for 2012" by CNN (CNnow 29 Dec).
- The Governments of Guyana and Germany have finalised an agreement to utilise five million euros, in funding for the further development of the Guyana Protected Areas System (GCO 30 Dec).
- Guyana's exports of cash crops to regional and international markets in 2011 increased by 10% over the previous year (GCO 30 Dec).
- Minister of Natural Resources and the Environment Robert Persaud says Guyana's gold production for the year so far is 350,000 ounces and this has surpassed the year's target by 30,000 ounces (SN 30 Dec).
- The Central Statistical Office showed that headline inflation, measured by the 12-month increase in the Index of Retail Prices, rose to 5.7% in November, up from 3.7% in the previous month (TE 31 Dec).
- The unemployment rate for Trinidad and Tobago declined from 6.3% in the fourth quarter of 2010 to 5.8% in the second quarter of 2011, according to the CSO (TG 31 Dec).

ANNOUNCEMENTS

WELCOME ON BOARD PROFESSOR COMPTON BOURNE



Prof. Compton Bourne

We welcome on board Professor Compton Bourne as the Executive Director (interim) of the Caribbean Centre for Money and Finance.

He is a graduate of the University of London, the University of Birmingham and the University of the West Indies and was President of the Caribbean Development Bank from 1 May, 2001 to 30 April 2011.

Prior to the last appointment, he was Principal of the St. Augustine Campus of the University of the West Indies from 1996-2001, Pro Vice Chancellor for Planning and Development 1990-1996 and Deputy Principal of the St. Augustine Campus from 1990-1993. He held an appointment as Professor of Economics from 1981-2001 and is now Professor Emeritus of Economics. Professor Bourne served as a Director of the Central Bank of Trinidad and Tobago from 1987-2000 and is a Fellow of the Caribbean Academy of Sciences, past President of the Caribbean Studies Association, and past Vice-President of the Caribbean Agro-Economic Society.

Professor Bourne has been an active contributor to public economic policy in the Caribbean, Africa and the Philippines since 1975. He has advised CARICOM Governments, the Caribbean Development Bank, the Inter-American Development Bank, the World Bank and USAID on monetary and financial market policy, including contributions to the reform of rural financial markets in the Caribbean, restructuring of the Zambian agricultural credit system, agricultural credit and central banking policy in Nigeria and restructuring of the Central Bank of the Philippines. He is a Member of the Order of Excellence, the highest honour of the Republic of Guyana, and is a recipient of many other prestigious awards for his outstanding contribution to the Caribbean.

Professor Bourne is the editor of seven books and special issues of journals; and author of three books, 58 published technical papers as well as more than 50 research reports and advisory memoranda for Caribbean Governments, foreign governments and international development institutions and agencies.

Within the private sector, Professor Bourne served as a Director of the Trinidad Publishing Company which owns a daily newspaper and several radio stations.

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*HAPPY NEW YEAR FROM
THE STAFF OF CCMF*