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THE CHALLENGE OF SLOWING ECONOMIC GROWTH IN THE CARIBBEAN

The experience of low rates of economic growth over the last four years, driven in large part by the fallout from the recent international financial and economic crisis, has brought the issue of the structural challenges to growth back into focus in the region. Indeed, this trend of slow global economic growth seems set to continue as the latest update of the World Economic Outlook from the IMF in January 2012 has lowered their global growth projections for 2012 and 2013 by as much as 0.75 percentage points, due in large part to problems in Europe. The prognosis for developing countries is also for slower growth as their external markets weaken. The small open nature of all Caribbean countries means that the international economic environment has a significant impact on the economic growth performance of these economies. Nonetheless, productive efficiency and effective institutions at the national level can have a positive impact on growth at the margins, even in the present difficult international economic environment.

Over the last five decades the region has undergone tremendous economic changes including a general move away from dependence on agriculture to become more service based economies, an increased role for the state in economic affairs, the discontinuance of traditional trade preferences, greater integration into the global economy and the attendant increased vulnerability to external shocks and, increased competition from more efficient producers. The average economic growth performance of Caribbean countries has been moderately successful over this period, however, there has been a worrying trend of declining growth rates in the Caribbean since the end of the 1970s, with growth in per capita GDP moving from an average of 2.95% in the 1970s to 1.58% in the first decade of the 21st century. There are notable exceptions to this general trend, how-

ever, with growth in the Dominican Republic, Suriname and Trinidad and Tobago recovering in the 1990s and 2000s after a period of slow growth in the 1980s. In these countries economic policy reforms were key factors driving the recovery in growth.

Table 1. Per Capita Growth Comparisons (%)

Country/Region	1960	1970s	1980s	1990s	2000s
Antigua& Barbados	na	5.6	6.30	2.20	1.35
Bahamas, The	5.40	0.03	1.60	-0.20	-0.93
Barbados	6.00	2.91	1.90	0.50	-0.09
Belize	2.20	4.38	2.80	3.50	1.51
Dominica	na	-4.33	6.30	2.40	2.36
Dominican Republic	1.60	5.46	1.50	2.80	3.86
Grenada	na	6.68	4.70	2.70	1.62
Guyana	1.30	0.77	-2.50	4.50	1.83
Haiti	-1.30	na	-1.50	-3.20	-1.24
Jamaica	2.70	-0.11	0.20	0.60	0.52
St. Kitts and Nevis	na	8.35	6.50	3.90	0.48
St. Lucia	na	na	4.30	3.30	1.08
St. Vincent and the Grenadines	-0.20	2.95	4.80	3.00	2.78
Suriname	na	2.13	-1.70	0.40	3.27
Trinidad & Tobago	3.50	3.54	-2.50	2.20	5.36
Caribbean	2.30	2.95	2.20	1.90	1.58
Latin American and Caribbean	2.40	3.30	-0.20	1.20	2.12
East Asia and Pacific(EAP)	1.80	5.00	5.70	6.20	8.08
Caribbean Growth Gap to EAP	0.50	-1.10	-3.50	-4.30	-6.50

Sources: World Bank: A Time to Choose: Caribbean Development in the 21st Century, 2005 and World Bank Data Bank.

Another worrying trend has been an increasing disparity in growth over time between the Caribbean and high performance economies such as those in East Asia and the Pacific. For example, although the

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Caribbean performed better than East Asia and the Pacific on a per capita basis in the 1960s, this region surpassed the Caribbean in the 1970s and the gap in performance has widened consistently since then moving from a gap of 1.1% in the 1970s to 3.5%, 4.3% and 6.5% in the 1980s, 1990s and the first decade of the 21st century respectively (See Table 1). This suggests that in terms of fundamentals such as productivity, innovation and competition Caribbean countries have not kept pace with the more dynamic extra-regional economies and more worryingly may have regressed in these areas over time. The region's ability to maintain its record of growth and development may therefore be at risk.

Utilising the growth accounting framework which decomposes overall economic growth, attributing growth to increases in factor inputs and a residual called total factor productivity (TFP) which is thought to represent increases in productivity and technical progress, a report by the World Bank highlighted the decline in productivity in the 1990s which may partially explain the slowdown in growth in the 1990s. In particular, using the Solow method to estimate TFP it was found that this measure of productivity declined from 2.06 in the 1980s to 1.09 in the 1990s which coincides with a slowdown in economic growth. This suggests that productivity is a strong determinant of growth over this period. This pattern was generally repeated when one looks at individual countries in the Caribbean as countries which had increases in TFP such as the Dominican Republic and Trinidad and Tobago experienced higher growth rates. It has been suggested by this World Bank study that some of the main factors driving this decline in productivity included the increase in unproductive public investments, large investments in low productivity traditional agriculture sectors such as sugar and bananas and the channeling of significant investments to mature sectors such as the traditional "sun and sand" tourism product. Other important factors identified as impacting on growth include the impact of business cycles and the external environment (terms of trade and global growth).

In addition to relatively low productivity, a number

of critical domestic factors affect the competitiveness of Caribbean producers. These include a relatively underdeveloped institutional framework to support business development and a sometimes convoluted business environment. The World Bank's Doing Business Report 2012 indicated that the region did not perform well relative to some of the more successful economies in terms of the general business environment. In particular, the region generally did poorly in terms of enforcing contracts, closing businesses, registering property and getting credit and trade across borders. Additionally, some countries such as Belize, Haiti and Suriname recorded low scores in the important areas of setting up businesses and protecting investors. The problems related to the general business environment in the region is compounded by the increasing plethora of international industrial and business standards now impacting on companies' ability to participate and compete in markets. This means that businesses now have to modernize and restructure their business processes and management systems to consolidate and improve their growth prospects.

Last, but by no means least, is the challenge of small market size especially for members of CARICOM. For example, in 2011 the population of CARICOM was approximately 17.2 million with Haiti, the poorest country in the group, accounting for about 59.6% of the total population of the region. Moreover, the combined GDP of the region in 2010 was approximately US\$64.1 billion which is only comparable in size to the economies of Cuba, Ecuador and The Dominican Republic at US\$64.1 billion, US\$58.0 billion and US\$51.6 billion respectively. Dominant firms that have emerged in different jurisdictions in this region therefore, inevitably need to venture outside their national boundaries and in many cases outside the confines of the single market to facilitate their growth.

**By Dave Seerattan
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REGIONAL NEWS SUMMARY

CL FINANCIAL

- CLICO policyholders with bonds of 11- to 20-year duration will now have access to a trust fund to purchase units equivalent to the value of their deposits during that period. The trust is to be formed when 51.9 million Republic Bank shares currently held by Clico are transferred to the trust; the value of the transfer is approximately \$4.8 billion. (TE 6 Jan)
- Former prime minister Patrick Manning called for secrecy in the government's handling of the financial difficulties facing CL Financial, in an attempt to prevent an immediate collapse of the conglomerate, according to former finance minister Karen Nunez-Tesheira, as she took the witness stand in the commission of enquiry into the failure of CL Financial (TE 12 Jan)
- In its first published financial statements in several years, collapsed insurance giant Colonial Life has presented a balance sheet for 2009 ravaged by massive liabilities of \$24.5 billion and a 34% decline in income (TE 25 Jan)

THE STANFORD GROUP

- Allen Stanford is seeking a three-month delay in his January 23 trial date citing the resignation of expert witnesses; they resigned because they have not been paid (Caribseek 5 Jan)
- The court-appointed attorneys for Allen Stanford have filed a new motion to delay the January 23 start of trial after being ordered to remain on the job. They have asked for a continuance on the basis that a non-attorney member of the defense team will not be available on that date (Caribseek 17 Jan)
- A United States district judge began quizzing jurors in the Allen Stanford criminal case that has been ranked the second-largest Ponzi scheme in US history (JG 24 Jan)
- Allen Stanford pleaded not guilty to 14 counts of fraud and money laundering as the prosecution opened its case against him, nearly three years after he was accused of defrauding investors of more than seven billion US dollars in a Ponzi scheme through his bank in Antigua (BN 25 Jan)
- Allen Stanford used lies and bribes to steal the hard-earned savings of his customers, prosecutors said on Tuesday at the start of Stanford's trial on

criminal fraud charges in US federal court in Houston (CNnow 26 Jan)

- Attorneys for embattled Texas financier Allen Stanford have mounted a defence that contends their client was a savvy businessman whose financial empire was legitimate and who never failed to pay what was owed to investors (Caribseek 27 Jan)

CARIBBEAN

- Richard Young, president of the Bankers' Association of T&T, has called for an improvement in the timeliness of overall financial reporting in this country, starting at the banking level (TG 1 Jan)
- The T&T equity market experienced its best year since 2004 as the T&T Composite Index jumped 21.21% by the end of 2011. This performance placed the local market fifth among the world's top performing markets in 2011 (TE 2 Jan)
- Trinidad and Tobago's latest unemployment figures show a 0.5% drop in the number of people looking for jobs (TE 2 Jan)
- First Caribbean International Bank Jamaica, in its last report to the market, said there was a steep drop in yearly profit to J\$157 million. The stock was redeemed at J\$13.25 per share and delisted at the close of December (JG 4 Jan)
- The government of Suriname and the IDB agreed a new strategy to lend a record amount of around US\$300 million in the period 2011-2015 (CNnow 6 Jan)
- First Citizens Asset Management Ltd has reached the \$10 billion mark in assets under management (TE 6 Jan)
- Jamaica's new prime minister, Portia Simpson Miller, has assured the local and overseas business community that her administration will pursue a tight fiscal policy, reduce the country's debt to GDP ratio, and maintain the key macro-economic fundamentals (CNnow 6 Jan)
- Guyana advanced ahead of other CARICOM countries when it passed the amendment to the Caribbean Community Free Entry of Skilled Nationals Act to include an additional nine categories of persons under the free movement regime (CNnow 9 Jan)
- New data from the Statistical Institute of Ja-

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maica, has shown that Jamaica's trade deficit continues to widen, meaning that the country continues to import more than it is exporting (JG 11 Jan)

- The cost of doing business in Barbados has been cited as one of the impediments to the island's global competitiveness and progress. From high legal costs to exorbitant prices for basic goods and services, it is accepted that Barbados is a high-cost locale (BN 11 Jan)
- The board of the National Insurance Scheme (Barbados) will invest in the stalled Four Seasons project, ending months of speculation and debate over the issue (BN 12 Jan)
- The IMF has approved a disbursement of an amount equivalent to SDR 2.05 million (US\$3.1 million) under the rapid credit facility for Dominica to help manage the economic impact of a series of natural disasters from July-September 2011 (CNnow 12 Jan)
- The National Gas Company of Trinidad and Tobago Limited, National Energy Corporation of Trinidad and Tobago Limited, Severstal North America, Complejo Matalurgico Dominicano S.A. and Neal & Massy Holdings Limited have signed a Memorandum of Understanding to undertake a feasibility study for the establishment of a vertically-integrated iron and steel complex (CNnow 13 Jan)
- British visitor Sir Michael Justice believes Barbados is hindering the flow of tourist dollars to small business people in the sector by promoting all-inclusive tourism (BN 13 Jan)
- Barbados has kept its "high creditworthiness" rating from the Caribbean Information and Credit Rating Services Limited, despite Government debt being put at just above junk status by Standard & Poors last November (BN 16 Jan)
- Commissioner-General of the Guyana Revenue Authority, Kurshid Sattaur, reported that his agency has amply surpassed its 2011 collection target of \$104B, and ascribed this achievement to improved and modernised systems implemented by the Guyana Revenue Authority together with a stable economy (GCO 16 Jan)
- Chairman of the Barbados National Bank, Ronald Harford believes that the deteriorating economic conditions in the USA, UK, and Europe during the latter months of 2011 could create some challenges for Barbados early this year (BAdv 17 Jan)
- Inflation in Jamaica came in at 6% for 2011, the lowest since 2006 (JO 18 Jan)
- The Barbadian economy has recorded marginal growth for the second consecutive year after declining in 2009, and the country has recorded an improved balance of payments position in 2011. In addition, the fiscal deficit has been reduced from 7.4% to 4.8% of GDP (BAdv 18 Jan)
- Finance Minister Winston Dookeran has announced the creation of an Investment Relations Office to attract new forms of investment in Trinidad and Tobago. The office would be part of a programme to build investor relations, providing information to prospective local and foreign investors about TT, and potential local investment projects (Newsd 19 Jan)
- The Central Bank of Barbados reported that some key economic figures were trending in a positive direction though unemployment, averaging 12%, remained a bugbear. The bank said most of the job losses were coming from the manufacturing sector, finance and professional services (BN 19 Jan)
- The Department of Statistics reported that the consumer price index for St. Maarten decreased in December 2011, by 0.3% compared to October 2011 (Caribseek 19 Jan)
- The World Bank is urging the Caribbean and other developing nations to start planning for a major slowdown in global growth this year (JG Jan 19)
- The World Bank has projected a 5% growth in Guyana's GDP for this year, the third highest in Latin America and the Caribbean (GCO 19 Jan)
- Lasco Manufacturing broke ground for a state-of-the-art factory on 25 acres of land in St Catherine. The J\$2.1 billion development is expected to create 250 jobs and feature a modern and highly efficient processing plant. The UK plans to put 75 million pounds sterling over a four-year period into development projects in the Caribbean (SN 23 Jan)
- The Central Bank of Barbados has announced the launch of its inaugural Financial Stability Report (BAdv 23 Jan)
- Despite the region spending millions of dollars to secure airline flights to the Caribbean, ticket prices

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- are still too high and remain insufficient to sustain the industry, according to a tourism leader (Carib360 23 Jan)
- Tough new sanctions, including a \$10 000 fine and a year's imprisonment, are on the way for Barbados employers who deny workers annual vacation or refuse to pay them during that period (BN 24 Jan)
- Despite the region spending millions of dollars to secure airline flights to the Caribbean, ticket prices are still too high and remain insufficient to sustain the industry, according to a tourism leader (Caribseek 25 Jan)
- The year 2012 has been recognized by the United Nations as the International Year Of Cooperatives (BN 25 Jan)
- St. Kitts and Nevis has passed the first review of economic performance under the Stand By Arrangement with the IMF (Caribseek 26 Jan)
- Average consumer prices in the Dutch Caribbean rose dramatically in 2011 relative to one year previously. With 9.9 percent, St Eustatius recorded the highest inflation rate. The inflation rates for Bonaire and Saba were 5.4 and 6.4 percent respectively. For comparison's sake: the Dutch inflation rate over 2011 was 2.3 percent (Caribseek 26 Jan)
- The execution of the US\$250M Manganese Mining Project in Mathew's Ridge, North West District, by Reunion Manganese Inc., is expected bring with it a plethora of benefits to the community through job creation and improvement in infrastructure (GCO 29 Jan)
- The National Land Agency (of Jamaica) said that there were 212 foreclosures last year, up from eight in 2010. That's a staggering 2,550% increase (JG 29 Jan)
- Millions of workers in Latin America and the Caribbean run the risk of poverty during their retirement years unless countries reform their pension systems, according to experts from the IDB (GuyTim 30 Jan)
- Headline inflation slowed to 5.3% on a year-on-year basis in December 2011 from 5.8% in November (Newsd 30 Jan)
- Guyana has received 12.5 million euros (G\$ 3 billion) from the European Union to further support the sugar sector (GuyTim 31 Jan)
- Treaty Energy Corporation has reported drilling success on its first oil well in Belize. It is estimated that there are about 5,000,000-6,000,000 barrels of recoverable oil in place in this first finding (CNnow 31 Jan)

ANNOUNCEMENTS

FIRST CONFERENCE ON IADB FUNDED PROJECT ON FINANCIAL RISK ASSESSMENT IN AN INTEGRATING REGION: THE CARIBBEAN CENTRAL BANK OF TRINIDAD AND TOBAGO CONFERENCE FACILITY MARCH 26-27, 2012

The Caribbean Centre for Money and Finance (CCMF) is in the process of rolling out the execution of an IADB funded project on *Financial Risk Assessment in an Integrating Region: The Caribbean* aimed at developing and upgrading the capacity in the region to more effectively monitor financial stability at the regional level. One of the key components of this project is the convening of conferences of the major stakeholder in financial stability in the region to discuss and craft measures to develop and upgrade the systems for the overall assessment of the financial stability in the Caribbean region.

The first of these conferences on the theme *Developing the Financial Stability Architecture in the Caribbean* will be held over the period March 26-27, 2012 at the Central Bank of Trinidad and Tobago conference facilities. Presentations and deliberations will focus on various sub-themes including: updates on current regional risk assessment/financial stability activities, including the preparation and publication of financial stability

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reports (FSRs), legislative and regulatory arrangements for the consolidated supervision of regional financial conglomerates, global financial stability and issues of reform, macro-prudential risks confronting the Caribbean region, measuring systemic risk in the Caribbean financial sector and the effects of contagion, regional experiences with the implementation of stress testing methodologies and actions needed to take the regional financial stability architecture forward.

The main objectives of this conference include finalization of a draft work plan for the execution of this project with timelines for the completion of various activities by various stakeholders and the consultant and the identification of resource needs of the various central banks who are key stakeholder in the regional risk assessment framework. Participants at the conference will include representatives from the regional central banks, other financial sector regulatory agencies, regional ministries of finance and regional and multilateral financial international institutions.

CARIBBEAN BUSINESS EXECUTIVE SEMINAR THE FUTURE OF THE PENSION INDUSTRY IN THE CARIBBEAN

The CCMF announces its upcoming Caribbean Business Executive Seminar to be held at the Hyatt Regency, Trinidad on May 4th, 2012. It is the 15th in a series of seminars geared toward top Caribbean executives and will feature presentations from representatives of international and regional institutions on areas such as:

- The Challenge of Public Pensions
- Pension Reform in the ECCU
- Future of Occupational Pension Plans for Income Replacement during Retirement
- How Pension Funds in the Caribbean Come to Terms with Investment Risk
- The Universal Pension Scheme
- Innovative Private Pensions Instruments
- Strengthening the Governance of Pension Funds
- National Insurance and Social Security Schemes

Updates and registration information for the 15th Caribbean Business Executive Seminar 2012 will be posted at www.ccmf-uwi.org where you can also find presentations from our past seminars and conferences.

Queries can be addressed to : Caribbean Centre for Money and Finance, The University of the West Indies, St. Augustine Campus, Trinidad and Tobago, Tel: (868)645 1174 / (868)6456017, Email: ccmf@sta.uwi.edu.

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