



LOW INTEREST RATES- HAS IT AFFECTED CARIBBEAN SAVERS?

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REGIONAL NEWS SUMMARY

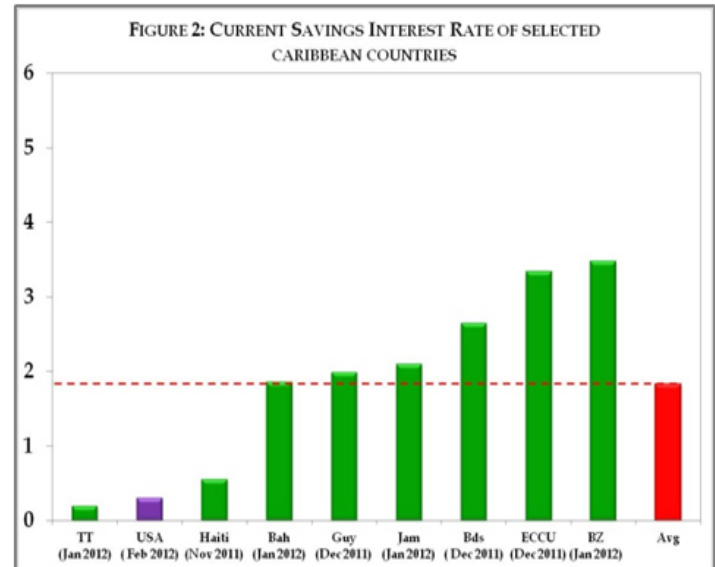
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ANNOUNCEMENTS

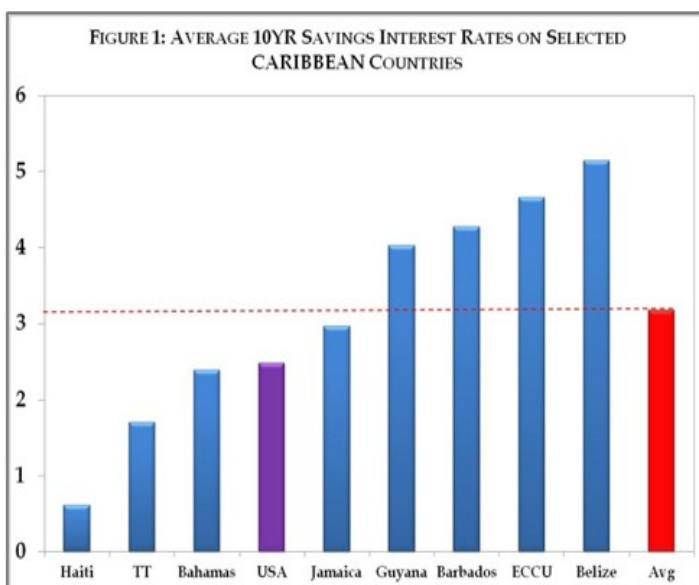
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The depressed demand conditions in the region in the last three years have led to a situation where the financial sectors in most Caribbean countries are characterised by interest rates that are low by historical standards. This is a problem that is not confined to the CARICOM region as persistent low nominal interest rates have been a feature of most economies around the world. Low interest rates in this current recessionary environment are driven by economic growth challenges which have led many governments to adopt a low interest rate policy in an attempt to boost aggregate demand. For example the repo rate in Jamaica and Trinidad and Tobago was lowered significantly; during the period January 2008 to February 2012 the repo rate fell by 640 basis points in Jamaica and by 500 basis points in Trinidad and Tobago. Given the continuing problems in the global economy these policies are likely to persist for some time.



The actual experience of commercial bank interest rates in the CARICOM region thus far have seen loan rates soften while the deposit rates have declined drastically in some countries. The lending interest rates in the Caribbean region can be described as sticky downwards¹ having reported decreases in its lending rates only at the end of 2009 while the interest rates spreads have widened. The current interest rates on savings in the Caribbean have been described as being below its historical average. Comparing the two ranges (Figure 1 and 2) highlights the fact that current savings interest rates are significantly lower than the historical interest rates. The 10 year average interest rate on savings for the Caribbean is 3.17 per cent, while the current average interest rate is 1.83 per cent.



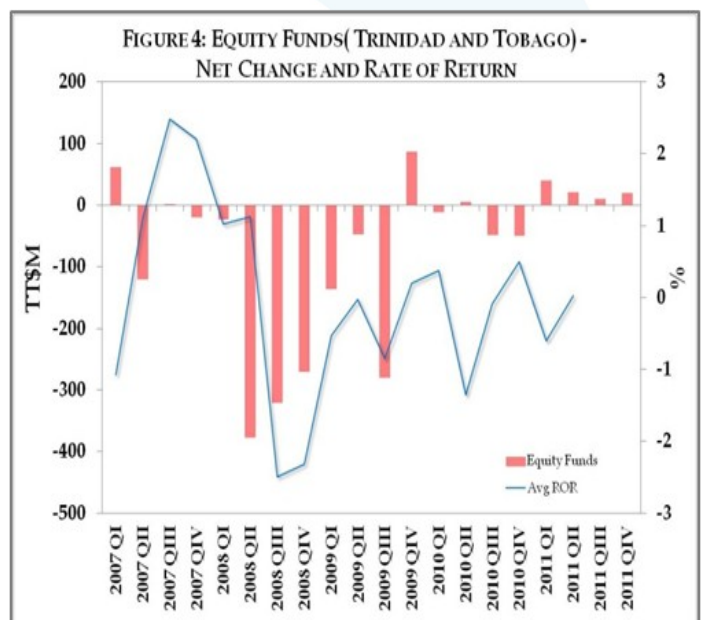
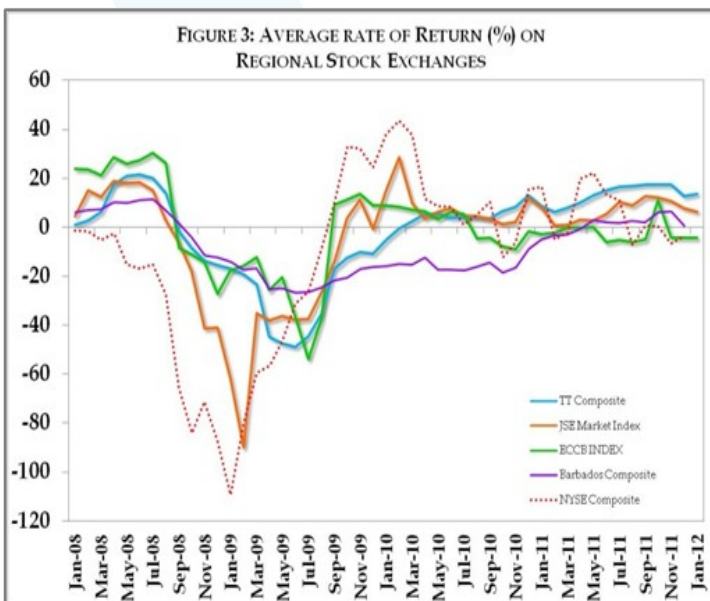
In addition to depressed economic conditions, low interest rates in the Caribbean region have amplified

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the chronic problem of high liquidity that exists. The profitability of commercial banks in the Caribbean region is hinged on the maintenance of interest rate spreads at a level that will enable them to be profitable. This supports the argument that the chronic liquidity problem of the Caribbean region is due to fundamental problems in terms of bankable projects in small, undiversified economies and financial systems characterised by oligopolistic structures that hamper the savings/investment process.

A policy of low interest rate on savings may prompt commercial bank depositors to seek high-yielding alternatives. Even before the current episode of historically low interest rates, commercial banks' deposits have been declining over time, highlighting the fact that more savers were moving into less traditional instruments in search of yield. A possible alternative to savers in the Caribbean is investing in the local stock markets, but the average rates of return on the regional stock exchanges have been volatile (Figure 3) and may not be the most appropriate choice for risk averse investors. A popular option for investors in the recent past has been mutual funds, but this has also become less attractive to savers in the Caribbean as rates on money market mutual funds have fallen sig-

nificantly in the wake of falling rates on government securities. The net change in mutual funds for Trinidad and Tobago highlights that fact (Figures 4 and 5). Massive decreases in equity funds in Trinidad and Tobago began in the second quarter of 2008 when negative returns began and have since been fluctuating between 0.5 per cent and -1 per cent. However, drastic decreases in the income funds were only reported in the first quarter of 2009 with its average rate of return falling significantly and remaining very low. Investing in stocks and bonds will yield positive returns in the long run but will

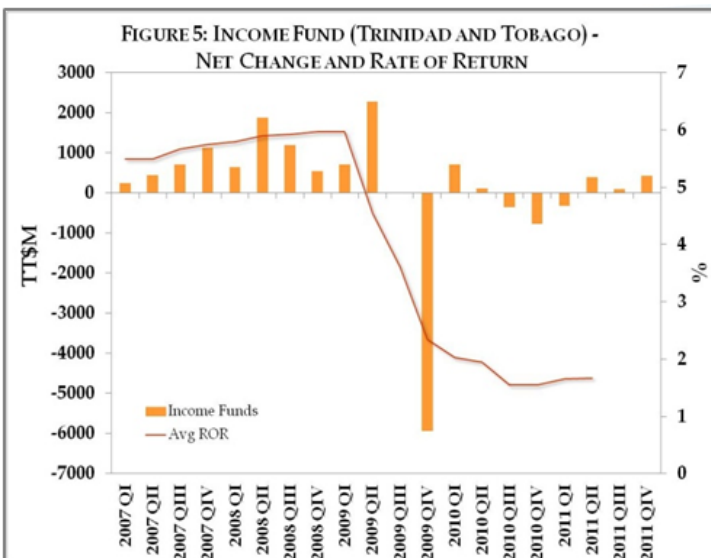


expose the investor to periods of severe loss in the short run.

The failure of institutions such as CL Financial, British American Insurance Company and Stanford Bank has also damaged the confidence of investors in non-traditional savings and investment instruments. In the current ultra low interest rate environment, savers are experiencing difficulties in finding low risk options that pay more than one per cent². Most safe substitutes are also beset by low rates of return which can cause savers to switch from relatively safe financial instruments to higher yielding,

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riskier investments outside of the financial sector. This could not only lead to disintermediation in the financial sector but also to an asset profile for house-



holds which exposes the economy to even greater risks.

Low interest rates may be good for economic stability in the short term but not in the medium term since this amplifies risk taking and exposes financial institutions to risks when interest rates begin to increase.

Risks such as the possibility that investment decisions may be distorted as there may be misallocation of resources and asset prices will increase. Another possible risk is that the balance sheet adjustments of financial institutions, households and public sectors may be postponed. Also, individuals may find that saving is unattractive and saving for retirement will be jeopardized. Governments should therefore bear in mind that there is a limited time-frame in which policy makers can pursue a strategy of low interest rates.

NOTE: ¹Kendall (2000) gave several explanations for the high lending rates of the Caribbean region: the small size of the national markets, the oligopolistic structure of the commercial banking industry, the lack of competitiveness of non-bank financial institutions, poor fiscal management and lack of integration of the Caribbean money and capital markets.

²Inflation rates in Caribbean countries range from 3 – 9 per cent, which means that the real return on most investments is negative.

By JULIA JHINKOO

Junior Research Fellow

Caribbean Centre For Money And Finance

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CL FINANCIAL

- The transfer of the final and largest part of British American Insurance Company's Barbados business to another entity is to begin soon, with the entire process completed by yearend (BN 9 Mar)
- The Grenada government said that the judicial manager of the British American Insurance Company has instituted legal action against Lawrence Duprey, the former executive chairman of Colonial Life Insurance Company (TG 12 Mar)
- Proposals submitted early last year by a committee under the chairmanship of the President of the CDB will shortly be considered for adoption with a view to providing early relief to the many policyholders adversely affected by the financial collapse of Colonial Life Insurance Company and its subsidiary British American Insurance Company (SN 12 Mar)
- The Organisation of Eastern Caribbean States will continue holding talks with the Trinidad and Tobago government over the establishment of a special fund to assist policyholders affected by the collapse of Colonial Life Insurance Company (TE 14 Mar)
- The release of the report of the forensic audit of CLICO International Life has again drawn atten-

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tion to matters of corporate governance, directors' liability and professional ethics, to name a few. Queries have been raised as to whether the auditors of CLICO Life, appointed under the Insurance Act, should not have provided a warning of some sort in their audit report (BN 16 Mar)

THE STANFORD GROUP

- Allen Stanford used his Antigua bank as "his own personal ATM" and "flushed" investor money away on failing businesses, yachts and cricket tournaments, a US prosecutor told a jury in federal court in Houston (CNnow 2 Mar)
- Financier and cricket mogul Allen Stanford has been found guilty by a court in Houston, Texas of running a \$7 billion Ponzi scheme. Stanford, 61, was convicted on 13 of the 14 charges (TG 7 Mar)
- Whether Allen Stanford will spend the next 20 years or more in a Texas prison is yet to be known as prosecutors have now initiated a new trial aimed at asset recovery (Carib350 8 Mar)
- The jury that convicted R Allen Stanford of operating a massive Ponzi scheme found that there is sufficient evidence that US\$330 million in frozen foreign bank accounts he controlled is money he stole from investors, clearing the way for United States authorities to go after the funds (TG 9 Mar)
- At least 10 US legislators have signalled their intention to investigate Antigua and Barbuda's role in the multibillion-dollar Ponzi scheme conducted by Allen Stanford (JG 20 Mar)
- A US appeals court has ruled that aggrieved investors in Allen Stanford's Ponzi scheme can press state court class-action lawsuits seeking to recover losses in the US\$7 billion scheme (JG 21 Mar)

CARIBBEAN

- Tourism from Latin America to the Caribbean is growing 8% each year, and carriers from that region invested \$14 billion in new planes last year alone (Caribseek 26 Feb)

- The Chinese government is extending a US\$ 4.8 million grant to Suriname, the Surinamese ministry of foreign affairs has announced. According to the ministry, the two countries will sign an agreement for economic and technical cooperation during a working visit by China's vice minister of commerce Zhong Shan to Paramaribo (CNnow 29 Feb)
- Would-be Caribbean vacation-home buyers have paid about US\$300million in deposits for vacation homes at six resort projects whose developers ran out of funds during construction as the economic downturn took its toll (Carib360 1 Mar)
- The T&T Central Bank's guideline regarding the new mortgage market reference rate (MMRR) for March 2012 is now 3.25%. The MMRR was first introduced in December 2011 at a benchmark rate of 3.50% and reflected banks' funding costs and yields on applicable treasury bonds for the quarter ending September 2011 (TG 1 Mar)
- Prime Minister Dr Ralph Gonsalves says St Vincent & the Grenadines has been removed from a French blacklist of non-cooperative tax jurisdictions (JG 1 Mar)
- Tourism officials across the eastern Caribbean have been putting their heads together to come up with a collective plan to guide the development of the sector (Carib360 1 Mar)
- Survivors of the 2010 devastating earthquake in Haiti have this week started receiving cash subsidies through the first-ever mobile money transfer system in support of post-disaster housing reconstruction (Caribseek 5 Mar)
- The creative sector in Barbados has been considered the untapped revenue earner (BAAdv 5 Mar)
- The Caribbean Export Development Agency (Caribbean Export), the Organization of American States, and the University of Texas at San Antonio recently launched a project to establish small business development centres in five CARICOM member states (CNnow 6 Mar)
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- The controversial \$10 million the Central Bank of Barbados placed at the disposal of former CLICO subsidiary CLICO Mortgage and Finance Corporation in 2009 has been repaid in full and with interest (BN 6 Mar)
- SBDC is an initiative aimed at helping to improve the competitiveness of small companies in Barbados, Belize, Dominica, Jamaica, and St Lucia, especially those headed by women (CNnow 6 Mar)
- Central Bank Governor Ewart Williams has called for greater dialogue between the country's employers and trade unions to link wage increases with productivity (Newsd 7 Mar)
- At least 150 Caribbean Airlines employees are to be sent home as of April 30, 45 in Montego Bay, St James and more than 100 in Kingston. The ripple effect could see some 300 people out of a job (JG 7 Mar)
- Barbados' national productivity growth in 2010 was recorded at an increase of 3.7 per cent. This is up from 3.1 per cent growth in 2009 and 1.8 per cent growth in 2008 (BAdv 7 Mar)
- Unserviced loans across commercial banks climbed by another \$3 billion during the last three months of 2011 according to the Bank of Jamaica (JO 7 Mar)
- Guyana is open to environmentally responsible investment in the extractive industry on an equal opportunity basis to domestic and foreign investors (GCO 7 Mar)
- Guyana's political and judicial infrastructure has been impacted by narco-influence and its economy has become increasingly affected by drug money according to the US annual report to Congress (SN 8 Mar)
- Chairman of CARICOM, His Excellency Desiré Delano Bouterse, the President of Suriname has called for a new beginning to the regional movement (GCO 9 Mar)
- 40 young entrepreneurs are currently operating new businesses through funding provided by the Guyana Youth Business Trust, the youth arm of the Institute of Private Enterprise Development (IPED) under a US\$101,800,000 partnership programme between IPED and the IDB (SN 9 Mar)
- Latin American and Caribbean migrants sent \$61 billion in remittances to their home countries last year, up 6% from \$57.6 billion in 2010, according to a report from the Multilateral Investment Fund, a member of the IDB group (CNnow 9 Mar)
- Government ministers in Grenada will take a 5% cut in pay starting next month, Finance Minister Nazim Burke has announced (CNnow 10 Mar)
- Premier Joseph Parry has warned that there will be job losses as the Nevis Island Administration (NIA) carries out a debt restructuring exercise and a reorganisation of government departments and statutory bodies (JG 12 Mar)
- Foreign Affairs Minister Suruj Rambachan says T&T is tapping into \$600 million markets in Latin America (TG 12 Mar)
- CARICOM heads of government have requested central bank governors to provide an early report on the stability of the financial system in the Community, along with appropriate measures to enhance the regulation and monitoring of financial entities which operate cross-border (CNnow 14 Mar)
- THE Barbados Government will be injecting over \$100 million into the local economy to stimulate economic activity and growth, generate jobs and earn foreign exchange (BAdv 14 Mar)
- The minimum wage for shop assistants in Barbados, some of the poorest paid workers in the country, has been increased from \$200 per week to \$250 (BN 15 Mar)
- Four of the UK's leading airlines have slammed planned increases in airline passenger duty, claiming that the planned increase will reduce passenger numbers and hinder economic recovery (Caribseek 15 Mar)
- British company Bayfield Energy Holdings plc, an independent energy exploration and production group, has struck oil and gas in Trinidad and Tobago (TE 15 Mar)
- Financial institutions regulated by the central bank now manage assets valued at J\$820 billion, new data shows, but the numbers also reflect a deterioration in loan delinquencies especially in the commercial banking sector (JG 16 Mar)
- While Caribbean governments are keen to welcome the billions of dollars in Chinese investments that continue to pour into the region, local

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- businesses and private sector organizations are far from enthusiastic over what they say is the unfair competition which the growing influx of Chinese traders represent (SN 16 Mar)
- Chairman of the Private Sector Working Group Joseph Matalon has described as a "national disgrace" the low and declining rate of property tax compliance in Jamaica (JO 16 Mar)
 - A number of companies in Tobago are going into receivership because of lack of business, Trade Minister Stephen Cadiz said yesterday (TE 17 Mar)
 - A regional forensic auditor has suggested that too much political interference and lack of forensic accounting may have hindered the exposure of some major financial fraud in the region over the years (BN 18 Mar)
 - Latin America and the Caribbean remain resilient to a possible slowdown in world economic growth that could stem from a deepening of the debt crisis in Europe and a deceleration in China, according to the IDB's 2012 Macroeconomic Report (Caribseek 19 Mar)
 - The economic activities in Guyana's Amerindian communities will be boosted with the transfer of royalties amounting to G\$49 million collected from mining in these communities; The money will be transferred to a fund which the minister, under the Amerindian Act, is designated to name (GCO 19 Mar)
 - A seven-member delegation from the IDB met with representatives of the Tobago House of Assembly to discuss the areas of assistance the bank can offer to Tobago. During the 30-minute meeting at the Calder Hall Administrative Complex, Scarborough, it was accepted and agreed that there would be a much closer relationship between the bank and the assembly (TG 19 Mar)
 - The Barbados-based airline REDjet has suspended all flights after ten months in the air in a bid to protect the long term interests of the business (JG 19 Mar)
 - Trade union representatives have said the IMF should no longer be viewed by the public as a monster as the outlook of the international body has changed (JO 19 Mar)
 - The IDB is ramping up lending for private sector projects related to renewable energy and energy efficiency to help bridge the gap for long-term financing for green investments in Latin America and the Caribbean (CNnow 19 Mar)
 - The executive board of the IMF completed the second and third reviews of Haiti's performance under the extended credit facility arrangement. Completion of the reviews will enable an immediate disbursement of SDR 9.83 million (about US\$15.1 million), (CNnow 22 Mar)
 - Minister of Finance Chris Sinckler, in an impassioned presentation during the Estimates Debate in Parliament, said changes would have to be made to the way Barbados does things if the deficit is to be brought down and debt to gross domestic product ratio is to decline (BN 22 Mar)
 - T&T is interested in using bunkering facilities at the Panama Canal. Guatemala wants to set up a palm oil refinery in T&T. And the Central American country wants to buy T&T's bitumen, natural gas and cement (TG 22 Mar)
 - The T&T local economy continues to improve because of increased activity in the banking sector, according to Group CEO of First Citizens Bank, Larry Howai (Newsd 22 Mar)
 - The THA Division of Tourism and Transportation has come up with a \$60 million marketing plan for the rest of 2012 in an effort to woo local, Caribbean and international visitors to Tobago (Carib 360 23 Mar)
 - The Heritage and Stabilisation Fund now stands at US\$4 billion, Finance Minister Winston Dookeran said (TE 23 Mar)
 - The IMF has projected a 1% growth in the Jamaican economy for the next fiscal year, a widening of the country's current account deficits and an increase in the public debt (JO 23 Mar)
 - The Chinese government has pledged to continue its assistance to the development of Barbados in a number of projects and other areas of technical cooperation as the need arises (CNnow 23 Mar)
 - The bill of the CL Financial collapse is "still accumulating" and could cost between 10 and 15% of regional GDP, Central Bank Governor Ewart Williams has said (TE 27 Mar)
 - Interruptions in the supply of natural gas to the Pt Lisas Industrial Estate between February 1, 2011

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and February 29 this year occurred about 56 times and resulted in a loss of more than \$50 million in revenue, Energy Minister Kevin Ramnarine said (TE 28 Mar)

ANNOUNCEMENTS

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 <http://cbes.ccmf-uwi.org/>. You can also find presentations from our past seminars and conferences at www.ccmf-uwi.org.

STAFF OF THE CARIBBEAN CENTRE FOR MONEY AND FINANCE

Executive Director :
Prof. Compton Bourne
(868) 662-2002 ext 82550

[ComptonD Bourne @ sta.uwi.edu](mailto:ComptonD.Bourne@sta.uwi.edu)

Research Fellow :
Mr. Dave Seerattan
(868) 662-2002 ext 82552
Dave.Seerattan@sta.uwi.edu

Research Fellow :
Ms. Tracy Polius
(868) 662-2002 ext 82553
Tracy.Polius@sta.uwi.edu

Research Fellow :
Mr. Anthony Birchwood
(868) 662-2002 ext 82545
Anthony.Birchwood@sta.uwi.edu

Junior Research Fellow:
Ms. Julia Jhinkoo
(868) 662-2002 ext 82546
Julia.Jhinkoo@sta.uwi.edu



CARIBBEAN CENTRE FOR MONEY & FINANCE

The University of the West Indies
St. Augustine, Trinidad and Tobago
Phone: 868-645-1174, Fax: 868-645-6017
E-mail: ccmf@sta.uwi.edu
Website : www.ccmf-uwi.org.