



## THE LIQUIDITY PROBLEM IN CARIBBEAN COMMERCIAL BANKS

Commercial banks hold cash and other short term assets, termed liquid assets, in order to ensure that they can meet the normal demands of depositors and credit customers for funds entrusted to their safekeeping and that they have sufficient funds to be employed by credit customers for consumption, production and investment purposes. Commercial banks also hold liquid assets to satisfy the regulatory minimum stipulated by the central banks for prudential reasons. Typically, total liquid assets held by Caribbean commercial banks exceed the stipulated minimum.

The higher is the proportion of liquid assets in the total assets portfolio, the smaller is the proportion deployed in credit and longer term investments.

Excess liquidity has reached troubling levels from the perspective of being an inordinate amount of unutilised lending capacity in the banks. For instance, on 31 March 2014, Bahamian commercial banks had liquid assets totalling US\$2.237 billion, of which US\$1.242 billion was in excess of the legal requirement. Total liquid assets of Jamaican commercial banks were US\$0.754 billion, of which US\$0.181 billion were in excess of the legal requirement.

These large amounts of unused lending capacity in the Caribbean are explained in large measure by several factors. One is weak demand for credit by potential customers deemed to be creditworthy by the banks. The insufficiency of credit demand is itself the result of protracted anaemic economic growth, business closures, and higher than usual levels of unemployment and job redundancies in many Caribbean economies. Another is an increase in loan delinquencies, mainly as a result of the initial impact of the global economic crisis and its lingering effects on Caribbean tourism and other service exports, real estate markets, and household capacity to service personal debt. Faced with substantial increases in the proportion of delinquent loans, commercial banks have raised their credit assessment standards and have become more risk averse. As a consequence of these factors, commercial bank loans have either declined or expanded less rapidly.

In contrast, bank deposits have increased quite substantially in many Caribbean countries since 2011. The exceptions are the ECCU members and The Bahamas where collectively bank deposits decreased but at a slower rate than bank

loans. In effect, loan supply capacity measured by bank deposits is growing faster than loan absorptive capacity.

Various suggestions are in vogue for dealing with problems posed by commercial bank excess liquidity. Noting that at existing spreads between loan rates of interest and deposit rates of interest, excess liquidity depresses commercial bank profitability, and that increases in loan rates might further dampen loan demand, the idea of reducing deposit rates of interest has been floated, not to discourage savings but to reduce interest costs on deposit accounts. However, reductions in deposit rates of interest can have dis-incentive effects on savings in commercial banks, possibly even causing shifts to competitors within the national economy and overseas. There would also be a transfer of income away from depositors to owners of capital which would increase income inequality because owners of bank capital, although numerically smaller than owners of bank deposits, are higher-income individuals.

Another suggestion is for commercial banks to become more venturesome in their search for banking opportunities within the domestic economy, expanding beyond their traditional comfort zones to finance new customers in new industries as well as in familiar industries. The surmise is that the banks have sufficiently large capital cushions and sufficiently high rates of return on equity to accommodate higher levels of credit risks.

A third, perhaps less palatable, suggestion sometimes made is for the banks to temporarily invest some of their excess funds in foreign financial markets where interest rates might be attractive and where there may be greater capital safety than currently obtains in the domestic credit market. The underlying premise of this suggestion is future recovery of loan demand and improvements in creditworthiness in the domestic economy to create safe and profitable opportunities for bank capital.

**By Professor Compton Bourne**  
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## REGIONAL NEWS SUMMARY

### CLICO

- After five years and over \$20 billion, the government is expected to soon exit CL Financial with a full repayment of money spent on the conglomerate and its former illiquid insurance company, CLICO (TE 9 Nov)

### CARIBBEAN

- T&T Energy Minister Kevin Ramnarine is confident that the signing of licences by three energy companies to drill for oil on land will result in the country's oil and gas production being further boosted. (TE 1 Nov)
- Jamaica says it has asked the CARICOM to undertake a review of its verification procedures under the rules of origin requirements of CARICOM in yet another twist to trade concerns with T&T. (TG 1 Nov)
- The Jamaica-based Green Hills line of hemp products needs to import hundreds of pounds of hemp to fill its growing customer demand. Green Hills Distributors started selling hemp seeds, hemp protein, hemp coffee and hemp flour earlier this year. The company quickly found that Jamaica couldn't meet its price and supply requirements despite being known as a herb-producing nation (JO 2 Nov)
- The Bahamas government has established a government corporation that has absorbed \$100 million worth of Bank of The Bahamas' "troubled" commercial loans and will hire an accounting firm to go after those overdue facilities. (CNnow 3 Nov)
- Dr Simone Titus, chief technical officer at the Ministry of Food Production, says interest in aquaculture is increasing as more job opportunities are opening up in that sector. (TG 3 Nov)
- Local banks "need to take a little more (investment) risk" in areas such as Information and Communication Technology and tourism, says T&T Trade Minister Vasant Bharath. (Newsd 3 Nov)
- While Barbados has recorded a three-point drop to 106 in the World Bank's Ease of Doing Business standings, Jamaica has now risen higher from a ranking of 84 in 2014, to 58 in 2015 in the survey. (BAdv 4 Nov)
- The Bahamian government took a "critical step" in complying with the Foreign Account Tax Compliance Act by signing an intergovernmental agreement with the US. (CNnow 5 Nov)
- St Kitts and Nevis should review its PetroCaribe arrangement with Venezuela as it is not receiving the full benefits of the programme, according to the IMF. (CNnow 5 Nov)
- The fiscal and debt positions of the governments of the ECCU are estimated to have improved for the year to September 2014 with declines in the primary and overall deficits of EC\$71.8million and EC\$17.8 million. (CNnow 5 Nov)
- Canada's Scotiabank announced in Toronto that it would close 35 of its over 200 branches in the Caribbean and that it would sever 1,500 full-time employees, including 500 in its international operations. (TG 5 Nov)
- Scotia Investments Jamaica Ltd raised J\$1 billion in financing for banana and shipping conglomerate Jamaica Producers Group in order to support its growth strategy. The financing was done by structuring a corporate bond. (JO 5 Nov)
- The Monetary Council of the Eastern Caribbean Central Bank says action needs to be taken to address commercial bank charges in the Organisation of Eastern Caribbean States (Carib360 6 Nov)
- Credit ratings agency Standard and Poor's says the outlook on The Bahamas' sovereign credit rating remains negative, reflecting the challenges of implementing a value-added tax next year, among other challenges (CNnow 7 Nov)
- Government remains "concerned" about falling oil prices and will be "monitoring it pretty closely", Energy Minister Kevin Ramnarine admitted. (TE 7 Nov)
- Cable and Wireless Communications has entered into an agreement to acquire Columbus International Inc. for US\$1.85b. (TG 7 Nov)
- Central Bank of T&T has sold a total of US\$325 million to the banking system since its programme of strategic foreign exchange interventions for the final quarter of 2014 started five weeks ago. (TG 8 Nov)
- Addressing the Thirty-Ninth Meeting of the Council for Trade and Economic Development, of CARICOM Secretary-General, Irwin LaRocque urged Member States to work together as a Community in advancing the agenda of regional co-operation and integration, thereby achieving tangible benefits for all its peoples. (BAdv 10 Nov)
- It will take nothing short of a revolution to make the changes necessary to move Barbados forward and reposition the country. In fact, Attorney General Adriel Brathwaite said what was really needed was a "complete overhaul" of how business was done over recent years. (CNnow 10 Nov)
- Scotiabank's loans to the Caribbean hospitality sector have apparently lost hundreds of millions of dollars in value; a portfolio worth \$1.3 billion a year ago fell to a \$1 billion before a restructuring that has led to write-downs in the region, and which may mean branch closures and job losses in The Bahamas. (CNnow 10 Nov)
- The imposition of a tax on soft drinks as suggested by the IMF is a major concern for Barbados Bottling Company Limited. (BN 10 Nov)
- Preliminary data from the Statistical Institute of Jamaica shows that Jamaica achieved economic growth for a fifth con-

## REGIONAL NEWS SUMMARY CONT'D

- secutive quarter, recording 1.8% for the period ending June 30, 2014. (JO 10 Nov)
- Barbados has the ability to create a viable furniture industry with global marketing potential, but one Minister believes the manufacturers in this sector need to be more innovative to drive the industry forward. (BAdv 11 Nov)
  - Government and the World Bank will embark on a US\$2.4 million programme featuring “high impact” programmes to fulfil the country’s national aspiration of a digital and e-ready Trinidad and Tobago. (Newsd 12 Nov)
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  - Executive director of the Caribbean Export Development Agency, Pamela Coke-Hamilton, says private sector organizations across the Caribbean are in urgent need of support as they continue to mitigate the negative effects of the global recession that started six years ago. (CNnow 13 Nov)
  - A Central Bank forecast that the Barbados economy will return to real growth next year is being shared by economists in a key section of the Ministry of Finance and Economic Affairs. (BN 13 Nov)
  - International ratings agency Standard & Poor’s has reaffirmed T&T bank’s First Citizens’ BBB+ long-term foreign currency credit rating, reiterating that the credit rating outlook remains stable. (TE 13 Nov)
  - Caribbean entrepreneurs who are looking for funding to develop new or existing businesses are being encouraged to look to their own nationals living abroad. “Diaspora financing should be explored as a source of funding for entrepreneurs”, said Aun Rahman, head of the infoDev Access to Finance Programme, at the World Bank Group. (JO 13 Nov)
  - There are high expectations for Guyana becoming a petroleum producing nation as ExxonMobil formally announced its exploratory drilling plans offshore; the company will be investing US\$200 million (CNnow 14 Nov)
  - Governor of the Central Bank of Barbados, Dr. DeLisle Worrell believes that the island could benefit significantly from the use of solar energy and reduce the billion dollar import bill on energy. (Carib360 14 Nov)
  - Head of the EU delegation to Barbados and the Eastern Caribbean, Mikael Barfod, says the European Union remains committed to working with Caribbean governments and the regional private sector in building economic resilience. (Carib360 14 Nov)
  - A recently passed new foreign investment law in Cuba has created a favourable environment for developing economic ties between Cuba and Saint Lucia, and by extension the Caribbean region. (CNnow 14 Nov)
  - Caribbean Export Development Agency Executive Director Pamela Coke-Hamilton charged that the lending policies of regional commercial banks has not, on the whole, been altogether helpful to the growth and expansion of the Caribbean business sector. (SN 14 Nov)
  - Caribbean Community trade ministers say they will seek to facilitate more engagement with the private sector in the decision-making and implementation processes of the Council for Trade and Economic Development (JO 14 Nov)
  - Improve the ease of doing business in Barbados and additional Government revenue will naturally follow. This was the stance taken by the Barbados International Business Association president, (BN 17 Nov)
  - Work at Guyana Goldfield Inc. Aurora Gold Project in Region 7 (Cuyuni/Mazaruni) is progressing rapidly to ensure that the pouring of their first gold bar is done in mid-2015. Minister of Natural Resources and the Environment for Guyana, Mr Robert Persaud stated, “This level of investment from a large scale mining operation is important to the growth and development of the Guyanese economy.” (GCO 17 Nov)
  - Japan has provided more than JPY1.7 billion (One Yen=US\$0.008 cents) to 14 CARICOM countries since 1975, according to figures released recently. (Carib360 17 Nov)
  - In keeping with the seven-point action plan established by the Financial Action Task Force to address the strategic anti-money laundering deficiencies within Guyana’s legal framework, the Government has accelerated the implementation of non-legislative measures. (GuyTim 17 Nov)
  - The Government of Barbados is committed to the implementation of global standards for the supervision and regulation of the international business and financial services sector. This affirmation came from Minister of Industry, International Business, Commerce and Small Business Development, Donville Inniss, prior to signing a Foreign Account Tax Compliance Act Agreement on behalf of Barbados with the USA (BN 18 Nov).
  - The interest rates that banks charge tourist business operators are too high, Minister of Tourism Gerald Hadeed said. “Recently, I had a meeting with the Minister of Finance and the Minister of Trade where we discussed the possibility of getting concessionary rates for the small business enterprises that offer tours in T&T. We have a meeting carded this week with the bankers to discuss the possibility of getting reduced interest rates. This would help the operators to run profitably. (TG 19 Nov)
  - Creative talents and cultural industries are among the Caribbean’s prime assets. If in doubt just look at what Barbados, Jamaica, the Bahamas, Trinidad and Tobago,

## REGIONAL NEWS SUMMARY CONT'D

- Grenada and others in the region are offering, eg in the fields of music, sports festivals and others.. (BN 19 Nov)
- Several women who turned out at the launch of Women's Entrepreneurship Day in Jamaica raised the issue of the lack of support from the banking sector for non-traditional businesses and female entrepreneurs. (JO 20 Nov)
- The Central Bank says it is only a matter of time before this country becomes fully compliant with the United States' Foreign Account Tax Compliance Act, which was enacted by the US Congress in March 2010. (TE 20 Nov)
- An investment consortium, comprising the National Insurance Board, National Enterprises Ltd. and the Unit Trust Corporation, has acquired a 10% stake in Phoenix Park Gas Processors Ltd for US\$168 million. (TE 21 Nov)
- T&T's 2014/2015 budget has been reworked with revenue calculated assuming a US\$70 oil price, Minister of Finance and the Economy Larry Howai said. (TG 21 Nov)
- Amidst worry by regional leaders, Venezuela yesterday pledged to continue supplying oil on favourable terms to Petrocaribe member states despite a drop in international crude prices. Venezuelan Foreign Minister Rafael Ramirez, the former Chief Executive Officer of state oil company, PDVSA, stressed at the opening of the gathering that the South American nation remains "firmly committed" to the initiative. (KN 21 Nov)
- The Bank of Jamaica projected flat to negative one per cent real GDP growth for the quarter ending in September, mainly due to the impact of the drought on agricultural crops and on the production of water. However, the bank argued that the economy would recover at an accelerating pace over the next four quarters, starting in December 2014. (JO 21 Nov)
- Royal Bank of Canada plans to close its wealth management operations in the Caribbean, as the bank continues a retreat in its international wealth business that began last year in Latin America, (CNnow 24 Nov)
- The GraceKennedy Foundation, along with its parent company GraceKennedy has donated \$1 million to the University of the West Indies Mona Plastic Separation Programme. (JO 24 Nov)
- The planned merger of Cable & Wireless and Columbus Communications in the Caribbean could well be a boon for accelerating the roll-out of broadband in Barbados and the wider region. (BN 24 Nov)
- The IDB has approved a \$33 million loan for The Bahamas to improve the management of its public finances and procurement, and to enhance its capacity to monitor progress and implementation of key government priorities. (CNnow 25 Nov)
- Minister of Trade Vasant Bharath said that Trinidad and Tobago's non-petroleum sector has had an increase in GDP since 2010 and inflation has reached its lowest level in ten years. (TE 26 Nov)
- Barbados Central Bank Governor Dr DeLisle Worrell said "Some fiscal adjustment has already been achieved. There is other adjustment that will take place as a result of measures that are already in place and that will bring the deficit down in the second half of the fiscal year." But there is also another 2% or so of GDP that still has to be found in terms of further adjustments. (BN 26 Nov)
- Governor of the Central Bank of Barbados, Dr. Delisle Worrell, is sticking to his position that the policies being pursued by this country to address its economic circumstances do not need to be changed. (BAdv 26 Nov)
- Opposition Leader Arnhim Eustace says the decision by the US-based rating agency, Moody's to downgrade St. Vincent and the Grenadines bond ratings is a true reflection of the local economy. (Carib36 26 Nov)
- At least four CARICOM member countries (Guyana, Haiti, Belize and Jamaica) are taking steps to reduce their reliance on Venezuela's PetroCaribe oil subsidy as crude prices plunge, according to the IMF. (CNnow 26 Nov)
- The Caribbean Financial Action Task Force, at its Plenary Meeting XL, and Special Ministerial V Meeting in El Salvador, urged Guyana to implement its action plan that was approved by CFATF's parent body, the Paris-based Financial Action Task Force. (GCO 27 Nov)
- T&T's unemployment rate stood at 3.2 per cent for the first quarter of 2014, down from 3.8 per cent in the fourth quarter of 2013. (TG 27 Nov)
- The first shipment of local value-added timber destined for the UK has been shipped into the European timber market. Over one million Board Measure of processed greenheart worth some US\$2.5 million is being exported in this shipment. (GuyTim 28 Nov)
- The Grenada economy is expected to grow by 2.6% this year, higher than the Eastern Caribbean Currency Union average of 1.4%. (CNnow 28 Nov)
- Falling oil prices put the T&T Government in a difficult situation, economist Dr Ronald Ramkissoon said. Commenting on the decision by OPEC not to reduce output, he said: "An oil economy must not operate in deficit for any length of time. (TG 28 Nov)
- T&T's inflation rose to 9% in October, the highest since October 2012 when it was 9.4%, according to Central Bank data released this week. October last year had 2.7% inflation. (TG 28 Nov)
- Some \$1.3 billion will have to be slashed from expenditure in T&T Budget 2015 and another \$507 million cut from the fuel-subsidy, in a critical adjustment of the national accounts as this country begins to feel the effect of falling global oil-prices. (Newsd 29 Nov)

## SOME DIGITAL PUBLICATIONS OF INTEREST

### **TACKLING AGRICULTURE IN THE POST-BALI CONTEXT: A COLLECTION OF SHORT ESSAYS**

At the ninth WTO Ministerial Conference in Bali, Ministers agreed to prepare a "clearly defined" work programme on the remaining Doha Development Agenda issues. However, the global agricultural trade landscape has evolved significantly since negotiations froze in 2008 - and even more so since Doha was launched in 2001. As WTO Members start crafting the contours of a possible post-Bali agenda, developing a sound understanding of this new global reality and its implications for future multilateral disciplines in agriculture is critical. This volume builds on the most recent analysis of global trends and domestic policy reforms to inform negotiations on a post-Bali agricultural trade agenda. It features a series of concise, nontechnical and solution-oriented papers by leading experts and thinkers, covering systematically all elements of the agricultural negotiations on market access, domestic support and export competition. By making this compilation widely available to policy makers and analysts, the editors intend to make a constructive and policy-relevant contribution to the debate over the shape of a possible post-Bali work programme.

Available at:

[http://www.ictsd.org/sites/default/files/research/Tackling%20Agriculture%20in%20the%20Post-Bali%20Context\\_0.pdf](http://www.ictsd.org/sites/default/files/research/Tackling%20Agriculture%20in%20the%20Post-Bali%20Context_0.pdf)

### **REGIONAL INTEGRATION IN THE CARIBBEAN:**

Despite having relatively open economies and a dedicated strategic focus on export expansion, Caribbean economies still account for a small proportion of global trade (goods and

services). This paper therefore posits that the sub-region adopt a new dais of regional integration, which favours deeper trade and economic integration with countries which are the region's natural trading partners.

Available at:

<http://www.cepal.org/publicaciones/xml/0/54240/RegionalIntegrationintheCaribbean.pdf>

### **SOUTH-SOUTH TRADE IN RENEWABLE ENERGY : A TRADE FLOW ANALYSIS OF SELECTED ENVIRONMENTAL GOODS:**

This study analyses trends and opportunities for trade among developing countries (i.e. South-South trade) in selected environmental goods, in order to assess the contribution such trade can make to a green economy transition. The term 'developing countries' includes all countries and territories listed as developing economies in the UNCTAD Handbook of Statistics (UNCTAD, 2012). The study focuses on South-South trade flows in several RE products and their components, including solar photovoltaic (PV) cells and modules, wind turbines, hydroelectric turbines, biomass feedstock, solar water heaters and solar lighting equipment, as well as other select environmental goods. The latter include water filtering and purification equipment and environmentally preferable products, such as organic agricultural goods

Available at:

[http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/-South-South%20trade%20in%20renewable%20energy-%20a%20trade%20flow%20analysis%20of%20selected%20environmental%20goods-2014South-South%20Trade\\_1.pdf](http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/-South-South%20trade%20in%20renewable%20energy-%20a%20trade%20flow%20analysis%20of%20selected%20environmental%20goods-2014South-South%20Trade_1.pdf)

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