



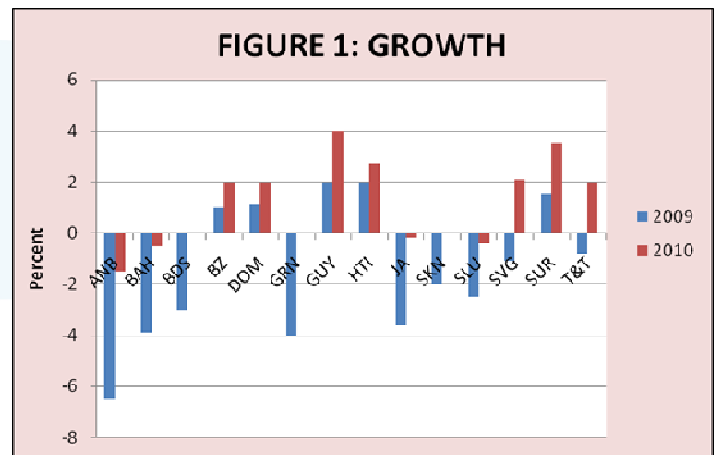
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CONTRACTION IN 2009, STAGNATION IN 2010 – THE IMF PROJECTION FOR THE CARIBBEAN

In time for the Annual Meetings of the IMF and World Bank in Turkey in early October, the IMF released its *World Economic Outlook*, which includes tables of forecasts of growth and inflation for all member countries. Caribbean countries included in the report are expected to experience a contraction in economic output of 1.6 percent (the weighted average) in 2009, with the tourism-dependent economies the most severely affected by the worldwide recession. Contraction in the economy of Antigua and Barbuda is projected to be as much as 6.5 percent for 2009, and output is expected to have fallen in The Bahamas, Barbados, Jamaica, St Kitts-Nevis, St Lucia and St Vincent as well. More diversified economies fared a little better. Output is projected to contract in Trinidad and Tobago, but by less than one percent. Output is expected to have increased a little by the end of 2009 in Belize, Dominica, Guyana, Haiti and Suriname. The growth projections for Caribbean countries included in the report are shown in the following Table 1.

Countries	Growth rates		Inflation rates	
	2009	2010	2009	2010
ANB	-6.5	-1.5	-1.4	2.5
BAH	-3.9	-0.5	1	0.2
BDS	-3	0	3.2	7.2
BZ	1	2	1	2.5
DOM	1.1	2	1.8	1.5
GRN	-4	0	1.7	1.8
GUY	2	4	3.3	4
HTI	2	2.7	-4	5
JA	-3.6	-0.2	8.7	8.7
SKN	-2	0	2	2.2
SLU	-2.5	-0.4	3.1	2.2
SVG	-1.1	2.1	2.9	2.9
SUR	1.5	3.5	5.5	4.3
T&T	-0.8	2	4	6

Source: IMF World Economic Outlook October 2009



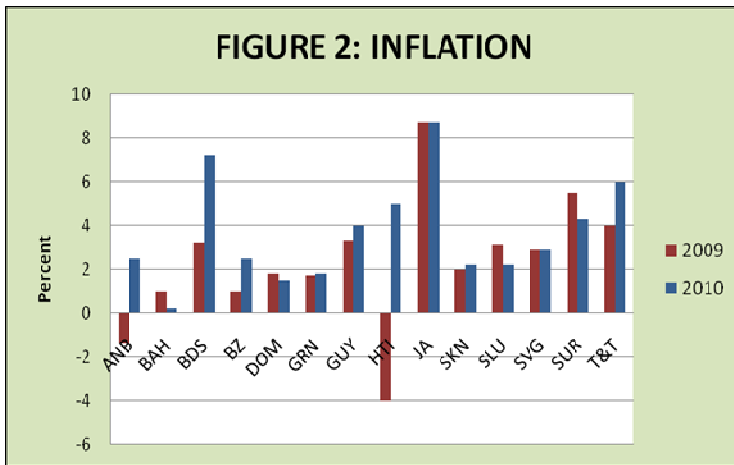
The picture projected for 2010 is one of stagnation or very slight growth. Overall the region's economies are expected to grow by a mere 1.1 percent. The Guyanese economy is expected to lead the way, but its growth rate is expected to be no more than 4 percent. The Trinidad and Tobago economy is projected to grow at about half that pace, and the tourism economies are again expected to lag. Most are expected to register output that remains no higher than that for 2009, while Antigua-Barbuda, The Bahamas and St Lucia are expected to record a second year of declining output, although the loss is expected to be marginal.

The *WEO* projects inflation in single digits everywhere in the Caribbean in 2009, while in Haiti and in Antigua and Barbuda the index of consumer prices is expected to end the year below its level at the end of 2008. Inflation is expected to exceed five percent only in Jamaica, where the index is projected to reach 8.5 percent, and in Suriname, 5.5 percent. Caribbean inflation rates are also shown in Table 1.

Inflationary pressures are expected to strengthen a bit in 2010 in most countries. The exceptions are The Bahamas, Dominica, Jamaica, St Lucia and Suriname, where inflation rates are projected to remain at 2009 levels or to ease slightly. However, even where inflation is expected to pick up, the rate is

CONTRACTION IN 2009, STAGNATION IN 2010 – THE IMF PROJECTION FOR THE CARIBBEAN cont'd

projected at five percent or less, except for Barbados (7.2 percent) and Trinidad-Tobago (6 percent).



REGIONAL NEWS SUMMARY

CL FINANCIAL

- The **Sunday Sun** said the Barbados Public Workers' Co-operative Credit Union Limited is set to acquire CLICO Mortgage and Finance Corporation after the board of directors of CLICO Holdings Barbados Limited communicated its approval regarding the offer (BN 14 Oct).
- The T&T Government will not sell CL Financial assets right now because it would result in major financial losses of the conglomerate's assets (TE 16 Oct).
- CL Financial Limited has been given two weeks by Port of Spain based RBTT Trust Limited to replenish an account which has fallen short of a 150% margin that the conglomerate is required to maintain as backing for bonds floated last year. The margin account relates to US\$240 million of notes issued by CL Financial (JG 2 Oct).
- The Guyana Government will begin refunding investors and policyholders in the local CLICO company as soon as the court approves the order to liquidate the company's assets, President Bharrat Jagdeo disclosed (SN 14 Oct).
- The T&T Government has given Colonial Life Insurance Company Ltd TT\$1.9 billion thus far, as part of the \$5 billion state bailout (TE 23 Oct).

THE STANFORD GROUP

- The US Financial Industry Regulatory Authority repeatedly failed to investigate tips about Allen Stanford's alleged US\$7 billion fraud, an internal report found (Cnn 3 Oct).
- Ralph Janvey is asking for another US\$8.8 million in fees and expenses for his work as the US court-appointed receiver for the businesses of Allen Stanford. This is in addition to US\$20 million already received (Cnn 5 Oct).
- Allen Stanford declined a speedy trial. Stanford's lawyer told the judge that he needed at least two years to mount a defense; he has more than 400 million pages of documents associated with the

case (Cnn 15 Oct).

OTHER NEWS

- Air Jamaica began laying off 300 workers at the end of September in a move to reduce its staff complement by 15 percent. The cut in staff follows a contraction of the airline's routes and fleet as part of its new business model implemented in February to avert a shutdown of the national airline which carries US\$1 billion in accumulated debt (BN 30 Sep).
- The Barbados Government has negotiated a number of loans, including a BD\$300 million loan with the Government of Trinidad and Tobago, should the economy start to falter. Other loans include a US\$120 million loan from the Scotia Bank Trust and the option of obtaining another US\$150 million from the World Bank, if necessary (BN 5 Oct).
- Noted economist Avinash Persaud has warned that Barbados' thriving offshore financial services sector can face major problems unless it scraps "light" and "poor" regulation (BN 5 Oct).
- The Central Bank of Barbados reduced the foreign exchange reserve requirement from 4% to 2% on 15 Oct 2009. This is to give the bank access to a higher proportion of the foreign exchange held by the commercial banks (BN 14 Oct).
- Banks in Barbados seem not to be interested in putting the necessary procedures to facilitate e-banking activities (BN 15 Oct).
- Sir Alistair McIntyre, one of the region's leading academics, has indicated that there is a profound ignorance about the global recession by some Caribbean business leaders (BN 19 Oct).
- The Stanford Victims Coalition and the law firm Morgestern & Blue sent a letter to over 50 US Senators and Congressmen asking them to block Antigua from receiving any funding from the IMF. They accuse Antigua of profiting from its relationship with Stanford for many years and now the country has taken steps to expropriate properties that were purchased with up to US\$1 billion of investors' funds.
- The Antigua and Barbuda Port Authority and both Unions representing employees governed by a Collective Agreement successfully hammered out measures to address the financial challenges currently being experienced by the Port. These include shorter work weeks in some areas, wage reductions in others, and the reduction in specific allowances. The Port will place the last 78 persons employed under the union contracts on a week-on/week-off rotation at 32 hours per week, per employee, for 3 months in the first instance (Cnn 6 Oct).
- The Barbados government is moving swiftly to establish a Financial Services Commission to monitor the activities within the banking system and the credit union movement (Cnn 7 Oct).

REGIONAL NEWS SUMMARY cont'd

- A sharp divergence between the central bank's approach to monetary policy and the Ministry of Finance's fiscal policy direction contributed to a more than JM\$15-billion hike in additional interest-rate payments for Jamaica (JG 30 Sep).
- Finance minister Audley Shaw has recast the fiscal deficit to 8.7 per cent of GDP to fit more realistically with underperforming tax intake and problematic wage and debt servicing (JG 2 Oct).
- The Jamaica Government will have to axe more than 10,000 workers and tack on another year of wage freezes across the public sector to keep the wage bill at current levels, given that it has to find JM\$16 billion to pay teachers and nurses (JG 2 Oct).
- Jamaican businessmen are anticipating that International Monetary Fund (IMF) measures, when thrown into the current economic situation, will put further strain on the already ailing economy (JG 7 Oct).
- The analyst unit of Barclays Capital believes that Jamaica is approaching the point of no return and that it will take more than fiscal adjustments to regain sustainability for the long term. For 2009, they expect interest payments to be 16.0 percent of GDP, or more than 60 per cent of revenues (JG 8 Oct).
- The Jamaican Government should redefine the tax structure, and eliminate costly tax incentives to businesses, suggests economist Dr Peter Gordon (JG 14 Oct).
- Jamaica is expected to have the fourth lowest growth rate and fourth highest inflation rate of developing countries in the western hemisphere within five years according to the IMF's World Economic Outlook (JG 15 Oct).
- A faster than expected fall in inflation together with the continued accumulation of excess cash in the banking sector, has prompted the T&T Central Bank to drop its main policy rate—the "Repo rate"—by 50 basis points to 6.25 percent (TG 26 Sep).
- BCB Holdings, the bank headquartered in Belize and chaired by billionaire Sir Michael Ashcroft, is in advanced talks to acquire 75 per cent of AIC Finance (TG 17 Oct).
- Caribbean Money Market Brokers (CMMB) has ceased to take deposits from clients for their money market accounts (MMAs). CMMB decided to discontinue its TT and US dollar and euro MMAs to avoid duplication of product offerings after it became a member of the First Citizens Group in May 2009 (TG 20 Oct).
- Even though inflation had declined consecutively over four months in T&T, the Central Statistical Office has reported that inflation edged up in September (TG 24 Oct).
- There is a shortage of US currency on the T&T market. US currency sold at commercial banks was as high as \$6.38 for one US dollar (TE 22 Oct).
- Chairman of the T&T Securities Commission said there has been a lot of new financial regulations passed this year such as the Central Bank Amendment Act and the Securities Bill, to reshape the enforcement capabilities of local regulators (TE 26 Oct).

WORKSHOP AT CCMF



The CCMF hosted a two day workshop on October 27-28 2009 on the "Sub Prime Risks and Emerging Opportunities for the Caribbean" for students and academic staff of the University of the West Indies. Facilitating the workshop was Mr. Eric Guichard,

CEO and Chairman of Gravitas, an international consultancy company. Issues covered included business ethics as it relates to the financial industry; emerging financial innovations; dilemmas concerning the form of organization of credit rating agencies; entrepreneurship in the financial sector, the financing of Small and Medium size enterprises, the role of Small Enterprise Assistance Funds ("SEAF") and the proposed role of the Trinidad and Tobago International Financial Centre (TTIFC).

Workshop participants went through the root causes of the subprime crisis in the US, and the lessons to be learnt. In particular, Mr. Guichard showed that prior to the crisis, both private and government sectors were doing well and therefore had a vested interest in maintaining economic prosperity. Houses surged by 30% in value between 2001-8, thus allowing banks to make larger volumes of loans. Counties and States also increased valuations of property in order to increase property tax collections, since this was tied directly to the value of the

property. Moreover, this was done in an environment of low interest rates. This led pension fund managers, insurance and institutional investors to seek higher yielding investments, such as sub-prime mortgages. Further, private banks entered the market without having the necessary infrastructure to lend in the mortgage market. When the good times ended, the losses peaked at about 14 trillion US dollars.

What lessons can be learnt? Mr. Guichard showed that, among other things, there was an overemphasis on establishing rewards by volume rather than by quality. Participants also went through issues such as ethical dilemmas, since this was associated with excessive greed, leading to embezzlement of funds. This was reinforced by the fact that systems that were supposed to provide checks and balances also failed. Participants were led through some of the unresolved issues regarding those checks and balances such as credit rating agencies. For example, a critical issue concerned what was the best form for the ownership of credit rating agencies, who should pay for credit ratings and what was the best form of compensation.

The workshop then went on to address areas of opportunity for Trinidad and Tobago. This included discussions on SEAF and TTIFC. These initiatives had the potential to improve the global linkages of enterprises in Trinidad and Tobago with the global community.

ANNOUNCEMENTS

CARIBBEAN BUSINESS EXECUTIVE SEMINAR

The Future of the Financial Industry after the Crisis

April 30, 2010, Port of Spain, Trinidad

The CCMF announces the 14th in its series of seminars for top Caribbean executives, on the above theme. The seminar will feature a roster of international and regional financial experts, who will speak on the following:

- Should there be a return to traditional banking?
- Do regulatory reforms adequately address the critical sources of the financial crisis?
- Should there be new guidelines for investment strategies for insurance?
- The gaps in indicators of financial stability for the Caribbean as a whole
- Should some aspects of financial liberalisation be reversed in order to reduce threats to financial stability?
- The role of macroeconomic policies in ensuring financial stability
- Revisiting Basel II
- Regulation of under-regulated and unregulated institutions in the financial sector

In addition to the featured speakers, there will be a panel comprising representative of each type of financial institution, drawn from different countries in the region. Updates and registration information will also be posted at www.ccmf-uwj.org. Reports and presentations on our past seminars can also be found at this website.

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) 645 1610, Fax: (868) 645 6017, Email: ccmf@sta.uwi.edu

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- Foreign Exchange Markets
- Financial Development and Related Issues
- Financial Risk Management

For further information please write to ccmf@sta.uwi.edu, Kathleen.Charles@sta.uwi.edu or deputygovernor@bankofguyana.org.gy; or visit our conference website at <http://amsc.ccmf-uwj.org/>

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