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REGIONAL ECONOMIC UPDATE – COLD COMFORT FOR THE CARIBBEAN

Preview of the Caribbean Economic Performance Report, to be issued at www.ccmf-uwi.org in June

The Caribbean's worst fears about the impact of the global economic crisis have not been realised so far, judging from the most recent data on foreign reserves, exchange rate changes, tourist arrivals and inflation. Overall performance remains below comparable periods a year earlier, particularly after August 2008, but the adverse impact has been relatively mild. However, except for the exchange rates, the most recent information on economic performance is three months old or more, and the foreign drivers of Caribbean economic activity have been steadily worsening during that time. Furthermore, there is as yet no sound basis for projecting a turnaround in the global economy, and no one knows how long the world recession will last, how deep it will be and how long it will take to restore world economic growth. When the statistics for the first six months of 2009 are all in, we may find that the Caribbean is already in worse shape than has so far appeared, and economic performance will continue to deteriorate until the world economy turns around.

The most recent projections from major financial institutions are for a deepening world economic depression in 2009, with estimates of a decline in world output more severe than was expected at the start of 2009. Rates of unemployment continue to rise in all of the world's largest economies. World aggregate demand continues to fall, and credit demand remains stagnant in spite of massive fiscal stimulus plans announced by all major

countries, and relaxed monetary policies which have reduced central banks' effective lending rates to near-zero in the US and UK. The resulting slackening of inflation pressure has brought problems of its own: commodity exporting countries face a loss of earnings and a need for balance of payments adjustment, and some countries may experience price deflation, with an attendant increase in bankruptcies of firms and households whose assets have declined in value relative to the liabilities incurred to acquire them.

Jamaica has been the country most severely affected by the global crisis so far, with a significant exchange rate depreciation and some loss in foreign reserves. The exchange rates of Guyana and Trinidad and Tobago have not shown any tendency to depreciate faster since September 2008 when the global economic crisis deepened, compared with their earlier trend. Foreign exchange reserves of Caribbean countries were generally higher in the first quarter of 2009 than for the same period in 2008, with the exception of Barbados, Jamaica and the OECS countries. However, tourist arrivals were down everywhere except for Jamaica, even though the declines were rather small in most countries. Remittances were down in the first quarter in Jamaica and Guyana compared with the first quarter of 2008, but remittance flows increased in Haiti in the first quarter of 2009, though more slowly than in 2008. Inflation performance up to the first quarter was less favourable than might have been expected: inflation remained relatively high in Jamaica and Trinidad and Tobago, moderate in the

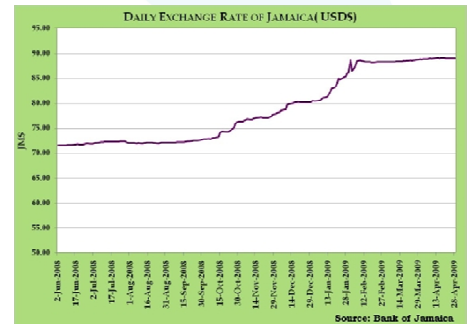
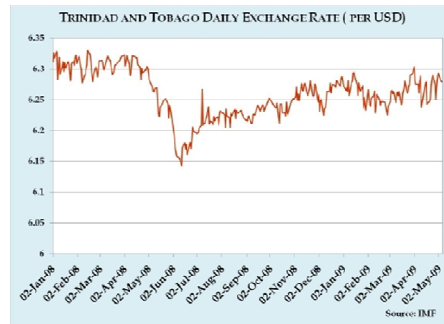
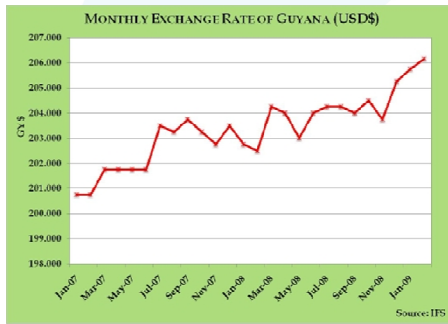
REGIONAL ECONOMIC UPDATE – COLD COMFORT FOR THE CARIBBEAN CON'TD

Netherlands Antilles, Barbados, and the OECS countries, and low only in The Bahamas and Haiti.

The performance of the more diversified Caribbean economies (Belize, Guyana, Suriname and Trinidad and Tobago) was quite respectable in 2008, with growth rates for these countries ranging from three percent to 6.5 percent. Jamaica was the only one of the more diversified economies where output is estimated to have contracted. With some exceptions, the tourism based economies did not fare so well: output contracted in The Bahamas, and growth slowed in Barbados and some OECS countries. However, a few countries (Antigua

and Barbuda, and St Kitts and Nevis, for example) recorded growth rates above the regional average.

Forecasts for 2009 indicate economic contraction or stagnation of output for almost all countries of the region. Belize, Haiti, Guyana and Suriname are the only countries where some growth is expected in 2009, according to IMF projections (*World Economic Outlook*, April 2009), and those increases are forecast to be modest (less than three percent). Rates of contraction up to almost five percent are projected for all the countries that specialize in tourism services, such as Antigua and Barbuda, The Bahamas, Barbados and St Lucia.



REGIONAL NEWS SUMMARY

The Stanford Group

Sir Allen Stanford; the owner of Stanford International Bank tried to surrender himself to US Marshalls in a federal courthouse in Houston in Early May. However, US Marshalls stated that they did not have a warrant for the arrest of Mr. Stanford and could not take him in. Meanwhile; the Chief Investment Officer of the Stanford International Bank; Ms. Laura Pendergest-Holt denied every allegation in the civil fraud suit filed by the US Securities and Exchange Commission against her and Chief Financial Officer James M. Davis. The US Internal Revenue Service also stated that Antiguan liquidators are seeking authority over Stanford International Bank and have already spoiled computer records from Stanford international Bank's Canadian Office. During late

May, Sir Allen Stanford asked a US judge to force a court appointed receiver to turn over personal and corporate records to facilitate preparation of his defense.

CL Financial Group

CLICO and CLICO Investment Bank (CIB) are currently undergoing forensic audits which are being conducted by forensic investigator Robert Lindquist. The Government of Trinidad and Tobago is expected to demand a greater role in the governance of the CL Financial Group due to unanticipated growth of the statutory fund deficit for CLICO. In the Bahamas, the Prime Minister introduced three bills in the House of Assembly aimed at reforming the insurance sector following the collapse of CLICO Bahamas.

REGIONAL NEWS SUMMARY CON'TD

Other News

President of the World Travel Tourism Council has estimated that real GDP for travel and tourism economies is expected to contract by 3.5 percent in 2009 and grow by 1.0 per cent in 2010.

Suriname Aluminum Company LLC has announced that it would curtail production for 2009 by 40 percent or approximately 870,000 tonnes at its Suriname based alumina refinery.

The IMF has forecasted that real output for the Caribbean will decline by 0.2 per cent in 2009 and increase by 1.5 per cent in 2010.

The Barbados government has announced the establishment of an Innovative Employment Stabilization Scheme, costing BDS\$34 Million over six years in an effort to safeguard jobs.

The Central bank of Barbados announced a reduction of the discount rate effective June 1, 2009 from 8 per cent to 7 per cent in an effort to stimulate economic activity.

The Government of the Dominican Republic (DR) has applied to become a member of CARICOM.

The BOJ announced that a target fiscal deficit of 5.5 per

cent of GDP for fiscal year 2009/10 which is expected to allow for adequate resources to stabilize the financial system

St Vincent and the Grenadines, Dominica and St. Lucia are among the first countries in the Latin American and the Caribbean region to request financial assistance under the IMF Exogenous Shocks Facility.

On May 11, 2009, Standard & Poor's Ratings Services lowered its counterparty credit rating on Republic Bank Ltd. to 'BBB-/A-3' from 'BBB/A-2' due to increased non performing loans.

An investment manager in the Cayman Islands was charged in mid May for the collapse of four hedge funds valued at US\$20-30 million.

A five star Four Seasons property in the Bahamas closed on May 26 resulting in the loss of 500 jobs.

Short-stay visa waiver agreements were signed on May 28, 2009 between the EU and Antigua and Barbuda, The Bahamas, Saint Kitts Nevis and Barbados.

A Bill for a New Constitution for Saint Vincent and the Grenadines received its first reading in May and will be brought to referendum in November of this year.

UPCOMING CONFERENCES...

13th Senior Level Policy Seminar

"Strategies to Cope with Global Uncertainty: Choices for Caribbean Business and Finance"

Seabed Conference Centre, Jamaica
September 4, 2009

Speakers:

- ◆ **Prof. Avinash Persaud** - Member of the UN Special Committee on the Global Financial Crisis
- ◆ **Dr. Auliana Poon** - Head of Tourism Intelligence International
- ◆ **Mr. Suresh Sookhoo** - Chief Executive Officer of RBTT's Financial Group.

Fee: US\$250

For more information please contact: CCMF at (868) 645-1174/1610 or ccmf@sta.uwi.edu

41st Annual Monetary Studies Conference

"Building Financial Sector Resilience in the Caribbean"

Guyana
November 10-13, 2009

Some sub-themes:

- ◆ Financial Contagion: Caribbean Experiences
- ◆ Debt and Fiscal Sustainability in the Caribbean
- ◆ Financial Crisis, External Trade and Exchange Rates: Caribbean Perspectives
- ◆ The Cost and Financing of Financial Rescue in the Caribbean

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BARBADOS BUDGET 2009

Prime Minister and Minister of Finance of Barbados, the Honourable David Thompson presented the 2009 Budget on 18th May. He noted that GDP fell 2.8 per cent in the first quarter of 2009 as a decline in tourism led to a reduction in output in both traded and non-traded sectors. The actual fiscal deficit for the financial year 2007-08 was 3.7 per cent compared to an estimated deficit for 2008-09 of 5.1 per cent. Government's strategy for stabilizing the economy is based on increased foreign borrowing supported by the achievement of greater efficiency and the elimination of waste in the public sector. The biggest challenges addressed by the budget were jobs, training, health and housing. Measures to save jobs include:

Employers that are unable to pay salaries can qualify for a loan from the National Insurance Scheme (NIS), the funding for which will come from the Unemployment Fund.

A waiver of interest and penalties on outstanding national insurance, income tax, land tax and value added tax, to provide reliefs to employers and self employed persons.

The Shipping (Incentives) Act will be amended to provide

for customs duty concessions to any company engaged in commercial shipping and boating in the tourist industry for a period of up to 15 years.

The rebate of excise tax paid by importers of new cars will be increased from 15 per cent to 20 per cent.

A refund of VAT on building materials on a house costing not more than BDS\$400,000 is increased from BDS\$150,000 to BDS\$200,000 for first time home owners.

VAT will be removed from locally produced art and craft sold in customs-controlled environments: The Grantley Adams International Airport and the Bridgetown Port.

A Financial Services Commission was announced for the first quarter of 2010, to regulate non-banks. Banks will continue to be regulated by the Central Bank. A Memorandum of Understanding has been established with CLICO for the sale of the financial subsidiaries of CLICO Holdings (Barbados) under the aegis of a government controlled Oversight Committee. The full text may be downloaded at: <http://www.bajandream.org/barbados-budget09>.

RESEARCH ATTACHMENT FROM CENTRAL BANK OF BELIZE



Mr. Shanon Sebastian is an Economist at the Central Bank of Belize who is currently working as a temporary research intern at the Caribbean Centre for Money and Finance. He is presently working on a research paper that focuses on the financial integration of Belize with Mexico and the Central America nations. He holds an undergraduate degree in Math Education from the University of Belize and a Master of Science degree in Economics from Murray State University in Murray Kentucky. His interests include reading and listening to music.

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