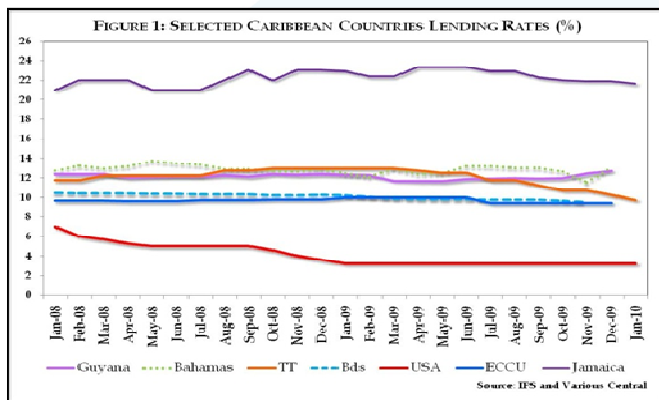




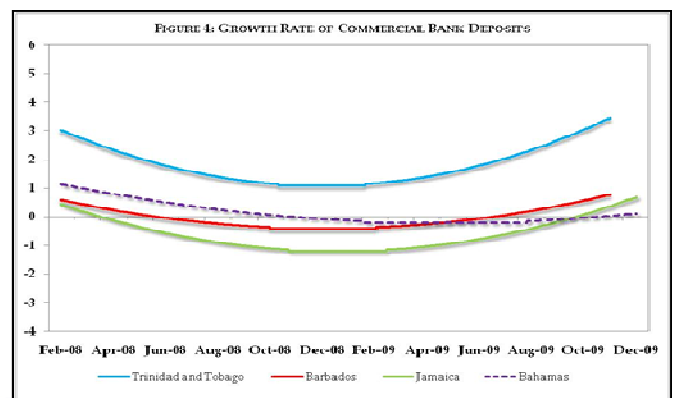
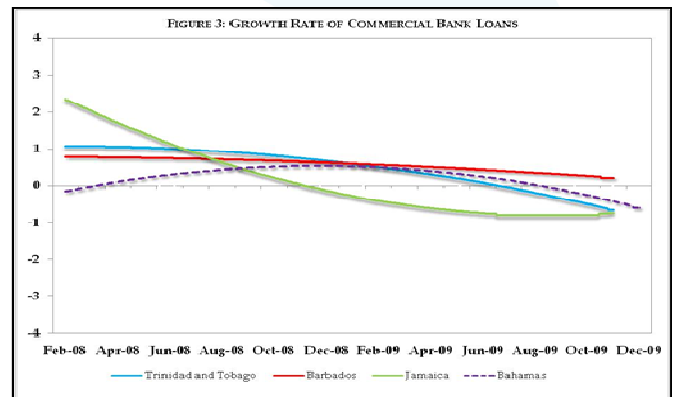
## THE CHALLENGE OF LOW INTEREST RATES IN THE CARIBBEAN

The Caribbean region is still undergoing an economic slowdown driven by the international financial and economic crisis. In this environment interest rates in the region are expected to decline. The actual experience thus far has been that loan and deposit rates across the region have softened but have not fallen as fast as one might have expected given interest rate developments in the USA and the problem of chronic excess liquidity in some

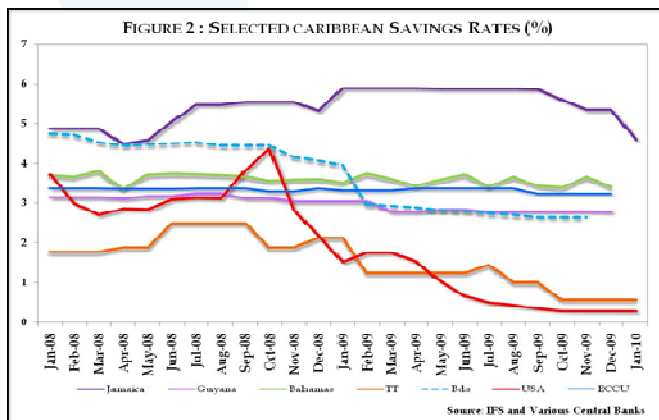
Falling interest rates should normally lead to an increase in the demand for loans and a disincentive to save; however, the opposite appears to be happening in some countries in the region. In Barbados and Trinidad and Tobago for instance, the growth rate of loans is decreasing while the growth rate of deposits is increasing (see Figures 3 and 4). In the other countries where interest rates were flat - The Bahamas, ECCU and Guyana - the growth rates of loans and savings were relatively unchanged. So some of the pressing questions then arising are: why are lending rates not falling faster in the Caribbean given the economic slowdown in the economies? And why are businesses and consumers not taking advantage of the apparent fall in interest rates in Barbados and Trinidad and Tobago?



countries in the region. For countries in the Eastern Caribbean Currency Union (ECCU) and Guyana the lending and deposit interest rates have remained flat while in the Bahamas these rates have fluctuated. Nevertheless, prime lending and deposit rates have been falling a little more significantly in Barbados and Trinidad and Tobago with the decline in deposit rates preceding the fall in lending rates in these countries. Deposit rates began declining in October 2008 while lending rates only began to fall in February 2009.



Part of the answer seems to be that depressed economic conditions have hardened people's negative expectations leading to a situation where soft credit demand overwhelms any positive



## THE CHALLENGE OF LOW INTEREST RATES IN THE CARIBBEAN cont'd

impact from lower borrowing costs. In any case the evidence on the interest elasticity of loans in the region is mixed, so some may argue that it may take a much larger change in loan rates than have occurred in the last year to elicit a significant movement in credit demand. More importantly, there are a host of additional factors which drive credit demand such as consumer and business confidence, the ability to source cheaper financing cross border, the risk appetite of financial institutions and the buoyancy of the domestic and international economy. These factors may be more important at present given the current depressed economic conditions.

Increased liquidity in the banking system seems to be also related to the current difficult economic conditions with depositors keeping their cash in the bank because they have limited higher yielding investment options, as well as increased risk averseness of savers for anything but the safest instruments after the rescue and ongoing bailout of CL Financial, and the recent failure of Stanford Bank.

Falling rates on commercial bank deposits and indeed returns on most financial assets have created challenges to savers and investors in maintaining their net worth. Returns on a variety of financial assets have also fallen in the current environment. T-Bills rates are low, ranging from 1 % to 4 % in most of the Caribbean economies with the exception of the ECCU<sup>1</sup> (where it ranges from 4 % to 6 %). Investing in the local stock markets would normally be an option but returns on the various stock markets in the region have also suffered because of low investor confidence, depressed economic growth and other institutional features of these markets which constrain its growth. For example the average returns for the stock markets of Trinidad and Tobago, Jamaica, Barbados and ECCU in the last quarter to date have been 4.72 %, -5.07 %, -4.42 % and -5.64

% respectively. Mutual fund returns have also suffered given low interest rates, flat stock market growth and some evidence of a flight to safer assets. One manifestation of this is that mutual funds under management in Trinidad and Tobago declined by 13.8 per cent in the latter part of 2009. In this environment there are strong incentives for less risk-averse individuals and institutions to start searching for higher yields which invariably means high risk alternatives.

A strong focus on building up risk management systems in the market and increased vigilance from financial regulators is therefore of critical importance, especially when a change in the cycle sets in and the region starts to come out of the current slump.

**Note:** The Lending rates and Deposits rates that were used for this article are: USA: Bank Prime Loan Rate and 3 month CD's Deposit Rate, Barbados: Commercial Bank Loan Rate (Weighted Average) and Commercial Banks Deposit Rate (Weighted Average) , The Bahamas: Lending Rate of Consumer Loans and 3 month Deposit Rate, Belize: Commercial Bank Lending Rate (Weighted Average) and Commercial Banks Deposit Rate (Weighted Average) , ECCB: Banks Discount Rate and Minimum Savings Rate , Guyana: Commercial Banks Lending rates and Small Savings Rate, Jamaica: Commercial Banks Average Loan Rate and Commercial Bank Average Savings Rate, Trinidad and Tobago: Commercial Banks Basic Prime Lending Rate and Commercial Bank Ordinary Savings Deposit Rate.

<sup>1</sup>The ECCB regulates the interest rate via an interest rate floor to reward and encourage savings by depositors and also to ensure that the real savings rate that depositors received on their investments is positive ( ECCB Monetary Policy Framework).

## REGIONAL NEWS SUMMARY

### CL FINANCIAL

- The liquidation of CLICO (Bahamas) Ltd will be handed to a new judge; February will mark the one-year anniversary of the CLICO liquidation process. (BN 28 Jan)
- President Bharrat Jagdeo said that frivolous litigation and judicial sloth is delaying the liquidation of CLICO Guyana. (Cnn 28 Jan)
- Claude Musaib-Ali, the chief executive at CLICO, resigned (TE 4 Feb).
- The sale of CLICO Mortgage and Finance Corporation to the Barbados Public Workers' Cooperative Credit Union has been approved. (Cnn 19 Feb)

### THE STANFORD GROUP

- Ralph Janvey, the court-appointed receiver for Allen Stanford's businesses and the firms he hired will be paid almost \$8.8 million, if the judge approves. (Cnn 26 Jan)
- Two former Stanford Financial Group employees oversaw destruction of stacks of corporate records in defiance of a court order to preserve them. (Cnn Feb 3) However, they were later acquitted (Cnn 13 Feb)
- The ECCB is responding to reports that a group of alleged victims is suing the Bank of Antigua (formally owned by Allen Stanford). (Cnn 19 Feb)

- Allen Stanford has lost a second appeal to be released pending trial (Cnn 19 Feb)

### CARIBBEAN

- Finance Minister Karen Nunez-Tesheira distributed annuity certificates to pension-eligible former employees of Caroni (1975) Ltd, 6 years after the company closed. (TE Jan 23)
- Final figures for 2009 show that, as of December, headline inflation in T&T slipped to 1.3% (TE 25 Jan)
- Measures must be taken to give the private sector the confidence to restart investments in productive projects, said Central Bank Governor, Ewart Williams. (TE 25 Jan)
- Trinidad and Tobago will need \$8 to \$10 billion over the next five years for an aggressive exploration programme to sustain current levels of oil and gas production, BP TT's chief executive said. (TE 26 Jan)
- Jamaica's largest insurance company and two biggest banking groups have confirmed their full participation in the \$700- billion Jamaica Debt Exchange programme (JDX), despite the expected decline in interest income on investment portfolios. (JG 26 Jan)
- T&T manufacturing sector contracted 5.6% in the third

## REGIONAL NEWS SUMMARY cont'd

- quarter of last year, while the Central Bank is projecting 2% growth in 2010. (TE 27 Jan)
- The Republic Bank Group posted a profit attributable to shareholders of TT\$236 million for its first quarter ended December 31, 2009, a decline of 14.7% from the corresponding period in 2008. (TE 29 Jan)
  - Jamaica's investment houses have stepped up their push of unit trust products as a fairly safe alternative to stocks and fixed-income securities whose yields are constrained by economic uncertainty and a push to lower interest rates. (JG 29 Jan)
  - The Caribbean tourism industry is looking toward an improvement in 2010 despite concerns about a British-imposed environmental tax and crime against tourists on some islands. Tobago suffered significant declines in tourist arrivals from their major UK market and also from Germany. (Cnn 29 Jan)
  - High levels of unemployment in the formal economy and the need for low-income earners to subsidize their incomes has resulted in many Guyanese becoming self employed. This has in some measure resulted in unreliable unemployment figures which tend to account for small business operators among the ranks of the unemployed. (SN 29 Jan)
  - The Bank of Jamaica had to pick up J\$13 billion worth of bonds to bail out the Government in January (JG 30 Jan)
  - Grenada business executive, Senator Chris DeAllie, wants Grenadians to change their attitude to work, saying government is spending more than \$25 million on social support programmes. (Cnn 2 Feb)
  - RBTT, Republic Bank and First Citizens Bank have reduced their prime lending rates from 9.75% to 9.5%. (TE 2 Feb)
  - Petrotrin will become uncompetitive and will go out of business in a few years if it does not undertake its massive upgrade programme now, said company executives. (TG 2 Feb)
  - State-owned Caribbean Airlines Limited last year made a TT\$34 million profit, a turnaround from a \$117 million loss suffered in 2007. (Newsday 3 Feb)
  - In January, Jamaica stock market wealth evaporated at a rate of J\$2.6 billion per day, totalling a \$52 billion loss for the month. This was mainly due to the performance of Guardian Holdings Limited, the leading loser whose price fell \$124.50 or 42 per cent to \$175 per share on flimsy trades of 1,700 units for the month. (JG 3 Feb)
  - The IMF approved a US\$1.27-billion (SDR 820.5 million) standby lending facility for Jamaica, paving the way for other multilaterals to pour in additional capital of up to US\$1.1 billion. The agreement will trigger immediate funding of US\$1.335 billion for Jamaica, of the US\$2.37 billion to flow into the country over the 27-month agreement. (JG 5 Feb)
  - Jamaican banks raised user fees, citing the increased tax rate and rising operating costs (JG7 Feb)
  - Financial experts have said prioritising compliance, removing tax exemptions and making it easier to pay taxes are among the most effective ways to reforming Jamaica's tax system. (JO 7 Feb)
  - The Barbados government aims to achieve a deficit in the region of 2.1% of the island's GDP. During 2009, Barbados' real GDP contracted by 5.3%; unemployment increased to just over 10% and the fiscal deficit widened to 8.4% of the GDP. (Cnn 5 Feb).
  - The 2009 report of the Caribbean Development Bank has cited Guyana as one of only a few Caribbean economies that demonstrated a measure of resilience during 2009, despite poor sugar and rice harvests. (SN 5 Feb)
  - The World Bank's Global Economic Prospects 2010 report released two weeks ago specifically identifies Latin America and the Caribbean as two regions that will have to forego economic growth at "boom year levels" as a result of reduced levels of overseas investment, possibly for the next 10 years. (SN 5 Feb)
  - Guyana's Finance Minister Dr. Ashni Singh unveiled a G\$142.8B budget. This represents a 10.8 % increase over last year's. There was no increase in the income tax threshold but also no new taxes. (SN 9 Feb)
  - Members of failed Jamaican investment scheme Olint were left with little hope after a meeting aimed at updating them on efforts to recover their money. (JG 9 Feb)
  - Tourism in Barbados is already showing signs of improvement in 2010. (Cnn 9 Feb)
  - Remittances to The Bahamas have increased around 25% in the last year,—an indicator of increasing need for financial help in a nation that usually does the sending. (TG 10 Feb)
  - Leading Jamaican banks are assuring account holders and other users of banking services that their savings and investments will be safe in the event of a major catastrophe, such as a serious earthquake or hurricane. (JG 10 Feb)
  - Barbados has a US\$100 million foreign loan to repay in the next financial year. (BN 1 Feb)
  - Minister of Economic Affairs and Empowerment in Barbados, Dr David Estwick, wants a national wage freeze. He also suggests Government sell off its assets where possible to raise badly-needed funds. (BN 1 Feb)
  - It would take much more than a wage freeze to reduce Barbados Government debt from 8% of its GDP to 2.5%, says Productivity Council chairman. A change in mindset and a push in productivity are essential for Barbados to see any financial progress. (BN 9 Feb)
  - Barbados' manufacturing sector created more than 400 jobs last year, with the food and beverage industry leading the way. (BN 11 Feb)
  - On February 16<sup>th</sup>, rating agency Fitch upgraded Jamaica's long-term local and foreign currency Issuer Default Ratings (IDR) to 'B-'. (JG 17 Feb)
  - JMMB's latest nine-month unaudited financial results show a 63% drop in net profits to J\$649 million at December 31, 2009. (JG 17 Feb)
  - United America Indemnity Ltd has approved a plan to relocate from the Cayman Islands to Ireland. (Cnn 19 Feb)
  - The Caribbean received around 800,000 less visitors in 2009 than in the previous year, a decline of 3.6 per cent in visitors' arrivals to the 33 member countries of the Caribbean Tourist Organization. (SN 19 Feb)

## ANNOUNCEMENTS ....

## CARIBBEAN BUSINESS EXECUTIVE SEMINAR

### The Future of the Financial Industry after the Crisis

April 30<sup>th</sup>, 2010, Port of Spain, Trinidad

The CCMF announces the 14<sup>th</sup> 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?
- The new financial order: Strategies for growth after the crisis
- The future of financial conglomerates
- Financing growth in emerging markets in the new environment
- A new model for financial regulations
- Should there be new guidelines for investment strategies for insurance?
- Regulation of under-regulated and unregulated institutions in the financial sector

In addition to the featured speakers, there will be a panel comprising representatives of each type of financial institution, drawn from different countries in the region. Reports and presentations from our past seminars can also be found at this website.

The most recent executive seminar hosted by the CCMF took place in Kingston, Jamaica on September 4, 2009, on the topic "Strategies to cope with global uncertainty - choices for Caribbean business and finance".

A report and presentations from this seminar, and presentations from previous seminars, may be found at [www.ccmf-uwi.org](http://www.ccmf-uwi.org). Updates and registration information for the 14<sup>th</sup> Caribbean Business Executive Seminar 2010 will also be posted at this address.

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](mailto:ccmf@sta.uwi.edu)

## EMPLOYMENT OPPORTUNITY: CONSULTANT FOR PROJECT ON FINANCIAL RISK ASSESSMENT IN AN INTEGRATING REGION: THE CARIBBEAN

**Objectives of Project:** To develop and upgrade methodologies for the overall assessment of the financial stability of the Caribbean region, including financial soundness indicators and early warning systems; to contribute to upgrading national financial stability reports; and to publish a regional financial stability report.

**Duration:** 36 months

**Experience and qualifications:** The candidate must have at least a graduate degree in economics or finance and must have at least 10 years senior management experience in financial regulation, especially expertise in early warning systems, financial stress testing and financial risk analysis. The candidate must also be familiar with the financial systems in the Caribbean.

For more information please see our website: [www.ccmf-uwi.org](http://www.ccmf-uwi.org).

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