



NATURAL DISASTERS IN JAPAN, POLITICAL CONFLICTS IN THE MIDDLE EAST AND THE GLOBAL RECOVERY: IMPLICATIONS FOR THE CARIBBEAN

The economic pundits had only just begun expressing confidence about their forecasts for recovery of the global economy when two major negative developments, the political crisis in the Middle East and the earthquake and tsunami in Japan, occurring in quick succession, considerably altered the economic environment since January, threatening the pace of this recovery. In January 2011, the International Monetary Fund (IMF) released the update to its World Economic Outlook, featuring an upward revision to the projection for global output for 2011 by 0.25 percentage points to approximately 4.5 per cent. This projection was based on stronger than anticipated economic activity during the second half of 2010 and particularly strong growth in emerging economies, a 0.1 percentage point growth increase in Japan and a 0.2 percentage point growth increase in newly industrialized Asian economies. Very importantly, this forecast for global growth was also predicated on a pre-crisis oil price of US\$90. The events in Japan and the Middle East now imply that this forecast may have to be revised downwards given the potentially negative impact these events can have on global growth.

The political crisis in the Middle East and some countries of North Africa began in Tunisia at the end of 2010. Since the events in Tunisia a wave of protests has occurred in other Middle Eastern and North African oil producing nations. Protests have been attributed to factors such as rising food prices, high unemployment and decades of rule by autocratic regimes in some cases. These developments have increased the fear of supply disruptions and have caused oil prices to exceed US\$110 per barrel, with Brent crude reaching US\$115.29 on the London based ICE futures market in early March. Amid growing concerns that tensions would spread to Saudi Arabia, the largest oil producing country, OPEC in their March monthly release stated that output had increased by 110,000 barrels per day in February in order to quell the price increases in the futures market¹. These developments have the potential to drive the price of oil way above the IMF's benchmark forecast of US\$90. Oil price spikes have caused, or contributed to, all global recessions in the last 30 years. The specific impact of these events on global economic growth depends on the size, duration, nature (whether it's a supply or demand shock) and the policy responses to these shocks. In general, however, IMF estimates based on simulations in 2003 and 2005 indicate that a 10% increase in oil prices lowers global economic growth by between 0.1 and 0.3% in the following year, with oil importing countries suffering greater declines in growth and supply related price spikes being more damaging to growth than de-

mand induced price spikes².

The occurrence of a magnitude 9.0 earthquake and the ensuing tsunami which occurred in Japan on March 11, 2011 briefly turned the attention of the market away from possible oil supply disruptions causing oil prices to recede briefly to below US\$100 per barrel on fears of the negative impact of the Japanese disaster on global growth. The earthquake hit the northeastern coast of Japan where large production plants for car and electronic component parts firms such as Toyota and Honda, Sony and Toshiba are located. Critical transport infrastructure such as ports and electricity grids were also badly damaged. Additionally, Japan is reeling from a third potentially catastrophic event related to problems with at least three of six nuclear reactors at the Fukushima nuclear complex, located 150 miles north of Tokyo. These adverse events in Japan have led to severe power shortages and factory closures and also triggered a massive drop in Japanese stock prices. Over a two day period the Nikkei dropped over 14 per-cent just short of its worst drop ever of 14.9 per-cent in October 1987. Initial estimates of the damage by the Japanese Government range from US\$122 to US\$235 billion while the initial costs to the national budget for reconstruction are estimated at about US\$12 billion. In response, a rare but unified action by the Group of Seven Industrial Countries (G7) to intervene in the currency markets to stabilize the Yen, stock and financial markets in the wake of the disastrous events in Japan. The markets responded to this action quite positively with global stocks rebounding to pre-quake levels as the news of the intervention circulated.

Economists are still relatively unsure about the fallout from events in Japan and the Middle East on the global economy. Some experts contend that while there may be short term supply chain disruptions from the events in Japan, the global impact is not likely to be significant. They argue that the Japan economy has significant redundancy built into it, so that companies may be able to turn elsewhere for supplies. Additionally, it has been argued that the most affected area accounts for about four per cent of Japanese GDP, which may not be enough to cause severe impact to economic prospects over the medium term. Moreover, based on the experience with previous disasters, such as the Kobe earthquake in 1995, some have argued that growth is likely to fall for a couple of quarters before the rebuilding effort drives growth back to pre-crisis levels. The World Bank in its latest East Asia and Pacific Economic Update released on March 21, 2011 supports this view as it expects Japanese economic growth to pick up in the third quarter of

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2011. In the case of the events in the Middle East, the global growth prospects should be negatively affected but less than they would have been in the past since the energy intensity of GDP has been falling over time because of efficiency gains in production.

The implications for the Caribbean hinge on the size and duration of the impact of these economic shocks on global growth. To the extent that the initial projections for global output do not change significantly, Caribbean countries may continue to witness positive developments such as continued recovery in the tourism industry. Despite the European Union (EU) Commission increased forecast of 1.6 for economic growth in 2011, the developments within the EU suggests that this Region will likely remain a soft market for inbound tourists to the Caribbean given that unemployment remains high in European countries and because any energy price hikes are likely to hit these net oil importing countries harder.

Caribbean commodity exporting countries such as Trinidad and

Tobago, Belize, Guyana and Suriname are likely to benefit from favorable terms of trade developments as commodity prices increase. On the downside, increases in commodity prices may have inflationary and negative balance of payments consequences for non-commodity producing Caribbean economies. While inflation seems to have been receding in countries such as Trinidad and Tobago, increasing commodity prices, especially food, may threaten the continuation of this trend. Increases in the prices associated with food are likely to continue fueling labour union demands for higher wages in many countries where the fiscal accounts may not be able to accommodate such pressure.

¹See OPEC March Monthly Petroleum Market Release

²The impact of oil price spikes on growth has come down in recent years as the oil intensity of economic growth has fallen. See "Oil and the Global Economy" by Kenneth Rogoff presented at the International Energy Forum Secretariat Meeting, Riyadh, Saudi Arabia, November 19, 2005.

REGIONAL NEWS SUMMARY

CL FINANCIAL

- CARICOM Heads of Government have agreed to the immediate establishment of a US\$2 million Health Insurance Support Fund for British American Insurance Company/Colonial Life Insurance Company policyholders (Carib360 1 Mar)
- Leroy Parris, former executive chairman of CLICO Holdings (Barbados), earned over B\$80 000 in salary and perks monthly and was guaranteed B\$10 million in gratuity by the company. He was also paid B\$300 000 a year as a bonus payment and another \$300 000 yearly for providing management services. Parris is claiming a total of over B\$10 million from CLICO Holdings (Barbados) and CLICO International Life Insurance (BN 11 Mar)
- Economist and former Government minister Clyde Mascoll wants CLICO Holdings (Barbados) Ltd to explain to policyholders why it agreed to a B\$10 million performance-based package with its executive chairman Leroy Parris three years before that actual performance. (BN 14 Mar)
- The National Gas Company has withdrawn its petition in the High Court seeking to stop the winding up of assets of CLICO Investment Bank (TE 20 Mar)
- Leroy Parris, former executive chairman of CLICO Holdings (Barbados) has resigned from the board of management of all of CLICO's subsidiary companies in Barbados and the Eastern Caribbean (BN 24 Mar)
- Government's bailout plan for those who invested in CLICO has begun and close to \$33 million has been paid to over 1000 owners of the Executive Flexible Premium Annuity contracts valued at \$75,000 or less (TG 24 Mar)

THE STANFORD GROUP

- The Muammer Gaddafi regime in Libya is said to have invested at least US\$500 million with accused financier Allen Stanford (JG 2 Mar)

- Allen Stanford has decided to drop his US\$7.2 billion suit he filed last month against the federal authorities in the US without giving up the right to refile the charges (Carib360 25 Mar)

CARIBBEAN

- Haiti transport sector unions are asking their representative at CIRH to safeguard their interests and ensure that they will be considered during the country's reconstruction effort (Caribseek 28 Feb)
- The Tax Department of the Caribbean Netherlands announced an increase in the excise tax on gasoline as of March 1st. For Bonaire, this amounts to US\$0.07 per litre gasoline (28 Feb 2011)
- The IMF approved a disbursement of US\$3.26 million for St Vincent and the Grenadines to help the country manage the economic impact of Hurricane Tomas (CNnow 1 Mar)
- The Demerara Bank Limited opened its new Head Office and branch at Diamond on the East Bank of Demerara, and is the first bank to grace the East Coast of Demerara (GCO 1 Mar)
- Insurance conglomerate Guardian Holdings Ltd has raised TT\$1 billion to restructure its debt (TE 2 Mar)
- Cruise arrivals to St. Maarten have surpassed the projections for January and February and represent a 20.4% and 22% growth respectively over the same two months a year earlier (Caribseek 2 Mar)
- Lascelles Demercado & Company produced robust results for its first quarter ended December 2010; they kept costs associated with production and sales in check, improved revenue by just J\$16 million, but added J\$220 million of bottom-line profit (JG 2 Mar)
- Finance Minister Audley Shaw says Jamaica now has the highest gross foreign exchange reserves in the country's

REGIONAL NEWS SUMMARY cont'd

- history (at US\$3 million), and the lowest central bank open market interest rates in 40 years (6.75%) (JO 3 Mar)
- Several online brokerage facilities - TD Ameritrade, Scottrade and Options Xpress have placed T&T on Restricted Country List that they don't do business with. Details were not forthcoming (TG 3 Mar)
 - The Haiti Reconstruction Fund Steering Committee has released its first six-month progress report and allocated a total of US\$187 million for reconstruction activities (Carib360 3 Mar)
 - The Heineken Regatta 2011 is expected to be a welcomed economic boost for the island of St. Maarten (Caribseek 3 Mar)
 - A delegation from the CARICOM Secretariat recently began a two-day capacity-building and public education exercise in Suriname. (CNnow 4 Mar)
 - The Central Bank of Barbados has appointed a new Deputy Governor. Harold Codrington, who served as special advisor to former Governor Dr Marion Williams and current Governor Dr DeLisle Worrell, took up the position on March 1 (Caribseek 4 Mar)
 - Cable & Wireless Bermuda has been sold to a Canadian company; The Bragg Group has purchased the Bermuda operations of C&W Communications Plc. for US\$70 million. (BN 4 Mar)
 - An increasing number of offshore banks are laying off staff in The Bahamas and the country will be in trouble if significant growth isn't seen in the industry soon (CNnow 9 Mar)
 - The economy has received an injection of TT\$1 billion as a result of Government's investment in Carnival, according to Prime Minister Kamla Persad-Bissessar (TE 9 Mar)
 - Barbados has established a Financial Services Commission, whose purpose is to regulate and supervise the operations of the non-banking financial sector (Carib360 11 Mar)
 - Guyana's commercial banks are enjoying particularly strong success in the current economy with excellent bank liquidity positions and very substantial profit margins; the government has collected its fair share of tax revenues from this thriving industry (SN 11 Mar)
 - Michael Lee-Chin has failed to make the cut on Forbes 2011 list of billionaires published recently (JG 11 Mar)
 - The OECD wants to be able to open Barbados' tax files and see who is investing in the country and in what they are investing. The international business sector is too important to the economy and so Government will amend its tax laws to make them compliant with the latest OECD demands (Caribseek 15 Mar)
 - Remittances to Latin America and the Caribbean are likely to rise this year after stabilising during 2010, although a weaker dollar and higher inflation are reducing their purchasing power in many countries, according to the IADB's Multilateral Investment Fund (GuyTimes 15 Mar)
 - The first half of fiscal year 2010/2011 showed a \$38.9 million increase in the Bahamas government's deficit, expanding 22 percent to \$215.9 million year-over-year (CNnow 16 Mar)
 - In Guyana the excise tax charged on gasoline has been reduced from 30% to 20% to cushion the impact of the increase in oil prices will have on domestic customers (SN 18 Mar)
 - Trinidad and Tobago is open for business. That was the message conveyed by Prime Minister Kamla Persad-Bissessar to foreign investors during a business dialogue reception at the T&T High Commission in London (TG 18 Mar)
 - The Port Authority of Jamaica made a net surplus of J\$1.83 billion at year end March 2010, in a solid turnaround from a J\$4.8-billion deficit the year before (JG 18 Mar)
 - Jamaica is to privatise a number of key businesses including airports and the famous Blue Mountain Coffee (CNnow 22 Mar)
 - The construction industry in Trinidad and Tobago saw a 6.2% decline in 2010, after seven years of positive growth, but is expected to turn around in the last quarter of 2011 as a number of construction projects take off (Newsday 22 Mar)
 - The Clinton Bush Haiti Fund announced on Monday that it will provide US\$3 million in seed funding for a programme that will make home mortgages available to ordinary Haitian citizens for the first time in the country's history (CNnow 23 Mar)
 - The Dutch government says it will redefine its relations with Suriname after Holland recently reduced the number of partner countries from 35 to 15 (JG 23 Mar)
 - The British Virgin Islands has reversed recent trends by becoming the only offshore financial centre to have its rating boosted in the latest Global Financial Centres Index (CNnow 24 Mar)
 - Jamaica's 'most modern and elaborate' port, the Falmouth Cruise Pier in Trelawny, was officially opened on March 22 (CNnow 24 Mar)
 - The IMF said that Grenada should experience economic growth of nearly 1.5 % this year, noting that GDP had declined for a second year last year (BN 24 Mar)
 - The Reunion Manganese Company will be investing approximately US\$ 18 million in Matthews Ridge (Guyana) during the year to upgrade infrastructures to aid in its search for manganese in the area (GuyTimes 25 Mar)
 - The chairman of the defunct Horizon Merchant Bank is blaming Jamaica's central bank for the high default rate on loans in the 1990s, saying its high-interest rate policy put too big a squeeze on capital (JG 25 Mar)
 - Capital & Credit Merchant Bank Limited will redeem its preference shares on April 13, and delist from the Jamaica Stock Exchange a day later (JG 25 Mar)
 - Guyana is to receive an estimated G\$150 billion in revenue and benefit tremendously from employment opportunities that would be offered when the Guyana Goldfields Incorporated expands its operations next year (GuyTimes 25 Mar)
 - The finance ministers of St Maarten and Curaçao signed the transition regulation for the Central Bank of Curaçao and St. Maarten on Friday. (Caribseek 28 Mar)

REGIONAL NEWS SUMMARY cont'd

- Guyana intends to sell some 55,000 tonnes of rice to Jamaica this year, the Agriculture Ministry has announced (GuyTimes 29 Mar)
- Guyana, has six million ounces of high quality gold at Aurora, an area in Cuyuni, in the northwestern part of the country. The Guyana Oilfields Inc, a Canadian company, is spending US\$150 million to extract the gold -- most of it is said to be underground, which requires mining (CNnow 28 Mar)
- Jamaican Ponzi schemer David Smith is now facing up to 20 years in prison after admitting to 23 fraud charges in a plea deal with US prosecutors that will also require him to forfeit his assets and reimburse investors (Carib360 31 Mar)

CCMF SEEKS NEW EXECUTIVE DIRECTOR

The CCMF is looking for a dynamic economist or finance specialist with a graduate degree and research or policy experience to become its new Executive Director. The Executive Director heads a small team of dedicated professionals and contractors, who provide policy and information services to Caribbean central banks, financial institutions and regional businesses. The Centre's work is assisted by a distinguished group of research associates. The Centre publishes the Caribbean Economic Performance Report, the Journal of Business Finance and Economics in Emerging Economies (JBF3E), occasional monographs and collected papers volumes, as well as a range of financial and macroeconomic statistics. Its publications are all available online, at www.ccmf-uwf.org.

Job Summary:

Reporting to the Board of Directors, the successful candidate will have the following key responsibilities:

- To lead the development of a policy research agenda for the Centre
- To secure its financial resources
- To implement the work programme and upgrade services to the domestic, regional and international community.

Key Knowledge and Experience:

- Post-graduate degree in Economics
- A minimum of 5 years' experience at a senior management level
- Working knowledge of, or training in, management, finance or accounting would be an asset
- Sound leadership and management capabilities
- Possession of effective human resource management skills
- Sound record of publications and evidence of continuing research on topics related to economics and finance

Anyone interested should contact Dr. DeLisle Worrell, Governor of the Central Bank of Barbados and Chair of the Executive Committee of CCMF, at (246) 436 6870 or email Arlette.King@centralbank.org.bb. They may also contact Kathleen Charles at (868) 645 1174 or Kathleen.Charles@sta.uwi.edu or write to the CCMF at:

Caribbean Centre for Money and Finance
The University of the West Indies
St. Augustine Campus
Trinidad and Tobago, W.I

The deadline for applications is April 30th 2011. The new Executive Director should assume office as soon afterwards as is practical.

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