



THE INAUGURAL EDITION OF THE CARIBBEAN REGIONAL FINANCIAL STABILITY REPORT	Pg. 1
REGIONAL ECONOMIC NEWS	Pg. 3
HIGHLIGHTS OF CARTAC'S WORKSHOP	Pg. 4

## THE INAUGURAL EDITION OF THE CARIBBEAN REGIONAL FINANCIAL STABILITY REPORT

Central banks have a strong mandate to protect and maintain financial stability, primarily because the health of the financial system has a profound effect on the performance of the economy and its resilience to shocks. The liberalisation of financial systems in the region over the last 25 years has led to increasing regional financial integration and the intensification of cross-border financial activity. A key feature of the Caribbean financial landscape is the dominance of large and entrenched conglomerates and financial groups which are often connected through ownership and business interests. This complex, concentrated and interconnected system coupled with markets that are still relatively underdeveloped complicates the task of designing and enforcing macro-prudential regulations. These developments now mean that national regulators cannot adequately manage risks and promote financial stability in their national jurisdiction without reference to developments in and cooperation with regulators in connected countries.

In this context, the region has long recognized the need to develop the regional architecture for financial stability in the region to adequately address the potential risks from financial interconnectedness while benefiting from the growth and efficiency generated by closer financial integration. This fact was brought into sharp focus when CL Financial encountered problems demonstrating how regional connectedness could amplify and propagate a crisis. This crisis served to galvanize those committed to developing a formal architecture to maintain regional financial stability. A critical component of this architecture

was the development of a regional financial stability report to formalize the monitoring of financial risk at a regional level and the distillation of regional policy response to any emerging challenge to regional financial stability.

The first edition of the Caribbean Regional Financial Stability Report (CRFSR) which was launched in early March 2016, the first of its kind in the developing world, therefore represents the culmination of a long process of development and enhancement of the architecture for financial stability in the Region. This report complements the national financial stability reports and its purpose is to sensitize the main regional financial stability stakeholders, including the regional public, of issues relevant to the stability of the financial system in the region. By reviewing the main sources of risks to the stability of the regional financial system, as well as the policy measures being used to deal with emerging risks, the report seeks to help build confidence and provide policymakers with guidance on the building blocks to defuse any financial tensions in the system. Furthermore, it identifies the need for financial sector reforms, with an emphasis on increased harmonisation, coordination and cooperation from a regional perspective. The structure of this Report reflects the breadth and depth of coverage that is required to adequately deal with the issue of stability of the financial system in the Caribbean. The first chapter provides an overview of financial stability in the Caribbean, the second treats with the global and regional macro-financial environment, the third chapter reviews the structure of the

## THE INAUGURAL EDITION OF THE CARIBBEAN REGIONAL FINANCIAL STABILITY REPORT cont'd

Caribbean financial system while the fourth chapter analyses the performance of financial institutions, particularly the commercial banks and insurance companies. The fifth chapter provides an assessment of contagion risk in the Caribbean while chapter six reviews the policy initiatives in CARICOM designed to maintain financial stability in the region. The first edition of the CRFSR can be downloaded at [www.ccmf-uwi.org](http://www.ccmf-uwi.org).

This report is a product of a truly collaborative regional effort. The CARICOM Group of Central Bank Governors played a leading role with the close involvement of regional regulatory associations such as the Caribbean Group of Banking Supervisors (CGBS), Caribbean Association of Insurance Regulators (CAIR) and the Caribbean Group of Securities Regulators (CGSR). Additionally, the International Monetary Fund (IMF) made a significant contribution by collaborating with participating central banks on the interconnectedness map component of the project. The report also benefited from training organized with the assistance of the Caribbean Technical Assistance Centre (CARTAC). Very importantly, these developments were facilitated by funding from the Inter-American Development Bank (IADB) through a project on Financial Risk Assessment in the Caribbean, managed by the Caribbean Centre for Money and Finance (CCMF), a research institution funded by regional central banks and The University of the West Indies. The success of the process that produced this report is testament to the progress that can be achieved when the region is committed to a common goal. This report will now be produced on an annual basis as a collaborative exercise by regional stakeholders led by regional central banks and the CCMF as a permanent component of a modern Caribbean financial stability architecture.

The overall assessment of the Report is that the level of financial stability in the Caribbean has improved significantly over what obtained during the height of the

recent global financial and economic crisis. In terms of current performance, there have been improvements in the levels of capital adequacy/reserves and liquidity among regional financial institutions which are generally above their counterparts in Latin America. Asset quality and profitability are also generally on par with their peers in Latin America although there has been some slippage in a few jurisdictions. The financial system in the Caribbean has therefore weathered the international financial and economic crisis fairly well. However, while the operational practices of its dominant financial enterprises are in the main fairly traditional and risk averse, the Region's financial stability still bears careful watching, partly because of the risks and vulnerabilities emanating from significant macro-imbalances, the significant weighting of systemically important financial institutions (SIFIs); and the incomplete state of financial reform and restructuring in the various jurisdictions. In spite of these vulnerabilities, the level of financial system stress is relatively low and the resilience of the system has been buttressed by ongoing efforts to upgrade the regional and national architecture for financial stability and significant buffers in terms of liquidity and capital.

By  
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## REGIONAL ECONOMIC NEWS

### The Bahamas

- \$16 million pay-out for Bahamas CLICO policyholders - More than seven years after CLICO (Bahamas) Limited went into liquidation, Prime Minister Perry Christie announced on Monday that policyholders who are still current will begin to receive pay-outs before the end of the month. During his mid-year budget communication, Christie said cash pay-outs are estimated at \$16 million. ( CNnow, 9 March 2016)
- Bahamas government still working to open Baha Mar resort - Minister of State for Finance Michael Halkitis on Friday reinforced the Bahamas government's commitment to work with the Export-Import (EXIM) Bank of China to open the troubled Baha Mar resort. ( CNnow, 21 March 2016)
- IMF concludes mission to Bahamas - An International Monetary Fund (IMF) team led by Jarkko Turunen visited The Bahamas from March 10-23 to conduct discussions for the 2016 Article IV consultation. ( CNnow, 24 March 2016)

### Barbados

- Caribbean-China consultations underway in Barbados - The sixth round of the Caribbean-China consultations held in Barbados was highlighted as an excellent opportunity for Caribbean countries and China to explore ways in which they could cooperate to address various challenges. ( CNnow, 23 March 2016)
- Fall-off in tourism predicted for 2016 - Tourism is poised to lose some steam this year, even as officials continue to hunt increased arrivals and airlift. Less than a month before the winter tourist season ends, the World Travel & Tourism Council (WTTC) has just released its Travel & Tourism Economic Impact 2016 Barbados report. ( NationNews , 31 March 2016)

### Belize

- Belize unveils climate-resilient tourism program - The ministry of tourism and civil aviation in Belize, in collaboration with the Inter-American Development Bank (IDB), officially launched the Sustainable Tourism Program II in a kick-off workshop on March 8-10, 2016, in Burrell Boom Village. ( CNnow, 12 March 2016)
- Four Caribbean prime ministers meet Taiwan president in Belize - Taiwan's President Ma Ying-jeou met in Belize on Wednesday with government leaders from four of Taiwan's diplomatic allies in the Caribbean ( Belize, St. Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines) , all of whom expressed hope that Ma's successor will continue to push bilateral relations with their countries. ( CNnow, 18 March 2016)
- IMF concludes consultation with Belize - The executive board of the International Monetary Fund (IMF) has concluded the Article IV Consultation with Belize. ( CNnow, 30 March 2016)

### ECCU

- Japan partners with St Kitts and Nevis in renewable energy - Officials from Japan International Cooperation Agency (JICA) have signed documents with the St Kitts and Nevis government to begin technical cooperation in the area of renewable energy and energy efficiency. ( CNnow, 4 March

2016)

- Saint Lucia's banana industry recovering - Saint Lucia's banana industry is recovering following several natural disasters over the last decade and it is currently the only Windward Island exporting bananas to the UK. ( CNnow, 4 March 2016)
- IMF concludes consultation and review with Grenada - The International Monetary Fund (IMF) on Thursday issued a concluding statement following the 2016 Article IV consultation visit and fourth review under the extended credit facility (ECF) extended to Grenada. ( CNnow, 5 March 2016)
- IMF concludes mission to St Vincent and the Grenadines - An International Monetary Fund (IMF) staff mission, led by Dominique Simard, visited St Vincent and the Grenadines from February 22 to March 3, 2016, to conduct discussions for the 2016 Article IV Consultation. ( CNnow, 9 March 2016)
- Senior policymakers to meet in St Kitts to discuss Caribbean debt relief - The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) Caribbean office will convene the fourth meeting of the Caribbean Development Roundtable (CDR) in Basseterre, St Kitts and Nevis, on April 21, 2016. This year's roundtable will explore possible options for debt relief for heavily indebted countries in the sub-region. ( CNnow, 10 March 2016)
- St Kitts-Nevis citizenship fund releases audited financial statements - The St Kitts and Nevis Sugar Industry Diversification Foundation (SIDF) has released audited financial statements for 2012 and 2013. ( CNnow, 11 March 2016)
- ECLAC supports St Lucia's drive towards renewable energy - The Economic Commission for Latin America and the Caribbean (ECLAC) sub regional headquarters for the Caribbean is actively supporting the government of Saint Lucia as the country transitions from the use of fossil fuels to renewable energy sources, including solar and geothermal. (CNnow, 15 March 2016)
- CDB funds training for food service professionals in Dominica - As the government of Dominica focuses on enhancing its hospitality sector and improving opportunities for tourism investment, it is driving initiatives to provide best-practice training for local food service businesses. ( CNnow, 23 March 2016)

### Haiti

- Haiti and the Dominican Republic to pool resources to attract foreign direct investment - The Caribbean Export Development Agency (Caribbean Export) in collaboration with the Centre for Facilitation of Investments of Haiti (CFI) and the Export and Investment Centre of the Dominican Republic (CEI-RD), conducted a workshop on foreign direct investment (FDI) lead generation, in Santo Domingo, Dominican Republic from March 15-17, 2016. ( CNnow, 18 March 2016)
- UN Security Council calls on Haiti to complete elections without further delay - Deeply concerned by the continued suspension of electoral rounds in Haiti, the United Nations Security Council on Friday called for the completion of the polling cycle without further delay to allow the Haitian people the

## REGIONAL ECONOMIC NEWS cont'd

opportunity to vote for their elected representatives in a free, fair, inclusive and transparent contest. ( CNnow, 19 March 2016)

### Guyana

- The Credit Reporting (Amendment) Act 2016: Analysis and implications -The Credit Reporting (Amendment) Act, having been passed into law in the Guyanese Parliament on January 14, 2015, represents the commencement of major change in the credit environment of Guyana. The previous legislation lacked many enabling features which would allow the process of credit reporting to have the desired effect on lending and the economy. ( Stabroek News , 18 March 2016)
- IMF team concludes consultation with Guyana - A staff team from the International Monetary Fund (IMF), led by Marcos Chamon, visited Guyana during February 24-March 7 to hold discussions for the 2016 Article IV consultation. (CNnow, 12 March 2016)

### Jamaica

- New Jamaica PM to be sworn in - Jamaica Labour Party (JLP) leader Andrew Holness is to be sworn in as prime minister on Thursday afternoon at 4 o'clock, after the Electoral Office of Jamaica wrote to Governor General Sir Patrick Allen advising that the final count of ballots in Thursday's general election had been completed and that the JLP gained 32 seats to the People's National Party's 31 seats in the 63-seat House of Representatives. ( CNnow, 3 March 2016)
- IMF team visits Jamaica - An IMF staff team led by Nigel Chalk, deputy director of the Western Hemisphere Department, and Uma Ramakrishnan, mission chief for Jamaica, was in Kingston on Friday for a brief post-election staff visit. ( CNnow, 7 March 2016)
- Biofuel manufacturer to invest US\$95 million in Jamaica by 2017 - As renewable energy demands increase globally, bio-fuel developer Benchmark Renewable Energy LLC has announced plans to develop a large-scale bio-ethanol operation in Jamaica. ( CNnow, 8 March 2016)
- Chinese company to build regional headquarters in Jamaica - China Communications Construction Company (CCCC) will begin the construction of its regional headquarters in New Kingston later this year, signalling its confidence in Jamaica and its intent to remain in the region and to continue to invest in the country. ( CNnow, 31 March 2016)

### Curacao and Sint Maarten

- North American visitors to Curacao increased by eight percent in January - Stay over arrivals to Curacao from North America increased by eight percent in January with a total of 8,585 visitors compared to 7,936 visitor arrivals in January 2015. ( CNnow, 8 March 2016)
- Curacao 'A-/A-2' ratings affirmed; outlook remains stable - Standard & Poor's Ratings Services (S&P) affirmed its 'A-/A-2' long- and short-term foreign and local currency sovereign credit ratings on the government of Curacao. The outlook remains stable. S&P also affirmed its 'A-' transfer and convertibility assessment. ( CNnow, 26 March 2016)

### Suriname

- Suriname eases visa regime to boost tourism - In an effort to

boost its new emphasis on the tourism sector, the government of Suriname has recently abolished the requirement for a visa to enter the country from an additional 13 countries, including China, India, Indonesia and Turkey, four of the world's most populous nations. The nine other countries are from Latin America. The list does not include any African or Arab countries. ( CNnow, 22 March 2016)

- Islamic Bank and Malaysian investments to increase Suriname agriculture exports - The Jeddah-based Islamic Development Bank (IsDB) and Mardi Holdings of Malaysia are interesting in investing in the agriculture sector of Suriname, according to the CEO of Mardi, Anas Nasrudin, who met with farmers in Suriname this week. ( CNnow, 24 March 2016)

### Trinidad and Tobago

- T&T facing downgrade by Moody's Investors - For the second time in two years, Trinidad and Tobago is facing a downgrade by international credit ratings agency Moody's Investors Service. If the Government's bond and issuer ratings are downgraded, it could impact on T&T's ability to attract foreign investment particularly at a time of economic downturn. On Friday, the New York-based ratings agency announced that it had placed T&T's Baa2 Government bond and issuer ratings on review for downgrade. ( TTEexpress, 5 March 2016)
- Jobless rate increases in T&T - Trinidad and Tobago's unemployment rate has gone up. The Central Statistical Office (CSO) today released its latest Labour Force Bulletin for the third quarter of 2015. It shows the overall unemployment rate for Trinidad and Tobago increasing from 3.2 per cent in the second quarter 2015 to 3.4 per cent for the third quarter of last year. ( TTEexpress, 8 March 2016)
- Moody's places THA rating under downgrade review - International ratings agency Moody's Investors Service has placed the Tobago House of Assembly's Baa2 issuer rating under review for downgrade. Monday's action follows Moody's rating action on March 4 in which the agency placed Trinidad and Tobago's government bond rating under review for downgrade. ( TTEexpress, 8 March 2016)
- Moody's puts NGC on downgrade review - International ratings agency Moody's Investors Service has placed on review for downgrade the rating of the National Gas Company (NGC). ( TTEexpress, 10 March 2016)
- IMF: T&T economy facing major shock - The Trinidad and Tobago economy is facing a "major shock", an International Monetary Fund (IMF) mission headed by Elie Canetti has said. The IMF's statement yesterday followed its latest Article IV consultation on Trinidad and Tobago during March 3-15. ( TTEexpress, 17 March 2016)
- IMF completes mission to Trinidad and Tobago - An International Monetary Fund (IMF) mission, headed by Elie Canetti, visited Trinidad and Tobago during March 3-15, 2016, to conduct the annual Article IV consultation. ( CNnow, 18 March 2016)

## HIGHLIGHTS OF WORKSHOP ON BUILDING RESILIENCE TO FINANCIAL CRISES IN THE CARIBBEAN



CARTAC and the Central Bank of Barbados held a three-day conference on "*Building Resilience to Financial Crises in the Caribbean.*" The conference brought together 74 stakeholders from national regulatory authorities, regional regulatory associations, the CCMF and key international bodies (including the IMF, World Bank and the FSB) to discuss how the Caribbean region could best approach the design of institutional and operational frameworks to withstand financial sector and economy-wide disruptions.

Dr. Shelton Nichols, in his summary, said that the conference discussions concluded that whereas enhanced monitoring, regulation and supervision along with the implementation of appropriate macro- and micro-prudential frameworks would help limit the incidence of financial crises, they could not entirely prevent such crises from occurring. Consequently, it was incumbent upon countries to put in place various strategies and mechanisms to build resilience to financial crises and enable better management of crises should they occur, all with a view to minimizing loss of confidence in the financial system and economic dislocation.

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