Merry Christmas

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YOUR FINANCES ……YOUR FUTURE

YOUR FINANCIAL NEWS

Staying Connected

For the Alumni of the ECCB's Savings and Investments Course

Opportunities In an Economic Downturn

Using the crisis to address the important

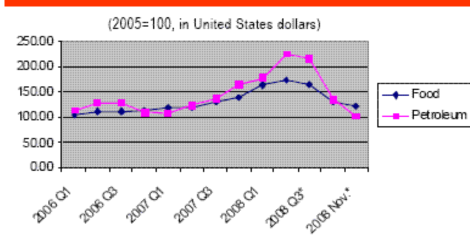
The region is no stranger to crises that impact in a direct way the economy.

Our location: We are located in the hurricane belt and therefore are at the mercy of the hurricane season from July to November each year. Hurricanes threaten our infrastructure and by extension our economy. Such was our experience with Hurricane Hugo 1989, Hurricane George 1998, and Hurricane Ivan 2004, just to name a few.

The structure of our economies

● Open economies - Our economies are import intensive; dependent on the external environment for basic commodities including food and oil. As such, we are directly impacted by price volatilities on the international market.

Price increases on basic commodities translate into higher cost for basic staples like flour, rice, corn, and gas at the pump, resulting in a general rise in the cost of living. This was the crisis the region faced in 2008.



Source: IMF Primary Commodity Price Database as updated

While the prices of major commodities have decreased in 2009 due to lower demand from major consuming countries like the USA, China and India, it is only a matter of time before demand starts to rise again which would bring about higher prices for these goods and severe inflationary pressures for our economies.

● Mono-economies - Our economies are also largely dependent on a single industry; tourism. The International Finance Corporation, (IFC), World Bank Group, reveals that tourism contributes to GDP 15% directly; 50% indirectly and employs about 40% of the OECS labour market. ECCB data also indicates that tourism contributes approximately 70% of the ECCU's foreign exchange earnings. Any downturn in this sector is therefore acutely felt throughout the economy.

Consider however, that this industry is seasonal; externally driven; and is classified as a luxury good (not a need) hence it is a good that "consumers manage to do without during periods of below average income and falling consumer confidence." The industry is also adversely impacted by hurricanes, terrorism, increases in air transportation, air-borne diseases, and ever-changing consumer preferences.

Added to this, is our growing indebtedness which not only creates financial imbalances but also robs us of the financial space required to address the many crises that are inevitable.

So here we are once again at a crossroad, confronting another crisis, which serves to highlight, just as those that have gone before, our vulnerabilities. The questions to be answered are as follows:

1. Are we going to let this crisis go to waste or are we going to see it as an opportunity to do those

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Opportunities in an Economic Downturn

critical things that we have always needed to do in the past and still need to do now?

1. Are we going to take the drastic steps that would allow us to surmount the inevitable crises that will continue to visit our shores?

This economic downturn provides us with the opportunity to put things right:

- to force a restructuring of our finances at the household and country levels;
- to better our collective understanding of risk, redefine our risk management parameters, and put measures in place to mitigate the exposure of our finances and our economic system to those risks;
- to be actively engaged in discussions, as all good citizens should, on issues related to government income, expenditure and debt.

Our **Must Do List** should revolve around the following issues:

- We have to practise responsible spending. We cannot indulge without limits. Now is the time to eliminate wastage of money and other resources.
- We have to establish financial reserves so that we can improve our financial capacity to be able to respond to crisis and have resources available for our long term security.
- Prioritise! We can't have everything **NOW**. We have to weigh the opportunity costs and focus on our needs.
- We have to increase our skills so that we can diversify into other industries.
- We have to strengthen our risk management and governance systems.
- We have to practise conservation and seek to exploit the potential of renewable energy resources available in our region.
- We have to craft a cohesive, proactive and rapid response mechanism to address inevitable economic crises.

This is how we will be able to be one step ahead of possible adverse eventualities. Crises will always be a part of our economic landscape, the issue is for us to always be prepared. Are you? **SLW**

LessonSnips

One of the best ways to learn is at a time of adversity. Remember the old saying "No Pain, No Gain."

What separates successful people from those who fail to succeed is that successful people find the motivation to keep going. They find strength in adversity and every problem life throws at them, makes them stronger and stronger.

You have to decide that you can master your environment and solve your current problems. No one else can solve your problems. The solutions reside with you. Focus on finding them.

International rating agency cuts Jamaica bond rating

www.caribbeandailynews.com

NEW YORK, CMC– Nov. 19, 2009 A major international credit rating agency has lowered Jamaica's bond ratings into what it described as "highly speculative territory".

The Wall Street-based Moody's Investors Service said this comes amid Jamaica's concern that it would not be able to sustain its debt load without a restructuring. It also said delays in reaching a pact with the International Monetary Fund (IMF) were reasons for concern.

Moody's Investors put the local and foreign currency bond ratings two notches lower at "Caa1," with a negative outlook, warning that further downgrades are not out of the question.

"Even though an IMF programme would probably give some much-needed breathing room to the fiscal position, the size of the public debt is such that Jamaica is unlikely to restore debt sustainability in the medium-term without some sort of meaningful debt restructuring at some point," said credit analyst Alessandra Alecci.

She said debt-servicing costs account for over 55 percent of the central government's revenue and 16 per cent of its gross domestic product (GDP).

"Jamaica's willingness to honor its obligations has remained unusually strong for a country facing such significant fiscal challenges. "The government has never defaulted, opting instead to run high primary surpluses in recent years, some in the order of 10 percent of GDP," she added.

Moody's Investors said the recession has dealt a "major setback" to Jamaica's key tourism industry, while

Bond Ratings Cuts

the country's bauxite-alumina sector has grappled with sagging industrial demand.

But the ratings firm warned that even an IMF pact would likely be just a "temporary fix."

The decision by Moody's Investors follows a similar move earlier this month by another major international credit rating agency, Standard & Poor's Ratings Services. The Wall Street firm had downgraded Jamaica one notch to "CCC," keeping the negative outlook on the island credit following the resignation of the central bank governor.

Rating a Bond: A Key to the Code

Moody's	S&P	Meaning
Aaa	AAA	Best Quality /Highest Grade/ Smallest risk.
Aa	AA	High quality, slightly higher long-term risk.
A	A	High-medium quality, vulnerable economically.
Baa	BBB	Medium Quality, unreliable long term.
Ba	BB	Moderate security, not well safeguarded.
B	B	Able to pay now, but at risk of future default.
Caa	CCC	Poor Quality, clear danger of default.

Investment Grade Bonds

Junk Bonds

Jamaica's severe fiscal situation, as well as the vulnerabilities in the government's debt profile, may give it incentives to renegotiate with its creditors, particularly its resident creditors that hold the larger bulk of Jamaican debt," it said in a statement.

Country cannot afford another downgrade The Barbados Advocate

11/24/2009

BARBADOS' ability to borrow money will suffer significant damage if the island gets another credit downgrade from rating agency Standard & Poor's.

That's the view of Barbadian economist Professor Avinash Persau. The founder and chairman of financial advisory firm Intelligence Capital was speaking on the heels of S&P's most recent rating change and suggestions it could be reduced even further. Persaud said any further downgrade "sends a signal around the world that we are in a developing problem". "The second key reason why it is a disturbing development is that we would be downgraded beyond investment grade quality credit to what is internationally known as junk credit rating," he said.

"And when you move to junk there are large swathe of investors, mainly institutional investors who are not allowed to invest in you because you are not considered to have sufficient credit quality and that will raise the cost of borrowing significantly for Barbados and it will impact all borrowing across the island be it domestic or international.

Earlier this month S&P revised its outlook on Barbados for the second time this year, to negative from stable, and at the same time affirmed the 'BBB' long-term foreign and 'BBB+' long-term local sovereign credit ratings. The short-term ratings remain at 'A-3' for foreign currency and 'A-2' for local currency, while the transfer and convertibility assessment for Barbados is 'BBB+'.

S&P Credit Analyst, Olga Kalinina said the outlook revision on Barbados to negative "is due to our view that the timeliness and magnitude of the government's fiscal consolidation necessary to preserve Barbados' credit fundamentals at the current 'BBB' level, is uncertain because of a worse-than-anticipated economic recession in the country"………

Persaud said while Barbados' current economic challenges were influenced by international circumstances "that doesn't remove any responsibility on us trying to mitigate the impact of that… The situation is very difficult indeed, but our economic destiny is still in our hands and we have responsibility for how it looks today and how it develops in the future. So yes the news is not good, but it's our responsibility and ours alone to change it," he noted……

THE THINGS THAT KEPT US TALKING

Let's Keep The Conversation Going in 2010

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