

Marion Williams: The development of money and capital markets in Barbados

Welcome remarks by Dr Marion Williams, Governor of the Central Bank of Barbados, at the 5th Biennial Capital Markets Conference, Bridgetown, 25 October 2007.

* * *

Mr. Chairman, Distinguished speakers, Members of the Board of The Central Bank of Barbados, Deputy Governors, Members of Management and Staff of the Bank, Managers of Financial Institutions, Specially Invited Guests, Distinguished Ladies and Gentlemen:

Welcome to the Central Bank and to the latest in the series of the Bank's Capital Markets Seminars. The Bank is heartened by the attendance here this morning and takes that as an indication of the high degree of interest which is now attached to capital market developments. We recognize that recent happenings on the local market have played their part. However, we would like to think that the Bank's public education programme has contributed to that growing interest.

The Central Bank has been in the forefront of the efforts to develop and deepen the local capital market. Indeed, the development of money and capital markets in Barbados is an explicit objective as set out in the Act which established the Bank. Secondly, the Bank's responsibility to manage this country's international resources and to facilitate its economic development behoves it to work towards the extension of the capital market. This is why the Central Bank played an active part in the establishment of the Barbados Stock Exchange during the 1980s has constantly supported capital market development and is now partnering with the commercial banks in introducing a secondary mortgage market in Barbados.

Over the years governments in Barbados have provided fiscal concessions for the purchase of mutual funds, registered retirement savings plans and stock purchases. Commercial banks and other financial entities like insurance companies and credit unions have devised additional products and even the technology which drives financial transactions has been substantially enhanced, so creating an environment for the more rapid growth of capital markets. Other developments include the imminent liberalization of capital transactions by Barbados with Caricom countries and the intended move to greater reliance on open market operations.

One of the major challenges is to provide opportunities for investors. This essentially means bringing on stream a number of attractive products tailored for every known level. The Bank's seminar a few years ago on reverse mortgages was an attempt to introduce this concept to a wider cross section of interested parties. We are now actively looking to see how we can develop a secondary mortgage market. The legislation is in process for its establishment. I am hopeful that financial institutions will put their backs to the plough in this regard and devise attractive instruments.

For any secondary market to operate efficiently, whether in bonds or other securities requires market makers. This has been a long time in coming but I believe that we are close to making this a reality in Barbados.

There also has to be confidence in financial institutions and financial policies. Poorly run companies with weak balances sheets and cash flow profile will not attract investors. Moreover, they will cause confidence in well-managed firms to fall. Where poor decisions lead to financial losses and collapses in one subsector, because of the high level of financial integration, the consequences can be widespread.

The local, regional environments today are significantly different from what existed when we held our last capital markets conference. On the domestic scene the trend towards consolidation in the financial sector has continued. The local stock market index which rose

by 26.4% in 2004 fell by 6.8% in 2006. The performance of the mutual fund component of the market which had been registering annual growth up to 2004 seems to be levelling off and performed below par in 2006. At the regional level many of the strongest well-established and most reputable regional companies have remained robust but some have experienced declines in their share prices during the last two years or so. However, the markets have not shown significant instability and are still relatively vibrant.

The international economy however, has been beset by a serious liquidity crisis, instability in stock prices and a weakening in the US economy. It is against this backdrop that we thought it was timely to discuss some of the major issues, which are confronting the financial services industry abroad, and their impact on developments in the Caribbean. The world is becoming more global and it is increasingly difficult to completely insulate ourselves from international developments.

Indeed this seminar comes at an opportune time both from an international perspective and from a national perspective. In the international markets the impact of the subprime problem has led to Central Bank intervention on an unprecedented scale. The securitization of mortgages and credit generally has served to merge the credit and securities markets and the capital markets to an extent where collateralized obligations are losing value sharply because of difficulties in the credit markets and the burden of stability has fallen on central banks. These movements have had their impact on both the equity and bond markets, so that Central Bank intervention in US Europe and the UK have been related to maintaining stability in the capital markets as much as in the credit markets in a way which was not previously anticipated. The weakness in the US economy which is manifest in the declining value of the US dollar and the uncertainty regarding the price of crude oil are also developments which coincide with the credit market problems. These relationships deserve exploration and for that reason we have put together a distinguished team of speakers to examine them for us. I would particularly like to welcome Geoffrey Belle who has spoken at each of our five capital market seminars to date. A warm and special welcome to Geoffrey. A special welcome too to all of our overseas speakers.

In the light of the current global concerns, this is why we are starting off with two overview sessions, which deal with the international environment and weakness in the financial and economic system which can contribute to crises.

During times of uncertainty the importance of sound financial regulation is brought sharply into focus. In financial circles the prevailing wisdom is that during crises there is a flight to quality. Quality here can be defined both in terms of institutions and instruments and this is when regulatory oversight really counts. Accordingly there is a session this morning which is entitled "Financial Market Integrity and Compliance".

In this environment the portfolios of regional investors in these markets has become a matter deserving close attention. Since regional investors desire diversification, this has prompted them to seek to invest in foreign markets. However the fluctuating and recently falling value of these portfolios have implications for maintenance of value and for returns. The other question is can these developments affect returns on regional equity or fixed income securities issued and traded in these markets. The First Panel discussion will therefore examine the impact of volatility in capital and credit markets in developed countries on our investment portfolio decisions in the Caribbean. In addressing this topic we are seeking to determine the transmission mechanisms between the two regions and how vulnerable regional markets are to financial contagion from abroad. It would also be interesting to hear their views not only on asset portfolio diversification but on currency diversification – a trend we have observed – certainly among some central banks world-wide.

The two sessions immediately after lunch speak to issues and policies which are currently occupying the attention of local policymakers. As some of you are aware, the Government of Barbados is committed to the removal of capital controls on transactions with members of the Caricom Single Market and Economy from December 31, 2007. We are hopeful that this

process will facilitate capital market development and the first paper after the lunch break will address some of the issues relating to financial liberalization and the implications for capital market development. We are mindful here that the South East Asian capital markets were highly liberalized – in fact that is why money was able to move out so quickly in 1997. Yet everything points to the fact that financial liberalization assists in capital market development, particularly if they have global objectives.

The second presentation after lunch deals with open market operations, drawing on the experiences of another regional central bank and should provide some useful lessons for us. We have observed the provision of liquidity by central banks in the major capitals recently as the credit crunch unfolded there. In the Caribbean, the pressure is often in the other direction – to mop up liquidity. The cost can be tremendous. That discussion should be quite instructive.

The panelists in the final session will focus on issues and challenges emanating from the Regional Capital Markets. This should be an exciting session bringing together as it does a regulator, banker and an academic. Somewhere in the course of our discourse we may hear some views on the attempted amalgamation here in Barbados and the attempts to bid up the shares to levels way beyond expectations and as it turns out, beyond what the market can bear. It is instructive to determine whether the small size of our markets and the imperfections in the market lead to these types of developments which make our markets susceptible.

Ladies and Gentlemen, you have to believe me when I tell you that this session was conceptualized before the current happenings which are now affecting three well-known conglomerates in Barbados and Trinidad and Tobago and before the subprime problem erupted in the US, but not before Barbados had committed to financial liberalization with respect to CARICOM with a hope of accelerating the development of our capital markets, so the timing has turned out to be a bonus in terms of interest in capital markets. We look forward to the presentations and we particularly thank those who have gone to much effort to be here. I thank you.