

***Banking in the Caribbean in the 21st Century
How do we assure a bright future for our region?***

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BANKS**

As President of the Central Bank of Suriname, I would also like to extend a warm welcome to you all and congratulate you with the excellent work being done so far in the region.

Growth & profitability in the banking sector – incorporating Risk, Leadership, Ethics and Governance is a theme so lively today and I am sure that it will cut across your deliberations today and tomorrow.

As was mentioned by our vice-President yesterday in his welcome words: We live in turbulent times and the financial industry is at the center of the storm: I would like to give you the Central Bank's perspectives.

Suriname:

Suriname has had its hick-ups over the almost 36 years of Independence. We have had our times of ups-and downs of the prices of our major export products, economic downturns were usually followed by periods of rampant inflation, high debt levels, and much loosened fiscal and monetary policies. But, we can safely say that now, Suriname is taking off. After a short period of macroeconomic instability earlier this year, we decisively are back on track. A needed exchange rate adjustment and other necessary fiscal and monetary measures brought macroeconomic stability. Our future should also be promising: we have an expanding mining sector, we are looking at supportive economic policies to

diversify the economic structure, we are taking a cautious macroeconomic policy stance, and we have made a decisive push for the modernization of the public sector. The mind-set is now: taking advantage of buoyant commodity prices for a decisive change in our economy to guarantee a brighter future. We should never go back to the boom and bust times. And what counts for Suriname should be counting for many of our Caribbean partners.

There is one big BUT: We, as small and open economies we do not have all of our faith in our hands.

Where does the Caribbean in general stands today

The IMF's recent economic outlook is not very positive: Sluggish growth as the Caribbean islands depending on tourism (all islands) and remittances (Jamaica, Haiti) are very dependent of the US labor and housing markets and developments in Europe. Public debt in most countries have increased sharply reflecting a prolonged economic recession. The financial sector we also have been hit hard: BAICO and CLICO still need to be unraveled. The Stanford affaire (our own Caribbean Berny Maddoff).

Where do we stand today

Starting in 2008 a wave swept through the world never seen since the great depression of 1929-1933. Institutions which were icons in the financial world such as Lehman Brothers (one of the better behaviors in 1929) and Bear Stearns just disappeared. Many other banks also disappeared or were absorbed by others.

We all should be tired hearing the same stories again and again: Just Bloomberg early this morning: "Unless the Eurozone debt crisis is resolved in a timely and orderly manner, the broad credit outlook for the US banking industry could worsen". "Asian stocks fall to a month low". Then it will be that "the Euro went down and tomorrow again it might be that "the euro is going up" just because some rescue plan, which although short lifted, creates some confidence."

There are many questions which probably only can be answered after many years:

How is it possible that the US where more than sixty percent of the Nobel laureates in economics reside did not foresee what was happening; Western Europe and the USA hold all, except for four, Nobel prize winners. They have prestigious schools of economics where many of our outstanding leaders have graduated from. The subprime mortgage crisis seems so basic to us now but eight years ago we were all cheering at the low interest rates and the possibility of building houses. Nobody saw the crash coming except probably for Roubini. How come that Greece was able to live above their means in a Europe famous for their prudent fiscal and monetary policy. How is it possible that they could hold large budget deficits (the nightmare of every central banker). How is it possible that with such an organization as ECB and their statistics arm, EUROSTAT, Greece could walk away with not reporting the correct debt figures. But that does not go alone for Greece. There have been major problems in Ireland, Spain, Portugal and Italy. The question is: Nobody saw that coming? The same way nobody saw the crash of 1929 coming? Or the 2008 financial crisis, or Mexico 1994, Asia 1997, or Russia and Brazil 1998?

No, there have been critics. Nouriel Roubini, a political economist, a global nomad as he calls himself, is the most outspoken one. Known as Dr. Doom he was predicting the crash of the housing market in the USA since the mid-2000s. I read his warnings, attended his lectures in the IMF, and tended to believe in him. He was right. Paul Krugman, Nobel prize winner, a strong **non-believer** in the Euro, is another one. His book "The Return of Depression Economics and the Crisis of 2008" actually shows us that the signs of going back to the 1930s were coming up in the 1990s. Of course at the other side there was Robert Lucas who factually declared that the macroeconomics as we understand it under Keynes was over; or even Bernanke who mentioned that modern macroeconomics have solved the problems of the business cycle.

Whatever leaders say have a long and standing impact:

John Maynard Keynes wrote in *The General Theory of Employment, Interest and Money* (1935),

“.. . The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.....”

We should go back to the basics

Banks have played an enormous role in economic development. Also I should say in obstructing or even destroying it. There lies the vital role of the Financial System. Projects live and die by the Banks decision to finance these or not.

Banking can go back as far as the Roman times. Financial Development and Economic growth are going hand in hand. Also, In a speech for the University a couple of weeks ago I mentioned Galbraith's "The Great Crash of 1929" I read it vividly in 1988 remembering what happened in 1987. The great Crash of 1929 is a best seller must read for all of us who like to take very cautious stances towards developments in modern markets.

“ *Italian Financial Crisis: A.D. 33* ”

Will (and Ariel) Durant's Caesar and Christ: A History of Roman Civilization and Christianity from the beginnings to A.D. 325.

The famous “panic” of A.D. 33 illustrates the development and complex interdependence of banks and commerce in the Empire. Augustus had coined and spent money lavishly, on the theory that its increased circulation, low interest rates, and rising prices would stimulate business. They did; but as the process could not go on forever, a reaction set in as early as 10 B.C., when this flush minting ceased. Tiberius rebounded to the opposite theory that the most economical economy is the best. He severely limited the governmental expenditures, sharply restricted new issues of currency, and hoarded 2,700,000,000 sesterces in the Treasury.

The resulting dearth of circulating medium was made worse by the drain of money eastward in exchange for luxuries. Prices fell, interest rates rose, creditors foreclosed on debtors, debtors sued usurers, and money-lending almost ceased. The Senate tried to check the export of capital by requiring a high percentage of every senator's fortune to be invested in Italian land; senators thereupon called in loans and foreclosed mortgages to raise cash, and the crisis rose. When the senator Publius Spinther notified the bank of Balbus and Ollius that he must withdraw 30,000,000 sesterces to comply with the new law, the firm announced its bankruptcy.

At the same time the failure of an Alexandrian firm, Seuthes and Son due to their loss of three ships laden with costly spices and the collapse of the great dyeing concern of Malchus at Tyre, led to rumors that the Roman banking house of Maximus and Vibo would be broken by their extensive loans to these firms. When its depositors began a "run" on this bank it shut its doors, and later on that day a larger bank, of the Brothers Pettius, also suspended payment. Almost simultaneously came news that great banking establishments had failed in Lyons, Carthage, Corinth, and Byzantium. One after another the banks of Rome closed. Money could be borrowed only at rates far above the legal limit. Tiberius finally met the crisis by suspending the land-investment act and distributing 100,000,000 sesterces to the banks, to be lent without interest for three years on the security of realty. Private lenders were thereby constrained to lower their interest rates, money came out of hiding, and confidence slowly re-turned."

No, it is not 2011. These are not modern time. We are looking back at 33. How much similar could it be?

I heard the Romans debated fiercely at that time the possibility of placing the free banking system under control of the Government. As Romans were bright I am sure that they meant under the control of the working arm of the Government in that case under control of an autonomous Central Bank.

I read another book which I had browsed a very long time but given the world we are living in, got my interest again. I would also recommend. Actually I read it over the weekend. It delayed the writing of my speech and deprived me from sleep but

it was worth reading: It is called “Lombard Street, a description of the money market”, written in 1873 by Bagehot. Lombard street was the “Wall Street” of the 19th century. A couple of issues of interest in Bagehot’s work are: 1. Analyzing the Peel act of 1844 which gave the Bank of England, the monopoly as the sole issuer of bank notes; 2. The role of the banking system in economic growth (banks can actually stimulate innovation and future growth by identifying and funding productive investments, and the lender of the last resort; He writes about the the failure of Overend, Gurney and Co. as the Bank of England refused to be the lender of last resort. It should be known that OGand Co had gone into very risky investment lending and that the right step for the Bank of England was not bailing them out. He also emphasized on the importance of Bank of England s to have an independent Governor and deputy Governor.

These two examples from the past show us how important the banking sector is.

The Banking sector never stopped in economic theory being very important for economic growth. Historians and economists agree that the processes of economic development and growth are closely linked with the expansion of financial intermediation. Without banks and banking innovation, we would not have seen the industrial revolution of the 19th century or the Silicon Valley revolution of the 21st century. I would like to mention some interesting works: Schumpeter in the “ Theory of Economic Development”, (English version 1934), Keynes, in a Treatise on Money (1935) an Jane Robinson “ the rate of interest and other essays” (1952).

In many countries, government regulation of the economy, especially of financial markets, increased substantially during the Great Depression. The United States, for example, established the Securities and Exchange Commission in 1934 to regulate new stock issues and stock market trading practices. The Banking Act of 1933 (also known as the Glass-Steagall Act) established deposit insurance in the United States and prohibited banks from underwriting or dealing in securities. Deposit insurance, which did not become common worldwide until after World

War II, effectively eliminated banking panics as an exacerbating factor in recessions in the United States after 1933. The Depression also played a crucial role in the development of macroeconomic policies intended to temper economic downturns and upturns.

However, the turning point was the seventies. Keynes was declared dead. The era of Financial Deregulation was set in. It became “ Good-bye financial repression, hello financial crash “ as written by Carlos Diaz Alejandro when in 1985 describes the Chilean financial crisis of the early 1980s (Journal of Development Economics) recounts the consequences of financial liberalization.

Leaning from our own

You have been established, correct me if I am wrong, around 1973-1974. Some refer to it as the decade of economic disaster (well they had not dreamed of the 2000s yet). Very challenging years where the Caribbean was plagued by natural disasters and the oil crisis of 1974. The sixties brought in the New World Group young bright Political Economists led by Lloyd Best and including well thought scholars as Allister McIntyre, Clive Thomas, Owen Jefferson and George Beckford.

We might not agree on all issues with each other. Rejecting the past would not bring economic development neither would be closing the economy from interaction with the metropolis as we long sorted out. However, strong contribution of these political economists can be found in **“we must tailor our economic models to fit our own history, culture, circumstances, and aspirations”**.

It should be clear to us in the Caribbean that our way of prudent banking should be based on solid foundations: 1. The institutional development; 2. A good functioning system of regulation and supervision; 3. Well trained human resources; 4. An adequate flow of information; 5. A good functioning legal system.

In the Caribbean our talks should always remain that Banks should contribute to major National Development: Banks should actively push the frontiers of

traditional banking (certainly in countries like Suriname and Guyana with extended territories) by devising ways to reach the “unbanked” population, also in rural areas. In the Caribbean it should be clear to us that (1) financial deepening has been the result of economic development, but we need to make sure that economic development is also pushed ahead by an actively expanding and innovative banking system.; (2) we should understand that Banking is not a zero-sum game; (3) Banking should not target market shares in existing market segments, but expand markets to increase the volume of deposits and lending, and introduce new services to increase fee income; (4) we also should seek new markets: more than passive retail lending (acting only on request by borrowers), banks should actively seek areas of potential economic growth to establish pioneering market dominance in growth sectors; banks should increase financial deepening: Banks should suggest new financial instruments that could facilitate and expand intermediation.

Banks should just like a Central bank be technical. Management should be free of party and friend politics when making decision to whom and when to provide credit. Stay, just as a Central Bank out of politics. It will damage the credibility of the sector. One important discussion as of today is also on increasing the quality of our management. Improving management in all institutions would increase the quality of our economy.

What is the job of u central bankers? e Central Banks should protect our countries from the calamities which are keeping certain parts of the world hostage today. One important side of this job is being the regulator of financial behavior. We Central Bankers should play a leading in making sure that an adequate flow of credit is reaching the productive sectors and definitely at the expense of consumption! Central Banks should the most important institutions providing society with a wealth of information: Therefore, we need timely and accurate information from the Banks. Work together in capacity building. Strengthening the human resources. IN this case I am glad to announce that the Central Bank of Suriname has a very active program on capacity building set up for 2012 and they would like to partner with our Banks in it.

What will we as a Central Bank do to support and secure the banking system expansion in Suriname

- Legislative improvements:
 - After long deliberations, we are very close to pass a new law regulating the credit system. This law is replacing [describe main new features in law and their impact on banking].
 - We are preparing a series of additional financial sector legislation:
 - (the law on supervision of insurance companies; the foreign exchange law, the law on money transfer operators, the law on financial markets).

- Financial market innovation:
 - Reform of the Treasury bill regulations and modalities to expand their use as investment and savings vehicles.
 - Preparing the ground work for a liquidity management framework that will increase the relevance of money markets.
 - We will support any reasonable proposition to expand financial services and intermediation in Suriname—within our limits of prudence and oversight.

- Macroeconomic stability:
 - Putting in place a Sovereign Wealth Fund that will help stabilize government finances and limit the possibility of inflation, monetary, and exchange rate shocks. Actually we have a draft law as proposal which we soon will submit to the Government.
 - Improved macroeconomic policy planning and execution through a reform of the fiscal planning process (assist the Ministry of Finance on the new budget law) and integration with other policy elements (monetary and exchange rate policy, and balance of payments) through financial programming framework that guide stable macroeconomic policies and will limit the possibilities of a destabilizing fiscal policy.
 - We are supporting Wide-ranging reforms in the fiscal sector to modernize government financial operations and streamline the tax regime.

- Enabling the private sector:
 - Ongoing efforts to simplify doing-business regulations.

- Privatization of state-owned enterprises, including banks.

I know you will be very busy these days and I am looking forward to the discussions you will have.

I would like to end my speech going back to one of the basics. Please let us never forget in our deliberations these days that economies are comprised of people and economics reflect relations between people. Graphs, statistical data or mathematical models are pure tools in understanding these relationships. Demand and supply ultimately reflect human needs and tastes and the efforts to provide these. We have so many bad experiences these years let us move as a region to start creating a better future for those we are still coming.

Thank you