

Excess Liquidity, Bond Market Development And Business Opportunity for Financial Institutions in the Caribbean

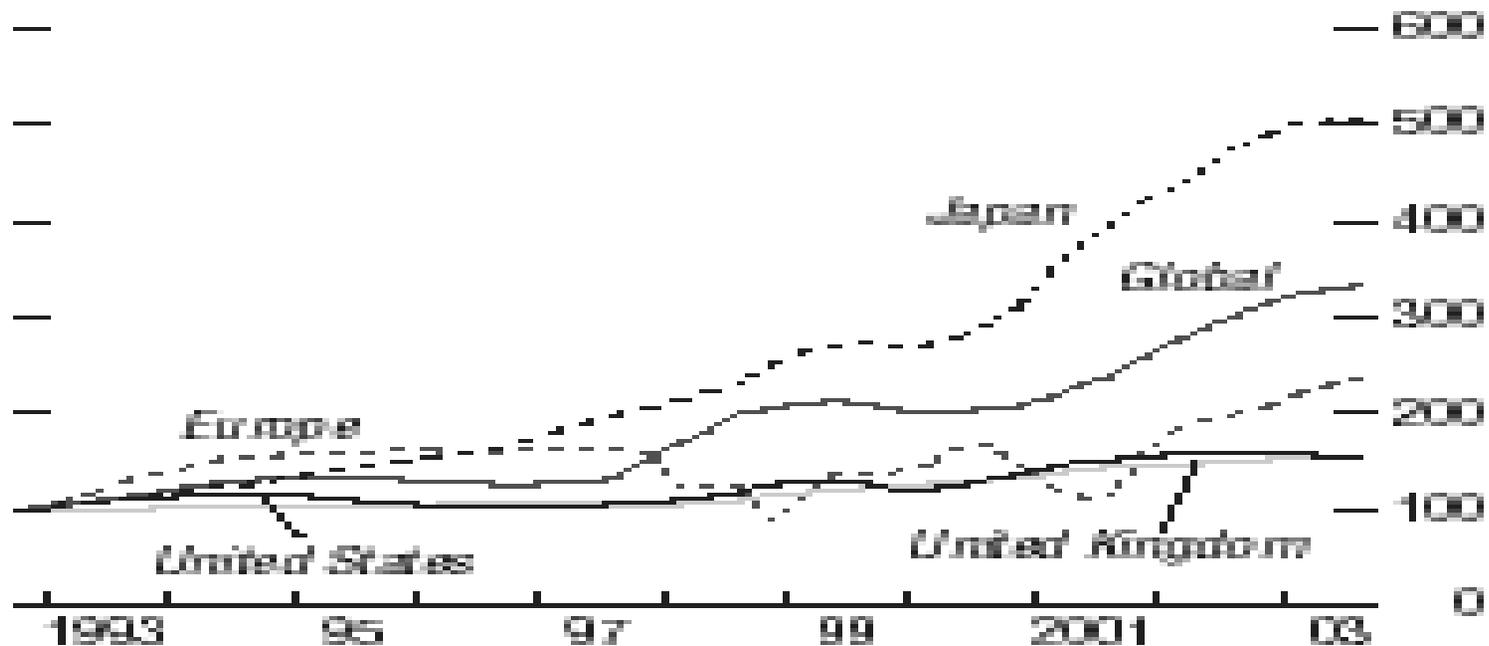
By Ram Ramesh, CFA

Managing Director & CEO



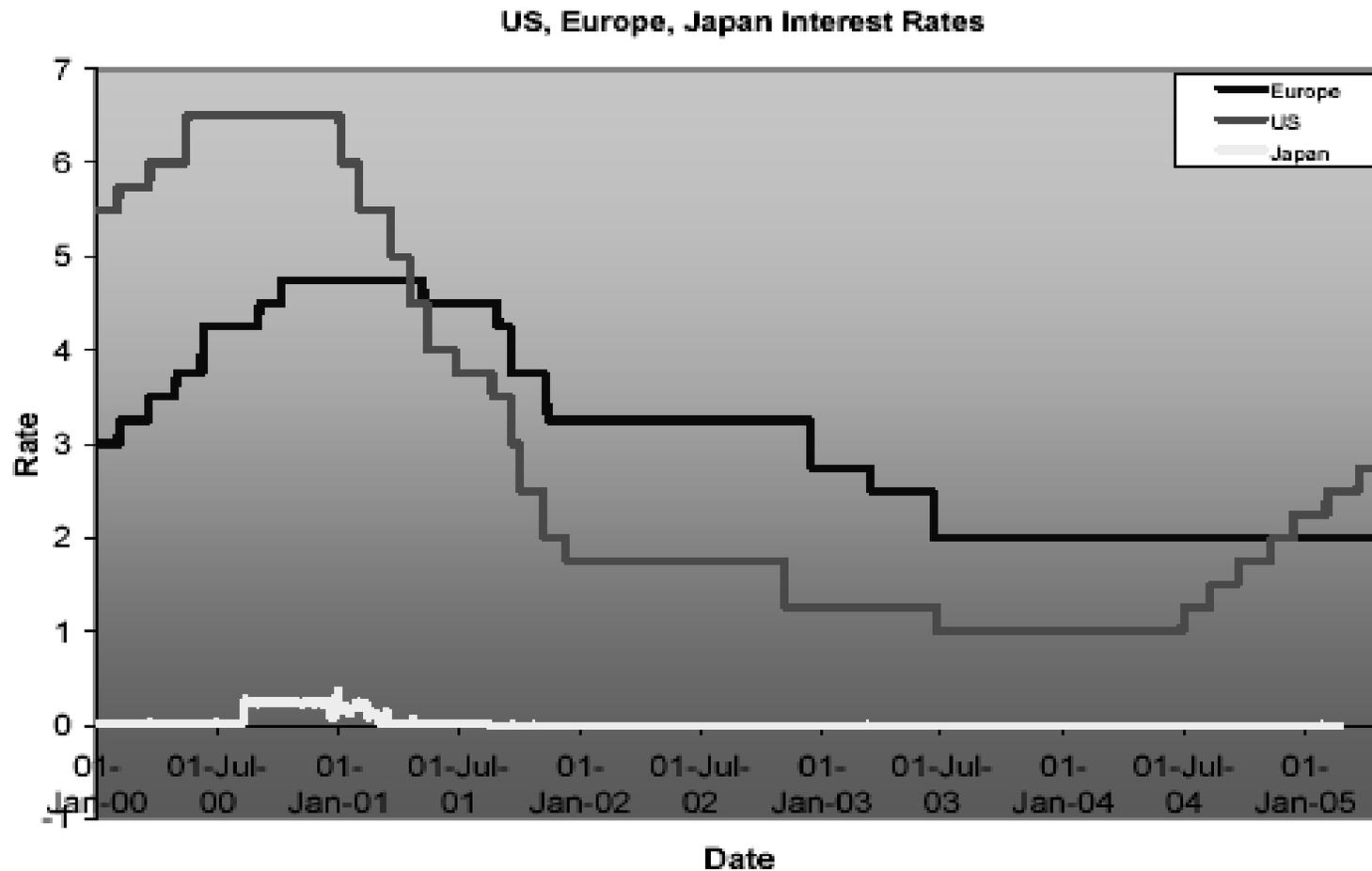
Global Central Bank Liquidity Index

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(1993 = 100)

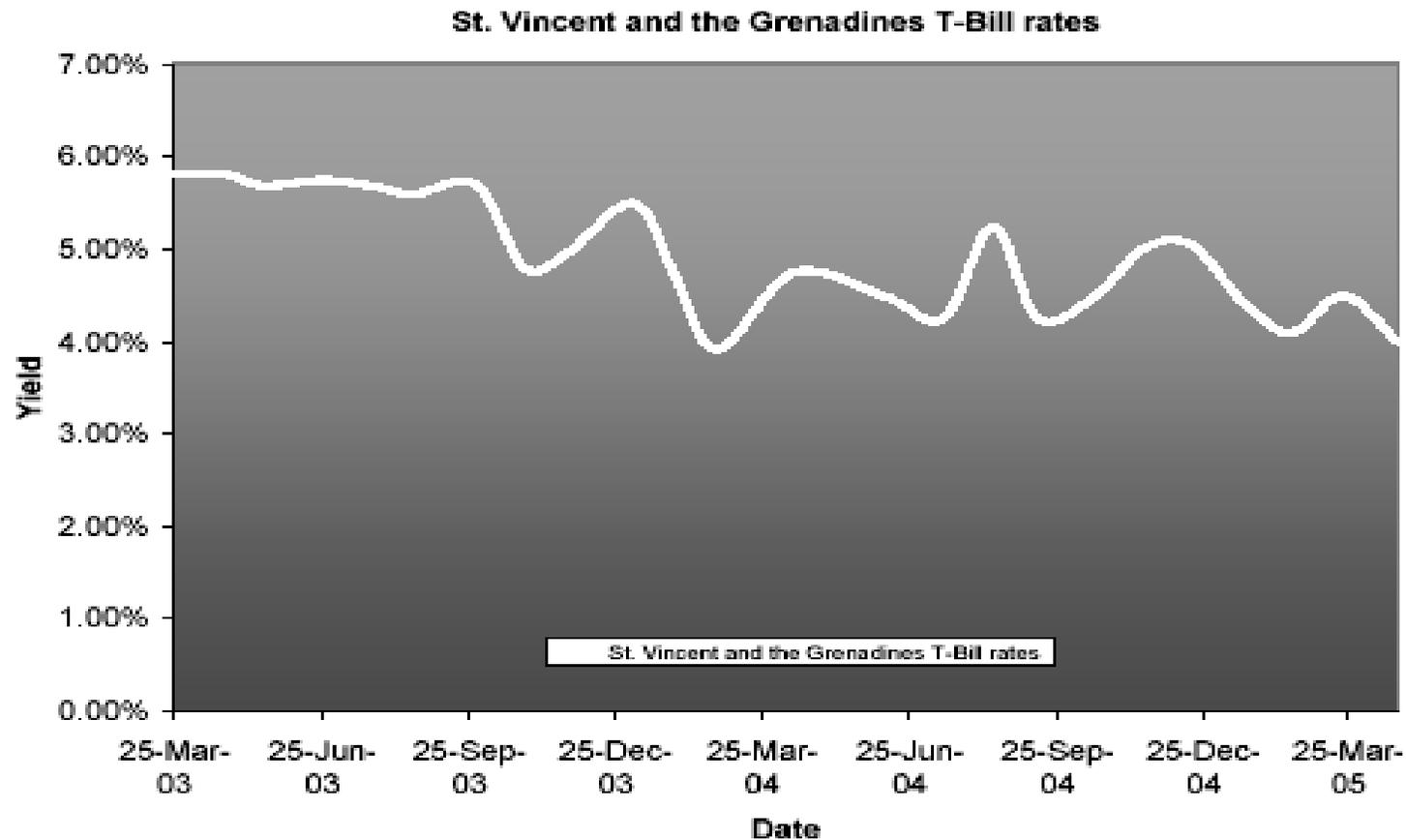


Sources: IMF, International Financial Statistics; EconData Pty. Ltd.; Bloomberg L.P.; and IMF staff estimates.

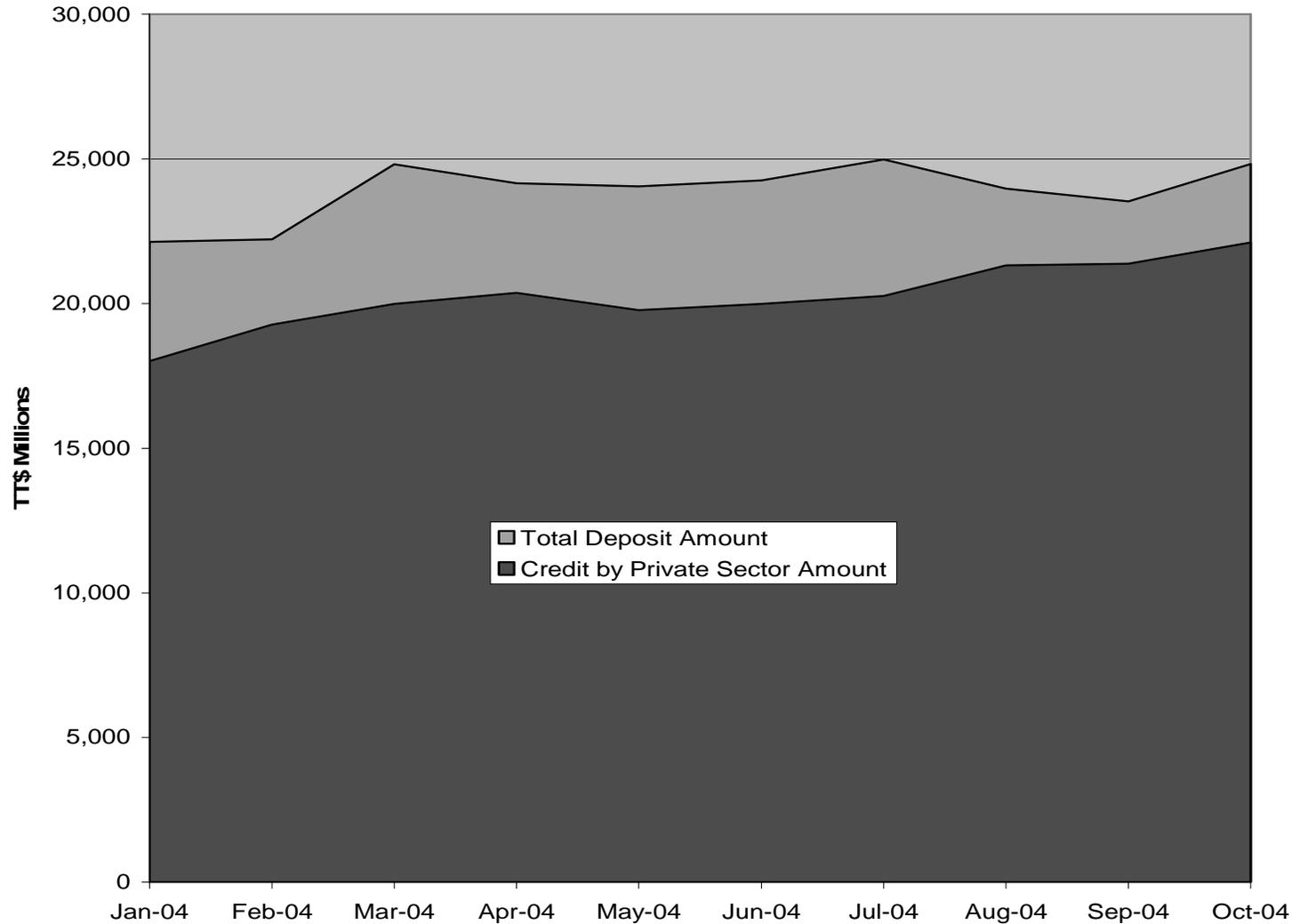
International Financial Markets



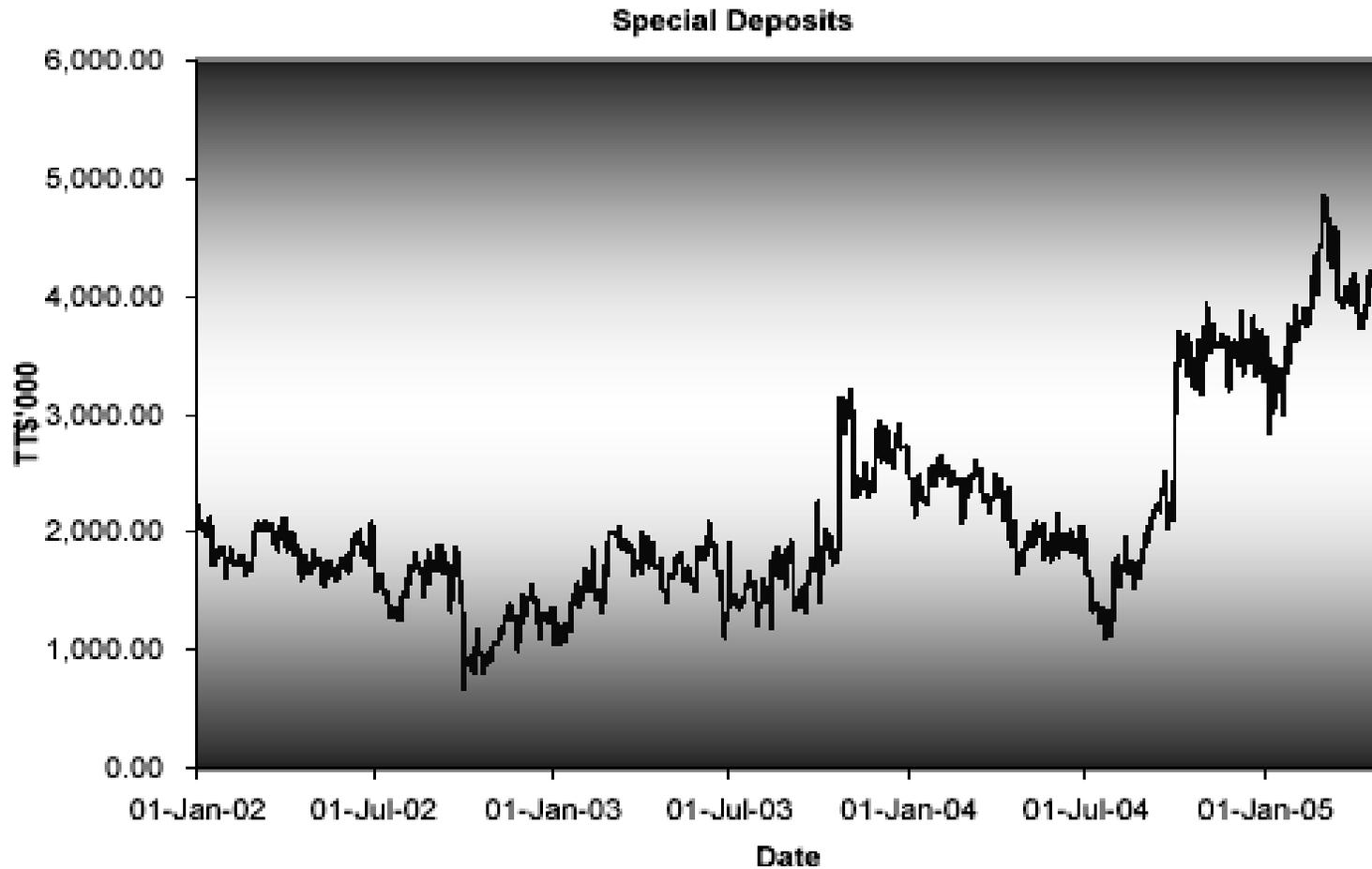
St Vincent and the Grenadines 90 Day T-Bill



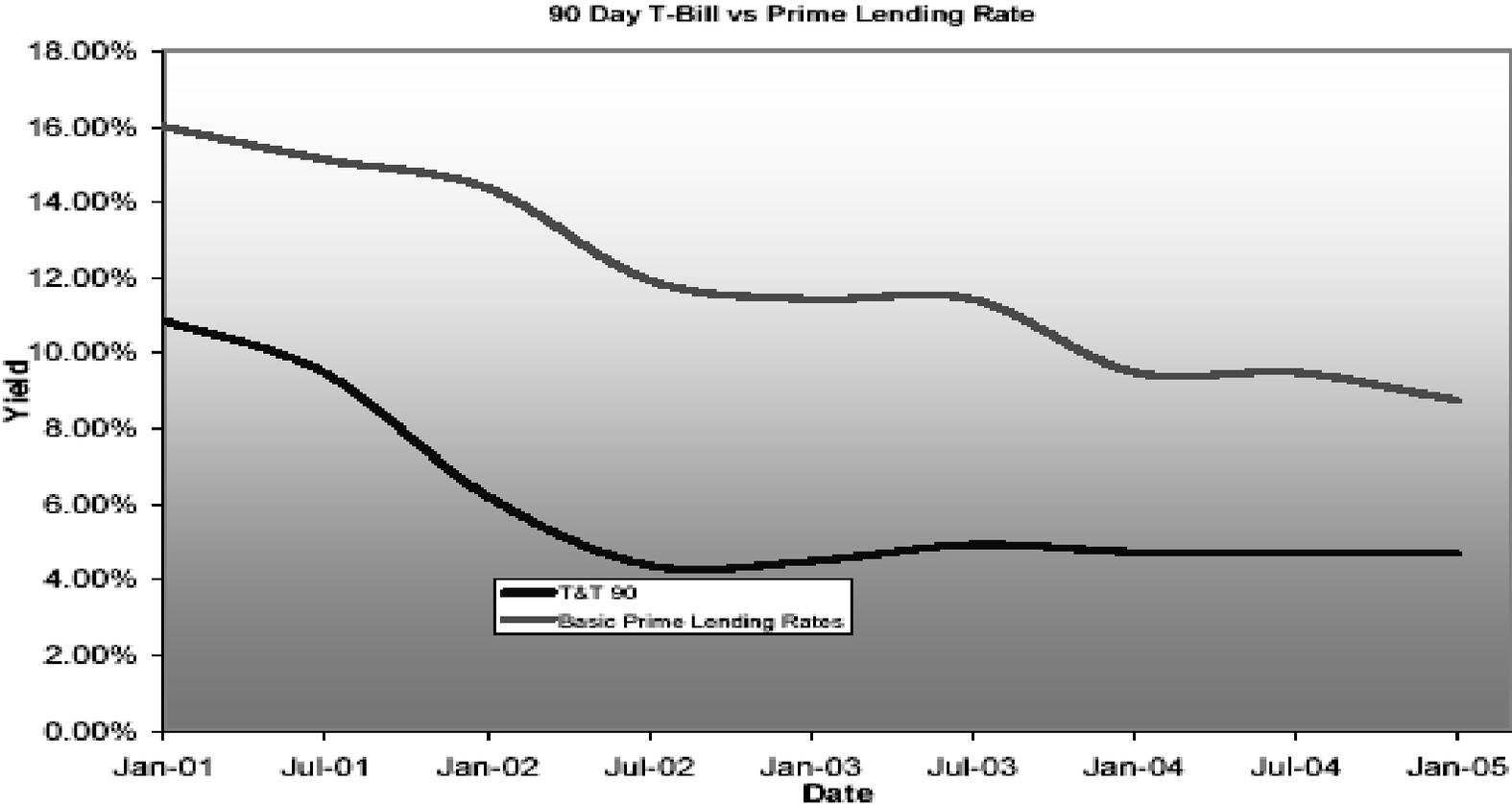
Excess Liquidity in Trinidad



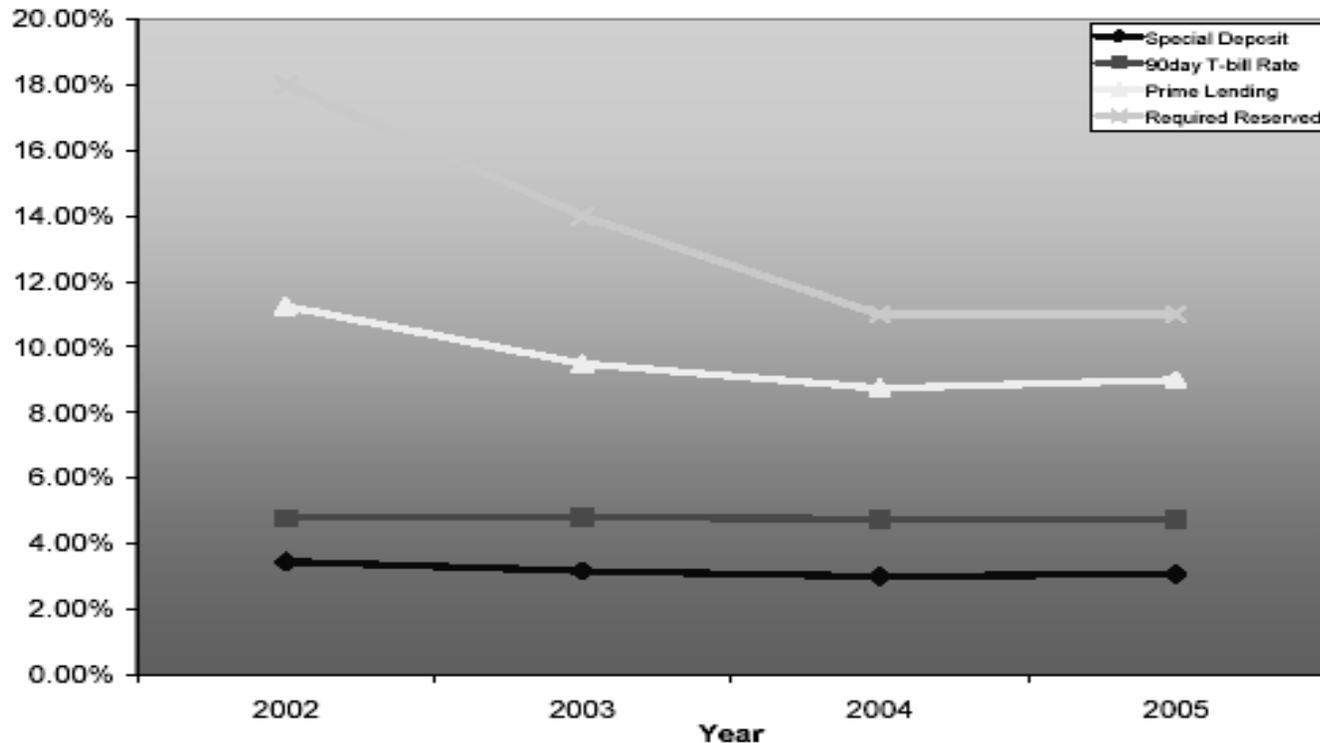
Special Deposits



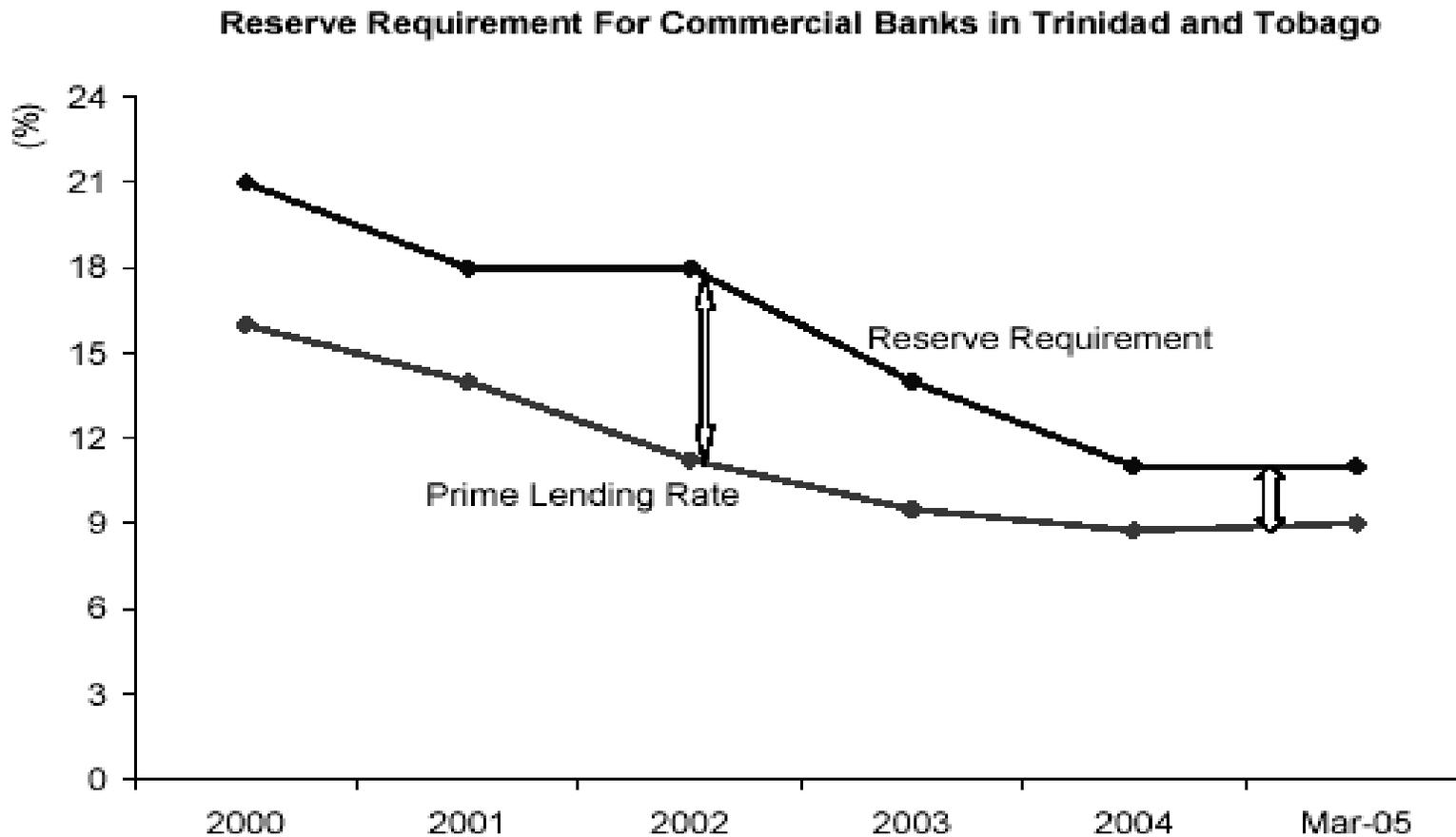
90 Day T-Bill vs. Prime



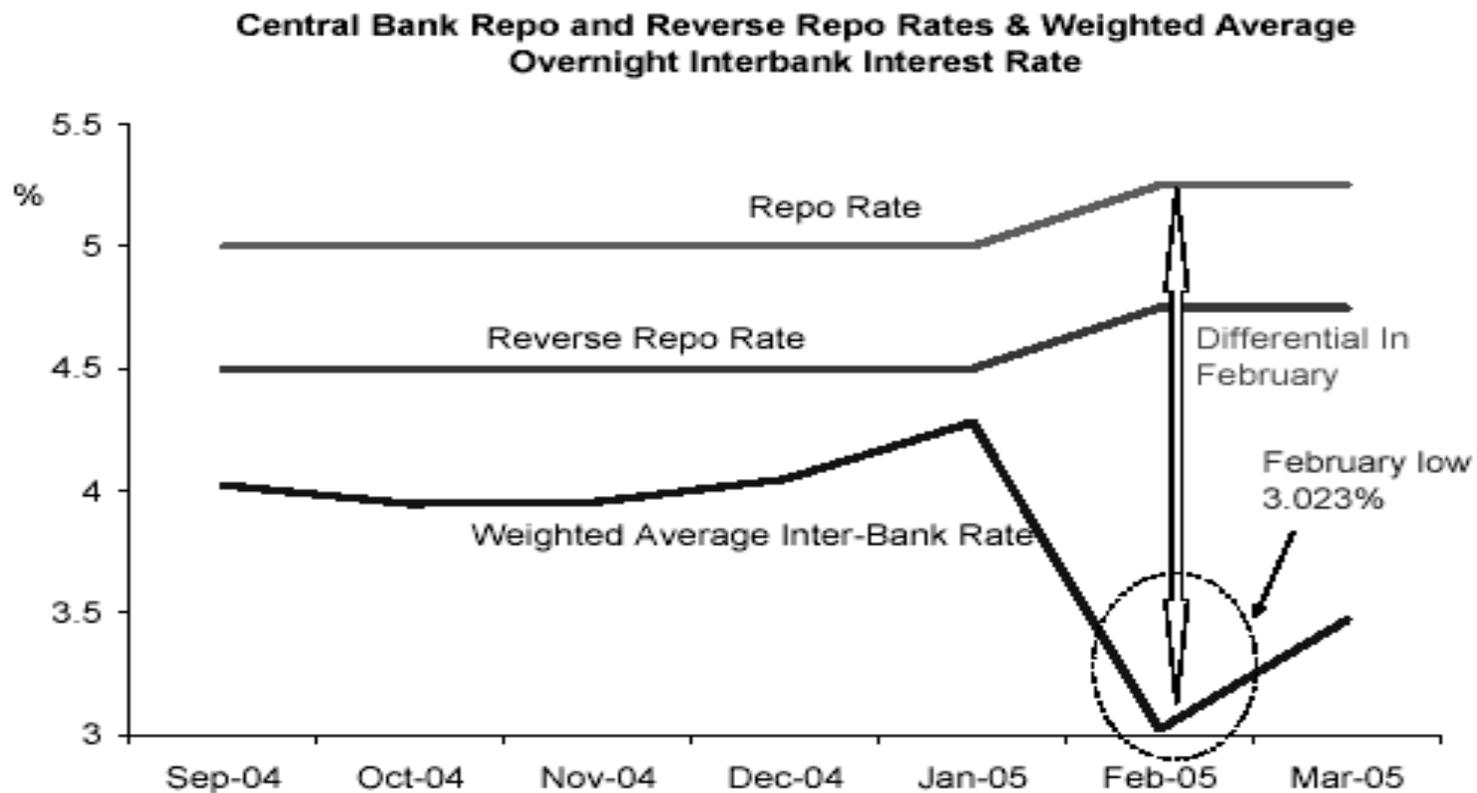
Special Deposit, 90 day T-Bill, Prime Lending, Required Reserved



Reserve Requirement vs. Prime Lending Rate



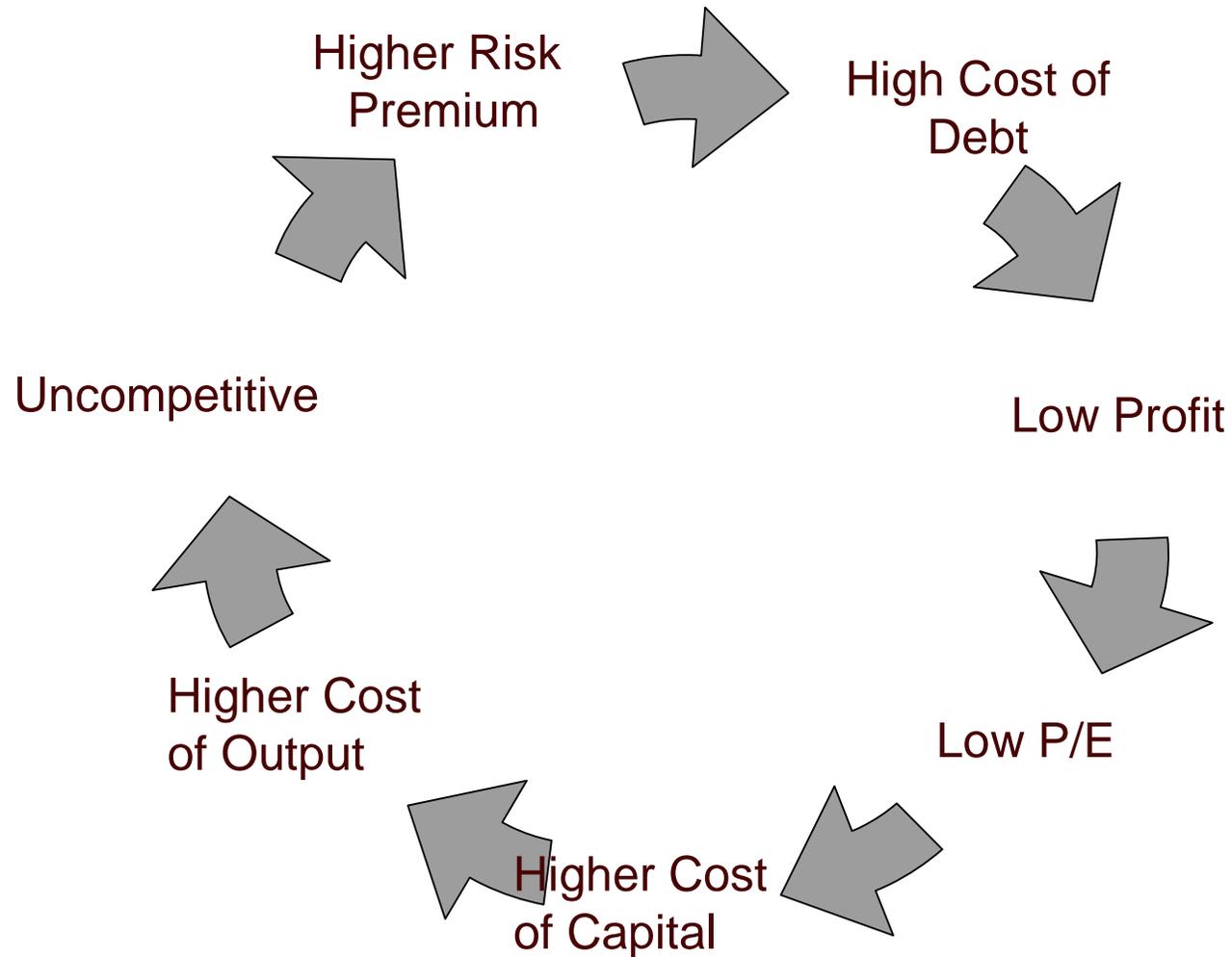
Central Bank Interest Rates



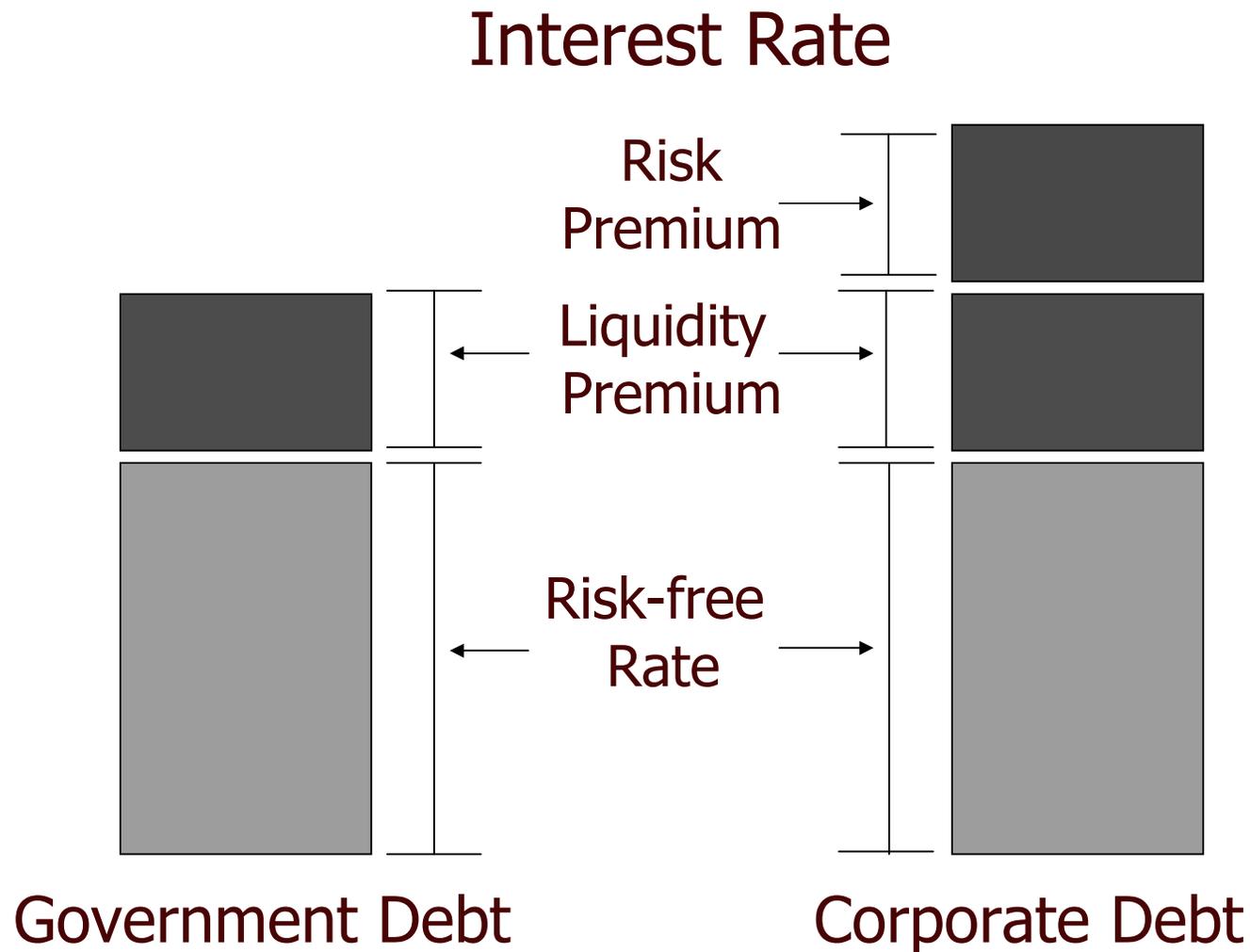
Role of Bond Markets

- Price Discovery
- Price Efficiency
- Market Completeness
- Risk Allocation

Vicious Cycle of Cost of Capital



Higher Cost of Borrowing Due to Lack of Liquidity



Secondary bond market is vital

- Increased liquidity of debt instruments
- Higher level of investor confidence in debt instruments
- Decrease in cost of funds as more investors participate
- Facilitates reduction in reserve requirements for banks
- Savings levels can be enhanced with the prospect of higher returns
- Complementary role to the stock market

The risks of doing nothing

- Poor credit quality countries and companies draining capital without proper understanding of credit exposure by investors (need fulfilled by a rating agency)
- Capital may dry up if a secondary market does not exist
- Poor understanding of credit and market risks if skills are not upgraded urgently

Lesson from the 1997 Asian Crisis

“Countries with the greatest deficiencies in their financial infrastructure experienced the most severe hardship during the crisis.”

*Eric S. Rosengren, Senior VP & John S. Jordan,
Economist, Federal Reserve Bank of Boston on the
Asian crisis.*

Business Opportunities

- Development of bond market
- Market based funding opportunities
- Credit ratings, credit analysis and bond pricing
- Bond depository
- Custodial and Clearing systems
- Derivatives (Interest rate swaps)
- Stock Market

Infrastructure Elements for a Bond Market

- Credit Ratings
- Yield Curve
- Primary Dealers
- Market Makers
- Settlement & Payment Systems
- Custodial & Depository Services
- Securities Market Regulations

CMMB's Role

- Providing information to investors on the securities market
- Sharing knowledge with the market
- Contributing to the development of the securities market

Thank you!

