

## GOVERNOR'S ADDRESS TO CARTAC STEERING COMMITTEE MEETING

November 2008

Governor Craig has already welcomed you to this our second and final meeting of the CARTAC Steering Committee for 2008 but I also wish to add my personal welcome and to place on record our thanks to the Central Bank of Bahamas for hosting this meeting.

I must also use this opportunity to thank the donors who continue to provide funding for CARTAC and the officials of CARTAC for their contribution to the development of the Project. In this, the third phase of the Project, increased emphasis is being placed on professional attachments and the use of more focused short-term expertise that will not necessarily be taken from the pool usually available to CARTAC. These programmes will certainly contribute to the deepening of skills in the region and enhancing the capabilities of our technicians to manage emerging challenges and to ensure the stability of our financial and economic systems.

As I indicated when we last met in May, there can hardly be a better time to make the case for reinforcing and enhancing the institutional capacity of the region's Central Banks, Finance Ministries and other key government agencies. The rise in oil and commodity prices, especially food prices created pressures for the world economy as well as for the region, the consequences of which we are still suffering. The developments not only restricted the prospect for growth in world output, but they also threatened to generally lift inflation noticeably above target. There was also the fear that the sub-prime mortgage crisis and the credit crunch that was affecting

America and Europe could bring new challenges to the region. Indeed, we acknowledged that the management of the challenges would require the full spectrum of the technical capabilities of our individual countries. That CARTAC was able to devote at least one session of its programme to exploring the financial sector issues, is commendable and a credit to the critical role that it is playing in enhancing the region's capability to identify, monitor and mitigate potential risks.

Six months later, some of the fears that we expressed in our May meeting have materialized. Increased uncertainty about the exposure of financial institutions to sub-prime mortgage-linked assets has triggered an extraordinary tightening in global liquidity conditions. This has eroded the ability of some firms to meet their obligations and to expand their operations. Stock exchanges and the markets for derivatives have either crashed or suffered significant losses resulting in a dramatic fall in the prices of equities, financial instruments and commodities. Worldwide, monetary authorities and governments have acted to address the loss of confidence and restore the flow of liquidity but as yet there has been limited success. What is clear is that the global financial market crisis will restrain growth in the US economy for the next year or so, and this will have negative consequences for world growth.

In our own region, some financial markets have experienced an increase in the demand for foreign exchange to satisfy margin calls, the withdrawal of international credit lines and some fall-off in foreign exchange earnings. Projected decline in demand, particularly from the USA, is also likely to impact the potential for growth in our economies. Foreign

exchange earnings from tourism are likely to decline in the near term as a consequence of the expected slowdown in world travel. There are indications that commodity prices will fall in tandem with the decline in global demand. Of particular concern to the region is the fall in alumina prices arising from the decline in auto sales worldwide combined with the current high levels of inventories for the metal.

In the context of a world economy teetering on the brink of recession triggered by the real recession in the US economy, there is an even stronger argument in support of improving the efficiency of the region's public sector. In this endeavour, CARTAC remains an important partner through its current training programmes in budgeting, revenue collection, debt management, macro-economic analysis, and project development and analysis. But CARTAC must also ensure that the organization remains fully abreast of new developments and fresh possibilities and must ensure that it maintains the appropriate tools and competences to allow its objectives to be met. As Chairman, you have my assurance that the work of CARTAC will be guided by these objectives.