



CENTRAL BANK OF
TRINIDAD & TOBAGO

**57th Annual General Meeting of
Canning's Employees' Credit Union**

**Recent Economic Developments and
Its Impact on the Citizens of
Trinidad and Tobago**

Keynote Address

By

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Lions Cultural Centre**

Mr. Govind Maharaj, President, Mr. Kenny Jalsa, Vice President, Ms. Elizabeth Raphael, Chief Executive Officer, Directors, employees and members of the Cannings Employees Credit Union; representatives from the Office of the Commissioner for Co-operatives; invited guests, good evening.

Before I begin my formal presentation: I have perused your financial statements and noted improvements in all the key prudential ratios – Congratulations!

It is with great pleasure that I accept the invitation of your executive to deliver the keynote address at this annual general meeting. As you are no doubt aware, this country and many developed and developing countries in the world are experiencing the effects of an unprecedented international financial crisis. Within recent times, collapsing multinational financial conglomerates, government bail-outs, credit crises, panicking investors and deposit runs have been dominating the international news. Today I will be sharing with you some of the recent developments in both the national and global economies and will also take the opportunity to highlight how these developments have already or could in the near future impact citizens of Trinidad and Tobago.

The world economic environment can be best described as extremely volatile and it is characterised by a high level of uncertainty. The global economy facing a significant downturn, world growth is projected to fall to ½% in 2009 compared to 3.4% in 2008. This is the lowest rate since World War II. While this international financial crisis is significant, it is nowhere as severe as the great depression of 1929-33. But what is different this time around is the simultaneous collapse in many countries and the economic impact throughout the world. If this is not testimony to the fact that we are all inextricably linked to the global economy, I don't know what is.

Most of what we are experiencing now in terms of the financial meltdown can be attributed to greed and overleveraging by most companies but surely one can argue that lack of regulation was a critical element. The decision to take a lax stance on regulation proved fatal for the financial sector.

The failure of the rating agencies and their culpability must also be noted. Simply put, rating agencies failed. The recommendation to register and regulate agencies is now universal.

A different perspective of the financial crises however is to note that when the world is divided into advanced countries and developing countries, the impact of the global financial crisis is not the same. Advanced economies which include countries such as the United States of America, the United Kingdom and Japan are in a recession. Advanced economies are projected to contract by 2% in 2009. On the flipside, emerging and developing economies such as Brazil, China and even Trinidad and Tobago are projected to experience positive growth rates in 2009.

Consumer demand has been dramatically curtailed across advanced and emerging economies as falling asset values in both the financial and real estate markets, negatively impacted household wealth. In other words, as people saw their life savings literally disappear overnight, they stopped spending money. Rising unemployment which is being reported in developed economies amid lay-offs by financial, manufacturing and other companies also contributed to a fall in consumer demand.

The slump in global demand has led to a collapse in commodity prices. These price declines have adversely affected commodity exporting economies such as ours. Oil prices have declined by over 60% since July 2008. The IMF's price per barrel projection for

2009 is \$50 then increasing to \$60 in 2010. Metals and food commodity prices also followed similar movements, sharply declining toward the end of 2008 and are projected to slightly increase in 2009. On a positive note, declining commodity prices have served to dampen inflationary pressures, particularly in the advanced economies where headline inflation is expected to fall from 3½% in 2008 to a record low of ¼% in 2009.

Trinidad and Tobago is experiencing the effects of the global economic slowdown largely through the sharp decline in oil prices and the low demand for petrochemicals. The sharp reversal in energy prices has prompted at least two formal reviews of the budget.

The local financial market has also been affected, with commercial bank credit to the private sector declining in the face of weakening demand and the stock market taking a sharp drop of 27% between June and December 2008. Liquidity in the system has however increased significantly and this will surely force interest rates down and create even greater competition for scarce investment options and loans.

It goes without saying that once the economy slows down as it has, the effects will be felt individually as well as collectively.

The financial impact is at its highest when people lose their jobs. It is well known that unemployment is perhaps one of the most direct ways that persons will be impacted by an economic slowdown. Taking it a step further, when household income is reduced, people have to choose between repaying their loans, paying bills and putting food on the table. Unfortunately, increasing numbers of people are finding themselves in this difficult position as several large firms such as Mittal Steel, Digicel and Hilton Hotel have announced layoffs while employment in construction has also declined.

Rising unemployment is often accompanied by an increase in persons defaulting on their loans. As a result, banks become particularly cautious during tough economic times. Credit to the private sector has already fallen sharply towards the end of 2008. The reduction was largely in consumer loans. Banks typically tighten up on their underwriting standards during tough economic times. This means that persons who qualified for financing in the past are not guaranteed to qualify today even under the same circumstances.

The psychological impact of a slowing economy is reflected in the way that people think and how their decision making is affected. In times of uncertainty, consumers tend to defer non-critical major expenditures such as changing their vehicles or leisure travelling. In this economy, it has been widely reported that retail sales for Christmas and Carnival were much lower than in the previous year.

The National Confederation of Cooperatives (NATCCO) Chief Executive Officer, Cresente C. Paez, strongly advised cooperative leaders recently to focus on stability, savings, and quality in their services to combat the effects of the Global Financial Crisis that has caused the collapse of banks in the United States in recent months.

In his speech at the forum titled “Driving Global Recovery Through Cooperatives” on March 9, he also advised the more than 400 cooperative leaders who attended the forum to ensure good governance and transparency towards members. “In fact, the global financial crisis poses an opportunity for cooperatives!” he said, citing the statement of Pete Crear, President and CEO of the World Council of Credit Unions (WOCCU) that “contrary to current

global financial trends, credit union development around the world is prospering in growth and member service.” Paez also quoted Jean-Louis Bancel, President of the International Cooperative Banking Association (ICBA): “Cooperatives have responded to the deepening financial crisis as an opportunity to reassert the cooperative difference...It is of utmost importance in cooperatives to ensure good governance and transparency towards members, which bonds us to our pledge to democracy.”

Bancel also said cooperatives fare better “because their main banking activities take place in the real economy, at a local or regional level. Because they are not listed on the market, cooperative banks don’t have an obligation to maximize short-term profit.”

With this, he urged the cooperative leaders to abide by the cooperative principles like voluntary membership, democratic control, concern for the community, education and training, and member economic participation.

In the United States, despite their economic woes, the credit union movement continues to thrive as more citizens realise that on average, credit unions lend money at lower rates than most banks

in addition to offering generally higher rates for savings accounts. Credit union membership rose to almost 90 million in 2008 compared to 85 million in 2004 while loans increased from \$539 billion in 2007 to \$575 billion in 2008. Whilst the Central Bank does not yet have the data for the entire credit union sector, a review of a small sample of the larger credit unions reflects a similar trend; significant loan growth in 2007 with more attractive deposit and lending rates than the commercial banks. Credit unions in the United States however, have not been immune to the country's financial troubles, as nationwide loan delinquencies for credit unions are now double what they were in 2006. I strongly encourage you to be proactive and to take the necessary steps to ensure that a similar trend of rising loan delinquencies does not occur here.

There is no doubt that the credit union sector in Trinidad and Tobago is standing at the threshold of a significant new era of change. Perhaps I need to say that a bit differently, because while it is true that the regulatory developments now on the horizon will profoundly change the operating environment for credit unions, for some time now the credit union sector itself has been responding and adapting spontaneously to various currents of change in the financial services industry. Since not all credit unions have adapted

at the same pace the sector has evolved into a heterogeneous mix of institutions with very different outlooks and pursuing very different types of business models. This diversity forms an important part of the context in which legislation for the sector is being developed. For example, I am aware of one such credit union that is heavily emphasizing investment activities because of its aging membership that no longer requires loans.

Recently a number of credit unions in Trinidad and Tobago have been celebrating their sixtieth anniversaries, underscoring the fact that credit unions have been a part of the local financial landscape for a very long time. Although the number of credit unions in active operation has fluctuated over time, that number today stands at well over a hundred with a reported membership of approximately 500,000 and assets in the vicinity of TT\$6 billion. The longevity of the credit union sector and the fact that it has more than held its own against the powerful forces of competition in the financial sector, are indications that credit unions remain relevant and important to the lives of large segments of our population.

With the growth and maturity of the sector, however, the operations of credit unions ceased to be rudimentary and credit

union activities began to assume some of the characteristics of the competitive marketplace. While basic intermediation of loans and deposits has generally remained the staple activity within the sector, many credit unions have now become significant investors in the financial markets, bringing them face to face with all the risks and potential pitfalls inherent in this type of activity, and raising the bar on the level of expertise and experience required to successfully manage these risks. Other credit unions have ventured heavily, with varying results, into various forms of non-financial business, effectively creating subsidiaries through which they manage the delivery of non-financial goods and services to their members. For example, some credit unions have ventured into property development through subsidiaries.

At the same time, credit unions today are confronted by a number of other realities and influences that have made it very difficult for them to adhere to the traditional way of doing business. Permit me to give some examples, the first of which relates to the field of membership or common bond.

The common bond is a key element and one of the traditional pillars that defines the cooperative basis on which credit unions operate. It is also said to provide a major source of economic

advantage for credit unions, in the form of lower information costs in the credit screening process, and lower loan delinquency as borrowers have a greater incentive to repay. However, many credit unions in our environment have found themselves driven by competition to find creative ways of loosening the common bond in order to give themselves room for growth and improve on their financial performance. This may be evidenced by credit unions expanding their product lines by offering services such as debit cards and mortgage loans.

Secondly, during our consultations with credit unions on the new legislation, many have pointed to what appears to be a declining spirit of volunteerism within the sector. Volunteerism, predicated on the philosophy of members looking after their own affairs, is one of the cornerstone principles of the credit union sector. Its big advantage is that it attempts to ensure that owners and managers have the same interests, thereby eliminating the so-called ‘principal-agent problem’ or owner-manager conflicts that arise in other kinds of institutions. Many credit unions have told us that, unless they are prepared to offer attractive financial incentives, they have been finding it increasingly difficult to find volunteers willing to accept positions of responsibility within the credit union. In other cases, credit unions have simply grown too large and too

complex to rely on volunteerism as their main source of managerial expertise.

In the final analysis, what these trends seem to indicate is that, even as credit unions continue to maintain many of their unique characteristics, in other ways their traditional identity and cooperative ethos have been slowly but steadily adjusting to accommodate new market pragmatism. The rise in the importance of credit unions within the financial system and the changing reality in terms of their mode of operation make a compelling case for the strengthening and modernization of legislation to regulate the new level and variety of risks being assumed by these institutions.

2009 has and will continue to be a very challenging time for us all in the face of a global recession. However, as a country we are well poised to withstand this period of turbulence and uncertainty to its end, which will come. 2009 will be a difficult year but we have the resources to weather the storm with a manageable national debt burden, the existence of the Heritage & Stabilisation Fund and a high level of external reserves.

In the meantime, I urge you to be prudent and cautious in the management of your personal finances as well as those of the credit union as this is not the time for an increased appetite for risk. In concluding, my advice to your cooperative leaders is to tighten credit evaluation, review your portfolios, and build awareness with members that a crisis is happening and that this will impact their lives. You will also have to increase efficiency and quality.

Ladies and gentlemen, I would like to leave you with one last piece of advice – “save till it hurts”.

It has been an honour for me to address you today. I thank you for this opportunity and wish you a successful meeting.