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| Whistling in the dark: Political spin, slothfulness and lack of coordination |

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| **Objective achieved**It would be reasonable for readers to conclude that, despite withering criticisms directed at it, stress-testing of banks in the United States and the European Union (EU) has achieved its principal objective, which is restoring a large measure of public confidence in their respective banking systems. This has occurred despite approaching disastrous runs on banks, financial meltdown and systemic collapse.  Viewed with the benefit of hindsight, this has been a remarkably successful policy intervention.It should be noted, however, that since then the economic data continue to show a rise in the rate of US bank failures. Due to the particular unit structure of the US banking system, (with thousands of unit banks scattered across the nation) the numbers are clearly staggering. As I reported last week there were 775 banks classified as “troubled” by the Federal Deposit Insurance Corporation (FDIC) at the end of Q2, 2010.  In Guyana and Caricom where we have a branch-banking structure (in which a handful of large banks cover the country with their branches) it is difficult to come to terms with such large numbers of bank failures.In the EU, the economic data indicate a more mixed set of outcomes.  On the one hand, since the stress-testing of banks there has been a rise in inter-bank rates (Euribor); these have reached their highest levels in a year suggesting increased nervousness when banks lend to their competitors.  This reveals suspicions about the adequacy of banks’ capital provisioning and risk-management practices. On the other hand, prices for European banks credit default swaps have been falling, suggesting greater investor assurance of bank stability.In both the US and EU serious concerns, however, remain over sovereign debt liabilities, currency crises, the lingering effects of the housing bubble, slow improvement in labour markets, stock market volatility, and a possible double-dip to the economic recession. Several lessons though can be learnt from the experiences with stress-testing banks; two of these stand out and are very relevant to the situations encountered in the region.**Lessons to be learnt**One of these is that at times of economic uncertainty, more information not less is the most effective policy response for building public confidence.  Whenever economic agents (investors, consumers, traders, producers, managers, exporters or importers) are confronted with situations of asymmetric information flows, they are ex ante incapable of making efficient decisions and/or providing mechanisms to evaluate the levels of inefficiency/efficiency of those which they make.  Indeed, this can only be accomplished after the consequences of decisions have worked themselves through the economy, when it is already too late!The other lesson is that stress-testing provides an informed basis for planning coordinated regulatory policy responses to future crises, within countries, regionally, and internationally.  The global crisis is not yet over. Support for this observation is seen in the number of G20 countries (including China and India), which have recently announced that they would be undertaking public official stress-tests.  India has promised to do these twice a year.  The Reserve Bank of India has also indicated that, since the financial crisis started in 2007, they have conducted two stress-tests.**Impacts on Guyana and CARICOM**With these lessons in mind let us examine the on-going impacts and responses of Guyana and Caricom to the global financial crisis and economic recession.  Readers might recall that I had earlier addressed this topic when the crisis was at its peak during 2008 and 2009.  This time around my analysis will benefit from a significant number of reports and specialist studies of the global crisis and its Caribbean effects, which have since been conducted by local, regional and international organizations, universities, and other scholars.I should point out that, in my earlier analysis, I was very critical of 1) the slothfulness and lack of a coordinated Caricom response to the crisis and 2) the efforts to downplay the negative impacts of the crisis on Guyana and indeed the boast that there was an effective “firewall” around Guyana’s economy and financial system.  The former inaction came to a head when the largest and most horrendous financial contagion the region has ever experienced occurred as the CL Financial and the Stanford Groups of Trinidad and Tobago and Antigua and Barbuda respectively, collapsed in Q1 of 2009.I had previously challenged the regional inaction in such columns as Caricom at Sea… (SN, May 3, 2009).  The latter spin came to its head very recently when the Economist Intelligence Report expressed grave doubts about official reporting of Guyana’s economic performance during the crisis years, 2008 and 2009.  This column has repeatedly expressed similar doubts over the years, and most recently in commentary on the budget and the crisis in 2009.I believe that the best way to comprehend how the ongoing global financial crisis and economic recession are affecting Guyana and Caricom is to start by identifying the economic channels through which these effects are being transmitted.  In one of the recent specialist studies I have referred to above, produced by the Economic Commission for Latin America and the Caribbean, and published last December, 2009: Caribbean Development Report, Volume 11 the first chapter (written by me) entitled Global Economic Crisis: Caricom Impacts and Responses identifies these channels.  It provides a long list and some of these are shown in the schedule below.**Global Crisis: Transmission Channels (Guyana and Caricom)**1.    Commodity Exports2.    Services Exports3.    Imports of Goods and Services4.    Terms of Trade5.    Exchange Rate6.    Trade Credit7.    Overseas Development Assistance (ODA)8.    Foreign 2.Direct Investment (FDI) Flow9.    Remittance Flows10.  Temporary 4.Migratory Labour Flows  (Formal and  Informal)11.   Financial Contagion12.  The Irregular 8.Economy (including the Phantom Economy)13.   Real Estate and Domestic Property Markets14.   Capital Flight**Conclusion**Starting next week, I will continue this analysis with a brief commentary on what each of the listed channels represent. Thereafter, I shall proceed in coming weeks to examine those with the largest impacts first.  This entails focus on both financial contagion (along with the role of stress-testing and other financial soundness analyses of the stability of the banking system) and real economy effects on GDP growth, employment, exports and so on.  Price effects through imports, the exchange rate, and the terms of trade will also be covered. |