



*Caribbean sub-regional meeting to assess the implementation
of the programme of action of the ICPD 15 years after its
adoption*

The global economic crisis and its implications for the Caribbean

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Antigua, August 21th, 2009

Outline

I. The global economic crisis

II. Economic implications for the Caribbean

III. Conclusions

I. The global economic crisis

The intensity of the crisis

- In 2009, the world economy would contract for the first time since World War II
- During 2008 and Jan-Jul 2009, more than 6.5 million jobs have been lost in the US, of which 60% were lost in Jan-Jul 2009
- In Jul 2009, US unemployment posted a rate of 9.4%, the highest since 1983
- Considering those that are no longer seeking employment and those who would like to work more hours, this figure climbs to some 17%



World output growth, 2006-2009f

	2006	2007	2008p	2009f
World	5.1	5.2	3.2	-1.3
Advanced economies	3.0	2.7	0.9	-3.8
- United States	2.8	2.0	1.1	-2.8
- European Union	3.3	3.1	0.9	-4.1
- Japan	2.4	2.4	-0.6	-6.2
- Canada	3.1	2.7	0.5	-2.5
Emerging and developing economies	7.9	8.3	6.1	1.6
- China	11.6	13.0	9.0	6.5
- India	9.8	9.3	7.3	4.5
- Latin America and the Caribbean	5.8	5.7	4.2	-1.5 (-1.7)

... and the US economy is still in trouble:

- The fiscal deficit in the last 3 years amounted to some 40% of GDP
- At the end of 2007 public debt was some 65% of GDP
- Currently it is above 75% of GDP
- And the tendency is that it would reach 100-110% of GDP by 2011
- The massive financing needs of the public sector over the next 2-3 years would crowd-out domestic credit available to the private sector thus prolonging the recession

The crisis proved wrong two hypotheses

- That the US was no longer the engine of growth of the world economy → when the US economy sniffs, the world economy goes to the hospital
- That the US dollar would no longer be the main currency for savings → capital is flowing to the US looking for safe instruments in which to invest (flight to quality)

II. Economic implications for the Caribbean



How does the crisis filter to the Caribbean economies?

- Trade / Volumes and terms of trade
- Tourism
- Remittances
- Foreign Direct Investment
- Access to external financing



Main concerns

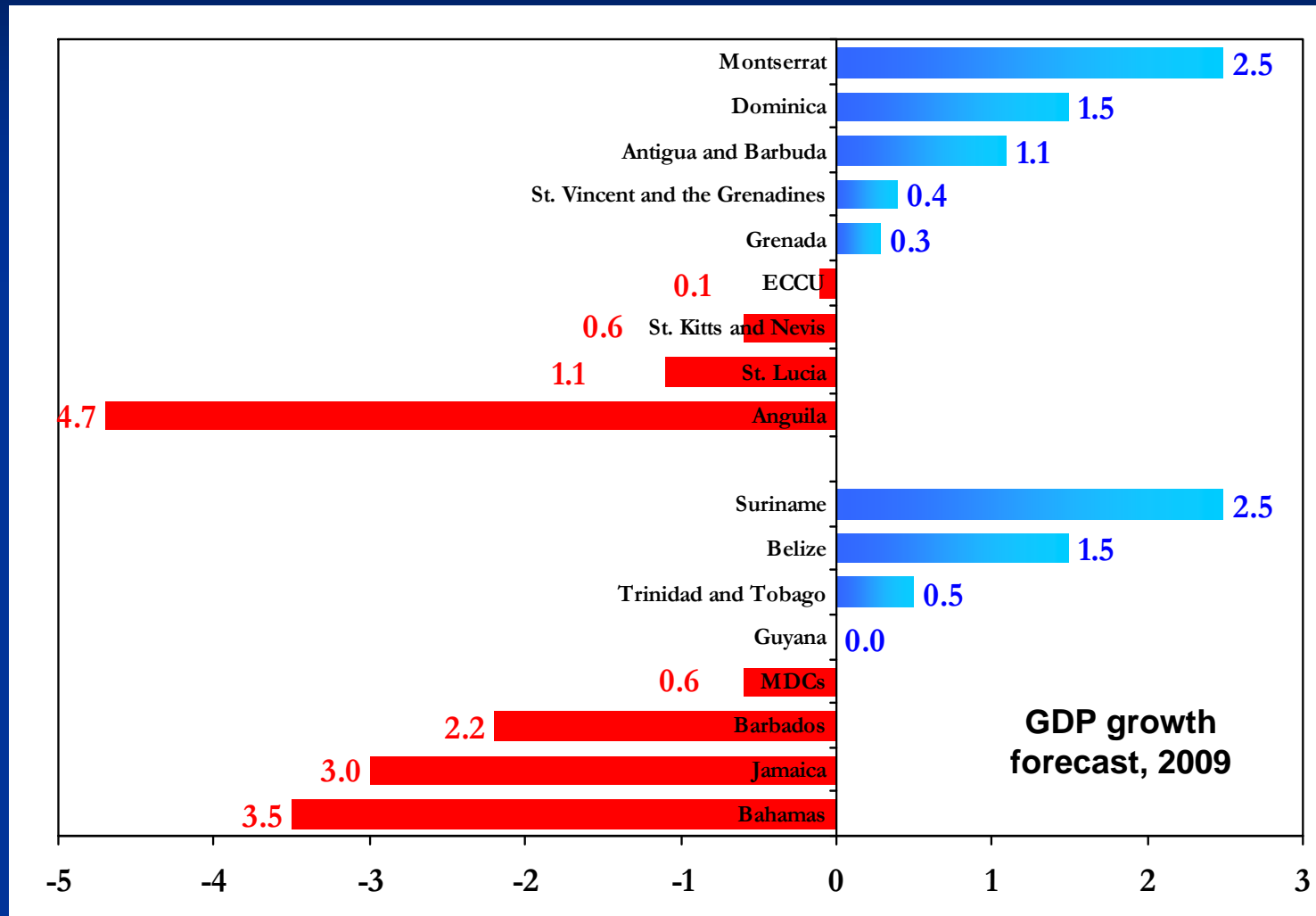
- Contraction in GDP / recession
- Unsustainable debt levels
- External accounts / International reserves
- Exchange rate regimes



Caribbean GDP Growth, 2006-2009f

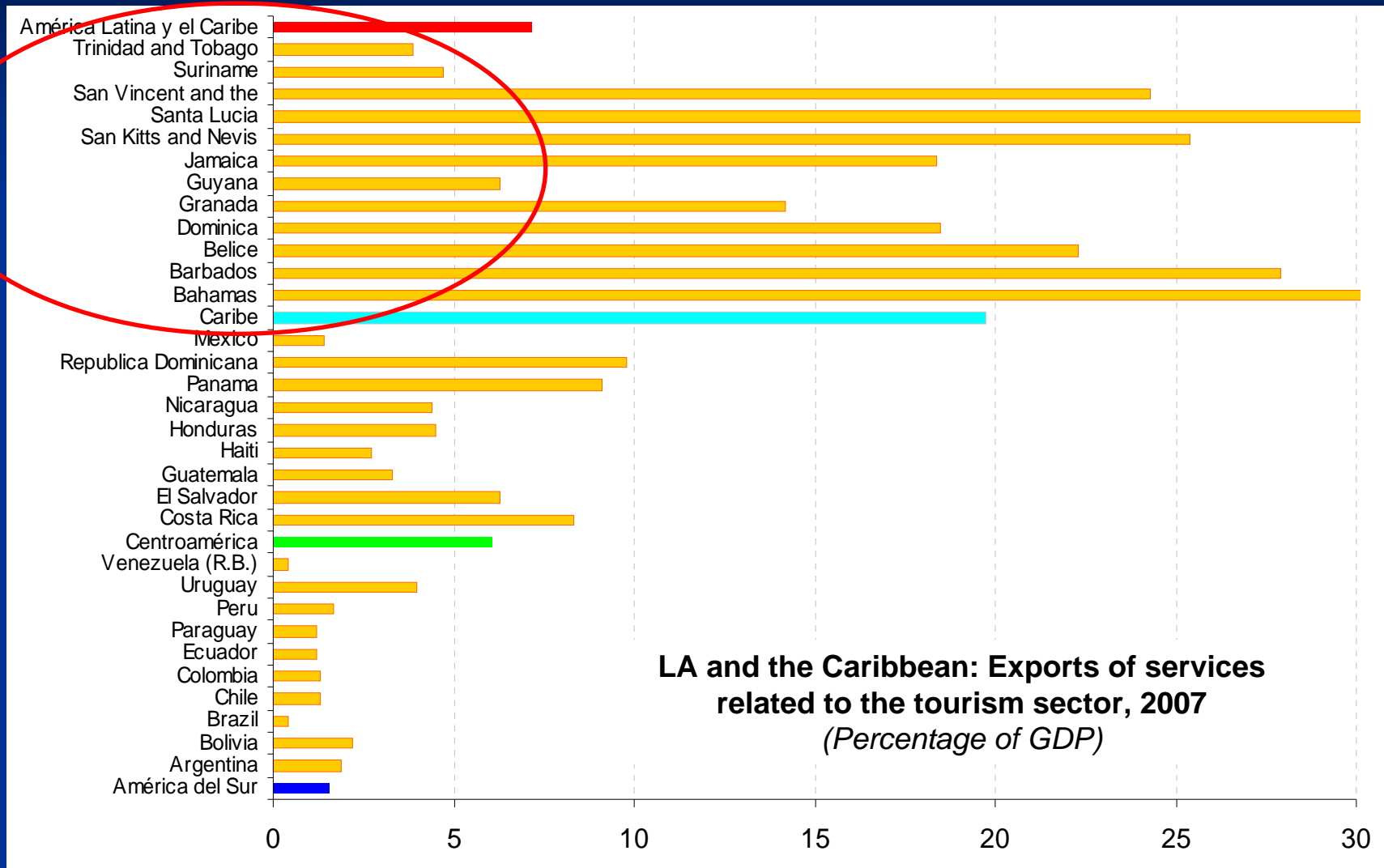
	2006	2007	2008p	2009f
MDCs^a	5.2	3.3	1.7	-0.6
Bahamas	4.3	0.7	-1.7	-3.5
Barbados	3.2	3.4	0.5	-2.2
Belize	4.6	1.2	2.1	1.5
Guyana	5.1	5.4	3.1	0.0
Jamaica	2.7	1.4	-0.6	-3.0
Suriname	4.5	5.3	5.2	2.5
Trinidad and Tobago	12.2	5.5	3.5	0.5
ECCU^a	5.4	6.1	2.0	-0.1
Anguilla	18.3	21.0	-0.5	-4.7
Antigua and Barbuda	12.4	6.9	2.8	1.1
Dominica	3.7	1.8	3.2	1.5
Grenada	-2.3	4.5	0.3	0.3
Montserrat	-3.8	2.8	6.2	2.5
St. Kitts and Nevis	2.5	2.9	2.5	-0.6
St. Lucia	4.9	1.7	2.0	-1.1
St. Vincent and the Grenadines	7.6	7.0	-0.5	0.4

Caribbean economies will slow down dramatically or contract in 2009



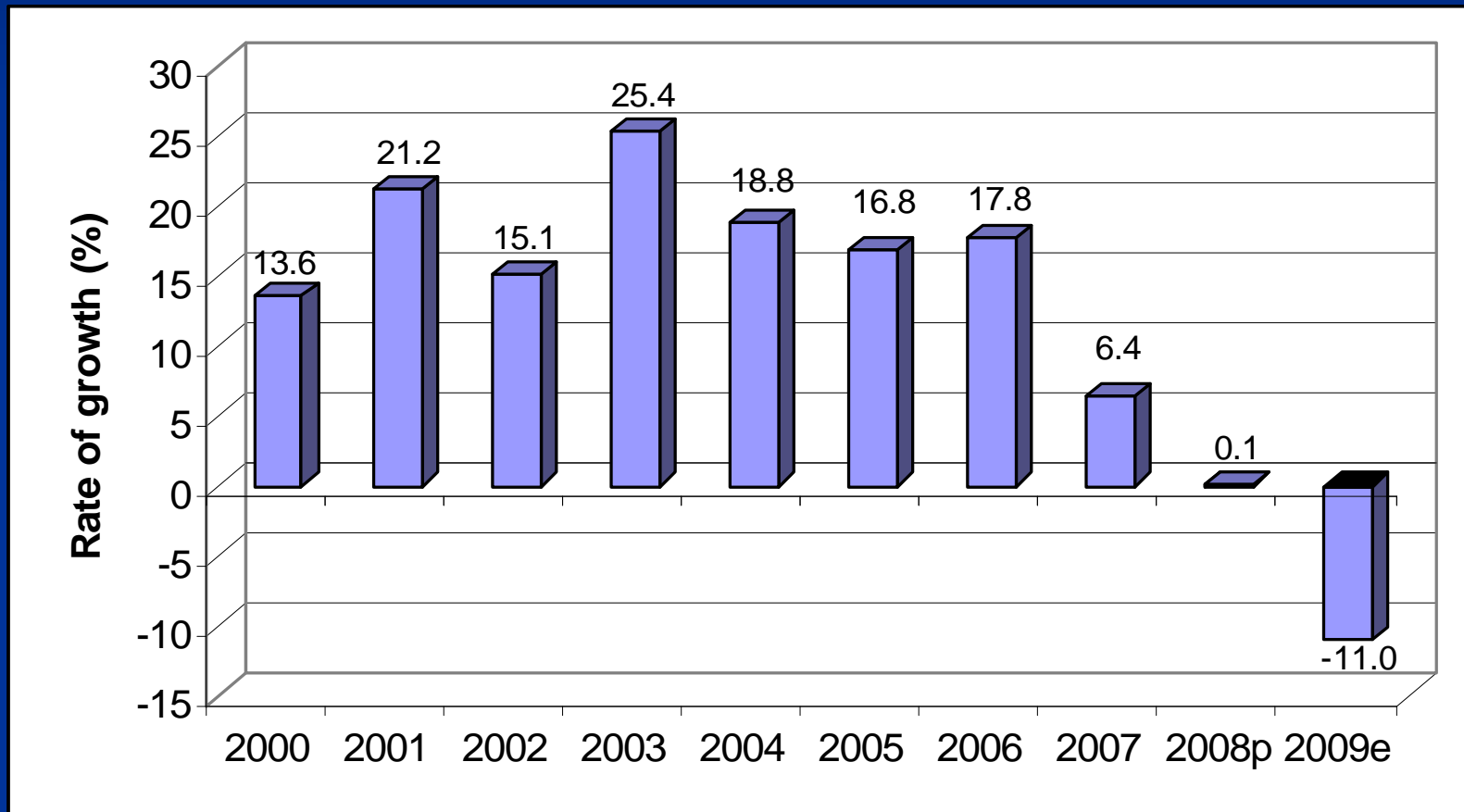
Source: ECLAC on the basis of official data

The fall in tourism activity will particularly affect the Caribbean



Source: ECLAC on the basis of official data

Remittances were stagnant in 2008 and will fall in 2009 ...



... which will be felt as remittances are an important source of foreign exchange in the region ...

	Remittances/Exports of goods			Remittances/FDI		
	2004-2006	2007	2008p	2004-2006	2007	2008p
MDCs^b	29.6	30.5	29.4	173.9	121.8	120.8
Bahamas
Barbados	34.8	29.1	36.4	251.6	60.0	126.0
Belize	7.8	12.3	16.1	25.2	37.5	42.5
Guyana	33.3	39.9	34.9	328.4	253.2	156.5
Jamaica	99.9	90.7	80.2	250.6	247.4	273.2
Suriname	0.5	10.3	8.1	.. ^a	.. ^a	.. ^a
Trinidad and Tobago	1.1	0.8	0.5	13.9	11.1	5.6
ECU^b	62.5	60.9	68.2	41.9	20.9	30.5
Anguilla	61.6	80.3	65.1	5.9	6.2	8.4
Antigua and Barbuda	30.9	31.8	34.2	10.0	6.7	10.3
Dominica	56.1	66.6	82.7	102.4	48.8	57.6
Grenada	173.3	135.1	209.8	79.1	31.6	39.7
Montserrat	24.2	18.8	13.1	38.3	9.8	30.7
St. Kitts and Nevis	55.9	64.0	65.3	39.0	23.5	42.2
Saint Lucia	31.2	30.6	16.7	22.6	12.2	29.6
St. Vincent and the Grenadines	66.6	60.4	58.6	38.2	28.2	25.6

Source: ECLAC, on the basis of World Bank, *Migration and Remittances Handbook*, 2008; and official information.

^a Suriname experienced net FDI outflows in these years.

^b Simple average.

.. = not available.

The twin deficits, 2006-2008p (Percentage of GDP)

	Fiscal deficit			Current account deficit		
	2006	2007	2008 ^c	2006	2007	2008 ^c
MDCs^b	2.1	1.7	1.5	5.3	3.1	5.9
Bahamas	0.8	1.5	1.3	20.9	17.5	13.9
Barbados	2.0	1.8	5.9	8.6	5.3	10.4
Belize	1.9	1.2	-1.1	2.1	4.1	10.8
Guyana	13.1	7.4	6.3	27.4	17.6	25.8
Jamaica	5.4	4.7	6.8	11.4	15.8	22.5
Suriname	-1.7	-3.2	-2.1	-6.8	-14.2	-14.6
Trinidad and Tobago	-6.6	-1.7	-6.5	-25.1	-24.6	-27.8
ECCU^b	3.5	3.6	3.6	30.1	35.2	38.3
Anguilla	-1.3	2.1	3.9	66.3	67.9	76.2
Antigua and Barbuda	7.9	6.4	8.5	30.8	32.9	31.3
Dominica	-1.4	-1.0	-0.8	16.3	25.0	30.8
Grenada	6.4	6.6	6.5	35.0	42.9	45.3
Montserrat	3.7	6.4	9.8	17.8	22.8	35.1
Saint Kitts and Nevis	2.4	2.4	-0.4	17.4	21.5	24.1
Saint Lucia	6.2	2.2	0.2	33.2	34.2	26.9
Saint Vincent and the Grenadines	3.9	3.6	1.3	24.1	34.2	36.5

Source: ECLAC on the basis of official data.

^a A minus sign indicates a surplus.

^b Simple average.

^c Preliminary estimate.

Public debt and international reserves, 2008p

	Public debt (% of GDP) ^b			International reserves ^b	
	External	Domestic	Total	% of GDP	Import coverage (months)
MDCs^c	34.4	34.1	68.4	20.9	5.1
Bahamas	5.7	42.0	47.7
Barbados	26.7	72.0	98.7	21.3	5.5
Belize	68.9	12.4	81.3	12.4	2.8
Guyana	72.0	31.8	103.8	26.9	5.0
Jamaica	48.7	58.1	106.8	13.1	2.8
Suriname	12.7	12.5	25.2	16.2	3.3
Trinidad and Tobago	5.8	9.7	15.5	35.3	11.0
ECCU^c	41.4	37.2	78.6	16.0	2.5
Anguilla	6.4	16.6	23.0	15.0	1.7
Antigua and Barbuda	38.9	49.1	88.0	13.0	1.9
Dominica	66.6	26.7	93.3	16.0	2.6
Grenada	78.5	27.8	106.3	16.0	3.1
Montserrat	6.8	1.4	8.2	26.0	3.1
Saint Kitts and Nevis	57.2	113.1	170.3	16.0	2.9
Saint Lucia	37.1	33.0	70.1	13.0	2.1
Saint Vincent and the Grenadines	39.4	29.9	69.3	13.0	2.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

^a End of year.

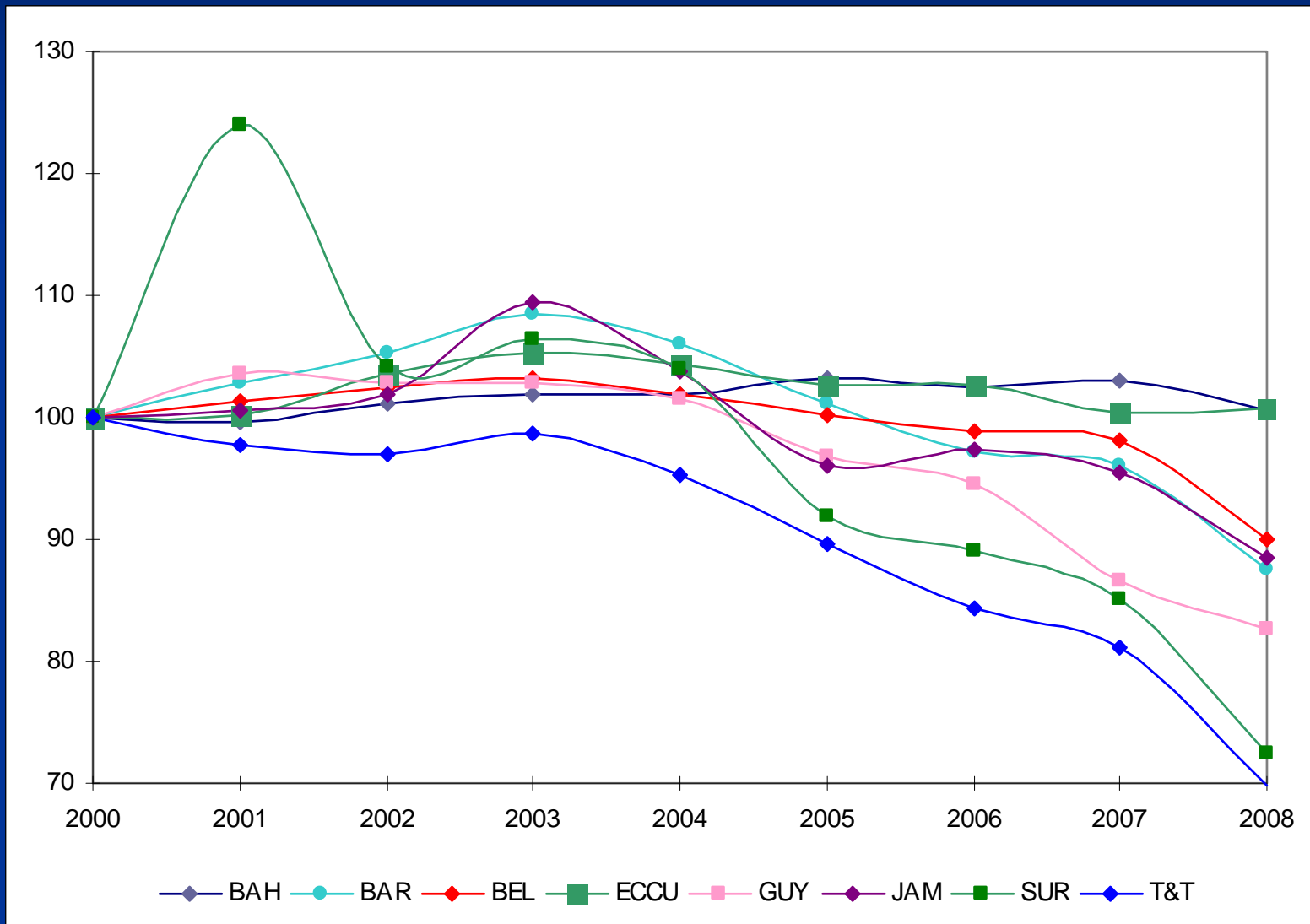
^b Preliminary estimates.

^c Simple average.

.. = not available.



Real exchange rate, 2000- 2008p



A currency crisis in the Caribbean?

- ECCU countries recorded current account deficit of around 38% of GDP in 2008, Guyana of 26% and Jamaica of 23%
- The CA deficit is the excess of expenditure over income
- This has to be financed either through savings (international reserves) or borrowing from ROW
- But IR are insufficient in most countries and external financing is not available due to the crisis
- Economic policy dilemma: contract domestic demand through contractionary policies or let domestic currencies float
- Either will be pro-cyclical and will amplify the recessive stance of output

Which is better?

- Short-term: contractionary fiscal-monetary policy mix → amplification of the recession/slowdown (pro-cyclicality)
- Long-term: orderly abandonment of fixed or quasi-fixed exchange rates regimes (productive diversification is not possible with sustained real exchange rate appreciation)
- If this is not done, there is a possibility of a currency crisis in some Caribbean countries

Currency crises have catastrophic effects

- Mexico 1995: GDP contracted by 6.2%
- East Asia 1998: GDP dipped by 13.1% in Indonesia, 7.4% in Malaysia, 6.9% in South Korea, and 10.5% in Thailand
- Argentina 2001 and 2002: GDP declined by 4.1% and 10.9%, respectively

III. Conclusions

- The current world economic crisis would be the worse since the Great Depression of the 1930s
- The crisis would extend to 2010 and could even go beyond
- Caribbean countries will be affected by a variety of channels
- Most Caribbean countries are not prepared to confront the world crisis, particularly because of massive current account deficits, excessive public debt levels and insufficient international reserves
- The scarcity of external financing will force a sharp contraction in spending thus intensifying the recession
- This puts fixed and quasi-fixed exchange rate regimes at risk
- A currency crisis is indeed a possibility

III. Conclusions (cont.)

- With the current global crisis, the region is finding harder to keep improving social standards and to achieve ICPD goals
- Furthermore, progress already made during the last years is at risk
- What will happen depends on how well governments **secure resources, maintain social expenditure at acceptable levels, and allocate it efficiently**
- However, many Caribbean countries are having a hard time financing these spending partly because the heavy debt burden

III. Conclusions

- Leaders in the last G-20 summit approved the provision of US\$1 trillion to the IMF, the World Bank and other multilateral institutions
- But some IMF calculations indicate that toxic assets in banks, investment funds, hedge funds and insurance companies worldwide amount to US\$3 trillion
- These resources are supposed to provide support to developing countries hit by the global crisis
- The effectiveness of this support will depend on how well resources are allocated to key economic and social needs
- This requires that Caribbean countries redouble their efforts to improve transparency, speed and efficiency in public spending



**Thank you for your
attention**