

# The Impact of the Global Financial Crisis on Caribbean Economies\_ Abstract

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Caribbean economies have been deeply integrated into global markets for centuries. In this regard they are dependent on the fortunes of the more developed countries. They have small markets (even collectively) and their product base is also susceptible to natural (weather related) shocks.

The global crisis reflects an outgrowth of failures of financial markets, prudential management, regulation and rating agencies. The outgrowth of the crisis has affected demand for and prices of Caribbean exports and imports of goods and services, foreign exchange inflows, output, and employment.

Available statistical indicators of the impact of the crisis on the Caribbean in 2009 suggest the following:

1. Due to a softening of oil prices, most Caribbean economies have had improved BOP current accounts and worsening capital accounts. (For T&T, oil exporter, both current and capital accounts worsened. Official reserves for most countries were stabilized by new SDR allocations and/or official borrowing.
2. For most economies, economic growth weakened and was negative in several instances. The positive growth exceptions may include the more diversified and less tourism dependent economies of Guyana, Belize and Suriname.
3. In all the economies for which data is available, unemployment increased.
4. With the softening of oil prices following the sharp increase in 2007-2008, inflation in all economies declined significantly in 2009.
5. The fiscal balance deteriorated in all economies except Guyana and all economies recorded fiscal deficits, including T&T for the first time in 7 years.
6. The exchange rate was stable or mildly appreciating in all economies except Jamaica, where there has been sharp depreciation from late 2008 to early 2009.
7. External public debt as % of GDP increased marginally in some countries but generally remained moderate or low. Major public debt increases have been domestic rather than external.
8. Two OECS economies, Jamaica and Barbados are facing a significant burden of public debt. In Guyana and Belize, the debt burden is still significant but their servicing has benefitted from HIPIC debt forgiveness and restructuring respectively.
9. The fragility of Caribbean financial systems has been exposed by the global financial crisis as reflected in the exposure of Jamaican financial institutions to

“toxic assets”, the multinational failure of CL Financial and its BAI subsidiary and the AIC Barbados inability to pay on contract. This has been accompanied by failures of Millennium Bank, Stanford Bank and “Alternative Investment Schemes.”

The challenges for policy include:

- i) Solving the puzzle of adjusting while facilitating growth.
- ii) An imperative for building national consensus and regional cooperation to facilitate economic recovery.
- iii) Re-examining and redefining the role of the public sector.
- iv) Minimizing the costs of any debt restructuring for the financial system.
- v) Re examination and strengthening of national, regional and international regulatory architecture.

While Jamaica may appear to be the most seriously affected, Jamaica is not alone.

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