



THE CARIBBEAN: COPING WITH THE LINGERING EFFECTS OF THE 2007-2009 GREAT RECESSION

The great recession, which started in the United States in 2007 and spread to Europe through the international financial markets, was characterized by failure of financial institutions, collapse of the US housing market, significant job loss and sluggish recovery. According to the official arbiter of recessions in the United States, the National Bureau of Economic Research (NBER), the great recession began in December 2007 and ended in June 2009. In the case of the Euro zone, recession has been dated from the first quarter of 2008 to the second quarter of 2009. Some researchers have argued that the US recession should not be defined as over until GDP returns to its pre-crisis levels. On that basis, the US recession should have ended in quarter three of 2011. Whatever the definition of the recession, it remains a fact that the recession has been prolonged and deep, both in the United States and in Europe with widespread impact and international contagion.

Caribbean economies continue to be severely impacted by the effects of the great global recession which had varying degrees of severity in the US, UK, Continental Europe and to a lesser extent Canada. Caribbean countries have suffered in diverse ways from the global recession including declines in total visitor arrivals, stalled foreign direct investment projects, reduced remittance inflows and deteriorating fiscal outturns. Post 2009, recovery in stay over arrivals for CARICOM countries has been subdued, while the Caribbean market share in tourism for the Americas is on the decline. It has been estimated that remittance flows to the Caribbean in 2009 dropped by some US\$662 million with some recovery in 2010. Other indicators suggest that household consumption and growth in private sector credit in the English speaking Caribbean deteriorated in the immediate post crisis periodⁱ. The main questions which emerge are –How does this most recent recession differ from previous economic recessions? And what policy actions can Caribbean countries take to mitigate the lingering impact of the recession?

How Different was the Great Recession of 2007-2009?

The NBER has dated 11 recessions for the United States over the period 1948 to 2011. In the UK, there have been five recessions since 1948. First, the 2007 great recession (both in the US and Europe) differs from the other dated recessions over the relevant period from the perspective that it was the result of a systemic financial crisis rather than simply a result of the downturn of the regular business cycle. This is important because the research has established that financial crises have significant depressing effects on long term growth prospects as they involve the loss of substantial financial resources. Recessions from financial crises

are therefore usually deeper and more severe, with more prolonged recovery periodsⁱⁱ.

Second, at the end of the recession in June 2009, the United States Bureau of Labor Statistics (BLS) indicate that while the recession has been considered over, a number of economic indicators had not reached the pre crisis levels. For instance, the aggregate unemployment rate for the US at the beginning of the recession in 2007 was five percent, compared to 9.5 percent unemployment at the end of the recession. The BLS statistics point to a higher proportion of long-term unemployed in the 2007 recession than in previous recessions, greater employment decline in the 2007 recession than recessions since 1948, the highest net decrease in establishment births since 1992, lower number of job openings and peak mass layoffs (series start- 1995). Analysts have argued that of the 11 depressions which occurred post 1948, the 2007 recession was the only recession where a decrease in total employment manifested even after four yearsⁱⁱⁱ. Similarly, GDP output recovery was accomplished in four years for the 2007 recession compared to an average of less than two years for other recessions since 1948. Further, the new jobs which have been created have on average been lower paying jobs than those jobs which were lost, leading to major lifestyle adjustments for the labour force.

In the UK, the aggregate loss of output over the recession period has been estimated at over six percent which is higher than the decline in GDP during any other post war recessions. In contrast to the US recession, declining employment lasted for a shorter period than previous recessions in the UK. The UK economy entered a double dip recession (the first since 1975) during the first quarter of 2012 which ended in the third quarter of 2012, partly due to hosting of the London Olympics. In August 2011, the unemployment rate for the UK stood at 8.1 per cent which is the highest level since 1994. In January 2012, at the beginning of the second recession, 15 quarters after the start of the great recession, GDP for the UK was four per cent below its peak. Austerity policies implemented by the Conservative government as well as weak aggregate demand have hindered growth of the UK economy. Most recently the European Commission had indicated that GDP will likely fall by 0.3 per cent in 2013. This forecast is underpinned by weak export demand, job losses, stalled investments and tight lending conditions.

Even as the recession has ended, recovery of the US economy remains slow and haunted by issues such as the debt ceiling and sequesters debates. There is also a threat of a triple dip recession in the UK. The evidence points to a recession which has had ma-

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major impact on employment and incomes for the population within some of the major trading partners and tourism source markets for the Caribbean. It is therefore not surprising that the less price competitive CARICOM tourist destinations have not fully recovered in terms of the number of tourist arrivals since 2007. Even among those employed with reasonable incomes, confidence in the security of their jobs becomes an issue and invariably impacts negatively on travel plans.

Coping with the Lingering Effects

What then are the policy options for the tourism dependent economies of the Caribbean? In the context of the balance of payment driven Caribbean economies, the policy options are severely limited. Moreover, the severely constrained fiscal circumstances of these economies pose additional challenges to policy development and implementation. Caribbean governments should be cautious about the implementation of counter-cyclical fiscal measures given the state of their finances and the relative openness of their economies. Further, given the insipid and imperceptible nature of the US recovery, Caribbean governments may find it difficult to sustain fiscal injections into their economies given the limited fiscal space in most countries. Capital investment should focus on the implementation of projects with sound economic and social returns.

The level of turmoil within some emerging markets and countries has been increasing in recent times - thus providing the Caribbean with a window to sell itself as a politically stable and mature region ready to do business with the world. To take ad-

vantage of such opportunities, Caribbean countries would do well to implement reforms that can improve the competitiveness of economies. Reforms aimed at social and economic stability would assist in positioning the Caribbean to attract investment once the global recovery strengthens. Initiatives should focus on the objectives of reducing crime, strengthening governance and social cohesion and ensure that their legal systems are sound and functioning properly. The design of transparent incentive systems that will facilitate the widening of the export base should also be a key component of the policy response of Caribbean governments. Now is the time for Caribbean governments to implement policies that will improve the ease of doing business within their respective countries, improve the image and credibility of governments and engender confidence in the economies.

- I. See Kouame and Reyes. The Caribbean Region Beyond the 2008-2009 Global Financial Crisis. Paper presented at the Options for the Caribbean After the Global Financial Crisis Conference.. Bridgetown, Barbados—January 27-28, 2011
- II. See Kannan, Scott and Terrones (2009). From Recession to Recovery: How soon and How Strong? World Economic Outlook. pp. 103-138. IMF.
- III. See Farber (2011) Job Loss in the Great Recession: Historical Perspective from the Displaced Workers Survey, 1984-2010 NBER Working Paper No. 17040)

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REGIONAL NEWS SUMMARY

CL FINANCIAL

- Former executive chairman of the collapsed CL Financial conglomerate (CLF) Lawrence Duprey is criticising the sale of select assets of the empire he created. The government has invited potential buyers to bid on two of the conglomerate's malls – Valpark Shopping Plaza in Valsayn and Atlantic Plaza in Point Lisas – as well as the Holiday Inn Express, its hotel at Trincity. CLF officials have indicated to the Express that the company was hoping to raise some \$300 million from the assets. (TE 1 Feb)
- Atrius is the name Government has selected to rebrand CLICO. While the government had given a commitment in its 2012/2013 budget that CLICO will cease to be in January 2013, the Sunday Express understands that there are some legal hurdles with the name change and application, given the different non-traditional businesses owned by the insurance company. (TE 4 Feb)
- The 2006 abduction and murder of the chairman of CLICO's audit committee, businesswoman Vindra Naipaul-Coolman, contributed to a situation in which the committee's work was

held up for almost two years, PricewaterhouseCoopers (PWC) accountant Dwayne Rodriguez-Seijas has said. (TG 28 Feb)

- CLICO management back-dated and inserted billions in transactions in order to “fix the books”, all under the nose of auditors PricewaterhouseCoopers, the Colman Inquiry heard (Newsd 28 Feb)

STANFORD

- The US Justice Department said that Gilbert T. Lopez Jr., who served as Stanford's chief accounting officer, and Mark J. Kuhrt, Stanford's former global controller, were each sentenced to 20 years in prison for their roles in helping the jailed Texas billionaire perpetrate a fraud scheme involving his Antigua-based Stanford International Bank. (Carib360 18 Feb)
- Allen Stanford's receiver and investors' committee have sued Antigua and Barbuda, the Eastern Caribbean Central Bank and 23 former Stanford Financial Group executives, alleging that they aided the financier's \$7 billion fraud. (CNnow 19 Feb)

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CARIBBEAN

- Guyana's finance minister Dr. Ashni Singh and Russia's Ambassador to Guyana Mr. Nikolay Smirnov, exchanged official documents that concluded and brought into force the agreement between the two countries to cancel Guyana's debt owed to Russia in the amount of US\$277,490 or Gy\$56.7 million (GCO 1 Feb)
- A recent IMF mission to St Kitts and Nevis yielded a positive assessment of the twin-island federation's progress. (Carib360 1 Feb)
- Jamaican insurers saw their gross premium income rise by 10% last year. But the industry continued to be plagued by fraud and the sizeable number of motorists who don't insure their vehicles (JO 1 Feb)
- Republic Bank Limited is in Barbados for the long term and is confident that the country will recover from present global challenges. (BADv 4 Feb)
- Caricom has reiterated its concern over the threat posed to the competitiveness of Caribbean rum in the United States market by subsidies granted to rum producers by the United States Virgin Islands and Puerto Rico (TG 5 Feb)
- Niche marketing and branding are opportunities Barbados should pursue to grow more of its exports. This suggestion has come from Matthew Wilson who is a Councillor at the World Trade Organisation in Geneva. He believes that every opportunity must be pursued to promote more of Barbados' goods to the Caribbean market. (BADv 5 Feb)
- The path now appears clearer for firms in Jamaica wanting to offer electronic retail payment services, which includes e-money stored in a device such as a mobile phone and SIM card. The central bank is set to begin accepting applications for authorisation from interested entities on April 2. (JO 6 Feb)
- The Development Bank of Jamaica aims to get two venture capital funds started by 2016. It is focusing on removing the barriers faced by investors wanting to pool their funds and invest in small and medium-sized enterprises, and has already secured the backing of the IDB. (JO 6 Feb)
- Jamaica's unemployment rate hit 13.8% three months ago. There were 700 less occupied jobs last October than a year before, but 12,600 additional persons joined the labour force without getting employment. Consequently, the number of unemployed rose from 159,600 (or 12.8% of the labour force) in October 2011 to 172,900 a year later, according to the Statistical Institute of Jamaica. The total labour force stood at 1.26 million in October 2012 (JO 6 Feb)
- Gordon 'Butch' Stewart has urged Jamaicans to stop sitting around waiting for an IMF deal and to get on with the job of moving Jamaica forward through export earnings. "We are all sitting around waiting for an IMF deal to draw down on funds from various sources. All that represents is borrowing, borrowing, and more borrowing," he said. (JO 7 Feb)
- A new report, commissioned by four airlines, British Airways, easyJet, Ryanair and Virgin Atlantic, has said that scrapping the controversial Air Passenger Duty, which has negatively impacted on the tourism industry throughout the Caribbean, could generate 60,000 jobs by 2020. (TG 7 Feb)
- Despite early expressions of concern from several quarters, official nervousness in the Caribbean appear to be easing in the face of a new and steady stream of business-led Chinese immigration into the region. The most recent wave, associated with Chinese "state capitalism", via a growing list of state-owned enterprises entering under government-to-government arrangements, has persisted alongside inflows associated with a variety of commercial enterprises including restaurants and supermarkets. (TG 7 Feb)
- First Citizens is the only bank in the Caribbean to be named among the safest banks in Latin America and the Caribbean Region by Global Finance 2012, the Port of Spain-based State bank said yesterday. This is the third consecutive year that the bank has received this accolade. (TE 8 Feb)
- A recent analysis in Petroleum Export suggests that T&T's economic security could be under threat from one of its major export markets. According to writer Justin Jacobs, the country could suffer more than most other energy producers with the rise of shale output by the US. (TG 8 Feb)
- A new database developed jointly by the United Nations Economic and Social Commission for Asia and the Pacific and the World Bank reveals that trade costs fall disproportionately on the Caribbean and other developing countries. (TG 8 Feb)
- Thousands of low-income micro entrepreneurs in Haiti without means of insurance have been thrown a US\$1.96 million lifeline by the International Finance Corporation. (Carib360 8 Feb)
- The four largest parties in the Second Chamber of the Dutch Parliament are against paying any of St. Maarten's outstanding debts without proper documentation. (Caribseek 8 Feb)
- Jamaica Citrus Growers' Association has licensed the Juciful brand to Jamaica Beverages in exchange for two% of annual sales of juices bearing the popular label. The side deal wraps up the acquisition of Jamaica Citrus Growers Limited by the Trinidadian company SM Jaleel, which took possession of the company's assets nine months ago. SM Jaleel used its local subsidiary, Jamaica Beverages Limited, for the acquisition. The deal is valued at J\$1 billion, (JG 8 Feb)
- Baha Mar terminated 140 workers from its Wyndham Nassau Resort, saying that decreased business volume was the driving factor. (Caribseek 10 Feb)
- The unemployment rate in The Bahamas decreased slightly from 14.7% to 14%, according to the Department of Statistics' latest labour force survey (Caribseek 10 Feb)
- Trinidad carnival should not be consigned to feteing but seen as a serious cultural product—a business, according to Minister of Tertiary Education and Skills Training Fazal Karim. (TG 10 Feb)
- The Private Sector Organisation of Jamaica has given its conditional support to the Government's debt swap dubbed the National Debt Exchange Programme, providing it leads to development. (JG 13 Feb)

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- Rating agency Standard & Poor's downgraded Jamaica's debt to junk status, having classified the National Debt Exchange as a default. (JG 13 Feb)
- Jamaica's Finance Minister Dr Peter Phillips unleashed a J\$15.9-billion tax package; the Government had announced \$23 billion in new tax measures at the start of the fiscal year. In addition to the revenue measures, the Government has once again dipped into the National Housing Trust, stripping it of \$11 billion per year over the life of the pending IMF programme. (JG 13 Feb)
- Jamaica Bauxite Institute has partnered with researchers from Japanese company Nippon Light Metal on the island to test the feasibility of extracting rare earths metals from Jamaica's red mud deposits, where the concentration of rare earth elements are up to 2,500% higher than in global competitors,, The metals are used in a wide range of electronic items. (JO 13 Feb)
- Final terms for bringing Belize back on track with its debt obligations were announced by Prime Minister Dean Barrow as he piloted Government of Belize External Debt Restructuring Motion through the House of Representatives. (Carib360 14 Feb)
- CARICOM countries are being urged to review their visa regimes so as to lure more visitors to the region. (TG 14 Feb)
- CARICOM will be funding all future negotiations itself. This stance comes as concerns linger that the Caribbean Forum countries might have been compromised in their negotiating abilities since the rounds of negotiations leading up to the 2008 Economic Partnership Agreement between them and the European Union (EU) were in fact funded by the EU. (Carib360 14 Feb)
- The Bahamas government is looking to introduce a 15% value added tax, which would take effect on July 1, 2014. According to Michael Halkitis, state minister for finance, the government's current level of revenue generation is inadequate. (CNnow 15 Feb)
- Caribbean Export Development Agency has officially opened the doors for the best regional contemporary product designers and artisans to showcase their products to regional and international buyers at the region's largest design trade event, Design Caribbean to be held at the Grand Lucayan Resort, Freeport, Grand Bahama from June 20-23, 2013 (CNnow 16 Feb)
- JAMPRO, Jamaica's national trade and investment promotion agency, has won its bid to represent the Central America and Caribbean region as a director on the Steering Committee of the World Association of Investment Promotion Agencies (Caribseek 18 Feb)
- Just over a year after Suriname and a United Arab Emirates company, Kaloti Jeweler, signed a joint venture to refine Suriname's gold, construction of the mint has commenced, which will allow this South American nation, rich in gold, to take a larger profit from gold export. (CNnow 18 Feb)
- A multimillion dollar mercury-free machine called the Screening Plant has been introduced to Guyana's mining sector by a Canadian exploration firm, Mulgravian Ventures (Guyana) Incorporated. This plant was imported from New Zealand and would be utilised by the company in the North West District for the extraction of gold. (GuyTim 19 Feb)
- Trinidad and Tobago loses more than TT\$200 million in tourism revenue a year because of crime, Prime Minister Kamla Persad-Bissessar has said (TE 19 Feb)
- In a special report by The Economist magazine, the British Virgin Islands has been recognised as a major financial centre with a strong role to play in the global economy. (CNnow 20 Feb)
- The St Lucia government says it expects to accrue major benefits for the island following the decision of Castries to join the Venezuelan oil initiative, PetroCaribe. (TG 20 Feb)
- The Netherlands and other European countries have been importing fake Surinamese rice for the past 20 years. As a result local rice industrialists have gradually seen their market share on the other side of the ocean plummet from 40,000 tons to less than 10,000 tons a year. The problem is one of branding. The costs for branding in both the Caribbean and Europe have been estimated at roughly 80,000 Euros, (de Ware Tijd 20 Feb)
- Three years after the earthquake, about 1000 persons will leave their tents in Gressier and move into a model village constructed by the Lutheran World Federation (Caribseek 21 Feb)
- An economic impact study of the growth of St Kitts' cruise tourism sector shows significant increases in cruise tourism expenditure and passenger satisfaction. The study also reveals growth in cruise passenger arrivals to St Kitts of more than 400% over the past six years. (CNnow 21 Feb)
- Some 7,000 public-sector posts in Jamaica are to be eliminated by March 2014, a Ministry of Finance document indicates. 3,000 posts have already been eliminated, and another 3,000 posts which are to be removed from the wider public sector by the end of financial year 2012-2013 are unoccupied. Another 1,000 positions that will become vacant due to natural attrition during financial year 2013-2014 will not be filled. (JG 21 Feb)
- The Central Bank of Barbados has issued revised Corporate Governance Guidelines for financial institutions which include, among other requirements, the expectation that boards have written conflict of interest policies and adequate professional indemnity insurance in place for directors. (BN 21 Feb)
- The Jamaican Government's National Debt Exchange programme received overwhelming support from bondholders with more than 97% of the players in the market declaring that they have come on board. (JG 22 Feb)
- Jamaica's economy plunged further into recession in the 2012 fourth quarter, contracting by 0.6% year over year, but the country should see some recovery over the January to March 2013 period, said the Planning Institute of Jamaica (JO 22 Feb)
- Demand for financing from the Caribbean Development Bank declined once again in 2012 due to the lingering effects of the global financial crisis. During a recent Press conference at the bank, president Dr Warren Smith said total approvals for loans and grants in 2012 were pretty much flat compared to 2011. (BN 23 Feb)
- The upcoming visit by Suriname's Vice President Robert Ameerali to Turkey will focus mainly on finding investors. Turkish Prime Minister Recep Tayyip Erdogan has invited

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- Ameerali for a visit to strengthen the political and economic ties between both countries. (dWT 23 Feb)
- First Citizens Bank (Barbados) Ltd, formerly Butterfield Bank (Barbados) Ltd, has reported a net profit of \$1.1 million for the nine months ended September 30, 2012. According to recently published financial statements from the Trinidad and Tobago-headquartered bank that opened its local operations last September, it recorded \$1.7 million for the 12 months ended December 31, 2011. (BN 25 Feb)
 - Outraged that they have not been consulted, this week Haitian senators called for a moratorium on all activities connected with recently granted gold and copper mining permits. (Caribseek 25 Feb)
 - Americans are travelling once again to the Caribbean and visitor spending is beginning to rise, according to the Chairman of the Caribbean Tourism Organisation, Beverly Nicholson-Doty's, State of the Industry Report. (BAdv 26 Feb)
 - The Government of Guyana has signed two agreements with the CDB, totalling US \$40.3M, one of which is for the seventh cycle of the Basic Needs Trust Fund, and the other for the bank's fourth roads project. (GCO 26 Feb)
 - Vice President (Operations) of the CDB, Dr Carla Barnett praised Guyana's economic performance, which has and continues to withstand the effects of the global financial crisis. (GuyTim 26 Feb)
 - Denis O'Brien's Digicel Limited will use the US\$1 billion it plans to raise via private placement to buy up its 12 per cent bonds and finance other projects. (JG 27 Feb)
 - Bank of Jamaica Governor Brian Wynter gave Jamaica a late Valentine's Day gift of a half of one per cent cut in the Bank's policy interest rate from 6.25 to 5.75%. (JO 27 Feb)
 - The Bahamas government says it will not increase taxes despite inheriting nearly US\$100 million in unpaid bills by the previous government. (Carib360 27 Feb)
 - Jamaica's Minister of National Security said the country has paid a high cost for crime. He noted that had the country not had the exceptionally high levels of crime in the last four decades, its economy would be between three and ten times the size it is now. (CNnow 27 Feb)
 - Suriname cannot wait to introduce electronic transactions on the same level as the rest of the world. The country has much to offer to the world market, so a decision must be made soon. For some time now, Suriname has had the options of credit cards and foreign currency accounts at commercial banks, but it should be cheaper and more efficient. (dWT 27 Feb)
 - The introduction of new European rules next month will make it more difficult to import illegal lumber into the European Union. The rules require importers to prove the origin of the lumber. Surinamese exporters will have to prove that the lumber has been cut legally. (dWT 27 Feb)
 - Europe's largest oil company Royal Dutch Shell once more has a significant stake in Trinidad and Tobago's energy sector. The company has struck a deal with Spain's Repsol SA to buy Repsol's liquefied natural gas assets in Trinidad and Tobago and Peru in a deal worth US\$6.2 billion. (TE 27 Feb)
 - First Citizens Investment Services Limited has received the highest endorsement for its commitment to excellence in service by winning the coveted Award for Service Excellence when the 2013 St Lucia Business Awards were handed out on January 26 (TG 27 Feb)
 - Faced with a demand for US\$15M from Repsol for its share of oil drilling costs, CGX is entering into a private placement of CDN\$35-40M that could result in its fellow Canadian explorer Pacific Rubiales taking majority control of the company. CGX has been seeking commercial oil in Guyana unsuccessfully since 2000. (SN 28 Feb)

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