

**GLOBAL FINANCIAL CRISIS TO REAL SECTOR
CONTRACTION: EXPLORING TRANSMISSION
MECHANISMS IN A SMALL OPEN ECONOMY –
BUSINESS COPING STRATEGIES IN JAMAICA**

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OVERVIEW OF PRESENTATION:

- Background and Objectives
- International Transmission Mechanisms - Literature
- The Model
- Data and Methodology
- Summary of Results
- Conclusions and Next Steps

BACKGROUND and OBJECTIVES

- The current crisis is a critical case study of the contagion effects of financial crises and the transmission mechanisms through which such effects are transferred.
- This paper examines the Jamaican case study, to highlight the nature of contagion and types of transmission mechanisms in effect in a small open economy.
- The coping strategies adopted by businesses will determine the extent to which major socio-economic dislocation can be avoided.

INTERNATIONAL TRANSMISSION MECHANISMS - LITERATURE:

- There is little agreement on exactly how crises are transmitted internationally.
- Five different transmission channels: product competitiveness; an income effect; a credit crunch; a forced portfolio re-composition; or a wake-up call (Forbes 2000).
- Three broad categories of transmission channels: financial linkages; trade linkages; and psychological linkages (Boshoff 2006).

INTERNATIONAL TRANSMISSION MECHANISMS - LITERATURE:

- Financial Linkages:
 - Credit crunch linkage; and
 - Portfolio re-composition linkage
- Trade Linkages:
 - Competition linkage; and
 - Domestic demand linkage
- Psychological Linkage
 - Wake-up call effect

THE MODEL

- This paper distinguishes between coping strategies which are reasonably expected to have:
 - Direct and virtually immediate domestic socio-economic impacts (DIRimp);
 - Indirect, delayed domestic impacts (INDIRimp); and
 - Minimal domestic socio-economic impacts (MINimp).

THE MODEL cont'd

- $\Delta Y_s = f(\text{BUScope})$ (1)
- $\text{BUScope} = \Sigma(\text{DIRimp}, \text{INDIRimp}, \text{MINimp})$ (2)
- Business Coping Strategies: Respondents were asked to rank the likelihood of their undertaking various coping strategies in response to the US-crisis.

THE MODEL cont'd

- $\text{BUScope} = f(\text{FINlin}, \text{TRADElin}, \text{PSYlin}, \text{BUSchar}, \text{GOVres})$ (3)
- $\text{FINlin} = f(\text{CREDlin}, \text{PORTlin})$ (4)
- $\text{TRADElin} = f(\text{COMPlin}, \text{DEMLin})$ (5)
- $\text{PSYlin} = f(\text{ExFINlin}, \text{ExTRADElin})$ (6)

DATA and METHODOLOGY

- A survey of Jamaican businesses was conducted from January to March 2009.
- A sample size of 400 businesses was targeted; a random sample of 284 firms completed the survey.
- Cross-tabulations and various statistical tests were used to highlight statistically significant associations and differences between key variables.

RESULTS and ANALYSIS –

Dependent Variables – Descriptives

Statistics	DIRimp	INDIRimp	MINimp
Mean	2.89	2.66	2.49
Standard Deviation	0.324	0.544	0.602

Dependent Variables – Frequencies

Variable	Very Likely		Likely		Not Likely	
	#	%	#	%	#	%
DIRimp	0	0.0	34	11.3	271	88.7
INDIRimp	11	3.6	82	26.8	213	69.6
MINimp	17	5.5	122	39.9	167	54.6

RESULTS and ANALYSIS –

Dependent Variables – Difference of Means: Wilcoxon Signed Ranks Test

Variables	Z	Sig (2-tailed)
DIRimp & INDIRimp	-6.708	0.000
DIRimp & MINimp	-8.632	0.000
INDIRimp & MINimp	-4.246	0.000

Dependent Variables – Testing Association: Spearman's rho

Variables	Spearman's rho	Sig (2-tailed)
DIRimp & INDIRimp	0.350	0.000
DIRimp & MINimp	0.132	0.000
INDIRimp & MINimp	0.288	0.000

RESULTS and ANALYSIS

Statistically Significant Relationships with DIRimp

FINlin	TRADLin	PSYlin	BUSchar & GOVres
Δ in Size of loans from LFI (0.418)	Δ Quantity of Goods/Services Sold Locally (-0.215)	Expected Δ in Size of loans from LFI (0.346)	Sector (0.234)
Δ in Availability of credit from LFI (0.410)	Δ Cost of Local Inputs (-0.186)	Expected Δ in Maturity of loans from LFI (-0.318)	Value of Assets (0.148)
Importance of credit from FS (0.338)	Δ Prices of Goods/Services Sold Locally (-0.166)	Expected Δ Availability of Local Inputs (-0.273)	Expected Impact of the GOJ's Stimulus Package (0.217)
Δ in Size of loans from LS (-0.239)	Δ Availability of Foreign Inputs (-0.143)	Expected Δ Availability of Foreign Inputs (-0.165)	
Lines of Credit with LFI (0.168)		Expected Δ Prices of Goods/Services Sold Locally (-0.161)	
% of Total Deposits & Inv Held outside Jamaica (0.116)		Expected Δ Quantity of Goods/Services Sold Locally (-0.139)	

RESULTS and ANALYSIS –

Statistically Significant Relationships with MINimp

FINlin	TRADlin	PSYlin	BUSchar & GOVres
Lines of Credit with FS (0.325)	Δ Availability of Foreign Inputs (-0.306)	Expected Δ in Cost/Interest Rates of loans from LFIs (-0.429)	Sector (0.392)
Lines of Credit with LFIs (0.229)	Δ Prices of Goods/Services Exported (-0.292)	Expected Δ Quantity of Goods/Services Exported (0.289)	Primary Product Line (0.290)
Δ in Maturity of loans from LS (0.218)		Expected Δ in Availability of loans from LS (-0.247)	Type of Business Ownership (0.166)
Importance of credit from LFIs (0.206)		Expected Δ Availability of Foreign Inputs (-0.216)	
% of Total Deposits & Inv Held outside Jamaica (0.116)		Expected Δ Quantity of Goods/Services Sold Locally (-0.160)	

CONCLUSIONS

- Natural firewalls seem to have existed in Jamaica:
 - Relatively low dependence on credit from foreign financial institutions;
 - Relatively low degree of exposure of the domestic financial sector; and
 - An economy dominated by businesses which do not export.
- Adverse effects of the crisis were transmitted through non-traditional mechanisms:
 - Smaller loans from local suppliers; and
 - Expectations of deteriorating terms and conditions of loans from local financial institutions and suppliers.

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