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**RECESSION THREATENS RECENT GLOBAL ECONOMIC GAINS :  
ANOTHER GUAVA SEASON FOR THE CARIBBEAN?**

The September release by the International Monetary Fund of three of their flagship publications: World Economic Outlook (WEO), Global Financial Stability Report and the Fiscal Monitor, has raised new concerns about the state of the global economy and threats to the delicate recovery which is currently underway. These reports together depict a story of a global economy which is in a precarious position with weakening and unbalanced economic activity, heightened sovereign debt stress with related banking sector risks, and increasing fragility and volatility within the global financial system.

**Table 1**

	Actual Out-turn		September WEO Projections		Difference from June WEO Projections	
	2009	2010	2011	2012	2011	2012
World Output	-0.7	5.1	4.0	4.0	-0.3	-0.5
Advance Economies	-3.7	3.1	1.6	1.9	-0.6	-0.7
United States	-3.5	3.0	1.5	1.8	-1.0	-0.9
Canada	-2.8	3.2	2.1	1.9	-0.8	-0.7
Euro Area	-4.3	1.8	1.6	1.1	-0.4	-0.6
Newly Industrialized Asian Countries	-0.7	8.4	4.7	4.5	-0.4	0.0
China	9.2	10.3	9.5	9.0	-0.1	-0.5
India	6.8	10.1	7.8	7.5	-0.4	-0.3
Latin America and the Caribbean	-1.7	6.1	4.5	4.0	-0.1	-0.1

Source: IMD, World Economic Outlook, September 2011

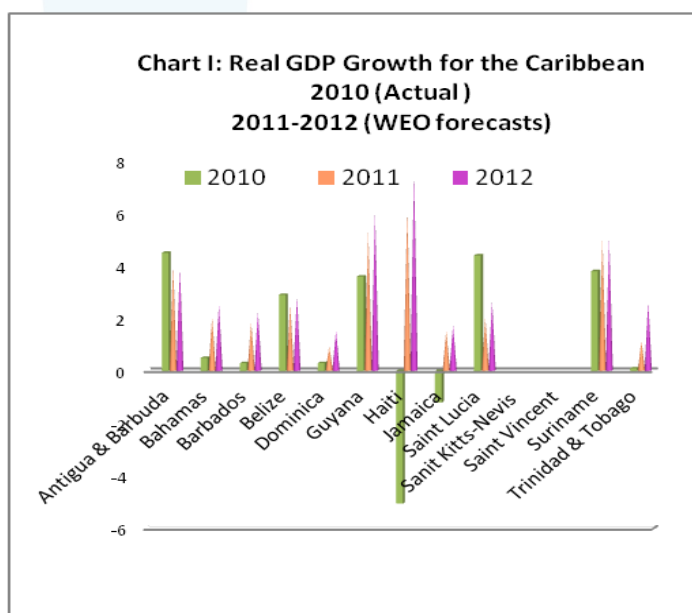
The World Economic Outlook indicates that the pace of global economic activity is expected to slow down to 4.0 per cent in 2011 and 2012 from 5.0 per cent growth re-

corded in 2010. As shown in table I, the forecasts were marked down in 2011 and 2012 against the backdrop of a series of shocks to the global economy in 2011 including the Japan earthquake and tsunami, social and political unrest in many oil-producing economies, fiscal crises, implementation of austerity programmes in European countries and anemic private sector demand plus weak job creation in the world's largest economy (USA). Growth for advanced economies is forecast at 1.5 per cent for 2011 and 2 per cent for 2012. However, this forecast is based on the assumption that the crisis in the Euro area can be speedily resolved. Key to the realization of this forecast would therefore be success of, and market response to, the announcement of the "new" Euro-zone rescue package which proposes to raise the ceiling for support to weak banks and governments from €440 billion to €2 trillion.

With regards to forecasting the short term outturn, the majority of economic analysts seem to lean towards the possibility of a recession commencing in 2011. A number of reasons have been advanced for this prediction. These include declining consumer confidence in the United States and Europe reflected in sharp declines in the price of equities and industrial commodities, structural problems in advanced economies resulting from declining competitiveness, slow job recovery despite a return to growth, minimal revival of the US housing market and slow resolution of the sovereign debt crisis in the Euro-zone. Nouriel Roubini, who has been labeled the prophet of doom due to his prediction of the subprime mortgage crisis and the 2008 recession, recently stated that the risks ahead for the global economy are "not just of a mild double dip recession, but of a severe contraction that could turn into a second Great Depression"

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What therefore are the likely consequences of another recession in the advanced economies for Caribbean countries? The structure of Caribbean economies varies: the OECS, Barbados, Jamaica, Aruba, Curacao and Bonaire are principally dependent on the tourism industry while Trinidad and Tobago, Guyana and Suriname are mainly commodity-producing countries. Belize has a more diversified economic base of commodities, tourism and agriculture. Despite the differences in structure, a global recession will likely impact most directly on Caribbean economies through the external accounts (balance of payments), with the size of the impact dependent on the nature of the production structures. The United States remains the largest market for inbound stay-over visitors for most Caribbean countries. Americans are likely to postpone travel plans if the labour market continues to remain soft and growth prospects do not improve in the short term. A recession would also mean falling demand and weaker earnings for Caribbean commodity producers. Moreover, much of the global demand for industrial metals and oil hinges on continued strong growth of the Chinese economy. Thus analysts are predicting that slower demand consequent upon the Chinese push to fight inflation will result in lower commodity prices. This is also likely to impact negatively on the balance of payments and fiscal accounts of commodity producers.



Source: IMF World Economic Outlook, September 2011 and CCMF database

Chart 1 suggests that Caribbean commodity producing countries will outperform their more service oriented counterparts, despite indications of slowing commodity prices. It must be noted that the performance of many countries must be gauged in the context where many adopted countercyclical measures in an effort to boost economic activity during the 2008/09 recession. However, in a situation where many of these economies have become increasingly fiscally leveraged, it may be difficult to sustain such measures if another recession emerges.

There are some bright spots on the horizon of economic gloom. First, the classic “head in the sand” posture has not been adopted by international policy makers. They have recognized that there is declining confidence in the ability of policy makers to attend to the crisis and conveyed their “collective resolve” to the implementation of policy measures that will arrest any escalation of the global economic situation into another recession. Thus, at the September IMF/World Bank meetings, they pledged collective and collaborative, swift and decisive action.

Second, the luxury end of the Caribbean tourism market seems to be well positioned. At the ‘State of the Industry Conference’ which took place in September 2011, experts speaking about the region’s potential reported that the Caribbean ranked high as a preferred destination for luxury travelers and has broad appeal, for repeat and first time visitors alike. In addition, tourism market experts signaled that travel spending remained a priority for this group of visitors, signaling positive prospects for the region. Other indicators suggest scope for continued growth of Caribbean tourist arrivals. Projections for airlift capacity into CARICOM and the Netherland Antilles from North America for January to August 2012 suggest a likely 2.3 per cent increase over the same period in 2011. With regards to, international airlift capacity, the projection is for growth of 1.2 per cent for the first eight months of 2012.

Third, while the economies of the Caribbean have been witnessing declining remittances from the US and UK markets as a result of the global economic crisis other

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economies have begun to show some interest in the region. In September 2011, China pledged US\$1 billion in loans to support infrastructure projects as it aims to deepen ties in the region. Already, the Chinese have invested in tourism resorts in The Bahamas and the Dominican Republic, while they are currently supporting a few infrastructure projects in Jamaica.

Fourth, the depreciating dollar will likely exert downward pressure on the Real Effective Exchange Rate (REER) for the currency of exchange for most countries. In particular, this is likely to benefit the Caribbean tourism industry with Canadian arrivals into the region showing significant buoyancy in 2009 to 2010. The depreciating US dollar against the Canadian dollar should allow for continued growth of this market.

In the interim, Caribbean countries may need to see how best they can capitalize on some of the existing bright spots, and seek to improve their business environment, so that they are "ready" once the global economy is "jumpstarted."

*Business Day. Nouriel Roubini: NEW great depression-that is what we risk now. September 22, 2011.*

Luxury Market Insights. 2011 Survey of Affluence and Wealth in America. Presentation from CTO State of the Industry Conference, St. Martin, September 15-17 2011. <http://www.onecaribbean.org/eventsandcalendars/conferences/soticprogram.aspx>

Source; Sabre ADI

See Reuters. "China Woes Caribbean with Offer of \$1 billion in Loans. <http://www.cnbc.com/id/44494281/>

China\_Woos\_Caribbean\_With\_Offer\_of\_1\_Billion\_in\_Loans

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## REGIONAL NEWS SUMMARY

### CL FINANCIAL

- Barbados' Minister of Finance the Hon. Christopher Sinckler is urging Clico policyholders to continue paying their premiums and keep their policies up to date (BAdv 7 Sep)
- Finance Minister Winston Dookeran said Government planned to issue electronic bonds to retire the remaining indebtedness of CLICO policyholders. Dookeran said that Republic Bank shares have increased in value

from \$74 to \$90 in the past year. The RBL shares will be held in a trust called NEL 2 (TE 15 Sep)

- After 12 straight hours of debate, bills relating to Government's final actions with respect to insurance company CLICO were passed, with Finance Minister Winston Dookeran saying it was now time to move on (TE 15 Sep)]
- Strange commissions, exorbitant bonuses and significant weaknesses in internal controls were the order of the day at CL Financial, former group financial director, Michael Carballo, said at the Commission of Enquiry (TE 21 Sep)
- Duprey, the former executive chairman of CL Financial, was paid a monthly income of \$5 million by subsidiary CLICO. In addition, Duprey was paid multi-million-dollar consultancy fees throughout the year, Bisnath, CLICO's attorney, said. This totalled \$90 million a year, he added (TE 22 Sep) In all, Duprey was paid \$1.1 billion from the deposits of CLICO policyholders in the five years prior to CL Financial seeking a billion dollar bailout from the Government (TE 23 Sep)
- Percy Farrell, the court-appointed representative for Executive Flexible Premium Annuity policyholders, yesterday initiated legal proceedings against Finance Minister Winston Dookeran. Along with 4 others, he is challenging two Acts passed earlier this month (TG 27 Sep)

### CARIBBEAN

- A CDB official who has been assigned to oversee the Bank's administration of a fund designed to help prepare the region for the full and effective implementation of trade deal with Europe says the lack of qualified persons is a key impediment (SN 26 Aug)
- The latest data released by the Central Statistical Office indicate that inflation has remained well contained. On a year-on-year basis, headline inflation measured 1.4 per cent in July 2011, compared with 0.8 per cent in the previous month (TG 29 Aug)
- Guyana's economy grew by 5.9% in the first half of the year, building on the achievement of five consecutive years of positive growth since 2006 and giving a positive prognosis for end of year results (GCO 2 Sep)

## REGIONAL NEWS SUMMARY CONT'D

- Wheat prices on the world market, which have steadily increased over the past year because of bad weather in wheat-producing countries like Russia, pushed domestic prices of breads and cereals up in July (TE 2 Sep)
- Foreign Direct Investment in Guyana increased by 9.2% in the first half of 2011 and this was driven principally by the upsurge in activities in the mining and telecommunications sectors (GCO 5 Sep)
- Brazil has donated US\$ 500,000 to the Barbados based Caribbean Disaster Emergency Management Agency to assist the agency in disaster management related projects (GuyTim 6 Sep)
- 80% of Jamaican food exporters are not certified to standards that would allow their goods to enter the US under that country's new Food Safety Modernisation Act, which comes into effect in January (JO 7 Sep)
- Virgin Holidays passengers and Virgin Unite will pump US\$3.5 million into the new Branson Centre of Entrepreneurship - Caribbean, which opened at in Jamaica with an initial intake of 14 aspiring young entrepreneurs (JB 9 Sep)
- The St. Maarten Hospitality & Trade Association said that immediate and dramatic action is needed to turn the economy around. The association echoed recent statements by the President of the Central Bank that no growth or negative growth (-0.5 per cent) is projected for St. Maarten for 2011 (Caribseek 9 Sep)
- Trinidad and Tobago's Government has spent \$4 million for their part in the organisation of the third China-Caribbean Economic and Trade Cooperation and Forum. Trade and Industry Minister Stephen Cadiz said, "We'll get it back. It's a very good investment." (TG 14 Sep)
- It appears that the envisioned Caribbean Guilder for Curaçao and St. Maarten will continue to be on the shelf in 2012, as government intends to make arrangements with Curaçao for the continued use of the Netherlands Antilles guilder (Caribseek 14 Sep)
- Barbados' informal economy comprises business activity, such as street vending, for which operators pay no taxes and evade regulation. It also includes underground and illegal activity like prostitution and illegal drugs. According to Central Bank statistics, the informal sector accounts for about 35% of the country's GDP (BN 14 Sep)
- Latin American and Caribbean governments and private sectors must seek to ensure that Chinese companies "abide by the same market and non-market requirements as their western counterparts" as a condition for investing in the region (SN 16 Sep)
- British Airways has announced plans to reduce flights to the Caribbean following a sharp rise in Air Passenger Duty (CNnow 19 Sep)
- The IMF has suggested that a Value Added Tax be introduced in St. Maarten as part of a changes aimed at re-vamping the country's tax system. The IMF has also suggested that the rates for income and profit tax be lowered, and that the country synchronize its currency policies with Curaçao (Carib360 20 Sep)
- UC Rusal has inked a deal to acquire the remaining 35% stake in Alumina Partners of Jamaica giving it full ownership of the St Elizabeth-based refinery (JO 21 Sep)
- The governments of Jamaica and China on Monday signed two grant agreements for RMB 21 million (US\$3.288 million) and a memorandum of understanding on agricultural cooperation (CNnow 22 Sep)
- A US\$49-million deal has been sealed between Lake Asphalt Trinidad and Tobago Ltd to supply asphalt to China Railway Construction, Energy Minister Kevin Ramnarine has said. He said Cabinet agreed to the three-year contract with the Chinese company which will see many benefits to this country (TE 23 Sep)
- The island's commercial banks have continued to rack up user fees with one increasing its charge for a letter of undertaking by 396 per cent over an eight-month period (JG 23 Sep)

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