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THE GLOBAL CRISIS AND ITS IMPACT ON THE OECS COUNTRIES ECONOMIC AND SOCIAL IMPLICATIONS

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INTRODUCTION

The current global financial and economic crisis that started unfolding in 2008 and has continued unabated during 2009 is already considered the worst since the Great Depression of the 1930s. Furthermore, there is a growing consensus that this crisis could extend to 2010 and eventually even go beyond. In this context, with the major world economies already suffering severe economic slowdown, developing countries are being negatively impacted by this slowdown through diverse transmission channels. The fall in demand for commodities, contraction of tourism flows, tighter access to credit, and stagnation of foreign direct investment flows are just some examples of the channels through which the global crisis is affecting the economies of the developing countries.

In that sense, the Caribbean must be considered one of the most vulnerable regions because of its strong linkage to the economic situation of the United States and the European countries, which constitute the main markets for many of the region's goods and services. Accordingly, economic indicators clearly show that, at the regional and country levels, the Caribbean is indeed going through a recessionary phase, with activity levels already falling in key economic sectors, such as tourism, growing imbalances in the fiscal and external accounts and rising unemployment, among others.

The Organisation of Eastern Caribbean States (OECS) member countries (in particular the smaller States) should be considered as highly vulnerable due to the small size of their economies, their limited production diversification, their heavy dependency on tourism and other tradable activities, and their limited access to financial resources. Under those circumstances, there is a substantial risk of a reversal of socio-economic advances made during the last years, especially in poverty reduction and critical health issues like malnutrition, infant mortality, maternal mortality and Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) treatment and prevention.

The 2008-2009 economic scenario for the ECCU countries

According to data already available, 2008 was a challenging year for most Eastern Caribbean Currency Union (ECCU) economies. Indeed, estimates by the Eastern Caribbean Central Bank (ECCB) show that during 2008 the economies of the ECCU grew by a mere 2.0% compared to 6.1% recorded in the previous year.¹ By sectors, the construction and tourism sectors, the two main drivers of the economy, suffered significant deceleration, affected by the global economic crisis, while the manufacturing sector also suffered a major setback fuelled by falling consumer demand. Furthermore, a fiscal deficit equivalent to 3.5% of GDP was recorded, while the balance of payments current account deficit remained at a very high level (approximately 34.4% of GDP). The debt level continued to be unsustainable at 89.5 % of GDP, raising serious concerns about the fiscal solvency of several OECS countries.

Perhaps the one bright spot has been the overall decline in inflation, catalyzed by the stabilizing of international commodities prices by the end of 2008. However, food prices are still at high levels in most member countries, adversely affecting household purchasing power and threatening food security and safety.

¹ Simple average.

GDP GROWTH RATE, 2008-2009f*(Percentage)*

	2008p	2009f
MDCs^a	1.7	-0.6
Bahamas	-1.7	-3.5
Barbados	0.5	-2.2
Belize	2.1	1.5
Guyana	3.1	0.0
Jamaica	-0.6	-3.0
Suriname	5.2	2.5
Trinidad and Tobago	3.5	0.5
ECCU^a	2.0	-0.1
Anguilla	-0.5	-4.7
Antigua and Barbuda	2.8	1.1
Dominica	3.2	1.5
Grenada	0.3	0.3
Montserrat	6.2	2.5
St. Kitts and Nevis	2.5	-0.6
Saint Lucia	2.0	-1.1
St. Vincent and the Grenadines	-0.5	0.4

Source: ECLAC.^a Simple average.

p = preliminary figures

f = forecast.

Perspectives for 2009 are not encouraging. Preliminary information available for the first months of the year show clearly that the Caribbean as a whole is going through a recession, and, in this context, several ECCU members will probably be among the most affected countries given their structural weaknesses, limited resources and heavy dependence on external factors. In fact, it is worth noting that as a reflection of this vulnerability, as of August 2009, three ECCU member countries (Dominica, Saint Lucia and St Vincent and the Grenadines) have already been forced to apply for emergency funds from the International Monetary Fund (IMF), under the rapid-access component of the Exogenous Shocks Facility (ESF), in order to better cope with the adverse effects from the global crisis.²

Overall, growth expectations for ECCU countries in 2009 point to a significant economic slowdown, with growth rates close to zero or, even worse, negative growth rates for several countries. Thus, it is expected that the ECCU average growth rate during 2009 will be -0.1%, reflecting the contraction of the national gross product in real terms.

Implications in the social and health sectors

Undoubtedly, this negative evolution of the economy is putting into jeopardy the progress made during previous years in the social and health sectors. Available evidence shows that the Caribbean as a whole, and also individual countries, have managed to make real progress in diverse social and health gains, such as poverty reduction, malnutrition treatment, vaccination coverage and HIV/AIDS prevention and treatment. However, this

² Antigua and Barbuda is another ECCU member country that has had to rely on emergency loans, in this case from the ALBA, in order to balance its budget during 2009.

progress was fuelled by the substantial increase, in absolute and relative terms, in financial resources allocated by Caribbean States to the social sector during the last decade.

Consequently, under the current adverse scenario, with most Caribbean countries experiencing a drastic economic slowdown, most governments in the region are faced with dwindling revenues and will be hard pressed to balance their budgets and finance their operations. Therefore, barring other factors, a contraction in public expenditure is a very probable outcome in several countries in the region. Given this scenario, the increase in social expenditures, or maintaining current expenditure levels, cannot be taken for granted.

Policy responses and fiscal sustainability

It is worth noting that governments in the Caribbean have not been idly watching the crisis unfold. On the contrary, a widespread process of implementation of policy responses has been taking place across the region since the negative impact of the global crisis on the region became apparent during the last months of 2008.

Thus, the discussion and adoption of counter-cyclical measures have taken place in practically all Caribbean countries, encompassing the most diverse areas covered by public policies. Monetary and fiscal measures, such as rebates of interest rates and tax reductions, aiming to stimulate the economy, have been adopted. Similarly, specific measures in the labour and social fields are also being adopted by the Caribbean countries in order to preserve social welfare. In that sense, the reinforcement and expansion of expenditure in safety networks and health programs is a key element.

In the specific case of the ECCU, governments have already taken a number of policy decisions (removal of the Value Added Tax (VAT) and the Common External Tariff on selected commodities, safety net programs and unemployment benefits) to cushion the impact of the crisis on the populace and to an extent maintain economic activity by implementing the Public Sector Investment Programme (PSIP).

However, efforts to preserve public spending, particularly in social and health care and prevention, bring to the fore the issue of how to adequately finance those expenditures. This is a critical issue that has to be addressed and incorporated in any anti-crisis strategy if these efforts are to be successful, since not all the Caribbean States enjoy a healthy, balanced budget and sustainable fiscal solvency. In fact, for several Caribbean States, a recurrent fiscal deficit is the norm and well before the surge of the global crisis, many faced serious difficulties in balancing public revenues and expenditures.

Consequently, there is a real risk that in the current circumstances of widespread economic slowdown and fall in public revenue, some Caribbean countries will be forced to cut public expenses, including those related to social and health welfare. Such scenario would deepen the impact of the crisis and could translate into a reversal of advances made in key health issues.

The way forward: Some issues to address

Furthermore, an essential question is how can governments secure resources and keep social and health expenditures at acceptable levels, in order to protect the advances made in

recent decades. Certainly, this is likely to be an arduous and complex task that will require the full attention of policy makers at the regional and local levels.

In that sense, as a part of the discussion of an anti-crisis agenda for the Caribbean, the following concepts and ideas should serve as a basis for further discussion:

- Improving and increasing the access of Caribbean countries to resources from multilateral sources is an absolute priority, considering the acute difficulties already faced by several countries in financing expenditures. As largely middle-income developing countries, Caribbean States, and, in particular, the OECS group should intensify their lobby efforts to gain greater access to available multilateral resources.
- In that sense, it is worth noting that in the last G-20 summit, the representatives from the leading world economies pledged to provide up to US\$1 trillion to the IMF, the World Bank and other multilateral institutions, in order to support developing countries hit by the global crisis.
- Naturally, the effectiveness of this increased multilateral support depends on how well resources are allocated to key economic and social needs by developing countries. Therefore, in order to benefit effectively from this support, Caribbean States must redouble their efforts to improve transparency, agility and efficiency in public spending.
- A firm commitment to preserve and strengthen public spending in health and other social areas is required from Caribbean governments, which, ideally, should include specific floors and benchmarks in public sector budgets for expenditures in health, nutrition and education, among others.
- Priority should be given to the reinforcement of monitoring and evaluation efforts in essential social and health expenditures such as poverty, malnutrition and HIV/AIDS. In that sense, it is necessary to take advantage of the upcoming deadline for the MDG targets, in 2015, as an opportunity to conduct a widespread assessment of regional advances made, and formulate and promote common policies for the furtherance of social standards and sustainable development in the region.
- Acceleration of regional integration processes as a central element for sustainable economic growth and social development. The progress already made on the establishment of the OECS Economic Union is particularly encouraging, with June 2010 set as the date for the implementation of the Economic Union. This will see the creation of a single economic space, facilitating the free movement of people, goods, services and capital, greater export competitiveness, higher employment and human resource development.