

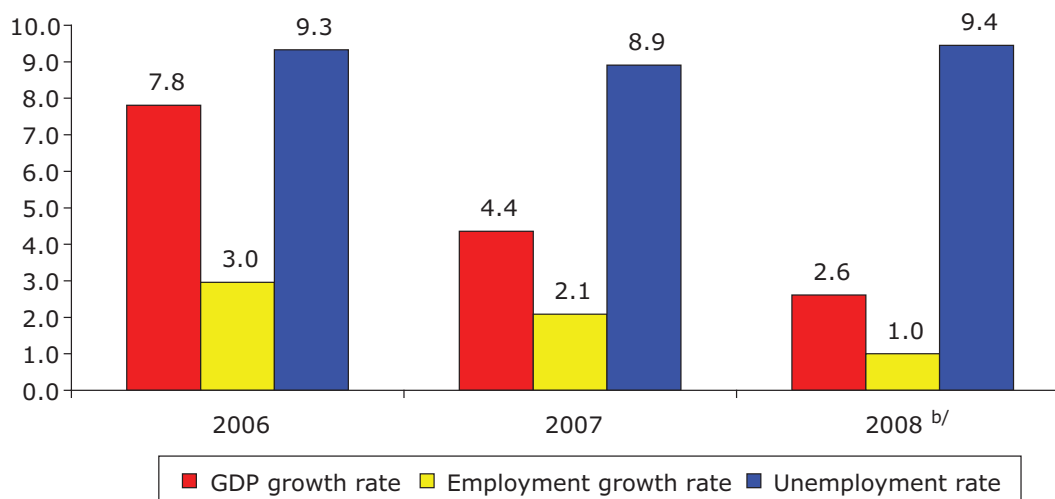
THE ECONOMIC AND LABOUR MARKET SITUATION IN THE CARIBBEAN IN THE CONTEXT OF A GLOBAL CRISIS

The preliminary estimate of Gross Domestic Product (GDP) growth in the English- and Dutch-speaking Caribbean of 2.6% for 2008 reveals that the subregional economy was not in recession but continued to expand. However, 2008 was the second consecutive year in which economic growth slowed down. This was largely in response to the slowdown in the global economy that began in 2007 (Figure 5a and Table 5a).

Contraction of global demand and consumer spending, as well as falling commodity prices, directly affected the region's tourism, energy, mining and related sectors during 2008. These sectors are the major foreign currency earners in Caribbean economies. The crisis has also contributed to the decline in the volume of net remittances sent to Caribbean countries. In addition, given the importance of trade as a share of GDP in the Caribbean, the countries of the subregion are extremely vulnerable to the current global economic and financial crisis.

FIGURE 5a

THE CARIBBEAN: GDP GROWTH, EMPLOYMENT GROWTH AND THE UNEMPLOYMENT RATE IN COUNTRIES OF THE CARIBBEAN COMMUNITY (CARICOM), 2006-2008^{a/} (Percentages)



Source: ILO Subregional Office for the Caribbean, based on data from Table 5a.

a/ Does not include Haiti.

b/ Estimated.

In Trinidad and Tobago, the largest economy in the subregion, preliminary estimates put GDP growth at 3.5% in 2008, the lowest rate since the country came out of its last severe recession in the early 1990s. Jamaica, the second largest economy in the subregion, recorded 1.1%, -0.8% and 0.0% GDP growth in the first, second and third quarters of 2008, respectively, considering quarter-to-quarter growth. The 2008 growth estimate for this country is 0.1%. While this slower pace of economic growth in the two largest economies dominated regional performance indicators, the other countries are facing similar challenges. In the Bahamas, the third largest economy in the region, with a large share of U.S. tourism and services, growth is expected to slow down from 4.5 % in 2007 to 1.0% in 2008. Barbados achieved 3.6% GDP growth in 2007; however, this rate was just 1.3% in the first half of 2008. The annual growth estimate for Barbados in 2008 is 1.7%. In fact, it is estimated that 10 of the 13 countries included in the analysis recorded lower growth in 2008 than in the previous year and eight countries experienced slower economic growth for the second consecutive year.

Estimates of employment growth for 2007 show an expansion of 2.1%, slightly lower than the 3.0% increase achieved in 2006. The preliminary estimate of employment growth for 2008 of 1.0% indicates a continued

slowdown, following the trend of the region's GDP. This estimate is largely based on data for the first half of 2008. Consequently, this indicator may be even lower considering the widely publicized layoffs that occurred in the third and fourth quarters of 2008, reflecting the initial impact of the global financial crisis and economic slowdown.

TABLE 5a

THE CARIBBEAN (13 SELECTED COUNTRIES): YEAR-OVER-YEAR GDP GROWTH, EMPLOYMENT GROWTH AND THE UNEMPLOYMENT RATE IN COUNTRIES OF THE CARIBBEAN COMMUNITY (CARICOM) ^{a/}
(Percentages)

Country	GDP growth				Employment growth				Unemployment rate			
	2006	2007	2008 ^{b/}	2009 ^{c/}	2006	2007	(First half) 2007	2008 ^{d/}	2006	2007	(First half) 2007	2008 ^{d/}
Antigua and Barbuda	8.0	3.8	2.1	4.0	-	-	-	-	-	-	-	-
Bahamas	4.6	4.5	1.0	1.2	3.7	3.0	-	2.0	7.7	7.9	-	8.7
Barbados	3.9	3.6	1.3	1.0	-1.2	1.4	-0.3	0.1	8.7	7.4	7.9	8.2
Belize	4.7	1.2	5.3	2.5	3.7	9.8	-	12.7 ^{e/}	9.4	8.5	-	5.3 ^{e/}
Dominica	4.2	2.9	2.6	2.8	-	-	-	-	-	-	-	-
Grenada	2.1	5.0	3.7	4.2	-	-	-	-	-	-	-	-
Guyana	5.1	5.4	4.8	4.5	-	-	-	-	-	-	-	-
Jamaica	2.7	2.3	0.1	0.9	3.5	2.6	0.6	-0.1	10.3	9.8	10.1	11.0
St. Kitts and Nevis	4.0	3.1	3.5	2.7	-	-	-	-	-	-	-	-
St. Lucia	5.0	2.9	2.3	3.1	10.1	1.7	-	2.8	15.7	14.0	-	14.5
St. Vincent and the Grenadines	6.9	7.7	5.0	4.7	-	-	-	-	-	-	-	-
Suriname	4.5	5.3	6.5	4.8	1.6	0.4	-	1.6	12.3	14.5	-	15.6
Trinidad and Tobago	13.3	5.5	3.5	4.5	2.1	0.3	2.2	0.4	6.2	5.5	6.3	4.9
Total Subregion ^{f/}	7.8	4.4	2.6	2.8	3.0	2.1	-	1.0	9.3	8.9	-	9.4

Source: ILO Subregional Office for the Caribbean, based on information from national statistical offices and the International Monetary Fund (IMF).

a/ Does not include Haiti.

b/ The 2008 GDP growth rates for Antigua and Barbuda, the Bahamas, and the OECS countries and Suriname are from the IMF, World Economic Outlook Database, October 2008. Data for the other countries refer to the first half of 2008 for Barbados; the first three quarters of 2008 for Belize; the estimate for Jamaica is the average GDP growth (quarter to quarter) of the first three quarters.

c/ All 2009 GDP growth estimates are from the IMF, World Economic Outlook Database, October 2008.

d/ Employment and unemployment rate estimates for the Bahamas, Belize and Suriname are for 2008. The estimates for the other countries are simple average estimates of the first two quarters from household surveys.

e/ Estimates were prepared by the ILO Subregional Office for the Caribbean.

f/ Subregional GDP growth rates are weighted, using GDP in Purchasing Price Parities (PPPs) from the IMF's World Economic Outlook Database, October 2008. Subregional employment growth and unemployment estimates include the countries with available information. The share of employment in these countries was over 90% of total subregional employment in 2001.

The continued slowdown of employment growth at the subregional level reflects the trend in the two largest labour markets of the region, Jamaica and Trinidad and Tobago. In Trinidad and Tobago, employment grew by 0.4%, which is only marginally higher than the 0.3% growth achieved in 2007, but moderately lower than the 2.1% recorded in 2006. Jamaica, with the largest labour market in the subregion, also experienced a slowdown in employment growth.

The estimate of the subregional unemployment rate shows an increase of 0.5 percentage points during 2008, reflecting an increase in five of the seven countries with available information. In Jamaica, the unemployment rate is expected to increase by 1.2 percentage points in 2008, based on estimates for the first half of the year,

which coincides with a slowdown in GDP growth. The unemployment rate is expected to decline only in Trinidad and Tobago and Belize.

Some countries experienced pressures on the exchange rate due to a reduced inflow of remittances, export incomes, tourism revenue and the availability of international credit due to the global financial crisis. Nevertheless, exchange rates remained stable in 2008. To stabilize currency markets, central banks intervened in the foreign currency market, tightened credit policies and raised interest rates. However, with the deepening of the global financial and economic crisis, foreign currency income diminished in the fourth quarter of 2008 as prices of the major export products of the region (oil, gas, alumina and aluminium) continued their steep decline.

Most Caribbean countries experienced an increase in inflation in the first half of 2008, mainly because of rising food prices in the global economy. In addition, the depreciation of the U.S. dollar relative to other major currencies also contributed to inflationary pressures given that nearly all Caribbean countries have pegged their currencies to the U.S. dollar. In Trinidad and Tobago, the average monthly inflation rate for the period January to November 2008 was 11.7% compared with the same period in 2007. This country experienced an unprecedented increase in food prices in the period April to June 2008, when prices rose by an average of 4.3% per month. In Jamaica, inflation (point to point) from November 2007 to November 2008 stood at 19.6%, 5.2% higher than the inflation rate for the same period in the previous year. This increase largely reflects increased food prices. Barbados and Suriname experienced similar inflationary pressures, with hikes in food and oil prices being the main drivers of inflation.

Declining commodity prices in international markets in the second half of 2008 helped to reduce (imported) inflation. However, in Trinidad and Tobago and Jamaica, inflation remained high in the third and fourth quarters of 2008, despite falling oil and food prices, due to local inflationary pressures.

Sharp downward adjustments of prices of oil, gas, aluminium and other export commodities reduced foreign income earnings of the natural resource-based economies of the subregion, adding to the challenge of maintaining economic stability. In the tourism-based economies, declining tourist arrivals had a similar impact.

Table 5b

**THE CARIBBEAN (FOUR SELECTED COUNTRIES):
CHANGES IN THE CONSUMER PRICE INDEX, 2005-2008 ^{a/}**
(Percentages)

Year	Bahamas	Barbados	Jamaica	Trinidad and Tobago
2005	2.0	6.1	15.1	6.9
2006	1.8	7.3	8.4	8.3
2007	2.5	4.1	9.3	7.9
2008	5.7	7.1	22.5	11.7

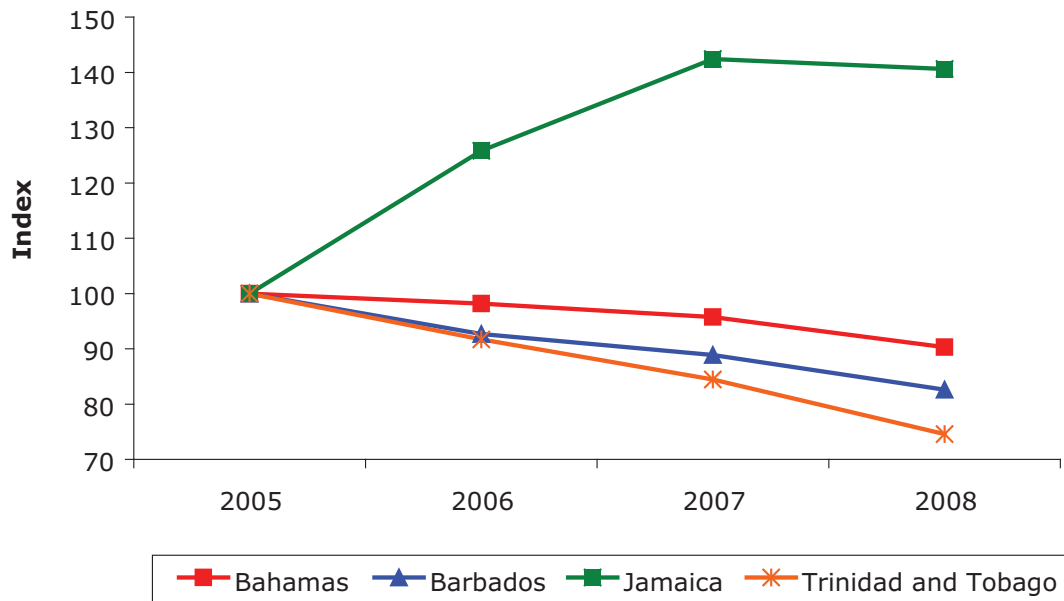
Source: ILO Subregional Office for the Caribbean, based on official country information.

a/ Monthly average. Data for 2008 refer to the period from January to October for the Bahamas, January to September for Barbados, and January to November for Jamaica and Trinidad and Tobago.

In the four largest economies in the region—the Bahamas, Barbados, Jamaica and Trinidad and Tobago—increased inflation levels eroded the purchasing power of the statutory minimum wages in 2008 (Table 5b and Figure 5b). Jamaica is the only country in the subregion that conducts an annual, tripartite review and adjustment of minimum wages. A similar review is not operative in the three other countries. In Barbados and Trinidad and Tobago, the discussion on adjustment of the minimum wage intensified in 2008; however, formal adjustments were not made.

FIGURE 5b

THE CARIBBEAN (FOUR COUNTRIES): REAL MINIMUM WAGE INDEX, 2005-2008 ^{a/}
(2005=100)



Source: ILO Subregional Office for the Caribbean, based on official information of the ministries of labour and national statistics offices of the countries.

a/ The nominal statutory minimum wages were deflated using the retail price index published by the national statistics offices. Weekly wages were converted to monthly wages using a factor of 4.3. In Barbados, a minimum wage is established only for «shop assistants.» In other countries, a national minimum wage is in effect.

The initial impact of the global financial and economic crisis on Caribbean economies became more evident in the second half of 2008. The initial optimistic view that the global financial crisis and the recession in developed economies would affect the subregion only marginally has now faded. There is broad consensus that the scope, intensity and duration of this global crisis are unprecedented and will affect all countries. However, the debate on the duration of the unfolding global crisis continues.

In fact, the subregion must also anticipate its response beyond the crisis: how will the long-term adjustment policies adopted by developed economies change the global economic order and what impact will they have on Caribbean economies? In 2009, representatives from government, employer organizations, trade union organizations and other civil society groups must design policies that respond to the many challenges that began to surface in 2008:

- 1) *A reduction of foreign currency earnings and its wide-ranging effect on the open Caribbean economies.* Caribbean economies are in a much better position to face this crisis than they were during the crisis of the 1980s. Foreign currency reserves are higher and the current foreign debt service ratios are less burdensome. However, much will depend on the scope and duration of the crisis. An increase in inflation and falling real incomes may again become major challenges if exchange rates come under pressure of reduced foreign currency earnings for a prolonged period.
- 2) *A slowdown of economic activity or even a recession, reduced employment growth and an increase in unemployment.* Labour-intensive sectors are more likely to experience major shocks. These include the tourism, construction and personal and repair and maintenance service sectors. Business confidence surveys in some of the major economies reflect the reduced expectations for 2009. Governments and central banks of the subregion have reduced their GDP growth estimates and expect unemployment to increase significantly in 2009. In early 2009, Trinidad and Tobago and Jamaica adjusted their growth

forecasts for the year. Jamaica's estimated GDP growth of 3.0% was reduced to 1.0%. Taking into account the most recent economic data, the central bank of Trinidad and Tobago estimated growth for 2009 at between 1.0% and 2.0%. In the tourism-based economies, tourist arrivals may be expected to decline anywhere from 5% to as much as 20% in 2009, depending on the intensity of the crisis. Central banks of the Bahamas and Barbados have warned to expect a significant economic slowdown in 2009.

- 3) *An expansion of government deficits to stimulate the growth of the national economy.* While stimulus packages have again become an accepted policy response to the crisis, their prolonged success will largely depend on the duration of the crisis, on the targeted sectors and on the actions of the economic actors. Jamaica has already presented its stimulus package in an attempt to counter the slowdown in economic activity. The Government of Trinidad and Tobago will run a public deficit to avoid excess cuts in government expenditure, a response similar to that in a number of other countries.
- 4) *A decline in the level of investment as a result of the difficulty in accessing credit from foreign banks.* This becomes a challenge due to the international financial crisis and tight monetary policies that include high interest rates.
- 5) *The need to build social consensus to address the social impact of the crisis.* A number of government leaders in the Caribbean have already called on employers and trade unions to build consensus to respond more effectively to the crisis. It is clear that engaging in this type of dialogue will help to avoid disproportionately burdening a specific group with the social costs.

Note:

Excerpt from: ILO, Regional Office for Latin America and the Caribbean. *2008 Labour Overview, Latin America and the Caribbean*. Pages 42-46. Visit our webpage: <http://www.oit.org.pe>