



Natural Disasters and the Caribbean

We are into an active 2006 Atlantic hurricane season. Experts predict between 12-15 named tropical storms, with 7-9 becoming hurricanes and 3 becoming major hurricanes. Yet there is a growing discomfort that the numerous small island developing states (SIDS) of the Caribbean remain ill-prepared to deal with these devastating primary natural hazards, which have been increasing in both incidence and ferocity. Over the last 35 years, the Caribbean has experienced more than 160 natural disasters (mainly hurricanes and floods) whose cumulative costs totaled an estimated 37% of the region's GDP and affected 65% of the region's population. The Eastern Caribbean countries, in particular, tend to have a very high exposure to natural hazards, ranking among the 10 most disaster prone in the world. However, in recent times, the patterns show that while the human impact is still substantial, the cost in terms of damages to property has risen tremendously.

In the past 12 years, the Caribbean has faced Hurricane Gilbert in 1988, Hugo in 1989, Luis and Marilyn in 1995, Mitch and Georges in 1998 and Lenny in 1999, all resulting in major losses. Hurricane Gilbert is estimated to have cost Jamaica \$4-6 billion, while the Eastern Caribbean Central Bank reports that because of Hurricane Luis in 1995 Antigua and Barbuda saw losses of 4,000 to 7,000 jobs, an estimated 15-25% of the workforce. More recently in September 2004, Hurricane Ivan completely crippled the Grenadian economy, annihilating the agriculture sector, when the nutmeg fields, one of the country's primary export commodities, were completely ruined. These fields will take about 7 – 10 years to replenish, which would undermine foreign exchange earnings in the coming years. The damage inflicted on the Grenadian economy was in excess of 200% of GDP. The subsequent year, the Grenadian economy contracted by 3%, a sharp reversal from the 4% growth that had been projected pre-Ivan. Grenada relied heavily on donor pledges which amounted to about 34% of GDP (US\$150 million). Despite significant donor relief, Grenada faced an extremely wide financing gap forcing the government to undertake a debt restructuring exercise. The Grenadian economy is still reeling from the effects of Hurricane Ivan.

A number of studies have outlined the following macroeconomic implications typically associated with natural disasters:

- **Immediate contraction in economic output.** Natural disasters were found to have been accompanied by same-year GDP contraction. This was seen in Grenada, as well as Anguilla in 1995 when Hurricane Luis struck, which saw real GDP decline by 4.2%.
- **Worsening of external balances.** Studies have found that following the natural disaster, a country's imports surge (e.g. – reconstruction materials, and compensation for lost production). It was also found that a country's dependence on agricultural exports is an important indicator of the magnitude of the deterioration of the trade balance.
- **Deterioration in fiscal balances.** Although difficult to establish a definitive relationship, natural disasters tend to place substantial pressures on public finances. Reconstruction efforts and emergency assistance requires higher government expenditure and revenue may shrink because of contraction in economic activity. This usually results in a worsening of public finances.

Due to the excessively high costs associated with natural disasters in the Caribbean, serious attention must be paid to regional preparedness and response plans for these events. Tourism and agriculture make up the majority of productive activity in Caribbean economies and are the main sources of revenue. Both sectors are very vulnerable, particularly to the impact of hurricanes. While some measures are currently in place, there is greater scope for an agency such as the Caribbean Disaster Emergency Response Agency (CDERA) to develop and roll out a comprehensive regional natural disaster strategy on crisis prevention, financing and management.

FINANCIAL & ECONOMIC INDICATORS

As at 14th September 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	117.59	116.43
Euro	1.27	1.27
Jamaica	65.96	65.96
Guyana	200.70	200.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	63.22	67.32
Natural Gas (US\$/mmbtu)	5.07	5.73
Gold (US\$/Troy Ounce)	575.25	616.8

Eurobond Indices (Returns, % YTD as of 14- Sept- 06)

Lehman Brothers Global Aggregate Index	2.00
JP Morgan EMBI+	-19.25
CMMB Eurobond Index	0.41

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.25	5.25
Euro Zone	3.00	3.00
Japan	0.25	0.25
Brazil	14.25	14.25
Trinidad	7.75	7.75
Jamaica	12.15	12.15
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.81	4.84
US 10-Yr Treasury	4.77	4.79
3-month UK Libor	4.99	4.99
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	13.91	13.94
TT 90-day T-Bill	6.47	6.47
Jamaica 90-day T-Bill	12.29	12.29
Barbados 90-day T-Bill	5.91	5.20

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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