UNITED NATIONS

ECLAC

Economic Commission for Latin America and the Caribbean
Subregional Headquarters for the Caribbean

Distr.: LIMITED
LC/CAR/L.189
9 March 2009
ORIGINAL: ENGLISH

PRELIMINARY OVERVIEW OF THE CARIBBEAN 2008-2009

This document has been reproduced without formal editing. The information contained herein is as at 28 February 2009.

Table of contents

List of Tables

List of Figures

PRELIMINARY OVERVIEW OF THE CARIBBEAN 2008-2009

Introduction

This report addresses the main features of the evolution of Caribbean economies during 2008 and, especially, the prospects for 2009 in the context of the ongoing international financial crisis and economic turmoil. As is well known, small open economies, such as those of the Caribbean, are highly influenced by developments in the world economy through a variety of channels of transmission that include international trade, tourist arrivals, remittances, Foreign Direct Investment (FDI) and external financing. The intensity of these effects will depend, among other things, on the fiscal position, the external gap, and the level of public debt and international reserves. These issues, together with policy responses devised by Caribbean countries to tackle the current situation in the global economy, are analyzed from a regional comparative perspective. A preliminary assessment of the financial sector in various Caribbean countries is also included, as well as a discussion and evaluation of the cyclicality of fiscal policies in most of them over the last decades. The second section presents country briefs of the seven Most Developed Countries (MDCs) – i.e. Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago – and a subregional assessment of the eight countries members of the Eastern Caribbean Currency Union (ECCU), i.e. Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines are also presented.

SECTION I: REGIONAL ANALYSIS

I. The gloomy world economy

Undoubtedly, 2008 was a year of significant events in the world economy, whose prospects became gloomier as months passed by. These events confirmed the warnings raised by the Economic Commission for Latin America and the Caribbean (ECLAC) (2008a) in April, about the possibility of a financial crisis in the United States as the different measures implemented to tackle the financial sector weaknesses and the credit crunch of mid-2007 – i.e. successive cuts in interest rates and injections of liquidity in the system – would be ineffective as the problem was not one of liquidity, but of solvency on the part of financial institutions. As the financial crisis became systemic in the United States by September 2007, it rapidly turned global, due to the high exposure of international financial institutions based in Europe and other regions to mortgage-backed securities issued in the United States.

The spill-over effects of the financial turmoil on the real economy started to be felt in the second quarter of 2008, when some advanced economies posted negative growth rates relative to the first quarter: Japan (-3%), France (-1.3%) and Germany (-2%). The Euro area as a whole recorded an output contraction of 0.7% in the same period. During the third quarter, the United States economy dropped by 0.5%. Moreover, it contracted by 3.8% during the last quarter, the worse result since 1982. During October-December 2008, both the Euro area and the European Union (EU) recorded a GDP decline of 1.5%. All in all, at the end of 2008, the advanced economies were officially in recession, i.e. two consecutive quarters of output dip. According to the International Monetary Fund (IMF) forecasts released in late January, during 2009 the developed countries would experience a GDP reduction of 2%, the first annual contraction in the post world war era. These figures are reported in table 1, complemented with some official figures released in February.

Table 1: World output growth, 2006-2009f

	2006	2007	2008p	2009f
World	**5.1**	**5.2**	**3.4**	**0.5**
Advanced economies	**3.0**	**2.7**	**0.8**	**-2.0**
- United States	2.8	2.0	1.1	-1.6
- European Union	3.3	3.1	0.9	-1.8
- Japan	2.4	2.4	-0.7	-2.6
- Canada	3.1	2.7	0.6	-1.2
Emerging and developing economies	**7.9**	**8.3**	**6.3**	**3.3**
- China	11.6	13.0	9.0	6.7
- India	9.8	9.3	7.3	5.1
- Latin America and the Caribbean	5.8	5.7	4.6	1.9

Source: IMF, World Economic Outlook Update, January 2009; and ECLAC, Preliminary Overview of Latin America and the Caribbean 2008; and national official institutions.
p = preliminary.
f = forecast.

As regards emerging and developing economies, in 2009 they would grow by 3.3%, percentage points slower than in 2008. China would maintain a high rate of 6.7%, down from 9% in 2008, whereas India would do so by 5.1, less rapidly than the 7.3% posted in 2008. In the case of Latin America and the Caribbean, the ECLAC forecast for output growth in 2009 is 1.9%, less than a half of the 4.6% recorded in 2008.

The worrisome situation prompted authorities to devise massive rescue and economic stimulus packages to confront both the solvency problems of financial institutions and to stimulate household consumption and business investment. In October 2008, the United States approved a US$700 billion package (5% of GDP), from which the government had immediate access to US$350 billion, and the remainder is being managed by the new administration that took office in January 2009. Likewise, in November, China announced a US$586 billion stimulus programme (14% of GDP) until 2010. In December, the EU followed suit approving a package of US$264 billion (1.5% of GDP).

On the monetary policy side, in December the Federal Reserve took a surprising move and cut the reference interest rate from 1% to a band between 0% and 0.25%. This is the first time in history that the Federal Funds rate is confined within a band, and it is the lowest level recorded, even below the ones observed during the Great Depression of the 1930s and the Second World War[1] Following this decision, the monetary authority expects to inject liquidity to the system through the purchase of significant amounts of mortgage-backed assets, and it is evaluating the possibility of buying long-term Treasury bills. These operations would be financed by the expansion of the monetary base, i.e. printing money. But instead of being

[1] In mid-January the European Central Bank reduced the reference interest rate from 2.5% to 2%, the lowest level since the foundation of this institution in 1999 and equal to the level recorded between June and November 2006.

intended to stimulate economic activity, these monetary policy measures are mainly devised to fight an extremely dangerous phenomenon, namely, deflation, i.e. a sustained reduction in prices.

The idea that deflation may have devastating effects on the real economy is simple. As prices of goods and services decline, profit margins are wiped out which freezes investment and prompts firms to diminish output, thus increasing unemployment which, in turn, reduces domestic demand further generating extra deflationary pressures and a vicious circle where prices and output keep contracting simultaneously. A more sophisticated explanation of how deflation may bring about a severe and prolonged recession was pioneered by Fisher (1933) in explaining the Great Depression. The basic idea is that in an economy with over-indebted households and firms, deflation generates a transfer of income from debtors to creditors through its impact on real interest rates that become higher even with zero nominal interest rates. In this scenario, deflation increases the debt burden of borrowers thus reducing demand for goods and services, which exacerbates deflationary pressures, which increases real interest rates further and reduces domestic demand, bringing about a vicious circle where both prices and economic activity spiral down together while real interest rates remain high. Given the excessive levels of indebtedness exhibited by many consumers and businesses, perhaps Fisher's explanation fits better in the current deflationary risk faced by the United States economy. Indeed, in November prices in this country declined by 1.7% relative to October, the largest monthly drop since the 1930s. Forecasts indicate a negligible change in prices for 2008 and a decline in 2009. According to the Federal Reserve Chairman, this institution will implement whatever measures needed to avoid deflation and the recent reduction in the interest rate points in that direction.

Nevertheless, according to labour market figures released in early 2009, during 2008 approximately 2.6 million jobs were lost in the United States, revealing the worst situation since 1945. In November alone, 597,000 people lost employment, the highest monthly figure since December 1974. In December 2008, 577,000 additional jobs were lost, driving the unemployment rate to 7.2%. This led some economists to think that more than half a million jobs could be lost monthly during the first quarter of 2009, and that the unemployment rate could reach 10% by June. These pessimistic forecasts fall short according to figures released in February that reported 598,000 jobs lost during January, which drove the unemployment rate to 7.6%, the highest level recorded since September 1992.

This worrisome situation prompted the new United States Government to send to Congress a new fiscal stimulus package proposal that amounted to around US$820 billion (5.9% of GDP). By mid February, the fiscal stimulus package was approved with some modifications. The total amount was agreed at US$787 billion, which is expected to create some 3.5 million jobs over the next two years. Around 35% of this sum corresponds to tax cuts, whereas the rest will be devoted to finance public spending: 19% to infrastructure investment, 11% to assist the States in paying social security, 5.7% to education, and 3.4% to unemployment support, among others. Whether this new stimulus package will be effective to reactivate the economy is a matter of debate. Indeed, some economists have doubts about this, deeming the package as insufficient to restore growth. They may be right as, according to the Congressional Budget Office forecasts, over the next three years there will be a US$2.9 trillion difference between the United States actual and potential GDP. Thus, the US$787 billion will fall far short of the output gap.[2]

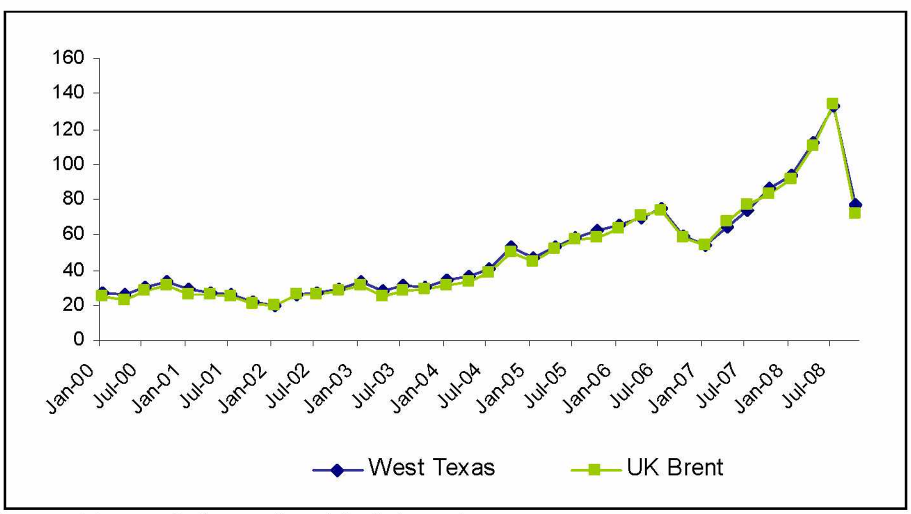
[2] See Krugman (2009).

Moreover, other economists state that the only way out is through the temporary nationalisation of the banking system altogether, so as to re-structure it in an orderly manner, unfreeze domestic credit and restart growth.[3]

Moreover, only one fourth of the resources approved will be available in 2009 (less than US$200 billion), are amount that seems to be insufficient. Actually, there are at least two issues that the United States' authorities need to tackle urgently. Firstly, to stop foreclosures of defaulted mortgage-financed housing. Presently, outstanding mortgage debt is now higher than the market value of houses and buildings due to the collapse of the real estate market. Secondly, the weakness in the banking system as mentioned previously. Even if the temporary nationalisation of the whole banking system is an excessively extreme measure, some giant banks such as Citibank and the Bank of America might need to be nationalised as the financial support already received from the government is higher than their market value due to the steep decline in their share prices on Wall Street. Regarding mortgage debt, in mid-February the United States authorities put aside US$75 billion to stop or slow down foreclosures and cut mortgage monthly payments to 31% of family disposable income.

On the other hand, the global financial turmoil and economic downturn has also had an important negative effect on international commodity prices that have dipped significantly during the third and fourth quarter of 2008, after peaking by the middle of the year. The most dramatic case is oil, whose price reached US$147 per barrel in July, and in December it was below one third of that level (Figure 1). This is a negative shock for Caribbean countries that are abundant in hydrocarbons such as Belize, Suriname and, especially, Trinidad and Tobago. On the contrary, all other Caribbean countries, being oil importers, will benefit from this evolution. On the other hand, as shown in Figure 2, the decline in world prices of food has also been significant over the last months of 2008, a tendency that has remained during early 2009. As net importers of food, world deflation should benefit all Caribbean countries.

Figure 1: Oil world prices, 2001-2008
(US$ per barrel)

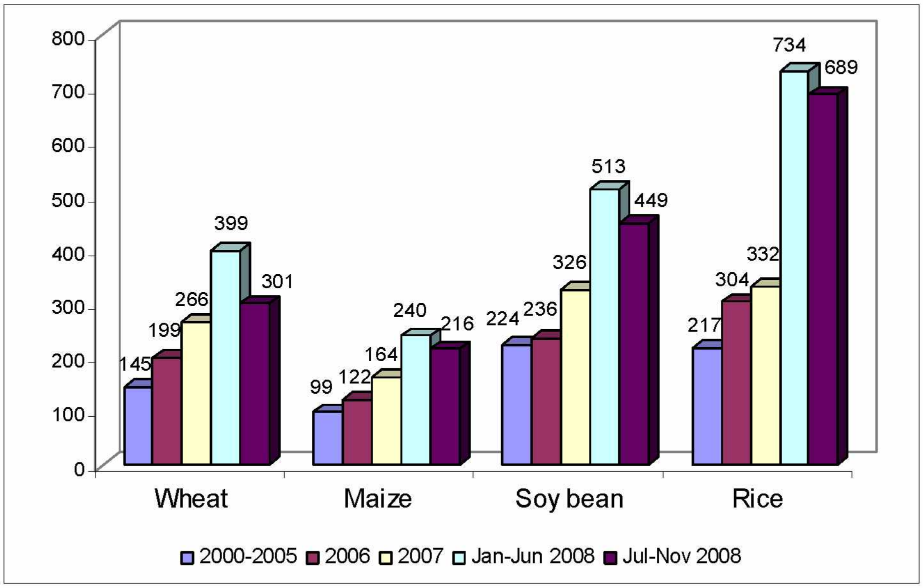


Source: Energy Information Administration

Figure 2: Selected world food prices, 2001-2008

[3] See Richardson and Roubini (2009).

(US$ per ton)



Source: FAO data base; and IMF, International Financial Statistics, electronic version

However, the decline in world food prices recorded during the second half of 2008 has not yet translated into lower domestic prices. Indeed, although world food prices have declined markedly hand in hand with the global economic downturn since the third quarter of 2008, the impact on domestic food inflation in Caribbean countries has not been felt. Although prices downwards rigidity is well known, the very problem is not that domestic food prices have not declined but, rather, they have kept increasing during the second half of 2008. For instance, according to the Food and Agriculture Organisation (FAO), in 2008 world food prices *declined* by 22%. Notwithstanding, domestic food prices in Jamaica and in Trinidad and Tobago increased by 24.1% and 30.6%, respectively.

In principle, at least three factors explain this phenomenon. One is the lag between imports payments and the actual delivery and reception of imported food. If this is the case, then it would be expected that domestic food inflation would drop substantially in the upcoming months. The second one is that in the case of foodstuff that can be stored at least for a while, they were imported at higher prices than those observed recently. If this is correct, then one would also expect domestic food inflation to ease soon. The third one is that there might be market imperfections in local food commercialization, where importers have market power in the context of monopolistic or oligopolistic structures in the marketplace. Should this be true then importers are exerting their market power increasing their profit margins to the detriment of Caribbean consumers. It seems that the third explanation makes more sense, as the Caribbean Community (CARICOM) decision to dismantle or reduce import tariffs on imported food made in December 2007 had little or no impact on domestic food prices. It seems that, in practical terms, these measures only generate a transfer of resources from the public sector to importers, distributors and retailers of food products who increase their profits little or no effect on domestic food prices.

II. External vulnerability and growth prospects in the Caribbean

The twin deficits – i.e. fiscal and current account – are a useful measure of the magnitude of macroeconomic imbalances and the degree of vulnerability to external negative shocks. Table 2 shows these two indicators in 2006-2008 in the Caribbean countries. With the exception of Suriname and Trinidad and Tobago – countries abundant in minerals and/or hydrocarbons whose prices have been high in recent years – all other countries have experienced twin deficits during the last years. In 2008, MDCs recorded a small fiscal deficit (simple average) of 0.6% of GDP (1.8% in 2007), and a current account deficit of 7.8% of GDP (5.5% in 2007). These results put this group of countries in a better position than the ECCU countries, that posted wider deficits (simple average), to the tune of 2.2% of GDP (3.6% in 2007) in the case of the fiscal gap and of 34.9% of GDP (33.9% in 2007) in the case of the external gap. It is worth noting that in both groups of countries in 2008 a reduction in the average fiscal deficit was coupled with a widening in the average current account deficit. As the current account deficit is the excess of expenditure over income of the public and private sectors combined, the fact that its average has increased in 2008 and that it is more that 30 percentage points of output higher than the fiscal deficit indicates that overspending of the private sector has been massive and that it increased in 2008 relative to 2007.

Table 2: The twin deficits, 2006-2008p[a]
(Percentage of GDP)

	Fiscal deficit			Current account deficit		
	2006	**2007**	**2008p**	**2006**	**2007**	**2008p**
MDCs[b]	**2.1**	**1.8**	**0.6**	**5.3**	**5.5**	**7.8**
Bahamas	0.8	1.7	2.5	20.9	17.0	8.7
Barbados	2.0	2.4	3.4	8.6	7.0	11.6
Belize	1.9	1.1	-0.7	2.1	4.0	8.0
Guyana	13.1	7.4	4.8	27.4	21.6	34.9
Jamaica	5.4	4.9	2.5	11.4	17.0	26.3
Suriname	-1.7	-3.2	-1.7	-6.8	-10.4	-14.4
Trinidad and Tobago	-6.6	-1.7	-6.5	-25.1	-25.7	-20.3
ECCU[b]	**3.5**	**3.6**	**2.2**	**30.1**	**33.8**	**34.9**
Anguilla	-1.3	2.5	1.5	66.3	59.1	61.2
Antigua and Barbuda	7.9	6.5	10.0	30.8	33.1	31.1
Dominica	-1.4	-1.2	-2.1	16.3	28.7	35.5
Grenada	6.4	6.7	6.6	35.0	38.4	36.5
Montserrat	3.7	6.5	3.8	17.8	22.8	26.0
St. Kitts and Nevis	2.4	2.2	-0.8	17.4	21.9	23.5
St. Lucia	6.2	2.1	-1.5	33.2	31.4	29.7
St. Vincent and the Grenadines	3.9	3.5	0.3	24.1	34.6	36.3

Source: ECLAC on the basis of official data.
[a] A minus sign indicates a surplus.
[b] Simple average.
p = preliminary.

Other useful indicators of external vulnerability are public debt stock and the level of international reserves. Table 3 presents both variables at the end of 2008. As shown, most Caribbean countries exhibited levels of public debt that are well above any definition of sustainability. As a rule of thumb, this level can be considered as 40% of GDP.[4] Within the MDCs, the Bahamas, Suriname and Trinidad and Tobago showed public debt levels below this figure. In the case of ECCU countries, only Anguilla and Montserrat had a debt overhang that can be deemed to be sustainable. On the contrary, Barbados, Jamaica, Dominica, Grenada and St. Kitts and Nevis recorded massive public debt, above 100% of GDP. In Belize, Guyana, Antigua and Barbuda, Dominica, Saint Lucia and St. Vincent and the Grenadines, public debt stood between 70% and 100% of output. In all these countries excessive public debt will be an important source of vulnerability in 2009 and beyond.

Table 3: Public debt and international reserves, 2008p[a]

	Public debt (% of GDP)			International reserves	
	External	**Domestic**	**Total**	**% of GDP**	**Imports coverage (months)**
MDCs[b]	**36.6**	**34.2**	**70.7**	**20.9**	**5.1**
Bahamas	5.1	32.3	37.4	..	..
Barbados	39.3	69.5	108.8	21.3	5.5
Belize	71.5	11.2	82.7	12.4	2.8
Guyana	64.9	30.5	95.5	26.9	5.0
Jamaica	48.8	61.6	109.5	13.1	2.8
Suriname	20.8	12.1	32.9	16.2	3.3
Trinidad and Tobago	6.0	22.0	28.0	35.3	11.0
ECCU[b]	**41.5**	**35.8**	**77.3**	**16.0**	**2.5**
Anguilla	3.8	15.0	18.8	15.0	1.7
Antigua and Barbuda	43.0	46.7	89.7	13.0	1.9
Dominica	68.3	26.5	101.2	16.0	2.6
Grenada	77.2	27.3	110.6	16.0	3.1
Montserrat	7.0	0.5	7.5	26.0	3.1
St. Kitts and Nevis	54.3	108.6	173.7	16.0	2.9
St. Lucia	37.7	32.3	70.0	13.0	2.1
St. Vincent and the Grenadines	40.3	29.6	69.9	13.0	2.3

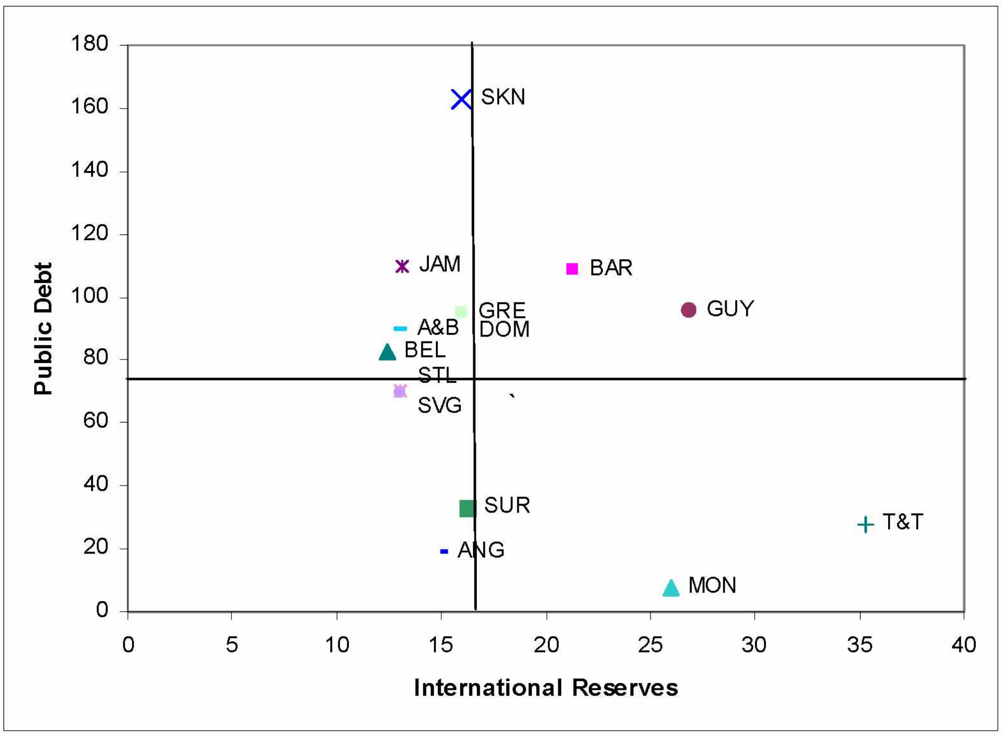
Source: ECLAC on the basis of official data.
[a] End of year.
[b] Simple average.
p = preliminary.
.. = not available.

As regards international reserves, Table 3 shows that within the MDCs these are more abundant in Trinidad and Tobago (above one third of GDP or equivalent of 11 months of merchandise imports), followed by Guyana and Barbados (around one fourth of GDP or five to five and a half months of imports of goods). In the ECCU, Montserrat stands out with international reserves equivalent to 26% of GDP or 3.1 months of imports coverage. On the other hand, international reserves are less significant in Bahamas, Belize, Jamaica, Antigua and Barbuda, Saint Lucia, and St. Vincent and the Grenadines as a share of GDP (below or just above 13%), and in Anguilla and Antigua and Barbuda in terms of imports coverage (below two months). The other countries are in an intermediate position.

[4] See Machado (2008).

Combining public debt and international reserves levels as a share of GDP, Figure 3 shows the relative vulnerability of the Caribbean countries. The vertical and horizontal lines represent the regional simple average of international reserves and public debt, respectively. The countries that are better off according to these indicators are the ones located on the lower-right quadrant, namely Trinidad and Tobago and Montserrat, that exhibit public debt (international reserves) below (above) the regional average. On the contrary, countries located in the upper-left quadrant are the more vulnerable ones. This group includes Belize, Jamaica, Antigua and Barbuda, Dominica, Grenada and St. Kitts and Nevis. On the other hand, Barbados and Guyana are in a relatively strong position in terms of imports coverage of international reserves but with excessive levels of public debt. The opposite is true in Suriname, Anguilla, Saint Lucia and St. Vincent and the Grenadines.

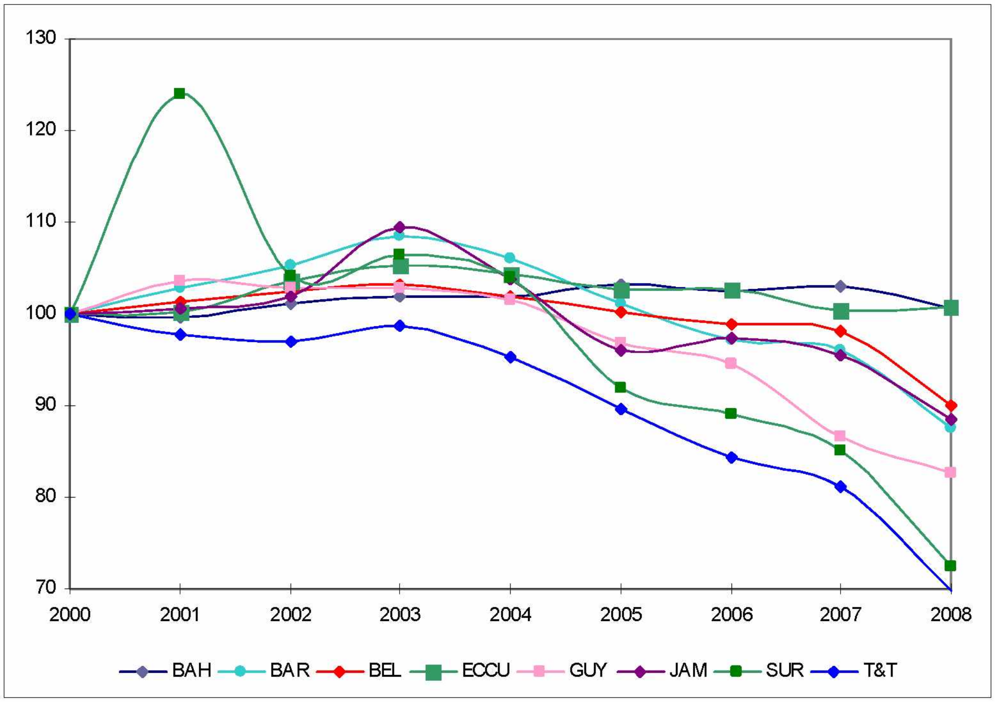
Figure 3: External vulnerability: Public debt and international reserves, 2008p
(Percentage of GDP)



Source: ECLAC on the basis of official data.
p = preliminary.

On the exchange rate side, with the exception of Jamaica, all Caribbean countries have in place either a fixed (Bahamas, Barbados, Belize, ECCU) or quasi-fixed (Guyana, Suriname and Trinidad and Tobago) nominal exchange rate regime vis-à-vis the United States dollar. Generally, inflation rates have been higher in the region than in the United States, this has implied that there has been a bilateral real exchange rate appreciation of the Caribbean currencies with the corresponding loss of competitiveness of local producers relative to imports from the United States. As illustrated in Figure 4, with the exception of Bahamas, the other countries have posted significant real exchange rate appreciations. In 2008, the real appreciation relative to 2000 was more intense in the countries with quasi-fixed exchange rate regimes: Trinidad and Tobago (30%), Suriname (28%) and Guyana (18%).

Figure 4: Real exchange rate, 2000-2008p
(Index 2000 = 100)



Source: ECLAC on the basis of official data.
p = preliminary.

Given the difficulties in accessing foreign financing, both private and official, in the current situation, another important challenge faced by most Caribbean countries is the defence of their fixed or quasi-fixed exchange rate regimes. Indeed, the reversal or even the reduction of foreign capital inflows would put devaluating pressures on local currencies that, if extreme, may eventually lead to a currency crisis. The capacity of a country to defend a peg or dirty peg depends, among other things, on the level of international reserves. Thus, Bahamas and Belize appear to be in the relative weakest position in this regards. It is worth mentioning that these exchange rate arrangements have helped to ease inflationary pressures. Therefore, any devaluation will significantly impact inflation rates, let alone its perverse effects on entities with balance sheets with important currency mismatches, i.e. liabilities denominated in foreign currency and assets denominated in local currency. In addition, external public debt service will increase in domestic currency, thus posing extra pressures on public finance and reducing the manoeuvring capacity of fiscal policy further.

Finally, Table 4 presents growth performance and prospects in 2006-2009. As in other countries and regions, in 2009 growth forecasts point to a further slowdown of economic activity in the Caribbean, as compared to 2008 and 2007. As in previous years, among MDCs in 2008, economic growth was led by the countries abundant in natural resources, i.e. Belize, Guyana, Suriname and Trinidad and Tobago. In 2009, the situation would be similar. All in all, this group of economies would expand at a rate of 1.8% this year (simple average), 0.6 percentage point slower than in 2008, 1.8 than in 2007 and 3.7 than in 2006. In the case of the ECCU countries, output has lost momentum since 2007, and this trend is expected to continue in 2009, where GDP growth would be 1.4 (simple average), less than half the rate recorded in 2008 and four than in 2007. This illustrates the intensity of the economic slowdown registered recently throughout the Caribbean and the forecasted exacerbation of this tendency in 2009.

Table 4: GDP growth rate, 2006-2009f
(Percentage)

	2006	2007	2008p	2009f
MDCs[a]	**5.5**	**3.6**	**2.4**	**1.8**
Bahamas	4.6	2.8	1.5	0.5
Barbados	3.3	3.2	0.7	-1.0
Belize	4.7	1.2	3.8	2.0
Guyana	5.1	5.4	3.1	2.0
Jamaica	2.5	1.2	-0.5	-2.0
Suriname	5.8	5.3	5.0	3.5
Trinidad and Tobago	12.2	5.5	3.5	1.5
ECCU[a]	**5.4**	**6.1**	**3.2**	**1.4**
Anguilla	18.3	21.0	2.7	1.0
Antigua and Barbuda	12.4	6.9	5.0	1.5
Dominica	3.7	1.8	2.1	1.0
Grenada	-2.3	4.5	1.6	1.5
Montserrat	-3.8	2.8	4.7	2.5
St. Kitts and Nevis	2.5	2.9	4.3	1.0
St. Lucia	4.9	1.7	2.9	1.5
St. Vincent and the Grenadines	7.6	7.0	2.2	1.0

Source: ECLAC on the basis of official information and ECLAC forecasts.
[a] Simple average.
p = preliminary.
f = forecast.

III. Channels of transmission of the global economic crisis to Caribbean economies

Although not measurable at this time, the impact on the Caribbean economies of the ongoing recession in the developed countries would materialize through four main channels of transmission: trade, tourism, remittances, and finance and FDI. In this section, an initial assessment of these effects is carried out with the view to identifying the main relative vulnerabilities of each country within the region.

A. Trade

Obviously, the relative vulnerability of Caribbean countries through the trade channel of transmission will depend, among other things, on the importance that developed countries have as destiny markets for regional exports. This is so because the more advanced economies are the ones that are currently in recession as pointed out above and whose prospects for 2009 are gloomier. On the contrary, countries with more diversified export markets are likely to suffer less because although the developing world would experience a marked slowdown during 2009 it would not see its GDP dip. Table 5 shows the shares of total exports of goods to the United States, the EU and Canada in 2003-2007. During this period, the United States was the main market for Caribbean exports (48.3% of total exports of goods), followed by the EU (19.8%). Overall, the three markets combined were the destiny of more than 70% of total exports in six out of the 11 countries where information was available.

Table 5: Share of exports to the developed countries in total exports of goods, 2003-2007
(Percentage)

	Exports to the U.S. market	Exports to the E.U. market	Exports to the Canadian market	Total exports to the U.S., the E.U. and Canada
MDCs				
Bahamas	27.8	46.0	2.2	75.9
Barbados	15.0	12.7	1.8	29.5
Belize	32.7	35.7	2.2	70.7
Guyana	18.8	31.3	20.6	70.7
Jamaica	29.6	28.1	16.8	74.5
Suriname	14.1	23.2	16.7	54.0
Trinidad and Tobago	63.1	8.2	2.1	73.4
ECCU				
Anguilla	..	..	..	..
Antigua and Barbuda	..	..	..	..
Dominica	3.9	24.0	0.4	28.3
Grenada	3.5	6.0	0.5	9.9
Montserrat	..	..	..	..
St. Kitts and Nevis	61.8	15.2	8.0	85.0
St. Lucia	16.4	58.1	0.2	74.7
St. Vincent and the Grenadines	2.9	63.8	0.3	66.9

Source: IMF, Direction of Trade Statistics, electronic version and ECLAC calculations.
.. = not available.

The most dependent country on developed countries' demand for exports is St. Kitts and Nevis that devoted 85% of its merchandise exports to these markets in 2003-2007. Other countries where the developed world is a key destination market for exports are Bahamas (75.9% of total exports), Saint Lucia (74.7%), Jamaica (74.5%), Trinidad and Tobago (73.4%), Belize (70.7%), and Guyana (70.7%). On the contrary, Grenada has a surprising low share of its exports (9.9%) going to the United States, Canada and Europe. Dominica and Barbados also exhibit a significant degree of market diversification for their exports, with less than a third going to the three already mentioned markets.

In the absence of a full model of economic growth for Caribbean countries, that allows for an econometric estimation to assess the likely impact of a recession in the developed countries on economic growth in the region, Table 6 shows the correlation coefficients of the growth rates of the United States, the United Kingdom and Canada vis-à-vis those of the Caribbean countries for the period 1971-2007. Although it is well known that this indicator does not imply causality, it seems reasonable to assume that it is the United States growth which influences Caribbean growth and not the other way around. Thus, the working hypothesis is that the higher the (positive) correlation coefficient, the higher the impact the ongoing recession in advanced economies would have on a country's growth rate. Table 6 also indicates which correlation coefficients are significant based on standard hypothesis testing. This effect would be expected to be greater for countries more dependent on the United States, the United Kingdom and Canada as a destination for their exports. As correlation coefficients are very sensitive to the presence of outliers, in the cases of Barbados, Jamaica and Trinidad and Tobago some "abnormal" observations have been excluded from the calculations (see footnotes in Table 6).

Table 6: Correlation coefficients between GDP growth rates of Caribbean countries and the United States, the United Kingdom, and Canada, 1971-2007
(Percentage)

	Correlation coefficient with the U.S.	Correlation coefficient with the U.K	Correlation coefficient with Canada
MDCs			
Bahamas	29.0*	41.0**	32.7**
Barbados	28.6*[a]	19.9[a]	52.0**[a]
Belize	-6.0	-3.8	0.3
Guyana	-12.8	-2.35	5.5
Jamaica	31.2*[b]	15.0[b]	-15.8[b]
Suriname	33.4**	22.3*	27.5*
Trinidad and Tobago	34.6*[c]	-15.2[c]	-3.5[c]
ECCU			
Anguilla	28.2*	27.7**	19.1
Antigua and Barbuda	30.1*	31.7**	23.2*
Dominica	11.9	-10.3	12.8
Grenada	29.7*	23.7*	33.3**
Montserrat	-6.0	-4.0	9.9
St. Lucia	40.9**	23.6*	21.3
St. Kitts and Nevis	22.8	6.6	15.7
St. Vincent and the Grenadines	34.1**	16.1	8.4

Source: IMF, Directions of Trade Statistics, electronic version and ECLAC calculations on the basis of IMF, International Financial Statistics, electronic version.
..= not available.
*** Statistically different from zero at the 10% level.**
**** Statistically different from zero at the 5% level.**
[a] Excludes 1992, where a significant adjustment programme was put in place in the context of a major economic crisis that meant a drop of 10.4% in GDP that year. Without excluding this observation the correlation coefficient is 25.4%, but it is not statistically different from zero at standard significance levels.
[b] Excludes 1976 (election year, political violence and declaration of state of emergency) where GDP recorded a decline of 11.9%; 1984 (alumina crisis and closure of the Reynolds enterprise) where GDP dropped by 8.1%; 1985 (social unrest, debt crisis and closure of the Alcoa enterprise) where GDP declined by 8.7%; and 1997 (election year, political violence and severe drought) where GDP dipped by 5.5%. Without excluding these observations the correlation coefficient is 8.8% but is not statistically different from zero at usual significance levels.
[c] Excludes 1980 (the peak year of the second oil shock) where GDP grew by 10.6% from 0.4% in 1979; 1983-1989 (a prolonged period of economic crisis) where GDP dropped every single year recording an annual average of 9%; and 1992-1993 (profound economic policy reforms) where GDP decline averaged 4.5%. Without excluding these observations the correlation coefficient is negative (-12.4%) but not statistically significant at traditional levels of confidence.

As can be seen in the first column, five of the seven MDCs show high and statistically significant positive correlation coefficients ranging from 28.6% in Barbados to 34.6% in Trinidad and Tobago. Consistent with these findings, all these countries deliver a significant proportion of their exports of goods to the United States. During 2003-2007 these shares were between 14.1% in Suriname and 63.1% in Trinidad and Tobago (see Table 5). Surprisingly, however, Belize and Guyana exhibit correlation coefficients not statistically different from zero (and even with negative signs), despite both having the United States as an important destination for their merchandise exports – near one third and one fifth of the total in 2003-2007, respectively.

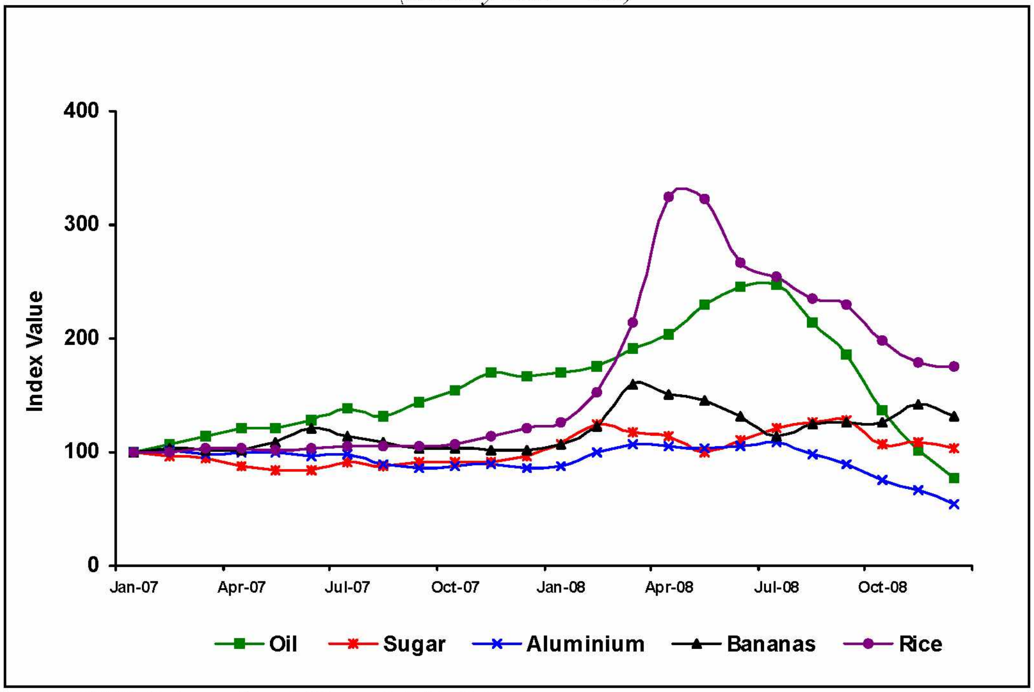
On the other hand, five out of the eight ECCU countries also have significant correlation coefficients. The highest value is that of Saint Lucia (40.9%) whereas the lowest corresponds to Anguilla (28.2%). The former sent 16.4% of goods exports to the United States in 2003-2007. The source does not report information for the latter country. In the case of Grenada, a significant positive correlation coefficient was found despite the relatively low share of its merchandise exports to the United States' market (merely 3.5% in 2003-2007). It is worth noting that St. Kitts and Nevis, the country that delivered the highest share of its exports to the United States market in 2003-2007 (85%) shows a correlation coefficient of 22.8% but that is not statistically significant. Finally, Montserrat shows a negative value for this indicator, but it is also not statistically different from zero.

The second column of Table 6 shows that, among the MDCs countries, only Bahamas and Suriname report significant correlation coefficients with the growth rate of the United Kingdom. As in the correlation coefficient with respect to the United States growth rate, Belize and Guyana's growth rates show negative correlation coefficients though not statistically significant with respect to United Kingdom growth. In spite of this, these countries delivered around one third of merchandise exports to the United Kingdom in 2003-2007 (see Table 5). In the case of ECCU countries, Anguilla, Antigua and Barbuda, Grenada and Saint Lucia exhibit correlation coefficients statistically different from zero with respect to GDP growth in the United Kingdom. Surprisingly, St. Kitts and Nevis and St. Vincent and the Grenadines do not show significant correlation coefficients, despite having the British market as a major destiny for their exports of goods (58.1% and 63.8% in 2003-2007, respectively).

Finally, the third column of Table 6 shows the correlation coefficients between growth rates of Canada and the Caribbean economies. The countries where statistically significant correlation coefficients were found are Bahamas, Barbados, Suriname, Antigua and Barbuda and Grenada. It is worth noting that, except for Suriname, in the other countries the share of Canada as destination of merchandise exports is very small, below 3% in all of them with the exception of St. Kitts and Nevis (8%). The same is true for all the other countries, where the correlation coefficients were not statistically significant.

Apart from the effects on growth via reduced volumes of exports from the Caribbean to the United States, the EU and Canada, there would also be another effect through the trade channel, but this time through world commodity prices. For instance, after being at US$147 per barrel in July 2008, in early February 2009 the oil price was around US$40 per barrel. Figure 5 shows the evolution of international prices of the main Caribbean exports in January 2007-December 2008. It is clear that commodity prices increased until the second quarter of 2008, especially oil and rice. However during the second or third quarter of last year those prices started to decline as a result of the declining world demand associated with the start of the slowdown of the world economy and the internationalization of the financial crisis in the United States. Indeed, during the last few months the international prices of aluminum, oil, banana, sugar and rice, among other key Caribbean exports, have fallen from their peak levels.

Figure 5: Caribbean Commodities Price Index, 2007-2008
(January 2007 = 100)



Source: IMF, International Financial Statistics.

Although in some commodities, such as banana and rice, current prices are still above the levels recorded at the beginning of 2007, there is no guarantee that this situation will remain, as the likely aggravation of the global economic crisis would reduce world demand further thus putting additional downward pressures on commodity prices. Thus, the trade mechanism of transmission of the world economic turmoil to the Caribbean countries would operate not only via reduced volumes of exports but also through lower (and even perhaps declining) international prices.

The extent to which this decline in commodity prices would affect each Caribbean country depends on the share these products have in their export baskets. Table 7 shows that in three out of the 10 countries reported, exports of commodities represented over 50% of total exports of goods, while in six others commodities accounted for between 25% and 50% of merchandise exports. Dominica is the sole country where commodities (banana and plantains) represented less than 25% of total exports of goods in 2002-2006. The countries more dependent on exports of commodities are Jamaica, Trinidad and Tobago and Suriname. In the former, commodities accounted for three quarters of goods exports in 2002-2006, whereas in the latter two these amounted to around two thirds. In the other MDCs, commodities totalled between 25.7% of merchandise exports in the Bahamas and 38.8% in Guyana. As regards ECCU countries, only in three of them do these goods represent a big share in total exports. These are Dominica, Saint Lucia and St. Vincent and the Grenadines, where banana and plantain totalled between one fifth and one third of goods exports in the same period. Should world prices of these commodities decline further, these countries would experience a negative terms of trade shock and hence a negative impact on growth, with the more severe impacts on Jamaica, Trinidad and Tobago, and Suriname.

Table 7: Exports of commodities, 2002-2006
(Percentage of total exports of goods)

MDCs	
Bahamas (non crude oil)	25.7
Barbados (oil,[a] sugar)	30.0
Belize (oil,[a] sugar, banana and plantain)	33.2
Guyana (aluminium ore, sugar, rice)	38.8
Jamaica (non crude oil,[b] aluminum oxide/hydroxide, aluminum ore, sugar)	75.0
Suriname (oil,[a] aluminum oxide/hydroxide, rice, banana and plantain)	62.1
Trinidad and Tobago (oil[a])	66.8
ECCU	
Dominica (banana and plantain)	20.7
St. Lucia (banana and plantain)	25.4
St. Vincent and the Grenadines (banana and plantain)	35.2

Source: UNCTAD, Trade Competitive Map, electronic version.
[a] Crude and non crude oil.
[b] Non crude oil must be processed or upgraded before being refined. Examples are tar sands, shale oil, ultra-heavy oil, and natural gas liquid (a by-product of natural gas extraction and processing).

Notwithstanding, the impact of a decline in commodity prices is ambiguous at the regional level in the case of a commodity such as oil. Especially for Trinidad and Tobago, the steep reduction in the international price of oil – its main export by a huge margin – has become a serious economic concern due to its negative and significant impact on trade balance, fiscal revenue and overall economic growth. But as oil is imported by most Caribbean countries, its price drop during the last months has been welcomed, improving their trade balances and reducing inflationary pressures.

To sum up, results indicate that the countries that would be more isolated in terms of growth from the recession in the developed countries are Belize, Guyana, Dominica, Montserrat, and St. Kitts and Nevis. The other countries would be expected to experience a higher negative impact on growth in 2009. On average, the recession in the United States would greatly jeopardise the growth prospects of the Caribbean, whereas the downturn in the Canadian economy would exert a much milder effect on economic activity in the region. The contraction of the United Kingdom economy would have an intermediate intensity impact. These results are consistent with the fact that the United States is the major trading partner of the Caribbean countries.

Perspectives for export sectors in 2009 are not encouraging as a consequence of the global economic crisis which has translated into diminished demand for Caribbean exports coupled with a generalized reduction in commodity international prices. In this context, countries more dependent on commodity exports to fuel economic growth (i.e. Jamaica, Suriname and Trinidad and Tobago) are the ones that would suffer the effects of the global economic downturn with higher intensity.

B. Tourism

One area where the impact of the global economic crisis would be acutely felt is the tourism sector which is a major activity in most Caribbean countries. In 2008, total tourist stay-over arrivals to the region topped 4.3 million while cruise passenger arrivals totalled 5.2 million, according to preliminary figures of the Caribbean Tourism Organization (CTO). Most of these visitors came from the United States, Canada and Europe.

Table 8 shows stay-over arrivals from these source markets in 2008. The high dependence of the Caribbean tourism activity is evident when considering that the three markets combined accounted for 87.9% of total stay-over tourists. The United States is by far the main origin of visitors to the region (58.9% of total stay-over tourists), followed by Europe (19.2%). The share of Canada is much lower (9.7%) but it has grown at the fastest pace during recent years.

Table 8: Stay-over Tourist Arrivals in the Caribbean by main market, 2008

(Percentage)

	Period	United States	Europe	Canada	Total U.S., Canada and Europe	Other countries
MDCs						
Bahamas	Jan-Aug	81.2	6.1	7.3	94.6	5.4
Barbados	Jan-Oct	23.7	44.1	9.2	77.0	23.0
Belize	Jan-Oct	60.8	13.7	7.0	81.5	18.5
Guyana	Jan-May	47.1	8.1	17.9	73.1	26.9
Jamaica	Jan-Nov	65.6	16.3	12.7	94.6	5.4
Suriname	..	..	..	..	..	..
Trinidad and Tobago	Jan-Jun	42.3	16.0	12.8	71.1	28.9
ECCU						
Anguilla	Jan-Aug	60.4	13.0	3.0	76.3	23.7
Antigua and Barbuda	Jan-Nov	31.7	41.3	4.8	77.8	22.2
Dominica	..	..	..	..	..	..
Grenada	Jan-May	25.1	41.6	6.8	73.6	26.4
Montserrat	Jan-Oct	26.8	29.0	5.0	60.8	39.2
St. Lucia	Jan-Nov	37.5	32.7	8.3	78.4	21.6
St. Kitts and Nevis	..	..	..	..	..	..
St. Vincent and the Grenadines	Jan-Jul	30.1	26.9	8.3	65.3	30.1

Source: Caribbean Tourism Organization.
.. = not available.

Under the current circumstances and considering that the economic crisis in the developed countries is still unfolding, the tourism sector in the Caribbean would experience a substantial reduction in demand from its main source markets in 2009. Countries relatively more vulnerable are the ones with the higher share of visitors coming from developed countries. As can be seen in Table 8, all Caribbean countries are highly dependent on the United States, European and Canadian tourists. These sources account for shares that range from 60.8% in Montserrat to as high as 94.6% in the Bahamas and Jamaica in 2008.

In terms of specific tourism source markets, Jamaica, Bahamas, Anguilla and Belize are the countries most vulnerable to a slowdown in travel demand from the United States, while Barbados, Antigua and Barbuda and Grenada are the ones that would be most affected by a pronounced curtailment in European arrivals. It is worth mentioning that although Canada represents only 9.7% of overall tourist arrivals to the Caribbean, it has a significant weight in some countries, especially in Guyana, where Canadian visitors accounted for 17.9% of total tourist arrivals in 2008.

In order to assess the relative impact of the contraction in output of developed countries in 2009 through the tourism channel in the Caribbean, Table 9 presents this sector's share in total output and employment in 2003-2007. Clearly, the ECCU countries exhibit more significant tourism sectors relative to aggregate output than the MDCs. This is especially the case in Anguilla and Antigua and Barbuda where tourism accounted for 22.6% and 21.1% of GDP and for 26.3% and 29.6% of total employment, respectively. In the other countries of this grouping these figures are lower, with a maximum of 15.7% of output and 16.7% of total employment recorded by Saint Lucia. In the MDCs, the importance of tourism is led by the Bahamas (17.4% of GDP and 24.4% of employment), Barbados (13.4% and 16.9%, respectively) and Belize (11.2% and 11.8%). In Trinidad and Tobago, Suriname and Guyana the share of tourism in GDP and in employment are below 5% and 6%, respectively.

Table 9: Share of tourism sector in GDP and in employment, 2003-2007

(Percentage)

	Share in GDP	Share in employment
MDCs		
Bahamas	17.4	24.4
Barbados	13.4	16.9
Belize	11.2	11.8
Guyana	2.2	1.8
Jamaica	9.5	8.6
Suriname	3.2	3.0
Trinidad and Tobago	4.9	5.8
ECCU		
Anguilla	22.6	26.3
Antigua and Barbuda	21.1	29.6
Dominica	9.4	8.8
Grenada	9.2	9.1
Montserrat	..	..
St. Lucia	15.7	16.7
St. Kitts and Nevis	10.9	12.4
St. Vincent and the Grenadines	10.9	10.1

Source: World Travel & Tourism Council.
.. = not available.

Therefore, combining the data shown in tables 8 and 9, the most likely countries which could be affected by the recession in developed countries and the subsequent drop in visitors from these markets are Bahamas, Barbados, Anguilla, and Antigua and Barbuda. On the other hand, in Trinidad and Tobago, Guyana and Suriname the impact of the global economic crisis through the tourism channel would be minimal. The other countries would be in an intermediate position.

C. Remittances

Remittances to the Caribbean are highest from the United States followed by Western Europe. As a consequence of the economic recession and the collapse of real estate prices, the construction sector which employs a large number of immigrants has been hard hit. This has not only generated reductions in the construction sector's labour demand, inasmuch as sub-prime mortgages were particularly popular among immigrants in States such as California, New York and Florida which are the highest remittance states, assuming the Caribbean has a similar pattern to Latin America.[5] The rise of unemployment and under-employment coupled with the negative wealth effect on immigrant home owners would translate into less or no money to remit. The brunt of the decline in remittances would be felt mainly by the rural population in most Caribbean countries which are usually the poorest and most marginalized. This would mean a drastic fall in the standard of living of many people and, by so doing, will increase the level of poverty and State dependency.

Table 10 reports remittances measured as a percentage of GDP, of exports of goods and of FDI in 2003-2007. According to the first indicator, clearly Guyana and Jamaica stand out, with remittances totalling 23.3% and 15.6% of GDP, respectively. The other MDCs exhibit levels below 4.5% of GDP. This figure is particularly low in Suriname and Trinidad and Tobago, where remittances were below 1 percentage point of output. In the ECCU countries these flows are much lower, with Anguilla showing the maximum level (5.2% of GDP), followed by Grenada (4.8%). In the other countries, remittances recorded levels below 1.5% of GDP.

---

[5] In 2004, remittances' estimates to Latin America were 32% from California, 11.9% from New York, 10.6% from Texas and 8.2% from Florida (http://www.cbo.gov/ftpdocs/63xx/doc6366/05-19-Remittances.pdf).

Table 10: Remittances to the Caribbean, 2003-2007
(Percentage)

	GDP	Exports of goods	FDI
MDCs			
Bahamas[a]	1.5	16.3	18.9
Barbados	1.6	63.8	114.8
Belize	4.2	13.4	55.0
Guyana	23.3	30.3	275.8
Jamaica	15.6	97.5	242.8
Suriname	0.5	0.9	[b]
Trinidad and Tobago	0.6	1.0	0.4
ECCU			
Anguilla[a]	5.2	27.2	8.0
Antigua and Barbuda	1.2	5.4	4.8
Dominica	1.4	3.5	14.1
Grenada	4.8	23.5	28.7
Montserrat[a]	1.4	6.6	30.6
St. Kitts and Nevis	0.7	1.9	3.5
St. Lucia	0.3	0.8	1.7
St. Vincent and the Grenadines	1.1	4.2	15.5

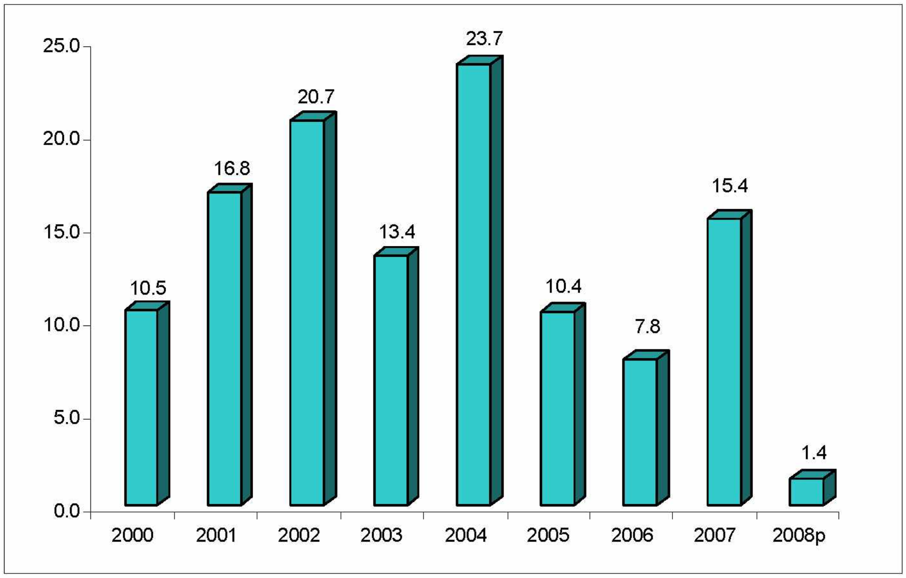
Source: World Bank.
.. = not available.
[a] Corresponds to 2003-2005.
[b] Suriname experienced net FDI outflows during this period.

Moving on to the second indicator, Jamaica occupies the first place within MDCs, with remittances of 97.5% of merchandise exports in the analyzed period, followed by Barbados (63.8%), displacing Guyana to the third place (30.3%). In the case of the ECCU countries, the ones that exhibit higher levels are Anguilla and Grenada, where remittances totalled almost one fourth of exports of goods in 2003-2007. The other countries show levels far below these figures, with a maximum of 6.6% recorded by Montserrat.

Finally, as a percentage of FDI, three countries clearly stand out with levels of remittances more than one time, almost two and a half times, and nearly three times FDI inflows in 2003-2007 (Barbados, Jamaica and Belize, respectively). On the other hand, the ECCU countries where remittances are higher as a percentage of FDI – though much lower than those reported by the higher recipients within the MDCs – are Grenada and Montserrat where these resources amounted to around one fourth of FDI during the analyzed period.

According to preliminary data available from the World Bank, remittance flows to the Caribbean (excluding Anguilla, Bahamas and Montserrat) totalled US$3,041 million in 2008, slightly up from the US$2,998 million recorded in 2007. Although this result shows that remittances still increased during 2008 by 1.4%, such growth rate is sensibly lower than the ones recorded in previous years. Indeed, in 2000-2007 the (simple) average annual growth rate was 14.8% (Figure 6).

Figure 6:Growth rate in worker's remittances to the Caribbean
(Percentage)



Source: The World Bank.
p = preliminary.

Thus, the dramatic slowdown in remittances to the Caribbean during 2008 seems to confirm that the economic recession in developed countries has already started to affect the capacity of migrant workers to send part of their income to their families back home. Accordingly, remittances to the region are expected to diminish in 2009 as the recession in the developed world gains momentum with the subsequent contraction of labour demand.

All in all, the magnitudes discussed above indicate that a recession in developed countries, especially in the United States, would undoubtedly have an important effect on the most dependent countries in the Caribbean during 2009. The most affected countries would be Guyana and Jamaica, the main recipients in the region. The impact would be important but less intense in Belize, Anguilla and Grenada. In the other countries the effect of the global economic crisis through the remittances channel of transmission would be much lower. However, it is important to bear in mind that even in countries where remittances are not that significant at the national level, the impact of a contraction in these flows could be devastating for specific socio-economic groups whose consumption depends on remittances from relatives abroad.

D. FDI and external financing

Until mid-2008s, the financial turmoil in the United States exerted little impact on financial and FDI flows to the Caribbean and the region's access to external financing. However, the accelerated deterioration of global financial markets during the second half of 2008 and the subsequent economic recession in developed countries have changed drastically the perspectives for developing countries regarding access to foreign credit and productive investment. Indeed, the high levels of uncertainty and the persistent emergence of bad news in the world economy have exacerbated risk aversion on the part of foreign investors and creditors which have resulted in a credit crunch which has not been possible to overcome, despite aggressive cuts in interest rates, massive injections of liquidity and even recapitalization of financial institutions as well as implementation of significant economic stimulus packages in several countries, especially in the developed world, a process that is still ongoing. As international investors and lenders have recomposed their portfolios towards safer (and lower returns) assets – a process known as "flight to quality" – developing countries have been facing increasing difficulties to access external financing, a situation that would persist during 2009.

The same is true regarding FDI, with most multinational companies abandoning or freezing investment projects worldwide. Indeed, with banks more reluctant to grant credit to multinational corporations, and with those enterprises already scaling down activities and putting expansion plans on hold worldwide, the Caribbean would experience a reduction in FDI inflows during 2009. It is worth mentioning that in the case of countries with abundant oil and mining reserves such as Trinidad and Tobago and Suriname, the contraction of foreign investment inflows as a consequence of the global economic crisis and increasing uncertainty could be further exacerbated by the fall of the international prices of commodities, which makes investment in these sectors less attractive.

Table 11 presents FDI and financial capital inflows as a percentage of GDP in 2003-2007. As can be seen, except for Montserrat and Saint Lucia, FDI inflows have been much more important in ECCU countries than in MDCs. Indeed, five out of the seven ECCU countries recorded levels of FDI above 15% of GDP in 2003-2007, with Anguilla receiving as much as 65.3% of GDP in FDI in that period, followed by Antigua and Barbuda (25.4%) and St. Kitts and Nevis (20.7%). Within the MDCs, the main recipient of FDI as a share of GDP in the analysed period was Guyana (8.4%). It is worth noting that in recent years, Suriname has experienced net FDI outflows.

Table 11: Foreign Direct Investment and financial capital inflows, 2003 - 2007
(Percentage of GDP)

	FDI	Financial capital[a]
MDCs		
Bahamas	8.1	3.7
Barbados	1.4[b]	8.6[b]
Belize	7.6	2.3
Guyana	8.4	9.8
Jamaica	6.4	5.8
Suriname	-5.9	11.8
Trinidad and Tobago	4.7	-10.5
ECCU		
Anguilla	65.3	-6.8
Antigua and Barbuda	25.4	-2.5
Dominica	10.0	14.1
Grenada	16.6	13.9
Montserrat	4.5	21.2
St. Lucia	6.6	1.8
St. Kitts and Nevis	20.7	7.0
St. Vincent and the Grenadines	15.6	9.8

Source: ECLAC on the basis of official data.
[a] Includes errors and omissions.
[b] Corresponds to 2003 -2006.

As regards financial capital there are three countries that experienced net outflows in 2003-2007, namely Trinidad and Tobago (10.5% of GDP), Anguilla (6.8%) and Dominica (2.5%). The countries more dependent on foreign financial capital in the analysed period were from the ECCU, namely Montserrat (21.2% of GDP), Dominica (14.1%), and Grenada (13.9%). In the case of the MDCs, Suriname was the main recipient of these flows relative to GDP (11.8%), followed by Guyana (9.8%). On the other hand, these flows were less significant in Bahamas (3.7% of GDP), Belize (2.3%) and Saint Lucia (1.8%).

Obviously, the countries that will experience more difficulties due to the contraction of foreign capital inflows are the ones that have managed to finance all or part of their current account deficits with external resources. As shown above, during recent years FDI has been much more important than financial capital at the regional level. This contrasts sharply with the experience of other developing regions where portfolio investment and short-term credit have been predominant in the financing of the external gap, which put these countries in a more vulnerable situation than the Caribbean ones, given the higher volatility of financial flows. Nevertheless, as shown in Table 2 of Section III above, the twin deficits in most Caribbean countries have reached levels that are unsustainable by any standard which has put them in a situation of high risk and vulnerability given the current situation and prospects of the global economy.

E. Summary

It is still not clear the duration and intensity of the current global economic crisis and the recession in developed countries. However, according to the current performance of the world economy and the hiccups in the international financial sector, it is likely that this crisis will be of significant proportions and could even extend to 2010. In this context, Caribbean economies would be affected with varying intensities by different channels. Table 13 sums up these results.

Table 12: Intensity of the effects of the global economic crisis and the recession in developed countries on the Caribbean economies

Channel	High	Medium	Low
Trade			
Contraction in world demand	Barbados, The Bahamas, Jamaica, Suriname, Trinidad and Tobago, Anguilla, Antigua and Barbuda, St. Lucia, St. Vincent and the Grenadines	Belize, Guyana, Grenada, St. Kitts and Nevis	Dominica, Montserrat
Terms of trade	Jamaica, Trinidad and Tobago, Suriname	Belize, Barbados, The Bahamas, Guyana, Dominica, St. Lucia, St. Vincent and the Grenadines	Anguilla, Antigua and Barbuda, Grenada, Montserrat, St. Kitts and Nevis
Tourism	The Bahamas, Anguilla, Antigua and Barbuda	Barbados, Belize, Jamaica, St. Lucia, St. Kitts and Nevis	Guyana, Suriname, Trinidad and Tobago, Dominica, Grenada, Montserrat, St. Vincent and the Grenadines
Remittances	Guyana, Jamaica	Barbados, Belize, Anguilla, Grenada	The Bahamas, Suriname, Trinidad and Tobago, Antigua and Barbuda, Dominica, Montserrat, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines
Finance	The Bahamas, Barbados, Belize, Anguilla, St. Kitts and Nevis	Jamaica, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent and the Grenadines	Guyana, Suriname
FDI	Anguilla, Grenada, St Kitts and Nevis, Suriname	Antigua and Barbuda, Dominica, St Lucia, St Vincent and the Grenadines	Barbados, Belize, The Bahamas, Guyana, Jamaica, Suriname, Trinidad and Tobago, Montserrat

Source: ECLAC.

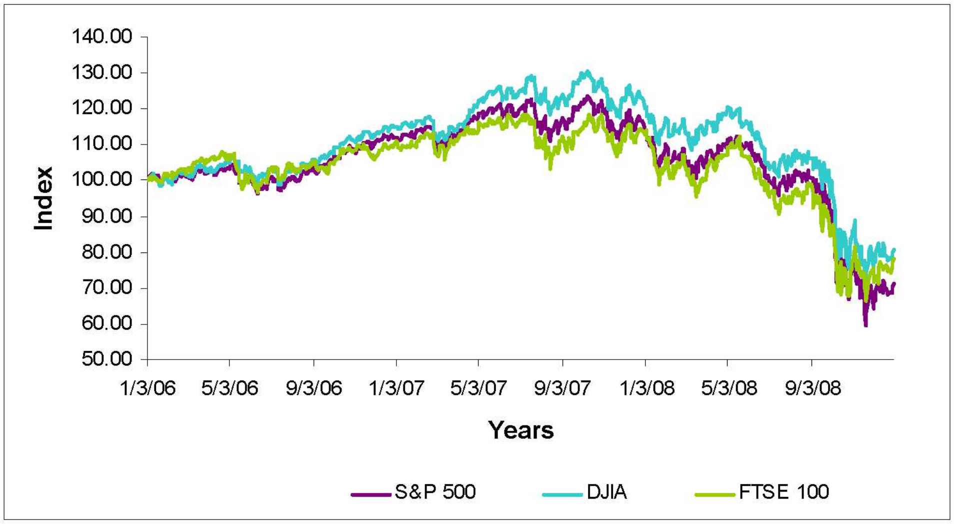
IV. The financial sector in the Caribbean countries

As is well known, the burst of the real estate bubble and the subsequent sub-prime mortgage crisis which became visible in the United States by mid-2007 brought about a number of bankruptcies, acquisitions and bailouts of many financial institutions in that country. This crisis went systemic in September 2008, and rapidly turned global, given the high exposure of international banks based in Europe to toxic assets, i.e. mortgage-backed derivatives manufactured in the United States.

Notwithstanding, so far this contagion effect has been very moderate in the financial sectors of Caribbean countries. This is explained mainly by two factors. First, banks in the region had low exposure to United States' (sub-prime) mortgage-backed securities. Second, credit expansion was mostly financed by domestic deposits rather than by foreign credit lines. Perhaps Jamaica was the most affected Caribbean country due to the decline in the price of its global sovereign bond, mostly held by domestic commercial banks. This prompted the Bank of Jamaica to establish a US$300 million facility to provide assistance to these banks. This country is still experiencing capital outflows and exchange rate depreciating pressures.

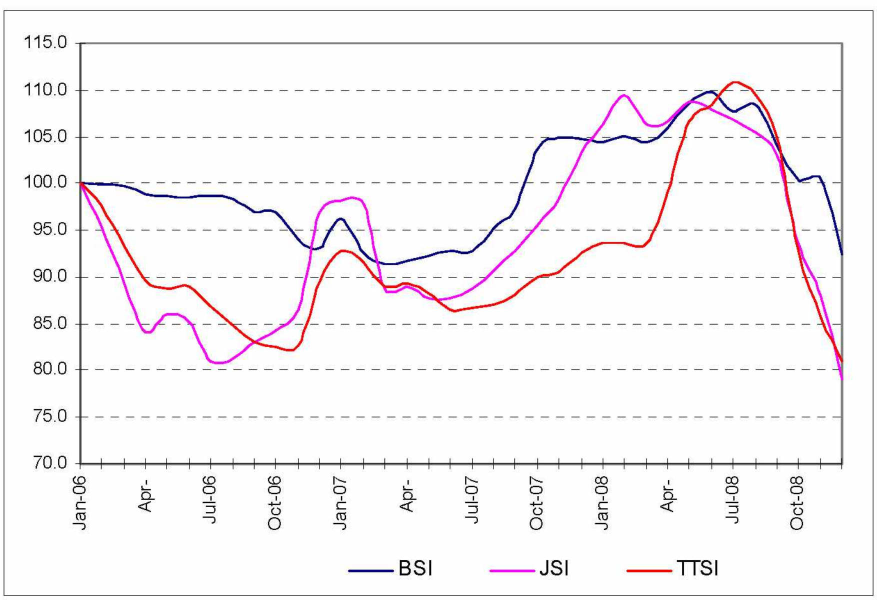
It seems that the main contagion effect of the global financial turmoil and economic crisis has been on Caribbean stock markets. As can be seen in figures 7 and 8, the Dow Jones Industrial Average (DJIA) lost more than 500 basis points in September 2008 closing at a fresh six-year low in November. The S&P 500, FTSE 100, Jamaica Stock Index (JSE), Barbados Stock Index (BSE) and the Trinidad and Tobago Stock Index (TTSE) experienced similar declines during the last quarter of 2008.

Figure 7: Selected advanced economies stock indices, 2006-2008



Source: Bloomberg.

Figure 8: Selected Caribbean stock indices, 2006-2008



Source: Barbados Stock Exchange, Trinidad and Tobago Stock Exchange and Bloomberg.

The impact of the international crisis on financial markets has not only been at the level of stock prices, but also on their volatility due to increased investor uncertainty stemming from concerns about the solvency of financial institutions and, most recently, the decline in earnings of blue chip companies. As volatility is influenced by both macroeconomic and microeconomic factors, during times of economic and financial unrest, volatility tends to rise hand in hand with bad news releases, thus further fuelling uncertainty.

Taking the annualized standard deviation of returns as an indicator, Table 13 shows that volatility increased drastically in the developed countries' stock markets in 2008. Indeed, relative to 2007, volatility of the DJIA, S&P 500 and the FTSE 100 climbed by 157%, 158% and 111%, respectively. However, this steep increase in volatility has not been mirrored by the three Caribbean stock indices considered in the analysis. Indeed, the annualised standard deviation of returns on the JSE, BSE and TTSE rose at a much slower pace (25%, 24% and 31%, respectively), revealing that the Caribbean stock markets are not highly integrated with stock markets of the United States and Europe. Nevertheless, there is some degree of co-movement among the developed countries' stock indices and those of Jamaica, Barbados and Trinidad and Tobago. This degree of co-movement suggests the existence of certain mechanisms through which shocks are transmitted internationally, namely economic fundamentals and/or expectations. Although the intensity of volatility in the region can be deemed to be low, the increase observed in 2008 is partly a reflection of the uncertainty investors currently face worldwide, including in the Caribbean.

Table 13: Volatility of returns, 2006-2008

(Standard deviation in percentage)

	2006	2007	2008
DJIA	9.7	14.6	37.8
S&P 500	9.8	15.9	41.0
FTSE 100	12.5	17.6	37.1
JSE	13.5	12.5	15.6
BSE	3.2	8.8	10.9
TTSE	5.6	5.2	6.8

Source: Bloomberg, Barbados Stock Exchange, Jamaica Stock Exchange, Trinidad and Tobago Stock Exchange

In the meantime, businesses in the ECCU reported an overall tightening of credit in 2008. This was highlighted in the Credit Market Condition Survey carried out by the Eastern Caribbean Central Bank (ECCB). The results of the survey indicate that there was continued tightening in lending terms i.e. higher collateral and equity requirements, higher rates of interest, stringent policies on maximum 'loan to value' ratio as well as underwriting practices. The driving factors behind these measures were the risk related to the expected economic situation and, in the case of foreign owned banks, directives from their head offices.

In Trinidad and Tobago, the government is currently faced with the bailout of Colonial Life Insurance (Trinidad) Limited (CLICO), member of the holding company CL Financial Ltd., a major conglomerate with estimated assets of more than TT$100 billion (25% of GDP) in more than 28 companies located throughout the Caribbean and other countries, in sectors such as insurance, banking and finance, property and real estate, media and communications and energy and petrochemicals, among others. Box 1 discusses this issue.

Box 1: The bailout of CLICO in Trinidad and Tobago

On 30 January 2009, the Government and the Central Bank of Trinidad and Tobago (CBTT) announced the bailout of CLICO Investment Bank (CIB) to maintain the stability of the financial sector, prevent contagion to other financial institutions and protect depositors' funds. According to CIB, the problem was generated by the depositors' concerns about the impact of the sharp decline in real estate and methanol prices given the large share of funds invested in these sectors by this bank. This prompted a liquidity problem as depositors started withdrawing their funds at the CIB, a process that escalated during the last week of January. This spilled over to CLICO, given the close ties between the two companies. However, the CBTT stated that this is not the whole story. According to this institution, the problem was related to three issues. First, excessive related-party transactions, which carry significant contagion risks (although this is not prohibited by legislation). Second, the aggressive high interest rates offered to attract resources to finance high risk investments, much of them in illiquid assets (including real state in Trinidad and Tobago and elsewhere). Third, high leveraging of CL Financial Ltd. assets, which constrains the potential amount of cash that could be raised from the assets sales.

The rescue plan's main features are:

i. The CBTT will take control of CIB.

ii. All third-party assets and liabilities of CIB and the Caribbean Money Market Brokers (CMMB) will be transferred to the First Citizen Bank, a State-owned commercial bank. These liabilities will be matched by resources from the sale of CIB's holdings of certain high quality assets. The CBTT will provide short-term liquidity as necessary to ensure these liabilities are serviced.

iii. After this process is concluded, CIB's banking license will be revoked.

iv. CL Financial Ltd. will provide additional resources to help fund the sizeable deficit in CLICO's Statutory Fund. The government will provide any additional funding needed by CLICO.

v. Government's funding will be provided in exchange for collateral and equity in CLICO. It will also act as a catalyst for implementing a change in the business model and corporate governance structure of CLICO. The intention is to return CLICO to its original moorings.

vi. CLICO will divest its 55% share holding in Republic Bank Ltd and shares in Methanol Holdings Trinidad Ltd.

vii. Although no figure has been released about the total cost of the bailout, the liability structure of CLICO is estimated at TT$16.7 billion (4.2% of GDP).

viii. In a bid to avert a financial crisis and prevent a run on CL Financial institutions, the government will also take over British American Insurance (BAI).

CLICO's Statutory Fund deficit

The deficit was below TT$1 billion in 2007, but it escalated to between TT$2.5 and TT$3.5 billion at the end of 2008. According to the Memorandum of Understanding (MOU) agreed upon by the government and CL Financial in late January, a major source for covering this deficit would be the sale of the conglomerate's shares in Republic Bank (55%) and some of its shares in Methanol Holdings (Trinidad) Limited. The government is committed to close the gap, providing the necessary funds to cover it on a temporary basis while the available assets are being sold. Notwithstanding, in mid February 2009 the CBTT re-estimated the deficit at TT$10 billion, equivalent to 2.5% of GDP. The CBTT authorities revealed that in the CL Financial model, CLICO was used as a source of cash to finance investments held in the name of other entities in the group.

CLICO and related-party transactions

Many of the subsidiaries of CL Financial Ltd are interwoven whereby they hold each other's assets and liabilities. For instance, around 80% of the CIB transactions were with other members of the group. This is extremely dangerous as the contagion risk is excessively high. However, the law did not establish restrictions on related-party transactions, so that neither CLICO nor CIB were in contempt of the legal framework.

The approved bailout plan

In the first week of February the bailout bills i.e. the Central Bank Amendment bill and the Insurance Amendment bill was passed in both the Houses of Representative and the Senate. These bills allow the Central Bank to take control and carry on the affairs of the illiquid insurance companies CLICO and British American Insurance. In effect the bills will allow the Central Bank to make the interventions quoted in the MOU for the Government's rescue of CL Financial Ltd. companies.

CLICO's shares in Republic Bank

The government has disclosed that Canadian Imperial Bank of Commerce (CIBC) has expressed interest in purchasing CLICO's 55% shareholding in Republic Bank Ltd. The MOU will also guide this decision. It is worth noting that RBTT Bank Ltd, the second largest bank in the country, was acquired by RBC Canada in 2008, an indication that investors from this country may have an appetite for Trinidadian financial institutions lately.

What happens next

The Central Bank will provide details as to its methods of implementation of the rescue plan and any other action that will be taken to protect depositors and insurance holders and to maintain a sound financial system. In mid February it was announced that the government would step in with a TT$1 billion tranche to ease the liquidity pressures on CLICO and on BAI.

Source: ECLAC based on official information.

To make things worse, another financial concern for the region came up in February 2009: the implosion of the Stanford Financial Group (SFG), a multinational corporation with banking and investment operations across North America, Latin America, Europe and the Caribbean. The Stanford Corporation was intervened by the United State Securities and Exchange Commission and the Financial Industry Regulatory Authority due to a massive fraud scheme carried out by the company for an estimated US$8 billion through the sale of certificates of deposit from Stanford International Bank Ltd (SIB), an affiliate firm based in Antigua and Barbuda. Although there is still no accurate assessment of the full implications derived from the debacle of the SFG, it is undeniable that it has become an additional blow for the regional financial markets, just after the CLICO bailout. In Antigua and Barbuda, where the Group has a major presence, the impact has been heavier, which drove financial authorities to take control of the Bank of Antigua, a local commercial bank owned by the SFG in order to prevent its imminent collapse. Considering that the Stanford Group is present in Antigua and Barbuda not only through the SIB and the Bank of Antigua, but also through investment in construction, aviation and tourism – being one of the mayor private employers – it is clear that the impact of the Group's downfall on Antigua and Barbuda's economic health, including stability, job generation and output growth will be considerable.

On the other hand, the Offshore Financial Center (OFC) has been a pillar of economic activity in many Caribbean countries mainly the Bahamas, the Caymans Islands, British Virgin Islands, Barbados and Nevis, among others. These financial centers provide significant services in private investments, asset protection and estate planning. The main challenges facing the offshore sector are, firstly, the implementation of effective regulation to combat money laundering and terrorism financing, and secondly, stemming from the financial crisis the fact that clients' deposits are not guaranteed. The Financial Action Task Force continues to exert pressure on OFCs to comply with anti-money laundering standards. Notwithstanding, the Government of the United Kingdom has announced the commission of an independent review of British OFCs in 2009. The review will look closely at financial supervision and transparency, fiscal arrangements, financial crisis management and international cooperation. At the end of the review the offshore jurisdictions will be fully assigned to the United Kingdom with a great deal of transparency and tax compliance. In addition, the lack of depositors' guarantee is a great challenge to traditional deposit taking offshore banks as Caribbean governments lack the resources to provide such facility schemes. Since such guarantees are given to on-shore banks in the United States and the United Kingdom, depositors could repatriate their wealth to those jurisdictions, eroding the capital base of offshore banks.

Overall, the global financial turmoil has not only brought about negative effects but it brought to the fore the urgent need for Caribbean authorities and businesses to take action to upgrade regulatory and supervisory frameworks throughout the region. Although updated legislation is a necessary condition to achieve a sound financial system, it is by no means sufficient. As the Governor of the Central Bank of Trinidad and Tobago underscores, there are two additional things needed to foster financial stability in the region.[6] Firstly, to put robust risk management at the core of the operations of financial institutions; and secondly, to reinforce regulatory efforts by getting a better balance within macroeconomic policy, establishing a set of

---

[6] See Williams (2008).

reliable early-warning indicators and developing a crisis management plan to deal with systemic institutions.

V. Measures implemented to tackle the global crisis in the Caribbean countries[7]

Similar to most governments around the world, those of the Caribbean arguably did not anticipate the extent of the fall-out that would result from the impending global slowdown. Consequently, in most countries, measures to deal with the knock-on fall-out in foreign exchange, growth and employment came after the first wave of effects had started to be felt. The form and extent of the measures and policies that are being implemented by Caribbean governments depend on a number of factors. In the first place, the availability of resources (public savings) was (and will continue to be) a key factor determining the extent of intervention.

Countries that had benefited from commodity booms that allowed them to accumulate fiscal savings and international reserves were obviously in a much better position to undertake counter-shock stimulus in the current environment.[8] On the other hand, for those countries which lack reserves and might need to borrow, the availability of affordable finance sets a limit on their capacity to undertake fiscal stimulus, particularly given the current scarcity of international finance. In addition, even where some finance might be available, a number of countries are already over-leveraged because of high and unsustainable debt-to-GDP ratios and debt servicing costs (see Table 3 and Figure 3 above).

A third important consideration is the extent of financial deepening, financial market sophistication and the capacity to carry out an effective two-pronged strategy based on complementary monetary policy and fiscal policy. Unlike advanced economies with well developed integrated money and capital markets, relatively underdeveloped financial markets in the Caribbean put a damper on the effectiveness of monetary policy in a number of countries. Moreover, the latitude for effective monetary policy is constrained in the countries with fixed or quasi-fixed exchange rate regimes, which comprise, all except for Jamaica that has a dirty floating framework. Also, countries with pegged rates are confronted with the so-called unholy trinity, which prevents independent monetary action given their fixed or quasi-fixed pegs in a context of an open capital account.

Finally, given the balance of payments constraint that is accentuated in small economies such as the Caribbean, where it is necessary to earn foreign exchange to import vital inputs, the twin deficits and, especially, the external gap is an important consideration. Indeed, as shown in Section II above, current account deficits recorded in 2008 were above 20% and even 30% of GDP in Guyana, Jamaica, and all ECCU countries (see Table 2 above). This means that in 2009 this situation has to be reverted as less external financing would be available given the current global economic crisis. The reduction of these current account deficits would imply a sharp contraction in domestic absorption which, in turn, would exert recessive impulses in economic activity.

---

[7] For a complete account of these measures in Latin America and the Caribbean, see ECLAC (2009).

[8] The most significant case is that of Trinidad and Tobago, that at the end of 2008 had more than 10% of GDP saved at the Heritage and Stabilisation Fund and international reserves that amounted to more than a third of GDP.

Against this backdrop, what have been the specific counter-recessionary measures implemented by Caribbean countries in 2008 and early 2009? Generally, the policy measures adopted by Caribbean governments to deal with the global slowdown could be classified into three broad groups: fiscal stimulus, sectoral policies and social policies.

Fiscal policy was the main plank in dealing with the global slowdown. Countries embarked on stimulus measures according to the speed with which the crisis started to affect their economies and their ability to undertake such policies. In the Bahamas, the knock-on effects of the crisis were relatively rapid. To cushion the fall-out on growth and employment, the government implemented a stimulus programme which entailed the fast-forwarding of key infrastructure projects, including the $120 million New Providence Road. This was complemented by an increase in the government's overdraft from $100 million to $150 million from November 2008. In October and November 2008, the Government of Barbados issued debentures and treasury notes to the tune of US$135 million to provide liquidity to the public sector for projects that would stimulate economic activity.

With limited fiscal room to manoeuvre, Belize attempted little or no fiscal stimulus to confront the crisis. Decent growth in the context of the need to improve the fiscal position in the wake of previous debt restructuring, occasioned caution on the part of the government. The main fiscal initiative was a 40% reduction in taxes on fuel to alleviate the high cost of living and to strengthen the competitiveness of the transport and agricultural sectors. Although this was not directly related to the global crisis, it is set to lead to a worsening of the fiscal position as petroleum prices are now at their lowest levels in the country for many years. The government might have to consider reintroducing some portion of the revenue replacement duty to cushion the revenue fall-out in an already tight fiscal environment, after the debt restructuring.

Although the ECCU economies have not responded with any notable activist fiscal policy stance as yet, the Monetary Council of the ECCB has recently hinted at the potential need for stimulus as the crisis deepens. If implemented, stimulus is likely to take the form of public project/programme spending to mitigate the fall-out in employment and incomes from the crisis. In addition, ECCU governments were urged to refocus Public Sector Investment Programmes to areas that would generate the greatest economic benefit and simultaneously provide the necessary stimulus in the recovery effort.

On the other hand, Jamaica has embarked on an economic stimulus programme, which includes an important fiscal component. In the first place, J$2.5 billion of additional expenditure on infrastructure, including roads, drains and gullies have been programmed. On the tax side, tax on dividends paid by non-listed companies was abolished in January 2009, while the transfer tax was reduced by 1.5 percentage points. In addition, the Senate agreed to lift the limit to public borrowing from US$9 billion to US$12 billion.

Meanwhile, at the outset, Suriname has not implemented a fiscal stimulus package, as economic conditions remained stable and the financial sector had little or no exposure to sub-prime and other problematic financial instruments. Nevertheless, with second round effects of the global crisis buffeting commodity demand and prices, it is expected that this country might be forced to engage in some fiscal stimulus to maintain growth and employment. Fortunately, having accumulated fiscal reserves in the recent commodity boom years, the government is in a position to carry-out some fiscal pump-priming.

In Trinidad and Tobago, the collapse of oil, gas and methanol prices has led to a sharp contraction in government revenue. Indeed, with a revised budgeted oil price of US$45 per barrel and gas price of US$3.25 per mmbtu, the government is expecting a revenue shortfall of TT$7.2 billion for fiscal year 2008/09 (October-September). As a result, government has scaled back spending plans by prioritizing major projects, with work expected to continue on started projects, but postponed on new ones that were planned. In this event, government expects to cut spending by TT$4.7 billion, mainly from the current expenditure side in order not to compromise developmental capital spending too much. As a result, a deficit of TT$1.7 billion is programmed, equal to 1.3% of GDP and reversing the surplus of 6.5% of GDP posted last fiscal year. Nevertheless, the recent CL Financial debacle, where government has absorbed a substantial portion of CLICO's debt will lead to a worsened fiscal situation (see Box 1 above).

Fortunately, some Caribbean countries have recognized that the crisis cannot be approached from the fiscal and financial angle only, but must include policies to deal with the disruptive effects on the real sector. To this end, Bahamas, Barbados and Jamaica have implemented measures to contain the impact on the vital tourism sector. The Bahamas has allocated an increased budget to market the country in the United States market to limit the decline in tourist arrivals from that country that accounted for more than 80% of stay-over tourists during January-August last year (see Table 8 above). Barbados has also provided financial support for increased marketing under the one Caribbean brand. At the same time, Jamaica has implemented an aggressive marketing campaign in the United States to attract not only locals but also Jamaican nationals living there. The government is also promoting sports tourism as a key strategy to curtail fall-out in the sector. In addition, in November 2008 the Government of Jamaica secured a US$500 million credit line from the Inter-American Development Bank (IDB) in order to provide commercial banks with resources to lend to domestic producers. In the case of Guyana, the authorities are implementing cash subsidies and capital transfers to the electricity sector.

As regards agriculture, both Barbados and Belize are mobilizing additional credit to local farmers, while Guyana is implementing the "Grow more" campaign to foster output. In St. Kitts and Nevis, 224 acres of land have been distributed to rural workers for agricultural production. Finally, although not directly linked to the global financial crisis, the decision of the Government of Trinidad and Tobago to bailout CLICO (see Box 1 above) and to improve regulation and supervision of the financial sector could be considered measures to confront the international economic crisis.

On the other hand, given their concerns about the adverse effects of the crisis on employment, incomes and social welfare, Caribbean governments have put in place a number of measures to cushion the impact of the recession. These social safety net measures have varied across countries depending on their capacity and priorities.

In the Bahamas, the government has allocated some additional funds in the Medical Benefit Branch of the National Insurance Board (NIB) to provide weekly unemployment assistance to workers who have recently lost their jobs. By the same token, the Government of Barbados has allocated funds for relief to the poor, including higher welfare grants and pensions and a reverse tax credit for low income workers. In addition, Barbados and Belize are in the process of designing conditional transfer programmes with the assistance of the World Bank to mitigate the social effects of the crisis.

In the case of the ECCU, Dominica and St. Kitts and Nevis have raised wages (and the former also social welfare payments by 10%), whereas Grenada is implementing a programme to distribute food baskets among the poor to cushion the impact of the international economic slowdown. On the tax side, Dominica has increased income tax allowance and cut tax rates; St. Kitts and Nevis has eliminated consumption tax on 10 food and non-food products; Saint Lucia has raised from 15 to 44 the number of staple foods and health-related articles subject to price controls; and St. Vincent and the Grenadines extended the list of zero-rated and VAT exempted articles, including staple goods.

Meanwhile, Jamaica contracted a loan from the IDB to extend the Programme of Advancement through Health and Education (PATH), which is aimed at poverty reduction, training and community empowerment. Finally, Trinidad and Tobago has committed to maintaining key social programmes geared towards providing employment for vulnerable groups. These measures are summed up in Table 14.

Table 14: Summary of measures implemented by Caribbean countries to tackle the international economic crisis

	Fiscal policy	**Sectoral policies**	**Social policies**
Bahamas	Government has implemented a fiscal stimulus package to dampen the fall-out in growth and employment. Key infrastructure projects have been fast-forwarded and the borrowing requirement has been increased to maintain employment and aggregate demand and would lead to an above trend expansion in the fiscal deficit and higher, but sustainable debt levels	An aggressive tourism marketing campaign is being undertaken to maintain leading hubs and to create new ones in the US.	Excess funds in the Medical Benefit Branch of the National Insurance Board (NIB) have been used to provide unemployment relief for workers who have lost their jobs or have been placed on reduced work-weeks.
Barbados	Tax exemptions for essential consumption items. Increased capital transfers and subsidies for educational institutions and public infrastructure agencies.	Establishment of leasing and credit programs for farmers. Increased marketing for the tourism sector.	Temporary subsidies for basic food items, like flour. Expansion of welfare grants and pensions. Establishment of tax exemptions for low income workers. Establishment of conditional transfers program under consideration.
Belize	Belize did not implement any fiscal measure targeted at mitigating the impact of the global crisis. Taxes on fuel were cut to dampen the high cost of living. This should lead to deterioration in the fiscal position.	A revitalised national financial institution has been mandated to provide credit to small farmers to maintain production and productivity levels, in the wake of the intensified shortage of credit to the sector.	A World Bank-supported programme of conditional cash transfers has been put in place to provide relief for vulnerable segments of the population badly affected by the global economic crisis.
Guyana	Reduction of excise tax on fuel products and establishment of a zero rate of the value added tax for a	Cash subsidies and capital transfers to the electricity sector. “Grow more” campaign in the agricultural	Direct intervention in the flour, rice and sugar markets through cash transfers to producers and suppliers and

	list of basic consumption goods. Increase of the threshold for the personal income tax. Renewed efforts to secure and conclude debt relief agreements and keep external lines of credit open.	sector.	the introduction of subsidies. Adjustments in wages and salaries of public workers and pensioners to compensate for the increased cost of living.
Jamaica	New loans contracted with multilateral agencies for social and economic development purposes. Implementation of an economic stimulus package that includes tax cuts and low cost loans for business, manufacturing and tourism activities.	Marketing in main tourism markets and promotion of alternative new tourism areas like sport and community tourism. Establishment of promotional programs and subsidies to boost agricultural output.	Salaries increase for public servants. Subsidies for basic food items. Adjustment of the national minimum wage.
Suriname	No official policy response as yet	No official policy response as yet	No official policy response as yet
Trinidad and Tobago	In the face of a shortfall in projected revenue given the decline in energy prices, the government has cut current spending and postponed some non essential investment projects, but still allowing for a fiscal deficit of 1.3% of GDP for fiscal year 2008/09 to sustain economic activity (originally it was a balanced budget)	Bailout of CLICO to prevent contagion to other financial institutions; improvement of regulation and supervision of the financial sector	Maintain key social programmes to provide employment to the poor
ECCU	Engage in targeted Public Sector Investment programmes to stimulate economic activity; Maintain the level of ongoing economic activity by supporting the tourism industry in their cost reduction and marketing strategies	Strengthen oversight of domestic bank; Complete the regulatory framework for the entire financial system and construct money and capital market arrangements to facilitate the provision of liquidity and investment finance	Provide efficient and effective social safety net programmes to address the needs of the poor, indigent and the vulnerable.
Antigua and Barbuda	Approached the Caribbean Development Bank with a view toward accessing a policy based loan of EC$82 million to augment government revenues.		Creation of an Unemployment Fund to provide income for persons who have lost their jobs. Eligible persons will receive 60% of their basic weekly earnings. This will be administered by the existing Social Security Scheme

Source: ECLAC based on official information.

VI. Cyclicality of fiscal policies in the Caribbean: Preliminary evidence and analysis[9]

The global slowdown has rekindled the debate on the role of counter-cyclical fiscal policies as a stabilization strategy in both developed and developing economies. The standard thesis is that fiscal policy tends to be a-cyclical or counter-cyclical in developed countries, but pro-cyclical in developing countries. Braun and Raddatz (2008) argue that the latter behaviour is the result of the weakness of economic policy instruments in developing countries and that this bias is due to the interaction between external volatility and the productive structure features of

[9] For a comprehensive discussion on this issue in Latin America see ECLAC (2008b).

these countries together with political economy considerations. Thus, while fiscal policy would tend to either smooth or be neutral to the business cycle in developed countries, it would tend to amplify it in developing countries. In the Latin American experience, studies such as Gavin *et. al.* (1996) and Gavin and Perotti (1997) established as a stylized fact that fiscal policies in this region are pro-cyclical, and linked this outcome to the fact that external financing is pro-cyclical as creditworthiness of Latin American countries decline (increase) during downturns (upturns) in economic activity giving fiscal policy a pro-cyclical behaviour. However, these and other studies evaluate fiscal policies in Latin America as a whole, thus ruling out the possibility of different patterns in different countries. To shed some light on this, using public spending as the fiscal variable to evaluate the cyclical behaviour of fiscal policies in nine Latin American countries, Bello and Jimenez (2008) find that at least in two of them – namely Brazil and Chile – fiscal policy was a-cyclical in 1990-2006. In any case, whether fiscal policy in countries such as those of the Caribbean is pro-cyclical or not is an issue that needs to be addressed on empirical grounds. In this section some simple estimations and tests are carried out to provide some indication on this issue.

But why is it relevant to explore whether fiscal policy is pro-cyclical or counter-cyclical? That is, what is the policy significance of the cyclicality of fiscal policy? Again, given the crucial role of stabilization in maintaining short-term growth, employment and macroeconomic stability, Kaminsky, Reinhart and Vegh (2004) consider that pro-cyclical fiscal policies that exacerbate the business cycle are maladaptive and sub-optimal. By the same token, Perry (2008) argues that pro-cyclical fiscal policies are costly in a number of ways. In particular, they exacerbate macroeconomic volatility by reinforcing the business cycle. In Latin America, for example, one third of macroeconomic volatility is due to fiscal policies. Indeed, pro-cyclical fiscal policies tend to deepen the cycle, especially during recessions when the collapse of public spending leads to protracted slumps.

However, Jaimovich and Panizza (2007) warned that the pro-cyclicality evidence found by some studies in Latin American countries may be due to reverse causation, i.e. that the causality relationship may run from the fiscal stance to real GDP growth and not the other way around. Moreover, although it may be contended that stabilization should be left to automatic stabilizers such as unemployment insurance and transfer payments, the counter-cyclical effect of these stabilizers tend to be relatively weak in developing countries. Indeed, in the Caribbean unemployment insurance is largely lacking.

In any case, a vital consideration in the current environment in the Caribbean region is that pro-cyclical fiscal policies reinforce the economic insecurity and vulnerability of the poor. Social expenditures are often the first casualty during downturns (perhaps after public investment), as tax revenue declines or slows down. Consequently, persons who might have lost their jobs or are on social support tend to get less assistance at the very time they need it most. This tends to exacerbate poverty and inequality in recessionary periods. In the case of Latin America, De Ferranti *et. al.* (2000) found that in a typical downturn, social spending per poor person declined by 2% for each 1% contraction in GDP. The order of magnitudes might be similar in the Caribbean.

Table 15 shows results of a simple bivariate regression of fiscal deficit as a share of GDP on real output growth for Caribbean countries in 1975-2008. The aim is to get some indication of the extent to which fiscal policy tracks the business cycle or runs counter to it. As can be seen, in most cases the estimated slope coefficients are not statistically different from zero which indicates a-cyclical fiscal policies. In the case of MDCs, the exceptions are Guyana and Trinidad and Tobago, that show pro-cyclical fiscal policies, whereas in the case of the ECCU grouping, this is also true in St. Kitts and Nevis.

Table 15: Cyclicality of fiscal policy in the Caribbean, 1975-2008
(Dependent variable: Fiscal deficit-to-GDP ratio; explanatory variable: real GDP growth)

	Coefficient	Standard error	t-statistic	P-value
MDCs				
Bahamas	0.13	0.16	0.82	0.4303
Barbados	0.07	0.12	0.61	0.5481
Belize	0.28	0.18	1.56	0.1296
Guyana	1.53	0.57	2.67	0.0121
Jamaica	0.44	0.38	1.15	0.2625
Suriname	..	..	..	..
Trinidad and Tobago	0.50	0.13	3.77	0.0001
ECCU				
Anguilla	..	..	..	..
Antigua and Barbuda	0.24	0.40	0.59	0.5608
Dominica	0.13	0.14	0.94	0.3537
Grenada	0.26	0.29	0.90	0.3738
Montserrat	..	..	..	..
St. Kitts and Nevis	0.61	0.30	2.04	0.0513
St. Lucia	0.05	0.11	0.42	0.6802
St. Vincent and the Grenadines	-0.01	0.19	-0.06	0.9543

Source: ECLAC calculations on the basis of official data.
.. = not available.
Note: Estimation using Ordinary Least Squares; regression equation including constant Michael and Stefan please confirm that this is correct; annual frequency.

Apart from being statistically significant at the 5% level, the estimated coefficient for Guyana was the highest by a large margin (1.53) signalling a particularly high pro-cyclicality of fiscal policy during the analyzed period. This result is in contrast with the ones found by Perry (2000) for Bolivia and Nicaragua, two countries, that like Guyana, do not have access to private international capital markets, depend on aid grants and loans from the donor international community and are part of the Highly Indebted Poor Countries (HIPC) Initiative that provides debt relief and assistance from creditor countries to debtor poor countries. Indeed, according to ECLAC estimates, both countries exhibited counter-cyclical fiscal policies in the period 1975-1999, due to the counter-cyclicality of aid flows (grants and aid loans).

In the case of Trinidad and Tobago, the result of statistically significant pro-cyclicality of fiscal policy (at the 1% level) is not surprising, given the paramount dependence of this country's GDP, merchandise exports and fiscal revenue on the energy sector (oil and gas). Thus, in times of strong world growth and demand, windfalls in energy prices fuelled both output and fiscal revenue. The opposite is true in times of world downturn or recession as the one being faced currently. It is worth mentioning that the government put in place the Heritage and Stabilisation

Fund in order to save part of the exceptionally high international energy prices observed during the last years until mid 2008. Indeed, as mentioned above, at the end of fiscal year 2007/08, the resources accumulated in this fund totalled some 10.2% of GDP. However, the magnitude of the windfall appears to have been so high that could not eliminate the pro-cyclical bias of fiscal policy. The same may be true during the other oil shocks registered during the analyzed period (1979 and 1991). This performance might be a reflection of the proverbial 'resource curse', where countries that are affected by resource booms and busts tend to exacerbate the business cycles by overspending during the boom- running deficits (or reducing surpluses), and facing compulsory fiscal contractions during the busts as they have not saved for the rainy days.

In the case of the ECCU countries, the finding of evidence of pro-cyclicality in fiscal policy in St. Kitts and Nevis is also not surprising. What is indeed so, however, is the a-cyclical results found in the other countries, including the MDCs. Indeed, as shown by a number of ECLAC studies,[10] Caribbean countries are prone to natural disasters given their geographical location. Thus, one would have expected to find evidence of pro-cyclicality in fiscal policies, as when these events occur, output suffers significantly and the fiscal costs of reconstruction are usually very high.

Summing up, the results presented in this section do not confirm the statement that fiscal policies in developing countries are pro-cyclical. In the Caribbean region, most countries exhibit a-cyclical fiscal policies. The exceptions are Guyana, Trinidad and Tobago, and St. Kitts and Nevis, which show a pro-cyclical bias in the fiscal stance.

VII. Conclusions

The immense degree of uncertainty on the prospects of the global economy for 2009 together with the speed at which bad news and pessimistic forecasts emerged each week during January and February 2009 makes it particularly difficult to predict what might be the evolution of the Caribbean economies during the current year and beyond. Indeed, after the IMF released its world growth projections in October 2008, this institution revised them downwards in November and again in January 2009. Notwithstanding these shortcomings, this report presents forecasts and insights about the likely impact of the global economic crisis on the Caribbean countries in 2009.

The current global economic crisis is deemed to be the worst faced by the world since the Great Depression of the 1930s. As time passes and information keeps emerging, this pessimistic observation is confirmed. Therefore, developing countries in general and the Caribbean countries in particular are confronting a very worrisome situation. Moreover, as in the 1930s the Caribbean nations were not yet independent, this is the first time that they have to deal with an international economic crisis of this magnitude as sovereign States. As small, open economies are very sensitive to external shocks, the global recession that may well extend to 2010 will undoubtedly exert a paramount influence on the Caribbean region. This would be aggravated given the magnitude of the twin deficits – i.e. fiscal and current account – that most countries have exhibited over the last years, coupled with unsustainable levels of public debt and insufficient stocks of international reserves in the majority of them. Only Suriname and Trinidad and Tobago

[10] See ECLAC and UNDP (2007a), (2007b) and (2007c).

seem to be in a favourable position to cope with the international crisis. The other countries exhibit either excessive current account deficits, or huge public debt-to-GDP ratios, or low imports coverage of international reserves; or some combination of the three. To make things worse, with the exception of the Bahamas, all other Caribbean countries have recorded substantive real exchange rate appreciations vis-à-vis the United States dollar, given the inflation rate differential that erodes the competitiveness of Caribbean producers in favour of producers of imports in the United States (and their local intermediaries, i.e. importers, distributors and retailers).

This report identified a number of channels of transmission of the global economic crisis to the Caribbean countries, namely merchandise exports (volumes and terms of trade), tourist arrivals, remittances, FDI and external financing. Obviously, the relevance of each channel will depend on the idiosyncratic characteristics of each country, such as the importance of the United States or the European Union as destinies for their exports of goods or as sources of tourists, remittances, FDI and foreign financing. Other important factors are the share of the tourism sector in total output on employment, the share of commodities in export baskets, among others. In any case, all Caribbean countries will feel with more or less intensity the adverse effects of the economic crisis through these channels of transmission.

Particular attention has been paid to the financial sector in the region, as the internationalization of the sub-prime mortgage crisis in the United States turned global through the effects on financial institutions based in Europe and elsewhere contaminated with toxic assets manufactured in the United States. Despite the contagion effect on the Caribbean financial sector being limited so far due to low exposition to this type of assets, the negative spill-over effects have been felt through the decline in stock indices in countries such as Barbados, Jamaica and Trinidad and Tobago, as well as through the increase in the volatility of returns in these stock markets. Notwithstanding, the positive outcome of this has been the rise of a warning sign for the upgrading of regulatory and supervisory frameworks throughout the region.

As regards specific policy measures adopted by Caribbean countries to mitigate the impact of the international economic crisis on their economies, these can be divided in three groups, namely fiscal, sectoral and social. The number and the intensity of these measures, as well as their focus vary from country to country. Nevertheless, in general, there is not much fiscal room to implement significant increases in public spending which also constrains the option for devising new sectoral or social programmes. The scope of any of such policies will critically depend on the capacity of the countries to contract loans from multilateral organizations and the international donor community to finance them. Although the concrete situation of each country is different, it can be said that for the Caribbean as a whole, the policy measures implemented so far to cope with the world economic storm have been at most mild, as compared to the activism observed in most Latin American countries (see ECLAC (2009) and Table 15 above).

Finally, the convenience of conducting counter-cyclical fiscal policies is totally clear. The point, however, is the capacity of the Caribbean countries to implement such policies, given the massive current account deficits and unsustainable levels of public debt recorded by most of them recently. The former means that they would need to cut domestic absorption – i.e. apply a restrictive fiscal-monetary policy mix – to reduce the external gap due to less availability of external capital inflows to finance it. The latter implies that a significant share of fiscal revenue is devoted to debt service thus reducing resources available for spending. In this scenario, is it realistic to ask the Caribbean countries to implement counter-cyclical fiscal policies to cope with the current world economic crisis? Perhaps a much more realistic but still worthwhile goal would be to reduce the eventual pro-cyclicality of fiscal policies in the Caribbean, as has been highlighted by Machado (2008) for Central American countries and the Dominican Republic. In any case, preliminary estimations on this issue in the Caribbean reveal that in most of them fiscal policies have been a-cyclical during 1975-2008. Only in Guyana, Trinidad and Tobago, and St. Kitts and Nevis was there any indication of pro-cyclicality in the same period.

Given the gloomy prospects for the global economy that could extend to 2010, Caribbean countries should try to use all the policy tools at their disposal and to the extend that resource as much as availability allows. In situations such as the one the world is currently going through, it is better to fail because of excess than because of falling short. Looking ahead, Caribbean countries need to implement policies that strengthen their credit worthiness. These would include prudential debt management that allows them to meet debt obligations on-time, a sustainable medium-term fiscal position and monetary policies that complement the prudent fiscal stance. Improved credit ratings would allow countries to borrow at sub-premium interest rates in foreign markets, especially during bad times.

But perhaps the main policy innovation in the region would be the introduction of mechanisms that ensure that financial resources are saved during growth booms so that they can be used during the low phase of the business cycle. Indeed, as Heymann and Kawamura (2008) point out, the capacity of a government to apply fiscal counter-cyclical policies depends critically on the access to financial resources, especially during recessions. This calls for the generation of surpluses in relatively favourable times so as to have some manoeuvring space during difficult times. This would also increase the creditworthiness of countries in external credit markets. Only in this manner would Caribbean countries not be confronted with the hard decision of implementing a fiscal adjustment precisely in moments when vast portions of their populations are suffering because of the economic downturn and the rising unemployment rate.

SECTION II: COUNTRY BRIEFS

A. Bahamas

The slowdown of the United States' economy has triggered a marked deceleration in the growth rate of the Bahamian economy, to 1.5% relative to 2.8% in 2007. Tourism demand and construction have softened and FDI inflows have also lessened. In the wake of weakened private sector activity, the government engaged in some fiscal stimulus to maintain growth and employment; thus the fiscal stance has deteriorated somewhat during the early part of fiscal year 2008/09. Growth for 2009 is forecast at 0.5%, however, the outcome will be strongly contingent on the length and depth of the slowdown and financial crisis in the United States, the Bahamas' major market.

Macroeconomic policy attempted to balance the competing ends of an improvement in government finances, the need for some fiscal stimulus in the wake of depressed conditions in major export markets, and maintaining the soundness and competitiveness of the fixed exchange rate regime. Structural polices remained focused on diversifying the tourism product by spreading it to the family islands and revitalizing the financial services sector.

The overall deficit contracted to 1.7% of GDP in fiscal year 2007/08 from 2.5% of GDP in the previous fiscal year. The fiscal stance was positively affected by growth in revenue, reflecting improved tax administration and collections that outpaced growth in expenditure. Although current spending rose by 2.1%, capital outlays and net lending to public enterprise were reduced during the period. Current revenues were bolstered by higher tax receipts associated with increased import duties and business and professional fees, linked to vibrant growth in the off-shore financial services sector in the earlier part of the year. Some of these gains were eroded during the later part of the year, import taxes, however, remained the major source of revenue. In 2008/09, government finances are expected to be buffeted by fall-out from the global financial crisis and reduced demand for tourism and sluggish activity in the off-shore sector. In addition, government borrowing and the fiscal stimulus are expected to lead to a weakening of the fiscal position. Consequently, the overall fiscal deficit is expected to rise to 2.5% of GDP. In addition, the debt to GDP ratio is expected to increase during the year, but would remain favourable by Caribbean standards.

Although monetary policy was relatively conservative with the Central Bank's discount rate remaining unchanged, government borrowing of US$100 million on the external market, boosted liquidity in the banking system. Indeed, excess liquid assets, i.e. those above required reserves, posted a 50% gain of Bahamian $182.2 million for the first three quarters of the year, compared with the similar period last year. The fall-out in demand in the United States market was reflected in a sharp slowdown in private sector credit, especially consumer credit and mortgages. Banks' asset quality deteriorated during the year, with non-performing balances (payments over 90 days past due), increased by over 30%. An evaluation by the Central Bank has revealed that domestic banks have no exposure to sub-prime mortgages, while off-shore banks had minimal exposure to these instruments. Nevertheless, the international financial crisis has led to an increase in loan balances with arrears as the slowdown affects the ability of borrowers to repay their loans. Exchange rate policy remains geared towards maintaining the stability and parity of the Bahamian dollar to the United States dollar. Moreover, exchange controls remain in place as there has been little progress in the removal of these controls.

Activity has slowed in the tourism and financial services, the drivers of the economy, especially in the latter part of the year. Real growth of 1.5% is expected relative to 2.8% in 2007. During the first seven months of 2008, total visitor arrivals declined by 3.2%, as a 5.9% fall in sea visitors offset the 2.2% increase in air visitors. Moreover, the prospect for the full year is somewhat more depressed, as travel demand continues to soften in the wake of more intense fall-out from the financial crisis in the United States market, which generates about 87% of tourists to the Bahamas. This is particularly worrisome as tourism accounts for around 50% of GDP and employs about 60% of the labour force. In 2009, GDP growth is expected to slow to 0.5% as weakened global demand affects domestic activity.

Reflecting the softening of the market, Atlantis Resort has laid off some 800 workers, while Baha Mar Ltd has laid off about 40 workers. The government plans to accelerate some capital projects to counter the slowdown and cushion the fall-out in employment. Unemployment rose from 7.9% in 2007 to a projected 8.7% in 2008. Inflation rose from 2.4% in 2007 to 3.9% in 2008 for the year-on-year period to September.

For the first semester, the current account deficit narrowed from 17.0% of GDP in 2007 to 8.7% of GDP in 2008 year-on-year. The merchandise deficit contracted by 10.6%, as reduced consumer demand led to a sharp fall in net non-oil imports that compensated for the hike in relatively non-discretionary spending on fuel. Exports also expanded due mainly to re-exports. The services account weakened as a 3.3% reduction in travel receipts and lower offshore companies local expenses led to a fall in the surplus. Meanwhile, the capital and financial account surplus expanded bolstered by government borrowing, FDI inflows and equity inflows.

Table 16:
BAHAMAS: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	4.6	2.8	1.5
Consumer prices (end-of-year)	1.8	2.4[a]	3.9[a]
Money (M1)	0.3	3.9	-0.1
Annual average percentages			
Central government overall balance/GDP	0.5	2.5	1.7
Nominal deposit rate	3.2	3.5	3.7
Nominal lending rate	10.0	10.6	..
Unemployment rate	7.6	7.9	8.7
Millions of dollars			
Exports of goods and services	3,101.0	1,750.1[b]	1,819.4[b]
Imports of goods and services	473.7	2252.3[b]	2,113.9[b]
Current account	-1,438.6	-255.9[b]	-148.6[b]
Capital and financial account	1,216.7	182[b]	343.8[b]
Overall balance	-79.0	19.2[b]	135.2[b]

Source: ECLAC on the basis of official figures.
p = preliminary.
.. = not available.
[a] Year-on-year data to September.
[b] Year-on year data to June.

B. BARBADOS

During 2008, economic performance in Barbados was marked by a slowdown from the previous year: GDP growth slowed from 3.2% in 2007 to an estimated 0.7% in 2008. Key sectors, like tourism and sugar production, faced mounting challenges, while inflation accelerated to 8% (December-December estimate) and the estimated current account deficit increased significantly to 9.5% of GDP in 2008 (7% in 2007). Forecasts for 2009 indicate an increasing external deficit in the context of strong pressures on public finance and policies, while the impact of the global recession will translate into slower rates of activity for key economic sectors.

The fiscal stance worsened due to the adverse environment, posting an accumulated fiscal deficit equivalent to 3.4% of GDP for the first three quarters of the calendar year, a significant deterioration to the deficit accumulated during the same period of 2007 (1.7% of GDP). Government interest payments, transfers and subsidies recorded the highest increases. Although fiscal revenue also expanded principally due to higher duty collections on imports and higher corporate tax revenue, this increase was not enough to compensate the expansion in public spending. The stock of public debt kept increasing, with an estimated external and domestic debt just above 100% of GDP by year-end.

In order to stimulate the economy, monetary policy was aimed at increasing liquidity and encouraging lending. Thus, the Central Bank lowered the benchmark deposit rate to 4.5% in April. Given the international financial crisis, there are concerns for a fall in foreign investment flows and a slowdown in deposit accumulation. Therefore, it is feared that there will be a shortage of external credit in 2009, which will force the government to look for domestic sources of funding.

The continuous increase of retail prices was also a major concern during 2008, especially in the case of food items. By the third quarter of the year the accumulated headline inflation rate topped 9.9%, almost three times the level recorded in the same period of 2007. Food inflation rate was 14.2% during the same period. The acceleration in inflation prompted the implementation of several policy responses, such as flour price subsidies, exemption of the environmental levy for basic goods, reinforcement of price controls, and the review of port charges and processing fees. In any case, inflation is expected to gradually ease during 2009 as a result of lower international food and oil prices. Meanwhile, the unemployment rate rose to 8.4% during the third quarter of 2008 (7.1% in the same period of 2007).

Barbados' economic growth was substantially slowed down, with GDP growth for the period January-September of just 1.7% as compared with 3.5% for the same period in the previous year. Likewise, the index of industrial production up to July indicated a 5.7% fall in output as compared to the corresponding month of 2007. Cloth manufacturing, sugar industry, construction, chemicals, electricity, gas and water were the sectors more affected. On the other hand, electronic components (16.4%), beverages and tobacco (8.4%) and mining and quarrying (3.5%), were among the industrial sectors that increased their production. Tourism activity had mixed results, with a slight decline in the number of stop-over arrivals for the first half of 2008, while cruise passengers expanded by 13.2%. All in all, during the first half of 2008 the traded and non-traded sectors grew by 0.4% and 1.6%, respectively.

Given these factors, GDP growth in 2008 is estimated at 0.7%. This weak performance is directly related to the global economic and financial crisis, which has affected tourism activity and investment flows. Perspectives for 2009 are worse, with output contracting by 1% due to concerns about declining consumer demand, a further slowdown in investment in tourism projects and the worsening of the sugar industry's chronic losses.

The decline of the sugar industry, once a key component of Barbados' economy, is a major concern considering the upcoming end of the European Union's sugar protocol that established price guarantees for Caribbean sugar exports to the European market. Under the terms negotiated in the Economic Partnership Agreement (EPA) between the European Union and the Caribbean countries, the price guarantees established by the sugar protocol should be completely phased out by 2012. It is feared that without such preferential treatment, the national sugar industry will be unviable and forced to close down, with high political and employment costs.

Higher international prices also had a deteriorating impact on the balance of payments, mainly through increased food and oil import bills. The trade deficit is expected to widen from 29.9% of GDP in 2007 to 38% of GDP in 2008, while the current account deficit rose by 76.7% during January-September as compared to the same period of 2007 and is likely to reach some 9.5% of GDP for the full year (7% of GDP in 2007). Due to new official borrowing, the capital and financial surplus has been enough to almost finance the current account deficit so far. Consequently, international reserves declined only marginally over the first nine months of 2008.

Table 17
BARBADOS: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	3.3	3.2	0.7
Consumer prices (end-of-year)	5.6	4.7	9.9[a]
Money (M1)	-0.9	20.5	10.1[b]
Annual average percentages			
Public sector overall balance/GDP	-2.0	-2.4	-3.4[c]
Nominal deposit rate	5.1	4.8	4.5[d]
Nominal lending rate	10.9	10.7	10.3[d]
Unemployment rate	9.4	8.1	8.6[e]
Millions of dollars			
Exports of goods	441.2	465.8	507.7
Imports of goods	1,629.0	1,711.5	1,968.2
Current account	-278.7	-245.1	-365.2
Capital and financial account	320.1	523.2	..
Overall balance	41.4	278.1	..

Source: ECLAC on the basis of official figures.
p = preliminary.
.. = not available.
[a] Accumulated headline inflation to September.
[b] Twelve-month variation to July 2008. The Central Bank of Barbados' definition includes currency with the public and demand deposits.
[c] Accumulated until third quarter.
[d] At the end of May.
[e] Second quarter.

C. BELIZE

The economy is expected to post a significant recovery in 2008 by growing 3.8% as compared with 1.2% in 2007. Activity picked up following the dampening effects of Hurricane Dean in 2007 and was driven by higher production of oil and some agricultural commodities, foremost fishery. Economic policy is constrained both on the domestic and external sides; a high debt burden and tight fiscal position worsened by the international financial crisis reduce policy leverage, whereas the likely fall-out in export demand and tourism would hamper the balance of payments. Although the new administration has returned to fiscal prudence, the slowdown in external demand might push the authorities to use fiscal stimulus to maintain growth and employment.

Public finances improved in calendar year 2008, with the overall position moving from a deficit of 1.1% of GDP in 2007 to an estimated surplus of 0.7% of GDP in 2008. The primary surplus will increase marginally to 4.7% of GDP. Petroleum revenue has expanded in line with higher production from established fields. A windfall tax of 50% on oil revenues, when the price of oil exceeds US$90 per barrel, was implemented in September, however, the trending down of oil prices means that revenues will be lower than expected. Public finances also benefited from significant grant inflows; including BZ$50 million from Taiwan. Despite higher allocations for flood rehabilitation and development expenditure, total expenditure fell to 28.9% of GDP linked to lower external interest payments and reduced outlays on goods and services. However, public debt remains a major concern (around 95% of GDP) notwithstanding a comprehensive debt restructuring programme and a superbond issued at the beginning of 2007. Influenced by weakened global demand, leading to slower growth in receipts from the general sales tax, import duties and business taxes, an overall fiscal deficit of 4.6% of GDP is expected in 2009.

The monetary stance was relatively neutral in 2008. The Central Bank left its reserve requirement unchanged, while growth in broad money slowed to 10.3%, from 15.4% in 2007, in spite of the pick up in activity. Credit to the private sector slowed moderately as demand was constrained by adverse global conditions. Central government reduced its borrowing from the banking system as foreign debt replaced domestic debt to some extent. However, Central Bank net credit to the government is projected to increase in 2009, as access to external borrowing becomes more difficult and its cost increases. The Bank is also in the planning stage to move towards more market driven monetary policy, including the use of open market operations, a repo rate and other indirect instruments. In the longer term, the policy change might facilitate the deepening of the nascent capital market, improving the financing of businesses.

Domestic supply rebounded following the fall-out from hurricane Dean in 2007. Output of shrimp, bananas, citrus, wholesale and retail trade, transport and communications and petroleum boosted growth to 3.8% from 1.2% last year. Momentum also came from distribution, which was buoyed by dynamic imports and telecommunications, which benefited from a medium-term roll-out plan for service expansion. Activity in the free zone picked up strongly in the first half of the year. Nevertheless, an unfavourable external environment has led to reduced activity in tourism (-2.0%) and construction (-3.2%). The closure of Williamson Industries, the main producer, led a sharp fall in the production of clothing and textiles. Also, flood damage to food crops and lower electricity generation all prevented more robust growth. Growth is expected to moderate to approximately 2.0% during 2009, as downside risks for tourism, construction and distributive trades posed by the global financial crisis materialize; however, the effect will be partly offset by recovery in sugarcane output, moderate growth in shrimp production and dynamic petroleum output.

Inflation picked up to 6.4% in 2008, the highest level in over 12 years. The sharp increase in prices was propelled by food prices that rose by over 13%, the largest increase in 25 years. Average prices were driven by hikes in basic food products such as flour (50.4%) rice (34.9%), transport and communication, and fuel and power. Nevertheless, the moderation in international fuel and food prices in the latter part of the year, including fuel tax relief and the global slowdown affecting demand, meant that inflation actually moderated towards the end of the year. Wage demands have eased as the unions allow the government a grace period for settling in.

The structural current account deficit more than doubled to 8.0% of GDP but will be offset by FDI, especially in fisheries, tourism and real estate and higher capital grant receipts. This will lead to an improvement in the overall balance of payments surplus from 1.8% of GDP in 2007 to 3.6% of GDP in 2008. Domestic exports rebounded following the dampening effects of Hurricane Dean in 2007. Banana export receipts increased on account of higher volume and firmer prices and exports of marine products also benefited from higher volumes. The year saw substantial outlays on imports of oil and capital goods for major projects such as the Vaca Dam and the Belcogen sugar-based electricity plants. Overall developments led to an increase in reserves to US$157.4 million, representing 2.8 months of imports. Due to the global financial crisis it is expected that in 2009 external payments will be affected by reduced tourist arrivals and receipts and lower FDI, as some investors hold off on projects.

Table 18
BELIZE: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	4.7	1.2	3.8
Consumer prices (end-of-year)	4.2	2.3	5.0
Broad money (M2)	13.0	15.4	10.3
Annual average percentages			
Central Government overall balance/GDP	-1.9	-1.1	0.7
Nominal deposit rate[a]	5.3	5.8[b]	6.3[c]
Nominal lending rate[a]	14.3	14.2[b]	14.2[c]
Unemployment rate	11.0	9.4	8.5
Millions of dollars			
Exports of goods and services	780.8	810.9	882.4
Imports of goods and services	762.0	807.6	930.1
Current account	-25.4	-51.2	-107.4
Capital and financial account	83.3	102.0	156.3
Overall balance	49.8	22.9	48.9

Source: ECLAC on the basis of official figures.
p = preliminary.
[a] Weighted average.
[b] Data for February annualized.
[c] Data as at September.

D. EASTERN CARIBBEAN CURRENCY UNION

The economic outlook for the Eastern Caribbean Currency Union (ECCU)[11] for 2008 continues to be fairly positive with economic growth projected at 3.2% for 2008 (5.3% in 2007). However, prospects for 2009 remain bleak as the fallout from the global economic crisis begins to affect the region especially the tourism and related tourism construction sectors which have been the main stimuli of growth in the last several years. The global increase in oil and food prices until the first half of 2008 led to a worsening of the external current account and an overall balance of payment deficit compared to a surplus in 2007. The economies of the ECCU continue to be prone to natural disasters and burdened with a high level of public debt.

The overall fiscal deficit, 3.9% of GDP in 2007, is expected to further improve in 2008, mainly due to a decline in capital expenditure: 9% as of the third quarter of 2008 compared with the same period in 2007; as many public sector projects were completed. Over the same period, current account operations resulted in a smaller surplus, as current expenditure increased by over 16% driven by large fiscal spending commitments and salary increases, far surpassing the 9% increase in current revenue. In 2009, it is expected that there will be a worsening of the fiscal deficit as governments seek to counteract the impacts of the global economic crisis by the implementation of public sector investment programmes to stimulate economic activity and the provision of safety net programmes to meet the needs of the poor and most vulnerable.

The high level of public debt continues to be a major challenge for the ECCU countries. As at June 2008, the debt to GDP ratio for the ECCU was recorded at 94%. The ratio exceeded 100% in St Kitts and Nevis (173.7%); Grenada (110.6%); and Dominica (101.2%); and was above 70% in Saint Lucia, St Vincent and the Grenadines and Antigua and Barbuda. The Canadian International Development Agency (CIDA) advisors assisted in the reclassification of Antigua and Barbuda's government debt with its Education Board, leading to a reduction in its debt stock. Saint Lucia via the Regional Government Securities Market issued lower interest rate debt to replace existing higher interest rate debt. Despite the change of government in Grenada (July 2008), there should be no significant increase in the debt level as the current tight liquidity will dampen government-funded projects in the near future.

The ECCU monetary policy stance remained unchanged in 2008. Both the discount rate and interbank market rate remained at 6.5% and 4.5%, respectively. The currency union maintains a fixed peg to the United States dollar at EC$2.70 to US$1.00, backed by 100% foreign reserves. The real effective exchange rate remained depreciated consistent with movements in the trade weighted United States dollar index.

Broad money (M2) expanded by 3% in 2008 reflecting increases in private sector savings and time deposits. The net foreign assets of the ECCU continued to decline in 2008 as commercial banks continued to draw down on foreign assets to meet the increased demand in domestic credit which grew by 7%. Growth in private sector credit was 8% well below the 20% increase in 2007, while net credit to the government declined by 16%. The weighted average lending rate for the ECCU increased from 9.3% in June 2008 to 9.4% in September 2008,

---

[11] ECCU member countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines.

reflecting tougher credit terms emanating from the ensuing global crisis. To maintain and safeguard the financial system there is an urge by the ECCB to establish the Single Regulatory Units (SRUs) to regulate financial institutions which are not currently supervised by the ECCB. Such institutions include insurance companies, credit unions, building societies and money service institutions.

The ECCU is expected to grow at 3.2% in 2008 and then to slow to 1.4% in 2009. Value added in the tourism and construction sectors is expected to exceed 5% while marginal increases are expected in agriculture and manufacturing. The tourism sector of the ECCU countries is under threat as conditions in the economies of its major source markets worsen. While cumulative data for January to September still showed an increase in stay-over visitors and cruise-ship passengers, United States stay-over visitors in the third quarter (July-September) declined. Contributing to a worsening scenario in the fourth quarter of 2008 and 2009 is the reduction of flights serving the Caribbean by American Airlines and American Eagle and the bankruptcy of XL Airways in September 2008, a British carrier serving several destinations in the region.

In 2008, banana production is not expected to recover fully to pre hurricane Dean (2007) levels, due to the Moka disease and leaf spot disease. It remains to be seen what impact the EPA negotiated with the European Union will have on traditional exports such as bananas, cocoa and nutmeg and, by extension, the agricultural sector.

Consumer prices continued to increase up to the third quarter of 2008 in Anguilla, St Vincent and the Grenadines, Montserrat and St Kitts and Nevis, with inflation rates ranging from nearly 5% to as high as 9.5% compared to the range of 2% - 8.3% in 2007. The removal of VAT on a number of items and the suspension of the common external tariff on selected items may have eased the level of inflation in Antigua, Dominica, Grenada and Saint Lucia, as the inflation rates declined to a range of 3-5% compared to 5-7.5% in 2007. The increase in consumer prices was driven by the rise in international prices of food and oil, the shortage of local agricultural produce in some countries and the depreciation of the nominal exchange rate contemporaneously with the United States dollar. To keep up with the increase in prices, public sector salaries and wages increased in Anguilla, St Kitts and Nevis and St Vincent and the Grenadines. The labour market is expected to loosen due to the decline in construction activity especially in the public sector. Moreover, a slowdown in tourism will have an enormous negative impact on the level of employment in the region.

It is expected that in 2008 the overall balance of payment surplus will turn into a deficit due to a decline in tourism-related FDI, capital grants, the rise in commodity prices for most of 2008 and remittances. The current account deficit will widen by an estimated 7% to 41% of GDP, primarily due to a 4% increase in the import bill. Net international reserves decreased by 1.7% at the end of September 2008 to US $46.5 million covering 2.5 months of imports of goods and services. Two member countries of the ECCU i.e. Dominica and St Kitts and Nevis have begun the exploration of geothermal energy, which could have positive implications for the external accounts as these countries would significantly reduce energy imports.

In August 2008 the Governments of Grenada, Saint Lucia, St Vincent and the Grenadines and Trinidad and Tobago signed a Memorandum of Understanding in agreement for the establishment of an economic union by 2011 and a political union by 2013. However, the roll out of such a union can be complex and is not expected to make any significant progress in the near future.

The economic outlook for 2009 is bleak as the global economic crisis takes its toll on the region. It is expected that there will be a contraction in tourist arrivals, migrant remittances and FDI. This will have grave negative consequences for employment and poverty levels as a large number of persons are employed in the tourism sector and the poor and vulnerable are highly dependent on remittances. In addition public sector deficits will increase as governments seek to offset the fallout from the crisis by increasing expenditure on social safety net programs, while at the same time there may be a higher cost of public sector borrowing due to the credit crunch.

Table 19
ECCU: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	6.3	5.2	3.8
Consumer prices (end-of-year)	1.6	5.9	4.3
Money (M1)	8.3	10.4	-3.0
Annual average percentages			
Public sector overall balance/GDP	-4.9	-3.9	-2.2
Nominal deposit rate[a]	3.3	3.3	3.3
Nominal lending rate[a]	9.9	9.5	9.4
Unemployment rate	..	..	..
Millions of dollars			
Exports of goods	359	392	390
Imports of goods	2,119	2,427	2,524
Current account	-1,246	-1,486	-1,580
Capital and financial account	1,349	1,474	1,482
Overall balance	92	46	-5

Source: ECLAC on the basis of official figures.
p = preliminary.
.. = not available.
[a] Weighted average.

E. GUYANA

During 2008 Guyana's economy faced mounting difficulties as a result of the ongoing global recession and increasingly adverse international environment. GDP growth posted a rate of 3.1%, lower than the 5.4% recorded in 2007. The widening trade and current account deficits and the significant increase in external debt were other main macroeconomic concerns. In the context of falling exports prices and weakening internal and external demand, Guyana will have to struggle for significant economic expansion in 2009.

While following the poverty reduction strategy paper (PRSP) agreed upon with international financial institutions, economic policies during 2008 were aimed to preserve economic growth, stabilize financial markets and fight inflationary pressures. Thus, the excise tax on fuel was lowered, while the value added tax on some basic items was eliminated. A collateral effect was the deterioration of the primary fiscal balance, with current revenue rising by just 4.9% during the first half of the year, while current expenditure expended by 24%. However, this was offset by a strong increase in capital receipts.

During 2008, public debt rose significantly due to a higher issuance of treasury bills, increased disbursements from multilateral agencies, and bilateral credit from the Petrocaribe agreement. Debt relief increased slightly under the HIPC and the Multilateral Debt Relief (MDRI) initiatives. Thus, in December 2008 the stock of external debt stood at US$833.7 million, representing a worrisome 16% annual increase.

The Bank of Guyana focused on keeping the exchange rate stable, allowing a moderate depreciation of the domestic currency. Similarly, it kept interest rates steady with only marginal increments during the year, setting the reference interest rate at 6.75% in October, a minimum increase since February 2007. Commercial interest rates also remained relatively stable during the year. Domestic credit has been tightened overall, with the public sector bearing the brunt of the reduction, while credit to the private sector kept growing, but at a slower pace relative to 2007. Simultaneously, the Bank strived to increase international reserves, which topped US$302 million during November.

GDP growth is estimated at 3.1%, a rate relatively high within the Caribbean, given the strong deterioration of external conditions over the year. As in previous years, the mining sector was a main contributor to economic expansion, with a 15.2% growth rate during the first half of 2008 relative to the same period in 2007. This outcome is explained by higher international prices and significant investment in bauxite and gold mining. However, during the second half of the year, the halving of international prices, the accumulation of stocks and some production difficulties hampered the sector's performance. As a result, during 2008 the mining sector expanded by 6.1%.

On the other hand, the agriculture sector, which is a major employer, exhibited mixed results in 2008. While rice and livestock showed high dynamism, forestry output contracted significantly (15.2%), a similar result recorded by the sugar industry. However, it is expected that sugar production will be boosted from mid 2009 onwards as the upgrading of the Skeldon sugar factory should be completed soon. Engineering and construction, transportation and communication, and financial services also recorded positive growth rates during 2008, while the manufacturing sector showed a mixed performance, with a decline in the output of some key products (like flour) while other increased (like beverages).

Overall perspectives for 2009 point to moderate GDP growth (2%). However, due to the impact from the global recession and the subsequent fall of international prices and lower demand for Guyana's main exports, it will be a challenge to maintain output expansion keeping macroeconomic imbalances under control. In that sense, a major economic issue is the gas and oil exploration that started during the third quarter of 2008 with the launching of seismic surveys in several offshore blocks. It is expected that exploratory drilling could begin in the last months of 2009. There are also several private proposals being currently considered by the government for biofuels production.

On the upside, during 2008 there was a significant reduction in inflation, which posted a rate of 6.4% (14.1% in 2007). Given that inflationary pressures are expected to moderate during 2009 in the context of falling food and oil international prices as well as VAT exemptions on several key food items, official forecasts indicate a headline inflation rate of 5.2% in 2009.

External accounts deteriorated as a result of the negative evolution of the terms of trade, rising demand for imports and higher payments for services. While the value of merchandise exports grew by 22% during the first half of 2008 (compared to the first semester of 2007), imports grew by 29.2%. Thus, the trade and the current account deficit for 2008 are expected to widen, with a goods imports bill estimated at some 111% of GDP, and an expected current account deficit of US$299.1 million or 25.6% of GDP. The capital and financial account surplus was fostered by capital inflows mainly from official sources and from FDI in telecommunications, mining and forestry, which helped to finance the current account gap and keep international reserves steady.

The evolution of workers' remittances from abroad is another major concern due to the global economic downturn. As a consequence, private transfers are officially projected to contract by 20.9% during 2009.

On the integration front, during 2008 a crucial event was the signature of the EPA between the CARIFORUM (CARICOM plus the Dominican Republic) and the European Union. Despite strong reservations by the Guyanese government, the signature of the EPA should have a positive impact on exports, preserving the preferential trade access to European markets for sugar, rice and other products.

Table 20
GUYANA: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	5.1	5.4	3.1
Consumer prices (end-of-year)	4.2	14.1	6.4
Money (M1)	27.0	12.8	24.0[a]
Annual average percentages			
Public sector overall balance/GDP	-13.1	-7.4	-6.3
Nominal deposit rate	3.3	3.2	3.0[b]
Nominal lending rate	14.5	14.7	14.5[b]
Unemployment rate	..	..	..
Millions of dollars			
Exports of goods and services	732.7	870.9	1,010.3
Imports of goods and services	1,130.4	1,335.6	1,624.0
Current account	-250.4	-189.1	-299.1
Capital and financial account	293.3	187.7	306.6
Overall balance	42.9	-1.4	7.0

Source: ECLAC on the basis of official figures.
p = preliminary.
.. = not available.
[a] Twelve months variation to June 2008. Includes currency and demand deposits.
[b] Data to November 2008.

F. JAMAICA

With its high dependency on food and oil imports, the considerable importance of the tourism and commodity exports sectors, and the significant weight of workers' remittances, Jamaica is very vulnerable to external shocks. Thus, the global economic crisis hampered output growth and macroeconomic stability. Consequently, GDP would have declined by 0.5% in 2008, while accumulated inflation reached 16.9% (year end). Moreover, there are fears that the adverse evolution of the trade balance could be aggravated by a further deterioration of the terms of trade, while the surplus in the services balance has declined due to higher transportation and freight costs. The overall consequence of this evolution has been a significant widening of the current account deficit. As the global economic crisis keeps unfolding, GDP contraction in 2009 is forecast at 2%.

Jamaican fiscal and monetary authorities have concentrated their efforts on economic stabilization; trying to control inflationary pressures and keeping stable the exchange market. Thus, during 2008 the government introduced several measures aimed at curbing inflation, preserving the population's purchasing power and promoting private investment. These included a raising the income tax threshold, and reducing the transfer tax and the stamp duty on property and securities transactions. In January 2009, the withholding tax on dividends was eliminated. In addition, the government implemented a tax amnesty programme, waiving up to 80% of interest and penalties on unpaid taxes in exchange for the full payment of the principal. This measure allowed for a slight increase of fiscal revenue during the second quarter of 2008, offsetting the shortfall in receipts from the bauxite levy and other sources.

Despite the central government's accumulation of a primary surplus equivalent to 3% of GDP for the period April-September of the fiscal year 2008/2009, the overall fiscal balance recorded a deficit equivalent to 2.2% of GDP. With the debt service consuming over 50% of the budget, the level of the external and domestic debt remains a major concern. Total public debt stood at US$13,910 million in December 2008, equivalent to 121% of GDP. The external debt stock (45.6% of the total) increased by 11.9%, while the domestic debt stock did so by 8.7% in 2008.

Monetary policy was tightened, with the monetary base contracting at a faster pace than originally programmed by the authorities. In addition, the Bank of Jamaica raised interest rates in June to mitigate inflationary expectations. So far, the policies implemented to ease inflationary pressures and speculative expectations have produced a mixed outcome. The exchange rate was quite stable for most of 2008 with the Jamaican dollar recording a 7.8% nominal depreciation vis-à-vis the United States dollar (year end). However, increased pressures on the exchange market during the last quarter of 2008 prompted the Bank of Jamaica to intervene with direct sales of foreign currency, extension of collateralized credit, and the offering of Certificate of Deposits to reduce excess liquidity. Notwithstanding, inflation was high in 2008, recording a rate of 16.9% (24.1% in food inflation).

However, the most pressing issue for Jamaica's economy is the decline in GDP. Indeed, output would have contracted by 0.5% in 2008. The productive sector with the highest decline was agriculture, forestry and fishing, reflecting the combination of adverse factors such as hurricanes Dean (August 2007) and Gustav (August 2008). Other sectors with weak performances were transport, storage and communication; manufacturing; and construction. Contrariwise, mining and quarrying and most service sectors still managed to post positive growth rates. Although it is expected that agriculture, electricity and mining will gradually recover from the damages caused by natural disasters, it would not be enough to boost overall domestic output. The steep decline in the international price of alumina would also have an adverse impact on mining and quarrying.

Reflecting the global economic crisis, tourist arrivals decreased slightly. By November 2008 accumulated tourist arrivals totaled 2.5 million, recording a marginal contraction of 1%, relative to the same period of 2007. Cruise arrivals, a key indicator for tourism activity, declined significantly (8.8%). However, this contraction was partially offset by a strong increase in stop-over arrivals of non-resident Jamaicans (15.7%), which could be linked to the economic recession in the United States and Europe.

The deterioration of the current account deficit, fuelled by an increasing deficit in the trade balance, was one of the main issues threatening Jamaica's economic stability during 2008. Although the volume of goods exports increased marginally during the first half of the year, principally driven by a major dynamism of alumina exports, a huge expansion of the import bill was recorded, which topped US$4,020 million by June (31.5% of GDP). This is mainly explained by a steep increase in the value of imports of fuel, food and chemical products. As a result, the accumulated trade deficit during the first half of 2008 amounted to US$2,717 million (21.3% of GDP), 43% higher than in January-June 2007. Meanwhile, the current account deficit stood at US$1.2 billion, around twice as high as in 2007. The external gap was financed by a surplus in the capital and financial account. It is worth mentioning that during the first half of 2008, private capital inflows almost doubled, led by the acquisition of Jamaica's biggest rum producer.

Table 21
JAMAICA: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	2.5	1.2	-0.5
Consumer prices (end-of-year)	5.7	16.8	16.9
Money (M1)	20.2	20.4	5.0[a]
Annual average percentages			
Public sector overall balance/GDP	-5.4	-4.9	-2.2[b]
Nominal deposit rate	5.3	5.0	5.5[c]
Nominal lending rate	22.0	22.0	22.6[c]
Unemployment rate	10.4	9.9	10.3[d]
Millions of dollars			
Exports of goods and services	4,782.3	4,928.3	2,750.6[e]
Imports of goods and services	7,098.1	8,050.1	4,486.7[e]
Current account	-1,182.9	-1,743.6	-1,391.0e
Capital and financial account	1,413.0	1,303.8	1,039.9[e]
Overall balance	230.1	-439.8	-351.1[e]

Source: ECLAC on the basis of official figures.
p = preliminary.
[a] Twelve-month variation to June 2008. Includes local and foreign currency liabilities.
[b] Data up to the second quarter of fiscal year 2008/2009 (April to September).
[c] Data to October 2008.
[d] Data to July 2008.
[e] Accumulated to June 2008.

G. SURINAME

Suriname's economy continued to grow in 2008, bolstered especially in the first half of the year by a booming commodities market. Real GDP growth rate is estimated to reach 5% for the year. Credit continued its expansionary route, with deposit rates remaining stable and lending rates falling even in the face of the global financial crisis and high inflation rates (18.1% in September 2008). It is expected that the current account surplus will decrease as a percentage of GDP, though it remains bolstered by mineral output. The fiscal position continues to be solid, augmented by increased revenue from minerals as well as increased indirect taxes. Uncertainty about commodity prices and inflation will remain the major challenges for economic policy in 2009 and though fiscal revenue as well as inflation are expected to moderate, GDP is expected to grow at 4.2% for the period.

The government's fiscal position remained comfortable for at least the first half of 2008, while the decline in commodity prices in the second semester affects related fiscal revenue and expenditure. For the entire year, revenue is expected to show an increase and to reach approximately 36% of GDP, while expenditure is expected to reach around 32% of GDP. Taxation revenues and royalty payments from the increased production of bauxite, gold, alumina and now from new oil production streams are expected to have increased significantly in 2008, even from its 26% proportion of total fiscal revenue in 2007. The overall balance will be further positively affected in 2009 by the receipt of dividends and delayed income taxes from Staatsolie, the national oil company, which were owed in 2008. While wage increases did occur in the public service in early 2008, they were below prevailing rates of inflation and are not expected to compound the inflation problem. The primary balance at the end of the third quarter stood at 3.7% of GDP while the overall balance reported a surplus of 1.7% of GDP. It is expected that the overall balance will remain positive although lower than in 2007. The fiscal accounts continue to be strengthened by multilateral and bilateral project funds. A recent infrastructural loan from China has increased the debt stock, but it remains within the mandated limits of 45% of GDP for foreign debt and 15% of GDP for domestic debt.

Monetary policy remained loose, even in light of high inflation. Year-on-year M1 increased by 26% in the first quarter of 2008, to reach 19% of GDP. Deposit rates edged down slightly to 6.3% and the lending rate dropped from 14.9% in the first quarter of 2007 to 12.6% in the first quarter of 2008. The Central Bank's policy aims at making credit available, attracting FDI and accumulating reserves to sustain the currency. The exchange rate remained within a quasi fixed regime at approximately SRD$2.745 to US$1.

Inflation, which averaged 14.7%% for 2008, nearly 3% above the projected annual average, has become a major concern. In October, the rate of inflation reached 17.2%, though by December it had moderated to 9.4%. The main drivers of domestic inflation were food and non-alcoholic beverage prices, which, as of September 2008, displayed a 29% year-on-year increase. The internal causes of inflation such as Suriname's expansionary monetary policy stance also compounded the externally generated factors. The expectation, however, is that softening external price conditions owing to the global slowdown and falling food prices, both for imports and exports, will ease inflationary pressure in 2009.

GDP is expected to grow by about 5% over 2008, fueled by continued growth in the mining industry, the alumina processing industry and new investment in the petroleum industry. Agriculture, with the restructuring of the banana sector and international interest in palm oil and biofuel investments, also boosted the economy after its recovery in 2007. It is expected, however, that the effects of falling commodity prices as well as the effects of the financial crisis on Suriname's major trading and investment partners, the United States and the EU, will combine to slow GDP growth and FDI in the latter half of 2008 and into 2009. GDP growth in 2009 is expected to register at approximately 4.2%. There is also uncertainty regarding the long term sustainability of the mining industry especially after BHP-Billiton pulled out of the Bakhuys development project in October and plans to leave Suriname altogether by 2010. So far no new firms have come on board and the idea looks all but abandoned. Oil production and revenues throughout 2009 are expected to remain steady, in addition to revenue from gold. There is much uncertainty however about how aluminum prices will be further affected after falling by almost 60% since July owing to the global economic slowdown. The agriculture sector is expected to grow on the back of increasing rice production after performing poorly for some time, and even though palm oil investments were rendered redundant. The services and construction sectors will benefit from an increase in debt and grant financed infrastructural development efforts.

The current account position was boosted by strong aluminum, gold and oil prices over the first half of 2008, even though imports increased. First quarter results report a 44% year-on-year increase in export earnings and a 35.8% year-on-year increase in the import bill. The current account position at the end of the first quarter was positive, a surplus of approximately SRD$500 million or 8% of GDP, which is the largest quarterly surplus for at least seven consecutive quarters. Second quarter estimates show that the mid-year export earnings are approximately 12% of GDP and import payments approximately 10% of GDP. However, it is expected that the drop in commodity prices and the slow-down in the global economy will significantly affect Suriname's export earnings and thus reduce its current account surplus.

Suriname has guardedly embraced the EPA signed with the EU. It also continues to have good relations with international donors due to prudent debt management, solid economic growth and a facilitative fiscal framework. Bilateral obligations concerning arrears with Brazil and the United States have yet to be solved. The uncertainty about the volatility of the commodity prices, on which Suriname's macroeconomic success depends, will be decisive for economic growth in 2009 (estimated to slow to 3.5%) and the country's ability to maintain this favourable debt position.

Table 22
SURINAME: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008[a]
Annual growth rates			
Gross domestic product	5.8	5.3	5.0
Consumer prices (end-of-year)	4.8	8.3	9.4
Money (M1)	21.7	25.2	26.0[a]
Annual average percentages			
Public sector overall balance/GDP	1.3	2.7	-0.0[b]
Nominal deposit rate	6.6	6.4	6.3[b]
Nominal lending rate	15.6	13.3	12.6[b]
Unemployment rate	12.1	12.0	..
Millions of dollars			
Exports of goods and services	1174	1372	750[c]
Imports of goods and services	1013	1185	617[c]
Current account	115	185	181[b]
Capital and financial account	-21	-7	..
Overall balance	94	177	..

Source: ECLAC on the basis of official figures.
p = preliminary.
.. = not available.
[a] January-March, year on year.
[b] First quarter.
[c] January-June.

H. Trinidad and Tobago

After several years of benefiting from an extraordinarily favourable external context due to the surge in world hydrocarbons prices, the global economic and financial crisis represents a turning point for the economy of Trinidad and Tobago. In 2008 growth slowed to an estimated 3.5% compared with 5.5% in 2007. The turmoil also brought about a reduction in the trade and current account surpluses, in the context of a significant rise in inflation (14.5% in December year-on-year). During 2008 the economic policy mix continued to combine an expansive fiscal stance based on dynamic public investment with a monetary policy focused on withdrawing excess liquidity generated by public spending within a quasi-fixed exchange rate regime. Economic policies will continue to be guided by the Vision 2020 national development plan. The year 2009 will undoubtedly posit a number of challenges on the economic front that can be summed up as the reduction of dependency from the energy sector that generates more than 45% of output, between 85% and 90% of merchandise exports, and above 55% of fiscal revenue. Growth is forecast in the range of 1% to 2% for 2009.

Central government surplus as a share of GDP improved significantly in fiscal year 2007/08 (October to September), reaching 6.5% of GDP. This performance reflects more rapid nominal increases in revenue than in spending with both energy and non-energy tax revenue above budget projections. Actually, the 2007/08 budget was based on the assumption of an average oil price of US$50 per barrel, but it turned out to be US$93.15. This price differential resulted in energy tax collections of some TT$8 billion in excess of budget projections. This explains the apparent contradiction of deeming fiscal policy as expansionary with a substantive increase in fiscal surplus. The excess of revenue over spending was mainly transferred to the Heritage and Stabilisation Fund and the Infrastructure Development Fund. Meanwhile, public debt stood at 28% of GDP at the end of 2007/08, 21.4% of which was external. The budget for 2008/09 proposes a fiscal balance virtually in equilibrium.

Monetary policy measures were not enough to control inflation during 2008 due to a combination of external and domestic factors. The former was mainly associated to continue world food price increases whereas the latter was generated by fiscal liquidity injections. In this context, during 2008 the Central Bank raised its benchmark interest rate (the repurchase rate or “repo”) three times to 8.75% in September (8% in December 2007), keeping it at that level until February 2009. Notwithstanding, with a two-digit inflation rate, real interest rate remains highly negative thus increasing domestic demand. Moreover, as fiscal injections expanded by 3.8% in fiscal year 2007/08 relative to 2006/07, the Central Bank raised the reserve requirements on commercial banks from 11% to 15% and further to 17% in October. In addition, the monetary authority has intensified its open market operations to absorb liquidity from TT$3,458 million in 2006/07 to a massive TT$8,160 million in 2007/08 (a 135% increase). During 2009 monetary policy would continue to be focused on the absorption of fiscal injections through open market operations within the same exchange rate regime that seeks to keep the nominal value of the local currency vis-à-vis the United States dollar fixed. Given the inflation rate differential, this implies a permanent real exchange rate appreciation of the local currency, with its pernicious effects on tradable sectors, especially non-energy exports. The maintenance of the dirty peg has been possible mainly due to a strong reserve position on the part of the Central Bank fuelled by large foreign exchange inflows from the hydrocarbons industry.

The contagion from global turmoil to the Trinidadian economy was mainly felt through the steep dip in oil prices that more than halved between July and November. During February of 2009, the international oil price was fluctuating around US$40 per barrel, between three and four times lower than its peak of US$147 per barrel recorded in July 2008. The immediate impact of the global financial crisis on the local financial sector was negligible, given its low holdings of United States' assets in its balance sheets. In addition, its solid international reserves position (35.3% of GDP or 11 months of import coverage at the end of fiscal year 2007/2008) and the level of resources held at the Heritage and Stabilisation Fund (10.2% of GDP) reduces the vulnerability of the country. Nevertheless, the recession in the United States, destination of near 60% of Trinidadian exports and main source of external financing, will continue to deter growth in 2009. According to the Central Bank, growth would be around 1%-2% in 2009. In the context of falling international oil prices, the non-energy sector would continue to show more dynamism than the energy sector. The construction sector is expected to lose momentum, as some public investment projects would be postponed in the face of revenue falling short budget projections.

Food price increases continued to be the main driver of domestic inflation in 2008. In the year to December, headline inflation posted a rate of 14.5% (14.3% in November). On the other hand, food inflation stood at 30.6% year-on-year (29.8% in November), revealing that the drop in world food prices has not yet been translated to domestic prices. In the case of non-food inflation, it increased by 7.1%, slightly slower than in the previous month (7.2%). It is expected that during 2009 food price increases would ease due to lower imported food inflation. On the contrary, there are indications that wage demands would increase both in the private and in the public sector to compensate for rapid increases in food prices thus challenging inflation reduction this year. As regards the labour market, in June the unemployment rate stood at 4.6%, below the 2007 average of 5.6% and is expected to remain at similar levels throughout 2009.

The boom in energy prices fuelled massive trade and current account surpluses during recent years. In 2007, they stood at 27.3% and 25.7% of GDP, respectively. During 2008 the combination of less dynamic world demand and lower international prices would reduce both surpluses by some 5 percentage points of GDP. In addition, the deterioration of international conditions would widen the financial account deficit that last year amounted to US$3.5 billion. The magnitude of the current account surplus would translate into a significant accumulation of international reserves from US$6.7 billion in 2007 to US$8.5 billion (equivalent to 11 months of imports cover) in 2008. In the context of gloomier perspectives for the world economy in 2009, it is expected that the current account surplus would continue to contract coupled with a further widening of the financial account deficit, yet again this would not preclude another year of significant foreign exchange reserves accumulation.

On the regional integration front, in August the country signed a Memorandum of Understanding with Grenada, Saint Lucia, St Vincent and the Grenadines agreeing in principle to an economic union by 2011 and a political union by 2013. In addition, in 2009 the EPA between CARIFORUM and the European Union will start the implementation phase. These agreements posit both challenges and opportunities that the country will have to deal with.

A new Financial Institutions Act (FIA) was approved in December. This new piece of legislation institutes consolidated supervision aiming at identifying and evaluating risks and contagion threats, addressing related-party lending, upgrading governance structures (i.e.

requiring a more independent board of directors and an independent audit committee), and giving more authority to the Central Bank to take early corrective and preventive action to protect depositors.

Nevertheless, in late January 2009 the government and the Central Bank announced the bailout of CLICO Investment Bank (CIB) so as to prevent any spill-over effects on other financial institutions. CIB is part of CL Financial, a major conglomerate in the country that has investments all around the Caribbean and other countries. Although the financial problems of this entity are not directly linked to the global financial crisis, it raised a warning sign regarding the adjustments needed in the regulatory and supervisory framework (that hopefully the new FIA will address) as well as served as a wake up call for the authorities and institutions in charge of these tasks (see Box1 in Section V above). In any case, the financial sector in Trinidad and Tobago seems to be in good health as, excluding CIB, the banking system shows an average capital adequacy level (equity-to-assets ratio) of 18%, compared to a recommended minimum of 8%. In addition, the overall level of non-performing loans is just 2%, a low level by international standards.

Table 23
TRINIDAD AND TOBAGO: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008p
Annual growth rates			
Gross domestic product	12.2	5.5	3.5
Consumer prices (end-of-year)	9.1	7.6	14.5
Money (M1)	9.7	12.0	0.0[a]
Annual average percentages			
Central government overall balance/GDP	6.4	1.7	6.5
Nominal deposit rate[b]	1.5	1.6	2.1[a]
Nominal lending rate[c]	11.0	11.8	12.3
Unemployment rate	6.2	5.6	4.6[d]
Millions of dollars			
Exports of goods	12,100.2	11,822.4	..
Imports of goods	6,842.7	7,305.3	..
Current account	4,808.7	5,380.9	..
Capital and financial account	- 3,189.4	-3,505.3	..
Overall balance	1,118.9	1,541.1	..

Source: ECLAC on the basis of official figures.
p = preliminary.
.. = not available.
[a] January-November.
[b] Ordinary savings deposit rate.
[c] Basic prime lending rate.
[d] Corresponds to June.

References

O. Bello and J. P. Jimenez (2008), "Política fiscal y ciclo en América Latina", paper presented at the workshop on *Macroeconomic policies and cyclical fluctuations*, ECLAC, Santiago, April. Unpublished.

M. Braun and C. Raddatz (2008), "The politics of financial development: Evidence from trade liberalization", *Journal of Finance*, vol. 63, n. 3.

D. De Ferranti, G. Perry, I. Gill and L. Serven (2000), *Securing our future*, World Bank Latin American and Caribbean Studies, The World Bank.

ECLAC (2008a), "The United States sub-prime mortgage crisis and its implications for the Caribbean", document presented at the XXII Session of the Caribbean Development and Cooperation Committee, Port of Spain, April 22-23.
Available at http://www.eclac.cl/publicaciones/xml/2/33092/LI64.pdf

ECLAC (2008b), *Economic Survey of Latin America and the Caribbean 2007-2008*, Economic Commission for Latin America and the Caribbean.

ECLAC (2009), *The reactions of Latin American and Caribbean governments to the international crisis: An overview of policy measures up to 30 January 2009*, Economic Commission for Latin America and the Caribbean.

ECLAC and UNDP (2007a), "Belize: Macro socio-economic assessment of the damage and losses caused by Hurricane Dean". Economic Commission for Latin America and the Caribbean and United Nations Development Program.

ECLAC and UNDP (2007b), "Dominica: Macro socio-economic assessment of the damage and losses caused by Hurricane Dean". Economic Commission for Latin America and the Caribbean and United Nations Development Program.

ECLAC and UNDP (2007c), "Saint Lucia: Macro socio-economic assessment of the damage and losses caused by Hurricane Dean". Economic Commission for Latin America and the Caribbean and United Nations Development Program.

I. Fisher (1933). "The debt-deflation theory of great depressions." *Econometrica*, vol.1, pp. 337-357, October.

M. Gavin, R. Hausmann, R. Perotti and E. Talvi (1996), "Managing fiscal policy in Latin America and the Caribbean: Volatility, procyclicality and limited creditworthiness", Office of the Chief Economist Working Paper 326, Inter-American Development Bank.

M. Gavin and R. Perotti, "Fiscal policy in Latin America" (1997), *NBER Macroeconomics Annual*, National Bureau of Economic Research.

D. Heymann and E. Kawamura (2008), "Notas sobre políticas macroeconómicas en las fluctuaciones cíclicas. Política fiscal y ciclo económico en América Latina", paper presented at the workshop on *Macroeconomic policies and cyclical fluctuations*, ECLAC, Santiago, April. Unpublished.

D. Jaimovich and U. Panizza (2007), "Prociclicality or reverse causality?", Research Department Working Paper 599, Inter-American Development Bank.

G. Kaminsky, C. Reinhart and C. Vegh (2004), "When it rains it pours: Procyclical capital flows and macroeconomic policies", NBER Working Paper W10780, National Bureau of Economic Research.

P. R. Krugman, "Failure to rise", *The New York Times*, February 13, 2009.

R. Machado (2008), "La sostenibilidad de la deuda pública", en R. Machado (ed.), *Un Gasto que Valga. Los Fondos Públicos en Centroamérica y República Dominicana*, Inter-American Development Bank.

R. Machado (2009), "Public debt sustainability in the Caribbean", Studies and Perspective Series, ECLAC Subregional Headquarters for the Caribbean, forthcoming.

G. Perry (2000), "Fiscal rules and procyclicality", in G. Perry, L. Serven and R. Suescun (eds.), *Fiscal Policy, Stabilization and Growth*, The World Bank.

M. Richardson and N. Roubini, "Nationalize the banks! We're all Swedes now", *The Washington Post*, February 14, 2009.

E. S. Williams, "The international financial crisis: Implications for our financial sector stability", feature address at the Caribbean Actuarial Association Conference, 4 December 2008.