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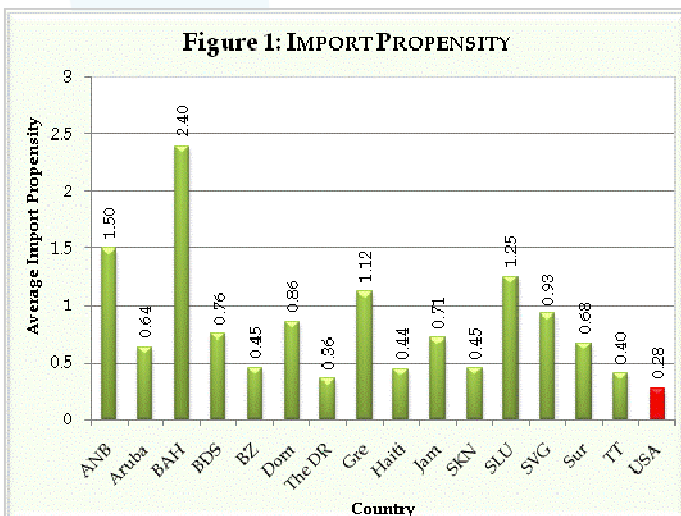
CARIBBEAN FISCAL RESPONSES TO THE INTERNATIONAL ECONOMIC CRISIS

Caribbean governments should be wary of attempting to make up for lost foreign exchange, jobs and income by expanding public works and public service employment. Countercyclical fiscal policy can work in the US, because about 72 cents of every extra dollar spent by Americans buys products and services made in America by Americans, and only 28 cents goes for imported goods and services. (The marginal import propensity of the US averaged 28 percent for the period 2003-2007.) In the Caribbean the proportion spent on local goods is much lower: in Trinidad and Tobago 40 cents of every extra dollar goes for imports, while in Jamaica the import share is 71 cents, and in Barbados it is 76 cents. Over the most recent five years some Caribbean countries spent more on average on imports than the average increases in their incomes. In St Lucia imports increased by \$1.25 for every dollar of additional income, and for The Bahamas the import increase was more than double the increase in national income. When Caribbean governments expand expenditure, therefore, they create jobs for foreigners at a faster rate than they do for residents (except in the case of Trinidad and Tobago).

A consequence of this is the deterioration of the countries' foreign exchange reserve positions, unless the extra government expenditure is fully funded by foreign finance. The prime targets for any countercyclical government activity on the part of Caribbean governments should therefore be those projects which are foreign funded. Every effort should be made to accelerate the implementation of projects for which funding has already been arranged, to bring forward disbursements of projects already underway, and to conclude arrangements for foreign financed projects that are in the pipeline.

Beyond this, the prudent course would be to proceed with care, in view of the extreme uncertainty of the prevailing international economic climate. As recently as six months ago leading international economic and financial institutions and the world's leading central banks expected a recession that would be short and shallow, but the outlook has since clouded beyond all expectations. Caribbean countries need to keep stocks of foreign reserves high, just in case the prospects for the global economy are as gloomy at the end of 2009 as they are at the beginning.

Caribbean countries will be unable to avoid contraction in real income and employment if the recession in North America and Europe is deep and prolonged. The Caribbean will not wish to face the prospect of a gloomy outlook in 2010 with depleted foreign exchange reserves, because that would raise the prospect of exchange rate devaluation, aggravating the adverse impact of foreign recession. The watchword must therefore be cautious spending on the part of government, until it becomes clear that the economies of North America and Europe have recovered.

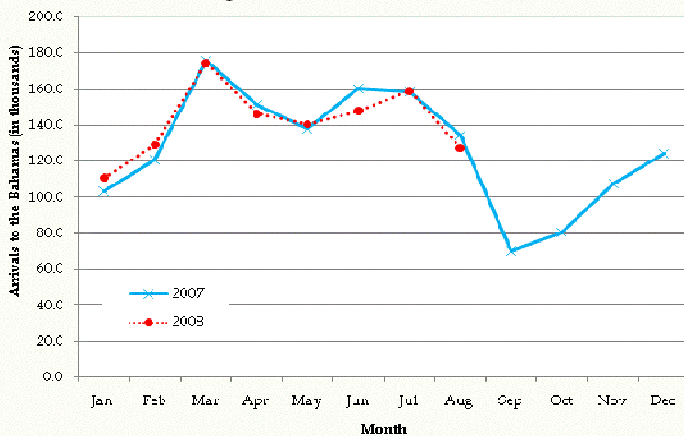


CARIBBEAN TOURISM IN 2008

The year 2008 was one of lackluster performance by the Caribbean tourism industry, up to the month of August, and performance weakened significantly in September and October. Results for November and December are not yet in, although an estimated one percent decline in arrivals has been reported for Barbados. Most countries recorded some growth in arrivals in the 2007/2008 winter season, and in the early months of the summer, but there were a few countries where arrivals declined throughout the year. In September and October arrivals fell below 2007 levels in every country, in some cases by significant percentages. The only exception was Curacao, where visitors from Venezuela kept tourism buoyant throughout the year. Figures 2 - 5 show the pattern of monthly arrivals for Barbados, The Bahamas, Curacao and Jamaica. Similar charts for all Caribbean countries are posted on the CCMF website, www.ccmf-uwi.org.

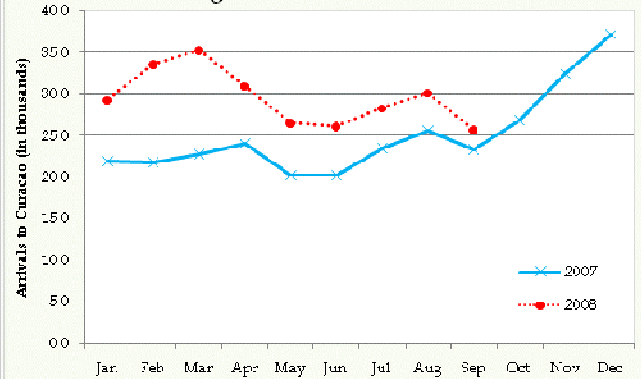
Prospects for the 2008/2009 winter season are gloomy, in line with recessionary conditions in the visitors' countries of origin. Early in December a small amount of job losses was reported in Puerto Rico, and it was announced that the Nevis Four Seasons Hotel, which accounts for 70 percent of that island's tourism revenue, is to be closed for the winter season. At least one charter airline out of the UK has cancelled its Caribbean flights altogether, and increases in airlift by existing carriers will only partly compensate. Advanced bookings for the winter season are significantly below the levels of a year ago. Sales of vacation homes in the Caribbean have fallen sharply, and the stock of outstanding properties for sale has grown rapidly. Several resort property development projects have been halted or cancelled, although the majority of new hotel projects are going ahead.

Figure 2: THE BAHAMAS



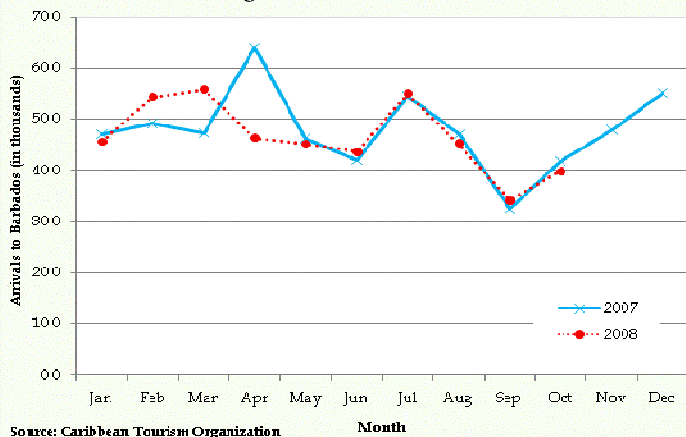
Source: Caribbean Tourism Organization

Figure 4: CURACAO



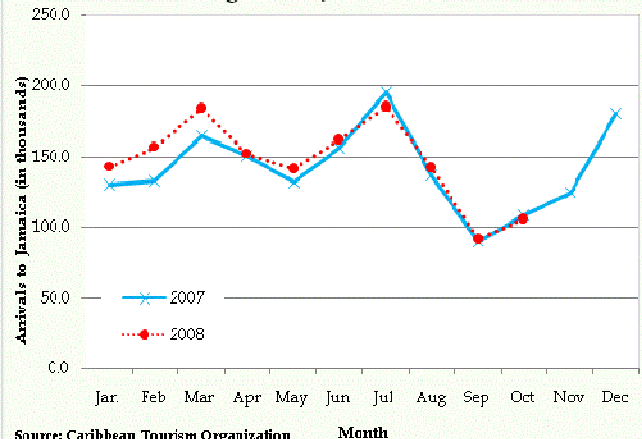
Source: Caribbean Tourism Organization

Figure 3: BARBADOS



Source: Caribbean Tourism Organization

Figure 5: JAMAICA



Source: Caribbean Tourism Organization

REVIEW OF THE CPI WITHIN THE CARIBBEAN

Against the backdrop of rising commodity prices in global markets, member countries of the Eastern Caribbean Currency Union, took the decision to revise the Consumer Price Index (CPI) to more accurately reflect the general increases in prices of the goods in the consumer basket. One of the main concerns of the Statistical Offices within the countries was to ascertain the relevance of the existing CPI basket with a view to ensuring that items in the basket are consistent with the current average shopping lifestyle of the lowest income group. Further, Statistical Offices needed to ensure that the weights attached to the various sub-indices were representative of the proportion of the budget spent on these items.

Saint Lucia is the first of the OECS countries to review the CPI and has produced a new index with January 2008 as the price reference period and January 2006 as the weight reference period. Table I below details a comparison of the Household Expenditure Weights for the 1984 based CPI compared to 2006. The weight associated with the purchase of food and non-alcoholic beverages has dropped to approximately 25 percent of consumer expenditure in 2006 compared to about 47.6 percent in 1984. Conversely the weights associated with transport and communications have increased significantly to represent 16.4 percent and 12.5 percent of consumer expenditure respectively. This is consistent with the increase in the number of vehicles on the road and the rising prevalence and penetration of telecommunications services such as internet and mobile telephone. The weight on the education sub index has also increased, consistent with higher average expenditure on tertiary education.

The monthly inflation rates generated from the revised CPI for 2008 appear significantly higher than the rates generated from the old CPI (see Figure 6). The inflation rate at December 2007 was 2.8%, compared to the rate obtained in January 2008 (4.9%), after the introduction of the revised CPI with its associated weights and consumption basket.

Table I:
Comparison Of 1984 Versus 2006 Household Expenditure Weights

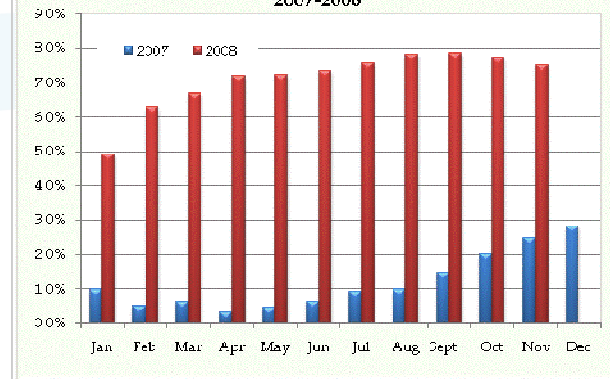
COICOP Code	Description (Sub-index)	Weight 1984	Weight 2006
11.01	Food and Non-Alcoholic Beverages	476	250
11.02	Alcoholic Beverages, Tobacco and Narcotics	20	65
11.03	Clothing and Footwear	65	17
11.04	Housing, Water, Electricity, Gas and Other Fuels	180	174
11.05	Furnishing, Equipment & Household Maintenance	58	33
11.06	Health	23	40
11.07	Transport	57	164
11.08	Communication	6	125
11.09	Recreation and Culture	31	14
11.10	Education	3	37
11.11	Restaurants and Hotels	26	11
11.12	Miscellaneous Goods and Services	55	69
	TOTAL	1000	1000

Source: Consumer Price Index Methodology and Procedures Manual: Central Statistical Office, Saint Lucia, July 2008

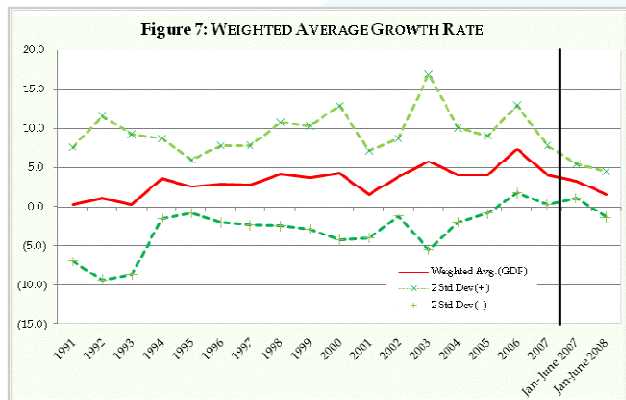
While there have been significant inflationary pressures due to rising commodity and fuel prices, it can be argued that some of the increases may be associated with the change in the basket of goods and services used and the change in weights associated with the different sub indices. For instance the weight associated with the transport sub index in the 2006 registered a threefold increase from the 1984 weight thus, increasing the likely impact of prices changes within the sub index on overall inflation. As at November 2008, inflation in the transport sub index stood at 18.5 percent compared to 2.6 percent in 2007. Inflation in the health sub index whose weight in grew over 70% in the 2006 basket, stood at 10.4 percent in November 2008 relative to -0.5 in 2007.

Other countries which have reviewed their Consumer Price Index include Trinidad and Tobago, Barbados and Jamaica. Trinidad and Tobago has a monthly retail price index with a price reference period of January 2003 and a weight reference period of 1997/98. The index is a modified Laspeyres index and the compilation takes into account most of the recommendations from the 17th International Conference of Labour Statisticians (ICLS). Jamaica has a newly revised CPI which is published monthly by the Statistical Institute of Jamaica (STATIN). The series has a price reference period of December 2006 and a weight reference derived through the Household Expenditure Survey Conducted between June 2004 and March 2005. The compilation adopts most of the ICLS 17 recommendations for review of the retail or consumer price indices. Barbados conducted a review of their CPI before the ICLS recommendations became available. The CPI has a price reference/base period of July 2001 with a weight reference period of 1998/1999.

Figure 6 : ST. LUCIA MONTHLY INFLATION RATES 2007-2008



Most Caribbean countries are expected to record slight real economic growth in 2008, in spite of a general downturn since September. This represents a significant fall back, in a region where growth rates have been strengthening for the past decade (see Figure 7). In Trinidad and



Tobago, recently among the region's most buoyant economies, the projected growth rate is 3.5 percent. Stronger growth is expected in Curacao, thanks to an influx of visitors from Venezuela, while in Aruba tourist arrivals to November were up 4 percent. Hotel revenues in The Bahamas were up 5.8 percent in the nine months to September, despite a slump in the latter month. Barbados' GDP growth rate is expected to fall short of the 1.7 percent estimated for the year to September, because of the weak fourth quarter. Belize's exports were up 14 per-

ANNOUNCEMENT: SALISES CONFERENCE 2009

The 10th Annual SALISES Conference will be held in Barbados from **March 25-27, 2009**. The Theme of the conference is : **Navigating Risks and Building Resilience in Small States**.

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cent (in nominal terms) in the year to October, but stayover visitor arrivals declined 2.8 percent in the same period. In Jamaica there was no growth estimated for the first nine months of 2008.

The slowdown in growth has resulted in increases in unemployment. The unemployment rate in Barbados in the third quarter of the year was 8.4 percent, up from 7.1 percent a year earlier. However, in Trinidad and Tobago the unemployment rate in the second quarter was only 4.6 percent.

Foreign exchange reserves remain high everywhere, even in countries like Jamaica and Barbados where there has been some decline. Jamaica reported reserves equivalent to 15 weeks of imports at the end of November. In Trinidad foreign reserves continued to increase until end-September, leveling off in October. Reserves were up in Belize, to the end of October (the latest published).

High inflation continued to be the bane of most Caribbean countries, with rates of CPI increase reaching 14.3 percent in Trinidad and Tobago (November), between 14 and 16 percent in Jamaica (projected for the fiscal year), 9.6 percent in Belize (August), 10 percent in Barbados (August) and 9.3 percent in Aruba (October). However, inflation in The Bahamas was only 4.4 percent at end-November.

This note updates the 2008 performance report , which can be accessed on the CCMF website, www.ccmf-uwi.org.

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**HAPPY NEW YEAR
2009**
From: THE CCMF Staff

