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Preliminary overview of the Caribbean economies: 2010- 2011

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Abstract

The impact of the economic crisis of 2008-2009 was especially severe on the Caribbean. Some countries were able to withstand the shock better than others and a few, such as, Guyana and Suriname benefited from the improved commodity prices, which helped to stimulate output, raise revenues and create better fiscal outcomes. The Economic Commission for Latin America and the Caribbean (ECLAC) Economic Survey of Latin America and the Caribbean estimated that this cost the Caribbean 13.2% of its GDP in 2009, although there was considerable variation by country.

The 2010 forecast, is that world output will move from a deficit of 0.6% to a positive growth of 5.0%, while the advanced economies will, for the first time, since the crisis, grow by 3.0%. It is expected that the United States of America will grow at 2.8%, while the European Union (EU), with a weaker showing will grow at 1.8%. Much of this is reflected in the performance in the first two quarters of 2010 where some economies are at pre-crisis levels of output but not at their trend values. The optimism is perhaps well placed in the case of the emerging economies with growth expected to be about 7.1%, led by China and India with growth rates of 10.3% and 9.7%, respectively. Strong growth is also expected from advanced Asia[1] other than Japan. In the case of Latin America and the Caribbean as a whole, the growth rate is anticipated to be 5.9%; however, the Caribbean will grow much more slowly.

While the prospects for growth in the Caribbean are better in 2010 and 2011 relative to 2009, for a number of countries the recovery will be

[1] Advanced Asia refers to Australia, Japan and New Zealand.

slow. The World Economic Outlook (WEO) forecast a growth rate of 2.4% for the Caribbean, as a whole, however, this is likely to be difficult given the fiscal measures that are being employed, the lack of private sector expansion, and the softer international and domestic demand. Preliminary estimates for 2010 indicated that GDP contracted by 0.7%, compared to a contraction of 3.2% in 2009. Initial forecasts for 2011 indicated that growth should rebound to 1.9% on the assumption of more robust growth outcomes in the United States and the EU.

The decline in economic activity affected employment. With the exception of a few countries, unemployment rates rose after declining to historically low levels in years prior to 2007.

While Belize, Dominica, Saint Lucia, Suriname and Trinidad and Tobago had fiscal surpluses in 2009, other countries had significant deficits. Among these were Barbados, Guyana and Jamaica. The smaller fiscal deficit of 2009 in some countries, suggest that a considerable adjustment had taken place despite the intensity of the global crisis. In 2010, most countries had fiscal deficits, with the overall deficit rising to 4.0% of GDP. Another important factor driving the adjustment was the large public sector debt facing a number of Caribbean countries.

A number of countries have sought external financing through various arrangements with the International Monetary Fund (IMF) and other international financial institutions (IFI) in 2009 and 2010 which amounted to over US$ 1.6 billion. These resources have assisted the Caribbean by providing balance of payments support and helping to stabilize sagging currencies in a few countries.

Monetary policy in the Caribbean has generally been neutral, given the historical decline in inflation and high levels of liquidity in the banking system. Central banks of the region intervened in foreign exchange markets, where necessary, to stabilize the currency. In addition, given the risk aversion of the private sector, there has been a propensity to lower lending rates or keep them steady where possible. Notwithstanding, interest rate spreads continued to be large in the Caribbean.

Given the openness of Caribbean economies exchange rate stability is important. Exchange rate policy in the Caribbean focused on maintaining the stability of the fixed or quasi fixed exchange rate regimes. The weak current account situation of many Caribbean countries and a slowing of foreign exchange inflows created a very fragile situation in which central banks were hard pressed to defend the currency.

Inflation tended to be generally lower in 2009 relative to 2008 except for a few countries, while in 2010 there was some increase. The most remarkable cases were Jamaica and Trinidad and Tobago, where, in the latter case, despite the weak domestic demand, inflation year on year to September 2010 was reported at 13.4%, the highest in the region. Inflation is likely to be higher throughout the Caribbean in 2011 relative to 2010 due to instability in the Middle East and the rising price of cereals.

The impact of the crisis was felt most sharply on the external sector and showed that the balance of payments deteriorated initially but there was severe adjustment in 2009 as imports declined significantly due to lower domestic demand and exports also declined as international demand for tourism and offshore banking services softened and prices of some exports fell.

While a number of countries have maintained reasonable levels of reserves, the decline in foreign direct investment (FDI), financial capital and remittances from trend levels will make for a challenging short run, by tightening the constraint on the current account of the balance of payments which will constrain growth.

I. Introduction

The economic crisis of 2008-2009 was especially severe on the Caribbean, however, some countries were able to withstand the shock better than others and a few, such as, Guyana and Suriname benefited from the improved commodity prices, which helped to stimulate output, raise revenues and create better fiscal outcomes. ECLAC publication, Economic Survey of the Economies of the Caribbean 2009-2010, estimated that the cost of the crisis was some 13.2% of GDP on average[2] although there was a considerable variation by country. By and large, the Caribbean was generally unprepared for the economic downturn because of four specific reasons:

(a) Many countries carried large fiscal and current account deficits which made any sustained fiscal stimuli impracticable. In many instances, where such packages were pursued, this caused a further increase in the deficit;

(b) The large public debt which many Caribbean countries accumulated helped to reduce the fiscal space and dampen fiscal spending even in the face of a recession. In the case of Antigua and Barbuda and Jamaica, inflows from International Monetary Fund (IMF) agreements for stabilization were accompanied by fiscal consolidation packages;

[2] A simple average of the costs from the various countries

(c) The response of the private sector was to consolidate their balance sheets and invest cautiously in an environment of uncertainty and as a result, credit to the private sector generally declined; and

(d) Caribbean economies are strongly linked to the United States and Europe through a heavy concentration of trade, remittance flows and FDI which is a significant part of their foreign exchange inflow. Due to the lack of diversification of exports and markets, the recession in these developed economies had a direct impact on the Caribbean especially through the decline in tourism receipts and capital inflows.

In light of these considerations, the recovery of the Caribbean will be slow, and will depend heavily in the medium term, on the recovery of the United States and Europe and the restructuring necessary to create greater resilience to external shocks. For this reason the improved global prospects will have a positive impact on stimulating growth in the Caribbean.

A. Global prospects

The global recession which intensified in 2009, especially among developed countries, began to abate in 2010. There is optimism that positive growth will prevail in both developing and developed economies. This positive outlook is attributable to the performance of developing and emerging economies, many of whom, as in Latin America, had fiscal surpluses and were in a better position to weather the crisis. As seen in table 1, in 2009 the advanced economies declined by 3.4%, while the United States and European Union, declined by 2.6% and 4.1%, respectively. It is understandable that given the high level of openness of Caribbean economies and the reliance on these two areas for trade and investment, the decline in output was correspondingly severe. This was especially true for service providers, since high unemployment and falling incomes abroad dampened the demand for tourism and other complementary services together with offshore banking services. The pass through effect of tourism impacted on construction and related services as projects were either put on hold, or abandoned in light of depressed international and domestic demand.

TABLE 1
ACTUAL AND PROJECTED GROWTH RATES 2009-2011

	Actual	Projections	
	2009	2010	2011
World Output	-0.6	5.0	4.4
Advanced economies[a]	-3.4	3.0	2.5
United States	-2.6	2.8	3.0
European Union	-4.1	1.8	1.7
Emerging and Developing Economies	2.6	7.1	6.5
Latin America[b] and the Caribbean	-1.8	5.9	4.3

Source: IMF (2010), "World Economic Outlook Database". (http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx)

[A] Advanced Economies includes Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Korea, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, United Kingdom and United States.
[B] Latin America includes Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

While advanced economies were in recession, emerging and developing economies grew by 2.6% in 2009. In the case of Latin America and the Caribbean as a whole, growth was negative at 1.8%. For the Caribbean, however, while average growth was negative the results for individual countries were mixed. For example, in 2009, the growth in the Most Developed Countries (MDCs) declined by 1.6% due to the fact that the economies of the Bahamas and Barbados declined by 4.2% and 4.7%, respectively. Meanwhile Guyana and Suriname had positive growth rates of 2.3% and 2.0%, respectively. In the case of Eastern Caribbean Currency Union (ECCU) countries, [3]the average decline was 5.1%. These results suggest that there was considerable heterogeneity in response to the crisis.

The 2010 forecast is that world output will move from a deficit of 0.6% to positive growth of 5.0%, while the advanced economies will for the first time, since the crisis, grow by 3.0%. It is expected that the United States will grow at 2.8 % while the EU, with a weaker showing, will grow at 1.8%. Much of this is reflected in the performance in the first two quarters of 2010 where some economies were at pre-crisis levels of output but not at their trend values. The optimism is perhaps well placed in the case of the emerging economies with growth expected to be about 7.1% and will be led by China and India with growth rates of 10.3% and 9.7%, respectively. Strong growth is also expected from advanced Asia other than Japan. In the case of Latin America and the Caribbean, as a whole, the growth rate is anticipated to be 5.9%; however, the Caribbean performance is likely to be weak.

Equally optimistic scenarios have been suggested for 2011 on the assumption that the world economy would have pulled out of the crisis. There are serious downside risks, however, given the high debt burdens in Europe, and pressure for fiscal restraint and adjustment, being proffered by IMF. Some have even argued (Weisbrot and Montecino, 2010) that in light of the fiscal difficulties it was too soon to terminate the fiscal stimulus packages since the recovery of the advanced countries was very fragile. In addition, employment growth has been stagnant despite signs of improving business investment. It is estimated that some 210 million persons were unemployed since 2007 and three quarters of this number was in the advanced economies.

Central to the global problem is the issue of financial stability which continues to be a problem both globally and in the Caribbean. In the Caribbean, the Colonial Life Insurance Company (CLICO) and British American Insurance Company (BAICO) affair[3] have not been fully addressed and raise serious issues of weak financial regulations across the Caribbean.

At the global level, financial stability was challenged in the first half of 2010, due to increased volatility as sovereign debt of troubled Euro area economies was being sold. This caused increased stress to stock markets. Prices of many stocks declined led by financial stocks in European markets. This crossed over into the bond markets of emerging economies as well. The implications are that not only is the recovery among developed countries fragile but also the challenges to increasing growth are enormous in an environment of depressed demand.

B. Economic prospects for the Caribbean

1. Growth

While the prospects for growth in the Caribbean seemed better in 2010 and 2011 relative to 2009, for a number of countries the recovery will be slow. WEO forecast a growth rate of 2.4% for the Caribbean as a whole, however, this is likely to be difficult to achieve given the fiscal measures that are being employed, the lack of private sector expansion and the softened international and domestic demand. Preliminary estimates for 2010 indicated that GDP contracted by 0.7%, compared to a contraction of 3.2% in 2009. Initial forecasts for 2011 indicated that growth should rebound to 1.9% on the assumption of more robust growth outcomes in the United States and the EU.

[3] See Economic Survey of the Caribbean 2009-2010 for greater detail.

Some MDCs fared better than those in the ECCU that depend largely on tourism receipts, due to the buoyancy of some primary commodity prices and a better fiscal balance. For example, growth in the Bahamas was -0.5% for the midyear which means that at most, growth is likely to be no more than 0.5% in 2010. The better performance this year has been due to increasing tourism receipts, however, the complementary construction sector growth (11.4% of GDP between 2005-2009) was slow consequent on the decline in FDI flows.

Barbados, like the Bahamas, suffered from the international downturn as output declined by nearly 5% in 2009. Driven by tourism receipts, it is anticipated that growth will be –0.4% in 2010 with a better outturn expected in 2011. This has been aggravated by the decline in construction which fell by as much as 12.5% at the end of December (8% of GDP between the years 2005-2009). In the case of Belize, there was positive growth in the first half of 2010 of some 2.4% due to growth in tourism receipts, bananas, citrus and petroleum output. The overall growth is anticipated to be 2.0% in 2010.

The estimate of growth for Guyana for the first half of 2010 was 2.8% due to improved output of rice and gold, and this was better than the first quarter performance in 2009. The official forecasts are for a growth rate of 4.4%, but this seems optimistic given that sugar production was down 1.8% (agriculture constitutes 30% of the economy). The overall growth is more likely to be 2.8% in 2010 and much higher in 2011 assuming increasing world demand. Suriname, like Guyana, is also expected to show positive growth of 3% based on fairly robust commodity prices.

The economic conditions in Jamaica will be the most challenging of all the MDCs given the limited fiscal space, and a fiscal consolidation program that points to compressing demand. The estimates are that growth contracted by 0.9% in the first half of 2010, and this suggests that growth will be no more that 0.8% by the end of the year. Recently, the Bank of Jamaica suggested that given the severe weather conditions and other difficulties growth may be in the range of -0.5%to 0.5 %. It may well be that strong growth will be elusive for some time given the fragility of the economy. The improvement in tourism receipts and remittances which rose by 9% in the first half of 2010, together with the opening of an alumina plant, could see some slight improvement to growth in 2010. Ultimately, Jamaica's positive performance in the short run will depend on the extent of recovery in tourism services, increased remittance inflows, and increasing domestic investment plus capital inflows from abroad.

TABLE 2
GDP GROWTH RATE, 2007-2011
(Percentage)

	2007	2008	2009	2010 [a]	2011 [b]
Antigua and Barbuda	9.1	0.2	-8.5	-6.7	0.1
Bahamas	0.7	-1.7	-4.2	0.5	2.3
Barbados	3.4	-0.2	-4.7	-0.4	2.0
Belize	1.2	3.8	-0.5	2.0	2.3
Dominica	4.9	3.5	-0.8	-0.7	1.9
Grenada	4.5	0.9	-6.8	-1.4	2.2
Guyana	5.3	3.0	2.3	2.8	3.0
Jamaica	1.4	-1.3	-2.6	0.5	1.0
Saint..Kitts and Nevis	2.0	4.6	-8.0	-7.0	-0.5
Saint..Lucia	2.2	0.8	-3.8	0.5	4.9
Saint..Vincent and the Grenadines	8.4	1.1	-2.8	-2.6	1.9
Suriname	5.1	4.3	2.0	3.0	1.1
Trinidad and Tobago	4.6	2.3	-3.5	1.0	2.5
The Caribbean (13) [c]	**4.1**	**1.6**	**-3.2**	**-0.7**	**1.9**
Latin America (16) [c]	**1.0**	**0.7**	**-0.4**	**0.3**	**0.9**
South America [4]	5.9	6.0	0.2	5.3	7.8
Central America [5]	6.8	4.3	-0.5	3.3	2.8
Mexico	3.3	1.5	-6.6	5.0	3.0
Latin America and the Caribbean	**5.1**	**2.4**	**-3.6**	**-0.4**	**2.8**

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

[a] Preliminary.
[b] Forecast.
[c] Number of countries in these categories.

In the case of Trinidad and Tobago, growth is anticipated to be some 1.0% in 2010, driven largely by the energy sector and this was below the initial forecast of 2.5%. This forecast is realistic given that natural gas prices are depressed and manufacturing output is expected to be weak until 2011.

For ECCU countries, the situation was even more difficult because of the intense reliance on tourism services, financial services and the complementary impact of tourism growth on construction and related activities. Preliminary estimates for 2010, showed a further contraction of 3.0%, albeit better than the contraction of 5.5% in 2009. Earlier improvements in the first half of 2010 may have been eroded due to the passage of Hurricane Tomas in late October 2010, which wiped out banana crops and damaged infrastructure in Saint Lucia and Saint Vincent and the Grenadines. With the exception of Antigua and Barbuda and Saint Kitts and Nevis in which GDP contracted significantly by 6.7% and 7.0%, respectively, in 2010 all other member countries are expected to show greater improvement over 2008 and 2009.

Table 3 shows growth in tourist stopover arrivals during 2010. These data indicate that some countries continue to experience decline in arrivals. Among those that showed positive growth, except

[4] South America includes Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.
[5] Central America includes Costa Rica, El Salvador, Guatemala, Nicaragua and Panama.

for Dominica and Saint Lucia growth has been relatively slow given that arrivals in 2009 was below trend.

TABLE 3
TOURIST STOPOVER ARRIVALS, 2010

	Period	Tourist arrivals *(Persons)*	Percentage year-on-year change
Antigua and Barbuda	Jan-Dec	178,996[a]	1.0[a]
Bahamas	Jan-Jul	906,923	3.2
Barbados	Jan-Sept	434,316	3.8
Belize	Jan-Aug	176,512	2.7
Dominica	Jan-Dec	66,857[a]	14.1[a]
Grenada	Jan-Dec	74,953[a]	-10.5[a]
Guyana	Jan-Sep	113,538	8.1
Jamaica	Jan-Jul	1,215,395	4.2
Saint Lucia	Jan-Dec	244,024[a]	16.0[a]
Saint Kitts and Nevis	Jan-Dec	71,485[a]	-4.3[a]
Saint Vincent and the Grenadines	Jan-Dec	53,752[a]	-3.3[a]
Trinidad and Tobago	Jan-Mar	101,716	-6.4

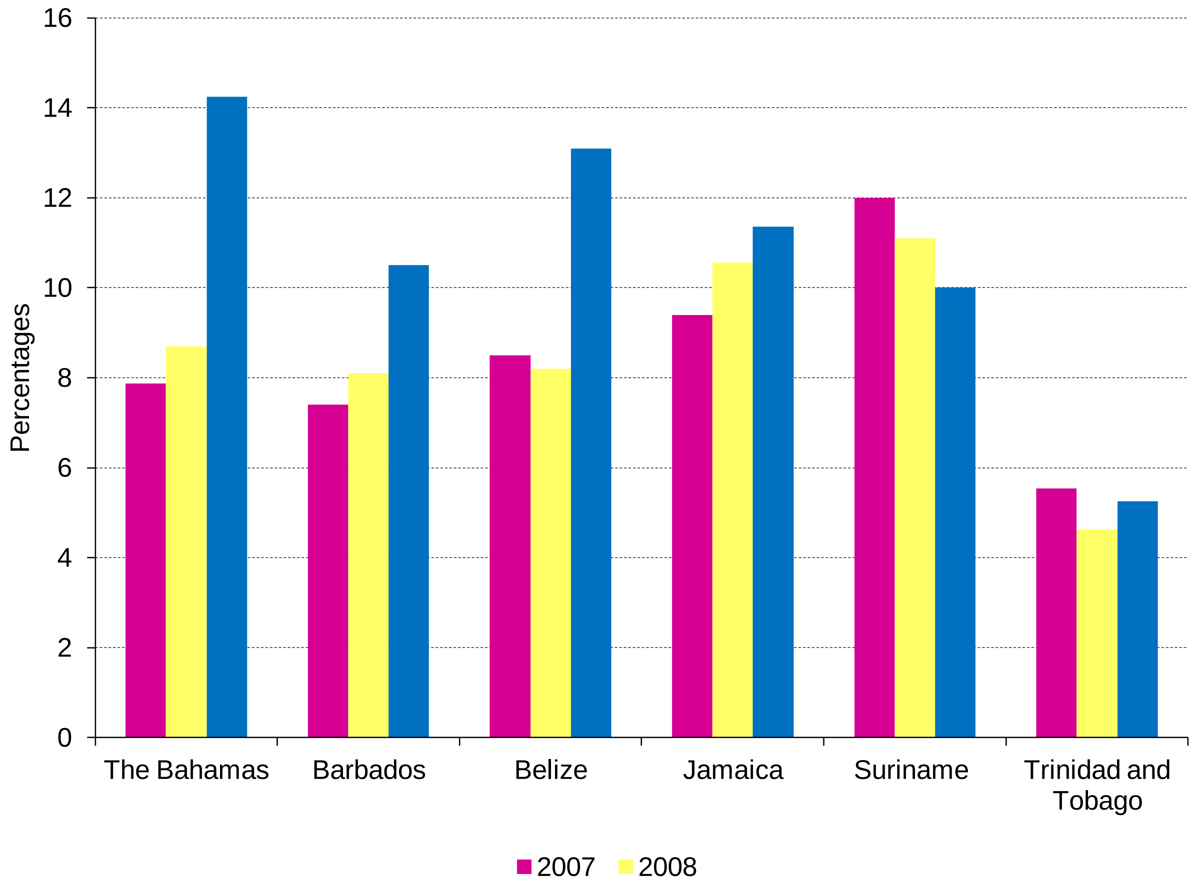
Sources: Caribbean Tourism Organization (2010), "Latest Tourism Statistics", Eastern Caribbean Central Bank (ECCB) on the basis of official figures. (http://www.onecaribbean.org/statistics/tourismstat)

[a] ECCU annual 2010 estimates.

2. Employment

The decline in economic activity was also accompanied by increasing unemployment. Unfortunately, unemployment data are only available for a few countries and among these are Barbados, the Bahamas, Belize, Jamaica, Suriname and Trinidad and Tobago (see figure 1). In the case of Barbados, the unemployment rate climbed from 7.4% in 2007 to 8.1% in 2008 and 9.9% in 2009.

FIGURE 1
UNEMPLOYMENT RATE 2007-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

In the Bahamas a similar pattern occurred, but with even more intensity, as the unemployment rate was 14.2% in 2009. In Belize, the unemployment rate was 13.1% in 2009, while in Jamaica it was 11.4% in 2009. Suriname fared better with unemployment falling from 12% in 2007 to 11.1% in 2008 and 10% in 2009. In Trinidad and Tobago, the coming to an end of many large government investments, plus the decline in manufacturing saw unemployment inching up from 4.6% in 2008 to 5.3% in 2009. In 2010 overall labour market conditions worsened as seen in table 4. Unemployment increased in Barbados, Jamaica, and Trinidad and Tobago (countries for which 2010 data are available). In Barbados the unemployment rate increased from 8.4% in September 2009 to 11.2%, in September 2010. This captured the decline in the number of persons employed in the construction and distributive trades. The unemployment rate was much higher in Jamaica, increasing to 12.9% in June 2010 reflective of the 86,600 jobs that were lost between October 2008 and April 2010. In Trinidad and Tobago, the level of unemployment fell to 4.8% in the second quarter of 2010, mainly representing new jobs created in the services sector.

TABLE 4
UNEMPLOYMENT RATES, 2006 – 2010
(Percentages)

Countries	2006	2007	2008	2009	2010
Barbados	8.7	7.4	8.1	10.0	11.2[a]
Jamaica	10.3	9.7	10.6	11.4	12.9[b]
Trinidad and Tobago	6.2	5.5	4.6	5.7	4.8[c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

[a] September 2010.
[b] June 2010.
[c] 2nd Quarter of 2010.

3. Inflation

The global crisis also ushered in a period of lower inflation in most Caribbean countries in 2009-2010 compared to 2007-2008, as it softened international and domestic demand and led to a moderation of fuel prices (see table 5).

TABLE 5
VARIATION IN THE CONSUMER PRICE INDEX, 2008-2010
(Percentage)

	2008	2009	2010
Antigua and Barbuda	0.7	2.4	1.5[d]
Bahamas	4.8	1.0	1.6[c]
Barbados	7.3	4.4	2.6[c]
Belize	4.4	-0.4	4.1[c]
Dominica	2.0	3.3	0.9[d]
Grenada	5.2	-2.4	7.6[d]
Guyana	6.4	3.0	6.8[c]
Jamaica	17.0	10.2	11.7[c]
Saint Kitts and Nevis	7.6	0.9	0.7[d]
Saint Lucia	3.8	1.1	-0.1[d]
Saint Vincent and the Grenadines	8.4	-1.6	2.3[d]
Suriname	9.4	-0.3	6.8[c]
Trinidad and Tobago	14.5	1.3	13.4[b]
The Caribbean [a]	7.0	1.8	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Average.
[b] Data as at Sept.2010.
[c] Forecast based on CPI (av. all year).
[d] Data for the ECCU is January to June 2010.

Overall inflation for the Caribbean declined from an average of 7.2% in 2008 to 1.8% in 2009. While an aggregate estimate for the Caribbean for 2010 is not available, preliminary data indicated that inflation rates increased in most countries. In the Bahamas inflation which was 4.8% in 2008 fell to 1.0% in 2009 but is anticipated to increase to 1.6% in 2010. Lower inflation rates in 2010 for most of the ECCU and Barbados have been due to lower fuel prices and dampened domestic demand.

In the case of Guyana the inflation rate, which declined from 6.4% in 2008 to 3.0% in 2009, is likely to be about 6.8% in 2010 driven by higher food prices due to drought conditions and its impact on domestic agriculture. In the case of Jamaica the inflation rate moderated from 16.8% in 2008, to 10.2% in 2009. Inflation in 2009 was due to several factors including a number of new tax measures designed to reduce the budget deficit and drought conditions which affected agriculture and a depreciation of the exchange rate. It is expected that inflation will be about 11.3% in 2010 which is above the medium term target set at 7.5%-9.5%. However, this rate is still below the rate at 2008.

Inflation in Trinidad and Tobago is likely to end higher than elsewhere in the region in 2010 given its evolution in 2010 so far. Much of the increase is driven by food inflation due to severe weather conditions, beginning with a drought and then later with intense flooding affecting agriculture food crops. Despite the weak domestic demand inflation year on year to January 2011 was reported at 13.4%. Rising fuel prices due to instability in the Middle East and higher prices for cereals are likely to result in greater inflation in the Caribbean in 2011 relative to 2010.

II. Macroeconomic policy

A. Fiscal policy

The global crisis found the Caribbean unprepared to employ countercyclical fiscal policies, except for a few countries, and exposed underlying fundamental structural weaknesses due to reliance on a few markets and products. The aftermath of the adjustment that came on the heels of the new trade arrangements under the World Trade Organization and the EU, saw the Caribbean private sector unprepared to meet the challenges of open competition. As a consequence, the public sector expanded to fill the gap left by the private sector and, except for some countries; this resulted in an expanding fiscal deficits and rising public sector debt. Thus, the deterioration of the deficit on the current account of the balance of payments is a proximate cause of the worsening of the budget deficit (Alleyne, 2010).

The focus of macroeconomic policy in the Caribbean in 2010 can be gleaned from the various budget policy statements in fiscal year 2010/11, in response to the tight fiscal space and growing public debt. In countries such as Antigua and Barbuda, Grenada and Jamaica adjustments have occurred under IMF-administered programmes, while in others, the policy focus has been on fiscal restraint, except for Guyana and Suriname. In the Case of Jamaica, the US$ 1.25 billion IMF Stand-By Agreement and the accompanying medium-terms macroeconomic programme has helped to stabilize the economy, but the situation remains delicate especially in light of severe weather conditions, and wage claims which created new expenditure demands. A fiscal responsibility law enacted in March 2010, with amendments to follow was designed to help manage government cash flow problems and bring down the spiralling debt burden over time. While IMF programmes has some limited flexibility, fiscal consolidation will be the focus for the duration of the programme.

In the case of Grenada, the 2010/11 budget is being implemented within the framework of an IMF Extended Credit Facility Programme, and already retrenchment in the public sector has been occurring. It is hoped that the credit disbursed under this programme, will build confidence and kick start growth in the post crisis period. In the case of Antigua and Barbuda, an IMF Stand-By agreement was approved with a loan of US$ 117.8 million to help the country recover from its debt problem and jump start growth. This is a three year program designed to reduce the large deficit and help raise revenue. It will also employ a debt strategy to reduce servicing costs and enact policy reforms to reduce financial risks.

In a number of other countries, governments have had to craft programs of adjustment so as to address the expanding deficit situation in the face of weak revenue collection. In the Bahamas a series of reforms including new customs legislation were being pursued to restore fiscal health. At the same time key infrastructure projects have been started in 2009 in order to position the economy for a rebound in 2010 and 2011. In Barbados, the fiscal deficit is expected to expand in 2010/11 fiscal year, with financing from domestic sources. Efforts are under way to strengthen the revenue collection systems through tax treaty arrangements. In the case of Belize, the budget projects a deficit of 2.1% of GDP in fiscal year 2010/11 but this may be too optimistic given the demands for increasing expenditure. In the medium term however fiscal discipline will have to be imposed given the large public debt of some 80% of GDP. Guyana was an exception since fiscal revenues tended to be buoyant in 2009 and in the first half 2010 current revenue rose by 12.4%. Expenditure rose more slowly increasing by 8.4% due to increased wages and salaries. At the same time, capital expenditure rose by 22.3% as part of the government program of raising productivity capacity. Thus, an improved fiscal position is expected at the end of 2010 due to the likelihood of continuing growth.

TABLE 6
FISCAL BALANCE, 2005-2010[a]
(Percentage of GDP)

	2005-2007	2008-2009	2010
Antigua and Barbuda	7.1	6.9	3.0[d]
Dominica	-1.7	-1.5	-3.3[d]
Grenada	3.1	6.0	2.0[d]
Saint Kitts and Nevis	3.0	-5.7	5.5[d]
Saint Lucia	4.9	-0.6	3.3[d]
Saint Vincent and the Grenadines.	3.9	2.2	4.2[d]
ECCU [b]	**3.4**	**1.2**	**3.6**
Bahamas	2.2	2.5	4.3[g]
Barbados	2.7	4.6	8.6[e]
Belize	2.5	-0.8	2.5[f]
Guyana	11.4	7.2	7.6[f]
Jamaica	4.5	9.2	6.5[f]
Suriname	-1.9	-0.7	2.3[d]
Trinidad and Tobago	-4.4	-1.3	5.5[f]
MDCs [c]	**2.4**	**2.7**	**…**

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

[a] A minus sign indicates a deficit.
[b] Annual simple average.
[c] Simple average with the exception of Bahamas and Barbados.
[d] Data from Jan-June 2010; ECCU countries and Suriname.
[e] Data from Jan-May 2010; Barbados.
[f] Data all year estimate 2010: Belize, Guyana, Jamaica and Trinidad and Tobago.
[g] Data for the first 11 months: Bahamas.

Table 6 reports the fiscal deficit for the Caribbean over the periods, 2005-2007, 2008-2009 and 2010. The results suggested that while Belize, Dominica, Saint Lucia, Suriname and Trinidad and Tobago had different levels of surpluses in 2009, with the exception of Dominica, these surpluses were eroded in 2010. The smaller deficit of 2010 in some countries, suggested that considerable adjustment had taken place despite the intensity of the global crisis. Another important factor driving the adjustment is the large public sector debt facing a number of Caribbean countries.

TABLE 7

CENTRAL GOVERNMENT DEBT, 2010

(Percentage of GDP)

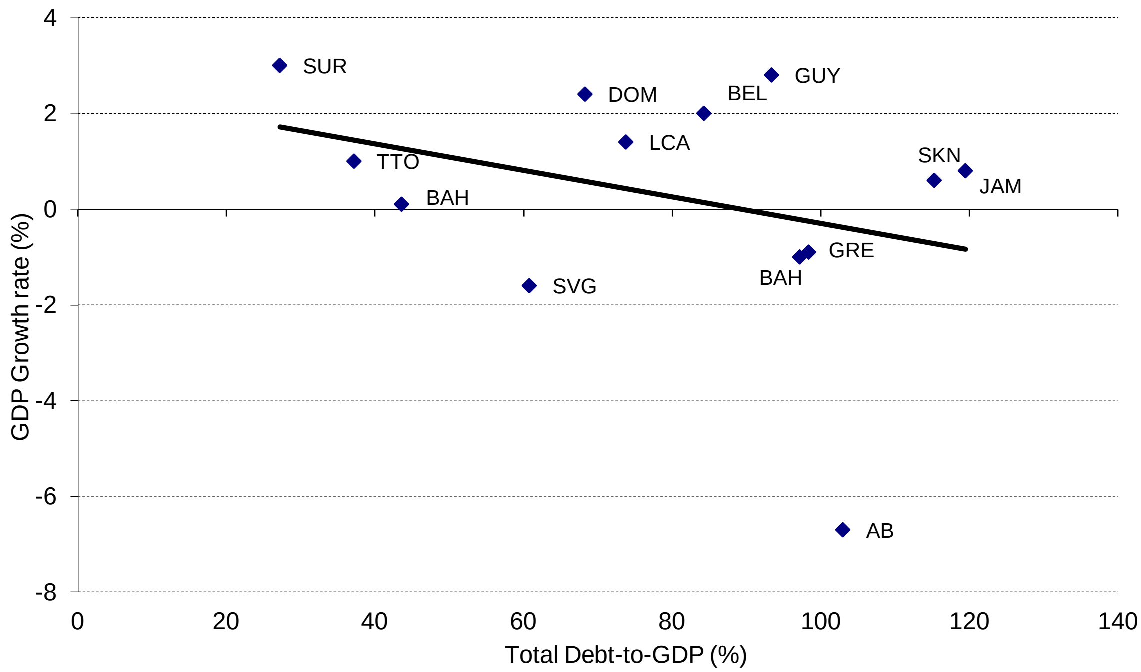
	External Debt	Domestic Debt	Total Debt
Antigua and Barbuda [c]	38.0	65.0	103.0
Bahamas	5.7	37.9	43.6
Barbados [a]	31.2	66.0	97.2
Belize [c]	72.3	12.0	84.3
Dominica [c]	48.0	20.3	68.3
Grenada [c]	77.7	20.7	98.4
Guyana [c]	68.8	24.5	93.4
Jamaica [d]	55.5	64.0	119.5
Saint Kitts and Nevis [c]	40.2	75.1	115.3
Saint Lucia [c]	39.3	34.5	73.8
Saint Vincent and the Grenadines [c]	39.4	21.4	60.8
Suriname [c]	10.5	16.7	27.2
Trinidad and Tobago [c]	6.6	30.1	37.2
The Caribbean [b]	**41.0**	**37.5**	**78.6**

Source: Economic Commission of Latin America and the Caribbean (ECLAC) on the basis of official figures.

[a] Corresponds to non-financial public sector, as at June 2010.
[b] Simple average.
[c] As at June 2010.
[d] Estimates for 2010.

Average central government debt for the Caribbean in 2010 was 78.6% of GDP, compared to 76.5% in 2009 and the demands for some measure of stimulus packages have not helped to bring down the debt burden. In light of these challenges including some deterioration in the external accounts, many countries borrowed from IFI.

FIGURE 2
TOTAL DEBT-TO-GDP GROWTH RATE 2010



Source: Economic Commission of Latin America and the Caribbean (ECLAC) on the basis of official figures.

In figure 2 when the debt to GDP ratio is plotted against the growth rates for 2010, the results suggest a negative relationship between increasing debt and growth in the Caribbean. Antigua and Barbuda (ATG) was an outlier while Suriname (SUR) and Trinidad and Tobago (TTO) are better performers in terms of having low debt to GDP ratios and positive growth. In the middle range were countries such as Belize (BLZ), Dominica (DMA), Guyana (GUY) and Saint Lucia (LCA) with fairly high debt but positive growth and in the case of Belize and Guyana, commodity prices were driving such growth.

B. Monetary policy

Monetary policy in the Caribbean has generally been neutral, given the historical decline in inflation and high levels of liquidity in the banking system. Central banks of the region intervened in foreign exchange markets where necessary to stabilize the currency. In addition, given the risk aversion of the private sector there has been a propensity to lower lending rates or keep them steady where possible. Notwithstanding, interest rate spreads continued to be large in the Caribbean and government borrowing and private sector borrowing, except for a few countries, stagnated in 2010 (see table 8). In the Bahamas the benchmark discount rate was maintained at 5.5% to act as a deterrent against increasing imports in the wake of the severe downturn in the economy and an expanding current account balance.

Among the MDCs, in Barbados the policy stance was fairly loose given the high levels of liquidity in the system and the fact that credit demand by the private sector was relatively low and interest rates were on a decline. The central bank was also active in securing in July 2010 subscription to a US$ 200 million bond, which was used to retire short term loans and to shore up any decline in foreign exchange requirements, in anticipation of diminished inflows in the low tourism season.

TABLE 8" \F C \L "1"

LENDING RATE, DEPOSIT RATE AND SPREAD, 2010

(Percentage; annual)

	Lending rate	Deposit rate	Spread [a]
Antigua and Barbuda [c]	10.5	4.0	6.5
Bahamas [c]	5.5	3.1	2.4
Barbados [b]	9.1	2.7	6.4
Belize [c]	13.9	5.9	8.0
Dominica [c]	9.3	3.8	5.5
Grenada [c]	9.5	3.5	6.0
Guyana [c]	15.2	2.5	12.7
Jamaica [d]	18.9	2.5	15.9
Saint. Kitts and Nevis [c]	11.3	4.3	7.0
Saint. Lucia [c]	11.3	3.6	7.7
Saint. Vincent and the Grenadines [c]	10.0	4.5	5.5
Suriname [d]	11.5	6.1	5.4
Trinidad and Tobago [d]	8.8	0.6	8.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Lending rate minus deposit rate.
[b] As of October 2010.
[c] ECCU countries as of August 2010.
[d] As at end of year period 2010.

In Jamaica, the policy stance was to balance currency stability and the maintenance of adequate foreign reserves which was affected during early 2010, but has since stabilized. While there is some inflationary pressure, the inflows from IMF should assure currency stability allowing the central bank to lower interest rates.

Meanwhile in the ECCU countries, a variety of approaches were employed largely to strengthen the regulation and supervision of the financial system especially in light of the CLICO affair. For example, Antigua and Barbuda implemented measures designed to contain the risk to the financial system by improving supervision and a regulatory framework for offshore financial services. In Dominica there was the restructuring of the Agricultural and Industrial Development Bank so that it can provide reasonably priced financing for development activities while in Grenada; measures were put in place to address the demise of CLICO and BAICO in addition to plans to sign a number of Tax Information Exchange Agreements with Organisation of Economic and Co-operation Development countries.

TABLE 9

MONETARY AGGREGATES AND DOMESTIC CREDIT TO THE PRIVATE AND PUBLIC SECTOR, 2009-2010

Percentage of GDP)

	M1[h]		M2[i]		Domestic Credit to the Private Sector		Net Domestic credit to the Public sector [a]	
	2009 [b]	2010 [c]	2009[b]	2010 [c]	2009 [b]	2010[c]	2009 [b]	2010 [c]
Antigua and Barbuda	21.2	20.3	101.1	105.1	85.6	90.5	16.7	13.9
Bahamas	16.9	17.7 [d]	77.9	78.9 [d]	88.4	86.5 [d]	18.3	23.7[d]
Barbados	46	51.4	115.4	119.9	77.9	63.0 [d]	18.8	15.3[g]
Belize	26.9	25.3 [d]	78.3	74.7 [d]	67.9	62.8 [d]	7.5	6.9 [d]
Dominica	19.9	19.0	95.9	96.1	64.4	69.2	-13.9	-14.9
Grenada	20	19.8	109.6	106.8	100.5	103.2	-1.6	-1.7
Guyana	26.3	28.3[d]	81.4	81.8[d]	35.2	39.4[d]	-12.9	-14.4[d]
Jamaica	9.4	8.04	9.7	10.6	19.3	11.3	16.3	10.3
Saint Kitts and Nevis	17.9	21.7	123.8	136.2	91.1	98.6	26.9	29.8
Saint Lucia	25.6	23.4	97.4	94.7	145.4	143.0	-11.2	-15.1
Saint Vincent and the Grenadines	22.7	21.5	68.7	68.8	56.7	61.5	5.5	-1.0
Suriname	27.1	25.0	41.6	29.0	40.5	25.2[e]	6.1	6.9[e]
Trinidad and Tobago	18.6	18.5	43.1	42.6	34.2	32.0[d]	-12.7	6.9 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[1a]Credit to government less government deposits.
[b]End period of the year 2009.
[c]Data corresponds November 2010, except where noted otherwise.
[d] Data as at Dec. 2010.
[e] Data corresponds to period of January-August 2010.
[f] Data as at Sept. 2010.
[g] Data as at Oct. 2010.
[h] A measure of the money supply; includes currency in circulation plus demand deposits or checking account balances.
[i] A measure of the money supply; M1 plus net time deposits (other than large certificates of deposit).

The depressed economic condition in a number of countries was observed in the lack of expansion of monetary aggregates such as M1 and M2 (see table 9). Overall, movement in M1 for the Caribbean as a share of GDP was almost constant between 2009 and 2010. In terms of credit to the private sector there was little variation between 2009 and 2010. For countries such as Barbados, Belize, Jamaica, Suriname and Trinidad and Tobago, credit to the private sector declined while for the others credit expansion was very minimal. The lack of credit expansion despite a softening of interest rates suggest that there was still considerable risk aversion in the private sector as companies sought to tidy their balance sheets.

C. Exchange rate policy

Given the openness of Caribbean economies exchange rate stability is important. Exchange rate policy in the Caribbean focused on maintaining the stability of the fixed or quasi fixed exchange rate regimes. The weak current account situation of many Caribbean countries and a slowing of foreign exchange inflows created a very fragile situation in which central banks were hard pressed to defend the currency. In Guyana the relatively strong economic position and foreign exchange inflows caused the nominal exchange rate to appreciate marginally in 2010. In the case of Jamaica, however, following an initial depreciation of the currency, IMF inflows have helped to stabilize the exchange rate to around J$ 86 to 1.

In the case of Suriname there was pressure on the currency due to lower foreign exchange inflows and rising liquidity in the banking system. There is a divergence between the free market exchange rate and the official rate and this is also a source of growing inflation. In Trinidad and Tobago, a strong reserve position, together with strong growth in the energy sector is likely to help maintain the current exchange rate at TT$ 6.3 to US$ 1 in 2010.).

III. The external sector

A. Composition of the current account balance

The impact of the crisis was felt most sharply on the external sector and the Preliminary Overview of the Caribbean for 2009-2010 showed that the balance of payments deteriorated initially, but there was severe adjustment in 2009 as imports declined significantly due to lower domestic demand; and exports also declined as international demand for tourism and offshore banking services softened, and prices of some exports fell. In some countries, bauxite production, which is a significant source of foreign exchange, ground to a halt and plants were closed. In addition, manufacturing output declined in response to lower overall demand. The severe decline in imports was due to lower production, lower incomes earned and remittances. The deterioration of the current account balance over time, however, arose from deeper underlying structural weaknesses in Caribbean economies. Among these were the lack of competitiveness of major exports, the heavy concentration of exports in a few items and the extreme reliance on a few markets such as the United States and Europe. In addition, given the limited fiscal space, governments could not sustain stimulus packages to help shore up lagging sectors.

TABLE 10A
COMPOSITION OF THE CURRENT ACCOUNT BALANCE, 2009-2010
(Percentage of GDP at current prices)

	Balance of Goods		Balance of Services		Balance of Income		Balance of Transfers	
	2009[a]	2010	2009[a]	2010	2009[a]	2010	2009[a]	2010
Antigua and Barbuda	-44.8	-49.0 [b]	-17.1	-20.3 [b]	-5.5	-3.1 [b]	2.4	2.8 [b]
Bahamas	-24.7	-12.5 [c]	-10.1	-3.9 [c]	-2.6	-0.9 [c]	1.1	0.6 [c]
Barbados	-23.4	0.0 [b]	-4.9	0.0 [b]	-2.4	-11.3 [b]	1.1	2.2 [b]
Belize	-17.0	-1.9 [c]	-4.0	3.3 [c]	-17.3	-1.2 [c]	7.9	0.6 [c]
Dominica	-42.9	-45.9 [c]	-28.6	-32.1 [c]	3.7	-3.7 [c]	5.1	5.1 [c]
Grenada	-37.0	-39.9 [c]	-30.2	-38.6 [c]	-10.7	-7.4 [c]	6.1	6.1 [c]
Guyana	-29.5	-43.8 [c]	-36.9	…	-1.3	…	22.1	…
Jamaica	-24.0	-18.2 [d]	-18.0	-11.7 [d]	-5.2	-2.7 [d]	14.4	11.6 [d]
St Kitts/Nevis	-37.5	-37.9 [c]	-31.4	-33.7 [c]	-6.6	-3.9 [c]	5.5	5.5 [c]
Saint Lucia	-27.3	-33.6 [c]	-10.2	-10.8 [c]	-5.6	-7.0 [c]	1.3	1.7 [c]

St Vincent and the Grenadines	-40.8	-46.2 [c]	-33.1	-37.6 [c]	-2.5	-2.1 [c]	2.0	2.1 [c]
Suriname	4.4	15.3 [b]	4.4	15.9 [b]	0.2	0.3 [b]	3.7	1.6 [b]
Trinidad and Tobago	10.4	5.7 [e]	3.4	0.0 [e]	-5.8	0.0 [e]	0.3	0.0 [e]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] End of year 2009
[b] Data corresponds to the period January to June
[c] Data corresponds to preliminary estimates for 2010
[d] Data corresponds to the period January to May
[e] Data corresponds to the period January to March
… not available

TABLE 10B
CURRENT ACCOUNT BALANCE, 2009-2010
(Percentage of GDP at current prices)

	2009[a]	2010
Antigua and Barbuda	-22.9	-18.5 [b]
Bahamas	-11.6	-4.2 [c]
Barbados	-6.6	-12.5 [b]
Belize	-6.7	0.1 [c]
Dominica	-27.2	-30.6 [c]
Grenada	-34.8	-39.9 [c]
Guyana	-16.2	-22.0 [c]
Jamaica	-8.8	-2.8 [d]
St Kitts and /Nevis	-32.5	-32.2 [c]
St Vincent and the Grenadines	-33.6	-37.5 [c]
Saint Lucia	-14.5	-16.1 [c]
Suriname	8.4	17.8 [b]
Trinidad and Tobago	8.3	4.6 [e]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] End of year 2009.
[b] Data corresponds to the period January to June.
[c] Data corresponds to preliminary estimates for 2010.
[d] Data corresponds to the period January to May.
[e] Data corresponds to the period January to March.

Table 10A examines the composition of the current account balance in 2009-2010 and except for Suriname and Trinidad and Tobago, all other countries had deficits in the goods balance. In 2010, Suriname had an improvement in the merchandise trade balance on account of higher prices for some exports, Trinidad and Tobago was worse off with a smaller merchandise trade balance due to lower hydrocarbon prices. The balances on the services accounts were mixed, as some countries saw improvements while others experienced some deterioration, which reflected changes in tourism activity and financial services.

The current account balance, observed in table 10B showed some slight correction for some countries in 2010 due to significant declines in imports and lower exports. Trinidad and Tobago which accumulated large current account surpluses in previous years due to considerable periods of elevated hydrocarbon prices experienced a dip in surpluses attributed to lower hydrocarbon crisis brought about by the economic crisis. Most countries however, experienced in a widening of their current account deficits, which was not only a function of the recession but also resulted from the continual deterioration of exports in the face of increasing competition and liberalization of trade. It is useful to note that while there has been some adjustment by way of a lower deficit in 2010 for a few countries, arresting the decline will require fundamental structural reforms to increase competitiveness.

B. The capital and financial account

An examination of the capital and financial account also reflected the general decline in the overall balance of payments. A key element of the capital and financial account is the inflow of FDI. Generally in 2010 (after adjusting for a shorter time period) inward FDI continued to be much lower than in 2009.

TABLE 11
COMPOSITION OF THE CAPITAL AND FINANCIAL ACCOUNT, 2009-2010
(Percentage of GDP at current prices)

	Foreign Direct Investment		Financial Capital [a]		Capital and financial Account Balance [a]	
	2009[b]	2010	2009[b]	2010	2009[b]	2010
Antigua and Barbuda	10.7	10.3 [c]	11.2	6.6 [c]	21.5	16.8 [c]
Bahamas	8.9	4.9	5.2	3.0	14.6	7.5
Barbados	4.1	…	-1.6	…	1.3	…
Belize	7.6	1.3 [d]	2.6	-1.9 [d]	9.1	-1.7 [d]
Dominica	10.9	8.0 [c]	21.7	21.9 [c]	27.2	30.2 [c]
Grenada	16.7	14.2 [c]	22.4	24.6 [c]	34.9	36.4 [c]
Guyana	12.1	…	21.4	…	33.5	…
Jamaica	4.2	…	1.3	…	7.4	2.9 [d]
Saint Kitts and Nevis	19.8	26.4 [c]	17.7	5.6 [c]	35.1	32.1 [c]
Saint Lucia	15.3	11.4 [c]	2.6	6.8 [c]	19.3	16.9 [c]
Saint Vincent and the Grenadines	18.1	16.2 [c]	16.3	19.6 [c]	34.4	35.6 [c]
Suriname	-3.7	-4.3	3.1	-14.2	-0.7	-18.5
Trinidad and Tobago	4.0	…	-35.5	…	-31.5	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] End of year 2009.
[b] Includes errors and omissions.
[c] ECCU countries projection to the end of the year 2010.
[d] Jamaica and Belize from January to March 2010.
[e] Suriname and Bahamas from January to June 2010.
…not available

Given the significance of FDI in financing the balance of payment, these shortfalls have had a major impact on foreign exchange inflows and the level of investment. The FDI flows fell in the crisis period and this decline continued in 2010.

C. International reserves

According to available data, it appears that international reserves have increased slightly for a few countries (see table 12). However, for many countries, the global recession plus the lack of inflow from abroad have led to a reduction in international reserves. Many Caribbean economies have been assisted by inflows from IMF and other agencies which have helped to build confidence by encouraging stable currencies and limiting capital flight.

TABLE 12
INTERNATIONAL RESERVES, 2008-2010

	2008[a]	2009[a]	2010
Antigua and Barbuda	138	108.2	95.6 [c]
Bahamas	568	1,009.8	1,039.6 [b]
Barbados	753	871.2	849.4 [b]
Belize	166	213.7	222.2 [b]
Dominica	55	64.4	62.1 [C]
Grenada	105	112.4	106.7 [C]
Guyana	356	631.4	612 [b]
Jamaica	1,795	2,081	1,850 [b]
Saint Kitts and Nevis	110	122.9	121.9
Saint Lucia	143	150.6	168.9 [C]
Saint Vincent and the Grenadines	84	75.2	90.1 [C]
Suriname	433	659	638.7 [b]
Trinidad and Tobago	9,830	9,178	9,625 [b]
The Caribbean	**14,536**	**15277.8**	**…**
The Caribbean exc. TTO	**4,706**	**6099.8**	**…**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] End of period.
[b] 2nd Quarter.
[c] Data as at August 2010.

It is clear however, that the impact of slow growth and limited capital inflows will, if not addressed, create problems for countries that have accumulated large public sector debt and continue to experience significant deficits on the current account of the balance of payments.

D. International Financing

A number of countries have sought external financing through various arrangements with IMF and other IFI during 2009-2011 (see table 13). These resources amounted to over US$ 1.6 billion to be disbursed over time. These resources have assisted the Caribbean by providing balance of payments support and helping to stabilizing sagging currencies.

TABLE 13
EXTERNAL FINANCING IN THE CARIBBEAN, 2009-2011[a]

Country	Lending Programme	Loan Size and Date (US$)[b]
Saint Lucia	Rapid Credit Facility IMF	US$ 8.19 million Jan-11
Saint Vincent and the Grenadines	Rapid Credit Facility IMF	US$ 3.26 million March-11
Barbados	Loan Agreement IADB	US$ 40 million Jan-11
Saint Vincent and the Grenadines	IDA Credit WB	US$ 5 million 13-Jan-11
Dominica Republic	IBRD Loan WB	US$ 150 million 23-Nov-10
Guyana	IDA credit WB	US$ 4.2 million 14-Oct-10
Antigua and Barbuda	Standby Arrangement IMF	US$ 117.8 million 08-Jun-10
Grenada	Extended Credit Facility IMF	US$ 13.3 million 2-April-10
Jamaica	Standby Lending Facility IMF; IDB, WB, CDB	US$ 1.25 billion 04-Feb-10
Saint Lucia	Exogenous Shocks Facility, IMF	US$ 10.7 million 27-July-10
Saint Vincent and the Grenadines	Exogenous Shocks Facility, IMF	US$ 5.7 million 15-May-09

Source: Economic Commission for Latin America and the Caribbean (ECLAC) based on official figures.

[a] Figures may not reflect the total amount of external financing for the individual countries.
[b] Loan size amount does not necessarily reflect amount dispersed.

In the case of Jamaica, the funds cover structural reforms designed to put the public finances on a firm foundation, debt restructuring and reforms of the financial sector. In the case of Saint Vincent and the Grenadines, it was to assist the economy in adjusting to tourism and FDI shocks, while in Saint Lucia, it was to mitigate the impact of the recession and recovery from hurricane damage. In Antigua and Barbuda the resources are being used to restore fiscal and debt sustainability, while in Grenada it was to support an agenda of economic reforms aimed at improving growth and strengthening the private sector.

Guyana has also received considerable assistance from the international community. Although Guyana has exited the heavily indebted poor countries (HIPC) debt relief arrangement, it benefits from assistance under the multilateral debt relief initiative (MDRI) with assistance totalling US$ 730 million in the first half of 2010. In addition, project grants are an important source of inflows.

Unfortunately, the Caribbean has not approached the international community including the IFI as a group, in terms of seeking assistance to alleviate the fiscal challenges posed by the crisis and this has weakened its bargaining position.

Conclusion

The emergence of the world economic crisis exposed the structural fragility of Caribbean economies and forced many to seek external assistance from IMF and other IFI in order to adjust. Their weak fiscal situation, together with large public sector debt made the extension of their limited stimulus packages difficult. In countries where such packages came either through waivers of customs duties or expenditure policies, this increased the public debt and worsened the fiscal situation in a context of weak revenue outturn. Only a few countries were able to generate more revenue and sustain positive growth over the last two years. The cost of the crisis in 2009 was estimated at 13.2% for the region as a whole but with considerable variation across countries.

The expectations for continued growth among emerging economies may not be borne out for the Caribbean given the need for these economies to begin a process of fiscal consolidation in the short run. Countries that are part of IMF agreements have already begun this process of adjustment within the context of medium term programs. The short run forecasts are that average growth will be less than 1% in 2010 with some variation among individual countries.

Inflation in the region has been in decline except for a few countries and monetary policy has been fairly loose in trying to reduce lending rates and reduce interest rate spreads. However, private sector appetite for risk is still damp and excess liquidity has not been fooled by increasing private sector credit expansion.

Meanwhile unemployment has increased in most countries and job losses have been significant especially in tourism related activities, construction and other service related sectors including government services. Except for one or two countries, employment decline is directly tied to the decline in output due to weak international and domestic demand.

The greatest impact of the crisis was noted by the increased deficit in the current account of the balance of payments in 2008 and an adjustment in 2009 which has continued in 2010 as evidence through falling imports and exports but with imports falling more rapidly for some countries. This adjustment has had a severe impact on incomes and domestic demand and will eventually show up in increasing poverty and unemployment rates.

In the short run, the ability of the Caribbean to grow rapidly will depend on the performance of the United States and EU, due to the heavy concentration of exports in these markets. Thus, while the regional market may offer some opportunity for absorbing exports, the overall regional market is relatively small.

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