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ECONOMIC SURVEY OF THE CARIBBEAN 2009-2010

FISCAL CONSOLIDATION AND MEDIUM-TERM GROWTH

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Notes and explanations of symbols

The following symbols have been used in the present report:

Three dots (…) indicate that data are not available or are not reported separately.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals

The use of a hyphen between years, e.g. 2008-2009, signifies an annual average for the calendar years involved, including the beginning and ending years.

A slash (/) indicates a crop year, a school year or a financial year, e.g. 2008/2009

Reference to “dollars” ($) United States dollars, unless otherwise specified.

Figures and percentages in tables may not necessarily add up to the corresponding totals due to rounding.

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ABSTRACT

This survey provides an overview of the economic performance of countries of the Caribbean Community for 2009 and their outlook for 2010. The overview comprises three chapters. The first chapter provides a comparative analysis of the main macroeconomic variables, namely, GDP growth, inflation, fiscal and external accounts, and fiscal, monetary and other policies, including those devised to cope with the global economic crisis. The second chapter deals with two topics relevant to economic development in the Caribbean, as follows: threshold effects in the relationship between foreign direct investment on import productivity growth in Latin America and the Caribbean, and the question of leakages and linkages towards a tourism-based service economy in the Caribbean. The third and final chapter presents country briefs for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago, together with a subregional assessment of the eight member countries of the Eastern Caribbean Currency Union.

EXECUTIVE SUMMARY

The rapid slowdown in economic activity in the Caribbean subregion in 2009 was due to the impact of the global recession, which depressed commodity prices, travel receipts and external demand. In 2009, the economies of the more developed Caribbean countries (MDCs)[1] declined by 1.2%, led by the decline in the Bahamas and Barbados of 4.3% and 4.8%, respectively, while the Jamaican economy declined by 2.7%. Trinidad and Tobago, after experiencing dynamic growth over the period 2003-2007 due to robust oil and gas prices, also performed poorly to decline by 0.9 % in 2009.

Suriname and Guyana, primary producers of mining exports and agricultural products, had positive growth in 2009 despite declines in mining exports and sugar prices.

The impact of the crisis was felt most severely in countries of the Eastern Caribbean Currency Union (ECCU)[2], where the overall decline was 7.3%. The hardest hit was Anguilla, with a decline of 24.4% consequent on the fall in tourist arrivals, mainly from the United States market, the decline in complementary construction activities and the drying up of private investment in the face of uncertainty. Other countries to experience major declines were Saint Kitts and Nevis (9.6%), Antigua and Barbuda (8.9%), Grenada (7.6%), and Saint Lucia (5.2%). The only territory to generate incremental growth was Montserrat with a growth rate of 1%, attributed to the limited role of tourism in the economy and the significant increase in construction activities.

The aggregate cost of the crisis to the Caribbean subregion – in terms of reduced tax revenue, remittances and output, and losses from goods exports– was 13.2% of GDP. However, there was considerable variation across countries. Trinidad and Tobago topped the list with a loss of 26.9% of GDP, but Antigua and Barbuda (26.79%), the Bahamas (14.0) and Barbados (9.1%) also incurred significant losses. The results reflected the patterns of production within the Caribbean, with the main service providers suffering heavy losses due to declines in tourism and related services.

The average overall fiscal deficit in MDCs was most influenced by the sharp turnaround in the fiscal position of Trinidad and Tobago, from a surplus of 7.8% of GDP in 2008 to a deficit of 5.3% of GDP in 2009. This reversal stemmed largely from a sharp fall in energy prices, which led to a 44% decline in revenues from the energy sector. In Belize, the surplus of 1.5% of GDP in 2008 also changed to a deficit of 2.8% of GDP in 2009. This about turn also stemmed from a sharp fall in revenues linked to lower petroleum receipts in line with the fall in prices, while public spending was up by only 2%.

The fiscal deficit expanded in Barbados and the Bahamas by 2.7 and 1.7 percentage points, respectively. The Barbados deficit was propelled by countercyclical fiscal stimuli to cushion the impact on incomes and employment in the wake of the heavy impact of the global crisis on its tourism and construction sectors.

The higher deficits in 2009 were financed by increased government debt both external and domestic, which aggravated the already serious debt challenge in the Caribbean. The average public debt rose to 87.1% in 2009 from 80.3% of GDP in 2008. The debt was 180% of GDP in Saint Kitts and Nevis, 123% of GDP in Jamaica and 113.9% of GDP in Grenada. The rise in public debt in Saint Kitts and Nevis was fuelled mainly by central government expenditure (up by 5%) largely to fund current outlays on welfare-maintaining subsidies and transfers, and outlays on goods and services.

The collapse of oil and food prices on the international market from the last quarter of 2008 onwards and throughout 2009 resulted in lower annual rates of inflation in the Caribbean. Moreover, sluggish economic activity, which lowered demand and led to higher rates of unemployment, also

[1] The Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago.
[2] Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines

contributed to lower inflation. Inflation rates in MDCs shrank from 9.2%[3] in 2008 to 3.1% in 2009. Inflation declined in all MDCs with Jamaica alone maintaining two-digit inflation of 10.2%, attributable to moderate price increases in imported foods, the introduction of revenue-increasing measures such as an increase in the general consumption tax rate, and the special consumption tax on fuel. Suriname and Trinidad and Tobago recorded substantial declines, by as much as 7.9 and 13.2 percentage points, respectively, primarily due to reduced food prices and weak domestic demand. The rest of the MDCs saw modest declines in inflation, with Belize actually reporting a negative rate of inflation of 0.4%.

Inflation in ECCU countries was less of a threat. Average annual inflation was 0.7% in 2009 compared to 4.7% in 2008. Unlike MDCs, economic activity contracted more severely in ECCU, which contributed to less demand pressures and lower inflation. All countries, with the exception of Antigua and Barbuda and Dominica, reported a reduction in inflation. In Antigua and Barbuda, this was mainly due to the introduction of a partial pass-through pricing regime and a subsequent upward adjustment in the fuel surcharge. In Dominica, this was due to price increases for locally-produced fish, fruit and vegetables.

Most Caribbean countries had limited capacity to implement policies to cushion the effects of the international crisis. Given the narrow fiscal space and tightening availability of foreign private financing, during 2009 many Caribbean countries, with the exception of Suriname, and Trinidad and Tobago, relied on international financial institutions – especially the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) – for external financing. Fiscal interventions were mainly intended to increase spending to stimulate economic activity, such as in the Bahamas, Barbados and Jamaica. In the Bahamas, the government undertook a number of extraordinary fiscal measures to contain the fall in activity and to provide relief to affected workers. These included the fast-forwarding of infrastructural projects and the provision of unemployment benefits to unemployed workers.

In ECCU, a key initiative in 2009 was the Eight-Point Stabilization and Growth Programme agreed upon by its members in June. The Programme included fiscal reform, debt management and public investment, among other measures. The Eight-Point Stabilization and Growth Programme was expected to continue to guide fiscal policy in 2010.

Current account balances in MDCs recorded a deficit of 5.4% of GDP for 2009, an improvement from the 6.4% of GDP deficit of 2008. Jamaica registered the most marked improvement in the deficit of 15.7% of GDP to reach 7.4% of GDP in 2009, and Guyana followed with an improvement in the current account deficit worth 10.1% of GDP to reach 17.6% of GDP in 2009. The Bahamas saw a deterioration of 52.2% on current account in the first quarter, while Trinidad and Tobago saw a 60% year-on-year decrease. Half-year data for Barbados for 2010 showed a year-on-year widening of the current account deficit by 48%, and first quarter data from Suriname showed a deterioration on the current account of 32%.

In ECCU countries, the current account deficit was 30.9% of GDP in 2009, moving up from 40.4% in 2008. Saint Kitts and Nevis remained the only exception to this overall improvement, with a deficit expansion of 3.4% of GDP. The current account deficit was expected to contract further in 2010, as economic activity was projected to remain sluggish.

Remittances, an important source of foreign exchange to Caribbean economies, help to lower the balance of payments constraint. In 2009, Jamaica registered the largest decrease in remittances, of 12.1%. Belize followed with a decrease that registered 5.7%, and in Trinidad and Tobago, inflows from remittances fell by 5.6%. Remittances to Guyana fell by 4.7 % and to Barbados by 4.3%. Suriname suffered the smallest percentage impact with remittances falling by 1.1%.

In ECCU, a quite similar pattern emerged. Antigua and Barbuda showed the largest decrease in remittances in 2009, 5 %. Grenada and Dominica followed with decreases of 4.3 % and 4 %, respectively.

[3] Simple average

Like remittances, foreign direct investment (FDI) was an important source of foreign exchange. For MDC reporting countries in 2009, FDI averaged 8.2% of GDP. All reporting MDCs showed decreases in FDI as a percentage of GDP as a result of the global slowdown affecting international investment. For example, Belize and Trinidad and Tobago experienced lower energy investments in 2009, and the Bahamas decreases in equity investments and land purchases.

ECCU also saw a decrease in inflows of FDI from 20.9% of GDP in 2008 to 16.8% of GDP in 2009. All ECCU countries reported a decrease in FDI during 2009, except Saint Lucia which reported a marginal increase of 0.1% of GDP for the period. FDI contraction in ECCU originated from a decrease in land sales and the slowdown of externally-financed construction projects.

The forecast for growth in the Caribbean in 2010 is more optimistic than in 2009, albeit dampened by continuing difficulties in the United States of America and European Union. Growth in MDCs was anticipated to be 1.6%, with positive growth for a number of countries.

In the case of ECCU countries, the situation seems less optimistic as a number of countries are expected to face continuing negative growth. The overall projection for ECCU in 2010 is a decline of 1.8% but variations in growth between countries are also expected to be considerable.

The medium-term prospects for the Caribbean will depend on the speed of the global recovery and the extent to which pressures for fiscal consolidation at home dampen further injections into the economy. A medium-term programme of gradual adjustment and restructuring will be necessary to return many countries to a path of growth. Three recommendations may help address some of the difficulties Caribbean economies now face.

Firstly, both the persistent fiscal and current account deficit and the mounting public debt call for a programme of fiscal consolidation, but this must be pursued gradually over the medium term, so as not to disrupt investment in domestic capital which is designed to raise technical capacity.

Secondly, strategies based on pure export promotion will be unsuccessful given the new norm of lower global growth, and a possible return to protectionism, at least in the medium term. Boosting internal and regional demand through the encouragement of sustainable projects must be pursued through public-private partnerships.

Thirdly, a programme of export diversification must be pursued, in conjunction with market diversification to target emerging players in international trade. Here, greater opportunities for trade with Latin America should be sought through Caribbean Community (CARICOM).

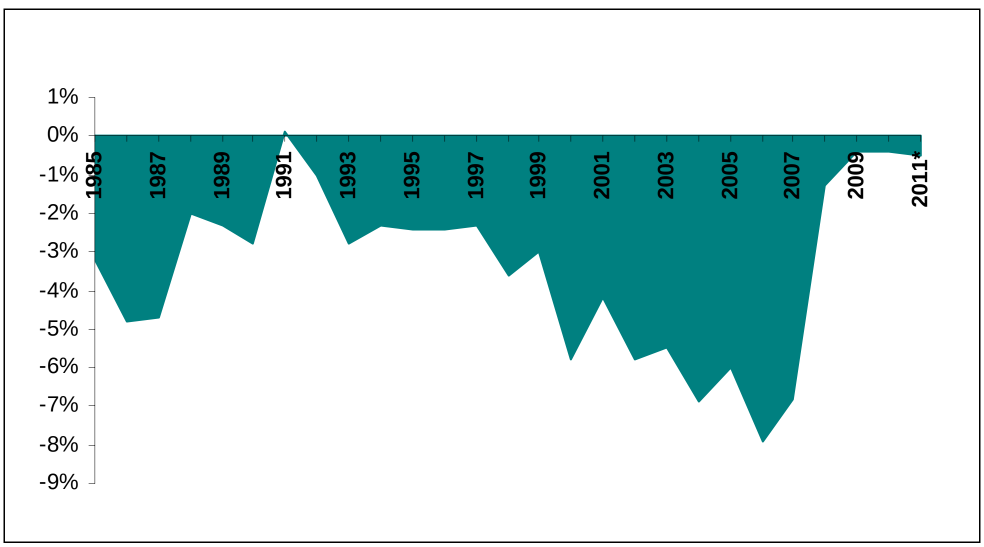
I. THE CARIBBEAN CONTEXT

This chapter presents a comparative analysis of Caribbean countries by examining the evolution of the main economic variables and the policy measures that have been implemented in 2009 and the early part of 2010. The chapter begins with a brief overview of the world economy and the emerging implications for the Caribbean. The chapter then addresses issues of output growth performance, fiscal policy and public debt, monetary policy, and inflation, and the main developments in the external sector, together with sectoral and social policies. The chapter ends with an evaluation of the overall economic performance of the Caribbean countries in 2009 and prospects for 2010.

A. THE GLOBAL CRISIS AND RESPONSES

The global economic recession had its origins in the global imbalances resulting from the flow of funds to the United States of America, which funded consumption and helped to increase global exports. Moreover, low inflation due to a strong dollar also helped to loosen monetary policy. The United States dollar being a major international reserve currency gave the United States economy asymmetrical global influence. In fact, the level of foreign exchange reserves held in United States dollars was 65% in 2005, falling only slightly to 64.1% in 2007 and to 61.5% in 2009 consequent on the rise of the Euro. The flow of funds to the United States was largely absorbed through the expansion of United States consumption, which resulted in increased imports and a corresponding increase in the fiscal and balance of payments deficit and household debt. In addition, such excess liquidity inflated asset prices and markets. The resulting crisis manifested itself in the mortgage and financial global meltdown and in the drying-up of capital, which eventually drove down growth rates for most countries that relied heavily on United States demand for their exports.

Figure 1
UNITED STATES CURRENT ACCOUNT BALANCE AS A PERCENTAGE OF GDP



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

United States consumption fuelled growth in the economy despite a decline in industrial production. This expanded the United States current account deficit which increased to 7.9% of GDP in 2006 after a surplus in 1991 (see figure 1).

The emergence of a number of other major economies, including India and China, has helped to limit the contagion from the United States economy. Nonetheless, the impact of the crisis has been widespread. A number of developed countries have employed a variety of fiscal stimulus packages in response to the drying-up of credit and the contraction of output and employment. There has been considerable cross-country variation in the scale of the fiscal packages introduced. The cumulative impact for the average Organization for Economic Cooperation and Development (OECD)[4] country implementing a fiscal package over the period 2008-2010 would be more than 2.5% of GDP, with the United States having the largest package, of 5.5% of GDP.[5]

In terms of the actual policies, a majority of countries have focused largely on tax cuts to boost spending,[6] while in other countries like the United States, the emphasis shifted from tax cuts in 2008 to spending measures in 2009. A number of OECD countries have brought forward public investment and spending programmes.[7] In addition, transfers to households, especially low-income households, have been more generous, and a number of countries have announced subsidies to the business sector.[8] It is anticipated that fiscal injection will taper off in 2010 given the impact of such packages on the fiscal deficit and their limited outcomes, due to a tendency of households and businesses to spend less and consolidate their debt obligations.[9]

The outcome of the global response has been uneven, with emerging market countries performing better than developed countries. IMF growth estimates for 2009 reported a decline in global growth of 0.6%, with developed countries declining by 3.2% and developing countries showing positive growth of 2.5% (IMF, 2010). Among developed countries, the United States economy declined by 2.4%, Japan by 5.2%, and the European Union by 4.1%. Growth among the developing countries was led by China, with a growth rate of 9.1%, and India, with 5.7%. Latin America and the Caribbean was the exception, with a decline in growth of 1.9% due to their strong trade links with markets in the United States and Europe.

IMF revised 2010 estimates upwards from earlier forecasts in April 2010, on the assumption that the crisis was abating and that the world economy was on the way to recovery. The global economy was expected to grow by 4.3% in 2010 and developed economies by a paltry 2.6% (see figure 2). Much of the robust growth was forecasted to be driven by China, which was expected to grow by 10.5%, and India, by 9.4%, both of which have the potential to expand internal demand.

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4 OECD Economic Outlook Interim Report, Chapter 3, p.105.

5 These are computed as a % of 2008 GDP.

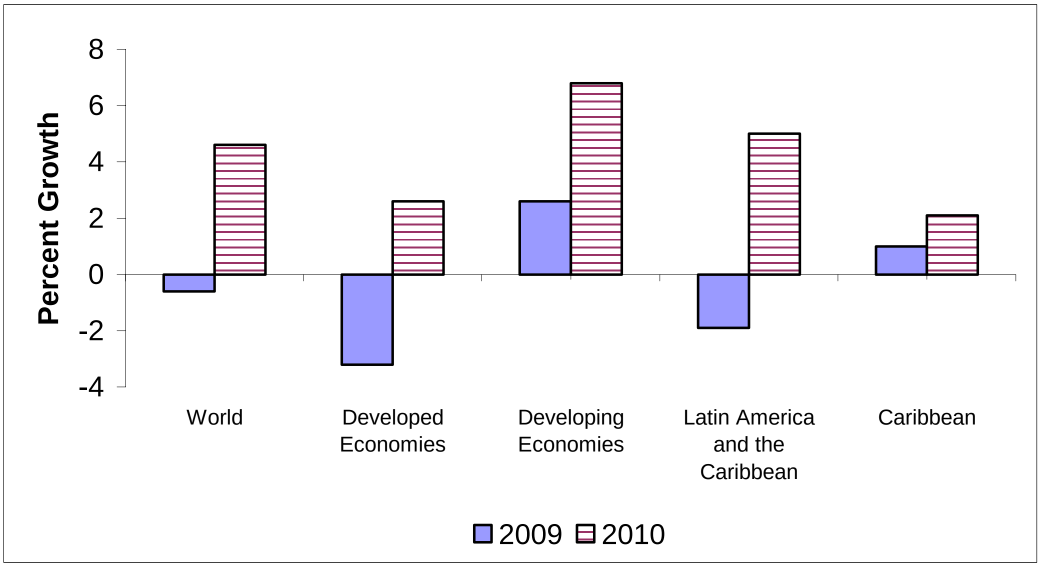
6 Japan, France, Australia, Denmark and Mexico.

7 Australia, Poland Canada and Mexico.

8 Czech Republic, Japan, Korea, Portugal, Mexico and Slovak republic.

9 Over the period 2008-2010, when net spending as a ratio of GDP in 2008 is computed, the results suggest considerable increases in fiscal deficits. For example, the weighted deficit was 3.4% for OECD and 5.6% for the United States.

Figure 2
GLOBAL ECONOMIC PROSPECTS



Source*:* IMF World Economic Outlook 2010

Growth in 2010 was anticipated to be no more than 3.3% for the United States and 1% for the European Union. The optimism for world growth is, however, dampened by a number of ongoing issues. Firstly, the declining stimulus packages may not be complemented by an immediate increase in private sector activity due to continued uncertainty and depressed demand. While there are signs of recovery in the United States, the petering out of the stimulus package in 2010, and the call for fiscal austerity measures at the State and local levels, raise strong possibilities of a double-dip recession. Secondly, credit flows to the real estate sector have not been robust and this factor has contributed to depress the labour market and employment.

The number of persons unemployed worldwide increased by 6.6% in 2009 to over 34 million. Recovery was expected to take at least 4 to 5 years to bring unemployment down to pre-crisis levels. Weak labour markets,[10] lower global demand and excess capacity are likely to usher in a protracted period of low growth. Despite this, there is optimism that world trade will pick up from the decline of 13.1% in 2009 to 7.6% in 2010 (United Nations, 2010), mostly due to the positive growth performance of developing economies.

The fourth area of considerable concern has been the emerging public debt problem in a number of developed countries and, possibly, of sovereign debt default among a number of countries in the European Union, which means that fiscal policy is likely to shift from stimulus to consolidation in 2011. Matters came to a head when concerns about Greece's fiscal position rattled global financial markets in May 2010. While the contagion has been limited especially after the announcement of a €1 trillion package by the European Union, IMF and the European Central Bank, there has been a sharp increase in risk premiums. The problem is more widespread, however, as countries such as Portugal, Ireland, Italy, Greece, Spain and a number of others also face intense fiscal stress. For example, Greece had a ratio of

[10] In the United States of America, the unemployment rate grew from 7.6% in December 2007 to 14.74% in December 2009 with those unemployed for 27 weeks or longer rising from 1.28 % to 5.90% over the same period.

gross debt to GDP of 114.9 % and a fiscal deficit of 13.6% in 2009, while the ratios for Ireland were 65.8 % and 14.3 %, and for the United States, 83.9 % and 11.2 %, respectively (see table 1).

Table 1
FISCAL DATA FOR SELECTED COUNTRIES AND AREAS, 2009

Countries/areas	Gross debt	Budget balance as % GDP
Euro area	81.8	-6.1
Finland	101.2	-6.0
Germany	77.4	-3.3
Greece	114.9	-13.6
Ireland	65.8	-14.3
Italy	123.6	-5.3
Iceland	117.6	-15.7
Japan	189.3	-7.4
United Kingdom	71.0	-11.5
United States	83.9	-11.2

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

The looming fiscal crisis may require a great deal of fiscal retrenchment in the medium term which may slow down recovery, and this has negative implications for the Caribbean whose recovery is linked to the buoyancy in European Union and North American markets. In addition, due to the high dependence on FDI by many small developing countries, dampened flows will impact investment. The outlook for 2010 and 2011 is that FDI inflows as a percent of GDP will be level at about 2% down from 3.6% in 2007 (World Bank, Global Economic Prospects 2010).

B. GDP growth performance

The global economic downturn was particularly difficult for Caribbean economies in general, although the impact varied by country and economic activity. In analysing the growth rates in 2009 (see table 2), it is useful to examine the ECCU grouping versus other CARICOM economies and to distinguish between those economies that rely heavily on services and those that are largely primary producers. In 2009, the economies of MDCs declined by 1.2%, led by declines in the Bahamas and Barbados of 4.3% and 4.8%, respectively. In the Bahamas, the decline was compounded by the softening of offshore financial-sector inflows in light of the global uncertainty. The Jamaican economy, which was beset by a number of long-standing difficulties including fiscal stress, was forced to seek balance of payments support from IMF. The economy declined by 2.7%. Trinidad and Tobago, after experiencing high average growth rate over the period 2003-2007 due to robust oil and gas prices, performed poorly to decline by 0.9 % in 2009.

Suriname and Guyana, which are largely primary producers of mining exports and agricultural products, had productive growth in 2009 despite some considerable setbacks through declines in mining exports and sugar prices.

Belize, which had also sustained positive growth of 3.6% in 2008, also failed to grow in 2009. The dramatic decline in growth for both Barbados and the Bahamas was the result of the softening of tourism and tourist-related activities and the reliance on a few markets. In the case of ECCU countries, the impact of the crisis was more severe, as the overall decline was 7.3%. The hardest hit was Anguilla, with a decline in GDP of 24.4% consequent on the fall-off in tourist arrivals (mainly from the United States market), and the decline in complementary construction activities. This figure also reflects the contraction of private investment in the face of uncertainty. Other countries to experience major declines were Saint Kitts and Nevis (9.6%), Antigua and Barbuda (8.9%), Grenada (7.6%), and Saint Lucia (5.2%). Montserrat was the only country to generate an incremental positive growth rate of 1%, due to the limited role of tourism in the economy and the significant increase in construction activities.

While overall GDP growth rates may be interesting, their sectoral compositions are particularly revealing of the uneven impact of the crisis on different sectors of the economy. Caribbean economies are characterized by two distinct structural features: the first is the considerable importance of services in some countries, and the second is the role of mining and agriculture in others. For example, in 2009 agriculture was 1.5% of GDP in the Bahamas, but 21.2% of GDP in Guyana. Likewise, mining and quarrying accounted for 10.5% of GDP in Guyana, 7.2% in Suriname, and 40.7% in Trinidad and Tobago, but only 0.7% in Grenada in 2009. In some countries, the manufacturing sector has been in structural decline.

Table 2
GDP GROWTH RATE 2003-2009
(Percentage)

	2003-2007	2008	2009
MDCs	**4.1**	**1.5**	**-1.2**
Bahamas (the)	2.5	-1.7	-4.3
Barbados	3.6	-0.2	-4.8
Belize*	3.4	3.6	0
Guyana	1.9	3.1	2.3
Jamaica	2	-0.6	-2.7
Suriname	6	4.3	2.2
Trinidad and Tobago	9.3	2.3	-0.9
ECCU	**5.1**	**2.8**	**-7.3**
Anguilla	14.9	4.5	-24.4
Antigua and Barbuda	6.8	1.8	-8.9
Dominica	2.7	3.3	-2.2
Grenada	3	2.3	-7.6
Montserrat	0.4	5.4	1
Saint Kitts and Nevis	3.6	4.6	-9.6
Saint Lucia	3.6	0.7	-5.2
Saint Vincent and the Grenadines	5.6	-0.5	-1.2

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data.
* Average: 2004-2007

Table 3 reports the sectoral growth rate for the period from 2008 to2009 for Caribbean countries. For MDCs as a whole, agricultural sector growth was positive (3.7%) in 2009 while mining and oil declined by 15.7% and manufacturing by 3.4%. Construction declined by 4.7% and services declined by 1.3%. The positive growth in agriculture has a favourable impact on unemployment, since agriculture in the Caribbean tends to be labour-intensive. With the exception of Trinidad and Tobago, and Belize, MDCs showed positive growth rates, with Jamaica leading the way with 12.1%. Much of this was due to good weather conditions and new initiatives to boost production in agriculture. The growth performance of agriculture in Guyana (2.8%) helped to boost overall growth, given the significance of agriculture to the Guyanese economy. However, the drop in the price of sugar had a negative impact on foreign exchange earnings.

The negative growth in mining in 2009 can be largely attributed to the decline in bauxite and alumina production due to falling global demand. In Jamaica, mining declined by 50.2% due to a number of plant closures in the bauxite industry and low capacity utilization in alumina production. Similarly, in Suriname, mining declined by 12%, also due to plant closure. Mining and oil in Trinidad and Tobago grew by 1.6% in 2009 relative to a -4% decline in 2008. Mining in Guyana showed positive growth of 0.7%, although down from a high of 6.1% in 2008. This was made possible by increased gold prices and a substitution to gold and diamond production to offset the fall in bauxite production. In the manufacturing sector, with the exception of Trinidad and Tobago (2.8%) and Belize (6.9%), all other countries experienced negative growth. Manufacturing in Barbados declined by 12.8% due to a weakening of both domestic and external demand.

The overall decline in construction in MDCs such as the Bahamas (18.4%), Barbados (22.6%), and Trinidad and Tobago (14.9%) was driven by weakening demand. In most instances, the decline was linked to uncertainty and the postponement of a multiplicity of construction projects. In the case of Trinidad and Tobago, a number of mega-projects came to an end. Construction in Guyana grew by 1.5%, but construction contributed only 4.6% to GDP.

The performance of the services sector was mixed in the Caribbean. Except for Guyana and Suriname, in which services were but a small share of the economy, all other countries showed some drop in performance, with the largest decline experienced by the Bahamas (8.1%). Jamaica experienced a mere 0.6% deterioration in services; however, considerable discounting occurred in order to attract tourists.

Table 3
GDP GROWTH BY ECONOMIC SECTOR
(Percentage)

	Agriculture		Mining & Oil		Manufacturing		Construction		Services	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
MDCs	**-1**	**3.7**	**6.9**	**-15.7**	**-0.6**	**-3.4**	**4.1**	**-4.7**	**2.3**	**-1.3**
Bahamas (the)	-5.8		25.6	3.8	-7	-15	-9.5	-18	1.9	-8.1
Barbados	2.9	3.6	-7.9	-37.6	-2.2	-12.8	-7.9	-23	1.4	…
Belize	1	-0.4	22.9	…	5.5	6.9	35.8	18.8	-5.1	-0.2
Guyana	-5.8	2.8	6.1	0.7	-1.9	0	8.6	1.5	8.5	2.1
Jamaica	-5.1	12.1	1.1	-50.2	-1.2	-5	-5.5	-4.6	-0.2	-0.6
Suriname	-5	5.2	4.7	-12.3	-2.6	-0.7	4.3	7.3	6.5	3.7
Trinidad and Tobago	10.7	-1	-4	1.6	5.2	2.8	3.1	-15	3.2	-4.7
ECCU	**10.3**	**5.6**	**1.4**	**-18.4**	**-3.8**	**-11.8**	**2.4**	**-26**	**2.9**	**-2.8**
Anguilla	4.3	2.1	7	-30	-2.3	-40	17.4	-60	2.4	-9.1
Antigua and Barbuda	2.7	3.6	5	-25	3	-17	5	-25	0.9	-3.7
Dominica	9.9	5	17.1	-20.9	-27.3	-9.8	17.9	-21	3.7	0.3
Grenada	11.9	9.8	-10.9	-24.9	-5	-6.5	-14.2	-50	4.6	-3.3
Montserrat	24.5	30.1	-5.1	0.5	6.6	1.5	3.3	7	5.7	-0.2
Saint Kitts and Nevis	15.1	-3.3	4.6	-36.5	3.5	-17.6	2.6	-25	3.5	-3.1
Saint Lucia	20.5	-8.5	-7.9	-2.3	1	1	-14.4	-24	2.3	-3.3
Saint Vincent and the Grenadines	-6.8	5.7	1.7	-8.4	-9.9	-5.7	1.4	-8.5	0	-0.1

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data.
… Not available

In ECCU countries, agriculture continued to do well, with a growth rate of 5.6% in 2009, down from 10.3% in 2008. All other sectors showed substantial decline in 2009; for example, mining and oil slumped by 18.4%, manufacturing by 11.8%, construction by 25.8% and services by 2.8%. Although the services sector was the main engine of growth for many of these countries, complementary activities such as construction were also affected.

All other ECCU countries – except for Saint Kitts and Nevis, and Saint Lucia – experienced positive growth in their agricultural sectors, Montserrat leading the way with a 30% increase. Agriculture, however, contributed barely 2.2% to GDP. Mining and quarrying sectors in ECCU were relatively small (less than 2% of GDP) and most countries experienced a decline consequent on low demand at home and abroad. The manufacturing sector fared no better, as most ECCU countries saw their manufacturing sectors decline. The construction sector was fairly large in most countries, contributing some 15.9% to GDP in Antigua and Barbuda, 8% in Dominica, 4.4% in Grenada and 2.7% in Montserrat. In 2009, most countries posted considerable declines except Montserrat, which posted growth of 7% due to the development of a new town.

The decline in services was consistently negative across most countries in 2009, in contrast to the positive growth benefiting most of the service economies of the Caribbean in 2008. A significant reduction in its service sector occurred in Anguilla (9.1%), and Antigua and Barbuda, Grenada, Saint Kitts and Nevis, and Saint Vincent and the Grenadines also showed declines.

The economic crisis has been severe for Caribbean economies, resulting in a decline in tourist arrivals and a dampening of international demand for exports. This has affected several macroeconomic indicators negatively, including employment, FDI and domestic investment. In order to estimate the partial cost of the crisis, the trends[11] in GDP and tax revenue were compared with the actual outcomes for 2009 (see table 4).

[11] The Hodrick-Prescott Filter is used to generate the trend.

Table 4
COSTS OF THE 2009 GLOBAL ECONOMIC CRISIS IN GDP AND TAX REVENUE

	Cost to GDP (Millions of US $ at constant 2000 prices)				Cost to tax revenue (Percentage of GDP, constant prices)		
	Actual	Trend[a]	Difference	Percentage[b]	Actual	Trend[a]	Difference
Antigua and Barbuda	950.8	1020.1	-69.3	-7.3	18.8	22.8	-4
Bahamas (the)	5732	6024.7	-292.7	-5.1	15.2	16.4	-1.2
Barbados	2782.1	2910.1	-128	-4.6	32.3	34.8	-2.4
Belize	1189.4	1230.4	-40.9	-3.4	..	..	..
Dominica	312.1	313.1	-1	-0.3	31.4	31.2	0.2
Grenada	459.4	495.8	-36.3	-7.9	22.5	25.3	-2.9
Guyana	862.1	844.3	17.8	2.1	21.6	20.7	0.8
Jamaica	9922.9	10262.2	-339.3	-3.4	27	26.5	0.5
Saint Kitts and Nevis	411.3	436.6	-25.3	-6.2	25.7	29.4	-3.7
Saint Lucia	803.1	850.8	-47.7	-5.9	28.4	28.5	-0.1
Saint Vincent and the Grenadines	465.9	480.8	-14.8	-3.2	27.2	28.5	-1.3
Suriname	1380.8	1371.2	9.6	0.7	..	..	..
Trinidad and Tobago	14628.7	15134.6	-505.9	-3.5	14.1	14.1	0
Caribbean(**c**)	39900.7	41374.6	-1473.9	-3.7	24	25.3	-1.3

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) calculations on the basis of official data

[a]. Trends calculated using the Hodrick-Prescott Filter

[b]. Of GDP, 2009

[c]. In tax revenue corresponds to simple average

... not available

With respect to real GDP losses, results varied by type of economy and resilience to shocks. Except for Guyana and Suriname whose growth rates were above trend, all other Caribbean economies sustained losses in output. The service dependent economies have been the most severely hit by the crisis, among which were Grenada, with a loss of 7.9% of GDP in 2009, Antigua and Barbuda, 7.3%, and Saint Kitts and Nevis, 6.2%. Other major service economies, such as the Bahamas, also saw a considerable loss of GDP of some 5.1% due to declines in tourism receipts, construction and offshore financial services.

The decline in economic activity and the need to employ counter-cyclical fiscal measures resulted in the deterioration of the public finance in many Caribbean countries. Some countries have experienced considerable revenue losses. When real tax revenue was examined in relation to the trend in revenue, Saint Kitts and Nevis and Antigua and Barbuda sustained losses of 3.7% and 4.0% of GDP, respectively, while a few other countries experienced much smaller losses. In Guyana, the government actually gained additional revenue, raised through public corporations due to strong economic performance.

For countries for which data were available, losses were also sustained with respect to tourism receipts and remittances (see table 5).

Except for Jamaica, most countries sustained losses to tourism receipts of between 3.7% and 1.5% of GDP, while the average loss overall to the Caribbean was 2.3%. In the case of remittances, Guyana suffered a loss of 4.3% while the loss for Jamaica was smaller. Given the fact that remittances in both jurisdictions were fairly large, these losses have impacted on foreign exchange inflows. In Jamaica, remittances have become the largest source of foreign exchange.

The decline in exports of goods and the fall-off in FDI in 2009 (see table 6) have been two additional sources of loss. The average total loss in exports of goods as a share of GDP was 3.4% but there was considerable variation within the Caribbean subregion. Trinidad and Tobago sustained losses of 23.3% of GDP.

Table 5
COSTS OF THE GLOBAL ECONOMIC CRISIS IN TOURISM AND REMITTANCES, 2009
(Percentage of GDP at current prices)

	Tourism receipts			Remittances		
	(Percentage of GDP, constant prices)			(Percentage of GDP, constant prices)		
	Actual	Trend(a)	Difference	Actual	Trend(a)	Difference
Antigua and Barbuda	27.8	30.9	-3.1	2.2	2.5	-0.2
Bahamas (the)	26.3	30	-3.7	…	…	…
Barbados	…	…	…	4.1	4.1	0
Belize	…	…	…	5.2	5.7	-0.5
Dominica	18.1	20.4	-2.3	7.7	8.7	-1
Grenada	16.1	17.6	-1.5	10	10.9	-1
Guyana	…	…	…	21.2	25.5	-4.3
Jamaica	15.6	15.3	0.3	15.6	17.4	-1.8
Saint Kitts & Nevis	…	…	…	…	…	…
Saint Lucia	31	33.5	-2.5	…	…	…
Saint Vincent & the Grenadines	15	18.3	-3.4	…	…	…
Suriname	…	…	…	0.1	1.4	-1.3
Trinidad & Tobago	…	…	…	0.5	0.5	0
Caribbean(**c**)	21.4	23.7	2.3	7.4	8.5	-1.1

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) calculations on the basis of official data
... not available

Table 6

COSTS OF THE GLOBAL ECONOMIC CRISIS IN EXPORTS OF GOODS AND FOREIGN DIRECT INVESTMENT, 2009

(Percentage of GDP at current prices)

	Exports of goods			Foreign direct investment		
	Actual	Trend[b]	Difference	Actual	Trend[b]	Difference
Antigua and Barbuda	6.5	7.3	-0.8	11.8	23.1	-11.3
Bahamas (the)	9.1	11.4	-2.3	8.9	10.6	-1.8
Barbados	9.7	11.7	-2.0	…	…	…
Belize	27.2	32.9	-5.7	6.8	11.0	-4.2
Dominica	10.1	10.5	-0.4	13.9	14.1	-0.2
Grenada	6.3	5.8	0.5	14.8	21.7	-6.9
Guyana	61.3	62.3	-1.0	13.1	12.3	0.8
Jamaica	11.2	15.7	-4.4	…	…	…
Saint Kitts and Nevis	10.9	12.2	-1.2	25.4	30.1	-4.8
Saint Lucia	19.2	16.0	3.2	16.4	21.0	-4.6
Saint Vincent and the Grenadines	9.4	8.8	0.5	18.8	21.5	-2.7
Suriname	61.7	69.0	-7.3	…	…	…
Trinidad and Tobago	41.3	64.6	-23.3	…	…	…
Caribbean[c]	21.8	25.2	3.4	14.4	18.4	-4.0

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) calculations on the basis of official data

[a] Preliminary figures.

[b] Calculated using the Hodrick-Prescott filter

[c] Simple average

... not available.

Table 7

COSTS OF THE GLOBAL ECONOMIC CRISIS IN REAL GDP, TAX REVENUE AND FOREIGN EXCHANGE

	Real GDP (percentage)	Tax revenue (percentage of GDP)	Foreign exchange receipts (percentage of GDP)	Summary impact (percentage of GDP)
Antigua and Barbuda	-7.3	-4	-15.4	-26.7
Bahamas (the)	-5.1	-1.2	-7.8	-14
Barbados	-4.6	-2.4	-2	-9.1
Belize	-3.4	…	-10.3	-13.7
Dominica	-0.3	0.2	-4	-4.1
Grenada	-7.9	-2.9	-8.9	-19.7
Guyana	2.1	0.8	-4.5	-1.6
Jamaica	-3.4	0.5	-5.9	-8.8
Saint Kitts and Nevis	-6.2	-3.7	-6	-15.9
Saint Lucia	-5.9	-0.1	-4	-10
Saint Vincent and the Grenadines	-3.2	-1.3	-5.5	-10
Suriname	0.7	…	-8.7	-8
Trinidad and Tobago	-3.5	0	-23.4	-26.9
Caribbean[b]	-3.7	-1.3	-8.2	-13.2

Source*:* ECLAC calculations on the basis of official data

[a] Losses in tourism receipts plus losses in remittances plus losses in merchandise exports.

[b] Simple average in tax revenue and foreign exchange receipts.

… not available.

Other countries with significant losses in goods exports were Suriname (7.3%), Jamaica 4.4%, Guyana (1.0%), and Belize (5.7%). With respect to FDI, total average loss to the Caribbean subregion was 4.0%.

Given the lack of data for some countries, aggregate losses are perhaps lower than actual losses (see table 7). The total impact was 13.2% for the subregion, with considerable variation across countries. Trinidad and Tobago tops the list due to a decline in goods exports, but significant losses also occurred in Antigua and Barbuda (26.7%), the Bahamas (14.0%), and Belize (13.7%). The results reflected the patterns of production within the Caribbean with the main service providers suffering heavy losses due to the decline in tourism and related activities.

C. Fiscal policy and public debt

Contagion arising from the global recession impacted CARICOM countries in 2009, leading to declines in both growth and government revenues in most countries. Caribbean fiscal deficit[12] expanded from 2.7% of GDP in 2008 to 4.3% of GDP in 2009. The backlash from poor trade performance underscored the relationship between the current account deficit and the fiscal deficit.[13] Weak export performance meant that the external current account deficit was an important contributor to the fiscal deficit (through reduced revenues), especially for countries depending on taxes on tradable activities such as tourism, and taxes and royalties on minerals (Hashemzadeh and Wilson, 2006).

In 2009, the current account deficit actually declined, while the fiscal deficit expanded. However, the lower current account deficit stemmed from import compression due to the slowdown in activity, rather than growth in exports.

A number of factors suggest a possible link between current account performance and fiscal performance. In the first place, openness in the Caribbean means that growth and fiscal revenues are very dependent on trade performance. Therefore, any deterioration in trade performance tends to lead indirectly through lower growth to a weakened fiscal position. In the second place, worsening export performances occasioned by the removal of preferences for primary commodities, and loss of competitiveness in tourism, were important contributors to higher deficits and debt in a number of countries. These factors not only squeezed government revenues, but also led to the state taking the role of economic stimulator and employer of last resort, in the wake of a weak private sector response.

Fiscal performance in 2009 varied according to the structure of individual economies. Revenues in service-based economies were affected by the sharp downturn in tourism, while revenues of primary producers of agricultural and mineral commodities were squeezed by the decline in international prices. As a consequence, most governments pursued some level of counter-cyclical fiscal stimulus in 2009 to cushion the fall out in economic activity and to maintain the welfare of their citizens.

As widening fiscal deficits and rising debt levels threatened medium-term stability and growth, countries have had to revert to fiscal consolidation at a time when the countercyclical stimulus should have been maintained to foster growth and social well-being. Countries such as Jamaica and Antigua and Barbuda have adopted formal IMF programmes to lock in a programme of fiscal consolidation and debt management in order to return to long-term debt sustainability. Other countries – such as Barbados, the Bahamas and Belize – have undertaken home-grown adjustments to boost revenues, including the containment of growth in current spending especially on wages and salaries, and improved tax administration and collection.

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[12] The fiscal deficit includes grants

[13] The balance of payments constrained growth framework suggests that the fiscal deficit is constrained by the current account deficit, otherwise a country would accumulate unsustainable levels of debt.

The fiscal performance of Caribbean countries in the first quarter of 2010 was varied (for countries with data). The deficit has declined in a number of countries, including the Bahamas, Barbados and Suriname, reflecting efforts at consolidation to contain the rise in debt levels. In Jamaica, however, despite attempts to contain it, the deficit has risen.

The fiscal deficit increased from 2.5% of GDP in 2008 to 3.6% of GDP in 2009, reflecting the expansionary fiscal stance in the subregion. The fiscal deficit only declined in two countries (Guyana and Dominica). The average deficit for the Caribbean was driven by higher current expenditure (up from 26.2% of GDP in 2008 to 28.5% of GDP in 2009), as capital spending declined from 7.3% of GDP to 6.9% of GDP over the same period (see table 8). This implies that fiscal adjustment in most countries was taking place on the capital side of the budget. Meanwhile, interest costs rose marginally to 4% of GDP, reflecting in part higher borrowing by a number of countries.

Table 8
CARIBBEAN: CENTRAL GOVERNMENT FISCAL EXPENDITURE BY CATEGORIES
(Percentage of GDP)

	Percentage of GDP								
	Current expenditure			Capital expenditure			Interest		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
MDCs	**25.2**	**25.5**	**28.7**	**5.6**	**5.4**	**5.9**	**4.1**	**4**	**4.6**
Bahamas, (the)	18	19	19.3	2.2	2.3	2.2	1.9	2	2.2
Barbados	33.7	37.3	40.7	2.9	3.5	3.5	4.6	5.6	6
Belize	24.8	22.7	24.4	6.3	5.2	4.2	5.3	3.9	3.6
Guyana	18.4	20	19.5	12.2	9.2	11.4	1.8	1.7	1.6
Jamaica	28.3	30.5	33.3	4.6	4.1	3.7	11.4	12.3	14.6
Suriname	32.6	27.6	35.2	5.9	7.4	10.1	1.9	1	1.5
Trinidad and Tobago	20.6	21.4	28.2	5.4	5.9	6	2	1.8	2.6
ECCU	**26.1**	**26.8**	**28.3**	**9.5**	**9.3**	**8**	**3.8**	**3.6**	**3.4**
Antigua and Barbuda	24	23.6	24.9	6.4	6.9	5.9	3.3	3.2	1.6
Dominica	28.7	29.2	28.4	12.1	15.2	14.9	3	2.4	1.4
Grenada	21	22.6	25.1	12.8	11.7	7.1	2	1.9	2.7
Saint Kitts and Nevis	36.1	34.8	36.7	8.2	6.6	5.3	8.4	8.4	8.3
Saint Lucia	21.2	23.2	25	8.4	6.8	7.8	3.1	2.9	3.5
Saint Vincent and the Grenadines	25.3	27.5	29.4	8.8	8.3	6.7	3	3	3
Average	**25.6**	**26.2**	**28.5**	**7.5**	**7.3**	**6.9**	**4**	**3.8**	**4**

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

Both primary producers and service-based economies were affected by the deteriorating fiscal position. The slowdown in global demand on both tourism and financial services, and agricultural commodities and minerals, had a negative impact on government revenues. The larger increases in deficit were recorded by some of the smaller –and already severely fiscally challenged– ECCU members. For instance, the biggest increase in the deficit (by 10.6 percentage points) was recorded in Anguilla, owing mainly to severe challenges to tourism and other sectors (see table 9). Relatively large increases in their deficit were also registered in Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines (3.8, 2.3 and 2.3 percentage points, respectively). All three countries experienced a decline in revenues, with a particularly steep fall of 22.5% in Antigua and Barbuda, consequent on the sluggish demand for both tourism services and bananas. Moreover, government expenditure rose in Saint Lucia as well as in Saint Vincent and the Grenadines, as both governments attempted to stimulate activity and curtail the rise in unemployment.

Table 9
FISCAL BALANCE AND PUBLIC DEBT
(Percentage of GDP)

	Fiscal balance[b14]			Public debt[a]	
	2003-2007	2008	2009[p]	Foreign	Domestic
MDCs[c]	**-2.1**	**-1.6**	**-4.2**	**35.8**	**40.2**
Bahamas (the)*	-1.8	-1.7	-3.4	10.4	47.0
Barbados	2.3	-5.7	-8.4	42.5	76.4
Belize	-5.3	1.5	-2.8	75.0	12.2
Guyana*	-10.0	-5.2	-5.1	52.4	36.7
Jamaica	-4.3	-7.3	-7.2	54.2	69.1
Suriname	1.2	2.3	3.5	10.4	14.6
Trinidad and Tobago	3.4	7.8	-5.3	5.9	25.2
ECCU[c]	**-1.0**	**-3.8**	**-4.3**	**42.2**	**40.6**
Anguilla	-1.4	-3.2	-13.8	8.9	25.1
Antigua and Barbuda	-1.1	-6.8	-10.6	40.2	55.6
Dominica	-0.1	-3.2	-2.7	59.1	28.0
Grenada	3.3	-6.1	-6.2	82.9	31.0
Montserrat	-5.6	-9.8	4.2	6.1	0.4
Saint Kitts and Nevis	-5.0	-0.3	0.7	57.5	122.4
Saint Lucia	5.3	-0.2	-2.5	39.1	34.8
Saint Vincent and the Grenadines	-3.1	-0.8	-3.1	43.5	27.3

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data
[a] End of period, 2009
[b] Annual average
[c] Simple average
[p] Preliminary figures
[*] Re-based GDP

The average fiscal deficit in MDCs was most influenced by the sharp turnaround in the fiscal position of Trinidad and Tobago, from a surplus of 7.8% of GDP in 2008 to a deficit of 5.3% of GDP in 2009. This reversal stemmed largely from the sharp fall in energy prices, which led to a 44% drop in revenues from the energy sector, highlighting the volatility and pro-cyclicality of fiscal performance in small, resource-based, open economies. Nevertheless, with the rebound in energy prices in 2010, the fiscal situation of Trinidad and Tobago should improve, allowing the government to maintain a number of capital and social programmes. In Belize, the surplus of 1.5% of GDP in 2008 also changed to a deficit of 2.8% of GDP in 2009. This reversal stemmed partially from a sharp fall in revenues linked to lower petroleum receipts, and limited public spending, up by only 2%.

Among other MDCs, the fiscal deficit expanded in Barbados and the Bahamas, by 2.7 and 1.7 percentage points, respectively. The Barbados deficit was propelled by fiscal stimulus measures to cushion the impact of the crisis on incomes and employment. The Bahamas also undertook countercyclical spending, including unemployment relief which, in the context of a sharp fall in revenues, led to growth in government debt. Fiscal consolidation —including cuts in the salaries of government ministers, and in outlays on goods and services— brought down the Bahamas fiscal deficit to 2.4% of

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[14] The fiscal deficit indicated here is the overall deficit, which is equal to total revenue less total expenditure, including interest payments on the debt.

GDP in the first five months of 2010. In Barbados, the deficit in the first five months of 2010 was cut to 8.6%, relative to the same period in 2009. This decrease was also achieved through fiscal consolidation, including cuts in the wage bill (6%) and in government purchases (14.6%).

Guyana's fiscal deficit declined slightly, from 5.2% of GDP in 2008 to 5.1% of GDP in 2009, while that of Jamaica declined from 7.3% of GDP in 2008/2009 to 7.2% in 2009/2010. In Guyana, the marginal improvement stemmed from higher tax receipts, partly due to the re-imposition of the excise tax on fuel. Expenditure was also up, driven by growth-inducing investment expenditure.

Although the government of Jamaica had programmed a sizeable reduction in spending, the fiscal deficit only declined marginally to 7.2% of GDP in 2009. Fiscal adjustment was hampered by the shortfall in revenue, owing in part to the recessionary conditions.

The performance of Jamaica in fiscal year 2010/2011 will be influenced by the Standby Agreement signed with IMF in February 2010. Fiscal consolidation centred on the rationalization of the public sector, especially expenditure management and divestment of loss-making bodies, is a primary goal. The package also includes some austerity measures, including cuts in subsidies for higher education and a freeze on public sector wages, deemed necessary to attain a sustainable fiscal position that would help to bring down interest rates, reduce crowding-out of private productive investment, and contain debt-servicing costs. In June 2010, Jamaica met IMF targets, which made the country eligible for a drawdown of US$ 94 million**.**

The fiscal situation in Suriname improved, with the overall surplus rising to 3.5% of GDP in 2009, compared with 2.3% of GDP in 2008. Revenues were bolstered by dividends from the State oil company and higher royalty payments from gold production, owing to above-average prices. Nevertheless, a large fiscal deficit of 15% of GDP had been projected for 2010, propelled by increased spending on a public sector wage-reform programme and lower revenues from oil. However, the fiscal deficit fell to 0.4% of GDP in the first quarter of 2010, compared to 1.5% of GDP in 2009, amidst sharp growth in revenues and slower growth in expenditure.

Higher deficits in 2009 led to increased external and domestic government debt which aggravated the already serious debt challenges in the Caribbean. Average public debt rose to 87.1% of GDP in 2009, from 80.3% of GDP in 2008. The debt in Saint Kitts and Nevis was 180% of GDP, in Jamaica, 123% and in Grenada, 113.9% of GDP. The increase in public debt in Jamaica reflected a decline in revenues in line with weakened activity, and higher outlays, wages and salaries.

Growth in public debt in Grenada was fuelled by borrowing for countercyclical spending, infrastructure projects and social welfare programmes to cushion the impact on the population of the slowdown in activity.

Dominica was the only country to experience a marginal decline in public debt, as the strong performance of the Value Added Tax (VAT) allowed the government to maintain countercyclical capital spending without reverting to increased borrowing. In most other countries, higher debt was spurred by stimulus spending to cushion the slowdown in growth and its impact on vulnerable groups in the wake of the effects of the global recession. In the Bahamas, the debt level in 2009 surpassed the threshold of 50% of GDP for the first time, as the government was forced to bear the brunt of stimulus activity in a climate of weak private-sector investment. Meanwhile, for the first half of 2010, public debt in the Bahamas rose very slightly to B$ 3,393.7 million, underscoring the effects of the consolidation programme. Given the potential for growth in the debt to fuel higher interest rates – that not only crowd out private investment, but also complicate monetary policy in some countries– a number of countries have programmed medium-term fiscal consolidation to bring down their debt to sustainable levels.

D. INFLATION, MONETARY POLICY AND THE FINANCIAL SECTOR

In 2009, inflationary pressures were not as worrisome as in 2008 when oil and food prices had risen steeply. This decline in oil and food prices on the international market from the last quarter of 2008 onwards, and throughout 2009, resulted in lower annual rates of inflation in the Caribbean. Moreover, sluggish economic activity which lowered demand and led to higher rates of unemployment[15] also contributed to this result. Inflation lessened in MDCs, declining from 9.2%[16] in 2008 to 3.1% in 2009. As table 10 indicates, inflation declined in all MDCs with only Jamaica maintaining two-digit inflation of 10.2%, attributable to moderate price increases in imported foods, the introduction of revenue- increasing measures such as an increase in the general consumption tax rate, and a special consumption tax on fuel. Substantial declines were recorded in Suriname and Trinidad and Tobago by as much as 7.9 and 13.2 percentage points respectively, primarily due to reduced international food prices and weak domestic demand. The rest of the MDCs saw modest declines in inflation, with Belize actually reporting a negative rate of inflation of 0.4%.

In the ECCU, the rate of inflation increased by 0.7% in 2009 compared to 4.7% in 2008, far less than the rates for the comparable period in MDCs. Economic activity contracted more severely in ECCU countries than in MDCs, which contributed to less demand pressures and lower imported inflation. Inflation was also dampened as a result of lower imported inflation. As table 10 illustrates, all countries – with the exception of Antigua and Barbuda, and Dominica – reported a reduction in inflation. In Antigua and Barbuda, this was mainly due to the introduction of the partial pass-through pricing regime and the subsequent upward adjustment in the fuel surcharge, and in Dominica to price increases for locally produced fish, fruit and vegetables. Anguilla, Grenada, and Saint Vincent and the Grenadines reported negative inflation rates of 0.8%. 2.4% and 1.6%, respectively, reflecting the declining trend of global commodity prices.

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15 Unemployment increased in the Bahamas, Barbados, Belize, Jamaica, and Trinidad and Tobago.

16 Simple average

Table 10
INFLATION, 2003-2009
(Percentage)

	Inflation rate [a]			
	2003-2007	2008	2009[p]	2010[d]
MDCs	**6.7**	**9.2**	**3.1**	**4.5**
Bahamas (the)	2.1	4.6	1.6	1.2
Barbados	4.5	8.1	3.6	3.4
Belize	3.4	4.4	-0.4	0.1
Guyana	7.4	6.4	3.6	0.5
Jamaica	12.7	16.9	10.2	6.2
Suriname	10.2	9.4	1.5	6.3
Trinidad and Tobago	6.5	14.5	1.3	13.7
ECCU	**3.6**	**4.7**	**0.7**	**0.8**
Anguilla	5.8	5.3	-0.8	0.8
Antigua and Barbuda	2.5	0.7	2.4	0.4
Dominica	2.8	2	3.3	0.8
Grenada	3.8	5.2	-2.4	4.5
Montserrat	2.6	4.5	2.5	0.3
Saint Kitts and Nevis	4.2	7.6	1	-1.9
Saint Lucia	3.1	3.8	1	2
Saint Vincent and the Grenadines	3.8	8.7	-1.6	-0.5

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

[a] December to December
[b] Annual average
[c] Simple average
[d] March – June 2010
p preliminary

Data available for the first half of 2010 indicated increased inflation for both MDCs and ECCU (though a very small increase). In Jamaica, at the end of May 2010, inflation was reported at 6.2% compared to 2.6% for the same period in 2009. This increase was due to the increase in the cost of public transportation in some areas, in addition to the implementation of tax measures. In Trinidad and Tobago, at the end of June 2010, the inflation rate was reported at 13.7% compared to 8.4% in June 2009, mainly reflecting a 31% increase in food prices, due to recent floods and the severe drought in the earlier months of the year 2010 which hampered crop production in some key agricultural districts. In ECCU, Grenada saw a substantial increase in inflation, from minus 1.8% in March 2009 to 4.5% in March 2010, mainly due to the impact of the introduction of a 15% VAT.

Given the easing of inflationary pressures in 2009, central banks in the Caribbean took steps to maintain the fixed and quasi-fixed exchange rate regimes and manage liquidity in the financial system. Table 11 lists the aims of monetary policy and monetary measures implemented during the period for selected countries.

Monetary policy remained neutral in all MDCs with the exception of Belize, Jamaica and Trinidad and Tobago. The Central Bank of Belize implemented the first phase of its monetary policy reform geared at improving liquidity in the banking system. In Jamaica, in the first quarter of 2009, the authorities pursued a tight monetary policy to maintain stability in the financial markets, especially the containment of demand pressures in the foreign exchange market which could have fuelled a sharper depreciation in the exchange rate.

However, given the measures implemented, and favourable trends in inflation, balance of payments and foreign exchange rate against the dollar, the bank adopted a less restrictive monetary policy stance in the last quarter of 2009. In Trinidad and Tobago, the authorities adopted an expansionary monetary policy to stimulate economic activity by recalibrating the Repo[17] rate eight times during the period.

In ECCU, monetary policy was also neutral as there were no changes in the main policy instruments, such as the discount rate and the reserve requirement, which remained at 6.5% and 6%, respectively.

In January 2009, Colonial Life Insurance Company Ltd. (CLICO), a major insurance company and the largest local conglomerate in the Caribbean, collapsed due to excessive related-party transactions, among other reasons (ECLAC, 2009). Consequently, British American Insurance Company Ltd. (BAICO), a subsidiary of CLICO, also collapsed. During 2009, the authorities sought to minimize losses to policyholders. Box 1 gives a synopsis of the actions taken during 2009/2010 with respect to CLICO. BAICO, which had a substantial presence in the Eastern Caribbean, was placed under judicial management in all ECCU member countries and in the Bahamas. In May 2010, the judicial managers for the Eastern Caribbean, except Dominica, completed the transfer of BAICO property insurance to Caribbean Alliance Insurance Company. In addition, the proposal for the formation of a new entity that would take up some of the business of BAICO was approved by the courts.

Table 11
CHANGES IN MONETARY POLICY

Country	Aim	Policy measures
Belize	Liquidity management	Liberalization of the short-term yield on treasury bills and establishment of a ceiling of 11% on the interbank lending rate.
Jamaica	Restore foreign exchange stability and contain inflation	In the first quarter of 2009, the central bank increased the cash reserve requirement of commercial banks by 3 percentage points to 14% to reduce liquidity in the banking system which absorbed J$ 6.2 billion from the system. In the last quarter of 2009, the central bank reduced the interest rate payable across the spectrum of its open market operation securities by 450 basis points
Trinidad and Tobago	Stimulate economic activity	Repo rate was adjusted eight times, from 8.75% in February to 5.25% in December. The rate was further reduced in January 2010 to 5%. The central bank tried to absorb liquidity through the sale of foreign exchange that exceeded TT$ 10 billion and central government bond issuance. Commercial banks deposit TT$ 2 billion in interest-bearing accounts at the central bank.

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

[17] Reference interest rate

Box 1
THE BAILOUT OF CLICO IN TRINIDAD AND TOBAGO AND ITS DOMINO EFFECT

Country/Group of countries	Actions adopted in 2009/ 2010
Bahamas (the)	In April 2009, the Court ordered that CLICO Bahamas Ltd. be wound up and a liquidator appointed. At the end of May 2009, the Government announced that it would guarantee CLICO Bahamas in order to facilitate the sale of CLICO assets. Currently, in June 2010, the liquidation is in process.
Barbados	In April 2009, the Central Bank agreed to participate in the establishment of a Caribbean subregional "Liquidity Support Fund" to rescue CLICO subsidiaries in smaller Caribbean countries. In May 2009, CLICO Holdings Ltd. signed a Memorandum of Understanding with the Barbados Government for the establishment of an Oversight Committee to manage the sale of the regulated entities. In June 2010, CLICO Mortgage Finance Company was acquired by the Barbados Public Workers Cooperative Credit Union Ltd. The Oversight Committee recommended that CLICO International Life and CLICO General Insurance companies be placed under Judicial Management.
Belize	In March 2009, the Government took judicial control of CLICO Belize through the Supervisor of Insurance. In August 2009, 11,000 life and health policies were transferred to RF&G Life Insurance company of Belize.
Guyana	In February 2009, the Government took judicial control of CLICO Guyana In early April, it was announced that the Government would allocate up to US$ 34 million over a 10-year period in order to guarantee CLICO Guyana policyholders and investors In June 2009, the Government announced that it would allow the sale of CLICO Guyana assets to ensure that policyholders and investors got some of their funds back.
Suriname	In late March 2009, the Central Bank announced that it was monitoring the status of CLICO Suriname operations closely to protect policyholders' interests. In January 2010, CLICO Suriname was acquired by Self Reliance, a local insurance company.
Trinidad and Tobago	In April 2009, the Government announced that it would be spending around TT$ 5 billion (3% of 2008 GDP) during the following two years in the bailout. In addition, the Central Bank agreed to participate in a Caribbean subregional "Liquidity Support Fund" to rescue CLICO subsidiaries in the smaller Caribbean countries. In October 2009, the Government announced that there would be no sale of CL Financial assets at that time because it would result in major financial losses of the assets of the conglomerate. In April 2010, a new Chairman was appointed and, in July 2010, a three- member commission to appraise the operations of CL Financial Group was also appointed.
ECCU	In April 2009, the Eastern Caribbean Central Bank agreed to participate in a regional "Liquidity Support Fund." In May/ June 2010, CLICO mandated a discontinuation in the issue of new policies in Dominica and Grenada.
CARICOM	In March 2009, it was agreed that the CLICO crisis was an issue that demanded concerted action, thereby approving the creation of a "College of Regulators" formed by representatives from Caribbean Community Central Banks to assess the challenges created by the global financial crisis and the subsequent CLICO debacle, monitor and counteract the problems generated, and provide proposals to integrate and improve financial regulation in the subregion.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Economic Survey of the Caribbean 2008-2009, Port of Spain, October, and updates from the Caribbean Centre of Money and Finance, Newsletter, November 2009.

There were minor fluctuations in market interest rates in 2009 (see table 12). The loan rate in MDCs remained unchanged at 13.6%,[18] while the deposit rate declined marginally by 30 basis points to 4.2%. There was a less than 1% decline in the loan rate in Barbados, Belize and Suriname and small increases in the other MDCs. Deposit rates were also less volatile, decreasing in all MDCs, except Jamaica, which saw an increase by 60 basis points. The largest variation in market rates was reported for

[18] Simple average

Barbados, reflecting the high level of liquidity in the banking system. Given the stickiness of market rates, interest rate spreads[19] increased marginally by 40 basis points to 9.4% in 2009. The interest rate spreads reported for MDCs tended to be higher than those of both the United States (1.3%) and the United Kingdom (2.9%)[20] and reflected high operating costs. For example, interest rate spreads in Guyana and Jamaica for 2009 were 11.2% and 16.8%, respectively. In Guyana, this was due to the excess of interest payments on liabilities over assets, while in Jamaica, interest rate spreads have been historically high due to high operating costs and inflation (Robinson, 2000).

Table 12
LIQUIDITY AND INTEREST RATES, 2008-2009

	Loan rate		Deposit rate		Interest rate spread[a]		M3/GDP [b]	
	2008	2009	2008	2009	2008	2009	2008	2009
MDCs [c]	**13.6**	**13.6**	**4.5**	**4.2**	**9.0**	**9.4**	**63.1**	**67.2**
Bahamas (the)	11.0	11.7	3.9	3.8	7.1	7.9	89.1	89.1
Barbados	10.3	9.5	4.1	2.7	6.2	6.8	105.5	109.2
Belize	14.2	14.0	6.2	6.1	8.0	7.9	72.4	74.6
Guyana	13.9	14.0	3.1	2.8	10.8	11.2	78.0	79.0
Jamaica	22.3	22.5	5.1	5.7	17.2	16.8	29.9	27.6
Suriname	12.0	11.6	6.3	6.2	5.7	5.4	31.4	41.6
Trinidad and Tobago	11.2	11.9	3.0	2.2	8.2	9.7	35.7	49.6
ECCU [c]	**9.6**	**10.2**	**3.8**	**3.8**	**5.8**	**6.3**	**93.7**	**102.2**
Anguilla	11.0	11.0	3.5	3.5	7.5	7.5	143.5	190.0
Antigua and Barbuda	10.5	10.5	4.0	4.0	6.5	6.5	91.8	100.5
Dominica	9.3	9.3	3.8	3.8	5.5	5.5	87.1	95.9
Grenada	9.5	9.5	3.5	3.5	6.0	6.0	95.7	109.6
Montserrat	9.5	9.5	3.3	3.3	6.3	6.3	113.2	119.6
Saint Kitts and Nevis	8.8	11.3	4.3	4.3	4.5	7.0	107.2	123.8
Saint Lucia	9.8	11.3	3.6	3.6	6.2	7.7	92.7	97.5
Saint Vincent and the Grenadines	10.0	10.0	4.5	4.5	5.5	5.5	67.9	68.7

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data
[a] Percentage point (loan rate (prime) minus deposit rate)
[b] End of year. In Suriname corresponds to M2/GDP
[c] Simple average

In ECCU, while lending rates increased by 60 basis points to 10.2%, deposit rates remained unchanged at 3.8%. The loan rate remained unchanged in all ECCU member countries except Saint Kitts and Nevis and Saint Lucia, where the rates increased by 2.5 and 1.5 percentage points, respectively, reflecting the increased risk aversion of commercial banks. Consequently, interest rate spreads increased in these two countries.

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[19] Extent to which interest earning capacity of an entity exceeds or falls short of its interest cost obligations. Formula: (Interest earned ÷ Interest-earning assets) - (Interest paid ÷ Interest-costing liabilities).

[20]

In the early months of 2010, there were mixed results for interest rate adjustments. For example, in the Bahamas, the weighted average loan rate increased by 18 basis points, outpacing the 6 basis-point increase in the corresponding deposit rate, mainly mirroring the slight increase in interest rates on consumer loans; likewise, in Jamaica, the overall weighted average lending rate increased by 8 basis points during the first quarter of 2010, reflecting a 17 basis-point and an 11 basis-point increase for private and public sector loans, respectively; in Trinidad and Tobago, the prime lending rate declined from 12.5% in June 2009 to 9.5% in June 2010 as an incentive to boost credit.

The level of liquidity (as measured by M3/GDP) increased slightly in MDCs, from 63.1% in 2008 to 67.2% in 2009. Liquidity increased in all MDCs with the exception of the Bahamas and Jamaica, explained by a decline in savings deposits in the former and a fall in currency with the public in the latter, reflecting the drawdown on savings to compensate for loss of income and the slowdown in economic activity due to the global economic crisis. In ECCU countries, liquidity also increased from 93.7% in 2008 to 102.2% in 2009, fuelled by increases in savings, time deposits and foreign currency deposits.

Table 13
GROWTH IN DOMESTIC CREDIT
(Percentage)

	Private Sector				Public Sector			
	2003-2007[a]	2008	2009[p]	2010[b]	2003-2007	2008	2009[p]	2010[b]
MDCs	16.9	17.7	3.3	-0.7	-2	45.4	10.3	25
Bahamas	9.7	5.2	0.9	-0.7	7.1	12.9	4.3	8.7
Barbados	12.9	9.9	2.7	0.4	7.5	13.4	8.6	-6.3
Belize	11.9	10.6	4.1	-3.9	38.5	-13.9	-0.3	-4.4
Guyana	5.5	21.8	5.7	4.7	83.8	-2.7	77.5	8
Jamaica	28.6	28	0.9	-2.7	-0.6	41.2	10.3	-2.9
Suriname	32.5	34.7	13.4	1.7	7.4	-99.5	31925*	26.1
Trinidad and Tobago	17.6	14	-4.6	-3.1	96.5	64.7	-36	…
ECCU	11.3	10.2	4.9	0.8	236.8	-575.5	220	-53.9
Anguilla	21	18.8	5.9	3.7	17	-5.1	-51	21.8
Antigua and Barbuda	9.6	9.2	-0.8	-0.1	-57.7	716.2	182	-25.9
Dominica	5.2	8.3	6.9	1.8	72	11.4	-0.6	8.9
Grenada	8.5	12	4.5	2.1	-9.5	-135	-716	49.9
Montserrat	13.2	14.1	15.2	6.4	4.3	-16.1	27	-6.4
Saint Kitts and Nevis	11.3	5.9	4.2	0	65.6	-6.9	4.4	-7.3
Saint Lucia	14.3	10.2	1.8	-0.6	-1.7	0.5	27.3	6.8
Saint Vincent and the Grenadines	7.1	3	1.8	2.2	48.5	70.4	46.2	-29.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data
[a] Annual average
[b] Latest available data for 2010
[p] Preliminary
[*] In support of the public sector wage reform program
… not available

Unlike interest rate adjustments, sluggish economic activity – coupled with uncertainty and increased unemployment amidst fiscal constraints – was the main contributor to the general slowdown in the growth of total domestic credit throughout the Caribbean (table 13). In MDCs, average growth in total domestic credit to both private and public sectors slowed significantly in 2009. Private sector credit grew by 3.3% in 2009 compared to 17.7% in 2008, while public-sector credit grew by 10.3% in 2009 compared to 45.4% in 2008. The deceleration of private-sector credit was most acute in Guyana, Jamaica, Suriname, and Trinidad and Tobago. In Guyana, this outcome was due to the introduction of tighter lending standards by the banking sector, while in Jamaica, depressed economic conditions were the main factor. In Suriname, the steep decline was the result of the collapse of the Low Income Home Loan Assistance Project which affected credit for home construction. In Trinidad and Tobago, despite the reduction in the repo rate which reduced the cost of credit marginally, domestic credit to the private sector actually declined by 4.6% in 2009 as uncertainty about economic recovery continued to weaken credit demand.

In ECCU countries, domestic credit to the private sector grew by 4.9% in 2009 compared to 10.2% in 2008, also reflecting inert economic conditions. Antigua and Barbuda was the only country to record a contraction in domestic credit attributable to severe economic and financial stress (see box 4, chapter IV). In contrast, Montserrat recorded the highest growth, due to increased lending to households for home construction and renovation. The surge in public sector credit in ECCU was primarily due to increased borrowing to support the overall fiscal deficits of these economies.

For the first quarter of 2010, growth in domestic credit to the private sector continued on the same downward trajectory as in 2009, while credit to the public sector accelerated in MDCs but contracted in ECCU countries. The acceleration in MDCs was due to continued borrowing by the public sector (in the Bahamas, Guyana and Suriname) to support public expenditure, while the decline in ECCU was explained by slower government activity and increased borrowing on concessionary terms from multilateral agencies such as IMF.

E. POLICIES IMPLEMENTED TO COPE WITH THE INTERNATIONAL ECONOMIC CRISIS

In order to ameliorate the impact of the world economic crisis on domestic economies, Caribbean countries implemented a number of policies on different fronts aimed at containing job losses, injecting liquidity into financial markets, stimulating business confidence and, ultimately, re-igniting economic growth. These measures fall into six categories, namely, fiscal, monetary and financial, exchange rate and trade, sectoral, labour and social, and external financing.

1. Fiscal policy measures

The capacity of most Caribbean countries to implement policies to cushion the effects of the international crisis was very limited. Excessive public debt levels imposed severe limits to countercyclical fiscal policies. Given the limited fiscal space and the tightening in the availability of foreign private financing, during 2009 many Caribbean countries, with the exception of Suriname and Trinidad and Tobago, had to rely on IFI financing, especially IMF and IDB.[21] In terms of fiscal response, the main interventions took the form of increased fiscal spending in order to stimulate economic activity, such as in the Bahamas, or adjustments, as in Jamaica. In the Bahamas, the Government undertook a number of extraordinary fiscal

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[21] For example, the first review of the targets under the programme in Jamaica indicated that all targets had been met, including a variety of structural reforms and, as a result, IMF will disburse US$ 63.7 million in Special Drawing Rights to Jamaica.

measures to contain the fall in activity and to provide relief to affected workers. In order to arrest the deterioration in public finances, the Government of Jamaica was forced to introduce new tax measures in September 2009 and January 2010 designed to raise rates on a variety of taxes. These measures included increasing the special consumption tax on fuels and raising the general consumption tax rate from 16.5% to 17.5%. The outcome for fiscal year 2009/2010 was an increase in revenue of 15%, with revenue increasing from 25.5% to 28.5% of GDP.

Governments of Caribbean countries – such as Antigua and Barbuda, the Bahamas, Barbados, Belize, Guyana, Saint Lucia, Suriname, and Trinidad and Tobago – also undertook several fiscal interventions to protect jobs and reduce the impacts to affected sectors.

Another measure initiated during 2009 was the Eight-Point Stabilization and Growth Programme agreed upon by ECCU members in June. The Programme included fiscal reform, debt management, and public investment, among other measures and was expected to continue to guide fiscal policy in 2010. According to budget estimates, Grenada was expected to record a primary surplus of 1% of GDP for fiscal year 2009/2010 as the authorities broadened the tax base by implementing a VAT of 15% in February 2010. Saint Lucia and Saint Kitts and Nevis were also expected to introduce VAT in 2010/2011. Budget estimates for Saint Lucia indicate a shift from a primary surplus to a primary deficit of 2.5% of GDP in fiscal year 2009/2010 following an increase in non-grant financial public expenditure. In Antigua and Barbuda, the Government has undertaken an aggressive fiscal consolidation programme, which should lead to a primary surplus of about 3.6% of GDP in fiscal year 2009/2010.

2. Monetary and financial management policies

The decline in the international prices of food and energy removed imported inflationary pressures that had been felt drastically since 2006 throughout the subregion. This allowed some central banks to switch the focus of monetary policy during 2009 from curbing inflation to promoting economic activity. The Treasury bill rate in Barbados was trimmed marginally by 0.5%, to 3.8% in 2009 after posting an average annual rate of 4.3% in 2008. Trinidad and Tobago implemented cuts in the repo rate. In Jamaica, by the end of March 2010, the 30-day repo stood at 10% and all remaining tenors were removed. Other instruments also tended to show a decline in rates late in 2009. For example, the average yield on three- and six-month treasury bills moved from 20.51% and 21.77 %, respectively, in March 2009 to 19.95% and 16.80% respectively, at the end of the year. By the time of the debt exchange in March 2010, the rates were 10.18% and 10.49%, respectively. Given the central role of financial entities in the recent global economic crisis, most monetary and financial management policies focused on stimulating domestic credit availability, managing liquidity, and tightening the regulatory framework for more prudent management of the financial sector. Legislation was approved in the Bahamas in 2009 to strengthen controls on money-laundering and terrorism financing. In Jamaica, the government adjusted the time-period relating to non-performing loans from 90 to 180 days in order to provide some mortgage reliefs to clients.

3. Exchange rate policies

In general, Caribbean central banks undertook net sales of foreign exchange to meet market demand in a climate of increasing uncertainty prompted by the global crisis. Countries operating flexible pegs (Guyana, Jamaica, and Trinidad and Tobago) have experienced pressure on their foreign exchange markets, particularly Jamaica and Trinidad and Tobago. The Jamaica dollar depreciated significantly but, after a period of volatility in the first few months of 2009, the exchange rate stabilized due to the inflows from a number of multilateral institutions. In Trinidad and Tobago, despite speculative attacks suffered during the first quarter of 2009 linked to the world economic crisis and the collapse of CLICO,[22] the quasi-fixed exchange rate regime remained without changes due to the solid exchange rate position of the central bank whose foreign reserves at the end of 2008 totalled US$ 9.8 billion or 12.3 months of merchandise imports. The Central Bank of Belize implemented the first phase of its monetary policy reform in 2009, aimed at improving its ability to manage liquidity in the banking system, and gradually moved from reliance on reserve requirements to open market operations. Two important measures were implemented: the liberalization of the short-term yield on treasury bills, and the establishment of a ceiling on the interbank lending rate of 11%, thus allowing banks to trade below this rate.

4. Sectoral policies

As a consequence of the slowdown in tourism, specific funding was provided for promotional activities in tourism source markets. A financial stimulus of US$ 4.1 million was provided to the tourism sector of Trinidad and Tobago[23] in August 2009. The Barbados Central Bank announced, in September, the extension of the Credit Guarantee Scheme to the tourism and tourism-related sectors. This extension included guarantees of moratoria of principal and interest for a period of six months from 15 September 2009 to 15 March 2010.

Closely linked to the tourism sector, construction sector activity continued to be sluggish, as investment in tourism plant declined. Apart from tourism, the agricultural sector also benefited from specific interventions. The Government of Guyana implemented a “Grow More” campaign under an expanded Agriculture Export Diversification Programme, and Rural Enterprise and Agricultural Development Programme.

5. Labour and social policies

With the aim of preserving social progress threatened by the world recession, most Caribbean countries implemented measures in the labour and social areas in 2009, including unemployment schemes (Antigua and Barbuda, the Bahamas, and Saint Vincent and the Grenadines). In Antigua and Barbuda and Anguilla, the problem was particularly severe as most of the companies owned by Allen Stanford were closed (and at least 1,000 persons were left unemployed). In 2009, labour and social policies contemplated included salary and wage increases for public servants (Belize, Guyana, Jamaica), a raise in the minimum wage (Jamaica, Dominica, Saint Kitts and Nevis), conditional transfer programmes (Barbados, Belize), increases in transfers and subsidies (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Trinidad and Tobago, and Saint Vincent and the Grenadines), and price controls for basic items (Belize).

In Suriname, in 2010, the new wage programme, FISO, was originally intended for central government employees but union action forced the Government to offer it to all public servants. Even with the change in government, it appears that the subsequent phases of the programme will be implemented as expected. However, serious concerns regarding the sustainability of current levels of public expenditure remain, especially in light of projections of a fiscal deficit in 2010.

[22] On 30 January 2009, the central bank and the government intervened in CLICO Investment Bank – property of CL Financial Ltd., a major conglomerate operating in many Caribbean countries – with the aim of protecting the stability of the financial sector.

[23] A TT$ 26 million stimulus package for the crippled tourism sector in Tobago was up for discussion in the beginning of August 2009 in the Tobago House of Assembly.

6. External financing policies

Many Caribbean countries relied on official lending to meet their pressing external financing requirements, given the scarcity of international credit from private sources. Thus, Saint Lucia and Saint Vincent and the Grenadines obtained US$ 10.7 and US$ 5.7 million, respectively, in financial support from IMF to mitigate the effects of the global crisis. Jamaica received US$ 300 million from Inter-American Development Bank (IDB) to provide liquidity to the financial system, while Grenada obtained an increase of US$ 6.8 million in its Poverty Reduction and Growth Facility subscribed with IMF in 2006. In order to assist troubled countries in meeting their external financing needs, in August 2009 IMF decided to bolster international reserves of member countries with a general allocation of Special Drawing Rights that amounted to some US$ 250 billion. This operation was complemented in September with a special allocation of Special Drawing Rights of around US$ 33 billion. All Caribbean countries, with the exception of Trinidad and Tobago, benefited from this facility. As shown in table 14, the subregion received Special Drawing Rights that totalled US$ 947 million. The allocation was above US$ 330 million in Jamaica (2.6% of GDP), US$ 170 million in the Bahamas (2.3% of GDP), US$ 120 million in Suriname (5.6% of GDP) and US$ 110 million in Guyana (9.2% of GDP). In ECCU countries, the Special Drawing Rights allocation amounted to 1.7% of GDP in Antigua and Barbuda and 2.9% of GDP in Dominica.

In 2010, total public debt is expected to increase further as Caribbean countries continue to borrow from IMF. In April 2010, IMF approved financing of US$ 13.3 million for Grenada under the Extended Credit Facility, and in June 2010 the IMF Executive Board approved a three-year US$ 117.8 million stand-by-arrangement with Antigua and Barbuda.

Table 14

SPECIAL DRAWING RIGHTS ALLOCATIONS, 2009

(Millions of SDR[a])

	General SDR allocation (effective August 28)	Special SDR allocation (effective September 9)	General and Special SDR allocation (effective September 9)	General and Special SDR allocation (Millions of US$)
Antigua and Barbuda	10.0	2.5	12.5	19.0
Bahamas (the)	96.6	17.6	114.2	173.6
Barbados	50.0	6.3	56.3	85.6
Belize	13.9	4.0	17.9	27.2
Dominica	6.1	1.2	7.3	11.1
Grenada	8.7	1.6	10.3	15.7
Guyana	67.4	5.2	72.6	110.4
Jamaica	202.7	18.3	221.0	335.9
Saint Kitts and Nevis	6.6	1.9	8.5	12.9
Saint Vincent and the Grenadines	6.2	1.4	7.6	11.6
Saint Lucia	11.3	2.5	13.8	21.0
Suriname	68.3	12.7	81.0	123.1
Total	547.8	75.2	623.0	947.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information from the International Monetary Fund.

[a] The exchange rate used is US$ 1.52 per unit of Special Drawing Rights.

F. THE EXTERNAL SECTOR

Given the level of openness and importance of trade to Caribbean economies, the performance of the external sector reveals a great deal about their response to the crisis.

Table 15 describes the goods and service balance and current account balance for Caribbean countries and shows that, for both MDC and ECCU countries, the current account and trade deficits contracted in 2009 relative to 2008. This was facilitated by a large drop in import values owing to lower domestic economic activity.

The trade balance in MDCs improved slightly, from a deficit of 12% of GDP in 2008 to one of 10.4% of GDP in 2009. Guyana was the most extreme case, registering a shrinking of its trade deficit by 14.7% of GDP to 40.1% of GDP. Jamaica followed closely with a lowering of its trade deficit by 13.9% of GDP to 19.2% of GDP. The trade deficit in Barbados fell by 64% or 5.6% of GDP to reach 3.1% of GDP in 2009. Trinidad and Tobago and Suriname experienced lower trade surpluses, implying that export value fell by a greater proportion than import values. This was especially true for Trinidad and Tobago, where the trade surplus declined by 26.8% of GDP, owing to a 50% decrease in goods exports. The trade balances of MDCs deteriorated, however, in the first quarter of 2010. The Trinidad and Tobago trade balance deteriorated by 53% in a year-on-year first quarter comparison, and the Bahamas trade balance deteriorated by 26%. Suriname was the only MDC to show an increase (of 8%) on the trade balance.

Table 15
TRADE AND CURRENT ACCOUNT BALANCE 2003-2009
(Percentage of GDP)

	Trade balance			Current account balance		
	2003-2007	2008	2009	2003-2007	2008	2009
MDCs	-8.5	-12	-10.4	-5.1	-6.4	-5.4
Bahamas (the)	-10.1	-15	-10.9	-11.5	-15.9	-12.6
Barbados	-6.2	-8.7	-3.1	-6.6	-10.6	-5.6
Belize	-3.2	-6.7	-4	-10.2	-9.8	-6.7
Guyana	-26.5	-54.8	-40.1	-14.5	-27.7	-17.6
Jamaica	-18.3	-33.1	-19.2	-9.6	-23.1	-7.4
Suriname	-13.1	9.8	4.8	-0.5	14.3	9.2
Trinidad and Tobago	26.7	36.7	9.9	22.3	34.5	7.9
ECCU	-30.8	-43.2	-33.8	-26.6	-40.4	-30.9
Anguilla	-47.4	-67.8	-44.1	-46.7	-72.7	-49
Antigua and Barbuda	-17.7	-25	-22.1	-21.6	-29.4	-23.8
Dominica	-19.3	-36.1	-33.8	-22	-36.3	-32.8
Grenada	-33.9	-38.2	-27.1	-29.6	-39.6	-28.4
Montserrat	-69.5	-77.9	-59.2	-23.7	-39.4	-24.7
Saint Kitts and Nevis	-17.9	-31.5	-36.5	-20.7	-31.7	-35.1
Saint Lucia	-17.1	-29.5	-13.7	-23	-35.1	-19.6
Saint Vincent and the Grenadines	-23.3	-39.3	-34	-25.1	-39	-33.8

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

The current account behaved in a similar manner to the trade balance, with MDCs recording a deficit of 5.4% of GDP for 2009, an improvement from the 6.4% of GDP deficit of 2008. As in the case of the trade balance**,** service-providing economies saw improved current account deficits. The most marked increase was in Jamaica which registered an improvement in the deficit of 15.7% of GDP to reach 7.4% of GDP in 2009, and Guyana followed with an improvement in the current account deficit worth 10.1% of GDP to reach 17.6% of GDP in 2009. Suriname and Trinidad and Tobago saw smaller trade surpluses; in Trinidad and Tobago, the current account surplus fell from 34.5% of GDP to 7.9% of GDP. Movements of the current account in the first quarter of 2010 again mirrored movement in the trade balance. The deterioration on the current account in the Bahamas was 52.2% in the first quarter, while there was a 60% year-on-year decrease in Trinidad and Tobago. The half-year data for Barbados in 2010 showed a year-on-year widening of the current account deficit by 48%, and first quarter data from Suriname showed a deterioration of 32% on the current account.

The trade balances of ECCU countries exhibited the same phenomenon. The ECCU trade deficit moved from 43.2% of GDP to 33.8% of GDP in 2009, an improvement of almost 10%. Saint Kitts and Nevis was the only country in which the trade deficit expanded, increasing from 31.5% of GDP in 2008 to 36.5% in 2009, caused by a reduction in travel receipts. Saint Lucia, however, with an improvement in the deficit of 15.8% of GDP, had the most improved trade deficit among independent ECCU countries in 2009. However, trade balances in ECCU are expected to deteriorate in 2010, although not as dramatically as in MDCs. The trade balance in Grenada is expected to deteriorate by 3.2%, in Saint Lucia by 7.5% and in Dominica by 4.3%.

ECCU countries also followed this pattern in 2009, with their overall current account deficit improving from 40.4% of GDP in 2008 to 30.9% of GDP in 2009. Saint Kitts and Nevis remained the only exception to the overall improvement in current account deficits, with a deficit expansion of 3.4% of GDP. The current account deficit is expected to contract slightly again to 28% of GDP in 2010, as economic activity is projected to remain sluggish.

1. Remittances

The impact of the recession on remittances can be discerned from table 16 where each Caribbean country for which data were available registered a decrease in the level of remittance inflows.

In MDCs, Jamaica registered the largest decrease in remittances of 12.1% in 2009. Belize followed with a decrease that registered 5.7%, and in Trinidad and Tobago inflows of remittances fell by 5.6%. Remittances to Guyana fell by 4.7% and to Barbados by 4.3%. Suriname suffered the smallest percentage impact with remittances falling by 1.1%.

Remittances as a share of goods exports, however, tended to increase and, interestingly, the largest increase was experienced by Jamaica, with a ratio of 79% in 2008 and 138.6% in 2009. The ratio for Barbados also increased from 34.4% in 2008 to 42.5% in 2009. The only country recording a decrease was Guyana, where the ratio fell marginally from 34.7% in 2008 to 34.6% in 2009. Clearly, the explanation lies in the dramatic slump in exports in 2009.

In ECCU, the tendency was similar. Antigua and Barbuda showed the largest decrease in remittances of 5% for the year 2009. Grenada followed with a decrease of 4.3% and Dominica showed a 4% decrease.

The ratio of remittances to goods exports increased for the three ECCU reporting countries, with the ratio increasing from 6.8% in 2008 to 7.1% in 2009 for Dominica, from 33.2% to 34.5% for Antigua and Barbuda and a marginal increase from 158.1% to 158.2% for Grenada. These increases, despite decreasing levels of remittances, stem from rapidly shrinking exports.

Table 16
REMITTANCES 2003-2009

	Remittances (US$ million)			Remittances/Exports of goods (%)		
	2003-2007	2008	2009	2003-2007	2008	2009
MDCs	2278.6	2816.6	2526.2	30.7	27.5	39.4
Bahamas (the)	…	…	…	…	…	…
Barbados	128.5	168	160.8	35.6	34.4	42.5
Belize	51.1	78.1	73.7	13.8	16.3	19.3
Guyana	190.8	278.4	265.5	32	34.7	34.6
Jamaica	1779.2	2180.5	1920.7	98.3	79	138.6
Suriname	35.6	2.2	2.2	3.1	0.1	0.2
Trinidad and Tobago	93.4	109.4	103.3	1.1	0.6	1.1
ECCU	167.2	218.9	…	58.6	64.3	…
Anguilla	…	…	…	…	…	…
Antigua and Barbuda	19.6	26	24.7	28.9	33.2	34.5
Dominica	20.7	30	28.8	49.1	68.4	76.1
Grenada	51.2	64	61.2	146.9	158.1	158.2
Montserrat	…	…	…	…	…	…
Saint Kitts and Nevis	28.3	37.3	..	47.5	54	…
Saint Lucia	24.3	31.1	..	25.6	18.8	…
Saint Vincent and the Grenadines	23.1	30.5	..	53.5	53.4	…

Source*:* Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data
…not available

2. Capital account and FDI

The Caribbean subregion continued to rely more on FDI than on financial capital as a source of financing the current account deficit (see table 17), despite an injection by IMF into the capital accounts of all Caribbean countries (except Trinidad and Tobago) of US$ 947 million worth of Special Drawing Rights, equivalent to nearly 3% of Caribbean GDP (excluding Trinidad and Tobago).

For reporting MDCs in 2009,[24] FDI averaged 8.2% of GDP. All reporting MDCs showed decreases in FDI as a percentage of GDP as a result of the global slowdown affecting international investment. For example, Belize and Trinidad and Tobago experienced lower energy investments in 2009, and there were decreases in equity investments and land purchases in the Bahamas.

Two MDCs, the Bahamas and Belize, both reported inflows of financial capital in 2009. Financial capital in the Bahamas increased from 5.9% of GDP in 2008 to 7.2% in 2009, and in Belize financial capital increased from 0.1% of GDP in 2008 to 3.3% of GDP in 2009, both increases occurring in tandem with receipts of SDR financing from IMF. This added inflow, designed to increase available liquidity in tight capital markets following the recession, was important, since lack of foreign exchange availability represented a binding constraint to Caribbean economies.

Financial capital and FDI showed mixed performances for MDCs in 2010. Year-on-year first quarter estimates for 2010 show that the surplus on the financial and capital account for the Bahamas decreased by 28%, driven by a 41% decrease in FDI over the same period. Jamaica, however, transformed

[24] The Bahamas, Belize, Guyana, and Trinidad and Tobago

a deficit on the capital and financial account of US$ 15.1 million at the end of the first quarter in 2009 into a surplus of US$ 8.8 million in 2010. Barbados registered a first semester year-on-year increase of 631% on the capital account, and Trinidad and Tobago saw their deficit on the financial and capital account shrink by 71% in the first quarter of 2010.

Table 17
FDI AND FINANCIAL CAPITAL, 2003-2009
(Percentage of GDP)

	FDI			Financial capital		
	2003-2007	2008	2009	2003-2007	2008	2009
MDCs	3.8	8.0	8.2[a]	1.4	-2.1	…
Bahamas (the)	8.3	11.4	8.9	3.5	5.9	7.2
Barbados	4.6	7.2	…	6.4	1.1	…
Belize	…	14.1	6.8	…	0.1	3.3
Guyana	7.6	15.4	13.1	8.9	11.0	…
Jamaica	6.8	5.7	…	…	…	…
Suriname	-6.3	-9.7	…	10.7	-2.4	…
Trinidad and Tobago	5.9	12.3	4.0	-20.1	-30.1	…
ECCU	18.1	20.9	16.8	6.8	11.4	7.8
Anguilla	…	…	…	…	…	…
Antigua and Barbuda	24.9	14.4	11.8	-2.0	13.8	8.9
Dominica	11.3	15.1	13.9	11.6	-4.3	-1.6
Grenada	18.0	21.0	14.8	12.7	18.3	13.5
Montserrat	…	…	…	…	…	…
Saint Kitts and Nevis	21.4	31.2	25.4	0.6	-2.6	8.8
Saint Lucia	16.9	16.3	16.4	7.6	18.1	3.5
Saint Vincent and the Grenadines	16.1	27.3	18.8	10.4	25.2	13.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data
[a]- Average of the Bahamas, Belize, Guyana and Trinidad and Tobago
… Not available

ECCU countries saw a decrease in FDI inflows from 20.9% of GDP in 2008 to 16.8% of GDP in 2009. All ECCU countries reported a decrease in FDI over 2009, except Saint Lucia which reported a marginal increase of 0.1% of GDP for the period. FDI contraction in ECCU originated from a decrease in land sales and the slowdown of externally financed construction projects.

In ECCU, total financial capital fell from 11.4% of GDP in 2008 to 7.8% of GDP in 2009. Saint Vincent and the Grenadines witnessed a fall in financial capital from 25.2% of GDP in 2008 to 13.8% in 2009, but Saint Kitts and Nevis saw a turnaround, with financial capital moving from -2.6% of GDP in 2008 to 8.8% of GDP in 2009.

G. PROSPECTS AND RECOMMENDATIONS

The prospects for growth in 2010 are more optimistic than in 2009; however, continuing economic difficulties in the United States and European Union continue to dampen expectations. Growth in MDCs was anticipated to be 1.6%, with positive growth of at least 2% for a number of countries where growth is expected to be more buoyant. These include Guyana (4.4%), Suriname (2.5%), Trinidad and Tobago (2.0%) and Belize (1.5%). Negative growth was anticipated for Barbados, premised on the lacklustre performance of tourism and the complementary construction sector.

In ECCU countries, the situation seems less optimistic, as a number of countries are projected to face continuing negative growth in 2010 of 1.8%, but the variations in growth among countries were also expected to be considerable. The heavy dependence of this group of countries on tourism services implies that external demand conditions will be crucial to recovery. Significant declines are expected for Anguilla (6.6%), Antigua and Barbuda (6.5%), and Grenada (1.8%). In contrast, growth prospects were expected to be positive for Montserrat (2.1%) and Saint Lucia (1.3%) (see table 18).

The medium-term prospects for the Caribbean will depend on the speed of the recovery abroad and the extent to which pressures for fiscal consolidation at home might dampen further injections into the economy. The rising fiscal and current account deficits and growing debt cannot be ignored, and already— despite inflows from international financial institutions— Jamaica and Antigua and Barbuda have had to engage IMF in formal programmes.

Table 18
GDP GROWTH RATE, 2010[f]*
(Percentage)

MDCs	**1.6**
Bahamas (the)	-0.5
Barbados	1.0
Belize	1.5
Guyana	4.4
Jamaica	0.5
Suriname	2.4
Trinidad and Tobago	2.0
ECCU	**-1.8**
Anguilla	-6.6
Antigua and Barbuda	-6.5
Dominica	-0.7
Grenada	-1.8
Montserrat	2.1
Saint Kitts and Nevis	-1.3
Saint Lucia	1.3
Saint Vincent and the Grenadines	-1.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official data
*Forecast

It will require both a medium-term programme of adjustment with restructuring, and the pursuit of a range of programmes and strategies, to return many countries to a path of positive growth. Three of these strategies are outlined as follows:

Firstly, the persistent fiscal and current account deficit and a mounting public debt demands a programme of fiscal consolidation, yet this must be pursued over the medium term so as not to disrupt investment in domestic capital which is designed to raise technical capacity.

A major finding in the study of the impact of FDI on productivity growth in the next section suggests that investment in domestic capital is important if countries in Latin America and the Caribbean are to benefit fully from FDI. For this reason, a concerted effort must be made to build a system of innovation for the Caribbean to raise technical capacity and to improve the technological sophistication of exports.

Secondly, strategies based on pure export promotion will be unsuccessful, given the new norm of lower global growth and a possible return to protectionism, at least in the medium term. Boosting internal and subregional demand through the encouragement of sustainable projects must be pursued through public private partnerships (PPP).

Thirdly, a programme of export diversification must be pursued in addition to market diversification, to reflect the emergence of new players in international trade.

This point was reinforced in the study of tourism leakages in the next section, which showed that greater intersectoral linkages between tourism and other sectors in the economy would help stem foreign exchange leakage in the tourism sector, while increasing the local value-added from tourism.

These recommendation do not constitute the sum total of pertinent issues; matters such as financial regulation, competition policy, and risk management to allocate credit to emerging sectors are also important considerations. However, these recommendations form the core of a system for the revitalization of Caribbean economies over the medium term.

II. TOPICS IN CARIBBEAN ECONOMIC DEVELOPMENT

A. THRESHOLD EFFECTS OF FDI ON IMPORT PRODUCTIVITY GROWTH IN LATIN AMERICA AND THE CARIBBEAN

1. Introduction

The section examines the impact of inward FDI on economic growth in the Caribbean and Latin America from 1980 to 2007 with a view to identifying the set of policy variables most effective in improving the efficiency of FDI. This continues to be a significant issue despite the fact that a great deal of analysis has already focused on the relationship between FDI and growth.

Interest in identifying the most effective policy variables that improve the efficiency of FDI continues for several reasons. Firstly, the literature on the impact of FDI on growth has been mixed despite the number of firm, country-level and panel data studies on this subject (Lipsey, 2004). Secondly, FDI is promoted in the development literature as a major source of knowledge and technology transfer to developing countries. Thirdly, the policy emphasis on promoting FDI with excessive incentives in both Latin America and the Caribbean raises serious issues about the productivity of FDI in relation to revenue losses from concessions.[25] Fourthly, emerging literature argues that the absorptive capacity of developing countries is the single most significant factor in countries benefiting from FDI. For example, studies on Indonesia confirm that such capacity might be important if local firms are to benefit from spillovers. If this assessment is correct, then energies and resources might be better placed in building a local domestic capacity to innovate which would complement FDI, rather than merely providing incentives to raise the level of FDI inflows (James 2006, 2009).

Further, this section employs a threshold panel data approach along the lines of Hansen (1999) to examine the relationship between FDI and growth in import productivity in Latin America and the Caribbean.

2. Theoretical formulation

In order to examine the relationship between import productivity growth and inward FDI, an economy producing goods along the following lines is assumed:

(1) $$Y_t = A\varphi\left(K_t{}^{\mu} L_t{}^{\alpha} H_t^{\beta} M_t{}^{1-\alpha-\mu}\right)$$

Y= total output.

A=efficiency of production

K= total capital stock

L= total employed labour

H=level of human capital

M= total imports.

[25] Lipsey and others (2004) argue that, while there is disagreement in the academic literature, policymakers have made the judgment that FDI is valuable to their countries.

The indices on capital, labour, imports and human capital have been constructed to show increasing returns to scale among all the variables since $\mu+\alpha+\beta+(1-\alpha)=1+\beta+\mu>1$, for $\beta>0$. At the same time, there are constant returns between capital, labour and imports. Rewriting equation (1) in terms of imports per unit of output allows the relationship to be stated as,

(2) $$y_t = \frac{Y_t}{M_t} = A\phi\left(k_t^{\mu} l_t^{\alpha} H_t^{\beta}\right)$$

where k is capital per unit of imports and l is the labour force per unit of imports and H is the level of education. Thus, the relationship is written in terms of output per unit of imports or import productivity.

It is assumed that the total capital stock per unit of imports, K/M, is made up of domestic capital k_d and foreign capital k_f measured in units of imports, and the level of human capital, H, is a function of the level of capital employed. Thus in equation

(3) $$k = k_d + k_f$$

where $k = K/M$, $k_d = K_d/M$ and $k_f = K_f/M$

This leads to equation

(4) $$H = \left[k_d k_f^{\delta}\right]^{\eta}$$

where δ and η are the marginal and inter-temporal elasticities of substitution between domestic capital and foreign capital goods per unit of imports. Thus, there may be complementarities between the two types of capital which affect H. Given that imports are also a part of k_f, the elasticity with respect to this variable may not be the true elasticity. If k_t and H are substituted into equation (2), the result is the following expression:

(5) $$y_t = A\phi\left(k_{f_{it}}^{\mu+\delta\eta\beta}\ k_{d_{it}}^{\mu+\eta\beta}\ l^{\alpha}\right)$$

Equation (5) rewritten in an estimation context to take account of the panel nature of the data set gave rise to:

(6) $$y_{it} = A_{it} k_{f_{it}}^{\mu+\delta\eta\beta}\ k_{d_{it}}^{\mu+\eta\beta}\ l^{\alpha}\varepsilon_{it}$$

Taking the log difference in equation (6) gives equation (7) which is the growth rate of income per unit of imports, y_{it}, such that i=1…21 refers to the country index and t=1..n refers to the time period.

(7) $$\Delta y_{it} = \Delta A_{it} + (\mu+\eta\beta)\Delta k_{d_{it}} + (\mu+\delta\eta\beta)\Delta k_{f_{it}} + \alpha\Delta l + \Delta\varepsilon_{it}$$

It is assumed that $\Delta \mathbf{A}_{\mathbf{it}}$, the growth of technology can be specified as a function of the following form:

(8) $$\Delta A_{it} = \gamma_0 + \gamma_1 H_{it} + \gamma_2 H_{it}\Delta k_{d_{it}} + \gamma_3 H_{it}\Delta k_{f_{it}}$$

where $\Delta \mathbf{A}_{\mathbf{it}}$ depends on an exogenous technology level, γ_0, while the variables $H_{it}\Delta k_{d_{it}}$ and $H_{it}\Delta k_{f_{it}}$ capture spillover effects represented by the relationship between the level of human capital and changes in domestic and foreign investment per unit of imports. In this case, the level of technology diffusion depends on both domestic and foreign investment. This relationship may also contain institutional variables which help or hinder or promote the development of technical progress. Equation (8) can be modified to account for sectoral spillover effects in the relationship between the level of human capital and investment. The overall formulation after substituting equation (8) into equation (7) is as follows:

$$\textbf{(9)}\quad \begin{aligned}&\Delta y_{it} = \gamma_0 + \gamma_1 H_{it} + \gamma_2 H_{it}\Delta k_{d_{it}} + \gamma_3 H_{it}\Delta k_{f_{it}}\\ &+ \gamma_4 \Delta k_{d_{it}} + \gamma_5 \Delta k_{f_{it}} + \gamma_6 \Delta l + \Delta\varepsilon_{it}\end{aligned}$$

Equation (9) is the equation to be estimated, and in this formulation, where $\gamma_4 = \mu + \eta\beta,\ \gamma_5 = (\mu + \delta\eta\beta),\ \gamma_6 = \alpha$. This relationship suggests that the growth in output per unit of imports is related to the level of human capital, the interaction between the level of human capital and the growth in domestic and foreign capital stock per unit of imports, the changes in domestic and foreign capital stock, and the growth in the labour force per unit of imports. The constant γ_0, which is exogenous technical progress, might also be proxied by variables picking up fixed and time effects, including financial variables and variables reflecting macroeconomic uncertainty. The final formulation is as follows:

$$\textbf{(10)}\quad \begin{aligned}&\Delta y_{it} = \gamma_0 + \gamma_1 H_{it} + \gamma_2 H_{it}\Delta k_{d_{it}} + \gamma_3 H_{it}\Delta k_{f_{it}}\\ &+ \gamma_4 \Delta k_{d_{it}} + \gamma_5 \Delta k_{f_{it}} + \gamma_6 \Delta l +_7 \Delta m2GDP_{it}\\ &+ \gamma_8 lopen_{it} + \Delta\varepsilon_{it}\end{aligned}$$

The last two variables are the log changes in m2 to GDP ratio and openness (lopen) defined as the log ratio of exports plus imports to GDP. An important consideration in the analysis is, given that there may be non-linearities among some of the variables of interest, the manner in which these should be modelled. One approach might be to estimate the thresholds by linear splines, except that the thresholds are not known a priori. Chan's (1993) approach to estimating the threshold effects on a variety of threshold variables, which is based on the original panel threshold model of Hansen (1999), is employed.

There was interest in understanding the non-linearities between the growth in output per unit of imports and the complementarities among the following variables:

$$\gamma_2 H_{it}\Delta k_{d_{it}} \text{ and } \gamma_3 H_{it}\Delta k_{f_{it}}$$

The threshold relationship is illustrated as the interaction between the level of human capital H_{it} and the change in foreign direct investment in the case of a double threshold, which is illustrated as follows:

$$\textbf{(11)}\quad \begin{aligned}&\gamma_2 H_{it}\Delta k_{f_{it}} = \gamma_{21}\ I(H_{it} \le \lambda_1) +\\ &\gamma_{22} I(\lambda_1 < H_{it} \le \lambda_2)\\ &+ \gamma_{23} I(\lambda_2 < (H_{it}))\end{aligned}$$

Note that I(.) is the indicator function and λ_1 is the estimated threshold. When $H_{it} \le \lambda_1$, the coefficient γ_{21} refers to the impact of foreign direct investment on growth in regime one, or the low regime. When the coefficient is $> \lambda_1$, but $\le \lambda_2$ it refers to the impact of observations in a higher regime in threshold one. The case in which $H_{it} > \lambda_2$ refers to the observations at the second threshold in an even higher regime.

In order to estimate the model, the threshold variable λ_1 must be computed as the variable that minimizes the concentrated sum of squares residual from a least squares regression. Assuming that the threshold variable was known, then the model could be estimated by Ordinary Least Squares (OLS), but since it is unknown, then it has to be estimated along with the other parameters. In order to determine whether the threshold is statistically significant, in the single threshold case, for example, the null hypothesis that $\gamma_{21} = \gamma_{22}$ was tested. Since the classical tests do not follow a normal distribution, the Hansen (1999) bootstrap method was used to obtain probability values. Bai and Perron (1998) have shown that a second threshold, if computed sequentially, can be consistent. Thus, in the case of a second threshold, the procedure fixes the first and then goes on to find the second. In a similar vein, the bootstrap method can be employed to discriminate between the first and second thresholds.

3. Description of the data set

The objective was to employ the full complement of countries in Latin America and the Caribbean. However, due to data gaps, only data for twenty-one countries could be used over the period 1980 to 2007.

Table 19 shows that the countries represent a heterogeneous group in terms of population, size, land area, per capita income and the usual measure of openness. For example, Barbados and Trinidad and Tobago have the highest per capita incomes for 2007, but with populations of less than 300,000 and 1.3 million, respectively. Brazil and Mexico have the largest populations of 190 million and 105 million, which dwarf many other countries in the sample, and have significant land areas of 8.0 million square kilometres and 1.9 million square kilometres, respectively. There is also considerable variation by openness, as Brazil has the least open economy and Barbados the most open.

Table 20 reports the average FDI inflows and, while there were variations among countries in terms of the sectoral composition of FDI, there were also some common characteristics. First, some US$ 32 billion of FDI flowed to the sample countries but, of this amount, two countries, Brazil and Mexico, accounted for as much as 56.7% of the flow to Latin America and the Caribbean. This is not surprising, given the size of these economies and the range of their economic sectors and activities. At the same time, the average net FDI share to the region was 3.1% while the world share was 5.4%.

Table 19
PER CAPITA INCOME, POPULATION, LAND AREA AND OPENNESS

	Per capita income, 2007 (current USD)	Population, 2007	Land Area (sq km.)	Openness, 2007
Argentina	6 645.2	39 490 465	2 736 690	45.0
Barbados	13 392.6	254 543	430	104.8
Bolivia	1 377.5	9 524 495	1 083 300	72.9
Brazil	7 012.8	190 119 995	8 459 420	25.5
Chile	9 850.7	16 636 135	743 800	80.0
Colombia	4 684.1	44 359 445	1 109 500	34.9
Costa Rica	5 891.1	4 458 782	51 060	102.5
Dominican Republic	4 210.1	9 813 686	48 320	66.3
Ecuador	3 432.0	13 341 817	276 840	66.8
El Salvador	3 336.1	6 106 761	20 720	74.4
Guatemala	2 548.4	13 353 769	107 160	67.9
Haiti	640.4	9 720 086	27 560	45.6
Honduras	1 670.7	7 174 129	111 890	129.9
Jamaica	4 801.8	2 675 800	10 830	79.7
Mexico	9 715.1	105 280 515	1 943 950	58.2
Panama	5 828.1	3 343 341	74 340	155.1
Paraguay	1 994.9	6 126 643	397 300	104.0
Peru	3 770.5	28 508 481	1 280 000	51.1
Trinidad and Tobago	16 350.7	1 328 216	5 130	96.1
Uruguay	7 296.8	3 323 906	175 020	55.7
Venezuela, RB	8 298.6	27 483 000	882 050	54.3

Source*:* World Development Indicators 2009

Table 20

AVERAGE FDI INFLOWS, NET FDI SHARES, FDI STOCK AND IMPORT PRODUCTIVITY

	Average FDI inflow 1980-2007, (US$ million)	Net FDI share of LAC total, 1980-2007	FDI Stock/GDP, 2008	Ratio of GDP/Imports, Average for 1980-2007
Argentina	3 256.3	10.6	23.0	4.9
Barbados	23.1	0.1	22.9	2.2
Bolivia	248.6	0.8	34.5	3.2
Brazil	8 169.8	26.7	18.5	8.4
Chile	2 174.2	7.1	59.5	3.0
Colombia	1 731.7	5.7	34.1	5.6
Costa Rica	385.9	1.3	36.8	1.9
Dominican Republic	469.3	1.5	24.8	2.7
Ecuador	339.8	1.1	22.2	2.9
El Salvador	181.7	0.6	30.3	2.1
Guatemala	193.9	0.6	14.3	2.3
Haiti	16.2	0.1	6.5	2.9
Honduras	179.7	0.6	36.3	1.3
Jamaica	224.4	0.7	72.3	1.6
Mexico	9 187.8	30.0	31.1	3.3
Panama	465.2	1.5	72.6	1.3
Paraguay	77.0	0.3	15.3	1.9
Peru	1 217.0	4.0	23.5	4.5
Trinidad and Tobago	383.0	1.3	69.5	2.6
Uruguay	233.3	0.8	28.7	3.6
Venezuela, RB	814.3	2.7	12.5	4.3
LAC Average	32136.7	3.1	68.7	4.4
World Average	56032.9	5.4	49.3	3.3

Sources: World Investment Report 2009, World Development Indicators Online Database

Some countries, such as Barbados, Bolivia, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Paraguay and Uruguay, received a less than 1% share of total FDI inflows to Latin America and the Caribbean over the 27-year period. When FDI stock as a percentage of GDP was examined for 2008, however, the impact was much more substantial. For example, Trinidad and Tobago, Jamaica and Panama had the highest shares of FDI stock as a percentage of GDP. The table also examined the productivity of imports or the ratio of GDP to imports over the period 1980-2007. Brazil, Argentina, Peru and Venezuela were among those countries with the highest import productivity.

Table 21 examined the total FDI stock, FDI stock as a share of FDI to Latin America and the Caribbean, and FDI stock as a share of Gross Fixed Capital Formation (GFCF).

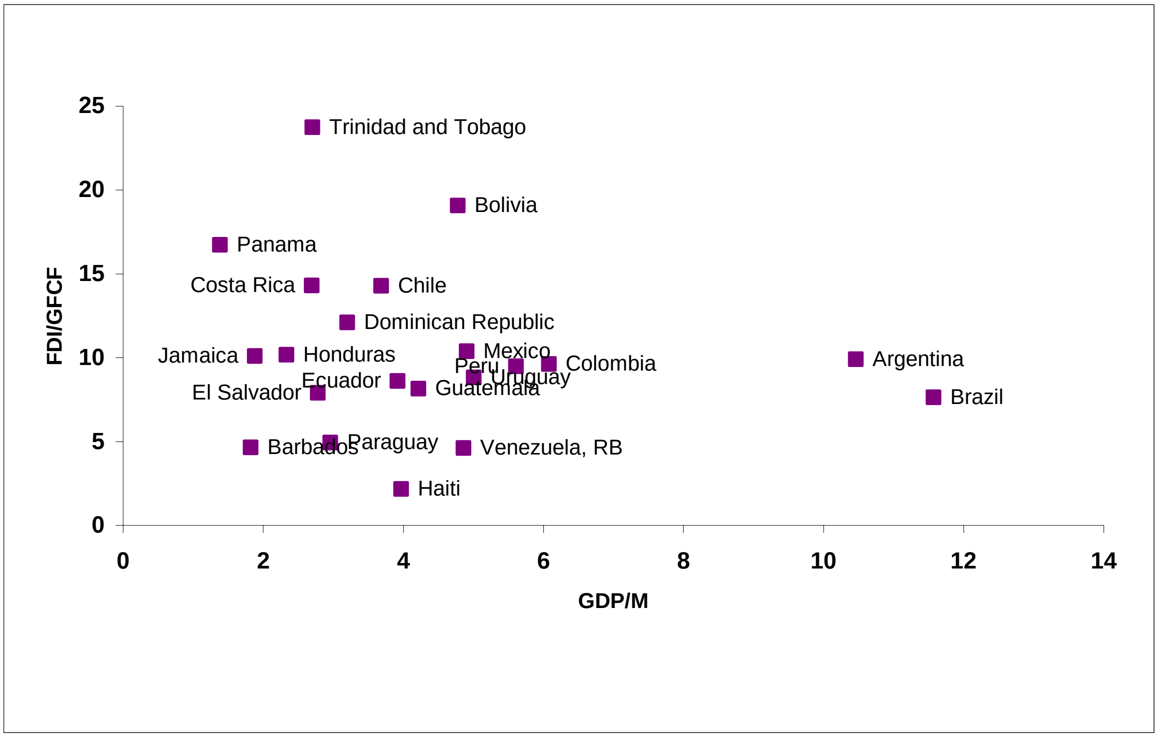
Table 21
INWARD FLOWS OF FDI STOCK

	FDI Stock, 2007 (US$ million)	FDI Stock , percent of LAC total, 2007	FDI Stock, percent of GFCF
Argentina	67 574.0	6.0	112.0
Barbados	789.9	0.1	117.9
Bolivia	5 485.0	0.5	259.0
Brazil	309 668.0	27.5	127.4
Chile	99 488.2	8.8	295.2
Colombia	56 448.4	5.0	137.1
Costa Rica	8 802.8	0.8	154.9
Dominican Republic	8 253.0	0.7	110.6
Ecuador	10 326.0	0.9	100.4
El Salvador	5 916.3	0.5	180.2
Guatemala	4 617.6	0.4	67.2
Haiti	385.6	0.0	45.7
Honduras	4 223.8	0.4	112.8
Jamaica	8 667.2	0.8	236.3
Mexico	272 730.6	24.2	146.8
Panama	14 572.2	1.3	366.5
Paraguay	2 223.8	0.2	87.5
Peru	26 807.7	2.4	120.0
Trinidad and Tobago	13 367.9	1.2	277.3
Uruguay	6 356.0	0.6	198.0
Venezuela, RB	43 957.0	3.9	81.5
LAC Average	35 159.7	3.1	246.8
World Average	74 573.8	6.6	391.0

Sources: World Investment Report 2009, World Development Indicators online database
Note*:* LAC – Latin America and the Caribbean

As demonstrated in table 19, Brazil and Mexico accounted for just over 50% of FDI stock: however, FDI as a share of GFCF was very large for a variety of countries, which suggested that FDI inflows had had a considerable impact on capital formation in these countries. Figure 3 reports the relationship between the ratio of inward FDI to GDP and average import productivity growth over the period 1980-2007. There were a number of countries for which the FDI ratio was high, but average import productivity was low, among which were Trinidad and Tobago, Panama and Bolivia. Argentina and Brazil had relatively low FDI to GFCF ratios but high average import productivity. The next section reports the estimation results.

Figure 3
AVERAGE IMPORT PRODUCTIVITY VERSUS INVESTMENT, 1980-2007



Sources*:* World Investment Report 2009, World Development Indicators Online Database

4. Estimation results

The methodology employed was a panel fixed effects approach with the sample period averaged every two years to reduce the variability of FDI at the annual level. This resulted in a total of 14 observations for the 21 countries.[26] The balanced sample was computed in Winrats 7.30 while accounting for threshold effects using Hansen (1999) method. A variety of formulations were employed to ascertain the robustness of the results and these are reported in table 22.

The first column reports the variables, followed by the coefficients for the various formulations. The ‘t’ statistics are in brackets, the variables preceded by deltas are the log changes, and the results are for robust errors estimation. The first formulation assumed no threshold effects and the log changes in employment and FDI were significant at the 5% level, while domestic investment was almost significant at this level.

A quadratic relation $\Delta \mathbf{k}^2_{\mathbf{d_{it}}}$ was tried to capture any nonlinear effects between changes in domestic investment and import productivity growth, but this was insignificant. The log change in the ratio of m2 to GDP was significant with a negative coefficient, while the level of openness was positive and significant at the 5% level.

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26 The time series properties of the data were examined to determine if they were stationary. The results for a variety of panel unit root tests suggest that the variables were all $I(1)$, but tests for co integration proved inconclusive, which then allowed us to model import productivity growth as a short run relationship.

Table 22
PANEL FIXED EFFECTS, REGRESSION RESULTS

Independent variables	Dependent variable, log change in import productivity			
	Δy_{it} (1)	Δy_{it} (2)	Δy_{it} (3)	Δy_{it} (4)
Δl	.377(9.27)	.382(9.96)	.37(9.42)	.379(9.58)
$\Delta k_{f_{it}}$	.033(2.16)	-.09(-1.04)	-	-
$\Delta k_{f_{it}} * H_{it}$	-	-	-.07(-1.67)	-.08(-1.74)
$\Delta k_{d_{it}}$	.253(1.93)	.232(1.74)	.257(1.89)	.288(4.19)
$\Delta k^2_{d_{it}}$	-.097(-.41)	-0.08(-0.39)	-0.10(-0.44)	-
$\Delta k_{d_{it}} * H_{it}$	.115(.280)	.213(.495)	.11(0.26)	-
$H_{it} \leq \lambda_1$	-	-0.25(-3.09)	-0.12(-4.33)	-.126(8.59)
$H_{it} > \lambda_1$		0.12(1.39)		
$\lambda_1 < H_{ij} \leq \lambda_2$	-	-	0.036(2.56)	.038(2.35)
$\lambda_2 < H_{ij}$	-	-	.061(2.52)	.06(2.88)
thresh 1	-	.0228(1 st pctile)	.0228(1 st pctile)	.0228(1 st pctile)
thresh 2	-	-	.2278(99th pctile)	.2278(99th pctile)
H_{it}	-	0.38(1.92)	-	
$\Delta m2gdp$	-.099(3.08)	-0.09(-3.01)	-0.09(-2.67)	-.09(-2.70)
Lopen	.006(2.71)	.003(0.99)	.006(2.78)	.004(3.50)
$\overline{R}^2$	0.39	0.39	.394	.395

Note*:* All variables except the last three are divided by imports.

In the second formulation, a single threshold value was found at the 1 percentile of the sample with a value of 0.022 years of education. The change in the labour force was positively and significantly related to import productivity growth, but the change in FDI stock was found to be insignificant. Domestic investment was not significant at the usual 5% level but the coefficient was positive, while the human capital variable[27] H was almost significant at that level. The log change in the ratio of m2 to GDP was significant and negative while openness (lopen) was not.

The threshold value was highly significant and negative, which suggested that, at relatively low levels of tertiary education, changes in FDI did not promote import productivity growth. The coefficient for the threshold value beyond 0.0228 was insignificant but positive. The findings were in line with the study by Dulleck and Foster (2007) on the impact of imported capital goods on growth for a large number of countries.

[27] The average number of years of tertiary education

In the third formulation, two threshold values were found, with the second threshold at .2278 years of education reported at the 99th percentile of the sample. In addition, the results showed that the threshold effects at low levels of education were confirmed as negative, but as positive and highly significant at higher levels of education.

In the final formulation, the coefficients $\Delta k^2_{d_{it}}$ and $\Delta k_{f_{it}} * H_{it}$ were restricted to zero and the hypothesis was accepted at the 5% level of significance. As a result, these coefficients were dropped. The final results showed even stronger effects for the threshold values, suggesting that the human capital variable had a strong impact on the efficacy and importance of FDI in raising import productivity growth.

B. Conclusions

This section found that changes in inward FDI had a positive effect on import productivity growth in Latin America and the Caribbean due to the influence of the level of human capital development on FDI. The results vary by level of human capital development; thus, at low levels of human capital development, inward FDI was found to have negative impacts on import productivity growth. These so-called threshold effects were found to be highly significant.

A variety of reasons have been offered to explain the negative impact of changes in FDI on growth. On the one hand, higher levels of FDI may lead to inequality, which may impact growth negatively when human capital development is low. On the other hand, it may be that highly sophisticated FDI flows are unproductive in countries that do not have the capacity to absorb such investment, or to take advantage of the technologies they embody and, at the same time, there is likely to be limited technology spillover to other sectors and industries outside of FDI activities. It may also be that such technologies crowd out local domestic activity, thus lowering total growth.

The overall results suggest that there can be positive effects between changes in FDI and import productivity growth if there is a certain level of human capital development. The implication is that more focus should be placed on a faster investment in human capital development to complement the current focus on incentives to raise the level of FDI.

III. LEAKAGES AND LINKAGES: TOWARDS A TOURISM-BASED SERVICE ECONOMY IN THE CARIBBEAN

A. INTRODUCTION

In the early 1980s, on the heels of the decline of the agricultural sector, tourism emerged as the principal driver of economic growth in the Caribbean.[28] The tourism sector has contributed a significant share to GDP in economies such as Jamaica (27%), the Dominican Republic (16%), Cuba (10%), and the Bahamas (50%). The importance of tourism became even more apparent in smaller island economies such as Aruba (67%), Saint Lucia (37%), Barbados (39%), and Anguilla (66%)[29]

The global economic recession of 2008/2009 resulted in significant impacts on these highly tourism-dependent economies, as dampened investor confidence – along with substantial job losses in tourism source markets such as Europe and North America – reduced travel demand worldwide. In response, many Caribbean governments implemented limited fiscal stimulus programmes to minimize the impact of the economic crisis.

However, evidence of the Caribbean development experience since the 1960s, characterized by openness, and increased vulnerability to natural hazards and the threat of climate change, has given rise to proposals for an innovative development strategy for the Caribbean (World Bank 2005 and others). Such a strategy advocates the expansion of the tourism sector into a region-wide, full-service economy better equipped to withstand economic shocks. Underpinning this approach is the fundamental notion of enhanced intersectoral linkages and the reduction of leakages from the tourism sector.

This section discusses the issue of leakages in the Caribbean tourism sector and assesses the prospects for reducing them. It also profiles the status of tourism linkages, and analyses prospects for enhancing these within a full-service economy. The discussion is framed by a review of the earnings performance of the tourism sector in the Caribbean.

B. CARIBBEAN TOURISM SECTOR PERFORMANCE AND EARNINGS

According to the World Tourism Organization (2009), approximately 20.2 million persons visited the Caribbean region[30] in 2008, representing 2.2% of international tourist arrivals in that year. In fact, the Caribbean received 22.2 million stay-over arrivals in 2006, from which it earned approximately US$ 21 billion in tourism revenues (Andrew, 2007). The Caribbean is also the world's leading cruise destination and hosted 19.2 million cruise visitors in 2006, with a slight decline to 18.2 million cruise visitors in 2008 (CTO, 2009).

The competitiveness of the Caribbean in the global tourism industry has been apparent since 1970, when the growth rate in tourist arrivals consistently exceeded the world average, until the significant falloff in arrivals occasioned by the terrorist attacks in the United States in 2001. As noted by Andrew (2007), the Caribbean has managed, since the 1970s and with only 1% of the world's population,

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[28] The exceptions are Trinidad and Tobago, Guyana, and Suriname, where the extraction of petroleum, and other minerals (bauxite, and gold), as well as agriculture (sugar and rice) continue to be the major contributors to economic growth.

[29] See table 3 for a full listing of Caribbean countries.

[30] The Caribbean region is defined here to include the 34 Caribbean Tourism Organization (CTO) member States which include island States bordering the Caribbean Sea, as well as mainland territories such as Guyana and Suriname, and tourism-specific regions of mainland territories, such as Cancun and Cozumel.

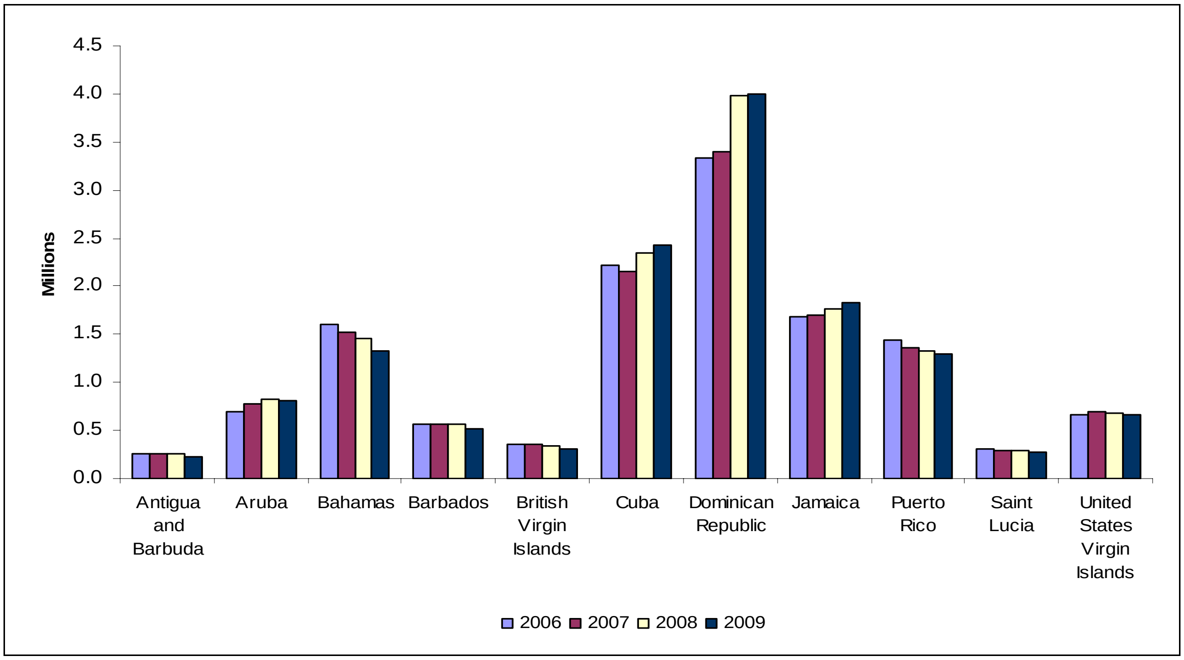
to attract roughly 3% of global tourism arrivals, from which it has collected a similar percentage of global tourism expenditures.

Among the many regional Caribbean destinations, the Dominican Republic and Cuba are dominant players, having attracted 4.0 million and 2.4 million stay-over visitors, respectively, in 2009 (CTO, 2010). However, other major recipient destinations in 2009 included Jamaica (1.8 million), and the Bahamas and Puerto Rico with approximately 1.3 million arrivals each. Smaller island destinations also attracted significant numbers of visitors relative to their populations, with Aruba and United States Virgin Islands receiving 812,623 and 666,051, respectively, in the same year. Barbados recorded 518,564 visitors while Martinique and Saint Maarten recorded just under 450,000 stay-over visitors, and Trinidad and Tobago received just over 300,000 tourist arrivals in 2009. In all cases, except Cuba, the Dominican Republic and Jamaica, these figures represent slight declines from 2008, reflecting the overall global contraction in tourism travel between 2008 and 2009.

Preliminary figures for the first quarter of 2010, however, suggest that the Caribbean has begun to rebound from this decline, with the Dominican Republic showing average arrivals of 407,291 during 2010, compared to 391,937 in the first quarter of 2009. Similarly, Aruba increased its first quarter average arrivals by just over 6%, from 67,929 in 2009 to 72,121 in 2010. A similar trend was apparent for the smaller Anglophone destinations. Barbados increased its average first quarter stay-over tourist arrivals from 48,510 in 2009, to 49,497 in 2010, while Antigua and Barbuda also recorded a slight increase, from 23,473 to 23,504 between 2009 and 2010. A summary of stay-over arrivals for selected Caribbean destinations is presented in figure 4.

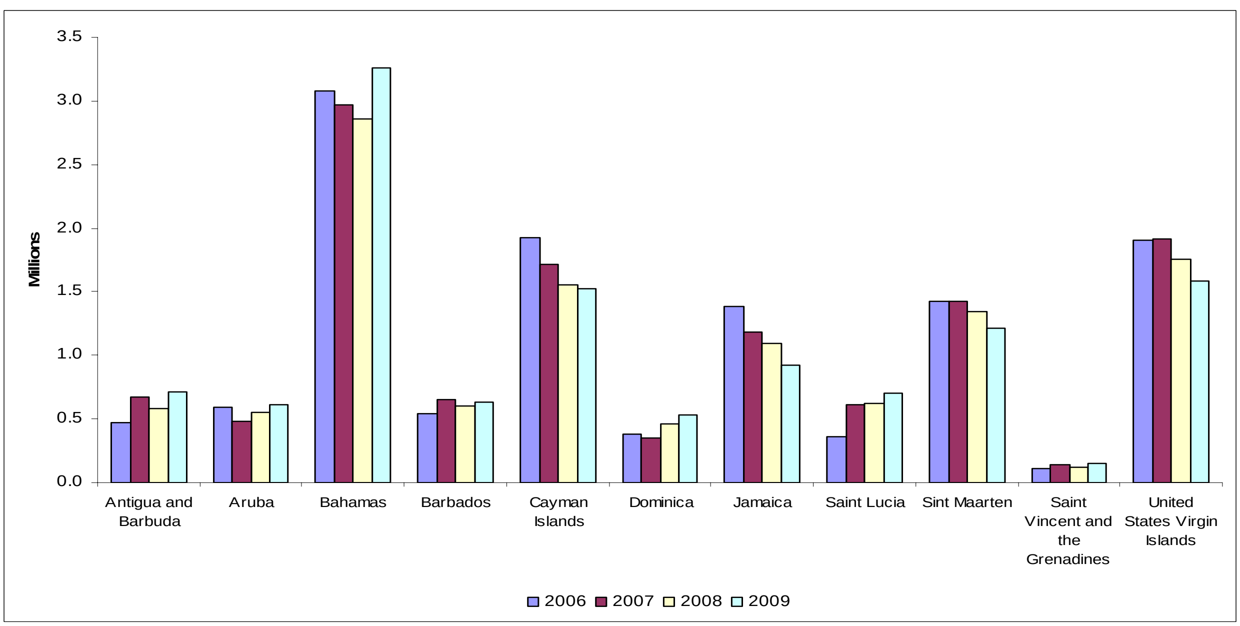
The Bahamas, one of the most popular cruise tourism destinations in the Caribbean, received some 3.3 million cruisers in 2009. United States Virgin Islands, Puerto Rico and Cayman Islands, other main cruise destinations, received 1.6 million, 1.1 million and 1.5 million cruise visitors, respectively, during 2009. Although cruise travel to the Caribbean also declined between 2008 and 2009, the performance of this sector in the first quarters of 2009 and 2010 has been mixed. Major cruise destinations such as the Bahamas and Cayman Islands recorded positive growth of 12.4% and 2.3%, respectively, between 2009 and 2010. Other destinations, however, continued to experience declines, with Jamaica (-13.7%) and Antigua and Barbuda (-17.5%) recording the most significant declines between the first quarters of 2009 and 2010. A summary of cruise-ship arrivals for selected Caribbean countries is presented in figure 5.

Figure 4
TOURISM STAY-OVER ARRIVALS FOR SELECTED CARIBBEAN COUNTRIES, 2006-2009



Source*:* Caribbean Tourism Organization, 2010

Figure 5
ANNUAL CRUISE SHIP PASSENGER ARRIVALS FOR SELECTED CARIBBEAN COUNTRIES, 2006-2009



Source*:* Caribbean Tourism Organization, 2010

The dominance of the tourism sector in the Caribbean is evidenced by its contribution to GDP, employment and foreign exchange earnings. Piraszewska (2006) noted that in 2001, the contribution of tourism to GDP ranged from a low of 6.9% for Curacao to a high of 95.2% for the British Virgin Islands. A subsequent study by the World Travel and Tourism Council (WTTC) in 2008 updated these figures to show that the contribution of tourism to GDP was lowest in Suriname (4.4%), and highest in Antigua and Barbuda (73.5%). WTTC also observed that 16 out of 23 countries earned more than 20% of their GDP from tourism and travel-related activities.

Tourism is an even more important contributor to employment generation in the Caribbean. The highest share of employment by the tourism sector was recorded by Antigua and Barbuda (80.6%), while in Suriname only 4% of the labour force was employed in 2008 (WTTC, 2009). Other countries with high tourism-sector employment shares included Aruba (78.6%), Anguilla (67.6%), the Bahamas (60.4%), and Barbados (43.7%). Indeed, WTTC observed that the Caribbean tourism sector provided employment for more than 20% of the workforce. Figure 6 summarizes tourism GDP and employment shares for selected Caribbean countries.

The tourism sector is crucial to small open economies, maintaining the trade balance and generating foreign exchange from visitor expenditures, reflected as services in the balance of payments. Figures from the World Tourism Organization show that the Dominican Republic earned some US$ 4.176 billion in 2008, representing the largest share of tourism receipts among Caribbean economies for that year. Significant shares of earnings were also recorded for Puerto Rico (US$ 3.644 billion), Cuba (US$ 2.45 billion), the Bahamas (US$ 2.153 billion), and Jamaica (US$ 1.984 billion). Overall, WTTC estimated visitor export earnings to Caribbean economies of US$ 28.4 billion dollars, which represented 18.6% of total Caribbean exports in 2009 (WTTC, 2009). Tourism earnings for selected countries in the Caribbean are summarized in table 23.

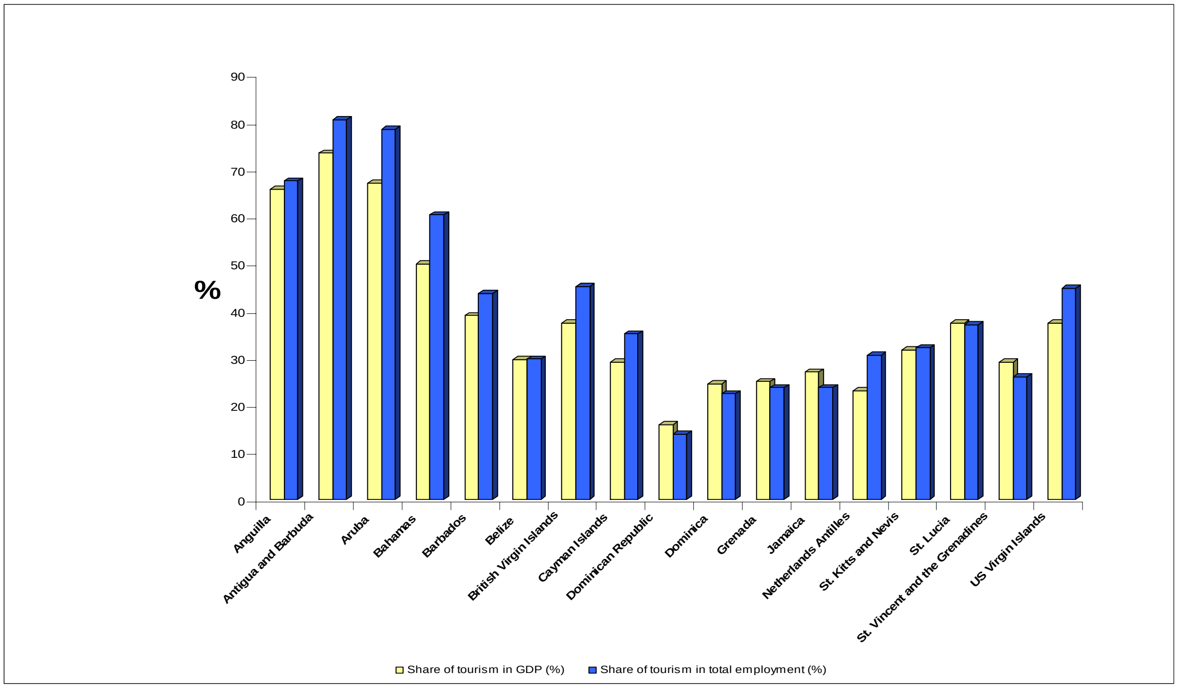
Notwithstanding these significant levels of receipts, the Caribbean tourism sector has suffered substantial economic leakages. Defined as ‘the loss of foreign exchange and other hidden costs deriving from tourism-related activities (Supradist, 2004), leakages have been assessed to range from between 40% to 60% of total tourism earnings for many small island destinations (Hemmati and Koehler, 2008). While up-to-date figures were unavailable, Supradist (2004) cited previous leakage estimates of 90% for Mauritius in 1965, 60% for the Seychelles in 1973, 44.8% for Saint Lucia in 1978, and 40% for Jamaica in 1991.

Leakages are categorized as: (a) internal, (b) external, and (c) invisible (Meyer, 2006). Internal leakages relate primarily to imports of inputs such as food, furniture and building materials for use in the tourism sector, while external leakages represent the tourism value-added, captured by intermediaries such as airlines, travel agencies and tour operators in tourism source markets. Invisible leakages are real losses or opportunity costs which arise contingent upon business efforts at tax avoidance, offshore savings and investment, and informal currency exchange transactions (Meyer, 2006). Goodwin (2008) has also identified the repatriation of profits to foreign investors or transnational corporations as a major source of leakage from the Caribbean tourism enterprise.

Such high levels of sector losses have imposed high environmental and cultural costs on the local population, and suggest that the Caribbean has not been able to extract the fullest economic benefits from its investment in the tourism sector. Indeed, Goodwin (2008) has pointed out that, since leakages minimize the benefits to be derived from tourism, the multiplier effects of the sector on the rest of the Caribbean economy have been considerably reduced.

Figure 6

CONTRIBUTION OF TOURISM TO GDP AND EMPLOYMENT FOR SELECTED CARIBBEAN COUNTRIES, 2008-2009



Source*:* World Travel and Tourism Council, 2009

Table 23

SELECTED CARIBBEAN COUNTRIES:
INTERNATIONAL TOURISM RECEIPTS, 2006-2009
(Billions of United States dollars)

Country	2006	2007	2008	2009
Antigua and Barbuda	0.35	0.34	0.33	0.31
Aruba	0.11	0.13	0.14	…
Bahamas (the)	2.06	2.19	2.15	1.94
Barbados	0.53	0.60	0.60	…
Cuba	2.13	2.31	2.45	…
Dominica	0.71	0.74	0.71	0.67
Dominican Republic	3.92	4.06	4.18	…
Grenada	0.93	0.11	0.11	0.98
Jamaica	1.87	1.91	1.98	1.93
Puerto Rico	3.37	3.41	3.64	…
Saint Lucia	0.29	0.30	0.31	0.30
Saint Vincent and the Grenadines	0.11	0.11	0.96	0.87

Sources: World Tourism Organization (UNWTO), World Tourism Barometer, vol.7, No.3, Madrid, 2009; ECLAC Subregional Headquarters for the Caribbean, Country notes, 2009-2010, Port-of-Spain

C. CAUSES OF TOURISM LEAKAGES

Possibly the single most important factor accounting for these high levels of leakage in contemporary tourism development in the Caribbean has been the emergence of package tourism, otherwise known as all-inclusive resort-style tourism. This development first took root in the Caribbean during the early 1980s, with the emergence of multinational branded vacation packages offered by Club-Med, Super-Clubs and Sandals resorts, among others (Platullo, 1996). These full-service packages offered guests hotel accommodation, meals, airline and ground transportation, and even ground tours, for a fee normally paid outside the destination country. By the mid-1990s, an assessment of the impact of all-inclusive tourism packages on local economies provided the earliest signs of their contribution to economic leakage. An Organisation of American States (OAS) case study of all-inclusive resorts in Jamaica in 1994 concluded that, while these hotels generated the largest share of revenues among all accommodations, 'their impact on the economy is smaller per dollar of revenue than other accommodation sub-sectors' (Platullo, 1996). Moreover, all-inclusive resorts were judged to have imported more, and employed fewer, persons per dollar of revenue compared to other hotels during the 1990s (Platullo, 1996). At the same time, however, all-inclusive resorts were observed to make a greater direct contribution to national GDP, through the creation of employment, an element considered to be their most significant role in national economies of the Caribbean.

The overall level of development has been identified as an important factor, since more highly-developed economies are more capable of supplying locally the inputs needed by the tourism plant in both construction and operational stages (Supradist, 2004). Moreover, Hemmati and Koehler (2008) observed that there was a higher probability of gross tourism expenditures exceeding tourism sector earnings in poorer countries when compared to more developed ones, especially where the less-developed economy was unable to supply tourism inputs from local sources. This issue was also related to the degree of diversification of the economy, since tourism drew on a diverse range of inputs, skills, and institutions in order to remain globally competitive. Hence, a low level of economic diversification also enhanced the prospects for significant economic leakages.

Government policy with respect to FDI has also been important in mitigating leakages. Jamaica, with a more deliberate policy of promoting local ownership of the tourism plant, recorded leakages of roughly 40% in the mid-1990s compared to the Bahamas, where leakage rates approached 90% at that time (Meyer, 2006). Evidently, a FDI strategy which encouraged greater joint ownership between local and international investors is considered to be an important prerequisite for avoiding revenue leakage (Hemmati and Koehler, 2008).

Finally, other related factors, such as domestic business power, type and dispersion of business ownership (such as the all-inclusive tourism business model), scale of operation, and stage and degree of economic growth, have all been identified as critical in determining the level of economic leakage in the tourism sector (Supradist, 2004).

D. ADDRESSING LEAKAGES – PROSPECTS FOR STRENGTHENING LINKAGES

Given the challenges related to leakages, several analyses (World Bank, 2008) contend that the future evolution of the Caribbean tourism sector will depend on an enhanced integration process. The strategy of building intersectoral and international trade linkages would be paramount in improving overall competitiveness. Linkages are deemed to have been improved in situations where the tourism sector enjoys greater collaboration with, and usage of, other economic sectors, so that the total tourism product is enhanced (Meyer, 2006). Linkages also generate synergistic effects among heretofore disconnected sectors, such that growth in the tourism sector stimulates growth in the total economy. In the specific case of agriculture and tourism, linkages may be described as a clustering approach in which a "geographic concentration of interconnected companies in a particular field are linked by commonalities and complementarities."[31] Hence, strengthening intersectoral linkages would play a key strategic role in reducing economic leakages in Caribbean tourism, since increased linkages could reduce import content by substituting foreign imports of goods and services with locally-produced supplies. The underlying assumption is that the appropriate incentives and policy framework exist, that would foster the development of competitive economic sectors which could provide the necessary synergies.

Prospects for strengthening linkages and, by extension, reducing tourism leakages, will depend on the capacity to overcome a number of structural challenges. Among the most notable of these are the following:

(a) Low total factor productivity: This results in relatively higher production costs, and creates a disincentive to use locally produced goods and services in national tourism sectors. Such costs are measured, not only monetarily, but also in terms of the quality and reliability of supply.

(b) High tariff dispersion and trade costs: Relatively high trade costs also affect the supply of goods and services. While efforts at trade harmonization are afoot – through the agency of the CARICOM Single Market and Economy– adequate progress on this front remains too gradual to benefit the Caribbean tourism sector.

(c) Weak investment regimes, with little local engagement with FDI.

(d) Weak public institutions and inefficient governance structures.

All of these factors have operated to limit growth or cause decline of fledging agricultural, manufacturing, and financial services sectors in the Caribbean.[32] At the same time, these factors have not encouraged the development of service sectors of great potential (such as the creative industries, performing arts, crafts, and ancillary services) critical for sustaining the mature tourism industry of the Caribbean.

On the assumption that such structural challenges can be addressed, the issues of leakages and linkages could be resolved by the development of a tourism-based full-service economy for the Caribbean. Indeed, Erikson and Lawrence (2008) have argued that "expanding the competitiveness of the Caribbean services sector beyond tourism is a way to draw in the strengths of the Caribbean while creating more sustainable economic growth." Improving linkages can be realized through strategies for strengthening the current tourism value chain, as well as through the addition of new services, technologies, and public-private partnerships and investments. Erikson and Lawrence (2008) have suggested a number of possibilities.

Among the most commonly-advocated approaches to building robustness into the Caribbean tourism sector has been the promotion of agro-tourism linkages (McBain, 2007 and others). Specialized domestic agriculture[33] is considered to hold tremendous potential for supplementing the tourism sector's high food-import content. This would provide a strong stimulus to domestic agriculture and the food processing sector, and add value to the historical agricultural heritage of the Caribbean in the export of traditional commodities (such as sugar, bananas and coffee), and in the processing of specialty products (spices, chocolates, coconut candies and oils, rums).

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31 Cited by McBain (2007)

32 The exception is the mining sector which includes oil and gas in Trinidad and Tobago, bauxite in Jamaica, Guyana and Suriname, and gold in Guyana and Suriname. Significantly, these sectors have been sustained by a regime of long-term direct foreign investment which, typically, has created relatively low levels of direct employment in Caribbean economies.

33 It is important to distinguish this type of agriculture from the traditional systems in which commodities such as sugar, bananas, coffee and rice have been produced for export to preferential markets. Tourism- specialized agriculture must be able to produce quality highly-valued commodities such as vegetables, tropical fruit, spices and condiments, roots and tubers, tropical cut flowers, and livestock and seafood products for use in the hotel and restaurant sector.

Health and wellness services, although already developed to a limited degree in the Caribbean, are another potential area for strengthening linkages with the tourism sector. There is still considerable capacity for growth in markets such as health spas, herbal treatments, alternative medicines and other healthy lifestyle services. This niche will allow the Caribbean to take comparative advantage of its year-round warm weather, highly-valued environmental amenities and generally relaxed way of life, by offering a wider range of rehabilitative and recuperative services.

The tourism sector could also be enhanced through stronger linkages and reduced leakages with regional handicraft producers and artisans. Building synergies with such producers could enable them to become significant suppliers of interior design elements, such as draperies, wall hangings, paintings, ceramics, upholstery, cushions and rugs, bathroom furnishings, lamps and lighting fixtures, placemats and other basic furnishings. The estimated room stock of 225,245 on offer in the Caribbean at the end of 2009 (Freitag, 2009) represents a potential market for artisanal products.

As a complex of economic activities, yachting and boating services also afford considerable prospects for expanding tourism services in the Caribbean. Notwithstanding a scarcity of data, the Economic Commission for Latin America and the Caribbean (ECLAC, 2004) assessed the earnings from this subsector to range from US$ 3 million to US$ 5 million for Dominica, to US$ 100 million for the British Virgin Islands.[34] The set of related activities includes charter operations, marinas and ancillary services, haul out facilities, provisioning, marine services, sail-making, engine repair and electronics. Moreover, yachting and boating services form natural linkages with the local heritage of sea-craft building and general seamanship.

Educational services are another avenue through which Caribbean tourism can enhance linkages and reduce leakages. Apart from the proven success of diverse academic institutions of engineering, agriculture, and medicine,[35] the potential exists to attract other types of learning institutions, such as language academies, arts and cultural training centres, business schools, maritime training institutes, and tourism and hospitality training schools. Such diversification of the services sector would minimise seasonal excess capacity in travel and accommodation services.

Finally, information and communications technology (ICT) holds the potential for both direct and indirect impacts on the tourism sector. ICT can enhance the current tourism product by improving efficiency in key functional areas such as customer services, product marketing, inventory management, and tour planning and operations and other logistics. Other prospective ICT markets include the provision of back office services, such as for Internet gaming. Critical to achieving these benefits will be an appropriate environment to promote private sector participation, through public sector investment in infrastructure and human resources (a need which previous, largely unsuccessful efforts to establish call centres has demonstrated), and an effective and efficient regulatory policy framework.

E. CONCLUSION

The Caribbean remains one of the most competitive tourism-dependent areas in the world. Over the past two decades, global developments have urged the need for a strategic approach to development, especially given the emerging threats to its global tourism competitiveness. Part of that threat lies in the prevailing weaknesses of low levels of intersectoral linkages and high rates of leakage, factors which have combined to undermine the full potential of economic and social benefits of tourism to the Caribbean.

The pursuit of strategies to strengthen such linkages and, by extension, to minimize leakages, must include a broader development paradigm which seeks to explore hitherto unexploited areas in order to become a full service-based economy. However, several preconditions are necessary to achieve this,

[34] Figures estimated for the period 1998 to 2000.
[35] St. George’s Medical University, Grenada and Ross University in Dominica are successful examples.

chief among which are a strengthened institutional framework, enhanced human resource capacity, and a broader market space.

IV. COUNTRY BRIEFS

A. THE BAHAMAS

1. General trends

Recessionary conditions in the Bahamas deepened in 2009, with real GDP falling by 4.3%. Weakened tourism demand in major markets led to a decline in stay-over arrivals and reduced average spending. Value added in offshore financial services was also down due to the recession in major markets. The slump in activity led to a sharp increase in unemployment to 14.2%. Inflation moderated to 1.6% because of declining oil and other commodity prices.

The fiscal situation poses a challenge to the Bahamas owing to the sharply expanded deficit, caused by countercyclical stimulus measures that were designed to mitigate the effects on growth and employment. With external reserves high due in part to sluggish credit growth, the central bank benchmark discount rate and the commercial bank prime lending rate both remained at existing levels. The current account deficit narrowed as a result of a fall in fuel prices and reduced demand for imports by households and firms.

The contraction in economic activity is expected to ease in 2010 as stay-over tourism rebounds due to the recovery in the United States of America. The country will remain in recession, however, with negative growth projected at -0.5%. The fiscal deficit and debt levels are expected to increase as tax receipts remain weak and capital spending expands. The balance of payments current account deficit will widen, owing to higher oil prices and increased imports due to improved household incomes.

Indicators point to some stabilization of the economy in the first quarter of 2010. Stay-over tourism improved, partly in response to incentive promotion, while construction activity was stagnant. The fiscal deficit improved due to an increase in revenue and a marginal decline in spending. Liquidity in the banking system improved marginally amid sluggish credit growth. Meanwhile, the balance of payments current account deficit was estimated to have widened due to an increase in the trade deficit and higher outflows of labour income remittances that offset the improved surplus on the services account.

2. Economic policy

(a) Fiscal policy

The fiscal position deteriorated in calendar year 2009 as the downturn in activity squeezed revenues while the government increased expenditures through countercyclical spending and unemployment relief payments. As a result, the overall deficit doubled to B$ 250 million (3.4% of GDP), from 1.7% of GDP in 2008. Total revenues declined by 7.2% to B$ 1,334 million, an amount that was less than expected for the year. Tax receipts, which represented 80% of total revenue, were hard hit by the slump in domestic demand and imports and a fall in tourism tax revenues. Meanwhile, non-tax revenues rose by 71% to B$ 271 million, buoyed by the sale of a business entity and dividends from a public corporation.

Total expenditure increased by 1.6% to B$ 1,584 million, reflecting countercyclical fiscal stimuli and higher outlays for debt interest costs. In contrast, capital spending fell by 6.2% to B$ 161 million, owing to a 55% decline in spending on asset acquisitions and a modest drop in allocations for infrastructure projects.

The public sector debt, including government-guaranteed debt expanded sharply from B$ 3,213.1 million (42.5% of GDP) in calendar year 2008 to B$ 3,901.3 million (53.6% of GDP) in 2009. This spike in the debt is a concern to the government which has programmed a primary surplus of about 3% of GDP over the medium-term to bring the debt level down to around 45% of GDP. Nevertheless, Standard and Poor's has downgraded the long-term sovereign credit rating of the Bahamas one notch to BBB+.[36]

In FY[37] 2009/2010, the overall deficit is expected to overshoot its target of 3.9% of GDP and reach 5.7% of GDP, due to a B$ 94 million shortfall in revenue associated with weak economic activity and a modest increase in total expenditure on continued fiscal stimulus measures. Meanwhile, the budget for 2010/2011 projects a significant fall in the deficit from the previous 5.7% of GDP to 3.0% of GDP in 2010/2011. This improvement would result from cuts in the salaries of parliamentarians, reduced outlays on goods and services and contained growth in capital expenditure. Consequently, public sector debt is expected to remain stable in 2011.

During the first quarter of calendar year 2010, the fiscal deficit narrowed by almost 13% to B$ 76.8 million, relative to the first quarter of 2010. A timing-related increase in receipts from taxes on business and professional licence fees boosted total revenues, while current expenditure declined marginally, owing to a fall in current spending.

(b) Monetary and exchange rate policy

Monetary policy was aimed at sustaining reserves to support the stability of the pegged exchange rate. Despite the sharp slowdown in the economy in 2009 and lower-than-average inflation that would have provided some leverage, the central bank did not provide any monetary stimulus in 2009. The Bank kept its benchmark discount rate constant at 5.25% and commercial bank prime lending rate also held steady at 5.50%.

Liquidity and foreign reserves of the banking system rose sharply in 2009, bolstered by sluggish credit growth and inflows from government foreign currency borrowings. Amid growing uncertainty and weakened private sector demand, growth in domestic credit slowed to 1.5% in 2009, compared with 6.5% in 2008. Notably, all categories of consumer credit, which accounted for the bulk of private sector credit, experienced declines, as individuals focused on reducing their debt levels. Growth in the broad money supply slowed to 1.8% compared with 5.2% in 2008, mainly due to a 2.4% decline in savings deposits stemming from a decline in incomes, higher unemployment, and a switch to higher interest-earning time deposits.

The net foreign assets of the banking system were bolstered in 2009, reversing their position from 2008. Reserves were boosted by B$ 178.8 million under the IMF global initiative to combat the recession. Although the banking system remained fairly stable in 2009, commercial banks' credit quality deteriorated as the decline in disposable income and rising unemployment affected the ability of customers to service their debt. By February 2010, total non-performing loans (those in arrears for more than 90 days on which banks stopped accruing interest) had increased by 1.7% to B$ 595.8 million.

In 2009, the central bank advanced a programme to improve the administration of exchange controls to promote capital account liberalization, including overseas investment by the National Insurance Board. The central bank has eliminated the requirement for completion of manual forms for foreign currency sales and for current transactions below a certain dollar threshold. The exchange rate remained stable in 2009 with the banks buying and selling United States dollars from and to commercial banks at US$ 1.00 = B$ 1.00 and US$ 1.00 = B$1.0025, respectively.

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[36] Intermediate credit rating, capacity to meet its financial obligation but faces major ongoing uncertainties

[37] Financial year

3. The main variables

(a) Economic activity

The recession in the United States, led to a fall in stay-over tourist arrivals in the Bahamas which adversely affected economic activity. Real output contracted by 4.3% in 2009, relative to a decline of 1.7% in 2008. Value-added in the mainstay tourism sector, that represents about 40% of GDP, fell sharply by 8.2%, owing to a 9.3% decline in the higher-spending stay-over visitors, despite some cushion provided by the hosting of the Miss Universe Pageant and a FIFA World Cup meeting.

Real value-added in tourism was also affected by rate discounting and other incentive packages, leading to a decline in average daily room rates of 8.3%. Average occupancy rates fell by 4.7 percentage points to 49.4% and total visitor expenditure contracted by 10%, compared with a decline of 1.8% in 2008.

Activity in construction (6% of GDP) slumped in 2009 (-18.4%) continuing a worsening trend that began in 2007 that reflects reduced investor appetite for risks in the wake of the global recession.

Indications are that activity in the offshore financial services sector was down in 2009. The number of banks and trust licenses increased by one, and the number of private trust companies was up by twelve to 50. Trusts increased by nine, influenced by compliance by firms with the consolidated supervision of banks and trust companies. Nevertheless, offshore companies reduced their local spending in the economy.

The economy is expected to moderate somewhat in 2010 with growth of -0.5%. Stopover tourist arrivals will increase marginally as the recovery continues in the United States; construction will pick up as foreign investment strengthens and offshore financial services are expected to rebound.

The economy stabilized somewhat in the first quarter of 2010, influenced in part by the modest recovery in global markets. Total visitor arrivals rose by 9.2%, compared to a decline of 2.9% in the first quarter of 2009. Hotel earnings improved, owing to higher occupancy rates and increased average daily room rates. By contrast, construction activity weakened amidst sluggish foreign direct investment and a slowdown in domestically-funded construction.

(b) Prices, wages and employment

Reflecting lower housing costs and the pass-through effects of lower international prices of fuel and other commodities, the end-of-year rate of inflation stood at 1.6% in 2009, relative to 4.6% in 2008. Housing costs, the most heavily weighted item in the index, fell by 0.3%, compared to an increase of 3.2% in 2008. This drop is partially linked to lower construction material costs. A welcome development was the substantial moderation in the rise of food prices (1%), relative to 9.1% in 2008. This reduction eased the burden on households in an environment of reduced employment and income. Inflation is expected to pick up in 2010, propelled by higher fuel prices and a nascent recovery that stimulates internal demand.

Inflation was kept in check in the first quarter of 2010, from 4.3% in March 2009 to 0.9% in March 2010. Food prices declined by 1.4% in 2010, reversing the increase of 8.7% in 2009, while recreation and entertainment services prices were down by 3.2%.

The slump in economic activity led to a spike in unemployment, from 8.7% in 2008 to 14.2% in 2009. As the recession deepened, job losses were experienced across a number of sectors including the hotel and restaurant sector, construction and wholesale and retail trade. Also, the labour force participation rate fell from 76.3% in 2008 to 73.4% in 2009.

(c) The external sector

Falling import demand, owing to reduced purchasing power and lower fuel and other commodity prices, led to a narrowing of the current account deficit of the balance of payments by US$ 238 million to 12.5% of GDP in 2009 from 15.9% of GDP in 2008. The trade deficit contracted by 16.4% to US$ 1,875 million, four times the decline in 2008, largely associated with a 42.7% decline in fuel imports to US$ 667.9 million. The total import bill also benefited from lower food and other commodity prices and sluggish demand for non-oil imports in the context of the recession.

With the downturn in tourism activity, the services account surplus shrank by 6% to US$ 1,074 million. The 9.3% decline in stopover visitors contributed to an 8.2% fall in net travel receipts. Meanwhile, in a sluggish environment, offshore companies reduced local spending, while government payments increased for stimulus-related infrastructure projects.

The capital and financial account[38] surplus contracted by 7.3% as foreign direct investment slumped by 22% to US$ 654 million, related to reduced equity investments and land purchases as investors waited out the adverse economic climate. Meanwhile, miscellaneous investments increased by US$ 88.7 million, propelled by proceeds from a government US$ 300 million bond issue and an allocation of US$ 178.8 million in SDRs under the IMF global initiative to help countries deal with the recession. At the end of 2009, external reserves amounted to US$ 815.9 million, providing cover for 5 months of imports of goods and services.

The current account is expected to worsen in 2010, as the modest recovery and higher oil prices lead to higher imports, which should more than offset a tepid recovery in tourism receipts. The capital and financial account is also expected to remain relatively stable as FDI recovers slowly.

During the first quarter of 2010, the current account deficit was estimated to have widened by 52.2% to US$ 187.6 million, owing to higher merchandise imports, which outweighed the increase in the surplus on the services account. Moreover, the capital and financial account surplus narrowed on account of lower foreign investment inflows.

Box 2

TOURISM IN THE BAHAMAS: CONFRONTING THE CHALLENGE OF THE GLOBAL RECESSION AND BEYOND

Tourism remains the mainstay of the Bahamian economy, accounting for 51% of GDP, 63% of employment, and 61% of wages.[39] Alongside offshore financial services, dynamism in tourism in the last few decades has provided a high average standard of living for the population, putting the Bahamas in the league of high-income countries based on per capita income.[40] The significant fallout from the global economic crisis, stemming from weak demand in major markets again highlighted the vulnerability of Bahamas tourism to external shocks. Stay-over visitor arrivals declined by 4% and 9.3% in 2008 and 2009, respectively, reflecting the negative impact of the crisis on tourism demand (see figure below). Occupied room-nights declined by 13.5% in 2009, while visitor expenditure fell by 1.8% in 2008 and 10% in 2009.

The Government of the Bahamas, in collaboration with private tourism operators, implemented a number of short-term measures to cushion the fallout from the tourism sector on the economy. Important among these was a “companion free airfare” which entitled two persons, staying in a room for a minimum of four nights at a participating hotel, to one free airline ticket. This incentive proved quite attractive, and has helped to stem the decline in stay-over arrivals. Moreover, it has allowed the Bahamas to provide an incentive package, while limiting the reduction in advertised room rates. This has been crucial, as once rates have been lowered, many tourists expect these lower rates to continue into the future, even after the economic crisis has passed. The “companion free” initiative was supported by aggressive marketing to entice visitors back to the Bahamas.

Over the medium term, there are plans to diversify into the Latin American market, especially since the hosting of a successful Miss Universe Pageant has provided greater than usual publicity and promotion of the country as a tourism destination. A marketing thrust is also planned for the Eastern European countries. Indeed, visas requirements have been eased for most Latin American and Eastern European countries to facilitate travel. The Government, however, has recognized that the vulnerability of the tourism sector stems, not only from lack of diversification by market sources, but also from the products and services offered. In this regard, the Bahamas Government has identified key niche segments of the industry for further development. These include sports, medical and heritage tourism.

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38 The capital and financial account includes errors and omissions.

39 See *The Bahamas: Total Tourism Economic Impact*, The Bahamas Ministry of Tourism (2006)

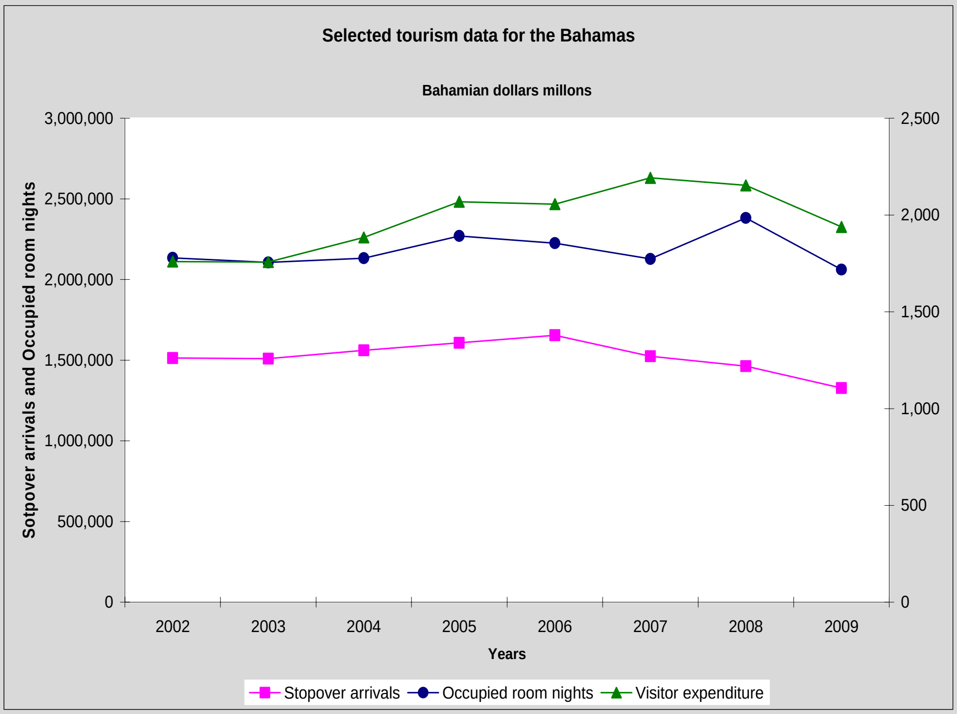
40 The per capita income of the Bahamas has averaged US$ 20,519 between 2002 and 2009.

As a relatively mature destination, the core product of the Bahamas, especially centred in Nassau/Paradise Island, is well known. A competitiveness and productivity strategy in these islands would need to focus on increasing value for money by providing more compact and integrated packages based on cultural and heritage experiences to complement the current package of sun, sea and sand, entertainment and shopping. A more rigorous branding programme in the main islands could help to match value with actual product/service offerings, thereby reducing the likelihood of tourists not getting the value that is advertised by tourism brands.

Indeed, the branding programme in Barbados has been quite successful in the competitive positioning of 'intimate' small hotels of Barbados. A similar programme holds good prospects for the Bahamas. A rigorous branding programme would need to undertake a benchmarking analysis of the products and services that are offered in the tourism value chain, their quality and the efficiency with which they are delivered. This micro-analysis would provide the springboard to tackle competitive challenges in weaker segments of the value chain systematically.

The Government is increasing efforts to provide packages based on multiple experiences in the outlying islands, which should help to add variety to the overall tourism product.

Box 2, figure 1: Selected Data for the Bahamas



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

B. BARBADOS

1. General trends

Barbados experienced continued economic contraction in 2009, with GDP growth declining by 4.8%. This reflected the slowdown of most economic sectors during the year, with modest improvements during the first quarter of 2010 when the rate of decline improved to 0.1%.

Given the pivotal role of tourism in the Barbados economy, the economic slowdown reflected a 6.6% fall in tourism GDP. However, reduced GDP growth in other sectors also contributed to the weakened economy, with mining and quarrying falling by 37.6%, while construction fell by 22.6%. The manufacturing sector also declined by 12.8%.

In response to the economic contraction, the government undertook an expansive fiscal strategy to support the tourism sector, maintain competitiveness, protect jobs, and implement social programmes. This strategy led to a sharp widening of the fiscal deficit, and increased public debt further to over 94% of GDP by the end of 2009.

Looking ahead, the government plans to implement additional mechanisms up to the end of 2016 that include containing fiscal spending and more efficient revenue collection. These efforts have apparently already begun to bear fruit, as current account spending reduced by roughly 23% for the first quarter of 2010, compared to the same period in 2009. However, economic growth for 2010 is projected to remain flat at approximately 1%, and measures will continue to promote renewed growth in the tourism sector, such as modest external borrowing, judicious fiscal support to the foreign exchange earning sectors, and social measures to protect the most vulnerable in the Barbadian economy.

2. Economic policy

(a) Fiscal policy

The fiscal performance of Barbados worsened sharply in 2009 with the overall deficit as a percentage of GDP increasing to 8.4% compared to 5.7% in 2008. This decline was driven by an 8.1% increase in government expenditure in 2009 compared to 2008. Consistent with the government job-retention policy, this increase was used mostly for public sector employee expenditure, which grew by 12.4% over the period. Debt servicing interest expenditure also grew by 8.0%, while transfers and subsidies increased by 5.7%.

At the same time, government revenues increased by only 1.6% in 2009. Increases in direct taxes by 13.3%, and in non-tax revenues and grants by 60.1% were the principal drivers for growth in government revenues. However, a 13% fall in indirect taxes and a 20.0% fall in post-office revenues dampened growth of government revenues, resulting in a worsening of the fiscal deficit.

Public debt[41] increased by 13.7 percentage points from 80.9% of GDP in 2008 to 94.6% of GDP in 2009. The external debt stock stood at BDS$ 2,203 million in 2009, representing an increase from BDS 1,982 million in 2008. Over 69.2% of the overall current debt was domestic.

This trend represents a continued fiscal challenge, as Barbados strives to strengthen public infrastructure and the tourism sector. Further, looming debt repayments, such as a US$ 100 million capital development loan contracted in 2000, will place additional pressure on the country's foreign reserves over the short term.

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[41] This represents gross central government debt inclusive of public-private partnership-guaranteed debt.

(b) Monetary and exchange rate policy

Given the fixed exchange rate regime in Barbados, monetary policy objectives sought to manage liquidity and credit during 2009. Domestic credit increased from 85.5% in 2008 to 91% of GDP in 2009. The private sector absorbed most of this (72.2% of GDP) in 2009, with the remainder (18.8% of GDP) going to the public sector. Given tight economic conditions, liquidity (M3) also increased to 109.2% of GDP, representing an increase of 3.7% of GDP from 2008.

The weighted average benchmark rate declined from 9.0% to 8.1% between 2008 and 2009. The treasury bill rate also declined marginally by 0.5 percentage points to 3.8% in 2009, after averaging 4.3% in 2008. There was a more significant decline (3.5 percentage points) in commercial bank rates from 11.5% to 8.0%, possibly reflecting growing liquidity in the Barbados economy over the period.

During the first quarter of 2010, there was no increase in credit demand which, alongside stagnating growth in deposits, resulted in a slight increase in liquidity in commercial banks. Treasury bill rates also fell only slightly (0.5% percentage points) while commercial bank rates remained unchanged.

The Barbados dollar remained pegged to the United States dollar at the rate of US$ 0.50 to BDS$ 1.00 in 2009. This exchange was sustained through adjustments to net international reserves which declined by 14.6% between January 2008 and 2009.

3. Evolution of the main variables

(a) Economic activity

The global recession continued to be felt in the Barbados economy, resulting in real declines in the traded and non-traded sectors in 2009. Tourism remains the main economic driver in Barbados, contributing 14.7% to GDP in 2008, with a slight decline to 14.5% in 2009. Stay-over arrivals, which contribute far more to the local economy than cruise passengers, amounted to 518,564 visitors in 2009, representing a fall of 8.7% from 2008. This resulted in a 6.6% decline in sector earnings over the same period. The sector stabilized in the first quarter of 2010, as stay-over arrivals grew by 2%, compared to the same period in 2009. While this growth was fuelled by arrivals from the United States and Canada, visitors from the United Kingdom, Barbados's largest source market, remained down on account of continued sluggishness in the United Kingdom job market. Resulting declines in sector earnings have forced hotels to engage in deep discounting in order to remain competitive. Tourism sector growth is likely to remain weak during 2010, with improvement prospects closely linked to growth in source markets during 2011.

Closely related to the tourism sector, the construction sector which contributed roughly 8.3 % to GDP in 2008, also declined in 2009 as investment in tourism slowed. Sector value-added fell by 22.6% during 2009, compared to a drop of 6.2% in 2008. The continued underperformance of this sector reflects the slowdown in both public and private sector activity during the period. Related to the falloff in construction activity, domestic cement consumption fell by 18.4% while the value of imported building materials declined by 22.5%. Prospects for slight stimulation of the construction sector improved during the first quarter of 2010 with the Government financing a loan guarantee of US$ 65 million for the previously stalled Four Seasons Hotel and Villas.

In the agricultural sector, 32,000 tonnes of sugar were produced during the first six months of 2009. This represented an improvement of 1.2% over the corresponding harvest period in 2008, and was largely attributable to ideal weather conditions.

The impact of the global financial crisis continues to be felt in the financial services sector, which suffered a 37% drop in the registration of new businesses during 2009. This sector[42] contributed 18.1% to national GDP in 2008. Preliminary evidence suggests that the sector has stabilized, with first quarter sector earnings of 0.7% of GDP being the same for both 2009 and 2010.

Moreover, the collapse of Colonial Life Insurance Company (CLICO) has prompted government attention to protect investor interests in the local subsidiary – CLICO Holdings Barbados. By way of securing medium-term investor confidence, the Government has proposed the conversion of CLICO liability to liabilities of a longer maturity.

The manufacturing sector in Barbados continued to decline, contributing only 4.9% to GDP in 2009, a 13% decline from 2008. The principal reason for this decline was cited as significant loss of market share to other Caribbean manufacturers.

(b) Prices, wages and employment

The end-of-period inflation rate was 3.6% in 2009, having fallen from 8.1% in 2008. The reduction in inflation was a result of the fall in global commodity prices, especially energy, during 2009. This downward inflationary trend has been sustained into 2010, with an average first quarter rate of 2.7%.

Wage rates also remained largely unchanged during 2009. Moreover, strong national debate over a Government-proposed public sector wage freeze— in order to sustain the fiscal deficit and temper increasing public-sector debt levels— resulted in payments of only normal increments associated with performance appraisals. This has, so far, had no impact on overall wage rates.

The unemployment rate for the second quarter of June 2009 was 9.9%, an increase of 1.3% points over the corresponding quarter of 2008. This was due to the deepening economic recession. Female unemployment remained higher (9.5%), than male (6.9%) during 2008, but by the final quarter of 2009, the situation had been reversed, with female unemployment standing at 8.1% compared to 10.5% for male unemployment.

Overall, unemployment increased during 2009, with the number of jobless increasing from 11,686 in 2008 to 14,237 in 2009, representing a loss of around 2,550 jobs. The most significant job losses occurred in the construction (19.6%), transportation and communication (13.8%) and tourism (4.8%) sectors, respectively.

(c) The external sector

Barbados improved its current account deficit substantially from BDS$ 421 million to BDS$ 218 million between 2008 and 2009, respectively, corresponding to a fall from 5.3% to 2.3% of GDP. This was achieved primarily though a reduction in import values, reflecting the fall in global commodity prices during 2009. Merchandise imports fell from 24.1% of GDP in 2008, to 18.6% of GDP in 2009, a decline of approximately 5.5 percentage points. At the same time, export values declined, slightly from 1.7% to 1.5% of GDP over the 2008 – 2009 period. Sugar and rum remained the principal exports, earning BDS$ 20 million and BDS$ 29 million respectively for 2009. Earnings from tourism, while remaining significant, also fell 10.5% from BDS$ 1,601 million to BDS$ 1,432 million between 2008 and 2009.

Net current transfers declined by 10.6% over the period, from BDS$ 47 million to BDS$ 42 million, while the income balance fell by 15.7%, reflecting the tightened global economic conditions.

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[42] Includes international businesses and domestic financial services

The financial account balance improved from BDS$ 165 million to BDS$ 308 million in 2009, as Barbados accessed US$ 90 million of IMF Special Drawing rights (SDR). This resulted in an overall balance of payments surplus of US$ 21 million in 2009.

Given all of the above, and weak prospects for a revival of international tourism in the coming year, projections are for economic growth of between 0.5% and 1.0% in 2010. The proposed government strategy for fiscal deficit management would be critical to stimulating growth in the Barbados economy over the short to medium-term.

C. BELIZE

1. General trends

The continued impact of the floods of 2008 and the contagion from recessionary conditions in major markets led to a reversal from sound growth in 2008 (3.8%) to zero growth (0%) in 2009. Nevertheless, this put Belize as one of the better performers in the Caribbean, given the pervasive downturn in the region. The primary goods and services sectors took the brunt of the fall out with contractions of 2.4% and 1.4%, respectively. Owing to lower fuel and food prices and sluggish internal demand, Belize experienced deflation of 0.4% in 2009 following on from inflation of 4.4% in 2008.

Despite recessionary conditions, the government had very little flexibility to implement countercyclical fiscal policy, given high debt levels and the anticipated ratcheting up of interest rates on its adjustable rate debt in the near term. Therefore, capital spending actually contracted by 20% and was not a source of stimulus as it was in some other countries in the subregion. In spite of the economic slowdown, monetary policy was neutral in 2009 as benchmark rates were held steady.

The current account deficit contracted as a result of a sharp fall in imports, due to lower prices of fuel and other commodities, which offset reduced inflows from tourism and current transfers.

The economy is expected to improve in 2010, with growth of around 1.5% driven by an improvement in agriculture, a rebound in stay-over tourists, and an expansion in oil production. The national budget of March 2010 projected an overall deficit for FY 2009/2010[43] of 2.8% of GDP, up from the budgeted 1.7% of GDP, as a result of lower revenue inflows. The balance of payments current account deficit is projected to expand to 8.3% of GDP, reflecting higher oil prices given that Belize is a net oil importer, and rising import demand.

During the first quarter of 2010, the economy grew by 3.5%, relative to a decline of 2.2% for the similar period in 2009. Activity increased in all sectors except fishing, with recovery recorded for petroleum and bananas. Inflation increased by 1.4% from February 2009 to February 2010, driven by higher fuel and transportation costs.

2. Economic policy

(a) Fiscal policy

The overall fiscal[44] balance moved from a surplus of 1.5% of GDP in 2008 to a deficit of 2.8% of GDP in 2009. A significant shortfall in revenue, stemming both from lower petroleum revenues (associated with the slump in prices) and reduced customs receipts (due to fewer imports) were the major causes of increase in the deficit. Tax receipts declined by 6.4% to BZ$ 577 million, partly due to a BZ$ 18.1 million fall in petroleum tax revenue.

Growth in total expenditure was contained to 2% as an increase in current spending was partly offset by a sharp fall in capital expenditure. Current spending increased by 7.1% in line with a 9.3% rise in the wage bill that resulted from the resumption of incremental increases in civil servant pay in 2009. Outlays on goods and services also expanded amid higher payments to contractors for materials and supplies.

With the sharp fall in the primary surplus, from 5.4% of GDP in 2008 to 0.8% of GDP in 2009, the savings required for capital projects were not available. Combined with difficulties in drawing down

[43] The fiscal year in Belize runs from April to March

[44] Fiscal data are provided on an annual basis.

funds to implement some externally-funded projects, this led to a 20% fall in capital spending. The capital spending that did occur was focused on infrastructural works, including the completion of the Southern Highway, rural electrification, and housing.

The overall deficit, including grant receipts, improved markedly from 9.1% of GDP in the first quarter of 2009 to 4% of GDP in the first quarter of 2010, owing to a sharp increase in revenues and a moderate decline in spending. For the calendar year 2010, the overall fiscal deficit is projected at 2.7% of GDP but, if the pattern for the first quarter continues, the deficit could exceed this projection.

High public sector debt remains a major challenge, (see box 3) leaving the Government with limited fiscal headroom. In 2009, public debt increased by 4.6% to 87.2% of GDP (BZ$ 2,361.2 million) up from 83.1% of GDP in 2008. External debt increased by over 6% to 75% of GDP, the increase resulting from the issuance of a government of Belize bond and loans for emergency road rehabilitation, and poverty alleviation projects. Central government domestic debt declined by 4.3% at the end of May 2010 to BZ$ 303.5 million, compared with the amount at December 2009, reflecting in part efforts at fiscal and debt consolidation. Meanwhile, public sector external debt fell by 1.1% to BZ$ 2,008.7 million over the same period.

(b) Monetary and exchange rate policy

Monetary policy remained neutral, despite the slowdown in activity. Surging excess liquidity in the banking system meant that a change in the policy-based cash and liquid asset reserve requirements was expected to have little effect on commercial bank interest rates. Indeed, the weighted average interest rate spread increased by 11 basis points, as the weighted average deposit rate fell by 23 basis points to 6.12%, exceeding the 12 basis-point decline in the weighted average lending rate to 13.98%.

Continued sluggish economic activity slowed growth in the broad money supply to 6.4% in 2009, half the pace of 2008. Credit to the private sector increased by 4.1%, the smallest growth in 17 years, mainly allocated to construction, electricity generation and beverage production. Foreign assets expanded by 32.8%, bolstered by inflows from bilateral and multilateral sources, including loans from the Caribbean Development Bank and the Inter-American Development Bank and BZ$ 56.1 million in new Special Drawing Rights under the IMF global initiative to assist countries during the recession.

The banking system in Belize had limited exposure to the risky instruments that helped to trigger the global financial crisis. Accordingly, it has remained largely stable and sound and has experienced only a nominal increase in non-performing loans from 10.7% of the total loan portfolio in 2008 to 10.8% in 2009.

In 2009, the central bank implemented the first phase of its monetary policy reform aimed at improving its ability to manage liquidity in the banking system, and allowing a gradual move away from reliance on reserve requirements to open market operations. Two important measures were implemented: liberalization of the short-term yield on treasury bills, and the setting of a ceiling on the interbank lending rate of 11%, thus allowing banks to trade below this rate. Moreover, the pegged exchange rate depreciated marginally, averaging BZ$ 1.97 to the US$ between end of December 2009 and 27 June 2010.

During the first half of 2010, broad money declined by 0.3%, relative to a 5% growth in the similar period of 2009, amidst a sizeable reductions in credit to the private sector (BZ$ 69.8 million) that would limit the prospects for improved productive activity that would promote a firm rebound of growth and employment. Gross official reserves rose by BZ$ 16.9 million to BZ$ 444.3 million at the end of June, compared the end of December 2009.

3. Evolution of the main variables

(a) Economic activity

The lingering effects of the floods of 2008 on agricultural output and the fallout from the global recession led to stagnant growth of 0% in 2009. The bulk of the impact was felt during the first half of the year, with the economy staging a mild recovery in the second half of 2009. Activity in wholesale and retail trade contracted as a result of a fall-off in trade in the commercial free zone[45] and weak domestic consumption (due to reduced remittance inflows and increased unemployment). The hotel and restaurant sector was affected by a 5.6% decline in stay-over tourist arrivals (to 221,654) and a fall in the number of nights spent in the country. This led to a 15.6% slump in hotel room revenue, a direct result of weakened market demand from the United States of America, which accounts for about two-thirds of visitors to Belize. During the first quarter of 2010, however, stay-over and cruise passenger visitors were up by 3.7% and 43.5%, respectively, pointing to some recovery in tourism.

Agriculture (11.7% of GDP) posted a decline of 2.5% in 2009. Performance was dampened by the fallout from the floods of 2008 that led to a decline in value added of the major export crops. Sugar cane output fell by 6.3% to 917,728 long tons, the smallest harvest in 22 years, and citrus output was down by 7.7%, reflecting a cyclical decline after a good crop in 2008. Fisheries was the only subsector to report higher value added in 2009, with output rising by 9.4% due to increased production of farmed shrimp and conch.

Manufacturing output (12% of GDP) improved amid a 24.3% expansion in petroleum production to 1,608,864 barrels, an average of 4,390 barrels a day, as three additional wells were brought on line.

In the first quarter of 2010, economic activity rebounded with growth of 3.5%, relative to a contraction of 2.2% for the same period in 2009. Activity picked up in all sectors except fishing. For the first five months of 2010, petroleum production increased by 4.1% to 651,297 barrels, while banana production was up by 12.5% and citrus deliveries were down by 15.8%. As a sign of some recovery in tourism, stay-over visitor arrivals increased by 1.1% during the period from January to June 2010, while cruise visitors posted strong growth of 20.2%.

(b) Prices, wages and employment

Inflation slackened off significantly from its 2008 level of 4.4%, resulting in deflation of 0.4% in 2009. Food prices declined by 4.5% following an increase of 15.5% in 2008. This decline was partially due to a fall in commodity prices associated with lower demand. Transport and communications costs rose by 8.6%, reflecting the increase in fuel prices from September to November 2009, after a decline of 57% earlier in the year between January and August.

Sluggish internal and external demand led to an increase in unemployment from 8.2% in May 2008 to 13.1% in April 2009, reversing a five-year decline. Nevertheless, the recovery in activity in the second half of 2009 resulted in a 4.7% increase in jobs, causing unemployment to fall to 12.6% by September 2009. Annual inflation (February 2009 to February 2010) rose by 1.4% propelled by higher fuel and transportation costs.

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[45] The commercial free zone is an export processing zone that lies outside the national customs territory and to which access by nationals of Belize is restricted.

(c) The external sector

The balance of payments current account deficit narrowed from US$ 132.4 million (9.7% of GDP) in 2008 to US$ 93.3 million (7% of GDP) in 2009. The decline in the trade deficit and profit outflows more than offset lower net tourism and current transfer inflows.

The trade deficit contracted by 22.6% to US$ 238.7 million, owing to a 21.3% fall in imports that outweighed the 20.5% decline in exports. Imports decreased owing to a tapering off of capital imports for projects that occurred in 2008 and a fall in fuel and other commodity prices. Merchandise exports plummeted because of lower volumes and values of agricultural exports and lower sales in the Commercial Free Zone. Petroleum exports expanded by 23.2% to 1,261,600 barrels, but an average price decline of 57% led to a sharp cut in receipts to US$ 120.6 million. Nevertheless, petroleum remained the main export earner.

The services account surplus narrowed by 15.5% to US$ 183.2 million (13.5% of GDP), as tourism receipts diminished with the fall in stay-over tourist numbers and the drop in inflows from transportation and business services.

A 50% drop in foreign direct investment into petroleum, tourism and agriculture, plus net external loan repayments by the private sector resulted in a 26% fall in the capital and financial account surplus. Gains in inflows came from the IMF disaster assistance loan and US$ 28.1 million SDR allocation. Gross international reserves rose to US$ 313.7 million, covering 4.8 months of goods and services imports.

The current account deficit is expected to widen to US$ 115.1 million (8.3% of GDP) in 2010, as import growth stemming from higher domestic demand and fuel prices outstrips growth in exports of goods and tourism services.

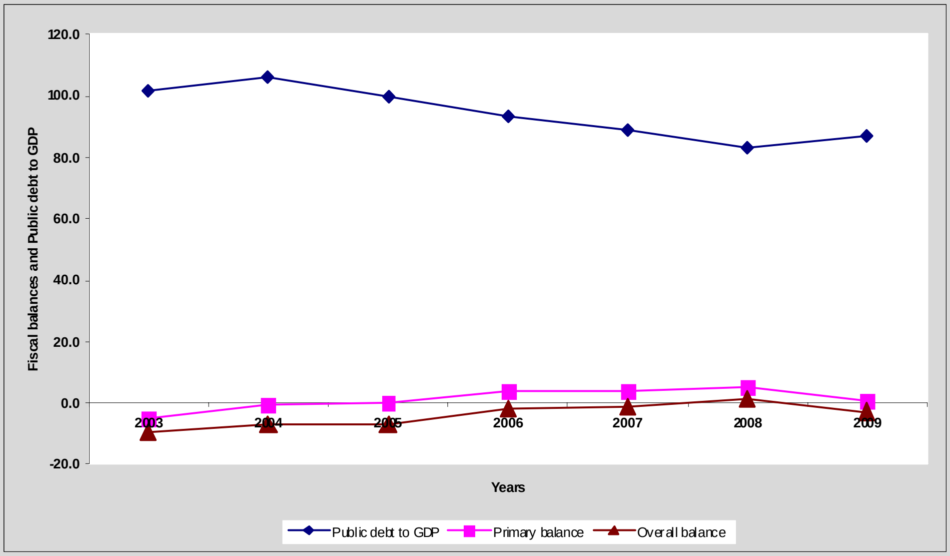
The current account was expected to have improved for the period January to May 2010, relative to the same period in 2009. Export receipts were up by over 33%, owing to a hike in petroleum revenues and increased earnings from citrus and bananas.

Box 3

THE FISCAL AND DEBT CHALLENGE IN BELIZE

From 2003 to 2006, public debt in Belize averaged over 100% of GDP, while the overall fiscal deficit averaged 6.3% of GDP. Weak fiscal position and high debt were recognized as hindering optimum growth of the economy. Moreover, high debt-servicing costs were a major drain on resources, diverting funds that could have been used for infrastructure development and social safety nets.

Box 3, figure 1: Belize: Fiscal balances and public debt to GDP (2003-2009)



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

As a result, by 2007, the authorities decided to approach creditors with a comprehensive debt-restructuring initiative for commercial debt in 2008, geared towards advancing the process of fiscal and debt consolidation over the medium term. The restructuring has provided some initial relief on debt repayment. Nevertheless, early savings will be offset by the ratcheting up of costs under the step-up interest rate structure, in which the interest rate on the restructured commercial debt will rise from 4.25% to 6% in August 2010. This would lead to a sharp increase in interest payments at a time when the economy remains weak due to sluggish external demand. Moreover, in August 2012 the interest rate on the restructured debt will rise further to 8.5%, the rate which will obtain until maturity.

The Government has targeted a primary surplus of at least 2% of GDP over the medium term to put the debt on a downward path and to provide savings for some of its capital projects. This surplus will be built on containment of government consumption, especially expenditure on wages and salaries, which would be kept in line with productivity growth, and the rationalization of spending on goods and services. Moreover, a portion of the earnings from the petroleum tax and royalty receipts have been earmarked to help service the debt.

Nevertheless, the Government intends to maintain public investment at levels sufficient to encourage private investment, to drive the growth needed to bring the debt down to a more manageable level.

D. EASTERN CARIBBEAN CURRENCY UNION

1. General trends

In 2009, economic growth in ECCU countries contracted by -7.3% compared to growth of 1.9% in 2008. This 9.2 percentage-point decline was the steepest since the GDP series was developed. Economic growth contracted in all ECCU member countries with the exception of Montserrat, which reported 1% GDP growth. The largest contractions were recorded in Anguilla (-24.4%), Antigua and Barbuda (-8.9%), Grenada (-7.7%), Saint Kitts and Nevis (-9.6%) and Saint Lucia (-5.2%). Moderate contractions were reported in Dominica (-2.2%) and Saint Vincent and the Grenadines (- 1.1%). These results reflected the drastic declines in both stay-over tourist arrivals and FDI-related construction triggered by the global economic crisis.

The overall fiscal deficit worsened to 5.1% of GDP at the end of December 2009 from 3.3% of GDP for the same period in 2008, as total government revenue plunged amidst weakened economic activity. The worsening fiscal situation forced many governments to seek financing from the International Monetary Fund, the Caribbean Development Bank and the Bolivarian Alliance for the Americas (ALBA) for budgetary and balance of payment support. This assistance led to an increase in total public debt to 95.6% of GDP at the end of December 2009, compared to 88.4% of GDP at the end of 2008.

The decline in imports due to the slowdown in economic activity gave rise to an improvement in the external current account deficit to 28.2% of GDP in 2009, compared to 36.8% of GDP in the previous year. Inflation continued on a downward trajectory in 2009, reaching 1.2% following dampening domestic demand and the declining trend in international commodity prices that began in 2008.

Preliminary data for the first quarter of 2010 indicate a further contraction of -4.1% which supports the projection that ECCU will remain in recession with negative growth of -2.3% for 2010. This projection is based on the assumption that employment and consumption will remain sluggish in the main ECCU trading partners, the United States of America and the United Kingdom, despite some positive signs of economic recovery.

2. Economic policy

(a) Fiscal policy

The downturn in economic activity hampered fiscal performance in ECCU countries. For the calendar year ending December 2009, the Union reported an increase in the overall fiscal deficit from 3.3% of GDP in 2008, to 5.1% of GDP in 2009. The marginal primary surplus of 0.1% of GDP in 2008 was eroded to a primary deficit of 2% of GDP in 2009. The worsening of the overall fiscal deficit was mainly the result of an 8.7% decline in current revenue. Tax revenue collections declined by 8% in 2009, to 24.8% of GDP after growing at a rate of 6% during 2008. This change primarily reflected the decline in tax receipts on domestic goods and services (12%) and international trade transactions (8.8%). Grant receipts remained relatively unchanged at approximately 3% of GDP.

Current expenditure increased slightly, by 0.2%, to reach 28.3% of GDP in 2009. Outlays on wages and salaries, and transfers and subsidies, increased by 2% and 13%, respectively; outlays on goods and services, and interest payments, declined by 6% and 14%, respectively. The increased outlays on transfers and subsidies represented increased allocations in safety net programmes to cushion the impact of the global crisis on the most vulnerable, while the drop in interest payments in Antigua and Barbuda represented the accumulation of arrears. Capital expenditure decreased by approximately 18% due to the decline in public sector construction activity.

On a country-by-country basis, overall fiscal performance was disparate; Dominica recorded a slight improvement in the fiscal deficit to 2.7% of GDP; Saint Lucia shifted from a minimal surplus to a deficit amounting to 2.5% of GDP, while Antigua and Barbuda, Grenada, and Saint Vincent and the Grenadines recorded larger deficits, amounting to almost 11%, 6.2% and 3% of GDP, respectively. Saint Kitts and Nevis moved from a marginal deficit to a marginal surplus of 0.7% of GDP.

In 2010, the Eight-Point Stabilization and Growth Programme[46] will guide fiscal policy. Grenada is expected to record a primary surplus of 1% of GDP for FY 2009/2010[47]as the authorities broaden the tax base by implementing a Value Added Tax of 15% in February 2010. Saint Lucia and Saint Kitts and Nevis are also expected to implement a VAT in 2010/2011. Budget estimates for Saint Lucia indicated a shift from a primary surplus to a primary deficit of 2.5% of GDP in FY 2009/2010 due to an increase in non-grant financial public expenditure.[48] Antigua and Barbuda has undertaken an aggressive fiscal consolidation programme that would lead to a fiscal primary surplus of about 3.6% of GDP in FY 2009/2010.

Total public sector debt continued to pose a serious challenge for ECCU as the exceedingly high debt level limited fiscal flexibility (see box 4). At the end of December 2009, the public debt-to-GDP ratio was 95.6%, higher than the 88.4% of the comparable period in 2008. External debt stock increased by 2.5% to 48.3% of GDP due to increased borrowing from IMF, CDB and ALBA, while domestic debt stock decreased marginally by 0.9% to 47.4% of GDP, due to the restructuring of some commercial bank debt in Antigua and Barbuda. The debt-to-GDP ratios were in excess of 100% in Grenada (113%) and Saint Kitts and Nevis (179%), and ranged from 70% to 90% in Antigua and Barbuda, Dominica, Saint Lucia, and Saint Vincent and the Grenadines. Debt service payments increased from 8.5% of GDP in 2008, to 10% of GDP in 2009, primarily reflecting a 23% increase in payments to principal due to the maturity of treasury bills issued by Grenada and Saint Vincent and the Grenadines on the ECCB Regional Government Securities Market (RGSM).

In 2010, it is expected that total public debt will continue to increase as ECCU countries continue to borrow from IMF. In April 2010, IMF approved US$ 13.3 million under the Extended Credit Facility for Grenada and in June 2010, the IMF Executive Board approved a three-year, US$ 117.8 million Stand-By Arrangement with Antigua and Barbuda.

(b) Monetary and exchange rate policy

The principal objective of ECCU monetary policy is to maintain the stability of the Eastern Caribbean dollar. During 2009, the main policy instruments, namely the discount rate and required reserve ratio of commercial banks, remained unchanged at 6.5% and 6%, respectively. The interbank market rate also remained stable at around 6.6%. The nominal deposit rate held steady at the same level that it had been in 2008 (4.5%), while the nominal lending rate increased by 1 percentage point to 11.3%, reflecting the increased risk aversion of banks, owing to the lack of optimism about economic growth. The official exchange rate remained at EC$ 2.7 to US$ 1 but depreciated by 4% in real terms against the United States dollar.

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46 The Eight-Point Stabilization and Growth Programme was signed by ECCU heads of government in December 2009. The agenda to be implemented includes fiscal reform, debt management, public sector investment, social safety net and financial sector safety net programmes, amalgamation of the indigenous commercial banks, and rationalization, development and regulation of the insurance sector. According to the ECCB, the programme has the potential to halt the decline in economic activity and to lay the foundation for growth and transformation of ECCU economies.

47 Fiscal year: Antigua and Barbuda and Grenada - January to December, Saint Lucia - April to March

48 IMF Country Report No 10/92, April 2010

In 2009, ECCU monetary liabilities increased slightly by 2.5%, the same amount as in 2008, reflecting the slowdown in economic activity. M1 dropped by 4.2%, mainly due to the decline in demand deposits, while liquidity (M2) increased by 2.8% due to increased savings deposits (5.2%) and fixed deposits (5.4%). Foreign currency deposits increased by 0.8%. Domestic credit rose by 4.6%, to 106% of GDP, at a much slower pace than in 2008 (11.2%) reflecting reduced credit growth to the private sector (2.3% in 2009, relative to 9.8% in 2008). The behaviour of private sector credit was due to slower growth in business credit (4%) and in credit to households (1.9%) compared to growth of 11.5% and 10.1%, respectively, in 2008. This slowdown was mainly due to changes in commercial banking terms, such as more rigid policies on collateral requirements and underwriting practices (ECCB, 2009b), which resulted in a 51% increase in excess reserves. In contrast, net lending to the government increased by 22% as commercial banks financed the fiscal deficits.

Activity on the RGSM increased in 2009. The number of auctions rose from 36 in 2008 to 42 in 2009 (36 treasury bills and 6 bonds) to EC$ 739 million, an increase in value of 7.2%. However, eight issues were undersubscribed, weak investor demand for government securities being fuelled by decreased confidence brought about by the global economic crisis. The under-subscription of these securities meant that governments were unable to raise the required financing and sought financing elsewhere or curtailed their fiscal operations.

The intervention by the Eastern Caribbean Central Bank (ECCB) in the Bank of Antigua and the collapse of Colonial Life Insurance Company Ltd. (CLICO) and British American Insurance Company Ltd. (BAICO) had adverse consequences on business confidence, employment and personal wealth in ECCU economies. The consolidated exposure to these companies of member countries was approximately EC$ 2.2 billion, representing 18% of GDP. In order to ameliorate the situation, BAICO was placed under judicial management while CLICO has been mandated to cease the issuance of new policies. The authorities have also put stricter measures in place to regulate the non-banking financial sector. This sector includes credit unions, money services and insurance companies.

3. The main variables

(a) Economic activity

Real GDP contracted by 7.3% in 2009, compared to growth of 1.9% in 2008, as a result of declines in construction, tourism and manufacturing. These sectors, the main drivers of economic growth, contributed 12%, 8%, and 4% to GDP, respectively.

Value added in the construction sector contracted by approximately 29% in 2009, relative to 1.7% growth in 2008, mainly due to difficulty in accessing finance for public- and private-sector projects. The decline was particularly sharp in Anguilla and Grenada at 59% and 50%, respectively, while in Dominica, Saint Kitts and Nevis, and Saint Lucia, the drop ranged from 20% to 23%. In Saint Vincent and the Grenadines, the drop was minimal, at 8.5%.

Tourism activity declined by about 13% in 2009 compared to a 1% drop in 2008. The slump in the tourism sector was due to a 12% decline in the higher-end stay-over visitors market despite an 18% rise in cruise ship passengers. The decline in stay-over visitors was most pronounced in Saint Kitts and Nevis (27%) and Anguilla (18%). However, there are positive signs as stay-over tourism arrivals for the first quarter of 2010 indicate 2.6% growth compared to the same period in 2009, and 17.6% growth over the last quarter in 2009. Arrivals from the United States of America and Canada increased by 10.4% and 12.7%, respectively, over the same period in 2009 and increased by 38.4% and 103.0% over the last quarter of 2009. Arrivals from the United Kingdom remained depressed, decreasing by 15.4% when compared to the same period in 2009, but increasing slightly by 0.6% over the last quarter of 2009.

Value added in the manufacturing sector declined by 9.3%, owing to weak external demand. Manufacturing output declined in Saint Kitts and Nevis (electronics components), Dominica (beverages and soaps), Grenada (flour, rum and beer) and Saint Vincent and the Grenadines (beer, rice and animal feed).

Increased value added was reported in agriculture (2.8%), finance and real estate (2.3%), electricity, gas and water (2.0%) and other services (1.5%). Agricultural activity expanded due to increased crop production (root crops, cocoa, mace and tropical fruits) and fishing. However, the production of bananas, an important export crop, declined by 17%, chiefly due to the Black Sigatoka Disease.

(b) Prices, wages and employment

The annual inflation rate reported in December 2009 was 1.2%, lower than the 3.9% reported for the same period in 2008. This reduction was attributed to the fall in food and oil prices on the global market and depressed domestic demand due to slower economic activity. Preliminary data for the first quarter of 2010, compared to the last quarter of 2009, indicated a further deflation in consumer prices. The rate of inflation for ECCU was negative, reported at -0.8% at the end of March 2010, compared to 0.7% at the end of December 2009. There were minuscule increases in consumer prices in Anguilla and Saint Lucia while, in Grenada, the introduction of VAT at 15% in February 2010 resulted in a substantial increase in consumer prices to 4.5%. The rate of inflation declined in all other ECCU member countries.

Civil servants received salary increases in Dominica (2%), Saint Lucia (4.1%) and Saint Vincent and the Grenadines (3%). In Grenada, the police service received an increase in salary of 2%.

Although no official current labour market data are available for ECCU, reliable information indicates that labour market conditions weakened in 2009 (ECCB,2009a). This was explained by the sharp decline in stay-over tourist arrivals and the decline in activity in both construction and manufacturing, all of which employ a substantial number of workers. In Antigua and Barbuda, most of the companies owned by Allen Stanford were closed and at least 1,200 persons were left unemployed, leading to a fall in employment levels. In Saint Lucia, the unemployment rate in the last quarter of 2009 was 20.5%, compared to 16.8% for the comparative period in 2008. This high unemployment rate has led the Government to undertake job-creation initiatives such as the Holistic Opportunities for Personal Empowerment (HOPE)[49] which has mitigated the severity of the global crisis on the labour market.

(c) The external sector

The external account balance improved in 2009 as the decline in economic activity led to a steep decline in imports and in consequence to an improvement in the current account deficit to 28.2% of GDP[50] from a deficit of 36.8% of GDP in the previous year 2008. Import payments declined by nearly 17% to 51.3% of GDP due to the decline in capital goods, consistent with slower activity in tourism and construction and lower prices for oil and food. Exports of goods were less buoyant than in 2008 and increased by a mere 0.6% in 2009, compared to an increase of 24% in 2008. This small rise in exports was mainly attributed to a slight increase in re-exports of machinery and petroleum products.

The surplus on the services account continued to decline in 2009 by 1.6% to 13.7% of GDP as the improvement in net receipts from transportation and other services was not sufficient to offset the drop in net travel receipts caused by the decline in stay-over visitors. Despite the decline in remittances by 9.3% to 3.3% of GDP, net current transfers increased by 2% due to increased transfers to the government. The deficit on the income account improved marginally to 5.2% of GDP following a deficit of 5.8% of GDP

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[49] HOPE is a Saint Lucia central government initiative executed through the Social Development Fund in collaboration with the National Skills Development Centre to provide employment, training and economic opportunities to participants.

[50] Real GDP at 1990 constant prices was US$ 4,734 million in 2008 and US$ 4,408 million in 2009

in 2008. This improvement was due to the decline in repatriated profits, reinvested earnings and interest on government transactions.

The surplus on the capital and financial accounts in 2009 declined by 20% to US$ 1,285 million or 29% of GDP (including errors and omissions) as net direct inward investment declined by 25% to 16.7% of GDP. This decline resulted from the stoppage of a number of externally financed tourism-related construction projects, and a drop in land sales to foreigners. Despite the decline in FDI, government receipts of external financing resulted in a better performance on the capital and financial accounts. The improved performance on the current account enabled ECCU to report an overall balance of payments surplus of 1.3% of GDP in 2009, compared to a deficit of 0.4% of GDP in 2008. This led to an increase in the Eastern Caribbean Central Bank net international reserves of approximately 6%, to US$ 799 million at the end of December 2009, covering three months of imports of goods and services.

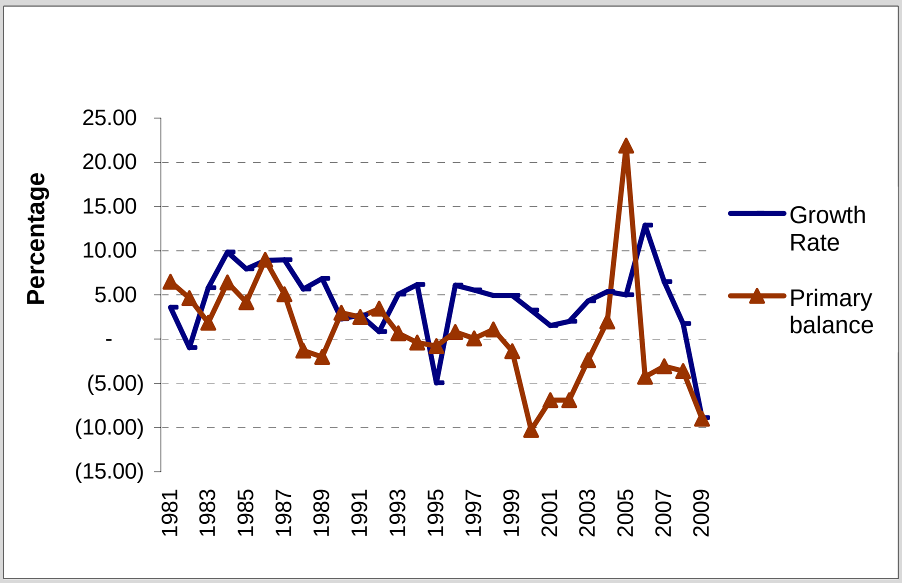
The current account deficit is expected to contract slightly to 28% of GDP in 2010 as economic activity is projected to remain sluggish.

Box 4
ANTIGUA AND BARBUDA

Antigua and Barbuda is one of the premier Caribbean tourism destinations, well known for its 365 beaches, protective wall of coral reefs, and bird sanctuaries. For many years, these natural endowments have been the driving force behind its strong tourism sector, with annual stay-over arrivals averaging 232,000 from the 1990s onwards. The global economic crisis, however, led to a contraction of that sector and resulted in reduced tourism receipts, FDI and remittances, which triggered a decline in employment and economic activity and deepened decades of critical financial imbalances. Moreover, the arrest of Allen Stanford, the owner of Bank of Antigua and Stanford Investment Bank, sent shock waves through the financial system that warranted the intervention of the Eastern Caribbean Central Bank in Bank of Antigua, and placed immense pressure on the Government to intervene swiftly to stabilize the situation.

These events intensified an already chronic fiscal situation, the result of burgeoning debt as, year after year, the fiscal deficit was financed by borrowing and the accumulation of arrears. A number of factors contributed to this burgeoning debt (Dodhia, 2005).[1] Firstly, high GDP volatility forced the government to be the main agent of economic activity (see Box 4, figure 1). In the 1980s, the tourism sector - supported by high foreign direct investment - blossomed and engendered annual average growth rates of 6.7%. However, increased competition from other tourism destinations and four hurricanes in the 1990s saw a drop in the annual average growth rate to 3.4%. The September 11 terrorist attack in 2001, the ban on gaming, and the global economic crisis also contributed to an average annual growth rate in the 2000s at 3.4%. Another factor was the high - and increasing - public sector deficit between 1988 and 2009. This was due to a narrow revenue stream, in conjunction with huge outlays on wages and salaries, which were in excess of 42% of current expenditure from the 1980s and peaked to as much as 61% in 1993, contributing to the deterioration of the primary balance, as shown in figure 1.

Box 4, figure 1: Evolution of GDP and primary balance

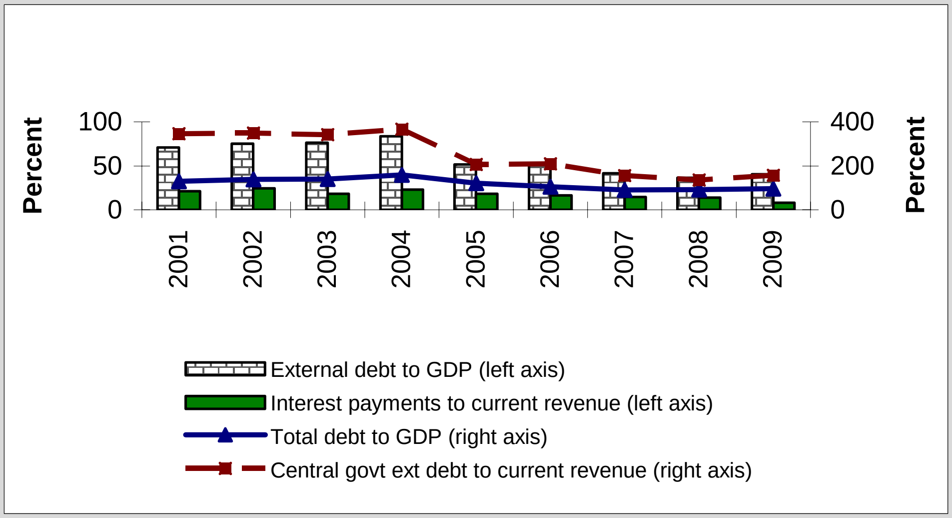


Source: Eastern Caribbean Central Bank

Thus, at the end of 2009, the total debt stock was close to EC$ 3 billion or 95.8% of GDP (59% domestic and 41% external) relative to 91.7% in 2008. External debt as a percentage of GDP also increased to 40.4% compared to 36.2% in 2008. Other debt indicators such as interest payments to current revenue and central government debt to current revenue were 7.8% and 156.5%, respectively. Figure 2 illustrates the behaviour of these indicators for the period from 2001 to 2009. The sudden dip in 2004 was the result of the renegotiation of two substantial loans with debt forgiveness exceeding EC$ 500 million. Since then, there has been no substantial reduction in the debt level. Instead, from 2008, there has been a slight increase due to the effects of the global crisis.

Box 4 (continued)

Box 4, figure 2: Debt Indicators



Source: Eastern Caribbean Central Bank

The high level of arrears accumulated brought about an escalation in interest rates and applicable penalty margins. At the end of 2009, almost 50% of total government debt were arrears (56% of domestic debt and 40% of external debt). These arrears are primarily payable to local suppliers and statutory bodies on the domestic front, and bilateral creditors and commercial creditors on the external front.

According to the authorities, the country is addressing the most severe fiscal crisis in its history. To this end, the Government has embarked on a number of strategies and reforms to target the root of the problem and put the economy on a path of sustainable long-term growth. One such strategy is the National Economic and Social Transformation (NEST) Plan which consist of four broad components:

(a) Fiscal consolidation: a mixture of revenue and expenditure measures

(b) Economic action plan: encouraging economic activity and job creation

(c) Social transformation programme: improving education, health and the conditions of vulnerable groups

(d) Financial sector stability: enhancing the regulatory framework

In addition to the NEST Plan, the Government of Antigua and Barbuda approached IMF for financing. In June 2010, the IMF Executive Board approved a three-year, US$ 117.8 million Stand-By Arrangement. The main objective of the programme was to stabilize public finances in 2010 and reduce the public debt ratio.

The Caribbean Development Bank, Department for International Development, European Union and World Bank Financial provided support and technical expertise to ensure the implementation of structural reforms. As a consequence, the 2010 budget is projecting a primary surplus of 3%, rising to 4% by 2012 due to expenditure cuts and revenue measures amounting to 13% of GDP.

However, the IMF programme does not address the restructuring of existing arrears. Without debt relief and restructuring of existing arrears, public debt is projected to rise by 16%, implying that 54% of total revenues would be required to service total debt. Faced with this eventuality, the Government initiated discussions with creditors in an effort to resolve its arrears and ensure that the public sector debt burden is placed on a sustainable footing.

Sources: Ministry of Finance, Antigua and Barbuda, Eastern Caribbean Central Bank

E. GUYANA

1. General trends

Guyana was one of the few countries in the Caribbean to experience robust growth in 2009. Recent estimates suggest that the economy grew by 2.0% in 2008 and 3.3 % in 2009. Fairly robust primary commodity prices in world markets have been one of the reasons for the country's positive performance. Growth of 4.4% is anticipated for 2010.

Much of the economy relies on the buoyancy of primary commodity prices, as the principal contributors to GDP are rice, sugar, gold, diamonds, and bauxite. This is illustrated by the 31.7% contribution to GDP in 2009 made by agriculture, forestry and fishing, mining and quarrying. The main challenge facing Guyana in 2010 is competitiveness. In addition, concessionary loans and loans from multilateral donors will be used to correct weaknesses in infrastructure. Meanwhile, a softening of the international recession will help to boost exports and improve the flow of remittances to Guyana.

Central to prospects for growth in Guyana is the country's Low Carbon Development Strategy. The key focus areas of the strategy will be investment in low carbon economic infrastructure, high-potential low-carbon sectors, and climate change adaptation measures. A memorandum of understanding (MOU) signed with Norway for the joint implementation of the Low Carbon Development Strategy is anticipated to result in the receipt of US$ 250 million in performance-based payments by 2015.

2. Economic policy

(a) Fiscal policy

The fiscal performance of Guyana showed no significant improvement in 2009; the overall deficit as a percentage of GDP was 5.2% in 2008 and 5.1% in 2009.[51] This percentage is projected to decline to 3.3% in 2010, premised on expenditure restraint and improved revenue collection. Tax revenues in 2009 contributed G$ 89.1 billion, or 93.9% of current revenue, registering a slight decline relative to 2008. Government tax revenues from the self-employed grew by 24%. In addition, revenues from taxes on customs and trade increased by 2.8% in 2009. Other revenue increases came from excise taxes on motor vehicles and the restoration of the excise tax on fuel. As expected, revenues from value added tax declined by 3.1% due to dampened domestic demand.

On the expenditure side, total expenditure was G $127.4 billion or 11 % above the 2008 figure, largely due to increases in investment expenditure of 30.7% and a small increase in recurrent expenditure. Interest payments in 2009 amounted to G$ 6.6 billion and comprised G$ 3.3 billion of external debt and G$ 3.3 billion of domestic debt. There was also a significant increase over 2008 in the disbursement of project grants of 4.4% in 2009, totalling G$ 17.3 billion.

In 2009, public enterprises reported an overall surplus of G$ 1.8 billion compared to a deficit of G$2.9 billion in 2008. This turnaround was due to lower current and capital expenditure and lower operating costs through reduced fuel purchases.

There is increasing concern regarding the growth of external debt notwithstanding assistance from multilateral institutions. By the end of 2009, the country's external debt had grown by 12% to US$

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[51] These assume nominal GDP of G$ 287.058 billion in 2008 and G$ 296.826 billion in 2009.

933 million, in excess of 64% of GDP, despite benefits under the Highly Indebted Poor County initiative and other debt reduction initiatives.

The stock of domestic debt also grew by 16% in 2009 to G$ 87 billion due to the issue of treasury bills. However, domestic debt service decreased by 28.7% in 2009, falling to G$ 4.3 billion.

(b) Monetary policy

The focus of monetary policy was on maintaining prices and exchange rates and facilitating access to credit by the private sector. Private sector credit increased by 5.7% in 2009, a sharp decline in growth compared with the 21.8% increase in 2008. The rise was led by agriculture with 29.3%, real estate with 24.4%, and other services with 21%.

The 91-day treasury bill rate declined by one basis point to 4.18% in 2009. In contrast, the weighted average time deposit rate increased by six basis points even as the weighted average lending rate declined by 17 basis points to 12.17%. There was a decline of 23 basis points in the spread between the two rates which may have helped to expand private sector credit. The interest rate spread is still wide, but the easing of monetary policy was the result of a relatively stable exchange rate and a dampening of inflation.

(c) Exchange rate policy.

Exchange rates were relatively stable in 2009, with the value of the Guyana dollar appreciating by 0.97% against the United States dollar. The value of transactions on the foreign exchange market fell slightly by 2.8% to reach US$ 4.7 billion, in line with reduced transactions on the external current account.

3. Evolution of the main variables

(a) Economic activity

The economy of Guyana is mainly based on primary products, especially mining and agriculture, and recent positive economic performance has been due to improved prices for commodities such as gold. Agriculture, forestry, fishing and hunting together contributed 21.2 % to GDP, with mining at 10.5% and construction at 9.7%. The manufacturing sector contributed 7.0% to GDP, and transport, storage and communication, 14.2%.

Sugar is a major contributor to output (5.9 % of GDP) and foreign exchange earnings from sugar production increased by 3.3% in 2009 (see box 5). It is reported that, after a first crop which was 19.3% below the 2008 output, favourable weather conditions resulted in a 22.3% larger, bumper second crop.

Rice production expanded by 9.2% in 2009 to 359,789 tonnes, the second-largest annual crop in the history of the rice industry. The rest of the agricultural sector grew by 1.4%, partially due to campaigns to grow more food, and also to the construction of a bridge across the Berbice River which helped ease the transportation costs of farmers.

In the mining and quarrying sector, low global demand for bauxite and alumina saw production decline by 29%. Diamond declarations also declined by 14.8% as producers shifted their activity to the more lucrative gold-mining sector. Rising gold prices saw a 14.7% increase in the declaration of gold production, limiting the mining and quarrying sector decline to 2.9%.

The manufacturing sector also had mixed results and grew by 4.3%, a considerable improvement on the decline of 4.4% in 2008. There was some positive growth in manufacturing subsectors such as aerated beverages, mineral or distilled water, and stock-feed.

Financial and other services grew by 10.7% and contributed 3.8% to GDP while government services experienced no growth in 2009, but contributed 8.6% to GDP.

The rebased GDP estimates suggest an overall growth rate of 4.4% with the non-sugar sector expected to grow by 3.4% in 2010. Budget projections anticipate increased performance in all sectors with sugar the top performer, expected to grow by 19.8% based on increased acreage and a stable industrial climate. The rice industry is expected to grow by 4.6%, and mining and quarrying by 9.1%.

(b) Prices, wages and employment

The inflation rate was 3.6% in 2009, reflecting sluggish economic conditions abroad which moderated inflationary pressures. In addition, the rate of excise tax on fuel products, lowered twice in 2009, assisted in dampening price increases. There were some small wage increases of 6% across the board for public servants, teachers, members of the armed services, and government pensioners, but this would not have raised aggregate demand significantly. Inflation for 2010 was projected to be 4% on the assumption of moderate increases in commodity prices.

Preliminary data suggest that employment growth in the public and private sectors was marginal and that labour unrest increased in 2009. Employment in the public sector increased by 2.1%, while employment in public corporations declined by 0.9%. In addition, the minimum wage for certain private sector workers increased.

(c) The external sector

The current account deficit was US$ 219.7 million in 2009, improving from 22.8% of GDP in 2008 to 15.2% in 2009. This was largely due to a contraction in the total value of imports. Merchandise imports, for example, declined by 12% to US$ 1,169 million partly due to the reduced price of fuel. Likewise, merchandise export earnings declined moderately from US$ 802 million in 2008 to US$ 768 million in 2009, the result of reduced prices for major exports.

For example, although the volume of sugar exports increased, the average export price declined due to European price cuts in October 2009. As a result, export earnings for sugar were US$ 118.9 million, or 10.8% below the 2008 value. Similarly, rice exports increased in 2009 but the average export price declined by 27.3% relative to 2008. As a consequence, export earnings were US$ 114.1 million or 3.3% below the 2008 level. Export earnings from bauxite also declined by some 39.3% while earnings from gold, for which average prices increased, rose by 38.3%.

Net transfers declined by 9.1% while remittances also declined by 4.3% to US$ 299.6 million. This was the result of uncertain economic conditions abroad, especially in the United States where most Guyanese emigrants reside. The capital account balance, which worsened, from US$ 39 million to US$ 37 million, was then boosted by inflows of Special Drawing Rights under IMF and net private investment inflows. These inflows generated an overall balance of payments surplus of US$ 234.4 million in 2009 or 16.1% of GDP.

Hence, the overall external reserve position of the Bank of Guyana improved to stand at US$ 628 million in 2009. The balance of payments in 2010 is projected to have a small deficit of US$ 11 million due to higher import costs arising from higher oil prices, higher worker remittances and lower foreign direct investment flows.

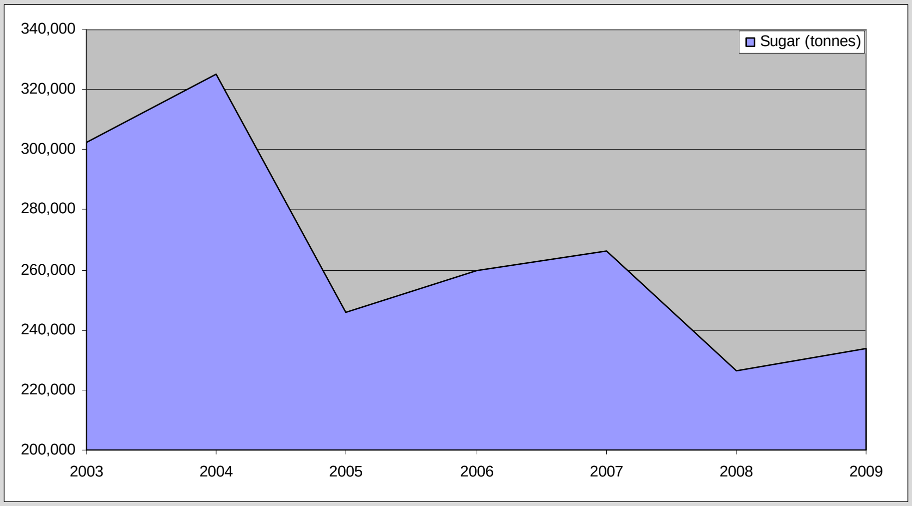
Box 5

THE GUYANA SUGAR INDUSTRY

Sugar has traditionally been one of the mainstays of the Guyana economy. Over the period between 2003 and 2007, sugar contributed an average of 10.8 % to GDP annually. Nevertheless, as box 5, figure 1 below illustrates, sugar production declined considerably in 2005, from 325,300 metric tons to 246,100 metric tons (24.3%) as a result of severe flooding. Although a small recovery was posted in 2006 and 2007, production declined again in 2008 and contributed only 5.7% of GDP. This decline was due to a combination of factors, including adverse weather conditions, poor labour conditions and the delayed opening of the Skeldon Sugar Factory which had been scheduled to begin production in August 2008. As a result of these factors, by the end of 2009, sugar contributed only 5.6% to GDP compared to its 2003 level of 12.8%.

Box 5, Figure 1: Guyana sugar production for the period 2003-2009

(Metric tons)



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

Sugar production is also an important contributor to foreign exchange earnings. In the period from 2003 to 2007, sugar contributed an annual average of 22.6% to merchandise exports, while in the period from 2008 to 2009, the average annual contribution of sugar to merchandise exports declined to 16.5%. Even though production was negatively affected during this time, the fall in export earnings is, in part, due to the removal of preferential trading conditions with the European Union. Between 2006 and 2009, there was a phased-in reduction in the import price per metric ton of sugar to the European Union, from € 523 in 2006 to € 335 in 2009.

Despite the downturn in the sugar industry, efforts are being made to revamp it. Guyana launched its National Development Strategy in 2006 with the objective of making the sugar industry more market-oriented**,** competitive and viable. The National Development Strategy is being implemented in partnership with the European Commission which pledged to make available € 90 million over the five-year period from 2006 to 2010, through budget support and disbursements. The European Union and the Government of Guyana have been collaborating on initiatives to improve the cost-effectiveness of the industry, such as upgrading sugar refineries, increasing production, and mechanizing field operations.

F. JAMAICA

1. General trends

The Jamaican economy deteriorated in 2009 and this decline forced the Government to enter a 27-month IMF Stand-By Arrangement (SBA) which will provide US$ 1.2 billion over the period. The agreement, which was signed in February 2010, was designed to restore confidence in the Jamaican economy. While the proximate cause of the economic problems was the global recession and its impact on export demand, deeper issues lay in the cumulative effects of an expanding public debt, relatively large current account and fiscal deficits, and falling investor confidence.

In 2009, the economy contracted by 2.7% due to weak external and domestic demand and a weak investment climate. In these circumstances, inflation slowed to 10.2 % relative to 16.9% in 2008. Under the SBA, inflation is expected to decline, to range between 7.5% and 9.55% in fiscal year 2010/2011.[52] The figures for the quarter ending March 2010 show that CPI increased by 4.1%, higher than the 2.8% of December 2009. Meeting the inflation target range of between 7.5% and 9.5% will depend on whether additional taxes are imposed and the price of fuel remains stable. After fluctuating moderately during the first few months of 2009, the exchange rate stabilized due to inflows from a number of multilateral institutions. The low demand for exports due to the recession abroad saw lower foreign exchange inflows, especially from mining, combined with lower inflows from remittances and private investment. The impact of declining output and cuts in the public sector workforce caused the unemployment rate to inch up from 10 % in October 2008 to 11.6% in October 2009.

Under the government's medium term economic programme[53] that was approved under the SBA, it is expected that growth will be 0.5% in fiscal year 2010/2011 and will increase to 2% in each year from fiscal year 2011/2012 to 2013/2014. This growth rate is based on tight fiscal and monetary policies designed to adjust the Jamaican economy under IMF scrutiny and review.

In the first review of the targets under the programme, it appears that all the targets have been met, including a variety of structural reforms and, as a result, IMF will disburse 63.7 million in Special Drawing Rights to Jamaica.

2. Economic policy

(a) Fiscal policy

The budget of FY 2009/2010 was geared to reducing the fiscal deficit to 5.5% of GDP from 7.3% of GDP in fiscal year 2008/2009. However, this target was far too ambitious as the overall deficit was substantially higher at 7.2% of GDP.

In order to arrest the weakening of public finances, the government was forced to introduce new tax measures that raised rates on a variety of taxes in September 2009 and January 2010. These measures included increasing the special consumption tax on fuels and raising the general consumption tax rate to 17.5% from 16.5%. The outcome for fiscal year 2009/2010 was an increase in revenue of 18.2%, with revenue increasing from 27.1% to 29.9% of GDP. Expenditure experienced a similar increase which suggests that no major fiscal adjustments occurred.

This lack of adjustment also generated a higher debt burden. The total stock of debt by December 2009 was 123.3% of GDP, increasing from 109.9% of GDP in 2008. By December 2009, domestic and

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52 The fiscal year (FY) runs from April to March the following year.

53 This programme runs to fiscal year 2013/2014

external debt were 69.1% and 54.2 % of GDP, respectively, an increase from 59.8% and 45.3% of GDP, respectively, at the end of 2008. Jamaica was downgraded in creditworthiness early in 2010 due to the rapid deterioration in the debt burden.

Debt servicing of J$ 120 million constituted 47 % of the expenditure budget in 2009, less than the 60% share of 2008. The relative importance of debt service payments can be seen in relation to other expenditures. For example, education services were 14.2% of the expenditure budget, while national security and health services were 7.5% and 6.2% respectively. Despite the limited fiscal space, in 2009, in the face of the global recession, the government increased the amount allocated to social safety net programmes by some 56 % and has plans to expand these programmes by another 16% in FY 2010/2011.

Significant structural fiscal policy changes to address prevailing difficulties in the fiscal accounts were expected to occur under the SBA. One of the changes is a fiscal consolidation strategy focused on streamlining the public sector, including the divestment of some public bodies. Other changes address reforms to the financial system and a comprehensive debt management strategy.

The Government passed legislation to establish a fiscal responsibility framework. A number of public entities —including Air Jamaica, the Sugar Company of Jamaica, The Port of Kingston, and the Norman Manley Airport— were to be divested. Meanwhile, for the first time, the consolidated accounts of public entities were reported as part of the annual budget, and a freeze on public sector wages was anticipated. These changes, coupled with a variety of quantitative performance criteria, were likely to create the conditions for fiscal consolidation, while reducing the crowding-out effect these public entities had had on the private sector.[54]

(b) Monetary and exchange rate policy

The main objective of monetary policy in 2009 was to restore foreign exchange stability and contain inflation. The most important aspect of this policy initiative was to respond to the increasing pressure for foreign exchange. In the first quarter of 2009, the Bank of Jamaica used certificates of deposit and increased the cash reserve requirement, primary instruments of monetary policy designed to reduce liquidity in the domestic banking system.

At the end of March 2009, the interest rates on Bank of Jamaica 30-day repo[55] stood at 17% and the 90-day repo at 18%. Increased bidding for foreign exchange forced the government to issue higher cost debt instruments and this helped to restore some stability to the foreign exchange market. Monetary policy was eased later in the year in response to improved confidence in local financial markets and, as a result, interest rates on all open market instruments declined by 450 basis points. By the end of September 2009, for example, interest rates fell as markets began to adjust in anticipation of an IMF agreement. By the end of March 2010, the 30-day repo stood at 10% and all remaining tenors were removed. Other instruments also tended to show a decline in rates late in 2009. For example, the average yield on 3 and 6 month treasury bills moved from 22.01% and 24.45%, respectively, in March 2009 to 15.95% and 16.80%, respectively, at the end of 2009. Despite the decline in interest rates, credit to the private sector rose by only 0.9% in 2009 relative to 28% growth in 2008.

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[54] The targets related to the primary balance of the central administration, overall balance on public entities, central government direct debt, cumulative net increase in central government guaranteed debt, central government accumulation of net arrears, central government accumulation of tax arrears and central government accumulation of external arrears.

[55] Repos are monetary policy tools used by the Bank of Jamaica. A repo involves the central bank selling a government security it owns and agreeing to buy back the same security at a specified rate at an agreed future date.

By January 2010, the government launched the Jamaica Debt Exchange, an exchange of high cost debt for new instruments of a longer duration, and this saw a decline in the 3 month and 6 month treasury bill rates to 10.18% and 10.49%, respectively. The success of this programme helped to reduce pressure to meet the obligation of immediate interest payments. During 2009, nominal growth in M1 was 7.2% relative to 2.2% in 2008. In addition, there was slower growth in point of sale transactions with credit cards as households were concerned about servicing their debt. Credit to the private sector only grew by 0.9% in 2009, reflecting the generally depressed economic conditions.

The foreign exchange market was relatively stable in 2009, showing a slight nominal depreciation of 0.78%. Since the SBA, there has even been a minor appreciation reflecting increased foreign exchange inflows from multilateral institutions. For example, the weighted average selling rate of the Jamaica dollar decreased to J$ 89.51 = US$ 1.00 at the end of March 2010 from J$ 89.60 = $US1.00 at the end of December 2009, corresponding to a slight appreciation of 0.10%.

The central bank stance on monetary policy in 2010 will continue to focus on moderating inflation and maintaining a stable nominal exchange rate in line with the medium-term programme. It is also anticipated that the IMF agreement will help to boost investor confidence and improve domestic investment.

3. Evolution of the main variables

(a) Economic activity

The 2.7% decline in the Jamaican economy in 2009 was the result of a combination of factors, including weak external and domestic demand, tighter credit conditions in the first part of the year, and lower consumption and investment spending. On the external side, the uncertainty in the world economy and recession among major trading partners affected demand. On the domestic side, falling incomes, rising unemployment, lower remittance inflows and tightened credit conditions earlier in the year restricted domestic demand. Broadly disaggregated by services and goods, the goods sector contracted by 10.3%, while the services sector declined by only 0.6%. The main industries to decline were mining and quarrying, manufacturing, transport, storage and communication, and construction; these sectors together contribute some 30% of GDP.

The most significant sectoral decline occurred in mining and quarrying, which declined by 50.2% to 2% of GDP in 2009. This crash was due to lower international demand for alumina and the closure of three alumina companies operating in Jamaica. Apart from alumina, capacity utilization for the lone bauxite plant fell to 71.1% in 2009 from nearly 90% in 2008. The mining and quarrying subsector is a traditional foreign-exchange earner. The contribution of bauxite and alumina to domestic export earnings fell by 25.4% and 70.1%, respectively, between 2008 and 2009. It is anticipated that there will be greater activity in both industries in 2010 with the resuscitation of world demand for these commodities.

Manufacturing declined by 5 % in 2009 to 8.3% of GDP relative to a 0.8% decline in 2008. This was mainly due to a decline in food and beverage production. Manufacturing suffered from weak external and domestic demand due to lower incomes.

One bright area of activity was in agriculture, forestry and fishing which grew by 12.1% in 2009 and contributed 5.6% of GDP. Given weak domestic demand, the construction sector declined by 4.6% in 2009 to 8% of GDP. Both private- and public-sector investment were affected, reflected through the decline in cement sales.

The electricity and water sector grew by 2.2% to reach 3.6% of GDP due to increased generating capacity. Electricity generation services returned to normal following the disruption caused by tropical storm Gustav. Water production also improved.

The hotel and restaurant sector grew marginally by 0.8% in 2009 to reach 25.1% of GDP, compared to growth of 0.2% in 2008. The decline in growth was a reflection of weak international demand for travel, consequent on lower incomes in major travel markets abroad and lower demand for restaurant services at home. However, this slower growth was moderated by the regularization of the industry after the tropical storm in 2008, the fallout from Mexico due to the H1N1 virus there, and major discounting undertaken by Jamaican tourism operators to increase capacity utilization. As a result, the hotel and restaurant sector in Jamaica performed well relative to almost all other Caribbean countries. Total stay-overs actually increased by 3.6% in 2009.

(b) Prices, wages and employment

Headline inflation declined to 10.2% in 2009 which was far lower than the 16.9% inflation rate of 2008. This decline was due to the moderate price increases of imported food and an improvement in agricultural production. Significant price increases occurred in the 'Greater Kingston Metropolitan Area' and in 'Other Urban Centres,' by 11% and 11.6%, respectively, whereas prices increased less in rural areas.

Price increases were largely due to increases in housing (23.0%), water, gas, electricity, and other fuels (12.9%), food and alcoholic beverages (8.1%), and miscellaneous goods and transport (6.1%). These sectors accounted for 77.1% of the overall price increase. Prices also rose as a result of a number of revenue-increasing measures, such as an increase in the general consumption tax rate and the special consumption tax on fuels.

Under the SBA with IMF, it is anticipated that inflation will decline to between 7.5% and 9.55% in fiscal year 2010/2011. The first quarter figures ending in March 2010 show that the CPI increased by 4.1%, up from 2.8% in the December 2009 quarter, and 1.3% higher than the March 2009 quarter. These increases have been linked to tax increases which have pushed up transportation and other household costs.

In 2009, the global recession and lower production at home squeezed employment (see box 6). The employed labour force declined from 1,174,500 in 2008 to 1,113,400 in 2009 and the average unemployment rate was 11.4%. The male unemployment rate went from 8.1% to 8.7% while female unemployment climbed from 14.5% to 15.1%. The decline in female employment occurred mostly in the retail sector where women dominate, affected by lower domestic demand. The largest job losses (7,500 workers) occurred in this sector in 2009. It is anticipated that, with wage restraint under IMF and a slackening of the international recession, business activity will improve in 2010 and employment will increase.

(c) The external sector

In 2009, the current account deficit of Jamaica on the balance of payments narrowed from US$ 3,223.0 million (23% of GDP) in 2008 to US$ 911.9 million or 7.3% of GDP. This improvement was due to an upturn in the balance on the combined goods and services accounts of the BOP whose deficit declined from 33% to 19% of GDP in 2009. In particular, imports of goods declined from 55% of GDP in 2008 to 36% of GDP in 2009 (a 42% drop in imports). Remittances from abroad, an important element in the current transfers balance, fell from US$ 2,021.3 million in 2008 to US$ 1,791.5 million in 2009. However, as a share of GDP, remittances remained constant at 14.4%. There seems to have been some improvement since then, as remittances increased by 9.7% year-on-year from January to March 2010 while for the same period in 2009 they declined by 15%.

The income balance registered a smaller deficit, moving from US$ 680 million in 2008 to US$ 585 million in 2009, whereas the capital and financial account balance had a smaller surplus, moving from US$ 3,118 million (22.2 % of GDP) to US$ 868 million (7.0 % of GDP) in 2009. This result was partly due to the decline in investment from abroad.

However, the amount of net private and official inflows were not sufficient to cover the current account deficit and the Net International Reserve of the Bank of Jamaica declined by US$ 43.6 million to US$ 1.57 billion by December 2009.

By March 2010, gross reserves were US$ 2.4 billion, or 17 weeks of imports of goods and services. Gross reserves were buoyed by the receipt of US$ 640 million from IMF as part of the SBA, an additional US$ 200 million from the IDB and a further US$ 199.5 million from the World Bank. It is projected that, as international demand improved, the current account deficit would decline to about 5.5% of GDP.

Box 6

THE JAMAICA LABOUR MARKET: 2003-2007 AND 2008-2009

Overall labour market

During the period from 2003 to 2007, Jamaica experienced moderate GDP growth averaging 2.0% which augured well for the labour market. In this period, the labour force also grew by 87,200 individuals, while total employment grew by 98,500 individuals or 8.6%, resulting in a 1.6% reduction in the unemployment rate. However, in the period from 2008 to 2009, this trend reversed. The labour force declined by 29,100 and total employment also declined by 36,100 or 3.2%, triggering an increase of 0.8% in the unemployment rate from 10.6% to 11.4%.

Wages

In an effort to address structural deficiencies in the economy, the Government introduced a wage freeze in the public sector at 31 March 2009 wage levels for a period of 2 years. In conjunction with this and in a bid to reduce public spending, the salaries of parliamentarians were cut by 10%, estimated to save J$ 8 million. The minimum wage would remain at the 2009 level of J$ 4,070/week for domestic workers and J$ 6,050/week for industrial security guards. This was a 10% increase over the 2008 minimum wage.

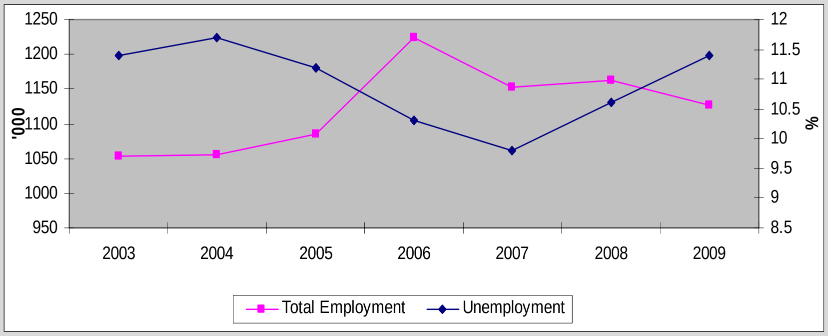
Sectoral concerns

Despite the wage freeze, average weekly earnings grew from J$ 14,588 to J$ 16,083 or 9.3% between 2008 and 2009. This growth was led by the private sector, particularly in the transport, storage and communications (24.16%), manufacturing (16.68%), real estate (11.05%) and electricity (9.16%) industries. In contrast, the structural decline of the mining industry led to a fall of 13.13% in average weekly earnings. Three of the four bauxite firms in Jamaica suspended operations in 2009 due to falling global demand.

Males and females in the labour market

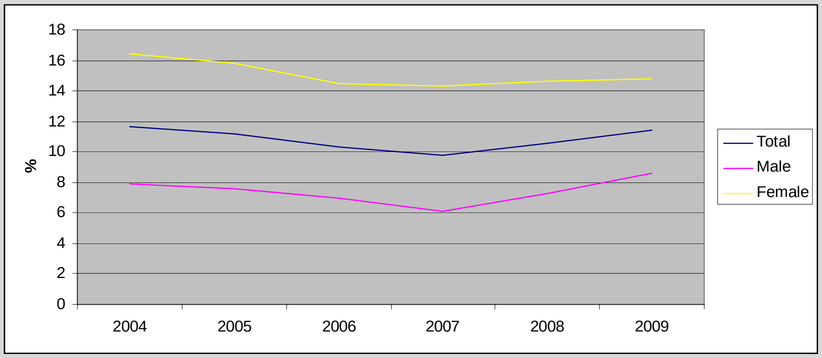
Box 6, figure 2 demonstrates that female unemployment has been persistently higher than that of males. Although females currently outnumber males at tertiary level institutions, the majority are employed in industries which are susceptible to external shocks and which lack job security, such as wholesale and retail, and hotel and restaurant services.

Box 6, figure 1: Total employment and unemployment rate: 2003-2009



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

Box 6, figure 2: Unemployment levels by gender: 2004 -2009



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

G. SURINAME

1. General trends

Suriname was one of the few Caribbean countries to post positive growth during 2009. The growth of real GDP, albeit slower than the 4.3% rate of 2008, was 2.2% in 2009, due to strong performances by the oil and gold industries and continued infrastructure development.

The overall fiscal surplus increased to 3.5% of GDP in 2009. The central bank maintained its domestic currency cash reserve requirement, and both deposit and lending rates remained stable. Domestic credit, driven by private sector borrowing, also continued to expand. The year-end inflation rate stood at 1.5% (down from 9.4% in 2008). The external sector current account surplus, owing to lower export revenues and for the first time in five years, registered a 39% decrease, valued at 9.2% of GDP.

Dési Bouterse's Mega Combination coalition party took the most seats in the general elections held on 25 May 2010. The election of Dési Bouterse to office may strain relations with the Netherlands, an important source of donor funds, given that he led a military regime in his last tenure as President.

Economic policy is aimed at containing inflation through monetary channels, facilitating economic growth and export growth, particularly through fiscal channels, and maintaining sustainable debt levels. In 2010, GDP is expected to grow by 2.4%.

2. Economic policy

(a) Fiscal policy

The overall fiscal balance remained in surplus for 2009 as total revenue increased by 25%, to 46.9% of GDP. A 138% increase in the dividend from Staatsolie, the state oil company, and a 44% increase in royalty payments from gold producer IAMGOLD increased these companies' contributions to tax revenue from 11.5% of total revenue in 2008 to 22.4% in 2009. The recession motivated the largest aluminium producer, BHP Billiton, to leave Suriname in 2009. Revenue was bolstered by increasing efficiency in the collection of sales taxes and import duties. Total tax revenue increased by 8.5% to reach 29.7% of GDP, and grants increased by 45% to reach 5.7% of GDP

Total expenditure increased by 23% to 43.3% of GDP, with current expenditure increasing by 21% to 33.7% of GDP, and capital expenditure increasing by 30% to reach 9.7% of GDP. Expenditure focused mainly on infrastructural projects (such as the Paranam-Albina road project). The highest-profile expenditure issue was the first phase of the Functie Informatie-Systeem Overheid (FISO), a public sector wage reform programme. In the first phase, FISO increased wages and salaries expenditure from 12% to 15.5% of GDP in 2009, and the second phase, due in late 2010, will probably increase expenditure on wages and salaries to 19.6% of GDP. Even with expanded expenditure, the primary surplus improved by 31% to 7.7% GDP and the overall surplus increased by 52% to 3.5% of GDP. However, with further expenditure on FISO and expectations of a lower oil dividend, a fiscal deficit of 15% of GDP is predicted for 2010.

Debt sustainability remained a priority, especially with higher accumulated public sector domestic debt to finance FISO. External debt fell by 25% during 2009, reaching 10.4% of GDP. The sizeable Brazilian debt was officially cleared in 2009 with US$ 118 million repaid and US$ 47 million forgiven. Suriname hopes to clear a US$ 37 million debt with the United States by the end of 2010, before the Staatsolie refinery upgrade programme[56] begins. Domestic debt, driven mostly by the need to finance FISO, reached approximately 14.6% of GDP, up from 12.5% in 2008. As debt is mostly long-term, there

[56] US$ 400 million will be borrowed to finance this project.

are no short- to medium-term problems forecast. However, there is some concern over the uncertainty about long-term sources of funds and expected trade deficits in the near future.

(b) Monetary and exchange rate policy

Liquidity (M2) expanded by over 26% to reach 41.6% of GDP while net domestic credit expanded by 24% to reach 32.4% of GDP. Expansion of private sector domestic credit slowed, expanding by 13% in 2009 to 40.5% of GDP compared to 34.7% in 2008. While home construction is still increasing, the slower growth resulted from the collapse of the low-income home loan assistance project begun by the government in 2008, due to a lack of demand. Credit to the central government expanded significantly from -0.4% of GDP in 2008 to 5.5% in 2009 due to the financing of infrastructure projects and FISO.

The central bank aims to balance inflation and growth in the context of maintaining the official exchange rate of SR$ 2.75 to US$ 1. The main policy tool, the Suriname dollar reserve requirement was unchanged at 25%, as were the foreign exchange reserve requirements for Euros and United States dollars (33.33%). Market interest rates[57] continued to decline in order to keep credit accessible. The lending rate fell from 12.0% to 11.6% and deposit rates remained stable at 6.2% in 2009, down from 6.3% in 2008.

The official United States dollar exchange rate remained unchanged at approximately SR$ 2.75 per US$ 1 throughout 2009, but trade in parallel markets was as high as SR$ 3.15 per US$ 1. Many domestic transactions for imported durable goods are denominated in United States dollars, which fuels additional demand for the currency. Moreover, Chinese retailers buy United States dollars at a premium from Surinamese nationals to finance their own imports and loan repayments. The Central Bank intervened early in 2009 by increasing the official band of the exchange rate from SR$ 2.71-2.80 per US dollar to SR$ 2.71-2.85 per US dollar, but felt that any further intervention to rebalance the market would not be the best use of foreign exchange resources, because Surinamese nationals hold US$ 800 million in foreign banks, 23% more than the country’s official international reserves.

The conservatism of the Suriname financial system was considered vital in avoiding the contagion effects of the financial crisis. CLICO Suriname was absorbed locally after the collapse of its parent company, producing no lasting damage to the financial sector. Nevertheless, fiscal and balance of payments deficits expected in the near future raise red flags concerning a potential need to adjust current monetary policy, especially as inflationary pressure may require upward adjustments to the reserve requirement to defend the exchange rate.

3. Evolution of main variables

(a) Economic activity

GDP grew by 2.2% in 2009, with growth in the construction, agriculture and service sectors leading the way.

With the virtual halt to aluminum production, the mining and quarrying sector shrank by 12.3% to contribute 7.2% of GDP. Strong gold and oil production failed to offset the fall in aluminum. Manufacturing declined by 0.7% to 10.6% of GDP as activity related to the processing of aluminum slowed. The expected increase in manufacturing coming from the government’s creation of a state aluminum company, Alumsur, did not materialize, and negotiations with Suralco are ongoing.

Following the negative shock to commodity prices subsequent to the 72% fall in oil prices during the last five months of 2008, and as international aluminum prices fell by approximately 60% over the same period, BHP Billiton determined that it would no longer be feasible to operate out of Suriname. The

[57] End-of-year rates

BHP share in the local aluminum conglomerate, BHP Maatshappij Suriname (BMS) was sold to Suralco. This loss of the majority stakeholder made it unfeasible to continue with large scale projects like the Western Suriname (Bakhuys) bauxite development project, which had been earmarked to replenish to the already-mature bauxite reserves in Suriname. Following these internal and external shocks, production of aluminum in Suriname decreased by 40% in 2009. Hodrick-Prescott trend estimates show that this production decrease shifted the value of total mining sector production 9% under trend in 2009, despite the continued increase in the value of gold production and the recovery in the value of oil production in 2009.

This impact was also seen in government revenues generated by the mining sector. The share of the aluminum subsector in mining revenue plummeted from a 16.9% contribution in 2008 to 6.9% in 2009. As a percentage of GDP, state revenues from aluminum shrank from 2% of GDP in 2008 to 0.8% of GDP in 2009. The decline of the aluminum subsector is expected to have an impact on employment through the loss of approximately 1,400 jobs. Sizeable, technically exploitable bauxite reserves still exist in Suriname. However, increasing international competition and lack of capital inflows will challenge the resurgence of the aluminum subsector.

Construction sector output increased by 7.3% in 2009 to reach 6% of GDP. Government construction programmes, infrastructure development programmes, hotel construction, and increasing numbers of individual homebuilders drove sectoral growth. Donor-driven infrastructure projects provided a significant buffer for Suriname against the effects of the global recession.

The services sector grew by 3.7% to 69% of GDP, led by growth in the wholesale and retail trade sector of 9.3% to reach 18.2% of GDP. Wholesale and retail trade continued to increase in tandem with continued growth in demand for housing and consumer durables.

Following on from GDP growth of 2.2% in 2009, sustained construction activity related to housing and infrastructure, and expected increases in gold production are forecast to fuel a growth rate of 2.4% in 2010.

(b) Prices, wages and employment

Inflation dropped markedly in 2009, ending the year with a 1.5% annual rate, much lower than the 9.4% inflation rate of 2008. The major drivers of the decrease were the drop in food and fuel prices that occurred due to the global recession. Inflation peaked in January 2009 with an annual rate of 7.8%, but the period between May and October 2009 saw an average year-on-year rate of -3.5%. The year-on-year CPI inflation for April 2010 was 2.7%.

The new wage programme, FISO, was originally intended for central government employees but union action forced the government to offer it to all public servants. Despite the change in government, it appears that subsequent phases of the programme will be implemented as expected. However, serious concerns remain regarding the sustainability of current levels of public expenditure, especially considering projections of a fiscal deficit in 2010.

The unemployment rate continues to be reported at 12% although no new studies into the variable have occurred since 2006. The massive negative shock sustained by the aluminium industry with the exit of BHP Billiton, and the lowering of SURALCO output, would have increased unemployment, especially since ongoing infrastructural projects are not adding enough jobs, owing to the influx of Chinese workers for these projects.

(c) External Sector

The current account surplus decreased for the first time since 2004, reflecting lower export prices and output. Although imports decreased by 4% to 56.8% of GDP, the value of exports declined by 18% to

61.5% of GDP, the first decline in exports since 2001. The current account surplus decreased by 39% in 2009, falling to 9.2% of GDP. The services balance registered a surplus for the first time since 1990, moving from a deficit of US$ 122 million to a slight surplus of US$ 2 million. This phenomenon is a result of the downturn in international services sector activity in Suriname following the recession, and the resultant departure of multinational engineering services companies. Tighter international capital markets saw IMF increase its Special Drawing Rights (SDR) allocations. Suriname benefited with an allocation worth US$ 123 million or 5.4% of GDP. As a result, the capital and financial accounts (including errors and omissions) moved from a deficit of 12.1% of GDP in 2008 to a small surplus of 0.7% of GDP in 2009. Net international reserves increased by 335% to reach 9.9% of GDP, which increased total import cover (including services) from 3 months in 2008 to 5 months in 2009.

As the world economy is expected to recover slightly in 2010, a current account deficit is still considered improbable. Nevertheless, the idea that world economic growth may once again slow, compromising commodity prices, has not been lost on the Surinamese authorities, and there are concerns that chronic balance of payments deficits may await Suriname beyond 2011.

H. TRINIDAD AND TOBAGO

1. General trends

The international economic crisis closed a cycle of robust growth and massive twin surpluses in Trinidad and Tobago, a country which had benefited greatly from the escalation in international oil prices in recent years. Sharp contractions in the construction and commerce sectors in 2009 led to a 0.9 percentage point decline in GDP compared with 2008, the first dip since 1993. From the fourth quarter of 2009, however, there were tepid signs of a recovery, which continued throughout the first quarter of 2010, in tandem with a rally in the energy sector spurred by more buoyant international prices. The central bank forecasts 2% growth for 2010.

In fiscal year 2008/2009,[58] the fiscal deficit stood at 5.3% of GDP, in sharp contrast with the surplus of 7.8% recorded in the preceding fiscal year. This outcome is attributable to a substantial reduction in tax receipts, mainly from the energy sector. The budget for fiscal year 2009/2010 foresees a deficit equivalent to 5.4% of GDP.

The current account surplus contracted dramatically, from US$ 8.519 billion in 2008 (32.6% of GDP) to US$ 1.759 billion in 2009 (8.3% of GDP). The performance of the current account in 2010 will be closely linked to movements in energy prices on the international market.

In 2009, economic policy consisted of expansionary fiscal and monetary measures designed to boost economic activity against the backdrop of a quasi-fixed exchange-rate regime. Since the recovery that began in the fourth quarter of 2009 has remained sluggish up to mid-2010, this policy has remained in place and should continue to the end of the year, unless a resurgence in inflation, which had spiked in the early months of 2010, forces the central bank to adopt a contractionary monetary policy.

The general elections were moved up to May 2010 and the former opposition coalition, the People's Partnership, triumphed following three consecutive administrations by the People's National Movement. The principal challenge for the new administration will be to diversify the production base in order to reduce the country's reliance on the energy sector. Indeed, in 2009, this sector accounted for more than 40% of GDP, over 42% of tax receipts and 80% of goods exports.

2. Economic policy

(a) Fiscal policy

In fiscal year 2008/2009, the central government recorded a deficit equivalent to 5.3% of GDP, its first since 2002. The sudden reversal in the fiscal situation from the surplus of 7.8% of GDP in the preceding fiscal year was due more to a fall in revenues than to any increase in expenditure. Indeed, while total expenditure expanded by less than 2% in relation to fiscal year 2007/2008, total fiscal revenues contracted by 33% (from 36.5% to 27.2% of GDP),[59] owing especially to a 47.6% reduction in revenues from the oil sector.

International oil and gas prices exceeded the forecasts used in the adjusted budget estimates for fiscal year 2008/2009. Nevertheless, revenues from the energy sector were down by 44% over the preceding fiscal year 2007/2008 (from 20.9% of GDP to 13% of GDP) when tax collections were

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[58] The fiscal year in Trinidad and Tobago runs from 1 October to 30 September

[59] Revenues from company tax collected from the energy sector fell by more than 50% in comparison with 2008. In 2009, this tax represented 78% of receipts from the energy sector and 32.7% of total receipts.

exceptionally high owing to soaring prices for hydrocarbons in international markets. Non-energy revenues in 2008/2009 were also down (by 18%), halting the rising trend observed during the nine preceding years. More than a quarter of this reduction was due to decreased value added tax receipts due to more sluggish economic activity and faltering domestic demand.

The deficit was financed mainly with resources from the Infrastructure Development Fund and complemented by domestic loans. The fiscal position continued to be sound with almost 14% of GDP accumulated in the Heritage and Stabilization Fund. Public debt reached 18.8% of GDP. Indeed, unlike other countries in the Caribbean, public indebtedness is not a major issue for Trinidad and Tobago. The external public debt accounts for approximately one third of total debt.

The central government budget for the fiscal year 2009/2010 is based on international prices of US$ 55 per barrel of oil and an average price for natural gas of US$ 2.75 per million cubic feet. The budget also provides for an increase in current expenditure designed to support economic recovery and job creation, through a fiscal stimulus package which would result in a deficit equivalent to 5.4% of GDP. Given the behaviour of international energy prices during the last quarter of 2009 and the first two quarters of 2010, these are now expected to exceed expectations and the deficit should therefore be lower than projected. With revenues 4.1% higher and total expenditure 16.5% lower than projected, the deficit for the period October 2009-February 2010 stood at TT$ 2.153 billion, more than 60% lower than the budgetary projection (TT$ 5.878 billion).

(b) Monetary policy

The economic downturn in 2009, coupled with the steady decline in inflation, led the central bank to adopt an expansionary monetary policy during the year. The principal instrument of monetary policy was the repo rate, which had been cut back eight times since March 2009 and stood at 5.25% in December 2009, down from 8.75% in February of the same year. By January 2010, it had fallen to 5%, a historic low. This level was maintained through May 2010. Providing inflation remains within the target range set by the authorities (5%-6%), authorities will probably continue to gear monetary policy towards boosting the tepid recovery observed up to mid-2010.

Excess liquidity, measured as the commercial banks' reserves above the required levels stored with the central bank, increased substantially. It was fuelled by fiscal injections totalling TT$ 16.447 billion between October 2008 and September 2009 and by the fall in domestic demand for credit.

The central bank sought to absorb liquidity basically by selling off foreign exchange, which amounted to over TT$ 10 billion during this period. Despite the new fiscal injections, which amounted to TT$ 8.64 billion between October 2009 and March 2010, excess liquidity on the financial market diminished significantly to stand at TT$ 1.830 billion by March 2010, due to the fact that liquidity absorption measures exceeded fiscal injections by over 13%. In addition, in November 2009, the central bank requested the commercial banks to deposit a total of TT$ 2 billion in its vaults in interest-bearing accounts. In December 2009, the issuing agency extended the maturity date for similar deposits for TT$ 1.5 billion, which were scheduled to fall due in that month.

In general, in cases such as the current situation in Trinidad and Tobago, where there is excess liquidity in the financial system, movements in the repo rate act mainly as a mechanism for sending signals to the market, since the banks do not need to obtain credit from the central bank. Thus, reductions in the reference rate do not automatically translate into reductions in market interest rates. The base prime rate declined from 13% per year in the first quarter of 2009 to 10.8% in the fourth quarter of the year. Although credit was cheaper, domestic credit to the private sector was down from the 2008 level by 4.6% in 2009 owing to weak demand. This trend held into the first few months of 2010. Households and corporations alike have continued to reduce their liabilities amidst uncertainty over the pace and intensity of economic recovery.

Given the climate of uncertainty and the weakness of domestic demand, domestic credit to the private sector diminished by 2.6% in March 2010, compared with the same month of the preceding year, following earlier contractions (4.1% and 3.6% respectively) in January and February 2010. Credit to consumers and businesses declined over the 12 month period by 2.5% and 2.9%, respectively. Persistent excess liquidity depressed short-term interest rates, so that the interest rate on three-month treasury bonds dropped from 1.36% in January to 1.11% on 25 May.

In 2009, the monetary aggregates M1, M2 and M3 expanded by 16.4%, 10.1% and 13.7%, respectively, over 2008 levels. The expansion in M1 was due to the buoyancy of demand deposits, while M2 was fuelled by the increase in M1 and the expansion in savings deposits. The higher demand for foreign currency deposits contributed to the expansion in M3.

(c) Exchange-rate policy

Despite speculative attacks in the first quarter of 2009 associated with the global economic crisis and the collapse of the financial group Caribbean Life Insurance Company (CLICO),[60] the quasi-fixed exchange-rate regime that prevailed in Trinidad and Tobago has remained unchanged. This stability may be attributed to the central bank's sound reserve position which, at the end of 2008, stood at US$ 9.8 billion or 12.3 months of goods imports, a level more than sufficient to shore up the exchange-rate regime. The latter was maintained throughout the first half of 2010 and is expected to be maintained in the future, and thus the exchange-rate policy to remain basically unchanged. At the close of the first quarter of 2010, the country's international reserves reached US$ 8.878 billion.

With the fall in energy prices on international markets, foreign-exchange inflows into the country slackened and both purchases and sales to the public by authorized intermediaries diminished with respect to 2008. Total purchases in 2009 amounted to US$ 3.8 billion, 34% less than in 2008. Similarly, with demand for imports flagging, total sales stood at US$ 5.63 billion, 12.8% less than in 2008. In this context, the central bank increased its interventions in the foreign exchange market substantially, selling US$ 1.9 billion to authorized agents in 2009, more than double the 2008 level.

The rally in international energy prices in the first quarter of 2010 boosted export earnings in foreign currency, relieving some of the pressure on foreign-exchange markets. Accordingly, the central bank intervened less, selling US$ 325 million to authorized agents, compared with US$ 473 million in the first quarter of 2009.

The nominal exchange rate remained stable at around TT$ 6.3 to the United States dollar, although with a slight tendency to trend upwards. In 2009, the average nominal rate of exchange reflected 0.7% depreciation compared with the 2008 average. Exchange-rate stability was maintained in the first half of 2010.

3. The main variables

(a) Economic activity

The international economic crisis marked the end of 15 years of continuous growth in the Trinidad and Tobago economy. Indeed, its effects had already been felt since 2008, when economic activity slowed significantly and growth declined from 4.6% in 2007 to 2.2% in 2008. In 2009, GDP contracted by 0.9%.

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[60] On 30 January 2009, the monetary authorities bailed out CLICO investment bank, owned by CL Financial Ltd., a conglomerate with operations in several Caribbean countries, in a bid to safeguard the stability of the financial system.

While it was expected that the energy sector would bear the brunt of the crisis, owing to the slump in international prices, it was the non-energy sector which sustained the sharpest impact. In fact, the energy sector grew by 1.6% in 2009 compared with 2008, while the non-energy sector contracted by 2.5% over the same period.

Construction (6.9% of GDP) and commerce (11.4% of GDP) were the hardest hit. The former declined by 14.9% owing to the completion or winding down of major projects, and the latter contracted by 12.7% as sluggish domestic demand, reflected in weaker demand for imports, led to a drop in both wholesale and retail sales.

Despite the fall in international prices, crude oil production rose slightly in 2009, compared with 2008. Average production rose 2.4% above 2008 levels to reach just over 117,012 barrels per day, more than 19% short of the peak attained in 2005. The increase in crude oil output was associated with a rise of 2.3% in export volumes.

This performance was accompanied by increases in natural gas production (11.9%), natural gas liquids (23.4%), fertilizers (8.4%) and methanol (6.6%). The robust expansion in the production of natural gas liquids is attributable to the sole local producer, Phoenix Park Gas Processors Limited, which continued to dominate Caribbean, Central American and North American markets. Indeed, in 2009, the volume of natural gas liquids exports grew by more than 15% compared with 2008.

On the demand side, although official national accounts do not give a breakdown per category of expenditure, public consumption appears to be the only component of aggregate demand to have expanded in 2009. This may be inferred from the fact that all other components declined: goods exports and imports fell sharply in value terms compared with 2008 (51% and 28%, respectively, according to balance-of-payment figures); the value of imports of consumer goods was down (17.3%) as was that of capital goods (2.6%); the same applies to the construction sector, domestic credit to the private sector (4.6%), and revenues from value added tax (down 19.4% in fiscal 2008/2009 with respect to the preceding fiscal year); central government current expenditure expanded (7.4%), while capital expenditure decreased (17.7%). Assuming an increase in the GDP deflator of between 2.5% and 3.5% in 2009, and given an average domestic inflation (excluding food, most of which is imported) of 4.2%, public consumption would probably have expanded by between 4% and 5% in real terms.

The recovery observed since the last quarter of 2009 is expected to gain momentum during the remainder of 2010, driven by the upturn in international energy prices and fiscal and monetary stimulus measures. Against this backdrop, the economy of Trinidad and Tobago should grow by 2% in 2010.

(b) Prices, wages and employment

The fall in international food prices, combined with weak domestic demand, resulted in a historic low in the twelve-month inflation rate: 1.3% (down from 14.5% in December 2008). Food prices were the crucial factor in this result, having fallen by 0.2% in contrast with a 30.6% rise in December 2008. The prices of the other components of the consumer basket increased by 2.2%.

Nevertheless, in the early months of 2010, 12-month inflation surged to 7.2% in April, as food prices were pushed up by supply constraints due to severe drought, which slashed local crop production. The 12-month food price inflation stood at 12.7% in April, led by fruit prices, which skyrocketed (60.1%) in relation to April 2009. Twelve-month inflation, excluding food items, stood at 4.4%. This, together with an increase in international food prices, is the main inflationary risk with respect to the rest of 2010.

Nominal wages tended to keep pace with price levels. Thus real wages declined by 0.4% in the 12 months ending in September 2009. However, with the exception of energy sector workers who benefited from a substantial wage increase in the first nine months of 2009, real wages for workers in all other sectors fell by 7.7% during this period.

The contraction in economic activity led to an increase in the unemployment rate. The historic low of 3.9% reached in December 2008 was reversed during 2009, and by September the rate had reached 5.8%. Despite an increase in the jobless figure by 3,700 persons, the number of persons classified as unemployed increased by only 2,900 due to a contraction in the labour force. The participation rate fell slightly from 63.3% in the first nine months of 2008 to 62.9% in the same period of 2009. Job losses were concentrated in the manufacturing (3,800 jobs) and construction (2,400 jobs) sectors.

(c) The external sector

Goods exports shrank by over 50% in value terms, from US$ 18.686 billion in 2008 to US$ 9.175 billion in 2009, reflecting lower international energy prices. The weakness in domestic demand also generated a marked reduction in the demand for imported goods in the same period, from US$ 9.622 billion to US$ 6.973 billion. As a result, the commercial surplus plummeted from US$ 9.064 billion in 2008 (34.7% of GDP) to US$ 2.202 billion in 2009 (10.4% of GDP). The insignificant variation in absolute terms in the services, income and current transfers balances, coupled with the decline in the merchandise trade balance surplus, caused the current account surplus to contract from US$ 8.518 billion in 2008 (32.6% of GDP) to US$ 1.759 billion in 2009 (8.3% of GDP).

For the first time since 1992, the deficit on the capital and financial account (including errors and omissions) exceeded the surplus on the capital account, leaving a negative balance-of-payments deficit of US$ 713 million in 2009. Thus, at the close of 2009, gross official reserves stood at US$ 8.652 billion, equivalent to 14.9 months of goods imports. Given the variation in reserves, the balance of payments recorded a surplus of US$ 137 million during the first quarter of 2010. In all likelihood, this positive figure was linked to the upturn in international energy prices in the fourth quarter of 2009. The external accounts balance for the year as a whole will depend entirely on the evolution of these prices during the remainder of 2010.

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STATISTICAL ANNEX

Table A-1

ANTIGUA AND BARBUDA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008r	2009a/
			Annual growth rates b/			
Gross domestic product	5.4	5.0	12.9	6.5	1.8	-8.9
Per capita gross domestic product	5.7	3.3	11.2	8.7	3.8	-8.4
Gross domestic product, by sector						
Agriculture, hunting, forestry and fishing	2.6	3.0	2.9	3.3	2.7	3.6
Mining and quarrying	-12.5	26.8	45.0	24.2	5.0	-25.0
Manufacturing	-4.0	3.8	8.6	8.5	3.0	-17.0
Electricity, gas and water	6.4	6.4	5.4	10.1	5.5	1.6
Construction	2.5	19.5	35.0	6.0	5.0	-25.0
Wholesale and retail commerce, restaurants and hotels	5.2	1.0	6.0	7.3	3.8	-15.0
Transport, storage and communications	9.0	2.4	9.2	10.1	0.5	-3.2
Financial institutions, insurance, real estate and business services	9.9	12.9	19.6	3.9	-1.7	1.2
Community, social and personal services	4.1	2.7	3.7	6.8	0.5	0.8
Balance of payments			**Millions of dollars**			
Current account balance	-96	-171	-309	-379	-354	-262
Goods balance	-345	-373	-486	-573	-593	-518
Exports, f.o.b.	57	83	74	76	78	72
Imports, f.o.b.	402	455	560	649	671	589
Services trade balance	286	236	219	234	292	276
Income balance	-46	-42	-64	-64	-69	-34
Net current transfers	8	8	22	24	15	15
Capital and financial balance c/	102	179	324	380	339	227
Net foreign direct investment	80	214	374	356	173	129
Other capital movements	22	-35	-50	24	166	98
Overall balance	6	7	15	1	-6	-30
Variation in reserve assets d/	-6	-7	-15	-1	6	30
Other external-sector indicators						
Net resource transfer	56	136	260	316	326	…
Gross external public debt	532	317	321	501	524	496
Prices			**Annual percentages**			
Variation in consumer prices (December-December)	2.8	2.5	0.0	5.2	0.7	2.4
Nominal deposit rate e/	3.8	4.0	4.0	3.9	4.0	4.0
Nominal lending rate f/	10.5	10.8	10.8	10.5	10.5	10.5

Table A-1 (continued)

	2004	2005	2006	2007	2008	2009
Central government			**Percentages of GDP**			
Total income g/	24.7	46.1	25.2	24.0	23.7	20.2
Current income	21.5	21.1	22.3	23.2	22.7	20.1
Tax income	19.4	19.4	21.0	22.2	21.3	19.3
Capital income h/	1.0	0.8	0.2	0.2	0.2	0.1
Total expenditure	27.7	28.0	33.1	30.5	30.5	30.7
Current expenditure	25.1	24.0	25.3	24.0	23.6	24.9
Interest	5.0	3.8	3.6	3.4	3.2	1.6
Capital expenditure i/	2.5	4.0	7.9	6.4	6.9	5.9
Primary balance	2.0	21.8	-4.3	-3.1	-3.6	-9.0
Overall balance	-3.0	18.0	-7.9	-6.4	-6.8	-10.6
Total public debt	148.4	120.0	104.8	90.9	91.7	95.8
External	65.0	36.3	31.9	41.5	36.2	40.2
Money and credit j/			**Percentages of GDP**			
Domestic credit	76.7	78	74.9	75.9	84.2	102.4
To the public sector	4.8	3	-1.2	0.7	5.4	16.7
To the private sector	71.9	75	76.0	75.2	78.8	85.7
Liquidity (M3)	92.9	93.1	91.4	88.3	91.8	100.5
Currency outside banks and local-currency deposits (M2)	86.8	87.3	83.9	79.3	83.5	86.8
Foreign-currency deposits	6.1	5.8	7.5	9.0	8.3	13.7

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Average of the minimum and maximum rates.

f/ Prime lending rate, average of the minimum and maximum rates on savings.

g/ Includes grants.

h/ In 2000, includes grants.

i/ Includes net lending.

j/ The monetary figures are end-of-year stocks.

… Not available

Table A-2

BARBADOS: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	4.8	3.9	3.6	3.8	-0.2	-4.8
Per capita gross domestic product	5.9	15.3	4.4	5.4	-1.3	-1.6
Gross domestic product, by sector						
Non-Sugar Agriculture and fishing	-8.1	6.9	-2.9	2.8	2.9	3.6
Mining and quarrying	9.6	8.0	-3.1	-5.9	-7.9	-37.6
Manufacturing	2.2	2.1	-0.7	-1.2	-2.2	-12.8
Electricity, gas and water	1.8	-0.6	9.5	1.3	-0.4	0.6
Construction	2.8	14.0	-0.4	0.1	-7.9	-22.6
Wholesale and retail commerce, restaurants and hotels	6.1	5.3	7.0	6.5	-0.8	-5.3
Transport, storage and communications	5.4	4.9	5.5	6.1	2.9	-2.9
Community, social and personal services c/	4.9	4.1	4.3	4.2	2.7	…
Balance of payments			**Millions of dollars**			
Current account balance	- 266	- 367	- 252	- 183	- 421	- 218
Goods balance	- 982	- 1 070	- 1 003	- 1 084	- 1 242	- 917
Exports, f.o.b.	211	267	353	405	369	379
Imports, f.o.b.	1 260	1 431	1 513	1 608	1 710	1 290
Services trade balance	683	765	810	911	895	797
Income balance	- 82	- 128	- 142	- 66	- 121	- 140
Net current transfers	114	65	83	56	47	42
Capital and financial balance d/	234	270	348	453	165	308
Net foreign direct investment	20	118	200	256	223	n.a
Other capital movements	246	239	127	205	43	n.a
Overall balance	- 170	- 69	41	278	- 249	42
Variation in reserve assets e/	170	69	- 41	- 278	249	- 42
Other external-sector indicators						
Real effective exchange rate (index: 2000=100) f/	107	106	104	105	103	…
Net resource transfer (millones de dólares)	58	- 16	149	360	47	…
Gross external debt (millions of dollars)	1 595	1 783	1 851	1 994	2 239	2 500
Employment			**Annual rates**			
Labour force participation rate g/	69.5	69.6	67.9	67.8	67.6	67.0
Unemployment rate h/	9.8	9.1	8.7	7.4	8.1	9.9
Prices			**Average percentages**			
Variation in consumer prices (December-December)	4.3	7.4	5.6	4.7	7.3	4.4
(annual average)	1.6	6.1	7.3	4.0	8.1	3.6
Nominal deposit rate i/	2.5	4.1	5.1	4.8	4.1	2.7
Nominal lending rate j/	9.8	10.6	10.9	10.6	10.3	9.5

Table A-2 (continued)

	2004	2005	2006	2007	2008	2009
Central Government			**Percentages of GDP**			
Total income k/	29.6	27.4	29.3	30.2	31.0	32.3
Tax income	28.3	25.6	28.0	28.6	29.2	29.4
Total expenditure l/	31.5	30.9	31.0	31.8	36.7	40.6
Current expenditure	28.2	26.6	26.2	28.8	33.1	37.0
Interest	4.2	3.9	4.2	3.9	4.9	5.5
Capital expenditure	3.3	3.2	3.4	2.5	3.1	3.2
Primary balance	2.3	0.5	2.5	2.3	-0.8	-2.9
Overall balance	-1.9	-3.5	-1.6	-1.6	-5.7	-8.4
Public external debt	24.9	24.2	23.8	24.7	28.1	31.8
Money and credit m/			**Percentages of GDP**			
Domestic credit	69.6	70.4	73.2	76.4	85.5	91.0
To the public sector	18.2	14.9	13.7	14.7	16.9	18.8
To the private sector	51.3	55.6	59.6	61.8	68.7	72.2
Liquidity (M3)	92.5	88.2	91.4	101.4	105.5	109.2
Currency outside banks and local-currency deposits (M2)	115.8	124.6	122.0	139.1	127.0	…
Foreign-currency deposits	9.4	13.4	9.2	16.9	13.2	10.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1974 prices.
c/ Includes financial institutions, insurance, real estate and business services.
d/ Includes errors and omissions.
e/ A minus sign (-) denotes an increase in reserves.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Economically active population as a percentage of the working-age population.
h/ Percentage of the economically active population. Includes hidden unemployment.
i/ Prime lending rate.
j/ Interest rate for savings.
k/ Includes grants and post office revenues.
l/ Includes net lending.
m/ The monetary figures are end-of-year stocks.

Table A-3

BAHAMAS: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
	Annual Growth rates b/					
Gross domestic product	1.6	5.0	3.5	1.9	-1.7	-4.3
Per capita gross domestic product	0.2	3.6	2.0	0.8	-3.0	-5.4
Gross domestic product, by sector						
Agriculture,,hunting, forestry and fishing	-7.3	-15.2	5.5	-14.6	-5.8	…
Mining and quarrying	2.8	-3.1	28.5	-1.4	25.6	3.8
Manufacturing	33.0	58.6	-32.1	-14.9	-7.0	-15.0
Electricity, gas and water	-0.2	9.7	-4.6	7.3	31.2	-12.6
Construction	-17.3	25.2	35.7	-3.7	-9.5	-18.4
Wholesale and retail commerce, restaurants and hotels	0.5	8.7	1.1	-8.6	-1.3	-12.6
Transport, storage and communications	-2.5	5.4	5.1	-13.5	-7.6	-11.4
Financial institutions, insurance, real estate and business services	8.3	5.4	-0.7	5.5	4.1	-9.8
Community, social and personal services	7.8	1.9	-11.2	-16.1	0.5	-9.3
Balance of payments	**Millons of dollars**					
Current account balance	- 171	- 651	- 1 374	- 1 315	- 1 165	- 927
Goods balance	- 1 348	- 1 763	- 2 033	- 2 154	- 2 243	- 1 875
Exports, f.o.b.	477	549	694	802	956	666
Imports, f.o.b.	1 826	2 312	2 727	2 956	- 3 199	- 2 540
Services trade balance	1 068	1 230	825	1 020	1 140	1 074
Income balance	- 141	- 203	- 218	- 232	- 118	- 210
Net current transfers	251	85	52	52	56	82
Capital and financial balance c/	354	562	1 295	1 269	1 274	1 180
Net foreign direct investment	443	563	706	746	839	654
Other capital movements	- 89	- 1	588	523	435	526
Overall balance	184	- 89	- 79	- 46	109	253
Variation in reserve assets d/	- 184	89	79	46	- 109	- 253
Other external-sector indicators	213	358	1 077	1 037	994	…
Gross external public debt (millons of dollars)	345	338	334	337	443	767
Employment	**Percentages**					
Unemployment rate e/	10.2	10.2	7.6	7.9	8.7	14.2
Prices	**Annual percentages**					
Variation in consumer prices (December-December)	1.9	1.2	2.3	2.8	4.6	1.6
Nominal deposit rate f/	3.8	3.2	3.4	3.7	3.9	3.8
Nominal lending rate g/	11.2	10.3	10.0	10.6	11.0	11.7

Table A-3 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government h/			**Percentage of GDP**			
Total income	16.0	17.1	18.6	18.0	19.7	18.1
Current income	15.7	16.9	18.6	18.0	19.6	18.1
Tax income	15.0	16.5	16.2	16.2	17.5	14.4
Capital income i/	0.3	0.2	0.0	0.0	0.0	0.0
Total expenditure j/	18.3	18.7	18.9	20.2	21.3	21.5
Current expenditure	16.7	16.7	17.0	18.0	19.0	19.3
Interest	1.8	1.7	1.9	1.9	2.0	2.2
Capital expenditure	1.4	1.7	2.0	2.2	2.3	2.2
Primary balance	-0.3	0.2	1.0	-0.2	0.4	-1.2
Overall balance	-2.2	-1.7	-0.8	-2.1	-1.7	-3.4
Money and credit k/			**Percentage of GDP**			
Domestic credit	84.5	87.6	94.1	100.3	107.8	108.4
To the public sector	14.7	14.3	15.3	16.4	18.7	19.4
To the private sector	67.9	70.7	75.8	82.5	86.1	87.5
Liquidity (M3)	69.8	73.3	78.8	83.8	89.1	89.1
Currency outside banks and local-currency deposits (M2)	71.8	71.9	72.3	75.9	80.7	81.3
Foreign-currency deposits	1.6	2.2	2.3	2.7	2.8	3.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2006 prices.
c/ Includes errors and omissions.
d/ A minus sign (-) denotes an increase in reserves.
e/ Percentage of the economically active population; nationwide total. Includes hidden unemployment.
f/ Deposit rate, weighted average.
g/ Lending and overdraft rate, weighted average.
h/ Fiscal years.
i/ Includes grants
j/ Includes net lending.
k/ The monetary figures are end-of-year stocks.

Table A-4

BELIZE: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual Growth rates b/			
Gross domestic product	4.6	3.0	4.7	1.2	3.8	0.0
Per capita gross domestic product	2.2	0.7	2.4	-0.9	1.2	…
Gross domestic product, by sector						
Agriculture,,hunting, forestry and fishing	9.5	3.0	-6.4	-20.7	0.1	-2.5
Mining and quarrying	5.7	-6.5	3.4	15.6	22.9	…
Manufacturing	12.2	0.9	30.5	3.8	5.5	6.9
Electricity, gas and water	-1.5	-0.5	41.3	2.4	3.1	17.1
Construction	4.5	-3.6	-1.9	-3.0	35.8	18.8
Wholesale and retail commerce, restaurants and hotels	1.7	5.2	0.8	2.3	2.6	-6.6
Transport, storage and communications	5.0	8.8	3.5	13.1	2.5	-2.7
Financial institutions, insurance, real estate and business services	5.5	3.5	8.2	5.1	6.8	2.2
Community, social and personal services	2.1	2.5	-2.0	4.2	2.5	…
Balance of payments				**Millons of dollars**		
Current account balance	- 156	- 151	- 25	- 52	- 132	- 93
Goods balance	- 173	- 231	- 185	- 216	- 308	- 239
Exports, f.o.b.	307	325	427	426	480	382
Imports, f.o.b.	481	556	612	642	788	621
Services trade balance	88	143	211	230	217	183
Income balance	- 117	- 114	- 125	- 159	- 153	- 117
Net current transfers	46	51	74	93	112	80
Capital and financial balance c/	125	139	75	75	190	141
Net foreign direct investment	111	126	108	139	188	95
Other capital movements	13	13	- 33	- 64	2	46
Overall balance	- 31	- 12	50	23	58	47
Variation in reserve assets d/	31	12	- 50	- 23	- 58	- 47
Other external-sector indicators						
Gross external public debt	913	970	985	973	958	1 016
Employment			**Percentages**			
Unemployment rate e/	11.6	11.0	9.4	8.5	8.2	13.1
Prices			**Annual percentages**			
Variation in consumer prices (November-November)	3.1	4.2	3.0	4.1	4.4	-0.4
Nominal deposit rate f/	5.2	5.4	5.8	5.9	6.2	6.1
Nominal lending rate g/	13.9	14.2	14.2	14.3	14.2	14.0

Table A-4 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government			**Percentages of GDP**			
Total income i/	24.3	23.9	24.8	30.0	29.5	24.9
Current income	21.4	22.9	23.3	25.4	26.8	23.3
Tax income	19.3	20.5	21.2	22.5	22.7	20.6
Capital income	1.3	0.3	0.4	1.1	0.3	0.4
Total expenditure	30.6	30.7	26.7	31.1	27.9	27.6
Current expenditure	22.4	25.2	22.7	24.8	22.7	23.6
Interest	5.8	6.7	5.8	5.3	3.9	3.5
Capital expenditure	8.2	5.5	4.0	6.3	5.2	4.0
Primary balance	-0.5	-0.1	3.9	4.1	5.4	0.7
Overall balance	-6.3	-6.8	-1.9	-1.2	1.5	-2.8
Total public debt	99.7	99.5	93.5	89.1	83.1	87.2
Domestic	13.2	12.5	12.4	13.2	12.6	12.2
External	86.5	87.0	81.2	75.9	70.5	75.0
Money and credit h/		**Percentages of GDP**				
Domestic credit	64.1	63.3	64.7	70.2	71.1	70.8
To the public sector	10.6	9.3	8.9	9.2	7.5	7.2
To the private sector	53.5	54.0	55.8	61.2	63.6	64.1
Liquidity (M3)	59.1	59.6	62.0	68.0	72.4	74.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2000 prices.
c/ Includes errors and omissions.
d/ A minus sign (-) denotes an increase in reserves.
e/ Percentage of the economically active population. Nationwide total.
f/ Rate for savings.
g/ Weighted average rate for loans.
h/ The monetary figures are end-of-year stocks.
i/ Includes grants.

Table A-5

DOMINICA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	3.0	3.3	4.6	2.6	3.3	-2.2
Per capita gross domestic product	6.5	3.6	3.5	6.1	7.9	-1.4
Gross domestic product, by sector						
Agriculture, hunting, forestry and fishing	3.5	-0.4	2.4	-5.2	9.9	5.0
Mining and quarrying	4.0	3.7	8.5	11.9	17.1	-20.9
Manufacturing	2.8	0.4	0.5	-3.8	-27.3	-9.8
Electricity, gas and water	5.2	6.4	3.4	1.3	1.7	6.2
Construction	3.3	3.5	8.5	12.1	17.9	-20.9
Wholesale and retail commerce, restaurants and hotels	4.6	5.2	6.2	3.0	5.3	-5.6
Transport, storage and communications	6.9	4.1	7.7	3.4	4.6	-2.5
Financial institutions, insurance, real estate and business services	4.4	8.0	4.0	5.4	3.4	3.9
Community, social and personal services	-0.5	0.1	1.6	2.2	2.9	2.4
Balance of payments			**Millions of dollars**			
Current account balance	-62	-78	-52	-85	-136	-123
Goods balance	-85	-102	-103	-133	-173	-168
Exports, f.o.b.	43	43	44	39	44	38
Imports, f.o.b.	128	146	147	172	-217	-205
Services trade balance	41	33	48	43	38	40
Income balance	-33	-28	-17	-16	-20	-14
Net current transfers	15	20	20	21	19	18
Capital and financial balance c/	53	92	65	84	41	46
Net foreign direct investment	26	33	27	53	57	52
Other capital movements	27	60	38	31	-16	-6
Overall balance	-8	14	13	-1	-3	8
Variation in reserve assets d/	6	-14	-13	1	3	-8
Other financing	2	0	0	0	0	0
Other external-sector indicators						
Real effective exchange rate (index: 2000=100) e/	108.0	110.9	113.2	116.8	119.1	…
Gross external public debt (millions of dollars)	209	221	225	221	217	219
Net resource transfer (millions of dollars)	23	64	49	68	91	…
Gross international reserves (millions of dollars)	42	49	63	61	55	64.5
Prices			**Annual percentages**			
Variation in consumer prices (December-December)	0.8	2.7	1.8	6.0	2.0	3.3
Nominal deposit rate f/	3.6	3.6	3.6	3.8	3.8	3.8
Nominal lending rate g/	9.3	9.3	9.3	9.3	9.3	9.3

Table A-5 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government			**Percentages of GDP**			
Total income h/	39.1	38.8	39.3	42.2	41.0	41.0
Current income	30.5	31.6	31.4	33.9	33.0	34.0
Tax income	26.7	28.4	28.9	31.0	30.0	32.0
Capital income i/	0.3	2.1	0.1	0.1	0.0	0.0
Total expenditure	40.5	36.1	37.9	41.2	44.4	43.3
Current expenditure	30.3	29.4	28.5	29.0	29.2	28.4
Interest	5.4	3.2	4.0	3.0	2.4	1.4
Capital expenditure j/	79.1	6.7	9.4	12.1	15.2	14.9
Primary balance	4.0	5.8	5.5	4.0	-0.8	-1.3
Overall balance	-1.4	2.6	1.5	1.0	-3.2	-2.7
Total public debt r/	114.2	117.8	111.2	98.7	88.7	87.1
External	73.2	73.9	70.0	69.8	62.5	59.1
Money and credit k/			**Percentages of GDP**			
Domestic credit	58.4	57.2	50.1	50.6	49.8	54.9
To the public sector	-1.1	-2.9	-12.2	-13.6	-14.0	-13.9
To the private sector	59.5	60.1	63.2	60.7	60.5	65.0
Liquidity (M3)	76.3	77.6	88.8	89.8	87.1	95.9
Currency outside banks and local-currency deposits (M2)	74.5	76.3	88.8	89.8	85.6	94.1
Foreign currency deposits	1.7	1.3	1.3	1.1	1.6	1.4

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Average of the minimum and maximum rates.

f/ Prime rate, average of the minimum and maximum rates.

g/ From 2001 on, includes grants.

h/ In 2000, includes grants.

i/ Includes net lending.

j/ The monetary figures are end-of-year stocks.

… Not available

Table A-6

EASTERN CARIBBEAN CURRENTY UNION (ECCU): MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	3.9	5.5	6.6	5.6	1.9	-7.3
Gross domestic product, by sector						
Agriculture,,hunting, forestry and fishing	-0.9	-12.1	5.0	4.1	6.9	2.8
Mining and quarrying	-6.2	16.3	36.9	21.5	3.2	-22.8
Manufacturing	-2.6	9.0	1.2	2.7	-4.6	-9.3
Electricity, gas and water	2.8	1.4	3.0	7.2	0.4	2.0
Construction	5.2	19.3	12.4	6.2	1.7	-28.7
Wholesale and retail commerce, restaurants and hotels	4.1	4.7	5.9	3.2	0.1	-12.4
Transport, storage and communications	8.0	6.2	5.5	7.1	2.1	-4.6
Financial institutions, insurance, real estate and business services	6.5	7.8	11.0	7.8	2.4	2.3
Community, social and personal services	3.0	3.4	4.1	6.7	4.9	1.5
Balance of payments			Millions of dollars			
Current account balance	- 523	- 815	- 1 246	- 1 545	- 1 745	- 1 245
Goods balance	- 1 233	- 1 481	- 1 832	- 2 087	- 2 249	- 1 789
Exports, f.o.b.	342	370	359	378	470	473
Imports, f.o.b.	1 576	1 851	2 191	2 465	2 719	2 262
Services trade balance	763	710	638	628	619	608
Income balance	- 267	- 234	- 216	- 236	- 277	- 229
Net current transfers	215	188	164	149	162	166
Capital and financial balance c/	634	811	1 349	1 591	1 601	1 285
Net foreign direct investment	449	632	1 106	1 229	982	737
Other capital movements	185	179	243	362	619	548
Overall balance	111	- 4	103	47	- 20	58
Variation in reserve assets d/	- 110	16	- 92	- 47	20	- 58
Other external-sector indicators						
Gross externa public debt (millions of dollars)	2 250	2 098	2 230	2 122	2 077	2 128
Prices			Annual percentages			
Variation in consumer prices (December-December)	2.7	4.1	1.5	5.5	3.9	1.2
Nominal deposit rate e/	3.2	3.2	3.2	4.3	4.5	4.5
Nominal lending rate e/	10.4	10.2	9.9	11.3	10.3	11.3

Table A-6 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government			**Percentages of GDP**			
Total income f/	30.1	35.7	30.7	30.5	31.5	30.6
Current income	26.2	26.4	27.5	28.0	28.1	27.5
Tax income	23.1	23.8	24.8	25.3	25.2	24.8
Capital income	0.4	0.4	0.2	0.4	0.8	0.3
Total expenditure	33.7	33.5	35.3	34.4	34.8	35.7
Current expenditure	26.9	25.7	25.8	25.5	26.3	28.3
Interest	4.4	3.5	3.7	3.5	3.4	3.1
Capital expenditure g/	6.8	7.8	9.5	8.9	8.4	7.4
Primary balance	0.8	5.7	-0.9	-0.4	0.1	-2.0
Overall balance	-3.6	2.2	-4.6	-3.9	-3.3	-5.1
Public-sector debt external r/	59.9	57.2	55.1	47.6	43.8	48.3
Total public sector debt	114.9	103.3	97.4	91.2	88.4	95.6
Money and credit h/			**Percentages of GDP**			
Domestic credit	75.8	79.2	82.6	90.8	94.7	106.5
To the public sector	-2.2	-0.3	-1.6	-0.5	0.6	3.1
To the private sector	78.0	79.6	84.2	91.3	94.1	103.4
Liquidity (M3)	91.6	92.3	92.5	92.4	94.5	104.1
Currency outside banks and local-currency deposits (M2)	78.7	78.1	76.4	76.4	79.5	87.8
Foreign-currency deposits	12.9	14.2	16.1	16.1	15.0	16.3

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

a/ Preliminary figures.

b/ Based on figures in Eastern Caribbean dollars at constant 1990 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Weighted averages.

f/ Includes grants.

g/ Includes net lending.

h/ The monetary figures are end-of-year stocks.

Table A-7

GRENADA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	-5.7	11.0	-2.3	4.8	2.3	-7.6
Per capita gross domestic product	-7.4	11.3	-2.3	3.6	2.2	-9.2
Gross domestic product, by sector						
Agriculture, hunting, forestry and fishing	-7.5	-41.2	23.8	4.8	11.9	9.8
Mining and quarrying	-15.3	9.0	40.8	0.1	-10.9	-24.9
Manufacturing	-16.3	16.9	-2.6	2.2	-5.0	-6.5
Electricity, gas and water	-7.9	4.7	13.0	8.6	4.0	2.4
Construction	5.7	83.1	-30.0	-11.2	-14.2	-49.7
Wholesale and retail commerce, restaurants and hotels	-16.9	-0.8	5.9	2.4	-0.7	-18.4
Transport, storage and communications	-2.6	22.1	-5.7	4.3	0.8	-7.7
Financial institutions, insurance, real estate and business services	-1.8	-1.9	3.2	2.1	7.7	5.8
Community, social and personal services	2.5	1.6	6.0	15.4	9.4	2.6
Balance of payments			Millions of dollars			
Current account balance	-34	-186	-193	-261	-269	-175
Goods balance	-172	-261	-232	-287	-298	-214
Exports, f.o.b.	33	33	31	41	40	39
Imports, f.o.b.	205	294	263	328	339	253
Services trade balance	68	21	31	37	40	47
Income balance	-50	-28	-29	-34	-47	-45
Net current transfers	121	82	36	24	37	37
Capital and financial balance c/	80	159	198	271	266	174
Net foreign direct investment	65	70	85	174	142	91
Other capital	15	89	113	97	124	83
Overall balance	46	-27	6	11	-8	8
Variation in reserve assets d/	-46	27	-6	-11	8	-8
Other external-sector indicators						
Net resource transfer	30	131	170	237	247	…
Gross external public debt r/	331	401	481	502	513	542
Prices			Annual percentages			
Variation in consumer prices (December-December)	2.5	6.2	1.7	7.4	5.2	-2.4
Nominal deposit rate e/	3.6	3.5	3.5	3.1	3.5	3.5
Nominal lending rate f/	9.0	9.0	9.3	11.3	9.5	9.5

Table A-7 (continued)

	2004	2005	2006	2007	2008r/	2009
Central government			**Percentages of GDP**			
Total income g/	31.0	34.8	32.2	27.3	28.2	25.9
Current income	23.7	24.1	25.3	26.1	25.3	24.2
Tax income	22.1	23.0	23.6	24.5	23.6	22.8
Capital income h/	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure	33.6	31.1	38.6	34.0	34.2	32.2
Current expenditure	25.3	20.1	20.8	21.1	22.6	25.1
Interest	5.7	1.9	1.9	2.1	1.9	2.7
Capital expenditure i/	8.3	10.9	17.8	12.9	11.7	7.0
Primary balance	3.1	5.6	-4.5	-4.6	-4.1	-3.4
Fiscal balance	-2.6	3.7	-6.4	-6.7	-6.1	-6.2
Public sector debt r	120.6	109.5	112.4	103.8	97.0	113.9
External	70.6	72.5	75.5	76.8	70.9	82.9
Money and credit j/			**Percentages of GDP**			
Domestic credit	79.7	72	79.2	86.1	87.3	98.9
To the public sector	-1.5	-2	-2.4	-0.8	0.2	-1.6
To the private sector	81.2	75	81.6	86.8	87.2	100.5
Liquidity (M3)	117.1	98.2	97.3	100.2	95.7	109.6
Currency outside banks and local-currency deposits (M2)	110.0	91.4	92.2	92.9	88.8	101.5
Foreign-currency deposits	7.0	6.8	5.0	7.4	6.8	8.1

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Average of the minimum and maximum rates on savings.

f/ Prime rate, average of the minimum and maximum rates.

g/ From 2001 on, includes grants.

h/ In 2000, includes grants.

i/ Includes net lending.

j/ The monetary figures are end-of-year stocks.

… Not available

Table A-8

GUYANA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
	Annual growth rates					
Gross domestic product	1.6	-2.0	5.1	5.3	3.1	2.3
Per capita gross domestic product	1.4	-2.0	5.2	5.5	3.4	5.3
Gross domestic product, by sector						
Agriculture, livestock, hunting, forestry and fishing	3.2	-13.7	6.5	0.7	-5.8	2.8
Mining	-6.5	-17.8	-21.6	22.5	6.1	0.7
Manufacturing c/	0.0	12.0	5.2	0.8	-1.9	0.0
Construction	4.1	9.4	12.0	5.7	8.6	1.5
Wholesale and retail commerce, restaurants and hotels	1.9	15.0	10.1	8.8	11.9	6.6
Transport, storage and communications	3.6	9.4	10.0	13.0	10.0	2.0
Financial institutions, insurance, real estate and business services	1.0	6.4	7.9	7.1	12.1	2.9
Community, social and personal services	1.4	7.0	7.9	5.1	7.2	2.9
Balance of payments	**Millions of dollars**					
Current account balance	- 20	- 158	- 250	- 189	- 321	- 220
Goods balance	- 8	- 233	- 300	- 365	- 522	- 401
Exports, f.o.b.	584	551	585	698	802	768
Imports, f.o.b.	592	784	885	1 063	1 324	1 169
Services trade balance	- 47	- 53	- 98	- 100	113	101
Income balance	- 39	- 39	- 69	- 11	14	17
Net current transfers	74	167	216	287	329	300
Capital and financial balance d/	41	166	293	188	309	454
Net foreign direct investment	30	77	102	110	179	…
Other capital movements	11	89	191	78	127	…
Overall balance	21	8	43	- 1	6	234
Variation in reserve assets e/	- 10	- 24	- 61	- 37	- 43	- 271
Other financing	- 11	16	18	39	38	…
Other external-sector indicators						
Net resource transfer	- 10	143	242	215	329	…
Gross external public debt	1 071	1 215	1 043	719	834	933
Prices	**Annual percentages**					
Variation in consumer prices (December-December)	5.5	8.2	4.2	14.1	6.4	3.6
Variation in nominal exchange rate (annual average)	2.3	0.8	0.2	1.1	0.6	0.5
Nominal deposit rate f/	3.4	3.4	3.3	3.2	3.1	2.8
Nominal lending rate g/	16.6	15.1	14.9	14.1	13.9	14.0

Table A-8 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government			**Percentages of GDP**			
Total income h/	39.6	42.2	43.7	42.1	42.2	43.8
Current income	33.1	34.1	34.1	36.9	34.9	37.1
Tax income	30.9	32.1	32.0	35.6	33.5	34.8
Capital income i/	0.0	0.0	0.0	0.0	0.2	6.8
Total expenditure	46.5	55.7	56.8	49.4	48.5	49.2
Current expenditure	32.1	34.4	34.0	29.7	33.1	30.8
Interest	4.9	4.4	3.9	2.8	2.8	1.9
Capital expenditure	14.3	21.3	22.8	19.7	15.4	18.4
Primary balance	-2.0	-9.1	-9.3	-4.5	-3.6	-11.6
Overall balance	-6.9	-13.5	-13.1	-7.4	-7.9	-6.0
Public-sector external debt	136	147	114	67	72.0	…
Public-sector external debt ratio under re-based GDP	…	…	81	47	48.1	52.4
Money and credit j/						
Domestic credit	23.9	24.1	23.7	20.7	25.3	18.6
To the public sector	-0.6	-2.0	-5.7	-8.8	-7.9	-12.9
To the private sector	31.0	31.8	33.7	33.7	37.8	36.9
Others	-6.4	-5.7	-4.4	-4.3	-4.7	-5.4
Liquidity (M3)	73.3	75.2	78.5	75.1	78.0	79.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1988 prices.
c/ Includes electricity, gas and water.
d/ Includes errors and omissions.
e/ A minus sign (-) denotes an increase in reserves.
f/ Small savings rate.
g/ Weighted average prime rate.
h/ From 2002 onwards, includes grants.
i/ Up to 2001, includes grants.
j/ The monetary figures are end-of-year stocks.

Table A-9

JAMAICA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	1.4	1.0	2.7	1.4	-0.6	-2.7
Per capita gross domestic product	0.7	0.4	2.1	0.9	-1.1	-3.0
Gross domestic product, by sector						
Agriculture, livestock, hunting, forestry and fishing	-11.2	-6.8	16.2	-6.0	-5.1	12.1
Mining	2.2	2.8	1.2	-2.7	1.1	-50.2
Manufacturing	1.4	-4.4	-2.3	0.2	-1.2	-5.0
Electricity, gas and water	-0.1	4.2	3.2	0.6	0.9	2.2
Construction	8.4	7.5	-1.9	4.6	-5.5	-4.6
Wholesale and retail commerce, restaurants and hotels	2.1	2.1	3.8	1.7	0.7	-0.6
Transport, storage and communications	1.4	0.9	4.4	3.3	-2.2	-4.4
Financial institutions, insurance, real estate and business services	2.2	0.6	1.7	3.3	1.2	0.6
Community, social and personal services	0.9	1.1	2.1	1.2	0.1	0.0
Balance of payments			Millions of dollars			
Current account balance	- 509	- 1 009	- 1 183	- 2 038	- 3 223	- 912
Goods balance	- 1 945	- 2 581	- 2 943	- 3 841	- 4 981	- 3 123
Exports, f.o.b.	1 602	1 664	2 134	2 363	2 761	1 386
Imports, f.o.b.	3 546	4 246	5 077	6 204	7 742	4 510
Services trade balance	572	670	628	425	355	752
Income balance	- 583	- 676	- 616	- 662	- 680	- 586
Net current transfers	1 446	1 578	1 749	2 040	2 083	2 045
Capital and financial balance c/	1 203	1 238	1 413	1 598	3 118	912
Net foreign direct investment	542	582	797	...	...	…
Other capital movements	661	656	616	...	...	…
Overall balance	694	229	230	- 440	- 105	- 44
Variation in reserve assets d/	- 686	- 228	- 230	440	105	44
Other financing	- 8	- 1				
Other external-sector indicators						
Real effective exchange rate (index: 2000=100) e/	114	104	105	108	102	…
Net resource transfer (millions of dollars)	612	561	797	937	2 438	…
Gross external public debt (millions of dollars)	5 115	5 372	5 794	6 123	6 344	6 594
Employment			Average annual rates			
Labour force participation rate f/	64.3	64.2	64.7	64.9	65.4	63.6
Unemployment rate g/	11.7	11.3	10.3	9.8	10.6	11.4
Prices			Annual percentages			
Variation in consumer prices (December-December)	13.7	12.9	5.8	16.8	16.9	10.2
Variation in nominal exchange rate (annual average)	6.0	1.7	5.5	5.0	5.7	13.1
Nominal deposit rate h/	6.7	5.9	5.3	5.0	5.1	5.7
Nominal lending rate h/	25.1	23.2	22.0	22.0	22.3	22.5

Table A-9 (continued)

	2004	2005	2006	2007	2008	2009
Money and credit			**Percentages of GDP**			
Domestic credit j/	35.7	34.7	30.2	30.4	34.4	34.1
To the public sector	23.4	21.3	14.9	12.8	15.4	16.3
To the private sector	13.3	14.1	15.8	18.2	19.8	19.2
Others	-1.1	-0.6	-0.4	-0.6	-0.8	-1.4
Liquidity (M3)	34.1	33.2	32.5	33.7	29.9	27.6
Currency outside banks and local-currency deposits (M2)	22.8	22.7	23.0	22.7	20.1	19.9
Foreign-currency deposits	11.3	10.5	9.5	11.0	9.8	13.6
Central government j/						
Total income k/	27.9	26.9	26.8	28.8	26.4	29.9
Current income	26.2	25.6	26.2	27.3	25.5	28.3
Tax income	24.3	23.4	23.9	24.7	23.5	26.7
Capital income	0.9	1.2	0.4	1.1	0.2	0.7
Total expenditure l/	32.2	29.9	31.5	33.1	33.6	37.1
Current expenditure	30.4	27.7	28.5	28.4	29.6	33.3
Interest	15.0	12.7	12.4	11.4	12.0	14.6
Capital expenditure	1.8	2.2	3.0	4.7	3.9	3.7
Primary balance	10.7	9.7	7.8	7.2	4.8	7.4
Overall balance	-4.3	-3.0	-4.6	-4.2	-7.2	-7.2
Public-sector external debt	58.0	55.3	55.9	53.9	48.7	54.2

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2003 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Economically active population as a percentage of the working-age population.

g/ Percentage of the economically active population. Includes hidden unemployment. Nationwide total.

h/ Average rates.

i/ The monetary figures are end-of-year stocks.

j/ Fiscal years.

k/ Includes grants.

l/ Includes statistical discrepancy.

Table A-10

SAINT KITTS AND NEVIS: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008r/	2009a/
			Annual growth rates b/			
Gross domestic product	7.3	5.2	2.5	4.3	4.6	-9.6
Per capita gross domestic product	6.3	4.3	3.9	2.6	9.6	-8.0
Gross domestic product, by sector						
Agriculture, livestock, hunting, forestry and fishing	11.7	-2.5	-19.9	8.3	15.1	-3.3
Mining	9.9	4.0	7.7	6.2	4.6	-36.5
Manufacturing	3.8	3.0	-6.3	1.9	3.5	-17.6
Electricity, gas and water	8.4	0.8	7.6	1.7	1.8	2.2
Construction	1.3	1.1	8.4	4.4	2.6	-25.0
Wholesale and retail commerce, restaurants and hotels	8.3	8.5	5.2	-1.7	5.5	-14.0
Transport, storage and communications	17.6	10.1	0.7	8.0	8.6	-7.7
Financial institutions, insurance, real estate and business services	14.5	7.9	8.0	6.9	-0.7	7.1
Community, social and personal services	2.8	3.8	5.1	7.1	1.4	1.4
Balance of payments			**Millions of dollars**			
Current account balance	-68	-64	-89	-110	-181	-185
Goods balance	-102	-122	-161	-184	-217	-208
Exports, f.o.b.	59	64	59	58	69	58
Imports, f.o.b.	161	185	220	242	286	266
Services trade balance	54	68	72	72	38	16
Income balance	-39	-34	-32	-32	-35	-33
Net current transfers	18	24	33	33	33	40
Capital and financial balance c/	82	57	106	117	163	180
Net foreign direct investment	46	93	110	158	178	134
Other capital movements	36	-36	-4	-40	-15	46
Overall balance	14	-7	17	7	15	13
Variation in reserve assets d/	-14	7	-17	-7	-15	-13
Other external-sector indicators						
Net resource transfer	43	23	74	85	135	…
Gross external public debt r/	317	311	306	299	308	303
Gross international reserves	78	72	89	96	110	123
Prices			**Annual percentages**			
Variation in consumer prices (December-December)	1.7	6.0	7.9	2.1	7.6	1.0
Nominal deposit rate e/	4.3	4.3	4.3	4.3	4.3	4.3
Nominal lending rate f/	9.3	8.8	8.8	8.8	8.8	11.3

Table A-10 (continued)

	2004	2005	2006	2007	2008r/	2009a/
Federal government	**Percentages of GDP**					
Total income g/	34.7	39.7	39.8	42.1	41.1	42.7
Current income	33.9	36.6	37.3	37.4	35.3	36.7
Tax income	26.1	29.0	28.4	28.9	27.3	26.8
Capital income h/	0.4	0.3	0.4	2.6	4.0	1.9
Total expenditure	42.6	43.8	42.1	44.4	41.4	42.0
Current expenditure	35.4	37.1	36.3	36.2	34.8	36.7
Interest	3.1	4.1	5.1	5.6	8.4	8.3
Capital expenditure i/	7.2	6.7	5.8	8.2	6.6	5.3
Primary balance	-0.4	4.0	5.9	6.0	8.1	9.0
Overall balance	-7.9	-4.1	-2.4	-2.4	-0.3	0.7
Public-sector external debt	185.9	187.4	180.4	179.5	161.7	179.9
External	76.2	65.1	56.5	58.2	54.1	57.5
Money and credit j/	**Percentages of GDP**					
Domestic credit	100.9	106.3	109.2	113.4	104.5	118.0
To the public sector	20.1	26.8	29.7	28.5	23.8	26.9
To the private sector	80.8	79.4	79.5	84.9	80.7	91.1
Liquidity (M3)	101.8	97.1	98.4	104.5	107.2	123.8
Currency outside banks and local-currency deposits (M2)	73.0	68.8	67.6	72.4	81.4	97.4
Foreign-currency deposits	28.8	28.3	30.8	32.1	25.9	26.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ A minus sign (-) denotes an increase in reserves.
e/ Average of the minimum and maximum rates.
f/ Prime rate, average of the minimum and maximum rates.
g/ From 2001 on, includes grants.
h/ In 2000, includes grants.
i/ Includes net lending.
j/ The monetary figures are end-of-year stocks.

Table A-11

SAINT LUCIA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	**3.8**	**4.6**	**4.8**	**1.5**	**0.7**	**-5.2**
Per capita gross domestic product	**4.0**	**4.8**	**2.9**	**1.2**	**1.6**	**-4.7**
Gross domestic product, by sector						
Agriculture,,hunting, forestry and fishing	-2.9	-24.7	9.8	2.4	20.5	-8.5
Mining and quarrying	-1.4	-4.3	19.8	13.1	-7.9	-2.3
Manufacturing	-3.0	16.3	6.7	2.2	-5.4	1.0
Electricity, gas and water	1.9	-13.4	-8.8	9.2	-8.2	0.2
Construction	1.0	12.5	13.2	-10.3	-14.4	-24.4
Wholesale and retail commerce, restaurants and hotels	7.0	6.1	2.7	-1.5	-0.6	-9.6
Transport, storage and communications	5.9	4.1	5.1	2.4	1.4	-5.9
Financial institutions, insurance, real estate and business services	3.8	7.5	11.5	8.5	5.0	0.5
Community, social and personal services	3.1	6.6	2.5	3.9	6.4	1.6
Balance of payments			**Millons of dollars**			
Current account balance	-87	-150	-303	-327	-347	-187
Goods balance	-252	-329	-424	-440	-439	-292
Exports, f.o.b.	96	89	97	101	166	183
Imports, f.o.b.	348	418	521	542	605	475
Services trade balance	219	239	165	168	149	161
Income balance	-69	-73	-56	-68	-72	-69
Net current transfers	14	13	12	14	16	13
Capital and financial balance c/	114	135	317	345	339	189
Net foreign direct investment	77	78	234	253	161	156
Other capital movements	38	57	83	92	178	33
Overall balance	27	-15	14	19	-11	10
Variation in reserve assets d/	-27	15	-14	-19	11	10
Other external-sector indicators						
Net resource transfer	45	62	261	277	299	141
Gross external public debt	344	350	365	375	364	375
Prices			**Annual percentages**			
Variation in consumer prices (December-December)	3.5	5.2	-0.6	6.8	3.8	1.0
Nominal deposit rate e/	3.8	3.8	3.8	3.6	3.6	3.6
Nominal lending rate f/	9.8	9.8	9.8	9.8	9.8	11.3

Table A-11 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government			**Percentages of GDP**			
Total income g/	25.3	25.3	26.3	27.5	30.0	30.3
Current income	25.0	25.1	26.2	27.1	29.0	29.3
Tax income	23.0	23.6	24.5	25.6	27.1	28.1
Capital income h/	0.0	0.0	0.0	0.0	0.2	0.0
Total expenditure	30.0	31.8	32.7	29.7	29.8	32.8
Current expenditure	22.8	21.6	22.5	21.3	23.2	25.0
Interest	2.9	3.0	3.2	3.1	3.1	3.5
Capital expenditure i/	7.2	10.2	10.2	8.4	6.6	7.8
Primary balance	-1.8	-3.5	-3.1	1.0	2.9	1.0
Overall balance	-4.7	-6.6	-6.3	-2.2	-0.2	-2.5
Total public debt	70.3	70.3	70.7	71.8	70.8	73.9
External	43.1	41.2	40.0	41.6	36.9	39.1
Money and credit j/			**Percentages of GDP**			
Domestic credit	71.4	81.1	96.5	120.7	129.7	134.2
To the public sector	-15.1	-12.0	-10.0	-8.8	-8.5	-11.2
To the private sector	86.4	93.1	106.6	129.4	138.3	145.4
Broad money (M3)	70.1	74.6	83.4	84.7	92.7	97.5
Currency outside banks and local-currency deposits (M2)	68.3	71.9	75.0	80.4	86.7	91.4
Foreign-currency deposits	1.8	2.7	8.4	4.3	6.0	5.6

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Average of the minimum and maximum rates.

f/ Prime rate, average of the minimum and maximum rates.

g/ From 2001 on, includes grants.

h/ In 2000, includes grants.

i/ Includes net lending.

j/ The monetary figures are end-of-year stocks.

Table A-12

SAINT VINCENT AND THE GRENADINES: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008r	2009a
	Annual growth rates b/					
Gross domestic product	6.8	2.6	7.6	8.1	-0.5	-1.2
Gross domestic product per capita	5.6	3.1	9.0	7.1	2.8	1.6
Gross domestic product by economic activity						
Agriculture,,hunting, forestry and fishing	-5.2	-3.9	6.6	13.7	-6.8	5.7
Mining and quarrying	6.5	2.8	11.4	14.1	1.7	-8.4
Manufacturing	3.3	1.6	3.0	1.1	-9.9	-5.7
Electricity, gas and water	7.1	8.4	1.8	4.9	-1.3	3.8
Construction	14.7	0.4	11.4	14.4	1.4	-8.5
Wholesale and retail commerce, restaurants and hotels	9.6	4.9	6.2	4.6	-3.9	-4.5
Transport, storage and communications	13.7	-0.9	14.6	10.2	-1.8	1.3
Financial institutions, insurance, real estate and business services	2.7	8.5	5.1	4.9	4.5	-3.0
Community, social and personal services	2.9	5.8	4.2	6.8	5.5	2.8
Balance of payments	**Millions of dollars**					
Current account balance	-102	-99	-120	-190	-228	-198
Goods balance	-160	-170	-198	-237	-272	-239
Exports, f.o.b.	39	43	41	51	57	55
Imports, f.o.b.	199	212	240	288	329	294
Services trade balance	72	79	82	47	42	40
Income balance	-29	-27	-24	-21	-23	-22
Net current transfers	14	18	20	20	24	23
Capital and financial balance c/	128	96	132	188	206	191
Net foreign direct investment	66	40	109	110	159	110
Other capital movements	62	56	23	78	147	81
Overall balance	25	-3	12	-2	-3	-8
Variation in reserve assets d/	-25	3	-12	2	3	8
Other external-sector indicators						
Net resource transfer	99	70	108	167	192	…
Total gross external debt	219	231	220	219	232	255
Prices	**Annual percentages**					
Variation in consumer prices (December-December)	1.7	3.9	4.8	8.3	8.7	-1.6
Deposit nominal interest rate e/	3.8	3.8	3.8	3.8	4.5	4.5
Lending nominal interest rate f/	9.8	10.0	10.0	10.0	10.0	10.0

Table A-12 (continued)

	2004	2005	2006	2007	2008r	2009a
Central government	**Percentages of GDP**					
Total income g/	30.6	29.3	30.1	30.5	34.9	33.1
Current income	28.6	28.0	29.3	28.7	31.0	29.3
Tax income	25.6	25.6	26.9	26.7	28.4	27.1
Capital income h/	0.3	0.3	0.4	0.1	1.0	0.1
Total expenditure	32.0	33.5	34.0	34.0	35.7	36.2
Current expenditure	25.4	26.8	26.4	25.2	27.4	29.4
Interest	2.4	2.9	3.2	3.0	3.0	3.0
Capital expenditure i/	6.6	6.7	7.5	8.8	8.3	6.7
Primary balance	1.1	-1.3	-0.7	-0.6	2.2	-0.1
Overall balance	-1.4	-4.2	-3.9	-3.6	-0.8	-3.1
Public-sector debt	84.2	82.6	77.4	68.5	69.4	70.8
External	52.9	52.0	46.0	39.4	39.7	43.5
Money and credit j/	**Percentages of GDP**					
Domestic credit	54.9	58.3	59.2	62.3	62.5	65.1
To the public sector	-4.8	0.6	0.6	2.3	3.7	5.5
To the private sector	59.6	57.6	58.6	60.0	58.8	59.6
Others	-2.1	-2.7	-1.7	-2.8	0.0	0.0
Liquidity (M3)	72.3	72.7	69.9	67.2	67.9	68.7
Currency outside banks and local-currency deposits (M2)	70.0	71.5	67.6	64.5	65.6	66.8
Foreign-currency deposits	2.3	1.2	2.3	2.6	2.3	1.9

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) denotes an increase in reserves.

e/ Average of the minimum and maximum rates.

f/ Prime rate, average of the minimum and maximum rates.

g/ From 2001 on, includes grants.

h/ In 2000, includes grants.

i/ Includes net lending.

j/ The monetary figures are end-of-year stocks.

Table A-13

SURINAME: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual growth rates b/			
Gross domestic product	7.7	6.9	3.7	4.9	4.3	2.2
Per capita gross domestic product	…	…	…	…	…	…
Gross domestic product, by sector						
Agriculture, livestock, hunting, forestry and fishing	1.0	-5.0	5.2	5.6	-5.0	5.2
Mining	30.0	15.3	7.6	18.2	4.7	-12.3
Manufacturing	10.8	10.2	1.8	-2.2	-2.6	-0.7
Electricity, gas and water	9.9	3.5	8.4	6.3	7.2	6.4
Construction	10.1	8.6	5.3	15.4	4.3	7.3
Wholesale and retail commerce, restaurants and hotels	8.9	11.7	7.2	9.3	15.7	8.0
Transport, storage and communications	7.7	7.9	-1.8	2.7	2.6	0.0
Financial institutions, insurance, real estate and business services	5.3	4.4	1.7	1.6	3.1	2.1
Community, social and personal services	0.7	4.7	4.0	0.1	1.2	1.2
Balance of payments			**Million of dollars**			
Current account balance	- 137	- 100	221	335	344	210
Merchandise trade balance	42	70	272	314	358	109
Exports, f.o.b.	782	997	1 175	1 359	1 708	1 404
Imports, f.o.b.	- 740	- 928	- 903	- 1 045	- 1 350	- 1 296
Services trade balance	- 130	- 151	- 33	- 65	- 123	1
Income balance	- 63	- 41	- 54	8	21	5
Net current transfers	14	22	36	77	87	94
Capital and financial balance c/	175	123	- 125	- 160	- 292	…
Net foreign direct investment	- 37	28	- 163	- 247	- 234	...
Financial capital d/	212	95	39	86	- 58	…
Overall balance	38	24	96	175	52	226
Variation in reserve assets e/	- 38	- 24	- 96	- 175	- 52	- 226
Other external-sector indicators						
Net resource transfer (percentages of GDP)	-5.5	8.3	…	…	…	…
Total gross external public debt (millions of dollars)	384	390	391	298	316	238
Total gross external public debt (percentages of GDP)	25.2	24.2	22.9	16.6	12.5	
Net profits and interest (percentages of exports) f/	-15.9	-2.9	…	…	…	…
Employment			**Average annual rates**			
Unemployment rate g/	8.4	11.2	12.1	12	11.1	10
Prices						
Variation in consumer prices			**Average percentages**			
(December-December)	8.4	15.8	4.8	8.3	9.4	1.5
Variation in nominal exchange rate (December-December)	3.8	1.1	0.0	0.0	0	0.0
Nominal deposit rate h/	8.3	8.0	6.6	6.4	6.3	6.2
Nominal lending rate i/	20.4	18.1	15.6	13.3	12	11.6

Table A-13 (continued)

	2004	2005	2006	2007	2008	2009a/
Central government			**Percentages of GDP**			
Total income	37.4	37.3	39.4	46.6	37.2	46.9
Current income	35.5	35.0	35.8	38.3	33.4	41.4
Tax income	29.1	27.8	28.2	30.6	27.1	29.7
Capital income	10.3	11.4	…	…	…	…
Total expenditure	38.5	38.1	40.0	38.6	34.9	43.3
Current expenditure	33.3	31.8	33.0	32.6	27.6	33.7
Interest	2.2	2.5	2.3	1.9	1.0	1.4
Capital expenditure	5.1	6.4	6.9	5.9	7.4	9.7
Primary balance	2.2	3.2	2.7	5.7	5.8	7.7
Overall balance	-1.1	-0.8	-0.6	8.0	2.3	3.5
Public sector debt	38.6	40.1	37.0	28.5	25.2	25.0
Domestic	13.5	15.9	14.1	12.0	12.5	14.6
External	25.2	24.2	22.9	16.6	12.7	10.4
Money and credit j/			**Percentages of GDP**			
Domestic credit	31.0	28.8	27.4	25.7	24.8	32.4
To the public sector k/	13.1	11.3	8.7	5.0	0.0	6.1
To the private sector	24.3	24.4	26.4	31.3	33.8	40.5
Other	-6.4	-7.0	-7.7	-10.5	-9.0	-14.3
Money (M1)	22.2	19.7	20.3	22.2	20.5	27.1
Currency in circulation and local-currency deposits (M2)	31.8	29.1	30.4	33.9	31.4	41.6

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices (1996-1998: guilders; 1999-2004: Suriname dollars, new currency in circulation since January 2004).

c/ Includes errors and omissions.

d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

e/ A minus sign (-) denotes an increase in reserves.

f/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.

g/ Percentage of the economically-active population, nationwide total.

h/ Deposit rate published by IMF.

i/ Lending rate published by IMF.

j/ The monetary figures are annual averages.

k/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

Table A-14

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009a/
			Annual Growth rates b/			
Gross domestic product	7.9	6.2	13.5	4.6	2.3	-0.9
Per capita gross domestic product	7.6	5.8	13.1	4.2	1.9	-1.3
Gross domestic product, by sector						
Agriculture,,hunting, forestry and fishing	-34.2	-5.4	-10.1	8.6	10.7	-1.0
Mining and quarrying c/	8.2	8.3	21.8	1.7	-0.4	1.6
Manufacturing	8.1	13.5	12.4	14.0	5.2	2.8
Electricity, gas and water	3.2	6.2	-0.4	6.5	3.0	-1.1
Construction d/	8.1	16.1	6.2	8.9	3.1	-14.9
Wholesale and retail commerce, restaurants and hotels	0.4	4.5	15.1	3.3	9.8	-12.7
Transport, storage and communications	-0.8	-2.4	9.5	5.7	-4.1	-6.1
Financial institutions, insurance, real estate and business services	21.7	-2.4	1.6	10.4	3.9	1.0
Community, social and personal services	5.9	1.0	1.2	2.7	-1.3	-0.3
Balance of payments			**Millons of dollars**			
Current account balance	1 647	3 594	7 271	5 364	8 519	1 759
Goods balance	1 509	3 948	7 700	5 721	9 064	2 202
Exports, f.o.b.	6 403	9 672	14 217	13 391	18 686	9 175
Imports, f.o.b.	4 894	5 725	6 517	7 670	9 622	6 973
Services trade balance	480	356	451	546	610	721
Income balance	- 397	- 760	- 936	- 964	- 1 202	- 1 220
Net current transfers	56	50	55	60	47	55
Capital and financial balance e/	- 912	- 1 701	- 6 152	- 3 824	- 5 813	- 2 472
Net foreign direct investment	973	599	513	830	1 638	…
Other capital movements	- 1 885	- 2 300	- 6 665	- 4 654	- 7 451	…
Overall balance	735	1 893	1 119	1 541	2 706	- 713
Variation in reserve assets f/	- 734	- 1 893	- 1 119	- 1 541	- 2 706	713
Other external-sector indicators						
Real effective exchange rate (index: 2000=100) g/	93.6	91.0	89.1	87.6	83.0	…
Net resource transfer (millions of dollars)	- 1 309	- 1 998	- 7 087	- 4 787	- 7 016	- 3 691
Gross external public debt (millions of dollars)	1 382	1 361	1 295	1 278	1 445	1 281
Employment			**Percentage**			
Labour force participation rate h/	63.0	63.7	63.9	63.5	63.5	62.9 o/
Unemployment rate i/	8.4	8.0	6.2	5.5	4.6	5.3 o/
Prices			**Annual percentages**			
Variation in consumer prices (December to December)	5.6	7.2	9.1	7.6	14.5	1.3
Variation in nominal exchange rate (annual average)	0.0	-0.4	0.3	0.1	-0.6	0.7
Nominal deposit rate j/	2.1	1.8	2.2	2.7	3.0	2.2
Nominal lending rate j/	9.5	9.0	9.7	10.6	11.2	11.9

Table A-14 (continued)

	2004	2005	2006	2007	2008	2009a/
Money and credit k/		**Percentage of GDP**				
Domestic credit	17.1	13.8	8.3	15.8	10.1	18.1
To the public sector	-9.5	-13.0	-17.5	-11.8	-16.3	-12.7
To the private sector	26.6	26.9	25.7	27.5	26.4	30.8
Liquidity (M3)	33.3	35.2	35.5	35.8	35.7	49.6
Currency outside banks and local-currency deposits (M2)	24.9	27.9	26.9	27.1	25.8	34.8
Foreign-currency deposits	8.4	7.3	8.6	8.7	9.9	14.9
Central government l/		**Percentage of GDP**				
Total income	24.7	29.5	34.7	31.3	36.5	27.2
Current income	24.7	29.5	34.7	31.3	36.5	27.2
Tax income m/	14.0	13.8	13.7	13.5	15.0	13.4
Capital income	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	22.9	24.5	27.8	29.5	28.7	32.5
Current expenditure	20.9	21.8	23.7	23.4	22.5	26.8
Interest	2.8	2.5	2.2	2.1	1.9	2.5
Capital expenditure n/	1.9	2.8	4.1	6.1	6.2	5.7
Primary balance	4.6	7.5	9.1	3.9	9.7	-2.8
Overall balance	1.8	5.0	6.9	1.8	7.8	-5.3
Public-sector external debt	10.8	8.8	6.9	6.1	5.5	6.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2000 prices.
c/ Refers only to the oil industry.
d/ Includes quarrying.
e/ Includes errors and omissions.
f/ A minus sign (-) denotes an increase in reserves.
g/ Annual average, weighted by the value of goods exports and imports.
h/ Economically active population as a percentage of the working-age population; nationwide total.
i/ Percentage of the economically active population. Includes hidden unemployment; nationwide total.
j/ Weighted average.
k/ The monetary figures are end-of-year stocks.
l/ Fiscal years.
m/ Refers to tax revenues from the non-petroleum sector.
n/ Includes net lending.
o/ Figures up to September.