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PRELIMINARY OVERVIEW OF THE ECONOMIES OF THE CARIBBEAN: 2009-2010

Striving for productive diversification after the great recession

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EXECUTIVE SUMMARY

The global economic crisis prompted a myriad of policy responses in Caribbean countries on different fronts. Despite limited fiscal space due to excessive public debt stocks, various countries managed to introduce counter-cyclical through some combination of larger public infrastructure investment and higher social spending. This welcomed policy stance was mainly possible due to enhanced official external financing, including a massive allocation of Special Drawing Rights that bolstered the international reserves position of countries in need, and facilitated the conduct of exchange rate policy and the financing of the current account deficit.

Notwithstanding, the world economic meltdown had important negative effects throughout the Caribbean. Perhaps the most representative impact was the collapse of CLICO – part of a major conglomerate – that spilled over the subregion. But there were others. Some estimations show that the impact was particularly significant on real GDP in ECCU, on tax revenues in Trinidad and Tobago, on tourism receipts in Bahamas, Barbados, Belize, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Suriname, and on remittances in Guyana, Grenada and Jamaica.

The new world economy to emerge after the Great Recession will have at least two distinctive new features. First, slower world economic growth, associated with less dynamic private consumption spending in the United States of America due to lower real estate prices, excessive household debt and lower retirement funds. By the same token, the Chinese economy will not be capable of expanding at the same impressive rates observed since the 1980s led by its export sector, due to the lower import capacity of the rest of the world. The second main characteristic of the new world economy will be less globalization, that is, slower world trade growth as a direct consequence of a less dynamic global economy, coupled with less abundant foreign financing due to a smaller and more tightly regulated international financial system and less appetite for risk on the part of investors, bankers, savers and firms.

This new international setting will pose a number of challenges to Caribbean economies. Broadly speaking, there are two economic growth patterns in place. The first is based on the export of commodities, and is represented by Suriname and Trinidad and Tobago. The second is based on the export of tourism services (in all the others except Guyana) and financial services (the Commonwealth of the Bahamas and Barbados). Guyana, although an agriculture-based economy, shares with the services exporters the recurrent presence of massive current account deficits financed from abroad that have fuelled growth, in other words, debt-led or capital inflows-led growth. One important characteristic of these perceptible external gaps is that they are not mainly fed by fiscal deficits but by private sector overspending. In the majority of countries, the rewards of these two strategies in terms of economic growth have been uneven and unsatisfactory.

This is a matter of concern, as in the new world economy the two growth patterns outlined above will only be capable of delivering growth rates slower than pre-2008 rates, because of lower demand for commodities and tourism services from the rest of the world. This calls for productive diversification, which becomes the main medium-term economic challenge for the Caribbean. However, this goal will prove to be hard to achieve in a macroeconomic context characterized by real exchange rate appreciations, limited fiscal space, excessive public debt stocks and/or massive triplet deficits (fiscal, private and on current account).

The services sector accounts for two thirds or more of GDP in all countries except Guyana and Trinidad and Tobago, whereas in Belize, Saint Kitts and Nevis, and Suriname, manufacturing represents 10% or more of output. Only in Belize, Dominica and Guyana is agricultural output above 10% of GDP. Given the small share of agriculture and manufacturing in the majority of countries, most inputs for the

tourism industry are imported, resulting in an enclave-like tourism sector with few or no value chains or productive linkages with the rest of the economy. This jeopardizes the potential of tourism as the engine of growth.

Looking ahead, Caribbean countries should pay more attention to domestic markets to enhance growth and productive diversification. A more balanced vision on the role of domestic markets in economic development is needed to complement the necessary outward orientation. However, the small size of national markets imposes the need to redouble efforts at regional integration both within and outside the Caribbean Community (CARICOM). The task is not to move away from tourism activities endowed with natural comparative advantages, but to increase the value added in the tourism industry through the generation of more sophisticated products and diversification in the supply of services. The promotion of value chains or linkages between agriculture, manufacturing and tourism are crucial in this effort.

The road towards productive diversification calls for a set of economic policies. On the fiscal policy side, Caribbean countries should keep securing official foreign lending to gain some fiscal space, in order to implement sectoral policies to promote productive diversification while at least maintaining the debt-to-GDP ratio constant. On the monetary policy side, it is essential that central banks keep inflation under control to prevent the real exchange rate from appreciating. On the financial sector side, preferential credit needs to be allocated to priority activities through already existing public financial institutions. Financial support should be granted conditional to performance goals related to productive diversification, and be renewed only on those grounds, and complemented by technical assistance on innovation and technology, and standardization, quality control and certification of agricultural and manufacturing products devoted to the tourism industry. On the institutional side, public-private partnerships (PPP) should be promoted to achieve long-term agreements on far-reaching development goals that are above the political cycle. Last but not least, on the economic integration front, it is necessary to expand the demand for locally produced goods and services, both within the Caribbean and outside. In this context, the implementation of the Economic Partnership Agreement (EPA) between CARIFORUM (CARICOM plus the Dominican Republic) and the European Union regains importance, as do the negotiations with Canada towards a Free Trade Agreement. These and other potential integration schemes with Latin American countries such as Brazil and other emerging global players such as China and India should be integrated into the policy agenda towards productive diversification.

CHAPTER I

THE GLOBAL ECONOMIC CRISIS AND CARIBBEAN COUNTRIES

A. THE WORLD ECONOMY AND THE NEW INTERNATIONAL SCENARIO

The new world economy that is to emerge when the international turmoil is over will undoubtedly be different from the economy that prevailed until mid-2008, in at least two aspects. First, average world economic growth will be lower than during the boom in 2002-2007. According to Rogoff (2009),¹ private consumption in the United States, the main driver of world demand, will be diminished due to lower real estate prices, excessive household debt, and lower funds for retirement. By the same token, the Chinese economy would not be able to expand at the impressive rates observed since the 1980s led by its export sector due to the lower import capacity of the rest of the world. In addition the significant drop of output in the European Union, estimated at 4% in 2009, will be a factor that will slow down the integration of Central and Eastern Europe.

The other new characteristic of the world economy after the crisis would be less globalization, where international trade growth will be slower and external financing less abundant (Rodrik, 2009).² The former would be a direct consequence of the slower world economic growth. The latter would be the result of the combination of a smaller and more regulated international financial system with less appetite for risk on the part of investors, bankers, savers and firms.

During the second half of 2009, signs of a global recovery emerged as the United States economy posted an annualized growth rate of 2.2%, after four quarters of successive contractions. This outcome was mainly attributed to the government's cash-for-clunkers programme that stimulated consumer spending in durable goods (motor vehicles), which grew at an annualized rate of 22.3% during July-September, after a drop in the second quarter. By the same token, the US\$8,000 federal tax credit for first-time home buyers contributed to the revival of real estate sales, which rose at an annual rate of 23.4% in the third quarter, after declining by a similar rate in April-June. Notwithstanding, on a year-on-year basis, GDP posted a decline of 2.6% during the third quarter of 2009. The recovery trend strengthened during the last quarter, when economic activity expanded at an annualized rate of 5.7%, the fastest pace since the third quarter of 2003. Notwithstanding, there are doubts about the vigour and sustainability of the recovery, as 60% of the growth rate is explained by a temporary factor, namely the change in the inventory cycle, i.e. firms letting their stockpiles decline at a slower pace than in previous quarters. This behaviour translated into an increase in output. Indeed, inventories added some 3.4 percentage points to the growth rate in October-December. In addition, private consumption grew at an annualized rate of 2% during the fourth quarter, down from 2.8% in the third quarter. This was not surprising given the end of the cash-for-clunkers programme but is worrisome as, in the past, private consumption has played a crucial role in the recovery after a recession.

Overall, there persist problems in the United States economy which determine that the recovery would be gradual and slow. In particular, the labour market situation continues to be weak. Indeed, December 2007 was the last month when there was net job creation in the United States, just before the official start of the recession in early 2008. According to the United States Bureau of Labour Statistics,³ since then, 7.6 million jobs were lost. The unemployment rate stood at 10% in December 2009, the highest since August 1983 and twice as high as the one recorded two years before. Long-term unemployment (27 weeks or longer) affected 6.1 million people, 40% of the 15.3 million unemployed

¹ K. Rogoff, "The "New Normal" for Growth", available at www.project-syndicate.org/print_commentary/rogoff56/English

² D. Rodrik, "¿Un mundo menos globalizado?", available at www.project-syndicate.org/print_commentary/rodrik31/Spanish

³ Bureau of Labour Statistics, "Employment Situation Summary", 8 January, 2010.

workers. Taking into consideration the 2.5 million people who stopped seeking employment during the four weeks immediately before the time of the December survey, but who had looked for a job sometime during the previous 12 months, and the 9.2 million people who are involuntary part-time employees due to a cut in working hours or who cannot find a full-time job, the unemployment rate would reach 17.3%.

Some analysts point out that in order to return to the situation of the labour market that prevailed before the crisis, an annual GDP growth rate of 5% for the next three years is required.⁴ It seems that the decisive factor that would ultimately determine the materialisation and pace of the recovery of the United States (and the world) economy is the implementation of a new fiscal stimulus package. Indeed, the concerns about a possible double dip recession, i.e. a short recovery after the initial slump followed by another decline in output, are based on the extinction by mid-2010 of the fiscal stimulus package of US\$789 billion (5.5% of GDP) approved in February 2009. Whether the United States authorities would be willing to implement another fiscal injection of this magnitude, to foster the recovery is still to be seen, as the huge fiscal deficit recorded in fiscal year 2008/2009 of US\$1.3 trillion, or 9.2% of GDP, gives little room for further fiscal expansion, unless a new issuance of treasury bills is approved which will contribute to the increasing trend of public debt that peaked US\$12 trillion or 85% of GDP at the end of 2009. In this context, the government confronts a policy dilemma: to implement additional stimulus measures to sustain the slight recovery – which would contribute to the fiscal deficit and public debt accumulation – or to cut the fiscal gap so as to impose limits to the increase in the debt stock. The latter option would obviously be detrimental to growth and could indeed put an end to the incipient recovery. The dependency of the United States economy on foreign financing to cover its massive fiscal deficits has undermined investors' confidence in its prospects and reduced their appetite for United States treasury bills. This, in turn, has contributed to the weakening of the United States dollar vis-à-vis other hard currencies, such as the euro, the pound sterling and the yen. The solution of this policy dilemma will exert a critical influence on the path the world economy will take in 2010.

Meanwhile, the recovery in Europe and Japan is at least uncertain. By mid-2009, GDP in the Euro area was more than 5% below its peak in early 2008, with industrial production and exports volume down by some 18%. During the third quarter of 2009 economic activity rebounded by 1.5% relative to the second quarter, although output growth posted a year-on-year rate of -4.1%. It was expected that the situation would continue to improve during the last quarter. However, as Smaghi (2010)⁵ points out, economic activity has been fostered by temporary factors, such as a rebound in global trade, a reversal in the inventory cycle and unprecedented fiscal and monetary stimuli. But growth remains sluggish, reflecting the ongoing balance sheet adjustments being undertaken by firms and households alike.

In the case of Japan, the situation is worse, despite the output expansion of 1.3% in July-September over April-June. In fact, during the third quarter GDP dipped by 5.1% relative to the same period in 2008, and a fall between 5% and 5.5% in output was expected for 2009. This poor performance, coupled with deflation that stood at around 1.3% in 2009, raised concerns about a possible return to the conditions that prevailed during the lost decade of the 1990s. Domestic demand remained sluggish during 2009 despite an expansionary fiscal policy that drove the fiscal deficit to 7.4% of GDP as the private sector continued to be a net saver, which was reflected in the current account surplus that amounted to 2.7% of GDP.

On the upside, China managed to keep its rapid expansion on track, posting a GDP growth rate of 10.7% year-on-year during the fourth quarter of 2009 which resulted in an annual output increase of

⁴ S. Pozzi, "El mal dato de empleo en EEUU genera dudas sobre la recuperación", *El País*, 9 January 2010. Available at www.elpais.com/articulo/economia/mal/dato/empleo/EE/UU/genera/dudas/recuperacion/elpepieco/20100109elpepieco_3/Tes

⁵ L. B. Smagui, "The euro area macroeconomic situation: Where do we stand, where are we going?", Keynote address at the New Year's Reception 2010 organised by Industrie-und Handelskammer, Frankfurt am Main, 18 January 2010. Available at www.ecb.int/press/key/date/2010/html/sp100118.en.html

around 8.7%. This impressive pace went hand in hand with the massive fiscal stimulus package of US\$586 billion (14% of GDP) approved in October 2008. Indeed, retail sales climbed by 17.5% in the year to December, the highest real increase in two decades, bolstered by subsidies and tax cuts on cars and appliances.⁶

Table 1 presents world GDP growth rates estimations for 2009 and forecasts for 2010, as well as those recorded in 2007 and 2008. The marked slow down in world output growth between 2007 and 2008 is evident. In 2009, world output decline is estimated at 2.2% relative to 2008, with developed countries' GDP dipping by 3.6% and developing countries growing by a mere 1.7%, less than a third of the growth rate posted in 2008 (5.2%). For 2010, a recovery is expected after the recession in 2009, with the world posting a growth rate of 2.5%, on account of developed countries growing by 1.4%, and developing countries expanding by 5.3%. The final outcome will crucially depend on whether the extraordinary fiscal and monetary stimulus measures implemented since the last quarter of 2008 are maintained or not. Indeed, these policy measures are singled out as the main drivers of the economic recovery observed in the third quarter of 2009, as the International Monetary Fund (IMF) recognizes that there is little evidence that private autonomous demand (i.e. not the one induced by policies) is gaining momentum, at least in the advanced economies.⁷ Again, the time, pace and magnitude of additional stimulus measures, particularly in the United States, will play a major role in the dynamism of the world economy in 2010.

Table 1
GDP annual growth rate, 2007-2010
(Percentage)

	2007	2008	2009 ^e	2010 ^f
World	3.8	1.7	-2.2	2.5
Developed countries	2.5	0.4	-3.6	1.4
- United States	2.1	0.4	-2.5	2.0
- Euro Area	2.7	0.6	-4.0	0.7
- Japan	2.3	-0.7	-5.9	1.1
Developing countries	7.5	5.2	1.7	5.3
- China	13.0	9.0	8.4	8.7
- India	9.3	7.3	5.9	6.5

Source: ECLAC, Preliminary Overview of the Economies of Latin America and the Caribbean 2009, Santiago, December, 2009.

^e = preliminary estimates.

^f = forecast.

B. ECONOMIC GROWTH IN THE CARIBBEAN IN THE NEW GLOBAL ECONOMY

The new international scenario, that is apparent, will bring about substantial and long-lasting implications for developing economies, in general, and for the Caribbean economies, in particular. Indeed, the economic growth patterns observed during the current decade based on the export of commodities (mainly Suriname and Trinidad and Tobago) or services, especially tourism and offshore financial services (as in the Bahamas and Barbados), are in question. Perhaps Guyana is the country that does not fit well in this broad categorisation, as it is an agriculture-based economy. In any case, this country shares with all Caribbean Community (CARICOM) countries – except for Suriname and Trinidad and Tobago – a growth process led by borrowing from the rest of the world, i.e. debt-led or foreign capital inflows-led growth.

⁶ See “Central Heating. Is China growing too fast?”, *The Economist*, 21 January, 2010.

⁷ See www.imf.org/external/pubs/ft/survey/so/2010/NEW012610B.htm

Table 2 illustrates the “triplet deficits” (the twin deficits and the private sector deficit) in 2005-2007 and in 2008-2009. Two features stand out. First, the huge current account surpluses posted by the minerals and/or hydrocarbons abundant countries, i.e. Suriname and Trinidad and Tobago, contrast with the massive current account deficits recorded by the services-based economies, especially those of the Eastern Caribbean Currency Union (ECCU).⁸ Second, despite significant fiscal deficits which have fed large current account gaps in most countries, private sector deficits have featured prominently in this outcome. For instance, in 2008-2009 the private sector’s spending in excess of income ranged between 27% and 38% of GDP in the ECCU countries, and amounted to 13.9% of GDP in Guyana, 9.3% in Belize and 8.6% in the Bahamas. This has important implications for macroeconomic policy, as the cutting of fiscal deficits alone would not resolve the problem of excessive external gaps and the need for foreign resources to finance them. The latter, in turn, would continue to contribute to the accumulation of external debt, both public and private, and add uncertainty about the sustainability of the exchange rate pegs or dirty pegs across the subregion.

Table 2
Triplet deficits, 2005-2009^a
(Percentage of GDP)

	2005-2007 ^b			2008-2009 ^b		
	Fiscal deficit	Private sector deficit	Current account deficit	Fiscal deficit	Private sector deficit	Current account deficit
Antigua and Barbuda	7.1	24.6	31.7	6.9	27.3	34.2
Bahamas	2.2	13.2	15.3	2.5	8.6	11.1
Barbados	2.7	6.0	8.7	4.6	3.2	7.8
Belize	2.5	3.9	6.5	-0.8	9.3	8.5
Dominica	-1.7	24.1	22.4	-1.5	31.6	30.1
Grenada	3.1	33.7	36.8	6.0	37.8	43.7
Guyana	11.4	10.0	21.4	7.2	13.9	21.1
Jamaica	4.5	7.1	11.6	9.2	3.5	12.7
St. Kitts and Nevis	3.0	15.1	18.1	-5.7	31.0	25.3
St. Vincent and the G.	3.9	23.0	26.9	2.2	34.4	36.6
St. Lucia	4.9	23.1	28.0	-0.6	27.2	26.7
Suriname	-1.9	-6.1	-8.0	-0.7	-14.1	-14.7
Trinidad and Tobago	-4.4	-24.2	-28.6	-1.3	-27.5	-28.7
<i>The Caribbean^c</i>	2.8	11.4	14.2	2.2	14.3	16.5

Source: ECLAC, on the basis of official figures.

^a A minus sign indicates a surplus.

^b Annual simple average.

^c Simple average.

The vulnerable macroeconomic situation experienced by most Caribbean countries posits a number of challenges over the medium term, as in the post-crisis world economy the two “growth strategies” mentioned above would no longer be feasible or, in other words, they would only be capable of generating much lower output growth rates than before 2008. This highlights the issue of productive diversification, an old goal sought by countries in the subregion with little success. This is the main challenge of the Caribbean economies over the medium term, which will be especially difficult to achieve in a macroeconomic context characterized by a sustained real exchange rate appreciation (except for the Bahamas), and some combination of limited fiscal space, excessive public debt and huge triplet deficits

⁸ The independent countries of the ECCU are Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia. The non-independent members are Anguilla and Montserrat.

(fiscal, private and on current account) recorded during the last years, except for Suriname and Trinidad and Tobago, as discussed in Chapters II and III.

Table 3 presents productive structures in Caribbean countries in 2005-2009. The paramount importance of the services sector contrasts with the small participation of manufacturing in total output. Only in Belize, Saint Kitts and Nevis and Suriname the manufacturing sector accounts for at least 10% of GDP. On the other hand, agriculture is relevant in Guyana (sugar, rice) and, to a lesser extent, in Belize (sugar, banana), and Dominica (banana, plantain); whereas mining products are the key components of the merchandise export baskets in Guyana (gold, bauxite, alumina), Jamaica (alumina, bauxite) and Suriname (gold, alumina). The oil and, especially, the gas industry in Trinidad and Tobago are of major importance, accounting for more than 40% of GDP in 2005-2009. The share of the construction sector in output was boosted by projects related to the tourism sector in countries such as those of the ECCU, the Bahamas and Barbados during the last years. Overall, the services sector accounts for two thirds or more of overall output in all countries, except for Guyana and Trinidad and Tobago. This highlights the dependence of Caribbean countries on tourism activities and, in a few countries such as the Bahamas and Barbados, also financial services, as mentioned above. Bearing this in mind, it is important to note that, to some extent, the largest share of services in overall output in developing countries is usually a by-product of the incapacity of the economies to generate sufficient and substantial employment to absorb the increasing labour force. In this context, the figures of services participation in GDP hides the mushrooming of low-productivity activities of a different sort (self-employment, under-employment, micro-enterprises), mostly informal.

Table 3
Productive structure and composition, 2005-2009
(Percentage in local currency at constant prices)

	Agriculture ^a	Mining, quarrying and hydrocarbons	Manufacturing ^b	Construction	Services ^c
Antiguan and Barbuda	3.0	2.6	2.3	18.1	74.1
Bahamas	1.4	0.6	4.0	11.4	82.7
Barbados	4.5	0.8	5.6	8.8	80.2
Belize	14.5	0.4	10.0	3.3	71.7
Dominica	16.7	0.8	5.1	8.2	69.2
Grenada	5.9	0.8	5.8	10.3	77.2
Guyana	30.1	6.8	6.1	10.4	44.8
Jamaica	5.0	4.0	8.7	8.5	73.7
St. Kitts and Nevis	4.2	0.3	11.3	14.3	69.9
St. Vincent and the G.	9.2	0.3	5.0	10.5	75.0
St. Lucia	3.5	0.5	6.2	7.5	82.4
Suriname	7.7	8.4	12.6	5.9	65.5
<i>Trinidad and Tobago</i>	0.5	40.5	8.1	7.8	43.3

Source: ECLAC, on the basis of official figures.

^a Includes hunting, forestry and fishing.

^b In Belize includes oil production.

^c Includes electricity, gas and water; wholesale and retail trade; transport and communication; finance; communal, personal and social services; and general government.

Looking ahead, the lower world demand will force developing countries to pay more attention to domestic markets to enhance growth and productive diversification. A more balanced vision of the role of domestic markets in economic development is needed to complement the necessary export orientation in the developing world. Notwithstanding, the small size of local markets of Caribbean countries reinforces the need to redouble efforts in regional integration, both within and outside CARICOM. In this context,

the implementation of the Economic Partnership Agreement (EPA) between CARIFORUM (CARICOM plus the Dominican Republic) and the European Union will regain importance, as well as the negotiations with Canada towards a Free Trade Agreement initiated in November 2009.

C. POLICIES IMPLEMENTED TO COPE WITH THE INTERNATIONAL ECONOMIC CRISIS

In order to ameliorate the impact of the world economic crisis on domestic economies, the Caribbean countries implemented a number of policies on different fronts with the view of containing job losses, injecting liquidity into financial markets, stimulating business confidence and, ultimately, re-igniting economic growth. These measures can be broadly classified in six areas, 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 serious limits to counter-cyclical fiscal policies. For instance, in fiscal year 2008/09, interest payments on central government debt amounted to 14% of GDP in Jamaica and 8.8% in Saint Kitts and Nevis. Given the limited fiscal space and the tightening of foreign private financing availability, during 2009 many Caribbean countries had to rely on international financial institutions (IFIs) financing, especially the IMF and the Inter-American Development Bank (IDB). In terms of fiscal response, the main interventions were to increase fiscal spending in order to stimulate economic activity. Other fiscal measures included the reduction of selected taxes such as value added tax on selected foods and utilities, or deferring specific taxes for determined periods. This was the case in the Bahamas, Barbados, and Jamaica. Additionally, in light of the collapse of Colonial Life Insurance Company (CLICO) and the Bank of Antigua (property of the Stanford Group), many fiscal interventions were undertaken by most Caribbean governments to protect jobs and reduce sector losses. Such countries include Antigua and Barbuda, the Bahamas, Barbados, Belize, Guyana, Saint Lucia, Suriname, and Trinidad and Tobago. The overall effect of these policies was wider fiscal deficits and higher public debt in most countries in the subregion (see Chapter II).

All in all, given the chronic shortfall in fiscal revenue in all Caribbean countries, except for Suriname and Trinidad and Tobago, fiscal policy responses to cope with the global economic crisis in 2009 would not have been possible without financing from external sources. Such financing gave some fiscal space to introduce some counter-cyclicality in fiscal policy in the context of weakening tax revenue and demanding public debt service. At the national level, perhaps the most notable effort in this regard was made by Jamaica, to secure some US\$900 million in contingent credits from the World Bank, the Caribbean Development Bank and other IFIs in order to support its Fiscal and Debt Sustainability Programme, as well as the expansion of its main social programme, the Programme of Advancement Through Health and Education. Another interesting measure initiated during 2009 was the Eight Point Stabilisation and Growth Programme agreed upon by the members of the ECCU in June. It includes fiscal reform, debt management and public investment, among other issues.

2. Monetary and financial management policies

The decline in the international prices of food and energy removed imported inflationary pressures that were significantly felt since 2006 throughout the subregion. This allowed some central banks to switch the focus of monetary policy from curbing inflation to promoting economic activity during 2009. This was the case in Barbados, Jamaica and Trinidad and Tobago, which by December 2009 cut reference interest rates by 2 (from 4.5% to 2.5%), 6.5 (from 17% to 10.5%) and 3.5 (from 8.75% to 5.25%) percentage points relative to December 2008, respectively (see Chapter II).

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, as well as enhancing the regulatory framework for more prudent management of the financial sector. For instance, legislation was approved in the Bahamas to strengthen controls of money-laundering and terrorist financing; while in Jamaica, the government adjusted the time period related to non-performing loans from 90 to 180 days in order to provide some mortgage relief to clients.

3. Exchange rate and trade measures

In general, Caribbean central banks undertook net sales of foreign exchange to meet market demand in the context of increasing uncertainty prompted by the global crisis. Favourable conditions that led to surpluses in the balance of payments in most countries, including access to official financing from IMF and other institutions, facilitated such foreign exchange operations. With respect to trade, most subregional economies signed on to the European Union EPA, a post Cotonou trading arrangement between the EU and Asia, Caribbean and Pacific countries. Although Guyana initially hesitated signing the agreement, citing the prevailing economic crisis as a basis for the deferment, it eventually signed it later in 2009. Specific trade-related responses were, however, recorded for Dominica, which reduced tariffs for selected food items, as well as Saint Lucia, where the Common External Tariff and other consumption taxes were suspended for nine imported articles.

4. Sectoral policies

Given the pivotal nature of tourism to Caribbean economies, this sector received a great deal of attention from governments during 2009. Specific funding was provided for tourism promotional activities in tourism source markets. Financial stimulus injection was provided to the tourism sector in the Bahamas, Barbados, Jamaica, and Trinidad and Tobago. Apart from tourism, the agriculture sector also benefited from specific interventions. For instance, 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

As regards labour and social policies, efforts were principally meant to ameliorate the impact of the crisis on the workforce and consumers. Indeed, fostered by the Millennium Development Goals that established a set of development targets to be achieved by 2015, most countries have made significant progress in social areas. Thus, there is a growing concern across the Caribbean and other developing countries about the likely effects of the global economic crisis on the fight against poverty. Aiming at 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, Saint Vincent and the Grenadines); salary and wage increases for public servants (Belize, Guyana, Jamaica); rises in minimum wages (Jamaica, Dominica, Saint Kitts and Nevis); conditional transfers programmes (Barbados, Belize); increases of transfers and subsidies in general through different programmes (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).

6. External financing

Given the pressing external financing requirements, many Caribbean countries relied on official lending 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, as financial support from IMF to mitigate the effects of the global crisis. In the case of Jamaica, it received US\$ 300 million from IDB to

provide liquidity to the financial system, whereas Grenada obtained an increase of US\$ 6.8 million in its Poverty Reduction and Growth Facility subscribed with IMF in 2006. In addition, in order to assist troubled countries in meeting their external financing needs and inject liquidity in the global economy in the context of the world recession and tightening of international capital markets, in August, 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 4, 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%), US\$ 120 million in Suriname (5.6%) and US\$ 110 million in Guyana (9.2%). 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.

Table 4
Special Drawing Rights allocations, 2009
(Millions of SDR)

	General SDR allocation (Effective August 28)	Special SDR allocation (Effective September 9)	General and Special SDR allocation (as of September 9)	General and Special SDR allocation (Millions of US\$)^a
Antigua and Barbuda	10.0	2.5	12.5	19.0
Bahamas	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: ECLAC, on the basis of information from the International Monetary Fund.

^a The exchange rate used is US\$1.52 per Special Drawing Rights. The figures expressed in United States dollars may differ slightly from those mentioned in the country notes of Chapter IV due to valuation discrepancies.

By the end of 2009, Antigua and Barbuda and Jamaica continued to negotiate with IMF in order to get official funds to meet their financing needs and, by mid-January 2010, Jamaica sent a request letter to IMF for a 27-month Stand-by Arrangement (SBA) until March 2012. The main features of this Agreement are presented in Box 1. The marked deterioration of the fiscal conditions in Jamaica over the last decade or so caused the situation to become unmanageable, with significant chronic fiscal deficits, debt-to-GDP ratios well above any definition of sustainability, and interest payments as high as 13% to 14% of GDP in recent years. Evidently, this situation had to come to an end sooner rather than later. Whether the policy measures included in the SBA proposal are the most appropriate or not given the context is an open question, but their recessive consequences are evident and will undoubtedly have enormous economic, social and political costs.

Box 1

Main features of Jamaica's request to the IMF for a 27-month Standby Agreement ending March 2012

Main objective

To restore macroeconomic stability and create conditions for strong and sustained growth and to enable the economy to benefit from the recovery in the global economy.

Medium-term macroeconomic framework

- GDP growth will rise to 2% by fiscal year 2011/2012.
- Inflation will trend downward to the 6%-7% range over the medium term.
- Fiscal policy reforms will eliminate the overall public sector deficit over the medium term and put the debt-to-GDP ratio on a clear downward trend.
- The balance of payments is expected to improve markedly over the medium term.

Macroeconomic programme

Fiscal policy

- Reducing the overall public sector deficit from 12.8% in the current fiscal year to 5% in fiscal year 2011/2012.
- Effective 1 January 2010, the following tax measures were introduced:
 1. General consumption tax (GCT): GCT rate was raised from 16.5% to 17%; the GCT rate on the tourism sector was increased from 8.25% to 10%.
 2. Personal income tax: rate for income between J\$5 million and J\$10 million was raised from 25% to 27.5% and rate for income over J\$10 million was increased to 35%.
 3. Fuel tax: an ad valorem fuel tax of 15% was introduced.
- On the expenditure side, the freeze on wage and salary increases will be maintained through fiscal year 2011/12 and primary spending in fiscal year 2010/2011 will be reduced by 1.25% of GDP.
- In the area of public bodies which has been a constant drain on public resources:
 1. Air Jamaica will be divested or liquidated.
 2. The activities of PETROJAM will remain streamlined: the Government will not participate in the planned refinery expansion project, estimated at around 10% of GDP.
 3. Divestment of the assets of Sugar Company of Jamaica will continue.
 4. The net operational loss of the Jamaica Urban Transit Company (JUTC) will be cut by 40%.
- Public debt exchange: the Government will engage its creditors in a debt exchange aimed at securing fiscal savings by exchanging existing high cost debt for new instruments that have lower coupons and longer maturities.

Structural fiscal reforms

- Rationalize the public sector with a view to improving efficiency and cost effectiveness.
- The ongoing rationalization and reform in Jamaica's public bodies will continue over the medium term.
- Strengthen tax administration.
- Scaling back of the system of tax incentives and exemptions in order to broaden the tax base, reduce distortions in the system, and allow a phased reduction in the corporate tax rate to a more competitive level.
- Establishment of a Fiscal Responsibility Framework before the end of fiscal year 2009/2010.
- Establishment of a central treasury management system.

Monetary and exchange-rate policy

- Monetary policy will focus on reducing inflation and supporting the operations of the domestic financial system.
- Monetary policy will continue to be managed within a framework of a managed floating exchange rate regime.

Financial system reform

- Amendment of the Bank of Jamaica Act to establish the legal framework to underpin its responsibility for overall financial system stability by December 2010.
- Enhancing capital rules for deposit-taking institutions to address all market risks, including equity and interest rate risks by December 2010.
- Reform of the securities dealer sector to strengthen its ability to withstand shocks going forward.
- Continue to strengthen the regulatory and supervisory framework of the securities dealers sector.

Financing

The need is envisaged for financing from multilateral sources of US\$ 2.4 billion over the next two years.

Programme monitoring

The programme will be monitored on a quarterly basis through quantitative performance criteria, indicative targets, and structural benchmarks.

Source: ECLAC, on the basis of Jamaica, Minister of Finance and the Public Service, Ministry paper No. 9/2010, "Jamaica's request to the International Monetary Fund (IMF) for a 27-month Standby Agreement (SBA) ending March 2012", 19 January, 2010.

D. EFFECTS OF THE GLOBAL MELTDOWN ON CARIBBEAN ECONOMIES

The Economic Commission for Latin America and the Caribbean (ECLAC) (2008)⁹ identified six main channels through which the global crisis would filter into Caribbean economies, namely, volumes of exports (and, therefore, GDP) and terms of trade, tourism receipts, remittances and foreign financing and foreign direct investment (FDI).

Perhaps the most evident effect of the global crisis at the subregional level was its impact on the financial sector, more precisely to CL Financial Ltd., a major conglomerate.¹⁰ On 30 January 2009, the Government of Trinidad and Tobago and the Central Bank of Trinidad and Tobago announced their decision to bail out CLICO Investment Bank – owned by CL Financial Ltd. – in order to maintain the stability of the financial sector, prevent contagion to other financial institutions and protect depositors' funds. According to CLICO Investment Bank, the problem was generated by depositors' concerns about the impact of the sharp decline in real estate and methanol prices, given the large share of funds invested in these sectors by the bank. This prompted a liquidity problem as depositors started withdrawing their funds, a process that escalated during the last week of January. This spilled over to CLICO, given the close ties between the two companies. However, the Central Bank of Trinidad and Tobago stated that this was not the whole story. The problem was three-fold. First, excessive related-party transactions, which carry significant contagion risks; second, aggressive high interest rates offered to attract resources to finance high risk investments, much of them in illiquid assets (including real estate in Trinidad and Tobago and elsewhere); third, high leveraging of CL Financial Ltd. assets, which constrained the potential amount of cash that could be raised from the sale of assets.

This decision to bail out CLICO Investment bank was the main event related to the financial sector in the Caribbean during 2009, and prompted a chain reaction in other Caribbean countries where CLICO had operations. These are summarized in table 5.

⁹ “The sub-prime mortgage crisis and its implications for the Caribbean”, document presented at the 22nd Ministerial Meeting of the Caribbean Development and Cooperation Committee, Port of Spain, April 2008. Available at www.eclac.org/portofspain/noticias/noticias/8/32418/TheUnitedStatesSubprimeMortgageCrisisanditsImplicationsfortheCaribbean.pdf

¹⁰ CL Financial Ltd. initiated operations in 1993 as a holding company for Colonial Life Insurance Company Ltd. (CLICO) in Trinidad and Tobago. By 2008, it was the largest local conglomerate in the Caribbean, encompassing over 70 companies in 32 countries worldwide. The value of its assets was estimated at US\$ 16 billion (two thirds of Trinidad and Tobago's GDP) covering several sectors including banking and finance, energy, real estate, manufacturing and distribution. In 2008, CL Financial Limited purchased an 86.6% stake in Jamaican conglomerate, Lascalles de Mercado, parent company of Appleton and Wray & Nephew for US\$635 million, and in early January 2009 took a 40% stake in Caribbean Money Market Brokers (CMMB) owned by Jamaican Money Market Brokers.

Table 5
The bailout of CLICO in Trinidad and Tobago and its domino effect

Country/Group of countries	Actions adopted in 2009
Bahamas	In February the Government took judicial control of CLICO Bahamas At the end of May, the Government announced that it will guarantee CLICO Bahamas in order to facilitate the sale of CLICO's assets
Barbados	During February, the Central Bank took actions in support of CLICO subsidiaries in Barbados through the provision of liquidity support In April, the Central Bank agreed to participate in the establishment of a regional "Liquidity Support Fund" to rescue CLICO's subsidiaries in the smaller Caribbean countries A Memorandum of Understanding was announced in May between the Government and CLICO, by which the sale of subsidiaries in Barbados was placed in the hands of a Government-controlled Committee
Belize	In March, the Government took judicial control of CLICO Belize through the Supervisor of Insurance
Guyana	In February, the Government took judicial control of CLICO Guyana In early April it was announced that the Government will allocate up to US\$34 million over a 10-year period in order to guarantee CLICO Guyana's policyholders and investors In June, the Government announced that it will allow the sale of CLICO Guyana's assets to ensure that policyholders and investors get some of their funds back
Suriname	In late March, the Central Bank announced that it was closely monitoring the status of CLICO Suriname's operations to protect policyholders' interests In addition, in consultation with the institution's officers it was looking for solutions to the growing liquidity and solvency problems faced by the financial group in the country
Trinidad and Tobago	In April, it was announced that the Government would be spending around TT\$5 billion (3% of 2008's GDP) during the next two years on the bailout In addition, the Central Bank agreed to participate in a regional "Liquidity Support Fund" to rescue CLICO subsidiaries in smaller Caribbean countries After months of legal struggles between the authorities and CLICO's former management, an agreement was reached in June with the stakeholders, placing the administration and control of the financial assets in the hands of a new board of directors with the inclusion of Government representatives In October, it was announced that the Government will not sell CL Financial assets at that time because it would result in major financial losses of the conglomerate's assets In addition, it was announced that by October the Government had given CLICO TT\$1.9 billion from the TT\$5 billion state bailout fund
ECCU	In April, the Eastern Caribbean Central Bank agreed to participate in a regional "Liquidity Support Fund" to rescue CLICO subsidiaries in the smaller Caribbean countries
<i>CARICOM</i>	In March, it was agreed that the CLICO crisis was an issue that demanded concerted action. Hence CARICOM approved the creation of a "College of Regulators" made up of representatives from the central banks to assess the challenges created by the global financial crisis and subsequent CLICO debacle, monitor and counteract the problems generated, and provide proposals to integrate and improve financial regulation in the subregion

Source: 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.

In order to produce a back-of-the envelope estimation of the costs of the international economic turmoil on Caribbean countries, a time-series analysis was undertaken on four major variables, namely, real GDP, tax revenue, tourism receipts, and workers' remittances. Each series was decomposed in its trend and its transitory component using the Hodrick-Prescott filter over the period 1980-2009.¹¹ Then the trend values of the analysed variables are compared to their actual values in 2009 to determine the impact of the world crisis on each of them. The annex to this document shows plots of actual and trend values of each variable.

Table 6a presents the calculations regarding real GDP and tax revenue. The most affected countries were Antigua and Barbuda, Grenada and Saint Kitts and Nevis, which recorded losses of 7.7,

¹¹ In the cases of tax revenue, tourism receipts and remittances, the analysis considers their values expressed as a share of GDP. Due to data availability, the analysis of fiscal revenue was undertaken for the period 1990-2009.

7.4 and 6.7 percentage points of real GDP in 2009. Within the More Developed Countries (MDCs),¹² the most impacted ones were the Bahamas, whose GDP was 5.4% below trend, and Trinidad and Tobago, at 4.5%. In Guyana and Suriname, the only two countries that posted positive growth rates in 2009 in the subregion, GDP was slightly above trend. Overall, real output losses in the Caribbean in 2009 amounted to 4% of GDP. As regards tax revenue, the six countries where data was available averaged a loss of tax revenue equivalent to 1.5% of GDP at current prices. In this regard, Trinidad and Tobago took the lead with total foregone tax revenue of 5.2% of GDP, followed by Jamaica, whose tax take was 2.4 percentage points of GDP below its trend value. Surprisingly, in the Bahamas and Guyana tax revenue in 2009 was slightly above trend.

Table 6a
Costs of the global economic crisis in GDP and tax revenue, 2009

	GDP				Tax revenue		
	<i>(Millions of US\$ at constant 2000 prices)</i>				<i>(Percentage of GDP at current prices)</i>		
	Actual ^a	Trend ^b	Difference	Percentage ^c	Actual ^a	Trend ^b	Difference
Antigua and Barbuda	923.4	994.3	-70.9	-7.7	..	..	..
Bahamas	5,957.2	6,279.5	-322.3	-5.4	17.9	17.6	0.3
Barbados	1,895.9	1,964.3	-68.4	-3.6	32.6	33.4	-0.8
Belize	1,182.9	1,227.3	-44.4	-3.8	20.1	21.5	-1.4
Dominica	321.9	319.9	2.0	0.6	..	..	..
Grenada	462.0	496.0	-34.0	-7.4	..	..	..
Guyana	694.2	686.3	7.9	1.1	35.5	34.7	0.8
Jamaica	9,754.4	10,056.8	-302.4	-3.1	21.1	23.5	-2.4
Saint Kitts and Nevis	401.5	428.4	-26.9	-6.7	..	..	..
Saint Vincent and the Grenadines	471.1	485.8	-14.7	-3.1	..	..	..
Saint Lucia	816.8	847.7	-30.9	-3.8	..	..	..
Suriname	1,130.7	1,118.3	12.4	1.1	..	..	..
Trinidad and Tobago	14,488.2	15,142.9	-654.7	-4.5	20.3	25.5	-5.2
<i>Caribbean^d</i>	<i>38,500.2</i>	<i>40,047.5</i>	<i>-1,547.3</i>	<i>-4.0</i>	<i>24.6</i>	<i>26.0</i>	<i>-1.5</i>

Source: ECLAC calculations.

^a Preliminary figures.

^b Calculated using the Hodrick-Prescott filter.

^c Of GDP in 2009.

^d In tax revenue corresponds to simple average.

.. = not available.

The calculations of the impact of the world crisis on tourism receipts and remittances are shown in table 6b. The losses in terms of the tourism receipts ranged between 1.2% of GDP in Saint Lucia to 3.1% in Saint Vincent and the Grenadines. In Antigua and Barbuda and Grenada, however, actual tourism receipts were above trend values in 1.8 and 0.6 percentage points of output, respectively, due to a vigorous increase in cruise passenger arrivals of more than 25% during the first three quarters of the year relative to the same period in 2008. In the case of Jamaica, stop-over arrivals in January-October increased by 4% year-on-year which partly explains why actual tourism receipts stood above trend in 2009.¹³ On average, tourism receipts in the Caribbean posted a decline equivalent to 1.1% of GDP relative to 2008. The negative impact of the global meltdown was larger on workers' remittances, averaging some

¹² Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

¹³ See Caribbean Tourism Organization, "Latest Statistics 2009", 18 December 2009.

1.5% of GDP in the subregion. By far, the most affected country in this regard was Guyana, which recorded remittances 9.1 percentage points of GDP lower than trend. With the exception of Guyana, subregional simple average losses more than halved to 0.7% of GDP. Other countries affected include Grenada and Jamaica, where remittance losses amounted to 2.3% and 2.8% of GDP, respectively. In the other countries these losses were below one percentage point of output. Remittances stood slightly above trend in 2009 in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia.

Table 6b
Costs of the global economic crisis in tourism receipts and remittances, 2009
(Percentage of GDP at current prices)

	Tourism receipts			Remittances		
	Actual ^a	Trend ^b	Difference	Actual ^a	Trend ^b	Difference
Antigua and Barbuda	29.5	27.7	1.8	3.9	3.6	0.3
Bahamas	25.0	27.0	-2.0	0.8	1.0	-0.2
Barbados	30.0	31.8	-1.8	5.5	6.2	-0.7
Belize	19.5	21.4	-1.9	8.5	9.3	-0.8
Dominica	20.3	21.6	-1.3	7.6	8.2	-0.6
Grenada	15.1	14.5	0.6	6.1	8.4	-2.3
Guyana	..	..	..	27.6	36.7	-9.1
Jamaica	15.8	14.9	0.9	15.7	18.5	-2.8
Saint Kitts and Nevis	20.5	22.2	-1.7	8.4	8.3	0.1
Saint Vincent and the Grenadines	14.0	17.1	-3.1	5.9	6.1	-0.2
Saint Lucia	29.6	30.8	-1.2	3.7	3.6	0.1
Suriname	1.5	3.4	-1.9	..	..	..
Trinidad and Tobago	..	..	..	..	..	..
<i>The Caribbean^c</i>	<i>20.1</i>	<i>21.1</i>	<i>-1.1</i>	<i>8.5</i>	<i>10.0</i>	<i>-1.5</i>

Source: ECLAC calculations.

^a Preliminary figures.

^b Calculated using the Hodrick-Prescott filter.

^c Simple average.

.. = not available.

In summary, table 6c presents the total costs of the global economic crisis to Caribbean countries. Perhaps the most illustrative case to grasp the impact of the crisis on the subregion is that of Trinidad and Tobago, which was in the best position to cope with the world economic storm as it benefited from increasing and high energy world prices during the previous years. This allowed Trinidad and Tobago to consistently record fiscal and current account surpluses, accumulate high levels of international reserves and keep public debt at manageable levels. Nevertheless, real output losses were significant, around 4.5 percentage points of GDP, larger than in the Caribbean as a whole (4 percentage points). In terms of tax revenue, losses topped 5.2% of GDP, which partly explains the reversal of the fiscal surplus from 7.8% of GDP recorded in fiscal year 2007/2008 to the deficit of 5.3% posted in fiscal year 2008/2009 (see Chapter II). The latter outcome is not surprising given the importance of the energy sector that accounts for more than half of fiscal revenue. Within the ECCU countries, the most affected in terms of GDP were Antigua and Barbuda (7.7 percentage points), Grenada (7.4) and Saint Kitts and Nevis (6.7). In the case of the MDCs, output losses were particularly large in the Bahamas (5.4 percentage points). As a simple average, foreign exchange receipts (tourism receipts plus remittances) losses amounted to 2.6% of GDP in the subregion. As noted above, the most affected country in this respect was Guyana through the drop of remittances (9.1% of GDP). In the other countries, foreign exchange receipt losses ranged from 1.1% of GDP in Saint Lucia to 3.3% in Saint Kitts and Nevis. Excluding Guyana, average foreign exchange receipts amounted to 1.7% of GDP in 2009.

Table 6c
Costs of the global economic crisis in real GDP, tax revenue and foreign exchange receipts, 2009

	Real GDP (Percentage points)	Tax revenue (Percentage of GDP)	<i>Foreign exchange receipts^a</i> <i>(Percentage of GDP)</i>
Antigua and Barbuda	-7.7	..	2.1
Bahamas	-5.4	0.3	-2.2
Barbados	-3.6	-0.8	-2.5
Belize	-3.8	-1.4	-2.7
Dominica	0.6	..	-1.9
Grenada	-7.4	..	-1.7
Guyana	1.1	0.8	-9.1
Jamaica	-3.1	-2.4	-1.9
Saint Kitts and Nevis	-6.7	..	-1.6
Saint Vincent and the Grenada	-3.1	..	-3.3
Saint Lucia	-3.8	..	-1.1
Suriname	1.1	..	-1.9
Trinidad and Tobago	-4.5	-5.2	..
<i>The Caribbean^b</i>	<i>-4.0</i>	<i>-1.5</i>	<i>-2.6</i>

Source: Tables 6a and 6b

^a Losses in tourism receipts plus losses in remittances from Table 6b.

^b Simple average inn tax revenue and foreign exchange receipts.

.. = not available.

E. GROWTH PERSPECTIVES AND POLICY RECOMMENDATIONS

Table 7 presents GDP growth rates for 2007 to 2009 and forecasts for 2010. Under the assumption that the world economy would recover at the pace stated in Table 1, the Caribbean would post an output growth of 1.8%, a substantive rebound from the 2.1% contraction recorded in 2009. Countries more dependent on tourism activities are expected to post a GDP growth rate of some 2% in 2010 as the recovery of the United States economy, the main source market, gains momentum over the year. In the cases of Guyana and Suriname, the expected acceleration in world demand would boost both prices and production of commodities, so that output expansion in 2010 would be higher than in 2009. The perspective is less optimistic in Jamaica, as the inevitable fiscal adjustment needed to try to put public finance on track will undoubtedly slow down the rebound in economic activity despite the improvement of the international conditions. In Trinidad and Tobago, the increase in international hydrocarbons prices associated with the expected global recovery would boost economic activity despite the slowdown in public investment caused by the culmination of large projects linked to the two world summits held in 2009.¹⁴

¹⁴ The Summit of the Americas was held in April and the Commonwealth Heads of Government Conference was held in November 2009.

Table 7
GDP growth rate, 2007-2010
(Percentage; constant US\$ at 2000 prices)

	2007	2008	2009 ^p	2010 ^f
Antigua and Barbuda	9.1	0.2	-6.6	2.0
Bahamas	0.7	-1.7	-3.9	2.0
Barbados	3.4	0.2	-3.6	2.0
Belize	1.2	3.8	-0.5	2.0
Dominica	4.9	3.5	-1.5	2.0
Grenada	4.5	0.9	-5.0	2.0
Guyana	5.3	3.1	0.9	3.0
Jamaica	1.4	-0.6	-3.0	1.0
Saint Kitts and Nevis	2.0	4.6	-8.5	2.0
Saint Vincent and the Grenadines	8.4	1.1	-0.2	2.0
Saint Lucia	2.2	0.8	-3.8	2.0
Suriname	5.1	4.3	2.5	4.0
Trinidad and Tobago	4.6	2.3	-0.5	2.0
The Caribbean (13)	3.1	0.8	-2.1	1.8
Latin America (19)	5.8	4.2	-1.7	4.3
- South America (10)	6.7	5.4	0.2	4.7
- Central America (5)	7.2	4.6	-0.8	3.0
- Mexico	3.4	1.3	-6.7	3.5
<i>Latin America and the Caribbean</i>	<i>5.8</i>	<i>4.1</i>	<i>-1.7</i>	<i>4.3</i>

Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean 2009*, Santiago, December, 2009.

^p = preliminary.

^f = forecast.

Looking ahead, in the aftermath of the world recession, the growth strategies pursued by Caribbean countries during the last years would only result in lower growth rates than before, mainly due to slower world demand for commodities and tourism services. This highlights productive diversification as the main medium-term challenge within the subregion, which will not be easily achieved in a macroeconomic context characterized by real exchange rate appreciations, limited fiscal space, excessive public debt stocks and/or massive triplet deficits.

The road towards productive diversification is not to move away from tourism activities afforded by the natural comparative advantages of “sun, sand and sea”. On the contrary, the point is to increase value added in the tourism sector by generating more sophisticated products and diversifying the supply of services. The promotion of value chains among agriculture, manufacturing and tourism is crucial in this effort. In particular, the creation of niches in the tourism industry is a necessity in the Caribbean. In this regard, sports and cultural tourism appear to be the most promising areas to develop, and are naturally related to the promotion of culinary and carnival-driven tourism.¹⁵

In addition, lower world demand will force developing countries to pay more attention to domestic markets to enhance growth and productive diversification. A more balanced vision of the role of domestic markets in economic development is needed to complement the necessary export orientation in the developing world. This calls for redoubling of efforts towards stronger integration both at the subregional level and beyond.

¹⁵ See Ideas to Business (2008), “CARICOM: Value chains, regional integration and competitiveness in the CSME”, Final Report prepared for IDB.

The above-mentioned process of productive diversification would need the support of a set of economic policies that include:

(a) On the fiscal side, keep securing official lending from IFIs, especially loans in countries that have access to this type of credit, such as Guyana and ECCU countries, so as to switch the composition of public debt towards lower interest and longer maturities. This is needed to gain some fiscal space in order to implement sectoral policies to promote productive diversification while at least maintaining the debt-to-GDP ratio constant.

(b) On the monetary side, central banks should keep an eye on domestic inflation to prevent the real exchange rate from appreciating.

(c) On the financial sector side, to allocate preferential credit to priority activities through already existing public financial institutions. Financial support should be granted conditional to performance goals related to productive diversification and be renewed only on these grounds, and should be complemented by technical assistance on innovation and technology, standardization and quality control and certification of agriculture and manufacturing products devoted to the tourism industry.

(d) On the institutional side, Public-Private Partnerships should be promoted to achieve long-term agreements on far-reaching development goals that are above the political cycle, that is, that become national objectives regardless of the government in office. These agreements should include priority activities and sectors that are to be promoted through the granting of financial and technical support and the promotion of FDI.¹⁶

(e) On the economic integration front, it is necessary to expand the demand for locally produced goods and services, both within the Caribbean and outside. In this context, the implementation of the EPA between CARIFORUM and the European Union will regain importance in 2010, as will the negotiations with Canada towards a Free Trade Agreement initiated in November 2009. These and other potential integration schemes with Latin American countries such as Brazil, and other emerging global players such as China and India, should be integrated in the policy agenda towards productive diversification.

¹⁶ For a Caribbean experience see B. Springer (2008), "Barbados: Public-Private Partnerships", Paper prepared for ECLAC, XXXII Period of Sessions, Santo Domingo, Dominican Republic, June.

CHAPTER II

MACROECONOMIC POLICY

A. FISCAL POLICY

In 2009, the recessive impulses stemming from the world economy led some Caribbean governments to implement expansionary fiscal policies through a combination of larger infrastructure works and higher social spending. The welcomed counter-cyclicality of fiscal policy went hand in hand with a small widening of fiscal deficits in the subregion, that climbed from 2% in fiscal year 2007/08 (simple average) to 2.3% in fiscal year 2008/09, as shown in table 8. The fiscal deficit of 11% recorded in Jamaica represented a record not only in Latin America and the Caribbean but also worldwide, above the 10% of GDP posted by the United States. Likewise, the fiscal stimulus in Trinidad and Tobago was superlative, above 13 percentage points of GDP, going from a surplus of 7.8% of GDP in fiscal year 2007/08 to a deficit of 5.3% in 2008/09. On the contrary, in Barbados and Guyana the fiscal deficits of 7.9% and 5.9% of GDP recorded in 2007/08 contracted by 2.7 and 1.4 percentage points of GDP in 2008/09, respectively. In addition, the fiscal surplus posted by Belize widened from 0.3% of GDP in 2007/08 to 1.2% in 2008/09. In the case of the independent countries of the ECCU, the limited fiscal space forced half of them to implement a pro-cyclical fiscal policy. The spectacular rise of more than 10 percentage points of GDP in the fiscal surplus recorded in Saint Kitts and Nevis in 2008/09 relative to 2007/08 is explained by an increment of 120% in grants received during the second quarter of 2009 as compared to the same period in 2008.

Table 8
Central Government balance, 2005/2006-2008/2009
(Percentage of GDP at current prices)

	Primary balance				Overall balance			
	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009
Antigua and Barbuda	-4.3	-3.1	-3.6	-4.5	-7.8	-6.4	-6.7	-7.1
Bahamas	0.9	0.2	0.6	-2.7	-1.5	-2.4	-2.0	-3.0
Barbados	3.1	2.8	-0.5	0.1	-2.0	-1.8	-5.9	-3.2
Belize	2.8	4.3	4.1	1.6	-4.2	0.0	0.3	1.2
Dominica	5.4	4.0	4.2	4.2	1.4	1.0	0.8	2.0
Grenada	-4.5	-4.6	-4.2	-3.6	-6.4	-6.6	-6.1	-5.8
Guyana	-9.3	-4.6	-5.1	-4.0	-13.1	-7.5	-7.6	-6.5
Jamaica	8.8	8.1	5.6	3.0	-5.3	-4.7	-7.4	-11.0
Saint Kitts and Nevis	6.0	6.0	8.9	19.7	-2.4	-2.4	0.4	10.9
Saint Vincent and the Grenadines	-0.7	-0.6	2.1	0.7	-3.9	-3.6	-1.3	-3.0
Saint Lucia	-3.0	0.9	2.9	5.5	-6.1	-2.1	-0.2	1.3
Suriname	1.7	5.7	5.8	0.8	-0.6	7.1	2.3	-1.0
Trinidad and Tobago	8.3	3.7	9.7	-3.3	6.3	1.8	7.8	-5.3
<i>Caribbean^b</i>	<i>1.2</i>	<i>1.8</i>	<i>2.3</i>	<i>1.3</i>	<i>-3.5</i>	<i>-2.1</i>	<i>-2.0</i>	<i>-2.3</i>

Source: ECLAC, on the basis of official figures.

^a Corresponds to non-financial public sector.

^b Simple average.

According to the Economic Commission for Latin America and the Caribbean (2009a, 2009b),¹⁷ public debt in the majority of Caribbean countries has reached levels far above any definition of sustainability, a situation that was aggravated during 2009. An analysis of public debt sustainability in highly indebted Caribbean countries defined as those that exhibit debt-to-GDP ratios above 70% is presented in box 2. Table 9 shows central government debt in 2009 as a share of GDP broken down into external and domestic. As can be seen, with the exception of the Bahamas, Suriname and Trinidad and Tobago, at the end of 2009 the remaining countries exhibited levels of public debt roughly between 60% of GDP in Saint Lucia and Saint Vincent and the Grenadines and 115%-120% in Guyana and Jamaica. An interesting feature is that a number of countries exhibit higher domestic than external debt. Domestic public debt stocks are high in Barbados (72.6% of GDP), Jamaica (66.9%), Antigua and Barbuda (58.7%), Saint Kitts and Nevis (48.3%), the Bahamas (37.9%) and Guyana (37.2%). Fiscal deficit financing through domestic credit has at least two shortcomings. First, that this crowds out domestic credit available to the private sector, especially for micro, small and medium enterprises that usually do not have access to external credit lines. Second, the accumulation of domestic public debt pushes long-term interest rates upwards, thus eroding economic growth perspectives in the long run. But the real problem is the chronic fiscal deficit itself, rather than the way it is financed.

Table 9
Central Government debt, 2009
(Percentage of GDP)

	External debt	Domestic debt	Total debt
Antigua and Barbuda	31.5	58.7	90.2
Bahamas	5.7	37.9	43.6
Barbados^a	29.1	72.6	101.7
Belize	74.6	12.2	86.8
Dominica	61.4	10.9	72.3
Grenada	81.7	14.1	95.8
Guyana	78.0	37.2	115.2
Jamaica	51.6	66.9	118.5
Saint Kitts and Nevis	56.3	48.3	105.2
St. Vincent and the Grenadines	42.4	15.4	57.8
Saint Lucia	39.1	24.1	63.2
Suriname	11.2	14.5	25.7
Trinidad and Tobago	6.4	12.6	19.0
<i>The Caribbean^b</i>	43.8	32.7	76.5

Source: ECLAC, on the basis of official figures.

^a Corresponds to non-financial public sector.

^b Simple average.

¹⁷ ECLAC (2009a), *Preliminary Overview of the Caribbean 2008-2009*, Port of Spain, April; ECLAC (2009b), *Economic Survey of Latin America and the Caribbean 2008-2009*, Santiago, Chile, June.

Box 2
Public debt sustainability in the Caribbean

The high levels of public debt in the majority of Caribbean countries raise doubts about its future sustainability. Machado (2009)* estimates the primary balance needed to stabilize the debt-to-GDP ratio. This primary balance depends positively on the real interest rate on each type of debt (external and domestic) and the exchange rate depreciation rate, and negatively on GDP growth and inflation rates.

The following table shows the figures used to undertake the debt sustainability analysis in eight Caribbean countries. The nominal interest rates on external and domestic debt are shown in fiscal year 2006/2007, the inflation rate in 2007, and the average annual GDP growth rate in 2002/2007. In Guyana and Jamaica the nominal depreciation rate considered is the one recorded in 2007 (1.2% and 6.2%), respectively. The other countries considered have fixed exchange rate regimes. The initial external and domestic debt stocks as a share of GDP used corresponds to table 9.

**Figures used in the public debt sustainability analysis
(Percentage)**

	Interest rate on external debt ^a	Interest rate on domestic debt ^a	Inflation rate 2007	Average annual GDP growth rate 2002-2007 ^c
Antigua and Barbuda	10.1	8.2	5.2	6.0^d
Barbados	6.9	5.0	4.0	3.0
Belize	6.6	9.3	4.1	4.6
Dominica	5.2	7.2	6.0	2.7
Grenada	3.1	2.2	1.7 ^b	2.8
Guyana	1.8	3.8	4.2 ^b	1.7
Jamaica	7.2	5.7	5.8 ^b	1.8
Saint Kitts and Nevis	11.1	7.9	2.1	4.0

Source: ECLAC, on the basis of official figures.

^a Interest payments in the fiscal year 2006/07 on the stock of public debt at the end of fiscal year 2005/06.

^b Corresponds to 2006.

^c In United States dollars at constant 2000 prices.

^d Excluding 2006.

The following table presents the primary balance recorded in the fiscal year 2008/2009, the primary balance required to maintain the debt-to-GDP ratio constant in the fiscal year 2009/2010 and the one needed to reduce the public debt stock to 40% of GDP in 20 years.

**Public debt sustainability analysis
(Percentage of GDP)**

	Primary balance 2008/2009	Primary balance needed to maintain the debt-to- GDP ratio constant in 2009/2010	Primary balance needed to reduce the public debt stock to 40% of GDP in 20 years
Antigua and Barbuda	-4.5	-2.1	2.5
Barbados	0.1	-1.5	3.1
Belize	1.6	-1.5	2.3
Dominica	4.2	-2.2	1.6
Grenada	-3.6	-1.4	2.8
Guyana	-4.0	-2.9	4.4
Jamaica	3.0	1.7	3.9
Saint Kitts and Nevis	8.9^a	3.4	3.2

Source: ECLAC, on the basis of official figures.

^a Corresponds to fiscal year 2007/2008.

Box 2 ... cont'd

According to these calculations, the countries considered would have to record primary surpluses ranging from 1.6% of GDP in Dominica to 4.4% in Guyana over the following 20 years in order to reduce their current public debt-to-GDP ratios to 40%, which is considered to be a sustainable level. Taking into account primary balances and public debt stocks observed in fiscal year 2008/2009, this implies that in the fiscal year 2009/2010 almost all countries would have to undertake significant fiscal adjustments, as high as 8.4% of GDP in Guyana, 7% in Antigua and Barbuda, 6.4% in Grenada and 3% in Barbados. In Belize and Jamaica, the necessary adjustments would be much lower, below one percentage point of GDP. The outliers in this regard are Dominica and Saint Kitts and Nevis, whose primary surpluses in 2008/2009 are more than twice as high as the primary surpluses needed to make public debt sustainable in two decades, which reveals that these countries are well positioned to undertake the pressing task of reducing the public debt burden over the medium term.

Considering a much less demanding (and insufficient) goal, such as maintaining the debt-to-GDP ratio constant, the second column of the previous table reveals that three countries would have to implement fiscal adjustments in fiscal year 2009/2010, namely Antigua and Barbuda (2.4% of GDP), Grenada (2.2%) and Guyana (1.1%).

* R. Machado (2008), "Public debt sustainability", in R. Machado (editor), *A worthy expenditure. Public spending in Central America and the Dominican Republic*, Washington, D.C., Inter-American Development Bank.

Source: ECLAC.

Overall, the virtual insolvency of public sectors in various Caribbean countries is a matter of concern as interest payments on debt consume a large share of fiscal revenue, having reached a record level of 14% of GDP in Jamaica in fiscal year 2008/2009. Moreover, the public debt burden fed by chronic fiscal deficits seriously limits the design and implementation of fiscal policy and, in many cases, puts the macroeconomic framework at risk, especially fixed or quasi-fixed exchange rate regimes. Nevertheless, overcoming this situation appears to be very hard, as any fiscal adjustment will have recessive effects and other economic and social costs in a subregion in great need of improving the living standards of its population.

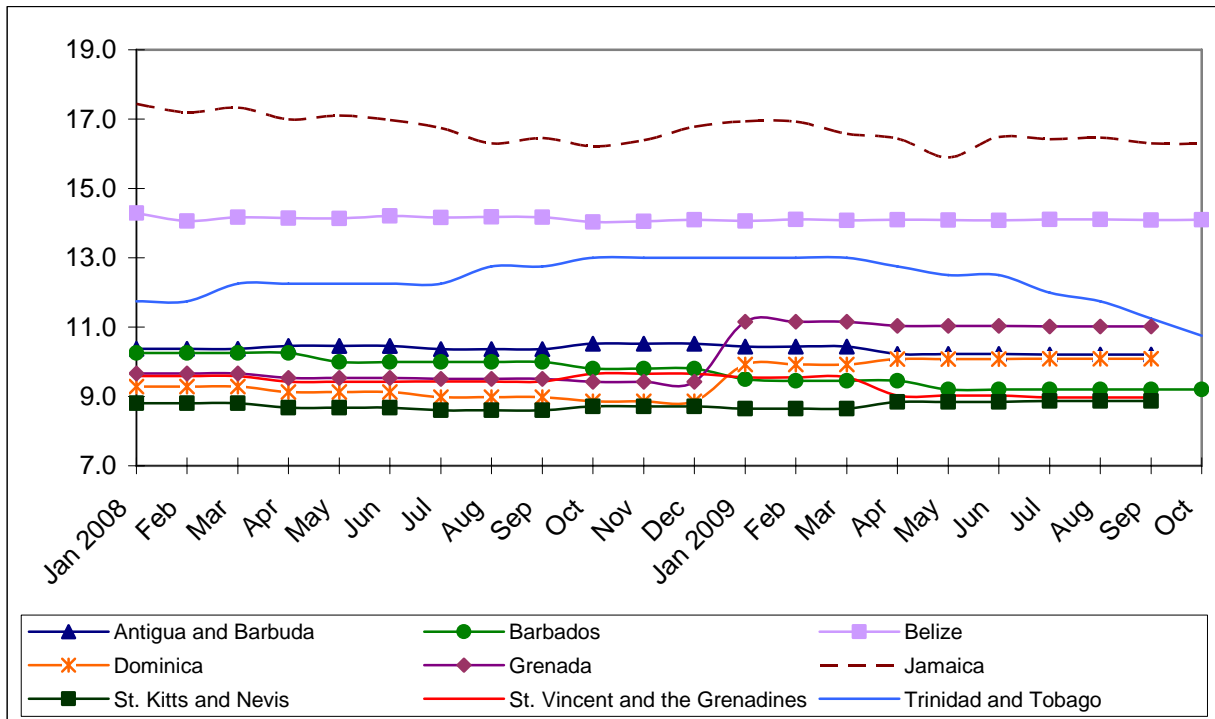
B. MONETARY POLICY

In 2009, monetary policy in the Caribbean was characterized by two features. In countries such as the Bahamas, Belize, Guyana and the ECCU it was fairly neutral,¹⁸ given inflationary inertia inherited from 2008, which was associated with high imported food and energy inflation rates because of increased uncertainty brought about by the international context. The declining trend of inflation observed in 2009 led monetary authorities of Jamaica and Trinidad and Tobago to gradually switch their focus from curbing inflation to stimulating domestic demand. Thus, the Bank of Jamaica cut its benchmark one-month certificate of deposit rate four times from 17% in January-June to 10.5% in December. Meanwhile, the Central Bank of Trinidad and Tobago cut its "repo" rate eight times from 8.75% during the first quarter to 5.25% in December. In the case of Barbados, the reference minimum deposit rate went down once in August from 4.5% to 2.5%. However, given the excess liquidity in the banking sector due to low credit demand, reductions of the reference interest rates mainly have a signalling effect. As figure 1 illustrates, the cut in Barbados' reference interest rate implemented in August did not have any influence on the representative annual lending rate that stood at 9.2% in May-October. Likewise, the reduction of the reference interest rate in Jamaica from 17% in January to 12.5% in September only managed to push the annual lending rate down from 16.9% in early 2009 to 16.3% in October. In the case of Trinidad and

¹⁸ For instance, the Eastern Caribbean Central Bank (ECCB) did not modify its monetary policy, keeping the discount rate at 6.5% and the reserve requirement for commercial banks at 6% during 2009.

Tobago, the effect was higher and almost one-to-one, as the cut of the monetary policy interest rate by 250 basis points from March to September induced the drop in the annual lending rate by 225 basis points, from 13% during January-March to 10.75% in October. In contrast, countries like Belize, Guyana, Suriname and most ECCU countries, where there were no changes in reference interest rates during 2009, recorded gradual marginal changes over the year.

Figure 1
Lending interest rates, 2008-2009
(Percentage; annual)



Source: ECLAC, on the basis of official figures.

Table 10 shows lending and deposit rates, together with spreads in 2008 and 2009. With few exceptions, there were no major changes in these variables in 2009 relative to 2008. The most dramatic change was the drop of the deposit rate in Trinidad and Tobago from 7.4% in 2008 to 4% in 2009, mainly explained by the excess liquidity in the banking sector as a result of large holdings of voluntary reserves by commercial banks. Overall, the lending rate in the subregion (simple average) remained constant at 11% per annum in 2009, whereas the deposit rate declined from 4.7% in 2008 to 4.3% in 2009. As a result, the interest rate spread in the Caribbean increased from 6.3% to 6.7% in the same period. As expected, the lowest spreads were recorded by the Bahamas, the major financial services provider in the subregion, revealing an efficient financial sector. On the contrary, Guyana posted interest rate spreads as high as 12.2 percentage points signalling either inefficient financial institutions or market power on their part. In particular, the level of lending rates in Guyana and Jamaica stood well above the ones observed in the other countries. For instance, excluding the Bahamas, the lending rate in Jamaica was between 50% and 90% higher than in the other Caribbean countries. Increasingly high domestic public debt that stood at near 70% of GDP in 2009 is at the heart of the behaviour of lending rates in this country.

Table 10
Lending rate, deposit rate and spread, 2008-2009
(Percentage; annual)

	Lending rate		Deposit rate		Spread ^d	
	2008	2009	2008	2009	2008	2009
Antigua and Barbuda	10.4	10.3 ^b	3.5	3.5 ^b	6.9	6.8
Bahamas	5.5	5.5 ^c	3.9	3.8 ^c	1.6	1.7
Barbados	10.0	9.3 ^d	4.5	3.0 ^d	5.6	6.4
Belize	14.1	14.1 ^d	8.5	8.4 ^d	5.7	5.7
Dominica	9.1	10.0 ^b	3.2	3.2 ^b	5.9	6.8
Grenada	9.5	11.1 ^b	3.2	3.3 ^b	6.3	7.8
Guyana	14.6	14.5 ^d	2.4	2.3 ^d	12.2	12.2
Jamaica	16.8	16.5 ^d	7.6	7.1 ^d	9.3	9.4
Saint Kitts and Nevis	8.7	8.8 ^b	4.5	4.6 ^b	4.2	4.2
Saint Vincent and the Grenadines	9.5	9.2 ^b	2.8	2.9 ^b	6.7	6.2
Saint Lucia	10.1	9.8 ^b	3.3	3.1 ^b	6.8	6.6
Suriname	12.2	11.7 ^b	6.3	6.4 ^b	5.9	5.2
Trinidad and Tobago	12.4	12.4 ^d	7.4	4.0 ^d	5.1	8.3
<i>The Caribbean^e</i>	<i>11.0</i>	<i>11.0</i>	<i>4.7</i>	<i>4.3</i>	<i>6.3</i>	<i>6.7</i>

Source: ECLAC, on the basis of official figures.

^a Lending rate minus deposit rate.

^b January-September.

^c January-November.

^d January-October.

^e Simple average.

Regarding monetary aggregates, table 11 shows M1 and M2 as a share of GDP in 2008 and 2009. Relative to 2008, the subregion experienced an expansion in both aggregates in 2009 (simple average) that increased from 22.2% of GDP to 22.7%, and from 75.3% to 77.1%, respectively. However, this disguises monetary contractions recorded by Barbados, Jamaica and Saint Vincent and the Grenadines. In these three countries both aggregates declined in 2009 relative to 2008, not only as a share of GDP but also in local currency value. In Barbados, this was mainly due to drops in currency in circulation and in demand deposits, whereas in Jamaica, the phenomenon was led by declines in currency in circulation and cash in commercial banks coupled with a contraction in time deposits. In the case of Saint Vincent and the Grenadines, all components of M1 decreased pulling M2 down. Monetary contractions in Barbados and Jamaica can be read as an attempt by central banks to withdraw excess liquidity in the banking sector through open market operations, so that local interest rates become more responsive to cuts in reference interest rates. For instance, in Barbados, reserves held by commercial banks in excess of what is required declined to B\$ 103 million in October 2009, 50% less than the year before (B\$ 242 million). In this context, the 2 percentage points cut in the minimum deposit interest rate implemented in August 2009 prompted a reduction in the deposit interest rate of 1.5 percentage points in 2009 relative to 2008 (table 10).

Table 11
Monetary aggregates and domestic credit to the private sector, 2008-2009
(Percentage of GDP; end of period)

	M1		M2 ^c		Domestic credit to the private sector	
	2008	2009 ^b	2008	2009 ^b	2008	2009 ^d
Antigua and Barbuda	22.6	18.6	91.8	96.7	78.8	84.8
Bahamas	16.8	16.9	75.7	77.9	86.4	88.4
Barbados	51.9	47.2	135.5	133.1	77.4	79.8
Belize	26.0	26.9	72.4	78.3	63.6	67.9
Dominica	18.1	26.9	87.2	94.8	60.5	87.8
Grenada	19.4	18.1	95.7	104.5	87.2	99.0
Guyana	25.9	26.3	78.0	81.4	14.3	13.6
Jamaica	9.4	7.7	21.8	18.1	22.3	19.5
Saint Kitts and Nevis	16.4	17.8	107.2	118.2	80.7	86.6
Saint Vincent and the Grenadines	23.8	21.2	68.1	34.7	59.0	59.4
Saint Lucia	24.8	25.0	92.6	97.2	138.2	145.9
Suriname	23.6	28.6	27.5	33.5	38.8	41.9
Trinidad and Tobago	10.2	14.4	25.8	33.8	26.4	28.9
<i>The Caribbean^a</i>	22.2	22.7	75.3	77.1	64.1	69.5

Source: ECLAC, on the basis of official figures.

^a Simple average.

^b November. In Bahamas, Barbados and Trinidad and Tobago corresponds to October. In Jamaica and Suriname corresponds to September.

^c In Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia, includes foreign currency deposits.

^d November. In Belize corresponds to December. In Barbados and Trinidad and Tobago corresponds to October. In Bahamas and Jamaica corresponds to September.

Domestic credit to the private sector increased in the subregion (simple average) from 64.1% of GDP in 2008 to 69.5% in 2009. The only countries where this variable declined were Guyana and Jamaica (0.7 and 2.7 percentage points of GDP, respectively). In Jamaica, nominal GDP growth outpaced the expansion of DCPS in local currency that posted a year-on-year growth rate of 10.2% in September 2009. The same is true in Guyana, where DCPS increased marginally in the year to November (1.9%). Overall, the subregional increase in DCPS had a net counter-cyclical effect, helping fiscal policy to cushion the recessive impulses stemming from the global economic crisis.

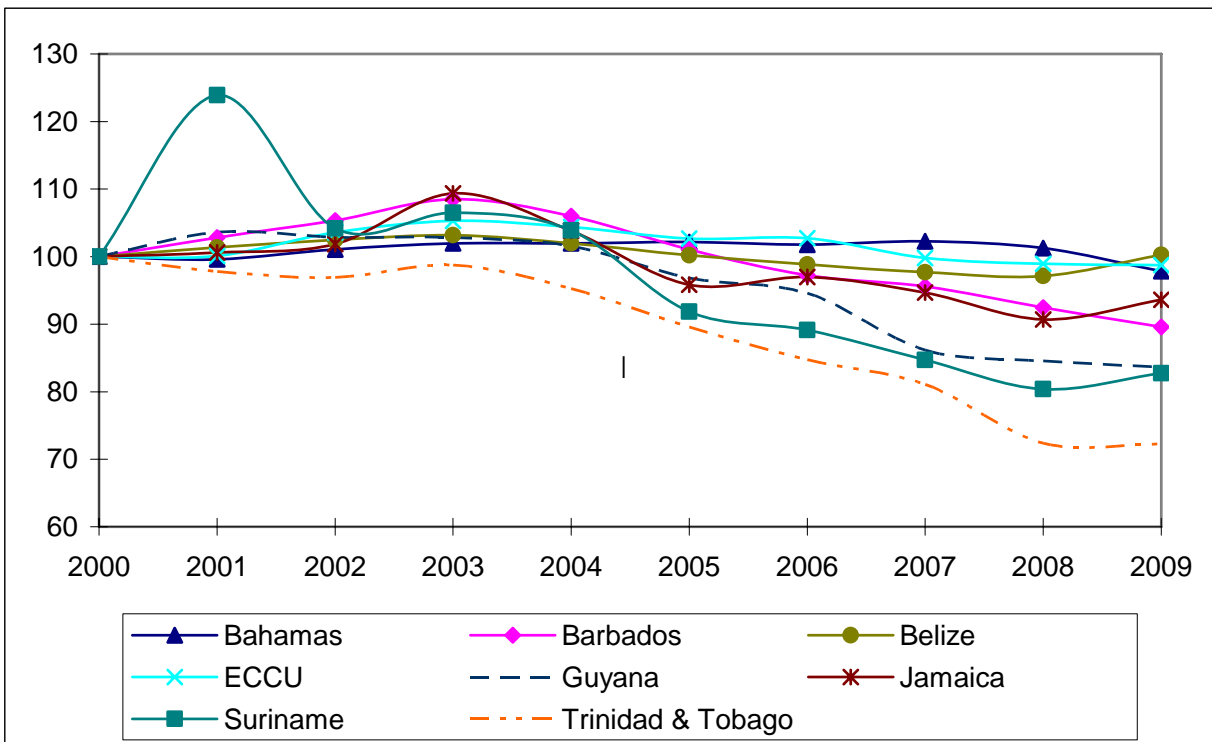
C. EXCHANGE RATE POLICY

As mentioned previously, in the majority of Caribbean countries the exchange rate regime is fixed or quasi-fixed, so that a crucial objective of central banks is to guarantee their sustainability. The international reserves drain associated with foreign exchange operations was mainly felt in Antigua and Barbuda, Barbados, Grenada, Saint Vincent and the Grenadines and Trinidad and Tobago. For instance, during the first three quarters of 2009, the Central Bank of Trinidad and Tobago sold US\$ 1,389 million to meet demand for foreign exchange, much higher than the US\$ 598 million sold between January and September of 2008. By the same token, the Bank of Guyana went from net purchases of foreign exchange of US\$ 15.8 million during January-November 2009 to net sales of US\$ 30.2 million during the first 11 months of 2009. Runs against local currencies were especially significant in Jamaica, the only Caribbean country with a floating exchange rate regime. Indeed, despite important interventions in the foreign exchange market to ameliorate the depreciation of the currency, at the end of 2009 the Jamaican dollar experienced a loss in value of 16.9% relative to December 2008. Pressures on domestic currencies were

prominent throughout the subregion, especially during the first half of the year. Even Trinidad and Tobago, the Caribbean country with the most solid foreign exchange position by far, suffered speculative pressures against its currency during the first quarter of 2009.¹⁹ Nevertheless, all Caribbean countries managed to maintain their pegs or dirty pegs vis-à-vis the United States dollar, fostered in the majority of countries by capital and financial account surpluses that more than offset current account deficits (see Chapter III).

The trend towards the real exchange rate appreciation with respect to the United States dollar, observed since 2000 in almost all countries of the subregion highlighted by the Economic Commission for Latin America and the Caribbean (2009a, 2009b) was partially reverted in Belize and Suriname during 2009, due to deflation in domestic prices, as can be seen in figure 2. Likewise, the marked nominal depreciation recorded in Jamaica led to a real depreciation of 8.7% relative to 2008. Nevertheless, the real appreciation in various countries continued to be significant. As compared to 2000, in 2009 it was near 28% in Trinidad and Tobago, and reached between 15% and 20% in Guyana and Suriname. In this context, productive diversification, an old objective of Caribbean countries, meets with serious constraints as the emergence of new activities and sectors in the presence of marked and sustained trends towards the real strengthening of domestic currencies appears to be very hard.

Figure 2
Real bilateral exchange rate relative to the United States dollar, 2000-2009
(Index 2000 = 100)



Source: ECLAC, on the basis of official figures.

¹⁹ Central Bank of Trinidad and Tobago, "Monetary Policy Report", April 2009, p. 41.

An interesting exchange rate policy measure in the subregion took place in Suriname, where the increasing scarcity of foreign exchange led the authorities during the third quarter of 2009 to widen the exchange rate band from S\$2.71-S\$2.80 per United States dollar to S\$2.71-S\$2.85. Similarly, the Central Bank of Trinidad and Tobago admitted that in March it experienced devaluating pressures on the domestic currency that were resisted with no major problem given its solid international reserves position. The fact that Trinidad and Tobago suffered a run against its currency highlights the importance of paying attention to the sustainability of exchange rate regimes, given the low levels of international reserves observed in most countries combined with huge current account deficits (see Chapter III).

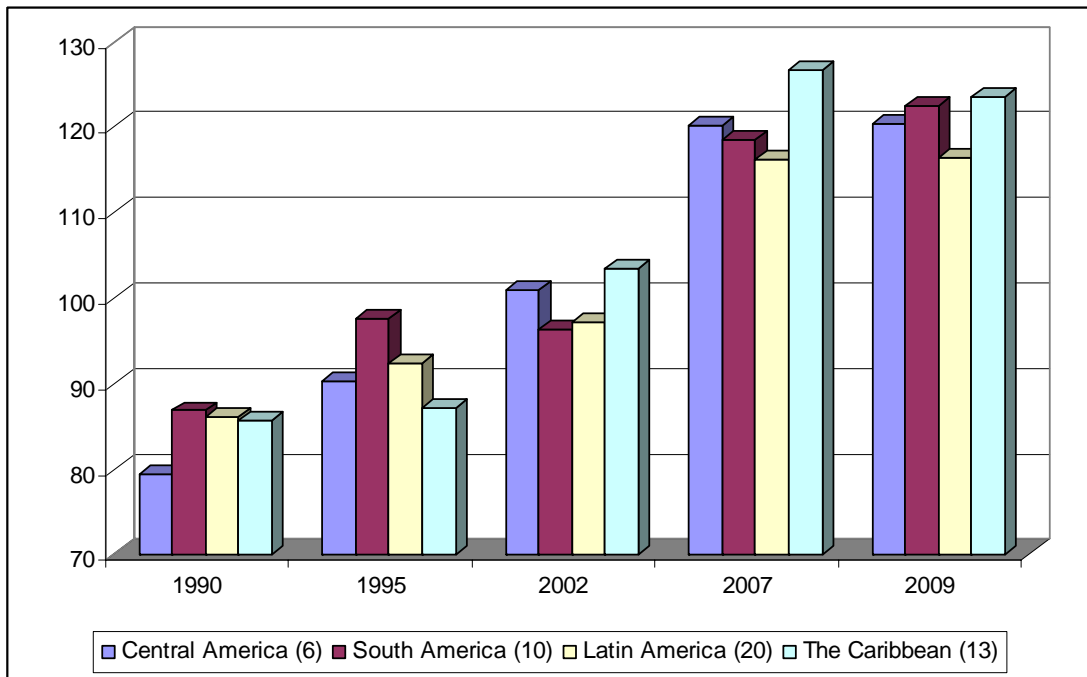
CHAPTER III

ECONOMIC PERFORMANCE

A. ECONOMIC ACTIVITY AND EMPLOYMENT

The end of the world economic boom of 2002-2007 initiated by mid-2008 had a very significant impact on economic activity in Caribbean countries during 2009. Thus, it is estimated that GDP per capita declined by 2.8%, the first contraction since 1992, after the slow down recorded in 2008 (0.3%) following the annual average expansion of 4.1% posted in 2002-2007. Despite this unfavourable outcome, the Caribbean continues to be the subregion within Latin America and the Caribbean with the highest GDP per capita, above that of South America, Central America, and Mexico. Figure 3 shows the evolution of this variable in the subregion.

Figure 3
GDP per capita, 1990-2009
(Constant US dollars at 2000 prices; index 2000 = 100)

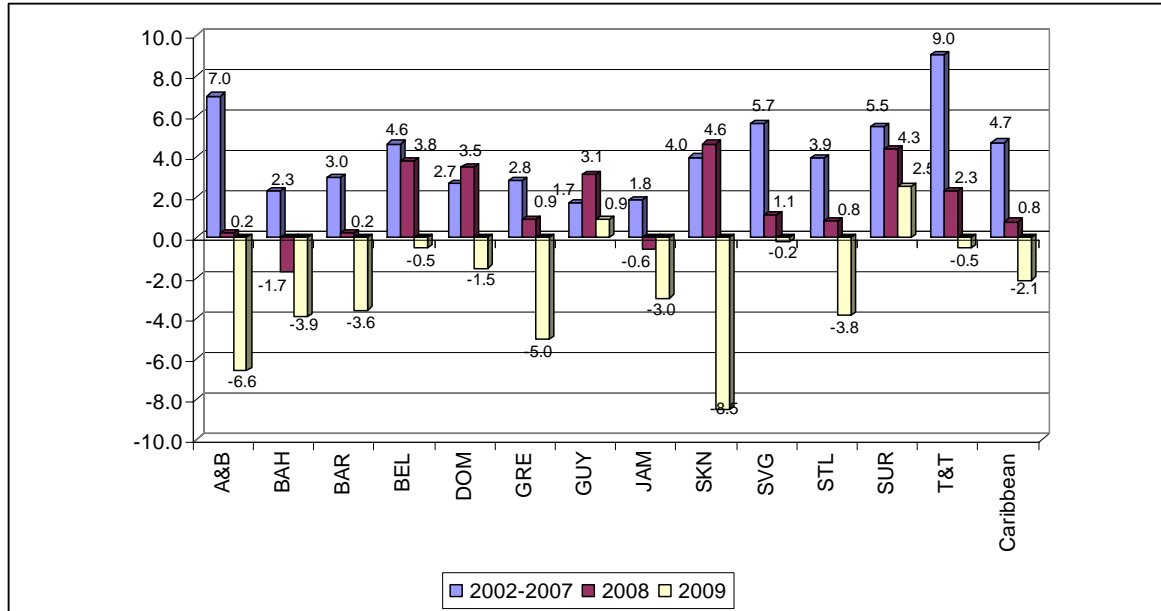


Source: ECLAC, on the basis of official figures.

As shown in Figure 4, it is estimated that the Caribbean output experienced a contraction of 2.1% in 2009, after the marginal increase of 0.8% recorded in 2008 which showed a marked slowdown from the annual average of 4.7% posted in 2002-2007. Almost all countries exhibited GDP declines in 2009. The most affected were Saint Kitts and Nevis (-8.5%), Antigua and Barbuda (-6.6%), Grenada (-5%), the Bahamas (-3.9%), Saint Lucia (-3.8%) and Barbados (-3.6%). The only countries that experienced positive growth in 2009 were Guyana and Suriname (0.9% and 2.5%, respectively). In Guyana, this was mainly due to the recovery of the sugar industry linked to the initiation of operations of the new plant at Skeldon. In Suriname, growth was driven by gold production which increased significantly between March and August due to the expansion of production capacity of the subsidiary of the Canadian

IAMGOLD; while the State-owned oil company, Staatsolie, maintained its ambitious investment plans financed by the windfall profits obtained in 2008.

Figure 4
GDP annual growth rate, 2002-2009
(Constant US dollars at 2000 prices; percentage)



Source: ECLAC, on the basis of official figures.

A crucial factor that lies behind the poor growth performance in 2009 is the substantive reduction of stop-over tourist arrivals. Table 12 shows that the most significant declines were posted by Grenada and Saint Vincent and the Grenadines between January and October year-on-year (14.4% and 13.1%, respectively); Antigua and Barbuda and Barbados during the first three quarters of the year relative to the same period in 2008 (12.9% and 10.8%, respectively); and the Bahamas in January-August (13.8% year-on-year).

Table 12
Tourist stop-over arrivals, 2009

	Period	Tourist arrivals (Persons)	Percentage year- on-year change
Antigua and Barbuda	Jan-Oct	192,597	-12.9
Bahamas	Jan-Aug	983,808	-13.8
Barbados	Jan-Oct	418,578	-10.8
Belize	Jan-Sep	180,608	-6.6
Dominica	Jan-Sep	52,717	-5.1
Grenada	Jan-Sep	87,580	-14.4
Saint Vincent and the Grenadines	Jan-Sep	55,591	-13.1
<i>Saint Lucia</i>	<i>Jan-Oct</i>	<i>229,379</i>	<i>-8.2</i>

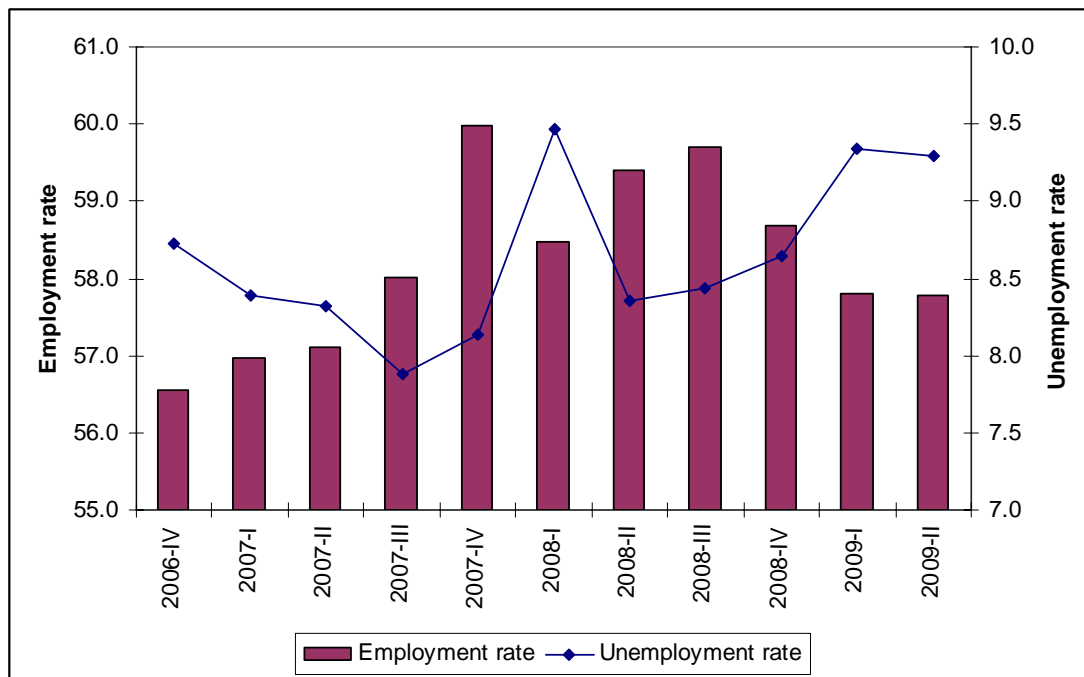
Source: Caribbean Tourism Organization, "Latest Statistics 2009", 18 December 2009.

As regards sectoral performance, in 2009 country members of the ECCU suffered severe contractions in construction and quarrying, the latter being an important input producer for the former. Cancellation or postponement of investment projects related to the tourism sector in the context of the

international economic crisis is a key aspect that explains this behaviour. Thus, in Dominica and Saint Vincent and the Grenadines, construction and quarrying dropped by more than 8% in 2009, above 11% in Saint Lucia, 15% in Antigua and Barbuda and around 30% in Grenada and Saint Kitts and Nevis. Trinidad and Tobago also recorded a significant dip of almost 15% in construction and quarrying activities, due to the finalization or quasi-finalization of big projects. Jamaica experienced a sharp decline in mining output associated mainly with the reduction of United States' demand for bauxite and alumina.

The contraction of economic activity in the first months of 2009 went hand in hand with deterioration in labour market conditions in Caribbean countries. In Barbados, the unemployment rate increased from 8.1% in 2008 to 9.9% in the first half of the year, and from 4.6% to 5.1% in Trinidad and Tobago in the same period. In Jamaica, the unemployment rate rose 0.6 percentage points in January-June compared to the average of 10.6% recorded in 2008. The largest employment losses were recorded in the mining sector (alumina and bauxite) in Jamaica, in services in Barbados, and in construction and manufacturing in Trinidad and Tobago. Figure 5 shows the quarterly evolution on employment and unemployment rates in these three countries.²⁰ As can be seen, after reaching its peak in the last quarter of 2007 (60%), the employment rate started to fall to post 57.8% during the first two quarters of 2009. In absolute terms near 40,000 people lost their jobs in these three countries between the last quarter of 2007 and the second quarter of 2009, which increased the weighted average unemployment rate from 8.1% to 9.3%.

Figure 5
Barbados, Jamaica and Trinidad and Tobago: Quarterly employment and unemployment rates, 2006-2009
(Weighted average by working-age population; percentage)



Source: ECLAC, on the basis of official figures.

²⁰ There was no quarterly information available for the other countries. Barbados, Jamaica and Trinidad and Tobago account for more than 60% of population and 70% of output of the English-speaking Caribbean and Suriname.

B. INFLATION

Hand in hand with the contraction of world demand, the global crisis brought about a substantial reduction in international prices of hydrocarbons and food, especially during the first half of 2009. As shown in table 13, inflation measured by the Consumer Price Index dropped perceptibly in all Caribbean countries in 2009 relative to 2008. Indeed, in Belize, Grenada, Saint Vincent and the Grenadines and Suriname there were deflations. In the cases of Jamaica and Trinidad and Tobago, which had recorded two-digit inflation rates in 2008, Consumer Price Index increases stood at 7.2% in the year to September and to just 1.3% in the year to December, respectively. This outcome is remarkable in Jamaica, the only Caribbean country that has a floating exchange rate regime in place, given that during 2009 it witnessed pressures on its currency that led to a nominal depreciation of 16.9%. The other countries have fixed or quasi-fixed exchange rate regimes in place, thus exchange rate behaviour did not play any role in inflation. As a simple average, headline inflation in the subregion dipped from 7.2% in 2008, to 0.4% in 2009.

Table 13
Twelve-month variation in the Consumer Price Index, 2005-2009
(Percentage; end of year)

	2005	2006	2007	2008	2009
Antigua and Barbuda	2.5	0.0	5.2	2.3	<i>0.7^b</i>
Bahamas	2.2	2.0	2.4	4.8	<i>3.1^c</i>
Barbados	7.4	5.6	4.7	7.3	<i>2.8^d</i>
Belize	4.2	3.0	4.1	4.4	<i>-3.5^e</i>
Dominica	2.7	1.8	6.0	2.0	<i>1.0^f</i>
Grenada	6.2	1.7	7.4	5.2	<i>-2.0^g</i>
Guyana	8.2	4.2	14.1	6.4	<i>0.5^c</i>
Jamaica	12.9	5.8	16.8	16.9	<i>7.7^d</i>
Saint Kitts and Nevis	6.0	7.9	2.1	7.6	<i>0.5^b</i>
Saint Vincent and the Grenadines	3.9	4.8	8.3	8.7	<i>-2.0^c</i>
Saint Lucia	5.2	-0.6	6.8	3.8	<i>0.0^c</i>
Suriname	15.8	4.7	8.3	9.4	<i>-5.4^c</i>
Trinidad and Tobago	7.2	9.1	7.6	14.5	<i>1.3^h</i>
The Caribbean ^a	6.5	3.8	7.2	7.2	<i>0.4</i>

Source: ECLAC, on the basis of official figures.

^a Simple average.

^b 12-month variation to July.

^c 12-month variation to September.

^d 12-month variation to October.

^e 12-month variation to August.

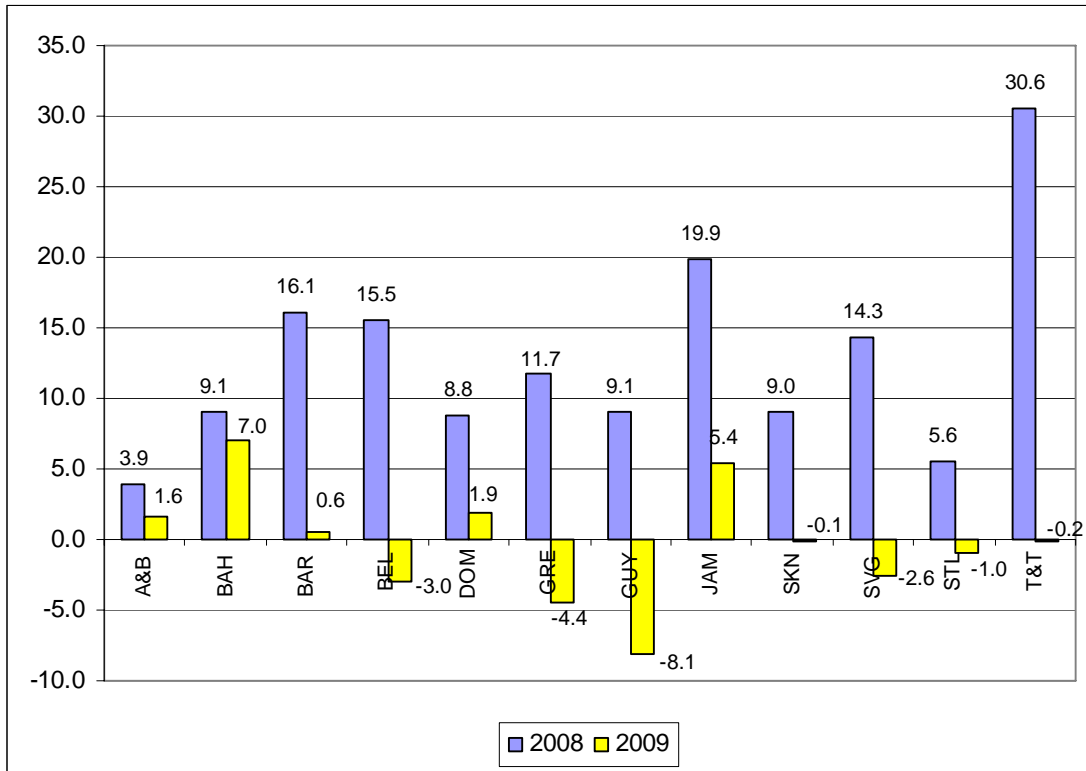
^f 12-month variation to June.

^g 12-month variation to November.

^h 12-month variation to December.

Traditionally, food inflation has been the main driver of consumer price increases in the subregion. Thus, the sharp decline in international food prices was critical in the marked slowdown of inflation in Caribbean countries, with the exception of Guyana, given their high dependency on imported food. Figure 6 presents year-on-year food inflation in December 2008 and in the last month available in 2009. With the exception of Antigua and Barbuda and the Bahamas, the drop is dramatic, with seven countries experiencing reductions of more than 14.5 percentage points. Overall, seven countries experienced deflations in this type of goods in 2009 reflecting the behaviour of international food prices.

Figure 6
Twelve-month variation in prices of food and non-alcoholic beverages, 2008-2009^a
(Percentage; end of year)



Source: ECLAC, on the basis of official figures.

^a In 2009 corresponds to the last month available.

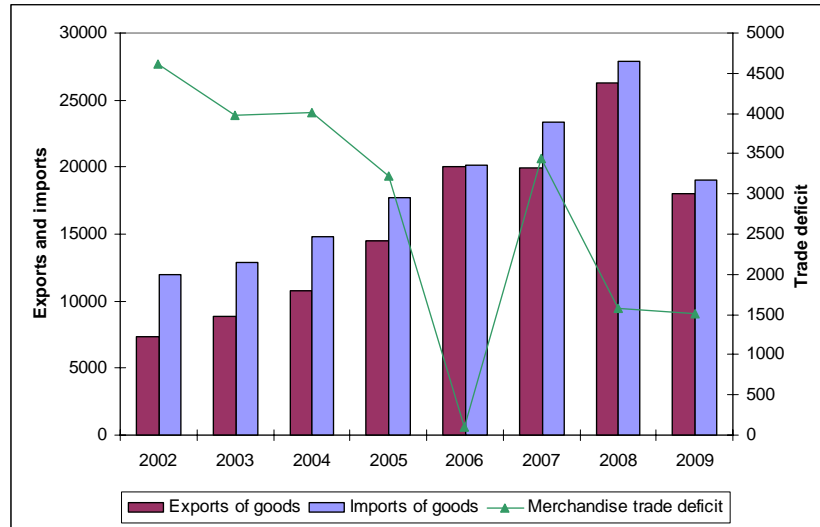
It is worth mentioning that the perceptible decline in international food and energy prices observed since the third quarter of 2008 was felt in the dynamics of domestic prices throughout the subregion with a significant lag, presumably due to the structure of markets of importation, distribution and commercialization of these products in local markets.

C. THE EXTERNAL SECTOR

1. Trade in goods and services

The global crisis ambiguously resulted in a dip in the value of Caribbean exports. Nevertheless, the sharp decline in the international prices of food and energy contributed to the contraction of the import bill together with the reduction in domestic demand, especially during the first half of the year. Figure 7, presents the evolution of exports and imports of goods, along with the trade balance in 2002-2009. In 2009, the merchandise trade deficit declined by some US\$ 80 million relative to 2008, to reach a figure near US\$ 1.5 billion. Thus, the reduction of the trade surplus of Trinidad and Tobago (estimated at some US\$ 3 billion relative to 2008), was offset by the contraction in the deficits posted in other countries, notably Jamaica, whose trade deficit dipped by around US\$ 2 billion in the context of a perceptible decline in economic activity.

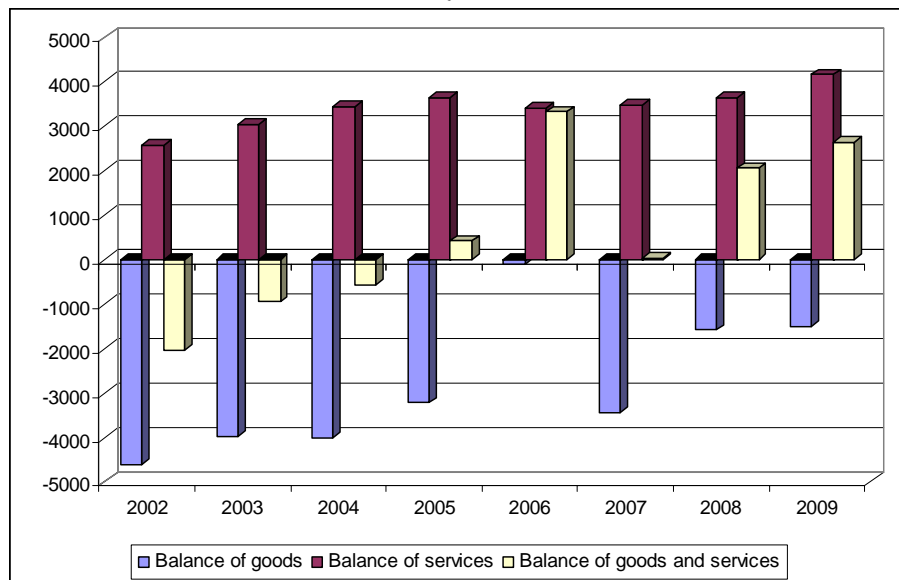
Figure 7
Merchandise exports, imports and balance, 2002-2009
(Millions of US\$)



Source: ECLAC, on the basis of official figures.

The contraction of the merchandise trade deficit went simultaneously with the increase in the surplus of the services balance estimated at around US\$ 4.1 billion in 2009, US\$ 500 million higher than in 2008. This evolution is mainly explained by the performances of the Bahamas and Jamaica that recorded larger drops in their imports than in their exports of services. As a result, the surplus on the balance of goods and services is estimated at near US\$ 2.6 billion in the subregion, US\$ 600 million higher than in 2008, as shown in figure 8.

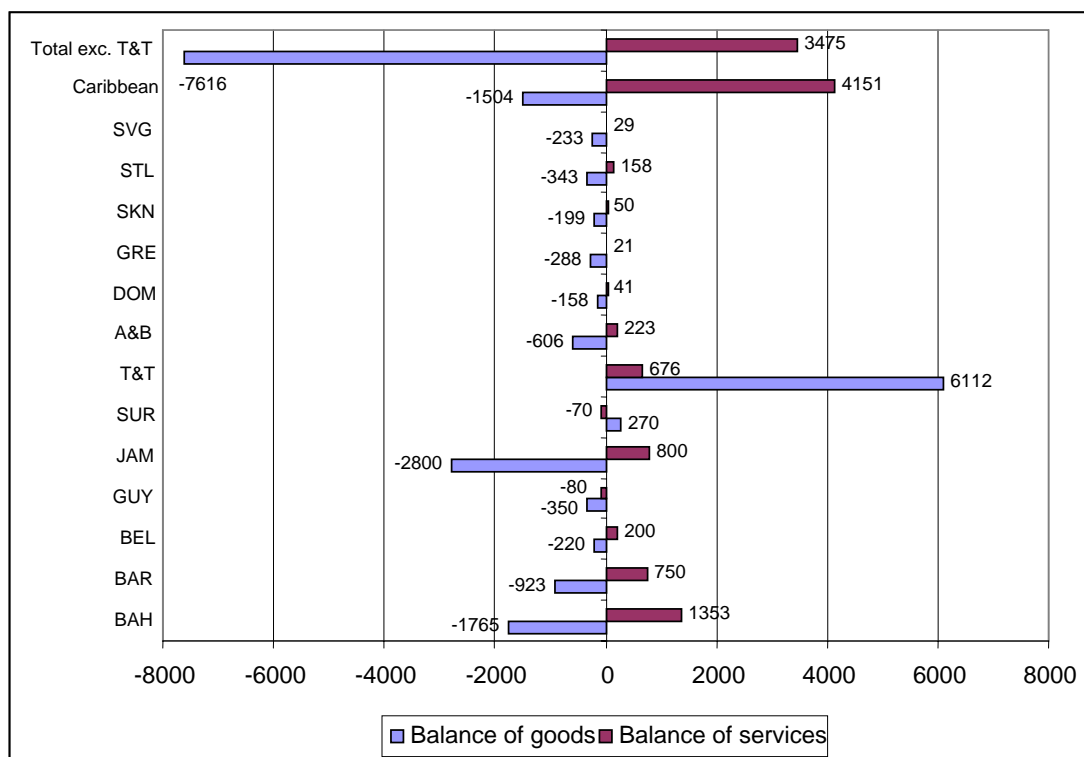
Figure 8
Balance of good and services, 2002-2009
(Millions of US dollars)



Source: ECLAC, on the basis of official figures.

At the country level, figure 9 shows that only Suriname and Trinidad and Tobago recorded surpluses in merchandise trade in 2009, whereas most of the remaining countries combined deficits in the balance of goods and surpluses in the balance of services, replicating the pattern observed during the previous years. Merchandise trade deficits were especially high in Jamaica (US\$ 2.8 billion) and the Bahamas (US\$ 1.8 billion). The Bahamas posted a significant surplus on the balance of services that amounted to more than three quarters of the merchandise trade deficit. The weight of the merchandise trade surplus of Trinidad and Tobago is of such a magnitude that, if it is excluded, the subregional deficit would go from some US\$ 1.5 billion to more than US\$ 7.6 billion in 2009. Overall, the surplus of goods and services of the 13 Caribbean countries considered was slightly above US\$2.6 billion. Excluding Trinidad and Tobago, this figure turns into a deficit of just more than US\$ 4.1 billion.

Figure 9
Balance of goods and services, 2009
(Millions of US dollars)



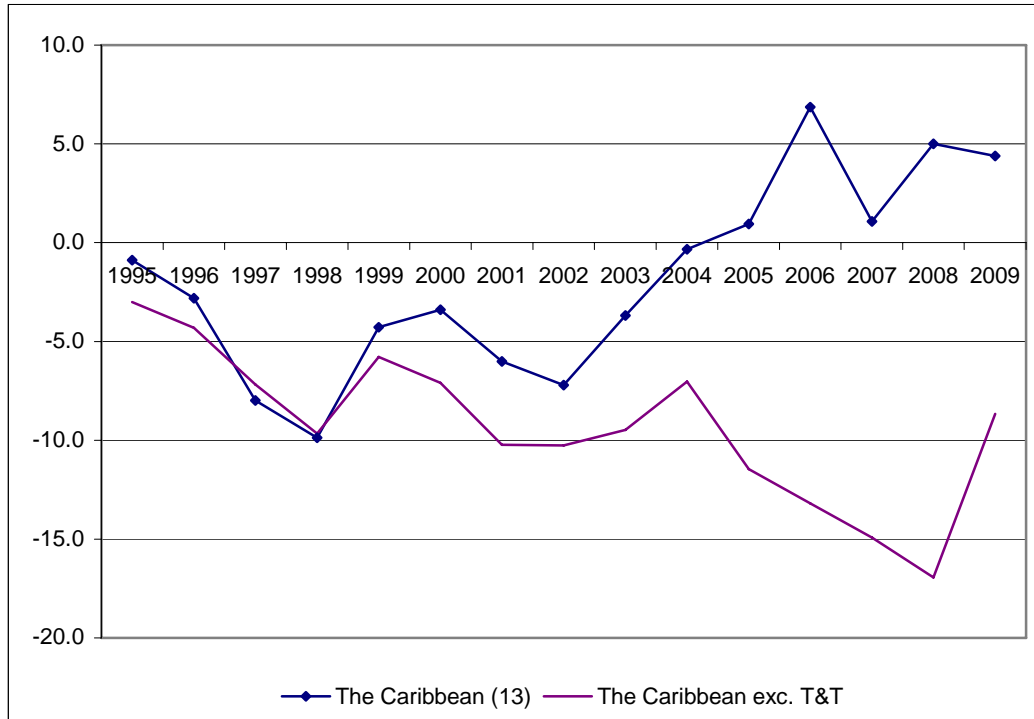
Source: ECLAC, on the basis of official figures.

2. The current account of the balance of payments

As figure 10 shows, the Caribbean subregion recorded current account surpluses from 2005. In 2009 to the current account surplus reached some 4.4% of GDP, 0.6 percentage points lower than in 2008. However, this outcome was again highly influenced by the huge merchandise trade surplus of Trinidad and Tobago in recent years. Indeed, excluding this country, the subregion would have not posted any current account surplus since 1995, reaching a maximum deficit of 16.9% of GDP in 2008, a figure that fell to around 8.7% of GDP in 2009. The massive external gap recorded by all Caribbean countries, except Suriname and Trinidad and Tobago, is a particularly worrisome issue as almost all countries

exhibit some combination of excessive public debt, insufficient international reserves and sustained real exchange rate appreciations within fixed or quasi-fixed exchange rate regimes (see Chapter II).

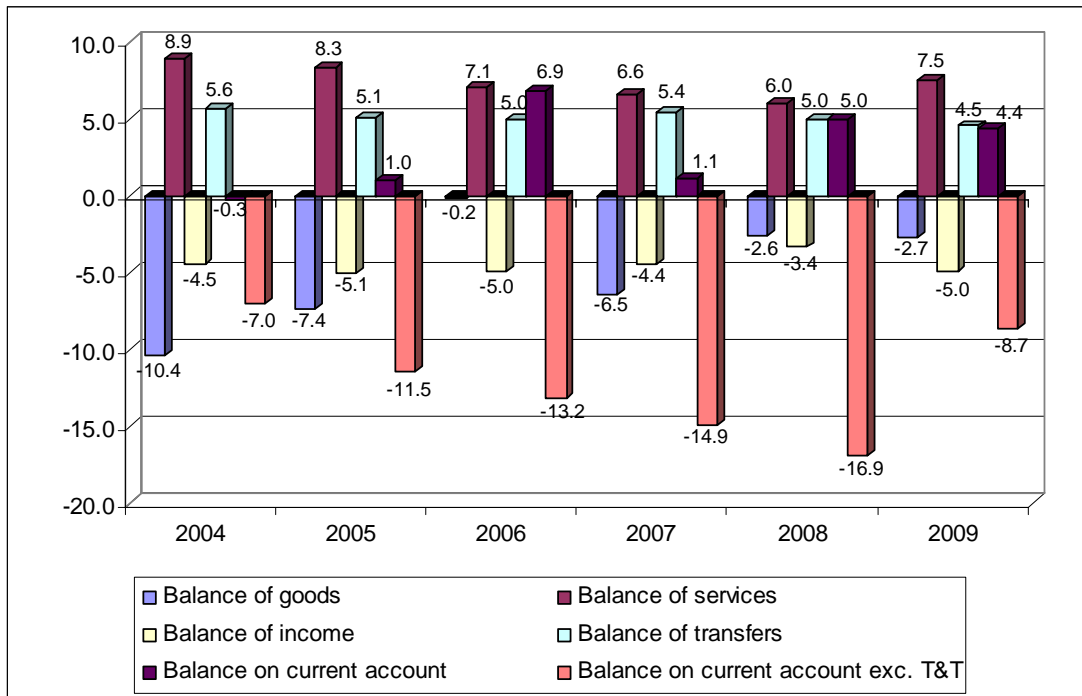
Figure 10
Current account balance, 1995-2009
(Percentage of GDP at current prices)



Source: ECLAC, on the basis of official figures.

Figure 11 presents the evolution of the current account structure since 2004. As shown, there has been a reiterated coincidence between deficits in the balance of goods and of income and surpluses in the balance of services and of current transfers. It is estimated that, in 2009, the rise in the surplus of the balance of services relative to 2008 (1.5 percentage points of GDP) was surpassed by the widening of the deficits in the balance of income and the decline of transfers (1.6 and 0.5 percentage points of GDP, respectively). The larger repatriation of profits in Trinidad and Tobago, that increased from nearly US\$ 900 million in 2008 to some US\$ 1.5 billion in 2009 explains the significant worsening of the balance of income in the subregion. It is worth highlighting that 2009 marks the break in the ascending trend of transfers (in United States dollars), compounded mainly by workers' remittances abroad observed since 1996. This is a very important source of foreign exchange in various countries, particularly in Guyana and Jamaica, where the balance of transfers in 2009 is estimated at around 21% and 14% of GDP, respectively.

Figure 11
Current account structure, 2004-2009
(Percentage of GDP at current prices)



Source: ECLAC, on the basis of official figures.

The pattern observed in the subregion, as a whole, in the composition of the current account balance is reflected by most countries, that is goods trade deficits combined with deficits in the balance of income that cannot be counterbalanced by surpluses in the services balance and net transfers. The only countries that have consistently recorded current account surpluses during the last years have been Suriname and Trinidad and Tobago, due to their perceptible merchandise trade surpluses associated with mining and/or energy exports. Current account deficits continued to be very significant in 2009 in the ECCU countries, ranging from 25.8% of GDP in Saint Lucia (27.6% in 2008) to 36.5% in Antigua and Barbuda (31.9% in 2008), as shown in table 14. Despite the significant balance of services surplus associated with the tourism industry posted by Antigua and Barbuda that stood near 20% of GDP in 2009 (19.1% in 2008), the massive merchandise trade deficit of 53.5% of GDP (48.7% in 2008) featured significantly in explaining the external gap. The story is similar in the other ECCU countries.

Table 14
Composition of the current account balance, 2008-2009
(Percentage of GDP at current prices)

	Balance of goods		Balance of services		Balance of income		Balance of transfers		Balance on current account	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Antigua and Barbuda	-48.7	-53.5	19.1	19.7	-4.2	-4.5	1.9	1.9	-31.9	-36.5
Bahamas	-29.7	-23.8	15.6	18.2	-1.5	-2.5	0.7	0.7	-14.8	-7.3
Barbados	-34.6	-26.3	23.9	21.4	-2.4	-3.0	2.9	2.6	-10.3	-5.3
Belize	-23.7	-16.5	16.0	15.0	-11.6	-11.3	8.2	6.8	-11.0	-6.0
Dominica	-43.0	-41.6	12.2	11.0	-4.8	-4.8	5.6	5.3	-29.9	-30.2
Grenada	-46.0	-46.0	5.0	3.3	-5.3	-5.7	3.7	3.7	-42.6	-44.8
Guyana	-43.3	-29.3	-9.6	-6.7	-1.3	-1.3	28.4	20.9	-25.8	-16.3
Jamaica	-34.2	-21.6	3.0	6.2	-4.0	-3.9	15.3	13.9	-19.9	-5.4
Saint Kitts and Nevis	-37.4	-36.5	10.6	9.2	-1.9	-6.1	5.8	5.9	-23.0	-27.7
Saint Vincent and the Grenadines	-42.8	-40.0	5.7	5.0	-3.6	-3.9	3.4	3.1	-37.3	-35.9
Saint Lucia	-39.8	-36.4	18.1	16.7	-7.5	-7.5	1.4	1.4	-27.6	-25.8
Suriname	17.0	12.7	-5.8	-3.3	1.0	0.0	4.1	3.8	16.4	13.1
Trinidad and Tobago	34.9	27.5	2.4	3.0	-3.5	-7.0	0.0	0.1	33.8	23.6
Caribbean	-2.6	-2.7	6.0	7.5	-3.4	-5.0	5.0	4.5	5.0	4.4
Exc. T&T	-31.2	-23.2	8.8	10.6	-3.3	-3.6	8.7	7.6	-16.9	-8.7

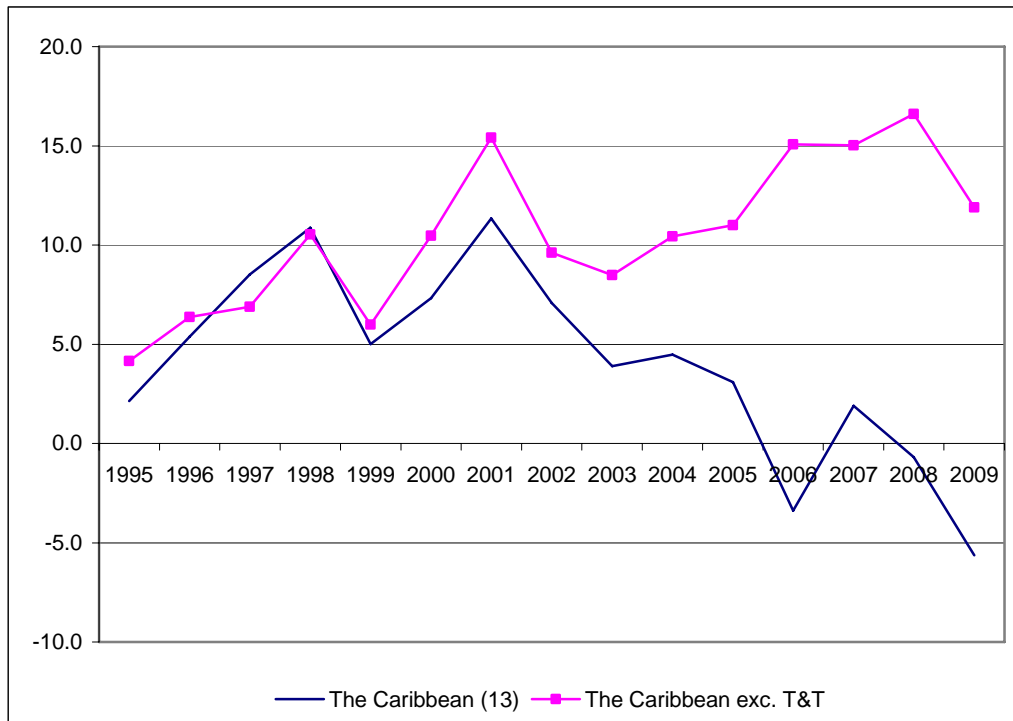
Source: ECLAC, on the basis of official figures.

As regards the MDCs, the above-mentioned pattern is replicated in the Bahamas, Barbados and Belize, but with significantly smaller magnitudes than in the ECCU countries. Moreover, relative to 2008, current account deficits as a share of GDP contracted by nearly 50% in 2009 and stood between 5.3% of GDP in Barbados (10.3% in 2008) and 7.3% in the Bahamas (14.8% in 2008). In the case of Guyana, the distinctive features are deficits in the balance of services associated with its incipient tourism and financial industries and the magnitude of the balance of transfers surpluses that reached 20.9% of GDP in 2009, 7.5 percentage points lower than in 2008.

3. The capital and financial account

Before the start of the global economic crisis in 2008, the capital and financial account (including errors and omissions) of the Caribbean exhibited mostly surpluses, with a maximum level of 11.3% of GDP in 2001 (figure 12). The only deficit recorded since 1995 took place in 2006 (3.4% of GDP) due to a sharp increase in foreign capital outflows recorded in Trinidad and Tobago. The world economic meltdown put an end to the position of Caribbean countries as net recipients of foreign financing. Indeed, in 2009 the capital and financial account balance posted a deficit of 5.6% of GDP, after the marginal level of -0.7% recorded in 2008. Notwithstanding, these figures are highly influenced by the performance of Trinidad and Tobago given its large relative size. Excluding this country, the capital and financial account of the subregion would have experienced only surpluses since 1995, reaching its peak in 2008, when it amounted to 16.6% of GDP (11.9% in 2009).

Figure 12
Capital and financial account balance,^a 1995-2009
(Percentage of GDP at current prices)

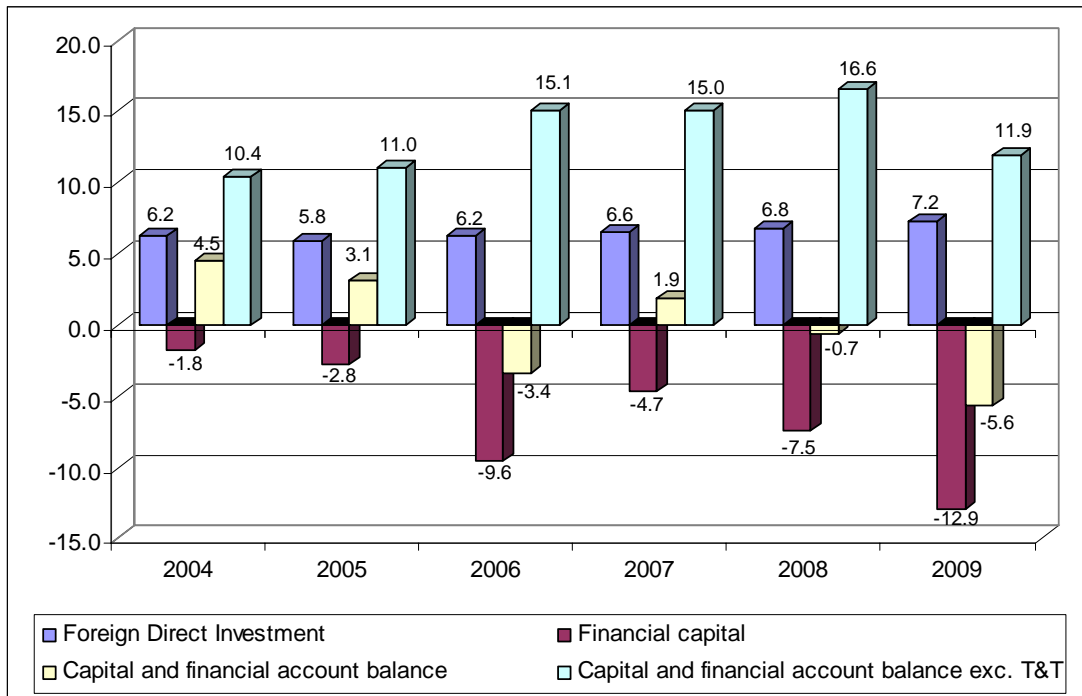


Source: ECLAC, on the basis of official figures.

^a Includes errors and omissions.

The breakdown of the capital and financial account into FDI and financial capital (the remainder of the capital and financial account including errors and omissions) from 2004 to 2009 is presented in figure 13. Two features stand out: the significant and recurrent FDI net inflows that fluctuated between 5.8% of GDP in 2005 and 7.2% in 2009, and also important and recurrent financial capital net outflows that went from 1.8% of GDP in 2004 to 12.9% in 2009. The relative importance of FDI at the subregional level is welcomed, as it possesses a number of advantages over financial capital, such as less volatility and uncertainty, and the fact that it creates productive capacity and employment, and facilitates technology transfer. Relative political stability, favourable incentives and comparative advantage in natural resources (especially in Trinidad and Tobago and Suriname), tourism activities and location due to the proximity to the United States of America appear to be the main attractors of FDI to the subregion. However, with the outbreak of the global financial and economic meltdown, financial capital outflows surpassed FDI inflows in 2008 and 2009, which led to global balance of payments deficits. It is worth highlighting the increase of FDI as a share of GDP (0.4 percentage points) to the subregion recorded in 2009 relative to 2008. Meanwhile, financial capital outflows climbed from 7.5% of GDP in 2008 to 12.9% in 2009, reflecting the search for safer assets on the part of international investors in the context of increased global uncertainty and weakening world economic conditions.

Figure 13
Capital and financial account structure^a 2004-2009
(Percentage of GDP at current prices)



Source: ECLAC, on the basis of official figures.

^a Includes errors and omissions.

The aggregated figures hide marked differences among countries as discussed below. Yet again, the subregional behaviour is highly influenced by the performance of Trinidad and Tobago. Indeed, excluding this country, the subregional capital and financial account shows significant surpluses, ranging from 10.4% of GDP in 2004 to 16.6% in 2008. The latter figure declined to 11.9% in 2009. This means that despite the international crisis, the Caribbean subregion, excluding Trinidad and Tobago, managed to attract foreign capital inflows not only in the form of FDI, but also as financial capital.

Table 15 shows that, consistent with the wider current account deficits recorded by ECCU countries as compared to the MDCs, the former group of countries exhibited higher surpluses in both FDI and financial capital. For instance, in 2009 FDI inflows to the ECCU ranged from 11.1% of GDP in Dominica to 23.7% of GDP in Antigua and Barbuda. In the MDCs, this figure is much lower, with a maximum level of 15.7% of GDP in Suriname and a minimum of 3% in Barbados. Likewise, in 2009 financial capital net inflows stood above 20% of GDP in Saint Kitts and Nevis and Saint Vincent and the Grenadines, and near 25% in Dominica and Grenada. On the contrary, most MDCs posted financial capital net outflows in 2009, evidencing the impact of the world crisis. The outlier is Guyana, which recorded net financial capital inflows of 26.8% of GDP, fed mostly by aid loans. The high dependence of ECCU countries on financial capital to finance massive current account deficits reveals a highly vulnerable situation, given that a sudden reversal (or even reduction) of such flows would force a deep contraction in domestic spending and put the fixed exchange rate regime at risk. However, it is worth recognizing that as this did not happen during 2009, the likelihood of such an event decreases as the global economic turmoil fades. But if the crisis is not over yet or if it rebounds in the near future (double-dip recession), the credibility and sustainability of such exchange rate arrangements will be jeopardized.

Table 15
Composition of the capital and financial account, 2008-2009
(Percentage of GDP at current prices)

	Foreign Direct Investment		Financial capital ^a		Capital and financial account balance ^a	
	2008	2009	2008	2009	2008	2009
Antigua and Barbuda	21.0	23.7	10.3	13.1	31.3	36.8
Bahamas	9.3	12.7	7.0	-0.4	16.2	12.4
Barbados	3.8	3.0	0.3	-1.6	4.0	1.3
Belize	13.8	10.4	1.5	-0.6	15.3	9.8
Dominica	13.9	11.1	15.2	24.1	29.1	35.2
Grenada	23.7	18.2	18.0	26.2	41.7	44.4
Guyana	15.4	9.0	11.0	26.8	26.4	35.8
Jamaica	4.9	5.2	14.3	1.3	19.2	6.4
Saint Kitts and Nevis	15.4	19.5	10.0	21.1	25.4	40.6
Saint Vincent and the Grenadines	20.8	14.9	15.8	21.3	36.6	36.2
Saint Lucia	10.6	17.6	16.6	13.3	27.3	30.9
Suriname	-11.1	15.7	-3.2	-16.1	-14.4	-0.4
Trinidad and Tobago	6.3	4.0	-29.7	-35.5	-23.4	-31.5
Caribbean	6.8	7.2	-7.5	-12.9	-0.7	-5.6
Exc. T&T	7.1	9.4	9.5	2.5	16.6	11.9

Source: ECLAC, on the basis of official figures.

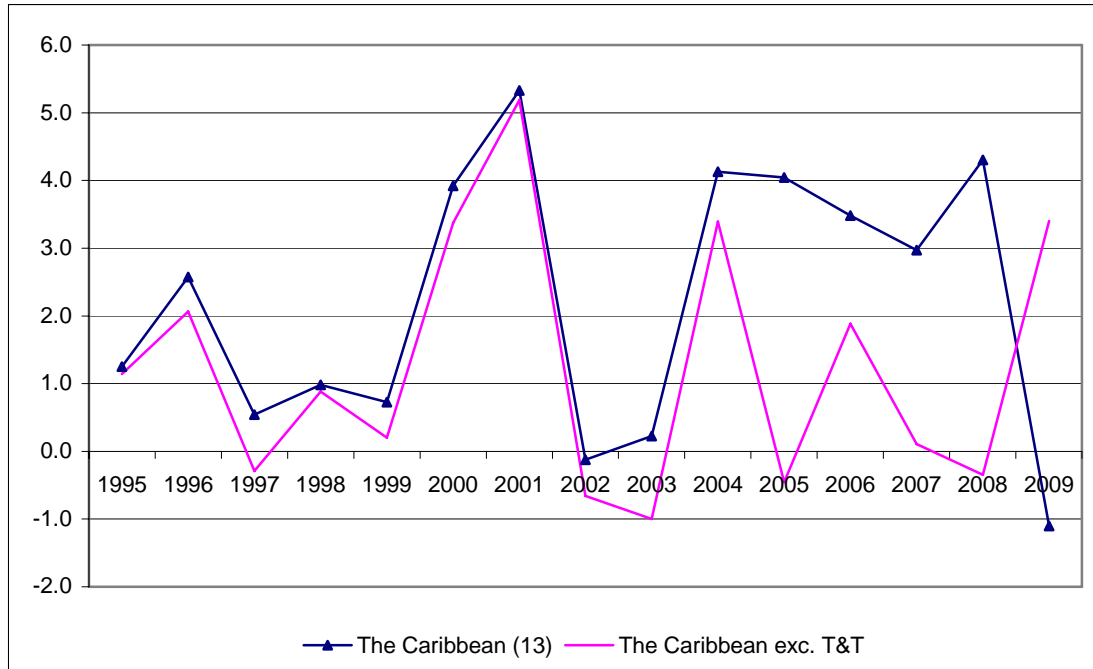
^a Includes errors and omissions.

Finally, it is important to note that the massive external financing needs in the Caribbean countries in the context of scarcity of private financial sources brought about by the world economic turmoil forced various countries to request support from IFIs, especially IMF as discussed in Chapter I.

4. Global balance and international reserves

At the subregional level, with the exception of 2002, between 1995 and 2004 the surplus of the capital and financial account exceeded the current account deficit so that the global balance of payments was in surplus, as shown in figure 14. Thereafter and up to 2008, the current account surpluses recorded either outpaced capital and financial account deficits or were complemented by surpluses on the latter account. This situation changed in 2009, when capital and financial outflows amounted to 5.6% of GDP, higher than the current account surplus of 4.4% of output. The outcome in 2009 changes radically if Trinidad and Tobago is excluded, as the balance of payments deficit of 1.1% of GDP turns into a surplus of 3.4%. At the national level, the only countries that recorded global external deficits in 2009 were Barbados (4% of GDP), Grenada (0.5%) and Trinidad and Tobago (7.9%).

Figure 14
Global balance, 1995-2009
(Percentage of GDP at current prices)



Source: ECLAC, on the basis of official figures.

Despite the significant support from IMF in the allocation of Special Drawing Rights that totalled near US\$ 950 million (see Chapter I), during 2009, the Caribbean recorded losses of international reserves of nearly US\$ 700 million, as presented in table 16. Once again, however, this result was governed by the performance of Trinidad and Tobago, whose international reserves in December of 2008 accounted for two thirds of the subregional total and which experienced a decline of more than US\$ 1.7 billion between January and December. Not including Trinidad and Tobago, the subregion recorded international reserves accumulation of more than US\$ 1 billion. In terms of months of imports coverage, the subregion's position improved, increasing from 6.3 months in 2008 to 8.4 in 2009. Excluding Trinidad and Tobago, this figure went from 3.1 to 5.3 months in the same period. Countries like the Bahamas and Jamaica increased their imports coverage by 2.5 to 2.6 months, Suriname by 3.1 months, and Guyana and Saint Kitts and Nevis by 3.8 months. Even Trinidad and Tobago, which recorded losses of reserves of US\$ 1,753 million, increased its import coverage by 2.3 months between 2008 and 2009 due to the more than proportional drop in the import bill. Considering the benchmark of three months of imports coverage as the minimum safe level, at the end of 2009 only Antigua and Barbuda was below this threshold.

Table 16
International reserves, 2008-2009

	Millions of US\$			<i>Months of imports coverage</i>	
	2008 ^a	2009 ^a	Variation	2008	2009
Antigua and Barbuda	138	141	3	2.5	2.5
Bahamas	568	943	375	2.1	4.6
Barbados	753	613	-140	5.4	5.6
Belize	166	216	50	2.5	4.2
Dominica	55	74	19	3.4	4.6
Grenada	105	102	-3	3.7	3.8
Guyana	356	589	233	3.3	7.1
Jamaica	1,795	1,931	136	2.9	5.5
Saint Kitts and Nevis	110	180	70	4.9	8.7
Saint Vincent and the Grenadines	84	87	3	3.3	3.6
Saint Lucia	143	191	48	3.0	4.4
Suriname	433	704	271	3.8	6.9
Trinidad and Tobago	9,830	8,077	-1,753	12.3	14.6
The Caribbean	14,536	13,848	-688	6.3	8.4
The Caribbean exc. T&T	4,706	5,771	1,065	3.1	5.3

Source: ECLAC, on the basis of official figures.

^a End of period.

Overall, the fact that most Caribbean countries posted balance of payments surpluses in 2009 and, therefore, increases of international reserves reveals that these countries had access to foreign financing despite the world financial and economic meltdown. Some countries relied on official financing from the IMF and other IFIs to fill their external gaps, as previously mentioned. This meant the acceptance by these countries of a number of conditionalities which stipulate the design and implementation of macroeconomic policy reforms, especially on the fiscal side. The request to IMF made by Jamaica for a Stand-by Agreement is a clear example of this (see Box 1 in Chapter I).

CHAPTER IV

COUNTRY BRIEFS

A. THE COMMONWEALTH OF THE BAHAMAS

The recession in the Bahamian economy deepened in 2009 with growth estimated to contract to 3.9%, as the recession in its major markets, mainly the United States, led to a sharp fall in tourism and foreign direct investment as well as less dynamic offshore financial services. The downturn in demand, led the government to undertake some fiscal stimuli to bolster economic activity. With reduced private sector demand, monetary developments were marked by a slowdown in credit and build-up in liquidity. The current account deficit declined reflecting the weakness in import demand and lower fuel prices. Services exports fell, due mainly to the decline in tourism receipts. The economic recession is expected to ease in the latter part of 2010, as growth returns following a recovery of the economy of the United States, while inflation will pick up with increased demand and higher commodity prices and the fiscal deficit will remain stable.

Economic policy in 2009 focused on providing an effective response to the recession in major markets and its contagion on growth and employment in the country. Policy centred on a government stimulus programme involving the fast-tracking of infrastructure projects to cushion the fall-out in employment, and the provision of unemployment benefits.

Faltering revenues (-6.1%) and growth in expenditure (4.5%) led to an increase in the fiscal deficit from 2% of GDP in fiscal year 2007/2008 to 3% of GDP in fiscal year 2008/2009.²¹ Tax receipts were undermined by domestic recessionary conditions that dampened the intake. Taxes on international trade and transactions fell by 13% owing to reduced imports, and a 15% contraction in departure tax proceeds. Total expenditure increased by 4.5% propelled by higher current spending and outlays on the capital formation component of capital expenditure. Growth in current spending resulted from a 4.2% increase in outlays on wages and salaries, partly aimed at maintaining consumption during the downturn. Capital expenditure contracted by 6.7% partly due to reduced acquisition of assets. Nevertheless, expenditure on capital formation, an important part of capital spending, rose by 8.8% associated with government buildings and road works to stimulate activity. The deficit was financed through domestic borrowing and external loans. Therefore, the central government debt spiked to almost 45% of GDP, a level much higher than the medium-term target of around 30% to 35% of GDP. Domestic debt accounted for 87% of the total. A fiscal deficit of 3.3% of GDP is projected for fiscal year 2009/2010 as weak demand carries forward until at least the first months of 2010 and some fiscal stimulus is maintained to spur growth.

Monetary policy continued to target the build-up of reserves in order to maintain the pegged exchange rate, which has been a source of stability. The Bahamas received around US\$ 185 million in Special Drawing Rights from IMF under the programme to help countries affected by the crisis. The Central Bank's benchmark discount rate and prime lending rate remained unchanged and, therefore, did not facilitate economic recovery. Dampened consumer confidence and business uncertainty led to a deceleration in credit growth to 6% year-on-year in September 2009, as compared with 7.6% year-on-year in September 2008. The bulk of the credit allocated went to personal loans with little directed at stimulating productive activity. Credit quality worsened with consumer loan delinquencies rising by 7.2% to 33% during the second quarter of the year 2009.

²¹ In the Bahamas the fiscal year runs from 1 July to 30 June.

Real output slumped by 3.9% in 2009, deepening the decline in 2008 (-1.7%). In the wake of the recession, the mainstay tourism sector, contributing around 50% of GDP, was badly affected by the weak demand from the United States. Real value added in tourism contracted during the year as growth in the cruise component was largely offset by a decline in the heavy spending stay-over segment. The hosting of the Miss Universe Pageant in August only provided a temporary boost to the tourism sector. The financial services sector experienced a fall-off in activity. Construction slowed as the financial crisis curtailed foreign investment in the sector.

Inflation pressures moderated with the slowdown in demand and the slackening of international commodity prices, especially for fuel. Of particular concern is the rise in unemployment, especially in tourism, from 8.7% in 2008 to 14.2% in May of 2009, the highest level in recent decades. Recovery in economic activity in 2010 is expected to lead to improved labour demand and lower unemployment.

A sharp fall in merchandise imports (-23%) relative to 2008 more than compensated for the contraction in merchandise exports, leading to a marked narrowing of the current account deficit, from 14.8% of GDP in 2008 to an estimated of 7.3% in 2009. Imports plummeted owing to stalled private sector demand and lower prices for some commodities, in particular fuel imports which plunged by some 40% due to a sharp fall in both price and volumes. The balance of services improved due to a larger drop in imports than in exports, which more than compensated the widening of the balance of income deficit. The capital and financial account surplus (including errors and omissions) narrowed by more than 25% to some 12.4% of GDP. Overall, the balance of payments posted a surplus of US\$ 375 million.

Table 17
The Bahamas: Main economic indicators

	2007	2008	2009 ^a
<i>Annual percentage change</i>			
Gross domestic product	0.7	-1.7	-3.9
Gross domestic product per capita	-0.5	-2.9	-5.0
Consumer prices (end of period)	2.4	4.8	3.1^b
Money (M1)	3.4	-1.7	-3.4^b
<i>Percentage annual average</i>			
Unemployment rate^c	7.9	8.7	12.4
Central government balance/GDP^d	-2.4	-2.0	-3.0
Nominal deposit interest rate^e	3.7	3.9	3.8^f
Nominal lending interest rate^g	10.6	11.0	10.6^f
<i>Millions of United States dollars</i>			
Exports of goods	802	956	703
Imports of goods	2,956	3,199	2,468
Current account balance	-1,315	-1,118	-544
Capital and financial account^h	1,269	1,228	919
Global balance	-46	109	375

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b 12-month variation to September.

^c Includes hidden unemployment.

^d Fiscal year.

^e Weighted average deposit rate.

^f Annualized figures, January-September average.

^g Weighted average lending rate.

^h Includes errors and omissions.

B. BARBADOS

The slowdown in the economy of Barbados, which began in 2008, intensified in 2009 with GDP contracting by 3.6% relative to 2008, as the tourism, international business, and non-trade sectors declined significantly, especially during the first half of the year. With the exception of oil, lower international commodity prices resulted in reduced inflation rates, lower total import value, and, consequently, an improved external current account. However, prevailing sluggish credit growth, increasing fiscal deficit and continuing pressure to sustain public debt levels prevent a more vigorous recovery in 2010, expecting an output growth of around 2%.

The fiscal deficit dropped from 5.9% of GDP in fiscal year 2007/2008 to 3.2% in fiscal year 2008/2009. By mid-2009, total revenues declined by 1.2%, due to an 11% reduction in indirect tax collection, resulting from the economic slowdown. At the same time, current and capital expenditure increased by 10% and 2.8%, respectively, over the previous year, as the Government implemented fiscal stimulus measures in response to the global economic crisis. The fiscal gap was financed mainly by domestic borrowing, which drove public debt to 101.7% of GDP. Domestic debt amounted to more than 70% of the total.

Although an expansionary monetary policy was applied, credit to non-financial institutions was sluggish with only 0.3% growth in the first half of 2009, compared to 2.7% in the corresponding period of 2008. Deposit growth also slowed to 1% relative to 6% in the same period in 2008, while the liquid assets ratio increased from 9% in 2008, to 10.4% by June. In August, the Central Bank of Barbados sharply lowered the benchmark deposit rate from 4.5% to 2.5%. Minor adjustments were also made to the prime lending rate, which ranged between 8.15% and 9.20% at the end of July compared to 9.0% and 9.8% one year earlier. The three-month treasury bill rate also fell from 4.81% at the end of 2008 to 3.56% by September 2009. Although these actions were considered successful, the prevailing international climate weakened domestic credit demand which, in turn, tempered the impact of reduced interest rates on domestic credit.

The global economic decline also moderated inflationary trends in Barbados from the last quarter of 2008. Inflation fell to 1.8% in June 2009 year-on-year, much lower than the 8.9% recorded in June 2008, reflecting lower imported inflation and sluggish domestic demand. By October, year-on-year inflation stood at 2.8%. The unemployment rate also increased from 8.6% in June 2008 to 9.9% one year later, with female unemployment being slightly higher at 10.1%. Job losses in tourism, construction, quarrying, transportation and communication and the general services sectors were the principal drivers of increased unemployment.

Tourism and international business and finance, the two main productive sectors, declined significantly, as stay-over arrivals fell by 10.8% between January and October relative to the same period in 2008, while the registration of new international businesses fell by 37% for the first half of the calendar year. Further real sector declines were observed for construction (-18.4%), and mining and quarrying (-35.6%) in that period. Marginal declines were also observed for the non-traded sectors, where wholesale and retail activity and transportation, storage and communications contracted by 2.8%. At the same time, however, the agricultural sector grew slightly, led by non-sugar agriculture and fishing that expanded by 1.5%, while the sugar industry grew by 1.2% relative to 2008.

The global economic recession also led to a contraction in the current account deficit from 10.3% of GDP in 2008 to 5.3% in 2009, mainly driven by the contraction of 22.7% in merchandise imports (US\$ 382 million) due to reduced international food and energy prices coupled with weaker domestic demand. The capital and financial account surplus (including errors and omissions) also narrowed from 4% of GDP in 2008 to 1.3% of GDP in 2009, as FDI declined by 0.8 percentage points of output to 3% of GDP

and financial capital went from a surplus of 1.5% of GDP, in 2008 to a deficit of 0.6% in 2009. However, significant public sector borrowings on the regional market boosted long-term capital inflows. A further boost to net international reserves was realized through a government bond issue in the third quarter of 2009, and Special Drawing Rights of around US\$ 85 million allocated by IMF in August-September. Overall, there was a global deficit of US\$ 140 million in 2009, which drove international reserves to US\$ 613 million. However, there was a marginal increase in months of merchandise imports coverage that stood at 5.6 at the end of 2009.

The overall outlook for the Barbados economy remains weak, with an estimated 3.6% negative real GDP growth for 2009 and recovery in 2010 estimated at 2%. This is based on expected performance of the tourism sector, which is not likely to rebound until the global economy regains significant growth momentum. In addition, the need to sustain fiscal stimulation with stagnating government revenues suggests a worsening of the fiscal deficit for fiscal year 2009/2010, which will feed the public debt burden, which is already at unsustainable levels.

Table 18
Barbados: Main economic indicators

	2007	2008	2009 ^a
<i>Annual percentage change</i>			
Gross domestic product	3.4	0.2	-3.6
Gross domestic product per capita	3.0	-0.2	-4.0
Consumer prices (end of period)	4.7	7.3	2.8^b
Money (M1)	20.5	-3.4	-6.2^b
<i>Percentage annual average</i>			
Unemployment rate^c	7.4	8.1	10.0^d
Public sector balance/GDP^e	-1.8	-5.9	-3.2
Nominal deposit interest rate^j	5.5	4.9	3.6^j
Nominal lending interest rate^k	10.4	9.7	8.8^j
<i>Millions of United States dollars</i>			
Exports of goods	481	461	380
Imports of goods	1,528	1,685	1,303
Current account balance	-182	-363	-187
Capital and financial account^l	461	142	47
Global balance	278	-221	-140

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b 12-month variation to October.

^c Includes hidden unemployment.

^d January to June.

^e Fiscal year.

^j Annualized data; January to August average.

^k Prime lending rate.

^l Includes errors and omissions.

C. BELIZE

The year 2009 saw a reversal of the strong growth achieved in 2008 (3.8 %), with the economy expected to contract by 0.5% mainly due to declines in agriculture and tourism. Favourable international price developments led to a fall in inflation to -3.5% in the year to August 2009, relative to an increase of 4.4% in 2008. Despite fiscal policy remaining strained given the public sector indebtedness, the Government was able to achieve a primary and overall surplus in fiscal year 2008/2009 and in the first quarter of fiscal year 2009/10.²² Monetary policy focused on maintaining the stability of the exchange rate peg vis-à-vis the United States dollar. Reflecting slackening demand rather than improved supply, the current account deficit narrowed from 11% of GDP in 2008 to around 6% in 2009. Economic performance is expected to recover in 2010 with estimated growth of 2%.

The economic contraction and fall-out in employment demanded some fiscal stimulus to cushion the impacts, but high public debt limited the scope for counter-cyclical measures. The government brought forward spending on roads and other infrastructure projects. Moreover, it has nationalized the major telecommunications provider, Belize Telemedia Limited, due to concerns over the agreement negotiated with the previous administration, but plans to return it to private hands shortly.

Government revenue fell in the first quarter of fiscal year 2009/2010 relative to the end of the previous fiscal year. However, the containment of expenditure led to an improvement in the overall fiscal surplus to 1.2% of GDP and a primary surplus of 1.6% of GDP for the first quarter of the current fiscal year from an overall surplus of 0.3% of GDP at the end of fiscal year 2008/2009. With the fiscal surplus, Government was able to pay off a commercial bank loan. Nevertheless, public sector debt edged up from 82.7% of GDP at the end of 2008 to 86.8% of GDP by September 2009 due mainly to loans from the IDB and the Caribbean Development Bank. Belize also benefited from a \$13.9 million tranche under the IMF Disaster Assistance Facility. Fortunately, lower international interest rates facilitated a reduction in debt service payments. However, for the end of the current fiscal year, the overall surplus is expected to decrease due to sharp falls in tax and non-tax receipts and a marginal decline in expenditure.

Monetary policy was neutral and did not provide impetus to credit growth. The Central Bank's reserve requirement was held steady and interest spreads widened marginally despite the weak demand for credit. Sluggish demand slowed broad money growth (5%) in the first half of 2009, roughly half of the growth in the first half of 2008. Commercial banks repaid foreign debt obligations resulting in an increase in their net foreign asset position. Therefore, growth in credit to the private sector was weak (1.4%), providing very little stimulus to the economy. The Central Bank removed the fixed rate on treasury bills during the year to allow banks to bid competitively, as part of monetary policy reform.

Real output is expected to contract by 0.5% in 2009 as the pass-through effects of the global downturn constrained domestic activity and the tradable sectors. Agriculture, the main productive sector, declined by 10.9% in the first half of the year as a result of falling output of citrus and bananas. Tourism, the third leading productive activity, contracted by 10% stemming mainly from the fallout in stay-over visitors (down by 6.6% for the first nine months of the year), as demand from the United States market softened. Manufacturing was vibrant due to a 40.8% increase in petroleum production, boosted by two additional wells.

Inflation fell to -3.5% (year-on-year in August) as a sharp fall in fuel prices outweighed a rise in food prices. Unemployment eased from 13.1% in April 2009 to 12.6% in September, but was much higher than the 8.2% recorded in May 2008, as recessionary conditions led to a slowdown in job creation in the construction and other sectors.

²² In Belize, the fiscal year runs from 1 April to 31 March.

A sharp contraction in merchandise imports of 21.8% relative to 2008, which more than offset the fall in goods exports, tourism receipts and remittances, resulted in a narrowing of the current account deficit from 11% of GDP in 2008 to 5% in 2009. Imports plummeted owing to the winding down of large capital projects, a significant drop in oil prices and lower imports into the Commercial Free Zone due to weaker demand. For the first eight months of 2009, petroleum exports plunged by almost 60% due to the steep fall in oil prices, in spite of higher export volumes. Uncertainty due to the global crisis led to a slowdown in foreign direct investment into the oil and tourism sectors, and less loan repayments by domestic commercial banks, which led to a reduction in the financial and capital account surplus (including errors and omissions) to US\$ 130 million or 9.8% of GDP (15.3% in 2008). The overall position led to a US\$ 50 million rise in international reserves, including the Special Drawing Rights allocation of US\$ 27 million from IMF in August-September.

The outlook for the economy suggests a slow recovery of 2% in 2010 in line with a recovery of its major trading partners. However, the current account is expected to worsen as imports are likely to pick up with a stronger economy.

Table 19
Belize: Main economic indicators

	2007	2008	2009 ^a
<i>Annual percentage change</i>			
Gross domestic product	1.2	3.8	-0.5
Gross domestic product per capita	-1.2	1.7	-2.4
Consumer prices (end of period)	4.1	4.4	-3.5 ^b
Money (M1)	14.0	0.3	-1.6 ^c
<i>Percentage annual average</i>			
Unemployment rate^d	8.5	8.2	12.6 ^e
Central government balance/GDP^f	0.0	0.3	1.2
Nominal deposit interest rate^g	5.9	6.2	6.3 ^h
Nominal lending interest rateⁱ	14.3	14.2	14.1 ^h
<i>Millions of United States dollars</i>			
Exports of goods	426	466	396
Imports of goods	642	788	616
Current account balance	-52	-150	-80
Capital and financial account^j	75	208	130
Global balance	23	58	50

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b 12-month variation to August.

^c 12-month variation to October.

^d Includes hidden unemployment.

^e September figure.

^f Fiscal year.

^g Weighted average deposit rate.

^h Data for March.

ⁱ Weighted average lending rate.

^j Includes errors and omissions.

D. EASTERN CARIBBEAN CURRENCY UNION

According to preliminary estimates from the Eastern Caribbean Central Bank (ECCB), the economies of the Eastern Caribbean Currency Union (ECCU) should contract by about 4.9% in 2009, far worse than earlier projections of zero growth and the positive growth of 1.4% reported in 2008. This was fuelled by the negative effects of the global crisis that brought about an abrupt decline in tourism activity, construction, mining and quarrying. Consumer prices dropped by 0.8% during the first half of the year as a consequence of the reduction in international prices of food and energy, coupled with weak domestic demand. The overall fiscal balance improved in fiscal year 2008/2009, compared to the previous fiscal year in most countries. Notwithstanding, the debt-to-GDP ratio remained at unsustainable levels (96%). As the impact of the world turmoil intensified and started to affect the balance of payments negatively, various countries relied on credit from IMF and all benefited from the general and special allocation of Special Drawing Rights from that institution, which took place in August-September 2009.

In 2009, fiscal policy in the ECCU focused on cushioning the effects of the international crisis on domestic economies. Thus, governments agreed to implement the Eight Point Stabilization and Growth Programme that includes fiscal reform, debt management, public investment and social safety networks, among other issues, with the view to promoting stability and boosting economic growth and development. At the end of June, the fiscal account posted a primary surplus of 2% of GDP, more than twice the 0.9% recorded in the corresponding period in 2008. This was the result of an increase of 36% in grants coupled with a 19% decline in capital expenditure. Thus, the overall public sector fiscal deficit that stood at 3% of GDP at the end of June 2008 declined to 1.7% one year after.

Total public sector debt in the ECCU climbed to 96% of GDP by June 2009, as compared to 89% posted in December 2008, as a number of countries increased their debts with loans from IMF, the Caribbean Development Bank and the Bolivarian Alternative for Latin America and the Caribbean, to compensate for the drop in revenue, remittances and tourism receipts and, by extension, to offset the worsening of the balance of payments global balance. These resources were mostly granted with less stringent conditions than in the past, given the international context, and helped countries to implement investment projects to generate employment and boost economic activity. External public debt expanded slightly from 44% of GDP in 2008 to 46% in 2009, while domestic debt increased much more from 45% of GDP to 51% in the same period.

Monetary policy was not modified in 2009 as the discount rate remained at 6.5%, and required reserves for commercial banks stayed at 6%. Inter-bank market interest rates experienced an increase from 6% in December 2008 to 6.6% in November, revealing a tighter credit market. Given the CLICO collapse in January and the bank run on the Bank of Antigua Limited in February, the Monetary Council of ECCB agreed to enhance the regulatory and supervisory framework of the financial sector by the establishment of a Regulatory Oversight Committee.

Between January and August 2009, M1 declined approximately by 8%, reflecting the decline in economic activity. Domestic credit also dipped (1.3%) as a result of a combination of an increase of 1.3% in domestic credit to the private sector and a 37% contraction in net credit to the public sector, resulting from the expansion of Government deposits and reduced capital spending. Net assets of commercial banks dropped in all ECCU countries, except for Dominica and Saint Kitts and Nevis. Nevertheless, the level of foreign reserves in support of the fixed exchange rate remained substantively above the statutory minimum of 60%.

In 2009, ECCU economies' contraction is estimated at 4.9% as a result of a decline in tourism (14%), construction (21%), and mining and quarrying (17%) output. As regards tourism, the main economic sector, the decline in stop-over arrivals was particularly intense in Anguilla (22.6% from

January to June relative to the same period in 2009), Grenada (14.4% in January to September), Saint Vincent and the Grenadines (13.1% in January to September), Antigua and Barbuda (12.9% in January to October) and Montserrat (17.4% in January to October).²³ Meanwhile, construction and quarrying activity declined due to the conclusion of some public investment projects and the slowdown in the implementation of private projects associated with tourism due to increasing difficulties in financing. It is expected that in 2010 economic activity will recover gradually with a projected growth rate of 2%.

As tourism and construction sector activity remained sluggish, conditions in the labour market deteriorated in 2009. In Antigua and Barbuda, the situation became worse with the closure of the majority of firms belonging to the Stanford Group, whose owner faces fraud charges in the United States. This group is the major private employer in this country. In Saint Lucia, public servants received a salary increase of 3.5% between May and June 2009.

Inflation measured by the consumer price index declined in all countries during the second quarter of 2009 posting a negative rate of 0.8% compared to the 3.5% posted in the same period in 2008, reflecting the reduction in the prices of fuel and electricity, transport and communications, and public services and housing. Overall, in the year to September, inflation rates were negative in Grenada and Saint Vincent and the Grenadines (-2%), whereas it stood at 0% in Saint Lucia.

In the six independent ECCU countries, the current account deficit remained stable at around US\$ 1.4 billion, similar to the figure posted in 2008. However, the decline in GDP meant that the external gap increased from 32% of GDP in 2008 to 33.5% in 2009. This outcome was basically explained by the dip of 0.8 percentage points of GDP in the surplus of the balance of services (to 12.4% of GDP) and the widening of 0.7 percentage points in the income deficit (to 5.5% of GDP) relative to 2008, while the balance of goods deficit and the transfers surpluses remained almost unchanged as a share of GDP (at near 43% and 3% of GDP, respectively). The surplus in the capital and financial account (including errors and omissions) was more than enough to meet the financing of the current account deficit, posting a surplus of US\$ 1.6 billion or 36.8% of GDP, five percentage points of GDP higher than in 2008 (US\$ 1.4 billion). Almost 85% of this improvement was due to larger financial inflows, as FDI remained steady at around US\$ 780 million. As a result, with the exception of Grenada, which registered a balance of payments deficit of some US\$ 3 million, the other countries posted surpluses, which were significant in Saint Kitts and Nevis (US\$ 70 million) and Saint Lucia (US\$ 48 million). Overall, these countries accumulated some US\$ 140 million in international reserves, equivalent to three weeks of merchandise imports coverage. It is worth mentioning that ECCU countries benefited from the general and special allocation of Special Drawing Rights from IMF that took place in August-September to support the reserves position of member countries. These operations were significant, ranging from US\$ 11.1 million in Dominica to US\$ 21 million in Saint Lucia.

²³ See Caribbean Tourism Organization, "Latest Statistics 2009", 18 December 2009.

Table 20
ECCU: Main economic indicators

	2007	2008	2009 ^d
<i>Annual percentage change</i>			
Gross domestic product	5.4	1.4	-4.9
Gross domestic product per capita	4.9	0.7	-5.6
Consumer prices (end of period)^b	6.0	4.9	..
<i>Percentage annual average</i>			
Central government balance/GDP^{bc}	-3.4	-2.2	-0.3
Nominal deposit interest rate^b	3.3	3.4	3.4^d
Nominal lending interest rate^b	9.5	9.6	9.9^d
<i>Millions of United States dollars</i>			
Exports of goods	366	439	425
Imports of goods	2,221	2,352	2,252
Current account balance	-1,352	-1,405	-1,412
Capital and financial account^e	1,385	1,396	1,551
Global balance	33	-9	140

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Simple average.

^c Fiscal year.

^d January-September average.

^e Includes errors and omissions.

.. = not available.

E. GUYANA

The economy of Guyana grew less than anticipated in the first half of 2009 owing to a sharp contraction in one of its main economic sectors, agriculture and declines in mining, while growth was registered in construction, services and manufacturing. The results were similar in the third quarter as sugar declined by 3% and rice by 13.36%. Growth is therefore likely to reach only 1% to 2% in 2009. The balance of payments is expected to be in surplus, reflecting declining imports due to lower prices of fuels and imported commodities. The urban inflation index in the year to September posted a variation of 0.5% driven by decreasing world energy and food prices, and is expected to end the year below 1%. The outlook for 2010, based on the assumption that commodity prices will be favourable and that world demand grows, is that the economy would expand by 3% and the inflation rate would rise in line with increasing fuel prices. In addition, the current account deficit should improve due to recovering remittances and exports.

The Government's overall deficit is expected to decline from 7.6% of GDP in 2008 to 6.5% in 2009 owing to increasing revenues and declines in capital expenditure. The current budget surplus increased by 50% in the first half of the year relative to the same period in 2008. This was due to an increase in current revenue (15%), as a result of increased collections in major taxes, especially excise duties which rose by 54%, and income taxes from businesses and the self employed which rose by 4% and 5 %, respectively. The deficit was financed by domestic loan receipts and external borrowing, and the stock of public and publicly guaranteed debt increased from 103.7% of GDP to 115% GDP at the end of June 2009, despite some debt reduction under the Heavily Indebted Poor Countries arrangements. The external debt at the end of June stood at 78% of GDP, while the domestic debt stood at 37.2% of GDP.

In 2009, broad money grew by 2.2% due to a 10.4% increase in the banking system's net foreign assets and a 11.4% decline in net domestic credit. Private sector credit growth was flat although commercial bank interest rates declined marginally. This slowdown in private sector credit is attributed to lower export volume.

In terms of financial market developments, the Government of Guyana, in September, received US\$ 15million from the CARICOM Petroleum Fund, to offset the difficulties encountered by CLICO Guyana. The emergency fund was used to pay CLICO Guyana policyholders since the company was deemed insolvent.

Growth in 2009 is likely to be much less than the anticipated 4% presented in the budget in February. The economy grew only 1.4% in the first half of the year due to a 7.2% decline in the agricultural sector, which amounts to approximately 20% of GDP. Sugar production was 19.7% lower than at the end of June 2008, due to adverse weather conditions and industrial unrest and rice production also declined by 6.7%. Mining also declined due to soft international bauxite and alumina demand together with a decline in quarrying. In contrast the services sector, which contributes to a significant part of GDP, engineering and construction, and manufacturing recorded positive growth.

In the year to September, inflation posted a rate of 0.5% reflecting decreasing international food and hydrocarbons prices, in a context of a rather stable nominal exchange rate vis-à-vis the United States dollar. As a consequence, it is expected that overall inflation will be less than 1% in 2009.

Data for the first three quarters of the year suggest a closing of the current account deficit from 25.8% of GDP in 2008 to 16.3% in 2009 which was largely due to a decline in import spending, as a result of lower prices for fuel and a softening of domestic demand. Export earnings over the same period last year fell by 3% reflecting lower commodity prices and slower export growth. Net current transfers, another major source of foreign exchange mainly compounded by remittances, declined by 10% between

June 2008 and June 2009 and are estimated at 20.9% of GDP, 7.5 percentage points lower than in 2008. The decline in FDI from 15.4% of GDP in 2008 to 9% in 2009 was more than offset by the increase in the capital and financial account surplus (including errors and omissions) from 11% to 26.8% of GDP in the same period. In addition, the country received the allocation of some US\$ 110 million of Special Drawing Rights from IMF in August-September. The overall effect was a balance of payments surplus and an increase in gross reserves from US\$ 233 million to US\$ 589 million, equivalent to 7.1 months of merchandise imports coverage.

The outlook for 2010 is positive with robust growth prospects (3%), if commodity prices for sugar and rice do not fall significantly. In addition, bauxite exports should increase on the back of stronger global demand and thus improve the current account balance.

Table 21
Guyana: Main economic indicators

	2007	2008	2009 ^a
<i>Annual percentage change</i>			
Gross domestic product	5.3	3.1	0.9
Gross domestic product per capita	5.3	3.0	1.0
Consumer prices (end of period)	14.1	6.4	0.5^b
Money (M1)	12.8	12.5	3.2^b
<i>Percentage annual average</i>			
Central government balance/GDP^c	-7.5	-7.9	-6.5
Nominal deposit interest rate^d	3.2	3.1	2.8^e
Nominal lending interest rate^f	14.1	13.9	14.0^e
<i>Millions of United States dollars</i>			
Exports of goods	698	798	650
Imports of goods	1,063	1,300	1,000
Current account balance	-189	-299	-195
Capital and financial account^g	188	306	428
Global balance	-1	7	233

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

^a Preliminary figures.

^b 12-month variation to September.

^c Fiscal year.

^d Small savings deposits interest rate.

^e Annualized figure, January to September average.

^f Prime rate.

^g Includes errors and omissions.

F. JAMAICA

The world economic crisis has intensified Jamaica's economic problems which are so severe that the Government sent, in mid-January 2010 a request to the IMF for a Stand-By Arrangement in the amount of US\$ 1.3 billion or 10% of GDP.²⁴ The precursor to these difficulties lay in the chronic fiscal and balance of payments deficits, the high public debt-to-GDP ratio (near 120% in 2009), and the difficulty in financing the budget of 2009/2010. In addition, reduced foreign exchange inflows from remittances and service exports and a deteriorating exchange rate led to a downgrading of the country's sovereign rating by international rating agencies. In the light of these circumstances, the economy is expected to contract by 3% in 2009 with a recovery in 2010 when growth is estimated to reach 1%.

The Government presented a supplementary budget for fiscal year 2009/2010²⁵ in September, which revised the deficit from 5.5% to 8.7% of GDP. The reasons were that from April to September 2009, relative to the same period in 2008, revenue and grants declined by 1.9% while recurrent expenditure rose by 29%. In mid-December, the Government revealed a new tax package of US\$ 246 million for January 2010, which has caused widespread resistance. In view of the prospects for low revenue buoyancy, the fiscal deficit is likely to expand to about 12% of GDP in fiscal year 2009/2010, one percentage point higher than in fiscal year 2008/2009. Between January and September, the public debt stock increased by 2.6 % to J\$ 1.16 billion, of which 55% was external debt. In addition, the debt service-to-exports ratio increased from 13.5% in fiscal year 2007/2008 to 14.6% in fiscal year 2008/2009. The adjustments needed to address the fiscal deficit will force the Government to reduce non-interest expenditure, and sell loss-making public enterprises, which will impact negatively on the unemployment rate.

The Bank of Jamaica employed a less restrictive monetary policy stance in the third quarter as inflation declined and, thus, interest rates on its securities were generally reduced. Indeed, the benchmark 30-days certificate of deposit rate was cut four times from 17% during the first half of the year to 10.5% in December. Despite the gradual reduction in lending rates, however, private sector credit also declined from 22.3% of GDP at the end of 2008 to 19.5% in December 2009, reflecting a continuing fall in private consumption spending and investment.

The foreign exchange market was relatively stable during the July-September quarter after a period of volatility between September 2008 and February 2009, in which the currency fell by 22% in nominal terms. By the end of the year, the exchange rate stabilized around J\$ 89 per United States dollar due to the intervention by the Central Bank and an improvement in the foreign exchange position, as a result of the receipt of US\$ 330 million in Special Drawing Rights from IMF. In view of the impending IMF agreement, the exchange rate is likely to remain stable by the end of the year. Overall, the Jamaican dollar depreciated by 16.9% in the year to December 2009 vis-à-vis the United States dollar.

In terms of growth performance, real GDP declined by 2.9% in the first quarter and by 3.7% in the second quarter, amounting to a 3.3% decline for the first half of the year. This was due to a contraction of the goods-producing sector relative to services. The goods-producing sector, made up of agriculture, mining, manufacture and construction and contributing around a quarter of GDP, declined by 8.9%. Mining and quarrying posted the sharpest decline (43.4%), largely due to a fall-out in bauxite and alumina production. The reduction of production at the Alpart plant by 50% has affected the flow of foreign exchange earnings, revenues from bauxite production and employment.

²⁴ See Box I.1 in Chapter I.

²⁵ In Jamaica the fiscal year runs from 1 April to 31 March.

The contribution of services to GDP (around three quarters) declined by 1.4% in the first quarter, 0.6% in the second and an overall 1.2% decline for the half year. In this sector, the largest decline (7.2%) was recorded in transport, storage and communication, while hotels and restaurants, which capture substantial aspects of tourism, recorded growth of 1.4%. This is due to a 3.4% increase in stay-over tourist arrivals in the first six months of the year. Visitors from all markets, except Canada, however, recorded declines. Arrivals for cruise ship passengers, the lower yield segment of tourists, were down by 14%. It is expected that GDP will decline by around 3% in 2009 and then start to recover to an estimated of 1% in 2010.

Inflation eased during 2009, standing at 7.2% in the year to September (25.3% in September 2008 year-on-year). Consumer prices increased by 3.1% in July-September quarter-on-quarter higher than the 2.7% recorded in April-June due to higher fuel costs, and shortages of some agricultural commodities. Non-food inflation stood at 3.7%, whereas food inflation was at 2.2% relative to the second quarter. In the year to October, the inflation rate increased to 7.7% and by the end of the year would have posted a one-digit figure, much lower than the 14% anticipated in the budget.

The current account deficit of the balance of payments narrowed substantially owing to a decline in imports, which was greater than the decline in exports, which accounts for the contraction of the balance of goods deficit from 34.2% of GDP in 2008 to 21.6% in 2009. Meanwhile, the balance of services surplus expanded by 3.2 percentage points to 6.2% of GDP in 2009, again reflecting a larger reduction in imports than in exports. On the downside, current transfers, mainly compounded by remittances, declined from 15.3% of GDP in 2008 to 13.9% in 2009. The capital and financial account surplus (including errors and omissions) experienced a perceptible deterioration, falling from 19.2% of GDP in 2008 to 6.4% in 2009, driven by the contraction of net financial capital inflows of some 13 percentage points of GDP in the same period, in the context of high and increasing uncertainty about the prospects of the Jamaican economy, in general, and its fiscal situation, in particular. Overall, there was a global surplus on the balance of payments in 2009 of US\$ 136 million, which drove international reserves to US\$ 1,931 million or 5.5 months of merchandise imports.

Table 22
Jamaica: Main economic indicators

	2007	2008	2009 ^a
<i>Annual percentage change</i>			
Gross domestic product	1.4	-0.6	-3.0
Gross domestic product per capita	0.9	-1.0	-3.4
Consumer prices (end of period)	16.8	16.9	7.7^b
Money (M1)	14.2	2.2	5.2^c
Real effective exchange rate^d	3.5	-6.2	11.1^e
<i>Percentage annual average</i>			
Unemployment rate^f	9.8	10.6	11.3^g
Central government balance/GDP^h	-4.7	-7.4	-11.0
Nominal deposit interest rateⁱ	5.0	5.1	5.9^j
Nominal lending interest rate^k	22.0	22.3	22.8^j
<i>Millions of United States dollars</i>			
Exports of goods	2,363	2,744	1,400
Imports of goods	6,204	7,547	4,200
Current account balance	-2,038	-2,794	-700
Capital and financial account^l	1,598	2,689	836
Global balance	-440	-105	136

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b 12-month variation to October.

^c 12-month variation to September.

^d A negative rate indicates a real appreciation.

^e Variation of the January to October average relative to the same period in 2008.

^f Includes hidden unemployment.

^g Average of the figures of January, April and June.

^h Fiscal year.

ⁱ Average savings interest rate.

^j Annualized figures, twelve-month average to October.

^k Average.

^l Includes errors and omissions.

G. SURINAME

Suriname's economy is expected to grow by 2.5% in 2009 owing to strong gold prices and oil production, despite adverse international conditions. Credit continued to expand without causing inflation (-5.4% in September year-on-year) due to decade-low lending rates. The current account surplus is expected to decline for the first time since 2005, but will remain positive owing to gold and oil exports. The fiscal balance, facing a crippling decline in historically important bauxite revenue, is only expected to post a marginal deficit by year's end. Although uncertainty remains concerning productive capacity, higher growth is anticipated in 2010, to the tune of 4%.

A fiscal deficit of 1% of GDP is expected for the end of the year, though half year data showed a 4.2% of GDP surplus. This outlook owes itself to an estimated drop of 50% in revenue from the bauxite sector (revenue from the two major players, Billiton and Suralco, are expected to fall by 68%). Revenue should be in the range of 30% of GDP and is driven by royalties and taxes from gold and crude oil, while expenditure should reach around 31% of GDP for 2009. Wages and salaries drove expenditure (up 3%) to settle around 16% of GDP as the Government began implementing the new salary system for public servants before the 2010 elections.

Suriname reinforced its reputation as a reliable debtor after clearing a decades-old Brazilian debt in August 2009. The Government is now prioritizing the clearing of its last line of debt with the United States. However, total public debt increased marginally from 25.2% of GDP in 2008 to 25.7% in 2009, with domestic debt increasing slightly from 12.5% to 14.5% of GDP in the same period, and external debt falling to 11.2% of GDP from 12.7% in 2008.

Monetary policy remained loose without leading to inflation in 2009. The Central Bank's policy is geared at credit availability, attracting foreign direct investment and accumulating reserves to defend the currency peg. Notwithstanding, lending rates fell only marginally from 12% in December 2008 to 11.5% in September, presumably due to increased depreciation expectations, while deposit rates increased by 0.2% to 6.5%. Still, public sector credit increased to 6% of GDP and private sector credit continued its expansion to reach 41.9% of GDP in November, up from 38.8% in December 2008. Year-on-year M1 increased by 23% to reach 28.6% of GDP in the third quarter. The quasi-fixed regime remained at approximately SRD\$ 2.745 to US\$ 1, though 2009 saw the currency traded as high as SRD\$ 2.79 to US\$ 1 and as low as SRD\$ 2.70 to US\$ 1. After two unsuccessful attempts at mitigating a shortage of United States dollars, the Central Bank widened the trading band for the United States dollar to between SRD\$ 2.71 and \$ 2.85. The demand for foreign exchange increased, boosted both by higher imports and n personal loans.

GDP is expected to expand by 2.5% in 2009, fuelled by growth in the gold and petroleum industries. The Rosebel gold mine doubled output between March and August 2009, and production value is expected to end the year three times higher than in 2008. Staatsolie, the State oil company, continued refurbishment of its refinery which started last year. Construction and commercial services, amounting to 17% of GDP, continued growing in response to increased demand for private housing and ongoing public infrastructural development projects. In agriculture, a major employer, the banana sector received investments that would allow it to increase its productivity levels. In contrast, the aluminum sector's potential failure was highlighted by the drastic drop in Suriname's inward foreign investment, which was once the engine behind this variable. If this trend continues, the results would be harmful, given the importance of aluminum mining and manufacturing in overall output. In 2010, the economy is expected to grow by around 4% prompted by increasing gold production and an expansion of the petroleum sector.

Weaker external prices generated a year-on-year inflation rate of -5.4% in September, a colossal drop from the 18.1% recorded in September 2008. Deflation was mainly explained by the behaviour of

the prices of food and non-alcoholic beverages. Fuel prices also decreased in line with lower average oil prices seen in 2009 relative to 2008. The expectation for 2010 is that inflation will increase with global economic recovery, with year-end inflation for 2010 estimated at 3.5%

The current account surplus reached 13.1% of GDP in 2009, compared with 16.4% recorded in 2008. Oil and gold prices, which increased by more than 40% in the year to November, provided the buffer against a stagnated aluminum sector. The merchandise trade surplus declined from 17% of GDP in 2008 to 12.7% in 2009, while the deficit in the services balance contracted from 5.8% to 3.3% of GDP in the same period, due to a decline in imports that surpassed the drop in exports. The capital and financial account (including errors and omissions) posted a small deficit of 0.4% of GDP, down from a deficit of 14.4% in 2008, supported by the allocation of US\$ 125 million in Special Drawing Rights from IMF in August-September. As a result, the balance of payments posted an overall surplus that translated into the accumulation of US\$ 271 million in international reserves, equivalent to 6.9 months of merchandise imports.

Table 23
Suriname: Main economic indicators

	2007	2008	2009 ^a
<i>Annual growth rates</i>			
Gross domestic product	5.1	4.3	2.5
Gross domestic product per capita	4.1	3.3	1.5
Consumer prices (end of period)	8.3	9.4	-5.4 ^b
Money (M1)	25.1	15.7	25.5 ^b
<i>Annual average percentages</i>			
Public sector overall balance/GDP	7.1	2.3	-1.0
Nominal deposit interest rate^c	6.4	6.3	6.5 ^d
Nominal lending interest rate^c	13.3	12.0	11.5 ^d
<i>Millions of United States dollars</i>			
Exports of goods	1,359	1,708	1,500
Imports of goods	1,045	1,350	1,230
Current account	335	344	280
Capital and financial account^e	-158	-302	-9
Overall balance	177	42	271

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b 12-month variation to September.

^c Data published by IMF.

^d Annualized figures; January to July average.

^e Includes errors and omissions.

H. TRINIDAD AND TOBAGO

The global economic turmoil brought to an end 15 years of consecutive growth of the economy of Trinidad and Tobago that would decline by around 1% in 2009. Domestic inflation finally recorded year-on-year single digit figures since June, driven by the significant slowdown of food inflation. Hand in hand with the drop in world oil prices and weaker economic activity, the Central Government recorded a deficit of 5.3% of GDP in fiscal year 2008/2009,²⁶ the first one since 2002. Meanwhile, the huge current account surplus recorded during 2008 declined more than 40% in 2009 to 23.6% of GDP due to a reduction of the trade surplus in the context of lower energy prices. Economic policy will continue to be guided by the “Vision 2020” development plan. The main challenge to the economy remains the reduction of its dependency on the energy sector, which accounts for more than 45% of output, above 85% of merchandise exports and more than half of fiscal revenue. Growth is projected at around 2% in 2010.

By mid-2009, there was a switch in the policy mix from a monetary policy mainly devoted to reducing inflation to a setting where both fiscal and monetary policies are focused on fostering economic activity. This new policy mix is expected to prevail in 2010, including the quasi-fixed exchange rate regime that seeks to maintain the nominal exchange rate stable vis-à-vis the United States dollar.

The Central Government ran a deficit of 5.3% of GDP in fiscal year 2008/2009, a huge deterioration from the surplus of 7.8% posted in fiscal year 2007/2008. This was the result of a decline of near 33% of fiscal revenue that was only partially offset by a drop of some 18% in capital expenditure relative to the previous fiscal year. As a result, the non-energy fiscal deficit widened by more than five percentage points of GDP to reach 18.3% of output. The fiscal gap was mainly financed through public savings, especially from the Infrastructure Development Fund. Despite this outcome, the fiscal position continues to be strong, with some 14% of GDP accumulated in the Heritage and Stabilization Fund, and a relatively low public sector debt (31% of GDP). The public budget for fiscal year 2009/2010 is based on the assumptions of a GDP growth rate of 2%, an oil price of US\$ 55 per barrel and a natural gas price of US\$ 2.75 per million cubic feet. The latter figure is crucial as Trinidad and Tobago has become a natural gas-dominated economy, where it accounts for more than 80% of total energy production. The fiscal deficit projected by the new public budget amounts to 5.3% of GDP and aims at supporting economic recovery. Starting in January 2010, the new property tax system will be in place, based on the rental value appraisal method of valuation, lower tax rates and homogeneous rates throughout the country.

The slowdown in inflation brought about by lower world food prices and sluggish domestic demand allowed the central bank to cut the reference interest rate in order to support economic activity. The repo rate was reduced eight times from 8.75% in January-March, to 5.25% in December (and further to 5% in January 2010). In the context of high liquidity and excess reserve balances held by commercial banks, the repo rate cuts are mainly a signalling mechanism, as most banks make little use of the repurchase facility. The three-month treasury bill rate fell to 1.36% in January 2010, from 6.22% one year before. This reduced the differential with the equivalent rate in the United States to 130 basis points from around 175 basis points in September and 607 basis points early in the year. Bank credit growth remained sluggish in the context of weak domestic demand and, by November, credit outstanding was 4.2% lower than 12 months earlier. Consumer credit posted a year-on-year drop of 4.9% in November while business credit contracted by 1.3%. In contrast, real estate mortgage credit remained dynamic, growing by 8.4% in the year to November. Given the inflation rate differential, the appreciating trend of the real exchange rate observed during the previous years will continue, as the central bank will manage to sustain the quasi-fixed peg due to its strong foreign exchange position.

²⁶ The fiscal year runs from 1 October to 30 September.

The intervention of CLICO – a subsidiary of CL Financial Group, a major conglomerate with assets estimated at 37% of GDP – that took place in January 2009 to preclude contagion to other financial institutions continued at the centre of the agenda of both the Central Bank and the Ministry of Finance during 2009. By mid-year, banking institutions continued to show solid indicators such as capital ratios of 18% (statutory minimum of 8%) and non-performing loans of around 2%.

Contrary to expectations, the recession will not be driven by the energy sector, which actually would record an expansion in 2009 led by the refining activity. Contrariwise, the non-energy sector would dip by near 5% due to a sharp decline in the services sector, including construction that experienced cancellation or postponements of public and private projects.

After reaching 11.3% in April year-on-year, headline inflation started a declining trend posting a rate of 1.3% in the year to December 2009 (14.5% in December 2008). This outcome was largely due to a marked slowdown in food inflation, the main driver of domestic inflation that posted a year-on-year rate of just 0.2% in December, down from the 10.1% posted in July. The historical low of 3.9% attained by the unemployment rate during the last quarter of 2008 was reversed during the first half of 2009, reaching a level of 5.1% at the end of June. A contraction in the participation rate from 64.1% in the first quarter of 2009 to 63.6% in the second reflected the reduction of the labour force.

The plunge fall in world energy prices signalled the end of the export boom in Trinidad and Tobago. The import bill also declined as the combined result of weaker domestic demand and lower world food prices. The trade surplus is expected to decline from 34.9% of GDP in 2008 to near 28% in 2009, the lowest level since 2002. This would lead the drop of the current account surplus from 33.8% of GDP to some 24% in the same period. Coupled with a recurrent deficit on the capital and financial account, this would imply a fall in official international reserves, to some US\$ 8,080 million at the end of 2009 (US\$ 9,380 in December 2008) equivalent to between 14 and 15 months of imports coverage.

Table 24
Trinidad and Tobago: Main economic indicators

	2007	2008	<i>2009^a</i>
<i>Annual percentage change</i>			
Gross domestic product	4.6	2.3	-0.5
Gross domestic product per capita	4.2	1.9	-0.9
Consumer prices (end of period)	7.6	14.5	1.3
Money (M1)	12.0	10.1	36.1^b
Real effective exchange rate^c	-1.8	-5.1	-9.8^d
<i>Percentage annual average</i>			
Unemployment rate^e	5.6	4.6	5.1^f
Central government balance/GDP^g	1.8	7.8	-5.3
Nominal deposit interest rate^h	2.4	2.4	2.1ⁱ
Nominal lending interest rate^j	10.5	12.3	12.6ⁱ
<i>Millions of United States dollars</i>			
Exports of goods	13,391	18,686	12,740
Imports of goods	7,670	9,622	6,628
Current account balance	5,364	8,792	5,247
Capital and financial account^k	-3,824	-6,086	-7000
Global balance	1,541	2,706	-1753

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b 12-month variation to October.

^c A negative rate indicates a real appreciation.

^d Variation of the January to October average relative to the same period in 2008.

^e Includes hidden unemployment.

^f Average of the figures for March and June.

^g Fiscal year.

^h Average savings interest rate.

ⁱ Annualized figures, January to July average.

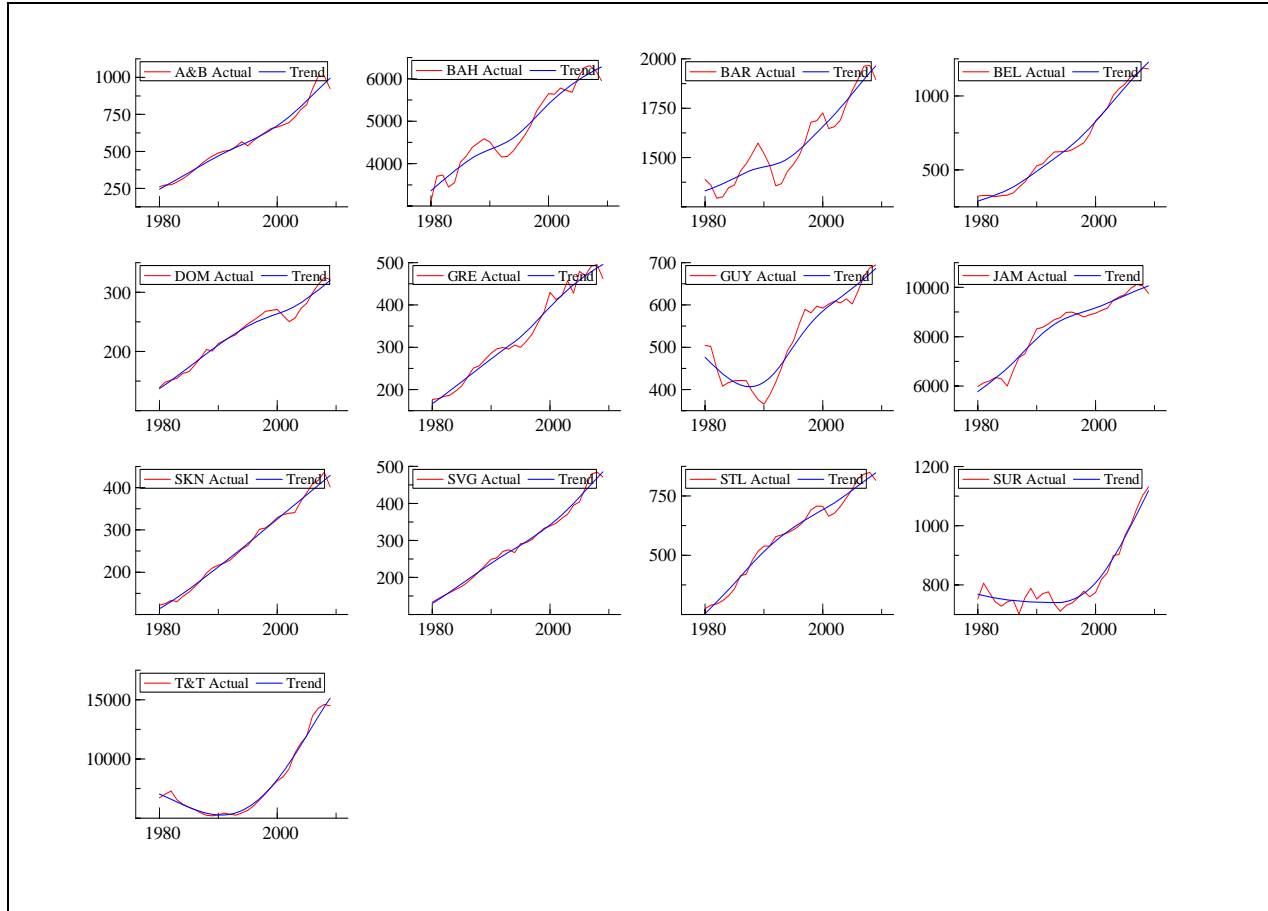
^j Preferential loan interest rate.

^k Includes errors and omissions.

Annex

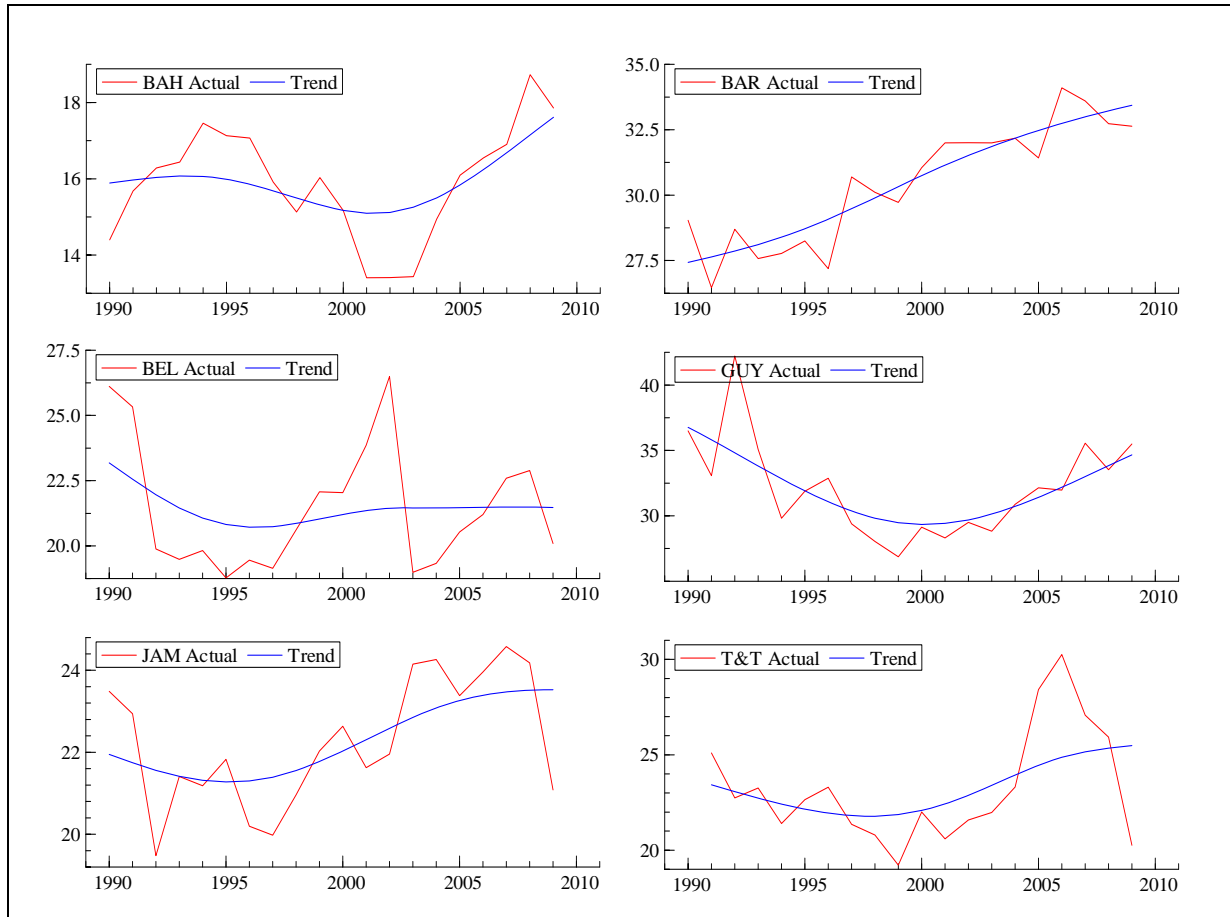
Actual and trend values of GDP, tax revenue, tourism receipts and remittances

Real GDP, 1980-2009 (Millions of US\$ at constant 2000 prices)



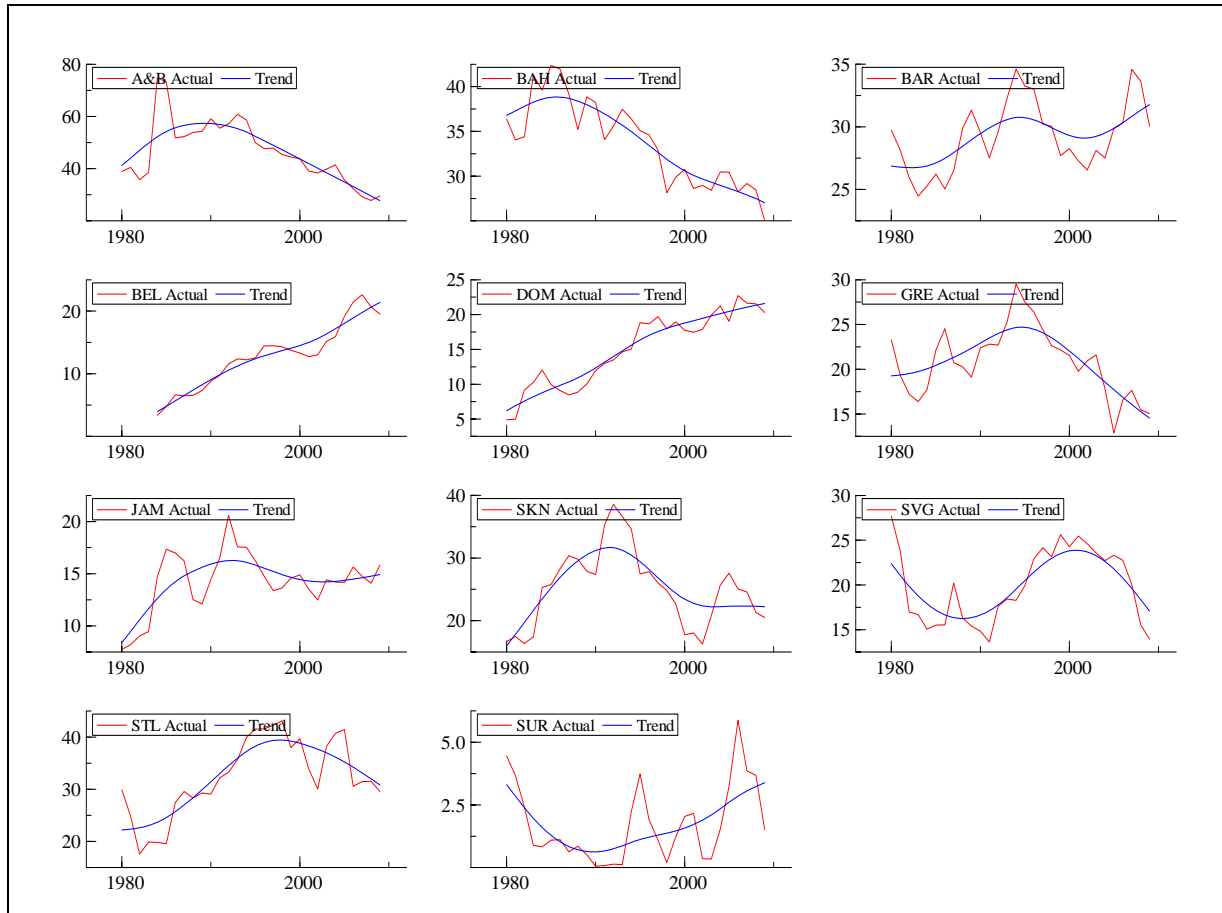
Source: ECLAC, on the basis of official figures.

Tax revenue, 1990-2009
(Percentage of GDP)



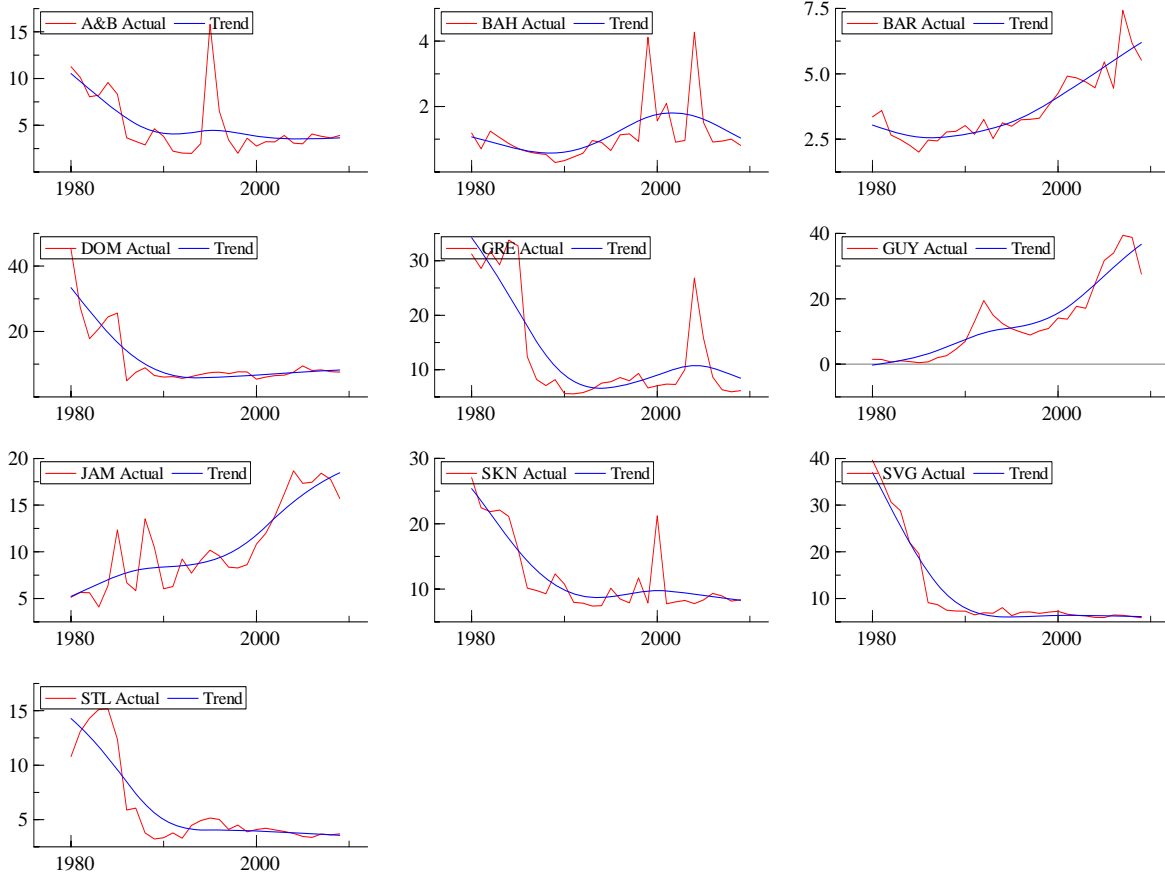
Source: ECLAC, on the basis of official figures.

Tourism receipts, 1980-2009
(Percentage of GDP)



Source: ECLAC, on the basis of official figures.

Remittances, 1980-2009
(Percentage of GDP)



Source: ECLAC, on the basis of official figures.