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ECONOMIC SURVEY OF THE CARIBBEAN 2008-2009

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1 Chancery Lane, P. O. Box 1113, Port of Spain, Trinidad and Tobago
Tel: 868 623-5595; Fax: 868 623-8485; e-mail: registry-pos@eclac.org • www.eclacpos.org

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EXECUTIVE SUMMARY

This survey provides an overview of the economic performance of countries of the Caribbean Community (CARICOM) for the year 2008 and their outlook for 2009. The report comprises three chapters. The first provides a regional comparative analysis of the main macroeconomic variables, namely GDP growth, inflation, fiscal and external accounts, as well as fiscal, monetary and other policies, particularly those specifically devised to cope with the ongoing global economic crisis. The second chapter deals with two topics relevant for economic development in the region: economic growth and small and medium enterprises development from an analytical and empirical perspective. The last chapter presents country briefs of the seven most developed countries (MDCs) in the Caribbean – Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago – together with a subregional assessment of the eight member countries of the Eastern Caribbean Currency Union (ECCU).

The slowdown in economic activity which began in 2007 became more acute in 2008 in the Caribbean, with the worsening of external conditions precipitated by the g1obal financial crisis and economic recession. The MDCs in 2008 grew by 1.7% (simple average), down from 3.3% in 2007. The growth rate of 2008 was half of the annual average posted in 2001-2005 and below a third of the solid 5.2% recorded in 2006. The latter figure was led by Trinidad and Tobago that showed an exceptional economic expansion of 12.2% associated with abnormally high hydrocarbons production. Within this group of countries, GDP growth during the current decade has been led by countries abundant in natural resources, namely Suriname and Trinidad and Tobago, which benefited from an international scenario of high commodity prices. Suriname managed to record a growth rate of 5.2% in 2008 partly because the price of gold, one of its main mining products, remained at historically high levels, fostering production and investment. On the contrary, the Bahamas and Jamaica recorded declines in output due to the finalisation or postponement of construction projects related to tourism activities in the Bahamas and, also to adverse weather conditions that continued to affect agriculture, among other things, in Jamaica.

On the other hand, in 2008 the ECCU countries posted a growth rate of 2% (simple average) less than a third of the 6.1% recorded in 2007, and 1% below the average annual growth rate of 3% exhibited in 2001-2005. Most countries recorded marked slowdowns, and Anguilla and Saint Lucia posted slight drops in output. The phenomenon was particularly acute in Anguilla that went from an expansion of 21% in 2007 – associated with a boom in tourism-related construction and quarrying – to a contraction of 0.5% in 2008. With the exception of agriculture, all other sectors' performance explains this outcome. Within the ECCU, GDP growth in 2008 was led by Montserrat which posted a solid expansion of 6.2% that benefited from high growth rates in various sectors, especially agriculture.

In 2008, the fiscal position of both MDCs and ECCU remained similar to 2007, with the MDCs slightly reducing their fiscal deficit from 1.7% to 1.5% of GDP (simple average). By the same token, the ECCU repeated the fiscal deficit of 3.6% of output in 2008. Obviously, the chronic fiscal deficits shown by most countries have their flip side in the accumulation of public debt to finance them. As a rule of thumb, any public debt level above 40% of GDP can de deemed to be unsustainable. However, at the end of 2008 Guyana, Jamaica, Grenada and Saint Kitts and Nevis exhibited public debt stocks above 100% of GDP, whereas in Barbados, Belize, Antigua and Barbuda, Dominica and Saint Lucia, levels were between 70% and 100% of output. Fiscal debt sustainability in the Caribbean is a key challenge for most countries, hence the need to strengthen their public finances through some combination of increases in tax revenue, cuts in non-essential spending and enhancements of public expenditure efficiency. None of these are easy to implement, but should be addressed sooner rather than later.

During the first half of 2008, the main target of monetary policy across the Caribbean was the reduction or control of inflation mainly fuelled by hikes in international prices of food and energy. As fixed or quasi-fixed exchange rate regimes are the norm in the region with the exception of Jamaica, monetary policy was constrained by the need to sustain the pegs or dirty pegs vis-à-vis the United States dollar. Given the relative abundance of foreign financing, the main concern was indeed the pass-through of external inflation to domestic inflation. However, the situation radically changed during the second half of the year with the emergence of the global financial crisis and subsequent recession that extended into 2009. In this context, following the collapse of international commodity prices, the main concern of monetary authorities gradually shifted from curbing inflation to securing the stability of domestic financial systems and stimulating economic activity.

In 2008, inflation posted a rate of 9.3% in the MDCs (simple average), almost one percentage point higher than in 2007 and 3% higher than in 2004-2006. Almost all countries reported acceleration in inflation which was particularly intense in Trinidad and Tobago, where the inflation rate went from 7.6% in 2007 to 14.5% in 2008. On the other hand, the ECCU countries performed much better than the MDCs, with none of them posting two-digit inflation rates. The average inflation rate declined from 5.5% in 2007 (simple average) to 4.8% in 2008.

On the financial policy side, there were myriad actions taken in the aftermath of the collapse, intervention and bailout of the Colonial Life Insurance Financial Group (CLICO) in Trinidad and Tobago in January 2009. As a result, given that this institution had subsidiaries all around the Caribbean and other countries, in February 2009, CLICO subsidiaries in the Bahamas and Guyana were placed in receivership, followed by Belize in March. In addition, in April 2009 the central banks of Trinidad and Tobago, Barbados and the ECCU established the “Liquidity Support Fund” to rescue CLICO subsidiaries in the smaller Caribbean islands. The intervention of the Bank of Antigua (part of the Stanford Financial Group) by the ECCB in February 2009 was another important event associated with the collapse of a financial institution. Undoubtedly, given its regional importance, the collapse of CLICO has had and will keep having significant effects throughout the Caribbean, and calls for an overhaul of regulatory and supervisory mechanisms of the financial sector.

In the context of the global economic meltdown, Caribbean Governments have not stayed idle while the global crisis unfolded. On the contrary, from the second half of 2008 onwards, authorities across the region have been busy designing and implementing policy measures specifically aimed at ameliorating and offsetting the negative shocks on the domestic economies. Thus, a set of policies in different areas have been designed and implemented including monetary and fiscal policies, exchange rate and trade policies, sectoral policies, and labour and social policies.

In 2008 both the MDCs and the ECCU countries witnessed a widening of their trade and current account deficits relative to 2007 and to 2004-2006. The trade balance in the MDCs went from a deficit of 14.3% of GDP in 2007, to a deficit of 17% in 2008. The same is true in the ECCU countries that posted an increase in their trade deficit from 49.8% of GDP in 2007 to 51.8% in 2008 (simple average). Suriname and Trinidad and Tobago benefited from high commodity prices in the first half of the year and, as net food importers, from lower prices of foodstuff during the second half, thus increasing their trade surpluses as a share of GDP in 2008 (15.3% and 28.6% of GDP, respectively) relative to 2007 (13.7% and 26.2%).

As regards the current account, in 2008 the MDCs recorded a deficit of 5.9% of GDP (simple average), 2.8 percentage points higher than in 2007 and 0.7 higher than in 2004-2006. In the deficit countries, the evolution of the current account balance in 2008 relative to 2007 was governed by the behaviour of the trade balance in the same period. Surpluses in the services balance (mainly tourism and financial services) and remittances inflows partly offset trade deficits. This also applies to all ECCU countries, whose current account deficit widened from 35.2% of GDP in 2007 to 38.3% in 2008 (simple average). Meanwhile, the significant trade surpluses recorded by Suriname and Trinidad and Tobago in 2008 were only marginally offset (less than 1 percentage point of GDP) by the deficit in the other components of the current account.

Remittances remained an important source of external resources in the Caribbean in 2008. Notably, the financial crisis and resultant global recession did not have a major impact on remittance inflows to the region in 2008. Relative to exports, these flows fell from 30.5% of GDP in 2007 to 29.4% of GDP in 2008 in the MDCs (simple average) and also declined marginally relative to Foreign Direct Investment (FDI) to 120.8% in 2008. Moreover, between 2007 and 2008 remittances in the ECCU actually increased significantly both as a percentage of exports (from 60.9% to 68.2%) and of FDI (from 20.9% to 30.9%). It is worth mentioning that while in 2008 the MDCs reported a remittances-to-exports ratio less than a half that of the ECCU (29.4% and 68.2%, respectively), the remittances-to-FDI ratio in the former group (120.8%) was almost four times higher than the latter (30.5%).

Overall, ECCU countries recorded a better performance than the MDCs. Indeed, only Barbados, Guyana and Jamaica outperformed the ECCU average in 2008. However, the trend towards the worsening of economic performance is shared by both groups of countries. Even Trinidad and Tobago is witnessing a weakening in its economic fundamentals. The countries with a more vulnerable situation appear to be Anguilla, Jamaica, Grenada and Guyana.

The worsening economic conditions should be a matter of concern, as it started before the global economic recession emerged. Most Caribbean countries present some combination of excessive public debt, massive current account deficit and slow growth. In addition, except for Trinidad and Tobago, at the end of 2008 no Caribbean country had international reserves above 5.5 months of import cover, and in the majority of them was below three months. Evidently, the weak fiscal position exhibited by most Caribbean countries and the corresponding reduced fiscal space do not lend themselves to the application of counter-cyclical fiscal policies to offset the recessive impulses derived from the ongoing global economic turmoil. Thus, the capacity to devise and implement fiscal stimulus packages is dependent on access to multilateral and bilateral financing in a context of an already unsustainable public debt levels and scarce foreign private resources.

In addition, given the difficulties in accessing external finance, both private and official, within the current situation of the world economy, an additional important macroeconomic challenge faced by Caribbean countries is the sustainability of their fixed or quasi-fixed exchange rate regimes. Indeed, the reversal or even the mere reduction of foreign capital inflows would exert devaluating pressures on local currencies that, if acute enough, might eventually lead to currency crises. The other side of this phenomenon would be a substantial contraction of the current account deficits and a sharp decline in economic activity, as shown by different experiences of this type in other countries, let alone the inflationary impact, the devastating effects on entities with currency mismatches in their balance sheets and the increase in external debt service.

Looking ahead and beyond the macroeconomic problem at stake, the sustained real exchange rate appreciation is another matter of concern. Indeed, between 2000 and 2008, the bilateral real exchange rate vis-à-vis the United States dollar appreciated between 10% and 30% in all Caribbean countries with the exception of the Bahamas. In this context, the emergence of new activities and enterprises capable of competing both in domestic and external markets is very difficult. Therefore, production diversification, an outstanding long-term goal of Caribbean countries, would seem impossible to achieve in the medium term.

Prospects for 2009 indicate a growth rate of -0.6% in MDCs (simple average) and of -0.1% in the ECCU. The sharpest declines in output would be recorded by the Bahamas (-3.5%), Jamaica (-3%) and Barbados (-2.2%). The cancellation or postponement of tourism-related construction projects, the drop in exports of tourism services (and of financial services in Bahamas and Barbados), the decline in remittances and the fall in FDI and other foreign capital inflows already observed during the first half of the year are at the heart of this forecast and will affect with less intensity all ECCU countries and Belize. Naturally, in the case of the natural resource abundant countries, the main driver of the sharp slow down forecasted is the fall of international commodity prices, coupled with reduced external demand, but the remittances, FDI and foreign finance channels will also play a role.

Chapter I

REGIONAL ANALYSIS

This chapter presents a regional comparative analysis of the Caribbean countries both in terms of the evolution of the main macroeconomic variables and regarding the different policy responses implemented to cope with the current global economic crisis. First a brief assessment on the world economy is presented highlighting the gloomy prospects that are unfolding. The issues of output growth performance, fiscal policy and public debt, monetary policy and inflation, and main developments in the external sector are addressed, together with sectoral and social policies devised to ameliorate the impact of the world economic turmoil. The chapter ends with an evaluation of the overall economic performance of Caribbean countries in 2008 and prospects for 2009.

A. The global economic crisis

Since the bursting of the real estate bubble in the United States during the third quarter of 2007, the economic situation has kept worsening. The first victim of the collapse of real estate prices was households that engaged in mortgage loans during the high phase of the bubble, prompted by a combination of low interest rates, loose credit requirements – such as, no down payment, no verification of repayment capacity or credit history – in a context of weak regulation of financial markets, and the belief that real estate prices would keep growing forever. The second victim was financial institutions that granted mortgage loans to low income clients that, as a result of the collapse of real estate prices, defaulted on debt as the value of mortgage debt became higher than the market value of properties. But more harmful was the impact on the balance sheets of financial institutions that purchased mortgage-backed securities (the third victim), whose value plummeted as a result of the fall of real estate prices. This led to bankruptcies, mergers, acquisitions and rescue of troubled financial institutions that ended up in a systemic financial crisis in the United States by September 2008.

The financial crisis in the United States rapidly turned global due to the intensive use of mortgage-backed securities that were internationally traded. Thus, the fourth victim became foreign financial institutions based in Europe and other regions that were also severely affected by the collapse of real estate prices in the United States, due to their large holdings of toxic assets manufactured in that country. Finally, as financial institutions contracted credit sharply (credit crunch) in the United States and elsewhere, world economic activity slowed down eventually driving the real sector into a recession – i.e. two consecutive quarters of negative output growth – with its consequences on employment and welfare. Workers and the general population became the final victim of the global crisis.

Broadly speaking, there are two major characteristics of financial crisis. First, they are preceded by the rise and fall of a bubble, defined either as an unsustainable path of prices of financial assets or real estate, or as an unsustainable source of foreign capital inflows. Second, bubbles are fuelled by rapid credit expansion which contracts sharply following the contraction of the bubble thus bringing about recessive impulses on the real economy.

Bubbles are generated by an external shock to the economy after which a wave of optimism emerges, eventually becoming economic euphoria. An example of these shocks is the abundance of petrodollars in international banks in the aftermath of the oil price shocks of 1973 and 1979 that led to massive over-borrowing by developing countries, culminating in the debt crisis of the 1980s. Another example is the “Washington Consensus” reforms implemented in Mexico and Argentina that prompted a surge in foreign capital inflows which eventually led to the Mexican peso crisis of 1994-1995 and to the end of the Argentine convertibility in 2001-2002.

Sooner or later the period of euphoria came to an end due to a switch in expectations of market participants from optimism to pessimism.[1] This may happen because economic agents realise that financial assets and/or real estate prices are highly overvalued and many decline in the near future, or that macroeconomic imbalances are unsustainable (large current account deficits, excessive public debt levels, sustained real exchange rate appreciations) and will correct sooner rather than later. In an extremely schematic fashion, Table 1 presents the different phases of a typical financial crisis and its corresponding characteristics in the recent episode in the United States that led that economy to a recession. In many cases the phenomena associated with each phase overlap.

Table 1:
THE PHASES OF A FINANCIAL CRISIS AND THE CURRENT RECESSION IN THE UNITED STATES

Phases of a financial crisis	The financial crisis in the United States
1. External shock to the economy	1. Pronounced reduction of interest rates implemented by the Federal Reserve in order to overcome the mild recession of 2001 combined with loose financial regulation and supervision
2. Emergence of a bubble that is fuelled by rapid credit expansion	2. Massive mortgage borrowing that increased the demand for real estate and pushed prices upwards
3. Change in expectations from optimism to pessimism	3. Agents realised that real estate prices were overvalued, started selling them and stopped demanding them
4. Bursting of the bubble	4. Expectations become self-fulfilling: real estate prices started to decline bringing the bubble to an end
5. Panic, uncertainty, default on debt, sharp credit contraction, financial entities in trouble	5. As real estate is the main asset of households, this represented a severe blow on individual and household wealth with families defaulting on mortgage debt thus generating problems for financial entities. As non performing loans increased financial institutions contracted credit sharply.
6. Spill-over to the real economy	6. The negative wealth effect associated with the collapse of real estate prices drove households to reduce demand which was amplified by the contraction in domestic credit, bringing about a slow down in economic activity and eventually a recession. As the unemployment rate rose, demand declined, further intensifying the recessive impulses on the real economy and increasing debt default (not only mortgage debt, but also consumer and credit card debt)

Source: ECLAC.

As mentioned above, there is an additional ingredient that gives the current crisis its particular and unique feature, the extensive use of mortgage-backed securities that were internationally traded. As Krugman (2008) states, this is the main explanation of why the financial crisis in the United States internationalized so rapidly and in such a virulent manner. The fall in real estate prices in the United States represented a sharp contraction in the balance sheets of banks and other financial intermediaries mostly in the United States and Europe, eventually making them insolvent. Indeed, this factor has been dominant in the

[1] Alternatively, bubbles also come to en end as a result of economic policies, such as in the case of the dot.com bubble in the United States in 2000 that ended because of the decision of the Federal Reserve to withdraw excess liquidity injected in the system as a precautionary measure in anticipation of the Y2K problem.

explanation of the collapse of many financial institutions, far above the accumulation of non-performing loans due to mortgage and other debt default.

In order to confront the recession in their domestic economies, most Governments devised significant fiscal stimulus packages as perhaps the main policy response to the worrisome situation. Table 2 presents the stimulus packages implemented or in process of implementation in some large economies.

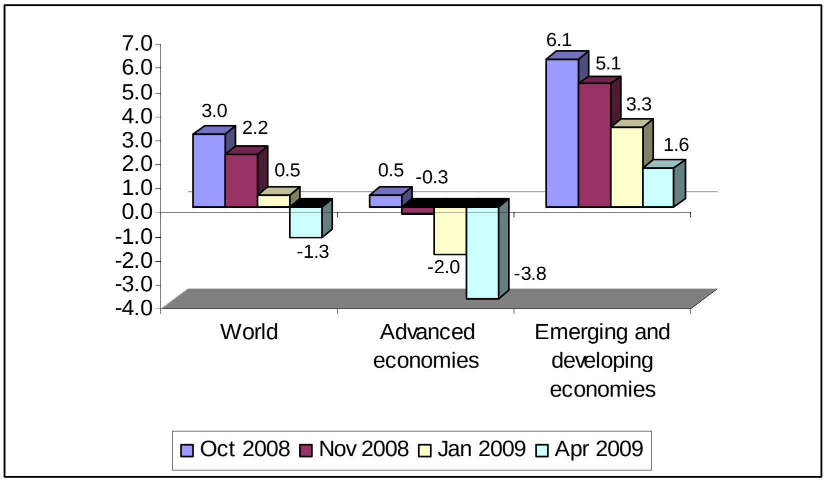
Table 2:
FISCAL STIMULUS PACKAGES IN SELECTED COUNTRIES, 2008-2009

Measure	Size	Description
United States		
- Fiscal Stimulus Package (Feb. 2008)	US$ 150 billion (1% of GDP)	Some 117 million households received tax rebates for up to US$ 600 for individuals and up to US$ 1,200 for married couples (plus US$ 300 per child); the plan also included tax cuts for businesses
- Fiscal Stimulus Package (Oct. 2008)	US$ 700 billion (5% of GDP)	Includes US$ 250 billion to recapitalise troubled financial institutions
- Fiscal Stimulus Package (Feb. 2009)	US$ 789 billion (5.5% of GDP)	US$ 282 billion will be allocated to tax cuts of both households and businesses; the rest will finance increased Government investment in infrastructure and social programs
- Financial Stability Plan	Up to US$ 2.7 trillion (19% of GDP)	Recapitalisation of banks, removal of toxic assets, reactivation of credit, and limit foreclosures; the plan will use and complement the TARP and the TALF and will finance up to US$ 1 trillion of illiquid assets
- Troubled Asset Relief Program (TARP)	US$ 700 billion (5% of GDP)	Recapitalisation of banks and purchase of impaired mortgage backed securities
- Term Asset Backed Securities Lending Facility (TALF)	Up to US$ 1 trillion (7% of GDP)	Loans to banks through the acquisition of troubled mortgage backed securities
- Homeowner Affordability and Stabilization Plan	US$ 275 billion (2% of GDP)	Fannie Mae and Freddie Mac doubled their funding commitments to US$ 100 billion each; US$ 75 billion to assist homeowners
United Kingdom		
- Fiscal Stimulus Package	£50 million (0.004% of GDP)	Reduce unemployment through the provision of start up capital for small businesses
- Financial Relief Program	£500 billion (34.7% of GDP)	£50 billion to recapitalise troubled banks, £250 billion to guarantee bank's bonds, and £200 billion to support liquidity
- Financial Asset Purchase Facility	£50 billion (3.5% of GDP)	Purchase of risky assets in order to reactivate credit markets
Germany		
- Fiscal Stimulus Package	€50 billion (2% of GDP)	Includes €18 billion in tax cuts and €17 billion to finance investment in infrastructure
Japan		
- Fiscal Stimulus Package	US$ 107.5 billion (2.5% of GDP)	Includes tax cuts for low income households, subsidies on foodstuff and loan guarantees for small and medium enterprises
- Fiscal Stimulus Package	US$ 154 billion (3.5% of GDP)	Includes investment in low carbon technology, job creation, health and childcare; incentives to scrap old vehicles
China		
- Fiscal Stimulus Package (Oct. 2008)	US$ 586 billion (14% of GDP)	The focus is infrastructure investment and social programs until 2010
India		
- Fiscal Stimulus Package	US$ 60 billion (2% of GDP)	Support to the export, real estate and infrastructure sectors

Source: ECLAC and Central Bank of Trinidad and Tobago (2009).

Despite the significant fiscal stimulus packages devised by many Governments in 2008, the economic situation and prospects continue to deteriorate since 2008. Figure 1 shows the downward revisions of the International Monetary Fund's forecast for world, advanced and emerging and developing economies growth between October 2008 and April 2009.

Figure 1:
IMF'S GROWTH FORECASTS, 2009
(Percentage)



Source: IMF (2008, 2009)

As shown, forecasts of GDP growth for 2009 have been consistently decreasing since the last quarter of 2008. Thus, world output growth forecast reduced by 4.3 percentage points, from 3% in October 2008 to -1.3% in April 2009. Likewise, advanced economies' GDP growth forecast declined from almost stagnation of 0.5% in October 2008 to a significant contraction of 3.8% in April 2009. Finally, although the latest forecast still indicates an expansion of emerging and developing countries' output (1.6%), this group of countries shared the same deteriorating trend in growth expectations as advanced economies. It is worth noting that as very high levels of uncertainty persist, it is very likely that these figures will be revised again and again in the upcoming months. Indeed, in June 2009 the World Bank forecasted a decline in world output of 3% during 2009, a 1.3 percentage point higher drop than its April 2009 projection.

The current economic crisis proved wrong two hypotheses that became part of the conventional wisdom during the boom years, that were fed by the real estate bubble in the United States and other countries. First, that the United States was no longer the engine of growth of the world economy, due to the recent impressive performance of large emerging countries such as China and India. However, currently few observers would dispute the fact that when the United States' economy is in trouble, the world economy is severely affected. The second hypothesis is that the United States dollar would soon be replaced as the main reserve currency. Indeed, as a result of the crisis, investors and central banks worldwide are seeking low risk instruments to invest in a process known as flight to quality, and one of the most demanded assets has been Treasury bills issued by the United States Treasury. This explains the significant appreciation of the United States Dollar from 1.9 United States dollars per Euro in mid 2008 to 1.4 in June 2009.

The global economic meltdown – referred to as the Great Recession – has intensified during the first six months of 2009. Moreover, it is likely that the situation deteriorates further and even extends to 2010. One major concern is the magnitude of the fiscal deficit and the level of public debt in the United States. The former during 2006-2008 amounted to some 40% of GDP. At the end of September 2007, public debt was around US$ 9 trillion or 65% of GDP. One year later it was near US$ 10 trillion or 71% of output. By mid-2009 it was above 75% of GDP.[2] This trend indicates that it might reach 100% of GDP by 2011. This means that the massive financing needs of the United States public sector over the next two to three years could crowd out domestic credit available to the private sector thus prolonging the credit crunch and the recession. Should the situation of the labour market be taken into account, the picture becomes gloomier, as during 2008 and January-June 2009, some 7.2 million jobs were lost, with more than half of them disappearing during the first six months of 2009. This explains why in June 2009, the unemployment rate reached 9.5%, the highest level since August 1983. Considering those that gave up seeking employment and those that would like to work more hours, this figure could climb to around 17%. Therefore, the immediate prospects are by no means optimistic and there is an emerging consensus around the idea that the world economic crisis would be the worse since the Great Depression of the 1930s.

B. GDP growth performance

In the Caribbean during 2008, the slowdown in economic activity initiated by the global financial crisis and ongoing recession the in 2007 became more acute with the worsening of external conditions. The MDCs[3] in 2008 grew by 1.7% (simple average), down from 3.3% in 2007 as shown in Table 3. The growth rate of 2008 was half of the annual average posted in 2001-2005 and below a third of the solid 5.2% recorded in 2006. The latter figure was led by Trinidad and Tobago that showed an exceptional economic expansion of 12.2% associated with abnormally high hydrocarbons production. Within this group of countries, GDP growth during the current decade has been led by countries abundant in natural resources, namely Suriname and Trinidad and Tobago, which benefited from an international scenario of high commodity prices. Suriname managed to record a growth rate of 5.2% in 2008 partly because the price of gold, one of its main mining products, remained at historically high levels, fostering production and investment. On the contrary, the Bahamas and Jamaica recorded declines in output due to the finalization or postponement of construction projects related to tourism activities in the Bahamas and also to adverse weather conditions that continued to affect agriculture, among other things, in Jamaica.

Table 3:
GDP GROWTH RATE, 2001-2008
(Percentage)

	2001-2005[a]	2006	2007	2008p
MDCs[b]	3.4	5.2	3.3	1.7
Bahamas	1.8	4.3	0.7	-1.7
Barbados	1.3	3.2	3.4	0.5
Belice	5.4	4.6	1.2	2.1
Guyana	0.5	5.1	5.4	3.1
Jamaica	1.6	2.7	1.4	-0.6
Suriname	5.7	4.5	5.3	5.2
Trinidad and Tobago	8.6	12.2	5.5	3.5
ECCU[b]	3.0	5.4	6.1	2.0
Anguilla	6.7	18.3	21.0	-0.5
Antigua and Barbuda	4.4	12.4	6.9	2.8
Dominica	0.8	3.7	1.8	3.2
Grenada	2.1	-2.3	4.5	0.3
Montserrat	0.7	-3.8	2.8	6.2
Saint Kitts and Nevis	3.2	2.5	2.9	2.5
Saint Lucia	2.7	4.9	1.7	2.0
Saint Vincent and the Grenadines	3.5	7.6	7.0	-0.5

Source: ECLAC on the basis of official data.
[a] Annual average.
[b] Simple average.
p = preliminary figures.

[2] At the end of 2008, public debt in the United States was estimated at US$ 10.6 trillion.
[3] Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago.

On the other hand, in 2008 the ECCU countries[4] posted a growth rate of 2% (simple average) less than a third of the 6.1% recorded in 2007, and 1% below the average annual growth rate of 3% exhibited in 2001-2005. Most countries recorded marked slowdowns, and Anguilla and Saint Lucia posted slight drops in output. The phenomenon was particularly acute in Anguilla that went from an expansion of 21% in 2007 – associated with a boom in tourism-related construction and quarrying – to a contraction of 0.5% in 2008. With the exception of agriculture, all other sectors' performance explain this outcome. Within the ECCU, GDP growth in 2008 was led by Montserrat which posted a solid expansion of 6.2% that benefited from high growth rates in various sectors, especially agriculture (see below).

Table 4 presents output growth by economic sector in 2007 and 2008. In the MDCs, the most dynamic sector in 2008 was construction, followed by services. Belize and Trinidad and Tobago stand out in construction output expansion, with growth rates of 35.2% and 15.7%, respectively. In Belize, this is explained by FDI-driven condominium development for tourists, whereas in Trinidad and Tobago a number of infrastructure improvement projects were undertaken partly in preparation for the Summit of the Americas that took place in Port of Spain in April 2009. Notwithstanding, the Bahamas, Barbados and Jamaica recorded contractions in the construction sector, mainly due to the freeze of a number of projects related to tourism activity. There were contractions in primary sectors in 2008, such as agriculture (-2.6%, simple average) and oil and mining (-1.4%). With the exception of Barbados, whose agriculture output remained almost stagnant in 2008, all other MDCs recorded declines in this sector's value added. Hurricane Gustav, which impacted the region in August 2008, was the cause of this behaviour mainly in Jamaica, whereas in other countries this was the result of some combination of high production costs, labour unrest, adverse weather conditions and pests, among other factors. The Bahamas and Barbados posted sharp declines in oil and mining output (-20.5% and -7.9%, respectively) due to a sharp fall in stone quarrying and salt mining in the former country, and to a significant decline in stone quarrying activity (that produces inputs for construction) in the latter. The drop in tourist arrivals during the second half of 2008 is reflected in the slowdown in the services sector in Barbados and Jamaica, while in the Bahamas growth in this sector was below 1% for the second year in a row. Finally, despite high manufacturing growth in Belize (13.4%) associated with the hike in petroleum and citrus juice production,[5] this sector remained sluggish in 2008. In the MDCs, five out of the seven countries posted negative growth rates in this sector (Bahamas, Barbados, Guyana, Jamaica and Suriname) partly explained by high production costs during the first half of the year, coupled with slow external demand both intra and extra-regionally during the second half of the year.

[4] Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Table 4:
GDP GROWTH BY ECONOMIC SECTOR, 2007-2008
(Percentage at constant prices in local currency)

	Agriculture[a]		Mining and oil[b]		Manufacturing		Construction		Services[c]	
	2007	2008p	2007	2008p	2007	2008p	2007	2008p	2007	2008p
MDCs[d]	-4.4	-2.6	-5.4	-1.4	1.1	0.2	3.9	6.3	4.5	3.5
Bahamas	-14.6	-5.8	-43.8	-20.5	-12.0	-1.8	5.1	-10.0	0.3	0.6
Barbados	2.2	0.3	-5.9	-7.9	-2.9	-2.3	0.1	-3.4	4.4	1.2
Belize	-20.7	-9.6	..	..	3.6	13.4	-3.0	35.2	5.0	3.0
Guyana	0.5	-4.9	22.5	6.1	1.2	-5.8	5.7	8.6	7.0	7.8
Jamaica	-6.0	-5.1	-2.7	1.1	0.2	-1.2	4.6	-5.5	2.2	0.3
Suriname	4.9	-1.7	-4.0	12.4	2.6	-4.9	8.2	15.7	5.9	6.0
Trinidad and Tobago	2.6	8.7	1.7	0.4	14.9	4.2	6.6	3.8	7.0	5.5
ECCU[d]	3.2	7.0	17.1[e]	9.5	5.2	-6.4	8.7	5.7	5.3	2.4
Anguilla	4.4	4.5	50.1	4.0	28.9	5.5	65.7	5.8	10.5	-2.2
Antigua and Barbuda	3.3	2.7	24.2	5.0	8.5	3.0	6.0	5.0	8.3	2.4
Dominica	-5.2	5.4	12.2	15.1	-3.8	-31	12.1	15.0	1.8	5.5
Grenada	4.8	11.8	0.1	-11	2.2	-8.9	-11.2	-14	4.7	2.3
Montserrat	-5.0	21.6	159.3	10.2	0.7	-1.5	-11.6	16.3	4.0	4.3
Saint Kitts and Nevis	8.3	-0.8	6.2	40.0	1.9	-5.0	4.4	4.5	3.0	4.0
Saint Lucia	0.8	18.8	13.1	2.5	1.7	-3.4	-10.3	3.3	3.5	2.4
Saint Vincent and the Grenadines	9.3	-7.7	14.1	10.2	1.1	-9.9	14.4	9.8	6.6	0.1

Source: ECLAC on the basis of official data.
[a] Includes fishing, forestry and livestock.
[b] Includes quarrying.
[c] Includes hotels and restaurants; wholesale and retail sales; finance, insurance and real estate; transport, communications and storage; and communal, personal and social services.
[d] Simple average.
[e] Excluding Montserrat.
p = preliminary figures.
.. = not available.

In the ECCU countries, growth in 2008 was led by primary activities such as mining and quarrying that grew by 9.5% (simple average), and agriculture that expanded by 7%. Half of these countries recorded increases in mining and quarrying above 10%, with an outstanding growth rate of 40% posted by Saint Kitts and Nevis that benefited from the demand stemmed from the construction of the West Basseterre Bypass road in St Kitts, the Link road project in Nevis and other private sector projects. On the contrary, Grenada recorded a contraction of 11% due to a sharp decline in construction activities (-14%) in the context of lower demand for real estate. In the case of agriculture, this activity was the engine of growth in Montserrat, where it posted an expansion of 21.6% after the decline of 5% recorded in 2007, due to a 40% fall in banana production brought about by Hurricane Dean. On the down side, except for Anguilla and Antigua and Barbuda, manufacturing contracted in all other countries. As a simple average, this sector posted a growth rate of -6.4% in 2008. The drop was particularly acute in Dominica (-31%) due to cessation of dental cream production, followed by Saint Vincent and the Grenadines (-9.9%) resulting from a reduction in output of flour, beer and feed due to decreased demand and rising production costs. In Grenada, the sector contracted by 8.9% stemming from the decline in production of soft drinks and beer. There were mixed results in the construction sector in 2008, with Dominica and Montserrat growing by 15% and 16.3%, respectively. Massive infrastructure projects, such as the Melville Hall Airport project in Dominica and the Little Bay Development Project in Montserrat and various road rehabilitation projects were the drivers of such expansion. Finally, the services sector more than halved its growth rate relative to 2007, growing by 2.4% in 2008 (simple average). Most countries were affected by the reduction of tourist arrivals during the second half of the year, with a decline in services output posted by Anguilla (-2.2%), stagnation in Saint Vincent and the Grenadines (0.1%) and slowdowns in Antigua and Barbuda, Grenada and Saint Lucia that grew below 2.5% in 2008, as compared to 8.3%, 4.7% and 3.5% in 2007, respectively.

C. Fiscal policy and public debt

In 2008, the fiscal position of both MDCs and ECCU remained similar as in 2007, with the MDCs slightly reducing their fiscal deficit from 1.7% to 1.5% of GDP (simple average). By the same token, the ECCU repeated the fiscal deficit of 3.6% of output in 2008. Within the MDCs, the major changes occurred in Barbados, whose deficit increased from 1.8% of GDP in 2007, to 5.9% in 2008, and in Trinidad and Tobago, whose fiscal surplus went from 1.7% of GDP in 2007 to a high 6.5% in 2008. In Barbados, this was due to a 12.8% increase in total public spending relative to 2007 (11.8% in current expenditure and 26.2% in capital outlays) intended to stimulate economic activity. In Trinidad and Tobago, this outcome was mainly the result of the behaviour of oil prices, as the public budget was designed on the assumption that the average oil price would be US$ 50 per barrel, but turned out to be an average for the price of US$ 93.15 per barrel. In Belize, dynamic receipts from petroleum taxes and substantial grant receipts led the transition from a fiscal deficit of 1.2% of GDP in 2007 to a surplus of 1.1% in 2008.

Table 5:
FISCAL BALANCE AND PUBLIC DEBT, 2004-2008
(Percentage of GDP)

	Fiscal balance			Public debt 2008p[a]	
	2004-2006[b]	2007	2008p	Foreign	Domestic
MDCs[c]	-3.1	-1.7	-1.5	34.4	34.1
Bahamas	-1.4	-1.5	-1.3	5.7	42.0
Barbados	-2.8	-1.8	-5.9	26.7	72.0
Belize	-5.1	-1.2	1.1	68.9	12.4
Guyana	-11.2	-7.4	-6.3	72.0	31.8
Jamaica	-4.6	-4.7	-6.8	48.7	58.1
Suriname	0.0	3.2	2.1	12.7	12.5
Trinidad and Tobago	3.5	1.7	6.5	5.8	9.7
ECCU[c]	-2.5	-3.6	-3.6	41.4	37.2
Anguilla	-1.7	-2.1	-3.9	6.4	16.6
Antigua and Barbuda	2.0	-6.4	-8.5	38.9	49.1
Dominica	0.9	1.0	0.8	66.6	26.7
Grenada	-1.7	-6.6	-6.5	78.5	27.8
Montserrat	-6.0	-6.4	-9.8	6.8	1.4
Saint Kitts and Nevis	-4.6	-2.4	0.4	57.2	113.1
Saint Lucia	-5.8	-2.2	-0.2	37.1	33.0
Saint Vincent and the Grenadines	-3.2	-3.6	-1.3	39.4	29.9

Source: ECLAC on the basis of official data.
[a] End of period.
[b] Annual average.
[c] Simple average.
p = preliminary figures.

In the case of the ECCU, the results were mixed with four of the countries recording improvements in their fiscal balances and the remaining four recording deteriorations. The best performance was posted by Saint Kitts and Nevis that went from a fiscal deficit of 2.4% of GDP in 2007 (and of 4.6% in 2004-2008) to a surplus of 0.4% of output in 2008. This process was led by increased grants and capital revenue (the latter by 47% reflecting income from the land reform programme) coupled with a contraction of capital expenditure of 35%. On the other hand, Saint Lucia and Saint Vincent and the Grenadines narrowed their fiscal deficits from 2.2% of GDP in 2007 (5.8% in 2004-2006) to 0.2% in 2008, and from 3.6% of GDP in 2007 (3.2% in 2004-2006) to 1.3% in 2008, respectively. The increase in tax revenue driven by the 53% rise in corporate taxes and lower capital outlays explained this outcome in Saint Lucia, whereas grant inflows of 3.3% of GDP did so in Saint Vincent and the Grenadines. On the downside, fiscal deficits widened to 3.9% of GDP in Anguilla in 2008 (2.1% in 2007), to 8.5% in Antigua and Barbuda (6.4% in 2007) and to 9.8% in Montserrat (6.4% in 2007). This situation confirms a deteriorating trend considering that these three countries averaged either lower fiscal deficit in 2004-2006 in the cases of Anguilla and Montserrat, or a fiscal surplus in Antigua and Barbuda (2% of GDP).

Obviously, the chronic fiscal deficits shown by most countries have their flip side in the accumulation of public debt to finance them. As a rule of thumb, any public debt level above 40% of GDP can de deemed to be unsustainable. However, at the end of 2008, Guyana, Jamaica, Grenada and Saint Kitts and Nevis exhibited public debt stocks above 100% of GDP, whereas in Barbados, Belize, Antigua and Barbuda, Dominica and Saint Lucia, levels were between 70% and 100% of output. Fiscal debt sustainability in the Caribbean is a key challenge for most countries, hence the need to strengthen their public finances through some combination of increases in tax revenue, cuts in non-essential spending and enhancements of public expenditure efficiency. None of these are easy to implement, but should be addressed sooner rather than later.

Indeed, some countries have already taken some steps in that direction, especially on the part of the elimination of unnecessary spending and improvements in efficiency as is shown in Table 6, which summarizes the main fiscal policy measures implemented during 2008 and the first half of 2009. For the MDCs, the Bahamas introduced cuts in public servants' international travel and is seeking to increase revenue through improvements in tax administration and collection, whereas Belize raised tax rates on gasoline and diesel by BZ$1.0 per imperial gallon each to BZ$2.58 and BZ$1.52, respectively, and increased business tax for telephone companies from 19% to 24.5%. On the expenditure side, Jamaica and Trinidad and Tobago reduced fiscal outlays for fiscal year 2008/2009 by some 17% and of 10.8%, respectively. However, it is clear that these measures have been driven by the shortfall in revenue and external commercial financing prompted by the global crisis and not by specific concerns regarding public debt sustainability, with the exception of Jamaica that has devised and is implementing a programme of fiscal and debt sustainability.

Table 6:
MAIN FISCAL POLICY MEASURES, 2008-JUNE 2009

Country	Policy measures
MDCs	
Bahamas	During the first quarter of 2009, Government borrowing increased by 6.5% relative to the previous quarter. Adjustment of the projected fiscal deficit for 2008/2009 from 2.1% to 3% of GDP or more. Redoubled efforts to collect revenues. Establishment of measures of fiscal discipline: international travel reduced to the minimum and only urgent staffing appointments will be approved.
Barbados	Issuance of debentures and treasury notes for US$ 135 million to provide liquidity to the public sector. Reduction in the excise tax payable on vehicles and in the value of the qualifying amount for a refund of VAT on building materials for first time home owners. Adjustment of utilities tariffs while trying to preserve access and affordability for everybody.
Belize	Increment in the excise tax on fuels of BZ$1 per imperial gallon. Business tax for telephone companies increased from 19% to 24.5%. Renewed efforts to ensure credit from multilateral sources for investment in infrastructure and to provide a stimulus for economic activity.
Guyana	Redoubled efforts to secure financing to pursue development objectives. Renewed initiatives to secure and conclude debt relief agreements with bilateral and commercial creditors
Jamaica	Negotiation of credits from several multilateral sources, for an estimated US$ 900 million, to support the Government's fiscal and debt sustainability programme. Contraction of the budget for the 2009/2010 fiscal year, which is 17% relative to 2007, reflecting austerity efforts by the Government. Engagement in preemptive talks with the IMF with a look towards securing a US$ 1 billion credit line.
Suriname	A working group including representatives from the Central Bank, the Ministry of Finance and other agencies, has been set up to formulate policy responses to the expected effects in 2009-2010 of the global slowdown on the real sector and the possible fallout as pertains to fiscal revenue
Trinidad and Tobago	Expansion of capital spending from 5.9% of GDP in fiscal year 2006/07 to 6.6% of GDP in fiscal year 2007/08. Cuts in outlays budgeted for fiscal year 2008/09 to match the projected revenue shortfall due to lower energy prices (10.8% relative to fiscal year 2007/08). Still, the fiscal deficit of the revised budget for the current fiscal year sets a fiscal deficit of 1.1% of GDP as opposed to a negligible surplus considered in the originally approved budget
ECCU	The Eight Point Stabilisation and Growth Programme was agreed in June 2009. It includes initiatives on fiscal reform, debt management, public investment, among others.
Anguilla	The Government announced that it may cut back on capital expenditure to control their expenses during 2009.
Antigua and Barbuda	Negotiation with the Caribbean Development Bank for an US$ 30 million loan to augment Government revenues and provide budgetary support for 2009. The Government announced a fiscal consolidation plan to balance public expenditures and revenues. Among the measures under discussion are the improvement of procurement practices; better management of vehicles; evaluation of the utility of rental quarters; and the enhancement of revenue collections.
Dominica	Accelerated implementation of the Public Sector Investment Programme (PSIP). Freeze on international travel for public servants except in exceptional circumstances. Freeze on the purchase of non-essential goods and services and reduction in energy consumption and telecommunications services in public agencies. Increase in income tax allowance and cut in tax rates.
Saint Lucia	Implementation of a stimulus package directed at creating short term employment in various projects including road rehabilitation, construction of drainage, beautification projects and refurbishment of public facilities

Source: ECLAC.

As regards the ECCU countries, the most active country appears to be Antigua and Barbuda, which has formulated the National Economic and Social Transformation Plan (NEST) and fiscal consolidation which includes measures to address a number of cuts in public spending (freeze on public sector employment and salary increases) and the enhancement of efficiency through the improvement of procurement practices and the use of vehicles. On the other hand, Dominica combined the cut or freeze of non-essential public expenses with an increase of tax free allowance from EC$15,000 to EC$18,000 per annum and a reduction in the tax rate in each income bracket designed to stimulate the economy. Meanwhile, both Saint Lucia and Dominica are implementing fiscal stimulus packages based on infrastructure projects to deal with the world economic meltdown. As regards the ECCU as a whole, the Organisation of Eastern Caribbean States (OECS) Authority in June agreed the Eight Point Stabilisation and Growth Programme to cope with the global economic crisis. This Programme includes a number of actions on the fiscal side such as public investment, debt management and fiscal reform. The effectiveness of this programme is yet to be seen, but the intention to confront the challenges posed by the gloomy external scenario is welcomed.

Last but not least, in relation to public debt and borrowing, Belize, Jamaica and Antigua and Barbuda are negotiating external credits from multilateral financial institutions to support different aspects of their public budgets. In particular, Jamaica is seeking to secure some US$ 900 million to support the Fiscal and Debt Sustainability Programme. In the case of Barbados, the issuance of debentures and treasury notes has been increased to secure financing of the public budget, whereas in the Bahamas, Government borrowing increased by 6.5% during the first quarter of 2009 relative to the previous quarter. Finally, Guyana hopes to conclude debt relief agreements with bilateral and commercial creditors.

D. Monetary policy, inflation and the financial sector

During the first half of 2008, the main target of monetary policy across the Caribbean was the reduction or control of inflation mainly fuelled by hikes in international prices of food and energy. As fixed or quasi-fixed exchange rate regimes are the norm in the region, with the exception of Jamaica, monetary policy was constrained by the need to sustain the pegs or dirty pegs vis-à-vis the United States dollar. Given the relative abundance of foreign financing, the main concern was indeed the pass-through of external inflation to domestic inflation.

However, the situation radically changed during the second half of the year with the emergence of the global financial crisis and subsequent recession that has extended into 2009. In this context, following the collapse of international commodity prices, the main concern of monetary authorities gradually shifted from curbing inflation to securing the stability of domestic financial systems and stimulating economic activity.

In 2008, inflation posted a rate of 9.3% in the MDCs (simple average), as presented in Table 7, almost one percentage point higher than in 2007 and 3% higher than in 2004-2006. Almost all countries reported acceleration in inflation which was particularly intense in Trinidad and Tobago, where the inflation rate went from 7.6% in 2007 to 14.5% in 2008. Food price inflation that recorded a rate of 30.6% (16.8% in 2007) was at the heart of this phenomenon. On the contrary, Guyana recorded a sharp decline in the inflation rate from 14.1% to 6.4% in 2007 and 2008, respectively, driven by a significant slowdown in food inflation which dropped from 20% in 2007 to 11.6% in 2008. The latter was the result of a combination of the fall in international prices during the second half of 2008, tax cuts on certain basic products, and subsidies to producers of flour, rice and sugar. Meanwhile, Jamaica’s inflation remained unchanged in 2008 at a high 16.8% driven also by imported food inflation that posted a rate of 24.1% in 2008 (24.7% in 2007).

Table 7:
INFLATION, 2004-2008
(Percentage)

	Inflation rate[a]		
	2004-2006[c]	**2007**	**2008p**
MDCs[d]	**6.4**	**8.4**	**9.3**
Bahamas	1.8	2.9	4.5
Barbados	5.8	4.7	7.3
Belize	3.4	4.1	6.4
Guyana	6.0	14.1	6.4
Jamaica	10.6	16.8	16.8
Suriname	9.7	8.3	9.4
Trinidad and Tobago	7.5	7.6	14.5
ECCU[d]	2.8	5.5	4.8
Anguilla	6.3	3.5	5.1
Antigua and Barbuda	1.8	5.2	2.3
Dominica	1.8	6.0	1.9
Grenada	3.5	7.4	5.2
Montserrat	2.6	4.0	4.5
Saint Kitts and Nevis	5.2	2.1	7.6
Saint Lucia	2.7	8.2	3.8
Saint Vincent and the Grenadines	3.5	8.3	8.7

Source: ECLAC on the basis of official data.
a December-December.
b Domestic credit to the private sector as a share of GDP; annual average.
c Annual average.
d Simple average.
p = preliminary figures

On the other hand, the ECCU countries performed much better than the MDCs, with none of them posting two-digit inflation rates. Moreover, the average inflation rate declined from 5.5% in 2007 (simple average) to 4.8% in 2008. However, there were mixed results among countries, such as Dominica, which experienced a decline in the inflation rate from 6% in 2007 to 1.9% in 2008, mainly due to the complete pass-through of the drop of international oil prices during the second part of the year, and Saint Kitts and Nevis where inflation accelerated from 2.1% to 7.6% driven by increases in transportation and housing prices.

Table 8 lists the main monetary and financial policy measures implemented in 2008 and January to June of 2009. It is worth mentioning that the monetary authorities of Belize, Suriname and the ECCU took a neutral monetary policy position in this period. As regards interest rates, the reference rate was increased three times in Trinidad and Tobago during 2008, to curb inflation and then lowered also three times to stimulate the economy when the effects of the crisis began to be felt in 2009. By the same token, in Barbados the minimum deposit rate payable for deposits was reduced from 4.75% to 4% to induce a reduction in loan rates and foster business activity. Barbados also established a repurchase agreement facility to assist commercial banks to obtain cheap credit lines from abroad.

Table 8:
MAIN MONETARY AND FINANCIAL POLICY MEASURES, 2008-JUNE 2009

Country	Policy measures
Bahamas	Official commitment to ensure international best practices in order to avoid being considered as an uncooperative jurisdiction regarding money laundering and terrorist financing. Intervention of CLICO in February 2009
Barbados	Reduction of the minimum rate of interest payable on deposits to reduce the cost of doing business from 4.75% in April 2008 to 4% in the third quarter and further to 3% in February 2009. Establishment of a repurchase agreement facility to assist commercial banks to obtain cheaper credit.
Belize	Monetary policy relatively neutral maintaining the statutory reserve requirements at 10% for the cash ratio and 23% for the liquid assets ratio. Intervention of CLICO in March 2009
Guyana	Passing of new anti money laundering and money transfer legislation, and credit bureau establishment legislation, including improvements to the Financial Institutions Act. Intervention of CLICO in February 2009
Jamaica	Establishment of a special loan facility on foreign currency for security dealers and deposit taking institutions. Establishment of an intermediation facility on deposits and loans in local and foreign currency. Increment in the cash reserve requirement and liquid assets requirement for commercial banks, merchant banks and building societies. Increased interest rates across the spectrum of open markets instruments
Suriname	Neutral monetary policy. The reserve requirement on commercial banks remained unchanged at 25%. In March 2009 the Central Bank announced it was going to closely monitor CLICO’s activities
Trinidad and Tobago	Withdrawal of excess liquidity due to fiscal injections through a combination of open market operations and sales of foreign exchange. Increase of the cash requirement ratio applicable to commercial banks by 6 percentage points to 17%. Increase of the repo rate three times by 25 basis points each in February, July and September 2008 to 8.75%; repo rate lowered to 8.5% in March 2009 and further to 8% in April and to 7.5% in June. Intervention of CLICO in January 2009
ECCU	Neutral monetary policy. Establishment of the “Liquidity Support Fund” to deal with the CLICO affair together with the central banks of Barbados and Trinidad and Tobago
Antigua and Barbuda	Intervention of the Bank of Antigua owned by the Stanford Financial Group

Source: ECLAC.

On the financial policy side, there were myriad actions taken in the aftermath of the collapse, intervention and bailout of the CLICO in Trinidad and Tobago in January 2009. As a result, given that this institution had subsidiaries all around the Caribbean and other countries, in February 2009, CLICO subsidiaries in the Bahamas and Guyana were placed in receivership, followed by Belize in March. In addition, in April 2009 the central banks of Trinidad and Tobago, Barbados and the ECCU established the “Liquidity Support Fund” to rescue CLICO’s subsidiaries in the smaller Caribbean islands. The intervention of the Bank of Antigua (part of the Stanford Financial Group) by the ECCB in February 2009 was another important event associated with the collapse of a financial institution. Box 1 briefly discusses the CLICO affair.

BOX 1:
THE RISE AND FALL OF CLICO

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.

On 30 January, 2009, the Government and the Central Bank of Trinidad and Tobago (CBTT) announced a decision to bail out CLICO Investment Bank (CIB) in order to maintain the stability of the financial sector, prevent contagion of other financial institutions and protect depositors' funds. According to the CBTT, the problem of the CIB was three-fold. First, excessive related-party transactions, which carry significant contagion risks (although it was not prohibited by legislation), second, the aggressive high interest rates offered to attract resources to finance high risk investments, much of them in illiquid assets (including real estate in Trinidad and Tobago and elsewhere); third, high leveraging of CL Financial Ltd. assets, which constrains the potential amount of cash that could be raised from the sale of assets.

This decision is the main event related to the financial sector in the Caribbean during 2008 and the first semester of 2009, and prompted a chain reaction in other Caribbean countries where CLICO had operations. These are summarized below.

The bailout of CLICO Trinidad and Tobago and its domino effect

Country	**Actions adopted**
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	The Central Bank took actions in support of CLICO subsidiaries in Barbados during February, providing 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 has been 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 order to guarantee CLICO Guyana's policyholders and investors, at the beginning of April it was announced that the Government would allocate up to US$ 34 million over a 10-year period. 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 policyholder's interests and in consultation with the institution's officers to find a solution to the growing liquidity and solvency problems faced by the financial group in the country
Trinidad and Tobago	In April it was announced that Trinidad and Tobago would be spending approximately TT$5 billion during the next two years in the bailout. In addition, the Central Bank agreed to participate in a regional "Liquidity Support Fund" to rescue CLICO subsidiaries in the smaller Caribbean countries. After months of legal struggles between the authorities and CLICO's former management, in June an agreement was reached with the shareholders, placing the administration and control of the financial assets in the hands of a new board of directors with the inclusion of Government representatives.
ECCU	During April, the Eastern Caribbean Central Bank agreed to participate in a regional "Liquidity Support Fund" to rescue CLICO subsidiaries in the smaller Caribbean countries.

In March, during the Meeting of the Heads of Governments of CARICOM, it was agreed that the CLICO crisis was an issue that demanded concerted action, approving the creation of a "College of Regulators" formed by 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 region.

Similarly, during April the central banks of Trinidad and Tobago, Barbados and the ECCU agreed on the establishment of a "Liquidity Support Fund", with a total of US$ 80 million to provide financial support to the ECCU countries that are at financial risk as a consequence of CLICO's collapse.

Source: ECLAC.

Market interest rates within the region recorded mainly small variations during 2008, reflecting no variations in reference interest rates in most countries as shown in Table 9. Thus, the loan rate in the MDCs fell slightly from 13.6% in 2007 to 13.4% in 2008 (simple average), while the deposit interest rate remained at 4.6%. Barbados and Suriname were the countries where loan rates dipped the most, whereas in the other countries these rates fell only marginally or even increased. Similarly, the highest fall in the deposit interest rate was posted by Barbados, where the leading interest rate for savings dipped from 5.5% in 2007 to 4.5% mainly reflecting the cut in the minimum rate payable to deposits. As a result of the small changes in market interest rates, interest rate differentials between loan and deposit rates did not vary much in 2008. In the MDCs, the evolution of this indicator was mixed. While in Bahamas, Belize, Guyana and Suriname it declined, in Barbados, Jamaica and Trinidad and Tobago it expanded. As a simple average, the interest rate differential in this group of countries experienced a slight reduction from 9 to 8.8 percentage points. It is worth mentioning that the notoriously high loan interest rates reported in Jamaica and the corresponding wide interest rate differentials is not a new phenomenon but a structural one, partly resulting from high operating costs of financial institutions and large issuances of domestic debt by the public sector.

Table 9

LIQUIDITY AND INTEREST RATES, 2007-2008

(Percentage)

	Loan rate		Deposit rate		Interest rate differential[a]		M3/GDP[b]	
	2007	2008p	2007	2008p	2007	2008p	2007	2008p
MDCs	13.6	13.4	4.6	4.6	9.0	8.8	66.4	66.6
Bahamas	10.6	11.0	3.7	3.9	6.9	7.1	74.7	77.9
Barbados	10.5	9.7	5.5	4.5	5.0	5.2	120.1	114.4
Belize	14.3	14.1	6.0	6.4	8.3	7.7	68.0	70.9
Guyana	14.1	13.9	3.2	3.1	10.9	10.8	75.1	78.0
Jamaica	22.0	22.3	5.0	5.1	16.9	17.2	33.7	29.9
Suriname	13.3	12.0	6.4	6.3	6.9	5.7	54.9	57.1
Trinidad and Tobago	10.6	11.1	2.7	2.9	7.9	8.2	38.4	38.3
ECCU	9.6	9.4	3.2	3.2	6.4	6.2	106.1	102.0
Anguilla	9.6	9.7	3.6	3.9	6.0	5.8	162.8	151.6
Antigua and Barbuda	10.4	10.1	3.3	3.3	7.1	6.8	93.6	90.2
Dominica	9.2	8.9	3.2	3.2	6.0	5.7	91.7	89.6
Grenada	9.6	9.2	3.0	3.2	6.6	6.0	102.7	101.7
Montserrat	10.3	9.6	2.6	2.5	7.7	7.1	120.7	113.2
Saint Kitts and Nevis	9.0	8.6	3.8	3.7	5.2	4.9	117.6	112.8
Saint Lucia	9.4	9.6	3.0	2.9	6.4	6.7	89.4	90.5
Saint Vincent and the Grenadines	9.6	9.6	2.8	2.8	6.8	6.8	70.5	66.7

Source: ECLAC on the basis of official data.
[a] Percentage points (loan rate minus deposit rate).
[b] End of year. In Belize, Guyana, Suriname and the ECCU countries corresponds to M2/GDP.
p = preliminary figures.

In the case of the ECCU countries, that share a common monetary policy spearheaded by the Eastern Caribbean Central Bank (ECCB), the evolution of interest rates was similar, with the average loan rate falling marginally from 9.6% in 2007 to 9.4% in 2008, and the deposit rate remaining constant at 3.2%. As a result, the interest rate differential fell slightly by 0.2 percentage points. Overall, the interest rate differential is lower in the ECCU than in the MDCs (simple average), but this reflects neither more competition nor better regulation of financial markets in the former group than in the latter. Indeed, Jamaica's figure explains the difference, having exhibited an interest rate differential that topped 17.2 percentage points in 2008, more than doubling the MDCs simple average (8.8). On the contrary, Barbados and Suriname posted lower figures in 2008 (5.2 and 5.7 percentage points, respectively), even below those recorded by all ECCU countries, except for Saint Kitts and Nevis (4.9 percentage points).

Liquidity, as measured by the M3-to-GDP ratio, between 2007 and 2008 increased by 0.2 percentage points in the MDCs to 66.6% (simple average). However, this average hides different evolutions among countries, with four of them exhibiting increases and the remaining three recording declines. The major change in absolute terms was recorded by Barbados, where M3 dropped from 120.1% of GDP in 2007 to 114.4% in 2008. It is noted that Barbados showed the highest liquidity levels within the MDCs by a large margin, expressing major financial depth. On the contrary, Jamaica presents the lowest levels, just below 30% in 2008. In the case of the ECCU countries, M2 – the broader definition of money used by the ECCB – liquidity expanded at a slower pace than nominal GDP, so that the M2-to-GDP ratio dipped from 106.1% in 2007 to 102% in 2008. Anguilla, Montserrat and Saint Vincent and the Grenadines were the countries where liquidity contracted the most. Indeed, the level of financial depth in the ECCU is much higher than in the MDCs, partly reflecting the differences in size between these groups of countries.

Finally, although the region was relatively sheltered from the unrest in the global financial market during 2008, some major developments during the first half of 2009 have put the reliability and solvency of financial systems under question. As mentioned above, the collapse of CLICO Trinidad and Tobago and the seizure of the Bank of Antigua, as a consequence of some combination of mismanagement, bad investments, overexposure to risky assets, and even possible criminal actions made evident that regulation and supervision of financial institutions throughout the Caribbean needed an overhaul. This is particularly urgent in countries that are more dependent on financial services, namely the Bahamas and Barbados, and involves fighting related-party lending, improving market transparency and information, combating money laundering and establishing and enforcing clear limits on high risk investments on the part of financial institutions. In the case of Trinidad and Tobago, a number of legislative initiatives intended to address these and other related issues have already been approved, awaiting Parliamentary approval. The next step should be to guarantee law enforcement.

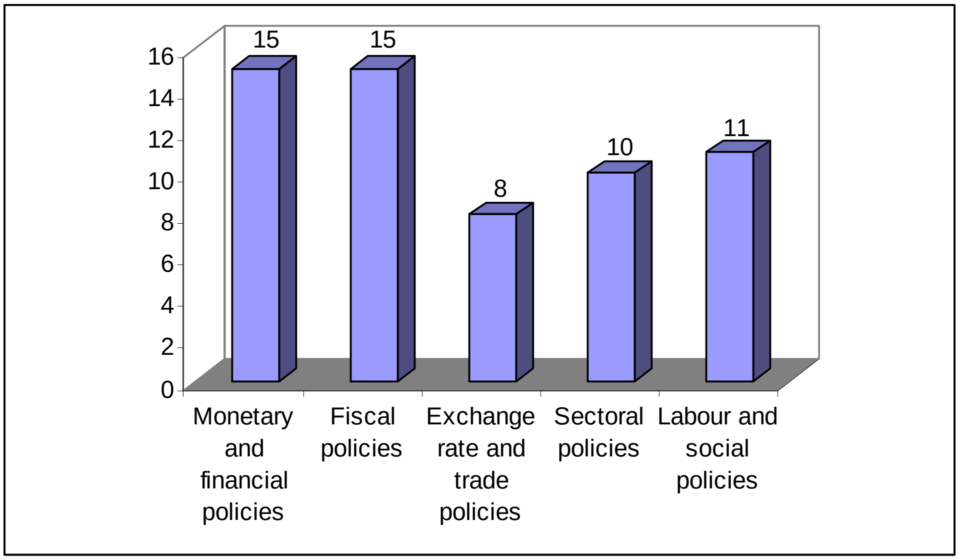
E. Policies to cope with the global economic crisis

As with the rest of the world, the Caribbean region was impacted by the global economic and financial crisis during the second half of 2008, which was reflected in a significant and generalized slowdown in economic activity, lower demand for exports, declines in tourist arrivals, remittance flows and fiscal revenue. Undoubtedly, during the second half 2009 the region will continue to face these and other serious economic challenges which, if not addressed adequately, could bring about setbacks in poverty reduction and other social gains achieved during the last decades. Moreover, the reduction or eventual reversal of foreign capital inflows that in recent years allowed most countries to finance large current account deficits in recent years would put pressure on exchange rate pegs as discussed in the next section.

In this context, Caribbean Governments have not stayed idle while the global crisis unfolded. On the contrary, from the second half of 2008 onwards, authorities across the region have been busy designing and implementing policy measures specifically aimed at ameliorating and offsetting the negative shocks on the domestic economies. Thus, a set of sector-specific policies have been designed and implemented including monetary and fiscal policies, exchange rate and trade policies, sectoral policies, and labour and social policies.

Figure 2 presents information on these measures between the third quarter of 2008 and the second quarter of 2009.

Figure 2
NUMBER OF COUNTRIES THAT IMPLEMENTED DIFFERENT TYPES OF POLICY RESPONSES TO THE GLOBAL CRISIS, JULY 2008- JUNE 2009[a]



Source: ECLAC on the basis of official information.

[a] Include policies in the process of implementation or that have been announced.

As can be seen, between mid-2008 and mid-2009, all Caribbean countries had implemented or are in the process of implementing monetary, financial and fiscal policies. The former set of measures mainly refer to cuts in interest rates (Barbados and Trinidad and Tobago), establishment of facilities to enhance credit (Barbados and Jamaica), and different measures to deal with the CLICO affair in all countries, with the exception of Jamaica.

As regards fiscal policy, all MDCs devised some measures aimed at offsetting the shortfall of revenue either through increasing borrowing from external and/or domestic sources (Barbados, Belize, Guyana, Jamaica and Suriname) or allowing the deficit to widen (Bahamas and Trinidad and Tobago). In addition, projected and disbursed public spending were cut or constrained in a number of countries. On the other hand, following a Special Meeting of the Monetary Council that took place in May 2009, finance ministers of the ECCU agreed to pursue a common stabilisation and growth policy. During June 2009, the Eight Point Stabilization and Growth Programme was agreed to cope with the world economic crisis. It includes fiscal reform, debt management and public investment, among other initiatives. Other fiscal measures were implemented or are in the process of implementation by individual countries, as shown in Table 6, but this is the only initiative that encompasses all ECCU countries.

Exchange rate and trade policies are the areas where the Caribbean countries were less active. Indeed, Jamaica was the only country that explicitly implemented exchange rate policy measures by selling US$ 432 million during the last quarter of 2008 to moderate the depreciating trend of its currency. However, as the other countries have in place either fixed or quasi-fixed exchange rate regimes, it can be said that the very fact that they have managed to maintain them is proof that all central banks may have been very active in the foreign exchange market. In the case of trade policy, the main measures pursued were the partial suspension of the common external tariff within CARICOM implemented by Grenada, Saint Kitts and Nevis and Saint Lucia, the increase of import duties on gas and diesel in Belize and the call of the Government of Guyana for a moratorium in the implementation of the Economic Partnership Agreement (EPA) between the European Union and CARIFORUM (CARICOM plus the Dominican Republic) to focus on dealing with the crisis. All in all, not considering the countries that managed to defend their exchange rate pegs, except for Jamaica that has a dirty floating regime – eight CARICOM countries promote trade or exchange rate policy measures.

Last but not least, social policies and programmes have been at the centre of the public agenda during the last years. Indeed, fostered by the Millennium Development Goals (MDGs) 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 regions about the likely effects of the global economic crisis on the fight against poverty. Aiming at preserving social progress threatened by the global economic meltdown, 11 Caribbean countries are implementing measures in the labour and social areas, including unemployment schemes (Bahamas, Antigua and Barbuda, Saint Vincent and the Grenadines), increases of salaries and wages for public servants (Belize, Guyana, Jamaica), rises in minimum wages (Jamaica, Dominica, Saint Kitts and Nevis), conditional transfer programmes (Barbados, Belize), increases of transfers and subsidies in general through different programmes (Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, Saint Vincent and the Grenadines), and price controls for basic items (Belize).

All in all, given the chronic shortfall in fiscal revenue that is the situation in all CARICOM countries, except for Suriname and Trinidad and Tobago, policy responses to cope with the global economic crisis would not have been possible without the financing provided by multilateral sources. Such resources give some fiscal space to introduce certain counter-cyclicality in economic and social policies in the context of decreasing tax revenue and demanding public debt service. As of June 2009, many countries either had already secured contingent credit lines from multilateral institutions or were actively negotiating with them. Jamaica, the biggest and most populated CARICOM country whose fiscal situation is one of the most vulnerable, has by far been the most active and successful negotiator, having secured by the first quarter 2009 no less than US$ 900 million in contingent credits from the World Bank, the Caribbean Development Bank (CDB), and other institutions, in order to support its Fiscal and Debt Sustainability Programme, as well as the expansion of its main social program, the Programme of Advancement Through Health and Education (PATH).

There is increasing concern among policymakers about the costs that the current turmoil may have on the economies of the region. Should the crisis extend to 2010 it will represent a serious challenge for the economic and social stability of Caribbean countries. In that scenario, authorities will have to bring into play new and extended policy measures both at the national and at the regional level, and will have to obtain additional funding from the international community.

F. The external sector

There are three salient features in the trade and current account balances of Caribbean countries that depend on production patterns, i.e. whether they are specialized in the production of metals and/or hydrocarbons or not. This divides countries in two groups, Suriname and Trinidad and Tobago on one side, and the remainder on the other. The first feature is the massive trade and current account deficits shown by the latter group and the surpluses exhibited by the former. The second one is that in Suriname and Trinidad and Tobago huge trade surpluses are coupled with relatively small net deficits in the other components of the current account, namely the balance of services, the balance of income (that includes interest payments and profit remittances) and the balance of transfers (that includes workers' remittances). Thus, in Suriname and Trinidad and Tobago the trade surpluses are lower than the current account surpluses. The third feature is that in the other countries the opposite is true: huge trade deficits are coupled with sometimes significant surpluses in the other components of the current account. As a result, the trade deficits are higher than the current account deficits. These three features are confirmed looking at table 10.

Table 10
TRADE AND CURRENT ACCOUNT BALANCE, 2004-2008
(Percentage of GDP)

	Trade balance			Current account balance		
	2004-2006[a]	**2007**	**2008p**	**2004 -2006**	**2007**	**2008p**
MDCs[a]	-12.9	-14.3	-17.0	-5.2	-3.1	-5.9
Bahamas	-25.2	-28.7	-28.2	-10.4	-17.5	-13.9
Barbados	-33.8	-30.7	-33.3	-10.9	-5.3	-10.4
Belize	-17.4	-16.9	-23.3	-10.2	-4.1	-10.8
Guyana	-22.8	-34.0	-43.3	-18.5	-17.6	-25.8
Jamaica	-22.4	-29.8	-34.8	-8.0	-15.8	-22.5
Suriname	6.3	13.7	15.3	-2.2	14.2	14.6
Trinidad and Tobago	25.2	26.2	28.6	24.1	24.6	27.8
ECCU[a]	-45.0	-49.8	-51.8	-25.3	-35.2	-38.3
Anguilla	-68.7	-77.0	-82.8	-45.4	-67.9	-76.2
Antigua and Barbuda	-48.6	-53.2	-51.1	-23.0	-32.9	-31.3
Dominica	-32.9	-39.9	-44.9	-20.6	-25.0	-30.8
Grenada	-44.4	-48.4	-49.8	-28.2	-42.9	-45.3
Montserrat	-55.1	-50.8	-59.0	-25.4	-22.8	-35.1
Saint Kitts and Nevis	-30.2	-37.1	-40.5	-16.5	-21.5	-24.1
Saint Lucia	-41.3	-48.7	-43.5	-20.0	-34.2	-26.9
Saint Vincent and the Grenadines	-39.0	-43.2	-42.6	-23.4	-34.2	-36.5

Source: ECLAC on the basis of official data.
a Annual average.
b Simple average.
p = preliminary figures.

As can be seen, in 2008 both the MDCs and the ECCU countries witnessed a widening of their trade and current account deficits relative to 2007 and to 2004-2006. The trade balance in the MDCs went from a deficit of 14.3% of GDP in 2007 to a deficit of 17% in 2008. This process was more acute in Guyana (9.3 percentage points of GDP), Belize (6.4) and Jamaica (5). The magnitude of these changes depended, among other things, on the trade effect of higher commodity prices coupled with stronger export demand observed during the first half of 2008 relative to the combination of lower food and energy prices with weaker demand for exports during the second half of the year. The same is true in the ECCU countries that posted an increase in their trade deficit from 49.8% of GDP in 2007 to 51.8% in 2008 (simple average). The contraction of more than 5 percentage points of GDP in the trade deficit in Saint Lucia was driven by rapid growth in goods exports that outpaced imports. On the other hand, Suriname and Trinidad and Tobago benefited from high commodity prices in the first half of the year and, as net food importers, from lower prices of foodstuff during the second half, thus increasing their trade surpluses as a share of GDP in 2008 (15.3% and 28.6% of GDP, respectively) relative to 2007 (13.7% and 26.2%).

As regards the current account, in 2008 the MDCs recorded a deficit of 5.9% of GDP (simple average), 2.8 percentage points higher than in 2007 and 0.7 higher than in 2004-2006. In the deficit countries, the evolution of the current account balance in 2008 relative to 2007 was governed by the behaviour of the trade balance in the same period. Surpluses in the services balance (mainly tourism and financial services) and remittances inflows partly offset trade deficits. This also applies to all ECCU countries, whose current account deficit widened from 35.2% of GDP in 2007 to 38.3% in 2008 (simple average). Meanwhile, the significant trade surpluses recorded by Suriname and Trinidad and Tobago in 2008 were only marginally offset (less than 1 percentage point of GDP) by the deficit in the other components of the current account.

Remittances remained an important source of external resources in the Caribbean in 2008 as shown in table 11. Notably, the financial crisis and resultant global recession did not have a major impact on remittance inflows to the region in 2008. Relative to exports, these flows fell from 30.5% of GDP in 2007 to 29.4% of GDP in 2008 in the MDCs (simple average) and were also marginally down relative to FDI to 120.8% in 2008. Moreover, between 2007 and 2008 remittances in the ECCU actually increased significantly both as a percentage of exports (from 60.9% to 68.2%) and of FDI (from 20.9% to 30.9%). It is worth mentioning that while in 2008 the MDCs reported a remittances-to-exports ratio less than a half that of the ECCU (29.4% and 68.2%, respectively), the remittances-to-FDI ratio in the former group (120.8%) was almost four times higher than in the latter (30.5%).

Table 11

REMITTANCES, 2004-2008

(Percentage)

	Remittances/Exports of goods			Remittances/FDI		
	2004-2006	2007	2008p	2004-2006	2007	2008p
MDCs[b]	29.6	30.5	29.4	173.9	121.8	120.8
Bahamas	..	..	..	..	..	..
Barbados	34.8	29.1	36.4	251.6	60.0	126.0
Belize	7.8	12.3	16.1	25.2	37.5	42.5
Guyana	33.3	39.9	34.9	328.4	253.2	156.5
Jamaica	99.9	90.7	80.2	250.6	247.4	273.2
Suriname	0.5	10.3	8.1	.. [a]	.. [a]	.. [a]
Trinidad and Tobago	1.1	0.8	0.5	13.9	11.1	5.6
ECCU[b]	62.5	60.9	68.2	41.9	20.9	30.5
Anguilla	61.6	80.3	65.1	5.9	6.2	8.4
Antigua and Barbuda	30.9	31.8	34.2	10.0	6.7	10.3
Dominica	56.1	66.6	82.7	102.4	48.8	57.6
Grenada	173.3	135.1	209.8	79.1	31.6	39.7
Montserrat	24.2	18.8	13.1	38.3	9.8	30.7
Saint Kitts and Nevis	55.9	64.0	65.3	39.0	23.5	42.2
Saint Lucia	31.2	30.6	16.7	22.6	12.2	29.6
Saint Vincent and the Grenadines	66.6	60.4	58.6	38.2	28.2	25.6

Source: ECLAC, on the basis of World Bank, Migration and Remittances Handbook, 2008; and official information.
a Suriname experienced net FDI outflows in these years.
b Simple average.
.. = not available.

The current account deficit is the excess of expenditure over income, thus, it needs to be financed either domestically by international reserves, or by capital inflows from abroad. Table 12 shows FDI and financial capital (including errors and omissions) as a share of GDP in 2004-2008. A cursory look at the averages reveals that in general the Caribbean countries have relied more upon FDI than financial capital to finance current account deficits.[6] This is a welcome outcome, as FDI possesses a number of advantages over financial capital, such as

[6] The exception is the ECCU in 2008, where financial capital outpaced FDI by 1.4 percentage points of GDP (17.9% versus 19.3%).

less volatility and uncertainty, and the fact that it creates productive capacity and employment, as well as facilitates technology transfer. Relative political stability, favourable incentives and comparative advantage in natural resources (especially Trinidad and Tobago), tourism activities and location due to the proximity to the United States appear to be the main attractors of FDI to the region.

Table 12
FOREIGN DIRECT INVESTMENT AND FINANCIAL CAPITAL, 2004-2008
(Percentage of GDP)

	FDI			Financial capital[a]		
	2004-2006[b]	2007	2008p	2004-2006[b]	2007	2008p
MDCs[c]	5.3	5.4	6.2	1.3	0.6	1.6
Bahamas	8.4	10.0	11.7	2.3	7.0	3.7
Barbados	1.6	6.8	3.6	5.3	6.7	1.2
Belize	10.3	10.9	12.7	-0.1	-5.0	2.2
Guyana	8.1	10.2	15.4	10.4	7.2	11.0
Jamaica	6.5	6.7	5.7	5.1	6.0	16.0
Suriname	-2.9	-10.8	-9.4	8.2	3.9	-2.9
Trinidad and Tobago	5.1	4.0	6.2	-21.8	-21.3	-22.7
ECCU[c]	20.7	26.1	17.9	6.3	9.8	19.3
Anguilla	64.5	43.8	32.4	-17.4	25.2	42.4
Antigua and Barbuda	24.6	30.8	20.7	-0.5	2.1	10.1
Dominica	7.9	15.6	14.3	15.2	9.0	15.6
Grenada	14.2	28.7	25.2	16.0	16.0	19.1
Montserrat	4.1	12.8	3.8	22.3	10.2	25.7
Saint Kitts and Nevis	19.5	30.8	16.2	-1.3	-7.9	10.6
Saint Lucia	15.2	26.5	10.4	5.9	9.6	15.4
Saint Vincent and the Grenadines	15.8	19.8	20.4	10.2	14.1	15.5

Source: ECLAC, on the basis of official data.
[a] Including errors and omissions.
[b] Annual average.
[c] Simple average.
.. = not available.

Another salient feature of the capital and financial account figures reported is 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 2008 FDI flows to the ECCU (17.9% of GDP, simple average) were almost three times higher than in the MDCs (6.2%). Moreover, financial capital for the former group of countries in 2008 (19.3% of GDP) was more than 10 times that recorded in the latter (1.6%).

Within the MDCs, FDI flow has been more significant in Guyana, Belize and the Bahamas in recent years, and it expanded as a share of GDP in 2008 relative to 2007. Driven by the telecommunications expansion (mainly cellular telephony), bauxite mining and, especially, gold mining to take advantage of high international prices, FDI flows in Guyana expanded from 10.2% of GDP in 2007 to 15.4% in 2008 (8.1% in 2004-2006). In the case of Belize, FDI flows increased from 10.9% to 12.7% of GDP in the same period, bolstered by inflows into petroleum production, real estate and tourism. Meanwhile, the Bahamas benefited from tourism-related FDI inflows that moved from 10% of GDP in 2007 to 11.7% in 2008. It is worth mentioning that 40% of the increase in FDI flow in Trinidad and Tobago from 2007 to 2008 was due to the sale of RBTT Bank to the Royal Bank of Canada that totaled US$ 2.2 billion or 0.9% of GDP. Finally, Suriname experienced FDI net outflows in 2008 for the third consecutive year due mostly to the process of BHP Billiton's exit from the country.

On the other hand, FDI inflows to the ECCU were buffeted by the global slowdown, slipping to 17.9% of GDP in 2008, from 26.1% in 2007 (20.7% in 2004-2006). The sharp contraction was driven by a plunge in inflows, tourism and real estate, triggered by the decline in tourism demand associated with the global crisis during the second half of the year. The FDI-to-GDP ratio was down in all countries of the ECCU in 2008, except for Saint Vincent and the Grenadines, where it rose marginally. Dramatic contractions were experienced by Saint Lucia and Saint Kitts and Nevis, where the ratio fell by around 15 percentage points, whereas in Anguilla and Antigua and Barbuda the ratio contracted by more than 10 percentage points in 2008 relative to 2007.

Finally, financial capital showed sharp swings between 2007 and 2008 in most Caribbean countries, especially in the ECCU, where these flows increased in all countries. The most extreme cases were recorded by Anguilla, where it increased by more than 17 percentage points of GDP to a high 42.4% of output, and in Saint Kitts and Nevis, where it went from an outflow of 7.9% of GDP to an inflow of 10.6%. For the MDCs, the major change was posted by Jamaica, where financial capital stood at 16% of GDP in 2008, 10 percentage points of output higher than in 2007. Notwithstanding, it is difficult to examine the main drivers of such shifts, as errors and omissions are included, and these countries do not offer a detailed disclosure of such flows for recent years.

G. Conclusions

In order to evaluate the overall economic performance of Caribbean countries in 2008 relative to 2006 and 2007, an augmented version of the Economic Misery Index (EMI) pioneered by Arthur Okun in the 1970s is used. The original version of the index is simply the sum of the unemployment rate and the inflation rate. The higher the score, the worse the economic performance of the country. However, as noted by ECLAC (2008), this indicator only takes into account how the economy looks today, but does not inform about its sustainability in the future. It seems appropriate to also include the fiscal deficit and the current account deficit in the calculation of the EMI. In addition, in most developing countries the unemployment rate is not a good indicator of the stance of the labour market, given the high levels of self-employment and under-employment that are the norm in such countries, including the Caribbean. In the absence of statistical information on these issues, the best way to reflect the situation of labour conditions is the GDP growth rate. Therefore, the EMI is calculated as a weighted average of the sum of the inflation rate, the fiscal deficit and the current account deficit minus the output growth rate such that:

$$EMI = \frac{\alpha}{3}\left(\pi + \frac{CAD}{GDP} + \frac{FD}{GDP}\right) - (1-\alpha)g$$

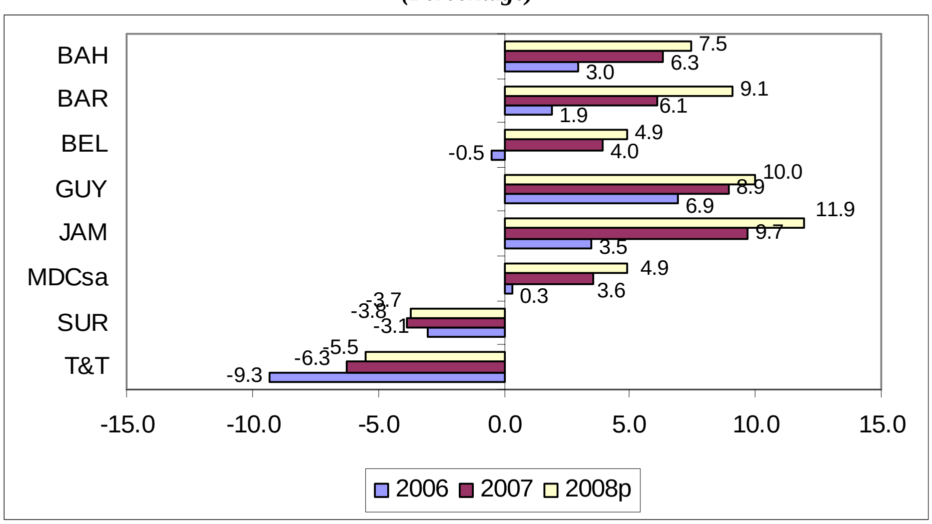
where π is the inflation rate, CAD/GDP is the current account deficit as a share of GDP and FD/GDP is the fiscal deficit as a share of GDP and g is the GDP growth rate. The value of α is taken as 0.6 so that the weight of output growth doubles that each of the other three variables with the opposite sign.

The EMI defined in this manner combines a monetary policy variable, an external sector variable, a fiscal policy variable and a real sector variable. As all these issues have been discussed above, the definition encompasses the analysis presented in the previous sections. Thus, the EMI provides a useful back-of-the-envelope score of current overall economic performance of the Caribbean countries.

Figure 2a shows the EMI of MDCs in 2006, 2007 and 2008, whereas figure 3b presents that of the ECCU. Mirroring the division of Caribbean countries made in the previous section, a simple visual inspection of EMIs allows division into two groups, namely, Suriname and Trinidad and Tobago that recorded a better economic performance in recent years and exhibit negative EMIs, and the remaining countries, that show positive values for the EMIs. In the case of the former group of countries, abundant in metals and/or hydrocarbons, this outcome is the result of the combination of relatively rapid growth and strong fiscal and, specially, current account surpluses. Nevertheless, in either group of countries the most salient feature is the tendency towards the deterioration of economic performance.

In the case of the MDCs, figure 3a shows that the EMI (simple average) went from 0.3 in 2006 to 3.6 in 2007 and further to 4.9 in 2008. This process was led by Jamaica, whose EMI was the highest in 2008 (11.9) and more than tripled since 2006, due to a worsening of the four components of the EMI. In 2008, the Bahamas, Barbados and Guyana also recorded EMIs above the average of MDCs (7.5, 9.1 and 10, respectively). Relative to 2007, in 2008 Barbados posted a worsening in all four components of the EMI, whereas in Bahamas the marginal reductions in the fiscal and current account deficits were surpassed by the decline in economic activity and the acceleration of inflation. Interestingly, despite a substantial reduction in inflation and a contraction in the fiscal gap, Guyana saw its EMI rise in 2008 hand in hand with a considerable widening of the current account deficit and a marked slowdown in economic activity. Likewise, despite growth in Belize in 2008 and the fiscal deficit recorded in 2007 which was transformed into a surplus in 2008, its EMI rose owing to an increase in the external gap and a higher inflation rate. Finally, in Suriname and Trinidad and Tobago the negative EMIs reduced in absolute value from 2007 to 2008 mainly driven by higher inflation coupled, in Suriname, with a reduction in economic growth.

Figure 2a
MDCs: ECONOMIC MISERY INDEX, 2006-2008
(Percentage)



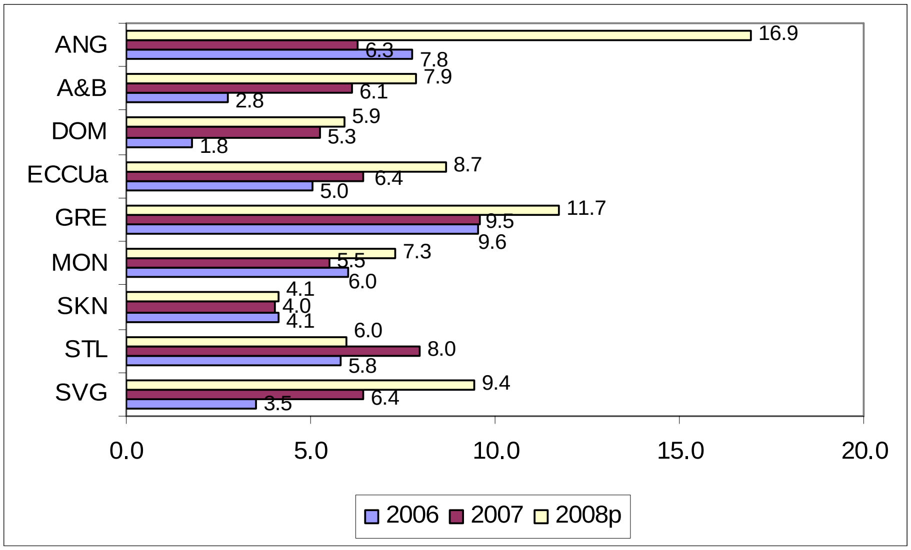
Source: ECLAC, on the basis of official data.
a = simple average.
p = preliminary.

As regards the ECCU countries, the average value of the EMI went up from 5 in 2006 to 6.4 in 2007 and further to 11.7 in 2008, imitating the increasing trend showed by the MDCs. In 2008, Anguilla reported by far the highest value of the EMI (16.9), mainly due to a high current account deficit (76.2% of GDP). Grenada and Saint Vincent and the Grenadines also posted EMIs above the ECCU average in 2008. In Grenada, this was due to poor performance in the four components of the index, whereas in Saint Vincent and the Grenadines this was driven by a drop in output and above average inflation. Notably, the only country that reported an improvement in its economic performance in 2008 relative to 2007 was Saint Lucia, whose EMI decreased from 8 to 6. A little growth acceleration and significant reductions in the twin deficits (2 percentage points of GDP in the case of the fiscal deficit, and 12.3 in the case of the current account deficit) explain this unique outcome.

Figure 2b

ECCU: ECONOMIC MISERY INDEX, 2006-2008

(Percentage)



Source: ECLAC, on the basis of official data.
a = simple average.
p = preliminary.

Overall, ECCU countries recorded higher values of EMIs than the MDCs. Indeed, only Barbados, Guyana and Jamaica showed EMIs higher than the ECCU average in 2008. However, the trend towards the worsening of economic performance is shared by both groups of countries. Even Trinidad and Tobago is witnessing a weakening in its economic fundamentals. The countries with a more vulnerable situation are those that reported two-digit EMIs in 2008, namely, Anguilla (16.9), Jamaica (11.9), Grenada (11.7) and Guyana (10).

The growing trend of EMIs should be a matter of concern, as it started before the global economic recession emerged. Most Caribbean countries present some combination of excessive public debt, massive current account deficit and slow growth. In addition, except for Trinidad and Tobago, at the end of 2008 no Caribbean country had international reserves above 5.5 months of import cover, with the majority of them below three months. Evidently, the weak fiscal position exhibited by most Caribbean countries and the corresponding reduced fiscal space do not lend themselves to the application of counter-cyclical fiscal policies to offset the recessive impulses derived from the ongoing global economic turmoil. Thus, the capacity to devise and implement fiscal stimulus packages is dependent on access to multilateral and bilateral financing in the context of unsustainable public debt levels and scarce foreign private resources.

In addition, given the difficulties in accessing external finance, both private and official, within the current situation of the world economy, an additional important macroeconomic challenge faced by Caribbean countries is the sustainability of their fixed or quasi-fixed exchange rate regimes. Indeed, the reversal or even the mere reduction of foreign capital inflows would exert devaluating pressures on local currencies that, if acute enough, might eventually lead to currency crises. The other side of this phenomenon would be a substantial contraction of the current account deficits and a sharp decline in economic activity, as shown by different experiences of this type in other countries, in addition to the inflationary impact, the devastating effects on entities with currency mismatches in their balance sheets and the increase in external debt service.

Looking ahead and beyond the macroeconomic problem at stake, the sustained real exchange rate appreciation is another matter of concern. Indeed, between 2000 and 2008, the bilateral real exchange rate vis-à-vis the United States dollar appreciated between 10% and 30% in all Caribbean countries with the exception of the Bahamas. In this context, the emergence of new activities and enterprises capable of competing both in domestic and external markets is very difficult. Therefore, production diversification, an outstanding long-term goal of Caribbean countries, would seem impossible to achieve in the medium-term.

Prospects for 2009 indicate a growth rate of -0.6% in MDCs (simple average) and of -0.1% in the ECCU as indicated in table 13. The sharpest declines in output would be recorded by the Bahamas (-3.5%), Jamaica (-3%) and Barbados (-2.2%). The cancellation or postponement of tourism-related construction projects, the drop in exports of tourism services (and of financial services in Bahamas and Barbados), the decline in remittances and the fall in FDI and other foreign capital inflows already observed during the first half of the year are at the heart of this forecast and will affect with less intensity all ECCU countries and Belize. Naturally, in the case of the natural-resource abundant countries, the main driver of the sharp slow downs forecasted is the fall of international commodity prices, coupled with reduced external demand, but the remittances, FDI and foreign finance channels will also play a role.

Table 13

GDP GROWTH RATE, 2009f

(Percentage)

	2009f
MDCs[a]	-0.6
Bahamas	-3.5
Barbados	-2.2
Belize	1.5
Guyana	0.0
Jamaica	-3.0
Suriname	2.5
Trinidad and Tobago	0.5
ECCU[a]	-0.1
Anguilla	-4.7
Antigua and Barbuda	1.1
Dominica	1.5
Grenada	0.3
Montserrat	2.5
Saint Kitts and Nevis	-0.6
Saint Lucia	-1.1
Saint Vincent and the Grenadines	0.4

Source: ECLAC.
a Simple average.
f = forecast.

Chapter II

TOPICS IN CARIBBEAN ECONOMIC DEVELOPMENT

A. Economic growth in the Caribbean

1. Introduction

Economic growth is a necessary condition (though not sufficient) for overall development. This section analyses economic growth in the Caribbean over the last decades. The next section analyses growth performance from different perspectives, namely growth rates per decade, growth crises and growth episodes; the third section discusses the issue of convergence and the fourth section undertakes a growth accounting exercise both with and without the role of human capital accumulation. The last section concludes.

2. Growth performance

During the last decades, growth performance has been very heterogeneous in the Caribbean. Table 14 shows GDP per capita growth rates in 1961-2007 for 13 Caribbean countries, as well three comparator countries, namely, the Dominican Republic,[7] Fiji and Mauritius. All these countries are Small Islands Developing States (SIDS).[8] Considering the countries for which there is information for the whole period, and setting 2% as the trend value of annual GDP per capita growth (see below), four countries exhibit above trend growth, whereas the other three are below trend. The former is the case of the Dominican Republic, and the latter is that of Fiji. The record is far much better in the countries where data is only available from the 1970s, with the lowest figure shown by Saint Lucia that grew by 3.2% per year per head in 1971-2007.

Table 14

GDP PER CAPITA GROWTH, 1961-2007

(Percentage)

	1961-1970	1971-1980	1981-1990	1991-2000	2001-2007	1981-2007	1961-2007
Bahamas	3.6	0.6	0.9	0.1	-0.3	0.3	1.0
Barbados	6.2	2.4	0.3	1.0	1.2	0.9	2.3
Belize	2.3	5.2	2.3	3.0	1.4	2.5	3.0
Guyana	1.3	0.6	-3.0	4.8	1.3	1.1	1.0
Jamaica	5.2	-2.1	1.5	1.1	0.9	1.3	1.4
Suriname	..	..	-2.3	-0.1	3.5	0.4	..
Trinidad and Tobago	3.3	4.1	-3.4	2.5	5.8	1.7	2.6
Antigua and Barbuda	..	4.2	7.7	1.1	2.2	4.1	4.1[a]
Dominica	..	4.0	5.5	1.9	2.3	3.6	3.7[a]
Grenada	..	6.1	5.1	2.9	0.7	3.2	4.0[a]
Saint Kitts and Nevis	..	6.4	5.9	3.6	1.4	4.1	4.7[a]
Saint Lucia	..	3.5	5.5	1.6	1.2	3.0	3.2[a]
Saint Vincent & the Grenadines	0.4	1.6	5.1	2.5	2.6	3.8	2.6
Dominican Republic	2.5	4.4	0.3	4.1	2.5	2.5	2.9
Fiji	2.2	2.9	-0.3	1.6	0.7	1.5	0.7
Mauritius	..	..	4.9	4.0	2.2	4.1	..

Source: World Bank, World Development Indicators, electronic version; United Nations Statistical Division; CARICOM and ECLAC data base.
.. = not available.
[a] Corresponds to 1971-2007.

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[7] For expository purposes only, as the focus of this report is the English-speaking Caribbean and Suriname, the Dominican Republic is not considered as Caribbean.
[8] For a characterization of SIDS see Read (2008).

Considering growth performance by decade, one feature stands out: output per capita grew faster in the 1960s and/or 1970s than in the 1990s and 2000s in most countries. Within the MDCs[9] Bahamas, Barbados, Belize and Jamaica are examples of this. The 1960s and the 1970s are decades where the import substitution industrialization (ISI) strategy was in place, while the 1990s and 2000s are periods characterized by liberalizing reforms. In Guyana higher growth was recorded in the 1990s, whereas in Trinidad and Tobago, it was in the 2000s. In Guyana this is partly due to massive aid flows that foster economic expansion, while in Trinidad and Tobago the surge in energy prices led the process of accelerated growth. Another interesting issue is that in all ECCU countries considered, the period of more rapid growth is, notoriously, the 1980s. This may seem surprising, given that this period corresponds precisely to the so-called "lost decade" prompted by the debt crisis. Notwithstanding, should the date of independence be taken into account, i.e. late 1970s or 1980s, the figures appear to make more sense. The same is true in the case of Mauritius, perhaps the most successful SIDS in the last decades. These results are summarized in table 15.

Table 15
DECADES OF HIGHER PER CAPITA OUTPUT GROWTH, 1961-2007

1960s or 1970s	1980s	1990s	2000s
Bahamas Barbados Belize Jamaica	Antigua and Barbuda Dominica Grenada Saint Kitts and Nevis Saint Lucia Saint Vincent and the Grenadines	Guyana	Trinidad and Tobago

Source: Author's elaboration based on Table 14

As noted by Solimano and Soto (2006), the literature on economic growth distinguishes three levels:

(a) Long-run or steady state growth, involving periods of 50 years or more;

(b) Medium-run growth comprising periods of 10 to 30 years; and

(c) Short-run growth over periods of four to six years.

Despite obviously the different terms overlap, it is useful to take into account the differences for analytical purposes. The availability of data does not allow for a steady state analysis. Therefore, the analysis below is at the medium-term and short-term level.

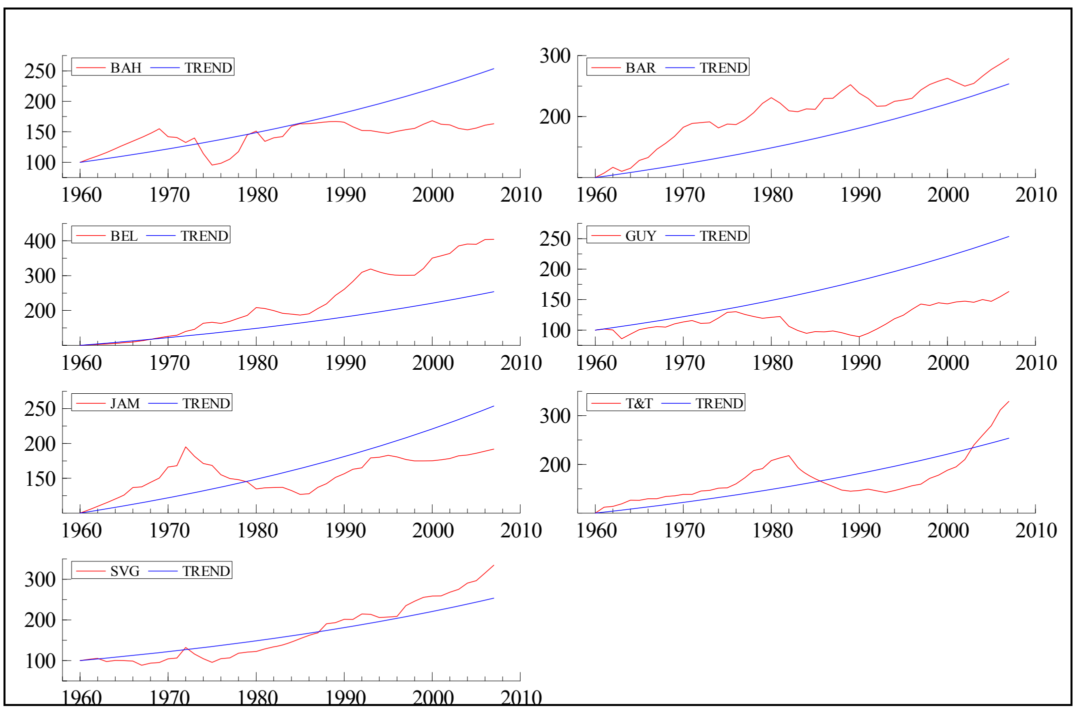
In order to undertake an analysis of medium-term growth, it is useful to set a benchmark trend of GDP per capita growth. Some authors like Solow (1956) and Kehoe and Prescott (2002) assume that the trend of output per head is driven by the exogenous evolution of knowledge useful to production. This, in turn, is assumed to be equal to the rate of growth of GDP per capita in the United States that averaged 2% per annum last century. This is the value taken by Solimano and Soto (2006) and Aravena, Hofman and Solimano (2006). Following the former authors, a period of prosperity or boom is defined as one where GDP per capita growth is above trend for a decade or more, whereas a period of slowdown or

[9] Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago.

stagnation is defined as one where growth of output per person is below trend for at least a decade.

Figures 5a-5c depicts actual GDP per capita and the trend. Depending on the availability of data, this information is normalized, such as 1960=100, 1970=100 or 1980=100. Figure 1a clearly shows three patterns. First, some countries such as Barbados and Belize, exhibit prosperity during the whole or almost all of the period; second, there are countries like Guyana, that recorded a period of stagnation during the entire, or almost the whole, period, and finally, there are countries that combine periods of prosperity with periods of stagnation. As expected, this is the case of most countries, including Bahamas that exhibits prosperity in the 1960s and early 1970s and stagnation thereafter; Jamaica, booming during the 1960s and 1970s and slowing down from the 1980s; Trinidad and Tobago, with a prosperity period up to the mid-1980s, then stagnant up to the early 2000s, and then booming again until 2007; and Saint Vincent and the Grenadines, with stagnation until the 1990s and then experiencing a period of prosperity.

Figure 5a
GDP PER CAPITA, 1960-2007
(Index 1960 = 100)

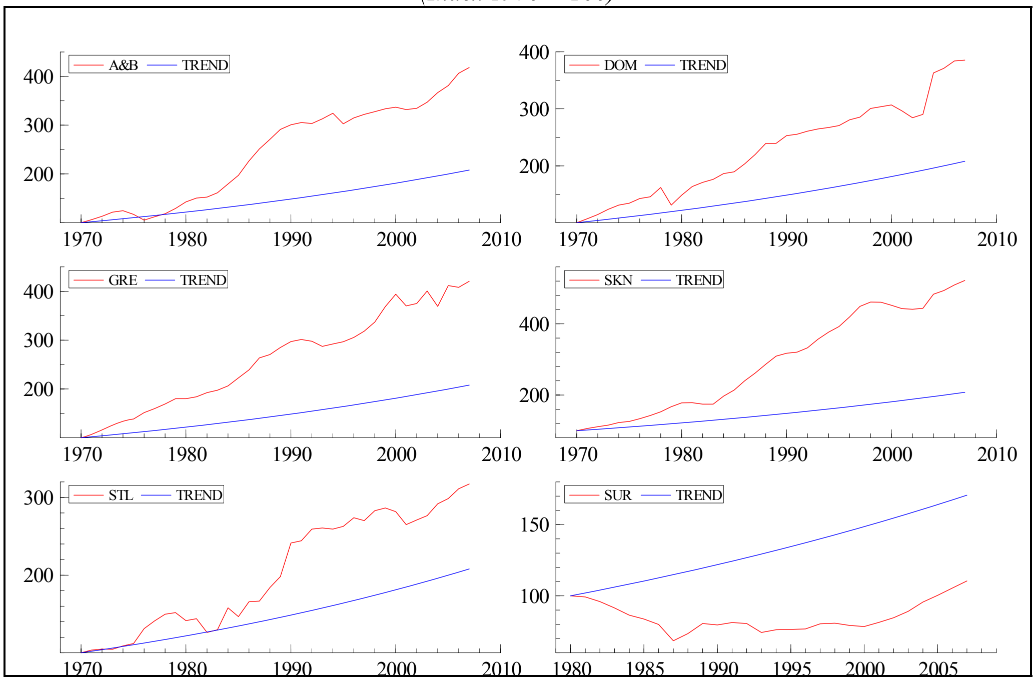


Source: Author's elaboration on the basis of data from World Bank, *World Development Indicators*, electronic version.

Figure 5b shows GDP per capita behaviour of countries where data for the 1960s was not available. Clearly, the pattern in all five ECCU countries is similar, with all booming throughout the four decades. The other side of the coin is Suriname that exhibits stagnation since 1980, the first observation available, as shown in the lower right panel of Figure 5b.

Figure 5b

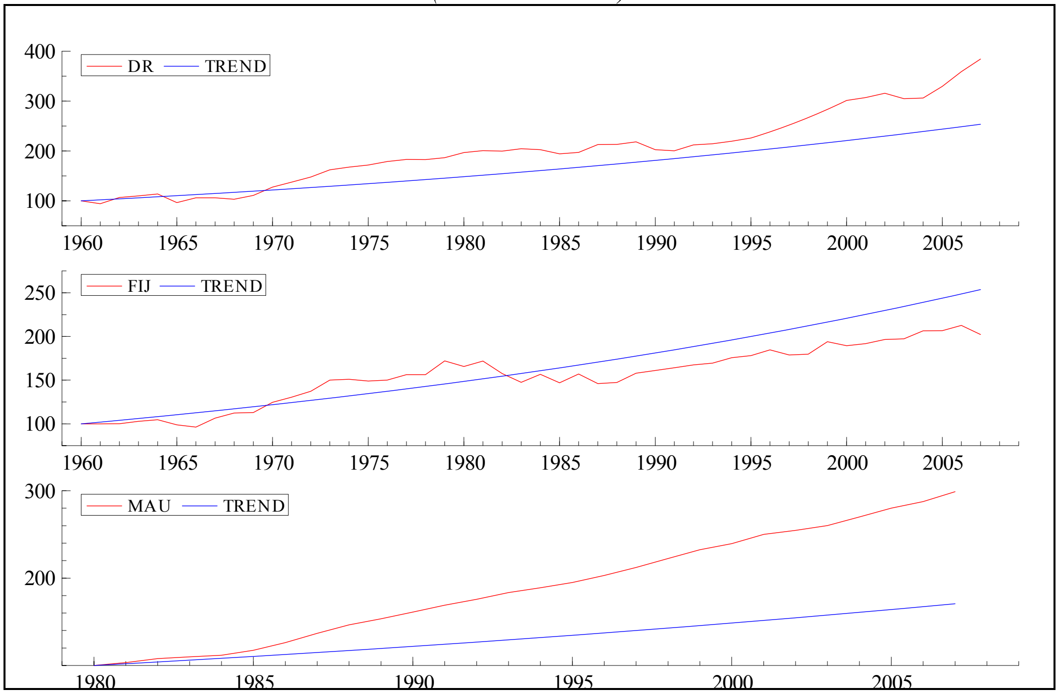
GDP PER CAPITA, 1970-2007
(Index 1970 = 100)



Source: Author's calculations on the basis of data from World Bank, *World Development Indicators*, electronic version, and United Nations Statistics Division.

How did the Caribbean countries fare as compared to the reference countries? Figure 5c shows the GDP per capita evolution in the Dominican Republic, Fiji and Mauritius. For the first two countries data was available from 1960. Like Barbados and Belize, the Dominican Republic exhibited prosperity for almost half of the century. Fiji shows a behaviour similar to most countries in Figure 5a, combining periods of stagnation (the 1960s and from early 1980s onwards) with periods of prosperity (the 1970s and early 1980s). As in the case of Suriname, data for Mauritius were available only from 1980. As expected, being one of the most successful economic stories in SIDS, the three decades represent a period of uninterrupted prosperity. Moreover, not only the rate of growth of GDP per capita was consistently above trend, but it was also fairly stable, as the quasi-linear trajectory of output per head shows in the last panel of Figure 5c. The latter point is important, as growth volatility is detrimental to the growth rate itself due to the higher uncertainty it brings about.

Figure 5c
GDP PER CAPITA, 1980-2007
(Index 1980 = 100)



Source: Author's calculations on the basis of data from World Bank, *World Development Indicators*, electronic version.

Turning to short-term growth, following Solimano and Soto (2006), an episode of growth is defined as at least six years in a row of GDP per capita growth above 2%, whereas a growth crisis is defined as any year with negative output growth per head. Table 15 presents the number of growth crises by decade.

Table 15
GROWTH CRISES, 1961-2007

	1960s	1970s	1980s	1990s	2000s	Total
Bahamas	0	5	2	6	4	17
Barbados	1	2	4	3	2	12
Belize	0	1	5	4	1	11
Guyana	3	4	6	2	3	18
Jamaica	0	7	3	3	0	13
Suriname	..	..	8	4	1	13
T&T	1	0	7	2	0	10
A&B	..	2	0	2	1	5
Dominica	..	1	0	0	2	3
Grenada	..	0	1	2	3	6
Saint K&N	..	0	2	1	3	6
Saint Lucia	..	1	3	2	2	8
Saint V&G	4	3	0	3	0	10
Dom. Rep.	3	1	3	2	1	10
Fiji	2	1	5	1	2	11
Mauritius	..	..	0	0	0	0
Total[a]	**9**	**26**	**41**	**34**	**23**	**133**
Average[a]	**1.3**	**2.2**	**3.2**	**2.6**	**1.8**	**2.2**

Source: Author's elaboration on the basis of information from World Bank, *World Development Indicators*, electronic version; United Nations Statistics Division; CARICOM and ECLAC.
[a] Excludes the Dominican Republic, Fiji and Mauritius.
.. = not available.

As expected, the 1980s is the decade where the average number of growth crises is higher, with 3.2 years of output per head declined, followed by the 1990s (2.6 years). On the contrary, the 1960s was the decade where growth crises were less frequent (1.3). At the country level, Guyana and Bahamas were clearly the ones that experienced more GDP per capita drops in 1961-2007 (18 and 17, respectively). It is worth highlighting that Suriname posted 13 growth crises in 27 years (1981-2007), which is relatively the worst growth performance. Among the best performers are Trinidad and Tobago and Saint Vincent and the Grenadines with 10 growth crises in 1961-2007, and Dominica, with only three drops in GDP per head in 1971-2007. As regards the comparator countries, the Dominican Republic and Fiji show a performance similar to the best performers in 1961-2007, whereas Mauritius did not post any growth crisis in 1981-2007.

As regards growth episodes, table 16 presents the periods, duration, cumulative growth in output per head and average annual growth rate. The most frequent duration of growth episodes is seven years, and Trinidad and Tobago recorded the longest one, that lasted 14 years between 1994 and 2007, which represented the highest cumulative growth in GDP per capita (131.2%). Considering that this country experienced another growth episode between 1976 and 1982, it is the one with the longest period of boom (21 years), only surpassed by Saint Kitts and Nevis, which registered 24 years of boom, with growth episodes between 1971 and 1980, 1984 and 1990, and 1992 and 1998. The highest annual average growth rate during growth episodes was 8.9% recorded by the Bahamas in 1961-1969, Antigua and Barbuda in 1983-1990, and Saint Kitts and Nevis in 1984-1990. Thus, the Bahamas and Antigua and Barbuda almost doubled their GDP per capita in only eight years. The flip side of the coin is Saint Lucia, which did not experience any growth episode in 1971-2007. The same is true in one of the reference countries, Fiji.

Table 16
GROWTH EPISODES, 1961-2007

	Period	Length of the cycle (years)	Cumulative growth in GDP per capita (%)	Average annual GDP per capita growth rate (%)
Bahamas	1961-1969	8	97.2	8.9
Barbados	1964-1971	8	71.2	7.0
Belize	1966-1974	9	51.9	4.8
	1987-1994	7	67.6	**7.7**
Guyana	1991-1997	7	59.9	6.9
Jamaica	1961-1966	6	36.8	5.4
Suriname	2001-2007	7	40.7	5.0
Trinidad and Tobago	1976-1982	7	43.4	5.3
	1994-2007	14	131.2	6.2
Antigua and Barbuda	1983-1990	8	97.2	8.9
Dominica	1971-1978	8	61.9	6.2
Grenada	1971-1979	9	80.3	6.8
	1981-1990	10	64.9	5.1
Saint Kitts and Nevis	1971-1980	10	78.3	6.0
	1984-1990	7	82.0	8.9
	1992-1998	7	43.9	5.3
Saint Lucia	--	--	--	--
Saint Vincent and the Grenadines	1981-1988	8	55.9	5.7
	2002-2007	6	29.3	4.4
Dominican Republic	1969-1977	9	77.3	6.6
	1994-2000	7	40.4	5.0
Fiji	--	--	--	--
Mauritius	1985-2001	17	123.8	4.9
Average[a]	--	**7**[b]	--	**6.4**[c]

Source: Author's elaboration on the basis of information from World Bank, *World Development Indicators*, electronic version; United Nations Statistics Division; CARICOM and ECLAC.
[a] Excludes the Dominican Republic, Fiji and Mauritius.
[b] Corresponds to the mode.
[c] Simple average.
-- = none or nor relevant.

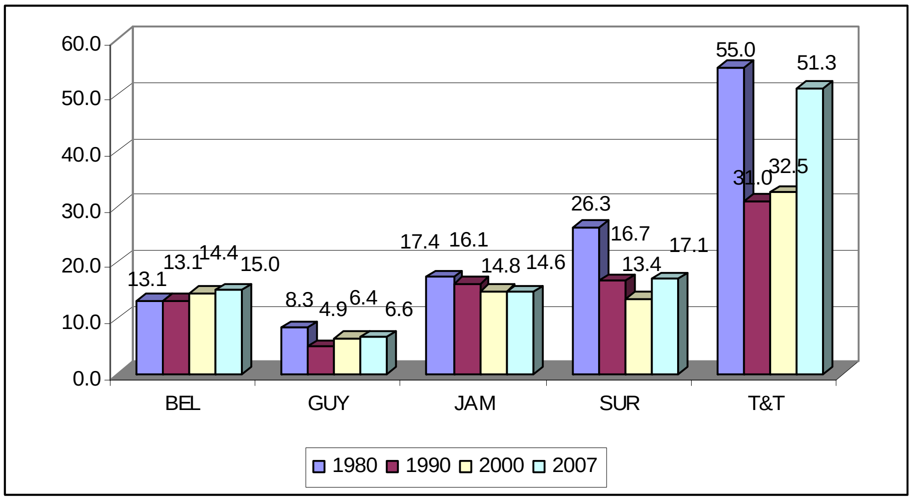
While the Dominican Republic experienced growth episodes between 1969 and 1977, and 1994 and 2000, Mauritius recorded the longest period of boom of all countries (17 years) between 1985 and 2001, although at a relatively moderate average annual growth rate (4.9%). This allowed this country to post a cumulative per capita output growth of 123.8%.

Overall, considering the different criteria discussed above, the countries that recorded better growth performances over the last decades are Belize, Trinidad and Tobago, Antigua and Barbuda, and Saint Kitts and Nevis. On the contrary, those that exhibit the poorest evolution are the Bahamas, Guyana and Suriname.

3. Convergence

Perhaps the most interesting and studied implication of the neo-classical growth model (Solow, 1956) is that of convergence. It states that poor countries should grow faster than rich ones because the former have lower capital per head and there are diminishing returns to capital. This can be extended to other factors such as human capital and institutional capacity. Thus, in the long-term, poor countries would catch up with rich countries in income or output per capita levels. Given the growth performance of Caribbean countries, discussed above, have their economies reduced the gap between their GDP per capita with that of the United States during the last decades? Following Agosin, Machado and Nazal (2004) and Agosin and Machado (2006), figures 6a-6c present GDP per capita in purchasing power parity (PPP) United States dollars at 2005 prices, as a percentage of GDP per head in the United States.

Figure 6a
MDCS: GDP PER CAPITA IN PPP 2005 US$, 1980-2007
(Percentage of United States GDP per capita)

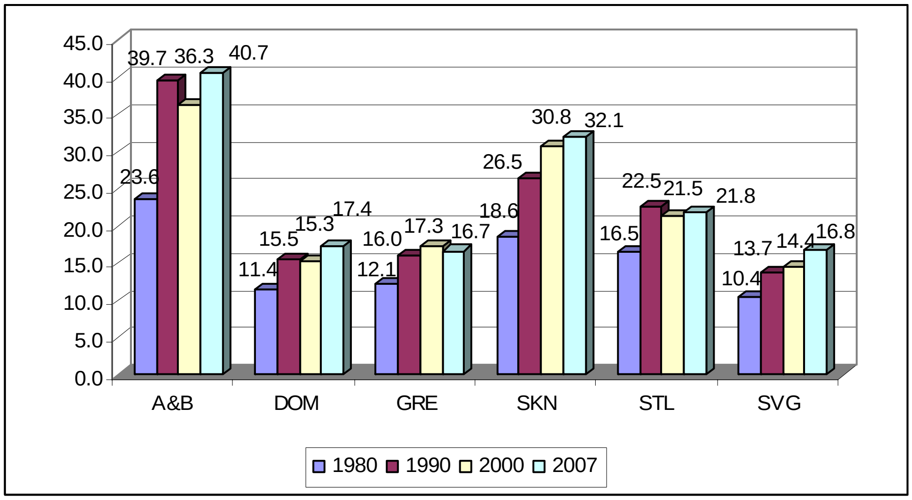


Source: World Bank, *World Development Indicators*, electronic version.

Within the five MDCs considered in figure 6a, only Belize shows some slight trend towards convergence, as its GDP per capita went from 13.1% of GDP per head in the United States in 1980 and in 1990 to 14.4% in 2000 and to 15% in 2007. However, in the other four countries GDP per person in 2007 represented a lowest percentage of per capita output of the United States than in 1980. The most extreme case is Suriname which GDP per head represented 26.3% of that of the United States in 1980, a figure that declined to 17.1% in 2007.

The ECCU countries fare much better than the MDCs in terms of convergence. Indeed, in the six countries considered in figure 6b, GDP per head in 2007 represented a higher percentage of output per capita in the United States than in 1980. The pattern was uninterrupted in Saint Kitts and Nevis and in Saint Vincent and the Grenadines.

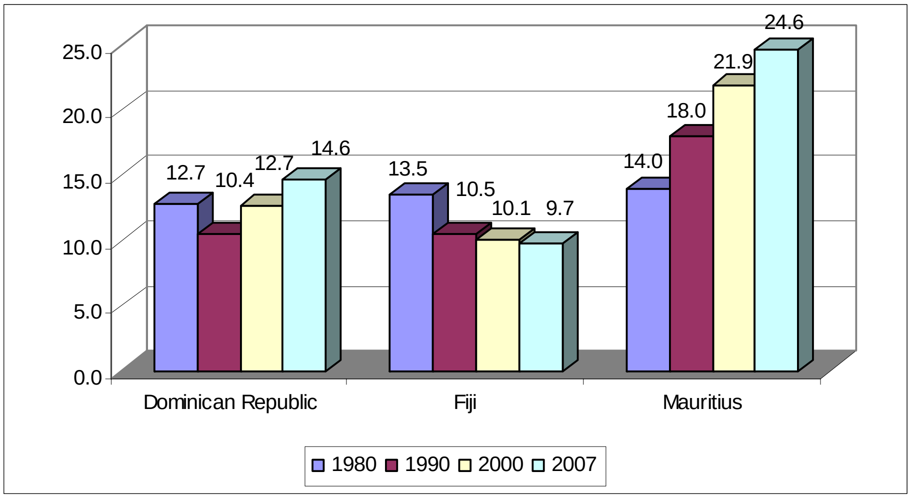
Figure 6b
ECCU: GDP PER CAPITA AT CONSTANT PRICES IN PPP 2005 US$, 1980-2007
(Percentage of United States GDP per capita)



Source: World Bank, *World Development Indicators*, electronic version.

Finally, the comparator countries exhibit mixed patterns, with Mauritius showing strong convergence as its GDP per capita went from 14% of that of the United States in 1980, to 18% in 1990, 21.9% in 2000 and 24.9% in 2007. On the contrary, Fiji shows divergence. Meanwhile, the Dominican Republic shows ups and downs but with a tendency towards closing the GDP per capita gap with the United States like Antigua and Barbuda and Saint Lucia in figure 6c.

Figure 6c
REFERENCE COUNTRIES: GDP PER CAPITA IN PPP 2005 US$, 1980-2007
(Percentage of United States GDP per capita)



Source: World Bank, *World Development Indicators*, electronic version.

4. Growth accounting

The starting point of traditional growth accounting is the Cobb-Douglas production function with constant returns of scale:

$$Y = AK^{\alpha}L^{1-\alpha} \quad (1)$$

where Y is GDP, K is the physical capital stock, L is the labour force, A is a technological parameter known as total factor productivity (TFP) and α is the capital-output elasticity.

Taking logarithms and differencing with respect to time:

$$y = \alpha k + (1-\alpha)l + a \qquad (2)$$

where the lower case letters stand for the percentage rate of change of the corresponding upper case letter variables in (1). Assuming competitive factor markets, α is proxied as the share of capital in national income. The value of this parameter is usually taken as 1/3 in the literature, but it is also common to make some sensitivity analysis using alternative values, such as ½ or 2/3. Equation (2) states that GDP growth is a weighted average between physical capital and labour force accumulation. The reminder is assigned to TFP growth. Thus, having GDP and labour force growth rates from official sources, the task is to build a physical capital stock series. This is done using the perpetual inventory approach, which demands data on gross fixed capital formation (GFKF) from the national accounts (for instance, see the various chapters in Agosin, Machado and Nazal, 2004; and in Solimano, 2006). In countries that do not differentiate between GFKF and changes in inventories, the capital stock series is constructed using gross capital formation (GKF).

Since the 1990s, a number of studies have expanded the traditional growth accounting framework to include human capital. In this case, the Cobb-Douglas production with constant returns of scale is:

$$Y = AK^{\alpha}(HL)^{1-\alpha} \qquad (3)$$

where H is an index of the quality of the labour force. Loayza, Fajnzylber and Calderon (2005) construct this parameter as:

$$H = \sum_{j} W_j S_j \qquad (4)$$

where H for each country is the weighted average of the shares of the population with educational level j, with the weights given by the social returns of incomplete and complete primary, secondary and tertiary education. The *W's* are taken from Psacharapoulos (2004), whereas the *S's* are taken from Barro and Lee (2000).

Taking logarithms of (3) and differentiating with respect to time:

$$y = \alpha k + (1-\alpha)(l+h) + a \qquad (5)$$

where h is the rate of growth of the quality of the labour force. It is worth highlighting that within the neo-classical Solow growth model framework used for growth accounting calculations, human capital accumulation contributes to output growth, whereas the level of human capital has no effect on the growth rate, but on the level of income per capita. However, within the more recent literature on endogenous growth, the human capital level does have a crucial role in long-term growth as it precludes physical capital to exhibit diminishing returns, thus making possible continuous output expansion.[10]

Table 17 shows growth accounting results for the median Caribbean country according to the growth rate recorded by decade and assuming different values for the capital-output elasticity. The contributions of labour and physical capital accumulation as well as of TFP evolution is considered both in percentage points and in percentages. It is worth noting that TFP is a residual – also known as the Solow residual – and it comprises everything that affects growth except for labour and physical capital accumulation. As such, in Denison's (1967) words, it is a "measure of our ignorance". Therefore, negative contributions of TFP to growth should not be surprising, as it may reflect disruptions in economic activity due to external shocks such as political unrest, adverse evolution of the terms of trade, or reversals of foreign capital inflows. The median countries are Dominica for the 1970s, Belize for the 1980s, Trinidad and Tobago for the 1990s and Saint Kitts and Nevis for the 2000s. In the first case, the lowest contribution to growth was labour force accumulation that only explained between 4% and 7.9% of output expansion in 1971-1980. During this decade, the main drivers of growth were physical capital accumulation and TFP evolution. Obviously, the higher the value of α, the higher the contribution of capital accumulation and the lower that of TFP behaviour.

Table 17

MEDIAN CARIBBEAN COUNTRY: GROWTH ACCOUNTING, 1971-2007[a]

		Contribution to GDP growth in percentage points			**Contribution to GDP growth in percentage**		
	GDP growth[b]	**Physical capital**	**Labour**	**TFP**	**Physical capital**	**Labour**	**TFP**
α = 1/3							
1971-1980	5.0	1.9	0.4	2.7	37.5	7.9	54.6
1981-1990	5.1	1.4	2.3	1.3	28.5	45.1	26.4
1991-2000	3.2	0.8	1.6	0.9	23.7	49.5	26.8
2001-2007	3.5	1.9	1.2	0.5	53.2	33.2	13.6
α = ½							
1971-1980	5.0	2.8	0.3	1.9	56.3	5.9	37.8
1981-1990	5.1	2.2	1.7	1.2	42.7	33.8	23.5
1991-2000	3.2	1.1	1.2	0.9	35.5	37.1	27.4
2001-2007	3.5	2.8	0.9	-0.2	79.8	24.9	-4.7
α = 2/3							
1971-1980	5.0	3.6	0.2	1.1	75.0	4.0	21.0
1981-1990	5.1	2.9	1.1	1.0	56.9	22.6	20.5
1991-2000	3.2	1.5	0.8	0.9	47.3	24.8	27.9
2001-2007	3.5	3.8	0.6	-0.8	106.4	16.6	-23.0

Source: Author's calculations.

[a] Dominica for the 1970s, Belize for the 1980s, Trinidad and Tobago for the 1990s, and Saint Kitts and Nevis for the 2000s.

[b] Average annual growth rate.

[10] See Lucas (1988) and Barro and Sala-i-Martin (2004).

The picture changes when considering the median country in the 1980s and the 1990s. Indeed, given a capital-output elasticity of one third, labour accumulation roughly explains half of GDP growth, and physical capital accumulation and TFP evolution contributed one fourth each. As the assumed value of α increases to one half and two thirds, the contribution of labour accumulation declines in favour of the contribution of physical capital increase, leaving TFP evolution participation with no major changes.

Finally, when looking at the latest period, TFP contribution to GDP growth is the lowest within the four decades, as physical capital accumulation increases its contribution. Moreover, as higher values for the capital-output elasticity are assumed, the role of TFP diminishes, eventually turning negative. Thus, its contribution to output expansion goes down from 13.6% to -4.7% and to -23% with values of α of one third, one half and two thirds, respectively. In this latter case, the contribution of labour force accumulation to overall growth is 16.6%.

Taking into account the role of human capital accumulation in output expansion, an augmented growth accounting exercise was carried out based on equation (5). Unfortunately, the only Caribbean countries for which data on school attainment is available in Barro and Lee (2000) are Barbados, Jamaica and Trinidad and Tobago.

Tables 18a-18c present the contribution of the accumulation of the three factors of production – K, L and H – as well as of the residual (TFP) to GDP growth for different values of the capital-output elasticity. This exercise is done for the years where data is available, i.e. the 1970s, the 1980s and the 1990s. In general, the inclusion of human capital accumulation reduces the role of TFP evolution leaving the contribution (in percentage points) of labour and physical capital accumulation unchanged. Table 18a shows that TFP behaviour in Barbados was more relevant during the 1970s, where it contributes between 1.8 (with α = two thirds) and 3.4 (with α = one third) percentage points to annual GDP growth. The leading role in the 1980s and 1990s was played by labour force accumulation that explained between 0.9 and 1.7 percentage points to output growth. Meanwhile, the contribution of human capital was below 1 percentage point per year throughout the three decades regardless the assumed value of α.

Table 18a

BARBADOS: GROWTH ACCOUNTING INCLUDING HUMAN CAPITAL, 1971-1999

	Contribution to the growth rate in percentage points					**Contribution to the growth rate in percentage**			
	GDP growth[a]	**Physical capital**	**Human capital**	**Labour**	**TFP**	**Physical capital**	**Human capital**	**Labour**	**TFP**
α = 1/3									
1971-80	2.9	0.9	-1.7	0.2	3.4	31.7	-59.8	8.5	119.7
1981-90	1.3	0.5	0.9	1.7	-1.8	35.9	72.2	134.1	-142.2
1991-99	1.5	0.3	0.7	0.9	-0.3	17.8	43.7	58.5	-19.2
α = 1/2									
1971-80	2.9	1.4	-1.2	0.2	2.6	47.6	-44.9	6.4	91.0
1981-90	1.3	0.7	0.7	1.3	-1.4	53.8	54.2	100.6	-108.5
1991-99	1.5	0.4	0.5	0.7	0.0	26.7	32.8	43.8	-3.3
α = 2/3									
1971-80	2.9	1.8	-0.9	0.1	1.8	63.4	-29.9	4.2	62.3
1981-90	1.3	0.9	0.5	0.9	-1.0	71.7	36.1	67.1	-74.9
1991-99	1.5	0.5	0.3	0.4	0.2	35.5	21.9	29.2	13.4

Source: Author's calculations.
[a] Average annual growth rate.

In the case of Jamaica, labour force accumulation, TFP evolution and physical capital accumulation were the main drivers of GDP growth during the 1970s, the 1980s and the 1990s, respectively. The contribution of the growth of labour in 1971-1980 was between 0.6 and 1.2 percentage points per year, whereas that of TFP behaviour in 1981-1990 ranged between 0.9 and 1.7 percentage points per annum. Obviously, the contribution of physical capital accumulation to output expansion was the highest with a capital-output ratio equal to two thirds, where capital stock increases explained 1.8 percentage points or 83.2% of annual GDP growth rate. As in the case of Barbados, the contribution of human capital accumulation to growth was below 1 percentage point, but this time it never had a negative impact, school attainment indicators permanently improved in the analyzed period.

Table 18b

JAMAICA: GROWTH ACCOUNTING INCLUDING HUMAN CAPITAL, 1971-1999

	Contribution to the growth rate in percentage points					**Contribution to the growth rate in percentage**			
	GDP growth[a]	**Physical capital**	**Human capital**	**Labour**	**TFP**	**Physical capital**	**Human capital**	**Labour**	**TFP**
α = 1/3									
1971-80	-0.6	-0.2	1.0	1.2	-2.5	37.1	-179.6	-203.8	446.3
1981-90	2.7	0.1	0.7	1.1	0.9	2.8	25.4	39.0	32.8
1991-99	2.1	0.9	0.5	0.3	0.4	41.6	25.3	13.4	19.7
α = ½									
1971-80	-0.6	-0.3	0.8	0.9	-1.9	55.6	-134.7	-152.8	331.9
1981-90	2.7	0.1	0.5	0.8	1.3	4.1	19.1	29.2	47.6
1991-99	2.1	1.3	0.4	0.2	0.2	62.4	19.0	10.1	8.6
α = 2/3									
1971-80	-0.6	-0.4	0.5	0.6	-1.2	74.1	-89.8	-101.9	217.6
1981-90	2.7	0.2	0.3	0.5	1.7	5.5	12.7	19.5	62.3
1991-99	2.1	1.8	0.3	0.1	-0.1	83.2	12.7	6.7	-2.5

Source: Author's calculations.
[a] Average annual growth rate.

Last but not least, table 18c reveals that physical capital accumulation has had a prominent role in explaining growth during the first two decades in Trinidad and Tobago. Thus, during the 1970s investment in physical capital contributed between 3.1 and 6.2 percentage points per year to output expansion. By the same token, this factor explained between 0.7 and 1.1 percentage points of annual GDP growth during the 1980s. The situation changes in the 1990s, where labour force accumulation assumed the main role, except when assuming a capital-output elasticity equal to two thirds. Finally, the role of human capital accumulation in this country was relatively high during the 1970s, where this factor contributed between 0.7 and 1.5 percentage points per year to the GDP growth rate.

Table 18C

TRINIDAD AND TOBAGO: GROWTH ACCOUNTING INCLUDING HUMAN CAPITAL, 1971-1999

	Contribution to the growth rate in percentage points					Contribution to the growth rate in percentage			
	GDP growth[a]	Physical capital	Human capital	Labour	TFP	Physical capital	Human capital	Labour	TFP
α = 1/3									
1971-80	5.3	3.1	1.5	0.8	-0.1	58.2	27.8	15.4	-1.5
1981-90	-2.2	0.7	0.0	0.6	-3.5	-33.2	-0.8	-28.3	162.4
1991-99	2.9	0.8	0.5	1.6	0.0	26.4	16.4	56.8	0.5
α = 1/2									
1971-80	5.3	4.7	1.1	0.6	-1.1	87.3	20.9	11.6	-19.7
1981-90	-2.2	1.1	0.0	0.5	-3.7	-49.8	-0.6	-21.3	171.7
1991-99	2.9	1.1	0.4	1.2	0.2	39.6	12.3	42.6	5.6
α = 2/3									
1971-80	5.3	6.2	0.7	0.4	-2.0	116.4	13.9	7.7	-38.0
1981-90	-2.2	1.4	0.0	0.3	-3.9	-66.4	-0.4	-14.2	181.0
1991-99	2.9	1.5	0.2	0.8	0.3	52.8	8.2	28.4	10.7

Source: Author's calculations.

[a] Average annual growth rate.

Overall, considering the median Caribbean country, the basic growth accounting exercise reveals that the role of TFP in growth was higher during the 1970s, and it has declined until achieving its lowest level in the 2000s. By the same token, physical capital accumulation was prominent in the explanation of output growth both in the 1970s and in the 2000s. Meanwhile, labour force accumulation was more important in the 1980s and the 1990s in accounting for GDP growth. When adding the role of human capital accumulation to the analysis, it partially crowds-out the impact of TFP evolution on growth. The contribution of the improvement in the quality of the labour force in the three countries where data was available is higher in Trinidad and Tobago during the 1970s, in Barbados during the 1980s, and in Jamaica during the 1990s. But only during the 1970s its contribution to output growth was above 1 percentage point per annum. Thus, despite the undoubted relevance of human capital accumulation for economic growth, its contribution in the Caribbean countries during 1971-1999 appears not have been that significant.

5. Conclusions

Considering the evolution of GDP per capita growth rates during the last decades, as well as growth crisis – defined as any year of decline of output per head – and growth episodes, i.e. a period of at least six consecutive years of GDP per person growth above 2%, it seems that, in general, the ECCU countries showed a better record than the MDCs. Actually, countries that exhibited the worse growth performance in the Caribbean are the Bahamas, Guyana and Suriname. On the contrary, countries that showed more dynamic growth are Antigua and Barbuda, Saint Kitts and Nevis, Belize and Trinidad and Tobago.

In terms of decades, most MDCs showed higher GDP per capita growth (Bahamas, Barbados, Belize and Jamaica) during the 1960s and 1970 where the ISI strategy was in place, whereas all ECCU countries included in the analysis exhibited a better performance during the 1980s. The latter might seem surprising as the debt crisis of developing countries took place during the 1980s, but it is not so when taking into account that all ECCU countries with the exception of Grenada became independent either during the 1980s or late 1970s. Thus, public debt stocks in 1980 could not have been that significant. The only countries that experienced more rapid growth in a later decade were Guyana in the 1990s and Trinidad and Tobago in the 2000s. In Guyana this phenomenon was driven by a surge in foreign aid; in the latter by the hike in world energy prices.

The conclusion that in general ECCU countries did better in terms of growth than MDCs is confirmed when it comes to convergence analysis. Indeed, in the six ECCU countries included in the sample, GDP per capita in 2007 was higher as a share of output per person in the United States than in 1980. In the MDCs, this is true only in Belize, while the other four countries were data was available (Guyana, Jamaica, Suriname and Trinidad and Tobago) were not closing the gap with GDP per head of the leader country between 1980 and 2007.[11]

On the other hand, the growth accounting exercise was carried out assuming different values for the capital-output elasticity for the median Caribbean country per decade (Dominica for the 1970s, Belize for the 1980s, Trinidad and Tobago for the 1990s and Saint Kitts and Nevis for the 2000s). In the first case, the main drivers of growth were physical capital accumulation and TFP evolution, with little contribution of labour accumulation. The role of the latter increases importantly during the 1980s and the 1990s where its contribution to the growth rate was between 22.6% and 49.5%, depending on the value assumed for the capital-output elasticity (the lower the value, the higher the contribution of labour force accumulation). Finally, looking into the 2000s, the contribution of TFP to GDP growth is the lowest within the four decades due to the increase of the role of physical capital accumulation.

Last but not least, when introducing the role of human capital accumulation in the explanation of GDP growth in the three countries where data was available, it was higher in Trinidad and Tobago during the 1970s, in Barbados during the 1980s and in Jamaica during the 2000s. Nevertheless, its contribution to GDP growth was above 1 percentage point per year in the analysed period (1971-1999) only in Trinidad and Tobago (with a maximum of 1.5 percentage points per year during the 1970s, but with a minimum of zero in the 1980s). Thus human capital accumulation is insignificant, while the accumulation of physical capital or labour is more relevant in explaining GDP growth.

B. SME competitiveness in the Caribbean: challenges and opportunities

1. Introduction

Small and medium-sized enterprises (SMEs) are critical to growth and development in the Caribbean. SMEs have the potential to contribute significantly to balance growth and development with equity in the region, especially as the international economy transitions into a challenging phase. In the first place, SMEs contribute to employment, especially self-employment in the region. CARICOM estimates that SMEs contribute around 70% of the jobs in the region. These firms can help to promote backward and forward linkages in the economy and also boost skills and innovation in the economy.

SMEs have certain advantages over large firms including relatively low start-up costs, flexibility of operations which allows them to recover more quickly after a downturn, as they

[11] It is worth mentioning that during the 2000s Trinidad and Tobago did partially catch up with GDP per capita in the United States as compared to the 1980s and 1990s.

are able to move easily into other lines of production. In the aftermath of the current global recession, it is expected that more small firms would rebound than larger firms.

As the Caribbean seeks to maximize the benefits from integration into the global economy, the competitiveness of its SMEs will be an important determinant of growth, employment and foreign exchange generation. Therefore, policies and strategies that help to unstop the competitiveness bottlenecks currently facing these firms will contribute significantly to the living standards and overall development prospects in the region. Given the limited data available on SMEs in the region, as a first step, policy authorities should commission wide-ranging surveys to gather data and information on the sector. From this dataset, indicators of firm strategy and performance could be developed to track competitiveness outcomes.

It is important that the region gives renewed attention to its SMEs at this time, as these firms would need to play a vital role in harnessing some of the benefits from trade within the Economic Partnership Agreement (EPA) with the European Union (EU). The policies and institutional support systems for SMEs must be geared to making them "export ready", or at least able to withstand import competition. This would demand innovative strategies in the areas of financing, technological upgrading and extension services, managerial practices, marketing and supply chain management, among others. Further, as a number of countries in the region acquire unsustainable levels of indebtedness, in excess of 100% of GDP in some cases, the room for public sector employment will continue to shrink. Therefore, the promotion of entrepreneurship and self-employment will be essential to maintaining employment and good quality jobs.

2. Overview of the importance of SMEs in Caribbean development

Some analysts believe that the structure and behaviour of SMEs clearly set them apart from large firms. The obvious differences here pertain to size and scale of operations, firm capacity in a number of areas and firm behaviour and strategy. The definition of SMEs varies according to country size and level of development and other characteristics. Most Caribbean firms can be deemed small when compared with most firms in Organization of Economic Cooperation and Development (OECD) countries. Nevertheless, the SMEs in the Caribbean are defined using similar criteria to that of other countries, which include number of employees, total assets and the volume and value of sales or turnover.

Table 19
DEFINITION OF SMES IN SELECTED CARIBBEAN COUNTRIES

Countries	Conditions	Parameters Employees	Assets (US $)	Sales (US$)
		Small Enterprise		
Jamaica	Usually operates in Formal sector	4-10 workers	$100,000	
Saint Lucia		≤ 50 workers		≤ $400,000
Suriname	No collective labour agreement	11-25 workers		
Trinidad and Tobago		6-25 workers	$40,000 - $240,000	$800,000
		Medium-Sized Enterprises		
Suriname		26-100 workers		
Trinidad and Tobago		26-50 workers	$240,000 - $800,000	$800,000-$1600,000

Source: ECLAC, based on country data

Nevertheless, there is no standard definition for SMEs in the region in terms of the usual criteria that are used. As indicated in table 19, the countries vary widely in their definitions. In Jamaica small enterprises are defined as those with total assets of around US$ 100,000, excluding land and buildings, average loan size of approximately US$ 10,000, tend to operate in the formal sector, provide collateral for loans and are sensitive to movements in market interest rates. However, small enterprises in Jamaica, the largest country in the CARICOM population size, are defined as employing only 4-10 workers, less than around 50 for Saint Lucia and the 26-50 workers for Trinidad and Tobago.

Meanwhile, in Trinidad and Tobago, SMEs are broken down by the two categories, with small enterprises having 6-25 employees, total assets of US$ 250,000-US$ 1.5 million and annual sales of less than US $250,000. Medium-sized enterprises, however, have 26-50 employees, total assets of US $1.5 million-US$ 5 million and annual sales of US$ 5 million - US$ 10 million. In Suriname, small firms are defined as those employing 11-25 workers, while medium-sized firms employ 26-100 workers. Moreover, small firms in the wholesale and retail trade, employing 2-4 persons predominate in the SME sector in Suriname. This was followed by small scale low end manufacturing that is constrained by limited economies of scale and growth potential. All in all, the number of definitions of SMEs in the region points to the clear need for a harmonized standard definition for comparison of performance across countries and over time.

Micro enterprises predominate in Jamaica, and have increased their share of the total number of firms from 65.9% in 2007 to 68.5% in 2008 (see table 20 below). Similarly, the share of small enterprises fell from 24.1% to 22.6%. The main stake held by distribution and real estate and professional services points to the importance of internal trading, rather than the production of goods, as is supported by the relatively small share of manufacturing.

Table20

FIRMS IN JAMAICA BY TYPE AND SECTOR

	2007			2008		
Categories	**Total Micro Firms**	**Total Small Firms**	**Large Firms**	**Total Micro Firms**	**Total Small Firms**	**Large Firms**
Agriculture	133	49	23	125	51	18.00
Mining	45	13	13	45	15	12.00
Manufacturing	734	400	241	727	383	207.00
Energy & water	10	2	1	8	2	2.00
Construction	479	138	42	504	114	41.00
Distribution	4028	2,003	856	4,073	1,852	736.00
Miscellaneous	621	166	38	635	141	29.00
Transport & communications	781	212	78	790	180	71.00
Financial services	207	77	83	207	68	81.00
Real estate & professional services	2357	533	176	2,419	481	155.00
Government services	1198	284	48	1,204	257	48.00
Total	**10,593**	**3,877**	**1,599**	**10,737**	**3,544**	**1,400.00**

Source: Planning Institute of Jamaica

3. Competitiveness: Definition and conceptual issues

With regard to competitiveness, the mantra seems to be “competition we know, but competitiveness we don’t quite know”. This stems from the fact that competitiveness is a business school construct that is not well anchored in economic theory, as is the case with comparative advantage and competition. Moreover, the computation of competitiveness indices by institutions such as the World Economic Forum (Global Competitiveness Report), and the Institute of Management Development (IMD) have complicated the issue somewhat, as they use competitiveness to refer to nations, rather than firms. Indeed, the wide sweep of issues addressed in these reports suggests that the indices might be more relevant to describe the growth of nations, rather than competitiveness, strictly.

In analyzing competitiveness, a few considerations are critical. In the first place, competitiveness seems to be a concept that is most relevant to firms, as it is firms that compete with each other whether for market share, sales or profit margins. Second, competitiveness can be viewed from the vantage point of firms’ potential versus their actual performance in the market place. The former, ex-ante or potential competitiveness, is based on relative price such as real effective exchange rates, cost and quality among competing firms, relative productivity, the level of technology and innovation, management, organization and marketing systems, along with other factors that affect the efficiency and effectiveness of firms in domestic and international markets.

Meanwhile, the latter, or ex-post, realized or performance-based competitiveness is an actual outcome of potential[12] competitiveness and is measured by indicators such as growth in market share in external markets, maintenance or growth in market share in the domestic market, changes in the quality of market share, for example, increased share of technology-intensive exports in total exports and changes in the profitability of firms. These outcome criteria would vary depending on the goal and strategy of the firm, and its capacity for overcoming constraints and realizing opportunities in the market place.

In terms of the weighting of indicators, however, productivity growth is the foundation of competitiveness. In criticizing the concept of competitiveness, Krugman (1994) contends that competitiveness is a dangerous obsession that is effectively a poetic way of referring to productivity. Arguably, Krugman’s view has some merit, as even if productivity is not all there is to competitiveness; it is its fundamental pillar. In this light, SMEs and other firms that are able to increase the efficiency of use of inputs so as to raise productivity are more likely to achieve sustained growth, higher market share and profitability.

Although not grounded in as rigorous a theoretical framework as comparative advantage, competitiveness bears some relation. Comparative advantage clearly points to mutual gains from trade when countries specialize in producing those goods and services for which they have the lowest comparative costs relative to other countries. This clearly points, to the importance of relative productivity in different activities as a source of specialization and trade. Nevertheless, as some pundits have pointed out, competitiveness is closer to strategic trade theory, which argues that Government intervention in imperfectly competitive markets can boost the welfare of a country, meaning that free trade might not be optimal.

[12] See Yap, Josef, T (2004) “A Note on the Competitiveness Debate”, Philippine Institute for Development, Discussion Paper Series No. 2004-39, October.

Consequently, the policies, institutions and strategies of firms and public sector actors can hinder or facilitate SME competitiveness.

Highlighting the importance of the macro level, to overall competitiveness, the World Bank (2005) defined macroeconomic competitiveness as the ability of an economy to attract demand for its exports and the investment to supply this demand within a social framework that promotes improved living standards for its citizens. In the case of the Caribbean SMEs, their competitiveness as measured by changes in market share for their output could be specified by a simple function such as

$C = C(\alpha, \beta, R, P)$

Where C = competitiveness, measured by market share
α = productivity growth
β = coefficient of technical change in the firm/industry
R = Real effective exchange rate
P = product differentiation (to capture niche markets)

4. SME competitiveness: Challenges and opportunities

Caribbean SMEs confront a veritable competitive challenge, since as middle income economies, regional firms should be competing based on growth in productivity and product quality. However, for many regional SMEs the competitiveness strategy is still based on cheap labour and attempts to protect the domestic market from international competition. Few SMEs have been bold enough to undertake the exporting challenge. Indeed, most firms view entering export markets as a significant difficulty as they lack the market research and intelligence capability, the technical, organizational and managerial efficiencies to produce commodities of a sufficient quality and comparative cost to penetrate export markets. Moreover, certification and standards regimens are often inadequate to the often very demanding and rigorous demands of foreign markets.

Critically, globalization and liberalization have removed most of the protective shield that regional SMEs once operated behind. Facing the onslaught of much more open competition, SMEs need to rapidly change their orientation to penetrate external markets and to secure any first mover advantage they might have gained in the domestic market.

(a) Price competitiveness

In many economies, development seems to have been marked by an evolution from competitiveness based on price and costs to more sophisticated competitive advantage based on product/service quality and ingenuity. Nevertheless, in small economies such as the Caribbean where economies of scale are often lacking, except for those commodities that could be produced on an integrated basis across the regional market, price competitiveness is more difficult to achieve than in larger economies. However, price matters and SMEs need to strive to make their products affordable by sourcing cheaper inputs through bulk purchase and joint ventures to produce higher volumes. In fact, a number of SMEs, for instance, in the Carnival costume sector in Trinidad and Tobago have been sourcing textile inputs in bulk from China at significantly reduced costs.

Movements in the real effective exchange rate (REER) provide a useful measure of price competitiveness. The REER is the weighted average of the relative prices of a country with its main trade partners expressed in a common currency, where the countries are weighted by the industry trade shares. In effect, the REER determines the price that a consumer will pay for an imported good since it includes tariffs and other transactions costs. Therefore, it is an important gauge of cost or price competitiveness.

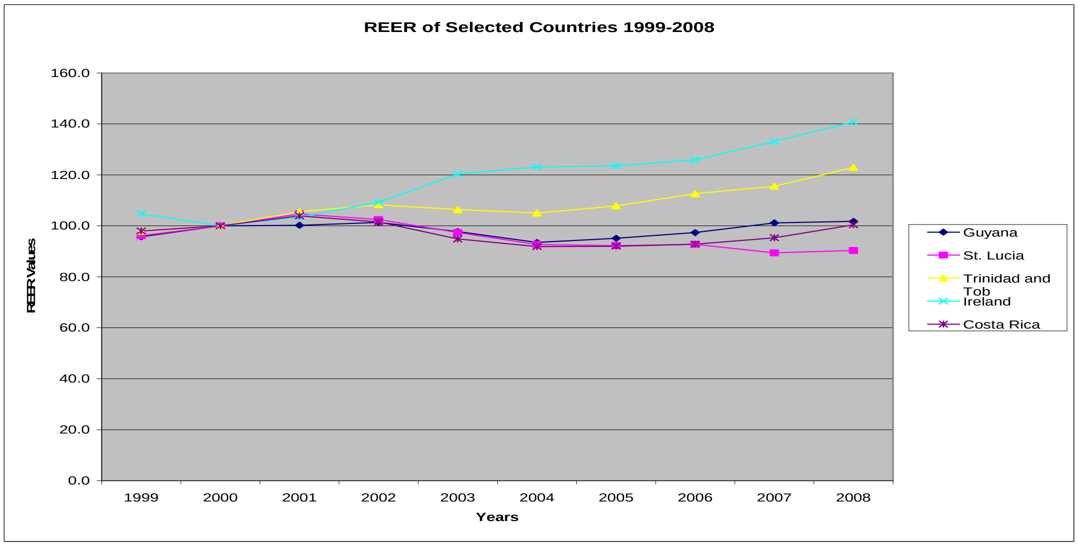
Figure 7 below and appendix 1 table 1 tracks the evolution of the REER for selected countries over the last 10 years. As expected, the trends for the selected Caribbean countries have been variable. In Belize, the REER appreciated in 2001, but has largely depreciated since then, except in 2006 when there was a marginal appreciation. This suggests on the whole, that Belize's price competitiveness has improved during the 2000s, enabling it to better compete in export markets and in import competing sectors in the domestic market based on price alone. Indeed, exporters of papaya and non-traditional products such as pepper sauces and red kidney beans, benefited from the depreciation. However, since inflation in Belize has largely trended upwards during the period, improved competitiveness might have stemmed more from the relative depreciation of the Belizean dollar compared with counterpart currencies that outweighed the impact of the rise in domestic costs in Belize.

Similarly, the REERs of Saint Kitts and Nevis and Saint Lucia have depreciated for most of the 2000s. However, the explanations have been somewhat different for the two countries. Whereas in Saint Kitts and Nevis, improved price competitiveness was purchased by a depreciating relative exchange rate, as inflation largely increased; in Saint Lucia, it seemed to have resulted largely from lower inflation and possibly some exchange rate depreciation also. It is important to underscore, however, that given the fixed exchange rate regime in the ECCU, it is critical for member countries to contain domestic costs, especially wage and other input costs in order to achieve and maintain price competitiveness. This is so because the exchange rate does not readily adjust to calibrate demand, supply and price changes, and the lack of an independent monetary policy means that price and fiscal adjustments have to work harder to ensure competitiveness and growth.

In Guyana and Trinidad and Tobago, the REER has appreciated in the latter part of the 2000s after largely declining in the earlier part of the decade, reducing their price competitiveness. Although Trinidad and Tobago would have been as badly affected given the importance of petrochemicals in total exports, Guyanese non-traditional exporters, would have been affected by reduced competitiveness.

Given the challenge of ensuring a competitive REER, policymakers in the region need to prioritize price stability, and wage growth in line with productivity to prevent undue appreciation of exchange rates. In this regard, Governments need to strive to contain growth in public debt, especially by paying-off as much debt as possible in boom times. This would help to relieve future inflation pressure. Improved competition in markets for inputs such as transportation, business services and marketing could help to drive down costs in these areas and strengthen price competitiveness by easing domestic inflation pressures.

Figure7
REAL EFFECTIVE EXCHANGE RATES OF SELECTED CARIBBEAN AND OTHER COUNTRIES



Source: International Monetary Fund (IMF) IFS

Another critical measure of price competitiveness is relative unit labour costs (ULC) in a given sector, for example, manufacturing or services. Unit labour costs can be defined as total compensation per hour employed divided by labour productivity.[13] An increase in a country's ULC, like its REER, should lead to a fall in its competitiveness, as its domestic production costs rise relative to its competitors. Unfortunately unit labour costs are not available for almost all CARICOM countries. Data for Barbados indicates that although labour costs were growing largely in line with productivity growth in the financial and manufacturing sectors, labour costs outstripped productivity growth in the vital tourism (accommodation) sector by 6.5% and in distribution by 2.8%. This growth in relative labour costs is one of the factors dampening the competitiveness of the tourism sector.

(b) Productivity growth and efficiency

It has already been noted that productivity growth is the cornerstone of enterprise competitiveness. Productivity is an important metric, which refers to the output produced per unit of input in the production process. As Michael Porter noted "competitiveness is determined by productivity, and depends on firms' strategies". Nevertheless, SME productivity remains a major bugbear in the Caribbean. The reality is that although a number of countries in the region have achieved middle income status, their growth in labour and other factor productivity has not matched a number of countries at that level of development.

Kida (2006), using regression estimates of total factor productivity (TFP) that correct for short-term fluctuations, found that the median country had average TFP growth in the 1980s of 1.0% and that this actually turned negative (-0.4%) in the 1990s. What is more, he

[13] That is: $ULC = \dfrac{[C/H]}{[O/H]}$

Where: C= total compensation, H= per hour employed and O= total output.

found that growth during the period of economic growth was driven by increases in capital per worker that is factor accumulation, rather than productivity. This suggests that the region has been growing by using up more resources, quite evident in the natural resource sectors, rather than raising the value of output per given resource input. The World Bank (2005) estimates that total factor productivity in the ECCU countries fell from an average of 2.7% in the 1980s to 1.3% in the 1990s. As table 6 shows, all countries listed had labour productivity growth of less than 1%, with a few even recording negative growth rates. This decline in productivity was matched by weak performance in a number of firms and sectors. Indeed, a number of SMEs in textiles, light manufacturing and agro-processing in the region went out of business in the 1990s and 2000s, as wage costs outpaced productivity growth.

Growth in labour productivity among SMEs in the region is expected to have mirrored the relatively low average for all sectors. Indeed, given their general limited investment in a research and development capability, use of outdated technology and managerial systems in a number of activities and their financial constraint, SME productivity growth was expected on average to be lower than for large firms.

Given the opportunities that would be opened under the EPA, a regional strategy should be developed for productivity upgrade among Caribbean SMEs. This should be partly financed by the SMEs themselves, and could include a stock-taking of productivity deficiencies, technical and managerial upgrading, including the use of international experts in similar industries and sectors. The CARICOM Regional Organisation for Standards and Quality (CROSQ) should be an active participant in the process to ensure the sustainability of the modernization process.

(c) Technology change

Technology is often referred to as the 'long arm' of man as it symbolically represents the use by man of tools and other means to master his environment. Efficient adoption and/or development, use and mastery of technology are critical drivers of the competitiveness of SMEs. Nevertheless, the technological effort of SMEs in the Caribbean has been hampered by the broader policy framework and firm outlook. Regional SMEs have for the most part not invested the technology necessary to bring their production up to the international frontier. This has stemmed in part from protection, which has stifled domestic market competition, a key factor that pushes firms to adopt new technologies in order to survive. This created what Jomo, K.S. and Reinert (2005), described as 'greenhouse' industries that could not survive market opening and international competition.

Opportunities can arise for more technologically intensive production by regional SMEs if targeted policy support and own-effort is undertaken by the firms themselves. Lall (2005) notes that since all countries have access to the same international technical knowledge, an essential determinant of country (*firm*) performance is technological 'learning' by different countries (*firms).* Policymakers need to foster linkages between technology institutes, universities and SMEs to catalyse a culture of adopting new technology among firms.

The work and mandate of institutions such as the Caribbean Industrial Research Institute (CARIRI) should be expanded to speed up region-wide SMEs technology upgrading and new product and process development. Business support institutions, such as the National Entrepreneurial Development Company (NEDCO) in Trinidad and Tobago, the

Jamaica Competitiveness Company and the OECS Export Development Unit, should be properly outfitted to help SMEs overcome the technological challenge. Useful upgrading in Trinidad and Tobago has enabled the manufacturing sector to capture the dominant market share in the regional market. There should also be a drive to achieve ISO 9000, ISO14000 and Hazard Analysis & Critical Control Points (HACCP) certification, where relevant. A portion of adjustment funding under the EPA supplemented by counterpart funding at the regional level can be used for this.

(d) Finance, business development services and institutional factors

Caribbean SMEs continue to list adequate and appropriate finance as the main bottleneck affecting their growth, survival and competitiveness. Regional SMEs have long faced difficulties in accessing commercial banks' credit. This is a function of the cost of this type of finance, inadequate records and book-keeping on the part of a number of SMEs and high risk aversion by commercial banks. High interest cost in the Caribbean is a major constraint on SME start-up and restructuring. Indeed, nominal interest rate spreads averaged 9.0% in the last five years, ranging from 4.9% in Barbados to 17.3% in Jamaica. These are far above international benchmarks and partly reflect an inefficient financial system.

Business development and support services are vital catalysts of SME growth and competitiveness. However, the quality and effectiveness of these services vary across the region, as there is no harmonized policy and programme based on best practices. One best practice is the SMEXCHANGE Trinidad and Tobago, which is operated by the Business Development Company (BDC) and provides a useful package of services, including bringing buyers and sellers together to exchange goods and services. By facilitating E-business and providing a platform for comparing products and prices, the Exchange reduces the transactions costs in trade. In Jamaica, the Competitiveness Company has been promoting clusters among SMEs and supporting them by market research so that they can penetrate export markets. However, SMEs in Jamaica continue to be challenged by certification, including traceability problems.

The World Bank's Doing Business indicators provide a rough gauge of some of the problems of operating in the Caribbean environment (see table 21 below). As indicated, Caribbean countries did not rank well in the key indicators. For instance, in the ease of doing business, the rank ranged from 63 in Jamaica to 146 (out of 181 countries) in Suriname in 2009, and Trinidad and Tobago slipped 13 places from 2008 to 2009. Also, the relatively long time it takes to start a business due to bureaucratic procedures must be a disincentive to start-ups in the region. This ranged from eight days in Jamaica to a substantial 694 days in Suriname.

Given the above and other bottlenecks, support services and policies need to facilitate continuous human capital upgrade in SMEs. An important strategy in this regard is the strengthening of linkages among universities, technical training institutes and business for on-the-job training and acquisition of skills. SMEs should, where possible, provide part funds for skills upgrade by staff, which could later be redeemed by hours worked to have a workforce based on continuous learning.

Table 21

INDICATORS OF THE BUSINESS ENVIRONMENT IN SELECTED CARIBBEAN COUNTRIES

	Jamaica			Saint Kitts and Nevis			Suriname			Trinidad and Tobago		
	2008 rank	2009 rank	Change in rank	2008 rank	2009 rank	Change in rank	2008 rank	2009 rank	Change in rank	2008 rank	2009 rank	Change in rank
Ease of: Doing Business (rank)	63	63	0	64	67	-3	142	146	-4	67	80	-13
Starting a Business	11	11	0	79	72	7	163	170	-7	40	56	-16
Procedures (number)	6	6	0	9	8	1	13	13	0	9	9	0
Time (days)	8	8	0	46	45	1	694	694	0	43	43	0
Cost (% of income per capita)	8.7	7.9	0.8	22.9	12.5	10.4	141.8	125.2	16.6	0.9	0.9	0
Minimum capital(% of income per capita)	0	0	0	0	0	0	1.1	0.8	0.3	0	0	0
Dealing with construction permits/Licenses (rank)	74	49	25	7	6	1	97	95	2	79	84	-5
Procedures (number)	10	10	0	14	14	0	14	14	0	20	20	0
Time (days)	236	156	80	72	67	5	431	431.7	-0.7	261	261	0
Cost (% of income per capita)	438.4	396.3	42.1	14	5.1	8.9	158	105.7	52.3	5.9	5.5	0.4
Employing workers (rank)	33	32	1	18	22	-4	50	53	-3	38	36	2
Difficulty of hiring index (0-100)	11	11	0	11	11	0	0	0	0	0	0	0
Rigidity of hours index (0-100)	0	0	0	20	20	0	20	20	0	0	0	0
Difficulty of firing index (0-100)	0	0	0	20	20	0	50	50	0	20	20	0
Rigidity of employment index (0-100)	4	4	0	17	17	0	23	23	0	7	7	0
Firing cost (weeks of salary)	61	62	-1	8	13	-5	26	26	0	67	67	0

Note: 2005 rankings have been recalculated to reflect changes to the 2006 methodology and the addition of 20 new countries.

Foreign Direct Investment (FDI):-Catalyst or obstacle?

FDI is a critical driver of production and trade in the Caribbean. FDI has long been favoured by Caribbean policymakers because it transfers technology and knowhow, builds up productive capacity in goods and services, it is less volatile than portfolio and short-term flows and it does not create debt obligations for Governments. The recent growth spurt in most Caribbean countries, especially Trinidad and Tobago, Suriname and Belize has been largely driven by FDI in resource-based activities.

Although supply and demand conditions, economies of scale and other incentives have led FDI to prefer large-scale activity, well-positioned SMEs have been increasingly benefiting from subcontracting, acting as supplier networks for specialised services. This is well illustrated in the petrochemical cluster in Trinidad and Tobago, where a number of domestically owned SMEs have developed stable and profitable networks with large multinational corporations (MNCs). A number of local providers have also garnered important stakes in the off-shore financial sector in the Bahamas.

Undoubtedly, though, unlike the Asian Newly Industrialized Countries (NICS) and some small countries such as Costa Rica in Central America and Mauritius in Africa, Caribbean firms have not leveraged FDI to sufficiently upgrade their production systems, technology and marketing arrangements. Therefore for the most part, FDI has reinforced traditional patterns of resource-intensive specialisation in primary agriculture, mining and light manufacturing that are vulnerable to fluctuations in international demand. As CARICOM has highlighted, "FDI has contributed little to dynamic specialisation in higher value-added production due to limited and weak research and development spillovers".[14]

The extent to which regional SMEs can harness FDI as a vehicle for enhancing competitiveness would depend on how far they upgrade their technological, managerial and human resource capacities to become reliable partners. This demands an integrated FDI policy/strategy at the regional/national levels and a firm-level strategy for optimising the productivity/efficiency-enhancing potential of FDI.

As shown in the petrochemical sector in Trinidad and Tobago, there are clear opportunities for competitive growth for SMEs that are prepared to upgrade their capability to partner with multinational corporations through subcontracting and other arrangements.

(e) Trade performance

The Competitive Analysis of Nations (CAN) software provides a competitiveness matrix that describes the evolution of a country's market share in a given market. There are four classifications of products and services. A rising star is a product market share that is increasing in a growing (dynamic) market. An increase in market share in a product that is declining in importance in a trading partner is a declining star. A fall in market share in a dynamic commodity is called a missed opportunity and a fall in market share in a stagnant commodity is retreat. Table 22 below shows that CARICOM'S rising star products to the North American market increased sharply from an average of 4.16% from 1993-1997 to 53.21% during 1997-2002, but contracted to less than half this level during 2002-2007. The increase in the rising stars in the second period was due largely to exports of mineral fuels and lubricants and chemicals, almost all of which came from Trinidad and Tobago and where

[14] See CARICOM Secretariat (2005), "Caribbean Trade & Investment Report: Corporate Integration & Cross-border Development", EIPU

SMEs are only indirect suppliers. Meanwhile, the region has not been specialising in new commodity opportunities that have become available, as evidenced by the increase in missed opportunities from 27.99% from 1993-1997 to 57.48% during 2002-2007.

Table 22

Competitive matrix of CARICOM exports to North America, 1993-1997, 1997-2002, 2002-2007 at the three digit level and expressed as a percentage of the final year exports

		Stagnant Commodities		Dynamic Commodities	
		First period	67.85%	First period	32.15%
		Second period	27.27%	Second period	72.72%
		Third period	17.44%	Third period	82.56%
Market Share Gains		Declining Stars		Rising Stars	
First period	5.96%	First period	1.80%	First period	4.16%
Second period	70.73%	Second period	17.52%	Second period	53.21%
Third period	34.46%	Third period	9.38%	Third period	25.08%
Market Share Losses		Retreats		Missed Opportunities	
First period	94.04%	First period	66.05%	First period	27.99%
Second period	29.26%	Second period	9.75%	Second period	19.51%
Third period	65.54%	Third period	8.06%	Third period	57.48%

Source: Competitive Analysis of Nations (CAN) (2009)

5. Conclusion

SMEs have great potential to continuously contribute to growth and development in the Caribbean. The challenge is to strengthen the competitiveness, especially the export readiness of regional SMEs. Undoubtedly, the predominant role in this exercise must come from the firms themselves, as they restructure their operations, modernize their plants, technology and service delivery and institutionalize a culture of innovation and productivity growth within the firm. Given that most regional SMEs would not be able to compete based on economies of scale and low costs, they would need to invest in research and development to differentiate their products to capture niche markets abroad. The EPA should provide useful opportunities for innovative SMEs in this regard.

Crucially, public institutions must continuously evaluate their support services to determine their effectiveness. Moreover, support services should facilitate learning and a self-sustaining capacity within SMEs to prevent them from being at the mercy of public funding and capacity. In addition, SMEs should be encouraged to adopt an external orientation that uses the domestic and regional markets as the preparation room for penetrating export markets. Given their limited individual capacities, these firms must be encouraged to collaborate in networks and clusters where they can share knowledge, adopt joint purchases, marketing and other arrangements and benefit from externalities. All in all, the region needs to provide an integrated strategy for increasing the contribution of SMEs to development.

Chapter III

COUNTRY BRIEFS

This chapter presents briefs on economic performance of countries during 2008 and prospects for 2009. Statistical information on main macroeconomic indicators for 2002-2008 is also provided at the country level. In the case of ECCU countries, one single brief is presented which makes reference to individual countries whenever relevant (see the annex for country data).

A. BAHAMAS

1. General trends

The Bahamian economy contracted by 1.7% in 2008, relative to growth of 0.7% in 2007. The downturn in major markets, especially in the second half of the year led to a slump in demand for tourism services and a sharp fall in FDI that dampened construction activity. Real value added in financial services was buoyant in 2008. Reflecting the impact of higher fuel[15] and food prices, inflation leaped far above trend from 2.9% in 2007 to 4.5%, in 2008. One of the knock-on effects of the accelerated decline in activity in the second half of the year was a spike in unemployment to 12% at the end of December compared with 7.9% in May 2008.

Fiscal performance improved in fiscal year[16] 2007/08 as a result of dynamic revenue growth, outpacing growth in spending. Nevertheless, for the first half of fiscal year 2008/09, with the slump in activity and rising unemployment, Government stimulus led to an expansionary fiscal stance, including the fast-forwarding of capital projects. In the context of a challenging environment, monetary policy aimed to ensure the maintenance of adequate external reserves to support the pegged exchange rate. Households exercised caution as the global recession impacted the economy, and the usual depletion of reserves for Christmas purchases moderated.

The balance of payments current account deficit narrowed from 17.5% of GDP in 2007 to 13.9% of GDP in 2008) associated with lower non-oil import demand and lower payments for foreign construction experts. Continued import compression in line with negative growth is expected to lead to a marginal narrowing of the current account deficit in 2009.

The Bahamian economy is expected to stay in recession with negative growth of-3.5 in 2009, as the contagion from major markets lead to sharp contractions in tourism, FDI and financial services. The economy is not expected to recover until 2011. The contagion from the fall-out in major sectors will result in higher unemployment and reduced work hours for some workers. The inflation rate, which is above the long-term average of around 2%, is expected to moderate in 2009 with the reduction in international prices of most imports and the slowdown in domestic demand.

[15] Fuel prices moderated in the latter half of 2008, but the earlier hike contributed to higher average prices.
[16] In Bahamas the fiscal year runs from 1 July to 30 June.

2. Economic policy

(a) Fiscal policy

Fiscal policy was less expansionary in fiscal year 2007/08 than in the previous fiscal year; growth in spending eased and was outpaced by the increase in revenues. Overall, the deficit contracted to -1.3% of GDP, from -1.5% of GDP in 2007. Revenues expanded by 6.4% to B$1424.1 million, reflecting solid growth in selected taxes on tourism services (15.8%), partly owing to higher receipts from departure taxes. Non-tax revenue of B$156.7 million, surpassed both the budgeted amount and the return in the previous fiscal year.

The 4.5% growth in expenditure was below the budgeted level, and a result of contained primary spending during the year. Spending on goods and services and personal emoluments, the two big tickets of current items, were up by 6.8% and 2.9%, the latter representing a real decrease in outlays on wages and salaries. Debt interest payments rose by 12.6% to B$143.1 million, as the public debt stock increased to 47.7% of GDP. Nevertheless, debt costs would remain manageable within a framework of stable growth and orderly debt acquisition, but could start to raise some concerns if fiscal expansion became locked in as economic conditions worsened.

Capital formation focused on infrastructure projects and the acquisition of assets advanced by 6.3%, but was below initial allocations. The constrained deficit in fiscal year 2007/08 was financed by domestic currency borrowings of B$137.9 million and proceeds from a US$ 100 million bond issue. Public external debt rose from 4.4% to 5.7% of GDP.

The spreading recession has already impinged on fiscal performance in 2008/09. The Government has undertaken a fiscal stimulus programme to contain the slowdown in economic activity and rising unemployment. The goal is to provide an economic stimulus, while providing critical public infrastructure. The stimulus includes the front loading of infrastructure projects, such as road improvement and the redevelopment of downtown Nassau, and also safety net assistance, including unemployment benefits for workers who have lost their jobs. The stimulus combined with a decline in revenues from import duties and stamp and gaming taxes has led Government to revise its target for the fiscal deficit to -4.7% of GDP in 2008/09, a doubling of the earlier budgeted figure. Nevertheless, even with extra borrowing, debt level should be within medium-term goal of 30-35% of GDP. Given its heavy reliance on the United States market, Standard and Poors has downgraded the outlook for the Bahamas from stable to negative.

(b) Monetary and exchange rate policy

Despite its trade and financial openness, the Bahamas was largely shielded from the toxic products that contributed to the financial crisis in major markets. As such there was no serious direct threat to the financial sector, therefore monetary policy was largely neutral, with no policy intervention in 2008. The Central Bank’s role was largely that of monitoring to ensure adequate reserves to support the fixed exchange rate regime and to maintain stable prices.

The build up of reserves stemming from public external borrowing and reduced import leakage due to reduced credit growth bolstered the reserve cover to support the exchange rate. Growth in domestic credit slipped by 5.8% to B$ 482 million in 2008 from

B$ 812 million in the previous year, as the sluggish economy led banks to carefully evaluate the credit risk of customers to reduce loan default. Credit to the private sector slackened with greatest allocations going to personal loans. The bulk of consumer loan went to debt consolidation (B$ 98 million) and credit card debt (B$ 37.4 million) and, along with a spike in overdraft facilities, underscored the increased financial difficulties confronted by households in the recessionary environment. Households would need to orderly retire expensive credit card and overdraft debt in order to avoid slipping into a debt trap.

Broad money (M2) growth slowed to 5.2% from 10.6% in the previous year. Holdings of savings and foreign currency deposits diminished and fixed deposits also contracted due to reduced holdings by businesses and public corporations. Although liquidity in the banking system increased, the weighted average interest rate spread, widened by nine basis points, owing to a 32 basis points increase in the average loan rate to 10.95%, offsetting the 23 basis points rise in average deposits rate to 3.92%.

One area of short-term concern is the deterioration in the asset quality of the domestic banking sector as borrowers face increasing loan servicing problems in the gathering recession. Non-performing loans (those with arrears for more than 90 days), increased by 46.1% in 2008 and are expected to continue to rise in the early part of 2009.

Bahamas Colonial Life Insurance Company (CLICO) went into liquidation in February 2009, after the parent company in Trinidad and Tobago encountered major financial difficulties and a number of its subsidiaries were taken over by the Central Bank of Trinidad and Tobago. The updated insurance legislation, recently passed in Parliament will raise prudential standards in the sector, including strict limits on inter-company loans. A major concern is the renewed attempt to tighten regulation in offshore financial regimes, purportedly aimed at reducing tax avoidance. This could affect both the financial sector and real estate because of their close link.

A more activist monetary stance could possibly facilitate recovery by boosting credit to productive sectors, thereby complementing the fiscal stimulus.

3. The main variables

(a) Economic activity

Economic activity declined by 1.7% in 2008, recording a sharp slowdown in real output in the second half of the year, partly owing to the recession in major markets. The mainstay tourism sector contracted as total visitor arrivals fell by 4%. The sector was especially hard hit by the decline in stay-over visitors (-4.3%), whose average spending is about 15 times that of cruise ship passengers. Stay-overs from the United States, the major market, declined by 6.9%, as households cut travel plans owing to the recession. This superseded growth in arrivals from the Canadian and European markets that were bolstered by the weakness of the United States dollar.

Construction activity plunged by 10% as positive impetus from domestic activity was negated by a fall-off in foreign investment in the sector, particularly into second homes. Meanwhile the financial services sector was relatively buoyant in 2008 (3.2%). Licensed banks and trust companies increased by 26 to 271 and their total outlays, which contribute to value added rose by 8.2% to B$ 553.1 million, made up largely of operational expenses, including salaries and capital expansion. Employment in the off-shore banking sector was up by 31% to 4,954 persons, reflecting a higher number of locals employed.

With regard to GDP by expenditure, consumption, investment and exports of goods and services contracted by 1.6%, 11.1% and 3.8%, respectively, reflecting the slowdown in activity.

With the spread of recessionary conditions from major markets to the Bahamas in 2009, all the major sectors are being affected. During the first four months of 2009, stay-over visitor arrivals fell by 15.5%. Moreover, hotel room revenue continues to decline due to depressed room night sales and rates, and is expected to persist for the year, with adverse multiplier effects on other sectors, especially distribution. The authorities hope that the fifty-ninth Fédération Internationale de Football Association (FIFA) Congress that was hosted in June and the Ms Universe Pageant held in August in the Bahamas would help to cushion the fall-out in the tourism sector. Construction activity, except for stimulus projects undertaken by the Government has been subdued so far in 2009, as FDI into to the sector has tapered off. Given these factors, growth is forecast at -3.5% for 2009.

(b) Prices, wages and employment

Inflation increased from 2.9% in the previous year to 4.5% in 2008, as the spike in oil prices in the first half of the year and continued high food prices boosted general prices. Despite a tempering of international oil and food prices, domestic food prices rose by 6.7%, partly due to the high cost structure of domestic wholesalers and retailers. Above average prices have been sustained for the 12-month period to April 2009 (4.8%), in spite of the slowdown in the economy. Nevertheless, inflation is expected to moderate during the latter part of 2009 as oil and food prices are not expected to reach the peak levels achieved in 2008 and also due to lower domestic demand.

The rate of unemployment is estimated to have surpassed 12% by the end of 2008, relative to 8.7% in May of 2008, as job losses were recorded in the hotel, construction, distribution and other sectors.

(c) The external sector

The slowdown in activity fed through to the balance of payments, where the current account deficit narrowed to 13.9% of GDP (US $1054.6 million) from 17.5% of GDP (US$ 1314.5 million) in 2007. This improvement stemmed largely from reduced non-oil import demand, lower payments for foreign experts on projects and a tapering off of outflows of private sector income remittances. The trade deficit declined by 1.0% to US$ 2131.8 million, as the fall in the non-oil deficit offset the hike (44.7%) in fuel costs. The services account surplus expanded by 16.8% to US$ 1190.6 million, as a result of decline in external payments for construction services and an increase in net travel receipts. Although tourism receipts contracted with weakness in the sector, this was offset by a fall in residents' overseas travel spending in response to worsening conditions.

The surplus on the capital and financial account narrowed by 1.1% to US$ 940.7 million (12.4% of GDP). Net FDI declined by 23.9% to US$ 885.6 million, partly linked to a one third plunge in net real estate purchases by foreigners.

In 2009, the current account deficit is expected to narrow marginally, as import demand falls with the decline in activity. The services account is projected to remain fairly stable, as the contraction in tourism receipts is expected to be matched by lower payments for construction services and reduced overseas travel payments by residents.

Table 23

BAHAMAS: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007p	2008p
GDP	2.0	-2.4	-0.2	5.7	4.3	0.7	-1.7
GDP per capita	.7	-3.6	2.4	4.4	3.0	-0.5	-2.9
Agriculture	-5.9	-25.3	-4.6	-15.9	-4.9	11.6	-0.5
Fishing	35.7	6.1	-9.0	-14.9	9.0	-22.3	-8.1
Mining	2.8	14.6	4.3	-4.7	-1.6	-43.8	-20.5
Manufacturing	-5.7	22.2	24.2	40.1	-31.0	-12.0	-1.8
Electricity and water	5.7	6.5	0.7	7.9	14.56	1.1	11.85
Construction	18.0	6.6	-13.6	9.5	28.5	5.1	-10.0
Wholesale and retail trade	2.3	-1.1	4.3	14.6	1.5	-2.5	3.4
Hotel and restaurants	-14.8	7.1	3.2	6.4	6.5	-9.6	-4.9
Transport, storage and communication	3.7	0.9	11.1	4.0	3.5	-5.1	-6.4
Financial intermediaries	-2.5	-18.5	3.4	7.6	-4.4	7.5	3.5
Real Estate/rent/business activity	12.9	-3.0	4.3	-1.4	5.2	3.0	3.0
Public administration and defense	-5.3	-18.6	-7.0	2.7	3.6	4.5	2.9
Other comm., social and personal services	0.3	7.0	-1.8	10.1	-8.3	3.8	-5.0
Other services	-2.2	-3.0	-1.2	2.3	-1.6	4.9	3.9
Dummy Financial Corp (FISM)[a]	2.0	-2.4	-0.2	15.1	-6.9	0.8	22.5
Inflation (year end)	1.9	2.4	1.9	1.2	2.3	2.9	4.5
Lending interest rate[b]	11.3	12.0	11.2	10.3	10.0	10.6	11.0
Deposit interest rate[b]	4.0	3.9	3.8	3.2	3.4	3.7	3.9
Unemployment rate	9.1	10.8	10.2	10.2	7.6	7.9	12.0
Total revenue	14.5	15.2	15.2	15.3	16.8	17.8	18.8
Current revenue	14.5	15.2	15.0	15.1	16.8	17.9	18.8
Tax revenue	13.1	13.7	14.2	13.4	13.6	15.0	16.8
Capital revenue	0.0	0.0	1.6	1.5	1.7	0.0	0.0
Total Expenditure	16.9	17.6	17.4	16.8	17.5	19.4	20.1
Current expenditure	15.2	16.2	16.1	15.5	15.8	17.2	17.8
Interest payments	1.8	1.4	1.8	1.7	1.6	1.7	1.9
Capital expenditure	1.8	1.4	1.3	1.3	1.7	2.2	2.3
Global balance	-2.4	-2.4	-2.1	-1.5	-0.7	-1.5	-1.3
Primary balance	-0.7	-0.7	-0.3	0.2	0.9	0.2	0.6
Public debt	39.8	43.1	43.4	41.8	42.6	44.7	47.7
External	5.2	6.1	5.6	5.0	4.6	4.4	5.7
Domestic	34.5	36.9	37.8	36.8	38.0	40.3	42.0

Table 23 (continued)

	2002	2003	2004	2005	2006	2007p	2008p
Current account balance	-298.0	-320.7	-170.6	-650.6	-1373.9	-1314.5	-1054.6
Trade balance	-1212.9	-1230.5	-1348.2	-1762.6	-2033.1	-2154.4	-2131.8
Exports	422.1	426.5	477.4	549	694.2	801.9	997.2
Imports	-1634.9	-1657.0	-1825.6	-2311.6	-2727.3	-2956.3	-3129.0
Services balance	1056.9	1013.6	1068.1	1229.9	825.2	1019.7	1190.6
Income balance	-184.3	-152.4	-141.3	-203.2	-218.0	-231.6	-169.4
Transfers balance	42.4	48.7	250.8	85.4	52.0	51.8	56.0
Financial account balance[c]	358.8	431.6	354.2	561.6	1294.8	1268.7	1163.7
FDI	208.6	246.7	442.9	562.8	706.4	746.2	885.6
Financial capital[c]	150.2	184.9	-88.7	-1.2	588.4	522.5	278.1
Overall balance	60.8	110.9	183.7	-89.0	-79.0	-45.8	109.1
Domestic credit	81.1	81.2	82.1	84.6	90.5	98.7	104.2
To the public sector	14.7	14.7	14.3	13.8	14.7	16.2	18.1
To de private sector	66.4	66.4	67.9	70.7	75.8	82.5	86.1
Liquidity (M3)	63.3	65.5	69.8	69.4	69.6	74.7	77.9
Currency and domestic currency deposits (M2)	61.8	63.8	68.2	67.3	67.4	72.1	75.3
Foreign currency deposits	1.5	1.7	1.6	2.1	2.2	2.7	2.7
GDP (Millions of BH$)	5,912	5,942	6,189	6,797	7,280	7,498	7,564
GDP (Millions of US$)	5,912	5,942	6,189	6,797	7,280	7,498	7,564
GDP per capita (US$)	18,956	18,787	19,299.4	20,901.4	22,060.9	22,462.2	22,365.9

Source: ECLAC on the basis of official data.
[a] Weighted average.
[b] Fiscal data are in fiscal years
[c] Includes capital account balance and errors and omissions.

B. BARBADOS

1. General trends

Growth slowed significantly during 2008, down to 0.5% compared to the 3.4% recorded in 2007, reflecting the impact from the global recession. With a heavy dependence on tourism, the fall in visitor arrivals from North America and Europe became a major cause for concern. Additionally, sectors like mining, construction and manufacturing also recorded contractions, deepening the economic slowdown. Prospects for 2009 are no more encouraging, and the authorities expect GDP to fall between -2.0% and -2.5%.

As a direct result of this fall in activity levels, the unemployment rate rose from 7.4% to 8.1% by the end of 2008, and for 2009 it is likely to rise even more. Adding to those concerns is the deterioration of external accounts, with a growing trade and current account deficit, a stagnated services surplus, and a shrinking capital and financial balance surplus, which generates a substantial loss of international reserves. Furthermore, inflation accelerated through 2008, reaching 7.3% (December-December), although price increases decelerated during the last quarter of the year, and, for 2009, moderate inflation is expected due to the pass through effect of lower international prices of oil and other imports.

There was a considerable expansion of the fiscal deficit in 2008 (from 1.8% to 5.9% of GDP) because diminished tax income combined with growing current and capital expenditures. With a growing fiscal deficit, there are rising concerns about the sustainability of the budgetary balance without further increasing the stock of public debt (domestic and external), which had already reached a level equivalent to 98.7% of GDP by the end of 2008.

Against this background, fiscal and monetary authorities have undertaken the implementation of several measures aimed to counter the worst effects of the economic slowdown and financial uncertainty. In particular, the Central Bank of Barbados monitored closely the financial markets during 2008 and intervened when necessary for stabilization purposes. For 2009, the main targets for public policies are to stimulate economic activity, control the budget imbalance, improve the external accounts, and preserve living standards.

2. Economic policy

(a) Fiscal policy

Fiscal revenues stagnated during 2008, growing by less than 0.9% in nominal terms. The main reason for this outcome was the negative evolution in direct taxes, which contracted by -4.2% reflecting a sharp reduction in corporate income and profits. Indirect taxes, on the other hand, recorded a 4.2% increase, fed by higher income from import duties and excise tax. Overall, tax revenue grew just a paltry 0.5% in nominal terms and, as a percentage of GDP, decreased from 33.8% in 2007 to 31.5% in 2008. However, non-tax revenue expanded by 8.2% due to significant expansions in grants and postal revenue, helping to counter the stagnation in tax revenue.

Total expenditure grew substantially in 2008 (11.6%), fed by expanded current expenditure, as a consequence of higher spending in goods and services (19.5% increment), higher debt interest payments (25.5% increment), and a 19.1% increase in transfers and subsidies. Capital expenditure, constituting around 9% of total expenditure, grew by 26.2% explained by higher disbursements by the National Insurance Scheme.

The overall outcome of the insufficient revenue growth and higher expenditures has been a considerable expansion in the fiscal deficit of 179.4% between 2007 and 2008. Thus, according to the latest figures available, by the end of 2008 the accumulated fiscal deficit amounted to 5.9% of GDP, more than triple the deficit recorded in 2007 (1.8% of GDP). For 2009, further growth in the fiscal deficit is expected, fuelled by higher current expenditures, particularly in wages and salaries, and higher capital spending related to countercyclical programmes

In order to balance public finances, the Government required higher than expected financing, and, as a result, the total public debt stock rose by 9% during 2008. The stock of domestic public debt (Government and Government guaranteed) grew by 10.9% up to US$ 2,649 million (72% of GDP), while external public debt slightly decreased (-2.2%) to 26.7% of GDP. Thus, the overall stock of public domestic and external debt rose to US$ 3,631 in 2008, approximately equivalent to 98.7% of GDP (99.5% of GDP in 2007).

(b) Monetary policy

The main concerns of the Central Bank during 2008 were to ensure the stability of the financial system, while supporting economic activity through the reduction of the financial cost of doing business. Although the financial authorities were successful in keeping the financial markets steady, it was not without costs. The decrease in capital inflows and the increase in capital outflows by the private sector forced the Central Bank to intervene and resulted in a gradual reduction of international reserves, which fell by 12.4% through 2008, amounting to US$ 678 million by December.

Net domestic credit grew by 10.5% stimulated by a strong expansion in credit to the central Government in order to balance the public budget. Thus, by end of the year the amount of net credit to the central Government rose by 19.6% compared to December 2007, while credit to the private sector rose by 9.9%. However, a main concern is the strong fall in the stock of net external assets of the banking system, which, after several years of substantive growth, contracted by 22.2% falling to US$ 875 million.

Money (M1) contracted during 2008, due to the reduction in the end-of-year stocks of currency with the public (-2.5%) and demand deposits (-2.5%). However, the stock of broad money rose by 2.8%, thanks to a 7.2% expansion in the stock of saving deposits. However, it is worth noting that deposits in foreign currency by non-residents fell by 23% between December 2007 and December 2008.

Regarding interests rates, the Central Bank's policy in 2008 sought to reduce active and passive rates gradually, lowering costs for doing business. The annual average prime lending rate fell from 10.5% to 9.7%, while the average interest rate for saving also contracted from 5.5% to 4.5%. Similarly, the monetary authorities reduced the discount rate on borrowing from the Central Bank, aimed at providing liquidity to financial institutions.

The outlook for 2009 points to further erosion of net inflows of capital, which will increase pressure on the central bank to intervene and thus further decrease its stock of international reserves. Liquidity also will be a central issue, prompting the monetary authorities to adopt measures, such as further reductions of the discount rate, the establishment of a repurchase facility, or the extension of reserve requirements to financial companies, as a source of support in case of liquidity problems.

The deterioration of CLICO Financial Group's operations in Barbados has become a key issue for the monetary authorities, after the Financial Group's crisis and subsequent bail out implemented by the Trinidad and Tobago central authorities in January 2009. Thus, in recent months the Central Bank and the Government of Barbados announced diverse measures to support and protect policyholders' and shareholders' interests. This includes the establishment of a Memorandum of Understanding to ensure the transparency and accountability in the sale and liquidation process of subsidiaries of CLICO, and the participation of the Central Bank of Barbados in the establishment of a regional "Liquidity Support Fund" to rescue CLICO subsidiaries in the smaller Caribbean countries.

(c) Exchange-rate policy

Monetary policy was aimed at preserving the pegged exchange rate regime to the United States dollar in existence since 1975. With deteriorating net capital inflows, the efforts by the Central Bank to preserve the exchange regime by compensating imbalances in supply and demand of foreign currency and fending off speculative pressures, although successful, have taken a toll on international reserves. For 2009, a mild improvement in the external accounts is expected, mainly due to lower import costs, the stabilization of the exchange-rate market will still translate into a further decline in international reserves.

3. Evolution of main variables

(a) Economic activity

Although both tradable and non-tradable sectors were affected by the economic slowdown during 2008, the tradable sectors suffered more, recording a 1.6% decline in output, while the non-tradable sectors managed to achieve a 1.2% expansion. The net outcome was a 0.5% real GDP growth for the year, a serious setback from the progress of the previous five years, when the growth rate averaged 3.4%.

Those sectors most dependent on visitors suffered a reduction in activity levels, reflecting the 1.9% reduction in landed visitors, particularly from the United States and the United Kingdom, and the -3.1% reduction in cruise-ship passenger arrivals. Thus, wholesale and retail commerce, restaurants and hotels, recorded a 0.4% contraction in 2008, their first negative result since 2002.

However, the sector suffering the highest decline during 2008 was mining, with a -7.9% contraction, followed by construction (-3.4%) and manufacturing (-2.3%). In the case of mining, its contraction is mainly attributed to a significant decrease in stone quarrying activities. As regards construction, a key driver of growth during the last years, the decline is explained by a sharp slowdown in the development of new commercial and residential projects. However, the sector of business and other services still managed to grow by 2.5%, the lowest rate registered in the last five years, reflecting the impact of the economic slowdown in the markets for financial, insurance and real estate services.

The agricultural sector recorded a marginal 0.3% increment, despite a fall in the output of sugar. Although a recovery in sugar production is expected for 2009, improving the agricultural output, the authorities are forecasting a GDP contraction in the range of -2.0% to -2.5%. The main factors explaining this negative forecast are the contraction in tourism flows and the stagnation of domestic exports, which will have spill-over effects on other sectors.

(b) Prices, wages and employment

Price inflation increased during 2008, reaching 7.3% (December-December), considerably above the 4.7% recorded in 2007. However, although the Consumer Price Index peaked in September, it declined during the last quarter, reflecting the fall in international commodity prices. Food, and beverages and tobacco, were the two categories contributing the most to price inflation (recording annual 16.4% and 34.3% increases, respectively), while fuel and light recorded a significant reduction (-20.6%) thanks to the drop in prices during the last quarter. For 2009, international price pressures on oil and food are expected to be steady, so the inflation rate is estimated to reach between 4 and 5% by the end of the year.

A major concern is the increase in the unemployment rate, up to 8.1% during 2008 compared to the 7.4% reached in 2007, since it is widely expected that unemployment will further increase during 2009 as output in the construction and tourism sectors is likely to fall. During the second half of 2008 and the beginning of 2009 the authorities implemented measures aimed to stimulate productive activities, and job creation and preservation. In that sense, a major initiative is the "Employment Stabilization Scheme" introduced by the Government, which will make low-cost loans available to employers committed to keep their current employment levels.

(c) The external sector

The deterioration of external accounts reached new heights in 2008, with a US$ 1,224 million trade deficit and a US$ 382 current account deficit, equivalent to 33.3% and 10.4% of GDP, respectively. The current account deficit more than doubled compared to 2007, not just because of the negative evolution in goods and services trade, but also because of the deterioration in the current transfers balance

The financial and capital component of the balance of payments suffered a serious surplus reduction (from 13% of GDP in 2007 to 4.9% of GDP in 2008). The overall result was a deficit in the balance of payments, equivalent to 6.8% of GDP (compared with a surplus of 8.2% of GDP in 2007). As consequence, net international reserves declined to US$ 678 million, equivalent to an import cover of 4.8 months.

For 2009, the authorities expect a mild improvement in the balance of payments, mainly as a result of lower costs of imports. Weak foreign investment inflows will remain a major problem, hampering the recovery of the financial and capital account.

Table 24
BARBADOS: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007	2008p
	Output growth rates (Percentage)						
GDP	0.7	1.9	4.8	3.9	3.2	3.4	0.5
GDP per capita	0.3	1.6	4.4	3.7	3.0	3.1	0.1
Sugar agriculture	-10.0	-19.0	-5.4	11.3	-12.0	0.9	-6.9
Non-sugar agriculture	-0.6	4.7	-8.1	6.9	-2.9	2.8	3.3
Manufacturing	1.0	-1.6	2.1	2.1	1.1	-2.9	-2.3
Tourism	-2.7	7.0	9.2	-3.8	1.6	3.0	-1.9
Mining and quarrying	6.4	-16.0	9.5	8.0	-3.1	-5.9	-7.9
Electricity, gas and water	3.6	2.9	1.8	-0.6	9.8	1.1	-0.4
Construction	7.7	0.6	2.8	14.0	-0.4	0.1	-3.4
Transport, storage and communications	-3.0	3.0	5.3	5.0	5.2	5.6	2.7
Wholesale and retail trade	1.2	4.1	6.1	5.3	5.3	5.9	0.7
Government	6.5	-3.8	5.6	3.5	3.0	3.0	3.0
Business and other services	-2.3	4.5	4.2	4.6	5.4	5.2	2.5
	Prices and unemployment (Percentage)						
Inflation (year end)	0.9	0.3	4.3	7.4	5.6	4.7	7.3
Lending interest rate[a]	10.3	7.6	7.4	8.5	10.0	10.5	9.7
Deposit interest rate[b]	2.6	2.8	3.0	3.8	5.0	5.5	4.5
Unemployment rate	10.3	11	9.8	9.1	8.7	7.4	8.1
	Central Government operations (Percentage of GDP)						
Total revenue	34.6	34.5	33.6	33.8	35.7	35.8	33.5
Tax revenue	32.0	32.3	32.2	31.6	34.1	33.8	31.5
Non-tax revenue and grants	2.6	2.2	1.5	2.2	1.6	2.0	2.0
Total Expenditure	40.9	37.2	35.8	38.1	37.7	38.1	39.4
Current expenditure	33.7	32.2	32.0	32.8	31.9	34.4	35.4
Interest payments	5.4	5.0	4.8	4.8	5.1	4.6	5.4
Capital expenditure	7.2	5.0	3.8	3.9	4.2	3.6	3.5
Primary balance	-1.0	2.3	2.6	0.5	3.1	2.8	-0.5
Global Balance	-6.4	-2.7	-2.2	-4.3	-2.0	-1.8	-5.9
Public debt	89.8	86.5	86.4	98.7	95.3	99.5	98.7
External	29.9	27.9	28.3	30.0	29.2	29.4	26.7
Domestic	59.9	58.6	58.1	68.7	66.2	70.1	72.0

Table 24 (continued)

	2002	2003	2004	2005	2006	2007	2008p
	Balance of payments (Millions of US$)						
Current account balance	-167.9	-169.4	-337.2	-361.0	-277.0	-182.3	-381.8
Trade balance	-702.0	-801.4	-971.1	-1,069.0	-1,003.0	-1,046.3	-1,223.8
Exports	253.0	264.2	293.1	378.0	465.0	481.4	460.9
Imports	-955.0	-1,065.6	-1,264.1	-1,447.0	-1,468.0	-1,527.8	-1,684.7
Services balance	550.0	646.7	668.3	762.0	811.0	819.4	826.2
Income balance	-101.6	-107.0	-122.0	-151.0	-171.0	-100.7	-85.0
Transfers balance	85.8	92.3	87.6	97.0	86.0	145.4	100.7
Financial account balance[c]	144.7	236.8	179.9	135.0	320.0	460.5	179.0
FDI	17.0	57.8	-16.0	52.8	104.8	233.2	133.3
Financial capital[c]	127.8	179.0	195.9	82.2	215.2	227.3	45.7
Overall balance	-23.1	67.4	-157.3	-226.0	43.0	278.2	-202.8
	Monetary indicators (Percentage of GDP)						
Domestic credit	72.8	70.5	79.1	86.9	89.2	90.5	92.8
To the public sector	17.1	19.2	20.7	18.3	16.7	17.4	18.3
To the private sector	55.7	51.4	58.4	68.6	72.5	73.1	74.5
Liquidity (M3)	121.7	116.5	126.5	141.9	133.3	120.1	114.4
Currency and domestic currency deposits (M2)	109.3	105.8	115.8	125.4	122.0	100.1	100.1
Foreign currency Deposits	12.5	10.7	10.7	16.5	11.3	20.0	14.3
	Memorandum items (current prices)						
GDP (Millions of SRD$)	4,952	5,390	5,665	5,971	6,382	6,819	7,355
GDP (Millions of US$)	2,476	2,695	2,832	2,986	3,191	3,409	3,678
GDP per capita (US$)	9,144	9,922	10,394	10,920	11,637	12,398	13,334

Source: ECLAC on the basis of official data.
[a] Weighted average.
[b] Weighted average of savings and deposit interest rates (end of year).
[c] Includes capital account balance and errors and omissions.
p = preliminary figures.
.. = not available.

C. BELIZE

1. General trends

Growth recovered in 2008, to 2.1% from 1.2% in 2007, despite the slowdown in global demand occasioned by the financial and economic crisis and the dampening effects of flood damage in 2008. The pick up in activity was driven by robust construction activity and a substantial rise in petroleum output, which more than offset the downturn in agriculture and tourism.

Inflation spiked to 6.4%, the highest rate in the last 12 years and was propelled by an upsurge in food and fuel prices during the first three quarters of the year. Unemployment declined to 8.2% from 8.5% in the previous year, as job growth was buoyed by improved activity.

The fiscal stance benefited from a fortuitous growth in grant receipts, complemented by higher petroleum receipts, leading to an overall surplus of 1.1% of GDP, the first in 20 years. This resulted in a net decline in financing both from abroad and on the domestic market. However, public debt remains high (81% of GDP) and thus limits fiscal room for manoeuvre.

The Central Bank did not undertake any monetary policy intervention during the year, despite the build up in liquidity in the banking system. The Bank deemed the prior increases in the cash and liquid assets ratios in 2006 as sufficient to contain credit growth, that could fuel imports which would deplete vital foreign reserves necessary for defending the fixed exchange rate regime.

Partly reflecting the high dependence of growth on imported machinery and equipment, the external current account deficit almost tripled to 10.8% of GDP, as a surge in imports for major capital projects and a hike in fuel and food prices led to an almost 50% increase in the trade deficit. FDI financing boosted foreign reserves; however, maintaining adequate reserves over the medium-term remains a challenge.

Economic growth is expected to slow to 1.5 % in 2009, as the knock-on effects of the global financial and economic crisis buffet FDI and remittances inflows and constrain demand for Belize’s commodity exports.

2. Economic policy

(a) Fiscal policy

Fiscal performance remains one of the most important concerns for growth and stability in Belize due to its high debt ratio, volatility of revenue growth and stickiness of current expenditure. For the calendar year 2008, fiscal performance exceeded expectations, with the central Government's recording an overall surplus of 1.1% of GDP (a 1.2% deficit in 2007), the first in 20 years. The primary surplus expanded to 4.9%, exceeding the 4% that is estimated to be required to achieve medium-term debt sustainability in the aftermath of the debt restructuring in 2007.

Fiscal improvement was built on dynamic growth in revenues from petroleum taxes that burgeoned with expansion in production and a spike in grant receipts. Without grants, the overall balance would have been in deficit, and the primary surplus would have narrowed to 2.9% of GDP. This highlights the need for tax structure and administrative reform to reduce dependence on volatile grant receipts.

Expenditure contracted by 4.2%, as a sharp reduction in capital transfers and foreign interest payments and the termination of one-off debt restructuring fees from the 2007 dampened spending. Outlays on the two sticky items wages and salaries and goods and services moved in opposite directions with the former increasing by 7.5%, while the latter declined by 14.8%.

With the strengthened fiscal stance, both external and domestic financing to the Government decreased in 2008. The public sector's external debt declined by 1.8% to the equivalent of 68.9% of GDP, while total public debt fell from 89.4% of GDP to 81% of GDP. Disbursements amounted to $83 million, of which 57% represented credit for fuel imports under the PetroCaribe Initiative with Venezuela.

The budget for fiscal year 2009/2010 projects a deficit of 1.7% of GDP. The deficit will be driven by a spike (22%) in capital spending on infrastructure and other projects.

(b) Monetary and exchange rate policy

Monetary policy was largely neutral in 2008, with no real policy intervention, despite the sharp growth in liquidity by over 43% at the end of the year relative to 2007. The policy authorities deemed the hike in statutory reserves since 2006 as adequate to control credit expansion and thereby limit the depletion of foreign reserves. This is essential to the stability of the pegged exchange rate, which underpins stable inflation.

The monetary stance was aided by the strong fiscal result, which led to an accumulation of deposits of the Government at the Central Bank. Net lending to the Government fell by 14.5%, contributing to a sharp easing of total domestic credit growth from 14.3% in 2007 to 7.4% in 2008. Growth in credit to the private sector decelerated to 10.6% from 15.4% in 2007, as more sluggish credit growth to services, the primary sector and to manufacturing, linked to the elimination of the Universal Health Services (UHS) debt, more than offset the sharp rise in personal loans.

Reflecting the slowdown in domestic credit, broad money expanded at a slower pace (13.3%) relative to 15.4% in 2007. The deposit profile indicated a lengthening of maturity, as money growth was fuelled by time deposits. Growth in the foreign component of the money supply slowed as the Central Bank's build up of reserves was offset by the depletion of those of commercial banks.

Banking sector liquidity was bolstered by reduced lending and inflows from tourism and repatriation by residents of funds held overseas partly in response to market uncertainty. With overall high excess reserves though, competition increased, especially for portfolio of large depositors. This nudged up the weighted average deposit rate by 40 basis points, while the weighted average lending rate fell by 20 basis points to 14.1%.

The Central Bank is putting systems in place to move to a more market-oriented monetary policy, including the use of open market operations to manage liquidity in the banking system. This approach is expected to foster the development of a vibrant interbank market that could benefit banks with liquidity problems.

In response to the difficulties of the CLICO Group, Government has imposed a number of restrictions on the operations of CLICO Belize to protect policy holders.

3. The main variables

(a) Economic activity

Growth rebounded in 2008 (2.1%), relative to1.2% in 2007, despite the dampening effects of the floods and a spreading global recession. The pick up in activity was spurred on by FDI in construction and a marked increase in oil production, which offset the dampening effects from agriculture and tourism. Construction recorded a massive expansion (35.2%) driven by FDI into condominiums for tourists. Petroleum production expanded by 23.5% as the number of producing wells increased from five to seven to take advantage of higher international prices. A major surge in hydroelectricity generation from the Beacon and Vaca Dams also contributed to growth in activity.

Agriculture continues to suffer from weaknesses in competitiveness, pests and disease infestation and weather-related natural hazards. Maintaining the trend from 2006, output in agriculture declined by 9.6% in 2008. Sugar, the second most important crop after citrus, contracted by 18.6% to the lowest level since 2005, due to weather damage and froghopper infestation. By contrast, citrus deliveries rose by 5.3%, largely due to improved extension services and husbandry. Similarly, banana production expanded by 30.8% due to improved agronomic practices and additional demand from the Dole Company.

Tourism contracted as stay-over arrivals fell by 2.9%, the first decline in 12 years. This was mainly due to a fall in arrivals from the United States market. Cruise visitor arrivals were also down (4.1%). In response, Government has embarked on a promotion programme, including securing more attractive rates from major airlines and marketing in Latin America, but efforts are constrained by the limited budgetary room.

The pass through effects of the recession in major markets is expected to lead to a slowdown in activity in 2009. Growth is projected to fall to 1.5% linked to declines in construction, tourism, citrus production, and distribution. Tourism-related construction is expected to taper off and citrus production should fall by 16% due to floods. Meanwhile transport and communication will post positive growth due to expansion in cellular telephony.

To cushion the impact of the fall-out in major markets, Government has prioritised a number of infrastructure projects; reintroduced excise taxes on fuels and raised import duty on gasoline and diesel.

(b) Prices, wages and employment

Inflation accelerated to 6.4% (November-November), the highest rate in the last 12 years. Bulging international food and fuel prices in the first three quarters of the year drove inflation during the year. With the decline in fuel and food prices in the fourth quarter, inflation moderated. On an annual basis, food and fuel prices were up 13.3% and 3.6%, respectively. Inflation declined by 1.6 percentage points over the quarter from November 2008 to February 2009.

Midyear unemployment (June 2008) fell from 8.5% to 8.2%, as the pick up in economic activity led to a 2.4% increase in job growth relative to a 1.9% rise in the labour force. Most jobs were created in the primary sector (18.5%), but the tertiary sector remained the largest employer of 57.3% of the working population. Employment is expected to be adversely affected in 2009, as the fall-out from slowing global demand is expected to lead to job losses in tourism, construction and other sectors.

(c) The external sector

The external accounts worsened in 2008, as surging imports for capital projects led to a nearly tripling of the current account deficit to 10.8% of GDP. Import payments catapulted by 22.8%, reflecting both higher volumes and prices for capital goods, fuel and food and animal feed products. Exports grew as well, by 9.2%, bolstered by higher petroleum exports that were spurred by increased production, stemming partly from the hike in international prices. Exports of non-traditional products, including sawn wood and citrus oils, also recorded increases, while the other key commodity exports turned in a mixed performance. Sugar exports contracted both in value and volume due to unfavourable weather and pest damage, while a bumper crop led to a 14.6% rise in citrus exports.

The services surplus declined for the first time since 2005, attributed mainly to falling tourism and transportation receipts. Net transport payments rose on account of lower receipts from port calls (16.4%) and higher transportation costs (22%).

Current transfers raised by 19.5% to the equivalent of 8% of GDP. Net transfers were boosted by a grant from the Government of Taiwan, insurance and remittance receipts; and lower transfers to non-resident entities related to the UHS debt.

The expanded current account deficit was financed by capital and financial inflows with the balance shooting up from 8.9% of GDP in 2007 to 15.7% of GDP in 2008. The capital account surplus was boosted by grants under the EU sugar and banana support programmes and from the Caribbean Development Bank (CDB) for the Basic Needs Trust Fund. The financial account surplus expanded by 90.6% to US$ 209.1 million as a result of large FDI outlays in petroleum, real estate and tourism. Loan repayments also climbed down due to the debt restructuring of 2007. Gross international reserves increased by 53.2% to US$ 166.2 million raising the import cover from 2.3 to 2.8 months.

The slowdown in growth is expected to lead to a reduced current account deficit in 2009, estimated at 9.7% of GDP, as imports will contract by around 12% due to lower prices and a substantial decrease in imports of capital goods due to the winding down of major projects and sluggish private consumption. Exports are projected to plummet (16%) on account of a major softening of commodity prices. The collapse of FDI inflows means the current account deficit will have to be financed by drawing down official reserves. Nevertheless, import coverage should remain around three months of imports due to lower imports.

Table 25
BELIZE: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007p	2008p
			Output growth rates (Percentage				
GDP	5.1	9.4	4.6	3.0	4.6	1.2	2.1
GDP per capita	5.1	9.3	4.6	-0.1	1.2	-2.1	-1.8
Agriculture[a]	3.3	15.5	11.9	-0.9	-0.8	-1.4	-10.2
Fishing	-7.0	110.3	5.5	9.8	-15.3	-57	-7.3
Manufacturing[b]	1.5	5.5	11.7	-4.1	30.4	3.6	13.0
Electricity and water	2.7	8.5	-1.5	-0.6	41.5	2.4	2.8
Construction	3.7	-17.8	4.5	-3.6	-1.9	-3.0	35.2
Wholesale and retail trade	4.0	1.4	-0.1	5.4	1.2	1.6	3.7
Hotel and restaurants	2.5	14.6	8.3	4.4	-0.7	5.1	-2.9
Transport and communication	11.3	8.6	5.0	8.8	3.5	13.1	5.0
FISM[c]	40.9	32.6	4.1	9.8	4.6	…	
Producers of Government services	3.9	6.3	1.3	1.4	-5.2	4.7	2.5
Other private services	8.0	8.3	5.3	5.8	5.6	2.6	2.3
Inflation (year end)	2.3	2.6	3.1	4.2	3.0	4.1	6.4
Lending interest rate[d]	14.8	14.4	13.9	14.2	14.2	14.3	14.1
Deposit interest rate[d]	4.3	4.8	5.2	5.4	5.8	6.0	6.4
Unemployment rate	10.0	12.9	11.6	11.0	9.4	8.5	8.2
			Central Government operations (Percentage of GDP)				
Total revenue	30.4	22.8	24.3	23.9	24.8	30.0	26.6
Current revenue	28.9	21.6	21.4	22.9	23.3	25.5	26.3
Tax revenue	26.5	19.0	19.4	20.5	21.2	22.6	22.4
Capital revenue	0.2	0.9	1.3	0.4	0.4	1.1	0.3
Total Expenditure	34	31.9	30.7	30.9	26.7	31.2	27.5
Current expenditure	26.9	20.0	22.5	25.2	22.7	24.9	22.3
Interest payments	6.3	4.0	5.8	6.7	5.8	5.3	3.8
Capital expenditure	7.2	11.9	8.2	5.7	4.2	6.3	5.2
Global balance	-3.6	-9.0	-6.3	-7.0	-1.9	-1.2	1.1
Primary balance	2.8	-5.0	-0.5	-0.3	3.9	4.2	4.9
Public debt	79.3	96.3	99.7	99.5	94.8	89.4	81.3
External	70.1	83.3	86.5	87.0	81.3	76.2	68.9
Domestic	9.2	13.0	13.2	12.5	13.5	13.2	12.4
Current account balance	-166	-176	-156	-151	-25	-52.1	-149.1
Trade balance	-187	-207	-173	-231	-185	-216.4	-323.4
Exports	310	316	307	325	427	425.6	464.7
Imports	497	522	481	556	612	642	788.1
Services balance	44	70	88	143	211	230	219
Income balance	-69	-85	-117	-203	-125	-158.9	-156.4
Transfers balance	47	46	51.2	51.2	74	93.4	111.6
Financial account balance[e]	160	146.3	125	139	75	75	207
FDI	25	-11	111	126	108	139.4	30.7
Financial capital[e]	135	158	13	13.1	-33.2	-64.4	-6.8
Overall balance	-5	-30	-31	-12	50	22.9	57.6

Table 25 (continued)

	2002	2003	2004	2005	2006	2007p	2008p
			Monetary indicators (Percentage of GDP)				
Domestic credit	51.0	57.5	64.1	63.3	64.5	70.1	69.7
To the public sector	3.2	5.7	10.5	9.3	8.7	8.9	7.4
To de private sector	47.8	51.8	53.5	54.0	55.8	61.2	62.3
Liquidity (M3)	..	..	..	..	..	..	
Currency and domestic currency deposits (M2)	57.0	55.7	59.1	59.6	62.0	68.0	70.9
Foreign currency deposits	..	..	..	..	..	..	
			Memorandum items (current prices)				
GDP (Millions of BZ$)	1,865	1,976	2,112.6	2,229.7	2,426	2,553.5	2,773.4
GDP (Millions of US$)	933	988	1,056	1,115	1,213	1,277	1,387
GDP per capita (US$)	3,550	3,645	3,758	3,846	4,046	4,121	4,305

Source: ECLAC on the basis of official data.
[a] Includes hunting and forestry.
[b] Includes mining and quarrying.
[c] Financial intermediation services indirectly measured.
[d] Weighted average.
[e] Includes capital account balance and errors and omissions.

D. EASTERN CARIBBEAN CURRENCY UNION

1. General trends

Based on preliminary estimates by the ECCB, in 2008, the economies of the ECCU grew by a mere 1.7% compared to 5.2% in the previous year, falling short of the projected 3%. Growth slowed in the construction sector and contracted in the tourism sector, the two main drivers of the economy; both affected by the global economic crisis. While agriculture and banks and insurance recorded solid growth rates, the manufacturing sector suffered a major setback. Overall, there was a marginal decline in inflation catalysed by the stabilising of commodities' prices by the end of 2008. A fiscal deficit equivalent to 3.5% of GDP was recorded while the balance of payments current account deficit remained at approximately 34.4% of GDP. In addition the debt level continues to be unsustainable at 89.5 % of GDP.

Compared to 2007, the rate of economic growth declined in six of the eight countries with a very significant contraction recorded in Anguilla from 21% in 2007 to a negative 0.5% in 2008. Saint Vincent and the Grenadines also recorded negative growth of 0.5%. Positive growth was recorded in Antigua and Barbuda (2.8%), Dominica (3.2%), Grenada (0.3%), Montserrat (6.2%), Saint Kitts and Nevis (2.5%) and Saint Lucia (2%). The official economic growth forecast for 2009 is projected at zero per cent, as the effects of the global economic crisis continue to filter to these economies.

2. Economic policy

(a) Fiscal policy

As a result of the global financial crisis Governments have taken a number of policy decisions (removal of the Value Added Tax and the Common External Tariff on selected commodities, safety net programs and unemployment benefits) to cushion the impact of the crisis on the populace and to an extent maintain active economic activity by implementing the Public Service Investment Programme namely capital projects. However, fiscal discipline is key to maintain confidence. Despite this, central Government deficit lowered marginally from 3.9% of GDP in 2007 to 3.5% of GDP in 2008 while a negligible primary surplus of 0.01% of GDP was realized compared to deficits of 1.2% and 0.4% of GDP in the two previous years.

Total central Government revenue increased by 10% to 31.6% of GDP, a slight increase from 30.5% from the previous year, driven by improved tax administration and a broader tax base. Current income increased by only 6%, half the increase in the previous year. This was attributable to growth in receipts from tax and non tax sources by 5.6% and 13%, respectively. Taxes on income and profit increased by 15%; mainly reflecting an increase in revenue from company taxes, especially in Saint Lucia. However, taxes on property and international trade declined by 2% and 3%, respectively.

Current expenditure grew by 14%, equivalent to 27.3% of GDP, an increase from 25.5% of GDP in the previous year, on account of increases in personal emoluments (12%), transfers and subsidies (23%) and goods and services (15%). The increase in personal emoluments was driven by salary and wage increases in Anguilla, Grenada, St Kitts and Nevis and St Vincent and the Grenadines. Higher outlays for transfer and subsidies was in part due to larger transfers to public entities in Anguilla, expansion in safety net programmes in Antigua and Barbuda and an increase in retirement benefits in Grenada and Saint Vincent and the Grenadines. The rise in the price of fuel and the cost of utilities were responsible for the increased outlays on goods and services.

The fiscal current account balance recorded a surplus of 0.6% of GDP compared to 2.5% of GDP in 2007. Declining current account surpluses were recorded for Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines. Saint Kitts and Nevis migrated from a surplus of 1.2% of GDP to a deficit of 1.5% GDP and Anguilla from a surplus of 5.5% of GDP to a deficit of 0.3% of GDP. Montserrat recorded a slight improvement in its deficit from 46.1% to 42.8% of GDP, while a worsening deficit from 0.8% of GDP to 3.7% was recorded for Antigua and Barbuda.

Capital expenditure declined by 7% as major works were completed on a number of projects. The debt situation remains a major concern for the region. At the end of 2008, the debt level was at 89.5% of GDP a slight decline from 92.6% of GDP in 2007, and still above the target set by the ECCB of 60%. Two countries still maintain debt levels exceeding 100% of GDP i.e. Grenada (106.4%) and Saint Kitts and Nevis (170.3%). While the level of public sector debt declined in Antigua and Barbuda and Dominica, the debt stock increased marginally in the rest of the ECCU. The high level of debt presents a serious challenge to the member countries as debt service to current revenue is as much as 25% for the ECCU. In Saint Kitts and Nevis the ratio is approximately 40% making this level of debt particularly unsustainable.

(b) Monetary and exchange rate policy

Monetary policy continues to be focused on stability of the Eastern Caribbean dollar. Although the Central Bank does not employ inflation targeting, inflation worries have eased due to the decline in commodity prices. In 2008, there was no change in the discount rate at 6.5% while the inter bank market rate fluctuated between 5 - 6%. The weighted average lending and deposit rate remained fairly unchanged at approximately 9.5% and 3.3%, respectively.

Monetary aggregates of the ECCU grew at a slower pace than 2007, reflecting the slowdown in economic activity. Broad money (M3) grew by 2.6% in 2008 compared to 10.4% in 2007 reflecting a 4.7% increase in domestic money supply and a contraction of 7.6% in foreign currency deposits. The main source of increase was the increase in domestic credit which grew by 11.2% driven again by the increase in credit to the public sector. Compared to the previous year’s 19% increase in domestic credit to the private sector, in 2008 private sector credit increased by approximately 10%. There was also a slowdown in public domestic credit growth from 42.9 % in 2007 to 17.9% in 2008.

The exchange rate peg of US$ 1 to EC$ 2.70 continues to provide stability of the EC dollar. The real effective exchange rate remained unchanged in the second half of 2008, an indication of the stabilization of the United States dollar.

In order to avoid a run on the Bank of Antigua due to the arrest of Sir Allen Stanford, the majority shareholder in February 2009, the ECCB, in exercising its emergency powers, seized control of the Bank of Antigua. Sir Allen Stanford was charged by the United States Securities and Exchange Commission over an alleged US$ 8 billion dollar investment fraud.

Subsequently, a consortium of indigenous banks[17] took control of the Bank upon the recommendation by the ECCB.

Meanwhile the region is still trying to get a handle on the CLICO[18] debacle. In April 2009, a decision was made to establish a Liquidity Support Fund to provide financial support to the Eastern Caribbean countries serviced by CLICO insurance and British American, two major subsidiaries of CL Financial Ltd. Trinidad and Tobago will inject US$ 50 million; Barbados US$ 5 million; Eastern Caribbean US $10 million; and international institutions US$ 15 million into the Fund.

(c) Other policies

Progress was made on the establishment of the OECS[19] Economic Union. June 2010 was set as the date for the implementation of the Economic Union. This will see the creation of a single economic space which will facilitate the free movement of people, goods, services and capital as a result of economic diversification and growth, greater export competitiveness, greater employment and human resource development. Meanwhile, efforts are ongoing to establish an economic and political union of the OECS and Trinidad and Tobago by 2013.

3. Evolution of the main variables

(a) Economic activity

In 2008, the economies of the ECCU decelerated to 1.7% due to the slowdown in construction and mining and quarrying, and a contraction in tourism and manufacturing. Valued added in the construction sector slowed to 4% from 6% in 2007 while mining and quarrying showed weaker performance of 5% relative to 22% in 2007. Activity in the agricultural sector increased by 4.3% as banana production, a major driver of the sector, increased significantly. While the banana production capacity in Saint Lucia increased markedly by 30% and Dominica by 21%, in Saint Vincent and the Grenadines it was affected by Moko disease and Leaf Spot disease accounting for a 40% decline in production. In addition, cocoa production in Grenada increased by 50%. Prospects for agriculture, however, remain bleak as the future for the banana industry remains uncertain and the region remains vulnerable to natural disasters.

The manufacturing industry contracted by 6.6% as there was a decline in production of beverages and dental cream as dental cream production ceased in Dominica in the last quarter of 2008. In St Vincent and the Grenadines there was a 33% decline in the production of beer and beverages.

The tourism sector is a major source of foreign exchange and employment; in some countries such as Anguilla and Antigua and Barbuda it represents 25% and 10%, respectively, of its GDP. Despite the decline in tourism demand due to the global economic crisis, total visitor arrivals in the ECCU increased by almost 2% on account of a marginal

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[17] Antigua Commercial Bank Ltd, National Bank of Dominica Ltd, National Commercial Bank (SVG) Ltd, St Kitts/Nevis-Anguilla National Bank

[18] Colonial Life Insurance Company Ltd

[19] The Organization of the Eastern Caribbean States member States are Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members.

increase in Caribbean visitors and a large 22% increase in Canadian visitors. Tourist activity varied among the ECCU countries due to product differentiation, access and marketing. Tourist arrival declined in Anguilla, Antigua and Barbuda, Montserrat and Saint Vincent and the Grenadines, but increased in Saint Kitts and Nevis, Dominica, Grenada and Saint Lucia. However, all countries posted a decline in tourist arrivals in the last quarter of 2008. Overall, there was a 4.6% increase in cruise ship passengers, while stay over visitors, the highest expenditure tourism group and excursionists, declined by 0.5% and 28%, respectively.

In 2009, tourist arrivals are forecast to fall drastically. Some of the ECCU countries have already begun experiencing declines in bookings. For instance, as of May 2009, hotel bookings were down by at least 30% in Saint Lucia. Hotel investments have also slowed as credit markets remain tight.

(b) Prices, wages and employment

The December-December inflation rate for 2008 was 4.8%, declining from a previous rate of 5.5% in 2007. With the exception of fuel and light, education and personal services, all other sub-indices indicated higher prices. Compared to 2007, when fuel and light prices increased by 13.5%, in 2008 this sub index contracted by 4% on account of the fall in oil prices on the international market in the second half of 2008. The highest increases were in food by 9% fuelled by increased prices of cereals and dairy products, followed by transportation and communication by 8%, reflecting an increase in the price of fuel in early 2008. Saint Vincent and the Grenadines, Anguilla and Montserrat reported increased inflation while the other countries reported a decline in the inflation rate.

Wages and salaries increased in Saint Kitts and Nevis, Anguilla, Saint Vincent and the Grenadines and Grenada to offset the bearing of nominal price increases.

The level of employment will be greatly impacted by the decline in construction and tourism activity. Tourism employs a substantial amount of the labour force in the ECCU and a decline in this sector automatically translates to reduced employment. In December 2008, Sandals Resort in Saint Lucia laid 210 workers, 80 persons were laid off at the Marriott Hotel in St Kitts and Nevis in April 2009 and 60 workers were laid off from the Jalousie plantation in Saint Lucia in January 2009. This trend is expected to continue. In addition to the tourism sector, it is expected that the level of unemployment will also increase in Antigua and Barbuda due to the seizure of the assets of Sir Allen Stanford, the highest private sector employer.

(c) The external sector

The balance of payments current account deficit remained at a high 34.4% of GDP at the end of 2008, compared to 34.8% of GDP in 2007. In nominal terms, the current account deficit worsened by approximately 6%. The 20% increase in the value of exports of goods to US$ 454 million, was not sufficient to offset the nearly 7% increase in imports of goods to US$ 2.6 billion. The services account surplus deteriorated slightly to 12.5% of GDP from 14.1% of GDP in 2007 due to the decline in tourism receipts as stay over visitors declined. With reference to the financial there was a 29% decline in FDI, reflecting a significant decline in equity investment in the tourism sector and real estate. On the capital account the level of migrant transfers remained fairly unchanged at US$ 51 million. The capital and financial account recorded a positive balance at approximately 32% of GDP. The overall balance of payment deficit was financed with a reduction in Central Bank reserves. The Central Bank's net international reserve declined by 0.8% to reach US$ 755 million, covering 2.5 months of imports of goods and services.

The current account is expected to improve marginally to 31.6% of GDP in 2009 on account of an increase in exports and a decline in imports as construction continues to slow.

4. Country highlights

(a) Anguilla

The Flag Luxury Properties known as the Tenemos Resort and Golf Course has been closed since early June 2008, due to the inability to obtain funding attributed to the global economic crisis. The golf course was a major incentive to enhance the tourism product and remains a critical element of the country's business plan and promotion strategy. The Government is currently in negotiations with the principals of the project to decide the way forward.

(b) Antigua and Barbuda

The United States indictment of Sir Allen Stanford and former head of the Financial Services Regulatory Commission, Leroy King, has resulted in uncertainty in Antigua and Barbuda's financial system. The Stanford Group of companies is Antigua's largest private sector employer (estimated at 1,000 persons) with businesses such as the Antigua Sun newspaper, Stanford International Bank, the Sticky Wicket and Pavilion Restaurants, Stanford Development Company, Stanford Cricket ground and the Stanford twenty20 tournament and the Bank of Antigua. The restructuring of these companies will result in a number of layoffs. Moreover, this has damaged the country's image as an offshore destination. On the positive side, the Government is moving ahead with the National Economic and Social Transformation (NEST) plan to combat the downturn in the economy fuelled by the global economic crisis. The plan addresses fiscal consolidation, an economic action plan, social transformation and financial sector stability.

(c) Saint Kitts and Nevis

Data from the Hotel and Tourism Association of Saint Kitts and Nevis indicated that the hotel occupancy rates in the last quarter of 2008 declined on average by 24%. Economic activity has been severely affected in Nevis due to the closure of the Four Seasons Hotel citing damage from Hurricane Omar in October 2008. The downward trajectory in hotel occupancy continued in early 2009 (Jan. - Mar.), with occupancy rates averaging 45% in 2009 compared to 58% for the same period in 2008. However, new investments in the sector continue with the construction of Christophe Harbour hotel/villas, a golf course in the southern peninsula, Ocean's Edge and Silver Reef condominium development. Meanwhile in Nevis progress is being made in the exploration of geothermal energy. There are currently three exploration sites, each yielding temperatures of 200^{o} C at approximately 3000 feet deep. The soon to be constructed geothermal plant will have the capacity to generate an initial 10 megawatts and will generate employment and Government revenue.

(d) Relations with the International Monetary Fund (IMF)

The global financial crisis has resulted in reduced tourism earnings, a decline in FDI and remittances contributing to slower growth and a weaker external current account in the ECCU. As a result in July 2009, the Executive Board of the IMF approved US$ 5.1 million and US$ 10.7 million for Dominica and Saint Lucia, respectively, under the rapid access component of the Exogenous Shocks Facility. In May 2009, the IMF also approved US$ 3.4 million to Saint Kitts and Nevis under the Emergency Natural Disaster Assistance fund to aid in recovery after damage from Hurricane Omar in October 2008.

Table 26
EASTERN CARIBBEAN CURRENCY UNION (ECCU): MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007r/	2008a/
			Annual percentage change				
Gross domestic product b/	0.7	3.3	3.9	5.6	6.3	5.2	1.7
Per capita gross domestic product	-0.1	2.4	3.4	7.6	8.3	8.5	3.5
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	6.8	-4.4	-0.9	-12.0	4.8	2.8	4.3
Mining and quarrying	-1.5	6.7	-6.2	16.3	36.9	22.1	5.0
Manufacturing	-0.8	1.7	-2.6	9.0	1.2	2.5	-6.6
Electricity, gas and water	1.9	2.9	2.8	1.4	3.0	7.8	3.0
Construction	-2.5	3.8	4.9	19.6	12.4	6.0	4.0
Wholesale and retail commerce, restaurants and hotels	-0.4	8.4	4.1	4.7	5.9	2.6	-1.1
Transport and communications	-0.6	2.9	8.0	6.2	5.6	6.8	2.1
Financial institutions, insurance, real estate and business services	3.3	2.6	6.0	6.2	7.5	8.4	3.7
Community, social and personal services	3.0	2.1	3.0	3.4	4.8	6.0	3.7
Balance of payments			**Millions of US dollars**				
Current account balance	-595	-681	-523	-815	-1246	-1545	-1631
Merchandise trade balance	-1004	-1176	-1233	-1481	-1832	-2087	-2171
Exports, f.o.b.	271	259	342	370	359	378	454
Imports, f.o.b.	1275	1435	1576	1851	2191	2465	2625
Services trade balance	524	604	763	710	638	628	594
Income balance	-215	-238	-267	-234	-216	-236	-207
Net current transfers	100	129	220	188	164	149	153
Capital and financial balance c/	659	690	748	738	1167	1524	1505
Net foreign direct investment	343	553	449	632	1106	1229	871
Financial capital d/	317	169	299	106	61	295	634
Overall balance	64	41	110	-16	92	47	-19
Variation in reserve assets e/	-63	-41	-110	16	-92	-47	19
Other financing f/	-1	0	0	0	0	0	0
Prices			**Percentage**				
Variation in consumer prices r/ (December-December)	-0.1	1.7	2.7	4.1	1.5	5.5	4.8
Nominal deposit rate g/	3.7	4.6	3.2	3.2	3.2	3.2	3.3
Nominal lending rate g/	11.0	12.8	10.4	10.2	9.9	9.6	9.6

Table 26 (continued)

	2002	2003	2004	2005	2006	2007r/	2008a/
			Percentage of GDP				
Central Government							
Total income h/	28.4	29.0	30.1	35.7	30.7	30.5	31.6
Current income	25.3	25.6	26.2	26.4	27.5	28.0	27.9
Tax income	21.8	22.3	23.1	23.8	24.8	25.3	25.0
Capital income	0.5	0.4	0.4	0.4	0.2	0.4	0.6
Total expenditure	36.9	34.0	33.7	33.5	35.3	34.4	35.1
Current expenditure	27.2	26.5	26.9	25.7	25.8	25.5	27.3
Interest	4.1	4.0	4.4	3.5	3.7	3.5	3.5
Capital expenditure	9.2	7.5	6.5	7.9	9.5	8.8	7.7
Primary balance h/	-4.4	-0.9	0.8	5.7	-0.9	-0.4	0.0
Overall balance h/	-8.5	-5.0	-3.6	2.2	-4.6	-3.9	-3.5
Public debt							
Gross public debt (millions of dollars)	2988	3365	3796	3832	4000	4113	4204
Gross public debt (percentage of GDP)	100.3	107.0	112.4	104.5	98.8	92.6	89.5
Money and credit							
Domestic credit	79.3	75.9	75.8	79.3	82.6	90.8	94.7
To the public sector	8.0	6.2	5.2	6.4	5.7	7.4	8.1
To the private sector	80.4	78.5	78.0	79.6	84.2	91.3	94.1
Liquidity (M3)	89.8	93.8	98.0	97.3	97.6	98.2	94.5
Currency in circulation and local-currency deposits (M2)	77.8	80.9	84.3	82.1	80.8	80.9	79.5
Foreign-currency deposits	12.0	12.9	13.7	15.2	16.9	17.3	15.0
			Memo Items (current Prices)				
GDP (Millions of EC dollars) r/	8043	8489	9118	9905	10928	11957	12685
GDP (Millions of US dollars) r/	2979	3144	3377	3668	4047	4428	4698
GDP per capita (Millions of US dollars)	4243	4419.6	4711	5071	5496	5962	6170

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Includes the use of IMF credit and loans and exceptional financing.
g/ weighted average
h/ Includes grants.
r/ revised

E. GUYANA

1. General trends

Guyana's economic growth slowed to 3.1% in 2008, dampened by a mixture of external and internal factors, such as the global recession and the struggle of the sugar industry. The current account deficit deteriorated significantly (25.8% of GDP), while the external public debt increased substantially to 72% of GDP. However, inflation decelerated significantly (6.4% December-December).

Guyanese authorities implemented, through 2008, diverse measures aimed at countering the impact of negative externalities; fighting price inflation during the first half of the year; and, during the second half, managing to keep financial markets steady and preserve economic growth. Nevertheless, those efforts resulted in loss of consumption tax income, lower capital expenditure and increased stock of public debt.

Official estimates for 2009 point to substantial growth, low inflation, and modest improvement of external accounts. However the structural weaknesses of the economy remains, and will probably be exacerbated by the deepening of the global crisis. With a commodity-based export sector, a significant dependence on remittances from abroad, a high poverty rate and an elevated debt to GDP ratio, Guyana's fiscal and monetary authorities will have to perform carefully to preserve stability and growth.

2. Economic policy

The compromises assumed under the scope of the Poverty Reduction Strategy Paper and the Heavily Indebted Poor Countries Initiative (HIPC), among others, continued to shape the economic policy.

(a) Fiscal policy

During 2008, total revenue for the central Government grew by 8.8%, although fiscal revenue was mixed, thus, income and trade taxes increased 6.4% and 9.2%, respectively, reflecting the Government's efforts to improve tax monitoring and collection. Likewise, property taxes and environmental tax receipts also evolved positively. However, consumption tax collections contracted by 3.1%, affected by lower valued added and excise tax rates and tax exemptions on essential goods like fuels and food, imposed as anti inflationary initiatives. Thus, although overall tax income grew by 2.3%, as a percentage of GDP, it fell from 35.6% to 33.5%.

Non-tax revenue grew by 11.5% stimulated by higher transfers from the Bank of Guyana's income, compensating lower dividend income from equity holdings. Overall, current revenues rose by 2.6% in 2008, much lower than the very high growth rate achieved in 2007, when current revenue rose by 28.7% due to the introduction of the Value Added Tax. Grant receipts increased significantly by 48.2%, even though transfers from the HIPC Initiative fell by 18.9%.

Fiscal expenditures grew less than expected (a 6.5% increment) in response to a drastic reduction in capital expenditures, which fell by 15.1%, reflecting the completion of some major projects, like the Skeldon Sugar Complex's modernization programme. This reduction in capital expenditure helped to counterbalance the considerable expansion of current expenditures (20.8% increase) fuelled by strong increases in goods and services (19.2%), staff costs (8.7%), and particularly in transfer payments (45.1%). The increment in transfer payments is the result of higher pension and public assistance disbursements.

Consequently, the overall fiscal deficit for 2008 was equivalent to 6.3% of GDP, largely surpassing the budgetary goal (4.8% of GDP). However, that result represented an improvement compared to the deficit registered in 2007 (-7.4% of GDP). This deficit was financed through external borrowing, which helped to expand the external public debt, which grew by 16% topping US$ 834 million by December 2008, equivalent to 72% of GDP. This worrisome increment of external debt stock was also fuelled by increased disbursements from the Inter-American Development Bank (IDB) and the Petrocaribe Fund. In parallel, the stock of domestic debt increased by 8.3% in 2008, mainly because of the strong expansion (208.9% on an annual basis) in the volume of outstanding six months Treasury Bills. Debt relief under the HIPC Initiative and the Multilateral Debt Relief initiatives totaled US$ 71 million.

In 2009, further deterioration of the fiscal balance is expected due to significant increments in capital expenditure for major infrastructure projects. Thus, the fiscal deficit in 2009 would expand by 24.6%, or equivalently, by a full percentage point of GDP, up to 7.3%. The Government has redoubled efforts to secure debt relief agreements with bilateral and commercial creditors.

(b) Monetary policy

The main objectives for the monetary authorities in 2008 were first, to keep inflationary pressures at bay; second, to stabilize the exchange rates; and, third, to promote private sector credit and economic growth. In that regard, inflation decelerated, particularly during the second half of 2008, and the exchange rates were mainly stable, while credit to the private sectors grew significantly (21.8% increase).

Sectors that benefited most from this credit expansion were mining (103.5% growth), rice milling, distribution, agriculture and services. Lending for real estate mortgages and personal households also grew substantially; 33.6% and 13.1%, respectively. Despite the decline in overall credit to the public sector by 18%, credit to central Government increased by a substantive 65.9%. This resulted from decreased borrowing by statutory bodies.

The key mechanism for monetary policy was the issue of Treasury Bills in the primary market, in order to absorb excess liquidity in the financial system. Thus, by end 2008 the total stock of Treasury Bills had increased by 16.7% compared to 2007. On the other hand, annual growth of money (12.5%) and broad money (12.7%) decelerated slightly compared to the previous year. Interest rates showed just minor variations, with the average nominal deposit rate falling from 3.2% to 3.1%, while the average nominal lending rate fell from 14.1% to 13.9%, as a result of high levels of excess liquidity.

For 2009, the reverberations of CLICO's corporate meltdown will be a major issue for monetary and financial policies. CLICO, one of the major financial corporations in the Caribbean, with subsidiary operations in Guyana, was bailed out by the Government of Trinidad and Tobago at the beginning of 2009, and the aftershock is still being felt in Guyana. Thus, in February 2009 the Government took control of CLICO Guyana, committing up to US$ 34 million to guarantee policyholders and stakeholders.

(c) Exchange-rate policy

Activity in the foreign exchange market rose during 2008 by 21.9% with an accumulated of US$ 4.8 billion in transactions. Higher exports receipts and current transfers explained the increased supply of foreign currency to the markets, countered by a rising demand because of higher cost of imports, particularly during the second and third quarters of the year.

Currency depreciation was minimal, due to measures implemented by the Bank of Guyana, including open interventions in the foreign exchange market. Thus, nominal depreciation of the Guyanese dollar vis-à-vis the United States dollar reached a paltry 0.7% annual average, while the December 2007 - December 2008 currency depreciation was just 0.86%. For 2009, expectations are that the Bank of Guyana will keep supporting a stable exchange rate through market interventions.

3. Evolution of main variables

(a) Economic activity

Activity levels varied widely among the productive sectors of the Guyanese economy, mainly as a consequence of exposure to external factors, like the volatility of international prices of oil and other imported inputs, the reduction of foreign demand and fall in the international prices of its exports.

Distribution was the sector with the most positive performance during 2008, with an 11.9% annual growth rate, due to increased demand for consumer and intermediate imported goods. Financial and real estate services, and transport, storage and communication also recorded good performances (10.2% and 10%, respectively). In the first case, growth can be attributed to significant expansion in private sector credit, while in the latter, the sector expanded as a result of rising competition in the non-fixed line telecommunications area and higher transportation activity between coastal and interior areas.

Among the sectors with negative results, manufacturing recorded the worst performance, shrinking by -5.8%, reversing the modest 1.2% growth achieved in 2007. High fuel and inputs costs were the main factors behind this slowdown, with garments, footwear, pharmaceutical liquids, flour and margarine production being the categories most affected, while alcoholic and non-alcoholic beverages was one of the few sectors performing positively during 2008.

Regarding the mining sector, although it grew by 6.1%, it recorded a significant slowdown compared with growth in 2007 (22.5%). This was the result of the fall in international bauxite prices during the second half of 2008, which severely affected the industry, with dried bauxite production falling by 18.1% compared to 2007 levels. Furthermore, preliminary information for the first months of 2009 suggests that the bauxite sector will keep facing a very adverse environment during the rest of the year.

Similarly, agriculture, forestry and fishing contracted by -4.9% countering the gains made in the two previous years. The main driver of this contraction was the sharp decline in sugar production (-15.1%), explained by delays in the operations of the upgraded Skeldon

Sugar Factory, labour unrest, pest infestation, and adverse weather conditions. The other major crop, rice, expanded its output by 10.6%, while logging (-16.7%) also suffered a considerable contraction.

Overall, GDP growth in 2008 was 3.1%, much below the 5.4% achieved in 2007. For 2009, the Government is expecting substantive GDP growth driven by the agriculture, construction and services sectors. However, to achieve this ambitious goal, several key factors will have to be put in place, such as a fast and smooth recuperation of the sugar industry, the stabilization of the bauxite sector, or the rebound of manufacturing activities. In that sense, although the outlook for sugar and rice (Guyana's two most important export crops) is generally positive, it is worth noting that the European Union-African-Caribbean-Pacific (EU-ACP) Sugar Protocol ends in September 2009 and that will lead to sharp cuts in the guaranteed price paid by the EU.

(b) Prices, wages and employment

One positive development was the slowdown of price inflation. Thus, accumulated consumer price inflation at the end of 2008 was 6.4%, less than half the level recorded in 2007 (14.1%). For 2009, the official target for inflation has been set at 5.2% as a reflection of lower oil and imported inputs prices. Inflation was just 0.4% during the first quarter 2009.

There was a significant increase of strikes in the public sector, from 177 in 2007 to 202 in 2008, with 198 of those strikes involving GUYSUCO, the national sugar company. As a result, the volume of person-days lost in the public sector (92,018 person-days) rose by 38.8%, while the volume of public wages lost, increased by 40.7%. During 2008, public sector salaries were increased by 5% in May and December, in response to the higher cost of living. Similarly, pensions and the minimum public wage also rose, to preserve purchasing capacity of vulnerable segments of the population.

(c) The external sector

The current account deficit expanded in 2008, from 17.6% of GDP to 25.8% of GDP, due to higher import expenditure and negative results in the service and income balances. The deficit in goods trade increased to US$ 502 million, equivalent to 43.3% of GDP. Net current transfers rose to US$ 329 million, despite a marginal decline of workers' remittances, due to higher inflows of in-kind transfers and receipts from bank accounts abroad. The current account deficit was compensated by a 63% increment in the capital and financial balance surplus. Thus, the overall effect was a modest improvement of the balance of payments, which turned from a small deficit in 2007 to a rather small surplus in 2008. Net international reserves amounted to US$ 299 million by year's end, equivalent to 2.7 months of import cover.

The balance of payments in 2009 is expected to deteriorate and turn into a deficit. Although the forecast is that exports' earnings will increase because of the rebound in sugar exports and a decline in the import bill, this will likely be countered by a substantial deterioration of workers' remittances and in-kind transfers due to the global recession. Meanwhile, the capital and financial account will record a lower surplus due to diminished private capital inflows and official transfers.

Table 27

GUYANA: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007	2008p
				Output growth rates (Percentage)			
GDP	1.1	-0.7	1.6	-2.0	5.1	5.4	3.1
GDP per capita	0.9	-0.8	1.4	-2.3	4.8	5.0	2.6
Agriculture, forestry and fishing	3.4	-2.3	2.8	-10.5	5.1	0.5	-4.9
Mining and quarrying	-6.9	-8.7	-6.5	-17.8	-21.6	22.5	6.1
Manufacturing	10.9	-0.5	2.5	-9.5	9.3	1.2	-5.8
Construction	-3.9	5.6	4.1	9.4	12.0	5.7	8.6
Distribution	-0.9	-2.6	1.9	15.0	10.1	8.8	11.9
Transport and Communication	4.5	4.9	3.6	9.4	10.0	13.0	10.0
Rental of Dwellings	0.0	3.2	1.0	6.1	9.6	3.5	4.2
Financial Services	-1.0	1.0	1.0	6.4	7.9	7.1	12.1
Government	-1.0	0.6	1.2	2.0	2.0	1.0	1.0
Other services	0.0	2.9	1.4	7.0	7.9	4.9	7.4
				Prices and unemployment (Percentage)			
Inflation (year end)	6.0	5.0	5.5	8.2	4.2	14.1	6.4
Lending interest rate[a]	17.3	16.6	16.6	15.1	14.9	14.1	13.9
Deposit interest rate[b]	4.3	3.8	3.4	3.4	3.3	3.2	3.1
Unemployment rate	..	..	..	..	..	..	..
				Central Government operations (Percentage of GDP)			
Total revenue	40.5	37.3	39.6	42.2	43.7	42.1	42.2
Current revenue	32.2	31.5	33.1	34.1	34.1	36.9	35.1
Tax revenue	29.5	28.8	30.9	32.1	32.0	35.6	33.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Total Expenditure	46.1	46.5	46.5	55.7	56.8	49.4	48.5
Current expenditure	34.8	34.5	32.1	34.4	34.0	29.7	33.1
Interest payments	7.7	6.2	4.9	4.4	3.9	2.8	2.8
Capital expenditure	11.4	12.0	14.3	21.3	22.8	19.7	15.4
Global balance	-5.7	-9.1	-6.9	-13.5	-13.1	-7.4	-6.3
Primary balance	2.0	-3.0	-2.0	-9.1	-9.3	-4.6	-3.5
Public debt	224.6	198.4	183.7	188.4	155.3	98.8	103.8
External	171.7	146.0	136.0	147.2	114.1	66.9	72.0
Domestic	38.9	43.5	42.2	41.1	41.3	31.9	31.8
				Balance of payments (Millions of US$)			
Current account balance	-111.0	-91.0	-70.0	-157.5	-250.4	-189.1	-299.1
Trade balance	-68.0	-59.0	-58.0	-232.8	-299.8	-365.1	-501.8
Exports	495.0	513.0	589.0	550.9	585.1	698.0	798.4
Imports	-563.0	-572.0	-647.0	-783.7	-885.0	-1,063.1	-1,300.2
Services balance	-24.0	-20.0	-47.0	-53.0	-97.8	-99.6	-111.3
Income balance	-59.0	-52.0	-39.0	-39.0	-69.0	-11.2	-14.8
Transfers balance	40.0	40.0	74.0	167.3	216.3	286.8	328.8
Financial account balance[c]	125.0	100.0	27.0	165.7	293.2	187.8	306.1
FDI	44.0	26.0	30.0	76.8	102.4	110.3	179.1
Financial capital[c]	82.0	74.0	-3.0	88.9	190.8	77.5	127.0
Overall balance	15.0	10.0	-43.0	8.2	42.8	-1.4	7.0

Table 27 (continued)

	2002	2003	2004	2005	2006	2007	2008p
	Monetary indicators (Percentage of GDP)						
Domestic credit	21.0	17.5	23.9	24.1	23.7	19.0	25.3
To the public sector	-15.9	-9.2	-0.6	-2.0	-5.7	-10.4	-7.8
To de private sector	42.4	33.7	30.9	31.8	33.7	33.7	37.8
Liquidity (M3)	70.9	73.8	73.2	75.2	78.5	75.1	78.0
Currency and domestic currency deposits (M2)	68.0	69.8	69.5	71.2	71.6	69.5	73.8
Foreign currency deposits	2.9	4.0	3.7	4.0	6.9	5.6	4.2
	Memorandum items (current prices)						
GDP (Millions of G$)	138,447	144,064	156,230	164,873	183,087	217,552	236,059
GDP (Millions of US$)	722	742	782	823	913	1,074	1,158
GDP per capita (US$)	966	986	1,040	1,088	1,203	1,408	1,511

Source: ECLAC on the basis of official data.
[a] Arithmetic average, Prime Lending Rate.
[b] Arithmetic average, Small Savings Rate.
[c] Includes capital account balance and errors and omissions.
p = preliminary figures.
.. = not available.

F. JAMAICA

1. General trends

During 2008, the economy of Jamaica suffered the effects of the global economic slowdown through lower export demand, falling commodity prices in the second half of the year, a slowdown in tourism, and stagnation of remittances from abroad. The real economy contracted by an estimated 0.6%, while unemployment rate rose from 9.9% to 10.9%. External accounts deteriorated during 2008 with a widening trade and current account deficit, and a steady loss of international reserves, which raises concerns about exchange rate stability and debt sustainability. The fiscal deficit expanded drastically, fuelled by lower-than-expected revenues.

Against this scenario, fiscal and monetary authorities have increased efforts to counter the worst effects of the economic slowdown and stabilize markets, with measures like the establishment of liquidity lines and special loan facilities, the implementation of stimulus packages, or the reinforcement of social programmes and safety nets. Regardless of those efforts, there is wide consensus that due to very limited fiscal space, high public debt, currency depreciation and rising domestic interest rates, the economy will contract further in 2009, with official projections considering an economic contraction in the range of minus 2.5% to minus 3.5% annual, which would be the worst performance since 1998.

To deal with those prospects, it seems clear that the Jamaican authorities will need a substantial and steady provision of financial resources in order to keep the economy stable and meet increased requirements for promotional and social programmes. In that regard, it is worth noting that the Government authorities have been able to secure several contingency loans negotiated with a number of multilateral agencies. However, if the financial and economic situation keeps deteriorating, the funds already secured will not be enough, forcing the Government to look for additional financing.

2. Economic policy

(a) Fiscal policy

Targets set by the Government for the fiscal year[20] 2008/2009 were offset by the negative impact of the economic crisis. A particular concern has been the deterioration of fiscal revenues, which grew only 7.6% in nominal terms, falling short by 10.6% with respect to the original expectations for the fiscal year. This development was mainly related to the drastic contraction (-79.9%) in capital income (0.7% of total fiscal revenues), and non-tax revenue (-11.8%). For instance, there was an acute shortfall of the bauxite levy, whose amount was almost halved (-48.6%), compared to its budgetary goal. Tax revenue grew by 12.2%, mainly because of the favourable results of a tax amnesty, which substantially increased the collection of company and individual income taxes. Income from grants surpassed by 37% the amount set originally for 2008/2009.

Fiscal expenditures stayed on target, grew by 19.5%, with just a minimal deviation (0.7%) in excess of original provisions in the budget. This was accomplished through a

[20] In Jamaica, the fiscal year runs from April to March.

significant reduction in capital expenditure, compensating slightly higher than expected disbursement on remunerations and interest payments.

According to preliminary estimates, the central Government deficit expanded from 4.7% of GDP in fiscal year 2007/2008 to 6.8% of GDP in fiscal year 2008/2009, largely surpassing the target established in the budget (3.9% of GDP). In order to meet the increased funding requirements, the Government resorted mainly to domestic financing, with expanded credit from the banking system and issuance of debt instruments. In addition, the Government relied on bond issuance in the international markets and direct loans from multilateral institutions. In these efforts, the Government had to face increasingly adverse conditions, with rising interest rates and recurring foreign exchange volatility. Furthermore, during the last quarter of the year, Jamaica's debt and credit ratings were downgraded by the international rating agencies, increasing the difficulties and costs of financing.

As an overall result, the domestic debt stock grew by 9%, while the external debt stock expanded by 3.6% during 2008. The total public debt stock (domestic and external) rose to US$ 13,900 million as of December 2008, equivalent approximately to 106.9% of GDP. It is worth noting that owing to a GDP revision during 2008, public debt as a percentage of GDP decreased significantly. Improving debt management has become a very pressing issue considering the heavy burden that debt service represents for the public finances, with interest payments alone accounting for 25% of total expenditures, while debt servicing (amortization and interest payments) represents 55% of total expenditures during the fiscal year 2008/2009.

In April 2009, the Government submitted to the Parliament its proposal of the budget for fiscal year 2009/2010, which is, in real terms, 4.5% below the budget of the previous fiscal year, reflecting the austerity efforts made by the Government in order to balance public revenues and expenditures. Thus, a new fiscal deficit target of 5.5% of GDP was set. In order to reach this goal, the main challenges for the fiscal policy are to increase revenues while keeping expenditures at bay. Therefore, the Government plans to rationalize public agencies, improve financial and budget management, and increase revenue collection through tax reform.

Consequently, the Government announced a tax package including, among other measures, a major increase of the special fuel tax and the increase of customs user fees on selected petroleum products, wider coverage of the general consumption tax, but a 100% increase in the income tax threshold, and the establishment of a data-mining intelligence unit to check self-employed persons. However, efforts to increase revenue encountered political and social backslashes, and, thus, in May the Government announced a partial reversal in some of the new tax measures, keeping exemptions in the general consumption tax on basic items, while increasing the special consumption tax on cigarettes, liquor and other non essential items.

In this context, securing financing from multilateral sources in order to support fiscal and debt sustainability has become another priority for the Government. By April 2009, Jamaica had successfully negotiated close to US$ 1,000 million in contingency loans from the World Bank, the IDB and the CDB, among other multilateral institutions. Furthermore, the Government engaged in pre-emptive talks with the IMF in order to ensure a line of credit for an additional US$ 1,000 million.

Considering the deteriorating economic situation faced by Jamaica during 2008, the Government implemented diverse measures aimed at reducing the negative social impact of the economic slowdown and rising prices. It introduced subsidies for basic food items, tax and tariff reduction for essential products, and adjustments to the national minimum wage. In the same way, significant efforts are being made to increase the scope and coverage of social programmes dealing with the most vulnerable sectors of the population, such as the Programme of Advance Through Health and Education (PATH). The Government plans to expand the PATH coverage during 2009, to an additional 120,000 beneficiaries, with funding from multilateral agencies. Similarly, it announced an increment of the education budget, an expansion of the School-Feeding Programme, and a strengthening of the Constituency Development Fund, which implements projects such as indigent house repairs, school and community centres repairs, agriculture projects.

(b) Monetary and exchange-rate policy

The monetary policy during 2008 focused on the easing of liquidity constraints in exchange markets and the restraint of inflationary pressures, in the face of heightened uncertainty and volatility in the international and domestic financial markets. A significant reduction in the supply of United States dollar during the second half of the year, led the Bank of Jamaica to implement several measures aimed at increasing the supply of United States dollars into the Jamaican economy to avoid further depreciation of the local currency, and absorb excess liquidity to keep inflation under control. Among those measures were the implementation of a special loan facility for security dealers, and the establishment of an intermediation facility in domestic and foreign currency during November.

Increases in interest rates, expanded offering of special financial instruments, like deposit certificates, and higher cash reserve requirements, were aimed at reducing excess liquidity. In spite of these efforts, the Jamaican dollar depreciated substantially against the United States dollar by the end of the year. As of December 2008 the average exchange rate was J$ 80.2 vis-à-vis the united States dollar, reflecting an accumulated 13.9% depreciation since December 2007, when the average exchange rate was J$ 70.4 per United States dollar. Moreover, depreciation pressures intensified during the first quarter of 2009, with the average exchange rate increasing to J$ 88.4/US$, thus reaching an accumulated 10.2% depreciation for the first quarter.

Expansion of the monetary base slowed compared to previous periods, growing by 9.6% during 2008, significantly below the target established by the Bank of Jamaica at the beginning of the year (12.6%) and the level of expansion reached in 2007 (also 12.6%). However, during the last quarter of the year the monetary base grew as a result of a seasonal increase in currency issue and the increase in statutory requirements. In parallel, domestic interest rates were gradually increased during 2008, with the average saving rate reaching 5.33% by December, while the average lending rate topped 23.2% in the same month.

3. Evolution of main variables

(a) Economic activity

Overall, the Jamaican economy suffered a drastic decline in output during 2008, recording growth of -0.6% as compared with 1.4% in 2007. This was mainly the result of declining external and internal demand. Construction was the sector most adversely affected by the economic slowdown, suffering a -5.5% contraction during 2008, while agriculture, livestock, forestry and fishing (-5.1%), transport and communications (-2.2%), and manufacturing (-1.2%) also recorded negative results. Financial services was the sector with the most positive results, reaching an annual 1.2% growth rate, while mining, utilities, and commerce, were other sectors posting positive growth.

The contraction in construction during 2008, following a 4.6% expansion in 2007, was explained by the strong decline in private and public investments projects, and residential construction. This contraction led to an equivalent fall in the production and sales of inputs for construction, like cement, whose sales declined by 7.8% during 2008. The considerable contraction in agriculture, livestock, forestry and fishing followed negative growth of 6% in 2007. The lagged effects of Hurricane Dean and heavy floods during 2007 continued to hamper agricultural activities during 2008, further exacerbated by the passage of Hurricane Gustav in September. According to official reports, Hurricane Gustav wiped out almost 80% of the banana crop and affected coffee and sugar cane production. Efforts by the Ministry of Agriculture to recover and boost agricultural output have been encouraging so far, but the sector still has a long way to go before it reaches normal production levels.

The contraction in transport and communication was mainly a reflection of reduced levels of activity in other sectors, with lower demand for water and air transportation services, fuelled by declines in ships' calls at Jamaican ports, reduced domestic cargo movement, and institutional problems faced by Air Jamaica. In the case of the manufacturing sector, the contraction is principally due to significant falls in beverages production, chemical, and metal products, while food production showed mixed results.

In the case of sectors with positive results during 2008, the expansion of the financial services sectors reflected the increased dynamics of banking institutions. Mining expanded by 1.1%, after a 2.7% contraction recorded in 2007, owing to a partial recovery of the bauxite and alumina industry, whose capacity utilization rate for the bauxite industry rose 88.9%, while the utilization rate for the alumina industry reached 87.8%.. However, the industry still suffered production problems, electrical outages, and weak external demand. During the first months of 2009 the bauxite industry was badly impacted by a serious scale down of activities due to reduction in the international demand.

The utilities (electricity and water) sector grew marginally (0.9%) despite production difficulties in one of the major power plants during the first half of the year. In the latter part of 2008 there was a substantial increase in electricity output, reflecting a recovery from the damages and disruptions caused by Hurricane Dean, while water production recorded a steady, but marginal increase. Commerce, hotel and restaurant activities recorded growth of 0.7%, due to an expansion in hotel and restaurants (2.7%) while wholesome and retail commerce practically posted null growth.

Tourism activities started to slow during 2008, with arrivals from the United States growing marginally (1.4%), while those from Europe contracted by 1.4%. However, arrivals from Canada increased significantly (23.9%), probably owing to increased purchasing power given the appreciation of the Canadian dollar against the United States dollar. While total stopover visitors grew by 3.7%, total cruise ships passengers fell 7.7%, and the amount of foreign exchange earnings contracted by 0.5%. Data for the first quarter 2009 shows that tourism contraction has deepened and accelerated, with total stopover arrivals down 11.8% and cruise visitor arrivals down 25.7% compared to the first quarter of 2008.

Very worrisome are the negative expectations for 2009; as the global recession deepens, official forecasts for GDP point to a contraction between -2.5% and -3.5%. The tradable sectors are estimated to be most affected due to a fall in export demand, reduced commodity prices, and smaller tourism flows. While stimulus measures, such as tax cuts and low cost loans for business, manufacturing and tourism activities, and promotional programmes and subsidies for the agricultural sector are being implemented by the Government, those measures will hardly be sufficient to lift Jamaica out of the recession.

(b) Prices, wages and employment

Consumer price inflation reached 16.8% by the end of 2008 (December-December), equal to the one registered in 2007. However, inflation peaked in August 2008, recording a staggering annualized figure of 26.5%. During the last months of 2009 inflationary pressures declined partially as a result of the cooling of commodity prices, and the monetary and exchange rate policy measures adopted by the Bank of Jamaica to slow down currency depreciation.

By categories, food and non alcoholic beverages (24%), and alcoholic beverages and tobacco (27%), were the ones recording the highest annual increases, with particularly strong increases in the cost of oils and fats (43.4%), vegetables (38.4%), and bread and cereals (33.5%). However, housing, utilities and fuels registered a moderate (9.3%) annual inflation, due to very low increases (4.7%) in electricity, gas and other fuels, as a consequence of price controls, subsidies and other anti-inflationary measures adopted by the Government.

For fiscal year 2009/2010 the authorities expect a reduction of the inflation rate, with a forecast of 11% - 14%. Lower import prices and weaker domestic demand are the main factors that will lead to lower inflation, although increases in the fuel tax rate during the first half of 2009 will probably filter through to transportation and utilities costs.

In 2008, the labour force increased by 1% to 1.3 million persons, with an average participation rate of 65.4% (compared with 64.8% in 2007). The contraction of economic activity led to a rise in the unemployment rate, from 9.9% in 2007 to 10.9% in 2008, largely reflecting job losses in construction and installation activities because of the scaling down or suspension of several major tourism and infrastructure projects. This is a major concern, since unemployment is expected to increase further in 2009. The contraction in tourism flows, the closure of bauxite plants, and the slowdown in manufacturing activities will adversely affect labour markets.

Following the high level of inflation in 2008, the Government announced compensatory salary increases for public servants and the adjustment of the national minimum wage to the order of 17.5%.

(c) The external sector

During 2008, the external accounts deteriorated significantly, with a widening of the trade and current account deficit. While merchandise exports grew by 16.9%, compared to 2007 and amounting to US$ 2,761 million, this increase was largely surpassed by the large expansion in merchandise imports (24.8%), which topped US$ 7,742 million at the end of 2008. Consequently, the trade deficit in goods rose by as much as 34.8% of GDP.

The trade surplus in services saw a substantial reduction (-16.3%), mainly due to the increase in the deficit in transportation services. The income balance deficit (2.8% of GDP) and the current transfer surplus (2.1% of GDP) did not alter significantly. However, the growth of net remittances in 2008 (3.1% of GDP) was just a fraction of the rate recorded in 2007 (13% of GDP). In 2009, these flows started to contract, with a 11.9% fall during the first quarter compared to same period of 2008. Overall, there was a 58.1% expansion of the current account deficit, which increased to 22.5% of GDP (15.8% in 2007).

The capital account reversed the US$ 36 million deficit recorded in 2007, achieving a US$ 22 million surplus. The financial account enjoyed a substantial expansion, almost doubling its surplus from US$ 1,634 million in 2007 to US$ 3,096 million in 2008, equivalent to 21.6% of GDP. This was the result of positive net flows of private and official investments. However, it was not enough to compensate for the current account deficit, resulting in another balance of payments deficit (0.7% of GDP).

Net international reserves declined during 2008, standing at US$ 1,773 million in December, a net -5.6% reduction from the levels recorded in December 2007. According to estimates from the Bank of Jamaica, the amount of gross foreign assets available was equivalent to 13.6 weeks of imports of goods and services.

For 2009, it is expected that the trade and current account deficit will diminish reflecting weaker overall demand for imports, and lower prices for some key imports like food and oil.

Table 28
JAMAICA: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007	2008p
			Output growth rates (Percentage)				
GDP	1.0	3.5	1.4	1.0	2.7	1.4	-0.6
GDP per capita	0.6	3.1	0.9	0.6	2.2	0.9	-1.0
Agriculture, forestry and fishing	-6.8	7.0	-11.2	-6.8	16.2	-6.0	-5.1
Mining and quarrying	2.1	5.0	2.2	2.8	1.2	-2.7	1.1
Manufacturing	-2.0	-0.5	1.4	-4.4	-2.3	0.2	-1.2
Electricity and water	4.6	4.7	-0.1	4.2	3.2	0.6	0.9
Construction and installation	-1.0	5.1	8.4	7.5	-1.9	4.6	-5.5
Transport, storage and communication	6.2	4.0	1.4	0.9	4.4	3.3	-2.2
Distributive trade	0.1	1.0	1.3	1.1	1.4	1.7	0.7
Finance and insurance services	6.3	6.8	2.4	-0.2	1.7	3.4	1.5
Real estates and business services	0.6	2.2	1.9	1.4	1.8	3.2	0.9
Government services	0.8	0.2	0.2	0.3	1.0	0.8	-0.1
Miscellaneous services[a]	2.6	4.2	2.4	2.7	4.1	1.9	0.5
			Prices and unemployment (Percentage)				
Inflation (year end)	7.3	13.8	13.6	12.6	5.6	16.8	16.8
Lending interest rate[b]	26.1	25.1	25.1	23.2	22.0	22.0	22.3
Deposit interest rate[b]	9.1	8.3	6.7	5.9	5.3	5.0	5.1
Unemployment rate	14.2	11.4	11.7	11.3	10.3	9.9	10.9
			Central Government operations (Percentage of GDP)				
Total revenue	28.6	31.7	32.0	30.9	31.0	32.0	24.9
Current revenue	26.7	30.1	30.1	29.3	30.3	30.3	24.1
Tax revenue	25.1	27.7	27.9	26.9	27.6	27.4	22.2
Capital revenue	1.6	1.5	1.1	1.4	0.5	1.2	0.2
Total Expenditure	36.3	37.8	36.9	34.3	36.4	36.7	31.7
Current expenditure	34.4	36.6	34.9	31.8	32.9	31.6	28.0
Interest payments	15.1	18.6	17.2	14.6	14.3	12.7	11.3
Capital expenditure	1.9	1.2	2.1	2.6	3.4	5.2	3.7
Global balance	-7.8	-6.1	-4.9	-3.5	-5.4	-4.7	-6.8
Primary balance	7.4	12.5	12.2	11.1	9.0	8.1	4.5
Public debt	122.2	123.8	122.9	119.1	117.5	111.3	106.9
External	47.3	46.8	50.9	50.0	49.4	48.6	48.7
Domestic	74.9	77.0	72.1	69.1	68.1	62.7	58.1
			Balance of payments (Millions of US$)				
Current account balance	-1,074.0	-773.4	-509.2	-1,009.2	-1,182.9	-2,038.3	-3,222.8
Trade balance	-1,870.5	-1,942.6	-1,944.5	-2,581.4	-2,943.4	-3,841.3	-4,981.2
Exports	1,309.1	1,385.6	1,601.6	1,664.3	2,133.6	2,362.6	2,761.1
Imports	-3,179.6	-3,328.2	-3,546.1	-4,245.7	-5,077.0	-6,203.9	-7,742.3
Services balance	314.9	551.6	571.7	670.0	627.6	424.7	355.3
Income balance	-605.3	-571.4	-582.5	-676.2	-615.7	-661.6	-679.8
Transfers balance	1,086.9	1,189.1	1,446.2	1,578.4	1,748.6	2,039.9	2,082.9
Financial account balance[c]	832.1	341.8	1,202.8	1,237.8	1,413.1	1,598.4	3,117.8
FDI	407.2	604.4	601.6	682.5	882.2	866.5	810.4
Financial capital	424.9	-262.6	601.2	555.3	530.9	731.9	2,307.4
Overall balance	-241.9	-431.6	693.6	228.6	230.2	-439.9	-105.0

Table 28 (continued)

	2002	2003	2004	2005	2006	2007	2008p
			Monetary indicators (Percentage of GDP)				
Domestic credit	40.5	46.5	41.0	39.9	34.9	30.4	34.4
To the public sector	30.6	34.0	26.9	24.4	17.2	12.8	15.4
To de private sector	11.4	14.4	15.3	16.2	18.2	18.2	19.8
Liquidity (M3)	40.2	38.8	39.2	38.1	37.6	33.7	29.9
Currency and domestic currency deposits (M2)	29.1	26.0	26.2	26.1	26.6	22.7	20.1
Foreign currency Deposits	11.1	12.8	12.9	12.1	11.0	11.0	9.8
			Memorandum items (current prices)				
GDP (Millions of J$)	468,517	542,703	620,233	694,537	788,179	890,074	1,047,521
GDP (Millions of US$)	9,632	9,238	10,123	11,102	11,929	12,894	14,314
GDP per capita (US$)	3,677	3,510	3,829	4,179	4,469	4,807	5,317

Source: ECLAC on the basis of official data.
[a] Includes hotels, restaurants and clubs.
[b] Average.
[c] Includes capital account balance and errors and omissions. For the years 2006 and 2007 includes change in reserves.

G. SURINAME

1. General trends

Despite the cooling of international commodity prices in the second half of 2008, the Suriname economy maintained growth, recording 5.2% in 2008 compared with 5.3% in 2007. Growth was led by construction, mining, and wholesale and retail commerce, restaurants and hotels. An overall fiscal surplus of approximately 2.1% of GDP was recorded, falling from 5.6% in 2007. The Central Bank maintained its Suriname dollar cash reserve requirement at 25%, and both deposit and lending rates remained stable, ending the year at 6.3% and 12.0%, respectively. Domestic credit expanded by 20%, and the December-December inflation rate stood at 9.4% (8.3% in 2007), though it had all but ceased in April 2009, reaching 0.8%. The external sector current account exhibited yet another year of surplus valued at 4.7% of GDP. The Government continues to focus on fiscal policy to promote growth and monetary policy targets inflation. In 2009, GDP is expected to grow between 2.3 and 2.7%.

2. Economic policy

The overarching economic policy aims continue to be inflation targeting, facilitating economic growth and export growth in particular, and maintaining sustainable debt levels.

(a) Fiscal policy

The fiscal accounts remained in surplus for 2008, with current revenue increasing for the fifth year running, owing to the continued favourable international prices for minerals in the first half of the year and also to higher than expected tax revenue from construction and infrastructural activity. Total revenue increased marginally over the 2007 figure, and represented 34.8% of GDP. In spite of a severe downturn in aluminium prices which resulted in a 47% drop in tax revenue, revenues from gold remained steady as prices throughout 2008 remained historically high, with US$ 90million alone in revenue from IAM Gold. Staatsolie, the State oil company posted record profits of US$ 248 million for 2008. Total tax revenue increased substantially to reach 25.2% of GDP.

Total expenditure increased by 13.5% to 32.7% of GDP, with current expenditure increasing slightly to 25.6% of GDP. Capital expenditure increased by almost 60%, however, constitutes only 22% of total spending. The beginning of a two-year US$ 116 million public sector salary review, expected to be implemented by 2010, has sparked concerns in light of the bleak international scenario, nevertheless the Government might be willing to undertake spending excesses as general elections are also due in 2010. The uncertainty of the international commodity markets and the imminent departure of a major aluminium producer, as well as expected lower tax contributions from Staatsolie as it invests in a new refinery, makes the sources of future revenues harder to identify. In addition, it is unlikely that in the run up to a general election, a Government would increase taxes in order to maintain revenue flows. In total, the primary surplus improved by 26% over 2007 to 5.4% GDP but the overall surplus decreased by 60% to 2.1% of GDP.

The efforts to privatize the company in charge of the banana sector have not gone particularly well. The bureaucracy involved as well as the organizational weakness of the incumbent company have been stated as deterrents to purchase, but the main obstacle is the inability of the Surinamese banana sector to remain competitive with its larger Latin American neighbours.

Debt sustainability continues to be a key priority. External debt increased by 6% over 2008, but remained low as a proportion of GDP (13%). Bilateral debt has increased by 6% over 2008, but remained at approximately 10% of GDP.

Accumulated reserves from mining windfalls over the last five years allowed the Government to indulge in a strategy on debt reduction. The conservative attitude of Suriname's banking system protected it from engaging in the type of questionable securitization-based credit schemes seen in many other countries. The ability to acquire debt domestically thus remains unchanged, and the retirement of the Dutch Investment Bank debt as well as a major loan from Brazil, increases the ability of the country to acquire new external debt without overstepping the mandated 'healthy' limits. Successful debt management has positively affected the country's international credit rating, and though markets are still tight, the Government has expressed interest in using this as a premise to attract new FDI to Suriname. Current loans, especially from China, are being used productively and are responsible for significant amounts of construction sector activity.

The discussions to create a stabilization and heritage fund for Suriname that would be financed by windfall tax revenue from increased mineral production have stopped.

Policymakers expect that Suriname will be able to weather the current downturn if the world economy stages a recovery by the end of 2010. No significant Government intervention to prop up the real economy has occurred thus far, and none is planned, though much uncertainty about the aluminium sector and its potential to negatively impact Government revenue and employment has been expressed.

(b) Monetary and exchange rate policy

Liquidity (M2) expanded by more than 15% from 2007 to reach 30.7% of GDP. Net domestic credit expanded by 19.7% to reach 24% of GDP, fuelled by the continued expansion in private sector domestic credit, which expanded by 34.7% in 2008, representing 32.9% of GDP. This expansion of domestic and private sector credit reflects the continued increase in demand for durable goods by the Surinamese, especially increasing demand for cars and housing. In 2008, the Government Housing Project was embarked upon where the programme will assist in paying 4% of the 9% interest for two years for housing or land loans with interest rates of no more than 9%.

The Central Bank's monetary policies remained largely unchanged over 2008 with the continued focus being inflation targeting with the understanding that much inflation is externally driven. Market interest rates, however, remained stable in order to favour credit expansion. The lending rate fell slightly from 13.9% to 12.0% and deposit rates had basically stabilised at 6.3% in 2008 from 6.4% in the previous year. The Suriname dollar reserve requirement was unchanged at 25%.

The official United States exchange rate remained virtually unchanged at approximately SRD2.75 per US$ 1 over 2008. In April 2009, however, the exchange rate in the commercial market came under some pressure owing to a shortage of United States dollars in the market. Intervention in the market by the Central Bank, which sold United

States dollars for certain items deemed productive, restored some ease to the market, but suspicions of hoarding of newly released United States dollars on the part of commercial banks brought an end to the Central Bank's intervention. The Central Bank is now considering increasing the commercial banks' reserve requirement of United States dollars from the current level of 33.3%.

The conservativism of the Surinamese financial system is considered key in helping the country avoid the types of credit schemes that brought ruin upon the financial sectors of so many other countries. While the real economic effects of the global recession are certainly recognizable, with the sudden fall in the price of aluminum being one of the deciding factors in BHP Billiton's decision to leave Suriname, and even though CLICO Suriname was involved in CLICO Guyana's financial troubles, the outlook for Suriname's financial sector remains stable.

3. Evolution of main variables

(a) Economic activity

Total GDP increased by 5.2% over 2008, driven by a 15% increase in construction activity, a 13% increase in activity in the restaurant and hotel sector, a 12.6% increase in mining and quarrying activity and an 11.5% increase in wholesale and retail trade,. The increase was marginally slower than the 2007 growth rate of 5.3%, but was higher than expectations after the fallout from the recession..

Mining and quarrying and manufacturing were the sectors expected to take the biggest hits from the effects of the global recession and the subsequent fallout in commodity prices. The mining and quarrying sector, though, increased by 12.6% over 2008, owing to strong gold prices and steady oil production, even though the expected additions to oil reserves did not materialize as planned. Worth 7.7% of GDP, manufacturing output decreased by 5% as activity throughout the aluminum chain decreased as prices for the commodity halved over the second half of 2008. Production in the manufacturing sector is expected to steady or slightly increase over 2009 as Suralco and the Government take over the mining and manufacture aspect of the aluminum sector.

Production problems encountered in the rice sector and reduced exports contributed to the -1.7% contraction of the agricultural sector. Despite Government efforts to diversify the economy, especially the agricultural sector, a trend of increasing significance of non-mineral sectors to export revenue remains unseen.

The construction sector increased by 15% over 2008, accounting for 4.7% of GDP, representing the fifth consecutive year of double figure growth for this sector. Government construction programmes, debt financed infrastructure development programmes and the previously mentioned national housing drive growth in the sector. Currently there are three major road projects being financed by donor agencies.

The transport and communication sector, which increased in size by 8.5% to reach 9.7% of GDP, and the 13% increase in activity in the restaurants and hotels sector which accounted for 2.8% of GDP would have benefited from this continued increase in economic activity, which would explain most of the increases in demand for these services.

Sustained construction activity and an increase in gold production are what the country expects will fuel real GDP growth between 2.3% and 2.7% for 2009. The embryonic signs of economic recovery affirm this hope, but internal mining sector troubles and uncertain external price conditions continue to cast a shadow on growth projections.

(b) Prices, wages and employment

Inflation ended the year at 9.4% (December-December), higher than in 2007 (8.3%). However, inflation was a great concern in the first half of 2008, when food and oil prices increased drastically. It peaked in August and September recording an annual rate of 18.1% in both months. Transportation achieved the biggest impact to the Consumer Price Index (CPI) in August, when commodity prices were highest, with an annual rate of increase of 26.4%, though its index ended the year about 5% lower than it began. The end of year increases for the categories 'recreation' and 'food away from home' were 10% and 11%, respectively. Most group indices, with the exception of those that exhibit significant price controls, started to decrease with the cooling of commodity prices in the second half of 2008. The annualized CPI for April 2009 has been recorded as 0.8%.

The unemployment rate continues to be reported at 12% though no new studies into the variable have occurred since 2006. It is felt though, that with the booming construction sector, especially, opportunities for employment are increasing. However, Suralco, which is the former partner of BHP Billiton in the abandoned West Suriname aluminium project, has now acquired the controlling stake and has indicated that it wishes to cut production by up to 40%, which can seriously impact employment.

(c) External sector

The main drivers of the favourable current account surplus were mineral and metal exports, especially over the first half of 2008, when prices for certain commodities were the highest in history. The current account surplus increased by 10.4% in 2008, reaching 14.5% of GDP compared with 14.2% of GDP in 2007. This was driven mostly by exports, which increased by 26.7% to reach 70% of GDP. Imports, for the second year running, increased more than exports (28.6%), but in absolute values remain below exports (54.2% of GDP). The service deficit deteriorated further, moving from US$ 72.5 million to US$ 127 million or 5% of GDP. Even in the face of booming construction, many business and engineering services companies are foreign and are mandated to operate in Suriname as per loan agreements, especially concerning infrastructural projects funded by China. Opportunities to improve the services account through activity based around these projects are lost as a consequence. Remittances remained still stable (around 5.2% of GDP) despite the economic crisis. The capital account balance decreased by 300% to reach 1.3% of GDP. The financial account deficit improved by 65% and amounted to -2.5% of GDP. FDI fell slightly to reach 9.4% of GDP and the overall balance decreased by 71% but remained positive at 2% of GDP.

In 2009 the current account is expected to remain in surplus, but not to the extent seen in previous years owing mainly to commodity prices returning to historically average levels.

Table 29

SURINAME: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
Output growth rates (Percentage)							
GDP	1.9	6.1	7.7	5.6	5.8	5.3	5.2
GDP per capita	1.2	5.4	7.0	4.3	....	....	.....
Agriculture	-3.8	3.6	1.0	-4.8	5.0	5.8	-1.7
Mining	-8.3	0.3	30.2	14.9	3.5	10.4	12.6
Manufacturing	-3.7	5.5	10.8	10.3	1.7	-4.4	-4.9
Electricity, gas and water	11.6	-1.3	10.1	3.1	8.8	6.2	6.4
Construction	0.6	17.0	10.1	8.7	5.0	15.4	15.7
Transport, storage and communications	12.3	3.0	7.7	7.8	-3.4	4.5	8.5
Wholesale and retail commerce, restaurants and hotels	8.5	32.0	6.0	8.0	15.4	14.8	11.8
Finance, insurance and real state	3.3	2.5	5.4	4.2	1.8	1.5	1.6
Community, social and personal services	1.1	0.2	0.7	4.7	4.0	0.7	0.3
Prices and unemployment (Percentage)							
Inflation (year end)	28.4	13.8	8.4	15.8	4.8	8.3	9.4
Lending interest rate[a]	22.2	21.0	20.4	18.1	15.6	13.3	12.0
Deposit interest rate[a]	9.0	8.3	8.3	8.0	6.6	6.4	6.3
Unemployment rate	10.0	7.0	8.4	11.2	12.1	…	…
Central Government operations (Percentage of GDP)							
Total revenue	18.8	23.8	27.3	31.8	37.3	40.6	34.8
Current revenue	18.0	22.6	25.9	29.8	33.9	39.6	31.1
Tax revenue	14.9	19.0	21.2	23.7	26.7	31.6	25.2
Capital revenue	9.1	9.2	10.3	11.4	..	…	…
Total Expenditure	21.9	23.1	28.1	32.5	35.7	37.4	32.7
Current expenditure	19.8	20.6	24.3	27.1	29.1	32.3	25.6
Interest payments	1.6	1.7	1.6	2.1	2.2	1.9	0.9
Capital expenditure	2.0	2.3	3.7	5.4	6.6	5.1	7.1
Primary balance	-1.5	2.3	0.8	1.4	3.8	5.2	3.0
Global Balance	-3.1	0.6	-0.8	-0.7	1.7	3.2	2.1
Public debt	48.7	42.5	41.5	38.9	24.9	28.5	
External	34.9	30.3	26.3	23.3	23.2	12.0	
Domestic	13.9	12.1	15.2	15.4	12.9	16.6	12.7
Balance of payments (Millions of US$)							
Current account balance	-60.1	-140.9	-136.9	-143.6	114.6	326	360
Trade balance	52.5	-30.2	42.1	22.4	161.0	314	378
Exports	529.3	638.5	782.2	1,211.5	1,174.4	1359	1722
Imports	-476.8	-668.7	-740.1	-1,189.1	-1,013.4	-1045	-1344
Services balance	-127.6	-132.6	-129.7	-147.7	-30.7	-72	-127
Income balance	-43.6	-49.1	-160.7	-40.4	-51.6	8	21
Transfers balance	58.6	71.0	64.3	22.1	35.9	76	87
Financial account balance[c]	61.9	140.3	174.9	94.9	-20.7	-148	-308
FDI	-73.6	-76.1	-37.3	27.9	-163.4	-247	-234
Financial capital[c]	135.5	216.4	212.2	67.0	142.7	99	-74
Overall balance	1.8	-0.6	38.0	24.1	93.6	177	52

Table 28 (continued)

	2002	2003	2004	2005	2006	2007	2008
	Monetary indicators (Percentage of GDP)						
Domestic credit	18.6	21.9	24.2	23.2	21.6	21.7	24.1
To the public sector	7.4	6.5	10.3	9.1	6.9	4.2	0.2
To the private sector	11.2	17.4	19.0	19.6	20.9	26.4	32.9
Liquidity (M3)	32.9	42.1	48.7	44.7	46.0	54.9	57.1
Currency and domestic currency deposits (M2)	20.0	22.2	24.8	23.4	24.0	28.6	30.7
Foreign currency deposits	13.0	19.9	23.9	21.3	22.0	26.3	26.4
	Memorandum items (current prices)						
GDP (Millions of SRD$)	…	3314	4037	4875	5862	6299	6799
GDP (Millions of US$)	…	…	…	1776	2135	2295	2477
GDP per capita (US$)	…	…	…	…	…	…	…

Source: ECLAC on the basis of official data.
[a] Simple average.
[b] Includes capital account balance and errors and omissions.
p = preliminary figures.
.. = not available.

H. TRINIDAD AND TOBAGO

1. General trends

The world financial and economic crisis severely impacted Trinidad and Tobago, mainly through the collapse of oil and gas prices after record highs observed during the first seven months of 2008. In this context, GDP growth posted a rate of 3.5%, two percentage points lower than in 2007. On the economic policy side, the Central Government recorded a fiscal surplus of 6.5% in fiscal year 2007/2008 (1.7% in FY 2006/07) due to higher than expected revenue from the energy sector. Monetary policy continued to be focused on the absorption of excess liquidity generated by expansionary fiscal spending. The nominal exchange rate remained fairly stable in the context of a quasi-fixed exchange rate regime, but the tendency towards a real appreciation continued. Meanwhile, headline inflation posted a rate of 14.5% at the end of 2008 driven by food inflation that recorded a high 30.6%. The current account surplus increased from 24.6% of GDP in 2007, to 27.8% in 2008 mainly explained by the expansion of energy exports, whereas the capital and financial account deficit (including errors and omissions) remained at around 16-17% of GDP.

As the global economic crisis is expected to extend to the whole year, in 2009 the economic conditions in the country would deteriorate further, with GDP growth rate standing at 0-1%, as international energy prices would continue to remain at the low levels observed during the first half of the year. Nevertheless, Trinidad and Tobago is in a better situation that most countries in the region to cope with the crisis, as at the end of 2008 it had a strong gross international reserves position (US$ 9.4 billion) and some 12% of GDP accumulated in the Heritage and Stabilisation Fund. Economic policy would continue to be guided by the "Vision 2020" national development plan, so no major changes are expected in this regard. Looking ahead, the main challenge of Trinidad and Tobago would continue to be the reduction of its dependency on the energy sector that accounts for nearly half of output, more than 55% of fiscal revenue and above 85% of merchandise exports.

2. Economic policy

(a) Fiscal policy

During the first seven months of 2008, high international energy prices helped to foster fiscal revenue. Indeed, initially the budget for FY 2007/2008 was based on the assumption of an average oil price of US$ 50 per barrel, but it turned out to be US$ 93.15. This price differential caused an excess of revenue of some TT$ 8 billion as compared to budget projections, which drove the energy sector revenue from 16.7% of GDP in FY 2006/2007 to 21.2% in 2007/2008. There were no dramatic changes on the part of public spending, with current spending totaling 23.6% of GDP in FY 2007/2008 (22.4% in FY 2006/2007), whereas capital expenditure amounting to 6.6% of GDP in FY 2007/2008 (5.9% in FY 2006/2007). In this context, the Central Government surplus increased from 1.7% of GDP in FY 2006/2007 to 6.5% in FY 2007/2008. It is worth noting that despite this solid overall fiscal surplus, the overall non-energy balance recorded a deficit of 14.7% of GDP in FY 2007/2008.

Moreover, the high volatility and uncertainty regarding the evolution of energy prices make the elaboration of the budget very difficult in Trinidad and Tobago. Indeed, the initial projections for FY 2008/2009 were made assuming and average oil price of US$ 70 per barrel which would have resulted in a small overall surplus. However, the decline in energy prices prompted by the world economic crisis forced a first revision in November 2008 based on the assumption of an average oil price of US$ 55 per barrel, which resulted in a projected deficit of TT$ 741.9 million (0.4% of GDP), including cuts in spending. Finally, in early 2009 an additional revision was made, based on an average oil price of US$ 45 per barrel and further cuts in expenditure. This version of the budget now projects an overall fiscal deficit of TT$ 1,864 million (1.1% of GDP) in FY 2008/2009 (non-energy fiscal deficit of 10.2%).

But as the economic situation has continued to deteriorate, even this last revision seems to have fallen short. Indeed, during October 2008-February 2009[21] the overall fiscal deficit amounted to TT$ 2,957.3 million or 1.8% of GDP. This contrasted with the surplus of 0.4% of GDP recorded during the same period in FY 2007/2008. But the most interesting issue is that this 2.2 percentage points of GDP difference is totally explained by an increase in outlays, that grew by a significant 24.9% (revenue marginally declined by 0.1%), led by an impressive expansion of 64.4% of transfers and subsidies. The latter is evidence of the efforts being made by the Government to ameliorate the social impact of the global turmoil. Thus, if this trend continues over the remainder of the fiscal year and considering that there is some 12% of GDP accumulated in the Heritage and Stabilisation Fund, the overall fiscal deficit could be above 3% of GDP.

On the upside, unlike most Caribbean countries, public debt burden is not a problem, as it stood at 15.6% of GDP in 2008, of which almost one third was external and the remainder domestic.

(b) Monetary and exchange rate policy

During 2008, the main challenge confronted by the Central Bank continued to be high inflationary pressures in the context of high liquidity levels in the financial sector fostered by fiscal injections. The main monetary policy weapons used were liquidity absorption measures and increases in the reference interest rate (repo).

In the period between October 2007 and March 2008, net fiscal injections amounted to TT$ 7,855.9 million, that were partially absorbed by a combination of open market operations (TT$ 3,757.4 million) and sales of foreign exchange by the Central Bank (TT$ 3,434.9 million). The same policy mix was used during October 2008-March 2009, when net fiscal injections totaled TT$ 9,752.4 million. In this case, open market operations absorbed TT$ 500 million through a 91-day Central Bank bill issued in November 2008, whereas sales of foreign exchange reached TT$ 4,354.8 million. In addition, in order to absorb the liquidity arising from the sale of RBTT[22], in July 2008 a special liquidity Government absorption bond of TT$ 1,200 million with a maturity of nine years at a coupon rate of 8.25% was issued, the proceeds of which were sterilized by the Central Bank. On the other hand, the cash requirement ratio applicable to commercial banks was raised by 6 percentage points to 17% between February and November 2008, helping to withdraw TT$ 2,154 million from the banking system. Finally, as regards the repo rate, during 2008 it was raised three times by 25 basis points each in February, July and September to 8.75%.

[21] The fiscal year runs from October to September.
[22] RBTT is the second largest commercial bank in Trinidad and Tobago.

Consistent with excess liquidity in the financial system, during 2008 monetary aggregates exhibited rapid growth. Thus, M1 – which is referred to as M1A by the Central Bank – expanded on average by 17.8% monthly in 2008 year on year, much higher than the 7.6% recorded in 2007. This is explained by the significant dynamism of demand deposits as the growth of currency in active circulation remained fairly at the same level recorded in 2007. On the other hand, in 2008 M2 posted an average rate of monthly growth of 17.4% year-on-year, 3.1 percentage points higher than in 2007 (13.3%). On the contrary, growth of domestic credit to the private sector slowed down from 14.9% in 2007 to 10.4% in 2008, revealing a more prudent stance on the part of domestic financial institutions in the context of increased uncertainty brought about by the deterioration of conditions in the world economy.

In 2009 the Central Bank confronts the challenge of reducing two-digit inflation while at the same time moderates economic slowdown and increases in the unemployment rate. To this end, the repo rate was reduced to 8.5% in March 2009, to 8% in April, and to 7.5% in June, while at the same time issuing a 15-year bond by the Government which raised TT$ 1.5 billion. As domestic consumer demand slows down and the cooling down of the economy becomes more acute, it is expected that the Central Bank will gradually shift its focus on stimulating domestic demand rather than combating inflation.

Finally, the quasi-fixed exchange rate regime remained unchanged, in a context of high foreign exchange inflows due to a combination of high energy prices in January-July 2007 and the injection of foreign exchange by the Royal Bank of Canada to facilitate the purchase of RBTT. However, the high inflation rate differential between Trinidad and Tobago and the United States implied a sustained appreciation of the bilateral real exchange rate of around 30% between 2000 and 2008. This presents another policy challenge to the country, as it is hard to believe that new activities, firms and sectors will emerge to reduce the dependency on the energy sector in such a context. Even the Central Bank acknowledges that speculation about a possible depreciation of the domestic currency vis-à-vis the United States dollar was in place during the first quarter of 2009 due to the tight conditions prevalent in the foreign exchange market brought about by the decline of foreign currency inflows associated with the global economic crisis and the collapse of energy international prices.[23]

(c) Financial sector policy

In December 2008 a new Financial Institutions Act was approved. This new piece of legislation institutes consolidated supervision aimed at identifying and evaluating risks and contagion threats, addressing related-party lending, upgrading governance structures (i.e. requiring a more independent board of directors and an independent audit committee) and giving more authority to the Central Bank to take early corrective and preventive action to protect depositors.

Paradoxically, in late January 2009 the Government and the Central Bank announced the bailout of CLICO[24] Investment Bank (CIB) – owned by CL Financial Ltd., a major conglomerate with interest in many sectors and activities in a large number of countries, especially in the Caribbean – in order to maintain the stability of the financial sector, prevent contagion on other financial institutions and protect depositors' funds. According to the Central Bank, this was prompted mainly by three issues. First, excessive related-party transactions, which carry significant contagion risk. Second, the aggressive high interest rate

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[23] Monetary Policy Report, April 2009, p.41.
[24] Colonial Life Insurance Company.

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 assets sales.

In this scenario, the rescue's plan main features are:

(a) The Central Bank will take control of CIB;

(b) All third-party assets and liabilities of CIB and the Caribbean Money Market Brokers (CMMB), another related institution will be transferred to the First Citizen's Bank (a state-owned commercial bank) and the liabilities will be matched by resources from CIB's holdings of certain high quality assets with the Central Bank providing short-term liquidity as necessary, to ensure these liabilities are serviced;

(c) After this process in concluded, CIB's banking license will be revoked;

(d) CL Financial Ltd. will provide additional resources to help fund the sizeable deficit in CLICO's Statutory Fund and the Government will provide any additional funding needed by CLICO;

(e) Government's funding will be provided in exchange for collateral and equity from CLICO. It will also act as a catalyst for implementing a change in the business model and corporate governance structure of CLICO, the purpose being to return CLICO to its original moorings;

(f) CLICO will divest its 55% share holding in Republic Bank Ltd. and shares in Methanol Holdings Trinidad;

(g) The total cost of the bailout will be at least estimated at TT$16.7 billion (4.2% of GDP); and

(h) In a bid to avert a financial crisis and prevent a run on CL Financial Ltd. institutions, the Government will also take over British American Insurance (BAI), another institution of the conglomerate.

In the aftermath of the bailout of CLICO, a series of new bills have been introduced in parliament aiming at improving regulation and supervision of the financial sector. These include a Securities Industry Act and money-laundering legislation. In the coming months legislation governing pension funds, insurance companies and credit unions are expected to be introduced.

(d) Regional integration policies

In August 2008 the country signed a Memorandum of Understanding with Grenada, Saint Lucia, and Saint Vincent and the Grenadines agreeing in principle to an economic union by 2011 and a political union by 2013. In addition, in 2009 the EPA between CARIFORUM (CARICOM plus the Dominican Republic) and the EU will start the implementation phase. The EPA demands certain reciprocity in the preferential access of

Caribbean countries to the EU market. Both agreements posit challenges and opportunities that Trinidad and Tobago will have to deal with.

3. The main variables

(a) Economic activity

Economic growth posted a rate of 3.5%, two percentage points lower than in 2007, due to an almost stagnant energy sector, that grew by a mere 0.4% (1.7% in 2007). The poor performance of this sector was explained by a combination of lower oil production and stagnant petrochemical output. The non-energy sector also recorded a marked slow down from 7.7% in 2007 to 4.8% in 2008. The sharpest slow down within this sector was recorded by manufacturing, whose growth rate declined to 4.2% in 2008 from an impressive 14.9% posted in 2007.

It is worth noting that economic output lost momentum hand in hand with the emergence and the intensification of the global economic turmoil. Indeed, overall output declined by 2% during the last quarter of 2008 (year-on-year) after having expanded during the first three quarters at rates ranging from 2.4% and 3.8%. The drop in petrochemicals production during October-December 2008 was as high as 14.4%. Therefore, in the context of an intensification of the international crisis, GDP growth is expected to stand between 0% and 1% in 2009, with the non-energy sector continuing to exhibit a better performance than the energy one. The deterioration of the external conditions would imply that the policy mix implemented by Trinidad and Tobago during the boom years of increasing and high energy prices in 2003-2007 would have to be switched, as monetary policy would increasingly be focused on boosting domestic demand in a context where fiscal policy would no longer have the resources needed to implement aggressive increases in public spending.

On the demand side, in 2008 growth was led by Government consumption that posted an expansion rate of 8.1% (7.4% in 2007), followed by private consumption, that grew by 5.8% (6.3% in 2007). Exports growth was slower due to a decline in oil production, thus it increased by 4.8%, down from the 6.2% posted in 2007. The slow down of investment was significant, as it exhibited a growth rate of 3.5%, less than half of the 8.9% registered in 2007. This reflects a combination of a reduction in public and private investment that was particularly dynamic in 2007 due to a number of major projects. Finally, the dependence on imported food led to the increase of 8.7% in imports recorded in 2008, slightly lower than in 2007 (8.9%).

(b) Prices, wages and employment

The inflation rate gain momentum in 2008 posting a headline rate of 14.45% in December year on year, near twice as high as the one observed in December 2007 (7.62%). As usual, the main driver was food inflation that reached a high 30.61% at the end of 2008, again almost doubling its level at the end of 2007 (16.76%). Undoubtedly, rising world food prices exerted a significant impact on domestic food inflation, particularly during the first half of the year. Indeed, higher prices of imported grain (particularly wheat, whose consumption is intense but is not produced in Trinidad and Tobago)[25] led the National Flour Mills to raise the domestic price of flour in February, April and July 2008. As a consequence,

[25] This also applies to the other Caribbean countries.

the bread and cereals category price of the Food component of the Retail Price Index[26] rose from 14.1% in January 2008 to 63.2% in September. This process was aggravated by the closing of the second mill. The substantive decline in international food prices since the third quarter of 2008 has not being transferred to domestic prices. For instance, while headline inflation posted a rate of 10.3% in May 2009 year-on-year, food inflation stood at 19.6%. This signals a very important problem, because it is not only that domestic prices have not declined in tandem with international prices, they have kept increasing at high rates. The social implications of this phenomenon are obvious. Perhaps part of the explanation lies on monopolistic or oligopolistic behaviour on the part of importers, distributors, and retailers. Nevertheless, weaker consumer demand would gradually drive the inflation rate downwards in 2009, ending in the one-digit region.

On the other hand, despite the slow down in economic growth recorded in 2008 relative to 2007, during January-September 2008 the unemployment rate averaged 4.9%, one percentage point lower than during the same period of 2007. This means that although 5,000 people joined the labour force, some 11.3 persons found a job. The process was led by the construction sector that created 7.1 additional jobs during the first quarter of 2008, followed by the services sector (3,100). It is worth noting that the energy sector lost 2,200 jobs in the same period, the highest figure recorded. Notwithstanding, in recent months the labour market is showing signs of weakening, with the leaders in job losses being energy services (around 1,000 jobs in 2008-2009), the Trinidad and Tobago Contractors Association (2,000 jobs lost in January-March 2009), and Home Construction Limited (2,500 jobs in August 2008-January 2009). Evidently, the pessimistic forecast for output performance in 2009 would adversely impact the labour market.

(c) The external sector

The continuous hike in energy prices during most of the year more than offset the decline of energy production. This determined that in 2008 the current account surplus stood at 27.8% of GDP, 3.2 percentage points more than in 2007. Meanwhile, the trade surplus stood at 28.6% of GDP (26.2% in 2007), fuelled by the hike in energy exports from US$ 11.5 to US$ 14.6 billion, an increase of 27%. Non-energy exports also grew importantly (22%) to US$ 9.4 billion. In the case of merchandise imports, they increased by 30% in 2008 relative to 2007. The current account surplus was partly counterbalanced by a capital and financial account deficit (including errors and omissions) of 16.5% of GDP in 2008 (17.5% in 2007).[27] Overall, the balance of payments surplus increased from 8.8% of GDP in 2007 to 11.1% in 2008. This resulted in an accumulation of gross international reserves from US$ 6.7 billion in 2007 to US$ 9.4 billion in 2008. Evidently, given the evolution of international energy prices, the current account is expected to decline during 2009, but would remain significant, anyhow.

[26] This is the name of the Consumer Price Index.
[27] Foreign Direct Investment (FDI) represented 6.2% of GDP in 2008, up from the 4% posted in 2007.

Table 29
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS, 2002-2008

	2002	2003	2004	2005	2006	2007	2008p
			Output growth rates (Percentage)				
GDP	7.9	14.4	8.0	5.4	13.3	5.5	3.5
GDP per capita	7.6	14.0	7.6	5.0	11.9	5.1	3.1
Agriculture	8.7	-15.3	-34.2	-5.5	-10.1	2.6	8.7
Oil	13.5	31.4	8.2	8.3	21.8	1.7	0.4
Manufacturing	3.8	12.2	8.1	13.5	12.4	15.0	4.2
Electricity and water	8.7	5.3	3.2	6.2	-0.4	6.6	1.4
Construction	-5.1	23.4	8.1	16.1	6.2	6.6	3.4
Transport, storage and real state	9.6	5.4	-0.8	-2.4	9.5	11.1	8.2
Distribution	1.4	2.0	3.2	4.5	21.2	10.3	2.3
Finance, insurance and real state	11.5	7.3	21.7	-2.4	1.6	10.9	8.9
Government	3.7	-1.0	0.6	1.9	-1.5	3.2	..
Other services[a]	4.3	2.8	-54.8	-0.2	4.8	-1.3	-0.2
			Prices and unemployment (Percentage)				
Inflation (year end)	4.3	3.0	5.6	7.2	9.6	7.6	14.5
Lending interest rate[b]	13.4	11.0	9.4	9.1	10.2	10.6	11.1
Deposit interest rate[b]	3.5	2.9	2.4	2.4	2.4	2.7	2.9
Unemployment rate	10.4	10.5	8.4	8.0	6.2	5.5	4.9
			Central Government operations (Percentage of GDP)				
Total revenue	24.6	23.7	25.8	31.2	32.3	30.0	36.8
Current revenue	24.6	23.7	25.8	31.2	32.3	30.0	36.8
Tax revenue[c]	15.8	13.5	14.7	14.5	12.8	13.0	14.8
Capital revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	25.3	22.3	24.0	25.9	25.9	28.3	30.3
Current expenditure	24.1	21.2	21.9	23.0	22.1	22.4	23.6
Interest payments	4.3	3.5	3.0	2.7	2.0	2.0	2.0
Capital expenditure	1.2	1.1	2.0	2.9	3.8	5.9	6.6
Global balance	-0.6	1.4	1.9	5.3	6.9	1.7	6.5
Primary balance	3.7	4.9	4.9	7.9	8.9	3.7	8.5
Public debt	35.8	29.4	24.6	21.4	17.2	17.1	15.5
External	16.7	13.7	10.4	8.8	6.6	6.3	5.8
Domestic	19.1	15.7	14.2	12.7	10.6	11.0	9.7
			Balance of payments (Millions of US$)				
Current account balance	76.4	984.7	1,647.1	3,594.0	7,271.0	5,364.0	6725.0
Trade balance	237.7	1,293.2	1,508.7	3,947.7	7,700.0	5,721.0	6956.0
Exports	3,920.0	5,204.9	6,402.9	9,672.3	14,217.0	13,391.0	16,929.0
Imports	3,682.3	3,911.7	4,894.2	5,724.6	6,517.0	7,670.0	9,973.0
Services balance	264.0	313.8	479.5	356.2	451.0	546.0	614.0
Income balance	-479.8	-680.9	-397.3	-760.0	-935.8	-963.7	-897.0
Transfers balance	54.5	58.6	56.2	50.1	55.0	60.0	51.0
Financial account balance[d]	39.3	-650.5	-912.1	-2,118.0	-6,152.0	-3,823.0	-4,019.0
FDI	684.3	583.1	972.7	598.7	512.7	830.0	1,508.0
Financial capital[d]	-645	-1,233.6	-1884.8	-2,717.0	-6,664.0	-4,653.0	-5,527.0
Overall balance	115.7	334.2	735.0	1,476.0	1,119.0	1,925.0	2,706.0

Table 29 (continued)

	2002	2003	2004	2005	2006	2007	2008p
	Monetary indicators (Percentage of GDP)						
Domestic credit	26.6	21.6	18.5	14.8	7.8	12.9	10.8
To the public sector	-2.0	-2.5	-7.0	-10.0	-17.0	-13.0	-17.5
To de private sector	28.6	24.0	25.6	24.8	24.8	25.9	28.3
Liquidity (M3)	39.6	32.7	32.1	32.6	33.0	38.4	38.3
Currency and domestic currency deposits (M2)	30.0	25.3	23.8	24.6	25.6	33.8	27.7
Foreign currency Deposits	9.7	7.4	8.3	8.0	7.4	4.6	10.6
	Memorandum items (current prices)						
GDP (Millions of TT$)	56,290	71,169	83,653	100,386	122,108	137,427	152,155
GDP (Millions of US$)	9,008	11,363	13,339	16,021	19,441	21,813	24,314
GDP per capita (US$)	6,876	8,863	10,332	12,381	14,978	16,740	18,660

Source: ECLAC on the basis of official data.
p = Preliminary
.. = not available.
[a] Includes hotels and guest houses, education and community services and personal services.
[b] Weighted average.
[c] Refers to tax revenue of the non-oil sector.
[d] Includes capital account balance and errors and omissions.

Annex

TABLE A-1
ANTIGUA AND BARBUDA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007r/	2008a/
	Annual percentage change						
Gross domestic product b/	2.0	4.3	5.2	5.5	12.4	6.9	2.8
Per capita gross domestic product	1.7	3.5	4.5	5.5	12.8	10.4	6.1
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	1.0	2.5	2.6	3.0	2.9	3.3	2.7
Mining	2.0	5.5	-12.5	26.8	45.0	24.2	5.0
Manufacturing	3.2	7.9	-4.0	3.8	8.6	8.5	3.0
Electricity, gas and water	4.1	-2.7	6.4	6.4	5.0	10.5	5.6
Construction	3.5	6.7	2.5	19.5	35.0	6.0	5.0
Wholesale and retail commerce, restaurants and hotels	0.0	7.4	5.2	0.9	6.0	7.2	3.1
Transport, storage and communications	-1.4	7.8	9.0	2.2	9.5	9.7	0.9
Financial institutions, insurance, real estate and business services	8.0	-0.1	7.7	7.2	6.8	12.5	2.6
Community, social and personal services	5.1	2.7	4.1	1.2	7.8	3.6	2.5
Balance of payments	**Millions of US dollars**						
Current account balance	-109	-102	-96	-171	-309	-379	-384
Merchandise trade balance	-296	-308	-345	-373	-486	-573	-586
Exports, f.o.b.	45	45	57	82	74	76	76
Imports, f.o.b.	-341	-353	-402	-455	-560	-649	-662
Services trade balance	223	231	286	236	219	234	230
Income balance	-37	-39	-68	-59	-65	-65	-51
Net current transfers	6	14	8	8	22	24	23
Capital and financial balance c/	117	128	121	190	311	383	379
Net foreign direct investment	66	166	80	214	375	356	253
Financial capital d/	51	-38	40	-24	-64	27	126
Overall balance	8	26	6	7	15	1	-7
Variation in reserve assets e/	-8	-26	-6	-7	-15	-1	7
Prices	**Percentage**						
Variation in consumer prices (December-December)	2.5	1.8	2.8	2.5	0.0	5.2	2.3
Nominal deposit rate f/	5.8	4.8	3.7	4.0	3.5	3.3	3.3
Nominal lending rate g/	11.0	13.4	11.3	11.1	10.4	10.4	10.1

Table A-1 (continued)

	2002	2003	2004	2005	2006	2007r/	2008a/
				Percentage of GDP			
Central government							
Total income h/	21.8	21.5	24.7	46.1	25.2	24.1	23.0
Current income	18.9	20.1	20.8	21.5	21.1	22.2	23.2
Tax income	18.1	18.8	19.4	19.4	21.0	22.2	20.9
Capital income	0.2	0.1	1.0	0.8	0.2	0.2	0.2
Total expenditure	33.6	27.7	27.7	28.0	33.1	29.6	31.5
Current expenditure	28.4	24.5	25.1	24.0	25.3	24.0	26.0
Interest	4.9	3.8	5.0	3.8	3.6	3.4	3.1
Capital expenditure (net) i/	5.2	3.2	2.5	4.0	7.9	6.4	5.4
Primary balance	-6.9	-2.4	2.0	21.8	-4.3	-3.0	-5.4
Overall balance j/	-11.8	-6.2	-3.0	18.0	-7.9	-6.4	-8.5
Gross public debt	131.7	145.2	148.4	120.0	104.8	90.9	88.0
Money and credit							
Domestic credit	81.5	83.1	76.7	78.4	74.9	75.9	82.7
To the public sector	4.1	6.2	4.8	3.5	-1.2	0.7	5.3
To the private sector	77.4	76.9	71.9	74.9	76.0	75.2	77.4
Broad money (M3)	86.7	101.4	98.7	100.1	96.2	93.6	90.2
Currency in circulation and local-currency deposits (M2)	4.6	4.9	5.2	5.2	5.3	4.3	4.3
Foreign currency deposits	7.6	9.0	7.8	8.3	8.7	10.9	8.1
				Memo Items (current Prices)			
GDP (Millions of EC dollars) r/	1,926	2,033	2,200	2,345	2,709	3,118	3,306
GDP (Millions of US dollars) r/	713	753	815	868	1,003	1,155	1,224
GDP per capita (Millions of US dollars)	7811.8	8024	8,387	8,853	9,989	11,032	11,708

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

a/ Preliminary figures.

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

c/ Includes errors and omissions.

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

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

f and g / Weighted average

h/ Includes grants

i/ Includes net lending

j/ After grants

r/ revised

TABLE A-2
DOMINICA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007r/	2008a/
			Annual percentage change				
Gross domestic product b/	-5.1	0.1	3.1	3.3	3.7	1.8	3.2
Per capita gross domestic product	-5.2	-0.1	4.3	4.5	4.2	4.2	5.5
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	-0.7	-3.4	3.5	-0.6	2.5	-5.2	5.4
Mining	-25.5	11.5	4.0	3.5	8.4	12.0	15.1
Manufacturing	-2.3	0.9	2.8	0.4	0.5	-3.8	-31.3
Electricity, gas and water	0.6	-1.9	5.2	6.4	3.4	1.3	4.3
Construction	-25.6	11.4	3.3	3.5	8.5	12.1	15.0
Wholesale and retail commerce, restaurants and hotels	-4.9	2.4	4.6	9.4	2.1	-0.1	10.0
Transport, storage and communications	-6.9	-12.4	6.9	2.9	8.9	0.7	2.7
Financial institutions, insurance, real estate and business services	-4.2	3.3	4.4	4.7	8.0	4.4	3.1
Community, social and personal services	3.5	-2.0	-0.5	2.2	-0.6	2.2	1.9
Balance of payments			**Millions of US Dollars**				
Current account balance	-45	-42	-59	-78	-52	-85	-112
Merchandise trade balance	-59	-64	-84	-103	-103	-133	-161
Exports, f.o.b.	44	41	43	43	44	39	36
Imports, f.o.b.	-102	-105	-127	-145	-147	-172	-197
Services trade balance	26	34	41	34	48	43	46
Income balance	31	29	42	40	-17	-16	-18
Net current transfers	14	13	17	20	20	21	21
Capital and financial balance c/	38	56	39	78	56	71	111
Net foreign direct investment	18	31	26	33	27	53	52
Financial capital d/	20	24	13	46	29	18	59
Overall balance	13	3	-6	14	13	-1	-3
Variation in reserve assets e/	-13	-3	6	-14	-13	1	3
Prices			**Percentage**				
Variation in consumer prices (December-December)	-1.2	2.8	0.8	2.7	1.8	6.0	2.0
Nominal deposit rate f/	4.3	3.5	3.0	3.0	3.4	3.2	3.2
Nominal lending rate g/	9.8	11.8	9.8	9.9	9.2	9.2	8.9

Table A-2 (continued)

	2002	2003	2004	2005	2006	2007r/	2008a/
				Percentage of GDP			
Central governmnt							
Total income h/	30.3	33.7	39.1	38.8	39.3	42.2	47.6
Current income	28.0	28.8	30.5	31.6	31.4	33.9	34.3
Tax income	23.5	25.3	26.6	37.0	28.9	31.0	31.2
Capital income	0.3	0.2	0.3	2.1	0.1	0.1	0.0
Total expenditure	35.5	38.1	40.5	36.1	38.0	41.2	46.8
Current expenditure	30.2	32.6	30.3	29.4	28.6	29.0	31.0
Interest	5.8	6.3	5.4	3.2	4.0	3.0	3.4
Capital expenditure i/	5.3	5.5	10.3	6.7	9.4	12.2	15.8
Primary balance	0.7	1.9	4.0	5.8	5.4	4.0	4.3
Overall balance j/	5.8	5.8	10.7	7.2	9.8	12.3	15.9
Total public debt	127.1	126.8	113.1	117.7	111.1	101.4	93.2
Money and credit							
Domestic credit	72.7	63.4	58.4	57.2	50.7	47.6	47.9
To the public sector	8.8	3.3	-1.1	-2.9	-12.2	-13.8	-14.3
To the private sector	63.9	60.2	59.5	60.1	62.9	61.4	62.2
Other public sector	1.4	-0.7	-2.9	-5.0	-6.8	-8.0	-8.4
Broad money (M3)	87.7	90.8	87.7	86.7	89.9	91.8	89.5
Currency in circulation and local-currency deposits (M2)	65.6	65.9	65.7	63.9	68.0	69.3	69.3
Foreign currency deposits	3.2	6.1	3.7	1.4	1.4	1.1	1.6
					Memo Items (current Prices)		
GDP (Millions of EC dollars) r/	688	710	770	808	856	921	984
GDP (Millions of US dollars) r/	255	263	285	299	317	341	364
GDP per capita (Millions of US dollars)	3051	3083	3216	3360	3500	3646	3846

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

a/ Preliminary figures.

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

c/ Includes errors and omissions.

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

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

f and g / Weighted average

h/ Includes grants

i/ Includes net lending

j/ After grants

r/ revised

TABLE A-3
GRENADA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008a
			Annual percentage change				
Gross domestic product b/	1.6	7.1	-5.7	11.0	-2.3	4.5	0.3
Per capita gross domestic product	0.4	7.4	-2.6	16.1	0.8	7.3	3.9
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	20.3	2.0	-7.5	-41.2	23.8	4.8	11.9
Mining	-15.1	40.4	-15.3	9.0	40.8	0.1	-10.9
Manufacturing	-1.4	-2.5	-16.3	16.9	-2.6	2.2	-8.8
Electricity, gas and water	3.3	6.7	-7.9	4.7	13.0	8.6	5.2
Construction	1.0	26.0	5.7	83.1	-30.0	-11.2	-14.2
Wholesale and retail commerce, restaurants and hotels	2.6	10.1	-16.9	-0.9	5.9	2.5	-6.7
Transport, storage and communications	-5.1	4.7	-2.6	22.1	-5.7	4.3	1.5
Financial institutions, insurance, real estate and business services	4.8	6.3	-1.8	-1.9	3.2	2.1	3.5
Community, social and personal services	3.1	6.4	2.5	1.6	6.0	15.4	6.6
Balance of payments			Millions of US Dollars				
Current account balance	-126	-144	-34	-186	-193	-261	-289
Merchandise trade balance	-99	-130	-105	-240	-200	-251	-279
Exports, f.o.b.	41	46	33	33	31	41	31
Imports, f.o.b.	181	226	205	296	263	328	343
Services trade balance	41	51	68	21	32	37	34
Income balance	-48	-50	-50	-28	-29	-34	-36
Net current transfers	22	36	121	82	36	24	25
Capital and financial balance c/	132	133	101	159	198	254	267
Net foreign direct investment	55	89	65	70	85	174	161
Financial capital d/	77	44	36	89	113	80	106
Overall balance	31	-17	46	-27	6	11	-6
Variation in reserve assets e/	-31	13	-46	27	-6	-11	6
Prices			Percentage				
Variation in consumer prices (December-December)	-0.4	1.1	2.5	6.2	1.7	7.4	5.2
Nominal deposit rate f/	4.7	3.7	3.0	2.6	3.0	3.0	3.2
Nominal lending rate g/	9.8	12.1	10.7	10.0	9.7	9.6	9.2

Table A-3 (continued)

	2002	2003	2004	2005	2006	2007	2008a
			Percentage of GDP				
Central government							
Total income h/	27.0	29.5	31.0	34.8	32.2	27.3	29.9
Current income	24.8	25.0	23.7	24.1	25.3	26.1	26.9
Tax income	22.2	23.0	22.1	23.0	23.6	24.5	25.2
Capital income	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Total expenditure	44.7	34.0	33.6	31.1	38.6	34.0	36.4
Current expenditure	24.0	22.0	25.3	20.1	20.8	21.1	24.0
Interest	4.4	4.9	5.7	1.9	1.9	2.0	2.0
Capital expenditure (net) i/	20.7	12.0	8.3	10.9	17.8	12.9	12.4
Primary balance	-13.3	0.4	3.1	5.6	-4.5	-4.6	-4.4
Overall balance j/	-17.7	-4.5	-2.6	3.7	-6.4	-6.6	-6.5
Gross public debt	104.7	101.5	120.6	109.5	112.4	107.9	106.4
Money and credit							
Domestic credit	83.9	81.0	79.7	72.4	79.2	86.1	92.9
To the public sector	3.3	5.0	-1.5	-2.1	-2.4	-0.8	0.3
To the private sector	80.6	75.9	81.2	74.5	81.6	86.8	92.6
Liquidity (M3)	104.2	101.7	125.6	101.4	99.6	102.7	101.7
Currency in circulation and local-currency deposits (M2)	97.5	94.2	118.4	94.3	94.3	94.8	94.4
Foreign currency deposits	6.8	7.4	7.2	7.1	5.3	7.8	7.3
			Memo Items (current Prices)				
GDP (Millions of EC dollars) r/	1180	1296	1266	1495	1524	1641	1724
GDP (Millions of US dollars) r/	437	480	469	554	564	608	639
GDP per capita (Millions of US dollars)	3218	3437	3688	4283	4316	4629	4813

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f and g / Weighted average
h/ Includes grants
i/ Includes net lending
j/ After grants
r/ revised

TABLE A-4
ST KITTS AND NEVIS: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005r	2006r	2007r/	2008a/
			Annual percentage change				
Gross domestic product b/	-0.3	-1.2	7.3	5.2	2.6	3.0	2.5
Per capita gross domestic product	-0.1	1.0	8.4	7.8	7.0	5.5	5.2
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	13.3	-12.4	11.7	-2.5	-19.9	8.3	-0.8
Mining	19.4	-46.3	9.9	4.0	7.7	6.2	39.9
Manufacturing	-4.0	-0.2	3.8	3.0	-6.3	1.9	-5.0
Electricity, gas and water	9.8	10.6	8.4	0.6	5.9	3.2	3.9
Construction	-5.6	-12.6	1.3	1.1	8.4	4.4	4.5
Wholesale and retail commerce, restaurants and hotels	-0.7	11.7	8.3	9.1	4.2	-3.2	-0.6
Transport, storage and communications	-0.7	-2.6	17.6	9.3	1.6	3.3	11.7
Financial institutions, insurance, real estate and business services	1.7	3.0	13.5	7.7	8.3	6.8	1.9
Community, social and personal services	3.4	0.8	2.8	4.1	5.0	5.2	3.3
Balance of payments			Millions of US Dollars				
Current account balance	-124	-116	-69	-65	-90	-110	-131
Merchandise trade balance	-113	-118	-102	-122	-161	-184	-213
Exports, f.o.b.	64	57	59	64	59	58	57
Imports, f.o.b.	178	176	-161	-185	-220	-242	-270
Services trade balance	11	28	54	68	72	72	61
Income balance	-38	-44	-42	-35	-32	-32	-11
Net current transfers	16	19	18	24	32	33	33
Capital and financial balance c/	134	115	81	44	103	118	143
Net foreign direct investment	80	76	46	93	110	158	88
Financial capital d/	53	39	34	-49	-8	-39	55
Overall balance	10	-1	14	-7	17	7	15
Variation in reserve assets e/	-9	1	-14	7	-17	-7	-15
Other financing	-1	0	0	0	0	0	0
Prices			Percentage				
Variation in consumer prices (December-December)	1.7	3.1	1.7	6.0	7.9	2.1	7.6
Nominal deposit rate f/	4.7	4.3	4.3	4.1	3.7	3.8	3.7
Nominal lending rate g/	10.6	9.8	9.4	9.7	9.4	9.0	8.6

Table A-4 (continued)

	2002	2003r	2004r	2005r	2006r	2007r	2008a
			Percentage of GDP				
Central government							
Total income h/	35.2	33.7	34.7	39.7	39.8	42.1	43.8
Current income	31.6	32.9	33.9	36.6	37.3	37.4	36.6
Tax income	22.4	23.9	26.1	29.0	28.4	28.9	28.5
Capital income	0.7	0.2	0.4	0.3	0.5	2.6	3.6
Total expenditure	51.8	41.9	42.6	43.8	42.1	44.4	43.4
Current expenditure	34.1	34.1	35.4	37.1	36.3	36.2	38.1
Interest	7.1	7.6	7.6	8.1	8.3	8.4	9.0
Capital expenditure i/	17.7	7.8	7.2	6.7	5.8	8.2	5.3
Primary balance	-9.5	-0.6	-0.4	4.0	6.0	6.0	9.4
Overall balance j/	-16.6	-8.2	-7.9	-4.1	-2.4	-2.4	0.4
Public sector debt	152.2	177.1	185.8	187.3	180.4	179.5	170.3
Money and credit							
Domestic credit	87.3	84.2	100.9	106.3	109.3	113.4	110.0
To the public sector	14.9	5.3	20.1	26.8	29.8	28.5	25.0
To the private sector	72.4	79.0	80.8	79.4	79.6	84.9	85.0
Liquidity (M3)	96.6	100.4	111.1	107.8	110.1	117.6	112.8
Currency in circulation and local-currency deposits (M2)	4.0	4.1	4.1	4.2	4.2	4.1	4.8
Foreign-currency deposits	25.3	27.4	29.5	29.0	31.8	33.0	27.2
				Memo Items (current Prices)			
GDP (Millions of EC dollars) r/	947	978	1079	1185	1319	1382	1463
GDP (Millions of US dollars) r/	351	362	400	439	489	512	542
GDP per capita (Millions of US dollars)	6283	6269	6804	7347	7862	8293	8726

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f and g / Weighted average
h/ Includes grants
i/ Includes net lending
j/ After grants
r/ revised

TABLE A-5
SAINT LUCIA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007r/	2008a/
			Annual percentage change				
Gross domestic product b/	0.6	3.5	3.8	4.6	4.9	1.7	2.0
Per capita gross domestic product	1.1	3.5	5.5	5.6	4.5	1.6	3.8
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	4.3	-15.7	-2.9	-24.9	10.0	0.8	18.9
Mining	1.9	0.2	-1.9	-3.8	19.8	13.1	-6.0
Manufacturing	5.5	4.4	-3.0	16.2	6.8	1.7	-3.3
Electricity, gas and water	-2.5	1.9	1.9	-13.4	-8.6	12.7	2.0
Construction	-4.8	1.6	1.0	12.5	13.2	-10.3	3.2
Wholesale and retail commerce	0.3	12.4	7.0	6.1	2.7	-1.5	-0.7
Transport and communications	1.7	4.3	6.1	4.1	5.8	3.1	2.2
Financial institutions, insurance, real estate and business services	1.8	2.7	4.0	7.1	11.7	8.5	5.2
Community, social and personal services	-0.7	-1.5	3.1	6.6	2.5	3.9	2.7
Balance of payments			Millions of US Dollars				
Current account balance	-105	-146	-87	-150	-303	-327	-272
Merchandise trade balance	-203	-283	-252	-329	-424	-441	-392
Exports, f.o.b.	69	72	96	89	97	101	186
Imports, f.o.b.	-272	-355	-348	-418	-521	-542	-578
Services trade balance	121	173	219	239	165	168	178
Income balance	-35	-50	-69	-73	-56	-68	-74
Net current transfers	12	13	14	13	12	14	14
Capital and financial balance c/	109	166	110	118	316	349	267
Net foreign direct investment	52	106	77	78	234	253	105
Financial capital d/	57	59	33	40	82	96	162
Overall balance	6	18	27	-15	13	19	-3
Variation in reserve assets e/	-6	-18	-27	15	-13	-19	3
Prices			Percentage				
Variation in consumer prices (December-December)	-0.7	0.5	3.5	5.2	-0.6	8.2	3.8
Nominal deposit rate f/	4.8	6.8	2.8	2.7	2.9	3.0	2.9
Nominal lending rate g/	10.0	15.3	10.7	10.5	10.2	9.4	9.6

Table A-5 (continued)

	2002	2003	2004	2005	2006	2007	2008
			Percentage of GDP				
Central government							
Total income h/	26.2	25.8	25.3	25.3	26.3	27.9	28.9
Current income	23.5	23.2	25.0	25.1	26.2	27.6	28.1
Tax income	21.3	21.5	23.0	23.6	24.5	26.0	26.4
Capital income	1.1	0.4	0.0	0.0	0.0	0.0	0.2
Total expenditure	28.6	32.3	29.9	31.8	32.5	30.1	29.1
Current expenditure	21.4	23.3	22.8	21.6	22.4	21.6	22.6
Interest	2.3	2.5	2.9	3.0	3.2	3.2	3.0
Capital expenditure i/	7.5	9.0	7.2	10.2	10.2	8.5	6.4
Primary balance	-0.1	-4.0	-1.8	-3.5	-3.1	0.9	2.8
Overall balance j/	-2.4	-6.5	-4.7	-6.6	-6.2	-2.2	-0.2
Public sector debt	57.8	63.5	70.3	70.3	70.7	73.9	70.1
Money and credit							
Domestic credit	79.0	70.0	71.4	81.1	96.5	122.5	126.7
To the public sector	-13.5	-14.5	-15.1	-12.0	-10.0	-8.9	-8.3
To the private sector	92.5	84.5	86.4	93.1	106.6	131.4	135.0
Broad money (M3)	70.9	72.4	73.4	78.4	87.4	90.8	90.5
Currency in circulation and local-currency deposits (M2)	69.6	70.7	71.5	75.6	78.5	84.9	84.7
Foreign-currency deposits	1.3	1.6	1.9	2.8	9.0	5.9	5.8
				Memo Items (current Prices)			
GDP (Millions of EC dollars) r/	1894	2006	2154	2295	2464	2540	2726
GDP (Millions of US dollars) r/	701	743	798	850	913	941	1010
GDP per capita (Millions of US dollars)	3717	3864	4055	4282	4478	4553	4728

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f and g / Weighted average
h/ Includes grants
i/ Includes net lending
j/ After grants
r/ revised

TABLE A-6
Saint VINCENT AND THE GRENADINES: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008a
	Annual percentage change						
Gross domestic product b/	3.2	2.8	6.8	2.5	7.6	6.8	2.5
Gross domestic product per capita	3.4	3.6	4.8	6.0	10.3	15	-2.4
Gross domestic product by economic activity							
Agriculture, livestock, hunting, forestry and fishing	7.8	6.6	-7.7	7.8	-2.2	-5.2	-3.9
Mining and quarrying	-3.0	-17.6	7.1	-3.0	5.0	6.5	2.8
Manufacture	-6.1	-9.4	5.6	-6.1	0.7	3.3	1.6
Electricity, gas and water	2.6	6.1	11.2	2.6	7.5	7.1	8.4
Construction	-2.9	-13.5	7.1	-2.9	8.2	14.7	0.4
Wholesale and retail trade, hotels and restaurants	1.8	7.5	2.6	1.8	3.1	9.6	4.9
Transport and communications	5.5	4.7	-4.9	5.5	3.7	13.7	-0.9
Financial institutions, insurance, real estate and business services	8.1	4.6	-5.7	8.2	3.1	2.7	8.5
Community, social and personal services	3.8	2.5	2.6	3.8	3.1	2.9	5.8
Balance of payments	**Millions of US Dollars**						
Current account balance	-41	-80	-102	-100	-120	-190	-217
Merchandise trade balance	-117	-137	-160	-161	-198	-237	-250
Exports, f.o.b.	41	40	39	42	41	51	53
Imports, f.o.b.	-158	-177	-199	-203	-240	-288	-302
Services trade balance	81	68	72	74	82	83	
Income balance	-18	-24	-29	-31	-24	-21	-21
Net current transfers	12	13	14	18	20	20	20
Capital and financial balance c/	35	79	101	77	121	185	184
Net foreign direct investment	34	55	66	41	109	110	121
Financial capital d/	1	24	35	36	11	75	63
Overall balance	-7	0	25	-3	12	-2	-4
Variation in reserve assets e/	7	0	-25	3	-12	2	4
Prices	**Percentage**						
Variation in consumer prices (December-December)	2.4	2.2	1.7	3.9	4.8	8.3	8.7
Deposit nominal interest rate f/	4.3	4.5	2.8	3.0	2.8	2.8	2.8
Lending nominal interest rate g/	10.0	12.0	8.8	9.9	9.9	9.6	9.6

Table A-6 (continued)

	2002	2003	2004	2005	2006	2007	2008
			Percentage of GDP				
Central government							
Total income h/	31.8	31.4	31.1	29.3	30.1	30.5	33.6
Current income	31.0	30.8	29.1	28.0	29.3	28.7	30.2
Tax income	27.7	26.4	26.0	25.6	26.9	26.7	27.6
Capital income	0.1	0.2	0.4	0.3	0.4	0.1	0.1
Total expenditure	33.2	33.7	32.5	33.5	34.0	34.0	34.8
Current expenditure	27.7	26.4	25.8	26.8	26.5	25.3	27.2
Interest	2.6	2.7	2.5	2.9	3.2	3.0	3.3
Capital expenditure i/	5.5	7.3	6.7	6.7	7.5	8.8	7.6
Primary balance	1.3	0.4	1.1	-1.3	-0.7	-0.6	2.0
Overall balance j/	-1.4	-2.3	-1.4	-4.2	-3.9	-3.6	-1.3
Public sector debt	72.1	78.1	85.5	82.5	77.4	68.5	69.2
Money and credit							
Domestic credit	59.6	54.9	54.9	58.3	59.3	62.3	61.4
To the public sector	-4.6	-7.1	-4.8	0.6	0.6	2.3	3.7
To the private sector	64.2	62.0	59.6	57.6	58.6	60.0	57.7
Others	-9.8	-9.5	-15.1	-17.4	-18.5	-15.3	-18.6
Liquidity (M3)	77.2	75.5	77.4	76.6	72.6	70.5	66.7
Currency in circulation and local-currency deposits (M2)	76.0	74.4	74.9	75.4	70.2	67.8	64.4
Foreign-currency deposits	1.1	1.0	2.4	1.2	2.4	2.7	2.3
				Memo Items (current Prices)			
GDP (Millions of EC dollars) r/	999	1045	1136	1202	1344	1498	1605
GDP (Millions of US dollars) r/	370	387	421	445	498	555	594
GDP per capita (Millions of US dollars)	2806	3030	3289	3486	3961	4557	4446

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f and g / Weighted average
h/ Includes grants
i/ Includes net lending
j/ After grants
r/ revised

Appendix 1

TABLE 1: THE REAL EFFECTIVE EXCHANGE RATES FOR SELECTED COUNTRIES

Years	Belize	Guyana	Saint Kitts and Nevis	Saint Lucia	Trinidad and Tobago	United Kingdom	United States	Ireland	Costa Rica	Venezuela	Singapore	China
1999	100.4	95.7	98.3	*96.1*	97.8	97.3	96.8	104.7	98.0	95.9	*100.2*	100.0
2000	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2001	100.9	100.2	101.1	*104.7*	105.6	97.9	105.7	103.5	103.9	*106.5*	*100.5*	104.3
2002	100.4	101.3	100.6	*102.4*	108.2	98.7	105.4	109.3	101.5	83.6	*97.9*	*101.9*
2003	97.9	97.7	96.6	*97.4*	106.4	96.1	98.7	120.3	94.8	*72.3*	*94.3*	95.2
2004	95.5	93.5	93.7	*92.7*	105.0	*101.9*	94.1	123.1	*91.9*	*70.1*	93.3	*92.7*
2005	94.3	95.1	93.2	*92.2*	*107.8*	101.3	92.8	*123.5*	*92.0*	*68.8*	*92.2*	92.5
2006	95.2	97.4	97.6	*92.7*	112.6	*103.1*	*92.4*	125.9	*92.8*	*73.7*	*94.5*	94.4
2007	92.5	101.1	96.9	*89.4*	115.6	*107.9*	88.8	133.1	95.3	*81.0*	*96.0*	99.1
2008	92.9	101.8	96.6	*90.3*	*122.9*	*94.9*	*85.8*	*140.8*	*100.4*	*99.2*	*101.4*	*107.5*

Source: International Monetary Fund (IMF) IFS

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