CARIBBEAN CENTRE FOR MONEY & FINANCE

CARIBBEAN ECONOMIC PERFORMANCE REPORT

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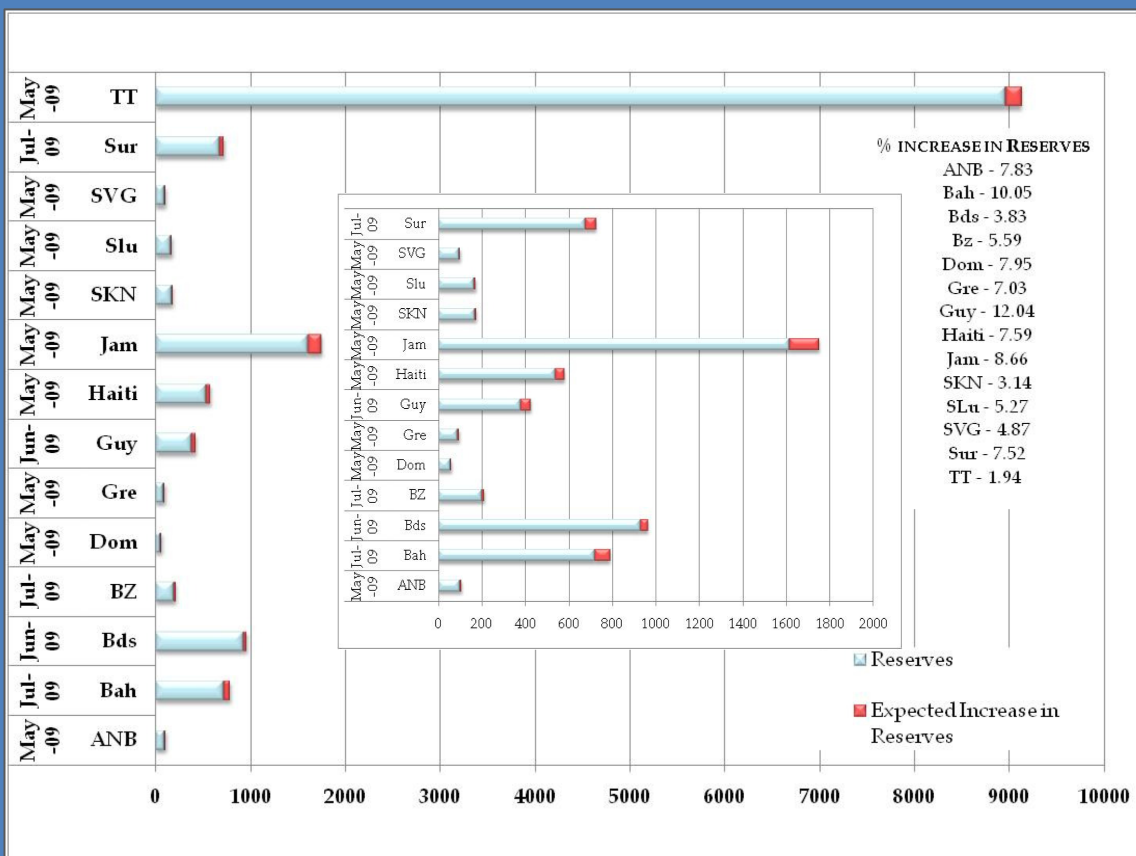
1.0 Executive Summary

Caribbean economies remain in the doldrums, awaiting the recovery of the US and the other industrial economies which supply the region's tourists, remittance inflows and foreign direct investment, and which absorb Caribbean exports. Foreign exchange inflows continue to decline compared to 2008, economies remain depressed and unemployment is on the increase, in spite of efforts by governments and private firms to minimise the loss of jobs. However, balance of payments pressures have abated in Jamaica, the country most severely affected by outflows, and the exchange rate there has stabilised. Foreign exchange levels remain acceptable throughout the region, aided by a small increase in the global allocation of Special Drawing Rights (SDRs) by the IMF.

Box 1: SDR Increases for Caribbean Economies



Five member countries of the OECS have accessed modest amounts of IMF financing, and the Jamaican authorities remain in discussion with the Fund for financing under a Standby Arrangement.

Box 2: International Financial Instutions Lending Facilities – Eligibility and Drawdown

Country	IMF Quota as at May 31st 2009	IMF/WB Debt relief granted	World Bank Grants rec'd	IMF Emergency Assistance Accessed	% of Eligibility	IMF Exogenous Shocks Facility Accessed	% of Eligibility	IMF Poverty Reduction and Growth Facility Accessed	% of Eligibility
	USD Mill	USD Mill	USD Mill	USD Mill	%	USD Mill	%	USD Mill	%
Antigua and Barbuda	20.9								
Bahamas	201.7								
Barbados	104.5								
Belize	29.1			6.90	47.42				
Dominica	12.7			3.30	51.99	5.1	53.33	11.5	49.11
Grenada	18.1			0.57	6.32			16.8	50.03
Guyana	140.7							57.4	22.04
Haiti	126.8	1200	278					162.5	69.3
Jamaica	423.4								
St. Kitts and Nevis	13.8			3.40	49.36				
St. Lucia	23.7					10.7	60.11		
St. Vincent and the Grenadines	12.8					5.8	60.08		
Suriname	142.6								
Trinidad and Tobago	519.5								

Note : The Red Cells are low income countries according to IMF

The International Financial Institutions such as the IMF, World Bank and IADB have responded to calls for increased support by introducing new facilities and increasing the extent of financial assistance, in some cases within weeks of the crisis hitting.

In March 2009, the IMF virtually overhauled its lending practices by offering larger loans, tailoring the facilities to the needs of the borrowers (which include the private sector) and improving turnaround time for approvals. For example, the recently introduced Exogenous Shocks Facility (ESF) is designed for low-income countries to quickly access financial assistance following a blow to the economy caused by natural disasters, international economic crises, armed conflicts etc. Eligibility for this facility is derived from a low-income country's eligibility under the Poverty Reduction and Growth Facility (PRGF, which will soon be replaced by the Extended Credit Facility). The Supplemental Reserve Facility (SRF) is designed to provide countries in a capital account crisis with quick access to short-term financing, while the Flexible Credit Line (FCL) is designed to aid in crisis prevention and resolution. The more traditional Standby Arrangement (SBA) and the Extended Fund Facility (EFF) are tailored to support countries in short-term (SBA) or long-term (EFF) balance of payments imbalances. A recent IMF report on its own performance since the crisis hit "*…tells us … that, with IMF support, many of the severe disruptions characteristic of past crises have so far been either avoided or sharply reduced,"* IMF Managing Director Dominique Strauss-Kahn said.

Box 2 CONT'D: International Financial Instutions Lending Facilities – Eligibility and Drawdown

Within the region, a relatively small number of countries has accessed the IMF facilities, as shown in the table above, despite there being more flexible terms and conditions, or an absence of structural conditions, for example with the ESF. This may be explained in part by the fact that some countries have benefited from bilateral arrangements with, for example, China or Venezuela.

The Interamerican Development Bank (IDB) has introduced the Liquidity Program for Growth Sustainability (LPGS) for regulated financial institutions or governments, designed to "maintain the flow of credit to the real economy, offsetting in part, and on a temporary basis, shortfalls in normal credit flows to the region resulting from the crisis". Their Trade Finance Facilitation Program (TFFP) seeks to promote trade and global integration by supporting exports from borrowing member countries.

The World Bank has also introduced crisis-tailored facilities in the Global Food Crisis Response Program (GFRP) and the International Development Association Financial Crisis Response Fast Track Facility (IDA) which seek to provide the world's poorest countries hit by high food prices (GFRP) and economic crises (IDA) with rapid access to funding for social safety nets, infrastructure, education, and health. Their International Financial Centre Private Sector Platform seeks to provide funding for infrastructure, trade, microfinance and bank recapitalization, while the Infrastructure Recovery and Assets Platform (INFRA) supports infrastructure assets and projects.

There seems to be no light yet at the end of the tunnel. Firms in the US continue to shed jobs, and there was again a net overall loss of jobs in October, the most recently announced results. Even more worrying, many of the long term jobless have given up the search for work and are no longer counted in the labour force. The recovery of the US economy depends on the demand of consumers, because without resurgent consumer demand, any increased production will result in the accumulation of inventory, and will not be sustainable. It is not reasonable to expect that consumer demand will rebound while consumers remain fearful of losing jobs.

Caribbean economies cannot expect to emerge from recession before the US does. Advance tourism bookings are reported to be dismal, and natural gas prices remain low, even though oil prices have recovered substantially. Most tourism economies and the energy and mineral industries depend mainly on the US market. The prospects for agriculture and those tourism economies that are less dependent on the US are not much better, because the economies of Canada, the UK and the rest of Europe all depend heavily on exports to the US to help fuel the recovery of economic output.

The policy responses of Caribbean governments are beginning to take effect. They consist mainly of modest assistance for tourism and export industries, to support marketing and promotional activity, and measures for some degree of amelioration of the adverse social impact of the economic contraction. So far the impact on government budgets and debt service has been mild, but much of the additional expenditure is yet to come on stream.

There is not much more that governments can do without making a difficult situation much worse. Large stimulus packages will merely weaken the balance of payments, and therefore it will be impossible to sustain them. The most effective action that countries may take to support productive activity is to accelerate the implementation of projects for which foreign funding has already been approved by the providers, but so far there has been little evidence of improved implementation capacity.

Estimates are that most Caribbean economies will have contracted in real GDP terms in 2009, by up to four percent, and as much as a 6.5 percent contraction in the case of Antigua and Barbuda. The only economies estimated to have grown are those of Belize, Dominica and Suriname, in all cases by very little. Along with the decline in output has come an increase in unemployment levels, and an increasing incidence of extended job search.

The economic recession has depressed fiscal revenues everywhere, and the impact has been especially severe because of the region's increasing dependence on the VAT, which is especially sensitive to a fall in spending. Even though governments' efforts to contain the adverse impact of the crisis have resulted in only modest increases in spending, the extent of revenue loss meant that the overall fiscal position deteriorated badly everywhere. The unfinanced fiscal gap was the main motivation for OECS countries to seek financing from the IMF and other international financing agencies.

2.0 Global Economic Developments

The global economy is recovering with economic growth turning positive, albeit at a slower pace, to pre-crisis growth performance. Projections for global growth in 2009 are for a contraction of between 1% and 2.5% with greater consensus in the estimate for global growth in 2010 of between 3.1% and 3.4%[1]. The economies leading the recovery include the Asian economies in particular and other emerging economies generally with more modest contributions from developed market economies. A rebound in manufacturing flowing from a turn in the inventory cycle, firmer housing markets and stabilizing retail sales are some of the factors driving the recovery. The main factor driving the stabilization and recovery has, however, been the unprecedented and wide ranging government interventions to rescue troubled financial institutions and to support demand. A key risk to the recovery is therefore how the global economy responds to the eventual withdrawal of the government support and how economies deal with the need to unwind extraordinary levels of fiscal and monetary stimuli.

Table 1: GDP Growth

Year	World	USA	Jap.	L. A.	Euro Area	Emerg Asia	China	Canada	UK
2008	1.3	0.4	-0.7	3.8	0.6	5.8	9.0	0.4	0.7
2009	-2.5	-2.4	-5.6	-3.1	-3.6	3.9	8.4	-2.4	-4.2
2010	3.4	3.2	2.2	4.5	2.7	7.2	9.5	2.6	2.1

Sources: Global Data Watch, J. P. Morgan, September 25, 2009.
Notes: 1. Annual rates are calculated on a year on year basis.
2. Forecasts are underlined.

Box 3: Green shoots in the Global Economy

The term 'green shoots' is the increasingly popular term used to refer to the fledgling signs of a global economic upturn. The term refers to key areas of the global economy such as industrial production, stock markets trends, retail sales, consumer confidence and credit growth which tend to signal when economic recoveries begin. The data do in fact show many positive signs that the freefall of the crisis has abated. These "green shoots" include but are not limited to the following:

- As a result of a rally in asset prices (the biggest quarterly jump in the Standard and Poor's 500 Index since 1998 and the first increase in home values in more than two years), household wealth in the US has grown by USD2 trillion in the second quarter, giving some lift to Americans' spending capacity.
- US retail sales (exclusive of auto purchases) rose 2.7% in August, the most in three years.
- The economy of the Euro-region contracted marginally in the second quarter as Germany and France unexpectedly returned to growth. German orders and exports continue to climb, up 34% in July – growth levels not seen since reunification. French exports were up 45% over the second quarter.

[1] Projection from the IMF Global Economic Outlook, October 2009 and JP Morgan Global Data Watch, September 25, 2009 respectively.

BOX 3 CONT'D: GREEN SHOOTS IN THE GLOBAL ECONOMY

- **China's August industrial production grew by 12.3% year-on-year, the most since August 2008, while India's factory output rose for a seventh consecutive month in July.**

While these data are indeed promising, there is a nagging fear that the momentum of the upswing cannot be sustained, since the basis for this nascent recovery (unprecedented levels of fiscal and monetary stimuli) is tapering off or would have to in the not too distant future, leaving behind significant drags on sustained growth. The most important of these factors is record levels of unemployment and underemployment in developed market economies. As long as this persists then consumer confidence and demand, the bedrock on which sustained global growth is built, will not return to pre-crisis levels. Moreover, growing fiscal deficits and debt levels, as well as persistent de-leveraging as financial institutions work out their impaired assets, will continue to delay and hinder the resumption of pre-crisis levels of growth. These threats to a sustained recovery highlight the possibility that any return to positive global growth in 2010 (as predicted by the IMF) would be muted and would likely be characterised by relatively high levels of unemployment at lower output levels and depressed prices. The foundations of such a recovery are therefore vulnerable, giving rise to sustained levels of uncertainty and hence episodic volatility in financial and commodity markets going forward.

Global growth is likely to remain below pre-crisis levels for the present, since the process of unwinding impaired assets in the financial system is unlikely to be completed. Also, the negative wealth effect of financial asset price busts on household spending in developed market economies and the expectation that unemployment levels in these economies would remain above long-term levels will constrain consumer spending which is unlikely to return to pre-crisis levels quickly. The recovery is therefore likely to be characterized by credit constraints, weak labour demand, financial and corporate restructuring (which hinders business activity) and wide output gaps with attendant low inflationary pressures.

Slowing growth led to the tightening of labour market conditions in many developed countries. As growth rebounded, however, employment has not improved as expected in many developed economies with unemployment rates reaching a 26 year high in the US at 10.2 per cent in October 2009. The unemployment rate in the Euro Area has also increased by two percentage points in 2009. A combination of low demand, tight credit conditions and the need for corporate restructuring has led corporations in developed economies to continue shedding jobs even as the economy picked up. This is expected to continue and the unemployment rate is expected to exceed 10% in 2010 in the US and 11% in the Euro Area (See Table

TABLE 2: UNEMPLOYMENT IN DEVELOPED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK
2008	5.8	5.8	4.0	7.6	6.2	5.5
2009	8.2	9.3	5.4	9.9	8.3	7.6
2010	9.3	10.1	6.1	11.7	8.6	9.3

Source: IMF Global Economic Outlook, October 2009.

2). This resumption of growth at relatively high levels of unemployment, or the "jobless recovery", is one of the main factors driving the expected slow pace of growth.

The recovery has also manifested itself in the financial markets. Financial support from government and low interest rates have helped to shore up confidence leading to rallies in international equity markets, falling interbank spreads, an increasing risk appetite as manifested in investors moving away from government bonds in search of yield, better than expected bank earnings in developed markets and a rebound in international capital flows. However, serious challenges remain for financial markets, as well as for many consumers and businesses whose credit rating is on the low side. In particular, the rising loan delinquencies in developed markets and delays in recognising loan losses cast doubts on the sustainability of bank profitability. Also, the pace at which impaired assets are resolved is another challenge given the scale of the problem. The IMF has estimated that global bank write-downs of impaired assets could reach US$2.8 trillion of which only US$1.5 billion has been recognized. As long as this issue is not resolved it will continue to constrain credit and the pace of the recovery.

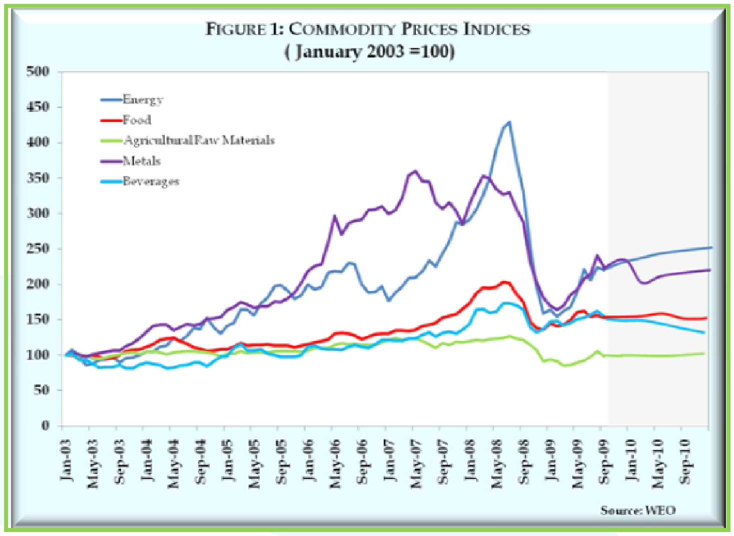
Table 3: Inflation in Advanced Economies

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK
2008	3.2	3.8	1.4	3.3	2.4	3.6
2009	-0.1	-0.4	-1.1	0.3	0.1	1.9
2010	1.1	1.7	-0.8	0.8	1.3	1.5

Sources: IMF Global Economic Outlook, October 2009.

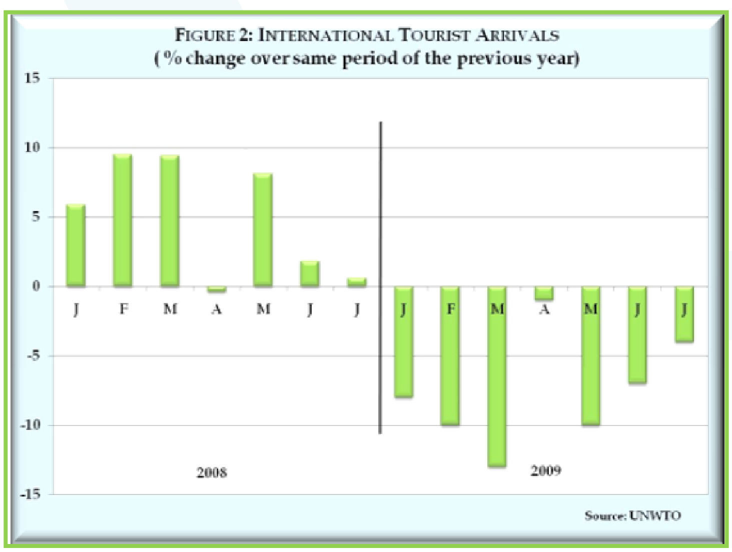
In terms of emerging economies, capital flows have recovered and sovereign spreads have come down. In spite of these improvements, countries highly dependent on external finance, especially those with unfavorable credit ratings, remain extremely vulnerable to shocks and find financing difficult to source in an environment characterized by financial institutions in which risk aversion is still high. The slow pace of the recovery, combined with low inflationary pressures, is likely to prevent major central banks, with the possible exception of the Bank of England, from tightening policy rates before 2011.

Commodity prices have stabilized in 2009 after collapsing in the second half of 2008. The improvement in commodity prices was driven by the recovery in industrial production, increased commodity financial investments, the depreciation of the US dollar against major currencies and improving financial conditions which have increased credit availability for inventory financing. In the case of oil, supply cuts by OPEC have also helped to firm prices while metal prices have been given a boost by restocking in China. The probability of commodity prices rising sharply in the short-term is considered unlikely since the rebound in global economic growth is expected to



be slow, but also because inventories are still relatively high and there is substantial excess capacity among most commodity producers except producers of food. Energy prices are expected to hover around current levels for the next two years since the improvement in demand has already been priced in. The price of rice is also expected to remain close to current levels. The price of bananas is expected to record moderate declines while the price of sugar is expected to firm up over the near term (See Figure 1).

The tourism industry tends to be more resilient than other sectors of the economy during periods of economic slowdowns, but the scale and magnitude of the current economic problems have had a significant negative impact on this industry around the world. After a strong performance of a 6% increase in global tourist arrivals in the first half of 2008, the performance fell off sharply in the second half of 2008 as total international tourist arrivals declined by 1%. The decline in demand intensified in 2009 as worldwide tourist arrivals are estimated to have contracted by 6% in the first six months of the year in the wake of a deep recession in source markets and the influenza H1N1 outbreak. Overall the Caribbean did better than the global average decline, with Jamaica bucking the trend by recording an increase of 3% in the first half of 2009. As in previous downturns, tourism receipts suffered more than arrivals as tourists traded down to cheaper destinations, stayed closer to home and/or stayed for shorter periods. There are some signs that the sector has passed the worst period. For example, the most recent data show smaller declines in arrivals and worldwide airline capacity is showing positive growth of 1.4% in September, the second month of increased capacity



after eleven consecutive months of capacity cutbacks. The declines in occupancy rates in most regions also moderated in the first six months of 2009[2]. The main threats to the prospect for the tourism industry is slow growth, sluggish employment growth in developed economies and the outbreak of a more virulent strain of the influenza H1N1 virus.

For the Caribbean, weaker global growth will continue to create a drag on tourism demand but expected lower fuel prices, a weak US dollar and closer proximity to North America may shore up demand, but if the downside risks materialise, it could do serious damage to the industry in the region. The forecast for tourism demand in the Caribbean is therefore subject to much uncertainty.

The cruise component of tourism has grown in importance in the region, but the fact that average tourist expenditure from cruise tourism is much lower means that the economic impetus from this type of tourism is smaller. This is not only in terms of direct income but also in terms of employment and the demand for ancillary services. Better coordination among Caribbean countries, a more carefully crafted policy regime and better infrastructure for this type of tourism could increase the economic footprint of cruise tourism. The success of niche markets such as eco tourism and cultural tourism has also shown that the Caribbean may need to broaden its tourism product to compete in this environment.

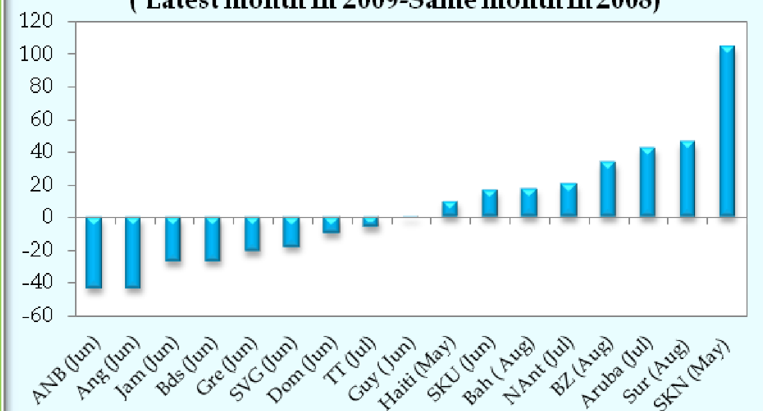
2.1 The Global Economic Crisis – How are Caribbean Economies Coping?

Economic activity has declined almost everywhere in the region, although Jamaica is the only country where the balance of payments has come under pressure as a result of the global crisis. Many countries experienced foreign exchange losses, but in all cases foreign reserves remained adequate, and a few countries experienced increases in reserves. Not unexpectedly, tourism has been adversely affected by the worldwide slump in tourist travel, with falling arrivals almost everywhere in the Caribbean. Inflation rates have declined, in most cases quite significantly. Interest rates have fallen in most countries, except Jamaica where a strong interest rate hike was among the measures adopted to relieve pressure on foreign exchange.

[2] UN World Tourism Organization, World Tourism Barometer Update September 2009.

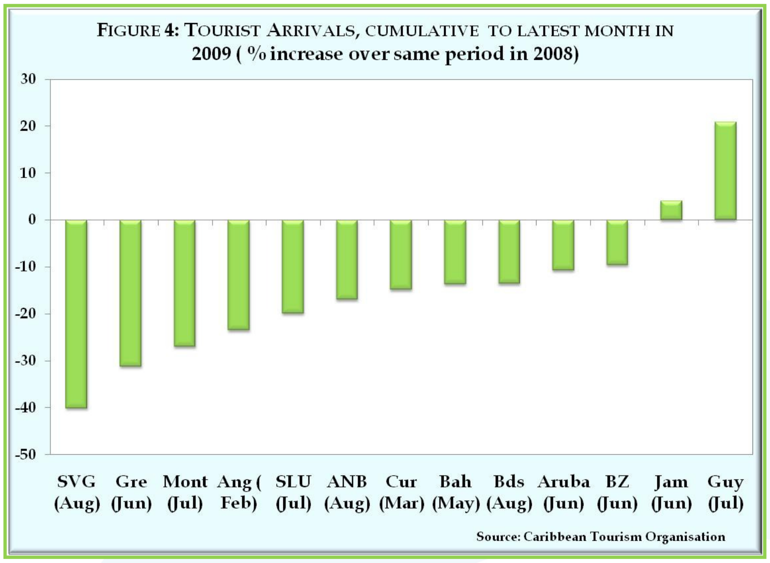
Few Caribbean countries appear to have avoided economic contraction in 2009. Real output was reported by the respective central banks to have contracted by 3.3 percent in Trinidad and Tobago (first quarter), by 3 percent in Barbados (the year to June), and by between 3.7 and 4.5 percent in Jamaica (second quarter). In Aruba, the commonly used indicator of economic activity, the real turnover tax revenue was down 10 percent in April, continuing a falling trend evident since the beginning of the year. In the October 2009 issue of the *World Economic Report* the IMF projected declines in real GDP for the Caribbean ranging from 0.8 percent (Trinidad and Tobago) to 6.5 percent (Antigua and Barbuda), except for four countries where growth was recorded: Belize (one percent), Dominica (1.1 percent), Haiti (two percent) and Suriname (1.5 percent).

FIGURE 3: PERCENT CHANGES IN FOREGIN EXCHANGE RESERVES,
(Latest month in 2009-Same month in 2008)

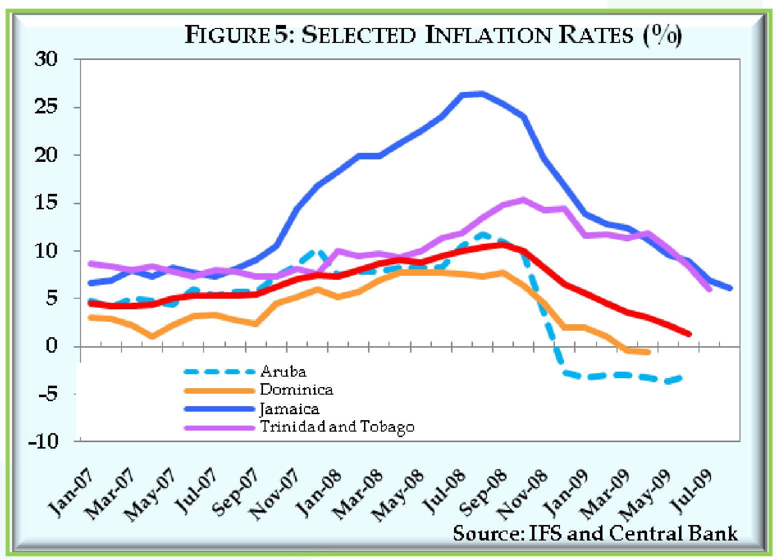


Source: IFS and Central Bank

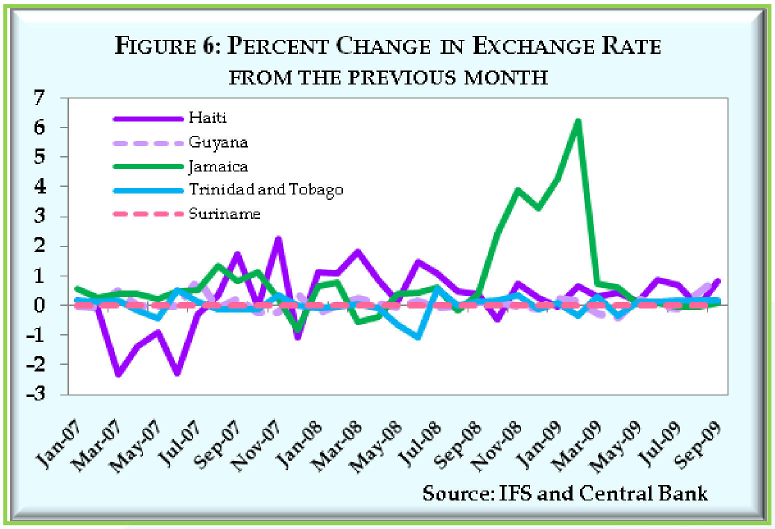
There were losses in foreign exchange reserves in Barbados, the ECCU, Jamaica and Trinidad and Tobago, which left the reserves from about seven percent to 25 percent below corresponding levels of a year earlier, for the most recent data. However, Jamaica was the only country where the exchange rate depreciated, prompting a strong official response, combining foreign exchange sales with a large interest rate increase. The exchange rate slide, which began early in October 2008, was largely arrested at the end of January 2009, and the rate has remained stable since April (See Figure 6). Aruba, Belize, Guyana, Haiti and the Netherlands Antilles all recorded higher levels of foreign exchange reserves, comparing the latest month with a year earlier, with increases ranging from 10 to 30 percent. In The Bahamas, in contrast to other tourism-dependent economies, foreign exchange reserves in the second quarter fluctuated around the same levels as for the same period in 2008, and at the end of June were somewhat higher (Changes in reserves are shown in Figure 3).



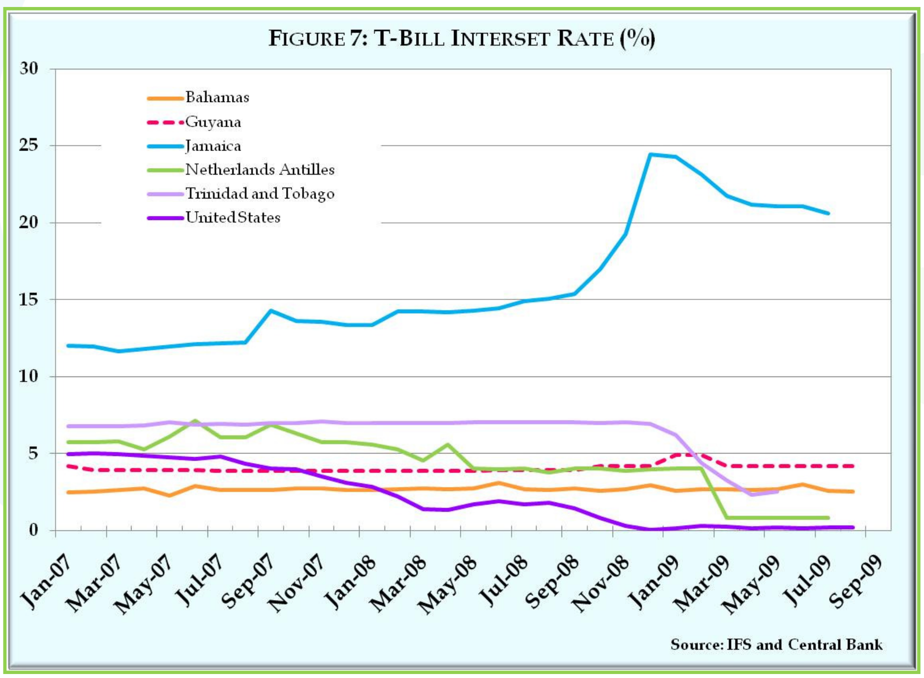
For the first half of the year Jamaica tourist arrivals increased by 3.4 per cent over the same period in 2008. For the other islands, arrivals fell by between five and 15 percent during the first quarter relative to the comparable period a year earlier (Figure 4). In Barbados, where value added in the tourism sector was estimated to have fallen by eight percent in the first half of 2009, compared to the same period of 2008, the Canadian market, the smallest of the country's major segments, was the only one to have increased. The decline in Caribbean tourism is more or less in line with the fall in international tourist arrivals, estimated by the World Tourism Organisation at eight percent for the first half of 2009 (See *UNWTO World Tourism Barometer*, October 2009, www.unwto.org).



Inflation has been on the decline throughout the Caribbean, and rates have fallen below four percent year on year, except for Jamaica and Trinidad and Tobago. Prices are reported to have declined in Aruba, and there has been no increase in the price index for Dominica since December. At the other extreme, inflation in Jamaica was 8.9 percent for the second quarter, and in Trinidad and Tobago the rate at June was 8.4 percent. (Inflation comparisons are shown in Figure 5.) In its October 2009 *World Economic Outlook* the IMF projected inflation rates of five percent or lower for all of the Caribbean except Jamaica. Even in Jamaica, which has suffered from chronic high inflation, the price increase was in single digits.

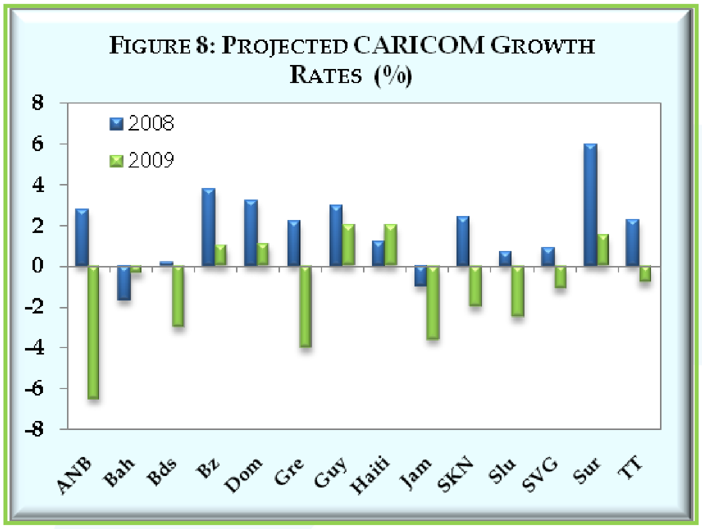


The Jamaican authorities employed a sharp interest rate hike as an element in their strategy to arrest the foreign exchange outflow and the depreciation of the exchange rate. As a result, Treasury bill rates in that country rose to 24 percent in December 2008, and remained at 18 percent in August. Elsewhere in the Caribbean Treasury Bill rates have not changed much if at all, except for the Netherlands Antilles, where the rate fell to 0.8 percent in March, and Trinidad and Tobago, where the rate fell almost four percentage points to 3.2 percent in the first quarter. (Treasury bill rates are shown in Figure 7.)



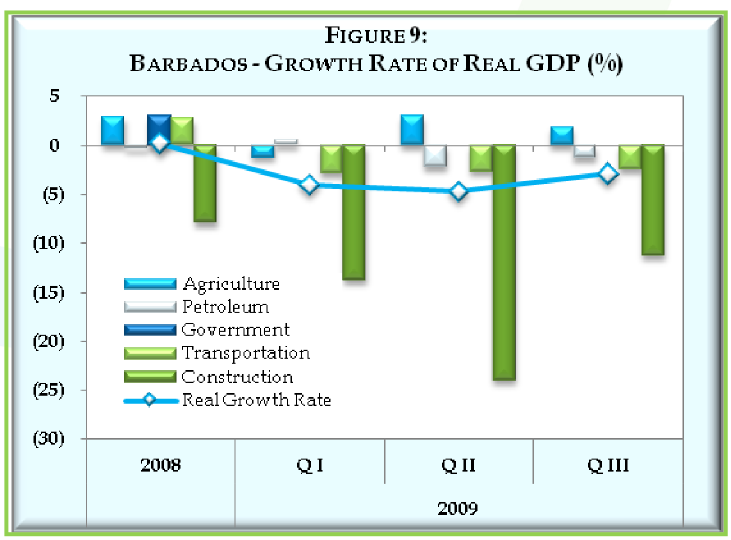
3.0 Regional Economic Performance

3.1 Economic Growth

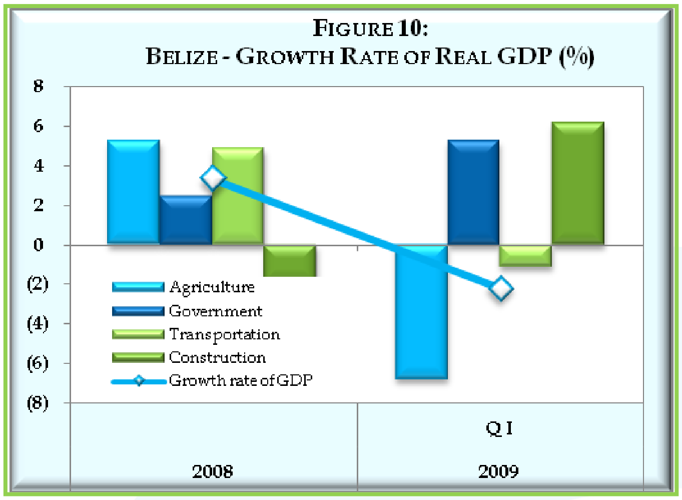


Slow economic growth persisted in the first half of 2009; most Caribbean economies reported a slower economic pace or declines for 2009 when compared to the same period in 2008. Although firm data for most countries are not available for Jan-June 2009, all reports and projections for 2009 indicate a decrease in economic activity. Based on IMF estimates, the average growth rate for the region is expected to be -1.6% in 2009. Belize, Dominica, Guyana, Haiti and Suriname are countries that are expected to record positive but slow growth in 2009.

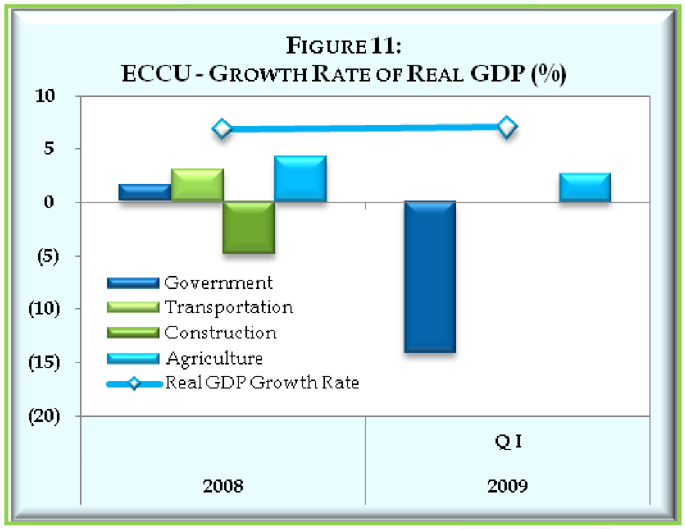
The Aruban economy had a contraction in its domestic economic activities across almost all sectors in the first quarter of 2009, when compared to the same period in 2008. This was also the case in The Bahamas, as there was a sharp decline in tourism output, low consumer demand and reduced incentives for construction activity from foreign investments. Three consecutive quarters of negative growth occurred in Barbados in 2009. All major sectors of the economy experienced falling output in 2009 (Jan-Sept) with the exception of agriculture for Quarters II and III in 2009 because of the timely start of the sugar harvest. The growth performance was driven by the fact that real tourism value added fell by 7.7 per cent in the first half of 2009 compared to growth of 13.18 per cent in the corresponding period of 2008. Moreover, the decline in manufacturing output observed in 2008 intensified in 2009



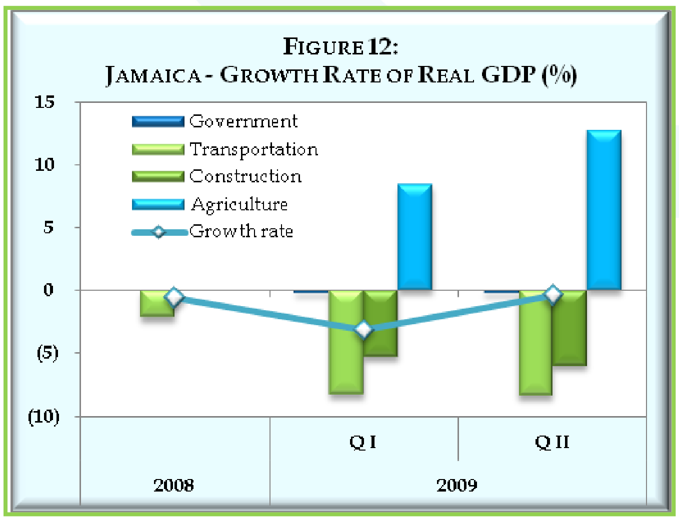
driven by fall-offs in garments (65.4 percent), electronics (45.3 per cent) and wooden furniture (21.6 percent). The negative impact of these developments on growth in



Barbados was reinforced by a drastic decline in the construction sector, a key sector for growth performance in Barbados. Belize experienced a decline in virtually all sectors of economic activities in the first quarter of 2009, with a negative growth rate of -2.2 per cent. The exception to this general trend was the construction sector where output improved from -1.9 per cent in 2008 to 6.2 per cent in the first quarter of 2009.



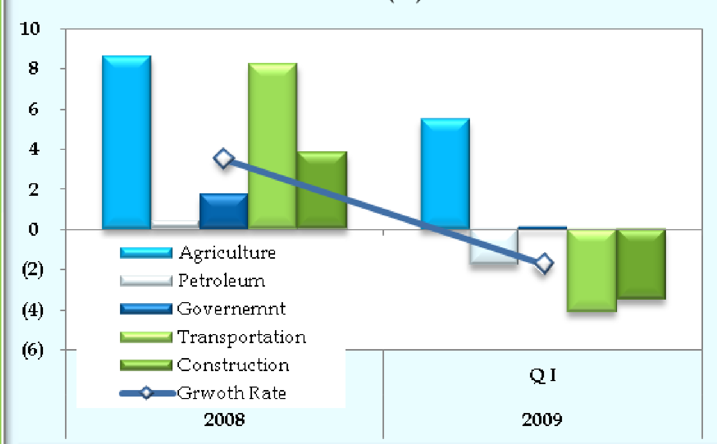
The ECCU experienced negative growth of 3.9 per cent in the first quarter of 2009, with the transportation and construction sectors experiencing the greatest decline in output. For Guyana, preliminary estimates indicate a decline in growth for real output during the first quarter of 2009. Production fell in the agriculture sector as sugar production fell by 11.3 per cent with relatively low and mixed output in the manufacturing and services sectors. Some support was, however, provided by the rice industry as output in this subsector increased by 21.2 per cent.



Jamaica's economic activities continued to decelerate in the first half of 2009; there were contractions in all industries except agriculture, forestry & fishing, hotels and restaurants and finance & insurance as well as electricity & water supply. Agriculture, forestry and fishing sector is estimated to have expanded by 9.5 percent in Jan-June 2009, relative to a decline of 13.7 per cent in the corresponding period in 2008. This was driven by good weather conditions and coordinated initiatives by the government to promote agriculture. Mining and quarrying activities were estimated to have contracted by 43.4 per cent in the first half of 2009 due to the closure of two alumina companies and a decrease in world demand for aluminium and its finished products.

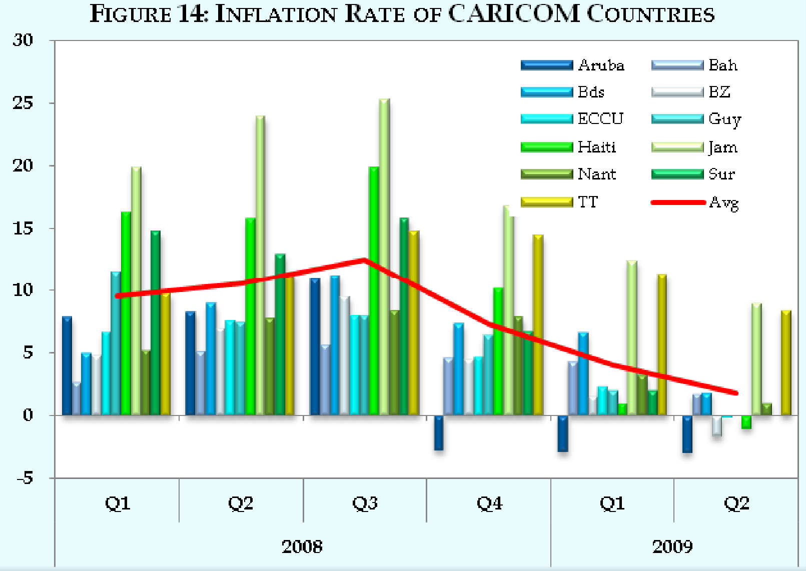
The Netherlands Antilles reported a 0.7 per cent increase in economic activity for the first quarter of 2009; in contrast, Trinidad and Tobago's domestic economy contracted by 3.3 per cent in the same time period. For the first quarter of 2009, output in the energy sector in Trinidad and Tobago declined by an overall two per cent. The manufacturing sector also contracted by 11.7 percent while construction fell by 2.7 per cent. Positive growth of 27.5 per cent and 4.4 per cent was however recorded in the agriculture and the storage and communications sectors respectively.

FIGURE 13:
TRINIDAD AND TOBAGO: GROWTH RATE OF REAL GDP (%)



3.2 Inflation

FIGURE 14: INFLATION RATE OF CARICOM COUNTRIES

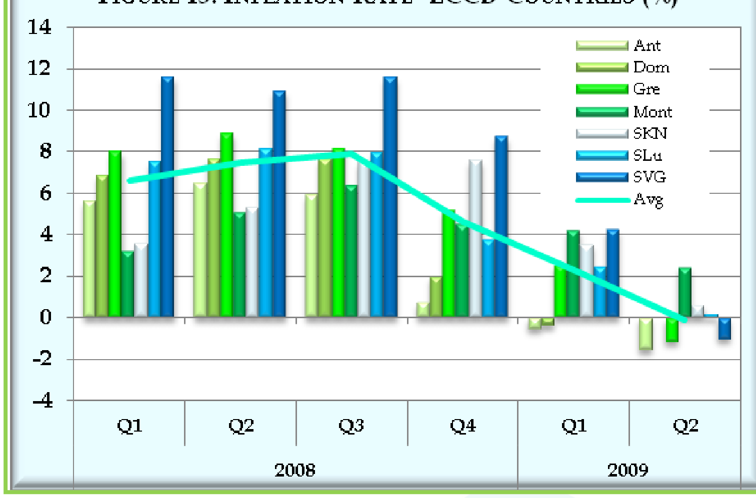


Inflationary pressures in the Caribbean region have weakened considerably since December 2008. The average inflation rate for the region for the period Jan-June 2009 was 2.2 per cent which is a significant decline when compared to the rate of 10.6 per cent recorded in 2008 for the same time period. The only countries to have experienced relatively high inflation thus far in 2009 are Jamaica and Trinidad and Tobago and the rates for these countries have fallen as well. The most drastic fall in inflation was recorded in Haiti (16.81 per cent) with the least drastic being The Bahamas (3.35 per cent). Aruba, The Bahamas, Belize, Barbados, ECCU, Guyana, Haiti, Netherlands Antilles and Suriname all had significantly lower inflation rates for the period under review in 2009, when compared to the same period in 2008. The main driving force for of this deflationary trend in the Caribbean region is lower international fuel and commodity prices and lower domestic demand.

Aruba's inflation rate declined in Dec 2008 and has since plummeted to a low of -3.5 per cent in May 2009, this is as a result of lower water and electricity tariffs and reduced gasoline prices due to the global fall of oil prices. In the Bahamas, inflation rates have been falling since October 2008. For the period Jan-June 2009 the inflation rate fell to 1.71 per compared to 2.7 percent in the previous year for the same period.

At the end of June 2009 Barbados had an inflation rate of 1.84 per cent, which is 7.08 per centage points less than its inflation rate for 2008 at the same time. For Belize, the inflation rate reached a historical low of -1.7 per cent (May 2009) after it peaked at 9.48 per cent in August 2008. The ECCU region also had a decrease in its inflation rate from 7.5 per cent for Jan – June 2008 to -0.08 per cent in 2009 for that same period. In the first quarter of 2009 Guyana's inflation rate dropped sharply to 1.95 per cent compared to the 7.45 per cent it recorded for the same period in 2008; this was due to the fall in international oil and commodity prices as well as falling domestic prices of food items.

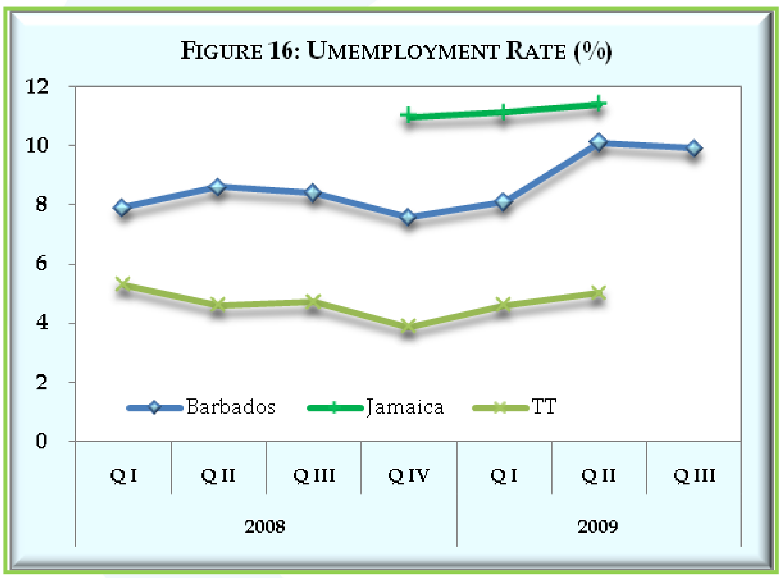
FIGURE 15: INFLATION RATE- ECCB COUNTRIES (%)



Jamaica's inflation rate was 8.98% at the end of June 2009; this is a significant decrease of 14.99 per cent when compared to June 2008. Although it has decreased, its inflation rate was still relatively high for Jan-June 2009 due to increases in non-agricultural food prices, mainly meat and fish, because of movements of international commodity prices. Administered price adjustments as well as increases in energy prices were also significant for this review period; the impact of these impulses may have resulted in some partial offsetting of prices due to decreases in domestic demand. There was a considerable decrease in Haiti's inflation rate for the first half of 2009, from 15.78 per cent (June 2008) to -1.04 per cent.

In the Netherlands Antilles the inflation rate fell from 6.1 per cent in June 2008 to 1.7 per cent in June 2009; due largely to lower energy prices. Inflation in Suriname decreased from 12.95 per cent (June 2008) to 2 per cent (June 2009). Since December 2008 inflation in Trinidad and Tobago has been on the decline due to the global fall in commodity prices and lower domestic demand. The inflation rate fell from 11.32 per cent in June 2008 to 8.38 per cent in June 2009 driven by falling food price inflation.

3.3 Labour Market



The average unemployment rate in Barbados for the first quarter of 2009 was 10.1 per cent, an increase of 2.5 per cent from 2008. There was a decline in the number of persons employed in construction, wholesale and retail trade, tourism, general services as well as finance, insurance and business services. Consequently, the number of individuals seeking employment during Jan- June 2009 amounted to 7,200 persons compared with 4,100 persons in the same period in 2008.

The Jamaican unemployment rate increased by 0.4 percentage points to 11.3 per cent for the first half of the year 2009 when compared to the same period in 2008. This marginal increase in unemployment was reflected primarily in the construction and wholesale and retail industries.

Unemployment in Trinidad and Tobago increased for the first quarter of 2009 to 5 per cent from 3.1 per cent at the end of 2008. In the construction, manufacturing and services sector employment fell by 0.9 per cent, 3.3 per cent and 2.5 per cent, respectively. In contrast, employment increased in the agriculture sector by 30.7 per cent. The labour force participation rate increase in the first quarter of 2009 to 63.6 per cent compared to 63.1 per cent for the same period in 2008.

3.4 Fiscal Accounts

3.4.1 Current Fiscal Account

Available data for the first six months of 2009 suggest deterioration in the current fiscal accounts of most countries in the region. Trinidad and Tobago and Haiti both moved from a current surplus position for the first half of 2008 to a current deficit position for the comparable period in 2009. The current account balance for Trinidad and Tobago moved from a surplus of about US $2519.6 million to a deficit of US$297.5 million over the period January to June 2009, reflecting falling revenues from value added taxes and the petroleum sector. Current expenditure also increased as a result of an increase in current transfers to state enterprises, preparations for the Fifth Summit of the Americas and tuition assistance associated with the GATE programme. Similarly, a current account surplus of approximately US$74.8 million in June 2008 was reversed to a deficit of US$29.4 million by June 2009 in Haiti.

Box 4: Impact of Global Recession on Fiscal Accounts and Debt Dynamics

The Global Financial Crisis and ensuing recession has impacted on fiscal and growth outcomes for most Caribbean countries. However, the nature of the impact has varied across countries.

Bahamas – Lower imports associated with a decline in tourist arrivals and foreign direct investment and slower economic activity has resulted in weak revenue performance for the financial year 2008/09. The fiscal deficit therefore increased to about 5 percent of GDP by June 2009. This deficit was financed by new external and domestic borrowing including a US$200 million short term note from domestic banks.

ECCU – The member territories of the ECCU have suffered significant negative impact from the global financial crisis. The forecast is for regional growth to decline in 2009 as a result of strong declines in tourist arrivals, fall off or sudden stop in foreign direct investments and slower construction activity. Consequently, revenue declines have resulted in larger overall deficits for some member territories. In an effort to mitigate the impact on the BOP and fiscal accounts, St. Vincent and the Grenadines (US5.7m), St. Lucia ($US10.7m) and Dominica ($US5.1m) have requested loans under the IMF exogenous shocks facility. St. Kitts and Nevis (US$3.4m) has requested a loan under the emergency assistance for natural disasters facility, while Grenada (US$25.4m) has requested an augmentation of its Poverty Reduction and Growth Facility (PRGF) arrangement.

Haiti – For the first three months of 2009 the revenue shortfalls on the fiscal accounts were balanced by delays in expenditure associated with budget approval. However, transfers to the energy sector for production of electricity pose significant fiscal risks especially since production costs are sensitive to changes in oil prices. In February 2009, Haiti increased it PRGF facility at the IMF by US$36.6 million to assist with the impact of the global economic slowdown.

BOX 4 CONT'D

Barbados – The global recession has impacted severely on the economy of Barbados. Real GDP is estimated to have contracted by 3.3 percent for the first half of 2009, tourist arrivals have fallen by 8.5 percent for January to June 2009 and private capital flows have declined. These factors all contributed to a decline in revenue for the central government. This resulted in widening of the overall fiscal deficit for the first six months of 2009. The fiscal deficit has been largely financed by increases in central government domestic debt from the commercial banks and National Insurance Scheme.

Trinidad and Tobago – After five years of attaining overall surpluses on the fiscal accounts, declining oil revenues have led to a deterioration of the fiscal account and an overall deficit in 2009. The overall surplus moved from 2.0 percent of GDP in 2004 to 6.5 percent of GDP in 2008. However, IMF projections are for a deficit of 3.4 percent of GDP in 2009. The deterioration of the fiscal is largely related to a decline in energy revenues and value added tax as a result of slower domestic demand. An overall deficit of US$297.5 million for the first half of 2009 was financed mainly from domestic sources.

Source: IMF Article IV PINS & Reports

The Eastern Caribbean Currency Union recorded a current surplus of US$49.5 million in June 2009 down 30.8 percent relative to an outturn of US$71.5 million for the second quarter of 2008. The current account for Guyana improved by 50.6 percent in the first quarter of 2009 driven by a 13.5 percent increase in revenue and a 1.8 percent fall in expenditure.

3.4.2 Overall Fiscal Account

In Barbados, growth in expenditure of 9.7 percent outweighed a marginal increase in revenue of 0.7 percent thus widening the overall deficit by almost 50 percent to US$193.5 million at the end of June 2009. In Trinidad and Tobago, the overall surplus of US$1.8 billion in June 2008 was eroded to reach an overall deficit of US$159.3 million for the first six months of 2009. This development is related to a significant decline in revenue of 40.4 percent for the first half of 2009 relative to the same period in 2008. Total fiscal expenditure for Trinidad and Tobago posted a modest increase of 5.3 percent during the first six months of 2009. Factors related to this performance include lower revenue earnings from the petroleum sector as a result of declining international petroleum prices, lower production levels due to a decline in maturing oil fields and reduced exploration activity and a decline in receipts from value added taxes reflecting the slower domestic demand.

Jamaica recorded an overall deficit of US$1.6 billion for the period January to June 2009, largely reflecting increases in interest and salary payments and lower revenue and grant flows.

In contrast, the ECCU registered some improvement in the overall outturn on the fiscal accounts at the end of June 2008. The overall deficit stood at US$35.1 million in June 2009 compared to a deficit of US$63.3 million in June 2008. At the end of the first quarter of 2009, Guyana recorded an overall fiscal surplus of US$34.8 representing an improvement of 36.4 percent over the performance at the end of March 2008.

3.4.3 Public Sector Debt

Total domestic debt increased in most countries as governments financed deficits on their fiscal and external accounts which were due in large part to negative developments in the global economy. Debt relief was the main contributing factor in countries where total debt declined. Total domestic debt for The Bahamas increased by 15.1 per cent during the first half of 2009 when compared to the outturn for the first half of 2008. Total external debt for The Bahamas grew at a faster rate of 18.5 percent for the period under consideration. In Trinidad and Tobago, total domestic debt grew by 15.4 percent for the period January to June 2009 relative to the same period in 2008. Disbursed outstanding external debt for Trinidad and Tobago increased marginally by 1.5 percent. The stock of external and domestic debt for the Government of Jamaica increased to US$6.3 billion and US$7.6 billion ($J equivalent), respectively, at end June 2009 compared to J$464.2 US$6.5 billion and the US $6.39 billion, respectively, at end June 2008.

At the end of March 2009, total government debt for Aruba increased by 5.1 percent when compared to US$1195.72 million when compared to the stock as at March 2008. The stock of central government debt in Barbados grew by 10.1 percent to reach US$3225.5 million by the end of March 2009. During the first quarter of 2009, the total consolidated public sector debt for the Netherlands Antilles decreased by US$75.9 million to US$3.15 billion mainly due to debt relief to the government from the Netherlands.

3.5 Banking and Finance

The dominant theme in the financial system in the region for the first half of 2009 was the continuing challenges created by the intensification of the economic slowdown begun in the second half of 2008. In particular, most jurisdictions were characterized by depressed demand and increased risk aversion which manifested itself in slower credit growth, falling financial asset prices and lower interest rates. This increased risk aversion was made worse in some jurisdictions by the CL Financial bailout and the cross-border fallout in terms of confidence in its subsidiaries around the region.

The region by and large was not directly affected by the international financial crisis in the sense that the region's banks had very small exposures to the toxic assets that proved to be the genesis for most failures of financial institutions in developed markets. The prudential standards for most banks in the region are also very strong with robust capital adequacy standards all in excess of the eight percent standard, with the capital adequacy ratio of some countries such as Barbados and Guyana estimated at close to 17 per cent. The impaired asset ratio of most jurisdictions is also relatively strong with many jurisdictions at lower than five percent non-performing loans to total loans. There has been some deterioration in this area as economic conditions deteriorated, with the ratio of non-performing loans to total loans rising to close to 10 per cent of total loans in some countries in 2009. Profitability has remained relatively strong, though there has also been some fall-off in this area as well. This suggests that the main risk facing the financial systems in the Caribbean is credit risk stemming from depressed economic conditions.

The local asset ratio standards applicable to institutional investors in most Caribbean jurisdictions limited market risks and losses due to the exposure to international financial markets. In spite of the fact that most financial institutions in the region had very small exposure, if any at all, to the toxic securitized assets, and banks in the region continue to focus on traditional banking, market risk exposure for institutional investors remains a serious threat to the health of the region's financial systems because of the continuing uncertainty and episodic volatility in international financial markets in 2009. Moreover, the fact that banks often form part of regional financial conglomerates in which non-bank financial institutions (NBFIs) have exposure means that this could increase the risk profile of the conglomerate, and by extension, the banks and NBFIs in different jurisdictions in the region. The CL Financial problem is a grim reminder of this fact.

Box 5: CL Financial – Lawsuit, Bailouts and Bankruptcies

Since the initial bailout announcement on January 30th, 2009, the Government of Trinidad and Tobago has spent, according to figures presented in the 2009/10 fiscal budget, TTD1.5 billion of the TTD5.0 billion in approved funding. It was announced that this was used primarily to honour Clico Investment Bank's deposits, of which 40% have been repaid, with the remainder transitioning to First Citizens Bank. The government also committed USD50 million from the CARICOM Petroleum Fund, to provide liquidity support to regional depositors and policyholders. Also worthy of note is the fact that the deficit in the Statutory Fund of CLICO and British American Insurance is between TTD7 to TTD8 billion, a portion of which will be financed by sale of CL Financial assets.

The Group controls over TTD100 billion of assets in at least 28 companies located primarily in the Caribbean. Due to the extensive reach of this conglomerate across the region and the systemic risk posed by its diversification across several sectors, other economies have been affected as follows:

- In April it was announced that Clico (Bahamas) Limited applied for bankruptcy protection from its US creditors in a Miami Bankruptcy court. The company is reported to have debts amounting to USD500 million, and the company loaned more than USD70 million to affiliated companies which may have found its way into real estate developments in Florida, court papers show. Additionally, British American Insurance Company Limited is being sued over a USD300 million dollar Florida land deal.
- The Central Bank of Barbados agreed to deposit up to BDS10 million with Clico Mortgage & Finance Corporation (CMFC) and also opened a facility in the event that CMFC needs to access liquidity support. The Bank, with the endorsement of the Ministry of Finance, also proposes to provide interbank guarantees, which cover lending by other banks to CMFC, if necessary.
- It is estimated that more than USD10 million of Guyana's National Insurance Scheme money is tied up in Clico Guyana, which invested roughly 53% of its assets in CLICO Bahamas. CLICO Guyana was placed under judicial management following the liquidation of CLICO Bahamas on February 24, 2009. The Government of Guyana received USD15 million from the Caricom Petroleum Fund to help settle Clico Guyana's 15,000 depositors.
- CL-owned Chateau Online, one of France's biggest online wine retailers, had been put up for sale. According to a report by Bordeaux's business school earlier this year, Chateau Online receives 150,000 visitors a month, with annual revenue of EUR10 million. The Group's UK wine operation Paragon Vintners went into administration earlier this year.

The trend in credit growth across the region was generally one of weak credit conditions driven by depressed demand. In all of the countries for which data was available the pace of credit growth was either slower or negative in the first half of 2009 compared to the comparable period in 2008 when credit condition were generally more robust. The decline in credit growth in Trinidad and Tobago was sharp as banking sector credit growth moved from 6.3% in the first half of 2008 to -3.1% in the first half of 2009. Aruba and the ECCU area also registered negative banking sector credit growth while Guyana and The Bahamas recorded zero credit growth in the first half of 2009. Belize, Barbados and Haiti recorded credit growth of 1.0%, 0.4% and 2.8% respectively in the first half of 2009. Aruba, The Bahamas, the ECCU area and Barbados credit growth performance in 2009 represented an intensification of weak credit growth in 2008, a predicament which seemed to afflict tourism-based economies more intensely. The fact that loan rates remained relatively high in spite of the efforts by central banks in some jurisdictions to lower interest rates also contributed to the deceleration in credit. Monetary conditions in the Caribbean reflected depressed credit demand conditions and central bank and government policy initiatives.

Liquidity in the financial system rose in large part because of weak credit growth, increased risk aversion by investors and the related increased holdings of government securities by financial institutions and government fiscal injections in some cases. Banking sector liquidity rose in virtually all jurisdictions, but since increased liquidity generally did not flow into excessive credit expansion, the monetary authorities in most jurisdictions have been able to lower policy rates and Treasury bill rates have generally fallen as well in 2009.

In this environment interest rates and interest rate spreads generally moderated in the region in the first half of 2009 when compared to the comparable period in 2008. Specifically, interest rate spreads declined by as much as 370 basis points in Aruba and more moderately in Barbados (40 basis points), The Bahamas (30 basis points), Belize (20 basis points) and Guyana (10 basis points). In these jurisdictions the fall in the spread was due in large part to falling loan rates since deposit rates were rather static. In contrast, interest rate spreads increased by 30 basis points in the ECCU and by 150 basis points in Trinidad and Tobago. In the case of the ECCU this was due to an increase in the average loan rate while in Trinidad and Tobago the increase in the spread was due to a combination of an increase in the average loan rate, as well as a decline in the average deposit rate.

3.6 External Trade

3.6.1 External Current Account

Only a couple of countries recorded improved export performances in goods and services for the first quarter of 2009 compared to the same period of the previous year. These countries were Trinidad and Tobago (24.3%) and ECCU (24%). The remaining countries recorded a deterioration in export performances, the most significant being Aruba (21.4%) and The Bahamas (16.9%). Moreover, among the countries for which second quarter data were received, Barbados recorded a worsening of export growth from its decline of 6.1 per cent in the first quarter of 2009 to 24.6 per cent by the second quarter of 2009 compared to the same period of the previous year. However, the growth in exports rebounded in the second quarter of 2009 compared to the same period of the previous year for Haiti.

Table 4: Relative Growth in Quarter on Quarter Exports and Imports in CARICOM Territories

		2007		2007	2008		2008	2009	
		Q1	Q2	Annual Growth	Q1	Q2	Annual Growth	Q1	Q2
Aruba	Exports	(44.3)	(5.5)	(15.0)	75.9	7.9	27.4	(21.4)	n.a.
	Imports	(45.40)	(14.24)	(19.34)	(87.91)	(13.60)	37.01	(38.25)	n.a.
Bahamas, The	Exports	1.2	9.8	8.7	12.5	(0.9)	2.9	(16.9)	n.a.
	Imports	11.3	2.0	4.6	1.9	3.8	0.5	(26.6)	n.a.
Barbados	Exports	(14.6)	8.9	5.1	(0.1)	17.5	1.7	(6.1)	(24.6)
	Imports	0.6	8.1	4.1	9.3	26.4	13.9	(25.7)	(31.4)
Belize	Exports	17.5	(8.3)	(0.4)	0.6	20.3	9.6	n.a.	n.a.
	Imports	3.1	5.8	3.6	15.9	33.5	22.3	(15.7)	n.a.
ECCU	Exports	29.2	19.7	5.5	(10.2)	21.5	28.1	24.0	8.4
	Imports	18.6	13.4	13.3	2.4	15.0	10.6	(7.3)	(25.9)
Guyana	Exports	98.8	12.8	19.3	21.8	2.1	14.4	(3.0)	n.a.
	Imports	7.4	25.9	20.1	43.2	19.2	22.3	(14.8)	38.0
Haiti	Exports	15.8	15.4	6.1	(4.9)	(26.0)	(6.1)	(8.2)	24.6
	Imports	1.3	14.3	4.5	29.1	15.3	30.2	11.1	(5.3)
Jamaica	Exports	12.9	15.1	10.7	30.3	25.7	21.5	(55.2)	(54.8)
	Imports	14.3	22.3	16.1	30.4	46.8	20.9	(39.2)	(52.7)
Netherlands Antilles	Exports	n.a.	n.a.	3.3	n.a.	n.a.	13.3	n.a.	n.a.
	Imports	n.a.	n.a.	12.8	n.a.	n.a.	18.1	n.a.	n.a.
Suriname	Exports	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Imports	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trinidad and Tobago	Exports	20.8	(15.6)	10.7	9.6	100.3	(36.8)	24.3	n.a.
	Imports	27.3	(8.6)	12.1	35.9	43.8	(35.0)	(31.9)	n.a.

The growth of imports declined faster than exports in the first quarter of 2009 compared to the first quarter of 2008 leading to little change in the trade balance (See Table 5). Thus, compared to the first quarter of the previous year, the trade balance deteriorated only for Haiti where the deficit was 18 per cent more that the deficit recorded in 2008.

The other territories recorded either reduced deficits or reduced surpluses, as was the case with Trinidad and Tobago.

Trade tax receipts were not drastically reduced for the region, but it continued to reflect the pattern where some countries were more dependent on this form of taxation than others for the financing of their recurrent fiscal expenditures. Thus in the first quarter of 2009, The Bahamas (43%), the ECCU (33%) and Jamaica (23%) reflected the highest dependence on this form of tax to finance their fiscal revenues. On the other hand, other countries continued to be less dependent on this form of taxation, with Guyana (9%), Trinidad and Tobago (4%) and the Netherlands Antilles (1%) been the least dependent.

Table 5: Difference between Exports and Imports of Goods and Services (US Millions) and International Trade Tax as a percentage of Fiscal Financing

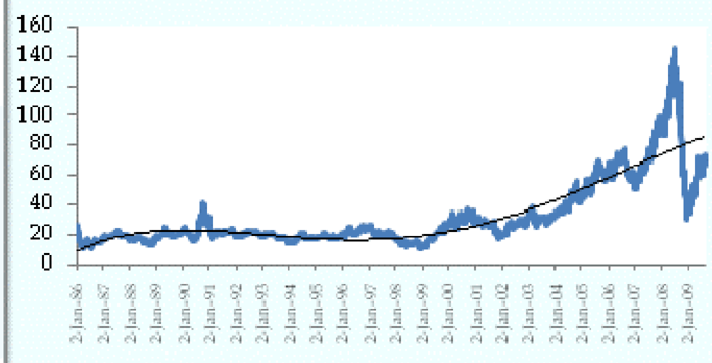
		2007		2007	2008		2008	2009	
		Q1	Q2	Annual	Q1	Q2	Annual Growth	Q1	Q2
Aruba	Exports Less Imports	7.8	95.8	189.5	(74.4)	32.9	(156.9)	173.3	n.a.
	International Trade Tax	16%	15%	16%	14%	13%	13%	13%	n.a.
Bahamas, The	Exports Less Imports	(327.3)	(175.0)	(1134.7)	(245.2)	(224.3)	(1059.6)	(88.9)	n.a.
	International Trade Tax	44%	54%	51%	46%	44%	47%	43%	n.a.
Barbados	Exports Less Imports	(311.0)	(268.5)	(1231.6)	(345.1)	(346.6)	(1434.0)	(245.7)	(231.5)
	International Trade Tax	12%	17%	15%	12%	17%	16%	13%	15%
Belize	Exports Less Imports	(155.2)	(173.7)	(684.4)	(180.0)	(231.9)	(837.1)	(151.7)	n.a.
	International Trade Tax	n.a.	n.a.	27%	n.a.	n.a.	22%	n.a.	n.a.
ECCU	Exports Less Imports	(440.5)	(423.0)	(1798.7)	(460.4)	(481.4)	(1944.0)	(405.7)	(325.7)
	International Trade Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	35%	33%
Guyana	Exports Less Imports	(73.8)	(71.2)	(365.1)	(134.7)	(121.8)	(501.8)	(95.2)	(473.4)
	International Trade Tax	8%	8%	9%	8%	8%	9%	9%	
Haiti	Exports Less Imports	(234.8)	(294.7)	(1096.0)	(349.5)	(390.7)	(1617.0)	(413.4)	(342.6)
	International Trade Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jamaica	Exports Less Imports	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	International Trade Tax	n.a.	n.a.	25%	n.a.	n.a.	24%	22%	23%
Netherlands Antilles	Exports Less Imports	n.a.	n.a.	(571.2)	n.a.	n.a.	(807.3)	(88.6)	n.a.
	International Trade Tax	n.a.	n.a.	1	n.a.	n.a.	1	n.a.	n.a.
Suriname	Exports Less Imports	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	International Trade Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trinidad and Tobago	Exports Less Imports	1353.3	786.1	5721.4	1043.6	2583.3	3478.1	2575.3	n.a.
	International Trade Tax	5	4	5	3	3	4	4	4

3.6.2 Gross International Reserves

In about half of the countries for which data were received, Gross International Reserves increased by the end of the first half of 2009 compared to the end of 2008. Gross international reserves increased in The Bahamas (36.9%), ECCU (2.7%), Guyana (21.3%) and the Netherlands Antilles recorded increase of more than 50% by the end of the first quarter of 2009 compared to the end of 2008. Aruba also recorded an increase of 11.7 per cent in the first quarter of 2009. On the other hand, three countries used up reserves during the first half of 2009—Barbados (7.2%), Jamaica (7.5%) and Trinidad and Tobago (6.3%).

3.7 Economic Prospects

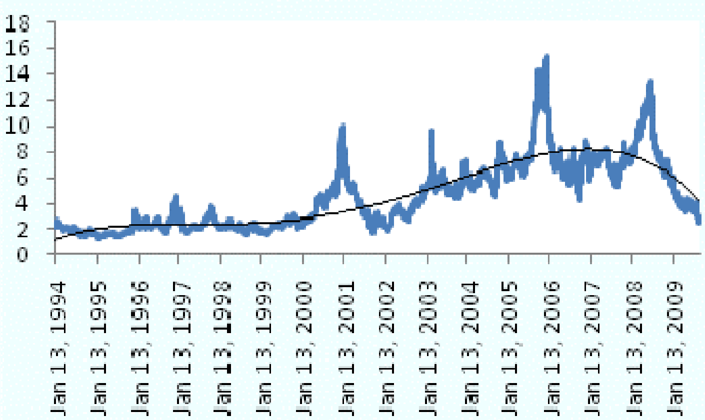
FIGURE 17:
OIL PRICE (WTI) : USD PER BARRELL



Source : Energy Information Administration

The prospects are unpromising, and the region seems headed for stagnation at best in 2010 and further economic contraction at worst. Signs of economic recovery are few and unconvincing in the main markets from which tourists come, and to which the Caribbean exports. Even if the US pulls out of recession in 2010, unemployment is projected to remain high and tourist travel by Americans and US demand for Caribbean exports will therefore remain depressed. Oil prices have resumed their upward medium term trend (See Figure 17), but gas prices, which are equally important for Trinidad and Tobago, are still falling (See Figure 18).

FIGURE 18: NATURAL GAS FUTURES PRICE : USD PER MILLION BTU



Source : Energy Information Administration

International tourism is projected to decline by four to six percent in 2009, with the decline in the Americas between three and six percent (UN World Tourism Organisation, *World Tourism Barometer*). An additional source of uncertainty is the unpredictable impact of the AH1N1 virus on the travel market. Advance bookings for the 2009/2010 winter tourism season are very depressed, and major tourism investments have stalled throughout the region. Several large hotels remain closed.

Cautious government spending will be needed to avoid a widening balance of payments deficit and a further loss of foreign exchange reserves. Governments may increase spending for the acquisition of financial assets – in support of financial stability, for example, by issuing domestic debt, thereby replacing financial liabilities of failed financial institutions with financial liabilities of the government. However, additional expenditures on purchases of good and service, wages and subsidies result in increased spending on imports and a loss of foreign exchange.

The IMF *World Economic Outlook* paints a somewhat more optimistic picture than the CCMF staff anticipate, based on the Fund's expectation that the US and world economies will recover in 2010. The Fund projects that the loss of real GDP will bottom out in 2010 for Barbados, Grenada and St Kitts-Nevis and that most of the rest of the Caribbean will begin to recover, but with very modest growth rates. The highest projected rate of GDP growth is 3.5 percent, for Suriname. Four countries are projected to remain in recession, with declines in GDP of 1.5 percent in Antigua-Barbuda, 0.5 percent in The Bahamas, 0.2 percent in Jamaica and 0.4 percent in St Lucia. Inflation rates are projected to remain low, ranging from 1.8 percent (Grenada) to four percent (Guyana), except for Barbados, Haiti, Jamaica and Trinidad-Tobago, all of which are expected to register inflation in excess of five percent. However, inflation rates everywhere are expected to be in single figures.