

# CARIBBEAN UPDATE



## Global Challenges Give New Leaders Food (and Fuel) for Thought

With the very first tropical storm (Arthur), on the very first day of the hurricane season causing loss of life as well as serious flooding in Belize, the 2008 season has gained the early attention of regional states that are perennially at risk of natural disasters of this kind.

Following a year in which Caribbean economies performed reasonably well with average GDP growth of 4.7 percent, growth was expected to be lower this year due, in part, to the US economic slowdown and high commodity prices. The sharp increase in food prices, combined with the accelerated rise in oil prices over the last six months, however, has been beyond most expectations. In a region that spends over US\$3 billion annually on food imports, the increases have left already beleaguered regional states desperate for solutions to mitigate the economic and social fallout. The experience has been a baptism of fire for regional leaders, many of whom by some quirk of coincidence have only been in office for a few months following recent elections. Many states have suspended import duties on a number of staples and put some measures in place to protect their most vulnerable. At the regional level, an emergency meeting held this month in Guyana sought to fast-track regional food production by exposing investors to large-scale farming projects.

### **BARBADOS**

Barbados' economy grew by 4 percent in the first 3 months of 2008 spurred by a pickup in tourism activity and some increase in manufacturing. While liquidity remained high as deposits grew faster than credit, government's fiscal deficit for the 1<sup>st</sup> quarter nearly quadrupled as expenditure outpaced revenue. While the increase in the inflation rate for the quarter is expected to be modest, the new Democratic Labour Party administration will be challenged to keep it in check following the strong increases in global prices.

### **GRENADA**

The Grenada tourism industry is recovering well with an estimated 9 percent increase in stopover tourists in 2007. Future prospects also appear encouraging with the island being identified as one of 10 prime locations in the world, set to experience long-term growth in residential tourism. The authorities are amending current finance laws as Grenada plans to re-launch its offshore banking sector after a 6-year hiatus. National elections announced for July 8<sup>th</sup> this year are expected to be keenly fought with the incumbent New National Party holding only a 1-seat majority over its main challenger, the National Democratic Congress in the 15-seat parliament.

### **GUYANA**

While GDP growth for this year is not expected to be as high as 2007's 5.3 percent, a solid 4.8 percent is expected. The nation's fiscal deficit declined to US\$84.4m (9.5 percent of GDP) due to higher than anticipated returns from the 16 percent value added tax (VAT) regime introduced in January 2007. Despite financing the deficit by external borrowing, external public debt fell to US\$718m, its lowest level in decades.

In February, the government delivered its 2008 budget of US\$585.7m, the largest in the country's history. Despite being one of the few Caribbean states that is a net exporter of food, Guyana has also been affected by current high commodity prices and has implemented support measures for farmers and distributed seeds and fertilizer to citizens to increase food production. The authorities have also reduced the excise tax on gasoline from 17 percent to 7 percent in order to keep its cost below US\$4.94 (G\$1000) a gallon.

### **CUBA**

Following relatively moderate GDP growth of 6.5 percent in 2007, Cuba's economy is expected to maintain a growth rate above 5 percent this year. Key revenue earners, tourism and nickel exports will remain relatively flat this year. Rising food imports will only be partly offset by

*The experience has been a baptism of fire for regional leaders, many of whom by some quirk of coincidence have only been in office for a few months following recent elections.*



higher sugar exports, and Cuba's arrangement with Venezuela will only partly cushion the impact of rising oil prices. Raul Castro, the recently confirmed leader of the socialist state, has avoided any fundamental economic shifts up to this point, but has signaled his intentions by relaxing restrictions on mobile phones and Internet access.

### **DOMINICAN REPUBLIC**

GDP growth in the Dominican Republic was 6.1 percent in the first quarter this year, down from 9.1 percent a year earlier. Growth is expected to slow to just under 5 percent this year as consumer demand is curbed by high oil and food prices. Remittances, which account for almost 8 percent of GDP, were flat in 2007 and are likely to be constrained this year as well by the US economic slowdown. Increases in commodities over the past year have erased gains made in curbing inflation, pushing the rate to 9.7 percent in March this year. Newly re-elected President Leonel Fernandez has announced that his country intends to forge ahead with bio-fuel production in the form of ethanol produced from sugar cane, in order to reduce its dependency on oil.

### **REGION**

In Belize, newly elected Prime Minister, Dean Barrow is facing a challenging time in office as a result of high commodity prices. Far from his election promise to lower food and electricity costs, the people of Belize are faced with rising food prices and the prospect of blackouts if local electricity provider Belize Electricity Ltd. doesn't increase rates by 25 percent. In Jamaica, the Bruce Golding-led administration is also battling high food and energy costs. The government has secured an accommodation from Guyana for its rice imports and is seeking assistance from Brazil in sugar and fruit crop production and Venezuela for lower cost fertilizer and natural gas supplies.

### **OUTLOOK**

Across the region Caribbean states are struggling to come to terms with the challenges presented by high international prices. While it does not help that many of the region's governments are fairly inexperienced, this global phenomenon is confounding new and veteran leaders alike. Already one of the most highly indebted regions in the world, the Caribbean can ill afford the onslaught on fiscal balances that high commodity prices represent. Inflation rates and debt positions will face upward pressures over the short term until remedial measures begin to have some impact.

*Inflation rates and debt positions will face upward pressures over the short term until remedial measures begin to have some impact.*