

CARIBBEAN UPDATE

GROWTH CONTINUES BUT CHALLENGES MOUNT

The region continued to experience positive economic growth in 2007, with the IMF projecting growth at 4.7 percent for the year, slightly lower than the 5.2 percent recorded in 2006. This is attributed to the slowdown in economic activity in countries such as Trinidad and Tobago and the Dominican Republic, which experienced growth rates of 5.5 percent and 8 percent respectively, when compared to growth of over 10 percent for both countries in 2006. Rising energy prices and the slowdown in the US economy are just some of the major contributory factors. On a bright note, according to the Barbados Nation News, the region registered profits of US\$63 million from the Cricket World Cup (CWC), exceeding the expectations of many. Gate receipts alone, from the event amounted to US\$31.4 million. Barbados emerged as the clear winner, receiving US\$12.4 million followed by Jamaica and Trinidad and Tobago (Table 1). However, it remains to be seen, whether the massive investments made for the event would eventually pay off.




Table 1: Cricket World Cup Gate Receipts US\$M

| | |
|-------------------|------------|
| Barbados | 12,400,000 |
| Jamaica | 4,700,000 |
| Trinidad & Tobago | 3,600,000 |
| Antigua & Barbuda | 2,900,000 |
| Guyana | 2,600,000 |
| Grenada | 2,500,000 |
| St Kitts Nevis | 1,700,000 |
| St Lucia | 900,000 |

Source: Barbados Nation News (27 January 2008)

BARBADOS

The January 2008 general elections saw the Owen Arthur-led administration lose to David Thompson's Democratic Labour Party (DLP), ending Mr. Arthur's three-term administration. While the landslide victory by the DLP perhaps ushers in a new age of politics for the country, Republic Bank believes that major policy shifts are unlikely. Conservative management of the country's economy is likely to continue but significant challenges lie ahead. While the economy remains one of the strongest in the Caribbean, the high cost of living and the country's high energy bill remain prime areas of concern for the new Government.

GUYANA

The crime situation in Guyana has worsened with two massacres in January and February of this year resulting in 23 deaths. These developments have raised concern not only from the local business community but also from potential foreign investors. Its implications for tourism are far-reaching, as international publicity over the events would surely have some impact. This will no doubt put pressure on the Bharrat Jagdeo-led administration. Economically, the country stands on the verge of a major economic revival with the favourable settlement of the maritime border dispute with Suriname. According to a United States Geological Survey, the waters of the Guyana-Suriname basin may hold more undiscovered oil than the proven reserves of the North Sea. Spanish oil giant Repsol already plans to drill for oil in the undisputed waters in 2009.

CUBA

In February 2008, the ailing Fidel Castro announced his resignation as president of Cuba, ending 49 years of rule and paving the way for his brother Raúl Castro to take the reigns of power. This is unlikely to bring about any major political reform in the short term, as the economy continues to do well, growing by an estimated 7.5 percent in 2007, slightly down from the 12.5 percent recorded in 2006. Furthermore, growth is projected at 8 percent in 2008 and strengthening ties with Venezuela, China and other developing countries should provide some measure of economic support in the short term. While political reform may be some time away, economic reform seems more forthcoming, with promises being made by the new President to revitalise the economy by removing bureaucratic red tape and gradually changing the dual currency system.

GRENADA

Grenada's fragile economy grew by an estimated 3 percent in 2007 up from almost negligible growth in 2006. This is primarily attributed to growth in the tourism and agricultural sectors, which were both devastated by hurricane Ivan in 2004. The fiscal deficit is projected to fall to 3.2 percent of GDP in 2007, down from 7 percent in 2006. The country's debt burden continues to be of prime concern notwithstanding that the public debt to GDP ratio is projected to have fallen from 125 percent in 2006 to 115 percent in 2007.

REGION

The completion of the Economic Partnership Agreement (EPA) with the EU in December 2007 has left the region with more or less what they asked for. The Agreement grants duty free and quota free access for all CARIFORUM goods, except rice and sugar. In terms of sugar, the exporting countries should benefit from an increase in the sugar quota by 60,000 tonnes, while duty free access will be given to rice for 187,000 tonnes in 2008 and 250,000 tonnes in 2009. On the other hand, CARIFORUM countries will allow 80 percent of all EU exports to the region to be exempt from tariffs, which is to be gradually implemented over a 15-year period. This will provide the region with some breathing room to implement the necessary reforms. This agreement is expected to have little effect on the region in the short run. Medium to long run effects however, depend on the size and pace of foreign and domestic investments and, as always, the extent to which opportunities are exploited.

OUTLOOK

The outlook for the region is mixed. The slowing US economy and the threat of an outright recession in 2008 would surely affect remittances and tourist arrivals to the region. This would only be partly offset by the continued weakening of the US dollar against the major currencies of the world, which will make Caribbean holidays more affordable, not only to UK and European residents but Canadians as well. Additionally, with the postponement of the new passport rules for US citizens to June 2009, tourist arrivals are expected to grow slowly. In terms of the mineral-producing countries, this slowdown is likely to have a limited impact as such burgeoning economies as China and India are anticipated to keep commodity prices high for the time being.

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