Country Report

Belize

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The Economist Intelligence Unit

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Contents

Belize

The region

List of tables

List of figures

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Belize

October 2007

Summary

Outlook for 2008-09

Although the authority of the prime minister, Said Musa, has been greatly weakened by continuing divisions within his governing People's United Party (PUP) and repeated evidence of mismanagement of the public finances, he remains in control of the day-to-day agenda. The Economist Intelligence Unit expects the electorate's dissatisfaction with the Musa administration to result in a landslide electoral defeat for the PUP to the opposition United Democratic Party (UDP) in an election due in 2008. Plans to reduce substantially the fiscal deficit in 2007-08 will be hampered by rising spending in the run-up to the election. We expect real GDP growth to slow in 2007-09 to under 3%.

The political scene

Although Mr Musa remains assured in his handling of day-to-day events and retains public confidence, the PUP remains in poor shape. There has been controversy over a commission of enquiry, and over loan guarantees for a private hospital.

Economic policy

Domestic debt has increased. Parliament has established a new petroleum reserve fund and has strengthened oversight.

The domestic economy

Hurricane Dean caused damage to the north of the country in August. Several sectors, particularly textiles and agriculture, have seen production fall this year. Oil production has increased, and there are plans for new oil infrastructure. Tourist arrivals increased in early 2007.

Foreign trade and payments

The merchandise trade deficit has widened.

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Political structure

Official name	Belize
Form of state	Representative democracy
Head of state	Queen Elizabeth II, represented by a governor-general
The executive	Prime minister, chosen from the majority party in the legislature, heads a cabinet of ministers responsible to the legislature
National legislature	Bicameral National Assembly: 12-member Senate (the upper house), six of whom are appointed on the advice of the prime minister, three on the advice of the leader of the opposition and one each by the churches, the business community and the trade unions; 29-member House of Representatives (the lower house), comprising directly elected members serving five-year terms
Legal system	UK-style judicial system; the final court of appeal is the Judicial Committee of the Privy Council in the UK
National elections	March 5th 2003; next election due by June 2008
National government	The PUP currently holds 21 of the 29 seats in the lower house
Main political organisations	Government: People's United Party (PUP) Opposition: United Democratic Party (UDP)

	Prime minister, minister of finance, public services & national development	Said Musa
	Deputy prime minister, minister of agriculture & fisheries	Vildo Marin
Key ministers	**Attorney-general, minister of education, labour & culture**	Francis Fonseca
	Defence, youth & sports	Rodwell Ferguson
	Foreign affairs & foreign trade	Lisa Shoman
	Health, transport, communications & local government	Jose Coye
	Home affairs, public utilities & housing	Ralph Fonseca
	Human development	Sylvia Flores
	Natural resources & the environment	Florencio Marin
	Tourism & national emergency management	Godfrey Smith
	Works	Michael Espat
Central Bank governor	Sydney Campbell	

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Economic structure

Annual indicators

	2003 [a]	2004 [a]	2005 [a]	2006 [b]	2007 [b]
GDP at market prices (Bz$ bn)	2.0	2.1	2.2	2.3	2.3
GDP (US$ bn)	1.0	1.1	1.1	1.2	1.1
Real GDP growth (%)	9.4	4.7	3.1	5.8	3.0
Consumer price inflation (av; %)	2.6	3.1	3.7	4.3	3.0
Population (m)	0.3	0.3	0.3	0.3	0.3
Exports of goods fob (US$ m)	315.5	307.5	321.9	426.2 [a]	437.0
Imports of goods fob (US$ m)	522.3	480.7	556.2	611.9 [a]	670.0
Current-account balance (US$ m)	-179.9	-151.7	-159.2	-24.7 [a]	-53.5
Foreign-exchange reserves excl gold (US$ m)	84.7	48.3	71.4	113.7 [a]	91.8
Exchange rate (av) Bz$:US$	2.00	2.00	2.00	2.00 [a]	2.00

[a] Actual. [b] Economist Intelligence Unit estimates.

Origins of gross domestic product 2005	% of total
Agriculture, fisheries & forestry	12.7
Manufacturing & mining	7.8
Trade, restaurants & hotels	26.1
Transport & communications	11.2
Construction	3.7
GDP at factor cost incl others	**100.0**

Components of gross domestic product 2005	% of total
Private consumption	71.8
Government consumption	14.4
Gross fixed investment	18.8
Change in stocks	0.7
Exports of goods & services	55.3
Imports of goods & services	62.8
GDP at market prices	**100.0**

Principal exports 2005	US$ m
Marine products	42.9
Sugar	35.0
Citrus concentrate	53.6
Banana	25.5
Garments	17.3

Principal imports cif 2005	US$ m
Machinery & transport equipment	99.9
Manufactured goods	69.4
Fuels	97.8
Food, beverages & tobacco	60.3
Chemicals	44.4

Main destination of exports 2006	% of total
US	51.8
UK	51.3
Caricom	11.0
Mexico	3.8

Main origins of imports 2006	% of total
US	40.3
Mexico	16.9
Caricom	n/a
El Salvador	2.0

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Quarterly indicators

	2005		2006				2007	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Government finance(Bz m)								
Current revenue	128.6	134.4	135.9	138.0	140.7	151.1	n/a	n/a
Current expenditure	132.6	135.5	133.7	137.5	141.4	128.7	n/a	n/a
Current balance	-4.1	-1.2	2.2	0.5	-0.7	22.4	n/a	n/a
Prices								
Consumer prices (2000=100)	114.7	115.1	116.2	117.6	120.3	119.5	119.3	-
Consumer prices (% change, year on year)	4.5	4.3	5.1	4.1	4.9	3.8	2.7	-
Financial indicators								
Exchange rate Bz$:US$ (av)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Exchange rate Bz$:US$ (end-period)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Lending rate (av; %)	14.40	14.20	14.23	14.20	14.20	14.21	14.26	14.36
Treasury bill rate (av; %)	3.22	3.22	3.22	3.22	3.22	3.22	3.2	3.22
M1 (end-period; Bz$ m)	444.84	453.86	387.71	429.18	541.01	559.06	614.09	641.86
M1 (% change, year on year)	5.6	2.5	-13.2	-7.2	21.6	23.2	58.4	49.6
M2 (end-period; Bz$ m)	1,265.94	1,291.95	1,349.81	1,407.42	1,457.15	1,505.75	1,600.38	1,656.07
M2 (% change, year on year)	9	6.6	8.1	9.1	15.1	16.5	18.6	17.7
Domestic credit (end-period; Bz$ m)	1,315.11	1,371.48	1,423.93	1,454.83	1,526.33	1,521.17	1,629.11	1,654.46
Excess liquidity (end-period; Bz$ m)	72.58	58.42	86.20	88.94	73.08	64.34	n/a	n/a
Sectoral trends								
Sugar exports ('000 tonnes)	26.9	2.4	34.0	44.0	22.3	1.8	45.2	29.2
Foreign trade (Bz$ m)								
Exports fob	96.72	72.30	163.32	165.04	133.09	101.32	n/a	n/a
Sugar	24.80	1.54	30.99	45.97	21.68	1.43	(71.30	)
Bananas	13.31	11.46	11.60	15.53	14.63	8.84	(21.40	)
Marine products	25.27	24.55	15.46	10.98	25.91	32.57	(14.30	)
Citrus concentrate	4.28	11.91	60.42	28.63	10.46	8.52	n/a	n/a
Garments	10.11	6.31	11.18	8.98	7.84	8.58	(12.50	)
Imports cif	-282.43	-334.85	-301.20	-328.36	-341.76	-349.49	n/a	n/a
Trade balance	-185.71	-262.56	-137.89	-163.32	-208.67	-248.18	n/a	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	128.81	71.36	73.94	75.54	84.19	113.72	72.24	90.37

Sources: Central Bank of Belize, *Statistical DigestEconomic Review*; International Sugar Organisation, *Statistical Bulletin*; IMF, *International Financial Statistics*.

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Outlook for 2008-09

Political outlook

Domestic politics

Although the authority of the prime minister, Said Musa, has been greatly weakened by continuing divisions within his governing People's United Party (PUP) and repeated evidence of mismanagement of the public finances, he remains in control of the day-to-day agenda. Although rebel former ministers form an identifiable group of backbench dissidents, there is no immediate threat to the government's parliamentary majority, and the Economist Intelligence Unit expects Mr Musa to serve out his parliamentary term. Elections are due by June 2008, but may be held some months earlier, possibly in March. We expect the electorate's dissatisfaction with the Musa administration to result in a landslide defeat for the PUP to the opposition United Democratic Party (UDP), as indicated by recent opinion polls and by the overwhelming UDP victory in the March 2006 local elections. However, some PUP politicians, including the dissident former ministers, retain pockets of strong personal support, while the UDP remains weak in southern Belize. Mr Musa will push ahead with spending proposals on free healthcare, and if possible with infrastructural investments in the remaining months of his term in order to regain popular support, and may pick up strength before the poll if he can avoid a further fiscal or political crisis. In the event of a PUP defeat, a succession struggle and a full restructuring of the party leadership would be likely.

There are few underlying differences between the two major parties, but a UDP victory, after ten years of PUP dominance, would make it clear that mismanagement of the public finances carries a political cost. In the meantime, one of the main risks to political and economic stability will be continuing pressure on public finances from the high level of domestic and foreign debt, notwithstanding recent restructuring. Recent evidence that the prime minister has been less than candid even with his cabinet colleagues and senior public servants has reduced any remaining trust in his administration, both among multilateral donors and domestically.

International relations

Support from the US and the UK will remain focused on combating the illegal drug trade and money-laundering, both of which are entrenched problems that will continue to underpin the spread of violent crime. The US will continue to press for tighter control over intellectual property and human-trafficking. Relations with Guatemala will remain tainted by a long-standing border dispute, but tentative moves towards greater co-operation will continue to attract international support. Although a permanent solution remains distant, an incentive to compromise exists in that a settlement could unlock substantial aid flows to both countries. The government will continue to attach great importance to relations with its major bilateral aid donor, Taiwan. Neither political party has shown any inclination to switch international recognition from Taiwan to China, although the financial consequences of doing so could be significant.

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Economic policy outlook

Policy trends

In spite of its difficult financial situation, the government will attempt to increase public spending in the run-up to next year's election. The National Health Insurance scheme, which will go nationwide from January, will be financed with a one-off release of funds from the Social Security Board, and by drawing on windfall petroleum revenue. Soft loan finance from Venezuela obtained through the Petrocaribe initiative will be used for infrastructural and social spending, as will grants from friendly bilateral donors. Even so, rising expenditure will result in fiscal targets being missed. If the UDP comes to power, it will be forced either to find additional sources of finance, or to cut back on social and healthcare programmes, courting voter unpopularity.

The restructuring of 98% of public external commercial debt in February will save an estimated US$100m (4.3% of GDP) in cashflow for 2007 and US$50m in 2008. As restructuring will lead to a substantial reduction in interest payments, the government will remain under pressure from international lenders to adopt a more prudent fiscal stance. Disbursement of US$12.5m from a US$25m policy-based loan agreed by the Caribbean Development Bank (CDB) and US$15m from a similar loan from the Inter-American Development Bank (IDB) is of great importance in covering the Bz$86.4m (US$43.2m) financing requirement for the 2007/08 (April-March) fiscal year. Conditions include reform of the tax regime, control of public expenditure and greater transparency in the publication of government data. However, we expect that economic reform will be hampered by a lack of commitment to transparent financial management and by weak implementation capacity; there will also be a strong temptation to raise expenditure as the election approaches. Donor confidence has been shaken by the recent revelation of an undeclared loan guarantee for a private hospital, Universal Health Services, and by the resignation of Carla Barnett, a highly respected senior public servant in the finance ministry. Proposed grant funding from Venezuela of US$5m-10m may prove attractive to the government in the pre-election period, as only limited conditions would be attached.

The budget for 2007/08 envisages lower central government current spending, mainly owing to a sharp reduction in interest payments. These will nevertheless remain a drain on public finances, representing 15% of total public spending. The projected rise in expenditure on the public-sector payroll is high, at 7%. Spending on goods and services is expected to grow by 27%, against a modest 3.5% increase in capital spending. However, a projected rise in tax revenue will, according to the government, lead to a reduction in the overall nominal fiscal deficit, from an estimated 4% of GDP in 2006/07 to 1% in 2007/08. However, we forecast that the government will miss its target for reducing the fiscal deficit by at least 2 percentage points, as spending—particularly on programmes likely to swing votes to the PUP—will be higher than the budget anticipated. However, we do not expect a fiscal crisis during the forecast period. Our projections, which are based on Central Bank of Belize data, are for a reduction in the fiscal deficit from an estimated 4% of GDP in 2006 to 3.2% in 2007 and 3% in 2008.

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Economic forecast

Economic growth

The pace of real GDP growth will slow further during the forecast period. The boost from the newly opened oil industry, which was almost solely responsible for economic growth in 2006, will provide no further impetus for growth as output from the Spanish Lookout oilfield reaches a plateau. Although exploration is continuing, no other oilfields are expected to move to production within the forecast period. Sugar output will remain steady in volume, but will be reduced in value terms, and there will be continued downward pressure on shrimp production, as a result of low global prices, and on banana production, owing to disease and continuing uncertainty over marketing arrangements. Construction will benefit from work on the Vaca hydroelectric project and the Belcogen cogeneration plant, with a range of small-scale public-sector projects likely to proceed in the pre-election period.

Any success by the government in overcoming the fiscal constraints to pre-election spending, for example via the Petrocaribe initiative, would increase public-sector consumption. Following real GDP growth of an estimated 3% in 2007, growth prospects in 2008-09 will be strongly dependent on the fiscal position. On the supply side, firm output of some agricultural products, continuing modest growth in tourism and buoyant demand for informal-sector goods and services, will support economic growth of around 2.8%. As oil prices gradually steady over the outlook period, annual inflation will decrease to around 2.5%, higher than its historical average, but below the 2006 average of 4.3%.

The current-account deficit is set to rise from an estimated 2.1% of GDP in 2006 to an annual average of 4.7% of GDP in 2007-09. This increase will be underpinned by a deterioration of the merchandise trade deficit, as oil exports plateau. Growth of the import bill will outpace the expansion of export earnings. The rising cost of the fuel import bill, equivalent to 7% of GDP, will remain a concern, but will be offset to some extent by domestic production.

Belize: forecast summary
(% unless otherwise indicated)

	2006[a]	2007[b]	2008[c]	2009[c]
Real GDP growth	5.8[b]	3.0	2.8	2.8
Gross agricultural production growth	1.5[b]	2.0	2.3	2.3
Consumer price inflation (av)	4.3[b]	3.0	3.0	3.0
Short-term interbank rate	14.2	14.7	14.5	14.5
Central government balance (% of GDP)	-1.9	-3.2	-3.0	-2.8
Exports of goods fob (US$ m)	426.2	437.0	473.7	502.6
Imports of goods fob (US$ m)	611.9	670.0	711.0	754.8
Current-account balance (US$ m)	-24.7	-53.5	-58.6	-52.5
Current-account balance (% of GDP)	-2.1[b]	-4.7	-5.1	-4.4
Exchange rate Bz$:US$ (av)	2.00	2.00	2.00	2.00

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

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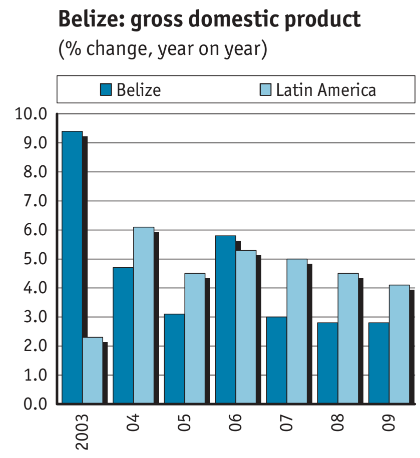

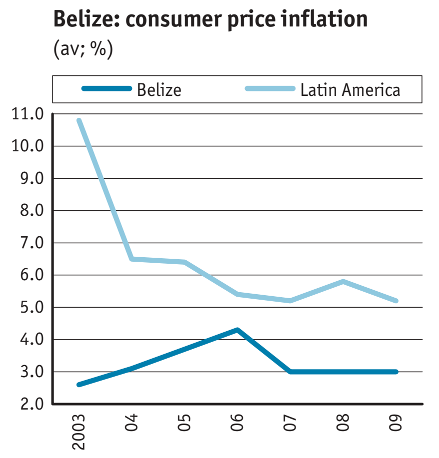

The political scene

The ruling PUP remains divided

Although the prime minister, Said Musa of the People's United Party (PUP), remains self-confident in his handling of day-to-day events, the PUP remains in poor shape. The party has avoided open conflict since June, but splits remain. Two party dissidents and former cabinet ministers, Mark Espat and Cordel Hyde, did not attend the PUP convention on July 1st 2007 and were threatened with disciplinary action. Also absent was a former foreign minister and newly elected chairman of the Policy and Reform Committee, Eamon Courtenay, who is not a member of parliament. A PUP senator, Anthony Chanona, resigned on September 13th 2007. A former mayor of Belmopan, he was appointed to the Senate (the upper house) in April 2006, but was critical of the lack of independence allowed to upper house representatives, and in particular the recent Public Utilities Act.

Violent crime, much of it drug- and gang-related, remains a problem. There were 67 murders between January and September 6th, up from 55 in the year-earlier period. The 2006 per capita rate of 32 per 100,000 was extremely high by world standards. There were ten murders in Belize City in an apparent gang feud, whose early stages led to the killing of a leading criminal figure, George McKenzie.

In August Mr Musa and the home affairs minister, Ralph Fonseca, visited Venezuela for discussions on the Petrocaribe initiative, a potentially useful source of funds, attempting also to secure additional grant aid. In June Venezuela agreed a Bz$10m (US$3.48m) grant for Belize.

Impasse in enquiry into DFC

A Commission of Enquiry, which was appointed in March 2005 to determine whether there was any wrongdoing in the operations of the Development Finance Corporation and identify those responsible, has run into a procedural impasse. Its chairman, David Price, died in December 2006, leaving two commissioners, Merlene Bailey-Martinez and Herbert Lord, who have differed on major procedural issues. The Commission heard evidence until March 2006, although some potential witnesses, including two recipients of large loans, the

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Novelo Bus Company and Universal Health Services, had not testified by this date. The commission promised in February 2007 to complete its work by March. Mr Lord said on July 12th that he would write his own report, which Ms Bailey-Martinez objected to. Mr Lord's report was submitted to the cabinet secretary on July 12th and placed on the government website on July 18th, but removed the next day. The National Trade Union Congress of Belize, which had lobbied strongly for the establishment of the Commission, did not accept Mr Lord's conclusions.

Mr Lord had reported that from 1999 to 2003 the former chairman of the DFC, Glenn Godfrey, and his deputy had breached fiduciary duties by treating the institution as an extension of their own private businesses, and that the board and senior staff allowed extensive lending with inadequate collateral. He proposed referral of the report to the Director of Public Prosecutions and civil litigation to recover unserviced loans. The proportion of non-performing loans (NPLs) rose from 13% in 1999 to 33% in 2004, with a few large borrowers playing a prominent role in the increase, and internal lending procedures in some cases overridden. Mr Musa said that he would refer the report and that of a forensic auditor to the Director of Public Prosecutions, and that he would seek legal advice on possible civil action to recover debts. Ms Bailey-Martinez is said to be close to completing her report, which is likely to be at least as critical in its conclusions.

However, Mr Godfrey complained that the Lord report had damaged his reputation, claiming that responsibility for the DFC's troubles rested mainly with Mr Musa and the former finance minister, Ralph Fonseca, who had given frequent policy directives. On July 18th Mr Godfrey obtained a court injunction restraining publication of the report, on the basis that it was written by only one commissioner.

The DFC's poor financial position forced the government in July to announce that it would subsidise the loans of 1,624 small DFC borrowers by a monthly Bz$100 (US$35), at an annual cost of Bz$1.95m. Bz$29m in mortgages, close to half the DFC's home loan portfolio, lack proper documentation or are otherwise "imperfect".

A government loan guarantee causes controversy

Controversy continues over debts of Bz$33.5m incurred by the government, initially through loan guarantees for a private hospital, Universal Health Services. A new group, Belize Health Care Partners (BHCP), will now take over the hospital, and is likely to cut costs, while the National Health Insurance scheme may give rise to an increase in treatment at the hospital. However, BHCP is unlikely to have funds available to pay the debt, or the accumulated interest, which has been charged at a rising rate since April 2007: the principal was supposed to have been repaid by September 24th. An attempt by the Association of Concerned Belizeans, the National Trade Union Congress, the Belize Medical and Dental Union, a senator, Godwin Hulse, and others to contest the government's assumption of the debt in court was delayed in July through procedural challenges raised by the creditor, Belize Bank. The bank referred the dispute to the Court of International Arbitration in London, which on July 4th appointed a tribunal. The government failed to seek representation

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at an initial hearing, on the basis that it intends eventually to pay the debt. An initial award on July 20th held that the tribunal has jurisdiction, awarding costs against the government.

Economic policy

Domestic debt rises

According to Central Bank data, domestic debt stood at Bz$331.1m (US$115.5m or 10.5% of GDP) at the end of June, up from Bz$299.8m at the start of the year. Public-sector external debt was Bz$1.9bn (US$662m, 8.6% of GDP) at the end of June, down from Bz$1.97bn at the start of the year. Leaving aside the Bz$1.1bn Super Bond debt restructuring transaction in February, disbursements totalled Bz$27.3m in the first half of 2007, with debt service payments at Bz$60.4m.

Although there are no new data, there are concerns that the fiscal deficit will significantly exceed the target of 1% of GDP set in the budget speech, owing mainly to a rising public-sector wage bill and likely expenditure increases in the final months of the year in advance of next year's election.

Parliament establishes a new fund and strengthens oversight

In September parliament established a Petroleum Revenue Management Fund, embodying a greater degree of parliamentary oversight and independent audit than the consolidated fund used for other revenue. The fund will receive royalties and other tax from oil extraction, and will be used for social and economic development, initially for the National Health Insurance scheme.

New legislation passed in September embodies some of the July 2006 recommendations of a Senate select committee into the apparent mishandling of social security funds. The new legislation limits administrative expenses, provides an investment framework, with penalties for board members who ignore the provisions of the Act. The Board will have five public and five private-sector and church members, with a private-sector chairman holding a casting vote.

A Public Utilities Act was passed on September 7th, increasing ministerial and parliamentary control of the independent Public Utilities Commission, which regulates water, electricity and telecommunications services, all of which have been subject to public controversy in recent years.

In July the European Development Fund agreed a grant of €11.8m, in recognition of apparent progress by Belize in governance reform, with two-thirds of an additional incentive payment authorised by the EU. A further €600,000 (US$850,252) was agreed to cover future needs relating to emergency assistance, instability in export earnings and debt relief.

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The domestic economy

Hurricane Dean damages the north of the country

Hurricane Dean passed just north of Belize on August 21st 2007 as a Category Five storm. A precautionary evacuation effort ran smoothly, with an estimated 10,000 people leaving Belize City by bus for inland shelters in Belmopan and elsewhere. However, there was extensive damage in northern Belize. Based on damage assessment reports, the estimate of total costs stands at Bz$197.2m (US$99m), including Bz$19m in infrastructure, Bz$131m in agriculture, Bz$9.2m in fisheries, Bz$20.4m to housing and Bz$5.8m for tourism. Taiwan gave a US$200,000 grant. There was a US$350,000 offer from UN agencies, and US$130,000 from the US. A threat from Hurricane Felix, another Category Five storm, forced a second evacuation of Belize City on September 3rd. However, the eye passed well to the south, and there was no serious damage.

Several productive sectors struggle

Several economic sectors have been experiencing difficulties: garment production fell to 514.5 tonnes in the first half of 2007, down from 920.6 tonnes in the year-earlier period, owing to greater global competition, particularly from China. Unconfirmed reports suggest that a clothing factory owned by a US company, Williamson-Dickie, might close because of high labour, utilities and transport costs. The plant was opened in the 1960s, and currently employs more than 300 staff, down from a peak of 700.

Sugar production also fell in the first half of the year, down to 84,316 tonnes, from 102,980 in the first half of 2006. The yield has also been lower this year than last: from 1.2m tonnes of cane, the crop produced 99,600 tonnes of sugar (one tonne of sugar from 12.3 tonnes of cane). In 2006 production was 111,300 tonnes of sugar from 1.173m (one tonne of sugar from 10.5 tonnes). Heavy rainfall reduced the sugar content of the growing cane, while delays in processing caused further losses. New equipment from 2009 will allow cane to be tested for sugar content, with adjustment of farmers' payments for quality.

Banana production fell to 28,608 tonnes in the first half, down from 35,526 tonnes in the first half of 2006, in part because of continued uncertainty in EU market arrangements. Other fruits performed better: citrus production was up by 1.1% year-on-year in the first half, with juice output up by 0.9%. Earnings were helped by strong prices. At 48,371 tonnes, papaya production was up by 41.2% year-on-year, but growth will turn negative from August as a result of severe damage to the crop, which is concentrated in northern Belize, caused by Hurricane Dean. The main papaya grower, Fruta Bomba (a subsidiary of a US company, Brooks Tropicals), said that of its 480 ha of cultivation, 240 ha had been destroyed, with the remainder salvageable. In September the company terminated the employment of over 700 of its 1,200 staff. Exports of papaya totalled US$31m in 2006 and Bz$17.7m in the first half of 2007. There was also severe storm damage to other standing crops in northern Belize, including maize and sugar.

Shrimp production fell by 65.5% year-on-year in the first half, to 824 tonnes. Production of farmed shrimp for export has since been held back by low prices, disease and plant closures. However, in June the US Food and Drug

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Administration banned the import of Chinese shrimp on health grounds, unless cleared by an independent testing agency. This is expected to increase the price commanded by Belizean shrimp. In August an aquaculture company, Marine Farms Belize, began raising cobia fish for export to the US, with an investment of US$5m, with output of 450 tonnes projected for 2008 and planned employment of 200.

Oil output rises again, but exploration proceeds slowly

Oil production in the first half of 2007 averaged 2,722 barrels per day (bpd), up from 1,929 bpd in the year-earlier period. A fleet of 27 tanker trucks transport the oil 195 km to the port of Big Creek, for sea transport initially to the US, but more recently to a Panama refinery. Natural gas produced is currently flared, a wasteful and polluting disposal method. Mr Musa said in August that construction of a small refinery was under consideration.

Exploration efforts are continuing, but at a modest pace. In one of several areas of geological interest, in September the National Environmental Appraisal Committee approved an environmental impact assessment by US Capital Energy, allowing the company to complete a seismic survey as part of a search for oil or gas, which included part of the Sarstoon Temash National Park. The proposal was vigorously opposed last year by the Sarstoon Temash Institute for Indigenous Management, a community organisation representing Q'eqchi Maya and Garifuna. SATIIM now argues that release of the report, a long technical document, should not have been used as a substitute for community consultations.

The government is attempting to make operational the Petrocaribe initiative, under which Venezuela agreed in 2005 to supply refinery products to Belize, with purchases part-financed through soft loans generating funds for social and other projects. Proposals moved forward in August under an agreement with PCV Caribe, a Venezuelan state company implementing the initiative. Construction of two 10,000 barrel storage tanks at the port of Big Creek is expected to begin in December, for completion by June 2008. A special purpose company, Petrofuels Belize, will handle distribution, competing with Esso Belize, an Exxon Mobil subsidiary which owns the only existing storage tanks and has until now been the sole fuel importer. Two existing retail distributors, Texaco and a Barbadian company Sol Oil, will be able to buy either from Esso or from Petrofuels, as will large commercial and public sector customers. Earlier Petrocaribe shipments had been unsuccessful, as storage capacity was rented at high cost from Esso. The pump price of fuel is not likely to be affected.

Pre-hurricane tourist arrivals are slightly up

Tourist arrivals for January-April totalled 94,272, a 1.2% increase on the year-earlier period. Cruise passenger arrivals for January-July were 428,308, a 5.5% year-on-year increase. However, cruise traffic was interrupted for three weeks in August by Hurricane Dean, which is also likely to have led to a dip in stopover tourists in that month.

Royal Caribbean Cruise Line and a local businessman, Mike Feinstein, have proposed to build a US$35m cruise port on the 8-ha island of Stake Bank, to be connected by an 8-km causeway to Belize City. There are concerns that this facility will provide fewer opportunities for small business than the existing

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Tourism Village. The project is believed to have received cabinet approval in September. However, Belize Cruise Terminal, a facility proposed by another local entrepreneur, Luke Espat of Belize Ports Ltd in partnership with Carnival Cruise Lines, claims that the Stake Bank proposal is in breach of exclusivity agreements granted to Belize Ports when the company was privatised, and has threatened legal action to back its claim.

Foreign trade and payments

The trade deficit widens in the first half

Gross imports totalled Bz$682m (US$238m) in the first half of 2007, up 5.4% on the Bz$648m recorded in the year-earlier period. In comparison with the first half of 2006, there was a 13.4% increase in imports of intermediate goods, including construction materials and fuels, which made up 37.1% of total imports. Imports of consumer goods increased by 3.4%, making up 17.2% of the total. In contrast, domestic exports fell in the first half, by 4.7% year-on year to Bz$274.9m, leaving a deficit of Bz$407.1m in merchandise trade, in comparison with a deficit of Bz$359.6m in the year-earlier period. Gross international reserves totalled US$90.4m at the end of June, down from US$104.5m at the start of the year.

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The region

October 2007

Summary

Outlook for 2008-09

The political outlook for the region is broadly stable, but there are risks posed in some jurisdictions by weak mandates and difficult policy choices. The single-seat majority held by Grenada's government makes it vulnerable. The government of Suriname, led by Ronald Venetiaan, is an unwieldy seven-party alliance. Desi Bouterse, a former military dictator of Suriname, is due to face murder charges and political stability could be undermined. Elections in Trinidad and Tobago and Barbados are expected to be called early. In Belize elections due by June 2008 are likely to lead to a change of government. High public debt levels will keep many governments under pressure. The pace of regional growth will slow, mainly reflecting declines in the sugar and banana industries. Prospects for mining and financial services are more positive.

Recent developments

At the Caribbean heads of government meeting in early July, member countries agreed in principle to implement a proposed single economy by 2015. They also reaffirmed their commitment to implement several important elements of the integration process by end-2008. Discussions were also held on providing financial support for the struggling regional airline, Liat Star of the Caribbean, and on the politically-sensitive issue of free movement of labour. As the Caribbean continues to struggle with the competitiveness of its sugar industry, the idea of using Caribbean sugar for ethanol production is becoming increasingly popular, with investments under consideration in Guyana and Barbados. At a June 20th meeting in Washington, the US president, George W Bush, vowed to press the US Congress to renew the Caribbean Basin Initiative (CBI). However, even with presidential backing, support in Congress for an extended CBI is not guaranteed. Tourism professionals were disappointed by arrivals for the 2007 Cricket World Cup, which was hosted by several Caribbean countries in April and March. The tournament failed to produce a highly-anticipated surge in tourist arrivals, despite substantial investment in lodging and transportation infrastructure to accommodate them.

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Outlook for 2008-09

Most Caricom countries have elections ahead

Several major Caribbean Community (Caricom) members will hold general elections within the forecast period. A general election is constitutionally due in Trinidad and Tobago by January 2008, but is expected to be held some months earlier. Party politics remain racially polarised, and discontent is fuelled by a rising crime rate and corruption charges against politicians from both main parties; however, the government will benefit from a booming economy. An election in Barbados, due by September 2008, is also likely to be brought forward. Although the government of Owen Arthur remains the favourite to win, broad policy continuity would be maintained in the event of an opposition victory. In Belize, elections due by June 2008 are likely to lead to a change of government as the People's United Party (PUP) administration of the prime minister, Said Musa, has been plagued by a series of damaging corruption allegations and forced into an unpopular austerity programme. In Grenada the government has a single-seat majority, but has contained the pressure from damaging corruption allegations. With a year of the parliamentary term still to run, the government may choose to call an early election is it senses an opportune moment.

Other Caricom members have much of their parliamentary terms still to run, although some also face a difficult political environment. In Guyana the government faces deep concerns over crime, corruption and political violence, as well as a frequently uncooperative opposition. In Suriname the coalition government led by Ronald Venetiaan heads an unwieldy seven-party alliance. With the main opposition leader, a former military dictator, Desi Bouterse, due to face murder charges in the coming months, political stability could be undermined.

Under a schedule to be finalised in February, the federation of the Netherlands Antilles is expected to be dissolved by the end of 2008. Curaçao and St Maarten will become separate members of the Kingdom of the Netherlands, along with the Netherlands itself and Aruba. Saba, St Eustatius and Bonaire will become autonomous municipalities within the Netherlands and within the EU. The Netherlands will take on responsibility for the federation’s US$2bn public debt. St Maarten and Curaçao will share a judicial system, but will have separate police forces.

The drug trade is a region-wide security threat

The major security challenge throughout the region will remain the drug trade and organised crime, dominated by large, internationally-linked criminal organisations. Lower-level gangs are also involved in small-scale drug-trafficking, extortion and violent crime. At both levels, corruption of public officials and the undermining of laws and institutions is a persistent problem. Drug seizures and arrests in Jamaica since the 2004 launch of Operation Kingfish, an anti-crime initiative with international support, have led to some displacement of trafficking to the eastern Caribbean, Central America and Mexico, as drug shipments are rerouted. There are concerns over a possible increased flow through Venezuela, already a major drug conduit, to the eastern Caribbean, Guyana and Suriname. New coast guard vessels and coastal radar

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systems acquired by Trinidad and Tobago and Barbados will begin to show results in the control of eastern Caribbean drug routes in 2008 and 2009.

Plans for regional integration face slow progress

All Caricom member states, with the exceptions of the Bahamas and Haiti, have now joined the region's single market. Although in practice the launch of the single market will have only a modest impact on the trade of goods, it is expected to have a more significant effect in other areas, such as the movement of labour. Most traded goods were already covered by Caricom's existing free-trade agreements (FTAs). Intra-Caricom trade accounts for only a small proportion of exports, and there is limited potential for further expansion. The members of the Organisation of Eastern Caribbean States (OECS) have secured a number of exceptions, allowing them to maintain protection in selected areas. They will also be the main beneficiaries of a proposed regional development fund. Progress towards creating a Caricom Commission with powers to implement community decisions will be slow. Headway on the implementation of a single economy will be even more difficult, as governments are unlikely to concede control over monetary and exchange-rate policy, and voters in countries with relatively strong currencies would react strongly against any proposals for a common currency unit. Any moves towards strengthening the powers of Caricom institutions would require constitutional amendments in most member states. Recent experience of the Caribbean Court of Justice (CCJ) indicates that this can be a painfully slow process even when most political forces are committed to reform.

Initiatives aimed at increasing trade flows outside the region have little impetus, and advances will be slow. However, negotiations on an economic partnership agreement with the EU will conclude by the end of 2008, when a World Trade Organisation (WTO) waiver for the existing trade arrangements will lapse. Talks within the WTO and proposals for a free-trade agreement (FTA) with the US are unlikely to make significant progress within the forecast period. Regional governments and much of the private sector continue to see liberalisation as a threat to high-cost protected industries. Most Caricom businesses have not benefited from existing bilateral trade pacts in force over the last 20 years, such as the Lomé and Cotonou conventions (with the EU), and the Caribbean Basin Initiative (CBI). A lack of economies of scale and structural reforms will continue to undermine the potential advantages available from these accords.

Public finances will remain under strong pressure

In most of the region, the public finances will remain under pressure. Public debt as a percentage of GDP remains extremely high and will pose an increasing risk in an international environment of tighter liquidity, which is expected to reduce investor appetite for emerging-market debt. Current spending commitments remain high. The fact that taxes on trade will continue to trend downward, in line with international commitments, further complicates the fiscal situation. In this adverse scenario, governments will have to run bigger primary surpluses or produce faster rates of GDP growth to maintain debt ratios at their current levels. Countries that have not already done so will seek to introduce a value-added tax (VAT) to help offset the downward trend in trade taxes. In many countries in the region, however, resistance to expenditure cuts or tax increases will make fiscal improvements

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hard to achieve. With the outlook for international oil prices firm, the cost of subsidising fuel imports in some countries will remain high, and will represent another source of pressure on fiscal accounts. Further adverse fiscal effects will result from the reduction in EU price support for sugar, which began in 2006.

US downturn will hit tourism

The outlook for tourism across the region is mixed. As the US economy slows significantly in 2007 before staging a modest recovery in 2008 and 2009, we expect tourism demand growth to slow. This will be offset in part by a forecast weakening of the US dollar against the euro and sterling in 2008-09, which will make Caribbean tourism more affordable to European residents. Since January 2007 US nationals returning from the Caribbean by air have been required to carry passports. This will affect the Caribbean, particularly destinations such as Jamaica and the Bahamas, where 70% or more of stopover arrivals originate in the US. Risks to the outlook for tourism include a steeper than anticipated downturn in consumer demand in the US. There is also some risk of a resurgence of concern over terrorism or an increased level of alarm concerning avian influenza (bird flu). Notwithstanding these risks, large tourism-related investment projects are in progress in several countries. This will boost the construction sector and support growth in some specific destinations. In the longer term, stopover tourism in the English-speaking Caribbean will continue to face strong competition from cruise ships and lower-cost destinations in the Hispanic Caribbean; adding to the existing advantages enjoyed by cruise lines, cruise passengers will be exempt from the full US passport requirement until June 2009.

EU trade adjustments pose challenges

EU sugar prices, fixed until 2006 at €523.70 (around US$722) per tonne, will be cut by 36% by 2010, to €335. Under EU proposals made in April 2007, the sugar protocol would be extended to September 2009, following which there would be free access for increased quotas at an unspecified guaranteed price until September 2012, after which there will be duty-free and quota-free access, but with no plans for continuing price guarantees. EU assistance for adjustment by the six current and former Caribbean sugar producers would total €325.5m for 2007-10, with a further amount for the period to 2013 yet to be determined. Guyana, Belize, Barbados and Jamaica are expected to push for ambitious investment programmes, in most cases incorporating ethanol production, whereas the Trinidad and Tobago sugar industry will end production, as did that in St Kitts-Nevis in 2005. Unused EU and US quotas from St Kitts and Trinidad will be passed to Caricom producers with spare capacity, mainly Guyana.

The future of the EU banana import regime remains uncertain. From the start of 2006 lower tariffs for Latin American bananas came into effect, although preferential quotas for Caribbean producers remained in place. Suriname and Belize will continue to benefit from an increase in the proportion of Africa-Caribbean-Pacific (ACP) banana export quotas allocated on a first come, first served basis. However, the tariff and quota system is currently being challenged in the WTO by Ecuador, Colombia and the US. Without some form of protection, Caribbean banana production would be unlikely to survive.

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High prices support mining investments

High prices are supporting investment in increasing mining production in the region, which will help offset a projected fall in prices later in the forecast period. Suriname will benefit from a high level of gold production during a period of relatively strong prices for gold, as well as from the prospect of further large-scale investment in bauxite, and onshore and offshore exploration for oil and gas. There are also prospects for on- and offshore oil and gas exploration in Guyana, Barbados, Jamaica and Belize. Large-scale investment in alumina in Jamaica will be of significant benefit. Trinidad and Tobago will continue with efforts to become a centre for higher value-added metals processing, owing to its greater capacity for generating electricity at a comparatively low cost.

Financial sector's performance will vary across the region

The outlook for financial services is mixed. The domestic and regional sectors are performing strongly in Trinidad and Tobago, Barbados and the Bahamas. However, some financial institutions in these and other economies continue to suffer from imbalances. Some Trinidad and Tobago-based institutions hold significant assets in the most heavily indebted Caribbean economies, and have lost significant net present value through the recent debt restructuring in Belize. The offshore financial sector has fair prospects in the best established and most consistently regulated jurisdictions, but the continuing need for OECD countries to close money-laundering and tax loopholes will place limits on growth prospects for some Caribbean financial centres.

Recent developments

Heads of government meet in Barbados

At a Caricom heads of government meeting in Barbados on July 1st-4th, member countries agreed in principle to implement a proposed single economy by 2015. They also reaffirmed their commitment to implement several important elements of the integration process by end-2008 including a Caricom investment code, a regional stock exchange, an agreement on services, the integration of the regional capital market, and the widening of the categories of workers eligible for free movement of labour. The leaders also agreed to establish a Council for Co-ordination and Implementation to replace the existing Community Council, with a Caricom Commission to implement community decisions, as recommended by a Technical Working Group on Governance.

The heads of government also agreed in principle that countries served by the regional airline, Liat Star of the Caribbean, should provide financial support for its restructuring. They also endorsed a plan for the three shareholder governments, Antigua-Barbuda, Barbados and St Vincent and the Grenadines, to approach the Caribbean Development Bank (CDB) for additional financing. Ralph Gonsalves, the prime minister of St Vincent and the Grenadines, at the start of the summit accused Caribbean governments of "sabotaging" Liat, which was formed earlier this year as the result of a merger between Leeward Islands Air Transport (Liat) and the privately-owned Caribbean Star. There have been repeated complaints from tourism officials in the eastern Caribbean that the merger has created a near-monopoly as inter-island fares have doubled on many routes, reducing bookings. St Lucia recently granted American Eagle the right to fly between St Lucia and Barbados; fares are now lower on that route

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than for most other inter-island connections. Other regional airlines continue to face serious challenges. Air Jamaica and the recently-restructured Trinidad and Tobago carrier, Caribbean Airlines, have both dropped their London routes and sold their Heathrow landing slots, to Virgin Atlantic and British Airways respectively. Bahamasair remains heavily in loss.

The issue of free movement of labour remains contentious. Member states were urged to implement existing agreements on the free movement of certain categories of Caricom-certified skilled professionals, and to grant automatic three-month stays to all Caricom nationals. Antigua, which recently faced criticism for deporting two locally-employed journalists (one from Trinidad and Tobago and one from Dominica), registered its opposition to the latter. There have been complaints that member states are continuing to impose unduly-harsh restrictions on the agreed categories of migrants. Guyana frequently complains that its nationals are poorly treated by regional immigration officials, particularly in Barbados.

EPA negotiations continue

Negotiations are continuing for an Economic Partnership Agreement (EPA) between the EU and the Cariforum group, which is made up of all Caricom countries except Montserrat, plus Haiti and the Dominican Republic. The EU intends to finalise an EPA with the Caribbean and groups of countries in Africa and the Pacific by the end of 2007, at which point a WTO waiver will expire for the existing Cotonou trade agreements. Without a new agreement, the EU would apply the less-favourable General System of Preferences used for non-ACP developing countries. As part of the negotiations, on April 4th the EU offered to open its market to all goods from 78 African, Caribbean and Pacific former colonies from the start of 2008, but with a phased-in transition period for rice and sugar, which are classed as sensitive products. The transition period for rice would be brief, with a duty-free import quota. Caribbean countries will be required to provide open market access for EU goods, but only after a long transition period of up to 25 years. ACP negotiators have continued to voice concerns over non-tariff barriers, such as controls over pesticide residue in fruit and vegetables.

The EU in April agreed a grant of €36.9m to support Caricom integration. Of this, €20m will be used for implementation of the single market and economy; for external trade negotiations through the Caribbean Regional Negotiating Machinery (CRNM) and representation at the WTO; for the newly established Institute of Translation and Information in Suriname; and for the improvement of economic and statistical data collection at both a regional and national level.

Viability of bio-fuels production is unclear

As the Caribbean continues to struggle with the competitiveness of its sugar industry, the idea of using Caribbean sugar for ethanol production is becoming increasingly popular. There are currently projects under development in Guyana and Barbados for ethanol to be produced from locally-grown sugar cane to supply both the local market and US export market. However, the high agricultural costs which constrain the sugar industry are also likely to prove problematic for ethanol. At present, operations in Jamaica and Trinidad dehydrate Brazilian ethanol in relatively high-cost plants, which is then exported to the US duty-free as a Caribbean product, subject to a quota which

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is expected this year to total 350m US gallons (1.3bn litres), approximately 1% of the total US market for alternative fuels, and equivalent to 88% of current Caribbean ethanol capacity. This activity would no longer be viable if the Caribbean's trade privileges are lost—which appears likely from 2008—if the US reduces its ethanol tariffs across the board, as proposed in the US Congress earlier this year; or if the Caribbean's quotas for duty-free ethanol are reduced, as advocated by some farm lobby proposals.

Mr Bush vows to update CBI

On June 20th Caribbean heads of government met the US president, George W Bush, the first joint meeting with a US president since 1997. Mr Bush vowed to press the US Congress to extend and update the Caribbean Basin Initiative, a package of trade benefits to a number of Caribbean and Central American countries to export textile and other manufactured products to the US, without being subject to US import tariffs. The scheme is at present due to expire in September 2008. However, even with presidential backing, support in Congress for an extended CBI is not guaranteed. Trinidad and Tobago, which aims to develop ethylene and propylene industries, continues to lobby for duty-free access to the US market for goods made in third countries and package in Trinidad.

Security issues were also discussed, including Haiti, drug-trafficking and terrorism. Jamaica in particular stressed the need for US support in stemming the export of guns to the Caribbean for illegal use, and for modifications to US policy on deportation of Caribbean criminals. More than 16,000 nationals were deported from the US to Jamaica in 1998-2005, with more than 2,000 each deported to Trinidad and Tobago and to Guyana. The US has now offered to extend a pilot scheme for the reintegration of deportees into Haitian society to the English-speaking Caribbean.

Cricket World Cup is a disappointment to tourism

Tourism professionals were disappointed by arrivals for the 2007 Cricket World Cup, which was hosted by several Caribbean countries in March and April. The tournament failed to produce a highly-anticipated surge in tourist arrivals, despite substantial investment in lodging and transportation infrastructure to accommodate them. Overall, the tournament was plagued by poor performances of some of the major overseas crowd-drawing teams (such as India and England) and the death early in the tournament of the Pakistan cricket coach, Bob Woolmer, in Jamaica. However, low attendance was also the result of high ticket and food prices and restrictive spectator rules which dampened the spirit of the tournament. Large numbers of tourist bookings from India and Pakistan were cancelled when those teams were eliminated in the first stage of the tournament. The total number of non-Caribbean visitors to the nine host countries is estimated at 35,000, well below the official target of 100,000. In addition, there appears to have been some displacement of non-cricket visitors during the peak winter tourist season as a result of inflated airfares and room rates, and a temporary Caricom visa requirement for many European travellers.

Although much of the additional public expenditure on roads and hotels would have been required at some stage (even without the World Cup), there was significant spending, estimated at US$40m, on items directly related to the tournament. Stadium costs were estimated to total more than US$250m, of which most was covered by Chinese and Taiwanese grants. In Guyana, costs

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were covered by a soft loan from India. The tournament further strained the public finances in several countries, while some tourism investments received costly tax concessions or other government support. Average match attendance was below 9,000 over the 51 matches, far below the expected average number of 15,700, even with ticket prices deeply discounted towards the end of the tournament. A final assessment of the World Cup's economic impact on the region will be released by the CDB before the end of 2007.

Cruise arrivals continue to rise

During the early months of 2007, stopover tourism was generally weak. Of the major markets, arrivals were down year on year in Antigua-Barbuda, the Bahamas, Jamaica and St Lucia. Barbados showed no change, while there were increased arrivals in Aruba (rebounding from a US boycott in 2005-06), Bermuda, the Cayman Islands and Curaçao. Cruise arrivals showed increases in most Caribbean destinations, with particularly strong growth in St Lucia. In the wider Caribbean, there was a strong recovery from 2005 hurricane damage in the Mexican resorts of Cancún and Cozumel, but a year-on-year decline in Cuba, and stagnation in the Dominican Republic. In addition to the economic downturn in the US market, a dampening effect on arrivals was also posed by a new requirement as of January 2007 for US citizens travelling to the Caribbean (except by cruise ship) to hold passports, which was thought to have deterred impulse visits to Jamaica and the Bahamas. Around 74m US citizens hold passports, with 17m to be issued this year, up from 12m in 2006. With waiting times for US passports increased by a rush of applications from the normal six weeks to ten weeks, the US has—for June to September this year—allowed Caribbean travel with a driving licence and proof of application for a passport.

The region: tourist arrivals, 2007

Destination	Period	Arrivals	% change, year on year
Anguilla	Jan	7,411	22.7
Antigua-Barbuda	Jan-Apr	98,173	-1.5
Aruba	Jan-Mar	187,027	9.8
Bahamas	Jan-Mar	389,597	-5.0
Barbados	Jan-Apr	207,435	0.0
Belize	Jan-Mar	77,756	2.4
Bermuda	Jan-Apr	72,612	8.7
British Virgin Islands	Jan-Mar	108,527	0.9
Cayman Islands	Jan-May	137,249	8.7
Curaçao	Jan-Apr	90,471	9.5
Dominica	Jan-Apr	26,000	-3.6
Grenada	Jan-Mar	33,431	0.5
Guyana	Jan	8,933	9.5
Jamaica	Jan-Mar	427,252	-2.1
Montserrat	Jan-Apr	2,522	-9.7
St Lucia	Jan-Apr	100,786	-8.9
St Vincent and the Grenadines	Jan-Apr	33,884	-3.9

Source: Caribbean Tourism Organization.

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The region: cruise passenger arrivals, 2007

Destination	Period	Arrivals	% change, year on year
Antigua-Barbuda	Jan-May	266,464	-10.7
Bahamas	Jan-Mar	854,457	1.7
Barbados	Jan-Apr	279,215	15.6
Belize	Jan-Apr	340,904	8.7
Bermuda	Jan-Apr	23,057	13.5
British Virgin Islands	Jan-May	311,368	17.6
Cayman Islands	Jan-May	983,824	4.6
Curaçao	Jan-Apr	176,392	14.6
Dominica	Jan-Mar	141,243	-6.2
Grenada	Jan-Mar	119,584	4.4
Jamaica	Jan-Mar	411,622	1.3
St Lucia	Jan-Apr	296,051	44.5
St Vincent and the Grenadines	Jan-Apr	89,195	42.3

Source: Caribbean Tourism Organization.

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