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ECONOMIC OVERVIEW OF CARIBBEAN COUNTRIES

2002 – 2003

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ECONOMIC OVERVIEW OF CARIBBEAN COUNTRIES 2002 – 2003

I. STATES MEMBERS OF THE ORGANISATION OF EASTERN CARIBBEAN STATES (OECS)¹

1. General trends

In 2002 the OECS economies registered negative growth (-0.3%) as key productive sectors stagnated. The tourism sector languished, reflecting significant structural weaknesses. The manufacturing sector remained uncompetitive by international standards and construction suffered from a reduction in the rate of implementation of investment projects. Agriculture proved to be the exception to this trend, but its development potential remains constrained by internal difficulties and by the effects that the gradual withdrawal of preferential market access will have on the industry.

In terms of individual member States, Antigua and Barbuda, Montserrat, Saint Kitts and Nevis and Saint Vincent and the Grenadines recorded positive growth rates (1.4%, 6.0%, 0.4% and 1.1%, respectively), while all the others saw their economies contract (-4.2% and -1.2%, for Anguilla and Grenada, respectively) or stagnate (Saint Lucia). Dominica witnessed by far the deepest trough (-6.7%) as a result of an impending economic crisis that severely curtailed the functions of the government.

¹ The States members of OECS include Anguilla, Antigua and Barbuda, the British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The analysis here presented covers all member States with the exception of the British Virgin Islands. These States form a currency union and fall under the monetary authority of the Eastern Caribbean Central Bank (ECCB). These economies have three different fiscal years. Dominica's fiscal year starts in July and ends in June. The fiscal year in Anguilla, Saint Kitts and Nevis and Montserrat coincides with the calendar year. The rest of the economies have a fiscal year spanning from April to March. ECCB reports the fiscal accounts on a calendar-year basis to make them comparable.

Dominica's situation drew the attention of regional organizations and national institutions to the fiscal vulnerability and general macroeconomic situation in the OECS economies. The OECS countries have recorded steadily declining rates of growth since the 1970s and, at the same time, have accumulated significant fiscal and external gaps, creating debt sustainability problems and making the countries more dependent on foreign financing, which in some cases has tended to decline. In 2002, public debt outstanding rose by 14.7%. The Caribbean governments decided to create a stabilization fund to deal with this situation and enable the countries of the sub region to meet the institutional and economic challenges posed by the current international trends towards globalization and market liberalization.

The downturn in growth translated into a decline in productive sectors, demand for credit and rising levels of liquidity in the financial system. However, commercial banks did not systematically lower the cost of borrowing, opting instead to bear the opportunity costs of holding funds idle and thereby reinforcing a declining trend in their profitability.

At the same time, tax revenues were unable, in the majority of cases, to compensate for the expansion of current expenditure, forcing most member States to balance their fiscal accounts by constraining capital expenditures.

These imbalances were reflected in member States' external accounts, which at the aggregate level reveal the importance of portfolio investment as a source of financing and show a reduction in foreign direct investment flows.

The outlook for 2003 remains bleak. The development of member States' productive sectors is hampered by technical difficulties and the lack of profitable outlets. Most States are thus relying on an increase in the implementation rate of public sector programmes and on external stimuli to revive their economic activity. Member States project a recovery of the tourism and construction sectors, while agriculture is expected to maintain its current overall performance.

2. Economic policy³

(a) Fiscal policy

At the aggregate level the OECS economies improved their fiscal position with respect to the previous year, owing mainly to an improvement in the capital account. This resulted, in turn, from an increase in capital revenue (from EC\$ 11 million in 2001 to EC\$ 42 million in 2002) and, most importantly, a contraction in capital expenditure (-14%). The reduction in capital expenditure reflected the completion of investment projects and also, in some countries, low rates of implementation of public-sector investment programmes.

The current account balance deteriorated (from a deficit of EC\$ 127 million in 2001 to EC\$ 160 million in 2002) because of the expansion of current expenditure (6.6%), which amply

² Bahamas does not report current GDP figures.

³ The main macroeconomic indicators for the OECS are included in table 1 below.

offset the increase in current revenue (5.3%). Current revenue was driven by the taxes collected on international trade and transactions (7.2%), and current expenditure, by all of its components. The deficit was financed from external sources. As the OECS countries move into the end of 2003, the current account is expected to improve due to a faster growth in current revenue relative to the increase in current expenditure.

In terms of individual member countries, Anguilla and Montserrat registered surpluses on their overall fiscal balance. Antigua and Barbuda, Dominica and Saint Lucia narrowed their fiscal shortfalls, but Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines saw their fiscal accounts deteriorate.

Anguilla's performance is explained by the containment of current expenditure despite the settlement of wage arrears that took place in the second quarter of the year and the contraction in capital outlays due to the completion of public-sector investment projects.

In Antigua and Barbuda, current revenues rose thanks to an increase in the customs service charge (from 5% to 10%) and the widening of the base of the environmental levy. However, rising current expenditure led to deterioration in the current account deficit owing to an increase in the wage bill and maintenance outlays. The contraction in capital expenditure was due mainly to the completion of projects as the government undertook the task of rehabilitating road infrastructure and health facilities and expanding the Heritage Quay.

In July 2002 Dominica implemented an IMF standby arrangement which contemplated measures to increase fiscal revenues, including a stabilization levy and a broadened sales tax incorporating telecommunications services. In practice, fiscal revenues remained at the previous year's level and the required adjustment was brought about through the containment of current expenditure and a drop-off in the rate of capital project implementation.

Grenada witnessed a decline in its current account surplus as revenue failed to keep pace with expenditure. While tax revenues reflected the slow pace of economic activity, the potential of non-tax revenues was constrained by a reduction in the number of offshore financial companies. Current expenditure reflected interest payments on the external debt and transfers and subsidies. Capital expenditure rose significantly as public works were undertaken on a major hospital.

Montserrat's current account deficit widened owing to an increase in transfers and subsidies, which is explained by the operational and maintenance costs of the helicopter and ferry services transferred to the government at the beginning of 2002. Meanwhile, capital expenditure shrank as public-sector projects entered their completion phase.

In Saint Lucia saw its current account surplus rise in relation to the previous year because of a marginal increase in tax revenue and the successful containment of expenditure. The government thus found itself with greater leverage to carry out capital expenditure projects to revitalize the economy. Ongoing projects included road and water infrastructure, the improvement of security services and a fish-landing complex. Fiscal management was facilitated by a rise in capital grants due to a fisheries project.

Saint Kitts and Nevis managed to reduce its current account deficit despite an increase in its external debt burden due to a bond issue, higher transfers in the first half of the year and lower receipts of international trade and transaction taxes, as a result of the removal of the accommodation tax to help shore up the tourism sector's competitiveness in the light of lower visitor expenditure. The capital account balance reflected a 50% increase in expenditure due to the construction of a fisheries complex and a hospitality center, hospital rehabilitation and the enhancement of road and building infrastructure.

| Table 1 | | | | | | |
|--|------------------------|---------|---------|---------|---------|---------|
| OECS | | | | | | |
| Macroeconomic Indicators | | | | | | |
| 1997-2002 | | | | | | |
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
| | Annual growth rates b/ | | | | | |
| Gross Domestic Product | 3.2 | 4.0 | 4.09 | 2.41 | (2.09) | (0.31) |
| Agriculture | -7.1 | 1.1 | -4.7 | 0.9 | -8.4 | 6.6 |
| Mining and quarrying | 7.0 | 2.1 | 6.5 | 8.5 | -0.8 | -0.8 |
| Manufacturing | 2.7 | 2.3 | 3.3 | 4.3 | -5.6 | -0.8 |
| Construction | 7.9 | 11.5 | 8.3 | 4.1 | -1.3 | -2.2 |
| Electricity, gas and water | 6.7 | 6.2 | 9.0 | 9.0 | 6.8 | 2.7 |
| Transport | 6.1 | 2.4 | 3.5 | 1.3 | -2.2 | -1.9 |
| Communications | 6.1 | 10.3 | 15.6 | 4.2 | -0.6 | -3.0 |
| Tourism | 7.9 | 0.3 | 3.7 | -1.4 | -4.9 | -0.9 |
| Wholesale and Retail | 3.6 | 4.2 | 4.6 | 0.8 | -2.9 | -0.9 |
| Banks and insurance | 10.0 | 7.9 | 6.3 | 6.3 | 2.6 | 1.8 |
| Real Estate and Housing | 1.6 | 2.8 | 4.0 | 3.1 | 2.7 | 2.4 |
| Other Services | 0.7 | 2.1 | 4.1 | 5.4 | 0.1 | 0.6 |
| | Millions of dollars | | | | | |
| Balance of payments | | | | | | |
| Balance on current account | -402.4 | -370.7 | -441.5 | -414.4 | -407.5 | -481.3 |
| Exports of goods and services | 1454.7 | 1571.0 | 1645.9 | 1657.1 | 1183.7 | .... |
| Imports of goods and services | -1 826 | -1 926 | -2 046 | -2 039 | -1 507 | .... |
| Income account balance | - 131 | -146.79 | -175.41 | -196.23 | -176.37 | -204.52 |
| Current transfers balance | 100.4 | 131.0 | 133.9 | 163.6 | 113.7 | 112.1 |
| Capital and financial account balance c/ | 450 | 418 | 496 | 469 | 427 | 566 |
| Foreign direct investment | 261.4 | 312.9 | 333.0 | 303.4 | 242.2 | 164.48 |
| Other capital | | | | | | |
| Global balance | 24.7 | 64.1 | 31.6 | 18.9 | 63.0 | 85.133 |
| Variation in reserve assets d/ | -24.2 | -66.2 | -31.6 | -18.9 | -42.7 | 85.1 |
| Other financing e/ | -0.5 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other indicators of the external sector | | | | | | |
| Gross external debt (% of GDP) | 36.6 | 37.0 | 38.8 | 39.8 | 41.6 | 39.0 |
| | Prices | | | | | |
| Consumer price index (end-of-period) f/ | | | | | | |
| Nominal exchange rate | 3.0 | 2.31 | 1.44 | 2.26 | 2.23 | 0.60 |
| | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |

| Non-public financial sector | Percentages of GDP | | | | | |
|--------------------------------------|--|-------|--------|--------|--------|-------|
| | Current Revenue | 24.94 | 25.33 | 25.69 | 25.43 | 24.87 | 26.11 |
| Current Expenditure | 23.73 | 23.66 | 24.09 | 24.44 | 26.53 | 28.19 |
| Capital account balance after grants | -4.40 | -3.83 | -5.01 | -5.73 | -5.92 | -3.75 |
| Fiscal result g/ | -2.619 | -1.65 | -2.97 | -4.29 | -6.51 | -5.83 |
| Money and credit | Rates of change (December to December) | | | | | |
| Domestic Credit | | | | | | |
| Public Sector | | 122.6 | -107.6 | 1810.3 | -116.7 | 72.1 |
| Private Sector | | 8.0 | 10.3 | 10.4 | 2.3 | 1.9 |
| Money Supply (M2) | | 12.9 | 10.6 | 10.6 | 5.9 | 6.6 |
| Money Supply M1 | | 13.2 | 9.4 | 1.7 | 2.8 | 5.9 |
| Currency | | 10.1 | 12.9 | -0.5 | -3.5 | 5.3 |
| Demand Deposits | | 14.7 | 7.8 | 2.8 | 5.8 | 6.1 |
| Quasi Money | | 12.8 | 11.0 | 13.1 | 6.7 | 6.7 |
| Savings deposits | | 9.8 | 8.7 | 6.4 | 5.3 | 9.1 |
| Time Deposits | | 19.3 | 12.9 | 14.3 | 9.8 | -0.7 |
| Foreign Currency Deposits | | 11.1 | 16.0 | 38.3 | 4.7 | 14.6 |
| Real interest rates | Annual percentages | | | | | |
| Weighted average deposit rate | 1.3 | 2.0 | 2.9 | 2.2 | 2.0 | 2.7 |
| Weighted average lending rate | 8.7 | 9.0 | 10.5 | 9.4 | 9.0 | 10.3 |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1980 constant prices.

c/ Does not include errors and omissions.

d/ The sign (-) indicates a reserve increase.

e/ Includes use of credit and International Monetary Funds Loans and Financing.

f/ Averages of end-period inflation of Eastern Caribbean Central Bank Member States.

g/ Includes grants.

In Saint Vincent and the Grenadines, the fiscal accounts showed a bigger current account surplus as a result of an increase in the rate of the consumption tax, a widening of the tax base of the interest levy and the introduction of licenses. At the same time, capital expenditure more than offset the revenue effects of these tax measures, and included equity investment in the Caribbean airline LIAT, the Grenadines Multi-Project Phase and outlays on human capital development and physical infrastructure.

In 2003 most of the countries are expected to resume their normal rates of public project implementation, although their fiscal situation is likely to remain unchanged unless growth prospects improve.

(b) Monetary and foreign exchange policy

The OECS economies have formed a currency union since 1983. Its monetary unit, the Eastern Caribbean dollar, is pegged to the United States dollar at EC\$ 2.70 per US\$ 1. The union's monetary authority, the Eastern Caribbean Central Bank, acts as a quasi-currency board and is required by statute to back up 60% of its monetary liabilities. Since the formation of the union, the Central Bank has maintained a neutral monetary stance and has hardly changed its

reference rate of interest. Two important features of the currency union explain this neutral stance. On the one hand, the monetary authority's management of its foreign assets and liabilities has guaranteed a backing ratio that greatly exceeds the statutory levels. On the other hand, the commercial banking system forms a closed circuit that follows the banking principle, namely the maintenance of equality between assets and liabilities.

In 2002, the expansion of the broad money supply (7%) resulted from the accumulation of net foreign assets by commercial banks (23%). This is explained by the slowdown in economic growth, which negatively affected the demand for credit (1.2%), leading the commercial banking system to accumulate liquidity (the deposit-loan ratio rose from 1.24 to 1.30) and to channel that liquidity into the acquisition of external assets. The prime lending rate moved from 9% to 8.5% in September 2002, but did not decrease sufficiently to offset the effect of falling inflation.

As has been usual in the past, personal loans represent close to half of total lending (46%). Agriculture, tourism and manufacturing registered the largest increases in credit (12%, 9% and 8%, respectively). Professional services, financial institutions, entertainment and transport reduced their demand for credit (-3%, -8%, -9% and -10%).

Monetary trends in the individual countries mirrored those of the ECCB area in the aggregate. In all the countries, the banking system accumulated net foreign assets, with the biggest increases being registered in Dominica and Grenada (2% and 11.2%, representing 3.3% and 7.8% of the financial system's total net assets). At the same time, except in Saint Vincent and the Grenadines (14%), the growth of demand for credit was sluggish (5%, 0.3%, 11.2%, -4.1%, -2.3% and 3.6% for Anguilla, Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis and Saint Lucia, respectively). The respective commercial banking systems increased their levels of liquidity, but this was scarcely reflected in their lending policy, as interest rates remained constant (in Anguilla, Montserrat, Saint Lucia and Saint Vincent and the Grenadines) or decreased by one percentage point in nominal terms (in Antigua and Barbuda, Dominica, Grenada and Saint Kitts and Nevis). Again with the exception of Saint Vincent and the Grenadines, the deposit-loan ratio increased in all cases (1.41, 1.19, 1.20, 1.27, 1.23, 1.08 and 1.45 in January 2002 and 1.56, 1.22, 1.39, 1.39, 1.27, 1.11 and 1.39 in January 2003 for Anguilla, Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines, respectively).

In 2003 the situation has not changed, and the factor that will ultimately determine the behavior of the demand for credit is GDP growth.

3. The main variables

(a) Economic activity

The OECS economies registered negative growth (-0.3%) as a result of the contraction in construction (-2.2%), tourism (-0.9%) and manufacturing (-0.8%). Agriculture proved to be the

exception to this trend, making a robust recovery from the previous year's underperformance (from -9.2% in 2001 to 6.6% in 2002).

Agriculture rebounded mainly because of a 19% increase in the volume of banana production, as Saint Lucia's output, representing 73% of the total, rose by 16%, while that of Saint Vincent and the Grenadines was up by 10.9%. This was due to favorable weather conditions, improved irrigation and, in the specific case of Saint Lucia, the effects of an emergency recovery programme. In the other Windward Islands, banana output contracted (-3.4% and -9.4% in Dominica and Grenada, respectively) as a result of drought conditions and a decrease in total acreage. The production of other crops (cocoa, nutmeg and mace), which rose by 27%, 41% and 10%, respectively, benefited from greater productivity, improved supply prices, extensive cultivation and more efficient pest control.

Construction reflected the contraction in government capital expenditure due to the completion of public and private investment projects and also to a reduction in their implementation rate. Exceptions to this pattern included Grenada, Montserrat and Antigua and Barbuda. In Grenada construction expanded in response to an increase in public capital expenditure. In Montserrat public and private investment rose and in Antigua and Barbuda the increase in construction was led by the expansion of hotel capacity.

Manufacturing reflected the slow growth of external demand and local industries' lack of competitiveness. Soap, toothpaste, flour and rice retreated (0.2%, -16%, -30% and 0.9%, respectively).

The languishing tourism sector did not fully recover from the effects of the 11 September attacks and was also hurt by the discontinuation of weekly cruise-ship routes to some of the OECS countries. The number of stay-over arrivals and yacht passengers increased marginally (by 1% and 0.4%), while that of cruise-ship passengers and cruise-ship calls declined (by 24% in both cases). The net result for OECS as a whole and also at the individual country level was a contraction in the number of total visitor arrivals (-14%) and in visitor expenditure (-1%).

(b) Prices, wages and employment

The rate of growth of price level decreased in most OECS member States, reflecting continued stagnant growth and stable international and agricultural prices. On average, the growth in the consumer price index decreased from 0.27% to -0.40%. At the country level, Anguilla registered the most pronounced drop-off (-1.75%) owing to lower prices for accommodations, which, in turn, reflected an incentive policy designed to maintain the competitiveness of the tourism industry. Saint Lucia was the only country in which prices trended upward in the last quarter of the year with respect to the same period of the previous year (0.29% and 0.35% in 2001 and 2002) because of increases in fuel and electricity (1.06%), transport and communications (1.13%) and medical care and expenses (2.71%). In 2003 inflation will remain subdued, in the vicinity of 0.5%-1.3%.

A comparative examination of the components of the price index by Member State reveals that food prices (which have the highest weight in the price index of all the economies)

declined on average from 0.12% to -0.60% between the last quarter of 2001 and the same period of 2002. Housing, which is second in importance for most economies, exhibited a trend (-0.06% and -1.38% on average in 2001 and 2002) similar to that of most of the other components of the consumer price index, with one or two minor exceptions.

Labor market information on the OECS economies indicate that Antigua and Barbuda and Saint Vincent and the Grenadines registered increases in employment among civil servants and nurses. In addition, Montserrat implemented a 10% wage increase for civil servants.

(c) The external sector

The overall balance-of-payments outcome was positive, as the current account deficit (US\$ -481 million, or 16% of GDP) was amply financed by the surplus on the capital and financial account.

The current account out-turn is explained by the mixed performance reflected in the merchandise trade balance (US\$ -1.016 billion) and the fall-off in tourism earnings (-1% in gross visitor expenditure), which reduced the service account surplus from US\$ 658 million to US\$ 627 million. At the country level, the merchandise trade deficit narrowed in Dominica, Anguilla and Saint Lucia (-17%, -12% and -7%, respectively) and widened significantly in Montserrat and Saint Vincent and the Grenadines (47% and 10% respectively). Dominica and Grenada registered reductions in their merchandise exports (-4% and -2%, respectively) that were more than offset by the decline in imports (-12% and -3%, respectively). Saint Lucia benefited from a rise in banana exports (44%) and a negligible expansion of total imports (less than 1%). For its part, Saint Vincent and the Grenadines recorded a drop in exports (-13%) and an increase in imports (3.5%). Lastly, in Montserrat imports are bound to outpace exports merely by virtue of the economy's small size. The country's total merchandise import bill amounts to 17 times its export earnings.

The capital and financial account surplus (US\$ 566 million), reflected official transfers to the OECS economies. The financial surplus (US\$ 450 million) reflected an upsurge in portfolio investment, since foreign direct investment, which went mainly to the tourism sectors, declined (-6%). In the external sector the prospects for 2003 are that the current account is likely to widen. This projection is based on an increase in net outflows of investment income associated with new debt instruments of the central bank combined, and a deterioration of the merchandise trade account. The deficit on the merchandise trade account is expected to increase due to an anticipated decline in export earnings coupled with a higher growth in imports.

II. OTHER CARIBBEAN COUNTRIES

1. General trends

The economic performance of the other Caribbean countries was varied. Nonetheless, with the exception of Trinidad and Tobago and Belize (3.2% and 3.7%), these countries share some of the features characterizing the economic performance of OECS. Growth in Barbados, Bahamas, Guyana, Jamaica and Suriname stagnated. Barbados registered a decline (-0.4%), and Guyana, Jamaica and Suriname recorded similar rates of expansion (1.1%, 1.0% and 1.2%, respectively).⁴

The slowdown in growth, which is explained by the contraction in the main economic sectors (agriculture, mining and tourism), led the banking system to increase liquidity margins, forcing the authorities in Jamaica, Trinidad and Tobago and Suriname to intervene in those countries' flexible exchange rate systems in an effort to prevent depreciation of the exchange rate and stave off the threat of higher inflation. In Jamaica, in spite of concerted efforts to keep the exchange rate stable, the nominal rate followed an unstable path that turned into a free fall in the early months of 2003 before it finally stabilized. In Suriname, direct intervention by the authorities, including an increase in the reserve requirement ratio and the establishment of a trading band, did not stop the currency from depreciating. In Trinidad and Tobago, phases of foreign exchange shortage alternated with phases of relative abundance.

In the case of the fixed exchange rate systems, the authorities' response depended on the specifics of each case. In Barbados and Bahamas the authorities sought to engineer a decline in interest rates, in part to alleviate the domestic debt burden. Meanwhile, Belize was also exposed to devaluation pressures, forcing the authorities to adopt a strict monetary stance.

The fiscal accounts improved in Belize and Guyana and worsened in the rest of the Caribbean countries. The reasons for the deterioration of the fiscal accounts do not have a common denominator and can only be analyzed on a case-by-case basis.

Given the countries' low growth, inflation was not a priority for most of them. The rate of inflation rose in Guyana and settled at the two-digit level in Suriname.

The external account out-turn was mixed. Trinidad and Tobago registered a surplus, and Bahamas and Guyana improved their current account position, while the rest of the countries widened their imbalances.

For 2003 most of the countries except Jamaica expect improved growth prospects. Trinidad and Tobago is expecting higher foreign exchange flows as a result of its large endowment of oil resources. Bahamas and Barbados are expecting a recovery led by tourism. After changing its tourism legislation and approving the construction of a hotel by a major chain, Barbados is likely to record positive growth in 2003. Belize plans to stabilize its economy as its

⁴ Bahamas does not report current GDP figures.

fiscal deficit narrows and becomes sustainable over time. Guyana is counting on the government's efforts to rationalize and improve the productivity of its agricultural sector. Suriname will benefit from a number of investments by foreign companies in the agricultural and mining sectors.

On the external front, the Caribbean Community (CARICOM) countries signed a free trade agreement with Costa Rica in 2003 as part of their broader regional integration efforts. The smaller CARICOM countries are also beginning to outline a strategy for negotiations with Europe in the wake of the Cotonou Agreement, while others, such as Jamaica, are shifting their trade strategies from market access to export promotion and diversification

2. Bahamas

Economic policy⁵

(a) Fiscal policy

The central government's deficit widened significantly between fiscal years 2000/2001 and 2001/2002, then narrowed in fiscal year 2002/2003 (B\$ 16, B\$ 95 and B\$ 147 million). The 2001/2002 outcome resulted from a decline in tax revenues. These revenues were negatively affected by the events of 11 September, which translated into lower receipts from international trade and transactions taxes. Import taxes, which account for 46% of total tax revenues, declined by 12%. In the same vein, tax receipts from tourism-related gaming and hotel occupancy were also affected (-10%). Finally, lower-than-expected non-tax revenues from fines, forfeits and administrative fees aggravated the problem. Meanwhile, expenditure was determined by transfer payments to public corporations (29%), as emoluments remained within the authorities' target range and capital expenditure fell short (5%) of the amount budgeted. The deficit was financed from domestic and external sources (52% and 48% of the total). This included 80% of the total supplementary borrowing approved by the legislature in June to pay accumulated arrears due to the negative effects of the 11 September events on government revenues.

In fiscal year 2002/2003 tax revenues are reflecting a recovery in the tourism and trade sectors. In the first six months of the fiscal year, tax receipts increased by 5% as a result of the improved performance of import duties and stamp taxes on imports and of departure taxes (6% and 13%, respectively). The gaming and hotel occupancy taxes are also expected to rise, but their tax contribution has remained stable in the first six months of the fiscal year. Other taxes (property and motor vehicle taxes and business and professional license fees) also increased (by 21%, 26% and 47%, respectively) despite the recent measures focusing on tax incentives and exemptions. These measures include the creation of duty-free economic enterprise zones to revive activity in depressed areas. They also contemplate higher levels of exemptions, lower property tax rates and the waiver of the stamp tax for first homebuyers to boost the construction sector.

⁵ The main macroeconomic indicators for the Bahamas are included in table 2 below.

Expenditure reflected salary adjustments (7%), outlays for the promotion of tourism and property rental agreements (9%) and subsidies to improve health and education (6%). Capital expenditure (7% of total expenditure) contracted as a result of the reduction in government capital investment.

The deficit for fiscal year 2002/2003 was financed mostly by domestic borrowing, which, together with an increase in public transfers to the national airline and to education, increased the national debt by 11%. The government's domestic debt is held by public corporations (37% of the total) and commercial banks and private institutions (25% of the total for each). The foreign-currency debt rose by 32% owing to the domestic operations of the government and public corporations (25% and 14% of the total, respectively), increasing the debt-service ratio from 3.1% in 2001 to 4.1% in 2002. However, the external debt declined (-10%).

(b) Monetary and foreign exchange policy

Pressure on international reserves, which intensified following the 11 September events, forced the Central Bank of the Bahamas into a restrictive monetary stance that took the form of quantitative limits. The monetary institution kept the discount rate at 6% and, at the same time, imposed a credit ceiling on the commercial banking system in September 2001 that remained in place throughout 2002. The monetary policy stance constrained the growth of credit in the commercial banking system and limited the Central Bank's freedom to carry out foreign exchange operations. Net foreign exchange purchases helped to build a prudent stock of foreign currency.

As a result, the overall growth of the money supply (M3) declined with respect to the previous year (from 4.6% in 2001 to 3.4% in 2002) For Q2 2003 M3 contracted by \$5.7 million (0.1%) to \$3940.9 million. Likewise, domestic credit to private productive activities contracted (-4%) except in the tourism sector (4.5%). For y-o-y June 2003 there was an expansion of 2.35% despite the contraction of construction (-21.9%). Conversely, personal loans and credit to the public sector expanded (by 6% and 49%, respectively in 2002 and 5.6% and 19% for y-o-y Q2 2003). The growth in personal loans is explained by that of home mortgages (15.2%). The increase in credit to the public sector financed the greater part of its budget deficit.

The main variables

(a) Economic activity

The tourism sector manifested a clear recovery from the negative effects of 11 September as increases were recorded in total arrivals (from -0.5% in 2001 to 5.2% in 2002 and 5.5% in Q2 2003) and in the level of hotel occupancy (from -3.7% in 2001 to 0.7% in 2002 to -2.7% in Q2 2003). The disaggregation of total arrivals into air and sea arrivals shows that the latter was the more dynamic component (1.8% and 8.9%, respectively and 2.3% and 7.2% in Q2 2003). Nassau/Paradise Island recorded the biggest market share of tourist arrivals, followed by the rest

of the Family Islands (59% and 27%, respectively). The tourism industry is expected to continue to recover in 2003. Among the domestic factors that will help to generate a positive outcome for this sector are the expansion of hotel room capacity in the Family Islands, airlift support for Grand Bahama and improved port infrastructure.

Construction remained at the previous year's level and showed mixed signals, making the outcome for 2003 uncertain. On the one hand, the number of building permits declined (-3.6%) and their value fell by half (from B\$ 317 per permit in 2001 to B\$ 167 in 2002). On the other

Table 2
The Bahamas
Macroeconomic indicators
1994 - 2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
|---|--|----------|----------|----------|----------|----------|----------|----------|----------|
| Real sector indicators (rates of growth) | | | | | | | | | |
| Tourist arrivals | -6.2 | -6.0 | 5.6 | 0.6 | -2.6 | 8.9 | 15.3 | -0.5 | 5.2 |
| Value of construction starts | 44.8 | -32.0 | 51.3 | 154.4 | -64.3 | -0.7 | 19.1 | -8.0 | 18.6 |
| Value of construction completions | 43.5 | -40.9 | 42.5 | 9.2 | 187.9 | -7.4 | -34.2 | 8.0 | -2.7 |
| Electricity generation (mwh) | 5.1 | 2.2 | 2.9 | 5.7 | 8.6 | 5.1 | 6.9 | 3.9 | 5.6 |
| Balance of payments | | | | | | | | | |
| | Millions of dollars | | | | | | | | |
| Balance on current account | -42 | -146 | -263 | -472 | -995 | -672 | -471 | -348 | -188 |
| Exports of goods and services | 1,709 | 1,768 | 1,852 | 1,888 | 1,896 | 2,191 | 2,842 | 2,504 | 1,758 |
| Imports of goods and services | -1641.0 | -1795.80 | -2003.20 | -2246.70 | -2728.00 | -2761.90 | -3183.61 | -2703.82 | -1775.80 |
| Income account balance | -138 | -136 | -149 | -153 | -198 | -138 | -173 | -190 | -213 |
| Current transfers balance | 27 | 18 | 37 | 39 | 34 | 37 | 43 | 42 | 42 |
| Capital and financial account balance f/ | 55.2 | 92.1 | 156.7 | 399.1 | 806 | 596.9 | 412.91 | 259.5 | 417.1 |
| Foreign direct investment | 23 | 107 | 88 | 210 | 147 | 145 | 250 | 101 | 169 |
| Other capital | | | | | | | | | |
| Global balance | 9 | -3 | -8 | 57 | 119 | 65 | -61 | -30 | 60 |
| Variation in reserve assets g/ | -9 | 3 | 8 | -57 | -119 | -65 | 61 | 30 | -61 |
| Other financing h/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other indicators of the external sector | | | | | | | | | |
| Total foreign currency debt | 410.4 | 391.9 | 357.3 | 384.5 | 394.6 | 390.3 | 392.4 | 389.3 | 513.4 |
| Prices | | | | | | | | | |
| Retail price index (average annual variation) | -27.8 | 2.2 | 1.4 | 0.5 | 1.4 | 1.3 | 1.7 | 2.0 | 2.0 |
| Nominal exchange rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Non-public financial sector | | | | | | | | | |
| | Millions of dollars | | | | | | | | |
| Current revenue | 641.6 | 658.0 | 686.9 | 763.3 | 803.7 | 918.2 | 957.4 | 864.4 | 959.8 |
| Current expenditure | 570.2 | 610.6 | 677.8 | 713.6 | 746.8 | 817.4 | 846.5 | 836.0 | 953.9 |
| Capital account balance | -63.9 | -61.7 | -112.1 | -89.8 | -94.9 | -106.4 | -85.0 | -97.3 | -124.4 |
| Primary balance | 27.0 | 56.5 | 41.4 | -46.4 | 23.3 | 28.4 | 56.3 | 74.4 | 5.6 |
| Financial balance | -22.6 | -43.5 | -139.8 | -73.2 | -70.2 | -37.7 | -16.4 | -95.3 | -146.5 |
| Public debt | | | | | | | | | |
| Internal | 78.2 | 88.8 | 73.4 | 65.5 | 55.2 | 37.3 | 24.5 | 43.0 | 202.9 |
| External | 332.2 | 303.1 | 283.9 | 319.0 | 339.4 | 353.0 | 367.9 | 346.3 | 310.5 |
| Money and credit | | | | | | | | | |
| | Rates of change (December to December) | | | | | | | | |
| Domestic credit | 7.9 | 9.7 | 8.4 | 21.8 | 12.0 | 11.4 | 11.3 | 12.5 | 5.6 |
| Public sector | -7.8 | 3.2 | 0.2 | 2.9 | 15.9 | 13.4 | -2.5 | 19.7 | 12.4 |
| Private sector | 13.7 | 11.7 | 10.7 | 26.5 | 11.2 | 11.0 | 14.3 | 11.1 | 4.3 |
| Currency in active circulation | 7.1 | 3.4 | 5.1 | 13.4 | 14.5 | 18.2 | 2.0 | 1.1 | 0.8 |

| | | | | | | | | | | |
|-------------------------------|-------|-------|-------|--------------------|-------|-------|-------|------|------|--|
| Demand deposits | 9.9 | 7.9 | -0.8 | 20.0 | 15.0 | 29.8 | 6.4 | -4.6 | 6.4 | |
| Commercial banks | 10.2 | 8.8 | -0.4 | 19.2 | 15.5 | 27.8 | 7.2 | | | |
| Central banks | -4.1 | -30.0 | -24.5 | 100.0 | -13.5 | 171.9 | -18.4 | | | |
| Narrow money supply (M1) | 9.2 | 6.9 | 0.5 | 18.6 | 14.9 | 27.3 | 5.6 | -3.5 | 6.4 | |
| Savings deposits | 12.2 | 1.3 | 4.7 | 34.2 | 11.8 | 25.1 | 8.8 | 1.4 | 4.3 | |
| Fixed deposits | 8.6 | 10.6 | 8.6 | 23.3 | 16.5 | 3.1 | 9.0 | 8.7 | 2.3 | |
| Money supply (M2) | 9.3 | 8.2 | 6.1 | 23.8 | 15.4 | 11.7 | 8.1 | 4.5 | 3.5 | |
| Foreign currency deposits | -19.8 | 27.4 | -14.0 | 44.1 | 46.3 | -12.9 | 63.1 | 6.4 | -0.4 | |
| Money supply (M3) | 8.7 | 8.5 | 5.7 | 24.1 | 15.9 | 11.1 | 9.0 | 4.6 | 3.4 | |
| | | | | Annual percentages | | | | | | |
| Weighted average deposit rate | 44.6 | 2.0 | 3.6 | 4.8 | 4.1 | 3.2 | 2.2 | 2.2 | 2.1 | |
| Weighted average lending rate | 58.2 | 10.9 | 11.0 | 12.2 | 10.8 | 10.4 | 9.9 | 9.3 | 9.1 | |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1988 constant prices.

c/ Includes electricity, gas, water and transportation, storage and communications.

d/ Includes retail trade, restaurants and hotels, financial establishments, insurance, real estate, social and personal services.

e/ In nominal terms.

f/ Does not include errors and omissions.

g/ The sign (-) indicates a reserve increase.

h/ Includes use of credit and International Monetary Funds Loans and Financing.

i/ Annual average weighted by international trade.

j/ Refers to net investment income divided by the ratio of exports of goods and services of the balance of payments .

k/ Percentages of working age population.

l/ Percentage of economically active population.

hand, the number of building starts increased (by 12%), mainly reflecting residential projects facilitated an increase in housing loans from financial institutions and, to a lesser extent, commercial starts, which reflected the completion of hotel projects in Grand Bahama. The public sector also implemented two projects involving building starts. Currently the data indicates a slowing down of the construction sector during the first half of the year.

Fisheries registered increases in volume (17%) and price (30%), mostly attributable to crayfish tails.

(b) Prices, wages and employment

The inflation rate remained stable (2%) and mostly reflected increases in education (from 7.7% in 2001 to 12.9% in 2002) and furniture and household operation (from 2.6% in 2001 to 4.9% in 2002). With the exception of food and beverages, which showed the same rate of inflation as in the previous year (0.5%), all the categories registered declines in their rates of price variation. For 2003, for the 12 months through June, average consumer price inflation advanced to 2.8% from 2.2% in 2002. This was strongly influenced by accelerated average price increases for recreation and entertainment services (8.5%), medical care and health (4.4%), and furniture and household operations (6.9%).

(c) The external sector

The overall balance-of-payments outcome was positive (US\$ 60 million) as the current account deficit (US\$ 188.3 million) was amply offset by the capital and financial account surplus (US\$ 249 million net of errors and omissions).

The current account deficit narrowed from the previous year as a result of moderate import growth and the recovery of the tourism sector. Merchandise import behaviour followed the contractionary stance of the monetary authorities and reflected moderate economic activity, especially in the construction sector. Export earnings responded to the improved catch of crayfish, which boosted external sales of this product by 39%. The net negative balance of the merchandise account was partly offset by the performance of services (4.8%), particularly travel (3.8%). However, this result was moderated by the increased risk premium for casualty coverage, as reflected by the increase in payments to foreign insurance services (4.3%). The net income gap is largely explained by profit remittances from the banking system. Lastly, current net transfers remained at the previous year's level (US\$ 42 million) on account of the government's receipts (US\$ 49 million).

The capital and financial account surplus reflected a combination of factors. These included the foreign-currency borrowing operations of public corporations (US\$ 53 million), which offset the central government's net external debt outflows (US\$ 51 million); foreign private investment directed in part to the tourism sector (US\$ 169 million); the government's fiscal operations, which resulted in an increase in foreign-currency financial transactions (US\$ 205.4 million); and foreign loans received by the private sector (US\$ 65 million).

For 2003, the current account narrowed to approximately \$28 million from \$108 million in the same second quarter last year. The estimated merchandise trade balance decreased (-19.23%), with non-oil and oil imports decreasing by 12.6% and 13.3% respectively, to exceed the 9.2% reduction in exports. On the capital and financial account the estimated surplus was not fully realized at \$16.1 million from the projected \$91 million, with \$58.8 million short-term outflow through the banking system contrasting with the \$ 51.5 million net inflow of 2002, which was associated with foreign currency lending to the Government. However, net private foreign investment inflows experienced a moderate increase, with growth in net loan inflows rising to \$56.9 million from \$31.1 million, and more than offsetting the reduction in direct equity (36.6%) and real estate inflows (19.1%) to a combined \$28.2 million from \$38.2 million in 2002. In addition, outflows coming out from the public sector's net external debt repayment narrowed to \$2.9 million from last years \$23.4 million.

3. Barbados

*Economic policy*⁶

(a) Fiscal policy

The fiscal result for 2002/2003 was a deficit bigger than the one recorded in the previous fiscal year (10.3% of GDP, as opposed to 8.5% in 2001/2002; excluding amortization and net enterprises, the percentages were 5.6% and 3.8%). This resulted from an increase in expenditure (from 42% to 44% of GDP between the two periods), since the tax/GDP ratio remained constant at 32%. In an effort to avoid increasing in its external debt stock (23% of GDP at the end of 2002), the government financed its deficit from domestic sources, particularly through the ways and means accounts and by drawing on government deposits held at the Central Bank.

The behavior of fiscal revenues partly reflected the decline in the corporate tax rate from 40% to 38%; the reduction of the basic income tax from 25% to 22.5% and of the top rate applicable to taxable income from 40% to 37.5% in 2003; the contraction in economic growth, which had a negative impact on income and profits; and goods and services tax receipts. At the same time, the imposition of a 60% tariff on selected agricultural products boosted revenues from the international trade tax.

The increase in total expenditure resulted mainly from the increase in wages and the payment of arrears in September and October 2002. Capital expenditure rose in 2002 in response to the government's countercyclical policy strategy, reflected in ongoing public works such as airport, highway and sewerage infrastructure. In 2003, partly as a result of the completion of these projects and partly owing to a conscious policy decision to reduce the debt-to-GDP ratio, which reached 73% in 2002, the government scaled back its capital expenditure. Thus, overall capital expenditure registered a decline in 2002/2003. In order to reduce the future impact of its investment programme on the fiscal accounts, the government plans to rely on public-private partnerships.

For the fiscal year 2003/2004, the government plans to increase revenues and expenditure by 4.7% and 5.5%, respectively, yielding a fiscal deficit of 10.5% of nominal GDP, or 4.7% when corrected for amortization and net enterprises. This will result from a combination of lower planned capital expenditure and new tax measures. The measures are conceived, in part, as a step towards structuring the tax system in order to accommodate the eventual tariff phase-out required in the framework of the Free Trade Area of the Americas (FTAA) in 2005. They are also meant to enhance the country's competitiveness within the Common Single Market and Economy, which is expected to enter into force in 2004.

Specifically, these measures include the widening of the reverse tax credit base, which replaces tax concessions in the low-income bracket. The package also seeks to stimulate growth by eliminating the tax differential between domestic and foreign companies and reducing the small business tax (from 25% to 20%), property taxes and the property transfer tax. Finally, the package envisages the extension of tax concessions to selected geographical areas.

⁶ The main macroeconomic indicators for Barbados are found in Table 3 below.

(b) Monetary and foreign exchange policy

The monetary authority grappled with the excess liquidity caused initially by the domestic financing of the fiscal deficit, the meager growth of demand for bank loans to the private sector as a result of the contraction in economic activity, and the injection of liquidity caused by share transactions. The commercial banking system's total reserves increased from BDS\$ 348 million to BDS\$ 645 million between January 2002 and October 2002. Over this period, the share of excess reserves rose from 44% to 67%. The monetary aggregates reflected the excess liquidity. The monetary base and the money supply increased by 40% between December 2001 and the same month of 2002. For the first six months of 2003 the money supply showed an increase of 4.9%.

In line with the fiscal stance that prevailed in 2002, the monetary authority modified its policy and, in October 2002, reduced the minimum interest rate payable on deposits by half a percentage point (from 3% to 2.5% per annum). By 2003 this had crawled back up to 2.8%. In the same vein, the Central Bank's weighted average lending rate of interest on loans declined from 8.5% to 8% (in 2003Q2 this stood at 7.6%) and total reserve requirements for commercial bank deposits and government securities were reduced by a full percentage point.

The aim of these measures was to reduce the operating costs of the banking system in the expectation that this would benefit the final consumer. Most importantly, they sought to reduce the debt burden of entrepreneurs at a time when growth was faltering. The measures were not completely successful, however, as nominal interest rates barely declined, and actually increased in real terms. The nominal prime lending rate remained at 8.5% throughout the year and into 2003 and the weighted average rate dipped slightly from 10.97% in January 2002 to 10.28% in May 2003, which translated into a decrease of 0.7% in real terms. The demand for loans expanded by 6% overall between December 2001 and December 2002.

The sectoral distribution of credit shows that only distribution and tourism increased their demand for credit (by 15% and 14%, respectively, between December 2001 and December 2002). Within the first and second quarters of 2003, mining and quarrying, tourism and entertainment and catering showed increases in the demand for credit (3.5%, 7.8% and 5.25%). The sluggish demand for loans helped to channel the excess liquidity of banks to the government's treasury bills (banks account for 96% of the total). In turn, the greater demand for treasury bills translated into lower interest rates on government issuances (1.09% in January 2003, as compared to 2.86% in May 2002), which eased the government's debt burden.

In 2003, credit demand is expected to recover and expand by 11%, while liabilities to the private sector will increase by around 5%. Also, the Central Bank will remove restrictions on interest rates as a step towards the gradual liberalization of the money market.

The main variables

(a) Economic activity

In 2002 Barbados partially recovered from the economic contraction it had suffered the previous year (-2.8%), and it registered positive growth in 2003. GDP growth was -0.4% in 2002 and is expected to be 1.5% in 2003, given the y-o-y 1.7% in Q1 2003.

Agriculture (-0.6%) reflected a decline in sugar production (-10%), which is explained by the late start in the sugar crop and adverse weather conditions that impeded the fulfillment of the European Union sugar quota (9,000 tons short of the quota). In addition, the acreage planted decreased from 8,500 to 7,052 hectares. Concomitantly, and also because of lower international sugar prices and higher domestic costs, sugar exports fell from 48,900 to 39,500 tons. In 2003, non-sugar agriculture is forecasted to register negative growth.

Manufacturing improved its performance in relation to the previous year (-8% and +0.2% in 2001 and 2002). Some branches benefited from the imposition of a 60% tariff on selected imports, and a “buy local” campaign. For 2003, the government plans to maintain that tariff and expand the “buy local” campaign to cover the full range of goods and services. In the initial months of 2003, growth in the manufacturing sector stalled, and most of its sub sectors contracted. However, the food and beverages and tobacco sub sectors expanded by 2.3% and 11.5%, respectively. In 2003, manufacturing is expected to expand by 1.3%.

The construction sector (3%) was boosted by the start of public-sector projects and the construction of a new hotel belonging to a leading chain, despite the decline in residential building activity. Public-sector projects included those corresponding to the national housing corporation, the home mortgage scheme and road works. The construction sector is expected to maintain its dynamism in 2003 and to expand by 4%, reflecting the recovery of the tourism sector.

Mining and quarrying fell by 6.5% as a result of the natural depletion of oil wells. Consequently, crude oil and gas production decreased by 15.8% and 16.1%, respectively.

Tourism contracted for the second year in a row (-5.9% and -2.3%). The number of tourist arrivals, and within this group, the number of long-stay visitors and cruise-ship arrivals declined (-1.8% and -0.8%, respectively). The average length of stay, hotel room occupancy rates and tourist expenditure followed accordingly (-7%, -5.6% and -20%, respectively). During the year the government announced measures to revitalize and strengthen the tourism sector. Key to this effort is the Tourism Development Act (2002), which went to effect in 2003 and replaces the Hotel Aids Act promulgated more than 40 years ago. The main underlying rationale for the Act is to take into account the entire life cycle of tourism activities and to improve the standard of the tourism industry in general by considering that Barbados is a mature tourist destination and that product development should be its highest priority.

The Act provides concessions for restaurants, villas, recreational facilities and time-share properties that include the tax-free payment of dividends, tax concessions on loans, tax write-offs

for selected activities related to the development and promotion of tourism and tax credits for investment to improve wastewater disposal systems. In addition, the new package of tourism incentives includes the duty-free import of materials and supplies for hotel construction and of inputs for hotel operations. Tax concessions of up to 150% are also granted for interest paid on loans for the purpose of refurbishment, with a 15-year period to write off capital expenditures. In 2003, tourism should increase by 4.2% and visitor arrivals, by 4%.

(b) Prices, wages and employment

In consonance with the decline in economic activity, lower import prices and stagnant credit growth, inflation reached one of its lowest levels of the past 10 years (0.2%). In terms of the components of the price index, medical and personal care showed the biggest average increase (0.35%), followed by food (0.22%), which has the highest weight in the index, and housing and household operations (0.08% and -0.21%, respectively). By May 2003 the inflation rate was 0.38% but prices are projected to rise by 3%.

The unemployment rate rose from 9.9% to 10.3% to 11.7% in Q1 2003. The rate was higher for women than for men (11.8% and 10.2%, respectively, in the last quarter of 2002 and 12.9% and 10.7% for the first quarter of 2003), who account for equal shares of the labor force. Employment increased in wholesale and retail trade, government services, agriculture, fisheries and construction, and declined in manufacturing, in transport, storage and communications and in the general service sector. The wage bill rose owing to wage increases and the payment of arrears in the third quarter of 2002.

(c) The external sector

The current account deficit widened (from 3.7% of GDP in 2001 to 5.6% in 2002) because of the underperformance of exports, while imports also declined. The overall balance was positive (US\$ 16 million), owing to the outcome of the financial and capital account (US\$ 159 million), but significantly smaller than it had been the previous year (US\$ 321 million).

Merchandise exports reflected the general stagnation of the main sectors of the economy. Sugar, electrical components, chemicals and food and beverages, which account for 61% of total external merchandise sales, recorded declines of 14.4%, 22.7%, 2.7% and 3.5%, respectively. On the debit side of the external accounts, merchandise imports (-0.9%) reflected the contraction in income and, at the level of their components, a fall-off in capital goods imports (-1.8%).

The services balance was positive (US\$ 586.7 million and US\$ 554.1 million in 2001 and 2002), but indicated a clear lack of recovery in the tourism sector owing to adverse external conditions. Declines in long stays, in cruise-ship passengers and in tourist expenditure contributed to the negative outcome of the net travel account with respect to the previous year (-2.5% and -3.9% in 2001 and 2002).

Table 3
Barbados
Macroeconomic indicators
1994 - 2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
|--|--|--------|--------|--------|--------|--------|--------|--------|--------|
| | Annual growth rates b/ | | | | | | | | |
| Gross Domestic Product | 4.5 | 2.5 | 3.1 | 3.3 | 4.4 | 3.3 | 3.4 | -2.8 | -0.4 |
| Gross Domestic Product per Capita | 4.5 | 2.5 | 3.1 | 3.3 | 0.5 | 3.3 | 3.4 | -2.8 | -0.4 |
| Gross domestic product by sector of economic activity | | | | | | | | | |
| Sugar | 7.7 | -26.0 | 53.9 | 9.4 | -25.9 | 11.2 | 9.6 | -14.7 | -9.8 |
| Non-sugar agriculture and fishing | -5.5 | 18.0 | 1.4 | -7.5 | -3.2 | 8.4 | 0.0 | -5.8 | -0.6 |
| Manufacturing | 6.8 | 8.4 | -0.9 | 3.8 | 3.4 | -2.4 | -0.5 | -8.2 | 0.2 |
| Construction | 3.9 | 12.1 | 4.0 | 14.2 | 16.9 | 10.0 | 2.6 | -4.4 | 3.1 |
| Basic services c/ | 3.4 | 3.5 | 3.1 | 3.2 | 5.4 | 4.5 | 1.4 | 2.7 | -0.7 |
| Other services d/ | 4.9 | 1.1 | 2.3 | 2.9 | 4.6 | 2.6 | 4.5 | -2.2 | -0.4 |
| Balance of payments | Millions of dollars | | | | | | | | |
| Balance on current account | 134 | 43 | 70 | -50 | -63 | -148 | -145 | -94 | -143 |
| Exports of goods and services | 1,004 | 1,112 | 1,214 | 1,248 | 1,294 | 1,305 | 1,122 | 1,092 | 1,048 |
| Imports of goods and services | -864 | -1,054 | -1,130 | -1,297 | -1,353 | -1,448 | -1,263 | -1,187 | -1,190 |
| Income account balance | -41 | -48 | -52 | -48 | -56 | -71 | -82 | -93 | -97 |
| Current transfers balance | 34 | 33 | 38 | 47 | 52 | 66 | 78 | 94 | 96 |
| Capital and financial account balance f/ | -6 | -26 | -22 | 20 | 55 | 119 | 308 | 285 | 49 |
| Foreign direct investment | 19 | 1 | 2 | -27 | -12 | 53 | 123 | 166 | 54 |
| Other capital | 10 | 11 | 10 | 25 | 19 | 7 | 22 | -15 | 2 |
| Global balance | 38 | 42 | 86 | 17 | -6 | 36 | 201 | 227 | 16 |
| Variation in reserve assets g/ | -59 | -25 | -61 | -9 | 6 | -37 | -201 | -227 | -16 |
| Other financing h/ | 21 | -17 | -25 | -8 | 1 | 1 | 1 | 1 | 0 |
| External national debt (millions of dollars) | 509.25 | 479.05 | 463.1 | 427.5 | 453.25 | 492.4 | 605.35 | 539.45 | 489.05 |
| Gross external debt (% of GDP) | 29.2 | 25.6 | 23.2 | 19.4 | 19.1 | 19.8 | 23.4 | 21.2 | 19.3 |
| Utilities and net interests (% of exports) j/ | | | | | | | | | |
| Employment and wages | | | | | | | | | |
| Participation rate k/ | 67.3 | 68.2 | 68.1 | 67.8 | 67.8 | 67.8 | 68.6 | 69.5 | 68.5 |
| Open unemployment rate l/ | 21.8 | 19.6 | 15.8 | 14.5 | 12.3 | 10.4 | 9.2 | 9.9 | 10.5 |
| Employment (000') | 106.3 | 113.3 | 115 | 117.5 | 117.4 | 122.2 | 128.5 | 128.6 | 129 |
| Prices | | | | | | | | | |
| GDP deflator | 0.1 | 5.2 | 4.3 | 3.3 | 3.3 | 2.4 | 0.3 | 1.3 | 0.2 |
| Consumer price index | 0.7 | 1.9 | 2.4 | 7.7 | -1.2 | 1.6 | 2.4 | 2.8 | 0.2 |
| Nominal exchange rate | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Non-public financial sector | Percentages of GDP | | | | | | | | |
| Revenue | 27.4 | 26.8 | 26.2 | 33.7 | 34.4 | 33.1 | 33.9 | 31.0 | 32.0 |
| Expenditure | 28.2 | 27.5 | 29.4 | 34.9 | 35.2 | 34.5 | 35.8 | 42.0 | 44.0 |
| Fiscal result | -0.8 | -0.7 | -3.2 | -1.2 | -0.8 | -1.4 | -1.9 | -3.8 | -5.6 |
| Public debt | 71.4 | 66.3 | 67.5 | 62.0 | 59.6 | 58.3 | 62.1 | 59.3 | 59.0 |
| Internal | 51.0 | 47.1 | 49.2 | 46.2 | 45.2 | 42.5 | 42.5 | 41.7 | 42.8 |
| External | 20.4 | 19.2 | 18.3 | 15.9 | 14.4 | 15.8 | 19.6 | 17.7 | 16.2 |
| Money and credit | Rates of change (December to December) | | | | | | | | |
| Credit to the public sector | -32.0 | -6.8 | 10.4 | -12.3 | -3.5 | -10.5 | -37.9 | -141.2 | -573.5 |
| Credit to the private sector | 12.1 | 14.9 | 5.3 | 19.5 | 15.9 | 14.8 | 1.6 | 0.3 | 3.4 |
| Currency in circulation | 7.1 | 5.6 | 9.9 | 8.9 | 11.9 | 12.9 | 2.6 | 0.5 | 8.0 |
| Demand deposits | 23.8 | 1.0 | 39.6 | 4.0 | 18.2 | 10.8 | 11.7 | 13.4 | 31.0 |
| M1 | 17.3 | 2.6 | 28.8 | 5.5 | 16.2 | 11.4 | 8.9 | 9.6 | 24.8 |
| Time deposits | -13.0 | 10.6 | 23.8 | -0.3 | -4.0 | 37.2 | 20.4 | 1.3 | -16.3 |

| | | | | | | | | | |
|-------------------------------|--------------------|-----|-----|------|------|-----|-----|-----|------|
| Savings deposits | 7.1 | 7.4 | 8.6 | 8.4 | 10.2 | 6.9 | 6.2 | 5.1 | 7.3 |
| Real interest rates | Annual percentages | | | | | | | | |
| Weighted average deposit rate | 4.3 | 3.2 | 2.7 | -3.2 | 5.5 | 3.1 | 2.4 | 0.3 | 6.5 |
| Weighted average lending rate | 11.1 | 9.7 | 9.3 | 3.9 | 13.0 | 9.9 | 9.3 | 8.1 | 10.1 |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1988 constant prices.

c/ Includes electricity, gas, water and transportation, storage and communications.

d/ Includes retail trade, restaurants and hotels, financial establishments, insurance, real estate, social and personal services.

e/ In nominal terms.

f/ Does not include errors and omissions.

g/ The sign (-) indicates a reserve increase.

h/ Includes use of credit and International Monetary Funds Loans and Financing.

i/ Annual average weighted by international trade.

j/ Refers to net investment income divided by the ratio of exports of goods and services of the balance of payments .

k/ Percentages of working age population.

l/ Percentage of economically active population.

The capital and financial account was affected by the completion of several projects, which resulted in lower levels of private and public long-term foreign direct investment (US\$ 280 million and US\$ 46.5 million in 2001 and 2002).

In the first quarter of 2003, the current account worsened with respect to the previous quarter (3.7% and -0.3% of GDP in 2002 and 2003) because of the increase in imports (11%) that offset the positive performance of merchandise and service exports (2.9% and 3.1%, respectively). By the middle of the year, the current account balance was a deficit of %70.7 million. Imports reflected a rise in foreign capital goods purchases (21.4%). Domestic exports reflected a modest increase of 1.0% compared with declines of 10.4% and 7.5% in 2002 and 2001 respectively. This could be attributed to reductions in the exports of chemicals (-2.1%), electronic components (-9.5%) and food and beverages (-8.1%), which were outweighed by gains in miscellaneous exports (11.6%). The capital and financial account surplus fell in comparison to the previous year (from US\$ 26.5 million in 2002 to US\$ 1.4 million in 2003). In the remaining months of 2003, import growth is projected to moderate and conform to the trend of the economy, while the expected partial recovery of the tourism sector may offset the poor performance of merchandise exports. For 2003 the current account deficit is expected to narrow to an amount representing 4.5% to 5% of GDP as the services balance improves. Official estimates also indicate that the financial account is likely to worsen and that, as a result, the net international reserve position will deteriorate.

4. Belize

*Economic policy*⁷

(a) Fiscal policy

The government reduced its fiscal imbalance (from -9% of GDP in 2001 to -5% in 2002) through improved revenue performance (28% and 31% of GDP in 2001 and 2002) and by

⁷ The main macroeconomic indicators for Belize are found in table 4 below.

restraining the growth of current and capital expenditure (0.3% and 0.7% for 2001 and 2002, respectively). The deficit was financed from external sources. As a result, the external debt increased from 43% to 54% of GDP.

The behavior of revenue partly reflected the expansion of indirect taxes, particularly the one on international trade and transactions (8.9% and 9.6% of GDP in 2001 and 2002), and the contribution of the revenue replacement duty on oil. Receipts from this tax resulted from the difference between international ex-refinery oil prices (which declined in the first half of the calendar year) and the domestic prices charged to the consumer at the pump (which were not adjusted to reflect current conditions in the petroleum market). Total revenue also reflected the one-time repayment of old loans (0.7% and 1.9% of GDP in 2001 and 2002, respectively).

Current expenditure (21% and 20% of GDP in 2001 and 2002) reflected the containment of public-sector wages. The capital expenditure out-turn corresponded to an increase in locally-financed capital expenditure that was partly offset by a decline in foreign-financed capital expenditure.

For 2003 the government plans to reduce the fiscal deficit further and is targeting deficit levels of about 2% of GDP. Two major stumbling blocks stand in its way: the recent wage increase, which will boost recurrent expenditure, and the ballooning debt. Capital expenditure adjustment will provide part of the required adjustment leverage, but additional fiscal measures may be needed to stabilize public finances.

(b) Monetary and foreign exchange policy

In 2002 the authorities implemented a series of measures in response to the devaluation pressures felt in the foreign exchange market. These included direct intervention in the money market through sterilization operations facilitated by the increase in the legal limit on the issuance of treasury bills. The Central Bank also constrained the credit creation potential of the commercial banking system by raising the cash reserve requirement for all deposits by two percentage points. Finally, the government proceeded to legalize the existing parallel foreign exchange market in an effort to provide an outlet for foreign currency trading.

Table 4
Belize
Macroeconomic indicators
1994 - 2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
|--|---|----------|----------|----------|----------|----------|----------|----------|----------|
| Gross Domestic Product | 1.4 | 3.8 | 3.6 | 4.5 | 1.8 | 6.5 | 10.8 | 4.6 | 3.7 |
| | Annual growth rates b/ | | | | | | | | |
| | Gross domestic product by sector of economic activity | | | | | | | | |
| Agriculture | 2.7 | 7.7 | 14.3 | 11.9 | -9.2 | 9.2 | 4.9 | 2.9 | ..... |
| Forestry and logging | 13.4 | -13.6 | -13.0 | -2.7 | -2.8 | -0.7 | -30.9 | 16.0 | ..... |
| Mining | -9.1 | 7.5 | -3.2 | -4.1 | -4.1 | 17.0 | 23.6 | 2.9 | ..... |
| Manufacturing | 4.8 | 4.4 | 0.3 | 2.7 | -2.9 | 3.9 | 19.5 | 1.9 | ..... |
| Construction | -20.5 | 1.1 | -9.5 | 1.0 | -1.7 | 20.5 | 14.8 | 9.1 | ..... |
| Trade, restaurant and hotel | 4.4 | 2.5 | -1.4 | 8.2 | 6.6 | 3.1 | 24.1 | -0.5 | ..... |
| Transport and communications | 1.2 | 4.4 | 5.5 | -2.9 | 2.4 | 8.2 | 3.1 | 4.3 | ..... |
| Balance of payments | Millions of dollars | | | | | | | | |
| Balance on current account | -40 | -17 | -7 | -32 | -60 | -78 | -153 | -185 | -163 |
| Exports of goods and services | 278 | 297 | 309 | 331 | 327 | 375 | 455 | 450 | 495 |
| Imports of goods and services | -320 | -326 | -321 | -375 | -390 | -446 | -612 | -611 | -631 |
| Income account balance | -25 | -22 | -26 | -23 | -32.1 | -43.85 | -54.5 | -72.15 | -72.15 |
| Current transfers balance | 27 | 33 | 31 | 35 | 35.55 | 37.15 | 58.7 | 48.2 | 45.95 |
| Capital and financial account balance f/ | 4 | -1 | 9 | 24 | 22 | 90 | 202 | 172 | 153 |
| Foreign direct investment | 15 | 21 | 17 | 12 | 18 | 47 | 23 | 60 | 25 |
| Other capital | | | | | | | | | |
| Global balance | -4 | 4 | 21 | 1 | -13.6542 | 12.9363 | 51.65 | -3.5 | -4.9 |
| Prices | | | | | | | | | |
| Consumer price index | 2.6 | 2.9 | 6.4 | 1.0 | -0.8 | -1.2 | 0.6 | 1.1 | 2.3 |
| Nominal exchange rate | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Central Government (fiscal years) | Millions of Belize dollars | | | | | | | | |
| Current revenue | 249941 | 263045 | 259226 | 283201 | 287957 | 302143 | 337386 | 338790 | 425759 |
| Current expenditure | 335370.0 | 350954.0 | 312298.0 | 321572.0 | 330066.0 | 381487.0 | 482541.0 | 529796.0 | 604203.0 |
| Current Balance | 30700.0 | 23185.0 | 26272.0 | 41035.0 | 35213.0 | 37245.0 | 46135.0 | 41419.0 | 91039.0 |
| Capital balance | -108028 | -106863 | -69367 | -55360 | -60325 | -78632 | -110935 | -160784 | -203108 |
| Overall balance | -70375 | -70413 | -37016 | -10276 | -16542 | -22736 | -51122 | -95523 | -83636 |
| Overall Balance excluding Hurricane Relief | -70375 | -70413 | -37016 | -10276 | -16542 | -22736 | -51122 | -42627 | -75815 |
| Money and credit | Rates of change (December to December) | | | | | | | | |
| Net domestic credit | 9.1 | 12.0 | -0.4 | 11.8 | 15.6 | 3.2 | 6.2 | 20.1 | -3.7 |
| Public sector | 28.6 | 26.5 | -29.8 | 4.3 | 35.7 | -11.3 | 9.1 | 53.5 | -71.2 |
| Private sector | 4.7 | 8.0 | 9.0 | 13.3 | 11.8 | 6.5 | 5.7 | 13.5 | 14.5 |
| Currency with the public | 4.6 | 8.3 | 3.6 | 4.4 | 6.0 | 19.6 | 14.0 | 9.6 | 1.5 |
| Demand deposits | 5.8 | 3.1 | 10.0 | 4.8 | 13.6 | 25.9 | 25.3 | 21.2 | -3.2 |
| Narrow money (M1) | 5.4 | 5.0 | 7.6 | 4.7 | 10.9 | 23.8 | 21.6 | 17.6 | -1.8 |
| Savings deposits | 7.7 | 5.0 | 5.1 | 6.7 | 4.1 | 13.1 | 22.3 | 17.6 | 0.0 |
| Time deposits | 8.0 | 28.6 | 5.6 | 20.9 | 8.1 | 1.5 | 8.5 | -2.6 | 6.4 |
| Broad money (M2) | 7.1 | 16.2 | 6.1 | 13.6 | 8.1 | 9.5 | 15.0 | 7.8 | 2.2 |

| Real interest rates | Annual percentages | | | | | | | | |
|-------------------------------|-------------------------------|------|-----|------|------|------|------|------|------|
| | Weighted average deposit rate | 3.4 | 4.2 | -0.2 | 5.6 | 6.9 | 7.0 | 4.4 | 3.2 |
| Weighted average lending rate | 12.1 | 13.0 | 9.2 | 15.4 | 17.2 | 17.7 | 15.1 | 14.1 | 11.9 |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1988 constant prices.

c/ Includes electricity, gas, water and transportation, storage and communications.

d/ Includes retail trade, restaurants and hotels, financial establishments, insurance, real estate, social and personal services.

e/ In nominal terms.

f/ Does not include errors and omissions.

g/ The sign (-) indicates a reserve increase.

h/ Includes use of credit and International Monetary Funds Loans and Financing.

i/ Annual average weighted by international trade.

j/ Refers to net investment income divided by the ratio of exports of goods and services of the balance of payments .

k/ Percentages of working age population.

l/ Percentage of economically active population.

As a result, the financial system's overall liquidity position plummeted. The growth of the money supply slackened (from 7.8% in 2001 to 2.2% in 2002). In the same vein, commercial banks' ratio of approved liquid assets to required liquid assets decreased from 52% to 25% in the same period. Banks attempted to increase their liquidity by raising deposit rates, which narrowed the interest rate spread (from 11% in 2001 to 10% in 2002) and the concomitant preference for savings over transactions became evident in the Q1 of 2003 with an increase in the money supply of 5.5%.

In 2003, the authorities are not expected to alter their domestic policy stance, as inflation and exchange-rate pressures remain subdued and as the fiscal deficit narrows to sustainable levels.

The main variables

(a) Economic activity

GDP growth moderated (from 4.6% in 2001 to 3.7% in 2002) as the agricultural and manufacturing sectors registered a mixed performance and tourism rebounded from the effects of the 11 September attacks. Also as the government's expansionary fiscal and credit policies are reversed, GDP growth for 2003-2004 is expected to decelerate but kept positive and buoyant by growth in the tourism revenue and agricultural exports.

In the agricultural sector, the increase in sugar cane production, as measured by sugar cane deliveries (12.4%), was offset by a contraction in citrus fruit output (-26%). Meanwhile, bananas recovered from the effects of adverse external conditions and their production volume expanded, although banana producers faced declining prices in the international market. The fisheries sub sector made a notable recovery from the effects of hurricane Iris.

Manufacturing was boosted by the growth of sugar and molasses production (7% and 19%) as a result of improved efficiency and favourable trends in international prices. An

additional contributing factor was the increase in factory efficiency from 88.6% to 93.3%. The sector's performance was marred, however, by the downturn in citrus juices and pulp (-29%) and the lack of competitiveness of the apparel sector.

Tourism recorded a marginal increase in total stay-over visitors (1%) and an unprecedented rise in total cruise-ship visitors (from 40,898 in 2001 to 271,737 in 2002). The first five months of 2003 registered 229,826 arrivals.

(b) Prices, wages and employment

Inflation, as measured by the consumer price index, increased from 1.1% in 2001 to 2.3% in 2002, reflecting higher fuel costs for the consumer and a rate adjustment in January for basic telephone services.

At the component level, the biggest increase was registered by transport and communications (9%, representing a 17% share of the consumer price index), followed by medical care (3%, representing a 2% share). These increases were partly offset by small movements in their opposite direction by other components of the price index, particularly clothing and footwear; rent and water; and household foods and household goods and maintenance (-0.9%, -0.5%, and -0.4%, representing 9%, 16%, and 8.5% of the consumer price index).

The unemployment rate rose marginally from 9.5% to 10.6%, reflecting declines in the labour force in agriculture and manufacturing (-10% and -19%, respectively). Public-sector wages increased in 2003 as part of a labour agreement to increase wages for civil servants, nurses, police officers and teachers by 8% in three successive steps between 2003 and 2005.

(c) The external sector

The overall balance-of-payments out-turn was negative (US\$ -3.5 million in 2001 and US\$ -5 million in 2002) reflecting a reduction in the current account deficit (-23% and -19% of GDP in 2001 and 2002) and a lower-than-expected surplus in the financial account (22% and 17% of GDP in 2001 and 2002).

The current account result reflected the improved performance of traditional exports (13%), particularly sugar and bananas. Imports responded mainly to the authorities' restrictive policy stance and the slowdown in economic growth. Services and current transfers showed surpluses. Conversely, the factor income sub-account recorded a deficit due to the repatriation of profits.

The capital account balance (US\$ 1 million in 2001 and US\$ 10 million in 2002) reflected governmental loan disbursements. The financial account result is explained by the drop-off in foreign direct investment (from 8% of GDP in 2001 to 3% in 2002), which, after peaking the previous year, returned to its recent historical levels.

5. Guyana

*Economic policy*⁸

(a) Fiscal policy

The central government reduced its fiscal deficit in relation to the previous year (-9.9% of GDP in 2001 and -6.7% in 2002) as current fiscal revenues (37% and 38% of GDP in 2001 and 2002, respectively) increased and current expenditures stagnated (41% and 42% of GDP in 2001 and 2002). Capital expenditures and revenues did not experience any substantial changes. The deficit was financed by external borrowing and net domestic credit (44% and 56% of the total).

The levels of current revenues reflected the performance of personal and corporate income tax revenues (14.8% and 15.8% of GDP in 2001 and 2002, respectively). These results were attributable to government efforts to improve the administrative capacity of the Guyana Revenue Authority, the public wage hike (which was implemented in the last quarter of 2001 and thus made its effects felt in 2002), and the increase in the travel voucher tax and purchase tax on motor vehicles. Revenues from production, consumption and international trade taxes maintained their share of GDP.

Personal emoluments (35% of total current expenditure), which reflected the payment of wage increases, drove current expenditures. The other major component of expenditure, debt charges, contracted (10.4% and 9% of GDP in 2001 and 2002, respectively) due to the decline in domestic and external interest payments. The former reflected decreases in the discount rate and in the volume of Treasury bill redemption. The latter corresponded to debt relief.

Guyana's non-financial enterprises saw their balance sheet position deteriorate as their overall positive balance shrank from G\$ 3.456 billion to G\$ 665 million. This was caused by an unexpected decrease in the operating balance with respect to the previous year. In turn, the operating out-turn was due to the higher employment costs registered by a major public corporation and larger-than-planned outlays on freight, repairs and maintenance.

Guyana's public domestic debt stock (3%) reflected the sterilization operations of the central bank. The outstanding debt increased from 169% to 172% of GDP as a result of the disbursement of existing loans from multilateral organizations (67% of the total).

⁸ The main macroeconomic indicators for Guyana are found in table 5 below.

Table 5
Guyana
Macroeconomic indicators
1994 - 2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
|--|--------|--------|---------|---------|---------|---------|---------|---------|--------|
| Gross Domestic Product | 8.4 | 5.1 | 7.1 | 7.1 | -1.7 | 3.0 | -1.4 | 2.3 | 1.1 |
| Gross domestic product by sector of economic activity | | | | | | | | | |
| Agriculture, forestry and fishing | 12.2 | 8.4 | 5.1 | 24.0 | -6.4 | 14.6 | -10.2 | 3.7 | 12.9 |
| Manufacturing | 5.3 | 9.4 | 3.9 | -39.4 | -10.6 | 6.7 | -11.7 | 0.0 | 2.3 |
| Construction | 20.0 | 9.7 | 14.0 | 13.1 | 4.7 | -10.0 | 6.6 | 2.0 | -3.9 |
| Basic services c/ | 7.9 | 9.6 | 10.9 | 8.9 | -3.1 | 2.1 | 7.1 | 5.4 | 4.5 |
| Other services d/ | 5.4 | 5.4 | 6.1 | 5.3 | 1.3 | -0.8 | 5.1 | 0.9 | 0.4 |
| Balance of payments | | | | | | | | | |
| Balance on current account | -101 | -95 | -54 | -91 | -99 | -75 | -109 | -129 | -107 |
| Exports of goods and services | -101 | -95 | -54 | -91 | -99 | -75 | -109 | -129 | -107 |
| Imports of goods and services | -513 | -544 | -617 | -651 | -633 | -581 | -609 | -605 | -587 |
| Income account balance | -83 | -86 | -52 | -74 | -56 | -57.9 | -52.1 | -58.6 | -55 |
| Current transfers balance | 32 | 39 | 41 | 40 | 44 | 39 | 47 | 44 | 40 |
| Capital and financial account balance f/ | 27 | 26 | -553 | 90 | 70 | 79 | 120 | 95 | 63 |
| Foreign direct investment | | | | | | | | | |
| Other capital | | | | | | | | | |
| Global balance | -64 | -69 | -1 | 4 | -23 | -4 | 43 | -12 | -25 |
| Variation in reserve assets g/ | 63.9 | 68.9 | 1.4 | -4.0 | 22.7 | 4.4 | -42.5 | 12.1 | 25 |
| Other financing | 92 | 67 | 15 | -7 | 0 | 15 | 19 | 29 | 29 |
| Other indicators of the external sector | | | | | | | | | |
| Real effective exchange rate (1999=100) i/ | | | 108.0 | 113.8 | 114.5 | 103.8 | 109.4 | 110.5 | ..... |
| Net resource transfer (% of GDP) | | | | | | | | | |
| Total debt outstanding (millions of dollars) | 1999.5 | 2058.3 | 1537.03 | 1513.04 | 1515.79 | 1210.06 | 1194.55 | 1193.37 | 1238.2 |
| Gross external debt (% of GDP) | 377.8 | 330.9 | 218.0 | 203.7 | 229.8 | 176.5 | 169.7 | 169.3 | 171.3 |
| Utilities and net interests (% of exports) j/ | | | | | | | | | |
| Employment and wages | | | | | | | | | |
| Participation rate k/ | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| Open unemployment rate l/ | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| Employment (000') | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| Public sector minimum monthly wage (%) | ..... | ..... | ..... | ..... | 30.0 | 31.1 | 26.7 | 5.5 | 5 |
| Prices | | | | | | | | | |
| Consumer price index (December to December) | ..... | 8.1 | 4.5 | 4.1 | 4.8 | 8.7 | 5.8 | 1.9 | 6.1 |
| Nominal exchange rate (average) | 138.2 | 141.9 | 140.4 | 13.65 | 150.42 | 177.66 | 184.75 | 189.5 | 191.75 |
| Non-public financial sector | | | | | | | | | |
| Current revenue | 31.4 | 33.4 | 35.5 | 31.9 | 30.7 | 29.8 | 31.8 | 29.9 | 33.4 |
| Current expenditure | 31.2 | 26.9 | 24.2 | 26.3 | 28.0 | 25.7 | 31.3 | 31.2 | 33.5 |
| Capital account balance | -6.9 | -9.8 | -12.9 | -12.8 | -9.5 | -6.0 | -7.9 | -6.4 | -3.1 |
| Primary balance | -6.8 | -3.3 | -1.6 | -7.2 | -6.8 | -2.0 | -7.4 | 0.3 | 2.1 |
| Financial balance | -6.8 | -3.3 | -1.6 | -7.2 | -6.8 | -2.0 | -7.4 | -9.2 | -7.5 |
| Public debt | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 8.8 | 7.7 |
| Internal | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 5.1 | 4.6 |
| External | ..... | ..... | ..... | ..... | ..... | ..... | ..... | 3.6 | 3.1 |
| Money and credit | | | | | | | | | |
| Internal credit | -54.1 | 573.5 | 74.9 | 65.2 | 33.5 | -25.3 | 5.1 | 9.8 | 4.2 |
| Public sector | 140.7 | -2.3 | 73.9 | -10.2 | -17.9 | 88.4 | -3.3 | -6.3 | -9.0 |
| Private sector | 35.6 | 51.8 | 72.0 | 23.6 | 15.5 | 7.7 | 5.2 | 1.0 | -0.1 |
| Currency | 26.0 | 9.8 | 11.1 | 12.4 | 1.3 | 18.4 | 8.0 | 4.4 | 1.8 |
| Demand deposits | 51.9 | 22.9 | 20.6 | 1.9 | 4.7 | 25.7 | 26.7 | -6.4 | 13.3 |
| Narrow money (M1) | 33.6 | 14.2 | 14.5 | 8.4 | 2.5 | 21.1 | 15.1 | -0.1 | 6.3 |
| Savings and time deposits | 11.9 | 31.6 | 17.6 | 13.0 | 8.4 | 9.0 | 9.4 | 12.6 | 5.2 |
| Broad Money (M2) | 17.9 | 26.1 | 16.7 | 11.7 | 6.8 | 12.1 | 11.0 | 8.9 | 5.5 |
| Real interest rates | | | | | | | | | |
| Small savings rate | | 2.2 | 3.1 | 3.2 | 2.1 | -0.7 | 1.4 | 4.7 | -1.7 |
| Weighted lending rate | | 20.4 | 18.5 | 18.3 | 18.3 | 17.9 | 17.7 | 17.6 | 16.8 |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1988 constant prices.

c/ Includes electricity, gas, water and transportation, storage and communications.

d/ Includes retail trade, restaurants and hotels, financial establishments, insurance, real estate, social and personal services.

e/ In nominal terms.

f/ Does not include errors and omissions.

g/ The sign (-) indicates a reserve increase.

h/ Includes use of credit and International Monetary Funds Loans and Financing.

i/ Annual average weighted by international trade.

j/ Refers to net investment income divided by the ratio of exports of goods and services of the balance of payments .

k/ Percentages of working age population.

Percentage of economically active population.

1/

In 2003 the fiscal deficit is expected to widen to 13% of GDP. Revenues are projected to remain at 32% of GDP while expenditures will increase from 46% to 50% of GDP. This increase reflects the expansion of capital expenditures (11% and 16% of GDP in 2002 and 2003, respectively) due to a loan transfer to Guysuco. Grants under the HIPC scheme will also decline significantly (-58%) due to a change in the debt relief accounting methodology. The government has announced the implementation of a series of measures to broaden the tax base, whose full impact was to begin to be felt in April 2003. These measures include a consumption tax on local telephone calls and an increase in the withholding tax on interest income from 15% to 20%. The government also plans to introduce a value added tax in 2006 and has announced additional measures to improve tax administration and collection. These measures entail amendments to the customs act, financial administration and auditing procedures, and the tax act.

The revenue effect of these measures will be partly offset by the decision to increase wages over the next three years and raise the income tax threshold from G\$ 216,000 to G\$ 240,000 as of 2003.

(b) Monetary and exchange rate policies

Monetary policy in Guyana was geared to maintaining price stability. Narrow and broad money expanded by 6% (December 2001-2002), reflecting the combination of an increase in foreign net assets (6%) and a contraction in domestic credit (9%).

The performance of credit is mainly attributable to a decrease in net public-sector deposits, since demand for credit to the private sector remained stagnant throughout the year. In turn, the government's higher financing needs reflected the deficit of public firms, which was incurred because of higher employment and input costs and lower-than-expected sales of some of the country's main export products. In addition, domestic receipts slumped in response to lower economic growth, which hurt debtors' financial positions and investment earnings.

Slack demand for credit by the private sector reflected the conservative lending policies adopted by the banking system and the slowdown in economic growth with respect to the previous year. The largest decline was registered in agriculture (-16%), followed by manufacturing (-9%). The services sector, which is the largest credit recipient (34% of the total), recorded the smallest drop (-5%). The decrease in nominal and real rates of interest did nothing to reverse this trend. The bank rate declined in nominal terms from 8.75% in December 2001 to 6.25% in December 2002. The commercial banks' weighted average lending rate followed suit, decreasing from 17.6% to 16.8% in the same period (15% and 10%, respectively, in real terms). As a result, the commercial banks' excess reserves rose, peaking in August 2002 (33% of the total). In response, the banks increased their demand for Treasury bills, at the same time as they shifted the composition of their portfolios, substituting foreign for domestic assets.

This provided an outlet for bank funds and helped to relieve the government's debt burden by pushing down interest rates on government securities. Also, to a lesser extent, it increased the pressure on the foreign-exchange market, which forced the central bank to engage

in moderate interventions without altering the international reserve position of the financial system or the behaviour of the exchange rate (G\$ 190.92 and G\$ 194.49 in January and December 2002, respectively).

The main variables

(a) Economic activity

GDP (1.1%) dropped below its target level (2%), as most sectors, with the exception of agriculture, experienced low levels of growth. In 2003 GDP is expected to expand by 1.2%.

The performance of agriculture (6%) was driven by the sugar industry (16%), which benefited from the restructuring and modernization efforts undertaken in the framework of the Agriculture Improvement Plan, good weather conditions and higher levels of productivity. Rice production contracted (-11.1%) due, in part, to financial and technical setbacks. Livestock gained (5%) thanks to an expansion in capacity and domestic protection measures. Lastly, forestry contracted (-7.7%). In 2003 agriculture will expand by 2.9% as different crops continue to benefit from the Agricultural Improvement Plan. Rice output will increase by 3%, while the poultry meat and livestock sector is set to expand by 5%.

The performance of the mining and quarrying sector (-7%) reflected trends in the bauxite industry. Bauxite was hit by adverse weather conditions (flooding), declining international prices, a credit squeeze, rising production costs and consequently lower levels of profitability. By contrast, diamond and gold production rose, thanks to technology improvements and larger flows of foreign direct investment. The overall output of the mining sector will contract (-7.1%) due to lower-than-expected gold production and continued stagnation in the bauxite industry.

The rate of growth of the manufacturing sector (2.3%) was in keeping with its historical average and reflected the mixed performance of its components. Agro-based manufacturing was up in the sugar segment but shrank in the rice segment. Clothing and textiles and food processing declined, while pharmaceuticals trended upward.

Within the services sector (0.4%), transport and communications showed the strongest growth (4.5%), which was attributable to a greater volume of inbound communication and cellular traffic. Construction (-4%) failed to reap the full benefits of ongoing public-sector investment programmes due to a sluggish performance by the private sector.

(b) Prices, wages and employment

The rate of inflation increased from 1.9% to 6.1%, which was mainly a reflection of domestic factors, since international prices remained stable and exchange-rate movements were minimal throughout the year. Increases were recorded in the cost of utilities, petroleum, housing accessories and food. Housing accessories and food prices rose by 9% and 2%, respectively. Inflation is projected to reach 5.8%

The public-sector minimum wage was increased by 5%. Members of the police force, fire service and prison department also received additional income rises. Teachers were awarded pay hikes ranging from 5% to 16%. Lastly, certain unskilled workers in the private sector also received wage increases.

(c) The external sector

The balance-of-payments current account deficit narrowed (from 22% of GDP in 2001 to 17% in 2002) thanks to a decline in imports, which was attributable in turn to lower domestic growth. The capital account surplus was not sufficient to offset the current account imbalance, which led to a deficitary balance-of-payments position (2% and 4% of GDP in 2001 and 2002). This deficit was financed with Highly Indebted Poor Country (HIPC) debt relief funds.

Total external sales, mainly merchandise exports, grew only marginally (1%), although sales of most commodities rose. Sugar exports (9.4%) rose in volume (12%) even though international prices fell (2%), thanks to the government's Agriculture Improvement Plan and good weather conditions. Gold and timber exports were also up by 7.3% and 9%, respectively. These gains were undermined, however, by a significant drop in bauxite exports (-42%) and a smaller downturn in rice (-9.5%) caused by the low levels of profitability prevailing in the two industries.

The fall-off in imports took place across all the categories. Imports of consumer goods, intermediate goods and capital goods recorded contractions of 4.4%, 3.35% and 1.6%, respectively.

The capital account (US\$ 95 and US\$ 63 million in 2001 and 2002, respectively) reflected a delay in the disbursement of HIPC assistance. Private foreign direct investment inflows shrank (from US\$ 56 million in 2001 to US\$ 43.6 million in 2002) as a result of the economic slowdown, but expanded in the telecommunications and fisheries industries.

In 2003, the current account deficit will widen to 20% of GDP, mainly as a result of a higher import bill following the oil price hike. With the exception of gold and timber, traditional exports will record strong growth underpinned by a series of measures geared towards developing and modernizing the product on sectors. Higher disbursements for public-sector projects and the increase in private foreign direct investment which is expected to result from better growth prospects will offset only part of the current account deficit. The overall imbalance in external accounts will rise from 4% to 8.5% of GDP and will be financed through debt relief assistance.

6. Jamaica

*Economic policy*⁹

(a) Fiscal policy

The budget deficit increased from 3.8% of GDP in fiscal year 2001-2002 to 7.7% in fiscal year 2002-2003 as a result of lower-than-budgeted fiscal revenues and a lax fiscal stance. The poor performance of fiscal revenues was mainly attributable to shortfalls in earnings from taxes on interest and, to a lesser extent, on dividends, the self-employment tax, corporate taxes, the bauxite/alumina tax and international trade taxes.

The out-turn of interest and international trade taxes reflected a delay in the implementation of fiscal measures to improve the tax system by widening its base and by closing loopholes. Among the most important of these measures were the removal of the withholding tax exemption for public firms, an increase in fees and fines, amendments to the General Consumption Tax Act and the Customs Act, and the tightening of the link between tax compliance and the granting of licences and professional certification. Despite the fact that production levels were higher than the previous fiscal year, revenues from the bauxite/alumina tax were hurt by the decline in the international price of alumina and the slow growth of the United States economy. By contrast, and despite the delay in implementation of the reforms, the yield on production and consumption taxes exceeded expectations thanks to increased compliance efforts and higher levels of activity at the PETROJAM (Petroleum Company of Jamaica) public refinery.

Government expenditures reflected an increase in the wage bill, larger interest payments and recurrent public programmes (up 21%, 22% and 37%, respectively, with respect to fiscal year 2001-2002). Wage settlements, the adjustment of public pay packages and a rise in the minimum wage accounted for the increase in wages and salaries. Interest payments on domestic debt (up by 16% with respect to fiscal year 2001-2002), which represent 76% of total interest payments, were driven by the depreciation of the exchange rate. This, in turn, raised the cost of servicing domestic debt denominated in United States dollars (which accounts for 20% of the total). In addition, stringent monetary measures geared to avoiding exchange-rate depreciation—including interest rate hikes—increased the burden of debt denominated in the local currency. Lastly, recurrent programmes included the provision of basic services and utilities, pensions and spending on relief in the wake of flood damage.

For fiscal year 2003-2004 the authorities plan to reduce the deficit from 7.7% to 5.8% of GDP by constraining expenditure and, even more importantly, increasing revenue by means of a set of measures intended to broaden the tax base. The main tax measures, which were announced in April 2003, include a levy on imports and the expansion of the general consumption tax base. These two measures alone will account for 90% of the revenues expected from the entire package. The first imposes a levy of 4% on all imports, including capital goods and raw materials. The second widens the tax base by eliminating exempt and zero-rated goods and services and increasing the rate on telephone calls to 20%. It also proposes to do away with the

⁹ The main macroeconomic indicators for Jamaica are found in table 7 below.

refund granted to manufacturers supplying tax-exempt goods and to include sporting goods in the tax base.

Following these measures, tax revenues are projected to increase by 37%. The biggest increases are expected in production and consumption (34%) and international trade (39%). Revenues from income and profit taxes are projected to expand by 23%. The results for the first quarter of 2003-2004 show that the revenue out-turn was 15% higher than budgeted. Also, actual expenditure was 12% under budget. As a result, the difference between the budgeted and actual fiscal result was about J\$ 2.953 billion.

Spending constraints will be reflected in a decline in real wages (7%), since capital expenditures and interest payments are expected to rise with respect to fiscal year 2001-2002 (by 28% and 27%, respectively). Debt management strategy will be key to the achievement of fiscal policy goals during the current fiscal year.

At the start of the present fiscal year, the domestic debt stock represented 92% of GDP. This was an increase of 22% with respect to the previous year, which may be attributed to the financing needs of the government and the Bank of Jamaica (to cover its quasi-fiscal deficit), increased external financing constraints and the depreciation of the exchange rate.

The stock of external debt increased by only 1% in foreign currency but 19% in the local currency, due to exchange-rate depreciation, to stand at 59% of GDP at the end of March 2003.

Since fiscal year 1998-1999 the authorities' debt management strategy has been based on keeping borrowing costs to a minimum. For 2003-2004, this strategy has been widened to include risk management. The main elements of the strategy have a twofold purpose: to isolate the debt stock from movements in interest and exchange rates and to develop a domestic securities market to facilitate the use of market-based instruments to trade debt issues. The first will be achieved by means of an increase in the proportion of fixed-rate instruments (which accounted for 48% of outstanding domestic debt in March 2003, with a target of 60% for fiscal year 2003-2004), restrictions on dollar-denominated and dollar-indexed bonds (which represented 20% of domestic debt in March 2003) and the extension of debt maturities. The second goal will be achieved by maintaining the government's leeway to issue its securities on the domestic market and by anchoring traded securities to benchmark securities with higher liquidity premiums and lower carrying costs. Ultimately, the government's success in trimming the deficit will depend on growth, stability in the foreign-exchange market and monetary strategy.

(b) Monetary and exchange-rate policies

In Jamaica the management of monetary policy has had to deal with a changing environment. Early in the year, the monetary authorities maintained the policy begun in 1998, which consisted of reducing the costs paid to financial intermediaries, and lowered the cash reserve ratio from 10% to 9% (March 2003). At the same time, the central bank lowered the rate of interest on its open-market instruments in order to transfer this reduced cost to consumers.

From June on, however, as the foreign-exchange market came under devaluation pressures, the authorities focused their policy goals on keeping Jamaica's exchange rate stable. The average depreciation of the nominal exchange rate was 0.4% between January and June, increasing to 1% in August. It peaked at 2% in December 2002, which coincided with the government's admission that the fiscal deficit target of 4% of GDP could not be met and that the deficit would, in fact, be double that figure. The nominal exchange rate continued to depreciate in 2003, declining by 13%.

The monetary authorities used three tools to reduce the instability in the foreign-exchange market in 2003: international reserves, open-market operations and temporary direct controls. The decline in international reserves (-14% between December and January and -12% between January and March 2003) and the open-market operations absorbed liquidity, thereby reducing agents' scope for switching to United States dollar-denominated assets, and helped to keep the money base within the targeted range. In addition, these measures reduced the supply of foreign exchange and, by widening the interest-rate spread, made the domestic economy more attractive to investors.

The limited success of these measures prompted the authorities to introduce temporary direct controls at the beginning of 2003. These controls included a special deposit requirement of 5% on financial institutions' liabilities with the Bank of Jamaica and a 120-day reverse repurchase instrument which carried a 30% interest rate. By the end of the quarter, however, the short-lived effect of these new measures forced the authorities to revert to open-market operations and interest-rate hikes (on both short- and long-term instruments) and intervention in the foreign-exchange market.

The exchange rate finally stabilized at the end of May 2003, when the government announced that the Bank of Jamaica would intervene heavily in the market and that it would issue an indexed bond denominated in United States dollars to mop up liquidity. In addition, it announced measures to reduce the fiscal deficit by cutting expenditure and, even more importantly, increasing the tax base.

The official interpretation of the exchange rate's behaviour lies in the disequilibrium of fiscal accounts. Starting from an investment/savings balance macroeconomic accounting framework, an increase in the fiscal deficit implies that either external savings must rise or the current account must be in deficit.

In the absence of any counteracting fiscal measures on the expenditure or revenue side, financing the deficit increases the government's debt. In the financial systems' balances, government debt (assets) can be matched by greater money creation (a liability). In the absence of restrictions on foreign-exchange transactions and given a favourable interest-rate spread (enhanced by the fact that the exchange-rate depreciation risk is low), as in the case of Jamaica, the increase in liquidity can find an outlet in domestic and/or foreign goods and services and domestic assets. Independently of time and liquidity preferences, the most likely outcome is an increase in prices, which can translate into exchange-rate appreciation and an increase in imports.

Both these results can widen the current account deficit and erode international reserves. In turn, a decline in international reserves and expectations of a persistent fiscal deficit can lead agents to anticipate currency depreciation and to act accordingly. The consequent exchange-rate depreciation feeds back into prices through a cost mechanism and puts further pressure on the current account and international reserves. As mentioned above, the authorities can intervene to defend the local currency using international reserves or interest rate-hikes. This will only exacerbate the situation, however, until the root of the problem —the fiscal deficit— is tackled.

The main variables

(a) Economic activity

In 2002, GDP grew by 1% (1.7% in 2001). This reflected an expansion in the services sector (2%), since the goods-producing sector contracted by 0.4%. In 2003 GDP will increase by 2%.

The agricultural sector's underperformance (-8.3%) is explained largely by climatic factors, including the droughts that affected some parishes in the first quarter of 2002 and flood damage in May and September 2002. Domestic crop production was down by 12%, with fruits, condiments and legumes experiencing the largest declines (-36%, -34% and -26%, respectively). Export crop production decreased by 5.3%. Within this group, citrus fruits, cocoa and bananas recorded the largest contractions in external sales (-27%, -25% and -7%, respectively). In 2003 the agricultural sector is expected to reverse this trend, as production recovers from the effects of the floods, and turn in positive rates of growth. In the first quarter of 2003, the agricultural sector grew by close to 5%, with domestic and export crop production rising by 6.5% and 6.3%, respectively.

Mining output (3%) reflected the interruptions in production caused by flood rains and by technical and industrial difficulties, the expansion of capacity in bauxite plants and the growth of the construction sector. The notable surge in bauxite and alumina production (34% and 28%, respectively) in the final quarter was mainly attributable to the fact that JAMALCO (Jamaica Alumina Company) plant, which had been closed for the greater part of the year, began to operate at full capacity. Domestic bauxite and alumina production expanded by 12% and 13%, respectively, while exports of both minerals expanded at only 2% and 6%, due to lower international prices. Mining performance in 2003 will capitalize on the expansion of capacity and turn in a solid growth rate of 6%. In the first quarter of 2003 the growth of the mining sector was 5%.

Manufacturing stagnated (-0.1%) due to the flood rains, which had a negative impact on food, beverage and tobacco production and on sugar-cane output. In addition, the clothing sector maintained the downward trend that has been evident since at least 1997. In 2003, the manufacturing sector is expected to continue to record zero growth, as petroleum refining (which is one of the sector's most dynamic activities) is interrupted for maintenance purposes. During the first quarter, manufacturing dropped by 0.4%.

Construction (2.2%) performed better than in 2001 (-0.2%) thanks to residential and non-residential private construction and public-sector projects. Public-sector activity included housing completions by the national housing trust, public infrastructure projects such as the Northern Coastal Highway and Highway 2000, and installations by the light and power company. Construction is expected to maintain its present rate of growth in 2003, after expanding by 2.2% in the first quarter.

The tourism sector posted a decline (-0.4%), as it struggled to recover in the wake of the events of 11 September. The number of stopover passengers fell by 1% and tourism earnings were down by 4.0%. The number of cruise-ship passengers increased (3%), however, and is expected to continue to rise, leading to positive growth for the whole sector in 2003. During the first quarter of 2003, stopover and cruise arrivals increased by 7% and 47%, respectively. Tourist expenditure rose by 12% and the GDP of the sector as a whole rose by 7%.

(b) Prices, wages and employment

The rate of inflation declined from 8.8% in 2001 to 7.3% in 2002. The main factors underlying the behaviour of inflation were the tight policy pursued by the monetary authorities, the disruption in the supply of agricultural products caused by flooding, the increase in the price of crude oil and, to a lesser extent, exchange-rate depreciation. In 2003, the depreciation of the exchange rate is expected to be the single most important factor determining inflation trends. Depreciation did not affect prices during the first three months of 2003, since inflation was negative (-0.4%) but kicked in with full force in April as the monthly inflation rate reached 1.6%, which may push the annual rate of inflation up to 11%.

An examination of the major categories of the price index shows that vegetables and fruit were the main contributors to the overall increase in prices, followed by other household expenses and meat, poultry and fish, baked products, cereals and breakfast drinks (23.1%, 14.2%, 10.3% and 10.5% of the total, respectively).

Following a proposal from the National Minimum Wage Advisory Commission, the House of Representatives approved a 50% rise in the minimum wage in November 2001 which became effective in January 2002. A survey of employment and earnings in large establishments also revealed that the average weekly earnings of all employees and of wage earners increased by 7.6% and 10%, respectively, for all major industrial sectors with the exception of construction. Employment increased by 1.6% and the rate of unemployment remained stable at 15%. The rate of female unemployment, which is twice as high as the male unemployment rate (21% and 11%, respectively), represented 61% of the unemployed labour force.

Table 6
Jamaica
Macroeconomic indicators
1994 - 2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
|---|--|----------|---------|---------|---------|---------|---------|---------|---------|
| | Annual growth rates b/ | | | | | | | | |
| Gross Domestic Product | 0.9 | 1.0 | 1.0 | -1.7 | -0.3 | -0.4 | 0.7 | 1.7 | 1.0 |
| Gross domestic product by sector of economic activity | | | | | | | | | |
| Agriculture, forestry and fishing | 6.6 | 2.6 | 4.2 | -13.7 | -1.5 | 1.4 | -10.9 | 5.2 | -8.3 |
| Mining and quarrying | 6.9 | -6.8 | 7.5 | 3.3 | 3.3 | -1.2 | -1.7 | 3.8 | 3.3 |
| Manufacturing | -0.1 | -0.8 | -3.3 | -2.5 | -4.4 | -0.7 | 0.9 | 0.6 | -0.1 |
| Construction | -6.3 | 7.2 | -5.4 | -3.9 | -5.8 | -1.5 | 0.2 | 2.0 | 2.2 |
| Basic services c/ | 3.5 | 8.1 | 8.0 | 5.7 | 5.8 | 7.6 | 6.8 | 5.0 | 5.4 |
| Other services d/ | 10.2 | 3.1 | 2.2 | -4.2 | -0.6 | 3.7 | 3.8 | 0.1 | 1.1 |
| | Millions of dollars | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Balance on current account | 82 | -99 | -143 | -332 | -328 | -216 | -387 | -788 | -942 |
| Exports of goods and services | 3,028 | 3,394 | 3,323 | 3,399 | 3,384 | 3,478 | 3,589 | 3,355 | 3,135 |
| Imports of goods and services | -3054.5 | -3729.1 | -3864.4 | -4064.3 | -4037.5 | -4008.6 | -4446.4 | -4591.8 | -4634.8 |
| Income account balance | -352 | -371 | -225 | -292 | -308 | -333 | -350 | -438 | -471 |
| Current transfers balance | 460 | 607 | 624 | 625 | 634 | 647 | 821 | 886 | 1,028 |
| Capital and financial account balance f/ | 266.5 | 118.8 | 405.2 | 151.9 | 328.6 | 83.9 | 856.2 | 1638.2 | 704.1 |
| Global balance | 357.7 | 26,950.5 | 271,386 | -170.4 | 43.9 | -136.4 | 518.4 | 865.0 | |
| Variation in reserve assets g/ | -321.0 | 55.8 | -201.7 | 205.0 | -26.9 | 155.3 | -499.4 | -846.6 | |
| Other financing h/ | 36.7 | 82.7 | 69.7 | 34.6 | 17.0 | 18.9 | 19.0 | 18.3 | |
| Employment and wages | | | | | | | | | |
| Participation rate k/ | ..... | ..... | ..... | ..... | 65.6 | 64.5 | 63.3 | 63.0 | 63.6 |
| Open unemployment rate l/ | ..... | ..... | ..... | 16.5 | 15.5 | 15.7 | 15.5 | 15.0 | 15.1 |
| Employment (000') | ..... | ..... | ..... | ..... | 953.6 | 943.9 | 933.5 | 939.4 | 954.3 |
| Average weekly earnings of all employees (in 1990 Jamaican dollars) | | | | | 5881.9 | 6869.1 | 7256.0 | 7843 | 8469 |
| Prices | | | | | | | | | |
| GDP deflator (1986=100) | 32.9 | 24.3 | 19.2 | 11.0 | 13.0 | 14.1 | 15.7 | 16.8 | 18.1 |
| Consumer price index (average) | | | | | 8.7 | 6.0 | 8.2 | 7.0 | 7.1 |
| Consumer price index (December to December) | 26.8 | 25.6 | 15.8 | 9.2 | 7.9 | 6.8 | 6.1 | 8.8 | 7.3 |
| Nominal exchange rate | 33.4 | 35.3 | 37.0 | 35.6 | 37.2 | 41.4 | 45.5 | 47.4 | 51.0 |
| The Central Government | | | | | | | | | |
| | Percentages of GDP | | | | | | | | |
| Revenue | 30.6 | 32.0 | 29.1 | 27.6 | 29.2 | 32.9 | 35.3 | 18.4 | 29.8 |
| Expenditure | 27.3 | 29.9 | 36.0 | 35.9 | 36.7 | 37.5 | 34.0 | 22.2 | 37.5 |
| Financial result | 3.3 | 2.1 | -6.9 | -8.3 | -7.5 | -4.6 | 1.4 | -3.8 | -7.7 |
| Primary balance | 13.6 | 11.9 | 5.7 | 1.9 | 6.1 | 10.6 | 15.3 | 5.3 | 7.9 |
| Interest | 10.3 | 9.8 | 12.6 | 10.2 | 13.6 | 15.2 | 14.0 | 9.1 | 15.6 |
| External | ..... | ..... | ..... | ..... | ..... | 12.8 | 11.2 | 7.2 | 11.8 |
| Internal | ..... | ..... | ..... | ..... | ..... | 2.5 | 2.8 | 1.9 | 3.8 |
| Money and credit | | | | | | | | | |
| | Rates of change (December to December) | | | | | | | | |
| Internal credit | ..... | -41.3 | -283.7 | 350.2 | 115.2 | 21.1 | 3.1 | 10.7 | -90.0 |
| Credit to the public sector | ..... | 51.9 | 25.3 | -15.7 | -19.1 | -22.1 | 9.5 | 19.1 | 34.8 |
| Credit to the private sector | ..... | 33.7 | 13.1 | 15.7 | 8.5 | 32.0 | -1.3 | 6.6 | 8.6 |
| Currency in circulation | ..... | 48.1 | 34.2 | -12.1 | 3.1 | 27.4 | -3.4 | 29.4 | 17.1 |
| Demand deposits | ..... | 41.9 | 25.6 | -1.9 | 5.4 | 29.5 | -2.5 | 18.9 | 13.6 |

| | | | | | | | | | | |
|-------------------------------|-------|------|------|------|--------------------|------|------|------|------|------|
| M1 | ..... | 31.5 | 8.6 | -4.4 | 19.1 | 18.0 | 26.9 | -2.3 | 12.5 | |
| Time deposits | ..... | 39.7 | 11.7 | 31.0 | 4.4 | 10.1 | 12.9 | 10.0 | 12.8 | |
| M2 | | 38.5 | 15.4 | 12.5 | 7.2 | 17.3 | 10.6 | 9.8 | 13.0 | |
| Real interest rates | | | | | Annual percentages | | | | | |
| Weighted average deposit rate | | 27.9 | 26.2 | 20.8 | 14.1 | 15.5 | 13.3 | 12.2 | 10.1 | 8.9 |
| Weighted average lending rate | | 45.8 | 48.6 | 37.8 | 31.9 | 30.1 | 24.6 | 22.1 | 19.5 | 18.3 |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1986 constant prices.

c/ Includes electricity, gas, water and transportation, storage and communications.

d/ Includes retail trade, restaurants and hotels, financial establishments, insurance, real estate, social and personal services.

e/ In nominal terms.

f/ Does not include errors and omissions.

g/ The sign (-) indicates a reserve increase.

h/ Includes use of credit and International Monetary Funds Loans and Financing.

i/ Annual average weighted by international trade.

j/ Refers to net investment income divided by the ratio of exports of goods and services of the balance of payments .

k/ Percentages of working age population.

l/ Percentage of economically active population.

(c) The external sector

The current account deficit, which deteriorated in the course of the year (10.2% and 11.8% of GDP in 2001 and 2002, respectively), was not fully offset by the surplus in the capital and financial account. As a consequence, the stock of net international reserves declined from US\$ 1,839,400,000 in 2001 to US\$ 1,601,200,000 in 2002.

The trade deficit widened due to a contraction in the major categories of commodity exports, including alumina (-6%), sugar (-6%) and bananas (-2.7%). Bauxite (13%) was the exception to the rule, thanks to restored production capacity following the re-opening of a major refinery.

Alumina accounts for 76% of all major traditional exports. Its export volume increased below potential due to adverse weather conditions and labour stoppages, and was thus not enough to offset a decline in international prices (-12.6%). Market access obstacles and declines in productivity hampered external sugar sales. As in the case of alumina and sugar, banana production felt the impact of the May and September flooding. The performance of non-traditional exports (-17%) reflected the clothing industry's lack of competitiveness.

Goods imports were up by 2%, thanks mainly to the results for food products (5%), consumer durables (16%) and, within this group, imports of automobiles and other machinery and equipment (36%), including telephones and gas generators.

The services balance reflected a fall-off in the travel account and particularly in gross estimated visitor expenditure (-4.4%) as a result of the price reductions granted by the industry in order to maintain its competitive edge. The deficits on the income account and current transfers (-US\$ 471 million and -US\$ 1,028,400,000, respectively) are associated with higher levels of profit repatriation and debt payments, in the first case, and a rise in the level of private remittances (18%), in the second.

The surplus on the capital and financial account (US\$ 704 million) is attributable partly to lower government borrowing in international capital markets and larger outflows of official payments and partly to a slump in private foreign direct investment (from US\$ 1,022,600,000 to US\$ 650.9 million) in response to a general climate of economic uncertainty.

7. Suriname

*Economic policy*¹⁰

(a) Fiscal policy

In 2002 the fiscal balance deteriorated from -1.4% of GDP in 2001 to -10.9% in 2002 as a result of an increase in expenditure (from 34% of GDP in 2001 to 43% in 2002) and a marginal decline in tax revenues (33% and 31% of GDP in 2001 and 2002, respectively). The deficit was partly covered by financial development assistance and funds from the central bank, though central bank financing of the fiscal deficit is limited to 10% of government revenues.

Expenditure performance largely reflected a rise in public sector wages (which represented 46% of the total in 2002) that came into effect in March and was compounded by a one-time bonus payment in July (73%). The other spending categories displayed a mixed outcome. Transfers and capital expenditures dipped, the first from 8.1% of GDP in 2001 to 7.3% in 2002 and the second from 2% of GDP in 2001 to 1.5% in 2002. Interest payments expanded from 2% of GDP in 2001 to 3% in 2002, and spending on goods and services, from 8% of GDP in 2001 to 10% in 2002.

Trends in tax revenues mainly reflected a drop-off in bauxite earnings (from 5% of GDP in 2001 to 2% in 2002). Indirect taxes held steady as a proportion of GDP despite the stagnation of economic activity (at 14.5% and 14% of GDP in 2001 and 2002, respectively).

Between December 2002 and January 2003 the authorities passed a series of tax measures to deal with the fiscal imbalance and the negative effects of the implementation of the third and fourth phases of the CARICOM common external tariff, which went into effect in January 2003. The measures implemented in 2003 included an increase in the threshold of the wealth tax and the introduction of a threshold in the rental value tax and a casino tax consisting of the payment of a set amount per table and per machine. Changes were also made to the threshold income brackets, and the rates of income and sales taxes (effective in December 2002) went up. Sales taxes rose from 5% to 8% for services and from 7% to 10% for goods. These measures geared to narrowing the budget deficit are expected to raise 100 billion guilders in tax revenues. The revenue-enhancing effects were felt in the first three months of 2003 as direct and indirect tax receipts expanded by 81% and 16%, respectively.

¹⁰ The main indicators for Suriname are found in table 7 below.

| Table 7 | | | | | | | | | | |
|---------------------------------------|-------|-------|-------|--|--------|-------|-------|--------|--------|--|
| Suriname | | | | | | | | | | |
| Macroeconomic indicators | | | | | | | | | | |
| 1994 -2002 | | | | | | | | | | |
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ | |
| | | | | Annual growth rates b/ | | | | | | |
| Gross domestic product | | | 11.6 | 7.0 | 4.1 | -4.8 | -5.7 | 1.3 | 1.2 | |
| Balance of payments | | | | Millions of US dollars | | | | | | |
| Balance on current account | | | | | -183.2 | -89.9 | -9.0 | -84.0 | -60.0 | |
| Exports of goods and services | | | 475.1 | 493.5 | 421.7 | 421.1 | 490.1 | 496.4 | 314.0 | |
| Imports of goods and services | | | 568.3 | 559.3 | 573.8 | 475.5 | 452.1 | 471.9 | 349.7 | |
| Income account balance | | | | | -28.8 | -34.0 | -44.8 | -107.6 | -21.0 | |
| Current transfers balance | | | | | -2.3 | -1.5 | -2.2 | -0.9 | -3.3 | |
| Capital and financial account balance | | | | | 61.2 | 19.1 | -80.8 | 104.8 | -39.2 | |
| Global balance | | | -4.4 | -9.3 | -46.3 | -84.4 | -50.5 | 76.9 | -99.2 | |
| Variation in reserve assets | | | -36.1 | -21.8 | -36.1 | -21.8 | 1.4 | 77.8 | -22.8 | |
| Prices | | | | Annual growth rates b/ | | | | | | |
| Inflation (annual average) | | | -1 | 7 | 19 | 99 | 59 | 39 | 16 | |
| Inflation (December to December) | | | 1 | 17 | 23 | 113 | 76 | 5 | 28 | |
| Official nominal exchange rate | | | 396 | 396 | 396 | 980 | 2,157 | 2,157 | 2,500 | |
| Average free nominal exchange rate | | | 414 | 435 | 556 | 1,251 | 1,914 | 2,243 | 2,639 | |
| Non-public financial sector | | | | Percentages of GDP | | | | | | |
| Revenue | | | 46.7 | 35.8 | 36.0 | 24.0 | 28.0 | 32.7 | 32.5 | |
| Expenditure | | | 44.3 | 39.7 | 49.9 | 34.3 | 40.7 | 34.1 | 43.4 | |
| Fiscal result | | | 2.5 | -4.0 | -13.8 | -10.3 | -12.7 | -1.4 | -10.9 | |
| Public debt | | | | 58.0 | 61.9 | 51.3 | 65.9 | 37.0 | 33.6 | |
| Internal | | | | 7.9 | 11.9 | 17.0 | 38.2 | 14.0 | 13.9 | |
| External | | | | 50.1 | 50.0 | 34.3 | 27.8 | 23.0 | 19.6 | |
| Money and credit | | | | Rates of change (December to December) | | | | | | |
| Credit to the private sector | | | | 41.7 | 24.5 | 33.5 | -14.6 | 58.3 | 26.7 | |
| Credit to the government (net) | | | | -500.0 | 254.3 | 28.2 | 541.9 | -55.1 | 147.9 | |
| Narrow money supply | | | | 21.7 | 34.1 | 47.9 | 97.3 | 42.8 | 42.7 | |
| Broad money supply | | | | 16.3 | 28.7 | 37.0 | 91.5 | 38.7 | 40.7 | |
| Real interest rates | | | | Annual percentages | | | | | | |
| Weighted average deposit rate | | | 15.1 | -0.7 | -5.9 | -45.5 | -34.5 | 5.9 | -15.5 | |
| Weighted average lending rate | | | 33.3 | 9.7 | 2.3 | -39.6 | -26.8 | 17.7 | -5.1 | |

Source: ECLAC on the basis of official information.
a/ Preliminary figures

Estimated revenues (including grants) for 2003 are equivalent to 34% of GDP (with current revenue standing at 32% of GDP). Current and capital expenditure are projected to reach 31% and 4% of GDP, respectively.

(b) Monetary and exchange-rate policy

In an attempt to curb inflation, which started to trend upward in February, the monetary authorities used direct controls to limit the creation of credit by the commercial banking system and to moderate the depreciation of the nominal exchange rate. In May 2002 the central bank upped the reserve ratio from 27.5% to 35%. After the exchange rate peaked at 3,000 guilders to the dollar in August (which represented a depreciation of 27% since January), in September a

band system was introduced for foreign-exchange sales and purchases (2,540-2,800 guilders for the sale of United States dollars and 2,490-2,750 guilders for purchases).

These stabilization efforts were partly offset by a significant increase in net credit to the government (from -55% in 2001 to 147% in 2002) to finance its fiscal gap, which boosted the expansion of the narrow and broad money supply (43% and 41% for M1 and M2, respectively).

Credit to the private sector was also up (by 27%), in response to a decline in real rates of interest brought about by the rise in prices and by decreases in the nominal lending rate (from 23.4% in December 2001 to 21.3% in December 2002) as economic activity stalled.

In 2003 the exchange-rate band became practically inoperative. Also, some non-official sources indicate that currency traders are increasingly avoiding government regulation of the foreign-exchange market as foreign exchange has become scarcer. The authorities are expecting the growth of the money supply to decline to 20%.

The main variables

(a) Economic activity

GDP growth stagnated (with rates of 1.3% in 2001 and 1.2% in 2002) owing to the poor performance of the agricultural and mining sectors. In 2003 the economy is expected to remain stagnant.

Agricultural output faced cash constraints, adverse weather conditions and lower international prices for some of its major export products. Banana output was curtailed as one of the major State companies suspended production, unable to finance variable costs. The company, which is undergoing a rehabilitation and privatization process, is expected to resume production and exports in 2004. Rice production was also constrained by debt, lack of irrigation due to dry weather conditions and technical difficulties. Fisheries suffered as a result of lower prices for shrimp, caused by an increase in supply due to illegal fishing.

Mining performance reflected a decline in bauxite and oil production. Export volumes of bauxite fell by 1.2%, while oil export volumes were down by 73%. The contraction in bauxite production reflected lower international prices (11%) and low levels of government capital investment. In October 2002 the government agreed to a joint venture development with an international bauxite company, which is expected to increase the industry's capacity and production. In the first three months of 2003 the volume of alumina increased (2.5%), responding to a recovery of international prices. Gold production is expected to expand owing to investments by a foreign company in an open pit mine.

(b) Prices, wages and employment

The rate of inflation rose from 4.9% to 28.3% on a point-to-point basis for December 2001-December 2002, as a result of the steady depreciation of the exchange rate, which increased costs and led to price adjustments, wage increases and higher liquidity in the economy.

The official exchange rate, which was anchored at 2,200 guilders to the dollar at the beginning of 2002, was adjusted several times and ended the year at 2,545.79 guilders to the dollar (an increase of 16%). In the parallel free market the exchange rate rose above the 3,000-guilder barrier in September and reached an average of 2,638 guilders for the year, thereby exceeding the quantitative limits which the monetary authorities had imposed on the purchase and sale of foreign exchange. Public-sector wages were readjusted in March. In 2003 inflation continued its upward trend to reach 36% in April, reflecting price hikes in the gasoline (40%) and food segments. Inflation is likely to remain in the double digits in 2003.

A breakdown of the consumer price index shows that at the component level, food and non-alcoholic beverages, alcoholic beverages and tobacco displayed the largest increases, followed by household furnishings and utilities (35%, 34% and 33%, respectively).

The unemployment rate remained at 16%, reflecting the sluggishness of the economy.

(c) The external sector

The overall balance of payments turned negative in 2002 as both the current account and the capital account ran deficits (the first recording US\$ -84 million and US\$ -60 million in 2001 and 2002, respectively, and the second recording US\$ 105 million and US\$ -40 million in 2001 and 2002, respectively). As a result, the authorities' net international reserve position deteriorated from US\$ 108 million to US\$ 92 million.

The current-account deficit reflected the underperformance of exports. All the major traditional exports saw marked declines, which were mainly attributable to volume considerations. Banana and rice exports recorded contractions averaging 11%. Alumina exports fell by 13% and external oil sales were down by 71%. Imports remained stable as a result of stagnant income growth.

The capital-account balance reflects inter-company balances (US\$ -64 million in 2002) and loan disbursements by the government (US\$ -27 million in 2002).

In 2003 export volumes saw an upswing. In the first quarter of the year alumina export volumes were up by 27%, while crude petroleum exports and refinery products rose by 66%. If exports maintain this trend and imports respond to the recovery in economic activity, the current account deficit will widen to US\$ 107 million. The capital account will offset this imbalance, however, as different investment projects in key sectors of the economy (bananas, bauxite and gold) come on stream. As a result, the authorities are likely to increase the import coverage ratio. The coverage ratio stood at 3.1%, in January 2003, rose to 3.7% in May 2003 and will probably remain at 3.5% in December 2003.

8. Trinidad and Tobago

*Economic policy*¹¹

(a) Fiscal policy

The central government reduced its surplus from the figure recorded in fiscal year 2000/2001 and registered a virtual balance on its fiscal accounts for fiscal year 2001/2002 (1.8% and -0.3% of GDP, respectively) as a result of tax buoyancy from non-energy sources (16.5% and 17.2% of GDP for the two fiscal years, respectively), which partly offset the underperformance of the petroleum sector's earnings (8% and 5% of GDP in the same period). This result notwithstanding, the tax-to-GDP ratio declined from 24.5% to 22.7%.

The oil sector's tax potential was undermined by the fall in the price of crude oil during the fiscal year (-15%). The price slump affected profits and, therefore, corporate tax revenues (4.9% and 3.1% of GDP in fiscal years 2000/2001 and 2001/2002, respectively), which are the largest contributor of oil-sector taxes (56% of the total). An upturn in the price of oil towards the end of the year had a positive effect on the country's public finances as the corporation tax intake (measured on a calendar-year basis) increased.

In the light of this, the Central Government, cognizant of the uncertainties of the international economy, based its fiscal operations for 2002/2003 on a conservative oil price level of US\$22.00 per barrel, and so estimated an overall deficit equivalent to 0.9% of GDP (\$618.9 million)

Tax receipts from the non-oil sector were boosted by the performance of the value added tax (13%) and, to a lesser extent, international trade taxes (5%). In turn, the value added tax flows reflected an increase in efficiency and a lower level of tax refunds. International trade tax receipts benefited from an increase in vehicle imports. Income tax recorded a declining trend (from 8% of GDP in 2001 to 7.5% in 2002 to 4.1% in 2003) as a downturn in the corporation tax intake was not fully offset by the performance of personal income taxes, owing in part to the payment of public-sector wage arrears. Lastly, non-tax revenues were boosted by the higher profits of public firms and administrative fees.

Expenditure patterns (21% of GDP in 2001 and 22% in 2002 and 24.65% in 2003) reflected the settlement of public-sector wage arrears, as mentioned above (12%), and transfers and subsidies to households (24%), including pension outlays.

The deficit was financed from domestic sources and external borrowing was avoided, which enabled the authorities to reduce the external debt-to-GDP ratio from 20% in 2001 to 17% in 2002. As the government used existing lines of credit from contracted external loans to develop the country's infrastructure, however, the service-to-debt ratio rose from 3.7% to 4.3%.

¹¹ The main macroeconomic indicators for Trinidad and Tobago are found in table 8 below.

The budget for the new fiscal year 2002/2003, which was submitted and adopted in October, is estimated to yield a deficit of 1% of GDP due to payments to settle wage arrears. On the revenue side, the main features of the budget include a reduction in the top marginal rate of income and corporation tax (from 35% to 30%), the elimination of taxes on medication and export allowances to comply with WTO agreements. On the expenditure side, the government is planning to increase spending on health care and education by 10% and 12%, respectively. The out-turn for the first half of fiscal year 2002/2003 shows the accounts in balance. This resulted in part from the delay in the implementation of the capital expenditure programme.

(b) Monetary and exchange-rate policy

Monetary policy went through three phases in the course of the year. In the first, which lasted for the first three quarters, the financial system was marked by excess liquidity caused in part by a climate of uncertainty surrounding the political stalemate prevailing throughout the year, the continued slowdown in the United States economy and, most importantly, the government's fiscal operations. Net credit to the government rose from 16% to 33% between 2001 and 2002. The monetary authorities responded with sterilization operations, which were facilitated by the extension of the limit on central bank note issues in March 2002 (125%).

The central bank also intervened in the foreign-exchange market to offset the excess demand for United States dollars in the first part of the year (the bilateral exchange rate was quoted at 6.23553 in January and at 6.27260 in April), which helped to further dampen the excess liquidity in the financial system. The upward pressure placed on interest rates by sterilization operations, the liquidity constraints imposed by budgetary operations and the slow growth of the economy prompted the authorities to adopt a looser monetary stance.

In August, the combination of low growth, excess liquidity and a stable exchange rate prompted the authorities to lower the benchmark repo rate from 5.75% to 5.25%. The repo rate was introduced in May 2002 and refers to the overnight borrowing rate charged by the central bank to commercial banks. This financial option comes with the possibility of repurchase by the central bank at a rate of interest known as the reverse repo rate. Funds are repurchased by the central bank at a 50-basis-point discount over the repo rate. The repo rate was set at 5.75% and the reverse rate, at 5.25%. The repo rate also constitutes the reference point for other rates such as the discount rate (charged on borrowing from the central bank to cover temporary liquidity shortages) and the special deposit rate (the rate at which excess reserves are remunerated when held at the central bank).

The structure of interest rates followed a downward trend over the period. The weighted average interbank lending rate decreased from 5.25% to 3.8% in September and settled at 4.47% at the end of the year. The treasury bill rate was reduced from 6.3% to 4.6%. Lastly, the basic prime lending rate slipped from 14.5% to 11.5%. The effect of the reduction of lending rates on banks' profitability was mitigated by a similar and (in some instances) greater decline in deposit rates. The median ordinary deposit rate fell from 3% to 2.35% and the rate on 3- and 6-month time deposits, from 7.15% and 6% to 3.38% and 4.25%, respectively.

Towards the last two months of the year, the monetary authorities moved to prevent a spending surge aggravated by seasonal factors, reverting to a restrictive stance on liquidity through open-market operations. At the same time, they intervened again in the foreign-exchange market to stave off devaluation pressures. The exchange rate ended the year at 6.29965 Trinidad and Tobago dollars to the United States dollar, which represented a depreciation of 6% since the beginning of the year.

Demand for credit stalled (7.2% and 6.4%), reflecting the general sluggishness of the economy and the change in monetary policy objectives. Manufacturing, finance, insurance and communications and consumer loans, which account for 60% of commercial banks' loan portfolio, grew by a mere 0.5%.

The behaviour of money-supply aggregates reflected the interest rate and exchange rate objectives. Narrow money and broad money expanded by 10% and 4%, respectively, in 2002 (3.7% and 16% in 2001).

The main variables

(a) Economic activity

GDP growth decreased for the third consecutive year (5.7%, 4.0% and 3.2% for 2000, 2001 and 2002, respectively), reflecting a significant drop in the performance of the non-energy sector (4.9% and 1% in 2001 and 2002, respectively), particularly manufacturing. By contrast, the energy sector surged from a paltry 0.7% growth rate in 2001 to a robust 10.7% in 2002. In 2003 GDP is expected to increase by 4%.

The performance of the energy sector was accounted for by an increase in crude oil production (15% in thousands of barrels per day) and an expansion of production capacity in ammonia and liquefied natural gas. The production of crude oil rose, thanks to the positive effects of natural gas on condensate output. Exploration declined (-17%), refining operations stagnated (-2%) and natural gas output expanded by 230 cubic feet per day. Natural gas liquids (14%) responded to the start-up of operations by the Atlantic LNG Company's Train 2. Atlantic LNG Train 3 is expected to be operational in 2003 and output is thus forecast to grow by an extra 3.3 million tons. Natural gas liquids also benefited from higher international prices. In 2003 the energy sector will continue to post strong growth as the different projects come on stream.

Table 8
Trinidad and Tobago
Macroeconomic indicators
1994 - 2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002a/ |
|---|---|---------|---------|---------|---------|---------|--------------------|---------|---------|
| Gross Domestic Product | 8.4 | 3.2 | 2.9 | 3.0 | 4.6 | 5.8 | 5.7 | 4.0 | 3.2 |
| | Annual growth rates b/ | | | | | | | | |
| | Gross domestic product by sector of economic activity | | | | | | | | |
| Agriculture | .... | .... | .... | 2.7 | -10.7 | 12 | 9.5 | -2.8 | 2.5 |
| Petroleum | .... | .... | .... | -2 | 5.4 | 8.1 | 1.1 | 0.7 | 10.7 |
| Manufacturing | .... | .... | .... | 3.5 | 4.1 | 3.4 | 6.7 | 3.1 | -2.9 |
| Construction | .... | .... | .... | 15 | 13.9 | 7.9 | 8 | 4.9 | 5 |
| Distributive trade | .... | .... | .... | 17.7 | 13.6 | 9.8 | 21.5 | 6.5 | 1.2 |
| Other services c/ | .... | .... | .... | 2.0 | 3.3 | 1.8 | 3.4 | 6.5 | -0.6 |
| Balance of payments | Millions of dollars | | | | | | | | |
| Balance on current account | 217.8 | 293.8 | 105.1 | -613.6 | -643.5 | 30.6 | 544.3 | 416.0 | 96.4 |
| Exports of goods and services | 217.8 | 293.8 | 105.1 | -613.6 | -643.5 | 30.6 | 544.3 | 416.0 | 96.4 |
| Imports of goods and services | -1474.7 | -2110.4 | -2189.1 | -3230.7 | -3254.2 | -2752.2 | -3321.5 | -3586.1 | -3682.2 |
| Income account balance | -412.1 | -390.1 | -514.0 | -381.2 | -341.3 | -399.9 | -628.5 | -539.3 | -365.3 |
| Current transfers balance | 0.3 | -4.5 | -7.1 | 3.8 | 22.2 | 37.8 | 37.9 | 33.4 | 46.9 |
| Capital and financial account balance f/ | -411.7 | -394.5 | -521.1 | -377.4 | -319.1 | -362.1 | -590.6 | -505.9 | -318.4 |
| Foreign direct investment | 516.2 | 298.9 | 355.4 | 999.3 | 729.8 | 379.2 | 654.3 | 684.9 | 586.5 |
| Other capital | | | | | | | | | |
| Global balance | 185.5 | 83.7 | 238.1 | 193.6 | 80.2 | 162.2 | 441.0 | 470.6 | 48.9 |
| Variation in reserve assets g/ | -113.6 | -40.1 | -213.0 | -175.3 | -76.0 | -162.2 | -441.0 | -470.6 | -48.9 |
| Other financing h/ | -71.9 | -43.6 | -25.1 | -18.4 | -4.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Employment and wages | | | | | | | | | |
| Participation rate k/ | .... | .... | .... | .... | .... | 60.8 | 61.2 | 60.7 | 60.9 |
| Open unemployment rate l/ | .... | 17.2 | 16.2 | 15.0 | 14.2 | 13.2 | 12.2 | 10.8 | 10.4 |
| Employment (000') | .... | 521.0 | 530.4 | 541.0 | 558.7 | 563.4 | 572.9 | 576.5 | 586.2 |
| Real earnings (In percent) | .... | .... | .... | .... | .... | .... | 5.3 | 3.5 | 7.6 |
| Prices | | | | | | | | | |
| Consumer price index (December to December) | .... | 5.3 | 3.3 | 3.6 | 5.6 | 3.4 | 3.6 | 5.5 | 4.2 |
| Nominal exchange rate | .... | 5.9 | 6.0 | 6.3 | 6.3 | 6.3 | 6.3 | 6.2 | 6.3 |
| Non-public financial sector | Percentages of GDP | | | | | | | | |
| Current revenue | .... | .... | .... | .... | .... | .... | 23.2 | 24.6 | 22.7 |
| Current expenditure | .... | .... | .... | .... | .... | .... | 21.1 | 21.1 | 21.9 |
| Capital account balance | .... | .... | .... | .... | .... | .... | 2.1 | 3.4 | 0.9 |
| Primary balance | .... | .... | .... | .... | .... | .... | 4.8 | 5.9 | 3.4 |
| Money and Credit | Rates of change (December to December) | | | | | | | | |
| Bank credit | | | | | -1.7 | 14.4 | 9.5 | 12.0 | 6.5 |
| Public sector | | | | | -10.9 | -4.6 | -14.2 | 93.2 | -4.3 |
| Private sector | | | | | 0.0 | 17.6 | 12.7 | 3.6 | 8.6 |
| Narrow money supply (M1) | | | | | 4.5 | 5.1 | 14.1 | 37.0 | 9.5 |
| Currency in active circulation | | | | | -4.0 | 26.7 | -1.7 | 8.1 | 9.3 |
| Demand deposits | | | | | 7.7 | -2.1 | 21.0 | 47.2 | 9.5 |
| Foreign currency deposits | | | | | 15.9 | 7.0 | 26.3 | -4.9 | 10.4 |
| Broad money supply (M2) | | | | | 13.2 | 1.9 | 11.6 | 15.5 | 3.7 |
| Real interest rates | | | | | | | Annual percentages | | |
| Weighted average rate on deposits | | | | | | | 4.3 | 6.2 | 2.1 |
| Weighted average rate on loans | | | | | | | 6.0 | 7.8 | 5.2 |

Source: ECLAC on the basis of official information.

a/ Preliminary figures

b/ On the basis of 1985 constant prices.

c/ Includes retail trade, restaurants and hotels, financial establishments, insurance, real estate, social and personal services.

d/ In nominal terms.

e/ Does not include errors and omissions.

f/ The sign (-) indicates a reserve increase.

g/ Includes use of credit and International Monetary Funds Loans and Financing.

h/ Annual average weighted by international trade.

i/ Refers to net investment income divided by the ratio of exports of goods and services of the balance of payments .

j/ Percentages of working age population.

k/ Percentage of economically active population.

Petrochemicals posted a mixed outcome. Methanol expanded by a mere 1.4% in spite of favourable international prices, but this performance is expected to improve with the construction of two new plants. The fertilizer subsector (11%) was positively affected by the arrival of a new company.

The recovery of the agricultural sector (up by 2.5% in 2002, after having declined by 2.8% in 2001) was associated with upturns in sugar, cocoa and citrus (30% and 8.5% for cane and raw sugar, respectively, and 75% and 92% for cocoa and citrus, respectively), which are the major agricultural commodities. The performance of sugar masked the financial difficulties of the government's sugar company and poor weather conditions that undermined its productivity, however.

Manufacturing contracted by 2.9% in response to unfavourable external conditions, including the weakness of the region's economies, which constitute the industry's main export market. Additional explanatory factors include a shifting policy environment, an uncertain political future and the lack of a definite strategy to deal with the future challenges posed by Trinidad and Tobago's full integration into the regional and multilateral trading regimes.

(b) Prices, wages and employment

The rate of inflation (5.5% in 2001 and 4.2% in 2002) reflected the slowdown in growth and the concomitantly low spending levels in the economy, together with policy interventions to absorb liquidity and maintain a stable exchange rate. A breakdown of the price index shows that all the components recorded lower growth rates relative to the previous year. It also indicates that food posted the biggest price increase (10%) and clothing, the biggest drop (-2.5%). For the first half of 2002/2003 the rate of inflation continued to decelerate to 3.6 percent.

The unemployment rate remained virtually unchanged from the previous year (10.8% in 2001 and 10.4% in 2002). The distribution of employment among economic sectors reveals that the services sector (representing 40% of the total) created 14,000 jobs. Manufacturing also generated positive job growth. By contrast, agriculture and construction recorded job losses. By the third quarter of 2003 the unemployment rate stood at 10.19 percent

Average weekly earnings decreased for industry as a whole (-19%). Textiles and clothing saw the largest downturn (-21%) and the water sector, the biggest rise (27%). The minimum wage increased in January 2003 from 7.00 Trinidad and Tobago dollars to 8.00.

(c) The external sector

Trinidad and Tobago narrowed both its current-account surplus, which it has been able to maintain since 1999 (US\$ 416 million in 2001 and US\$ 96 million in 2002), and its capital account surplus (US\$ 542.4 million in 2001 and US\$ 231 million in 2002),¹² but nonetheless

¹² The capital account figures refer to net capital movements.

remained in a surplus position for the fourth year in a row, recording US\$496.7 million at the end of March 2003.

The performance of the current account (1% of GDP) was largely influenced by lower-than-expected export earnings from mineral fuels and lubricants (-28%), which represent 60% of total merchandise exports, notwithstanding the upward trend in the international price of petroleum. Chemicals and manufacturing also recorded declines (-39% and -17%, respectively, accounting for 28% of the total). Demand for imports (2.6%) was driven by machinery and transport equipment and, to a lesser extent, capital goods.

The services balance (US\$ 204 million in 2001 and US\$ 222 million in 2002) was largely attributable to the transport and insurance components (US\$ 84.5 million and US\$ 99.6 million, respectively), while the income account reflected profit repatriation.

The reduction in the capital account surplus was due to lower foreign direct investment (US\$ 684.9 million in 2001 and US\$ 586.5 million in 2002) following the completion of infrastructure projects, Trinidad and Tobago intraregional investment and foreign currency outflows from domestic banks.

In 2003 the current-account surplus will expand as a result of higher volumes of energy-sector exports (3.6% of GDP). This result will be partly offset by a decline in the capital account as energy projects reach completion.