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FISCAL TRENDS AND POLICY ISSUES AND IMPLICATIONS FOR THE CARIBBEAN

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Introduction

The historical evolution of the Caribbean Community (CARICOM) economies, the underdeveloped state of the legislation jointly with the constraints faced by the private sector due to size considerations have led the State and the government to play a fundamental role in Caribbean economies.

The historical evolution is related to the tasks adopted by the government following political independence in the 1960s and which, to this day, have shaped its expenditure pattern. The size of Caribbean governments measured by the government expenditure to GDP ratio is twice that of other smaller economies reaching in some cases 30% of GDP. The government is also a major employer accounting in some countries for a third of the labour force. In addition, the government is, in some countries, the 'captain' of economic policy as even the monetary authorities are under its jurisdiction and act mainly as its central bankers. Finally, the government has guided and shaped the development of key economic sectors through the instruments at its disposal, including tax policy and capital expenditures.

The administration and orientation of fiscal policy is confronted with important challenges. Trade liberalisation and the gradual process of integration of Caribbean countries in the world economy will result in significant tariff revenue losses. But their potential to increase their overall tax revenue intake remains hindered by a plethora of fiscal incentives, which are particularly prevalent in the smaller economies of the Caribbean and by the natural limitations imposed by size considerations. Also, revenue from traditional sources, such as external grants, has shown a declining trend in the past decade. At the same time, countries need to maintain and perhaps increase their expenditure levels to enhance the competitiveness potential of their economies.

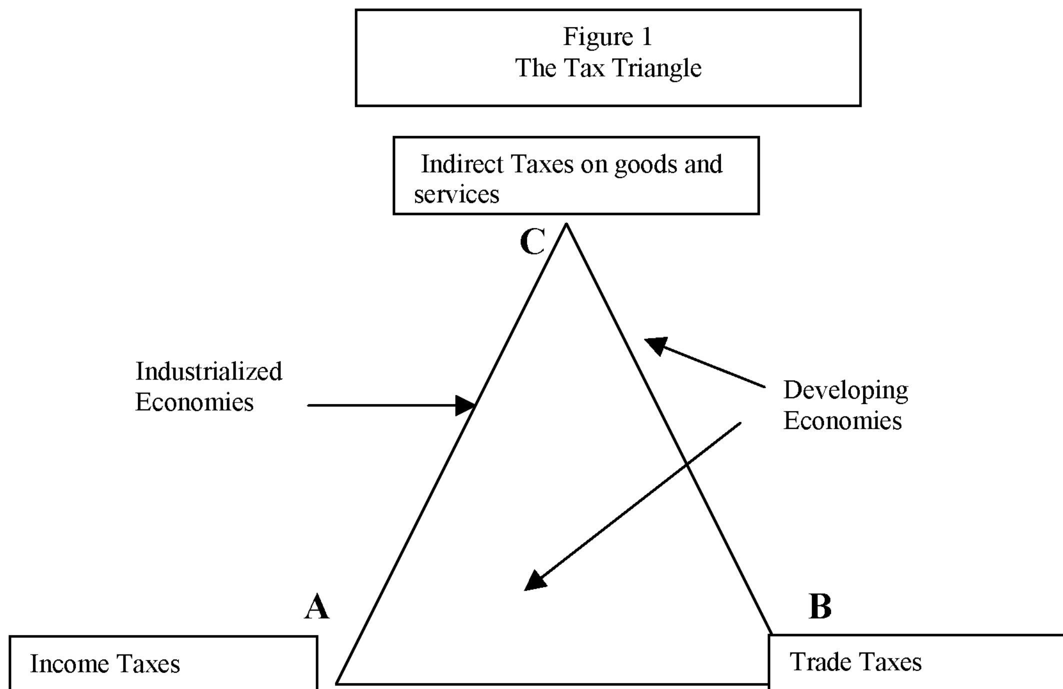
This document analyses fiscal trends and policies for Caribbean countries. It is divided into six parts. Following the introduction, the second section focuses on trends in government revenue and examines the tax structure at the regional and country level. The third section describes the type of tax incentives granted by Caribbean governments for sectoral development for selected country cases. The fourth part centres on government expenditure; describes the decomposition of government expenditure and analyses the behaviour of the components of government expenditure. The fifth section deals with the fiscal result; presents an analysis of the fiscal stance and relates fiscal policy to the external constraint. In particular, it argues that a purely fiscal stabilisation policy is a misguided policy and that in fact any attempt at fiscal reform must also address simultaneously the issue of export competitiveness. The final reflections are found in the conclusion.

1. Trends in government revenue

1.1. The overall tax structure of Caribbean economies

The tax composition in developing economies, its evolution over time and its position relative to industrialized economies can be illustrated with the diagram triangle of Figure 1 (Burgess and Stern, 1993). The three corners A, B, C, represent three extreme fiscal policy options. Point A refers to a position where government revenue finds its source in income and social security taxes. Point B represents a position where government revenue originates in international trade taxes. Point C refers to a position where government revenue derives from indirect taxes on goods and services. The segment BC represents the collection of points for which income and social security taxes are zero. In the same vein, the lines AC and AB represent the collection of points for which trade and domestic indirect taxes are zero. No country is exactly situated on the segments AC, AB or BC. Countries are somewhere in between and in some cases approximate one of these points or segments.

Figure 1
The Tax Triangle



During the past 20 years, industrialized economies have not changed their tax composition substantially. They are situated near the AC line. Their tax revenues have depended and continue to depend heavily on income and indirect taxes. In a similar fashion, their economies rely mainly on domestic demand as a source of growth, and their dependency on external demand is relatively minor.

In terms of the Tax Diagram described above and, as shown in Table 1, the tax structure of Caribbean economies tends to be situated near the AB and BC segments. Table 1 below shows

the tax revenue composition of Caribbean economies classified into smaller and larger economies and into service and resource-based economies.

Table 1
Caribbean Countries
Tax Revenue by type of tax
Percentage of total tax revenue
1990 – 2001
Averages

Year	Income taxes	Indirect taxes on domestic goods and services	International Trade taxes	Property taxes
Smaller Economies				
1990	21.68	15.00	62.04	1.28
1995	23.15	17.77	57.54	1.56
2000	25.95	18.89	53.61	1.55
2001	25.72	19.74	52.78	1.76
Larger Economies				
1990	21.01	21.08	21.95	1.44
1995	20.94	28.20	30.39	2.68
2000	28.36	29.56	26.10	2.22
2001	27.88	29.41	28.15	2.35
Resource-based Economies				
1990	19.23	13.87	37.29	1.01
1995	23.37	21.15	25.56	0.93
2000	30.73	23.36	20.01	1.09
2001	30.62	22.21	21.77	1.06
Service-based Economies				
1990	16.01	28.93	37.63	2.59
1995	18.44	26.37	44.28	5.68
2000	20.27	26.07	40.51	5.36
2001	19.72	26.70	42.37	5.37

Note: Smaller economies refer to the OECS member states. Larger economies include the Bahamas, Barbados, Jamaica, Guyana and Trinidad and Tobago. Resource economies comprise Guyana, Jamaica and Trinidad and Tobago. Service based economies refer to the OECS member states, Bahamas and Barbados.
Source: On the basis of official data.

In the case of the smaller economies of the Caribbean (mainly Organisation of Eastern Caribbean States (OECS) economies) the tax distribution is biased towards international trade taxes which represent more than 50% of the total. Income taxes represent a quarter of the total and indirect taxes on domestically produced goods and services account for 20% of the total. Contrarily the tax revenue distribution of the larger economies of the Caribbean (Barbados, The Bahamas, Belize, Guyana, Jamaica, and Trinidad and Tobago) is evenly distributed among direct and indirect taxes on domestically produced goods and services and international trade taxes,

representing 75% of the total. This is partly explained by the introduction of the value-added tax in Trinidad and Tobago and Barbados in 1990 and 1997, respectively.

When Caribbean countries are classified into service and resource-based economies, the data shows that taxes are relatively evenly distributed in the case of resource-based economies with income taxes, indirect taxes and international trade taxes accounting for 31%, 22% and 22% of the total, respectively. For service-based economies the tax structure is mainly based on international trade taxes (42% of the total) and to a lesser extent on indirect taxes. One of the most notable aspects of this decomposition exercise is that independently of the criterion chosen to classify Caribbean economies, income taxes account on average for 20% of total tax revenue and property taxes, with the exception of resource-based economies, which represent no more than 3% of the total.

1.2. The indirect tax structure of Caribbean economies

Turning the focus to the analysis of indirect taxation it is to be noted that in Table 1, the international trade tax category refers both to trade tax revenues which comprises trade taxes, *per se*, that is, import duties, airport tax, hotel and guest house tax and the like and to domestic taxes levied on imported goods (consumption tax, valued added tax and any other indirect tax). The data drawn from the fiscal accounts is presented generally in two forms.

The first consists in the separation of import duties and other trade taxes from the rest of indirect tax lines. The second form adds all taxes levied on imports under the rubric international trade and transactions. Both have important limitations. The former does not allow for the determination of the degree to which a government is indeed dependent, for a given tax base, on taxes levied on imports. Taking into account only trade taxes may underestimate the tax revenue that can be obtained from imports. The second method of presenting the fiscal data gives a full view of import tax dependency but does not allow an analysis of the components of import taxes. In some analysis both are mixed together under international trade taxes leading to misleading comparisons within Caribbean countries and among Free Trade Area of the Americas (FTAA) members.

Table 2 below shows, when available, the breakdown of taxes on international trade and transactions by country for the year 2002. These taxes include, trade taxes *per se* import duties, embarkation tax, foreign currency tax, customs service charge, stamp taxes, that is, taxes levied at the country frontier when goods cross a country border and taxes levied domestically on the consumption of foreign products. The latter are considered domestic taxes.

All countries, with the exception of Barbados, Guyana and Trinidad and Tobago, report government revenue from international trade and transactions. These report only government revenue from import duties. This is only a part of international trade taxes which makes it difficult to establish the degree to which government revenues are dependent on trade.

Table 2
Import tax classification and presentation by country

Country	Presentation format	Import tax dependency Percentage of total tax revenue (2002)
Anguilla	International trade and transactions	53.87
	Import duties	46.69
	Foreign exchange tax	1.43
Antigua and Barbuda	International trade and transactions	60.40
	Import duties	15.53
	Consumption tax	24.64
	Customs service charge	12.58
	Foreign currency levy	1.97
Bahamas	International trade and transactions	65.26
	Import tax	50.24
	Stamp tax from imports	13.01
	Export tax	1.88
	Stamp tax from exports	…..
Barbados	Import duties	9.98
Belize	International trade and transactions	45.7
Dominica	International trade and transactions	52.71
	Import duties	12.08
	Foreign exchange tax	
	Consumption tax	31.71
	Customs service charge	3.70
Grenada	International trade and transactions	57.65
	Import duties	12.07
	Foreign exchange tax	0
	Consumption tax	31.90
	Customs service charge	9.70
Montserrat	International trade and transactions	45.34
	Import duties	9.21
	Foreign exchange tax	3.63
	Consumption tax	16.44
	Customs service charge	14.86
St. Kitts and Nevis	International trade and transactions	49.17
	Import duties	15.89
	Foreign exchange tax	0.00
	Consumption tax	23.95
	Customs service charge	7.42
St. Lucia	International trade and transactions	52.08
	Import duties	13.97
	Foreign exchange tax	0.00
	Consumption tax	26.64
	Customs service charge	7.45
St. Vincent and the Grenadines	International trade and transactions	48.77
	Import duties	9.84
	Foreign exchange tax	……
	Consumption tax	30.0
	Customs service charge	6.99
Trinidad and Tobago	Import duties	7.2
Guyana	International trade taxes	11.4

Source: On the basis of official data.

The rest of the countries detail the breakdown of taxes on international trade and transactions into its different components. Table 2 shows that with the exception of The Bahamas and Anguilla where the revenue from import duties constitutes the bulk of the revenue from international trade and transactions, import duties are not the major source of revenue from international trade and transactions. In some cases the customs service charge is as important or

more important than import duties. Table 3 below shows further computations showing that import duties represent less than a third of government revenue from international trade and transactions. The weight of import duties in total tax revenues oscillates between 7% and 15% for the majority of the countries here considered.

As mentioned above import duties are complemented by other international trade taxes. In the cases of Antigua and Barbuda (see Table 2 above) and Montserrat, these constitute a significant source of revenue equalling or surpassing tax collection from import duties. For the rest of the countries these represent only close to 15% of international trade and transactions.

By far the bulk of revenue collection included under the rubric international trade and transactions is accounted for by the consumption tax representing close to a quarter of total tax revenue and 40% of international trade and transactions tax revenue. The consumption applied to imports is a tax levied on the CIF value of imports plus the import duty. It is tax that is generally paid by the importer.

However, the consumption tax is considered an internal tax or a tax levied on domestic transactions rather than an international trade tax per se. This tax is reported in the fiscal accounts of the OECS countries and is prevalent in these economies. The tax structure is country specific. The rates vary from 15% to 30% in Antigua and Barbuda, 5% to 20% in the case of St. Kitts and Nevis, 0% to 65% in the case of Saint Vincent and the Grenadines and 0% to 75% in the case of Grenada. Dominica is the only OECS member State with a standard rate (25%).

The bigger economies of the Caribbean, namely Barbados, Jamaica and Trinidad and Tobago, also tax imports through an internal tax, the value-added tax. The value added tax was introduced as part of a stabilisation programme implemented at the beginning of the 1990s.

The programme established ceilings on the net domestic assets of the central bank. The programme contemplated the decrease in the budget deficit from 7% of GDP in 1988 to 4% in 1989 and 1% in 1991. The deficit was reduced first by reducing capital expenditures and then by the decline in current expenditures (i.e., the wage bill). Public wages and employment were reduced.[1] On the revenue side public assets were sold to the private sector and tariffs were increased.[2] The tax system was simplified, and the value -added tax was introduced to replace an array of different taxes.[3] Finally, credit ceilings were imposed on the borrowing requirements of the public sector.

In the case of Barbados, the value-added tax was introduced in the late 1990s following a series of adjustment attempts in the past two decades to correct macroeconomic imbalances brought about by a continued expansionary fiscal policy dating from the mid-1960s coupled with a decline in the economy's key economic sector, tourism. The last and successful attempt was undertaken in 1991 and was centred on restraining the growth of aggregate demand in order to

[1] Public wages were reduced by 10% (Howard, 1992 and Hilaire, 2000).

[2] According to Howard, ibid, p. 77: "transfers to public utilities, State enterprises, and statutory bodies was reduced by 0.5% of GDP…State enterprises were reduced by 1 100 employeed in 1989…as it was estimated that there would be a further reduction of 3 200 employees in 1990."

[3] The value-added tax rate was set at 15%.

reduce the pressure on the balance of payments. Demand was curbed by monetary and fiscal means.

Direct instruments (i.e, reserve requirements) of monetary management were adopted and interest rates were increased. On the fiscal expenditure side nominal wages were cut and frozen and public employment reduced. On the revenue side, a surtax termed the “stabilization tax” was introduced in addition to consumption taxes and levies and at the same time the authorities reduced the rate of the CARICOM common external tariff. In 1997 the value-added tax was introduced. The authorities decided to maintain a pegged exchange rate regime sustained in part by capital controls on outflows (Hilaire, 2000; Williams, 2001).

The value-added tax was introduced with the aim of simplifying and increasing the efficiency and equity of the tax system. The value-added tax replaced 11 taxes including a consumption tax, surcharges, stamp duty, hotel and restaurant sales tax, a service tax and a travel ticket tax. The value-added tax was introduced jointly with excise taxes (with a 15% rate) on alcoholic beverages, tobacco products and motorcars. The value-added tax has three rates, 15%, 7.5% and 0%. The standard rate is 15%. The 7.5% rate is applied on accommodation in hotels, guesthouses and inns. The exempt rate is applied on the export sector, staple food items, financial services, real estate, transportation, medical and dental services. (IMF, 2001; Williams, 2001).

Although not officially reported by these countries, in some cases the value-added tax collection on imports represents as much as half of total value-added tax revenue. In the particular case of Jamaica, this ratio was estimated to be 47% (Ebrill et al., 2001, p.50). The difference between both the smaller and larger economies lies in the fact that the former have a range of consumption tax rates rather than a standard rate as in the latter cases.

In addition, if in order to make countries’ dependency on trade taxes comparable, tax collection on domestic transactions is classified as taxes on goods and services and international trade taxes are defined as including solely, import duties, customs charges, foreign exchange tax, guest and hotel tax and cruise passenger tax (or embarkation tax), the international trade tax dependency of the smaller economies is higher than that of the larger Caribbean countries but their level of dependency is markedly lower (see Tables 3 to 5 for comparison).

Table 3
International trade taxes and import duties as percentage of GDP, collected tariff rates and import to GDP ratios by CARICOM member country

Countries	International trade and transactions as a % of total tax revenue	Import duties as a % of total tax revenue	Import duties as a % of international trade and transactions	Domestic taxes on international trade as a percentage of tax revenue on international trade and transactions	Collected tariff rate on international trade and transactions	International trade and transactions as % of GDP	Import-GDP ratio
Anguilla	53.87	46.69	86.67	0.00	18.72	11.64	62.30
Antigua and Barbuda	60.40	15.53	25.71	40.79	21.63	10.55	48.80
Bahamas	65.26	50.24	76.98	0.00			
Barbados		9.98					34.12
Belize	45.70						57.21
Dominica	52.71	12.08	22.92	60.16	27.21	11.89	43.72
Grenada	57.65	12.07	20.94	0.55	26.81	13.25	49.43
Jamaica		11.40					82.86
Montserrat	45.34	9.21	20.31	36.26	18.26	8.96	49.09
St. Kitts and Nevis	49.17	15.89	32.32	52.82	20.96	10.16	48.46
St. Lucia	52.08	13.97	26.82	51.15	27.38	10.73	39.18
St. Vincent and the Grenadines	48.77	9.84	20.18	61.51	25.25	11.87	47.01
Trinidad and Tobago		7.20					

Source: On the basis of official data

Table 4
Collected and actual tariff rates
2001

	Import duties	Customs service charge/other	Imports	Average tariff rate	Average tariff and customs service charge	Collected tariff	Collected customs service charge and other	Total collected import taxes	Total collected import tariff rate/average tariff
Anguilla	30.12	3.58	185			14.00	1.90	15.90	
Antigua and Barbuda	55.5	45.4	904.3	14.5	19.5	5.78	4.78	10.56	0.542
Bahamas	596		1763.8			25.26		25.26	
Barbados	130		884.7			6.84		6.84	
Belize	n.a.		460.5						
Dominica	21.1	6.5	310.6	13.1	15.1	6.36	2.05	8.41	0.557
Grenada	31.9	25.2	531.5	11.2	16.2	5.66	4.53	10.19	0.629
Guyana	3665.4		583.9			3.21			
Jamaica									
Montserrat	1.8	3.5	46			3.77	7.07	10.84	
St. Kitts and Nevis	31.2	13.7	449.5		14.5	6.49	2.96	9.45	0.652
St. Lucia	53.73	28.77	698.49	10.1	14.1	7.14	3.96	11.10	0.787
St. Vincent and the Grenadines	25.04	16.54	442	10.9	14.9	5.36	3.61	8.97	0.602
Trinidad and Tobago	882		17155			4.89		4.89	

Note: On the basis of official data

Table 5
Taxes on goods and services and international trade taxes as a percentage of total tax revenue 2002

	Taxes on goods and services	International trade taxes
Anguilla	31.33	66.99
Bahamas	0.00	65.26
Antigua and Barbuda	34.54	35.96
Dominica	33.16	35.84
St. Kitts and Nevis	31.27	27.21
Montserrat	26.35	26.80
St. Lucia	35.46	25.00
Grenada	54.03	21.77
St. Vincent and the Grenadines	33.25	18.56
Guyana		11.40
Barbados		9.98
Trinidad and Tobago		7.20

Source: On the basis of official data.

A final point that should be noted is that particularly in the smaller economies there is a significant difference between the actual and the collected tariff rate (see Table 5 above). In all OECS economies the collected tariff rate is markedly below the average tariff rate. On average the ratio of the collected import tariff rate to the actual tariff rate is 0.60. That is, the actual tariff rate represents only 60% of the average nominal tariff rate (see Table 6 below). This reflects the fact that the actual level of tariff rates is determined by a high percentage of import duty exemptions (i.e., a narrow tax base), which ultimately responds to a domestic policy decision. In this sense, if it is at all considered that OECS economies are dependent on high import duties, this dependency is the product of a conscious sectoral policy whose main leverage is tax incentives.

This has important implications for trade liberalisation or the formation of free trade agreements. As an example, a reduction in tariffs that will accompany the conformation of the FTAA will reduce the cost of fiscal incentives and free resources for alternative uses. However, due to the fact that a reduction in tariffs may create or widen the present fiscal gap that will have to be compensated with a broader tax base, a free trade agreement such as the FTAA will severely limit the capacity of the smaller economies within CARICOM to pursue domestic policy objectives unless governments are able to find alternative non-fiscal instruments to promote the development of key productive sectors. The larger economies are less likely to be affected.

Besides trade and value-added tax, sales tax and consumption tax, indirect taxes include insurance premium taxes, bank deposit levies, licenses, security tax and the property tax. The property tax, as noted earlier represents between 1% and 3% of GDP.

1.3 Trends in government revenue at the country level

Tables 6 to 14 below show the breakdown of the composition of government revenue as a percentage of GDP by grouping for the OECS and by individual country for the rest of the Caribbean economies included in this document.

The analysis shows that the tax system rests on indirect taxation. It accounts for 17% of GDP. Direct taxation, comprising income and profit taxes, account for 10% of GDP. In the case of the smaller economies of the Caribbean, that is the OECS, as pointed out earlier, international trade taxes are the most important component of government revenue (12% of GDP).

Table 6
OECS
Government revenue as a percentage of GDP
1983-2002

	1983-1990	1990-1995	1995-2000	2001	2002
Current revenue	25.04	24.09	25.24	24.87	26.11
Tax Revenue	21.17	20.65	21.45	21.31	22.46
Taxes on Income and Profits /1	4.91	4.83	4.94	5.48	5.26
Personal /2	…..	…..	1.23	1.93	1.95
Company	…..	…..	1.83	3.14	2.88
Taxes on Property	0.30	0.28	0.32	0.38	0.56
Taxes on Domestic Goods & Services	3.56	3.35	3.86	4.20	4.63
Accommodation Tax	…..	…..	0.54	0.88	0.81
Licenses /3	…..	…..	0.44	0.61	0.71
Sales Tax /4	…..	…..	0.11	0.22	0.23
Consumption Tax /5	…..	…..	0.42	0.56	0.55
Taxes on International Trade & Transactions	12.41	12.19	12.33	11.25	12.02
Consumption Tax /7	…..	…..	4.04	5.41	5.99
Import Duties	…..	…..	2.58	3.27	3.22
Foreign Exchange Tax /6	…..	…..	0.10	0.11	0.11
Customs Service Charge /7	…..	…..	1.03	1.72	1.82
Non-Tax Revenue	…..	…..	2.52	3.56	3.65

Source: On the basis of official data

Table 7
Barbados
Composition of public revenues as percentage of GDP
1990-2003

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Total revenue	29.08	23.74	42.85	30.97	31.58	30.16	30.76	33.69	34.09	33.11	33.84	33.52	33.83
Tax revenue	26.49	21.66	39.06	28.18	28.35	27.67	27.87	31.63	32.00	31.14	31.47	31.17	31.72
Direct taxes	11.50	10.03	18.11	12.40	11.81	11.81	12.30	11.84	12.35	13.16	13.86	13.63	14.28
Personal	4.16	3.36	5.67	5.51	5.52	5.48	5.77	5.66	5.86	5.56	6.12	6.12	6.94
Corporate	2.82	2.36	3.78	2.63	3.36	3.42	3.43	3.48	3.76	4.56	4.85	4.30	4.27
Levies	2.71	2.00	3.70	1.83	0.35	0.34	0.40	0.38	0.36	0.36	0.31	0.32	0.34
Stabilization	0.00	0.79	1.63	0.09	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.05	0.00
Property	1.37	1.10	2.37	1.72	1.77	1.79	1.91	1.66	1.70	2.02	1.83	1.98	1.86
Other	0.44	0.43	0.97	0.61	0.81	0.76	0.80	0.70	0.67	0.66	0.74	0.85	0.87
Indirect taxes	14.99	11.62	20.95	15.78	16.55	15.86	15.57	19.75	19.65	17.98	17.62	17.54	17.44
Consumption	5.86	5.34	9.93	7.97	8.16	7.92	6.43	0.06	0.00	0.01	0.00	0.00	0.00
Stamp	3.00	2.06	3.51	2.45	2.63	2.33	1.74	0.29	0.32	0.27	0.28	0.28	0.23
VAT	….	…..	…..	…..	…..	….	1.88	10.35	9.95	9.43	9.61	9.63	9.78
Excises	….	….	….	….	….	….	0.00	3.81	4.14	3.35	3.13	2.74	2.23
Import Duties	3.50	2.04	3.15	2.16	2.46	2.39	2.30	2.93	2.99	2.76	2.65	2.83	3.17
Hotel and Restaurant	0.52	0.38	0.66	0.50	0.51	0.57	0.49	0.03	0.01	0.02	0.01	0.01	0.02
Other	2.11	1.81	3.69	2.71	2.79	2.66	2.73	2.29	2.24	2.14	1.94	2.05	2.02
Non tax revenue and grants	2.59	2.08	3.79	2.79	3.23	2.49	2.89	2.06	2.09	1.97	2.37	2.35	2.11
Non-tax revenue	2.59	2.08	3.76	2.16	2.67	2.14	2.47	1.70	1.75	1.63	2.03	2.13	1.93
Grants	0.00	0.01	0.03	0.13	0.14	0.05	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Post Office-revenue	0.00	0.00	0.00	0.50	0.42	0.30	0.40	0.35	0.34	0.34	0.34	0.22	0.18

Source: On the basis of information provided by the Central Bank of Barbados (2003)

Table 8
Belize
Government revenue as a percentage of GDP
1994/1995 – 2001/2002

	1994/1995	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002 a/
Total revenue (including grants)	24.91	23.44	25.70	25.39	28.49	31.36	28.09	27.44
Current revenue	23.36	22.07	23.38	23.32	23.99	24.53	21.91	24.99
Tax revenue	20.59	19.85	20.81	20.83	21.56	18.54	19.19	20.26
Income and profits	5.66	5.03	4.62	4.52	5.09	4.69	4.94	4.78
Taxes on property	0.15	0.10	0.13	0.14	0.13	0.16	0.14	0.17
Taxes on goods and services	2.59	2.43	8.36	7.94	7.78	5.96	6.59	6.71
International trade and transactions	11.61	11.69	7.01	7.69	7.85	7.73	7.53	8.60
Other	0.58	0.60	0.69	0.54	0.71	0.00	0.00	0.00
Non-tax revenue	2.77	2.22	2.57	2.49	2.44	5.99	2.72	4.74
Property income	0.32	0.15	0.26	0.36	0.45	0.31	0.13	0.11
Contributions to pension fund	0.03	0.04	0.03	0.03	0.03	0.03	0.03	0.00
Transfers from NPE´s	0.15	0.17	0.28	0.16	0.26	0.94	0.03	0.02
Extrabudgetary revenue	0.21	0.16	0.18	0.19	0.15	0.14	0.00	2.49
Other	2.06	1.70	1.82	1.75	1.55	4.57	2.53	2.12
Capital revenue	0.38	0.85	1.98	1.38	3.01	5.84	4.63	1.31
Grants	1.18	0.52	0.33	0.69	1.48	0.99	1.54	1.13

Source: On the basis of official data.

Table 9
Jamaica
Government revenue as percentage of GDP
1991-2002

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Revenue and grants	30.99	29.69	30.89	30.57	31.97	28.62	27.61	29.16	32.94	35.32	30.65	32.46
Tax revenue	23.60	24.01	26.60	26.10	27.46	25.04	24.62	26.36	27.69	28.36	27.06	28.18
Non-Tax revenue	1.61	1.53	1.42	1.32	1.96	1.50	1.29	1.21	1.92	2.54	1.48	1.34
Bauxite Levy	2.56	2.05	1.59	1.63	1.53	1.27	1.19	1.10	0.95	0.90	0.67	0.48
Capital revenue	1.75	0.92	0.83	-7.56	-7.74	-7.05	-6.82	-7.34	-8.62	2.96	0.85	2.20
Grants	1.47	1.19	0.45	-15.73	-16.27	-14.74	-14.28	-15.27	-17.53	0.57	0.59	0.25

Source: On the basis of official data.

Table 10
Jamaica
Central Government's fiscal revenues as percentage of GDP
1998/1999 – 2001/2002

	1998/99	1999/00	2000/01	2001/2002
Total revenue and grants	29.16	32.94	35.32	32.78
Tax revenue	26.36	27.69	28.36	27.06
Income and profits	10.17	10.71	11.55	10.61
Bauxite/alumina	0.16	0.01	0.14	0.21
Other companies	2.24	2.54	2.34	1.79
PAYE	5.91	5.19	5.38	5.65
Tax on dividend	0.29	0.43	0.28	0.18
Other individuals	0.33	0.31	0.30	0.26
Tax on interest	1.23	2.25	3.11	2.53
Production and consumption	8.25	8.42	8.69	8.53
SCT	1.31	1.18	1.74	1.55
Motor vehicles licenses	0.29	0.27	0.24	0.25
Other licenses	0.02	0.02	0.02	0.02
Betting, gaming and lottery	0.14	0.17	0.16	0.21
Education tax	1.32	1.29	1.24	1.27
Contractors levy	0.08	0.08	0.09	0.09
GCT (local)	4.15	4.43	4.25	4.11
Stamp duty (local)	0.92	0.98	0.94	1.03
International trade taxes	7.93	8.56	8.12	7.92
Customs duty	2.79	2.70	2.77	2.68
Stamp duty	0.29	0.27	0.24	0.22
Travel tax	0.59	0.65	0.65	0.61
GCT (imports)	3.54	2.99	3.03	2.83
SCT (imports)	0.72	1.95	1.44	1.58
Non-tax revenue	1.21	1.92	2.54	1.48
Bauxite levy	1.10	0.95	0.90	0.67
Capital revenue	0.24	2.04	2.96	2.98
Grants	0.26	0.34	0.57	0.59

Source: On the basis of official data.

Table 11
Guyana
Government revenue as percentage of GDP
1990 - 2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenue	34.11	30.34	38.02	36.83	31.37	33.42	35.46	31.95	30.67	29.79	31.79	31.05	32.18
Tax revenue	32.18	28.54	36.49	35.08	29.83	31.88	32.87	29.39	28.60	26.87	29.14	28.31	29.49
Income tax	11.18	8.99	12.55	11.95	10.77	12.40	13.15	11.61	11.14	11.13	12.44	12.53	13.42
Companies	8.78	7.44	9.30	7.68	5.97	6.95	7.59	6.61	6.06	6.04	6.36	6.13	0.00
Personal	1.95	1.26	2.95	3.69	4.23	4.80	4.69	4.29	4.41	4.57	5.50	5.86	0.00
Self-employed	0.24	0.12	0.17	0.22	0.39	0.45	0.60	0.53	0.51	0.41	0.44	0.54	0.00
Surtax	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.26	0.16	0.13	0.36	0.18	0.21	0.27	0.18	0.16	0.11	0.14	0.00	0.00
Taxes on property	0.34	0.17	0.24	0.44	0.49	0.48	0.51	0.46	0.43	0.40	0.54	0.53	0.00
Taxes on production and consumption	8.93	8.74	9.88	9.61	7.69	11.93	11.43	10.53	10.20	9.47	11.43	10.77	10.93
Taxes on international trade	4.58	3.96	4.40	5.52	4.60	3.65	4.68	4.11	4.15	3.71	3.87	3.59	3.36
Other tax revenue	7.15	6.68	9.42	7.56	6.28	3.41	3.10	2.68	2.69	2.16	0.85	0.88	1.77
Other current revenue	1.93	1.80	1.54	1.75	1.54	1.53	2.58	2.56	2.07	2.92	2.66	2.74	2.70

Source: On the basis of official data.

Table 12
Guyana
Central government revenue as percentage of GDP
1990 - 2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	34.11	30.34	38.02	36.83	31.37	33.42	35.46	31.95	30.67	29.79	31.79	31.05	32.18
Tax revenue	32.18	28.54	36.49	35.08	29.83	31.88	32.87	29.39	28.60	26.87	29.14	28.63	29.79
Income tax	11.18	8.99	12.55	11.95	10.77	12.40	13.15	11.61	11.14	11.13	12.44	12.70	13.63
Companies	8.78	7.44	9.30	7.68	5.97	6.95	7.59	6.61	6.06	6.04	6.36	6.13	6.36
Personal	1.95	1.26	2.95	3.69	4.23	4.80	4.69	4.29	4.41	4.57	5.50	5.86	6.50
Self-employed	0.24	0.12	0.17	0.22	0.39	0.45	0.60	0.53	0.51	0.41	0.44	0.54	0.56
Surtax	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.26	0.16	0.13	0.36	0.18	0.21	0.27	0.18	0.16	0.11	0.14	0.17	0.21
Taxes on property	0.34	0.17	0.24	0.44	0.49	0.48	0.51	0.46	0.43	0.40	0.54	0.53	0.85
Property tax	0.25	0.12	0.21	0.41	0.46	0.47	0.49	0.44	0.40	0.38	0.52	0.51	0.84
Estate	0.08	0.04	0.03	0.03	0.02	0.02	0.02	0.02	0.03	0.01	0.02	0.01	0.01
Taxes on production and consumption	8.93	8.74											
Excise duty	0.53	0.24	0.31	0.28	0.06	0.00	0.00	0.01	0.01	0.01	0.00	0.59	0.00
Consumption	8.39	8.50	9.56	9.33	7.62	11.93	11.43	10.52	10.19	9.46	11.43	10.42	10.59
Taxes on international trade	4.58	3.96	4.40	5.52	4.60	3.65	4.68	4.11	4.15	3.71	3.87	3.59	3.36
Import duty	3.47	2.89	3.47	4.55	3.79	2.86	3.87	3.47	3.45	3.00	3.03	2.76	2.51
Export duty	0.60	0.46	0.33	0.26	0.24	0.15	0.20	0.01	0.00	0.01	0.01	0.01	0.01
Travel tax	0.51	0.61	0.61	0.72	0.57	0.65	0.62	0.63	0.70	0.71	0.83	0.82	0.84
Other tax revenue	7.15	6.68	9.42	7.56	6.28	3.41	3.10	2.68	2.69	2.16	0.85	1.38	1.34
Entertainment tax	0.08	0.06	0.07	0.06	0.04	0.05	0.05	0.03	0.03	0.02	0.02	0.02	0.01
Purchase tax - M cars	0.21	0.24	0.35	0.43	0.39	0.38	0.48	0.41	0.40	0.32	0.36	0.35	0.34
Other taxes and duties	6.62	6.27	8.88	6.89	5.70	2.76	2.30	1.96	1.90	1.52	0.16	0.54	0.57
Licenses - vehicles	0.17	0.07	0.07	0.13	0.12	0.11	0.17	0.12	0.20	0.16	0.18	0.19	0.17
Licenses - other	0.07	0.03	0.04	0.05	0.04	0.03	0.03	0.03	0.03	0.04	0.02	0.02	0.03
Environmental tax	0.00	0.00	0.00	0.00	0.00	0.09	0.08	0.12	0.13	0.11	0.10	0.27	0.24

Source: On the basis of official data.

Table 13
Trinidad and Tobago
Government revenue as percentage of GDP (1999 – 2002)

	1999	2000	2001	2002a/
Current revenue	23.42	25.57	23.97	23.43
Oil sector	4.87	8.80	6.60	6.16
Corporation tax	2.20	5.69	3.48	3.46
Witholding tax	0.05	0.06	0.29	0.17
Royalties	1.09	1.48	1.27	1.05
Oil Impost	0.08	0.01	0.04	0.05
Unemployment levy	0.20	0.32	0.25	0.27
Excise duties	1.17	1.10	0.93	0.87
Other	0.08	0.14	0.33	0.29
Non-oil sector	18.55	16.77	17.37	17.26
Taxes on income	8.40	7.70	8.12	7.81
Companies	2.66	2.52	2.93	2.69
Individuals	4.89	4.34	4.53	4.35
Unemployment levy	0.00	0.01	0.00	0.00
Health surcharge	0.30	0.29	0.26	0.20
Other	0.54	0.55	0.40	0.56
Taxes on property	0.15	0.12	0.12	0.14
Estate and succession duties	0.00			
Land and buildings	0.15	0.12	0.12	0.14
Taxes on goods and services	6.20	5.71	5.57	5.25
Purchase tax	0.00	0.00	0.00	0.00
Excise tax	0.77	0.63	0.62	0.65
Motor vehicle	0.70	0.44	0.39	0.33
Value added tax	3.99	4.01	3.90	3.91
Other	0.73	0.64	0.65	0.36
Taxes on international trade	1.70	1.50	1.50	1.43
Import duties	1.70	1.50	1.50	1.43
Other	….	…..	….	0.00
Non-tax revenue	2.10	1.73	2.06	2.64
National lottery	0.36	0.31	0.21	0.24
Interest	0.33	0.37	0.41	0.23
Central bank	0.14	0.15	0.15	0.22
Other	1.26	0.90	1.30	1.95

Source: On the basis of official data.

Table 14
Trinidad and Tobago
Government revenue as percentage of GDP
1991 - 2002

	1991	1992	1993	1994	1995	1996	1997	1998r	1999	2000	2001	2002
TOTAL REVENUE	30.13	26.39	27.54	25.81	26.88	27.70	28.60	27.79	25.01	23.98	25.77	23.58
TOTAL CURRENT REVENUE	30.05	26.31	27.44	25.60	26.70	27.68	24.97	26.04	24.36	23.85	25.34	23.08
Taxes on Income and Profits, of which:	6.54	7.84	8.52	7.80	8.48	14.69	11.31	9.60	9.71	12.22	13.80	11.05
Companies	1.84	1.84	2.06	2.05	2.36	8.14	5.49	3.59	3.74	6.84	8.19	5.55
Individuals	4.00	5.31	5.49	4.88	4.84	5.19	4.83	4.97	4.91	4.26	4.28	4.49
Withholding Tax	0.18	0.13	0.06	0.05	0.04	0.38	0.27	0.45	0.45	0.38	0.55	0.34
Health Surcharge	0.43	0.37	0.43	0.34	0.34	0.38	0.35	0.30	0.30	0.29	0.27	0.21
Unemployment Fund	0.26	0.25	0.14	0.25	0.53	0.34	0.13	0.04	0.13	0.31	0.34	0.21
Taxes on Property, of which:	0.20	0.17	0.30	0.37	0.19	0.19	0.18	0.17	0.17	0.14	0.12	0.17
Land and Building Taxes	0.19	0.17	0.29	0.37	0.19	0.17	0.15	0.16	0.15	0.13	0.11	0.16
Taxes on Goods and Services, of which:	6.35	6.22	6.65	6.21	6.24	6.78	7.49	8.97	7.81	6.15	6.14	6.41
Excise Duties	1.84	2.89	3.28	2.28	1.91	1.77	2.07	2.14	2.17	1.57	1.47	1.53
VAT	4.67	4.19	4.75	4.30	4.25	4.10	4.44	5.61	4.51	3.71	3.93	4.17
Motor Vehicles	0.38	0.40	0.34	0.39	0.41	0.50	0.55	0.74	0.72	0.47	0.39	0.35
Taxes on International Trade, of which:	2.43	2.46	2.57	1.97	1.56	1.54	1.66	1.87	1.89	1.54	1.54	1.48
Import Duties	2.43	2.46	2.57	1.97	1.56	1.42	1.54	1.75	1.77	1.47	1.45	1.43
Stamp Duties						0.20	0.29	0.23	0.20	0.22	0.20	0.19
Non-Tax Revenue	2.49	1.76	2.05	2.78	2.22	4.29	4.04	5.19	4.58	3.59	3.55	3.77
CAPITAL RECEIPTS	0.08	0.08	0.09	0.20	0.18	0.02	3.63	1.76	0.65	0.13	0.42	0.49

Source: On the basis of official data.

The tables also show that for most economies the tax effort as measured by the level of the tax to GDP ratio has remained roughly constant throughout the 1990s. In the case of the OECS where a consistent data set is available from 1983 to 2002, the tax to GDP ratio has remained at the same level for two decades. The most notable exception is Barbados where the tax to GDP ratio increased from 27% to 32% following the introduction of the value-added tax in 1997. The constancy in the tax to GDP ratio is partly explained by the policy of fiscal incentives and exemptions as a key instrument of sectoral development.

2. Fiscal incentives

Fiscal incentives policies are mainly aimed at enhancing the development of the manufacturing and services sector. These consist for the most part of a Fiscal Incentives Act dating to the 1970s or the 1980s; a Hotel Aids or Ordinance Act, and a range of tariff and duty exemptions. Some of these duty exemptions are granted under the Conditional Duty Exemptions of the common external tariff while others are granted on a government discretionary basis. In some cases (such as those of Dominica and St. Kitts and Nevis) these are also complemented with the granting of residential rights in order to attract foreign direct investment. Examples of fiscal incentives are provided in the subsections that follow for selected country cases.

2.1 The case of the OECS

Following their process of independence CARICOM Caribbean countries adopted a strategy termed industrialisation by invitation. In practice the strategy was conceived initially as a regional rather than a national strategy and consisted of three main elements, measures to attract foreign direct investment, fiscal subsidies and the design and implementation of the common external tariff. These were complemented with a policy of industrial reallocation a few non-fiscal incentives and in some cases the granting of residential rights.

The policy of fiscal subsidies was formalized in the Agreement for the Harmonization of Fiscal Incentives (1973).[4] This agreement conceived fiscal policy as a microeconomic tool providing incentives to develop the manufacturing, mining and tourism sectors. More specifically the agreement sought to promote investment from domestic and foreign sources; reduce competition among members by placing a ceiling on benefits; target incentives at enterprises with high value added; and seek regional convergence by giving greater fiscal incentives to the LDCs.

The instruments included profit tax holidays, tariff exemptions, export allowances for extraregional exports following the expiration of the tax holidays, dividend payments, loss-carry forward and depreciation allowances. Table 17 summarizes the fiscal incentives under the Harmonization scheme.

The scheme of fiscal incentives had a number of characteristics in terms of exemptions, its implementation procedure and its sectoral distribution.

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[4] See, Treaty establishing the Caribbean Community (Chaguaramas, 4th July 1973), p.43. Caribbean Community Secretariat. November, 1982.

First, the scheme was targeted mainly to promote industrialization in the Less Developed Countries (LDCs) of CARICOM. A World Bank report (1990) found that relative to their size the LDCs had a greater number of firms receiving fiscal incentives than the More Developed Countries (MDCs). As an example in 1989 the number of firms that benefited from fiscal incentives in Saint Vincent and the Grenadines and Saint Lucia was 85 and 82, respectively, while Barbados and Belize had 48 and 39 firms each receiving fiscal incentives.

Second the government's provisions included in the scheme such as rental subsidies, the facilitation of infrastructure and human capital enhancement through the provision of training jointly with the perception that the incentives scheme was of a temporary nature encouraged the establishment of labour-intensive and footloose firms.

Third at the sectoral level, the incentives schemes promoted the diversification of the productive base and stimulated the establishment of firms that specialized in non-traditional products. Firms in LDCs specialized in textiles, food processing and electronics. In the MDCs, firms under the incentives scheme specialized in electronics and plastics.

Fourth while the legal framework was conceived at a regional level, its implementation was carried out at the national level. Thus the regional interests in targeting did not necessarily coincide with that of the individual countries. As a result CARICOM countries exhibited a different distribution of fiscal incentives by firms and sector.

Table 15 **Fiscal Incentives of CARICOM economies** **Harmonization of Fiscal Incentives Act, 1973**			
Profit Holiday	**Duration (number of years)**		
	MDC's	Barbados	LDC's
When 100% of sales are exported extra-regionally.	10	10	15
When the local value added exceeds 50% of total sales.	9	10	15
When the local value added is comprised within a range of 25%-49%.	7	8	12
When the local value added is comprised within a range of 10%-24%.	5	6	10
When the industry is highly capital intensive: LDC's when the initial investment > EC$25 million MDC's when the initial investment > EC$50 million	10	10	15
Tariff exemptions	For the duration of the above tax holidays, inputs, machinery and spare parts can be imported duty free; all materials and equipment for new factories can be imported duty-free.		
Export allowance for extra-regional exports after expiration of tax holiday When exports profits > 61% of the total. When export profits are comprised between 41% and 61% of the total. When export profits are comprised between 21% and 41% of the total. When export profits are comprised between 10% and 21% of the total.	 Tax relief of 50% up to 5 years Tax relief of 45% up to 5 years Tax relief of 35% up to 5 years		
Dividend payments	During the validity of the above tax holiday dividends paid to shareholders are tax exempt.		
Loss carry-forward	Can carry forward losses for up to five years after the tax holiday expires.		
Depreciation allowance	After the tax holiday expires, a deduction of up to 20% on any capital expenditure incurred.		
Source: McIntyre, 1995 & World Bank, 1990			

Currently, in the cases of Antigua and Barbuda, Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines the fiscal legislation grants tax exemptions according to definite criteria including the content of local value and export orientation of production. Local value is defined as the difference between realized sales over 12 months and the cost of imported raw materials, components and part of components, fuels and services and wages and salaries. The fiscal incentives act also allows the duty-free importation of machinery, equipment, spare parts, building materials, raw and packaging materials. For its part the Hotels Aid Act can grant a tax holiday of up to 20 years for approved hotel and resort developments in the cases of Antigua

and Barbuda and Dominica.[5] For Grenada the Hotel Aids Act grants exemption on taxes from profits for 10 years including hotels, apartments, and guest houses and also provides exemptions from customs duties and taxes on articles of hotel equipment, service vehicles, materials for construction and repair renovation and extensions to hotel properties.

In addition the recent World Trade Organization (WTO) trade policy review of the OECS notes that, "companies that are registered under the International Business Companies Act of 1982 are exempt form the payment of taxes, duties and fiscal charges for a period of twenty years from the date of incorporation". In the case of Dominica the 1992 amendment to the fiscal incentives act of 1974 introduced an income tax credit granted in the case of capital expenditures for the construction, acquisition or improvement of assets.

Dominica also has approved an Aid to Development Enterprises Act which grants duty exemptions for raw materials, inputs, materials, tools, plant, machinery and building materials which are used in the production of manufactures, construction of factories, hotels and packaging activities. Between 1996 and 2000, the tourism sector firms accounted for 53% of all firms receiving fiscal incentives followed by the manufacturing sector (45%) (see Table 16 below).

Table 16
Distribution of tax incentives by economic sector (1996-2000)
The case of Dominica

Beneficiary	Percent of the total
Manufacturing sector	45
Tourism sector	53
Other services	22

Source: World Trade Organization

Grenada, Saint Lucia and Saint Vincent and the Grenadines have further extended the benefits derived from tax concessions. Grenada has provided tax relief on the export profits that are realized on the external sales of approved manufactured products. The authorities also permit firms that do not qualify for the benefits of the Fiscal Incentives Act and that have a local value in their production of 40% and above to obtain imports duty concessions as provided in the List of Conditional Duty Exemption of CARICOM's common external tariff. Saint Lucia has provided a similar set of provisions. In 1999/2000, the Saint Lucian authorities announced further stimulus by exempting manufacturers from the payments of customs service charges and the introduction in the next fiscal year of a consumption tax rebate. Finally, in Saint Lucia primary producing agricultural enterprises are exempt from income tax.

[5] In Dominica the Hotels Aid act was passed in 1984. In St. Lucia, the Tourism Incentives Act was passed in 1996.

2.2. The case of Guyana

As in the case of the member States of the OECS, Guyana also uses a plethora of fiscal incentives to develop its export potential. Fiscal incentives in Guyana are focused on investment and capital formation, which is an indirect way of promoting exports. The incentives are provided at three levels. These are the general incentives, special incentives and incentives to selected sectors of the economy.

The general incentives include a zero rate on the customs duty and the consumption tax on equipment, machinery and raw materials. They also include the unlimited loss carry over of losses from previous years and the accelerated depreciation on plant and equipment and full and unrestricted repatriation of capital.

The special incentives are export allowances that refer to the percentage of profits that are excluded from the income tax for the export of non-traditional products outside CARICOM. It is an export subsidy tied to export performance. The specifics of the allowances are detailed in Table 17 below.

Table 17
Special incentives for firms exporting non-traditional products (2003)

Percentage of export sales to total sales	Percentage of profits excluded from income tax
>10%	0%
10%-20%	25%
21%-30%	35%
31%-40%	45%
41%-50%	55%
51%-60%	65%
>60%	75%

Source: Go-Invest (2003)

In addition the Guyanese legislation provides incentives to the productive sectors as follows: the agricultural sector benefits from waivers of customs duty and the consumption tax on equipment, packaging material for fruit and vegetable exports, importation of agro-chemicals and agro-processing equipment. Tax allowances are also granted to non-traditional exports and the improvement of land for agricultural purposes.

The manufacturing sector receives exemptions for customs duty and consumption tax, for packaging equipment and materials, for vehicles imported for use in manufacturing, and for plant equipment and raw materials. Manufacturers are also granted allowances for capital expenditure.

The forestry sector receives similar incentives to those granted to the manufacturing sector, and exemptions from customs duty and consumption tax on milling equipment, logging, land development equipment and wood working equipment, and on outboard engines.

The mining sector is provided with exemptions of customs duty and consumption tax on all equipment, processing material and spare parts used in mining, on outboard engines, and on the importation of vehicles for the production process. It also benefits from a preferential consumption tax rate on aviation fuel (10%). According to legislation, tax incentives will be maintained for a period of 15 years. In addition bauxite is taxed at lower royalty rates than precious metals and minerals. Special additional concessions are granted to medium and small-scale mining (lower royalties, lower rates for income taxes and exemptions of customs duty and consumption tax for vehicles and machinery). Petroleum exploration is encouraged through a similar set of fiscal incentives.

The tourism sector is granted duty-free and consumption tax concessions for basic furnishings, plant equipment and building materials. These concessions are granted once every five years and are limited to 50% of the value of the investment.

The fisheries sector receives the general incentives and is exempted from custom duty and the consumption tax on trawlers and fishing vessels, equipment, freezers and other refrigeration equipment.

The housing sector receives the general incentives and tax concessions on the construction of new houses and is exempt from the customs duty and consumption tax on selected building materials.

The information and communications technology sector benefits from the general incentives, a tax holiday of 10 years, and a waiver on the consumption and the customs duty tax on building materials for construction. It also receives assistance to obtain grants to train personnel on information technology.

Finally the tourism sector is also entitled to the package of general incentives plus a tax holiday for up to five years, waiver of customs duty and consumption tax on raw materials for the manufacture of garments and textiles, training assistance, where necessary, and a waiver from the consumption tax in the sale of selected products manufactured in Guyana (curtains, towels, table cloths, rugs, among others).

2.3. The case of Barbados

A third example of wide application of fiscal incentives is Barbados. The Government of Barbados offers fiscal incentives to the manufacturing and the services sector. Manufacturing firms, which produce an ‘approved product’ or belong to the category of ‘approved firms’, can receive special incentives that are detailed in the Fiscal Incentives Act (1974).

Tax holidays are given to firms according to the percentage of local value added to their manufactured product. When the local value is greater than 50% of the total, approved firms receive a tax holiday equivalent to 15 years. When the local value added is between 25% and 50% of the total, the tax holiday is 13 years. When the local value added is between 10% and 25%, the tax holiday is reduced to 11 years. After the expiration of the tax holiday, firms can

receive tax deductions contingent on their export potential. Firms can also carry forward their losses. Highly capital-intensive firms with an investment at least equal to US$25 million receive a 10-year tax holiday. Finally, manufacturing firms exporting outside the CARICOM subregion can obtain the same benefits given to an International Business Company (IBC). (See Table 18 below).

Table 18
Barbados
Tax incentives in the financial sector (2002)

	Exempt insurance companies	**IBC**	**Offshore Banks**	**SRL**
Tax rate	0	2.5%-1%	2.5%-1%	2.5%-1%
Withholding tax				
Dividends	No	No	No	No
Interest	No	No	No	No
Royalties	Yes	No	No	No
License required	Yes	Yes	Yes	Yes
Exemption from exchange controls	Yes	Yes	Yes	Yes
Exemption from duties on imports	No	Yes	Yes	Yes
Requirement to file financial statements with regulatory agency	Yes	Yes	Yes	No
Financial statements open to public scrutiny	N o	N o	N o	N o
Exemptions from taxes and duties on sale of securities and assets	Yes	Yes	Yes	No

Note:
IBC = International Business Company.
SRL = Societies with Restricted Liabilites Act.
The corporation income tax is 40%.
The personal income tax ranges from 10% to 40%.
The withholding tax ranges from 12.5% to 40%.
The value added tax is 15%.
The hotel accommodation tax is 7.5%.

The financial services sector is coordinated by the Central Bank. There are a number of incentives in place for international businesses including lower company tax rates; tax exemptions (see Table 17 above). In addition the legislation states that 35% of the remuneration of qualified personnel of international business institutions can be paid free of income tax and in any foreign currency.

The fiscal and tax incentives in the case of tourism were granted originally through the Hotel Aids Act (1967) which was replaced with the Tourism Development Act (2002). The underlying principle of the tourism act is that firms in the tourism sector must be supported throughout their life cycle and not only at the starting stage. The most important features of the Tourism Development Act are as follows: (i) hotels are defined as any building containing not

less than 10 bedrooms each of which is valued at US$87,000; (ii) hotels are allowed a write-off of 150% of interest expenses to refurbish a hotel, construct a new hotel with no less than 250 rooms with conference facilities, or to consolidate hotels administering them as a group; (iii) hotel owners are given 15 years to write off capital expenditures against income accruing to the business for hotel properties with a value of up US$100 million. An additional year is provided up to a maximum of 20 years for every additional expenditure of US$10 million over US$100 million; (iv) tax-free payments of dividends to the owners of a tourism product; (v) 150% tax write-off on expenditure on tourism research, enhancing tourism capacity, organization of trade fairs, development of linkages with other sectors, development of community tourism programmes, development of computer software to measure the performance of the tourism industry. Similar tax concessions are provided for restaurants, villas, attractions, sports and recreational facilities.[6]

3. Trends in government expenditure

Government expenditure has risen in all of the countries. This is explained mainly by the growing importance of recurrent expenditure (see Tables 20 to 25) . In the case of the OECS recurrent expenditure grew from 23% to 28% of GDP between 1985 and 2002. For Barbados recurrent expenditure increased from 29% to 32% of GDP between 1990 and 2002. In the same period it increased from 31% to 38% of GDP and from 15% to 33% of GDP in the cases of Belize and Jamaica. Jamaica experienced the biggest increase in the importance of recurrent expenditure.

The exceptions to this norm are Guyana and Trinidad and Tobago. Recurrent expenditure in Guyana declined from 45% to 35% between 1990 and 2002. For the same period in Trinidad and Tobago, recurrent expenditure fell from 29% to 22% of GDP. In both cases the explanation lies in the stabilisation programmes implemented at the beginning of the 1990s.

Guyana's stabilization history is that of the transition from a socialist regime to a market economy. In 1970, the People's National Congress declared Guyana a Cooperative Socialist Republic. This meant the control of the economy by the government. The guidelines for development included the nationalization of the means of production and distribution including the sugar and bauxite industries, the adoption of a basic needs strategy (food, housing and clothing)[7] and the subjugation of the financial systems to the needs of the real sector. These guidelines were accompanied by controls on interest rates, and on import and foreign exchange transactions.

In the first stages the implementation of the government's policies were facilitated by international high sugar prices softening in this way the external and fiscal constraints. However, the lack of export dynamism and the persistent granting of subsidies to finance public enterprises and the fiscal stance of the government helped to reduce reserves. According to Howard (1992)

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[6] Another case in point is that of Jamaica, The manufacturing sector exports (textile and apparel) have also benefited from and a number of incentives. The Export Industry Encouragement Act grants income tax exemptions and tariff concessions for ten years. The Modernization of Industry Act grants relief to manufacturing companies from the General Consumption Tax on capital goods and equipment.

[7] Thomas (1993), p.137.

the net foreign reserves which peaked in 1975 (G$197 million) became negative throughout the 1980 reaching G$–13,442 in 1989.

The economy experienced a period of recession and the attempts to redress the macroeconomic situation through fiscal restraint were thwarted by the second oil crisis (1979-1981) (Hilaire, 2000). The oil crisis provoked a rise in government expenditure not met by revenues causing the fiscal deficit to increase to unprecedented levels sending the external debt to an all time high. Other attempts at stabilization guided by the devaluation of the exchange rate were unable to improve the situation.

In 1987, the current account deficit represented 46% of GDP, the public sector deficit reached 34% of GDP, GDP growth was negative (-1.4%), and the stock of external debt was 330% of GDP (see Table 19, below).

At the beginning of the 1990s, the Guyanese authorities embarked on a stabilization programme. The stabilization programme consisted of monetary restraint accompanied by fiscal reform. Monetary restraint was based on direct instruments of monetary control such as increasing reserve requirements (9% in 1991 and 16% in 1994 and 12% in 1999). The reserve requirement conditions were extended to include all depository institutions (Ganga, 2000).

Table 19
Guyana
Basic macroeconomic indicators
Before and after the stabilization plan

	Initial conditions 1987	A decade after
GDP growth a/	-1.4	5.0
Inflation	28.7	1.5
Money growth	46.3	11
Fiscal deficit	-34.0	-9.6
Current account balance	-45.5	-15.5
External debt	333.0	169.3
International reserves c/	1.7	…….
Rate of interest	-10.6	16.2

Source: Hilaire (2000); ECLAC (2002)
Note: a/ refers to the period 1980-1987. b/ expressed in US dollars multiplied by 10^{-6}. c/ International reserves are expressed in months of imports.
In this section the fiscal deficit, the current account balance and the external debt are expressed as percentages of GDP unless otherwise noted.

The nature of the fiscal reform was colored by the extent of the country's external indebtedness. The reform consisted in the reduction of government expenditure and increases in taxes. Public employment was reduced (the civil service was reduced by one half between 1991 and 1998), state-owned assets were sold to finance fiscal operations, the tax base was widened to include public firms, the tax structure simplified and the consumption tax introduced.

The monetary and fiscal stabilization was complemented with commercial and financial liberalization. The CARICOM external tariff rates were reduced and import quotas and import surcharges were applied on a temporary basis. In the financial front, measures included removing restrictions on interest rates, credit and foreign exchange transactions. Financial liberalization measures were also accompanied by measures to strengthen financial supervision.[8] (Ganga, 1997 and 2000).

In line with these developments, exchange controls were removed (1991), the exchange rate regime progressed from a pegged base to a flexible exchange rate regime and capital controls were abolished in 1996.

Nonetheless as pointed out above, the behaviour of recurrent expenditure in Barbados and Jamaica was not drastically affected by the fact that both countries also implemented stabilisation programmes at the beginning of the 1990s.

The upward trend in recurrent expenditure is in turn mainly explained by a higher wage bill and to a lesser extent by debt interest payments and transfers and subsidies. The wage bill represents 21%, 14%, 13%, 12%, and 11% of GDP in the cases of Belize, the OECS, Barbados and Jamaica. Trinidad and Tobago, followed by Guyana, exhibit the lowest level of wage bill expenditures (7% and 11%, respectively). This could be attributed again to the 'successes of their stabilisation attempts'.

Interest payments represent on average between 3% and 5% of GDP. Jamaica stands out as interest payments have the same importance as the wage bill (roughly 15%) and have tended to increase during the period under study. In some cases interest debt payments are equally divided between internal and external debt payments. This importance of debt payments reflects the fact that size imposes a hard constraint on the operations and manoeuvre room of the government to the extent that debt operations and thus debt management become an unavoidable part of the overall administration of the government's finances.

In the case of Jamaica due to the weight of interest payments in government expenditure, the authorities have become cognisant of the necessity of outlining and undertaking a consistent and efficient strategy for the management of the national debt.

Since FY 1998/99 the authorities have adopted a debt management strategy based on the minimization of borrowing costs and have modified this strategy in FY 2003/04 to also include risk management. The main elements of the strategy are twofold. These consist mainly in isolating the debt stock from movements in interest rates and exchange rates and to develop a domestic securities market to facilitate the use of market-based instruments to trade debt issues. The increase in the share of fixed rate instruments (48% of the outstanding domestic debt in March 2003 and with a target of 60% in FY 2003/04), the restriction and reduction in bonds denominated and indexed to the United States dollar (20% of the domestic debt in March 2003) and the extension in the maturity of the debt are geared to accomplish the first goal. The second goal will be achieved by continuing with a certain amount of flexibility to place government

[8] In 1995, the Financial Institutions Act was enacted. The Act enables the Central Bank to be the ultimate supervisory institution. A similar arrangement was implemented in the Dominican Republic following its structural adjustment programe in 1990.

securities in the domestic market and by anchoring traded securities to benchmark securities with higher liquidity premiums and lower carrying costs. Ultimately the success of the government in trimming the deficit will depend on growth, stability in the foreign exchange market and the monetary policy strategy.

Finally transfers and subsidies represent 10%, 9%, 8%, 6%, 2% for Barbados, Trinidad and Tobago, Guyana, Jamaica, the OECS and Belize, respectively. Transfers and subsidies are mostly flows to State-owned firms and companies.

Capital expenditures, an indicator of the gross capital formation of the public sector, did not register increases and has actually decreased or remained at the same level as a percentage of GDP throughout the 1990s. It does not, however, encompass all of the government's capital projects since some of these are recorded in accounting terms as off-budget expenditures.

The exception to this 'stylized fact' is Belize. During the 1990s, the Government of Belize used capital expenditures to expand aggregate demand and boost the GDP rate of growth. As a result, the share of government capital expenditure in GDP increased from 10% to 18% between 1990 and 2002.

The behaviour of capital expenditures is in part due to the low rate of implementation of public sector investment programmes. In some of the smaller economies, the rate of implementation of public sector investment programmes is 25%. In this sense, capital expenditures are an indicator of the lack of efficiency or the constraints in project implementation that smaller economies face.

It also responds to the fact that capital expenditures have often been used as the fiscal leverage. That is, fiscal restraint has been brought about by the retrenchment in capital expenditures. When viewed from this perspective, it can be said that the evolution of capital expenditures represent a trade-off between stabilisation and development. More to the point, it encapsulates a contradiction in the role that fiscal policy plays in the smaller economies.

The objective of fiscal policy is at the same time a microeconomic and a macroeconomic one. In terms of microeconomic objectives fiscal policy is mainly oriented to the development of the different sectors of productive activity. The main tools, as stated above, are tax exemptions (that is the tax base) and, to a lesser extent, capital expenditures. In terms of macroeconomic objectives fiscal policy should help to maintain macroeconomic stability. Both objectives may not coincide, may be in fact contradictory and make fiscal policy ineffective.

Table 20
ECCU
Government expenditures as percentage of GDP
1983-2002

	1983-1990	1990-1995	1995-2000	2001	2002
CURRENT EXPENDITURE	23.71	22.59	23.78	26.53	28.19
Personal Emoluments	9.37	11.18	12.71	13.46	13.75
Goods and Services	6.71	5.21	5.46	5.94	5.19
Interest Payments	2.08	1.84	2.03	3.32	3.75
Domestic	1.35	1.36	1.40	2.02	1.86
External	0.51	0.59	0.72	1.30	1.90
Transfers and Subsidies	2.90	3.11	3.57	3.81	4.21
Pensions	1.28	1.27	1.40	1.33	1.32
Current Account Balance (before grants)	1.32	2.23	1.45	-1.66	-2.08
Capital Revenue	0.51	0.44	0.42	0.15	0.55
Grants	3.65	1.69	2.08	2.36	2.65
Capital Expenditure and Net Lending	7.64	6.42	6.51	7.36	6.96
of which capital expenditure	6.79	7.00	7.23	7.39	6.33
Capital Account Balance after grants	-3.95	-4.36	-4.42	-5.92	-3.75
Overall Balance after grants	-0.82	-1.13	-2.35	-6.51	-5.83
Overall Balance without grants	-5.80	-3.74	-4.64	-8.87	-8.49

Source: On the basis of official data.

Table 21
Barbados
Government expenditure as percentage of GDP
1990-2003

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Current expenditure	29.19	21.73	40.45	28.85	29.20	27.46	28.87	29.03	29.46	28.98	29.87	30.91	32.57
Wages and salaries	13.06	9.94	17.08	13.09	12.72	11.91	12.39	12.26	12.38	12.63	12.53	12.49	13.15
Goods and services	3.55	2.44	6.19	3.18	3.33	3.14	3.56	3.40	3.43	3.42	3.72	4.07	4.14
Interest	4.23	3.82	6.77	4.38	4.79	4.87	5.04	4.62	4.78	4.54	4.41	4.88	5.19
External	1.79	1.08	2.17	1.56	1.45	1.48	1.27	1.00	1.08	1.16	1.62	1.60	2.36
Domestic	2.44	2.74	4.61	2.82	3.34	3.38	3.77	3.62	3.70	3.38	2.80	3.28	2.84
Transfers and subsidies	8.35	5.52	10.41	8.20	8.36	7.54	7.88	8.75	8.87	8.39	9.21	9.47	10.09
Capital expenditure	7.13	2.65	4.04	3.34	3.02	3.47	5.53	5.82	5.61	5.37	5.69	6.53	6.20
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net lending	0.16	0.13	0.54	0.31	0.28	0.02	0.12	0.04	-0.19	0.15	0.18	0.23	0.09
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total expenditure	36.49	24.50	45.03	32.51	32.51	30.95	34.52	34.89	34.88	34.51	35.74	37.67	38.86

Source: On the basis of official data.

Table 22
Belize
Composition of expenditures
1994-2002

	1994/1995	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
Total expenditure	31.17	26.59	26.55	26.73	30.30	35.08	34.27	38.67
Current expenditure	21.30	19.84	19.99	20.47	21.04	21.17	19.23	21.00
Wages and salaries	11.71	10.81	10.16	10.57	11.14	10.81	9.81	10.16
Pensions	1.29	1.35	1.34	1.38	1.41	1.53	1.15	1.55
Goods and services	4.09	3.58	4.02	4.18	4.21	4.53	3.93	4.15
Interest payment on public debt	1.94	1.97	2.06	1.98	1.95	2.20	2.69	3.33
Subsidies and current transfers	2.27	2.12	2.41	2.36	2.32	2.11	1.65	1.80
Capital expenditure	9.87	6.76	6.55	6.26	9.26	13.91	15.03	17.67
Capital II (local sources)	4.21	3.30	3.90	3.95	4.83	7.98	3.52	7.59
Capital III (foreign sources)	5.38	3.18	2.25	2.01	3.78	5.92	11.51	7.78
of which Hurricane reconstruction	0.00	0.00	0.00	0.00	0.00	0.00	3.42	2.30
Capital Transfer	0.28	0.28	0.40	0.30	0.64	0.00	0.00	2.30

Source: On the basis of official data.

Table 23
Government Expenditures as a percentage of GDP
Guyana
1990-2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current expenditure	48.67	47.18	49.37	34.98	31.21	26.93	24.18	26.32	27.96	25.75	31.26	35.27	34.78
Non-interest expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26.51	27.05
Personal emoluments	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.05	11.44
Other goods and services	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.79	7.01
Transfers to the private sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.17	6.90
Transfers to the public sector	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	1.50	1.70
Interest	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	.n.a.	8.76	7.73
External	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	n.a..	5.13	4.62
Internal	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	n.a.,..	3.63	3.12
Current account balance	-14.56	-16.83	-11.34	1.86	0.15	6.48	11.28	5.63	2.71	4.04	0.53	-4.22	-2.60
Capital account													
Receipts	14.00	4.42	3.62	3.59	7.27	3.32	2.97	2.58	2.63	3.97	5.23	5.99	8.26
Revenue	1.91	4.03	2.45	2.39	5.95	1.50	0.46	0.08	0.06	0.03	0.04	0.04	0.02
External grants	12.09	0.39	1.18	1.20	132.00	1.82	2.51	2.50	2.57	3.94	5.19	5.95	8.24
Expenditure	21.13	11.11	9.39	12.22	14.17	13.07	15.86	15.35	12.12	9.98	13.18	12.38	11.32
Overall deficit/surplus	-21.69	-23.52	-17.10	-6.77	-6.75	-3.27	-1.60	-7.15	-6.77	-1.97	-7.42	-8.42	-5.66

Source: On the basis of official data

Table 24 Expenditures Jamaica Percentage of GDP 1990/91 – 2002/02												
	1990/91	**1991/92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**
Expenditure	18.17	26.76	25.69	27.57	27.29	29.89	35.41	35.91	36.71	37.53	33.96	36.99
Recurrent expenditure	15.35	21.87	20.57	23.31	23.62	24.28	29.14	29.98	33.35	33.96	31.19	33.96
Programmes	3.47	5.37	6.88	4.78	5.69	5.83	5.85	7.68	7.18	7.10	5.76	6.00
Wages and salaries	5.87	7.99	5.03	9.46	7.64	8.63	10.91	12.08	12.56	11.63	11.45	12.72
Interest	6.01	8.51	8.66	9.08	10.29	9.82	12.38	10.21	13.61	15.23	13.98	15.24
Domestic	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.75	11.17	12.06
External	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.48	2.81	3.18
Capital expenditure	2.82	4.89	5.12	4.25	4.03	4.32	5.06	5.04	2.72	3.06	2.78	3.03
Source: On the basis of official data.												

Table 25
Trinidad and Tobago. Government expenditures as percentage of GDP
1991 - 2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
TOTAL EXPENDITURE	30.16	29.11	27.70	25.83	26.71	27.20	28.49	30.36	25.65	24.02	24.11	23.70
Current Expenditure	26.76	27.16	26.47	24.23	24.75	25.52	25.36	27.10	24.38	21.61	22.57	22.47
Wages and Salaries	9.86	10.82	10.50	8.84	9.11	9.16	8.81	10.15	8.93	6.27	7.33	7.02
Goods and Services	2.83	2.01	2.12	2.57	2.80	2.67	2.57	2.86	2.67	2.37	2.76	3.01
Interest Payments	4.78	5.34	5.91	5.37	4.98	4.59	4.62	4.84	4.84	4.78	3.98	3.90
Local	2.29	3.35	3.72	3.19	2.61	2.67	2.60	2.81	3.10	3.06	2.60	2.55
External	2.49	1.99	2.18	2.18	2.37	1.92	2.02	2.03	1.74	1.71	1.38	1.35
Subsidies & Transfers	9.29	8.98	7.94	7.45	7.85	9.11	9.36	9.25	7.95	8.19	8.49	8.53
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Expenditure and Net-Lending	3.40	1.94	1.23	1.60	1.97	1.69	3.13	3.26	1.26	2.41	1.54	1.23
Development Programme	3.59					0.06	0.22	0.08	0.16	0.11		
Net-Lending	-0.19					1.62	2.91	3.18	1.11	2.30		

Source: On the basis of official data.

4. Trends in the fiscal result

The increase in government expenditure accompanied by an unchanging tax effort translates into an expansionary fiscal stance. Following Godley (1983, 2001) the fiscal stance is defined as government expenditure divided by the tax ratio (tax revenue over GDP). Formally,

(1) $FS = G /(T/GDP)$

Where,

FS = fiscal stance
G = government revenue
T = total tax revenue
GDP = Gross Domestic Product

When the fiscal stance is neutral, that is when tax revenue covers government expenditure, G=T and the fiscal stance is equal to GDP (FS=GDP). The fiscal stance is said to be expansionary when G>T and FS>GDP. It is restrictive if G<T and FS<GDP.

Figures 2 to 8 plot for the available data the fiscal stance for Caribbean countries. It is measured as the percentage deviation to GDP. When the fiscal stance is neutral the value of the fiscal stance ratio is equal to 0. When the fiscal stance is restrictive, the ratio is negative. Finally when the fiscal stance is expansionary, the ratio is positive. For any one year the percentage deviation between the fiscal stance and 0 provides an indication of the percentage deviation of the contractionary or expansive fiscal stance from a neutral fiscal stance.

In all cases, with the exception of Guyana, the fiscal stance has been, as expected, expansionary. That is, it has always surpassed the level of nominal GDP. In addition in all countries with the exception of Guyana and Trinidad and Tobago, the fiscal stance has been increasingly expansionary since the middle of the 1990s. In other words, in the middle of the 1990s the fiscal stance registers an inflection point. At the same time, as shown by Figure 9 below, the tax to GDP ratio is increasingly constant for the same period.

Table 26
Caribbean countries
Central government result as a percentage of GDP
1990 - 2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
OECS	-2.31	-0.53	-1.09	-0.91	-0.60	-1.32	-1.25	-2.62	-1.65	-2.97	-4.29	-6.51	-5.83
	-4.73	-3.97	-3.47	-3.95	-2.89	-3.46	-3.15	-4.55	-4.80	-5.42	-6.44	-8.87	-8.49
The Bahamas													
Barbados	-7.40	-0.76	-2.17	-1.54	-0.92	-0.79	-3.76	-1.20	-0.79	-1.40	-1.90	-4.15	-5.04
Belize	…..	…..	…..	…..	-6.25	-3.15	-0.85	-1.34	-1.81	-3.72	-6.18	-11.24	….
Jamaica	…..	4.23	4.00	3.32	3.29	2.08	-6.79	-8.30	-7.55	-4.58	1.36	-6.34	-7.7
Guyana	-21.69	-23.52	-17.10	-6.77	-6.75	-3.27	-1.60	-7.15	-6.77	-1.97	-7.42	-8.42	-5.66
Trinidad and Tobago		-0.22	-2.78	-0.18	-0.03	0.24	0.76	0.18	-4.35	-1.16	3.63	-0.18	1.60
Suriname													

Source: On the basis of official data.

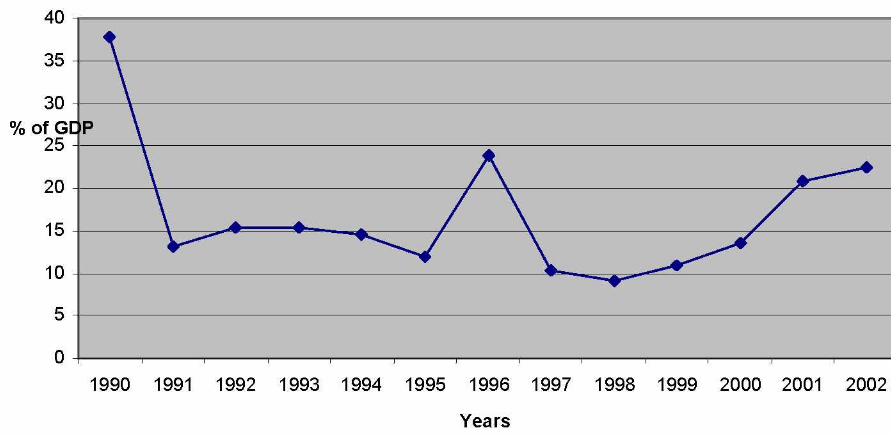


Figure 2: Fiscal Stance in Barbados, 1990 - 2002
% of GDP
40
35
30
25
20
15
10
5
0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
Years

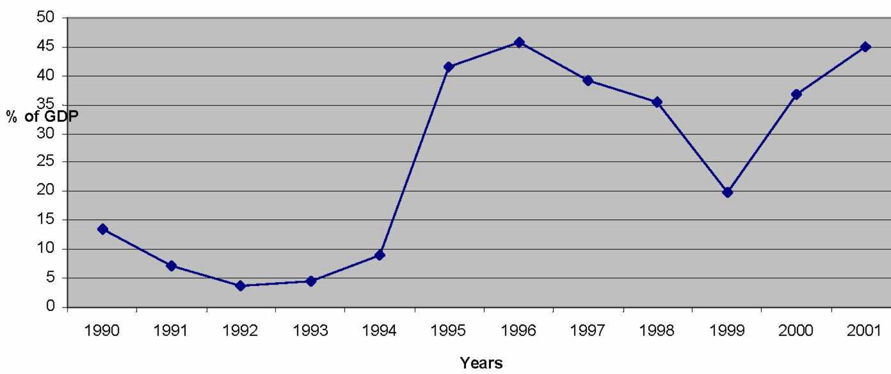


Figure 3: Fiscal Stance in Jamaica, 1990 - 2001
% of GDP
50
45
40
35
30
25
20
15
10
5
0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
Years

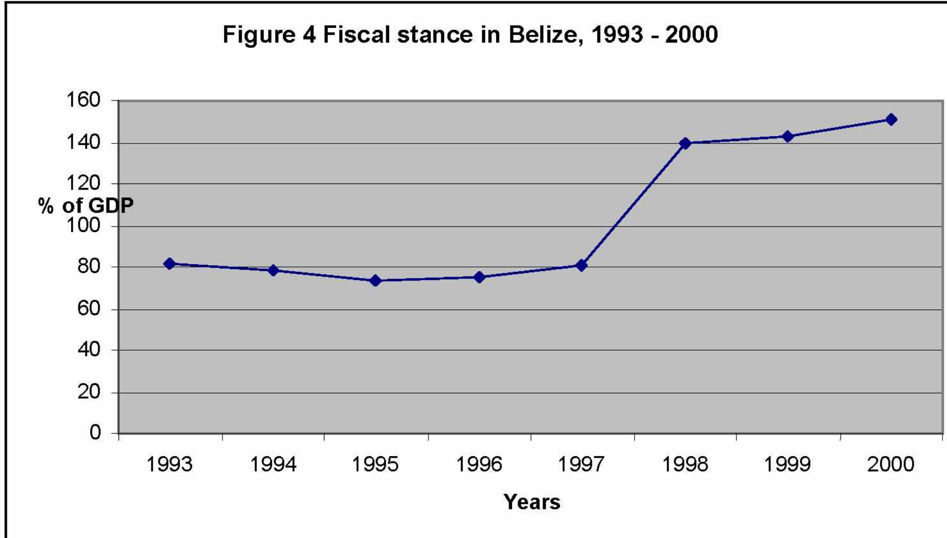


Figure 4 Fiscal stance in Belize, 1993 - 2000
% of GDP
160
140
120
100
80
60
40
20
0
1993
1994
1995
1996
1997
1998
1999
2000
Years

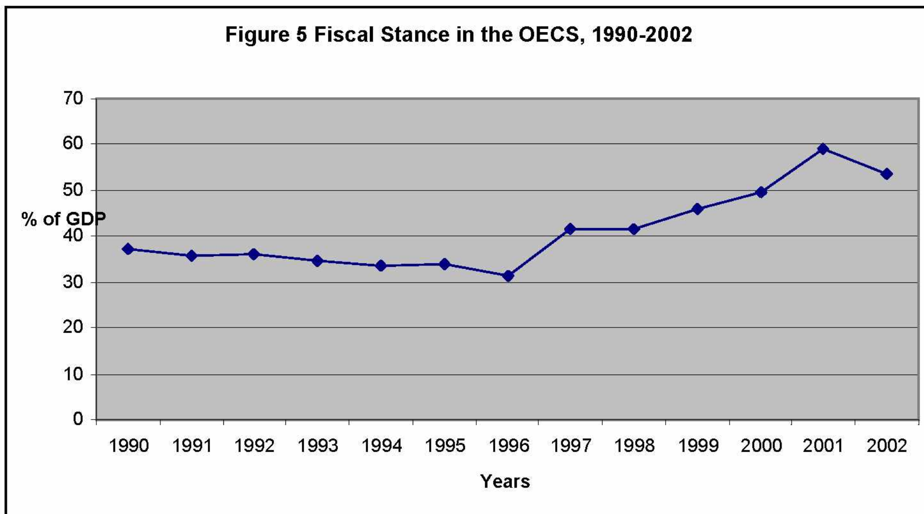


Figure 5 Fiscal Stance in the OECS, 1990-2002
% of GDP
70
60
50
40
30
20
10
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years

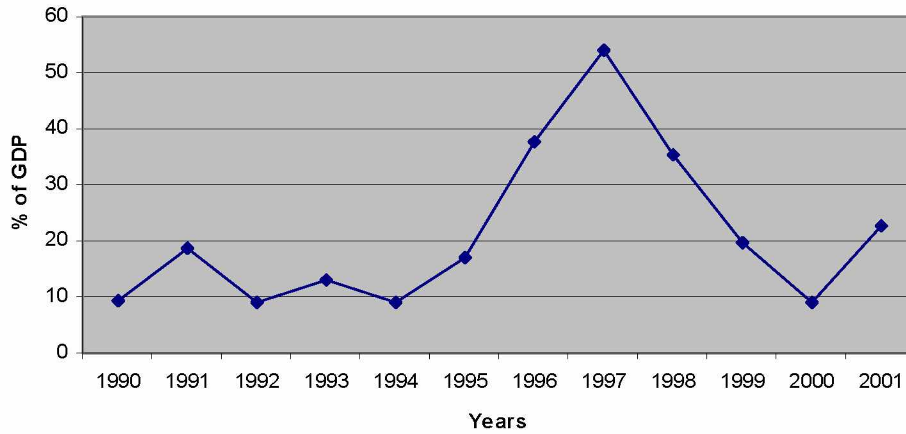


Figure 6: Fiscal stance in Trinidad and Tobago, 1990-2001
% of GDP
60
50
40
30
20
10
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Years

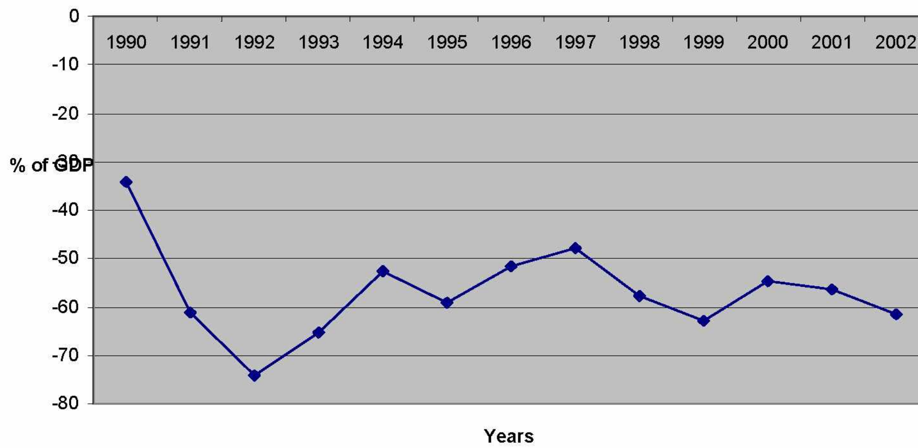
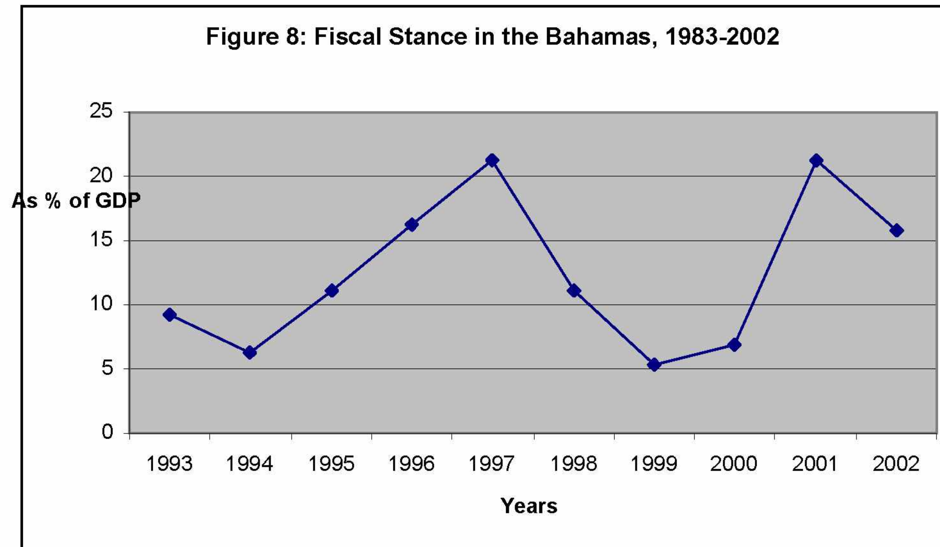


Figure 7: Fiscal Stance in Guyana, 1990 - 2002
% of GDP
0
-10
-20
-30
-40
-50
-60
-70
-80
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years



Obviously the degree of expansionary and upward expansionary fiscal stance varies among the different countries considered. The highest deviation from a neutral stance is exhibited by Belize (140% above the balance budget level in 2001). Belize's fiscal stance performance is followed by the OECS and Jamaica with a fiscal stance indicator within a range of 40%-50% above the balance budget level. Finally, Barbados and Trinidad and Tobago have the lowest percentage deviation (close to 15% above the balanced level).

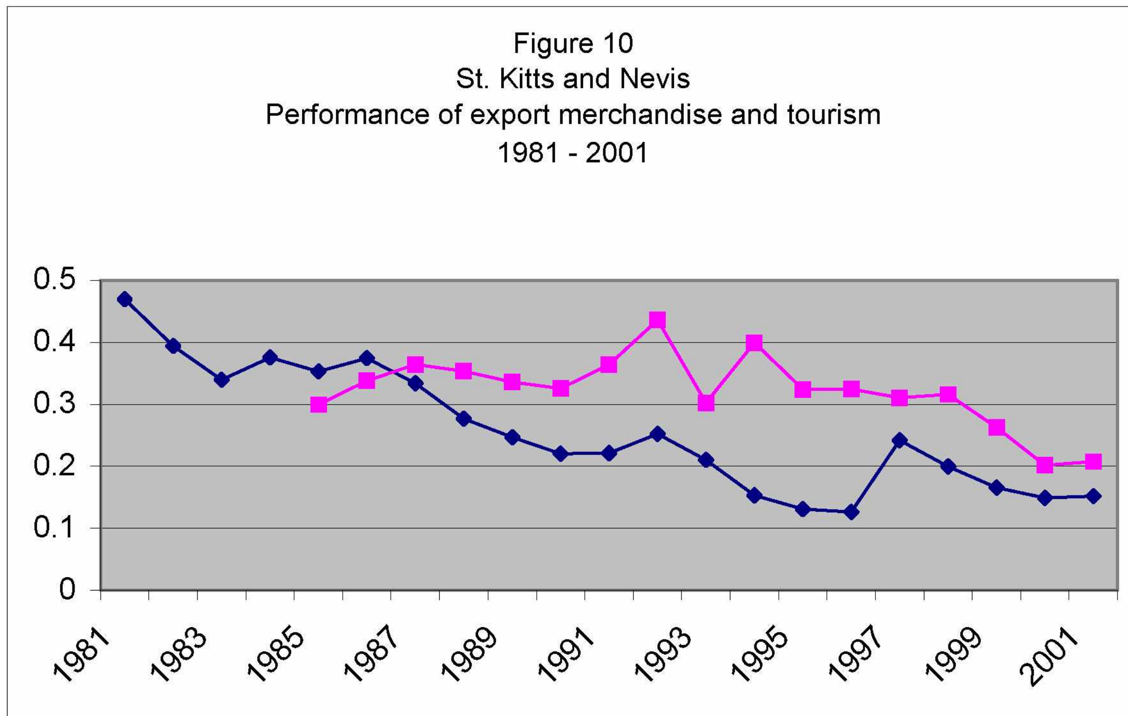
It is important to note that the fiscal stance became increasingly expansionary at a time when the export performance of goods and services deteriorated. Export performance in the case of merchandise trade is measured by the ratio of exports to the average propensity of import (i.e. the ratio of imports to GDP). When exports are equal to imports, the export performance ratio is equal to GDP. When exports are greater (less) than imports, the export performance ratio is greater (smaller) than GDP. A similar definition can be applied to services (see Table 27 below).

Table 27
Export performance indicators
1990 – 2001

	1990-1995	**1996-2000**	**2001**
Guyana			
Export performance	0.89	0.90	0.84
Barbados			
Merchandise export performance	0.24	0.22	0.18
Tourism performance	10.15	8.32	7.87
Jamaica			
Merchandise export performance	0.65	0.57	0.48

Source: On the basis of official information

[INSERT FIGURE 9]



In the case of the OECS the deterioration of export performance is more evident as shown in Figure 10 above, which shows the export performance ratio for St. Kitts and Nevis. The export performance ratio was below GDP indicating a disequilibrium in the balance of trade and the tendency to decrease showing that the export performance deteriorated. In the case of services and more particularly tourism, the performance indicator that was chosen was tourism expenditure as a percentage of GDP, which has also declined over time.

In this sense it cannot be analyzed in isolation from the rest of the main macroeconomic variables and must be related to internal and external equilibrium. Using national accounts it is possible to demonstrate that in a 'quasi steady state' the value of the flow of national income is a weighted average of the export performance ratio and the fiscal stance (Godley and Cripps, 1983; Anyadike-Danes, 1996). The export performance ratio is the ratio of the value of exports to the average propensity to import. The fiscal stance is equal to the ratio of the value of government expenditure to the tax to GDP ratio.

Formally,

(1) $Y = \omega_1 (X/\mu) + \omega_2(G/\theta)$

Where,

Y = national income
ω_1 and ω_2 = weights
X = value of exports

μ = average propensity to import
G= value of government spending
θ = the government's share or tax collections to national income (tax to GDP ratio)

Accordingly as stated by Anyadike-Danes (1996, p.716) since the flow of national income is a weighted average of the export performance ratio and the fiscal stance, when the fiscal stance is greater than the export performance ratio, national income is smaller than the former and greater than the latter. That is,

(2) $G/\theta > X/\mu \iff G/\theta > Y > X/\mu$

In turn this implies that a budget deficit will be by definition accompanied by a deficit in the balance of payments. In other words,

(3) $G/\theta > Y \iff G > \theta Y$ and $X < \mu Y$

Since $\theta = T/Y$ and $\mu = M/Y$, where T are taxes and M imports,

(4) $G > \theta Y \iff G > (T/Y)Y \iff G > T \iff G - T > 0$ (Fiscal deficit)
$X < \mu Y \iff X < (M/Y)Y \iff X < M \iff X - M < 0$ (Current account deficit)

Using this logic an expansionary fiscal stance will translate into a current account deficit forcing the authorities to offset the impending disequilibria via monetary restraint. In other words an expansionary fiscal stance is an obstacle to the generation of growth and employment.

The outcome of a rising expansionary fiscal stance and a deteriorating export performance and of a fiscal stance that systematically surpasses the export performance ratio is the accumulation of debt which is particularly prevalent in the economies of the OECS. This is self-evident from Figures 11 and 12 below

In general, debt is analysed by having recourse to the budget constraint[9] It states that its government deficit (the primary deficit (Gs -Gr) and the interest payments on its debt (rB)) can be financed with an increase in its bond issues (B_{pu}) and commercial bank credit (ΔDBC_{pu}). Formally,

(5) $dDBC_{pu}/dt + dB/dt = Gs - Gr + rB$

where,

B = stock of government debt.
Gs = government expenditure.
Gr = government revenue.
r = rate of interest.

[9] This concept can be expressed formally as follows,
(1) $S/Y= (r-g)D/Y$
Where,

S= primary budget surplus
Y= nominal output
r = real rate of interest
D= internal debt
g= real growth rate of GDP

Equation (1) provides the boundary line between an unsustainable and a sustainable budget surplus or deficit. If, **S**/Y> (r-g)D/Y then the surplus or deficit is said to be sustainable.

[INSERT FIGURE 11]

[INSERT FIGURE 12]

In so far as a budget deficit implies credit creation by the monetary authorities a fiscal disequilibrium will translate into a balance of payments deficit and a loss of foreign reserves. The fiscal policy recommendations also point to a restrictive stance on the part of the authorities for a given level of output, which at this stage is exogenous.

A government can always forego the required adjustment by increasing its debt. But it can do so, only up to a point. It has to respect ultimately a debt sustainability criterion. Sustainability requires that the rate of growth of debt be equal to zero. This implies that the difference between government revenue and expenditure is equal to the difference between the rate of interest and the growth rate of output. Formally,

(6) $db = 0 \Leftrightarrow (Gr/Y - Gs/Y) = (r - gy)\, B/Y + dg$

A budget deficit is said to be unsustainable when it leads to uncontrolled increases in the public or when interest rates are perceived as being too much of a burden as they are imposed on taxpayers through excessive tax rates or unequal distribution of the burden of the debt. The concept of fiscal sustainability can be examined using an equation that relates four variables: government expenditures, government revenues, rate of growth of real GDP, the real interest rate and the outstanding public debt. More specifically the equation says that the primary budget surplus as percentage of GDP equals the difference between the real interest rate and real GDP growth multiplied by the share of public debt to GDP..

According to Eqs. (5 and 6), sustainability requires that if the rate of interest on government debt exceeds the rate of growth of output, provided the government does not resort to the printing press to avoid a resort drain, it must ensure a sufficiently high surplus to respect its budget constraint.

Thus the logic of this standard approach requires fiscal policy to respond to monetary policy in the same direction. It must, to avoid an unsustainable situation, behave pro-cyclically. In practice this means that a monetary stabilization package necessitates a fiscal reform in order to avoid a debt-trap. Fiscal policy is subsumed and subjugated to the needs of monetary policy. In addition, by using domestic capital expenditures as the adjustment lever, it reinforces the effects mentioned above of stabilization policies on the composition of output and employment.

The logic of the alternative model put forward states that fiscal adjustment is not the path to macroeconomic equilibrium. A decline in the fiscal stance may be overpowered by a decrease in the export performance ratio. As a result fiscal reform policies must be accompanied by policies destined to improve the performance of exports or the productivity of imports.

Conclusion

The fiscal situation in Caribbean economies has deteriorated over time. This is the result of an expansionary fiscal policy that has not been accompanied by increases in the revenue source of government finance largely due to a policy of sectoral development based on fiscal incentives. The reform of the tax system will probably be inevitable in particular due not only to

the unsustainable fiscal situation of some of the Caribbean economies but also because of their progressive integration into the world economy. Fiscal reform should include making the tax system more simple and efficient. Key tax figure candidates are the value-added tax, even though the experience with the value-added tax in smaller economies is mixed; increases in the property tax and the modification of the corporate income tax. However, it should be noted that fiscal reform is intrinsically tied to export performance and that in the absence of an improvement in export performance, fiscal reform can turn out to be a futile exercise.

Annex

Table 28 Tariff indicators and other duties 2001				
	Tariff lines	Average tariff	Minimum-Maximum Standard deviation	Other duties/taxes
Antigua and Barbuda	4 077	14.5	0-70 16.1	Customs service tax (5%) Foreign exchange transactions tax (1%) Consumption tax (0%, 15%, 20% and 30%)
The Bahamas		35	0-210	Stamp duties (2%-20%)
Barbados	6 469	16.5	0-243 28.0	Surtax of 75% VAT 15% Environmental levy of varying rates
Belize			5-25	Revenue replacement duties (15%-25%) Specific duties and surcharges Sales tax (12% and 8%) Environmental tax (1%) Foreign exchange levy (1.25%)
Dominica	6 333	13.1	0-200 21.6	Customs service charge (2%) Import surcharge (15%) Consumption tax (25%) Environmental surcharge of 0.25EC$ per container applied on imports of alcoholic and non-alcoholic beverages.
Grenada	6 334	11.2	0-40 10.8	Customs service charge of 5% General consumption tax (differential rates) Petrol tax Environmental levy on water and beverages in plastic and glass bottle at the rate of EC$0.50 and EC$ 0.25. The environmental levy is also applied on other goods at a rate of 1% to 2%.
Guyana			5-20	Consumption tax with rates ranging from 0% to 85%. Environmental tax is levied on non-returnable metal, plastic, glass or cardboard container of alcoholic and non-alcoholic beverage.
Jamaica			20 40 (agriculture)	Customs user fee is charged on imports Compliance fee of 0.3% Stamp duties (agriculture)
Montserrat				A customs surcharge of 8% applies to all imports Special produce import tax is levied on wine, beer and rum
St. Kitts and Nevis				Customs service charge of 5% Bottle deposit levy of EC$ 0.30 per bottle

St. Lucia	6 368	10.1	0-70 8.41	General consumption tax Excise tax Customs service charge (4%) Environmental levy (1.5% and 1%)
St. Vincent and the Grenadines	6 237	10.9	0-40 12.11	Customs service charge (4%) Consumption tax Deposit Levy charged on all imported aerated beverages (EC$ 0.50 per bottle/can)
Suriname				License fee (1.5%) Statistical fee (0.5% and 2%)
Trinidad and Tobago			5-20 40 (agriculture) 25-45 (motor vehicles)	VAT (15%) Inspection fee (0.5%) applied on imported products
Regional Average				

Note: In the case of Barbados the surtax applies to some products. Antigua and Barbuda applies exemptions from import duties to milk, poultry, and basic foods and agricultural products. In Belize, the 12% sales tax applies to alcohol, tobacco and fuel. Dominica's import surcharge applies apples, fresh grapes and pears and motorcycles. Belize applies the revenue replacement duty on good that are of CARICOM and non-CARICOM origin. In Guyana garments locally manufactured do not are not subject to the consumption tax.
Source: WTO (2001 and 2002)

Table 29
Non-tariff measures applied by CARICOM Member States
2002

	Rules of origin	Prohibitions	Restrictions	Licensing	Quotas	Contingency and countervailing measures	Price controls and marketing boards
Antigua and Barbuda	75% of the market for alcoholic beverages is reserved for local producers of aerated beverages and brewery products			Non-automatic licenses for arrange of products	Quotas on alcoholic beverages		Central marketing board imports carrots, cabbage, onions, sweet peppers and tomatoes.
Bahamas							
Barbados				Automatic licenses are imposed on the import of CARICOM products such as condensed milk products, oils and fats products.		A countervailing duty is charged on milk products from Trinidad and Tobago	Agricultural marketing and development corporation is the sole importer of chicken wings, backs and necks.
Belize				Automatic licenses are applied on a range of products of CARICOM origin. Non-automatic licenses are applied for wood and upholstered products.			Belize Marketing Board on imports of rice.
Dominica				Non-automatic licenses are applied on candles and aerated beverages, plastic or rubber footwear from MDCs CARICOM			The Dominica Export Import Agency is the sole importer of rice and brown sugar in bulk and in packages larger than 10 lbs.
Grenada				Non-automatic licenses are required for a range of imported products from the MDC's of CARICOM			The Grenada marketing board is the sole importer of bulk sugar, rice and powdered milk.
Guyana				Non-automatic licenses are imposed on imports of wheat flour from CARICOM member states.			The Guyana Sugar Corporation controls the imports of raw brown sugar. Controls on a number of imported products are imposed the Guyana National Bureau of Standards. Importers of a range of products must pay annual registration fee to the Guyana National Bureau of Standards.
Jamaica				Automatic licenses are imposed on milk and milk products			

Montserrat				Non-automatic licenses are imposed on selected CARICOM MDC.	Seasonal quotas are imposed on imports of white potatoes, onions and cabbage.		
St. Kitts and Nevis				Automatic and non-automatic licenses are imposed on a range of products from CARICOM			The supply office in the ministry of trade is the only importer of wheat flour and rice in bulk and packages.
St. Lucia				Non-automatic licenses are applied for imports from MDC's and from Belize. Non-automatic licenses are also applied to a selected range of imports from CARICOM.	Quotas are imposed on liquid bleach imports from CARICOM.		The Supply and Procurement Unit of the Ministry of Commerce, International Financial Services and Consumer Affairs channel the imports of bulked rise, flour and sugar.
St. Vincent and the Grenadines		Imports of bananas and banana products from Grenada and Trinidad and Tobago are prohibited. Imports of coconuts, coconut fibre coconut products, bags hats, mats also from Grenada, Trinidad and Tobago and Jamaica are also prohibited.		Non-automatic licenses are required for a selected range of import products from the MDCs of CARICOM			St. Vincent and the Grenadines Marketing Corporation is the monopoly to import sugar, rice in bulk and other staples.
Suriname							
Trinidad and Tobago				Automatic licenses are applied on imports of oils and fats from CARICOM	Quotas are applied on chlorofluorocarbons allowing only eight firms to import these products.		

Source: CARICOM (2002). Licenses applied on imports for health, safety and environmental reasons are not included.

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