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# ECONOMIC SURVEY OF THE CARIBBEAN
# 2006-2007

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## Executive summary

This survey provides an overview of the macroeconomic performance of countries of the Caribbean Development and Cooperation Committee (CDCC) for the year 2006 and their outlook for 2007. The report consists of three chapters. The first one provides a regional analysis of the main economic indicators from a comparative perspective. The second chapter deals with two selected topics of particular relevance for the economic development of Caribbean countries, namely remittances and migration, and natural resources dependency. The last chapter presents country briefs with the main macroeconomic developments recorded in 2006 and the outlook for 2007. A statistical annex is also provided in the accompanying CD. This Executive Summary is based mainly on the first chapter.

In 2006, economic growth remained robust in most Caribbean countries as a result of different events, especially ongoing surges in commodity prices and significant public and private investment in infrastructure related to the Cricket World Cup (CWC) of 2007. On average, the Organisation of Eastern Caribbean States (OECS) expanded by 6.3 per cent, led by rapid growth recorded in Antigua and Barbuda (11 per cent), Grenada (7 per cent) and Saint Lucia (7 per cent). Non-OECS countries posted a slower but still significant growth rate of 5.4 per cent. Trinidad and Tobago was the leader in this latter group, with an impressive GDP increase of 12 per cent, which was mainly the result of the combination of still high oil and gas international prices and significant public investment. The other countries registered growth rates between 2.5 per cent (Jamaica) and 5.8 per cent (Belize and Suriname). Overall, the region posted an average GDP growth rate of 5.8 per cent, 1.3 percentage points higher than in 2005. It is worth noting the substantial recovery of Guyana which registered an output expansion of 4.7 per cent, more than offsetting the drop of 2 per cent recorded in 2005.

In 2006, the external sector showed a significant improvement in the region as a whole. On average, the balance of goods recorded a deficit of 11.7 per cent of GDP, almost 20 percentage points of output less than in 2005. This drastic reduction in the trade deficit explains the contraction of the current account deficit from 15.5 per cent of GDP in 2005 to 8.5 per cent in 2006. This positive evolution was mainly in the non-OECS countries. Indeed, the OECS countries observed a widening in both accounts in 2006 as compared to 2005.

The evolution of the external sector in 2006 showed mixed results closely linked to the productive structures of the countries and, more specifically, the condition of exporters or importers of oil. Countries rich in crude, such as Trinidad and Tobago and Suriname, reported significant merchandise trade surpluses that also fed perceptible current account surpluses. Aruba joined the group of surplus countries in 2006. Other countries rich in natural resources, such as Jamaica and Guyana, experienced a widening in their trade and current accounts gaps due in part to significant increases in the oil import bill.

In the deficit countries, in 2006 the current account gap was totally or partially financed by a surplus in the financial and capital account. In the Bahamas, the main source of financing was foreign direct investment (FDI), but these inflows were not enough to close the current account gap (30 per cent of GDP). In the case of Jamaica, the issuance of a 30-year sovereign bond for US$ 250 million allowed the country for the third consecutive year to record a surplus in the balance of payments that amounted to 2.3 per cent of GDP. Likewise, significant capital inflows related to development assistance reported in Guyana more than offset its current account deficit (31.5 per cent of GDP) and permitted a balance of payments surplus of 5 per cent of GDP. On the other hand, Barbados and Belize experienced contractions in both their trade and current account deficits. The surpluses observed in the capital and financial account led to small overall surpluses in the balance of payments in both countries.

On the fiscal side, in 2006 the region registered a small improvement in the public sector balance fuelled by GDP growth that allowed revenue to grow faster than expenditure. As a result, the average fiscal balance posted a surplus of 1.3 per cent of GDP. Excluding interest payments on public debt, the fiscal (primary) surplus increased from 6 per cent of GDP in 2005 to 6.3 per cent in 2006. Total revenue expanded for the fourth year in a row, around 16.6 per cent relative to 2005, whereas the tax take increased even more (20 per cent) to amount to 30.3 per cent of GDP. Total spending also expanded, and totaled 31.9 per cent of GDP in 2006. The increase in capital expenditure (28 per cent) more than offset the reduction in interest payments on public debt that dipped from 5.9 per cent of GDP in 2005 to 5 per cent in 2006.

In 2006, the fiscal position improved in the majority of countries relative to 2005. Trinidad and Tobago exhibited the major fiscal surplus (6.5 per cent of GDP) due to a combination of high fuel prices and the expansion of gas exports. In Belize, the contractive fiscal policy was very effective, curtailing the fiscal deficit from 4.3 per cent of GDP in 2005 to 1.7 per cent in 2006. This significant improvement was the result of a combination of higher revenue and lower spending (as a percentage of GDP). The latter was also observed in Suriname which posted a fiscal surplus of 2.4 per cent of GDP, an improvement of 3 percentage points of GDP relative to 2005. In the case of Guyana, the fiscal deficit contracted from 14.3 per cent of GDP in 2005 to 13 per cent in 2006, due to the combination of better tax administration that increased the tax take in 1 per cent of output and debt relief (mainly linked to the Multilateral Debt Relief Initiative, MDRI) that halved interest payments on public debt to 2.5 per cent of GDP as compared to 2005.

Aruba and the Bahamas also recorded improved fiscal positions in 2006 relative to 2005, mainly due to higher tax revenue. In the former, the deficit was slightly reduced to 2.8 per cent of GDP. In the latter, the increased tax take (1.6 per cent of GDP) was facilitated by the introduction of the Tax Compliance Unit.

On the downside, in 2006 the fiscal balance deteriorated in Jamaica and the OECS countries. In both cases, expansionary capital spending associated mainly with the CWC played a leading role in this outcome. In Jamaica, fiscal deficit reached 5.6 per cent of GDP, 2.1 percentage points of output higher than in 2005, whereas in the OECS countries the deficit doubled to 4.2 per cent of GDP relative to 2005.

The Government of Trinidad and Tobago established the Interim Revenue Stabilization Fund (IRSF) in 1999. The fund was later transformed into the Heritage and Stabilization Fund (HSF) which was designed as a saving tool of windfall oil revenue. In Suriname, discussions regarding the setup of such a fund are ongoing. In addition, another important step forward on the fiscal side was the introduction in Belize of the General Sales Tax that replaced the former Sales Tax. The former has a higher rate (10 per cent) and a broader base than the latter.

As regards public debt, St. Kitts and Nevis, Jamaica and Guyana continued to exhibit debt-to-GDP ratios significantly above 100 per cent, in excess of 175 per cent, 140 per cent and 125 per cent, respectively.

Most Caribbean countries managed to reduce inflation in 2006 as compared to 2005. The highest reductions were reported in Suriname (from 12.9 per cent to 5.8 per cent) and St. Kitts and Nevis (from 12.9 per cent to 5.8 per cent). On the contrary, in Trinidad and Tobago the inflation rate increased more than a percentage point (from 7.2 per cent to 8.3 per cent). All in all, the average inflation rate in the region decreased from 6.6 per cent to 4.2 per cent. Moreover, the standard deviation of inflation rates more than halved from 4.1 per cent to 2 per cent, revealing a convergence towards lower levels across the region.

This favorable outcome was due mainly to the prudent monetary policy followed by most central banks in the context of rapid growth in public capital spending. The monetary tools used to control domestic credit expansion varied from discount and interest rates (in Barbados, Guyana, Jamaica, Trinidad and Tobago, and the Netherlands Antilles) to reserve requirements (in Barbados, Suriname, Trinidad and Tobago, Aruba and the Netherlands Antilles) to foreign exchange operations (Trinidad and Tobago).

On the intraregional agreements front, another significant step was taken towards further trade integration with the formalization of the Caribbean Single Market (CSM) on 1 January 2006. Implementation of the Caribbean Single Economy (CSE) is pending as negotiations are ongoing with respect to several decisive issues such as the formulation of a Regional Sectoral Strategic Plan.

Growth forecast for 2007 reveals ongoing favorable economic expansion in the region as commodity prices remain high. However, it is believed that the growth of these prices will ease somewhat in 2008.

# I. REGIONAL OVERVIEW: MACROECONOMIC AND SECTORAL PERFORMANCE

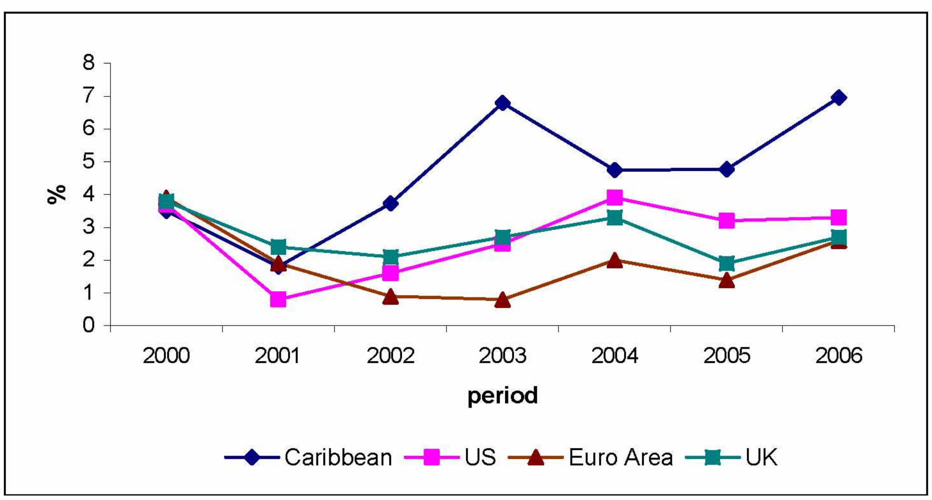
## A. Global trends

This section provides some insights regarding the recent evolution of the Caribbean economies in a broader global context. Trends in Caribbean economic growth over the past five years are compared with those in the United States and the European Union (EU). This is enlightning given that these two economies are the main trade partners of the region and also the principal source of foreign capital inflows, including workers' remittances. As such, Caribbean overall economic performance is deeply affected by developments in both the United States and the EU.

In 2006, the fiscal stance in both the United States and EU improved remarkably. Budget deficits were curtailed to a certain extent as a result of contra-cyclical fiscal policies resulting in increased tax revenues. In a significant part of the Caribbean, however, expansionary fiscal policies in the context of increased public investment associated with the Cricket World Cup (CWC) led to larger budget deficits and inflationary pressures. As a result, St. Kitts and Nevis, Jamaica and Guyana still exhibit the highest public debt-to-GDP ratios in the developing world (in excess of 175 per cent, 140 per cent and 125 per cent, respectively).

Despite ailing house market prices in the United States, relatively favorable global and local financial and equity markets conditions combined with easing oil commodity price developments had a positive but moderate impact on economic growth. This has been illustrated partly by sustained consumption and spending in the United States. Throughout 2006, private consumption had the largest contribution to GDP in the United States followed by private investments. However, there remains a threat of contagion from the housing market to other sectors in the United States economy.

**Figure 1**
**Real GDP Growth Caribbean, United States, Euro Area and United Kingdom**




**Source: ECLAC, on the basis of official figures.**

In the EU, economic growth remained strong led by Germany. This was partly reflected in the increasing strength of the Euro against the United States dollar. Significantly driven by strong employment creation, consumer spending increased especially in Germany and the United Kingdom. There is still a risk that ongoing slower growth in the United States will drag down global growth in the near future, leading to slower or even stagnating economic activity in the Caribbean region.

At the same time housing market prices in the Caribbean were soaring. In Trinidad and Tobago, median housing prices increased some 12 per cent in 2006. This surge in real state prices stemmed from the rapid, energy-prices-driven economic growth in recent periods that fostered demand for durable consumption goods. The housing demand from highly paid expatriates and foreign professionals proved to be a significant factor affecting the evolution of property prices.

Inflation remained a matter of concern in the United States. In the EU, inflationary pressures were restrained in 2006, mainly due to tight monetary policy. In the Caribbean, inflation was fuelled by significant public spending (domestic source) and rising energy commodity prices ("imported" inflation). In many countries in the region, controlling inflation became the main target of monetary policy following the international move towards the establishment of inflation targetting regimes to conduct monetary policy. Overall these policies were successful since inflation dropped, especially in Guyana, Jamaica, Suriname and the Organisation of Eastern Casribbean States (OECS).

Inflation developments caused many countries to adjust interest rates accordingly. In the United States, the Federal Funds rate remained unchanged in order not to dampen consumer spending. The European Central Bank and the Bank of England however, adjusted interest rates upwards as part of the total monetary policy package to decrease inflationary pressures.

In the Caribbean, different monetary policy instruments were used in different countries. Besides interest rate policies, reserve requirement increases and foreign currency interventions successfully curbed excess liquidity in most countries in the region.

## B. Growth performance

### 1. GDP growth

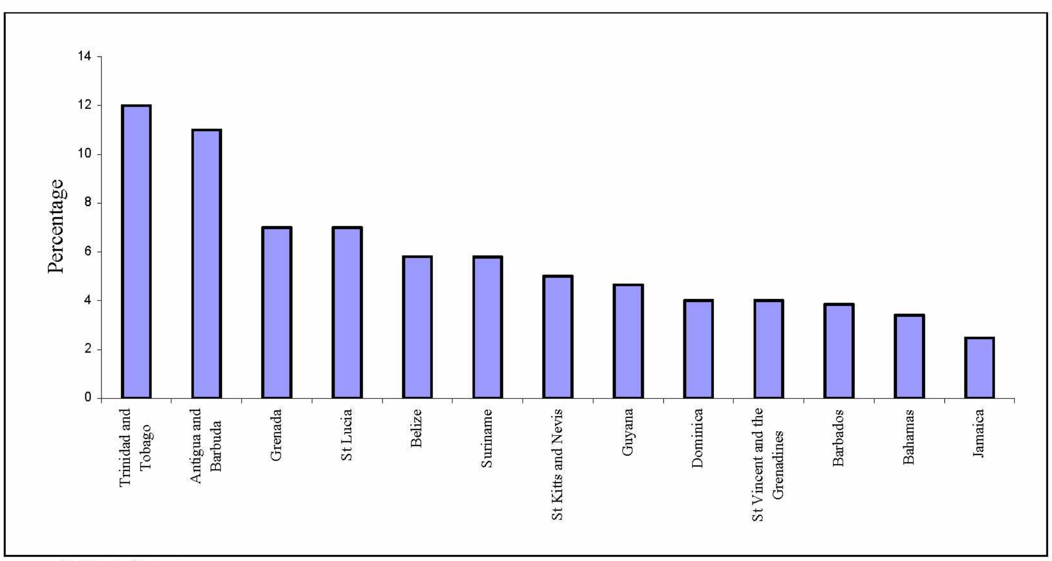
The Caribbean has experienced positive growth in the last three years with the average rate exceeding 5 per cent. As shown in Table 1, growth accelerated to 5.8 per cent, in 2006 (simple average) one of the highest paces witnessed in the last decade. Output growth in the OECS countries averaged 6.3 per cent in 2006, due to robust growth in Antigua and Barbuda (11 per cent), Grenada (7 per cent) and Saint Lucia (7 per cent). On the other hand, non-OECS countries recorded an average GDP expansion of 5.4 per cent, despite the impressive economic dynamism showed by Trinidad and Tobago (12 per cent). This was off-set by a more sluggish performance recorded by the other economies, especially Jamaica, which registered a GDP growth rate of 2.5 per cent.

On the supply side strong growth impetus in 2006 was driven by both tradable and non-tradable sectors activity. On the tradable side, production of minerals (petroleum products, bauxite and alumina) was a major growth catalyst, responding to the upshot in world demand, particularly from China. In addition, output growth continued to be heavily dependent on imports, reflecting the relatively undiversified production structures in the region (see Figure 2 below).

**Table 1**
**Caribbean Economies, GDP Growth and Inflation, 2004-2006**

| | GDP Growth | | | Inflation | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Antigua and Barbuda | 7.2 | 4.6 | 11.0 | 1.8 | 2.8 | 2.1 |
| Bahamas | 1.8 | 2.7 | 3.4 | 2.1 | 1.8 | 2.3 |
| Barbados | 4.8 | 4.1 | 3.8 | 4.3 | 7.4 | 7.6 |
| Belize | 4.6 | 3.5 | 5.8 | 3.1 | 3.7 | 4.3 |
| Dominica | 6.3 | 3.3 | 4.0 | 0.8 | 2.7 | 1.7 |
| Grenada | -7.4 | 13.2 | 7.0 | 2.5 | 5.8 | 3.4 |
| Guyana | 1.6 | -2.0 | 4.7 | 5.5 | 8.2 | 3.7 |
| Jamaica | 1.0 | 1.4 | 2.5 | 13.7 | 12.9 | 5.8 |
| St Kitts and Nevis | 7.6 | 5.0 | 5.0 | 1.7 | 7.2 | 3.6 |
| St Vincent and the Grenadines | 6.2 | 1.5 | 4.0 | 1.7 | 3.9 | 3.9 |
| St Lucia | 5.6 | 7.7 | 7.0 | 3.5 | 6.7 | 3.7 |
| Suriname | 7.7 | 5.6 | 5.8 | 8.4 | 15.8 | 4.8 |
| Trinidad and Tobago | 8.8 | 8.0 | 12.0 | 5.6 | 7.2 | 8.3 |
| **Average** | **4.3** | **4.5** | **5.8** | **4.2** | **6.6** | **4.2** |
| **Standard Deviation** | **4.3** | **3.7** | **2.8** | **3.5** | **4.1** | **2.0** |
| **Source: ECLAC database and on the basis of official data** | | | | | | |

**Figure 2**
**GDP growth in real terms for 2006**




**Source: ECLAC data**

## C. Sectoral performance

### 1. Agriculture

Agriculture recovered to grow by 7.8 per cent in 2006, outpacing GDP growth (7 per cent). The rebound was evident in most countries, although in those where the sector is important, notably Guyana, Suriname, Belize, Jamaica and Dominica, the result was mixed. Particularly welcomed was the strong recovery in Grenada following the deleterious effects of Hurricane Ivan in 2004. In the Eastern Caribbean Currency Union (ECCU) as a whole, agriculture posted strong growth of 10.8 per cent fully reversing the contraction last year. A commendable turnaround in banana production in Dominica and Saint Lucia stemmed from the control of leaf spot infestation, favourable weather and dynamic demand for the Fair Trade Label bananas, which fetch higher prices on the EU market. Nevertheless, the ECCU countries seem to be transitioning out of agriculture because of lack of scale economies in the sector, competitiveness difficulties and a lack of the kind of entrepreneurship that is required to build a new technology intensive sector.

Agriculture output also picked up in Guyana and Jamaica (5.5 per cent and 7.2 per cent, respectively). Recovery in Guyana was built on sugar and rice (up 5.5 per cent and 12.4 per cent), which were bolstered by the government subsidies and rice support under the EU competitiveness programme. Meanwhile, in Belize, the sector, though an important contributor to GDP, registered slow growth of 1.4 per cent despite good international prices indicating supply side bottlenecks. Robust growth in sugar output was offset by a contraction in citrus production, and shrimp output also fell due to Asian competition on the United States market.

### 2. Mining

Growth in mining output at 15.6 per cent was similar to last year's rate and reflects continued strong global demand for petroleum, gold and alumina. Indicative of trends, the average price of oil was relatively high at US$66 per barrel. Mining output was up in Trinidad and Tobago, Suriname, Jamaica and Belize, but contracted relatively sharply in Guyana. Activity picked up strongly in Suriname, growing by 18 per cent, associated with an almost 12 per cent growth in petroleum production which was bolstered by global demand and high prices. The welcomed start up of the Greenfield Calcutta oilfield boosted output. Gold output also strengthened in spite of labour problems in the sector. In Trinidad and Tobago, petrochemical output expanded by over 15 per cent, largely reflecting output of natural gas.

Mining also turned in a robust performance in Belize, with the start of commercial oil production in 2006. Proven reserves in the country have been estimated at 44 million barrels and necessitate a strategy for sustainable exploitation of the resource. Meanwhile the mining sector posted sluggish growth of 1.7 per cent in Jamaica, reflecting higher installed capacity in the bauxite sector, but this was partly offset by supply side shocks due to labour disputes and bad weather conditions.

On the downside, activity contracted by 22 per cent in Guyana, reflecting slumps in output of bauxite, gold and diamonds. Production of bauxite fell by 12 per cent on account of weak prices due to increased supply by China. Gold output plummeted by 23 per cent linked to the lingering effects of the closure of OMAI Gold Mines in 2005. Meanwhile, diamond output was down due to some producers shifting to gold production.

### 3. Tourism

Buoyed by relatively strong demand from major markets, partly reflecting measures to upgrade product standard and quality and also increased airlift all in line with preparations for the CWC in 2007 (see Box 1 below), tourism activity picked up in 2006. Real value added in the sector jumped from 3.5 per cent in 2005 to 6.6 per cent in 2006. In Jamaica, output growth in hotels, restaurants and clubs (indicative in part of tourism) reached 12.3 per cent, reflecting both increased tourist arrivals and average expenditure. Meanwhile, in the ECCU tourism recovered, posting robust growth of 6.1 per cent in 2006, relative to a meagre 0.2 per cent in 2005. Although the United Kingdom and European markets were somewhat weak on account of reduced airlift, this was more than offset by visitor arrivals from the United States market. Especially welcomed was the strong recovery in Grenada following Hurricane Ivan in 2004, which was driven by increased room capacity and airlift, together with robust marketing.

On the other hand, tourism turned in a sluggish performance in Barbados. As a maturing destination, the country has been facing some competitiveness challenges and needs to address issues of product innovation, value for money and product diversification to maintain its niche as a high quality destination. In the Bahamas, the number of tourists declined by around 1 per cent, stemming from a 7 per cent fall in cruise ship passenger arrivals.

**Box 1: The impact of CWC and passport requirements on tourism in the Caribbean**

The holding of the International Cricket Council (ICC) CWC in the West Indies from 13 March to 28 April 2007 was projected to have a major economic impact for the region, both in the short and long terms, especially for the construction and tourist sectors. In total, 51 matches were played with the venues hosted by eight countries, namely Antigua and Barbuda, Barbados (where the final was played), Grenada, Guyana, Jamaica, St Kitts and Nevis, Saint Lucia and Trinidad and Tobago. Substantial sums were invested by these countries to either build new stadiums or refurbish existing ones. Such construction works, along with the expansion of airports, road improvement programs, extension of hospital facilities and the like contributed significantly to economic growth in 2006-2007 for most of these countries. Twelve stadiums were actually built or refurbished at a cost of US$300 million, and governments upgraded infrastructure for a tournament that was expected to attract 100,000 tourists to the region and draw in 2.2 billion viewers world-wide, thus providing world-wide publicity for the region at no promotion costs. The region was expected to rake in US$250 million from ticket sales, concessions, television rights and sponsorship and another US$250 million from visitor spending. In anticipation of the accrued number of visitors, several islands took steps to augment accommodation capacity through the provision of rooms in local residents' homes (home-stay programs). This was also meant to offer tourists a different experience that allowed them to sample local culture through direct contact with locals as well as provide local residents an opportunity to directly soak in the benefits of tourism. An approach that, if successful, was thought could contribute, on the one hand, towards increasing the number of repeat visitors to the island through the forging of local/community ties between visitors and residents and, on the other hand, increasing the number of new visitors as tourists go back with positive experiences and recommend the region to friends and relatives. Cruise ships were also used to provide additional accommodation- up to 18 cruise ships were planned to dock in Barbados during the tournament and similar arrangements were made in Grenada. Some countries, like Jamaica, undertook major promotional campaigns in North America in 2006 in order to attract cricket fans to their countries. In addition, a one-visa program was launched by CARICOM, effective January 15 until May 15, 2007, to facilitate island-hopping by foreign visitors. In sum, the region undertook substantial investments relating to infrastructure and logistics with the expectation of reaping a high return from the CWC. Now the question is: were these expectations met, at least in the tourism sector? An analysis of preliminary tourist statistics from the Caribbean Tourism Organization (CTO) indicates that for five out of the eight countries that held cricket matches, actual stay-over arrivals either fell or showed modest increases in winter (January-April) 2007 compared to winter 2006. From January to April 2007, compared to the same period in 2006, arrivals fell by 1.5per cent in Antigua and Barbuda and 8.9per cent in Saint Lucia, but rose by 2.8per cent in Barbados and 7.3 per cent in Grenada. However for both Barbados and Grenada, the winter increases were higher at 4.5 per cent and 31.2 per cent, respectively, from 2005 to 2006. For Jamaica, from January to March 2007, arrivals fell by 2.1 per cent compared to a similar period in 2006. While these figures are preliminary and need to be considered in conjunction with other indicators such as average daily expenditures by tourists (that are not yet available), they seem to nevertheless potentially indicate that the surge in tourist arrivals as expected by local authorities with the advent of the CWC simply did not materialize. Available data for cruise passenger arrivals, on the other hand, give some preliminary indication that the CWC boosted cruise-ship tourism in the region, despite persistent high fuel costs. From January to May 2007, cruise arrivals jumped by 15.6 per cent in Barbados, 16.1 per cent in Grenada and 52.3 per cent in Saint Lucia compared to a similar period a year earlier, and this is in contrast to a fall of 4.3 per cent , 20.4 per cent and 8.8 per cent , respectively, for the whole annual period 2005-2006. A priori expectations from the CWC were not fully realized. What can then account for such a shortfall in projections? First, it may be hypothesized that tourists that are non-cricket fans actually stayed away from these destinations in anticipation of big crowds and that a substitution effect occurred between traditional sun-sea faring tourists and sports tourists. A second factor could have been actual increase in accommodation prices that caused visitors to stay away. There had been concerns in early 2007 over hotels that were racking up accommodation prices in anticipation of an influx of visitors and the subsequent negative impact that this could produce on the tourism industry, notwithstanding creating perceptions of the region as a costly destination in the media and the long-term effects of this on tourism. A third factor could lie in the negative effect that the Western Hemisphere Travel Initiative (WHTI) passport rules of the United States Government had on tourist arrivals to the Caribbean from the United States. The United States accounts for about 51 per cent of all visitors to the region and is the largest source market. The WHTI, which went into effect after 23 January 2007 called for all United States citizens to have a passport in order to return to the country following travel overseas by air, and it is to be noted that an estimated 90 per cent of United States citizens do not normally hold a passport. This measure in fact discriminates against tourist arrivals by air to the Caribbean region but favors cruise-ship tourism to the region. Furthermore, a study by the World Travel and Tourism Council that was conducted on the potential economic impact of the WHTI on the Caribbean tourism industry estimated that the WHTI could create a loss of 2.6 billion dollars in revenues for the region as well as destroy about 188,300 jobs. Preliminary data by the CTO for 2007 confirms a fall in tourist arrivals from the United States for Antigua, Bahamas, Grenada, Jamaica, Saint Lucia and St Vincent and the Grenadines, in contrast to either registered increases for the whole of 2006 from the United States or in the case of The Bahamas, Grenada and Jamaica in contrast to an upswing in other markets outside of Europe. A fourth factor could have been the early exits of India and Pakistan from the CWC and the non-realization of tourist arrivals from Asia. It seems that in general the numbers expected in attendance at the CWC were over-estimated. While definitive conclusions regarding the impact of the CWC on tourism in the Caribbean will have to await further data, it will seem that the US$300 million spent on stadiums will take longer than expected to be recouped, and even more so if the WHTI is to be maintained.

### 4. Construction

The dynamism in construction from 2005 carried over in 2006, as public and private sector activity continued apace in response to preparations for the CWC in 2007. The construction sector experienced the second fastest pace of growth (11 per cent) behind the mining and quarrying sector (15.6 per cent). Private sector activity was driven by expectations of robust demand from the World Cup in countries hosting matches and focused on hotel construction and renovations. In Saint Lucia, for instance, hotel construction was boosted by significant tax concessions for the sector to expand room capacity for the World Cup and beyond. In the Bahamas, on the other hand, reflecting the continued attractiveness of the country as a tourist destination, hotel construction continued, including the $750 million Ritz-Carlton project on Rose Island. Household home construction was also relatively robust, facilitated by dynamic growth in economic activity and favourable cost and terms of credit in a number of countries.

Public sector investment included the construction and upgrading of cricket stadiums for the CWC, enhancements to road, airports and ports and other infrastructure and public low income housing.

## D. The external sector performance

The English- and Dutch-speaking Caribbean show a wide variety of situations regarding external accounts, that reflect different compositions of the basket of exports of goods and services (tied to differences in economic structures and natural endowments) as well as different policy stances and the accumulated effect of past policy choices. Broadly speaking, the region can be divided on the one hand into medium to large countries that are rich in natural resources (such as Guyana, Jamaica, Suriname and Trinidad and Tobago), where minerals, oil and gas are leading exports; and on the other hand into small economies that are services export-dependent and oil import-dependent (such as The Bahamas, Barbados and the Netherlands Antilles), where tourism and financial intermediation occupy a prominent role in exports. Trinidad and Tobago is the only country in the region that has had surpluses on both its merchandise and current accounts for the past five years (2002-2006). Suriname is the next exception with a merchandise trade surplus in 2004 and 2005 and Aruba joined the ranks in 2006 with a surplus on its visible trade balance and current account. Apart from these, the trend in the region is one of persistent double-digit merchandise and current account deficits.

The merchandise deficit on average grew from 26.8 per cent of GDP in 2002 to 30.6 per cent in 2005 and the current account deficit stood at 15 per cent of GDP in that same period (see table 2 below). Comparative figures for the OECS states usually stand above the averages for the region. Among the OECS States, the merchandise deficit has been above 34 per cent of GDP since 2002 and the current account deficit was above 20 per cent of GDP in most years. In 2006, current account balances improved in Aruba, Barbados, Dominica, Grenada, Suriname and Trinidad and Tobago. Unlike Latin America, economic growth in the Caribbean is accompanied by external deficits in most countries.

In 2006, three countries registered a surplus on both the current account and overall balance of payments: Trinidad and Tobago, Aruba and Suriname. Trinidad and Tobago, with petroleum accounting for more than 40 per cent of its GDP and fuels for more than 70 per cent of its exports, ran a current account surplus for five years in a row and this was most probably associated with an improvement in its terms of trade. The current account surplus reached US$4,655 million (or 25 per cent of GDP) in 2006, representing an increase of 29 per cent compared to 2005. This was largely accounted for by the robust performance of the energy sector. Higher energy prices (namely oil and gas) and chemical prices (namely ammonia, methanol, urea), combined with stronger production volumes led to a surge on the merchandise balance, despite an increase in capital goods imports associated with infrastructural developments on the island. The remaining components of the current account (net services, net income and net current transfers) all shrank in 2006. Rising profits by foreign companies led to increased factor income repatriations. Suriname was not able to capitalize on a commodity-price boom for minerals to boost its export receipts (alumina and gold account for more than 80 per cent of its exports; the country also has a significant oil production capacity). However a sharp decline in import of goods, related probably to the timing of investment projects, accompanied by growth in net transfers, led to merchandise and current account surpluses of US$161 million (10.5 per cent of GDP) and US$115 million (7.5 per cent of GDP) respectively in 2006.

In Aruba, growth in goods exports receipts outstripped growth in imports goods receipts to lead to a surplus on the merchandise account (5 per cent of GDP) for the first time since 2002. This was driven by exports of “machinery and electro-technical equipment”. 2006 was also marked by a significant turnaround in both the current account and capital account owing to the external transactions of the oil sector. In the fourth quarter of 2006, the current account of the oil sector registered a surplus of US$486 million, in contrast to a deficit of US$88 million in the fourth quarter of 2005. Export receipts from refined oil products and goods procured in ports rose by 18 per cent while import payments for crude oil and other goods shrank by 22 per cent. The income account in the fourth quarter of 2006 improved considerably, compared to the fourth quarter of 2005, when a dividend payment in the amount of US$200 million was made abroad. In addition, deficits recorded on the services account and the current transfers account contracted as a result of lower payments made abroad for import-related freight and insurance services. The capital and financial account balance of the oil sector showed a deficit in the fourth quarter of 2006, in contrast to a surplus in the corresponding quarter a year earlier due to an increase in foreign bank deposits of the oil sector. The oil sector sold, on balance, US$5.6 million in foreign exchange to the local commercial banks during the quarter under review. The free-zone sector posted a surplus on the current account in 2006 as well as a result of higher export receipts and lower import payments. The surplus was 127 per cent higher than in 2005. The capital account of the free-zone sector tumbled into a deficit in 2006 as the free-zone companies sold foreign exchange to the local commercial banks. There was a notable increase in the rest of the economy in direct investment inflows as investment activities in Aruba strengthened.

In Trinidad and Tobago and Suriname, the capital and financial account stood in deficit, principally reflecting FDI outflows. In Trinidad and Tobago, outflows on the capital account were large and growing, reflecting an investment by the private sector in foreign assets and securities, especially within the Caribbean region. In Suriname, foreign direct investment shifted from an inflow of U$28 million in 2005 to an outflow of US$163 million in 2006, principally due to repatriations of subsidiary mining firms to parent companies. In both countries, the overall balance of payments remained in surplus, allowing international reserves to rise. In Trinidad and Tobago, gross official reserves rose by 34 per cent from 2005 to 2006 to reach US$6,531 million, which represents an import reserve cover of at least nine months. In Suriname, reserves stood at over two months of import cover. In Aruba, the balance of payments reached a surplus, causing official reserves to rise by 21 per cent at US$400 million, for 2.6 months of import cover.

The other major countries, namely The Bahamas, Barbados, Belize, Jamaica, Guyana, the Netherlands Antilles and the OECS States continued to register structural deficits on the merchandise and current accounts of their balance of payments in 2006. Among these countries, one is a commodity exporter but oil-importer (Guyana), two have a balanced composition of exports between commodities and services (Belize and Jamaica) and all others are almost exclusively oriented to exports of services. However contrary to the rest, Belize and Barbados saw an improvement in their merchandise and current account balances that contributed in 2006 to a small overall balance of payments surplus. The deficits however contracted for very different reasons in these two countries. Belize faced an imminent crisis related to external debt service. In response, a sharp contraction in capital expenditures by the government, together with the start-up of oil exports, along with higher export earnings from sugar and other agricultural produce, strong tourist performance and inward remittances helped to reduce the current account deficit. In Barbados, the counter-cyclical monetary policy that started in 2005 stemmed the widening of the deficit.

The global balance of payments results in both countries were contrasting: Belize experienced a large deterioration on its net capital and financial accounts because of higher loan repayments and lower government external borrowing. The surplus on the current account was more than enough to offset the deficit on the capital and financial accounts to yield a balance of payments surplus in 2006, that was albeit much lower than the one recorded in the past year. Barbados, on the other hand, experienced its largest ever recorded surplus on its capital and financial account, with some successful bond issues on international markets, to see its overall balance of payments switch to a surplus in 2006 at 1.3 per cent of GDP. As at September 2006, Belize had reserves worth US$76 million to cover 1.6 months of imports. Reserves for Barbados grew by 4.5 per cent to stand at US$ 931 million, and this covered three months of imports.

The Bahamas, Guyana, Jamaica, the Netherlands Antilles and most of the OECS countries (except for Dominica and Grenada) witnessed deteriorations in their current account deficits in 2006. The deficit tended to widen as a result of import-intensive economic growth, and a rise in imported fuel prices. Overall, however, with the exception of the Bahamas and the Netherlands Antilles, these countries managed to end 2006 with an overall balance of payments surplus and higher international reserves.

In the Bahamas, rising oil prices and a strong consumer demand contributed to a widening of the trade deficit; this coupled with a significant contraction of net services receipts due to a weakening of the tourism sector and due to significant outlays on construction services associated with foreign investment projects, fed into a widening of the current account deficit by 85 per cent to US$1,582 million (30 per cent of GDP) in 2006. Guyana’s current account remained in deficit in 2006 at US$181 million (20.5 per cent of GDP), an increase of 14.6 per cent compared to 2005. While merchandise exports grew with contributions from most commodity sectors, the surge in goods imports in the wake of post-flood reconstruction, CWC preparations and higher fuel prices led to a widening of the trade balance deficit to 31.5 per cent of GDP. The growth in services deficit by 34 per cent due to travel outflows and higher freight costs, coupled with a deterioration in the net income balance owing to debt payments, were more than enough to offset the growth in net transfers stemming from larger remittances, to widen the current account deficit.

In Jamaica, the current account deficit grew by 1.7 per cent to US$1,097 million (10.6 per cent of GDP), explained by a deterioration of the merchandise balance. While growth in merchandise exports was strong at 29.5 per cent , led by growth in both traditional (alumina-bauxite) and non-traditional sectors, it was not enough to offset the 19.2 per cent growth in merchandise imports that was driven by higher fuel prices and larger purchases of machinery and transport equipment. Throughout the OECS, merchandise trade and current account deficits in general were recorded on account of higher fuel imports, stronger consumer demand for imports and public construction activities. In the Netherlands Antilles, the deterioration of the current account in 2006 was very marked and reflected in part larger goods imports from free-zone companies as they replenished inventories, growth of the tourism sector and larger domestic spending.

While the Bahamas experienced a surge in its net capital flows driven mainly by higher direct investment, net loan receipts from private investments and short-term capital flows through the domestic banking system, this was not enough to offset the burgeoning current account deficit. As a result the balance of payments was in deficit. Net international reserves fell by US$79 million to US$500 million, and this was enough to cover 14.6 weeks of non-oil merchandise imports. Guyana's current account deficit was financed by capital and financial net inflows, which came from public sector loans, debt relief and increased foreign direct investment. The balance of payment surplus stood at US$45 million (5 per cent of GDP), and this was almost six times larger than the one registered in 2005. This allowed net international reserves to grow by 11 per cent for the year to US$278 million for an import cover of three months. In Jamaica, the surplus on the capital and financial account offset the current account deficit, resulting in a balance of payments surplus for three consecutive years at 2.3 per cent of GDP. While net private investment (direct and portfolio) fell, official investment grew by 46 per cent, and included the proceeds from a US$250 million 30 year government bond sold on international capital markets. As a result, net international reserves grew by 11 per cent to US$ 2,317 million in 2006, representing 18.2 weeks of import cover.

In summary, in these three countries, the current account deficit was totally or partially covered by a combination of FDI (the Bahamas); bond issues on international capital markets (Jamaica); and debt relief (Guyana). For the Netherlands Antilles, the current account deficit was largely financed by development aid. Within the OECS/ECCU, reserves by the end of 2006 increased to US$700 million and this exceeded three months of import cover. The balance of payments shifted to a surplus in 2006, as a result of a strong performance on the capital and financial account, in large part due to a surge of 60 per cent that year in FDI allocated in tourism-related construction projects.

**Table 2**
**Balance of payments, 2000-2006**

| | Merchandise Balance as a % of GDP | | | | | Current Account Balance as a % of GDP | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006p | 2002 | 2003 | 2004 | 2005 | 2006p |
| Anguilla | -50.6 | -53.8 | -56.5 | -59.1 | -71.4 | -32.4 | -37.4 | -32.0 | -31.7 | -40.9 |
| Antigua and Barbuda | -15.3 | -15.1 | -14.7 | -13.1 | -14.5 | -5.6 | -5.0 | -3.8 | -2.5 | -6.1 |
| Aruba | -27.8 | -17.3 | -13.2 | -0.5 | 4.8 | -17.5 | -7.8 | 0.2 | -9.0 | 8.9 |
| The Bahamas | -24.6 | -24.2 | -25.0 | -30.7 | -31.5 | -7.8 | -8.6 | -5.3 | -14.2 | -25.4 |
| Barbados | -28.3 | -29.7 | -34.4 | -35.1 | -29.2 | -6.8 | -6.3 | -11.9 | -12.5 | -8.4 |
| Belize | -20.1 | -20.9 | -16.5 | -21.4 | -15.2 | -17.8 | -17.9 | -14.2 | -13.6 | -2.4 |
| Dominica | -22.9 | -24.3 | -29.2 | -34.3 | -21.9 | -17.6 | -15.9 | -20.8 | -25.9 | -23.2 |
| Grenada | -33.5 | -40.2 | -40.5 | -48.1 | -41.0 | -30.0 | -31.9 | -8.1 | -33.5 | -30.0 |
| Guyana | -9.4 | -7.9 | -7.3 | -22.2 | -31.5 | -15.3 | -12.2 | -8.9 | -19.1 | -20.1 |
| Jamaica | -21.8 | -23.6 | -21.9 | -27.0 | -28.5 | -12.5 | -9.4 | -5.7 | -11.3 | -10.6 |
| Montserrat | -60.1 | -75.8 | -70.3 | -80.0 | -54.7 | -27.0 | -20.8 | -21.9 | -35.8 | -34.9 |
| Netherlands Antilles | -35.1 | -34.7 | -38.5 | -40.8 | -43.6 | -2.0 | 0.1 | -2.8 | -3.2 | -8.0 |
| St. Kitts and Nevis | -32.1 | -32.7 | -25.7 | -31.6 | -34.9 | -35.4 | -32.1 | -22.4 | -24.0 | -26.7 |
| St Lucia | -28.8 | -14.0 | -31.6 | -37.3 | -40.3 | -14.9 | -19.6 | -11.0 | -17.0 | -21.2 |
| St. Vincent and the Grenadines | -31.9 | -35.8 | -38.5 | -37.4 | -47.9 | -11.4 | -20.8 | -24.0 | -23.2 | -28.3 |
| Suriname | 5.5 | -3.0 | 3.7 | 1.7 | 10.5 | -6.3 | -13.8 | -11.9 | -10.7 | 7.5 |
| Trinidad and Tobago | 2.6 | 11.5 | 11.9 | 26.2 | 28.9 | 0.8 | 8.8 | 12.8 | 23.8 | 25.6 |
| Turks and Caicos | -48.8 | -42.5 | -49.4 | -60.2 | .. | .. | .. | .. | .. | .. |
| ECCB-OECS | -34.1 | -37.9 | -35.8 | -38.5 | -39.8 | -20.2 | -21.9 | -14.3 | -19.4 | -23.8 |
| Average | -26.8 | -26.9 | -27.6 | -30.6 | -11.7 | -15.3 | -14.7 | -11.3 | -15.5 | -8.5 |

**Source: ECLAC, on the basis of official data.**
**Note: (a) Figures for GDP at market prices for ECCB countries used to calculate the percentages are from the ECCB National Account Statistics, unless otherwise stated; and (b) GDP figures in US$ used for Belize, Jamaica, and Suriname to calculate percentages are from the World Bank Development Indicators**

## E. Fiscal policy

The region's fiscal position strengthened in 2006, buoyed by growth in GDP and improved economic conditions. Dynamic revenue growth outstripped growth in expenditure resulting in an overall surplus (simple average) of 1.3 per cent of GDP. At the same time, the primary surplus rose from 6.02 per cent to 6.31 per cent of GDP. In addition to the impetus from improved tax buoyancy, some of the more fiscally stressed economies made concerted efforts at fiscal consolidation during the year. Total revenue expanded by 16.6 per cent, its fourth consecutive year of positive growth. Tax proceeds were up by almost 20 per cent, to 30.3 per cent of GDP, reflecting strong growth in intakes from both income tax and indirect taxes. Tax revenue as a percentage of GDP has been growing over the last five years and this buoyancy of the tax take is essential to efforts at fiscal consolidation and restructuring in the region.

On the other hand, total expenditure for the Caribbean shifted upwards to 31.9 per cent of GDP making this year the second in a row that total revenue as a percentage of GDP has exceeded the ratio for total expenditure. Average outlays on wages and salaries, an important more or less non-discretionary lien on spending, fell from 9.1 per cent of GDP to 8.8 per cent of GDP. Meanwhile, in a year when demand for goods and materials remained dynamic in response to preparations for CWC and other activities, outlays on goods and services rose to 3.6 per cent of GDP. Reflecting in part the use of higher receipts to retire debt, debt relief and restructuring in some countries, interest payments shifted downwards from 5.9 per cent of GDP in 2005 to 5 per cent of GDP in 2006. On the other hand, capital spending increased by over 28 per cent in 2006, due to robust construction investment.

The fiscal stance improved in the majority of countries, especially Trinidad and Tobago, Suriname, and Guyana, whose revenues where favoured by still high international prices of oil, gas and minerals. On the contrary, Jamaica, the ECCU and the Netherlands Antilles showed a weaker fiscal position. Trinidad and Tobago recorded a fiscal surplus of 6.5 per cent of GDP. Similar to the economies of Latin America that are abundant in natural resources (i.e. Bolivia, Chile and Peru), the country benefited from strong oil prices and higher returns from natural gas due to a large expansion in exports, even though prices were lower than in 2005. This facilitated an increase in revenue that reached 33.6 per cent of GDP, which largely outpaced expenditure (27.1 per cent of GDP). Critically, as part of a strategy to cater for depletion of fuel stocks in the future and to provision for future generations, the government created the Heritage and Stabilisation Fund (HSF), which would accumulate or reduce funds accordingly, as energy prices exceeded or fell short of budgeted targets[1].

Belize experienced a welcomed improvement in its fiscal position following the severe fiscal challenges of recent years. The overall fiscal deficit contracted to 1.7 per cent of GDP in 2006 from 4.3 per cent of GDP in 2005. Tax receipts improved thanks to higher proceeds from the general sales tax (GST) and taxes on income and profits. The GST which replaced the sales tax, was set at a rate of 10 per cent and has a wider base than the sales tax. Meanwhile, growth in spending was held in check due to the containment of public sector wages and reduced debt servicing, following debt restructuring.

Suriname also saw somewhat of a turnaround in its fiscal position, achieving a surplus for the first time since 2003. The finances were bolstered by a reduction in spending in the wake of buoyant revenue growth. Nevertheless, the fiscal outturn continued to be heavily dependent on commodity prices, with the resultant risks that this presents. Similar to Trinidad and Tobago, the government plans to introduce a Mineral Resource Stabilisation Fund (MRSF), which should help to cushion the effects of shocks from mineral prices on public finances.

Guyana also turned in a welcomed fiscal improvement, with the deficit declining as a percentage of GDP. The public finances benefited from improved revenue administration, especially the Integrated Financial Management and Accounting System (IFMAS) and debt forgiveness under the Multilateral Debt Relief Initiative (MDRI).

Aruba and the Bahamas also recorded improved fiscal positions associated with rising tax receipts relative to expenditure. In Aruba, the deficit came down from 3.1 per cent of GDP in 2005 to 2.8 per cent of GDP in 2006 as a result of higher intake from taxes on commodities, income and import duties. Meanwhile, expenditure remained flat at 25.6 per cent of GDP. The government is targeting a balanced budget by 2009, built primarily on a current account surplus. To assist in this effort, a turnover tax is to be introduced in 2007 to enhance receipts. Similarly,

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[1] See fuller section on the fund in country note on Trinidad and Tobago under the fiscal policy section.

in the Bahamas the stronger fiscal position was built on improved tax efficiency, with the new Tax Compliance Unit helping to streamline tax administration. Tax receipts rose by 1.6 per cent of GDP bolstered by import duties and stamp tax.

The fiscal challenge in the ECCU continued in 2006. The authorities have been trying to make fiscal operations more transparent and structured to contain expansion and drive towards consolidation. Nevertheless, policy was expansionary in 2006 as the overall deficit doubled to 4.2 per cent of GDP. Although the subregion achieved a current surplus, this was countered by galloping capital spending, which expanded by 33.3 per cent to reach 9.7 per cent of GDP. Capital works focused on preparations of cricket stadiums for the CWC, roads, utilities and affordable housing.

Following some contraction in 2005, fiscal policy in Jamaica was expansionary in 2006. The central government deficit shifted upwards to 5.65 of GDP, exceeding the budgeted target of 4.2 per cent of GDP. Revenues posted commendable growth in line with government's aim of fiscal consolidation. However, this was surpassed by the hike in spending both on wages and interest payments and also capital projects linked to CWC.

Meanwhile, in the Netherlands Antilles, fiscal dynamics were a little different, as the worsening deficit stemmed from relatively faster decline in revenues compared with expenditure, which also fell. Revenues were pulled down by a fall in non-tax receipts linked to the transfer of dividend tax to the central government. Expenditure declined as a result of a reduction in net lending and capital transfers.

**Table 3**
**Selected fiscal Measures and Impacts in 2006**

| Countries | Revenue | | Expenditure | |
|---|---|---|---|---|
| | Direct Taxes | Indirect Taxes | Current | Capital |
| Bahamas | | Electronic Tax Systems introduced, capturing an extra 1.6% of GDP, even though no new taxes introduced. | | |
| Barbados | Basic Tax Rates cut from 25% to 20% Bracket broadened from BDS$20000 to BDS$22500. | | 7.9% increase in goods and services purchases related to recurrent themes e.g., road maintenance, Barbados Drug Service and the Coastal Infrastructure programme. | 3.2% drop in Capital Spending, reflecting extra budgetary spending related to CWC. |
| Belize | | General Sales Tax (GST) introduced. | Public Wage increases restricted in light of debt restructuring exercises | |
| British Virgin Islands | US$254 million expected in taxes and fees. | Tax exempt status rose from US$7500 to US$10000. | Current surplus of US$ 30 million expected for 2006. | Most of current surplus earmarked for capital projects. |
| Guyana | Improved tax administration increased current revenue by 1% of GDP. | | Fiscal deficit shrinks by a percentage point of GDP. Interest payments on public debt halved to 2.5%. US$254 million written off under the Millennium Debt Relief Initiative. | |
| Jamaica | | | Expenditure grew by 3.6 GDP points to reach highest levels since 2003; Public Debt Stock increased 9.3% to US$925.8 billion or 133.2% of GDP | |
| Suriname | Staatsolie's US$ 100 million contribution to revenue increased by 25% over 2005. | | Spending cut from 29.5% of GDP to 26.7%, resulting in a 2.4% of GDP fiscal surplus. | |
| Trinidad & Tobago | Fiscal surplus stood at 6.5% of GDP. | Heritage & Stabilization Fund created out of interim Revenue Stabilization Fund. | Expenditure rose by 1.2% to 27.1% of GDP. | |
| **Source: ECLAC, on the basis of official information.** | | | | |

## 1. Debt in the Caribbean

Debt overhang and fiscal drag remained two of the most important challenges confronting Caribbean economies. This puts squarely on the front burner the need for fiscal consolidation and the achievement of sustainable levels of debt consistent with economic adjustment, restructuring and transformation necessary for catalyzing growth and development in the region.

In 2006, the debt challenge continued to manifest itself in various indicators. The average public external debt of the Caribbean contracted from US$ 829 million in 2002 to US$ 749 million in 2006. Meanwhile, public external debt to GDP averaged 56.2 per cent of GDP during the last five years. Nevertheless, this average masked wide disparities in debt burdens as, while some countries were able to bring down their debt levels by fiscal consolidation, debt restructuring and debt write-offs, debt levels expanded in others on account of factors varying from borrowing on commercial terms, public sector wage settlements and accelerated public capital spending associated with the upgrading of public infrastructure.

The external debt to GDP ratio fell from 53.7 per cent in 2005 to 52.4 per cent in 2006 and averaged 56.2 per cent of GDP for the last five years (table 4). Changes in external debt levels were fairly balanced with debt ratios increasing in six countries and decreasing in seven. In Antigua and Barbuda, in spite of efforts at debts consolidation, including the reintroduction of income tax, reduced tax concessions and improvements in 2006, the external debt ratio increased from 36 per cent of GDP in 2005 to 48.7 per cent of GDP in 2006. There was also a sizeable increase in the ratio in Dominica and increases in the other independent ECCU member States. The growth in the debt ratio in the ECCU member States, despite decent growth in GDP in most of them, points to the more rapid contracting of debt, particularly in a year of above average public sector activity in preparation for CWC. Nevertheless, the ECCU member States face a real challenge of long-term debt sustainability given the important role that the State plays in the economy and challenge of building up infrastructure and supporting services, especially education and training to fuel growth. Importantly, the external debt contracted in Guyana and Jamaica, two of the most heavily indebted (both external and domestic debt) countries in the region. Guyana benefited from debt relief of US$ 254 million under the MDRI which helped to bring down the debt ratio from 143.1 per cent of GDP in 2005 to 107.8 per cent of GDP in 2006. Meanwhile, with higher growth in output the external debt ratio fell to 43.7 per cent from 53.3 per cent in 2005. Indeed, Jamaica contracted higher levels of external debt with the issue of a US$ 250 million Eurobond, but this was offset by growth in the economy.

**Table 4**
**Public sector external debt to GDP ratio for selected Caribbean countries**

| Countries | 2002 | 2003 | 2004 | 2005 | 2006 | Average 2002-06 |
|---|---|---|---|---|---|---|
| | | | | | | |
| Antigua and Barbuda | 60.78 | 65.42 | 64.39 | 36.01 | 48.71 | 56.03 |
| Bahamas | 5.74 | 6.61 | 6.07 | 5.70 | 5.31 | 6.11 |
| Barbados | 29.60 | 27.39 | 27.97 | 29.18 | 31.69 | 28.23 |
| Belize | 69.90 | 83.24 | 86.50 | 87.29 | 81.77 | 73.90 |
| Dominica | 79.07 | 83.29 | 72.73 | 69.39 | 78.50 | 72.00 |
| Grenada | 63.78 | 62.56 | 77.26 | 79.36 | 85.06 | 62.87 |
| Guyana | 185.76 | 154.92 | 141.58 | 143.12 | 107.84 | 156.12 |
| Jamaica | 51.33 | 51.18 | 58.01 | 53.28 | 43.71 | 50.20 |
| St Kitts and Nevis | 74.33 | 87.13 | 76.11 | 66.37 | 70.95 | 69.61 |
| St Vincent and the Grenadines | 46.74 | 51.98 | 53.72 | 55.17 | 56.47 | 51.75 |
| Saint Lucia | 34.91 | 43.42 | 43.07 | 39.70 | 41.26 | 36.59 |
| Suriname | 38.84 | 34.04 | 29.72 | 25.03 | 22.39 | 34.31 |
| Trinidad and Tobago | 17.20 | 13.82 | 10.76 | 8.81 | 6.95 | 13.51 |
| **Source: ECLAC based on official data** | | | | | | |

Notably, the debt situation in Belize also improved thanks in part to new receipts of oil revenues and efforts at fiscal consolidation, including debt restructuring measures.

Debt servicing continued to pose a serious challenge to growth and productive capacity in the region in 2006, as these costs diverted scarce resources that could have been devoted to the promotion of growth and social spending.

## F. Monetary policy

In 2006, monetary policy in the region was conducted watching the evolution of the balance of payments and fiscal policy. It was in most cases contractive and based on the common situation for all the countries under consideration that monetary policy took place in an environment of improved macroeconomic fundamentals and conditions.

Net foreign assets growth was a result of, on one hand, high export earnings from booming commodity prices of especially oil and other non-oil minerals (e.g. gold, aluminum) and, on the other hand, increased revenues from services (e.g. tourism and financial services) and net foreign capital inflows (Barbados). Although money supply growth from this source is commonly accepted as positive, most of the countries had a prudent approach regarding the effects of high foreign exchange inflows on the internal economy (e.g. inflation, exchange rate appreciation).

In the light of increased revenues as a result of high commodity prices and increased expenditures (for instance with regard to CWC), illustrated by vast public and private sector investments in infrastructure and lodging facilities, an increase in credit was expected to result in excess liquidity. This led to an increased demand in some countries (e.g. Bahamas, Guyana and Trinidad and Tobago).

In many underdeveloped financial markets in the Caribbean, market-oriented monetary policy instruments did not achieve the target results in many of these imperfect competitive markets. Most of these instruments were used to control credit expansion and ultimately to prevent or mitigate excessive money creation, in order to keep aggregate demand and prices stable. A variation of price instruments such as discount rates and interest rates (Barbados, Guyana, Jamaica and Trinidad, Netherlands Antilles), were applied sometimes in conjunction with other instruments, such as reserve requirements (Barbados, Suriname, Trinidad, Aruba and Netherlands Antilles), open-market operations (Jamaica and the Netherlands Antilles) and forex sales (Trinidad and Tobago) to ultimately constrain domestic demand.

The Central Bank of Barbados increased the discount rate for commercial banks from 10 per cent to 12 per cent, while the discount rate for open-market operations in the Bahamas remained at 5.25 per cent. This measure, however, did not prevent total credit growing by 11.8 per cent, which is more than the 9.1 per cent in 2005.

In Barbados the minimum deposit rate went from 4.75 per cent to 5.25 per cent. Authorities are in the process of aligning this deposit rate to the United States Federal Funds Rate to prevent capital flight stemming from interest rate differentials. This and previous adjustments of the deposit rate, ultimately resulted in the rise of commercial banks' lending rates. In Guyana and Suriname, commercial banks' interest rates remained in a declining trend (table 5).

Despite the decline in interest rates on open market operations in Jamaica, bearers of these Jamaican dollar denominated instruments did not reject them. In the Netherlands Antilles, interest rates on government bonds were increased, in order to compete with returns from alternative foreign investment products. As in the Netherlands Antilles, in Trinidad and Tobago liquidity absorption through significant long-term bonds issuance was a great success. Sterilization of the proceeds subsequently caused inflation to decline.

The reserve requirement instrument was successful in the efforts of Suriname, Aruba and the Netherlands Antilles to curb credits.

Improving macroeconomic conditions eventually urged the Central Bank to reduce Surinamese dollar cash reserve requirement percentages. In contrast to that, authorities increased percentages in Aruba and the Netherlands Antilles.

In the case of Trinidad and Tobago, foreign exchange sales to the market proved to be very effective as an instrument to absorb excess liquidity, which eventually led to increases in commercial bank interest rates. A possible area of concern is the widening of the interest spread.

In line with strong economic growth performances in the region, credit to the private sector increased significantly in 2006.

**Table 5**
**Commercial banking nominal interest rates, 2003-2006**

| | Deposit rates | | | | Lending rates | | | |
|---|---|---|---|---|---|---|---|---|
| **Country** | **2003** | **2004** | **2005** | **2006** | **2003** | **2004** | **2005** | **2006** |
| Antigua and Barbuda | … | … | … | … | 13.4 | 11.3 | 12.6 | … |
| Bahamas | 3.93 | 3.78 | 3.21 | 3.36 | 12.04 | 11.25 | 10.35 | 9.97 |
| Barbados | 2.60 | 2.50 | 4.10 | 5.70 | 10.20 | 9.80 | 10.60 | 10.90 |
| Belize | 4.90 | 5.16 | 5.50 | 5.80 | 14.20 | 14.00 | 14.25 | 14.20 |
| Dominica | 3.31 | 3.25 | 3.56 | … | 9.50 | 9.33 | 9.25 | … |
| Grenada | 4.10 | 3.80 | 3.50 | … | 9.30 | 9.00 | 9.00 | … |
| Guyana | 3.80 | 3.40 | 3.40 | 3.19 | 16.60 | 16.60 | 14.50 | 14.54 |
| Jamaica | 8.30 | 6.70 | 5.90 | 5.30 | 25.10 | 25.10 | 23.20 | 22.00 |
| St Kitts and Nevis | 4.25 | 4.25 | 4.21 | … | 9.75 | 9.42 | 8.73 | … |
| St Vincent and the Grenadines | 4.00 | 3.90 | 3.80 | … | 10.00 | 9.80 | 10.00 | … |
| Saint Lucia | 4.00 | 3.90 | 3.90 | … | 9.90 | 9.80 | 9.80 | … |
| Suriname | 8.30 | 8.30 | 8.00 | 6.70 | 21.00 | 20.40 | 18.10 | 15.70 |
| Trinidad and Tobago | 2.90 | 2.40 | 1.70 | 2.90 | 11.00 | 9.40 | 9.10 | 9.60 |

**Source: ECLAC, on the basis of official data.**

**Table 6**
**Monetary policy and indicators in the Caribbean in 2006**

| Country | Interest Rate Changes | Domestic Reserve Requirements | International Reserves |
|---|---|---|---|
| Bahamas | Lending rates unchanged. Deposit rates increased. | Moral Suasion undertaken to convince banks to be cautious with credit supply. | |
| Barbados | Minimum deposit rate rose from 4.75% to 5.25%, announced to be converging with the US federal fund rate to prevent capital flight. Discount rate on temporary advances to commercial banks rose from 10% to 12%. | | Reserve Requirement of 6% of foreign currency deposits created as result of the gradual liberalization of capital account. |
| Belize | Lending rates dropped slightly, while deposit rates rose. | Legal reserve requirement raised by 1% | International Banking Act implemented |
| Guyana | Average lending rate fell 38 basis points to 13.1% whereas the prime lending rate remained unchanged. The small savings rate fell 19 basis points to 3.2% | | Net foreign assets in banking system grew 31%, reflecting both commercial and National increases. The exchange rate increased by 1.1% |
| Jamaica | Deposit rates and mortgage rates moved downward. | Secondary reserve requirement of 2002 lifted. | Year-on-year exchange rate with the US dollar fell from J$64.67 to J$67.02. |
| Suriname | Average lending rated dropped from16.3% to 15.3%. Deposit rates fell from 6.7 per cent to 6.6 per cent | Legal reserve requirements for local currency deposits dropped from 30% to 27%. Foreign currency reserve requirements remained at 33.3%. | Rising import prices and growing foreign exchange inflows suggest appreciation in real exchange rate. |
| Trinidad and Tobago | Rates on commercial mortgage loans rose between 25 and 125 basis points. Treasury bond rates raised 55 basis points. | Legal Reserve Requirement raised and commercial banks were asked to deposit funds into an interest bearing account at the central bank. | Central Bank sold more than US$1.5 billion to absorb liquidity. |
| **Source: ECLAC, on the basis of official information.** | | | |

## G. International trade negotiations and economic integration

### 1. Caribbean Single Market and Economy (CSME)

The major intraregional integration issue for the past year was the formalization of the Caribbean Single Market (CSM) that was officially formed as of 1 January 2006. Six members originally came on board, including Belize, Guyana and Suriname, along with Trinidad and Tobago, Barbados and Jamaica which have been piloting the CSM since 2004. OECS States were reluctant to commit to the framework as there were issues pertinent to their welfare that felt needed reviewing. The OECS States came on board only after sufficient progress was made concerning the issues of the Regional Development Fund (RDF), along with the issue of land ownership restrictions in smaller islands. Membership was then increased to 12 with the inclusion of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines joining the CSM on 3 July 2006.

There have been some success stories with the CSM, but as of 2006, doubt still lingered as to the ability of the Caribbean Community (CARICOM) to implement the Caribbean Single Economy (CSE) by the proposed deadline of 2008. The Governor of the Central Bank of Trinidad and Tobago stated that efforts toward the 2008 startup of the CSE were hampered by the as yet unfulfilled requirements for the formulation of a regional strategic sectoral plan, the adoption of a regional investment code, a regime of harmonized fiscal incentives, and a framework for the development of the regional capital market. In addition, he felt that the process was further hampered by the failure of the region's governments to achieve economic and monetary convergence.

**2. CSME regional development fund**

The removal of restrictions on intraregional trade to enable the operation of the CSME would open some OECS countries to competitive disadvantages, specifically to lower cost, higher volume manufacturers from Jamaica and Trinidad and Tobago. Thus the formulation of the RDF is a critical step in the integration process. Indeed, it was not until the size and allocation priorities of the Fund were satisfactory, that the OECS States warmed up to the CSME. The RDF would serve to ease some of the 'growing pains' faced by OECS States over a period of adjustment, and has served as a major incentive for the less-developed OECS States to participate in the CSME. The institutional structure for the Fund, which is still very preliminary, was proposed in November 2005. The RDF has a capitalization goal of US$ 250 million, for which Trinidad and Tobago pledged the initial contribution of approximately US$20 million. One other policy suggestion is that the RDF could be used as the facilitating factor for the EU development-oriented contributions under an Economic Partnership Agreement (EPA), i.e. CARICOM should attempt to get the EU to contribute to funding adjustment in the Less Developed Countries (LDC) through the RDF.

**3. OECS economic union**

The OECS announced its plans to undertake the formation of a full economic union. The signing ceremony took place during the official opening of the 43rd Meeting of the Authority in St. Kitts and Nevis on 21 June 2006 during which the New Draft Treaty of the OECS was unveiled. The Treaty outlines the steps towards the Economic Union. Signatories included Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines. The decision to do this was taken to strengthen cooperation among the respective States in order to continue social and economic development in a challenging global environment. The idea of Full Economic Union is seen among OECS members as the natural evolution of the Treaty of Basseterre. They were encouraged to do so not only by the success of that Treaty, but also by the realization that, though an integral part of CARICOM, the OECS has social and economic needs distinct from that group, and thus feel they should pursue an independent course. The deadline for the Union's establishment is 1 July 2007.

### 4. Caribbean Court of Justice

The Caribbean Court of Justice (CCJ) continues to act in its capacity as the main arbiter for trade disputes within the CARICOM bloc, as executor of jurisdictive interpretation of the Treaty of Chaguaramas. The first case heard by the CCJ was in August 2005, which was to settle a 'decade-long' libel court case from Barbados. The Court also has an appellate jurisdiction which is recognized by Guyana and Barbados, which has replaced the Privy Council with the CCJ as their highest court.

### 5. Haiti returns to CARICOM fold

Following the controversial removal of Jean-Bertrand Aristide as Haiti's Head of State in 2004, CARICOM ceased inviting Haiti's United States-backed interim administration to deliberations. After two years of doubt, and the election of President Rene Preval, Haiti was welcomed back into the CARICOM fold in June 2006. Preval himself holds the record as the sole elected president to have served a full five-year term since Haiti became an independent nation in 1804. Caribbean leaders had opted for Haiti's return to the grouping only on the grounds that the presidential and parliamentary elections held earlier this year were free and fair and truly reflected the wishes of the people of this country.

Because it was unable to participate in any of the deliberations regarding the CSME for over two years, Haiti may seek protection from the Revised Treaty of Chaguaramas that governs the CSME and also provides for a certain level of protection for disadvantaged countries within the grouping. Like the smaller islands of OECS that have been clamouring for the establishment of the multi-million-dollar RDF to help cushion the effects of the CSME on their open economies, Haiti may well seek solace in that initiative.

### 6. Energy markets

With the adoption of the PetroCaribe deal by 13 of 15 CARICOM countries, it remains the largest single energy issue in CARICOM. The deal is designed to provide relief to Caribbean States from high oil prices in the form of payment deferral. The deal was welcomed in CARICOM especially by Jamaica whose energy import bill was under increasing pressure. The venture was launched in June 2005. As of 2006, many unresolved analytical issues still remained. Significantly, the CARICOM Secretariat was asked to investigate whether member countries signing the PetroCaribe agreement were breaking CARICOM rules conditioning bilateral arrangements. The nature of the PetroCaribe deal, it was felt, implicitly gave Venezuela the status of 'most favoured nation' with CARICOM.

The deal itself, while praised in CARICOM quarters for alleviating immediate debt constraints and allowing greater flexibility for States to focus on recurrent expenditure and new investment, has come under international scrutiny. Trinidad and Tobago has warned the deals' participants that the country's oil production can be absorbed elsewhere, and could not guarantee supply resumption if PetroCaribe failed. Issues concerning the ability of the participants to transport and store petroleum products remained unresolved. The United States continues to doubt the deal's sustainability and has stated that the deal's major objective is to gain political clout in the region. Extraregionally, it is felt that PetroCaribe and other similar Venezuelan projects are creating an unfairly gained economic and political imbalance favouring Venezuela.

Another major consideration in the CSME Energy Sector is the formulation of the Caribbean Energy Policy. Over 2006, much technical work had been done in the forms of the CARICOM Task Force on Regional Energy Policy, the Trinidad and Tobago Regional Energy Plan, and the Caribbean Renewable Energy Development Programme (CREDP) Project Pipeline, among others. The scope of these projects is broad and includes legislation for conventional and renewable energy sources, market regulation, intra- and extraregional energy negotiations and downstream initiatives.

The basis for integration in the Caribbean energy sector and indeed for the wider CSME was put to the test in February 2007 with the dispute over Liquified Natural Gas (LNG) between Trinidad and Tobago and Jamaica. The 2004 agreement for Trinidad and Tobago to supply Jamaica with 1.1 million tons of LNG per year starting in 2008 had to take a back seat to the realities of the constraints involved in LNG supply, as Trinidad and Tobago stated it could not go through with the agreement owing to insufficient gas reserves. The Jamaican private sector, understandably, did not take this news well as it was hoped that Caribbean LNG would have lessened the financial impact of energy prices, and eventually accepted an offer by Hugo Chavez for 150 mcf/d of natural gas by 2009. Though both parties were understanding toward each other in the aftermath of the event, with Trinidad and Tobago even agreeing to process some Venezuelan gas into LNG for Jamaica, the incident left behind many questions about the unity of CARICOM and the CSME.

## 7. Labour and capital international mobility

Labour mobility is essential to the consolidation and development of the CSME. Indeed, the agreement includes different measures to encourage the free movement of workers within the CSME Zone. In addition, some OECS States are subject to preferential treatment, so that they are not required to reciprocate allowing other member countries' workers in their territories, on the grounds that this would deteriorate domestic labour conditions for national workers. Efforts to harmonise academic certification, travel documents and landing documents across the region continue. It is clear that many intraregional opportunities exist for CSME workers, but it is expected, based on prior experience, that skilled workers and university graduates would benefit most from free movement laws. Suriname, St Kitts and Nevis, St. Vincent and the Grenadines and Grenada have all issued CARICOM passports.

The CSME would require reducing or even removing any controls to international capital flows between the member countries. Indeed, Rights of Establishment laws already in place allow the establishment of businesses in all CSME sectors regardless of the national origin of the enterprises. And country members are committed not to impose any new sectoral restrictions on any CSME firm. Companies will also benefit from free movement of labour as this will allow them to appoint their skilled workers to any subsidiary within the CSME.

## 8. Extraregional issues

### (a) Regional EPA negotiations

The deadline for completing EU-CARICOM EPA negotiations, at least in outline, was July 2007. Towards the end of 2006, certain fundamental issues, such as regional geometry, the nature of tariff reduction commitments that would have been made, the position of sugar and bananas in the EPA, as well as the negotiating deadline, central to reaching consensus with Europe were yet to be resolved. This places immense pressure on negotiators to raise relevant issues in full, but Caribbean heads of government agreed that all efforts to comply with the agreed schedule should be undertaken, as long as the region's interests were fully addressed. This means that the preordained schedule for completion of all EPA negotiations by 2007 remains. Specifically, consensus would be required on region-wide tariff reduction schedules, establishing a form of variable geometry that legally includes the economic peculiarities of the Dominican Republic, The Bahamas, Haiti, and the OECS, resolving if and how new deals for sugar and bananas would be incorporated into the EPA, and achieving a consensus on service liberalization.

During the week of 10 July 2006, a session of the World Trade Organization (WTO) Council for Trade in Goods (CTG) was convened in Geneva. Two topics significant to the Caribbean were discussed: (i) the extension of preferences (the Caribbean Basin Economic Recovery Act (CBERA) was included in this discussion); and, (ii) The European Community's (EC) request for an extension of the waiver for the tariff rate quota for bananas of the Africa, Caribbean and the Pacific (ACP) countries.

This issue was the extension of the respective waivers, which did not yield a positive outcome, with the approval of the waiver request being blocked because of diverging views on this issue. The matter will again be raised at the next meeting of the CTG. Ironically and perhaps a sign of the times, on 12 July 2006, the CTG approved the European Community's request for a waiver on its trade preference scheme for the Western Balkans, and agreed to forward it to the General Council for adoption. The draft decision sent to the General Council noted the "exceptional situation" in Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro and the Former Yugoslav Republic of Macedonia.

The July 2007 deadline for completion of EPA negotiations has since passed, with officials expecting a September or October finish, enabling a ministerial meeting between the EU and CARICOM in November. The latter regional bloc, according to Ambassador Richard Bernal, Director General of the Caribbean Regional Negotiating Machinery (CRNM), nevertheless remains committed to completing negotiations on schedule.

## 9. Trade agreements

### (a) CBERA (CBI) and CARIBCAN

The obsolescent Caribbean Basin Initiative (CBI) and CARIBCAN agreements continue to decline in importance in the face of more aggressive pursuits of reciprocal or partially-reciprocal trade agreements. The CARIBCAN structure ran its course as of 2006 and the CBI Caribbean Basin Trade Partnership will end on 30 September 2008 unless precluded by some other free trade agreement (FTA). However, at the recent United States-CARICOM Summit, the second of its kind, a verbal commitment to extend the CBI, among other trade agreements currently in limbo, was given by United States President George W. Bush. Several exporters benefit significantly from this preferential status granted by the CBI, but it is likely that it will soon be replaced by a bilateral United States-CARICOM free trade agreement. Meetings in April 2006 that took place between CARICOM and the United States trade representatives gave the impression that discussions of, at least, the idea were underway. CARIBCAN is expected to be replaced by a reciprocal CARICOM-Canada free trade agreement, though a timeline is not outlined for this. Discussions of this FTA began in 2001 between CARICOM and Canada, with the last meeting occurring in March 2005, with no subsequent indications of further discussions. The visit of Canadian Prime Minister Harper in July 2007 to Barbados, however, acted to re-affirm Canada's interest in the CARICOM sphere. Prime Minister Harper stated that Canada "…intends to develop a new partnership with CARICOM members to provide support for economic renewal, security challenges and democratic governance." The CRNM expects negotiations to begin between Canada and CARICOM no earlier than the last quarter of 2007. CARICOM also recently entered into a free trade agreement with Costa Rica in 2004, giving Caribbean firms access to four million more people, and is also poised to advance a bilateral trade agreement with the Southern Cone Common Market (MERCOSUR), following successful exploratory meetings between the two parties in 2005.

## H. Economic outlook

In line with the forecast of favourable commodity prices for 2007, and further expansion of the global economy, the economic outlook remains promising. Expected large-scale foreign and domestic investments, especially in mining, tourism and construction, would give the most important impulse to regional growth.

Foreign exchange inflows from balance of payments' operations like exports of goods and services, remittances and portfolio and FDI will overall remain on a growth path. As such, sustainability of international reserves and exchange rates are assured. However, if not sufficiently sterilized, these inflows can cause domestic price distortions (consumer prices and real exchange rate).

Ongoing United States mortgage market disturbances have posed a clear and present danger for international financial market stability. However, it is highly unlikely that this will affect the region since the average level of Caribbean financial market integration within global financial systems is marginal.

Governments' revenues will get positive impulses from increased taxes and other non-tax revenues in line with increasing economic activity. Nevertheless, expenditures should not be left untouched. Expenditure management will be a challenging operation since infrastructure; social and election spending in many Caribbean economies will appear to be mainly public sector activities. The challenge will be to curb deficits and to neutralize deficit financing in order not to trigger excessive demand and, ultimately, consumer price inflation, which prices are in part already affected by imported inflation.

In order to prevent monetary overhang and inflation, monetary policies would remain predominantly conservative using a set of mixed instruments.

An ultimate challenge which lies ahead for the whole regional agricultural sector is the ongoing trade negotiations between different trade blocs in the Caribbean and elsewhere. Special emphasis will be on the EPA negotiations which most likely will be a serious test for Caribbean competitiveness once preferential facilities are abandoned by the EU. The contraction of traditional agriculture products with the eventual end of preferential treatment by the EU could be compensated by the ongoing and increasing efforts of Caribbean countries to engage in bio-fuels development.

# II. ANALYSIS OF SELECTED TOPICS

## A. Remittances, migration and Caribbean development

### 1. Introduction

The relationship between remittances from abroad and migration is intertwined and recent attempts to examine the former without considering the latter are mistaken. One important reason is that patterns of migration impact on the sustainability of remittance flows. In addition, cash remittances reflect only one aspect of the benefits received from the Diaspora since the vast number of skilled emigrants can play a critical role in helping to build national systems of innovation in the Caribbean. For this reason a selected set of issues related to both migration and remittances are addressed.

The flow of remittances to the Caribbean is not new but in recent years the size of these flows, their stability and potential impact have occupied the minds of a variety of stake holders including academics and policy makers in both the public and private sector (Conference on the Caribbean 2007). It is estimated that global remittance sent by migrants living in host countries, to their countries of origin, reached US$166.9b in 2005(World Bank 2006).

The increase in global remittance flows between 2001 and 2005 was 73 per cent which represented an annual growth rate of 14.6 per cent. When the data are disaggregated by region, the largest share went to East Asia and the Pacific, followed by Latin America and the Caribbean, South Asia, the Middle East and North Africa, Europe and central Asia and, lastly, Sub-Sahara Africa.

The share of remittances going to Latin America and the Caribbean as a percentage of all developing countries increased from 18.5 per cent in 1990 to 25.2 per cent in 2001 and 25.4 percent in 2005 (Ratha, 2005; World Bank 2006a).

While the level of remittance flow to Caribbean countries may be small relative to their Latin American counterpart, the importance of remittances to these economies cannot be overstated.

There are three important reasons why remittances to the Caribbean are important. The first is the fact that remittances are positively correlated with the stock of migrants and, as a result, the extent of future migration, and the continuing association of migrants with their home country will determine the sustainability of the current levels of remittances. The sustainability of remittances will also depend on the continuity of emigration from Caribbean countries which, in turn, relies heavily on economic conditions and labour opportunities in the region. Thus, there is broad scope for domestic economic policies to affect this phenomenon. In addition, policies in the countries which host Caribbean expatriates will also play an important role.

Secondly, the Caribbean economies are now at a cross roads and must undergo a period of industrial restructuring if they are to remain competitive. Several countries experience current account deficits in excess of 10 per cent of GDP, rising debt and fiscal imbalances. This has been the result of the loss of preferential arrangements, the concentration on low technology imports, declining import productivity and a reduced market share in tradable services. The solution to these problems must be premised on a new paradigm of development based on the intense use of domestic capital[2] to improve competitiveness.

Thirdly, while the regional integration model as expressed in the CSME relies on the integration of national markets and the free movement of labour and capital, policy makers have begun to recognize the need for establishing stronger links with the Caribbean Diaspora. Such links involve tapping into not just financial but human resources in order to help develop new areas of innovation and technology upgrade at the firm and industry level. In light of these considerations, part 1.2 examines the significance of remittances to Caribbean economies and part 1.3 discusses how securitization can help to develop the market for remittances. The emerging and increasing role of the Diaspora's home town associations is addressed in part 1.4. Finally, the last part discusses different approaches to utilizing the skills of the Diaspora in the development of Caribbean countries.

## 2. The significance of remittances to Caribbean economies

Over the period 2000-2005, total remittances to the Caribbean increased from US$1823.2 million to US$ 3506.4 million, an average annual growth rate of 13.5 per cent. Of this amount, remittances to the OECS moved from US$120.2 million or 6.6 per cent of the total in 2000 to US$146.6 million or 4.2 per cent in 2005. This represented an average annual growth rate of 4 per cent over the period. For the non-OECS countries, remittances increased from US$1703.0 million to US$3359.4, an average annual growth rate of 14.5 per cent.

[2] Domestic capital is defined as the means of production created within a society (James 2006; Barclay et al 2006). This includes supporting institutions (for example, education financial and technical) that expand the production capabilities of Caribbean society. This is differentiated from imported equipment and tools which represent capital created elsewhere.

**Table 7**
**Remittance to Caribbean countries, Millions of US dollars**

| COUNTRY | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| *OECS* | | | | | | |
| Anguilla | 5.7 | 5.8 | 5.9 | 6.0 | 6.2 | 6.4 |
| Antigua and Barbuda | 10.7 | 10.7 | 10.9 | 11.2 | 11.4 | 11.7 |
| Dominica | 12.9 | 12.9 | 13.9 | 14.2 | 18.5 | 19.0 |
| Grenada | 24.2 | 24.3 | 24.7 | 25.2 | 48.1 | 29.6 |
| Montserrat | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.5 |
| St. Kitts and Nevis | 23.3 | 23.8 | 24.9 | 26.5 | 28.2 | 29.2 |
| St. Lucia | 23.8 | 24.1 | 24.5 | 25.0 | 26.2 | 28.8 |
| St. Vincent & The Grenadines | 19.2 | 19.3 | 19.7 | 20.1 | 20.8 | 21.3 |
| **Total OECS** | **120.2** | **121.4** | **125.0** | **128.7** | **159.9** | **146.6** |
| *Other CARICOM* | | | | | | |
| Bahamas, The | 69.5 | 1.2 | 1.2 | 1.2 | 199.2 | 37.0 |
| Barbados | 102 | 118 | 109.0 | 114.0 | 109.0 | 125.0 |
| Belize | 51.6 | 41.2 | … | 73.0 | 77.0 | 81.0 |
| Guyana | 47.0 | 44.0 | 119.0 | 137.0 | 143.0 | 270.0 |
| Haiti | 578.0 | 624.0 | 676.0 | 811.0 | 876.0 | 1077.0 |
| Jamaica | 814.3 | 967.5 | 1229.0 | 1426.0 | 1497.0 | 1651.0 |
| Suriname | … | … | 15.1 | 23.5 | 21.3 | 21.4 |
| Trinidad and Tobago | 40.6 | 49.3 | 59.0 | 88.0 | 93.0 | 97.0 |
| **Total Other Caricom** | **1703.0** | **1845.2** | **2208.3** | **2673.7** | **3015.5** | **3359.4** |
| **TOTAL** | **1823.2** | **1966.6** | **2333.3** | **2802.4** | **3175.4** | **3506.0** |

**Source: Individual country balance of payments data and other statistical reports**
**… = not available**

Among the OECS countries the outstanding recipients were Saint Lucia, St. Kitts and Nevis, Grenada and St. Vincent and the Grenadines, while for the non-OECS countries the major recipients were Haiti, Jamaica and Barbados[3]. In 2005, Haiti and Jamaica received 78 per cent of regional flows. Most of the remittances to the region come from a few major countries due to the concentration of migrants in these countries. For example, 65 per cent of migrants were living in the United States and the rest in Canada, Great Britain, the Netherlands and Spain, among others[4]. Remittances per capita give a better picture of the relative importance of remittances to the Caribbean. The results reflect some of the highest per capita remittances received in the world (table 8).

[3] The remittances for Guyana and Suriname may reflect underreporting due to remittances flowing through informal channels.

[4] Based on data provided by the United States Bureau of Census, of all foreign nationals living in the United States, 10 per cent are of Caribbean origin with the majority coming from Cuba (34 percent) and the Dominican Republic (25 per cent) and more than 10 per cent from Haiti and Jamaica. Of all migrants from the South American continent, each 10th is originally from Guyana.

**Table 8**
**Remittances to CARICOM countries**
**(Percentage of GDP)**

| COUNTRY | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| **OECS** | | | | | | |
| Anguilla | 2.3 | 2.3 | 5.2 | 5.1 | 4.2 | 4.3 |
| Antigua and Barbuda | 0.5 | 0.5 | 1.5 | 3.1 | 2.5 | 2.1 |
| Dominica | 1.0 | 1.1 | 1.4 | 1.3 | 1.9 | 2.0 |
| Grenada | 5.4 | 5.6 | 6.1 | 5.7 | 11.0 | 7.3 |
| Montserrat | 4.7 | 2.5 | 1.2 | 1.3 | 1.4 | 1.4 |
| St. Kitts and Nevis | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 1.1 |
| St. Lucia | 0.4 | 0.6 | 0.6 | 0.6 | 0.4 | 0.3 |
| St. Vincent & The Grenadines | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 | 1.1 |
| **Other CARICOM** | | | | | | |
| Bahamas, The | 1.4 | 0.0 | 0.0 | 0.0 | 3.5 | 0.6 |
| Barbados | 4.0 | 4.6 | 4.2 | 4.3 | 3.9 | 4.2 |
| Belize | 6.2 | 4.8 | .. | 7.4 | 7.4 | 7.3 |
| Guyana | 6.6 | 6.3 | 16.5 | 18.5 | 18.2 | 34.4 |
| Haiti | 15.6 | 17.4 | 20.1 | 27.5 | 22.9 | 25.4 |
| Jamaica | 10.1 | 11.8 | 14.3 | 17.3 | 16.8 | 17.0 |
| Suriname | .. | .. | 1.7 | 2.3 | 1.9 | 1.6 |
| Trinidad and Tobago | 0.5 | 0.6 | 0.7 | 0.8 | 0.8 | 0.7 |

**Source: Individual country balance of payments data and other statistical reports.**
**..= not available**

Table 8 reports the ratio of remittances to GDP for Caribbean countries. The results suggest that for 2005, remittances were quite significant for Guyana, Haiti Jamaica, Belize, Grenada and Barbados. Table 9 reports remittances per capita and the results reflect some of the highest per capita remittances received in the world.

**Table 9**
**Remittances Per Capita, 2000-2005 (in US$)**

| COUNTRY | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| *OECS* | | | | | | |
| Anguilla | 227 | 227 | 494 | 493 | 497 | 471 |
| Antigua and Barbuda | 49 | 49 | 142 | 335 | 208 | 214 |
| Dominica | 38 | 39 | 50 | 50 | 72 | 67 |
| Grenada | 199 | 200 | 239 | 243 | 457 | 280 |
| Montserrat | 400 | 150 | 99 | 107 | 120 | 107 |
| St. Kitts and Nevis | 65 | 64 | 79 | 76 | 80 | 81 |
| St. Lucia | 17 | 15 | 25 | 27 | 19 | 13 |
| St. Vincent & The Grenadines | 12 | 12 | 32 | 36 | 35 | 37 |
| *Other Caricom* | | | | | | |
| Bahamas, The | 230 | 4 | 4 | 4 | 621 | 114 |
| Barbados | 383 | 442 | 407 | 425 | 405 | 464 |
| Belize | 214 | 159 | 68 | 266 | 272 | 277 |
| Guyana | 53 | 63 | 159 | 182 | 190 | 166 |
| Haiti | 73 | 78 | 83 | 98 | 104 | 126 |
| Jamaica | 315 | 370 | 470 | 542 | 566 | 621 |
| Suriname | … | … | 35 | 54 | 48 | 47 |
| Trinidad and Tobago | 32 | 38 | 31 | 38 | 71 | 74 |

**Source: Individual country balance of payments data and other statistical reports**
**… = not available**

For Jamaica, Barbados and Anguilla, remittance, per capita were in excess of US$400 from 2002. The World Bank reports that in 2004 Jamaica and Barbados, Antigua and Barbuda and Haiti had the highest per capita remittances in Latin America and the Caribbean (World Bank 2006b). Given the small size of the countries, these per capita flows reflect the size of the emigrant populations and the frequency of remittances receipts by individuals in these countries[5].

The ratio of remittances to merchandise exports is also examined. This is particularly important since Caribbean economies are open and rely heavily on exports (table 10).

[5] The Jamaican emigrants' population has been estimated to be twice as large as the local population. The Haitian net emigration rate is 1.68 migrants per 1,000 inhabitants and with an estimated 420,000 Haitians in the United States and 54,000 in Canada (Newland and Grieco 2004). For Guyana the net out-migration rate is 7.51 migrants per 1,000 inhabitants with diaspora population located in Canada, the United States and United Kingdom estimated to range from 300,000 to 700,000.

**Table 10**
**Remittances as a ratio of merchandise exports**

| COUNTRY | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| *OECS* | | | | | | |
| Anguilla | 56.5 | 70.7 | 44.3 | 52.6 | 40.1 | 16.2 |
| Antigua and Barbuda | 25.4 | 25.4 | 73.5 | 166.9 | 100.0 | 97.8 |
| Dominica | 5.0 | 6.2 | 3.0 | 3.2 | 4.6 | 4.2 |
| Grenada | 26.1 | 37.6 | 23.4 | 22.4 | 64.8 | 33.4 |
| Montserrat | 107.3 | 82.2 | 11.4 | 10.0 | 4.9 | 13.1 |
| St. Kitts and Nevis | 5.2 | 5.6 | 2.3 | 2.4 | 2.7 | 4.3 |
| St. Lucia | 4.8 | 6.4 | 2.4 | 2.6 | 1.4 | 1.3 |
| St. Vincent & The Grenadines | 5.1 | 6.4 | 3.3 | 3.6 | 3.7 | 3.7 |
| *Other Caricom* | | | | | | |
| Bahamas, The | 15.0 | 0.3 | 0.3 | 0.3 | 41.7 | 7.1 |
| Barbados | 35.6 | 43.5 | 43.1 | 43.1 | 34.9 | 34.9 |
| Belize | 17.7 | 15.0 | | 23.1 | 25.1 | 24.4 |
| Guyana | 9.3 | 9.1 | 24.0 | 26.7 | 24.3 | 45.8 |
| Haiti | 176.8 | … | … | … | … | 282.7 |
| Jamaica | 52.1 | 66.5 | 93.9 | 119.2 | 106.6 | 94.4 |
| Suriname | … | … | 4.1 | 4.7 | 2.4 | 2.3 |
| Trinidad and Tobago | 0.9 | 1.1 | 1.5 | 1.8 | 1.5 | 1.1 |

**Source: Individual country balance of payments data and other statistical reports**
**…= not available**

The results suggest that, except for a few countries, remittances to exports were quite significant. The ratio was particularly large for Haiti, Antigua and Barbuda, Grenada, Belize, Barbados and Guyana. The ratio of remittances to FDI was also examined and because of the volatility of FDI, the averages for the periods 2000-2003 and 2003-2005 were considered. FDI has been vibrant in the region and has been encouraged by a series of incentives over time while remittances recipients have received no special incentives.

The results are revealing as the ratios were quite large for several countries. Among these were Haiti, Jamaica, Guyana, Barbados, Grenada, Montserrat and the Bahamas.

**Table 11**
**Average ratio of remittances to FDI,**
**2000-2002 and 2003-2005**

| Country | Average 2000-2002 | Average 2003-2005 |
|---|---|---|
| Anguilla | 15.1 | 10.2 |
| Antigua and Barbuda | 5.8 | 5.8 |
| Dominica | 15.3 | 6.1 |
| Grenada | 47.6 | 83.7 |
| Montserrat | 55.6 | 26.9 |
| St. Kitts and Nevis | 2.6 | 2.5 |
| St. Lucia | 6.6 | 1.1 |
| St. Vincent & The Grenadines | 8.5 | 2.4 |
| Bahamas, The | 9.9 | 27.9 |
| Barbados | 599.7 | 160.4 |
| Belize | 146.5 | 68 |
| Guyana | 139.7 | 451.4 |
| Haiti | 10437.4 | 11461.5 |
| Jamaica | 196 | 240.4 |
| Suriname | 52.2 | 52.2 |
| Trinidad and Tobago | 6.5 | 9.7 |
| **Source: Individual country balance of payments data and other statistical reports** | | |

In light of the large balance of payments deficits on the current account, these flows are vital sources of foreign exchange. As a result it is useful to explore ways in which remittances can be augmented for economic development. In the next section we examine the role of securitization in the remittance market.

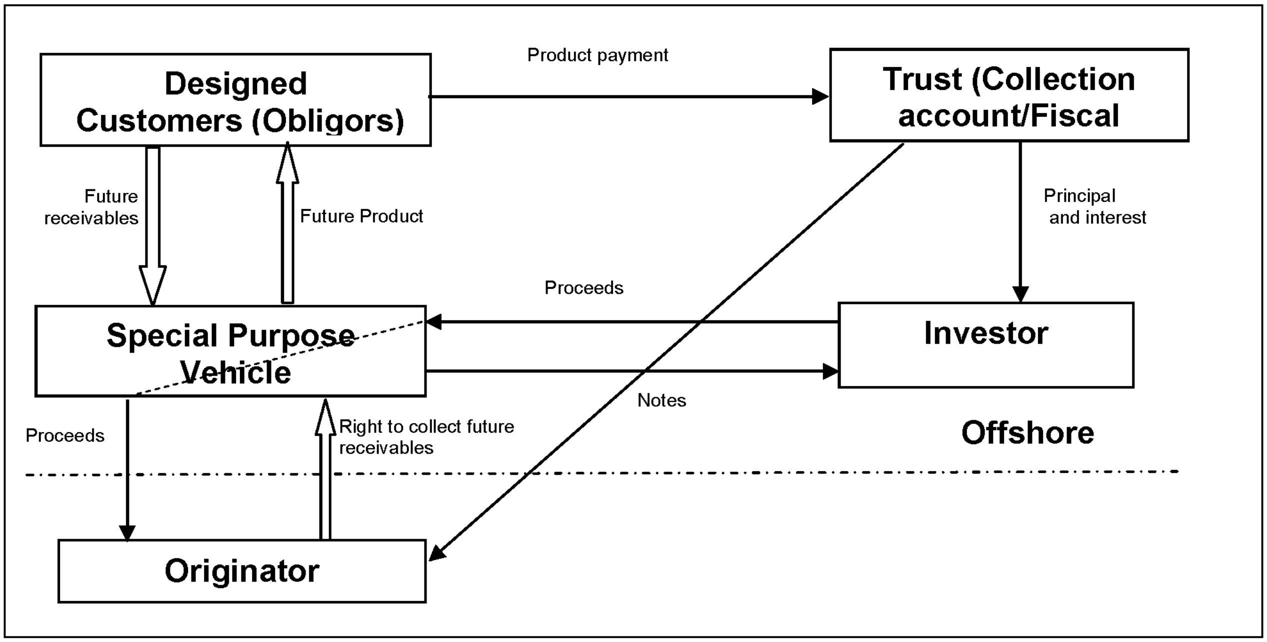
## 3. Securitization of remittances

Remittances inflows have helped to increase credit worthiness of many countries since they reduce external vulnerability by improving the current account balance and providing an important and (so far) somewhat stable source of foreign exchange. This also implies improved ratings and lower sovereign risks. A great deal of research has focused on influencing remittance flows through reducing costs of transfers and raising resources through Diaspora bonds[6] recently, however, the securitization of remittances has been a topic of interest (Ketkar and Ratha, 2001).

Banks in some developing countries have been able to raise longer-term financing through securitizing future remittance flows[7]. A stylized procedure based on (Ketkar and Ratha 2001) is set out below (figure 4).

[6] Israel has been issuing bonds since 1951 and India since 1991.
[7] For example Mexico, Turkey and El. Salvador raised $2.3b during 1994-2000.

**Figure 4: Stylized structure of a typical future flow securitization**




**Source: Ketkar and Ratha 2001.**

The approach is to have a bank pledge its future remittance flows to what is called an offshore special purpose vehicle (SPV) which then issues the debt. Designated banks are instructed to channel the remittance flow of the borrower through an offshore collection account which a trustee manages. The collector makes payments to the investors and the excess is sent to the borrowing bank. Note that because the remittances do not enter the issuer's home country certain convertibility risks are reduced. The issuer now has a higher rating and can borrow from capital markets at lower rates with longer maturity.

A number of advantages can emerge from this arrangement and among these are the following:

(a) Securitization proceeds can be used to extend loans by local banks for productive purposes.

(b) Banks should be able to pass on lower interest cost to its customers through longer term loans.

(c) Banks may lower remittance transfer costs to encourage greater inflows of remittances.

Despite the advantages, the heavy legal costs especially flowing from investment banking and credit rating services can be prohibitive for small countries with relatively small flows. In instances when the pledged asset remains pledged in case of default, this may restrict flexibility in managing government's external payments (Ketkar and Ratha, 2001).

The relationship rests on the stability of remittance flows which could be affected by devaluation or changes in legislation which require payments to be made to the central bank.

Given the varying regional remittance flows there may be an advantage of pooling remittances at the regional level for securitization purposes to reduce costs and provide more leverage to enter international capital markets while extending credit, for small and medium size enterprises at lower interest rates.

## 4. The role of the Diaspora: Home town associations (HTAs)

The activities of Diaspora associations often referred to as HTAs[8] have been recognized in recent years as a result of awareness of the important role emigrants can play in regional economic development. Notwithstanding, there is yet to emerge a regional strategy to identify the role of Caribbean Diaspora associations[9] although there are several national initiatives[10]. There are several HTAs in the major destination countries and one estimate shows that in the case of Guyana there were 64 associations in New York alone and some 33 in Scarborough and Ontario(Orozco 2002). In a study of individuals involved in the Diaspora movement in Miami, New York and Canada among Jamaicans, Guyanese[11] and Haitians[12] interesting insights emerged although the sample size did not permit generalizations. Respondents in the sample were part of at least one Diaspora organization in which they had a leadership role. Interestingly, while respondents devoted more time to causes related to their country of residence, more money was given to issues related to their country of birth. Their motivation to participate in an HTA was largely driven by the need to develop their community, family issues and development concerns in their country of birth. A significant number of respondents said their commitment could be higher if they were sure that their contribution was being used properly and if they had better information on governments' priorities for development.

The centre of Diaspora activity was social and the main emphasis of their activity was in advancing education, although in the case of Haiti and Guyana political stability was recognized as important. HTAs associations tend to revolve around particular education- and health-related projects in the Caribbean. However, they have not emerged as strategic as the Mexican HTAs which are important in infrastructural and business development in local areas (Lapointe 2004). In the Mexican example of the 3x1 programme every dollar of the HTA is matched by each

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[8] There are also Home Coming Associations (HCAs) in Jamaica that organize homecoming events at the parish level. There are also Returning Residents Associations which advocate on behalf of returning residents.

[9] Reis (2007) argues that there is no one diaspora but diasporas of the Caribbean. In other words, the various Caribbean populations abroad tend to relate to their respective home countries, but not to the Caribbean as a whole.

[10] Jamaica has been reaching out to its diaspora communities through the Minster of State in the Ministry of Foreign Affairs. A national Jamaica diaspora conference was held in 2004 with diaspora members from the United States, Canada and the United Kingdom. As an outcome of the conference there was the creation of a website, the designation of June 16th as National Diaspora Day and the creation of a Diaspora Advisory Board and the Diaspora Foundation to coordinate research and the development of a skills database among other things.

[11] In response to flooding in Guyana several groups came together. Fund raisers were done by Guyana Tri-State Alliance, Health and Education relief for Guyana, Inc; The Guyanese-American Cultural Association of Central Florida; The Guyana Flood Relief Organization made up of the Guyana Cultural Association/Folk festival, Support Guyana Underprivileged and the Queens College of Guyana Alumni Association, among others.

[12] There are many Haitian HTAs. Among these are professional organizations such as the association of Haitian Physicians Abroad, investment associations as PromoCapital which promotes investment by the diaspora in infrastructure and job creation. There are also human rights group as the National Coalition for Haitian Rights and those that target the diaspora generally as the Alliance of Overseas Haitians.

dollar from local governments and national governments. Caribbean governments, through their embassies,[13] have the resources to make contact with such associations but except for a few governments[14] they have not done so in a structured manner.

While the evolution of HTAs will always rest on the energies exerted by Diaspora communities, the Mexican model shows what is possible. Government policy could be central in articulating a framework on how HTAs may assist in the development process and pointing out areas of collaboration. Suspicions about the use of resources through government-sponsored programmes suggest that non-government organizations and the private sector should partner the process as well.

HTAs could participate in a wide range of areas in a more structured way and share information as to what each association is involved in. There are a number of areas of possible involvement of HTAs. These are:

(a) Relief in the event of disasters, such as, hurricanes and severe flooding;

(b) The construction and rehabilitation of infrastructure and public amenities such as schools, hospitals, police stations, parks, recreation facilities in local home communities;

(c) Donation of books, toys, clothing and so on;

(d) Recruitment of persons who can give service in education and health-related areas;

(e) Identify persons who are highly skilled and are willing to participate in local technical upgrading; and

(f) Help in the repatriation of migrants who wish to retire and provide advice to them with respect to investment opportunities.

While it is the case that some HTAs are already involved in some of these activities, there has been no national policy to encourage such activities by introducing incentives schemes possibly through legislative changes both at home and abroad.

## 5. How to engage skilled migrants for Caribbean development

Remittances have been characterized as the return on human capital for investment in the home country and calculations have been made to determine the cost and benefits of remittances. Such an approach fails to recognize that migration may be a circular process and that emigrants may return depending on the kinds of conditions existing at home and abroad. Thus the paradigm of push and pull factors, affecting migration flows, which tend to dominate the literature fails to

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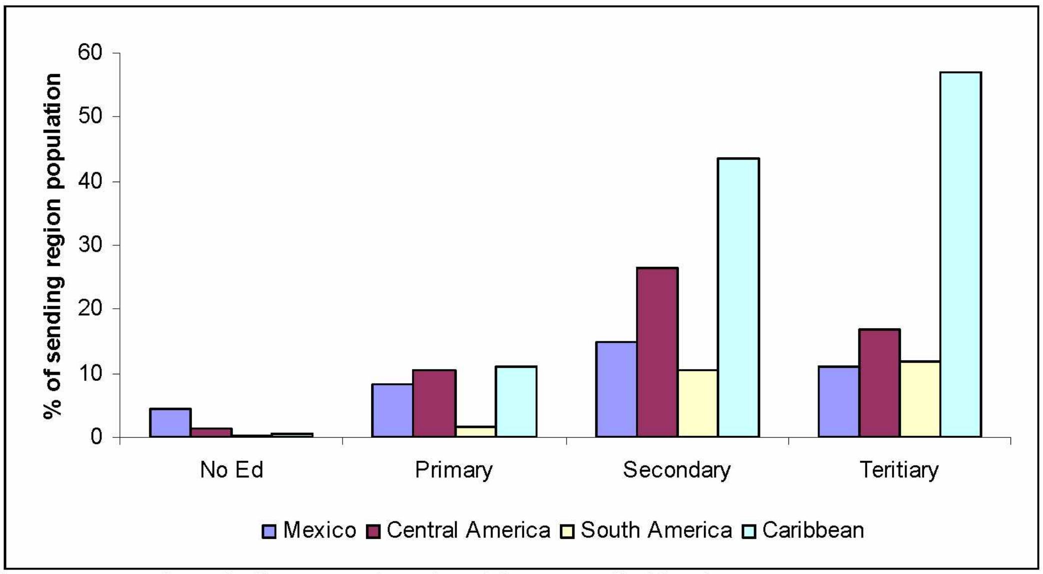
[13] Haiti has a Ministry of Diaspora Affairs. The Dominican Republic has a Migration Division while Antigua and Barbuda has Diaspora Bureaus. St Kitts and Nevis has a secretariat for returning nationals. Jamaica has a Department of Jamaicans Overseas under the Ministry of Foreign Trade and Consular Affairs.

[14] Dominica and Jamaica have established formal relationships with their diaspora communities.

consider the fact that migration reflects the transnational nature of labour markets and the ability of migrants to continuously make decisions with changing circumstances.

A significant and sustained outflow of human capital, especially among the highly qualified, raises concerns about whether this affects the capacity to innovate in the sending countries. Available data show that Caribbean migrant populations relative to their home populations are relatively small. For Montserrat it is around 2 per cent; Antigua 0.8 per cent; and for the rest it varies between 0.1 per cent and 0.7 per cent (Orozco, 2007). However, when the level of education of migrants is examined, it appears that the Caribbean has a higher percentage of persons living abroad by primary, secondary and tertiary education relative to Central America, South America or Mexico, as shown in figure 5.

**Figure 5: Percentage of population living abroad by education level, 2000**




**Source: Pew Hispanic Centre, University of Southern California**

Estimates computed by Mishra (2006) for the Caribbean show considerable rates of migration of educated migrants. Migration rates to the Organization of Economic Cooperation and Development (OECD) area between 1965-2000 by tertiary education level, for Grenada, Guyana, Haiti, Jamaica and St. Vincent and the Grenadines, show percentages in excess of 80 per cent while the overall average for Caribbean countries was 70 percent. These results reflect a massive loss of human capital most of which has been even further augmented abroad. The issue then is how to continue to engage this group to help develop and upgrade local systems of innovation.

In the literature a number of proposals have been discussed but two of the most useful will be discussed (See Lowell 2001). These are ways of resourcing skilled nationals and skills retention through sector policies.

### (a) Resourcing skilled nationals

A strategy of resourcing skilled nationals implies a shift in perspective with respect to the benefits and costs of migration. This approach assumes that migration enhances human capital by adding to existing skills of migrants. Thus there may be an optimum level of migration consistent with national and regional development through a feedback effect. This approach also assumes that migration is a circular process in which the skills and expertise of migrants are always available to the domestic economy conditional on the level of inducements required to acquire such skills. These skills may be available for a short time or on a permanent basis if the migrant wishes to return.

There already exists some level of communication between migrants and their home country and these ties exist through human and financial networks. Governments must now create the institutional mechanisms to further develop such ties between Diaspora communities and the universities, other research institutions and the private sector by way of incentives. Some examples of existing programmes are the United Nations Development Programme (UNDP) and Thai Reverse Brain Drain networks which facilitate links between skilled migrants and projects at home. In the latter case, the government offers a coordinating information centre for information exchange.

The number of Diaspora organizations of the highly skilled is not known but several organizations across the Caribbean have been involved with home country projects. Such networks ought to be encouraged through Information and Communications Technology (ICT), conferences and other kinds of associations.

### (b) Retention of skills through broad economic development and sector policies

While there is the need to embrace Diaspora communities, clear national and regional policies aimed at retaining skilled personnel need to be articulated. As Lowell (2001) points out, retention of would-be return emigrants over the long run is possible when the difference between employment opportunities, remuneration and conditions of work between sending and receiving countries lessen.

A policy aimed at retention serves two purposes. First, it helps to stem the extreme loss of skilled resources by creating a climate for workers to remain at home and, secondly, it creates an enabling environment that allows for spillover effects with Diaspora networks. Such an environment allows local research institutions with world class skills to benefit from the outsourcing of research and development functions of transnational firms and businesses. Creating better local conditions also helps to deflect the aggressive recruitment drives of developed countries which often lure workers to emigrate even when they may be relatively well off. Recent data suggest that in the United States, foreign nationals were co-inventors of 25.6 per cent of international patent applications and that 31 per cent of startups in tech centers had an immigrant key cofounder, including 52.4 per cent in California's Silicon Valley.[15.] These results

[15] Ewing Marion Kaffman Foundation. Intellectual Property, The Immigration Backlog and a Reverse Brain Drain (forthcoming).

suggest that the United States Government may not pursue policies, in the short run, that restrain skilled immigration since this will impact on the United States competitive edge.

In a recent study of multinational firms in the Caribbean, there was a concern that the quantity and quality of skilled labour in some countries was not adequate (World Bank 2004). Lack of local expertise can often be filled by those in the Diaspora who are willing to return but labour market information systems must be available to match skills with vacancies.

At the sectoral level, retention also hinges on improving the conditions of employment in sectors such as education and health. In a study of the impact of emigration on the health sector in Trinidad and Tobago, a number of concerns were raised about the problems of working in the local environment (ECLAC/CDCC LC/CAR/G.748, 2003, p.4). While these related to nurses, they also reflect concerns among teachers as well in many Caribbean countries, especially those countries experiencing economic difficulties. Among the issues were the following:

(a) Inadequate remuneration and benefits;

(b) Unfavorable working conditions;

(c) Insufficient training and professional development;

(d) Under-utilization of acquired skills; and

(e) Lack of professional recognition.

The irony is that many governments as a consequence of emigration of skilled personnel are often forced to recruit persons from abroad at higher wages than are paid for local workers. The implication is that training has to be in excess of what is required for some sectors, since increasing capability among individuals also creates greater opportunities for emigration[16]. Training can also be done in collaboration with host country institutions so as to manage the emigration of certain critical skills.

## B. Commodity prices and natural resources dependency

### 1. Introduction

International commodity prices, especially those of oil and minerals are on a rising trend since the beginning of the new millennium. A variety of factors, ranging from excessive global demand to geopolitical circumstances have made fossil fuel (crude oil and gas) and aluminum prices very volatile. Producers of oil and minerals in the Caribbean, such as Trinidad and Tobago, Guyana and Suriname, have been benefiting substantially from these positive circumstances. But besides high energy import bills, particularly in Guyana and Suriname, there

[16] In the case of Jamaica which runs a students' loan scheme, students are made to repay loans as soon as they are finished their studies. Those who cannot find a job are often forced to migrate. Such programmes should allow repayments only after employment.

are other unfavorable effects stemming from higher commodity prices, such as increasing oil and mineral dependency of the economies.

The purpose of this section is twofold. First, it examines the relationship between the evolution of commodity prices and minerals (including oil and natural gas) dependency in Caribbean economies that are abundant in natural resources. Second, it explores whether mineral dependency influences social factors in these economies. The analysis includes Trinidad and Tobago (oil and gas), Guyana (bauxite) and Suriname (alumina) in 2001-2006.

## 2. Overview of mineral production in the Caribbean region

Natural resources exploitation has been a driving force behind economic development and trade in many developing countries. In recent years, countries highly endowed with such resources are benefiting greatly due to the significant rise in oil and mineral prices. In the Caribbean region, many countries are oil or mineral producers: Trinidad and Tobago (oil and gas), Jamaica (bauxite and alumina), Suriname (bauxite, alumina, oil and gold), Guyana (bauxite and gold) and Barbados (oil). However, data availability restricts the analysis to only Trinidad and Tobago, Guyana (only bauxite) and Suriname (only bauxite and alumina). Table 1 shows oil, natural gas and mineral production in these countries.

Despite the significant amounts of minerals and fuels produced in some countries relative to the sizes to their economies – especially in Trinidad and Tobago – these economies are price takers in international commodity markets. As a result, they have exhibited high vulnerability to sudden swings in their main exports prices. Indeed, a downturn in international markets might have serious negative effects on the external as well as the fiscal sector. Another important issue is that the majority of oil and mineral exploitation is being undertaken by multinational corporations (MNCs). In the absence of adequate domestic policies and regulations, this has configured an enclave-type structure in the exploitation of these natural resources.[17] This constitutes a lost opportunity to benefit much more effectively from the production of fuel and minerals by generating linkages with the rest of the domestic economies.

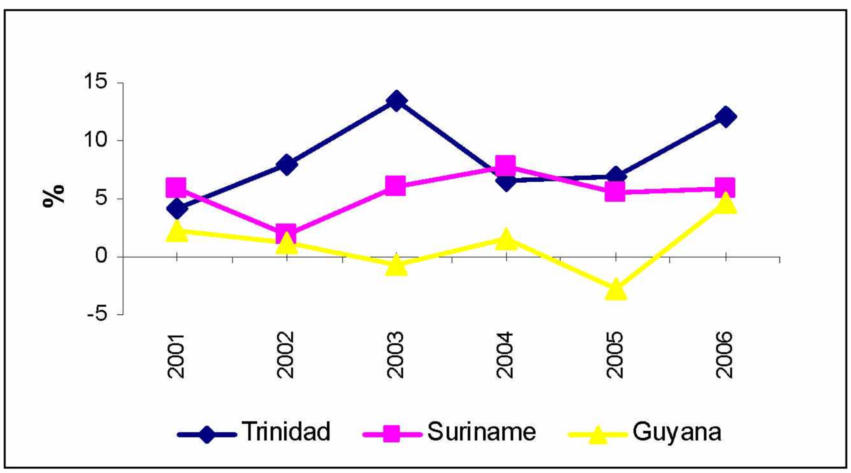
[17] Trinidad and Tobago does not fit in this characterization, given the production of petrochemicals and nitrogenous fertilizers linked to the exploitation of oil.

**Table 12**
**Mineral production in Trinidad and Tobago, Suriname and Guyana**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| **Trinidad and Tobago** | | | | | | |
| Crude oil condensate (thousands of barrels) | 41,468 | 47,824 | 49,117 | 44,985 | 52,740 | 40,373 |
| Natural Gas (millions of cubic ft per day) | 1,596 | 1,826 | 2,593 | 2,929 | 3,219 | 3,510 |
| Natural Gas Liquids (thousands of barrels | 6,993 | 7,531 | 8,608 | 10,505 | 10,687 | 9,889 |
| | | | | | | |
| **Suriname** | | | | | | |
| Bauxite (metric tons) | 4,394 | 4,002 | 4,203 | 4,087 | 4,757 | 4,945 |
| Alumina (thousands of tons) | 1,893 | 1,903 | 2,005 | 2,015 | 2,133 | 2,100 |
| Crude Oil ( thousands of barrels) | 4,700 | 4,550 | 4,300 | 4,100 | 4,300 | 4,800 |
| Gold (thousands of troy oz) | 153 | 146 | 413 | 674 | 691 | 723 |
| | | | | | | |
| **Guyana** | | | | | | |
| Bauxite, dried (metric tons) | … | 115 | 94 | 97 | 80 | 78 |
| Bauxite, calcined (thousands of tons) | … | 13 | 9 | 12 | 19 | 30 |
| Gold (thousands of ounces) | … | 11,398 | 11,337 | 9,783 | 9,213 | 6,692 |
| Diamond (thousands of carats) | … | 382 | 529 | 878 | 968 | 760 |
| **Source: ECLAC database** | | | | | | |

The pattern of annual GDP growth rates for the period 2001-2006 is shown in figure 6. In 2006, Trinidad and Tobago reported 12 per cent output growth while Suriname and Guyana posted growth rates in excess of 4.5 per cent. This dynamic performance for these countries undoubtedly was positively influenced by high prices of commodities in international markets.

**Figure 6: Growth in GDP 2001-2006**




Indeed, GDP growth in 2006 was fuelled mainly by expansions in the oil and mining sectors which grew by as much as 20.6 per cent in Trinidad and Tobago, 18 per cent in Suriname and 5.5 per cent in Guyana (table 11). A notorious fact is that growth in the agricultural and manufacturing sectors were either negative or marginal in Suriname and Guyana. This could be a symptom of the Dutch disease, which is discussed below. In Trinidad and Tobago, manufacturing remains a significant contributor to GDP, and includes petrochemical and nitrogenous fertilizers which are products of the oil industry.

**Table 13**
**GDP growth by sector 2001-2006 (in %)**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006p |
|---|---|---|---|---|---|---|
| **Trinidad and Tobago** | | | | | | |
| Mining | 5.6 | 13.5 | 31.3 | 7.9 | 10.9 | 20.6 |
| Agriculture | 8.7 | 8.7 | -18.2 | -21.1 | -0.5 | -0.6 |
| Manufacturing | 9.8 | 3.8 | 4.2 | 9.5 | 8.6 | 11.8 |
| **Suriname** | | | | | | |
| Mining | 25 | -8.6 | 0 | 31.2 | 15.4 | 18 |
| Agriculture | 11.4 | -3.9 | 4.3 | 1.5 | -0.3 | -0.1 |
| Manufacturing | 13.3 | -3.6 | 5.6 | 9.5 | 4.8 | 0.8 |
| **Guyana** | | | | | | |
| Mining | 4.2 | -6.9 | -8.7 | -6.5 | 4.5 | 5.5 |
| Agriculture | 3.4 | 3.4 | -2.3 | 2.8 | -9.5 | 3.7 |
| Manufacturing | 2.5 | 10.9 | -0.5 | 2.5 | -13.8 | -36.1 |

**Source: ECLAC- on the basis of official data**
**p = provisional**

## 3. Mineral dependency in the Caribbean

Decades ago, mining was seen with suspicion by some political and opinion leaders due to its colonial origin and the prevalence of the total control of production after independence of MNCs. Nevertheless, in the early 1970s the mining and oil industry began to stimulate economic growth in several countries with an abundance of these resources, in the context of dramatic hikes in world prices, especially in oil and gold. This allows these industries to spur the benefits of the windfall and increase welfare in the producing countries.[18] But in many developing countries the extraordinary increases in oil revenue were not managed efficiently and favoured few sectors of the population, along with corruption derived from the collusion of some MNCs with some politicians. Therefore, in the latter countries the dependency on mineral and oil production was seen as a condition deleterious to development.

Auty (1990) proposes a simple method of identifying the countries that are mineral or oil-based. These economies can be defined as those where mineral or oil production accounts for at least 10 per cent of GDP, and where these exports are at least 30 per cent of total merchandise exports. Thus, the author constructs a mineral dependence index (MDI) based on the average of the percentage contribution of these products to both GDP and exports. Consequently, a mineral dependence index of 20 per cent or more would indicate mineral dependence. Here this index is expanded to also include the contribution of mineral and oil to government revenue. Table 13 presents the MDI for Trinidad and Tobago, Suriname and Guyana from 2001 to 2006.

[18] For instance, in Chile the mining industry developed the first railways and modernized agriculture through direct investment.

**Table 14: Mineral Dependence Index**
**(% share)**

| | Merchandise Export | Government Revenue | GDP | Mineral Dependence Index |
|---|---|---|---|---|
| | | **Trinidad & Tobago** | | |
| 2001 | 78.7 | 23.6 | 26.3 | 42.9 |
| 2002 | 73.3 | 38.7 | 24.3 | 45.4 |
| 2003 | 81.5 | 41.1 | 33.8 | 52.1 |
| 2004 | 80.3 | 52.7 | 35.0 | 56.0 |
| 2005 | 78.6 | 47.3 | 39.8 | 55.2 |
| 2006p | 76.9 | 55.5 | 40.5 | 57.6 |
| | | **Suriname** | | |
| 2001 | 73.4 | … | 6.4 | 26.6 |
| 2002 | 54.8 | 5.4 | 7.0 | 22.4 |
| 2003 | 52.6 | 6.5 | 6.8 | 22.0 |
| 2004 | 47.3 | 11.2 | 8.4 | 22.3 |
| 2005 | 48.1 | 8.9 | 9.3 | 22.1 |
| 2006 | 46.2 | 6.1 | 11.9 | 21.4 |
| | | **Guyana*** | | |
| 2001 | 15.2 | … | 13.2 | 9.5 |
| 2002 | 10.8 | … | 13.2 | 8.0 |
| 2003 | 8.7 | … | 11.1 | 6.6 |
| 2004 | 7.7 | … | 10.1 | 5.9 |
| 2005 | 11.7 | … | 8.7 | 6.8 |
| 2006 | 11.3 | … | 8.9 | 6.7 |

**Source: Statistical Appendix to IMF Article IV Consultation country report**
**ECLAC: based on official data**
**United Nations Statistical Division**
p = preliminary
…= not available
* Mineral Dependence Index indicate modified version excluding share of government revenue.

According to the criteria stated above, Trinidad and Tobago is the most mineral dependent country with a MDI that more than doubles the threshold of 20 per cent in all the years considered. Suriname, for its part, also exhibits mineral dependency, with an MDI slightly above 20 per cent in all years. The actual figure for Suriname is probably higher since the increased importance of oil and gold over the last year is not included in the analysis due to lack of data. On the contrary, the case of Guyana is radically different, with MDIs that fluctuate between 5.9 per cent and 9.5 per cent. This clearly indicates that this latter country is not mineral dependent according to the definition used. Moreover, this conclusion would not change even with the inclusion of gold in the calculations. Another indication of low or decreasing mineral dependency in Guyana is the fact that economic growth in 2006 was mainly driven by agriculture (sugar and rice). However, bauxite still makes a significant contribution to GDP, above 8 per cent in recent years.

Figure 7 shows the evolution of commodity prices (oil, bauxite and alumina) in 2001/2006. Except for dried bauxite in Guyana which remained more or less flat, the other prices exhibited increasing trends, especially alumina in Suriname. To explore the relationship between commodity prices and mineral dependency, figure 8 plots the MDIs against the respective commodity prices in three panels. As the hypothesis is that the higher the commodity prices, the higher the mineral dependency, the cross-plots should show positive slopes.

**Figure 7: Trend of commodity prices, 2001-2006**

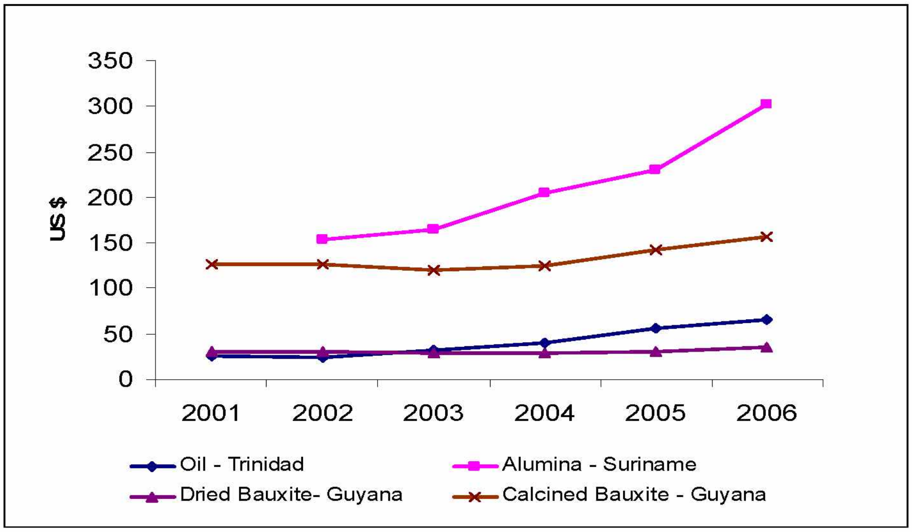
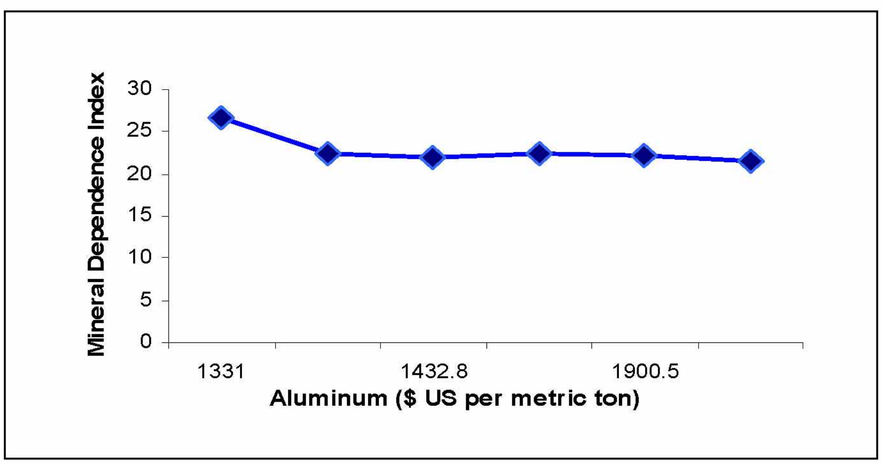
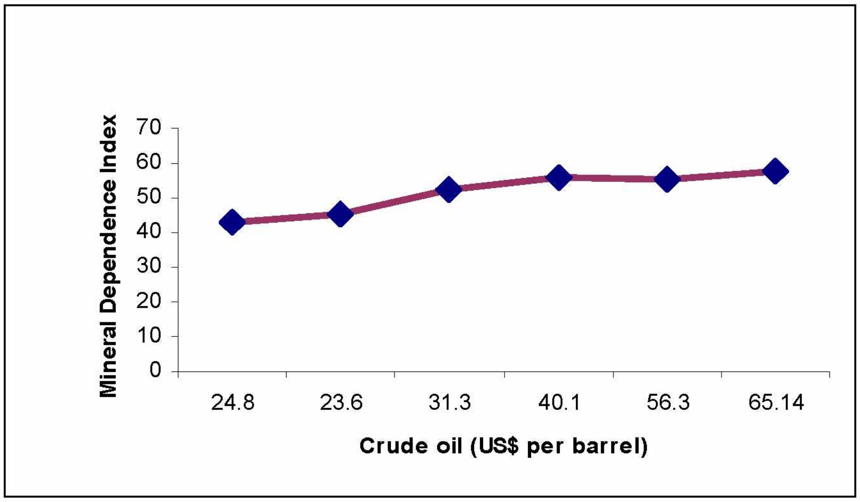



**Figure 8**
**(a) Suriname MDI to Alumina Price**



**(b) Trinidad and Tobago MDI to crude oil price**




**(c) Guyana MDI to Bauxite prices**

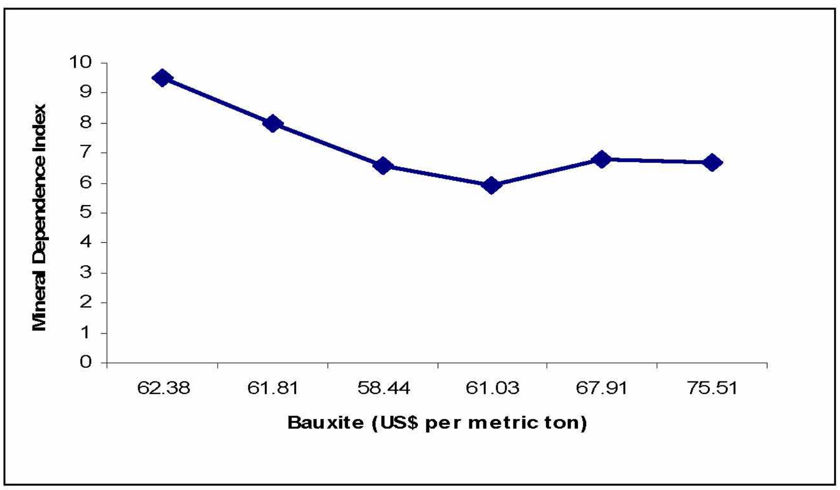



Figure 8 contradicts the hypothesis in Suriname and Guyana. In the former, the relationship between MDI and alumina prices seems slightly negative. This is much more pronounced in the latter for MDI and bauxite prices. In the case of Suriname, this unexpected result may be associated with the exclusion of gold and oil in the calculations due to lack of data. Even in Trinidad and Tobago, the only analyzed country where the working hypothesis seems to be validated by the data, the positive slope showed in panel 8b is not steep. Nevertheless, these results are only shown for illustrative purposes, in the absence of enough data to carry out rigorous econometric and statistical analyses.

## 4. Mineral dependency, growth and social indicators

Some comparative cross-country studies have shown that the abundance of natural resources (especially oil) could lead to undesirable economic consequences, such as slow growth, inflation, low savings, high unemployment, export earnings instability, corruption (as a result of rent seeking), poverty and low levels of human development.[19] Some of the likely explanations given in this literature for these outcomes are:

(a) **The resource curse:** This concept postulates that natural resource abundance leads to a number of negative economic, political and social outcomes. As a result, countries with abundant natural resources tend to grow slower than other countries; thus, these resources become more a curse than a blessing. The arguments to support the resource curse hypothesis include the observation that such countries tend to be more repressive, corrupt and inefficiently managed. In addition, as natural resources-based industries tend to pay much higher salaries than other sectors, they end up recruiting the more skilled workers available. This concentration of talent can be significant, therefore generating a shortage of human capital in the rest of the economies.

(b) **The Dutch disease:** This term refers to the crowding-out effect exerted by natural resources-based industries on the domestic traditional sectors (mainly manufacturing and agriculture). It is usually illustrated by the adverse side effects generated by an export boom in the mining or oil sectors. These effects being the resources allocation effect and the exchange rate effect. The former states that the increased profitability of the mining/oil sector generates a reallocation of resources (physical capital, labour, human capital) away from manufacturing and agriculture. The latter refers to the further contraction of traditional sectors triggered by the real exchange rate appreciation generated by the export boom.

(c) **Social capital:** Natural resources create social tensions between those who benefit from the abundance of them and those who do not. This deters social cohesion and cooperation, undermining economic performance.

(d) **Public sector waste:** The abundance of natural resources generates significant public revenue which governments tend to misuse through excessive consumption and inefficient investment, let alone straight corruption. This may also trigger rent-seeking behaviour on the part of the private sector which would try to capture part of these resources developing (or using already existing) privileged relationships with the public sector.

(e) **Volatile export earnings:** International commodity prices tend to be very volatile, thus introducing instability and uncertainty in export receipts.

Undoubtedly, there are many examples of countries with huge natural resources that performed very poorly and where therefore poverty is widespread. Notwithstanding, it is difficult to blame the abundance of these resources on these undesirable outcomes. Indeed, the situation could even be worse in the absence of oil and minerals. And, of course, there are also successful experiences of countries with abundant natural resources, for example, in Latin America, the first

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[19] For instance, Sachs and Warner (1997) using a sample of 95 developing countries in the period 1970-90, find that, on average, countries with high natural resources-based exports to GDP ratios in 1970 grew slower than the others.

that comes to mind is Chile – the first producer of copper in the world – which between 1990 and 2005 reduced its poverty rate from 40 per cent to 20 per cent of the population.

The very lesson that can be drawn from these experiences is that the abundance of natural resources alone is not enough to foster economic growth, social progress and overall development. In the absence of adequate economic policies, public regulations and institutions,[20] the abundance of such resources will by no means result in a desirable outcome. If this is true, then the determination of whether the abundance of natural resources is a curse or a blessing becomes irrelevant from a development perspective. Apart from policies that address the problems listed above, perhaps the main one is the establishment of linkages between the mining and oil sectors with the rest of the economy to prevent the formation of enclaves in the exploitation of natural resources and to promote the development of activities more intensive in innovation and human capital. This idea is supported by the ECLAC report *"Panorama de la inserción internacional de América Latina y el Caribe, Tendencias 2007, 2006 (Panorama of the International Insertion of Latin America and the Caribbean, 2007 Trends, 2006"),* which mentions that in the longer term the commodities boom may not trigger stable growth given shortcomings in the transformation of many economies in the region from resource based into innovation and human capital based economies with more emphasis on solid social structures.

Moving on to the relationship between natural resources abundance and social progress, a recent study carried out by Oxfam America (2001) using a sample of 51 mineral rich countries find that poverty and health problems are worse in the oil or mineral dependent ones. According to the publication, this occurs because the latter embark on a different development path than those that are manufacturing or agriculture based. Mineral sectors tend to be capital intensive, create unequal wealth distribution, generate social and environmental problems, and usually follow boom-bust cycles. The report points out that social indicators such as infant and child mortality rates, life expectancy, adult literacy, and child malnutrition rates are worse in mineral dependent countries. Moreover, in such countries public spending in health and education are also lower. However, based on their sample, these findings are more prevalent in African countries. According to the study, it appears that countries that are strongly dependent on oil and mineral exports have difficulties in diversifying their economies towards sectors like agriculture and manufacturing.

Table 13 shows the same social indicators and social public spending figures mentioned above for the three Caribbean countries rich in minerals analyzed in the last section. Obviously, the intention is not to establish any causal relationship between mineral resources dependency and social conditions, but to give a quick general view of the current situation. Again, this is done solely for illustrative purposes.

[20] Including those that fight the Dutch disease, promote an even or progressive distribution of the benefits derived from the exploitation of natural resources, prevent the misuse of public revenue and rent-seeking behaviours, and reduce the external vulnerability of the economy to swings in world commodity prices.

**Table 15**
**Human Development Indicators**

| | HDI Rank | Life Expectancy at Birth (years ) | Adult Literacy (%ages 15 & older) | Infant Mortality (per 1000 live births) | Children Underweight for age (% under age 5) | Public Health Expenditure (% of GDP) | Public Education Expenditure (% of GDP) |
|---|---|---|---|---|---|---|---|
| | **2004** | **2004** | **2004** | **2004** | **1996-2004** | **2003** | **2002-2004** |
| Trinidad and Tobago | 57 | 69.8 | … | 18.0 | 7.0 | 1.5 | 4.3 |
| Suriname | 89 | 69.3 | 89.6 | 30.0 | 13.0 | 3.6 | … |
| Guyana | 103 | 63.6 | 96.5 | 48.0 | 14.0 | 4.0 | 5.5 |
| | | | | | | | |
| | **2003** | **2003** | **2003** | **2003** | **1995-2003** | **2002** | **2000-2002** |
| Trinidad and Tobago | 57 | 69.9 | 98.5 | 17.0 | 7.0 | 1.4 | 4.3 |
| Suriname | 86 | 69.1 | 88.0 | 30.0 | 13.0 | 3.6 | … |
| Guyana | 107 | 63.1 | 96.5 | 69.0 | 14.0 | 4.3 | 8.4 |
| | | | | | | | |
| | **2002** | **2002** | **2002** | **2002** | **1995-2002** | **2001** | **1999-2001** |
| Trinidad and Tobago | 54 | 71.4 | 85.8 | 17.0 | 7.0 | 1.7 | 4.0 |
| Suriname | 67 | 71.0 | 94.0 | 31.0 | 13.0 | 5.7 | … |
| Guyana | 104 | 63.2 | 96.5 | 54.0 | 14.0 | 4.2 | 4.1 |

**Source: UNDP-Human Development Report 2000-2006.**
… = not available

According to the information presented in table 13, the conclusions drawn by the study discussed above do not seem to apply to the Caribbean countries rich in natural resources. First of all, social indicators reveal that the standard of living in the Caribbean is far better than that reported by Oxfam for other mineral dependent countries, especially in Africa. On the other hand, in 2004 Trinidad and Tobago – the most mineral dependent country in the Caribbean – showed best rank according to the Human Development Index (HDI) of the UNDP, and had better scores in life expectancy, child mortality, and child malnutrition than Suriname and Guyana, which are both less mineral dependent.[21] Moreover, roughly speaking, the decline in the HDI rank of Trinidad and Tobago over the period 2002-2004 indicates a slight worsening in the standard of living while the country's mineral dependency index was increasing.

What remains of particular interest to the Caribbean region is the use of oil and mineral windfall revenue to foster long-run sustainable economic growth and development. In this vein, many mineral and oil dependent countries have established Natural Resources Funds (NRF) as part of their fiscal frameworks. In 1999, Trinidad and Tobago established the Interim Revenue Stabilization Fund (IRSF), which was later transformed into the Heritage and Stabilization Fund (HSF). In Suriname, discussions regarding the setup of such a fund are ongoing. According to Business First Newsletter (Vol. 8 No.1), mineral rich countries face three major challenges. The

[21] Although Trinidad and Tobago's public expenditure in health and education was lower than in Suriname and Guyana as would have been predicted by the Oxfam study.

first relates to the fact that natural resources are non-renewable and are subject to depletion;[22] the second is associated with the inherent volatility of commodity prices; and the third is that resource based industries are highly capital intensive. As a response to these challenges, the NRFs serve as a mitigating tool to build up a pool of resources which can be used to reduce the volatility of government revenues due to commodity price swings (stabilization function). Besides, and perhaps more importantly, these funds can also serve as a savings mechanism to finance sustainable development for the future, especially when natural resources are depleted. Indeed, the best use that these resources can have is to finance investments today in the development of the productive capacities – physical and human capital – that will render income tomorrow when natural resources are gone.

Unfortunately, in several countries these funds have failed due to problems ranging from lack of transparency and abuse to brazen corruption and mismanagement of funds. Frequently, the pitfalls include over-consumption and over-borrowing of the public sector based on the erroneous idea that the good times of high commodity prices will last forever. Although NRFs are no silver bullet, at least they can provide some relief in bad times and help to reduce macroeconomic instability. In order for the funds to be effective, they must be transparent, well managed and be accompanied by sound fiscal and macroeconomic policies.

[22] The Ryder Scott Report indicates that in 12 years the gas reserves of Trinidad and Tobago will be depleted.

# III. COUNTRY BRIEFS

## A. Aruba

### 1. General trends

Notwithstanding a moderate real economic growth in 2006, the Aruban economy encountered significant drawbacks in several economic subsectors. While per capita GDP grew further, the most important sector in the economy, tourism, struggled to maintain the catalyst position it had within the economy. The tourism sector even affected the rest of the economy negatively, through the wide range of linkages it has with almost all economic activity in the country.

In order to further diversify the economy and to be less dependent on tourism, the government believes that policies should be geared towards investments in capital-intensive, export-oriented activities. This will also curb unemployment. On the other hand, policies will be needed to decelerate activities that demand foreign labour. At the same time an investigation was implemented by the government to map out the different opportunities on the island to stimulate private investment and a competitive business investment environment.

To further accommodate tourism, a more flexible opening and closing times regime for shops was introduced.

Despite the first mentioned negative developments, the rating agency, Fitch Ratings New York, upgraded Aruba from a negative to a positive investment grade status. Government's efforts to strengthen government financial operations[23] and efforts to redress financing problems with regard to the General Health Insurance were regarded as successful. Pension system reforms in order to curtail future pension liabilities were also implemented.

### 2. Economic policies

### (a) Fiscal policy

As a result of increasing revenues and stationary expenditures measured in percentages of GDP in 2006, the declining trend of the financial deficit continued. The financial deficit was further reduced from -3.1 per cent of GDP in 2005 to -2.8 per cent in 2006. While both tax and non-tax revenues increased, the most significant impulse was given by tax revenues. These revenues increased by a total of Afl. 70.8 million, while the non-tax revenues increase amounted to Afl. 3.7 million.

Tax revenues were significantly driven by the upswing of revenues from taxes on commodities, wage tax and import duties. In mid-2006, import duty tariffs on several goods were also raised. Above all, tax revenues from property tax and foreign exchange tax increased drastically. However, this was mitigated by lower revenues from taxes from income and profit and taxes on services as well.

[23] Deficit dropped in 2006, while the budget for 2007 was reduced

Government spending was predominantly influenced by spending on goods and services, wages and increased interest payments. It is worth mentioning that payment arrears declined in 2006.

Foreign debt increase in 2006 was significantly a result of government's external financing of the budgetary deficit by the issuance of bonds on the international capital market in November 2006, which was US$ 52 million. But still, some repayments on previous issued bonds (US$ 9 million) and repayments to the Netherlands (US$ 10.1 million) somewhat mitigated the increase in foreign debt. The latter repayments were on loans received from the development aid cooperation with the Netherlands.

Domestic financing of the government's budgetary deficit and domestic debt repayments in 2006 were partly covered by a government bond issue on the domestic capital market of Afl.75 million (US$42 million). A disaggregation of domestic debt illustrates that total negotiable domestic debt decreased by 6.4 per cent, reflecting significant repayments of maturing bonds issued in 2006. Besides, lower payment arrears, among others, caused non-negotiable short-term domestic debt to fall by 31.2 per cent.

The Aruba Government strives to achieve a balanced budget by the year 2009. In the February 2007 report of the National Commission on Public Finance (NCPF),[24] it is mentioned that to be able to finance capital expenditures, there should be an adequate surplus on the current account balance of the budget. The first measures that are being implemented in that framework are geared towards decreasing the budget deficit and these commenced last year. Emphasis will be on the expansion of revenues, while expenditures are left untouched, except expenditures regarding subsidies and transfers. In June 2006 government subsidies to the General Health Insurance were lowered as a result of higher incomes based on the adjustment of General Health Insurance tariffs. Another measure was the introduction in January 2007 of the turnover tax. Yet, these measures alone will not be sufficient to reach the set target of 2009, but it may be a turning point in the negative trend of government financial developments.

**(b) Monetary and exchange rate policies**

Changes in money supply in 2006 (2.7 per cent) seem to be less dramatic than in 2005 (6.2 per cent) but more sustainable since money growth was significantly caused by foreign exchange inflows. Net domestic assets grew much less (0.7 per cent) than in 2005 (12.4 per cent). This was primarily the result of a lower growth of commercial credit granted to the private sector (4.3 per cent) than in 2005 (9.5 per cent). Another reason was the reduced net claims of the banking sector on the public sector, caused by a rise in deposits[25] of the Fondo Desaroyo Aruba (FDA). This took place in an environment of increased credit with respect to business loans and mortgages, while consumer credit diminished.

Net foreign assets (NFA) grew substantially as a result of favourable oil and free-zone activities. NFA were also positively influenced by earnings from the private placement of

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[24] "Sound Public Finance and Public Accountability in Aruba"; NCPF-report February 2007.

[25] from a Dutch-grant

government bonds on the international capital market and grants from the Netherlands to the FDA.

In 2006, two credit ceilings were established to control excessive money growth. A 5 per cent ceiling was specifically introduced to curb consumer loans, while another 5 per cent ceiling dealt with credits on housing mortgages and business loans. Most importantly, the Central Bank applied a ceiling on the growth of individual commercial banks' credit portfolio and levied a penalty (8 per cent penalty fee) on those banks that surpassed the ceiling. After the Central Bank's evaluation in 2007 of the level of net foreign assets as well as excess liquidity and other parameters, the Bank will decide whether or not to tighten the cash reserve requirement further, which has changed from 8 per cent to 9.5 per cent in 2006.

## 3. The main variables

### (a) Economic activity

The moderate, but steady, growth of the Aruban population was 2.2 per cent in 2006, while real GDP grew by 2.5 per cent, which is just 0.1 percentage point more than last year's growth. This slow growth is being mirrored by the negative growth of the Partial Economic Activity Index of 1.2 per cent. This figure emphasizes the fact that in all economic sectors, but the housing sector, there was a contraction. Housing grew by 3.3 per cent. The extraordinary growth of the construction sector in 2005 did not resume in 2006, mainly because of a slump in the tourism sector, which is perceived as a driving force for construction and for the economy as a whole. After five consecutive quarters of contraction from mid-2005 onwards, the tourism sector rebounded in the last quarter of 2006. Although the number of cruise passengers increased drastically (7 per cent), the overall performance of the sector was hampered by numerous events ranging from high hotel rates to high fuel costs triggering increases in airfares. A remarkable trend is the continued rise of stay-over tourists from Latin America (2006: 0.1 per cent) since 2004. While the amount of total visitors decreased by 5 per cent (triggered by a decrease of United States visitors of 6.8 per cent), the amount of total visitor nights dropped by 4 per cent. The total number of visitors to Aruba, although lower than 2004 and 2005, remained above the 5 million level.

The contraction in the construction sector caused a decrease in the amount of imported materials. Another indicator of weak activity in the construction sector was the decrease of the number of issued building permits in 2006. Most of the issued permits were related to housing, which was the only growing sector in 2006.

Activities in the utilities and transport, storage and communication sectors remained unchanged. Water, electricity and gas consumption grew marginally (respectively, by 1 per cent, 0.5 per cent and 1 per cent) mostly triggered by the last quarter surge of tourist visits to the island. However these increases were marginal, the values of the increases were considerable, due to price increases in 2006.

Refinery output shrank by 21 per cent in 2006. This was largely caused by two planned refinery shut-downs in 2006 for maintenance purposes. Nevertheless, export revenues and oil import payments rose due to commodity price increases of crude oil.

**(b) Prices, wages and employment**

The 12-month inflation rate rose by 0.2 percentage points to 3.6 per cent in 2006, predominantly triggered by rising energy prices, reflected in the 7.9 per cent increase of housing prices. The costs of housing included utilities, especially electricity. Water and electricity tariffs were periodically adjusted to reflect higher costs. The Aruban economy suffered significantly from commodity price increases in oil. To mitigate these price effects on the food category import duties on vegetables and fruits were eliminated. Nevertheless, prices for food in general increased significantly (4.6 per cent). The sharp rise in beverage and tobacco prices (3.1 per cent) was induced by increased excise taxes and other indirect taxes. The average 7.3 per cent rise in personnel-related outlays, suggests that there was no dramatic development with respect to wages in 2006 especially when confronted with a 3.6 per cent inflation.

**(c) Evolution of the external sector**

In 2006 Aruba experienced its largest surplus since 2001 on the overall balance of payments (Afl. 53.4 million or 1.3 per cent of GDP). At first, net foreign exchange sales of the oil and free zone sector to the banking sector amounted to Aruban Florin (Afl) 125.3 million, which caused the reserves to rise. Unfortunately this reserve increase was mitigated by a net foreign exchange outflow of AFI. 71.9 million, from the rest of the economy, which ultimately resulted in the abovementioned overall balance. Official reserves at the end of 2006 were the equivalent of 2.6 months of import payments (imported goods and services).

The current account of the balance of payments rebounded from the Afl 363 million (US$ 204 million) deficit in 2005, to a Afl 382.7 million (US$ 214 million) surplus in 2006 (more than 200 per cent increase), effectively illustrating the impact of the surge in commodity prices, combined with decreasing imports linked to the recession in the construction sector (ranging from base metals to machinery and equipment imports). It is worth mentioning, that the large positive balance of the services account contributed significantly to this positive outcome on the current account.

A large surplus for the merchandise trade was not only triggered by soaring receipts from refined oil exports and free zone related activities, but also by decreasing import values of crude oil and other imports.

The traditional surplus on the services balance was highly positive as usual but less (18 per cent) than last year. Freight related expenditures, travel and other services experienced higher expenditures than in the previous year.

Although highly negative, the deficits on the balance of current transfers and income were somewhat lower than in the previous year. Income payments, in the form of dividends, were extraordinary in 2005. In 2006, normal levels of these payments caused the deficit on the income balance to drop drastically compared to the previous year. Besides, general government current transfers dropped by 23 per cent.

The overall capital account balance remained in surplus, while the financial account fell into a large deficit compared to last year's significant surplus. This deficit was largely affected by an increase in foreign bank deposits of the oil sector. Net inflows from abroad especially regarding the private sector segment of the rest of the economy had a positive impact on the capital and financial balance. However, it could not curtail the negative balance.

## Table 16
## ARUBA: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | Annual rates of growth b/ | | | | |
| **Real Gross domestic product** | -2.6 | 1.5 | 3.5 | 2.4 | 2.5 |
| | Millions of Aruba Florins | | | | |
| **Nominal Gross domestic product** | 3,421 | 3,599 | 3,819 | 4,041 | 4,288 |
| | Millions of US dollars | | | | |
| **Gross domestic product** | 1,911 | 2,011 | 2,134 | 2,258 | 2,314 |
| **Gross domestic product per capita** | 20,483 | 21,149 | 21,847 | 22,432 | 23,299 |
| **Partial Economic Activity Index (PEAI)** | | | | | |
| Partial Economic Activity Index | 97.7 | 101.7 | 105.3 | 111.1 | 109.8 |
| Agriculture and manufacturing (including oil refining) | … | … | … | … | … |
| Utilities | 113.3 | 115.2 | 115.8 | 120.2 | 120.2 |
| Construction | 69.6 | 84.1 | 78.8 | 115.3 | 112.2 |
| Wholesale and retail trade | 78.2 | 83.2 | 86.0 | 82.8 | 79.9 |
| Restaurants and hotels | 101.5 | 105.7 | 116.5 | 118.4 | 115.5 |
| Transport, storage and communication | 107.3 | 106.2 | 115.9 | 113.5 | 113.5 |
| Financial intermediation | … | … | … | … | … |
| Real estate, renting and business activities | 113.6 | 116.5 | 119.5 | 123.4 | 127.5 |
| Public administration and education | 108.0 | 108.6 | 110.6 | 114.1 | 110.6 |
| Other business and non-business services | … | … | … | | |
| **Balance of payments** | Millions of US dollars | | | | |
| Merchandise balance | -532 | -344 | -278 | -6 | 114 |
| Exports fob | 1,488 | 2,052 | 2,724 | 3,483 | 3952 |
| Imports fob | 2,020 | 2,397 | 3,002 | 3,489 | 3838 |
| Services balance | 389 | 318 | 453 | 385 | 329 |
| Current account balance | -335 | -152 | 14 | -204 | 214 |
| Overall balance | 21 | -39 | 11 | -34 | 30 |
| **Public debt** | | | | | |
| Total debt (% of GDP) | 47.1 | 41.1 | 44.7 | 46.3 | 46.5 |
| External | 26.1 | 20.1 | 21.9 | 21.2 | 21.7 |
| Domestic | 21.0 | 21.0 | 22.8 | 25.1 | 24.8 |
| **Prices and interest rates** | | | | | |
| Rate of change in the consumer price index (period average) e/ | 3.3 | 3.6 | 2.5 | 3.4 | 3.6 |
| Weighted deposit real interest rate | 5.5 | 5.3 | 4.4 | 4.0 | 3.9 |
| Weighted lending real interest rate | 12.8 | 11.4 | 11.4 | 11.4 | 11.1 |
| Nominal exchange rate (Afl per US$) | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 |
| **Population and employment** | | | | | |
| Population (persons) | 93,311 | 95,076 | 97,658 | 100,629 | 102817 |
| Unemployment rate (in percent) | 8.1 | 7.9 | 7.3 | 6.9 | n.a. |

**Table 16 (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Public finances** | | | **Percent of GDP** | | |
| Revenue and grants c/ | 21.9 | 27.5 | 21.9 | 22.5 | 22.9 |
| Expenditure | 24.2 | 25.5 | 30.9 | 25.6 | 25.6 |
| Lending minus repayments | -0.1 | -2.9 | 0.2 | 0.0 | 0.2 |
| Financial deficit d/ | -2.1 | 4.8 | -9.3 | -3.1 | -2.8 |
| Payment arrears | 8.1 | 8.4 | 0 | 0 | 0 |
| **Monetary aggregates** | | | **Annual change** | | |
| Net foreign assets | 5.9 | -8.7 | 3.1 | -9.1 | 8.9 |
| Net domestic assets | 13.1 | 18.1 | 3.3 | 12.4 | 0.7 |
| Domestic credit | 10.3 | 12.8 | 6.1 | 10.7 | 2.2 |
| Money and quasi-money | 10.5 | 8.9 | 3.2 | 6.2 | 2.7 |
| Money | 20.5 | 10.5 | 3.0 | 0.4 | 9.4 |
| Quasi-money | 4.3 | 7.7 | 3.4 | 10.4 | -1.7 |

Source: ECLAC, on the basis of official information

a/ Preliminary data

b/ At constant prices.

c/ Includes tax and non-tax revenues

d/ Corresponds to government financing requirements on cash basis

e/ Last 12 months over previous 12 months

## B. Bahamas

### 1. General trends

Economic growth in the Bahamas rose to 3.4 per cent in 2006, the highest figure in the past seven years, with tourism as the main engine of that growth. Visitor numbers have declined slightly (1 per cent) but demand for real estate from non-residents and investment in hotel complexes boosted construction, which grew by 25 per cent. Higher tax receipts from increased imports and real-estate transactions helped to improve fiscal accounts. Spending rose by almost one percentage point of GDP, for reasons which included preparations for the general election in April 2007, but revenue increased more, by 1.5 points of GDP. Liquidity increased, particularly credit to the private sector (14 points of GDP), but inflation remained low, close to the United States price index. The balance-of-payments current account deficit almost doubled, and although the surplus on the financial account expanded owing to very strong external capital inflows, it was not enough to make up for the current-account deficit. Net international reserves diminished.

Despite stronger economic growth, the opposition party won the elections in April 2007. The new government is following the same basic economic orientation, and according to an International Monetary Fund (IMF) projection, forecast growth is very favourable at 4.5 per cent.

### 2. Economic policy

#### (a) Fiscal policies

The fiscal deficit improved from 1.9 per cent of GDP in 2005 to 1.1 per cent in 2006, a small step toward achieving the goal of reducing the public debt to 30 per cent of GDP in the medium term.

In accordance with the policy of keeping taxation low, no new taxes were created in 2006. The efficiency of tax collection improved, however, resulting in an unexpectedly high increase in receipts. The new Tax Compliance Unit has resolved a number of loopholes, while the various tax collection agencies have adopted new electronic systems. Tax receipts increased by 1.6 points of GDP, to 18.4 per cent. Half that amount was derived from taxes on external trade, the collection of which increases in response to growth in imports; in second place were receipts from the stamp tax, which soared upwards on the back of real-estate transactions for the development of tourism projects.

The new government announced plans to simplify the tariff schedule and combine it with the stamp tax on imports. Studies were undertaken to that end, and the change is expected to be made in 2008-2009. Considering its importance for attracting foreign investment, the government has stated that it will maintain the policy of not taxing income.

Overall spending rose by 0.9 points of GDP to stand at 21.8 per cent. There were significant increases in transfers to non-profit organizations in the security, health and education sectors. As for current expenditure, public hospitals are the largest item. The rise was proportionally greater for capital spending (from 1.9 per cent to 2.3 per cent of GDP), owing to an increase in infrastructure projects such as the desalination plant and a new electric power generating plant. Land acquisitions for road construction also contributed to higher capital spending.

The fiscal deficit was financed mostly through a rise in the national debt, which remained at about 46 per cent of GDP, putting into perspective the ambitious goal of reducing that deficit to 30 per cent of GDP in the medium term. The debts of public-sector corporations, equivalent to more than half the total, increased by 28.4 per cent, mostly as a result of a bond issued by the electric power company. Unusually, this bond was issued partly in foreign currency.

The new government is making plans for a current surplus, which would be the first since 2000. The main goal of fiscal policy is cutting public debt.

### (b) Monetary and exchange-rate policy

The Central Bank's Monetary Policy Committee kept a close watch on the effects of rising domestic credit, the evolution of liquidity and the quality of loans, but the discount rate remained unchanged. The sharp rise in net domestic credit, led by personal loans, boosted demand for import products, and this helped to increase tax receipts. Liquidity in the system trended downwards, and this was reflected in a rise in the interest rate on deposits. The lending rate, however, was unchanged as a result of intense competition in the market. The monetary authority resorted to moral persuasion to convince commercial banks of the need to be cautious with credit supply and to comply scrupulously with prudential standards and capital requirements. The Central Bank worked closely with the stock exchange to deepen the local capital market and make it more efficient, and took measures to modernize the payments system.

## 3. The main variables

### (a) Economic activity

Tourism-related investments contributed to the rise in construction, which boosted the country's economy in 2006 (25.2 per cent). The number of tourists was slightly down (1 per cent) because of a 7 per cent decline in cruise ship arrivals. The country's main cruise destinations, the islands of Grand Bahama, New Providence and the Family Islands, suffered the same decline. The new requirement for United States nationals, who now have to show their passports after a trip to the Caribbean, is not helpful to stimulate the sector. Most United States nationals have no passport, and many of them, particularly students during the spring break, opted for cruise ships whose ports of call did not involve that requirement (Puerto Rico and the United States Virgin Islands).

The contraction in 2006 has not changed the government's goal of increasing the number of visitors by 40 per cent to reach 7 million tourist arrivals per year by 2010. More important for the country's economy, however, is the number of visitors who arrive by air, because they stay overnight in the islands and their spending is greater. Arrivals by air were up by 0.5 per cent in 2006 in comparison with 2005.

This segment is expected to grow quickly, as indicated by the expansion in construction. The main construction project was phase 3 of the Atlantis Complex on Paradise Island, which will add 600 rooms to the existing 2,317. Operated by Kerzner International Ltd, a company registered on the New York Stock Exchange, the complex is considered the largest hotel in Latin America and the Caribbean. A group of investors headed by Sol Kerzner, the South African hotel magnate and president of the corporation, bought the shares for over US$ 3 billion, the region's largest FDI transaction in 2006.

A number of other large-scale hotel projects are under construction or preparation. The most significant are the Ritz-Carlton project on Rose Island, worth US$ 750 million; the South Ocean Golf and Beach Resort, in the capital Nassau, worth US$ 1 billion, and the Baha Mar project, worth US$ 2.4 billion, which aims to consolidate the major hotels of Cable Beach into a single large complex. The first phase of the Baha Mar project will be completed in 2011.

### (b) Prices, wages and employment

The retail price index rose by 2.3 per cent in 2006, half a percentage point more than in 2005. This reflects mostly the impact on the country's economy of rising import costs, especially for fuels. The segments which climbed the fastest were food and beverages (5 per cent) and furniture (2 per cent). Housing, the segment that has the highest weighting, rose by 1.7 per cent, an improvement over the 2005 figure of 2.8 per cent. There were falls in the prices of communications, education and entertainment.

Unemployment in the Bahamas fell sharply from a stable figure of 10 per cent to 7.6 per cent in 2006, mostly owing to hotel project construction. The work on the Atlantis project, which employs 5 per cent of the country's workforce, and projects such as the Albany Golf and Beach Club complex, made up of golf courses and private residences and owned by Tiger Woods and Ernie Els, cut unemployment on the island of New Providence to 6.6 per cent, an unprecedented figure which led the government to announce that full employment had been achieved. The island of Grand Bahama has the highest unemployment rate. This seems to be due to the numbers of demotivated workers, who respond to surveys saying that they are able to work and have no jobs, but do not seek employment because they expect to be unsuccessful.

The increasing levels of economic activity and employment boosted the average household income from Bah$38,900 in 2005 to Bah$43,420 in 2006, an increase of over 10 per cent.

### (c) The external sector

The overall balance of payments was negative and international reserves fell for the second consecutive year. This result was due to the doubling of the current account deficit, which the higher surplus on the capital and financial account could not make up for.

Rising oil prices, demand for imports for construction, and rising consumer demand impacted negatively on the balance-of-payments current account. The deficit worsened from US$ 853 million in 2005 to US$ 1.582 billion in 2006. The deficit on the goods account widened by 6 per cent despite rising exports. The surplus on the services account was cut by half, particularly owing to services related to the design and execution of major works projects. Imports of construction services were five times the 2005 level. Net travel receipts declined slightly (2.5 per cent). It is assumed that this service's account figure is exceptional and that in 2007 the account will return to its usual levels.

The surplus on the capital and financial account was more than double that of 2005 owing to income from direct and portfolio investment.

## Table 17
## BAHAMAS: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | | | Annual growth rates b/ | | |
| **Gross domestic product** | 2.3 | 1.0 | 1.3 | 2.5 | 3.4 |
| **Per capita gross domestic product** | -0.1 | 0.3 | -0.1 | 1.1 | 2.1 |
| | | | | | |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 20.7 | -4.8 | -11.7 | -9.4 | -2.0 |
| Mining | 0.2 | 14.2 | 3.1 | -4.0 | -5.0 |
| Manufacturing | 2.2 | -0.6 | 2.1 | 2.1 | -1.8 |
| Electricity, gas and water | 3.6 | 5.7 | -1.3 | 13.6 | 6.8 |
| Construction | 6.2 | 3.1 | -8.4 | 3.8 | 25.2 |
| Wholesale and retail commerce, restaurants and hotels | -8.7 | 1.9 | 1.5 | 3.1 | 2.8 |
| Transport, storage and communications | 3.8 | 2.0 | 1.1 | -3.1 | -1.7 |
| Financial institutions, insurance, real estate and business services | 1.1 | 5.9 | 1.5 | 4.5 | 3.5 |
| Other services | 4.7 | 8.8 | 0.5 | 0.6 | -0.3 |
| | | | | | |
| **Gross domestic product, by type of expenditure** | | | | | |
| Consumption | -1.0 | 2.5 | 1.9 | 2.9 | 3.5 |
| General government | 9.1 | 5.0 | 1.1 | 3.9 | 2.9 |
| Private | -2.6 | 2.0 | 2.0 | 2.7 | 3.6 |
| Gross domestic investment | -0.2 | -2.0 | -0.9 | 22.5 | 28.1 |
| Exports (goods and services) | 7.7 | -1.2 | 10.2 | 7.5 | 4.5 |
| Imports (goods and services) | -1.0 | 2.1 | 4.8 | 16.4 | 17.8 |
| | | | | | |
| **Balance of payments** | | | Millions of dollars | | |
| Current account balance | -423 | -472 | -305 | -853 | -1,582 |
| Merchandise trade balance | -1,327 | -1,331 | -1,428 | -1,850 | -1,956 |
| Exports, f.o.b. | 422 | 427 | 477 | 549 | 668 |
| Imports, f.o.b. | 1,749 | 1,757 | 1,905 | 2,399 | 2,624 |
| Services trade balance | 1,046 | 962 | 1,013 | 1,115 | 538 |
| Income balance | -184 | -153 | -141 | -203 | -218 |
| Net current transfers | 42 | 49 | 251 | 85 | 53 |
| Capital and financial balance c/ | 484 | 583 | 489 | 634 | 1119 |
| Net foreign direct investment | 153 | 190 | 274 | 360 | |
| Financial capital d/ | 331 | 393 | 215 | 64 | |
| Overall balance | 61 | 111 | 184 | -89 | -79 |
| Variation in reserve assets e/ | -60 | -110 | -183 | 88 | 80 |
| Other financing f/ | -0.6 | -0.7 | -0.3 | 0.8 | 0.8 |
| | | | | | |
| Net resource transfer (percentage of GDP) | 0.8 | 2.4 | 1.0 | 3.3 | |
| Gross external public debt (millions of dollars) | 310 | 363 | 343 | 335 | 329.4 |
| Gross external public debt (percentage of GDP) | 5.8 | 6.6 | 6.1 | 5.7 | 5.3 |
| Net profits and interest (percentage of exports) g/ | -7.4 | -6.1 | -5.2 | -6.7 | -7.0 |

Table 17 (continued)

| | 2002 | 2003 | 2004 | 2005 | 2006p a/ |
|---|---|---|---|---|---|
| **Employment** | | **Average annual rates** | | | |
| Unemployment rate h/ | 9.1 | 10.8 | 10.2 | 10.2 | 7.6 |
| **Prices** | | **Annual percentages** | | | |
| Variation in consumer prices | | | | | |
| (December-December) | 1.8 | 2.0 | 2.1 | 1.8 | 2.3 |
| Nominal deposit rate i/ | ... | 3.9 | 3.8 | 3.2 | 3.4 |
| Nominal lending rate j/ | ... | 12.0 | 11.2 | 10.4 | 10.0 |
| **Central government k/** | | **Percentages of GDP** | | | |
| Total income | 16.7 | 17.2 | 17.0 | 19.1 | 20.6 |
| Current income | 16.7 | 16.9 | 16.7 | 18.8 | 20.5 |
| Tax income | 15.1 | 15.1 | 15.1 | 16.8 | 18.4 |
| Capital income l/ | - | 0.3 | 0.3 | 0.2 | 0.0 |
| Total expenditure | 19.4 | 19.5 | 19.4 | 20.9 | 21.8 |
| Current expenditure | 17.9 | 18.1 | 18.0 | 19.0 | 19.5 |
| Interest | 1.9 | 2.1 | 2.0 | 2.1 | 2.1 |
| Capital expenditure | 1.6 | 1.5 | 1.5 | 1.9 | 2.3 |
| **Primary balance** | **-0.8** | **-0.3** | **-0.5** | **0.2** | **0.9** |
| **Overall balance** | **-2.7** | **-2.4** | **-2.5** | **-1.9** | **-1.1** |
| Public external debt | 5.7 | 6.6 | 6.1 | 5.7 | 5.3 |
| **Money and credit m/** | | | | | |
| Domestic credit | 86.8 | 85.5 | 89.4 | 91.8 | 106.1 |
| To the public sector | 15.5 | 14.8 | 16.0 | 15.7 | 15.8 |
| To the private sector | 71.3 | 70.7 | 72.1 | 76.1 | 90.3 |
| Liquidity (M3) | 69.3 | 71.2 | 75.3 | 79.5 | 81.5 |
| Currency in circulation and local-currency deposits (M2 | 69.3 | 69.4 | 73.4 | 77.2 | 78.9 |
| Foreign-currency deposits | 0.0 | 1.8 | 1.9 | 2.2 | 2.6 |

Source: Department of Statistics ,The Bahamas & Central Bank of the Bahamas
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1991 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Includes the use of IMF credit and loans and exceptional financing.
g/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.
h/ Percentage of the economically active population; nationwide total. Includes hidden unemployment.
i/ Deposit rate, weighted average.
j/ Lending ans overdraft rate, weighted average.
k/ From 1997 to 2003, figures refers to fiscal years. For 2005, revenues include grants.
l/ Includes grants.
m/ The monetary figures are annual averages.

## C. Barbados

### 1. General trends

The GDP of Barbados grew for the fifth consecutive year, since the recession of 2001, by 3.8 per cent. As in the previous year, growth in 2006 was boosted by the domestic economy, with both construction and basic services showing growth of almost 7 per cent, while traditional export sectors, such as tourism and manufacturing, stagnated. The imbalance between growth in sectors that cater to the external and domestic markets is worrisome, particularly because the economy of Barbados operates under a fixed exchange rate regime whose sustainability depends on international reserves and therefore on its capacity to generate or attract foreign exchange. The planned removal of exchange controls in 2007, part of the gradual integration of the CSME, will accentuate the need to stimulate the foreign exchange-generating sectors. The National Strategic Plan of Barbados 2006-2025 lays out strategies to enhance competitiveness and strengthen the brand image of Barbados in world markets.

Economic policy since 2005 has been geared toward containing the fiscal and external deficits by means of contractionary policies. In 2006, the fiscal deficit was 1.5 per cent of GDP and the balance-of-payments current account deficit stood at 8.4 per cent of GDP. Inflation fell to 5.9 per cent compared with a 12-year high of 7.4 per cent in 2005. The unemployment rate was the lowest in 16 years (8.7 per cent), and net international reserves increased to US$ 931 million as of December 2006, although they have not yet returned to their 2003 level.

Growth for 2007 was projected at 4 per cent despite the fact that the boost from the CWC did not live up to expectations.

### 2. Economic policies

#### (a) Fiscal policy

The central government deficit was 1.2 per cent of GDP in the fiscal year 2006-2007,[26] while the consolidated non-financial public sector deficit was 1.5 per cent of GDP for the calendar year 2006. Both figures were within the government's target ceiling of 2.5 per cent of GDP.

From April 2006 to March 2007, the central government collected current revenue of BDS$2.186 billion, a 2 per cent increase on the previous fiscal year. Economic growth led to an increase in receipts from the income and profits tax (11.3 per cent). Despite the reduction in the corporate tax rate from 40 per cent to 25 per cent in 2006, corporation tax revenues rose by 20 per cent as International Business Companies (IBC) reported increased profits. In 2006, 60 per cent of receipts from corporate taxation came from companies in that category, compared with 51 per cent in 2005.

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[26] In this section, percentage variations will refer to the difference between the fiscal years 2005/2006 and 2006/2007, unless otherwise stated.

Income tax receipts declined by 2 per cent, reflecting the reforms which have been put into place. The basic tax rate was cut from 25 per cent to 20 per cent, the exempt bracket was broadened from BDS$ 20,000 to BDS$ 22,500 and the marginal tariff was reduced from 40 per cent to 35 per cent. Despite the fall from 0.65 per cent to 0.45 per cent in the rate of tax on the ownership of real property valued between US$ 175,000 and US$ 425,000, effective receipts increased by 10 per cent as a result of property revaluations, improved compliance and a broadening of the tax base. Tax receipts from external trade rose by 2 per cent but receipts from goods and services in general fell by 4.5 per cent owing to falling consumer demand which resulted from the contraction of domestic credit.

Central government current expenditure, including amortization, increased by 3.8 per cent in nominal terms to US$ 1.179 billion, reflecting a considerable drop in spending in GDP terms. Spending on wages was slightly up (0.3 per cent) despite a 2 per cent increase due to cost-of-living adjustments. There were sharper increases in goods and service purchases (7.9 per cent) for materials for the Coastal Infrastructure Programme, road maintenance, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Barbados Drug Service. Current transfers were 3.5 per cent higher because of increased allocations to the Barbados Defence Force in anticipation of the CWC, the subsidization of the Leeward Islands Air Transport (LIAT) airline which is structurally unprofitable but essential for transport and tourism between the islands; and increased transfers to the University of the West Indies (UWI) and the Queen Elizabeth Hospital.

Decreases in capital spending (3.2 per cent) and in capital formation (6.1 per cent) were recorded for the fiscal year for the central government despite preparations for the CWC, revealing the existence of considerable extrabudgetary spending.

Interest payments on external debt climbed by 15 per cent in the latest fiscal year because of debt accumulation, particularly a bond issue in 2005. Another issue generated US$ 65 million in 2006, partly covering the fiscal deficit for that year. Most of the deficit for 2006 was made up by sales of bonds to the National Insurance Scheme, private non-banking entities and the Central Bank. The government also sold some shares in the Insurance Corporation of Barbados Ltd.

### (b) Monetary and exchange-rate policy

The restrictive monetary policy stance adopted by the Central Bank in late 2005 was maintained in 2006 in order to contain the external deficit and protect net international reserves in a fixed exchange rate environment.

The money supply contracted by 1 per cent compared with the two-figure growth between 2002 and 2004, and the M2/GDP ratio continued the decline which began in 2003. The expansion of domestic credit slowed from 16.5 per cent in 2005 to 9.6 per cent in 2006, owing to slower growth of credit to the non-financial private sector and a contraction in credit to the public sector.

The Central Bank's usual monetary instruments are the minimum deposit rate, reserve requirements and moral suasion. A combination of all three was used in 2006 to restrain growth of credit and liquidity.

In March 2006 the Central Bank increased from 10 per cent to 12 per cent the discount rate payable on its temporary advances to commercial banks. In December, it raised the minimum deposit rate from 4.75 per cent to 5.25 per cent, after having stepped it up in four stages from 2.25 per cent in March 2005 to 4.25 per cent in October 2006. The last increase was followed by an announcement that the minimum deposit rate would be aligned to the United States federal funds rate in order to prevent capital flight due to real interest rate differentials. The expected effect of this series of hikes was to cause commercial banks to raise lending rates. Although competition among financial institutions may have reduced the effectiveness of the interest rate rise, the rate did indeed go up in 2006 in relation to 2005: the prime lending rate as at December 2006 was about three percentage points higher than in January 2005 and average mortgage rates climbed to 8 per cent at the end of 2006 from 6.3 per cent in early 2005.

In April 2006, as a result of the gradual liberalization of the capital account to promote greater economic integration within CSME, it became necessary to create a new reserve requirement of 6 per cent of foreign currency deposits. Thus, total average reserves held by commercial banks with the Central Bank rose by 46 per cent over the year.

## 3. The main variables

### (a) Economic activity

For the third consecutive year, growth in real GDP was mainly driven by the services sectors. Basic services expanded by an average of 6.5 per cent, and the growth of other services was 4 per cent, mainly because of strong domestic demand; this was stimulated by rising disposable incomes made possible by the easy availability of credit and reform of personal income taxes.

While demand in the construction sector was spurred by the easing of the land tax and by public-sector works, construction was also driven by strong demand by non-residents for property in Barbados. Increased competition among commercial banks since 2005 has brought a surge in mortgage loans for private dwellings and in loans to non-residents. Growth in the demand for construction will have spill-over effects in other sectors of the economy, notably electricity, gas and water as well as the quarrying of building materials. The 3.0 per cent contraction in mining and quarrying in 2006 may be heralding a slowdown in growth in the construction sector for 2007. External demand for residential property in Barbados could benefit in the future from regional growth and the increased intraregional mobility associated with the CSME.

The international business and financial services sector expanded in 2006, as reflected by the issue of 537 licenses compared with 428 in 2005. This expansion followed the conclusion of new double taxation agreements with other countries in 2005[27] and the fall from 2.5 per cent to 1 per cent in corporate tax for international business companies, international banks and limited-liability companies.

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27 Austria and the Netherlands.

Growth in the traded goods and services sectors was weaker than in 2005. The performance of the sugar industry was poor (0.1 per cent), reflecting its transition to a sugar-cane-based ethanol industry as part of the current "sugar adaptation strategy". Barbados is an increasingly mature tourism market, but the non-sugar agriculture and manufacturing sectors remain yet to be fully developed in the face of internal and external constraints.

The manufacturing sector grew by only 1.1 per cent in 2006. The government's protectionist policy for the sector (competing imports are faced with a 60 per cent surcharge) seems to have had little impact and is expected to be phased out by 2008.

Real tourism output grew by 1.6 per cent in 2006 after a contraction of 2.3 per cent in 2005. Long-stay tourist arrivals grew by 3 per cent, offsetting the 6.3 per cent fall in cruise passenger arrivals. Nonetheless, the steep drop in cruise-ship arrivals in the past two years appears to have bottomed out. Itinerary adjustments on the part of cruise companies owing to high fuel costs continued in 2006, and fewer cruises offered Barbados as a destination. Prospects for tourism in early 2007 were good, with the holding of two major sports events on the island: the World Golf Championships (December 2006) and the final of the CWC (April 2007).

### (b) Prices, wages and employment

Prices rose by 5.9 per cent in 2006, less than in 2005. Factors behind the increases were rising oil prices in the first half of the year, the increase in the levy on extraregional imports, known as the cess, in 2006 from 3 per cent to 6 per cent as well as rising aggregate demand for goods and services fuelled by an 18 per cent expansion of private credit. Price increases are projected to moderate in 2007 with a tightening of monetary policy, more stable oil prices and the removal of the cess.

Wage increases were negotiated in December 2006 for a two-year period beginning in April 2006, between the government and the National Union of Public Workers, representing 10,000 of the 28,000 government employees (20 per cent of the employed labour force). A 7.5 per cent increase was backdated to April 2006 with a further 2.5 per cent payable as from April 2007, with no cost-of-living adjustment. Public-service pensioners were awarded a 6.67 per cent increase for the next two years. Given that payments will be effected in 2007, it is expected that this will impact on the fiscal deficit for that year. The nominal wage increase of 10 per cent, however, falls short of the combined inflation rates for 2006 and 2007, which should stand at 13.7 per cent.

Unemployment in 2006 was at its lowest in 16 years at 8.7 per cent, with a lower rate for men (7.7 per cent) than for women (9.8 per cent). Reports indicate that in the first three quarters of 2006, job creation occurred in tourism, construction and utilities sectors while losses were recorded in manufacturing, government services and the finance, insurance and business services sectors.

## (c) The external sector

The overall balance of payments showed a US$43 million surplus in 2006 compared with a deficit of US$ 68 million in the previous year. The change was due to a narrowing of the current account deficit, owing to a strong rise in the services account surplus and the reduced deficit on the goods account, and an expansion of net capital and financial inflows (16.5 per cent).

The fall in the current account deficit from 12.4 per cent to 8.4 per cent of GDP within a year can be partly explained by the continued tightening of monetary policy as well as the increased cess on extraregional imports in 2006. Given that extraregional imports make up 76 per cent of the total, the cess had a significant demand-reducing impact. As a result, goods imports stalled in 2006, contrasting with 15.8 per cent growth in 2005. Unsurprisingly, the slowdown in imports came from consumer and intermediate goods, whereas capital goods imports grew by 13.2 per cent, led by infrastructure development on the island. Goods exports, on the other hand, showed healthy growth (21.9 per cent) thanks to exports of electronic components (transistors to the United States market), a 7.3 per cent upswing in receipts from sales of chemicals owing to rising unit prices caused by higher input costs, and very strong growth (40 per cent) in the miscellaneous export sector, with exports of orthopedic appliances, machinery and transport equipment, metallic structures and metal containers.

Receipts from travel services, mostly tourism, were up 9 per cent and those from government services increased by 21.8 per cent, reflecting expansion in the international business and financial services sector.

The current account deficit of US$ 290 million was financed by a surplus of US$ 340 million on the capital and financial account, the largest ever recorded in Barbados. Net private capital inflows totalled US$ 146.9 million on account of proceeds from international real-estate transactions and lower amortization payments by the private sector, whereas net long-term public capital inflows amounted to US$ 67.4 million thanks to the success of a 2035 bond to finance preparations for the CWC. Over the past seven years the government has increasingly resorted to external borrowing in order to finance current account deficits and relieve pressures on the foreign exchange reserves in the face of a pegged exchange rate.

In 2007, the removal of the cess and of the surcharge on imports to protect locally-produced goods is expected to push the merchandise trade deficit upward.

# Table 18
# BARBADOS: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| | | Annual growth rates b/ | | | |
| **Gross domestic product** | 0.7 | 2.0 | 4.8 | 4.1 | 3.8 |
| **Trade** | -2.2 | 2.7 | 4.5 | 0.5 | 0.1 |
| **Non-traded** | 1.8 | 1.7 | 4.9 | 5.4 | 5.2 |
| **Per capita gross domestic product c/** | 0.4 | 1.7 | 4.6 | 3.8 | ... |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -4.2 | -4.0 | -5.7 | 3.5 | ... |
| Mining | -6.6 | -7.0 | 6.1 | 4.3 | ... |
| Manufacturing | 0.2 | -0.7 | 1.9 | 2.9 | ... |
| Electricity, gas and water | 1.8 | 2.8 | 2.2 | 5.0 | ... |
| Construction | 7.7 | 0.6 | 2.8 | 13.4 | ... |
| Wholesale and retail commerce, restaurants and hotels | -0.6 | 5.2 | 7.6 | 1.0 | ... |
| Transport, storage and communications | -2.9 | 2.6 | 5.2 | 4.8 | ... |
| Community, social and personal services d/ | 1.6 | 0.6 | 4.9 | 4.5 | ... |
| **Gross domestic product , by sector (1974 prices)** | | | | | |
| **Traded Sector** | -2.2 | 2.7 | 4.5 | 0.5 | 0.1 |
| Sugar | -9.8 | -19.2 | -5.1 | 1.1 | -11.6 |
| Non-sugar Agriculture & Fishing | -0.6 | 4.7 | -8.2 | 6.8 | -2.9 |
| Manufacturing | 1.0 | -1.6 | 2.1 | 2.1 | 1.1 |
| Tourism | -2.8 | 6.9 | 9.4 | -2.3 | 1.6 |
| **Non-traded Sector** | 1.8 | 1.7 | 4.9 | 5.4 | 5.2 |
| Mining & Quarrying | 6.4 | -16.0 | 9.5 | 8.7 | -3.0 |
| Electricity, Gas & water | 3.6 | 2.9 | 1.8 | -0.5 | 9.5 |
| Construction | 7.7 | 0.6 | 2.8 | 13.4 | 6.9 |
| Wholesale and Retail | 1.2 | 4.0 | 6.1 | 5.3 | 0.5 |
| Government | 6.4 | -3.7 | 5.6 | 3.5 | 3.0 |
| Transportation, Storage & Communications | -3.0 | 3.0 | 5.3 | 4.9 | 5.3 |
| Business & other services | -2.4 | 4.5 | 4.3 | 4.6 | 5.3 |
| **Balance of payments e/** | | Millions of US dollars | | | |
| Current account balance | -168 | -169 | -350 | -385 | -290 |
| Merchandise trade balance | -702 | -802 | -971 | -1,086 | -1,001 |
| Exports, f.o.b. | 253 | 264 | 293 | 378 | 461 |
| Imports, f.o.b. | 955 | 1,066 | 1,264 | 1,464 | 1,462 |
| Services trade balance | 550 | 647 | 660 | 778 | 854 |
| Income balance | -102 | -107 | -127 | -172 | -228 |
| Net current transfers | 86 | 93 | 88 | 95 | 85 |
| Capital and financial balance f/ | 256 | 358 | 180 | 317 | 333 |
| Long-term private capital | 94 | 154 | 33 | 31 | 151 |
| Other | 162 | 204 | 147 | 286 | 182 |
| Overall balance | 88 | 189 | -170 | -68 | 43 |
| Variation in reserve assets g/ | -88 | -189 | 170 | 68 | -43 |
| Other financing h/ | 0 | 0 | 0 | 0 | 0 |
| **International Reserves i/** | 914 | 1,099 | 956 | 890 | 931 |
| **Other external-sector indicators** | | | | | |
| Real effective exchange rate (index: 2000=100) j/ | 100.1 | 104.5 | 108.7 | 107.4 | 104.5 |
| Gross external public debt (millions of dollars) | 733 | 738 | 788 | 878 | 1,031 |
| Gross external public debt (percentage of GDP) | 29.6 | 27.4 | 27.9 | 28.4 | 30.1 |
| Net profits and interest (percentage of exports) k/ | -7.8 | -7.5 | -8.0 | -8.5 | |
| **Employment** | | Average annual rates | | | |
| Labour force participation rate l/ | 68.4 | 69.2 | 69.5 | 69.6 | 67.9 |
| Unemployment rate m/ | 10.3 | 11 | 9.8 | 9.1 | 8.7 |
| **Prices** | | Annual percentages | | | |
| Variation in consumer prices | | | | | |
| (December-December) | 0.9 | 0.3 | 4.3 | 7.4 | 5.9 |
| (annual average) | -4.6 | 4.6 | 1.6 | 6.1 | 7.3 |
| Nominal deposit rate n/ | 2.6 | 2.6 | 2.5 | 4.1 | 5.7 |
| Nominal lending rate o/ | 10.3 | 10.2 | 9.8 | 10.6 | 10.9 |

**Table 18 (continued)**

1 (concluded)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Non-financial public sector** | **Percentages of GDP (Nominal at market prices)** | | | | |
| Total income | 34.6 | 34.2 | 33.6 | 32.7 | 33.2 |
| Tax income | 32.0 | 32.3 | 32.2 | 30.6 | 31.7 |
| Total expenditure p/ | 40.9 | 37.2 | 35.9 | 36.8 | 34.7 |
| Current expenditure | 33.7 | 32.2 | 32.1 | 31.6 | 29.6 |
| Interest | 5.4 | 5.0 | 4.8 | 4.7 | 4.7 |
| Capital expenditure | 7.2 | 5.0 | 3.8 | 3.8 | 3.9 |
| **Primary balance q/** | **-1.0** | **2.0** | **2.6** | **0.5** | **3.2** |
| **Overall balance** | **-6.4** | **-2.7** | **-2.2** | **-4.2** | **-1.5** |
| Central government external debt | 27.2 | 24.8 | 23.7 | 25.6 | 23.2 |
| **Money and credit r/** | | | | | |
| Domestic credit | 67.3 | 67.9 | 72.8 | 80.1 | 79.7 |
| To the public sector | 12.8 | 17.5 | 20.4 | 20.5 | 16.3 |
| To the private sector | 54.5 | 50.4 | 52.4 | 59.6 | 63.4 |
| Liquidity (M3) s/ | 93.6 | 91.2 | 100.2 | 100.3 | 99.1 |
| Currency in circulation and local-currency deposits (M2 | 91.5 | 88.9 | 95.9 | 96.6 | 95.3 |
| Foreign-currency deposits -Residents | 2.1 | 2.3 | 4.3 | 3.7 | 3.8 |

**Source**: ECLAC, on the basis of official figures (Central Bank, Eonomic and Financial Statistics, February 2007).
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1974 prices.
c/Calculated as the difference between GDP Real growth rate figures published by the Central Bank (2007) less population growth rates figures published by the Ministry of Health (2006)
d/ Includes financial institutions, insurance, real estate and business services.
e/ Million of Barbados Dollars converted to US dollars on the basis of the fixed exchange rate of 2BD$ = 1 US$
f/ Includes errors and omissions.
g/ A minus sign (-) denotes an increase in reserves. This is taken from item "Reserve movements (CBB) basis" from the BOP figures of the Central Bank,which is decomposed into foreign assets of comemrcial banks and Net International Reserves (NIR).
h/ Includes the use of IMF credit and loans and exceptional financing.
i/ Consists of reserves held by Central Bank (foreign assets,short-term liabilities), Central Government (Government funds, Total sinking funds, other foreign securities), Commercial banks net foreign assets, and other public bodies.Figures are as at end December.
j/ Annual average, weighted by the value of merchandise exports and imports. For 2006, average taken for first 10 months only due to data availability.
k/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.
l/ Economically active population as a percentage of the working-age population.
m/ Percentage of the economically active population. Includes hidden unemployment.
n/ Weighted average of commercial banks savings and deposit interest rates (end of year)
o/ Refers to the commercial bank weighted average rate on total loans
p/ Includes net lending.
q/ Total revenue (tax and nontax revenue and grants) less total expenditure (excluding interest payments)
r/ The monetary figures are annual averages.
s/ M3= total monetary liabilities = currency with public, demand deposits, time deposits and savings deposits less non-residents foreign currency accounts

## D. Belize

### 1. General trends

For 2006 the Government of Belize calculated a GDP growth rate of 5.8 per cent, which includes a 3.3 percentage point contribution from oil exploration that started the same year[28]. Demand for tourism services and the elevated prices for agricultural export products stimulated the performance of the economy, whereas construction and manufactures contracted. The external debt, which had fairly short terms, was restructured through the issue of a new bond with terms up to 2029.

The fiscal problems behind the adjustment initiated in 2005 were the result of a period of high growth during which foreign borrowing was used to finance the reconstruction following the devastating passage of hurricanes at the beginning of the decade. Although the economic and political context was further complicated by financial problems in State enterprises and with State-guaranteed loans, the situation was handled sensibly and transparently.[29] The committee investigating the bankruptcy of the Development Finance Corporation (DFC) met from August 2006 to March 2007, and the proceedings were transmitted live throughout. The favourable external environment and petroleum exploitation both helped to moderate the tax burden and the pressure on the balance of payments towards the end of the year. Economic activity is predicted to be less buoyant in 2007, with GDP growth of only 2 per cent. Fiscal policy will continue to focus on controlling the deficit.

### 2. Economic policies

#### (a) Fiscal policy

The overall fiscal deficit narrowed from 4.3 per cent of GDP in 2005 to 1.7 per cent in 2006.[30] Achieving this involved building up a primary surplus of 4 per cent of GDP in 2006. The surplus is in sharp contrast with the primary deficit of 5 per cent of GDP in 2003, and demonstrates the scale of the fiscal adjustment measures applied over the last three years.

The primary surplus is mainly the result of tax revenues increasing by half a percentage point of GDP and the fall in current expenditure (0.7 percentage points, not including interest payments), given that capital expenditure had already dropped to a minimum during the two previous years.

Tax receipts swelled thanks to the introduction of the general sales tax (GST) in July 2006, which has a wider tax base than the tax it replaced. Increased receipts from the general sales tax offset lower revenues from taxes on international commerce resulting from changes in

[28] In Belize, real economic growth is calculated based on the production and price structures of the year 2000. The authorities decided to value the oil production that started in 2006 against current prices of the same year 2006.
[29] The Budget Presentation for Fiscal Year 2007/2008 was aptly titled "Facing, Fixing, Moving Ahead".
[30] Calculated on the basis of data for the fiscal year from April to March.

the calculation of consumer prices for petroleum derivatives.[31] In 2007, tax receipts will be boosted by the introduction of royalty payments for the oil industry.

In 2007, the Tax Reform Committee met to consider, inter alia, an amendment to the excise tax on alcoholic drinks and tobacco, which the authorities claim was encouraging smuggling. The government also decided to eliminate the import tax on gasoline, and instead to tax gasoline by a fixed sum per gallon, so that any fluctuations in international oil prices are passed directly on to the consumer.

Expenditure was contained thanks to a restriction on public wage increases and the freezing of debt servicing following the announcement of a restructuring offer.

For fiscal year 2007-2008, fiscal expenditure is expected to drop in the wake of debt restructuring. In terms of current expenditure, wages are expected to rise in line with the new performance evaluation system, and purchases of goods and services are predicted to increase, in the light of higher basic service charges and the need to carry out delayed maintenance work. For the first time in several years, capital expenditure will also edge up to meet priorities in terms of education, health and infrastructure.

A large part of the fiscal deficit was covered with loans not related to projects, and which therefore are not included in capital expenditure planning. This included policy-based lending from the Inter-American Development Bank (IDB) (US$ 25 million) and the Caribbean Development Bank (CDB) (US$ 25 million), as well as loans from Taiwan province of China and the Bolivarian Republic of Venezuela. New bonds were issued to help guarantee the debts of the DFC. Total public debt shrank by almost seven percentage points of GDP. Its main component is external public debt, which dropped to 80.7 per cent of GDP.

In February 2007, the government announced the end of its offer to exchange its short- and medium-term foreign commercial debt for 2029 bonds. This new issue was worth US$ 546.8 million in nominal terms, and resulted in the restructuring of 98.1 per cent of the debt. The operation had been painstakingly prepared with the advice of a United States consultancy firm, and involved identifying and subsequently negotiating with the main creditors. The fact that the Creditors' Committee for the country's foreign trade debt was made up almost entirely of financial institutions from the English-speaking Caribbean (with most headquartered in Trinidad and Tobago) contributed to the successful outcome of negotiations.

### (b) Monetary and exchange-rate policy

Broad money (M3) swelled by almost one percentage point of GDP, despite the decline in credit to the public sector. The driving forces behind the rise were the doubling of net foreign assets in the banking system, and the strong increase (13 per cent) of net domestic credit to the private sector.

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[31] To avoid a hike in fuel prices following the introduction of the general sales tax, fuel prices were made less dependent on a specific import tax (revenue replacement duty). Import taxes revenues declined as a result.

Monetary policy sought to cap the rise in local currency liquidity, in order to curb demand for foreign exchange and support the fiscal adjustment policy objective of meeting the country's external obligations. January 2006 saw the implementation of the International Banking Act, which clearly distinguishes between the deposits of non-residents and domestic deposits, and avoids artificial rises in liquidity. Also in early 2006, the legal reserve requirement was raised by 1 per cent. In September, there was a further 1 per cent increase in the requirement for cash deposits and a secondary reserve requirement.

Monetary policy failed to curb aggregate demand. The positive results in terms of exports of goods and services - combined with foreign receipts in the form of investments, loans and transfers - created a high level of liquidity in the banking system, thereby minimizing the effectiveness of monetary policy interventions. The average weighted interest rate on loans even dropped slightly, while the deposit rate rose. This resulted in a smaller banking spread. Although half of the increase in credit to the private sector took the form of personal loans, the number of loans also increased to companies in the real estate, commerce, transport and professional service sectors.

As for foreign-exchange policy, the fixed parity of two Belize dollars for one United States dollar was maintained. Given the prevailing circumstances, maintaining exchange-rate parity was a significant outcome of monetary and fiscal policy.

### (c) Other policies

The DFC debacle prompted a review of the country's structural policies. In July 2005, the Corporation owed debts of US$ 215 million to the Belize Mortgage Company, social security, the government and the CDB. It had a loan portfolio of its own worth US$ 162 million, with half in arrears. The institution's new authorities carried out a restructuring. The resulting reduction of the Corporation's activities has made it necessary to introduce a new assistance mechanism for micro-, small and medium-sized enterprises in the production sector. The government has requested advice from the CDB in this connection.

## 3. The main variables

### (a) Economic activity

Economic growth of the non-oil sector, comparable with the series based on the production structure and prices of 2000, was 2.5 per cent, driven by strong demand for some tourism-related services, especially commerce, transport and communications. Agriculture increased slightly whereas fisheries, construction and manufacturing contracted.

Nevertheless, the most striking feature of economic activity was the beginning of commercial oil exploitation and by including it in the 2006 GDP the authorities calculated an economic growth rate of 5.8 per cent. Small-scale exploration and production activities had been carried out since 1956, but it was in 2004 that the Belize Natural Energy Limited (a local private company) joined forces with the United States exploration enterprise, West Bay Exploration Co., to find commercial quantities of hydrocarbons. The reserve is known to contain 44 million barrels. Export production began in early 2006, with 716,000 barrels of the 811,000 total barrels produced over the year destined for external sales. Their value was the equivalent of 11 per cent of the country's total merchandise production.

Agricultural activity increased by a modest 1.4 per cent, despite good international prices for most export products. Sugar and sugarcane production rose (by 26 per cent and 11 per cent, respectively) while citrus production fell (-19 per cent). Shrimp fishing plummeted by more than 10 per cent, as a result of Asian competition in the United States market.

Tourism reported mixed results. The number of visitors arriving by land increased by 13 per cent, as a result of increasingly better communication links with Mexico and Guatemala. Despite being a small sector, yacht tourism turned in the country's most dynamic performance during 2006. In contrast, the number of cruise ships and cruise passengers fell, following a restructuring of the main companies' routes and the lack of suitable docks in Belize. Plans to build a dock, as part of a joint project between the port authority and Carnival Corporation (the sector's main international enterprise), have suffered setbacks due to disagreements between the parties involved.

### (b) Prices, wages and employment

The consumer price index climbed by 4.3 per cent between December 2005 and December 2006, which is the highest growth rate observed since 1997. The main price increases were recorded in the transport and communications sector, as well as in rentals, fuel and energy, all of which was mostly due to the introduction of the general sales tax and higher oil prices.

The labour force survey, which is carried out every April, showed that unemployment had dropped from 11 per cent in 2005 to 9.4 per cent in 2006. Most of the new jobs were created in tourism-related services.

The 2007-2008 budget is expected to include a slight increase in public wages as a result of the new performance evaluation system.

### (c) The external sector

The balance of payments turned in an overall surplus of US$ 33 million, as the small current-account deficit was amply offset by a surplus in the capital and financial account.

The current-account deficit was much smaller than in 2005, and indeed the smallest for 10 years, which reflects the degree of adjustment in the country's economy. The balance of goods and services even posted a surplus, mainly thanks to higher merchandise exports and lower imports of services.

Exports performed well thanks to the onset of oil exports, good prices for agricultural exports, the increase in sugar quotas for the United States and European markets, the strong demand for tourism-related services and rising sales from the free-trade zone.

Merchandise imports increased in value (10 per cent), in the light of oil prices. In contrast, service imports declined (-5 per cent), mainly following a fall in business services. The income account has a widening deficit, due in equal parts to the payment of interest and payment of dividends on direct and portfolio investment. The transfers account continued to post a structural deficit.

Following an impressive performance over the last three years, FDI spearheaded the improvement in the financial account that covered the small current-account deficit in 2006. The overall result is reflected in the expansion of net international reserves, which covered the equivalent of 2.2 months of imports at the end of the year.

**Table 19**
**BELIZE: MAIN ECONOMIC INDICATORS**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | | | Annual growth rates b/ | | |
| **Gross domestic product** | 5.1 | 9.3 | 4.6 | 3.5 | 5.8 |
| **Per capita gross domestic product** | 4.0 | 2.7 | 3.0 | 2.1 | 6.3 |
| | | | | | |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 0.5 | 38.9 | 9.5 | 3.1 | -5.7 |
| Mining | -5.4 | 0.0 | 5.7 | 2.2 | 1.1 |
| Manufacturing | 1.5 | -0.5 | 12.3 | 0.2 | -2.0 |
| Electricity, gas and water | 2.7 | 8.5 | -1.5 | -0.6 | 34.6 |
| Construction | 3.7 | -17.8 | 4.5 | -3.3 | -2.9 |
| Commerce, restaurants and hotels | 3.7 | 3.8 | 1.3 | 5.5 | 5.8 |
| Transport and communications | 11.3 | 8.6 | 5.0 | 7.8 | 5.2 |
| Financial institutions and insurance | 17.7 | 16.9 | 5.5 | 11.5 | 3.9 |
| Other services | 4.0 | 5.7 | 2.3 | 1.4 | 0.6 |
| | | | | | |
| **Gross domestic product, by type of expenditure** | | | | | |
| Consumption | 7.6 | 3.5 | -0.3 | -1.4 | ... |
| General government | 13.1 | 5.3 | -0.9 | 2.9 | ... |
| Private | 6.7 | 3.2 | -0.1 | -2.2 | ... |
| Gross domestic investment | -17.0 | 2.1 | -15.0 | 9.9 | ... |
| Exports (goods and services) | 8.7 | 13.0 | 4.1 | 12.6 | ... |
| Imports (goods and services) | 2.6 | 2.1 | -7.5 | 6.2 | ... |
| | | | | | |
| Balance of payments | | | Millions of dollars | | |
| Current account balance | -166 | -176 | -156 | -160 | -30 |
| Merchandise trade balance | -187 | -207 | -173 | -231 | -185 |
| Exports, f.o.b. | 310 | 316 | 307 | 325 | 427 |
| Imports, f.o.b. | 497 | 522 | -481 | -556 | -612 |
| Services trade balance | 44 | 70 | 88 | 134 | 200 |
| Income balance | -69 | -85 | -117 | -114 | -118 |
| Net current transfers | 47 | 46 | 46 | 86 | 74 |
| Capital and financial balance c/ | 160 | 146 | 125 | 179 | 62 |
| Net foreign direct investment | 25 | -11 | 111 | 126 | 72 |
| Financial capital d/ | 135 | 158 | 13 | 53 | -10 |
| Overall balance | -5 | -30 | -31 | 18 | 33 |
| Variation in reserve assets e/ | 5 | 30 | 31 | -18 | -33 |
| | | | | | |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 9.9 | 6.2 | 0.5 | 5.3 | ... |
| Gross external public debt (millions of dollars) | 652 | 822 | 913 | 970 | 985 |
| Gross external public debt (percentage of GDP) | 71.0 | 82.0 | 87.0 | 89.3 | 85.7 |
| Net profits and interest (percentage of exports) f/ | -14.1 | -16.1 | -20.8 | -18.2 | -15.2 |

**Table 19 (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Employment** | | | **Average annual rates** | | |
| Unemployment rate g/ | 10.0 | 12.9 | 11.6 | 11.0 | 9.4 |
| **Prices** | | | **Annual percentages** | | |
| Variation in consumer prices | | | | | |
| (December-December) | 2.3 | 2.6 | 3.1 | 3.7 | 4.3 |
| Nominal deposit rate h/ | 4.5 | 4.9 | 5.2 | 5.5 | 5.8 |
| Nominal lending rate i/ | 14.5 | 14.2 | 14.0 | 14.3 | 14.2 |
| **Central government j/** | | | **Percentages of GDP** | | |
| Total income | 30.4 | 22.8 | 24.3 | 23.9 | 24.6 |
| Current income | 28.9 | 21.6 | 21.6 | 23.0 | 23.2 |
| Tax income | 26.5 | 19.0 | 19.5 | 20.6 | 21.1 |
| Capital income | 0.2 | 0.9 | 1.3 | 0.3 | 0.4 |
| Total expenditure | 34.0 | 31.9 | 28.4 | 28.2 | 26.3 |
| Current expenditure | 26.9 | 20.0 | 20.3 | 24.1 | 22.4 |
| Interest | 6.3 | 4.0 | 3.9 | 6.7 | 5.7 |
| Capital expenditure | 7.2 | 11.9 | 8.1 | 4.1 | 4.0 |
| Primary balance | 2.8 | -5.0 | -0.2 | 2.4 | 4.0 |
| Overall balance | -3.6 | -9.0 | -4.1 | -4.3 | -1.7 |
| Total public debt | 79.1 | 96.2 | 99.7 | 99.8 | 92.9 |
| Domestic | 9.2 | 13.0 | 13.2 | 12.6 | 12.3 |
| External | 69.9 | 83.2 | 86.5 | 87.3 | 80.7 |
| **Money and credit k/** | | | | | |
| Domestic credit | 51.0 | 57.5 | 64.1 | 63.5 | 64.1 |
| To the public sector | 3.2 | 5.7 | 10.5 | 9.3 | 8.7 |
| To the private sector | 47.8 | 51.8 | 53.6 | 54.1 | 55.5 |
| Liquidity (M3) | 57.0 | 55.7 | 59.1 | 59.8 | 61.6 |

**Source**: ECLAC, on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2000 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.
g/ Percentage of the economically active population. Nationwide total.
h/ Weighted Average Saving rate.
i/ Weighted Average rate for loans.
j/ Since 2001, revenue, expenditure and balance figures corresponds to calendar years.
k/ The monetary figures are annual averages.

# E. Eastern Caribbean Currency Union

## A. General trends

The OECS economies posted their fifth year of positive growth in 2006, following the contraction in activity in 2001, when tourism and foreign direct investment were dampened by fallout from the 11 September 2001 events. Growth in 2006 (7.1 per cent) relative to 5.4 per cent in 2005, was the strongest over the five year period and reflected robust activity as countries drove to complete cricket stadiums, roads and other infrastructure and the private sector expanded hotel capacity and bread and breakfast properties in preparation for the CWC. Demand pressures from strong growth were not reflected in average prices, as inflation fell from 4.6 per cent in 2005 to 1.4 per cent in 2006. Nevertheless, the inflation figure might be linked to the outdated basket on which it is based, which fails to accurately track price movements.

Fiscal and debt expansion has arisen as one of the most important challenges for the OECS in the last six years and this continued in 2006. The overall deficit of central government almost doubled from 2.2 per cent of GDP to 4.2 per cent of GDP due to sharp growth in capital expenditure that outweighed the current surplus. Monetary conditions tightened somewhat in 2006, in spite of the neutral monetary stance of the authorities, constrained as they were by the currency board arrangement. Banking system liquidity tightened, as vibrant demand for credit outpaced growth in the deposits liabilities. Internal imbalance was partly compensated for by an improved external position, as the overall balance of payments shifted from a deficit equal to 0.4 per cent of GDP in 2005 to a surplus of 2.3 per cent of GDP in 2006, built on robust tourism and other construction related foreign direct investment.

Some of the growth impetus of the current year is expected to carry over into 2007, however, growth is expected to slow to 5.5 per cent. Construction activity will decelerate with the completion of some large projects (including stadiums construction) related to the CWC, but private sector activity focused on hotel, villas and commercial property expansion will remain dynamic. There might be a downside risk to this growth forecast, however, since real value added resulting from the hosting of the CWC seems to have been relatively lacklustre, falling below expectations. This was manifested in below par visitor arrivals and spending in the wake of the CWC. Inflation is expected to come in at around 2-3 per cent associated with movements in oil prices and particularly the removal of fuel subsidies by a complete pass through of price adjustments to consumers in some member countries. On a welcomed note, the fiscal out-turn is expected to improve in line with new tax measures, continued revenue buoyancy with growth and a slowdown in both capital and current expenditure. Growth in domestic credit and deposit liabilities are projected to decline in line with the activity and the balance of payments current account deficit is expected to remain stable as import contract and gross travel receipts pick up with higher visitor arrivals.

## B. Economic policy

In 2006 OECS States continued to grapple with fiscal consolidation and debt management to increase macroeconomic resilience to economic shocks, while pushing ahead with structural reforms to create a more internationally competitive economy, especially in the wake of the trend decline in traditional agriculture. Reforms included tax reform in Antigua and Barbuda and Dominica and public sector reform in St. Vincent and the Grenadines. Meanwhile in St. Kitts and Nevis and Saint Lucia sector reform focused on diversifying the economy after sugar in the former and a major tourism capacity expansion in the latter. All economies recognized the need to bring wage settlements in line with inflation and public sector productivity.

## 1. Fiscal policy

The fiscal authorities made greater strides in the direction of future consolidation in 2006. Consolidation is geared towards steadily bringing fiscal deficits down to manageable levels and to accelerating the move to sustainable debt levels, which are not a drag on growth and employment in the region. The Monetary Council, the highest decision-making body on policy agreed on a system of benchmarks at its 56th Meeting. These were aimed at improved coordination of fiscal and monetary policies to maintain the integrity of the currency board arrangement. The Council noted the fiscal targets established by governments in their budgets and approved the development of quarterly indicators to track achievement of these targets. Importantly, to enhance the transparency policy, the Council recommended that countries publish targets for public sector primary balances and debt to GDP ratios. These measures, if implemented, will help to ‘lock in’ fiscal prudence and help to move the countries to fiscal sustainability.

Nevertheless, fiscal policy was expansionary in 2006, with central government fiscal overall deficit doubling from ($217 million) or 2.2 per cent of GDP to ($449 million) or 4.2 per cent of GDP. Although there was a marked improvement in the current surplus, this was offset by galloping capital spending in an above average trend year. Capital spending expanded by 33.3 per cent to $1040 million (or 9.7 per cent of GDP), the largest amount in 10 years. Accelerated expenditure was fuelled by costly outlays on stadiums, roads, security, utilities and upgrading of the airports in Antigua and Barbuda and St. Vincent and the Grenadines in preparation for the CWC.

Although the sentimental value and the publicity from CWC are readily acknowledged there has been some questioning of the actual economic benefits that the subregion would have reaped from hosting matches. Initial indications are that the tournament was somewhat lackluster in terms of the number of visitors and spending. Moreover, CWC seems to have crowded out the traditional visitors. Therefore, countries will have to focus on the legacy component in terms of hosting a variety of events in the stadiums, increased tourism marketing overseas and other areas to reap future benefits from the tournament.

On the current side, the surplus more than doubled from 0.7 per cent of GDP in 2005 to 1.8 per cent in 2006, after the subregion recorded deficits averaging 1.2 per cent of GDP between 2000 and 2004. Revenue posted strong growth of 15 per cent to reach 28 per cent of GDP, reflecting robust growth in both tax and non-tax receipts. Tax revenue was boosted by the tax reform in Antigua and Barbuda and Dominica, including the reintroduction of personal income tax in the former and the value added tax (VAT), which was introduced in Dominica in March 2006. Taxes were also bolstered by increased proceeds from stamp duties in Anguilla, Antigua and Barbuda, St. Kitts and Nevis and St. Vincent and the Grenadines, linked in part to increased land sales for tourism related and private home construction.

Growth in current spending was almost three times the rate for 2005, shifting up to 26.2 per cent of GDP. Outlays on all the major categories of spending increased, reflecting an amalgam of factors. Expenditure on wages and salaries was up by 7.2 per cent driven by salary increases to public sector workers in Anguilla, Montserrat, Saint Lucia and St. Vincent and the Grenadines. Spending on transfers and subsidies rose due to greater transfers to statutory bodies. Outlays on goods on services increased mainly associated with higher payments for fuel with the rise in international fuel prices and acquisition of materials for CWC-related construction. Interest payments expanded by 13.4 per cent, reversing the previous years out-turn when there was an almost similar decline, reflecting increased contracting of debt by most member countries.

The sustainability of debt in the OECS is an important area of concern, as high debt levels relative to economic size and diversification presents a challenge to growth and fiscal manoeuvre in the event of economic shocks such as natural disasters. In 2006, public sector debt expanded to $11,109 million (103 per cent of GDP), relative to $10,474.3 million (106.9 per cent of GDP) in 2005. Central government debt increased by 5.9 per cent to 83.6 per cent of GDP, mainly due to higher domestic borrowing from commercial banks by the governments of St. Kitts and Nevis and Saint Lucia. External debt also increased in 2006, and was used to upgrade infrastructure for the CWC, public housing, schools and health facilities.

## 2. Monetary and exchange rate policy

Constrained by the inability to engage in active monetary policy in the context of the currency board with an open capital account (the so-called ‘impossible trinity’), the Eastern Caribbean Central bank (ECCB) has long adopted a largely neutral monetary stance. However, with average reserves of over 90 per cent of monetary liabilities for a number of years (far exceeding the 60 per cent requirement) it seems that the subregion has bought exchange rate stability at the cost of policy flexibility, especially short-term countercyclical monetary policy.

Monetary developments in 2006 were influenced by the uptick in economic activity and the private sector credit boom that has continued from the previous year. As a result, growth in domestic credit (14.6 per cent in 2005 and 16.5 per cent in 2006) was driven by strong private sector activity including the acquisition of property and durable goods, construction and tourism ($146.1 million and $316.4 million), respectively, and manufacturing and mining and quarrying. Private sector credit rose in all countries and ranged 11.2 per cent in Dominica to 24.5 per cent in Saint Lucia.

Credit expansion was built on growth of over 11 per cent in broad money (M2). This growth was propelled by a 25.1 per cent increase in foreign currency deposits, largely reflecting FDI inflows to finance tourism capacity expansion. With the strong demand for credit and slower growth in the money supply, liquidity in the banking system declined in 2006 relative to 2005. Consequently, the weighted average interest rate on deposits increased by 0.1 percentage point to 3.3 per cent. However, the weighted average interest rate on loans and advances fell by 0.3 per cent percentage point to 9.9 per cent as increased competition forced banks and non-banks to lower rates to attract customers. Moreover, with strong FDI inflows, the net foreign assets of the banking system increased by almost 11 per cent, compared with growth of 4 per cent in the previous year.

The Regional Government Securities Market (RGSM) is now an important vehicle for raising government finance. In 2006, gross funds raised by governments on the market increased by 80 per cent, reflecting participation by the Government of Antigua and Barbuda in the treasury bills and bond markets. Importantly, the maturity of instruments has increased, with the issue of more long-term instruments that should help governments to better manage their debt obligations.

## 3. The main variables

### (a) Economic activity

Growth picked up in 2006 (7.1 per cent compared with 5.4 per cent in 2005) driven by construction activity, tourism and agriculture. All the countries recorded higher growth rates, except Saint Lucia and Grenada. Construction activity maintained the strong growth momentum of 2005 (21.4 per cent in 2005 and 15.5 per cent in 2006). Activity in construction picked up in most member countries with Antigua and Barbuda and Saint Lucia (35 per cent and 25 per cent) posting the most dynamic growth rates. Private construction centred on expanded hotel room capacity, especially in Antigua and Barbuda and Saint Lucia related to their hosting of games for the CWC. This expansion was largely funded by FDI for foreign hotel chains and by commercial banks for some locally owned hotels. Activity also focused on commercial buildings and residential properties, the latter benefiting from tax incentives for constructing and expanding residential properties as part of the Home Stay accommodation programme for CWC, meant to spread the benefits of the tournament.

Tourism activity recovered with growth of 6.1 per cent in 2006, relative to 0.2 per cent in 2005, driven by an increase in stay-over visitors, especially persons staying in paid accommodation. While stay-over arrivals from the United Kingdom and Europe declined due to reduced airlift, this was offset by higher arrivals from the United States and the Caribbean. Arrivals were up in all countries, except Montserrat and Saint Lucia. Grenada registered the largest increase in stay-over visitors (20.4 per cent) linked to the reopening of a number of hotels that were damaged during Hurricane Ivan.

Agriculture posted a welcomed recovery, with growth of 10.8 per cent, following the almost similar decline in 2005. Improved performance was built on the turnaround (especially in Saint Lucia and Dominica) in banana production, which was up by 6.4 per cent, reflecting the control of the leaf spot infestation, favourable weather conditions and strong demand for the Fair Trade label bananas, which fetch higher prices on the EU market. Production of other crops, including cocoa, nutmeg and mace also rose on account of the recovery following hurricane damage to trees in Grenada. Meanwhile in St. Kitts and Nevis sugar cane harvests were stopped in the wake of the closure of the industry in 2005.

Value added in the fledgling manufacturing sector increased by 3.4 per cent in 2006, just over half the rate for the previous year. Production of soap, concrete blocks, processed foods, electronic components and paper board were up in response to stronger demand, but were somewhat offset by lower beer production in Dominica and soft drinks in Grenada.

**(b) Prices, wages and employment**

In spite of the strong pickup in activity and monetary expansion, inflation fell to 1.4 per cent in 2006, down from 4.6 per cent in 2005. Price pressures eased with the decline in international fuel prices in the latter half of the year and the governments' subsidy that cushioned the impact on consumers. Nevertheless, the outdated basket used to compute the index might have contributed to the low outturn. Prices increased in all countries, except Antigua and Barbuda and Saint Lucia. While prices remained fairly stable in Antigua and Barbuda, partly the result of the reduction of the customs service tax on basic food items, inflation in Saint Lucia fell due to declines in food prices.

Real wages recovered in 2006 as wage increases outpaced inflation. Public sector wages and salaries rose on the backs of increases ranging from 4.5 per cent in St. Vincent and the Grenadines to 12 per cent for the lower category of workers in Montserrat. Average private sector wages were also indicated to have increased; pulled up by construction sector wages and labour shortages in some countries.

Employment picked up with the strong growth in activity, particularly in construction and hotel and restaurant sectors. Indeed workers had to be imported in some countries, especially Anguilla. Public sector employment also increased in Antigua and Barbuda, Montserrat and St. Kitts and Nevis.

**(c) The evolution of the external sector**

Improvements in the overall balance of payments of the OECS have long depended on its ability to attract FDI inflows, rather than strengthened export competitiveness that is reflected in higher net exports. To put its external accounts on a more sustainable footing, the subregion needs to improve its export competitiveness in goods, tourism and other services to narrow the structural current account deficit and not to simply rely on capital inflows (foreign savings) to bridge the gap.

Reversing the outcome in 2005 (a deficit of 0.4 per cent of GDP), the OECS achieved a balance payments surplus (2.3 per cent of GDP) in 2006 as a result of a sharp increase in capital inflows. The surge in capital inflows was associated with FDI (US$850 million or 21.4 per cent of GDP, relative to 14.8 per cent of GDP in 2005) in tourism related projects, including hotels, villas and condominiums, particularly in Antigua and Barbuda and Saint Lucia, as investors strived to consolidate their positions in the up-market niche product in the subregion. The rest of the capital and financial account did not do too well, as commercial bank investments abroad led to net outflows and inflows of grant finance was down by more than 50 per cent, reflecting the slowdown in one-off assistance from the Republic of China for building sports stadiums and debt forgiveness for Antigua and Barbuda in 2005.

The structural current account deficit widened to 23.9 per cent of GDP from 19.4 per cent of GDP in 2005 related to the pick up in import-dependent growth and high international fuel and other commodity prices. Imports expanded sharply fuelled by the growth in construction and higher commodity prices and also increased demand for consumption goods related to the rise in income. However, exports declined, as higher export volume and prices for bananas was offset by the non-export of sugar following the closure of the industry in 2005. The services account deteriorated by 1.2 per cent as net outflows on insurance and other business services offset the 4.9 per cent increase in net travel receipts stemming from higher visitor arrivals and expenditure. Meanwhile the income account deficit remained stable at around 6 per cent of GDP.

## 4. Country briefs

### (a) Antigua and Barbuda

The pace of economic activity doubled to 11.5 per cent in 2006 driven by robust construction and tourism value added. The buoyant environment provided some degrees of freedom for the government to push ahead with macroeconomic reforms aimed at narrowing macroeconomic imbalances, especially past fiscal excesses. Income tax had been reintroduced in 2005 and the yield has been quite good. Reform is part of a wider agenda for strengthening the fiscal position, reducing public debt, diverting resources in the development of physical infrastructure and social capital and facilitating private sector development.

The authorities have set out key medium term macroeconomic targets including a current account surplus of 4 per cent of GDP within five years; an overall fiscal deficit of not more than 3 per cent of GDP within five years; disbursed outstanding debt not exceeding 60 per cent of GDP in 10 years time and sustained growth of not less than 5 per cent. These targets, some of which are challenging, signal good intent and should help to lock in reforms. Moreover, specific steps are being taken to help achieve the targets, including enhancing revenue collection systems, rationalizing government expenditure and public service reform. On public service reform, a voluntary separation and early retirement programme (VSEP) has been introduced aimed at removing 1000 persons from the service. Although this would entail a significant one-off cost, it would help to contain future costs.

To enhance the competitiveness of the vital tourism sector the government has embarked on a strategy that is focused on sustainability, collaboration and quality management. The aim is maintain the country as a high-end, up-market destination, while broadening the product range and quality of services offered to improve value for money in the destination.

### (b) Dominica

In recognition of its need to balance economic reform, growth and poverty reduction, Dominica has implemented a Poverty Reduction and Growth Facility (PRGF) under the auspices of the IMF. With improved macroeconomic stabilization in the last few years, positive growth which has returned in the last three was strongest in 2006 (4.6 per cent). The authorities have subscribed to the ECCB target in terms of debt (60 per cent of GDP) over the medium term and also to achieving primary surpluses to provide funds to defray a portion of capital spending.

An important area of focus is on structural reforms that would strengthen the business climate and catalyse private investment and entrepreneurship. These are critical in the wake of the fall-out from the stagnation of the banana industry.

### (c) Grenada

Economic policy in 2006 was geared towards reform and adjustment to consolidate growth. In this regard, government continued to build up the capital stock that was badly damaged in 2004. As was expected, real activity slowed to in 2006 (2.1 per cent) after the resurgence in 2005 (12.1 per cent) following Hurricane Ivan in 2004.

On the fiscal front, tax administration has been strengthened with establishment of a Recoveries and Collection Unit in the Ministry of Finance to improve collections from delinquent tax payers. In addition, the auditing systems have been enhanced with the recruitment of additional accountants. Government also plans to reintroduce the VAT in October 2007.[32] The VAT will replace the general consumption tax, the airline ticket tax and the motor vehicle purchase tax. The approach is to make the VAT broad based so as to tax more people at a lower rate, thereby increasing compliance and government revenues.

### (d) St. Kitts and Nevis

In spite of the closure of the sugar industry and the expected fall-out in real output, activity actually picked up in 2006 (growth of 5.8 per cent relative to 4.1 per cent in 2005). The economy benefited from a construction boom and buoyant tourism value added. These two motor sectors helped to drive activity in others, including commerce and communications.

The thrust of policy remains focused on fiscal and debt consolidation and diversification and structural transformation of the economy into a dynamically competitive service-based economy in the wake of the closure of the sugar industry. Fiscal reform is focused on tax reform, improved expenditure management and strengthened tax administration. A number of hotels are also planned to increase room capacity, while maintaining the islands as an up-market destination.

### (e) Saint Lucia

Economic activity slowed a bit in 2006, but at 5.7 per cent growth was above the average for the last decade. Growth was propelled by strong construction activity, including hotel construction, which was boosted by significant tax concessions and public construction, including road and other infrastructure, in preparation for CWC. Agriculture rebounded thanks to an 11.4 per cent increase in banana production and manufacturing also posted good growth

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[32] Grenada was one of the earliest English-speaking Caribbean countries to introduce the VAT in the 1980s, but failed for a number of reasons, including poor tax-payer education, its regressive nature with respect to income and too speedy implementation, which led to low compliance and collections.

due to increased value added in the beverage sector. Inflation fell by 0.6 compared with an increase of 5.2 in 2005, dampened in part by the fall in oil prices in the latter half of the year.

Fiscal consolidation and debt management remains a major challenge for Saint Lucia. In 2006, above normal capital expenditure related to CWC led to deterioration in central government finances, with the overall deficit shifting up to 6.1 per cent of GDP.

The new administration plans to revitalize the agriculture sector to restore its competitiveness and viability. The Agriculture Diversification Programme is aimed at expediting the modernization of the sector. The programme will provide farmers with the necessary training to adopt modern technology; improved systems of production to raise productivity; and the adoption of standards to meet international trade requirements. Alongside bananas, increased attention will be paid to fruits and cash crops in an effort to strengthen linkages with the tourism sector.

**(f) St. Vincent and the Grenadines**

With dynamic growth (2.2 per cent in 2005 and 6.5 per cent in 2006), government continued its programme of infrastructure development and public sector reform to provide a pivot for improved private sector development. Growth in 2006 was anchored on rebound in tourism (value added up by 6 per cent), construction and light manufacturing.

Efforts are being made to revamp the public sector to improve service delivery by strengthening human resource planning, management and training and streamlining the sector through a reclassification exercise. The focus is on pay for equity that provides equal pay for equal work and developing job classifications that tightly reflects work to be done.

## Table 20
## ORGANISATION OF EASTERN CARIBBEAN STATES: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| | Annual growth rates b/ | | | | |
| **Gross domestic product** | 0.5 | 3.0 | 4.1 | 5.4 | 7.1 |
| **Per capita gross domestic product** | -0.1 | 2.4 | 3.4 | 4.7 | 8.0 |
| | | | | | |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 5.3 | -4.7 | 0.4 | -12.1 | 10.8 |
| Mining | -1.5 | 6.7 | -7.1 | 17.3 | 37.7 |
| Manufacturing | -1.3 | 0.8 | -1.4 | 5.4 | 3.4 |
| Electricity, gas and water | 2.0 | 2.9 | 1.3 | 3.6 | 5.7 |
| Construction | -2.5 | 2.9 | 5.1 | 21.1 | 15.5 |
| Wholesale and retail commerce, restaurants and hotels | -0.4 | 8.4 | 4.9 | 5.8 | 7.1 |
| Transport and communications | -0.6 | 3.7 | 7.2 | 4.9 | 4.7 |
| Financial institutions, insurance, real estate and business services | 3.3 | 2.0 | 5.7 | 4.3 | 5.7 |
| Community, social and personal services | 2.8 | 1.2 | 2.9 | 2.9 | 3.9 |
| | | | | | |
| **Balance of payments** | Millions of dollars | | | | |
| Current account balance | | | | | |
| Merchandise trade balance | -595 | -681 | -475 | -705 | -948 |
| Exports, f.o.b. | -1,004 | -1,176 | -1,192 | -1,397 | -1,584 |
| Imports, f.o.b. | 271 | 259 | 366 | 355 | 366 |
| Services trade balance | 1,275 | 1,435 | 1,530 | 1,763 | 1,939 |
| Income balance | 524 | 604 | 765 | 745 | 736 |
| Net current transfers | -215 | -238 | -267 | -234 | -254 |
| Capital and financial balance c/ | 100 | 129 | 220 | 181 | 153 |
| Net foreign direct investment | 659 | 722 | 563 | 616 | 1,121 |
| Financial capital d/ | 343 | 553 | 449 | 537 | 850 |
| Overall balance | 317 | 169 | 244 | 263 | 271 |
| Variation in reserve assets e/ | 64 | 41 | 110 | -16 | 92 |
| Other financing f/ | -63 | -41 | -110 | 16 | -92 |
| | -1 | 0 | 0 | 0 | |
| **Other external-sector indicators** | | | | | |
| Gross external public debt (millions of dollars) | 1,764 | 2,008 | 1,964 | ... | |
| Gross external public debt (percentage of GDP) | 63.7 | 67.6 | 59.9 | ... | |
| | | | | | |
| **Prices** | Average annual rates | | | | |
| Variation in consumer prices (December-December) | -0.1 | 1.0 | 2.7 | 4.6 | 1.4 |
| Nominal deposit rate g/ | 3.7 | 4.6 | 3.2 | 3.2 | 3.3 |
| Nominal lending rate g/ | 11.0 | 12.8 | 10.4 | 10.2 | 9.9 |
| | | | | | |
| **Money and credit i/** | | | | | |
| Domestic credit | 74.1 | 69.8 | 70.5 | 74.2 | 78.9 |
| To the public sector | -1.1 | -2.7 | -2.3 | -0.3 | -1.6 |
| To the private sector | 77.1 | 74.3 | 73.5 | 75.3 | 81.0 |
| Liquidity (M3) | 84.7 | 88.0 | 93.0 | 92.4 | 94.1 |
| Currency in circulation and local-currency deposits (M2) | 73.1 | 76.3 | 79.9 | 78.1 | 77.7 |
| Foreign-currency deposits | 11.5 | 11.7 | 13.1 | 14.4 | 16.4 |

**Source**: ECLAC, on the basis of official figures.
a Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Includes the use of IMF credit and loans and exceptional financing.
g/ Weighted averages.
h/ Includes grants.
i/ The monetary figures are annual averages.

## Table 20-A
## ANTIGUA AND BARBUDA: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Gross domestic product** | 2.0 | 4.3 | 5.2 | 5.3 | 11.5 |
| **Per capita gross domestic product** | 1.7 | 3.5 | 4.0 | 4.4 | … |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 1.0 | 2.5 | 2.6 | 3.0 | 2.9 |
| Mining | 2.0 | 5.5 | -12.5 | 26.8 | 45.0 |
| Manufacturing | 3.2 | 7.9 | -4.0 | 0.9 | 5.0 |
| Electricity, gas and water | 4.1 | -2.7 | 6.4 | 6.4 | 5.0 |
| Construction | 3.5 | 6.7 | 2.5 | 19.5 | 35.0 |
| Wholesale and retail commerce, restaurants and hotel | 0.0 | 7.4 | 5.2 | 0.7 | 8.6 |
| Transport, storage and communications | -1.4 | 7.8 | 9.0 | 2.9 | 7.9 |
| Financial institutions, insurance, real estate and business services | 8.0 | -0.1 | 7.7 | 3.7 | 4.6 |
| Community, social and personal services | 5.1 | 2.7 | 4.0 | 3.4 | 3.6 |
| **Balance of payments** | | | | | |
| Current account balance | -109 | -102 | -68 | -58 | -157 |
| Merchandise trade balance | -296 | -308 | -318 | -308 | -390 |
| Exports, f.o.b. | 45 | 45 | 57 | 82 | 72 |
| Imports, f.o.b. | 341 | 353 | 375 | 390 | 462 |
| Services trade balance | 223 | 231 | 287 | 284 | 274 |
| Income balance | -41 | -39 | -46 | -42 | -48 |
| Net current transfers | 6 | 13 | 8 | 8 | 6 |
| Capital and financial balance c/ | 117 | 128 | 112 | 85 | 183 |
| Net foreign direct investment | 66 | 166 | 80 | 116 | 190 |
| Financial capital d/ | 51 | -38 | 32 | -31 | -7 |
| Overall balance | 8 | 26 | 6 | 7 | 15 |
| Variation in reserve assets e/ | -8 | -26 | -6 | -7 | -15 |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 10.6 | 11.9 | 5.4 | 11.4 | … |
| Gross external public debt (millions of dollars) | 434 | 494 | 527 | 313 | … |
| Gross external public debt (percentage of GDP) | 60.8 | 65.4 | 64.4 | 35.8 | … |
| Net profits and interest (percentage of exports) f/ | -9.4 | -8.4 | -8.7 | -8.2 | … |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | 2.5 | 1.8 | 2.8 | 0.0 | … |
| Nominal deposit rate g/ | 5.8 | 4.8 | 3.7 | 3.9 | … |
| Nominal lending rate h/ | 11.0 | 10.7 | 10.6 | 10.8 | … |

**Table 20-A (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Central government** | | | | | |
| Total income | 21.7 | 21.5 | 24.6 | 46.0 | 24.8 |
| Current income | 20.1 | 20.8 | 21.4 | 21.0 | 22.5 |
| Tax income | 18.0 | 18.8 | 19.3 | 19.4 | 21.2 |
| Capital income | 0.2 | 0.1 | 1.0 | 0.8 | 0.2 |
| Total expenditure | 33.5 | 27.6 | 27.5 | 28.0 | 31.3 |
| Current expenditure | 28.4 | 24.4 | 25.0 | 24.0 | 23.9 |
| Interest | 4.9 | 3.8 | 4.9 | 3.8 | 3.6 |
| Capital expenditure (net) | 5.2 | 3.2 | 2.5 | 4.0 | 7.4 |
| Primary balance | -6.9 | -2.4 | 2.0 | 21.8 | -2.9 |
| Overall balance | -11.8 | -6.2 | -3.0 | 18.0 | -6.5 |
| Total external public debt | 75.7 | 76.3 | 40.9 | ... | ... |
| **Money and credit** | | | | | |
| Domestic credit | 73.6 | 73.6 | 70.5 | 71 | 70 |
| To the public sector | 4.1 | 6.2 | 4.8 | 4 | -1 |
| To the private sector | 75.5 | 73.2 | 68.2 | 71 | 74 |
| Other | -6.0 | -5.8 | -2.5 | -3 | -3 |
| Broad money (M3) | 80.1 | 91.9 | 92.4 | 93 | 92 |
| Currency in circulation and local-currency deposits | 74.0 | 86.6 | 86.3 | 87 | 84 |
| Foreign currency deposits | 6.1 | 5.2 | 6.1 | 5.8 | 7.5 |

Source: ECLAC, on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

e/ A minus sign (-) denotes an increase in reserves.

f/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.

g/ Average of the minimum and maximum rates.

h/ Prime rate, average of the minimum and maximum rates.

i/ Includes grants.

# Table 20-B
# DOMINICA: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Balance of payments** | | | | | |
| Current account balance | -44.8 | -42.0 | 59.4 | -77.8 | -74.4 |
| Merchandise trade balance | -58.7 | -63.8 | -85.2 | -104.0 | -107.0 |
| Exports, f.o.b. | 43.6 | 41.0 | 42.6 | 42.6 | 40.1 |
| Imports, f.o.b. | 102.4 | 104.9 | -126.7 | -145.5 | -146.7 |
| Services trade balance | 25.8 | 33.7 | 41.2 | 33.6 | 43.0 |
| Income balance | -25.5 | -24.6 | -34.0 | -28.0 | -31.0 |
| Net current transfers | 13.6 | 12.8 | 16.8 | 19.8 | 17.2 |
| Capital and financial balance c/ | 57.3 | 44.8 | 53.0 | 98.0 | 127.7 |
| Net foreign direct investment | 17.7 | 29.0 | 26.2 | 32.6 | 32.7 |
| Financial capital d/ | 39.6 | 15.8 | 26.8 | 65.4 | 95.0 |
| Overall balance | 12.5 | 2.7 | -5.9 | 14.4 | 13.4 |
| Variation in reserve assets e/ | -12.5 | -2.7 | 5.9 | -14.4 | -13.4 |
| Other financing f/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| **Other external-sector indicators** | | | | | |
| Real effective exchange rate (index: 2000=100) g/ | 101.5 | 104.1 | 107.5 | 111.1 | … |
| Gross external public debt (millions of dollars) | 202 | 219 | 207 | 208 | … |
| Gross external public debt (percentage of GDP) | 78.9 | 80.7 | 72.6 | 70.3 | … |
| Net profits and interest | | | | | |
| (percentage of exports) h/ | -20.7 | -20.7 | -24.3 | -21.6 | … |
| | | | | | |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | | | | | |
| Nominal deposit rate i/ | -1.2 | 2.8 | 0.8 | 2.7 | … |
| Nominal lending rate j/ | 4.3 | 3.3 | 3.3 | 3.6 | … |
| | 9.8 | 9.5 | 9.3 | 9.3 | … |
| **Central governmnt k/** | | | | | |
| Total income | 30.3 | 33.5 | 39.2 | 37.8 | 43.7 |
| Current income | 28.0 | 28.8 | 30.5 | 31.5 | 31.3 |
| Tax income | 23.5 | 25.3 | 26.6 | 36.9 | 28.8 |
| Capital income | 0.3 | 0.2 | 0.3 | 2.1 | 0.1 |
| Total expenditure | 36.0 | 38.5 | 40.9 | 36.4 | 37.8 |
| Current expenditure | 30.2 | 32.6 | 30.3 | 29.3 | 28.4 |
| Interest | 5.8 | 6.3 | 5.4 | 3.2 | 4.0 |
| Capital expenditure l/ | 5.3 | 5.5 | 10.3 | 6.7 | 9.0 |
| Primary balance | 0.7 | 1.8 | 3.9 | 5.8 | 10.3 |
| Overall balance | -5.1 | -4.4 | -1.5 | 2.6 | 6.3 |
| | | | | | |
| Total public debt | 127.1 | 126.8 | 113.1 | 109.9 | … |
| Domestic | 45.5 | 42.2 | 27.1 | … | … |
| External | 81.6 | 84.6 | 86.0 | … | … |
| | | | | | |
| **Money and credit m/** | | | | | |
| Domestic credit | 65.0 | 50.6 | 47.0 | 48.1 | 41.0 |
| To the public sector | 9.0 | 3.4 | -0.9 | -2.7 | 0.0 |
| To the private sector | 63.0 | 59.3 | 58.5 | 58.9 | 61.8 |
| Other | -6.9 | -12.0 | -10.5 | -8.1 | -8.7 |
| Broad money (M3) | 79.8 | 78.1 | 76.3 | 77.4 | 79.9 |
| Currency in circulation and local-currency deposits (M2) | 76.6 | 76.7 | 74.5 | 76.1 | 78.6 |
| Foreign currency deposits | 3.2 | 1.4 | 1.7 | 1.3 | 1.3 |

**Source**: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Includes the use of IMF credit and loans and exceptional financing.
g/ Weighted averages.
h/ Includes grants.
i/ The monetary figures are annual averages.

**Table 20-C**
**GRENADA: MAIN ECONOMIC INDICATORS**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Gross domestic product** | 0.8 | 5.8 | -6.9 | 12.1 | 2.1 |
| **Per capita gross domestic product** | 0.4 | 7.4 | -3.3 | 4.6 | … |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 19.0 | -2.4 | -7.3 | -38.1 | 72.5 |
| Mining | -15.1 | 40.4 | -15.3 | 8.6 | 20.0 |
| Manufacturing | -3.8 | -2.4 | -14.6 | 18.8 | -1.0 |
| Electricity, gas and water | 3.3 | 6.7 | -7.9 | 4.7 | 22.1 |
| Construction | 1.0 | 26.0 | 3.3 | 91.0 | -15.0 |
| Wholesale and retail commerce | 2.6 | 10.1 | -16.9 | -4.0 | 5.9 |
| Transport, storage and communications | -5.1 | 4.7 | -2.4 | 26.7 | -6.5 |
| Financial institutions, insurance, real estate and business services | 4.8 | 6.3 | -1.8 | -2.2 | 10.0 |
| Community, social and personal services | 1.0 | 0.9 | 0.0 | -4.9 | 4.0 |
| **Balance of payments** | | | | | |
| Current account balance | -122 | -141 | -34 | -168 | -155 |
| Merchandise trade balance | -136 | -178 | -172 | -242 | -211 |
| Exports, f.o.b. | 41 | 46 | 33 | 38 | 32 |
| Imports, f.o.b. | 178 | 224 | 205 | 280 | 243 |
| Services trade balance | 41 | 51 | 68 | 24 | 39 |
| Income balance | -48 | -50 | -50 | -28 | -29 |
| Net current transfers | 22 | 36 | 121 | 78 | 47 |
| Capital and financial balance c/ | 132 | 133 | 75 | 198 | 257 |
| Net foreign direct investment | 55 | 89 | 65 | 83 | 116 |
| Financial capital d/ | 187 | 222 | 140 | 282 | 373 |
| Overall balance | 31 | -13 | 46 | -27 | 6 |
| Variation in reserve assets e/ | -31 | 13 | -46 | 27 | -6 |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 26.7 | 18.2 | 14.5 | 15.3 | … |
| Gross external public debt (millions of dollars) | 260 | 278 | 330 | 400 | … |
| Gross external public debt (percentage of GDP) | 63.8 | 62.5 | 75.4 | 80.5 | … |
| Net profits and interest (percentage of exports) f/ | -27.5 | -28.0 | -20.0 | -14.3 | … |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | -0.4 | 1.1 | 2.5 | 5.8 | … |
| Nominal deposit rate g/ | 4.7 | 4.1 | 3.8 | 3.5 | … |
| Nominal lending rate h/ | 9.8 | 9.3 | 9.0 | 9.0 | … |

**Table 20-C (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Central Government** | | | | | |
| Total income i/ | 29.0 | 32.0 | 34.1 | 38.3 | 35.3 |
| Current income | 26.6 | 27.0 | 26.1 | 26.4 | 27.8 |
| Tax income | 23.8 | 24.9 | 24.3 | 25.3 | 25.9 |
| Capital income j/ | 0.3 | 0.0 | 0.1 | 0.0 | 0.0 |
| Expenditure | 48.0 | 36.8 | 35.0 | 34.2 | 42.4 |
| Current expenditure | 26.5 | 23.9 | 27.9 | 22.1 | 22.9 |
| Interests | 4.5 | 5.3 | 6.2 | 2.0 | 2.1 |
| Capital expenditure k/ | 22.2 | 13.0 | 9.1 | 12.0 | 19.5 |
| Primary balance | -14.3 | 0.4 | 3.4 | 6.2 | 0.0 |
| Fiscal balance | -19.0 | -4.9 | -2.9 | 4.1 | -7.1 |
| | | | | | |
| Public sector debt | 63.8 | 62.5 | 75.4 | 80.5 | ... |
| | | | | | |
| **Money and credit l/** | | | | | |
| Domestic credit | 84.4 | 92.8 | 78.4 | 76 | 84 |
| To the public sector | 3.5 | 5.4 | -1.6 | -2 | -3 |
| To the private sector | 81.5 | 77.9 | 86.5 | 80 | 88 |
| Others | -0.7 | -0.5 | -6.5 | -2 | -1 |
| Liquidity (M3) | 106.1 | 105.2 | 128.8 | 108.0 | 101.2 |
| Currency in circulation and local-currency deposits (M2) | 98.9 | 97.2 | 121.0 | 100.5 | 101.2 |
| Foreign currency deposits | 7.2 | 8.0 | 7.7 | 7.5 | 5.5 |

**Source**: ECLAC, on the basis of official figures.

a Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

e/ A minus sign (-) denotes an increase in reserves.

f/ Includes the use of IMF credit and loans and exceptional financing.

g/ Weighted averages.

h/ Includes grants.

i/ The monetary figures are annual averages.

## Table 20-D
## ST KITTS AND NEVIS: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | Annual growth rates b/ | | | | |
| **Gross domestic product** | -0.3 | -1.2 | 7.3 | 4.1 | 5.8 |
| **Per capita gross domestic product** | -0.1 | 1.0 | 5.2 | 5.7 | … |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 13.3 | -12.7 | 12.3 | -6.7 | -14.4 |
| Mining | 19.4 | -46.6 | 10.5 | 5.0 | 74.8 |
| Manufacturing | -4.0 | -0.2 | 3.8 | 0.6 | 4.1 |
| Electricity, gas and water | 9.8 | 10.6 | 8.4 | 0.6 | 5.9 |
| Construction | -5.6 | -12.6 | 1.2 | 5.8 | 12.9 |
| Wholesale and retail commerce, restaurants and hotels | -0.7 | 11.7 | 8.3 | 6.7 | 10.4 |
| Transport, storage and communications | -0.7 | -2.6 | 17.6 | 7.8 | 3.5 |
| Financial institutions, insurance, real estate and business services | 1.7 | 3.0 | 13.5 | 6.5 | 8.3 |
| Community, social and personal services | 3.4 | 0.8 | 2.8 | 2.0 | 3.6 |
| **Balance of payments** | Millions of dollars | | | | |
| Current account balance | -124 | -116 | -69 | -84 | -128 |
| Merchandise trade balance | -113 | -118 | -106 | -135 | -167 |
| Exports, f.o.b. | 64 | 57 | 59 | 55 | 59 |
| Imports, f.o.b. | 178 | 176 | 161 | 185 | 218 |
| Services trade balance | 11 | 28 | 54 | 60 | 45 |
| Income balance | -38 | -44 | -39 | -34 | -33 |
| Net current transfers | 16 | 19 | 18 | 21 | 20 |
| Capital and financial balance c/ | 134 | 115 | 81 | 24 | 132 |
| Net foreign direct investment | 80 | 76 | 46 | 86 | 200 |
| Financial capital d/ | 53 | 39 | 36 | -9 | -55 |
| Overall balance | 10 | -1 | 14 | -7 | 17 |
| Variation in reserve assets e/ | -9 | 1 | -14 | 7 | -17 |
| Other financing f/ | -1 | 0 | 0 | 0 | 0 |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 27.0 | 19.5 | 14.9 | 12.0 | … |
| Gross external public debt (billions of dollars) | 261 | 315 | 304 | 285 | … |
| Gross external public debt (percentage of GDP) | 74.4 | 86.5 | 75.1 | 62.8 | … |
| Net profits and interest (percentage of exports) g/ | -24.6 | -26.5 | -21.8 | -20.5 | … |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | 1.7 | 3.1 | 1.7 | 7.2 | … |
| Nominal deposit rate h/ | 4.7 | 4.3 | 4.3 | 4.2 | … |
| Nominal lending rate i/ | 10.6 | 9.8 | 9.4 | 8.7 | … |

**Table 20-D (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Central government** | | | **Percentage of GDP** | | |
| Total income j/ | 35.2 | 33.7 | 34.7 | 40.6 | 40.7 |
| Current income | 31.6 | 32.9 | 33.9 | 37.5 | 38.1 |
| Tax income | 22.4 | 23.9 | 26.2 | 29.7 | 29.0 |
| Capital income k/ | 0.7 | 0.2 | 0.4 | 0.3 | 0.5 |
| Total expenditure | 51.8 | 41.9 | 42.6 | 43.9 | 42.7 |
| Current expenditure | 34.1 | 34.1 | 35.4 | 38.0 | 36.8 |
| Interest | 7.1 | 7.6 | 7.5 | 7.5 | n.d. |
| Capital expenditure l/ | 12.2 | 6.4 | 6.2 | 6.8 | 5.5 |
| Primary balance | -9.5 | -0.6 | -0.4 | 4.1 | 6.1 |
| Overall balance | -16.6 | -8.2 | -7.9 | -4.2 | 2.1 |
| | | | | | |
| Public sector external debt | 152.2 | 164.4 | 176.4 | 169.1 | ... |
| Domestic | ... | ... | ... | ... | ... |
| External | 74.3 | 86.4 | 75.1 | 62.8 | ... |
| | | | | | |
| **Money and credit** | | | | | |
| Domestic credit | 79.9 | 76.3 | 92.0 | 97.8 | 99.9 |
| To the public sector | 14.9 | 5.3 | 20.0 | 27.5 | 30.5 |
| To the private sector | 69.6 | 70.3 | 69.4 | 69.5 | 69.8 |
| Others | -4.6 | 0.6 | 2.5 | 0.8 | -0.4 |
| Liquidity (M3) | 89.2 | 92.4 | 101.9 | 99.4 | 100.8 |
| Currency in circulation and local-currency deposits (M2) | 64.2 | 65.4 | 73.1 | 70.4 | 69.2 |
| Foreign-currency deposits | 24.9 | 27.0 | 28.8 | 29.0 | 31.6 |

**Source**: ECLAC, on the basis of official figures.

a Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

e/ A minus sign (-) denotes an increase in reserves.

f/ Includes the use of IMF credit and loans and exceptional financing.

g/ Weighted averages.

h/ Includes grants.

i/ The monetary figures are annual averages.

# Table 20-E
# SAINT LUCIA: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | Annual growth rates b/ | | | | |
| **Gross domestic product** | 0.8 | 2.9 | 4.8 | 5.8 | 5.7 |
| **Per capita gross domestic product** | 1.1 | 3.5 | 2.8 | 6.4 | … |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 3.7 | -15.7 | 1.8 | -22.4 | 12.2 |
| Mining | 1.9 | 0.2 | -2.2 | 1.6 | 32.0 |
| Manufacturing | 8.9 | -1.7 | 8.3 | 5.9 | 5.0 |
| Electricity, gas and water | -2.5 | 1.9 | 1.9 | 4.4 | 0.7 |
| Construction | -5.1 | 1.9 | 1.0 | 10.4 | 25.0 |
| Wholesale and retail commerce | 0.3 | 12.4 | 7.0 | 7.6 | 3.0 |
| Transport and communications | 1.7 | 3.6 | 6.0 | 6.9 | 4.4 |
| Financial institutions, insurance, real estate and business services | 0.9 | 3.7 | 4.0 | 7.1 | 4.2 |
| Community, social and personal services | -0.7 | -1.5 | 3.1 | 6.6 | 3.6 |
| **Balance of payments** | Millions of dollars | | | | |
| Current account balance | -105 | -146 | -87 | -150 | -198 |
| Merchandise trade balance | -203 | -283 | -268 | -354 | -376 |
| Exports, f.o.b. | 69 | 72 | 96 | 89 | 100 |
| Imports, f.o.b. | 272 | 355 | 348 | 329 | 448 |
| Services trade balance | 121 | 173 | 219 | 239 | 218 |
| Income balance | -35 | -50 | -69 | -73 | -80 |
| Net current transfers | 12 | 13 | 14 | 13 | 12 |
| Capital and financial balance c/ | 111 | 165 | 110 | 118 | 203 |
| Net foreign direct investment | 52 | 106 | 77 | 78 | 115 |
| Financial capital d/ | 59 | 58 | 38 | 57 | 97 |
| Overall balance | 6 | 18 | 27 | -16 | 13 |
| Variation in reserve assets e/ | -6 | -18 | -27 | 16 | -13 |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 11.2 | 16.2 | 9.7 | 2.8 | … |
| Gross external public debt (millions of dollars) | 246 | 324 | 344 | 350 | … |
| Gross external public debt (percentage of GDP) | 36.5 | 45.7 | 44.9 | 42.1 | … |
| Net profits and interest (percentage of exports) f/ | -11.1 | -12.8 | -14.8 | -12.9 | … |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | -0.7 | 0.5 | 3.5 | 5.2 | -0.6 |
| Nominal deposit rate g/ | 4.8 | 4.0 | 3.9 | 3.9 | … |
| Nominal lending rate h/ | 10.0 | 9.9 | 9.8 | 9.8 | … |

**Table 20-E (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Central government** | | **Percentages of GDP** | | | |
| Total income i/ | 26.2 | 25.7 | 25.3 | 24.3 | 25.8 |
| Current income | 23.5 | 23.1 | 25.0 | 24.2 | 25.6 |
| Tax income | 21.3 | 21.4 | 23.0 | 22.7 | 24.0 |
| Capital income j/ | 1.1 | 0.4 | 0.0 | 0.0 | 0.0 |
| Total expenditure | 28.6 | 32.2 | 29.9 | 30.7 | 31.9 |
| Current expenditure | 21.4 | 23.2 | 22.8 | 20.8 | 21.9 |
| Interest | 2.5 | 0.8 | -1.5 | -1.3 | -1.3 |
| Capital expenditure k/ | 7.5 | 9.0 | 7.2 | 9.8 | 10.0 |
| Primary balance | -0.1 | -4.0 | -1.8 | -3.4 | -3.0 |
| Overall balance | -2.4 | -6.5 | -4.7 | -6.3 | -6.1 |
| | | | | | |
| Public sector external debt | 36.0 | 45.3 | 44.9 | 42.1 | … |
| | | | | | |
| **Money and credit l/** | | | | | |
| Domestic credit | 75.2 | 65.7 | 68.0 | 74.4 | 90.7 |
| To the public sector | -13.4 | -14.4 | -15.1 | -11.5 | -9.8 |
| To the private sector | 81.8 | 74.4 | 76.6 | 80.5 | 94.9 |
| Other | 6.8 | 5.8 | 6.5 | 5.5 | 5.6 |
| Broad money (M3) | 68.3 | 69.6 | 71.9 | 74.5 | 90.1 |
| Currency in circulation and local-currency deposits (M2) | 67.0 | 68.0 | 70.1 | 71.8 | 81.8 |
| Foreign-currency deposits | 1.3 | 1.6 | 1.8 | 2.6 | 8.3 |

**Source**: ECLAC, on the basis of official figures.

a Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Includes errors and omissions.

d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

e/ A minus sign (-) denotes an increase in reserves.

f/ Includes the use of IMF credit and loans and exceptional financing.

g/ Weighted averages.

h/ Includes grants.

i/ The monetary figures are annual averages.

j/ Up to 2000, includes grants.

k/ Includes net lending.

l/ The monetary figures are annual averages.

**Table 20-F**
**ST VINCENT AND THE GRENADINES: MAIN ECONOMIC INDICATORS**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | Annual growth rates b/ | | | | |
| **Gross domestic product** | 3.2 | 2.8 | 6.8 | 2.2 | 6.5 |
| **Gross domestic product per capita** | 3.4 | 3.6 | 4.8 | 2.2 | … |
| | | | | | |
| **Gross domestic product by economic activity** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 7.8 | -2.2 | -5.2 | -5.6 | 2.3 |
| Mining and quarrying | -3.0 | 5.0 | 14.8 | 2.1 | -3.5 |
| Manufacture | -6.1 | 0.7 | 2.9 | 3.5 | 4.7 |
| Electricity, gas and water | 2.6 | 7.5 | 7.1 | 7.9 | 1.3 |
| Construction | -2.9 | 8.2 | 14.7 | 0.4 | 6.0 |
| Wholesale and retail trade | 1.8 | 3.1 | 9.4 | 3.8 | 6.3 |
| Transport and communications | 5.5 | 9.8 | 5.3 | 1.8 | 11.1 |
| Financial institutions, insurance, real estate and business services | 8.1 | -3.5 | 3.3 | 10.3 | 4.1 |
| Community, social and personal services | 3.8 | 3.1 | 2.9 | 6.7 | 5.2 |
| | | | | | |
| **Balance of payments** | Millions of dollars | | | | |
| Current account balance | -41 | -80 | -102 | -100 | -138 |
| Merchandise trade balance | -117 | -137 | -162 | -164 | -206 |
| Exports, f.o.b. | 41 | 40 | 39 | 42 | 37 |
| Imports, f.o.b. | 158 | 177 | 199 | 203 | 240 |
| Services trade balance | 81 | 68 | 72 | 74 | 79 |
| Income balance | -18 | -24 | -29 | -31 | -35 |
| Net current transfers | 12 | 13 | 14 | 18 | 21 |
| Capital and financial balance c/ | 35 | 79 | 101 | 77 | 142 |
| Net foreign direct investment | 34 | 55 | 66 | 41 | 84 |
| Financial capital d/ | 1 | 24 | 62 | 56 | 66 |
| Overall balance | -7 | 0 | 25 | -3 | 12 |
| Variation in reserve assets e/ | 7 | 0 | -25 | 3 | -12 |
| | | | | | |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 4.7 | 14.4 | 23.9 | 16.0 | … |
| Total gross external debt (millions of dollars) | 171 | 199 | 223 | 237 | … |
| Total gross external debt (percentage of GDP) | 47.8 | 53.0 | 54.7 | 56.0 | … |
| Net profits and interest (percentage of exports) f/ | -9.9 | -13.8 | -15.6 | -15.8 | … |
| | | | | | |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | 2.4 | 2.2 | 1.7 | 3.9 | … |
| Deposit nominal interest rate g/ | 4.3 | 4.0 | 3.9 | 3.8 | … |
| Lending nominal interest rate h/ | 10.0 | 10.0 | 9.8 | 10.0 | … |

**Table 20-F (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Central government** | | | **Percentages of GDP** | | |
| Total income i/ | 31.4 | 30.9 | 29.5 | 29.1 | 30.8 |
| Current income | 31.0 | 30.8 | 29.0 | 28.9 | 29.9 |
| Tax income | 27.7 | 26.4 | 25.9 | 26.4 | 27.5 |
| Capital income j/ | 0.1 | 0.2 | 0.4 | 0.3 | 0.5 |
| Total expenditure | 33.4 | 34.1 | 32.4 | 34.5 | 34.6 |
| Current expenditure | 27.7 | 26.4 | 25.7 | 27.7 | 27.0 |
| Interest | -1.6 | -6.1 | -9.7 | -14.0 | -7.0 |
| Capital expenditure k/ | 5.9 | 7.9 | 7.0 | 7.3 | 7.9 |
| Primary balance | 0.7 | -0.4 | -0.5 | -2.3 | n.d. |
| Overall balance | -2.1 | -2.7 | -3.1 | -5.4 | -4.4 |
| Central government debt | 74.1 | 75.6 | 80.3 | 77.1 | … |
| **Money and credit l/** | | | | | |
| Domestic credit | 54.2 | 49.2 | 50.5 | 56.3 | 57.7 |
| To the public sector | -4.6 | -7.1 | -4.8 | 0.6 | 0.7 |
| To the private sector | 64.2 | 61.8 | 57.4 | 58.4 | 58.9 |
| Others | -5.4 | -5.4 | -2.1 | -2.8 | -1.8 |
| Liquidity (M3) | 71.9 | 70.0 | 73.3 | 75.2 | 71.4 |
| Currency in circulation and local-currency deposits (M2) | 70.9 | 69.0 | 70.9 | 73.9 | 69.0 |
| Foreign-currency deposits | 1.0 | 1.0 | 2.3 | 1.3 | 2.3 |

**Source**: ECLAC, on the basis of official figures.
a Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Includes the use of IMF credit and loans and exceptional financing.
g/ Weighted averages.
h/ Includes grants.
i/ The monetary figures are annual averages.
j/ Up to 2000, includes grants.
k/ Includes net loans.
l/ The monetary figures are annual averages.

## F. Guyana

### 1. General trends

The economy rebounded in 2006, with commendable growth of 4.7 per cent, following the 2 per cent contraction in 2005, reflecting the impact of the severe flood in that year. Private and public construction and investment and recovery in agriculture were the main drivers of growth. Interestingly, in spite of dynamic growth and higher international fuel prices, inflation moderated significantly reflecting government's cushioning of the pass through effect of oil prices and lower housing prices associated with a construction boom. There was some fiscal expansion during the year linked to capital works in preparation for the CWC, outlays on the Skeldon sugar restructuring project, but these were partly alleviated by MDRI.

Despite the low inflation outturn, monetary policy was largely contractionary to mop up excess liquidity in the banking system that could have put pressure on the balance of payments and the exchange rate, especially in an already strong demand environment. This robust demand environment fed through to a worsening current account deficit (20.1 per cent of GDP in 2006 compared with 19.1 per cent of GDP in 2005), but this was offset by capital inflows, especially FDI.

The forecasts are for similar growth momentum in 2007 (at around 5 per cent), fuelled by increased sugar production, recovery in mining and construction linked in part to CWC. Growth momentum will be driven largely by private sector activity, allowing a significant moderation in central government's deficit to 10 per cent of GDP from 13 per cent of GDP last year. Monetary conditions are expected to continue to favour private credit expansion to industry and services and stable exchange rate and prices. Inflation will pick up a bit in line with continued dynamic growth and sustained above average fuel prices. The balance of payments is expected to improve with the overall deficit narrowing by 8.9 per cent, as a result of a smaller current account deficit due to slower growth in imports and robust FDI inflows into mining, telecommunications, forestry and debt relief.

The 2006 general election was relatively peaceful and the aftermath was not marred by the instability of previous elections. With relative political stability, improved security and the deepening of economic reforms, investor confidence is strengthening as is evidenced by the upsurge in FDI and increased domestic investment. This suggests that if this trend continues, Guyana might soon be able to turn the corner and achieve higher levels of growth that is closer to its potential, given its abundant natural resources. Such stable, sustained growth will certainly provide a platform for reducing poverty and inequality and enhancing the material well-being of the population.

### 2. Economic policy

Economic policy continued to focus on strengthening the platform of macroeconomic stability, especially fiscal, price and exchange stability as a springboard for higher and more stable growth to alleviate poverty. This was complemented by improved momentum in restructuring and raising the productivity of the commodity sectors to make them more competitive. Consequently, the revival of higher growth provided some degrees of freedom for major capital works upgrade, strengthening the thrust into tourism, which should pay dividends in the future and a monetary policy stance that facilitated credit growth to productive private sector activity.

## (a) Fiscal policy

There was some slippage in the fiscal position of central government in 2006, as the overall deficit grew by 2 per cent, largely due to a worsening capital account. Nevertheless, with dynamic growth, the overall deficit as a percentage of GDP fell from 14.3 per cent in 2005 to 13.4 per cent in 2006. The capital account deteriorated sharply stemming from a 19 per cent growth in expenditure linked to the fast-forwarding of a number of projects for the CWC and normal disbursements on others. With the upgrade of the international Airport, completion of the four-lane highway into Georgetown and improvements in bridges, road network and the sea defence system, Guyana has made crucial infrastructure investments that could provide an important platform for improved growth and development by boosting both domestic investment and FDI. Moreover, substantial outlays ($4855.9 million) on the Skeldon sugar modernisation programme, including work on factory fabrication should contribute to the competitiveness of the sector when it comes fully on-stream in 2008. The overall capital account deficit was ameliorated by debt relief under the MDRI which amounted to G$3307 million, or 1.8 per cent of GDP.

The current account continued to reflect fiscal prudence, moving from a small deficit in 2005 to a surplus of 1.5 per cent of GDP in 2006. Current spending grew by 5 per cent but actually represented 33 per cent of GDP less than last year due to the accelerated growth in output. Non-interest spending increased on account of 8.3 per cent rise in outlays on wages and salaries associated largely with a 5 per cent increase in public sector wages, which translated into a slight rise in real wages in the sector. The government has concluded a multiyear wage agreement with the Teachers Union, which augurs well for wage restraint. Higher fuel costs linked to the hike in international oil prices, increased materials and equipment and transport costs and pensions led to a sharp rise in expenditure on goods and services. Thanks to debt relief and a sharp fall in domestic interest charges with the cessation of payments on the matured GUYMINE bonds, total interest charges were almost halved to 2.5 per cent of GDP.

Strong pick-up in economic activity, supported by improved tax administration and collections by the Guyana Revenue Authority (GRA), boosted current revenue by 11 per cent compared with growth of over 8 per cent last year. Both tax and non-tax receipts increased during the year.

The policy focus on debt consolidation and sustainability got a favourable boost in 2006, with relief under the MDRI (US$254 million). With this development, external debt outstanding contracted sharply from 132.7 per cent of GDP in 2005 to 104 per cent of GDP in 2006, while debt service payments fell by 8.3 per cent to US$22 million. Also welcomed is the negotiation of application of the relief initiative to the IDB, Guyana's most important external creditor. This further relief should liberate important resources for development spending and poverty alleviation.

Following the necessary fiscal expansion in 2006, the government intends to tighten policy in 2007, with the overall deficit targeted at G$19,491 million down to 10 per cent of GDP from 13.4 per cent of GDP in 2006. Total spending is expected to decrease with a sharp fall (over 12 per cent) in capital spending, reflecting lower transfers to the Guysuco Skeldon Project. Revenue is expected to be boosted by the introduction of the value added tax (VAT) in January 2007. Despite some teething problems, the VAT returns for the first quarter of 2007 were around 75 per cent to 80 per cent, which is fairly good.

**(b) Monetary and exchange rate policy**

High liquidity in the banking system, with excess liquid assets at 67 per cent above required levels in the wake of banks preference for short-term assets, especially treasury bills, determined the tenor of monetary policy in 2006. In this environment, monetary policy was geared towards liquidity management to maintain stable prices and exchange rates and increased credit to the private sector for productive activity. The broad aim was to reduce the pass-through effect of high liquidity to unproductive imports that could hurt the balance of payments and growth.

In line with this policy and growth dynamism, credit to the private sector increased sharply by almost 18 per cent. A welcomed development was the strong growth in credit to mining and manufacturing, reflecting improved performance of these sectors. Buoyed by strong demand for bread and breakfast establishments in preparation for CWC and for housing, credit to the real estate sector increased by 20 per cent in 2006. The public sector continued to be a net depositor in the banking system, in line with the policy of fiscal consolidation.

Propelled by a sharp increase in demand for currency, demand deposits and savings deposits, growth in broad money accelerated to 15 per cent, over twice the rate for 2005. Both public and private sector deposits posted strong growth on account of the pick up in economic activity, with business recovery marked by an almost 20 per cent growth in their deposits.

Growth in banking sector liquidity led both to a decline in average commercial bank interest rates and a marginal depreciation of the exchange rate. With respect to interest rates, the weighted average lending rate declined by 38 basis points to 13.12 per cent, while the small savings rate fell by 19 basis points to 3.19 per cent. However, the prime lending rate remained unchanged. The movements of commercial bank interest rates reflect in part the limited response to monetary policy, as the benchmark 91 day treasury bill rate did increase by 42 basis points to 4.16 per cent, but did not lead to the expected rise in banking sector rates. This brings into question the effectiveness of market-based instruments of monetary policy in shallow, imperfectly competitive markets, such as Guyana.

The exchange rate depreciated by 1.1 per cent to G$203.67, relative to a 0.2 per cent depreciation in 2005. Higher oil prices and strong demand for construction materials and capital goods led to higher demand for foreign exchange during the year, which put pressure on the exchange rate.

The net foreign assets of the banking system grew sharply (over 31 per cent) propelled by increases in both the Bank of Guyana and commercial banks' net foreign assets. The Bank of Guyana accumulation of foreign assets was influenced by MDRI debt relief, while the commercial banks' build up reflected lower average interest rates and limited domestic investment opportunities, leading to investments overseas.

**3. Evolution of the principal variables**

**a. Economic activity**

Economic recovery in 2006 was driven by all the sectors, except mining and quarrying. Agriculture rebounded following the contraction in output in 2005 as a result of the severe flooding of that year. Agriculture grew by 5.5 per cent in 2006, following marginally slower growth of 4.5 per cent in 2005. Growth in agriculture was driven by strong growth in rice output (12.4 per cent) and a more moderate increase in sugar production (5.5 per cent). Rice production was bolstered by government subsidies for transport costs and support under the EU competitiveness programme. In spite of improved performance, sugar output fell short of its target due to some flooding in the early part of the year, low productivity in some fields stemming from inadequate production management, poor drainage maintenance and rat infestations. Agriculture output is projected to improve in 2007 in line with higher output of sugar (up 9.8 per cent), rice, forestry and livestock.

Manufacturing posted a major turnaround with growth of 4 per cent compared with a decline of 47 per cent last year. Output was buoyed by a marked increase in output of liquid pharmaceuticals arising from expanded capacity to meet demand and improved production by small businesses which received financial and technical support to boost production.

Mining value added slumped by 22 per cent in 2006, after a lower contraction of 17.8 per cent in 2005. All the major subsectors, bauxite, gold and diamonds, experienced depressed output. Bauxite production declined by 12 per cent largely due to lower output of refractory grade bauxite that faced severe competition from China, which offered cheaper bauxite on the world market. Gold declarations fell by 23 per cent, reflecting the continued impact of the closure of OMAI Gold Mines in 2005 and the inability of small producers to match former levels of production. Diamond output also contracted as some producers shifted to gold in the latter part of the year to reap high gold prices. Mining is expected to recover in 2007 to post growth of 3.6 per cent thanks to an increased output of bauxite, gold and diamonds.

Construction activity picked up by 12 per cent in 2006, relative to 9.4 per cent in 2005. Growth in public sector investment at over 90 per cent, outstripped private investment for the first time since 1990 and reflected major infrastructure upgrade and modernisation, including the fast-forwarding of some projects for the CWC. Public construction projects included the Guyana National Stadium, the four-lane highway and low income housing programme. Fuelled by expectations of strong returns from the CWC, private construction rose sharply and focused on hotel construction, housing and bed and breakfast accommodations for visitors to the CWC. Construction activity is expected to slow in 2007, with growth down to 5 per cent reflecting the tapering off of large projects linked to CWC.

## b. Prices, wages and employment

Inflation fell sharply to 3.7 in 2006, compared with 8.2 per cent in 2005. The heavily weighted food sub-index provided impetus for higher prices (up 5.1 per cent), arising from food shortages after flooding in the early part of the year and higher input costs for suppliers, which were passed on to consumers. However, food inflation was dampened by lower costs of housing, due to increased supply during the construction boom of 2006. Lower education and transport and communication costs also helped to contain inflation, with transport costs benefiting from lower oil prices in the latter part of the year, government oil price subsidy at the pump and increased competition in the sector. Inflation is expected to pick up somewhat in 2007 (5.2 per cent), influenced by growth in the money supply and international prices.

Public sector wages and pensions were raised by 5 per cent in December 2006, retroactive to 1 January 2006 and represented a marginal increase in real wages. The wage increase resulted in an increase in the public sector minimum wage to G$26,069 per month, equal to US$128 per month. The sharp growth in household deposits and improved economic conditions, especially the construction boom suggest that private sector wages might also have increased in 2006.

Continuing the trend of public sector consolidation and streamlining, employment in the sector contracted by 5.8 per cent in 2006, compared with 1.7 per cent in the previous year. Employment in GUYSUCO fell by 9.8 per cent in line with efforts to improve cost efficiency and a shift to more capital-intensive production. However, employment in central government increased by 3.1 per cent with the mining sector and the public newspaper absorbing most of these workers. Employment developments in the private sector were mixed. Substantial growth in construction provided jobs for a number of workers in the sector, but this was partly offset by the loss of jobs due to the closure of the OMAI bauxite mine, which resulted in 541 workers being laid off without pay. To ease the impact on these workers, government provided a stipend of G$25,000 for two months and also allowances for training to fit them into new jobs.

## (c) The evolution of the external sector

The overall balance of payments strengthened in 2006, with the surplus expanding sharply to reach US$45 million, equal to 5 per cent of GDP. External performance was buoyed by a marked improvement in the capital account, which more than offset the expanding current account deficit. This resulted in a build-up of international reserves of the Bank of Guyana by US$26.6 million to US$278 million, covering three months imports of goods and non-factor services.

Driven by recovery in activity and improved security, FDI increased by over 30 per cent to US$100 million. FDI was focused on enhancing production capacity in forestry, mining and telecommunications, especially mobile telephony and internet access. The capital account was also buoyed by public sector loans and grant flows and MDRI relief. A substantial portion of these funds were used to upgrade and modernise public infrastructure, including roads and bridges, the airport, health and housing.

The structural relation between growth and imports was again highlighted in 2006, with the uptick in activity fuelling imports that led to a deteriorating current account, in spite of improved export performance. Imports expanded by 12.9 per cent to 100 per cent of GDP, associated with the hike in fuel prices and significant growth in imports of intermediate and capital goods for project works and higher imports of consumer goods to meet anticipated demand for the CWC. Household imports were also up, fuelled by an increase in remittance inflows.

Exports recovered to grow by 9.1 per cent with the major commodity sectors all contributing to the better performance. Sugar exports receipts increased by 16 per cent to US$137 million on account of higher volume and a 12 per cent rise in export prices. Rice and timber also posted commendable export growth, linked to higher volumes and prices, while gold receipts increased despite the lower export volume due to higher prices.

The services account deficit more than doubled to US$7 million, as a result of higher payments for factor and non-factor services. Net factor service payments rose sharply on account of increased debt service payments, in spite of debt relief, and also higher equity payments, while non-factor service outflows were due to the high cost of freight and increased demand for travel and transportation services.

Strong growth in workers' remittances and in-kind transfers associated with an increase in the flow of migrants to major recipient countries led to a 29 per cent rise in current transfers, which are crucial to income and consumption stability for many households.

The overall developments on the goods and services accounts resulted in a widened current account deficit of US$181 million, the equivalent of 20.5 per cent of GDP.

The favourable balance of payments result in 2006 is expected to persist in 2007. The current account deficit should narrow to US$175 million (17.9 per cent of GDP) on account of slower growth in imports that is nearly in line with the rise in exports. Imports should slow as spending on a number of large projects associated with CWC is reduced. Tourism receipts, although not expected to match initial expectations fuelled by the CWC, should be above trend levels, while remittances are anticipated to remain relatively strong. The capital account will continue to be robust with net inflows of around US$235 million anticipated. The account will benefit from further MDRI relief and FDI into mining, telecommunications and forestry. As a result, the overall balance of payments surplus is projected at US$41 million or 4.2 per cent of GDP.

## Table 21
## GUYANA: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | | | Annual growth rates b/ | | |
| **Gross domestic product** | 1.1 | -0.7 | 1.6 | -2.0 | 4.7 |
| **Per capita gross domestic product** | 0.9 | -0.8 | 1.4 | -2.3 | 4.3 |
| | | | | | |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 3.4 | -2.3 | 2.8 | 4.5 | 5.5 |
| Mining | -6.9 | -8.7 | -6.5 | -17.8 | -22.3 |
| Manufacturing c/ | 10.9 | -0.5 | 2.5 | -47.0 | 4.0 |
| Construction | -3.9 | 5.6 | 4.1 | 9.4 | 12.0 |
| Wholesale and retail commerce, restaurants and hotels | -0.9 | -2.6 | 1.9 | 39.8 | 10.1 |
| Transport, storage and communications | 4.5 | 4.9 | 3.6 | 9.4 | 10.0 |
| Financial institutions, insurance, real estate and business services | -0.8 | 1.6 | 1.0 | -20.1 | 7.9 |
| Community, social and personal services | -0.8 | 1.1 | 1.2 | 3.2 | 3.4 |
| | | | | | |
| **Balance of payments** | | | Millions of dollars | | |
| Current account balance | -111 | -91 | -70 | -158 | -181 |
| Merchandise trade balance | -68 | -59 | -58 | -233 | -284 |
| Exports, f.o.b. | 495 | 513 | 589 | 551 | 601 |
| Imports, f.o.b. | 563 | -572 | -647 | -784 | -885 |
| Services trade balance | -24 | -20 | -47 | -53 | -114 |
| Income balance | -59 | -52 | -39 | -39 | -43 |
| Net current transfers | 40 | 40 | 74 | 167 | 259 |
| Capital and financial balance d/ | 125 | 100 | 27 | 166 | 226 |
| Net foreign direct investment | 44 | 26 | 30 | 77 | 100 |
| Financial capital e/ | 82 | 74 | -3 | 89 | 126 |
| Overall balance | 15 | 10 | -43 | 8 | 45 |
| Variation in reserve assets f/ | -6 | 0 | 32 | -24 | -62.0 |
| Other financing g/ | -9 | -9 | 12 | 16 | 17.0 |
| | | | | | |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentage of GDP) | 8.6 | 5.6 | -0.1 | 18.5 | … |
| Gross external public debt (millions of dollars) | 1,247 | 1,085 | 1,071 | 1,096 | 921 |
| Gross external public debt (percentage of GDP) | 185.8 | 154.9 | 141.6 | 132.7 | 102.1 |
| Net profits and interest (percentage of exports) h/ | -8.8 | -7.5 | -5.3 | -4.8 | … |
| | | | | | |
| **Prices** | | | Annual percentages | | |
| Variation in consumer prices (December-December) | 6.0 | 5.0 | 5.5 | 8.2 | 3.7 |
| Variation in nominal exchange rate (December-December) | 1.2 | 2.0 | 2.2 | 0.2 | 1.1 |
| Nominal deposit rate i/ | 4.3 | 3.8 | 3.4 | 3.4 | 3.19 |
| Nominal lending rate j/ | 17.3 | 16.6 | 16.6 | 14.5 | 14.54 |

**Table 21 (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Central government** | | | **Percentages of GDP** | | |
| Total income k/ | 40.5 | 37.3 | 39.5 | 41.3 | 44 |
| Current income | 32.2 | 31.5 | 33.0 | 34.0 | 35 |
| Tax income | 29.5 | 28.8 | 30.9 | 32.1 | 32 |
| Capital income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total expenditure | 46.1 | 46.5 | 46.4 | 55.6 | 58 |
| Current expenditure | 34.8 | 34.5 | 32.1 | 34.3 | 33 |
| Interest | 7.7 | 6.2 | 4.9 | 4.4 | 3 |
| Capital expenditure | 11.4 | 12.0 | 14.3 | 21.3 | 23 |
| Net capital expenditure k/ | 2.0 | -3.0 | -2.0 | -9.2 | 4 |
| Overall balance k/ | -5.7 | -9.1 | -6.9 | -14.3 | -13 |
| Public sector external debt | 152.4 | 132.3 | 128.1 | 139.4 | … |
| **Money and credit l/** | | | | | |
| Domestic credit | 18.8 | 17.9 | 18.6 | 24.2 | 24.0 |
| To the public sector | -17.3 | -10.7 | -5.4 | -1.9 | -5.8 |
| To the private sector | 41.7 | 34.9 | 30.6 | 31.8 | 34.3 |
| Others | -5.6 | -6.3 | -6.5 | -5.7 | -4.5 |
| Liquidity (M3) | 68.0 | 69.8 | 69.5 | 74.0 | 78 |

**Source**: ECLAC, on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1988 prices.

c/ Includes electricity, gas and water.

d/ Includes errors and omissions.

e/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

f/ A minus sign (-) denotes an increase in reserves.

g/ Includes the use of IMF credit and loans and exceptional financing.

h/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.

i/ Small savings rate.

j/ Weighted average prime rate.

k/ As of 2002 includes external grants.

l/ The monetary figures are annual averages.

## G. Jamaica

### 1. General trends

Jamaica's economy expanded by 2.5 per cent in 2006 which, although a modest performance, was the best for 11 years. The growth was driven by good macroeconomic conditions, including a drop in the inflation rate to 5.8 per cent (the first single-digit record since 2002), falling interest rates and a rise in net international reserves. The economic expansion reflected the recovery in agriculture (15 per cent) and a strong performance from tourism-related services, such as transport and communications (4.6 per cent) and commerce, restaurants and hotels (3.9 per cent).

In 2006 economic policy was guided by the medium-term macroeconomic framework and the second memorandum of understanding (MOU II) between the central government and the Jamaica Confederation of Trade Unions.[33] Policy-making was directed at creating an enabling macroeconomic environment by means of inflation targeting, interest rate reduction and containment of public spending. The monetary authority lowered the 30- and 180-day benchmark interest rates and inflation dropped to half its previous rate, more than meeting the target of between 9 per cent and 10 per cent. Monetary policy was loosened with the lifting of the secondary reserve requirement measure, which consisted of a secondary reserve applicable to commercial banks since 2002, and lending to the private sector rose.

Imports were up by 19 per cent, owing mainly to the rise in oil prices, which contributed to widen the current account gap on the balance of payments, despite a strong increase in goods exports and an improvement in the services balance. The deficit was offset by FDI, however, leading to an overall surplus and an increase in net international reserves.

In 2007, economic growth is forecast to come in at between 3 per cent and 3.3 per cent of GDP, reflecting changes in most of the sectors of production and a balanced public budget for fiscal year 2007-2008. The fiscal balance should help to lower interest rates and boost lending to the private sector. The fiscal target is based on the premise of maintenance of the terms of MOU II and the government's ability to contain spending. The monetary authority expects inflation to remain within single digits and economic expansion will be driven by growth in domestic investment in tourism-related activities and infrastructure development.

### 2. Economic policy

The targets set in the context of the medium-term framework were an inflation rate of between 9 per cent and 11 per cent, GDP growth of 3 per cent-4 per cent and a fiscal deficit of 2.5 per cent of GDP. The authorities also aimed to maintain the debt-to-GDP ratio at 118.5 per cent and achieve a primary surplus of between 10 per cent and 11 per cent. Even though economic trends deviated from the targets for growth, the fiscal gap and debt-to-GDP ratio, the authorities adopted a looser policy stance in 2006.

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[33] The medium-term macroeconomic framework covers the period from fiscal year 2004-2005 to fiscal year 2007-2008. The fiscal year runs from 1 April to 31 March of the following year. The second memorandum of understanding was signed in May 2006 and places a 20 per cent cap on public sector wage rises over the period 2006-2008.

## (a) Fiscal policy

In fiscal year 2006-2007 the central government generated a deficit of 5.6 per cent of GDP, compared with 3.5 per cent in 2005. This deficit was larger than the budgeted figure of 4.2 per cent of GDP, reflecting lower revenues and higher-than-budgeted expenditure. Expenditure grew by 3.6 GDP points to reach levels not seen since 2003, cancelling out the spending containment achieved in 2005. Revenues and grants, though higher than the year before by 1.3 per cent of GDP, did not suffice to accommodate expenditure growth.

The spending surge was mainly a reflection of current outlays. Payments of interest and wages were the main items driving this result. The deficit was financed by means of local-market borrowing, which translated into a more voluminous issue of debt instruments than planned.

Jamaica's public debt stock increased to US$ 925.8 billion in the first nine months of the fiscal year. This represented 133.2 per cent of GDP and an increase of 9.3 per cent and reflected increases in both external and domestic debt. Over this period domestic debt was equivalent to 77.2 per cent of GDP and external debt, 56 per cent. The huge debt burden impacts greatly on the amount of resources available for non-debt expenditure.

The increased domestic debt was the result of a bond offer with a variable rate of interest, which raised the variable rate component of the total debt in comparison with the previous year. In addition, the maturity structure of the debt was lengthened, thus reducing refinancing risks.

On the external side, the increased debt was the result of a rise in government-guaranteed debt, owing to a US$200-million issue of Eurobonds. The external debt is composed mainly of long-term, fixed-rate instruments, however.
Future debt management strategy will focus on diversifying the portfolio, minimizing interest-rate risk, lengthening and smoothing the maturity profile of the debt and building an efficient market for government securities.

## (b) Monetary and exchange-rate policy

The monetary authority pursued a looser policy regime in 2006 as the Bank of Jamaica eased monetary policy on several occasions. The foreign-exchange market was supported by central bank interventions and remained relatively stable. For example, the average nominal monthly exchange rate for December 2006 was J$67.02 per US$ 1.00 compared with J$64.67 per US$ 1.00 for December 2005, which represented a nominal currency depreciation of 3.6 per cent.

At the end of 2006, the monetary base —the Bank of Jamaica's primary operating target— was up by one GDP percentage point, which was entirely due to an increase in net international reserves. Net domestic credit contracted, as a result of a 5.5 per cent decrease in lending to the public sector, while lending to the private sector was up by 2.8 per cent.
The accumulation of external reserves was attributable to the decline in oil prices in the last quarter of the year, which reduced the impact of fuel imports on the demand for United States dollars. There were also significant foreign exchange inflows from tourism, remittances and FDI.

The tight monetary policy stance was eased in the second quarter of the year and, as a consequence, interest rates tended to move downwards. Commercial banks' deposit rates decreased, as did building societies' mortgage rates. In addition, the financial sector registered growth of 2.1 per cent, stemming partly from the lifting in May of the secondary reserve requirement imposed since 2002 by the Bank of Jamaica. There was also increased mortgage activity as the National Housing Trust increased the upper limit on loans to contributors.

The goals of the monetary authority continued to be a stable foreign exchange market and the accumulation of international reserves. The assets of the Bank of Jamaica rose to US$272.8 billion at the end of 2006, which was a 10.3 per cent increase over 2005. This asset growth reflected the expansion of both external and local assets. Bonds and other long term securities accounted for 70 per cent of the increase in foreign assets.

## 3. The main variables

### (a) Economic activity

All the sectors classified under services grew, but agriculture, forestry and fishing and mining were the only branches of goods-producing activity to show an expansion.

The agricultural sector rebounded from the 7.2 per cent decline registered in 2005 to expand by 15.0 per cent in 2006, the highest rate for at least six years. Banana production tripled and coffee production was up by 50 per cent; nevertheless, neither regained the level seen four years earlier. Products for the domestic market reflected a similar position. Fishing, which expanded by 50 per cent, was the only segment to strongly outperform its historical trends. Agriculture, forestry and fishing benefited from improved weather conditions. One third of Jamaica's economic growth in 2006 corresponded to the upturn in agriculture, which contributed 5.9 per cent of GDP.

The manufacturing sector continued to underperform with a downturn of 2.2 per cent in 2006, after a drop of 1.3 per cent in 2005. A significant decline was registered in the production of cigarettes,[34] cement and paint. As a result, the contribution of manufacturing to total GDP fell from 13.3 per cent in 2005 to 12.7 per cent in 2006. The exception was the manufacture of petroleum products, with gasoline and diesel more than doubling the previous year's output.

The mining sector grew by 1.7 per cent in 2006. Installed capacity expanded in the bauxite and alumina segment, but labour disputes and weather conditions constrained growth in 2006. The quarrying segment also showed an improved performance.

The construction sector posted a decline of 2.2 per cent in activity in 2006, after a 7.3 per cent surge had made it one of the engines of growth in 2005. The sector's greatest difficulty during the year was the shortage of cement, due to quality control problems experienced by the country's only cement manufacturer. This shortage affected employment as a number of construction sites were forced to a standstill. Steps were taken to make up for the cement

[34] No cigarettes were manufactured in 2006.

shortfall by importing, but this took time and the matter was not resolved until the second semester.

Hotels, restaurants and clubs (12.3 per cent) were one of the two fastest-growing branches of activity, driven by increased tourist arrivals (15.3 per cent). The number of air and cruise-ship passengers increased over the period, as did average expenditure per visitor. The transport and communications segment also expanded (4.6 per cent), with the main contributor being increased cargo movement due to rising imports of petroleum, cement and steel and increased exports of bauxite and sugar.

### (b) Prices wages and employment

The rate of inflation fell significantly to 5.8 per cent in 2006, compared with 12.9 per cent in 2005. The factors holding down price increases were the expanding supply of agricultural commodities, which lowered the price of some food items, and, towards the end of the year, a slower rate of increase in international petroleum prices. The consumer price index (CPI) rose in all three regions —Kingston Metropolitan Area, other towns and rural areas— but by less than it had done in 2005. For example, the CPI for Kingston rose by 5.6 per cent, while for other towns and rural areas the rates were 7.0 per cent and 5.2 per cent, respectively. The corresponding figures for 2005 were 12.5 per cent, 12.9 per cent and 13.4 per cent, respectively. A breakdown of the overall CPI shows that the largest increases occurred in the categories of fuels (8.1 per cent), housing (9.0 per cent) and food and beverages (5.8 per cent).

A survey conducted by the Jamaica Employers' Federation on pay and benefits found that, on average, wages rose by 7.9 per cent in 2005 and 9.2 per cent in 2006, with an increase of 10 per cent in the modal wage. The highest mean salary was paid in the utilities sector and the lowest in education. The estimated public sector wage rise for 2006-2007 was 17.7 per cent. Wage increases in the public sector are governed by MOU II, which aims to moderate excessive wage increases. The national minimum wage, which is now reviewed annually, was increased by 16.7 per cent to J$ 2,800.00 per week or J$70 per hour.

The labour force expanded by 3.5 per cent, with males representing the largest percentage (57.6 per cent). The male labour force increased in number by 17,200 and the female labour force, by 20,700. The majority of new jobs were created in the services sector.

The number of unemployed declined, with a drop in the unemployment rate from 11.2 per cent in 2005 to 10.3 per cent in 2006. The male unemployment rate decreased from 7.6 per cent in 2005 to 7.0 per cent in 2006, while the drop for female workers was from 15.8 per cent to 14.5 per cent.

### (c) The external sector

In 2006 the balance of payments yielded an overall surplus for the third year running, matching the 2005 amount of US$230 million. The current account deficit widened by US$87 million, to reach US$1,096 million or the equivalent of 10.3 per cent of GDP. The deterioration was attributable chiefly to the larger deficit on the merchandise trade account, owing to higher prices for imported goods such as oil. The goods trade deficit rose by US$363.5 million as a result of a 19.2 per cent surge in import spending, which a robust 27.2 per cent rise in export earnings was not enough to offset. The current account deficit was by far the largest for the last five years. Net outflows from the income account were US$4.8 million over the for 2005 figure, as outflows of voluminous investment earnings exceeded the growth of net factor payments.

The deficits were only partially offset by higher surpluses on the current transfers account, the increase in tourist services and alumina exports. The balance on the services account expanded by US$ 202 million, driven largely by earnings from travel, which is the largest item on that account. Travel receipts increased from US$1.3 billion in 2005 to US$1.6 billion in 2006, thanks to both increased numbers of tourists and higher expenditure per visitor. Net current transfers reflected a large and growing surplus, thanks to a 9.4 per cent increase in remittances from Jamaicans living abroad, which amounted to US$1.6 billion.

The current account deficit was easily offset by the surplus on the capital and financial account. The country's net international reserves expanded to US$2.318 billion at the end of 2006. Gross reserves at the end of December were equivalent to four months of imports of goods and non-factor services.

**Table 22**
**JAMAICA: MAIN ECONOMIC INDICATORS**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | Annual growth rates b/ | | | | |
| **Gross domestic product** | 1.1 | 2.3 | 1.0 | 1.4 | 2.5 |
| **Per capita gross domestic product** | 0.6 | 1.8 | 0.5 | … | … |
| | | | | | |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -7.0 | 4.8 | -8.7 | -7.2 | 15.0 |
| Mining | 3.3 | 4.9 | 2.6 | 3.4 | 1.7 |
| Manufacturing | -0.9 | -0.8 | 2.7 | -1.3 | -2.2 |
| Electricity, gas and water | 4.6 | 4.7 | -0.1 | 4.1 | 3.4 |
| Construction | 2.6 | 1.5 | 5.4 | 7.3 | -2.2 |
| Wholesale and retail commerce, restaurants and hotels | 0.1 | 2.0 | 2.1 | 1.6 | 3.9 |
| Transport, storage and communications | 6.2 | 3.6 | 0.9 | 1.2 | 4.6 |
| Financial institutions, insurance, real estate and business services | 4.0 | 3.3 | 0.3 | 1.0 | 2.2 |
| Community, social and personal services c/ | 0.7 | 0.7 | 0.7 | 0.8 | 0.7 |
| | | | | | |
| **Balance of payments** | Millions of dollars | | | | |
| Current account balance | -1,074 | -773 | -509 | -1,079 | -1097 |
| Merchandise trade balance | -1,871 | -1,943 | -1,945 | -2,581 | -2944.8 |
| Exports, f.o.b. | 1,309 | 1,386 | 1,602 | 1,664 | 2117.4 |
| Imports, f.o.b. | 3,180 | 3,328 | 3,546 | 4,246 | 5062.2 |
| Services trade balance | 315 | 552 | 572 | 600 | 802.0 |
| Income balance | -605 | -571 | -583 | -676 | -680.9 |
| Net current transfers | 1,087 | 1,189 | 1,446 | 1,578 | 1726.8 |
| Capital and financial balance d/ | 832 | 342 | 1,203 | 1,308 | 1,327 |
| Net foreign direct investment | 407 | 604 | 542 | 582 | 799 |
| Financial capital e/ | 425 | -263 | 661 | 726 | 528 |
| Overall balance | -242 | -432 | 694 | 229 | 230 |
| Variation in reserve assets f/ | 261 | 448 | -686 | -229 | -230 |
| Other financing g/ | -19 | -16 | -8 | 0 | 0 |
| | | | | | |
| **Other external-sector indicators** | | | | | |
| Real effective exchange rate (index: 2000=100) h/ | 101.1 | 115.9 | 114.3 | … | … |
| Gross external public debt (millions of dollars) | 4,348 | 4,192 | 5,120 | 5,376 | 5,796 |
| Gross external public debt (percentage of GDP) | 51.7 | 51.6 | 58.1 | 55.6 | 58.4 |
| Net profits and interest (percentage of exports) i/ | -18.8 | -16.2 | -14.9 | … | … |
| | | | | | |
| | Average annual rates | | | | |
| **Employment** | | | | | |
| Labour force participation rate j/ | 63.6 | 64.4 | 64.3 | 64.2 | 64.7 |
| Unemployment rate k/ | 14.2 | 11.4 | 11.7 | 11.3 | 10.3 |
| | Annual percentages | | | | |
| **Prices** | | | | | |
| Variation in consumer prices (December-December) | 7.3 | 14.1 | 13.7 | 12.9 | 5.8 |
| Variation in nominal exchange rate (December-December) | 6.0 | 20.7 | 2.0 | 2.0 | 3.6 |
| Nominal deposit rate l/ | 9.1 | 8.3 | 6.7 | 5.9 | 5.3 |
| Nominal lending rate l/ | 26.1 | 25.1 | 25.1 | 23.2 | 22.0 |

**Table 22 (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Central government** | | **Percentages of GDP** | | | |
| Total income m/ | 28.6 | 31.7 | 32.0 | 30.9 | 32.2 |
| Current income | 26.7 | 30.1 | 30.1 | 29.3 | 31.5 |
| Tax income | 25.1 | 27.7 | 27.8 | 26.9 | 28.7 |
| Capital income | 1.6 | 1.5 | 1.1 | 1.4 | 0.5 |
| Total expenditure n/ | 36.3 | 37.8 | 36.9 | 34.3 | 37.9 |
| Current expenditure | 344.0 | 36.6 | 34.8 | 31.8 | 34.3 |
| Interest | 15.1 | 18.6 | 17.2 | 14.6 | 14.9 |
| Capital expenditure | 1.9 | 1.2 | 2.1 | 2.6 | 3.6 |
| Primary balance | 7.4 | 12.5 | 12.2 | 11.1 | 12.2 |
| Overall balance | -7.8 | -6.1 | -4.9 | -3.5 | -5.6 |
| | | | | | |
| Public sector external debt | 55.4 | 58.3 | 63.8 | … | … |
| | | | | | |
| **Moneda y crédito o/** | | | | | |
| Domestic credit p/ | 40.5 | 46.4 | 41.5 | 39.9 | 36.4 |
| To the public sector | 30.6 | 34.0 | 26.8 | 24.4 | 17.9 |
| To the private sector | 11.4 | 14.4 | 15.3 | 16.2 | 19.0 |
| Others | -1.5 | -1.9 | -0.6 | -0.7 | -0.5 |
| Liquidity (M3) | 40.2 | 38.8 | 39.1 | 38.1 | 39.1 |
| Currency in circulation and local-currency deposits (M | 28.9 | 26.0 | 25.8 | … | … |
| Foreign-currency deposits | 10.6 | 12.4 | 13.3 | … | … |

**Source**: ECLAC, on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1996 prices.
c/ Includes public administration and defence
d/ Includes errors and omissions.
e/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investments.
f/ A minus sign (-) denotes an increase in reserves.
g/ Includes the use of IMF credit and loans and exceptional financing.
h/ Annual averages, weighted by the value of merchandise exports and imports.
i/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.
j/ Economically active population as a percentage of the working-age population.
k/ Percentage of the econoically active population. Includes hidden unemployment . Nationwide total.
l/ Average yearly rate.
m/ Includes grants.
n/ Includes statistical discrepancy.
o/ The monetary figures are annual averages.
p/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

## H. Netherlands Antilles

### 1. General trends

Although its island council has yet to agree upon several issues, the disbanding of the federation of the Netherlands Antilles will be due in December 2008. The federation will then disaggregate into two fairly autonomous countries[35] within the Kingdom of the Netherlands, while the smaller islands (Saba, St. Eustatius and Bonaire) will get the status of Kingdom Islands. They will act as special municipalities of the Netherlands. The larger two of the islands, Curacao and St. Maarten, are caught up in political issues which hamper the effectiveness of the deliberations. Nevertheless, the population of the Netherlands Antilles as a whole stated that whatever the constellation will be, they want to remain part of the Kingdom of the Netherlands.

Although the Netherlands experienced significant 3.0 per cent growth in 2006, economic growth in the other geographical areas of the Kingdom, the Antilles, remained low at the 1.5 per cent level (as in 2005).

The new constitutional setup aims at enabling the different islands' councils to politically and economically operate in a more independent, active and effective manner. In that light, it is hoped that the new situation will also tackle the problem of drug trafficking and drug related crime, which is one of the highest in the region in recent years.

The outlook for debt reduction is favourable, since one of the conditions regarding the new status of the islands is substantial debt forgiveness from Holland.

Economic growth in 2006 has been accompanied by overall employment growth. If job creation continues, domestic demand will rise with a positive impact on overall economic performance.

### 2. Economic policies

#### (a) Fiscal policy

Compared to 2005 (-2.6 per cent), the deficit to GDP ratio of the general government worsened to a certain extent in 2006 (-3.1 per cent). Both, revenues (from 27.7 per cent in 2005, to 24.4 per cent of GDP in 2006) and expenditures (from 30.3 per cent in 2005, to 26.9 per cent of GDP in 2006) dropped in the recording year. The deficit occurred as a result of a stronger drop in revenues (8 per cent) than in expenditures (5 per cent).

The main cause of the drop in revenues can be attributed to a decrease in non-tax revenues (from Naf. 151.5 million in 2005 to Naf. 110.7 million in 2006) linked to transfers of dividend tax by Dutch tax authorities to the central government. At the same time, the drop in current expenditures (from Naf. 1749.6 million in 2005 to Naf. 1635.6 million in 2006) was mainly due to lower transfers and capital expenditures.

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[35] Curacao and St Maarten will get a "status aparte" comparable to Aruba

In 2006 central government indirect tax receipts increased, as a result of a higher domestic demand and spending. In contrast, slower growth (2.2 per cent in 2006, from 6 per cent in 2005) of the international financial and business sector caused profit and income tax revenues from the island of Curacao to drop. Overall, central government current expenditures, as well as island government current expenditures, dropped in 2006. The first, as a result of lower transfers to individual island governments, while the latter was caused by lower Curacao island government contributions to the pension fund.

Central government capital expenditures diminished as a result of decreasing net lending and capital transfers. As in 2005, the deficit of the central government was financed relying crucially on an increased issuance of government bonds. Throughout the next 10 years, an average of NAf. 276 million in bonds will mature. On average the central government's share will approximate 66 per cent of those bonds.

The total consolidated public debt grew by 6.6 per cent in 2006 as a result of increases in both domestic and foreign debt. Domestic debt increased due to arrears of financial transfers from the central government and the island Government of Curacao to the government's pension fund. Other island government debt also increased as a result of arrears in debt repayments. As for foreign debt, revaluations of outstanding debt, which is denominated in Euro, caused the debt stock to rise as the guilder-equivalent of the debt increased. Since the guilder is pegged to the United States dollar, ongoing depreciations of the United States dollar urged authorities to revaluate the debt stock upwards.

As an integral part of the agreement with regard to the constitutional rearrangement of the Kingdom of the Netherlands, the Dutch Government will take over 74 per cent of total debt. As a result, deficit is estimated to decline with 85 per cent due to decreased interest payments. On the basis of 2006 figures, it is estimated that in the case of full (100 per cent) debt relief, a surplus of nearly NAf. 50 million would occur, since all interest would be eradicated.

### (b) Monetary and exchange rate policies

The expansion of private credit was perceived as being excessive by the monetary authorities. Therefore, monetary policy was aimed at tackling this expansion, in order to release the pressure on official reserves stemming from this expansion. In order to do this, the monetary policy instrument of reserve requirements was adjusted and implemented. At first in January 2006, the requirement percentage was increased from 12.25 per cent to 12.75 per cent and later on in March to 13.0 per cent. These adjustments were successful and remained unchanged throughout the year.

The other complementary instrument that was used, was an open-market type instrument, in the form of bi-weekly auctions of Certificates of Deposit for the commercial banks to absorb excess liquidity. It achieved that target, because the value of outstanding certificates more than doubled within six months time, and increased further towards the end of 2006 after the Central Bank extended the maturity of the certificates.

Another instrument that was used to mitigate the effects of liquidity overhang in the system was the adjustment of the banks' official interest rate. The rate was raised several times and ultimately reached the level of 5.5 per cent in mid 2006. The adjustments were meant to increase the competitiveness of the issued Certificates of Deposit compared to rate of returns of alternative foreign investment instruments.

Following up the developments in credit extension, money supply increased accordingly in 2006. Net domestic assets grew by approximately 11 per cent, while net foreign assets increased by 9 per cent in the same year.

Private sector money demand and money holdings were the main factors of increase of the domestic assets, besides extended private consumption and investment credits. Credit to the public sector slumped by 8 per cent. This was largely due to capital market operations at both the levels of the central government and the island Government of Curacao which ultimately offset the increase of securities in the Central Bank's portfolio.

The expansion of net foreign assets was lower compared to 2005 (11.4 per cent). Both the Central Bank's official reserves as well as the commercial banks' foreign assets position improved in 2006.

### (c) Other policies

Economic prospects for the Netherlands Antilles look favourable. Projected investments in the tourism industry will ultimately lead to job creation and reduction of unemployment. The proposed debt relief in the agreement between the Dutch Government and all the Island Governments, but that of Curacao, will be implemented in phases. Extra emphasis will also be on the areas of poverty eradication and health care. But obstacles ranging from trust issues to issues regarding the level of autonomy still hamper the process of implementation of the agreement between the Dutch Government and the different Island Governments. Introduction of the new constitutional status is moved forward to 15 December 2008.

## 3. The main variables

### (a) Economic activity

Economic activity in 2006 was mainly driven by construction (5.1 per cent) and mining (2.6 per cent). The growth of GDP of 1.5 per cent can also be contributed to wholesale and trade and financial services. Construction sector expansion followed investments in tourism-related construction activities. Besides increased wholesale and retail activities in the free zone (2.0 per cent), positive developments in the tourism industry and increased overall demand were significant. Overall financial services also grew by 2.2 per cent, coming from a growth of value added of 5.9 per cent in 2005.

A cheaper dollar was probably the main reason for more European tourists spending their vacation in the Netherlands Antilles. The number of these tourists rose by approximately 5 per cent, in addition to the rise of South American tourist as a result of increased air transport facilities.

Oil and dry dock activities caused total value added of the manufacturing sector to rise by 1.8 per cent.

**(b) Prices, wages and employment**

As a result of moderate global energy price movements, domestic consumer price increases decreased from 3.8 per cent in 2005 to 2.9 per cent in 2006. Price impulses from imported inflation from trading partners were also moderate since these countries on average had relatively no dramatic developments with regard to their overall prices. Curacao registered the highest annual inflation of 3 per cent and Bonaire the lowest (1.3 per cent).

Overall employment experienced promising developments in 2006. At the island level, unemployment dropped in Curacao (18.2 per cent in 2005 to 14.7 per cent in 2006), St. Maarten (17.5 per cent in 2005 to 13.4 per cent in 2006) and Bonaire (8.9 per cent in 2005 to 7.8 per cent in 2006). It is possible that a significant number of unemployed migrants from Holland in 2005, found employment in 2006 in the above-mentioned thriving sectors. But these numbers still remain a cause for concern.

**(c) Evolution of the external sector**

Despite a relatively stronger growth of merchandise exports in 2006 (17 per cent) due to higher oil prices and increased re-export activities of the free zone, current account deficit rose by NAf. 298.8 million in 2006, mainly caused by a significant rise in merchandise imports (13.8 per cent) which were strongly related to domestic demand (in construction, investments in manufacturing, transportation). The deficit on the current balance was strengthened by a dramatic drop (94 per cent) of the surplus on the current transfer's balance.

The services balance recorded an increase of 6.5 per cent as a result of increased foreign exchange receipts from increased numbers of stay-over tourists in Curacao in 2006.

The decline of the current transfer's surplus was mainly caused by a large transfer of dividend tax by the Dutch in 2005, which was of a much lower magnitude in 2006.

Improvements of the net direct investment balance could not counterbalance the negative developments on both the loans and credits balance and the portfolio investments balance (as a result of repatriated funds invested in foreign securities). But high capital inflows and increased net foreign assets more than financed the current account balance, causing an increase in international reserves of NAf. 84.3 million. The current level of import coverage is more than 2.5 months.

## Table 23
## NETHERLANDS ANTILLES: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | | | **Annual rates of growth b/** | | |
| **Real Gross domestic product, percentage change** | 0.3 | 1.4 | 1.1 | 1.5 | 1.5 |
| **Real Gross domestic product per capita, percentage change** | 2.3 | -1.0 | -1.3 | ... | ... |
| **Gross domestic product by economic activity** | | | | | |
| Agriculture, fishery and mining | -5.3 | 5.8 | 2.7 | 1.7 | 2.6 |
| Manufacturing | 2.0 | 0.0 | -2.5 | -0.6 | 1.8 |
| Electricity, gas and water | 2.4 | 1.3 | 0.8 | 0.2 | 0.3 |
| Construction | -10.2 | -3.7 | 2.5 | 4.5 | 5.1 |
| Wholesale and retail trade | 0.5 | 2.5 | 3.4 | 0.7 | 2 |
| Restaurants and hotels | 3.0 | 4.0 | 3.1 | -0.6 | 1.7 |
| Transport, storage and communication | -1.1 | 1.4 | -2.1 | -0.4 | 0.1 |
| Financial intermediation | 3.8 | 1.9 | 2.7 | 5.9 | 2.2 |
| Real estate, renting and business activities | -0.5 | 1.6 | 0.5 | -0.4 | 1.0 |
| Private households | -0.1 | -0.1 | -3.1 | -1.3 | 0.0 |
| **Balance of payments (in NAf)** | | | **Millions of Naf** | | |
| Current account balance | -106 | 8 | -156 | -184 | -483 |
| Merchandise balance | -1,827 | -1,821 | -2,123 | -2,354 | -2622 |
| Exports fob | 1 033 | 1 171 | 1 364 | 1 722 | 2014 |
| Imports fob | 2 860 | 2 992 | 3 487 | 4 075 | 4636 |
| Services balance | 1,492 | 1,591 | 1,899 | 1,986 | 2115 |
| Income account | 1 | -13 | -30 | -13 | 13 |
| Unilateral transfers | 228 | 251 | 98 | 196 | 12 |
| Financial and capital balance c/ | 116 | -67 | 91 | 67 | 425 |
| Net errors and omissions | -11 | 58 | 65 | 117 | 58 |
| Global balance | | | | | |
| Variation in reserve assets e/ | -122 | -89 | -66 | -133 | -84.2 |
| **Public debt** | | | | | |
| Government debt (millions of US dollars) | 2,146.2 | 2,465.1 | 2,674.2 | 2,721.1 | 2,901.2 |
| Government debt (% of GDP) | 73.9 | 82.2 | 86.6 | 84.4 | 85.4 |
| **Prices, interest rates and unemployment rate** | | | | | |
| Nominal Exchange rate US$=NAG | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 |
| Rate of change in the consumer price index f/ | 0.4 | 1.6 | 1.6 | 3.8 | 2.9 |
| Pledging rate | 3.50 | 2.25 | 2.75 | 4.50 | 5.50 |
| Prime rate current account overdrafts | 10.20 | 10.73 | 10.39 | 9.61 | 10.23 |
| Government bond effective yield (5 yr) | 7.25 | 6.90 | 6.75 | 6.25 | 7.50 |
| Population | 173,519 | 177,291 | 179,938 | 186,040 | 190,894 |
| Unemployment rate | 14.6 | 15.3 | 15.1 | 16.2 | 13.2 |

**Table 23 (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| **Public finances g/** | | | **Millions of US dollars** | | |
| Budget balance | -121 | -136 | -191 | -86 | -106 |
| Budget balance (% of GDP) | -4.1 | -4.5 | -6.1 | -2.6 | -3.1 |
| Government revenues (in US $) | 695 | 753 | 754 | 903 | 832 |
| Government expenditures | 816 | 888 | 945 | 989 | 938 |
| Financing | 121 | 136 | 191 | 86 | 106 |
| Monetary | 78 | 59 | 100 | -20 | -52 |
| Nonmonetary | 43 | 77 | 90 | 117 | 158 |
| **Monetary aggregates** | | | **Percentages of GDP** | | |
| Net foreign assets | 21.8 | 24.6 | 26.5 | 28.2 | 29.1 |
| Net domestic assets | 50.8 | 51.6 | 55.3 | 57.3 | 60.1 |
| Domestic credit | | | | | |
| Money and quasi-money | 72.6 | 75.8 | 84.5 | 87.0 | 92.1 |
| Money | 28.8 | 28.0 | 32.5 | 33.7 | 35.4 |
| Quasi-money | 43.8 | 47.8 | 52.0 | 54.6 | 56.7 |

Source: ECLAC, on the basis of official information

a/ Preliminary data for the first quarter

b/ At constant prices.

c/ Includes errors and omissions.

d/ The (-) sign indicates an increase in reserves.

e/ Includes the capital and financial balance minus net foreign direct investment and plus errors and omissions.

f/ average yearly rate

g/ Central Government and Curacao combined, cash basis. Source: Central Bank of the Netherlands Antilles

# I. Suriname

## 1. General trends

The economy of Suriname has been improving steadily, with sustained growth since 2000. GDP was up 5.8 per cent in 2006 and inflation fell to 4.8 per cent, showing that the abolition of the petrol subsidy in September 2005 did not have a lasting impact on inflation. This positive situation resulted from prudent monetary and fiscal policies together with favourable commodity prices, particularly for crude oil. The debt to output ratio fell, and part of the overdue debt was restructured. As a result, Standard & Poor upgraded the country's sovereign debt for the first time, with ratings of B+ and B for bonds in local and foreign currencies, respectively, with a positive outlook.

Mining, which grew by 18 per cent in 2006, remained the main engine of economic expansion. There were upturns in construction, transport and commerce. The rest of the economy remains relatively listless, especially agriculture (down 0.1 per cent). The President of the Republic stated that the government would implement measures, such as the sustainable reallocation of State resources, to help the whole economy advance towards a more satisfactory performance.

Reforming the political system is a central plank in the government's strategy, but the necessary political support is very difficult to muster with an eight-party coalition in power. Weak institutions remain a serious obstacle to sustainable development.

Rising commodity prices boosted tax receipts, but there are still structural problems in many agricultural subsectors. Among other things, the crucial rice sector was hit by unexpected rainfall in early 2007, highlighting once again the poor state of productive infrastructure in the Nickerie area.

The authorities continued to apply restrictive monetary policies to strengthen the national currency and prevent further dollarization of the economy. Changes were made to reserve requirements in order to stimulate housing construction.

The balance of payments showed an overall surplus thanks to the growing positive balance on the current account, on the back of climbing commodity exports and moderation in imports.

The economic boom is expected to continue in 2007 with a growth rate of 5.3 per cent, based on the strong expansion of mining and construction.

## 2. Economic policy

### (a) Fiscal policy

In 2006, a fiscal surplus (2.4 per cent of GDP) was achieved for the first time since 2003. This was the result of a reduction in spending from 29.5 per cent of GDP in 2005 to 26.7 per cent in 2006, and of continuing growth in revenue.

Fiscal revenue remained mostly at the mercy of fluctuating world commodity prices. In 2006, the State Oil Company of Suriname (Staatsolie) contributed over US$ 100 million to the treasury, almost 17 per cent of total fiscal revenue and 25 per cent more than the previous year's amount. The transfer to the government of profits earned by the Central Bank in past financial years also contributed to the improvement in non-tax revenues. There were also increases in direct and indirect tax revenue, the latter owing to tax hikes on tobacco and cigarettes.

The establishment of a mineral resource stabilization fund remained a subject of debate in 2006. The prolonged and wide fluctuations of fiscal revenue from taxes on mining and ore-processing companies has been a matter of great concern, since it may lead to an imbalance between revenue and expenditure and may destabilize public spending. In early 2007, fiscal resources from petroleum were allocated to minor investments in the education sector. A stabilization fund could ensure that such transfers were made in a more transparent and structured manner. It would also help to moderate the pressure that public expenditure exerts on effective demand.

The Decentralization and Local Government Strengthening Programme has made considerable advances. Five pilot districts have been identified and will be able to collect a proportion of the corresponding taxes.

The containment of all areas of public spending boosted the current surplus from 2.5 per cent to 4.7 per cent of GDP. In late 2005, the prices of all petroleum products on the domestic market were liberalized through the abolition of a subsidy. The number of central government employees rose by 2.9 per cent in 2006; the implementation of the public sector reform programme has been difficult and many of the measures provided for remain pending. The increased number of public servants did not solve the problem of deficient application of government projects, plans and programmes.[36] Public investment fell short of budgeted amounts, falling from 3.1 per cent of GDP in 2005 to 2.3 per cent of GDP in 2006.

Total public debt as a percentage of GDP continued its downward trend as a result of economic growth and increased use of foreign-exchange revenue to service and restructure external debt. This achievement was reflected in an improved Standard & Poor's rating.

The government also managed to reduce domestic public debt, staying within the legal ceiling of 15 per cent of GDP. In mid-2006, 70 per cent of that debt was short-term and the main creditors were the Central Bank (49 per cent), commercial banks (27 per cent) and other private

[36] In the first half of 2006, only 18 per cent of the spending budgeted in the annual development plan had been executed.

agents. Modifications to the ceilings for both external and internal public debt are being considered.

### (b) Monetary and exchange-rate policy

Monetary policies remained prudent, with particular attention to the management of liquidity, controlling money creation by regulating domestic credit. The main objective was to maintain a stable exchange rate and low inflation, but no target was stated.

Monetary policy towards commercial banking became a little more flexible. In view of the favourable macroeconomic trends, the legal reserve requirement for local-currency deposits was cut from 30 per cent in 2005 to 27 per cent in 2006. Since 9 per cent of the reserve (8 per cent in 2005) can be used for financing long-term mortgage loans for social housing, the real reserve requirement was equivalent to 18 per cent. As a result, commercial banks lowered their lending rates. The reserve requirement for foreign-currency deposits remained at 33.3 per cent.

The growth of the money supply (M2) was slower than in the previous year. Nonetheless, the M2/GDP ratio was estimated at 26.8 per cent in 2006, significantly higher than the 2005 figure of 24.4 per cent. This increase appears to be sustainable because it was mostly due to net capital inflows resulting from higher commodity exports. Domestic credit to the public sector declined, owing to the strengthening of fiscal accounts.

The country's economy remains highly dollarized, with foreign-currency credit outstripping credit in local currency. Foreign-currency deposits by residents rose by 23.9 per cent from US$ 384.1 million in 2005 to US$ 475.9 million in 2006. Lending in foreign currency also increased much more in 2006 than in 2005 (36.4 per cent as against 14.6 per cent) and also rose much faster than local-currency lending in the same year (20.3 per cent). The increased demand for foreign-exchange loans was mostly motivated by the difference in interest rates for loans in Suriname dollars, on the one hand, and those for loans in United States dollars and euros on the other, given the stability of the exchange rate.

Responding to growing confidence in the country's monetary orientation, inflation forecasts fell and commercial banks cut interest rates in local currency. The weighted average lending rate declined from 16.3 per cent in 2005 to 15.3 per cent in 2006, while the deposit rate fell from 6.7 per cent to 6.6 per cent. The unequal rates of change show that commercial banks have reduced the spread, which suggests that the system is seeing a decline in the costs and risks of financial intermediation.

The nominal exchange rate has remained unchanged over the past three years. Nonetheless, pressure from rising import prices and growing foreign-exchange inflows suggest a real exchange rate appreciation which could be harmful for non-mineral exports.

### (c) Other policies

The government is planning a broad programme of structural policies to improve the competitiveness of productive sectors.

In 2006, it sought to privatize a number of flagging public-sector companies —in sectors such as rice, banana and aviation— seeking to maximize the benefits for the country. Negotiations for the sale of the State timber corporation, Bruynzeel Suriname Houtmaatschappij (BSH), were broken off because the government saw the planned transaction as unprofitable. A new agency to centralize privatization processes, CEPRIS, has been proposed. A broad sectoral programme has been set up in the area of agriculture to improve competitiveness and environmental sustainability, provide reasonable incomes for agricultural workers and ensure food security for the country.

As for improvements to productive infrastructure, work has begun to equip the ports of Nieuwe Haven, in Paramaribo, and Nickerie, in the rice-producing region, for container traffic. Also, the Ministry of Trade and Industry has acquired land for the creation of export processing zones and industrial estates.

The following measures have been implemented in order to optimize energy use: the State energy corporation has begun purchasing electric power from the Suriname Aluminum Company (Suralco); electric power distribution stations in the capital have been upgraded and the power cable network has been extended in various rural areas, and an electric power generating station has been built for the State petroleum company, Staatsolie, to increase capacity and meet the growing demand for electric power in the capital and its suburbs.

## 3. The main variables

### (a) Economic activity

GDP growth in 2006 stood at 5.8 per cent, mainly boosted by the mining, transport and communications and construction sectors, which grew by 18 per cent, 10.8 per cent and 10.5 per cent, respectively. Petroleum, gold and alumina prices remained very high. Technical problems prevented any increase in alumina output and production actually fell by 1.5 per cent, but petroleum output expanded by 11.6 per cent thanks to the start of operations at the new Calcutta oilfield, and gold output was up by 4.6 per cent despite labour problems at the mine in early 2006.

The 0.1 per cent fall in agricultural output was caused by infrastructure problems combined with weather phenomena. The estimated 8 per cent growth of rice production in the first half of the year could not make up for the lost ground of earlier years. Rising prices for fuels and fertilizers, among other essential inputs, made it impossible for the sector to overcome the debts inherited from years of mismanagement. Rice production was also hurt by the incidence of the pyricularia grisea fungus and the low water level in the Nanni swamp, whose water is used for irrigation. The EU technical assistance programme which began in March 2006, together with a donation of 3 million euros, will give a new lease on life to the rice subsector, which is vital for the employment and nutrition of the population.

Owing to fluctuations in world prices, the incidence of pests, weather phenomena and the low productivity of the State-owned corporation, banana production was very unstable. A seven per cent fall in the third quarter was followed by a 62 per cent rise in the fourth quarter as a result of changes in EU import quota policies. The privatization of the State corporation should enable it to return to a level of competitiveness sufficient to compete in the world market.

Tourism, particularly ecotourism, was hurt by the floods in the country's interior in May 2006. Most of the establishments affected have recovered thanks to government aid. The fact that cruise ships have begun calling at Paramaribo is encouraging for the tourism sector.

### (b) Prices, wages and employment

Despite steep rises in the rates of a number of indirect taxes such as the levy on tobacco, the monetary policy designed to contain the growth of aggregate demand succeeded in holding back price rises, which were significantly lower than in 2005. Inflation fell from 15.8 per cent in 2005 to 4.7 per cent en 2006.

The government reached an agreement with the public employees' union on a 10 per cent wage increase in two 5 per cent steps, the first in late 2006 and the second in early 2007. Real wages had been declining since 2003, but that wage deal and the bonus to compensate the rise in petrol prices in 2005 had a positive effect on average wages, whose purchasing power rose by 2.7 per cent en 2006.

Unemployment is estimated to have risen by 12.1 per cent despite the expansion of economic activity.

### (c) The external sector

The balance of payments recorded an overall surplus with an increase in net international reserves for the third consecutive year; the reserves were equivalent to just over two months' imports.

The balance shows a considerable current-account improvement, with a surplus of US$ 115 million owing to a significant fall in goods imports and higher remittances. The cut in imports appears to be entirely due to fluctuations in foreign investment projects.

The financial account showed a heavy deficit of US$ 263 million, owing to the outflow of US$ 163 million under the heading of direct investments abroad. These flows relate mostly to capital movements from mining companies' subsidiaries in Suriname to their parent companies.

Suriname was able to completely pay off or restructure its entire bilateral debts with Germany, Italy and Japan, which was an improvement for its external debt situation. There remain, however, a number of overdue debts, on which negotiations are being held.

## Table 24
## SURINAME: MAIN ECONOMIC INDICATORS

| | 2002 | 2003 | 2004 | 2005 | 2006 c/ |
|---|---|---|---|---|---|
| | Annual growth rates b/ | | | | |
| **Gross domestic product** | 1.9 | 6.1 | 7.7 | 5.6 | 5.8 |
| **Per capita gross domestic product** | 1.2 | 5.4 | 7.0 | 4.3 | |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -3.9 | 4.3 | 1.5 | -0.3 | -0.1 |
| Mining | -8.6 | 0.0 | 31.2 | 15.4 | 18.0 |
| Manufacturing | -3.6 | 5.6 | 9.5 | 4.8 | 0.8 |
| Electricity, gas and water | 10.3 | -1.7 | 9.2 | 7.9 | 7.3 |
| Construction | 0.6 | 17.0 | 10.1 | 10.3 | 10.5 |
| Wholesale and retail commerce, restaurants and hotels | 8.4 | 32.2 | 6.0 | 6.4 | 6.3 |
| Transport, storage and communications | 12.6 | -0.4 | 14.0 | 10.6 | 10.8 |
| Financial institutions, insurance, real estate and business services | 5.4 | 3.5 | 1.6 | 2.5 | 2.5 |
| Community, social and personal services | 1.1 | 0.2 | 1.3 | 1.9 | 1.8 |
| **Balance of payments** | Millions of dollars | | | | |
| Current account balance | -60 | -141 | -59 | -144 | 115 |
| Merchandise trade balance | 52 | -30 | 167 | 22 | 161 |
| Exports, f.o.b. | 529 | 639 | 871 | 1,212 | 1174 |
| Imports, f.o.b. | 477 | 669 | 703 | 1,189 | -1013 |
| Services trade balance | -128 | -133 | -130 | -148 | -31 |
| Income balance | -44 | -49 | -161 | -40 | -52 |
| Net current transfers | 59 | 71 | 64 | 22 | 36 |
| Capital and financial balance c/ | 62 | 140 | 90 | 168 | -21 |
| Net foreign direct investment | -74 | -76 | -37 | 28 | -163 |
| Financial capital d/ | 136 | 216 | 128 | 265 | -184 |
| Overall balance | 2 | -1 | 32 | 24 | 94 |
| Variation in reserve assets e/ | -2 | 1 | -32 | -24 | -94 |
| **Other external-sector indicators** | | | | | |
| Net resource transfer (percentages of GDP) | 1.9 | 8.1 | -5.5 | 8.3 | |
| Total gross external public debt (millions of dollars) | 371 | 382 | 382 | 371 | 389 |
| Total gross external public debt (percentages of GDP) | 38.9 | 34.1 | 29.8 | 25.8 | 23.2 |
| Net profits and interest (percentages of exports) f/ | -7.7 | -7.0 | -15.9 | -2.9 | |
| **Employment** | Average annual rates | | | | |
| Unemployment rate g/ | 10.0 | 7.0 | 8.4 | 11.2 | 12.1 |
| **Prices** | Average percentages | | | | |
| Variation in consumer prices (December-December) | 28.4 | 13.8 | 8.4 | 15.8 | 4.8 |
| Variation in nominal exchange rate (December-December) | 15.4 | 4.4 | 3.8 | 1.1 | 0.0 |
| Nominal deposit rate h/ | 9.0 | 8.3 | 8.3 | 8.0 | |
| Nominal lending rate i/ | 22.2 | 21.0 | 20.4 | 18.1 | |

**Table 24 (Continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Central government** | | **Percentages of GDP** | | | |
| Total income | 26.6 | 27.9 | 27.9 | 28.9 | 29.06 |
| Current income | 25.5 | 26.5 | 26.5 | 27.1 | 28.6 |
| Tax income | 21.0 | 22.2 | 21.7 | 21.5 | 22.6 |
| Capital income | 9.1 | 9.2 | 10.3 | 11.4 | |
| Total expenditure | 31.0 | 27.1 | 28.7 | 29.5 | 26.7 |
| Current expenditure | 28.0 | 24.1 | 24.8 | 24.6 | 23.9 |
| Interest | 2.3 | 2.0 | 1.7 | 1.9 | 1.8 |
| Capital expenditure | 2.9 | 2.7 | 3.8 | 4.9 | 2.8 |
| Primary balance | -2.1 | 2.3 | 1.6 | 2.5 | 4.7 |
| Overall balance | -4.4 | 0.7 | -0.8 | -0.6 | 2.4 |
| | | | | | |
| Public sector debt | 48.7 | 42.5 | 41.5 | 38.9 | |
| Domestic | 13.9 | 12.1 | 15.2 | 15.4 | 12.9 |
| External | 34.9 | 30.3 | 26.3 | 23.3 | 23.2 |
| | | | | | |
| **Money and credit j/** | | | | | |
| Domestic credit | 19.8 | 24.3 | 24.5 | 26.3 | |
| To the public sector k/ | 8.1 | 9.5 | 8.3 | 8.4 | |
| To the private sector | 11.6 | 14.7 | 15.9 | 17.8 | |
| Other | 0.0 | 0.1 | 0.3 | 0.2 | |
| Money (M1) | 17.6 | 15.9 | 14.9 | 16.5 | 18.1 |
| Currency in circulation and local-currency deposits (M2) | 25.6 | 23.1 | 22.1 | 24.4 | 26.8 |

**Source**: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1990 prices (1996-1998: guilders;
1999-2004: Suriname dollars, new currency in circulation since January 2004).
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ A minus sign (-) denotes an increase in reserves.
f/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.
g/ Percentage of the economically-active population, nationwide total.
h/ Deposit rate published by IMF.
i/ Lending rate published by IMF.
j/ The monetary figures are annual averages.
k/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

## J. Trinidad and Tobago

### 1. General trends

Trinidad and Tobago's impressive economic growth reached 12 per cent in 2006. The main driving force continues to be the energy sector, which includes oil, natural gas and related products. Growth in the energy sector followed the positive trend of recent years and, thanks to its contribution to tax receipts, financed a considerable increase in public spending. This in turn gave rise to rapid growth in the construction and manufacturing sectors.

Economic policy was characterized by fiscal expansion and monetary policy efforts to curb the rise in aggregate demand. In 2006[37], total fiscal revenues soared to 33.6 per cent of GDP and expenditures to 27.1 per cent. In consequence, a fiscal surplus was recorded for the fourth year running (6.5 per cent of GDP). Higher receipts were mainly due to the continued increase in income from the energy sector, but also to the general surge in economic activity related to the tax reforms of fiscal year 2005/2006, which involved cuts in income tax.

Given the increase in fiscal expenditure, monetary policy focused on controlling excess liquidity. The repurchase rate rose from 6.25 per cent to 8 per cent in 2006, with little effect. Commercial banks were asked to deposit TT$1.5 billion in an interest-bearing account at the Central Bank. On three occasions, seven- and eight-year bonds were issued with interest rates of 7.8 per cent and 8 per cent. Take-up was higher than expected, and the Central Bank captured and sterilized almost TT$2.4 billion (nearly US$ 400 million). These measures changed the upward trend of the consumer price index, which had exceeded 10 per cent in the 12-month period from October 2005 to October 2006. Twelve-month inflation up to April 2007 was down to 8.4 per cent.

Despite monetary tightening, the country's economy maintained high growth rates. The main short-term risk is overheating, as shown by its inflation and employment figures. In the medium and long terms, there is a risk that the upturn in public investment may result in lower investment quality and that the economy's heavy dependence on the energy sector might make it more vulnerable to external shocks. The energy sector's contribution to GDP (at current prices) went from 26 per cent in 2003 to 45 per cent in 2006.

GDP growth in 2007 is projected to stand at 8 per cent as a result of the continued increase in gas and oil production. The fiscal surplus is expected to disappear due to a drop in revenue, a rise in current expenditure and a steep increase in capital expenditures.

### 2. Economic policy

#### (a) Fiscal policy

In 2006, the country's fiscal surplus stood at 6.5 per cent of GDP. Receipts continued to rise (to 33.6 per cent of GDP), as did expenditures, which rose by 1.2 percentage points to 27.1 per cent of GDP.

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[37] Fiscal year October 2005-September 2006

The rise in expenditure has been made possible by the persistent increase in economic activity and the greater revenues from the oil and gas sectors, which are benefiting from higher international prices and are taxed according to a special regime. The average price of oil was US$ 66 over the year, but the Henry Hub spot gas price on the United States market was 29 per cent lower than the average of the previous year. The volume of gas production, which is not price elastic in the short term, climbed considerably.

Fiscal expansion is largely associated with the activities of about 100 State-owned enterprises, such as the Urban Development Corporation of Trinidad and Tobago Ltd. (UDeCOTT),[38] which carries out the country's main urban construction works. The value of UDeCOTT assets rose from TT$ 2.5 billion in 2005 to TT$ 4.2 billion in 2006.

To improve the sustainability of the growth model, the government created the Heritage and Stabilization Fund based on the interim Revenue Stabilization Fund. The new fund will receive 60 per cent of non-recurring receipts when the prices of energy products exceed levels provided for in the budget. When receipts are 10 per cent lower than budgeted, on the other hand, the government may withdraw up to 60 per cent of the difference from the fund, up to a certain ceiling. The budget price is determined on the basis of the 11-year moving average of prices recorded by international agencies. In 2006, the government deposited US$ 500 million (3 per cent of GDP) in the fund, thereby bringing the balance to around US$ 1.5 billion. The authorities still have to finalize the regulatory framework governing the use of the fund, as well as appointing the team responsible for its operation.

### (b) Monetary and exchange-rate policy

Monetary policy was mainly focused on containing the excess liquidity generated by public investment in order to rein in rising prices. The means used to achieve this in the first half of 2006 included raising the discount rate for repo operations by 1.75 percentage points to 8 per cent in September, in line with the United States Federal Reserve rate. This increase did not have the desired effect on the level of liquidity or on consumer prices, however.

More direct instruments were then employed, including open-market operations such as the sale of foreign exchange and the issue of treasury bonds to sterilize funds. The legal reserve requirement was also raised, and commercial banks were asked to deposit funds in an interest-bearing account at the central bank. The magnitude of these operations was stepped up over the course of the year.

The most effective means of absorbing liquidity was the Central Bank's sale of foreign exchange on the market. In 2006, the Central Bank sold almost US$ 1.5 billion, more than double the amount sold in the year earlier period. The absorption of liquidity had the effect of pushing up interest rates. The rate on treasury bonds climbed by an average of 55 basis points during 2006 and early 2007. Rates on mortgage loans from commercial banks rose by between 25 and 125 basis points. The lending rate posted faster growth than the borrowing rate, which

[38] Government-owned private limited-liability company.

increased the level of intermediation from 7 points to 7.8 points; this suggests greater perceived risk or higher operational costs.

Tighter monetary policy had varying effects on bank lending. Growth in consumer loans ground to a halt, while loans to production sectors rose sharply. This development is a positive one in terms of sustaining growth in the medium term.

The increase in monetary aggregates also slowed during the course of the year as a result of monetary policy. Annual growth in broad money (M2) fell from 29.8 per cent (April 2005-March 2006) to 10.6 per cent (April 2006-March 2007).

## 3. The main variables

### (a) Economic activity

Trinidad and Tobago turned in an impressive economic performance during 2006. GDP expanded by 12 per cent, which is the second-highest figure in over a decade of elevated growth rates. The driving force behind this growth was the energy sector, which expanded by 20.6 per cent in real terms during 2006, while non-energy sectors chalked up increases of just 6.5 per cent. This was also the first full year of operations for module 4 of the Atlantic LNG Company's liquid natural gas plant in Point Fortin. Production of natural gas reached a record 4.1 billion cubic feet per day in August 2006. However, exploration activity was more limited than predicted. A major project of British Petroleum of Trinidad and Tobago (BPTT), Ibis Deep, failed, and the sector's main enterprises showed no interest in its exploration rights during the two rounds of tenders.

Construction and manufacturing (not including refinery activities, which were up by 37.4 per cent) continued to outperform the rest of the economy, with growth rates of 14.5 per cent and 11.8 per cent, respectively, in 2006. Construction was boosted by projects involving public buildings, the rehabilitation of infrastructure and industrial zones being developed by the government. The considerable expansion was attributable to the steps taken to bolster processing activities in the petroleum chain as part of the government policy to refrain from exporting unprocessed raw materials.

Petrochemical activity was considerably buoyant (15.9 per cent in 2006), while that sector's exports were up by 8.6 per cent. The growth rates for fertilizer and methanol production were equal to or above those from the year-earlier period. By the third quarter of 2006, steel production volumes were already equal to the figures for the whole of 2005, and almost the same was true of cement production. Given that domestic sales for these products did not rise, it can be assumed that the additional production was in response to demand from other Caribbean countries.

Agriculture continued to turn in a mediocre performance and now contributes less than 1 per cent of GDP. During the past four years, over 10,000 agricultural jobs disappeared. Although there was a slight upturn in the production of raw sugar (mainly used in rum production), refined sugar production plummeted. Cocoa production was half that of the previous year's volumes, and coffee production was virtually nil. Production of citrus fruit, tomatoes and rice were satisfactory. The agricultural sector has been hard hit by the structural transformation of the economy, and it will have to innovate and reinvent itself to ensure its survival.

The financial sector's contribution to GDP is 14 per cent, with higher growth projected following the government's decision to develop part of the new Waterfront complex as an international financial centre governed by national legislation ("on-shore"), which would make it one of the main centres of its kind in the Caribbean.

## (b) Prices, wages and employment

Inflation was the major subject of economic debate during 2006. The consumer price index climbed by more than 10 per cent in the 12 months leading up to October. It was the first time in 12 years that double-digit inflation had been recorded. Determining factors of these price increases included import costs and agricultural bottlenecks, combined with the major injection of liquidity associated with expanded public spending. The most affected were food prices, which rose by 26 per cent, as well as other retail prices. Government initiatives to improve market efficiency included publishing prices and organizing country fairs on Sundays.

Wage agreements concluded during 2006 resulted in larger increases than in the recent past. Basic wages rose by between 17.2 per cent and 18.6 per cent.

Unemployment decreased considerably in 2006 following the creation of 12,000 new jobs throughout the year. The unemployment rate dropped to a minimum of 5 per cent in the final quarter of 2006. This reduction has occurred in a context of rising domestic demand, resulting from an increase in banking credit and fiscal expenditure. Inflation and employment figures support the idea that the country's economy is operating beyond its capacity.

## (c) The external sector

The balance of payments posted a surplus for the fourteenth year running: the surplus was US$ 1.645 billion (9 per cent of GDP) in 2006, compared with US$ 1.893 million (13 per cent of GDP) in 2005.

Positive external accounts are due to higher energy prices and an expansion of installed capacity. International prices for crude oil were 16.8 per cent higher than in the previous year, while production volumes were up by 15.2 per cent. Energy exports (which include oil, natural gas and petrochemical products) grew by 28 per cent in 2006, thereby increasing the contribution of energy exports to total exports from 89 per cent in 2005 to 91 per cent in 2006.

Booming economic activity, abundant liquidity and the government's development of infrastructure works pushed up imports by 19.5 per cent in comparison with the previous year. Imports of capital goods surged by a staggering 70.7 per cent to represent 10.5 per cent of GDP (7.2 per cent in 2005). Petroleum imports for refining were up by 14.5 per cent during the year.

Other components of the current account included the income balance, which posted a hefty deficit due to the repatriation of capital income by foreign energy companies, while the services balance and the balance of transfers continued to register small surpluses.

The current account surplus of almost US$ 5.0 billion (nearly 25 per cent of GDP, which makes it the region's largest in relative terms) was invested in foreign assets and recorded as outflows from the capital account. These flows almost doubled from US$ 1.7 billion in 2005 to US$ 3.0 billion in 2006. US$ 220 million was issued in regional bonds. Commercial banks invested heavily in international assets, the level of which increased eightfold to stand at US$ 845 million. The non-financial private sector also continued its strategy of diversifying its portfolio and protecting itself from the risks of investing in assets abroad.

In the absence of any significant external-debt servicing commitments, the positive balance of payments pushed up the level of net international reserves to around US$ 6.5 billion, which is 33 per cent higher than the previous year and represents 10 months of imports.

For 2007, the authorities predict a solid current account, although with a slightly downward trend. International prices for oil, methanol and ammonia are expected to dip slightly, with no guarantee that this will be offset by an increase in production volumes. The authority's expansionary fiscal stance is expected to become more expansionary in 2007, which is an election year, while the real appreciation of the exchange rate is expected to continue. As a result, greater increases are projected for imports, and the current account surplus is expected to shrink.

**Table 25**
**TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS**

| | 2002 | 2003 | 2004 | 2005 | 2006 a/ |
|---|---|---|---|---|---|
| | | | **Annual growth rates b/** | | |
| **Gross domestic product** | 7.9 | 13.4 | 6.5 | 7.0 | 12.0 |
| **Per capita gross domestic product** | 7.6 | 13.0 | 6.2 | 6.7 | … |
| **Gross domestic product, by sector** | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 8.7 | -18.2 | -21.1 | -0.5 | -0.6 |
| Mining c/ | 13.5 | 31.3 | 7.9 | 10.9 | 20.6 |
| Manufacturing | 3.8 | 4.2 | 9.5 | 8.6 | 11.8 |
| Electricity, gas and water | 8.7 | 2.7 | 4.4 | 5.3 | 2.1 |
| Construction d/ | -5.1 | 22.4 | 14.5 | 8.1 | 14.5 |
| Wholesale and retail commerce, restaurants and hotels | 1.4 | 1.6 | 3.4 | 3.7 | 3.1 |
| Transport, storage and communications | 9.4 | 3.9 | 1.5 | 6.4 | 4.0 |
| Financial institutions, insurance, real estate and business services | 11.5 | 7.3 | 9.7 | 0.5 | 7.5 |
| Community, social and personal services | 4.3 | 0.6 | 1.7 | 1.1 | 1.3 |
| **Balance of payments** | | | **Millions of dollars** | | |
| Current account balance | 76 | 985 | 1,623 | 2,741 | 4,655 |
| Merchandise trade balance | 238 | 1,293 | 1,509 | 2,648 | 5,257 |
| Exports, f.o.b. | 3,920 | 5,205 | 6,403 | 8,373 | 12,100 |
| Imports, f.o.b. | 3,682 | 3,912 | 4,894 | 5,725 | 6,843 |
| Services trade balance | 264 | 314 | 512 | 596 | 286.0 |
| Income balance | -480 | -681 | -450 | -554 | -936.0 |
| Net current transfers | 55 | 59 | 53 | 53 | 47.0 |
| Capital and financial balance e/ | 39 | -576 | -889 | -848 | … |
| Net foreign direct investment | 684 | 1,034 | 600 | 599 | … |
| Financial capital f/ | -645 | -1,609 | -1,489 | -1,447 | … |
| Overall balance | 116 | 409 | 734 | 1,893 | 1645.0 |
| Variation in reserve assets g/ | -116 | -409 | -734 | -1,893 | -1645.0 |
| Other financing h/ | 0 | 0 | 0 | 0 | 0 |
| **Other external-sector indicators** | | | | | |
| Real effective exchange rate (index: 2000=100) i/ | 91.1 | 91.8 | 93.2 | 91.8 | … |
| Net resource transfer (percentage of GDP) | -4.9 | -11.8 | -11.0 | -10.2 | … |
| Total gross external debt (millions of dollars) | 1,549 | 1,553 | 1,351 | 1,281 | 1261.0 |
| Total gross external debt (percentage of GDP) | 17.2 | 14.5 | 11.1 | 9.3 | 6.9 |
| Net profits and interest (percentage of exports) j/ | -10.5 | -11.6 | -6.1 | -6.0 | … |
| **Employment** | | | **Average annual rates** | | |
| Labour force participation rate k/ | 60.9 | 61.6 | 63.0 | 63.7 | 63.9 |
| Unemployment rate l/ | 10.4 | 10.5 | 8.4 | 8.0 | 6.2 |
| **Prices** | | | **Annual percentages** | | |
| Variation in consumer prices (December-December) | 4.3 | 3.0 | 5.6 | 7.2 | 9.1 |
| Variation in nominal exchange rate (December-December) | 0.3 | 0.0 | -0.4 | -0.2 | … |
| Nominal deposit rate m/ | 3.5 | 2.9 | 2.4 | 1.7 | 2.9 |
| Nominal lending rate m/ | 13.4 | 11.0 | 9.4 | 9.1 | 9.6 |

**Trinidad and Tobago (continued)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Central government** | | | **Percentages of GDP** | | |
| Total income | 24.6 | 23.7 | 25.8 | 31.2 | 33.6 |
| Current income | 24.6 | 23.7 | 25.8 | 31.2 | 33.6 |
| Tax income n/ | 21.6 | 22.2 | 24.3 | 29.3 | 32.1 |
| Capital income | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total expenditure | 25.3 | 22.3 | 24.0 | 25.9 | 27.1 |
| Current expenditure | 24.1 | 21.2 | 21.9 | 23.0 | 23.2 |
| Interest | 4.3 | 3.5 | 3.0 | 2.7 | 2.2 |
| Capital expenditure | 1.2 | 1.1 | 2.0 | 2.9 | 4.0 |
| Primary balance | 3.7 | 4.9 | 4.9 | 7.9 | 8.7 |
| Overall balance | -0.6 | 1.4 | 1.9 | 5.3 | 6.5 |
| Public sector external debt | 16.3 | 14.4 | 12.6 | 1.7 | 0.4 |
| **Money and credit o/** | | | | | |
| Domestic credit p/ | 28.3 | 21.8 | 17.9 | 14.6 | 8.8 |
| To the public sector | -1.7 | -4.2 | -10.0 | -13.7 | -18.6 |
| To the private sector | 30.0 | 26.0 | 27.9 | 28.4 | 27.5 |
| Liquidity (M3) | 40.9 | 32.4 | 34.9 | 37.2 | 37.9 |
| Currency in circulation and local-currency deposits (M2) | 31.1 | 26.3 | 26.1 | 29.5 | 28.7 |
| Foreign-currency deposits | 9.8 | 8.5 | 8.8 | 7.7 | 9.2 |

**Source**: ECLAC, on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2000 prices.
c/ Refers only to the oil industry.
d/ Includes quarrying
e/ Includes errors and omissions.
f/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
g/ A minus sign (-) denotes an increase in reserves.
h/ Includes the use of IMF credit and loans and exceptional financing.
i/ Annual average, weighted by the value of merchandise exports and imports.
j/ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments.
k/ Economically active population as a percentage of the working-age population. Nationwide total.
l/ Percentage of the economically active population. Includes hidden unemployment. Nationwide total.
m/ Weighted average.
n/ Includes interest.
o/ The monetary figures are annual averages.
p/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

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