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**ECONOMIC SURVEY OF THE CARIBBEAN
2004-2005**

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Table of contents

Executive summary.....	1
I. Regional overview.....	3
1. Caribbean economic performance in 2004	4
2. The external sector.....	12
3. Fiscal performance and policies.....	19
4. Monetary policy	25
5. Trade negotiations.....	29
II. Analysis of selected topics.....	34
Caribbean labour markets: Challenges and policies	35
Labour market policies	49
Conclusion	52
III. Country briefs	53
Aruba.....	54
The Bahamas.....	59
Barbados	65
Belize	71
British Virgin Islands.....	77
Guyana	82
Jamaica.....	88
Netherlands Antilles.....	95
Member States of the Organisation of Eastern Caribbean States (OECS)	101
Suriname	108
Trinidad and Tobago.....	114
United States Virgin Islands	120

Executive summary

Average real GDP growth of around 4%, with declining inflation and unemployment, indicate a very satisfactory economic performance of the Caribbean in 2004. The outlook for 2005 suggests only a modest slowdown of these positive trends. It would be the third year in a row of steady growth.

The economic bonanza in the Caribbean is underpinned by strong external demand for tourism services, high prices for commodity exports and low international interest rates. The Caribbean countries, whose exchange rates are either pegged or otherwise closely related to the United States dollar, have benefited as a tourism destination in 2004 from the depreciation of the United States dollar, vis-à-vis the Euro and currencies in Latin America.

The analysis of trends in the real economy puts Caribbean countries in three groups: service-oriented, commodity-based and mixed or bipolar economies. As a group, the Caribbean economies obtain their inflow of foreign exchange in almost equal parts from services and goods exports. The commodity exporters also contain a small but highly dynamic services exports sector, but the service-oriented economies do not generally have a successful goods exporting sector. In the bipolar or mixed economies, exports of goods grew at a rate three times higher than exports of services.

The fiscal performance of Caribbean countries shows stark contrasts. Jamaica continued its severe adjustment policy and is on track in bringing the deficit under control, whereas Trinidad and Tobago faces the luxury problem of how to use the current bonanza to strengthen the base for long-term growth. Many small countries suffer the fiscal consequences of high deficits inherited from the past, especially from excess spending in the 2001-2002 crisis years. Some, but not all, have been able to reduce the deficits. The political cycle plays an important role witnessed, for example, by Suriname's expansionary fiscal policy leading up to the elections. Also, the upcoming Cricket World Cup in 2007 casts its shadows forward and may bring fiscal deficits up again in 2005 and 2006.

Monetary policies are also quite contrasting, beginning with the different exchange rate regimes in existence. In some countries with more prudent fiscal policies, monetary policy could be used to stimulate economic activity by bringing interest rates down. In others, monetary policy faced the task of reigning in the pressures on the balance of payments and interest rates tended upwards. In all, the contrasting fiscal and monetary policies pose the question of how regional integration can be deepened in the absence of a coordinated macroeconomic policy approach.

The outlook for 2005 and 2006 is generally positive, although it is doubtful whether the 4% real GDP growth of the 2003 and 2004 years can be repeated. Demand for tourism services is bound to be less dynamic, also due to the changing trend in the United States dollar-Euro parity. The increase in oil prices should bring more pressure on the balance of payments.

A second section of this report analyzes the challenges facing labour markets in the region over the past decade with a view to specifying policies and programmes aimed at meeting these challenges.

It identifies youth unemployment, the mismatch between the educational system and the needs of the labour market, low levels of labour productivity coupled with relatively high wages and the emigration of skilled persons from the region ('brain drain') as main challenges that member States are facing and explains the measures that will be required to address these issues. The analysis underlines the need to restructure and refocus the education and training system to promote a dynamic labour market capable of meeting the needs of workers and employers. It also calls for the establishment of productivity agencies, the promotion of social partnerships and the strengthening of labour market institutions with revised labour laws and strategic plans.

The third section of the report presents detailed country studies on each of the member States; a complete set of statistics is provided in an accompanying cd-rom.

I. REGIONAL OVERVIEW

1. Caribbean¹ economic performance in 2004

1.1. GDP growth

The Caribbean had in 2004, on average, a second consecutive year of positive real GDP growth of 4% (4.2% in unweighted average and 3.8% in weighted average) and prospects for 2005 suggest that growth continues, albeit at a slightly lesser pace. The region thus has overcome two years of near zero growth (2001-2002) to regain the growth rate of 1995-2000 (See Box 1).

	Real GDP growth		Nominal US\$ GDP growth	
	2003	2004	2003	2004
Anguilla	3.3	14.0	4.5	16.3
Antigua and Barbuda	5.5	5.2	5.7	6.7
Aruba	1.6	3.6	0.7	5.2
the Bahamas	1.9	2.8	1.9	4.2
Barbados	3.7	4.5	3.8	3.4
Belize	9.0	4.2	6.5	13.9
British Virgin Islands			-1.6	6.6
Dominica	-0.3	3.5	0.2	4.7
Grenada	5.8	-3.0	7.2	-0.4
Guyana	-0.6	1.6	0.9	5.6
Jamaica	2.3	1.2	-3.3	7.8
Montserrat	-0.8	4.5	2.2	5.9
Netherlands Antilles	1.4	1.0	3.3	2.6
St. Kitts and Nevis	0.6	5.1	2.4	9.0
St. Lucia	2.9	3.6	4.8	4.7
St. Vincent and the Grenadines	3.4	5.4	3.4	7.9
Suriname	5.4	6.8	18.2	15.5
Trinidad and Tobago	12.6	6.4	18.6	8.6
United States Virgin Islands	3.1	3.0	5.4	5.0
Unweighted average	3.1	4.2	4.5	7.0
Weighted average	5.2	3.8	6.4	6.7

Source: ECLAC, on the basis of official data

As can be gleaned from Table 1, real GDP growth accelerated in 11 of 18 countries; on average, these 11 countries saw an increase from 1.6% to 5.2% growth between 2003 and 2004. In seven countries growth declined. It must be noted that in the cases of **Belize** and **Trinidad and Tobago**, the 2003 growth rate appears high: 9% and 12.6%, respectively. In both cases, these numbers for 2003 were influenced by a change in base year of the national accounts. Growth in 2004, although still strong, could not match the extraordinary numbers of 2003.

¹ In the context of this report, the Caribbean refers to the member countries of the Caribbean Development and Cooperation Committee (CDCC), except its Spanish and French speaking members (Cuba, Dominican Republic, Haiti and Puerto Rico). In all, the 19 countries listed in Table 1 are considered.

The slowdown of growth in **Jamaica** and the actual decrease of GDP in **Grenada** has another explanation. In both cases, natural disasters, in the form of hurricanes, shattered formerly solid growth expectations for 2004. In the other three countries where growth rates declined – **Antigua and Barbuda**, **Netherlands Antilles** and the **United States Virgin Islands** the decline was not steep.

At the country level, highest real GDP growth in 2004 was recorded in **Anguilla** (14%), following closely the 15% increase in foreign visitors. Growth was also very strong in **Suriname** (6.8%), boosted by the start-up of the large Rosebel gold mine as well as an increase in government expenditures ahead of elections. **Trinidad and Tobago** continued to post strong growth (6.4%) driven by natural gas exploitation and liquid natural gas exports. Three countries, **Antigua and Barbuda**, **St. Kitts and Nevis** and **St. Vincent and the Grenadines** also posted real GDP growth above 5%, boosted mainly by the increase in tourism earnings. In the **British Virgin Islands**, real GDP data are not available. Given the strong nominal GDP growth and the low inflation, it can be safely assumed that also in this country real GDP growth was slightly above 5%.

The generally positive performance of the Caribbean economies in terms of GDP growth was achieved together with favourable developments regarding price stability and labour markets. Unweighted average inflation in the Caribbean dropped slightly from 3.8% to 3.5% between 2003 and 2004. Jamaica and Suriname are the two countries that showed double-digit inflation in 2003. The rate of inflation in **Jamaica** remained high in 2004 (13.7%) as a result of supply constraints due to the natural disasters. Inflation is projected to decline in 2005 because of the wage constraints policy agreed with the trade unions. Estimates of inflation in **Suriname** suggest that it dropped in 2004 to 9%. Unemployment data are quite patchy but what evidence there is suggests (unweighted, average) drop in unemployment from 10.9% in 2003 to 8.9% in 2004. (See Table 2).

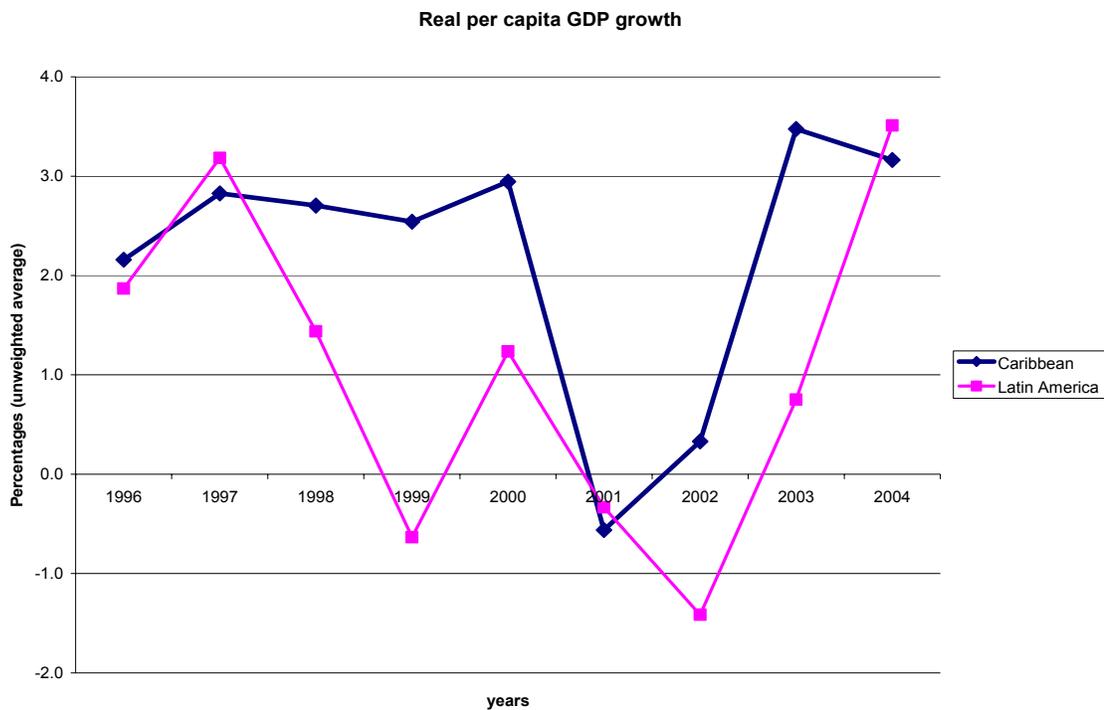
Table 2
The Caribbean economies 2004-2005: Main indicators

	Real per capita GDP growth 2004	nominal GDP 2004	Inflation		Unemployment		Fiscal Balance		Current Account As % of GDP	
			2003	2004	2003	2004	2003	2004	2003	2004
			Anguilla	14.0	139	7.0	5.0	2.8	-4.9	-36.6	-43.7
Antigua and Barbuda	4.7	815	3.5	2.1	..	..	-6.2	-3.1	-13.0	-12.3
Aruba	1.0	2 134	3.6	2.5	7.9	7.3	4.8	-9.9	-7.2	0.5
the Bahamas	2.8	5 735	2.4	0.9	10.8	7.0	-2.4	-2.3	-8.1	-4.0
Barbados	4.2	2 809	1.6	1.4	11.0	9.8	-5.2	-2.5	3.5	-3.0
Belize	2.1	1 065	2.6	3.1	12.9	11.6	-6.5	-2.4	-18.3	-16.7
British Virgin Islands	6.3	879	3.6	1.0	1.6	0.6	-1.5	-1.1	29.5	30.4
Dominica	3.6	276	1.5	2.5	..	..	-1.4	0.5	-11.3	-14.8
Grenada	-3.3	453	2.2	2.3	..	..	-4.8	-2.1	-31.5	-12.7
Guyana	1.4	782	5.0	5.5	..	..	-7.1	-4.8	..	-9.1
Jamaica	0.7	8 023	14.1	13.7	11.4	11.7	-5.6	-4.8	-10.6	-8.7
Montserrat	4.5	41	1.2	3.0	..	..	19.0	8.4	-16.4	-16.4
Netherlands Antilles	-1.3	3 098	1.9	1.6	15.3	15.0	-4.5	-6.2	0.2	-3.7
St. Kitts and Nevis	4.3	404	2.2	2.3	..	..	-8.1	-7.3	-31.7	-19.4
St. Lucia	2.8	753	1.0	1.5	22.2	..	-6.4	-2.6	-20.3	-15.9
St. Vincent and the Grenadines	4.8	408	0.2	3.0	..	..	-3.2	-3.0	-20.0	-24.6
Suriname	3.3	1 090	13.1	9.1	7.0	..	1.0	-1.8	-6.7	0.5
Trinidad and Tobago	5.8	11 464	3.8	3.7	10.5	8.4	1.4	2.1	9.3	14.2
United States Virgin Islands	3.0	2 660	2.3	2.4	9.4	8.5	..	..	..	..
Total Caribbean	4.2 (u) 3.8 (w)	43 026	3.8	3.5	10.9	8.9	..	..	-2.5 (w) -11.1 (u)	-0.1 (w) -8.9 (u)

Source: ECLAC, on the basis of official data

Box 1: GDP growth in the Caribbean and Latin America

In comparison with Latin America, where real per capita GDP growth increased from 0.8% in 2003 to 3.5% in 2004, growth in the Caribbean as a group then does not seem to have accelerated in 2004 compared to 2003. Therefore, the observation made in last year's Economic Survey of the Caribbean Economies, namely that the Caribbean usually has a higher growth rate than Latin America, did not hold for 2004. For the third time in 10 years, Caribbean GDP growth was below that of Latin America (figure 1)¹. The difference may be explained, incidentally, by the fact that Caribbean growth was less than it would have been without Hurricane Ivan hampering growth in Jamaica and other islands as well as devastating Grenada. On the other hand, 2004 growth in Latin America was extraordinarily high because of the bounce-back of the Argentine and Venezuelan economy. Be that as it may, a more fundamental explanation of differences in economic performance between Latin America and the Caribbean should be found in the interplay between the dynamics in the external sector and the domestic policy options and approaches.



1.2. GDP by sectors of economic activity

GDP growth per sector of economic activity in 2004 in the Caribbean was unevenly distributed, as shown in Table 3. The highest increase was in mining and quarrying (7.9%) especially in Trinidad and Tobago and Suriname. Also transport and construction (a 4.8% increase each) performed well across the board, whereas manufacturing growth was less than GDP average (3.1%) and agriculture declined (-6.9%), especially in the major countries Jamaica and Trinidad and Tobago.

The decline in agriculture in **Jamaica** is explained by a decrease in production as a result of climatic conditions, a drought in the first half of 2004 and the impact of the hurricanes in the second half. Adverse weather conditions also affected agriculture in **Trinidad and Tobago**, which, together with the restructuring of the sugar industry, explains the 20% drop in production volume. In some countries, agriculture performed well. Both in **Suriname** and **Guyana**, almost all agricultural activities grew at a considerable pace, with the exception of the rice sector. In **Belize**, citrus production made a good recovery from the effects of Hurricane Iris and also sugar and banana production posted solid growth.

Manufacturing activity, although not one of the high-growth sectors in the regional economy, did show positive signs. In **Jamaica**, it registered the highest growth rate in five years, boosted by external demand for beverages and internal demand for food and construction activities. In **Barbados**, manufacturing increased 1.4%, especially in electronics, chemicals and non-metallic mineral products. In **Trinidad and Tobago**, energy-based manufactured products in the petrochemical sector increased strongly (11.5%). Also manufacturing growth in the non-energy sector was positive (6.6%). In **Belize**, processing of sugar and citrus as well as beverages production expanded. Manufacturing increased 9% in real terms in **Suriname**, including alumina and beer.

Construction and transport were among the main engines of growth in the regional economy, bolstered by strong external demand for tourism services and commodities. In **Jamaica** construction increased 5% because of reconstruction and rehabilitation activities after the hurricanes and new and ongoing infrastructure projects. In **Barbados**, it expanded 3.5%, because of hotel construction and work on the modernization of the airport. The favourable performance of the construction sector in **Belize** in 2004 (+15%) relates to the building of a hydroelectric plant as well as tourism investments. In **Suriname**, more credit for low-cost housing and road and port improvements impelled the activity. Foreign direct investment boosted construction activity in the **Bahamas** and **Guyana**. In many of the smaller economies, based on tourism services, transport activities registered exceptional growth rates.

Table 3
Real GDP growth by sector of economic activity, 2004

	Agriculture	Mining and quarrying	Manufacture	Electricity, gas and water	Construction	Wholesale and retail trade	Transport	Bank and insurance	Other services
Anguilla	2.7		2.5	6.6	53.0	15.0	22.1	9.6	5.0
Antigua and Barbuda	2.5		3.5	6.4	2.5	4.0	15.3	-4.4	3.5
Aruba	...	...	...	0.5	-6.3	3.4	9.1	..	2.6
the Bahamas	3.8	24.8	-1.7	2.5	0.8	7.0	7.1	1.3	6.1
Barbados	-5.9	1.5	1.6	2.2	3.5		6.9	3.2	5.1
Belize	9.6	...	9.0	-5.5	15.3	4.5	3.9	21.9	...
British Virgin Islands	0.0	0.3	0.1	13.0	-9.1	8.0	7.2	6.6	0.1
Dominica	3.1		4.6	5.3	7.1	4.0	15.8	2.0	2.0
Grenada	-7.3		-14.6	-8.7	-0.8	-5.2	5.2	2.5	-13.8
Guyana	2.8	-6.5	2.5		4.1	1.9	3.6	1.0	1.2
Jamaica	-10.4	3.1	3.6	-0.1	4.7	1.4	0.7	0.1	2.1
Montserrat	-17.8			1.9	2.4		3.2	10.2	8.6
Netherlands Antilles	2.7		1.7	0.8	2.5	3.5	-1.5	4.0	0.5
St. Kitts and Nevis	10.0		0.9	4.9	1.0	-6.0	22.4	4.6	2.5
St. Lucia	5.1		-2.5	-3.9	3.1	7.8	4.4	5.2	0.6
St. Vincent and the Grenadines	-5.2		2.9	7.1	14.7	9.8	7.0	3.9	6.0
Suriname	6.3	31.2	9.5	9.2	10.1	5.9	14.0	1.8	0.0
Trinidad and Tobago	-20.2	10.5	6.6	2.8	9.0	2.3	4.4	1.7	0.6
Total Caribbean, weighted	-6.9	7.9	3.1	1.9	4.8	3.1	4.8	2.1	0.0
Total Caribbean unweighted	-1.1	9.3	1.9	2.6	6.5	4.2	8.4	4.4	1.9

For Aruba, Netherlands Antilles and British Virgin Islands, growth rates are nominal.

1.3. *GDP by expenditures*

The components of nominal GDP in the Caribbean are presented in Table 4. A coherent dataset could be construed only in current United States dollars. Trends in current dollars are broadly similar to the ones in constant prices, as can be observed in Table 1, except for the few countries such as Suriname and Jamaica where inflation and exchange rate dynamics differ significantly.

Global supply in the 17 countries in Table 4 expanded between 2003 and 2004 by US\$ 5.1 billion or 8.3%, split up almost evenly by the increase in imports (US\$ 2.4 billion, an increase of 10.8%) and domestic supply or GDP (US\$ 2.6 billion, an increase of 6.9%).

On the demand side, exports were the main source of increase (up US\$2.7 billion, an increase of 13.0%), followed by domestic consumption (US\$1.6 billion, an increase of 5.3%) and investment (US\$0.8 billion, an increase of 7.7%). Incidentally, gross capital formation as a percentage of GDP increased from 25.3% in 2003 to 25.4% in 2004.

The decomposition of GDP growth shows that the increase of US\$ 2.6 billion came from domestic consumption (+US\$1.6 billion), investment (+US\$0.8 billion) and the difference between export growth and import growth (+US\$0.3 billion). Hence, the external restriction to growth was alleviated since export growth outpaced import growth.

The situation thus described is particularly influenced by the extremely strong export performance of Trinidad and Tobago, with a 30% nominal increase of exports and a 24% nominal increase of imports. The decomposition of GDP growth in the Caribbean without Trinidad and Tobago shows that the increase of GDP (US\$1.7 billion) stems from growth of consumption (US\$1.5 billion) and investments (US\$0.6 billion), but was reduced by the difference between import and export growth (-US\$0.4 billion). In the Caribbean, without considering Trinidad and Tobago, imports increased at a nominal rate of 7.8% whereas exports increased at a nominal rate of 7.0%.

In sum, the economies in the Caribbean benefited in 2004 from a highly favourable external environment, characterized by higher commodity prices and strong demand for tourism services. A sizeable current account surplus enabled Trinidad and Tobago to accommodate stronger domestic demand without experiencing tensions in the external sector. In the other Caribbean countries taken together, increased demand, both external and domestic, spurred an acceleration of imports, exhibiting the external restriction to growth.

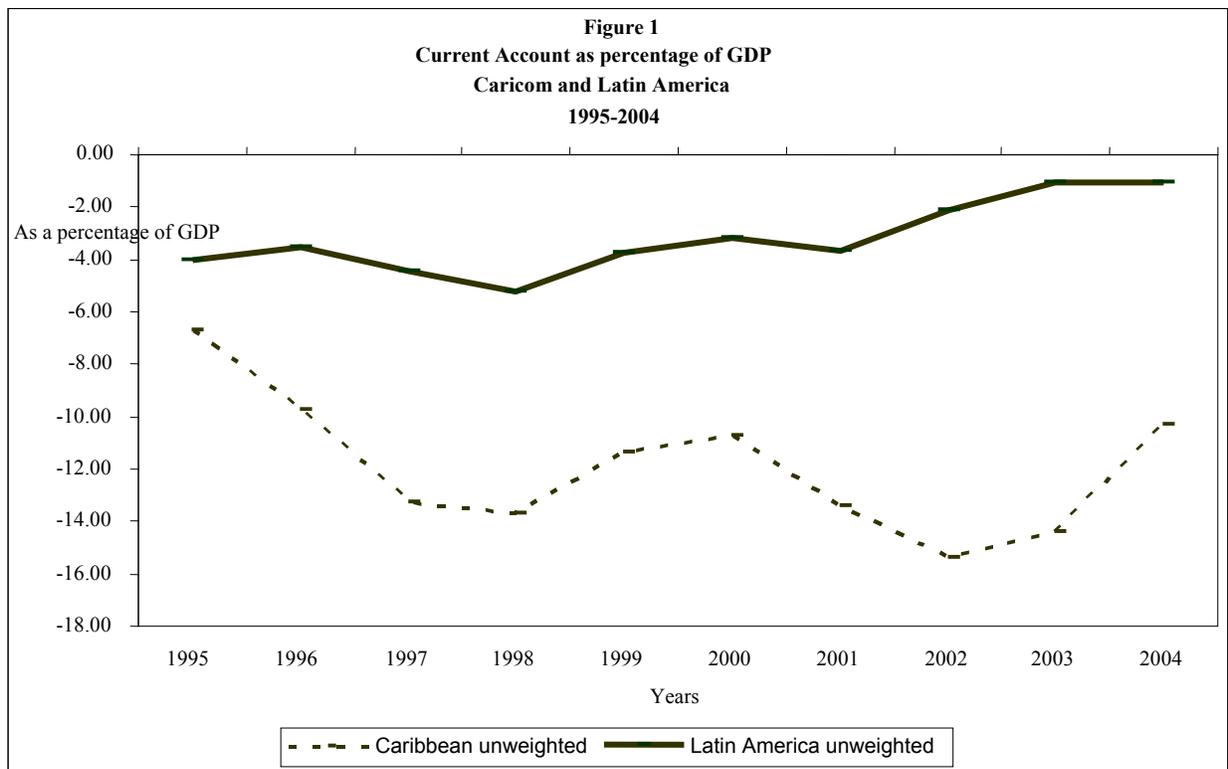
Table 4
GDP by expenditures, nominal US\$, 2003 and 2004

2004	Global Supply	GDP	Imports	Global Demand	Internal demand	Gross Domestic Investment	Total Consumption	Exports
Antigua and Barbuda	1387	818	569	1387	881	409	472	506
Aruba	3671	2122	1549	3671	2307	627	1680	1363
the Bahamas	9026	5735	3291	9121	6650	1848	4802	2471
Barbados	4590	2809	1781	4605	3132	540	2593	1473
Belize	1674	1043	631	1685	1175	187	988	510
British Virgin Islands	1563	879	684	1563	611	198	413	952
Dominica	450	286	164	450	324	78	246	126
Grenada	770	437	333	770	583	156	427	187
Guyana	1634	782	852	1634	872	252	619	774
Jamaica	13918	8825	5093	13918	10204	2623	7581	3714
Montserrat	87	41	46	87	69	18	51	18
Netherlands Antilles	5851	3098	2753	5768	3072	722	2351	2696
St. Kitts and Nevis	653	405	248	653	455	175	280	198
St. Lucia	1300	765	535	1300	844	161	683	456
St. Vincent and the Grenadines	675	408	267	674	499	143	357	175
Suriname	2092	1087	1004	2092	1157	276	881	935
Trinidad and Tobago	16607	11464	5143	16552	9491	2056	7435	7061
Total	65947	41003	24943	65941	42326	10468	31858	23615
2003	Global Supply	GDP	Imports	Global Demand	Internal demand	Gross Domestic Investment	Total Consumption	Exports
Antigua and Barbuda	1294	760	534	1293	829	391	438	464
Aruba	3432	1999	1432	3432	2129	547	1582	1303
the Bahamas	8483	5502	2981	8603	6281	1732	4549	2322
Barbados	4263	2705	1558	4223	2850	452	2398	1373
Belize	1634	981	653	1620	1092	187	905	528
British Virgin Islands	1472	827	645	1472	583	188	395	889
Dominica	410	262	148	412	294	66	228	118
Grenada	751	437	314	742	561	187	374	181
Guyana	1520	743	777	1523	825	260	565	698
Jamaica	13086	8190	4896	13086	9569	2361	7208	3517
Montserrat	82	39	43	86	72	24	48	14
Netherlands Antilles	5480	2982	2498	5478	3005	703	2302	2473
St. Kitts and Nevis	620	365	255	588	424	174	250	164
St. Lucia	1206	708	498	1178	789	151	638	389
St. Vincent and the Grenadines	613	376	237	614	441	127	314	173
Suriname	1881	985	896	1881	1017	273	745	864
Trinidad and Tobago	14639	10503	4136	14639	9215	1890	7325	5424
Total	61094	38482	22612	61097	40129	9749	30380	20967
Nominal change	5080	2639	2442	5071	2350	754	1596	2721
Nominal percentage change	8.3	6.9	10.8	8.3	5.9	7.7	5.3	13.0
Nominal change without Trinidad and Tobago	3112	1678	1435	3158	2074	588	1485	1084
Nominal percentage change without Trinidad and Tobago	6.7	6.0	7.8	6.8	6.7	7.5	6.4	7.0

2. The external sector

During 2004, the majority of Caribbean countries improved their global external result. This responded mainly to the decline in the current account deficit and the expansion of the surplus in the capital and financial account (See Figure 1 and Table 5). The concomitant increase in international reserves registered by all economies with the exception of Barbados, Belize, Dominica, Guyana, facilitated fiscal policy operations and, in some cases, the adoption of an expansive monetary policy.

At the aggregate level, the current account balance expressed as a percentage of GDP narrowed from -11% to -9% in relation to the previous year (See Figure 1 below). Nevertheless the external disequilibrium remains high by international standards. The magnitude of the deficit for Caribbean countries is ten times that of Latin America underscoring the binding character of the external constraint for Caribbean economies (See Figure 1 below). For its part, the aggregate result on the capital and financial account recorded an increase from 7.4% to 8.1% of GDP (See Table 5).



The current account performance reflected the reduction in the trade deficit, the expansion of the services surplus and unilateral transfer flows. The reduction in the trade deficit was underpinned by price, income effects and external shocks.

Table 5
Main components of the balance of payments, 2002-2004
Percentages of GDP

	Current account			Unilateral transfers			Capital & financial account			Foreign direct investment			International reserves		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
OECS	-20.22	-21.69	-16.59	1.96	2.30	4.27	11.99	12.90	11.68	6.85	10.64	7.65	10.77	10.19	11.59
Antigua and Barbuda	-14.27	-13.03	-12.34	0.78	1.64	1.51	16.07	13.86	12.44	9.17	21.87	11.66	16.84	14.97	14.73
Dominica	-14.91	-13.24	-15.13	1.92	1.68	1.95	4.39	3.54	3.03	1.59	2.61	2.21	6.33	6.28	5.18
Grenada	-28.46	-31.48	-12.16	3.25	4.80	16.84	18.81	17.88	9.06	8.02	10.81	4.90	12.23	10.95	14.93
St. Kitts and Nevis	-34.61	-31.72	-19.37	2.28	2.39	2.25	16.91	13.11	12.73	11.10	8.56	7.29	9.14	8.51	9.61
St. Lucia	-16.11	-20.50	-15.95	1.81	1.58	1.51	12.50	19.60	19.14	6.69	12.74	13.00	12.79	13.78	15.97
St. Vincent and the Grenadines	-12.93	-20.15	-24.61	1.69	1.70	1.55	3.25	9.38	13.67	4.52	7.24	6.83	7.31	6.64	9.10
LDCs	-19.96	-21.33	-17.09	3.46	3.40	4.57	14.16	14.74	16.11	4.77	6.77	10.63	8.48	7.23	7.05
Belize	-19.71	-20.97	-17.58	4.96	4.50	4.88	16.32	16.58	20.53	2.69	2.91	13.62	6.19	4.28	2.50
MDCs	-9.81	-6.09	-2.88	3.75	4.27	4.50	7.08	4.11	7.29	3.19	4.92	7.95	15.95	19.72	19.89
Bahamas, The	-7.79	-8.14	-3.99	-0.12	-0.09	-0.05	7.05	4.21	5.44	2.83	3.00	4.75	6.91	8.80	11.64
Barbados	-6.75	-6.28	10.40	3.48	3.45	3.42	5.95	11.19	4.06	7.58	10.75	8.06	4.57	27.94	21.19
Guyana	-9.00	-11.97	-9.12	5.78	5.59	5.63	17.80	11.63	5.12	3.15	1.81	3.07	26.50	24.46	17.47
Jamaica	-13.69	-10.62	-8.72	13.85	16.54	16.59	11.33	4.34	17.46	6.13	10.02	...	20.35	16.20	23.16
Suriname	-22.47	-8.86	-0.81	-1.09	-0.48	0.83	-4.12	-2.79	15.48	-9.42	-7.73	...	...	...	...
Trinidad and Tobago	0.86	9.32	14.15	0.61	0.62	0.59	4.46	-3.95	-3.80	8.87	11.67	15.93	21.39	21.21	25.97
CARICOM	-14.88	-14.44	-10.34	1.73	1.70	2.29	7.08	7.37	8.05	2.39	3.39	5.32	4.24	3.62	3.52

Note: ... denotes not available.
Source: On the basis of official data

2.1 Goods and services exports

Last year's Economic Survey of the Caribbean introduced the conceptual division of the small, open Caribbean economies, based on the relative importance of goods and services in total export earnings. Based on balance-of-payments data, the table below gives the percentage structure of exports in three groups, as well as the growth rate 2003-2004 of goods and services exports.

	Structure (%)		Growth rate (%)	
	Goods	Services	Goods	Services
Anguilla	6.8	93.2	35.3	15.2
Antigua and Barbuda	9.2	90.8	4.7	9.6
Bahamas	18.4	81.6	10.5	5.5
Barbados	18.9	81.1	11.3	6.4
British Virgin Islands	2.5	97.5	0	7.2
Dominica	32.9	67.1	3	11.7
Grenada	18.4	81.6	-24.5	13.1
Montserrat	26.6	73.4	107.2	10.9
St Kitts and Nevis	28.7	71.3	-0.7	31.7
St Lucia	20.5	79.5	30.4	14.3
St Vincent	20.6	79.4	-10.1	4.8
Services exporters	16.2	83.8	-0.8	10.2
Aruba	68.6	31.4	32.5	18.6
Belize	56.9	43.1	-5.5	6.4
Jamaica	42.7	57.3	14.5	-0.2
Netherlands Antilles	30.2	69.8	17.4	8.3
United States Virgin Islands				
Commodity and Services Exporters	49.8	50.2	22.9	7.2
Guyana	76.1	23.9	14.9	-0.2
Suriname	81.9	18.1	-1.4	80.3
Trinidad y Tobago	87.3	12.7	23	36.1
Commodity exporters	85.9	14.1	16.2	34.4
Caribbean	53.2	46.8	20.7	10.3

Source: ECLAC

Table 6 shows that in fact, there is a continuum between the extremely services exports-oriented economies (British Virgin Islands, Anguilla) and the extremely commodity exports oriented economies (Trinidad and Tobago, Suriname). Adopting the arbitrary demarcation line of 70%, the countries are placed in three groups.

Trinidad and Tobago, Suriname and Guyana obtain over 70% of export earnings from the goods category. Their exports concern oil, natural gas, petrochemicals, bauxite and alumina, gold and diamonds, as well as sugar and other agricultural products and shrimps, hence they are called commodity exports-based economies.

Countries with more than 70% of export earnings stemming from services exports are in descending order of relative importance of services as source of foreign currency earnings: British Virgin Islands, Anguilla, Antigua and Barbuda, Bahamas, Grenada, Barbados, Saint Lucia, Montserrat, St. Vincent and the Grenadines, St. Kitts and Nevis. Tourism is the mainstay of the services exports; some countries also have well developed sectors of financial and business services, data processing and internet-based services exports.

A third group of countries has a mixed or bipolar export structure, with goods and services contributing between 30% and 70% to total export earnings. The oil refineries in Aruba and the Netherlands Antilles, as well as in the United States Virgin Islands which is not in Table 6 for lack of balance of payments data, account for the fact that their composition of exports shows a mix of goods exports (refined oil) and services (tourism and others). A different subset of countries would be Jamaica and Belize, with the former having the most diversified export structure and the latter having tourism, agricultural products and shrimps as the main exports.

The division between service-oriented economies and commodity-based economies is not very helpful to explain differences in GDP growth rates across countries in 2004, given the fact that both in the tourism sector as in the commodity markets, external demand was very strong. The interesting fact that comes out of the 2004 data is that in most countries, the relatively underdeveloped sector also exhibited strong export dynamism. Thus, in Trinidad and Tobago services exports grew at a faster pace than goods exports, on average, and the same holds for Suriname but not for Guyana.

Goods exports grew faster than services exports in the service-oriented economies of Anguilla, Bahamas, Barbados, Montserrat and Saint Lucia. In some cases, this concerns traditional agriculture exports (sugar), some intraregional exports of manufactured products (Saint Lucia) as well as products from export processing free zones and the occasional competitive export-oriented manufacturing (rum, yachts). The case of Montserrat is special, in the sense that neither goods nor services are the main contributors to the current account of the balance of payments. In 2004, the transfers account provided almost 60% of total foreign currency income in Montserrat. Also Grenada, due to the devastation caused by Hurricane Ivan, obtained in 2004 most foreign currency income from the transfers balance.

The Caribbean economy in total derives its foreign currency earnings in almost equal shares from goods and services exports. Goods exports increased 20% and services exports 10%.

Commodity exporters also enjoyed strong growth in services exports. Services exporters, with the above noted exceptions, on average did not enjoy strong growth in goods exports. The economies that export both commodities and services, showed strong growth in both categories, the growth rate of goods exports being three times higher than the growth rate of services exports.

(a) Tourism

Tourism is the main export service of the Caribbean. Table 7 shows that the total number of tourist arrivals increased 7.1% from 2003 to 2004, with peaks of above 20%. An

important segment is cruise passenger visits, which is a market segment with relatively low tourist expenditures per person. A characteristic is, for better or for worse, that once basic infrastructure is in place, the volume can change rather drastically from one year to the next. Only five of 19 economies in this sample do not have cruise ship reception facilities. In the ones that do, growth in 2004 tended to be brisk. The outlook for 2005 is rather less favourable although, on average, the sector continues to expand with the Netherlands Antilles especially, or more precisely St. Martin, reporting increased arrivals.

	Tourist Arrivals		Cruise Passenger Visits	
	2003/2004	2004/2005	2003/2004	2004/2005
Anguilla	15.1	11.9	..	
Antigua and Barbuda	9.6	-5.2	35.5	-0.1
Aruba	13.4	10.0	6.3	0.3
the Bahamas	1.5	-2.5	13.1	-1.5
Barbados	3.9	-1.5	27.2	-0.8
Belize	4.7	4.0	48.0	1.4
British Virgin Islands	22.6	-11.2	53.5	-0.9
Dominica	8.8	..	115.0	
Grenada	9.2	-36.2	78.9	0.7
Guyana	20.9	-6.5	..	
Jamaica	4.8	2.7	-2.9	0.1
Montserrat	20.7	7.3	..	
Netherlands Antilles	7.2	-1.1	21.3	5.2
St. Kitts and Nevis	..	..	..
St. Lucia	7.8	14.0	22.4	-0.5
St. Vincent and the Grenadines	10.4	25.5	14.9	-0.3
Suriname	..	24.4	..	
Trinidad and Tobago	8.2	8.8	-2.3	
United States Virgin Islands	6.5	11.4	6.5	-0.1
Total Caribbean	7.1	2.8	22.0	3.6

Source: ECLAC calculations on the basis of The Caribbean Tourism Organization data.
 Percentage change refers to the same months as the year before, which depend on the country.
 Most countries reported on 12 months for 2003/2004; data for 2004/2005 refer to between three and seven months, depending on the country

Another segment of the market is airborne visitors. Although precise data are not available, the airlift capacity in the Anglo-Dutch Caribbean continues to present significant problems. **Jamaica** had improved its airlift capacity in 2004 as well as its marketing services. Real value-added of tourism services responded favourably with an increase of 6%, however, the national airline was affected by the pull-out of its main private investor. Preliminary estimates for 2005 nevertheless show solid growth, with visitor expenditure in the first quarter up by 13%. Another country that suffered problems, indeed the demise of its national airline, is the **Netherlands Antilles**. Its impact is felt especially in the segment of shopping tourists from within the Caribbean region, as visitors from outside prefer charter services.

(b) Commodity exports

Increased outputs of natural gas (10.7%) and liquefied natural gas (21.3%) boosted economic activity in **Trinidad and Tobago**. Future prospects are very strong with the envisaged start of a fourth LNG plant. Bauxite and alumina production in **Jamaica** benefited from high external demand but was hampered by the damage inflicted by Hurricane Ivan to productive installations and mechanical difficulties at the crude bauxite port. In all, Jamaica's mining sector grew 3% in 2004.

The Rosebel goldmine started production in 2004, boosting GDP in **Suriname**. The mining sector, which includes bauxite production, increased its value added by more than 30% in real terms. Mining in **Guyana** decreased significantly (-6.5%) as gold reserves are diminishing and bauxite mining shrank. Diamond mining produced better results.

Major export crops in **Jamaica** saw a production decline in 2004 (-29%) as a consequence of Hurricane Ivan. In **Barbados**, sugar production fell by 5.1% in 2004 but should pick up somewhat in 2005. Sugar, bananas and citrus production will boost agriculture in **Belize** in 2005, weather permitting. In **Suriname**, the reorganized banana company commenced exports to the European market. Sugar production, an important driver of GDP, increased in **Guyana** (3.9%), as a result of favourable weather conditions and improved productivity explain the growth.

Sugar, perhaps the most traditional agricultural export commodity of the Caribbean, maintained its production levels in the region (See Table 8). Exports were slightly down from 290 thousand metric tons in 2003/4 to 265 thousand in 2004/5. The favourable evolution of prices, on the open market as well as in preferential agreements, compensated for the decline in export volumes. The outlook for Caribbean sugar production is definitely alarming due to the changes in sugar policy in the European Union.

	Beginning Stocks	Production	Imports	Total Supply	Exports	Domestic Consumption	Ending Stocks
			1,000 metric tons, raw value				
2002/2003	146	362	281	789	292	377	120
2003/2004	120	356	283	759	290	381	88
2004/2005	88	352	301	741	265	382	94
2005/2006	94	353	276	723	251	383	89

Source: United States Department of Agriculture, Economic Research Service.

During the year, the international price of all primary commodity prices including non-fuel commodities (aluminum and edible products) and oil crude prices registered increases in relation to the previous year (13% and 26%; 18% and 31%, 7% and 18%; for 2003 and 2004,

respectively). This effect was reinforced by the depreciation of the United States dollar in relation to the Euro, which generated revenue gains for food and beverage and in particular for sugar exporters.

The rise in non-fuel goods prices benefited all commodity exporters alike as attested by the cases of Barbados, Belize, Jamaica, Guyana and Suriname. Furthermore it managed to offset, at least partly, the detrimental effects of the oil import bill on most countries, and that of natural disasters on the balance of trade.

As a result, the terms of trade for commodities improved. This upward movement was further reinforced by the expansion in the services account driven by tourism flows and expenditures, visible in the cases of Barbados, Belize, the Organisation of Eastern Caribbean States (OECS) and Jamaica.

This behavior was sustained by several factors. These include the steady economic growth in the United States and Europe, the depreciation of the United States dollar relative to the Euro, the expansion in airlift capacity and rise in cruise ship calls, as well as the efforts at promoting the Caribbean as a first rate tourist destination.

2.2. *Transfers and capital flows*

Unilateral transfers (1.7% and 2.2% of GDP for CARICOM in 2003 and 2004) have gained considerable importance as a source of foreign exchange. Jamaica, where unilateral transfers reached 17% of GDP in 2003 and 2004 out pacing the contribution of foreign direct investment to foreign exchange earnings (10% of GDP in 2003), is the most illustrative case (See Table 5, page 14).

In 2004, unilateral transfers acted as a buffer stock, partly offsetting the contraction in income and expenditure suffered by those economies affected by natural disasters, namely Jamaica, Grenada, and to a much lesser extent, the Bahamas. In the case of Grenada, unilateral transfers jumped from 4% in 2003 to 17% of GDP as expatriates provided relief support to relative affected by Hurricane Ivan (September 2004).

The capital and financial account registered a surplus in all Caribbean economies, with the exception of Trinidad and Tobago (-3.8% of GDP for 2004). Its behavior reflected strong investor activity, debt operations, public sector operations and official assistance flows.

Foreign direct investment and debt operations constituted, without doubt, the main source of finance for the current account operations of most economies. Public sector operations consisting of governmental purchases and sales of shares of public entities were undertaken by one country, Belize.

For their part, most countries received official assistance aid flows. Excluding natural disaster relief and reconstruction flows (Jamaica and Grenada) and flows related to the dependency status of a State (Netherlands Antilles), official assistance aid represents a small percentage of total financial flows (1% of GDP for the OECS).

Foreign direct investment witnessed an increase from 3.4% of GDP in 2003 to 5.3% of GDP in 2004 (See Table 5). Investment flows were mainly directed to the tourism industry (Bahamas, Barbados, OECS) and the mining sector (Trinidad and Tobago, Suriname). They also contributed to the ongoing development of other sectors of economic activity such as the construction and financial sectors (Bahamas, British Virgin Islands, Netherlands Antilles, OECS) and, to a much lesser extent, manufacturing.

The breakdown of foreign direct investment by sector available for the OECS shows that tourism and construction account for 61% and 11% of foreign direct investment flows while manufacturing represented a meager 1% of the total.

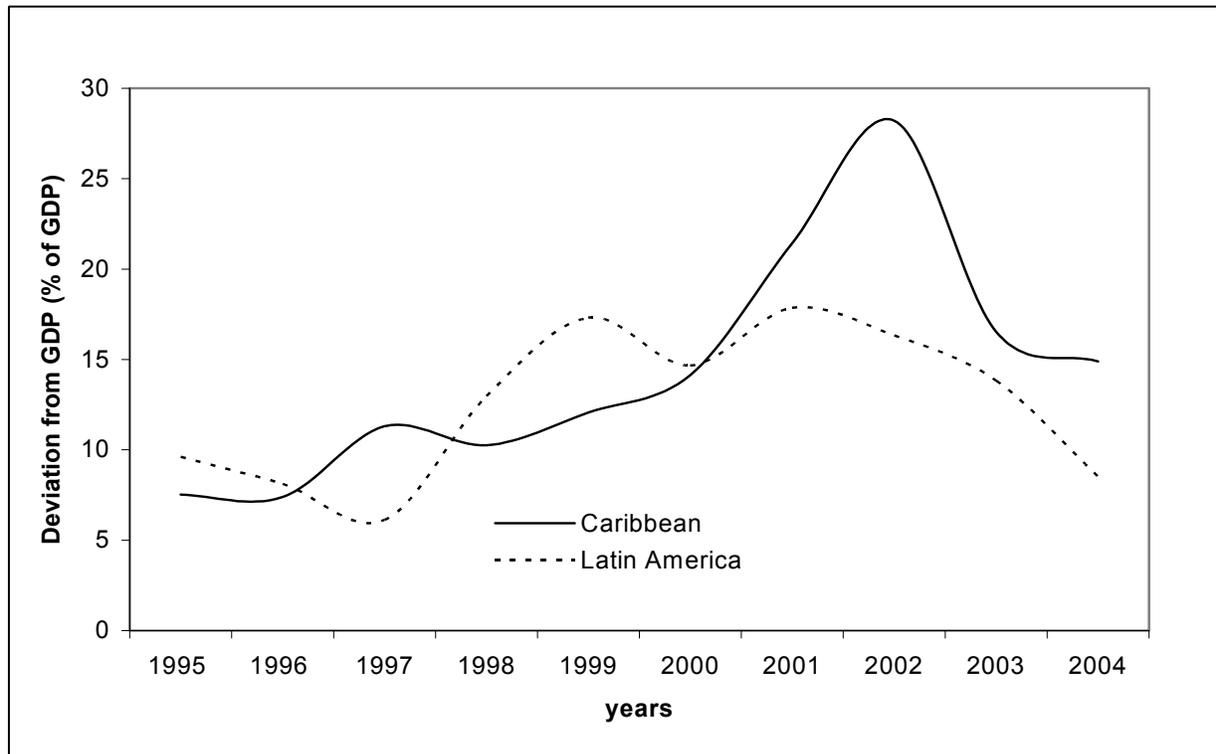
During the year, a majority of countries undertook debt operations. Antigua and Barbuda, Belize, and Dominica benefited from debt-restructuring programmes and debt relief initiatives. As a result, Antigua and Barbuda managed to slash its stock of debt by 50%. Belize profited from the debt forgiveness initiative to match loan disbursements and debt repayments. For its part Dominica changed the maturity profile on its debt which allowed the reduction in interest rates for a portion of its outstanding loans.

Aruba, Belize, Grenada, Jamaica, Saint Lucia and St. Vincent and the Grenadines issued bonds on the external market. Belize used the proceeds of the bonds to refinance loans from an international bank and a regional mortgage company. Grenada opted for debt operations to refinance its debt, capital projects and seek emergency relief following Hurricane Ivan. Jamaica took advantage of the favorable external conditions and the solid state of its government finances to issue three Eurobonds and re-open an existing Eurobond totalling US\$852 million. Finally, the debt issue of Saint Lucia and St. Vincent and the Grenadines supported current and capital expenditures.

3. Fiscal performance and policies

In 2003, several governments embarked on a strategy of containing expenditures and raising revenues to respond to significant increases in fiscal deficits that occurred during 1998 and 2002 which consequently led to debt accumulation and which, in several cases, posed a potential threat to stability and growth. Whilst this positive trend was maintained in several countries in 2004, the region as a whole still exhibits fiscal imbalances, marked by a fiscal stance that – though considerably lower than at its peak in 2002 – is still significantly more expansionary than in Latin America (See Figure 2).

Figure 2



Data for 16 countries show that the fiscal balance (including grants) for the region as a whole improved from -2.1% of GDP in 2003, to -1.2% in 2004, as both the primary surplus and grants increased (from 4.1 to 4.4% of GDP and 0.6 to 1.2% of GDP, respectively) while interest payments remained flat. Thus, overall, fiscal performance improved in the region: thirteen member States saw an improvement in their overall fiscal balance, whilst only five saw deterioration in their overall fiscal balance. This improvement was also reflected in the strengthening of primary balances in ten member States. However, overall only six countries, Aruba, Barbados, Guyana, Jamaica, St. Lucia and Trinidad and Tobago, registered primary balances surpluses, only four countries, Aruba, Dominica, Montserrat and Trinidad and Tobago, were able to register overall fiscal surpluses, with fiscal deficits in the other member States ranged from 1.9% (Suriname) to 7.3% (St. Kitts and Nevis) See Table 9.²

² Table 1 offers more complete data for almost the whole subset of the Caribbean, with the exception of the **United States Virgin Islands** for which no comparable data are available. In any case, the country continues to struggle with the approximately US\$1 billion debt, mainly inherited from the 1990s reconstruction efforts after several hurricanes hit the islands.

Table 9
The Caribbean economies 2003-2005: Fiscal indicators (% of GDP)

	Primary balance without grants			Plus: Grants			Minus: Interest payments			Fiscal balance with grants		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Anguilla	3.1	-4.4		0.8	0.5		1.1	0.9		2.8	-4.8	
Antigua and Barbuda	-3.0	-0.6		0.2	0.5		3.8	5.0		-6.6	-5.0	
Aruba	-1.8	0.4	-8.5	1.1	5.6	0.8	1.4	1.2	2.2	4.8	-9.9	
the Bahamas										-4.4	-4.1	-3.7
Barbados	2.2	2.6	1.8	0.0	0.0	0.0	5.0	4.8	4.5	-2.8	-2.2	-2.7
Belize	-7.2	-1.8		0.3	1.7		3.9	5.7		-10.8	-5.9	
British Virgin Islands										-1.5	-1.1	
Dominica	-1.9	-3.1		4.7	8.4		4.2	4.9		-1.4	0.4	
Grenada	-5.4	-4.4		5.8	7.7		4.5	5.3		-4.1	-2.1	
Guyana ¹	3.2	6.0	3.2	5.8	6.6	7.0	18.1	19.7	24.5	-9.1	-7.1	-14.3
Jamaica	12.4	10.4	12.7	0.1	0.7	0.6	18.8	15.9	13.4	-6.3	-4.8	0.0
Montserrat	-77.3	-75.0		98.9	92.7		0.2	0.2		19.5	9.2	
Netherlands Antilles	-0.3	-1.9	-2.0	0.2	1.3	0.7	2.6	2.8	2.9	-2.7	-3.4	-4.1
St. Kitts and Nevis	-1.2	-0.8		0.6	0.4		7.6	7.0		-8.1	-7.3	
St. Lucia	-5.8	0.2		2.2	0.3		2.8	3.0		-6.4	-2.6	
St. Vincent and the Grenadines	-1.1	-1.2		0.6	0.7		2.7	2.5		-3.2	-3.0	
Suriname	3.8	-1.5	-2.6	1.8	1.9	?	2.6	2.3	2.4	3.0	-1.9	
Trinidad and Tobago	4.5	6.0	7.2	0.0	0.0	0.0	1.7	3.3	3.2	2.8	2.7	4.0
United States Virgin Islands												
Total Anglo-Dutch Caribbean	4.1	4.4		0.6	1.2		6.8	6.8		-2.1	-1.2	

¹: In the case of Guyana, the column interest payments also includes debt redemption.

The overall result however, contains widely diverging situations and trends across countries, a fact that is significant in light of the aspirations of regional integration of those countries that are preparing for the Caribbean Single Market and Economy (CSME); in particular as coordination of macroeconomic policies remains an important pending issue on the regional integration agenda.

One issue of recurrent concern to the region is the level of indebtedness of individual member States. Levels of debt have reached such proportions that debt servicing alone consumes significant proportions of government revenue. Interest payments amounted to more than 5% of GDP in six member States in 2004; in Jamaica and Guyana interest payments reached 15.9% and 19.7%, respectively. In fact, in several member States (Barbados, Guyana, Jamaica and Saint Lucia) high interest payments yielded an overall fiscal imbalance despite an initial positive primary balance. Overall, 6.8% of regional GDP goes to debt servicing.

Another issue concerns the short-term fiscal outlook for several countries in view of the preparations for the Cricket World Cup of 2007. Thus, while several countries have implemented measures to contain their fiscal deficits and address their debt, the upcoming sports event will entail increased capital expenditures. Following an improved fiscal performance in 2005, authorities in **Saint Lucia** expect the fiscal deficit to widen in 2005 due partly to a 51% increase in capital expenditure on the previous year. In **Barbados**, growth in expenditure will also be strong in preparation for the event, which will undo the improvement attained in 2004 and in **Guyana** the construction of a new cricket stadium will also contribute to the extreme deterioration of the fiscal imbalance.

While several countries seem on the right track to contain the debt crisis by taking active steps in 2004, others seem to be on a track that is not particularly conducive to debt containment. Thus, in the former category are Antigua and Barbuda, Barbados, Saint Lucia and Jamaica; in the latter are most of the OECS member States (Dominica, Grenada, St. Vincent and the Grenadines), Belize, Guyana, Suriname, the Bahamas, Aruba and the Netherlands Antilles. Some member States undertook debt rescheduling and benefited from debt cancellations.

Several member States introduced tax measures and expenditure containment exercises to improve their primary balance. **Antigua and Barbuda** took some extensive steps to debt management. For one, increased revenue from international trade and transactions and hotel taxes made up for the outlays for debt servicing payments, whilst restructuring operations decreased external debt by more than half to 41% of GDP in 2004 (compared to 84% in 2003). The authorities have also announced wage reductions (20% for civil servants) for 2005 as well as a set of tax measures such as the reintroduction of income tax and a sales tax on retail commerce (5%) and (7%) consumption to continue the policy aimed at reducing budgetary imbalances. Similar tax measures were already introduced in 2004 in Barbados and Saint Lucia. In **Barbados**, fiscal performance improved due to a combination of higher value added tax, excise and import duties, boosting tax revenue, and expenditure containment relative to GDP. **Saint Lucia** saw a significant improvement in its primary balance in 2004 due to the introduction of a series of tax measures and a decline in capital expenditure. Thus, tax measures included increases in the airport tax payable by members of the Caribbean Community (CARICOM), higher fees for banking and marriage licences and increased taxes on imported alcoholic

beverages, tobacco and the retail price of petrol and fuel. **Trinidad and Tobago** benefited from the increased oil price. Thus, increased expenditure was easily outpaced by the increase in revenue, especially company tax from the energy sector and the country registered a sizeable primary surplus of 6% of GDP. Public sector foreign debt was reduced and part of excess revenues, stemming from the difference between the budgeted and actual oil prices, were channelled to the Revenue Stabilization Fund. Fiscal concerns in Trinidad and Tobago principally relate to long-term planning, the quality and efficiency of public investment and the sustainability of related commitments if oil prices should fall.

Jamaica stands out in its efforts to tackle the debt issue due to its efforts to contain expenditure and therefore improve fiscal performance. Thus, having entered into an agreement with unions on wage containment, expenditures on wages and salaries were lower. This effort was reflected in a primary balance surplus exceeding 10% of GDP. This was complemented by lower interest payments relative to GDP as a reaction to decreasing interest rates. Overall, the objective of fiscal policy for 2005 in Jamaica is to achieve a balanced fiscal budget, mainly through further expenditure constraints which are aimed at obtaining a primary surplus in excess of 12% of GDP, in order to reduce the overall debt burden.

In contrast to this, several countries were unable to contain expenditure. In 2004, the financial situation of the public sector in the **Netherlands Antilles** worsened until the second quarter of the year, when expenditures had soared to 36% of GDP, leaving a budget gap of over 11% of GDP. The trend of deteriorating public finances was reversed starting with the third quarter of 2004, by limiting mainly capital expenditures. Overall, the primary balance deteriorated, however, signs are that in 2005 the financial situation of the public sector will continue due to fiscal consolidation revenues are higher and expenditures lower, mainly on account of a reduction in capital expenditure.

In Grenada and Dominica, developments must be seen as a consequence of the recent natural disasters, dynamics differed. In **Dominica** the primary balance deficit widened in 2004. As a result of a recovery in economic activity and a rise in the customs clearance rate, revenues from taxes on sales and international trade and transactions increased. However, increasing capital expenditure corresponding to renovation and reconstruction operations undertaken by the authorities in the wake of the earthquake in November counteracted this improvement, leading to an overall deterioration in the primary balance. In **Grenada**, on the other hand, the primary balance deficit decreased. Whilst current expenditure rose as a result of civil service wage increases, capital expenditure contracted, thereby mitigating the effects of insufficient government income and the rise in current expenditure. Both countries will be experiencing fiscal constraints in 2005 as a result of the natural disasters. In **Grenada** spending on reconstruction operations and wages is expected to exceed income, despite the plans to introduce a special tax on income and an increase in petroleum retail prices in 2005. In **Dominica** the fiscal situation will also continue to reflect the impact of the earthquake, manifesting itself in lower receipts and an increase in capital expenditure in 2005.

The Bahamas, St. Kitts and Nevis as well as St. Vincent and the Grenadines found themselves in situations similar to Dominica, except that the increased tax revenue was able to offset the increased expenditure, leading to an overall slight improvement in their primary fiscal

balances. Thus, the fiscal deficit of the **Bahamas** decreased slightly as a percentage of GDP in 2004 as current income increased more rapidly than government spending. Whilst fiscal consolidation efforts took place in 2004 and are due to continue in 2005, **St. Kitts and Nevis** saw expansion of expenditures for wages, goods and services. It is expected that this trend will continue in 2005 due to increases in public wages and capital expenditure and the repercussions that the closure of the sugar industry in the second half of 2005 will have on central government income and expenditure in 2005. However, in 2004 strong economic growth and buoyant tourism led to higher tax revenues which offset the expansion in expenditure and consequently led to a marginal decrease in the primary balance deficit. St. Kitts and Nevis, though, faces the highest interest rate burden of all OECS countries. Following the substantial interest payments equivalent to 7% of GDP, the government hence saw a significant overall fiscal deficit, which was however slightly lower than that of 2003. The fiscal deficit of **St. Vincent and the Grenadines** remained stable as the increase in payroll and expenditure on goods and services was also covered by a rise in tax revenues resulting from the high growth rate of the economy. Whilst the authorities plan to introduce a tax exemption for small enterprises to boost economic activity and raise the threshold for tax exemption and increase the retail price of petroleum products, increasing current expenditure due to wage increases and capital expenditure expansion in 2005 do not bode well for the overall fiscal situation.

In **Belize**, cutbacks in capital spending and increasing external grants reduced the fiscal imbalance in 2003 and 2004. However, rising interest payments on public debt as well as higher wage-related expenditures and subsidies led to an increase in current expenditures that was not matched by revenue increases. In fact, in 2005 current spending is expected to continue to increase more rapidly than income - political turmoil is furthermore compounding the fiscal problems. Accordingly, the current liquidity position is very weak and a solvency crisis seems to loom. Political issues also played a role in **Suriname**, albeit in the sense that due to the upcoming 2005 presidential elections fiscal policy became quite strongly expansionist, which essentially was the driving force behind the transformation of a 1% fiscal balance surplus (after grants) to a 1.8% deficit in 2004. Hence, current expenditures on goods and services, as well as capital expenditures increased significantly, while revenues dropped as a percentage of GDP. The government however projects that a balanced budget will be achieved in 2005.

Overall, however, the fiscal outlook for **Guyana** is perhaps the most worrying in the region. In Guyana payments of interest and principal are on the rise and projected to surpass 20% of GDP. Although the Government of Guyana achieves a surplus on the primary balance and whilst grants are significant in terms of GDP, interest and principal payments turn the primary surplus into an overall fiscal deficit that could surpass 14% of GDP in 2005. Guyana faces the structural problem that revenues are insufficient to sustain the level of public investment that development of the country requires. Public capital expenditures have been financed with grants and public debt that reached 150% of GDP in 2002. Whilst the aim of fiscal policy in 2004 was to contain the deficit to achieve a more sustainable debt level, for 2005 the fiscal deficit is expected to rise significantly, especially on account of the reconstruction effort after the flooding of early 2005. Consequently, debt cancellation offered by the Club of Paris is a positive development but will not resolve the structural fiscal problems.

4. Monetary policy

The management of monetary policy was guided by developments in the external sector and fiscal policy considerations.

The OECS, Bahamas, Jamaica, Trinidad and Tobago, and Suriname registered an increase in their stock of net international reserves and pursued a neutral (OECS) or expansionary monetary policy stance (for the rest of these countries) (See Table 10). The monetary authority of the OECS member States, the Eastern Caribbean Central Bank (ECCB), followed the predicaments of currency board rules and maintained its reference rate of interest, the discount rate, at the level of the previous year (6.5%) (See Table 11 below).

In the cases of the Bahamas, Jamaica, and Trinidad and Tobago the expansionary character of monetary policy was underpinned by the improvement in the fiscal accounts and especially in the case of Jamaica by the commitment of the authorities to reach a balanced fiscal budget by the FY 2005/2006. In Suriname increased government expenditures reinforced the expansionary character of monetary policy.

Contrarily Aruba, Barbados, Belize, Guyana, and the Netherlands Antilles adopted a restrictive monetary policy in order to stem the loss in foreign exchange flows and avoid undue pressures on the exchange rate parity as a result of greater than expected increases in absorption. The behavior of absorption is partly explained by the expansion in government expenditures. Notwithstanding their efforts, most of these countries witnessed a decline in the number of months of imports covered by net international reserves (See Table 11).

Depending mostly on the degree of development of their financial markets as well as policy choice preferences, countries made use of price (Barbados, Guyana, Jamaica) or quantitative instruments (Aruba, Bahamas, Belize, Suriname, Netherlands Antilles, Trinidad and Tobago) to achieve their desired objectives (See Table 10).

Guyana and Jamaica chose the Central Bank's reference rate (the bank rate and the Repo rate, respectively) to monitor the levels of liquidity. Guyana increased its bank rate from 5.5% in January to 6% in July. Jamaica eased the yield rate on reverse purchase agreements (the Repo rate) by 300 points between December 2003 and 2004. In the case of Barbados the monetary authorities increased the minimum deposit rate from 2.25% at the end of 2003 to 4.25% in August 2004 (See Table 11).

Table 10		
Monetary policy strategies		
Monetary Policy Instruments		
	Market based	Quantitative
Expansive	Jamaica	The Bahamas Suriname Trinidad and Tobago
Neutral	OECS	
Restrictive	Barbados Guyana	Aruba Belize Netherlands Antilles

Aruba, The Bahamas, Belize, Suriname, Trinidad and Tobago, and the Netherlands Antilles opted for quantitative-based instruments to guide the evolution of the money supply. These directly affected the magnitude of the money multiplier and hence the credit creation capacity of the commercial banking system.

Within this subset of countries, Belize, the Netherlands Antilles, Suriname and Trinidad and Tobago implemented changes in reserve requirements. The first two increased their legal reserve requirement by one to two percentage points. For their part Suriname and Trinidad and Tobago lowered the statutory reserve requirements for deposits in local currency (35% to 30% and 18% to 14%, respectively). At the same time Suriname increased the reserve requirement on deposits in foreign currency (17% to 33.3%) to discourage lending in foreign currency and contribute to the stability of the newly adopted currency.

Aruba, The Bahamas and the Netherlands Antilles used credit ceilings to manage the behavior of money supply. The Bahamas reduced its quantitative limits on credit allocation allowing banks to resume growth in private sector loans, subject to a 15% equity contribution from borrowers of personal loans and a ceiling on the total debt service ratio from new loans to 40-45% of borrowers' monthly income. Aruba limited the growth of commercial bank lending to 6%, introducing a penalty fee on excess lending.

Quantitative instruments proved to be a successful tool in stimulating money supply growth through direct means, or indirectly, *via* changes in the term structure of interest rates. In the case of the Bahamas the reduction in quantitative limits led to a decline in the commercial banks' preferential and lending rates (8.1% and 6.8% in 2003 and 2004). However, quantitative instruments did not always succeed in contracting credit growth as attested by the cases of Barbados and Belize.

Table 11
Monetary Indicators for the Caribbean
2002-2004

Country	Bank Rate			NIR/Imports			NIR/M1			Loans/Deposits			Excess Reserves			Nominal weighted lending rate		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Anguilla	7.00	6.50	6.50	3.14	3.64	2.95	3.63	3.67	3.55	0.66	0.67	0.66	0.14	0.32	0.24	10.3	10.6	10.7
Antigua and Barbuda	7.00	6.50	6.50	2.87	2.56	2.53	1.06	0.83	0.73	0.82	0.78	0.75	0.16	0.26	0.43	11.30	13.40	n.a.
The Bahamas	5.75	5.75	5.75	1.56	1.95	2.44	0.46	0.53	0.59	1.21	1.18	1.13	1.97	2.38	3.65	11.33	12.04	11.25
Barbados	7.50	7.50	7.50	5.25	5.26	3.64	0.95	0.98	0.81	0.57	0.52	0.55	1.27	1.92	0.58	10.35	10.16	9.83
Belize	n.a.	n.a.	n.a.	1.10	0.77	0.51	0.32	0.23	0.13	0.95	1.04	1.04	0.25	0.20	0.36	14.50	14.20	14.00
Dominica	7.00	6.50	6.50	3.50	3.86	3.08	1.15	1.19	1.03	0.72	0.63	0.57	0.46	0.26	0.25	11.00	11.80	9.80
Grenada	7.00	6.50	6.50	3.86	3.18	4.39	1.12	0.93	0.97	0.72	0.68	0.58	0.07	0.12	0.85	10.50	12.10	10.00
Guyana	6.25	5.50	6.00	2.90	2.84	1.91	1.33	1.10	0.78	0.48	0.37	0.31	0.47	0.45	0.46	17.27	16.69	15.91
Jamaica	12.95	15.00	14.00	4.18	2.86	4.36	1.74	1.56	2.07	0.51	0.62	0.61	0.65	0.44	0.67	18.26	19.32	17.72
Montserrat	7.00	6.50	6.50	4.46	4.26	3.66	1.48	1.26	1.06	0.17	0.15	0.13	0.66	0.41	0.71	11.30	12.20	11.00
St. Kitts and Nevis	7.00	6.50	6.50	3.07	3.05	3.79	1.48	1.31	1.27	0.79	0.72	0.76	0.71	0.13	0.54	10.40	12.00	9.90
St. Lucia	7.00	6.50	6.50	2.76	0.00	2.92	0.86	0.82	0.73	0.92	0.81	0.81	0.33	0.36	0.65	12.50	15.30	10.70
St. Vincent and the Grenadines	7.00	6.50	6.50	2.94	2.55	3.33	0.59	0.54	0.72	0.72	0.69	0.71	0.19	0.44	0.42	11.40	12.00	8.80
Trinidad and Tobago	7.25	7.00	7.00	5.64	6.28	6.93	1.63	1.93	2.23	0.68	0.70	0.76	0.01	0.00	0.00	12.00	11.50	9.50

Note:

Bank rate = denotes the Central Bank's base interest rate at which it either lends to commercial banks or discounts its commercial paper.

NIR/imports = refers to the ratio of net international reserves (NIR) to months of imports of goods and services.

NIR/M1 = denotes the coverage of the narrow money supply (M1) (currency and demand deposits) by net international reserves(NIR).

Loans/deposits = denotes the ratio of loans and advances to total deposits of the commercial banking system.

Excess reserves = denotes the difference between actual reserves and required reserves divided by required reserves of commercial banks. Required reserves includes reserves held with the respective Central Bank plus the cash in till.

In the case of Belize it refers to approved and required liquid assets.

Market-based instruments also exhibited significant limitations. Most important, changes in the Central Bank's reference rate had small effects on the term structure of interest rates. This reflected the standing weakness in the transmission mechanism of policy decisions from the monetary authorities to the financial system.

A case in point is provided by Jamaica where the significant decline in the yields of the Central Bank's tenors were followed by minor adjustments in interest rates. The average weighted loan rate of the commercial banking system evolved from 19% to 17% (15.5% and 14.5% in real terms) between December 2004 and June 2005 (See table 2 below).

The main effect of market instruments was felt on the fiscal accounts as the yield on government debt (the Treasury bill rate) followed closely the trend of respective Central Bank reference rates. As a result, monetary policy was able, through the interest rate channel, to ease or harden the burden of debt payments denominated in local currency.

For some countries (i.e., Jamaica) monetary policy played a key role in stabilising government finances. In this case, interest payments on the internal debt represent more than 70% of the total and roughly 13% of GDP.

Another effect, albeit of lesser importance, is the balance sheet effect. It refers to the effect of interest rate variations on the profit margin of the banking system. A decline (increase) in the central bank's reference rate and hence the Treasury bill rate can cause a reduction (increase) in commercial banks' earnings in cases where the government and other public sector securities represent an important proportion of their investments.

Beyond the issue of the adequacy of existing instruments, monetary policy has a bigger and more pressing challenge to confront, namely the existing dichotomy between the monetary (financial) and real spheres of economic activity. In most countries, monetary policy and the behaviour of the financial system operate with independence from real sector activity.

While monetary policy may respond to fiscal objectives or be guided by the international reserve position, real sector activity is driven by external factors. Among these, the most important include the increase in tourism arrivals and foreign exchange services receipts, the increasing trend in commodity and fuel prices, and purely exogenous shocks, such as those brought about by natural disasters.

The absence of articulation between both spheres has led to the increase in liquidity levels in most economies. More to the point, it can provide the basis for the expansion of speculative activities at the expense of the development of output and employment.

Growth and macroeconomic stability require increases in financial deepening and in particular the financial system must be attuned to the needs of the private sector. The financial system can have a major impact on the accumulation of human and physical capital, growth and macroeconomic stability by mobilizing resources adequately in order to fund private sector activities.

5. Trade negotiations

Trade negotiations were conducted at the multilateral, bilateral and regional levels.

At the multilateral level the consensus reached by the World Trade Organizations (WTO) on framework agreements for pursuing multilateral trade talks opened the way for the implementation of the Doha Development Agenda which had been stalled since 2003. The July package reaffirmed the commitment of WTO members to fulfil the mandate of paragraph 35 of the Doha Declaration which states that the Doha work programme should frame responses to the trade-related issues identified for the fuller integration of smaller, vulnerable economies into the multilateral trading system and not create a sub-category of WTO members. Paragraph 35 provides the basis for small economies to make proposals on specific negotiating subjects/areas within the context of the Small Economies Work Programme. The aim of the group on small economies is to reflect the interests of the small, vulnerable economies as well as to defend the need for the extension of further flexibilities to be reflected in a 'first approximation' text leading to the Hong Kong Ministerial Conference (December 2005).

Agricultural negotiations have focused mainly on two products, sugar and bananas. In the case of the former, the European Union (EU) drafted a proposal reform package (July 2004) whose aim is the reduction in the preferential price for sugar.

The reform package includes the following features: (i) a 33% reduction over three years in the preferential price that the EU pays to African, Caribbean, Pacific (ACP) sugar protocol countries for the purchase of up to 1.3 million tons of sugar per year; (ii) the reduction in price would start on 1 July 2005 with an initial price cut of 20% to be followed by further price cuts of 8% and 5%, respectively; (iii) the refiners margin, which is currently paid by the EU, would be transferred to ACP sugar producers; (iv) the EU would accompany the price cuts by specific measures destined to assist ACP sugar producers to diversify to other sectors of economic activity or improve their current level of competitiveness in the sugar sector. These accompanying measures would start in 2007; (v) the EU sugar producers would continue to receive direct income support of 60% through a decoupled payment.

ACP member States have voiced opposition to the reform package on the basis that the proposed price cuts are too large. More important ACP member States have argued that the reform package is contrary to the spirit of the ACP/EU sugar protocol which provided a guaranteed market and guaranteed prices. Finally, member States have noted that the reform package discriminates against sugar producers as it benefited beet producers. The ACP lobbying efforts have managed thus far to push back the date of implementation of the reform package and speed up the accompanying measures.

In the case of bananas the EU decided, with due notification to the WTO, to replace the existing system of tariff-quotas with a tariff only regime of 230 Euros per metric ton to be applied to bananas from Most Favoured Nations (MFN) countries. Banana producing countries rejected the tariff and called for WTO arbitration. The decision to move to tariff only regime has not been satisfactory to MFN or ACP countries.

For the European Union the main issue is whether or not the tariff equivalent reduces the market access level provided to MFN countries. MFN countries have argued that the tariff only regime, as currently proposed, maintains the discrimination against Latin American banana producers. ACP countries, for their part, have highlighted the difficulty in determining the tariff equivalent of a tariff quota regime. Furthermore, they have argued that the 230 EU per metric ton seriously understates the level of protection provided under the tariff quota regime. Finally, they have noted that there is a margin between the highest level of tariff that the EU could have proposed and the actual level of tariff proposed, while at the same time preserving market access for MFN countries.

Non-agricultural market access (NAMA) negotiations have centered on finding a satisfactory formula for tariff reduction that is adequate to the structure and levels of development of smaller economies. Smaller economies depend to a great extent on tariffs to protect and ensure the survival of their industrial base and as a significant means of revenue collection.

Smaller economies are of the view that, tariff reduction approaches used in the negotiations must be suited to developing countries trade profiles and their ability to offer and sustain concessions. They have also emphasized repeatedly that less than full trade reciprocity and special and differential treatment should be the foundation on which the NAMA negotiating modalities are established.

For smaller economies the desirable outcome of the NAMA negotiations should include the following provisions: (a) a minimum level of tariff reduction for smaller economies, which in no way impacts on their current applied rates; (b) no tariff reduction commitments by smaller economies on products which have strategic value to their economic development; (c) longer implementation time periods; (d) tangible recognition for those small economies which have a substantial percentage of tariff binding coverage; (e) the elimination of non-tariff barriers on products of export interest to small economies; and (f) targeted technical assistance, including in the area of supply side, in order to facilitate the use by small economies of market access concessions.

At the bilateral level trade negotiations focused on the definition of the changing landscape of the relationships between CARICOM and Europe. The Lomé Convention has provided the framework for trade and cooperation between the European Union and ACP States since 1975.³ The Cotonou agreement (Cotonou, Benin, 23 June 2000) replaces the Lomé agreement and is valid for a period of 20 years with periodic revisions every five years.

The Cotonou agreement overhauls the trade relations between the European Community and ACP States. Contrarily to the Lomé 'spirit', it was decided that trade relations instead of being non-reciprocal trade preferences should be founded upon the progressive dismantling of

³ The first Lomé Convention was signed in 1975 (with 45 ACP countries) following the accession of the United Kingdom to the European Community. There followed Lomé II in 1975 (with 58 ACP countries), Lomé III in 1984 (with 65 ACP countries), and Lomé IV in 1989 (with 68 countries in 1989 and 70 in 1995). Under Lomé IV all CARICOM exports enter the EU duty free and the agreement also provides for special regimes for bananas, rum, beef and sugar.

trade barriers and preferences integrating ACP countries into the multilateral system and making the European Union-ACP trade relations WTO compatible.

With the Cotonou Agreement, ACP countries agreed to turn their non-reciprocal trading arrangement into fully reciprocal regional integration areas in the form of Economic Partnership Agreements (EPAs). ACP countries launched negotiations for EPAs in September 2002.

The Caribbean region and the EU started the EPA negotiations in April 2004. The current preferences under Cotonou will expire at the end of 2007 and the EPAs will be implemented at the beginning of January 2008. Thus far, CARICOM and the European Union have concluded the first two phases of the agreement.

Phase I of the negotiations, which was completed in September 2004, established the objectives of the EPAs. The EPAs are instruments whose objective is to: (a) facilitate the sustainable development and structural transformation of Caribbean economies; and (b) strengthen the regional integration process with CARIFORUM (RNM, 2005).

Phase II of the negotiations identified the extent of EPA commitments and the priorities of CARIFORUM for regional integration.

Phase III, which will delineate the biregional market access commitments of both parts, begins in September 2005.

While both CARICOM and the European Union are in agreement with the basic principles of the Cotonou agreement there are important differences between the European Union's and CARICOM's approach to the EPAs.

According to the former the Cotonou agreement must rigorously comply with the requirements of Article XXIV of the WTO.⁴ As such, Europe views the EPAs as a tool to promote the development of its signatory members guided by the principles of reciprocity and free trade. Free trade should improve ACPs market access possibilities, stimulate investment and promote economic growth. Contrarily, CARICOM understands trade liberalization as a necessary but not sufficient condition for economic development. Trade liberalization must be applied and suited to the particular conditions of signatory member States. In the case of CARICOM the reduction in tariffs may translate into significant revenue losses thus hardening the fiscal constraint of governments. The erosion of preferential access is also bound to affect key products such as sugar and bananas that are a significant source of employment and livelihood for some member States. CARICOM understands that the EPAs must be accompanied by asymmetric provisions and must be linked to development assistance.

⁴Article XXIV authorizes customs unions and free trade zones as an exception to the principle of non-discrimination. The regional agreements and free trade zones are expected to remove barriers to trade with respect to the essential of the trade which originated in the constituting members of the customs union or free trade areas. Finally, Article XXIV seems concerned with avoiding the trade deviation effect of free trade areas or customs unions and explicitly states that in order to avoid trade deviation, tariff and/or other trade measures should be established at a level, which in their aggregate, does not make these more restrictive than those previously imposed by the individual members. In addition, Article XXIV also states that country members may maintain trade restriction among members of a trade agreement on the basis of GATT's articles XI, XII, XIII, XV and XX.

At the regional level trade negotiations have focused on advancing the implementation of the CSME. The objectives of the CSME include the formation of a full-fledged customs union; the free movement of goods, services, capital and persons; more intensive coordination of macroeconomic policies and economic relations; and the harmonization of laws governing trade and other economic activities within the common market area.

Taking stock of the disparities in size and development the Revised Treaty of Chaguaramas also encompassed a series of special provisions included in the regime for disadvantaged countries, regions and sectors and in the regime for less developed countries.⁵ This includes the establishment of a development fund “for the purpose of providing financial or technical assistance to disadvantaged countries, regions and sectors.”⁶ These provisions are meant to assist these countries “towards becoming economically viable and competitive by appropriate interventions of a transitional or temporary nature” and to “redress to the extent of the possible any negative impact of the establishment of the CSME.”⁷

As currently conceived, the end objective of the CSME is the regional integration and articulation of the markets for factors, goods and services in the production and distribution spheres in order to achieve international efficiency and competitiveness.⁸

Currently the CSME is an imperfect customs union. The level of regional integration required by the CSME implies by definition completing to formation of the customs union, which would imply that St. Kitts and Nevis comply with the last phase (i.e., Phase IV) of the Common External Tariff (CET), the move from a customs union to a single market (i.e., common market) and finally to a *sui generis* type of economic union.

The move from the customs union to a single market means that the member States of CARICOM will grant free movement to all goods, services and, most importantly, to factors of production (labour and capital).

CSME provisions, as they stand, contemplate only the mobility of certain categories of skilled labour. CARICOM nationals have the right to live and work in any member State without work permits. These categories of skilled labour include university graduates, artistes, sports persons, musicians and media workers. Capital mobility is complementary to labour mobility.

Capital mobility is a reality, at least partially, within CARICOM. It may even be asserted that capital mobility is a phenomenon that has occurred with independence of the advancement and progressive implementation of the CSME.

During 2004 CARICOM member States established the Caribbean Court of Justice (CCJ). The CCJ ensures the observance of the law in the interpretation and applications of the revised Treaty of Chaguaramas.

⁵ The Revised Treaty of Chaguaramas (articles 142 to 167).

⁶ Ibid (article 158).

⁷ Ibid (articles 142 and 143).

⁸ See Caribbean Development Fund. Caribbean Community. Development Fund for Disadvantaged Countries, Regions and Sectors. April, 2005. Mimeo.

In 2005 CARICOM leaders (26th Meeting of the Conference of Heads of CARICOM, Saint Lucia, 3-6 July 2005) agreed to deepen and pursue further the implementation of the CSME provisions. CARICOM governments view the CSME as an opportunity for countries to reposition their productive potential and improve their efficiency and competitiveness.

However, the smaller States of CARICOM, namely the OECS, expressed the concern that the CSME will pose significant challenges to the smaller economies of CARICOM, given their binding structural constraints and current economic situation. CARICOM heads agreed to take into consideration the special needs of the smaller States and to make fully operational the provisions of the Treaty of Chaguaramas dealing with Disadvantaged Countries, Regions and Sector and Less Developed Countries. In particular they agreed to revisit the arrangements of Chapter VII of the Chaguaramas Treaty dealing with disadvantaged countries, regions and sectors.

CARICOM expects to start fully implementing the provisions relating to the single market in 2006 and to attain the goal of economic union in 2008.

II. ANALYSIS OF SELECTED TOPICS

Caribbean labour markets: Challenges and policies*

1. Introduction

Caribbean countries are facing major challenges associated with the changing global environment within which they have to operate. Trade liberalisation, improvements in information and communications technology (ICT), the growing integration of financial and commodity markets and new security concerns are changing the economic landscape on a global scale. Small developing countries, such as those in the Caribbean, have to make major adjustments to their economic structure and processes in order to benefit from global economic changes and hence avoid economic marginalisation. Given the interrelationship among various markets, it is expected that changes in the commodity and financial markets would have a significant impact on the labour market. Furthermore, changes would occur within the labour market in response to its own specific dynamics. These changes (external and internal to the labour market) bring important challenges for those agencies charged with making labour market policies. For several persons in an economy, the labour market provides the main source of income and hence its operation is critical to enhancing the socio-economic welfare of the population. Understanding the challenges facing the labour markets of the Caribbean, therefore, becomes a key element in the design and implementation of labour market policies and programmes aimed at improving socio-economic welfare.

This study examines the challenges facing the labour markets in the English-speaking Caribbean over the past decade with a view to specifying policies and programmes aimed at meeting these challenges. The main challenges are identified through a review of the recent literature on Caribbean labour markets and also by soliciting the views of key stakeholders in the labour market, namely, representatives of governments, labour unions and employers.

The study begins by identifying the main challenges/problems facing labour markets during the past decade. It then provides a detailed examination of these challenges/problems drawing on the available literature, recent statistical data and discussions with selected key informants. Policies and programmes to overcome these challenges/problems are developed. In many respects, the success of these policies and programmes depends on the cooperation and will of the key stakeholders in the labour market. It is important that these policies and programmes are designed and implemented in such a way as to make the operation of the labour market responsive to the collective needs of the stakeholders. These policies and programmes would therefore cover the demand and supply sides of the labour market along with the institutional and regulatory framework governing its operation.

1.1 The evolution of Caribbean labour markets

Labour markets in the English-speaking Caribbean have seen significant changes over the past decades in response to both demographic and production changes. In some cases, episodic events such as the implementation of structural adjustment programmes, natural disasters and

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man-induced shocks have resulted in some short-term dislocations in the operation of labour markets in the region. These events usually resulted in a reduction in the demand for labour, high levels of unemployment, reduced labour income and increased poverty. In general, the main changes taking place in the Caribbean labour markets have been associated with:

- (a) A low rate of labour force growth and the ‘ageing’ of the population;
- (b) A gradual increase in the female participation rate with a general constancy of the male participation rate;
- (c) A general improvement in the educational attainment of those entering the labour force, although there is still a small cadre of professional, technical and managerial personnel;
- (d) A growth of the service-oriented workforce and a decline in agricultural and, to a lesser extent, the industrial-oriented components;
- (e) The slow growth of formal sector employment associated with the slowing down of Caribbean economies;
- (f) The growth in the number of self-employed persons associated with the increase in small and micro-enterprises and also the informal sector;
- (g) High levels of unemployment, especially among young females;
- (h) Few changes in the regulations governing the operations of the labour market;
- (i) A less militant role of the trade union movement in the labour market; and
- (j) A general upward trend in real wages.

Over the period 1996-2002, the population growth rates in the region have been under 2% per annum with the exception of Belize (See Table 12). Relatively low population growth rates have been a main feature of Caribbean countries since the 1960s when most of these countries implemented family planning and, in some cases, secondary level education. Since the population growth rate is a key determinant of future labour force growth, the relatively low population growth rates also signal low labour force growth rates. Labour force growth over the period 1996-2002 was less than 2% per annum, with the exception again of Belize. Although Caribbean countries have experienced a high rate of emigration to the United States, United Kingdom and Canada over the decades, the low labour force growth rates have been due mainly to low rates of natural increase in the region’s population.

Overall, labour force participation rates in the region have been just under 70%, ranging from 57.3% in Belize to 68.5% in Barbados in 2002 (See Table 13). The trend in participation rates has been generally upwards, with the female rate being the dominant factor. Females have been entering the labour force at a much higher rate than males over the last three decades. Several factors explain this characteristic: higher educational attainment (especially at the

secondary and tertiary levels), improvements in household production technology, expansion of activities in the economy which have been traditional sources of employment for women, the decline in fertility rates and average household size which reduces the need to stay at home for long periods, the self-actualization of women and the drive for financial independence (see Downes⁹). Although, a higher proportion of males is engaged in labour market activity, their participation rate remained relatively constant in the mid-1970s for several years.

Countries	Percent	
	Population Growth	Labour Force Growth
Antigua	0.8	
Barbados	0.3	0.8
Belize	3.1	4.2
Dominica	-0.2	
Grenada	1.1	.
Guyana	0.6	1.5
Jamaica	0.7	1.3
St. Kitts/Nevis	1.9	
St. Lucia	1.3	
St. Vincent and the Grenadines	0.7	
Suriname	0.5	1.8
Trinidad and Tobago	0.6	1.9

Source: World Bank Group: <http://www.worldbank.org/data>

⁹ Downes A S (2004): "The Labour Market in the Caribbean: Implications for Growth and Competitiveness" (prepared for the World Bank, November).

Table 13
Labour participation rates and Unemployment rates, selected countries

		1995	1996	1997	1998	1999	2000	2001	2002	2003a/	2004a/
Barbados	Participation rate	68.2	68.1	67.8	67.8	67.8	68.6	69.5	68.5		
Belize	Participation rate								57.3		
Jamaica	Participation rate	69.0	67.7	66.6	65.6	64.5	63.3	63.0	63.6	62.0	
St Lucia	Participation rate								65		
Trinidad and Tobago	Participation rate					60.8	61.2	60.7	60.9	61.6	61.5
Bahamas	Unemployment rate	10.9	11.5	9.8	7.8	7.8		6.8	9.1	10.8	10.2
Barbados	Unemployment rate	19.7	15.8	14.5	12.2	10.4	9.4	9.9	10.3P		
Belize	Unemployment rate	12.5	13.8	12.7	14.3	12.8		9.1	10		
Dominica	Unemployment rate			23.1		15.7					
Grenada	Unemployment rate		17.5	15.5							
Guyana	Unemployment rate					10					
Jamaica	Unemployment rate	16.2	16.0	16.5	15.5	15.7	15.5	15.0	15.1	11.4	11.7
St Kitts and Nevis	Unemployment rate							5.1			
St Lucia	Unemployment rate	16	16.7	22	21.6	18.1	16.5	18.9P			
St. Vincent and the Grenadines	Unemployment rate							21.1			
Suriname	Unemployment rate				11	12	14	14	10	7	
Suriname	Unemployment rate	8.4	10.9	10.5	10.6						
Trinidad and Tobago	Unemployment rate	17.2	16.2	15.0	14.2	13.2	12.2	10.8	10.4	10.5	8.6

Source: ILO: Digest of Caribbean Labour Statistics (various issues), National Labour Force Surveys, Caribbean Development Bank: Annual Economic Review, 2004

Caribbean countries have witnessed significant changes in the structure of production over the past four decades which have had a major impact on the nature of employment. The main changes in the structure of production include the following:

- (a) The decline in the relative importance of agricultural production, although such production is still important in Guyana, Belize, Dominica and St Vincent and the Grenadines;
- (b) A significant rise in the relative importance of the services sector (broadly defined) – distribution, financial/business, government, tourism, etc. The relative share of old and new services in total output varies from over 80% in Barbados and the Bahamas to 30% in Guyana (CDB¹⁰, 2004);
- (c) Tourism services have been very prominent in several countries – Antigua and Barbuda, the Bahamas, Barbados, Grenada, Saint Lucia and Tobago. Some countries have also sought to develop financial and information technology-based services (international business companies, trust companies, insurance agencies, data processing and computer software companies);
- (d) With the exception of Jamaica, Trinidad and Tobago and, to a lesser extent, Belize and Barbados, the manufacturing sector has not been very large. Where the sector is significant, it is linked to another sector, for example, agriculture and agro-processing in Belize and Jamaica and petroleum and petroleum products in Trinidad and Tobago; and
- (e) An increase in the informalisation of economic activity especially in Jamaica and Guyana, where recent estimates indicate that the informal sector accounts for over 45% of official GDP (GRADE¹¹; Faal¹²). In the case of Barbados and Trinidad and Tobago, the share of the informal sector is 10% to 15% of measured GDP (see BSS, 1997/8 and Maurin et al¹³).

The changes in the structure of production have been mirrored in the labour market. The number and percentage of persons employed in the agricultural sector have declined over the years, while those in the services sector have increased. This shift in employment has also been associated with a growth of clerical and service/sales workers to meet the demand for services.

Changes in the number of persons employed (employment growth) were influenced largely by real GDP growth. All the Caribbean economies for which data are available exhibited some slow down in economic activity during the 2001-2002 period. Saint Lucia and Barbados recorded significant declines in employment during the period. The decline in the banana industry has been a major source of job loss for the Windward Islands in recent years. In both

¹⁰ CDB (2004); Annual Economic Review.

¹¹ GRADE (2002): “Informal Sector Study for Jamaica” (Report prepared for the Inter-American Development Bank, Washington, D.C., November).

¹² Faal E. (2003): “Currency Demand, the Underground Economy, and Tax Evasion: The Case of Guyana”, *IMF Working Paper*, WP/03/7, Washington, D.C., January.

¹³ Maurin A., Sookram S. and Watson P.K. (2003): “Measuring the Size of the Hidden Economy in Trinidad and Tobago” (Economic Measurement Unit, Dept of Economics, University of the West Indies, St Augustine, Trinidad and Tobago, January).

Saint Lucia and Barbados, there has been some degree of absorption of labour in the services sector (especially tourism) as a result of the decline in the agricultural sector of these countries. Economic growth in Trinidad and Tobago has been particularly robust over the past decade, with the petroleum sector leading the process. Employment growth has accompanied the positive growth of output, but at a slower rate. This result might be due to the capital-intensive nature of production, especially in the petroleum sector. In fact, patterns of real GDP and employment over the period 1995-2004 suggest that while aggregate labour productivity has increased in Trinidad and Tobago over the decade, there has either been a decline or stagnation of aggregate labour productivity in the economies of Barbados, Jamaica and Saint Lucia.

Although there are differences in measurement across Caribbean countries, the levels and rates of unemployment in the region have been relatively high (See Table 12). In all the countries, the unemployment rate has been in double digits, although it has fallen to a single digit in Barbados and the Bahamas. As expected, unemployment has moved with the cycles of economic activity, that is, increases in the rate during recessions and falling rates during expansionary periods.

Countries	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	22.8	27	23.5	23.8	21	23.8	22.2	15.7	15.8
Barbados	33.7	42.7	42.2	41.1	37.8	29.2	29.5	24.6	21.8
Belize	n.a.	n.a.	16.8	17.3	23.4	25.6	23.7	25.1	22.5

Source: International Labour Organization Caribbean Labour Market Information Database. Data supplied by the National Statistical Agencies

Age\Year	Trinidad		Jamaica		Barbados		St. Lucia		Belize	
	1991	2004 [†]	1991	2001*	1992	2000	1993	2003	1993	2004
15-19	43.2	21.2	39.2	50.1	60.9	28	41.5	54.3	24.1	24.0
20-24	29.6	15.7	25.3	27.7	33.9	12.8	21.2	31.9	11.0	15.0
25-34	18.6	6.6	14.4	14	23.9	9.9	13.2	21.5	9.3	13.4
35-44	12.4	4.2	8.8	8.3	15.9	6.1	11.2	15.7	4.6	10.1
45-54	9.2	5	6.9	5.8	14.8	6.3	6.6	16.7	2.9	9.1
55-64	8.7	4.8	4.7	5.2	10	6.5	16.2	15.1	5.6	7.6
65 plus	2.9	2.5	2.9	4.1	4	0	11.3	17.6	7.5	6.7
[†] : Q2/03-Q2/04										

Unemployment rates are higher for females than for males in the region. Young persons are particularly affected by unemployment. Youth (15-24 years) unemployment rates tend to be

twice the national unemployment rates, as shown in Tables 14 and 15. Young females bear the highest level of unemployment in the Caribbean region, although there has been a level of concern over the attitudes and activities of young unemployed males.

A comparison of real wage rates (nominal wage rates divided by the retail price index) and labour productivity (real GDP divided by the number of persons employed) for Barbados, Jamaica and Trinidad and Tobago indicates that

(a) Real wages in Barbados increased faster than labour productivity growth. There is evidence of 'real wage resistance' over the 1990-2001 period as real wage has remained constant. There is the possibility that productivity growth may be underestimated since the base period for measuring real GDP has not changed since 1974;

(b) In Jamaica, real wages also increased faster than labour productivity growth during the 1990s. There has been an upward trend in real wages since 1990; and

(c) In Trinidad and Tobago, real wages also rose faster than labour productivity during the 1990s, with a relative constancy in aggregate labour productivity.

These aggregate trends suggest that the Caribbean region has become less price competitive in international markets as measured by the real unit labour costs (defined as the ratio of real wages to labour productivity).

Micro-econometric regression analysis based on Mincerian equations suggests that hours worked, educational attainment, training and work experience are key variables in determining the earnings of individuals (see Downes, 2004; World Bank¹⁴). It has been suggested that young persons in the region have high reservation wages associated with their educational attainment and would prefer to remain unemployed than to accept a job which provides a wage which is less than their reservation wage.

Labour market regulation, through the legislative system and the collective bargaining process, has been a prominent feature of Caribbean labour markets. All the Caribbean countries are members of the International Labour Organisation (ILO) and ratify a number of their conventions, some of which have been enacted in labour laws. The Caribbean countries have ratified almost all of the eight fundamental conventions: forced labour (1930), the freedom of association and the right to organize (1948), the right to organize and collective bargaining (1949), equal remuneration (1958), minimum wage (1973) and the worst forms of child labour (1999). With the exception of Belize, Guyana and Suriname, there has however been less success with the ratification of the essential labour administration conventions.

Wage rates in the Caribbean are set largely by the collective bargaining process or via labour legislation in the form of minimum wages for certain occupational categories or the country as a whole. In some cases, the government has had to legislate increases in wages and salaries for public sector workers in order to break an impasse in public sector wage negotiations.

¹⁴ World Bank (2005): A Time to Choose: Caribbean Development in the 21st Century (Washington, DC).

National minimum wages have been adopted in Antigua and Barbuda, Jamaica and Trinidad and Tobago. Other countries have adopted an occupational minimum wage structure: Barbados, Belize, Dominica, Grenada, Guyana, St Kitts and Nevis and St Vincent and the Grenadines. In the case of the national minimum wage, the level has been set at a percentage of average wages. For example, in Jamaica, the minimum wage of US\$34 per 40 hour week in 2003 ranged from 10% of average wages in transport/storage and communications to 39% of the construction sector.

The degree of unionization in Caribbean labour markets has declined over the years, in line with the worldwide trend. Although the actual degree of unionization is difficult to assess, it is estimated at between 20% and 30% of the labour force. The labour union movement is still prominent in certain key areas of the economy: public sector, ports, public utilities and some areas of the services sector. The degree of industrial disputes and work stoppages has varied over the years. These actions have been influenced by changes in the economic fortunes of Caribbean countries (see Downes and Nurse¹⁵, 2002). The general tendency in the region has been to work towards the establishment of social partnerships involving the government, labour unions and employer associations (see Imoisili and Henry¹⁶, 2004). The Barbados social partnership has been an outstanding example of collaboration in the Caribbean (see Fashoyin¹⁷).

Although Caribbean countries have various forms of labour law, very few changes have occurred in labour legislation over the years. Labour law reform has been discussed in several of the countries, but few new labour laws have been put in place. In recent years, much of the discussion has been centred on occupational health and safety in the work place, with Barbados and Trinidad and Tobago recently enacting legislation on the issue. Several of the regulatory measures which have influenced the operation of the labour market have come via the collective bargaining process. These collective bargaining agreements result in non-wage labour costs (for example, allowances and other fringe benefits and privileges) which make the labour input a quasi-fixed factor in the production process. Two indices developed in the mid-1990 by Rama¹⁸ and Marquez and Pages¹⁹ suggest that Caribbean countries exhibit a lower degree of labour market rigidity and employment protection than do Latin American countries.

Over the past decade, significant changes have occurred in the labour markets of the Caribbean. Adjustments have been made to accommodate the improved educational attainment of the work force and also the changing nature of the production structure. In some cases, countries have lost vital human resources (the brain drain) due to poor economic performance (for example, Guyana and Jamaica). Although these countries have benefited somewhat from

¹⁵ Downes A S and Nurse L (2002): "Industrial Disputes and Work Stoppages in the Commonwealth Caribbean: An Empirical Analysis" in N Cowell and C Branche (eds): *Human Resource Development and Workplace Governance in the Caribbean* (Kingston, Jamaica, Ian Randle Publishers), pp 253-284

¹⁶ Imoisili I C and Henry AV (2001): *Productivity Improvement through Strengthening Management-Labour Cooperation – The Caribbean Experience* (ILO, Caribbean, Port-of-Spain).

¹⁷ Fashoyin T (2003): *Social Dialogue for Sustainable Development: The Case of Barbados and Implications for the Caribbean*, ILO, Geneva, April.

¹⁸ Rama M (1995): Do Labour Market Policies and Institutions Matter? The Adjustment Experience in Latin America and the Caribbean, *Labour*, Special Issue 1995, pp S244-S268.

¹⁹ Marques G and Pages C (1998): *Ties that Bind: Employment Protection and Labour Market Outcomes in Latin America* (office of the Chief Economist, IDB), March.

remittances associated with extra- and intraregional migration, economic production has been constrained due to the lack of skilled persons to advance the production process. The changes in Caribbean economies have brought significant challenges in the labour markets of the region which need to be urgently addressed in order to avoid an increase in poverty and deprivation, emigration, criminal activity and general disillusionment.

1.2 Labour market challenges in the Caribbean

The review of labour markets in the Caribbean over the past decade points to some of the challenges facing policy makers in the region. Identification of the main challenges facing the labour markets in the region was made possible through interviews with stakeholders in the labour market, government labour officials, labour unionists, employers and their representatives. An assessment of their responses indicates that the main challenges are: youth unemployment, the mismatch between the educational system and the labour needs of the labour market, low levels of labour productivity coupled with relatively high wages and the emigration of skilled persons from the region ('brain drain'). The issues have been at the forefront of the design of programmes and policies in the region for several years. These main challenges are supplemented by such issues as poor relations among the social partners in some countries, the growth of the informal labour market, Human Immuno-deficiency Virus/Acquired Immuno Deficiency Syndrome (HIV/AIDS) in the workplace, crime and unemployment, wage dualism and outdated labour market legislation and regulations.

(a) Youth unemployment

As indicated in the previous section, the youth unemployment rate in the Caribbean has been twice as high as the national rate. Data on unemployment by age however shows that the rate declines with older age cohorts. This feature suggests that young persons join a job queue as new labour market entrants and find employment over time. In some countries, youth unemployment is particularly high in certain depressed areas giving rise to criminal activity. The ILO²⁰; Anderson²¹; and Pantin²² have highlighted other features of youth unemployment in the Caribbean:

(a) Unemployment **levels** among females tend to be less than among males, while unemployment **rates** tend to be higher;

(b) Unemployed youth have low levels of education and training attainment and little or no work experience;

²⁰ ILO (1996): "Youth Unemployment: A Caribbean Challenge" in ILO: *Digest of Caribbean Labour Statistics* (Port-of-Spain, Trinidad and Tobago), pp 16-29.

²¹ Anderson P (1997): "Youth Unemployment in Jamaica" (Dept of Sociology/Social Work, UWI, Jamaica, report for ILO, Caribbean, October).

²² Pantin D (1996): "The Challenge of Youth Employment in the Caribbean: The Role of Youth Employment Training Programmes" (ILO, Caribbean Office, Port-of-Spain, Trinidad and Tobago); Pantin D (2005): Revisiting the Challenge of Youth Employment in the Caribbean" in D Pantin (ed): *The Caribbean Economy: A Reader* (Ian Randle Publishers, Kingston, Jamaica), pp 412-433.

- (c) Youth unemployment rates tend to fall at a slower rate than that of other age cohorts;
- (d) The growth of youth employment has been slower than that of other age cohorts;
- (e) Young women in the 15-19 years bracket tend to be the most vulnerable labour market group;
- (f) Rural youth experience marked disadvantages in obtaining employment – for example, rural youth unemployment in Jamaica is higher than urban (Kingston) youth unemployment;
- (g) Young persons who receive training (vocational) have a higher probability of obtaining employment – especially young females.

Several explanations have been advanced for the high levels of youth unemployment in the region. First, it has been argued that the educational system has not provided young persons with the requisite skills and knowledge to meet the needs of employers. Few Caribbean countries are able to provide universal secondary level education for their young people and so several young persons enter the labour market with little or no certification. Since such certification provides a screening device for employment and also a signalling device for individual productivity, the level of certification usually means low paying low skill employment in both the formal and informal sectors. Even where there is universal secondary education, as in Barbados, a large percentage of the adult population (57% in 2000) still leave the school system without certification.

Secondly, and associated with the first explanation, is the lack of work experience (even for short spells) when young persons seek to enter the job market. Since it costs employers resources to train such persons, they are therefore, not very attractive to employers unless the entrants accept low wages. Over the years there have been attempts to vocationalize the educational system to provide school leavers with at least basic skills for relatively easy labour entry. In addition, some limited career guidance counselling has been provided.

A final explanation, which also affects aggregate unemployment, is the inadequate aggregate for Caribbean goods and services to generate sufficient jobs to employ those who are willing and able to work. The implementation of structural adjustment programmes in several Caribbean countries (Jamaica, Guyana, Barbados, Trinidad and Tobago, Dominica) called for a reduction in aggregate demand in order to overcome balance of payments (BOP) problems. The demise of the sugar and banana industries, as a result of the gradual removal of trade preferences and the move towards greater trade liberalisation, have also added to the youth unemployment problem in the Eastern Caribbean.

Several programmes have been implemented to address the youth unemployment problems in the region (see Pantin, 1996, 2005). These programmes have included the vocationalisation of the secondary school system, apprenticeship scheme, subsidized employer training, youth entrepreneurial development programmes, skill training programmes, youth

counselling and placement schemes. Although no formal evaluation of several of these programmes have been undertaken, it seems that they have had a limited impact on the youth unemployment problem. To a large extent, these programmes have focused on the supply-side of the labour market, that is, the enhancement of the skill base (human capital) of young persons. Much more needs to be done on the demand side of the labour market. In the case where these young persons are dependants within a household/family setting, they have been able draw on the informal household safety net. Young unemployed persons therefore rely on family members for support (e.g., remittances from abroad) while they wait their turn in the job queue (that is, youth wait unemployment).

(b) The mismatch problem

One of the main reasons for youth unemployment, in particular, and unemployment, in general, relates to the “mismatch problem”, that is, the difference between the distribution of job requirements or needs of employers and the distribution of knowledge and skills of the labour force. The high levels of youth unemployment, coupled with the high incidence of un-certificated workers, suggest a “mismatch problem” associated with a dysfunctional educational education system. Employers indicate that they find it difficult to recruit workers with appropriate work ethic, attitude, job/work experience and technical skills. Establishment surveys in Barbados and Jamaica, for example, indicate that a poor attitude to work and poor work ethic have been major concerns for employers. They indicate that these attitudes, along with basic education/knowledge/skills (reading, writing and mathematics) are critical to job hiring and trainability of employees.

Direct information on the skill needs of employers in the region is not readily available as few surveys are undertaken. In Jamaica, the Ministry of Labour and Social Security has been collecting information on the most frequently advertised jobs in the Jamaican labour market. The top five areas fall into managerial, teaching, marketing, customer service and accounting occupations, where vacancies reflect the range of occupational skill areas (highly skilled to semi-skilled).²³ With the expansion in the services sector in the region, there has been a corresponding increase in demand for workers in this sector.

The National Training Agency (NTA) in Trinidad and Tobago has been undertaking surveys of the training needs of employees in various sectors of the economy. A May-September 2001 survey indicated that job opportunities were basically mid- to low-level jobs, however, the recent expansion of the economy of Trinidad and Tobago has resulted in a shortage of workers in the construction industry (plumbers, masons, electricians).

In the OECS, the lack of critical skills has been a constraint on economic expansion and international competitiveness (World Bank, 2005). For example, in St Vincent and the Grenadines and Grenada, skill shortages have been identified in the technical/engineering and managerial areas. Chottepanda²⁴ has also pointed to skill labour shortages in Guyana which has

²³ It is generally recognised that jobs receiving little or no skill are hardly advertised since the supply of such persons tend to outweigh the demand for such workers (labourers, agricultural workers).

²⁴ Chottepanda M (2004): “Guyana Labour Market Study: Assessment and Recommendations” (prepared for the Ministry of Labour, Human Services and Social Security, Guyana), October.

experienced a high level of emigration of skilled labour over the past decade. In fact, data on work permits granted by Caribbean governments during the 1990s reinforce the nature of skilled labour shortages as the main categories for which work permits granted were in the managerial, technical and professional occupations.

On the supply side of the labour market, the output of the education institutions and training agencies has not been able to fill the needs of the labour markets. While there is almost universal primary level education in the region, secondary level is not universal and tertiary level education enrolment is relatively low. The output from the school system has been a cause for concern over the years as the pass rates for English and Mathematics, especially, have not been as high as required. Since these two subjects form the foundation of trainability in the labour market, low pass rates in these subjects are indicative of serious deficiencies in the quality of the output of the school system. As indicated in the previous section, the educational attainment of the labour force (and by extension the employed and unemployed persons in the labour markets) is relatively low especially at the tertiary level. Lack of job skills and poor certification mean that a significant portion of the employed would fall into the category of elementary and related occupations.

Several programmes and institutions exist in the region to provide for the needs of the labour market. At the high skill levels the universities (University of the West Indies, University of Guyana, University of Suriname and University of Technology) and colleges provide the bulk of trained personnel. Some professionals undertake programmes via correspondence. Governments have established technical and vocational institutions and programmes to train para-professionals and technical persons whilst private institutions also play a part in training individuals especially in the business/managerial areas.

(c) Labour productivity

The available data suggest that at the aggregate level, labour productivity in the region has been relatively low, with the possible exception of Trinidad and Tobago where capital-intensive activities have boosted overall output. It is possible that in some countries, the level of labour productivity may be underestimated since the base period used to measure real GDP has not changed for several years.

Very little research has been undertaken on the determinants of labour productivity in the region. One study on the Jamaican economy indicates that labour productivity growth depends on investment in human and physical capital, the adoption of new technology, plant organization and the management system (see Downes, 2004). The level of distrust between workers and management in Jamaican companies has also been identified as a factor influencing worker motivation and productivity (Carter²⁵, 1997). Some research on gainsharing schemes in Barbados suggests that these have a positive impact on productivity (Downes and Alleyne²⁶; and

²⁵ Carter K L (1997): *Why Workers Won't Work: The Worker in a Developing Economy – A Case Study of Jamaica* (London, Macmillan).

²⁶ Downes AS and Alleyne V (1998): *An Evaluation of Gainsharing Schemes in Barbados*, *Economic Review* (Central Bank of Barbados), vol 25, no 3, Dec, pp 18-40.

Bannister²⁷). At the plant level, research on motivation in the Caribbean suggest that providing a supportive work environment and challenging work are the main elements in improving labour motivation and hence labour productivity. These results indicate that the management of organizations have to pay more attention to the physical environment and interpersonal relations if labour productivity is to improve. The wider physical environment also appears to affect labour productivity as some workers and managers indicate that traffic congestion and inflexible work hours are important elements that fashion their work attitude and hence labour productivity.

Several initiatives have been implemented to boost productivity in the region. These include the establishment of productivity agencies in Barbados and Jamaica, social partnerships to provide productivity growth at the sectoral level (e.g., bauxite, tourism) and national levels, improvements in social infrastructure to ease the flow of traffic; export promotion through various bilateral agreements; investment in education and training; supervisory and senior management training, productivity-payment schemes and improved operations and management procedures. Some innovative companies have used human relations and organizational psychology techniques to promote greater worker cooperation and enhance the working environment [see Wint²⁸].

(d) The brain-drain problem

The Caribbean has historically been an area of migration – both immigration and emigration. Organized emigration has occurred to such countries as the United Kingdom, the United States, Canada and Panama over the past century. Early emigration to these countries was a means of easing the high unemployment (surplus labour) problem in the region. Persons emigrated to more developed countries to work as domestics, nurses, teachers, construction workers, transport workers and other low- and middle-skill level workers. Emigration can therefore be viewed as being beneficial to a country if the emigrants would otherwise be unemployed or working in low skill jobs. If the emigrants are members of the professional and skilled labour force, then a ‘brain drain’ occurs which then results in lower overall productivity and reduced economic growth. There are several costs and benefits associated with the movement of persons from one country to another (that is, emigration from the country of origin, immigration from the country of destination) (see Mishra²⁹, 2005). In relation to the costs of emigration to the country of origin, there are:

- (a) The ‘emigration loss’, that is, the net welfare reduction associated with movement of infra-marginal workers who are paid less than their marginal product; and
- (b) The public expenditure on the education and social welfare of the emigrants;

²⁷ Bannister A. (2004). An Analysis of the Impact of Performance-based Incentive Plans on Organisational Performance in Barbados (Prepared for the Barbados National Productivity Council), October

²⁸ Wint A G (2003) Competitiveness in Small Developing Economies: Insights from the Caribbean (UWI Press, Kingston, Jamaica).

²⁹ Mishra P (2005): “Emigration and Brain Drain: Evidence from the Caribbean”, IMF Working Paper WP/05/xx, January.

The benefits include:

- (a) The inflow of remittances or other transfers from emigrants;
- (b) The possible network effects which can be a source of Foreign Direct Investment (FDI) and export marketing; and
- (c) The enhancement of human capital.

The Caribbean has been an important source of migrant workers to more developed countries. It is estimated that between 1970 and 2003, 745,289 persons emigrated from Jamaica to the United States, the United Kingdom and Canada, that is an average annual flow of 21,920 persons (PIOJ³⁰). The annual outflow however declined over the 1980 to 2003 period.

While emigrants from the Caribbean may constitute a small percent of the work force of the destination countries, they represent a significant proportion of the domestic labour market. Using population census data for 1990 and 2000, Docquier and Marfong³¹ have estimated that about 12% of the Caribbean labour force has migrated to Organization for Economic Cooperation and Development (OECD) countries. Given the relatively small labour market, with heterogeneous skills, such a migration rate can have a serious impact on the labour markets in the region. Analysis of migration by education levels indicate that those persons with tertiary level education constitute the highest migration to OECD countries. The high rates of migration for tertiary level educated persons (ranging from 36% in the Bahamas and Saint Lucia to 90% in Suriname) represents a significant 'brain drain' problem in the region (see Mishra, 2005).

Guyana, Jamaica, Suriname and Trinidad and Tobago have been the main countries affected by the high rates of migration of skilled labour to the OECD countries. Data for Jamaica indicates that the main groups which migrated to North America during the 2000-2003 period include professional/technical/administrative/managerial (30.8% of all emigrant workers) and some workers including private household workers (47.6%) (PIOJ, op.cit.) .

The Caribbean region has however received an income flow from the emigrants in the form of remittances and other transfers. These income flows represent non-wage income which can affect the supply of labour. Econometric research on the participation decision and unemployment for selected countries suggests that remittances to a household can lead to the decision not to participate in the labour market and to persons remaining unemployed (Downes, 2004).

In recent years, Caribbean teachers and nurses have sought to benefit from the shortage of such workers in more developed countries. This has resulted in a short-fall in these workers (especially nurses) in the region. Some countries have sought to recruit nurses from outside the region (Asia and Africa) to meet the short-fall.

³⁰ PIOJ (2005): *The Labour Market Information Newsletter of Jamaica* (Kingston, Planning Institute of Jamaica), March.

³¹ Docquier F and Marfong A (2004): "Measuring the International Mobility of Skilled Workers (1990-2000) – Release 1.0", WPS 3381, World Bank, August.

Intraregional migration especially from Guyana has been a prominent feature in recent years. Workers from Guyana have moved, as temporary workers in the construction and agricultural sectors, to other Caribbean countries. These workers have been largely semi-skilled and do not fall within the categories of workers who are allowed to 'move freely' within the CARICOM region. This free movement of labour is currently limited to university graduates, media workers, cultural workers and workers associated with the rights of establishment of businesses in other CARICOM countries. The region, however, still depends on non-CARICOM countries for workers in the professional, technical and managerial areas.

2. Labour market policies

The main challenges facing the Caribbean labour markets have been targets of government policies and programmes for several decades. More data have been collected and research undertaken to fine tune policy measures aimed at overcoming these challenges. The changes in the national, regional and international economies with respect to the implementation of structural adjustment programmes, the forging of greater regional integration, the liberalisation of international trade, the erosions of preferences and the various facets of the globalisation process have exacerbated the challenges facing the Caribbean region. Although policy measures and programs would be needed to address the problems facing the labour markets directly, action would also be needed in other markets and in the general environment within which business activity takes place (for example, the commodity and money market, and the institutions of economic governance).

The main objective of labour market policy reform in the region is to create a dynamic labour market which can foster productivity and promote flexibility while providing effective social safety nets and increasing real incomes. Since labour is an integral input into the production process, then for small developing countries like those in the Caribbean, the development of the human resources of the countries becomes a vital element in enhancing overall productivity and international competitiveness. Improving the quality of the human resources of the region would require investment in education, training, health and nutrition. Changes in the nature of the demand for goods and services in the domestic and export markets would require changes in the quantity and quality of the human resources which make labour market flexibility an important policy objective. Since it takes time to educate and train persons, then human resource planning is a critical exercise in various enterprises.

For a significant majority of the persons in the Caribbean, the labour market provides the only source of income, that is, labour/wage income is a significant percentage of total income. The inability to sell labour services creates a problem of poverty and deprivation unless social safety nets exist. The labour market therefore becomes an important source of funds for these safety nets (for example, unemployment insurance, severance/redundancy pay, national insurance payments, remittances from workers abroad, income from other family members). As the empirical evidence suggests, increased earnings are associated with increased productivity, better education and training and greater competitiveness.

Labour market policies to address the four main challenges identified in this study require measures on the demand and supply sides of the market and also in the areas of remuneration

and labour market institutions. These policy measures should be developed in an integrated and holistic manner since the main challenges facing the region are interrelated. As indicated earlier, Caribbean governments and other labour market stakeholders have been implementing labour market policies to address various challenges over the years. Since these challenges still remain, it means that they have been difficult to surmount, the policies have been implemented in a piecemeal manner, the measures have been too costly, the nature of the challenges has changes or the measures have been inadequate or inappropriate.

The range of policy measures presented in this study has been developed from previous studies of Caribbean labour markets and interviews with key informants of labour market behaviour. They attempt to address the challenges both directly and indirectly since these challenges are seen as interrelated.

The first of the policy measures aimed at meeting the challenges of the labour market in the region is the restructuring and refocusing the system of education and training. A dysfunctional educational system and inadequate training facilities lie at the heart of the youth unemployment, 'mismatch', 'brain drain' and low productivity problems. The issue of educational reform has been prominent in the region over the past decade. For example, Barbados has introduced an educational improvement programme (Edutech), while the OECS has recently completed the early phases of an education reform project. The Jamaican Government has begun to implement the recommendation of a national task force on education.

The restructuring of the educational system – from primary to tertiary – must ensure that graduates have the competencies to operate effectively in the labour market both as employees as well as self-employed. Universal secondary level education should form the basic minimum level requirement for the Caribbean region. Recent research by Lee and Temesgen³² indicates that access to education to at least (or even better than) secondary level is an important determinant for the growth of firms and hence long term employment. Whilst universal secondary level education is a primary goal, a co-primary goal is enhancing the quality of the output of the educational system (better certification, appropriate competencies and psychological skills). Improving the quality of the graduates of the school system, so that they can properly interface with the labour market would require improving the inputs of the educational system (teacher training, stronger parent-teacher associations, supplies and equipment). Graduates must leave the secondary school system with a high degree of literacy (writing, reading, computer and numeracy) in order to meet the demands of a dynamic labour market.

The training system should reinforce knowledge and competencies of the educational system. A much greater interface would be needed with employers who can support apprenticeship programmes, work experience-study programmes and related programmes. Juman Employment and Resource Training/National Training Agency (HEART/NTA) in Jamaica, the Technical and Vocational Education and Training (TVET) Council in Barbados and the College of Science, Technology and Applied Arts of Trinidad and Tobago (COSTAAT) in Trinidad and

³² Lee K and Temesgen T (2005): "Resources, Strategies and Investment Climates as Determinants of Firm Growth in Developing Countries: A Dynamic Resource-based View of the Firm", June.

Tobago are examples which can be emulated. These institutions however need to be strengthened and properly funded in order to cater for the technical and vocational training needs of the region. The certification of the work force in various technical and vocational areas (NVQs) at an international level would be critical to the enhancement of the international competitiveness of Caribbean human resources and goods and services.

The restructuring of the educational system should be accompanied by greater counselling and career guidance for students; more extra- or co-curriculum activities to build the 'soft skills' of inter personal relationship, conflict management, work ethic and time management, mentoring and entrepreneurship. Such measures would allow for better job fitting – output of the education and training system and the needs of the workplace.

A second policy area relates to measures to boost productivity in the workplace. The establishment of well-functioning productivity centres involving the stakeholders in the labour market should be a high priority for the Caribbean. Barbados has a Productivity Council which has been operational since 1993 and Jamaica has recently established a Productivity Centre. Such an institution would develop systems and programmes to promote productivity in the workplace – re-organization or retro-fitting of plant layout, gainsharing schemes, human resource (including management) training, and operations management systems, among other measures. As a tripartite national body, the council would recommend policies to deal with the external barriers to productivity growth – investment incentives, infrastructural problems, bureaucratic systems. The results of the PROMALCO project organized by the ILO (Caribbean Office) would be useful in improving labour-management relations in the workplace (see Imoisili and Henry, 2004). National and sectoral memoranda of understanding (MOUs), as implemented in Barbados and Jamaica, would further the productivity drive once they are well known to workers and managers. One of the problems with such MOUs is that their contents are not well known to workers and managers who have to work with them.

A third policy area is related to the strengthening of the dialogue among the social partners (government, labour unions and employers). Such dialogue would provide the overall macroeconomic framework to achieve the objective of labour market policy reform. Several attempts have been made to establish well-functioning social partnerships. The arrangement in Barbados has been the only one functioning at a satisfactory level. Such arrangements have been beset by distrust which must be overcome in order to enhance the operations of the labour market. Such partnerships must be accompanied by well-functioning agencies such as ministries of labour which need to be staffed by persons with specialist skills. It has been argued that such agencies – government, employer and union – should be more strategic, proactive and global in outlook.

The fourth policy area is related to the revision of labour laws and work practices to reflect the changes in the commodity and labour market. Very few changes have been made in the labour laws over the past decade. Most of the amendments have been undertaken to accommodate administrative requirements. In many cases, labour practices, as determined by the collective bargaining process or internal labour market rules and regulations, have guided the operations of the labour market. With the advent of labour mobility within the context of the CSME, there will be a need to modernize and harmonize labour laws in the region. Changes

should be made to reduce the non-wage labour costs associated with the employment of persons while protecting the rights and social welfare of workers.

The fifth labour market policy area relates to the development of measures to stem or take advantage of the ‘brain drain’. Jamaica has proposed the establishment of a Diasporic Institute to examine ways in which persons in the Diaspora can assist with the development of Jamaica. In the same way that some Caribbean governments have established special arrangements to help with the return of migrants to the region, similar arrangements should be developed to take advantage of the human capital services outside of the region. Some of the policy issues would involve maximising the benefits of remittances to the country; training persons as part of the export of services (for example, Mode V trade in services), investment and marketing prospects of the Diaspora, joint services provision – in the destination country and the Caribbean and creating externalities and networks in the destination countries.

3. Conclusion

Over the past decade there have been significant changes in the labour markets of the Caribbean. These changes have been accompanied by major challenges relating to youth unemployment, the mismatch between skills and jobs, low levels of labour productivity and the ‘brain drain’ to more developed countries. Several measures have been implemented to address these issues over the years. In order to promote a dynamic labour market capable of meeting the needs of workers and employers, there is a need to restructure and refocus the education and training system, establish productivity agencies, promote social partnerships, strengthen labour market institutions, revise labour laws, develop strategic plans which link production to human resource needs, establish or strengthen labour market information systems and harness the benefits of the emigration of Caribbean workers in the Diaspora.

III. COUNTRY BRIEFS

Aruba

1. Main trends

The economy of Aruba grew by 3.5% in 2004 and expectations for 2005 are only slightly below that figure. The upward trend was thus consolidated, following the 2001-2002 recession and the modest rebound in 2003 (1.4%). Tourism is the main engine of growth and benefited from increased flight options, in particular with North-East USA and Canada, to post a record 728.155 visitors in 2004. The country received overwhelming media attention because of the disappearance in May 2005 of an American tourist, Nathalee Holloway. The apparently tragic incident could have potentially damaging consequences for the industry. Government, the judicial system and society at large are making extraordinary efforts to resolve the case and preserve the country's image as an ideal tourist destination.

The International Monetary Fund (IMF) concluded in 2005 the biannual Article IV consultations with the government and, while commending the country for its impressive 20-year growth record, its strong public institutions and prudent macroeconomic policies, also raised concerns about trends in public finances. The Fund recommended wide-ranging expenditure reforms, identifying health care, civil service and pensions as areas of special attention.

The Central Bank of Aruba, in its 2004 Annual Report, also acknowledges that the spending pattern of the government has led to structural weaknesses in public finances. Fiscal deficits have been financed by borrowing on domestic and foreign capital markets and total outstanding debt increased to 45% of GDP in 2004. The Central Bank tightened monetary policy by limiting growth of commercial bank lending to 6% and by introducing a penalty fee on excess lending. The coherence of this fiscal and monetary policy mix is open to questioning. In reaction to the IMF recommendations, the Central Bank proposed the adoption of a Fiscal Responsibility Law and the government requested technical assistance from the IMF for the design and implementation of such a law. The matter of economic policy reforms will have to be addressed by the new government after the parliamentary elections at the end of 2005.

2. Economic policies

2.1 *Fiscal policy*

Whereas in 2003 the government had managed to have a fiscal surplus, for the first time since acquiring Status Aparte within the Kingdom of the Netherlands in 1986, in 2004 public finances deteriorated sharply and a deficit of almost 10% of GDP was reached. Revenues dropped by almost 6 percentage points to 21.4% of GDP while expenditures increased by 5.5 percentage points to 29.9% of GDP.

To a large extent, these numbers reflect the fiscal impact of a number of measures to resolve pending issues and arrears, which casts a different light both on the fiscal surplus of 2003 and the deficit of 2004.

An extraordinary expenditure item, totalling Aruban Florins (AFL) 199 million or 5% of GDP, concerns imputed expenditures related to the privatization, in December 2004, of the civil servants pension fund, APFA, and the conversion of debts and arrears that the government had with the fund.

Aside from the resolution of arrears with the pension fund, government spending in 2004 increased by 8%, reflecting increases in wages and wage subsidies, purchases of goods and services, investments and interest payments.

Whereas expenditures increased, revenues decreased. Again, this happened mainly because of an extraordinary event, namely the debt forgiveness by the Italian credit insurer SACE, which was reported in the 2003 budget as an imputed revenue of Aruban Florins 172 million. Excluding this occurrence, revenues in fact increased by 2%.

Government debt was financed by an Afl 120 million bond issue, in April 2004, on the international capital market, and by two bond issues on the domestic capital market of Sfl 58 and 25 million, respectively. Total public debt increased to 45% of GDP.

2.2 Monetary and exchange rate policies

While the exchange rate remains pegged to the United States dollar, concerns about the current account deficit and the competitiveness of the Aruban tourist industry has led the Central Bank to adopt a monetary policy aimed at restraining the strong domestic demand, due to the high level of both private and public consumptive spending, in order to prevent inflationary pressures. The chosen instrument was a penalty fee of 6% to be levied on commercial banks that increased lending by more than 6%. In consequence, commercial bank lending grew by 6.1%, down from 10% a year earlier. The Central Bank will evaluate the policy instrument and consider the adoption of market-based instruments to curtail excess demand. The monetary cash reserve requirement, presently at 8%, may also be changed.

2.3 Other policies

Aruba, as a self-governing country within the Kingdom of the Netherlands, maintains a special relation with the Government of the Netherlands. In 2000, both countries agreed to gradually dismantle the financial contribution of the Netherlands to the development of Aruba. Between 2000 and 2009 Aruba will receive 222 million Euro from the Netherlands, channelled through the Aruban Development Fund (Fondo Desarroyo Aruba), to which the Aruban Government will contribute a similar amount of money. A multi-year programme was agreed covering the period 2001-2005, focusing on five areas: sustainable economic development, chiefly aimed at improving the natural environment; education; healthcare; good governance; and the administration of justice. Early 2005, an evaluation will take place of FDA activities and a new multi-year programme will be negotiated covering 2006-2009.

3. Evolution of main variables

3.1 Economic activity

In 2004, real GDP growth reached 3.6%, boosted by strong private investment mainly in the tourism sector and related activities. The partial economic activity index, which is used as a proxy to the GDP by sectors of economic activity, shows increases of 10.2% in the activity of hotels and restaurants and 9.1% in transport, storage and communication.

Stay-over visitors increased from 642,000 in 2003 to 728,000 in 2004 and the number of visitor nights grew by 10%. The United States-based visitors account for the lion's share of Aruban tourism but also Venezuela-based visitors showed a significant increase because of the economic recovery in that country.

The only sector that showed a negative growth in 2004 was the construction sector, due to the finalization, by the end of 2003, of several large construction activities in new hotel facilities.

In March, 2004, the oil refinery, symbol of modernization and growth in Aruba during most of the twentieth century, was acquired by the United States-based Valero Energy Corporation. Under new ownership, the refinery is expected to improve its environmental performance. Production volume increased 2% in 2004 whereas export revenues surged by 65% on account of the price hike of oil on world markets.

3.2 Prices, wages and employment

Consumer prices increased 2.5% in 2004, mainly due to increases in the prices of food products, clothing and footwear. Prices increased less than in the previous year, because the water and electricity companies did not completely adjust their prices following the increase of oil prices.

Minimum wages were increased 3% at the start of 2004, from US\$670 to US\$690 per month, and a wage freeze was in effect during the year. The Government granted 13 days of additional annual leave to obtain the union's agreement for the freeze. This spurred the need for additional hiring. The unemployment rate came down from 7.9% in 2003 to 7.3% in 2004.

3.3 Evolution of the external sector

The overall result of the balance of payments shows a surplus of US\$7 million, allowing a slight increase in net international reserves. This result was however influenced primarily by the bond issue on foreign capital markets.

The current account of the balance of payments registered in 2004, a surplus of US\$10 million. Exports of services, 58% of GDP and primarily travel-related, were at the basis of this result. The net balance of the services sector, US\$444 million, compensated the negative outcome of merchandise goods, income and transfers balances. Also contributing to the small

surplus of the current account was the performance of the oil sector stimulated by the oil price hike, allowing the deficit on the balance of merchandise goods to decrease from –US\$337 million in 2003 to –US\$271 million in 2004.

The deficit on the income account increased to US\$58 million, due to higher payments to non residents. The balance of current transfers, negative at US\$104 million, was influenced by a rise in insurance premium payments.

The capital account surplus was reduced from US\$100 million in 2003 to US\$18 million in 2004, reflecting the capital transfer related to the debt forgiveness of the Italian credit insurer SACE registered in 2003.

The financial account registered a deficit of 24 million US dollars, reflecting diverging trends in foreign account balances of the oil sector and residents. Whereas the oil company increased its foreign deposits, residents decreased their foreign account balances.

Table 15
ARUBA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004
Real GDP annual growth rate	-0.7	-2.6	1.6	3.6
Gross Domestic Product (US\$ million)	1,899	1,911	2,011	
Gross domestic product per capita (US\$)	20,667	20,482	21,147	
Partial Economic Activity Index (PEAI) (index 1998=100)				
Partial Economic Activity Index	100.0	97.7	101.7	105.3
Agriculture and manufacturing (including oil refining)	...	...	...	...
Utilities	112.3	113.3	115.2	115.8
Construction	83.2	69.6	84.1	78.8
Wholesale and retail trade	81.4	78.2	83.2	86.0
Restaurants and hotels	107.5	101.5	105.7	116.5
Transport, storage and communication	107.7	107.3	106.2	115.9
Financial intermediation	...	...	...	...
Real estate, renting and business activities	110.5	113.6	116.5	119.5
Public administration and education	106.3	108.0	108.6	110.6
Other business and non-business services	...	...	...	...
Balance of payments (US\$ million)				
Merchandise balance	55	-530	-337	-271
Exports fob	2,424	1,488	2,050	2,715
Imports fob	2,369	2,018	2,387	2,986
Services balance	378	389	317	444
Current account balance	327	-333	-145	10
Overall balance	73	22	-34	7
Public debt (% of GDP)				
Total debt	43.1	47.1	41.6	45.0
External	22.2	26.1	20.2	22.1
Domestic	20.9	21.0	21.4	22.9
Prices and interest rates				
Rate of change in the consumer price index (period average)	2.9	3.3	3.6	2.5
Weighted deposit real interest rate	5.8	5.5	5.3	4.4
Weighted lending real interest rate	12.1	12.8	11.4	11.4
Nominal exchange rate (Afl per US\$)	1.79	1.79	1.79	1.79
Population and employment				
Population (persons)	91,870.0	93,311	95,076	97,518
Unemployment rate (in percent)		8.1	7.9	7.3
Public finances (% of GDP)				
Revenue and grants c/	21.5	21.9	27.1	21.4
Expenditure	21.1	24.2	24.3	29.9
Lending minus repayments	0.9	-0.1	-2.0	1.3
Financial deficit d/	-0.5	-2.1	4.8	-9.9
Payment arrears	7.9	8.1	8.4	0
Monetary aggregates (% of GDP)				
Net foreign assets	24.5	5.9	-8.8	1.8
Net domestic assets	-2.3	13.1	18.1	3.8
Domestic credit	2.1	10.3	12.8	6.2
Money and quasi-money	5.9	10.5	8.9	3.2
Money	17.6	20.5	10.5	3.0
Quasi-money	-0.2	4.3	7.7	3.4

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

The Bahamas

1. Main trends

In 2004, economic growth (2.8%) was higher than in the previous year (1.9%), despite the effects of hurricanes Jeanne and Frances, which hit the country in September and caused total damage estimated at 7% of GDP.

Tourism, transport, telecommunications and, to a lesser extent, fishing are among the sectors most affected. Nevertheless, tourism made a rapid recovery, recording an unprecedented number of visitors in 2004. Construction, driven in part by the reconstruction and rehabilitation operations, also made a significant contribution to economic growth.

The improvement in the economy, which brought the unemployment rate down from 10.8% in 2003 to 7% in 2004, also had a positive impact on tax collection. This factor, together with rigorous control of public spending, reduced the fiscal deficit from 2.4% in the fiscal year 2003 to 2.3% in 2004.³³

The monetary policy stance was closely linked to fiscal goals. Accordingly, for most of the year the central bank maintained a restrictive policy based on direct controls of the increase in liquidity, which it cautiously made more flexible at the end of the year. This policy contributed in part to the reduction in the inflation rate.

The balance of payments showed a positive result, thanks to the increase in the capital and financial account surplus which, excluding errors and omissions, was more than sufficient to compensate for the current account deficit. This deficit, in turn, was significantly lower than one year previously (8% and 4% of GDP in 2003 and 2004, respectively).

The consequent accumulation of reserves in the financial system, together with the improved quality of the commercial banking portfolio, encouraged the monetary authorities to change their policy direction in 2005. They proceeded to lower the reference interest rates in order to stimulate economic activity. The government also plans a significant rise in public spending for the fiscal year 2005.

2. Economic policy

2.1. Fiscal policy

The central government fiscal deficit diminished as a result of the expansion of current income (equivalent to 16.9% and 18.1% of GDP in the fiscal years 2003 and 2004, respectively) while public spending increased from 19.6% and 20.6% in 2004. This occurred despite the negative impact of hurricanes Jeanne and Frances on tax collection and on public spending in connection with reconstruction activities.

³³ The fiscal year 2004 is from 1 June 2004 to 31 May 2005.

The rise in tax collection (9.8%), especially of taxes on commerce and international transactions, which account for 55% of the total, made a significant contribution to the increase in public income. The efforts to improve stamp tax collection, which was 55% higher than in the previous fiscal year, also contributed to this result.

As for disbursements, current expenditure rose by 18.1% and 18.6% of GDP in fiscal years 2003 and 2004, respectively, while capital spending increased from 1.5% to 2% of GDP in the same periods.

The fiscal deficit was financed mainly through loans in local currency. The government's obligations in Bahamas dollars, amounting to 86% of total debt, expanded by 10% at the end of 2004. State enterprises are the main holders of public debt (40%), followed by private and institutional investors (28%), local commercial banks (24%) and the central bank (8%). Meanwhile, the government made payments of external debt principal, which reduced the stock from US\$603 million in 2003 to US\$559 million in 2004, or from 11% to 9% of GDP.

The authorities estimate that the fiscal deficit in fiscal year 2005 will be equivalent to 2.8% of GDP. An increase in current spending of 5.5% is predicted, in particular for payroll and social programme expenditure for public employees. The wage policy is intended as a response to the demands that emerged from labour negotiations between the government and the trade unions.

Capital spending grew from 2% of GDP in the fiscal year 2004 to 2.7% in 2005. The capital spending planned includes 33% for the ministry of public works and services, and 10% for the ministry of education, in order to improve public education facilities.

2.2. Monetary and exchange-rate policies

During the first eight months of the year the authorities maintained the restrictive monetary policy stance that they had adopted in 2001, based on quantitative limits on credit allocation by the commercial banking system.

The increase in the inflow of foreign currency expanded international reserves and banking liquidity, as well as improved the quality of the commercial banking portfolio. Accordingly, the central bank moderated its monetary stance. Bank liquidity, measured by the level of its voluntary reserves, grew by 47% in 2004.

The improvement in the quality of the portfolio brought a decline in the level of overdue credit, which was 5.4% of the total in 2003 and 4.9% in 2004. The share of doubtful loans in bank balances also diminished. Arrears in payments as a proportion of guaranteed private loans went down from 10.4% to 9.4% from 2003 to 2004.

In September the authorities made their credit policy more flexible. That is, they allowed the banks to begin loan operations again, but with two conditions. Firstly, the increase in their loan portfolio, in the case of personal loans, should not exceed the equivalent of 15% of net

assets, and secondly, that they should not grant loans if the debt servicing would exceed the range of from 40% to 45% of the borrower's monthly income.

In accordance with this change of direction in monetary policy, interest rates were lowered. The weighted average interest rate on loans went down from 12% in 2003 to 11.2% in 2004 and the weighted average interest rate on deposits diminished by 0.1 percentage points to 3.8%. The banks took advantage of the enhanced portfolio to purchase government securities, for which the interest rate was lowered from 1.6% in 2003 to 0.3% in 2004, and public debt servicing in local currency was diminished.

Although the credit supply expanded more slowly after the passage of hurricanes Jeanne and Frances in the month of September, the increase was higher in 2004 than in the previous year (5% compared to the previous level of 1%). Credit to the private sector rose by 6% (compared to 0.6% in 2003), with significant growth in personal loans, real estate mortgages and consumer loans (10.2%, 14.6% and 6.2%, respectively).

At the end of 2004, there was an unprecedented 38% expansion of international reserves compared to the previous year, which resulted in a coverage rate of non-oil imports of 21.7 weeks, compared to 16.6 in 2003.

These monetary trends became stronger in 2005. Credit to the private sector grew even more rapidly, especially for commercial establishments. In addition, the continued upward trend for liquidity in the economy (with reserves at US\$800 million) and in commercial banking allowed a more flexible monetary policy. The sale of public assets, such as State properties at Cable Beach, contributed to creating this situation of high liquidity.

At the beginning of 2005 the discount rate for open-market operations went from 5.5% to 5.25%. The commercial banks lowered their preferential loan rate from 6% to 5.5%. This reduction will boost the activity of enterprises that finance their operations with such loans, including mortgage and commercial establishments.

3. The main variables

3.1. Economic activity

Economic activity improved in relation to the previous year and was based on growth in tourism, construction and financial services. The country is expected to maintain its growth path in 2005 with a rate of 3.5%.

The total number of visitors in 2004 was 8.9% higher than in 2003, at five million, an unprecedented figure, despite the damage caused by the hurricanes. Of the total, 71% were cruise passengers. The sector benefited from the 1.5% hike in average hotel tariffs, which, together with the higher rate of hotel occupation, brought a rise in the sector's average income, from 32% of GDP in 2003 to 33% in 2004.

In the first half of 2005, arrivals declined by 5.3% in relation to the same period for the previous year. In fact, during the first quarter on Nassau/Paradise Island, arrivals grew by 5%, while in Grand Bahama and Out Islands they were 27% and 5% lower, respectively. In the case of Grand Bahama, this was the result of the hurricane damage, and the authorities viewed the situation as temporary. They expected a positive development over the rest of the year, to be driven, in part, by the foreign direct investment flows and the increase in air transport capacity.

The construction sector performed well owing to the inflow of foreign direct investment, the greater liquidity of the economy, the interest rate reduction and the reconstruction operations undertaken by the authorities after the hurricanes. The growth in this sector brought a 29% rise in the number of mortgages (99% of which are for residential construction projects) and a 42% increase in their value.

Agriculture and fishing contracted, basically because of the damage caused by the hurricanes, although they were less affected than other areas of the economy. Fishing suffered a setback in terms of both volume and price (-5.5% and -10.2%, respectively). Lobster tails, which account for 72% of fishing production, diminished by 10%.

3.2. Prices, wages and employment

The inflation rate, measured by the average retail price index, was lower than in the previous year, reaching 0.9% compared to 2.4% in 2003. It increased 1.5% over the first half of 2005.

The development in 2004 was mainly due to the contractions in the most important price index component, housing (33% of the total), and to a lesser degree to the lower prices in the sectors of recreation, entertainment and other services, and other goods and services.

In contrast, the components of health and medical services, foodstuffs and beverages, and transport and communications, which together account for 33% of the total price index, showed growth of 7%, 3% and 2%, respectively.

The growth in the economy brought the unemployment rate down from 10.8% in 2003 to 7% in 2004, absorbing the 1.5% increase in the work force.

3.3. The external sector

The balance of payments showed a positive result of 3.2% of GDP (compared to 2% in 2003). The capital and financial account surplus (4.1% and 5.4% of GDP in 2003 and 2004, respectively) was more than sufficient to finance the current account deficit, which was reduced to half the level of the previous year.

The current account result is explained by the services account surplus of 16.1% of GDP in 2003 and 17.8% in 2004. This in turn was the result of growth in the tourism sector.

The commercial deficit continues at a level of almost one quarter of GDP, owing to the increase in imports and the low growth in the export sector. This was partly because of the negative effects of the hurricanes on exports from the fishing sector. Imports responded to the higher oil bill resulting from the rise in international fuel prices (29% in relation to the previous year).

Meanwhile, the income balance deficit increase from US\$54 million in 2003 to US\$ 134.6 million in 2004, thanks to the significant increase in profit repatriation flows. Current transfers expanded as a result of the increase in official assistance and in remittances from workers resident abroad.

The positive balance of the capital and financial account is due to foreign direct investment flows to the tourism sector, which amounted to 3% of GDP in 2003 and 4.8% in 2004. The increases in share capital investments, private debt and real estate sales also contributed to this result.

Table 16
THE BAHAMAS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004
Gross domestic product (1991 prices)	5.0	-2.0	2.3	1.9	2.8
Gross domestic product per capita	16 205	15 997	16 218	16 691	
Real sector indicators					
Tourist arrivals	15.2	-0.5	5.2	4.3	8.9
Value of construction starts	19.0	-8.0	55.0	-6.9	...
Value of construction completions	-34.2	8.0	-5.9	-12.7	...
Electricity generation (mwh)	6.9	3.9	5.6	5.4	-8.0
Balance of payments					
Current account balance	-736	-645	-421	-448	-229
Merchandise balance	-1,621	-1,387	-1,327	-1,331	-1,339
Exports fob	361	417	422	427	471
Imports fob	-1,981	-1,804	-1,749	-1,757	-1,810
Services balance	893	819	965	888	868
Income account	-86	-186	-102	-54	-9
Unilateral transfers	78	110	42	49	251
Financial and capital balance c/	564	630	457	559	398
Net foreign direct investment	250	101	153	165	274
Financial capital d/	314	529	304	393	124
Global balance	-61	-30	61	111	184
Variation in reserve assets e/	61	30	-61	-111	-184
Other indicators of the external sector					
External debt (millions of US dollars)	368	328	310	363	342.6
External debt (% of GDP)	7	7	6	7	6
Prices					
Rate of change in the consumer price index (end of period)	1.6	2.0	2.2	2.4	0.9
Weighted deposit real interest rate	2.2	2.2	2.1	1.0	3.7
Weighted lending real interest rate	9.9	9.3	9.1	8.1	6.8
Central government					
				a/	g/
Current revenues	957	857	902	929	1040
Current expenditures	848	897	963	994	1067
Capital account	85	104	84	81	117
Global result f/	-16	-95	-147	-131	-133
Overall balance with grants	...	...	...	...	...
Overall balance without grants and net lending	0.4	-0.7	-2.6		
Money and credit					
Internal net credit	135	152	161	162	
To the public sector	21	25	28	29	
To the private sector	114	127	133	133	
Liquidity (M3)	71	72	71	73	77
Money supply and deposits in national currency (M2)	69	71	69	71	75
Foreign currency deposits	2	2	2	2	2

Barbados

1. Main trends

In 2004, economic growth picked up speed to reach the highest growth rate in real terms since 1998 (4.6% compared with 3.7% in 2003). GDP rose as a result of dynamic expansion of tourism, construction and commerce. Despite the high economic growth rate, stable macroeconomic conditions managed to bring down inflation from 1.6% in 2003 to 1.4% in 2004.

Lower expenditure narrowed the fiscal deficit from 2.8% of GDP to 2.2%, in accordance with the sustainability target set by the government. Monetary policy was altered to reduce the fluctuations in net international reserves of the banking system, thereby protecting the fixed exchange rate and facilitating lending for private-sector production activities. The overall balance-of-payments outcome showed a 3.0% deficit in 2004. The financial and capital accounts failed to offset the increase in imports (18%) that weakened the current account position.

Economic activity is expected to grow by 3.2% in 2005. The predicted growth would be based on commerce, non-sugar agriculture and fishing and tourism. Inflation is expected to be between 1.5% and 2% as a result of higher food prices.

The fiscal deficit should stand at 2.7% of GDP on account of lower tax receipts. As far as the balance of payments is concerned, the overall deficit is expected to narrow to approximately 1% of GDP thanks to a smaller current account deficit and a larger surplus in the financial account.

2. Economic policy

2.1 *Fiscal policy*

The aim of fiscal policy in 2004 was to reduce the budget deficit with a view to achieving stable growth following the counter-cyclical fiscal expansion that had been needed to stimulate the economy in previous years. The economic recovery strengthened public finances in 2004, and the fiscal deficit shrank from 2.8% of GDP in 2003 to 2.2% in 2004, which even surpassed the budget target of 2.9%. The government estimates that a deficit of 2.5% of GDP is sustainable in the medium- and long-term, and the fiscal position seems a great deal more manageable than was previously the case.

The decline in fiscal revenues from 34.4% of GDP in 2003 to 33.7% in 2004 was attributable to the application of tax measures. These included a 4% drop in receipts from direct taxes resulting from the lower tax rate on the first Barbados dollar (B\$) 24,200 of taxable personal income and a 1.5% reduction of the corporate tax rate. Non-tax revenues and donations were up by 1.9% in 2004, which was almost identical to the rate of increase in 2003.

Expenditure dipped slightly from 37% of GDP in 2003 to 36% in 2004, owing to the reduction in capital expenditure from 5% of GDP in 2003 to 3.8% in 2004. This reflected the completion of several large-scale projects.

The aggregate for current expenditure and its headings remained at the same level as the previous year (32% of GDP for wages, 11% for goods and services and 4% for interest). Transfers rose because the operational costs of the Queen Elizabeth Hospital, which is no longer administered directly by the central government, were now included in this category.

The fiscal deficit was financed mainly using national resources, which offset currency movements and exchange risks in terms of international interest rates. Commercial banks contributed B\$143 million, while B\$111.1 million were provided by the national insurance system. Principal payments amounted to B\$81.8 million.

Public finances struggled during the first four months of 2005, with a deficit of around B\$10 million. This was in sharp contrast with the B\$14 million dollar surplus posted for the same period in 2004. Revenues climbed by 2.7%, owing to a considerable upswing in income from corporate tax due to higher company profits. Expenditure rose in even higher proportions (7.5%), however, as a result of payments to the Barbados Tourism Authority, Transport Board and the University of the West Indies.

According to projections, the overall fiscal deficit is set to swell to 2.7% of GDP in 2005. In particular, capital expenditure is predicted to rise as a result of projects including renovation work to prepare the Kensington Oval stadium for the 2007 Cricket World Cup. The country will continue its gradual economic liberalization with the implementation of the CSME, which will mean lower tax receipts and increased competition in manufacturing and agriculture.

2.2. Monetary and exchange-rate policy

In 2004, monetary policy was aimed at stemming the loss of international reserves and reducing the pressure on the balance of payments in order to support the fixed exchange-rate system with the dollar and improve financial intermediation for production activities. To achieve these aims, the authorities adjusted the minimum interest rate on deposits to encourage commercial banks to adjust their lending rates.

In keeping with the growing trend towards monetization of the economy, broad liquidity expanded by 7.4% to 4.482 billion Barbados dollars (almost 80% of GDP). Savings deposits shot up by 15.2%, while time deposits edged up by a more moderate 4.5%; both increases were in response to a rise in family income.

Credit recovered partly thanks to buoyant economic activity, but was mainly boosted by public sector demand. Credit to the public sector increased by almost 19% to 521 million Barbados dollars (16% of GDP), while credit to the private sector slipped down to just under 47% of GDP. This lackluster growth (1.6% between 2001 and 2003) is a cause for concern, particularly in terms of the relatively low level of loans to the tourism and agriculture sectors.

The banking system in Barbados has been characterized by the availability of liquidity. This is said to reflect the limited number of projects generating demand for the funds available and the likely risk-aversion of the system in general. Judging by the liquid reserves of

commercial banks held by the Central Bank, however, liquidity in the banking system appears to have decreased in 2004. Liquid assets dropped 5.8 percentage points to 14.3%.³⁴

There was also a notable slowing in the growth rate of net international reserves of the banking system, which was 2.8% compared with the lofty 21.9% recorded in 2003.

The growth of broad liquidity is expected to pick up speed in 2005, given that lower personal and corporate income tax rates will lead to an increase in deposits. Recent high demand for mortgage loans should bring about a decisive upturn in credit, which would in turn help to reduce liquidity in the banking system. In addition, international and domestic interest rates are both expected to climb.

3. The main variables

3.1. Economic activity

By 2003, the tourism sector had recovered from the slump in 2001. During 2004, the sector gained strength and was boosted by global economic expansion to post growth of 4.6%.

The expansion was driven by tradable and non-tradable goods and services. Tourism climbed healthily for the second year in a row, with a 9.4% increase in value added (compared with 7% in 2003). Tourist activity benefited from an increase of almost 4% in long-stay arrivals thanks to the expansion of flight seating capacity. There was an increase in the number of visitors from the main tourist markets, and the hurricane which hit Grenada also resulted in a higher number of tourists visiting Barbados. In other tradable goods sectors, manufactures grew by 1.4% following the slight contraction recorded in 2003. The decline in food production was offset by encouraging increases in output within the electronics, chemical and mineral sectors.

The increasingly important sector of financial and international business services expanded during 2004. Between January and November, 327 new licences were issued to offshore enterprises providing services to international companies.

Agriculture is still prey to competitiveness problems as productivity slumped in relation to foreign competitors. This is combined with limited research, technological development and innovation, and the failure to attract a sufficient number of young and inventive farmers. As a result of the ongoing reduction of the areas under sugar-cane cultivation, sugar production fell by 5.1% during 2004, in what was the fourth consecutive year of decline. The added value of non-sugar agriculture and fishing was down 4.3%, owing to the dip in milk and fish production.

The non-tradable sector reported buoyant activity and posted growth of 4.5%. Most services performed well, including transport, storage, communications, government services and construction. The 3.5% expansion in construction was attributable to new residential buildings, business premises, a major hotel and public projects such as remodelling works at Grantley Adams airport. As a result of considerable import demand, trade value added trended upwards by 5%.

³⁴ The liquidities to assets ratio is the amount of cash plus treasury notes held by commercial banks, divided by their total assets.

3.2. *Prices, wages and employment*

Inflation retreated slightly to stand at 1.4% in 2004, compared with 1.6% in 2003. Increases in the cost of food, medical services and personal care were offset by reductions in the cost of living, domestic service and domestic items. Imported inflation remained low thanks to government subsidies that mitigated the effects of the rise in international oil prices.

The momentum of growth had a positive effect on employment. Average unemployment dropped 1.4 percentage points to 9.8% at the end of September 2004 (compared with 11% in 2003). Unemployment fell faster among women (2.2%) than among men (0.7%). Most new jobs were generated in general services, construction, finance and business services.

In 2005, inflation is predicted to be 3.2% as a result of higher food prices, and sustained growth is expected to maintain the level of unemployment below 10%.

3.3. *The external sector*

The balance of payments deteriorated dramatically in 2004. The overall outcome changed from a surplus of 3.5% of GDP in 2003 to a deficit of 3.0% of GDP in 2004. Capital inflows failed to offset the rise in imports (18%), and the current account deficit widened by an unprecedented 292 million Barbadian dollars to stand at 5.2% of GDP. Expenditure on imports of capital goods shot up by over 26%, while imports of consumer goods and fuel posted more moderate, but nonetheless considerable, increases. Exports climbed by a significant 11%, but this only partly offset the hike in imports. Sugar exports rose by over 9%, due to the positive effects of the appreciation of the euro against the United States dollar. Exports of electronic components recorded an increase for the first time since 1999.

Services grew as a result of higher tourist spending amidst record arrival figures, although growth was still less than in 2003. It is hoped that the competitiveness strategy adopted by the government in association with the private sector will continue to bear fruit in this area.

The capital and financial account surplus shrank considerably to stand at US\$113.9 million in 2004, compared with US\$301 million in 2003 (6% of GDP and 2%, respectively). This result is linked to the lower level of investment being received due to the completion of private projects, the lack of income from privatizations carried out in 2003, and an increase in national banking institutions investing outside the country. The latter is the result of the Second-Tier Reserve programme, under which certain banks are allowed to invest some of their reserves overseas with the approval of the Central Bank, on the condition that such funds will be repatriated upon request.

As a result of the worsening balance-of-payments situation, net international reserves went from a US\$68.5 million increase in 2003 to a reduction of about US\$155.8 million, in what was the biggest reduction since 1975.

In 2005, the balance of payments is expected to improve, with an overall budgeted deficit of US\$73.1 million (0.8% of GDP). The current account is also expected to recover to post a

6.5% reduction of the deficit, which would then stand at 4.5% of GDP. These improvements would be due to the continued growth of tourist spending and the consequent gains in the services account. At the same time, the financial account surplus is projected to swell with the return of private investment flows.

Table 17
BARBADOS MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003a/	2004a/
Gross domestic product, annual growth	2.6	-3.4	-0.5	3.7	4.6
Gross domestic product per capita, annual growth	3.4	-3.2	-0.8	0.5	
Gross domestic product by economic activity					
Sugar	9.6	-14.7	-9.8	-19.2	-5.1
Non-sugar agriculture and fisheries	0.0	-5.8	-0.6	2.1	-4.3
Manufacture	-0.5	-8.2	0.3	-0.8	1.4
Construction	2.6	-4.4	3.1	3.0	3.5
Basic services c/	1.4	2.7	-0.7	1.0	4.1
Other services d/	4.5	-2.2	-0.4	1.5	5.8
Balance of payments					
Current account balance	-290	-111	-167	-169	-292
Merchandise balance	-744	-681	-714	-816	-980
Exports fob	286	271	241	250	277.8
Imports fob	-1,030	-952	-955	-1,066	1257.8
Services balance	603	570	538	632	672
Income account	-82	-93	-102	-107	-107
Unilateral transfers	78	94	86	93	96
Financial and capital balance e/	191	286	177	301	113.9
Net foreign direct investment	18	18	17	352	...
Financial capital f/	236	300	130	-203	...
Global balance	178	222	89	188	-170
Variation in reserve assets g/	-179	-223	-89	-187	170.2
Other indicators of the external sector					
External debt (millions of US dollars)	605	539	755	737	792
External debt (% of GDP)	23.7	21.1	30.5	27.4	28.2
Employment					
Participation rate h/	68.6	69.5	68.5	...	
Unemployment rate i/	9.3	9.9	10.3	11.0	9.8
Prices					
Rate of change in the consumer price index (end of period)	2.4	2.8	0.2	1.6	1.4
Real interest rate on deposits	4.8	3.0	2.6	2.5	
Real lending interest rate	11.7	10.8	10.3	10.0	
Non-financial consolidated public sector					
Revenue	1,620	1,731	1,712	1,857	1,896
Expenditure	-1,688	-1,828	2,029	2,009	2,019
Fiscal result	-68	-97	-316	-152	-123
Public debt					
Internal	2,204	2,333	2,605	2,615	
External (US dollars million)	508	450	673	667	643
Global balance	-2.1	-2.9	-6.4	-2.8	-2.2
Money and credit					
Domestic credit	44.0	39.2	44.2	38.8	41.6
To the public sector	12.5	13.4	15.4	17.6	15.7
To the private sector	48.9	49.2	52.5	48.7	46.7
Money supply and deposits in domestic currency (M2)	65.2	69.2	78.7	77.4	79.7

Belize

1. Main trends

The economy of Belize grew more moderately than the previous year, slowing from 9% to 4.2%. Activity was boosted by the significant increase in tourism, the buoyancy of construction and manufacturing, and also by the improvement of productivity in the primary sector, while basic and non-tourist services showed a less satisfactory performance.

The expansion of economic activity and the implementation of tax measures resulted in an increase in tax collection. There was also a policy of restricting capital spending and reducing the central government deficit, in accordance with the fiscal targets set by the authorities.

The budget deficit was financed with external and domestic resources, which expanded the national public debt from 89% of GDP in 2003 to 93% in 2004.

In contrast to fiscal policy, monetary policy was clearly expansive for most of the year. It was based on the expansion of net domestic credit, both public and private, which resulted in an increase in liquidity of the financial system.

The foreign sector posted a negative result of US\$31 million, owing to the decline in the capital and financial account surplus, which was not sufficient to finance the current account deficit. This reduced the economy's international reserves. The capital and financial account result was due to the contraction of foreign direct investment flows.

In 2005 the authorities plan to adopt a restrictive policy, at both the fiscal and monetary levels. This policy, which should bring the fiscal deficit down to 2.8% of GDP, is oriented to curbing growth in demand and avoiding a further deterioration of the country's external position. It will include increases in taxes and the legal reserve requirements for commercial banking. According to the authorities, this should not affect the growth target, which is over 3% on an annual basis.

2. Economic policy

2.1 *Fiscal policy*

In 2004, the central government reduced its fiscal deficit from 6.5% of GDP in 2003 to 4.2%, thanks to the cutback in capital spending and the higher level of tax collection. The significant increase in official grants from the Chinese Province of Taiwan, from 6 million Belize dollars (BZ\$) in 2003 to BZ\$ 35 million in 2004, gave the authorities more room for manoeuvre. The deficit was financed from domestic resources, in particular with credit from the commercial banking system, and external resources. Consequently, the total external debt balance grew from 76% of GDP in 2003 to 79% in 2004.

Capital spending went from 4.5% of GDP in 2003 to 2.8% in 2004 in the case of capital II expenditure, and from 5% to 4.1% over the same period in the case of capital III expenditure.³⁵ The effect of this on the overall fiscal balance was partially offset by the expansive nature of current spending (19.9% and 22.1% of GDP in 2003 and 2004, respectively).

Current spending in turn was affected by interest payments on public debt, which accounted for half of the total. There were also rises in payroll (11.4%), retirement and other pension payments (16.5%) and subsidies (15.8%).

Total income (22.9% and 24.7% of GDP in 2003 and 2004) reflected the effect on current spending of the hikes in the rate of sales tax, public service tariffs and the tax on commercial real estate rentals for corporations. Increases in revenue from income and profits, as well as international transactions, also contributed to the balance. In contrast, non-tax income diminished.

According to data available on the budget year for 2005, central government spending for the year grew more rapidly than income. Nevertheless the authorities predict that the policy of cuts on public spending, especially capital spending, together with the higher level of tax collection, will bring an improvement in the fiscal situation. The performance of tax collection will mainly depend on the economic growth projected.

2.2 Monetary and exchange-rate policies

In 2004, the authorities adopted a monetary policy based on the expansion of the total net domestic credit (from 57% of GDP in 2003 to 64% in 2004) and, in particular, credit from the commercial banking system to the central government, at preferential interest rates. Domestic credit to the private sector remained at levels close to the previous year, and external assets contracted. Credit to the private sector was mainly oriented to the real estate and tourism subsector (56% of the total) and to private services and construction projects for commercial and residential buildings (40%).

The performance of net external assets reflected operations for foreign-currency sales from the central bank to the government for payment of external debt. This was more than sufficient to counter the receipts from loans, exports of traditional products, especially sugar, and the sale of investments by the Social Security Board of Belize. Consequently, the stock of international reserves diminished from US\$85 million to US\$53 million, which resulted in a drop in the coverage rate from 2.1 to 1.3 months of imports from 2003 to 2004.

In order to counteract the effects of the increase in monetary liquidity resulting from the operations of the Social Security Board on prices and exchange-rate stability, the central bank decided at the end of the year to raise the legal reserve requirement from 19% to 20% in the case of liquid assets and from 6% to 7% in the case of cash reserves.

³⁵ In the fiscal accounts, capital spending is subdivided into capital II and capital III. The first of these items is financed from domestic resources and the second from external funds.

In any case, monetary aggregates expanded in 2004 and 2005: by 1% and 13%, respectively in the case of the narrow money supply, and by 4% and 13%, respectively in the case of broad money. Commercial banking showed a rise in liquid assets, which exceeded the statutory requirement (20% in 2003 and 36% in 2004).

The excess liquidity did not bring down interest rates for commercial banks, which were similar to those of the previous year (14% in real terms, for the weighted rate of loans to commercial banks). The information available for the first quarter of 2005 indicates a consolidation of these trends, which will force the authorities to change the direction of monetary policy.

3. The main variables

3.1 Economic activity

Economic activity grew by 4.2%, driven by the rapid growth in tourism (17%), construction (15%) and agriculture (9.6%). In 2005 it is projected that the growth rate will be higher than 3%, thanks to the good performance of the agricultural sector and the continued expansion of tourist services.

Growth in the agricultural sector will depend on a number of factors. These include favourable weather conditions for sugar cultivation, as well as improvements in terms of productivity and distribution processes. In the case of bananas, in addition to enhanced productivity and extended access to financing, there is also expansion of the cultivated area. Citrus production made a good recovery from the effects of Hurricane Iris, which had been felt over the past two years. In 2005, the growth rate of the sector will probably be 10%, thanks to the improvement in productivity and in promotion strategies.

The manufacturing sector recovered from a contraction of 0.4% in 2003 to achieve expansion of 9% (including mining) in 2004 as the result of growth in productive capacity and yields. The above factors resulted in an increase in sugar extraction, that is, a reduction in the ratio between the volume of cane and the volume of sugar produced, from 10.28 to 9.87 tons of cane per ton of sugar in 2003 and 2004, respectively and the production of citrus. The rises in production of alcoholic (38%) and non-alcoholic (1.2%) beverages also contributed, but to a lesser extent. In 2005 an uneven performance is predicted, as sugar extraction will probably diminish owing to unfavourable weather conditions in the first half of the year. In contrast, citrus fruit will show an expansion because of the rise in international prices.

The favourable performance of the construction sector, moving from a cutback of 14% in 2003 to an expansion of 15% in 2004, was the result of the implementation of a series of infrastructure projects. These included a hydroelectric plant, two new casinos and a number of commercial and residential buildings. In 2005, the construction sector will be negatively affected by the austerity of fiscal policy, while the projects financed from external resources will have a positive impact.

Tourism maintained its growth path based on the arrival of cruise ships. The number of passengers increased exponentially to 766,000, which was a 50% expansion. The long-stay tourist flow rose by 5%, amounting to 219,657 visitors. In the first quarter of 2005, the number of cruise passengers and long-stay visitors rose by 15% and 2%, respectively, in relation to the same period in the previous year.

The rise in average hotel tariffs, from BZ\$167.41 in 2003 to BZ\$186.85 in 2004, and in the number of rooms available brought an increase in total spending by visitors from abroad, from 15.8% to 16.3% of GDP for those years.

In 2005 moderate growth is projected for tourism activity. The flow of long-stay tourists should increase by 5% and cruise visitors by 10%.

3.2 *Prices, employment and wages*

The inflation rate rose slightly (2.6% and 3.1% for 2003 and 2004, respectively), in response to hikes in international oil prices, the sales tax rate and real estate rentals for commercial purposes by corporations, as well as water service tariffs.

With regard to the components of the price index, the main drivers of the inflation rate were transport and communications (5.5%), public services (5.3%) and food and beverages (2.5%).

In 2005, the restrictive policy measures planned may moderate the inflation rate, but the tax rises will bring price increases.

The reduction in the unemployment rate from 12.9% in 2003 to 11.6% in 2004 is explained by the rapid creation of new jobs in the services sector, in particular tourism and other services, and by the recovery of agriculture and manufacturing.

3.3 *The external sector*

The overall balance was negative and amounted to US\$ 31 million, as the current account deficit, equivalent to 16.7% of GDP, exceeded the positive result on the capital and financial account (13.9% of GDP). Consequently, the country recorded a drop in reserve assets.

The current account deficit was less than the previous year, at 16.7% of GDP, compared to 18.3% in 2003, as a result of the shrinking of the negative commercial trade balance (21.1% and 16.2% of GDP in 2003 and 2004, respectively) and the rise in the services account surplus. The evolution of the commercial balance reflected the contraction of imports (estimated at 10% of GDP) and, more specifically, in external purchases of transport machinery and equipment, food, and also of the demand for goods acquired for the export processing zones.

Exports were down because the increase in external sales of national products was more than offset by the reduction in exports from the free zones. The performance of national exports is related to the high growth in agricultural production, despite the drop in international prices of

some products. Free zone exports were affected by the higher level of customs control and preferential prices for the sale of gasoline in the Mexican border town of Chetumal.

The services balance surplus, which went from 4% of GDP in 2003 to 5% in 2004, again showed vigorous growth as a result of the increase in the travel component (US\$73 million and US\$92 million in 2003 and 2004, respectively). In contrast, both the transport component and other goods and services component showed net outflows of US\$17 million and US\$22 million.

Unilateral transfers, which amounted to US\$45 and US\$52 million in 2003 and 2004, respectively, reflected the increase in official grants, as the remittance component showed a decline of US\$4 million.

The capital and financial account surplus was basically due to the net direct foreign investment flows, which amounted to US\$145 million in 2004. Investments were oriented to the tourist industry, the real estate sector and the purchase of shares in State enterprises. This surplus was also due, although to a lesser extent, to the implementation of external debt forgiveness programmes by Europe and the United States for an amount of US\$4 million.

The authorities predict a narrowing of the external gap, thanks to the restrictive policy measures announced as well as the projected improvements in export performance. The latter will reflect rises in productivity in the traditional sectors, including fishing; the increase in the cultivated area for some agricultural products, and better financing conditions. It is estimated that the increase in administrative efficiency, a more intensive use of inputs, and the favourable international prices for citrus fruits, and some other products, will facilitate the achievement of the projected result.

Table 18
BELIZE: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004
Gross domestic product	8.8	5.0	4.1	9.1	4.2
Gross domestic product per capita	3 330	3 398	3 525	3 646	3678
Agriculture	7.3	-1.7	3.6	15.7	12.4
Fishing	25.2	3.2	-6.7	110.4	4.7
Mining and quarrying	23.3	3.3	-5.4	0.0	-18.2
Manufacturing	24.2	-0.7	1.5	-0.4	4.5
Construction	38.9	-1.7	5.2	-13.7	15.3
Electricity and water	9.9	0.4	2.3	8.4	-5.5
Transport and communications	12.5	11.8	11.2	3.0	3.9
Wholesale and retail trade	12.1	7.6	4.0	3.5	1.4
Restaurant and hotels	10.6	13.5	2.4	14.7	17.2
Finance and intermediation	31.4	2.0	11.3	12.8	7.3
Real estate and business services	-2.9	12.9	9.6	7.7	-1.9
General Government Services	6.5	5.8	2.7	5.1	9.3
Balance of payments					
Current account balance	-131	-185	-183	-207	-187
Merchandise balance	-191	-214	-187	-207	-182
Exports fob	212	275	310	316	299
Imports fob	404	489	497	522	481
Services balance	53	53	26	40	53
Income account	-54	-72	-69	-86	-111
Unilateral transfers	62	48	47	45	52
Financial and capital balance c/	96	181	177	177	156
Net foreign direct investment	18	60	24	-1	145
Financial capital d/	78	122	153	179	11
Global balance	-43	-3	-6	-30	-31
Variation in reserve assets e/	43	3	6	30	-31
Other indicators of the external sector					
External debt (millions of US dollars)	434	487	575	750	841
External debt (% of GDP)	52	56	62	76	79
Employment and prices					
Unemployment rate	11	9	10	13	12
Rate of change of the consumer price index (Dec.-Dec.)	0.6	1.1	2.3	2.6	3.1
Weighted deposit real interest rate	5.0	4.3	4.4	4.8	5.0
Weighted lending real interest rate	15.7	15.2	14.2	13.8	13.6
Central government					
Current revenues	434.3	520.6	479.1	487.2	467.6
Current expenditures	297.4	334.7	352.2	401.0	533.0
Capital account f/	136.9	174.7	209.4	103.3	
Primary balance	-53.9	-31.9	-86.0	24.2	
Global balance g/	-95.5	-83.6	-149.9	-40.2	
Global balance with grants	...	-8.2	-3.7	-10.8	-5.9
Money and credit					
Domestic net credit	45.6	50.7	51.4	57.2	63.8
Public sector	3.7	4.0	3.2	5.7	10.5
Private sector	41.9	46.6	31.9	51.5	53.3
Money supply (M2)	58.1	60.0	57.4	55.7	58.9

British Virgin Islands³⁶

1. Main trends

In 2004 real economic growth surged on to 5.3% (-5.2% in 2003) despite continued contractions in the construction sector. The path of economic expansion was spearheaded by the tourism sector (16% of GDP) which after two successive years of decline managed to fully recover in the course of the year. In 2004 total visitor arrivals grew by 24% and cruise ship passengers by 55%.

The dynamism of the offshore financial sector was also a key contributor to overall economic performance. The sector services international business companies and is also recently moving in the direction of mutual funds and captive reinsurance.

The expansion in economic activity translated into higher government revenues which allowed the government to reduce its budget deficit (1.5% and 1.1% in 2003 and 2004) in spite of the significant increase in recurrent expenditures.

The financial system responded to the expansion in the real sector and to the consequent increase in money demand. As a result, total monetary liabilities increased by 10.3% in 2004 (compared to -19% in 2003) in consonance with the expansion in aggregate expenditure. The commercial banking systems' balance sheets reflected the positive outcome in the external sector, with a current account balance of US\$267m (31% of GDP). The current account responded to the ongoing surplus on the merchandise and services balance. In particular, the performance of external sales reflected the upswing in services exports by 7% (-1% in 2003). For their part, imports responded to the rise in internal demand, as both imports of goods and services increased by 5.2% and 6.7%, respectively (-2.4% and -1.4% in 2003).

For 2005, further plans to liberalize and diversify are carded in order to relieve the public purse. Construction activity is expected to increase as business activity grows. GDP growth is also expected to continue rising. In addition, a new company law regime (the BVI Business Company Act) came into effect providing several tax incentives to attract foreign direct investment.

2. Economic policies

2.1 *Fiscal policy*

In 2004 the government reduced its budget deficit to 1.1% of GDP in 2004 compared to a deficit of 1.5% in 2003. This allowed the government to contribute to the reserve fund created in 2004 under the new Public Finance Management Act.

The improvement in the fiscal result was a response to the increase in recurrent revenue by US\$14.7m. The largest contributor to this was the non-tax revenue from the financial services

³⁶ The BVI is a British overseas territory comprised of 47 islands (16 inhabited). It was part of the Leeward Islands from 1872 to 1956, after which they were administered separately.

sector which increased by US\$7.6m (12.5% of GDP) followed by 15.2% increase in import duties (2.8% GDP) of US\$3.2m.

However the expansion in recurrent expenditure dampened this with a 10% increase of US\$16.4m thus representing 21% of overall GDP. This was mainly driven by increases in wages and salaries of US\$10m (10% of GDP) and a 16.3% increase in subsidies and transfers of US\$4.6m.

Although debt levels have historically been low, there has been a slowly creeping external debt position since 2000 (3.5% and 5% of GDP in 2000 and 2004). Overall debt servicing payments increased due to an expansion in principal repayments by 39%, though this allowed for a fall in interest payments by 4%.

For 2005 there is a budget proposal to contribute US\$2m to the reserve fund to meet the target level of US\$48m that should be sufficient to cover three months operating expenditure. The aim is to have a reserve that can be drawn upon to reduce the impact of external shocks as well as a bargaining tool for seeking financing in future development strategies.

2.2 *Monetary and exchange rate policy*

Monetary policy is de facto non-existent in the British Virgin Islands since the currency is the United States dollar. Under this framework money supply adapts to money demand and is provided mainly through external operations and the commercial banking system.

In 2004 the financial system's response was in line with the economic performance of the Territory and the expansion in the main economic segments of the economy as well as the expansion in public works activity.

Narrow money supplies increased, though not as much as the increases registered from the previous year (49% in 2003 and 18% in 2004). This was spurred on by increases in both currency in circulation as well as demand deposits of 17% and 18%, respectively. Broad money supplies also increased (8%), in contrast with the declining rates of increase registered in 2003 (-29%). Time deposits improved (2.4%) from its 2003 position (-44%), and savings deposits in 2004 (21%) lagged behind 2003 (17.6%).

Credit to the public sector has contracted in 2004 (2.9%), in line with similar contractions of 2003 (2.6%) and 2002 (9.3%).

3. *Evolution of main variables*

3.1 *Economic activity*

Economic growth in 2004 resumed the growth direction of 2001 with 5.3%, providing a healthy turnaround for the economy from 2002 (1.5%) and 2003 (-5.2%). Sectoral performances have stabilized. Business activity has realized a 30% contribution to GDP in 2004 continuing its slowly increasing trend ever since the initial negative impact of global targeting of offshore

financial centres by the OECD. The shares of GDP by hotels and restaurants and transport and communications have stayed constant between 2003 and 2004 at 16% and 12%, respectively. Since the halting of public construction contracts, the 5.8% contribution to GDP in 2004 seems to be a direction of recovery given the average GDP contribution of 8.9% between 2000 and 2003. Import duties, too, have grown to 3.2% of GDP in 2004 from 2.9% in 2003.

As in previous years, tourism and financial services are two of the most important sectors of the British Virgin Islands' economy. Tourism indicators show that total visitor arrivals have grown to its highest level in a decade, 813,000, a 24% increase over 2003 (658,000). Cruise ship passengers also posted record levels of 467,000. Even though hotel occupancy rates fell from 65.4% in 2003 to 64.37% in 2004, the average length of stay per tourist has risen from 10.78 nights in 2003 to 11.22 in 2004.

The financial services sector has also recorded a significant performance over the last year. Domestically, the number of new local companies incorporated increased to 217 in 2004 (44%), an improvement over the 2003 registration of 151 (26%). Approved trade licenses also increased significantly reflecting the vibrancy of the sector with 438 and 529 new approvals in 2003 and 2004. International financial services continued to demonstrate significant growth, the number of International Business Companies (IBCs) operating increased from 537,555 to 593,711 in 2003 and 2004 (10.4%). New IBC registrations cited a 26.1% increase between 2003 and 2004 from 47,934 to 60,451.

A look at the recent concentration of economic activity figures shows that the top three economic activities in the Territory are taxi services, construction and restaurants, roughly 13%, 6% and 4%, respectively, of all registered establishments. Other significant activities, reflective of the economy's tourism orientation, include retail clothing and gift shops, apartment rentals, travel agencies and yacht and boat charter and repairs.

The outlook for 2005 is favourable, with overall GDP growth expected to continue to improve and eventually resume its double digit growth trend. Tourism is expected to expand as the government has committed to improving the quality and variety of its tourist export package with expected spillover benefits for local employment and the construction sector. The financial services sector, too, is predicted to continue growing as domestic and international confidence in the sector remains strong.

3.2. Prices, wages and employment

Point-to-point inflation fell from 3.6% in 2003 to 1.0% in 2004. With the notable exception of services (10.2% and 13.4% in 2003 and 2004) most components of the retail price index registered lower rates of growth when compared to 2003. The sub-categories of furniture and household supplies, clothing and footwear and transport registered negative rates of growth in 2004 (-3.7%, -1.3% and -0.2%) in light of the size of growth in those sub-components in 2003 (7.5%, 1.4% and 6.8%). The food, beverage and tobacco category registered a smaller growth rate in 2004 (1.2%) than in 2003 (1.5%).

Housing has maintained a consecutive steady growth rate of 0.2% over the last three years, reflecting the stagnant population growth in the Territory. The services sub-category has broken away from its traditionally low single-digit growth pattern to register a 10.2% and 13.4% (2003 and 2004) increase in the rise of prices in the category. The expected outcome of this is that there would be medium-term implications on both regional and international tourist spending and tourism-related government revenue.

Unemployment estimates for the Territory stand at 3.6%. The employed labour force grew by 4.8% to 15,518 in 2004. Given the significance of the tourism sector, female employment has traditionally matched that of male employment, in 2004 the male and female workforce ratio stood at 51% and 49%, respectively.

The employment by industry figures tell an interesting story. Between 1996 and 2004, with the exception of two, every industry in the economy experienced a steady and significant decline in employment levels.

As the tourism sector expands, the employment in the hotels and restaurant sector has declined significantly from 24% of the labour force in 1996 to under 16% in 2004. The wholesale and retail trade sector, also a significant contributor of GDP, has been on a steady decline from 13% to 8.5% between 1996 and 2004.

The stable and steady employment rate of over 95% has been the direct result of two industries absorbing the growing pool of labour. Public administration and social security has increased its number of employees from 20% in 1996 and steadily on to 31.3% by 2004, the public wage bill has now grown to over 10% of GDP. Education once represented less than a percentage point of the labour force and now accounts for over 7 % (from 1996 to 2004).

A look at the labour market as a whole reveals that since 1997 the classification of employment by occupational group has not reflected any changes in the skills base of the labour force. Between 1997 and 2004, without any deviation, high medium and low skilled labour have averaged 19%, 37% and 44%. An observation also reflected in the rate of growth of sectoral GDP for education, which had stood at 14% in 1996 and since 2000 now averages less than 6%.

3.3. Evolution of the external sector

The overall result in the balance of trade was a positive one. The merchandise trade balances continue to show a persistent deficit, at a present value of US\$278m in 2004, it worsened by 5.7% from its previous year's balance. As goods exports stagnated in 2004 at US \$24m, the import of goods grew by 6.7% to US\$302m.

The performance of the trade in services has, as in the past, financed the merchandise balance shortfall. The export of services grew by 7.2% in 2004 (US\$927m), imports also increased by 6.7% (US\$382m). This was thus adequate to cushion the current account merchandise trade balance deficit. As a result, the overall balance of trade, equivalent to 31% of GDP, which had grown by 9.4% since 2003, now stands at US\$267m.

Table 19
BRITISH VIRGIN ISLANDS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004
Real Gross domestic product	15.3	6.2	1.9	-1.6	6.3
Gross domestic product at market prices	776	825	841	827	879
Agriculture, Hunting & Forestry	0.2	0.0	0.0	0.0	0.0
Fishing	0.2	0.0	0.0	0.0	0.2
Mining and Quarrying	0.0	0.0	0.0	-0.3	0.3
Manufacturing	0.1	0.0	0.0	0.1	0.1
Electricity, Gas and Water	5.3	13.0	4.5	13.0	13.0
Construction	21.4	21.1	43.3	-45.1	-9.1
Wholesale and Retail Trade	17.2	5.8	-2.2	4.6	8.0
Hotels and Restaurants	20.3	8.4	-4.6	3.2	6.3
Transport and Communications	18.8	7.1	-3.4	3.9	7.2
Financial Intermediation	22.0	6.3	-2.9	1.9	6.6
Real Estate, Renting & Business Activity	15.3	4.1	-0.6	5.5	9.0
Government Services	5.9	5.9	5.9	5.9	5.9
Education	5.9	5.9	5.9	5.9	5.9
Health and Social Work	5.9	5.9	5.9	5.9	5.9
Other Comm., Social & Personal Services	0.2	0.0	0.0	0.1	0.1
Balance of trade					
Exports of goods	26	26	25	24	24
Export of services	780	841	871	865	927
Total Export of goods and services	806	867	896	889	951
Imports of goods	277	291	294	287	302
Import of services	329	352	363	358	382
Total Imports of goods and services	606	643	657	645	684
Balance of Visible trade	-251	-265	-269	-263	-278
Overall Trade Balance	200	224	239	244	267
External Public Debt	27	36	36	40	44
Annual Inflation rate	2.76	3.09	0.39	3.62	0.99
Public finances					
Recurrent Revenue	181	187	183	190	205
Tax Revenue	60	62	62	66	73
Non-Tax Revenue	121	125	121	124	132
Recurrent Expenditure	134	142	150	164	180
Current Balance	47	44	33	26	24
Capital Expenditure	39	66	68	38	34
Overall Balance	8	-22	-35	-12	-10
Money and Credit					
Narrow money (M1)	253.0	256.2	221.7	330.7	389.2
Broad money (M2)	772.6	896.9	1067.0	759.2	821.8
Credit to the public sector	79.5	87.1	79.0	76.9	74.7

Guyana

1. Main trends

Economic activity improved slightly in 2004, with GDP showing 1.6% growth, compared with a contraction of 0.6% in the previous year. This upturn was due to a recovery in sugar and cattle production and to growth in the services sector.

The rise in oil prices and economic recovery did not have too much of an impact on overall price levels, since in 2004 inflation remained under control at 5.5%, albeit under pressure from increases in food, transport and housing prices. Public sector reform led to a 1.3% contraction in public employment. Boosted by economic growth, the private sector took up the slack. Average wages increased during the year, owing to the fact that in the last four months, the government introduced a 5% minimum wage hike retroactive to January. Some other sectors also recorded higher wages.

With a slightly more robust economy, the government's fiscal performance strengthened so that the overall fiscal deficit, including grants, stood at 4.9%, down from 7.1% in 2003. The increase in total revenue outpaced that of total expenditure, thereby contributing to a more favourable fiscal outturn.

In 2004, monetary policy was geared towards maintaining growth in liquidity, in keeping with growth in nominal GDP, improving the costs of intermediation of credit to the private productive sector and facilitating a more flexible rate of exchange. Liquidity in the banking system remained high, however, with excess reserves growing by more than 15% compared with the previous year, reflecting risk aversion by the banking system as well as a lack of profitable projects.

External constraints worsened in 2004, leading to an overall balance-of-payments deficit of US\$ 43.1 million, that is, four times as high as the previous year's figure and equivalent to 5% of GDP. The lower current account deficit (17% less than in the past year) was counterbalanced by the deterioration in the capital account. The weaker balance of payments position had an adverse effect on the currency, which depreciated by almost 3% against the United States dollar.

The economic performance in 2005 is expected to reflect the negative impact of the serious floods that affected the country at the beginning of the year, which wiped out the incipient upturn recorded in 2004. GDP projections point to a 2.8% contraction in 2005. This contraction will be felt in most of the main sectors, including sugar, rice and some non-tradable services. The work of rehabilitation, reconstruction and compensation for the victims will increase the central government deficit to approximately 14% of GDP.

2. Economic policy

2.1 Fiscal policy

The fiscal policy was geared towards curbing the deficit in order to achieve sustainability of the public debt in the medium term. In 2005, public finances improved as a result of the higher tax collections and the relatively low increase in expenditure. The overall fiscal deficit trended downwards with a significant reduction from 7.1% of GDP in 2003 to 4.9% of GDP in 2004. This stronger performance was based on higher collections and the control of current expenditure together with a better out-turn by non-financial public enterprises.

Higher collections coupled with prudent fiscal management under a public expenditure reform programme enabled authorities to reverse the current account from a deficit in recent years to a surplus equivalent to 3% of GDP. Current revenues (excluding refundable taxes on rice) were up by 13.8%, exceeding the projected figure of 7.9%. Income tax figures also showed solid growth, while consumption tax soared by 27%, reflecting increases in collections due to the expansion in imports.

Furthermore, current expenditure, including interest payments, increased only marginally (0.4%); thus as a percentage of GDP, it declined to 30%, compared with 32% in 2003. In keeping with the criterion of fiscal prudence established by the government, this result amounted to 96% of total projected expenditure for the year. The main item, payroll expenses, increased by 6% in nominal terms, reflecting wage hikes during the year. Owing to the increase in GDP, fiscal spending on wages remained stable at 11% of GDP. Other current expenditure also grew (2.7%), boosted by an increase in transfers to local organizations. The 86% increase in social spending, which remains below 0.5% of GDP, is also significant.

Within the framework of the World Bank and International Monetary Fund's initiative for heavily indebted poor countries (HIPC Debt Initiative), interest payments on external debt diminished by 24.4% to stand at 2.9% of GDP. Interest payments on domestic debt also declined, representing almost 2% of GDP.

The deficit on the capital account widened by 38.2% in value, rising to 7.9% of GDP in 2004, compared with 6.2% in 2003. There was a surge in capital inflows as a result of grants unrelated to projects, while capital expenditure showed an even sharper rise, reflecting mainly increases in transport and communications, housing and agriculture.

Fiscal policy is expected to be counter-cyclical in 2005, following the floods, which have had a recessionary impact on the economy. The overall fiscal deficit will widen substantially to approximately 14% of GDP, owing to the strong increase in capital expenditure linked to the reconstruction effort in the aftermath of the floods and to the projected infrastructure costs for construction of a cricket stadium for the 2007 Crick World Cup. In keeping with projections, current expenditure will increase more moderately, since the government is striving to keep these outlays within reasonable margins (even after the floods) and to reduce non-productive expenditure.

The public debt showed mixed results in 2004: domestic debt increased by more than 5%, reaching in general terms 44% of GDP; external debt diminished by 1.2% to 128.1% of GDP. Guyana benefited from the debt relief offered by the Paris Club under the HIPC initiative. Payments for external debt servicing declined by 11%. As a result, the ratio of debt servicing to exports of goods and services diminished to 7.5%, compared with 9.6% in 2003.

The country will benefit from the new debt forgiveness initiative recently announced by the OECD.

2.1 Monetary and exchange-rate policies

Monetary policy remained focused on liquidity management to guarantee exchange-rate and price stability and improve credit to the private sector in order to boost productive activity and economic growth.

The principal instrument for control of the money supply continued to be auctions of treasury bills on the primary market, using a monetary programming model.

The broad money supply (M2) expanded by 7.8%, boosted by strong growth in the demand for deposits in national currency (16.7%), albeit with a lower increase in savings and time deposits (5.9%). The increase in foreign currency deposits (9.3%) fuelled an expansion in M3.

Bank credit to the public sector swelled by a substantial 48.4% (24% of GDP), following a contraction in 2003. This sharp increase is due mainly to a single operation in which the government, acting through the central bank, sold reserves to commercial banks to finance a loan to the sugar corporation, GUYSUCO. One cause for concern was the contraction of credit to the private sector over the last three years (an average of 6.1%). In 2004, credit to the private sector decreased by 0.4% to stand at 31% of GDP. In addition, in 2004, the bulk of credit to the private sector was assigned to commerce (15.3%), personal services (13.5%) and property and mortgages (12.6%). Of the productive sectors, only the manufacturing industry received a relatively large portion of credit (14.5%). Agriculture (5.6%) and mining (0.7%) experienced a credit shortfall.

3. The main variables

3.1 Economic activity

Real GDP growth was modest (1.6%) in 2004, following the decline in 2003 (-0.6%). Significant increases were recorded in sugar production, cattle-rearing, services and, on the demand side, private consumption.

Agricultural activity picked up strongly, with growth in all categories except rice production. Value added in the sugar sector increased by 3.9%. Production expanded by 7.6% with respect to 2003, to stand at 325,317 tons, thus meeting 95% of the target for the year. The

higher production figures were due to favourable weather conditions and a higher yield in the field.

The cattle and fisheries subsector also showed an increase in egg production offsetting the slump in the fish catch (-98.6%). Production in the forestry subsector was up by 43.2%, reflecting an increase in logging.

Real value added in mining and quarrying declined following a fall in gold and bauxite production (5.8% and 12.4%, respectively), which was only partly offset by the increase in diamond production. Gold production continued to dwindle with the depletion of the reserves of OMAI Gold Mines, the main stakeholder in the industry.

The manufacturing sector remained in the doldrums in 2004, with improvements in the intermediate goods subsector being counteracted by the decrease in the production of alcoholic beverages due to a fall in market share.

Construction was up by 4.1%, reflecting the high rate of implementation of investment projects, which was often a challenge for the authorities. The services sector grew by 3% in 2004; most subsectors showed growth, in particular transport and communications, which implemented the planned expansions in fixed telephone lines, cell phones and information technologies.

3.2 Prices, wages and employment

Inflation was slightly higher (5.5%) in 2004 than in 2003 (5%). Price rises were due mainly to the fact that increases in the cost of fuel imports, transport services and communication equipment were passed on to the consumer. In addition, seasonal food shortages helped to push up domestic prices.

Family income increased in the course of the year, after the government raised the minimum wage by 5%, bringing it in line with inflation. The minimum threshold for income tax was also increased by 11.1%. Wages were raised in most of the other sectors as well.

The structural adjustment programme led to a 1.3% cut in public-sector employment in 2004, a freeze on new hiring and the weakening of some areas of the public service. For its part, the labour market was hit by strikes, which totalled 227 in 2004, compared with 205 in 2003. Consequently, the total number of work days and income lost by strikes increased by 55% and 40%, respectively. The floods that occurred in early 2005 are expected to push annual inflation up to 6%.

Food shortages due to the floods may result in price increases according to some projections, while the persistently high oil prices should affect transport and communications.

3.3 The external sector

The external position worsened in 2004, with the expansion of the global deficit on the balance of payments of US\$ 43.1 million or almost 5% of GDP. The improvement in the current account position was counterbalanced by a deterioration in the capital account.

An improvement was recorded in the current account, which had worsened in the two previous years. The deficit declined to US\$71.3 million (9.0% of GDP). For its part, the trade deficit contracted to US\$57.9 million, compared with US\$58.8 million corresponding to 2003, thanks to a higher rise in exports with respect to imports and an improvement in the terms of trade.

Exports picked up by 15%, benefiting from the higher prices of some primary products, although the volumes exported may have been smaller. Export earnings from sugar and rice increased by 6% and 21%, respectively.

GDP growth, together with wage hikes and project activity, resulted in a 13% expansion in imports. Imports of consumer goods were up 3.6%, reflecting the rise in imports of food and vehicles, due partly to increases in income. Imports of intermediate and capital goods increased by 10.5% and 16.8%, respectively, reflecting increases in fuel prices and the demand for capital goods for investment projects.

In 2004, the deficit on the services account narrowed by 15%. This was due to a sharp decline in the payment of factor services, reflecting in part the 75% reduction in interest payments on public debt under the HIPC Debt Initiative.

The capital account weakened in 2004 owing to a decline in net inflows of over 33%. This reflects in part a single transaction that involved the use of central bank reserves to establish a trust fund for modernization of the GUYSUICO Skeldon plantation.

The balance-of-payments deficit was financed thanks to the HIPC Debt Initiative. In addition, central bank reserves contracted. The outcome was that the Bank of Guyana's gross reserves totalled US\$224.7 million, meeting the target of three months' imports.

Despite the floods, the balance-of-payments figure for 2005 is expected to show an overall surplus of US\$12 million. The current account deficit is expected to widen substantially to US\$116 million, owing to a fall in exports of the main primary products, while imports will grow significantly to reach US\$700 million. Nevertheless, the capital account should improve considerably with net capital inflows intended for rehabilitation and reconstruction as well as for expansion of bauxite mining operations. In addition, current transfers are projected to increase with the inflow of international aid and grants for flood relief.

Table 20
GUYANA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003a/	2004a/
Gross domestic product	-1.4	2.3	1.1	-0.6	1.6
Gross domestic product per capita	-1.8	1.9	0.9	-0.8	
Gross domestic product by economic activity					
Agriculture	-10.2	3.7	-11.6	-2.3	24.5
Mining and quarrying	5.9	4.2	-6.9	-8.7	-6.5
Manufacturing	-11.7	0.0	107.1	-0.5	0.0
Construction	6.6	2.0	-3.9	5.6	4.1
Basic services c/	7.1	5.4	4.5	4.9	3.6
Other services d/	5.1	0.9	0.4	1.4	1.9
Balance of payments					
Current account balance	-115	-134	-62	-86	-71.3
Merchandise balance	-80	-94	-24	-59	-58
Exports fob	505	490	490	513	589
Imports fob	585	584	-514	-572	-646
Services balance	-24	-20	-24	-71	-60
Income account	-58	-64	-51	-50	...
Unilateral transfers	47	44	40	43	46
Financial and capital balance e/	156	160	86	74	...
Global balance	67	56	-25	-9	-43.1
Variation in reserve assets f/	88	-56	25	9	43.1
Other indicators of the external sector					
External debt (millions of US dollars)	1 193	1 197	1 246	1 092	1078
External debt (% of GDP)	183.8	178.9	180.1	151.6	137.9
Prices					
Rate of change in the consumer price index (end of period)	5.8	1.5	6.1	4.9	5.5
Rate of change in the nominal exchange rate	2.4	2.6	1.2	2.0	
Real small savings rate	6.9	6.6	4.0	3.3	
Real weighted lending rate	16.7	17.3	15.9	14.8	
Central government					
Current revenues	41335	41427	44558	45392	51664.3
Current expenditures	57779	63564	63828	46743	46937.8
Capital account balance	10332	8523.9	-4314	-10238	-7550.5
Primary result	-9643	-2463	7139.5	4569.7	9202.1
Global result g/	-9643	-14151	-4333	-10238	-7550.5
Money and credit					
Domestic net credit	19.3	20.6	20.7	17.5	23.9
To the public sector	-19.9	-18.1	-15.9	-9.2	0.3
To the private sector	45.2	44.4	42.8	33.7	30.9
Money supply and deposits in national currency (M2)	65.7	69.7	70.9	73.8	73.2

Jamaica

1. Main trends

The rate of growth declined in relation to the previous year (2.3% and 1.2% in 2003 and 2004, respectively) mainly as a result of the damage and losses inflicted by Hurricane Ivan on the Jamaican economy. Total damage and losses amounted to 8% of GDP. These are concentrated on housing, agriculture, transport, food processing, tourism and telecommunications. The main contributing sectors to overall growth, throughout the year, were manufacturing, construction and installation (due to post-Ivan rehabilitation operations) and miscellaneous services (4%, 5% and 4%, respectively).

In spite of adverse climatic conditions and the decrease in growth, the government was able to reduce its budget deficit (5.8% and 5.0% of GDP for FY2003 and 2004³⁷). This was achieved through a policy of wage restraint, mediated by an agreement between the government and the Confederation of Unions, and interest rate declines, which alleviated the domestic debt service burden. The reigning climate of macroeconomic stability, notwithstanding double-digit inflation levels (14%), and the accumulation of foreign currency receipts facilitated the adoption of an expansive monetary policy stance.

The positive outturn in the balance of payments is explained by a narrowing current account deficit (11% and 9% of GDP for 2003 and 2004 respectively), which was amply financed by the surplus in the capital and financial account. The evolution of the former reflected the decrease in merchandise imports and a greater level of private and public transfers associated with post-hurricane relief activities. The performance of the latter responded to official investment flows.

For 2005, GDP growth is projected to increase within the vicinity of 3% led by tourism, construction and, to a lesser extent, mining. The main challenge faced by the government is to mitigate the effects of rising oil prices on macroeconomic performance. Rising oil prices will increase the import bill and may result in a deterioration of the current account. In reaction, the authorities may change their current monetary stance and increase interest rates to avoid a loss of reserves and the erosion of the currency's purchasing power. In turn, the rise in interest rates will aggravate the burden of debt obligation payments and may compromise the fiscal targets of the government. The Petro Caribe initiative will lessen, partially, the pressure of rising oil prices on the external account and alleviate the foreign exchange constraint by converting 40% of the oil import bill into short-term loans.

³⁷ FY2005 denotes the fiscal year running from March 2004 to April 2005.

2. Economic policy

2.1 Fiscal policy

The central government managed to reduce its fiscal deficit (5.8% and 5.0% of GDP for FY 2003 and 2004) as a result of the efforts aimed at constraining the growth of total expenditure (37% and 34% of GDP for FY2003 and 2004).

The evolution of total expenditure is explained by the contraction in its recurrent component, and more specifically in wages and interest payments on its internal debt (12% and 11%; 15% and 13% of GDP for FY2003 and 2004). The behavior of the former responded to the Memorandum of Understanding (MOU), which is an agreement signed between the government and the Jamaica Confederation of Trade Unions seeking to reduce the wage bill through a two-year policy of public employment and wage restraint effective 1 April 2004 until 31 March 2006. The performance of the latter reflected the effects of the lower interest rate plateau on debt service obligations.

Interest rate payments on the external debt remained at the level of the previous year (3.5% of GDP) while programme expenditures (5% and 6% of GDP for FY2003 and 2004) noted an increase due to the rehabilitation activities undertaken by the authorities in the aftermath of Hurricane Ivan. These were also reflected in the expansion of capital expenditures (1% and 2% of GDP for FY2003 and 2004).

The revenue performance (31% and 30% of GDP for FY2003 and 2004) is explained partly by the disruption caused by Hurricane Ivan on production, distribution activities and income flows. The failure of administrative and legislative measures enacted to improve the tax collection (27% and 26% of GDP for FY2003 and 2004) was an additional contributing factor.

For FY2005, the authorities plan to achieve a balanced fiscal result. The fiscal target is prefaced mainly on expenditure control (34% and 31% for FY2004 and 2005) and to a lesser extent on the increase in tax revenues (30% and 31% for FY2004 and 2005). The former goal will depend mainly on the authorities' and trade unions' compliance with the Memorandum of Understanding as well as on the continued decline in interest rates.

The increase in tax revenues will follow from a series of tax measures which were enacted in May 2005. The most important includes increases in the standard general consumption tax rate from 15% to 16.5% and the widening of its tax base by the significant reduction in the number of zero-rated items.

Available data for the first quarter of fiscal year 2005 shows that the government has roughly complied with its fiscal targets achieving a primary surplus of 1.7% of GDP. This result is explained mainly by a level of expenditure and, in particular, of wages and domestic interest rate payments that fell below the budgeted target.

The fiscal policy will, if it meets its expectations, lead to a substantial reduction in the overall debt burden. The debt to GDP ratio, which stood at 137% for FY2004 (142% for FY2004) notwithstanding the net issuance of eurobonds in the international markets in 2004 and a US\$300 bond in 2005, is estimated to fall to 126% in FY 2005. Thereafter, further reductions are projected for the following two fiscal years (113% and 103% for FY 2006 and 2007).

2.2 Monetary and exchange rate policies

During 2004 the monetary authorities pursued a policy of declining interest rates facilitated by favourable external conditions, sound fiscal management and increased flows of foreign currency receipts. The latter reflected private sector direct and portfolio investment flows and government Eurobond issues which accounted, in the main, for the rise in the stock of international reserves (16% and 23% of GDP in 2003 and 2004, respectively).

The expansive character of monetary policy, especially prominent in the first part of the year, switched to a more cautious stance thereafter to mitigate the potential adverse effects of natural disasters and fuel prices on inflation and currency stability, and those of post-reconstruction activities on fiscal performance.

In 2005, the Bank of Jamaica maintained the policy course of the previous year as the stock of international reserves continued to expand (US\$1,859 and US\$2,157 million in December 2004 and June 2005) partly due to a bond issue; economic activity recovered in the aftermath of Hurricane Ivan, and the government managed to achieve a surplus in the first quarter of the fiscal year.

Overall, the short-term nominal and given double-digit inflation real interest rate structure declined in tandem with the Bank of Jamaica key rate, the Repo rate on reverse purchase agreements. The Repo rate declined by 345 basis points between December 2003 and 2004, and between December 2004 and May 2005, respectively.

The Government of Jamaica Treasury Bills and, to a lesser extent, the rates of the commercial banking system followed suit. The average yield on the six-month Treasury Bill decreased by 221 basis points between January and December 2004 and by another 206 basis points between December 2004 and June 2005. For its part, the average weighted loan rate of the commercial banking system evolved from 19% to 17% (15.5% and 14.5% in real terms) between December 2004 and June 2005.

The decline in interest rates, which was reinforced in May 2005 by the reduction in the Special Deposit Requirement from 3.0% to 1.0%, positively affected loan demand and economic output in those sectors, such as the manufacturing sector, whose activities are financed in the local market and also in the construction sector. In addition, and most importantly, it lessened the burden of the internal debt service denominated in local currency, which will greatly contribute to the compliance of the fiscal targets set by government.

Notwithstanding these positive effects, the decline in interest rates negatively affected the profitability of the banking system, whose government and other public sector securities

represent an important proportion of the investments of commercial banks (roughly 47% of the total).

Monetary policy was underpinned by adequate sterilisation operations to contain inflationary pressures due mainly to the effect of natural disasters and the hike in oil prices. As a result the monetary aggregates expanded at a moderate rate (22% and 15% for 2004 and 14% and 11% for the first six months of 2005 for the restricted and expanded money supplies).

The foreign exchange market, guided by a strong fiscal performance and official interventions, remained stable throughout 2004 and 2005 in spite of the significant decline in Central Bank interest rates on its tenors. The nominal exchange rate depreciated mildly (J\$60.7, J\$61.4, and J\$62.2 for 2003, 2004 and the first eight months of 2005³⁸).

3. Evolution of main variables

3.1 Economic activity

During 2004, GDP expanded at a lower rate than that of the previous year (2.3% and 1.2% in 2004 and 2005) due mainly to the adverse effects of natural disasters on the main sectors of economic activity (mining and tourism). For 2005, the level of output is expected to reach a higher growth plateau (3%) led by the dynamism of tourism, construction and the recovery of mining and manufacturing.

Agricultural activity (5% and -10% in 2003 and 2004, respectively) was determined, in the main, by adverse climatic conditions. The negative effects of a draught in the first half of the year and those of Hurricane Ivan in the fourth quarter of the year were felt on the major crops for exports and for domestic consumption (-29% and -16% in volume with respect to 2003). The residual effects of the external shocks are bound to be felt throughout most of 2005. Preliminary estimates show a decline of -24% for the first half of 2005.

The evolution of the mining sector (5% and 3% in 2003 and 2004, respectively) reflected a mix of negative and positive factors. The former includes higher external demand for the bauxite and alumina subsector and the increase in the productive capacity in alumina plants. The latter comprises the damage inflicted by Hurricane Ivan to productive installations and the disruption of production processes and mechanical difficulties experienced at the crude bauxite port. Preliminary estimates show an increase of 0.5% for the first half of 2005 due to the decline in bauxite production as a result of labour disputes and climatic conditions and the marginal increase in alumina production.

Manufacturing (-1% and 4% in 2003 and 2004, respectively) registered the highest rate of growth in five years. The performance of the sector responded to the impulse in construction activities, the growth in external demand for beverages, the reduction of imports for food products, the expansion in productive capacity and improved efficiency in productive processes. The sector, whose production potential is constrained by the closure of the oil refinery, is expected to continue on its growth trajectory for 2005 led by food and beverage and

³⁸ For the nominal bilateral exchange rate of the Jamaican Dollar vis-à-vis the US Dollar.

construction. Preliminary estimates show a fall of -3% for the first half of 2005 as a result of the poor agricultural performance and the closure of the petroleum refinery.

Construction activity improved (1% and 5% for 2003 and 2004, respectively) due to the reconstruction and rehabilitation activities following Hurricane Ivan and to new and ongoing public and private sector infrastructure projects. The sector is expected to maintain its current growth level for 2005. Preliminary estimates show an increase of 10% for the first half of 2005 due to reconstruction efforts, the development of tourist infrastructure and other public/private projects.

Tourism (6% for 2003 and 2004) responded to the rise in stopover arrivals (1.4 million in 2004 representing an increase of 5% in relation to the previous year), which reached record numbers in spite of the disruption caused by Hurricane Ivan during the high season. The increase in stopover arrivals affected visitor expenditure positively (6.4% in relation to 2003) and reflected favourable external conditions, greater airlift capacity and improved marketing efforts. For its part cruise ship arrivals fell (-3% with respect to 2003). Preliminary estimates for 2005 show an increase of 2% for the first semester. The growth in the first quarter (6.8%) propelled by local and international events and the appreciation of the Euro was partially offset by the decline in the second quarter (-2.4%) due the closure of two hotels and the reduction in airlift capacity.

3.2 *Prices, wages and employment*

The rate of inflation reached double digits (14%) as a result of supply constraints brought about by the disruption to production and distribution processes caused by adverse climatic conditions in the first and second semesters of the year, respectively. Higher international prices for oil and commodities and the hike in administered prices (postage and utility rates) were also contributing factors.

The decomposition of the consumer price index in terms of its different components shows that the food and drink category was the most important contributor to the evolution of prices followed by fuels and other household supplies, and housing and other housing expenses (64%, 11% and 10% of the total inflation rate for 2004).

For 2005, the rate of inflation is projected to decline to a range between 9% and 10%. Central to the achievement of the targeted band is the implementation of the policy of wage restraint stipulated in the MOU between the government and the Jamaica Confederation of Trade Unions (February 2004). However, the inflation target can be compromised by higher energy and food costs which, in addition to the tax measures implemented by the government (May 2005), have contributed to yield a rate of inflation of 9% in the first seven months of the year.

The rate of unemployment rose in relation to the previous year (11.4% and 11.7% in 2003 and 2004, respectively). This reflected a decline in the number of persons employed in the goods producing sectors (-3.4%) and in particular in agriculture and mining (-8% and -7%, respectively) due to the disruption of production processes caused by adverse weather conditions and mechanical difficulties.

3.3 *Evolution of the external sector*

The global balance yielded a positive outcome as the increased surplus on the capital and financial account (5% and 16% of GDP in 2003 and 2004) amply financed a narrowing deficit on the current account (11% and 9% of GDP in 2003 and 2004). As a result, the economy increased its stock of net international reserves (US\$1,165 and US\$1,859 millions in 2003 and 2004).

The current account performance responded mainly to the decline in merchandise imports (46% and 43% of GDP for 2003 and 2004) as a result of the slowdown in growth which offset the impulse of higher international fuel prices and the effects of natural disasters on the demand for external purchases. It also reflected, albeit to a lesser extent, remittance inflows (16% of GDP) as family members living abroad sought to provide financial support to their relatives affected by the hurricane. For their part, merchandise exports (19% of GDP in 2003 and 2004) responded to the increase in both the price and volume of traditional export products, namely bauxite, alumina and sugar.

The services balance (8% and 7% of GDP for 2003 and 2004) is explained by the combined effect of higher freight charges associated with import growth and greater tourist expenditure flows. The income account (-7% and -8% of GDP for 2003 and 2004) reflected the outflow of private sector profits.

The capital and financial account surplus is the result of greater government borrowing in the local and foreign markets and, to a lesser extent, of increased private sector investment flows. Official net investments amounted to US\$479 millions (US\$-364 million for 2003). Net private investments which includes borrowing by the government in the local market reached US\$911 million (US\$695 million in 2003).

For 2005, the balance of payments position will reflect the positive performance of exports due to high international prices for minerals and greater tourist expenditure. At the same time, imports are estimated to increase as a result of the rise in energy costs. Part of the effect will be mitigated by the PetroCaribe agreement. The objective of the agreement, launched by Venezuela (June 2005), is to build a regional oil alliance and supply oil to Caribbean countries under preferential payments conditions. Under the agreement, Caribbean governments can convert 40% of their oil bill into a long term loan with a very low rate of interest (1%). Finally, compliance with the fiscal targets set for FY2006 will allow the government to finance its borrowing requirements in the domestic and international financial markets (as evidenced by its ability to raise US\$300 million from a bond issued at a low historical rate, 9%, in the June quarter of 2005) positively affecting the capital and financial accounts.

Table 21
JAMAICA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004 a/
Gross domestic product	0.8	1.5	1.1	2.3	1.2
Gross domestic product per capita	2 724	2 847	2 894	2 962	
Gross domestic product by economic activity					
Agriculture, Forestry & Fishing	-12.0	5.8	-7.0	4.7	-10.4
Mining & Quarrying	-1.0	2.6	3.3	4.9	3.1
Manufacturing	0.6	0.8	-0.8	-0.8	3.6
Construction & Installation	0.7	2.2	2.4	1.2	4.7
Electricity & Water	2.2	0.7	4.6	4.7	-0.1
Transport Storage & Communication	6.5	5.1	6.2	3.6	0.7
Distributive Trade	1.2	0.0	0.1	1.0	1.4
Finance & Insurance Services	3.1	-8.3	6.2	4.6	-0.9
Real Estate & Business Services	0.0	1.1	0.7	1.8	1.9
Producers of Government Services	-0.3	0.6	0.4	0.2	0.3
Miscellaneous Services (incl. Household & Non-Profit Institutions)	3.8	-1.1	0.5	4.8	4.1
Balance of payments					
Current account balance	-367	-757	-1,074	-763	- 700
Merchandise balance	-1 442	-1 618	-1 871	-1 942	-1 940
Exports fob	1 563	1 454	1 309	1 386	1 586
Imports fob	3 004	3 073	3 180	3 328	3 526
Services balance	603	383	315	561	561
Income account	-350	-438	-606	-571	- 651
Unilateral transfers	821	916	1 087	1 189	1 331
Financial and capital balance c/	367	757	1,074	763	700
Variation in reserve assets d/	-519	-871	244	432	- 694
Other indicators of the external sector					
External public debt (millions of US dollars)	3 375	4 146	4 348	4 192	5 120
External public debt (% of GDP)	46.1	54.8	55.4	58.3	63.8
Employment					
Unemployment rate	15.5	15.0	15.1	11.4	11.7
Prices					
Rate of change of the consumer price index (December to December)	6.1	8.7	7.3	14.1	13.7
Rate of change of the nominal exchange rate (December to December)	10.2	4.3	6.0	15.9	1.6
Central government h/					
Primary balance with grants	11.5	7.8	7.2	12.0	11.7
Global balance with grants	-0.9	-5.6	-7.6	-5.8	-5.0
Money and credit					
Internal credit	41.9	42.6	43.4	50.3	44.9
Money supply (M2)	41.9	41.8	43.2	42.0	42.9

Netherlands Antilles

1. Main trends

Population change is a good indicator of economic development trends in the five islands that constitute the Netherlands Antilles, a self-governing federation that is part of the Kingdom of the Netherlands. Between 1998 and 2002, total population decreased by 20,000 persons or slightly over 10%, to reach a low of 172,000 people. Between 2002 and 2005, the population increased by 8,000. This net result of migration, mainly to and from the Netherlands where around 130,000 people of Netherlands Antilles origin live, as well as to and from the Latin American mainland and other Caribbean islands, correlates with GDP growth. After a period of economic stagnation, the Netherlands Antilles economy is growing again, albeit slowly. GDP growth for 2004 is estimated at 1%. The statistical curiosity is that during economic stagnation, GDP per capita increases as people leave the island, while in times of recovery, GDP per capita decreases as the islands' population swells.

Population data also reveal that trends differ per island. Whereas the population in Curacao and Bonaire, close to the Venezuelan mainland, is in 2004 still well below the 1998 peak, the population in the northeast Caribbean islands of St Maarten, Saba and Saint Eustatius has been quite steadily growing and in 2004 is around 10% higher than five years earlier.

These diverging trends underscore the notion that the Netherlands Antilles contains different economic realities. In Curacao, GDP growth was marginally positive, based on the dynamism of banking and retail trade activities that managed to offset stagnation in the transport sector, where the closure of the national airline also hampered tourism growth. In St. Maarten, strong growth in tourism supported real GDP growth of well over 1%.

Each one of the five islands has a government and implements its own economic policies. The central government of the Netherlands Antilles has a coordinating role. These governments together are referred to as the general government. In April 2004, the administration of central government's Prime Minister, Mirna Godett, who had been in office for nine months, resigned after accusations of drug-related corruption affected people in her political party. A new cabinet under Prime Minister Etienne Ys took office in June 2004. For its approximately 18-months of government, until next elections are due early 2006, an "urgency agreement" called Urgentieakkoord, sets the goals. Poverty reduction and employment creation through the improvement of the climate for private business are the keywords. The new government is committed to contain fiscal expenditures and to address the public debt issue.

This development strategy takes shape against the backdrop of important political discussions about the future of the country as such and the clarification of its relation to the European Union through the Kingdom of the Netherlands. In all likelihood, agreements will be reached that effectively will put an end to the country of the Netherlands Antilles as we knew it since Aruba opted out and acquired an independent status within the Kingdom in 1986. Curacao and St Maarten may follow Aruba's lead and the other three islands would prefer a closer tie to the Netherlands.

2. Economic policies

Multi-year economic programmes covering 2004-2007 were adopted by each one of the five islands. Topics range from road improvements to competition policy. The islands have considerable autonomy including, for example, tax policy and import tariffs.

The central government's economic plan, contained in the Urgentieakkoord, highlights the integral approach to poverty reduction; administration of justice and homeland security; health services and quality of living; fiscal adjustment and debt reduction; improvement of business climate and restructuring of State enterprises; good governance and reform of the political structure, including relations among islands and with the Netherlands.

Financed by the Government of the Netherlands, a development fund has been established that channels resources to development projects. The fund is being managed by an independent foundation, called Uitvoeringsorganisatie Stichting Ontwikkelingshulp Nederlandse Antillen.

2.1 Fiscal policy

The island governments collect direct taxes and the central government collects indirect taxes. Both tiers can borrow and spend. The resulting system was once deemed by the Inter-American Development Bank (IDB) to be one of the most complex in the world. The tax burden is uneven across islands, exemptions are highly selective, evasion is widespread and expenditures and debts are difficult to monitor and control. The revision of tax policies is hotly debated. It is one of the central topics that is being addressed in the Investment Policy Review study undertaken by the OECD under the Caribbean Rim Investment Initiative.

In 2004, the financial situation of the public sector worsened until the second quarter of the year. Starting with the third quarter of 2004, a break in trend can be observed. For the whole of 2004, compared to 2003, government spending increased +6% while revenues remained flat. In terms of GDP, spending increased from 29.6% to 30.7% of GDP whereas revenues decreased from 25 to 24.5% of GDP. The budget deficit grew by 1.7 percentage points of GDP. This overall picture hides the fact that by the second quarter of 2004, expenditures had soared to 36% of GDP, leaving a budget gap of over 11% of GDP. The trend of deteriorating public finances was reversed starting with the third quarter of 2004, by limiting mainly capital expenditures.

In 2004, tax revenues of both the central government and the Island Government of Curacao increased compared to 2003. Higher domestic spending, higher proceeds from licenses and improved tax compliance contributed to this result. The positive growth of tax revenues was offset by a drop in non-tax revenues. The performance of State enterprises worsened and fiscal transfers from the Dutch tax service declined.

Government expenditures increased on account of current, consumptive expenditures whereas investment expenditures decreased. Both the central government and the Island Government of Curacao reported higher expenditures on wages and related items. Arrears with the government pension fund were settled and a debt reform of the health insurance fund for government employees contributed to the increase in government spending. Also transfer

payments increased because of severance payments related to the bankruptcy of the State-owned Dutch Caribbean Airlines.

As a consequence of the increased fiscal deficit, public debt expanded considerably by five percentage points of GDP. The deficit was financed by borrowing on the domestic capital market and the increase of the Curacao Government's debt to the pension fund. Foreign debt increased due to appreciation of the Euro against the domestic currency.

In the first quarter of 2005 there are signs that the financial situation of the public sector continues to improve. The latest data suggest that revenues of the general government are up by 6% compared to the first quarter of 2004 whereas expenditures are down by 6%, mainly on account of capital expenditures. In all, the budget deficit which stood at -5.9% in the first quarter of 2004 was reduced to -2.1% in the first quarter of 2005.

2.2 *Monetary and exchange rate policies*

Monetary and exchange rate policies are the competency of the Central Bank of the Netherlands Antilles. While the exchange-rate policy remained unchanged with a peg of the Netherlands Antilles Florin to the United States dollar at a rate of 1.79 NAf per dollar, monetary policy tightened. Strong expansion of credit by the commercial banks and strong demand for imports exerted pressure on the official reserves, leading the Bank to raise the reserve requirement in five steps from 10% to 11.25% in November 2004. In addition, the Bank decided to increase the official lending rate from 2.25% to 2.75% by the end of 2004 and to 3.25% by mid-2005, in an effort to mop up excess liquidity with the commercial banks. The pressure on the official reserves eased from September 2004 onward

The interest rate on treasury paper increased toward December 2004 from 3.4 to 4.3% for three-month issues and from 5.5 to 5.6% for 12-month issues. By June, 2005 these interest rates were brought back to levels of early 2004.

The commercial banking sector increased total assets by 10.6% in 2004, as a result of increases in loans extended as well as investments. Total capital increased mainly because of the recapitalization of Girobank. Commercial bank borrowing rates dropped, on savings accounts from 3.4 to 2.8% and on time deposits from 4.9 to 4.1%. Also commercial bank lending rates dropped, on time loans from 12.5 to 12.0% and on mortgages from 9.5 to 8.9%. Profitability of the commercial banking sector increased. Increases in interest and other income outweighed rise in operational expenses.

3. *Evolution of main variables*

3.1 *Economic activity*

In 2004, economic activity increased by 1%, a slowdown compared to the 1.4% increase of 2003. The financial intermediation activity was the best performing activity (4%), reflecting increased profitability of commercial banks. The sector was also strengthened by the recapitalization of Girobank. This bank issued 2700 new shares with a total nominal value of 27 million NAf, that were bought up by Total Holding Curacao (two thirds), a subsidiary of Total

Bank Venezuela, and APNA (one third), the Netherlands Antilles Pension Fund of civil servants. Total assets grew by 22%.

Other engines of GDP growth were the wholesale and retail trade sector, as well as the hotels and restaurants sector (3.5%). In the trade sector, the performance of the free trade zones managed by CURINDE N.V. (Curacao Industrial and International Trade Development Co. N.V.), at the airport and the harbour, benefited from an increased number of visitors from Venezuela because of the economic upswing in that country.

The hotels and restaurants sector benefited from an increase in stay-over tourists (7%), with strongest growth in St Maarten (11.%) whereas tourist arrivals in Curacao only increased 0.9%, due to a decline in airlift because of the closing down of the national carrier, Dutch Caribbean Airlines, as well as the bankruptcy of Air Holland. Also the number of cruise ships and passengers declined for Curacao, while the same increased substantially in St Maarten.

3.2 Prices, wages and employment

The general inflation rate in 2004 was 1.5%, fuelled by rising costs of food associated with the appreciation of the Euro. Also housing prices increased above average. Inflation was reported to be highest in St. Maarten (2.1%) and lowest in Curacao (1.4%).

Minimum wages are established per island and per type of occupation, and are expressed in an hourly rate. The actual wages were revised in December 2004 and range from 5.49 NAf (US\$3.05) in St Eustatius to 6.35 NAf (US\$3.53) in St. Maarten. This translates into minimum monthly wages ranging between US\$529 and US\$611.

The unemployment rate, being unacceptably high, improved slightly from 15.3 to 15.0%. This improvement was brought about by job creation in St. Maarten, whereas the labour market situation in Curacao worsened, registering an unemployment rate of 16%, up from 15.1%.

3.3 Evolution of the external sector

The global result on the balance of payments is difficult to assess because of the large number of errors and omissions. The accumulation of reserve assets (US\$35 million) was significantly lower than the previous year and would have been negative without the large amount of development aid received from the Netherlands.

The current account balance was starkly negative (US\$-114 million), due to a strong surge in imports of goods (US\$+283 million) that outpaced the increase in exports of goods (US\$+119 million). The difference was not compensated by the increasing surplus on the services balance (US\$+104 million). Also, the surplus on the income balance dropped.

The surge in imports originated in higher oil prices, the build-up of inventories in the free trade zones of Curacao, and the strong demand of tourism and tourism-related investments in St. Maarten. Higher exports of goods, especially from the free zones, could only partially offset the rise in imports. The surplus of the services balance, based on the tourism activities, rose by US\$100 million to touch the 1 billion dollar mark and contributed to further mitigate the deficit

on the goods balance. This positive trend was brought about by the increase in activities in St. Maarten, whereas tourism and related activities in Curacao showed a mixed result. Unilateral transfers, consisting of tax transfers from the Government of the Netherlands as well as private transfers from citizens abroad, also declined compared to 2003.

The result on the capital and financial account shows a small surplus, brought about by increases in all categories of foreign liabilities and assets. Direct investments from abroad took place in the tourism and banking industries, such as the investment in Girobank by Total Bank from Venezuela. Domestic companies, for example in the construction sector, acquired assets abroad. More foreign loans were received than repaid. One of the important loans concerns the expansion of St. Maarten's airport. The overall result of the financial and capital accounts is positive because of the transfer of funds from the Netherlands to the recently established Foundation that administers Dutch development assistance to the Netherlands Antilles.

Table 22
NETHERLANDS ANTILLES: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004a/
Real Gross domestic product, percentage change	-2.7	0.2	0.3	1.4	1.0
Gross domestic product per capita	15,502			16,989	
Gross domestic product by economic activity					
Agriculture, fishery and mining		-0.4	-5.3	5.8	2.7
Manufacturing		-0.1	2.0	0.0	1.7
Electricity, gas and water		-0.4	2.4	1.3	0.8
Construction		13.3	-10.2	-3.7	2.5
Wholesale and retail trade		3.2	0.5	2.5	3.5
Restaurants and hotels		2.5	3.0	4.0	3.5
Transport, storage and communication		-2.1	-1.1	1.4	-1.5
Financial intermediation		3.0	3.8	1.9	4.0
Real estate, renting and business activities		-2.2	-0.5	1.6	0.5
Private households		-1.9	-0.1	-0.1	-3.1
Balance of payments (in US dollars)					
Current account balance	-91	-251	-59	7	-114
Merchandise balance	-1,764	-1,115	-1,027	-1,003	-1,168
Exports fob	1 210	638	576	681	800
Imports fob	2 975	1 753	1 603	1 685	1 968
Services balance	1,575	843	859	895	999
Income account	41	20	1	-7	-10
Unilateral transfers	58	1	109	123	66
Financial and capital balance c/	66	171	8	-54	23
Net errors and omissions		40	51	47	91
Global balance	...				
Variation in reserve assets e/	85	-415	-122	-88	-35
Public debt					
Government debt (millions of US dollars)	1,867.5	1,949.9	2,146.8	2,437.3	2,667.6
Government debt (% of GDP)	72.8			81.2	
Prices, interest rates and unemployment rate					
Rate of change in the consumer price index f/	4.4	1.6	0.4	1.9	1.6
Government bond	9.00	9.00	7.25	6.90	6.80
Population	182,746.00	175,913	172,523	176,743	180,870
Unemployment rate		14.6	14.6	15.3	15.0
Public finances					
Budget balance	-56.5	2.2	-121.2	-135.7	-190.6
Budget balance (% of GDP)	-2.2	0.1	-4.2	-4.5	-6.2
Government revenues (in US \$)	705	708	695	753	754
Government expenditures	761	705	816	888	945
Financing	56	-2	121	136	191
Monetary	12	31	78	59	100
Nonmonetary	45	-33	43	77	90
Monetary aggregates					
	<i>Percentages of GDP</i>				
Net foreign assets	2,955	13.8	16.6	24.6	26.5
Net domestic assets	64	45.9	50.8	51.6	55.3
Money and quasi-money	-118	65.5	72.6	76.2	80.9
Money		25.4	28.8	28.4	29.0
Quasi-money		40.1	43.8	47.8	52.0

Member States of the Organisation of Eastern Caribbean States (OECS)³⁹

1. Main trends

The countries members of the Organisation of Eastern Caribbean States (OECS) posted a positive growth rate for the third consecutive year since the events of 11 September 2001. Economic activity expanded (by 3.6% in 2003 and 3.8% in 2004) in response to the buoyancy of tourism (12% in 2003 and 4% in 2004) and construction (8% in 2003 and 6% in 2004).

The boost provided by economic activity pushed up tax receipts, which, combined with efforts to curb public expenditure, narrowed the fiscal deficit in all countries from 8% of GDP in 2003 to 7% in 2004). In terms of individual States, fiscal performance was uneven from one country to another.

Inflation climbed from 1.5% in 2003 to 2.4% in 2004, in response to the rise in aggregate expenditure that resulted from increased economic activity, higher international oil prices, wage increases and the appreciation of the Euro.

The external sector turned in an improved performance, mainly due to the narrowing of the current account deficit from 21% of GDP in 2003 to 17% in 2004. This reflected the widening of the service account surplus as a result of buoyant tourism, and contributed to the expansion of net transfers following efforts to mitigate and offset the damage caused by natural disasters.

In 2005, OECS members predict that their economies will continue the current trend of growth buoyed by tourism and construction. Despite the increase in output, fiscal imbalances are expected to rise due to higher capital expenditure resulting from preparations for the Cricket World Cup to be held in 2007 and the implementation of public and private infrastructure projects.

The constant rise in merchandise imports and the moderate growth in remittances as production activity recovers from the natural disasters will offset travel-industry revenues, thereby widening the external gap. Member States also expect flows of public and private capital to be sufficient to meet their economies' financing requirements.

2. Economic policy

2.1 *Fiscal policy*

OECS economies narrowed their overall consolidated fiscal deficit from 8% of GDP in 2003 to 7% in 2004, mainly due to the increase in tax receipts from 23% of GDP in 2003 to 24% in 2004, and to a lesser extent owing to the fall in capital expenditure from 8% of GDP in 2003 to 7% in 2004.⁴⁰

³⁹ The members and associate members of the Organisation of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. The analyses in this section refer to all members except the British Virgin Islands.

⁴⁰ Fiscal results do not include donations.

In 2004, current expenditure remained at the same level as in 2003 (27% of GDP). The tax burden increased in response to healthier growth prospects, while the pattern of capital expenditure mainly reflected the completion of infrastructure works. The OECS level of borrowing retreated from 105% to 100% of GDP, as a result of the restructuring of the debt of Antigua and Barbuda. The level of borrowing increased in the rest of the economies.

The aggregate fiscal results conceal significant differences in the performance of the various countries. Antigua and Barbuda, St Kitts and Nevis and Saint Lucia improved their fiscal performance, while the government accounts of Anguilla, and Dominica worsened. In Grenada, Montserrat and St Vincent and the Grenadines, there was no change on the previous year in terms of budget outturn.

Most OECS countries are expected to suffer a deterioration in their fiscal accounts in 2005, given that the unexpected hike in income will be easily cancelled out by the climb in capital expenditure. The effects of expanded economic activity will manifest themselves in taxes on international trade and transactions through higher flows of income and a rise in the demand for imports. The implementation of tax and administrative measures are also expected to increase the efficiency of tax collection in OECS countries. Once countries begin preparations for the 2007 Cricket World Cup, however, the rise in capital expenditure is predicted to offset the increase in current income.

Anguilla's fiscal operations yielded a negative result (2% and -5.3% of GDP in 2003 and 2004) due to the expansion in capital expenditures (4% and 11% of GDP in 2003 and 2004) notwithstanding the notable improvement in tax collection performance. The behaviour of capital outlays is explained by road construction and the upgrading of the national airport. The evolution of tax revenue (21% and 25% of GDP in 2003 and 2004) reflected the rise in the stamp tax intake due to the sale of two large properties.

The fiscal balance of Antigua and Barbuda, which went from -7% of GDP in 2003 to -6% in 2004, was attributable to the increase in income from international trade and transactions and hotel taxes, which made up for the outlays for debt servicing payments.

Tax performance responded to increased demand for imports and a rise in tourist spending. For 2005, the authorities have announced wage reductions (20% for civil servants) and a set of tax measures (including the reintroduction of income tax and tax rates of 5% on retail commerce and 7% on consumption) to continue the policy aimed at reducing budgetary imbalances and the external debt stock. The latter was more than halved in 2004 (41% of GDP compared with 84% in 2003) thanks to restructuring operations.

The deficit of Dominica widened from 6% of GDP in 2003 to 8% in 2004 on account of the rise in capital expenditure, which easily cancelled out the positive effects of increased revenues from taxes on sales and international trade and transactions. Capital expenditure corresponded to renovation and reconstruction operations undertaken by the authorities in the wake of the earthquake in November. The performance of income was attributable to the recovery of economic activity and the rise in the customs clearance rate. In 2005, the fiscal situation will reflect the full impact of the earthquake, and this will manifest itself in smaller receipts and an increase in capital expenditure.

The fiscal deficit of Grenada in 2004 was the same as in 2003 (-9.7% of GDP) while capital expenditure contracted, thereby mitigating the effects of insufficient government income and the rise in current expenditure. Tax performance was affected by the aftermath of Hurricane Ivan. Current expenditure rose as a result of civil service wage increases. In 2005, spending on reconstruction operations and wages (8%) is expected to exceed income, despite the plans to introduce a special tax on income and an increase in petroleum retail prices.

Monstserrat's fiscal performance (-77% and -75% of GDP in 2003 and 2004) largely reflected the contraction in capital expenditures (32% and 30% of GDP in 2003 and 2004). Current expenditures as well as current revenue maintained the levels of the previous year (29% and 75%, respectively, for both 2003 and 2004).

In St Kitts and Nevis, the improved tax burden offset the expansion of current expenditure, thereby narrowing the fiscal deficit from 9% of GDP in 2003 to 8% in 2004. Government revenue reflected the better outlook for economic growth and buoyant tourism. Current expenditure was determined by higher payments for goods and services and payroll increases. The government hopes to continue its fiscal consolidation efforts in 2005, despite predicted increases in public wages and capital expenditure. One decisive factor for fiscal performance will be the repercussions that the closure of the sugar industry in the second half of 2005 will have on central government income and expenditure.

Saint Lucia managed to significantly reduce its budgetary imbalance from 6.4% of GDP in 2003 to 2.5% in 2004 due to the introduction of a series of tax measures and a decline in capital expenditure. The tax measures included increases in the airport tax payable by members of the CARICOM and higher fees for banking and marriage licences. The government also increased specific taxes and duties on the consumption of imported alcoholic beverages, tobacco and the retail price of petrol and fuel.

The authorities expect the fiscal deficit to widen in 2005 as capital expenditure is up 51% on the previous year and receipts are down due to the predicted drop in the tax rate applicable to corporations.

The fiscal deficit of St Vincent and the Grenadines remained at 4% of GDP in response to the increase in payroll and expenditure on goods and services, which was covered by a rise in tax revenues resulting from the high growth rate of the economy. In 2005, the central government's current expenditure will climb by 8.4% owing to wage increases (7.8%), while capital expenditure will expand by 4.8%. In terms of revenue, the authorities plan to introduce a tax exemption for small enterprises, raise the threshold for tax exemption and increase the retail price of petroleum products.

2.2 Monetary and exchange-rate policies

The economies that make up the OECS formed a monetary union in 1983. Their single currency, the Eastern Caribbean dollar (EC\$), is linked to the United States dollar at a fixed rate of EC\$ 2.7. The union's monetary authority, the ECCB, acts as a virtual currency board and is required by its statutes to maintain reserves equivalent to 60% of its monetary liabilities. Ever since the monetary union's inception, the ECCB has maintained a neutral stance and has changed

its benchmark interest rate only slightly. The monetary union has two features that account for this neutral behaviour: on the one hand, the management of external assets and liabilities has enabled the monetary authority to keep its reserves at a level well in excess of the statutory requirement; and on the other, the commercial banking system complies strictly with its obligation to maintain a balance between assets and liabilities.

The expansion of the union's broad money supply (M2 of 10% in 2003 and 13% in 2004) was mainly a reflection of the hike in net external assets (22%) and, to a lesser extent, the increase in net domestic assets (9%). The rise in net external assets was due to travel-industry revenues, foreign direct investment and private and official aid for dealing with damage caused by natural disasters.

Net domestic credit was affected by sluggish demand for credit to the private sector, despite good prospects for growth within the OECS (3% in 2003 and 2.4% in 2004). This pushed up the level of liquidity in the commercial banking system.

A breakdown by sector reveals that personal loans represented 49% of total credit. Tourism, construction and agriculture were the sectors that registered the highest increases in demand for loans.

Monetary conditions are not expected to change in 2005. Indeed the OECS is expected to follow its stylized patterns that include a level of liquidity above the statutory level, growth of monetary aggregates driven by net external assets, weak demand for loans from the private sector and a spectrum of interest rates that will be free from significant variations.

3. The main variables

3.1 Economic activity

The upward trend of the growth rate in OECS economies continued for the third year in a row, which was a reflection of buoyant construction and tourism. In 2005, the growth pattern will be driven by tourism and construction as in previous years. Economic activity will benefit from activities related to the Cricket World Cup (2007), increased air flight capacity and higher foreign capital flows.

Agriculture stagnated in aggregate terms (-4.9% in 2003 and -1.5% in 2004), as the slump in Grenada, Montserrat, St Kitts and Nevis and St Vincent and the Grenadines offset the positive performances of all the other countries. In most countries, agriculture benefited from larger cultivated areas, increased productivity and higher international prices for their products. Bananas, in particular, posted an impressive recovery of 16% for OECS as a whole.

The full force of the repercussions of natural disasters, particularly in Grenada and, to a lesser extent, Saint Lucia and St Vincent and the Grenadines, will be more keenly felt in 2005. In Grenada, agricultural production is expected to fall by 39%. Another significant factor that will affect the performance of agriculture in 2005 is the closure of sugar production operations in St Kitts and Nevis due to low profitability.

Manufacturing contracted in the OECS as a whole (0.6% in 2003 and -2.3% in 2004), while individual performance varied from one country to another. The sector expanded by 1% in Dominica and 2.9% in St Vincent and the Grenadines, as a result of increased production of traditional products such as soap, food, beverages and milling products (supply rose in keeping with higher consumption). Greater intraregional trade flows were also a contributing factor.

The standstill in manufacturing in St Kitts and Nevis (-0.2%) was due to high operating costs and low levels of technology in most of the sector's enterprises. In Saint Lucia, manufacturing performance (-2.5%) is attributable to reduced production capacity following a plant closure. In Grenada, the poor manufacturing outturn reflected the disruption and damage caused by Hurricane Ivan.

The manufacturing sector is expected to post a positive growth rate in 2005, as Grenada's economy recovers and improves its ability to respond to increased domestic and foreign demand for manufactures.

Construction developed in line with the process of economic growth and with new and ongoing public and private infrastructure projects. Anguilla recorded the highest growth rate (53%) as a result of road construction and airport upgrading activities. Preparations for the Cricket World Cup, expectations of higher growth and the effects of reconstruction activities will provide a significant boost for the construction sector in 2005.

The performance of tourism (12.4% in aggregate terms for 2003 and 8.4% for 2004) was uneven among OECS countries. In Grenada, the sector contracted by 13% in 2004. In the rest of the economies, tourism responded to the growth of the main foreign markets, increased flight capacity, greater flows of investment in tourist establishments and higher numbers of cruise stopovers and itineraries. These variables will also determine the performance of tourism in 2005.

3.2 *Prices, wages and employment*

Aggregate inflation rose (from 1.5% in 2003 to 2.4% in 2004), partly as a result of the rise in international oil prices, the introduction of new tax measures, wage increases, the appreciation of the Euro in relation to the Eastern Caribbean dollar and the effects of natural disasters. These factors will also play a significant part in determining the rate of price increases in 2005, which is expected to exceed 2%.

In terms of countries, St Kitts and Nevis posted the smallest price increase in 2004 (1.7%), while Anguilla recorded the largest price hike (4.4%). A breakdown of inflation in St Kitts and Nevis shows that inflation rose as a result of increased prices for beverages (1%) and housing (6%). In Saint Lucia, inflation rose as a result of higher prices for food (1%); electricity and fuel (6%); and clothing and footwear (5%).

Civil service wages were raised by 4% in Grenada, 10% in St Kitts and Nevis, 3% in Saint Lucia and 4% in St Vincent and the Grenadines. The governments of Grenada, St Kitts and Nevis and St Vincent and the Grenadines expect additional increases in the public wage bill in 2005.

Employment evolved in accordance with the expansion of economic activity. The unemployment rate climbed steeply in Grenada and Dominica. In February 2005, the unemployment rate of Grenada was estimated to stand at 30% of the workforce, due to the destructive effects of Hurricane Ivan. The number of unemployed rose in St Kitts and Nevis as a result of the closure of the sugar industry, which employed 1,000 people.

3.3 *The external sector*

The overall balance-of-payments position showed a surplus (1.5% of GDP in 2003 and 3.1% in 2004), as the current account deficit (21% of GDP in 2003 and 17% in 2004) was easily financed with the surplus on the capital and financial account (23% of GDP in 2003 and 20% in 2004). As a result, the OECS increased its stock of international reserves, which helps to maintain the credibility of the monetary union.

The current account position improved in pace with the buoyancy of the tourism sector, which in turn widened the services account surplus from 20% of GDP in 2003 to 23% in 2004. Travel industry revenues hiked by 13% on account of higher visitor numbers (2.5 million in 2003 and 3.2 million in 2004). Current account operations also reflected an increase in unilateral transfers from 4% of GDP in 2003 to 7% in 2004, which resulted from private and public financial assistance for victims of natural disasters, plus insurance and reinsurance.

The balance of trade was much the same as the previous year (-38% of GDP in 2003 and -39% in 2004), owing to similar increases in imports and exports. Export performance responded to the recovery of agriculture, a rise in the international prices of products such as bananas (16% in 2004) and increased exports of certain manufactures (soap, beverages and food).

The capital account reflected flows of official donations, while the financial account balance was attributable to net foreign direct investment (US\$ 479 million compared with US\$519 million in 2003). In 2004, such investment was directed at tourism (60%), construction (3%) and sport-related activities (1%).

In 2005, the current account balance will be affected by the increase in exports resulting from the economic upswing. At the same time, merchandise exports will fall in the wake of Hurricane Ivan. Sustained buoyancy in the tourism sector and preparations for the Cricket World Cup will be determining factors for the services account balance. The balance of current transfers will reflect the gradual reduction of official and private aid for renovation and rehabilitation activities. On the other hand, the capital account will record inflows related to infrastructure projects in those States affected by natural disasters. Lastly, the financial account will include foreign direct investment flows channelled towards tourist-sector development.

Table 23
MEMBER STATES OF THE ORGANISATION OF EASTERN CARIBBEAN STATES (OECS): MAIN ECONOMIC

	2000	2001	2002	2003	2004 a/
Gross domestic product at factor prices	3.9	-1.3	0.5	3.5	3.9
Gross domestic product per capita at factor prices	4,189	4,160	4,190	4,338	4594.1
Gross domestic product by economic activity					
Agriculture	0.4	-8.4	5.3	-4.7	0.1
Mining	21.5	-6.3	-1.5	5.6	3.7
Manufacturing	-0.1	-1.4	-1.3	0.6	-1.8
Construction	4.9	-1.5	-2.5	4.4	5.5
Electricity, gas and water	14.3	5.6	2.0	2.9	1.0
Communications	3.4	0.4	-0.3	1.4	4.1
Tourism	-1.0	-5.2	-0.5	12.4	8.4
Wholesale and retail trade	3.5	-5.4	-0.3	5.0	3.8
Banks and insurance	10.2	-0.4	3.9	2.8	2.3
Other services	-6.4	6.4	0.5	1.1	0.9
Balance of payments					
Current account balance	-417	-394	-576	-652	-562.7
Merchandise balance	-1,076	-993	-1,004	-1,176	-1286.4
Exports fob	352	303	310	...	...
Imports fob	1 428	1 296	1 340	...	...
Services balance	691	660	520	646	
Income account	-196	-176	-205	218	247.2
Unilateral transfers	164	114	113	127	232.3
Financial and capital balance c/	450	459	639	698	662.6
Net foreign direct investment	304	265	316...		
Financial capital d/	148	198	288	... ..
Global balance	33	65	63	46	103.0
Variation in reserve assets e/	-19	-65	-63	-46	-103.0
Other indicators of the external sector					
External debt (% of GDP)	46.5	53.1	63.7	67.6	59.9
Prices					
Rate of change in the consumer price index (end of period)	1.7	1.3	0.3	1.5	2.4
Central government					
Current revenues	1,947	1,910	2,012	2,166	2,371
Current expenditures	1,871	2,038	2,172	2,224	2,396
Capital account balance	-438	-455	-289	-408	-417
Primary balance	-127	-245	-160	-72	69
Global balance with grants	-329	-500	-449	-401	-305
Money and credit					
Domestic credit	75	76	75	71	72
Money supply	68	72	74	77	73
Foreign currency deposits	10	10	12	12	13

Suriname

1. Main trends

With the installation of a new coalition government, headed once again by President Venetiaan following the May 2005 elections, the economy of Suriname is expected to grow for a third consecutive year above 5% (compared to 5.4% in 2003 and an estimated 7.8% in 2004), which has not happened for at least a quarter of a century. The favorable commodity export prices and a high level of foreign direct investment and, in particular, the start of production of the Rosebel gold mine, coupled with more responsible macroeconomic policies, explains the boom.

The macroeconomic stabilization achieved in 2003 led to the introduction of a new currency, the Surinamese dollar, on 1 January 2004. Changes in the legal reserve policy for local and foreign currency deposits helped to reestablish public confidence in the local currency and to reverse the trend towards dollarization of the economy. In the year and a half prior to the May 2005 election, fiscal policy became more expansionary, without affecting macroeconomic stability. In the period considered, a longer-term perspective was also adopted with regard to economic policy, with results that are modest as yet. The authorities began to implement projects to modernize public administration. They established multiyear programmes for the health and education sectors and initiated structural changes, including the removal of several public enterprises from the State sphere.

2. Economic policy

Following the stabilization of the economy in 2003, which had brought a fiscal surplus, lower inflation, a narrowing of the balance-of-payments current account deficit and expansion of international reserves, economic policy for 2004-2005 was oriented to accelerating growth without affecting stability. Credit to the public and private sectors was expanded, while efforts were made to save part of the approved budget, in particular by controlling government posts and wages. The fiscal deficit was financed by increasing domestic debt. In the area of economic activity, markets were gradually liberalized in telecommunications services and transport, and some State enterprises connected to agricultural production were closed or reorganized. According to the latest estimates, real GDP growth reached 7.8% in 2004, in the wake of a 5.4% growth in 2003.

2.1 *Fiscal policy*

The very tight fiscal policy adopted in 2003 achieved a financial surplus (including grants) amounting to 3% of GDP. In 2004, a pre-election year, fiscal policy became less restrictive and posted an overall deficit of 1.8% of GDP. This was due in particular to the higher level of capital spending and the reduction in collection of some taxes. Despite the electoral expenditure, the government intends to achieve a small current surplus in 2005, and predicts a financial balance deficit, which will probably be covered by grants.

Fiscal income depends to a large extent on the taxes of a few large enterprises engaged in exploitation of bauxite, gold and oil, products whose international prices have gone through sudden changes. According to the IMF, the volatility of fiscal income is aggravated by the system of gasoline taxes. Direct taxes increased from 8.3% to 9.1% of GDP, which was not enough to compensate for the decline in indirect taxes (12.2% to 10.9%). Taking into account also non-tax revenues, total income went down from 25.8% to 25.1% of GDP.

Fiscal expenditure, on the other hand, grew in terms of its share of GDP by 2.1 percentage points, producing a deficit. Fiscal control occurs mainly by means of the monthly spending authorizations, with which the Ministry of Finance makes efforts to cut a proportion of the approved spending. Consistent efforts have been made to limit spending on wages, which has diminished from 12.7% to 11.3% of GDP. In contrast, expenditure on purchases of goods and services rose by 2.3 percentage points of GDP, partly because of the pre-election situation. Current expenditure increased by 0.9% of GDP, while payment of interest for debt-servicing remained under 2% of GDP.

The main mechanism for financing the deficit (after grants) is the domestic capital market. The government issues treasury bonds through the commercial banks for a six-month term at a rate of 12.5%. The purchasers are pension funds, insurance companies and some private individuals. In 2004, the level of domestic public debt expanded by 0.2 % of GDP. The consolidated debt of 1995, scheduled over 15 years, continues to be a significant component of the domestic debt.

2.2 Monetary and exchange-rate policies

Monetary policy was oriented to guaranteeing the successful introduction of the new currency, the Surinamese dollar, equivalent to 1,000 units of the old currency (guilders), and to restore public confidence in the local currency. The main policy instrument is the legal reserve requirement for deposits in both local and foreign currency. The reserve requirement for local-currency deposits was reduced in the course of 2004 from 35% to 30%, while for foreign-currency deposits it increased from 17.5% to 22.5%, and then to 33.3% in 2005. In the course of 2004 the legal reserve requirement was also applied to the remaining two of the seven commercial banks operating in the country. The interest rate on reserves remains unchanged at 6% for Surinamese dollars and a real rate of 0.75% for foreign currency.

There was monetary expansion (M1) of 28% in 2004, after the very low level (1.6%) in 2003. Foreign-currency deposits, which are included in money in the broad sense (M2), increased by 33% in 2004, after a rise of 19% in 2003. Expansion of 17% is predicted for 2005, and also a reversal of the trend to dollarization of the economy. The increase in the monetary stock reflects both the higher level of international reserves and the expansion of credit to the private sector.

The legal reserve requirement policy also served the purpose of stimulating the availability of loans for housing construction. In fact, in 2005 the commercial banks were authorized to allocate up to 20% of their legal reserve to financing in that sector. The interest rate was set at 7% (one percentage point higher than the normal reserve rate) for a 25-year term. The maximum amount per housing unit was set at 70,000 Surinamese dollars, which is approximately

US\$25,000. The banks took advantage of this opportunity and made use of virtually the entire quota.

Another monetary policy objective is to lower the loan rate and reduce the difference between lending and deposit rates. At the beginning of 2004, the loan rate was at 12.3% on average in real terms, while at the end of the year it was down to 10.7%. As the deposit rate, which remains within a slightly negative range, declined less by 0.4%, the difference between the two was diminished.

Exchange-rate policy remained virtually unchanged, with an official exchange rate that is still anchored to the United States dollar, which depreciated from 2.6 to 2.68 Surinamese dollars, while the rate in exchange offices was virtually identical. Although there are some imported products to which specific exchange rates are applied, those rates are not very different. This policy has of course led to a significant depreciation of the local currency in relation to the euro.

2.3 *Other policies*

The Ministry of Planning and Development Cooperation is responsible for the management of international cooperation funds. These funds come from bilateral cooperation and the sources include the Netherlands, the IDB and the United Nations Development Programme (UNDP). The Netherlands cooperation funds, which were established at the time of independence in 1975, include grants and counterpart resources. At the beginning of 2005, agreement was reached on the release of the final grants and the scheduling of counterpart resources. These funds are assigned basically to four sectors: health, housing, education and agriculture. The counterpart resources (136 million Euros) are allocated to the objectives established by the government: reform of the public sector and enhancement of the environment for private investment.

3. The main variables

3.1 *Economic activity*

In 2004 the economy expanded at a rate of 7.8%, compared to 5.4% in 2003. Growth of around 5% is predicted for 2005. Growth in 2004 was led by mining (31.2%), construction (10.1%) and transportation and communication (14%). Agriculture posted a second consecutive year of over 6% growth.

At the beginning of 2004, the startup of the Rosebel gold mine, which is 95% owned by the Canadian enterprise, Cambior, and 5% by the government, meant an investment of US\$95 million. This activity, which provides almost 1,000 jobs, generated US\$2.5 million in royalties in 2004. The enterprise produced 273,700 ounces of gold in 2004, with a production value of US\$46.5 million.

The United States ALCOA, the main global company in the subsector of aluminium and associated markets, completed the expansion of its refinery in Paranam at the beginning of 2005.

The State oil enterprise, Staatsolie, contracted its physical production by 5%, but posted an increase of 17.5% in its gross income in 2004, as it began international marketing activities.

Construction also boosted growth. On the one hand, the commercial banks had an incentive to allocate part of their legal reserves to long-term financing for low-cost housing projects. On the other hand, the government implemented a reconditioning programme for road infrastructure and rural roads, and modernization works are being carried out at the port and airport.

Structural change projects were initiated in a number of sectors, in particular in agriculture. In the banana subsector, a loan from the IDB facilitated restructuring for the State enterprise, Surland, which had unsustainable debts. The new company resulting from the reform, Stichting Behoud Bananensector Suriname (SBBS), began banana exports to the European market in March 2004 and production of 60,000 tons is projected for 2005.

In the rice subsector, which provides 9% of all employment in the country, the main rice producer, the State enterprise, Stichting Machinale Landbouw (SML) (Foundation for Mechanized Agriculture), disappeared. A new organization was created, Suriname Rice Organization (SRO), which will work with half of the 10,000 hectares owned by the former company. The remaining 5,000 hectares will be distributed among the workers of the former company. The restructuring has not yet been implemented, and so the sector was at a standstill in 2005.

Telecommunications activities are in the process of being liberalized. The State enterprise, Telesur, will become a corporation; the new national telecommunications authority will be responsible for regulation of the sector, and two new companies will be allowed to operate.

Tourism is still at an incipient stage of development. According to the tourism foundation, 137,000 foreigners visited the country in 2004, contributing US\$128 million, a substantial improvement on the 85,000 visitors received in 2003.

The informal sector also plays a very significant role in the economy and, according to official estimates, contributes anywhere between 20% and 60% of GDP.

3.2 Prices, wages and employment

Inflation is estimated at 9.1% for 2004 and is expected to be slightly less in 2005 (9%). Inflation should be even lower this year, however, as prices rose by only 1.5% over the first quarter of 2005. Inflation was non-existent in February, mainly due to a reduction in the cost of housing and basic services. In March, prices rose by only 0.2%, and this was the result of an increase in health service costs.

The lowest wages in the public sector are, on average, between US\$185 and US\$500. The average wage increase in the public sector was approximately 15%. The official projection for public wage increases in 2005 is between 5% and 10%.

3.3 *The external sector*

In the first nine months of 2004, the current account posted a small surplus (US\$8 million), which was based on the higher surplus in trade in goods (US\$138 million) and the positive balance of current transfers (US\$7 million). Exports of goods increased by US\$500 million in the first nine months of 2003 to US\$ 600 million in the same period of 2004, driven by the external sales of gold produced by the new Rosebel mine. Other export products were oil, plantains and beer. Imports declined from US\$500 million to US\$470 million, owing to completion of construction work for the mine.

The goods trade surplus was sufficient to compensate for the structural deficit in trade in services (US\$106 million), which was due to the losses suffered by transport and business services as well as the income account deficit (US\$30 million). The transfer account showed a positive result of US\$7.5 million, owing to official transfers.

The negative balance of the financial account grew from US\$41 million in 2003 to US\$56 million in 2004, in view of liabilities to foreign investors (US\$44 million), public debt repayments (US\$20 million) and restructuring of existing debt. Public foreign debt declined from 25.4% to 19.4% of GDP. One third of this amount has been in arrears since 1999.

Table 24
SURINAME: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004
	<i>Annual Growth Rates</i>				
Gross Domestic Product	1.9	4.6	2.1	5.4	7.8
Per capita Gross Domestic Product	0.5	3.2	0.7	4.0	6.9
Gross Domestic Product, by sector					
Agriculture, livestock, hunting, forestry and fishing	5.9	11.4	-3.9	4.3	1.5
Mining and quarrying	-8.8	25.0	-8.6	0.0	31.2
Manufacturing	58.8	13.3	-3.6	5.6	9.5
Electricity, gas and water	-7.7	2.1	10.3	-1.7	9.2
Construction	-11.8	4.5	0.6	17.0	10.1
Wholesale and retail trade, restaurants and hotels	-15.7	-14.5	8.4	32.2	6.0
Transport and communication	25.0	28.7	12.6	-0.4	14.0
Financial intermediation, real estate, renting and business activities	2.9	0.2	5.4	3.5	1.6
Community, social and personal services, including Government	2.0	2.0	1.1	0.2	1.3
Balance of Payments					
	<i>Percentage of GDP</i>				
Current Account Balance	-20	-30	-16	-7	1
Merchandise Trade Balance	-1	-7	-2	-5	9
Exports, f.o.b.	58	52	44	49	41
Imports, f.o.b.	60	60	46	54	31
Services trade balance	-13	-15	-12	-10	-7
Income balance	-5	-14	-4	-4	-2
Net current transfers	0	0	-1	0	0
Capital and financial balance	-7	4	-2	-13	-3
Errors and omissions	27	27	18	20	3
Overall balance	0	0	0	0	0
Variation in reserve assets	0	-10	2	-11	-2
Population					
Mid-year population	463,837	470,064	476,374	482,769	487,024
Employment					
Unemployment rate	14.00	14.00	10.00	7.00	..
Prices					
Variation in consumer prices		4.9	28.4	13.1	9.1
Variation in the free nominal exchange rate			7.8	10.6	5.4
Nominal deposit rate		11.1	8.4	8.5	8.1
Nominal lending rate		23.5	21.3	21.0	19.1
Central Government					
	<i>Percentages of GDP</i>				
Current income		32.3	23.4	25.8	25.1
Current expenditure		31.7	28.0	23.8	24.7
Current balance		0.6	-4.6	2.0	0.4
Public debt		50.9	50.0	38.6	32.8
Domestic		9.0	15.0	13.2	13.4
External		41.9	35.0	25.4	19.4
Money and Credit					
	<i>Percentages of GDP</i>				
Net domestic credit		21.4	25.6	26.1	28.5
Narrow money supply		23.1	20.9	16.2	17.0
Broad money supply		56.4	48.4	43.9	48.0

Trinidad and Tobago

1. Main trends

The economy of Trinidad and Tobago showed real growth in 2004 of 6.2%, driven by the energy sector, while non-energy sectors grew at the moderate rate of 3%.⁴¹

Despite the slowdown in growth in non-energy sectors and the intensive capital use in the energy sector, the unemployment rate went down from 10.5% in 2003 to 8.6% in 2004. Construction, commerce and the public sector were the main sources of job creation. Employment fell in the agricultural sector, owing to restructuring of the sugar industry.

The significant improvement in the energy sector's performance (10.5%) brought an increase in its contribution to tax revenue, which led to a positive fiscal balance (1.4% and 2.1% for the fiscal years 2003 and 2004).⁴²

In view of the rapid economic growth, driven to a large extent by high international oil prices, monetary policy was relaxed to encourage expansion in the other sectors. Signs of inflation in the last quarter of 2004, however, led to a policy change at the beginning of 2005. The inflation rate almost doubled from 3.0% in 2003 to 5.6% in 2004.

In 2005, the economy is expected to continue its current growth path of the order of 6% to 7%, especially in view of the energy sector's performance, and international oil prices are expected to remain high. The current account surplus of the fiscal budget should therefore be between 2% and 3% of GDP. Inflation will probably increase by 7% owing to the sustained rise in food prices.

2. Economic policy

2.1 *Fiscal policy*

The government's fiscal policy was oriented to maximizing the revenue from the energy sector by introducing a new tax regime. This regime will also allocate resources to support diversification of the economy in order to reduce dependence on that sector.

The surplus for the fiscal year 2004 was 2.1% of GDP, compared to 1.4% in 2003. This occurred because of higher international oil prices (US\$31 per barrel instead of the US\$25 predicted), which meant that the revenue stabilization fund grew by more than 80% over the fiscal year 2004.

Most of the revenue (25.3% and 28.8% of GDP for the fiscal years 2003 and 2004, respectively) came from income tax and value added tax. Income from taxes on oil companies also increased significantly owing to the hike in oil and gas prices.

⁴¹ The analysis here is based on the new annual series of GDP at 2000 prices, produced by the Central Bank using new weightings calculated by the Central Statistical Office for that year.

⁴² The fiscal year is from 1 October to 30 September.

Current expenditure (22.7% and 24.4% of GDP in the fiscal years 2003 and 2004, respectively) was mostly allocated to wages, transfers and subsidies to families and State organizations and institutions. In accordance with the government's aim of improving general well-being, petrol prices were subsidized and pensions and other social assistance benefits were increased. Interest repayments diminished, as lower interest rates were applied to domestic debt and the public external debt stock was reduced.

Capital spending rose from 1.2% of GDP in fiscal year 2003 to 2.3% in fiscal year 2004, as resources were allocated to the "dollar for dollar" programme (education), road improvement and projects included in the public sector investment programme.

Public debt diminished from 55.9% of GDP in the fiscal year 2003 to 52.7% in 2004, and external debt from 15% to 13.1%. Debt servicing remained relatively low, at 5.7% of exports of non-factor goods and services. In June 2004, Standard & Poor's raised the country's investment rating for long-term public debt to BBB+.

The increase in the liabilities of central government, public enterprises and other State institutions accounted for 4.6% of domestic debt. The higher level of central government debt was due to the issuance of liabilities to counteract the increased market liquidity that followed the reduction of the legal reserve requirement for commercial banks and debt repayment.

For the fiscal year 2005, oil sector revenues of US\$3.8 billion dollars are predicted, which should account for 40% of total revenue. Total expenditure of US\$4.4 billion dollars is planned. Any surplus resulting from price differences will be transferred to the revenue stabilization fund. Taking this transfer into account, the fiscal surplus is estimated as close to 4% of GDP.

2.2 *Monetary policy*

The goal of the government's monetary policy is to maintain a low inflation rate, stability in the exchange market and an adequate level of international reserves.

Since 1996, the Central Bank has used market-based monetary policy instruments, namely open-market operations and the "Repo" (repurchase agreements) rate to provide financing for commercial banking. Changes have also been made to the legal reserve requirement of financial institutions in order to influence liquidity in the system.

In 2003, the Central Bank lowered the Repo rate by 25 basis points to 5%, and began to gradually bring down the reserve requirement. This policy reflected the need to stimulate growth in non-energy sectors, which had been lagging behind significantly. The legal reserve requirement was reduced from 14% to 11% in September 2004.

As a result, interest rates declined; the prime lending rate of the commercial banks went down from 11.5% in 2003 to 8.75% in 2004. The drop in interest rates is related to the significant expansion of credit to the private sector, from 27.8% of GDP at the end of 2003 to 31.3% of GDP at the end of 2004.

In the first week of March 2005, the Central Bank increased the repo rate by 25 basis points, to 5.25%, because of the surge in inflation and the narrowing of the short-term interest rate spread in local and foreign currency. The shift in the Central Bank's policy caused a rise in commercial bank interest rates, as the prime lending rate jumped from 8.75% to 9%.

Monetary management was a challenge for the authorities in 2004, in view of the substantial economic growth and the significant increase in liquidity deriving from fiscal operations. Some of this liquidity was sterilized through open-market operations, which absorbed the equivalent of 3.5% of GDP.

2.3 *Exchange-rate policy*

Foreign-currency operations increased during 2004 and the first four months of 2005. International reserves expanded significantly, thanks to the inflow of capital to the energy sector. The Central Bank therefore intervened in the exchange market in order to meet the demand for foreign currency and was successful in maintaining the relative stability of the Trinidad and Tobago dollar in relation to the United States dollar (TT\$6.2 to the United States dollar in 2004).

3. The main variables

3.1 *Economic activity*

GDP growth has been rapid since 2001. In 2004 the growth rate was 6.2%, virtually the same as in 2002 (6.8%), after the peak of 13.2% reached in 2003. The growth was mainly due to the increase in production of natural gas (10.7%) and liquefied natural gas (21.3%) as well as to expansion of the petrochemical industry (11.5%).

In 2004, the overall level of growth in non-energy sectors was 2.9%. Construction, the manufacturing industry and tourism were the most dynamic sectors, with growth rates of 9%, 6.6% and 5.9%, respectively. The expansion of services slowed down considerably, from 4.2% in 2003 to 2.9% in 2004, as a result of low growth in the financial services and insurance sector. Agriculture continued to decline, adding a contraction of 20.2% in 2004 to the 18% drop in 2003. This was mostly due to the restructuring in the sugar industry and adverse weather conditions.

The energy sector will continue to be the main engine of growth. The government plans to increase the aggregate value and the contribution of this sector to fiscal revenue by introducing a new tax system.

The strengthening of non-energy sectors will be based on tourism and will include the development of hotel activity and promotion of tourism. The contribution of the agricultural sector to growth will be enhanced by improving infrastructure, credit access and the incentives programme for agriculture, among other measures.

3.2 *Prices, wages and employment*

Inflation almost doubled in 2004 (5.6%) compared to 2003 (3%), with food prices as the main cause. There were price increases for grains and other inputs, as well as a scarcity of fresh agricultural products (fruit and vegetables) in view of the extreme weather conditions in 2004, including Hurricane Ivan which affected agricultural imports from neighbouring Caribbean countries.

Unemployment dropped sharply in 2004 (an average of 8.6% compared to 10.5% in 2003). The growth in employment (5.3%) was higher than that of the labour force (2.8%). The services sector, in particular community, social and personal services, made the major contribution to job creation. The expansion of employment in construction, finances and insurance, manufacturing and energy was also considerable, while employment in agriculture declined significantly.

The demand for skilled and unskilled labour will continue to rise and employers, who claim a supply shortage, will have to accept imported labour. This shortage resulted in a wage increase from TT\$ 8 to TT\$ 9 per hour at the beginning of 2005.

3.3 *The external sector*

The continuing buoyancy of the energy sector contributed to the significant rise in the overall balance surplus. This surplus amounted to 4.5% of GDP in 2004, compared to 3.2% of recorded GDP in 2003, while the current account surplus was down by 32%. The balance of goods declined by 4.7%, and the services balance remained stable between 2003 and 2004. Nevertheless, most of the current account surplus is due to the merchandise trade balance, which amply compensated for the substantial rise in the repatriation of foreign investment income.

Exports of goods accounted for 60.7% of GDP in 2004, compared to 48.9% in 2003. Minerals and fuels accounted for 60% of exports, but grew by only 11% in 2004. Exports of chemical products posted the highest growth rate (67.8%), followed by manufactures (28.3%) and foods (12.6%). Manufactures account for 9% of exports and are mainly intended for the markets of CARICOM member countries.

Imports rose to 48.9% of GDP in 2004 (36.5% in 2003). Machinery and transport equipment, and minerals and fuels, were the main import categories, accounting for 37% and 24% respectively of total imports in 2004. The most significant import growth was in manufactures (50.3%) and capital goods (43%).

Exports of services were equivalent to 6.8% of GDP in 2004, compared to 6.4% in 2003. The main exports were in tourism, transport and insurance, which accounted for 34%, 33% and 12%, respectively, of total exports of services in 2004. The most rapid growth was in tourism (68.6%) and transport (25%).

The deficit in the capital and financial account of the balance of payments rose by approximately 4.3% in 2004 and was equivalent to 4.1% of GDP (3.9% in 2003). Net direct investment increased by 61.2% in 2004. Nevertheless, there was substantial capital flight, most

of which was due to asset purchases abroad and the issue of regional bonds on the domestic capital market. The issue of regional bonds in 2004 was equivalent to 6% of GDP, compared to 4.8% in 2003.

The expansion of the overall surplus shored up the country's international reserves, which grew by 30% in 2004. Net official reserves were equivalent to 26% of GDP or about 7 months of imports of goods and services.

Energy exports continued to be significant in 2005 and, in a context of high international prices, will bring an estimated surplus of between 6% and 7%. Petrochemical exports will also continue to grow, as a result of the planned increase in production. Manufactures exports may or may not maintain their growth depending on the dynamism of regional markets and the capacity of manufacturing companies to penetrate markets outside the region. The considerable attention given to tourism development should also contribute to the growth of services exports in that sector.

Table 25
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004a/
Gross domestic product	7.3	4.3	6.8	13.2	6.2
Gross domestic product by economic activity					
Agriculture	-2.4	8.7	6.0	-18.0	-20.2
Energy	12.5	5.6	13.5	31.2	10.5
Manufacture	6.0	9.8	4.6	5.0	6.6
Construction	7.6	10.3	-16.0	6.7	9.0
Wholesale and retail trade	5.9	-2.8	1.3	2.0	2.2
Balance of payments					
Current account balance	544	446	76	985	1623
Merchandise balance	969	718	238	1,293	1509
Exports fob	4 290	4 304	3 920	5 205	6403
Imports fob	3 322	3 586	3 682	3 912	4894
Services balance	166	204	264	314	671
Income account	-629	-539	-480	-681	-450
Unilateral transfers	38	33	55	59	53
Financial and capital balance d/	-103	86	-1	-583	-837
Net foreign direct investment	654	685	684	425	973
Financial capital e/	-757	-599	....	...	...
Global balance	441	502	49	334	734
Variation in reserve assets f/	-441	-502	-49	-334	-734
Other indicators of the external sector					
External debt (millions of US dollars)	1 680	1 666	1 549	1 553	1351
External debt (% of GDP)	24.4	18.6	16.7	13.9	13
Employment					
Participation rate g/	61.2	60.7	60.9	61.6	61.5
Unemployment rate h/	12.2	10.8	10.4	10.5	8.6
Prices					
Rate of change in the consumer price index (end of period)	5.6	3.2	4.3	3.0	5.6
Rate of change in the nominal exchange rate	0.0	-0.3	-0.2	-2.1	0.2
Weighted average of the real deposit rate of interest	14.5	14.0	12.3	11.4	...
Weighted average of the real lending rate of interest	5.7	5.5	3.5	2.5	...
Central government					
Current revenues	13,007	13,380	14,424	16,754	20,626
Current expenditures	10,994	12,595	13,366	15,007	17,499
Balance on the capital account	-1,194	-826	-698	-788	-1617
Primary result	3,249	2,181	2,656	3,452	3874
Global result i/	819	-41	360	958	1510
Global balance j/	1.6	-0.1	0.6	1.4	2.1
Money and credit					
Domestic credit	32.1	34.6	35.9	32.9	34.2
To the public sector	1.7	4.4	5.2	3.3	3.5
To the private sector	30.4	30.2	30.7	29.6	30.7
Liquidity (M3)	38.9	43.1	41.9	36.8	39.4
Money supply and deposits in domestic currency (M2)	28.3	33.4	31.9	29.9	27.0
Deposits in foreign currency	10.6	9.7	10.0	6.9	12.4

United States Virgin Islands

1. Main trends

The economy of the United States Virgin Islands has consolidated its recovery from the 2002 recession. That year, Gross Territorial Product decreased 5%; in 2003 it rebounded and grew 3.1%. In 2004, growth is estimated at 3.0%. Prospects for 2005 are similarly positive.

Tourism is the main engine of growth and the total number of visitors increased 9.6% between 2003 and 2004. The number of visitors surpassed 2.6 million per year in 2004, higher than the previous peak of 2.5 million visitors achieved in 2001. Total expenditure of visitors was up by 8% in 2004 compared to 2003 and reached US\$1.36 billion. Other sectors also showed positive signs of growth, including oil refinery and construction. The construction of a desulphurization unit at Hovensa's oil refinery should boost job creation. Preliminary unemployment figures show a decrease from 9.4% in 2003 to 7.9% in 2004 and 7.5% in 2005.

The elected government is presently ending its second term in office and elections are scheduled for early 2006.

2. Economic policies

The United States Virgin Islands is a non-self-governing territory, according to the United Nations Special Committee on Decolonization. To the United States, it is an unincorporated territory, subject to federal laws but with a considerable degree of self-government. The scope of self-government has steadily increased since the United States bought the islands from Denmark in 1917. Two economic policy issues brought the tension between self-rule and subordination to the fore in 2004. One concerns public finances and the other tax incentives for economic development.

2.1 *Fiscal policy*

The United States Virgin Islands fiscal situation was precarious by the end of the 1990s, following a string of hurricanes that wrecked the economy and led the government to accept federal loans for emergency assistance. In 2000, a five-year economic and fiscal recovery plan was adopted to obtain long-term financial stability. The government was authorized to issue bonds up to US\$300 million to obtain funds for current expenditures. Although much has been achieved in terms of fiscal discipline, the country still carries a government debt estimated at US\$1 billion and interest payments weigh heavily on the fiscal position. A fundamental restructuring of debt has not occurred.

In late 2003, the representative of the United States Virgin Islands to Congress introduced a bill (108th Congress, H.R. 3589) to establish the position of a Chief Financial Officer who would oversee all government expenditures. The government does not support the bill, stating that it would severely impair the authority of elected territorial officials. In September 2004, Congress reported the bill to the Senate and recommended its approval. In March 2005, the Senate referred it to the Committee on Energy and Natural Resources.

Meanwhile, the government presented its Executive Budget 2006 in July 2005, based on US\$726 million of projected revenues. These revenues stem from taxes (80%), fees (6%), interest and other revenues (14%), among which is the Internal Revenue Matching Fund (IRMF) that transfers taxes levied in the United States on activities performed in the United States Virgin Islands.

Total expenditures are estimated to balance the budget at US\$726 million and include transfers to other funds, including the IRMF. These expenditures contain US\$87 million for debt service (12% of revenues).

2.2 Other policies

The United States Virgin Islands maintains its own taxation authority, vested in its Bureau of Internal Revenue, pursuant to the United States Internal Revenue Code Regulations. The Internal Revenue Service and the BIR are separate tax administrators and their relationship is governed by the *Tax Implementation Agreement between the USVI and the United States*, signed in February 1987. The United States Virgin Islands residents report worldwide income with the Virgin Islands Bureau of Internal Revenue and do not file an income tax return with the IRS.

The United States Virgin Islands had embarked on a policy of attracting companies that provide services outside the territory (investment management, consulting and software development). Under certain conditions, these companies could qualify as legitimately based in the Virgin Islands and hence obtain significant tax exemptions. A new federal law, the American Jobs Creation Act, signed in October 2004, imposes additional requirements for qualification for bona fide the United States Virgin Islands residence and limits the possibilities for tax reduction. The impact of the law depends on the details of implementation, but an instrument of the United States Virgin Islands' economic diversification policy has been weakened.

2. Evolution of main variables

2.1 Economic activity

Economic growth in 2004 (3.0%) and 2005 (estimated at 3.2%) reflects buoyant tourism activity and a strong performance of the business and financial services sectors. Both air and cruise ship passengers reached record levels and grew by more than 10%. In 2005, growth continued at a rate of 5%.

In the manufacturing sector, the value of refined petroleum production was up 40% as a result of higher commodity prices and increased demand. Cruise ships began direct refuelling from the Hovensa oil refinery.

Also the rum industry, comprising the Virgin Islands Rum Industries Ltd, is producing well. On the other hand, the watch industry has been declining. Total watch shipments were down 20%. Employment in manufacturing edged up 5% to 2,146 jobs.

Construction activity grew less in 2004 than it had done in 2003, due to the finalization of major projects and delays in the start up of others. Total number of jobs declined 3%, but growth is expected to be strong in 2005 and 2006. The construction of Hovensa's desulfurization unit is expected to produce 400 jobs.

Hotels and restaurants had a good year and total number of jobs rose 4%. The financial services sector was one of the most vibrant, reflecting the success of the Economic Development Corporation programme containing tax benefits for bona fide companies legally based in the United States Virgin Islands.

Table 21
United States Virgin Islands: Main Economic Indicators

	2000	2001	2002	2003	2004
Gross Territorial Product, annual growth	16.7	3.2	-5.0	3.1	
Gross territorial product, million US\$	2,337	2,480	2,392	2,522	
Gross territorial product per capita, current US\$	21,518	22,670	21,741	22,770	
GTP by Industry					
Construction	50.53	...	...	...
Manufacturing	16.18	...	...	...
Trade	28.60	...	...	...
Services	30.27	...	...	...
Others	21.29	...	...	...
Government	2.44	3.00	-0.63	5.32	
Tourism Indicators					
Total Visitor Arrivals (000)	2,396	2,497	2,337	2,393	2,623
Tourists (000)	546	527	520	538	543
Excursionists (000)	1,850	1,970	1,816	1,854	2,080
Air Excursionists (000)	82	79	78	80	115
Cruise Ship Passengers (000)	1,768	1,891	1,739	1,774	1,965
Air Visitors (000)	627	606	598	619	658
Number of Cruise Ships	1,014	976	845	888	924
Labour Force and Civilian employment					
Resident Population	108,612	109,403	110,026	110,740	111,422
USVI Civilian Labor Force	47,730	49,670	49,430	48,170	50,066
Civilian Employment	44,500	46,140	44,980	43,640	46,101
Civilian Unemployment	3,222	3,533	4,316	4,530	3,965
Unemployment (%)	6.8	7.1	8.8	9.4	7.9
Public finances					
Recurrent Revenue	708.6	612.5	487.2	569.9	577.0
Tax Revenue	434.5	522.7	447.8	450.7	544.1
Non-Tax Revenue	274.1	89.9	39.3	119.2	32.9
Recurrent Expenditure	559.6	513.8	584.4	606.8	556.6
Current Balance	149.0	98.8	-97.2	-36.9	20.3
Capital Expenditure	11.4	5.1	11.2	3.3	1.1
Overall Balance	137.7	93.7	-108.4	-40.2	19.3

Source: ECLAC, on the basis of official information