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**NOTES ON THE ECONOMIC PERSPECTIVE
FOR THE CARIBBEAN SUBREGION**

2002

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EXECUTIVE SUMMARY

In 2002 the economic performance of the Caribbean subregion will be uneven. In most cases, countries will not achieve the rates of output growth prevailing in 1999 and 2000.

Service-based economies comprising most of the countries belonging to the Organisation of Eastern Caribbean States (OECS), the Bahamas and Barbados are likely to register stagnant growth rates. The tourism sector is expected to rebound mildly and register a definite upward trend in selected countries. However, tourist performance indicators might not regain the levels registered in the previous year. Available data show that in the first quarter of 2002, Barbados registered a -4% decline in GDP growth with an 8.4% contraction in tourist arrivals. The weak performance of other sectors, such as sugar and manufacturing prone to high costs and characterized by technological inadequacies, is likely to validate the expectation of an overall economic decline. For its part, the Bahamas is expecting to stimulate its economy through an increase in hotel capacity. The OECS economies expect, on average, an estimated rate of growth of 1% for 2002.

The economic outlook for resource-based economies is brighter. The expected rate of growth for Belize will be lower than that of the previous year but the country will still maintain a vigorous 4%. Guyana and Trinidad and Tobago will maintain, and perhaps increase, their GDP growth rates due to the expansion of agriculture and mining. The mining sector's performance will respond to the expansion of output in liquid natural gas and oil production due to a recent discovery.

The Government of Guyana announced important measures to increase the production of sugar. Jamaica's economy will grow at rates between 2% and 2.5%. The mining sector is expected to increase its rate of growth due to the greater investment commitments to expand capacity in the refining of alumina. The expected removal of the bauxite levy will also provide further stimulus to mining activities. The construction sector will profit from an increased number of housing starts. The main obstacles to growth will be found in the lacklustre performance of the agricultural and tourist sectors due to adverse climatic conditions and the negative effects of the events of 11 September on the travel industry.

The decline in output growth will translate into a decrease in tax collections, which may endanger fiscal equilibrium. The alternatives adopted by countries include higher external indebtedness or the curtailment of capital expenditures to remain within prudent fiscal targets. At the same time, the decline in growth may help to improve the merchandise account of the balance of payments by reducing imports. The overall result of the balance of payments will depend, however, on the result of the service account and, in particular, on tourism earnings and the behaviour of foreign direct investment flows which have showed a declining tendency in 2001. Inflation rates will remain stable as exchange rate policies and external prices are not expected to register significant changes.

ECONOMIC PERSPECTIVE FOR THE CARIBBEAN SUBREGION 2002

Organization of Eastern Caribbean States (OECS)

In the first months of 2002, the tourism industry has not completely recovered from the fallout in tourist arrivals in the last quarter of 2001. The number of stay-over visitors is projected to increase but will not regain the level of 2000. Some economies, such as Antigua and Barbuda and St. Kitts and Nevis (due to the opening in the latter part of 2002 of a tourist resort, which will increase hotel capacity by 50%), are counting on a recovery of the sector. In the other sectors, the outlook is mixed. Banana production is expected to rebound slightly following rehabilitation efforts while the manufacturing sector will maintain stagnant growth levels at least throughout the first half of 2002. The effects of the economy are likely to be compounded by a weak demand for credit from the private sector and pro-cyclical fiscal policies.

The demand for credit for OECS economies increased by 3% between January 2001-January 2002 and by 0.3% between December 2001-January 2002. On the fiscal front, most OECS economies have stepped up their efforts at fiscal consolidation for the 2002/2003 fiscal year (FY) budget.

Antigua and Barbuda expects to strengthen its tax administration and reduce budget exemptions. In particular, the fiscal budget proposes a reduction of the importance of wages in total revenues from 70% to 50%. Dominica plans to increase government savings by increasing tax revenues. The government will also reduce its indebtedness by issuing long-term interest bearing debt with interest capitalization over the next three years. However, Dominica is highly constrained by its economic situation with significant government arrears and balance of payments constraints and a weak economic foundation to promote growth and stability.

Grenada is set on limiting the budget deficit to between 5% and 6% of GDP. Part of this effort may come through a reduction of capital expenditures in the budget. St. Kitts and Nevis managed to increase its revenue in the first quarter of 2002 to half a percentage of GDP. However, for the whole year St. Kitts and Nevis is expecting a decline in revenue of -3% which will be offset by a contraction in capital expenditures of -6%. Saint Vincent and the Grenadines is considering increasing the level of domestic savings by eliminating tax exemptions, broadening the tax base and modifying the tax system through the introduction of a value-added-tax (VAT). For its part, Saint Lucia, despite the measures taken in 2001 to counteract the economic slowdown, will also use fiscal policy as a tool to maintain the fundamental macroeconomic equilibrium. For 2002, current revenue to GDP will be 25%; current expenditure to GDP is projected at 22%; total public debt in relation to GDP is estimated at 51% and the overall fiscal deficit will remain at 3.9% of GDP.

Regarding other matters, Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines were removed (March 2002) from the Organization for Economic Cooperation and Development (OECD) list of uncooperative tax havens.

The Bahamas

The tourism sector which represents 60% of GDP has been negatively affected by the fall off in arrivals that has continued into the first quarter of 2002. Caribbean countries, like the Bahamas, are counting on the expected recovery of the cruise-ship sector to lead their tourism industries out of the recession. Three major companies have so far predicted a decline in profit yields for the first three quarters of the year 2002. The negative impact of the tourism industry should be somewhat compensated for by the opening of a major beach resort (Four Seasons Emerald Bay Resort at Ocean Bright) which would employ 500 workers in its construction phase and have a positive economic effect on the outlying cays. The resort is scheduled to start operations in 2003. The removal of the Bahamas from the Financial Action Task Force (FATF) blacklist of uncooperative countries in the fight against money laundering will improve the standing and performance of the sector. The new government, which assumed office at the beginning of May 2002, is committed to developing the offshore financial sector as a job-creating sector despite the recent criticism of the OECD of the Bahamas' tax-free regime.

The fiscal position of the Bahamas is expected to deteriorate. The overall fiscal balance for the fiscal year 2001/2002 with an estimated surplus of B\$5.8 million will actually move to a deficit in excess of B\$80 million. This will increase the financing requirements and put pressure on foreign exchange reserves. This is likely to lead to the government tightening its monetary stance.

Barbados

The first quarter of 2002

During the first three months of the year, the economy of Barbados experienced a decline in GDP of 4% in relation to the corresponding period for 2001. At the sectoral level, tourism registered a 8.4% decline due to a contraction in both long-stay and cruise-ship arrivals, attributed mainly to the slowdown of United Kingdom and Canadian tourists. Sugar production declined by 66.5% due to the delay in the sugar harvest. For its part, manufacturing production declined by 0.9% (lower than the 8.8% registered in the first quarter of 2002) as a result of a 5.2% increase in processed foods and a 0.4% in garment production. The production of electricity, gas and water rose 0.3% and construction slowed from 1.8% in the first quarter of 2001 to 0.4% in the corresponding period for 2002. The slowdown in growth and the stability in import prices helped to keep the rate of inflation stable (2.6% and 2.5% in the first quarters of 2001 and 2002). (See Table 1 below.)

Table 1			
Barbados			
Quarterly macroeconomic indicators			
2000 - 2002			
	2000	2001	2002
Real GDP growth (%)	3.7	0.7	-4
Tourism (growth in real terms)	0.5	4.9	-8.4
Cruise-ship arrivals (%)	43.4	24	-7.6
Sugar production (%)	100	17.9	-66.5
Manufacturing (%)	1.1	-8.8	-0.9
Electricity and water (%)	1	4.8	0.3
Construction (%)	0.3	1.8	0.4
Rate of inflation	1.9	2.6	2.5
Change in net international reserves US\$ ml.	137	127	65.1
Current account US\$ ml.	9	70	47
Capital and financial account US\$ ml.	97	80	41
Fiscal balance BB\$ ml.	0.9	19.4	53
Source: Central Bank of Barbados			

At the same time, the lacklustre growth performance helped to stem the rate of growth in imports (-10% and -6% for retained and total imports in the first quarter of 2002) which facilitated the reduction in the trade deficit (-6%) despite the contraction in exports (-25%). The current account remained in surplus albeit at a lower level than in the previous year (B\$70 and B\$23 million in 2000 and 2001) mainly due to the drop in the positive service account balance. The capital and financial account recorded a B\$40 million surplus, which was below the B\$80 million for 2000 reflecting lower foreign direct investment flows.

The slowdown in growth also had a negative effect on tax revenue collection. Direct tax revenue, representing 51% of total tax collection on a quarterly basis, registered a decrease of -3% in 2002 compared with an increase of 13% in 2001. Indirect tax collection declined by 2.1% reflecting decreases in excise and import tax revenues (-21% and -7%, respectively) and a slight increase in VAT tax revenue (2%). On the expenditure side, the fiscal accounts registered higher interest payments reflecting an increase in the stock of the external debt (16%) and capital expenditures (13%) and marginal increases in the rest of the budget current components with the exception of transfers and subsidies (-2.7%). Overall the budget deficit increased from B\$34 million to B\$54 million between the first quarters of 2001 and 2002.

On the monetary front, the demand for credit has stagnated (loans for tourism and the distributive sectors declined by 0.7% and 1.2% in the first months of 2002) and the banks have continued to accumulate liquidity. The excess liquidity ratio, which was close to 10% in the first quarter of 2001, increased to above 13% in the corresponding period for 2002. Banks have channeled their excess liquidity to the treasury bill market and the treasury bill rate declined from 1.97% to 1.16% in January-March 2001 and 2002.

As part of government's effort to revamp the stagnant economy, the Central Bank reduced the liquidity requirements for commercial banks by one percentage point to 18%. So far the monetary efforts to stimulate the economy have not achieved the targeted results. The private sector has voiced demands for more liberal fiscal policies to trigger a much-needed economic recovery.

The outlook for 2002

In March 2002, the central government presented its budget for the fiscal year 2002/2003 (which begins on 1 April) which projects a fiscal deficit of 4% of GDP. The budget is based on projected increases of 3% and 4.7% in revenue collection and expenditure for 2002/2003 over that recorded for 2001/2002. The budget provides support for tourism, agricultural and manufacturing sectors (*see Table 2 below*).

For the rest of 2002, the downward trend in tourism is expected to continue. For March-April, tourist arrivals declined by 25%. For its part, the sugar industry will continue to be affected by high costs and a lack of competitiveness. The Central Bank expects a decrease in sugar production for 2002. The manufacturing sector has registered negative rates of growth since 1999 and no significant improvement in performance is anticipated. Like the sugar industry it is characterized by high costs and also by the absence of adequate technology.

The financial sector may remain dynamic as the authorities capitalize on Barbados' reputation as a transparent offshore business center. The OECD agreed to remove the country from the blacklist of uncooperative tax havens (January) and the Parliament approved the International Finance Bill in April. The Bill replaces the 1979 Offshore Banking Act and introduces new regulations, such as the right of the Central Bank to carry on-site inspections without the court's consent. The Bill also tightens capital adequacy requirements for international business companies (IBCs).

Overall growth is expected to decline by 2.5% with a rate of inflation contained within the range of 3-3.5%. The current account is expected to deteriorate from US\$90 to US\$107 million. The surplus on the capital and financial account will narrow from US\$313 to US\$114 million and the net international reserves are projected to decline by between US\$30 and US\$50 million.

Table 2 Barbados The fiscal accounts 2001/2002 and 2002/2003		
	Approved 2002/2003	Actual 2001/2002
Expenditure		
Total expenditure	2 289 216 360	2 187 294 902
Current expenditure	1 927 866 707	1 868 699 099
Wages and salaries	622 936 033	604 997 063
Salaries related costs	41 926 621	40 348 429
Goods and services	225 536 792	197 579 237
Current transfers	494 066 834	485 261 380
Debt service	543 400 427	540 512 990
Capital expenditure	361 349 653	318 595 803
Current Revenue	1 795 636 938	1 747 785 960
Income and profits	592 247900	608 775 056
Property	115 001 000	105 401 000
Goods and services	801 387 411	731 416 639
International trade taxes	150 400 000	144 400 000
Other taxes	16 000 000	16 000 000
Non tax revenue	79 845 627	75 010 132
Special receipts	39 395 000	65 363 569
Loans and advances	1 360 000	1 419 564
Source: Barbados. Ministry of Finance		

Belize

In 2001, the economy recorded a 5% rate of growth, down from the 11% of 2000 as a result of external shocks (Hurricanes Keith and Iris and the events of 11 September). In 2002 the rate of growth is expected to continue its slowdown as a result of the persistent effects of these shocks and also because of macroeconomic imbalances.

The tourism sector showed a decline in arrivals of 10% in January 2002 compared with the corresponding month of 2001. On the macroeconomic front the deficit of the central government increased from 9.8% of GDP in FY 2000/01 to 10.5% in FY 2001/2002 (which ended in March 2002). Accompanying the fiscal deterioration was an increase in the current account deficit, a mounting level of external debt, lower international reserves and, as a result, a widening of the foreign exchange rate gap between the official and the parallel foreign exchange rate (5% and 10% in May 2001 and 2002).

For 2002, the government is expected to restrain the growth of aggregate demand through fiscal retrenchment. However initial results show an increase in the budget deficit on a calendar year basis, in the first quarter of 2002 with respect to the same period in 2001 driven by increased capital expenditures (*see Table 3 below*). The government presented their 2002/2003 budget in March 2002. The budget contemplates a reduction in the deficit to 5% of GDP.

Expenditure is projected to increase by 17% and current revenue, by 30%. The expected increase in the deficit from \$54 million to \$75 million in the FYs 2001/2002 and 2002/2003 will be financed according to official sources by privatization receipts of 1.5% of GDP and domestic borrowing with a minimal role for net external finance.

Table 3			
Central government fiscal accounts			
First quarter 2000-2002			
BZ\$ '000			
	January-March 2000	January-March 2001	January- March 2002
Fiscal balance	-36136	4272	-28237
Tax revenue	70492	80594	84451
Income and profits	18840	21011	20372
Taxes on property	682	813	937
Taxes on goods and services	24377	26364	26913
International trade and transactions	26593	32406	36229
Current expenditure	86824	74222	78804
Capital expenditure	96704	80857	133692
Source: On the basis of official data.			

The official GDP growth rate estimate for 2002 is 6% while international organizations project a 4% growth rate. Inflation will remain below 2%. If the fiscal measures are followed through, the current account may improve its position from US\$-141 million to US\$81 million and the external public and guaranteed debt will remain at the 2001 level (82% of GDP) with debt service export ratio of 25%.

Guyana

GDP growth will remain at 2% driven by agricultural and mining performance. In March the authorities presented the 2002 budget which includes, in addition to specific measures aimed at strengthening the tax base and improving the efficiency of the tax system, the rough outline of a plan to restructure and modernize Guyana's State-owned firms. The plan includes sugar, rice, bauxite, forestry and gold. It also envisages the creation of new growth areas incorporating policies to benefit manufacturing, agriculture, tourism and technology (*see Table 4*).

Among these measures the most detailed and important are those pertaining to the sugar industry. The sugar industry is the largest contributor to GDP (16%) and the major foreign exchange earner and employer (18,000 workers). The measures center on Guyana's State sugar corporation (Guysuco). While Guyana is the most competitive sugar producing economy, it still remains a high cost producer (the wage bill accounts for 56% of total production, which is above the 20-25% recorded for the sugar industry, as a whole). The official position is that Guyana must improve its competitiveness in anticipation of the erosion of preferential prices and access

to industrialized country markets. Guyana has a quota of 30,000 tonnes in the European Market and 12,000 tonnes in the United States market.

The plan will begin in June 2002 and is expected to cost US\$110 million and includes the construction of a new factory in Skeldon and increased cultivation of cane in the Berbice area. The plan targets an output of 450,000 tonnes and a reduced cost of production of 11 cents (US\$) per pound of sugar over the next five years.

Table 4 Guyana Fiscal measures for 2002
<p>1. Incentives for value added investment</p> <p>Allotment of \$359 million for economic ventures and \$200 million for the development of industrial estates in support of the private sector.</p>
<p>2. Reduction in the entertainment tax (effective April 1, 2002)</p> <p>The entertainment tax will be reduced from 25% to 10% for urban cinemas; from 20% to 5% for rural cinemas.</p>
<p>3. Tax concessions in support of tourism (effective April 1, 2002)</p> <p>Increase in the remission of duty and consumption tax equivalent to 50% of the value of the investment for the expansion of existing, and the construction of new hotels.</p>
<p>4. Hotel room tax (effective April 1, 2002)</p> <p>The 10% room tax for tourism facilities that are deemed to be resorts is abolished.</p>
<p>Source: Budget 2002. March 15, 2002</p>

The prospects for bauxite production may also improve. In addition to government's plans to restructure State-owned firms (the two main State-owned firms have a combined deficit of 1.5% of GDP), a private firm, (Omai Gold mines) controlled by the firm Cambior of Canada, is considering a joint venture with the Government of Guyana to operate the Linden Mining Enterprise. This would result in an increase in output from 190,000 to 415,000 tonnes and involve a capital inflow of \$10 million.

The expected recovery in economic sectors and stability of growth prospects will be reflected in higher tax revenues for 2002. Current revenue is projected to increase by 6%. However, its favorable impact on total revenue will be dampened by the decline in non-tax revenue (-21%) due to lower gold royalties and the complete remittance of the sugar levy. Current expenditure is budgeted to rise by 4% (personal emoluments will increase to G\$15.8 billion compared to G\$14.7 billion; other goods and services are budgeted to rise by 9% to G\$10 billion) and capital expenditure will grow by 21%. The overall budget deficit after grants is

projected at 8.2% for the central government and 7.6% of GDP for the consolidated public sector (8.9% and 8.3% of GDP in 2001). (See Table 6 for the 2002 budget).

Table 5		
Macroeconomic indicators		
	April 2001	April 2002
Base money (G\$ million)	28 768	35 164
M2 (G\$ million)	88 409	96 021
Domestic credit to the public sector (G\$ million)	-21 101	-23 911
Domestic credit to the private sector (G\$ million)	58 773	59 271
Net foreign assets (US\$ million)	103.8	129.3
Savings deposit rate %	7.15	5.52
Weighted average lending rate %	17.44	17.50
Exchange rate with respect to the US\$ (March-to-March basis)	186.25	190.50
Inflation rate % (March-to-March basis)	4.1
Source: Central Bank of Guyana (2002)		

In keeping with current economic conditions, base money and money supply grew 22% and 9% between April 2001 and the corresponding month of 2000. In spite of the expansion in the money supply, domestic credit to the private sector increased at a sluggish rate (1%) (see Table 5). For its part the inflation rate increased to 4% on a point-to-point basis (March 2001-March 2002) driven by the prices of food (2.8%), housing (4.2%) and transport and communication (12%). The inflation target for the year 2002 is set at 5%.

Between January and March 2002 the G\$/US\$ exchange rate remained virtually unchanged and depreciated by 4% relative to March 2000. The Guyana dollar is likely to depreciate further as the Bank of Guyana finances a greater balance of payments deficit (US\$8 to US\$16 million in 2001 and 2002) partly from its international reserve stock. The balance of payments position of 2002 is due to an expected increase in the current account balance (US\$129 and US\$141 million in 2001 and 2002) due to stagnant export growth (-0.26%).

Table 6
Fiscal accounts on a budget basis
Guyana
2000 – 2002

	Budget 2002	Revised 2001	Actual 2000
Total revenue	43 862.3	41 476.4	41 390.6
Revenue	43 791	41 427	41 390.6
Tax revenue	40 904.1	37 771	38 203
Income tax	17 586	16 722	16 109.3
Consumption taxes	16 197	14 373	15 331.2
Trade taxes	5 065	4 790	5008.8
Other	2 056	1 886	1 843.7
Non-tax revenue	2 887	3 656	3 131.6
Total expenditure	68 771.5	63 505.3	60 046.2
Current expenditure	48 817.1	46 994.8	42 913.4
Personal emoluments	15 814.4	14 743.3	14 317.7
Other goods and services	9 943.2	9 057.4	8 189.2
Transfers to the private sector	9 970	9 576.7	8 046.9
Transfers to the public sector	1 500	1 997.4
Capital revenue	71.3	49.4	56.0
Capital expenditure	19 954.4	16 510.5	17 132.8
Overall balance before grants	(24 909.2)	(22 028.9)	(18 655.6)
Grants	14 304.7	10 936.1	10 088.0
Overall balance after grants	(10 604.5)	(11 092.8)	(8567.6)
Financing	10 604.5	11 092.8	8567.6
Net external borrowing	6 244.5	7 882.8	7 803.6
Net domestic borrowing	4 360.1	3 210	1 060.4
Net divestment proceeds	(208.7)	(296.4)
Overall deficit as % of GDP	(7.6)	(8.3)	(6.6)
Source: Budget 2002. 15 March 2002			

Jamaica

The first quarter of 2002

During the first quarter, GDP declined –0.2% as a result of stagnant growth in the goods producing sectors (0%) combined with negative growth in the service sectors in the aggregate (-0.3%), which contribute 84% to GDP. Within the goods producing sectors, agriculture and mining recorded contractions in their output (-4.5% and 2.2%, respectively) while manufacturing and construction increased by 1.3% and 4%, respectively. The performance of the services sector was shaped by the sluggish growth in distribution (0.1%), financial services (0.3%) and by the negative outcome of miscellaneous services (-6%).

Mining and quarrying responded mainly to the reduction in the capacity utilization of alumina processing plants (-5%). Manufacturing performance was determined by increases in

petroleum products and beverages and by the constraints to output expansion due to the under-performance of chemicals and apparel industries. For its part, miscellaneous services were determined by tourism, which continues, to some extent, to reflect the reduction in leisure and business travel worldwide. Finally, the distribution sector mirrored the general slowdown in economic activity.

The performance of agriculture, the most significant sector from the point of view of the damage assessment report, reflects the effects of the floods that affected this sector of the economy in November 2001 and, to a lesser extent, dry weather conditions. Within the agricultural sector, the crops most affected were those destined for the export markets. These experienced a decline of -10% while crops for domestic market registered a decrease estimated at -5%. The performance of the agricultural-export output was reflected in the reduced production of sugarcane and banana. The volume of sugarcane milled during the period decreased by -15.3% and banana production by -11.6% relative to the first quarter of 2001.

The decline in GDP and imports had a negative impact on production and consumption tax revenues and on international trade tax collections, registering declines during January to March of -1% and -1.2% relative to the corresponding quarter of 2001, respectively. This was compensated for by higher income and tax profit tax earnings and, in particular, by a rise in non-tax revenue (34%). Jointly with efforts on the capital expenditure side of the budget bearing the brunt of expenditure restraint (-27%), the overall fiscal accounts remained in a surplus position albeit at a lower level than expected.

The under-performance of export crops was reflected in an overall decline in exports close to 6%. Lower world oil prices and the decline in part compensated for the potentially negative effect on the balance of trade in economic activity. This allowed imports to decline reducing the trade deficit significantly from the previous and the corresponding quarters.

The services balance surplus increased relative to the previous quarter as a result of the partial winding down of the effects associated with the events of 11 September. For their part, the income account balance and net current transfers remained at past trend levels.

The overall result was a narrowing of the current account deficit for January-March. The current account deficit was financed in its totality by the surplus obtained in the capital and financial account, itself the reflection of higher foreign direct investment. Foreign direct investment increased by more than 40% during the quarter in question relative to the last quarter of 2001. The overall balance of payments outcome, jointly with the disbursement of loans from multilateral organizations, improved the reserve position of the monetary authorities. The balance of payments accounts accumulated net reserves in excess of the value of two months imports.

Table 7		
Jamaica		
Quarterly macroeconomic indicators		
	2001	2002
	January-March	January-March
GDP growth by sector		
Agriculture, forestry and fishing	11	-4.5
Mining and quarrying	6	-2.2
Manufacturing	1.8	1.3
Construction and installation	3	4.0
Electricity and water	2.2	3.1
Transport, storage and communication	5.8	1.3
Distribution	-0.6	0.1
Financial services	2.0	0.3
Real estate and business services	-0.3	-0.2
Producers of government services	0.4	0.7
Miscellaneous services	1.0	-6.0
Household services	-4.1	0.2
Less: imputed bank charge	3.2	-0.2
M1 (%)	-3.1	-4.8
M2 (%)	-0.6	-1.5
M3 (%)	0.6	-0.4
Inflation rate	1.6	0.6
Exchange rate (J\$/US\$)	47.40 (December 2001)	47.61 (March 2002)
Net international reserves (US\$ Mil.)	1 286.3 (March 2001)	1 941.7 (March 2002)
Commercial bank private credit (J\$million) On a fiscal year basis	2 313.5	5607.0
Source: The Planning Institute of Jamaica; Bank of Jamaica.		

The external performance contributed significantly to the stability in the foreign exchange market. The bilateral Jamaica dollar – United States dollar nominal exchange rate moved from J\$47.40 per US\$1 to J\$47.61 per dollar from December to March. This reflected a slight depreciation of 0.4% in keeping with macroeconomic stability objectives.

Monetary policy was geared to the maintenance of price stability and single digit inflation. During the quarter, the authorities contracted base money growth by –11.9% to compensate for the reduction in the cash reserve ratio to 9% as part of a programme to enhance the competitiveness of the financial and banking system. In keeping with the money base behaviour the broad money supply declined by –0.3%.

In turn, the stability of the exchange rate and the decline in economic activity in conjunction with the containment in the growth of monetary aggregates facilitated the decline of

the rate of inflation. This occurred, in spite of the increases in labor costs resulting from the increases in the minimum wage to \$1,800 per week in January 2002.

At the component level, the decline in the rate of inflation was driven by the downward prices of starchy foods and vegetables and fruits (0.4% and 2.1% in January-March 2002 and October-December 2002). For its part, the most important increase was recorded in housing and other expenditure reflecting the change in the minimum wage contributing 0.6% points to the overall inflation rate.

The outlook for 2002

GDP growth is estimated at 1.9% on a fiscal year basis (2002/2003) (*see Table 8*). The GDP estimates were founded on positive perceptions of the performance of some sectors. The mining sector is expected to spur its rate of growth partly because of the anticipated investment by the Jamaica Government and Alcoa in their jointly owned JAMLCO alumina refinery, which is expected to result in increased production capacity. Also the possible removal of the bauxite levy has enhanced favorable prospects for that sector. The construction sector is expected to benefit from housing starts by the National Housing Trust (NHT). This, in turn, would have a positive effect on the number of mortgages and especially on the sales of construction-related supplies favorably affecting the manufacturing sector. In addition, the performance of the manufacturing sector would be enhanced by measures aimed at controlling the growth of imports, channeling demand to domestic output. The manufacturing sector would, however, be negatively affected by the structural problems of the apparel industry and the poor performance of chemical products.

The main obstacles to growth are in the agricultural and services sector. While agriculture is expected to partly rebound due to recovery efforts, output is expected to fall due to the drought conditions that affected the economy during the first quarter of the year and which will mainly affect domestic crop production. As a result, domestic crop production projections anticipate a decline between 5% and 10% for domestic crop output. Traditional export crops are also seen as declining, due to reduced cane sugar supplies translating, in turn, into a contraction in the volume of sugarcane milled. Finally, production is not expected to fully recover from the November floods.

Base money growth (%)	8-10
Inflation (%)	5-6
Fiscal balance (% of GDP)	-4.4
GDP (12 month % change)	1.9
Source: Bank of Jamaica	

For the fiscal year 2002/2003, the government is expected to reduce its central government budget deficit from -5.9% to -4.4% of GDP. Revenues (including grants) were expected to increase by 14% as a result of improved tax revenue collection. Within tax revenues the largest increase is budgeted to be in tax earnings from income and profits and, in particular, from PAYE collections. For its part, consumption and distribution taxes are budgeted to rise by 6% with respect to the previous fiscal year. Increases in recurrent expenditure (10%) reflect the behaviour of wages and salaries partly due to the increase in the minimum wage in January 2002. Capital expenditures will be adjusted accordingly to permit a balanced result in the fiscal accounts. This is to be achieved by reducing or postponing projects to absorb the necessary adjustment. The loans that the government received and will receive for the rehabilitation necessary to compensate for the damage due to the November floods will translate into an increase in the external debt. This may aggravate the deficit of the central government measured on a cash basis, which was estimated at 5.9% of GDP for the fiscal year 2001/2002. Interest accounted for 45% of current expenditure and will increase to 48%. Interests on the external debt are budgeted to increase by 58% (See Table 9).

	2001/2002	Budget 2002/2003
Revenue and grants	102 588.1	117 322.3
Tax revenue	90 568.2	106 786
Non-tax revenue	4 949.3	5 921.5
Bauxite levy	2 252.3	2 604.5
Capital revenue	2 843.7	1 236.8
Grants	1 974.7	773.5
Expenditure	123 791.6	135 060.5
Recurrent expenditure	113 665.2	125 149.5
Programmes	20 066.5	20 457.1
Wages and salaries	42 588.2	45 074.6
Interest	51 010.4	59 617.8
Domestic	40 353.4	42 733
External	10 656.9	16 884.8
Capital expenditure	10 126.4	9 911
Fiscal balance	(21 203.5)	(17 738.2)
Financing	21 203.5	17 738.2
Loan receipts	104 647.3	84 942.1
External	39 172.5	26 136.0
Domestic	65 474.8	58 806.1
Divestment	7 145.89	7 800
Amortization	90 974.2	75 003.9
Overall balance	(384.6)	0
Primary balance	29 806.9	41 879.5
Source: Ministry of Finance		

The balance of payments projections indicated an improvement in the current account balance as a result of declining imports and improved export performance. This will reduce the current account deficit from 8.5% to 8% of GDP. Within the current account the joint result of the service, income and transfers net account will increase the surplus from \$880 to \$893 million. This aggregation also includes interest payments for \$343 million marking an increase from \$240 million in the previous fiscal year. Finally, the capital and financial account is projected to yield a surplus, financing the current account deficit as a result of the expected significant increase in foreign direct investment. As a result, the stock of net international reserves is expected to reach \$1,600 million by the end of the fiscal year 2002/2003 representing 4.5 months of imports.

The rate of inflation is projected at 6.5% at the end of the period and 5.5% on average. This reflects the stable conditions on the foreign exchange market and a monetary policy oriented to achieve stable single-digit inflation rates. Base money growth is estimated to range between 8% and 10%. This estimate took into account the pressures on prices as a result of the increase in local petroleum prices in April and a probable rise in the electricity rates, which will be reflected in the housing component of GDP. Additional pressures were identified in a potential rise in the price of food resulting from the contraction in agricultural production.

The May floods mainly affected the agricultural sector and infrastructure. Within the agricultural sector, the flood damaged crops for domestic consumption and exports, though the damage was mostly concentrated in the former. Overall the damage is estimated at 0.5% of GDP and may result in a downward revision of the rate of growth of GDP for 2002.

Suriname

Suriname implemented a stabilization plan in the second half of 2000 that bore success in 2001. During the first half of 2002, the decline in banana production and the increase in public sector wages became important challenges to the medium-term success of the stabilization plan. In January, the government negotiated civil servant wage increases, which represent an important part of its current expenditure. In April, the State-owned banana producer, Surland, shut down its operations due to its inability to meet payroll expenses. The resulting imbalance created by higher current expenditure compounded by declines in traditional exports has contributed partly to the depreciation of the guilder by 14% between January and April 2002 (Sf.2,200 and Sf. 2,500). In turn the depreciation of the nominal exchange rate will translate partly into prices forcing the authorities to contract their monetary aggregate with concomitant potential losses in output and employment.

Trinidad and Tobago

Trinidad and Tobago's economy weakened in the last quarter of 2001 partly as a result of external events and domestic difficulties, related to the political climate and the slowdown in growth, continued in the first months of 2002. However, a recovery is expected largely driven by expansions of output in liquid natural gas (LNG) and oil production following a recent

discovery. A major foreign company signed a production sharing agreement with the government for the exploration of an offshore block. The project includes a significant drilling programme. British Petroleum plans also to invest US\$2.7 billion over the next five years to develop the country's liquid natural gas. According to unofficial sources, the investment is aimed at transforming Trinidad and Tobago into the world's leading exporter of liquid natural gas and the main provider of energy to the Caribbean Community (CARICOM) area. Also investment related to the development of transportation facilities and the construction of methanol and ammonia plants is estimated to amount to US\$2.8 billion.

The expected recovery and corresponding capital inflows, jointly with signs of excess liquidity in the money market at the end of 2001, translated into an appreciation of the exchange rate. The weighted average TT\$/US\$ exchange rate moved from TT\$6.26 to TT\$6.23 between May 2001 and 2002. Within this scenario, the monetary authorities have followed a cautious monetary policy, tightening the growth of net domestic assets. Base money registered monthly growth rates of -14% and 3% in January and February. Narrow money supply grew by -12% and -1% in the same months. Monetary policy has reduced the excess liquidity of the banking system while at the same time allowing the decline in interest rates. The ratio of liquid assets to prescribed deposit liabilities declined from 29% to 25% between December 2001 and March 2002. For their part, interest rates on loans decreased from 14.00% to 13.25% (term) between January and March. Interest rates on savings moved from 2.50% to 2.25% for the same period. The decline in the inflation rate (-1% between January and March 2002) has lessened the pressure of imposing restrictive monetary policy measures in order to comply with inflation targets.

In addition, starting in May 2002, the Central Bank changed its monetary policy framework. Instead of targeting money supply as in the past, the Bank will announce an interest rate for providing overnight liquidity to the banking system. Liquidity is offered through repurchase agreements based on treasury bills at a repurchase rate (i.e., the repo rate). Through the use of the repo rate, the Central Bank will conduct open-market monetary operations as a way to control the liquidity of the money market. The repo rate was set at 5.75% per annum effective 2 May 2002.

For 2002, GDP growth is estimated at 3% and the inflation rate should be within a range of 4.5-5%. The fiscal surplus that the economy registered in FY 2001/2002 has been substantially reduced as a result of declining oil prices. The new fiscal estimates (the new FY 2002/2003 started in April 2002) project a budget deficit of 1% of GDP based on an oil price of US\$20.5/b.

	GDP growth	Inflation (average)	M1	Fiscal balance as % of GDP	Current account (US\$ million)
Antigua and Barbuda	0.0	2.2	0.9	-7.4	-97
Barbados	-2.5	3-3.5	-4.0	-4.0	-107.2
Belize	3.8	1.5	7.3	-5.0	-81
Dominica	-3.0	2.0	5.8	-8.8	-45
Grenada	2.8	3.0	8.8	-6.4	-97
Guyana	1.8	4.3	8.8	-8.2	-141
Jamaica	1.9	5.5	10.2	-4.4	-598
St. Lucia	1.5	2.0	2.3	-3.9	-69
St. Kitts and Nevis	-2.5	1.9	14.5	-8.6	-112
St. Vincent and the Grenadines	4.0	-0.1	4.2	-1.6	-61

Note: The fiscal accounts refer to the Central Government.
Source: On the basis of official data and information