

LIMITED
LC/CAR/L.21
13 September 2004
ORIGINAL: ENGLISH

ECONOMIC SURVEY OF THE CARIBBEAN 2003-2004

This document has been reproduced without formal editing.

At the time this report was in its final formatting phase, the economies of Grenada and Jamaica were significantly affected by Hurricane Ivan. As a result, the GDP growth projections for 2004 for both countries correspond to the expected growth rates in the absence of a natural disaster.



Table of contents

Executive summary	1
I. Regional overview	1
1. Caribbean performance within the context of Latin America and the Caribbean	4
2. The Caribbean real sector performance in 2003	7
3. Fiscal and external performance	12
4. The monetary policy stance	19
5. CARICOM's international trade negotiations	21
6. Economic prospects for 2004	22
II. Analysis of selected topics	24
Tourism performance in the Caribbean	25
Public debt in the Caribbean: issues and implications	35
III. Country reports	47
Member States of the Organisation of Caribbean States (OECS)	48
The Bahamas	63
Barbados	70
Belize	76
Guyana	83
Jamaica	90
Suriname	97
Trinidad and Tobago	102
The Non-independent Caribbean Countries (NICCs)	110
Aruba	111
British Virgin Islands	113
Netherlands Antilles	114
United States Virgin Islands	116



Executive summary

This survey examines the macroeconomic performance of Caribbean countries for 2003 and what the data availability allows for 2004. The analysis in this publication refers, as in past years, to Caribbean Community (CARICOM) economies and also, for the first time, to the majority of the Non-Independent Caribbean Countries (NICCs) that are members of the Caribbean Development and Cooperation Committee (CDCC).¹

The survey shows that Caribbean economies have, in general, exhibited a process of economic recovery. In 2003, Caribbean countries improved their performance registering on average 2.8% GDP growth compared with the 1.0% recorded in 2002. There are nonetheless significant disparities in GDP growth among countries. At the lower end of the spectrum, Guyana and the British Virgin Islands registered economic downturns (-0.6% and -1.9%). At the higher end, Antigua and Barbuda and Suriname doubled their growth rates in 2003 in comparison with the previous year. However, the overall growth divergence narrowed.

The 2003 recovery was fuelled mainly by the services sector, and more specifically by tourism. To a lesser extent, it reflected the contribution to aggregate growth of primary sector activities. The tourism sector's performance in 2003 is a direct expression of the pick up of the global travel industry following the events of 11 September 2001. Primary sector activities benefited in great part from the increase in the international prices of oil and non-oil commodities.

Caribbean countries experienced improvement in their fiscal accounts largely through restraint in government expenditure. Five countries (Belize, The Bahamas, Guyana, the Netherlands Antilles and Saint Lucia) proved to be the exception to this trend. Despite fiscal consolidation efforts, the disparity among Caribbean countries remains extremely high for a region whose ultimate goal is monetary and economic union. At one extreme Trinidad and Tobago exhibits a fiscal surplus equivalent to 1.4% of GDP. At the other extreme, Belize, Guyana, and the member States of the Organisation of Eastern Caribbean States (OECS) have fiscal deficits reaching levels which are of the order of 10% of GDP or greater.

In spite of the efforts aimed at fiscal consolidation the public debt remains one of the main constraints to the economic development of Caribbean countries. From 1997 to 2003 the average public debt-to-GDP ratio increased from 62% to 85% ranking the Caribbean as one the most indebted regions of the world. When decomposed in terms of its internal and external component, the former represents 34% of GDP of the total while the latter has reached 54% of GDP. In addition, sustainability computations show that for most countries the current indebtedness levels are unsustainable. A long-term solution must involve efforts aimed at fiscal consolidation as well as the development of export promotion strategies at the national and regional levels.

¹ Caribbean countries analyzed in this survey include: Anguilla, Aruba, Antigua and Barbuda, Barbados, The Bahamas, The British Virgin Islands, Dominica, Jamaica, Grenada, Guyana, Montserrat, The Netherlands Antilles, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago and the United States Virgin Islands. The extent to which countries are included in the different computations and indicators presented in the paper depends solely on data availability.

On the external front, the current account deficit for the Caribbean, as a whole, narrowed in particular as a result of the performance of commodity-oriented economies which benefited from increases in the international prices of commodities. In contrast, service-oriented economies suffered, for the most part, a deterioration in their external accounts

The conduct of monetary policy varied according to the type of exchange rate regime in place. In fixed exchange rate regime economies, the monetary authorities acted passively. In the case of managed exchange rate regimes, the monetary authorities employed a series of tools to guide the behaviour of prices and the exchange rate.

For 2004, the Caribbean region is expected to experience continued increase in its rate of GDP growth mainly as a result of the improvement in growth prospects for commodity-oriented economies. Service-oriented economies are projected to maintain for the most part their current growth levels as visitor arrivals and tourist expenditure continue to recover from the effects of the events of 11 September. The main challenge that governments will confront in 2004 is how to maintain the current growth trajectory while at the same time offsetting the effects of the increase of international oil prices on government expenditure, import growth and inflation.

The survey is divided into four sections. The first presents a regional economic overview which briefly compares the performance of Caribbean countries relative to that of Latin America and then focuses on the particularities of macroeconomic performance for 2003 for the Caribbean region in the aggregate. The section also includes a preliminary projection for 2004.

Since tourism provided the impetus for the recovery of 2003, the second section analyses the nature of the recovery and the strategies being pursued to increase tourism's contribution to economic growth. Given the recent attention placed on the state of indebtedness of Caribbean economies as an obstacle to long-run growth, this section also examines the question of public debt.

The third section, and by far the most comprehensive, describes the macroeconomic evolution of CARICOM and the NICCs (Aruba, Netherlands Antilles, British Virgin Islands and the United States Virgin Islands) for 2003, with some preliminary estimates for 2004. For institutional reasons the analysis of two of the NICCs, Anguilla and Montserrat, is presented with that of the OECS. Where data availability permits, a table with the main macroeconomic indicators is included in the analysis of each country.

The final section is a statistical annex. It consists of a series of statistical tables, mainly for CARICOM economies, that include the distribution of GDP by sector of economic activity (in levels and rates of growth); real sector indicators; the fiscal accounts of the central government; a monetary survey; the balance of payments according to the methodology of the 5th Manual of the International Monetary Fund (IMF); and external sector indicators. This last set includes the external debt, exports (usually classified by traditional and non traditional); imports (usually classified by economic category) and, when relevant, tourism indicators.

I. REGIONAL OVERVIEW



1. Caribbean performance within the context of Latin America and the Caribbean

Over the last decade the rate of growth of GDP in the Caribbean surpassed that of Latin America and exhibited a lower degree of volatility (see Figure 1 below).

For the period 1992-2003 the rate of growth for Latin America and the Caribbean averaged 2.4% and 2.7%, respectively. The volatility of GDP growth, measured by the ratio of its standard deviation to the mean, averaged 0.8% and 0.5% for both regions. This growth pattern has become more pronounced in the last five years. From 1998 to 2003, GDP growth in the Caribbean has been systematically above that of Latin America.²

The lack of correlation between the growth trajectories of Latin America and the Caribbean³ underscores the fact that economic performance has responded to different and perhaps independent factors.

For one thing, Caribbean economies have not been subject to the type of sharp macroeconomic crisis that affected a series of Latin American economies.⁴ These crises brought about by the interplay of external and internal factors are largely responsible for the pronounced troughs of the Latin American GDP series.

For the Caribbean the largest trough is the one recorded following the September 11th events. This was caused purely by an external shock and did not respond in any way to the internal dynamics of the economies in question. In the same way the period of stable growth expansion (1994-1998) and acceleration (1998-2000) favourably reflected external conditions and in particular the unprecedented performance of the United States economy from 1992 to 2000 (see Figure 1).

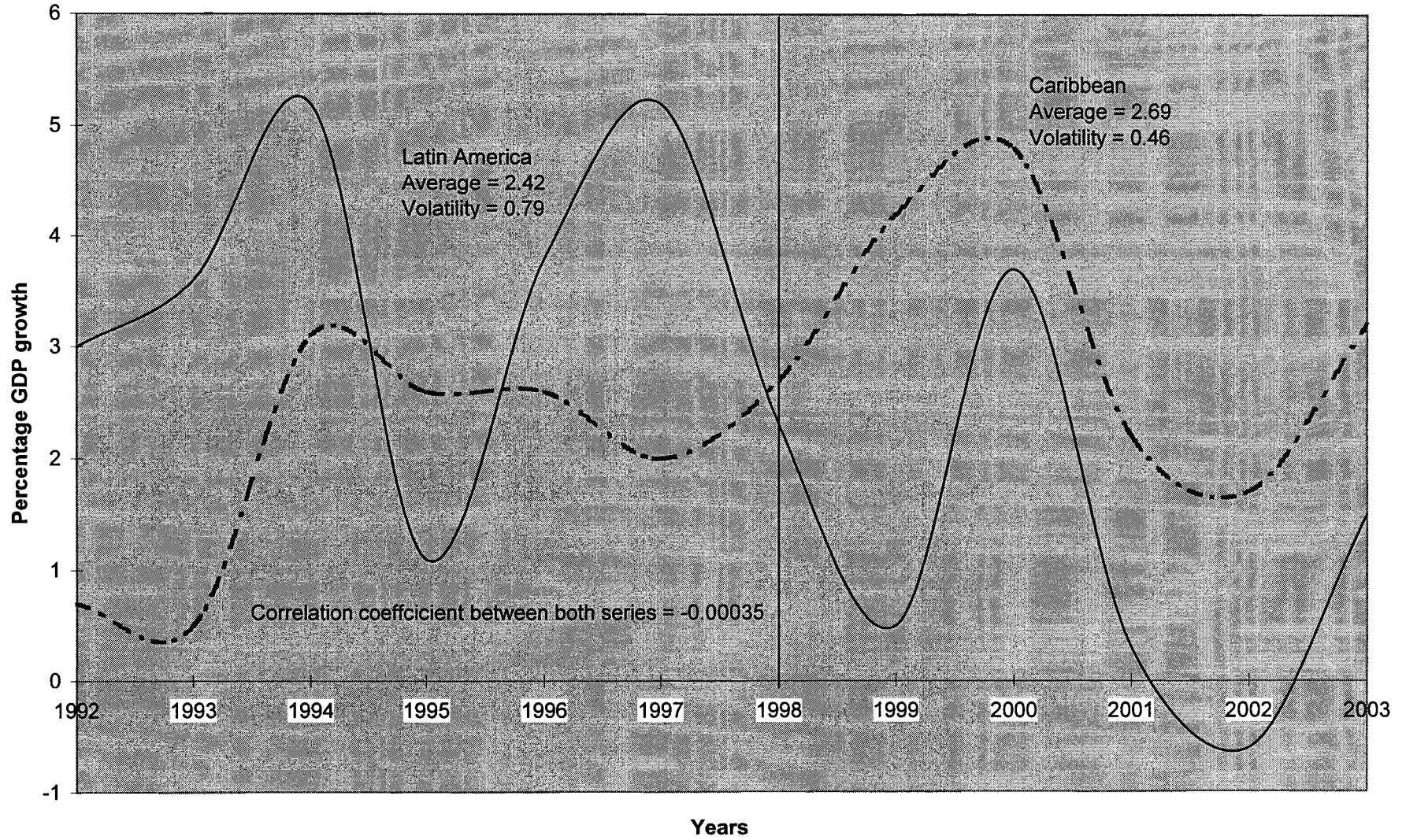
At the country level, Dominica recorded in 2002 (-5.0%) the largest contraction. The case of Dominica responded to a fiscal crisis leading to the implementation to a three year IMF Poverty Reduction and Growth Facility Programme based mainly on fiscal consolidation. Other OECS states (St. Kitts and Nevis, St. Vincent and the Grenadines, Grenada, St. Lucia and Antigua and Barbuda) have also undertaken adjustment programmes under the umbrella of the Structural Adjustment Technical Assistance Programme.

² Per capita GDP figures tell a similar story. During 1992-2003, the average GDP per capita growth for Latin American countries was less than 1% (0.8%). This highlights a progressive impoverishment of the region or, more to the point, a significant slowdown in productivity. Contrarily, per capita GDP growth averaged 1.9% for the Caribbean.

³ The simple correlation coefficient yielded a value of -0.00035.

⁴ These include Cuba (-13.8% and -16.0% GDP growth in 1992 and 1993), Haiti (-13.8% and -8.2% GDP growth in 1992 and 1994), Mexico (-6.1% in 1995), Ecuador and Venezuela (-5.7% and -5.5% in 1999), Argentina, Uruguay and Venezuela (-10.8%, -12.0% and -9.0% in 2002 and -9.3% in 2003 for Venezuela).

Figure 1
GDP growth in Latin America and the Caribbean
1992 - 2003



The performance of the Caribbean also highlights the positive results of the structural adjustment programmes of the larger economies (Barbados, Trinidad and Tobago and Guyana) implemented at the beginning of the 1990s. Barbados registered positive rates of growth above 2% for most of the 1990s. Guyana recorded some of the highest growth rates in the region averaging 8% between 1992 and 1997 before settling to a lower growth plateau in the latter part of the decade. Finally, Trinidad and Tobago, benefiting also from the impulse of the energy sector, witnessed rates of growth above 3% consistently since 1994 with the exception of 1996 and 2002.

Experience in the region also points to a conscious policy aimed at the expansion of aggregate demand which helped to boost overall regional economic growth. St. Kitts and Nevis and Grenada are cases in point. The most illustrative case is, however, that of Belize whose rates of economic growth as a result of rising government's capital expenditures averaged 8.6% in the said period.

2. The Caribbean real sector performance in 2003

In 2003 Caribbean countries improved their performance, registering on average 2.4% GDP growth which compares favourably with the listless 0.75% of the previous year. However, this figure masks the significant disparities in GDP growth observed among countries: whereas Guyana and the British Virgin Islands registered economic downturns, contracting by 0.6% and 1.9%, respectively, Antigua and Barbuda and Suriname doubled their growth rates in 2003 in comparison with the previous year. Nevertheless despite these disparities, overall growth divergence in the region narrowed. In fact, one of the smallest degrees of divergence among Caribbean economies in the past two decades was recorded in 2003 (see Tables 1 and 2).⁵

When classified in terms of their external market orientation, commodity-oriented economies exhibited the highest level of economic growth, standing on average at 3.1%, compared to 2.4% in 2002. For their part, service-oriented economies clearly exhibited the greatest acceleration in economic growth (up from 0.3% in 2002 to 2.8% in 2003) and were thus the driving force to the increase in average growth for the region.⁶

⁵ The concept of Convergence (divergence) used here is known in the literature as Convergence gamma and is computed as the ratio of the standard deviation to the mean for cross-sectional data.

⁶ 'Commodity-oriented economies' and 'service-oriented economies' are analytical categories denoting opposite poles which delimit the types of productive structures found in the Caribbean region. As such, some economies are closer to the commodity category while others are akin to the service category. In some cases an economy may fall under both categories or may shift over time from the one category to the other. For the purposes of this document, Guyana, Jamaica Suriname and Trinidad and Tobago are commodity-oriented economies. Barbados, The Bahamas, Jamaica, the NICCs and the OECS are considered service-oriented economies.

Table 1
Indicators of size and development for Caribbean States
2003

Caribbean states	Area in Thousands of Km ²	Population Thousands of inhabitants 2003	GDP per capita US dollars 2003	Poverty Percentage of population below the poverty line	Unemployment rate 2003	Inflation 2003	Fiscal balance as percentage of GDP 2003	Current account as percentage of GDP 2003	Public debt as percentage of GDP 2003
The Bahamas	14	312	16691	....	10.8	3.0	....	-8.17	45.0
Barbados	0.43	272	9651	14	11.1	1.6	-2.5	-8.0	71.1
Belize	23	290	3646	....	12.9	2.6	-10.9	-18.3	88.9
Guyana	216	762	911	35	...	4.9	-34.7	-11.0	172.0
Jamaica	11	2 600	2962	19	13.1	14.1	-5.9	-12.4	142.0
Suriname	164	439	2470	....	...	26.0	0.2	-14.0	37.0
Trinidad and Tobago	0.44	1 300	7836	21	10.6	3.0	2.7	9.6	28.0
OECS	2.81	578	4338	....	....	1.8	-9.0	-19.0	109.0
Anguilla	0.1	12	7840	....	....	6.9	2.	-34.7	17.2
Antigua and Barbuda	0.44	74	8369	12	....	...	-9.0	-12.7	151.7
Dominica	0.75	72	3023	33	....	3.0	-5.0	-13.2	127.0
Grenada	0.34	102	3353	32	....	1.1	-10	-34.5	110.1
Montserrat	0.1	4	7569	....	....	1.2	-28	-17.4	16.3
St. Kitts and Nevis	0.27	50	6510	31	....	3.1	-9	-23.7	162.0
St. Lucia	0.62	167	3658	19	....	0.4	-9	-15.4	66.5
St. Vincent and the Grenadines	0.39	112	2819	33	....	2.7	-2.4	-18.2	76.7
Aruba	1.0	91	22000	....	6.9	3.7	1.0	-7.0	41.0
British Virgin Islands	0.1	21	10000	....	....	0.4	-0.7	....	....
Netherlands Antilles	0.8	219	11400	....	....	1.9	-5.0	0.2	90.0
United States Virgin Islands	0.3	108	12500	....	8.5	....	....	....	....

... denotes not available.

Source: ECLAC, based on official statistics.

	1981-1990	1991-2001	2002	2003a/	2004b/
Anguilla	....	3.8	-3.1	3.0	....
Aruba c/	.....	3.2	-2.6	1.4	....
Antigua and Barbuda	6.1	3.4	2.1	5.8	5.0
The Bahamas	...	1.8	2.3	0.2	.....
Barbados	1.1	0.9	-0.5	2.2	3.0
Belize	4.5	4.9	4.4	4.4	4.0-5.0
British Virgin Islands	....	....	....	-1.9	.....
Dominica	4.4	2.4	-5.1	1.0	1.0
Grenada	3.5	3.5	-0.4	5.7	3.0
Guyana	-2.9	4.7	1.1	-0.6	2.5
Jamaica	2.2	0.7	1.1	2.1	2.3
Montserrat	...	-8.5	4.9	1.2	....
Netherlands Antillesd/	....	-1.3	0.4	1.4	0.9
St. Kitts and Nevis	5.8	4.1	-0.3	0.6	2.0
St. Lucia	6.8	1.4	0.4	3.7	2.5
St. Vincent and the Grenadines	6.5	3.0	1.7	3.6	2.4
Suriname	0.5	1.0	3.0	5.6	6.0
Trinidad and Tobago	-2.6	2.7	2.7	4.1	6.0-7.0
Average	3.0	2.0	0.7	2.4	3.5
Service-oriented economies	4.0	1.5	0.3	2.7	2.4
Commodity-oriented economies	0.3	2.8	2.5	3.1	4.6
Divergence	1.1	1.6	2.8	0.7	1.9

Note: a/ estimated; b/projected. c/ 1995-2001; d/1997-2001.
... denotes not available.
Source: On the basis of official information

2.1 The tourism sector

The 2003 recovery was essentially a service sector driven recovery. Specifically, it was led by the recovery in tourism and was only, to a lesser extent, the reflection of the contribution to aggregate growth of commodity-oriented economies. The tourism sector's performance in 2003 is a direct expression of the pick-up of the global travel industry following the events of 11 September and is reflected in the expansion in airlifts and cruise ship calls and improved marketing strategies to recover market share losses.⁷

The extent to which tourism performance affects the rate of growth of Caribbean economies' GDP depends partly on size considerations. It is also a reflection of the close sectoral linkages between tourism and other economic sectors in some of the service-oriented economies

⁷ For example, data for the OECS indicate that the number of cruise ship calls recovered from -21% in 2002 to 3.5% in 2003 (and 7% if St Vincent and the Grenadines is excluded from the group).

(Antigua and Barbuda, The Bahamas, Barbados and the Non-Independent Caribbean Countries (NICCs)). Among these, Barbados provides the most illustrative example of this linkage. The simple correlation coefficient between the rate of growth of GDP and that of tourist arrivals (used as a proxy for tourist expenditure) yields a value of 0.85 (see Figure 2).

Other service-oriented economies (Dominica, Saint Lucia and Grenada) do not demonstrate a similar linkage. The scatter diagram in Figure 3 shows the relationship between the average rate of growth of tourist arrivals (stopovers) and that of GDP for the period 1990-2003. Economies, such as Barbados and The Bahamas, are close to the 45° line which maps a one-to-one correspondence between GDP growth and that of tourist arrivals. Others are clearly situated below the 45° line. For them the rate of growth of GDP is less than proportional to that of tourist arrivals.

In a similar vein, the use of limited available data on tourist expenditure and simple econometric analysis demonstrates that for the economies situated below the 45° line, a 10% growth in visitor expenditure generates only a 0.2% growth in GDP. The empirical evidence presented indicates that maintaining the growth momentum will require additional efforts and strategies for further developing and diversifying the tourism sector.

Interestingly, in 2003 tourism was also a significant contributor to the rate of growth of some of the commodity-oriented economies, such as Belize, or economies with a strong primary sector such as Jamaica. In the case of Belize, the contribution of total visitor arrivals is largely explained by cruise ship arrivals (98% for the same period). Nonetheless, stopover arrivals and tourist expenditure expanded significantly in relation to the previous year (1% and 11% in 2002 and 2003). The significant expansion of tourism in Belize is due to the fact that the country has been able to offer one of the most diversified tourism products in the Caribbean and Central American regions. The Belizean tourist product includes the traditional beach and sun tourism and the advantages of the second largest barrier reef in the world as well the heritage of the Mayan culture. Belize is also the least deforested Central American Isthmus country which is endowed with a rich and varied fauna. In the case of Jamaica, the tourism sector recorded the highest growth of any of the sectors.⁸

⁸ Section II of this report investigates in greater detail the developments in tourism in the region and in member States during 2003, pointing to challenges that the sector faces as well as to potential strategies that are being pursued.

Figure 2
Barbados
Rate of growth of tourist arrivals and GDP
1989 - 2003

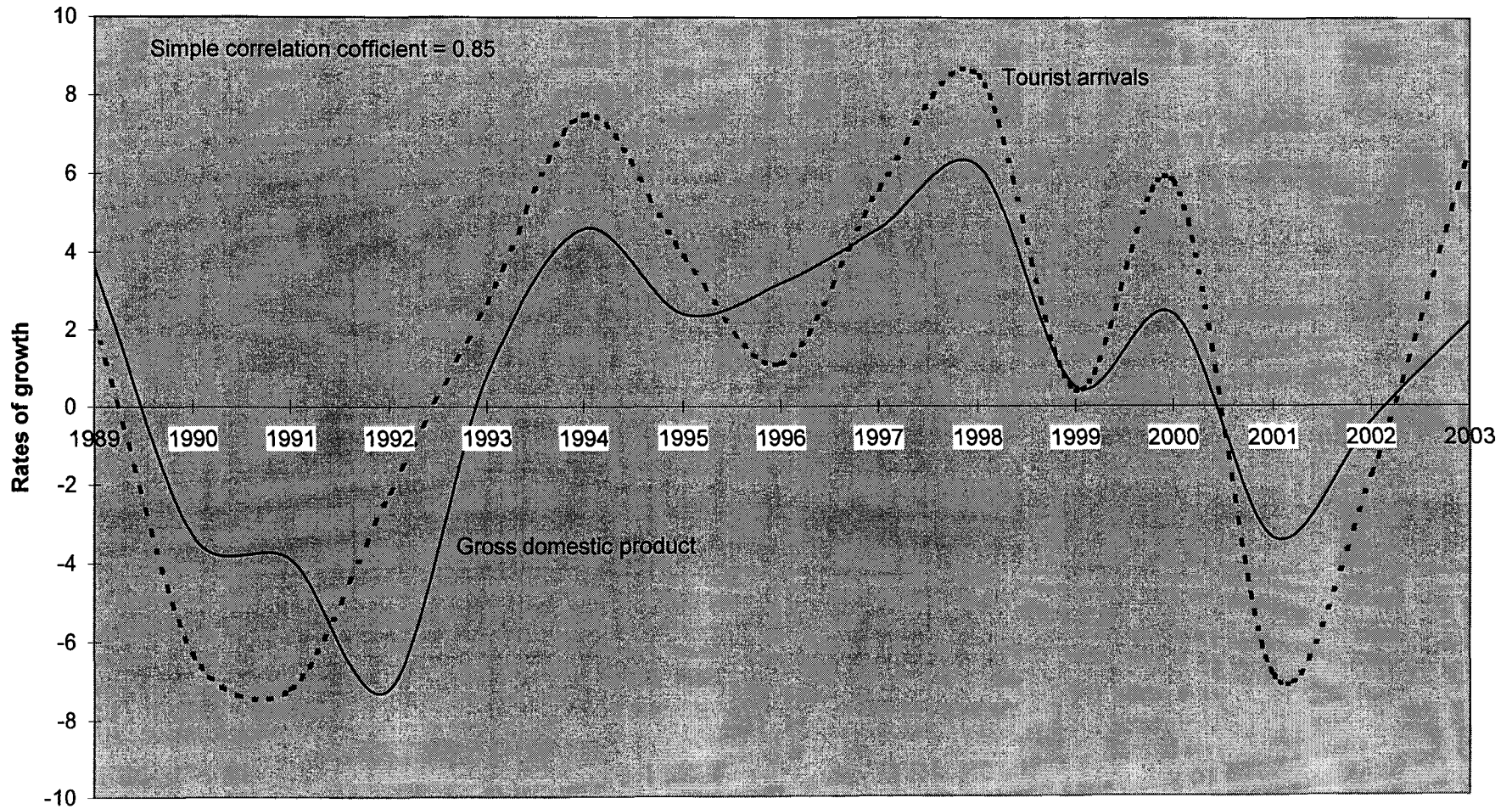
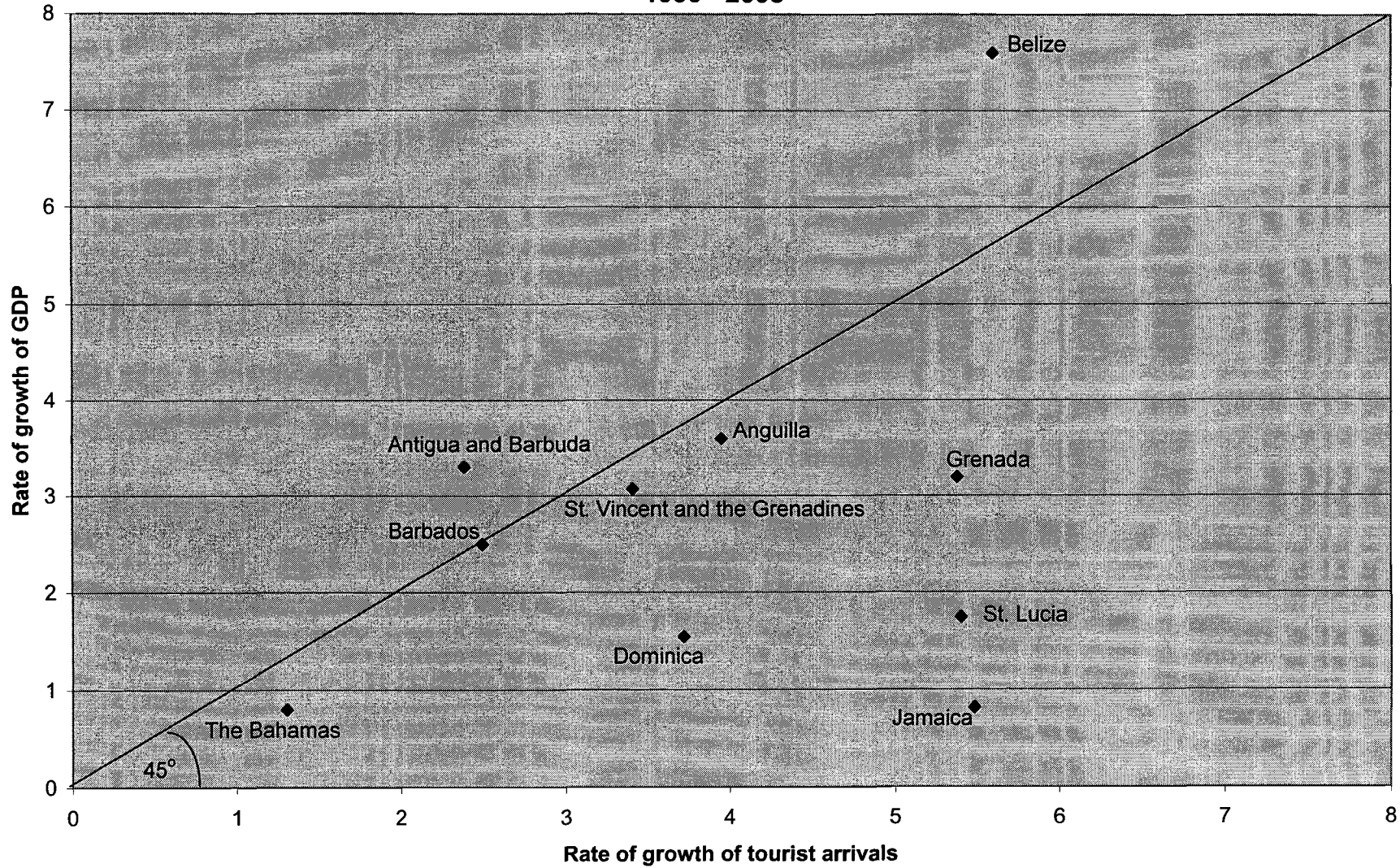


Figure 3
Scatter plot of the rates of growth of tourist arrivals (stop overs) and GDP
1990 - 2003



2.2. Primary sector activities

Following tourism, activities associated with the primary sector constituted the second largest contributor to overall growth. In the case of Belize, primary activities grew by 36% in real terms. For Jamaica, the contribution of agriculture and mining to GDP growth is estimated at 16.4% and 12.5%, respectively, (18% for the miscellaneous services category which includes hotels and restaurants). In addition, both sectors recorded the largest rates of growth for 2003 (5.7% and 4.8%) after that of tourism. In the case of Trinidad and Tobago, the energy sector witnessed an expansion of 11% which dwarfed the 1.8% growth in the non-energy sector. Overall, only Guyana provided the exception to this general trend in that it recorded declines in most of its primary sector activities (by 9% for sugar and mining and by 2% for other agriculture). This was due to structural and technical problems.

Primary sector activities benefited partly from the increase in the international prices of oil and non-oil commodities, including alumina and bauxite, and sugar and bananas. The international prices of alumina expanded 10%, responding to the rise in external demand driven by China. Those of sugar and bananas rose by 8.7% and 4.1%, respectively. For their part, crude oil prices rose by 20% relative to 2002.

The behaviour of the primary sector was not only due to favourable commodity prices, but was also reflected in the increase in productive capacity in some of these economies. Trinidad and Tobago expanded the production of natural gas due to the commissioning of the Train III liquefied natural gas facility (LNG). Plans have also been undertaken to expand sea drilling activities. The performance of the primary sector in Jamaica reflected as well increased capacity utilization in the alumina sector.

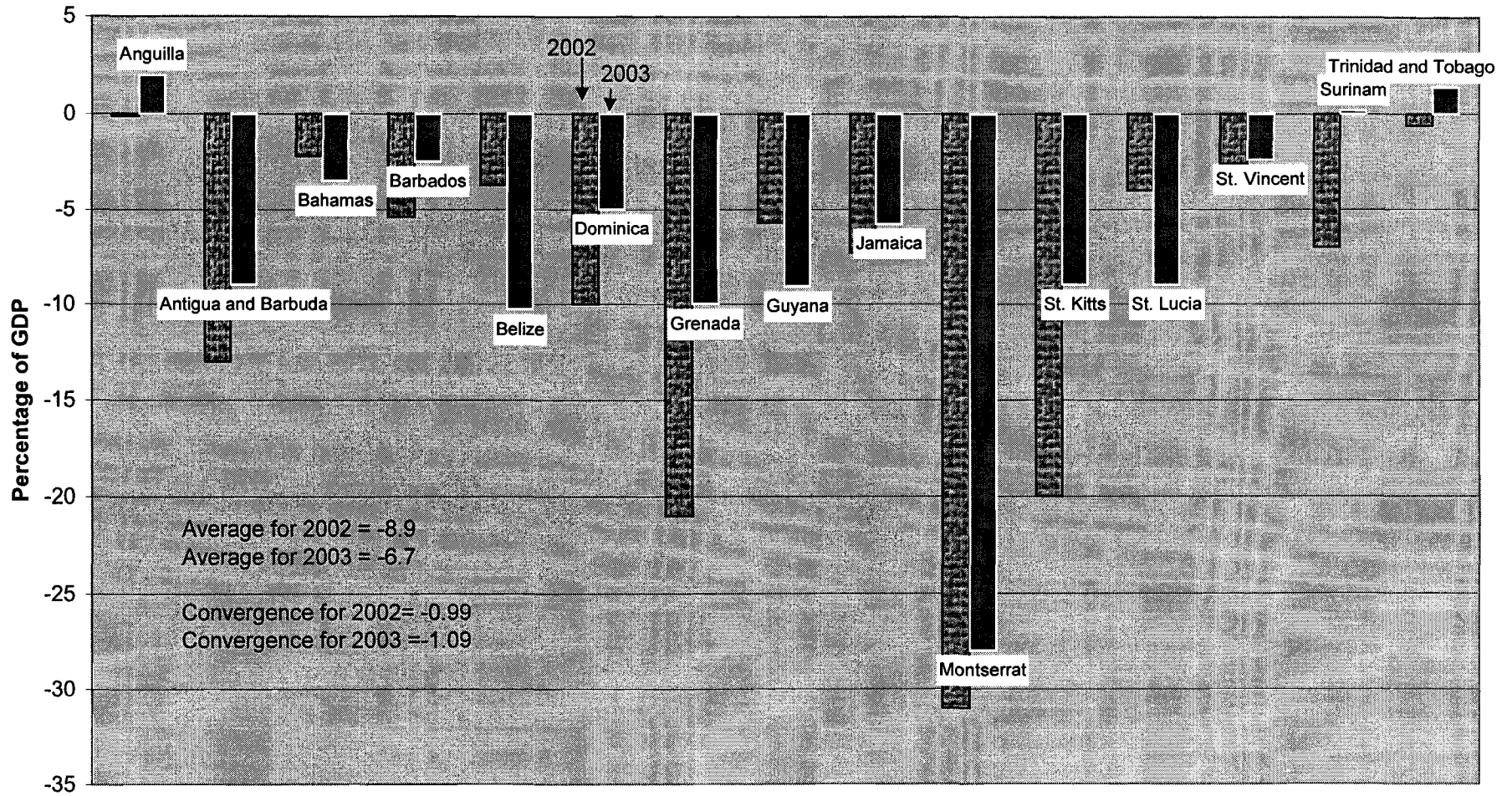
3. Fiscal and external performance

3.1. Fiscal performance

The increase in the overall level of economic activity was accompanied by conscious efforts to contain and reduce fiscal imbalances. This policy was in general terms in line with that of most Latin American countries. On average, the aggregate fiscal deficit for the region narrowed from 8.9% to 6.7% (see Figure 4), largely due to a reduction in public expenditure.

However, five countries (Belize, The Bahamas, Guyana, the Netherlands Antilles and Saint Lucia) proved to be the exception to this trend. In both Belize and the Bahamas, the fiscal outcome responded to the increase in interest rate payments to service the external debt. In the particular case of Belize, interest payments on the public debt rose 76% and represented 22% of current expenditure for 2003. In fact, Belize is particularly noteworthy as the fiscal deficit expanded threefold, from 3.7% of GDP in 2002 to 10.8% of GDP in 2003.

Figure 4
Fiscal balance as a percentage of GDP
2002 and 2003



For the member States of the OECS, Jamaica, Suriname, Aruba and the British Virgin Islands fiscal policy was carried out through expenditure restraint. Fiscal performance in Barbados and Trinidad and Tobago benefited from the pick-up in economic activity and, in the case of Trinidad and Tobago, from the increase in the international price of oil. Fiscal reforms were implemented in Barbados, Jamaica and Suriname (see Box 1). In the case of the British Virgin Islands, the contraction in capital expenditure (-43%) was the main vehicle used to achieve fiscal consolidation.

In Jamaica, fiscal reforms implemented in the months of April and May included widening the tax base of the general consumption tax as well as increases in the rate applied on the use of telephone services and duty rates on selected imports. In Suriname fiscal reforms were introduced between December 2002 and January 2003. A series of tax measures were introduced to address the existing fiscal imbalance and the negative effect of the implementation of the third and fourth phase of CARICOM's Common External Tariff starting in January 2003.

Box 1		
Fiscal reforms in the Caribbean		
2002-2004		
Jamaica		
<u>Tax measure</u>	<u>Date of implementation</u>	<u>Revenue effect in terms of GDP</u>
4.0% cess on imports	May 1 – 31, 2003	0.8
2.0% custom user fee	June 1, 2003	
Increased Stamp Duty on imports by in-bond merchant	May 1, 2003	0.0
Widening of the General Consumption Tax base	June 1, 2003	
Increase in assets tax rates	June 1, 2003	2.1
Adjustments to the aggregate duty structure on selected motor vehicles	May 1, 2003 June 1, 2003	0.0
Adjustment to the age limit on imported vehicles		
Removal of income tax credit on bonuses share issues	June 1, 2003	0.0
Change in the duty concession policy		0.1
Increase in Special Consumption Tax (SCT) on alcoholic beverages	April 22, 2003 April 24, 2003	0.1 0.1
		3.4
Barbados		
Reduction in the basic and marginal tax rates. The basic tax rate will be reduced from 25% to 22.5% in 2003 and to 20% in 2004. The marginal tax rate will be reduced from its present level of 40% to 37.5% in 2005 and to 35% in 2006		
Increase in the tax-free threshold from BDS\$ 15,000 to BDS\$ 17,500 in 2004 and to BDS\$ 25,000 in 2007.		
Reduction in the corporation tax from its present level 40% to 25% in 2007		
Suriname		
The measures effective in 2003 included an increase in the threshold of the wealth tax, and the introduction of a threshold in the rental value tax and a casino tax consisting in the payment of a fixed amount per tables and machines. These also comprised changes to the threshold income brackets and increases in the tax rates of the income tax and of the sales tax rate (effective in December 2002). The latter rose from 5% to 8% for services and from 7% to 10% for goods.		
<u>Source:</u> Planning Institute of Jamaica. Economic and Social Survey of Jamaica (2003); Jamaica Memorandum on the Budget 2004/2005. Ministry of Finance of Jamaica (15 April 2004) and on the basis of official sources.		

Nevertheless, despite the recent fiscal consolidation efforts, disparity among Caribbean countries remains extremely high for a region whose ultimate goal is monetary and economic union as dictated by the legal texts of the Caribbean Single Market and Economy (CSME).⁹ At one extreme Trinidad and Tobago exhibits a fiscal surplus equivalent to 1.4% of GDP. At the other extreme, Belize, Guyana, and the member States of the OECS have fiscal deficits reaching levels which are near or higher than 10% of GDP (see Figure 4).

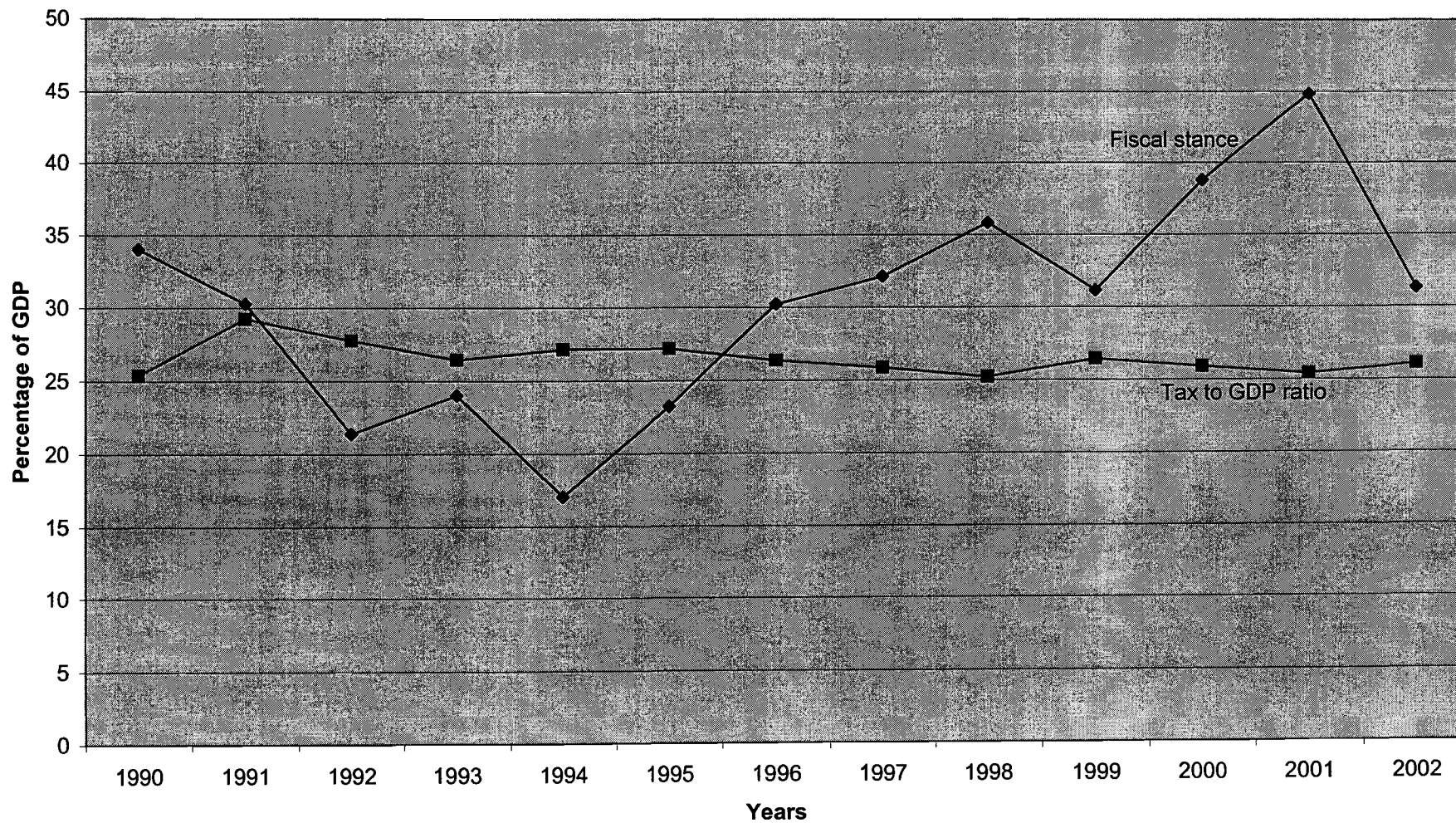
Analysis of the aggregate fiscal stance and the tax to GDP ratio as a percentage of GDP shows that Caribbean economies have in the aggregate exhibited fiscal disequilibria (see Figure 5).¹⁰ Fiscal policy began an expansionary stance from 1995 that lasted until 2002. This trend however turned in 2003, as the fiscal stance decreased mainly as a result of a decline in government expenditure. On the other hand, the tax to GDP ratio witnessed a slight increase of half a percentage point (25.4% and 26.0% in 2002 and 2003, respectively) showing a weak response of the tax system to economic growth.¹¹ This implies mainly that the attainment of fiscal balance can in effect only be brought about through a policy of government expenditure restraint.

⁹ The cross-sectional coefficient of variation rose from -0.99 in 2002 to -1.09 in 2003, indicating that the country deviation of the budget deficit from its mean is higher than the mean itself.

¹⁰ The fiscal stance is defined as government expenditure divided by the tax ratio (tax revenue over GDP). The fiscal stance is neutral when tax revenue covers government expenditure; accordingly, the fiscal stance is equal to GDP. The fiscal stance is said to be expansionary (restrictive) when government expenditure exceeds (falls short of) revenue; accordingly the fiscal stance is greater (less than) than GDP. The deviation between the fiscal stance and GDP as a percentage of GDP provides an indication of the extent to which fiscal policy deviates from a neutral stance.

¹¹ The correlation coefficient between both for the 1990 is statistically insignificant and indeed close to value of zero.

Figure 5
Fiscal stance and the tax to GDP ratio in the Caribbean
1990 - 2003



3.2. *The external sector*

On the external front, the region reduced its current account imbalance. In 2003 the average current account deficit for the Caribbean declined from 11.9% to 10.7% of GDP (see Figure 6). This behaviour reflected mainly the good performance of commodity-oriented economies and thus the positive effect of the improvement in external demand and the rise in commodity prices.

Trinidad and Tobago is a noteworthy case as it recorded the best balance on its current account in a decade (8% of surplus on the current account). Jamaica also experienced the first increase in three years in the nominal value of its exports.

The evolution of commodity exports is reflected in the movement of the export performance ratio (see Figure 6).¹² The ratio is below GDP for the period 1993-2003 indicating a disequilibrium in the balance of trade. Its slightly increasing slope for the year 2003 shows an improvement of export performance at the aggregate level.

In contrast with commodity-oriented economies, service-oriented economies suffered for the most part a deterioration in their external accounts (-12.4% and -13.15% of GDP in 2002 and 2003). Even though, in general, the services account saw its surplus increase, this positive result was insufficient to offset the negative results on the balance of trade and the income accounts.

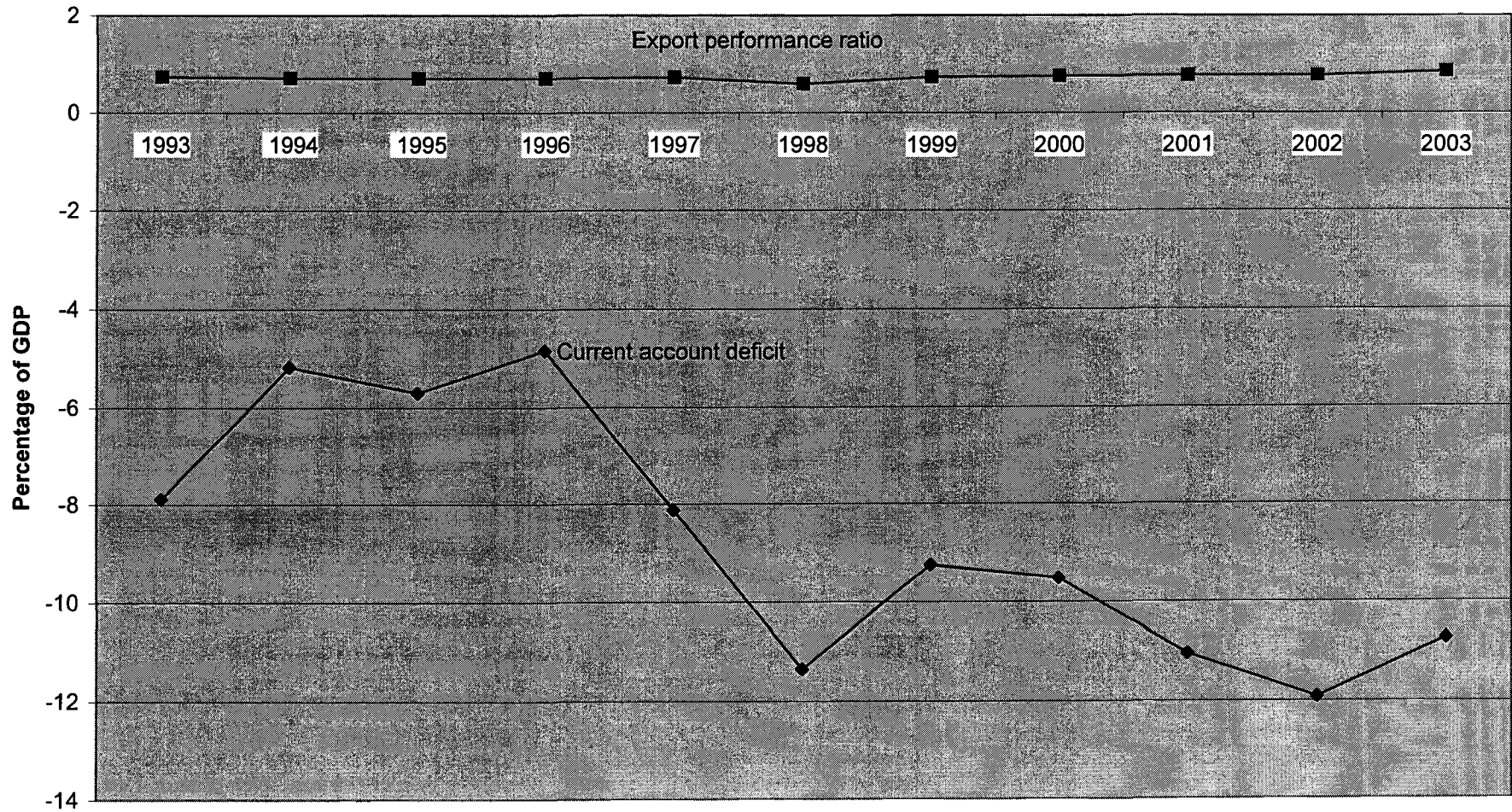
An important fact to note is the substantial expansion of remittances. The most significant case is that of Jamaica, where remittance flows reached 15% of GDP surpassing the levels registered in other regions and countries prone to unilateral transfer flows such as Central America or the Dominican Republic.

The capital account exhibited a mixed behaviour for all countries involved. In some cases, such as in Trinidad and Tobago and Belize, it witnessed an outflow while in others, such as The Bahamas and Barbados, it registered significant inflows.

¹² In the case of merchandise trade this indicator equals the ratio of exports to the average propensity of import (i.e. the ratio of imports to GDP). When exports are equal to imports, the export performance ratio is equal to GDP. When exports are greater (less) than imports, the export performance ratio is greater (smaller) than GDP.

Figure 6

Figure 6
Current account deficit as a percentage of GDP and the export performance ratio for the Caribbean
1993 - 2003



Nonetheless in most cases the outcome responded exclusively to a conscious policy decision on the part of the authorities rather than on external factors. The exception is the OECS whose balance on the financial and capital account, was determined by foreign direct investment flows in infrastructure.

Trinidad and Tobago's continuing financial expansion and its debt operations repayments resulted in a deficit in the capital and financial accounts. Inflows in the case of Belize responded to the decision of the authorities to purchase on a temporary basis the equities of the Belize Telecommunications Company. In Barbados the Government sold a State-owned bank to foreign concerns. Finally The Bahamas received the proceeds from floating a bond on the international market to re-finance its external debt.

4. The monetary policy stance

The conduct of monetary policy varied according to the exchange rate regime (see Box 2 below). In fixed exchange rate regime economies, with the exceptions of Aruba and the Netherlands Antilles, the monetary authority largely played a passive role adapting to the prevailing economic conditions. The monetary stance sought in this way to sustain the recovery of economic activity.

Box 2			
Hard and soft pegs in the selected Caribbean countries			
1970 – 2003			
Countries	Time period	Soft Pegs	Hard pegs
OECS	1976-2003		United States dollar
Bahamas			United States dollar
Barbados	1966-July 1975		Sterling
	1975 – 2003		United States dollar
Belize	1976-2003		United States Dollar
Guyana	1970-1975		Sterling
	1975-1984		United States dollar
	1984	United States dollar	
Jamaica	1971		United States dollar
	1984	United States dollar	
Trinidad and Tobago	1975-1993		United States dollar
	1993-2003	United States dollar	

Source: On the basis of official information.

As such those economies (with hard pegs) that recorded capital inflows (Bahamas, Barbados) also registered increasing levels of liquidity.

In the case of the OECS, with a currency union and a particular case of a fixed exchange rate regime, the money supply is demand driven and the Eastern Caribbean Central Bank (ECCB) maintained, as in the past, a neutral policy stance.

On the other hand, Aruba and the Netherlands Antilles imposed quantitative limits (a credit ceiling in the former and an increase in the reserve requirement in the latter) to reign in the growth of domestic credit.

In the case of managed exchange rate regimes (or soft pegs), such as Trinidad and Tobago and Jamaica, the monetary authorities employed a series of tools to guide the behaviour of prices and the exchange rate. The exception to the rule was Guyana. In view of the impending economic contraction and price contraction, the Central Bank of Guyana allowed the financial system to accumulate liquidity.

The Central Bank of Trinidad and Tobago used the reverse repurchase agreement rate to steer monetary policy backed by open market operations and interventions in the foreign exchange market. The monetary authority guided by market conditions applied a restrictive monetary policy in the first semester which it relaxed in the second half of the year.

In the case of Jamaica the authorities were forced to intervene following an official announcement at the end of 2002 that the government would not meet its fiscal target for the fiscal year 2002/2003 which triggered a sharp currency depreciation. The Bank of Jamaica used several instruments to stop the decline in the exchange rate and the consequent unwarranted price increases (see Box 4 below). These included the more orthodox open market operations and the consequent interest rates hikes as well as the use of foreign exchange reserves to prop up the currency. Intervention also comprised more heterodox tools such as the imposition of a 'Special Deposit' for national financial institutions, prescribed liabilities at the Bank of Jamaica and moral suasion. The latter came through an announcement of the Prime Minister stating that the government was committed to backing the currency.

The Jamaican case is of particular interest because it yields important insights into the issue of currency crisis in smaller economies giving way to an alternative explanation based on institutional arrangements and in particular on the relationship between the government and the Central Bank.

The thrust of the argument is that in smaller economies debt operations are unavoidable. As result, monetary policy cannot be independent of fiscal policy. When the debt burden is significant and the debt is denominated mostly in national currency, the Central Bank can arguably lower the term structure of the rates of interest to lessen the burden of the government debt. In a flexible exchange rate regime the nominal exchange rate has to fall in line with that of the interest rate. At a point in time if a government does not comply with its stated budget deficit target as occurred at the end of 2002, economic agents will expect a sharper fall in the interest rate and a greater depreciation of the exchange rate. In an attempt to avoid capital losses, economic agents switch from assets denominated in national currency to assets denominated in foreign currency. The stage for a currency crisis is thus set.

Box 4
Use of monetary policy instruments in Jamaica
January to May
2003

Measure	Date of introduction	Nominal rate of exchange with the US dollar	
		Date	Value
Special Deposit for institutions to hold 5.0% of their Jamaican dollar prescribed liabilities at the Bank of Jamaica	January 10	2/12/02;	49.95
		10/02/03	51.13
Issuance of a 120 Reverse Repurchase instrument at 30%.	February 10 (remover February 14)	10/02/03	53.19
Increase in interest rates on open market instruments from 180 to 365 days.	March 19	19/03/03	54.80
Increase in interest rates on open market instruments from 30 to 365 days.	March 26	26/03/03	55.40
Reduction of interest rates on some open market instruments	April 25	25/04/03	56.84
Communication by the Prime Minister backing the currency	May 18	16/05/03	67.77
		16/06/03	59.03

Source: On the basis of official information.

This type of interaction between the government and the Central Bank, or between fiscal and monetary policy, which is examined in the debt section of this survey, is also visible in other economies. Barbados is a case in point. The excess liquidity in the financial system was used to purchase government debt paper lowering its yield and with it the government's debt burden.

5. CARICOM's international trade negotiations

As part of the process of integration in the international economy, CARICOM countries launched in April 2004 the Economic Partnership Agreement (EPA) Negotiations with the European Union. These agreements are meant to "build upon and strengthen the regional integration process and complement and support national strategies, policies of adjustment and structural transformation [...and...] should reflect differences among Caribbean economies in levels of development and size."¹³

Within the Free Trade Area of the Americas (FTAA) negotiations, CARICOM economies completed the national trade-related capacity building strategies which formed the basis for roundtable discussions with potential donors. The strategies seek to enhance the

¹³ Trade Negotiations Insights. From Doha to Cotonou. Vol.3.No3. May 2004.

capacity of countries in trade negotiations, in the implementation of trade agreements and in adjusting their economies to the greater levels of openness and trade integration. The first such meeting took place in Washington. In 2003, FTAA negotiators also recognized that countries may 'assume different levels of commitments within a framework of common and balanced set of rights and obligations'. In 2004 the FTAA negotiations are stalled partly due to countries' inability to develop the new framework.

In 2003 CARICOM countries also signed a free trade agreement with Costa Rica. This strategy marks continuity in CARICOM's international insertion which was guided initially by preferential trading arrangements with its major trading partners and subsequently supported by bilateral free trade agreements with non-traditional partners. CARICOM signed free bilateral free trade agreements with Venezuela (1993), Colombia (1995), Cuba (2001) and more recently the Dominican Republic (2001).

While it is too early to identify to what extent CARICOM economies will benefit from the trade agreement with Costa Rica, the available data show that Caribbean economies accounted in 2003 for 2.7% of Costa Rica's exports. Of this market share, CARICOM economies represent only 38% (Jamaica (24%), Trinidad and Tobago (9%), Barbados (3%) and The Bahamas (2%)) or 1% of Costa Rica's total exports. On the other hand, Costa Rica has registered a consistent trade surplus with Jamaica, its largest trading partner in the English-speaking Caribbean, and has balanced its trade with Trinidad and Tobago, which prior to 2003 was in favour of Trinidad and Tobago.

6. Economic prospects for 2004

For 2004 the Caribbean region is expected to increase its rate of GDP growth with respect to 2003 mainly as a result of the improvement in growth prospects for commodity-oriented economies. Trinidad and Tobago (6%-7% in 2004) will benefit from the continuing dynamism of the energy sector propelled by increases in capacity, improvements in productivity and favourable international conditions. Guyana (2.5%) is expecting a turnaround from the negative rate of growth of 2003 driven by improvements in most economic sector with the exception of mining and quarrying. The country also expects an increased inflow of foreign direct investment. Jamaica's economic performance (2.3%) will respond to the increase in investment in the productive capacity of its alumina operations. Finally, Suriname's economy (6%) is projected to reap the benefits of the expansion of capacity in the bauxite industry as well as the restructuring of the banana sector.

Service-oriented economies are projected to maintain for the most part their current growth levels as visitor arrivals and tourist expenditure continue to recover from the effects of the September 11th events. The relationship will be most evident in the case of Barbados as the economy is expected to raise its current rate of growth by one percentage point in 2004. In the case of The Bahamas this will be enhanced by greater investment in infrastructure. For its part, the OECS expects to benefit from a rebound of the construction subsector as well as from banana production.

The increase in the overall level of economic activity will translate into higher import demand which in the majority of the cases (the exception being Trinidad and Tobago) will be affected by the rise in the international price of oil. However, the overall impact on the current account of the balance of payments will depend on the extent to which the export performance of goods and services can offset the rise in imports. It is expected that most economies will maintain their current external deficit position at current levels. Trinidad and Tobago is once again the exception to the norm and is poised to record a surplus on its balance of payments current account.

On the fiscal side countries will, partly due to their high levels of indebtedness, continue to pursue their fiscal consolidation efforts. The fiscal imbalance is projected to be within the vicinity of 8% of GDP. Given the low tax buoyancy of Caribbean economies, any improvement on the revenue side will have to come from tax reform or improvements in administrative efficiency. Government expenditure for its part will be confined to wage bill expenses and interest payments. In some countries (Guyana, Jamaica and Suriname) the increase in the minimum wage will contribute to the rise of current expenditures. In others (Barbados and Jamaica) the financial system will help to attenuate the burden of debt servicing.

Monetary policy would do well to let the economic recovery settle in. However it will face a significant challenge in trying to maintain their target rates of economic growth while at the same time controlling an inflation rate which, in the absence for any countervailing measure, will be fuelled by the increase in international oil prices.

II. ANALYSIS OF SELECTED TOPICS



Tourism performance in the Caribbean

1. The importance of tourism¹⁴

The Caribbean is considered to be the most tourism-intensive region in the world, with an overall contribution of travel and tourism to output and employment in 2003 of 14%.¹⁵ Whilst this contribution was lower than in 2000, when the rates for output and employment were 17% and 15%, the rate of growth of the sector's contribution in 2003 was higher (3% and 4% respectively) than in 2000 (1% and 0.7%, respectively).

The importance of tourism for individual Caribbean countries has determined the categorisation of the region as tourism intensive. In the OECS subregion, Antigua and Barbuda and the British Virgin Islands are the countries most dependent on tourism with a contribution of tourism to the economy representing 74% and 95%, respectively, in 2003. In the case of Antigua and Barbuda, this contribution was significantly less than in 2000 when it was 84% of output. The Bahamas, Barbados and Saint Lucia are the other countries in the region where travel and tourism make a significantly high contribution to output as well as to employment (see Table 3).

The dependence of Caribbean countries on tourism was brought into sharp relief after the terrorist attacks of September 2001. Overall contribution to output fell by more than one percentage point in 2002. However, the decline did not begin after 2001 but was evident before that when tourism contribution to both output and employment began to decline.

Given the importance of tourism for the region, this chapter investigates in detail the developments that have affected this sector in 2003. In particular, it points out that cruise stopovers have increased more than proportionately relative to stopover tourism, and analyses whether this is a trend that will ultimately prove to be beneficial to the region.

2. The 2003 tourism recovery

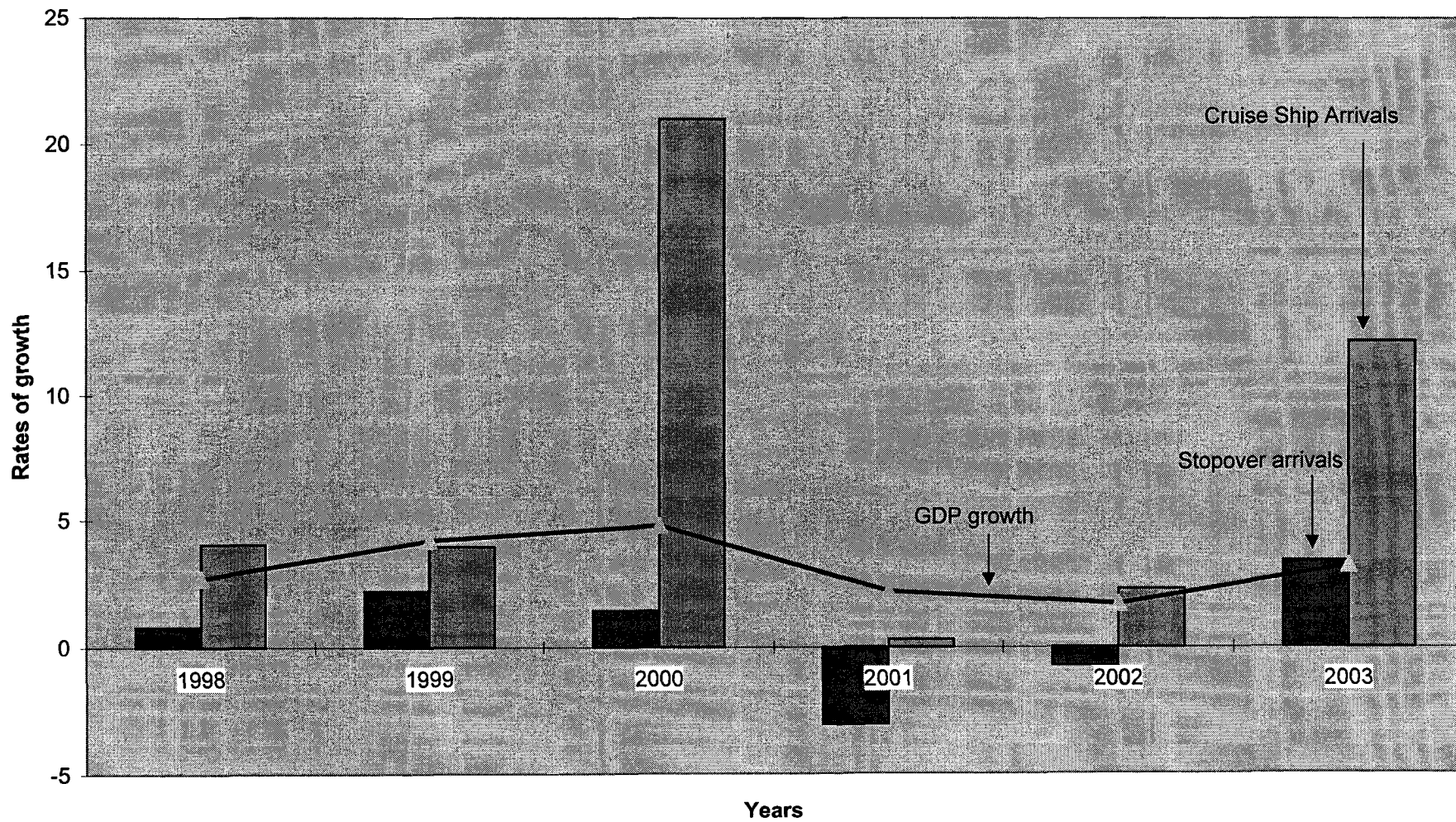
2.1 *The regional perspective*

The year 2003 stands out as it marked a significant recovery in tourism's contribution to the Caribbean region. The industry's output real growth was 3.6% compared with a decline of 7.1% in 2002. Its contribution to employment growth in the industry increased by 6.3% compared with a fall of 3.7% in 2002. The most significant growth of output was recorded for Saint Lucia (17.9%) and Jamaica (16.4%). These countries also recorded the most significant growth in employment (17.8% and 15.6%, respectively). The country with the most significant decline in output growth (-9.2%) and employment (-7.1%) was Dominica.

¹⁴ Most of the analysis is limited to CARICOM economies. Cuba, Puerto Rico, Mexico and the Dominican Republic are referred to as the Hispanic Caribbean.

¹⁵ See World Travel & Tourism Council (WTTC) 2004. *The Caribbean: The Impact of Travel & Tourism on Jobs and the Economy*.

Figure 7
Tourist arrivals in the Caribbean and GDP Growth
1998 - 2003



Inflows of visitors and tourists numbered 10.8 million in 2003, the highest figure recorded to date, exceeding the 2000 figure by 8.2%. However, the growth in the categories of arrivals varied. Tourist arrivals grew by 3.4% whereas cruise ship arrivals recorded a significant growth of 12.1%, resulting in 4.4 million tourists and 6.5 million visitors, respectively¹⁶ (see Figure 7).

The Bahamas and Jamaica and, to a lesser extent, Barbados dominate stopover tourism in the region, accounting for 34.4%, 30.8% and 12.1%, respectively, of all stopover arrivals in 2003. Other CARICOM countries accounted for less than 10% each of total arrivals. Whereas stopover tourism was on a declining trend prior to the September 2001 attacks, that component of tourist arrivals has now returned to its pre-2001 level and seems set to continue on an increasing trend

	Output				Employment			
	2000	2001	2002	2003	2000	2001	2002	2003
Hispanic and non-Hispanic Caribbean	16.6	15.8	14.2	13.9	14.9	14.2	13.6	14
Antigua & Barbuda	83.9	77.6	74.4	74.3	95	94.8	89.4	89.2
Bahamas	54.9	54.5	50	52	69.8	68.5	61.9	64.6
Barbados	44.9	42.8	47.5	47.8	50.5	47.8	52.6	52.9
Belize	23.9	23.2	23.1	21.8	23.5	22.7	22.7	21.3
British Virgin Islands	95.2	95.2	95.2	95.2	94.4	95	95	95
Cuba	13.3	12.7	12.1	12.5	11.5	10.9	10.4	10.7
Dominica	24.2	24.5	23.5	22.3	22.1	22.3	21.3	20.2
Dom.Rep.	22.7	21.4	21.5	21.9	19.7	18.5	18.6	19
Grenada	27.8	25.4	25.9	25.9	25.9	24	24.3	24.2
Guyana	10.3	9.7	8.6	8.4	12.5	11.7	10.4	10.2
Jamaica	32.1	31.5	29.7	32.4	28.3	27.7	26.2	28.7
Puerto Rico	6.4	6.4	5.2	5	7.1	7.2	5.6	5.5
St.Kitts/Nevis	28	28.8	26.3	26.4	28.5	29.3	26.6	26.5
St. Lucia	44.8	41.8	42.5	47.9	45.1	41.6	42.2	47.7
St.Vincent/Grenadines	31.5	32	31.8	31.4	28.2	28.7	28.4	27.9
Trinidad & Tobago	11.5	10.7	10.5	10.4	11.1	10.5	10.1	10

Source: Based on data in WTTC 2004 Report

Cruise tourism is an important tourism component in the Caribbean, which attracts approximately half of all cruise passengers worldwide. Within CARICOM, cruise visitor arrivals now account for about 60% of all tourism arrivals, up from 51% in 1997. The significant increase (12.1%) in cruise ship visitors in 2003 marked the recovery from weak performance in 2002 and stagnation in 2001 (2.3% and 0.3%, respectively). Bahamas, Barbados, Belize and

¹⁶ Tourists are defined as visitors that spend at least 24 hours in the country. Cruise ship passengers are classified as visitors as they spend less than a day in the country that the ship visits.

Jamaica captured more than the overall increase in visitors in 2003, accounting for a combined 86% of the total market.

2.2 *The recovery of tourism in selected countries*

As stated in the first section of this report, the recovery in tourism was widespread. It affected not only as expected service-oriented economies, but also commodity-oriented economies (i.e. Belize) or economies with a strong primary sector, such as Jamaica, which felt the positive impact in the growth of tourism. This subsection highlights the recovery in Bahamas (a service-oriented economy), Belize (a commodity-oriented economy) and Jamaica (an economy with a strong primary sector).

2.2.1. The Bahamas

The Bahamas is one of the main tourist destinations in the Caribbean, attracting approximately 1.5 million stopover visitors and 3 million cruise visitors in 2003. What differentiates the Bahamas from other traditional holiday destinations is the fact that the Bahamas has generally been a destination for the more affluent segments of society. This is reflected in a relatively high average daily room rate of approximately \$192.64 (at March 2004), with average daily rates ranging from \$230 for Nassau and \$180 for the Out Islands, to \$100 for Grand Bahamas. It is also reflected in the demographic profile of stopover tourists. Approximately 11% had household incomes between \$40,000 and \$59,999 and approximately 65% had pre-tax household incomes of \$60,000 a year or more. Moreover, 40% had household incomes of \$100,000 a year or more. This profile facilitates relatively high spending, with 61% of stopover tourists spending \$1,000-\$4,000 on their visit and 15% spending more than \$4,000 (all staying 4-7 nights). Analysis of overall expenditure shows that approximately 13% of expenditure is expenditure in casinos. This is a significant item of expenditure, which is almost twice as much as expenditure on shopping (7%).

However, whereas growth in cruise tourism has consistently outperformed the average rate of the region since 1997, stopover tourism has been on a downward trend. Nevertheless, the Kerzner International Group plans to invest \$1 billion in order to increase the number of rooms and suites, from 1,200 to 1,500, in their Atlantis Resort on Paradise Island, a complex that boasts a high occupancy rate in excess of 80% and has an average daily room rate (ADR) of close to \$300. The Bahamian authorities have recognized the need to attract more stopover visitors, which results in significantly higher spill overs to the Bahamian economy. The creation of a 'Tourist Welcome Centre' is therefore planned at the cruise docking facilities, the underlying idea being that advertising the Bahamas in detail may entice cruise visitors to return. However, analysis of data points to a small proportion (less than 4%) of cruise visitors actually returning as stopover tourists.

2.2.2. Belize

Belize has seen a dramatic expansion in tourism, especially in cruise visits: whilst stopover tourism has increased by 35% since 1997 to 197,746 stopovers, cruise visitors have

exploded from a mere 2,680 in 1997 to 488,917 in 2003. This increase has posed some challenges for the country, which has been traditionally agriculture based.

The surge in cruise tourism seems to have caught the government by surprise, as the country does not have a proper cruise ship terminal. Visitors have to be ferried by water taxis from the cruise ships to the 'Tourism Village' in Belize City. However, the government has improved upon its Tourism Village complex by completing a fourth terminal for 50–60 new shops. It has also introduced a water taxi service from the 'Tourism Village' to two of the popular cays, providing tourists with opportunities to enjoy water sports and the beaches. Moreover, at the end of 2003 a joint business venture between the Port Authority and Carnival Corporation was announced, to develop a new cruise terminal facility. This facility would include the construction of a pier to accommodate two cruise ships.

The surge in tourism is a recent phenomenon for Belize. Although the country has a large number of ancient Mayan sites, the majority are not potential destinations for cruise ship visitors as a combination of poor roads and distance from the coast renders a journey too long for a one-day visit. The government is however planning to upgrade the northern highway in 2004 and has put effort into enhancing its archaeological sites. An expansion of the runway at its international airport in Belize City is also planned in order to facilitate an increase in air arrivals.

2.2.3 Jamaica

Jamaica like the Bahamas is one of the main tourist destinations in the region attracting about 2.5 million stopover tourists and cruise visitors. In 2003 tourism performance increased significantly, in particular cruise tourism, which benefited from the arrival of 14 new cruise ships. The average length of stay of stopover tourists (10.2 nights) remained the same with the bulk of stopover tourists originating from the United States (72%). However, visitor expenditure increased by over 9%.

Government policy towards the sector is pursued within the context of the Tourism Master Plan prepared by the Ministry of Industry and Tourism in 2003. Incentives were approved to stimulate investment in establishing and upgrading tourist attractions, namely tax-free importation of goods for a period of five years and exemption from corporate taxes also for five years.

Government response to the volatility of cruise tourism was the signing in February 2004 of a Facility Fee Agreement between the Port Authority of Jamaica and the cruise company Carnival Corporation. Under the agreement the cruise company will bring a half million cruise passengers to Jamaica every year over the period 2004–2008 resulting in a total of 2.5 million visitors during the period. Carnival Corporation will pay a fixed fee (per passenger) each year resulting in revenue of at least US\$17.7 million over the contract period.¹⁷ This facility will help to stabilise cruise tourism in addition to the security measures that were instituted at Jamaica's piers in January 2003. The latter no doubt contributed to the significant increase in cruise visitors in 2003.

¹⁷ See Planning Institute of Jamaica, Economic and Social Survey Jamaica 2003

In a follow up to this agreement, government announced in June 2004 that another agreement would be signed between the Port Authority and Royal Caribbean Cruises, which will guarantee a minimum of two million cruise passengers over five years and earnings of not less than US\$16 million. Cruise arrivals are to be further boosted by the confirmation from Pullmantur of Spain that its cruise ship line (Holiday Dreams) booked 156 calls to Jamaica's second city, Montego Bay, over a three-year period beginning in November 2004. Average passenger load of the ship is estimated at 850. With these guarantees Jamaica would have secured about US\$35 million in revenue from cruise arrivals over the next five years, which would enable the Port Authority to finance its development projects.

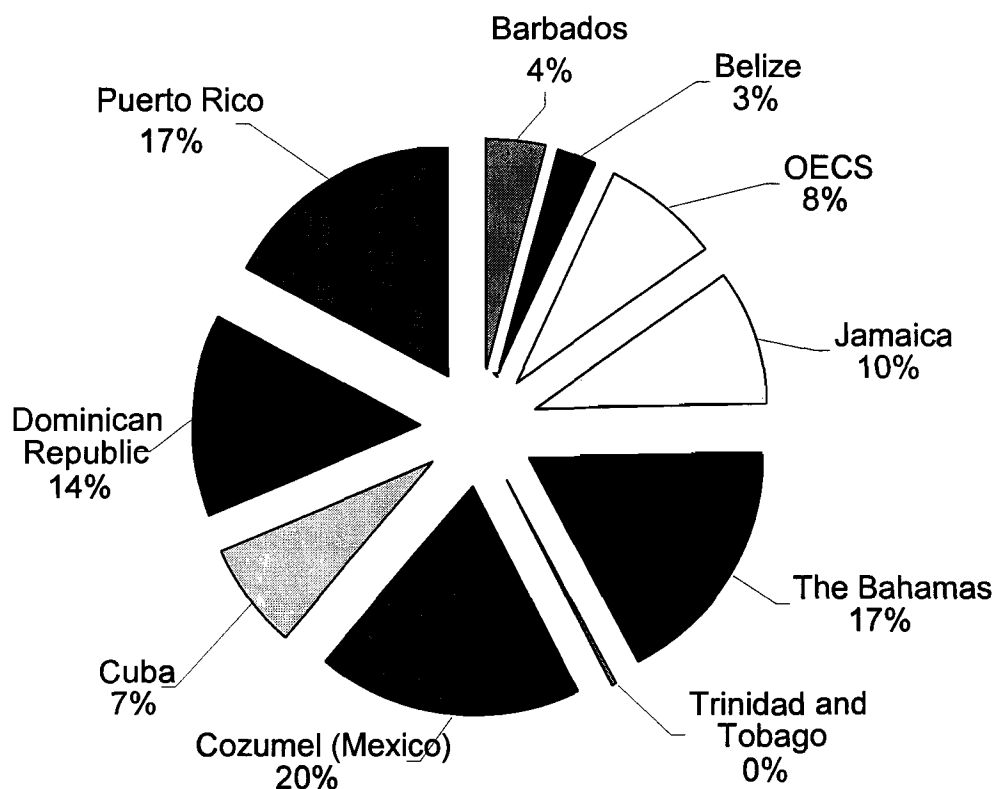
Tourism organizations have redefined and expanded their efforts in promoting the development of tourism on the island. The Tourism Product Development Company (TPDCo) has refocused its role towards the development of the tourism product. It inspects and monitors standards in the industry and organizes training programmes in the upgrading of skills. The Jamaica Tourist Board (JTB) expanded its marketing strategy through promotion campaigns and the launching of a web site. The Port Authority of Jamaica (PAJ) also expanded its marketing of Jamaica as a cruise destination through, among other things, familiarisation tours for executives of cruise ships.

Although Jamaica has taken steps to cope with the volatile cruise tourism category it is still unclear to what extent benefits can exceed the costs of catering to cruise ship arrivals. Although most governments in the region still seem to think that a significant proportion of cruise visitors will return as stopover tourists it is difficult to prove or disprove this view given data inadequacy. Nevertheless, it may be more a case of a sort of demonstration effect whereby stopover tourists are encouraged by the fact of increased cruise ship arrivals.

3. Challenges and strategies for the tourism industry in the Caribbean

Despite the positive developments in tourism, especially the resurgence in the growth of tourist arrivals, Caribbean countries face a number of challenges regarding the sector. One of these is the competition from the Hispanic Caribbean. Cuba, Dominican Republic and Puerto Rico have the largest tourism market shares, totalling 58% in 2003 (Figure 8). In 2002 the Hispanic Caribbean had about twice the share of stopover arrivals (69%) as the other Caribbean countries in the aggregate (31%). In 2003, this gap increased in favour of the former (70%) as stopover tourist arrivals grew almost 3 times as fast for the Hispanic Caribbean (9.5%) as for the rest of the Caribbean (3.4%).

Figure 8
Tourism market share of selected Caribbean countries 2003



Source: Based on data in WTTC 2004 Report

In the cruise tourism market, the situation is reversed with the CARICOM countries having the larger share (61% in 2002). Although cruise ship visitor arrivals grew more significantly for the CARICOM countries in 2003 (13% as against 2% in 2002) than for the Hispanic Caribbean (18% as against 16% in 2002), the former region lost market share to the latter (from 61% to 60% in 2003). This was largely due to significant declines in respect of St. Kitts/Nevis (10%), St. Vincent and the Grenadines (60%) and Trinidad and Tobago (7%). Belize experienced the most significant increase in cruise arrivals in 2003 (80%) whereas Antigua and Barbuda, Dominica and Jamaica recorded increases of the order of 23%, 29% and 31%, respectively. Although the Bahamas had the largest number of cruise visitors in 2003 the increase in visitor arrivals was only 6%.

The second challenge is the volatility of cruise tourism as illustrated above in respect of the performance of the CARICOM countries vis-à-vis the Hispanic Caribbean. This volatility is due to lack of control over the decisions of cruise shipping companies, which can alter their travel routes arbitrarily and particularly in reaction to some unfavourable condition such as tax increase at the port of call. Nevertheless, Caribbean countries continue to rely significantly on cruise tourism despite the relatively minor contribution of this component to earnings and

to 1:42 for Antigua and Barbuda., that is, for every dollar spent by the (cruise) visitor \$11 are spent by the (stopover) tourist in Jamaica. In addition, total expenditure (visitor plus tourist) as a percentage of GDP has been declining over the years for most Caribbean countries, despite increases in the number of tourists (visitors and stopover tourists combined). Countries with the largest increase in cruise ship visitors such as Belize and Jamaica experienced the most significant decline in their expenditure/GDP ratios (Table 4).

The above relationship suggests that increase in cruise ship visitors relative to stopover tourists is positively correlated with decline in the contribution of tourism expenditure to GDP. This point is strengthened by examining the ratio of cruise visitors to tourists. For example, for every 10 visitors to Jamaica in 1997 there were 17 tourists. The number of tourists declined to 16 in 1999, then to 15 in 2001 and finally to 12 in 2003. In the case of the Bahamas, the number of tourists for every 10 visitors declined progressively over the same period from nine in 1997 to five in 2003. The most startling decline in the ratio is observed in the case of Belize, from 53 tourists for every 10 visitors in 1999 to four tourists for every 10 visitors in 2003.

Cruise ships offer a wide array of services to cruise visitors, providing them with meals, accommodation and on-board shopping. Moreover, passengers are encouraged to spend most of their time and money on the ship. Visitor expenditure on shore is therefore significantly lower than expenditure by stopover tourists. The ports of origin of the cruise ships are the major beneficiaries of cruise tourism as passengers arriving for the cruise frequently overnight there prior to embarking on the cruise.

Table 4
Tourism expenditure as percentage of GDP
for selected Caribbean countries

	1987	1990	1993	1996	1999	2003
Antigua & Barbuda	79.6	89.3	71.4	57.1	52.3	38.9
Bahamas	50.2	42.5	42.5	40.1	n.a.	32.2
Barbados	30.3	33.3	37.7	37.2	32.2	25.9
Belize	19.8	27.3	15.5	17.4	18.9	14.7
Dominica	12.3	18.2	17.1	18.4	22.4	19.9
Grenada	35.4	24.0	23.1	24.2	21.6	23.7
Jamaica	19.7	19.5	31.3	22.4	20.6	7.3
St.Kitts/Nevis	52.5	43.1	41.8	32.4	26.3	16.6
St.Lucia	52.1	46.2	52.4	55.8	48.9	40.1
St.Vincent & Grenadines	29.9	34.2	21.7	27.1	28.4	22.0

Based on official data as well as estimates

The third challenge is increasing revenue from tourism without adversely affecting the growth of the sector. Caribbean governments have been trying to increase their intake from the tourism sector, in particular from cruise tourism since cruise visitors enjoy facilities without having to bear the burden of the cost of those facilities. To date, governments in the region have not been successful in extracting taxes on cruise visitors. Taxes levied on cruise tourism are usually significantly lower than departure taxes levied on outbound flight passengers including stopover tourists. Cruise ship companies have resisted all attempts at increasing taxes on cruise passengers upon disembarkation from cruise ships.

The response to the challenges facing the region in the development of tourism has been varied. Most countries in the region recognise the need to upgrade their tourist facilities to meet the real and potential competition posed by Hispanic destinations. In Barbados and Jamaica, for example, efforts are being made to expand and refurbish international airports as well as tourism plants. Both countries aim to cater to the high end of the tourism market given the difficulty in sustaining price competition. Countries in the region need to differentiate their product if they intend to significantly increase their market share of stopover tourism. A positive development that directly responds to the competition from the Hispanic Caribbean is the relatively recent investment in the region by the Spanish hotel chain, RIU International, which operates two all-inclusive hotels in the Negril area of Jamaica. This development has been enhanced by the increase in airlift from Spain.

All countries have tended to increase support to cruise tourism. For example, Jamaica has been increasing its pier facilities as well its terminals; Barbados is planning to build a new pier which will be able to cater to larger cruise ships; in early 2004 a new pier inclusive of a welcome centre was completed in Grenada; and Belize is to upgrade its facilities to enable the docking of cruise ships since currently visitors have to be transferred by boat to shore which is at a considerable distance. More specific efforts of some countries are highlighted below.

The fiscal constraint of a number of governments in the region limits the extent of support for upgrading and further development of tourism facilities. Increasing fees from tourism operations have been difficult to pursue. Whereas larger facilities are more likely to be able to finance their restructuring, smaller operators may go out of business unless creative ways are found to sustain their contribution. Clustering and sub-contracting are options that should be explored to enhance the development and competitiveness of the tourism product in the region.

The level of capital investment in the tourism sector does not seem to be the determining factor in the growth and contribution of the sector to the national output. The countries with the highest level of capital investment in tourism, namely Antigua and Barbuda, The Bahamas and Barbados, have seen modest growth of between 2% and 5%. Whereas capital investment is critical to the development of the sector countries would have to pursue other strategies to boost competitiveness. CARICOM countries have been losing their competitive edge in tourism in terms of value for money, which contributed to the rise in popularity of the Hispanic Caribbean, namely Cuba, Dominican Republic, Puerto Rico and the Mexican Caribbean area of Cozumel.

One area in which Caribbean countries could enhance their competitiveness is that of sustainable tourism, that is where tourism is developed along with positive environmental

practices. Barbados and Jamaica are among the world leaders in sustainable tourism. Forty per cent of the eco-certificates awarded by Green Globe went to the Caribbean. Jamaica has about 22 certified Green Globe properties and is one of five Caribbean countries seeking Blue Flag certification. The Blue Flag programme promotes integrated environmental management.¹⁸ Properties certified as Green Globe or Blue Flag are more likely to increase market share especially in Europe where tourists are more environmentally conscious and therefore want to go to places that are safe in terms of water quality, for example.

The marketing strategy of Caribbean countries needs to be significantly upgraded. Focus has been mainly on the North American market and the European market to a lesser extent. Countries have eschewed promotion in countries such as Japan, China and South Africa, for example. Although resources for tourism promotion are limited, countries could capitalise on the use of the Internet. Increasingly, airline tickets and hotel rooms are being booked online. Caribbean countries have to ensure that the product they offer is presented as favourably as possible to prospective tourists and visitors who are seeking travel destinations via the Internet.

¹⁸ See "Going 'green' means earning more 'greenbacks', tourism interests told, Jamaica Observer, July 25, 2004 www.jamaicaobserver.com

Public debt in the Caribbean - Issues and implications

1. The current state of debt in the Caribbean and its potential costs

As stated in the regional overview of this document, most Caribbean economies pursued an expansionary fiscal stance from 1995 until 2002. That is, governments have increased expenditures without altering their tax efforts. As a result, Caribbean, countries have accumulated debt over time. (See Table 5).

Country	Total public debt as % of GDP		Internal Debt as a percentage of GDP	External debt as a percentage of GDP
	1997	2003		
Anguilla	10.7	17.2	3.8	13.2
Antigua and Barbuda	107.0	151.7	68.9	83.1
Aruba	39.4	41.5	21.2	20.3
The Bahamas	46.0	45.0	31.5	5.6
Barbados	62.0	71.1	54.9	25.9
Belize	41.0	88.9	13.0	75.8
Dominica	61.0	127.0	39.4	87.6
Grenada	42.0	110.1	30.1	79.9
Guyana	211.0	172.0	....	172.0
Jamaica	103.0	142.0	85.4	56.5
Montserrat	26.0	16.4	2.8	13.2
Netherlands Antilles	64.6	90.2	.....	....
St. Kitts and Nevis	86.0	162.0	75.4	86.6
St. Lucia	36.0	66.1	19.1	46.9
St. Vincent and the Grenadines	48.0	76.7	25.6	51.4
Suriname	24.0	37.0	9.8	27.2
Trinidad and Tobago	52.0	28.0	....	13.8
Average	62.3	84.9	34.4	53.7

Source: on the basis of official data.

On average, the public debt to GDP ratio has increased from 62% to 85% of GDP from 1997 to 2003. When decomposed in terms of its internal and external component, the former represents 34% of GDP of the total while the latter has reached 54% of GDP. In the cases of Aruba, The Bahamas, Barbados and Jamaica the internal debt ratio is greater than the external debt ratio.

Most of the economies (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, The Netherlands Antilles, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines) record some of the highest debt to GDP ratios among emerging market economies. More specifically, Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Jamaica, the Netherlands Antilles and St. Kitts and Nevis rank among the 10 most indebted market emerging economies.¹⁹

The accumulation of debt per se has important costs. The most obvious one is in terms of foregone resources that could have been put to more productive uses. The case of Jamaica exemplifies this point: functional classification of Jamaica's fiscal expenditures shows that public debt management amounted to 65% of the total which is much higher than the expenditure devoted to productive uses. Indeed, social and community services, which include education and health, account for 16% of the total.

The continuous accumulation of debt over time can also trigger unwanted depreciations in the exchange rate and thus increases in inflation and/or balance of payments crises. The standard description is well known.

Starting from an investment/savings balance macroeconomic accounting framework, an increase in the fiscal deficit implies that either external savings must rise or the current account must be in deficit. In the absence of any counteracting fiscal measures on the expenditure or revenue side, financing the deficit increases the government's debt. In the financial systems' balances, government debt (assets) can be matched by greater money creation (a liability). In the absence of restrictions on foreign exchange transactions, and given a favourable interest-rate spread,²⁰ the increase in liquidity can find an outlet in domestic and/or foreign goods and services and domestic assets. Independently of time and liquidity preferences, the most likely outcome is an increase in prices and/or an initial exchange-rate appreciation. The latter can translate in turn into an increase in imports.

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

¹⁹ See Sahay R. Stabilization, Debt, and Fiscal Policy in the Caribbean. Preliminary Draft Presented at the International Seminar on Developmental Challenges Facing the Caribbean. Hilton Trinidad & Conference Center. June 11-12, 2004.

²⁰ As is the case in Caribbean economies.

2. The sustainability of public debt

In general, the mainstream criterion to determine whether indeed a given stock of debt can grow, stabilize or decline over time is that of sustainability (See Box 5 below).²¹

The sustainability outlook for Caribbean countries for 2003 is illustrated in Table 6. The table shows the required fiscal surplus to stabilise the debt at its current level (Stability surplus boundary balance), the actual primary balance (the difference between revenue and expenditure excluding interest payments) and the difference between both (i.e., the sustainability gap).

Country	Stability surplus boundary balance	Actual primary balance	Sustainability gap
Anguilla	0.56	-2.11	2.67
Antigua and Barbuda	4.13	-4.84	8.97
Barbados	5.01	-0.12	5.13
Belize	1.68	-6.14	7.82
Dominica	7.66	-2.61	10.28
Grenada	1.33	-4.61	5.93
Guyana	9.63	-9.18	18.81
Jamaica	11.80	12.20	-0.40
St. Kitts and Nevis	12.50	-2.01	14.51
St. Lucia	2.41	-6.91	9.32
St. Vincent and the Grenadines	2.81	0.15	2.67
Suriname	0.92	-3.41	4.34
Trinidad and Tobago	0.12	1.13	-1.00
Average	4.28	-2.19	6.85

Note: Computations were carried out for the countries for which information on all the required variables was readily available.
Source: On the basis of official information.

²¹ There are several approaches to sustainability. Two of the most common approaches found in the literature include the accounting approach and the present value constraint approach. See, Chalk, N. and Hemming R. (2000) "Assessing Fiscal Sustainability in Theory and Practice" IMF Working Paper 00/81. The most common practical methods to compute sustainability in the case of developing economies include: (i) the method of the fiscal deficit-growth gap, (ii) the financial gap method; (iii) the intertemporal budget restriction; (iv) the constant patrimony method; (v) the primary fiscal gap method. The sustainability approach used in this section (see Box 5) is based on Pasinetti (1998) and is developed in ECLAC (2000). The fiscal impact of trade liberalization and commodity price fluctuation: the Case of the Dominican Republic, 1980-1998 (LC/MEX/R.426). The computations presented in this analysis (see Table 6) are preliminary and use averages for the rates of growth and interest rates for the past three years.

Box 5
Debt Sustainability

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

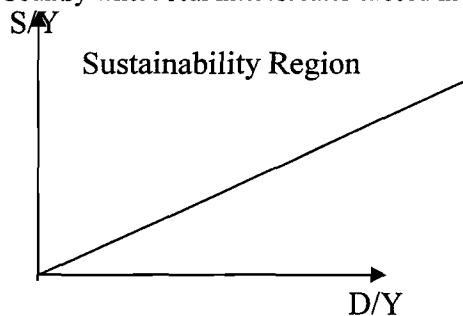
This concept can be expressed formally as follows,

$$(2) S/Y = (r-g)D/Y$$

Where,

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

Equation (2) provides the boundary line between an unsustainable and a sustainable budget surplus or deficit. If, $S/Y > (r-g)D/Y$ then the surplus or deficit is said to be sustainable. This is illustrated in graph below for a case of a Less Developed Country where real interest rates exceed in general rates of growth of real output.



Notice that the formula considers only internal debt. It would thus at best provide a rough approximation to budget deficit sustainability in less developed countries since external debt often places an important constraint on fiscal accounts. Including external debt in equation (2) and expressing the surplus or deficit boundary line in national currency we obtain,

$$(3) S/Y = (r_i - g) D_i/Y + (r_e + \delta - g) D_e/Y$$

where,

r_i = internal real rate of interest
 D_i = internal debt
 r_e = foreign real rate of interest
 D_e = external debt
 δ = exchange rate depreciation

Source: Pasinetti, L. "The myth (or folly) of the 3% deficit/GDP Maastricht 'parameter'." *Cambridge Journal of Economics*, January 1998, 22 (1), 103-116.

In all cases, except in those of Jamaica and Trinidad and Tobago, the actual primary balance exceeds the stability surplus boundary balance. In the case of Trinidad and Tobago this result is explained by the authorities' efforts to reduce the fiscal deficit and by its strong rate of growth in the recent past. In the case of Jamaica the current primary balance which is budgeted to increase to 13.4% of GDP for 2004 was achieved by a contraction in capital expenditures and by the positive effect of the tax measures implemented in the months of May and June of 2003 on tax revenues (25% and 27% of GDP in FYs 2002 and 2003) (see regional overview and Jamaica's country report).

This analysis indicates that the current fiscal stance, in most cases, is not sustainable.²² In addition, maintaining the debt ratios at their current levels, which as explained earlier are already high by international standards, would require fiscal efforts of the order of at least 4 percentage points of GDP.

3. Current debt strategies

There are several available strategies to deal with debt accumulation. The most obvious one is to substantially increase the primary balance, that is, the difference between revenues and expenditures excluding interest payments. This policy alternative responds to an empirical fact. Since the expansion in the fiscal stance began, the public debt to GDP ratio expanded 8.5% per year. More than half of this total (4.5%) is explained by the primary balance while interest rate payments explain 3.3% (or 39% of the accumulation of debt).²³

However, as the above analysis indicates, the effort required to reach sustainable fiscal positions may jeopardize long-term growth especially if it is achieved by curtailing capital expenditures. Current expenditure restraint can also lead to output and employment losses. More realistic recommendations can include a combination of 'fiscal consolidation, prudent debt management strategies, asset sales/privatisation, reducing vulnerabilities to exogenous shocks and growth-enhancing structural reforms.'²⁴

In practice, countries have dealt with the problem of debt accumulation by curtailing government expenditures and through fiscal reform. As seen in the regional overview, most Caribbean countries have adopted a contractionary fiscal stance and a few such as Suriname, Jamaica, and Barbados have opted to implement tax measures in order to limit the size of their fiscal deficit and thus control their future debt path. Other economies such as the OECS and also Jamaica are contemplating the implementation of a more lasting and comprehensive tax reform.

The tax reform proposed by the OECS Tax Reform and Administration Commission envisages a revenue system endowed with the following characteristics; (i) parsimonious; (ii) growth enhancing; (iii) cost minimizing; (iv) broad based; (v) highly compliant; (vi) buoyant; (vii) reliable; and (vi) capable of generating surpluses and a stabilisation fund. Table 7 below shows the target range for revenue for each of the existing taxes bearing in mind that the tax to

²² Sustainability analyses using other methods yield a similar conclusion.

²³ See Sahay R. 2004.

²⁴ Ibid.

GDP ratios should be within a range of 25% to 30%. The tax reform proposal would increase the floor of the tax range from 23.9% to 25.0% of GDP and the ceiling from 29.1% to 30%. The largest proposed increases are expected to be found in personal income, corporate income and property taxes. Declines are forecasted for trade and excise taxes. The transactions tax would maintain its current yield.

The higher tax revenue intake from income and corporate taxes results from the widening of the tax base, the reduction in exemptions and from more efficient implementation of the tax system. The decline in trade taxes responds to the full implementation of the Common External Tariff whereas the rise in property taxes responds to a long-standing proposal of the International Monetary Fund (IMF).

Central to the tax proposal is the introduction of the Value Added Tax which would replace all indirect taxes including consumption and travel taxes. The VAT would have three rates 0%, 10% and 15%. The zero rate applies to basic foods, medications, public transportations, computer hardware and software and exports. The zero rate is meant to make the tax a progressive one. The middle 10% rate applies to tourism-related transactions (hotels, restaurants, yacht cruises, boat cruises). The 15% rate would apply to all other transactions.

Tax	Existing range as % of GDP	Target GDP range as % of GDP	
Personal Income	0.9-4.7	4.0-6.0	
Corporate income	2.7-5.2	4.0-7.0	
Property tax	0.1-1.1	2.0-4.0	
Trade and excise	6.0-14.4	3.0-5.0	
Transactions	9.1-14.5	10.0-14.0	
Total	23.9-29.1	25.0-30.0	
Non tax revenue	2.0-7.5	3.0-5.0	
Net impact measured in current EC\$ of the proposed reform			
Country	Direct taxes	Indirect taxes	Total net impact
Anguilla	....	20.0	20
Antigua and Barbuda	-11.0	34.4	23.4
Dominica	0.0	2.0	2.0
Grenada	0.0	20.0	20.4
Montserrat	0.0	12.2	12.2
St. Kitts and Nevis	-4.3	16.6	12.3
St. Lucia	-7.2	38.8	31.6
St. Vincent and the Grenadines	-8.3	6	-2.3
ECCU	-30.8	151.2	120.2

Source: On the basis of official information.

Overall, the experience with the VAT has been relatively successful in smaller economies Table 8 below shows selected Latin American and Caribbean countries, the date of introduction of the VAT and the computed c-efficiency ratio which is high for most of these economies (i.e., above 50).²⁵

Countries with a significant domestic debt stock, such as Barbados and Jamaica, have opted implicitly for using the financial system to 'liquefy' the debt. The mechanism is standard: an increase in the demand for government paper decreases its yield. In turn, when the yield declines, eventually the debt service payments also fall. This strategy was adopted in the later part of the 1990's decade in Barbados and Jamaica when the banking system started to increase and solidify its liquidity position.

Country	Population (millions)	Introduction of VAT	VAT rates	VAT percentage of total tax revenue	VAT percentage of GDP	C-efficiency Ratio
Barbados	0.3	1997	15	32.7	9.5	110.2
Belize	0.2	1996	8			56.2
Costa Rica	3.7	1975	13		4.0	87.4
Dominican Republic	8.5	1983	12	25	4.0 (2001)	44
Jamaica	2.6	1991	15	35.8	8.8	83.5
Nicaragua	4.8	1975	15			34.6
Panama	2.7	1977	5			67.3
Trinidad and Tobago	1.7	1990	15	23.6	4.3	46.8

Sources: On the basis of official data

In the specific case of Barbados the commercial banking system is obliged to hold a certain percentage of its assets in government debt. In addition, in the last few years the commercial banking system has increased significantly its holding of the government debt stock. In 1975, the commercial banking system held 55% of the stock of outstanding treasury bills. In 2003, it held 98% of the outstanding stock. In the commercial banks balance sheets treasury bills and other government assets have gained importance relative to other components. Between 1975 and 2003, the proportion of loans and advances as a percentage of total commercial bank assets declined from 65.5% to 42%. In contrast the proportion of Treasury Bills and other governmental assets increased from 10.2% to 18.2%.

²⁵ The c-efficiency ratio equals the ratio of VAT revenues to GDP divided by the tax rate. Its value indicates the resulting increase in the VAT-GDP ratio when the tax increases by 1%. In the case of Barbados an increase of 1 percentage point in the tax rate would increase the VAT-GDP ratio by 1.10%.

Table 9 below shows that since the 1990s the internal debt stock of Barbados has increased as a percentage of GDP (from 29% of GDP in 1990 to 50% of GDP in 2003). The Treasury Bill rate increased from 1976 to 1995 and began a steady decline, thereafter. Concomitantly the internal debt service as a percentage of total tax revenue declined from 11.7% in 1995 to 9.6% in 2003. It is noteworthy that this occurred roughly around the time when the fiscal stance began its upward expansion (see Section I, Regional Overview).

This strategy has important limitations as government debt absorbs liquidity that could have been used to expand output and employment. Thus, the commercial banking system prefers to lend to a secure customer such as the government which will not default, rather than to direct its loans into more risky private sector activities. Moreover, this is ultimately a restrictive policy as it implicitly sets a floor to the decline in lending rates.

Table 9
Public debt in Barbados
1976 – 2003

	Internal debt as % of GDP	External debt as % of GDP	Internal debt as % of total debt	External debt as % of the total	Treasury bills	Internal debt service as % of total current revenue	External debt services As % of total current revenue
1976			78.4	21.6	4.5		
1980			75.1	24.9	6.19		
1985			59.2	40.8	4.58		
1990	29.7	25.0	54.3	45.7	8.06	8.4	6.7
1995	47.1	19.3	70.9	29.1	8.27	11.7	5.1
2000	43.1	20.1	68.2	31.8	3.85	11.2	4.7
2003	50.1	24.7	67.0	33.0	0.64	9.6	6.1

Note: ... not available.
Source: On the basis of official information.

Other economies, such as Jamaica, have outlined a detailed approach to the management of the debt. Since FY 1998/99 the authorities have adopted a debt management strategy based on the minimization of borrowing costs and have modified this strategy in FY 2003/04 to also include risk management. The main elements of the strategy are twofold and consist mainly in isolating the debt stock from movements in interest rates and exchange rates and in developing a domestic securities market to facilitate the use of market based instruments to trade debt issues. The increase in the share of fixed rate instruments (48% of the outstanding domestic debt in March 2003 and with a target of 60% in FY 2003/04), the restriction and reduction in bonds denominated and indexed to the United States dollar (20% of the domestic debt in March 2003) and the extension in the maturity of the debt are geared to accomplish the first goal. The second goal is to be achieved by continuing with a certain amount of flexibility to place government securities in the domestic market and by anchoring traded securities to benchmark securities with higher liquidity premiums and lower carrying costs. Ultimately the success of the government in

trimming the deficit will depend on growth, stability in the foreign exchange market and the monetary policy strategy.

Also, as in the case of Barbados, monetary policy in Jamaica has facilitated the reduction of the debt burden. Since the middle of the 1990s the Bank of Jamaica adopted a cheap monetary policy with the explicit objective of reducing banks' operating costs and thus the cost of credit to the consumer. But at the same time it has also helped to reduce the government's debt burden. The available data presented in Table 10 illustrates this point. From 2000 to 2002, the internal debt-to-GDP ratio rose from 57% to 82% yet the internal debt service as a percentage of current revenues increased only by six percentage points. In other words, comparatively, the government has been increasing its state of indebtedness at a lower cost due to the decline in the rate of interest.²⁶

This policy can lead to unstable exchange rate movements. The currency depreciation episode described in Section I and analysed in more detail in the economic report on Jamaica is a clear illustration. If the monetary authorities adopt a policy of decreasing interest rates to lower the burden of the government debt, a higher than expected deficit will mean a greater than expected decline in interest rates. In turn a greater than expected decline in interest rates will provide the basis to anticipate a larger than expected exchange rate depreciation. Holders of assets denominated in domestic currency will experience a capital loss unless they switch to assets denominated in foreign currency. Certainly holders of foreign currency will experience a capital gain.

In order to avoid capital losses and secure capital gains, agents will switch to foreign currency assets. The concomitant effects of a depreciating exchange rate on prices will force the monetary authority to intervene. Intervention may take the form of foreign exchange market intervention which will translate in a reduction of the monetary authorities stock of foreign reserves. This type of intervention is generally temporary and limited because the loss of reserves can result in a confidence crisis and aggravate the situation.

The alternative is to raise interest rates. However the increase in interest rates can only aggravate the fiscal situation if the bulk of the debt or a significant proportion of it is denominated in domestic currency. Hence the strategy becomes self-defeating and most likely unstable.

²⁶ These findings run contrary to the standard belief, such as interest rate parity theorems, that in smaller economies Central Banks cannot affect interest rates.

Table 10
The behaviour of debt in Jamaica
1992 – 2003

	Domestic debt to GDP	Treasury Bills	Overall weighted rate of interest	Exchange rate	Internal debt service as a percentage of current revenue
1992	25.97	...	46.04	23.01	...
1993	19.9	...	49.6	25.68	...
1994	31.02	...	45.79	33.35	...
1995	29.29	34.97	48.56	35.54	...
1996	32.73	25.21	37.81	37.02	...
1997	39.28	24.63	31.93	35.59	...
1998	43.87	21.31	30.08	36.68	...
1999	59.77	18.68	24.64	39.33	39.1
2000	56.97	18.32	22.12	43.32	34.5
2001	82.44	15.7	19.46	46.19	40.1
2002	82.2	15.68	18.26	48.73	41.5

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

4. Conclusion: The debt and the foreign exchange constraint

Caribbean countries' debt levels are high by international standards. Sustainability computations show that they are also unsustainable and that the stabilisation of their debt levels would require significant tax and/or expenditure efforts. However, the reduction of their current debt levels may simply not be a feasible policy option as it may result in output and employment losses and jeopardize the process of economic recovery of Caribbean countries.

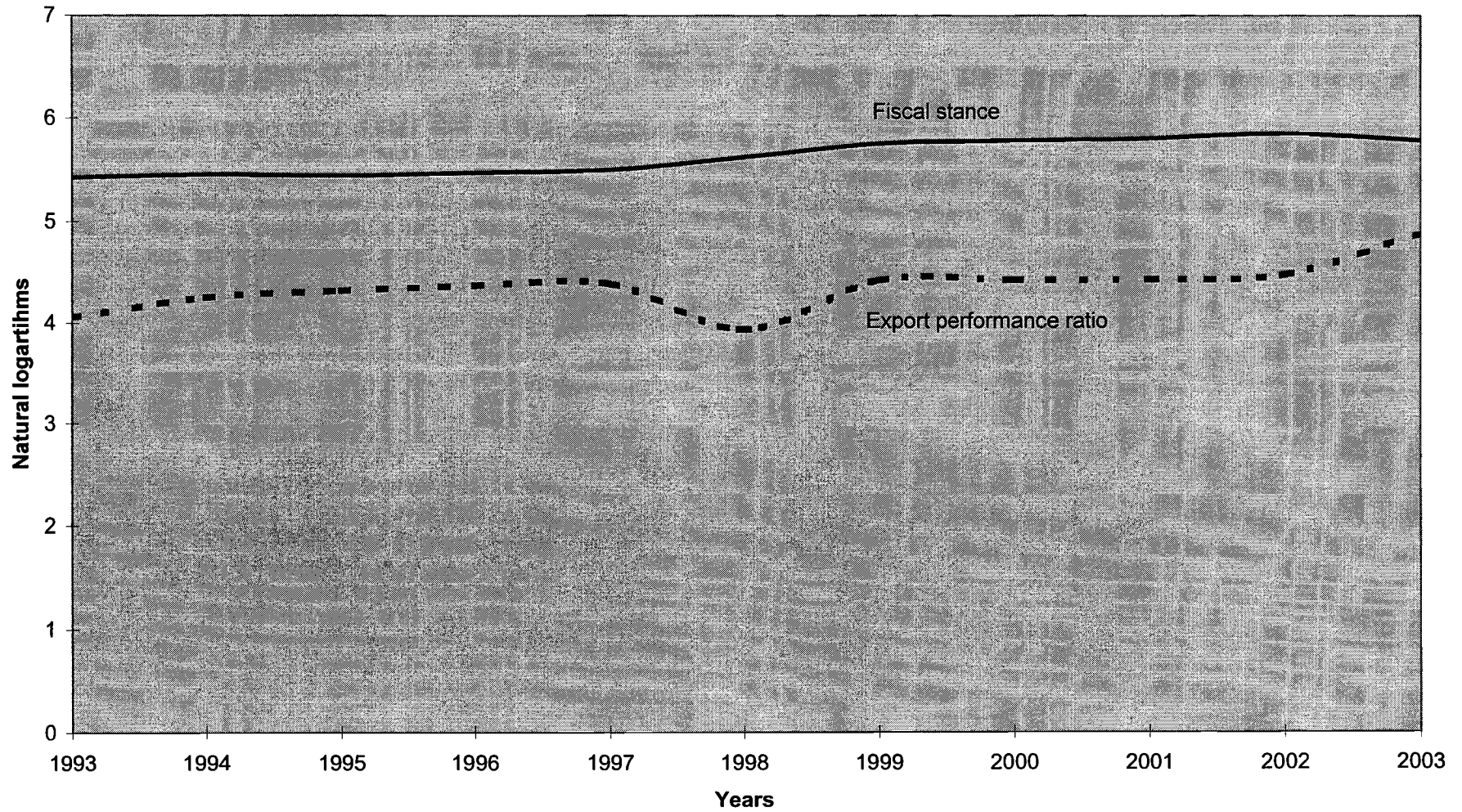
A long-term solution must obviously involve some type of fiscal consolidation but it should also take into account the constraints facing smaller economies. The fundamental constraint facing these economies is the foreign exchange constraint. In this sense smaller economies are balance-of-payments constrained economies. This means that their actual rate of growth is below that which is warranted by the prevailing internal conditions.

One consequence of this constraint is that smaller economies cannot pursue a fiscal policy that is independent of current external conditions. Indeed, the former must be attuned to the latter. An expansionary fiscal stance will translate sooner or later into a higher import demand and a current account deficit unless export performance, as measured by the export performance ratio (see Regional Overview) improves. As a result, starting from a position where government expenditure equals revenue and in addition imports are equal to exports, an increase in government expenditure means that government is spending more than what it earns (fiscal deficit) and imports surpass exports (external deficit). In other words a fiscal stance in excess of

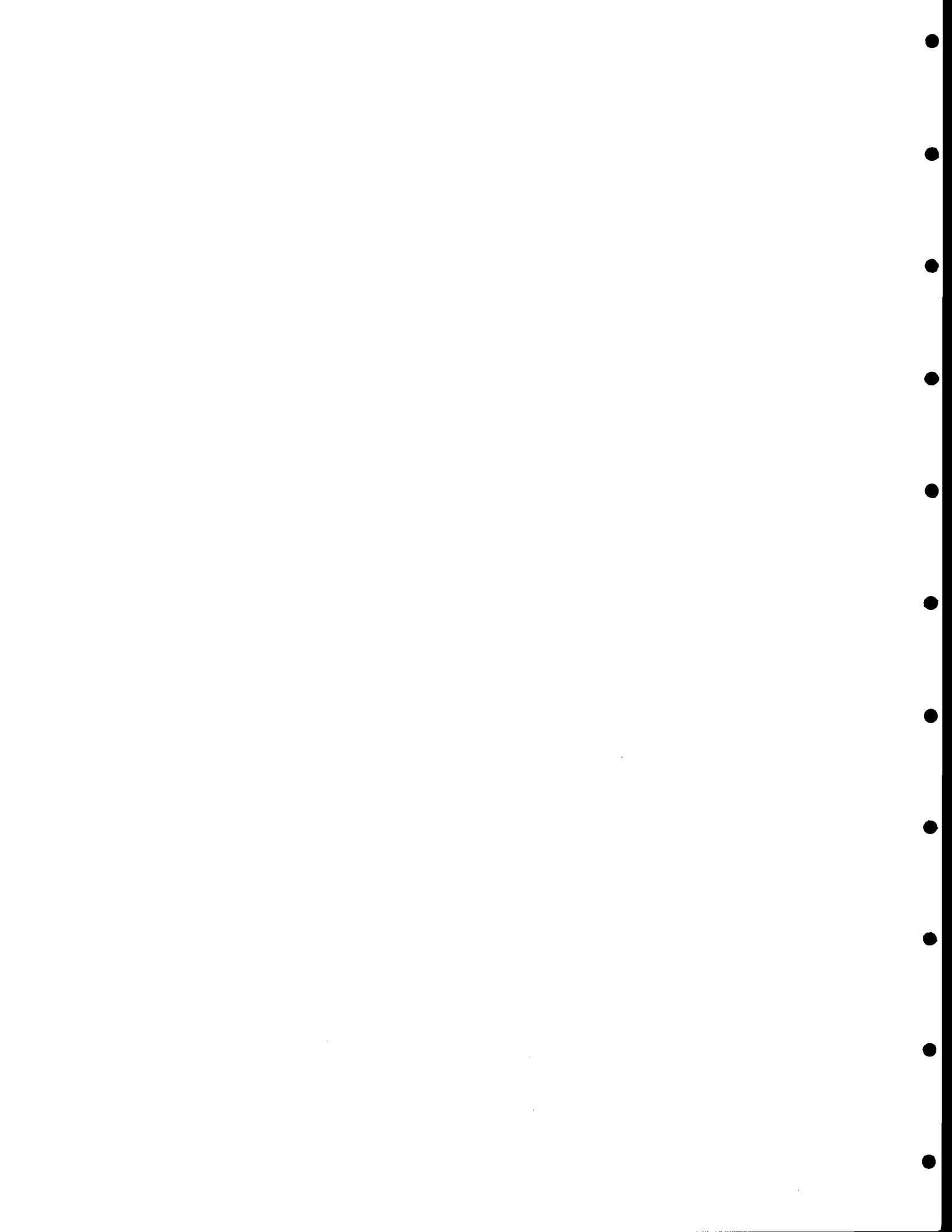
the export performance ratio will result in a twin deficit situation (fiscal and external deficits) and in the accumulation of debt.

The situation described above is characteristic of most Caribbean economies. This is shown at the aggregate level in Figure 9 where it is seen the fiscal stance is persistently above the export performance ratio in the Caribbean. Debt in Caribbean countries did not increase because governments spent 'too much' per se but rather because they spent 'too much' relative to what the external conditions could tolerate, that is relative to their main constraint. As a result within the logic of this explanation macroeconomic equilibrium means that the fiscal stance should seek to be aligned to the value of the export performance ratio. In other words, export performance is the variable that ultimately sets the limit and scope to fiscal policy. Fiscal policy can work only if the external conditions allow it to work. Thus any attempt at fiscal adjustment, reform or consolidation must also go hand in hand with efforts to develop export promotion strategies and to raise the productivity of imports. Debt reduction strategies must incorporate options to soften the external constraint.

Figure 9
The fiscal stance and the export performance ratio in the Caribbean
1993 - 2003



III. COUNTRY REPORTS



Member States of the Organisation of Eastern Caribbean States (OECS)²⁶

1. Main trends

The member States of the Organisation of Eastern Caribbean States (OECS) witnessed a process of recovery in their growth trajectory (0.2% and 3.7% in 2002 and 2003) led by the tourism and construction sectors. The agricultural sector registered a decline (-4%) due to the contraction in banana production and manufacturing stagnated (0.2%). At the individual country level Antigua and Barbuda and Grenada registered the highest growth rates (6%) while St. Kitts and Nevis and Dominica recorded the lowest rate of GDP growth (0.1% and 1%)

The improved growth prospects had a positive effect on tax revenues which jointly with expenditure restraint allowed most OECS economies to reduce their fiscal imbalance. Notwithstanding these efforts the stock of debt (109% of the combined GDP of the OECS) continues to be a significant constraint on their growth potential. Tax reform has become a priority for the OECS as governments expect that the gradual implementation of different trade agreements such as Cotonou and the FTAA will erode their tax revenue base.

The monetary authorities maintained, as in the past, a neutral monetary policy stance. The monetary aggregates expanded in line with the build up of net foreign assets as net domestic credit stagnated. As a result the commercial banking system improved its liquidity position which coupled with the stability of international prices and the absence of supply constraints contributed to lower the rate of inflation (3.0% and 1.8% in 2002 and 2003).

On the external front the current account maintained the previous years' deficit (20% of GDP) as higher foreign exchange receipts from tourism were more than compensated by the rise in merchandise imports. Nonetheless, the overall external position deteriorated (2.2% and 1.2% of GDP in 2002 and 2003) in spite of the increase in foreign direct investment inflows for the development of physical infrastructure.

For 2004, the OECS expect a 3% GDP growth. The tourism and construction sectors will maintain their growth dynamics and banana output will recover due to favourable external conditions, more efficient disease control, government capital expenditures and the expansion of the European Union in the course of the year.

²⁶ The States members of OECS include Anguilla, Antigua and Barbuda, the British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines. The analysis here presented covers all member States with the exception of the British Virgin Islands. These States form a currency union and fall under the monetary authority of the Eastern Caribbean Central Bank (ECCB). These economies have three different fiscal years. Dominica's fiscal year starts in July and ends in June. The fiscal year in Anguilla, St. Kitts and Nevis and Montserrat coincides with the calendar year. The rest of the economies have a fiscal year spanning April to March. ECCB reports the fiscal accounts on a calendar-year basis to make them comparable.

Table 11
MEMBER STATES OF THE ORGANISATION OF EASTERN CARIBBEAN STATES (OECS): MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product at factor prices	0.7	2.7	3.2	4.0	4.5	2.7	-1.4	0.2	3.7
Gross domestic product per capita at factor prices	-0.5	2.4	3.3	3.8	3.1	1.8	-3.1	...	...
	<i>In US dollars</i>								
Gross domestic product per capita at factor prices	3,291	3,440	3,639	3,883	4,073	4,189	4,160	4,190	4,338
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	5.0	-0.8	-7.1	1.1	-4.7	0.8	-8.3	5.6	-4.4
Mining	7.8	3.8	7.0	2.1	6.5	8.5	-0.8	-0.8	...
Manufacturing	3.8	2.3	2.7	2.3	3.3	5.2	-0.9	-1.2	0.2
Construction	5.1	2.9	7.9	11.5	8.3	4.2	-1.5	-2.4	5.8
Electricity, gas and water	4.6	4.6	6.7	6.2	9.0	4.0	5.5	2.5	3.2
Transport	-0.1	4.2	6.1	2.4	3.5	1.3	-2.9	-1.0	6.2
Communications	5.2	6.3	6.1	10.3	15.6	6.1	0.4	-3.3	-1.6
Tourism	-11.3	3.4	7.9	0.3	3.7	-1.4	-4.9	-0.9	12.6
Wholesale and retail trade	1.8	2.2	3.6	4.2	4.6	0.7	-5.3	-0.2	6.0
Banks and insurance	6.1	6.8	10.0	7.9	6.3	5.9	-0.4	3.7	3.1
Other services	0.3	2.0	-5.7	-2.9	-2.4	0.3	5.2	1.3	5.5
	<i>Millions of US dollars</i>								
Balance of payments									
Current account balance	-213	-329	-402	-371	-441	-417	-394	-576	-594
Merchandise balance	-756	-853	-948	-982	-1,056	-1,076	-993	-1,004	-1,135
Exports fob	354	338	298	316	327	352	303	310	...
Imports fob	1 111	1 191	1 246	1 299	1 383	1 428	1 296	1 340	...
Services balance	504	527	576	628	656	691	660	520	646
Income account	-125	-127	-131	-147	-175	-196	-176	-205	-221
Unilateral transfers	164	124	100	131	134	164	114	113	118
Financial and capital balance c/	256	326	440	444	486	450	459	639	...
Net foreign direct investment	210	183	261	313	333	304	265	316	...
Financial capital d/	46	142	179	134	153	148	198	288	...
Global balance	44	-4	38	74	45	33	65	63	33
Variation in reserve assets e/	-35	15	-24	-66	-32	-19	-65	-63	-27
Other indicators of the external sector									
External debt (millions of US dollars)	752	759	885	976	1 266	1 319	1 511	1 856	2 073
External debt (% of GDP)	34.6	33.1	36.6	37.6	46.1	46.5	53.1	63.7	67.6
Prices									
Rate of change in the consumer price index (end of period)	2.8	2.0	2.4	2.8	1.7	3.4	0.5	3.0	1.8
Weighted deposit real interest rate	...	...	11.6	11.3	11.8	11.6	11.4	11.0	12.8
Weighted lending real interest rate	...	...	4.2	4.2	4.2	4.4	4.3	3.7	4.6
	<i>Millions of EC dollars</i>								
Central government									
Current revenues	1,450	1,567	1,628	1,775	1,903	1,947	1,910	2,043	2,158
Current expenditures	1,354	1,466	1,549	1,657	1,785	1,871	2,038	2,208	2,260
Capital account balance	-225	-230	-287	-268	-371	-438	-455	-701	-361
Primary balance	-17	11	-46	12	-63	-127	-245	-375	-131
Global balance with grants	-123	-108	-171	-115	-220	-329	-500	-699	-463
Global balance without grants	-203	-195	-297	-336	-402	-493	-681	-911	-715
	<i>Percentages of GDP</i>								
Global balance with grants	-2.1	-1.7	-2.6	-1.6	-3.0	-4.3	-6.5	-8.9	-5.6
Global balance without grants	-3.5	-3.1	-4.6	-4.8	-5.4	-6.4	-8.9	-11.6	-8.6
Money and credit									
Domestic credit	56	59	63	64	68	75	76	75	71
Public sector	0	0	-1	-2	0	2	0	-1	-2
Private sector	60	63	68	69	71	76	78	77	75
Liquidity (M3)	66	64	66	70	73	78	82	86	89
Money supply (M2)	60	58	60	63	65	68	72	74	77
Foreign currency deposits	6	6	7	7	7	10	10	12	12

Source: ECLAC, on the basis of official information

a/ Preliminary data.

b/ At constant 1990 prices.

c/ Includes errors and omissions.

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

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

Table 12
ANGUILLA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	-4.2	3.5	9.2	5.2	8.7	-0.3	3.3	-3.1	3.0
Gross domestic product per capita	-7.0	-4.6	8.1	4.0	7.5	-1.6	-1.5	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	6 206	6 096	6 667	7 106	7 825	7 745	7 681	7 519	7 840
Gross domestic product by economic activity									
Agriculture	...	...	5.2	7.2	-11.4	-7.7	-5.2	15.1	1.5
Manufacture	...	...	3.1	9.7	59.9	3.4	2.1	1.2	9.6
Electricity, gas and water	...	...	25.3	9.7	20.3	8.3	14.8	9.2	3.9
Construction	...	...	4.0	8.0	21.2	-6.7	-14.6	-8.4	1.2
Wholesale and retail trade	...	...	6.7	7.5	5.0	3.3	-5.0	-10.8	5.9
Transport	...	...	13.6	5.7	1.1	-1.6	-3.6	-4.7	2.3
Bank and insurance	...	...	-8.5	5.9	13.0	25.7	22.0	-10.5	8.7
Real estate and housing	...	...	2.9	3.0	1.0	1.6	2.1	3.1	2.4
Other services	...	...	14.3	4.9	6.3	8.1	4.9	2.5	8.0
Tourism	...	...	15.2	1.6	6.6	-6.4	9.5	-8.3	6.7
Balance of payments									
	<i>Millions of US Dollars</i>								
Current account balance	-9	-20	-19	-19	-51	-54	-36	-35	41
Merchandise balance	-46	-51	-53	-59	78	-79	-65	57	-63
Exports fob	...	...	...	...	...	...	...	...	...
Imports fob	...	...	...	...	...	...	...	...	...
Services balance	28	30	37	41	30	24	31	27	38
Income account	-8	-6	-4	-3	-3	-3	-4	5	-5
Unilateral transfers	...	...	...	...	...	...	...	...	...
Financial and capital balance c/	9	22	18	21	53	55	40	36	48
Net foreign direct investment	4	17	21	28	38	38	33	37	28
Financial capital d/	...	...	...	...	...	...	...	...	...
Global balance	...	2	2	2	2	0	4	2	7
Variation in reserve assets e/	...	...	...	...	...	...	...	...	...
Other indicators of the external sector									
External debt (millions of US dollars)	62	64	69	74	67	64	73	71	77
External debt (% of GDP)	11.3	11.1	10.7	10.8	8.6	8.1	9.1	8.6	9.0
Prices									
Rate of change of the consumer price index (december to december)	1.6	3.3	0.6	2.5	2.2	6.5	2.9	-1.4	6.9
Weighted deposit nominal interest rate	...	...	3.9	4.3	4.7	4.8	3.0	2.6	2.5
Weighted lending nominal interest rate	...	...	11.00	11.76	11.48	11.65	10.80	10.33	10.00
Central government									
	<i>Millions of EC\$ dollars</i>								
Current income	46	47	55	72	66	72	73	84	85
Current expenditures	43	45	53	59	60	72	78	81	83
Capital account	-3	-3	-5	-12	-10	-6	-6	-1	7
Fiscal result f/	1	-2	-3	1	-5	-5	-11	2	9
	<i>Percentages of GDP</i>								
Global balance with grants	0	-1	-1	0	-2	-2	-4	1	3
Global balance without grants	-1.4	-3.4	-4.3	-6.3	-2.5	-5.2	-5.9	-0.1	2.0
Money and credit									
	<i>Percentages of GDP</i>								
Domestic net credit	82.7	82.1	84.8	86.5	104.8	132.1	137.7	139.4	152.6
To the public sector	-17.2	-19.1	-17.2	-15.1	-14.0	-21.3	-12.5	-15.3	-17.5
To the private sector	101.1	102.5	102.3	102.3	117.7	145.6	153.8	157.0	170.1
Liquidity (M3)	123.2	121.0	118.2	133.7	129.1	148.1	162.8	178.7	184.7
Money supply and deposits in domestic currency (M2)	36.8	36.9	34.4	35.9	35.5	37.4	37.5	38.9	41.5
Deposits in foreign currency	86.4	84.1	83.8	97.9	93.6	110.7	125.2	139.8	143.2

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 13
ANTIGUA AND BARBUDA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	-5.0	6.1	5.1	4.3	4.9	3.3	1.5	2.1	5.8
Gross domestic product per capita	-6.6	4.5	5.1	3.5	3.5	0.4	1.5	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	6 136	6 586	7 074	7 496	7 831	7 969	7 923	8 040	8 369
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	...	...	5.1	4.3	3.3	3.3	-0.1	1.0	2.0
Mining and quarrying	...	...	5.3	8.7	4.2	4.2	6.5	2.0	0.0
Manufacture	...	...	6.4	5.8	4.5	3.0	2.5	2.7	4.0
Electricity, gas and water	...	...	6.6	1.1	12.5	10.0	1.7	4.1	-2.7
Construction	...	...	8.7	11.1	8.0	6.5	4.0	3.5	8.0
Wholesale and retail trade	...	...	4.2	4.7	4.5	4.3	-2.0	-2.0	5.4
Transport	...	...	10.2	5.9	2.0	4.6	-3.7	-3.3	11.0
Communications	...	...	10.0	10.0	20.5	-6.8	4.7	0.1	-4.3
Bank and insurance	...	...	...	...	0.0	1.4	-5.9	12.0	3.3
Real estate and housing	...	...	18.5	11.1	1.9	2.5	4.9	8.2	...
Other services	...	...	4.7	3.4	4.0	4.0	1.0	2.7	2.5
Tourism	...	...	6.1	-2.2	2.7	-0.9	-7.8	2.1	11.2
	<i>Millions of US Dollars</i>								
Balance of payments									
Current account balance	-1	-59	-47	-47	-63	-62	-47	-103	-98
Merchandise balance	-238	-271	-275	-283	-316	-300	-283	-291	-331
Exports fob	53	39	39	37	37	42	39	39	...
Imports fob	291	310	314	321	353	342	321	350	...
Services balance	201	206	240	259	262	262	249	240	...
Income account	-27	-26	-22	-21	-28	-33	-20	-34	-35
Unilateral transfers	64	32	10	-2	20	9	6	6	5
Financial and capital balance c/	14	48	50	56	73	56	64	110	124
Net foreign direct investment	31	19	23	23	31	33	39	48	95
Financial capital d/	-17	29	27	33	42	23	24	53	...
Global balance	14	-11	3	9	10	-6	16	8	26
Variation in reserve assets e/	-14	11	-3	-9	-10	6	-16	-8	-26
Other indicators of the external sector									
External debt (millions of US dollars)	287	276	348	383	388	399	419	595	640
External debt (% of GDP)	58.1	51.0	60.0	62.3	79.2	74.5	76.1	82.5	83.1
Prices									
Rate of change of the consumer price index (december to december)	...	...	-1.1	4.7	1.0	0.5	1.7	...	...
Weighted deposit nominal interest rate	...	...	4.5	4.4	3.9	5.0	4.4	4.3	5.1
Weighted lending nominal interest rate	...	...	12.10	12.20	11.50	12.20	11.50	11.30	12.90
	<i>Millions of EC\$ dollars</i>								
Central government									
Current income	283	323	328	342	347	326	358	397	419
Current expenditures	291	315	324	358	375	383	457	548	537
Capital account	-38	-36	-54	-46	-37	-39	-89	-96	-64
Fiscal result f/	-46	-28	-50	-62	-65	-96	-143	-139	-182
	<i>Percentages of GDP</i>								
Money and credit									
Domestic net credit	69.2	56.0	71.8	74.9	80.0	86.4	70.4	70.7	72.3
To the public sector	9.8	9.7	10.3	12.4	16.5	17.8	4.0	4.1	6.2
To the private sector	63.8	48.4	65.5	65.9	68.0	72.8	71.6	72.6	71.7
Liquidity (M3)	71.2	68.5	69.0	74.7	78.5	82.6	81.4	85.4	95.2
Money supply and deposits in domestic currency (M2)	68.5	65.8	65.7	70.9	74.5	77.2	77.1	79.4	90.1
Deposits in foreign currency	2.7	2.6	3.4	3.7	4.0	5.4	4.3	6.0	5.1

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 14
DOMINICA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	1.6	3.1	2.0	2.8	1.6	1.3	-4.3	-5.0	1.0
Gross domestic product per capita	1.3	3.2	2.4	3.0	2.0	1.1	-4.3	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	2 554	2 746	2 846	3 008	3 144	3 219	3 154	3 007	3 023
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	...	...	-3.3	-3.9	-2.1	-1.1	-6.6	-0.7	-3.7
Mining and quarrying	...	...	-5.6	-5.6	6.3	-2.8	-2.8	-0.3	...
Manufacture	...	...	24.6	-3.3	-17.3	7.4	-13.6	-2.3	0.6
Electricity, gas and water	...	...	21.2	17.6	5.2	2.5	3.3	0.6	2.0
Wholesale and retail trade	...	...	5.4	5.4	2.5	2.5	-0.7	-5.2	3.4
Transport	...	...	3.4	5.2	1.3	-1.0	-5.5	-13.1	5.3
Communications	...	...	33.8	33.2	12.6	-4.4	-6.5	-1.6	-19.5
Bank and insurance	...	...	3.6	18.1	6.8	0.3	-3.3	-5.8	22.1
Real estate and housing	...	...	3.1	4.1	3.1	2.0	2.0	0.9	-6.0
Other services	...	...	-12.8	-40.3	-41.6	53.6	-10.6	15.3	-4.7
Tourism	...	...	-2.0	0.1	4.3	3.9	-7.4	-3.3	8.3
	<i>Millions of US Dollars</i>								
Balance of payments									
Current account balance	-41	-51	-42	-23	-36	-54	-49	-38	-35
Merchandise balance	-53	-64	-65	-53	-66	-76	-71	-59	-64
Exports fob	50	53	54	63	56	55	44	43	...
Imports fob	103	117	119	116	122	130	115	101	...
Services balance	18	22	29	33	42	37	24	26	...
Income account	-13	-19	-17	-16	-26	-33	-20	-19	-20
Unilateral transfers	8	10	10	13	14	18	17	14	17
Financial and capital balance c/	49	53	43	27	47	54	53	51	...
Net foreign direct investment	54	18	21	7	18	11	12	11	...
Financial capital d/	-5	36	22	20	29	43	42	40	...
Global balance	8	2	1	4	11	0	5	13	3
Variation in reserve assets e/	-7	-1	0	-3	-11	0	-5	-13	-3
	<i>Other indicators of the external sector</i>								
External debt (millions of US dollars)	103	102	89	91	133	153	181	209	230
External debt (% of GDP)	46.8	43.4	36.3	35.0	49.8	56.5	68.1	81.6	87.6
	<i>Prices</i>								
Rate of change of the consumer price index (december to december)	1.4	2.0	2.3	1.4	0.0	1.1	1.1	0.5	3.0
Weighted deposit real interest rate	...	...	4.2	3.9	3.7	3.9	4.0	3.6	3.4
Weighted lending real interest rate	...	...	10.75	11.04	11.90	11.58	10.88	10.95	11.55
	<i>Central government</i>								
	<i>Millions of EC\$ dollars</i>								
Current income	155	174	189	205	201	214	202	197	204
Current expenditures	155	167	185	195	206	225	234	231	210
Capital account	-21	-19	-19	-18	-68	-31	-36	-3	-7
Fiscal result f/	-21	-12	-16	-8	-73	-42	-68	-37	-13
	<i>Money and credit</i>								
	<i>Percentages of GDP</i>								
Domestic net credit	66.4	67.5	62.6	67.9	71.0	83.1	85.1	75.6	61.3
To the public sector	8.1	7.0	8.0	6.3	8.3	12.6	16.9	10.4	4.6
To the private sector	58.2	60.6	65.3	69.3	70.9	76.7	74.3	73.2	71.1
Liquidity (M3)	49.5	50.8	64.4	71.7	79.1	79.6	85.5	92.8	95.4
Money supply and deposits in domestic currency (M2)	48.7	50.1	63.2	70.0	77.0	77.9	82.8	89.1	93.7
Deposits in foreign currency	0.8	0.6	1.2	1.7	2.2	1.7	2.7	3.8	1.7

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 15
GRENADA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	3.1	2.9	4.2	7.3	8.1	7.0	-4.3	-0.4	5.7
Gross domestic product per capita	2.4	2.5	3.6	6.7	6.9	5.8	-4.5	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	2 366	2 484	2 629	2 850	3 082	3 303	3 168	3 189	3 353
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	...	...	-1.2	11.1	10.0	-2.2	-2.9	19.0	-2.4
Mining and quarrying	...	...	12.3	8.0	33.2	96.4	96.4	-4.0	...
Manufacture	...	...	16.5	13.7	12.1	13.8	-7.0	-3.8	-2.8
Electricity, gas and water	...	...	6.9	6.7	6.3	12.5	7.0	3.3	6.7
Construction	...	...	20.3	10.3	8.2	16.1	-18.9	1.0	28.5
Wholesale and retail trade	...	...	5.9	5.8	5.4	4.0	-3.2	0.5	7.6
Transport	...	...	5.9	5.0	4.8	1.0	-9.0	1.8	7.9
Communications	...	...	33.2	13.0	11.5	20.4	-3.6	-19.7	3.0
Bank and insurance	...	...	11.1	13.0	11.5	10.2	6.1	6.1	1.9
Real estate and housing	...	...	3.6	3.6	3.5	2.0	1.3	2.8	4.4
Other services	...	...	-33.0	-11.9	-0.4	-33.8	-110.7	42.3	166.9
Tourism	...	...	2.1	12.6	11.2	2.9	-1.8	5.6	13.8
	<i>Millions of US Dollars</i>								
Balance of payments									
Current account balance	-41	-56	-68	-80	-52	-82	-85	-116	-151
Merchandise balance	-105	-122	-122	-137	-110	-138	-133	-139	-183
Exports fob	25	25	33	46	74	83	64	44	...
Imports fob	130	147	155	183	185	221	197	191	...
Services balance	61	61	50	51	65	70	62	58	...
Income account	-13	-15	-17	-23	-27	-34	-36	-45	-51
Unilateral transfers	17	21	22	29	19	20	22	23	24
Financial and capital balance c/	47	56	75	84	57	92	91	148	139
Net foreign direct investment	20	17	34	49	42	37	49	58	80
Financial capital d/	27	39	41	36	16	57	42	102	...
Global balance	6	0	7	4	5	10	6	31	-12
Variation in reserve assets e/	-6	0	-7	-4	-5	-10	-6	-31	12
	<i>Millions of US dollars</i>								
Other indicators of the external sector									
External debt (millions of US dollars)	103	102	89	90	116	135	183	346	349
External debt (% of GDP)	37.3	34.8	28.2	25.7	30.7	32.9	46.2	85.5	79.9
	<i>Percentages of GDP</i>								
Prices									
Rate of change of the consumer price index (december to december)	2.1	3.2	0.9	1.2	1.1	3.4	-0.7	2.8	1.1
Weighted deposit real interest rate	...	...	4.1	3.9	3.7	3.8	3.9	3.6	3.3
Weighted lending real interest rate	...	...	10.51	10.89	11.90	11.46	10.76	10.89	11.22
	<i>Millions of EC\$ dollars</i>								
Central government									
Current income	185	199	206	230	272	297	285	293	324
Current expenditures	169	182	200	221	229	231	258	291	285
Capital account	-14	-39	-25	-37	-72	-102	-117	-211	-96
Fiscal result f/	3	-22	-19	-28	-29	-35	-90	-210	-57
	<i>Percentages of GDP</i>								
Money and credit									
Domestic net credit	58.0	63.4	72.7	74.8	74.4	82.4	90.7	85.0	82.9
To the public sector	4.9	2.8	6.5	4.9	0.9	3.6	8.4	3.6	5.2
To the private sector	66.4	55.0	69.2	72.3	75.0	79.4	83.1	82.1	78.2
Liquidity (M3)	73.8	75.5	79.0	79.3	83.4	89.2	102.2	106.9	114.9
Money supply and deposits in domestic currency (M2)	71.4	72.0	75.1	76.1	79.3	82.9	95.2	99.6	106.7
Deposits in foreign currency	2.4	3.6	3.9	3.1	4.1	6.2	7.0	7.3	8.1

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 16
MONTERRAT: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	-7.6	-21.4	-20.0	-10.1	-12.6	-3.0	-2.8	4.9	1.2
Gross domestic product per capita	-7.5	-21.8	-21.2	-10.6	-9.4	-2.7	-7.8	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	4 859	5 324	5 821	9 125	8 706	7 627	6 817	7 302	7 569
Gross domestic product by economic activity									
Agriculture	-8.5	-33.8	-81.3	-33.3	7.6	46.5	-17.3	38.4	...
Manufacture	15.2	50.1	-45.2	-84.9	10.6	...	...	...	...
Electricity, gas and water	-1.1	-27.8	-41.2	-33.3	33.3	5.1	4.9	-3.3	3.4
Construction	-25.7	1.2	72.7	33.5	-13.5	-35.8	-7.7	40.9	-2.9
Wholesale and retail trade	-14.3	-16.9	-49.1	-34.5	-4.9	-16.6	-7.9	9.0	-5.5
Transport	12.7	-6.6	-35.9	-33.7	-7.7	-5.2	2.5	1.2	6.8
Bank and insurance	-14.8	-51.3	-23.4	15.6	-24.1	64.5	-21.8	21.1	15.3
Real estate and housing	-5.1	-59.1	-31.6	-10.0	5.3	5.5	3.3	3.8	4.5
Other services	-8.0	-19.9	-54.6	-20.0	5.3	13.6	4.9	4.7	-0.6
Tourism	-10.75	3.66	-78.2	-42.9	7.7	4.3	27.4	2.2	-31.6
Balance of payments	<i>Millions of US Dollars</i>								
Current account balance	-2	14	-2	17	-1	-7	-6	-8	-7
Merchandise balance	-22	5	-19	-30	-18	-18	-16	-21	-23
Exports fob	...	...	...	...	...	...	...	...	...
Imports fob	...	...	...	...	...	...	...	...	...
Services balance	10	-4	-2	-13	-1	-3	-10	-9	-10
Income account	-2	-1	-1	0	-6	-3	-1	-3	-3
Unilateral transfers	12	14	19	60	24	17	21	25	29
Financial and capital balance c/	3	-14	5	-4	-9	3	8	10	8
Net foreign direct investment	3	0	3	3	8	3	1	2	2
Financial capital d/	...	...	...	...	...	...	...	...	...
Global balance	1	0	3	13	-11	-4	2	2	1
Variation in reserve assets e/	...	...	...	...	...	...	...	...	...
Other indicators of the external sector									
External debt (millions of US dollars)	11	11	11	10	8	8	8	6	5
External debt (% of GDP)	6.6	8.5	9.6	10.1	22.6	22.4	22.2	15.1	13.2
Prices									
Rate of change of the consumer price index (december to december)	5.0	5.9	3.2	2.1	0.8	1.7	4.9	3.5	1.2
Weighted deposit nominal interest rate	...	...	2.42	2.73	3.27	3.44	3.24	2.80	2.47
Weighted lending nominal interest rate	...	...	12.05	11.81	11.31	11.21	11.06	10.92	12.55
Central government	<i>Millions of EC\$ dollars</i>								
Current income	43	34	28	23	27	27	24	29	31
Current expenditures	39	54	63	59	58	50	52	64	77
Capital account	1	0	-3	2	0	0	0	0	0
Fiscal result f/	5	1	0	2	2	5	2	6	9
	<i>Percentages of GDP</i>								
Global balance with grants	3	0	0	2	2	5	2	6	9
Global balance without grants	-7.3	-4.3	-18.1	-17.5	-12.0	-14.8	-24.5	-31.3	-28.1
Money and credit	<i>Percentages of GDP</i>								
Domestic net credit	27.3	34.3	16.9	-1.4	-1.7	2.8	-3.4	-18.0	-30.4
To the public sector	-4.9	-9.1	-27.5	-26.1	-22.3	-20.0	-28.5	-34.8	-47.4
To the private sector	43.2	49.8	52.4	32.5	23.7	24.6	25.5	21.4	21.9
Liquidity (M3)	50.1	64.0	90.1	116.4	116.4	107.7	108.9	96.2	103.6
Money supply and deposits in domestic currency (M2)	47.7	61.0	87.9	114.1	112.6	105.4	106.3	93.4	100.3
Deposits in foreign currency	2.4	3.0	2.2	2.3	3.9	2.2	2.6	2.8	3.3

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 17
ST. KITTS AND NEVIS: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	3.5	5.9	7.3	1.0	3.9	6.5	1.6	-0.5	0.1
Gross domestic product per capita	2.3	9.0	11.4	2.6	-1.5	10.4	-10.2	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	4 466	4 869	5 683	6 018	6 085	6 400	6 368	6 360	6 510
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	...	...	-10.4	-8.3	-9.1	-8.5	11.1	13.3	-12.7
Mining and quarrying	...	...	10.3	8.8	50.0	-16.3	-16.3	-4.0	...
Manufacture	...	...	-0.9	8.7	8.0	17.0	6.6	-4.0	0.6
Electricity, gas and water	...	...	6.7	-1.1	12.4	4.1	4.1	9.8	10.6
Construction	...	...	7.5	14.5	12.6	29.2	4.2	-5.6	-4.7
Wholesale and retail trade	...	...	4.4	3.9	3.7	-3.2	-11.5	0.3	4.5
Transport	...	...	-0.5	1.8	2.0	3.7	3.5	7.9	-0.7
Communications	...	...	-0.5	1.8	2.0	3.7	3.5	7.9	-0.7
Bank and insurance	...	...	-0.1	3.5	3.4	11.4	-1.0	1.8	3.3
Real estate and housing	...	...	-13.0	8.7	6.4	4.7	4.7	1.0	...
Other services	...	...	44.5	-20.1	-51.8	77.4	39.6	4.9	-1.6
Tourism	...	...	2.3	-11.2	-12.6	-23.4	3.9	-9.9	23.4
	<i>Millions of US Dollars</i>								
Balance of payments									
Current account balance	-45	-65	-62	-41	-84	-64	-97	-121	-86
Merchandise balance	-81	-93	-85	-87	-90	-121	-112	-113	-79
Exports fob	37	39	45	44	45	51	55	64	...
Imports fob	117	132	131	131	135	173	167	178	...
Services balance	27	27	30	43	14	24	34	24	...
Income account	-11	-16	-21	-25	-28	-29	-37	-38	-44
Unilateral transfers	19	16	15	27	20	63	18	16	17
Financial and capital balance c/	55	75	78	62	100	74	108	130	85
Net foreign direct investment	20	35	20	32	58	96	88	80	51
Financial capital d/	35	40	58	33	42	-23	20	41	...
Global balance	10	10	16	21	16	10	12	9	-1
Variation in reserve assets e/	-2	1	-4	-13	-3	4	-12	-9	1
Other indicators of the external sector									
External debt (millions of US dollars)	54	59	108	125	153	162	215	265	316
External debt (% of GDP)	23.5	24.2	39.2	43.4	50.2	49.2	62.9	75.6	86.6
Prices									
Rate of change of the consumer price index (december to december)	2.9	3.1	11.3	0.9	2.2	3.1	2.7	1.7	3.1
Weighted deposit real interest rate	...	...	3.9	4.3	4.7	4.8	3.0	2.6	2.5
Weighted lending real interest rate	...	...	11.00	11.76	11.48	11.65	10.80	10.33	10.00
	<i>Millions of EC\$ dollars</i>								
Central government									
Current income	180	202	221	237	250	253	262	288	321
Current expenditures	181	199	210	234	267	301	307	315	333
Capital account	-33	-28	-34	-51	-81	-85	-72	-44	-74
Fiscal result f/	-34	-26	-34	-49	-97	-132	-117	-71	-86
	<i>Percentages of GDP</i>								
Money and credit									
Domestic net credit	65.6	70.6	65.2	66.1	76.3	85.9	81.3	80.1	78.8
To the public sector	-2.4	3.4	-1.7	-3.5	6.3	13.8	14.1	15.3	8.0
To the private sector	70.8	70.1	70.2	72.7	74.1	76.6	73.1	69.6	70.1
Liquidity (M3)	70.4	69.7	70.7	70.4	73.8	87.4	86.0	89.3	120.1
Money supply and deposits in domestic currency (M2)	57.9	57.0	54.5	57.0	59.3	59.4	60.5	64.3	93.1
Deposits in foreign currency	12.5	12.7	16.3	13.4	14.5	28.0	25.4	25.0	27.0

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 18
ST. LUCIA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	1.7	1.4	0.6	3.1	3.8	-0.5	-4.3	0.4	3.7
Gross domestic product per capita	-0.1	-0.3	-0.7	1.5	1.9	-1.3	-6.4	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	3 266	3 257	3 312	3 491	3 655	3 687	3 530	3 548	3 658
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	...	...	-17.9	3.1	-14.4	2.0	-24.0	-2.0	-10.8
Mining and quarrying	...	...	11.3	1.7	15.3	14.0	-27.9	5.0	...
Manufacture	...	...	-0.3	-1.2	4.2	-2.6	-2.6	3.6	-0.4
Electricity, gas and water	...	...	7.5	8.2	13.2	-6.1	4.2	-0.6	3.0
Construction	...	...	0.4	10.5	12.8	-4.6	-5.0	-5.1	-1.2
Wholesale and retail trade	...	...	6.7	1.7	3.0	-6.5	-14.3	1.2	7.8
Transport and communications	...	...	0.6	2.8	6.2	5.5	11.8	7.5	4.5
Bank and insurance	...	...	4.9	4.8	6.7	2.8	2.4	-10.8	2.4
Real estate and housing	...	...	-3.8	-1.2	9.0	2.4	-13.9	8.6	11.3
Other services	...	...	...	...	4.2	2.7	-10.5	-0.6	16.6
Tourism	...	...	-33.0	-11.9	-0.4	-33.8	-110.7	42.3	166.9
			2.1	12.6	11.2	2.9	-1.8	5.6	13.8
	<i>Millions of US Dollars</i>								
Balance of payments									
Current account balance	-33	-58	-78	-66	-82	-63	-38	-108	-108
Merchandise balance	-155	-181	-222	-225	-251	-249	-207	-207	-276
Exports fob	115	86	70	70	61	63	52	74	...
Imports fob	269	267	292	295	312	312	259	276	...
Services balance	141	144	167	182	185	213	197	186	...
Income account	-39	-34	-36	-43	-38	-43	-41	-44	-47
Unilateral transfers	19	13	13	20	22	17	14	13	13
Financial and capital balance c/	39	52	83	81	90	71	50	114	122
Net foreign direct investment	33	18	48	83	83	55	22	48	100
Financial capital d/	6	33	35	-2	7	16	27	50	...
Global balance	6	-6	5	15	8	8	12	5	13
Variation in reserve assets e/	-6	6	-5	-15	-8	-8	-12	-5	-13
Other indicators of the external sector									
External debt (millions of US dollars)	128	142	153	185	157	185	214	255	337
External debt (% of GDP)	23.4	25.0	26.8	32.4	27.2	27.1	32.7	38.1	47.9
Prices									
Rate of change of the consumer price index (december to december)	3.7	-2.3	1.9	3.6	6.1	0.3	2.1	-0.6	0.4
Weighted deposit real interest rate	...	...	4.5	4.6	4.5	4.9	4.7	3.8	3.8
Weighted lending real interest rate	...	...	12.56	10.81	12.35	13.06	12.54	12.58	13.15
	<i>Millions of EC\$ dollars</i>								
Central government									
Current income	364	372	379	424	482	493	442	455	465
Current expenditures	306	317	320	328	362	371	406	405	467
Capital account	65	55	59	32	68	147	104	88	130
Fiscal result f/	-16	-25	-14	64	52	-25	-68	-38	-131
	<i>Percentages of GDP</i>								
Money and credit									
Domestic net credit	51.7	56.0	61.0	58.3	61.6	64.9	78.3	79.1	69.6
To the public sector	-9.4	-8.6	-10.1	-12.4	-13.2	-14.0	-16.0	-13.9	-14.5
To the private sector	63.3	69.4	75.0	74.1	77.0	80.3	87.4	85.7	78.0
Liquidity (M3)	54.3	53.7	56.4	57.9	58.1	63.1	68.5	67.7	70.4
Money supply and deposits in domestic currency (M2)	54.6	54.0	56.6	58.3	59.2	63.5	69.2	69.0	72.1
Deposits in foreign currency	0.3	0.2	0.3	0.4	1.2	0.4	0.7	1.3	1.7

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

Table 19
ST. VINCENT AND THE GRENADINES: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	8.3	1.2	3.1	5.7	3.6	2.0	-0.1	1.6	3.6
Gross domestic product per capita	7.6	0.6	2.7	5.6	3.7	1.8	0.2	...	...
	<i>In US dollars</i>								
Gross domestic product per capita	2 022	2 115	2 211	2 399	2 484	2 519	2 639	2 728	2 819
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture	...	...	9.1	-3.6	-3.8	6.6	-7.7	7.8	-2.2
Mining and quarrying	...	...	-3.0	-1.0	-14.9	-10.5	-10.5	-2.9	...
Manufacture	...	...	-5.3	-0.9	-0.9	-9.4	5.6	-2.9	0.7
Electricity, gas and water	...	...	8.2	9.6	8.8	6.1	11.2	2.6	7.5
Construction	...	...	16.0	-3.9	-4.1	-13.5	7.1	-2.9	9.4
Wholesale and retail trade	...	...	11.1	8.7	8.0	7.7	3.4	3.1	5.7
Transport	...	...	3.8	4.3	4.1	1.3	1.1	6.2	5.5
Communications	...	...	13.1	24.4	19.6	9.2	-12.2	-10.3	2.1
Bank and insurance	...	...	3.8	12.4	11.0	5.4	-7.6	6.9	1.5
Real estate and housing	...	...	3.1	2.0	1.5	3.1	3.1	1.5	...
Other services	...	...	-24.3	15.0	9.2	5.1	14.8	5.0	3.5
Tourism	...	...	-4.0	10.0	9.1	6.3	-3.0	-8.0	-5.8
	<i>Millions of US Dollars</i>								
Balance of payments									
Current account balance	-41	-36	-84	-95	-72	-28	-38	-47	-68
Merchandise balance	-57	-75	-105	-120	-127	-93	-106	-117	-138
Exports fob	62	53	47	50	50	52	46	40	...
Imports fob	119	128	153	170	177	144	152	157	...
Services balance	19	38	23	28	59	65	72	72	...
Income account	-12	-9	-13	-14	-19	-19	-19	-17	-16
Unilateral transfers	9	10	11	11	15	19	15	15	12
Financial and capital balance c/	39	36	85	101	76	42	47	41	63
Net foreign direct investment	31	43	92	89	56	29	21	33	44
Financial capital d/	9	-7	-7	12	20	13	26	23	...
Global balance	-1	0	1	6	4	14	9	-6	-5
Variation in reserve assets e/	1	0	-1	-6	-4	-14	-9	6	5
	<i>Other indicators of the external sector</i>								
External debt (millions of US dollars)	62	70	79	103	160	160	170	170	192
External debt (% of GDP)	23.4	25.0	26.8	32.4	48.5	47.7	49.1	47.1	51.4
	<i>Prices</i>								
Rate of change of the consumer price index (december to december)	3.1	3.6	0.8	3.3	-1.8	1.4	-0.2	0.4	2.7
Weighted deposit real interest rate	...	...	3.7	3.9	3.6	3.7	3.8	3.5	3.2
Weighted lending real interest rate	...	...	9.44	10.80	11.64	11.11	10.47	10.71	10.88
	<i>Central government</i>								
	<i>Millions of EC\$ dollars</i>								
Current income	193	217	229	242	256	261	272	306	309
Current expenditures	170	187	197	205	225	240	259	275	268
Capital account	-37	-25	-67	64	46	24	28	50	61
Fiscal result f/	-15	5	-35	-28	-15	-4	-15	-19	-20
	<i>Money and credit</i>								
	<i>Percentages of GDP</i>								
Domestic net credit	41.4	43.3	45.6	42.8	46.0	52.6	50.2	54.9	50.3
To the public sector	-5.0	-7.6	-9.1	-11.8	-10.1	-8.7	-8.2	-4.7	-7.3
To the private sector	48.7	53.0	56.4	56.8	61.1	65.5	64.9	65.1	63.1
Liquidity (M3)	52.4	51.9	56.1	60.2	65.0	70.3	70.2	72.9	72.6
Money supply and deposits in domestic currency (M2)	51.7	51.3	55.0	58.8	63.2	69.3	69.4	71.9	71.5
Deposits in foreign currency	0.8	0.6	1.0	1.4	1.9	1.0	0.8	1.0	1.0

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ On the basis of constant 1990 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

2. Economic policy

2.1 Fiscal policy

The year 2004 saw no changes in the fiscal stance of the OECS member States in relation to the previous one. Countries continued to focus on a policy of fiscal retrenchment aimed at reducing the fiscal imbalances and bringing the debt stock to sustainable levels. Available information indicates that St. Kitts and Nevis will centre on increased efficiency and effectiveness in tax collections and the widening of the tax base. In the case of Dominica the authorities hope to carry out a public sector reform to reduce the public wage bill. They also envisage increasing the tax base by the rationalisation of tax incentives and a pension reform comprising the increase in the retirement age of civil servants.

The fiscal deficit of the OECS member States declined (12% and 9% of GDP in 2002 and 2003)²⁷, in spite of the increase in current expenditures (28% and 29% of GDP in 2002 and 2003) as a result of the contraction in capital expenditures (9.4% and 8.1% of GDP in 2002 and 2003) and expansion in tax revenues (22.2% and 23.8% of GDP in 2002 and 2003).

Capital expenditures were curtailed as a result of the completion of infrastructure projects for 2002 and the implementation of stabilisation policies. The behaviour of tax revenues responded to tax administration efforts, the introduction of tax measures in some of the OECS member States and the widening of the tax base. The increase in import demand and its positive effect on the collection of international trade transaction taxes was also a contributing factor.

At the national level all member States, with the exception of Anguilla (-0.13% and 2.0% of GDP in 2002 and 2003), whose performance reflected capital proceeds from the divestment of government shares in the Anguilla Electricity Company, registered deficits in their overall fiscal position.

Within this subset Saint Lucia was the only country that saw its fiscal deficit deteriorate (4% and 9% of GDP in 2002 and 2003) due to the government's policy of stimulating economic growth through the expansion of current and capital expenditures (43% and 48%; 15% and 19% of GDP, respectively, for 2002 and 2003). The rest of the member States made, for the most part, a substantial effort at fiscal restraint.

Antigua and Barbuda's fiscal outturn (-13% and -9% of GDP in 2002 and 2003) responded to the contraction of current and capital expenditures (28% and 25%; 5% and 3% of GDP in 2002 and 2003). The performance of the former responded to the reduction in expenditures in goods and services in relation to 2002 when this expenditure line reflected the purchase of office equipment for the financial complex. Also current expenditures were streamlined by a moratorium granted by the banking system. For its part capital expenditure reduction responded to a lower rate of implementation of capital projects.

²⁷ Not taking into account grants. If grants are included the fiscal deficit would equal 8.9% and 5.9% of GDP in 2002 and 2003.

Dominica's performance (-10% and -5% of GDP in 2002 and 2003) reflected the improvement in tax collection and arrears (23.5% and 25.4% of GDP in 2002 and 2003) and more significantly the contraction in current expenditures (33% and 30% of GDP in 2002 and 2003) due to the reduction of the public wage bill and delays in the payment of external debt obligations. Since the end of 2003 Dominica has been under a three year IMF poverty reduction and growth facility program that aims to strengthen the fiscal position and carry out a structural reform program to re-ignite growth and reduce poverty.

Grenada and St. Kitts and Nevis reduced their fiscal deficits (21% and 10%; 20% and 9% GDP for 2002 and 2003 respectively) as capital expenditures (22% and 13%; 18% and 8% of GDP in 2002 and 2003, respectively) returned to the level of previous years due to the completion of infrastructure projects and following the acquisition of two lease-to-own assets and an increase in net lending to government-owned enterprises in 2002. In the case of St. Kitts and Nevis the continued implementation of the Structural Adjustment Technical Assistance Programme (SATAP) also played an important role in the reduction of the fiscal imbalance.

Montserrat's fiscal gap narrowed slightly (-31% and -28% of GDP in 2002 and 2003) as the rise in current expenditures due to activities associated with the volcanic eruption at the beginning of the second semester of 2003 was matched by a higher level of revenues. The expansion of revenues is also associated with the increase in activity caused by the disaster reparation and restoration operations.

St. Vincent and the Grenadines maintained the fiscal stance of the previous year (-2.6% and -2.4% of GDP in 2002 and 2003) as the increase in capital expenditures responding to the implementation in the public sector investment programme was offset with a reduction in current expenditures on other goods and services (6% and 7%; 29% and 27% of GDP in 2002 and 2003, respectively).

2.2 *Monetary policy*

The OECS economies formed a currency union since 1983. Its monetary unit, the Eastern Caribbean dollar, is pegged to the United States dollar at EC\$2.70 per United States dollar. The union's monetary authority, the (ECCB), acts as a quasi-currency board and is required to back by stature up to 60% of its monetary liabilities. Since the formation of the union, the Central Bank has maintained a neutral monetary stance and hardly changed its reference rate of interest. Two important features of the Currency Union explain its neutral stance. On the one hand, the monetary authority's management of its foreign assets and liabilities has guaranteed a backing ratio that greatly exceeds the statutory levels. On the other hand the commercial banking system forms a closed circuit that maintains the banking principle, namely the equality between assets and liabilities.

In 2003, following currency board rules the expansion in the monetary aggregates (14% and 10%) reflected the build up in the consolidated banking system of the stock of net foreign assets (33%), which was mostly due to the increase in the foreign assets of commercial banks (29%) as domestic net credit barely moved (1%). In turn this reflected the contraction in credit to the public sector (-11%) which was partially offset by the rise in credit to the private sector (2%).

Personal loans and in particular the acquisition of property represents the bulk of commercial bank loans (48% and 27% of the total). Only three productive sectors, agriculture, manufacturing and entertainment registered increases in the demand for loans (0.7%, 7% and 3%, respectively) while tourism and construction, the two main growth contributing sectors of the economy, registered sharp contractions in their credit demand (-7% and -8%, respectively). Within the currency union, Antigua and Barbuda followed by Saint Lucia are the main borrowers (25% and 22% of total loans and advances for both 2003 and 2004).

The rise in commercial bank assets which was partly matched by the expansion of deposits (8%) and the scant growth in loans improved the liquidity position of the financial system. The ratio of total loans and advances to deposits declined from 0.78 to 0.72 between December 2002 and 2003. In March 2004 the said ratio reached 0.69 continuing to reflect the ease of liquidity of commercial banks.

3. Evolution of main variables

3.1 *Economic activity*

The economic performance of OECS member States evidenced a point of inflection in their growth trajectory (0.2% and 3.7% in 2002 and 2003) due to the expansion of the construction sector and, most important, to the recovery of the tourism sector following a three consecutive year downturn.

The agricultural sector contracted (5.6% and -4.4% in 2002 and 2003) mainly as a result of the drop in Windward Island banana production. (8 241 to 5 608 thousands tonnes in 2002 and 2003). Dominica registered the largest decline followed by St. Vincent and the Grenadines (-39% and -32%, respectively). For its part Saint Lucia remains the largest producer (50% of the total). The contraction in banana production responded to adverse climatic conditions, disease, a decrease in acreage under cultivation and in the number of farmers and to financial and infrastructure bottlenecks. The production of other crops including nutmegs, cocoa and mace was negatively affected by lower international prices.

The manufacturing sector stagnated (-1.2% and 0.2% in 2002 and 2003) due to a multiplicity of factors. These included weak domestic demand in the cases of Dominica and Saint Lucia, the effects of the decline in banana production on the manufacturing of paper and paper products, the fall in sugar cane reaped which affected the production of sugar manufacturing in St. Kitts and Nevis and the expiration of trade preferences for rice exports in the case of St. Vincent and the Grenadines.

The positive performance of the tourism sector (-0.9% and 12.6% in 2002 and 2003 in the aggregate) spread across all member States, with the exception of Montserrat and St. Vincent and the Grenadines (2.2 and -32%; 8% and -5.8% in 2002 and 2003). The behaviour of tourism led by cruise ship arrivals (9% and 55% of the total) responded to the rise in global demand, the expansion in airlift services, favourable exchange rate movement in the case of the United Kingdom, and improved marketing efforts and capital expenditure on infrastructure.

The construction sector expanded in the aggregate (-2.4% and 5.8% in 2002 and 2003) and in most member States (1.2%, 8.0%, 11.3%, 28.5% and 9.4% in Anguilla, Antigua and Barbuda, Dominica, Grenada, and St. Vincent and the Grenadines, respectively). The sector benefited partly from the dynamism of activities linked to the recovery of the tourism sector including hotel repairs and refurbishing as well as infrastructure maintenance and project development as in the cases of Anguilla, Antigua and Barbuda, Dominica and Grenada. In Anguilla, Dominica, Grenada and St. Vincent and the Grenadines the expansion of the construction sector was led by both the private and public sectors. For their part, St. Kitts and Nevis and Saint Lucia posted contractions in the construction sector (-4.7% and -1.2%, respectively) due to the completion of major public and private infrastructure projects, and to delays in the implementation of the Public Sector Investment Programme and contractions in public investment as in the case of St. Kitts and Nevis under SATAP programme.

3.2 Prices, wages and employment

The rate of inflation declined (3.0% and 1.8% on a end year point-to-point basis at the aggregate level) due to the overall stability of the international prices and excess productive capacity which may have been generated during the past biennium (2001-2002) as a result of the stagnation in economic activity.

At the individual level, the spectrum of inflation rates was varied ranging from 0.4% in the case of Saint Lucia to 6.9% in the case of Anguilla. Accordingly, the decomposition of the consumer price level by member State and sub-category shows that the most pronounced increases were registered in medical care and expenses (32%), and transport and communication (29%) in the case of Anguilla. The smallest rises were recorded in alcoholic beverages and tobacco and fuel and light (0.2% and 0.7%, respectively) in the case of Saint Lucia. The largest declines in the sub price categories were registered in housing, transport and communication and alcoholic beverages (10.8%, 5.3% and 4.2%) in the cases of Anguilla, Saint Lucia and Dominica respectively.

Available data shows that wages increased in three member States (Antigua and Barbuda, Grenada, and St. Vincent and the Grenadines). Antigua and Barbuda registered an increase in wages to civil servants in the fourth quarter of the year. Grenada recorded an increase in private and public sector wages of 4% and St. Vincent and the Grenadines decreed a rise in minimum wages effective on April 2003. Dominica was the only country in which wages declined (5% for public employees) as a result of the implementation of the Poverty Reduction and Growth Facility supported programme.

Employment and unemployment figures were not available at the aggregate level and were available only on a partial basis for a few member States, such a Grenada, Montserrat and Saint Lucia. In Grenada the number of registered employees rose 17% while in Saint Lucia employment in the public sector increased 2%. Contrarily for Montserrat public sector employment declined 11%. Nonetheless it is expected that the number of persons employed should have increased in consonance with the expansion in the level of activity and in particular in those sectors such as the construction and tourism sectors which experienced an inflection in their recent growth trajectories.

4. Evolution of the external sector

The OECS overall balance of payments registered a surplus (1.2% of GDP) as the current account deficit (19% of GDP in 2002 and 2003) was amply financed by the surplus in the capital and financial account (21% of GDP). At the individual level, only Grenada, St. Kitts and Nevis and St. Vincent and the Grenadines registered deficits in their external accounts (-2.7%, -0.3% and -1.3% of GDP, respectively).

The current account position reflected the widening of the trade balance disequilibrium (36% and 38% of GDP in 2002 and 2003) which was partly offset by the surplus in services (18% and 21% of GDP in 2002 and 2003).

Merchandise exports declined (-3.2%) mostly on account of the underperformance of the agricultural sector and in particular due to the contraction in banana output. The external sales of sugar also fell reflecting the lower sugar cane yield relative to the previous year. For their part, manufacturing exports reflected a combination of factors including restructuring operations of a major firm, the expansion of the regional market, increases in external demand and the negative effect of the contraction in agriculture on paper and paperboard production.

Merchandise imports rose (9.6%) responding to the expansion of economic activity, the dynamism of the construction sector, and the increase in the fuel import bill due to higher international oil prices.

The performance of the services account is explained by the recovery of tourism. The number of total visitors rose 7% and total visitor expenditure expanded 9%. Average per capita visitor expenditure reached US\$367 and US\$373 in 2002 and 2003. Cruise ship passengers arrivals benefited from the increase in cruise ship calls (62 with respect to 2002) and represented more than half of the total followed by stay-over arrivals (36% of total visitors).

Within this subset the United States and the Caribbean, followed by the United Kingdom, are the main tourist suppliers (31%, 29% and 25% of the total). At the individual member State level, Saint Lucia accounts for the greater share of total tourist arrivals, stay over arrivals and cruise ship passengers followed by Antigua and Barbuda (29%, 33%, 30%; 27%, 28%, 29% respectively).

The outturn in the income account (US-\$205 and US\$-221 million in 2002 and 2003) responded mainly to debt service obligation payments (6% of GDP at the aggregate level for 2003). Saint Lucia, St. Vincent and the Grenadines and Grenada are main contributors with close to a quarter of total debt payment services each.

Finally, the capital and financial account reflected the combined effect of the rise in foreign direct investment (11% and 14% of GDP in 2002 and 2003) for the development of capital infrastructure for the tourism sector, the decline in official grants as public capital projects neared completion and a contraction in commercial bank short-term capital flows. Antigua and Barbuda, Grenada and Saint Lucia were the main member States recipients of foreign direct investment flows (22%, 19% and 24% of the total, respectively).

The Bahamas

1. Main trends

In 2003 economic activity stagnated (2.3% and 0.2% in 2002 and 2003) in spite of the sustained recovery of the tourism sector. This behaviour mainly reflected the underperformance of the construction sector and the decline in the financial sector due to the implementation of strict regulatory changes on the sector's operations.

The reduction in the economy's rate of growth had a negative impact on tax revenues. The fiscal deficit remained at the level of the previous year notwithstanding the intentions of the government to increase the tax effort on the basis of measures aimed at improving the administrative efficiency of the tax system²⁸. The fiscal result also reflected the high level of public expenditures which responded to the payments of interest on the external debt.²⁹ The imbalance in the public accounts and the launching of a US\$200 million bond issue in July 2003 on the international capital markets increased the country's stock of the external debt. At the same time this also improved the liquidity levels of the commercial banking system.

As a result and within a context of low growth the authorities decided to adopt a policy of continuity and did not change the orientation of the previous year's monetary policy stance. The central bank did not modify its reserve requirement set at 50% and preserved the ceiling on the rate of growth of commercial banking credit which was established, as a precautionary measure, following the 11 September 2001 events.

The placement of the bond also had a positive effect on the capital and financial account of the balance of payments allowing it to compensate the current account deficit.

Current prospects are encouraging. Following an overall increase in visitor arrivals (air and sea) by 4.3% to 4.6 million in 2003, arrivals were up by 31% for the month of April 2004 alone compared to the same period of 2003; economic growth is projected to be at least 3% in 2004. With the recently increased investment of US\$1 billion that Phase III of the Kerzner project will bring about – construction is due to commence in 2004 and expected to be completed in 2007 – the authorities are upbeat about the additional employment opportunities as well as the increase in tourism and resulting increase in trade as well as subsequent trade revenue.

²⁸ Notation: FY2000 denotes fiscal year commencing on 1 July 2000 running to 30 June 2001.

²⁹ Prices are denoted in Bahamian dollars, unless quoted otherwise. One Bahamian dollar is equivalent to one US\$. The Central Bank has maintained a fixed exchange rate with the US\$, with the Bahamian dollar being at par since 1970.

Table 20
THE BAHAMAS: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product (1991 prices)	1.1	4.2	3.3	3.0	5.9	5.0	-2.0	2.3	0.2
	<i>In US dollars</i>								
Gross domestic product per capita	11 041	13 130	13 640	14 267	15 325	16 205	15 997	16 218	16 691
	<i>Annual rates of growth b/</i>								
Real sector indicators									
Tourist arrivals	-6.0	5.5	1.1	-3.1	9.0	15.2	-0.5	5.2	4.4
Value of construction starts	-32.0	51.1	154.4	-64.3	-0.6	19.0	-8.0	55.0	-14.9
Value of construction completions	-12.7	42.5	9.2	187.9	-7.4	-34.2	8.0	-5.9	-57.0
Electricity generation (mwh)	2.2	2.9	5.7	8.6	5.1	6.9	3.9	5.6	...
Balance of payments	<i>Millions of US dollars</i>								
Current account balance	-146	-263	-472	-995	-672	-471	-348	-339	-427
Merchandise balance	-931	-1,014	-1,116	-1,374	-1,428	-1,371	-1,151	-1,151	-1,204
Exports fob	225	273	295	363	380	805	614	740	681
Imports fob	1,157	1,287	1,411	1,737	1,808	2,176	1,765	1,776	1,885
Services balance	903	862	757	542	857	1,029	951	980	901
Income account	-136	-149	-153	-198	-138	-173	-190	-211	-163
Unilateral transfers	18	37	39	34	37	43	42	42	39
Financial and capital balance c/	143	256	529	1,115	737	410	318	400	538
Net foreign direct investment	107	88	210	146	144	250	101	169	0
Financial capital d/	36	168	319	969	593	161	217	79	292
Global balance	-3	-8	57	119	65	-61	-30	61	111
Variation in reserve assets e/	3	8	-57	-119	-65	61	30	-61	-111
Other indicators of the external sector									
External debt (millions of US dollars)	303	284	319	339	353	368	346	311	349
External debt (% of GDP)	10	8	8	8	8	7	7	6	7
Prices									
Rate of change in the consumer price index (end of period)	...	1.1	0.8	1.9	1.4	1.0	2.9	2.2	3.0
Weighted deposit real interest rate	2.0	3.6	4.8	4.1	3.2	2.2	2.2	2.1	1.0
Weighted lending real interest rate	10.9	11.0	12.2	10.8	10.4	9.9	9.3	9.1	8.1
Central government	<i>Millions of Dollars of the Bahamas</i>								
Current revenues	686	763	804	...	918	957	864	958	973
Current expenditures	678	714	747	...	817	846	836	954	969
Capital account	112	89	95	...	107	85	...	122	102
Global result f/	-140	-73	-70	...	-38	-16	-95	-147	-98
	<i>Percentages of GDP</i>								
Overall balance with grants	...	...	...	...	...	...	...	...	...
Overall balance without grants and net lending	0.0	-0.9	-2.5	-1.1	-0.3	0.4	-0.7	-2.6	...
Money and credit	<i>Percentages of GDP</i>								
Internal net credit	74	80	98	109	122	135	152	161	162
To the public sector	16	16	16	19	22	21	25	28	29
To the private sector	58	64	81	90	100	114	127	133	133
Liquidity (M3)	61	65	80	93	104	113	118	122	130
Money supply and deposits in national currency (M2)	60	64	79	91	102	110	115	119	127
Foreign currency deposits	1	1	1	2	2	3	3	3	3

Source: ECLAC, on the basis of official information

a/ Preliminary numbers

b/ At constant 1991 prices.

c/ Includes errors and omissions.

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

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

f/ Includes interests.

2. Economic policy

2.1 Fiscal policy

Following a widening between FY2000 and FY2001, the fiscal deficit narrowed between FY2001 and FY2002. However, in FY2003 the deficit is expected to have once again increased to 2.9% of GDP, placing the government off track to reduce the deficit from 3.5% of GDP in FY2002 to 2.2%. Whilst in FY2003 the government refrained from increasing existing taxes or introducing new ones, but rather aimed at strengthening tax administration and reducing tax evasion and fraud, revenues weakened and expenditures increased, leading to the increase in the deficit, with preliminary figures already indicating a cumulative deficit for the first eight months of FY2003 of almost twice as high as the respective figure for the previous fiscal year, amounting to \$97.2 million (compared to \$47.3 million for FY2002).

In its FY2004 budget presentation the government highlighted that it is targeting a fiscal deficit of 2.9% of GDP, pointing out however that increased expected revenue will enable higher expenditure. The government once again affirmed its commitment to strengthen tax collection rather than introduce new taxes, leaving the possibility open to *'review [at a later date] a wider range of fees and charges, which in some cases have not been charged in decades'*. Yet, it is unlikely that this will happen before the next election in 2006. In addition, whilst a value added tax has been discussed for several years, no concrete plans have yet been made. The government is however keen to point out that it is not envisaging any kind of income taxation. Rather, due to the current low rate of taxes imposed – The Bahamas has one of the lowest tax burdens in the region – a number of options and different strategies seem viable.

The government also announced that it will create a venture capital fund in the 2004/2005 budget. Whilst full details are still to be announced, the ultimate aim will be for the government to take up small equity positions in new firms and hence provide the owners with start-up capital that is not in the form of debt. Once enterprises are flourishing, the idea is to resell the equity stake.

Relying to a large degree on revenue from taxes on trade and stamp duties (the combined contribution of import and export duties as well as tourism tax contributed approx. 64% of overall tax revenue in FY 2002), revenue rises and falls with the business cycle, and hence was severely affected by the fall in consumer confidence and security concerns following the 11 September 2001 attacks.

Hence, while recurrent revenue increased from \$856.8 million in FY2001 to approximately \$901.8 million in FY2002, it fell short of its budget of \$962.8 million. In FY2003 revenue will once again fall short of its budget of \$991.5 million as after the first three quarters of the fiscal year (data up to end March 2004), tax revenue had met less than 70% of its budget, with poor performances in all components, with only companies fees and registration attaining more than three quarters of their expected target. In particular, hotel occupancy taxes performed poorly, as did the motor vehicle tax (both attaining approximately 40% of their total budget after nine months). On the other hand, non-tax revenue was on track, as was capital revenue.

Part of the shortfall in revenue was the failure to introduce the Flight Information Region (FIR) to cover Bahamian airspace – a project which would have generated \$40-\$50million in revenue through the collection of fees (currently the Bahamian airspace is managed by the United States authorities). In addition, the failure to conclude the privatization process of the Bahamas Telecommunications Company (BTC) led to a decline in expected revenue.

Vis-à-vis the outlook for FY004, the government recently announced that it expects recurrent revenue to be 5% higher than the budgeted amount in FY2003, resulting in a full 14% higher figure than the realized figure for FY2003. This is due largely to increased economic performance, however, the collection of stamp revenue is to be strengthened, with an expected amendment to the Stamp Act to close current loopholes. These measures are expected to contribute an estimated \$10 million to the government's coffers, as is the sale of the Radisson Hotel.

Overall, total expenditure was up from \$1000.3 million in FY2001 to \$1046.7 million in FY2002 and was budgeted to reach \$1088.6 million in FY2003. Although after the first nine months of FY2003, total expenditure was slightly below its budget, having met 69.9% of its annual budgeted figure, it is expected to exceed its budget by the end of FY2003. Items that had already exceeded three quarters of their budget after three quarters of the fiscal year were personal emoluments, reflected salary adjustments and transfers to non-financial institutions, where the latter had already exceeded its total budget by almost double due to high external interest payments running at 60% over its annual budget. On the other hand, capital expenditure was severely behind budget, with only slightly over a third of its annual budget having been met due to poor performance in all subcomponents.

For FY2004, expenditure is budgeted to exceed that of FY2003 by 11%. Of this amount, some \$31 million are to be directed towards debt service and \$83 million for recurrent services. Recurrent expenditure is budgeted to reach \$1052 million, and capital revenue, excluding borrowings, should amount to \$11 million. Approximately 45% of the total budgeted recurrent expenditure for FY2004, amounting in total to \$954 million excluding debt service, is to be directed to the social sector, whilst approximately 20% is going to be directed toward national security. With an estimated \$100 million to be spent on economic services, such as tourism, agriculture, trade, etc., some \$65 million is budgeted for infrastructure.

These developments have had a notable effect on the government's total debt position, which has been on an upward trend for the recent years and reached approx. \$2,370 million at the end of 2003, up 7.3% from 2002, of which \$293 million takes the form of external debt. In fact, external debt rose substantially, up \$197 million over the year, which was due to the \$200 million bond issue of July 2003. Currently 77% of external debt takes the form of government securities, the rest is held in the form of loans.

In terms of foreign currency debt operations, the government's debt service ratio almost tripled over the year, increasing from 5.6% to 13.6% in 2002, whilst the government debt service/revenue ratio doubled from 8.3% in 2002 to 16.9% in 2003.

2.2 Monetary policy

Following the events of 11 September 2001, the Central Bank has maintained a restrictive monetary stance in the form of quantitative limits, mainly to avoid unsustainable imbalances in its balance of payments and to lessen the pressure on the stock of international reserves.

In 2003 and 2004 the authorities did not, for precautionary motives, modify their monetary stance and maintained the ceiling on the growth of domestic credit. The increase in international reserves due to the aforementioned bond issue and its potential effect on monetary aggregates and spending was partly neutralized by the re-financing operations of the public multilateral debt. Nonetheless, international reserves increased (29.7%) representing a cover ratio of non-oil imports equivalent to 16.5 months.

The growth in external net assets translated into an increase in the deposits of the commercial banking system which reflected an improved liquidity position. In this way free reserves expanded 12%. Nonetheless, due in part to the low level of economic activity, the incipient liquidity did not result in an expansion of the credit to the private sector and in fact its rate of growth declined with respect to previous years (9.5%, 5.3%, 1%, 2%, in 2001, 2002, 2003 and March 2004). The sectors that benefited most are agriculture (17% and 32% in 2003 and 2004) and fisheries which registered a threefold increase in its demand for loans. This situation, in conjunction, with the contraction in the supply of credit to the public sector (-22%) was reflected in the growth of the monetary aggregates (4.2% for M2 and M3).

The growth in the liquid liabilities of the commercial banking system was matched by the purchase of treasury bills which resulted in a decline in their corresponding rates of interest (1.6% and 0.9% in December 2003 and March 2004). This in turn lessened the burden of interest payments on the internal debt.

3. Evolution of the main economic variables

3.1 Economic activity

Economic performance throughout 2003 was weak, with real GDP growth amounting to a marginal 0.2% due mainly to the underperformance of the construction sector and the limits imposed on the operations of the financial sector services through stricter regulations, even though tourism recovered registering an approximate rate of growth of 4.3%, with a total of 4.6 million tourists visiting the island.

Activity in the construction sector weakened during 2003 in terms of the number of permits granted as well as the average value of construction starts, with the former dropping from 3,016 in 2002 to 3,006 in 2003 and the latter from \$175,000 in 2002 to \$148,900 in 2003. Building starts were however up by 12.16%, reaching 1,485 for 2003.

Whilst the number of commercial building starts decreased by 27.9% to 101, this decrease was partly offset by the number of residential building starts, which increased by 16.9% to 1,380

and witnessed an increase in average value to \$152,900. Underlying factors of this development were increased private foreign investment into the Bahamas as a second home market, as well as increased local mortgage lending.

Regarding the outlook for the construction sector, prospects look buoyant for 2004 due to the expected commencement of construction of Phase III of Kerzner International on its Atlantis resort complex on Paradise Island – a project worth a total of \$1 billion.

The financial sector witnessed a continuation of changes to its regulatory framework meeting, in this way, its international obligations to combat money laundering. In particular, this encompassed the passing of several amendments to acts and regulations governing the sector. In turn, these relate to, among others, more stringent identification requirements of customers on behalf of banks. Currently, licensed banks are required to have established an actual physical presence in the jurisdiction of the Bahamas and all customers' identities need to be verified should their balances exceed \$15,000.

Whilst total assets of the credit unions rose by 13.3% to \$150.1 million, performance of the Commercial Backing System (BISX) was mixed: although the volume of shares rose by 17.8%, the total value fell to \$7.4 million, representing a decrease by 50.6%. Nevertheless, total market capitalization remains high, standing at \$1.7 billion.

Tourism fully recovered from the downturn following the events of 11 September 2001, with arrivals increasing by 5.3% in 2002 and 4.3% in 2003, and now standing 9.9% higher than the 2001 figure. In addition, arrivals are to potentially increase further, due to bright economic prospects for the United States economy as well as a weaker United States dollar, which could attract non-United States visitors.

The surge in arrivals is explained by higher sea arrivals compared to a 1.9% increase in air arrivals, the sector that brings higher revenue per capita to the island. The first quarter of 2004, too, shows a strong increase in tourist arrivals, up by 13.25% compared to the first quarter in 2003, led by a 15.64% increase in sea arrivals, compared to a 7.93% surge in air arrivals. As a result, although tourist receipts increased marginally overall, this was led by a 5.3% increase in the average room rate as overall room occupancy contracted by 2.8%.

The Family Islands witnessed a strong increase in arrivals, up 11.9% in general and air arrivals up 22.8%, in particular. This can be traced to the opening of a Four Seasons Resort in Exuma as well as the reopening of the Club Med resort on San Salvador.

Fisheries experienced strong growth in 2003, with exports increasing by 8.6% in volume terms, earning \$108.1m in earnings. However, the Bahamas is heavily reliant on the export of crawfish: not only did these contribute 97.7% of export earnings, moreover, exports of other species dropped by 31.7% over the year.

3.2 Prices, wages and Employment

Inflation increased to 3.0% in 2003, up from 2.2% in 2002. Whilst items such as medical care and health as well as recreation, entertainment and services increased relatively strongly (a

9.8% and 9.81% increase, respectively, in 2003, compared to 1.2% and 2.48% increases in 2002), food and beverages increased by only 0.53% and education by 1.08% (down from 12.89% in 2002). Clothing and footwear actually became more reasonable (deflated by 0.06%). Latest indications point to a reduction in inflation, with year-on-year inflation standing at 1.11% in March 2004, however the recent increase in international oil prices is likely to reverse this movement.

Unemployment increased in 2003 by 1.7% to 10.8%, following its upward trend started in 2002 following the decade-low of 6.9% of 2001.

3.3 *Evolution of the external sector*

The overall balance-of-payments outcome was almost twice as high at \$110.90 million as in 2002, with a capital and financial account surplus of \$222.3 million in 2003 that more than offset the current account deficit of \$538, taking into account errors and omissions.

The current account result is explained in part by a widening of the deficit in the merchandise balance and a decline in the services balance surplus. In turn, the imbalance in the merchandise balance responded to a contraction in exports notwithstanding the rise in fisheries exports (9%) and conch tails (10%). For their part, imports expanded as a result of the rise in non-oil purchases.

The reduction in the surplus on the services account is accounted for by the relatively higher increased spending by residents abroad eroding the positive effect of higher inflows from tourism. It should also be noted that the rise in net outflows corresponding to transport and insurance services was offset by the reductions in construction and government services.

The income account diminished its deficit due to the lower level of financial flows associated with the repatriation of commercial bank profits. This is explained in turn by the stagnation in economic activity and by the implementation of more strict control procedures for off-shore banking activities.

The result of the capital and financial account is explained by the proceeds derived from the \$200 million bond issue which were partly offset by capital outflows associated with refinancing operations and which involved the public and financial sectors.

Barbados

1. Main trends

The Barbados economy reversed its economic decline of the past two years registering a positive rate of growth in 2003 (2.2%) and has maintained this trend in the first quarter of 2004 (4.2%). The main contributors to growth in 2003 were tourism (7.7%), wholesale and retail trade (3.1%) and construction (2.9%). During the first three months of 2004 growth was again largely due to the performance of tourism (7.1%), wholesale and retail trade (4.8%) and construction (3.0%).

The economic recovery had a positive effect on tax revenues which, jointly with the restriction on government expenditure, permitted the reduction in the fiscal deficit (5.6% and 2.5% of GDP for FYs 2002/2003 y 2003/2004)³⁰. The fiscal position improved in the first quarter of 2004 as the government registered a surplus.

At the same time the financial sector recorded an increase in the stock of external net assets and, as a consequence, in its liquidity position. This led to a decline in the rates of interest on treasury bills, which alleviated the burden of the government's debt. The increase in external net assets is explained by the sale of the equities of a national financial institution to foreign-owned concerns.

This transaction resulted in a surplus in the capital and financial account, which financed the deficit in the current account (8% of GDP). The current account yielded a positive outcome in the first quarter of 2004, this time due to the dynamism of the tourism sector and to the decline in import growth.

For 2004, the Barbadian economy is expected to increase its rate of growth to 3% stimulated by a vibrant tourism performance. The authorities are also planning to thoroughly control the fiscal accounts and are forecasting a deficit of 2.3% of GDP. Tourism activity will improve the external position of the economy and, if international prices remain stable, the rate of inflation will remain at the level of 2003 (1.7%).

³⁰ FY denotes the fiscal year. The fiscal year begins on the 1 April and ends on 31 March. Since 1976, Barbados has a fixed exchange rate set at BD\$2 (where BD\$ refers to Barbados Dollars) per 1 United States dollar.

Table 21
BARBADOS: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
				<i>Annual rates of growth b/</i>					
Gross domestic product	2.5	3.1	4.6	6.3	0.2	2.6	-3.4	-0.5	2.2
Gross domestic product per capita	2.1	2.7	3.0	4.0	2.9	3.4	-3.2	-0.8	0.5
Gross domestic product by economic activity									
Sugar	-26.0	53.9	9.4	-25.9	11.2	9.6	-14.7	-9.8	-19.2
Non-sugar agriculture and fisheries	18.0	1.4	-7.5	-3.2	8.4	0.0	-5.8	-0.6	2.1
Manufacture	8.4	-0.9	3.8	3.4	-2.4	-0.5	-8.2	0.3	-0.8
Construction	12.1	4.0	14.2	16.9	10.0	2.6	-4.4	3.1	3.0
Basic services c/	3.5	3.1	3.2	5.4	4.5	1.4	2.7	-0.7	1.0
Other services d/	1.1	2.3	2.9	4.6	2.6	4.5	-2.2	-0.4	1.5
Balance of payments									
				<i>Millions of US dollars</i>					
Current account balance		71	-49	-62	-147	-145	-111	-171	-215
Merchandise balance		-456	-599	-651	-714	-744	-681	-702	-799
Exports fob		287	289	270	275	286	271	253	256
Imports fob		743	888	921	989	1,030	952	955	1,056
Services balance		540	550	591	571	603	570	546	581
Income account		-52	-48	-56	-71	-82	-93	-96	-93
Unilateral transfers		40	47	53	67	78	94	86	99
Financial and capital balance e/		17	67	57	184	323	333	260	402
Net foreign direct investment		10	14	15	16	18	17	17	...
Financial capital f/		7	54	42	168	305	316	130	...
Global balance		88	18	-6	37	178	223	89	187
Variation in reserve assets g/		-61	-9	6	-37	-178	-223	-89	-187
Other indicators of the external sector									
External debt (millions of US dollars)	479	481	428	453	492	605	539	755	737
External debt (% of GDP)	25.7	24.1	20.1	19.6	19.8	23.4	21.2	30.0	27.2
Employment									
Participation rate h/	68.2	68.1	67.8	67.8	67.8	68.6	69.5	68.5	...
Unemployment rate i/	19.7	15.6	14.5	12.3	10.4	9.2	9.9	10.3	11.1
Prices									
Rate of change in the consumer price index (end of period)	1.9	2.4	7.7	-1.2	1.6	2.4	2.8	0.2	1.6
Real interest rate on deposits	5.1	5.1	3.9	4.3	4.7	4.8	3.0	2.6	2.5
Real lending interest rate	11.6	11.6	11.0	11.8	11.5	11.7	10.8	10.3	10.0
Non-financial consolidated public sector									
				<i>Millions of Barbadian dollars</i>					
Revenue	1,224	1,471	1,559	1,620	1,731	1,735	1,745	1,857	1,953
Expenditure	1,373	1,523	1,596	1,688	1,828	1,949	2,005	1,994	2,094
Fiscal result	-150	-52	-36	-69	-97	-215	-260	-137	-141
Public debt									
Internal	1,762	1,987	2,037	2,141	2,134	2,204	2,333	2,605	2,615
External	359	365	350	339	389	514	680	673	667
Percentages of GDP									
Global balance	-0.7	-3.2	-1.2	-0.8	-1.4	-1.9	-4.1	-5.6	-2.5
Money and credit									
				Percentages of GDP					
Domestic credit	60.9	62.5	62.6	63.7	66.9	68.1	71.4	74.0	73.0
To the public sector	13.7	14.5	15.9	14.1	12.6	12.5	13.4	15.4	17.6
To the private sector	47.1	48.0	46.7	49.6	54.4	55.6	58.0	58.5	55.4
Money supply and deposits in domestic currency (M2)	54.3	58.8	56.7	58.3	61.8	64.3	69.4	76.7	...

Source: ECLAC, on the basis of official information

a/ Preliminary data.

b/ On the basis of constant 1974 prices.

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

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

e/ Includes errors and omissions.

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

g/ The sign (-) denotes an increase in reserves.

h/ Economic active population as a percentage of the working population.

i/ Rate of unemployment as a percentage of the economic active population. Includes hidden unemployment.

2. Economic policy

2.1 Fiscal policy

The fiscal deficit (2.5% GDP) for FY 2003/2004 was half the amount (5.6%) for the previous financial year 2002/2003 and was within the fiscal deficit target of 4.8% set by government. The size of the deficit for 2002/2003 resulted from the pursuit of counter cyclical policy to stimulate the economy in light of the recession during 2001-2002. The improvement in the overall fiscal balance for 2003/2004 was due to a combination of tax and expenditure measures.

Government revenue increased in 2003/2004 by 7.8% over the financial year 2002/2003. This was due largely to the increase in indirect taxes: Value added (VAT) and excise taxes which grew by 15.7%; property taxes which grew by 10.2% and international trade taxes which grew by 21.2%. Current expenditure increased at about the same rate as current revenue (7%) resulting mainly from current transfers, which increased by 27.5% over the same period. However, expenditure on wages and salaries and on goods and services actually declined by 10% and 8%, respectively, reflecting reclassification of expenditure in relation to the Queen Elizabeth Hospital (QEH) as a transfer of the central government.

In contrast to current expenditure, capital expenditure declined by 22% due to the reclassification of the said hospital, the completion of infrastructure projects, and the adoption of expenditure restraint measures. Debt payments increased by 13.5% largely on account of the significant rise in amortization payments by 31.2%. The outflow of amortization payments more than offset the inflow of project funds and resulted in a net outflow of foreign financing.

Fiscal policy has been focused on fiscal deficit sustainability and on tax reform in keeping with obligations regarding tax harmonization, which is one of the requirements for the functioning of the CARICOM CSME. The tax reform measures consist in the reduction in both the basic and marginal tax rates and in a widening of the tax-free threshold, which would effectively increase disposable income. The basic tax rate is to be reduced from 25% to 22.5% in 2003 and to 20% in 2004. The marginal tax rate will be reduced from its present level of 40% to 37.5% in 2005 and 35% in 2006. The tax-free threshold will be raised from BD\$15,000 to BD\$17,500 in 2004 and eventually to BD\$25,000 in 2007. The corporation tax rate will also be adjusted downwards from its present level of 40% to 25% by 2007. Government also adjusted the land tax to grant tax exemption in respect of residential properties with an improved value of BD\$125,000.

The public debt at the end of 2003 was BD\$4.43 billion compared to BD\$4.46 billion at the end of the previous year. The total domestic debt of BD\$2.96 billion was twice that of the foreign debt (BD\$1.47 billion), which declined by 2% in 2003 or from BD\$1.51 billion the end of 2002. Domestic debt remained relatively stable in 2003. Most of the domestic debt was in the form of short-term treasury bills and long-term debentures. The total national debt represented 82.2% GDP at the end of 2003 compared to 88.7% GDP at the end of 2002. The objective of government is to reduce the debt/GDP ratio to 60% over the medium to long term.

2.2 *Monetary and exchange rate policies*

During 2004 the Barbadian economy maintained a secure liquidity position which, jointly with the prospects of increased growth, allowed the authorities to reduce the rate of interest on deposits by 25 basis points (from 2.5% to 2.25%). The aim of this measure was to prevent the imposition of a floor on the term structure of interest rates. More precisely it will facilitate the reduction in the lending rates of interest which in turn will encourage the expansion of output by decreasing businesses operating costs.

This monetary stance is in line with that adopted since the beginning of 2000. In spite of its limited flexibility as a result of the adoption of a fixed exchange rate regime, monetary policy has been geared toward the liberalisation of interest rates and current and capital account transactions. The Central bank had been setting an indicative weighted average lending rate for commercial banks since August 2001 to influence the downward movement of interest rates and hence to stimulate economic growth. Commercial bank weighted average lending rates declined from 11.4% to 10.4% between September 2001 and January 2003. Commercial bank prime lending rates also declined from a range of 9.5% - 10% to a range of 6.75% - 8.5% over the same period.

In 2003, the increase in the stock of net international reserves (BD\$1,711 and BD\$2,085 millions in 2002 and 2003) as a consequence of the sale of equities of a commercial bank to a foreign-owned firm resulted in an increase in the liabilities of the banking system (8%) and thus of the monetary aggregates, notwithstanding the contraction in the credit to the public system (-9.2%). Concomitantly the money base and the money supply (M2) expanded by 7%.

The rise in liabilities was not matched by an increase in assets due in part to a weak loan demand from the private sector (9%) and as a result the liquidity of the financial system improved. The coefficient of excess liquidity rose from 17.8% to 20.9% between 2002 and 2003.

Within this context banks adopted a loan policy characterized by risk aversion translating into a meagre variation in lending interest rates (10.35% and 10.16% for the weighted average on total loans of the commercial banking system in 2002 and 2003). Instead, the financial system used its liquid resources to purchase Treasury Bills and, as expected, their yield declined (1.5%, 0.6% and 0.4% in December 2002, December 2003 and February 2004). The Central Bank expects that liquidity in the banking system will remain high during 2004 on account of acquisitions by financial institutions.

The Barbadian Government has also embarked on a gradual liberalisation of current account transactions by removing most of the restrictions on payments for goods and services. Remaining restrictions are to be removed during 2004. Capital account transactions are also being gradually liberalized within the context of the CSME. In January 2004, controls were removed on investments in equities in corporate securities (excluding government securities) cross-listed and cross-traded on stock exchanges within CARICOM. It is proposed to remove all controls on capital account transactions within the CSME by 2006. This policy of liberalization will pose a significant challenge to the monetary authorities given the commitment to maintain a fixed exchange rate.

3. Evolution of main variables

3.1 *Economic activity*

Real economic growth recovered in 2003 at 2.2% from declines in 2001 and 2002 of 3.4% and 0.5%, respectively. Growth was fuelled by activities in both the traded and non-traded sectors. The main contributors to growth were tourism, fisheries, distribution and construction and non-tourism services. The declining growth trend of tourism observed in 2001 and 2002 was reversed in 2003 resulting in growth of 7.3 percent. Mining, however, continued its declining growth, which started in 2000.

Agriculture production grew modestly by 2.2% largely on account of significant growth in fish production, which was 9.3% in 2003. However, the growth in fish production is estimated to fall to 1.4% in 2004 and agricultural production to grow by less than 1%. Sugar production which contracted by 19.2% in 2003 is estimated to increase by 5.6% in 2004.

The government's intention is to reverse the declining trend in agriculture and double its contribution to output because of the importance of agriculture to employment, food security and rural development as a whole. A number of initiatives are being pursued such as determining alternative uses for sugar cane and developing an integrated sea-island cotton industry. Research is being done on six hectares of high-fibre sugar cane to determine its viability as a source of fuel. Sea Island cotton has been produced over the last 2 years with a view toward producing the raw material as well as the final goods in the industry. Instruments used to stimulate agriculture development include price support, rebates on the cost of product development, issuance of government guaranteed bonds and capital contributions to research and development.

Manufacturing growth declined by 0.8% in 2003 thus continuing its trend of decline from 1999, which was interrupted by marginal growth of 0.3% in 2002. The prospects for manufacturing would depend on its ability to compete within liberalized regional (CSME) and hemispheric (FTAA) environments. Government's objective for the manufacturing sector is to increase output by 5-10% and exports by 15-20% over the next three years (2004-2006). Incentives to be provided to the sector include technical assistance through the Barbados Industrial Development Corporation (BIDC), capitalization of the Industrial Investment and Employment Fund (IIEF) and a special corporation tax for manufacturers, which is essentially a faster and further reduction of the general corporation tax.

The declining trend in tourism growth in 2001 and 2002 was reversed in 2003 by growth of 7.3%. Further developments in addition to the new Tourism Development Act are being pursued to upgrade tourism facilities, as the tourism sector is still envisaged as the main engine of economic growth. These include projects to develop and improve the infrastructure: streets, water quality, beach quality, the national airport and environmental aesthetics; as well as building new investment capacity and effective marketing of the tourism product.

3.2 *Prices, wages and employment*

In 2003 the rate of inflation increased with respect to the previous year (0.2% and 1.6% in 2002 and 2003). The increase was due to price rises mainly in the areas of food, medical and personal care and transportation.

The rate of inflation is expected to increase in 2004 in light of Cabinet approval of an increase in the price of petroleum products in accordance with the government's policy that prices should reflect the increased cost of imported products. Although oil prices have been increasing on world markets since the increase in 2003 of petroleum products in Barbados, government has been absorbing the increased cost of imports resulting in significant losses incurred by the Barbados National Terminal Company Limited (BNTCL). Inflation is therefore likely to exceed the rate of 1.5% recorded for January 2004, given the price increases and the country's dependence on imports of petroleum products to meet most of its fuel requirements.

The unemployment rate increased from 10.3% at the end of 2002 to 11.1% at the end of the second quarter of 2003. Fewer women (61.9 million) were employed at the end of 2003 than at the beginning of the year (62.6 million). On the other hand, about the same number of men (67.5 million) were employed at the end of the year as at the beginning (67.1 million). Most of the employed labour force is in the areas of services (including government and tourism), distribution and construction.

3.3 *Evolution of the external sector*

The global result of the balance of payments was positive (-3.5% and 7% of GDP in 2002 and 2003) since the deficit on the current account (8% of GDP) was more than compensated by the surplus in the capital and financial account (8.7% of GDP).

The deficit on the current account widened (\$171 and \$215 million in 2002 and 2003) due mainly to the decline in exports (-1.5%) and the corresponding increase in imports (10.5%). Domestic exports have been on the decline since 2000. The performance of sugar has largely determined the trend in domestic exports. Although sugar exports increased in 2003 after three consecutive years of decline, the increase could not offset the significant decline of exports in the food and beverage category. Most other manufactured exports declined over the period in question.

The expansion of imports was stimulated by the reduction in personal income tax, which increased disposable income, as well as by the upturn in tourism. Imports of consumer goods increased by 8.1% during 2003 compared with an increase of 0.5% in 2002. For their part imports of intermediate and capital goods grew by 14%.

For 2004, imports of consumer goods are expected to grow by 10.7% and overall continued liberalization of trade and payments will contribute to import growth in the future.

The capital and financial account of the balance of payments recorded a surplus of \$235 million in 2003 compared with a surplus of \$147 million in 2002. The significant increase in the

surplus was due largely to long-term capital inflows that resulted from the divestment of shares in a commercial bank. Long-term public as well as private capital inflows are expected to decline in 2004 resulting in a reduction of the surplus on the account by 21%. The surplus on the overall balance-of-payments account is expected to decline to \$30 million in 2004 from \$187 million in 2003.

Belize

1. Main trends

In 2003, Belize maintained the previous year's rate of growth (4.4%). The economic performance benefited from the important recovery of agriculture and tourism reflected in the latter's case in the exponential increase of cruise ship passengers.

The level of activity did not increase tax receipts which, jointly with the expansion of expenditures due to higher interest payments to comply with international obligations, resulted in a fiscal deficit which almost tripled the one registered in the previous year (3.7% and 10.8% of GDP in 2002 and 2003). The fiscal imbalance was financed through external sources. As a result, the country's external debt stock increased (62% and 76% of GDP in 2002 and 2003).³¹

The expansionary fiscal stance exerted pressure on the level of international reserves which was aggravated by the government's purchase of half of the interests of the Telecommunications Company of Belize. This transaction was reflected in the reduction of the surplus in the capital and financial account preventing it from fully financing the current account deficit (18% of GDP).

The overall loss in international reserves affected the liquidity of the banking system forcing the Central Bank to act as a lender of last resort. Ultimately, the commercial banking system stepped in to increase the deposit rates while, at the same time, decreasing the lending rates. Both measures were aimed at increasing the demand for loans and the stock of deposits of the commercial banking system.

The authorities remain optimistic for 2004, expecting a real growth rate between 4% and 5%, with once again strong increases of up to 30% in cruise ship arrivals and increases in all major domestic crops meant for export. The government also aims at fiscal tightening and increased tax efficiency to reduce the budget deficit.

³¹ All figures, unless otherwise noted, are denoted in Belizean dollars, which are traded to the US\$ at a ratio of 2:1. The official rate of the Belizean dollar to the US dollar is held at BZ\$2:US\$1, however in effect, a multiple exchange rate system is operational in Belize, where higher rates have been observed in unofficial markets: despite the importance to the authorities of maintaining the official rate, several 'cambios' have been licensed to sell at rates up to BZ\$2.15:US\$1. They are however required to collect and submit information on currency transactions, as well as yield part of their earnings at the official rate to the Central Bank

Table 22
BELIZE: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	3.8	3.6	4.5	1.8	1.8	8.8	4.2	4.4	4.4
Gross domestic product per capita	1.4	0.8	2.1	-0.9	4.3	8.5	2.4	1.6	2.4
	<i>In US dollars</i>								
Gross domestic product per capita	...	...	...	2 895	3 014	3 330	3 398	3 525	3 646
Gross domestic product by economic activity									
Agriculture and fishing	7.7	14.3	11.9	-9.2	50.7	7.3	-1.7	3.6	8.6
Mining and quarrying	7.5	-3.2	-4.1	-4.1	55.3	23.3	3.3	-5.4	1.6
Manufacturing	4.4	0.3	2.7	-2.9	6.2	24.2	-0.7	1.5	-1.9
Construction	1.1	-9.5	1.0	-1.7	47.2	38.9	-1.7	5.2	-17.2
Electricity and water	3.2	1.9	9.8	13.4	177.4	9.9	0.4	2.3	-2.9
Transport and communications	4.4	5.5	-2.9	2.4	15.0	12.5	11.8	11.2	-2.5
Trade, hotels and restaurants	2.5	-1.4	8.2	6.6	67.0	12.1	7.6	4.0	-0.3
Banks and insurance	4.7	3.4	7.0	9.5	131.4	-2.9	12.9	9.6	2.8
Community, personal and social services	2.6	2.5	3.6	3.5	84.9	1.6	1.5	1.7	-2.6
Balance of payments	<i>Millions of US dollars</i>								
Current account balance	-17	-7	-32	-60	-66	-131	-185	-163	-181
Merchandise balance	-66	-58	-90	-105	-124	-191	-214	-190	-209
Exports fob	165	171	193	186	213	212	275	310	316
Imports fob	231	230	283	291	337	404	489	498	526
Services balance	38	47	46	41	53	53	53	53	74
Income account	-22	-26	-23	-32	-44	-54	-72	-76	-90
Unilateral transfers	33	31	35	36	49	62	48	47	45
Financial and capital balance c/	21	27	33	46	90	96	181	159	144
Net foreign direct investment	21	11	8	13	47	18	60	25	29
Financial capital d/	0	16	25	33	43	78	122	134	118
Global balance	4	21	1	-14	25	-35	-3	-6	-35
Variation in reserve assets e/	-4	-21	-1	14	-27	-52	3	6	30
Other indicators of the external sector									
External debt (millions of US dollars)	...	...	...	260	252	434	487	575	750
External debt (% of GDP)	...	...	...	38	35	52	56	62	76
Employment									
Unemployment rate	..	..	...	14	13	11	9	10	13
Prices									
Rate of change of the consumer price index (december to december)	2.9	6.4	1.0	-0.8	-1.2	0.6	1.1	2.3	2.6
Weighted deposit real interest rate	4.2	-0.2	5.6	6.0	5.8	5.0	4.3	4.4	4.8
Weighted lending real interest rate	13.0	9.2	15.4	16.4	16.5	15.7	15.2	14.2	13.8
Central government	<i>Millions of Belize dollars</i>								
Current revenues	275.3	311.3	313.5	358.8	431.4	434.3	520.6	479.1	472.0
Current expenditures	233.0	242.2	252.7	264.9	291.3	297.4	334.7	352.2	370.1
Savings	26.3	41.0	35.2	37.2	46.1	41.4	91.0	59.4	63.2
Capital account f/	63.3	51.3	51.8	60.0	97.3	136.9	174.7	209.4	103.3
Primary balance	-13.8	14.7	7.9	1.9	-20.9	-53.9	-31.9	-86.0	24.2
Global balance g/	-37.0	-10.3	-16.5	-22.7	-51.1	-95.5	-83.6	-149.9	-40.2
	<i>Percentages of GDP</i>								
Global balance with grants	...	...	...	...	...	...	-8.2	-3.7	-10.8
Global balance without grants	...	...	...	...	...	...	...	-5.4	-10.9
Money and credit	<i>Percentages of GDP</i>								
Domestic net credit	47.4	49.7	53.7	44.5	47.0	45.6	50.7	52.9	60.0
Public sector	3.2	3.5	2.4	1.6	2.7	3.7	4.0	3.0	1.9
Private sector	44.2	46.1	51.3	42.9	44.3	41.9	46.6	49.8	58.0
Money supply (M2)	59.8	61.4	68.0	55.7	57.4	58.1	60.0	57.4	55.7

Source: ECLAC, on the basis of official information.

a/ Preliminary data.

b/ At 1979 constant prices.

c/ Does not include errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

f/ Includes donations.

g/ Includes interests.

2. Economic policy

2.1 Fiscal policy

Due to the government's expansionary policy, the budget deficit has been sizeable over the last years.³² The deficit fell to 3.7% of GDP in 2002, following a deficit of 8.2% of GDP in 2001. However, with expenditure increases up by 10.7% and revenue down by 15.3%, an overall deficit of BZ\$212.9 million emerged in 2003, amounting to 10.8% of GDP. This deficit was, to a large extent, financed by external sources and as a result the stock of external debt rose from 62% to 76% of GDP. To address the current fiscal situation, the government aims to strengthen tax collection and increase the sales tax by 1 percentage point to 9% in February 2004.

Total revenue and grants decreased by 15.3% due mainly to the contraction of non-tax revenues (-35.5%) reflecting the repayment of old loans and the significant reduction of official grants (-89%). For its part, tax revenue increased 4.6% responding to the positive performance of income and profits taxes and of taxes on good and services. Contrarily, the receipts from international trade taxes yielded a paltry 0.6% due to the low rate of growth of imports and the extension of tax exemptions to firms operating in free trade zones.³³

Current expenditure expanded (21.7%) managing to offset the decline in capital expenditure (-3.2%). The behaviour of the former responded to interest payments on public debt, which rose by three quarters, increasing 5 percentage points to 13.9% of total expenditure and emoluments, due to an increase in pay granted to various government employees amounting to increased expenditure of 21.6%, up 5.5 percentage points to 61.6% of total expenditure. The purchase of goods and services increased by a similar amount (20.3%), representing 11.3% of total expenditure.

The evolution of capital expenditures reflected an increase of 98.8% in net lending to the Development Finance Corporation (DFC), totalling BZ\$33.2 million, which was more than offset by the decrease in Capital III³⁴. As a result total capital expenditure amounted to BZ\$252 million, down from BZ\$260.3 million in 2002. Approximately a quarter of these funds went to strengthen development of the economy's infrastructure; increase hurricane preparedness and finance land reclamation and acquisitions as well as fund the University of Belize and its National Museum.

³² Whilst the fiscal year ends in March, figures here pertain to calendar years, unless stated else wise.

³³ One should note that trade taxes could have been strengthened, had duty-exemptions not been awarded in such an extent to EPZs (imports were up 11%, see section on trade below).

³⁴ In Belize's fiscal accounts, capital expenditure is subdivided into Capital expenditures II and III. The former and the latter are financed with internal and external sources respectively.

2.2 *Monetary and exchange rate policy*

In 2003, the narrow and expanded money supply grew marginally (1% and 3.6%). This result is explained by the contraction in the stock of external net assets (-48%) which amply compensated the increase in internal net credit (19%). The main recipients included construction, mining and the tertiary sectors, and the banana subsector (15%, 50% and 23% and 24%, respectively).

The loss in the stock of net international reserves is explained in part by the payment of external debt obligations and the acquisition by the government of 50% of the shares of the Telecommunications Company of Belize. Part of the explanation also lies in the increased substitution of offshore banks for national commercial banks to administer the financial transactions of free trade zone firms.

The decline in international reserves affected the liquidity position of the financial system. After increasing during the first quarter, liquidity tightened during the second and third quarters. In fact, excess statutory liquidity reached a six-year low in October of BZ\$18.9 million. The existing situation forced the central bank to act as the lender of last resort. Overall, excess liquid assets closed 15.8% lower compared to the beginning of the year.

Under these conditions the commercial banking system reduced its banking spread by increasing the deposit rate of interest while decreasing the lending rate. Both measures allowed the financial system to improve its liquidity position. The nominal weighted rate of interest for commercial bank loans and for residential investment was reduced from 14.3% to 13.9% and from 13.3% to 12.4% between 2002 and 2003. For its part the weighted deposit nominal rate of interest rose from 6.5% to 7.2%. Overall the intermediation margin fell from 10% to 9.3% for the same period.

In April 2004, the monetary authorities decided to reinforce the policy stance adopted the previous year and the reserve requirement for domestic banks was reduced by 5% to 19%. This was facilitated by the fact that the 5% of mortgages are no longer classifiable as liquid assets.

3. *Evolution of the main variables*

3.1 *Economic activity*

Economic activity maintained the rate of growth of the previous year (4.4%).

This performance was largely fed by the expansion of primary sector-related activities. For its part, agricultural output (3.6% and 8.6% in 2002 and 2003) benefited from higher harvests of grain notwithstanding the contraction in sugar and citrus production. For the medium term it seems likely that sugar production will remain stable, with considerable growth potential for bananas, citrus as well as shrimps.

Due to drought, the 2002/2003 sugar crop decreased by 6.7%, amounting to 1,073,339 long tons: an unfortunate development given the price increase from approximately \$39.35 per long ton of sugarcane to \$44.09. Citrus production contracted by 4.2%, due in part also to drought during the first quarter of 2003, as well as pestilence and inappropriate inputs of farmers. However, the citrus crop is expected to rebound in 2004, with output estimated to increase by 18.5% to 6.4 million boxes.

The harvest of oranges fell by 1.8% to 4.1 million boxes, as did that of grapefruits, which contracted somewhat more relatively by 12.4% to 1.1 million boxes. On the other hand, however, banana output increased substantially, rising 60% to 4 million boxes in 2003. Total cultivation acreage for bananas decreased over the year, however, the total area producing increased by 8.3% to 5,729 acres. In addition, to benefit from higher international prices in the first half of the year (when the European market fetches higher prices), part of production was shifted: the first 6 months of 2003 contributed approximately 46% of annual output, compared to a usual proportion of approx. 37%.

In regard to grains, whilst output of sorghum production decreased by 24.3% to 20.2 million pounds, output of soybean increased by 70.8% to 3.5 million pounds, rice by 11.1% to 26.8 million pounds and production of red kidney beans more than doubled. Livestock production was also higher across the board, with cattle, milk and pork production each higher (by 10.7%, 8.2% and 9.2% respectively, reaching 4.5 million pounds, 9 million pounds and 2.3 million pounds respectively), whilst poultry declined by 4.5% due in large to a heat wave.

Against a backdrop of a decrease in wild shrimp capture of 37% - due to a delay in trawler activities - output of farmed shrimp doubled (22.3 million pounds) and catches of conch increased by 18.2%. This led to an overall increase in the output of marine products by 111%. Shrimp volumes are expected to increase in 2004 once again by 5.6%, whilst conch is expected to grow by 11.1%.

The performance of the manufacturing sector (1.5% and -1.9% in 2002 and 2003, respectively) responded to the decline in sugar production (6.2%) which was in part due to the decrease in output and hence deliveries. However, the contraction was also due to poor harvesting practices of the farmers, as deliveries had a higher high mud content, decreasing the grinding rate of factories by 1.5%.

Despite the drop in several outputs, and hence a 4.2% contraction in deliveries to factories, production of juices increased by 3.4% due to higher yield and due to increased factory efficiency.

Sugar production, on the other hand, decreased 6.2% to 104.33 long tons, which was in part due to the decrease in output and hence deliveries.

Of concern to the manufacturing sector is the fact that competitiveness, particularly food-processing, is hampered by tariffs on inputs, which makes final output expensive and hence relatively uncompetitive. In addition, the issue of non-standardisation of norms in CARICOM has been voiced as effectively non-tariff-barriers to trade.

Tourism has undergone a dramatic expansion over the last years; whilst total stopovers increased by 10.5% in 2003, following a marginal increase of 0.6% in 2002, cruise ship arrivals have exploded since the 9/11 events, increasing more than tenfold between 2001 and 2003 (2002 saw a growth rate of more than fivefold and increased once again by 79.9% in 2003), with a total of 488,917 cruise ship passengers disembarking at the ports and 197,746 stay over tourists arrivals. This increase is no doubt due to increased fears vis-à-vis travel, particularly air travel, as the United States accounts for 62.9% of all tourists, with Europeans comprising 12.7% of all arrivals.

Whilst this development has spilt over to the hotel and restaurant subsector, expanding by 8%, the wider benefits of the large number of cruise ship arrivals remain to be seen. For one, cruise ship arrivals tend to spend considerably less money than stay over passengers (average revenue per cruise ship arrival was approximately BZ\$91, whilst that of stay over passengers was BZ\$1,245). In addition, experience from other countries in the region has shown that the benefits of cruise ship arrivals are often captured by a small part of the local economy.

3.2 *Prices, wages and employment*

The rate of inflation maintained the level of the previous year (2.3% and 2.6% in 2002 and 2003) in consonance with the level of economic activity, the restrictive monetary policy and the price stability that prevailed in the United States. The increase in the international price of oil was not fully reflected in the rate of inflation as the government decided to transfer, only partially, the increase in the cost of fuel to the consumer prices.

The decomposition of the price index in its different categories shows that transport and communications which have the largest weight in the index also registered the largest increase (5%) followed by rent, water and fuel (3.1%). This last category was also affected by the government's decision to increase the price of butane gas and to change the unit of measurement of water from gallons to meters.

The rate of unemployment increased (10% and 13% in 2002 and 2003) due to productivity gains in the primary sector (fish and bananas) that were not accompanied by an equivalent rise in the creation of jobs. In this way, while the labour force expanded by 9% the number of employed rose only 5%. Agriculture, retail and wholesale trade and tourism were the main job creating sectors (19%, 17% and 11% respectively).

3.3 *The evolution of the external sector*

The external position of Belize deteriorated as the current account deficit rose by 0.5% of GDP to an estimated 18.3% of GDP at the end of 2003. This deficit was financed both by drawing upon the stock of net international reserves (B\$60 million), reducing the import cover to an average of 2.1 months from 3.2 months in 2003, as well as by large net capital and financial inflows.

The trade balance recorded a deficit similar to the previous year (21% of GDP). This responded to the decline in re-exports of the free trade zones situated in Corozal (-21%) which

compensated the rise in external sales of traditional products (22%) and to an expansion in imports that kept pace with the level of economic activity.

The contraction in free trade export zones reflected the improved price conditions offered for the purchase of fuel by Mexico relative to Belize³⁵. This translated into a process of trade deviation from the latter to the former.

The performance of traditional products responded to the significant increase in maritime exports (58%) and in particular of shrimp which replaced citrus juices as the country's leading export good accounting for almost a quarter of all export revenue. Citrus juices which represent 21% of total exports suffered a contraction (-2%) due to the decline in their international process. For its part, sugar, which is the country's third export product, witnessed an increase in its export value (8%) due to the rise in the international prices of the commodity which compensated the fall in its volume (-7%). The export result of citrus and sugar was also shaped by the significant increase of CARICOM's market share in Belize's sugar exports (119%).

The decline in sugar exports to the European Union and the United States, which are Belize's largest markets, represents a favourable development not only because of the higher prices fetched in CARICOM, but also in view of the gradual phasing out of special differential treatment which the European Union grants African and Caribbean countries. In fact, Belize looks to be equipped to turn into a major sugar supplier of the Caribbean, well placed to benefit from the decline in sugar output of its Caribbean competitors.

A further important export item is bananas. Exports jumped 57% over the year, following recovery from Hurricane Iris, varied production timing as well as developments in the sector. Part of this is no doubt was due to various industry actions (introducing a two-tier pricing system alongside penalties for sub-standard quality), which have created a conducive environment. In fact, the sector's recovery has been so strong that the country is purchasing licenses from the OECS, having already reached its 50,000 tonne limit to the European Union. All in all, the country's current competitiveness in producing bananas has placed it in a position – unlike other Caribbean economies – to face external competition once the Cotonou agreement expires in 2006.

The performance of merchandise imports (16%) was determined by the fuel import bill due to the increase in its international price, the purchase of capital equipment necessary for the establishment of a new telephone company, the expansion in the productive capacity for the processing of citrus and the required inputs for farmed shrimp (10%).

The services balance widened its surplus due to the dynamism of the tourism sector (\$53 and \$74 million). The capital account saw a large outflow of funds during 2003 (\$48 million). This was largely due to funds paid for purchase of shares of the Belize Telecommunications Company, as well as a large decrease in transfers received by the private sector, which fell 90.6%.³⁶ The financial account's surplus (\$144 million) is explained by the proceeds of the

³⁵ Mexico removed a tax on the purchase of fuel.

³⁶ However, the funds received by the private sector are now only partially lower than in 2001, as the 2002 figure was inflated by a BZ\$16 million loan to citrus processors by the CDC.

placement of a bond in international capital markets equivalent to \$100 million and to the net loans supplied by the commercial banking system.

Guyana

1. Main trends

Following marginal growth of 1.1% in 2002, real output contracted by 0.6% in 2003. Unforeseen slippage in the output of two key sectors - sugar and gold - dampened overall activity so that the projected 1.2% growth rate could not be met.

With the contraction in growth, the buoyancy of tax receipts weakened leading to slower growth in fiscal revenue which, in conjunction with a decline in the flow of grants that Guyana receives within the Highly Indebted Poor Country (HIPC) initiative, increased the fiscal gap (-5% and -10% in 2002 and 2003), including grants. The government financed its fiscal disequilibrium with external resources which increased the country's debt stock.

The contraction in economic activity and a monetary stance that did not modify the existing level of real interest rates and the consequent stagnation in the demand for credit facilitated the build up of liquidity in the financial system. The financial system used its excess liquidity to hold positions in external assets and treasury bonds.

In accordance with the prevailing macroeconomic context, the rate of inflation declined (6.1% and 4.9% in 2002 and 2003) and the rate of exchange remained stable.

On the external front, Guyana managed to reduce its balance of payments deficit (3.5% and 1.3% of GDP in 2002 and 2003) due to the improvement of its current account (-14.8% and 11.4% of GDP in 2002 and 2003) and, in particular, as a result of the paltry import growth since the outcome on the capital account deteriorated.

The economy is forecasted to rebound in 2004 with a 2.5% real economic growth. Real value added is expected to be driven by higher activity in all sectors except quarrying and mining, which would be affected by the depletion of economic reserves at a major gold mine. Inflation is projected to moderate slightly to 4.5%. Finally, the fiscal deficit is projected to increase slightly (10% of GDP) while the current account deficit would reach 15% of GDP.

Table 23
GUYANA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	5.1	7.1	7.1	-1.7	3.0	-1.4	2.3	1.1	-0.6
Gross domestic product per capita	4.6	6.5	6.5	-2.1	2.4	-1.8	1.9	0.9	-0.8
Gross domestic product by economic activity									
Agriculture	8.4	5.1	24.0	-6.4	14.6	-10.2	3.7	-11.6	-2.3
Mining and quarrying	-11.4	15.2	15.0	2.7	-8.4	5.9	4.2	-6.9	-8.7
Manufacturing	9.4	3.9	-39.4	-10.6	6.7	-11.7	0.0	2.0	-0.5
Construction	9.7	14.0	13.1	4.7	-10.0	6.6	2.0	-3.9	5.6
Basic services c/	9.6	10.9	8.9	-3.1	2.1	7.1	5.4	4.5	4.9
Other services d/	5.4	6.1	5.3	1.3	-0.8	5.1	0.9	0.4	1.4
Balance of payments									
	<i>Millions of US dollars</i>								
Current account balance	-135	-69	-111	-102	-78	-115	-134	-154	-84
Merchandise balance	-41	-20	-48	-54	-25	-80	-94	-68	-55
Exports fob	496	575	593	547	525	505	490	495	517
Imports fob	537	595	642	601	550	585	584	563	572
Services balance	-38	-23	-23	-32	-31	-24	-20	-24	...
Income account	-118	-67	-80	-60	-61	-58	-64	-55	-50
Unilateral transfers	62	41	40	44	39	47	44	40	40
Financial and capital balance e/	92	81	110	89	100	156	160	82	74
Global balance	74	59	52	44	46	67	56	0	...
Variation in reserve assets f/	17	22	58	45	54	88	104	27	...
	-43	12	-2	-13	22	40	26	236	-10
Other indicators of the external sector									
External debt (millions of US dollars)	2 058	1 537	1 513	1 516	1 210	1 195	1 193	1 246	1 084
External debt (% of GDP)	391.2	263.9	242.8	276.9	207.8	204.2	201.3	165.2	172.2
Prices									
Rate of change in the consumer price index (end of period)	8.1	4.5	4.2	4.7	8.7	5.8	1.5	6.1	4.9
Rate of change in the nominal exchange rate	-1.6	0.6	1.8	14.0	10.2	2.4	2.6	1.2	2.0
Real small savings rate	8.1	7.4	7.1	6.7	7.3	6.9	6.6	4.0	3.3
Real weighted lending rate	15.7	17.7	17.6	17.5	16.4	16.7	17.3	15.9	14.8
Central government									
	<i>Millions of Guyana dollars</i>								
Current revenues	29,496.1	35,117.3	34,082.9	33,121.1	36,838.9	41,334.6	41,427	44,558.4	51,287.6
Current expenditures	35,314.2	39,649.2	44,460.2	43,280.8	44,184.7	57,779.1	63,564.2	63,827.9	104,231
Capital account balance	8,607.5	12,760.8	13,631.2	10,243.6	7,430.5	10,331.6	8,523.9	4,238.2	12,281.3
Primary result	-2,886.1	-1,587.2	-7,629.5	-7,317.2	-2,431.1	-9,643.3	-2,462.8	2,875.3	-4,263.8
Global result g/	-2,886.1	-1,587.2	-7,629.5	-7,317.2	-2,431.1	-9,643.3	-14,150.7	-7,832.4	-4,794.9
Global balance with grants	...	...	...	...	...	...	...	-5.4	-9.5
Global balance without grants	-3.9	-1.9	-8.5	-8.1	-2.3	-8.9	-12.6	-13.3	-34.7
Money and credit									
	<i>Percentages of GDP</i>								
Domestic net credit	11.2	17.6	26.7	35.3	22.7	23.2	24.5	19.8	18.7
To the public sector	-15.0	-23.4	-19.3	-15.7	-25.4	-23.9	-21.5	-15.2	-9.1
To the private sector	28.6	44.1	50.0	57.3	53.1	54.3	52.8	40.9	35.1
Money supply and deposits in national currency (M2)	66.7	70.0	71.7	75.9	73.3	79.1	82.8	67.8	76.8

Source: ECLAC, on the basis of official information

a/ Preliminary data.

b/ On the basis of 1988 constant prices.

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

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

e/ Includes errors and omissions.

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

g/ Includes interests.

2. Economic policy

2.1 Fiscal policy

In 2003, the deficit of the central government was, if grants are excluded, similar to that of 2002 (13% of GDP). This resulted from an unchanged tax effort and government expenditure in relation to the previous year (29% and 46% of GDP, respectively).

The behaviour of total revenues reflected the meagre dynamism of all the different tax categories explained in turn by the stagnation in economic growth. In this way, the revenues of the income, consumption and international transactions taxes increased by 2.9%, 4.2% and 5.1%, respectively.

The effect of the tax reforms initiated during the year was not fully reflected in the fiscal accounts and the authorities foresee that their full impact will be felt in 2004. The reforms included the Fiscal Enactments Amendment Bill, which eliminated discretionary grant of tax exemptions, except on humanitarian grounds and introduced a tax on services provided by professionals. Also, the income tax threshold was raised from G\$216, 000 to G\$240,000 per annum.

The evolution of total expenditures reflected higher outlays on personal emoluments, severance payments to bauxite workers (up by \$1.5 billion in 2003) and increased spending on goods and services and transfers (7% and 8% of GDP in 2002 and 2003). These higher outlays were partly dampened by a 17.2% reduction in debt service payments to \$8.9 billion (7.7% and 6.1% of GDP in 2002 and 2003).

For its part the capital account expenditures (11% and 12% of GDP in 2002 and 2003) responded to improvement in infrastructure, including road improvement, rehabilitation of airport runway repair to the sea defence system and upgraded drainage and irrigation in agriculture.

If the reduction in the flow of grants within the framework of the HIPC initiative is taken into account (G\$8,701 and G\$5,750 million in 2002 and 2003) which resulted from a change in the method of calculation of debt relief, the deficit of the central government actually increased (-6% and 10% of GDP in 2002 and 2003).

The deficit was financed by net external borrowing. As a result, the external debt stock reached 172% of GDP (169% of GDP in 2002).

2.2 Monetary and exchange rate policy

In 2003 the low level of economic activity in conjunction with an adverse risk lending attitude allowed the commercial banking system to maintain the liquidity level of the previous year. Excess reserves represented close to half of the level of required reserves. In the same way the ratio of liquid assets to deposits reached 45% in December 2003 (47% in March 2004).

The nominal rates of interest (17.2% and 16.7%; 16.8% and 15.6% in December 2002 and 2003 for the weighted preferential rate of interest and the commercial bank weighted lending rate) declined offsetting the fall in the rate of inflation. As a result, the real rates of interest declined (16% and 15% for the lending rate for 2002 and 2003).

However, the demand for credit contracted (-18%) reflecting the decline of economic activity registered in the majority of productive sectors. The distribution of credit by sector of economic activity shows that loan demand fell -48%, -15%, -12% for agriculture, manufacturing, and mining and quarrying.

Within this context, commercial banks channelled their liquidity to the government paper market, purchasing treasury bills and external assets. In this way the stock of outstanding treasury bills increased from G\$23, 000 to G\$32,248 million between December 2002 and 2003 (G\$37,767 in March 2004) representing a 35% increase. For their part the stock of external net assets rose by 71% for the financial system as a whole (43% in March 2003 and 2004) with an increase in the participation of commercial banks from 24% to 34% (36% in March 2004).

The greater supply of treasury bills translated into a reduction of their yield. The rate of discount of 91, 181 and 364 day treasury bills changed from 3.91%, 4.12% and 4.91% to 3.40%, 3.37%, and 3.88% in March 2004). For their part the increase in the stock of net external assets coupled with the contraction in the net credit of the financial system to the economy (-8%) was reflected in the evolution of the monetary aggregates.³⁷

Broad money grew by 8.3% to G\$106.3 billion, compared with 2002. Savings and time deposits, which accounted for 71% of money supply, expanded by 5.1%, while currency and demand deposits posted strong growth of 16.8%. Public sector deposits were up 6%, leaving the sector as a net creditor with the banking system.

The nominal rate of exchange evolved in line with the rest of the economy and depreciated marginally by 1.3% against the United States dollar (G\$191.75, G\$195.97 and G\$196.97 in December 2002, 2003 and March 2004). The greater demand for foreign currency was reflected in a greater volume of operations equivalent to US\$2.3 billion. The Central Bank did not intervene in the foreign exchange market.

2.3 Other policies

Complementing the core macroeconomic policies, government embarked on a number of programmes and reforms aimed at institutional strengthening and modernisation. With respect to the financial sector, consultations were undertaken with the hope of implementing a deposit insurance scheme to protect savers in case financial institutions became insolvent. In addition, the Guyana National Cooperative Bank was fully privatised thereby relieving the financial burden on the treasury.

³⁷ Credit to the private sector contracted sharply by 17.2%, largely on account of the transfer of \$8.5 billion of The Guyana National Cooperative Bank (GNCB). GNCB was fully privatised during the year and the \$8.5 billion was a one-off transfer.

The government also developed an action plan with the Caribbean Technical Assistance Centre (CARTAC) to implement a value added tax (VAT). Public sector modernisation was addressed through a wide-ranging Fiscal Management and Accountability Act, which provides an up-to-date legislative framework for managing public finances, including reporting requirements and benchmarks for efficiency and transparency.

3. Evolution of the principal variables

3.1 *Economic activity*

Real output contracted by 0.6% in 2003 on account of declines in activity in key sectors.

Agricultural production contracted -2.3%. Buffeted by adverse weather conditions, sugar production declined by 7.8% to 302, 378 tonnes. All was not amiss, however, as the same weather conditions that plagued sugar favoured rice yield. Therefore, reduced sugar production was offset by a significant 23.3% rise in rice output. Nevertheless, both sectors continue to be plagued by productivity and quality management problems, which must be overcome to put them on a longer-term viable footing. The other agriculture subsectors also registered growth in activity. Livestock production was up by 4% and other agriculture was up by 2.2%.

For 2004, the authorities plan to increase the volume of sugar to 450,000 tonnes and to begin operations in the new industry of Skeldon. This will allow a reduction in production costs in the medium run and more precisely in 2007, from 17 to 9 cents per dollar.

Mining and quarrying declined by 8.7% following a contraction of 6.9% in 2002, owing largely to a drop in gold output, reflecting the depletion of workable reserves at the Fennell mine. Gold production slumped to 391,323 ounces, compared to 453,482 in 2002. Output from the Omai Gold mines dropped by a significant 16% to 285,577 ounces. Meanwhile, non-Omai production was down by 9.8%, also on account of resource exhaustion. Unfortunately, this contraction in output came at a time when gold prices on the international market were quite high, with the potential for earning significant foreign exchange earnings. Indeed, gold prices on the London market rose on average from \$280 per ounce in 2002 to \$403 in 2003. Fortunately, the slump in gold production was offset somewhat by a rather substantial (66.1%) increase in diamond output to 412,538 metric carats. This maintains a positive growth trend that has occurred over the last three years and which, it is hoped, will continue some time into the future.

Buoyed by robust demand internationally, driven by strong growth in China and the war in Iraq, bauxite output rose by 4.7%. Refractory grade production shot up by 40% to 87,203 tonnes, while chemical grade was up by 28.7% to 165,240 tonnes.

Value added in mining and quarrying is projected to weaken in 2004, by about 3%, on account of reduced gold and bauxite output (roughly 5% and 10% contractions). These declines are only expected to be partly offset by the 1.5% increase in diamonds output.

In the bauxite industry, the focus is on restructuring and privatisation of some State companies. Linmine is to be privatised in 2004, creating the opportunity for renewed investment

in the company. In addition, government is pursuing a joint venture with The Russian Aluminium Company (RuSAL) geared towards raising production of alumina. This could position Guyana to benefit from the proposed aluminium smelter that is to be established in Trinidad and Tobago.

Manufacturing value added contracted by 0.5%% in the review year after a 2 % growth in the previous year. Output of plywood plummeted by 20%, while in the food and beverage subsector there was reduced output of rum (18%), beer and stout (22.4%) and malta (30%). In the intermediate goods subsector, electricity generation was down as a result of lower generation by Guyana Power and Light in response to greater generation by large industrial users. On the other hand, bolstered by favourable market conditions, output of stock feed, cereals, aerated beverages and corrugated cartons increased in 2003. Manufacturing value added is projected to be up by about 1.5% in 2004 with higher output of beverages and plywood.

Services posted growth of 2.1% on the basis of improved activity in all sectors, except distribution. Value added in engineering and distribution increased by 5.8%, mainly on account of public investment in roads, bridges and other infrastructure. Activity in transport and communications was also up, by 5%, attributable to higher cellular phone usage, inbound minutes and parcels dispatched. Financial services were up by 1% due to higher income from financial transactions. However, distribution contracted by 2.5% as lower import of consumption goods and local manufacturing dampened value added in the sector.

3.2 Prices, wages and employment

Inflation fell to 4.9% in 2003, from 6.1% in 2002 in consonance with the decline in economic activity in spite of the rise in international oil prices.

The decomposition of the consumer price index into its different components shows that the heavily weighted food prices increased by 3.7%, due to temporary food shortages during the year. The index for transport and communications was also up by 8.7%, reflecting the significant increase in fuel and power costs due to the sharp spike in oil prices and higher tariff rates for wireless and wired telecommunications.

On the wage front, for the third year in a row, government paid a 5% increase in wages and salaries to public servants. This led to a higher minimum wage of G\$22,099. As this increase was in line with inflation and complemented by an increase in the income tax threshold, it helped to maintain the consumption power of earners without undermining government fiscal objectives.

Unemployment remains an intractable problem in Guyana as for other countries of the region. In the absence of periodic labour force surveys, it is difficult to provide concrete figures for the level of unemployment. However, the measures taken to modernise and restructure the economy, including the streamlining of the public sector and retrenchment in public corporations point to possible higher unemployment during the year.

3.3 *The evolution of the external sector*

The global result of the balance of payments was negative but smaller than the one registered in 2002 (-3.5% and -1.3% of GDP in 2002 and 2003). This result is explained by the improvement of Guyana's current account deficit (14.6% and 11% of GDP in 2002 and 2003) since the surplus in the capital and financial account declined (11.8% and 10.6% of GDP in 2002 and 2003). The deficit was financed by inflows received within the HIPC initiative. This allowed the Central Bank of Guyana to accumulate net foreign assets valued at \$1 million.

The current account result is explained by the faster pace of growth in exports than in imports. Merchandise export receipts grew by 4.3% to US\$517 million. Buttressed by higher volumes, sugar export receipts shifted upwards by 8.2% to US\$129.2 million, even though export prices dropped by 2.4%. Adverse terms of trade also affected rice, with earnings falling to US\$45.3 million even though volume exported rose by 4%. The fall in earnings reflected a 3.8% contraction export price to US\$226 per tonne. Export earnings from gold dropped by 3.9%, as a result of an 18.5% fall in volume, due to the depletion of exploitable deposits in some mines. These declines were offset by bauxite, which saw a 9.6% growth in export volume and a 15.7% increase in average export price.

Growth in imports remained subdued at 1.5% to total US\$571.7 million. Higher imports of capital and intermediate goods reflected equipment for infrastructure projects and the escalating costs of fuel and lubricants due to higher international prices. However, imports of consumer goods were down by 5.3% to US\$149.3 million. Net factor payments abroad and net services contracted by 9.6% and 11.1%, respectively. Meanwhile, the fall-off in remittances, an important contributor to consumer welfare, left current transfers fairly stable at US\$40.3 million.

On the other hand, the capital and financial account deteriorated significantly as a consequence of a 40% reduction in net private capital inflows and lower than expected debt relief and higher amortisation payments on the debt.

Jamaica

1. Main trends

During 2003 the Jamaican economy registered the strongest growth performance in more than a decade (1.1% and 2.1% in 2002 and 2003). The behaviour of economic activity responded to the ongoing dynamism of mining (4.8%) and the recovery of the agriculture and tourism sectors (5.7% and 6.0%, respectively).

The robust growth in the real sector was unhampered by the climate of uncertainty and loss of confidence in the national currency prevailing in the first semester of 2003 and which translated into a sharp depreciation in the exchange rate. The chain of events was triggered by the official announcement in December 2002 that the actual fiscal deficit for FY 2002/2003 would exceed its expected target by a wide margin (-7.3% versus -4% of GDP).³⁸

The loss in the currency's external value led the Bank of Jamaica to adopt a contractive monetary policy resulting in significant increases in the spectrum of interest rates on its open market instruments. The authorities complemented the interest rate hikes with interventions in the foreign exchange rate market causing a decline in the stock of net international reserves. At the same time the government announced a package of tax measures to increase revenue and expenditure cuts to curtail the fiscal imbalance.

These measures were able to narrow the fiscal gap for FY 2003/2004 and tame the nominal exchange rate depreciation in the second half of 2003 allowing the Central Bank to relax its policy stance. The effects of the depreciation in the exchange rate were nonetheless felt in the rate of inflation that reached the two-digit level for the first time in six years (14%).

On the external front the overall position in the balance of payments deteriorated in spite of the reduction in the current account deficit (-13.3% and -12.4% of GDP in 2002 and 2003) as a result of the decline in the surplus in the capital and financial accounts due to the decision of the government to avoid external refinancing options to repay its international debt.

For 2004, the Jamaican economy is expected to grow by 2.3% propelled by the mining (6%) and tourism sectors (7%). The rate of inflation will most likely remain at the two-digit level and the fiscal deficit for FY 2004/2005 is expected to be confined within a range of 3% to 4% of GDP.

³⁸ FY stands for fiscal year. The fiscal year in Jamaica runs from March to April.

Table 24
JAMAICA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
				<i>Annual rates of growth b/</i>					
Gross domestic product	1.0	1.0	-1.7	-0.3	0.0	0.9	0.8	1.5	2.1
Gross domestic product per capita	0.1	0.1	-2.5	-1.2	0.0	0.0	-0.1	0.6	0.2
				<i>In US dollars</i>					
Gross domestic product per capita	1 928	2 578	2 683	2 775	2 645	2 724	2 847	2 894	2 962
				<i>Annual rates of growth b/</i>					
Gross domestic product by economic activity									
Agriculture and fishing	2.6	4.2	-13.7	-1.5	1.0	-12.0	5.8	-7.0	5.7
Mining and quarrying	-6.8	7.5	3.3	3.3	0.1	-1.0	2.6	3.3	4.8
Manufacturing	-0.8	-3.3	-2.5	-4.4	-1.6	0.4	0.7	-0.8	-1.0
Construction	7.2	-5.4	-3.9	-5.8	-1.7	0.7	2.2	2.3	1.1
Wholesale and retail trade and hotels and restaurants	4.0	5.4	0.9	-1.6	0.9	1.6	-1.2	1.2	2.1
Transport, storage and communications	9.8	9.1	5.7	5.6	6.8	6.5	5.1	6.3	3.0
Banks and insurance	1.9	-7.8	-18.7	-1.7	-0.5	1.5	0.2	0.3	1.3
Real Estate and Housing	4.3	5.5	-4.3	-1.2	7.0	3.1	-8.3	6.1	4.9
Community, personal and social services	0.8	-0.2	0.5	1.1	-1.5	0.0	1.4	0.6	1.3
				<i>Millions of US dollars</i>					
Balance of payments									
Current account balance	-99	-143	-332	-334	-216	-367	-759	-1,118	-1,003
Merchandise balance	-829	-984	-1 132	-1 131	-1 187	-1 442	-1 618	-1 870	-1 949
Exports fob	1 796	1 721	1 700	1 613	1 499	1 563	1 454	1 309	...
Imports fob	2 625	2 715	2 833	2 744	2 686	3 004	3 073	3 104	...
Services balance	494	453	467	477	655	603	383	271	444
Income account	-371	-225	-292	-308	-333	-350	-438	-806	-633
Unilateral transfers	607	624	625	628	647	821	914	1 087	1 135
Financial and capital balance c/	126	414	162	378	80	886	1 624	704	...
Net foreign direct investment	81	90	147	287	429	394	525	407	...
Financial capital d/	45	324	15	91	-349	492	1 099	297	...
Global balance	27	271	-170	44	-136	518	865	-238	...
Variation in reserve assets e/	56	-202	205	-27	155	-499	-847	244	432
Other indicators of the external sector									
External debt (millions of US dollars)	2 032	2 415	3 278	3 306	3 024	3 375	4 146	4 348	4 192
External debt (% of GDP)	66.1	55.2	48.8	48.1	44.4	47.8	55.9	57.4	57.4
Employment									
Participation rate h/	69.0	67.7	66.6	65.6	64.5	63.3	63.0	63.6	62.0
Unemployment rate i/	16.2	16.0	16.5	15.5	15.7	15.5	15.0	15.1	13.1
Prices									
Rate of change of the consumer price index (december to december)	25.5	15.8	9.2	7.9	6.8	6.1	8.7	7.3	14.1
Rate of change of the nominal exchange rate (december to december)	19.4	-11.8	3.6	2.6	10.7	10.2	4.3	6.0	19.4
Weighted deposit real interest rate	26.2	20.8	14.1	15.5	13.3	12.2	10.1	8.9	-6.5
Weighted lending real interest rate	48.6	37.8	31.9	30.1	24.6	22.1	19.5	18.3	4.6
				<i>Millions of dollars of Jamaica</i>					
Central government									
Current Revenue	56 643	61 299	65 196	72 842	83 839	97 611	97 770	109 504	142 251
Current expenditure	44 442	64 225	72 113	84 743	93 166	95 782	113 678	141 080	173 248
Overall fiscal balance v/	3 807	-14 966	-20 787	-19 171	-12 583	-3 172	-21 413	-31 861	-28 838
Primary balance j/	21 778	12 314	3 776	15 418	29 201	39 749	29 597	30 259	59 332
Interest	17 971	27 280	24 564	34 589	41 784	42 920	51 010	62 121	88 170
External	...	...	...	...	6 804	8 614	10 657	15 186	16 709
Internal	...	...	...	...	34 980	34 306	40 353	46 935	71 461
				<i>Percentages of GDP</i>					
Global balance with grants	...	...	...	...	...	...	-2.7	-3.4	0.9
Global balance without grants	...	...	...	...	...	...	-5.6	-7.6	-5.9
Money and credit									
Internal credit	30.1	32.0	34.3	...	38.3	37.7	39.3	36.8	...
To the public sector	6.7	7.5	8.8	...	7.6	6.9	17.2	23.3	...
To the private sector	23.4	24.5	25.5	...	30.7	30.8	22.1	13.6	...
Money supply (M2)	36.8	35.8	37.1	37.5	40.9	40.4	40.8	...	...

Source: ECLAC on the basis of official information.

a/ Preliminary data.

b/ At constant 1986 prices.

c/ Includes errors and omissions.

d/ Denotes the results on the capital and financial account less foreign direct investment and plus errors and omissions.

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

h/ Economic active population as a percentage of the working age population.

i/ Includes grants

j/ Excludes interest payments.

2. Economic policy

2.1 Fiscal policy

During FY 2003/2004 the authorities adopted a contractive policy managing to reduce the previous fiscal year's deficit from 7.6% to 5.9% of GDP. This result was mainly achieved through expenditure restraint and the implementation of a set of revenue-enhancing measures between the months of May and June 2003.

Total expenditures remained at the level of the previous fiscal year (36% of GDP) due to a contraction in social programme expenditures, which managed to offset the rise in the wage bill and interest rate payments.

The said revenue measures proved effective, in spite of the fact that their effects fell below the expected target, and resulted in an increase in the tax to GDP ratio by 1.7% points (24.56% and 26.36% of GDP in FYs 2002/2003 and 2003/2004). The most important ones included the expansion of the General Consumption Tax Base and an upward movement in the rate in telephone services and customs user fees on specified imports.

Notwithstanding these fiscal efforts on the expenditure front, the rising stock of public debt remains a source of concern to the monetary and fiscal authorities as it significantly constrains the margin of manoeuvre as well as the composition of government expenditures. When classified by functional category, debt management expenditures are found to be the single most important category within total expenditure absorbing 65% of the total and followed, in the distance, by human capital enhancement expenditures such as education (4% of total expenditures). The debt situation also explains the decision of international agencies to downgrade Jamaica's long-term sovereign local currency rating in January 2003 and in February 2004.

The government plans a further reduction of its fiscal imbalance to a range of 3% to 4% of GDP for the new fiscal year FY 2004/2005 and expects to reach equilibrium by FY 2005/2006. The expected result for FY 2004/2005 which is predicated on a growth rate of 3% and an inflation rate of 6% focuses mainly on constraining the growth of the two most important categories of expenditures, wages and interest payments on the domestic debt (which represent 34% and 40% of total expenditure) rather than on revenue measures. To this end, the government and the Jamaica Confederation of Trade Unions agreed to reduce the wage bill by implementing a two-year policy of public employment and wage restraint effective 1 April 2004 until 31 March 2006. Interest payments on the domestic debt are expected to decline as the Central Bank maintains its current policy of gradually reducing the cost of borrowing.

2.2 Monetary and exchange rate policies

During 2004 the improvement in the overall macroeconomic conditions allowed the Bank of Jamaica to ease its monetary policy stance and reduce the spectrum of interest rates on its tenors, lowering the cost of the internal debt service of the government and also that of the Bank of Jamaica's open market operations. From May 2003 to May 2004, the rates of interest on the

90 and 180-day reverse repurchase instruments declined from 20% and 24% to 14.40% and 14.55%, respectively. Accordingly the nominal exchange rate depreciated in line with the fall in interest rates (J\$60.61 and J\$61.18 per US\$1.00 for the weighted selling nominal exchange rate in December 2003 and June 2004).

The reduction of interest rates was tamed by the build-up in the stock of net international reserves, which forced the authorities to engage in sterilisation operations to avoid unwarranted expansions in the monetary aggregates. The rise in net international reserves responded to the placement of a euro and regional bonds in the international capital markets totalling US\$250 million.

The monetary policy implemented in 2004 stands in marked contrast with the one applied in the previous year. In 2003, policy responded to the dual role played by the Central Bank as the guarantor of monetary and price stability, on the one hand; and as the lender of ultimate resort to the government providing liquidity needs and sustainable financial conditions for the servicing of the government's debt, on the other. Both roles were assumed sequentially in the first and second semesters of the year, respectively.

As a result monetary policy underwent through two stages. In the first stage (January to June) the Bank imposed a series of measures destined to reign the fall in the nominal exchange rate visibly intense in the first five months of the year. The monthly exchange rate depreciated by 18% between January and May 2003 (J\$51.59 in January and J\$61.08 in May per US\$1). The depreciation was triggered by the significant deterioration of the fiscal accounts in FY 2002/2003.

The most important measure consisted in restricting liquidity through open market operations while at the same time engaging in interventions in the foreign exchange market. The bank also established a special deposit requirement for financial institutions as a way of absorbing liquidity, which required the said institutions to hold 5% of their average prescribed domestic liabilities on deposits at the Bank of Jamaica.

The overall result was a contraction in high powered money (-5%), a higher plateau of the open market instrument term structure of interest rates with the concomitant negative consequences on the government's fiscal accounts and a decline in the stock of international reserves (US\$470 million) which was amplified by the redemption of a Eurobond in the first quarter of the year.

The second semester witnessed a relatively more stable macroeconomic environment. At the end of the first semester the exchange rate halted its rate of depreciation (4.7% for the June quarter) and stabilised at J\$60.62. The monetary authorities took advantage of these circumstances and allowed interest rates to decrease while maintaining a higher interest rate level in relation to the previous year. This lessened to some extent the debt burden of the government and also provided the required liquidity to finance its fiscal deficit. During this period net credit to the public sector rose by 28% and base money and money supply expanded 15% and 13%, respectively.

The central bank's stance did not significantly affect the liquidity position of the commercial banking system. Between December 2002 and December 2003, the loan to deposit ratio advanced from 0.41 to 0.50. Commercial banking system nominal rates increased marginally and real interest rates declined as a consequence of the two-digit inflation level (18% and 4.6% for overall average weighted real loan rate in December 2002 and December 2003, respectively).

The downward trend in real interest rates in conjunction with the level of growth and stabilisation efforts by the Bank of Jamaica pinned up the demand for loans (22% in real terms). Personal loans, tourism and transport and communication accounted for 47% of the total.

3. Evolution of main variables

3.1 *Economic activity*

The expansion of economic activity (2.1%) responded mainly to the vibrant performance of the primary and services sector although all sectors with the exception of manufacturing and producers of government services registered positive rates of growth.

The performance of agriculture (-7% and 6% in 2002 and 2003) is accounted for by domestic agriculture as export agriculture declined (14% and -6%, respectively). This responded to an improvement in climatic conditions and government relief assistance to farmers affected by the flood rains. For 2004 the agricultural sector is expected to contract (-2%) due to drought conditions, which will have a negative effect on crop output.

The growth of the mining sector (3.3% and 4.8% in 2002 and 2003) reflected an increase in capacity utilisation of alumina plants in JAMALCO and ALPART and higher prices due to favourable external demand conditions. The conditions for the expansion of capacity utilisation are likely to remain in place and output is forecasted to increase by 11% in 2004.

Manufacturing output contracted as in the previous year (-0.8% and -1.0% in 2002 and 2003). This was due to declines in the two major manufacturing components beverage, food and tobacco and other manufacturing (-0.6% and -1.5%, respectively). The behaviour of the former responded to the reduction in sugarcane milled, to the effects of the increase in the tax base, which affected dairy products, and delays in the timely provision of raw material inputs. The evolution of other manufacturing reflected the closure of the refinery plant for repairs and maintenance in the third quarter of the year. For its part, textile and apparel continued to exhibit a marked lack of competitiveness. For 2004 the manufacturing sector is expected to contract by -0.5%.

The rate of growth in the construction sector fell below that registered in the previous year (2.3% and 1.1% in 2002 and 2003) and benefited from the expansion and improvement of ongoing infrastructure projects including the Highway 2000, the Northern Coastal Highway and the increase in capital expenditures by the utilities companies. For 2004, the construction sector is expected to maintain its current rate of growth.

The tourism sector provided the most important impetus to overall economic growth (-0.4% and 6% in 2002 and 2003). The performance of this sector capitalised on higher investment levels, efforts to diversify tourism products and a greater number of cruise ship calls. The number of visitor arrivals, mainly cruise ship tourists, and visitor expenditure expanded 17% and 8%, respectively. For 2004 the growth in the tourism sector (6.5%) will be underpinned by the continuing dynamism in cruise ship arrivals and a projected expansion of stopover tourists partly as a result of the resumption of service of a national airline to North America.

3.2 Prices, wages and employment

The rate of inflation reached double digits (7.3% and 14.1% on a point-to-point basis in 2002 and 2003, respectively) for the first time in six years. The determining factors included the depreciation of the nominal exchange rate, the tax measures implemented between May and June, higher international oil prices, increases in transport costs and the increase in the minimum wage.

The decomposition of the price level into its different components shows that the largest contributor to inflation was the food and drink and transportation categories (48% and 13% of the total) followed by fuels and other components and housing expenses (9% for both).

In the first quarter of 2004 the rate of inflation increased relative to that of the previous year reaching 15% for the period April 2003-April 2004. This is attributed to the higher prices of food and fuel imports, and the greater cost of utilities. As a result, the food and drink category was the largest contributor to inflation accounting for 31% of the total and followed by transportation and miscellaneous expenses (9% and 8% of the total, respectively).

These preliminary results indicate that the rate of inflation will most likely remain at the two-digit level for the remainder of the calendar year 2004 (14%) which will affect the conduct of monetary policy and the capacity of the fiscal authorities to reach their announced targets.

Turning to salaries and emoluments, during 2003 the government proceeded to settle wage claims to weekly and daily paid public employees and to education officers. In February 2004, the government and the Jamaica Confederation of Trade Unions signed a Memorandum of Understanding, which will rein the rate of growth of the wage bill for a two-year period. Under the agreement wages are expected to increase less than 3%.

For its part, the rate of unemployment declined with respect to the previous year (15% and 13% for 2002 and 2003) due mainly to a decline in the registered labour force rather than due to an increase in the number of employed. The labour force fell from 1124.4 to 1098.8 thousands while the employed labour force remained at 954. The decomposition of labour force statistics by gender category shows that the decrease in the labour force was particularly pronounced for females (506 and 488 thousands for 2002 and 2003). The female category also recorded the largest decrease in the unemployment rate (11% and 10%; 21% and 18% for males and females for 2002 and 2003, respectively).

4. Evolution of the external sector

The global result of the balance of payments was negative, as the current account deficit (-13.3% and -12.4% of GDP in 2002 and 2003) was not offset by the surplus in the capital and financial account. As a result, the stock of net international reserves declined (US\$1600 and US\$1169 million for 2002 and 2003).

The trade balance worsened (20% and 26% of GDP in 2002 and 2003) as a result of the increase in the petroleum import bill (29%). This in turn responded to the rise in the international price of oil, the exchange rate depreciation and to the expansion of import demand for non-mineral products. The other categories of imports, consumer good imports and capital goods registered a decline (-4% and -14%, respectively) as a result of a fall in the demand for consumer durables due to the introduction of the tax measure package in May-June and to a lower level of investment in the telecommunications sector.

For their part, exports rose for the first time in three years consequent upon the good performance of alumina (12%) which represents 80% and 58% of total traditional and domestic exports. The performance of other traditional exports was mixed as bananas and sugar recorded positive growth (14%) while coffee, rum and bauxite witnessed a deteriorating performance (-10%, -12% and -19%).

The services balance widened its surplus (US\$271 and US\$444 million in 2002 and 2003) due to the expansion of tourist arrivals (13%) reflecting favourable external conditions and the efforts of the authorities to improve the competitiveness of the sector. The most significant increase was recorded in the European market (0.2% and 29% in 2002 and 2003).

Remittances, which constitute one of the main sources of external finance and of foreign exchange inflows, expanded (13% and 17% of GDP in 2002 and 2003) responding to the expansion in the market share of financial institutions and to the improved performance of the United States economy.

The capital account of the balance of payments registered a deficit (US\$-17 million for both 2002 and 2003) while the financial account narrowed its surplus in relation to the previous year (US\$1135 and US\$1020 million in 2002 and 2003). The reduction in the financial account's surplus is explained mainly by the repayment of euro bond loan, which caused a reduction in the inflows corresponding to other official investment category (US\$77 and US\$-368 million).

The impending macroeconomic disequilibria and the downgrading of the country's international credit rating status in June 2003 prevented the authorities from tapping on the external capital market to seek any further funding. Finally, private investment flows rose (US\$814 and US\$956 million in 2002 and 2003) albeit at a lower rate than expected as a result of the lower levels of activity in the telecommunications and financial sector services.

For 2004, the current account gap is expected to narrow (11% of GDP). This target is predicated, however, on a strong performance of the mining and tourism sectors and most importantly on stable international oil prices.

Suriname

1. Main trends

Economic activity picked up in 2003, in the aftermath of weakened activity due to a slump in major sectors in 2002. Real output growth expanded by 5.6% (3.0% in 2002) boosted by recovery in production in the alumina, gold and oil subsectors.

A contractionary fiscal stance aimed at rehabilitating the public finances, a series of tax measures and the improvement in economic activity allowed the central government to equilibrate its accounts (-7% and 0.2% of GDP in 2002 and 2003).

In consonance, monetary policy was also tightened. Fairly high reserve requirements were used to squeeze liquidity out of the banking system and to control consumer spending. As a result, the expansion of monetary aggregates declined and real interest rates increased.

However, the financial system witnessed a significant increase in liquidity due to the expansion in the liabilities of the banking system denominated in foreign currency. This may signal an increasing process of dollarization within the Surinamese economy. All in all, the monetary authorities were able to maintain nominal exchange rate stability, to reduce the rate of inflation (37% and 26% in 2002 and 2003) and introduce at the beginning of 2004, the Surinamese dollar.

External disequilibrium persisted in spite of favourable international prices for major commodity exports. The current account deficit of the balance of payments expanded by over 21% to 14% of GDP. This was aggravated by a weakened services account and was only partly offset by the improvement in the capital and financial account. The net development was a decline in international reserves, which covered 3.6 months of imports of goods and non-factor services.

The prospects for 2004 are contingent on key factors including the ability to maintain fiscal restraint in the period prior to an election year and movements in international commodity prices. Nevertheless, with the expansion of domestic capacity in the bauxite sector and the ongoing restructuring of the banana sector, GDP growth is expected to remain above trend at over 5%. Inflation is expected to be moderate with relatively tight fiscal and monetary conditions, however, there are upside risks to inflation if slippages occurs in fiscal and monetary outcomes.

Table 25
SURINAME: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	-0.8	0.3	6.0	2.6	-0.9	-1.1	5.0	3.0	5.6
Gross domestic product per capita	-1.3	-0.4	5.3	2.9	3.5	-3.0	-0.5	...	...
	<i>Millions of US dollars</i>								
Balance of payments									
Current account balance		-64	-68	-155	-29	32	-84	-131	-159
Merchandise balance		-2	36	-27	44	153	140	47	30
Exports fob		397	402	350	342	399	437	369	488
Imports fob		399	366	377	298	246	297	322	458.0
Services balance		-66	-102	-125	-72	-125	-115	-128	-135.5
Income account		3	-3	-1	0	6	-108	-42	-49
Unilateral transfers		1	1	-2	-2	-2	-1	-9	-5
Financial and capital balance c/		62	87	163	25	-23	162	112	...
Net foreign direct investment		19	-9	9	-62	-148	-27	-74	...
Financial capital d/		43	96	154	86	125	189	186	...
Global balance		-2	19	8	-4	10	78	-19	...
Variation in reserve assets e/		2	-19	-8	4	-10	-78	19	1
Other indicators of the external sector									
External debt (millions of US dollars)		...	...	212	256	284	317	315	302.1
External debt (% of GDP)		...	...	12.9	1.9	37.1	6.4	13.2	9.8
Employment									
Rate of unemployment	8.4	10.9	10.5	10.6	11.0	13.0	17.0	18.0	...
Prices									
Rate of change in the consumer price index (end of period)	36.9	1.2	17.4	22.9	112.7	76.2	4.9	37.0	26.0
Rate of change in the nominal exchange rate	-6.4	-0.3	0.0	0.0	145.1	121.1	0.0	15.9	3.9
Real deposit rate of interest		16.3	14.1	12.8	7.5	8.7	10.6	6.1	6.7
Real lending rate of interest		34.5	24.5	20.9	13.4	16.5	22.4	15.5	16.7
	<i>Millions of florins (Sf)</i>								
Central government									
Current revenues	...	...	...	126	160	298	616	624	858
Current expenditures	...	...	...	147	202	435	539	772	810
Fiscal result	...	...	...	-43	-73	-143	53	-157	7
Public debt	...	...	...	...	...	...	...	...	...
Internal	...	...	...	57.4	14.6	434.7	106.3	294.5	289.3
External	...	...	...	86,031	222,161	380,333	697,620	739,075	794,009
	<i>Percentages of GDP</i>								
Global balance	...	...	...	-9.7	-9.6	-12.2	3.2	-7.0	0.2
	<i>Percentages of GDP</i>								
Money and credit									
Domestic net credit	5.1	12.1	18.9	19.1	15.4	11.9	11.9	16.7	...
To the public sector	-0.3	-0.1	0.5	3.1	3.2	2.9	5.0	4.7	...
To the private sector	5.5	12.1	18.4	16.0	12.2	9.0	14.7	15.4	18.4
Narrow money supply	...	21.0	23.0	20.6	17.9	22.8	22.9	24.4	18.6
Broad money supply	...	29.2	30.5	26.2	21.1	26.1	25.5	26.7	20.9

Source: ECLAC, on the basis of official information

a/ Preliminary data.

b/ On the basis of 1990 constant prices.

c/ Includes errors and omissions.

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

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

Central government current account is expected to maintain a small surplus of about 1% of product at the baseline. However, there are downside risks that the outcome might not be as favourable. If pressure for wage increases prior to the election in 2005 is accommodated, this could lead to a deficit of the order of 2% to 3% of product. To rehabilitate infrastructure in 2004, increased spending has been planned. This is likely to lead to a deterioration of the overall fiscal position. With the projected expansion of alumina and oil output and the rehabilitation of banana production, the balance of payments current account is expected to record a moderate improvement in 2004, once international prices remain favourable.

2. Economic policy

2.1 Fiscal policy

Following a sharp increase in public sector wages, equivalent to 6.5% of GDP in 2002, fiscal policy in 2003 aimed at expenditure control and budget balance. The tightening of fiscal policy was geared towards restoring macroeconomic stability in the wake of the monetisation of the deficit in 2002 and to prevent fiscal deficits that could hamper the stability of the newly introduced Surinamese dollar³⁹.

Although the situation has moderated, the pressure from weakness still affects economic performance. In July back pay was paid to civil servants, together with a Cost of Living Allowance (COLA), which cost S\$13-14 million and led to continued budgetary pressures.

Importantly, following the major wage hike in 2002, that resulted in a deficit of 7% of GDP, the overall fiscal balance posted a surplus of 0.2% of GDP in 2003.

On the revenue side, robust growth in income and improved tax administration and collections led to substantial -more than 37%- growth in current revenue.

Income tax proceeds saw an up-turn (10% and 11.5% of GDP), partly as a result of improved tax collections and tax measures introduced at the end of 2002 and the beginning of 2003, which included a temporary income tax surcharge. International trade tax receipts also recorded strong growth of over 36%. Meanwhile sales tax more than doubled to S\$175.4 million (3.7% and 6.0% of GDP in 2002 and 2003), reflecting the increase in tax rates of 3 percentage points during the year and growth in economic activity. This behaviour was reflected in the rise of the tax to GDP ratio from 27.9% to 29.2% between 2002 and 2003.

Public expenditure suffered a contraction (35% and 27% of GDP in 2002 and 2003) due to the decline in all expenditure lines with the exception of wages and salaries which still posted relatively strong growth of 27%, but this was small relative to the over 70% increase in 2002. Nonetheless expenditure on wages and salaries maintained their share of GDP (15% of GDP for 2002 and 2003). Expenditure on goods and services suffered by far the largest contraction (1-% and 6% of GDP).

³⁹ The Surinamese dollar was introduced in January 2004 to replace the Guilder, it exchanges at S\$2.7 to US\$1.

In accordance with this fiscal stance, the stock of total debt fell from 48% in 2002 to 37% of GDP in 2003. The ratio of internal and external debt to GDP fell from 13% and 34% to 10% and 27%, respectively.

2.2 Monetary and exchange rate policy

Monetary policy was contractionary in 2003, reflecting the need for restraint in the wake of the partial financing of the deficit in 2002. Before 2001, the main plank of monetary policy involved the use of credit ceilings, but these proved ineffective given the ability of banks to evade them through the door.

In 2003, monetary policy was effected largely through a system of reserve requirements and control of government advances to the central government. Although the reserve requirement at 35% appears to be working well, commercial banks are complaining that it sterilises too much of their deposits and weakens their profitability. Also on the policy front, the central bank introduced reserve requirements on foreign exchange deposits to tighten monetary conditions and to prevent the conversion of domestic deposits into dollars. This was to guard against shocks to the exchange rate coming from the foreign component of the money supply.

This orientation in monetary policy translated in a decline in the expansion of monetary aggregates and an increase in real rates of interest. Narrow and broad money supplies contracted falling short of the increases registered in the previous year (43% and 41%, respectively). The lending rates of interest rose in real terms from 15.5 to 16.7%.

Notwithstanding, the dollar deposits of the banking system rose substantially (14% and 38% in 2002 and 2003) increasing in this way, the liabilities and the total liquidity of the financial system. In fact, foreign currency denominated deposits represented at the end of 2003 twice the value of national currency denominated deposits (valued at the official exchange rate). The increase in liabilities was matched in the balance sheets of the commercial banks by a significant increase in loans to the private sector (40% and 57% in 2002 and 2003) in spite of the rise in real interest rates.

This behaviour reflected an increasing and gradual process of dollarization of the Surinamese economy whose progress was unhampered by the prevailing stability of the nominal exchange rates (S\$2,550 and S\$2, 650 per United States dollar in 2002 and 2003). This behaviour may respond to the country's recent history of inflation.

2.3 Other policies

Trade policy was made more open and transparent with the introduction of a new Trade Law in September of 2003, which replaced the Import and Export Decree 1954. This Law is aimed at creating a more business-friendly investment climate and protecting Surinamese producers and consumers from anticompetitive practices, including dumping by foreign traders. Important provisions include those on the free movement of goods, sanitary and phyto-sanitary, anti-dumping, safeguard measures and the negative list system.

Article 2 on the free movement of goods promotes the liberalisation of trade in goods subject to measures aimed at protecting public order, the environment, the national heritage and other special measures. Sanitary and phyto-sanitary measures are geared towards the protection of the life of person, animals and plants and entail standards for the treatment of plant and animal products including proper certification. Article 5 on anti-dumping seeks to protect national industry from dumped imports of specific goods, while safeguards might be taken where large quantities of a specific imported good threaten national production of similar goods. Trade in items on the negative list will be subject to the approval of the Minister of Trade and Industry, together with other relevant ministers.

3. Evolution of the main variables

3.1 Economic activity

Real GDP growth picked up in 2003 (5.6%), relative to 3% last year. This was the highest growth rate achieved in the last five years and reflected resurgence in leading primary goods sectors, including alumina, gold, oil and some agricultural products.

The agricultural sector recorded a mixed performance. On the one hand, rice production was affected by technical and financial difficulties and by climatic factors. On the other hand, the performance of the agricultural sector also reflected the recovery of the banana sector due in part to restructuring operations and improvements in efficiency.

The mining sector benefited from the increase in international prices of bauxite and alumina. The production of alumina was also favourably affected by the expansion in productive capacity. Finally, the increase in gold output responded to the opening of a new mine.

The behaviour of the petroleum and natural gas sector responded to the increase in the international price of crude oil and the expansion in the refining capacity of the national industry and of the facilities for the generation of electricity.

3.2 Prices, wages and employment

The rate of inflation declined (37% and 26% in 2002 and 2003) due to the moderation in the growth of wages, exchange rate stability and the adoption of a restrictive monetary policy. Currency substitution, which is currently a substitution among assets and is stimulated by the excess supply of dollars existing in the economy, did not affect the prices of goods and services.

In 2004 the authorities increased the minimum wage by 10%. They also decreed a 10% rise in the salaries of public civil servants (5% from March with an additional increase starting in September). For its part the private sector registered wage hikes in some of the firms of the manufacturing and mining sectors (9% and 4%, respectively).

3.3 *The evolution of the external sector*

The overall balance was negative reflecting negative results in the current and capital accounts. This translated into a reduction in the stock of international reserves. Gross international reserves declined by 11.5% to US\$160 million covering 3.6 months of imports of goods and non-factor services.

In 2003, the current account deficit reached 14% of GDP (-12% in 2002). The fortuitous resurgence in exports (32% growth) was offset by 42% growth in imports, primarily of capital and intermediate goods for the expansion of bauxite and gold mining. Export receipts from alumina and oil contracted, even in the face of relatively strong world market prices, but were more than compensated for by the increases in the exports of gold, the value of which more than doubled and also other products, largely agriculture (up 43.8%).

The services account, the 'Achilles heel' of the Surinamese balance of payments, weakened by 6.2% (-11% and -15% of GDP in 2002 and 2003).

Fortunately, the capital account improved with net outflows contracting by 37% to US\$23.4 million translating into a reduction of its deficit from -3.3% of GDP in 2002 to -2.7% in 2003. Private long-term net capital outflows increased by over 52% to US\$55.6 million and were only partly offset by short-term private capital inflows of US\$46.9 million, almost double the amount for the previous year. Public grants shifted upwards by 54% to US\$9.1 million, but long-term capital to the government declined by almost the same amount.

Trinidad and Tobago

1. Main trends

The economy of Trinidad and Tobago continued on a growth trend reversing the declining real growth from 2000 to 2002. Real GDP growth trended upwards from 2.7% in 2002 to 4.1% in 2003 driven by growth in the energy sector, in particular the natural gas subsector. Growth of the non-energy sector continued to lag behind that of the energy sector. The non-energy sector was therefore unable to contribute significantly to job creation and hence to a decline in the unemployment rate, which actually increased from 10.4% to 10.5% in 2003.

The performance of the energy sector and in particular the effects of the increase in the international price of oil contributed significantly to the government's fiscal surplus and to the increased positive current account result. The latter which rose from 0.5% to 9.6% between 2002 and 2003 offset the deficit on the capital account leading to an increase in the stock of net international reserves and eventually to an improved liquidity position of the financial system.

Within this context the authorities adopted a prudent monetary stance aimed at maintaining the stability of the exchange rate and prices. In the first semester the monetary authorities proceeded to sterilize the impending liquidity. In the second semester, given the decline in inflation (4.3% and 3.0% in 2002 and 2003), the Central Bank adopted a more

Table 26
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003a/
	<i>Annual rates of growth b/</i>								
Gross domestic product	3.2	2.9	3.0	4.6	5.8	5.7	4.1	2.7	4.1
Gross domestic product by economic activity									
Agriculture	...	...	2.7	-10.7	12.0	9.5	-3.7	5.5	-15.1
Energy	...	...	-2.0	5.4	8.1	1.1	0.7	10.7	11.4
Manufacture	...	...	3.5	4.1	3.4	6.7	3.1	-0.9	2.0
Construction	...	...	15.0	13.9	7.9	8.0	4.9	5.0	4.8
Wholesale and retail trade	...	...	17.7	13.6	9.8	21.5	6.8	9.8	5.9
Other services c/	...	...	2.0	3.3	1.8	3.4	9.1	-1.7	0.9
	<i>Millions of US dollars</i>								
Balance of payments									
Current account balance		105	-614	-644	31	544	416	50	917
Merchandise balance		382	-529	-741	64	969	718	238	1,077
Exports fob		2 354	2 448	2 258	2 816	4 290	4 304	3 875	...
Imports fob		1 972	2 977	2 999	2 752	3 322	3 586	3 682	...
Services balance		244	292	416	329	166	204	237	219
Income account		-514	-381	-341	-400	-629	-539	-480	-444
Unilateral transfers		-7	4	22	38	38	33	55	66
Financial and capital balance d/		133	807	724	131	-103	86	-1	-583
Net foreign direct investment		355	999	730	379	654	685	684	425
Financial capital e/		-222	-192	-6	-248	-757	-599	....	...
Global balance		238	194	80	162	441	502	49	334
Variation in reserve assets f/		-213	-175	-76	-162	-441	-502	-49	-334
Other indicators of the external sector									
External debt (millions of US dollars)	1,905	1,876	1 565	1 471	1 585	1 680	1 638	1 596	1 526
External debt (% of GDP)	35.7821439	33.05537	27.1	25.4	25.0	24.4	18.6	16.7	13.9
Employment									
Participation rate g/	0.0	0.0	0.0	0.0	60.8	61.2	60.7	60.9	61.6
Unemployment rate h/	17.2	16.2	15.0	14.2	13.2	12.2	10.8	10.4	10.6
Prices									
Rate of change in the consumer price index (end of period)	3.8	4.3	3.5	5.6	3.4	5.6	3.2	4.3	3.0
Rate of change in the nominal exchange rate	1.1	3.3	1.7	-0.2	0.2	0.0	-0.3	-0.2	-2.1
Weighted average of the real deposit rate of interest	...	13.5	13.4	14.4	15.4	14.5	14.0	12.3	11.4
Weighted average of the real lending rate of interest	...	5.7	5.4	5.9	6.0	5.7	5.5	3.5	2.5
	<i>Millions of Trinidad and Tobago dollars</i>								
Central government									
Current revenues	...	...	...	...	9,613	13,007	13,380	14,424	17,853
Current expenditures	...	...	...	...	10,542	10,994	12,595	13,366	15,179
Balance on the capital account	...	...	...	...	-427	-1,194	-826	-698	-838
Primary result	...	...	...	...	989	3,249	2,181	2,679	4,294
Global result i/	...	...	...	...	-1,355	819	-41	360	1,835
	<i>Percentages of GDP</i>								
Global balance j/	...	...	...	...	-3.2	1.6	-0.1	0.6	2.7
	<i>Percentages of GDP</i>								
Money and credit									
Domestic credit	31	33	37.2	41.5	39.7	35.4	36.0	34.2	31.7
To the public sector	6	6	8.3	8.9	7.4	5.9	5.3	6.2	6.5
To the private sector	26	27	28.9	32.7	32.3	29.5	30.7	28.1	25.1
Liquidity (M3)	...	...	71.0	81.4	82.6	91.9	103.2	106.0	113.7
Money supply and deposits in domestic currency (M2)	...	...	40.9	46.3	47.2	52.6	60.8	63.1	68.6
Deposits in foreign currency	...	...	30.2	35.1	35.4	39.3	42.5	43.0	45.1

Source: ECLAC, on the basis of official information

a/ Preliminary data.

b/ On the basis of 1985 constant prices.

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

d/ Includes errors and omissions.

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

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

g/ Economic active population as a percentage of the working population.

h/ Rate of unemployment as a percentage of the economic active population. Includes hidden unemployment.

i/ Includes interests.

j/ On a calendar year basis.

expansive monetary policy that translated into a decline of the structure of interest rates. In turn, this resulted in an increased demand for credit and to a process of substitution of higher yielding assets for lower yielding ones contributing, in this way, to the significant growth in the stock market.

For 2004, the Trinidadian economy is expected to grow within a range of 6% to 7% led by the energy sector. The rate of inflation is expected to increase due to cost side pressures. The central government has budgeted a deficit of 1% of GDP on its fiscal accounts and the current account will remain in a surplus situation. It is estimated that the surplus will remain within a range of 9.6% to 13% of GDP.

2. Economic policies

2.1 *Fiscal policy*

Government achieved a fiscal surplus of 1.4% GDP during the FY 2003 compared to a deficit of 0.6% GDP during the FY 2002.⁴⁰ This positive result allowed the government to comply with its international debt obligations and to increase its deposits at the Central Bank.

The fiscal result responded to the increase in the revenues of the energy sector (5.8% and 9.2% of GDP for FYs 2002 and 2003) due, in turn, to the increase in the international price of oil which averaged US\$29.6 per barrel in FY 2003 relative to US\$24.01 per barrel in the previous fiscal year and which led to higher profits for petroleum companies. Part of this revenue (8% of the total) was used to increase the resources of the Stabilization Petroleum Fund currently at US\$249 million.

Non-oil revenue witnessed a contraction (19% and 16% of GDP in FYs 2002 and 2003). This is explained by the decline in indirect tax revenues on goods and services (6% and 4% of GDP in FY 2002 and 2003). For its part, the intake of the income tax maintained the level of the previous year (8% of GDP for FYs 2002 and 2003) notwithstanding the reduction in the corporate tax rate from 35% to 30%.

The performance of indirect taxes was influenced partly by the lower yield of the Value Added Tax due to the reimbursements made by the Treasury to tax payers (TT\$207 million). The behaviour of indirect taxes is also explained by the reduction in income tax rates from 28% to 25% for income levels below TT\$50 000 and from 35% to 30% for incomes above this level.

⁴⁰ FY denotes fiscal year. The fiscal year starts on 1 October and ends on 30 September. On a calendar year basis the surplus was equivalent to 2.7% of GDP for 2003.

For their part, current expenditures declined (24% and 22% of GDP for FYs 2002 and 2003) whereas capital expenditures maintained the level of the previous year. Wages and emoluments which is the main component of current expenditures fell from 7.4% to 6.7% of GDP from FY 2002 to 2003). Expenditure on goods and services and interest payments did not record any change in behaviour from that of the previous FY.

The evolution of transfers and subsidies (9% of GDP for FY 2002 and 2003) is explained by the increase in loans and grants to statutory boards and public firms (40% of the total). Finally the expenditures related to the establishment of the Caribbean International Court of Justice should also be noted. The Court of Justice is one of the key institutions of the type of regional integration contemplated in the revised version of the Chaguaramas Treaty (1973).

The total debt of central government declined (32% and 28% of GDP in 2002 and 2003) as did the servicing of the internal and external debt (16.7% and 15.3%; 19.6% and 17.4% for 2002 and 2003, respectively). The government continued with its policy of restructuring the internal debt initiated in 1999 and the composition of the debt stock did not register any variations.

2.2 Monetary and exchange rate policies

In 2003 and 2004 the Central Bank of Trinidad and Tobago adopted a passive monetary stance adapting its behaviour to that of the central government and intervening when market conditions required it.

The positive result in the balance of payments due the vibrant performance of the energy sector and the increase of the government's deposits at the Central Bank as a result of its surplus on its fiscal accounts translated into an increase in the monetary base. Its multiplier effect was amplified by the government's debt restructuring operations. These injected TT\$3.5 billion in 2003 (TT\$2.8 billion in 2002). This, in turn, was due to the fact that the date of maturity of government obligations exceeded the amounts of the new bond issues.

The consequent increase in liquidity was reflected in commercial banks' excess reserves which reached 10% in the first semester of 2003 and surpassed 15% in the second semester of the year with a 25% peak in the month of July. The monetary authorities intervened in the first six months through open market operations thus avoiding unwarranted increases in monetary aggregates and with the aim of preserving price and exchange rate stability. Thus, interest rates on the tenors of the Central Bank and commercial bank loans trended upwards.

In the second semester with a view to increase economic activity that had noted a clear slowdown, especially in the non-oil sector, the authorities decided to take advantage of the prevailing liquidity conditions and the low level of inflation and relax their monetary stance.

The Central Bank reduced its reference rate, i.e. the rate of interest on reverse purchase agreements, the Repo, from 5.25% to 5.0% in September 2003. The Repo Rate was introduced in May 2002 and refers to the rate of interest charged by the Central Bank to commercial banks for overnight borrowing. This financial option comes with the possibility of a repurchase

agreement by the Central Bank with an interest rate termed the Reverse Repo Rate. Funds are purchased by the Central Bank at a 50 basis point discount over the Repo rate. The Repo rate was established at 5.75% and the reverse rate at 5.25%. The Repo rate also constitutes the reference point for other rates such as the discount rate (charged on borrowing from the Central Bank to cover temporary periods of liquidity shortages) and the special deposit rate (the rate at which excess reserves are remunerated when held at the Central Bank).

The Central Bank also reduced its discount rate from 7.25% to 7%. As a result the preferential interest rate fell from 11.5% to 9.5% between September and November 2003. These measures stimulated credit demand from the private sector (2.8% and 8.9% in 2002 and 2003) and the acquisition of higher yielding assets which stimulated the expansion of the stock market (TT\$97 and TT\$410 million in traded value in 2002 and 2003).

Also in the second semester reserve requirements for commercial banks were reduced from 18% to 9%. The measure is meant to equalize the reserve requirements for banks and non-banks and lead to lower lending rates. The liquidity released by the reduction in reserve requirements did not have monetary effects as it was absorbed by the issue of government securities through a new auction system.

2.3 *Rate of exchange policy*

The foreign exchange market was subject to significant demand pressure in 2003 due largely to investment and acquisition of assets in other Caribbean economies by local investors. Net demand for foreign currency more than doubled from 2002 to 2003. The Central Bank sold dollars to offset the imbalance between supply of and demand for foreign currency. This allowed the value of the Trinidad and Tobago dollar to remain relatively stable against that of the United States dollar for most of 2003.

3. *Evolution of main variables*

3.1 *Economic activity*

Real economic growth in 2003 was at the same rate (4.1%) as it was in 2001 and significantly more than it was in 2002 (2.7%). As in previous years the motor of economic activity was the energy sector which grew by 11.4% in 2003 compared to 1.8% for the non-energy sector. For its part the non-oil sector improved its economic performance (0.5% and 1.8% in 2002 and 2003) due to the positive outcomes in transport and storage and communications and manufacturing. Contrarily agriculture contracted in relation to the previous year (5.5% and -15.1% in 2002 and 2003).

Within the energy sector petroleum, including oil and natural gas, recorded the more significant growth (12.9%) or more than twice the growth of petrochemicals (5.2%). This contrasts with the situation prior to 2002 when the growth of petrochemicals outstripped the growth of petroleum. The non-energy sector as a whole improved its growth performance in 2003 (1.8%) compared to 2002 (0.5%). The improvement was due mainly to the growth of transport, storage and communication and manufacturing, which had all declined in 2002.

The government's policy regarding the energy sector is to further develop the sector including petrochemicals and to pursue diversification through the development of downstream industries based on the country's energy resources. To this end, a Memorandum of Understanding (MOU) was signed with the American aluminium company ALCOA to construct an aluminium smelter in Trinidad and Tobago to process bauxite and alumina from regional sources.

Agriculture experienced its most significant decline (-15.1%) over the last five years and contributed significantly to the low growth of the non-energy sector in 2003. Sugar is no longer a significant agricultural export commodity. The sugar industry has been restructured with the cessation of operations of the sugar company (Caroni) in August 2003. The government's new commitment in terms of the agricultural sector is towards increasing agricultural production and productivity of crops that satisfy domestic demand (rice) and those of high export value (cocoa). Emphasis has therefore been placed on strategies including improvement of physical infrastructure – roads, bridges and drainage and irrigation facilities – improvement of the fiscal incentive regime and the distribution of credit to agriculture and fishing.

Although the growth of the manufacturing sector improved in 2003 (2%) after its decline in 2002 (-0.9%), it was still well below what it was in 2000 (6.7%) and 2001 (3.1%). Most of the manufacturing subsectors declined, in particular textile, garments and footwear and assembly type industries. The government's objective is for Trinidad and Tobago to become the manufacturing centre of the Caribbean. A number of industrial parks are to be established in various parts of the island to develop businesses in manufacturing and services. An Eco-Industrial Park at Wallerfield is to be developed during the 2004 fiscal year to attract investment in various areas of light manufacturing including agro-processing and services.

3.2 Prices, wages and employment

Point-to-point inflation fell from 4.3% in 2002 to 3.0% in 2003 due to the moderation of headline inflation, which excludes the price of food (3% to 1.7% in 2002 and 2003).

With the notable exception of rent and housing (1.4% and 3.3% in 2002 and 2003) most components of the consumer price index registered lower rates of growth when compared to 2002. The sub-categories of beverages and tobacco, footwear and apparel, home ownership and maintenance registered negative rates of growth (-0.51%, -1.21% and 0.22%). For their part, the category of food denoted the largest increase (10% and 14% in 2002 and 2003) due to the expansion of the prices in the components of the basic goods basket as a result of bottlenecks in the supply of agricultural products.

The average inflation rate for 2004 is likely to trend upwards of 4% on account of increased fuel prices announced in the 2004 Budget, which in turn led to the increased cost of transportation and higher prices recorded for a number of food items such as flour, chicken and cooking oil during the first few months of 2004.

Unemployment remained at the level of the previous year (10%). This is explained by the fact that the improved economic conditions, while increasing the demand for labour, also increased the expectations of finding employment thus leading to an increase in labour supply.

The female unemployment rate actually declined from 14.5% to 13.8% whereas the male unemployment rate increased from 7.8% to 8.3% from 2002 to 2003. The numbers employed grew at the same rate (1.7%) as the labour force while the numbers unemployed increased by 2%. This contrast with the situation in 2002 when the numbers employed grew at a faster rate (2%) than that (1.7%) of the labour force and the numbers unemployed actually declined by 2%. Most of the employed labour force is in manufacturing, construction, wholesale and retail trade and services. Job losses were recorded in the agriculture, petroleum and gas sectors.

A number of industrial disputes occurred during 2003 and early 2004 as workers took protest action to secure wage increases. Increased wages and the restructuring of the sugar industry in 2003 will affect the outturn for employment and inflation in 2004. Wage increases were also recorded in the health and telecommunications sector. These wage increases were contained within a range of 5% to 17% and averaged 11%.

3.3 *Evolution of the external sector*

The surplus on the current account of the balance of payments increased significantly from 0.5% to 9.6% of GDP between 2002 and 2003 and was able to finance the deficit on the capital account (5.7% of GDP). As a result the country accumulated a level of reserves equivalent to 6% of GDP. Currently net international reserves amount to 26% of GDP translating into 6.4 months of imports. The expected increase in energy prices in 2004 is expected to result in a substantial rise of the current account surplus to 13%

The significant increase in the surplus in 2003 was due largely to merchandise trade, which increased from US\$238 million in 2002 to US\$1076.9 million in 2003. This in turn was due to the expansion of exports (41% to 45% of GDP in 2002 and 2003) and the reduction in imports (38% and 35% of GDP in 2002 and 2003). The behaviour of exports reflected, on the one hand, the increase in exported oil volume due to the expansion in condensated crude production which is associated with the commissioning of the Train III liquefied natural gas facility. External sales of liquefied gas increased by a twofold margin with respect to 2002 (4.1 and 8.9 million tones in 2002 and 2003). On the other hand, exports were also stimulated by the rise in the international price of oil (20%) leading the price per barrel to US\$31.34.

For their part, petrochemical products expanded moderately. In this way methanol exports grew 1.8%. Also it should be noted the nitrogenous fertilizers recorded a significant impulse due to the start of the operations of the Caribbean Nitrogenous Company which positively affected the performance of ammonia exports (8.3%).

For 2004 the export outlook is promising due to the increase in the drilling and exploratory productive capacity in oil, nitrogenous fertilizers and ammonia. This will help to consolidate the country's number one international standing in the production and external sales of methanol.

Imports grew by 4.4% with imports of non-mineral fuels increasing by 5.8% in 2003. Raw materials, intermediate goods and capital goods constituted the bulk (82.5%) of imports. Food represented 57.8% of total consumer non-durable imports whereas food represented 36% of total consumer non-durable exports in 2003. The surplus on the services account declined by 7.6% or from US\$237.2 million in 2002 to US\$219.2 million in 2003. The most significant contributors to net services exports were insurance and transportation.

Finally, the capital and financial account recorded a deficit of US\$433.2 million (not taking into account errors and omissions) in contrast to a surplus of US\$330.2 million in 2002. This is explained by regional bond issues (US\$462 million), direct investment outflows to other CARICOM countries especially in the services sector, the conclusion of investment projects, and the repayment of external debt obligations. The latter was reflected in a net imbalance in official capital transactions reaching US\$52 million.

The Non-Independent Caribbean Countries (NICCs) ⁴¹

1. Main trends

The NICCs improved their economic performance. Aruba, the Netherlands Antilles and the United States Virgin Islands (USVI) increased their growth rate in relation to the previous year (-2.6 and 1.4% and 0.4% and 1.4%; 1.8% and 2% for 2002 and 2003, respectively). The British Virgin Islands (BVI) proved to be the exception to this trend as it suffered a contraction (-1.9%).

Growth was fuelled by oil refining activities (Aruba and USVI), tourism (Netherlands Antilles and BVI), the offshore financial sector (British Virgin Islands) and primary sector activities (Netherlands Antilles).

With respect to fiscal policy, Aruba and the Netherlands Antilles overhauled their fiscal regimes to bring about greater austerity in their spending and revenue collection activities. New Fiscal Regimes were introduced to restore order to public finances and control the fiscal deficits. As a result, Aruba managed to obtain a surplus in its fiscal accounts. Contrarily the fiscal position of the BVI and the USVI deteriorated strongly as fiscal deficits continued to rise and modest growths on revenues were overshadowed by that of current expenditures.

As in other Caribbean countries one of the more significant constraints on the growth of the NICCs is the debt burden, which has been symptomatic of a greater structural imbalance within these economies. Aruba's public debt for 2003 stood at 41.5% of GDP, whereas in the Netherlands Antilles this was 89.5% which later grew to 90.2% by the first quarter of 2004. The USVI, which is reported to have one of the highest per capita debt, had a 37.3% debt to GDP ratio.

⁴¹ The countries classified as NICCs in this report include Aruba, Netherlands Antilles, the British Virgin Islands and the US Virgin Islands.

On the external front, the Netherlands Antilles registered a positive current account balance (-4% and 0.4% in 2002 and 2003) while Aruba narrowed its deficit (-18% and -17% in 2002 and 2003). For their part the BVI increased its external imbalance while the USVI managed to close its foreign trade and transactions gap.⁴²

For 2004, Aruba, the Netherlands Antilles and the USVI are expecting to maintain their current growth trajectories. The negative position on BVI's growth has been taken as transitory and its previous growth path is expected to resume. Their growth potential however continues to be constrained by their fiscal and external deficits as well as the widening public sector debts.

2. Aruba⁴³

2.1 *Fiscal policy*

For the first time since it gained *status aparte* Aruba registered a fiscal surplus. The positive result was brought about by maintaining the level of expenditures at the level of the previous year (24% of GDP in 2002 and 2003). Total revenues did not increase (22% of GDP in 2002 and 2003).

In 2003, a New Fiscal Regime (NFR) for corporate incomes was implemented, with two new specific regimes. Offshore regimes are to be phased out by 2008 and no more tax holidays will be granted, allowing the practice to phase out as existing holidays expire. Corporate profits, which were taxed on a progressive marginal rate between 31% and 39%, now face a flat rate of 35%. Taxes on dividend profits were previously as high as 56%, now this was subject to a flat 30% (or 25% for selected companies).

Aruba's total public debt expanded (36% and 42% of GDP in 2002 and 2003) as a result of greater external debt commitments (15% and 20% of GDP in 2002 and 2003). This responded to a policy to pay off domestic debt with overseas loans.

2.2 *Monetary policy*

In 2003, the authorities adopted a restrictive monetary policy stance that responded to the build up in the liquidity position of the commercial banking system and to the excessive growth of credit in relation to that of nominal GDP (13% and 4%, respectively). In the first semester of the year they imposed a credit ceiling of 7% and in the second semester focused on harmonising the increase in credit with the long-term growth direction of the economy, taking into account the expected estimated imported inflationary pressures of 6-7%. Part of the latter strategy consisted

⁴² Data on the external sector was available only for Aruba and the Netherlands Antilles.

⁴³ Aruba is one of six Caribbean islands that together with Holland form the Kingdom of the Netherlands. On 1 January 1986, Aruba separated from the rest of the Caribbean group and became an autonomous State within the Kingdom under a modified independent status known as Status Aparte, which grants Aruba a modified independent status completely separated from the other five Netherlands Antilles islands. The Aruban florin (Afl) is pegged to the US dollar at Afl1.79.

in refining the Central Bank's monetary policy instruments and more specifically the Certificate of Deposit (CD) introduced in July 2003.

The strategy proved successful as in 2004 the allowable overall credit growth was reduced to 6%. Prudential regulations require that any bank which causes an excess in aggregate lending is to face a 6% annual penalty. However, the facilitation of additional credit creation by attracting net foreign funds still prevails, along with the non-interest bearing monetary cash reserve as well as the compensating fee to account for deficiencies in the actual cash reserve.

There are some looming financial problems and worrisome risks facing some of Aruba's major financial institutions. The Civil Servants Pension Fund (APFA) is running an unsustainable pension scheme. The General Health Insurance (AZV) is operating under a large and persistent deficit. An ageing population is confronting the Social Security Bank (SVb). Consequently, there has been a call for reforms and restructuring in these institutions to stabilise their long-term viability path.

2.3. Evolution of main variables

a) Economic activity

GDP growth improved (-2.6% and 1.4% in 2002 and 2003) mainly as a result of oil refining activities.

Tourism stagnated as the overall 2003 stopover tourists registered a mild dip (-0.11%). This was due in part to visa restrictions to deter drug smuggling which in fact backfired and led to a sharp and immediate decline in tourist inflow.

Oil refining remained the dominant industry in Aruba. Employment in that sector grew by 3.8% during the third quarter. In March 2004 the Coastal/El Paso refinery company was sold to Valero Energy Corp, after registering an increase in refinery output, for the first time in four years, in 2003.

b) Prices, wages and employment

Inflation, in 2003, rose by 0.4 percentage points to 3.7% given the country's dependence on imported food and manufactures, imported inflation from trading partners contributed to the rising price level.

At the last labour census in 2000 the unemployment rate was 6.9%. The Bank estimates that the rate fell slightly from 8.1% in 2002 to 8.0% in 2003.

c) Evolution of the external sector

The overall result on the balance of payments was negative (5.4% and -1.8% of GDP in 2002 and 2003, respectively). This reflected both a current account deficit (-18% and -17% of GDP in 2002 and 2003) and the deterioration of the capital and financial account. The former

result is attributed in part to a reduction of the positive balance on the income account and to the resurgence in exports (38%) and in particular of oil exports (50%) The latter result responded to the significant decline in foreign direct investment flows (-47%).

3. **British Virgin Islands**⁴⁴

3.1. *Fiscal policy*

In 2003 the overall fiscal deficit fell (4.2% and 0.7% of GDP in 2002 and 2003) mainly as a result of a significant drop in capital expenditures (-43%). For their part, current expenditures grew by 4.7%, namely because of an 11.8% increase in public wages and salaries. Current revenue expanded by 3.8%.

The 2004-2005 budget contemplates the creation of a budget surplus equivalent to 1.4%. The direction of fiscal policy is being geared towards social spending (education, health and youth development) and economic bolstering (tourism) in response to legislative reform priorities of the new administration.

3.2. *Evolution of main economic variables*

a) Economic activity

In 2003, the rate of growth declined by 1.88% for the first time in a decade. The behaviour of GDP reflected the decline in construction activities and the recovery of tourism and offshore banking.

Construction activities fell by over 45% as project cycles of many infrastructure project activities closed off.

The tourism sector performed well, as total arrivals in 2003 increased by 57% to 754,837. The number of cruise passengers increased by 91% and other tourists by 40%. This increase in cruise arrivals is only partially welcomed by the government, who expressed concern over the possible concomitant environmental degradation, which makes the islands less attractive for the more lucrative per capita spending stopover arrivals. Docking fees were then reintroduced and in the main port of Road Town large cruise ships of over 1000 passengers were limited to three per day.

The offshore financial services sector is one of the more vibrant sectors of the economy, where by the end of 2003 near to 360,000 international business companies (IBCs) were registered. This is an important sector for the economy as close to 50% of government revenue comes from the financial services sector. In May 2004, the BVI was listed as one of the top five offshore locations ideal for financial confidentiality by the Financial Investigation Agency. The

⁴⁴ The BVI is a British overseas territory comprising 47 islands (16 inhabited). It was part of the Leeward Islands from 1872 to 1956, after which they were administered separately.

Agency was established to oversee Money laundering, investigate financial fraud and promote ethical standards.

b) Evolution of the external sector

The trade balance is very uneven with imports greatly exceeding exports, and the deficit being further driven by a downward sticky import bill. For 2004, officials estimate the deficit to reach USD228.6mn.

4. The Netherlands Antilles ⁴⁵

4.1 Fiscal policy

The fiscal deficit expanded (-4.2% and -5% of GDP in 2002 and 2003) due to lagging revenues and rising expenditures. As was the case in 2002, higher spending was facilitated by the attractiveness of domestic government securities compared to options abroad. As a result the debt to GDP ratio increased to reach 90% of GDP in 2003. Domestic debt rose by 13.8% and foreign debt by 12.3%.

The 2003 expansionary budget policy was highly prominent in the categories of domestic interest payments, capital transfers and purchases of goods and services. The 2002-2003 increase in revenues (8.3%) can be attributed to the increase in non-tax revenues from the transfer of dividend tax by the Dutch Government and dividend remittances from government-owned companies. Grants accounted for 9.6% of total revenues in 2003.

The behaviour of revenues also responded to the current privatisation drive on companies including the Curaçao International Airport in 2003. Other companies earmarked for privatisation include Selicor (waste collection agency), Curinde (harbour management service-provider), United Telecommunications Services, Dutch Caribbean Airlines and Curaçao Ports Authority.

During the year the authorities introduced the New Fiscal Regime (NFR) which incorporates a structural reform programme aimed at restoring order to public finances.

4.2 Monetary policy

In 2003 the money supply increased by 8.4%. The domestic monetary expansion was mainly attributed to the increase in net domestic credit (42%) as a result of the monetisation of the budget deficit and, to a lesser extent, to the expansion of net foreign assets (8.2%). The monetary authorities managed the increase in liquidity by raising the reserve requirement on banks' liabilities from 9.0% to 10.0% to curb the growth in credit extension to the government

⁴⁵ The five-island federation of the Netherlands Antilles (Curaçao, Bonaire, Saba, St. Eustatius and St. Maarten) has been self-governing in internal affairs since 1954. The Netherlands Antilles guilder (NAf) is fixed to the US dollar at NAf1.79: US\$1.

by commercial banks and to mitigate against any potential negative impact on foreign exchange reserves.

In addition the authorities expanded the range of the Certificates of Deposit (CDs) maturity options to make it a more flexible instrument, as it is the only tradable non-governmental instrument. This allowed the commercial banking system to ultimately finance the budget deficit through the purchase of government securities. This in turn led to a decline in their yields and, as a consequence, in the debt burden of the government.

4.3. *Evolution of the main economic variables*

a) Economic activity

Economic growth improved (0.4% and 1.4% for 2002 and 2003) as a result of the strengthening of goods exports (17.7%) and a near 10% increase in tourism service exports. A rise in private sector production activities (1.2%) and expansionary public sector spending (0.3%) also contributed to the favourable economic performance.

Even though the manufacturing sector registered no growth for 2003, agriculture, fishing and mining showed a 5.9% added value compared to -5.3% in 2002. Despite declines in the harbour sector, positive activity in air transportation drove 1.6% growth in the overall transportation sector. As many construction projects completed or approached their final phases, the activity in that sector contracted by 5.2%.

The tourism sector continued to recover from the effects of the events of 11 September 2001 with increases in both stopover arrivals (9.6%) and cruise ship passengers (5.5%)

b) Prices, wages and employment

Inflation rose from 0.4 to 1.9% due to increased utility costs because of the upward trend in world oil prices, which inflated housing. For its part, the reintroduction of import restrictions contributed to the rise registered in food prices.

Unemployment figures have risen consecutively in five years to 15.3% in 2003. The legalisation of illegal aliens in 2002 increased the number of migrants to the islands, and this has meant that labour supply is outpacing the creation of employment opportunities, thereby exacerbating the unemployment rate.

c) Evolution of the external sector

The current account balance posted a positive flow (0.2% of GDP). This reflected a narrowing of the merchandise trade deficit due to an increase in goods exports (18%) which more than offset the expansion of imports (5%) and an increased surplus in the services balance (US\$1, 600 million).

The result on the capital and financial account was negative (US\$-94 million). This was due to a decline portfolio investment because of maturation of invested funds that more than compensated for the increase in direct investment flows (US\$80 million).

5. United States Virgin Islands ⁴⁶

5.1. *Fiscal policy*

In 2003 the fiscal deficit increased and is expected to be further exacerbated, since it has been financed by extending borrowing requirements, and this has grave implications for the public debt position. The government's debt is reported to be the highest in the world in terms of per capita figures (US\$9,036). In 2003, total debt was approximately US\$981 million or 54% of GDP.

This fiscal deterioration is ballooning rapidly, and proposals have been made to halt it including widespread tax increases and floating bonds by gross tax receipts. For the 2004 budget, the proposals being considered include reducing tax exemptions to 85% from 90% to bolster public revenues. In 2003, revenues were boosted from the introduction of new taxes such as a 4% excise tax on personally imported items, and expenditures were reduced due to a 5% cut personnel expenditures.

In order to address the structural imbalance between revenue and expenditure, a new financial management system is under consideration with the overall aim of improving the public sector financial management.

5.2. *Evolution of main economic variables*

a) Economic activity

In 2003, the growth in Gross Territorial Product (GTP) was estimated at 1.98% driven by the performance of the tourism sector and oil refinery activities in spite of declines in construction and in the output of some manufactured products.

Construction permit value is used as a benchmark for construction activity and in 2003 this overall activity fell by 1.4%, as several major projects, including a coker unit, were completed, however, during the year there was a great surge in activity during February and March. Private residential and non-residential construction increased by 31.6% and 75.3%, respectively, because of lower interest rates.

In 2004, construction activity should pick up as the government received a US\$5 million grant from the United States Interior Department to 'design, construct and operate' two secondary wastewater treatment facilities.

⁴⁶ The USVI is an unincorporated territory of the United States, purchased from Denmark in 1917. Like Puerto Rico, it has a voice but no vote in Washington.

Cruise passenger arrivals have increased by 2% with 1.8 million arrivals in 2003, though most of the activity was in the fourth quarter. Air visitor arrivals have risen 3.8% to 2.39 million with positive growth in the latter half of the year. However, hotel occupancy rates remained at the level of 2002 (57%). Nevertheless, tourism remains the most important industry which accounts for over 70% of GDP and employment. The new investment in public and private tourism-related projects should bolster the sector in 2004.

The manufacturing industry is concentrated on petroleum products, rum and watches. Since 1997 the watch industry has contracted by 50% from over one million watches then to close to 482,000 in 2003. For the first quarter of 2004, watch exports declined 15.2% to 67,520 from the corresponding quarter in 2003. In 2003, Virgin Islands Rum Industries, the industry's monopoly, exported 5,9773.3 million proof gallons to the United States. By April 2004, it had shipped 1,461.6 million proof gallons. Hovensa, the dominant oil refining manufacturer in the industry, processes 440,000 barrels of refined petroleum products a day. In 2003, the company's exports to the United States increased by 48% (US\$4.8b).

Greater and stable expansion of the economy is expected in 2005 as the Hovensa refinery plans on investing US\$400-450m into its operations and a desulphurisation unit. There are also plans for a US\$45m Carambola Hotel and Convention Center in St. Croix, a US\$150m Yacht Haven Hotel and Marina and US\$9.3m Red Hook Terminal in St. Thomas. In St. John there are plans for a US\$12.5m Grand Bay Resort.

b) Prices, wages and employment

Annual inflation in 2002 was estimated at 2.1% and this to rise to 3.2% at the end of 2003. For its part in 2003 employment levels dropped by 1.6%. In March 2004 the unemployment rate stood at 8.5% and by year's end it is estimated to fall to 7.8% as the construction and tourism sectors recover.

c) The evolution of the external sector

Official estimates on trade have seen exports increasing from US\$3.88 billion in 2002 to US\$4.25 billion in 2003 (10%). Imports have also been estimated to increase by US\$290 million to US\$4.5 billion in 2003, thereby reducing the trade balance from -US\$0.34 billion to -US\$0.25 billion.

Aruba: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 a/
	<i>Annual rates of growth b/</i>								
Real Gross domestic product	2.5	1.3	7.8	6.7	1.1	3.7	-0.7	-2.6	1.4
	<i>Millions of US dollars</i>								
Nominal Gross domestic product	1,321	1,380	1,532	1,665	1,723	1,859	1,899	1,911	2,011
Partial Economic Activity Index (PEAI)	<i>Index 1998=100</i>								
Partial Economic Activity Index					99.7	103.0	100.0	97.7	101.7
Agriculture and manufacturing (including oil refining)					...	...	...	...	...
Utilities					102.3	106.9	112.3	113.3	115.2
Construction					84.0	90.5	83.2	69.6	84.1
Wholesale and retail trade					98.4	94.9	81.4	78.2	83.2
Restaurants and hotels					105.7	108.8	107.5	101.5	105.7
Transport, storage and communication					101.8	112.1	107.7	107.3	106.2
Financial intermediation					...	...	...	...	...
Real estate, renting and business activities					103.5	106.9	110.5	113.6	116.5
Public administration and education					100.9	104.8	106.3	108.0	108.6
Other business and non-business services					...	...	...	...	...
Balance of payments	<i>Millions of US dollars</i>								
Merchandise balance	-249	-302	-391	-354	594	-66	55	-549	-332
Exports fob	1,347	1,733	1,725	1,165	1,416	2,566	2,431	1,501	2,080
Imports fob	1,597	2,035	2,116	-1,518	-2,009	-2,632	-2,377	-2,050	-2,412
Services balance	234	255	195	335	246	286	282	199	191
Current account balance	-16	-62	-196	-19	-348	220	337	-350	-141
Non-oil current account balance	-25	-3	-17	-13	-2	-27	-10	-159	106
Overall balance	16	-25	-22	89	11	-26	73	22	-32
Public debt									
Total debt (% of GDP)	42.6	42.2	39.4	29.9	28.2	28.5	32.5	36.3	41.5
External	18.6	16.5	12.2	13.1	11.9	11.3	11.6	15.3	20.3
Domestic	24	25.8	27.2	16.8	16.3	17.2	20.9	21	21.2
Prices and interest rates									
Rate of change in the consumer price index (period average)	3.4	3.2	3.0	1.9	2.3	4.0	2.9	3.3	3.7
Weighted deposit real interest rate	...	...	...	6.2	6.2	6.2	5.8	5.5	5.3
Weighted lending real interest rate	...	...	...	13.1	13.0	12.0	12.1	12.8	11.4
Public finances	<i>Percent of GDP</i>								
Revenue and grants c/	25.5	25.1	22.9	21.7	22.7	22.3	21.5	22.0	22.3
Expenditure	25.9	27.0	24.6	21.2	22.3	21.6	21.1	23.9	24.3
Lending minus repayments	...	...	...	1.1	1.2	0.5	0.9	-0.1	-2.0
Financial deficit d/	-0.4	-1.9	-1.7	-0.6	-0.8	0.2	-0.5	-1.8	0.0
Payment arrears	1.6	3.0	1.6	2.2	2.9	4.6	7.9	8.1	8.4
Monetary aggregates	<i>Annual change</i>								
Net foreign assets	6.3	-9.8	-7.9	40.4	3.5	-8.1	24.5	5.9	-8.1
Net domestic assets	4.6	11.1	10.8	1.8	14.4	7.7	-2.3	13.0	18.3
Domestic credit	4.5	13.1	8.6	5.8	12.1	8.4	2.1	10.2	14.7
Money and quasi-money	5.2	3.2	4.6	13.1	10.4	2.3	5.9	10.5	9.2
Money	-1.4	2.2	6.3	15.6	7.9	1.0	17.6	20.5	16.7
Quasi-money	9.1	3.7	3.7	11.7	11.8	3.0	-0.2	4.3	3.9

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

Table 28
British Virgin Islands: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003
	<i>Annual rates of growth a/</i>								
Real Gross domestic product	29.3	13.1	16.4	15.0	12.0	15.3	6.3	1.9	-1.9
	<i>Millions of US dollars</i>								
Gross domestic product at market prices	396.72	448.76	522.50	600.73	672.94	776.18	824.66	840.21	825.18
	<i>Annual rates of growth</i>								
Agriculture, Hunting & Forestry	2.11	2.46	2.67	3.01	3.08	3.09	3.09	3.09	3.9
Fishing	3.17	3.48	3.84	4.15	4.37	4.38	4.38	4.38	4.38
Mining and Quarrying	-0.69	-0.71	-0.69	-0.61	-0.64	-0.64	-0.64	-0.64	-0.641
Manufacturing	13.95	16.22	24.37	27.67	26.1	26.14	26.14	26.15	26.164
Electricity, Gas and Water	6.57	7.64	9.44	9.8	10.14	10.73	12.25	12.84	14.635
Construction	30.14	26.29	31.64	43.7	48.13	58.63	71.2	102.48	55.827
Wholesale and Retail Trade	58.11	64.35	78.26	82.02	90.41	106.15	112.35	109.91	115.06
Hotels and Restaurants	57.76	66.74	81.65	95.27	101.49	122.33	132.75	126.58	130.665
Transport and Communications	44.51	51.86	56.98	66.96	78.83	93.82	100.57	97.13	100.98
Financial Intermediation	27.41	29.65	35.02	39.01	42.48	52.06	55.41	53.761	54.819
Real Estate, Renting & Business Activity	95.6	116.12	134.29	158.43	189.47	218.56	227.63	226.209	238.801
Government Services	25.63	26.35	28.59	32.19	33.81	35.86	38.04	40.342	42.782
Education	9.15	10.55	11.27	12.53	12.88	13.7	14.56	15.483	16.456
Health and Social Work	5.27	5.87	6.2	7.58	8.61	9.18	9.78	10.415	11.089
Other Comm., Social & Personal Services	8.95	12.58	14.72	17.04	20.73	20.77	20.77	20.769	20.784
	<i>Millions of US dollars</i>								
Balance of trade									
Exports of goods	19.20	20.65	22.40	23.10	25.42	26.65	28.16	...	...
Export of services	363.18	410.59	444.37	473.72	542.42	573.99	623.01	...	...
Total Export of goods and services	382.38	431.24	466.77	496.82	567.84	600.64	651.17	...	...
Imports of goods	130.83	158.37	166.38	164.71	197.97	237.06	252.85	...	...
Import of services	194.26	221.02	266.45	289.53	307.62	341.87	362.46	...	...
Total Imports of goods and services	325.09	379.39	432.83	454.24	505.59	578.93	615.31	...	...
Balance of Visible trade	-111.63	-137.72	-143.98	-141.61	-172.55	-210.41	-224.69	...	...
Overall Trade Balance	57.29	51.85	33.94	42.58	62.25	21.71	35.86	...	...
External Debt	41.9	39.8	37.8	35.2	39.4	37.1	49.0	54.1	54.3
Public Debt	41.9	39.8	37.8	35.2	39.4	37.1	49.0	54.1	54.3
Private Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prices									
Annual Inflation rate	5.1	4.9	5.9	4.4	2.3	2.8	3.0	...	...
	<i>Millions of US dollars</i>								
Public finances									
Recurrent Revenue	98.2	112.6	128.3	142.3	156.9	181.1	186.5	183.1	190.0
Tax Revenue	37.4	42.8	44.5	50.2	54.1	60.3	61.7	62.0	66.0
Non-Tax Revenue	44.9	54.6	66.8	73.8	63.6	97.1	103.3	100.3	102.2
Recurrent Expenditure	76.3	84.1	85.7	106.4	127.1	134.7	142.2	150.4	157.5
Current Balance	21.9	28.4	42.6	36.0	29.8	46.6	44.3	32.6	32.5
Capital Expenditure	15.6	13.4	23.0	17.7	12.4	38.9	47.1	67.5	38.2
Overall Balance	6.3	15.0	19.6	18.3	17.4	7.7	-2.8	-34.9	-5.7

Source: ECLAC, on the basis of official information

a/ At constant prices.

Table 29
Netherlands Antilles: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003
	<i>Annual rates of growth b/</i>								
Gross domestic product at factor prices			-0.6	-2.0	-1.2	-2.7	0.2	0.4	1.4
	<i>Millions of US dollars</i>								
Real Gross domestic product			2,513.97	2,513.97	2,513.97	2,569.83	2,625.70	2,625.70	2,737.43
	<i>Annual rates of growth b/</i>								
Gross domestic product by economic activity									
Agriculture, fishery and mining							-0.4	-5.3	5.9
Manufacturing							-0.1	2.0	0.0
Electricity, gas and water							-0.4	2.4	1.5
Construction							13.3	10.2	-5.2
Wholesale and retail trade							3.2	0.5	2.5
Restaurants and hotels							2.5	3.0	3.8
Transport, storage and communication							-2.1	-1.1	1.6
Financial intermediation							3.0	3.8	1.9
Real estate, renting and business activities							-2.2	-0.5	1.2
Private households							-1.9	-0.1	-0.2
	<i>Millions of US dollars</i>								
Balance of payments									
Current account balance						-91	-377	-106	12
Merchandise balance						-1,764	-1,994	-1,838	-1,796
Exports fob						1 210	1 143	1 030	1 213
Imports fob						2 975	3 137	2 868	3 009
Services balance						1,575	1,580	1,536	1,601
Income account						41	36	1	-12
Unilateral transfers						58	1	195	220
Financial and capital balance c/						66	306	14	-94
Net foreign direct investment						-108	-9	12	-143
Financial capital d/						13	240	-36	-141
Global balance						...	...	...	...
Variation in reserve assets e/						85	-415	-122	-88
Public debt									
Government debt (millions of US dollars)			1,636.4	1,754.7	1,842.2	1,867.5	1,949.4	2,146.2	2,436.6
Government debt (% of GDP)			64.6	69.7	73.5	72.8	74.5	81.4	89.5
Prices and interest rates									
Rate of change in the consumer price index f/			2.2	2.0	2.2	2.5	1.7	0.4	1.9
Pledging rate			7.00	7.00	7.00	7.00	7.00	3.50	2.25
Prime rate current account overdrafts			...	...	10.74	9.55	10.48	10.20	10.73
Government bond			9.00	7.75	8.75	9.00	9.00	7.25	6.90
	<i>Millions of US dollars</i>								
Public finances									
Budget balance			-30.8	-47.4	-29.7	-56.5	2.2	-121.2	-135.6
Budget balance (% of GDP)			-1.2	-1.9	-1.2	-2.2	0.1	-4.6	-5.0
Government revenues			709	708	652	705	707	695	752
Government expenditures			740	755	682	761	705	816	888
Financing			31	47	30	56	-2	121	136
Monetary			-3	-11	30	12	31	78	59
Nonmonetary			34	59	0	45	-33	43	77
	<i>Millions of NAF.</i>								
Money and credit									
Money supply (M2)			2,602	2,699	2,891	2,955	3,381	3,777	4,093
Change in money supply			65	97	193	64	426	396	316
Domestic sector (net)			5	-33	213	182	-10	274	129
Foreign Sector (net)			60	130	-20	-118	436	122	187

Source: ECLAC, on the basis of official information

a/ Preliminary data for the first quarter

b/ At constant prices.

c/ Includes errors and omissions.

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

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

f/ Consider 1997-2000 average period rate, 2001-2004 end of period rate