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LC/CAR/L.173
28 July 2008
ORIGINAL: ENGLISH

ECONOMIC SURVEY OF THE CARIBBEAN
2007-2008

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CONTENTS

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EXECUTIVE SUMMARY

This survey provides an overview of the economic performance of countries of the Caribbean Development and Cooperation Committee (CDCC) for the year 2007 and their outlook for 2008. The report consists of three chapters. The first one provides a regional analysis of the main economic indicators from a comparative perspective starting with a brief discussion of the principal events in the world economy. The second chapter deals with two selected topics for the economic development of Caribbean countries, namely public debt sustainability and competitiveness in the tourism sector. The last chapter presents country briefs with the main macroeconomic developments in 2007 and the outlook for 2008.

During 2007 and the first half of 2008, three major events affected developed and developing countries and regions alike. First, the increase in oil prices that started in 2003 continued and intensified during the year. Second, the slowdown or recession in the United States prompted by the burst of the real estate bubble - the subprime mortgage crisis and the credit crunch that started in September 2007. Finally, the sustained escalation in food prices accelerated since early 2008. These shocks have made the outlook for the global economy more uncertain posing greater downside risk to economic performance.

The deterioration in international conditions along with other idiosyncratic factors led to the decline in economic dynamism in 2007 in most countries. Relative to 2006, GDP growth slowed almost two percentage points to 3.6% (simple average) in the seven larger Caribbean economies[1]. A 0.7 percentage points decline was reported for the Eastern Caribbean Currency Union (ECCU) countries[2], whose growth posted a rate of 6.1% (simple average). Notwithstanding, from a longer-term perspective, the average GDP growth rate recorded in 2007 by the former group of countries was slightly higher than that posted in 2001-2005. This is not to say that GDP growth was satisfactory in 2007, but that its speed was not below the figures registered during the first half of the current decade. On the contrary, GDP growth in 2007 nearly doubled in ECCU countries compared with the 2001-2005 period, revealing a much better performance.

For the more developed countries (MDCs), the sharpest declines in GDP growth were observed in Trinidad and Tobago (from 12.2% in 2006 to 5.5% in 2007) and Belize (from 5.3% to 1.6%). In the former country, this was due to a significant decline in the output growth of the energy sector, whereas in the latter this decline was mainly a consequence of a drop in agriculture exports. In the case of the Bahamas, the cooling down of the dynamism of the economy (1.8 percentage points to 2.8% in 2007) was the result of the combination of a sharp slowdown in the construction sector and reduced credit expansion.

As regards the ECCU countries, there are mixed results. On the one hand, Antigua and Barbuda, Dominica, and Saint Lucia recorded marked slowdowns in economic activity in 2007. In the first country, this behaviour was related to the end of massive construction projects linked to the tourism sector. In Dominica and Saint Lucia, the impact of Hurricane Dean on the agriculture sector was partly responsible for this outcome. On the other hand, Montserrat and, especially, Grenada witnessed substantive recoveries from the recessions suffered in 2006.

Fiscal balances in the Caribbean showed pronounced differences in 2007, from countries recording deficits above 6.5% of GDP such as Guyana, Antigua and Barbuda, Grenada and Montserrat, to others posting surpluses higher than 2.5% of output, namely Suriname and Trinidad and Tobago. Comparing these results with fiscal balances exhibited in 2003-2005, eight of the 15 countries improved their fiscal

[1] The Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago.
[2] Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines.

positions. The conclusion is similar when comparing fiscal balances between 2007 and 2006, but the countries change. Within the seven MDCs, Barbados, Belize, Guyana and Jamaica recorded persistent fiscal deficits. On the contrary, Trinidad and Tobago shows recurrent fiscal surpluses, whereas Suriname has continued to improve its fiscal position during the last years. In the case of the ECCU countries, Grenada, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines posted deficits between 2003 and 2007. No ECCU country recorded recurrent surpluses during the same period.

The disappointing fiscal performance showed by most Caribbean countries – that goes back to previous decades in many cases –led to the accumulation of significant amounts of public debt to finance persistent fiscal gaps. Thus, at the end of 2007, except for the Bahamas, Suriname, Trinidad and Tobago, Anguilla, and Montserrat, all other countries recorded excessively high debt-to-GDP ratios by any standard, ranging from 73.8% in Saint Lucia to 170.1% in St. Kitts and Nevis. In this context, interest payments on domestic debt both external and domestic have become a significant burden to public finance in many countries, imposing difficulties on fiscal policy management and soaking up important portions of fiscal revenue. This has led to limited investment in public infrastructure, education, health and other areas that facilitate growth and competitiveness. Indeed, interest payments on public debt as a share of fiscal revenue in 2006-2007 consumed more than 40% of fiscal revenue in Jamaica, and more than 20% in Belize and St. Kitts and Nevis.

Only one of the MDCs recorded a widening in its fiscal deficit in 2007 relative to 2006. This is the case of Barbados, whose fiscal gap increased by 0.4 percentage points to 2.4% of GDP. From this perspective, 2007 represented an improvement in the fiscal position of this group of countries. Nevertheless, Guyana and Jamaica still exhibited substantial fiscal deficits of 7.4% and 4.9% of GDP, respectively. In addition, surplus countries such as the Bahamas and, especially, Trinidad and Tobago, reduced their excess of revenue over spending from 1.7% of GDP to equilibrium in the former case, and from 6.9% to 2.6% of GDP in the latter.

The fiscal performance of the ECCU countries during 2007 was different. Indeed, the two surplus countries in 2006 – i.e. Anguilla and Dominica – experienced a weakening in their fiscal positions. Moreover, the former transformed a fiscal surplus of 1.3% of GDP posted in 2006 into a deficit of 2.5% of GDP in 2007. In addition, the fiscal gap of Montserrat widened from 3.7% of GDP in 2006 to 6.5% in 2007, whereas that of Grenada increased by 0.3 percentage points of GDP to 6.7%. The main improvement in the fiscal position was recorded by Saint Lucia that managed to reduce its fiscal deficit from 6.2% of GDP in 2006 to 2.1% in 2007.

The upsurge of international prices of fuel and food made the control of inflation in 2007 particularly difficult. In this context, Guyana and Jamaica recorded two-digit inflation rates. In the latter case, however, this was not new as a similar situation was experienced in 2003-2005. However, relative to 2006, inflation increased by 9.9 and 11.1 percentage points in these countries, respectively. Similarly important was the hike from a slight deflation in 2006 to 8.2% inflation in 2007 in Saint Lucia. In the non-ECCU countries, in 2007, Barbados and Trinidad and Tobago managed to reduce inflation as compared to 2006. The same was true for Anguilla, Antigua and Barbuda, and St. Kitts and Nevis. In all countries food inflation was above headline inflation in 2007 and the first half of 2008.

When observing the evolution of trade and current account balances in the Caribbean, two general features stand out. First, in countries abundant in natural resources – notably Suriname and Trinidad and Tobago – generally trade surpluses offset deficits in the other components of the current account – i.e. services and income balances – resulting in lower current account surpluses (or plain deficits). On the contrary, in all the other countries, current account deficits tend to be lower than trade deficits, revealing that these are partially counterbalanced by surpluses in the services and transfers balances. In this group of countries that are not abundant in natural resources the services sectors are important, especially the tourism and financial services sector. By the same token, transfers from abroad are highly significant particularly due to the magnitude of remittances.

The highest external gap was that of Anguilla, which in 2007 recorded a current account deficit of 91.7% of GDP. In the other ECCU countries the current account deficits ranged from 20.4% of GDP in Montserrat to 36.6% in Grenada. On the other hand, the non-ECCU countries that posted the highest current account deficits in 2007 were Guyana (21.6% of GDP), the Bahamas (18.2%) and Jamaica (17%). All in all, at the aggregate level (simple average) ECCU countries recorded much higher trade and current account deficits as a share of GDP than the other Caribbean countries in 2003-2007. The magnitudes of trade and current account deficits are a matter of serious concern, especially because the Caribbean countries are facing the imminent implementation of the Economic Partnership Agreement (EPA) between the European Union (EU) and CARIFORUM (CARICOM plus the Dominican Republic) that would presumably increase imports originated from the EU that are granted free access to Caribbean markets within the new agreement, even while commodity exports might be squeezed by reduced preferential access.

The massive current account deficits observed in most countries was financed mostly by foreign capital. While in the MDCs Foreign Direct Investment (FDI) and financial capital have recorded comparable levels as a share of GDP in 2003-2007(simple average), in the ECCU countries FDI has been much more important than financial capital to finance the external gap. Indeed, in the latter group of countries the magnitude of FDI inflows (simple average) was between 2.8 and 3.6 times financial capital. In addition, FDI was much more significant in the ECCU countries. For instance, in 2007 FDI as a share of GDP in the ECCU economies was 6.4 times higher than in the other Caribbean countries.

The excessive external gaps recorded by most Caribbean countries place them in a position of extreme vulnerability to external shocks, such as deterioration in the terms of trade and sudden reversals in foreign capital inflows. This vulnerability is amplified by excessive public debt in most countries coupled with susceptibility to natural disasters that have been striking the region with increasing frequency. Reducing the external gap continues to be one of the main economic policy challenges facing the Caribbean countries.

Prospects for 2008 indicate a GDP growth rate (simple average) in the range of 3.5-4.0% in the MDCs. The most rapid pace would be recorded by Trinidad and Tobago (5.5-6.0%) followed by Suriname (5.0-5.5%) fuelled by their dynamic mining and/or oil industries in a context of increasing high commodity prices in world markets. On the contrary, the Bahamas and Belize would exhibit the slowest dynamism in economic activity with GDP growth rates between 2% and 2.5%. The difficulties experienced by most airlines due to the high prices of fuel and its impact on the tourism sector in a context of increased uncertainty and credit crunch in the United States play a role in this forecast. In addition, floods experienced by Belize in May 2008 will inhibit growth, especially in the agriculture sector. In the case of the ECCU countries, preliminary information for the first quarter indicate that the tourism sector has picked up led by cruise arrivals. However, as mentioned above, the situation of the tourism sector is likely to deteriorate over the remainder of the year, so that GDP growth in this group of countries would decline relative to 2007, posting a projected rate (simple average) to the tune of 3.5-4.0% in 2008. The most dynamic economy would be Anguilla (GDP growth rate of 5.5-6.0% in 2008), followed by Antigua and Barbuda (5.0-5.5%). On the other hand, Dominica, Grenada and Saint Lucia would post the lowest GDP growth rates within the ECCU that would range between 2.5% and 3% in 2008. The other ECCU countries would record an intermediate output growth rate.

Chapter I

REGIONAL ANALYSIS

This chapter presents a regional comparative analysis of the main trends in Caribbean economies. It briefly reviews the most important current events in the world economy and their likely effects on the region. The issue of GDP growth performance, fiscal policy and public debt are also discussed as well as monetary policy and inflation. Main developments in the external sector and, finally, an evaluation of overall economic performance of Caribbean countries in 2007 and prospects for 2008 are presented.

A. THE WORLD ECONOMY

It is well known that conditions in international markets exert a prominent influence on small, open economies such as those in the Caribbean. Indeed, the world economy sets the general context in which national authorities have to design and implement public policies in order to achieve their broad development goals such as the promotion of growth, job creation, and poverty reduction. During 2007 and the first half of 2008, three major events affected developed and developing countries and regions alike. First, the increase in oil prices initiated in 2003 that continued and intensified. Second, the slowdown or recession in the United States prompted by the burst of the real estate bubble – subprime mortgage crisis and the credit crunch that started in September 2007. Finally, the sustained escalation in food prices accelerated since early 2008.

These shocks have made the outlook for the global economy more uncertain and tilted towards the downside. The Organisation for Economic Cooperation and Development (OECD) latest forecast paints a dismal picture of growth prospects. According to this organization, the United States economy is likely to shrink in the second quarter of 2008 and would continue to slow from 2.2% in 2007 to little more than 1% in 2008 and 2009; growth in the Euro area would slow from 2.6% in 2007 to 1.7% and 1.4% in 2008 and 2009, respectively. The International Monetary Fund (IMF) also projects a similar trend but worst scenario in which the United States economy will grow by 0.5% in 2008 and 0.6% in 2009; the Euro area by 1.4% and 1.2%, respectively. World economic growth would mainly be led by growth in emerging and developing economies. According to the IMF, these economies would post growth rates of 6.6% in 2008 and 6.7% in 2009. In this section, these three phenomena and their implications for the Caribbean are briefly discussed.

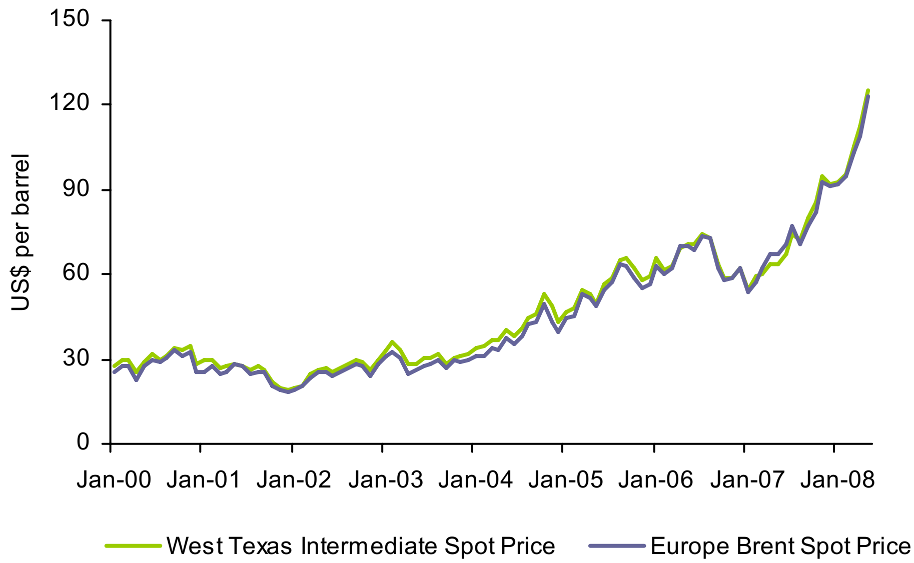
1. The continuous hike in oil prices

It is indisputable that the sustained increase in international oil prices during the last few years is a development with major implications for the global economy, affecting growth expectations, production costs, consumer prices and consumption levels, among other key social and economic issues.

This phenomenon of increasing oil prices is not new. In fact, international oil prices have been increasing steadily since 2000-2001. However, it was since middle 2003 that prices started climbing at an accelerated pace, a process that is still ongoing. As a consequence, the price of crude oil almost quintupled between January 2000 and May 2008, going from US$27.3 to US$125.4 per barrel as shown in figure 1.[3]

[3] Average spot price for West Texas Intermediate recorded in May 2008

Figure 1
OIL PRICES, JANUARY 2000-MAY 2008(US$ PER BARREL)



Source: Energy Information Administration.

A complex combination of structural and temporary factors lies behind this phenomenon coming from both the supply and the demand side of oil markets. From the demand side, the main factors explaining the growing pressure for oil are the global population growth; the impressive economic development of China, India and other emerging countries; and new consumption patterns (particularly in the most developed economies) based on extensive use of energy resources. As a consequence, worldwide consumption of oil has increased significantly during the last decades, reaching a top level of 83.7 million barrels a day in 2006.

On the supply side, key factors to consider are the diminishing production from current oil fields and the slowdown in the discovery and development of new oil reserves. Costs to develop new oil fields and facilities have also gone up, putting additional pressure on the supply side. Complementary, temporary factors, like the war in Iraq, or the political instability and uncertainty affecting several major oil producers, like Nigeria, have also contributed significantly to supply shortages and stagnation.

In relation to the current supply constraints, there is an ongoing discussion on the possibility that the world has reached the so called "peak oil": the point in time when worldwide oil production reaches its highest level and, subsequently, starts to decline. The implication of this scenario is that oil prices will keep rising steadily as a response to the growing scarcity of this resource. In that sense, a number of educated sources are already forecasting a price of US$200 per barrel before the end of 2008.[4]

On the upside, it is worth noting that there are several factors that could reduce or slow down the "peak oil" phenomenon: discovery of new reserves associated with new technologies, more efficient use, development of alternative energy sources, changes in consumption patterns, and so on. However, there is wide acceptance that the "cheap oil" period is over and during the next decades the world will face a

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[4] In early July 2008, the price of oil surpassed US$145 per barrel. However, by the middle of that month it had declined to around US$130 per barrel revealing the high volatility of crude prices in world markets.

persistent imbalance between supply and demand until new technologies and sources of energy are fully established and developed.

Another key factor to explain the steep increase in oil prices can be found in the speculative pressures operating on international commodity markets, fuelled by a volatile financial and economic global scenario. According to diverse sources, massive hoarding of assets on natural resources (principally futures) by global investors is the main force behind the recent increases in the international crude price. In that sense, it is interesting to analyze the recent evolution of the Amex Oil Index (AOI), which is a price-weighted index measuring the performance of the oil industry through changes in the stock price of a set of corporations involved in the exploration, production, and development of petroleum at a worldwide scale. As can be seen in figure 2, the AOI has been rising in the last few months, fuelled by the entry of fresh capitals looking for alternative investment vehicles in a scenario of economic slowdown and lower interest rates in the United States, coupled with the collapse of the real estate market. Indeed, the AOI has increased by one third between January 2007and January 2008.

Figure 2
AMERICAN OIL INDEX, JANUARY 2000-MAY 2008
(BASE AUGUST 1984)

Source: American Stock Exchange.

In such a context, global investors looking for higher returns are putting more and more of their resources in oil-related assets, such as oil companies stock and crude oil futures. The natural consequence of this relocation of financial resources with speculative aims is a reinforcement of inflationary pressures in oil markets. In addition, as commodity prices are denominated in United States dollars, the persistent depreciation of this currency has translated into higher nominal prices for oil and other commodities in international markets.

Regardless the causes of the rise in oil prices, the global and regional significance of this phenomenon should not be underestimated. Indeed, the impact of higher oil prices has been extensive, with deep repercussions on related issues like economic growth, production costs, food prices, wage levels, trade equilibrium, or general macroeconomic stability.

The implications for Caribbean countries depend on whether they are oil exporters or importers. Countries such as Belize, Suriname and, Trinidad and Tobago will continue to benefit from increasing oil prices with the feeding of significant trade, current account and fiscal surpluses, together with more dynamic economic activity. On the contrary, for the oil importing Caribbean countries the opposite is true, with rising production and transportation costs jeopardizing economic growth and creating inflationary pressures. In addition, the rise in the import bill will deteriorate the external accounts. Further increases in international oil prices will deepen these divergent impacts within the region. In addition, the Caribbean economies are likely to face a decline in tourism arrivals due to the increasing air fares associated with fuel inflation. Being the most tourism dependent region in the world, this indirect effect of the increasing trend in oil prices would have a significant economic impact on Caribbean countries. Box 1 details setbacks suffered by some major airlines as a result of the hike in oil prices.

Box 1

FUEL PRICES AND AIRLINE BUSINESS

The rising cost of jet fuel (and a soft American economy) is threatening Caribbean tourism as airline ticket prices soar and flights are sharply reduced, restricting the flow of vacationers. Airlines such as American Airlines, American Eagle, United Airlines and Continental Airlines have all given negative signals. American Airlines, one of the major airlines which fly the Caribbean to United States route plans to cut 7,000 jobs – about 8% of its work force – by the end of 2008 as it reduces flights and grounds aircraft due to higher fuel prices. This company expects to cut daily flights out of Puerto Rico from 93 to 51 in September, 2008. Gone will be flights to Antigua and Barbuda, St Maarten, Aruba and the Dominican Republic. American Eagle also announced a reduction in its Caribbean schedule from 55 to 33 daily departures out of San Juan, Puerto Rico. This also has an implication for cruise ship tourism as many visitors board from Puerto Rico.

Continental Airlines, another major Caribbean flyer, reported a loss of US$3 million or 3 cents per share for the second quarter of 2008. It spent US$1.36 billion on fuel during this three-month period, an increase of 66% over the same quarter last year. This company will also cut 3,000 jobs – 7% of its workforce – and ground 67 planes and will reduce domestic flights within the United States this fall by about 10%. Continental is also raising ticket prices and some fees, including a US$25 charge for checking in a second piece of luggage. British Airways, a major airline on the Caribbean to London route, also said that higher oil prices will affect ticket prices in the next 12-18 months. The airline industry has also seen the merger of Delta Airlines and Northwest Airlines all in the bid to make these companies more profitable, given the higher cost of fuel. Regional tourism is also under threat as LIAT has already increased air fares to factor in the rise in fuel prices. These developments will result in a curb in tourist activity. However, it is not all gloom, as Jetblue Airways and Virgin Atlantic plan to add extra flights from the United States to Caribbean destinations.

Source: ECLAC.

Of significance, in July 2008, during the meeting of Petrocaribe – an energy integration entity launched in 2005 by the Venezuelan Government – it was agreed that member countries could pay upfront only 40% of the price of oil with the remainder financed by loans with 25 years of maturity, an annual interest rate of 1% and two years grace period. In the context of continuous increases in oil prices, this alternative would be very helpful to Caribbean countries that are signatories to this agreement (Antigua and Barbuda, Bahamas, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Vincent and the Grenadines, and Suriname[5]).

[5] Other member countries are Cuba, Dominican Republic, Guatemala, Haiti, Honduras and Nicaragua.

2. The subprime crisis in the United States

The United States economy is currently confronted with many challenges catalyzed by the bursting of the property bubble in August 2007. The collapse of real estate prices has resulted in unprecedented losses for financial intermediaries and increased volatility and uncertainty in financial markets which have jeopardized investors' confidence. Despite some of the aggressive measures taken by the Federal Reserve – consecutive cuts in the federal funds rate to a low of 2% in April 2008, huge injections of liquidity and the bailout of Bear Sterns – growth remained sluggish at 0.6% for the first quarter of 2008, same as the last quarter of 2007. The University of Michigan Consumer Sentiment Index dropped to 56.7% in June, the fifth consecutive month of decline and its lowest level since February 1992. Headline inflation was 4.2% in May 2008, reflecting increases in fuel prices which rose by 5.2% during the month or 21% year on year. In June 2008, the inflation rate increased to 5.5%, over the same period last year. The jobless rate, a major economic indicator, increased from 5% in April 2008 to 5.5% in May 2008 and remained at that level in June 2008. It must be noted that in June only, 62,000 job losses were reported, resulting in a cumulative total of 438,000 job losses for the first half of 2008. The weakness of the labour market points to the fact that the likelihood of a recession is by no means over.[6]

At the expense of stimulating economic growth with lower interest rates, the threat of inflation is becoming even stronger driven by the surge in oil and commodity prices. After the consecutive cuts in the federal funds rate it seemed inevitable that any change in the future will be in the upward direction to counter inflationary pressures but with serious implications for consumer spending. Indeed, after seven reductions since September 2007, in late June the Federal Reserve decided to leave the federal funds rate unchanged at 2%. Moreover, inflationary pressures are also a matter of concern in most countries and regions. In early July 2008, the European Central Bank (ECB) increased its benchmark interest rate by 25 basis points to 4.25% to curb inflation that posted a year on year rate of 3.6% in May 2008, increasing to 4% in June 2008.

The impact of the United States subprime mortgage crisis is of a global scale. As such, the Caribbean is not immune to such an event. In 2007, the Caribbean economy grew by 4% (simple average), 1.4 percentage points lower than in 2006, and is expected to slow even further in 2008 due to developments in the world economy (see Chapter II). The slowdown in the United States economy will most likely affect economic growth in the Caribbean via trade, tourism, remittances, finance and Foreign Direct Investment (FDI).

(a) Trade

The weakening of household consumption and business investment would directly initiate a curtailment of demand in the United States for foreign goods and services. Such curtailment will be felt most severely by countries with a large share of their exports to the United States. In 2006, 51% of the Caribbean Community's (CARICOM) total exports of goods went to the United States market. This is significant for Caribbean countries which are dependent on exports to improve their current account balances and foster productive employment and growth. Based on data for the period 2002-2006, Caribbean countries with the highest share of their exports to the United States market are The Bahamas, Belize, Trinidad and Tobago and St. Kitts and Nevis with export percentages ranging from 32% to 62%. Hence, these countries will be mainly affected by a slowdown in the United States economy.

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[6] Technically, a recession is defined as two consecutive quarters of negative growth.

(b) Tourism

Tourism is a major income earner for most Caribbean countries contributing as much as 17% of GDP in countries such as the Bahamas and accounting for 60% of service export of the Eastern Caribbean Currency Union (ECCU). In 2006, of the 29.9 million United States outbound travellers, the Caribbean received 5.7 million or 19.2%.[7] Stay-over visitors from the United States constituted 87% in the Bahamas, 74% in Jamaica, 53% in Guyana, 36% in the ECCU and Trinidad and Tobago, and 24% in Barbados. The negative wealth effect of the subprime crisis and increased uncertainty due to recession fears will eventually translate to reduced travel demand from the United States and hence will affect the tourism sector and tourist related construction. Moreover, the high cost of travel due to spiraling oil prices places a damper on travel.

The ECCU countries exhibit more significant tourism sectors relative to aggregate output than the other CARICOM countries and hence would be the most affected. These are especially the cases of Anguilla and Antigua and Barbuda where tourism accounted for 23.6% and 21.7% of GDP, respectively, over the period 2002-2006. In the other countries these figures are lower, ranging from 8.8% in Grenada to 15.8% in Saint Lucia. In the non-ECCU countries the importance of tourism is led by The Bahamas (17.3% of GDP), followed by Barbados (13.6%), Belize (11%), and Jamaica (9.4%). In Trinidad and Tobago, Suriname and Guyana the share of tourism in GDP is below 5%.

However, contrary to expectations, ECCU data for the first quarter of 2008 indicates an overall increase in the number of visitors by 10.9% compared to 4.1% in the first quarter of 2007. Stay over visitors from the United States increased by 8.5% compared with the 5.5% contraction in 2007. There was a remarkable 28% increase in stay over visitors from Canada. Increases were also reported in visitors from the Caribbean, United Kingdom and cruise passengers. Hence, it appears that the tourism industry has not yet been negatively affected by the slowdown in the United States and that any impact may be felt in the last quarter of 2008.

(c) Remittances

In 2006, remittance flows to the Caribbean – including Cuba and the Dominican Republic, excluding Belize, Guyana and Suriname – totalled US$8.3 billion. Remittances to the region were highest from the United States followed by Western Europe. States such as California, New York and Florida were the highest remittance states, assuming the Caribbean has a similar pattern to Latin America.[8] The slower job market and a housing-led recession will then have a significant impact on remittances as loss of jobs and negative wealth effects on immigrant home owners will translate into less or no money to remit. The brunt of the decline in remittances will be felt mainly by the rural population in most Caribbean countries especially Guyana and Jamaica in which remittances amounted to 20.3% and 14.7% of GDP, respectively, during 2003-2007.[9] The significance of remittances is also highlighted by the fact that it outpaced FDI in Guyana by a factor of 3 and in Jamaica by a factor of 2.4 over the same period (see box 2).

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[7] Jamaica Tourist Board, Annual Trade Statistics, 2006.

[8] In 2004, remittances to Latin America estimates were 32% from California, 11.9% from New York, 10.6% from Texas and 8.2% from Florida (http://www.cbo.gov/ftpdocs/63xx/doc6366/05-19-Remittances.pdf).

[9] In Jamaica the figure corresponds to 2003-2006.

(d) Finance and FDI

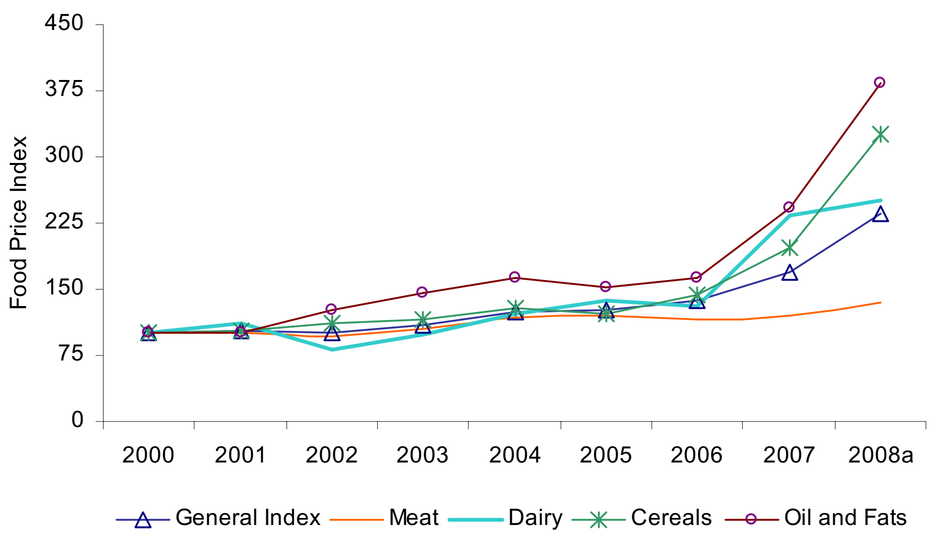
Thus far, the recent turmoil in the United States economy has had little impact on Caribbean financial institutions. Financial assets are less risky than they were years ago and many countries, including Barbados, are approaching investment grade status, hence improving the perception of sovereign debt. Moreover, the continuous reduction in interest rates in the United States makes the region attractive to capital inflows which will give rise to growth in asset prices. However, entities such as some central banks, commercial banks and others with investments and reserves that are United States dollar denominated will experience capital losses due to the depreciation of the dollar.

But most importantly, should the financial crisis worsen in the United States as some analysts fear, it would severely affect the global financial system harming particularly the more financial services dependent Caribbean countries (i.e. Barbados (17.1% of GDP), followed by The Bahamas (15.3%) and Belize (14.3%)). In the case of ECCU countries, the weight of the financial sector is higher in Anguilla (18.3% of GDP), St. Kitts and Nevis (14.1%) and Dominica (13.7%).

3. The escalation in food prices

The continuous rise in the international prices of most food products has profound implications for the welfare of billions of people worldwide. The steep increase in food prices on the international market began in mid-2005, as recorded by the Food and Agriculture Organization (FAO) Food Price Index (FPI). Between April 2007 and April 2008 the FPI rose by 54%, reflecting the considerable increases recorded in the prices of cereal (92%), and oils and fats (84%), among other basic staples (see figure 3).

Figure 3
FAO FOOD PRICE INDEX, 2000-2008
(2000 = 100)



Source: Food and Agriculture Organization.

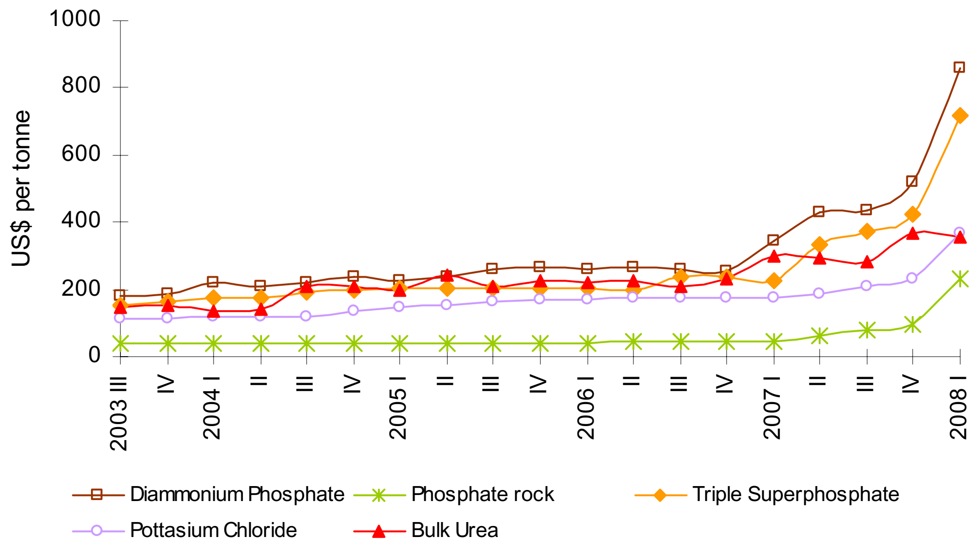
[a] Up to April.

This increase in international food prices is essentially derived from a major imbalance between global supply and demand, which is explained by a combination of structural and temporary factors.

Although the exact structure and relationship between the different forces fuelling this imbalance are complex and not fully understood there are a number of key factors to consider. On the demand side, it is clear that several economic and social forces have been putting increased pressure on food markets. The most relevant and shared arguments for the increased prices are the sustained growth of world population; changing consumption patterns in emerging economies (especially China and India) translating into higher demand for meat;[10] and the surge in biofuel production in the United States and Brazil.

On the supply side, increased production costs must be considered as one of the main factors contributing to rising food prices, as in recent years farmers have been paying higher prices for labour, fuel and other essential supplies, like fertilizers. As discussed above, oil prices have been on a very steep increasing trend since 2003. As a result, operating expenditures for agricultural producers worldwide have increased. By the same token, the accelerated rise in fertilizer prices, from mid-2006 onwards, has also played a key role in expanding production costs for agricultural activities. Modern agriculture, particularly in the most developed countries, uses natural and artificial fertilizers intensively and its cost structure is very sensitive to changes in prices of such inputs. Overall, the sustained rise in international prices of fertilizers has become a serious problem for agriculture producers, especially poor farmers in developing countries with limited access to credit markets. For instance, figure 4 shows that between the third quarter of 2003 and the first quarter of 2008 phosphate rock prices have multiplied by a factor higher than 5, whereas those of diammonium phosphate and triple superphospate have done so by a factor between 3.7 and 3.8.

Figure 4
WORLD FERTILIZER PRICES, 2003/III-2008/I
(US$ per ton; quarterly average)



Source: The World Bank.

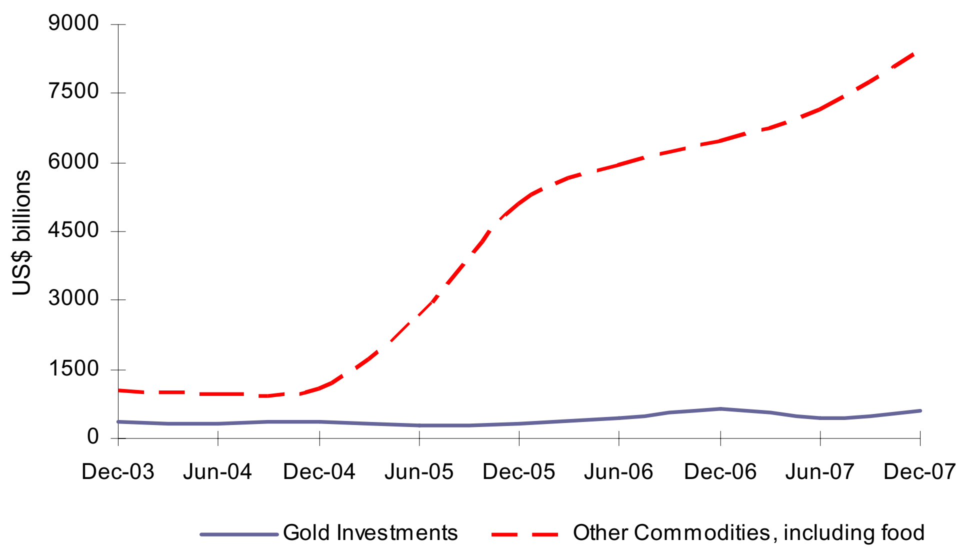
Another supply side factor contributing to the escalation of food prices is the stagnation or reduction in the availability of land and water for agriculture use, as a consequence of expanded urban and industrial demand. In addition, there have also been several adverse events in some major agriculture producers – such as a recent drought in Australia or conflict between the government and farmers in

[10] Two kilograms of grain are needed to produce one kilogram of poultry, and eight kilograms of grain to produce one kilogram of beef.

Argentina – that have had a direct impact on international food prices, negatively affecting international food supplies and stocks. At the regional level, Hurricane Dean – that struck the Caribbean in August 2007 – also had significant impact on agriculture, particularly in Jamaica, Dominica and Saint Lucia (see Chapter III).

Notwithstanding, a new prominent factor that also lies behind the current hike in food prices is the emergence and increasing participation of investment banks and other institutional investors in world commodity markets. In the wake of the collapse of real estate markets and low interest rates – particularly in the United States – these institutions are targeting food products and other commodities as investment vehicles. As a result, international investment in derivatives and other financial instruments linked to food stocks have soared in the last few years. Recent data from the Latin American and Caribbean Economic System (SELA) and the Bank for International Settlements (BIS), show that between 2004 and 2007 financial investments in commodities like food and oil, grew by eight times totaling some US$8,400 billion at the end of 2007 as shown in figure 5. The impact of these transactions on food prices is evident.

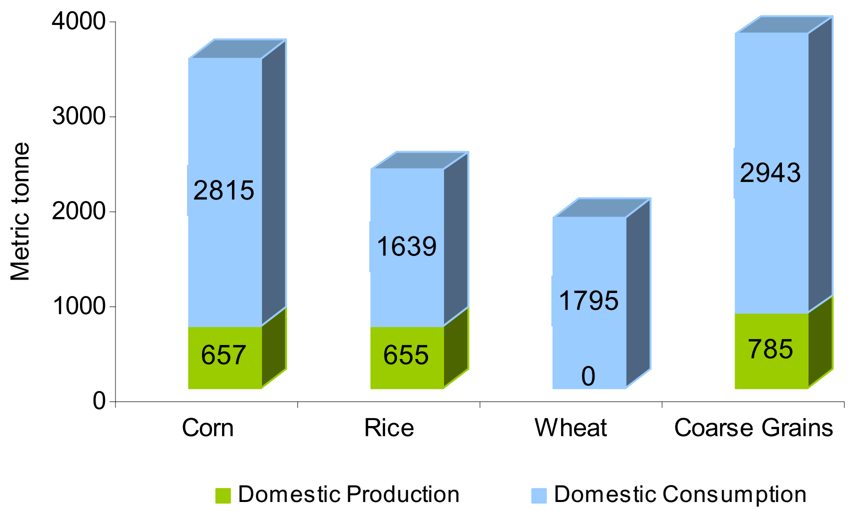
Figure 5
INTERNATIONAL FINANCIAL INVESTMENT IN COMMODITIES, DECEMBER 2003-DECEMBER 2007
(Billions of US$)



Source: Bank of International Settlements and SELA.

Considering that the Caribbean is a net importer of food, the implications of this situation should be taken very seriously. In fact, according to data from the United States Department of Agriculture, the Caribbean is a net importer of most basic grains, pulses and oil seeds, including the ones experiencing continuous and significant price increases. Thus, as shown in figure 6, from April 2007 to April 2008 the consumption of corn, rice and coarse grains in the Caribbean countries was 4.2, 2.5 and 3.7 times higher than domestic production, respectively. This chronic imbalance between regional demand for and supply of most basic food products is particularly evident in the case of wheat, a crop that does not grow in the Caribbean, but is widely consumed by the population. Indeed, during the period April 2007-April 2008 regional wheat imports totalled 1,795 thousand metric tons. This deep dependence on imports of wheat and other basic grains reveals that the Caribbean region faces serious risks and problems related to food security.

Figure 6
CARIBBEAN DOMESTIC CONSUMPTION AND PRODUCTION OF GRAINS AND PULSES, APRIL 2007-APRIL 2008
(Thousand of metric tons)



Source: United States Department of Agriculture.

For the Caribbean countries, the implications coming from the current global food crisis are far reaching. At the macroeconomic level, the impact will be felt through widening trade deficits for most countries resulting from higher food import bills, as well as increasing inflationary pressures. At the social level, real income and consumption capacity of most households and individuals will suffer accordingly, contributing directly to the increase in poverty and inequality. The negative impact of higher food prices could eventually translate into a severe setback in the regional achievements in poverty reduction and social development. Indeed, the World Bank and the United Nations Economic and Social Council (ECOSOC) have estimated that seven years of global advances in the fight against poverty have been already wiped out by the global food crisis, thus severely jeopardizing the achievement of the Millennium Development Goals (MDGs). By the same token, ECLAC has estimated that repeated increases in food prices would have serious consequences on Latin American and Caribbean countries: a 15% rise in food prices could expand the indigence from 35.1% to 37.9%, increasing by 15.7 million more the number of indigents in the region. Although there is still no specific regional assessment on the impact and consequences of the global food crisis, it is clear that the Caribbean region as a whole is facing a challenging issue, which will require collective and cooperative responses, in order to preserve economic growth, social development, and political stability and democracy.

B. GROWTH PERFORMANCE

The deterioration in international conditions along with other idiosyncratic factors determined the decline in economic dynamism in 2007 in most Caribbean countries. Relative to 2006, GDP growth slowed almost two percentage points to 3.6% (simple average) in the seven bigger Caribbean economies as shown in table 1 A 0.7 percentage points decline was reported for the ECCU countries, whose growth posted a rate of 6.1% (simple average). Notwithstanding, from a longer-term perspective, the average GDP growth rate recorded in 2007 by the non-ECCU group of countries was slightly higher than that posted in 2001-2005. This is not to say that GDP growth was satisfactory in 2007, but that its rate was not below the figures registered during the first half of the current decade. On the contrary, GDP growth in 2007 nearly doubled in the ECCU group than for 2001-2005, revealing a much better performance.

Table 1
GDP GROWTH RATE, 2001-2007
(Percentage)

	2001-2005	2006	2007p
Bahamas	0.5	4.6	2.8
Barbados	1.8	3.3	3.2
Belize	5.4	5.3	1.6
Guyana	0.5	5.1	5.4
Jamaica	1.5	2.5	1.2
Suriname	5.4	5.8	5.3
Trinidad and Tobago	8.6	12.2	5.5
Average[b]	3.4	5.5	3.6
ECCU[b]	3.2	5.4	6.1
Anguilla	6.7	18.3	21.0
Antigua and Barbuda	4.4	12.4	6.9
Dominica	0.8	3.7	1.8
Grenada	2.1	-2.3	4.5
Montserrat	0.7	-3.8	2.8
St. Kitts and Nevis	3.2	2.5	2.9
Saint Lucia	2.7	4.9	1.7
St. Vincent and the Grenadines	3.5	7.6	7.0

Source: ECLAC on the basis of official data.
[a] Annual average.
[b] Simple average.
p = preliminary figures.

Within the non-ECCU countries, the sharpest declines in GDP growth were observed in Trinidad and Tobago (from 12.2% in 2006 to 5.5% in 2007) and Belize (from 5.3% to 1.6%). In the former, this was due to a significant decline in the output growth of the energy sector, whereas in the latter this decline was mainly a consequence of a drop in agriculture exports. In the case of the Bahamas, the cooling down of the dynamism of the economy (1.8 percentage points to 2.8% in 2007) was the result of the combination of a sharp slowdown in the construction sector and reduced credit expansion.

As regards the ECCU countries, there are mixed results. On the one hand, Antigua and Barbuda, Dominica, and Saint Lucia recorded marked slowdowns in economic activity in 2007. In Antigua and Barbuda, this behaviour was related to the end of massive construction projects linked to the tourism sector. In Dominica and Saint Lucia, the impact of Hurricane Dean on the agriculture sector is partly responsible for this outcome. On the other hand, Montserrat and, especially, Grenada witnessed substantive recoveries from the recessions suffered in 2006.

Table 2 presents GDP growth by economic sector. In the non-ECCU countries, except for a marginal increase in the dynamism of manufacturing activity and mining and oil, all sectors contracted in 2007 relative to 2006 (including Belize in the mining and oil sector average growth rate of the seven countries). Particularly disappointing was the performance of the agriculture sector, that contracted by 5.5% (simple average), negatively impacted by natural disasters. Meanwhile, the manufacturing sector growth picked up in the ECCU countries by more than 4 percentage points to 5.2% in 2007, whereas the construction sector posted an increase in its growth rate from 7.5% in 2006 to 8.7% in 2007. The other sectors lost momentum in this group of countries. This was especially the case in the agriculture sector.

Table 2
GDP GROWTH BY ECONOMIC SECTOR, 2006-2007
(Percentage at constant prices in local currency)

	Agriculture[a]		Mining and oil[b]		Manufacturing		Construction		Services[c]	
	2006	2007p	2006	2007p	2006	2007p	2006	2007p	2006	2007p
Bahamas	3.2	-18.3	-4.0	-50.4	-2.0	1.2	20.4	0.1	2.3	3.8
Barbados	-5.7	2.3	-3.1	-6.0	1.1	-2.9	1.4	-1.5	4.4	4.9
Belize	-5.7	-16.6	764.2	38.0	-3.1	-4.8	-6.5	0.6	5.6	-6.8
Guyana	6.5	0.7	-21.6	22.5	5.1[d]	0.8[d]	12.0	5.6	7.3	7.0
Jamaica	11.9	-5.0	1.5	-3.8	-2.4	0.9	-1.3	5.3	3.1	1.9
Suriname	-0.1	4.1	18.0	10.6	0.8	2.9	10.5	10.2	5.7	5.7
Trinidad and Tobago	-0.9	-5.9	21.4	4.4	9.4	8.0	4.3	5.2	7.7	6.9
Average[e]	1.3	-5.5	2.0[f]	2.2	0.6	0.9	5.8	3.6	5.2	3.3
ECCU[e]	5.8	3.2	24.2[g]	22.1[g]	1.1	5.2	7.5	8.7	5.6	5.3
Anguilla	5.0	4.4	36.0	50.1	8.9	28.9	47.2	65.7	10.5	10.5
Antigua and Barbuda	2.9	3.3	45.0	24.2	8.6	8.5	35.0	6.0	7.5	8.3
Dominica	2.5	-5.2	8.4	12.2	0.5	-3.8	8.5	12.1	4.6	1.8
Grenada	23.8	4.8	40.8	0.1	-2.6	2.2	-30.0	-11.2	2.3	4.7
Montserrat	15.5	0.0	276.5	159.3	-10.0	0.7	-33.8	-11.6	2.3	4.0
St. Kitts and Nevis	-19.9	8.3	7.7	6.2	-6.3	1.9	8.4	4.4	4.7	3.0
Saint Lucia	10.0	0.8	19.8	13.1	6.8	1.7	13.2	-10.3	5.6	3.5
St. Vincent and the Grenadines	6.6	9.3	11.4	14.1	3.0	1.1	11.4	14.4	7.5	6.6

Source: ECLAC on the basis of official data.
[a] Includes fishing, forestry and livestock.
[b] Includes quarrying.
[c] Includes hotels and restaurants; wholesale and retail sales; finance, insurance and real state; transport, communications and storage; and communal, personal and social services. Except for Guyana, also includes electricity, water and sanitation.
[d] Includes electricity, water and sanitation.
[e] Simple average.
[f] Excluding Belize.
[g] Excluding Montserrat.
p = preliminary figures.

In the absence of new large-scale projects, and technical problems in one of the major plants, the oil sector in Trinidad and Tobago recorded a marked slowdown in output from 21.4% in 2006 to 4.4% in 2007. The agriculture sector also suffered in the last year, posting a decline of 5.9% as a consequence of low infrastructure investment, the reallocation of workers to other activities and the difficulties experienced in one major player in the sector (Caroni Limited). On the upside, ongoing and new public and private investment projects continued to boost the construction sector that grew by 5.2% in 2007.

Hurricane Dean that struck the region in August 2007 caused severe losses in agriculture output in many countries, namely Belize, Jamaica, Dominica and Saint Lucia. The effects of the hurricane were perceptible. In Belize, banana exports fell by more than 20%, whereas in Jamaica 85% of the banana crop and 45% of the coffee crop were destroyed. In Dominica and Saint Lucia, the natural disaster brought about a contraction in banana production of 40% and 10%, respectively. In Montserrat, the impressive growth rates recorded by the mining and quarrying sector in 2006 and 2007 (276.5% and 159.3%, respectively) was due to the low levels of production recorded in previous years. This was also the case of

Belize where oil fields were discovered in 2005 therefore posting expansions of 764.2% in 2006 and 38% in 2007 in this sector.

In Grenada, growth was led by the ongoing recovery of the agriculture sector (4.8% in 2007) after Hurricane Ivan which struck the island in 2004, as well as by tourism activities as stay-over and cruise visitors increased in 2007 by 10.9% and 24%, respectively, relative to 2006. By the same token, construction output continued to decline (11.2% in 2007) as post-hurricane reconstruction works were completed. On the other hand, the robust agriculture recovery in St. Kitts and Nevis from a contraction of 19.9% in 2006 to an expansion of 8.3% in 2007 was due to increases in the production of crops and livestock following programmes introduced by the government after the closure of the sugar industry in 2005. In the case of St. Vincent and the Grenadines, despite a combination of Moko disease and the effects of Hurricane Dean which affected banana production, agricultural output growth rate increased from 6.6% in 2006 to 9.3% in 2007.

The stagnation of the construction sector recorded in the Bahamas in 2007 after having recorded an impressive 20.4% expansion in 2006 was due to the completion of a large scale tourism project coupled with lower demand in residential construction and commercial activity. This is also the main reason why the mining and oil sector fell by 50.4% in 2007, as quarrying activities (included in the mining and oil sector in table 2) provide inputs for construction projects. Meanwhile, the renewed dynamism showed by the mining and oil sector in Guyana that picked up from a contraction of 21.6% in 2006 to an expansion of 22.5% in 2007 was due to significant increases in bauxite and gold production. Likewise, and as in the previous year, in 2007 GDP growth in Suriname was led by increasing mineral (bauxite, alumina and gold) and oil production with an expansion of 10.6% in the mining and oil sector fostered by increasing commodity prices.

Finally, the two non-ECCU countries more dependent on services, the Bahamas and Barbados, showed acceptable expansions in this sector in 2007 (3.8% and 4.9%, respectively) relative to overall GDP growth rates. The Bahamas witnessed a pick up in the dominant tourism sector despite a slight drop in stay-over visitors of 2.9% relative to 2006. This was in part linked to the Western Hemisphere Travel Initiative that introduced new passport requirements for United States visitors. In this context, tourism sector dynamism was supported by aggregate visitors spending that expanded from US$2,056 million in 2006 to US$2,192 million in 2007 (some 30% of GDP). On the contrary, total tourist arrivals in Barbados increased by 8.1% in 2007 relative to 2006, partly due to the Cricket World Cup held in March-April 2007.

All in all, despite a number of negative external shocks in 2007, such as the worsening of conditions in the world economy – i.e. increasing oil and food prices, subprime crisis in the United States – and natural disasters, GDP growth in the non-ECCU countries was not below the annual pace recorded in 2001-2005, but in fact experienced a significant acceleration. Although the slowdown in economic activity in 2007 relative to 2006 affected most sectors, some suffered more than others. Particularly disappointing was the performance of the agriculture sector in the Bahamas, Belize, Jamaica, Dominica, Montserrat and Saint Lucia. On the other hand, the decline in growth dynamism in the construction sector was significant in the Bahamas, Antigua and Barbuda, and Saint Lucia. In all these countries this factor brought about a sharp drop in the quarrying sector growth rate, a supplier of inputs for construction projects. Moreover, in Grenada and Montserrat the construction sector continued to decline sharply contracting by more than 11% in 2007 after dipping more than 30% in 2006. In countries abundant in natural resources such as Belize, Guyana and Suriname, economic growth was led by the mining and oil sector. Likewise, the services sector in general, and the tourism subsector in particular, led GDP expansion in the Bahamas and Barbados, two countries highly dependent on these activities. Finally, in Trinidad and Tobago the impressive GDP growth rate recorded in 2006 dropped markedly in 2007, mainly due to a perceptible decline in the dynamism of the energy sector.

C. FISCAL POLICY AND PUBLIC DEBT

Fiscal balances in the Caribbean showed pronounced differences in 2007, from countries recording deficits above 6.5% of GDP such as Guyana, Antigua and Barbuda, Grenada and Montserrat, to others posting surpluses higher than 2.5% of output, namely Suriname and Trinidad and Tobago, as seen in table 3. Comparing these results with fiscal balances exhibited in 2003-2005, eight of the 15 countries improved their fiscal positions. The conclusion is similar when comparing fiscal balances between 2007 and 2006, but the countries change. For the MDCs CARICOM countries, Barbados, Belize, Guyana and Jamaica recorded persistent fiscal deficits. On the contrary, Trinidad and Tobago shows recurrent fiscal surpluses, which Suriname has continued to improve its fiscal position during the last years. In the case of the ECCU countries, Grenada, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines posted deficits between 2003 and 2007 apart from Dominica which reported surpluses in 2006 and 2007. No ECCU country recorded recurrent surpluses during the same period.

Table 3
FISCAL BALANCE AND PUBLIC DEBT, 2003-2007
(Percentage of GDP)

	Fiscal balance			Public debt 2007p[a]	
	2003-2005[b]	2006	2007p	Foreign	Domestic
Bahamas	-1.3	1.7	0.0	4.5	41.8
Barbados	-3.1	-2.0	-2.4	40.1	65.5
Belize	-7.4	-1.9	-1.2	76.7	12.7
Guyana	-10.1	-13.1	-7.4	66.8	31.9
Jamaica	-4.7	-5.4	-4.9	56.8	72.3
Suriname	-0.3	1.7	3.2	13.5	9.7
Trinidad and Tobago	2.9	6.9	2.6	6.1	11.0
ECCU					
Anguilla	-1.6	1.3	-2.5	4.6	16.1
Antigua and Barbuda	2.9	-7.9	-6.5	42.3	52.1
Dominica	-1.1	1.4	1.2	73.1	29.3
Grenada	-1.2	-6.4	-6.7	81.4	25.7
Montserrat	2.1	-3.7	-6.5	7.7	1.2
St. Kitts and Nevis	-6.8	-2.4	-2.2	53.8	116.3
Saint Lucia	-5.8	-6.2	-2.1	43.1	30.7
St. Vincent and the Grenadines	-2.6	-3.9	-3.5	47.9	28.5

Source: ECLAC on the basis of official data.
[a] End of period.
[b] Annual average.
p = preliminary figures.

The disappointing fiscal performance – that goes back to previous decades in many cases – shown by most Caribbean countries led to the accumulation of significant public debt to finance persistent fiscal gaps. Thus, at the end of 2007, except for the Bahamas, Suriname, Trinidad and Tobago, Anguilla, and Montserrat, all other countries recorded debt-to-GDP ratios that were excessively high by any standard, ranging from 73.8% in Saint Lucia to 170.1% in St. Kitts and Nevis.[11] In this context, interest payments on domestic debt, both external and domestic, have become a significant burden to public finance in many countries, imposing difficulties on fiscal policy management and soaking up important portions of fiscal revenue. Indeed, interest payments on public debt as a share of fiscal revenue in 2006-2007 consumed more than 40% of fiscal revenue in Jamaica, and more than 20% in Belize and St. Kitts and Nevis.

Only one of the MDCs recorded a widening in its fiscal deficit in 2007 relative to 2006. This is the case of Barbados, whose fiscal gap increased by 0.4 percentage points to 2.4% of GDP. From this

[11] For an analysis on public debt sustainability in the most indebted Caribbean countries, see the first section of Chapter II.

perspective, 2007 represented an improvement in the fiscal position of this group of countries. Nevertheless, Guyana and Jamaica still recorded substantial fiscal deficits of 7.4% and 4.9% of GDP, respectively. In addition, surplus countries such as the Bahamas and Trinidad and Tobago, reduced their excess of revenue over spending from 1.7% of GDP to equilibrium in the former case, and from 6.9% to 2.6% of GDP in the latter.

The fiscal performance of the ECCU countries during 2007 was different. Indeed, the two surplus countries in 2006, Anguilla and Dominica, experienced a weakening in their fiscal positions. Moreover, Anguilla transformed a fiscal surplus of 1.3% of GDP posted in 2006, into a deficit of 2.5% of GDP in 2007. In addition, the fiscal gap of Montserrat widened from 3.7% of GDP in 2006, to 6.5% in 2007, whereas that of Grenada increased in 0.3 percentage points of GDP to 6.7%. The main improvement in the fiscal position was recorded by Saint Lucia which managed to reduce its fiscal deficit from 6.2% of GDP in 2006 to 2.1% in 2007.

Table 4 lists the main fiscal policy measures implemented during 2007. Five countries applied policies related to public debt, from different management initiatives and the setting of targets (the Bahamas, Barbados and Suriname) to debt restructuring and new issuance of public bonds (Belize and Jamaica). In addition, the Bahamas, Barbados, Guyana and most ECCU countries introduced policies – either tax or subsidies – in order to combat the increasing cost of living associated with both fuel and food prices escalation. By the same token, Guyana, Jamaica, Suriname and many ECCU countries increased wages and salaries to public servants, whereas Belize and Trinidad and Tobago introduced indexation mechanisms based on past inflation.

Table 4
MAIN FISCAL POLICY MEASURES, 2006- 2007

Country	Main fiscal policy measures
Bahamas	• Tax and subsidy measures to ease the impact from higher costs of living, including elimination of the 2% stamp tax from 160 food items, and suspension of the customs duty and stamp duty on Bahamas Electricity Corporation's (BEC) fuel imports for two years • Expansionary fiscal policy, with increased spending in transfers, goods and services and debt servicing • Development of policies centered on improving the tourism sector, by enhanced product development, marketing and boosting domestic investment • Initiative for a medium-term fiscal adjustment to balance the budget, reduce public debt service and achieve a target for central government debt of 30-35% of GDP by around 2012
Barbados	• The government announced its intention to reduce public debt- to-GDP ratio to 60% by 2012 • Removal of the cess tax on imports • Application of petrol subsidies and price controls on several basic items
Belize	• Debt workout to restructure and lengthen its maturity: the government's external commercial debt exchanged for a "super bond" with a face value of US$ 546.8 million maturing in 2029 • Change in the tax structure, with a newly introduced General Sales Tax • Capital revenue bolstered by crown land sales • Wage settlements to keep in line with inflation (5.1% increase) • Exceptional spending on relief and rehabilitation in the wake of Hurricane Dean • Establishment of a Petroleum Revenue Management Fund, to manage and invest all government revenues from the exploitation of petroleum
Guyana	• Introduction in January 2007 of Value Added Tax with a rate of 16% • Reduction in the excise tax rate on gasoline and diesel from the standard rate (50%) to 17% and 10%, respectively • Increase of salaries and wages in the public sector (9% across the board), in compensation for higher cost of living • Development of major public projects in sugar production, power generation and road infrastructure

Country	Main fiscal policy measures … cont'd
Jamaica	• Increased expenditure due to exceptional occurrences (general and local government elections, hurricane and flood damage) • Application of diverse initiatives (public education program, improvement in customer service, undertaking of audit and tax fraud assessments) to boost tax revenue • Introduction of an Environmental Levy (0.5% on the CIF value of all imported goods) and increment in the Special Consumption Tax rate on cigarettes by 20% • Issue of domestic and external debt instruments including the reopening of Jamaica's 2039 Eurobond to finance the central government • Increment in wages and salaries of public sector workers, and adjustments to the national minimum wage (14.7% increase)
Suriname	• Development of debt management initiatives aimed at reducing the levels of domestic and external debt • Salary increase for civil servants (10%) • Increase in the personal income tax threshold from 1,890 to 2,946 Surinamese dollars • Duties on CARICOM goods moved to zero • Regulation on exports of rice as a precaution against domestic shortages
Trinidad and Tobago	• Expansionary fiscal policy with significant growth in capital spending associated with public infrastructure projects • Introduction of fiscal incentives to oil and gas exploration and revisions to oil and natural-gas production-sharing contracts (PSC) aimed at reducing the overall tax burden in the energy sector • Reintroduction of a wage indexation regime based on past inflation, and increase of basic wages adjustment in three-year contracts signed in 2007 to 6%.
ECCU	• Implementation of diverse policy responses to the rising cost of oil and food (suspension of the common external tariff on selected items, safety net programs, agricultural support and change in fuel pricing) by six member countries • Removal of international trade taxes already implemented in some countries • Increase in salaries in several countries
Anguilla	• Salary increase (20%) and payment of bonus to public servants
Antigua and Barbuda	• Implementation of sales tax and elimination of the consumption tax on all products except oil products • Minimum wage increased from EC$2.2 per hour to EC$2.8 per hour
Dominica	• Salary increases to public servants
St. Kitts and Nevis	• Amendment to tax legislation which resulted in the widening of the corporate tax base • Retroactive salary increases paid to public officers in December 2007
St. Vincent and the Grenadines	• Implementation of the value added tax (VAT) with a rate of 15% • Salary increases to public servants (5%)

Source: ECLAC.

On the tax front, Belize, Guyana, Antigua and Barbuda, and St. Vincent and the Grenadines introduced some form of Value Added Tax in their tax systems. On the other hand, Jamaica introduced a new tax (environmental levy) and increased the Special Consumption Tax rate, Suriname raised the threshold of the personal income tax, and St. Kitts and Nevis widened the tax base of the corporate income tax. As regards public spending, some countries had to expand outlays in the wake of natural disasters (e.g. Hurricane Dean), especially Belize and Jamaica. Meanwhile, Guyana increased capital expenditure in the development of major public projects in sugar production, power generation and road infrastructure. Similarly, public investment continued to grow in Trinidad and Tobago due to new and ongoing public construction projects. Other fiscal policies included initiatives in the Bahamas, aimed at fostering tourism sector competitiveness, the establishment of the Petroleum Revenue Management Fund in Suriname as a tool to manage and invest public revenue from oil exploitation, and the introduction of fiscal incentives to oil and gas exploration. Revisions to oil and natural gas production-sharing contracts (PSC) aimed at reducing the tax burden in the energy sector were introduced in Trinidad and Tobago.

All in all, the analysis of fiscal policy in the Caribbean countries in this section has been made from a macroeconomic perspective that emphasizes fiscal sustainability. Being a necessary condition for economic growth and development, it is by no means sufficient. Fiscal policy has other major objectives such as reducing poverty, improving income distribution and enhancing growth. This requires much more than a strong fiscal position and debt sustainability. Sufficient resources efficiently and transparently used are the key complementary factors. This implies demands on both the revenue and the expenditure side. The main goal of the tax system should be to provide enough funding to finance social policies and public investment projects, which should be the main weapons against slow growth, poverty and inequality.

D. MONETARY POLICY AND INFLATION

The upsurge of international prices of fuel and food made the control of inflation in 2007 particularly difficult. In this context, Guyana and Jamaica recorded two-digit inflation rates. In the latter case, however, this was not new as a similar situation was experienced in 2003-2005 (see table 5). However, relative to 2006, inflation increased by 9.9 and 11.1 percentage points in these countries, respectively. Similarly important was the hike from a slight deflation in 2006 to 8.2% inflation in 2007 in Saint Lucia. Barbados and Trinidad and Tobago managed to reduce inflation in 2007, as compared to 2006. The same is true in Anguilla, Antigua and Barbuda, and St. Kitts and Nevis.

Table 5
INFLATION AND CREDIT EXPANSION, 2003-2007
(Percentage)

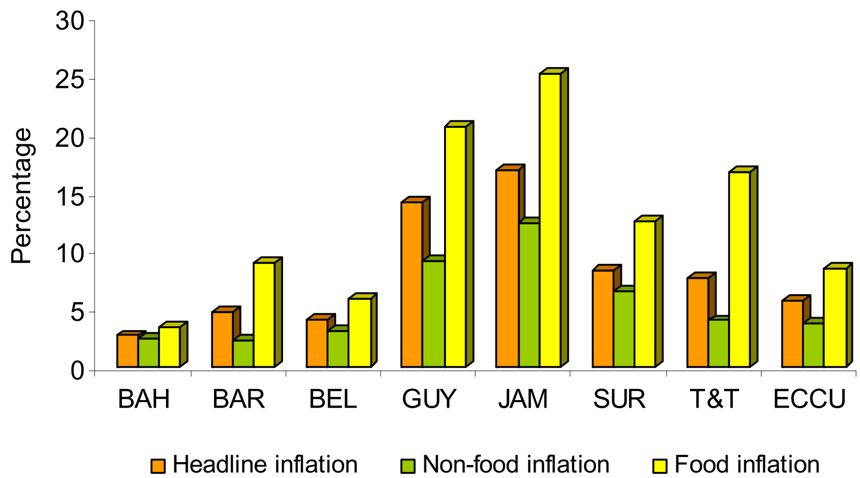
	Inflation rate[a]			Domestic credit/ GDP growth rate[b]
	2003-2005[c]	2006	2007p	2003-2007
Bahamas	1.8	2.3	2.9	5.2
Barbados	4.0	5.6	4.2	5.4
Belize	3.3	3.0	4.1	5.2
Guyana	6.2	4.7	14.1	-3.7
Jamaica	13.5	5.7	16.8	16.7
Suriname	12.7	4.8	8.3	18.8
Trinidad and Tobago	5.3	9.6	7.6	-2.0
ECCU				
Anguilla	5.1	10.5	3.5	3.1
Antigua and Barbuda	2.1	1.8	1.4	0.2
Dominica	2.1	1.8	4.8	-0.5
Grenada	3.3	1.7	7.4	1.9
Montserrat	2.7	1.0	4.0	8.6
St. Kitts and Nevis	3.6	5.9	4.0	0.7
Saint Lucia	3.1	-0.6	8.2	8.5
St. Vincent and the Grenadines	2.6	4.8	8.3	-1.5

Source: ECLAC on the basis of official data.
[a] December-December.
[b] Domestic credit to the private sector; annual average.
p = preliminary figures.

Taking domestic credit expansion as an indicator of the monetary policy stance, table 5 shows that it has been especially expansive in Jamaica and Suriname, where domestic credit to the private sector (DCPS) as a share of GDP increased annually by 16.7% and 18.8% in 2003-2007, respectively. On the contrary, this indicator declined in Guyana and Trinidad and Tobago over the same period, signalling a contractive monetary policy. In the other MDCs, DCPS increased at rates of 5.0-5.5% per annum in the five-year period. On the other hand, in Montserrat and Saint Lucia this variable picked up annually by some 8.5%, the fastest pace in this group of countries. In contrast, Dominica and St. Vincent and the Grenadines witnessed contractions in DCPS of 0.5% and 1.5% per year, respectively.

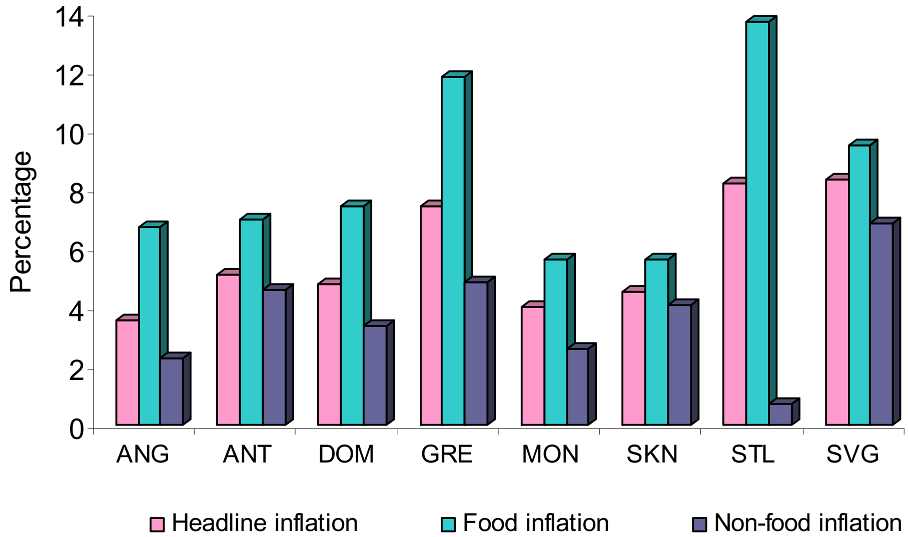
In order to illustrate the impact of the increase in food prices on inflation, figure 7a presents inflation rates recorded in 2007. It is clear that food inflation surpassed headline inflation in all cases so that it plays a role in the acceleration of inflation in 2007. By far, the most significant difference (9.2 percentage points) was in Trinidad and Tobago, where food inflation reached 16.8%,[12] more than four times the rate posted by non-food inflation (4%), and more than double that of headline inflation (7.6%). In Guyana and Jamaica, the difference between food and headline inflation was 6.5 and 8.4 percentage points, respectively. In the other countries, the difference is lower, particularly in the Bahamas, where it is below one percentage point. Tax and subsidy policy measures implemented in 2007 seemed to have been effective in this country. In the ECCU, the difference between food and headline inflation, and food and non-food inflation was 2.7 and 4.7 percentage points, respectively. Figure 7b shows these data in each ECCU country.

Figure 7a
HEADLINE, FOOD AND NON-FOOD INFLATION, 2007
(Percentage)



[12] Excluding non-alcoholic beverages, food inflation was 17.5%.

Figure 7b
HEADLINE, FOOD AND NON-FOOD INFLATION, 2007
(Percentage)



Source: ECLAC on the basis of official data.

As shown, the difference between food and headline inflation in 2007 was more significant in Grenada (4.4 percentage points) and Saint Lucia (5.5). In the latter, food inflation explains almost all the increase in domestic prices, given that non-food inflation posted a rate of just 0.7%. On the contrary, St. Kitts and Nevis exhibited the most even inflation rates in 2007, with a difference of only 1.5 percentage points between non-food (4.1%) and food inflation (5.6%). The other countries were in an intermediate situation.

Most Caribbean countries have fixed exchange rate regimes – such as Barbados, Belize, and the ECCU members – and therefore should conduct monetary policies consistent with this type of arrangement. Moreover, in Guyana, Jamaica, Suriname and Trinidad and Tobago monetary authorities intervene actively in foreign currency markets to stabilize the nominal exchange rate. For instance, Trinidad and Tobago has a quasi-fixed exchange rate regime – or dirty peg – aimed at keeping local currency constant vis-à-vis the United States dollar. This reduces the degree of freedom of monetary policy. The main measures adopted by countries during 2007 are reviewed in table 6.

Table 6
MAIN MONETARY POLICY MEASURES, 2007

Country	Main monetary policy measures
Bahamas	• Authorization for residents to transfer monetary gifts and other overseas payments (up to a value of US$ 500 per transaction) to improve exchange control regime • Central Bank's benchmark discount rate remained stable at 5.25%
Barbados	• The removal of exchange controls, planned originally for 2007, was postponed to 2009 • Reserve requirement ratio went down to 21% as part of a move towards indirect monetary control • The minimum deposit rate set by the Central Bank was adjusted down from 5.25% to 4.75%, in line with the fall in the US Federal Funds rate
Belize	• Significant monetary expansion fuelled by a surge in credit and foreign exchange inflows • The cash reserve requirement was kept unchanged at 10%
Guyana	• Interest rates set by the Bank of Guyana subjected to minor reductions, with its benchmark rate descending from 6.75% to 6.5% • Continued stabilization policy of the local currency allowing minor variations in the nominal exchange rate against the US$
Jamaica	• Monetary policy aimed at stabilizing foreign exchange and money markets while keeping inflation at bay • The Bank of Jamaica kept stable interest rates applicable on open market instruments: 30-days certificates of deposit (11.65%), 90-day (11.8%) and 180-day (12%) • Recurrent sells of foreign currency, amounting to US$ 641 million, and offerings of regular and special open market instruments
Suriname	• Conservative monetary policy with the main focus being inflation control • Cash reserve requirement on SRD lowered from 27% to 25%
Trinidad and Tobago	• Conservative monetary policy aimed at controlling inflation • Nominal exchange rate kept stable in a quasi-fixed regime • Maintenance of the benchmark interest rate ("repo") constant at 8% • Issuance of long-term securities (between 5.5 and 10 years) for US$ 3,103 million, maturities between 5.5 and 10 years, and coupon rates ranging from 6% to 8%, to absorb excess liquidity
ECCU	• Neutral monetary policy: the discount rate and inter-bank market rate remained constant at 6.5% and 4.5%, respectively • Continuation of the fixed peg regime to the US$

Source: ECLAC.

Barbados and Guyana reduced deposit and benchmark interest rates, respectively, whereas the former also lowered reserve requirement ratios. In the case of Suriname, monetary authorities reduced cash reserve requirements on Statutory Reserve Deposits (SRD). On the one hand, Jamaica and Trinidad and Tobago applied policies to stabilize the exchange rate market and control inflation through recurrent sales of foreign exchange and active issuance of open market instruments to absorb excess liquidity. On the other hand, Belize experienced significant monetary growth fuelled by credit expansion and foreign capital inflows. Meanwhile, the Eastern Caribbean Central Bank (ECCB) conducted a neutral monetary policy with no change in monetary policy interest rates. The same is true in the Bahamas.

Table 7 shows market interest rates. In four non-ECCU countries (Bahamas, Belize, Guyana, and Trinidad and Tobago) loan and/or deposit rates picked up in 2007 as compared to 2006. The most significant increase was recorded by the loan rate in the Bahamas (0.6 percentage points). Contrary to this, market interest rates went down in Barbados, Jamaica and Suriname. In the case of six ECCU countries, market interest rates also went down slightly, between 0.1-0.3 percentage points. The exceptions are St. Kitts and Nevis and Saint Lucia that showed mixed results, with decreases in loan rates and increases in deposit rates. With regard to interest rate differentials, in 2007 the highest values were recorded by far by Guyana (11.5 percentage points) and Jamaica (17), revealing either high inefficiencies of banks, or market power and poor regulation of domestic financial institutions. In the other Caribbean countries interest rate differentials were lower, ranging from 5.3 percentage points in St. Kitts and Nevis, to 8.3 in Belize. Finally, liquidity expanded more rapidly than nominal GDP in 2007 in all non-ECCU countries, except for Guyana. This was particularly the case of Suriname, where M3 as a share of GDP climbed from 57.8% in 2006 to 70.6% in 2007, revealing an expansionary monetary stance. On the other hand, in three ECCU countries (Anguilla, Antigua and Barbuda, and Saint Lucia) liquidity as a share of GDP declined signalling a contractive monetary policy. In the other ECCU countries there were increases in the M3-to-GDP ratio. It is worth noting the much higher value of the latter variable in the ECCU countries as compared to the other Caribbean countries, revealing more financial depth in the former group of countries. This is particularly the case of Anguilla where M3 totalled 154.8% of GDP in 2007.

Table 7
LIQUIDITY AND INTEREST RATES, 2006-2007
(Percentage)

	Loan rate		Deposit rate		Interest rate differential[a]		M3/GDP[b]	
	2006	2007p	2006	2007p	2006	2007p	2006	2007p
Bahamas	10.0	10.6	3.4	3.7	6.6	6.9	73.7	77.5
Barbados	10.9	10.7	5.1	4.8	5.8	5.9	108.7	116.4
Belize	14.2	14.3	5.8	6.0	8.4	8.3	62.0	68.5
Guyana	14.5	14.7	3.2	3.2	11.3	11.5	74.0	69.5
Jamaica	22.0	22.0	5.3	5.0	16.7	17.0	37.6	38.9
Suriname	15.6	13.3	6.6	6.4	9.0	6.9	57.8	70.6
Trinidad and Tobago	10.2	10.6	2.4	2.8	7.8	7.8	33.0	38.4
ECCU								
Anguilla	9.9	9.6	3.7	3.7	6.2	5.9	174.8	154.8
Antigua and Barbuda	10.4	10.2	3.5	3.2	6.9	7.0	91.1	86.9
Dominica	9.2	9.2	3.4	3.2	5.8	6.0	80.2	82.3
Grenada	9.7	9.6	3.0	3.0	6.7	6.6	97.2	100.7
Montserrat	10.5	10.3	2.7	2.6	7.8	7.7	111.3	114.2
St. Kitts and Nevis	9.4	9.3	3.7	4.0	5.7	5.3	98.5	101.4
Saint Lucia	10.2	8.8	2.9	3.1	7.3	5.7	91.9	88.2
St. Vincent and the Grenadines	9.9	9.6	2.8	2.8	7.1	6.8	71.4	78.3

Source: ECLAC on the basis of official data.
[a] Percentage points (loan rate minus deposit rate).
[b] In Belize, Guyana and the ECCU countries corresponds to M2/GDP.

E. THE EXTERNAL SECTOR

When observing the evolution of trade and current account balances in the Caribbean, two general features stand out. First, in countries abundant in natural resources – notably Suriname and Trinidad and Tobago – generally trade surpluses offset deficits in the other components of the current account, i.e. services and income balances, resulting in lower current account surpluses (or plain deficits)[13]. On the contrary, in all the other countries, current account deficits were lower than trade deficits, revealing that these are partially counterbalanced by surpluses in the services and transfers balances[14]. In this group of countries that are not abundant in natural resources the services sectors are important, especially tourism and the financial sector[15]. By the same token, transfers from abroad are highly significant particularly due to the magnitude of workers' remittances (see table 8). These two characteristics are confirmed in table 8 that presents trade and current account balances as a share of GDP in 2003-2007.

[13] In these two countries transfer balances are very small as compared to the other accounts.
[14] As is usual in most developing countries, income balances post recurrent deficits mainly explained by the repatriation of profits by multinational corporations and interest payments on public debt.
[15] For instance, in 2002-2006 these two sectors combined accounted for more than 40% of output in Anguilla; more than 30% in Barbados, the Bahamas, and Antigua and Barbuda; more than 25% in Belize and Saint Lucia; and more than 20% in Jamaica, Dominica, St. Kitts and Nevis, and St. Vincent and the Grenadines.

Table 8
TRADE AND CURRENT ACCOUNT BALANCE, 2003-2007
(Percentage of GDP)

	Trade balance			Current account balance		
	2003 -2005	2006	2007p	2003 -2005	2006	2007p
Bahamas	-23.4	-30.5	-29.8	-6.1	-20.9	-18.2
Barbados	-33.6	-30.8	-29.9	-10.5	-8.6	-7.0
Belize	-19.4	-15.2	-16.9	-15.4	-1.3	-3.4
Guyana	-12.5	-32.8	-35.5	-13.4	-27.4	-21.6
Jamaica	-24.2	-28.4	-32.3	-8.8	-11.4	-17.0
Suriname	1.4	9.5	9.7	-9.0	6.8	10.4
Trinidad and Tobago	16.5	29.0	21.8	15.2	25.5	18.6
Average[a]	-13.6	-14.2	-16.1	-6.9	-5.3	-5.5
ECCU[a]	-42.1	-48.1	-49.4	-22.7	-31.6	-37.0
Anguilla	-56.4	-93.2	-96.0	-32.1	-78.9	-91.7
Antigua and Barbuda	-45.2	-48.3	-48.9	-14.7	-30.7	-34.5
Dominica	-30.9	-32.3	-39.7	-22.3	-16.1	-26.5
Grenada	-42.5	-35.4	-37.8	-25.2	-34.2	-36.6
Montserrat	-56.5	-56.1	-51.4	-27.1	-17.5	-20.4
St. Kitts and Nevis	-29.7	-32.9	-34.9	-21.3	-18.1	-25.6
Saint Lucia	-37.6	-46.4	-45.8	-15.9	-33.2	-33.3
St. Vincent and the Grenadines	-37.9	-40.0	-40.5	-22.6	-24.0	-27.0

Source: ECLAC on the basis of official data.
[a] Simple average.
p = preliminary figures.

The intensified surge in commodity prices during the last years led to significant improvements in the trade and current account balances in Suriname and Trinidad and Tobago in 2006 and 2007, as compared to 2003-2005. The most dramatic change was recorded by the former, which transformed a current account deficit of 9% of GDP in 2003-2005 to a surplus of 6.8% in 2006 and of 10.4% in 2007. On the contrary, the Bahamas, Guyana, Jamaica, Anguilla and Saint Lucia, experienced significant widening in their trade and current account deficits in 2006 and 2007 as compared to 2003-2005. The increase in the import bill associated with higher fuel and food prices played a key role in this outcome. In this case, the most severe setback was witnessed by Anguilla, whose current account deficit went from 32.1% of GDP in 2003-2005 to 78.9% in 2006 and 91.7% in 2007.

By far, the most significant case is that of Anguilla, as mentioned, in 2007 recorded the highest current account deficit. In the other ECCU countries the current account deficits ranged from 20.4% of GDP in Montserrat to 36.6% in Grenada. The MDCs that posted the highest current account deficits in 2007 were Guyana (21.6% of GDP), the Bahamas (18.2%) and Jamaica (17%). All in all, at the aggregate level (simple average) ECCU countries recorded much higher trade and current account deficits as a share of GDP than the other Caribbean countries in 2003-2007. The magnitudes of trade and current account deficits are a matter of serious concern, especially because the Caribbean countries are facing the imminent implementation of the Economic Partnership Agreement (EPA) between the European Union (EU) and CARIFORUM (CARICOM plus the Dominican Republic) that would presumably increase imports originated from the EU that are granted free access to Caribbean markets within the new agreement. Box 2 briefly discusses the likely implications of the EPA.

Box 2

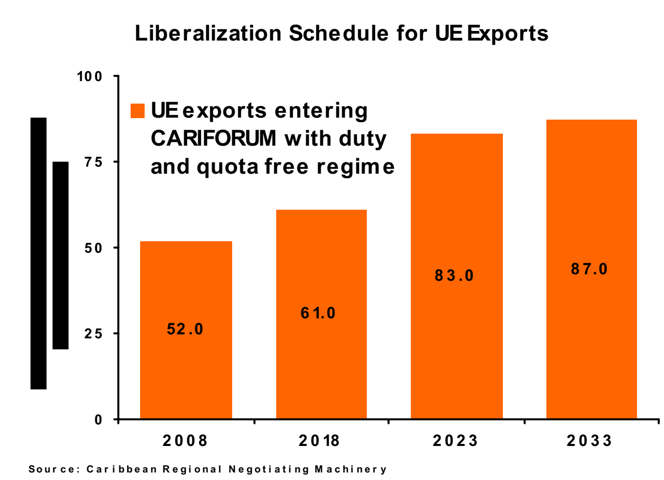
THE ECONOMIC PARTNERSHIP AGREEMENT WITH THE EUROPEAN UNION

A key development issue for the Caribbean region during 2007 was the conclusion of negotiations towards the establishment of an Economic Partnership Agreement (EPA) between the CARIFORUM (the CARICOM countries plus the Dominican Republic) and the European Union (EU). That agreement, reached under the umbrella of the process between the EU and the ACP Group* will have a deep and longstanding impact in the Caribbean region derived from the diverse provisions and commitments agreed upon.

Despite a final agreement on the EPA's terms and provisions being reached in December 2007, some CARICOM countries have expressed reservations and concerns on some central issues, such as "Most Favoured Nation" clause provisions, intellectual property rights, development assistance and migratory barriers, among others. In addition, there are worries regarding the pertinence, timing and adequacy of the implementation process established for the EPA and the possible negative economic and social impact on the Caribbean region. Indeed, the Government of Guyana has officially declared that it would not sign the EPA without a prior national review and consultation process, proposing a delay in the signing of the agreement at the regional level.

Some major critiques of the EPA are focused on the uncertainty of the net benefits derived from its implementation, and the likely deepening of asymmetric conditions between Caribbean and European countries. This is fed by concerns on the Caribbean community's capacity to improve and extend its access to the EU market in a context where the region will be losing the non-reciprocal and preferential treatment formerly enjoyed by its main exports to European countries, specifically agricultural products (bananas, rice, sugar and rum), which are facing increased competition from Central and South American as well as African economies. Roughly speaking, with the EPA the Caribbean countries will no longer have more prerogatives than the ones currently in place regarding access to the EU market but will have to reciprocate, not only given the same free access to domestic markets to European producers but also to comply with a number of extra provisions related to highly sensitive issues. Perhaps the most compelling critique some observers in the Caribbean have raised regarding the negotiation strategy followed by CARIFORUM is that Caribbean countries accepted to incorporate in the EPA issues that are beyond the World Trade Organization (WTO) Doha Round commitments such as innovation and intellectual property, environmental regulations, procurement and competition policies. In addition, references to transition, adjustment, asymmetry and development cooperation are thought to be insufficiently considered in the agreement.

Similarly, questions have been raised about the dismantling process of trade restrictions between CARIFORUM and EU. Under the Agreement, a 25-year period has been established to reduce/eliminate tariffs and quotas imposed on European imports. At the end of this period (in 2033) at least 87% of goods imported from the EU entering the CARIFORUM markets should pay zero custom duties and not be subject to any value or volume restriction. The possible negative impacts of this process of trade liberalization and increased dependency from imports on fiscal revenue, trade balance and domestic production is another major concern within the Caribbean.



As a result of the differences among CARICOM members over the terms of the EPA, there is uncertainty about its official subscription – originally scheduled for mid 2008 – and its actual implementation, especially regarding its most controversial points, such as investment regulation, competition policy or government procurement. The growing political and social pressure that Caribbean Governments are already confronting in their respective countries is being reflected in recent calls for an extended negotiation period of the EPA, so as to address critical issues and discuss social and economic development aid mechanisms attached to the agreement.

In order to build the indispensable domestic consensus and advance into a successful integration process CARICOM would need to address the concerns already expressed be devising a regional position and strategy, and establishing mechanisms that ensure the recognition and treatment of asymmetries and inequalities between the region and the European countries. Only in this way will it be possible to ensure that the EPA will generate a net positive benefit for the region as a whole, and at the country level alike. This would help to foster economic growth, social progress and political stability, operating at the same time as a further stepping stone for the advancement of regional integration and cohesion among Caribbean countries.

* The ACP group is composed by 79 African, Caribbean and Pacific developing countries.

Source: ECLAC

Table 9 shows the magnitude of remittance flows both as a share of exports of goods and as a share of FDI, in 2003-2007. In the MDCs remittances are much more important relative to the export of goods and FDI than in the ECCU countries. In the non-ECCU countries remittances totalled around one third of exports of goods (simple average), whereas in the latter the remittances-to-exports ratio was below 10%. Most notably, relative to FDI, remittances were at least near two thirds of FDI in the non-ECCU countries (simple average), a proportion many times higher than that recorded by the ECCU countries. For instance, in 2007 the remittances-to-FDI ratio in the MDCs was more than 10 times that of the ECCU. In the countries benefiting from a commodity boom such as Suriname and Trinidad and Tobago, remittances are marginal as a share of exports of goods. The same is true in the case of ECCU countries, except for Anguilla and Grenada. The highest remittances-to-exports ratios were by far recorded by Jamaica (the lowest figure was 86.2% in 2007), followed by Barbados (between 56% and 68.2%). The picture is similar when comparing remittances to FDI, except that in this case Guyana shows up with very high remittances-to-FDI ratios, mainly because of the relative low levels of foreign investment inflows recorded in 2003-2007. The sharp decline in the remittances-to-FDI ratio in Barbados from 166.5% in 2003-2005 to 32% in 2006 and to 42.3% in 2007 was due to a surge in FDI inflows explained by construction projects in preparation of the Cricket World Cup.[16] In the case of Anguilla, remittances in 2003-2005 totalled only 8% of FDI due to the surge of these flows to the country associated with large tourism projects. This discussion highlights the relevance of remittances in the Caribbean countries from a balance of payments perspective and their importance as a source of foreign exchange relative to merchandise exports and FDI. Box 3 discusses policies to enhance the development impact of remittances and migration.

Table 9

REMITTANCES, 2003-2007

(Percentage)

	Remittances/Exports of goods			Remittances/FDI		
	2003 -2005	**2006**	**2007p**	**2003 -2005**	**2006**	**2007p**
Bahamas	16.3	..	..	18.9	..	..
Barbados	68.2	58.6	56.0	166.5	32.0	42.3
Belize	12.0	15.5	15.4	50.4	64.1	59.8
Guyana	27.4	37.3	32.0	340.6	213.7	143.4
Jamaica	103.3	91.2	86.2	242.3 [a]	244.2 [a]	.. [a]
Suriname	1.4	0.2	0.1			
Trinidad and Tobago	1.2	0.8	0.8	11.9	17.9	11.1
Average[b]	32.8	33.9	31.8	105.2	98.8	64.2
ECCU[b]	9.1	7.6	5.7	13.5	9.2	6.3
Anguilla	27.2	..	..	8.0	..	..
Antigua and Barbuda	5.6	5.5	4.9	6.1	2.9	2.8
Dominica	3.5	3.3	3.7	15.6	14.9	8.6
Grenada	23.0	29.5	19.2	32.1	29.4	17.9
Montserrat	6.6	..	..	30.6	..	..
St. Kitts and Nevis	1.9	1.9	2.0	4.2	2.7	2.1
Saint Lucia	0.9	0.8	0.7	2.3	0.9	0.7
St. Vincent and the Grenadines	4.3	4.5	3.6	8.7	4.6	5.5

Source: ECLAC, on the basis of World Bank, *Migration and Remittances Handbook,* 2008; and official information.
[a] Suriname experienced net FDI outflows in these years.
[b] Simple average.
.. = not available.

[16] FDI inflows climbed from US$31 million in 2005 to US$437 million in 2006 and to US$331 million in 2007.

Box 3

POLICIES TOWARDS REMITTANCES AND MIGRATION IN THE CARIBBEAN

The remittance market is undergoing important structural changes that could enhance the efficiency of the industry and improve its ability to contribute to development in the Caribbean. In the first place, with the advance in information and communications technology (ICT), Caribbean banks, mutual funds, stock markets and other formal financial institutions have the means to provide tailor-made customer relations and innovative financial products to meet the needs of the remittance market.

An important area for consideration is mechanisms for transforming remittances in longer duration or term finance to fund productive activities in agriculture, tourism, agro-processing and cultural and entertainment services. The platform has already been laid for this by the fact that the flows are relatively stable over time. This therefore presents the opportunity for regional financial institutions to develop a range of financial instruments to provide term finance in the market. Important among potential instruments are securitized remittance bonds. This is a bond that is backed by future flows of remittances that are channelled through a trust account or Special Purpose Vehicle (SPV) which issues debt and manages the collection accounts-paying returns to investors and reserves into the bank for on-lending. Securitized remittance bonds have taken off in Latin America since the 1994 Tequila crisis in Mexico, providing longer-term financing at lower costs for a range of activities. With financial deepening and a more savvy investment public, especially in the remittance market, it is anticipated that these instruments will come to play an important role in providing term finance for projects in infrastructure, tourism, light industry and other sectors in the region.

Apart from securitized bonds, standard **“**diaspora bonds**”** can be used by governments to finance infrastructure and other development activities. These bonds often hold important advantages for the issuing country or corporation in that they can be issued at a discount since diasporas are often in a better position to absorb sovereign risks of default as they hold local currency liabilities and can influence home country government’s decision to meet debt service obligations. In addition, these bonds can be a useful source of raising foreign exchange financing in countries of the region that face important foreign exchange constraints.

A bright prospect for the region, which could integrate the knowledge and skills of remitters and their finance, is venture capital development and equity financing. Many highly skilled migrants from the region have garnered substantial experience in OECD economies in finance and industry and incentives could be provided for these persons to merge these skills in the setting up of venture capital institutions to fund productive activities in sectors that suffer from inadequate term finance. India has shown that the diaspora can be leveraged to develop venturing institutions to fund new start-ups in activities such as software development and ICT. In the OECS, for instance, the ECCB is spearheading the development of the Eastern Caribbean Enterprise Fund (ECEF) to provide funding for productive enterprises with a strong potential to generate employment and foreign exchange earnings and also for diversification into new activities. It is anticipated that the diaspora would be encouraged to participate in these types of financing mechanisms through securitized remittances, which could boost the capitalization of the funds.

Remittances can also catalyze the deepening and efficiency of nascent equity markets in the Caribbean. Regional capital markets remain quite thin with low market capitalization and trading volumes. This stems in part from limited scale economies due to small size of placements and a “buy and hold” culture, especially among small businesses. Remittances can be harnessed to boost the market capitalization of regional stock markets, raise turnover ratios and facilitate finance to dynamic enterprises. Notably, a significant portion of Caribbean migrants are highly skilled and qualified persons who are financially literate, and these persons can be encouraged to invest in regional equity markets.

Financial innovation in the remittance market has seen the development of cell-phone-based remittances and other remittance-related products, including account-to-account transfers. These new services will bring down the costs of transfers, reduce transmission times and improve efficiency in the market. Caribbean countries stand to benefit from this structural change as remittance costs remain relatively high in the region.

In seeking to raise the development finance impact of remittances, Caribbean policy makers will need to ensure that these funds are not being used for illegal purposes. This is important in the wake of increased concerns by the United States that these flows are not used to fund terrorist networks after the events of September 11. This might demand some minimum level of regulation and supervision policy that prevents the use of flows for criminal purposes, but at the same time does not stifle innovation and private initiative in the market (that does not kill the goose that lays the golden egg).

Although much of the focus on migration and remittances has been directed at increasing the quantum and stability of these flows and reducing transfer costs; another side of the debate is how to maximize the use of the human capital that migrants have acquired, to the benefit of home countries. In the Caribbean in particular, this would help to compensate for the brain drain that has indeed occurred in some countries.

Most Caribbean countries have partial strategies to engage their diasporas in investment and business development, through Home Town Associations and Diaspora Forums. However, there is no integrated strategy to leverage the knowledge, skills and business talent of migrants for regional development. The natural starting point for maximizing the use of the skills of migrants is to have an informed profile of migrants from the region.

The region should implement a project to create a 'Migrants Information System and database' to collect data and information on migrants by skill levels, education and training, and broad income categories, if possible. Such a database would permit the matching of diaspora skills supplies with demand in home countries in a number of areas. For instance, an exchange programme could be developed with the diaspora for skilled persons to train persons in their home countries in areas such as starting a business, ICT development and marketing overseas. Nevertheless, the development of this information system would be a veritable challenge and would require regional policy makers collaborating with immigration and labour market bodies in host countries. Crucially, migrants must be assured that information gathered will not be used for taxation or other adverse purposes. Caribbean countries need to focus more on social remittances, which entail drawing on the ideas, skills, and knowledge of host countries of the diaspora to benefit the region.

Although for many recipients' economic circumstances dictate that they use remittances mainly for consumption, a portion of flows are also invested in small businesses, house construction and other activities. Moreover, spending on health and education are real investments in the human capital stock of recipient countries with strong future value and in part offsetting the loss of skills through the brain drain.

An important issue analyzing the development impact of remittances is the productivity and efficiency of these resources. Productivity of remittances could be broadly measured by value of productive output, in businesses for instance, per unit value of remittance spending. This level of analysis would require micro-level analysis of firms and sectors such as home construction. Therefore, surveys of these activities would have to be done to gauge the multiplier effect of remittances. Efficient use of remittances would entail directing a sizeable portion of these scarce resources to the most dynamic and competitive foreign exchange-saving and generating activities. In fact, in the current climate of rising food prices, a longer-term strategy for improving food security would be to mobilize remittances along with other sources of finance to develop sustainable food production in key areas such as expanded rice production in Guyana and root crops, vegetables and fruits in the other countries.

Migration is usually a circular process comprising out and return migration. Caribbean policy authorities need to articulate a clear policy to facilitate the return of skilled migrants to contribute to development. A package of incentives could be provided including comparable tax breaks to FDI for migrants who plan to start businesses, for example in the small hotel and light industry sectors.

Migration and remittances are part of the Caribbean socio-economic landscape. Regional policy makers have been trying to harness the diaspora and remittances as another pillar in the development process. However, these flows are largely private and would respond to incentives rather than coercion. Therefore, governments must put proper incentives and policies in place to both boost these flows and to facilitate their use in productive activities. These could include similar tax and investment concessions as FDI, improved regulatory framework and overall sound macroeconomic policies.

Source: ECLAC

The massive current account deficits observed in most countries needed to be financed mostly by foreign capital. Table 10 shows that, while in the MDCs FDI and financial capital have recorded comparable levels as a share of GDP (simple average) in 2003-2007, in the ECCU countries FDI has been much more important than financial capital to finance the external gap. Indeed, in this of countries the magnitude of FDI inflows (simple average) was between 2.8 and 3.6 times financial capital. In addition, FDI was much more significant in the ECCU countries. For instance, in 2007 FDI as a share of GDP in the ECCU economies was 6.4 times higher than in the other Caribbean countries.

Table 10

FOREIGN DIRECT INVESTMENT AND FINANCIAL CAPITAL, 2003-2007

(Percentage of GDP)

	FDI			Financial capital[a]		
	2003 -2005	2006	2007p	2003 -2005	2006	2007p
Bahamas	6.7	10.3	9.9	0.5	9.5	7.7
Barbados	1.1	2.4	..	8.9	7.5	..
Belize	6.9	8.5	8.7	6.1	-3.1	-3.5
Guyana	5.6	11.2	14.2	6.7	20.9	8.0
Jamaica	5.5	7.7	..	5.2	5.6	..
Suriname	-2.0	-9.6	-13.8	11.2	8.4	13.4
Trinidad and Tobago	5.5	2.8	4.0	-11.8	-8.2	-8.7
Average[b]	4.2	4.8	4.6	3.8	5.8	3.4
ECCU[b]	17.8	26.4	29.5	6.4	7.4	9.9
Anguilla	53.5	76.5	89.7	-18.5	4.8	16.8
Antigua and Barbuda	18.8	37.2	33.5	-2.3	-4.6	-1.0
Dominica	9.1	8.4	13.7	14.6	12.1	14.8
Grenada	14.9	15.2	23.4	11.2	20.2	15.5
Montserrat	4.3	4.8	5.0	25.4	14.1	15.8
St. Kitts and Nevis	17.9	22.3	27.2	3.3	-0.8	-0.1
Saint Lucia	10.8	25.1	27.2	6.3	8.8	7.4
St. Vincent and the Grenadines	13.0	21.8	16.6	11.4	4.6	10.1

Source: ECLAC, on the basis of official data.
[a] Including errors and omissions.
[b] Simple average.

Within the non-ECCU countries, FDI as a share of GDP has increased in importance in the last two years as compared to 2003-2005 in the Bahamas, Belize and Guyana. In Guyana this process has been more intense, with FDI climbing from 5.6% of GDP in 2003-2005 to 11.2% in 2006 and 14.2% in 2007. This outcome was mainly explained by strong FDI inflows recorded in 2006 and 2007 for projects related to the Cricket World Cup held in March-April 2007. Likewise, in most ECCU countries the magnitude of FDI as a share of GDP increased. In proportional terms, the increase was more significant in Saint Lucia that saw its FDI-to-GDP ratio rise from 10.8% of GDP in 2003-2005 to 25.1% in 2006 and 27.2% in 2007. In percentage points of output, the expansion was more perceptible in Anguilla (23 percentage points between 2003-2005 and 2006, and a further 13.2 points in 2007). On the contrary, Trinidad and Tobago experienced a reduction in FDI flows that in 2003-2005 were almost twice as high (as a percentage of GDP) as the level recorded in 2006 and 37.5% higher than in 2007. All in all, FDI has been much more important to finance the current account deficits in the ECCU countries than in the other Caribbean countries. Indeed, in 2007 FDI to the former group of countries averaged 29.5% of GDP (simple average), more than six times that of CARICOM MDCs (4.6%).

As regards financial capital, there is no clear pattern of behaviour. No CARICOM MDCs exhibited a clear upward trend of these flows as a share of GDP in 2003-2007. Most of them present periods of increases of such inflows (as a share of GDP) followed by periods of decreases, or vice-versa. In the case of Belize, there were periods of both financial capital inflows and outflows in 2003-2007, whereas Trinidad and Tobago reported outflows over the whole period. For the ECCU countries, only Anguilla recorded a clear upward tendency during the reporting period. This country experienced a significant outflow of financial capital of 18.5% of GDP, followed by net inflows of 4.8% in 2006 and 16.8% in 2007. As in the other Caribbean countries, most ECCU economies experienced ups and downs in financial capital inflows (as a share of GDP) in 2003-2007. The ECCU country that showed a combination of outflows and inflows of financial capital was St. Kitts and Nevis, although of a more moderate scale than Belize. Finally, likewise Trinidad and Tobago, Antigua and Barbuda recorded recurrent outflows of financial capital in 2003-2007. As in the case of FDI, financial capital has been much more significant in the ECCU than in the other Caribbean countries. For instance, in 2007 these capitals totalled 9.9% of GDP in the former group (simple average), and 3.4% in the latter.

Undoubtedly, the most welcomed outcome in terms of capital inflows to the region during the last years has been the substantial levels of FDI received by ECCU countries. Indeed, FDI as a share of GDP to this group of countries totalled 26.4% of GDP (simple average) in 2006 and 29.5% in 2007. Clearly, Anguilla stands out in this regard, with FDI posting almost 90% of GDP in 2007. Other countries that received lower but still significant FDI inflows were Antigua and Barbuda (33.5% of GDP in 2007), Saint Lucia and St. Kitts and Nevis (27.2% each), and Grenada (23.4%). FDI is generally more beneficial than financial flows not only on stability grounds, which reduces the external vulnerability of countries, but because it creates productive capacity, generates employment and promotes technological transfer and absorption. The continuous attraction of this kind of foreign capital should continue to be a priority to all Caribbean countries. In this respect, regional coordination is critical, especially in tax policies, so as to avoid countries engaging in race to the bottom processes in their competition to attract FDI[17].

The excessive external gaps recorded by most Caribbean countries puts them in a position of extreme vulnerability to external shocks, such as deteriorations in the terms of trade and sudden reversals in foreign capital inflows. This vulnerability is amplified by excessive public debt in most countries coupled with natural disasters that struck the region with increasing frequency. Reducing the external gap continues to be one of the main economic policy challenges facing the Caribbean countries.

F. CONCLUSION: OVERALL ECONOMIC PERFORMANCE IN 2007 AND PROSPECTS FOR 2008

How to measure the overall economic performance of a country? A classic rough indicator is the “misery index” created by Arthur Okun in the 1970s as the sum of the unemployment rate and the inflation rate. The higher the score, the worse the economic performance of the country. However, this measure only takes into account how the economy looked in the analyzed period, but not the sustainability of that situation in the future. Thus, it seems necessary to include the fiscal and the current account balances in the index. In addition, in countries with significant informal labour markets and high rates of underemployment and self-employment such as the Caribbean countries, the unemployment rate does not adequately reflect the situation in the labour market. In the absence of indicators of underemployment and self-employment rates, the best way to approach employment conditions seems to be GDP growth rates. Therefore, the economic misery index (EMI) is defined as a combination of the inflation rate, the current account deficit, the fiscal deficit and the GDP growth rate such that:

$$EMI = \frac{\alpha}{3}\left(\pi + \frac{CAD}{GDP} + \frac{FD}{GDP}\right) - (1-\alpha)\widehat{Y}$$

where π is the inflation rate (year end), CAD/GDP is the current account deficit as a percentage of GDP, FD/GDP is the fiscal deficit as a percentage of GDP and $\hat{Y}$ is the GDP growth rate. The value of α is set at 0.6, thus giving GDP growth a weight twice as high as the weight of each of the other variables.

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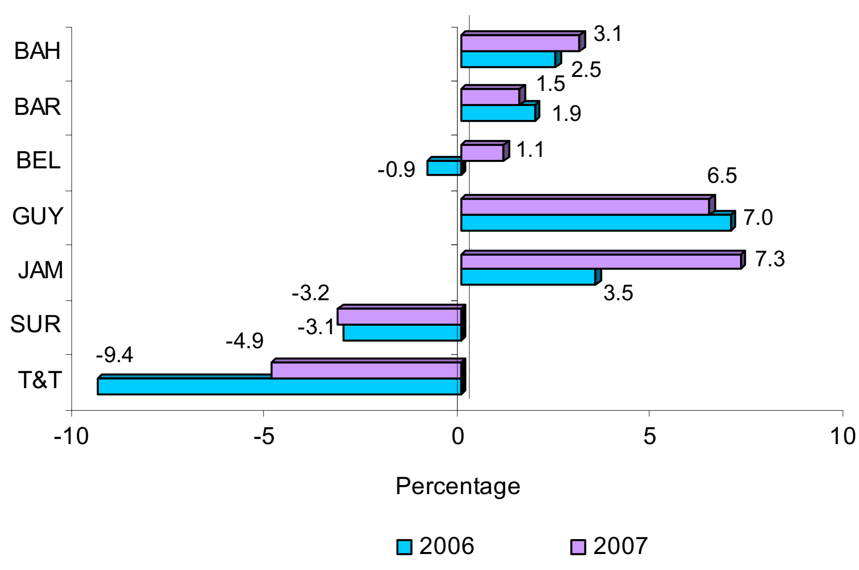
[17] The typical example of the race to the bottom behaviour to attract FDI is that of Central America in the 1990s. All these countries created Export Processing Zones (EPZs) during that decade where foreign companies were exempted from corporate income tax apart from other preferential tax treatments. As a result, the most dynamic and profitable enterprises in these countries ended up not paying taxes contributing to the perpetuation of low tax revenues. With regional coordination, it would have been possible to establish a single (moderate) corporate income tax rate in EPZs in all countries that would have generated significant resources to the government to finance social spending and public investment. This would not have significantly jeopardized the establishment of multinational companies in these countries in as much their main attractiveness is their proximity to the United States market.

The definition of the EMI used in this section combines a monetary policy indicator, a fiscal policy indicator, an external sector indicator and a real sector indicator. These four variables have been discussed above, so the index can be taken as a summary measure of the analysis presented. Thus, it provides a useful back-of-the-envelope score of overall economic performance of the Caribbean countries in 2007.

Figure 8a shows the EMI in the non-ECCU countries in 2006 and 2007. One feature stands out, namely, the negative values of the EMI shown by the natural resource-based countries, i.e. Suriname and Trinidad and Tobago. This is explained by a combination of fiscal and current account surpluses that were significant – principally in the latter country – and rapid economic growth. Guyana, also a natural resource-based economy exhibits a highly positive EMI even though an improvement was recorded in 2007 over 2006 in this respect. The other countries (except Barbados) recorded an increase in the EMI revealing a worse economic performance in 2007 relative to 2006. This outcome was more pronounced in Jamaica whose EMI more than doubled from 3.5% in 2006 to 7.3% in 2007 due to a combination of higher inflation, a widening of the current account deficit and slower GDP growth. The deterioration in economic performance was also significant in Belize, whose EMI went from a negative value of 0.9% in 2006 to a positive of 1.1% in 2007, driven by a slow down in economic dynamism and an acceleration in inflation that were only partially offset by reductions in both current account and fiscal deficits. Finally, the decline in the absolute value of the EMI in Trinidad and Tobago from -9.4% in 2006 to -4.9% in 2007 although remaining highly favourable, is explained by the deterioration of all four components of the index observed in 2007 as compared to 2006.

Figure 8a
ECONOMIC MISERY INDEX, 2006-2007
(Percentage)

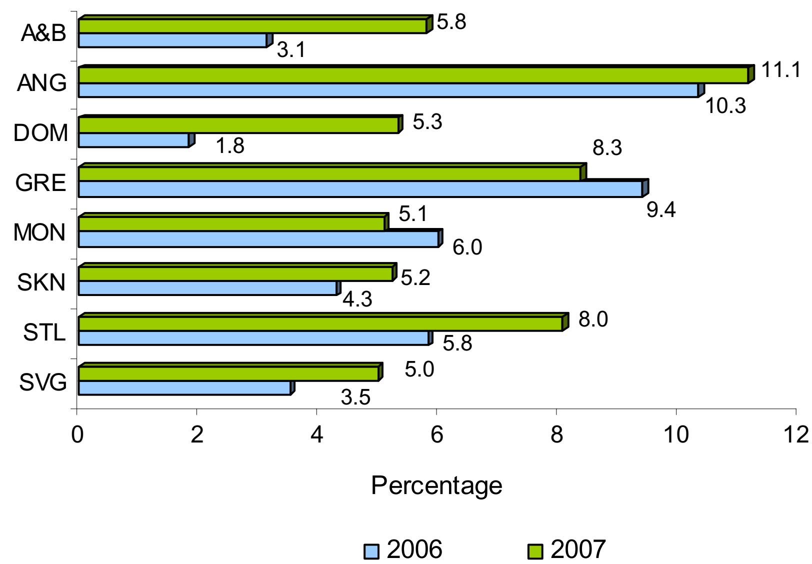


Source: ECLAC on the basis of information from tables 1, 3, 5 and 8.

As regards the ECCU countries, Grenada and Montserrat were the only ones that improved their economic performance in 2007 relative to 2006 (see figure 8b). In the former, this outcome was led by GDP recovery, recording an EMI of 8.3%, 1.1 percentage points lower than in 2006. In the case of Montserrat, the improvement of its economic performance is explained by a combination of a substantial

GDP recovery and reduced current account deficit that more than offset higher inflation and a wider fiscal deficit. The EMI increased markedly in Dominica (from 1.8% in 2006 to 5.3% in 2007), followed by Antigua and Barbuda (from 3.1% to 5.8%) and by Saint Lucia (from 5.8% to 8%). These three countries witnessed a perceptible slowdown in economic growth in 2007. This was coupled with acceleration in inflation in Dominica and Saint Lucia.

Figure 8b
ECONOMIC MISERY INDEX, 2006-2007
(Percentage)



Source: ECLAC on the basis of information from tables 1, 3, 5 and 8.

On average, in 2007 the ECCU countries showed higher EMIs than the other Caribbean countries. Indeed, only Guyana and Jamaica recorded EMIs above those of some ECCU countries, such as Antigua and Barbuda, Dominica, Montserrat, St. Kitts and Nevis, and St. Vincent and the Grenadines. By far, the best economic performances were recorded by Trinidad and Tobago and Suriname. On the contrary, the worst performances were posted by Anguilla (EMI of 11.1%), Grenada (8.3%), Saint Lucia (8%), and Jamaica (7.3%). The other countries exhibited EMIs equal to or lower than 6.5% in 2007.

Summing up, there are a number of economic challenges facing the Caribbean countries in 2008 and the years ahead. Economic growth in most of them is either too low or unsustainable. The latter is the case of Anguilla, whose impressive GDP growth was led by massive construction projects that sooner or later will come to an end. By the same token, the rapid growth pace posted by Suriname and Trinidad and Tobago could continue as long as oil and mineral prices keep increasing or remain high, which is totally out of the control of these countries' authorities. These are also extinguishable natural resources. Apart from these countries which are abundant either in oil or mining products, that have fed significant fiscal and current account surpluses, the other countries present twin deficits that in most cases have recorded worrisome levels. In addition to financing recurrent fiscal deficits, most Caribbean countries have accumulated significant amounts of public debt, well beyond any definition of fiscal sustainability. This poses difficulties in fiscal policy management. The increasing trend in food and energy prices would continue to push up import bills thus widening trade and current account deficits. Last but not least, imported inflation will keep on exerting an important influence on domestic inflation therefore making Central Banks' mission to control inflation harder.

Prospects for 2008 indicate a GDP growth rate (simple average) in the range of 3.5-4.0% in the non-ECCU countries as indicated in table 11. The most rapid pace would be recorded by Trinidad and Tobago (5.5-6.0%) followed by Suriname (5.0-5.5%) fuelled by their dynamic mining and/or oil industries in a context of increasing world market commodity prices. The Bahamas and Belize would exhibit the slowest dynamism in economic activity in 2008, with GDP growth rates between 2% and 2.5%. The difficulties experienced by most airlines due to the high prices of fuel and its impact on the tourism sector in a context of increased uncertainty and the credit crunch in the United States play a role in this forecast. In addition, floods experienced by Belize in May 2008 will inhibit growth, especially in the agriculture sector. In the case of the ECCU countries, preliminary information for the first quarter indicate that the tourism sector has picked up led by cruise arrivals. However, as mentioned above, the situation of the tourism sector is likely to deteriorate over the remainder of the year, so that GDP growth in this group of countries would decline relative to 2007, posting a rate (simple average) to the tune of 3.5-4.0% in 2008. The most dynamic economy would be Anguilla (GDP growth rate of 5.5-6.0% in 2008), followed by Antigua and Barbuda (5.0-5.5%). On the other side, Dominica, Grenada and Saint Lucia would post the lowest GDP growth rates within the ECCU that would range between 2.5% and 3% in 2008. The other ECCU countries would record an intermediate output growth rate.

Table 11
GDP GROWTH RATE, 2008
(Percentage)

	2008f
Bahamas	2.0-2.5
Barbados	2.5-3.0
Belize	2.0-2.5
Guyana	4.5-5.0
Jamaica	2.8-3.3
Suriname	5.0-5.5
Trinidad and Tobago	5.5-6.0
Average[a]	3.5-4.0
ECCU[a]	3.5-4.0
Anguilla	5.5-6.0
Antigua and Barbuda	5.0-5.5
Dominica	2.5-3.0
Grenada	2.5-3.0
Montserrat	3.0-3.5
St. Kitts and Nevis	3.0-3.5
Saint Lucia	2.5-3.0
St. Vincent and the Grenadines	4.0-4.5

Source: ECLAC.
[a] Simple average.
f = forecast.

Chapter II

TOPICS IN CARIBBEAN ECONOMIC DEVELOPMENT

This chapter analyses two issues critical to the economic development of Caribbean countries. First, one significant macroeconomic problem faced by most countries in the region is that of public debt sustainability. Public debt overhang increases the likelihood of a fiscal crisis as it poses difficulty in fiscal policy management, absorbs considerable portions of public revenue for debt service payments and increases fiscal sector vulnerability. Second, in terms of productive capacity and employment generation, a top priority issue in the economic development agenda in the region is that of competitiveness in the tourism sector. Indeed, in many Caribbean countries this activity is one of the major sources of employment creation, foreign exchange generation and output growth. These two important topics are addressed below from a regional perspective.

A. PUBLIC DEBT SUSTAINABILITY IN THE CARIBBEAN

1. Introduction

Borrowing and public debt management are policy instruments with the potential to accelerate economic growth, alleviate poverty and improve income distribution. The Inter-American Development Bank (IDB) (2006)[18] identifies three reasons why countries contract debt. First, to transfer income from the future to the present. It is assumed that as countries develop over time, future generations will be richer than the current generation, so that this redistribution would be socially optimal. Second, countries borrow to finance development projects. As in developing countries savings are not enough to satisfy their financing needs, it is convenient to borrow abroad with the expectation that the returns of projects financed from external resources would provide revenue to service the debt. Finally, countries borrow in the face of adverse situations such as temporary downturns in economic activity or negative shocks such as natural disasters or financial crises.

Notwithstanding, apart from these potential benefits, there are also latent risks associated with public borrowing. In particular, short-sighted visions that do not pay attention to long-term sustainability could lead to situations of excessive consumption and borrowing, at the cost of the well-being of future generations. In addition, projects financed by external sources may have a return lower than expected so that their ex-post profitability would not have justified its implementation. Last but not least, the accumulation of public debt itself makes macroeconomic management more difficult and increases vulnerability to fiscal and financial crises, as well as their intensity and duration.

The inevitable result of chronic fiscal deficits experienced by most Caribbean countries during the last decades has been a significant accumulation of public debt. Countries like St. Kitts and Nevis, Guyana and Jamaica, for instance, exhibit debt-to-GDP ratios well beyond 100%. This should be a matter of concern, inasmuch as the international experience shows that when public debt surpasses a certain threshold, it becomes a serious deterrent of development.

Indeed, Patillo, Poisson and Ricci (2002)[19] concluded that when the debt-to-GDP ratio exceeds 40%, it has a negative impact on economic growth. By the same token, Detragiache and Spilimbergo

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[18] IDB (2006), Living with debt. How to limit the risks of sovereign finance. Economic and social progress in Latin America. 2007 Report. Washington, D.C.: Inter-American Development Bank.

[19] Patillo, C., H. Poirson and L. Ricci (2002), "External debt and growth". IMF Working Paper WP/02/69. Washington, D.C.: International Monetary Fund.

(2001)[20] found that the probability of a debt crisis increases significantly when it surpasses 40% of GDP. Moreover, Reinhart, Rogoff and Savastano (2003)[21] highlighted that countries with low credibility and/or a background of default could show debt intolerance even at much lower levels so that they can experience debt crises at debt-to-GDP ratios that could be manageable for other countries.

This section analyses public debt in the most indebted Caribbean countries – i.e. Barbados, Belize, Guyana, Jamaica, Antigua and Barbuda, Dominica, Grenada, and St. Kitts and Nevis – from the standpoint of its sustainability. A level of debt is deemed to be sustainable when the debt-to-GDP ratio remains constant or declines. The concept of sustainability is closely linked to that of solvency. A government is solvent if the net present value of its future primary balances (which excludes interest payments) is equal or greater than the present value of public debt stock. It can be demonstrated that if the debt-to-GDP ratio is not on an explosive path, that is, it is either stable or decreasing, the solvency condition holds.

It is worth noting that the concept of fiscal sustainability that is addressed in this section differs from that of optimality of public debt. The analysis that follows is intended to determine whether the service of the current debt levels is consistent with the fiscal stance. Therefore, it does not pretend to identify the debt level based on any optimality criteria.

2. Public debt level in the region

It has already been mentioned that a number of studies set 40% of GDP as the maximum level of sustainable debt. In addition, the HIPC initiative, of which Guyana is part, states that public debt should not exceed 250% of fiscal revenue or 150% of exports. Although they may be arbitrary, these limits can be taken as indicators to evaluate whether public debt in Caribbean countries is actually at sustainable levels.

Table 12 presents total public debt and its disclosure between external and domestic as a percentage of GDP at the end of 2006. All countries show public debt-to-GDP ratios above 70%, with six above 100%. Three countries stand out by this indicator: Guyana (157.7%), Jamaica (135.6%) and St. Kitts and Nevis (182.9%). In the 1970s and 1980s, when external financing was prominent, external debt surpassed domestic debt. However, from the 1990s to the present, a reversal took place in which four out of the 10 countries considered record higher domestic than external debt. Indeed, except for Belize, all of them show domestic debt in excess of 25% of GDP.

[20] Detraigiache, E. and A. Spilimbergo (2001). "Crisis and liquidity: Evidence and interpretation". IMF Working Paper WP/01/02. Washington, D.C.: International Monetary Fund.
[21] Reinhart, C., K. Rogoff, and M. Savastano (2003). "Debt intolerance". *Brooking Papers on Economic Activity*, vol. 2003, n. 1, pp. 1-62.

Table 12
PUBLIC DEBT, 2006[a]
(Percentage of GDP)

	External debt	Domestic debt	Total debt
Barbados	29.9	58.9	88.8
Belize	81.2	12.4	93.6
Guyana	116.4	41.3	157.7
Jamaica	56.9	78.7	135.6
ECCU			
Antigua and Barbuda	47.6	61.4	109.0
Dominica	78.5	32.6	111.2
Grenada	84.3	27.0	111.3
St. Kitts and Nevis	66.7	116.2	182.9
Saint Lucia	44.2	27.1	71.3
St. Vincent and the Grenadines	51.9	26.0	77.9

Source: ECLAC calculations on the basis of official data.
[a] End of period (December 31). Figures do not necessarily coincide with those showed in Main Economic Indicators country tables in Chapter III because this analysis was done using figures available in March 2008.

3. Fiscal sustainability in countries with access to market financing

The analysis framework developed by the IMF (2005)[22] leads to the calculation of the primary fiscal balance that stabilizes the debt-to-GDP ratio. This primary balance is increasing in debt stocks, in the real interest rate on both types of debt and in the depreciation rate, and it is decreasing in the GDP growth rate. This approach is applied to evaluate public debt sustainability in countries with access to external market financing. Such countries are considered to be those that have been able to issue sovereign bonds in world markets during the last years, namely, Barbados, Belize and Jamaica.

The first column in table 13a shows the primary fiscal balances needed to keep debt-to-GDP ratios constant in 2007.[23] The first issue that stands out is that despite their current high levels of public debt, Barbados and Belize could run even primary deficits of 2.2% and 2.4% of GDP, respectively, and stabilize their debts as a share of GDP. The reason for this apparently contradictory result is that to maintain the debt-to-GDP ratio constant, each year the stock of debt should grow at the same rate of nominal GDP – i.e. real GDP growth plus the inflation rate. This can be consistent with recurrent primary deficits. In the case of Jamaica, the country needs to post a primary fiscal surplus of 3.1% of GDP. Comparing these figures with the primary balances recorded in 2005-2007 (last column of table 13a), in Belize and Jamaica the recent fiscal stance can maintain constant debt-to-GDP ratios. In contrast, the primary deficit of 3.1% of GDP posted by Barbados during the last three years is too high to maintain public debt as a share of GDP at its current levels, requiring a fiscal adjustment of almost one percentage point of GDP to achieve this goal.

[22] IMF (2005). "Debt sustainability analysis for market access countries. Guidance note". Working paper. Washington, DC: International Monetary Fund. Not published.
[23] The Annex presents the values and definitions of the variables used for the calculations.

Table 13a
PRIMARY FISCAL BALANCE FOR PUBLIC DEBT SUSTAINABILITY, 2007
(Percentage of GDP)

	To maintain debt/GDP constant	To reduce debt/GDP to 40% in 10 years	To reduce debt/GDP to 40% in 20 years	Observed fiscal primary balance 2005-2007
Barbados	-2.2	2.7	0.2	-3.1
Belize	-2.4	3.0	0.3	3.2
Jamaica	3.1	12.7	7.9	9.5

Source: ECLAC calculations based on official data.

But in highly indebted countries as the ones under analysis, this definition of sustainability is inadequate as public debt as a share of GDP largely exceeds the standard level of 40% deemed to be the limit for public debt sustainability. Thus, in the second column of table 13a the primary balances needed to bring the debt-to-GDP ratio down to 40% in 10 years are shown. In this context, Barbados and Belize would need to record primary surpluses of 2.7% and 3.0% of GDP, respectively. In Barbados, this would need a fiscal adjustment of 5.8% of GDP, which is significant. In Belize, the primary fiscal surplus registered in 2005-2007 (3.2% of GDP) would allow a reduction of debt to 40% of GDP in 10 years. Given its higher level of debt (135.6% of GDP in 2006), Jamaica would need to post primary surpluses of 12.7% of GDP over the next 10 years in order to achieve the target level. This would imply a fiscal adjustment of some 3.2% of GDP from the average primary surplus registered in 2005-2007. Of course, the fiscal efforts are much lower if the countries are to reduce their debt-to-GDP ratios to 40% in 20 years. In this case, Barbados and Belize need to record small primary surpluses while Jamaica needs to post one of 7.9% of GDP, as shown in the third column of table 13a.

The solid fiscal position recorded by Belize and Jamaica in 2005-2007 puts them in a favourable position to reduce their current debt levels to 40% of GDP should this be maintained for the next 20 years. However, only Belize would be able to do so in 10 years. On the contrary, Barbados would need to implement important fiscal adjustments in order to reduce its public debt as a share of GDP to 40% in 10 or 20 years. The relevant question is, of course, whether countries that have accumulated impressive amounts of public debt in the past will be able to maintain perceptible primary surpluses for a long period of time.

It is worth noting that this analysis is highly sensitive to changes in the values of the parameters. Indeed, small variations in interest rates, inflation, GDP growth and depreciation rate could lead to significant changes in the calculated fiscal surplus to stabilize the debt-to-GDP ratio. In particular, an acceleration in inflation decreases the required primary surplus (or increases the deficit) significantly as this simultaneously pushes real interest rates on both external and domestic debt downwards as well as fosters nominal GDP growth. For instance, using the inflation rate of 8% (GDP deflator inflation in 2006) instead of 5.6% (CPI inflation) in Barbados calculations, the fiscal deficit needed to maintain debt as a percentage of GDP constant increases by two full percentage points of output.

4. Fiscal sustainability in Guyana and ECCU countries

Fiscal sustainability is analyzed for countries with difficulties in accessing external market financing, defined as those that do not issue sovereign bonds internationally. These are the cases of Guyana – which is also a HIPC country – and the six ECCU countries under scrutiny. This is done by applying the approach developed by Edwards and Vergara (2002).[24] Although originally developed for HIPC countries, this approach is suitable in analyzing countries that need to reduce their current debt-to-GDP ratios. The possibility of calculating the required primary balances to reduce debt levels at different paces and at different GDP growth rates is very appealing. As in the case of the IMF (2005) approach, these fiscal balances are increases in debt stocks and real interest rates on debt, and decreases in GDP growth. In addition, this approach explicitly considers revenue derived from seignorage. That is to say, countries can finance a limited level of fiscal deficit through monetary emission. As the demand for money grows with income, supply can grow at the same rate without generating inflationary pressures.

The basic assumption in the calculations is that the stock of both external and domestic debt remains constant in real terms, i.e. each year it grows at the rate of external inflation. This means that external and domestic debt as a share of GDP declines annually at approximately the real GDP growth rate. Calculations are made with annual GDP growth rates of 3%, 4% and 5%. Table 13b shows the primary balances needed to achieve this reduction in the debt-to-GDP ratio in the seven countries. As can be seen, two features stand out. First, fiscal demands are decreasing in the growth rate. This is because the higher it is, the lower the resulting debt-to-GDP for any debt stock. Second, fiscal demands are decreasing in time as debt, as a share of GDP, declines simultaneously.

Table 13b

PRIMARY FISCAL BALANCE REQUIRED TO ACHIEVE FISCAL SUSTAINABILITY, 2008-2020

(Percentage of GDP)

Guyana			
	g = 3 %	g = 4 %	g = 5 %
2008	-0.93	-1.19	-1.44
2010	-1.04	-1.30	-1.56
2015	-1.24	-1.52	-1.78
2020	-1.39	-1.66	-1.92

Antigua and Barbuda			
	g = 3 %	g = 4 %	g = 5 %
2008	6.58	6.21	5.85
2010	5.92	5.42	4.94
2015	4.51	3.80	3.13
2020	3.40	2.57	1.83

Dominica			
	g = 3 %	g = 4 %	g = 5 %
2008	2.88	2.49	2.10
2010	2.54	2.09	1.64
2015	1.84	1.26	0.72
2020	1.27	0.64	0.06

Grenada			
	g = 3 %	g = 4 %	g = 5 %
2008	-1.21	-1.57	-1.91
2010	-1.30	-1.67	-2.03
2015	-1.47	-1.87	-2.25
2020	-1.61	-2.02	-2.42

St. Kitts and Nevis			
	g = 3 %	g = 4 %	g = 5 %
2008	10.10	9.51	8.93
2010	8.93	8.12	7.34
2015	6.47	5.29	4.19
2020	4.53	3.16	1.94

Saint Lucia			
	g = 3 %	g = 4 %	g = 5 %
2008	3.18	2.87	2.56
2010	2.85	2.47	2.09
2015	2.15	1.64	1.17
2020	1.58	1.01	0.49

St. Vincent and the Grenadines			
	g = 3 %	g = 4 %	g = 5 %
2008	6.81	6.38	5.96
2010	6.23	5.65	5.09
2015	4.94	4.09	3.29
2020	3.86	2.85	1.94

Source: ECLAC calculations based on official data.

[24] Edwards, S. and R. Vergara (2002). "Fiscal sustainability, debt dynamics and debt relief: The cases of Nicaragua and Honduras". Economic and Sector Studies Series RE2-02-005. Regional Operations Department 2. Washington, DC: Inter-American Development Bank.

Clearly, the seven countries can be divided in two groups according to the fiscal demands they face to meet the target reduction in domestic and external debt as a share of GDP. The first group comprises the countries that need to achieve primary surpluses, i.e. Antigua and Barbuda, Dominica, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines. The second group comprises Guyana and Grenada, the countries where primary deficits are consistent with the achievement of target debt reduction.

Within the first group, the demands are higher in St. Kitts and Nevis, followed by St. Vincent and the Grenadines and Antigua and Barbuda. In the former country, the main explanatory factor is the current debt levels that amount to 182.9% of GDP (see table 12). In the case of St. Vincent and the Grenadines the situation is different since this country exhibits low levels of public debt as compared to the other countries (77.9% of GDP). On the contrary, in this country the driving forces for fiscal demands are interest rates particularly on external debt which recorded an annual rate of 17% in 2006, by far the highest recorded in the Caribbean countries.[25] Finally, in the case of Antigua and Barbuda, the factor that explains the high primary surpluses demanded seems to be a combination of high domestic debt (61.4% of GDP) and high interest rate on this type of debt, which is the highest, although only 0.3 percentage points above that of St. Kitts and Nevis and Saint Lucia, among the countries under scrutiny.

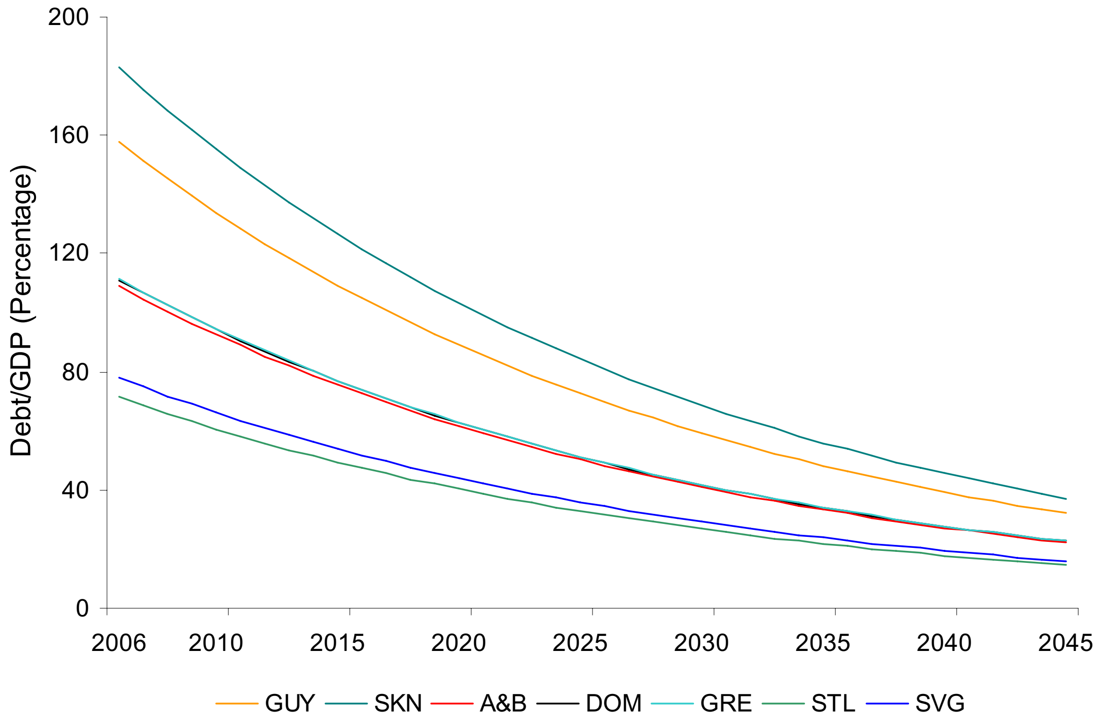
Although both Dominica and Saint Lucia need to record primary surpluses to meet the target of public debt reduction, these are certainly lower than those required by the three countries discussed in the previous paragraph. In Dominica, fiscal demands seem to be a combination of high debt (111.2% of GDP) and low inflation (0.6% in 2006)[26] coupled with slow growth (0.9% per annum in 1997-2006). In this case, the need for primary surpluses seems to be explained by relatively high interest rates on both types of debt and low inflation (0.9% in 2006).

As regards the countries that can meet the target debt reduction with primary deficits, the main driving force for this apparent contradictory conclusion is that both Guyana and Grenada pay very low interest rates on their debts. The implicit interest rate on external debt in 2006 was 1.8% in Guyana, and 3.1% in Grenada.[27] In contrast, in the other countries this interest rate ranged from 5.2% in Dominica to 17% in St. Vincent and the Grenadines. The case is similar as regards the implicit interest rate on domestic debt: while Guyana and Grenada faced rates of 3.8% and 2.2%, respectively, the other countries confronted much higher rates between 7.2% in Dominica and 8.2% in Antigua and Barbuda.

Figure 9 shows the evolution of the debt-to-GDP ratios should the countries manage to achieve the primary balances presented in Table 13 and a GDP growth rate of 4% per year. Of course, the countries that will reach the debt-to-GDP ratio level of 40% will be the ones with the lowest current levels of debt, i.e. Saint Lucia and St. Vincent and the Grenadines. As shown, these two countries could achieve that level of debt sustainability between 2020 and 2025. On the contrary, the most indebted countries, Guyana and St. Kitts and Nevis, will reach that situation 20 years later. Finally, Antigua and Barbuda, Dominica and Grenada are in an intermediate position, achieving debt-to-GDP ratios of 40% around 2030.

[25] This is the implicit interest rate posted in 2006. See the Annex for details.
[26] As measured by the GDP deflator. See the Annex.
[27] This means that these two countries had access to external concessional financing. As mentioned above, Guyana is part of the HIPC Initiative.

Figure 9
PUBLIC DEBT EVOLUTION, 2006-2045
(Percentage of GDP)



Source: ECLAC elaboration based on official data

This analysis reveals that the challenges in terms of fiscal adjustment are not easy to meet in most countries. Even assuming a sustained GDP growth rate of 4% per year for the next decades – dynamism more rapid than that posted by all countries in 1997-2006 except for the 4.9% recorded by Antigua and Barbuda – the achievement of sustained primary surpluses in these countries seems to be rather optimistic, given their past fiscal performances, growth rates and manifest vulnerabilities to external shocks, including natural disasters.

The cases of Guyana and Grenada are certainly special, given the below-market interest rates they pay on their public debt. Should these conditions change, both countries would need to achieve substantial primary surpluses. Indeed, if Guyana faces interest rates on external debt of 5.2% – the lowest for the other countries – it should post a primary surplus of 2.4% of GDP in 2008. This means an additional 3.6% of GDP of fiscal demand under current conditions. Meanwhile, Grenada should post a surplus of 1.2% of GDP in 2008 when facing the same external and domestic interest rates as Dominica, implying 2.8% of GDP which requires more fiscal discipline.

5. Fiscal vulnerability to changes in exchange rates

The six countries of the ECCU considered in this section along with Barbados and Belize have fixed exchange rate regimes, whereas Guyana and Jamaica have managed floating frameworks. Notwithstanding, it is useful to analyze what would happen with the sustainability of public debt in the presence of a real exchange rate depreciation. As the main indicator is the debt-to-GDP ratio, the impact would depend on the differential effect this would have on the debt stock (the numerator) and on GDP (the denominator). The former effect would depend on debt currency composition – i.e. domestic or foreign exchange – whereas the latter would depend on output of tradable and non tradable sectors.

This analysis – pioneered by Calvo, Izquierdo and Talvi (2003) – is relevant because a real depreciation can turn unsustainable a debt level that was deemed to be sustainable before the exchange rate variation. For instance, during the financial crisis suffered by the Dominican Republic at the beginning of this decade, public debt climbed from 25% of GDP in 2002 to 46% in 2003. Around half of this increase was due to the bailout of the banking sector implemented by the Central Bank whose debt escalated from 5.5% to 16.3% of GDP. The other half was explained by the effect of the real exchange rate (RER) depreciation of 26.3% on the balance sheet of the public sector. Table 14 informs about the ratio of domestic to external public debt, of non-tradable to tradable GDP, as well as the indicator of sensitivity of public debt as a share of GDP in the presence of a RER depreciation. When this indicator is lower than 1, an increase in the RER will increase public debt as a percentage to GDP. When it is greater than 1, a real depreciation will reduce the debt-to-GDP ratio. In general, when the amount of debt denominated in domestic currency relative to that denominated in foreign currency is lower (higher) than non tradable GDP in terms of tradable GDP, an increase of RER will augment (reduce) public debt as a percentage of GDP.

Table 14

CURRENCY MISMATCHES BETWEEN PUBLIC DEBT AND GDP, 2006

(Percentage)

	Domestic debt/External debt (1)	Non-tradable GDP/Tradable GDP[a] (2)	Ratio (1)/(2)
Barbados	197.0	136.0	1.45
Belize	15.2	183.7	0.08
Guyana	35.4	132.6	0.27
Jamaica	138.1	85.2	1.62
ECCU			
Antigua and Barbuda	129.0	246.5	0.52
Dominica	41.6	142.2	0.29
Grenada	32.0	237.5	0.13
St. Kitts and Nevis	174.2	163.1	1.07
Saint Lucia	61.4	179.6	0.34
St. Vincent and the Grenadines	50.1	270.9	0.18

Source: ECLAC calculations on the basis of official data.
a In local currency at constant prices.

The first column of table 14 shows domestic debt as a percentage of external debt. In four countries the former is higher than the latter, particularly in Barbados where domestic debt almost doubles external debt. In St. Kitts and Nevis this relationship is also high, with domestic debt surpassing external debt by nearly 75%, whereas in Jamaica and Antigua and Barbuda this difference is lower (38% and 29%, respectively). This indicates that these countries have relied more on domestic financing to the public sector than on foreign markets. This seems surprising in the cases of Barbados and Jamaica, countries with access to international capital markets, which has allowed them to raise private external funding by issuing sovereign bonds in recent years.

Since the contracting of domestic debt does not imply currency risk inasmuch as it is denominated in local currency, there are some negative effects generated by this type of operation. Perhaps the main one is the absorption of domestic credit by the public sector which leaves fewer resources available to the private sector for the financing of productive activities. By the same token, the higher public sector demand for domestic credit pushes interest rates up thus making more expensive the contracting of debt by the private sector and slowing down economic activity. These effects may be particularly damaging for small and medium enterprises that usually do not have access to external capital markets.

In the other six countries domestic debt is lower than external debt with ratios ranging from 15.2% in Belize to 61.4% in Saint Lucia. As noted above, the fact that these countries have been more dependent on foreign than on domestic financing implies that they are more vulnerable to exchange rate depreciations due to the higher currency risk attached to external – i.e. foreign currency denominated – debt.

The second column in table 14 presents the non-tradable to tradable GDP ratio in local currency at constant prices. Tradable sectors are considered to be agriculture, mining and quarrying, manufacturing, hotels and restaurants, and banks and insurance. Surprisingly, except for Jamaica, in all countries the non-tradable sector output is higher than that of the tradable sector. Moreover, in countries such as Antigua and Barbuda, Grenada, and St. Vincent and the Grenadines the non-tradable sector more than doubles tradable sector GDP. The main explanation for this apparently surprising result is the importance of the construction and government sectors.

Finally, the last column in table 14 indicates whether a real depreciation expands or contracts the debt-to-GDP ratio. Whenever this indicator is below 1, any depreciation increases debt as a share of GDP. When it is above 1, an increase in the real exchange rate reduces the debt-to-GDP ratio. As shown, except for Antigua and Barbuda, in countries that exhibit higher domestic than external debt such as Barbados, Jamaica and St. Kitts and Nevis, a real depreciation will improve fiscal sustainability. In the former two countries the reduction of the debt-to-GDP ratio would be perceptible, whereas in St. Kitts and Nevis the decline will be marginal.

On the contrary, in the other countries the effect of an increase in the real exchange rate will be an augmentation of public debt as a share of GDP. This highlights the vulnerability of these countries. The high vulnerability shown by Grenada and, especially, Belize, is mainly explained by the fact that their domestic debt is small relative to their external debt. It is worth noting that even when most countries have fixed exchange rate regimes, what is relevant for this analysis is not the evolution of the nominal but of the real exchange rate. In addition and perhaps more importantly, as all Caribbean countries that have fixed exchange rate regimes have pegged their local currencies to the United States dollar, the significant depreciation of the greenback against the Euro, the Pound Sterling and the Yen means pressure towards a real depreciation of these Caribbean currencies which, in turn, will increase the debt-to-GDP ratio in most countries, as discussed above.

6. Variability in revenue and fiscal vulnerability

This subsection analyses the maximum level of primary expenditure that the public sector can afford in the context of a fiscal crisis given the current levels of public debt based on Mendoza and Oviedo (2004).[28] Such a crisis is defined as a situation when fiscal revenue is more that two standard deviations below its average level. Thus, the more unstable the fiscal revenue is, the lower the fiscal revenue will be and, therefore, the lower affordable primary spending.

In this context, the government will determine the maximum level of debt that it can sustain and will set a contingency plan to adjust expenditure as smoothly as possible so as not to exceed it. This debt limit will allow government to offer creditors a credible commitment, that it will be capable of servicing its debt even in the presence of a fiscal crisis. Such an event occurs when, as a result of successive revenue which is lower than expected, public debt reaches that level. Therefore, this debt limit is the

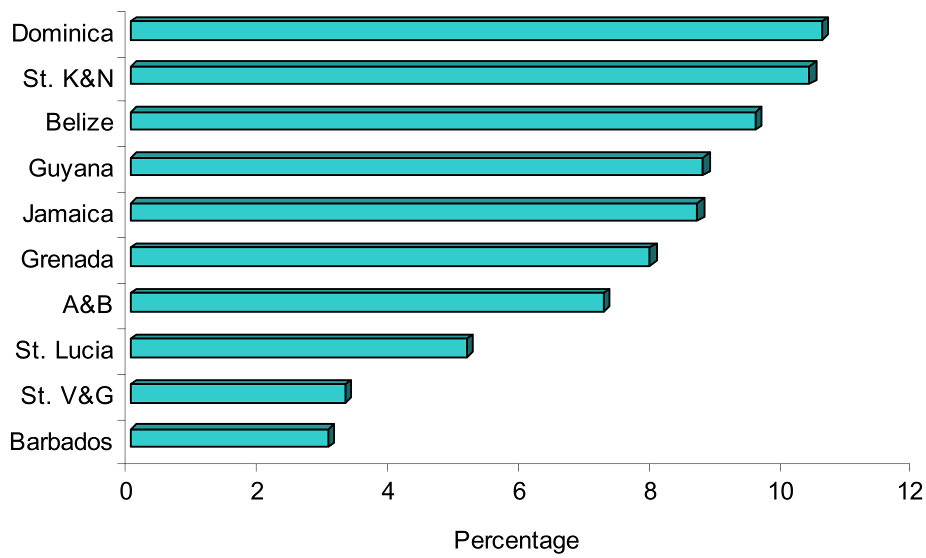
[28] E. Mendoza and P. Oviedo (2004). "Public debt, fiscal solvency, and macroeconomic uncertainty in Latin America: The cases of Brazil, Colombia, Costa Rica and Mexico". NBER Working Paper 10637. Cambridge, Massachusetts: National Bureau of Economic Research.

primary balance – adequately discounted – that results from low revenue and a certain minimum level of primary expenditure.

In general, such a debt limit will be lower than the sustainable debt level derived from other operative approaches. In the cases of fiscal crises, they will be equal. This approach highlights the importance of volatility in fiscal revenue: the lower it is, the higher the debt limit. Mendoza and Oviedo (2004) estimated the higher level of primary expenditure that is possible to be financed in the case of a fiscal crisis replacing the debt limit by its actual value and revenue by two standard deviations below its average value.

Figure 10 shows the coefficients of variation of fiscal revenue as a share of GDP in 1997-2006. Dominica and St. Kitts and Nevis exhibit the highest variability in fiscal revenue that was above 10% in the 10-year period. On the contrary, the countries that have shown a more stable performance are Barbados and St. Vincent and the Grenadines, with coefficients of variation of fiscal revenue around 3%. The other countries are in an intermediate position.

Figure 10
COEFFICIENT OF VARIATION OF FISCAL REVENUE AS A SHARE OF GDP, 1997-2006
(Percentage)



Source: ECLAC elaboration on the basis of official data.

Table 15 presents the maximum primary expenditure that can be financed in the presence of a fiscal crisis, the primary expenditure observed in 2004-2006 and the percentage of the latter that can be financed in case of fiscal distress. Maximum primary spending is particularly high in Barbados and Guyana, where it reaches 30.8% and 34.1% of GDP, respectively. In the ECCU countries, the (simple) average of this variable is 22.6% of GDP with extreme values of 17.5% of GDP in Antigua and Barbuda and 28.4% in Grenada.

Table 15
PRIMARY EXPENDITURE AFFORDABLE IN A FISCAL CRISIS, 2007
(Percentage of GDP)

	Maximum primary expenditure (1)	Primary expenditure 2004-2006 (2)	(1)/(2) (per cent)
Barbados	30.8	31.1	98.6
Belize	22.5	23.4	96.1
Guyana	34.1	48.8	70.0
Jamaica	20.6	20.8	99.2
ECCU			
Antigua and Barbuda	17.5	24.7	70.8
Dominica	24.1	34.3	70.2
Grenada	28.4	30.7	92.6
St. Kitts and Nevis	21.2	34.2	62.0
Saint Lucia	21.5	28.5	75.3
St. Vincent and the Grenadines	23.1	30.7	75.4

Source: ECLAC calculations based on official data.

When comparing these figures with the actual primary expenditure recorded in 2004-2006 as shown in the second column of table 4, it is found that no country will be able to finance this level of spending. The countries that are best positioned in this aspect are Barbados, Belize and Jamaica, that could afford more than 95% of primary spending even in the presence of fiscal turmoil. For the ECCU countries, Grenada would be the one that would have to curtail primary spending in this situation, some 7.4% of the level recorded in 2004-2006. In the other countries the reduction in primary spending should be much higher, particularly in St. Kitts and Nevis that would need to implement a contraction of 38% of primary outlays. This reduction should be less dramatic though nonetheless important in Guyana, Antigua and Barbuda, and Dominica (near 30% of the level recorded in 2004-2006), and in Saint Lucia and St. Vincent and the Grenadines (almost 25%).

This analysis highlights the importance of reducing volatility in fiscal revenue so as not to have to implement massive curtailments of primary spending in the presence of a fiscal crisis. In this situation, given the current levels of public debt, primary outlays should be contracted in significant amounts in most countries. Reductions of 25-30% in primary spending would bring about substantive economic, social and political costs for any government. Moreover, adjustments of these magnitudes would be very difficult to implement given the downward rigidity of public expenditure. Indeed, in this type of situation, most countries have relied on the contraction of public investment that becomes the variable of adjustment. The long-term growth implications of this policy are not hard to realize.

7. Conclusions

The examination of the magnitude of public debt reveals that all of the countries reviewed exhibit levels of public indebtedness far above the 40% of GDP that is considered as the limit for fiscal sustainability. Debt-to-GDP ratios are above 100% in six out of the 10 countries under scrutiny, ranging from 71.3% in Saint Lucia to 182.9% in St. Kitts and Nevis at the end of 2006.

Following the approach developed by the IMF (2005) to evaluate fiscal sustainability in countries with access to foreign private market financing, defined as those that have managed to issue sovereign bonds in recent years, it is found that both Belize and Jamaica are able to maintain their current (although high) debt-to-GDP ratios constant if the recent values of primary balance, interest rates, inflation and GDP growth remain in the future. However, only Belize would be able to reduce its public debt as a share of GDP to 40% in 10 years. Jamaica would need to implement a fiscal adjustment of 3.2% of GDP to do so. Meanwhile, the primary deficit of 3.1% of GDP posted by Barbados in 2005-2007 would require a fiscal adjustment of 0.9% of GDP to keep the current debt-to-GDP constant and of 5.8% to bring debt down to 40% of output in a decade. The solid primary balance posted by Belize and Jamaica in 2005-2007 would allow both countries to reduce their debt-to-GDP ratios to 40% in 20 years without any fiscal adjustment. However, these results should be taken carefully inasmuch as these countries have accumulated huge amounts of public debt in the past so that their capacity to sustain primary surpluses for a long period of time should not be taken for granted.

In highly indebted countries that have not been able to issue sovereign bonds in recent years, the application of the analytical framework developed by Edwards and Vergara (2002) – with the modification that domestic debt as a share of GDP declines at the same rate as the external debt-to-GDP ratio – reveals a clear division of countries in two groups. On the one hand, all ECCU countries considered in this study except for Grenada require primary surpluses at least until 2020 to meet the target of reducing debt as a share of GDP at approximately the same rate of real output growth. Fiscal demands consistent with this goal are especially high in St. Kitts and Nevis, St. Vincent and the Grenadines, and Antigua and Barbuda. In the first country this is explained basically by its high level of debt, whereas in the second one the driving force is the high interest rate on external debt. In the case of Antigua and Barbuda, high fiscal demands are due to a combination of significant domestic debt and high interest rates on this type of debt. On the other hand, Guyana and Grenada would be able to reduce their debt-to-GDP ratios at the same pace with primary deficits thanks to the low interest rates they pay on both external and domestic debt.

In addition to debt levels, it is important to consider other factors which are relevant to the evaluation of the vulnerability of public finance. Calvo, Izquierdo and Talvi (2003) highlighted that currency mismatches between public debt and GDP is an important source of vulnerability which may generate a situation of insolvency of the public sector in the context of a significant real depreciation. This analysis indicates that seven out of the 10 countries under evaluation manifest this type of vulnerability. The exceptions are Barbados, Jamaica and, to a lesser extent, St. Kitts and Nevis. In all others a real depreciation could bring about fiscal sustainability problems as it will further increase the debt stock over GDP in terms of local currencies. This effect appears to be more intense in Belize and Grenada, the countries with lower domestic debt relative to external debt.

Mendoza and Oviedo (2004) underscored that another source of fiscal vulnerability is the instability (variability) of fiscal revenue. Defining a fiscal crisis as a situation where fiscal revenue is two standard deviations below its average level, no country would be able to finance the primary expenditure recorded in 2004-2006. However, Barbados, Belize, Jamaica and Dominica would be able to finance more than 92% of primary outlays even in a context of fiscal distress. In the other countries primary spending should be curtailed much more, by approximately 25% in Saint Lucia and St. Vincent and the Grenadines and 38% in St. Kitts and Nevis.

The approaches applied in this section are complementary to one another and emphasize different aspects related to fiscal sustainability. Apart from achieving – or maintaining, if it is the case – a solid fiscal position, the Caribbean countries should seek to increase their fiscal revenue. This is so because during recent years fiscal revenue has been persistently outpaced by public spending – which of course explains the rapid accumulation of debt to finance the gap – as more resources are needed to augment public investment and social expenditure, which are below current demands as evidenced by slow economic growth, infrastructure bottlenecks and high poverty rates.

The Caribbean countries should also reduce currency mismatches between their public debts and output. This requires, mainly, stimulating tradable activities in the economies. However, this task does not seem easy, due to the increasing difficulties faced by airlines worldwide that have jeopardized the prospects for the tourism sector, one of the main tradable sectors in the region. Indeed, the continuous escalation in oil prices has raised warning signs regarding the future of many companies that provide air transportation services. In addition, the exchange of external for domestic debt will reduce public debt currency risk. However, the convenience of these operations depends on the costs implied in terms of higher interest rates on public debt, upward pressures on domestic interest rates, and the reduction of available financing to the private sector in local markets.

Last but not least, countries should also try to reduce the volatility of fiscal revenue. This is another source of vulnerability of public finance and it is a necessary condition for the implementation of counter-cyclical fiscal policies. Although it is debatable the capacity of Caribbean countries to apply such policies, a very relevant goal would be to get fiscal policy to be at least not as pro-cyclical as it has tended to be so far.

B. TOURISM COMPETITIVENESS IN THE CARIBBEAN

1. Introduction

The Caribbean[29], is the most tourism-penetrated region in the world. The establishment of tourism as a major economic activity was initially driven by a post-independence economic restructuring throughout the region, diverting the economies away from traditional agriculture and towards services and manufacturing. This restructuring was deemed necessary in the face of declining competitiveness in traditional sectors (namely agriculture) and a need for building competitiveness in non-traditional areas.

According to the latest 2004 comprehensive country by country report for the Caribbean published by the World Travel and Tourism Council (WTTC), travel and tourism demand in the region amounted to US$40.3 billion in 2004 (out of US$5.5 trillion worldwide or 0.7% of the total), and is expected to rise to US$81.9 billion by 2014. By this indicator, the largest travel and tourism economies in the Caribbean are Puerto Rico (22.4% of total regional demand), Dominican Republic (12.9%), Cuba (12%), the Bahamas (9%) and Jamaica (8.2%). These five destinations accounted for almost two thirds of the total market demand. The smallest travel and tourism economies are Dominica, Anguilla, St Kitts and Nevis, Grenada and St Vincent and the Grenadines, accounting for 1.7% of the total demand. In terms of output generation, based on figures of this 2004 report, the British Virgin Islands, Antigua and Barbuda, and Anguilla have more than 71% of their GDP originating from the travel and tourism sector. For Aruba, Barbados and the Bahamas, the contribution of this sector to GDP lies in the range of 50-71%. In terms of employment, five small islands have more than 68% of their employment located in the travel and tourism sector (namely Anguilla, Aruba, Bahamas, Antigua and Barbuda, and British Virgin Islands; the figures being 95% for the latter two); for another seven, the employment dependency ranges between 30% and 60%; and for another six, the range is between 15%-30%.

In a 2008 regional report, the WTTC estimates that the travel and tourism sector will contribute about 14.8% to the region's GDP in 2008, the highest tourism GDP dependency in the world. It will generate in 2008 about 2,148,000 jobs or 12.9% of employment. However, the report also ranks the Caribbean as the region with the second weakest expected annual real growth rate from tourism (ahead of the European Union) for the next 10 years. All these figures seem to point to one major conclusion: the Caribbean is the most tourism dependent region in the World and yet its prospects for future growth are not as bright as some other regions, namely Asia. The high dependency of most Caribbean States on tourism makes it imperative for the region as whole to understand and analyze the major determinants of

[29] This subsection refers to the Caribbean as consisting of the 32 member countries/territories of the Caribbean Tourism Organization excluding Mexico (Cancun and Cozumel).

its tourism competitiveness. This is needed in order to inform policy makers of the choice of public policies and strategies required in order to enhance future competitiveness.

2. Measures and determinants of tourism competitiveness

Tourism competitiveness is influenced by a wide set of factors or determinants. The literature on tourism recognizes tourism competitiveness as a relative, multi-dimensional, complex concept determined by a range of economic, political, ecological and cultural factors (Craigwell, 2007).[30]

A measure of ex-ante tourism competitiveness that was commonly used was the WTTC Tourism Competitiveness Index (WTTC TCI) built around eight dimensions: price competitiveness, infrastructure development, environmental quality, technology advancement, degree of openness, human resources, social development and human tourism indicators. It is an index that focuses on the macroeconomic determinants of competitiveness that sheds information on the competitive strengths and weaknesses of tourist destinations. Table 16 summarizes and describes the different components of the index.

Table 16
MAIN SUBINDEXES AND COMPONENTS OF THE WTTC TOURISM COMPETITIVENESS INDEX

Main subindexes	Components
Price competitiveness	Hotel prices, indirect taxes, purchasing power parities
Human tourism	Volume and value of inbound and outbound tourism
Infrastructure	Roads, railways, water, sanitation
Environment	Population density, CO2 emissions, ratification of international treaties on the environment
Technology	Internet access, telephones, mobile phones, high-tech exports
Human resources	Life expectancy, literacy, enrolment rates in education, employment in travel and tourism, unemployment, population, gender indicators
Openness	Visa requirements, trade openness, taxes on trade, tourism openness
Social development	Human Development Index, personal computers, televisions, newspapers, crime rates

Source: WTTC (2006).

The World Economic Forum has taken over the WTTC TCI and since 2007 produces a Travel and Tourism Competitiveness Index (WEF TTCI) for 124 countries rating them on three dimensions: travel and tourism regulatory framework, business environment and infrastructure, and human, cultural and natural resources. Table 17 summarizes and describes the different components of this new index.

Table17
MAIN SUBINDEXES AND COMPONENT OF THE WEF TRAVEL AND TOURISM COMPETITIVENESS INDEX

Main subindexes	Components
Regulatory framework	Policy rules and regulations, environmental regulation, safety and security, health and hygiene, and prioritization of travel and tourism strategies
Business environment and infrastructure	Air transport infrastructure, ground transport infrastructure, tourism infrastructure, ICT infrastructure, and price competitiveness
Human, cultural and natural resources	Education and training, availability of qualified labour, workforce wellness, national tourism perception, and natural and cultural resources

Source: WEF (2007).

[30] R. Craigwell (2007), "Tourism competitiveness in Small Island Developing States". United Nations University WIDER Research Paper No. 2007/19. April.

3. Empirical modelling

Craigwell (2007) assumed that a country's international stay-over tourist arrivals (V) depend on three key factors: technological advantage (A); industrial organizational advantage (O) and price advantage (P). This author also postulated that a change in a country's tourist arrivals from period T-1 to T will be driven by deviations in the competitiveness conditions of that country's tourism sector relative to those prevailing in its competitors. For the purpose of this subsection, the framework used by Craigwell is refined and augmented by borrowing both from Dwyer and Kim (2003)[31] model of destination competitiveness and the WTTC Tourism Competitiveness Index outlined above to postulate that:

$$V = \Phi(P, I, E, A, O, SOC, EXO)$$

where

P = Price competitiveness advantages;
I = Infrastructure advantages;
E = Environment advantages;
A = Technological advantages;
O = Industrial organizational advantages that reflect the market-based conditions that can influence the competitiveness environment facing firms and industries such as the degree of openness, government interventions, access to human resources, access to finance and regulatory environment;
SOC = Social advantages including quality of the human environment such as health and sanitation; and
EXO = Exogenous advantages determined by history, culture and geography.

The estimated panel regression equation is of the following form:

$$S_{ijt} = \frac{V_{ijt}}{V_{it}} = \alpha + \beta_1 P_{ijt} + \beta_2 I_{jt} + \beta_3 E_{jt} + \beta_4 A_{jt} + \beta_5 O_{jt} + \beta_6 SOC_{jt} + \beta_7 EXO_j + \varepsilon_{jt}$$

where

S_{ijt} = Tourism performance indicator reflecting ex-post competitiveness of Caribbean destination j from source market i in year t .
V_{ijt} = Total stay-over tourist arrivals to Caribbean destination j from source market i where i = Canada, the United States and the United Kingdom (among the three main source markets in the Caribbean) in year t.
V_{it} = Total world outbound tourists from Canada, the United States and the United Kingdom in year t.
P_{ijt} = Measures of price competitiveness advantages for Caribbean destination j vis-à-vis source market i in year t.
I_{jt} = Measures of infrastructure advantages for Caribbean destination j in year t.
E_{jt} = Measures of environmental advantages for Caribbean destination j in year t.
A_{jt} = Measures of technological advantages for Caribbean destination j in year t.
O_{jt} = Measures of industrial organizational advantages for Caribbean destination j in year t.
SOC_{jt} = Measures of social advantages for Caribbean destination j in year t.
EXO_j = Measures of exogenous advantages for Caribbean destination j (fixed factors).
ε_{jt} = Disturbance term for Caribbean destination j in year t that can de decomposed into $\varepsilon_{jt} = \eta_j + \nu_{jt}$ where η_j is a country specific random error term with mean zero and constant variance and ν_{jt} is a random disturbance term that has mean zero and constant variance for each country j and varies across j.

[31] L. Dwyer and C. Kim (2003), "Destination competitiveness: Determinants and indicators". *Current Issues in Tourism*, vol. 6, n. 4.

Assumptions: $E(\varepsilon_{jt}) = 0$ that is ε_{jt} has mean zero; $Var(\varepsilon_{it}) = \sigma_j$ that is ε_{jt} has constant variance within each country j but varies across j; $Cov(\varepsilon_{jt}, X_{jt}) = Cov(\eta_j, X_{jt}) = Cov(\nu_{jt}, X_{jt}) = 0$, that is the error terms and its components are uncorrelated with the explanatory variables X_{jt}. $E(\varepsilon_{jt},\varepsilon_{jt+1}) = 0$, that there is no serial autocorrelation in error term within a country j. $E(\varepsilon_{st},\varepsilon_{jt+1}) = 0$, that is there is no contemporaneous correlation in the error terms across any countries j and s.

These assumptions imply that the panel regression equation will be estimated under the assumption of cross-sectional heteroskedasticity. The model is estimated using three alternative methods, i.e. Ordinary Least Squares (OLS, pooled regression), Generalized Least Squares (GLS) and Random Effects (RE). The latter is preferred over Fixed Effects (FE) according to standard Hausman tests.

4. Econometric results

(a) Variables and data description

The starting point is a sample that consists of the 32 member countries of the Caribbean Tourism Organization (CTO) (excluding Mexico) for the period 1995-2006 that results in a potential maximum sample of 384 annual observations.

Dwyer, Forsyth and Rao (2000)[32] distinguished two components of tourism price competitiveness (P) for a destination: a component that reflects the cost of ground content within the destination (accommodation, tour services, food and beverage, entertainment, etc.) and a component that reflects the cost of transport services to and from the destination and the source market. Based on this, in a first instance two measures of price competitiveness are included in the regression equation, namely the bilateral real exchange rate calculated as the ratio of the price level in the source market to the price level in the destination denominated in the latter's national currency, and the growth rate of oil prices. The latter is used as a proxy for airfares between the destination and the source market and as a proxy for the costs of ground transportation within the destination. In a second instance, three measures of transportation costs are also included, one per source market. These are constructed following Craigwell (2007) as the product of the growth rate in oil prices and the geographical travelling distance from the source market to the Caribbean destination relative to the distance from the source market to the destination's major non-Caribbean competitor. The growth rate in prices is taken instead of the price level itself due to the non-stationary behaviour of the latter. This implies that tourism competitiveness is more sensitive to the rate of growth in oil prices rather than to growth in oil prices alone. Faster and larger increases in oil prices hurt tourism competitiveness much more than slow and moderate increases as the former are likely to transfer faster onto transportation costs[33]. For the United Kingdom source market, the major non-Caribbean competitor is taken to be Spain; for the United States, it is taken to be Mexico; and for Canada, it is taken to be the United States that we proxy to be Florida[34]. It is expected that the share of United Kingdom, United States and Canadian tourists to each Caribbean destination will increase with a real depreciation of the local currency relative to the source market's currency, with slower rate of growth in oil prices and with lower transportation costs.

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[32] L. Dwyer, P. Forsyth and P. Rao (2000), "The price competitiveness of travel and tourism destinations: A comparison of 19 destinations". *Tourism Management*, vol. 21.

[33] An increase in oil prices by say 1% may cause transport companies to not increase their prices in order not to lose customers; however a high increase in oil prices by say 10% may incite transport companies to immediately adjust their prices, resulting in increases in transportation costs in order to prevent big losses in profits. There are costs to transport companies for adjusting their prices in relation to fuel costs. These adjustment costs fall with faster increases in fuel costs.

[34] In 2006, according to WTO statistics, Spain was the top tourist destination for British tourists; Mexico was the top tourist destination for American tourists and the United States was the top tourist destination for Canadians.

As a measure of infrastructural competitive advantage (I), the share of real gross fixed capital formation in GDP is used as a proxy for the capital-output ratio. This measure should capture investment efforts in expanding and improving general infrastructure in the destination. It is expected that tourism competitiveness increases with higher levels of infrastructure investment.

Population density and an index of environmental vulnerability are used to capture environmental advantages (E). The former is expected to reduce tourism competitiveness to the extent that it is associated with factors such as over-crowding, pollution or environmental degradation that may reduce the attractiveness of the destination to certain types of tourists, especially eco-tourists. However, population density can also be associated with a higher prevalence of urban, leisure and cultural facilities such as shopping, entertainment and sports that may increase the attractiveness of the destination to other types of tourists in certain niche markets (shopping, sports, gambling and the like). Therefore, the effect of population density on tourism competitiveness is ambiguous. On the other hand, higher environmental vulnerability caused by exposure to natural disasters such as hurricanes, environmental degradation, and marine pollution is expected to reduce tourism competitiveness. In the Caribbean context, exposure to natural disasters, such as hurricanes, can severely impact on tourism performance. This particular determinant is entered as a fixed factor in the regression using data from the United Nations Environment Programme (UNEP) and the South Pacific Geo-science Applied Commission (SOPAC) Environmental Vulnerability Index (EVI) that is available for a single year only. The expectation is that greater exposure to natural disasters reduces the attractiveness of the destination as a safe haven and impacts negatively on destination competitiveness.

Technological competitiveness advantage (A) is captured in the regression equation by the inclusion of an indicator on telephone mainlines in use, with the expectation that such an indicator is likely to be positively correlated with other sources of technological advantage reflected in the WTTC CI, such as, internet access or mobile phone use. Access to good technology not only raises tourism competitiveness by increasing attractiveness of the destination as a comfortable destination to high-end tourists; it also raises the attractiveness of the destination as an investment location for tourism investors whose capital finances supply expansion in the tourism sector. Due to limited data availability, only telephones as an indicator for technological advantage are used and only initial values at the start of the sample are used to minimize gaps in the time series data.

Industrial organizational advantages (O) are taken to reflect factors that will affect the competitiveness of the business environment faced by firms in the tourism industry. Four main factors are identified that can affect the cost competitiveness of the destination tourism industry: local private sector development, degree of trade openness, labour market competitiveness and government interventions in the economy. The tourism sector is input-intensive and in destinations where the local private sector is undeveloped, this translates into high import-intensiveness as most inputs need to be imported rather than sourced locally at cheaper prices. Import leakage rates in the Caribbean tourism sector are recognized to be very high (ECLAC, 2008)[35]. Support to the development of the local private sector in tourism destinations can raise tourism price competitiveness by making cheaper local inputs available. It can also raise the attractiveness of the destination by making a range of privately supplied facilities available to the tourists. Thus, domestic credit to the private sector as a share of GDP is included in the regression equation to capture this dimension. In addition, open trade policies that stifle domestic private sector development and increase import dependency may harm tourism competitiveness. However openness to trade can also facilitate the use of cheaper and higher-quality imported inputs over dearer and lesser quality local inputs for the tourism sector, thereby augmenting competitiveness. Overall, trade openness can either benefit or harm tourism competitiveness and this remains to be settled empirically. We enter a

[35] ECLAC (2008), “Structural Change and Productivity Growth: 20 Years Later. Old problems, New opportunities”. Table V.20. Page 220. ECLAC Thirty second session working document. 2008. See also “Caribbean Tourism, Trends, Policies and Impact. 1985-2002”. ECLAC Port of Spain. LC/CAR/G.765. 2003.

measure of trade openness (namely sum of exports and imports to GDP) in the regression equation to control for this factor. Tourism is also a labour-intensive industry (Jayawardena, 2002)[36]. Tourism competitiveness therefore will directly depend on labour market conditions in the destination country. Factors such as real wage levels, ease of hiring and firing workers, labour regulations and quality of human resources will affect the destination cost competitiveness. Competitiveness of the labour market is accounted for by entering an employment index measuring rigidity in the labour market[37] in the regression equation. The data is taken from the Doing-Business Database from the World Bank. Data for the Caribbean is available for the years 2006 onwards. Under the assumption that labour market reforms are slow to occur and that institutional quality takes time to improve, the earliest data available for each destination is used to enter the index as a time-invariant factor in the equation. Tourism is also essentially a private sector activity though it needs an appropriate physical, regulatory, fiscal and social framework to grow sustainably that can only be provided by governments or public sector authorities (WTO, 2000)[38]. The share of real government final consumption expenditure in GDP is added to control for distortions-inducing government activity in the economy that can harm tourism competitiveness. High government consumption financed by higher taxes on the private sector including the tourism sector will harm tourism competitiveness. Any resources used by government for consumption rather than productive investment uses to raise productivity and efficiency for the private sector will also be detrimental to private sector tourism competitiveness.

To reflect social advantages (SOC) such as level of human development as a determinant of destination tourism competitiveness, two health-related variables are included in the equation namely start of sample values for tuberculosis death rate per 100 thousand inhabitants and new reported Acquired Immuno-deficiency Syndrome (AIDS) cases[39]. The quality of the health environment, and environmental safety in general, have been recognized as important factors affecting tourism arrivals in the Caribbean (CAREC/PAHO)[40]. It is expected that improvements in health and human development indicators will raise the attractiveness of a country as a safe and comfortable destination. Due to the limited availability of data on crime and murder rates, this variable is left out.

Finally, a set of exogenously given determinants of destination competitiveness (EXO) is included in the regression equation. These determinants can be fixed factors that can account for historical and cultural advantages that a particular destination may possess. A dummy variable for former United Kingdom and Spanish colonies is included to reflect any advantages a destination may have from a given source market on account of historical and colonial background, language ties and cultural heritage. It is expected that the coefficient on the Spanish dummy variable will be large and significant given the dominance of the three Spanish-speaking countries in Caribbean tourism both in terms of level and growth of stay-over arrivals (Cuba, Dominican Republic and Puerto Rico account for about 45-50% of the total stay-over market in the Caribbean). However, it is also expected that English-speaking countries have a relative advantage from United Kingdom, United States and Canadian source markets. Exogenously given determinants that relate to domestic conditions in the source markets or world business conditions are also controlled for. Real income growth from the source markets as exogenous determinants of tourism competitiveness is included, with the expectation that faster real income growth in source markets raises Caribbean tourism competitiveness. A weighted average index of real income growth across the three source markets is constructed with the weights given by the initial share of these source markets in total stay-over arrivals in the given destination. Time dummy variables for the period 1996 to 2005 are included to control for changes in the given external world environment. Table 18 summarizes variables descriptions and sources.

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[36] C. Jayawardena, ed. (2002), Tourism and Hospitality Education and Training in the Caribbean.

[37] The rigidity of employment index is an average of three indexes that measure how difficult it is to hire new workers, how rigid the regulations are on working hours and how difficult it is to dismiss a redundant worker.

[38] WTO (200), Public-Private Sector Cooperation: Enhancing Tourism Competitiveness. World Tourism Organization Business Council.

[39] Initial values only are used to minimize gaps in time series.

[40] Refer to http://www.carec.org/projects/hotels/qtc_project.htm for an overview of CAREC/PAHO Quality of Tourism for the Caribbean Initiative to promote competitiveness in tourism by promoting health and environmental safety and standards.

Table 18
SUMMARY DESCRIPTION OF VARIABLES

Variables	Description	Sources
Sij	Share of UK,US and Canadian stay-over arrivals (aggregated) to destination j in total world outbound UK, US and Canadian tourist arrivals i = Source markets = UK, US and Canada j = Caribbean destination $S_{ij} = (T_{UKj} + T_{USj} + T_{CANj}) / (W_{UK} + W_{US} + W_{CAN})$ Where T_{UKj} = Total stay-over arrivals to destination j from UK; W_{UK} = total world outbound stay-over tourists from UK.	United Nations World Tourism Organization (UNWTO)
Yj	Weighted average of GDP growth in UK, US and Canada, weights are share of UK, US and Canada in the total stay-over market of Caribbean destination j as at 1995. These shares are adjusted so that the weights sum to 1.	World Bank World Development Indicators (WDI) Caribbean Tourism Organization (CTO)
GPOIL	Annual growth in world crude oil prices (US$ per barrel)	Energy Information Administration (EIA)
$TC_{UK,j}$ $TC_{US,j}$ $TC_{CAN,j}$	Transport costs from UK/US/Canada to destination j calculated as the product of growth rate in oil prices and $DIST_{UK,j}$, or $DIST_{US,j}$, or $DIST_{CAN,j}$, respectively where: $DIST_{UK,j}$ = distance from London Heathrow to main international airport of Caribbean destination j relative to distance from London Heathrow to Madrid international airport $DIST_{US,j}$ = distance from New York JFK international airport to main international airport of Caribbean destination j relative to distance from New York JFK to Mexico City's international airport $DIST_{CAN,j}$ = distance from Toronto L. Pearson international airport to main international airport of Caribbean destination j relative to distance from Toronto L. Pearson international airport to Miami international airport	EIA www.webflyer.com
RERj	Weighted average of real exchange rate of UK, US and Canada, weights are share of UK, US and Canada in the total stay-over market of Caribbean destination j as at 1995. These shares are adjusted so that the weights sum to 1.	United Nations Statistics Division Common Database (UNCD)
$RER_{UK,j}$ $RER_{US,j}$ $RER_{CAN,j}$	Real exchange rate of source i relative to Caribbean destination j is calculated as follows: $RER_{i,j} = (P_i / P_j * E)$ E= Nominal exchange rate of local currency per US$ divided by nominal exchange rate of source market i per US$ = Nominal exchange rate of source market i currency per local currency P = GDP deflators (base 1990, national currency) as proxies for price levels	
INVj	Share of gross fixed capital formation in GDP (at constant prices, national currency)	UNCD
GCONSj	Share of government final consumption expenditure in GDP (at constant prices, national currency)	UNCD
TRADEOPENj	Ratio of the sum of exports and imports of goods and services to GDP (at constant prices, national currency)	UNCD
POPDENSj	Population density calculated as total population divided by total land area in hectares	UNCD
CREDITPSj	Domestic credit to private sector (% of GDP)	WDI
Fixed factors		
Y_{US} Y_w	GDP growth rate of U.S. and GDP growth rate of world, respectively	WDI
EMPLINDEXj	Rigidity of employment index. Values as at 2006 or 2007 whichever is available.	Doing Business Database World Bank
COLSPAINj	Dummy variable for a country colony of Spain at time of independence	Central Intelligence Agency World Factbook (CIA)
COLUKj	Dummy variable for a country colony of UK at time of independence	CIA
EVIj EVIDj	EVI =Environmental Vulnerability Index. The index is computed from an aggregate of 50 indicators with values ranging from years 1993 to 2004. EVID refers to the indicator on exposure to natural disasters	United Nations Environment Program and South Pacific Applied Geoscience Commission
Initial values (1995)		
AIDSj	AIDS new cases reported. 1995 values	UNCD
TUBERj	Tuberculosis death rate per 100,000. 1995 values	UNCD
TELj	Telephone mainlines in use per 100 inhabitants 1995 values or previous earliest value available	UNCD

Source: ECLAC.

The final sample consists of only 80 observations out of a potential 384 due to limited data availability for most Caribbean States and territories. Nine countries are covered (Belize, Dominican Republic, Grenada, Jamaica, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago). Panel unit root tests (Levin-Lin-Chu test) were carried out to ensure that all variables are stationary. Simple correlation coefficients between the dependent variable, S_{ij}, and each explanatory variable was also calculated. At a 10% level of significance, we find that the significant positive correlates in the sample are: the Spanish colony dummy variable, new cases of AIDS reported and tuberculosis prevalence rates. Significant negative correlates include: a weighted index of real exchange rate appreciation between the currency of the destination relative to the currencies of the three source markets (both when aggregated across all three source markets and disaggregated by source market), real government final consumption expenditure in GDP, trade openness, domestic credit to private sector as a percentage of GDP, the United Kingdom colony dummy variable and number of telephone mainlines in use per 100 inhabitants.

(b) Regression results

Table 19 shows two sets of regression estimation results for two different equation specifications (A and B), using pooled Ordinary Least Squares (OLS), pooled Generalized Least Squares (GLS) and Random Effects model estimation, all allowing for cross-sectional heteroskedasticity. To verify the appropriateness of the latter method as opposed to the Fixed Effects model estimation, Hausman tests were performed to check for the non-correlation of the country–specific random term η_j in the error term with the explanatory variables under both specifications A and B. In both cases, the null hypothesis that the random effects model produces efficient estimators could not be rejected at the 1% level of significance. It is worth noting the high goodness of fit of all regressions, as revealed by an R-square value of 98% in OLS and Random Effects estimations, coupled with Wald Chi-squared statistics that are statistically different from zero in all regressions regardless of the estimation method used. These results imply a rejection of the null hypothesis that all explanatory variables taken together are statistically insignificant in affecting the behaviour of tourism competitiveness.

Table 19
REGRESSION RESULTS[a]
(Dependent variable S_{ij}; sample 1996-2005; annual frequency)

	Model specification A			Model specification B		
	OLS[b]	GLS[c]	Random Effects	OLS[b]	GLS[c]	Random Effects
Yj	-0.0004 (0.889)	-0.0001 (0.808)	-0.0004 (0.604)	..	..	..
Y_{US}	..	..	..	0.3371* (0.094)	0.3238* (0.088)	0.3371 (0.191)
Y_w	..	..	..	1.4045* (0.061)	1.2898* (0.068)	1.4045 (0.143)
GPOILj	-0.0031* (0.055)	-0.0027* (0.078)	-0.0031 (0.120)	..	..	..
$TC_{UK, j}$	..	..	..	-0.0071** (0.049)	-0.0063* (0.067)	-0.0071 (0.119)
$TC_{US, j}$	..	..	..	0.0870* (0.061)	0.0721 (0.107)	0.0870 (0.119)
$TC_{CAN, j}$	..	..	..	-0.0482* (0.057)	-0.0410* (0.096)	-0.0482 (0.117)
RERj	0.0005*** (0.000)	0.0004*** (0.001)	0.0005*** (0.000)	..	..	..
$RER_{Uk, j}$	..	..	..	-0.0457 (0.140)	-0.0502* (0.090)	-0.0457 (0.183)
$RER_{US, j}$	..	..	..	-0.1000 (0.116)	-0.0734 (0.214)	-0.1000 (0.138)
$RER_{CAN, j}$	..	..	..	0.2745*** (0.000)	0.2558*** (0.000)	0.2745*** (0.000)
INVj	-0.0012 (0.306)	-0.0001 (0.957)	-0.0012 (0.395)	-0.0003 (0.757)	0.0008 (0.367)	-0.0003 (0.817)
GCONSj	-0.0067* (0.067)	-0.0064* (0.058)	-0.0068* (0.093)	-0.0090** (0.020)	-0.0075** (0.033)	-0.0090** (0.032)
TRADEOPENj	-0.0014*** (0.000)	-0.0014*** (0.000)	-0.0014*** (0.000)	-0.0013*** (0.000)	-0.0012*** (0.000)	-0.0013*** (0.000)
POPDENSj	1.7766*** (0.000)	1.1103*** (0.000)	1.7766*** (0.000)	1.7239*** (0.000)	1.1838*** (0.000)	1.7239*** (0.000)
CREDITPSj	0.0027** (0.034)	0.0030*** (0.007)	0.0027* (0.085)	0.0037*** (0.004)	0.0030*** (0.006)	0.0037** (0.023)
EMPLINDEXj	-0.6496*** (0.000)	-0.4081*** (0.000)	-0.6496*** (0.000)	-0.6216*** (0.000)	-0.4323*** (0.000)	-0.6216*** (0.000)
COLSPAINj	13.0408*** (0.000)	..	13.0408*** (0.000)	12.377*** (0.000)	19.1195*** (0.001)	12.3768*** (0.000)
COLUKj	-5.3441*** (0.000)	-11.3570*** (0.000)	-5.3441*** (0.000)	-5.1121*** (0.000)	6.9959* (0.053)	-5.1120*** (0.000)
EVIDj	-4.7653*** (0.000)	-2.9667*** (0.001)	-4.7653*** (0.000)	-4.5567*** (0.000)	-3.1437*** (0.000)	-4.5567*** (0.000)
AIDSj	-0.0131*** (0.000)	-0.0076*** (0.001)	-0.0131*** (0.000)	-0.0121*** (0.000)	-0.0080*** (0.000)	-0.0121*** (0.000)
TUBERj	-0.0004 (0.755)	0.0003 (0.760)	-0.0004 (0.801)	0.0003 (0.797)	0.00004 (0.970)	0.0003 (0.840)
TELj	0.1576*** (0.000)	0.0984*** (0.000)	0.1575*** (0.000)	0.1507*** (0.000)	0.1030*** (0.000)	0.1507*** (0.000)
Number of observations	80	80	80	80	80	80
R-square	0.98	..	0.98	0.98	..	0.98
Wald statistic	54067.0 (0.000)	33765.8 (0.000)	2769.1 (0.000)	5255.5 (0.000)	5309.9 (0.000)	3177.4 (0.000)
Hausman test (fixed effect vs. random effects) Chi-squared test statistic	..	..	15.54 (0.557)	..	..	11.61 (0.901)

Source: ECLAC estimations based on official data.
[a] Including time dummies in all regressions.
[b] Ordinary Least Squares estimation with heteroskedasticity corrected standard errors.
[c] Generalized Least Squares allowing for cross-sectional heteroskedasticity only.
d. The pooled OLS estimator is an un-weighted average of the "fixed" effects and "between" effects estimator while the random effects estimator is a matrix-weighted average of the "fixed" effects and "between" effects estimator. The random effects estimator converges towards the OLS estimator as the variance of the country-specific random error term converges towards zero and the 2 are exactly identical when the variance of the country-specific random error term is zero.
P-values in parentheses.
* = significant at the 10% level, ** = significant at the 5% level, *** = significant at the 1% level.
.. = not included, not applicable or dropped from regression due to collinearity.

In model specification A, the real income growth variable is included as a weighted average of the GDP growth rate in each source country (Y_j) as defined in Table 19. The same is true in the case of the RER_j variable. Likewise, the rate of growth of oil prices (GPOIL) is included as a single proxy variable for transportation costs. The econometric results provide evidence at the 1% level of significance that tourism competitiveness in the Caribbean is negatively affected by a real appreciation of the local currency relative to the currencies of the source markets, trade openness (TRADEOPEN), rigidity in employment conditions (EMPINDEX), exposure to natural disasters (EVID) and the prevalence rate of aids (AIDS). These results hold independently of the estimation method used (OLS, GLS or Random Effects).

In addition, higher rates of growth in oil prices are also found to depress tourism competitiveness using either estimation method, although only at the 10% level of significance. Surprisingly, ex-English colonies are found to be at a competitive disadvantage relative to non-English colonies as revealed by the negative estimated parameter associated with COLUK. This result may be driven by the presence of the Dominican Republic in the sample, which is one of the three dominant Spanish-speaking markets in Caribbean tourism besides Cuba and Puerto Rico. The other side of the coin is confirmed, i.e. that Spanish ex-colonies have a big competitive edge in the region relative to non-Spanish ex-colonies as evidenced by the relative high positive values exhibited by the estimated parameters linked to COLSPAIN that are statistically different from zero at the 1% level of significance regardless of the estimation method used. There is also evidence at the 1% level of significance that the availability of technological facilities, as proxied by the number of telephone mainlines in use (TEL), matters for tourism competitiveness. Finally, the positive and highly significant estimated coefficient on the population density variable (POPDENSITY) could indicate that the availability of urban facilities attracts certain types of tourists to the region.

On the other hand, the impact of government consumption (GCONS) on tourism competitiveness is found to be negative, but only at the 10% level of significance using the three estimation methods. In the case of domestic credit to the private sector (CREDITPS), it was found that it stimulates tourism competitiveness at different levels of significance depending on the estimation method used.

As regards the time dummies included in the regression (not shown), the one for 2001 exhibited a negative and highly significant estimated parameter signalling the detrimental impact of the September 2001 attacks in the United States. Perhaps more importantly, there is strong evidence to suggest that the Caribbean has been losing competitiveness in 2001-2005 relative to 1995 given the large, negative and statistically significant estimated coefficients on the time dummy variables (significant at the 1% level of significance using either estimation method). This is a worrisome outcome.

Two surprising results stand out. First, that there is no evidence that higher levels of investment (INV) in the Caribbean benefit the tourism sector in terms of competitiveness. Second, that real income growth in the source markets (Y) is not statistically significant in affecting tourism competitiveness in the region. Thus, real income growth in the source markets on average does not seem to impact on tourism competitiveness at all. It is possible that the inclusion of the time dummy variables is capturing the impact of world business economic cycles that are strongly correlated with real income growth in countries such as the United Kingdom, the United States and Canada and that such inclusion is rendering the income variables insignificant due to collinearity.

To address this latter issue, another regression specification (B) was estimated disaggregating both the income growth variable (Y) and the RER variable used in specification A into their individual source market components. Therefore, variable Y was decomposed in real income growth in the United States (Y_{us}), Canada (Y_{CAN}) and the United Kingdom (Y_{UK}). However, since the series on real income growth in the last two countries failed to pass the Levin-Lin-Chu test for stationarity, only real income growth in the United States (Y_{US}) was included, along with real income growth in the world (Y_W) as the two series showed a stationary behaviour. The latter variable was used as a proxy variable for real income growth in Canada and the United Kingdom. The simple correlation coefficient between Y_W and Y_{CAN}, and between Y_W and Y_{UK} is 0.54 in both cases, and are statistically significant at the 5% level. By the same token, the RER index was disaggregated into the three bilateral real exchange rates between the local currency and the currency of each source market, (RER_{UK}, RER_{US}, RER_{CAN}) which were included in the regression specification. In addition, three transportation costs variables were included, one for each source market (TC_{UK}, TC_{US}, TC_{CAN}) that combines the oil price evolution and the distance between the source and the destination market (see table 18 for details), in exchange of the single proxy variable GPOIL used in specification A. The results are shown in table 19.

As can be seen, there is strong evidence[41] that tourism competitiveness in the Caribbean is significantly (at the 1% level) positively correlated with population density (POPDENS) and technological facilities (TEL), and negatively correlated with openness to trade (TRADEOPEN), rigidities in the labour market (EMPINDEX), vulnerability to natural disasters (ENVID) and HIV/AIDS prevalence (AIDS). All these results are consistent with the previous findings from the estimation of specification A using either OLS, GLS or random effects model estimation. Tourism competitiveness is also negatively related to government consumption (GCONS) at the 5% level of significance. The high positive and statistically significant impact of the ex-Spanish colony dummy variable (COLSPAIN) is also confirmed. However, the negative impact found in specification A for the ex-United Kingdom colonies (COLUK) is corroborated only using OLS and Random Effects model estimation, but not when applying GLS. In addition, government consumption (GCONS) is found to negatively affect tourism competitiveness at the 5% level of significance (at the 10% in specification A), whereas the surprising result found in the estimation of specification A about the null effect of investment (INV) on tourism competitiveness is confirmed. Notwithstanding, under specification B, most of the time dummy variables are no longer significant except for the time dummy for year 2004 (results not shown in table 19) which showed a negative estimated coefficient. This may be related to the impacts of Hurricanes Jeanne, Ivan, Frances and Charley in that year. Indeed, 2004 was marked by an unusually active hurricane season with all four hurricanes striking within two months[42] .

Perhaps more interesting are the results that differ from the previous estimation, i.e. specification A. There is partial evidence from the OLS and GLS estimations that both real income growth in the United States and in the world – a rough proxy for income growth rates in the United Kingdom and Canada which exhibited a non-stationary behaviour – raise tourism competitiveness in the Caribbean though just at the 10% level of significance. In addition, there is evidence to suggest that British and Canadian tourists are more sensitive to increases in transportation costs induced by higher oil prices than their United States counterparts, as revealed by the negative coefficients associated to TC_{UK} and TC_{CAN} in both the OLS and the GLS estimation (although not in the Random Effects estimation) that are statistically different from zero at the 10% level of significance. Thus, increases in transportation costs would deter British and Canadian tourists from travelling to the Caribbean and induce them to shift to relatively lesser distant non-Caribbean destinations (such as Spain or the United States) with lower airfares. By the same token there is some indication that suggests that higher transportation costs induced by higher oil prices may actually induce United States tourists to switch to nearer Caribbean destinations relative to more distant non-Caribbean countries as revealed by the positive estimated coefficients associated to TC_{US} though this coefficient is significant only at the 10% level in the OLS estimation. On the other hand, Canadian tourists seem to be the most price-sensitive as compared to their British and United States counterparts. Indeed it is found that a real appreciation of the local currency relative to the Canadian currency has a large and significant (at the 1% level) negative impact on tourism

[41] The coefficients are significant across all three estimation methods at levels of significance of 10% or less.
[42] ECLAC estimated losses to have been more than US$ 2.2 billion in 2004 due to hurricanes in four countries (three of which are included in our sample): The Bahamas, Grenada, Jamaica and the Dominican Republic.

competitiveness using the three estimation methods. On the contrary, United Kingdom and, especially, United States tourists seem to be price-insensitive[43]. This could reflect differences in the income segments of tourists targeted by the destination across its source markets. Canadian travellers to the Caribbean tend to be low-budget travellers who target the cheap end of the tourism market and flock mostly to the Spanish-speaking Caribbean that has a range of low to medium-budget accommodation. Indeed, some 60% of Canadians travelling to the Caribbean end up either in Cuba or the Dominican Republic, according to the CTO. Dependency on the Canadian source market is generally low in the non-Spanish speaking Caribbean (it is less than 10% for most countries save Cuba, Dominican Republic, Guyana, Haiti and Turks and Caicos). British tourists to the Caribbean, on the other hand, are more likely to be upper-income travellers targeting the high-end of the market with Barbados as their destination of choice. Of course, the low-budget travellers are expected to be far more price sensitive than the upper-end market travellers.

5. Conclusions: Main drivers of tourism competitiveness in the Caribbean and policy recommendations

The above results are only preliminary. The focus is on only one ex-post competitiveness indicator (namely share in world arrivals) while it will be important to assess as well the factors that affect changes in the share of tourism expenditures in GDP. Given the significance of the tourism sector in the Caribbean there is an important need to undertake detailed country case studies in order to carefully analyze the determinants of tourism competitiveness by source markets in most Caribbean countries.

Based on the above preliminary econometric results, the main findings are that:

(a) A real exchange rate depreciation of Caribbean currencies would increase tourism competitiveness, especially increasing the stay-over arrivals of Canadian tourists;

(b) Increases in transportation costs linked to hikes in oil prices would reduce stay-over arrivals especially from Canada and the United Kingdom. It may be the case that this fosters tourism from the United States as the Caribbean is a closer destination, with presumably lower air fares;

(c) Ex-Spanish colonies seem to have an advantage in terms of tourism competitiveness over ex-English colonies;

(d) Other factors that negatively affect tourism competitiveness in the Caribbean include government consumption, trade openness, rigidities in the labour market, exposure to natural disasters and HIV/AIDS prevalence rate;

(e) Other factors that positively affect tourism competitiveness in the region include population density, domestic credit to the private sector, and telephone mainlines in use;

(f) There is no strong evidence that real income growth in source markets (i.e. United States, United Kingdom and Canada) plays a major role in tourism competitiveness behaviour in the Caribbean; and

(g) Changes in investment in the Caribbean would have no effect on tourism competitiveness.

There is some evidence that suggests that Caribbean competitiveness in stay-over tourism is slowing down. The region as a whole has not made any significant gains in the total world market share

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[43] Although the negative estimated coefficient associated to TC_{UK} is significant at the 10% level in the GLS estimation.

of stay-over arrivals for almost four decades. Thus, Caribbean countries will need to find new ways to stimulate tourism competitiveness for greater economic gains. To maintain or enhance its tourism competitiveness, Caribbean destinations will need to become more cost and price-competitive at home. This may involve supporting local private sector development in order to reduce import leakages and build linkages between the tourism sector and the rest of the economy, reducing government consumption to maintain competitive tax rates, reducing vulnerability to natural disasters, reforming labour markets and business regulations in general, maintaining a healthy and safe environment, investing in human development and technology and developing a transport/aviation policy that will result in lower transportation costs to and from the region.

The Caribbean will also need to reduce its vulnerability to external factors that are not within its control such as income shocks from abroad and oil price shocks. English-speaking small Caribbean States are particularly vulnerable, even more so in the context of the dominance of the larger Spanish-speaking countries in the tourism sector. In the medium-term, reducing vulnerability to external forces that can seriously impact tourism competitiveness will require further market diversification within the tourism sector, as well as continually attracting price and income-insensitive tourists from the upper-end of the tourism markets. To this end, the creation and worldwide promotion of the "Caribbean brand" as a tourist destination would be very helpful, and would also foster regional integration, a goal that is being pursued by Caribbean countries.

Last but not least, it is worth taking into account the difficult situation currently faced by the tourism sector worldwide due to the sharp hike in fuel prices. This has translated into significant cost increases for airlines thus pushing up airfares. As the Caribbean is not isolated from this situation, prospects for the tourism sector are not optimistic within the current context (see Box 1 in Chapter I). As it is possible that oil prices may remain high over the medium term, the case for fostering tourism competitiveness in the Caribbean is particularly strong.

Chapter III

COUNTRY BRIEFS

In this chapter analyses of economic performance during 2007 and prospects for 2008 are presented at the country level, along with country tables of main macroeconomic indicators. In the case of the ECCU countries, one single brief is presented but making reference to individual countries, whenever relevant (see annex for country data).

A. BAHAMAS

1. General trends

Despite sound macroeconomic management over the last years, economic growth slowed in 2007 but nevertheless remained solid. Real output grew by 2.8%, compared to a 4.6% increase in 2006[44]. A slowing in construction activity and reduced growth in credit expansion partly offset the impetus from improved tourism. Reflecting higher costs of furniture and household goods and the strong pass-through of international fuel and food prices, December-on-December inflation picked up to 2.9%, remaining at a moderate level but surpassing the 2.3% registered in 2006.

Government finances weakened during fiscal year 2006/07, as the overall fiscal deficit doubled to 1.6% of GDP. Fiscal performance was undermined by the slowdown in economic activity, which led to sluggish growth in revenue, which was outpaced by the rise in spending.

Meanwhile, the net external position improved as resurgence in tourism receipts, higher offshore company local expenses and lower outflows for construction services more than offset the widening of the merchandise and income accounts deficits. However, foreign direct investment (FDI) inflows, a major driver of activity, slowed as some large scale tourism projects were completed.

The prospects for the economy in 2008 are mainly affected by the downside risks of a stronger than expected slowdown in the United States economy. Growth is expected to soften in the first half of the year and is projected at 2.0% for 2008. Reduced FDI inflows could further dampen construction and tourism activity and lead to weaker credit conditions. However, the close proximity of the Bahamas to the United States market and the existing pegged exchange rate arrangement, making it a choice destination for United States travellers, combined with more intense marketing in Europe and Canada, whose relatively strong currencies should favour tourism demand and lower price sensitivity in high-end segments, might lead to a more favourable outcome. The fiscal position might deteriorate somewhat with the tax relief, subsidies and salary increases that are planned in the 2008/09 budget.

2. Economic policy

Broad policy was focused on maintaining macroeconomic stability, especially a sustainable medium-term fiscal position, a positive investment climate based on premium credit ratings and the pegged exchange rate. Structural policies centred on improving the dynamism and competitiveness of the mainstay tourism sector by enhanced product development, marketing, especially in Europe and Canada (a supplementary allocation of $12 million was earmarked for this) and boosting domestic investment in that sector.

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[44] In 2007 GDP has been rebased with 2006 as base year.

(a) Fiscal policy

Even though the overall fiscal position and debt dynamics of the Bahamas remains relatively stable, particularly by the standards of most of its Caribbean counterparts, it has somewhat worsened in recent years. The authorities, however, are committed to balance the budget by a medium term fiscal adjustment and to reduce central government debt to 30-35% of GDP in five years, target that is challenged by the recent growth in primary spending.

During fiscal year 2006/07[45] fiscal policy was expansionary and the overall deficit doubled to 1.6% of GDP, partly reflecting economic stimulus, higher costs of operations on account of increased fuel and materials and election spending. The slippage reflected accelerated growth in spending (14.1%) relative to 11.3% in 2006/05, especially transfers, goods and services and debt servicing, alongside a reduced growth in revenue. Transfers shot up by 13.5%, namely to public corporations. Allocations for education also increased to galvanize the repair and rehabilitation of schools. Recurrent spending captured 88% of total expenditure. Debt interest payments also increased, in line with the accumulation of Bahamian dollar debt. Meanwhile, growth in total revenue slowed to 9.7% (17.5% in 2006) representing 18.5% of GDP. Capital spending maintained its strong growth trend from the previous year, rising by 35%.

For the budget 2007/08, government is set to limit the fiscal deficit to 1.8% of GDP. Revenue enhancing measures including improved tax administration and efficiency are targeted. There is no immediate change in the tax structure, although the introduction of a Value Added Tax may be considered, especially under the Economic Partnership Agreement (EPA) with Europe and the erosion of border tax receipts, after analyzing if the benefits would outweigh revenue losses from trade taxes as well as the costs of administration and compliance.

The government has announced a number of tax and subsidy measures to ease the burden of the high cost of living on citizens. Also, a $750 salary increase has been earmarked for public officers and a $1,250 raise for teachers. Moreover, the 2% stamp tax will be removed from 160 food items and the customs duty and stamp duty on Bahamas Electricity Corporation (BEC) fuel imports will be suspended for two years to the benefit of consumers. There is also an intention to privatize the telecommunications and electricity companies.

There was some fiscal slippage during the first eight months of the current fiscal year. The fiscal deficit increased by 24% to $92.7 million, presenting a challenge for meeting the full year target of 1.8% of GDP. Expenditures grew more in absolute and relative terms compared to revenue receipts. Higher wages and salary bills and increased outlays for transfers and subsidies triggered current spending while capital expenditure decreased due to lower spending for infrastructure projects. Tax receipts rose on account of higher proceeds from taxes on international trade, hotel services and business and professional fees. Nevertheless, these factors were outweighed by growth in spending. Meanwhile, a timing-related decrease in other 'miscellaneous' income was primarily behind the significant decline in non-tax revenue.

The debt situation remains manageable, with adverse risks coming from a recession in the United States economy resulting in lower public sector tax receipts. Public sector foreign currency debt grew marginally in 2007 to reach $640.6 million, largely reflecting debt acquisition by public corporations. The average maturity of the debt was just below 11.5 years. Meanwhile, debt service to total revenue doubled to 3.8 % during 2007.

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[45] The fiscal year runs from 1 July to 30 June.

(b) Monetary and exchange rate policy

Despite an increased inflation rate, from 2.3% in 2006 to 2.9% in 2007, the monetary authorities maintained a relatively neutral policy stance. Money supply (M3) grew by 10.6% in 2007 relative to 7.4% in 2006. Nevertheless, this did not lead to an expansion in credit growth to the public, as banks rebuilt their liquidity positions following a surge in credit in 2005 and 2006 and demand pressures in the economy were reduced. Therefore, the Central Bank's benchmark discount rate remained stable at 5.25%.

Broad money (M3) posted its strongest growth in three years, stemming from a build-up of private sector deposits to reach 77.5% of GDP, relative to 73.7% of GDP in 2006. Domestic currency fixed deposits remained the largest component of the total at 55.8%, followed by demand deposits (19.1%) and savings deposits (17.6%). Resident foreign currency deposits rose sharply (25.8%) buttressed by improved balances of public corporations.

Domestic credit growth slowed marginally to 12.3%, reflecting a decline in credit to the private sector and public corporations. Private credit contracted in line with the decline in activity and probably some caution on the part of investors in the wake of a possible recession in the United States. The sectoral distribution of credit continued to be largely concentrated on housing loans (accounting for 50.5%) and consumer credit (31.5%), dwarfing the proportion of credit to smaller-scale boutique tourism projects, fisheries and other services.

With the demand for credit outstripping the supply, the spread on commercial bank loans and deposit rates widened by 33 basis points to 6.94% during the year. Nevertheless, the benchmark prime lending rate remained unchanged at 5.5%.

In a measure to improve the exchange control regime, the Monetary Policy Committee (MPC) allowed residents to transfer monetary gifts and other overseas payments up to a value of $500 per transaction, which seems to have caused a modest deterioration in banks' asset quality during the year.

The government remains committed to securing the pegged exchange rate, as it provides certainty in transactions, thereby stabilizing the investment climate, and an anchor to contain inflation. Moreover, with the high dependence on the United States market both for exports and imports, the peg to the dollar has proven beneficial over time. The authorities plan to gradually remove exchange controls, a process which will need to be supported by an appropriate macroeconomic policy framework, an adequate level of international reserves and a strong financial regulatory and prudential framework.

3. The main variables

(a) Economic activity

Economic activity slowed to 2.8% in 2007 from 4.6% in 2006, despite the pick-up in the dominant tourism sector. In the Bahamian economy the predominant sectors continue to be tourism (roughly one-third of GDP) as well as the financial sector (20% of GDP), which includes a dynamic offshore centre.

Notwithstanding the Western Hemisphere Travel Initiative requiring United States citizens returning from the Caribbean to hold passports and the slowdown in the United States economy, tourism value added increased on the heels of higher aggregate visitor expenditure and longer lengths of stay. Nevertheless, total visitor arrivals actually decreased by 2.9% to 4.6 million, of which 1.52 million were stay-over visitors. Developments in the sector saw the launch of an additional high-end property and appreciated room rates. About $10 billion of investment is earmarked for the tourism sector in the medium to longer term. A number of major projects are planned or have started, including the $2.6 billion Baha Mar project, Kerzner Phase IV Atlantis resort and the Royal Oasis project.

Activity in the off-shore financial services sector was buoyant as indicated by higher receipts from international business companies. Regulatory quality in the sector has also been strengthened to cope with competition from other jurisdictions. By contrast, construction activity slowed rapidly, with meagre growth of 0.1%. This stemmed from the completion of a large scale tourism project and reduced demand in residential construction and commercial activity due to expectations about the United States economy. Similarly, value added in the fisheries subsector also decreased, with fish landings falling by 27% in weight and 11.7% in value.

On the expenditure side, growth in consumption spending slowed sharply (2% in 2007 relative to 13.2% in 2006), partly reflecting reduced economic activity. Similarly, gross capital formation grew by 4.3% relative to 19.8% in 2006, as a number of large hotel projects were completed, while residential construction picked up marginally. At the same time, exports picked up somewhat (2.4%), while growth in imports of goods and services slowed markedly to 2.4%.

(b) Prices, wages and employment

The inflation rate, as measured by the retail price index, shifted upwards to 2.9% from 2.3% in 2006, propelled by the impact of higher international goods and fuel prices. Leading the rise in prices were furniture and household operations (6.8%), transport and communication (4.6%), recreation and entertainment (4.4%) and food and beverage (4.0%). Local automotive fuel and electricity also contributed to the increase in costs, with the costs of gasoline spiking by 17.8%. Notably, all sub-indices registered increases in prices.

Preliminary data indicate that the rate of unemployment increased marginally by 0.3 percentage points to 7.9%, as the growth of the labour force (5850 workers) outpaced the number of jobs created (4985).

(c) The external sector

The balance of payments current account deficit narrowed to 18.2% of GDP in 2007, from 20.9% of GDP in 2006. This account was bolstered by higher tourism receipts, which led to 23.5% improvement in the services account surplus to $1019.7 million, which contrasted with the 33% decrease in 2006. The services account benefited from an almost 6.4 rise in travel receipts and the recovery in the offshore financial sector. At the same time, net outflows for construction services dipped with the deceleration in activity in the sector. The merchandise deficit posted a moderate increase as slower growth in non-oil imports, in line with reduced economic activity, helped to offset the effect of higher oil prices.

The income account deficit maintained its widening trend (6.2%), underpinned by higher dividend and interest payments. Net current transfers were down marginally linked to higher worker remittance outflows that outweighed inflows to the public sector.

Similarly, the capital and financial account surplus narrowed by 21.8% to $951.4 million (13.2% of GDP) mainly due to a significant reversal in commercial banks' transactions to a net outflow coupled with a moderate reduction in foreign direct investment. Net foreign direct investments receipts moderated slightly. With all these developments, the overall balance of payments position improved during the year, with the deficit falling from 1.1% of GDP in 2006 to 0.6% in 2007. Nevertheless, gross international reserves fell by 9.2% to $453.9 million, leading to a fall in the import cover from 3.5 months in 2006 to 2.9 months in 2007.

Table 20
BAHAMAS: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
				Output growth rates (Percentages)			
GDP	-0.3	2.0	-2.4	-0.2	3.3	4.6	2.8
GDP per capita	-1.9	1.1	-3.7	-1.5	1.9	3.1	1.5
Agriculture	35.7	-5.9	-25.3	-4.6	-16.5	-6.2	-0.9
Fishing	-17.5	35.7	6.1	-9.0	-14.9	6.4	-23.4
Mining	2.7	2.8	14.6	4.3	-4.7	-4.0	-50.4
Manufacturing	-20.6	-5.7	22.2	7.6	26.3	-2.0	1.2
Electricity and water	6.3	5.7	6.5	0.7	14.7	15.6	4.0
Construction	-22.2	18.0	6.6	-13.6	13.6	20.4	0.1
Wholesale and retail trade	-2.1	2.3	-1.1	4.3	7.6	1.3	3.0
Hotel and restaurants	13.2	-14.8	7.1	3.2	-1.8	5.1	14.6
Transport, storage and communication	-6.6	3.7	0.9	2.4	2.0	0.7	-2.2
Financial intermediaries	9.0	-2.5	-18.5	3.4	7.3	1.6	-1.1
Real Estate/rent/business activity	6.8	12.9	-3.0	4.3	-1.2	3.1	4.7
Public administration and defense	-0.4	-5.3	-18.6	-7.0	2.7	1.1	3.1
Other comm., social and personal services	-7.0	0.3	7.0	-1.8	4.4	-1.3	0.6
Other services	-1.9	-2.2	-3.0	-1.2	3.2	0.0	3.2
Dummy Financial Corp (FISM)[a]	-0.3	2.0	-2.4	-0.2	3.3	4.6	2.8
				Prices and unemployment (Percentage)			
Inflation (year end)	2.9	1.9	2.4	1.9	1.2	2.3	2.9
Lending interest rate[b]	11.7	11.3	12.0	11.2	10.3	10.0	10.6
Deposit interest rate[b]	4.2	4.0	3.9	3.8	3.2	3.4	3.7
Unemployment rate	6.9	9.1	10.8	10.2	10.2	7.6	7.9
				Central Government operations (Percentage of GDP)[b]			
Total revenue	16.9	14.5	15.2	15.6	16.0	17.8	18.5
Current revenue	16.9	14.5	15.2	15.4	15.8	17.7	18.5
Tax revenue	15.1	13.1	13.7	13.8	14.2	15.9	16.7
Capital revenue	0.0	0.0	0.0	0.2	0.2	0.0	0.0
Total Expenditure	16.5	16.9	17.6	17.8	17.6	18.5	20.1
Current expenditure	15.0	15.2	16.2	16.5	16.2	16.7	17.8
Interest payments	1.6	1.7	1.7	1.9	1.8	0.8	1.6
Capital expenditure	1.5	1.8	1.4	1.3	1.4	1.8	2.3
Global balance	0.4	-2.4	-2.4	-2.2	-1.6	-0.8	-1.6
Primary balance	2.1	-0.7	-0.7	-0.3	0.2	0.0	0.0
Public debt	36.6	39.8	43.1	44.5	43.6	45.1	46.3
External	5.8	5.2	6.1	5.7	5.2	4.9	4.5
Domestic	30.8	34.5	36.9	38.8	38.4	40.2	41.8

Table 20 (continued)

	2001	2002	2003	2004	2005	2006	2007p
	Balance of payments (Millions of US$)						
Current account balance	-593.9	-298.0	-320.7	-170.6	-650.6	-1438.6	-1314.5
Trade balance	-1340.4	-1212.9	-1230.5	-1348.2	-1762.6	-2098.2	-2154.4
Exports	423.1	422.1	426.5	477.4	549	664.9	801.9
Imports	-1763.5	-1634.9	-1657.0	-1825.6	-2311.6	-2763.2	-2956.3
Services balance	835.4	1056.9	1013.6	1068.1	1229.9	825.5	1019.7
Income balance	-198.9	-184.3	-152.4	-141.3	-203.2	-218.0	-231.6
Transfers balance	110.0	42.4	48.7	250.8	85.4	52.0	51.8
Financial account balance[c]	563.8	358.8	431.6	354.3	561.6	1359.6	1268.7
FDI	191.6	208.6	246.7	442.9	562.8	706.4	713.3
Financial capital[c]	372.2	150.2	184.9	-88.7	-1.2	653.2	555.4
Overall balance	-30.2	60.8	110.9	183.7	-89.0	-79.0	-45.8
	Monetary indicators (Percentage of GDP)						
Domestic credit	80.5	81.1	81.2	84.3	88.3	95.8	102.3
To the public sector	13.6	14.7	14.7	14.6	14.5	15.5	16.8
To de private sector	66.8	66.4	66.4	69.6	73.9	80.3	85.5
Liquidity (M3)	64.3	63.3	65.5	71.6	72.5	73.7	77.5
Currency and domestic currency deposits (M2)	62.7	61.8	63.8	70.0	70.2	71.3	74.7
Foreign currency deposits	1.6	1.5	1.7	1.6	2.2	2.3	2.8
	Memorandum items (current prices)						
GDP (Millions of BH$)	5,659	5,912	5,942	6,032	6,509	6,876	7,234
GDP (Millions of US$)	5,659	5,912	5,942	6,032	6,509	6,876	7,234
GDP per capita (US$)	18,314	18,956	18,787	18,808	20,015	20,835	21,658

Source: ECLAC on the basis of official data.
[a] Weighted average.
[b] Fiscal data are in fiscal years
[c] Includes capital account balance and errors and omissions.

B. BARBADOS

1. General trends

In 2007, Barbados recorded an overall GDP growth rate of 3.2%, driven once more by a solid performance in the services sector namely tourism and financial services. The unemployment rate, after six years of consecutive growth commensurately fell at its lowest recorded level to reach 7.4%. Inflation was at its lowest in three years at 4% despite a context of high food and oil prices.

The external sector registered a boom on the capital and financial account due to strong net capital flows that resulted in a balance of payments surplus of 8% of GDP and an increase in net international reserves by more than 30%. Ongoing concerns, however, remain with respect to persistent deficits on the current account, set at 7% of GDP in 2007, and the containment of the overall fiscal deficit. The latter is set to be above the 2.5% target to reach 3.5% of GDP in fiscal year 2007-2008. Concurrently the maintenance of government debt to around 76% of GDP and the ongoing poor performance of other foreign exchange earning sectors outside tourism and financial services could pose challenges in a context of future liberalization on the capital account within a fixed exchange rate environment. Maintaining the sustainability of the peg will be a key objective in the future.

Following lower public sector demand and a likely decrease in tourism demand from the United States, the economy is expected to grow by 2.7% in 2008. The new government of the Democratic Labour Party, elected in January 2008 and led by David Thomson, is committed to follow broad economic policy continuity with a focus on the rising cost of living in Barbados.

2. Economic policy

(a) Fiscal policy

Preliminary information indicates that as at September 2007[46], the current central government surplus was lower by 40% compared to a year prior and stood at US$62.1 million (8.9% of GDP). Slower growth in tax revenue and faster increase in current expenditure mainly explain this result. Capital expenditure was US$102.9 million and the overall deficit amounted to US$76.9 million at end September 2007, compared to US$41.7 million a year earlier. The deficit was financed primarily in 2007 from domestic sources, made possible by a surge in domestic bank liquidity last year. Domestic financing was in the amount of US$105 million, with the non-bank private sector contributing US$56 million, commercial banks US$50 million, Central Bank US$22 million and the National Insurance Scheme US$12 million. About US$39 million were paid abroad for amortization payments on debt while foreign inflows on project funds amounted to US$21 million.

For the fiscal year 2007-2008[47], original projections were for a central government deficit (excluding amortization) of 2.2% of nominal GDP at market prices on a cash International Financial Institution (IFI) basis and a net operating surplus of 1.5% of GDP on an accrual basis. The deficit projection was later revised to 3.5% of GDP at market prices on a cash basis, which will exceed the normal target range of 2.5% of GDP. Interest payments on debt are expected to amount to US$182.8 million, higher than last fiscal year owing to new debt issued in 2007 and a repayment for new prisons. Amortization payments for total public debt are estimated to US$43 million, comprising US$52 million for external debt. The total deficit (including amortization) is expected to be financed at more than 90% by domestic sources and the rest from foreign inflows from externally funded projects.

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[46] Figures in this paragraph are for calendar year January to September 2007.

[47] The fiscal year runs from 1 April to 31 March.

Total debt outstanding at end 2007 was US$3.7 billion, or 105.7% of GDP at current market prices. Domestic debt stood at 65.5% of GDP and external debt at 40.2% of GDP. Central government debt amounted to 76.3% of GDP (of which 26.9% was external debt). The central government debt service/revenue ratio was at its lowest in 12 years at 17.3%. In the 2007 budget, the Government of Barbados announced its intention to reduce public debt to GDP to 60% by 2012. However this will necessitate a generation of fiscal surpluses that will have to be reconciled with the fact that fiscal policy is the only expansionary tool available to the government in a fixed exchange rate environment where exchange rate and monetary policy are ineffective.

(b) Monetary and exchange-rate policy

The removal of exchange controls, planned originally in December 2007, was postponed to 2009. However with the advent of the Caribbean Single Market and Economy (CSME) and thus a liberalized capital account environment, monetary policy will need to remain focused on mitigating future vulnerability of the 32 year-old exchange rate peg regime. This objective is particularly important for a small island without a thoroughly developed financial surveillance and regulatory system. There will be a need to focus on fiscal prudence and debt sustainability and on financial sector regulation and supervision to mitigate risks of speculative attacks on the peg. The Central Bank of Barbados may consider the introduction of indirect monetary-based instruments to manage excess domestic liquidity and international reserves in a less controlled environment. It is also currently in the process of enhancing its information system to better its surveillance on capital flows, among others.

In 2007, there was an important increase in bank liquidity owing to a surge in capital inflows. This was reflected by a rise in domestic deposits at commercial banks by 23.4% compared to 4.7% in the previous year. Loans by commercial banks however grew only by 8.1% compared to 15.5% in the prior year, indicating that most of the additional deposits were invested by banks rather than loaned to the non-bank private sector. Investment by commercial banks[48] indeed grew by 9.8% compared to a decrease of 17.7% in 2006. Excess bank liquidity was accompanied by a substantial fall on the Treasury Bill rate (from 6.56% in December 2006 to 4.90% in December 2007) and on the bank rate (from 18% at the end of 2006 to 12% at the end of 2007).

Another monetary policy measure was lowering the reserve requirement ratio to 21% in 2007, with 5% on domestic cash reserves, 6% on foreign cash reserves and 10% on government securities down from its original 12%. The reduction in the securities component of the reserve requirement is part of a move towards indirect monetary control. Driven by an expansion in demand deposits, money supply expanded by 20% in 2007 compared to a contraction in the previous year. M3 jumped by 15.8%, the highest on record since 1990, accounted for by an increase of 46% in time deposits. M3 as a share of GDP stood at 116.4% in 2007 compared to 108.6% in 2006. Non-residents foreign currency holdings rose by a record 90% in 2007, as a counterpart to the surge in net capital flows. The minimum deposit rate set by the Central Bank was adjusted down from 5.25% to 4.75% in line with the fall in the Federal Funds rate. The weighted average lending rates by commercial banks on total loans also fell correspondingly but in a muted way from 10.87% to 10.68% reflecting a reluctance on the part of commercial banks to erode their profit margins.

[48] Holdings of T-Bills and other.

3. The main variables

(a) Economic activity

Real GDP growth in 2007 was a healthy 4.2% in the first nine months of 2007. For the year as a whole, however, the Central Bank projected a slow-down in overall growth rate to 3.2%, suggesting a tapering off of the impact of the Cricket World Cup (CWC) which ended in April. As in previous years, imbalances between the tradable and non-tradable sectors continue, thereby maintaining concerns over the need to generate foreign exchange reserves. Growth in the non-tradable sector, which constitutes 75% of total economic activity, was 3.8% compared to 4.5% in 2006 and relative to 1.6% in the tradable sector.

Such output growth in the non-tradable sector, especially in construction, was linked to preparations and staging of the CWC (in the form, among others, of public refurbishment projects) as well as private residential developments and tourism-related construction. Mining and quarrying continued its decline in the non-tradable sector, contracting by 6%, owing to a depletion of onshore oil production associated with dwindling reserves.

The tradable sector grew by 1.6% in 2007 compared to 0.1% in 2006 and 0.5% in 2005, reflecting the boost given by the CWC event to the tourism sector last year. After a contraction of 2.2% in 2005 and modest growth of 1.6% in 2006, last year saw the tourism industry growing by 3.1%. Total stay-over arrivals stood at 572,937 at end 2007 representing a 1.8% increase over 2006 while total arrivals (stay-over and cruise) were 1,190,887 embedding a 8.1% increase relative to 2006.

The impact of rising oil prices on cruise tourism in Barbados was partly cushioned by the island being a “home port” destination. In October 2007, an agreement was signed between the Barbados Tourism Authority and Carnival Cruise Lines that will guarantee a minimum of 1.2 million cruise passengers and US$78 million to Barbados for the next three years.

Outside of tourism, the tradable sector continued to be marked by feeble performances in the sugar, agriculture and manufacturing sectors in the face of structural and competitiveness challenges and amidst waning preferential treatments.

The international business sector, the second foreign exchange earner behind tourism, expanded further in 2007 and a new strategic plan for 2007-2012 was also launched. The number of International Business Companies licensed jumped from 391 in 2006 to 506 in 2007. The number of societies with restricted liability increased from 133 in 2006 to 151 in 2007.

(b) Prices, wages and employment

Inflation rate fell to 4% in 2007 as compared to 7.3% in 2006. The lower rate of inflation could be ascribed to a slowdown in the rate of increase in oil prices in 2007 relative to 2006 due to the presence of petrol subsidies, various price controls on basic items, the removal of a cess tax on imports and a slowdown in credit expansion by commercial banks (8.1% in 2007 compared to 15.5% in 2006). The highest increases were in the fuel and light category (9.9%), followed by food (8.9%).

Payments on wages and salaries by the government in fiscal year 2007-2008 have grown by 15% (nominal terms) as compared to 6.3% in the previous fiscal year, mainly reflecting the payment in April 2007 of the 7.5% agreed wage increases for public workers that were due in 2006.

The female labour force participation rate fell from 62.8% in 2006 to 61.9% in 2007, the lowest in eight years, while the male labour force participation rate increased from 73.6% to 74.3%. The unemployment rate was at its lowest since 1991 at 7.4% with the female unemployment rate at 8.5% and the male unemployment rate at 6.4%, the lowest figures on record for both categories.

(c) The external sector

The current account deficit shrank in 2007 to 7% of GDP (from 8.6% of GDP in 2006) at market prices or US$245 million, the lowest since 2004. This can be accounted for by a robust growth on the services balance where net receipts grew by 9.8% owing mainly to growth in net travel receipts, associated with a strong performance by the tourism sector; the 11% growth rate in net income receipts that include compensation of employees and investment income; growth by 26% in net current transfers reflecting tax receipts and inter-governmental grants; and a moderated growth in the merchandise trade deficit by only 4.8%. Both domestic exports and retained imports, which exclude re-exports, grew modestly by 4.4%. However, in 2007 the imports of capital goods contracted by 8% after experiencing double-digit growth in 2006 in the wake of the CWC while imports of consumer goods in 2007 rose by 8% after contracting in the prior year. The latter may have benefited from the removal of the cess tax on imports in 2007.

The capital and financial account registered its highest surplus since at least 1992 at an estimated US$475 million (6.7% of GDP). Net long-term capital flows to the public sector was US$19 million reflecting proceeds of bond issues on behalf of the Barbados Investment and Development Corporation and the Barbados Agricultural Management Company Ltd. Net long –term private capital flows were estimated at US$331 million, associated with tourism-related projects, real estate transactions and loan proceeds for the construction of a new prison. Short-term net inflows, estimated at US$33 million, were linked to loan inflows for the airport project and pre-shipment financing for the sugar harvest. Other net inflows for an amount of US$92 million were recorded, accounting for a large part for the exceptional performance on the financial account relative to other years and these were in relation to deposits made by non-residents and other foreign entities.

Strong performance on the financial account accounted for the increase in net international reserves from US$930 million in 2006 to US$1.2 billion in 2007, the equivalent of 29.9 weeks of import cover. Overall the balance of payments was in surplus at 7.9% of GDP at market prices, up from 1.3% last year.

Table 21
BARBADOS: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
				Output growth rates (Percentage)			
GDP	-2.6	0.7	2.0	4.8	4.3	3.3	3.2
GDP per capita	-2.7	0.4	1.7	4.7	4.1	3.2	..
Sugar agriculture	-14.7	-10.0	-19.0	-5.4	11.3	-12.0	3.2
Non-sugar agriculture	-6.0	-0.6	4.7	-8.1	6.9	-2.9	2.0
Manufacturing	-9.8	1.0	-1.7	2.2	2.1	1.1	-2.9
Tourism	-5.9	-2.7	6.9	9.3	-2.2	1.6	3.1
Mining and quarrying	-10.5	6.6	-15.8	9.6	8.0	-3.1	-6.0
Electricity, gas and water	1.3	4.5	3.5	3.0	1.8	-0.6	9.8
Construction	6.9	7.7	0.6	2.8	16.2	1.4	-1.5
Transport, storage and communications	0.7	-2.9	2.9	5.4	5.0	5.2	5.6
Wholesale and retail trade	-3.1	1.2	4.1	6.1	5.3	5.3	5.9
Government	-1.7	6.5	-3.8	5.6	3.5	3.0	3.0
Business and other services	-0.6	-2.3	4.5	4.2	4.5	5.3	5.2
				Prices and unemployment (Percentage)			
Inflation (year end)	-0.3	0.9	0.3	4.3	7.4	5.6	4.7
Lending interest rate[a]	11.1	10.3	10.2	9.8	10.6	10.9	10.7
Deposit interest rate[b]	3.1	2.6	2.6	2.5	4.1	5.1	4.8
Unemployment rate	9.9	10.3	11.0	9.8	9.1	7.6	6.7
				Central Government operations (Percentage of GDP)			
Total revenue	34.2	34.6	34.2	33.6	33.6	35.1	34.2
Tax revenue	32.1	32.0	32.3	32.2	31.4	33.5	32.7
Non-tax revenue and grants	2.2	7.4	1.0	4.4	6.5	4.5	4.3
Total Expenditure	37.8	40.9	37.2	35.9	37.9	37.0	36.5
Current expenditure	31.6	33.7	32.2	32.1	32.6	31.3	33.4
Interest payments	5.4	5.4	5.0	4.8	4.8	5.0	4.9
Capital expenditure	5.8	7.2	5.0	3.8	3.9	4.1	3.2
Primary balance	-3.5	-6.4	-2.7	-2.2	-4.3	-2.0	-2.4
Global Balance	1.9	-1.0	2.0	2.6	0.6	3.0	2.5
Public debt	94.8	105.5	102.7	101.3	111.6	108.9	105.7
External	43.7	45.6	44.1	42.9	44.4	45.3	40.2
Domestic	51.1	59.9	58.6	58.4	67.2	63.6	65.5

Table 21 (continued)

	2001	2002	2003	2004	2005	2006	2007p
	Balance of payments (Millions of US$)						
Current account balance	-112.7	-177.2	-182.1	-357.6	-362.5	-278.7	-245.1
Trade balance	-693.5	-712.2	-815.1	-983.9	-1068.8	-1003.1	-1051.7
Exports	964.8	966.9	1079.0	1277.6	1447.0	1467.8	1536.1
Imports	259.5	241.5	249.7	278.2	359.4	441.2	467.1
Services balance	559.2	536.6	632.4	647.4	761.4	810.7	890.2
Income balance	-72.3	-87.8	-92.2	-107.2	-151.6	-171.5	-190.8
Transfers balance	93.9	86.2	92.8	86.1	96.6	85.2	107.1
Financial account balance[c]	339.1	266.0	370.1	187.3	293.4	320.1	523.2
FDI	17.4	16.9	57.7	-16.0	52.9	77.7	..
Financial capital[c]	321.7	249.1	312.4	203.3	240.5	242.4	..
Overall balance	226.4	88.8	188.0	-170.3	-69.1	41.4	278.1
	Monetary indicators (Percentage of GDP)						
Domestic credit	58.8	72.8	70.6	79.0	86.3	87.5	87.7
To the public sector	7.8	17.1	19.2	20.7	18.2	16.3	16.8
To the private sector	51.0	55.7	51.4	58.3	68.1	71.2	70.9
Liquidity (M3)	83.2	96.8	95.1	105.1	108.1	108.7	116.4
Currency and domestic currency deposits (M2)	82.1	92.8	92.3	100.2	105.1	103.7	111.5
Foreign currency Deposits	1.1	4.0	2.8	4.9	3.0	5.0	4.9
	Memorandum items (current prices)						
GDP (Millions of SRD$)	5,108	4,952	5,390	5,634	6,011	6,501	7,036
GDP (Millions of US$)	2,554	2,476	2,695	2,817	3,005	3,251	3,518
GDP per capita (US$)	9,460	9,125	9,899	10,340	11,009	11,888	..

Source: ECLAC on the basis of official data.
[a] Weighted average.
[b] Weighted average of savings and deposit interest rates (end of year).
[c] Includes capital account balance and errors and omissions.
p = preliminary figures.
.. = not available.

C. BELIZE

1. General trends

Growth momentum slowed in 2007, following more dynamic activity in the two previous years. Real output increased by 1.6%, following growth of 5.3% in 2006. Growth was compressed by lower output and exports in the critical agriculture sector, which was buffeted by Hurricane Dean, while value added in services picked up.

Despite the slowdown in activity and reflecting the strong pass-through of import prices, inflation rose to 4.1%, relative to 3.0% in 2006. Reflecting the hike in international oil prices and poorer harvests in various countries, inflation was largely driven by higher fuel and food prices. Unemployment posted a decline for the fourth consecutive year, as primary, secondary and tertiary activity all registered high job growth.

External accounts weakened in 2007, as a consequence of reduced commodity trade volumes due to hurricane damage and insect infestation in sugar and bananas and reduced marine and other exports.

On the policy front, the fiscal deficit narrowed in 2007 thanks to dynamic growth in bilateral grants, significant returns from the general sales tax (GST), petroleum taxes and the sale of crown land. The debt challenge was eased during the year as the government secured a debt restructuring agreement in February 2007, which provided liquidity relief and potential means to restore fiscal and external stability.

The economy is expected to recover somewhat in 2008 with growth projected at around 2.4%, propelled by resurgence in agriculture built largely on increased banana production, sustained oil production and services. Fiscal consolidation should continue with constrained growth in spending and efforts to improve revenue efficiency. Meanwhile, with the continued pass-through from international fuel and food prices, inflation is expected to increase to 6.6% in 2008.

The United Democratic Party (UDP) was elected to office in February 2008 after 10 years in the opposition. Its election mandate focused on improving living standards, tackling crime, re-establishing proper and transparent management and reducing taxes. However, with the tight fiscal position tax reductions are likely to be reconsidered as fiscal prudence takes priority.

2. Economic policy

(a) Fiscal policy

The fiscal out-turn in 2007, benefited from a fortuitous inflow of grant receipts, complemented by an upsurge in proceeds from the general sales tax (GST), petroleum taxes and land sales, which more than compensated for substantial growth in spending. As a result, the overall deficit fell from 1.9% of GDP in 2006 to 1.2% in 2007, while the primary surplus rose to 4.2% of GDP from 3.9% of GDP in the previous year.

Total central government revenue expanded by 27.3%. Current receipts registered dynamic growth to reach 25.6% of GDP, reflecting improved returns both in tax and non-tax revenue. Tax proceeds were bolstered by a change in the tax structure, as the newly introduced GST turned in a good yield, accounting for substantial growth in receipts. Tax yield from income and profits shot up by 19.4%, mainly associated with receipts from petroleum income taxes. Meanwhile revenue from taxes on international trade and transactions rose by 5.4% almost in line with growth in imports. Capital revenues were bolstered by land sales, while the government garnered substantial grants from bilateral and multilateral sources, including the Republic of China, Venezuela and the Basic Needs Trust Fund.

There was some slippage on the expenditure side consequent on higher outlays on goods and services, usual wage settlements to keep them in line with inflation, spending on relief and rehabilitation in the wake of Hurricane Dean and election spending. Outlays on goods and services catapulted 50.8% to 6.3% of GDP, reflecting reclassification of some capital spending and procurement of supplies in the aftermath of the hurricane. The 5.1% wage increase was moderate given the level of inflation. Meanwhile, capital expenditure expanded by almost 62.3% to reach 6.3% of GDP, up from 4.2% in 2006.

Mindful of the need for sustainable management of petroleum resources, Parliament established a Petroleum Revenue Management Fund in 2007. From fiscal year 2008/09 all government revenues from the exploitation of petroleum will be paid into the fund. A portion of the funds will be invested to generate a revenue stream for the benefit of the population, while part could be used for government projects and budget support, but not for current outlays or debt repayments.

The debt situation remains the critical macroeconomic challenge to growth and stability. The debt restructuring during the year has extended the maturity profile of the debt, providing fiscal space for a structured programme to return to debt sustainability, improved sovereign credit rating and thus created potential market access to credit at favourable terms. Under the mechanism, $1,134.3 million of government debt was restructured by paying down an initial portion, and the remaining $1,082.0 million converted into a ‘super-bond’. Importantly this new debt will be subjected to step-up interest rates over time, and this underscores the need for a ‘front-loaded’ fiscal consolidation programme to guarantee medium to long-term debt sustainability. To achieve this goal, the authorities are targeting a primary surplus of over 3% of GDP in the medium term and attempting to increase external reserves.

(b) Monetary and exchange rate policy

Despite the deceleration in economic activity and rising but moderate inflation, there was significant monetary expansion during the year fuelled by a surge in credit and foreign exchange inflows. Money and credit expansion was facilitated by the fact that the Central Bank’s cash reserve requirement remained stable at 10%. Despite the expansion in the money supply, monetary policy was relatively neutral in 2007, following the tightening in 2006.

Major monetary aggregates expanded in 2007, as evidenced by a 15% rise in broad money to 68.5% of GDP. Both the foreign and domestic components of the money supply expanded, as net foreign assets were boosted substantially by tourism receipts, remittances and FDI, while domestic credit increased by over 14% to 70% of GDP. Notably, net foreign assets of the commercial banks expanded by almost two and a half times, in spite of the spike in credit growth. The money supply (M2), (up to 68.5% of GDP from 62% of GDP in 2006) was driven by a rapid accumulation of time deposits held by individuals and the Belize Social Security Board (BSSB).

Credit growth was boosted in part by demand for private credit to households, which tends to feed through into imports, worsening the balance of payments position. However, in a welcomed development, credit to tourism, banana production and marine products also increased, providing a boost to productive activity.

After easing due to tourism receipts and other inflows in the first quarter of the year, banking system liquidity tightened during the rest of the year. Weighted average deposit interest rates rose during the year, associated with more intense competition in the banking system, as banks sought to attract large depositors. The weighted average interest rate spreads narrowed by 20 basis points to 8.3%, the lowest margin in 16 years.

A favourable outcome during the year was the pick of activity in the nascent inter-bank market, marking the year as the most active since the start of the market in 1995. Incentive for activity on the market was provided by cut in rates from 17% to 11% in 2006. The development of the market points to the direction of more market oriented instruments of monetary policy in the future and is also an important pillar of the development of money and capital markets.

Meanwhile, the external assets coverage ratio, which provides protective cover for fixed peg and has a stipulated benchmark of 40% of currency notes and coins issued, stood at 47.3% at the end of the year. The Central Bank made net foreign exchange purchases of $6.7 million during the year. Inflows were bolstered by loans and grant receipts, but were offset by a large payment on the restructured external debt.

Belize's exchange rate peg continues to provide an important anchor for macroeconomic policies and expectations. The real exchange rate depreciated in line with its nominal anchor the United States dollar.

3. The main variables

(a) Economic activity

Economic growth decelerated in 2007 to 1.6% compared with 5.3% in 2006. Despite a pickup in services, recovery in construction and increasing oil production, the decline in agriculture and fisheries dampened overall activity. The critical agricultural sector was buffeted by hurricane Dean and its real output fell by over 7%. Particularly affected were the papaya and banana production. Sugar production also fell because of poor crop quality due to heavy rainfall and froghopper infestation. Fisheries were badly affected following a bankruptcy in the aquaculture industry and thus lower output particularly in shrimp farming. On the other hand, citrus output slightly expanded and oil production increased by 250,757 barrels or 31.5% due to more intense exploitation, however, it did not boost the economy as much as in 2006.

The nascent manufacturing sector dealt a further blow in 2007 with the almost imminent closure of Williamson Industries Limited, a garment producer for the US market. With the end of the Caribbean Basin Initiative on the horizon, the company complained that without preferential access and due to higher costs in Belize, its operations would not be profitable.

Tourism has the potential to provide an important additional pillar for a diversified economy. The authorities have recognized the potential of the sector, serving a high-end niche market, and have embarked on a programme to strengthen the sector, including the upgrade of the main airport, more intense marketing and the creation of the Belize Tourism Development Fund.

In 2007, stay-over arrivals increased by a modest 1.6%, while cruise passenger arrivals posted for the third consecutive year a decline, partly reflecting the active hurricane season that led to home porting and deployment of ships to the Mediterranean. The sub-prime mortgage crisis in the United States and higher fuel costs also affected this sector.

(b) Prices, wages and employment

The rate of inflation (November-on-November) increased by 4.1% in 2007 (3.0% in 2006). All sub-indices registered higher prices, however, the major drivers of inflation were fuel and power, transport and communication and food and beverages. Rent, water, fuel and power increased sharply by 5.9% reflecting the hike in butane costs, as rent and water rose marginally. Transport and communication costs rose by 3.4% mainly on account of a surge in costs in the last quarter, as price increases were contained in the first three quarters. Food and beverage costs increased by 5.8% propelled by a significant increase in the price of corn, wheat and other staples partly associated with the use of grain for bio-fuels. Meanwhile, more modest price increases were recorded for household goods (1.7%), personal care (0.8%) and recreation and education (0.3%).

Redounding to improved social welfare, the rate of unemployment fell from 9.4% in 2006 to 8.5% in 2007. Agriculture remained the largest employer with 19.8% of the employed labour force, however, job growth was most dynamic in the distribution sector (up by 39%). Nevertheless, the seasonal nature of some jobs in some primary activities is a cause for concern and measures are needed to provide more stable jobs for persons in these activities.

(c) The external sector

The balance of payments current account experienced an important shift from a surplus of 0.7% of GDP in 2006 to a deficit of 1.7% of GDP in 2007. Although growth in imports slowed in line with reduced economic activity, merchandise exports were barely up by 0.3%, compared with a 31% rise in 2006. All the major domestic exports contracted with the exception of petroleum, reflecting hurricane damage in the agricultural sector, especially papaya, banana and citrus and the effects of disease infestation in the sugar sub-sector.

Pinned back by the slowdown in domestic accumulation, import growth slowed in 2007. Imports of the Corozal Free Zone (CFZ) were up by 18%, those of the EZP companies declined sharply on account of lower demand and reduced capital investments.

The services account improved due to a 7.2% rise in tourism receipts explained by an increase in stay-over visitors and higher average daily spending. In contrast, net payments on the income account expanded by 19% due to higher profit repatriation, private sector interest payments and reinvested earnings. However, current transfers were bolstered by substantial receipts from donor governments. There is a clear need to raise the productive use of these funds so a sizeable portion can contribute to improving the productive capital stock in the country.

The capital account surplus contracted to US$4.1 million or 0.3% of GDP (from US$9.2 million or 0.8% of GDP in 2006) as there was no repeat of debt forgiveness by the British government as in 2006. The surplus on the financial account increased though reflecting inflows of FDI into tourism, real estate, electricity and aquaculture projects and higher reinvested earnings by the banking sector, which suggested a vote of confidence in the economy, especially after the debt restructuring. Meanwhile, the overall balance of payments surplus more than halved to US$22.9 million. Gross international reserves increased to reach US$108.5 million, covering 2.3 months of imports of goods and non-factor services.

Table 22
BELIZE: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
			Output growth rates (Percentage)				
GDP	4.9	5.1	9.4	4.6	3.0	5.3	1.6
GDP per capita	2.7	2.1	6.0	0.9	-0.1	1.9	-1.7
Agriculture[a]	-2.0	3.3	15.5	11.9	-0.9	0.9	-7.7
Fishing	4.3	-7.0	110.3	5.5	9.8	-16.1	-33.5
Manufacturing[b]	-0.4	1.1	-0.5	11.8	-4.1	35.3	13.5
Electricity and water	0.3	2.7	8.5	-1.5	-0.6	38.2	-0.6
Construction	1.3	3.7	-17.8	4.5	-3.6	-6.5	0.6
Wholesale and retail trade	7.3	4.0	1.4	-0.1	5.4	2.0	5.1
Hotel and restaurants	13.5	2.5	14.6	8.3	4.4	-0.7	2.7
Transport and communication	11.9	11.3	8.6	5.0	8.8	6.0	5.4
FISM[c]	48.0	40.9	32.6	4.1	9.8	4.6	…
Producers of government services	5.8	3.9	6.3	1.3	1.4	-4.5	1.2
Other private services	0.1	8.0	8.3	5.3	5.8	4.4	4.4
			Prices and unemployment (Percentage)				
Inflation (year end)	1.1	2.3	2.6	3.1	4.2	3.0	4.1
Lending interest rate[d]	15.5	14.8	14.4	13.9	14.2	14.2	14.3
Deposit interest rate[d]	4.4	4.3	4.8	5.2	5.4	5.8	6.0
Unemployment rate	9.1	10.0	12.9	11.6	11.0	9.4	8.5
			Central Government operations (Percentage of GDP)				
Total revenue	27.7	30.4	22.8	24.3	23.9	24.8	30.2
Current revenue	26.2	28.9	21.6	21.4	22.9	23.3	25.6
Tax revenue	23.9	26.5	19.0	19.4	20.5	21.2	22.7
Capital revenue	0.7	0.2	0.9	1.3	0.4	0.4	1.1
Total Expenditure	39.3	34	31.9	30.7	30.9	26.7	31.4
Current expenditure	30.6	26.9	20.0	22.5	25.2	22.7	25.1
Interest payments	10.1	6.3	4.0	5.8	6.7	5.8	5.3
Capital expenditure	8.7	7.2	11.9	8.2	5.7	4.2	6.3
Global balance	-11.6	-3.6	-9.0	-6.3	-7.0	-1.9	-1.2
Primary balance	-1.5	2.8	-5.0	-0.5	-0.3	3.9	4.2
Public debt	68.7	79.3	96.3	99.7	99.5	93.5	89.4
External	56.8	70.1	83.3	86.5	87.0	81.2	76.7
Domestic	12.0	9.2	13.0	13.2	12.5	12.4	12.7
			Balance of payments (Millions of US$)				
Current account balance	-184	-166	-176	-156	-151	-16.2	-42.6
Trade balance	-209	-187	-207	-173	-231	-185	-213.6
Exports	269	310	316	307	325	427	428.5
Imports	478	497	522	481	556	612	642
Services balance	43	44	70	88	143	224	231.7
Income balance	-67	-69	-85	-117	-203	90	-136
Transfers balance	48	47	46	51.2	51.2	74	93.4
Financial account balance[e]	181	160	146.3	124	139	66	65.6
FDI	61	25	-11	111	126	103	110.4
Financial capital[e]	120	135	158	13	13.1	-37.3	-44.8
Overall balance	-3	-6	-30	-31	-12	50	22.9

Table 22 (continued)

	2001	2002	2003	2004	2005	2006	2007p
			Monetary indicators (Percentage of GDP)				
Domestic credit	56.6	51.0	57.5	64.1	63.3	64.5	70.7
To the public sector	11.9	3.2	5.7	10.5	9.3	8.7	9.0
To de private sector	44.7	47.8	51.8	53.6	54.0	55.8	61.7
Liquidity (M3)	..	..	..	..	..	..	..
Currency and domestic currency deposits (M2)	59.7	57.0	55.7	59.1	59.6	62.0	68.5
Foreign currency deposits	..	..	..	..	..	..	..
			Memorandum items (current prices)				
GDP (Millions of BZ$)	1,743	1,864	1,975	2,110	2,230	2,427	2,534
GDP (Millions of US$)	871	932	988	1,055	1,115	1,214	1,267
GDP per capita (US$)	3,413	3,548	3,643	3,754	3,846	4,049	4,090

Source: ECLAC on the basis of official data.
[a] Includes hunting and forestry.
[b] Includes mining and quarrying.
[c] Financial intermediation services indirectly measured.
[d] Weighted average.
[e] Includes capital account balance and errors and omissions.

D. EASTERN CARIBBEAN CURRENCY UNION

1. General trends

The economies of the ECCU continued to show positive growth for the sixth consecutive year. In 2007, preliminary data indicated that growth slowed to 5.2% from 6.3% in 2006 as many public and private construction activities geared towards the CWC were completed. In addition there was a significant contraction in the tourism sector, which actually declined by 0.6% in 2007 compared to 6% in 2006. Fuelled by hikes in oil and food prices, especially in the last quarter of 2007, the rate of inflation increased to 6.1% from 1.3% in 2006 and is expected to continue on an upward trend in 2008. Economic growth will continue to slow but remain positive in 2008, projected at 3.8%, mainly influenced by the slowdown in the United States economy and rising international oil, food and other commodity prices.

In 2007 growth was strongest in Anguilla (21%), St Vincent and the Grenadines (6.9%) and Antigua and Barbuda (6.9%) while Hurricane Dean, which struck in August 2007, negatively impacted on the growth rates of Saint Lucia (1.7% compared to 4.9% in 2006) and Dominica (1.8% compared to 3.8% in 2006). Despite the challenge of continuous volcanic activity in Montserrat, the economy grew by 2.8% compared to negative growth of 3.8% in 2006. Intermediate growth of 3% was recorded in both St Kitts and Nevis while growth in Grenada was 4.4%. The main impetus of growth continued to be the construction sector with spill over effects into mining and quarrying, transportation and communication, electricity and water and banks and insurance. Construction activity will remain robust in 2008 driven by the private sector and the Public Sector Investment Programme (PSIP).

Consumer prices increased in all member countries ranging from 3 percentage points in Dominica and Montserrat and as much as 7 percentage points in Saint Lucia. The aggregate central government overall fiscal deficit improved from 4.9% of GDP in 2006 to 3.9% of GDP in 2007 but is still above the target of 3% of GDP set by the Monetary Council. This outturn followed strong growth in current revenue and a decrease in current and capital expenditure as many infrastructure projects related to CWC were completed. The region reaped the benefits of the implementation of the value added tax (VAT) in Dominica and St Vincent and the Grenadines and the sales tax in Antigua and Barbuda. However, the high level of public sector debt remains a main challenge for the authorities as the debt to GDP of the currency union was as high as 94%.

Liquidity in the banking sector contracted somewhat as the increase in domestic credit driven by the private sector was double the increase in deposits. Net foreign assets declined by 6.2% reflecting a draw down on reserves by commercial banks to meet the higher demand for credit. The overall balance of payments surplus deteriorated from 2.3% of GDP to 1.0% of GDP, as the current account balance worsened mainly due to the increasing prices of imports. The current account deficit is expected to worsen even further in 2008 as these economies are highly dependent on oil imports.

2. Economic policy

In 2007, the main policy focus of the ECCU continued to be the unsustainable level of public debt and the current account deficit. These are critical in maintaining the stability of the Eastern Caribbean (EC) dollar and improving international competitiveness. High on the agenda is also rising inflation fuelled by the rising international price of oil, food and other commodities. Many member countries have implemented a number of policy responses to the rising cost of oil and food, albeit placing greater pressure on fiscal accounts.

(a) Fiscal Policy

The fiscal policy of the currency union was less expansionary than 2006 and hence resulted in a reduction in the overall deficit from US$200 million or 4.9% of GDP to US$173 million or 3.9% of GDP. The current surplus more than doubled in absolute terms to US$108 million (1.3% in 2006 to 2.5% in 2007) mainly reflecting the fact that current revenue expanded twice as much as current expenditure.

Current revenue increased by 11%, representing 28% of GDP and indicates successful results from the implementation of VAT in Dominica and St Vincent and the Grenadines and the sales tax in Antigua and Barbuda. A critical observation of the revenue collected from VAT is that it has the potential of offsetting the losses in revenue from international trade in the countries where the removal of international trade taxes is already implemented - a major requirement of the WTO.

Current expenditure grew by 6% to 25% of GDP, a marginal decline by 1.2 percentage points of GDP. Increases in personal emoluments and transfers and subsidies reflected the increase in salaries and incomes in some member countries. The increase in expenditure for goods and services was the result of the increasing price of oil related imports while interest payments increased slightly by US$8.9 million or 6%, more than half the increase in 2006 representing the caution in incurring more debt.

Capital expenditure declined by 0.5% to reach an equivalent of 8.7% of GDP, which mirrors the completion of CWC related-construction projects. Public sector activity focused on road development, airport improvement and low income housing. Antigua and Barbuda, St Kitts and Nevis and Saint Lucia reported lower overall deficits while larger deficits were reported in Grenada, Montserrat and St Vincent and the Grenadines. Dominica reported a lower surplus and Anguilla deteriorated from a surplus to a deficit.

At the end of 2007, the currency union debt to GDP ratio was 94%, a decline from 99.9% in 2006. This ratio was particularly high in St Kitts and Nevis (170%), Grenada (108%), Antigua and Barbuda (105%) and Dominica (102%). In nominal terms the aggregate public sector debt stock increased from US$4.0 billion in 2006 to US$4.1 billion in 2007. Central government debt increased by 6% to 80.4% of GDP. This high level of debt questions the achievability of the 60% debt to GDP target by 2020, set by the monetary council in 2006, constrains fiscal policy and the absorption of economic shocks. Moreover, some of the measures implemented by six member countries to combat the high food and oil prices - suspension of the common external tariff on selected items, safety net programmes, agricultural support and change in fuel pricing- will have serious implications for the fiscal accounts in 2008. The PetroCaribe agreement, an oil agreement between some Caribbean countries and Venezuela which partially defers the cost of oil imports, can have a positive impact on the economy dependent on the fiscal policy stance and the use of its concessional debt component.

(b) Monetary and exchange rate policy

In 2007, there was no change in monetary policy by the ECCU monetary authorities. Both the discount rate and interbank market rate remained at 6.5% and 4.5% respectively. The currency union maintains a fixed peg to the United States dollar at EC$2.70 to US$1.00 acting to stabilize the EC dollar. However, the depreciation of the United States dollar over the recent months has led to a decline in the EC real effective exchange rate, improving export competitiveness but at a cost of higher external payments.

Monetary liabilities of the ECCU increased by 9.8% to US$4.1 billion spurred by a 20.2% increase in domestic credit (mainly the private sector), a stronger growth than last year's increase of 16.5%. Commercial bank credit increased in all member countries except in Dominica and Montserrat.

The distribution of these credits by economic activity shows significant increases in lending to key drivers of economic growth. Commercial bank liquidity declined but remained high (excess reserves increased by 25% to US$92 million) as the increase in domestic credit was double the increase in domestic deposits. Net foreign assets declined by 6.2% to US$1.1 billion as commercial banks drew down on reserves to support the expansion in credit. Due to the drastic increase in domestic credit in Saint Lucia, its banking system recorded for the first time a net foreign liabilities position.

Broad money (M3) grew by 9.8% reflecting an 8.2% increase in foreign currency deposits, 7.2% increase in savings and 15.9% increase in time deposits. The weighted average lending rate declined by 0.4 point to 9.5%, due to intense competition for loans within the banking system while the weighted average deposit rate remained unchanged at 3%.

In 2007, the number of auctions on the Regional Government Securities Market (RGSM) increased to 33 (28 Treasury bills and 5 bonds) compared to 30 auctions in 2006 reflecting additional securities issued by the Governments of Saint Lucia and Grenada. Saint Lucia issued its first US dollar instrument in the form of a 10 year bond and the first 180 day Treasury bill. However, the value of the securities traded declined by 10% from US $246.4 million in 2006 to US$224.1 in 2007.

(c) Other policies

The ECCB is in the process of establishing the Eastern Caribbean Enterprise Fund which will provide venture capital and debt facilities as well as technical assistance for existing and star up enterprises. Furthermore, it also acknowledged that there was a need for new and different skill sets, work practices, infrastructure and incentives given that tourism and services surpassed export agriculture as the leading foreign exchange earners.

3. The main variables

(a) Economic activity

Economic growth slowed in 2007 to 5.2% compared to 6.2% in 2006 as the expansion in the construction sector compensated for the decline in the tourism sector. All member countries recorded positive growth rates ranging from 1.7% in Saint Lucia to 21% in Anguilla. Output in the construction sector increased by 6.0% in 2007 compared to the exceptional 12.4% expansion in 2006. This outturn was the result of the completion of many CWC related projects.

Tourism activity proxied by the hotel and restaurant sector contracted, resulting in negative growth of 0.6% in 2007 compared with 6% in 2006. This contraction was the result of a 3% decline in stay over visitors from the United States due to passport requirements for Americans travelling to the Caribbean and from increased competition from other holiday destinations. In addition there was a 14.9% decrease in visitors from the Caribbean stemming from higher intra regional air fares and fewer schedule flights about the region. A great disappointment was that the CWC did not yield the desired results on the tourism sector as the potential surge in visitor arrivals did not materialize. Despite the aggregate fall in stay over visitors by 2% owing to the downturn in arrivals from the United States and the Caribbean, total visitor expenditure increased by 4% largely reflecting the 25% increase in cruise ship passengers. Stay over visitors increased in Grenada (10.9%), Anguilla (4.5%) and Antigua and Barbuda (3.2%), while increases in cruise ship passengers were recorded in all countries, except Dominica. In 2008 additional airlifts in some member countries and a return of cruise lines to the ECCU are expected, thus allowing for projected growth of 7.5%.

Agriculture posted 2.8% growth in 2007 compared to 4.8% in 2006. Hurricane Dean which struck in August 2007 led to a contraction in banana production by 40% in Dominica and 10% in Saint Lucia, consequently, total revenue from the banana industry declined by 14.6% to US$27 million. There remains uncertainty over the banana industry as the WTO recently upheld a complaint brought by Ecuador regarding the EU banana tariff system. The potential erosion of trade preferences would have serious implications for the future of the industry. Production of cocoa and mace increased by 195% and 57%, respectively, explained by the steady recovery from Hurricane Ivan which hit Grenada in 2004. Nutmeg production fell by 11.6%.

The manufacturing sector expanded by 2.5% in 2007 compared to 1.2% in 2006. Marginal declines were reported in the production of soap, dental cream and rice, while increases were recorded in the output of toilet paper, paint, soft drinks and beers, paper boards and plastic.

(b) Prices, wages and employment

The rate of inflation for the currency union increased significantly from 1.3% in 2006 to 6.1% in 2007, stemming mainly from global increases in the prices of fuel and food. The food, fuel and light and transportation and communication sub-indices showed significant increases in all member countries. The pass through mechanism implemented by a few member States will continue to put upward pressure on the consumer price index as the international price of oil increases.

Public sector wages and salaries increased, in nominal terms, in Anguilla (20%), St Kitts and Nevis (5%) and St Vincent and the Grenadines (5%). In Antigua and Barbuda, the minimum wage increased from US$2.2 per hour to EC$2.8 per hour. Data on private sector wages is not available, however given the demand and the lack of local skilled labour in the construction sector it is assumed that wages increased in that sector.

(c) The external sector (current account, capital flows, external debt, international reserves)

Based on preliminary estimates, the overall balance of payments surplus for the ECCU receded from 2.3% of GDP in 2006 to 1% of GDP in 2007, attributable to a worsening of the current account deficit from 30.8% of GDP in 2006 to 35.3% of GDP in 2007. As a result international reserves declined to US$46 million at December 2007, the equivalent of 3.7 months of import cover. The maintenance of the balance of payments surplus was due to the substantial increase on the capital and financial accounts, which outweighed the deterioration in the merchandise trade deficit. Capital inflows increased by 53% on account of debt relief in St Vincent and the Grenadines. FDI increased by 17% or US$193 million reflecting investment in tourism-related construction projects. The increase in demand for domestic credit resulted in commercial banks increasing liabilities by US$144 million compared to outflows of US$111 million in 2006.

The merchandise account deficit widened by 15% to reach US$2.1 billion. This was the result of increase in import prices and the sustained solid economic activity. Exports increased by 10% in 2007, compared to the 3% decline in 2006 due to increases in re-exports in Antigua and Barbuda, Grenada and St Vincent and the Grenadines. The surplus on the services account declined by 8.2% as net outflows for transportation and insurance, government and other business services outweighed the 3.2% increase in net travel receipts stemming from the increase in cruise ship arrivals. Meanwhile the income account deficit improved from 5.3% of GDP to 4.8% of GDP as investment income increased, while the current transfer surplus decreased from 4% of GDP to 3.6% of GDP.

Table 23
EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006r/	2007a/
				Annual growth rates b/			
Gross domestic product	-1.2	0.7	3.3	3.9	5.6	6.3	5.2
Per capita gross domestic product	-2.0	-0.1	2.4	3.4	4.7	8.0	6.6
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	-8.4	6.8	-4.4	-0.9	-12.0	4.8	2.8
Mining	-6.3	-1.5	6.7	-6.2	16.3	36.9	22.1
Manufacturing	-0.4	-0.8	1.7	-2.6	9.0	1.2	2.5
Electricity, gas and water	5.6	1.9	2.9	2.8	1.4	3.0	7.8
Construction	-1.5	-2.5	3.8	4.9	19.6	12.4	6.0
Wholesale and retail commerce, restaurants and hotels	-5.3	-0.4	8.4	4.1	4.7	5.9	2.6
Transport and communications	-1.2	-0.6	2.9	8.0	6.2	5.6	6.8
Financial institutions, insurance, real estate and business services	0.8	3.3	2.6	6.0	6.2	7.5	8.4
Community, social and personal services	2.3	3.0	2.1	3.0	3.4	4.8	6.0
Balance of payments				**Millions of US dollars**			
Current account balance	-516	-595	-681	-523	-815	-1,246	-1,579
Merchandise trade balance	-1,004	-1,004	-1,176	-1,233	-1,481	-1,832	-2,112
Exports, f.o.b.	260	271	259	342	370	359	395
Imports, f.o.b.	1,264	1,275	1,435	1,576	1,851	2,191	2,507
Services trade balance	573	524	604	763	710	638	586
Income balance	-194	-215	-238	-267	-234	-216	-213
Net current transfers	110	100	129	220	188	164	159
Capital and financial balance c/	581	659	722	634	811	1,349	1,626
Net foreign direct investment	370	343	553	449	632	1,106	1,291
Financial capital d/	211	317	169	185	179	243	335
Overall balance	65	64	41	110	-16	92	46
Other external-sector indicators							
Gross external public debt (millions of dollars)	1,462	1,764	2,008	1,964	2,102	2,228	2,278
Gross external public debt (percentage of GDP)	53.1	63.7	67.6	59.9	57.2	54.5	51.7
Prices							
Variation in consumer prices				**Percentages**			
(December-December)	2.4	-0.1	1.0	2.7	4.1	1.3	6.1
Nominal deposit rate e/	4.3	3.7	4.6	3.2	3.2	3.3	3.3
Nominal lending rate e/	11.4	11.0	12.8	10.4	10.2	9.9	9.5

Table 23 (continued)

	2001	2002	2003	2004	2005	2006r/	2007
Central government				**Percentage of GDP**			
Total income f/	27.2	28.5	29.1	30.1	35.6	30.9	29.9
Current income	24.5	25.4	25.6	26.2	26.4	27.5	27.5
Tax income	21.1	21.8	22.3	23.1	23.7	24.7	24.8
Capital income	0.1	0.5	0.4	0.4	0.4	0.2	0.4
Total expenditure	34.4	37.0	34.0	33.7	33.4	35.8	33.7
Current expenditure	26.5	27.2	26.5	26.9	25.7	26.2	25.0
Interest	3.4	4.1	4.0	4.4	3.5	3.7	3.5
Capital expenditure g/	7.9	9.2	7.5	6.5	7.9	9.7	8.7
Primary balance f/	-3.8	-4.4	-0.9	0.8	5.7	-1.2	-0.4
Overall balance f/	-7.1	-8.5	-5.0	-3.6	2.2	-4.9	-3.9
Public sector external debt	53.1	63.7	67.6	59.9	57.2	54.5	51.7
Money and credit h/							
Domestic credit	73.5	73.4	69.1	69.6	73.3	77.4	84.2
To the public sector	-0.9	-1.1	-2.7	-2.2	-0.3	-1.5	-1.1
To the private sector	76.3	76.4	73.5	72.6	74.3	79.5	86.3
Liquidity (M3)	80.6	83.9	87.0	91.8	91.3	92.4	91.8
Currency in circulation and local-currency deposits (M2)	70.4	72.4	75.5	78.9	77.1	76.3	76.0
Foreign-currency deposits	10.2	11.4	11.5	13.0	14.2	16.1	15.8
				Memo Items (current Prices)			
GDP (Millions of EC dollars)	7,840.2	8,033.3	8,479.2	9,111.1	9,918.1	10,934.3	12,088.4
GDP (Millions of US dollars)	2,903.8	2,975.3	3,140.4	3,374.5	3,673.4	4,049.7	4,477.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
g/ includes net lending
h/ The monetary figures are annual averages.
r/ revised
… not available

E. GUYANA

1. General trends

During 2007, the economy of Guyana kept on a path of recovery and expansion, recording growth of 5.4%. This was a record figure for the last decade, especially after the stagnation period suffered between 2000 and 2005, when GDP growth averaged less than 0.2% annually. New investments and projects in several productive sectors (sugar processing, hydroelectric generation, gold and bauxite mining, oil extraction, etc.) aim to boost and sustain the current trend of economic growth for the next few years.

A major financial event for Guyana in 2007 was the drastic reduction in the level of the external debt, thanks to a wide forgiveness programme of multilateral debt. In this scenario, the central government's surplus in the primary balance widened to 10.0% of GDP while the overall fiscal deficit narrowed to 7.4% of GDP.[49] Efforts to keep the Guyana dollar's nominal exchange rate stable were quite successful, with an accumulated annual nominal depreciation against the United States dollar of just 1.2%.

However, there are concerns on how stable Guyana's economy is, regarding the impact of external negative factors, like the sustained rise in food and oil prices or the sub-prime crisis currently affecting the United States. Particularly worrisome are the large current account deficit, which amounted to US$232 million (21.6% of GDP) fuelled by the increase of expenses on imports, and the steep increase of the inflation rate to 14.1%, which is a major concern for the government because of its direct influence on economic and social welfare and development.

The expectation for 2008 is to maintain the positive trend of economic growth and, simultaneously, keep the inflationary pressures under control. GDP growth for 2008 is projected at 4.8%, lower than 2007 figures, while the inflation rate is targeted at 6.8%, less than half the level recorded in the past year. In order to be able to achieve those objectives, Guyana's economy needs to be strengthened against external shocks and efforts for fiscal consolidation and diversification of the economy should be systematically pursued.

2. Economic policy

The main objectives of economic policy during 2007 were to ensure sustained GDP growth, keep inflationary pressure at bay, and improve the public accounts balance, increasing revenues and narrowing the fiscal deficit. In this attempt, the monetary and fiscal authorities achieved mixed results. Real GDP growth (5.4%) was above the initial projection by the authorities (4.9%). Likewise, public revenues benefited from considerable expansion, while the fiscal deficit was narrowed. However, the inflation target (5.2%) set for 2007 was largely surpassed by the actual inflation rate (14.1%) and the trade deficit widened significantly reaching US$382 million (35.5% of GDP), constituting a worrisome situation regarding future economic stability and sustainability.

It is widely expected that in 2008 the government will keep applying policies aimed to ensure long-term growth and poverty reduction while improving fiscal accounts and keeping macroeconomic stability. In that sense, the government's commitment to the objectives established on the Poverty Reduction Strategy Paper (PRSP) settled with several multilateral organizations will be fundamental in order to undertake structural reforms and address infrastructure shortcomings, regulatory weaknesses and

[49] Guyana's Central Government defines "Primary Balance" as current revenues minus current expenditures plus interest payments.

fiscal limitations, among other key issues. It is also expected that ties with China, India and Brazil will further strengthen as a result of planned cooperation on trade and infrastructure projects.

(a) Fiscal policy

The introduction in January 2007 of a Value Added Tax, which alone collected G$21,329 million, allowed a considerable expansion of public current revenue, which rose to G$80,293 million, a 28.8% increase from the previous year. The good results reached by this newly introduced tax, contributed to the central government's positive current balance amounting to G$15,572 million. In addition to that, capital revenues and grants amounted to an accumulated G$11,136 million, a considerable reduction from the G$17,525 million obtained in 2006. This happened because the review of the process of extending non-project grants by specific donors, leading to lower disbursements, the significant reduction in the Multilateral Debt Relief Initiative (MDRI) grants, and the decline in the HIPC flows. As a result, the accumulated current and capital revenues reached G$91,430 million (42% of GDP) during 2007.

On the other side, current and capital expenditures[50] increased by 4.1% and 2.6% for a total of G$107,614 million. This moderate increment on public expenses, at a slower pace than the increment in public revenues, resulted in an improvement in the overall balance, reducing the fiscal deficit, which amounted to G$ -16,185 million, down from that of 2006 (G$ -24,016 million). Consequently, as a percentage of GDP the positive primary balance rose to 10%, while the overall fiscal deficit decreased from 13.1% to 7.4%.

The fiscal gap between revenues and expenditures was financed mainly through external borrowing, which amounted to G$16,588 million net and was primarily allocated to project loans. However, as a consequence of the debt forgiveness process undertaken under the MDRI, the outstanding external debt decreased by 31.2% from December 2006 to December 2007 and amounted to US$718 million or 66.8% of GDP.

(b) Monetary and exchange-rate policy

Interest rates applied by the Bank of Guyana were subjected to marginal reductions along the year, with its bank rate descending from 6.75% in December 2006 to 6.5% in December 2007, while the Treasury Bill discounts rates suffered similar reductions. However, while the passive interest rate by commercial banks were marginally lowered, active interest rates rose slightly, with the prime lending rate used by commercial banks increasing from 14.54% to 14.71%, slightly widening the spread between active and passive interest rates.

In 2007, there was a marginal expansion in domestic credit, which reached an annual average equivalent of 20.5% of GDP, and whose expansion was mainly driven by private credits to households. Liquidity, as measured by money plus quasi money, also increased gradually, reaching a level equivalent to 75.1% of GDP at December 2007, when the total existence of money and quasi money in the economy amounted to G$163,399 million, a 13.6% increment from the G$143,776 million available at the end of 2006.

During 2007, the Bank of Guyana continued its efforts to improve the monetary framework, encouraging market competition and transparency. Thus, bank supervision was restructured adopting a more flexible and focused risk-based approach that replaced the old system, that was based on a

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[50] Capital expenses were linked to the execution of diverse social and public infrastructure projects, such as improving electrification coverage, upgrading generation equipment, and constructing a modern sugar factory and a co-generation plant as part of the Skeldon Complex Modernization Programme.

transaction-based approach. Improvement of liquidity management, development of inter-bank money and Treasury bill markets, and promotion of a secondary market for government securities were also among the central objectives of the monetary policy.

Guyana's monetary authorities continued in 2007 with their stabilization policy of the local currency, allowing for minor variations in the nominal exchange rate against the United States dollar. Therefore, the Guyana dollar was moved gradually to an exchange rate of G$203.5 to US$ 1 at the end of the year for an accumulated 1.2% nominal depreciation. However, if the inflation rate recorded during 2007 in Guyana (14.1%) and United States (4.1%)[51] is taken into consideration, the net outcome is equivalent to a real appreciation of the local currency. In relation with this policy of keeping the Guyana dollar loosely pegged to the United States dollar, it is important to mention that the persistent depreciation of the dollar against other world currencies meant that the Guyana dollar also depreciated against those same currencies, increasing the comparative cost of imports but also increasing the competitiveness of exports.

3. The main variables

(a) Economic activity

The economy of Guyana kept expanding in 2007, recording a real GDP growth rate of 5.4%, a positive outcome slightly above the results for 2006 (5.1%). Despite rising production costs, most economic sectors managed to achieve positive results. Sectors leading this favourable development were the ones related to the exploitation of mineral resources: mining and quarrying grew by 22.5% in 2007, recovering from the negative results of the previous year, when the sector's product fell by 21.6%. Strong increases in bauxite and gold production were the factors fuelling such performance. Transport and communication (13.0%), engineering and construction (5.7%) and financial services (7.1%) were other sectors with strong results. The development of several major public projects and increased activity in the private sector explains the positive evolution of the engineering and construction sector, while expansion and diversification of services offered by commercial banks and new investments in telecommunications explains the growth in transport and communication and financial services.

As a whole, the agricultural sector grew just 0.7% while its sub sectors had mixed results, principally as consequence of poor weather conditions. Rice production fell by 3.2%. On the other side, sugar and other crops increased their outputs, the same as livestock and fishing. Forestry was the subsector recording the most negative evolution in 2007, with 11.0% contraction. A considerable reduction in the output of greenheart logs was the main factor explaining this outcome. Moreover, the impending adoption of stricter environmental parameters and rules could damp the subsector's recovery during the next years

Manufacturing activities grew slightly (0.8%) in 2007, although several categories of articles recorded very high rates of increment or reduction in their outputs. Footwear output grew 233.4% rebounding from the exceptionally low levels recorded during 2006, while putty production reached an impressive 461% growth based on increased market demand. Other categories of goods, such as oxygen (78.7%), ghee (90.5%) and wine (33.6%) also recorded significant increases. On the other side, laundry soap (-67.5%), milk stout (-47.6%) and cereals (-36.4%) were the categories of goods which suffered major decreases in their volumes of production.

[51] U.S. Consumer Price Index (CPI) accumulated variation (December 2006 – December 2007).

(b) Prices, wages and employment

The inflation accumulated for 2007 (December on December) was 14.1%, according to the variation in the Consumer Price Index of Georgetown, a steep increment which tripled the 2006 figures (4.2% inflation) and well above the official target (5.2%), reflecting the higher costs of essential supplies like oil and foods. Consequently, the sub-group indices of foods, beverages and tobacco recorded a 20.6% increment in prices during 2007, the highest annual increment in the last decade. Other categories recording major increments were medical services (18.8%), educational services (16.1%) and clothing (14.9%), all of them with significant social impact.

A key factor influencing the Consumer Price Index was the introduction of the 16% Value Added Tax in January 2007, which had an overall impact on costs and prices. Consequently, the inflation rate reached in that month was 6.6%, while for the rest of the year the cumulative inflation was only 7.0%. In the same sense, continuous increments in international oil prices considerably affected production and transportation costs, generating a chain-reaction increment of prices.

According to official estimations, the overall labour force reached 280,200 workers in 2007 compared with 279,100 in 2006 (an increase of just 0.4%), with economic growth allowing for some moderate improvements on private employment. However, employment in the public sector experienced an overall decline of 3.4% during 2007, with employment within central government falling by 17.7%.

(c) The external sector

The growing trade gap continued to be a major matter of concern, rising by 27.3% in 2007 and reaching an accumulated amount of US$382 million. In fact, although during this period exports increased by 16.4 % up to US$681 million, imports increased by an even higher margin (20.1%), up to US$1,062 million, mainly as a consequence of rising costs of essential imports like fuel, food and manufactured goods. In particular, import expenditure for consumer goods rose 30.5%, while expenditures on fuel imports rose by 19.4% and by 16.2% on capital goods.

Bauxite, gold, sugar and rice were the leading products among domestic exports during 2007, being responsible for 72.2% of the total export's value. Bauxite and gold exports, in particular, recorded impressive increases of 54.8% and 33.7%, respectively, reflecting the positive impact of increased investments in those sectors and high international prices, while rice exports also registered a significant increase in value (38.2%) and volume (31.7%).

This negative evolution in the trade balance was partially offset by a marginal improvement in the deficit of the services balance and the income balance, as well as a significant increment in net current transfers. The latter rose by 32.2% totalling US$287 million in 2007 (26.7% of GDP) driven by a significant increment in workers' remittances (US$279 million). The overall result was a current account deficit of US$232 million (21.6% of GDP), an improvement from the US$250 million deficit recorded in 2006 (27.4% of GDP).

During 2007, the capital account surplus experienced a decline, falling to US$239 million, 11.1% less than the US$269 million recorded in 2006.[52] Substantial increases in short, medium and long-term capital outflows explain this occurrence, despite net private investments rising to US$152.4 million. On the other side, capital transfers to the public sector expanded up to US$414.1 million, reflecting the considerable financial support received by the Guyanese Government through the MDRI.

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[52] Not including errors and omissions.

Overall, the outcome for the balance of payments in 2007 was a US$1.4 million deficit, down from the US$42.9 million surplus from the previous year. However, exceptional financing in the form of debt relief, debt restructuring and debt forgiveness operations generated an accumulated US$38.7 million, offsetting the deficit in the balance of payments. Consequently, Bank of Guyana's net foreign assets increased by 15% between December 2006 and December 2007, month in which the net international reserves topped US$254 million, an amount equivalent to 2.9 months.

Table 24
GUYANA: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
Output growth rates (Percentage)							
GDP	2.3	1.1	-0.7	1.6	-2.0	5.1	5.4
GDP per capita	2.0	0.9	-0.8	1.4	-2.3	4.8	5.0
Agriculture, forestry and fishing	3.4	3.4	-2.3	2.8	-9.5	6.5	0.7
Mining and quarrying	4.2	-6.9	-8.7	-6.5	4.5	-21.6	22.5
Manufacturing	2.5	10.9	-0.5	2.5	-13.8	5.1	0.8
Construction	2.0	-3.9	5.6	4.1	9.4	12.0	5.7
Distribution	0.5	-0.9	-2.6	1.9	15.0	10.1	8.8
Transport and Communication	5.4	4.5	4.9	3.6	9.4	10.0	13.0
Rental of Dwellings	2.2	0.0	3.2	1.0	6.1	9.6	3.5
Financial Services	-5.2	-1.0	1.0	1.0	6.4	7.9	7.1
Government	0.0	-1.0	0.6	1.2	2.0	2.0	1.0
Other services	3.0	0.0	2.9	1.4	7.0	7.9	4.9
Prices and unemployment (Percentage)							
Inflation (year end)	1.5	6.0	5.0	5.5	8.2	4.2	14.1
Lending interest rate[a]	16.8	16.3	15.0	14.5	14.5	14.5	14.6
Deposit interest rate[b]	7.1	4.8	3.9	3.5	3.4	3.3	3.2
Unemployment rate	..	..	..	..	..	..	..
Central Government operations (Percentage of GDP)							
Total revenue	37.0	40.5	37.3	39.5	41.3	43.6	42.0
Current revenue	31.1	32.2	31.5	33.0	34.0	34.1	36.9
Tax revenue	28.3	29.5	28.8	30.9	32.1	31.9	35.5
Capital revenue	6.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	47.6	46.1	46.5	46.4	55.6	56.7	49.5
Current expenditure	35.3	34.8	34.5	32.1	34.3	33.9	29.7
Interest payments	8.8	7.7	6.2	4.9	4.4	3.9	2.8
Capital expenditure	12.4	11.4	12.0	14.3	21.3	22.8	19.7
Global balance	-10.6	-5.7	-9.1	-6.9	-14.3	-13.1	-7.4
Primary balance	-1.8	2.0	-3.0	-2.0	-9.9	-9.2	-4.7
Public debt	220.2	224.6	198.4	183.7	188.4	155.3	98.7
External	181.2	185.8	154.9	141.6	147.3	114.0	66.8
Domestic	39.0	38.9	43.5	42.2	41.1	41.3	31.9
Balance of payments (Millions of US$)							
Current account balance	-133.8	-110.6	-90.6	-69.8	-158.0	-250.4	-231.8
Trade balance	-93.8	-68.2	-58.9	-57.7	-183.0	-299.9	-381.6
Exports	490.3	494.9	512.8	589.0	551.0	585.1	680.9
Imports	584.1	563.1	571.7	646.8	-784.0	-885.0	-1,062.5
Services balance	-20.4	-23.5	-19.9	-46.7	-53.0	-166.8	-137.0
Income balance	-63.6	-58.9	-52.1	-39.4	-39.0	-69.0	-45.0
Transfers balance	44.0	40.0	40.3	74.0	166.6	216.3	286.8
Financial account balance[c]	160.0	125.3	100.4	26.7	166.0	292.9	237.6
FDI	56.0	43.6	26.1	30.0	77.0	102.0	152.0
Financial capital[c]	104.0	81.7	74.3	-3.0	89.0	190.9	85.6
Overall balance	26.2	14.7	9.8	-43.1	8.0	43.0	-1.4

Table 24 (continued)

	2001	2002	2003	2004	2005	2006	2007p
			Monetary indicators (Percentage of GDP)				
Domestic credit	20.3	18.8	17.9	18.6	24.2	19.3	20.5
To the public sector	-17.3	-17.3	-10.7	-5.4	-1.9	-7.2	-6.6
To de private sector	43.4	41.7	34.9	30.6	31.8	31.4	30.9
Liquidity (M3)	..	..	..	..	..	..	..
Currency and domestic currency deposits (M2)	65.7	68.0	69.8	69.5	74.0	74.0	69.5
Foreign currency deposits	..	..	..	..	..	..	..
			Memorandum items (current prices)				
GDP (Millions of G$)	133,403	138,447	144,064	156,230	164,873	183,087	217,552
GDP (Millions of US$)	712	722	742	782	823	913	1,074
GDP per capita (US$)	958	966	986	1,036	1,087	1,201	1,408

Source: ECLAC on the basis of official data.
[a] Arithmetic average, Prime Lending Rate.
[b] Arithmetic average, Small Savings Rate.
[c] Includes capital account balance and errors and omissions.
p = preliminary figures.
.. = not available.

F. JAMAICA

1. General trends

Jamaica posted a moderate GDP growth rate of 1.2% in 2007, which was below expectations. The current account deficit widened significantly and annual price inflation rose to 16.8%, almost three times the 2006 level. A combination of negative externalities, such as the Hurricane Dean or the continuous increase in the international prices of Jamaica's main imports, mainly explains the slowdown in the economy.

A general election held in September 2007 resulted in a change of government, with the Jamaica Labour Party coming into office after 18 years of uninterrupted rule by the People's National Party. The new government has established as main objectives for its economic and financial policies the increase of GDP growth, the reduction of the public debt burden and the control of price inflation. However, with just over 50% of the budget already dedicated to service the external and domestic public debt, freedom for fiscal and economic manoeuvres is quite constrained, making a priority the implementation of structural measures like a comprehensive tax reform, an expenditure improvement or a reduction in debt-service obligations.

The challenging international environment, especially relevant considering the vulnerability of Jamaica's economy to external shocks, complicates perspectives for 2008. This high exposure to external shocks advises caution in the setting of economic goals, which has been reflected in the official forecast for GDP real growth for 2008, in the range of 2.5% to 3.5%, and the expectation for a recurrent current account deficit and a negative central government balance.

The government's success against criminal activities will be another key factor to provide economic, political and social stability to the country. Currently, Jamaica has one of the highest murder rates in the world and the economic impact of criminal activities is not to be dismissed: according to the United nations Office on Drugs and Crime (UNODC), the overall cost of crime is equivalent to 3.7% of Jamaica's GDP, and the rise in criminal activities is specially affecting the tourism sector, which is highly sensitive to safety and security issues.

2. Economic policy

It is expected that economic policies will keep following the parameters set by the Memorandum of Understanding (MOU), agreed between the government and the Jamaica Confederation of Trade Unions, regarding macroeconomic management, wage adjustments and employment, productivity enhancement, and expenditure restraint, among other leading economic concerns.[53]

(a) Fiscal policy

The fiscal targets set for 2007[54] aimed primarily at keeping a controlled current balance deficit of 2.2% of GDP, a positive primary balance of 4.5% of GDP, a interest payments to GDP ratio of 10.3% and a non-interest expenditure of 18% of GDP. Although it was possible to reach better than expected results in the primary balance (4.8% primary surplus accumulated to December 2007) the current balance deficit was 2.5% for the same period, reflecting increased recurrent expenditures.

[53] The third Memorandum of Understanding (MOU III) was signed on April 18, 2008.
[54] Corresponding to Quarters 1 to 3 of fiscal year 2007/08

As reflection of the difficulties in previous years to achieve a fiscal balance, the central Government aimed for an overall deficit of 4.5% of GDP as the target for the whole fiscal year 2007-2008.[55] However, up to December 2007 the accumulated deficit amounted to 5.2%, a result better than expected for that period (5.8%) reflecting an improvement in revenues and conservative capital expenditure. Between April and December 2007 the bauxite levy (26.8% over the target) and the capital revenue (36.4% over the target) led the increase in the budget income against a serious drop in revenue from grants (-34.5%), while on the side of expenditures, programmes increased most (21.27% over the target).

This fiscal deficit was mainly financed with the issue of domestic debt instruments, which increased by J$44,496 million (or 6% of GDP) between March and December 2007, but also with the use of external instruments such as the reopening of Jamaica's 2039 Eurobond, which allowed collection of US$150 million to finance the central government budget.[56] Similar operations concerning Government guaranteed debt also increased the level of external debt.[57] As a result, the external debt stock rose to US$6,123 million at the end of 2007 (56.8% of GDP). Given Jamaica's considerable domestic debt, however, the overall debt stock to GDP ratio (including domestic and external debt) as of December 2007 was 129.1%, a slight improvement from the 132.4% recorded in March 2007. In fiscal year 2007/08 the service of the external and domestic public debt rose to over US$3,000 million or 28% of GDP. A successful renegotiation and reduction of debt burden would thus allow freeing public resources, redirecting them to social and infrastructure investment, stimulating economic growth and social development and strengthening Jamaica's economy against negative external shocks.

(b) Monetary and exchange-rate policy

The monetary management in 2007 faced growing challenges generated by adverse international and domestic conditions. The global rise in prices of vital commodities and the unrest in the international financial markets fuelled by the sub-prime mortgage crisis in the United States are the main external factors explaining the instability in the money and foreign exchange markets, and the rising inflationary pressures. In the domestic front, the impact of Hurricane Dean and the political uncertainty surrounding the change of government are the key factors explaining the monetary and financial instability that Jamaica faced during 2007.

The monetary authority's response to this challenging environment focused on the stabilization of the foreign exchange and money markets, while keeping inflation at bay. Therefore, the Bank of Jamaica intervened regularly using a number of tools, such as sales of foreign currency, the offering of its regular open market instruments, and the emission of special variable rate instruments, in order to support the exchange rate and control inflationary pressures, which became stronger in the second half of 2007. This monetary policy, based on stabilizing the Jamaica dollar, caused a sensible reduction in the level of international reserves. In 2007 the international reserves diminished by a flow of US$ 440 million, as a result of the continuous interventions in the foreign exchange market to support the exchange rate stability.

The nominal depreciation (December-December) of the Jamaican dollar against the United States dollar in 2007 rose to 6.2% compared with a nominal depreciation of 3.6% in 2006. The average annual exchange rate[58] was J$69.06 per US$1 for 2007, while the real effective exchange rate (multilateral) depreciated until November 2007 and then started to appreciate.

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[55] Jamaica's Fiscal Year runs from 1 April to 31 March.
[56] In December 2007 the outstanding amount on this bond was US$500 million.
[57] For example, in June 2007 Air Jamaica issued a US$125 million bond guaranteed by the Government.
[58] The average annual exchange rate is calculated as a simple average of all daily exchange rates for the respective year.

Under these circumstances, the expansion of the monetary base was slowed down. During 2007 the monetary base was increased by 12.6%, compared to a 17.3% increment in 2006, while the target expansion for 2007 was established at 11%. The expansion in the monetary base was caused by a net increase of 11.6% in currency in circulation and 16.5% in local currency cash reserves of the banking system. In 2007 domestic credit continued to grow, with a 13.7% increment between December 2006 and December 2007, while commercial bank liquidity declined. Simultaneously, the Bank of Jamaica kept the rates on its regular open markets instruments unchanged in order to prevent a widening in the interest rate differential in the case of interest cuts by the United States Federal Reserve.[59] However, interest rates on Bank of Jamaica's special instruments were progressively increased during 2007.

3. Evolution of main variables

(a) Economic activity

Real growth during 2007 decelerated largely as a direct consequence of several internal and external adverse events, such as Hurricane Dean, which hit the country in August and was followed by heavy rainfalls and flooding, heavily affecting the agriculture and mining sectors. Other negative factors were the continued increase in the price of several key imports such as oil and grains, and the political tension and uncertainty surrounding the general elections held in September. As a result, Jamaica's real GDP grew 1.2% in 2007, less than half the rate achieved in 2006 (2.5%).

The sectors leading economic growth during 2007 were construction and installation, financing and insurance services, real estate and business services. With 5.4% growth, the Construction and Installation sector was able to recover from a previous decline during 2006, thanks to the sustained expansion in the country's tourism and telecommunication infrastructure and residential construction.[60] Financing, insurance services, real estate and business services grew by 3.4% in 2007, reflecting the dynamic performance of financial institutions, especially the commercial banks.

The sector with the most negative performance was the agricultural sector, which suffered the impact of Hurricane Dean, which destroyed and extensively damaged domestic and exports crops.[61] Prolonged rains and floods during the following months worsened the damages, explaining the 5.0% contraction of this sector. Mining and quarrying was another sector considerably affected by the hurricane, which forced the temporary halt of activities in the bauxite and alumina industry and damaged production facilities. The mining sector subsequently recorded a contraction of 3.8% in 2007.

The manufacturing sector was able to achieve a growth of 0.9% for 2007, which is a partial rebound from the -2.4% recorded in 2006. The recovery was led by food and beverage processing activities, with increased production of poultry meat, condensed milk, sugar, beer and stout, as a result of improvements in production process and product innovation. Similarly, the cement industry increased its output during 2007 in response to the rising demand from the construction sector. On the other side, the petroleum industry suffered a decline because of higher production costs and the temporary closure of the sole processing plant for maintenance at the end of the year.

The weak performance of the tourism industry during 2007 is a major concern for the Jamaican economy. Disappointing levels of tourist arrivals during the CWC in the first quarter of the year were further exacerbated by the revitalization of competing tourism destinations, and a marginal reduction in

[59] Between January and December 2007 the US Federal Fund Rate decreased from 5.25% to 4.25%.
[60] According to official sources, during 2007 the construction of eight hotel projects was initiated.
[61] It has been reported that 85% of the banana crop and 45% of the coffee crop, two key export products, were destroyed during August 2007.

the number of visitors from the United States. As a result, the output of hotels, restaurants and clubs increased by just 0.2%.

(b) Prices, wages and employment

The annual December-to-December inflation rate for 2007 was 16.8%, a steep increase from the level recorded in the previous year (5.7%) and the highest rate recorded in the last 12 years. This negative development can be largely explained by the global rise of oil and food prices, which directly affected domestic production costs and consumer prices. The damages to agricultural production due to Hurricane Dean also contributed to constrain the food supply and feed inflationary pressures. Other elements which helped to increase inflation were the depreciation of the exchange rate and the adjustments made to the national minimum wage (adjusted by 14.7% in 2007) and other administered prices.

The largest increases in prices during 2007 occurred in the categories of food (25.2%), housing (19.8%) and electricity, gas and other fuels (25.3%). It is worth mentioning the steep increase in prices of some essential items in the food category such as bread and cereals (30.9%), vegetables (35.5%) and starchy foods such as rice, pasta and potatoes (40.4%).

A new and revised Consumer Price Index was introduced in 2007. The new index base period is December 2006 and incorporates information and parameters from household surveys conducted between 2004 and 2005. As a result, the revised CPI uses an expanded and improved commodities basket, with 480 items, while the previous basket had scarcely 280 commodities.

In 2007 the labour force increased by 1.6%, with the total labour force amounting to 1,268,800 workers in October 2007 of which 55% were men and 45% were women. The unemployment rate averaged 9.9%, a marginal reduction from the levels recorded in the previous year. This reflected a net increase of 19,700 in the number of persons employed from October 2006 to October 2007. The male unemployment rate in 2007 averaged 6.2%, a slight drop from the level reached in 2006 (7.0%), while the female unemployment rate averaged 14.5%, a value similar to the one recorded the previous year. The informal economy continues to be a major employer in Jamaica.

(c) The external sector

The overall result for the balance of payments in 2007 was a deficit of US$440 million, making it the first year since 2003 with an overall deficit, representing a meaningful variation from the positive result yielded in 2006 (a US$230 million surplus). In 2007 the current account balance increased dramatically its deficit to US$1,803 million (17% of GDP); a significant rise from the previous year's deficit of US$1,182 million (11.4% of GDP). This drastic deterioration is mostly explained by the increased deficit in the merchandise trade balance, as a consequence of the growing cost of imported goods. Spending on imported goods rose to US$5,770 million, a 13.7% increase from the previous year, while the accumulated value of exports increased by 9.9% and amounted to US$2,344 million.

Similarly, the income account recorded a deficit of US$809 million (7.6% of GDP), an increase of 31.5% over the 2006 figure, explained by the increment in the outflows of investment earnings. These adverse developments could not be totally compensated by other sources of income since the service balance suffered a serious decline during 2007 as a result of strong expansion in transportation costs and the marginal slowdown in revenues from tourist services. Adverse weather conditions during the second half of 2007 and the recovery of competing destinations were the main forces explaining this decrease in earning from tourism. Consequently, the net travel income amounted to US$1,542 million in 2007, declining from the US$1,596 million recorded in 2006.

The current transfer balance performed positively during 2007, with a net surplus of US$1,969 million (18.6% of GDP), driven by an expansion in remittances from Jamaicans living and working abroad. However, unlike past years, in 2007 it was not possible to offset the current account and the income account deficits with the surplus in the services and current transfer accounts. The current account deficit was financed by a capital and financial account surplus of US$1,363 million (12.9% of GDP). The result was a contraction in Jamaica's net international reserves, which fell from US$2,318 million to US$1,878 million between December 2006 and December 2007, reflecting a 19% reduction during that period and an import cover ratio of approximately four months as at December 2007.

Table 25
JAMAICA: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
				Output growth rates (Percentage)			
GDP	1.5	1.1	2.3	1.0	1.4	2.5	1.2
GDP per capita	0.9	0.6	1.8	0.5	0.9	2.1	0.7
Agriculture, forestry and fishing	6.3	-7.0	4.8	-8.7	-7.2	11.9	-5.0
Mining and quarrying	2.6	3.3	4.9	2.6	3.4	1.5	-3.8
Manufacturing	0.9	-0.9	-0.8	2.7	-1.3	-2.4	0.9
Electricity and water	0.7	4.6	4.7	-0.1	4.1	3.3	0.6
Construction and installation	2.3	2.6	1.5	5.4	7.3	-1.3	5.4
Transport, storage and communication	5.1	6.2	3.6	0.9	1.2	4.8	1.5
Distributive trade	0.0	0.1	1.0	1.3	1.1	1.4	2.6
Finance and insurance services	-8.3	6.2	4.3	-0.7	0.4	1.5	3.9
Real estates and business services	1.1	0.7	1.8	2.1	1.9	2.5	2.6
Government services	0.6	0.5	0.2	0.2	0.3	0.1	0.6
Miscellaneous services[a]	-1.1	0.5	4.8	4.1	3.0	9.9	0.6
				Prices and unemployment (Percentage)			
Inflation (year end)	8.8	7.3	14.1	13.7	12.6	5.7	16.8
Lending interest rate[b]	29.4	26.1	25.1	25.1	23.5	22.0	22.0
Deposit interest rate[b]	9.4	9.1	8.3	6.7	5.9	5.3	5.0
Unemployment rate	15.0	14.2	11.4	11.7	11.2	10.4	9.9
				Central Government operations (Percentage of GDP)			
Total revenue	27.5	28.6	31.7	32.0	30.9	31.0	33.2
Current revenue	26.2	26.7	30.1	30.1	29.3	30.3	31.4
Tax revenue	24.3	25.1	27.7	27.8	26.9	27.6	28.4
Capital revenue	0.8	1.6	1.5	1.1	1.4	0.5	1.2
Total Expenditure	33.2	36.3	37.8	36.9	34.3	36.4	38.1
Current expenditure	30.5	34.4	36.6	34.8	31.8	32.9	32.7
Interest payments	13.7	15.1	18.6	17.2	14.6	14.3	13.2
Capital expenditure	2.7	1.9	1.2	2.1	2.6	3.4	5.4
Global balance	-5.7	-7.8	-6.1	-4.9	-3.4	-5.4	-4.9
Primary balance	7.9	7.4	12.5	12.2	11.2	9.0	8.3
Public debt	130.2	136.9	139.6	140.6	136.8	135.8	129.1
External	51.1	51.3	51.2	58.0	57.4	57.1	56.8
Domestic	79.1	85.6	88.4	82.6	79.4	78.7	72.3
				Balance of payments (Millions of US$)			
Current account balance	-758.8	-1,074.0	-773.4	-509.2	-1,078.7	-1,182.4	-1,802.9
Trade balance	-1,618.2	-1,870.5	-1,942.6	-1,944.5	-2,581.3	-2,943.6	-3,426.2
Exports	1,454.4	1,309.1	1,385.6	1,601.6	1,664.3	2,133.6	2,344.3
Imports	3,072.6	3,179.6	3,328.2	3,546.1	4,245.6	5,077.2	5,770.5
Services balance	383.1	314.9	551.6	571.7	600.1	627.9	463.5
Income balance	-437.8	-605.3	-571.4	-582.5	-675.9	-615.3	-809.1
Transfers balance	914.1	1,086.9	1,189.1	1,446.2	1,578.4	1,748.6	1,968.9
Financial account balance[c]	1,623.8	832.1	341.8	1,202.8	1,308.1	1,182.4	1,803.2
FDI	524.9	407.2	604.4	541.6	582.0	796.8	..
Financial capital	1,098.9	424.9	-262.6	661.1	726.1	385.6	..
Overall balance	865.0	-241.9	-431.6	693.6	228.9	230.1	-439.9

Table 25 (continued)

	2001	2002	2003	2004	2005	2006	2007p
			Monetary indicators (Percentage of GDP)				
Domestic credit	41.6	40.2	43.4	43.3	39.9	34.9	35.1
To the public sector	35.1	31.9	32.4	29.6	24.4	17.2	14.8
To de private sector	8.7	10.2	13.0	15.2	16.2	18.2	21.0
Liquidity (M3)	39.3	39.6	38.3	39.1	38.1	37.6	38.9
Currency and domestic currency deposits (M2)	29.5	28.9	26.0	25.8	26.1	26.6	26.2
Foreign currency Deposits	9.8	10.6	12.4	13.3	12.1	11.0	12.6
			Memorandum items (current prices)				
GDP (Millions of J$)	373,284	410,133	472,906	540,086	605,030	681,928	772,339
GDP (Millions of US$)	8,101	8,449	8,163	8,805	9,680	10,351	11,184
GDP per capita (US$)	3,110	3,226	3,102	3,330	3,644	3,878	4,170

Source: ECLAC on the basis of official data.
[a] Includes hotels, restaurants and clubs.
[b] Average.
[c] Includes capital account balance and errors and omissions. For the years 2006 and 2007 includes change in reserves.

G. SURINAME

1. General trends

In 2007 the Suriname economy grew by 5.3%, led again by increasing mineral production, with the mining and quarrying sector expanding by 10.6% coupled with increasing international commodity prices. An overall fiscal surplus of approximately 2.5% of GDP was recorded, making it two consecutive years of surpluses. The Central Bank lowered its cash reserve requirement from 27% to 25% as well as its deposit rates in response to perceived macroeconomic stability; as a result, M1 increased by 22%. Expanding credit coupled with externally driven increases in the prices of food and fuel increased the year end 2007 inflation rate to 8.3% (4.7% in 2006). The current account exhibited yet another year of surplus, with the trade surplus expanding 16.15% in 2007. The government continues to focus on prudent fiscal policies in order to maintain a stable exchange rate and controlling the pressure on the inflation rate. In 2008, GDP is expected to grow by 5.5%.

2. Economic policy

The overarching economic policy aims are to maintain economic growth, export growth and sustainable debt levels. At the end of fiscal 2007 there was a slackening of some of the monetary and fiscal variables in response to the worsening international scenario.

(a) Fiscal policy

The fiscal accounts were very favourable in 2007. Current revenue increased for the fourth year running, owing mostly to the continued favourable international prices of minerals and metals. Total revenue increased by 14.6% over 2006 and represented 40.6% of GDP. Total expenditure increased by 10.3% to a size equal to 37.4% of GDP, whereas current expenditure increased by 16.9% to 32.3% of GDP, representing four consecutive years of increases. Direct taxation revenue increased 29.7% over the 2006 figure or 15.6% of GDP, mostly as a result of the increased tax take from the alumina, gold and oil companies. Rosebel, the gold mining company, has paid US$13 million in income taxes alone over 2007 and US$12 million in tax will come from the bauxite industry, and even this was lower than the expected amount. The primary surplus improved by 42% over 2006 to 5.2% GDP and the overall surplus more than doubled over the 2006 figure i.e., by 106.5% to 3.2% of GDP.

In light of the current fuel and food price concerns, some fiscal and other intrinsic regulatory measures have been taken to shield the most vulnerable groups in the country from these effects. Civil servants have been given a 10% salary increase; the personal income tax threshold has been increased from 1890 SRD to 2946 SRD, duties on CARICOM goods were moved to zero and the exports of rice are being regulated as a precaution against internal shortages, and only surplus amounts are exported.

A continuation of the prudent debt management policy embarked upon by the Suriname Debt Management Office was seen over 2007, with an emphasis on keeping overall debt levels sustainable. Government domestic debt to the Central Bank decreased by approximately 7.2% over the 2006 figure. The total general outstanding debt figure of the government has fallen nearly 16% during 2007. External debt levels have dropped nearly 24% during 2007, reaching low levels (14% of GDP) not seen since the beginning of the decade well within the constitutionally mandated range. There was a significant reduction of medium-and long-term debt because of the early full repayment of the loan to the NIO (Dutch Investment Bank for Developing countries) and also because of the settling of arrears to Spain and the start of payments of loan arrears to the United States.

The main goal for debt management is sustainability. Debt should not be used for recurrent expenditure, but only for productive or infrastructural projects. Specific limits have been placed on the amount of domestic and external debt that can be legally incurred. Payments of historic debt have been started or resumed in light of a favourable fiscal position, and in cases where payment may not be suitable, restructuring schemes may be pursued, e.g., the Debt for Investment Programme under discussion with Brazil at present. The Chinese funded infrastructural project mentioned before is an example of the type of debt Suriname is willing to incur. Debt was also incurred with India in the form of a credit line for technical services, agricultural pumps, military equipment and traffic control equipment. So far, debt management has yielded positive results with the joint ventures for profit policy bringing new investment into Suriname and arrears on old debts falling.

There are discussions to create a stabilization and heritage fund for Suriname that would be financed by windfall tax revenue from increased mineral production. This fund would serve the purpose of supplementing current expenditure in the event the government cannot meet fiscal goals, a source of capital, as well as a heritage fund for future generations.

In some sectors bureaucracy still appears to be a crippling issue, though some procedures have recently been relaxed. Simpler taxation and regulatory systems need to be put in place, which would minimize the cost of doing business and also the opportunity for corruption.

(b) Monetary and exchange rate policy

Liquidity (M2) expanded by more than 28% from 2006 to reach 36.7% of GDP. Net domestic credit expanded by 7.1% to reach 27.8% of GDP, fuelled mainly by an expansion in private sector domestic credit of 35.7%, which reached 33.8% of GDP in 2007. This expansion of private sector credit seems to reflect the current increase in demand for durable goods by the Surinamese, especially increasing demand for housing, which has been earmarked as a high growth sector. The Central Bank offers a special housing facility where funds from the Reserve Requirement are used to finance housing loans given at a 7% rate of interest, well below the market lending rate.

The Central Bank's monetary policies remained largely unchanged over 2007 with the main focus being inflation control. Market interest rates, however did not necessarily reflect this policy, as the mid-year lending rate had fallen to 13.9% from a 2006 average of 15.4% and deposit rates had similarly fallen from 6.6% to 6.4%. However, the Central Bank does not consider interest rates to be as important a policy measure as the reserve requirement. The reserve requirement settled at 25% for all banks except two small specialized banks (in, respectively, agriculture and small private credit as it is still in the process of meeting the Central Bank practice standards).

The official United States exchange rate remained virtually unchanged at approximately SRD2.75 per US$1 over 2007. In May 2008, the exchange rate in the commercial market came under some pressure due to speculation and the SRD was traded at SRD2.84 per US$1. Moral suasion from the Central Bank has sorted effect and the exchange rate has been almost back to the old level of SRD 2.80. The CBvS has no plans to officially devalue the currency however.

The financial system is considered strong enough to be able to weather the storm of externally driven inflation. The recent bout of inflationary pressure, with rates reaching 11.5% at the end of January 2008, however, has been attributed to rising food and fuel costs, which are deemed to be uncontrollable and policy must be altered to bear it as best as possible.

3. Evolution of main variables

(a) Economic activity

Total GDP increased by 5.3% over 2007, driven mainly by increases in the mining and quarrying sector, the construction sector and the transport and communication sector. The increase was slightly lower than the 2006 growth rate of 5.8%, but represents a continuation of sound economic performance for Suriname in recent years.

Mining and quarrying accounted for the biggest recorded increase among sectors with an increase of 10.6% to account for 8.5% of GDP. Production of the major minerals increased across the board. Bauxite production increased by 7.2%, while alumina production increased slightly by 2.1%, whereas crude oil production increased by 12.5% over 2007. Crude oil production is expected to increase over 2008 and 2009 with the expected exploitation of new offshore oil reserves.

The construction sector increased by 10.2% over 2007, accounting for 5.7% of GDP, representing the fourth consecutive year of growth for the sector that exceeded or was equal to 10% of GDP. A large number of government construction programmes, as well as a new emphasis on private housing construction had driven the sector. The government also intends to look at a number of infrastructural development programmes in the coming years, which suggests that the sector will continue to grow. However, the major infrastructural projects backed by foreign donors, since a key feature is that foreign contractors are tied to the financing scheme, can have the effect of crowding out local contractors, though few local contractors would have similar capabilities.

The transport and communication sector increased in size by 10.4% over 2007 to account for 15.7% of GDP. Increasing economic activity, especially in the construction sector, would have in turn increased demand for these services, as well as the lead up in 2007 to the liberalization of the mobile phone market in Suriname in which newly introduced player Digicel alone would have invested US$60 million.

Notably, after many years of stagnation, production of agricultural goods has received new focus, and achieved good results over 2007. The rate of growth of the sector over 2007 was 4.1%, the largest increase since 2002. It accounted for 7.3% of GDP in 2007. Under the EPA, especially, the banana and rice industry have performed well. With increasing amounts of technical and infrastructural development occurring in the sector, output is expected to significantly increase over the medium to long term.

(b) Prices, wages and employment

The CPI almost doubled over 2007, increasing by 8.3% over the December 2006 figure, which was 4.75% over the previous year (December-on-December). The projected rate of increase in the CPI is 12.7% for 2008. The annualized CPI for April 2008 has been recorded as 16.1%, with food and transportation being the main drivers, reflecting international price conditions for these sectors. Some private businesses feel, however, that increasing international prices are not necessarily a bad development, and that ways of increasing production of goods like rice, oil or gold need to be explored and taken advantage of while prevailing conditions allow. In light of these high price increases, Parliament has approved a 10% salary increase for civil servants.

The unemployment rate has not been reported to have changed from last year’s figure of 12%. With the new focus on large infrastructural projects, opportunities for employment are set to increase. Additional efforts to diversify and expand the production base of the country, especially in the agriculture and manufacturing sectors, have also been embarked on and could increase employment.

(c) External sector

The current account surplus improved by 61.3% over 2006, and was 10.4% of GDP. Exports of goods increased by 15.7% over 2006 to 76.1% of GDP, which was lower than the rate of increase of imports of goods, which amounted to 16.9% over 2006 or 66.3% of GDP. The service deficit, however, worsened by 236% moving from US$30.7 million to US$72.5 million or 4% of GDP. The main drivers of the favourable current account situation for 2007 were mineral and metal exports. Suriname also generates foreign exchange from the exports of bananas and rice, though the latter has been regulated. The Ministry of Trade is actively working to increase the export base of the country. The income balance recorded a surplus for the first time since 1999 and amounted to 0.4% of GDP, compared with a deficit of 3.1% of GDP. The transfers balance increased by 111% to 4.3% of GDP in 2007 from 2.1% of GDP in 2006. This may seem like a large amount but historical rates of increase and decrease for the variable are comparable. The capital account balance decreased by 57% to reach 0.5% of GDP. The financial account deficit decreased by 2.3% and amounted to 9.9% of GDP.

Table 26
SURINAME: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
			Output growth rates (Percentage)				
GDP	5.9	1.9	6.1	7.7	5.6	5.8	5.3
GDP per capita	..	1.2	5.4	7.0	4.3	..	..
Agriculture	11.4	-3.9	4.3	1.5	-0.4	-0.1	4.1
Mining	25.0	-8.6	0.0	31.2	15.4	18.0	10.6
Manufacturing	13.3	-3.6	5.6	9.5	4.8	0.8	2.9
Electricity, gas and water	2.1	10.3	-1.7	9.2	7.9	7.3	7.3
Construction	4.5	0.6	17.0	10.1	10.3	10.5	10.2
Transport, storage and communications	28.7	12.6	-0.4	14.0	10.6	10.8	10.4
Wholesale and retail commerce, restaurants and hotels	-14.5	8.4	32.2	6.0	6.4	6.3	6.3
Finance, insurance and real state	0.2	5.4	3.5	1.6	2.5	2.5	2.8
Community, social and personal services	2.0	1.1	0.2	1.3	1.9	1.8	1.8
			Prices and unemployment (Percentage)				
Inflation (year end)	..	28.4	13.8	8.4	15.8	4.8	8.3
Lending interest rate[a]	25.7	22.2	21.0	20.4	18.1	15.6	13.3
Deposit interest rate[a]	11.9	9.0	8.3	8.3	8.0	6.6	6.4
Unemployment rate	..	10.0	7.0	8.4	11.2	12.1	12.0
			Central Government operations (Percentage of GDP)				
Total revenue	17.2	18.8	23.8	27.3	31.8	37.3	40.6
Current revenue	15.8	18.0	22.6	25.9	29.8	33.9	39.6
Tax revenue	13.8	14.9	19.0	21.2	23.7	26.7	31.6
Capital revenue	..	9.1	9.2	10.3	11.4	..	..
Total Expenditure	17.0	21.9	23.1	28.1	32.5	35.7	37.4
Current expenditure	14.4	19.8	20.6	24.3	27.1	29.1	32.3
Interest payments	0.9	1.6	1.7	1.6	2.1	2.2	1.9
Capital expenditure	2.3	2.0	2.3	3.7	5.4	6.6	5.1
Primary balance	1.1	-1.5	2.3	0.8	1.4	3.8	5.2
Global Balance	0.2	-3.1	0.6	-0.8	-0.7	1.7	3.2
Public debt	31.9	48.7	42.5	41.5	38.9	29.6	23.2
External	26.8	34.9	30.3	26.3	23.3	18.3	13.5
Domestic	5.1	13.9	12.1	15.2	15.4	11.3	9.7

Table 26 (continued)

	2001	2002	2003	2004	2005	2006	2007p
			Balance of payments (Millions of US$)				
Current account balance	-116.3	-60.1	-140.9	-136.9	-143.6	114.6	185.0
Trade balance	15.6	52.5	-30.2	42.1	22.4	161.0	174.0
Exports	449.3	529.3	638.5	782.2	1,211.5	1,174.4	1,359.0
Imports	-433.7	-476.8	-668.7	-740.1	-1,189.1	-1,013.4	-1,185.0
Services balance	-116.0	-127.6	-132.6	-129.7	-147.7	-30.7	-72.0
Income balance	-80.0	-43.6	-49.1	-160.7	-40.4	-51.6	8.0
Transfers balance	63.4	58.6	71.0	64.3	22.1	35.9	76.0
Financial account balance[c]	150.2	61.9	140.3	174.9	94.9	-20.7	-7.0
FDI	-26.8	-73.6	-76.1	-37.3	27.9	-163.4	-247.0
Financial capital[c]	177.0	135.5	216.4	212.2	67.0	142.7	240.0
Overall balance	86.9	1.8	-0.6	38.0	24.1	93.6	177.0
			Monetary indicators (Percentage of GDP)				
Domestic credit	9.9	18.6	18.7	23.4	25.6	27.3	27.8
To the public sector	3.1	7.4	5.5	9.9	10.1	8.6	5.4
To the private sector	6.8	11.2	14.8	18.4	21.7	26.2	33.8
Liquidity (M3)	..	32.9	36.0	47.1	49.5	57.8	70.6
Currency and domestic currency deposits (M2)	26.2	20.0	19.0	24.0	25.9	30.2	36.7
Foreign currency deposits	..	13.0	17.0	23.1	23.5	27.7	33.9
			Memorandum items (current prices)				
GDP (Millions of SRD$)	3,585	3,654	3,876	4,174	4,408	4,664	4,911
GDP (Millions of US$)	1,304	1,329	1,410	1,518	1,603	1,696	1,786
GDP per capita (US$)	..	..	..	..	..	..	..

Source: ECLAC on the basis of official data.
[a] Simple average.
[b] Includes capital account balance and errors and omissions.
p = preliminary figures.
.. = not available.

H. TRINIDAD AND TOBAGO

1. General trends

Despite the continuous rising trend that drove energy prices to historically record highs in 2007, Trinidad and Tobago's economy recorded a marked slowdown growing by 5.5%, well below the impressive 12.2% posted in 2006. This was mainly explained by the sharp decline in the dynamism of the energy sector that accounts for more than 40% of GDP. On the economic policy side, rapid growth in capital spending associated with public infrastructure projects made fiscal policy rather expansionary resulting in a reduction of the fiscal surplus to 2.6% of GDP in fiscal year 2006/07 (6.9% in fiscal year 2005/06). In order to offset the impact of fiscal policy on prices, monetary policy was conducted conservatively, recording an inflation rate of 7.6% (year end), two percentage points less than in 2006. The nominal exchange rate remained stable, but the tendency towards real appreciation continued. Meanwhile, the current account surplus declined by almost seven percentage points of GDP to 18.6%. General elections held in November 2007 re-elected the People's National Movement (PNM), so no major policy changes are expected.

Looking ahead, the main economic policy challenge in the coming years is how to use the current energy windfall to support long-term economic growth while at the same time expanding proven gas reserves. The government would continue to follow the basic elements of the "Vision 2020" development plan, which implies continued expansion of public investment financed by energy revenue to fund infrastructure projects and social spending. As regards economic growth, available information indicates a GDP growth rate of 5.5-6.0% in 2008, as the energy sector is expected to recover momentum and the non-energy sector continues to be supported by government and private spending. High and rising energy prices are expected to continue feeding fiscal and current account surpluses. On the downside, inflationary pressures associated with food prices and the expansionary fiscal policy will continue to challenge the capacity of the Central Bank to keep inflation under control.

2. Economic policy

(a) Fiscal policy

Not including transfers to the Heritage and Stabilization Fund (HSF)[62], an oil stabilization and savings fund, the overall fiscal balance in FY 2006/07[63] posted a surplus of 2.6% of GDP, well below the 6.9% recorded in FY 2005/06. Revenue grew by around 1.7% in nominal terms led by tax collection. Notwithstanding, outlays growth outpaced revenue expansion, increasing by 2.5% driven by capital spending associated with ongoing infrastructure projects.

However, in countries abundant in natural resources such as Trinidad and Tobago, the non-energy fiscal balance provides a better picture of the fiscal stance. In FY 2006/07, the non-energy fiscal balance posted a deficit of 15.4% of GDP, similar to that recorded in FY 2005/06 and the one foreseen in the budget for FY 2007/08. Despite these figures, however, the expansionary nature of the fiscal policy can be better realized considering that in FY 2002/03 the non-energy fiscal deficit was less than half that of recent figures, reaching 7.6% of GDP. Moreover, given that non-energy tax revenue has grown between 2003 and 2007 (84% in nominal terms), public capital spending has multiplied by a factor of 8.

[62] Including interest receipts, the HSF currently holds resources equivalent to 8.5-9% of GDP.
[63] The fiscal year runs from 1 October to 30 September.

Unlike most Caribbean countries, public debt is not a major concern in Trinidad and Tobago. At the end of 2007 the public debt to GDP ratio stood at 17.1% of which approximately two thirds were domestic debt.

(b) Monetary and exchange rate policy

The combination of high imported food prices and expansionary fiscal policy put upward pressures on domestic prices. To keep inflation under control, the Central Bank took a conservative position that helped to reduce the inflation rate to 7.6% in 2007 (9.6% in 2006). Indeed, when annual inflation hit 10% in October 2006, the Central Bank shifted its tool to curb inflation from increases in interest rates to liquidity absorption. The rationale for this is that changes in the benchmark interest rate have little effects on market rates in the presence of excess liquidity. This took effect in a monetary policy that combined the maintenance of the benchmark interest rate (“repo”) constant at 8% – which meant a near zero real interest rate – with the significant issuance of long-term securities. Thus, from November 2006 to the end of 2007, special sterilization government bonds were issued in the amount of US$3,103 million, maturities between 5.5 and 10 years, and coupon rates ranging from 6% to 8%.

This contributed to the moderation of the expansion of monetary aggregates to 11% in the case of M1 (12.8% in 2006) and to 13.6% in the case of M2 (21.7% in 2006). Notwithstanding, domestic credit to the private sector increased by 22% in 2007, around 3 percentage points more than in 2006. Growth in consumer credit continued to outpace business credit (21.5% and 13.9%, respectively). It is worth noting that credit for the purchase of motor vehicles increased by near 50% in 2007.

The strong foreign exchange position fed by a booming energy sector, with international reserves that totaled some US$ 7.6 billion at the end of 2007 (US$1 billion more than at the end of 2006), allowed the Central Bank to maintain its quasi-fixed exchange rate regime – or dirty peg – keeping the nominal exchange rate at around TT$6.3 per United States dollar. Given the inflation rate differential, this meant a real appreciation of around 5% vis-à-vis the United States dollar in 2007. In trade-weighted terms, the recorded real appreciation between 2004 and 2007 was 9%.

The resurgence of core inflation in early 2008 – that posted an annualized rate of 5.7% in January – reinforced the need to absorb excess liquidity. This time, however, there was little room for further issuance of government securities due to the need for congressional approval for an increase in government debt ceilings. In this scenario, at the end of February this year the Central Bank opted for increasing the reserve requirement on commercial banks from 11% to 13% and to raise the repo rate from 8% to 8.25%. In March, commercial banks responded by increasing their lending rates by 50 basis points to 12.25%.

(c) Other policies

In the face of the intensification in the escalation of food prices, at the end of 2007 value added taxes were removed on more than 50 commodities while the CARICOM common external tariff was eliminated on almost 30 commodities. Currently, the government provides direct cash transfers to the poor through the Conditional Cash Transfer Programme or the TT Card, which involves the use of a debit card to buy selected food products. Some 18 thousand people participating in the Social Help and Rehabilitative Effort (SHARE) programme are eligible to receive cards.

3. The main variables

(a) Economic activity

The main reason for the cooling down of the economic activity observed in 2007 was the substantive decline in the growth of the energy sector, whose output amounts to 43.0% of GDP. Indeed, while it expanded by an impressive 21.4% in 2006, it increased only by 4.4% in 2007. This outcome is explained by the absence of new large scale energy projects that fueled the sector in 2006, coupled with technical difficulties at one of the major energy plants. As a result, crude oil production, exports and refining dropped year-on-year by 15.9%, 42.4% and 23.3%, respectively. In addition, exploration remained stagnant after having increased by 16.4% in 2006, whereas natural gas production grew by 4.1%, less than one fifth of the expansion recorded in 2006.

A matter of concern regarding the energy sector was revealed by a report prepared by the consultancy firm Ryder Scott released in August 2007. The document highlights a reduction in gas proven reserves, estimating that these would be exhausted within 11 years and probable reserves in a further nine years. This is explained by the fact that no major gas reserves have been discovered in the country since 2004. The government reacted by providing fiscal incentives to new oil and gas exploration approving in September revisions to oil and natural-gas production-sharing contracts (PSC). This allow for consolidation of profits and losses from different areas of operation, reducing the overall tax burden in the energy sector.

On the other hand, non-energy sector growth remained robust at 6.7%, marginally higher than in 2006. The construction sector expanded by 5.2% (4.3% in 2006), but there are indications that the sector is overheating such as high increases in inputs prices as well as labor costs. For instance, the prices of concrete and structural steel have multiplied by a factor of three since 2003, whereas that of aggregate has increased by 280%. On average, the prices of construction materials climbed by 10% in 2007. On the down side, agricultural output recorded a contraction of 5.9% in 2007 because of a combination of low infrastructural investment, the attraction of workers to other sectors and the temporary disruption in the activities of Caroni Limited (a wholly owned state enterprise).

On the demand side, growth was led by gross fixed investment due to several public and private construction projects. Government consumption slowed but remained strong and outpaced that of the private sector. The drop in oil exports resulted in a lower growth rate of exports while imports posted a similar performance as in 2006.

As regards private sector activities, in October it was announced that the Royal Bank of Canada (RBC) – Canada's largest Bank – would buy RBTT Financial Holdings Ltd[64] for TT$13.8 billion (US$2.2 billion). The resulting entity will serve some 1.6 million customers in the Bahamas, Cayman Islands, Barbados, Trinidad and Tobago, Jamaica and Suriname. It will have assets of over US$13 billion. This operation was approved by RBTT shareholders in March 2008.

(b) Prices, wages and employment

After hitting two digits in annualized terms in October 2006, inflation gradually eased until recording a rate of 7.6% in December 2007 due mainly to successful measures of liquidity absorption carried out by the Central Bank. This process was accompanied by a reduction in core inflation that experienced an annualized dip from 4.6% to 3.9% in the same period. However, food prices have always been the main driver of inflation in Trinidad and Tobago. Indeed, the annual decline in the latter was

[64] RBTT is the second largest bank in Trinidad and Tobago.

much more pronounced: from 26.5% in October 2006 to 16.8% in December 2007. This means that the reduction in food inflation explains almost two thirds of the drop in total inflation during the analyzed period.[65] However, this downward trend was reverted in early 2008, and inflation has recorded annualized rates between 9.3% and 10% during the first four months of 2008. Again, this rise in inflation has been driven by food inflation, which rose from an annualized rate of 16.8% in December 2007 to 20.8% one month later.

It is interesting to consider the impact of imported inflation on domestic inflation. In Trinidad and Tobago, this effect has been increasing since mid-2007. According to the Central Bank, rough estimates indicate that imports represent around one fourth of the basket used in the measurement of the Index of Retail Prices.[66] During 2007, import prices increased by 14%, near doubling overall inflation. The dynamism in import prices is explained by the depreciation of the United States dollar, higher oil and transportation charges, and worldwide developments in the case of food products.

As regards wages, 2007 witnessed the return to a wage indexation regime virtually abandoned years ago in an effort to curb inflationary inertia. Thus, last year most negotiated contracts began to include catch-up and ongoing cost of living clauses based on past inflation. This was coupled with an increase in the level of wage settlements with the doubling of the increase of basic wages in three-year contracts signed in 2007 to 6%. On the other hand, the labor market experienced a marginal decline in the participation rate from 63.9% in 2006 to 63.2% in 2007, whereas the employment rate (employed as a percentage of people above 15 years) remained above 59%. Meanwhile the unemployment rate – including hidden unemployment – averaged 5.9% in 2007 (6.2% in 2006).

(c) The external sector

High and increasing energy prices could not offset the reduction in the volume of oil exports, so for the first time since the beginning of the current surge in oil prices in 2003 the value of merchandise exports declined at 2.3%, to around US$12,000 million. Notwithstanding, the value of goods imports kept growing at a rapid pace (near 7%), partly fostered by increasing food prices, to record a level near US$7,300 million. These caused the trade surplus to shrink in some US$700 million to around US$4,500 million or 21.8% of GDP (29% in 2006). Another negative development was the deterioration of the income balance of more than US$50 million, to record a deficit of near US$950 million (4.6% of GDP), due to increased repatriation of profits by multinational corporations in the energy sector. The services and the transfer surpluses remained fairly stable and represent a minimal share of the balance of payments. Overall, the current account surplus decreased by more than US$750 million, to near US$3,900 million or 18.6% of GDP (25.5% in 2006). The capital and financial account recorded a deficit of near US$1,600 million (7.6% of GDP), mainly explained by short-term private foreign capital outflows of more than US$1,800 million. The balance of payments posted a surplus of US$1,925 million, some US$300 million higher than in 2006. International reserves further increased to an equivalent of 9.4 months of import cover.

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[65] The weight of food products in the basket of consumption is 18% (180 products out of 1,000 items).
[66] This is the name of the Consumer Price Index in Trinidad and Tobago.

Table 27
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007p
			Output growth rates (Percentage)				
GDP	4.2	7.9	14.4	7.8	6.1	12.2	5.5
GDP per capita	3.8	7.6	14.0	7.4	5.7	11.8	5.1
Agriculture	8.7	8.7	-15.3	-34.2	-9.2	-0.9	-5.9
Oil	5.6	13.5	31.4	8.2	8.4	21.4	4.4
Manufacturing	9.8	3.8	12.0	5.2	12.6	9.4	8.0
Electricity and water	4.1	8.7	5.3	3.2	6.2	-0.4	0.3
Construction	10.3	-5.1	23.4	8.1	13.4	4.3	5.2
Transport, storage and real state	7.7	9.6	5.4	-0.8	5.7	2.4	0.6
Distribution	-2.5	1.4	2.0	3.2	4.5	21.2	10.3
Finance, insurance and real state	0.8	11.5	7.3	21.7	0.4	1.2	10.5
Government	-1.5	3.7	-1.0	0.6	1.9	-1.5	3.2
Other services[a]	-0.4	4.3	7.8	4.2	0.4	4.0	1.1
			Prices and unemployment (Percentage)				
Inflation (year end)	3.2	4.3	3.0	5.6	7.2	9.6	7.6
Lending interest rate[b]	15.6	13.4	11.0	9.4	9.1	10.2	10.6
Deposit interest rate[b]	5.3	3.5	2.9	2.4	2.4	2.4	2.8
Unemployment rate	10.8	10.4	10.5	8.4	8.0	6.2	5.9
			Central Government operations (Percentage of GDP)				
Total revenue	24.4	24.6	23.7	25.8	31.2	32.3	30.0
Current revenue	24.3	24.6	23.7	25.8	31.2	32.3	30.0
Tax revenue[c]	15.3	15.8	13.5	14.7	14.5	12.8	13.0
Capital revenue	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total Expenditure	24.5	25.3	22.3	24.0	25.9	25.9	26.1
Current expenditure	22.9	24.1	21.2	21.9	23.0	22.1	20.6
Interest payments	4.0	4.3	3.5	3.0	2.7	2.0	2.0
Capital expenditure	1.6	1.2	1.1	2.0	2.9	3.8	5.5
Global balance	-0.1	-0.6	1.4	1.9	5.3	6.9	2.6
Primary balance	4.0	3.7	4.9	4.9	7.9	8.9	4.6
Public debt	35.5	35.8	29.4	24.6	21.4	17.2	17.1
External	17.3	16.7	13.7	10.4	8.8	6.6	6.1
Domestic	18.1	19.1	15.7	14.2	12.7	10.6	11.0
			Balance of payments (Millions of US$)				
Current account balance	416.0	76.4	984.7	1,647.1	3,594.0	4,654.9	3,897.3
Trade balance	718.1	237.7	1,293.2	1,508.7	3,947.7	5,257.5	4,517.1
Exports	4,304.2	3,920.0	5,204.9	6,402.9	9,672.3	12,100.2	11,822.4
Imports	3,586.1	3,682.3	3,911.7	4,894.2	5,724.6	6,842.7	7,305.3
Services balance	203.8	264.0	313.8	479.5	356.2	286.4	286.1
Income balance	-539.3	-479.8	-680.9	-397.3	-760.0	-935.8	-963.7
Transfers balance	33.4	54.5	58.6	56.2	50.1	46.8	57.8
Financial account balance[d]	86.2	39.3	-650.5	-912.1	-1,701	-3009.5	-1,977
FDI	684.9	684.3	583.1	972.7	598.7	512.7	830.0
Financial capital[d]	-598.7	-645	-1,233.6	-1884.8	-2,299.7	-3,522.2	-2,807.0
Overall balance	502.2	115.7	334.2	735.0	1,893.0	1,645.4	1,920.3

Table 27 (continued)

	2001	2002	2003	2004	2005	2006	2007p
			Monetary indicators (Percentage of GDP)				
Domestic credit	25.1	26.6	21.6	18.5	14.8	7.8	12.9
To the public sector	-2.5	-2.0	-2.5	-7.0	-10.0	-17.0	-13.0
To de private sector	27.6	28.6	24.0	25.6	24.8	24.8	25.9
Liquidity (M3)	36.3	39.6	32.7	32.1	32.6	33.0	38.4
Currency and domestic currency deposits (M2)	26.8	30.0	25.3	23.8	24.6	25.6	33.8
Foreign currency Deposits	9.5	9.7	7.4	8.3	8.0	7.4	4.6
			Memorandum items (current prices)				
GDP (Millions of TT$)	55,007	56,290	71,169	82,839	95,399	120,556	132,115
GDP (Millions of US$)	8,825	9,008	11,305	13,151	15,144	19,099	20,878
GDP per capita (US$)	6,760	6,876	8,600	9,969	11,440	14,377	15,661

Source: ECLAC on the basis of official data.
[a] Includes hotels and guest houses, education and community services and personal services.
[b] Weighted average.
[c] Refers to tax revenue of the non-oil sector.
[d] Includes capital account balance and errors and omissions.

Annex

TABLE A-1
VALUES OF VARIABLES USED IN THE ANALYSIS OF FISCAL SUSTAINABILITY
(Percentage)

	External interest rate[a]	Domestic interest rate[b]	Inflation rate[c]	GDP growth rate[d]	Monetary base/GDP[e]
Barbados	6.9	5.0	5.6	2.6	19.0
Belize	6.6	9.3	3.4	6.1	19.1
Guyana	1.8	3.8	3.1	1.4	27.7
Jamaica	7.2	5.7	4.6	1.1	15.9
ECCU					
Antigua and Barbuda	10.1	8.2	2.4	4.9	24.6
Dominica	5.2	7.2	0.6	0.9	33.9
Grenada	3.1	2.2	3.2	3.5	37.9
St. Kitts and Nevis	11.1	7.9	6.3	3.5	40.1
Saint Lucia	8.0	7.9	0.9	2.6	25.9
St. Vincent and the Grenadines	17.0	7.6	3.6	3.7	30.4

Source: ECLAC calculations on the basis of official data.
[a] Implicit interest rate on external debt in 2006 = (Interest payments on external debt in 2006/External debt stock at the end of 2005).
[b] Implicit interest rate on domestic debt in 2006 = (Interest payments on domestic debt in 2006/Domestic debt stock at the end of 2005).
[c] Percentage variation in GDP deflator in 2006. In Barbados, corresponds to CPI inflation rate (year end) in 2006.
[d] Average annual real GDP growth rate in 1997-2006.
[e] At the end of 2006.

TABLE A-2
ANTIGUA AND BARBUDA: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007a/
				Annual growth rates b/			
Gross domestic product	1.5	2.0	4.3	5.2	5.5	12.4	6.9
Per capita gross domestic product	0.8	1.7	3.5	4.5	5.5	12.8	6.7
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	-0.1	1.0	2.5	2.6	3.0	2.9	3.3
Mining	2.0	2.0	5.5	-12.5	26.8	45.0	24.2
Manufacturing	2.5	3.2	7.9	-4.0	3.8	8.6	8.5
Electricity, gas and water	1.7	4.1	-2.7	6.4	6.4	5.0	10.5
Construction	4.0	3.5	6.7	2.5	19.5	35.0	6.0
Wholesale and retail commerce, restaurants and hotels	-5.3	0.0	7.4	5.2	1.0	6.0	7.2
Transport, storage and communications	0.6	-1.4	7.8	9.0	2.2	9.5	9.7
Financial institutions, insurance, real estate and business services	-2.1	8.0	-0.1	7.7	7.2	6.8	12.5
Community, social and personal services	3.0	5.1	2.7	4.1	1.2	7.8	3.6
Balance of payments				**Millions of US dollars**			
Current account balance	-65	-109	-102	-96	-171	-309	-402
Merchandise trade balance	-280	-296	-308	-345	-373	-486	-570
Exports, f.o.b.	39	45	45	57	82	74	83
Imports, f.o.b.	319	341	353	402	455	450	653
Services trade balance	231	223	231	287	236	219	203
Income balance	-25	-41	-39	-46	-42	-64	-56
Net current transfers	9	6	13	8	8	22	21
Capital and financial balance c/	81	117	128	120	246	328	406
Net foreign direct investment	98	66	166	80	214	375	391
Financial capital d/	-18	51	-38	40	32	-47	15
Overall balance	16	8	26	6	7	15	1
Other external-sector indicators							
Gross external public debt (millions of dollars)	493	537	573	682	425	478	492
Prices				**Percentages**			
Variation in consumer prices (December-December)	...	2.5	1.8	2.8	2.5	0.0	5.1
Nominal deposit rate e/	6.0	5.8	4.8	3.7	4.0	3.5	3.2
Nominal lending rate e/	10.8	11.0	13.4	11.3	11.1	10.4	10.2

Table A-2 (continued)

	2001	2002	2003	2004	2005	2006r/	2007a/
Central government			**Percentage of GDP**				
Total income f/	19.5	21.7	21.5	24.6	45.8	25.1	22.8
Current income	18.9	20.1	20.8	21.4	20.9	22.2	22.0
Tax income	16.8	18.0	18.8	19.3	19.3	20.9	20.9
Capital income	0.1	0.2	0.1	1.0	0.8	0.2	0.2
Total expenditure	30.4	33.5	27.6	27.5	27.9	33.0	29.4
Current expenditure	25.6	28.4	24.4	25.0	23.9	25.2	23.0
Interest	4.0	4.9	3.8	4.9	3.8	3.6	3.5
Capital expenditure g/	4.8	5.2	3.2	2.5	4.0	7.8	6.4
Primary balance f/	-6.9	-6.9	-2.4	2.0	21.7	-4.3	-3.0
Overall balance f/	-10.9	-11.8	-6.2	-3.0	17.9	-7.9	-6.5
Public sector external debt	70.6	75.2	76.1	83.3	48.7	47.5	42.3
Money and credit h/							
Domestic credit	69.2	73.6	73.6	70.5	71.3	70.4	69.2
To the public sector	-3.5	4.1	6.2	4.8	3.4	-1.2	-1.3
To the private sector	69.6	75.5	73.2	68.2	70.9	74.4	72.3
Broad money (M3)	75.5	80.1	91.9	92.4	92.6	91.1	86.9
Currency in circulation and local-currency deposits (M2)	70.7	74.0	86.6	86.3	86.8	83.7	78.7
Foreign currency deposits	4.8	6.1	5.2	6.1	5.8	7.5	8.2
			Memo Items (current Prices)				
GDP (Millions of EC dollars)	1,882.9	1,929.5	2,036.7	2,210.0	2,358.2	2,717.0	3143.81
GDP (Millions of US dollars)	697.4	714.6	754.3	818.5	873.4	1,006.3	1,164.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
g/ includes net lending
h/ The monetary figures are annual averages.
r/ revised
… not available

TABLE A-3
DOMINICA: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005r/	2006r/	2007a/
			Annual growth rates b/				
Gross domestic product	-4.2	-5.1	0.1	3.1	3.3	3.7	1.8
Per capita gross domestic product	-4.5	-5.2	-0.1	4.3	4.5	4.2	4.3
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	-6.6	-0.7	-3.4	3.5	-0.6	2.5	-5.2
Mining	-2.4	-25.5	11.5	4.0	3.5	8.4	12.0
Manufacturing	7.4	-2.3	0.9	2.8	0.4	0.5	-3.8
Electricity, gas and water	3.3	0.6	-1.9	5.2	6.4	3.4	1.3
Construction	-2.2	-25.6	11.4	3.3	3.5	8.5	12.1
Wholesale and retail commerce, restaurants and hotels	-1.9	-4.9	2.4	4.6	9.4	2.1	-0.1
Transport, storage and communications	-6.0	-6.9	-12.4	6.9	2.9	8.9	0.7
Financial institutions, insurance, real estate and business services	-2.5	-4.2	3.3	4.4	4.7	8.0	4.4
Community, social and personal services	4.5	3.5	-2.0	-0.5	2.2	-0.6	2.2
Balance of payments				**Millions of US dollars**			
Current account balance	-49.7	-44.8	-42.0	59.4	-77.8	-51.6	-89.6
Merchandise trade balance	-71.3	-58.7	-63.8	-85.2	-104.0	-102.6	-134.2
Exports, f.o.b.	44.4	43.6	41.0	42.6	42.6	44.2	39.8
Imports, f.o.b.	115.7	102.4	104.9	-126.7	-145.5	-146.7	-173.9
Services trade balance	26.8	25.8	33.7	41.2	33.6	48.2	40.9
Income balance	-22.7	-25.5	-24.6	-34.0	-28.0	-16.7	-16.6
Net current transfers	17.5	13.6	12.8	16.8	19.8	19.6	20.2
Capital and financial balance c/	53.2	57.3	44.8	53.0	98.0	65.0	96.3
Net foreign direct investment	14.7	17.7	31.4	26.2	19.2	26.8	46.4
Financial capital d/	38.5	39.6	13.4	26.8	78.8	38.2	49.9
Overall balance	3.5	12.5	2.7	-5.9	14.4	13.4	6.7
Other external-sector indicators							
Gross external public debt (millions of dollars)	175	209	230	224	242	249	246
Gross external public debt (percentage of GDP)	65.7	78.9	87.5	78.5	80.8	78.4	72.8
Prices				**Percentages**			
Variation in consumer prices (December-December)	1.1	-1.2	2.8	0.8	2.7	1.8	4.8
Nominal deposit rate e/	4.8	4.3	3.5	3.0	3.0	3.4	3.2
Nominal lending rate e/	10.0	9.8	11.8	9.8	9.9	9.2	9.2

Table A-3 (continued)

	2001	2002	2003	2004	2005r/	2006	2007a/
Central governmnt				**Percentage of GDP**			
Total income f/	32.2	30.3	33.5	39.2	38.7	39.2	42.7
Current income	28.2	28.0	28.8	30.5	31.6	31.4	34.3
Tax income	22.7	23.5	25.3	26.6	37.0	28.9	31.4
Capital income	0.5	0.3	0.2	0.3	2.1	0.1	0.1
Total expenditure	42.2	36.0	38.5	40.9	36.5	37.9	41.5
Current expenditure	33.1	30.2	32.6	30.3	29.4	28.5	29.4
Interest	5.6	5.8	6.3	5.4	3.2	4.0	3.1
Capital expenditureg/	9.0	5.8	5.8	10.7	7.2	9.8	12.2
Primary balance f/	-4.0	0.7	1.8	3.9	5.9	5.5	4.3
Overall balance f/	-9.6	-5.1	-4.4	-1.5	2.6	1.4	1.2
Total public debt	127.4	127.1	126.8	113.1	117.7	111.0	102.3
Domestic	59.3	45.5	42.2	27.1	36.8	32.6	29.3
External	68.1	81.6	84.6	86.0	80.8	78.4	73.1
Money and credit h/							
Domestic credit	70.1	65.0	50.6	47.1	48.3	41.2	35.4
To the public sector	13.9	9.0	3.4	-0.9	-2.7	-12.1	-16.1
To the private sector	61.2	63.0	59.3	58.5	59.1	62.0	61.4
Other public sector	1.4	1.5	-0.5	-2.8	-4.9	-6.7	-7.9
Broad money (M3)	70.4	79.8	78.1	76.3	77.6	80.2	82.3
Currency in circulation and local-currency deposits (M2)	68.2	76.6	76.7	74.5	76.3	78.9	81.2
Foreign currency deposits	2.2	3.2	1.4	1.7	1.3	1.3	1.1
				Memo Items (current Prices)			
GDP (Millions of EC dollars)	718.6	688.1	709.7	770.1	808.0	856.5	910.44
GDP (Millions of US dollars)	266.1	254.9	262.8	285.2	299.3	317.2	337.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
g/ includes net lending
h/ The monetary figures are annual averages.
r/ revised
… not available

TABLE A-4
GRENADA: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007a/
				Annual growth rates b/			
Gross domestic product	-3.0	1.6	7.1	-5.7	11.0	-2.3	4.5
Per capita gross domestic product	-5.1	0.4	7.4	-2.6	16.1	0.1	5.3
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	-2.9	20.3	2.0	-7.5	-41.2	23.8	4.8
Mining	-21.1	-15.1	40.4	-15.3	9.0	40.8	0.1
Manufacturing	-0.7	-1.4	-2.5	-16.3	16.9	-2.6	2.2
Electricity, gas and water	7.0	3.3	6.7	-7.9	4.7	13.0	8.6
Construction	-18.9	1.0	26.0	5.7	83.1	-30.0	-11.2
Wholesale and retail commerce	-2.6	2.6	10.1	-16.9	-0.9	5.9	2.5
Transport, storage and communications	-6.2	-5.1	4.7	-2.6	22.1	-5.7	4.3
Financial institutions, insurance, real estate and business services	4.7	4.8	6.3	-1.8	-1.9	3.2	2.1
Community, social and personal services	3.3	3.1	6.4	2.5	1.6	6.0	15.4
Balance of payments				**Millions of US dollars**			
Current account balance	-105	-126	-144	-34	-186	-193	-222
Merchandise trade balance	-133	-99	-130	-105	-240	-200	-229
Exports, f.o.b.	64	41	46	33	33	31	48
Imports, f.o.b.	197	181	226	205	296	263	316
Services trade balance	48	41	51	68	21	32	39
Income balance	-41	-48	-50	-50	-28	-29	-31
Net current transfers	21	22	36	121	82	36	37
Capital and financial balance c/	111	132	133	101	159	198	233
Net foreign direct investment	59	55	89	65	70	85	140
Financial capital d/	52	77	44	36	89	113	94
Overall balance	6	31	-17	46	-27	6	11
Other external-sector indicators							
Gross external public debt (millions of dollars)	153	260	278	330	400	473	492
Gross external public debt (percentage of GDP)	38.6	63.8	62.5	75.4	80.5	83.8	81.4
Prices			**Percentages**				
Variation in consumer prices (December-December)	-0.7	-0.4	1.1	2.5	6.2	1.7	7.4
Nominal deposit rate e/	5.0	4.7	3.7	3.0	2.6	3.0	3.0
Nominal lending rate e/	10.0	9.8	12.1	10.7	10.0	9.7	9.6

Table A-4 (continued)

	2001	2002	2003	2004	2005	2006	2007a/
Central government			**Percentage of GDP**				
Total income f/	29.0	27.0	29.5	31.0	34.8	32.2	27.5
Current income	25.0	24.8	25.0	23.7	24.1	25.3	26.2
Tax income	22.5	22.2	23.0	22.1	23.0	23.6	24.7
Capital income	0.04	0.23	0.02	0.10	0.02	0.01	0.01
Total Expenditure	36.9	45.4	34.0	31.8	31.1	38.6	34.2
Current expenditure	22.7	24.7	22.0	25.3	20.1	20.8	21.2
Interests	2.4	4.2	4.9	5.7	1.9	1.9	2.1
Capital expenditure g/	14.3	20.7	12.0	8.3	10.9	17.8	12.9
Primary balance f/	-5.5	-13.3	0.4	3.1	5.6	-4.5	-4.6
Overall balance f/	-7.9	18.4	-4.5	-2.6	3.7	-6.4	-6.7
Public sector external debt	38.6	63.8	62.5	75.4	80.5	83.8	81.4
Money and credit h/							
Domestic credit	84.9	78.6	76.5	71.2	69.3	76.9	84.0
To the public sector	7.8	3.3	5.0	-1.5	-2.1	-2.4	-0.8
To the private sector	77.7	75.9	72.0	78.6	72.8	80.3	86.3
Others	-0.7	-0.6	-0.5	-5.9	-1.4	-1.1	-1.5
Liquidity (M3)	95.6	98.9	97.2	117.0	98.2	97.2	100.7
Currency in circulation and local-currency deposits (M2)	89.1	92.2	89.8	110.0	91.4	92.3	93.3
Foreign currency deposits	6.6	6.7	7.4	7.0	6.8	5.0	7.4
			Memo Items (current Prices)				
GDP (Millions of EC dollars)	1,140.3	1,180.6	1,296.6	1,267.2	1,495.4	1,524.0	1633.39
GDP (Millions of US dollars)	422.3	437.2	480.2	469.3	553.9	564.4	605.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
g/ includes net lending
h/ The monetary figures are annual averages.
r/ revised
… not available

TABLE A-5
ST KITTS AND NEVIS: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005r	2006r	2007a/
	Annual growth rates b/						
Gross domestic product	1.7	-0.3	-1.2	7.3	5.3	2.5	2.9
Per capita gross domestic product	1.2	-0.1	1.0	8.4	7.8	9.1	5.2
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	11.1	13.3	-12.4	11.7	-2.5	-19.9	8.3
Mining	1.4	19.4	-46.3	9.9	4.0	7.7	6.2
Manufacturing	6.6	-4.0	-0.2	3.8	3.0	-6.3	1.9
Electricity, gas and water	3.9	9.8	10.6	8.4	0.6	5.9	3.2
Construction	4.2	-5.6	-12.6	1.3	1.1	8.4	4.4
Wholesale and retail commerce, restaurants and hotels	-7.8	-0.7	11.7	8.3	9.1	4.2	-3.2
Transport, storage and communications	2.6	-0.7	-2.6	17.6	9.3	1.6	3.3
Financial institutions, insurance, real estate and business services	-0.1	1.7	3.0	13.5	7.7	8.3	6.8
Community, social and personal services	1.5	3.4	0.8	2.8	4.1	5.0	5.2
Balance of payments	**Millions of US dollars**						
Current account balance	-106	-124	-116	-69	-65	-90	-135
Merchandise trade balance	-112	-113	-118	-106	-122	-161	-184
Exports, f.o.b.	55	64	57	59	64	59	57
Imports, f.o.b.	167	178	176	161	185	220	240
Services trade balance	24	11	28	54	68	73	47
Income balance	-35	-38	-44	-42	-35	-32	-31
Net current transfers	16	16	19	18	24	32	33
Capital and financial balance c/	118	134	115	81	44	103	147
Net foreign direct investment	88	80	76	46	93	110	143
Financial capital d/	29	53	39	36	-35	-4	-4
Overall balance	12	10	-1	14	7	17	5
Other external-sector indicators							
Gross external public debt (million of dollars)	216	261	315	317	310	305	282
Prices	**Percentages**						
Variation in consumer prices (December-December)	...	1.7	3.1	1.7	6.0	5.9	4.0
Nominal deposit rate e/	5.0	4.7	4.3	4.3	4.1	3.7	4.0
Nominal lending rate e/	10.5	10.6	9.8	9.4	9.7	9.4	9.3

Table A-5 (continued)

	2001	2002	2003r	2004r	2005r	2006r	2007a/
Central government			**Percentages of GDP**				
Total income f/	31.7	35.2	33.7	34.7	39.7	39.8	39.8
Current income	28.9	31.6	32.9	33.9	36.6	37.3	36.1
Tax income	21.0	22.4	23.9	26.1	29.0	28.4	28.1
Capital income	0.4	0.7	0.2	0.4	0.3	0.5	2.5
Total expenditure	43.6	51.8	41.9	42.6	43.8	42.1	42.0
Current expenditure	33.2	34.1	34.1	35.4	37.1	36.3	35.0
Interest	5.7	7.1	7.6	7.6	8.1	8.3	8.1
Capital expenditure g/	10.4	17.7	7.8	7.2	6.7	5.8	7.0
Primary balance f/	-6.2	-9.5	-0.6	-0.4	4.0	6.0	6.0
Overall balance f/	-11.8	-16.6	-8.2	-7.9	-4.1	-2.4	-2.2
Public sector debt	132.3	152.2	177.1	185.8	187.3	178.0	170.1
Domestic	...	77.9	89.5	106.4	116.4	116.2	116.3
External	63.2	74.3	87.6	79.4	70.9	61.7	53.8
Money and credit h/							
Domestic credit	81.1	79.9	76.2	92.0	95.6	97.7	97.4
To the public sector	13.9	14.9	5.3	20.0	26.8	29.8	27.6
To the private sector	73.1	69.6	70.3	69.3	67.9	68.2	71.6
Liquidity (M3)	85.9	89.2	92.3	102.1	97.1	98.5	101.4
Currency in circulation and local-currency deposits (M2)	60.5	64.2	65.3	73.0	68.8	67.7	70.3
Foreign-currency deposits	25.4	24.9	27.0	29.1	28.3	30.9	31.1
			Memo Items (current Prices)				
GDP (Millions of EC dollars)	924.5	947.6	978.2	1,078.9	1,184.8	1,318.1	1,422.9
GDP (Millions of US dollars)	342.4	351.0	362.3	399.6	438.8	488.2	527.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
g/ includes net lending
h/ The monetary figures are annual averages.
r/ revised
… not available

TABLE A-6
SAINT LUCIA: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003r/	2004r/	2005r/	2006r/	2007a/
			Annual growth rates b/				
Gross domestic product	-4.1	0.6	3.5	3.8	4.6	4.9	1.7
Per capita gross domestic product	-10.3	1.1	3.5	5.5	5.6	4.5	4.3
Gross domestic product, by sector							
Agriculture, livestock, hunting, forestry and fishing	-24.4	4.3	-15.7	-2.9	-24.9	10.0	0.8
Mining	-25.5	1.9	0.2	-1.9	-3.8	19.8	13.1
Manufacturing	-6.1	5.5	4.4	-3.0	16.2	6.8	1.7
Electricity, gas and water	4.6	-2.5	1.9	1.9	-13.4	-8.6	12.7
Construction	-5.0	-4.8	1.6	1.0	12.5	13.2	-10.3
Wholesale and retail commerce	-12.5	0.3	12.4	7.0	6.1	2.7	-1.5
Transport and communications	4.7	1.7	4.3	6.1	4.1	5.8	3.1
Financial institutions, insurance, real estate and business services	3.0	1.8	2.7	4.0	7.1	11.7	8.5
Community, social and personal services	-0.3	-0.7	-1.5	3.1	6.6	2.5	3.9
Balance of payments				**Millions of US dollars**			
Current account balance	-107	-105	-146	-87	-150	-303	-320
Merchandise trade balance	-218	-203	-283	-252	-329	-424	-441
Exports, f.o.b.	54	69	72	96	89	97	100
Imports, f.o.b.	272	272	355	348	418	521	541
Services trade balance	143	121	173	219	239	165	176
Income balance	-46	-35	-50	-69	-73	-56	-62
Net current transfers	14	12	13	14	13	12	12
Capital and financial balance c/	120	111	165	110	118	316	333
Net foreign direct investment	59	52	106	77	78	234	261
Financial capital d/	61	59	58	33	40	82	72
Overall balance	13	6	18	27	-16	13	12
Other external-sector indicators							
Gross external public debt (millions of dollars)	204	246	324	344	350	365	368
Gross external public debt (percentage of GDP)	31.1	36.5	43.6	43.1	41.2	39.9	38.3
Prices							
Variation in consumer prices				**Percentages**			
(December-December)	0.0	-0.7	0.5	3.5	5.2	-0.6	8.2
Nominal deposit rate e/	5.0	4.8	6.8	2.8	…	2.9	3.1
Nominal lending rate e/	10.0	10.0	15.3	10.7	..	10.2	8.8

Table A-6 (continued)

	2001	2002	2003r/	2004r/	2005r/	2006r/	2007a/
Central government				**Percentages of GDP**			
Total income f/	24.9	26.2	25.8	25.3	25.3	26.3	27.2
Current income	23.9	23.5	23.2	25.0	25.1	26.2	26.9
Tax income	21.5	21.3	21.5	23.0	23.6	24.5	25.4
Capital income	0.1	1.1	0.4	0.04	0.00	0.04	0.00
Total expenditure	28.3	28.6	32.3	29.9	31.8	32.5	29.4
Current expenditure	21.7	21.4	23.3	22.8	21.6	22.4	21.1
Interest	2.8	2.5	0.8	-1.5	-1.3	-1.3	3.2
Capital expenditure g/	6.8	7.5	9.0	7.2	10.2	10.2	8.2
Primary balance f/	-1.2	-0.1	-4.0	-1.8	-3.5	-3.1	1.1
Overall balance f/	-3.4	-2.4	-6.5	-4.7	-6.6	-6.2	-2.1
Public sector external debt	31.1	36.5	43.6	43.1	41.2	39.9	38.3
Money and credit h/							
Domestic credit	74.7	75.2	66.0	68.0	77.2	92.5	115.1
To the public sector	-15.2	-13.4	-14.5	-15.1	-11.9	-10.0	-8.7
To the private sector	83.3	81.8	74.7	76.6	83.5	96.9	119.0
Broad money (M3)	66.7	68.3	69.9	71.9	77.3	91.9	88.2
Currency in circulation and local-currency deposits (M2	66.0	67.0	68.3	70.1	74.6	83.4	83.9
Foreign-currency deposits	0.7	1.3	1.6	1.8	2.7	8.4	4.2
			Memo Items (current Prices)				
GDP (Millions of EC dollars)	1,850.7	1,893.5	2,005.9	2,154.0	2,295.4	2,464.4	2,597.4
GDP (Millions of US dollars)	685.4	701.3	742.9	797.8	850.1	912.7	962.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
g/ includes net lending
h/ The monetary figures are annual averages.
r/ revised
… not available

TABLE A-7
ST VINCENT AND THE GRENADINES: MAIN ECONOMIC INDICATORS, 2001-2007

	2001	2002	2003	2004	2005	2006	2007a/
				Annual growth rates b/			
Gross domestic product	-0.1	3.2	2.8	6.8	2.5	7.6	7.0
Gross domestic product per capita	0.3	3.4	3.6	4.8	6.0	10.3	11.7
Gross domestic product by economic activity							
Agriculture, livestock, hunting, forestry and fishing	-7.7	7.8	-2.2	-5.2	-3.9	6.6	9.3
Mining and quarrying	7.1	-3.0	5.0	6.5	2.8	11.4	14.1
Manufacture	5.6	-6.1	0.7	3.3	1.6	3.0	1.1
Electricity, gas and water	11.2	2.6	7.5	7.1	8.4	1.8	4.9
Construction	7.1	-2.9	8.2	14.7	0.4	11.4	14.4
Wholesale and retail trade	2.6	1.8	3.1	9.6	4.9	6.2	4.6
Transport and communications	-4.9	5.5	3.7	13.7	-0.9	14.6	10.2
Financial institutions, insurance, real estate and business services	-5.7	8.1	3.1	2.7	8.5	5.1	4.9
Community, social and personal services	2.6	3.8	3.1	2.9	5.8	4.2	6.8
Balance of payments				**Millions of US dollars**			
Current account balance	-38	-41	-80	-102	-100	-120	-149
Merchandise trade balance	-109	-117	-137	-160	-161	-199	-226
Exports, f.o.b.	43	41	40	39	42	41	51
Imports, f.o.b.	152	158	177	199	203	240	276
Services trade balance	76	81	68	72	74	82	83
Income balance	-16	-18	-24	-29	-31	-24	-26
Net current transfers	13	12	13	14	18	20	20
Capital and financial balance c/	47	35	79	128	96	132	147
Net foreign direct investment	21	34	55	66	41	110	92
Financial capital d/	26	1	24	62	56	23	56
Overall balance	9	-7	0	25	-3	12	-2
Other external-sector indicators							
Total gross external debt (millions of dollars)	171	171	199	223	249	261	267
Total gross external debt (percentage of GDP)	50.6	47.8	53.0	54.7	55.9	52.4	47.9
Prices							
Variation in consumer prices			**Percentages**				
(December-December)	-0.2	2.4	2.2	1.7	3.9	4.8	8.3
Deposit nominal interest rate e/	4.5	4.3	4.5	2.8	3.0	2.8	2.8
Lending nominal interest rate e/	10.1	10.0	12.0	8.8	9.9	9.9	9.6

Table A-7 (continued)

	2001	2002	2003	2004	2005	2006	2007a/
Central government				**Percentages of GDP**			
Total income f/	32.2	31.4	30.9	29.6	29.3	30.1	30.3
Current income	30.0	31.0	30.8	29.1	28.0	29.3	28.6
Tax income	25.4	27.7	26.4	26.0	25.6	26.9	26.6
Capital income	0.1	0.1	0.2	0.4	0.3	0.4	0.1
Total expenditure	34.0	33.4	34.1	32.5	33.4	33.9	33.9
Current expenditure	28.7	27.7	26.4	25.8	26.8	26.4	25.1
Interest	-1.5	-1.6	2.7	2.5	2.9	3.2	3.0
Capital expenditure g/	5.3	5.9	7.9	7.1	7.1	7.7	8.7
Primary balance f/	1.0	0.7	0.4	1.1	-1.3	-0.7	-0.6
Overall balance f/	-1.8	-2.1	-2.3	-1.4	-4.2	-3.9	-3.5
Public sector debt	72.6	72.1	78.1	85.5	82.5	78.5	76.5
Money and credit h/							
Domestic credit	50.3	54.2	49.2	50.5	56.3	57.7	67.0
To the public sector	-8.3	-4.6	-7.1	-4.8	0.6	0.7	2.6
To the private sector	65.0	64.2	61.8	57.4	58.4	58.9	67.1
Others	-6.4	-5.4	-5.4	-2.1	-2.8	-1.8	-2.8
Liquidity (M3)	70.3	71.9	70.0	73.3	75.2	71.4	78.3
Currency in circulation and local-currency deposits (M2)	69.4	70.9	69.0	70.9	73.9	69.0	75.3
Foreign-currency deposits	0.8	1.0	1.0	2.3	1.3	2.3	3.0
			Memo Items (current Prices)				
GDP (Millions of EC dollars)	932.1	986.1	1,032.1	1,118.0	1,201.8	1,344.4	1,504.2
GDP (Millions of US dollars)	345.2	365.2	382.3	414.1	445.1	497.9	557.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures
b/ Based on figures in local currency at constant 1990 prices.
c/ Includes errors and omissions.
d/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
e/ weighted average
f/ Includes grants.
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r/ revised
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