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**ECONOMIC SURVEY OF THE CARIBBEAN
2005-2006**

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Table of contents

Executive summary.....	1
I. Regional overview.....	3
1. Sectoral performance	4
2. The external sector performance.....	13
3. Fiscal policy in the Caribbean.....	19
4. Monetary policy	29
5. International trade negotiations and economic integration.....	33
6. The economic outlook.....	35
II. Analysis of selected topics.....	36
1. The behaviour of oil prices and its effect on Caribbean economies.....	37
2. The Cricket World Cup.....	53
3. Conclusion	59
III. Country briefs	61
Aruba.....	62
The Bahamas.....	67
Barbados	73
Belize.....	79
Guyana	84
Jamaica.....	91
Netherlands Antilles.....	98
Member countries of the Organisation of Eastern Caribbean States (OECS)	103
Puerto Rico.....	111
Suriname	116
Trinidad and Tobago.....	123
Turks and Caicos Islands	130

Executive summary

This survey examines the macroeconomic performance of selected countries of the Caribbean Development and Cooperation Committee (CDCC) for 2005 and their outlook for 2006¹.

In 2005, the majority of Caribbean countries moderated their rate of growth with respect to the previous year, partly due to the adverse effects of external shocks, including natural disasters, and the sharp increase in the international price of oil.

Turks and Caicos recorded the highest growth rate (12%) followed by Anguilla, Saint Lucia, Trinidad and Tobago, and St. Kitts and Nevis (7%). A second group of countries (Suriname, Antigua and Barbuda and Grenada) registered rates of growth ranging from 5% to 6%. The rest of the countries witnessed stagnation or a contraction of their economic activity.

The pace of economic expansion was supported by mining, tourism and construction. The performance of mining responded to increases in productive capacity and improved terms of trade for major export commodities. Tourism benefited from higher levels of external demand, improvement in infrastructure and the steady increase in stay-over arrivals. The construction sector benefited from expansionary policies aimed at increasing aggregate demand, the rise in capital flows and the preparations related to the Cricket World Cup (2007).

The Cricket World Cup is expected to have a significant impact on the host economies, and indirectly on the Caribbean region as a whole. Caribbean countries estimate that the event will boost growth through higher levels of activity and expenditure. In some countries, such as those of the Organisation of Eastern Caribbean States (OECS), the Cricket World Cup preparations have had a positive impact on this current year's rate of growth. In particular the event will have important direct effects on the tourism and construction activities and induced (multiplier) effects in the rest of the economy.

Throughout the region, countries adopted a conservative monetary stance in order to defend the parity of their currency. Rising interest rates on international capital markets, increasing fiscal deficits in some cases and the effects of rising oil prices on the current account and on inflation prompted the authorities to adopt this policy. The current account position deteriorated for all economies (-9% and -17% of GDP in 2004 and 2005) with the exception of Belize, Saint Lucia and Trinidad and Tobago. The latter was also the only country to record a surplus in its external accounts. The behaviour of the current account responded to the significant increase in the energy bill, higher food prices and the rise in the demand for construction materials.

Monetary policy objectives were not always in consonance with those of the fiscal authorities, which had a clear expansionary bent in some cases (Antigua and Barbuda, Belize, Barbados, Guyana, Saint Lucia, Suriname and St. Vincent and the Grenadines). Contrarily the

¹ See table 1 for the list of countries considered

rest of the countries adjusted their public finances mostly through the curtailment of expenditures and, to a lesser extent, through the implementation of fiscal reform proposals.

Countries also plan to introduce reforms to the taxation of the consumption of oil and petroleum products. Most governments subsidize the consumption of oil generating fiscal losses due to the widening gap between the internal and external prices.

In a few cases (Antigua and Barbuda, Dominica and Grenada) fiscal adjustment was accompanied by debt restructuring policies. Notwithstanding these efforts, the high levels of debt continue to raise concerns (58% and 69% of GDP on average for 2004 and 2005) particularly in the cases of the smaller economies. A case in point is that of Belize whose authorities defaulted on its debt obligation payments in the second semester of 2006.

On the trade negotiations front, while multilateral negotiations have stalled, countries are moving ahead with the Economic Partnership Agreement (EPA) with the European Union and the regional integration processes. In 2006 the CARICOM Single Market (CSM) was launched. As it stands the CSM provides for free mobility of goods and a limited mobility of factors of production. Labour mobility is limited to six categories of skilled labour. Countries also established the regional development fund, to be administered by a Regional Development Agency, to assist disadvantaged sectors, regions and countries.

The prospects for 2006 and 2007 are encouraging and most Caribbean countries are expected to grow within a 4%-5% range. Growth will be underpinned by the continuing dynamism of external demand, positive terms of trade effects for mineral producing economies and increased construction activity. The stabilization of spot oil prices can provide a chance for policy makers to relax their monetary stance to sustain the growth impetus without endangering sound fiscal policy commitments.

The survey is divided into four sections. The first presents a regional economic overview of CDCC economies. The second section introduces two topics which are of special interest for the Caribbean for the current biennium. These are the impact of oil prices and the effects and implication of the Cricket World Cup.

The third section, analyses the performance of Caribbean economies on a country-by-country basis. Where data availability permits, a table with the main macroeconomic indicators is included in the analysis of each country.

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

I. REGIONAL OVERVIEW

1. Sectoral performance

1.1 Introduction

In 2005, Caribbean countries² moderated the growth impetus of the previous year (4.8% and 4.0% in 2004 and 2005) (see table 1 below) due in part to the negative external shocks that affected most economies, including natural disasters and the increase in the international price of oil.

The economy of the Caribbean Community (CARICOM)³ member States, as a group, expanded by 3.7% while non-members registered a 2.4% rate of growth.⁴ Member States of the OECS noted a more robust performance relative to the larger economies.

Turks and Caicos recorded the highest level of growth (12%) followed by Anguilla, Saint Lucia, Trinidad and Tobago and St. Kitts and Nevis (roughly 7%). Suriname, Antigua and Barbuda and Grenada recorded growth rates between 5% to 6%. Most others grew at rates between 2% and 4%. Only Jamaica and the Netherlands Antilles (1.4% and 1.5%, respectively) recorded stagnant growth while Montserrat and Guyana (-3%) registered a contraction in economic activity (see figure 1).

Growth was propelled by primary activities, more precisely by mining, and also by construction and services activities. The analysis that follows focuses mainly on these sectors

² This survey covers the countries included in Table 1. They are the CARICOM member countries, except Haiti, plus the ECLAC associate members, except Puerto Rico and the Virgin Islands.

³ CARICOM excluding Haiti.

⁴ These figures are medians.

Table 1
Caribbean economies
GDP growth, inflation and current account
2003-2005

	GDP growth			Inflation			Current account as percentage of GDP		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Anguilla	2.8	15.9	7.8	6.9	5.1	3.2	-20.9	-21.7	-31.9
Antigua and Barbuda	4.3	5.2	5.6	3.5	2.1	1.5	-13.4	-10.2	-15.3
Aruba	1.5	3.5	2.4	3.6	2.5	3.4	...	...	...
The Bahamas	1.4	1.8	2.7	2.4	2.1	1.8	-8.0	-5.3	-11.2
Barbados	3.7	4.8	3.9	0.3	4.3	7.4	-6.2	-11.99	-13.8
Belize	9.2	4.6	3.1	2.6	3.1	3.7	-17.9	-14.5	-13.7
Dominica	1.0	3.2	3.6	2.8	0.8	2.7	-15.2	-20.6	-27.2
Grenada	5.8	-3.0	5.2	1.1	2.5	5.8	-32.4	-12.8	-25.5
Guyana	-0.7	1.6	-3.0	5.0	5.5	8.2	-12.9	-9.3	-19.6
Jamaica	2.3	0.9	1.4	14.1	13.7	12.9	-9.4	-5.8	-9.7
Montserrat	-0.82	4.5	-2.9	1.2	4.0	2.9	-37.4	32.5	-44.5
Netherlands Antilles	1.4	1.2	1.5	1.9	1.5	3.2	...	...	...
St. Kitts and Nevis	-0.9	6.4	6.8	3.1	1.7	7.2	-31.8	-22.0	-22.6
Saint Lucia	2.9	3.6	6.5	0.5	3.5	5.2	-20.6	-15.4	-12.6
St. Vincent and the Grenadines	3.4	5.4	2.8	2.2	1.7	3.9	-20.8	-24.7	-23.9
Suriname	6.1	7.7	5.7	13.1	9.3	15.8	-12.6	-4.6	-9.7
Trinidad and Tobago	13.4	6.2	7.0	3.0	5.6	7.2	9.2	13.3	19.9
Turks and Caicos	8.6	11.6	12.0	1.9	3.3	3.7	...	...	...
Average	3.6	4.8	4.0	3.8	4.0	5.8	-16.8	-8.9	-17.4
Standard Deviation	4.9	3.1	4.4	4.0	2.5	5.4	11.7	14.8	14.1

Source: ECLAC (2006) and on the basis of official data.

Figure 2
GDP growth in real terms for 2005

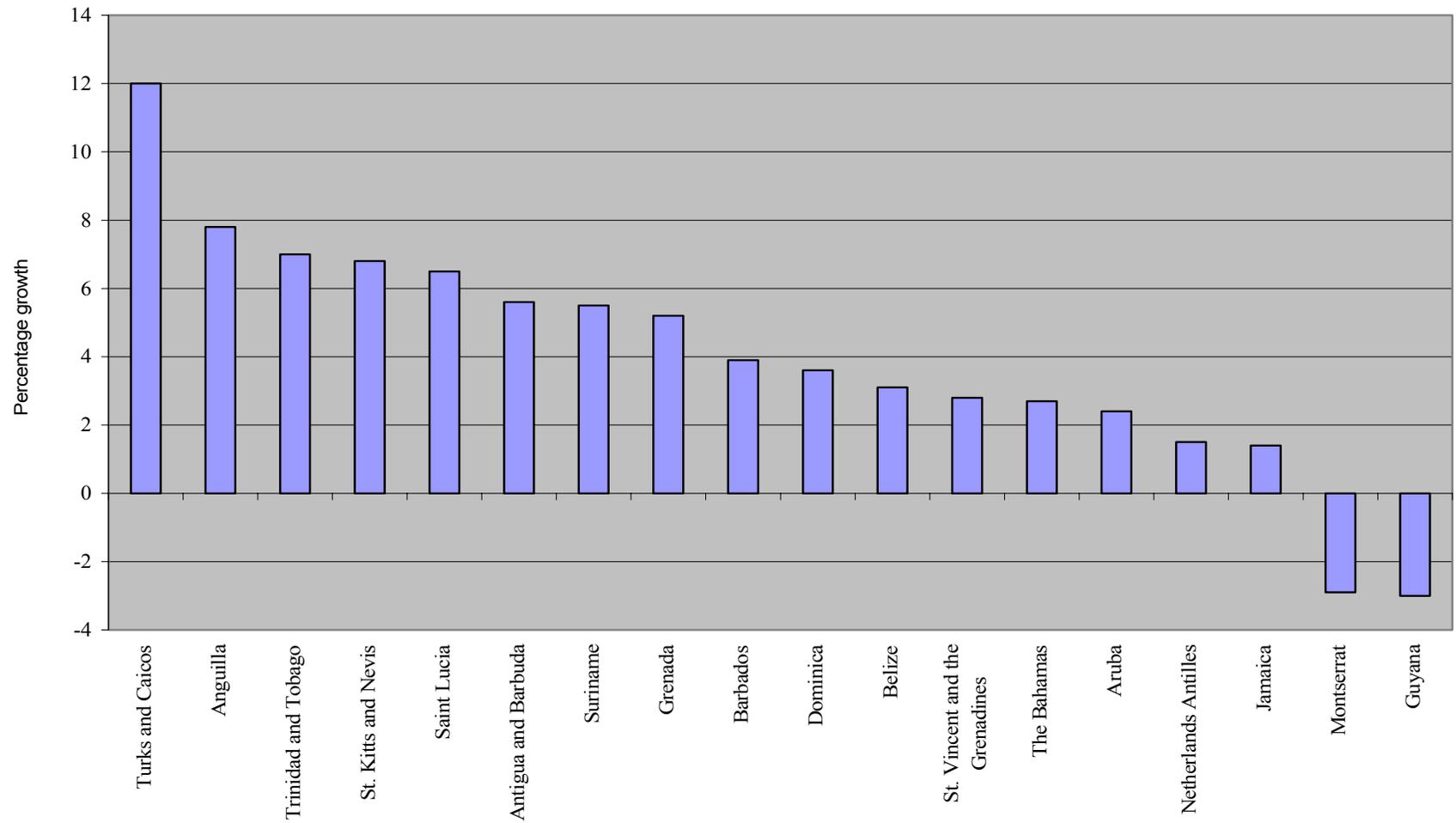


Table 2
Real GDP growth by sectors of economic activity 2005

	Agriculture	Mining and quarrying	Manufacture	Electricity, gas and water	Construction	Wholesale and retail trade	Restaurants and hotels	Transport	Bank and insurance	Other services
Anguilla	1.8	6.8	2.5	13.5	8.9	8.5	12.3	8.0	5.0	3.9
Antigua and Barbuda	3.0	22.0	4.5	6.4	19.5	6.0	-2.8	1.0	6.1	4.0
Aruba	...	...	...	...	...	...	...	...	...	...
The Bahamas	...	...	...	...	...	...	...	...	...	...
Barbados	3.5	4.3	2.9	5.0	13.4	5.0	-3.8	4.8	...	4.5
Belize	0.3	3.2	-1.2	0.6	-5.6	8.1	...	2.9	4.6	-3.3
Dominica	-0.5	2.5	1.5	6.7	2.4	12.5	-0.6	-1.0	6.0	3.5
Grenada	-51.7	34.1	5.0	-11.0	70.0	25.0	-35.0	17.6	-6.0	2.0
Guyana	-10.8	-17.8	-13.8	...	9.4	8.6	...	9.4	6.1	3.4
Jamaica	-7.3	2.8	-1.0	4.1	7.0	1.1	3.4	1.2	1.1	1.6
Montserrat	1.0	111.1	1.9	14.5	-20.0	-12.4	0.0	-15.2	12.0	2.6
Netherlands Antilles	...	...	...	...	...	...	...	...	...	...
St. Kitts and Nevis	-3.9	8.0	7.8	5.3	7.8	7.0	25.7	5.5	13.2	6.5
St. Lucia	-16.0	8.1	6.0	3.9	30.0	10.8	6.0	7.7	5.6	3.0
St. Vincent and the Grenadines	-2.7	2.1	3.5	7.9	5.0	3.0	18.0	-4.3	5.7	3.5
Trinidad and Tobago	-0.5	10.9	8.6	...	8.1	6.4	...	...	0.5	1.1
Turks and Caicos	7.2	24.6	9.1	5.3	24.6	10.4	15.5	5.4	11.7	13.0
Suriname	-0.1	20.7	4.0	7.3	10.5	6.3	...	10.8	2.5	0.6
Average	-5.1	16.2	2.8	5.3	12.7	7.1	3.5	3.8	5.2	3.6

Note: In the cases of Belize, Guyana, Trinidad and Tobago and Suriname, restaurants and hotels are included under wholesale and retail trade.
... denotes not available.
Source: ECLAC on the basis of official information.

1.2 *Primary activities: Agriculture*

Agriculture maintained its trend and stagnated or contracted in all countries except Barbados. The OECS countries (-12%), in particular Grenada (-52%), and also Guyana (-11%) and Jamaica (-7%) are cases in point (table 2).⁵

The performance of agriculture is explained mainly by external shocks (natural disasters and adverse climatic conditions, the hike in oil prices, and to a lesser extent, pests and diseases) that curtailed output by increasing production costs or disrupting distribution channels.

Unfavorable international prices for bananas and other products led farmers to curtail production and avoid impending losses in Belize and the OECS.⁶ Institutional factors such as labor disputes (Guyana) and difficulties in credit access (Grenada) also contributed to agricultural stagnation and decline.

The impending liberalization of highly protected Caribbean agricultural markets, envisaged in the Economic Partnership Agreement with the European Union, has led countries with an important agricultural sector to rethink their agricultural policy⁷. Some have opted to modernize and diversify the agricultural sector. Others have decided to move away from agriculture in a gradual or outright manner. Belize, Guyana and Jamaica have followed the first course of action. The OECS member States have opted for the second alternative.⁸

Jamaica outlined a sugar industry policy with the following main objectives: (a) to concentrate on the production of raw sugar, molasses, and ethanol; (b) to increase the production of sugar to meet the quotas granted in the United States, European and domestic markets; and (c) to identify business partners.⁹

In view of the sugar reform announced by the European Union, Guyana has put in place reform measures to restructure its sugar industry. Guyana's sugar industry contributes 50% to overall agriculture and 17% to its GDP. It is the largest foreign export earner. It employs 17,500 workers and is the main support for 24% of Guyana's population.¹⁰ The cost of restructuring the industry is estimated to be within the vicinity of US\$600 million over the next six years (2006-2012). The plan includes the Skeldon Modernization Project (11% of total sugar production in

⁵ According to the World Bank, the agricultural sector in the Caribbean expanded by 1.4%, 0.5%, 0.3% and 1.2% in the 1960s, the 1970s, the 1980s and the 1990s. See, World Bank (2005) *A time to Choose. Caribbean Development in the 21st Century.* (World Bank: Washington D.C.). Also see, Long-Term Growth in the Caribbean, ECLAC, 2005, LC/CAR/L.63.

⁶ The potential conversion of the banana import regime from a tariff quota regime to a single tariff structure in 2006 is also highlighted as a contributing factor to the performance of bananas. See, *Review of the Economy, St. Lucia, 2005.*

⁷ The Economic Partnership Agreement aims to turn the non-reciprocal trading arrangement with Europe into a fully reciprocal one.

⁸ See the Budget Speech by the Prime Ministers of St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines.

⁹ See *Economic and Social Survey of Jamaica, 2005.* The Planning Institute of Jamaica. (Kingston: Jamaica).

¹⁰ According to the government the effects include the reduction in the sugar price by 37%, the loss of US\$37 million in revenue and foreign exchange earnings. These effects amount to a loss in output of two factories. ECLAC calculations estimate that these effects represent a 13% reduction in the current sugar output. See, *Development in the Guyana Sugar Industry.* Presentation by the Guyana Sugar Cooperation. January 7, 2005. Georgetown.

2005), the diversification within the industry through the production of ethanol and other by-products.¹¹

Belize aims to modernize and diversify its agricultural sector, for example, through the development of farm-raised white shrimps. Between 1996 and 2005, its production volume has expanded from 1 million to 18 million pounds marking an average growth rate of 30%. However, the decline in prices, which began in 2000, affected its value.¹²

Contrarily, member countries of the OECS have decided to concentrate their resources in the development of tourism. Banana and other agricultural production have declined significantly in the past few years.¹³ In 2005, the Windward Island banana output contracted by 26% and sugar declined by 24%. The production of nutmeg and the agricultural crop was virtually annihilated in Grenada by Hurricane Ivan (2004). The recovery of the agricultural sector in Grenada has been slow due to the time required for crops to mature, limited capacity on the part of the government, high costs of production and the advanced age of farmers.¹⁴

The most radical policy stance is the one adopted by St. Kitts and Nevis whose government decided to cease the production of sugar for export under the European Union/African, Caribbean, Pacific (EU/ACP) Sugar Protocol Agreement and close the sugar industry on 30 July 2005. The sugar industry employed roughly 1,000 employees and its operations had become increasingly less relevant to the economy and more onerous for the government. The government offered a severance package for sugar workers equivalent to US\$10 million. These expenses are likely to increase the industry's liabilities which currently stand at US\$129 million (28% of GDP). The government has also reported the completion of an Adaptation Strategy and Action Plan that are required by the European Union to mitigate impact of changes in the Sugar Protocol.

1.3 Primary activities: Mining

Mining registered a strong expansion (16% on average for the Caribbean, (see table 2 above) due to the rise in the international prices of most of its products including petroleum, alumina and gold. The average spot price of crude oil rose by 42% (US\$53 and US\$42 per barrel in 2004 and 2005) while that of alumina rose by 11%.

These effects were strongly felt in Trinidad and Tobago and to a lesser extent in Jamaica and Suriname. The oil price hike had a systemic effect on the economy of Trinidad and Tobago

¹¹ Skeldon is expected to increase its production from 38,000 to 110,000 tonnes of sugar as a result of the modernization efforts. The diversification outside the industry comprises the development of cattle farming and cash crop cultivation. Overall, it is expected that the measures will expand output from 338,000 to 450,000 tonnes, representing an increase of 33%. However, the fiscal costs in terms of capital expenditure have been significant

¹² The international price of farmed raised white shrimp fell from US\$4.94 to US\$3.12 per pound.

¹³ See, Address Delivered by the Prime Minister of S. Kitts and Nevis, The Hon. Denzil L. Douglas on 13 December 2005, Basseterre, St. Kitts.

¹⁴ See, Grenada: A Nation Rebuilding. An assessment of reconstruction and economic recovery one year after Hurricane Ivan. The World Bank. October 31, 2005 (Washington D.C.: The World Bank). The World Bank Reports that in June 2005 most agricultural assets damaged or destroyed during the Hurricane had not been recovered.

as the energy sector accounts for 42% of GDP and roughly half of tax revenue and fully 86% of merchandise exports.¹⁵

In the case of Trinidad and Tobago, exploration and production activities are the largest contributor to GDP within the energy sector (25%). Refining operations account for 7% while petrochemical products reached 6%.

For its part, Jamaica was not able to fully take advantage of the increased price of alumina due to mechanical difficulties, labor disputes which limited the alumina output, and adverse weather conditions. The capacity utilization rate in the bauxite industry increased from 74% to 90% between 2004 and 2005.

1.4 The tourism sector

In spite of its overall moderate economic performance (3.5% on average for Caribbean, table 2), tourism was the motor of the economic activity in Anguilla (12%), St. Kitts and Nevis (26%), Turks and Caicos (16%), Bahamas, Belize (2.9%), and Jamaica (3.4%) and in the majority of OECS member States (1.5%). For these economies, tourism had a catalytic effect on manufacturing, transport and communications and especially on the construction sector. In Aruba and Curacao, tourism stagnated (0.5% and 0.8%) while in Barbados tourism contracted (-4%).¹⁶

This performance is explained in part by the hike in oil prices, which led to an increase in hotel rates and airfare costs, an active hurricane season and the slowdown in the growth of external demand. The effects of natural disasters on the United States, the leading country of origin of tourists jointly with the United Kingdom, also hampered the performance of the industry.

The contribution of tourism to the economy is generally measured by hotels and restaurants which in fact captures a small part of tourism activity. As a result, to gauge its impact more precisely, some Caribbean countries have begun to develop Tourism Satellite Accounts (TSA). The Bahamas undertook this exercise in 2006 (See box 1 below).

Tourism activities in the Caribbean comprise several main modalities, including sports and culture, cruise-ship tourism and yachting, and all inclusive stop-over visits.

¹⁵ According to the Budget 2006, the Government of Trinidad and Tobago expects the price of oil to remain above the US\$45-\$50 range per barrel over the medium run and natural and petrochemical prices to remain buoyant. Budget Speech 2005/2006, Trinidad and Tobago.

¹⁶ In the case of Aruba the 0.5% refers to the rate of growth of total visitors between 2004 and 2005.

¹⁸ In 2005, St. Kitts and Nevis announced the implementation between 2007 and 2010 of several private sector owned tourism projects whose cost exceeds US\$700 million.

Box 1**The measurement of the impact of tourism: The case of the Bahamas**

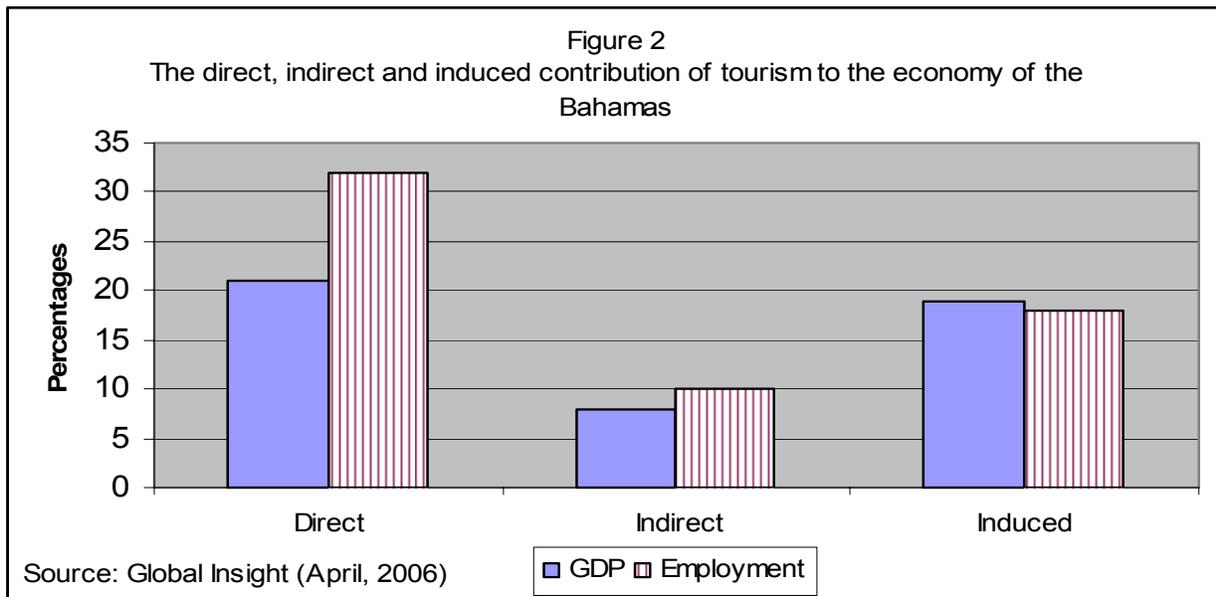
In 2006 the Bahamian authorities attempted to measure the contribution of tourism to the economy through the pilot development of Tourism Satellite Accounts (TSA) framework. The TSA approach distinguishes between the total and direct impact of tourism. The total impact is measured by tourist expenditure, which falls into the following four categories: (percentage of total tourist expenditure in brackets)

- Visitor spending (82%)
- Resident spending (6%)
- Government spending (4%)
- Capital investment (8%)

It is thus possible to obtain the contribution of tourism demand to the economy's final demand. In the case of the Bahamas, tourism contributes 80% of the country's export earnings and roughly 11% of capital investment and government expenditure.

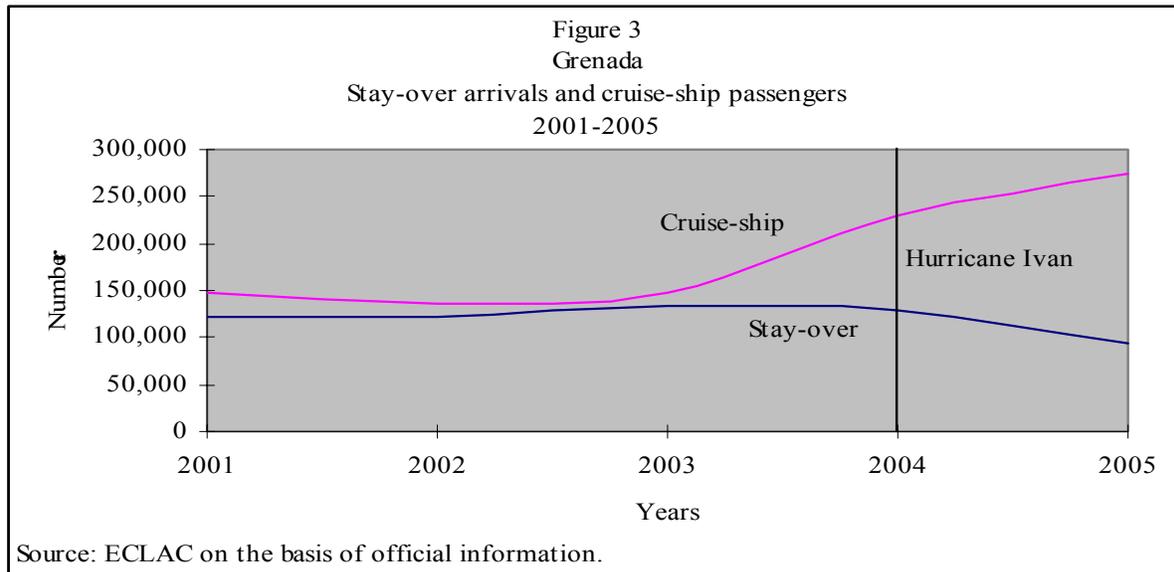
Through a national accounting procedure, the TSA estimates the direct and indirect tourism GDP. The direct tourism GDP is equal to tourism's final demand minus intermediate demand and is comparable to other sectoral GDPs such as agriculture or manufacturing GDP. The analysis can be extended to measure the indirect and induced effects of tourism on the Bahamian economy. The indirect effect measures the spillover effect of tourism activity into other sectors. Finally, the induced effects refer to the tourism multiplier effect (which for the Bahamas was estimated to be 1.56) generated by the expenditure of wages of the recipients of direct and indirect effects. The direct, indirect and induced effects on GDP and employment are shown in figure 2 below.

Source: The Bahamas. Total Tourism Economic Impact. Global Insight (April, 2006). Preliminary results.



Cruise-ship tourism is among the fastest growing modalities since 2004. Caribbean cruise ships are owned by American firms that have a total fleet of 120 vessels representing 220,000 beds. Nonetheless, the economic contribution of cruise ships is still below that of stayovers. Within the Caribbean, Belize has experienced the fastest growth in cruise-ship visitors. Between 1998 and 2005, their number increased from 14,000 to 270,000.

Cruise-ship tourism is less vulnerable to external shocks than stay-over tourism and was able to show greater resilience to the detrimental effects of the 11 September events. The example of Grenada shows that the performance of cruise ships was not affected by Hurricane Ivan. Contrarily, stay-over tourism was heavily affected (See figure 3 below).



The development of cruise-ship tourism needs to address major challenges. It requires significant investments to avoid cruise-ship traffic jams such as those experienced in Belize. It also requires policies to avoid the deterioration of the environment (as in the case of golf tourism due to the use of fertilizers) and other negative effects. Finally, in some cases the growth of cruise-ship tourism also poses an obstacle to the development of stay-over accommodation.

In the case of the Turks and Caicos, the government is contemplating capitalizing on the types of tourism found in the Caribbean. They are considering the possibility of orienting the resources and potentialities of its different islands to different types of tourism or, in other words, to specialize islands into being the providers of a specific type of tourism. The stage would be then set for collaboration and for exploiting the complementarities of different types of tourism within one State.

1.5 The construction sector

The construction sector was in fact the sector that experienced the highest growth rate (12.7% on average for the Caribbean, see table 2 above). This performance is explained by several factors.

Some countries undertook expansionary policies to boost internal demand and growth. Saint Lucia and Trinidad and Tobago are two cases in point. In Saint Lucia, public capital expenditure increased from 5.7% to 7.4% of GDP between 2004 and 2005. It will rise further as

the government is planning to refurbish part of Castries including its streets, the waterfront promenade and the Central Market. The government also plans to invest in a home repair programme for the elderly. Similarly, in the Bahamas, capital expenditure rose by 86% in 2005 due to building expansion and maintenance of educational and transport infrastructure.

The performance of construction is also explained by the rise in capital inflows for personal, business and official purposes. In the Bahamas, the increase in mortgage residential lending (53% in 2005) sustained the dynamism of the sector. In the majority of OECS member States,¹⁸ the Bahamas, Belize, Barbados and Jamaica the dynamism in the construction sector was associated with private foreign direct investment flows destined to tourism-related projects. Official flows, as in Guyana, for the transformation of the sugar sector or for natural disaster reconstruction and recovery efforts in The Bahamas, Grenada, Jamaica and Dominica were an important contributing factor.

Finally, construction also benefited from the preparations related to the Cricket World Cup (2007). They have an important expectations effect, bringing forward planned investment in fixed capital equipment and in general in tourism infrastructure. In nine Caribbean countries, cricket stadiums are being built or repaired. Some of the capital is provided by private firms. In Antigua and Barbuda, Grenada and Guyana, the construction and repair of cricket stadiums are financed partly with grants from the People's Republic of China and India.

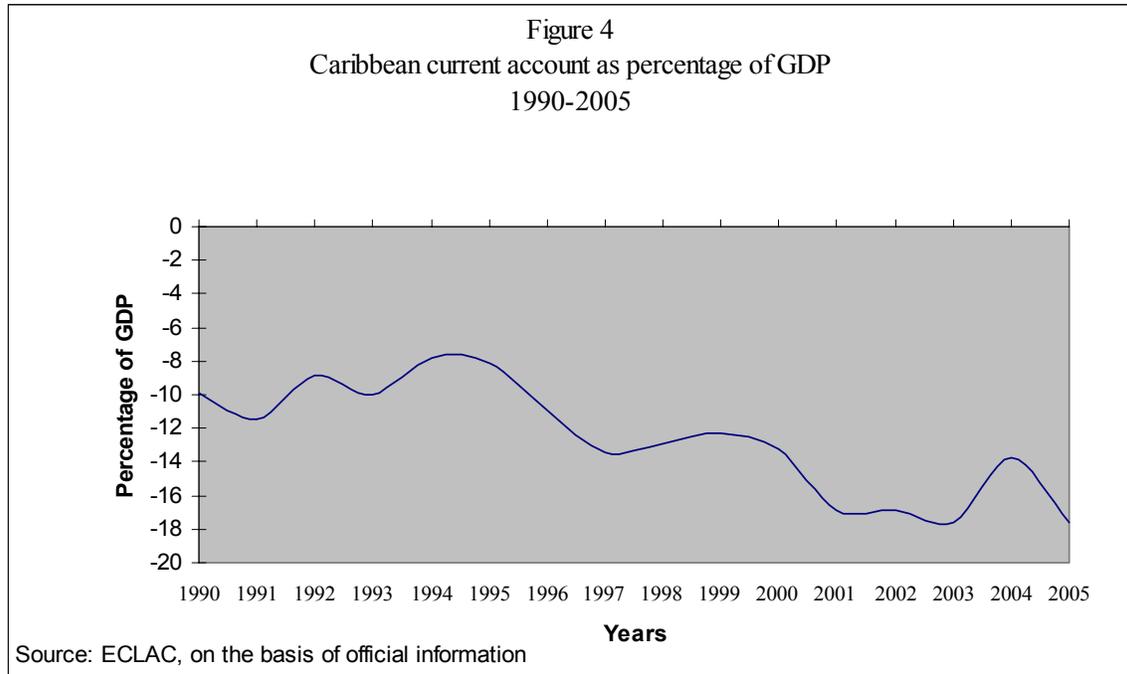
It is estimated that the Cricket World Cup (March 2007) will bring an additional 100,000 tourists to the region. Activities for the preparation of the event will surpass US\$400 million (see section on the Cricket World Cup).

2. The external sector performance

The current account position deteriorated for all economies except Belize, Saint Lucia and especially Trinidad and Tobago, which is the only economy that recorded a surplus (20% of GDP for 2005). On average the current account deficit for the region increased from 9% to 17%¹⁹ between 2004 and 2005, continuing its tendency to widen and to make the external constraint binding. Figure 4 shows the evolution of the current account for all economies for which data is available, with the exception of Anguilla and Montserrat due to their extremely high current account imbalances (-32% and -45% of GDP for 2005).

The OECS member States, in particular Montserrat and Anguilla, Dominica Grenada, St. Kitts and Nevis and St. Vincent and the Grenadines, registered the highest external imbalances followed by Guyana.

¹⁹ If Trinidad and Tobago is excluded from the sample the deficit increased from 10.5% to 20.1% of GDP.



The evolution of the current account responded in most cases to the significant rise in imports of goods (6% and 9% in real terms for 2004 and 2005) as imports of services contracted (5% and -2% in real terms for 2004 and 2005).

The behavior of imports reflected in turn a higher energy bill (all countries with the exception of Trinidad and Tobago), the increase in the food imports in some cases to compensate for the shortfall in agricultural production (Jamaica and Guyana) and the rise in the purchase of construction materials.

The energy import bill which has increased steadily since 2002 reached 17% of total imports and 12% of GDP in 2005 (see table 3 below). Domestic supply factors such as the closure of the Petrojam Refinery in Jamaica contributed to this result.

Table 3						
Petroleum imports as percentage of total imports and percentage of GDP						
for selected Caribbean economies						
2000 – 2005						
	2000	2001	2002	2003	2004	2005
As percentage of total imports						
The Bahamas	...	...	...	...	...	...
Barbados b/	8.4	8.1	8.8	11.3	13.5	15.1
Belize c/	14.4	12.4	8.7	10.0	13.2	15.6
Guyana d/	15.5	16.4	15.7	19.1	21.6	26.3
Jamaica e/	14.6	13.0	12.8	16.5	19.9	25.3
OECS f/	6.1	6.3	5.0	6.6	7.6	8.6
Suriname g/	5.0	12.7	10.7	12.0	11.3	...
Trinidad and Tobago h/	28.8	22.1	23.2	24.5	23.4	29.8
Average	13.3	13.0	12.2	14.3	15.8	17.2
As percentage of GDP						
The Bahamas	4.1	5.7	4.4	4.7	5.1	5.4
Barbados	5.0	4.6	5.3	6.6	8.1	9.0
Belize	10.5	8.9	6.2	6.8	7.5	8.8
Guyana	17.0	18.5	17.5	19.9	21.7	28.2
Jamaica	8.8	8.1	8.2	11.0	12.0	14.4
OECS	4.1	4.0	3.3	4.2	4.6	4.8
Suriname	6.6	10.3	7.0	8.0	6.9	...
Trinidad and Tobago	13.1	10.4	11.2	9.9	9.6	10.5
Average	8.6	8.8	7.9	8.9	9.4	11.6
Note: ... denotes not available. a/The Bahamas: Fuels, lubricants and related materials b/ Belize: SITC mineral fuels and lubricants. Statistical Office c/Barbados d/ Guyana: Fuels and lubricants. e/ Jamaica: Crude oils, other fuels and lubricants. f/ OECS: Petroleum related imports g/ Suriname: mineral fuels except lubricants h/ Trinidad and Tobago : Fuels i/ Preliminary						
Source: On the basis of official information						

The overall evolution of imports was in some cases reinforced by the stagnation of non-fuel commodity exports. In other cases the increase in imports managed to offset export gains, as in the case of mineral exports (including petroleum products, alumina, bauxite, gold), which improved their performance due to higher international prices and increased demand. On average the performance of exports deteriorated (see figure 6 below).²⁰

²⁰ Export performance is measured by the ratio of exports to the average propensity of import (i.e. the ratio of imports to GDP). When exports equal imports, the ratio is equal to GDP. The ratio can be computed in terms of percent deviation from GDP. A value of 0 indicates external equilibrium. Other values show the percent deviation of the external account from its equilibrium value. Figure 7 below shows the export performance ratio expressed as a percentage deviation from GDP, for CARICOM as a whole.

The rise in the price of petroleum products, representing 85% of commodity export earnings for Trinidad and Tobago, responded partly to supply side considerations. These include the curtailment of production from non Organization of Petroleum Exporting Countries (OPEC) producers, the reduction in excess capacity by OPEC producers, and adverse weather conditions in the developed countries.

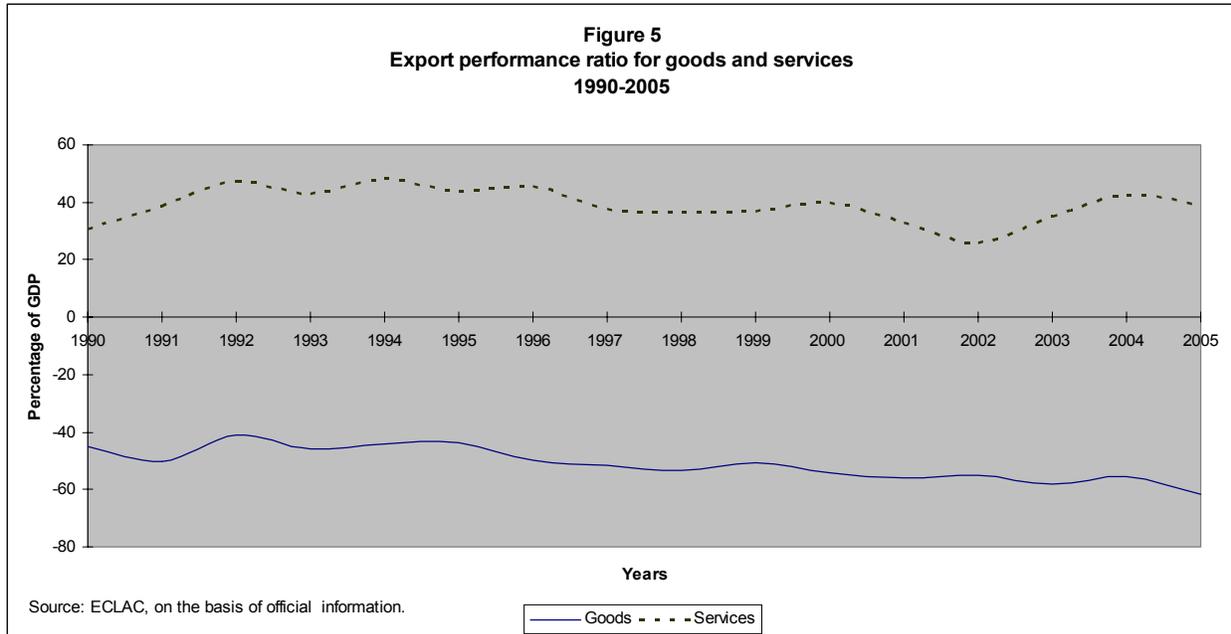
For its part the higher prices for alumina and bauxite, which account for more than 80% of Jamaica's traditional exports benefited mainly from increased demand from The People's Republic of China, domestic plant expansion and higher levels of capacity utilization.

Guyana was able to benefit only partly from the favorable prevailing conditions in the international gold market. The gold which is the most important traditional export product witnessed an output contraction (-25%) due to the closure of the OMAI gold mines operation.

The external sales of agricultural products declined mirroring the contraction in output. This resulted from adverse climatic conditions and in particular the detrimental effects of natural disasters. Such was the case for Jamaica where agricultural exports declined by -54%. In Guyana the January 2005 floods caused a contraction of -21% in sugar output which is the major export product. Grenada still suffered from the effects of Hurricane Ivan that wiped out the nutmeg crop.

Other factors such as reductions in acreage planted, technical and organizational difficulties as well higher costs of production and disease were contributing factors to the agricultural export performance in Barbados and Belize.

Manufacturing sales had a mixed performance. Manufacturing exports with a significant agricultural content contracted in line with the trend in non-fuel primary products. Contrarily, higher value products such as beverages, canned foods and chemicals marked significant increases for most economies.



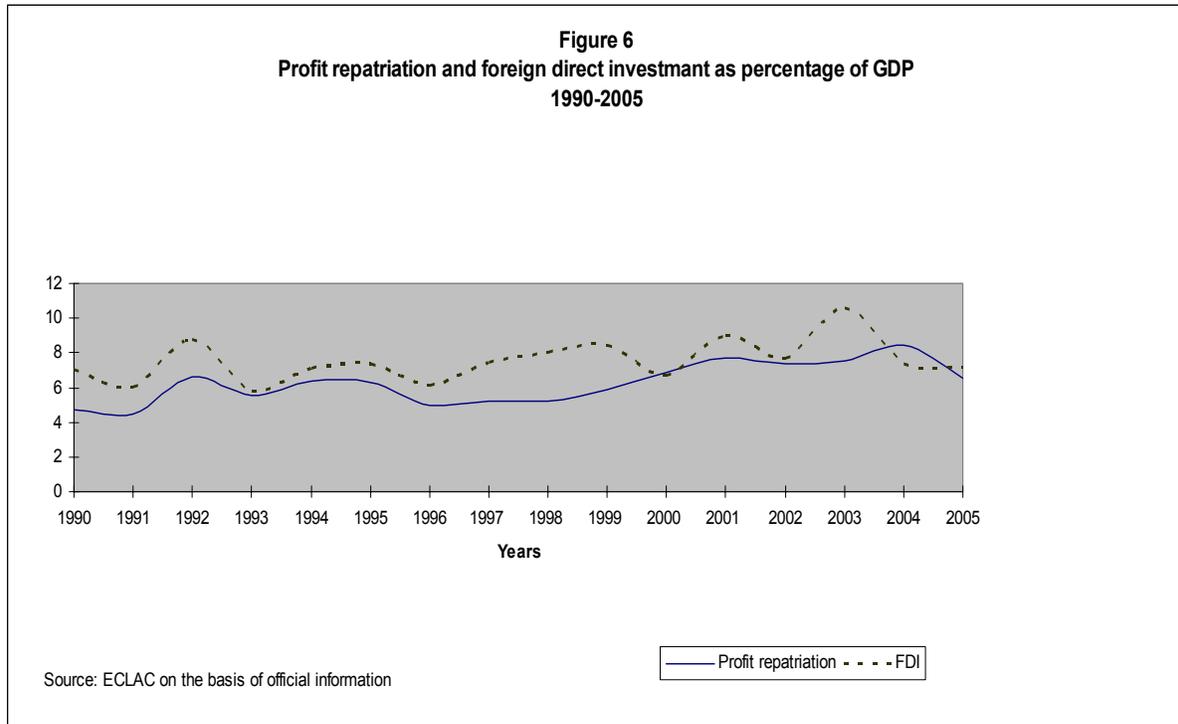
Exports of services decreased in most countries reflecting the lackluster performance of tourist earnings. The aggregate data for CARICOM indicates that the total number of cruise-ship passengers declined (-5%). This behavior was replicated for all countries with the exception of Jamaica and Grenada.

The case of Jamaica responds to the rerouting of passengers to the island following the natural disasters that affected Cancun, one of the country's main tourist competing destinations. The increase in hotel room capacity was also a contributing factor.

Contrarily the number of stay-over visitors increased (4% in the aggregate) albeit at a more moderate pace than the previous year. The exceptions to this trend include Antigua and Barbuda, Barbados, Dominica and Grenada.

The current account imbalances were financed by foreign direct investment flows, external debt issues, and other financial liabilities.

Foreign direct investment is the main component of capital flows accounting for 80% of the result of the capital and financial account. Foreign direct investment flows were oriented at tourism, construction, mining and communications, and remained on average at the level of the previous year (7% of GDP). It financed on average less than half of the current account deficit. Tourism-oriented economies and in particular Antigua and Barbuda, Barbados and Saint Lucia recorded the largest levels of foreign direct investment flows (12% of their GDP).



The attraction of foreign direct investment is an important component of the policy of smaller economies such as those of the Caribbean whose growth potential is balance-of-payments constrained. However, foreign direct investment does not necessarily stimulate domestic investment and may harden the external constraint because it leads to increased imports and profit repatriation. In fact profit repatriation flows are highly correlated with foreign direct investment (the correlation coefficient is 0.53) and are as significant (roughly 7% of GDP for 2005) (see figure 7 above). It is within this context that some countries such as Jamaica are trying to orient their efforts to the attraction of export promoting foreign direct investment.

Alternatively, The Bahamas, Barbados, Belize, Grenada, Jamaica and Trinidad and Tobago turned to external debt issues for balance of payments support and the refinancing or restructuring of debt obligations (see section on external debt for greater detail).

Official aid continued to be important for economies affected by natural disasters (Grenada, Guyana, Jamaica), those which undertook debt restructuring efforts (Antigua and Barbuda, Dominica, Grenada and Guyana) and/or adjustment efforts (Dominica). Official flows were also instrumental in financing part of the preparations for the Cricket World Cup in 2007 as in Antigua and Barbuda and Grenada.

3. Fiscal policy in the Caribbean

During 2005, Caribbean countries moderated the expansionary character of their fiscal stance. This reflected countries' efforts to adjust their government accounts.²¹ (See figure 8 below.) One group of countries including The Bahamas, Dominica, Jamaica, and St. Kitts and Nevis reduced their fiscal gap.²² In this group, the evolution of the fiscal accounts is explained by country-specific factors and circumstances (see table 4 below).

The Bahamas benefited from favorable external conditions and greater demand for imports. The government introduced a series of measures to improve the administration of tax collections. These included the modernization of payment systems, the expansion of the tax base, and the improvement in procedures to recoup tax arrears.

St. Kitts and Nevis' performance was determined by the increase in official aid (grants), which represented 6% of GDP for 2005. Dominica's fiscal result (-9.3% and -0.4% of GDP for 2004 and 2005) responded to the ongoing implementation of an adjustment programme which started in 2002 with the aim of promoting macroeconomic stability and economic growth. Employment cuts are planned for 2006.

Jamaica managed to reduce its deficit (-5% and -3% of GDP in 2004 and 2005) falling short of achieving its balanced budget goal. The Jamaican authorities are poised to reduce the country's debt levels (133% of GDP in 2005), which is the major obstacle to the medium-term development of the country. The debt service absorbs 65% of government expenditure. In addition, the debt level stifles the growth of credit to the private sector as half of commercial banks assets are held in the form of government treasury bonds.

²¹ Formally,
 $FS = G / (T/GDP)$

Where,

FS = fiscal stance

G = government revenue

T = total tax revenue

GDP = Gross Domestic Product

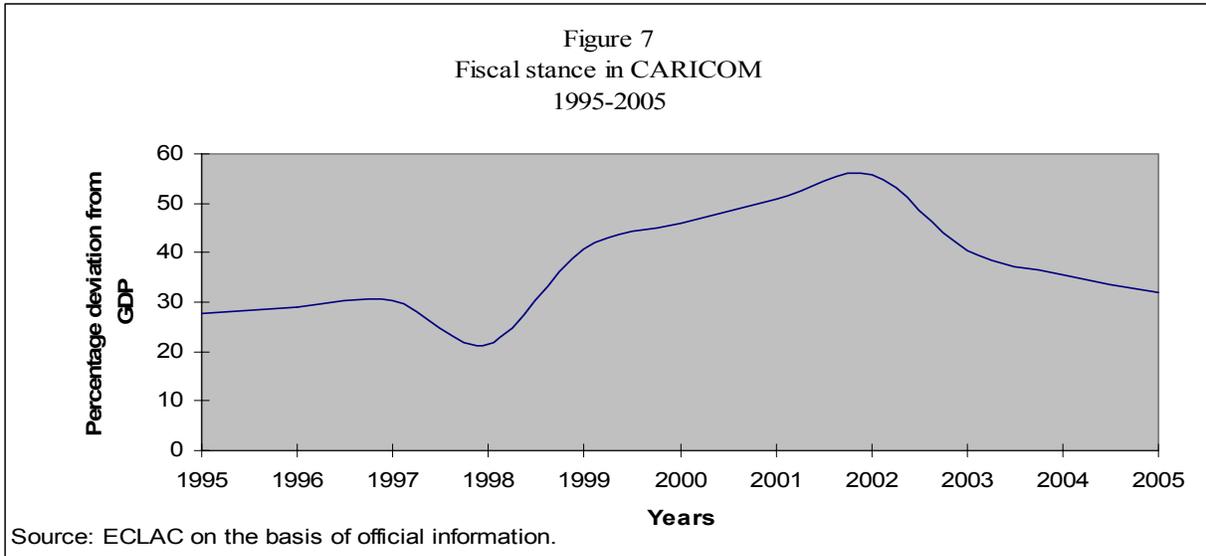
When the fiscal stance is neutral, that is when tax revenue covers government expenditure, $G=T$ and the fiscal stance is equal to GDP ($FS=GDP$). The fiscal stance is said to be expansionary when $G>T$ and $FS>GDP$. It is restrictive if $G<T$ and $FS<GDP$. In the case of most Caribbean countries the fiscal stance (FS) has been expansionary from 1995 to 2005.

²² The analysis is undertaken on the basis of the global fiscal result without grants since it reflects the policy option of the government authorities.

Country	Table 4 Global and primary fiscal results with and without grants as percentage of GDP											
	Primary result (not grants)			Primary result (with grants)			Global result (without grants)			Global result (with grants)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Barbados	2.3	2.6	0.7	2.3	2.6	0.7	-2.7	-2.2	-4.0	-2.7	-2.2	-4.0
Bahamas	-4.5	-0.5	0.2	-0.3	-0.5	0.2	-2.4	-2.5	-1.9	-2.4	-2.5	-1.9
Belize	-8.2	-1.9	0.6	-7.1	-0.2	1.3	-9.3	-7.7	-7.0	-11.0	-6.0	-6.4
Guyana	-8.8	-8.4	-18.1	-3.0	-2.0	-9.6	-15.0	-13.4	-22.7	-9.1	-6.9	-14.2
Jamaica	11.9	11.1	10.5	12.0	11.9	10.6	-5.9	-5.6	-3.4	-5.8	-4.8	-3.3
Trinidad and Tobago	0.3	1.6	6.3	0.3	1.6	6.3	4.0	4.6	9.0	4.0	4.6	9.0
Suriname	1.3	-0.6	-1.2	2.6	0.8	-0.3	-0.7	-2.2	-2.9	0.7	-0.8	-2.1
Anguilla												
Antigua and Barbuda	-4.6	-0.1	19.7	-2.4	2.0	21.6	-6.7	-5.1	-6.2	-6.2	-3.0	17.9
Dominica	-2.4	-3.9	2.9	2.1	4.3	6.7	-8.5	-9.3	-0.4	-3.9	-1.1	3.5
Grenada	-4.5	-4.4	-5.7	0.4	3.3	6.2	-9.8	-10.5	-10.2	-4.8	-2.8	1.8
Montserrat												
St. Lucia	-6.4	-0.3	-0.8	-4.2	-0.1	-0.6	-9.1	-3.3	-3.9	-6.9	-3.1	-3.7
St. Kitts and Nevis	-1.2	-0.7	0.8	-0.5	-0.4	3.5	-8.7	-8.2	-6.6	-8.1	-7.8	-4.0
St. Vincent and the Grenadines	-1.0	-1.2	-2.8	-0.4	-0.5	-2.3	-3.7	-3.7	-5.8	-3.1	-2.9	-5.3

Note: Computations were carried out on the basis of calendar fiscal year basis when available.

Source: On the basis of official data



Jamaica is seeking to reduce its budget deficit by containing the growth of the two main components of current expenditure, the wage bill and debt service obligations denominated in local currency.

Jamaica also implemented a tax reform package to boost government revenues, which registered only a modest success due to the detrimental effects of natural disasters. The tax measures included among others, increases in tourism taxes, the personal income tax base, the General Consumption Tax and Special Consumption Tax Rates, and the rationalization of the Corporate Income Tax.

Contrarily a second group of countries, comprising Antigua and Barbuda, Belize, Barbados, Guyana, Saint Lucia, Suriname, and St. Vincent and the Grenadines opted for an expansive fiscal policy.

Within this group Antigua and Barbuda, Saint Lucia and Guyana expanded capital expenditure. The first two countries' policy stance is explained by the World Cup Cricket preparations. Antigua and Barbuda's result was tempered by its tax reform efforts. These include the re-introduction of the personal income tax, the sales tax, a voluntary severance package to curtail public employment (see table 5 below).

Guyana's increased expenditures corresponded to the Skeldon Sugar Modernization Project (7% of GDP) and the reconstruction and rehabilitation activities following the January-February floods.

Barbados, Belize, and St. Vincent and the Grenadines registered an increase in current expenditures. Barbados increased the transfers to public firms. St. Vincent and the Grenadines' performance reflects the increase in the wage bill, which also explains partly the outcome in Belize.

Table 5 Selected Fiscal Measures in 2005				
Countries	Revenue		Expenditure	
	Direct taxes	Indirect taxes	Current	Capital
Antigua and Barbuda	Reintroduction of the income tax.	5% retail sales tax and a 7% excise tax.	20% cut in public employment.	
The Bahamas		Implementation of a customs information management system. Increase in tariff exemptions for construction and tourism sectors.	Increase in public sector wages.	
Barbados	Reduction in its tax rate from 40% to 37.5% on taxable income above BD\$24,200. Increase in personal allowance from \$17,500 to \$20,000.			
Belize		Increase in sales tax rates and in excise taxes on beer, alcoholic beverages, soft drinks and tobacco.	Reduction in central government employment by 1.5%. Freeze on wages and salaries.	Reduction in capital expenditures.
Dominica			20% cut in public employment.	Natural disaster rehabilitation efforts.
Grenada	Special levy on income for a five-year period.	Increase by 15% in petroleum retail prices. Increase in excise taxes on alcohol and tobacco.	Natural disaster rehabilitation efforts.	Natural disaster rehabilitation efforts.

Table 5 ... cont'd				
Selected Fiscal Measures in 2005				
Countries	Revenue		Expenditure	
	Direct taxes	Indirect taxes	Current	Capital
Guyana			Natural disaster rehabilitation efforts.	Natural disaster rehabilitation efforts.
Jamaica	Removal of property tax caps.	Increase in excise duty in cigarettes. Increase the tax rate and base of the General Consumption Tax.	Natural disaster rehabilitation efforts. Memorandum of understanding between the government and the Confederation of trade unions.	Natural disaster rehabilitation efforts.
St. Kitts and Nevis			Closure of the sugar industry	Closure of the sugar industry
Saint Lucia	Reduction in the corporate tax rate.			Increase by 50% due to World Cup Cricket preparations.
St. Vincent and the Grenadines	Introduction of a business tax credit for small entrepreneurs, and increase in the threshold of the standard deduction in the income tax		Increase in public sector wages.	Increase by 50% due to World Cup Cricket preparations.
Trinidad and Tobago	Reform to the system of oil taxation. Increase in personal allowance. Unification of personal income taxes to 25%. Reduction in the corporate tax rate from 30% to 25%.		Subsidies to restructure the agricultural sector. Subsidies for the construction sector.	Expenditure on strategic investments.
Source: On the basis of official information				

Trinidad and Tobago increased its expenditure level (23% and 25% of GDP for 2004 and 2005, respectively) due mainly to the significant rise in transfer payments and subsidies. At the same time the government managed to more than offset the increase in outlays solely due to the expansion in oil revenues (11% and 17% of GDP for 2004 and 2005) since non-oil revenues stagnated (17% of GDP for 2004 and 2005).²³

As a result the central government recorded a sizeable overall surplus (9% of GDP). However, when the energy sector is excluded from the computations, the government registered an important fiscal deficit which has been growing and is expected to grow in the near future. This underscores the dependency of fiscal policy on the behavior of oil prices. In fact the favorable conditions in international energy markets have allowed the government to consider in its 2005/2006 budget the introduction of tax reduction measures and increases in expenditures (see section on the effects of the rise in oil prices on Caribbean economies and the country report of Trinidad and Tobago).

3.1 Debt in the Caribbean

The public debt stock in the Caribbean has, with a few exceptions, steadily increased in the past three decades especially in the smaller economies of the region, namely the member States of the OECS.

In the past decade the stock of outstanding debt for the larger-sized economies has evolved, on average, from 60% in 1990 to 79% of GDP in 2005. Among these, Jamaica and Guyana exhibit the highest indebtedness ratios.

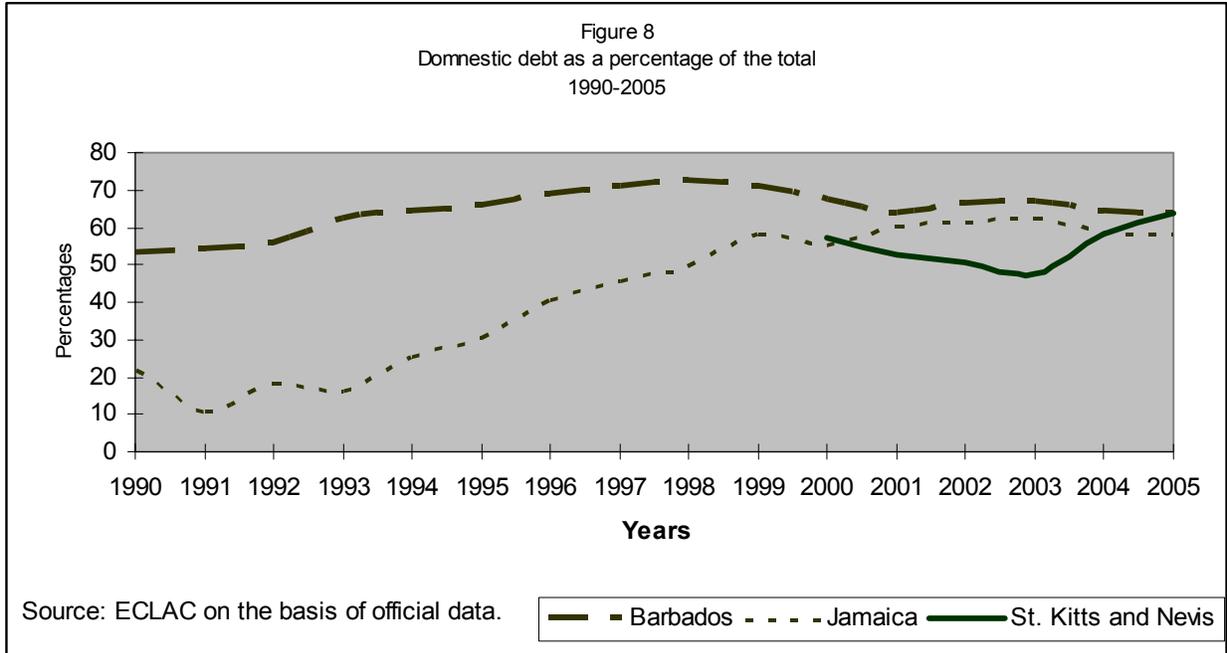
In the smaller economies the stock of debt increased from 35% to 95% of GDP for the same period. St. Kitts and Nevis, Dominica, and Grenada exhibit the highest debt to GDP ratios.

According to the available information, the bulk of the debt is held by the central government representing more than 80% of the total.²⁴ In addition, the debt is mainly financed from external sources except in Barbados, Jamaica and St. Kitts and Nevis.

Three economies (Barbados, Jamaica and St. Kitts and Nevis) have made explicit attempts to finance the debt from internal sources and in fact the stock of domestic debt represents more than 50% of the total (figure 8).

²³ These are defined as the revenues of oil companies based on oil and oil gases. These exclude petrochemical companies.

²⁴ The decomposition of total debt by borrower category is not available in the cases of the Bahamas, Belize, Jamaica, Guyana, Trinidad and Tobago and Suriname. Bahamas, Belize and the OECS provide data for the decomposition of public sector debt. In these cases, the central government account for roughly 85% of total public debt.



For Jamaica, at the end of 2005, the domestic debt stock was held mainly in short-term instruments (82% of the total with a 1-5 years maturity profile) denominated in local currency (73% of the total). Moreover, more than half of the domestic debt instruments had a variable interest rate. Contrarily, in the case of Barbados, the domestic debt is held in long-term instruments with a fixed rate denominated in domestic currency.

With the exception of St. Kitts and Nevis, Caribbean countries with very high indebtedness ratios proceeded to restructure their debt obligations or put in place fiscal measures with the aim of reducing their debt stocks.

Antigua and Barbuda renegotiated the terms and conditions of its high interest paying debt to domestic banks. The Government of Antigua and Barbuda also managed to gradually normalise its relation with external creditors and to secure a significant debt write off with an European Creditor (Italy). As a result of the measures pursued by the government, the debt stock, which had been slashed by 50% in 2004 experienced further reduction in 2005. Also in an effort to improve its debt management and to avoid continued increase in its debt stock, the government re-instituted the National Debt Co-ordinating Committee. In 2006, the government attempted to retire expensive debt and at the same time stimulate growth through the issue of three regional treasury bonds worth US\$19 million.²⁵

²⁵ The treasury bills have a maturity date of 91 days with a 6.5% discount rate.

	1990-1995	1995-2000	2000-2005
Anguilla	13.2	11.2	19.6
Antigua and Barbuda	63.8	68.7	117.6
Aruba	42.6	35.1	41.8
Barbados	34.7	68.8	83.0
The Bahamas	10.0	7.9	6.2
Belize	...	...	68.8
Dominica	48.4	54.4	119.1
Grenada	36.7	36.1	91.7
Guyana	440.9	217.2	155.3
Jamaica	124.9	92.2	141.2
Netherlands Antilles	...	70.2	77.9
St. Kitts and Nevis	24.5	48.9	152.7
St. Lucia	19.1	25.1	56.3
St. Vincent and Grenadines	31.6	40.8	73.9
Suriname	...	9.0	35.7
Trinidad and Tobago	5.7	26.5	15.2
Average	68.9	54.1	78.5

Belize increased its debt stock by placing in March 2005 two bonds in international capital markets worth US\$137 million. However, due to its low levels of credit worthiness, the country was forced to incur charges and financing fees equivalent to 1% of GDP. However, the fiscal situation remained precarious and in August 2006, the authorities defaulted on their debt obligations payments..²⁶

For its part Jamaica faced its debt problem by targeting a balanced fiscal result through expenditure control. This depended on authorities and trade unions' compliance with the Memorandum of Understanding as well as on the continued decline in interest rates. The Memorandum of Understanding (MOU) is an agreement signed between the government and the Jamaica Confederation of Trade Unions seeking to reduce the wage bill through a two-year policy of public employment and wage restraint effective 1 April 2004 until 31 March 2006.

Highly indebted poor countries (HIPC) countries, such as Guyana and economies that have been hard hit by natural disasters such as Dominica and Grenada, have addressed the debt issue by requesting debt relief from the creditors.

Guyana's debt stock decreased despite the issuance of treasury bills, whose total outstanding stock increased 4%. The maturity structure shifted towards longer-term maturities

²⁶ See, Government of Belize. Belize announces impending debt arrangement.

(79% of the total). External debt operations did not register any significant changes other than small multilateral and bilateral disbursements. These include loans provided by the People's Republic of China to finance the modernization of the sugar sector and by India for the construction of a cricket stadium to host World Cup games.

Guyana is one the beneficiaries of a recent initiative undertaken by the G-8 (London, 11 June 2005), the Gleaneagles Proposal, to cancel the debt owed by 18 HIPC to the World Bank, the International Monetary Fund (IMF) and the African Development Bank (see box 2 below).

The G-8 initiative would result in a cancellation of debt amounting to US\$283 million (\$65 million to the IMF and \$218 million to the World Bank). In addition, Trinidad and Tobago and the OPEC Fund for International Development granted further debt relief (US\$123 million and US\$5 million, respectively). Trinidad and Tobago's initiative is meant to assist with activities related to natural disaster recovery and rehabilitation.

Grenada suspended payments on its external debt obligations at the end of 2004 due to the devastation caused by Hurricanes Ivan and Emily in September 2004 and 2005 (200% and 12% of GDP). In September 2005, the authorities announced an offer to exchange new issued bonds denominated in foreign and local currency for half of its external and domestic bonds, commercial loans and guaranteed debt. The new bonds offered have a 19-year maturity period (i.e., until 2025) and a step-up coupon rate structure from 1% (2005 to 2008) to 9% (2018 to 2025). The interest payments began in March 2006.

Notwithstanding these efforts, the external debt stock increased due to additional multilateral loans and bilateral loans granted by the Government of Trinidad and Tobago. Furthermore, guaranteed government debt and capitalised interest rate charges were included as part of the outstanding debt stock as a consequence of the debt restructuring operations.

Box 2
Does debt relief work in practice?
An examination of the Gleaneagles Proposal and its impact on Guyana

Highly Poor Indebted Countries have received three debt relief initiatives. The first two focused on forgiving debt and providing a longer time frame for the repayment of the remainder debt. The Gleaneagles proposal focuses on the forgiveness of all debt owed to three multilateral agencies (the International Monetary Fund, the World Bank and the African development Bank). This is equivalent to US\$55 billion in the stock of debt and roughly less than US\$2 billion in debt service (which amounts to 0.01% of the GDP of OECD economies).

The debt relief initiative is part of the instruments to achieve the millennium development goals. However, the debt relief initiative does little to improve growth or welfare prospects. According to Arslanalp and Henry (2006) this is due to the fact that it has an insignificant impact on the net resource transfer of HIPC countries. The net resource transfer is equal to the sum of new lending, grants, portfolio equity and foreign direct investment minus the debt service. HIPC countries have a small debt service (for HIPC countries it reaches 3% on average, in the case of Guyana it is equal to roughly 1% of GDP) and receive, according to these authors, capital flows that are close to 15% of GDP. That is, HIPC countries receive more capital than they pay out.

$$(1) \text{ NRT} = \text{NL} + \text{Gr} + \text{PE} + \text{FDI} - \text{DS}$$

Where,

NRT = net resource transfer

NL = New lending

Gr = grants

PE = portfolio equity

FDI = foreign direct investment

DS = debt service

In the case of Guyana a similar result holds. The available data shows that Guyana has a positive net resource transfer (see table 7 below). Its net resource transfer was equivalent to 28% of GDP in 2005. In so far as the Gleaneagles initiative provides debt relief by reducing the debt service ratio which is the smallest component of the Net Resource Transfer equation, the overall impact may not be very significant.

Source: Serkan Arslanalp and Peter Blair Henry, Journal of Economic Perspectives – Volume 20, No 1 – Winter 2006 and ECLAC.

	Net resource transfer	New lending	Grants	Portfolio equity	FDI	Debt service
2002	13.3	5.7	8.2	-2.3	6.0	4.3
2003	11.5	9.1	5.8	-3.6	3.5	3.3
2004	12.4	6.9	6.5	-2.0	3.8	2.8
2005	27.9	14.2	8.5	0.0	9.8	4.6

Trinidad and Tobago took advantage of the favourable external environment to reduce its debt stock from 48% to 41% of GDP. The government refinanced obligations denominated in domestic currency by issuing low yield bonds with a value of TT\$800 million and a maturity of 10 years. The government also repaid existing loans to the European Investment Bank and especially the Inter American Development Bank (IDB). In 2006, the government is planning to

continue reducing its debt stock by repaying one Eurobond and six bilateral and multilateral loans totalling \$232 million. The government also expects to be debt free by the year 2030.²⁷

4. Monetary policy

With a few exceptions, notably The Bahamas, monetary policy was in the majority of cases contractive. Net oil importing countries (all Caribbean countries with the exception of Trinidad and Tobago) used monetary measures to mitigate the effect of the hike in the international price of oil on internal prices and the balance of payments.

The only net oil exporting country also adopted a conservative monetary stance to offset the expansionary liquidity effect caused by the rise in international reserves.

The decomposition of the money supply into its different components shows that the authorities intervened mainly via instruments to control credit creation by the commercial banking system (i.e., money multiplier). This included the use of price instruments such as rates of discount (The Bahamas, Jamaica and Trinidad and Tobago), open market operations to absorb liquidity and commercial banks interest rates (Barbados and Trinidad and Tobago). Central banks also used quantitative instruments (legal reserve requirements, special deposits, credit ceilings (The Bahamas, Barbados and Trinidad and Tobago). All countries intervened in foreign exchange market to defend the parity of their currency.

Barbados' monetary authority increased the discount rate by 2.5 percentage points to counteract the effect of rising oil prices on its external position. This measure was complemented by raising banks' minimum rate deposit from 2.25% to 4.25%.

In an effort to curb increases in liquidity, Trinidad and Tobago raised its repo rate eight times between January 2005 and May 2006. Contrary to the prevailing monetary trends in the region, The Bahamas reduced its discount rate from 5.5% to 5.25% in February 2005 to boost aggregate demand and growth.

For the most part, price instruments and in particular, central banks' reference rate translated into a commensurate change in Treasury Bond yields. The movements in central bank rates also affected in some cases commercial banks' interest rate structure.

In Barbados, commercial banks lending rates increased from 7.8% to 9.5%. For the Bahamas the prime lending rate rose *pari passu* with the discount rate from 5.25% to 5.5%. In Jamaica and Trinidad and Tobago the Central Bank's actions did not substantially modify commercial bank's rates of interest.

In fact, in some countries such as Trinidad and Tobago, the monetary authorities felt compelled to complement the use of price instruments with quantitative measures to control the levels of liquidity in the economy.

²⁷ This is an estimate based on current trends. See Annual Economic Survey 2005, Central Bank of Trinidad and Tobago, 2005.

Belize raised commercial bank and liquid asset reserve requirements in 2005 and 2006. Furthermore, commercial banks increased their rates on loans of all categories and the weighted average lending rate rose by 30 basis points.

The commensurate movement between Central Bank's key rates and government debt issue yields underscores the close association between monetary and fiscal policy. While there is no predetermined causality mechanism between both, in 2005, monetary policy responded to fiscal policy considerations. Jamaica and Trinidad and Tobago are the most illustrative cases.

In the case of Jamaica the reduction in the debt stock which is mainly denominated in domestic currency presupposes a policy of reduction in interest rates. The decline in interest rates reduces debt service payments leading to lower government deficits and a lower debt stock.

This has important implications for monetary policy. For one thing, the authorities are compelled to adopt a managed float. In order to maintain the international equivalence of real rates of return on alternative assets, the nominal exchange rate must depreciate in line with the reductions in domestic interest rates. Also the Central Bank must accumulate reserves in order to guarantee the credibility of its policy, to effectively intervene in the money market and to undertake foreign exchange operations in order to avoid interest rates hikes when there are unwarranted movements in the nominal exchange rate.

Finally, this type of monetary policy which is eventually conducive to higher levels of economic growth is dependent on the compliance of announced fiscal targets. If the government cannot meet an announced fiscal target the stability of the currency may be undermined. This forces the monetary authorities to intervene in the foreign exchange market provided they have an adequate level of reserves. If the Central Bank does not have the required reserve level or if foreign exchange interventions prove to be too costly then interest rate increases become the only option to maintain the stability of the currency. Higher interest rates further compromise the meeting of sound fiscal targets and at the same time have contractive effects on the economy.

In the case of Trinidad and Tobago, the tax collection from Petroleum Companies, result in a higher level of reserves which are bought by the Central Bank. The increase in international reserves is matched by higher levels of domestic liquidity in the economy. In turn higher levels of expenditure compromise inflation targets and the stability of the exchange rate. The Central Bank intervenes in the market through sterilization operations which puts upward pressure on the term structure of interest rates.

Table 8								
Commercial banking lending interest rates								
1990-2005								
Country	1990	1995	2000	2001	2002	2003	2004	2005
Anguilla	...	...	11.4	10.6	10.3	10.6	10.7	...
Antigua and Barbuda	...	...	12.21	11.5	11.3	13.4	11.3	12.6
Barbados	12.1	11.8	11.93	11.1	10.35	10.16	9.83	10.63
The Bahamas	15.03	13.26	11.74	11.47	11.33	12.04	11.25	10.40
Belize	14.3	16.3	15.8	15.4	14.5	14.2	14.0	14.3
Dominica	...	...	10.60	11.0	11.0	11.8	9.8	...
Grenada	...	...	11.49	10.1	10.5	12.1	10.0	...
Guyana	32.44	20.39	17.2	17.3	17.3	16.6	16.6	15.1
Jamaica	31.59	48.56	22.12	19.46	18.26	19.32	17.72	17.08
Montserrat	...	...	11.44	11.6	11.3	12.2	11.0	10.5
St. Kitts and Nevis	...	...	11.07	11.1	10.4	12.0	9.9	...
Saint Lucia	...	...	13.05	12.8	12.5	15.3	10.7	...
St. Vincent and the Grenadines	...	...	11.49	11.85	11.4	12	8.8	...
Suriname	...	...	29	23.5	21.3	21.0	20.0	18.1
Trinidad and Tobago	12.88	15.13	16.5	15.6	13.4	11.0	9.4	9.1
Source: On the basis of official data								

Table 9			
Monetary policy in the Caribbean for 2005			
Country	Interest rate changes	Domestic reserve requirements	International Reserves
The Bahamas	None	None	The Bahamas used its international reserves to buy imports and intervene in the foreign exchange market. The stock of international reserves declined from 667 to 620 million dollars.
Barbados	Change in the minimum deposit rate from 2.25% in April to 4.75% in November.	None	None
Belize	None	Increase in commercial banks reserve requirement by 1% in May.	None
Guyana			
Jamaica	None	None	Jamaica intervened in the foreign exchange market in the second half of 2005 foreign exchange market to stabilize exchange rate movements and restore investor's confidence. The stock of net international reserves declined from 2,422 to 2,189 between July and November (equivalent to 21 and 19 weeks of goods and services imports).
OECS	None	None	None
Suriname			
Trinidad and Tobago	Increase in the Repo rate from 5% in March to 6% in October.		The Central Bank intervened in the foreign exchange market with the aim of meeting increased demand for foreign exchange. Notwithstanding, net official reserves increased from 3 to 4 billions US\$.

Source: On the basis of official information

This can lead to situations where fiscal and monetary policy, have different and somewhat contradictory objectives. Indeed, fiscal policy may seek to stimulate the economy through increases in expenditure and lower levels of taxation. Contrarily monetary policy mostly concerned with the price and exchange rate trends in the economy will try to reign in aggregate demand and expenditure.

5. International trade negotiations and economic integration

During 2005 CARIFORUM economies (CARICOM countries and the Dominican Republic) concluded the second phase of the Economic Partnership Agreements (EPA) negotiations with the European Union and in 2006 began the third round. These are aimed at developing a consensus on the priority areas for regional negotiations; agree on the approach to trade liberalization and develop a consensus on the structure of the EPAs.

At the same time CARICOM continued its ongoing negotiations with the European Union on agriculture. These have focused mainly on sugar and bananas. In the case of the former, the European Union drafted a proposal for a reform package (July 2004) whose aim is the reduction in the preferential price of sugar.

The June 2005 package proposal imposes further cuts on the price of sugar. The sugar price would decline by 39%. In addition the current proposal includes the following measures: '(i) the EU regime will be prolonged until the end of the years 2014/2015 without a review of price and quota levels in 2008. The quota levels may change thereafter (ii) the proposal does not contemplate any compulsory quota cuts; (iii) a restructuring scheme providing a high degressive per-tone restructuring aid for factory closures and quota renunciation, plus a top-up payment to ensure sugar beet growers the possibility of receiving the full, final direct payment, in the event that they abandon production when the factory with which they have sugar beet delivery rights closes under the restructuring scheme.'²⁸

In November 2005 the European Union decided to move ahead with a 36% price reduction over the next four years beginning in 2006/2007. Among other measures, the European Union also decided: (a) to compensate farmers at an average of 64.2% of the loss due to the price cut; (b) that countries giving up at least 50% of their quota will receive a payment of 30% for the loss in income up to five years; (c) the new regime will last until the years 2014/2015; (d) the abolition of the current intervention price system and its replacement by a reference price; (e) to implement a voluntary restructuring scheme lasting four years for European Union sugar factories; and (f) the creation of a diversification fund for European Union member States where the quota is reduced by a minimum amount.

In the case of bananas the European Union decided with due notification to the World Trade Organization (WTO) to replace the existing system of tariff-quotas with a tariff only regime of 230 Euros per metric ton to be applied to bananas from Most Favoured Nation (MFN) countries. Banana producing countries rejected the tariff and called for WTO arbitration. The Disputes Settlement Body (DSB) of the WTO ruled that the proposed tariff would not improve

²⁸ The Commission of European Communities, Reforming the European Union's sugar policy. Update of impact assessment [SEC(2003) 1022]. Brussels, 22.6.2005. SEC(2005) 808.

market access for Latin American exporters. For their part Caribbean countries are concerned that the proposed reduction in tariff rates may undermine the Caribbean banana industry.

Negotiations at the regional level have become increasingly more important and relevant as multilateral agreements have not made headway in the Doha work programme. The Hong Kong Ministerial agreed to end export subsidies on agricultural exports by 2013. Countries also agreed to complete negotiations on the modalities for tariff reduction on agricultural and non-agricultural products by 30 April 2006. In the area of the services, the Hong Kong Ministerial reinforced the need to expand the coverage of services and to improve their quality. The Hong Kong Ministerial did address the issue of Special and Differential Treatment for small and vulnerable economies and requested the Committee on Trade and Development to report to the General Council by December 2006 on measures that could be effectively and feasibly implemented. The recent stalemate in the Multilateral Negotiations stalled the post-Hong Kong programme which aimed to complete Doha Round Negotiations by December 2006.

At the CARICOM regional level countries continued with the implementation of the Common Market and Single Economy. The CARICOM Single Market and Economy (CSME) seeks to achieve the articulation of the markets for factors, goods and services in the production and distribution spheres in order to achieve international efficiency and competitiveness. To this end, its explicit objectives include the free movement of goods, services, capital and persons; more intensive coordination of macroeconomic policies and economic relations; and the harmonization of laws governing trade and other economic activities within the common market area.

The CSME was formally launched in 2006 with six initial member States (Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago). The OECS member States joined in the middle of the year following the establishment of the Regional Development Fund.

The Regional Development Fund is part of the asymmetry provisions, that is, the provisions granted to disadvantaged regions, sectors and countries which are included in Chapter VII of the Revised Treaty of Chaguaramas.²⁹

While capital mobility is a reality in CARICOM, labour mobility remains limited to a few labour categories. The CSME provisions, as they stand, contemplate only the mobility of certain categories of skilled labour. CARICOM nationals have the right to live and work in any member State without work permits. These categories of skilled labour include university graduates, artistes, sports persons, musicians and media workers. The Treaty of Chaguaramas contemplates the mobility of all labour categories.

²⁹ The asymmetry issue was recognized early on in CARICOM as attested by the divide between More Developed and Less Developed countries (MDCs and LDCs) in the Chaguaramas Treaty (1973). The treaty had also several provisions providing asymmetric treatment to the LDCs. These were contained in the Special Regime for Less Developed Countries (Chapter VII, arts. 51 to 62) and in several other provisions in the Treaty.

In the Revised Treaty of Chaguaramas the asymmetry issues are explicitly addressed in Chapter VII of the revised Treaty of Chaguaramas. Following preliminary considerations Chapter VII is divided into two sections. The first provides a regime for disadvantaged countries, regions and sectors. The second provides a special regime for less developed countries.

During 2005, Caribbean countries also advanced in other areas of the CSME. Of particular importance is a regional and unified investment policy and the harmonization of investment incentives among CARICOM member States (articles 68 and 69). The texts for the harmonization of investment, incentives and fiscal policies are expected to be approved in December 2005, June 2006 and December 2006, respectively. Some of the recommendations on the provision of fiscal incentives of a report on an Action Plan for the Harmonization of the Investment Policy Framework (2004) include the removal of incentives granted on the basis of domestic value added or the development of exports, the simplification and streamlining of the current incentives regimes and the provision of incentives in accordance with WTO rules.

6. The economic outlook

The economic outlook remains positive and countries expect to improve their growth prospects. Their expectations are based on the expansion of internal and external demand. External demand will be driven by the growth impetus of developed economies. Internal demand is expected to be led by expenditure on capital and infrastructure. Mineral and tourism exporting countries will reap the most benefit.

The expansion in internal demand will have favorable consequences for fiscal revenue while at the same time capital expenditure will have the opposite effect. Countries are poised to continue with fiscal reform prospects and with efforts to improve tax collection and administration. The success in the implementation of fiscal reform will be key to achieve the near-balanced budget situations to which some economies aspire.

On the external front, higher levels of expenditure as well as the fact that expenditure will be guided towards infrastructure projects will pressure the current account position. Countries will react according to whether their exports of goods and services can match or partly offset the increase in external purchases.

The monetary policy stance will remain conservative as central bankers keep their watch for excess liquidity which in some economies has become a structural characteristic, the expansion in aggregate expenditure, and the evolution of international oil prices. A key issue that monetary authorities must refine is the choice of intervention instruments which sometimes proves to be nearly futile and costly. In addition the relation of monetary with fiscal policy will be, as in the past, of paramount importance, to determine the goals and limits of monetary policy.

Unemployment is likely to remain low at least on a temporary basis due to the ongoing expansion of some sectors of economic activity and the Cricket World Cup. In some economies there are voiced concerns about the shortage of skilled labour which must be addressed if one of the goals of the region is to improve labour productivity. Tied to this is the issue of labour mobility contemplated by the CSME provisions and which will assume a growing importance.

Finally, the Cricket World Cup has awakened significant expectations and it is of paramount importance that countries profit from this sporting event to reap long-term gains. The experience of other countries indicates that this is a real and unique opportunity.

II. ANALYSIS OF SELECTED TOPICS

1. The behavior of oil prices and its effect on Caribbean economies

1.1 Introduction

Most Caribbean economies are negatively affected when the price of oil, their main source of energy supply, rises. Only Trinidad and Tobago is a major net exporter of oil and gas and therefore benefits from price increases. This chapter seeks to discuss the effects of high and volatile oil prices on 13 Caribbean countries³⁰ and looks at measures to moderate the impact.

1.2 The CARICOM energy picture

The Caribbean is mostly made up of non-oil producing countries. Trinidad and Tobago produces about 145,000 barrels of oil and 38,627 million cubic feet of gas per day, compared to Suriname (11.500 bbls/day) and Barbados 1000 bbls/day of oil. There are refining facilities in Trinidad, Jamaica and Suriname. Trinidad's Petrotrin refinery has a capacity of 165,000 bbls per day, Jamaica's Petrojam refinery has a capacity of 36,000 bbls per day and Suriname Staatsolie NV refinery has a capacity of 7,000 bbls per day. All of these refineries have entered into or have approved upgrading programmes.

Although there is only one major oil producer, oil accounts for well over 90% of the energy supply of the economies of the member States. According to the United States Government Energy Information Administration's Caribbean Fact Sheet, in 2002 oil accounted for over 95%³¹ of the primary energy supply in the islands which import their energy supply³².

There has been some attempt to introduce the use of renewable sources of energy. Solar power, hydropower, geothermal and wind power have been tried and some are being used, with hydro power (Jamaica) and solar power (Barbados) being the most widely used among them. Although some inroads have been made oil still weighs heavily in the energy basket and the situation for the oil exporting economies remains of concern as the price of oil has risen above \$60 dollars a barrel.

1.3 Pricing of oil and its products

Among the major reasons for the high prices in the world market for oil is that demand is outpacing supply. Unlike the previous period of oil spikes in the 1970s it is not production cuts that are creating the problem, but rapidly increasing demand for energy together with uncertainty about political stability in some of the world's premier production locations. Shortage of refinery capacity is also being cited as a reason for the price hikes.

Transport and electricity make up the major part of fuel demands in the region but most of the countries have traditionally left the marketing and distribution of petroleum products in the hands of foreign multinationals. This, however, does not mean a total loss of control over prices

³⁰ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

³¹ Caribbean Fact Sheet – Energy Information Administration

³² Trinidad and Tobago, a net exporter of hydrocarbons, uses a significant proportion of natural gas in their energy supply mix.

from the governments of the region. Usually the price at the pump is subject to long-term agreements and controls. This has had its disadvantages, such as loss of income for the government, indeed instances of government subsidies.

In the case of electricity, many of the islands' electricity companies use a fuel adjustment clause which allows the company to adjust the bill in response to changes in their fuel costs.

1.4 The impact of oil prices in the Caribbean

The Caribbean energy picture shows that the region is heavily dependent on oil as its primary source of energy and so it stands to reason that high oil prices would have a great impact on the economies of the region. The negative impact that high oil prices have had on Caribbean economies are foreign exchange shortages and widening current account deficits, leading to lesser GDP growth. The negative impact on these two indicators could lead to inflation and unemployment. The purpose of this section is to measure the impact of the increase in the petroleum bill. The variables are the oil price, GDP aggregates, GDP per capita, the current account balance, the Petroleum Import Bill.³³

Most of the data was collected for the period 1980 – 2005, only the petroleum import bill data of the Caribbean countries were collected for the period of 2000 – 2005, since the data prior to those years were not sufficiently robust to produce a longer time series. The relevant data was collected for the 13 member countries mentioned above. The purpose of this section is mainly to ascertain the impact of oil prices on the net oil importers. Data are therefore analyzed for the Caribbean region with and without Trinidad and Tobago.

1.5 Correlation analysis

The trends shown in the data were all found to generally move in the directions in which they were expected given the increases in the oil price, however, the magnitude of these changes did not seem as significant as one would expect. To further analyze the data for the period under study correlations coefficients³⁴ were calculated between the oil price and GDP growth and also between the oil price and changes in the current account balance. First correlations were calculated for the entire period and then the analysis was further broken down into the two 10-year periods, 1981 – 1990 and 1991 – 2000 and one 5-year period, 2001 – 2005.

As expected, the correlation coefficient between the oil price and changes in GDP is a negative one at -0.52, meaning that usually an oil price increase is accompanied by GDP decrease. What is more interesting, though, are the vast differences in the coefficients that were discovered after the period under study was dissected into three parts. For the first decade 1981 – 1990 the negative correlation was significantly greater than at any other time during the period at -0.85. During the following decade 1991 – 2000 the correlation, though very insignificant at 0.0048, was a positive one. Finally during the present period 2000 – 2005 the correlation returned to a negative one, though still relatively low at -0.28.

³³ As measured by the value of the SITC 3 import section of each country's national income accounts.

³⁴ A correlation coefficient is the measure of association between two variables.

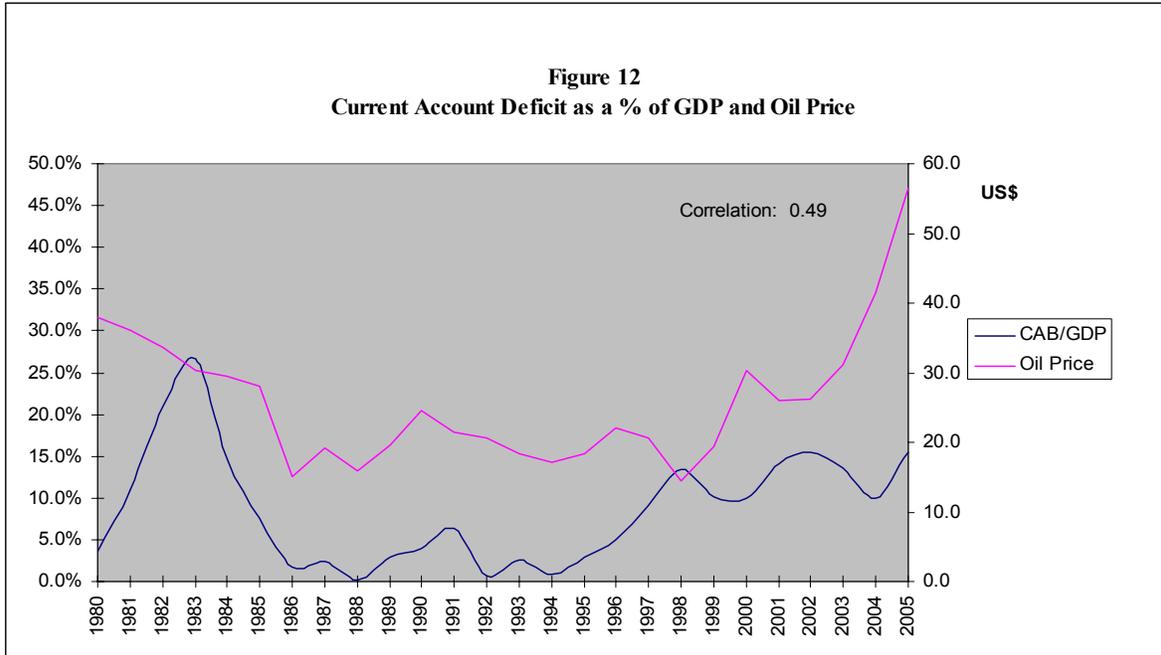
This means that the productivity of Caribbean countries seems to hinge less on the oil price now than in the 1980s. One possible explanation is that the region has learned to reduce its usage per capita, although oil is still its primary fuel for energy. Another explanation is that since many governments shielded their constituents from high product prices, productivity was not hampered by changes in prices.

Period	GDP Growth	Change in CAB
1981 – 2005	-0.52	-0.12
1981 – 1990	-0.85	-0.19
1991 – 2000	0.0048	-0.18
2001 – 2005	-0.28	-0.17

1.6 The current account balance

Pearce 1987³⁵ cites the most obvious impact of rising prices is the worsening of the balance of payments position of countries. Here we use the current account balance (CAB) to investigate effects of the price increases on the balance of payments because it is in this account that transactions of petroleum imports are recorded. The current account balance of all 12 net importers of energy (i.e. the Caribbean excluding Trinidad and Tobago) indeed worsened from 2000 to 2005 but slight improvements have been seen thereafter. Figure 12 below shows the current account deficit as a percentage of GDP and its movements compared to the oil price. When the correlation between the two was measured there was a positive coefficient (0.49) as expected, however it was under .50 and deemed to be rather insignificant.

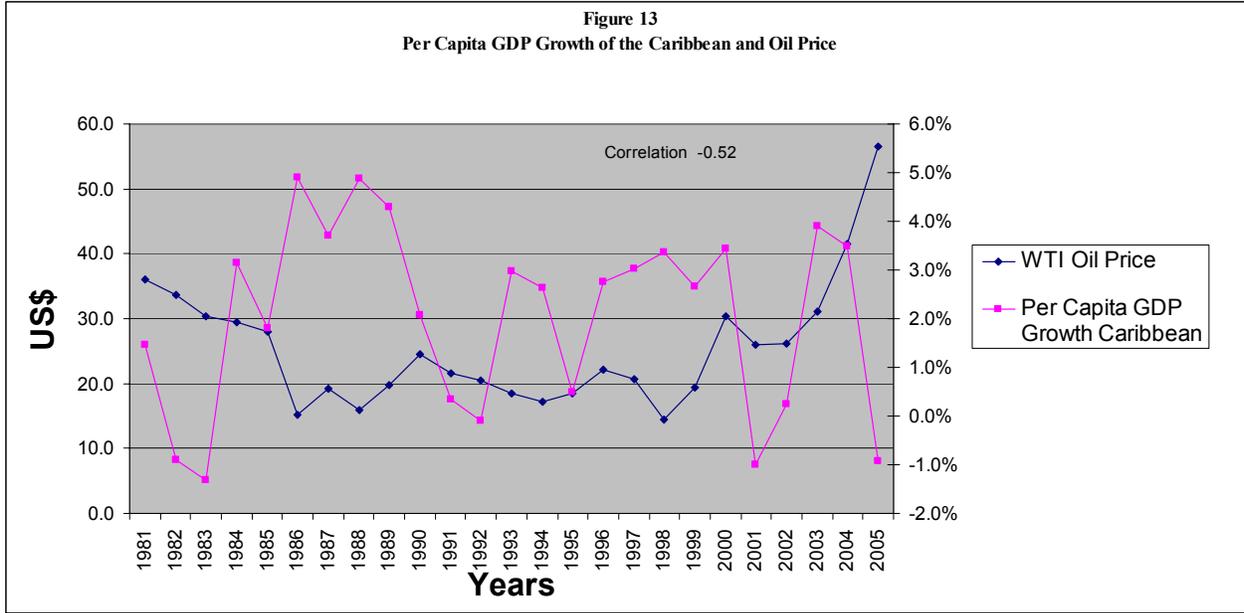
³⁵ David Pearce, 1983, "Oil Importing Developing Countries" in *The Third Oil Shock*, Joan Pearce ed., The Royal Institute of International Affairs.



The Caribbean has had a chronic current account deficit and it is not reasonable to simply assume that the high oil prices are the only reason for the worsening of the CAB. A higher income elasticity of imports relative to exports and other events during recent times, such as the negative impact of the events of 11 September 2001 on the tourism industry in the Caribbean as well as the loss of preferential treatment for banana and sugar producers in the European Union have contributed significantly to this result.

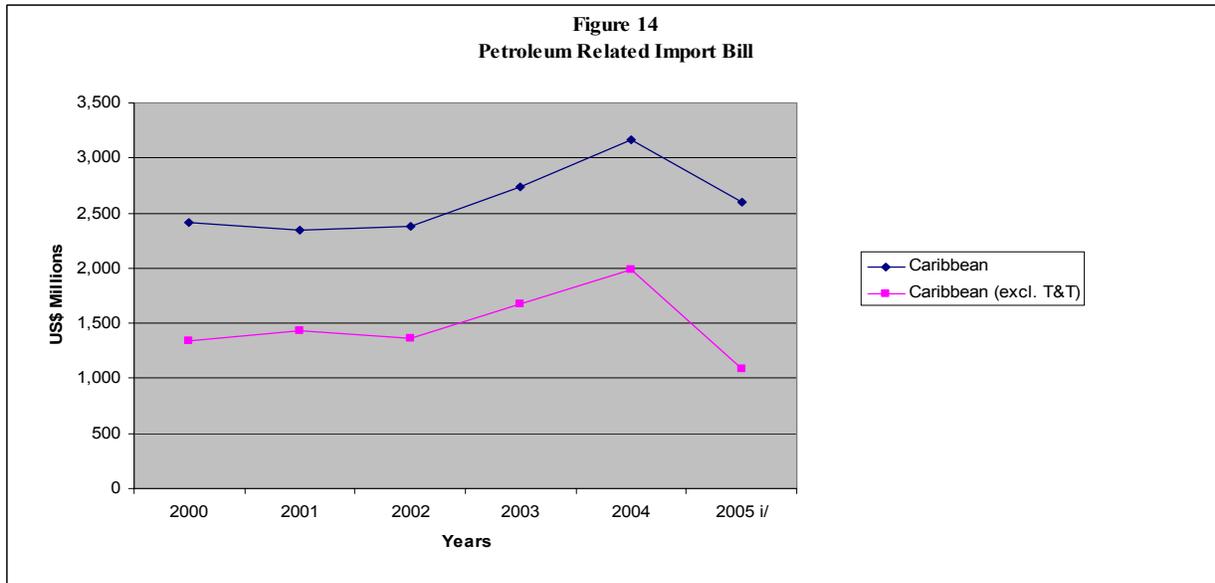
1.7 The effects on the Gross Domestic Product

The next indicator which is expected to be affected by the high oil prices is the GDP. GDP changes were modest over the period for the net importers of energy. In figure 13 below one can see that GDP per capita has not grown above 3% in the past five years even reaching negative growth of -1 in both 2001 and 2005, which supports the notion that the oil price is affecting productivity.



1.8 The Petroleum Import Bill

The import bill is seen to rise steadily with the increase in prices, with the exception of 2005 as shown in the graph below. The dataset which includes Trinidad and Tobago also increases with price, because Trinidad also imports some oil for the refinery at Point-a-Pierre for export. This does not mean however that there are increases in the volume of imports. Without the volume data it is impossible to see just how much an increase in prices affected the petroleum bill.



2. The fiscal side of petroleum prices: the taxonomy of petroleum and its current and future status

As with most countries, Caribbean economies levy taxes on the consumption of oil and petroleum products. These mainly include consumption taxes, levies and other charges.

In Belize, the government levies several taxes; in particular an environmental tax (2%), a sales tax (14%), import duties and a revenue replacement duty (the former at \$0.54 for gasoline and \$0.32 for diesel, the latter at \$4.11 for premium, \$3.76 for regular, \$0.97 for kerosene and \$1.28 for diesel).³⁶

In Suriname, the taxation of petroleum products includes four components: an import duty, a turnover tax, a road levy and a variable petroleum consumption tax. The petroleum consumption tax is the difference between the pump price and the landed cost plus a mark-up meant to finance transportation and distribution. The government followed a policy of fixing the difference between the pump price and landed costs and subsidised oil companies allowing them to cover the landed cost and mark-up.

The OECS member States in general apply a consumption tax (20%), a customs service charge (5%) and a petrol levy. These are levied on the C.I.F value of imports. Dominica also applies a sales tax. Antigua and Barbuda does not apply a customs service charge. Antigua and Barbuda and St. Kitts and Nevis also apply a petrol levy.

Trinidad and Tobago applies a supplemental petroleum tax, a petroleum profits tax, an unemployment levy, a Green Fund levy and a withholding tax. The first two taxes account for the bulk (90%) of the petroleum tax revenue. The determination of the tax base of the supplemental petroleum tax includes the deduction of expenses that are related to oil and gas exploration as well as development. The rates are established on a sliding scale from 0% to 42%. For its part the petroleum profits tax is applied to worldwide profits and gains.

Trinidad and Tobago also applies taxes on natural gas. The taxation mechanism is based on transfer prices and also subject to a royalty fee.

The retail price of petroleum products also includes wholesale and retail margins, which are applied to the landed cost, i.e., the C.I.F value of petroleum imports plus taxes, levies and other charges.

The petroleum tax revenue depends on the difference between internal prices and the international price of oil. Other things being equal, the greater the difference between the internal and international price of oil, the lesser the tax revenue.

In the Caribbean there are three mechanisms to adjust local oil prices to the movement of international prices. The first is based on discrete adjustments to the internal price which occur generally on an annual basis. The second mechanism refers to periodic adjustments which are

³⁶ All figs. In BZ\$.

implemented generally on a quarterly basis. The third type is an immediate and roughly commensurate increase of local to international prices.

With a few exceptions (Dominica and Montserrat) the first two types of mechanisms prevail in the Caribbean region. As a result, for the most part the pass through from international to domestic prices has been limited. Table 10 shows the increase in gasoline prices for selected Caribbean economies

In Belize, pump prices have increased over the last two years. Taxes, as a proportion of the landing cost, have decreased. As volume of imports has decreased whilst the average cost has increased, it is impossible to say how the revenue from the taxation of fuel has reacted (there is no fiscal data on revenue collected from fuel).

Average	Landing Cost*	Taxes*	Commercial Charges*	Pump Price*	Taxes	Commercial Charges	Pump Price
2003					<i>As a proportion of Landing Cost</i>		
Premium	2.30	3.90	1.03	7.23	170%	45%	314%
Regular	2.19	3.89	1.00	7.08	178%	46%	323%
Kerosene	2.11	1.61	0.72	4.45	76%	34%	211%
Diesel	2.07	2.26	0.89	5.23	109%	43%	253%
2004							
Premium	2.87	4.10	1.10	8.07	143%	38%	281%
Regular	2.79	3.98	1.07	7.84	143%	38%	281%
Kerosene	2.77	1.44	0.74	4.94	52%	27%	178%
Diesel	2.64	2.13	0.84	5.61	81%	32%	213%
2005							
Premium	3.75	3.91	1.26	8.93	104%	34%	238%
Regular	3.61	3.77	1.24	8.62	104%	34%	239%
Kerosene	3.94	1.07	0.81	5.81	27%	21%	147%
Diesel	3.74	1.76	0.97	6.47	47%	26%	173%
<i>* inBZ\$.</i>							

Table 11 Belize Imports of petroleum products 2003-2005			
Quantity (US Gallons)	2003	2004	2005
Diesel Oils	27,241,199	27,592,622	23,062,879
Gasoline	17,328,733	15,164,666	15,084,904
Kerosene Type Jet Fuel	3,719,263	4,082,749	2,550,925
Value (BZ\$)			
Diesel Oils	62,211,240	74,660,838	94,890,917
Gasoline	39,777,699	45,974,674	64,342,850
Kerosene Type Jet Fuel	9,083,513	12,099,580	9,699,755
Average cost/Gallon			
Diesel Oils	\$2.28	\$2.71	\$4.11
Gasoline	\$2.30	\$3.03	\$4.27
Kerosene Type Jet Fuel	\$2.44	\$2.96	\$3.80

A sustained increase in the international price of oil coupled with the existing petroleum taxing policies can result in significant fiscal losses generating important costs for the authorities.

The OECS provides a useful empirical illustration. Tax revenue from petroleum prices is derived, *grosso modo*, from the difference between the retail price of gasoline, and the CIF import price of gasoline and other charges (see Table 12 below). That is:

$$R_{tg} = P_{gpm} - M_g - O_{cg}$$

Where,

R_{tg} = Tax revenue derived from gasoline and other products.

P_{gpm} = Retail price of gasoline.

M_g = Import price of gasoline (c.i.f).

O_{cg} = Other charges

The retail price of gasoline is fixed by the government (P_{gpm}) and the import price of gasoline is determined by the variations in its international price. From here it follows that gasoline tax revenue is derived as a residual (R_{tg}) (see table 12 below).

Table 12 Computation of the consumption tax per gallon of unleaded gasoline in OECS member Status (EC\$)					
	Antigua and Barbuda	Grenada	St. Kitts and Nevis	Saint Lucia	St Vincent and the Grenadines
CIF Price	5.53	5.91	5.96	5.88	5.94
Customs Service Charge	0.00	0.17	0.12	0.29	0.16
Terminal Costs	0.48	0.00	0.00	0.00	0.00
Transport Costs	0.08	0.27	0.00	0.00	0.00
Wholesale Margin	0.41	0.95	1.00	0.82	0.83
Retail Margin	0.75	0.90	0.70	0.70	0.60
Retail price	9.30	7.50	8.30	9.50	8.00
Consumption tax	2.05	-0.70	0.52	1.81	0.47
Note: The consumption tax is determined as the difference between the CIF import price and charges, costs and margins.					
Source: ECCB (2006)					

Table 13 Simulation of a 5% increase in the price of gasoline barrel					
	Antigua and Barbuda	Grenada	St. Kitts and Nevis	Saint Lucia	St. Vincent and the Grenadines
CIF Price	6.58	6.96	7.01	6.93	6.99
Customs Service Charge	0.00	0.17	0.12	0.29	0.16
Terminal Costs	0.48	0.00	0.00	0.00	0.00
Transport Costs	0.08	0.27	0.00	0.00	0.00
Wholesale Margin	0.41	0.95	1.00	0.82	0.83
Retail Margin	0.75	0.90	0.70	0.70	0.60
Retail price	9.30	7.50	8.30	9.50	8.00
Consumption tax	1.00	-1.75	-0.53	0.76	-0.58
Source: ECCB					

For any given gasoline price (P_{gpm}), a greater import price of oil due to variations in international price (assuming a fixed exchange rate system) leads to a decline in fiscal revenue. In addition, the loss in fiscal revenue will be greater the longer the adjustment lag between the domestic and the international price of oil and/or the smaller the size of the upward adjustment. Table 13 shows the effect on tax revenue collected per gallon of oil consumed following a hypothetical increase of 5% in the price of gallon.

In addition it has been pointed out that the subsidy of oil prices can distort relative prices leading to a misallocation of resources and also to the wrong decisions regarding energy conservation. As a result some Caribbean countries have put forward proposals to reform their petroleum tax system. Most countries, including the OECS- in particular Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines- Barbados, Belize and Guyana have proposed a decrease in their subsidies and an increase oil and petroleum taxes.

St. Vincent and the Grenadines which had the lowest prices for gasoline and diesel announced increases in their prices for both types of gasoline, respectively. St. Kitts and Nevis is cognizant of the fact that its government cannot continue to provide subsidies as in the past and besides contemplating price increases, it established a committee to devise an energy conservation plan whose objective is to make the country less reliant on fossil fuels and to reduce the cost of energy. Saint Lucia also envisages implementing a series of measures to cheapen energy costs. These include the use of energy efficient building materials, home energy audits to stimulate the use of fluorescent bulbs, the purchase of hybrid vehicles and the imposition of new separate tariffs for diesel power vehicles.

In a similar vein, the government of Barbados announced a series of measures to mitigate the impact of rising oil prices. These include efforts to maximize the production of crude oil and natural gas, the diversification of the energy mix to increase the importance of natural gas and other non-liquid fuels, the maximization of efficient use of energy (through the introduction of separate tariffs for gasoline and diesel powered vehicles and tax concession for the use of renewable energy among, others) and encouraging the use of renewable energy.

Trinidad and Tobago decided to reform the oil and gas taxation regimes in order to maximize their fiscal revenues. The new petroleum taxation regime contemplates the increase in the tax base of the supplemental petroleum tax and the reduction in its rate. In relation to the petroleum profits tax, the reform includes: (a) the removal of the first year allowance and the postponement of annual allowances to the second year or the commencement of production; (b) the non-deferral of capital allowances; (c) the reduction of management charges; and (d) the shift to quarterly tax payments based on current year basis.

Regarding gas taxation, all contracts involving liquefied natural gas will be based on fair market value principles. In addition, the government will review the existing concessions for the development of the liquified natural gas industry and provide incentives for the expansion of oil production.

In order to face the challenges posed by the increase in oil prices countries have also signed on to a regional initiative, PetroCaribe. This is analyzed in the next section.

2.1 Petrocaribe

Eleven³⁷ of the islands of the region have entered into the Petrocaribe agreement with Venezuela in order to mitigate the negative impact of current high oil prices. This agreement foresees a low interest loan on a part of purchased Venezuelan oil with a long-term payback period, depending on the price per barrel. Part of the bill is not financed but can be paid in 90 days. The long term financing option is set out as in table 14.

Price per Barrel in US\$	Percentage to be Financed
\$15	5%
\$20	10%
\$22	15%
\$24	20%
\$30	25%
\$40	30%
\$50	40%
\$100	50%

With respect to long-term financing the payment period will stand at 17 years (which includes a two-year grace period) at 2% interest when the price is below \$40 per barrel as was set out in the previous Caracas energy agreement. When the price is above \$40 the payment period shall be extended to 25 years (also with a two-year grace period) at 1% interest.

The agreement also includes the creation of a new company called PDV CARIBE, an affiliate of the Venezuelan national oil company PDVSA and the ALBA CARIBE FUND for the financing of social and economic programs.

The implementation of Petrocaribe has not been smooth so far and some countries have yet to receive the oil from the agreement due to the logistics of setting up oil facilities. Since many countries had previous arrangements with other companies, the existing facilities were not suitable for Venezuelan oil. One of the major problems has been the provision of docking facilities for shipments and storage facilities for the oil. Since smaller countries, like the OECS, have no such government-owned facilities, they have to rent existing storage tanks as in the case of Antigua and Barbuda from the West Indies Oil Company (WIOC). Since the islands of the OECS all require an oil supply which is too small to make individual shipments economical,

³⁷ Trinidad and Barbados did not sign on to the agreement.

discussions are also being held to make Antigua a common storage point after which the fuel would be dispensed. All these are additional costs which must be undertaken in order to reap the benefits of the financing provided by the Petrocaribe agreement.

Along with costs to be incurred, one must ask if an increase in debt is necessarily a good thing for some of the Caribbean islands at the present time. Questions need to be asked regarding their ability to pay in the future and to burden the next generation with the cost of consumption of today and the effect that taking on such a debt will have on their credit rating.

3. The impact of oil prices on a net exporter Caribbean country: The case of Trinidad and Tobago

While most of this section has concentrated on the effects of rising energy prices on net importer economies, it has significant consequences on net oil exporting economies such as Trinidad and Tobago. Of particular interest are two issues. First, can the oil boom generate an inflationary process and second what is an oil producing country to do with the ‘economic rents’ generated by the sale of petroleum and its derivatives.

The economy of Trinidad and Tobago is based on the energy sector. It generates 40% of its GDP and petroleum and its derivatives represent more than 60% of total exports. In the same way, half of the tax revenue derives from oil and petroleum-based companies. As a consequence, the increase in the international price of petroleum and its derivatives leads to higher growth, tax revenues and export receipts. In 2005, the economy grew by 7%. The fiscal and external accounts registered surpluses (5% and 2% of GDP, respectively).

With the aim of mitigating the effect of oil price fluctuations on the economy of Trinidad and Tobago, the government created in 2000, the Interim Oil Revenue Stabilization Fund. The fund is an instrument with the aim of putting aside the excess revenue generated by the difference between the international oil price and the price of oil that the fiscal authorities use to forecast and plan the government revenue and expenditure.

However, the mechanism of the fund and especially the rules governing its additions and subtractions were never legislated through parliamentary laws. Following the creation of the fund, it was agreed that it would be managed by the Central Bank of Trinidad and Tobago but without a blueprint for the management of its portfolio. In this way the decision to add or not to add resources to the fund has been based to a certain extent on the discretion of the government (see box 4 below).

In some years, the government has decided to transfer the totality of the excess funds generated by oil tax revenues to the Stabilization Fund. However, that has not always been the case. As an example, for the 2001/2002 fiscal year budget the government decided to transfer to the fund 67% of the oil tax revenue surplus. In other budget planning exercises there is specific guidelines to direct the management of the fund.

During 2005 and 2006, the authorities took advantage of the hike in oil prices (the government income derived from oil taxes represent roughly half of the total) to undertake an

expansionary fiscal policy both from the income and the expenditure sides. On the expenditure side the government increased its transfers and subsidies substantially, which represent more than half of the total (see the section Regional Overview in this report). Capital outlays have also witnessed an increase.

Box 4 Budget decisions on the Interim Petroleum Stabilization Fund, in TT\$ and as percentage of GDP 2000-2006				
Fiscal year	Assumptions concerning the evolution of oil prices	Budget decision	Accumulated stock in the Interim Petroleum Stabilization Fund (Millions of TT\$) Fiscal year	Accumulated stock in the Interim Petroleum Stabilization (In % of GDP)
1999/2000	Revenues and expenditures were budgeted on the basis of an international oil price of US\$16 per barrel. The market price averaged US\$28 per barrel.	The government recorded a deficit of TT\$ 96 million. Notwithstanding this result TT\$415 million was deposited in the stabilization fund. This corresponded to the excess of revenues derived from the difference between the budget and market prices of oil.		
2000/2001	Revenues and expenditures were budgeted on the basis of an international oil price of US\$22 per barrel. The market price averaged US\$24 per barrel.	The government registered a surplus equivalent to TT\$1,037 million out of which, TT\$6 million was deposited in the stabilization fund. The government established that 60% of the surplus revenue due to the difference between the budgeted and market price of oil will be deposited in the stabilization fund.	>1,000	1.74
2001/2002	Revenues and expenditures were budgeted on the basis of an international oil price of US\$22 per barrel. The market price averaged US\$24 per barrel.	The government registered a deficit equivalent to TT\$354 million. No movements were registered affecting the stabilization fund.	1,015	1.72
2002/2003	Revenues and expenditures were budgeted on the basis of an international oil price of US\$22 per barrel. The international oil price averaged US\$29.6 per barrel.	The government registered a surplus equivalent to TT\$958 million out of which TT\$497 million were deposited in the stabilization fund.	1,566.9	2.29
2003/2004	Revenues and expenditures were budgeted on the basis of an international oil price of US\$25 per barrel. The international oil price averaged US\$41.47 per barrel.	The government registered a surplus equivalent to TT\$1,510 million out of which TT\$1,310 million were deposited in the stabilization fund.	2,830.2	3.9

Fiscal year	Assumptions concerning the evolution of oil prices	Budget decision	Accumulated stock in the Interim Petroleum Stabilization Fund (Millions of TT\$) Fiscal year	Accumulated stock in the Interim Petroleum Stabilization (In % of GDP)
2004/2005	Revenues and expenditures were budgeted on the basis of an international oil price of US\$25 per barrel. The international oil price averaged US\$32.8 per barrel.	The government decided to transfer the totality of the surplus revenue to the stabilization fund.	5,201	5.7
2005/2006	Revenues and expenditures were budgeted on the basis of an international oil price of US\$45 and US\$35 per barrel, respectively. The international oil price averaged US\$65 per barrel.	The government decided to transfer the totality of the surplus revenue to the stabilization fund.	7,000 (estimate)	6.5 (estimate)

Source: Based on Budget Speeches of the Government of Trinidad and Tobago for the Fiscal Years 2000/2001 to 2005/2006.

On the income side, the government implemented a series of tax reforms that entered into force in 2006, which translate into important tax relief for consumers. These include the widening of personal deductions and tax exemptions. The government also introduced a unified tax rate of 25% on personal income. Finally, the tax rate applied on corporate income was reduced from 30% to 25% with the exception of petrochemical and energy companies. These will still be taxed within a 33% to 55% tax rate interval. The small and medium sized firms will be able, under certain conditions, to be included under a regime of fiscal exemption for the first five years of operations starting on 1 January 2006.

The non-oil fiscal result has been negative for most years and the magnitude of its disequilibrium has widened over time. The non-oil fiscal deficit increased from 3% to 8% of GDP between the fiscal years 2001/2002 and 2004/2005. The authorities are expecting that the current fiscal policy stance will yield a deficit of 12% of GDP for the non-oil deficit for the present fiscal year.

The current legislation bases its current expenditures on a price of US\$35 per barrel. Income is forecasted at a price of US\$45 per barrel. The remaining is transferred to the Revenue Stabilization Fund. Notwithstanding, there are no measures that dictate the allocation of the difference between the price at which the government forecasts its income (US\$45 per barrel) and the price prevailing in the international market (roughly US\$65 per barrel). As a result this differential can be allocated and distributed on a discretionary basis.

The current budget which is of an expansionary nature increases the dependency of expenditures on oil prices. In addition, the higher levels of liquidity generated by the Central Bank's purchase of government foreign exchange earnings compel the former to intervene through sterilization operations in the money market with the aim of absorbing liquidity to avoid increases in the rate of inflation and an appreciation of the exchange rate. In this way while the government carries out an expansionary fiscal policy, the monetary authorities have opted for a contractive stance.

In this way the oil boom that generates important benefits in terms of growth, fiscal and external surplus also becomes a source of a potential appreciation of the exchange rate and of contradictory objectives between fiscal and monetary policy.

The authorities have expressed the intention of limiting the discretionary element that rules the fixing of petroleum prices and the Stabilization Fund through a new law which is expected to be approved at the end of the current fiscal year. The law contemplates the creation of a new fund, the Heritage Stabilization Fund. According to available information, the new fund would have three main components: stabilization proper, income saved aside for the support of future generations and investment in infrastructure.

2. The Cricket World Cup

2.1 Introduction

The Cricket World Cup is hosted every four years. The first World Cup cricket was hosted in England in 1975. The last World Cricket Cup (2003) took place in South Africa, Kenya and Zimbabwe.

In 2007, the Cricket World Cup will take place for the first time in the English-speaking Caribbean. Nine Caribbean countries including, Antigua and Barbuda, Barbados, Grenada, Guyana, Jamaica, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, and Trinidad and Tobago will host this event. The opening will take place in Jamaica (11 March 2007) and the final game will take place in Barbados. Antigua and Barbuda and Jamaica will host six of the eight most important matches of the World Cup.

The past two decades have seen an increase in the research of the economic impact of the legacy of sporting events. As pointed by Bohlman (2006), the first comprehensive impact study of hosting a mega event was conducted for the Los Angeles Games of 1984 and was a direct result of the interest generated by the losses of the Montreal 1976 games.

The impact, implications and effects of hosting sporting events have been studied with care in the developed world. According to the WTO, the contribution of sports to the Gross Domestic Product of industrialized nations could reach 2%. The average economic impact of hosting a major sports event in a major city in the developed world could be as high as \$32 million.

The effects of sporting events need not be limited to the short run. Indeed, sporting events can reduce unemployment, improve infrastructure and the quality of services and generate additional investment.³⁸

However, sports events can also have their drawbacks. For one thing, the expectations created by the event may not materialize. Also sports events can aggravate environmental problems, create traffic congestion, and can generate excess supply of sports facilities and capital equipment that may remain under-utilized after the event.

Finally, debt overhangs due to higher than expected costs and expenses are also a possibility. Debt overhang ultimately leads to countries investing less than they should and thus foregoing projects with a positive net present value. In other words, the stock of debt deters new investment and hence possible growth prospects.

A more recent study (Brunet 2005) shows that the organization, the cooperation among institutions involved in the hosting of sports events (hotels, private sector organizations, local banking systems), private-public funding models, the focus on the importance of the legacy and attracting investment are key to the success of a major sports event.

³⁸ The Barcelona Olympic Games are a case in point. According to Brunet (2005), the investment promoted by the games created 20,000 permanent jobs. The Sydney Games are another example quoted for the long-term impact of sports events.

The effects of a sports event such as the Cricket World Cup can be divided into three distinctive but related stages. These are the organization of the event, the event proper and its effects and impact, and the legacy of the event.

In the case of the Cricket World Cup, some of the effects such as the positive impact on economic growth, the boom of the construction sector are already visible. Host countries are expanding and improving their sports and tourist infrastructure. In addition the number of visitors to the Caribbean as a result of the games will be significant. A key issue is whether Caribbean countries can create the conditions for a 'Cricket Legacy' and avoid 'the doldrums of the post sports event period.'

2.2 The economic impact of the Cricket World Cup

The Cricket World Cup is expected to have a significant impact on the host economies and indirectly on the Caribbean region. Caribbean countries estimate that the event will boost the growth of most Caribbean economies through higher levels of activity and expenditure. In some cases, such as the OECS, the Cricket World Cup preparations have had a positive effect on this current year's rate of growth. In particular the event will have important direct effects on the tourism and construction activities and induced (multiplier) effects in the rest of the sectors.

The overall economic impact of a sports event, such as the Cricket World Cup, is defined as the net economic change resulting from the additional expenditure attributed to the Cricket World Cup. The additional expenditure can be direct, indirect and induced expenditure. Direct expenditure can be classified in four distinct categories:

- (a) Visitor spending - (spending of international visitors);
- (b) Resident spending - (spending of locals);
- (c) Government spending - (current expenditures of the central government); and
- (d) Capital investment - (refers to the construction in tourism, sport and other infrastructure).

Most of the expected effects of the Cricket World Cup preparations and events will originate from visitor spending and capital investment.

Box 5		
Preparations for the Cricket World Cup		
Country	Activity	Spectator capacity
Barbados	Renovation of the Kensington Oval Stadium	28,000
	Construction of the 3 Ws Oval Stadium	3,000-4,000
Guyana	Construction of the Providence Stadium	16,000
Jamaica	Renovation of the Sabina Park Stadium	21,000
	Construction of the Trelawney Stadium	25,000
OECS	Construction of the Sir Vivian Richards Stadium (Antigua and Barbuda)	20,000
	Construction of the Queen's Park Stadium (Grenada)	17,000
	Construction of the Verter Stadium (St. Kitts and Nevis)	10,000
	Increase in the capacity of the Beausejour Stadium (Saint Lucia)	20,000
	Renovation of the Arnos Vale Stadium (St. Vincent and the Grenadines)	12,000
Trinidad and Tobago	Renovation of the Queen's Park Oval Stadium	17,000
	Construction of the Brian Lara Stadium	15,000
Total		189,000

Source: ICC World Cricket Cup West Indies, 2007

In order to gauge the visitor spending impact it is necessary to: (a) quantify the number of stop-over visitors and the proportion using hotel accommodations; (b) quantify the average length of the visitors and the corresponding hotel rates; (c) quantify the composition of expenditure; and (d) determine the proportion of the stopover visitors whose main reason for traveling is the Cricket World Cup. To this tourist expenditure it is necessary to add the expenditure on the tickets to see the World Cricket Cup.

According to the International Cricket Committee (ICC), the number of visitors that will be traveling to the Caribbean to attend the Cricket World Cup is estimated at 100,000. It is also estimated that at an average of 10 nights per tourist the total expenditure will amount to US\$200 million.

In the construction sector most Caribbean countries hosting Cricket World Cup matches have started to refurbish, expand or rebuild stadiums (see box 5 above) in order to increase their seating capacity. Roughly, the Caribbean will increase the seating capacity of stadiums by more than 60% in some cases (see table 15 below). Overall with these additional improvements Caribbean stadiums will have the capacity to seat 189,000 spectators during the Cricket World Cup.

Table 15			
Summary of selected direct economic impact of the Cricket World Cup			
Millions US\$			
	World Cup preparations	World Cup event	Total
Visitor expenditure	....	200	200
Expenditure on stadia	250	...	250
Other expenditure on infrastructure	500	...	500
Total	750	200	950

Source: ICC Cricket World Cup (2006)

At the same time the Cricket World Cup coincides with the decision of OECS governments to focus exclusively on the tourism sector as the linchpin of economic activity and growth. This is the case of St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines. The Government of St. Kitts and Nevis is expanding its airport and improving its road infrastructure and the private sector is undertaking projects valued at \$700 million from 2006 to 2010.

The Cricket World Cup can be seen by OECS economies as chance to diversify their “sun, sea, and sand” product which, according to some governments, is approaching a stage of saturation³⁹ and to improve their tourism performance. In the OECS cruise tourism accounts for 64% of arrivals but yields only 6% of tourism receipts.

Other Caribbean countries are building on the opportunities presented by this event to improve and expand the capacity and quality of their tourism infrastructure and give impetus to ongoing projects. Jamaica and Guyana are cases in point.

According to official data provided by the ICC Cricket World Cup 2007, the total costs of the stadia refurbished, upgraded and expanded amount to US\$250 million. For its part the expenditure on infrastructure and other infrastructure upgrading is expected to reach US\$500 million.

The construction and especially the tourism sectors are expected to post significant gains in most Caribbean economies in 2006 and 2007. Due to the importance of the tourism sector in their economy, and the volume of expenditure in the Cricket World Cup preparations, Barbados and the OECS are likely to be the economies that may benefit the most from this event.

In fact the OECS has already benefited at least partly during the past year and has been able to bring forward higher levels of investment due to the granting of tax concessions.⁴⁰

Barbados estimates that the rate of growth of the tourism sector will increase from –3.8% in 2005 to 2.3% and 6.6%, in 2006 and 2007. In a similar manner, the number of tourist arrivals will expand from –0.7% in 2005 to 3.7% and 7.4% in 2006 and 2007.

In addition to the direct effects referred to above, the Cricket World Cup will also have indirect and induced effects. The former refer to the effect on all the sectors, which benefit indirectly from the tourism and construction sectors including wholesalers, storage, utilities, transport, communications, marketing, publicity and commercialization. The impact of these effects are harder to measure and generally used to compare the effect of different sporting rather than of one event on different countries which is more in line with the objectives of this section.

Part of the cost will be borne by foreigners. In the case of Jamaica the Cricket Greenfield Stadium is a joint venture of Jamaica Cricket 2007 Limited and China National Complete Plant Import and Export Corporation. In a similar way, Antigua and Barbuda and Grenada are also

³⁹ See Budget Address, 2006, by the Prime Minister and Minister of Finance, Dr. The Honourable Ralph Gonsalves.

⁴⁰ See, A cloud over World Cup Cricket, June 27, 2006. Caribbean Net News.

constructing stadiums with the partnership of the People's Republic of China. For its part Guyana is planning a partnership with the government of India.

The expenditure effects, as well the financing of World Cup activities will be reflected in the fiscal accounts and in the external sector.

On the fiscal side, capital expenditures due to the construction of sports and other infrastructure has increased in the past year in most of the World Cup host countries and will continue to reach higher levels. Also, the granting of tax concessions to attract higher levels of investment will also reduce the tax base. These effects may be offset by higher levels of import and international trade taxes and higher grant flows. Finally, some of the financing for the Cricket World Cup will take the form of loans and will thus increase the stock of debt. In this regard Guyana received a \$12 million loan from India for the construction of its cricket stadium and as a result its bilateral obligations with that country have increased by the same amount.

On the external sector, imports have increased and will continue to increase due to the purchase of construction materials. Exports of services will reflect a growing number of tourist inflows. As well, private and official capital flows will rise reflecting official grants and donations as well as private sector activity related to the Cricket World Cup. As an example, available data for the OECS show that the official flows received by Antigua and Barbuda for the construction/renovation of cricket stadiums has led to an increase in capital transfers in the balance of payment from 2.4% to 24% of GDP between 2004 and 2005.

2.3 *The Cricket World Cup legacy*

There are different reasons why countries consider hosting sports events such as the Cricket World Cup. These include: (a) putting the country on the map; (b) showcasing the region; (c) promoting the political system; (d) creating new trading partners; (e) attracting investment; (f) boosting tourism; (g) creating jobs and business opportunities; (h) urban renewal, including housing and infrastructure; (i) building a legacy of sports infrastructure; and (j) reap medium -to long-term benefits.

Caribbean countries are mostly concerned with the last point, that is, avoiding the one time effect of the Cricket World Cup and creating the conditions for the cricket legacy. This would justify the volume of expenditure in capital investment and other infrastructure undertaken by Caribbean governments.

As put by a Caribbean Prime Minister: "...The Cricket World Cup event will come and go and after all the euphoria of hosting the exciting matches and the thousands of visitors, we will all be holding our collective breath and wondering what next. Will we be able to cope with the expansion that was created in our economy? Will there be, as some predict, a hard fall for the economy? Is our economy doomed for a period in the doldrums in the post Cricket World Cup period?"⁴¹

⁴¹ See, From Recovery to Expansion. Budget Address 2006-2007 by The Honourable Dr. Kenny D. Anthony. Prime Minister and Minister for Finance, Economic Affairs, International Financial Services and Information (25 April, 2006).

To this end, Caribbean governments have identified the potential legacies of the Cricket World Cup and plan to capitalize on these to improve countries' economic potential and welfare. The cricket legacies include:

- (a) Expansion in the supply of tourist services;
- (b) Improvement in the skills of workers in the service, construction and entertainment sectors;
- (c) Improvement in sports facilities;
- (d) Improvement in road, drainage and building infrastructure; and
- (f) Improvement in emergency services.

To this end, all host countries have set up local organizing committees. Local organizing committees have direct access to senior public officers responsible for a wide range of key areas including customs and immigrations, national emergency management, security, traffic management, information and communications technology, tourism and sports.

In addition some countries (OECS) are trying to build public and private partnerships and implement marketing initiatives to ensure that occupancy levels remain high. In the same way OECS economies are taking stock of the event at the same time that they fully orient their economies towards the tourism sector. In this way, the increases in capacity within the tourism sector will be in line with the structural changes in their economy. Complementing this are the increases in productivity brought about by the improvements in the labour skills of workers in the services sector.

Guyana has taken advantage of the Cricket World Cup preparations to improve the economic circulation of goods in rural areas through the improvement and upgrading of rural markets and the accompanying infrastructure.

For its part in Jamaica, Jampro developed a Legacy Programme with a total budget of US\$3 million. The main component is the Brand Jamaica Programme. Through this programme, JAMPRO seeks to 'reposition Jamaica Internationally in terms of its investment and trade identity and selling proposition.' Brand Jamaica would be the core brand through which to market products on the international market.

The steps in the development of this strategy include: (a) the registration of the marks in Jamaica and key international markets; (b) the development of Brand Management Structures and legal requirements; and (c) the development of a marketing plan and the engagement of key companies. This includes strengthening the relationships between Jamaica and other Caribbean companies; the provision of information on Caribbean firms' products and services; the identification of international companies willing to undertake business with regional firms and of

Caribbean business people willing to work as partners in procurement products.⁴² The official launch of Brand Jamaica was scheduled for August 2006.

The Legacy Programme also contemplates the development of an investment attraction programme (July to December 2006), a programme for the development of creative industries (January to April 2007) and a major events programme.

3. Conclusion

Sports events such as the Cricket World Cup can have positive effects on the Caribbean economies. The initial effects on the construction sector, on government capital expenditure, on certain lines of the balance of payments and on growth are already visible. So are the risks and opportunities of hosting this event.

All host countries have started constructing or refurbishing stadiums, increasing their sports and tourist capacity and have begun to improve their roads and other infrastructure. The estimates indicate that the expenditure levels will most likely surpass the equivalent of US\$1 billion.

Countries have understood the need to avoid a 'blip', a short-term impact and the necessity to create legacy assets. These range from the expansion in tourist capacity, to the improvement of labour skills in the population and in the provision of selected services. To capture the legacy, countries have opted to stimulate the formation of business partnerships, to take advantage of the event to stimulate, at least partly, structural changes in their economy, to improve infrastructure and the functioning of markets and to create institutions/committees to harness the cricket legacy.

The lessons provided by different studies on the economic impact of sports events should guide and orient policy-makers in their decisions. These indicate that: (a) costs are underestimated and tend to be higher than forecasted; (b) the support of transport and telecommunications services generate long-term benefits; (c) improvement of the urban and rural landscape also contribute to capture the longer-term benefits of sporting events; (d) the 'white elephant' stadium syndrome should be avoided, indeed the long-term sustainability of stadiums is fundamental to reap the cricket legacy benefits; (e) the planning and logistics in the construction of stadiums is of paramount importance as the procurement process places strain on contractors when the time-frame within which to complete these projects is short; (f) policy-makers must take into account the supply constraints facing economies. These include infrastructure capacity, service delivery and skills shortages; (g) the cooperation of the different institutions and bodies participating in the event is essential; and (h) finally, the sustainability of a sports event requires the understanding by local residents of the way in which the sport impacts on their quality of life.⁴³

In the very short term, the event poses some challenges. The first is an issue of timing and more precisely to ensure that the increase in sports and hotel capacity is ready in time for the

⁴² See, Jamaica Legacy Programme. Report for April-May 2006.

⁴³ See, Bohlmann (2006)

Cricket World Cup. A no less important issue is the fact that the Cricket World Cup will take place during the high tourist season which means that tariffs rates will be higher. In order to attract tourists and spectators to use the new and expanded tourist and sports capacity governments are recommending that hoteliers lower their tariffs. This proposal may not necessarily be shared by Caribbean Hotel Associations. Finally, it is to be noted that the higher international oil prices will have an upward effect on the price of transport which will negatively affect tourism flows.

With all its challenges, the Cricket World Cup constitutes a unique opportunity to market and promote Caribbean countries as tourism destinations and as cultural and sports centers to millions of people around the world. It also represents a chance to improve economic performance and to market the game of Cricket which, according to CLR James, could be viewed at the same time as being comparable to a dramatic spectacle such as theatre, opera or ballet and distinct by its own nature and dynamics to other team sports.⁴⁴

⁴⁴ According to James: "the game was founded upon a dramatic, a human relation (the batsman facing the ball) which is universally recognized as the most objectively pervasive and psychologically stimulating in life and therefore in that artificial representation of it which is drama." It is also a dramatic spectacle as it consists of isolated, self contained events with 'immense possibilities of expectation and realization.' The game is different than other team sport games because the end result is not important or rather irrelevant to the appreciation of the game. See, CLR James, *Beyond a Boundary* (Mackays of Chatham, plc: London), 1963.

III. COUNTRY BRIEFS

ARUBA

1. General trends

In 2006, Aruba reached the milestone of 100,000 inhabitants, twenty thousand more than ten years earlier. In the same period, per capita income increased from around 13,000 US\$ to 23,000 US\$. Aruba's long-term growth is an extraordinary success story, but in recent years it has struggled to maintain its dynamism. Real GDP is expected to have grown by 2.4% in 2005, which is a slowdown compared to the 3.5% GDP growth of 2004. The slowdown is related to a halt in the growth of tourism arrivals.

In September 2005 the MEP (Movimento Electoral di Pueblo) party won absolute majority and Prime Minister Nelson Oduber established a third cabinet under his leadership. The short-term policy debate focuses on the question whether the current expansionary fiscal stance is sustainable. The long-term debate is on how to raise productivity and how to keep reinventing the economy to sustain economic growth.

2. Economic Policies

(a) Fiscal policy

The numbers for the fiscal balance in 2005 look better than in 2004. The financial deficit was reduced from -6.6% of GDP in 2004 to -3.1% in 2005. Fiscal expenditure was contained and revenues increased, in percentages of GDP. However, as it happens especially in small economies, these numbers are strongly affected by one-off, extraordinary events such as in this case the debt conversion and privatization of the pension fund in 2003 and 2004. Trends over the past years are probably better reflected in the comparison between 2005 and 2002. Over this period, overall fiscal deficit increased from -2.1% to -3.1% of GDP. The increase in fiscal expenditures (+ 1.3% of GDP) was twice as strong as the increase in revenues (+0.6%).

According to the Government, the changes in the general medical insurance (AZV) introduced in January 2004 are the main explanation for the increase in current expenditures over the past years. In order to achieve a balanced budget by 2009, wages and profit taxes were raised in 2005 and import tariffs were raised in June 2006.

The fiscal deficit was financed on the domestic and foreign capital markets, in almost equal share. Several bond issues and loans on the local market totalled a similar amount as the one bond issue on the foreign market (US\$ 93 million). Outstanding public debt increased to 46.3% of GDP in 2005, approaching the 2002 record level of 47%. The composition of public debt changed over the same period: the Government expanded its lending on the domestic market more than it did on foreign markets. The yield of treasury bills steadily increased from a low of 0.9% at the start of 2003 to 5.4% in July 2006.

(b) Monetary and exchange-rate policies

With the fixed-peg in place and the value of the Aruba guilder invariably at 1.79 per US dollar, the concern of the Central Bank is that the expansionary fiscal stance will lead to an unsustainable surge in imports, a widening current account deficit and a deteriorating international reserve position, which, if unaddressed could eventually endanger the value of the currency.

The monetary authority in Aruba uses mainly quantitative instruments and tried to curb monetary expansion by adjusting its parameters. Most importantly, the Central Bank applies a ceiling on the growth of individual commercial banks' credit portfolio and levies a penalty on those banks that surpass the ceiling. The ceiling was lowered in 2005 from 6% to 5% and the penalties were increased by two percentage points. The other instrument of monetary policy, the cash reserve requirement, was not changed (8%) but it was announced that it could be revised on a quarterly basis instead of an annual basis. On the other hand, the Central Bank had to increase the rate it offers on commercial banks' deposits.

In 2005, total credit by commercial banks increased by 8.2%, significantly above the 6% ceiling. Consumer loans and mortgages shot up 10% and 21%, respectively. Despite the measures by the Central Bank, the weighted average interest rate on commercial bank loans remained at 11.4% and the interest rate margin increased.

3. The main variables**(a) Economic activity**

The Central Bank estimates GDP growth in 2005 at 2.4%. The partial economic activity index for the third quarter of 2005 shows the construction sector as by far the most dynamic. The large-scale projects are all related to the tourism sector, but housing construction is also buoyant. Tourism, the main driver of growth in Aruba, was growing strong but suffered a dip starting around mid-2005. Most visitors come from the United States and their numbers had been growing at rates close to 14% per year until early 2005. By the end of 2005, visitor arrivals from the USA were declining by an annual rate of – 16%. Had the trend not changed, some 85,000 more visitors from the USA would have entered the island in 2005 than actually did. The explanations point at the increase in airfares because of the oil price hike, the very active hurricane season of 2005 and the fall-out of the publicity around the disappearance of American tourist Nathalee Holloway.

The dip in tourist arrivals does not yet have a discernible effect on activities in the construction sector. Housing construction continued its dynamism and some major hotels are being built or renewed.

Utilities were the second most dynamic sector of economic activity in 2005, probably related to increases in the natural gas price. Hotels and restaurants, as well as transport and communication facilities, show a sharp downturn in the third quarter of 2005⁴⁵.

The oil refinery reported that the quantity refined in 2005 was marginally higher than in 2004. The value exported increased of course sharply, due to the price hike. The free zone registered an increase in activity toward the end of 2005.

(b) Prices, wages and employment

The annual change in consumer prices stood at 3.8% by the end of 2005, up from 2.8% one year before. The increase was mainly due to the hike in energy prices and is reflected in the index under the category of housing costs (+6.8%). The costs of housing include utilities, especially electricity. Water and electricity tariffs were periodically adjusted to reflect higher costs. The only other item that recorded above-average price increases was food (+3.8%).

The labour market continues to show healthy numbers, as the unemployment rate dropped to 6.9% in 2005, down from 7.3% a year earlier.

(c) The external sector

The overall result on the balance of payments in 2005 was negative by 1.5% of GDP, after a small positive result in 2004. Net international reserves dropped.

The current account of the balance of payments also showed a negative outcome in 2005, after exceptionally having posted a small positive result in 2004. The deficit of 2005 is due to dividend payments by the oil refinery. Although the trade balance of the oil sector was increasingly positive, this was not enough to compensate the impact of the dividend payments. The negative result of the oil sector compounded the deficit on the current account of the rest of the economy.

Merchandise trade was in fact practically in balance, because of the significant increase in oil prices. Also imports increased significantly, as a consequence of the same increase in oil prices as well as the demand derived from construction works and increased consumer credit.

The services balance posts traditionally a highly positive outcome. In 2005, the surplus was lower than in 2004, on account of the expenditures related to other business services.

The balance on the income and current transfers account was highly negative. The payment of dividends by the oil refinery and other remittances⁴⁶ were higher than the combined surplus of the goods and services accounts.

⁴⁵ Annual data were not yet available at the time of writing of the present survey

⁴⁶ In the case of the high-income Aruba economy, remittances are a net outward flow, mainly toward Colombia and other countries of origin of migrant workers.

The capital and financial accounts showed a surplus, reflecting mainly the impact of the same dividend payments: the oil sector reduced its foreign account balances. The government paid off some of its debts but property sales to foreigners increased. The resulting positive outcome of the capital and financial account was however insufficient to compensate the deficit of the current account.

Table 16
ARUBA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	<i>Annual rates of growth b/</i>										
Real Gross domestic product	2.5	1.3	7.8	6.7	1.1	3.7	-0.7	-2.6	1.5	3.5	2.4
	<i>Millions of Aruba Florins</i>										
Nominal Gross domestic product	2,364	2,470	2,742	2,981	3,084	3,327	3,399	3,421	3,599	3,819	4,041
	<i>Millions of US dollars</i>										
Gross domestic product	1,321	1,380	1,532	1,665	1,723	1,859	1,899	1,911	2,011	2,134	2,258
Gross domestic product per capita	16,547	16,622	17,751	18,825	19,215	20,514	20,667	20,483	21,149	21,847	22,434
	<i>Index 1998=100</i>										
Partial Economic Activity Index (PEAI)											
Partial Economic Activity Index					99.7	103.0	100.0	97.7	101.7	105.3	
Agriculture and manufacturing (including oil refining)					...	...	...	...	...	...
Utilities					102.3	106.9	112.3	113.3	115.2	115.8	
Construction					84.0	90.5	83.2	69.6	84.1	78.8	
Wholesale and retail trade					98.4	94.9	81.4	78.2	83.2	86.0	
Restaurants and hotels					105.7	108.8	107.5	101.5	105.7	116.5	
Transport, storage and communication					101.8	112.1	107.7	107.3	106.2	115.9	
Financial intermediation					...	...	...	...	...	...
Real estate, renting and business activities					103.5	106.9	110.5	113.6	116.5	119.5	
Public administration and education					100.9	104.8	106.3	108.0	108.6	110.6	
Other business and non-business services					...	...	...	...	...	...
	<i>Millions of US dollars</i>										
Balance of payments											
Merchandise balance	-249	-302	-391	-354	594	-66	55	-532	-344	-278	-6
Exports fob	1,347	1,733	1,725	1,165	1,416	2,566	2,424	1,488	2,052	2,724	3,483
Imports fob	1,597	2,035	2,116	-1,518	-2,009	-2,632	2,369	2,020	2,397	3,002	3,489
Services balance	234	255	195	335	246	286	378	389	318	453	385
Current account balance	-16	-62	-196	-19	-348	220	327	-335	-152	14	-204
Overall balance	16	-25	-22	89	11	-26	73	21	-39	11	-34
	<i>Percent of GDP</i>										
Public debt											
Total debt (% of GDP)	42.6	42.2	39.4	29.9	28.2	28.5	43.1	47.1	41.1	44.5	46.3
External	18.6	16.5	12.2	13.1	11.9	11.3	22.2	26.1	20.1	21.9	21.2
Domestic	24	25.8	27.2	16.8	16.3	17.2	20.9	21.0	21.0	22.6	25.1
	<i>Percent of GDP</i>										
Prices and interest rates											
Rate of change in the consumer price index (period average) €	3.4	3.2	3.0	1.9	2.3	4.0	2.9	3.3	3.6	2.5	3.4
Weighted deposit real interest rate	...	...	...	6.2	6.2	6.2	5.8	5.5	5.3	4.4	4.0
Weighted lending real interest rate	...	...	...	13.1	13.0	12.0	12.1	12.8	11.4	11.4	11.4
Nominal exchange rate (Afl per US\$)						1.79	1.79	1.79	1.79	1.79	1.79
	<i>Percent of GDP</i>										
Population and employment											
Population (persons)	79,805.0	83,022	86,302	88,452	89,659	90,600	91,870	93,311	95,076	97,518	100,629
Unemployment rate (in percent)								8.1	7.9	7.3	
	<i>Percent of GDP</i>										
Public finances											
Revenue and grants c/	25.5	25.1	22.9	21.7	22.7	22.3	21.5	21.9	27.5	21.9	22.5
Expenditure	25.9	27.0	24.6	21.2	22.3	21.6	21.1	24.2	25.5	28.3	25.5
Lending minus repayments	...	...	...	1.1	1.2	0.5	0.9	-0.1	-2.9	0.3	0.0
Financial deficit d/	-0.4	-1.9	-1.7	-0.6	-0.8	0.2	-0.5	-2.1	4.8	-6.6	-3.1
Payment arrears	1.6	3.0	1.6	2.2	2.9	4.6	7.9	8.1	8.4	0	0
	<i>Annual change</i>										
Monetary aggregates											
Net foreign assets	6.3	-9.8	-7.9	40.4	3.5	-8.1	24.5	5.9	-8.7	3.1	-9.3
Net domestic assets	4.6	11.1	10.8	1.8	14.4	7.7	-2.3	13.1	18.1	3.3	12.4
Domestic credit	4.5	13.1	8.6	5.8	12.1	8.4	2.1	10.3	12.8	6.1	10.5
Money and quasi-money	5.2	3.2	4.6	13.1	10.4	2.3	5.9	10.5	8.9	3.2	6.2
Money	-1.4	2.2	6.3	15.6	7.9	1.0	17.6	20.5	10.5	3.0	0.4
Quasi-money	9.1	3.7	3.7	11.7	11.8	3.0	-0.2	4.3	7.7	3.4	10.4

Source: ECLAC, on the basis of official information

a/ Preliminary data

b/ At constant prices.

c/ Includes tax and non-tax revenues

d/ Corresponds to government financing requirements on cash basis

e/ Last twelve months over previous twelve months

BAHAMAS

1. General trends

Economic growth increased from 1.8% in 2004 to 2.7% in 2005, driven by tourism, construction and financial services.

Increased economic activity led to higher tax receipts and a subsequent narrowing of the fiscal deficit. Economic growth also resulted in increased demand for credit, a need that was satisfied by commercial banks.

While the improved economic performance did not bring down the unemployment rate, the labour market was able to absorb the increase in the labour force as the participation rate rose.

The balance of payments worsened: the overall balance was negative as the capital and financial account surplus failed to cover the growing current account deficit. The current account deficit is attributable to higher international oil prices and the rise in imports in the face of increased economic activity.

For 2006, growth of 4.7% is expected to affect the balance of payments in the short term. Despite the hefty external debt that is worrying the authorities, no significant changes are expected in terms of fiscal policy. This continuation of the status quo is partly due to the fact that elections are scheduled for 2007.

2. Economic policy

(a) Fiscal policy

The fiscal deficit narrowed from 2.5% of GDP in 2004 to 1.9% in 2005 thanks to increased tax revenues (19.1% of GDP in 2005 compared with 17% in 2004), which successfully offset the rises in expenditure (20.9% of GDP in 2005 compared with 19.4% in 2004).

The performance of total public revenues (including grants) is due to higher levels of economic activity, particularly the expansion of imports and higher levels of hotel occupancy. These factors then resulted in significant increases in income from tax on international transactions and trade (26%) and especially gaming taxes (88%).

Levels of current expenditure (18% of GDP in 2004 and 19% in 2005) are attributable to government purchases, and more specifically to transfers and subsidies. Capital expenditure (1.5% of GDP in 2004 and 1.9% in 2005) was associated with infrastructure projects, including building construction, road maintenance and the repair of State schools.

The fiscal deficit was financed mainly through domestic borrowing. This pushed up total public debt by 6.5% to stand at US\$ 2.7 billion, equivalent to 46% of GDP. Foreign-currency debt (which includes domestic and external debt) contracted by 5.4% to stand at US\$ 531 million in 2005 (9% of GDP, down from 10% in 2004), of which over 50% is external public debt. Total external debt decreased from 6.1% of GDP in 2004 to 5.7% in 2005, while debt servicing fell from 3.4% of GDP in 2004 to 2.9% in 2005.

In 2006, current revenue is projected to rise by 11% as a result of increased economic activity. Current expenditure will climb by 14% owing to debt servicing (33%), while capital expenditure will expand by 19%. This could negatively affect the fiscal situation and push up the country's level of indebtedness.

(b) Monetary and exchange-rate policy

In 2005, the authorities eased the monetary stance following the large build-up of excess liquidity in the banking system during 2004. The discount rate for open-market operations was reduced from 5.5% to 5.25% in February 2005. Commercial banks therefore reduced their prime lending rate from 6% to 5.5%, thereby reducing the interest rate spread from 7.4% in 2004 to 7.15% in 2005. This, in turn, pushed up demand for credit to 13% (compared with 5% in 2004).

Most loans (83%) were for the private sector. Personal loans increased (14%), with the highest growth rates recorded in consumer credit and residential mortgages (12% and 17%).

Buoyant demand for credit, combined with import growth, facilitated the reduction of commercial banks' excess liquidity (US\$ 156 million). This was in contrast with the US\$ 157 million inflows from operations related to natural disasters. The result was a 13% contraction in external reserves, which at year end represented the equivalent of 19.5 weeks of non-oil merchandise imports (compared with 23.3 weeks in 2004).

So far in 2006, the surge in commercial banks' excess liquidity (which is double the level observed in 2005) has forced the monetary authorities to implement additional measures to stimulate activity in the inter-bank market. The authorities relaxed restrictions on capital transactions in foreign currency by reducing the premium levied on such operations. They also reduced the refund on repatriation of invested capital from 20% to 10%, and introduced an allowance for investments of Bahamians abroad.

3. The main variables

(a) Economic activity

Economic activity expanded moderately (2.7% in 2005 compared with 1.8% in 2004), on the basis of tourism, construction and financial services. Growth is expected to be 4.7% in 2006.

In 2005, total tourist arrivals edged up slightly (0.9% as opposed to 8.9% in 2004), mainly owing to the effects of hurricanes Katrina, Rita and Wilma on the United States (the

country's main tourist market). Cruise arrivals decreased marginally (0.3%) in 2005, while stopover visitors increased by 4.4%.

Accordingly, tourist spending heightened by 9.9% to stand at US\$ 2.1 billion. Per capita spending of stopover visitors rose by 6.5% to US\$ 1,244 in 2005. Hotel industry earnings strengthened as a result of increased occupancy rates (70% up from 66% in 2004) and higher room rates (up 4%).

Growth in tourism is expected to pick up pace in 2006. Changes in United States tax legislation will benefit the country: from 2006, United States companies will be able to make tax deductions against conferences hosted in the Bahamas. The country will also continue to benefit from increased competition in the airline industry, which has reduced the effect of higher oil prices on transport costs. Lastly, the Atlantis tourist complex is due to complete its Phase III expansion in New Providence in 2006, after which major construction is expected to begin in Cable Beach.

Construction activity picked up thanks to increased investment in tourism and to reconstruction projects in the wake of the natural disasters that struck the country in 2004. The number of residential mortgage commitments increased by 61%, and those for commercial mortgage commitments by 98%.

(b) Prices, wages and employment

Cumulative inflation at December 2005 was 1.8% (compared with 2.1% in December 2004). This was mainly attributable to a 1.6% decline in clothing and footwear and the small increase in transport and communications (-0.2%), as airline competition neutralized the rise in international fuel prices. Other major components, such as food and rentals, increased by 2.9% and 3.2% respectively.

The unemployment rate remained stable at 10.2%. The labour force increased by 1.3%, while the participation rate rose from 75.7% in 2004 to 76.3% in 2005. Construction is the largest employer (22% of the labour force), followed by social and personal services, which employ 20% of the total.

(c) The external sector

The balance of payments posted a deficit of 1.5% in 2005, compared with 3.2% in 2004. This was because the capital and financial account surplus (equivalent to 7.2% of GDP, compared with 8.6% in 2004) was not sufficient to offset the considerable widening of the current account deficit (8.7% in 2005 compared with 5.4% in 2004).⁴⁷ Reserves therefore contracted by US\$ 88 million (compared to the US\$ 183 million increase in 2004).

The current account balance is attributable to the widening of the trade deficit, which was mainly due to the higher oil bill, which represents 24% of international merchandise purchases. The increase in non-oil imports was another contributing factor, albeit a less significant one.

⁴⁷ Not including errors and omissions.

The positive balance in the services account (19.3% of GDP compared with 17.9% in 2004) reflected buoyant tourist activity, yet was only able to partially offset the merchandise trade deficit. The deficit on the income balance narrowed from 2.5% of GDP in 2004 to 1.8% in 2005, thanks to an improvement in the net creditor position of commercial banks.

The surplus on the capital and financial account is due to increased foreign direct investment flows to the tourism sector (6.1% of GDP in 2005 compared with 4.8% in 2004). Increases in share capital investments, private debt and real estate sales also contributed to this result.

Table 17
BAHAMAS: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	4.9	6.8	4.0	1.9	0.8	2.3	1.4	1.8	2.7
Per capita gross domestic product	3.3	5.2	2.5	0.4	-0.6	0.8	0.1	0.4	1.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.1	-2.4	-6.8	8.8	-6.9	20.7	-4.8	-11.7	-9.3
Mining	5.1	-1.2	-22.3	11.6	3.4	0.2	13.5	3.8	15.8
Manufacturing	8.8	-4.0	-0.6	7.4	13.0	2.2	-0.6	-3.2	5.2
Electricity, gas and water	7.5	11.3	2.4	0.2	11.3	3.6	5.7	2.4	4.3
Construction	32.0	21.2	8.3	13.3	-13.3	6.2	2.5	-7.4	6.2
Wholesale and retail commerce, restaurants and hotels	0.8	8.2	11.4	-3.4	4.9	-8.7	3.1	-0.3	2.7
Transport, storage and communications	4.1	12.4	0.7	10.4	-5.3	3.8	1.0	0.6	-0.3
Financial institutions, insurance, real estate and business services	12.1	10.7	9.1	5.4	3.1	1.1	3.8	4.0	3.5
Community, social and personal services	5.6	-0.6	-0.9	-7.4	-3.4	4.7	9.4	1.3	3.5
Gross domestic product, by type of expenditure									
Consumption	6.0	8.6	5.1	1.3	4.4	-1.0	3.3	1.9	0.7
General government	6.3	-0.8	-1.8	-4.9	3.8	9.1	4.9	1.2	2.7
Private	6.0	10.5	6.3	2.3	4.5	-2.6	3.0	2.0	0.3
Gross domestic investment	28.7	19.9	-0.4	13.6	-7.4	-0.2	-0.2	1.5	3.0
Exports (goods and services)	1.4	0.3	7.0	5.2	-5.7	7.7	-1.2	10.7	6.2
Imports (goods and services)	21.0	12.1	6.1	10.4	-4.6	-1.0	2.1	6.2	4.4
Balance of payments									
Millions of dollars									
Current account balance	-472	-995	-672	-471	-594	-423	-472	-305	-513
Merchandise trade balance	-1,116	-1,374	-1,428	-1,371	-1,340	-1,327	-1,331	-1,428	-1,625
Exports, f.o.b.		363	380	805	423	422	427	477	523
Imports, f.o.b.	1,411	1,737	1,808	2,176	1,764	1,749	1,757	1,905	2,148
Services trade balance	757	542	857	1,029	835	1,046	962	1,013	1,134
Income balance	-153	-198	-138	-173	-199	-184	-153	-141	-107
Net current transfers	39	34	37	43	110	42	49	251	85
Capital and financial balance c/	529	1,115	737	410	564	484	583	489	424
Net foreign direct investment	210	146	144	250	102	153	190	274	360
Financial capital d/	319	969	593	161	461	331	393	215	64
Overall balance	57	119	65	-61	-30	61	111	184	-89
Variation in reserve assets e/	-57	-119	-65	61	30	-60	-110	-183	88
Other financing f/	0.0	0.0	0.0	0.0	0.4	-0.6	-0.7	-0.3	0.8
Other external-sector indicators									
Net resource transfer									
(percentage of GDP)	-0.1	0.0	2.4	4.8	4.6	0.8	2.4	1.0	3.3
Gross external public debt (millions of dollars)	335	323	338	349	328	310	363	343	335
Gross external public debt (percentage of GDP)	8.7	7.5	7.2	7.0	6.4	5.8	6.6	6.1	5.7
Net profits and interest									
(percentage of exports) g/	-8.1	-10.4	-6.3	-6.1	-8.9	-7.4	-6.1	-5.2	-3.5

Table 17 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Employment	Average annual rates								
Unemployment rate h/	9.8	7.8	7.8	...	6.9	9.1	10.8	10.2	10.2
Prices	Annual percentages								
Variation in consumer prices (December-December)	0.8	1.5	1.5	1.1	2.6	1.8	2.0	2.1	1.8
Nominal deposit rate i/	...	...	...	...	...	...	3.9	3.8	3.2
Nominal lending rate j/	...	...	...	...	...	...	12.0	11.2	10.4
Central government k/	Percentages of GDP								
Total income	19.9	18.8	19.8	19.1	16.7	16.7	17.2	17.0	19.1
Current income	19.9	18.8	19.8	19.1	16.7	16.7	16.9	16.7	18.8
Tax revenue	17.3	17.0	18.1	17.1	15.0	15.1	15.1	15.1	16.8
Capital income l/	...	...	...	...	...	...	0.3	0.3	0.2
Total expenditure	20.9	19.7	19.8	18.6	19.5	19.4	19.5	19.4	20.9
Current expenditure	18.6	17.4	17.4	16.9	17.5	17.9	18.1	18.0	19.0
Interest	2.5	2.3	2.0	1.8	2.0	1.9	2.1	2.0	2.1
Capital expenditure	2.4	2.2	2.4	1.7	2.0	1.6	1.5	1.5	1.9
Primary balance	1.4	1.4	2.0	2.3	-0.8	-0.8	-0.3	-0.5	0.2
Overall balance	-1.0	-0.9	0.0	0.5	-2.8	-2.7	-2.4	-2.5	-1.9
External public debt	8.7	7.5	7.2	7.0	6.4	5.7	6.6	6.1	5.7
Money and credit									
Net domestic credit	70.9	74.1	75.3	78.9	84.5	86.8	85.5	89.4	91.8
To the public sector	13.0	12.7	13.3	13.1	13.4	15.5	14.8	16.0	15.7
To the private sector	58.0	61.4	62.1	65.8	71.2	71.3	70.7	72.1	76.1
Liquidity (M3)	62.0	63.2	65.4	67.9	70.8	69.3	71.2	75.3	79.5
Currency in circulation and local-currency deposits (l)	61.1	62.0	64.2	66.5	69.4	69.3	69.4	73.4	77.2
Foreign-currency deposits	0.9	1.2	1.2	1.4	1.4	0.0	1.8	1.9	2.2

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 1991 prices.

c/ Includes errors and omissions.

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

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

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

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

h/ Unemployment rate as a percentage of the economically active population; nationwide total. Includes hidden unemployment.

i/ Weighted average of interest rate on deposits.

j/ Weighted average of interest rate on loans and overdrafts.

k/ For the period 1997-2003, information refers to the fiscal year.

l/ Includes grants.

BARBADOS

1. General trends

In 2005 Barbados recorded moderate economic growth (3.9%) compared with 2004 (4.8), owing to the decline in tourism, the mainstay of the country's economy. Construction, on the other hand, picked up significantly in relation to the previous year.

The fiscal stance was loosened slightly in 2005 and the overall fiscal deficit widened. Fiscal performance reflected a decline in the tax burden and increased expenditure. Despite lower GDP growth, inflation climbed to 7.4% in 2005 (compared with 4.3% in 2004), which reflected higher fuel prices and excess demand for construction materials.

The monetary authorities adopted a tight policy stance to combat rising inflation and moderate the effects of higher fuel prices on demand for imports. This demand rose considerably and the resulting increase in the balance-of-payments current account deficit was not entirely offset by the surplus on the capital and financial accounts. The economy therefore experienced a loss in net international reserves.

Higher GDP growth (4.3%) is expected in 2006 as a result of the positive impact on tourism and construction of preparations for the 2007 Cricket World Cup. Larger revenues from tourism should cover the increased demand for imports of construction materials.

2. Economic policy

Economic policy was directed towards containing the surge in inflation and the balance-of-payments current account deficit. Structural reforms were also introduced to boost private-sector activity; these included the liberalization of the telecommunications market and strengthening of the programme to develop domestic production.

(a) Fiscal policy

The fiscal position deteriorated,⁴⁸ with the overall deficit increasing from 2.2% of GDP in 2004 to 4.0% in 2005. This was the combined effect of the smaller tax burden and increased expenditure fuelled by the extension of loans.

Tax revenues in current prices held steady. Personal income tax receipts decreased as a result of the downward revision of the tax rate from 40% to 37.5%, and an increase in the personal tax allowance from B\$ 8,750 to B\$ 10,000. Corporate tax takings, however, increased by 13%. Indirect taxes climbed thanks to higher receipts from excise taxes on some classes of motor vehicles, while the VAT intake stood still.

⁴⁸ The fiscal outturn has been calculated on the basis of the calendar year to correspond with other macroeconomic data.

Total expenditure expanded (from 36% of GDP in 2004 to 37% in 2005), owing to higher spending on goods and services (3.6% and 3.9% of GDP in 2004 and 2005, respectively) and in net lending (from 0% of GDP in 2004 to 1.4% in 2005). These loans went mainly to small and medium-sized enterprises and the Barbados Tourism Investment Corporation (BTIC).

External public debt increased in 2005 and total central government debt rose from 78% of GDP in 2004 to 87% in 2005.

(b) Monetary and exchange-rate policy

Monetary policy in 2005 continued to be directed towards containing the widening balance-of-payments current account deficit, as the expansion in credit helped to push up imports. Another policy objective was to maintain price stability in view of worsening inflation.

To this end, the Central Bank of Barbados tightened its monetary stance and raised the discount rate by 2.5 percentage points. This was backed up by three increases in the minimum deposit rate, which rose from 2.25% to 4.25% in the first nine months of the year.

At the same time, commercial banks hiked up the price of credit and the weighted average nominal rate on loans increased from 7.8% to 9.5%.

These measures, together with the decrease in the stock of international reserves, slowed the growth rate of the money supply from 22.1% in 2004 to 6.8% in 2005 in the case of narrow money, and from 14.7% in 2004 to 9.2% in 2005 in the case of broad money, and checked the expansion in commercial banks' surplus liquidity. Nonetheless, overall credit posted an increase (especially private-sector credit).

The bulk of the increase in credit (over 45%) in 2005 corresponded to large personal loans, reflecting demand for mortgages and consumer durables, while credit to tourist enterprises recovered well and was up by over B\$ 77 million.

3. The main variables

(a) Economic activity

The economic growth rate slowed down in 2005 as the tourist sector contracted. Sectors that fared better included agriculture, manufacturing and, especially, construction.

Tourism value-added fell by almost 4% after having made a comeback in 2004. Activities related to both the long-stay and the cruise-ship sectors suffered, in the former case partly because there was no English cricket tour in 2005, which always affects the number of visitors. The cruise-ship sector was affected by the home-porting of a number of cruise ships in the United States. Another negative factor is that Barbados is regarded as a costly destination.

The performance turned in by the construction sector (2.8% in 2004 and 13.4% in 2005) was the result of buoyant residential construction, work on a cricket stadium and other major infrastructure projects.

Agricultural output picked up (-5.7% and 3.5% in 2004 and 2005, respectively), with sugar production rising by 11.3% thanks to favourable weather conditions.

Similarly, the growth rate of manufacturing output (2.9%) was one percentage point higher than the previous year. For a long time, manufacturing was hampered by competitiveness problems stemming from high production costs and weak productivity. In 2005, however, increased demand for certain manufacturing products boosted overall value-added.

Activity in business and financial services expanded by over 4%, propelled by an increase in the registration of international businesses and offshore companies.

(b) Prices, wages and employment

Inflation climbed to 7.4% in 2005, compared with 4.3% in 2004. This was the result of higher international fuel prices (11.5%) which, in turn, pushed up the price of transport services by 9%. The overall impact was cushioned by food prices, however, which climbed by a moderate 4%, compared with 7% the previous year. The introduction of the import tax in September 2005 also contributed to the rise in inflation.

In the framework of the tripartite agreements, public-sector wages rose by 3% in 2005 (less than half the rate of inflation). Meanwhile, continued buoyancy in the labour-intensive construction sector helped to lower the unemployment rate (9.1%). This benefited male employment, since men form the bulk of the labour force in the construction sector.

(c) The external sector

The overall balance was in deficit by the equivalent of 2.3% of GDP, since the widening of the current account deficit (from 12% of GDP in 2004 to 13.8% in 2005) was not offset by the capital and financial account surplus (4.8% of GDP in 2004 and 11.9% in 2005).

The current account result reflects the rise in imports (from 44.9% of GDP in 2004 to 47.9% in 2005) resulting from greater demand for construction materials and a higher energy bill, which more than offset the increase in exports of manufactures, foodstuffs and beverages.

The surplus on the services account (23.8% and 24.3% of GDP in 2004 and 2005, respectively) swelled despite the decline in tourist activity (27.6% in 2004 and 26.1% in 2005).

The capital and financial account performance was linked to the expansion of tourism capacity, infrastructure projects and preparations for the Cricket World Cup.

In 2006, the balance-of-payments position is expected to improve, with the overall deficit projected to stand at 1.2% of GDP. Moderate growth of imports (5%) will slow the increase in

the merchandise deficit. Merchandise exports are expected to decline marginally, but this will be offset by an upturn in services, particularly tourism, thanks to the Cricket World Cup.

Table 18
BARBADOS: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
	Annual growth rates b/								
Gross domestic product	4.6	6.2	0.5	2.3	-2.6	0.5	2.0	4.8	3.9
Per capita gross domestic product	4.2	5.9	0.2	2.0	-2.9	0.2	1.8	4.5	3.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.6	-13.3	9.5	3.7	-9.5	-4.2	-4.0	-5.7	3.5
Mining	-1.7	47.5	9.2	-8.4	-12.6	-6.6	-7.0	6.1	4.3
Manufacturing	3.8	3.4	-2.4	-0.5	-8.2	0.2	-0.7	1.9	2.9
Electricity, gas and water	3.8	9.1	5.0	0.0	3.7	1.8	2.8	2.2	5.0
Construction	14.2	16.9	10.0	1.1	6.8	7.7	0.6	2.8	13.4
Wholesale and retail commerce, restaurants and hotels	5.9	9.5	-4.6	4.8	-4.4	-0.6	5.2	7.6	1.0
Transport, storage and communications	2.9	6.7	4.3	0.9	0.6	-2.9	2.6	5.2	4.8
Community, social and personal services c/	3.5	4.3	1.9	1.3	-1.2	1.6	0.6	4.9	4.5
	Millions of dollars								
Balance of payments									
Current account balance	-50	-63	-148	-145	-111	-168	-169	-337	-410
Merchandise trade balance	-599	-651	-714	-744	-681	-702	-801	-971	-1,069
Exports, f.o.b.	289	270	275	286	271	253	264	293	359
Imports, f.o.b.	888	921	989	1,030	952	955	1,066	1,264	1,428
Services trade balance	550	591	571	603	570	550	647	668	725
Income balance	-48	-56	-71	-82	-93	-102	-107	-122	-148
Net current transfers	47	52	66	78	93	86	92	88	82
Capital and financial balance d/	54	55	182	324	326	145	237	180	342
Net foreign direct investment	14	15	16	18	17	17	58	-16	0
Financial capital e/	40	40	166	306	309	128	179	196	342
Overall balance	4	-7	35	179	215	-23	67	-157	-68
Variation in reserve assets f/	5	7	-35	-179	-216	23	-68	157	68
Other financing g/	-8	1	1	1	1	1	1	1	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) h/	98.1	100.6	101.0	100.0	98.4	100.1	104.5	108.7	107.4
Gross external public debt (millions of dollars)	382	391	436	578	746	733	738	788	874
Gross external public debt (percentage of GDP)	17.3	16.5	17.6	22.3	29.3	29.6	27.4	28.0	29.3
Net profits and interest (percentage of exports) i/	-3.8	-4.3	-5.4	-5.9	-7.0	-7.8	-7.5	-8.0	-8.5
	Average annual rates								
Employment									
Labour force participation rate j/	67.8	67.8	67.8	68.6	69.5	68.4	69.2	69.5	69.6
Unemployment rate k/	14.5	12.3	10.4	9.2	9.9	10.3	11	9.8	9.1
	Annual percentages								
Prices									
Variation in consumer prices (December-December) (annual average)	3.6	1.7	2.9	3.8	-0.3	0.9	0.3	4.3	7.4
Nominal deposit rate	...	...	...	...	...	...	2.8	3.0	3.7
Nominal lending rate	...	...	...	...	...	...	7.6	7.4	8.4

Table 18 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Non-financial public sector	Percentages of GDP								
Total income	32.6	32.5	31.4	32.9	34.3	34.6	34.5	33.7	32.8
Tax revenue	30.5	30.1	29.7	30.7	32.1	32.0	32.3	32.2	30.6
Total expenditure l/	33.5	33.3	33.8	34.4	37.8	40.9	37.2	35.9	36.8
Current expenditure	27.5	28.1	28.4	29.0	31.6	33.7	32.2	32.1	31.6
Interest	4.3	4.3	4.6	4.6	5.4	5.4	5.0	4.8	4.7
Capital expenditure	5.8	5.4	5.3	5.4	5.8	7.2	5.0	3.8	3.8
Primary balance	3.4	3.5	2.2	3.1	1.9	-1.0	2.3	2.6	0.7
Overall balance	-0.9	-0.8	-2.4	-1.5	-3.5	-6.4	-2.7	-2.2	-4.0
External debt of the central government	15.9	14.3	15.7	19.8	26.7	27.2	24.8	23.7	25.6
Money and credit									
Domestic credit	...	...	...	...	...	...	68.1	72.7	79.7
To the public sector	...	...	...	...	...	...	17.5	20.4	20.4
To the private sector	...	...	...	...	...	...	50.6	52.3	59.3
Liquidity (M3)	83.7	81.9	87.1	87.4	95.4	110.3	110.6	121.5	120.4
Currency in circulation and local-currency deposits	76.1	75.0	79.2	80.7	88.3	101.3	100.7	110.7	110.3
Foreign-currency deposits	7.6	6.9	7.8	6.7	7.1	9.0	9.9	10.8	10.1

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 1974 prices.

c/ Includes financial institutions, insurance, real estate and business services.

d/ Includes errors and omissions.

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

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

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

h/ Annual average, weighted by the value of merchandise exports and imports.

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

j/ Economically active population as a percentage of the working-age population.

k/ Unemployment rate as a percentage of the economically active population. Includes hidden unemployment.

l/ Includes net lending.

BELIZE**1. General trends**

The economy of Belize expanded at a more moderate rate of 3.1% in 2005, compared to 4.6% in 2004. This growth was driven by the buoyancy of tourism and fishing, which offset the contraction in construction and manufacturing and the stagnation of agriculture.

The widening of the fiscal deficit was mainly due to the considerable increase in debt servicing, despite the combined effects of tax increases, a cutback in capital spending and the rise in official grants and donations. The deficit was financed by expanding the external debt stock.

The monetary authorities adopted a restrictive policy in order to at least partially neutralize the impact of the fiscal expansion on spending and the balance of payments.

The external sector posted a positive balance equivalent to 1.6% of GDP, mostly owing to the increase in the capital and financial account surplus, which more than compensated for the deterioration in the current account.

Projections for 2006 include growth of 2.5% and a fiscal deficit of less than 3% of GDP.

2. Economic policy**(a) Fiscal policy**

The central government's deficit widened from 6% of GDP in 2004 to 6.4% in 2005 owing to the higher level of current spending and a drop in government revenues.

The downward trend in public revenues, which slipped from 25.3% of GDP in 2004 to 24% in 2005, was due to the contraction of capital inflows, as current income expanded from 22.3% of GDP in 2004 to 23.1% in 2005. The rise in tax revenues, was due to the increase in corporate taxes and taxes on consumption and trade, among others. Non-tax current income was higher because of the rise in licenses and the return of loans to the Belize Social Security Board.

Current expenditure climbed from 22.6% of GDP in 2004 to 25.1% in 2005, mainly owing to debt servicing (31% of total current expenditure) and, to a lesser extent, the increase in the public wage bill (10% of GDP) and purchases of goods and services.

Capital expenditure contracted (by 8.7% and 5.3% of GDP in 2004 and 2005, respectively) despite higher spending on infrastructure, which accounted for 52% of the total.

The widening of the fiscal deficit pushed up the external debt stock from 82.2% of GDP in 2004 to 84.3% in 2005.

The authorities hope to reduce the fiscal gap to a figure below 3% of GDP in 2006. This is based on the expectation of higher economic growth, as the government does not plan to introduce any further tax measures.

(b) Monetary and exchange-rate policies

In 2005, the monetary authorities adopted a contractionary policy in order to counteract the effect of the expansion of net external assets and public and private spending. International reserves were buttressed by increased external borrowing, bond issues, exports of traditional products and income from the sale of equity in Belize Telecommunications Limited.

As part of this strategy, in May 2005 the legal reserve requirements for commercial banks were raised from 7% to 8% for cash reserves and from 20% to 21% for assets. The commercial banks' lending capacity was also reduced, except for long-term loans of its liquid assets to the government. Lastly, the government agreed, together with the Belize Social Security Board, to sterilize the expansionary effect of its liquid income flow.

This monetary policy stance moderated the growth of monetary aggregates. The narrow money supply expanded by 4%, compared to 13% in 2004, while broad money grew by 7% (13% in 2004). Consequently, interest rates for loans rose by 10 basis points, to 8.9%. The interest rate hike dampened the demand for credit (19.7% and 4.2% in 2004 and 2005).

In 2006, the central bank has maintained its restrictive policy, raising the legal reserve requirement for commercial banks by one percentage point.

3. The main variables

(a) Economic activity

In 2005, the 3.1% expansion in economic activity (compared to 4.6% in 2004), was driven by tourism, transport and communications and distribution sectors.

The tourism sector, the spearhead of the economy, grew by 3.5%, with a 3% increase in the number of long-stay visitors, thanks at least in part to the expansion of hotel and air transport capacity. The number of cruise passengers, which has much less impact on the economy, was down.

The performance of the construction industry reflected the completion of hydroelectric infrastructure projects and the cutback in government capital spending.

Manufacturing declined by 1.2% owing to the closure of operations in the sugar industry and the poor performance of most products intended for the domestic market, while a rise in taxes discouraged consumption. This contraction in manufacturing was softened by growth in the output of concentrated juices.

Agriculture stagnated, with growth of scarcely 0.3%, compared to 9.2% the previous year. This poor performance was due to a variety of factors, including: adverse weather conditions, as in the case of sugar; lower prices for some traditional crops, such as bananas; a decrease in the lobster industry's production capacity and in some other activities; and pests, including outbreaks affecting forestry activities. These factors were exacerbated by increased production costs due to higher international energy prices.

(b) Prices, wages and employment

The inflation rate rose from 2.8% in 2004 to 3.1% in 2005 as a consequence of higher international oil prices, utility rates and taxes. A breakdown of the consumer price index (CPI) shows that the categories of transport and communications; food, beverages and tobacco; and rent, water and fuel posted the highest increases (5.7%, 4.7% and 4.2%, respectively).

The unemployment rate continued its downward trend. In 2005 it amounted to 11%, compared to 11.6% in 2004, despite a 2% expansion of the labour force. The sectors where job creation grew most rapidly were tourism, public services, and community, social and personal services (16.2%, 21.6% and 11.5%, respectively).

(c) The external sector

The overall balance showed a positive result of 1.6% of GDP (-3% in 2004), as the current account deficit was easily financed by the capital and financial account surplus. Net international reserves expanded accordingly.

The trend in the current account reflected the strong performance of the services account (thanks to the tourism boom), but the trade gap actually widened. The increase in the overall trade deficit was attributable to the rise in the value of merchandise imports associated with the country's hefty energy bill, in addition to the stagnation of exports. External sales were hurt by the drop in volume of the country's main traditional exports and by a decline in the average export price for lobsters.

The balance on the capital and financial account reflected the increase in the government's liabilities associated with the refinancing of its net loan balances.

Table 19
BELIZE: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	3.6	3.7	8.7	13.0	4.6	4.7	9.2	4.6	3.1
Per capita gross domestic product	1.0	1.2	6.2	10.4	2.3	2.4	6.9	2.4	1.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.6	2.4	10.7	11.5	-0.4	0.5	38.9	9.2	0.3
Mining	-2.9	3.0	7.4	23.3	3.3	-5.4	0.0	5.7	3.2
Manufacturing	4.2	-3.8	6.5	24.2	-0.7	1.5	-0.4	12.1	-1.2
Electricity, gas and water	5.0	1.6	7.9	9.8	0.3	2.7	8.5	-1.5	0.6
Construction	-5.4	-2.3	16.6	38.9	1.3	3.7	-17.8	4.5	-5.6
Commerce, restaurants and hotels	5.3	8.7	9.8	12.1	8.3	3.8	3.8	2.9	8.1
Transport and communications	5.7	5.2	11.4	13.1	7.9	7.1	8.1	6.0	2.9
Financial institutions and insurance	3.0	3.5	13.1	17.3	6.3	17.7	16.9	4.3	4.6
Other services	0.8	3.5	1.2	4.4	4.2	4.0	5.0	1.4	-3.3
Gross domestic product, by type of expenditure									
Consumption	2.6	5.9	6.8	7.9	8.8	7.4	3.2	3.9	...
General government	4.0	2.1	-2.4	7.0	6.1	13.1	4.8	0.3	...
Private	2.3	6.7	8.6	8.1	9.3	6.4	3.0	4.6	...
Gross domestic investment	9.5	11.5	69.7	63.9	-17.1	-17.4	1.8	-14.2	...
Exports (goods and services)	13.2	5.1	13.0	8.7	4.0	8.7	13.2	-1.3	...
Imports (goods and services)	12.1	10.4	24.6	20.1	-0.8	2.6	2.1	-7.4	...
Balance of payments									
Millions of dollars									
Current account balance	-32	-60	-73	-162	-184	-166	-176	-150	-152
Merchandise trade balance	-90	-105	-114	-197	-209	-187	-207	-175	-238
Exports, f.o.b.	193	186	262	282	269	310	316	306	318
Imports, f.o.b.	283	291	376	478	478	497	522	481	556
Services trade balance	46	41	42	28	43	44	70	87	141
Income balance	-23	-32	-40	-53	-67	-69	-85	-114	-111
Net current transfers	35	36	40	60	48	47	46	51	56
Capital and financial balance c/	33	46	100	213	181	160	146	119	170
Net foreign direct investment	8	13	96	23	61	25	-11	103	107
Financial capital d/	25	33	4	190	120	135	158	16	63
Overall balance	1	-14	27	52	-3	-5	-30	-31	18
Variation in reserve assets e/	-1	14	-27	-52	3	5	30	31	-18
Other external-sector indicators									
Net resource transfer (percentage of GDP)	1.5	2.0	8.2	19.3	13.2	9.9	6.2	0.5	5.3
Gross external public debt (millions of dollars)	...	230	254	430	486	577	754	851	933
Gross external public debt (percentage of GDP)	...	33.4	34.7	51.7	55.9	62.3	76.9	82.2	84.3
Net profits and interest (percentage of exports) f/	-7.1	-9.8	-9.8	-12.2	-15.3	-14.1	-16.1	-21.0	-17.9

Table 19 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Employment	Average annual rates								
Unemployment rate g/	12.7	14.3	12.8	11.1	9.1	10.0	12.9	11.6	11.0
Prices	Annual percentages								
Variation in consumer prices (December-December)	1.0	-0.8	-1.2	0.6	1.1	2.3	2.6	3.1	3.7
Nominal deposit rate h/	6.6	6.4	5.8	5.4	4.4	4.3	4.8	5.2	5.3
Nominal lending rate i/	16.3	16.5	16.3	16.0	15.5	14.8	14.4	13.9	14.3
Central government j/	Percentages of GDP								
Total income	24.0	26.0	29.5	26.1	27.8	30.6	23.1	25.3	24.0
Current income	22.0	21.9	23.0	20.4	26.3	29.1	21.5	22.3	23.1
Tax revenue	19.7	19.7	17.4	17.8	23.9	26.7	18.9	20.2	20.7
Capital income	2.0	4.1	6.4	5.7	0.7	0.2	1.3	1.3	0.3
Total expenditure	25.2	27.7	32.9	31.8	39.4	34.2	34.1	31.3	30.4
Current expenditure	19.3	19.2	19.9	17.9	30.7	27.0	20.0	22.6	25.1
Interest	1.9	1.8	2.1	2.5	10.1	6.4	3.9	5.9	7.7
Capital expenditure	5.9	8.5	13.1	14.0	8.7	7.2	14.1	8.7	5.3
Primary balance	0.6	0.1	-1.4	-3.2	-1.5	2.8	-7.1	-0.2	1.3
Overall balance	-1.3	-1.7	-3.5	-5.7	-11.6	-3.6	-11.0	-6.0	-6.4
Total public debt	...	...	...	...	66.4	74.3	92.5	109.2	96.9
Domestic	...	...	...	...	10.2	11.8	12.6	12.7	12.9
External	...	33.4	34.6	51.6	56.2	62.5	79.9	96.5	84.0
Money and Credit									
Domestic credit	47.5	49.4	51.9	49.6	50.8	53.6	53.8	59.1	58.3
To the public sector	7.9	8.0	8.8	9.7	9.3	8.3	4.8	10.2	5.9
To the private sector	39.6	41.5	43.1	39.9	41.5	45.3	49.0	51.7	52.4
Liquidity (M3)	52.6	53.7	54.9	53.9	58.1	57.4	56.4	56.3	58.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Includes errors and omissions.

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

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

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

g/ Unemployment rate as a percentage of the economically active population. Nationwide total.

h/ Saving rate.

i/ Weighted average rate for loans.

j/ Up to 2003, indicators for income, expenditure and balances correspond to the fiscal year.

GUYANA

1. General trends

The adverse effects of the floods on Guyana's main economic sectors, coupled with rising oil prices in international markets, resulted in a contraction in the country's economy in 2005. GDP declined by 3%, following growth of 1.6% in 2004. Imports expanded sharply in response to reconstruction needs. Nevertheless, the overall balance of payments showed a surplus equivalent to 1% of GDP, largely attributable to substantial capital inflows.

Fuelled by surging international oil prices and tight agricultural supply conditions in the domestic market, inflation trended upwards to 8.2% (compared with 5.5% in 2004). Public sector wages were raised by 7% in 2005, which, given the inflation level, meant that real incomes declined marginally.

The public finance position weakened in 2005, reflecting the economic downturn combined with a broad public investment programme that encompassed reconstruction and rehabilitation following the flood damage and preparations for the Cricket World Cup. The central government's overall deficit after grants more than doubled.

The monetary policy stance was loosened early in the year, in order to stimulate credit demand for the financing of reconstruction work, but was later tightened to counter the expansion of liquidity in the system.

Economic activity is expected to recover in 2006, in spite of fresh flooding in the early part of the year, since the damage was less severe than that caused in 2005. GDP is projected to grow by 4.3%, while inflation will be around 6%. Public finances are expected to improve as growth in total revenues should exceed expansion in total expenditure. The balance of payments will worsen to show an overall deficit of over US\$ 6 million.

2. Economic policy

(a) Fiscal policy

The central government's overall deficit after grants widened to 14.2% of GDP (compared with 6.9% in 2004), owing essentially to the increase in capital expenditure (22.4% in 2005, as against 14.3% in 2004). This expenditure went mainly to infrastructure work, modernization of the public sector and the economic rehabilitation following the floods of early 2005. The poor performance of the non-financial public enterprises contributed significantly to the total deficit.

The increase in current expenditure from 32% of GDP in 2004 to 36% in 2005 was due to an expansion in purchases of goods and services, transfers to the Linden community and support to the rice industry.

Current revenues increased to 35.7% of GDP, reflecting improved tax administration and receipts.

In 2005, the domestic and external public debt stock increased. The growth in domestic debt stemmed from sterilization operations, while the expansion in external debt reflected obligations contracted in order to finance the modernization programme of the State-owned Guyana Sugar Corporation (GUYSUCO) and the construction of the new cricket stadium. This increase in debt stock occurred despite Guyana's qualification for the Multilateral Debt Relief Initiative (MDRI), under which the country's entire debt with the International Monetary Fund (IMF) and the International Development Association (IDA) of the World Bank was forgiven. In total, US\$ 283 million in debt were written off.

(b) Monetary and exchange-rate policies

In 2005, monetary policy was aimed at achieving price and exchange-rate stability, while fostering private-sector credit to productive sectors to promote growth and employment.

During the year, the monetary base expanded owing mainly to the increase in net international assets (25% in 2005), since the central bank's net domestic credit was flat. The flow of remittances and official emergency assistance following the natural disaster account in part for the growth in net international assets. This was reflected in an increase in the narrow and broad monetary aggregates (by 10.2% and 7.9%, respectively), as well as by increased liquidity in the commercial banking system (up by 48% in 2004, compared with 7% in 2005).

The effect of the higher level of liquidity was two-fold. First, combined with rising oil prices, it generated stronger demand for foreign exchange, which forced the monetary authority to intervene in the foreign-exchange market. The Guyana dollar depreciated marginally (0.2%) against the United States dollar. Consequently, the rate of exchange closed 2005 at G\$ 200.94 to the dollar.

Second, there was a stronger demand for low-risk financial instruments, such as treasury bonds, whose yield diminished as a result (from 3.79% at the end of December 2004 to 3.74% at the end of December 2005). In turn, the lower yield of these instruments forced commercial banks to channel their resources towards alternative uses. Thus, the average lending rate fell from 16.6% in 2004 to 15.1% in 2005.

Consistently with this trend, credit to the private sector expanded quite significantly (33.4%) as demand for loans from the productive sector and from private individuals rose in the wake of the flooding; in the former case for the rehabilitation of productive enterprises and in the latter for consumption. Mortgage loans increased considerably as well, reflecting in part the flood damage caused to housing. The increase in personal loans was driven by demand for consumer durables and other household goods.

3. The main variables

(a) Economic activity

The level of economic activity of the main productive sectors was severely hurt by the impact of the floods on the main productive sectors in the early part of the year.

Agriculture value-added declined by 10.8% in 2005, compared with a 2.8% increase in 2004. Sugar production plummeted by 23.9%, while rice output showed a smaller reduction. Another reason for the lower sugar output was the diminished sucrose content of the canes in the wake of the flood and this situation was compounded by strikes and worker absenteeism. A significant part of the rice crop was lost to the floods, with some fields not harvested.

Mining output also contracted in 2005, by 18% after a downturn of 7% in 2004. Gold declarations⁴⁹ fell by over 27%, reflecting the depletion of reserves in the OMAI Gold Mines, which later shut down. Increased output by individual operators seeking to capitalize on higher international gold prices was not enough to offset this downturn. Diamond production was down by 21.5% owing to the temporary closure of mining operations because of the threat of flood-borne malaria, and to lower prices.

Manufacturing output declined by 14% in 2005, compared with an expansion of 2.5% in 2004, reflecting the sharp contraction in sugar production. Other sectors, such as alcoholic beverages and paint production were up, but could not compensate for the lower sugar output.

Conversely, construction activity expanded by 9.4% (4.1% in 2004), in response to a sharp increase in public spending on flood-damage repair and rehabilitation work and on the construction of the World Cup Cricket Stadium and housing.

(b) Prices, wages and employment

Higher inflation in 2005 was due to domestic shortages following the floods, with a 7.8% rise in the cost of food, especially fresh fruits, vegetables, milk and meat products. Transport and communications and housing prices also increased (by 13.8% and 11.6%, respectively), the former reflecting rising international oil prices and the latter, strong housing demand.

In an effort to contain demand for wage hikes, the government raised public sector wages by only 7%, slightly below inflation. This brought the minimum wage to US\$ 124.13 per month.

In the framework of public-sector restructuring and rationalization, employment in this sector declined by 1.7% in 2005. Employment losses in public enterprises, including Guysuco (4.5%) and Aroaima Bauxite Company (9.8%) were offset by a 3.2% gain in the number of employees in the central government.

⁴⁹ The quantity of gold declared by producers is often less than their actual production as some is sold in the informal trade and unaccounted for in the official figures.

(c) The external sector

The overall balance of payments position improved significantly in 2005 to post a surplus of US\$ 8 million, equivalent to 1% of GDP, compared with a deficit of US\$ 43 million in 2004. This outturn was facilitated by an upturn in capital inflows, associated with private investment, and by reduced debt payments.

The current account deteriorated, the structural deficit doubling to reach US\$ 150 million (19.6% of GDP). The current account was affected by the sharp rise in oil prices and the decrease in the quantity and value of commodity exports. Exports declined by 6.5% to US\$ 551 million, following a strong recovery in 2004. Export volumes were down for all the major commodities, except bauxite and timber. Revenues from sugar exports contracted by 13.6% and those from exports of rice declined by 16.1%, in both cases as a result of the floods in the early part of the year.

The import bill increased by over 21%, reflecting higher oil prices, flood rehabilitation and the higher demand generated by an expanded infrastructure expansion programme, partly linked to the Cricket World Cup. Imports of consumer goods increased significantly in response to rising demand in the wake of the flood. Intermediate goods imports climbed strongly as a result of higher fuel prices. A positive development was a 14.1% increase in imports of capital goods for capacity-building in mining and agriculture, which is important for future growth. Imports were strongly up despite the downturn in output.

The services account deficit worsened again in 2005, while net factor service payments continued to decline, reflecting lower debt service payments thanks to forgiveness of part of the country's liabilities. Interest payments on public-sector and Bank of Guyana debt declined by US\$ 0.5 million and US\$ 1.9 million, respectively, in 2005.

Meanwhile, current transfers increased to US\$ 167 million (21% of GDP), reflecting a strong increase in grants extended to mitigate some of the impacts of the flooding.

The surplus on the capital and financial account increased six-fold to stand at US\$ 158 million or 20.6% of GDP. This was partly due to the increase in private investment, larger disbursements on existing commitments and lower debt service payments. Foreign direct investment stood at US\$ 76.8 million, owing largely to capacity-building in mining and telecommunications, especially cellular telephony.

With the improvement in the balance of payments position, international reserves at the Bank of Guyana strengthened to US\$ 251 million, equivalent to three months of import cover.

In 2006, the balance of payments position is expected to weaken, to yield an overall deficit of US\$ 6.7 million. The merchandise account will also deteriorate, since imports are expanding at a faster rate (4%) than exports (2.5%). Gold revenues will decline owing to the closure of OMAI Gold Mines, the largest producer. Sugar and rice exports should, however, help to offset this reduction. Imports are expected to expand owing to the continued rise in fuel costs and to expenditure on public infrastructure and private-sector projects.

The current account is also expected to show the effects of higher net payments for services and a fall-off in remittances, leading to a deficit of around US\$ 199 million. Capital account inflows are expected to increase by about 9%, however. The overall balance-of-payments deficit will be financed by debt relief under the Multilateral Debt Relief Initiative.

Table 20
GUYANA: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	6.2	-1.7	3.8	-1.4	2.3	1.1	-0.7	1.6	-3.0
Per capita gross domestic product	5.9	-2.0	3.5	-1.7	2.0	0.9	-0.8	1.4	-3.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.0	-6.7	15.9	-9.0	3.4	3.4	-2.3	2.8	-10.8
Mining	15.0	2.7	-8.4	5.9	4.2	-6.9	-8.7	-6.5	-17.8
Manufacturing c/	2.3	-8.7	15.5	-13.9	2.5	10.9	-0.5	2.5	-13.8
Construction	13.1	4.7	-10.0	6.6	2.0	-3.9	5.6	4.1	9.4
Wholesale and retail commerce, restaurants and hotels	5.6	5.3	-8.0	5.2	0.5	-0.9	-2.6	1.9	8.6
Transport, storage and communications	8.9	-3.1	2.1	7.1	5.4	4.5	4.9	3.6	9.4
Financial institutions, insurance, real estate and business services	5.1	3.8	0.0	3.6	-3.5	-0.8	1.6	1.0	6.1
Community, social and personal services	3.4	0.7	1.2	4.6	0.7	-0.8	1.1	1.2	3.4
Balance of payments									
Millions of dollars									
Current account balance	-111	-102	-78	-115	-134	-111	-91	-70	-150
Merchandise trade balance	-48	-54	-25	-80	-94	-68	-59	-58	-235
Exports, f.o.b.	593	547	525	505	490	495	513	589	551
Imports, f.o.b.	642	601	550	585	584	563	572	647	786
Services trade balance	-23	-32	-31	-24	-20	-24	-20	-47	-82
Income balance	-80	-60	-61	-58	-64	-59	-52	-39	-33
Net current transfers	40	44	39	47	44	40	40	74	167
Capital and financial balance d/	110	89	100	156	160	125	100	27	158
Net foreign direct investment	52	44	46	67	56	44	26	0	0
Financial capital e/	58	45	54	88	104	82	74	27	158
Overall balance	-2	-13	22	40	26	15	10	-43	8
Variation in reserve assets f/	3	23	-11	-24	-10	-6	0	32	-24
Other financing g/	-1	-10	-10	-16	-16	-9	-9	12	16
Other external-sector indicators									
Net resource transfer									
(percentage of GDP)	4.2	3.0	4.6	12.1	12.2	8.6	5.6	-0.1	18.5
Gross external public debt (millions of dollars)	1,513	1,507	1,211	1,193	1,197	1,247	1,085	1,071	1,096
Gross external public debt (percentage of GDP)	223.9	227.9	193.4	178.4	181.2	185.8	154.9	141.6	143.1
Net profits and interest									
(percentage of exports) h/	-10.8	-8.7	-9.1	-8.6	-9.6	-8.8	-7.5	-5.3	-4.8
Prices									
Annual percentages									
Variation in consumer prices									
(December-December)	4.2	4.7	8.7	5.8	1.5	6.0	5.0	5.5	8.2
Variation in nominal exchange rate									
(December-December)	1.8	14.0	10.2	2.4	2.6	1.2	2.0	2.2	0.0
Nominal deposit rate i/	7.4	7.1	8.1	7.3	6.7	4.3	3.8	3.4	3.4
Nominal lending rate j/	17.0	17.0	17.1	17.2	17.3	17.3	16.6	16.6	15.1

Table 20 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Central government	Percentages of GDP								
Total income k/	34.5	33.3	33.8	37.0	37.0	40.5	37.3	39.5	44.2
Current income	31.9	30.7	29.8	31.8	31.1	32.2	31.5	33.0	35.7
Tax revenue	29.4	28.6	26.9	29.1	28.3	29.5	28.8	30.9	33.7
Capital income	2.6	2.6	4.0	5.2	6.0	0.0	0.0	0.0	0.0
Total expenditure	41.7	40.1	35.7	44.4	47.6	46.1	46.5	46.4	58.4
Current expenditure	26.3	28.0	25.7	31.3	35.3	34.8	34.5	32.1	36.1
Interest	...	...	...	...	8.8	7.7	6.2	4.9	4.6
Capital expenditure	15.4	12.1	10.0	13.2	12.4	11.4	12.0	14.3	22.4
Primary balance k/	...	...	...	...	-1.8	2.0	-3.0	-2.0	-9.6
Overall balance k/	-7.2	-6.8	-2.0	-7.4	-10.6	-5.7	-9.1	-6.9	-14.2
Public-sector external debt	185.7	188.6	163.6	144.7	143.4	152.4	132.3	128.1	139.4
Money and credit									
Domestic credit	22.4	25.9	22.6	18.8	20.3	18.8	17.9	18.6	23.7
To the public sector	-16.2	-14.6	-16.5	-20.2	-17.3	-17.3	-10.7	-5.4	-1.7
To the private sector	42.1	44.8	43.5	43.9	43.4	41.7	34.9	30.6	31.9
Other	-3.4	-4.3	-4.4	-4.9	-5.8	-5.6	-6.3	-6.5	-6.5
Liquidity (M3)	60.3	60.2	56.6	60.9	65.7	68.0	69.8	69.5	74.6

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 1988 prices.

c/ Includes electricity, gas and water.

d/ Includes errors and omissions.

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

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

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

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

i/ Rate on small savings.

j/ Weighted average of prime interest rate.

k/ From 2002, includes grants.

JAMAICA

1. General trends

Jamaica maintained modest growth (1.4% in 2005, compared with 0.9% in 2004 and) due to the negative impact that rising international petroleum prices and natural disasters have had on production. Growth was led by buoyant tourism, construction and mining sectors, while manufacturing and agriculture contracted.

This sluggish economic growth —coupled with the fall in government income in the wake of hurricanes and the partial implementation of a tax reform package— caused a reduction in the tax burden that prevented the government from balancing its fiscal accounts. Nevertheless, efforts to control expenditure enabled the government to reduce its overall fiscal deficit from 4.8% of GDP in 2004 to 3.3% in 2005.⁵⁰

This performance is partly attributable to the reduction of interest rates resulting from the stance taken by the monetary authorities during the first half of the year. In the second half of the year, a rise in inflation expectations forced the authorities to act with greater caution in order to maintain the stability of prices and the exchange rate.

The overall result of the balance of payments was positive, which swelled the stock of international reserves. The current account deficit, which widened owing to rising petroleum prices and decreased earnings for certain traditional export products, was amply offset by the surplus in the capital and financial account. The surplus is attributable partly to increased inflows of foreign direct investment in the tourism and mining sectors, and partly to the rise in official flows resulting from the placement of Eurobonds on the international market.

The forecast for 2006 is 2.8% growth on the back of a rebounding agricultural sector, the continued dynamism of mining and tourism and 9% inflation. The government intends to continue focusing its efforts on reducing the fiscal deficit and the public debt, the latter being one of the main obstacles to Jamaica's medium- and long-term development. The fiscal objectives are based on expectations of stronger growth, a favourable international climate, an expansionary monetary policy and the renewal of the Memorandum of Understanding between the government and the Confederation of Trade Unions.

2. Economic policy

In 2005, economic policy was centered on the reduction of the public debt. This entailed adopting an expansionary monetary policy (which was called into question because it triggered a rise in inflation) and containing the expansion of the public wage bill.

⁵⁰ The fiscal year runs from April 1 to March 31 of the following year.

(a) Fiscal policy

The government reduced the fiscal deficit with rigorous public spending control (33% of GDP in 2005, compared with 36% in 2004), the effects of which were partially neutralized by the reduction of the tax effort from 27% of GDP in 2004 to 25.6% in 2005. The deficit was financed through two Eurobond issues amounting to US\$ 550 million: one with maturities of 10 years and a rate of return of 9%, and the other with a 20-year maturity and a 9.2% rate of return.

The performance of tax revenues is attributable to various factors. First, inflows were interrupted by external shocks (in particular natural disasters), and this had a negative effect on tax receipts.

Second, the authorities were unable to put into effect all the tax measures contemplated in the Report of the Tax Policy Review Committee (November 2004). Also, modifications were made to the proposed measures, delaying their implementation. The measures included increases in the income tax threshold, the general consumption tax (from 15% to 16.5%), taxation on the tourism sector and the special consumption tax, plus a reduction in the corporate income tax.

Third, the decrease in interest payments and wage payments and the increase in the income tax threshold diminished receipts for taxes on interest and pensions. Lastly, revenues from the special consumption tax dropped owing to the closure of Jamaica's only cigarette factory.

The total expenditure result was attributable to the contraction of current expenditure, since capital expenditure increased due to reconstruction efforts aimed at alleviating the destructive effects of recent natural disasters.

Current expenditure reflected falling interest and wage payments. In the case of wages, this was primarily due to compliance with the Memorandum of Understanding between the government and the unions, which seeks to freeze the wage bill. Lower interest payments were the result of the expansionary monetary policy.

The government's fiscal efforts, coupled with a strategy aimed at financing its fiscal deficit through fixed-rate bonds with longer maturity periods, helped to reduce the public debt balance from 143% of GDP in 2004 to 133% in 2005.

For 2006, the government predicts a fiscal deficit of 2% of GDP. The government and unions are considering a new wage agreement that includes a wage bill increase of between 13% and 26%.

(b) Monetary and exchange-rate policy

In the first half of the year, favourable external conditions enabled the Bank of Jamaica to increase its stock of net international reserves and adopt an expansionary monetary stance, lowering interest rates on its main instruments. Returns on reverse repo bonds fell three times in

a row during the year, with a total reduction of 120 basis points for 30-day bonds 190 basis points for 365-day bonds.

The Bank of Jamaica operated with greater caution in the second half of the year. During this period, natural disasters and high petroleum prices put pressure on financial and goods markets. Expectations of lower yields prompted investors to avoid potential capital losses by seeking refuge in instruments indexed to inflation.

The Bank of Jamaica abstained from reducing interest rates and intervened in the exchange market to curb the excess demand for foreign exchange. It also mopped up some of the domestic liquidity by means of sterilization operations. The consequent reduction in net foreign and domestic assets resulted in a reduction of the monetary base.

Between February and December, the weighted average rate of return on treasury bonds dropped from 13.83% to 13.34% for three-month bonds and from 14.4% to 13.55% for six-month bonds. The weighted commercial bank lending rate fell from 5.3% to 4.9% in real terms.

The drop in the interest rates of commercial banks resulted in a rise in demand for credit (from 0.5% in 2004 to 3.2% in 2005). Demand for loans was driven primarily by tourism (23%), construction (6%), and transport and communications (5%).

The nominal exchange rate depreciated by 4% between December 2004 and December 2005, in line with the downward trend in interest rates, which was in turn counteracted by central bank interventions in the foreign-exchange market.

3. The main variables

(a) Economic activity

The growth rate of the economy rose slightly. Mining, construction and tourism were the most dynamic sectors, while agriculture and manufacturing turned in sluggish performances.

Agriculture contracted by 8.9% in 2004 and 7.3% in 2005, owing primarily to adverse climate conditions and, to a lesser extent, rising production costs. The sector is expected to rebound in 2006 by 3% as it recovers from the destructive effects of natural disasters.

The poor performance of manufacturing (down 1% in 2005, compared with an increase of 3% in 2004) is attributable to the closure of the Petrojam petroleum refinery, the effects of flooding and rising production costs resulting from high international petroleum prices. A decline of 1.3% is expected for 2006 as a result of rising petroleum prices, an unstable industrial climate, the closing of the only cigarette factory in the country and a diminishing supply of cement.

In the mining sector (up 2.6% in 2004 and 2.8% in 2005), the positive effect of the expansion in bauxite production (6.2%) was partially offset by the slower growth in alumina

production (1.6%). Bauxite benefited from an increase in production capacity, while alumina production suffered from the destruction caused by natural disasters and labour unrest. In 2006, the sector is expected to expand by 4.7%.

Expansion in the construction sector (up 5% in 2004 and 7% in 2005) was fuelled by reconstruction activities, robust tourism and increased public spending on infrastructure. The current economic growth rate for the sector is expected to carry over into 2006 despite constraints affecting the cement industry.

Growth in the tourism sector (up 4.6% in 2004 and 3.4% in 2005) slowed due to cooling external demand and the effects of natural disasters. Natural disasters in other countries, however, had the positive effect of directing tourism toward destinations located in Jamaica.

(b) Prices, wages and employment

Inflation fell slightly, but remained in double digits (13.7% in 2004 and 12.9% in 2005). Price patterns responded partly to external shocks such as rising international fuel prices, increased food prices and the effects of natural disasters. They were also attributable to the rise in controlled prices, including increases in the minimum wage, the rates for general and special consumption taxes and public transport fares.

A breakdown of the consumer price index (CPI) reveals that the categories posting the most significant increases were food and beverages and transport, which represented 59% and 13% of total price movements respectively.

In 2005, wages climbed in both the public and private sectors. The minimum wage rose by 20% in January of that year, and an amendment to the Memorandum of Understanding between the government and unions was also approved. The amendment includes the payment of a temporary allowance (from 19 September 2005 to 31 March 2006) to compensate government employees for lost purchasing power. Wages in the private sector increased by 11% on average.

The unemployment rate fell relative to the previous year (from 11.7% in 2004 to 11.3% in 2005). This pattern reflected reductions in male and female unemployment rates (the former falling from 7.9% in 2004 to 7.6% in 2005, and the latter from 16.4% in 2004 to 15.8% in 2005).

Projections for 2006 suggest a return to single-digit inflation. This prediction is based on the standardization of agriculture prices and the adoption of a prudent monetary policy. The possibility of future hikes in international petroleum prices and the wage increases being contemplated in the Memorandum of Understanding may jeopardize this goal.

(c) The external sector

The global balance registered a positive result, as the widening of the current account deficit (from 6% of GDP in 2004 to 10% in 2005) was amply offset by the surplus in the capital

and financial account. Consequently, net international reserves expanded (from 21.1% of GDP in 2004 to 21.5% in 2005).

The performance of the current account is due mainly to the widening of the deficits on the trade balance and the income account.

The trade balance result (-US\$ 1.945 billion in 2004 and -US\$ 2.587 billion in 2005) reflected expanding imports of petroleum, chemicals and agricultural commodities resulting from the rise in the prices of these products on international markets. Exports expanded only slightly, as the increase in external sales of bauxite and alumina (23% and 13%, respectively) was partially offset by the contraction in sugar and bananas (down 22% and 63%, respectively).

The balance of services figure (US\$ 572 million in 2004 and US\$ 670 million in 2005) was primarily due to the rise in the number of tourists (1.3% and 4% in 2004 and 2005, respectively). The number of long-stay visitors grew by 4.5%, while the number of cruise ship passengers grew by 3%. Factors contributing to this performance included the increased capacity of air transport, rising hotel capacity, marketing efforts by the authorities and the redirecting of visitors toward Jamaica in the face of natural disasters that struck other tourist destinations.

The negative income balance result (-US\$ 583 million and -US\$ 637 million in 2004 and 2005, respectively) reflect increased debt-servicing payments (US\$ 66 million) and profit repatriation outflows. Current transfers (US\$ 1.446 billion and US\$ 1.580 billion in 2004 and 2005, respectively) reflected remittances to the private sector.

The surplus on the capital and financial account (US\$ 1.203 billion in 2004 and 2005) was due to official capital inflows from international markets (resulting from the placement of Eurobonds valued at US\$ 550 million), operations to finance Air Jamaica and inflows of private capital to the tourism and mining sectors (US\$ 479 million and US\$ 923 million in 2004 and 2005, respectively).

Table 21
JAMAICA: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	-1.0	-1.2	1.0	0.7	1.5	1.1	2.3	0.9	1.4
Per capita gross domestic product	-1.8	-2.0	0.2	0.0	0.9	0.6	1.8	0.5	1.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-13.3	-2.4	2.1	-12.5	6.3	-7.0	4.8	-8.9	-7.3
Mining	4.3	1.8	0.1	-1.0	2.6	3.3	4.9	2.6	2.8
Manufacturing	-2.6	-4.8	-1.9	0.6	0.8	-0.9	-0.9	3.0	-1.0
Electricity, gas and water	6.6	6.3	4.6	2.2	0.7	4.6	4.7	-0.1	4.1
Construction	-2.7	-6.6	-1.5	0.7	2.3	2.6	1.5	5.0	7.0
Wholesale and retail commerce, restaurants and hotels c/	0.8	-1.3	-0.5	1.2	0.0	0.1	1.0	1.3	1.1
Transport, storage and communications	6.3	6.4	6.8	6.5	5.1	6.2	3.6	0.9	1.2
Financial institutions, insurance, real estate and business services	-8.3	-3.6	3.6	1.9	-4.8	4.0	3.3	0.3	1.0
Community, social and personal services c/	0.5	1.0	0.7	1.5	-0.2	0.5	2.3	2.0	1.6
Balance of payments									
Millions of dollars									
Current account balance	-332	-334	-216	-367	-759	-1,074	-773	-509	-975
Merchandise trade balance	-1,132	-1,131	-1,187	-1,442	-1,618	-1,871	-1,943	-1,945	-2,587
Exports, f.o.b.	1,700	1,613	1,499	1,563	1,454	1,309	1,386	1,602	1,659
Imports, f.o.b.	2,833	2,744	2,686	3,004	3,073	3,180	3,328	3,546	4,246
Services trade balance	467	477	655	603	383	315	552	572	670
Income balance	-292	-308	-333	-350	-438	-605	-571	-583	-637
Net current transfers	625	628	647	821	914	1,087	1,189	1,446	1,580
Capital and financial balance d/	162	378	80	886	1,624	832	342	1,203	1,203
Net foreign direct investment	147	287	429	394	525	407	604	542	602
Financial capital e/	15	91	-349	492	1,099	425	-263	661	601
Overall balance	-170	44	-136	518	865	-242	-432	694	229
Variation in reserve assets f/	205	-27	155	-499	-847	261	448	-686	-229
Other financing g/	-35	-17	-19	-19	-18	-19	-16	-8	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) h/	100.7	96.0	97.7	100.0	101.6	101.1	115.9	114.3	105.6
Gross external public debt (millions of dollars)	3,278	3,306	3,024	3,375	4,146	4,348	4,192	5,120	5,376
Gross external public debt (percentage of GDP)	44.0	42.7	39.1	42.8	51.1	51.3	51.2	58.0	53.0
Net profits and interest (percentage of exports) i/	-8.6	-9.1	-9.6	-9.8	-13.1	-18.8	-16.2	-14.9	-15.6
Employment									
Average annual rates									
Labour force participation rate j/	66.6	65.6	64.5	63.3	63.0	63.6	64.4	64.3	63.9
Unemployment rate k/	16.5	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3
Prices									
Annual percentages									
Variation in consumer prices (December-December)	9.2	7.9	6.8	6.1	8.7	7.3	14.1	13.7	12.9
Variation in nominal exchange rate (December-December)	3.6	2.6	10.7	10.2	4.3	6.0	20.7	2.0	4.5
Nominal deposit rate l/	14.5	12.9	11.8	10.5	9.4	9.1	8.3	6.7	5.9
Nominal lending rate l/	46.3	42.1	36.8	32.9	29.4	26.1	25.1	25.1	23.2

Table 21 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Central government	Percentages of GDP								
Total income m/	24.8	25.8	29.2	29.1	27.0	28.0	30.3	31.1	29.4
Current income	24.4	25.3	27.0	28.1	25.7	26.2	28.7	29.3	27.9
Tax revenue	22.2	23.3	24.4	25.1	23.8	24.6	26.5	27.0	25.6
Capital income	0.2	0.2	1.9	0.5	0.7	1.6	1.4	1.0	1.3
Total expenditure n/	32.3	32.5	33.3	30.0	32.6	35.7	36.1	35.9	32.7
Current expenditure	27.0	29.5	30.0	27.6	29.9	33.8	35.0	33.9	30.3
Interest	9.2	12.0	13.4	12.4	13.4	14.9	17.8	16.7	13.9
Capital expenditure	4.9	2.6	2.9	2.7	2.7	1.9	1.1	2.0	2.4
Primary balance	1.7	5.4	9.4	11.5	7.8	7.2	12.0	11.9	10.6
Overall balance	-7.5	-6.7	-4.0	-0.9	-5.6	-7.6	-5.8	-4.8	-3.3
Public-sector external debt	48.2	45.8	41.9	46.1	54.8	55.4	58.3	63.8	55.4
Money and credit o/									
Domestic credit p/	...	...	42.3	40.1	41.6	40.2	43.4	43.3	40.6
To the public sector	...	...	33.9	33.4	35.1	31.9	32.4	29.6	25.8
To the private sector	...	...	10.4	8.6	8.7	10.2	13.0	15.2	15.6
Other	...	...	-1.9	-1.9	-2.2	-1.9	-2.0	-1.5	-0.9
Liquidity (M3)	...	...	39.5	39.6	39.3	39.6	38.3	39.1	34.6
Currency in circulation and local-currency deposits (M)	...	...	30.7	30.1	29.5	28.9	26.0	25.8	22.8
Foreign-currency deposits	...	...	8.9	9.6	9.8	10.6	12.4	13.3	11.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1996 prices.

c/ Restaurants and hotels are included in community, social and personal services.

d/ Includes errors and omissions.

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

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

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

h/ Annual average, weighted by the value of merchandise exports and imports.

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

j/ Economically active population as a percentage of the working-age population.

k/ Unemployment rate as a percentage of the economically active population. Includes hidden unemployment; nationwide total.

l/ Average rates.

m/ Includes grants.

n/ Includes statistical discrepancy.

o/ The monetary figures are annual averages.

p/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

NETHERLANDS ANTILLES

1. General trends

This may very well be ECLAC's last survey of the Netherlands Antilles since the islands that constitute the Federation and the Government of the Netherlands have agreed to change the political structure starting 1 July 2007. Curacao and Sint Maarten would join the Kingdom of the Netherlands as separate countries, whereas Bonaire, Saba and St. Eustatius would become Kingdom Islands, a novel form of direct relation with the Netherlands.

The dismantling of the five island federation is what dominated the policy agenda in 2005 and 2006. After winning the elections of January 2006 new Prime Minister, Emily de Jongh-Elhage, formed a coalition cabinet that elaborated a Transition Programme 2006-2007 which outlined the priorities for the last Government of the Netherlands Antilles. Supporting constitutional change in the islands, solving the public debt issue and combating poverty are the three main areas of work.

The rate of economic growth in 2005 was a lacklustre 1.5%. The economy of Curacao is chronically depressed by the burden of public debt and hindered by a stifling investment climate that is only slowly improving. Sint Maarten exhibits considerably more dynamism. For the federation of five islands, it is still the highest growth rate in a decade. Private consumption was stimulated by lower taxes, cheaper credit and more transfers. Private investment was boosted by a couple of major construction works. The banking and retail trade sectors were among the good performers. The fiscal situation improved on account of a windfall revenue transfer from the Netherlands. Imports outpaced export growth and widened the current account deficit. Transfers as well as a positive financial and capital account allowed an accrual of international reserves.

The relatively positive economic trend attracted immigrants thus increasing the population again, a factor which was not matched by the capacity of the economy to create jobs. In consequence, unemployment rose to a very high 16.3%.

2. Economic Policies

The prospect of dismantling the Netherlands Antilles Federation creates a delicate economic policy environment, especially in light of the fact that the Government of the Netherlands has accepted the need for a bail-out in order to create a financially sound starting position for the new countries and territories in the Kingdom. While the Netherlands presses for strict fiscal discipline, long-term economic stagnation in Curacao fuels the demand for growth stimulating policies.

(a) Fiscal policy

The fiscal balance improved in 2005 (-2.7% of GDP) compared to 2004 (-6.2% of GDP). This was mainly as a consequence of a new tax arrangement for the Kingdom, which resulted in a one-time dividend tax transfer received from the Netherlands, with the characteristics of a grant, equivalent to 3.4% of GDP. The underlying fiscal trend, not considering the windfall revenue, therefore remains of great concern.

In 2005 and 2006, most taxpayers saw their income tax burden effectively reduced, on account of a reduction of tariff levels and a series of changes in deductions and exemptions. The top tariff, for example, was lowered in two years from 57.2% to 49.4%. Fiscal revenues did not drop in terms of GDP because tax compliance improved and private consumption received a boost. Hence, sales tax and import duty revenues surged.

Also fiscal expenditures remained stable at close to 31% of GDP. Current fiscal expenditures increased due to a rise in wages and the establishment of an energy fund to mitigate the effect of the oil price hike. Capital expenditures, on the other hand, were less than in 2004. In sum, despite the intentions laid out in the government programmes about fiscal adjustment, it has not been possible to significantly increase revenue or lower expenditures as a percentage of GDP.

The fiscal deficit of 2.7% of GDP in 2005 was entirely financed through increased emission of bonds on the domestic market.

Total public debt stands at US\$ 2.7 billion, or 85% of GDP. Most of this is domestic debt (85%), more than half of which is owed by the central government; the remainder is owed by the island governments, mainly Curacao. The Netherlands is the main creditor, followed by the local pension fund and the social insurance bank. If the Government of the Netherlands would provide a solution for the domestic debt of the disappearing central government, the amount involved would be approximately US\$1 billion. In addition, under certain conditions the Government of the Netherlands is also willing to discuss debt reduction for the individual islands in order to reach an acceptable level of interest burden, established at 5%. At present, the interest burden of the Netherlands Antilles is 23%.

The “transitieakkoord” of 2005 and a more recent proposal by the Netherlands called “Partners in the Kingdom” (June 2006) are clearly geared to ensure fiscal prudence and to avoid that the volume of debt increasing in the period up to July 2007. A bank of reconstruction (Herstelbank) will be created with supervisory functions regarding the implementation of fiscal agreements, including acquisition of new debt.

(b) Monetary and exchange-rate policies

The lowering of taxes and the inflow of transfers provided the base for a significant expansion of private credit, only partially mitigated by the financing of the fiscal deficit on the domestic market. This underlying expansionary fiscal stance and other inflationary pressures

such as the oil price hike prompted the Central Bank of the Netherlands Antilles to aim at reigning in the expansion of money supply by increasing the reserve requirement and, to a lesser extent, the rather unsuccessful auctioning of Certificates of Deposit and the outright sale of securities to local banks. The objective of this policy is to achieve an international reserve base that covers three months of imports, while maintaining the fixed peg of the Netherlands Antilles guilder at 1.79 NAf to the US dollar. International reserves indeed increased, but at a lesser rate than imports. Import coverage hovers around 2.5 months.

The reserve requirement was increased from 11.375% in March 2005 in several steps to 12.25 in November 2005. The official interest rate (pledging rate plus 2%) has been steadily raised from a low of 4.25% in 2004 to 7.25% in the third quarter of 2006. Interest rates on commercial bank loans, if anything, have decreased a bit due to excess liquidity in the system and increased competition. Current account overdrafts, for example, command on average 8.3% interest in 2006 compared to 9.6% in 2005 and 10.7% in 2003.

Monetary and exchange rate policies are also being discussed in the light of a transition toward a new constitutional arrangement for the islands. The question is whether the islands would maintain a common monetary authority and currency; whether they should have separate ones; or if they should adopt another approach, such as dollarisation for example. The latest proposal is that the status quo be maintained in terms of one monetary authority and currency for Curacao and Sint Maarten.

(c) Other policies

One of the main policy challenges for the island of Curacao is to improve the business climate in order to stimulate investment. A comprehensive report by the Organization of Economic Cooperation and Development (OECD), published in 2005⁵¹ provides concrete recommendations to that effect. One of the critical issues in that regard is privatization. De Stichting Implementatie Privatisering (Foundation for the Implementation of Privatization), which used to be shareholder, on behalf of the Island Government, of companies involved in airport and port management, water distribution, oil refinery, waste treatment, among others, was however discontinued in 2005. The Government Agreement 2006-2007 (Akerdo di Gobernashon) does not mention privatization, but mentions the question of improving the investment climate through fiscal incentives. Other initiatives refer to the establishment of a new airline, sector plans for tourism and the transport hub as well as the implementation of an Economic Development Board.

Sint Maarten, on its part, worked on a Master Plan for the further development of the tourism industry.

⁵¹ OECD (2005), OECD Investment Policy Reviews, Caribbean Rim: Netherlands Antilles

3. The main variables

(a) Economic activity

The growth of GDP of 1.5% in 2005 was driven by the construction sector and the positive results of the banking and insurance industry. Salary increases also led to positive change in public sector value added. The growth in the construction sector is related to tourism, transport and basic services.

(b) Prices, wages and employment

Consumer prices increased 3.2% on average in 2005. Inflation thus accelerated compared to 2004 (1.5%). The oil price hike was the main cause, reflected in higher prices for food, housing, transport and communications.

The labour market in the Netherlands Antilles is, like everything else, very different in the different islands. At the level of the Federation, unemployment increased to 16.3%. This is mainly a result of the situation in Curacao, where unemployment reached 18.2% because of increasing return-migration from the Netherlands. On the other hand, the employment situation in St. Maarten improved significantly as unemployment fell from 17.5% in 2004 to 13.4% in 2005.

(c) The external sector

The global balance of payments showed a positive result, allowing net international reserves to increase by US\$74 million. This result was achieved despite a widening current account deficit. Exports increased from US\$1.4 billion to US\$1.7 billion, due to higher prices for oil and a stronger performance of the commercial free trade zone. These exports are very import-intensive, of course, and imports increased from US\$3.5 billion to US\$4.1 billion. The negative result of the merchandise trade balance was partially compensated by a slight increase in the surplus on the services balance. Earnings from tourism hiked 7% in Curacao and transport-related services also increased. Mostly, however, the merchandise trade deficit was compensated by an extraordinary transfer of dividend tax from the Netherlands. Foreign direct investment, the increase of development aid funds and the acquisition of foreign debt securities explains the surplus on the capital and financial accounts, which more than offset the deteriorating current account.

Table 22
Netherlands Antilles: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	<i>Annual rates of growth b/</i>										
Real Gross domestic product, percentage change			-0.6	-2.0	-1.2	-2.7	1.3	0.3	1.4	1.2	1.5
Real Gross domestic product per capita, percentage change						8.3	4.2	2.3	-1.0	-1.3	
	<i>Millions of US dollars</i>										
Gross domestic product, market prices, million US dollars	2,514	2,514	2,514			2,833	2,884	2,906	2,999	3,081	3,224
Gross domestic product per capita	13,077	12,925	13,259			15,502	16,417	16,836	16,978	17,048	17,379
	<i>Annual rates of growth b/</i>										
Gross domestic product by economic activity											
Agriculture, fishery and mining							-0.4	-5.3	5.8	2.7	-1.6
Manufacturing							-0.1	2.0	0.0	-2.5	-0.1
Electricity, gas and water							-0.4	2.4	1.3	0.8	0.2
Construction							13.3	-10.2	-3.7	2.5	4.5
Wholesale and retail trade							3.2	0.5	2.5	3.4	1.3
Restaurants and hotels							2.5	3.0	4.0	3.1	0.8
Transport, storage and communication							-2.1	-1.1	1.4	-2.1	-1.6
Financial intermediation							3.0	3.8	1.9	2.7	5.9
Real estate, renting and business activities							-2.2	-0.5	1.6	0.5	-0.3
Private households							-1.9	-0.1	-0.1	-3.1	-3.8
	<i>Millions of US dollars</i>										
Balance of payments (in US dollars)											
Current account balance						-67	-375	-106	8	-203	-289
Merchandise balance						-1,757	-1,986	-1,827	-1,821	-2,111	-2,352
Exports fob						1 208	1 140	1 033	1 171	1 390	1 739
Imports fob						2 965	3 127	2 860	2 992	3 501	4 091
Services balance						1,579	1,542	1,492	1,591	1,787	1,827
Income account						42	36	1	-13	-19	-7
Unilateral transfers						69	33	228	251	140	243
Financial and capital balance c/						43	211	116	-66	128	122
Net errors and omissions						24	164	-11	58	75	168
Global balance											
Variation in reserve assets e/						85	-415	-122	-89	-66	-133
Public debt											
Government debt (millions of US dollars)	1,636.4	1,754.7	1,842.2	1,867.5	1,949.4	2,146.2	2,465.1	2,674.2	2,721.1		
Government debt (% of GDP)	64.6	69.7	73.5	72.8	67.6	73.9	82.2	86.6	84.4		
Prices, interest rates and unemployment rate											
Nominal Exchange rate US\$=NAG	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79	1.79
Rate of change in the consumer price index f/	3.2	1.4	0.9	4.4	1.6	0.4	1.9	1.6	3.2		
Pledging rate	7.00	7.00	7.00	7.00	7.00	7.00	3.50	2.25	2.75	4.50	
Prime rate current account overdrafts	...	...	10.74	9.55	10.48	10.20	10.73	10.39	9.61		
Government bond effective yield (5 yr)	9.00	7.75	8.75	9.00	9.00	7.25	6.90	6.75	6.25		
Population	192,247	194,499	189,606	182,746	175,704	172,586	176,635	180,726	185,513		
Unemployment rate						14.5	14.6	15.3	15.1	16.3	
	<i>Millions of US dollars</i>										
Public finances g/											
Budget balance	-31	-47	-30	-56	2	-121	-136	191	86		
Budget balance (% of GDP)	-1.2	-1.9	-1.2	-2.2	0.1	-4.2	-4.5	-6.2	-2.7		
Government revenues (in US \$)	709	708	652	705	708	695	753	754	903		
Government expenditures	740	755	682	761	705	816	888	945	989		
Financing	31	47	30	56	-2	121	136	191	86		
Monetary	-3	-11	30	12	31	78	59	100	-20		
Nonmonetary	34	59	0	45	-33	43	77	90	117		
	<i>Millions of NAf.</i>										
	<i>Percentages of GDP</i>										
Monetary aggregates											
Net foreign assets	2,602	2,699	2,891	2,955	13.8	16.6	24.6	26.5	28.2		
Net domestic assets	65	97	193	64	45.9	50.8	51.6	55.3	60.7		
Domestic credit	5	-33	213	182							
Money and quasi-money	60	130	-20	-118	65.5	72.6	76.2	80.9	87.0		
Money					25.4	28.8	28.4	29.0	32.5		
Quasi-money					40.1	43.8	47.8	52.0	54.6		

Quasi-money

Source: ECLAC, on the basis of official information

a/ Preliminary data for the first quarter

b/ At constant prices.

c/ Includes errors and omissions.

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

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

f/ average yearly rate

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

MEMBER COUNTRIES OF THE ORGANISATION OF EASTERN CARIBBEAN STATES (OECS)⁵²

1. General trends

The countries members of the Organisation of Eastern Caribbean States (OECS) posted a higher growth rate in 2005 (5.4%) than the previous year (4.1%), despite rising international petroleum prices and adverse weather conditions.⁵³

Economic activity was driven by the buoyancy of the construction sector, which benefited from high levels of investment in preparation for the Cricket World Cup (2007). The manufacturing sector showed signs of recovery, while agriculture contracted.

Fiscal performance varied. Some economies took advantage of increased tax revenues while controlling expenditure in order to close the fiscal gap (Anguilla, Dominica, Montserrat, and Saint Kitts and Nevis). Others chose instead to raise public expenditure in order to improve their infrastructure and basic services and stimulate economic growth by increasing aggregate demand (Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines).

The overall result of the balance of payments was negative, as the current-account deficit was greater than the surplus in the capital and financial account. The current-account deficit widened due to rising international fuel and food prices and the loss of competitiveness in traditional exports. The performance of the capital and financial account reflected higher investment in the tourism sector, greater flows of government transfers and the completion of infrastructure projects.

In 2006, the OECS economies will continue to benefit from preparations for the Cricket World Cup. Economic growth will be fuelled by tourism and construction. It is hoped that activities linked to these two sectors will serve to attract foreign direct investment. At the fiscal level, the OECS countries plan to modernize their tax systems with the introduction of a value-added tax (VAT) and then adapt them to current economic circumstances by eliminating the gasoline subsidy.

⁵² The members of the Organisation of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, Dominica, Grenada, the British Virgin Islands, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. The analysis presented in this section refers to all the member territories, with the exception of the British Virgin Islands, which have a monetary union administered by the Eastern Caribbean Central Bank.

⁵³ The aggregate growth rate at basic prices.

2. Economic policy

(a) Fiscal policy

The OECS member States reduced the government deficit from 6.0% of GDP in 2004 to 5.7% in 2005.⁵⁴ The fiscal performance varied between countries, however, as the fiscal gap closed in Anguilla, Dominica, Montserrat and Saint Kitts and Nevis, while it widened in Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines.

The budget result for Anguilla (-4.6% of GDP in 2004 and -4.4% in 2005) was attributable to the decrease in capital expenditure, which more than compensated for the decline in current revenue.

Antigua and Barbuda's performance (-5.1% of GDP in 2004 and -6.2% in 2005) reflected increased capital expenditure. The authorities approved a package of tax measures intended to reduce the fiscal deficit and the public debt balance. The measures include the reintroduction of the income tax, a 5% wholesale sales tax, and a special excise tax of 7%.

Dominica (-9.3% of GDP in 2004 and -0.4% in 2005) adjusted its public finances primarily by reducing capital expenditure and, to a lesser extent, by increasing tax efforts and containing current expenditure. Capital expenditure returned to its usual levels after posting a sharp increase due to reconstruction efforts to repair the damage caused by Hurricane Emily in 2004. Tax efforts were most visible in the rise in revenues from corporate taxes. The government controlled current spending by freezing public wages and implementing operations to restructure the public debt, thereby facilitating the reduction of interest payments. In 2006, the government of Dominica plans to reduce the public wage bill by 20% and introduce VAT.

Grenada (-10% of GDP in 2004 and 2005) continued its strategy for reconstruction and recovery in the wake of the devastation caused by Hurricane Ivan in 2004. Capital expenditure rose as a result of reconstruction efforts, but this effect was offset by increased revenues from taxes on companies and on international trade and by reduced spending on salaries and interest payments. The introduction of a special income tax for a five-year period and a more efficient tax system also contributed to this result. Like Antigua and Barbuda and Dominica, Grenada is in the process of restructuring its public debt.

Montserrat contained its government deficit, which remained very large nevertheless (-81% and -63% of GDP in 2004 and 2005, respectively) as a result of the drop in payments from transfers and subsidies.

The fiscal result for Saint Kitts and Nevis (-8.2% of GDP in 2004 and -6.6% in 2005) was partly attributable to increased tax revenues and lower capital expenditure. The rise in the tax yield responded to the strong performance of taxes on companies and on international trade. The reduction in capital expenditure was the result of the closing of the sugar industry. In 2006,

⁵⁴ Excluding donations.

the government plans to improve the efficiency of public administration and modify the system of assessing real estate properties for tax purposes. It will also generalize the tax on international telephone calls to include all calls. In order to make the tax system more progressive, the government intends to raise the social services levy from 8% to 10%. Finally, the authorities indicated their plans to introduce an excise tax on tobacco and alcoholic beverages.

Saint Lucia's fiscal balance (-3.3% and -3.9% of GDP in 2004 and 2005, respectively) responded to higher capital expenditure, which offset the reduction in current expenditure. The rise in capital expenditure owed partly to the demand for construction in preparation for the Cricket World Cup in 2007, and partly to government efforts to stimulate aggregate demand and economic growth. The contraction of current expenditure was the result of the reduction in the wage bill, despite retroactive payments made to government employees. Tax revenues remained at the same level as the previous year despite the decrease in taxes on companies from 32% to 30%. For 2006, the government announced plans to reduce the excise tax on various goods in order to counteract the effects of inflation on consumer purchasing power.

The budget result for Saint Vincent and the Grenadines (-3.7% of GDP for 2004 and -5.8% for 2005) was influenced considerably by increased current expenditure and diminished tax receipts. Fiscal spending reflected the expansion of the wage bill and increased payments to service the external debt (which rose by 11% relative to 2004). Decreased revenues were attributable to the poor performance of taxes on goods and services and on external trade. In 2006, the government plans to pave the way for the introduction of VAT and a system of special excise taxes. In accordance with this objective, the government intends to discontinue a series of taxes including the general consumption tax and stamp duties. At the same time, the authorities plan to increase the tax base for excise taxes and taxes on foreign trade by halving exemptions.

(b) Monetary and exchange-rate policy

The economies that make up the Organisation of Eastern Caribbean States have been a monetary union since 1983 with their own currency, the Eastern Caribbean dollar, which is linked to the United States dollar at a fixed exchange rate of EC\$ 2.70. The monetary authority of this union, the Central Bank of the Eastern Caribbean, acts as a currency board and is required by its statutes to maintain reserves equivalent to 60% of its monetary liabilities. Since the creation of the monetary union, the institution has maintained a neutral monetary position and has changed the reference rate of interest only slightly. The monetary union has two characteristics that explain its neutral position: The first is that its management of foreign assets and liabilities has allowed it to maintain a reserve that far exceeds the statutory requirement. The second is that the commercial banking system is a closed circuit that strictly adheres to the obligation to maintain a balance between assets and liabilities.

In accordance with the regulations for currency boards, the financial system accommodated the demand for money, which expanded commensurately with economic activity. Domestic credit (8% in 2004 and 15% in 2005) was driven by activities in the private sector and to a lesser extent by government operations (91% and 9% of the total, respectively).

Total loans, credit advances, and overdrafts increased from 8% to 13% between 2004 and 2005 owing to the demand for commercial lending (47% of the total). Of the productive sectors, transport and storage, tourism, financial services, and construction posted the strongest expansion (30%, 18%, 15%, and 11%, respectively). The largest borrowers were Anguilla, Saint Lucia, Saint Kitts and Nevis, and Montserrat (21%, 20%, 16%, and 15%, respectively).

In 2005, the discount rate of the Central Bank of the Eastern Caribbean held steady at 6.5%, as economic conditions did not justify an increase. Similarly, interest rates for commercial banks remained the same (the prime lending rate remained at 8.5% (minimum) and 12.0% (maximum)).

3. The main variables

(a) Economic activity

The OECS member States posted a higher growth rate in 2005 (5.4%) than the previous year (4.1%) due to the buoyancy of the construction sector. The highest rates were observed in Saint Kitts and Nevis (6.8%), Saint Lucia (6.5%), and Antigua and Barbuda (5.6%). Saint Vincent and the Grenadines posted a growth rate of 2.8% in 2005 (just over half the rate in 2004), while Montserrat fell by 3%.

Agriculture contracted in most of the OECS countries (0.4% in 2004 and -12% in 2005). The performance of the primary sector was attributable to adverse weather conditions, pests, the accumulative effects of past natural disasters, high production costs, and limited access to financing. Traditional crops reflected the drop in banana production (-26% for the Windward Islands) and the destruction of nutmeg crops in Grenada caused by Hurricane Ivan. The contraction of sugarcane production (-24%) due to the shutting down of sugar industry operations in July 2005 also contributed to this result.

Despite the negative effect that the rise in international petroleum prices had on productive activity, manufacturing (-1.4% and 5.4% in 2004 and 2005, respectively) benefited from improved growth prospects due to the expansion of tourism and construction. At the country level, the manufacturing sector in Saint Kitts and Nevis turned in a positive performance (despite the decline in agricultural production) due to expanding productive capacity and the diversification of certain product lines in various national companies. In Saint Lucia, the food and beverage and paperboard sub-sectors benefited from the increase in long-term visitors and more buoyant commercial activity. In Saint Vincent and the Grenadines, beverage production surged while flour production contracted. Lastly, in Grenada the manufacturing sector showed signs of recovering from the damage caused by Hurricane Ivan.

In aggregate terms, growth in tourism activity was more moderate. Contributing to this result were the rise in petroleum prices (which drove up hotel rates and air-transport costs), a severe hurricane season, and faltering external demand.

Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines posted the highest rates of expansion in the tourism sector (24%, 12%, and 18%, respectively) thanks to an energetic campaign to create market niches, the expansion of hotel and air-transport capacity, the hosting of sporting and musical events and greater efforts to attract cruise ship passengers.

The construction sector (5% and 21% in 2004 and 2005, respectively) benefited from preparations for the Cricket World Cup (2007). The sector experienced some difficulties, however, such as a cement shortage and the rising international prices of construction materials.

The OECS member States initiated plans to construct sports facilities, improve the infrastructure of ground, sea, and air transport, and expand hotel capacity. Also, tax concessions offered for activities related to the Cricket World Cup have attracted some investments in fixed capital. The majority of the construction activities for this event have been financed with foreign direct investment. In the case of Antigua and Barbuda and Grenada, these activities have been made possible by donations from the People's Republic of China.

(b) Prices, wages and employment

Inflation rose (2.7% in 2004 and 4.1% in 2005) owing to higher international petroleum and food prices, faltering agricultural production and the resulting increase in freight charges, rising costs for construction materials and higher mark-ups.

Breaking down the consumer price index into individual components reveals that the categories showing the most significant hikes were fuel, food and electricity, and transport and communications. The rise in the consumer price index did not fully reflect the increase in international petroleum prices, as energy consumption is subsidized in OECS countries.

Real wages retreated in the majority of the countries, as increases in nominal wages did not keep pace with rising prices. The fiscal adjustment implemented by some economies contributed to this result.

Employment expanded along with economic activity. Tourism and construction posted notable increases, while employment in agriculture declined.

(c) The external sector

The overall result for the balance of payments was negative (3.7% of GDP in 2004 and -0.8% in 2005), as the widening of the current-account deficit (from 18% of GDP in 2004 to 22% in 2005) exceeded the surplus in the capital and financial account (22% and 21% of GDP).

The result for the current account was attributable to poor export performance and the expansion of imports. The performance of external sales reflected faltering aggregate demand, the contraction of banana, sugar, rice, and flour production, and the detrimental effects of natural disasters on the productive capacity of the agricultural sector in Grenada.

The increase in external purchases was the result of the rising international prices of petroleum, construction materials, and food products. The buoyancy of domestic demand (particularly for construction) also contributed.

The balance of non-factorial services fell (24% of GDP in 2004 and 21% in 2005) as tourism stagnated in a context of external conditions that were unfavourable to development in that sector. The total number of visitors remained at lower levels than in 2004, as did tourist spending.

The balance of the income account (-9.5% and -7.9% of GDP in 2004 and 2005, respectively) reflected debt payments and the repatriation of profits. Debt-service payments dropped in some countries due to efforts to restructure (Antigua and Barbuda, Dominica and Grenada) and reduce (Saint Kitts and Nevis and Saint Lucia) the external debt.

The surplus in the capital and financial account reflected a lower level of official flows (5.2% and 4.9% of GDP in 2004 and 2005, respectively) due to the implementation of new procedures for obtaining official financing from the European Union and the completion of infrastructure projects. Antigua and Barbuda (2.6% of GDP in 2004 and 24.4% in 2005) and Grenada (9.1% of GDP in 2004 and 9.5% in 2005) are exceptions, having received donations from the People's Republic of China for the expansion of sports infrastructure. Grenada benefited as well from continued international assistance for reconstruction activities. Flows of foreign direct investment remained were similar to levels recorded in the previous year (13.9% of GDP in 2004 and 13.3% in 2005), amid favourable expectations for the tourism and construction sectors and for the financial and monetary stability of OECS in general.

Table 23
ORGANISATION OF EASTERN CARIBBEAN STATES: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	3.2	4.0	4.5	3.9	-1.3	0.5	3.0	4.1	5.4
Per capita gross domestic product	2.6	3.4	4.0	3.4	-2.0	-0.1	2.4	3.4	4.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.1	1.1	-4.7	0.4	-8.4	5.3	-4.7	0.4	-12.1
Mining	7.0	2.1	6.5	21.5	-6.3	-1.5	6.7	-7.1	17.3
Manufacturing	2.7	2.3	3.3	-0.1	-1.4	-1.3	0.8	-1.4	5.4
Electricity, gas and water	6.7	6.2	9.0	14.3	5.6	2.0	2.9	1.3	3.6
Construction	7.9	11.5	8.3	4.9	-1.5	-2.5	2.9	5.1	21.1
Wholesale and retail commerce, restaurants and hotels	5.5	2.4	4.2	1.5	-5.3	-0.4	8.4	4.9	5.8
Transport, storage and communications	6.1	5.9	9.2	2.6	-1.2	-0.6	3.7	7.2	4.9
Financial institutions, insurance, real estate and business services	6.9	6.1	5.5	15.3	0.8	3.3	2.0	5.7	4.3
Community, social and personal services	-5.7	-2.9	-2.4	84.4	2.0	2.8	1.2	2.9	2.9
Balance of payments									
Millions of dollars									
Current account balance	-402	-366	-450	-460	-516	-595	-681	-564	-739
Merchandise trade balance	-948	-982	-1,056	-1,076	-1,004	-1,004	-1,176	-1,268	-1,424
Exports, f.o.b.	298	316	327	349	260	271	259	298	256
Imports, f.o.b.	1,246	1,299	1,383	1,426	1,264	1,275	1,435	1,566	1,680
Services trade balance	576	629	642	668	573	524	604	744	710
Income balance	-131	-147	-170	-217	-194	-215	-238	-260	-231
Net current transfers	100	134	133	165	110	100	129	221	206
Capital and financial balance c/	427	426	479	480	581	659	722	679	713
Net foreign direct investment	261	313	335	312	370	343	553	435	450
Financial capital d/	166	114	144	168	211	317	169	244	263
Overall balance	25	61	28	21	65	64	41	115	-27
Variation in reserve assets e/	-24	-63	-28	-21	-65	-63	-41	-115	27
Other financing f/	-1	2	0	0	0	-1	0	0	0
Other external-sector indicators									
Gross external public debt (millions of dollars)	885	1,061	1,212	1,283	1,462	1,764	2,008	1,964	...
Gross external public debt (percentage of GDP)	36.6	37.6	46.1	46.5	53.1	63.7	67.6	59.9	...
Annual percentages									
Prices									
Variation in consumer prices (end of period)	...	...	...	...	2.4	-0.1	1.0	1.7	4.2
Nominal deposit rate h/	4.2	4.2	4.2	4.4	4.3	3.7	4.6	...	...
Nominal lending rate h/	11.6	11.3	11.8	11.6	11.4	11.0	12.8	...	...

Table 23 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Central government	Percentages of GDP								
Total income i/	27.5	29.0	28.4	27.8	27.7	29.0	29.6	30.6	36.2
Current income	24.9	25.2	25.7	25.4	24.9	25.8	26.1	26.7	26.7
Tax revenue	21.3	21.7	21.6	21.6	21.3	22.1	22.6	23.4	23.9
Capital income	0.6	0.6	0.3	0.2	0.1	0.5	0.4	0.4	0.5
Total expenditure	30.1	30.6	31.4	32.1	34.9	37.9	34.8	33.9	33.5
Current expenditure	23.7	23.6	24.1	24.4	26.9	28.0	27.1	27.4	26.4
Interest	1.9	1.8	2.1	2.6	3.4	4.1	4.1	4.4	3.9
Capital expenditure and net lending	6.4	7.1	7.3	7.7	8.0	9.9	7.7	6.5	7.1
Primary balance	-0.7	0.2	-0.9	-1.7	-3.9	-4.8	-1.0	1.1	6.5
Overall balance	-2.6	-1.6	-3.0	-4.3	-7.3	-9.0	-5.1	-3.4	2.7
Public-sector external debt	36.6	37.6	46.1	46.5	53.1	63.7	67.6	59.9	...
Money and credit									
Domestic credit	70.2	71.9	74.3	78.9	85.5	87.4	87.6	83.8	84.5
Public	-1.5	-1.6	-2.5	-3.4	-1.5	-1.3	-3.5	-1.5	-1.6
Private	76.3	78.1	80.8	85.7	90.4	91.0	88.9	87.8	87.1
Liquidity (M3)	66.8	68.1	73.1	78.4	83.7	87.2	90.0	93.2	105.8
Currency in circulation and local-currency deposits (M)	60.5	61.5	65.6	69.1	72.6	75.6	78.0	80.2	81.6
Foreign-currency deposits	6.3	6.6	7.5	9.3	11.1	11.6	11.9	13.0	24.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in Eastern Caribbean dollars at constant 1990 prices.

c/ Includes errors and omissions.

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

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

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

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

h/ Weighted averages.

i/ Includes grants.

PUERTO RICO

1. General trends

The level of activity moderated (2.8% and 2.4% in 2004 and 2005) mainly due to the contraction in public capital expenditures, slower world economic growth and the impact of higher international oil prices on production costs. Economic activity was led by tourism since manufacturing stagnated and the construction sector declined.

Two important events marked the year. First, Puerto Rico faced a fiscal crisis. The increase in the budget deficit and the public debt jointly with a lack of an agreement by the executive and the legislative powers on a fiscal reform package led to stalemate over the FY2006 budget approval. These events prompted credit rating agencies to downgrade Puerto Rico's credit to the near lowest level in 2006. During 2005 and the first quarter of 2006, the country operated on the FY2005 budget which eventually led to a shortage of funds and the shutdown of government operation for two weeks in the month of May.

Second, Puerto Rico at the end of 2005 confronted the removal of tax incentives granted since the start of 'Operation Bootstrap' to United States corporations operating in Puerto Rico. The tax incentives regimes led to the development of a high technology, capital-intensive manufacturing sector in Puerto Rico, specialized in the production of chemical and pharmaceutical goods. At the same time, it has not favored the development of the domestic industry and has led to the creation of transfer mechanism, in the form of profit repatriation funds, between Puerto Rico and the rest of the United States.

At present the effects of the removal of the tax incentives regimes is unclear. The authorities are however cognizant that Puerto Rico must revise and perhaps redesign its industrial policy. The expiration of the Industrial Policy Act of Puerto Rico in 2007 may provide a further incentive to re-think industrial policy.

Inflation increased as a result of the rise in international oil prices which pushed upwards the electricity and transport components. Unemployment rose mainly due to the contraction in public expenditure and to a lesser extent the stagnation in manufacturing.

For 2006, the economy is expected to grow by 2.0%. The rate of unemployment is projected to remain within the vicinity of 12%. The rate of inflation will reflect the behavior of oil prices. The government is committed to reduce its deficit through lower capital expenditures cuts and a lower wage bill. The reduction of the deficit will remain, however, a major challenge for the government.

2. Economic policies

(a) Fiscal policy

During 2005 and 2006 the fiscal situation of Puerto Rico deteriorated to the point of triggering a fiscal crisis. This was prompted by the lack of agreement between the executive and legislative branch, dominated each by a different political party, on a plan to tackle the mounting fiscal deficit. The main points of disagreement centered on the rate to be applied to the sales and corporation tax, and on the design of the property tax system. The executive branch argued in favor of a 7% sales rate tax while the legislative favored a 4% rate. In the same vein, the legislature requested a 5% corporation tax while the Governor sought to protect the existing incentives to American corporations.

The absence of an agreement led to a political stalemate over the approval of the budget for the FY 2005/2006. As a result Puerto Rico had to operate on the FY2004/2005 budget throughout the second half of 2005 and the first four months of 2006.

This, jointly with a weak tax collection and poor expenditure control, led credit rating agencies to downgrade Puerto Rico's credit standing in May 2005. Credit rating agencies, which had basically maintained the same rating for Puerto Rico since 2005, degraded Puerto Rico's credit standing even further to the near lowest level as the stalemate continued throughout the following year.

Puerto Rico's debt increased from 15% to 17% of GNP between 1995 and 2005. For its part the public sector borrowing requirement rose between -0.2% and 3.2% of GNP for the same period. The rise in the deficit and the public sector borrowing requirement accelerated sharply in 2004 and 2005.

The rise in the deficit and the debt is due to several factors. The most important among these include the impact of the 2002 recession, the slowdown in economic growth in the years 2003 and 2004, increases in wages due to the process of unionization of public civil servants, and the inelasticity of the tax system.

At the end of the FY2005/2006 the government experienced a shortage of funds and as a result was forced to shut down its operations for two weeks in the month of May which included the closure of 1,500 schools, leaving 100,000 public employees without pay.

Both the executive and the legislative branches arrived at a settlement in May which guaranteed the approval of FY2006/2007 budget. The settlement includes the commitment of the legislative branch to approve an emergency loan to finance the expenditure gap, the reduction of the budget deficit in FY2006, and the eventual introduction of a sales tax.

3. The main variables

(a) Economic activity

During 2005, the expansion of economic activity moderated (2.7% and 2% in FY2004 and FY2005). The rate of growth will remain at the current level in FY2006 (2%). The majority of the economic sectors with the exception of tourism stagnated. Viewed from the expenditure side, the rate of growth of the gross product is mainly explained by consumption since investment driven by public capital expenditure declined.

The performance of tourism was affected by natural disasters that affected East Asia and the United States, terrorism acts which occurred in Europe and the Middle East, the rise in international oil prices and the slowdown in world economic growth.

The number of visitors increased 2.3%. In the same vein, the number of rented rooms and employment rose by 5.1%. For 2006, tourism is expected to benefit from climatic factors and the hosting in San Juan of the first World Baseball Classic in March. In the first quarter of 2006, the average occupancy rate reached 79% (reaching a 90% peak in March).

The construction sector witnessed a decline in the number of new permits (6.8% and – 1.5% in 2004 and 2005) mainly as a result of the contraction in government capital expenditure, which accounts for more than half of the activity in that sector. For its part, private construction sector activity recorded healthy increases above 5% on average for the year. In 2006, the construction sector is bound to feel the repercussions of public investment expenditure cuts.

Manufacturing activity stagnated (0.8%) due to the decline in sales to the United States, the increase in production costs resulting from the increase in the international price of oil, and the uncertainty surrounding the future of the sector as a result of the removal of the federal tax incentives in 2006. The industries that have benefited from tax incentives generate more than 50% of employment in the manufacturing sector, more than 60% of merchandise exports and contribute more than 30% to the Gross Product of Puerto Rico.

At the federal level, Section 931 of the United States internal revenue tax code in force until 1976, allowed United States corporations to ‘exclude their profits from any US tax liability on so-called possessions income, as long as these profits were not repatriated to the US during the ‘life’ of the corporation.’ This law ‘led to ‘ghost’ closings of corporations at the end of their Puerto Rican exemption period so that profits could be repatriated. These firms would be then reconstituted with a new exemption period in Puerto Rico until subsequent ghost liquidation took place so that profits could again be remitted tax free.’

The tax reform act of 1975 replaced Section 931 with Section 936. It provided a tax credit “equal to the full amount of the United States corporate income tax liability on income generated by production, trade or investment activities of an active business in a United States possession”. This incentive “sheltered a large proportion of corporate income taxes generated by profits of production facilities located in Puerto Rico. The intent was to promote development of the

Puerto Rico economy and the reduced costs also encouraged production of materials for export.⁵⁵ Investment income was also exempted from the federal income tax provided that at least three quarters of all profits came from trade or production activities and provided that the income was earned and invested in Puerto Rico.

Section 936 was, without doubt, a significant tax incentive act as it was estimated that more than 90% of those corporations that qualified for tax exemptions under Section 936 were located in Puerto Rico. However the law also led to a concentration of industry in manufacturing and pharmaceuticals. In fact the drug and pharmaceuticals industry received half of the tax benefits granted by section 936 of the tax reform act of 1975.

In 1996, Section 936 was repealed through the Small Business Job Protection Act and granted a phase out of 10 years for current beneficiaries. The authorities have proposed an amendment to Section 956 of the federal tax code, which would allow controlled foreign corporations (CFC) to repatriate 90% of their profits to related or parent operations in the United States tax-free.

While the effect of the removal of the tax incentives legislation on the manufacturing sector is still uncertain, the government is cognizant of the need to revise the design of its industrial policy to stimulate the development of domestic industry. This will entail the revision of the Industrial Policy Act which has been a crucial part of the government's industrial promotion programme and which expires in 2007.

(b) Prices, wages and employment

The rate of inflation increased (14% and 16% for 2004 and 2005) mainly as a result of the increase in international oil prices. At the component level of the Consumer Price Index (CPI), electricity and transport registered the largest hikes.

The rate of unemployment increased during the year from 10.7% in the first quarter to 12% in the last quarter of 2005. This reflected the downward trend in non-agricultural employment and in particular in the construction and manufacturing sectors. The reduction in public employment which is part of the government's efforts to reduce its deficit was also an important contributing factor. For their part, employment levels in retail trade and finance, insurance and real estate increased in line with their economic performance. The rate of unemployment is expected to remain at 13% throughout 2006.

In line with the developments in employment, wages increased a meager 0.12% in nominal terms for 2005 resulting in a decline in workers' purchasing power. For 2006, wages are expected to stagnate in 2006 (0.06%).

⁵⁵ See, The Urban Institute. Targeting Export Markets for Puerto Rico. 1997.

(c) The external sector

During the year Puerto Rico posted a deficit in its current account (8% of GNP for both 2004 and 2005) explained mainly by the negative result in the merchandise trade balance, which was however smaller than the one registered in the previous year (-28% and -26% of GNP in 2004 and 2005).

The evolution of the merchandise balance is explained by an expansion of exports that was commensurate to that of imports (6% and 9%; 5% and 7% for 2004 and 2005). The behavior of exports was driven by the external sales of chemical and in particular pharmaceutical products, which represent 64% of the external sales of Puerto Rico. For their part imports rose steadily, partly as a result of the increase in the international price of oil. The rise in imports was particularly marked in the last quarter of the year (21%).

SURINAME

1. General trends

The indicators show a good level of macroeconomic stability in Suriname. GDP looks set to continue its rapid growth, driven by high commodity export prices and rising foreign direct investment in mining.⁵⁶ President Venetiaan was re-elected in August 2005 for a second consecutive five-year term, and the new Government's objectives are to strengthen economic strategy, reform the public sector and pave the way for poverty reduction.

The new administration is off to a slow start. By law, the Multiannual Development Plan must be approved by the National Assembly before the first annual budget may be submitted. The plan was sent to the Assembly in June 2006, so the Government is operating on an extended 2005 budget. Meanwhile, the country is enjoying a degree of fiscal and monetary stability, thanks to a conservative approach to spending and increased revenues.

Heavy rainfall in May 2006 caused rivers in the south to burst their banks. This natural disaster, unusual in Suriname, reflected the lack of development in the interior of the country and the plight of indigenous and Maroon communities.

2. Economic policy

The most complex issue facing the new Government relates to the size, functions and efficiency of the public sector. A draft of the five-year plan dated March 2006 acknowledges that 40% of the economically active population is employed by the State and that the efficiency of public services is unsatisfactory. Social subsidies and transfers weigh heavily on the budget but fail to target the most vulnerable groups. Lastly, the existence of many of the State-owned corporations (which number more than 100) has been called into question. Three Inter-American Development Bank projects are under way to address public-sector reform.

In the field of economic policy, the private sector should promote growth and job creation. The Caribbean Single Market and Economy (CSME) took effect on 1 January 2006, but the private sector is showing little interest. A new investment law has been adopted, in order to harmonize conditions within CARICOM and improve the investment climate.

The Suriname Debt Management Office (SDMO), which began operating in 2004, has improved the transparency of information on public debt, and this has strengthened the country's position in international credit ratings. Preparations are under way for negotiations on arrears on certain bilateral loans, which have been detrimental to the country's access conditions for entering international capital markets.

⁵⁶ GDP data are released in July each year. The National Planning Office projects 5.7% GDP growth for 2005 and 6.4% for 2006. IMF forecasts 5% and 4.5%, respectively.

(a) Fiscal policy

In 2005 the overall fiscal deficit widened by 1.3 percentage points to 2.1% of GDP.⁵⁷ Despite strict control of public-sector employment and wages, higher spending on goods and services more than offset the growth of tax receipts. The deficit was financed with an increased issue of treasury bonds.

The budget for 2006 anticipates a still higher deficit, but actual spending, particularly capital spending, usually falls well short of what is planned.

Fiscal revenue will continue to depend mainly on the prices of commodities such as bauxite, alumina, gold and oil. In 2005, the State Oil Company of Suriname (Staatsolie) contributed US\$ 80 million to the treasury, almost 17% of total revenue and about three times the previous year's amount.

Another factor in the vulnerability of fiscal revenues as of September 2005 was the fuel taxing mechanism. Fixed retail price for fuels were in place, and had not been revised since March 2003. Distribution margins were also fixed, and the difference between costs and the retail price accrued to the Government. This represented a positive contribution to the State, equivalent to 4% of GDP in 2003; by mid-2005, however, rising fuel costs meant that the Government was no longer receiving revenue from that tax, but paying a subsidy equivalent to 1% of GDP. In September 2005, the new Government was forced to double domestic fuel prices, and in December 2005 a new pricing and taxation mechanism came into effect.

In the area of fiscal policy, the five-year plan's main proposals on the revenue side relate to the creation of a Tax Authority and the introduction of value-added tax instead of the sales tax.

Fiscal expenditure rose by more than one percentage point of GDP owing to the strong increase (2.2 percentage points of GDP) in spending on goods and services, for which the authorities have offered no explanation. Expenditure on public-sector wages and social subsidies did not grow as fast as GDP; they have not been adjusted since late 2004, except for the introduction of an allowance to compensate for increased fuel prices.

The current-account fiscal balance is still positive, but less so than in previous years. The global deficit is due to increased capital spending and diminishing grants, and was financed by the issue of treasury bonds. The 2002 legislation on public debt established a ceiling of 15% of GDP for domestic public debt, but the actual ratio is higher (15.6% according to ECLAC estimates) and is trending upwards. A revision of the ceiling is being considered. Since the external debt has practically not increased, total public debt as a percentage of GDP has been declining rapidly in recent years.

⁵⁷ The fiscal data are preliminary, and GDP figures are only projections.

(b) Monetary and exchange-rate policy

Monetary policy has been aimed at providing liquidity in response to the needs of the economy. In this context, the draft five-year plan provides for a maximum M2/GDP ratio of 25%. The ratio is currently lower but trending upward.

Monetary policy was expansionary in terms of the local-currency market, but not in foreign currency. The cash reserve requirement in local currency was lowered from 30% to 27%, and the part of that requirement that may be fulfilled with long-term mortgage loans for social housing was expanded from 7% to 8%. Consequently, domestic credit to the private sector increased by almost one percentage point of GDP. In foreign currency, however, reserve requirements were increased from 22.5% to 33.5%.

Treasury bonds have become an instrument of monetary policy. In early 2006, the interest rate on the bonds was reduced from 12.5% to 10%. The draft five-year plan proposes the establishment of an auction system for treasury bonds, to improve the functioning of the domestic capital market.

As for its exchange-rate policy, Suriname has moved closer to a fixed exchange-rate system. The authorities increased the exchange rate from 2.75 to 2.78 Surinamese dollars to the United States dollar, and imposed a “code of conduct” instructing exchange houses not to exceed a rate of SRD 2.80. This exchange-rate policy is intended to restore public confidence in the national currency and contain inflationary expectations.

(c) Other policies

The March 2006 draft of the five-year plan offers a gamut of policy proposals. Together with sectoral plans to channel and coordinate international aid, such as the “Vision 2020” project, a medium- and long-term development strategy is emerging based around the Millennium Development Goals.

In the energy sector, electricity prices do not cover the cost of production, so resources for investment and maintenance are scarce. A national energy advisory committee was established in January 2006 to review the pricing policy.

The transport and communications sector has seen positive developments, mostly owing to intensifying regional and international integration. The Government has pledged to build roads in the interior of the country during the five-year planning period, as well as improving land transport linkages with South America. An integrated master plan for the development of waterways has also been announced.

In addition, an air transport authority will be set up and the air travel sector will be further liberalized. As of 1 May 2006, the air route between Amsterdam and Paramaribo was opened up to competition.

Lastly, mining is another essential sector for the country's economic growth. A new draft mining law was submitted to the National Assembly, providing for increased taxation, shortened concession periods, and a reduction of maximum concession areas. A Minerals Institute will be established, to guide policy in the sector.

3. The main variables

(a) Economic activity

The economy grew at a rate of 5.7% in 2005. A figure of about 6.4% is expected for 2006, depending on fluctuations in commodity export prices.

International prices for oil, gold and alumina continued their upward trend in 2005. The first half of 2006 should see increased exploration activities, greater demand for mining-related services and higher tax revenue.

Crude oil production at Staatsolie was 5.5% higher in 2005 than in 2004. Gold production at Cambior's Gross Rosebel mine was 25% higher and, in January 2005, the Suriname Aluminum Company (Suralco) boosted its capacity by 15% by expanding the alumina refinery in Paranam.

Service sectors showed considerable growth, boosted by the strong performance of the commodities sector. Projections from the National Planning Office show that after mining (15.4%), the sectors with the strongest growth were transport and communications (10.6%) and construction (10.3%). Basic services, hotels, restaurants and commerce also enjoyed above-average growth.

The agriculture, fisheries and manufacturing sectors averaged 3.4% growth. Prospects vary for these sectors: the rice industry is looking at a new organizational set-up based on commodity boards (*productschappen*), and solutions are being considered for the debts inherited from the former State company. Rice production was down 18% in the last four months of 2005, compared with the same period in 2004.

The privatization of the banana company is pending confirmation of new arrangements for accessing the European market. In the same four months, production was up 50% compared with the year-earlier period. The fisheries sector, which includes shrimp fisheries, has been going through a severe crisis (-9%), owing to high fuel costs, obsolete equipment and inadequate organizational and regulatory structures.

The number of visitors to the country rose by 20% in the first seven months of 2005 compared with the same period in 2004, but the emerging ecotourism sector was hit by the floods that struck the country in May 2006.

(b) Prices, wages and employment

Consumer prices were pushed upwards (15.8% in 2005, compared with 9.1% in 2004) by the fuel price rise of 1 September 2005. Nonetheless, inflation has fallen since November 2005.

Public-sector wages have not been adjusted since November 2004. Since January 2006, however, public servants have been receiving a bonus to compensate for rising fuel prices. The average gross labour cost per worker for large employers, including State bodies, was 18% higher from May to August 2005 than in the same period in 2004. Wages in the banking sector climbed steeply, and other upswings are reported in insurance companies and hotels and restaurants.

Little information is available on employment and unemployment. In his New Year speech, the President mentioned a figure of 8% for unemployment in 2005. Such a figure would be very close to the 8.4% rate recorded in 2004.

(c) The external sector

The current-account deficit (US\$ 144 million) was mostly due to the deficit in the services account (US\$ 148 million), made up of the deficit on the transport services account (US\$ 65 million) and on the other services account (US\$ 111 million), which relates to mining industry operations. The income account remained negative owing to the repatriation of mining-industry profits.

The balance of goods account posted a slight surplus. Merchandise exports exceeded US\$ 1.2 billion in 2005, whereas in the early 2000s they barely reached US\$ 500 million. The difference was due to rising commodity prices and the beginning of operations at the large-scale gold mine at Rosebel.

The import bill also doubled over the same period. On the one hand, the country's exports are very import-intensive and, on the other, imports were affected by rising oil prices because Suriname depends on a number of types of imported fuel. Imports of consumer goods were also boosted by higher incomes.

The external debt has not risen in nominal terms since 2003. With three years of fast GDP growth, the debt/output ratio declined from 30% in 2002 to 25% in 2005. Arrears on the servicing of certain large bilateral loans have had a negative effect on the country's rating with international credit agencies. Net international reserves were up by US\$ 19 million, although import coverage remained below the two-month mark.

Table 24
SURINAME: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	2.2	3.1	-2.4	4.0	5.9	1.9	6.1	7.7	5.7
Per capita gross domestic product	1.3	2.1	-3.3	3.0	5.1	1.2	5.4	7.0	5.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishin	-2.8	-6.4	4.4	5.9	11.4	-3.9	4.3	1.5	...
Mining	12.2	6.5	5.5	-8.8	25.0	-8.6	0.0	31.2	...
Manufacturing	0.2	2.1	-9.0	58.8	13.3	-3.6	5.6	9.5	...
Electricity, gas and water	3.3	7.1	-5.6	-7.7	2.1	10.3	-1.7	9.2	...
Construction	-20.6	16.6	-14.8	-11.8	4.5	0.6	17.0	10.1	...
Wholesale and retail commerce, restaurants and hotels	11.2	2.2	-5.6	-15.7	-14.5	8.4	32.2	6.0	...
Transport, storage and communications	6.7	5.6	1.8	25.0	28.7	12.6	-0.4	14.0	...
Financial institutions, insurance, real estate and business services	-1.6	1.8	-1.7	2.9	0.2	5.4	3.5	1.6	...
Community, social and personal services	0.3	3.1	0.0	2.0	2.0	1.1	0.2	1.3	...
Balance of payments Millions of dollars									
Current account balance	-68	-155	-29	-34	-116	-60	-141	-59	-144
Merchandise trade balance	36	-27	44	13	16	52	-30	167	22
Exports, f.o.b.	402	350	342	514	449	529	639	871	1,212
Imports, f.o.b.	366	377	298	501	434	477	669	703	1,189
Services trade balance	-102	-125	-72	-115	-115	-128	-133	-130	-148
Income balance	-3	-1	0	-2	-80	-44	-49	-161	-40
Net current transfers	1	-2	-2	69	63	59	71	64	22
Capital and financial balance c/	87	163	25	33	203	62	140	90	163
Net foreign direct investment	-9	9	-62	-148	-27	-74	-76	-37	-37
Financial capital d/	96	154	86	181	230	136	216	128	200
Overall balance	19	8	-4	-1	87	2	-1	32	19
Variation in reserve assets e/	-19	-8	4	1	-87	-2	1	-32	-19
Other external-sector indicators									
Net resource transfer (percentage of GDP)	10.9	17.3	3.3	4.0	18.5	1.9	8.1	-5.5	8.3
Gross external public debt (millions of dollars)	...	...	...	291	349	371	382	383	382
Gross external public debt (percentage of GDP)	...	...	...	37.6	52.5	38.9	34.1	29.8	25.8
Net profits and interest (percentage of exports) i/	-0.5	-0.1	0.1	-0.2	-15.7	-7.7	-7.0	-15.9	-2.9
Employment Average annual rates									
Unemployment rate f/	11.0	11.0	12.0	14.0	14.0	10.0	7.0	...	...
Prices Annual percentages									
Variation in consumer prices (December-December)	17.4	22.9	112.9	76.1	4.9	28.4	14.0	9.3	15.8
Variation in nominal exchange rate (December-December)	0.0	0.0	146.3	120.6	0.0	15.4	4.4	3.5	0.8
Nominal deposit rate g/	...	16.0	15.6	15.5	11.9	9.0	8.3	8.3	8.0
Nominal lending rate h/	...	27.1	27.4	29.0	25.7	22.2	21.0	20.4	18.1

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Central government	Percentages of GDP								
Total income	...	...	...	...	37.1	26.6	27.2	27.7	28.1
Current income	...	...	...	...	34.1	25.5	25.9	26.3	27.2
Tax revenue	...	...	...	...	29.7	21.0	21.7	21.6	22.1
Capital income	...	...	...	...	13.9	9.1	9.2	10.3	11.4
Total expenditure	...	...	...	...	36.7	31.0	26.5	28.5	30.2
Current expenditure	...	...	...	...	31.0	28.0	23.6	24.7	26.2
Interest	...	...	...	...	2.0	2.3	2.0	1.7	1.8
Capital expenditure	...	...	...	...	5.0	2.9	2.6	3.8	4.0
Primary balance	...	...	...	...	2.3	-2.1	2.6	0.8	-0.3
Overall balance	...	...	...	...	0.4	-4.4	0.7	-0.8	-2.1
Public sector debt	...	...	...	...	55.3	48.7	42.5	41.5	38.9
Domestic	...	...	...	...	7.8	13.9	12.1	15.2	15.6
External	...	...	...	...	47.5	34.9	30.3	26.3	23.3
Money and credit									
Domestic credit	18.5	24.2	26.5	25.2	22.9	19.8	24.3	24.5	26.3
To the public sector i/	1.0	5.3	11.7	15.7	15.6	8.1	9.5	8.3	8.4
To the private sector	17.6	18.9	14.7	9.4	7.2	11.6	14.7	15.9	17.8
Other	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.3	0.2
M1	...	...	...	22.8	19.0	17.6	15.9	14.9	15.3
M2	...	...	...	36.9	30.7	25.6	23.1	21.5	22.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices (1996-1998: guilders; 1999-2004: Suriname dollars, new currency in circulation since January 2004).

c/ Includes errors and omissions.

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

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

f/ Unemployment rate as a percentage of the economically-active population, nationwide total.

g/ Deposit rate published by IMF.

h/ Lending rate published by IMF.

i/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

TRINIDAD AND TOBAGO

1. General trends

The economic growth rate in Trinidad and Tobago remained high, as in the previous year (6.5% and 7% in 2004 and 2005, respectively), helped by the strong performance of the energy sector. The upward trend in oil prices had a positive impact on construction, manufacturing, government revenue and external sales. Growth in 2006 is expected to be close to 10%.

The government increased its fiscal surplus (2.5% and 5.5% in 2004 and 2005, respectively) thanks to a marked increase in tax revenue from oil companies, and this helped to finance higher public spending. The fiscal surplus was used to create a petroleum stabilization fund to protect the economy from fluctuations in world oil prices.

Increased liquidity resulting from higher foreign exchange inflows, increased public expenditure and rising inflation (5.6% and 7.2% in 2004 and 2005, respectively) led the authorities to adopt a contractionary policy. The central bank based its policy mainly on the discount rate, complementing it with open-market operations.

The overall balance of the external sector was positive (6% and 13.7% of GDP in 2004 and 2005, respectively), which boosted international reserves. The current-account surplus, strengthened by exports of oil and petroleum products, was accompanied by a downturn in the capital and financial account deficit.

2. Economic policy

(a) Fiscal policy

Central government showed a higher positive balance than in the previous year thanks to increased current income (29% and 35% of GDP in 2004 and 2005, respectively), which exceeded the rise in public spending (26% and 29% of GDP). The authorities prepared the Government spending budget on the basis of oil prices standing at US\$ 35 per barrel, considerably below the market price (US\$ 65 per barrel).

Increased State revenue was mostly due to the positive impact of rising oil prices. On the other hand, tax receipts from the non-energy sector stagnated, and this situation is expected to worsen as a result of the Government's tax reforms, which came into effect in 2006 and have led to significant cuts for most taxpayers.

Among other things, the reforms involve increased personal allowances and tax exemptions. A single rate of 25% was introduced for individuals' incomes, and the rate for legal persons was cut from 30% to 25%, except for petrochemical and energy companies, which will

continue to be taxed at 33% and 55%, respectively. As of 1 January 2006, small and medium-sized enterprises may, in certain circumstances, benefit from a five-year tax exemption regime.

The growth of overall spending was mostly influenced by increases in transfers and subsidies (11% and 13% of GDP in 2004 and 2005, respectively) and capital expenditure (2.1% and 3.4%). Resources allocated to transfers and subsidies, amounting to half the total, were mostly spent on reforming State-owned corporations and improving their infrastructure. Other expenditure items remained at the previous year's levels.

To enhance spending capacity and efficiency, many State-owned corporations were created or strengthened. These include the Urban Development Corporation of Trinidad and Tobago Limited (UDECOTT), which is involved in a number of projects. Other recently-established corporations include the Educational Facilities Company Limited (March 2005), responsible for building schools, and the Rural Development Company of Trinidad and Tobago Limited (May 2005), which is mostly involved in public investment projects in rural areas.

The growing fiscal imbalance in the non-energy sector is giving rise to increasing concern. If oil is excluded from Government accounts, the fiscal balance is strongly negative (-8% and -11% of GDP for 2004 and 2005, respectively). The non-energy fiscal deficit will grow still further when measures to reduce the tax burden for the non-energy sector come into force and fiscal expenditure on development projects is increased. This will greatly increase the dependency of spending and of the overall orientation of fiscal policy on the surplus generated by the energy sector.

(b) Monetary and exchange-rate policy

The country's economy showed a considerable increase in liquidity in 2005, mostly owing to rising international reserves and the monetization of oil revenue, which were reflected in expansion of the monetary base and money supply.

Growing liquidity, inflationary pressure, the narrowing of the gap between internal and external interest rates and the resulting pressure on the foreign-exchange market, and the scarcity of certain foodstuffs led the monetary authorities to adopt a contractionary policy. As a result, the central bank applied eight 25-basis-point increases to its benchmark rate, bringing it up from 5% in early 2005 to 7% in May 2006.

The central bank strengthened its monetary position by means of open-market operations in local and foreign currency, in order to sterilize liquidity. In keeping with that measure, it abolished the interest rate for bank deposits with the central bank, seeking to deter the placement of commercial banks' excess liquidity in that type of deposits and encouraging them to purchase central bank securities. The legal reserve requirement was not reduced as had been planned for 2005, but remained at 11%. Lastly, in December, the central bank adopted an unusual measure, requiring the commercial banks to deposit one billion Trinidad and Tobago dollars (TT\$) in a one-year interest-bearing account.

These measures, however, were not sufficient to decisively influence fluctuations in the range of the commercial banks' nominal interest rates, in real interest rates, which actually fell, and in demand for credit, which grew, mostly owing to rising demand for personal loans.

Monetary policy had a limited impact in terms of controlling liquidity and inflationary expectations, but it boosted demand for long-term government bonds. Investors showed a preference for six- and twelve-month bonds rather than the more usual three-month ones, and this steepened the yield curve for such investments.

On the foreign-exchange market, the pressure for devaluation increased because of higher demand for foreign exchange resulting from the narrowing of the gap between internal and external interest rates, rising prices, stronger demand for imported construction materials, and foreign-currency purchases. The central bank intervened heavily, given its high level of reserves, and was able to protect the stability of the nominal exchange rate (6.29 and 6.33 Trinidad and Tobago dollars for one United States dollar). Nonetheless, the real exchange rate rose because of the increased price differential between tradables (external inflation) and non-tradables (internal inflation).

(c) Other policies

The authorities hope to make Trinidad and Tobago a regional financial centre. Owing to the banking crises of the past, it is recognized that achieving that goal will require the regulation of the financial system to adapt to the rapid development of local financial activities in recent years.

In 2005, efforts continued to strengthen the financial-sector supervision and regulation regime in order to improve compliance with international standards and best practices. One of the pillars of the regulatory reform is the replacement of regulation based on compliance with established standards and auditing services with a system based on risk estimation. This would aim to identify as quickly as possible the early signs of potential problems in financial institutions, and to restrict their spread to other institutions in the sector. The Financial Institutions Act, 1993, has been amended in order to centralize the regulatory function, the promotion of financial efficiency and the prevention of unfair practices. The monetary authorities are also taking measures to ensure that the commercial banks comply with the Basel Core Principles, including the changes to regulatory and supervisory frameworks, in preparation for the signature of the New Basel Capital Accord (Basel II).

The central bank also has the power to supervise financial conglomerates engaging in interlinked transactions, and ensure improved supervision of insurance companies and non-banking financial institutions, particularly credit unions. As of 2005, insurance companies are required to produce quarterly reports, and guidelines were adopted for the financing of pension funds and the presentation of their financial statements. All this is essential to prevent any mismatch of assets and liabilities, and inappropriate risks which might affect consumers. As for the capital market, the Securities Industry Act has been updated to bring the regulatory system into line with international standards, and an independent credit rating agency has been

established. In 2004, Caribbean Information and Credit Rating Services Limited (CARICRIS) was set up, to evaluate other financial institutions. Subsequently, in 2005, a clearing house was set up to process high-volume electronic payments.

3. The main variables

(a) Economic activity

The economic growth rate in Trinidad and Tobago was similar to the previous year's (6.5% and 7% in 2004 and 2005, respectively). The energy sector was the main engine of growth, contributing over 40% of the country's GDP. Construction, manufacturing and transport services also contributed to growth.

The energy sector (8% in 2004 and 11% in 2005) benefited from rising world oil prices and expanding production capacity, with the launching in 2005 of the world's biggest methanol plant (leading to a 38% increase in methanol exports), and Atlantic LNG's fourth natural-gas plant. Trinidad and Tobago is currently the world's fifth largest exporter of liquefied natural gas (LNG). Lastly, a new discovery of crude oil reserves boosted the production rate (17% in 2005).

Manufacturing was strengthened by growing demand for cement from the construction sector, whose growth figure of 8.1% was due to increased private- and public-sector spending, especially through expansion in productive capacity in the energy sector and in infrastructure.

The downturn in agriculture was very slight compared with the previous year (-21% and -0.5% in 2004 and 2005). The sugar subsector, however, lost about 25% for raw sugar and 15% for refined sugar, and citrus fruits slumped by 35%. The agricultural sector was faced with rising production costs, adverse weather conditions which hit the sugar industry hardest, and technical difficulties.

(b) Prices, wages and employment

Inflation continued to rise (5.6% and 7.2% in 2004 and 2005, respectively). This trend was due to increased liquidity, rising world oil prices, insufficient supply of certain staple foods, and rising demand for cement in the construction sector. A breakdown of the consumer price index shows that the most significant increase was in the food component, making up 70% of the total. There were also marked increases in construction materials and housing costs.

The unemployment rate dipped slightly (8.4% and 8.0% in 2004 and 2005, respectively), reflecting the upswing of employment in certain sectors such as construction and energy. This improvement made up for falls in other activities, including manufacturing (with the adoption of more capital-intensive methods) and agriculture. The labour force participation rate rose from 63% in 2004 to 63.7% in 2005.

(c) The external sector

The overall balance of payments result was positive, and higher than the 2004 figure. The current-account surplus (13.3% and 19.9% of GDP in 2004 and 2005, respectively) more than made up for the deficit on the capital and financial account (11% and 1% of GDP). As a result, the country's international reserves increased (23% and 33% of GDP in 2004 and 2005, respectively).

The performance of the current account was basically due to rising exports of goods and, more specifically, to increases in both the price and the volume of the country's main exports (31%, 15% and 38% for crude oil, petroleum products and methanol, respectively). Imports rose by 17%, mainly owing to economic growth, especially rising demand for raw materials and intermediate goods. The balance of the capital and financial account was due to reduced net flows from commercial banking and regional bond issues, and net foreign direct investment remained stagnant.

Table 25
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/									
Gross domestic product	7.7	8.1	8.0	6.9	4.2	7.9	13.4	6.5	7.0
Per capita gross domestic product	7.2	7.7	7.7	6.5	3.8	7.6	13.0	6.2	6.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	13.1	-7.2	2.3	-2.4	8.7	8.7	-18.2	-21.1	-0.5
Mining c/	0.9	8.9	21.6	12.5	5.6	13.5	31.3	7.9	10.9
Manufacturing	7.9	11.5	-7.2	6.0	9.8	3.8	4.2	9.5	8.6
Electricity, gas and water	10.0	6.7	0.3	5.5	4.1	8.7	2.7	4.4	5.3
Construction d/	-0.7	14.2	6.0	7.6	10.3	-5.1	22.4	14.5	8.1
Wholesale and retail commerce, restaurants and hotels	17.7	7.4	8.7	5.4	-2.5	1.4	1.6	3.4	3.7
Transport, storage and communications	18.3	15.6	0.8	8.9	7.7	9.4	3.9	1.5	6.4
Financial institutions, insurance, real estate and business services	22.5	-0.4	11.7	12.4	0.8	11.5	7.3	9.7	0.5
Community, social and personal services	0.9	3.6	-3.3	-4.3	-0.4	4.3	0.6	1.7	1.1
Balance of payments									
Millions of dollars									
Current account balance	-614	-644	31	544	416	76	985	1,623	2,741
Merchandise trade balance	-529	-741	64	969	718	238	1,293	1,509	2,648
Exports, f.o.b.	2,448	2,258	2,816	4,290	4,304	3,920	5,205	6,403	8,373
Imports, f.o.b.	2,977	2,999	2,752	3,322	3,586	3,682	3,912	4,894	5,725
Services trade balance	292	416	329	166	204	264	314	512	596
Income balance	-381	-341	-400	-629	-539	-480	-681	-450	-554
Net current transfers	4	22	38	38	33	55	59	53	53
Capital and financial balance e/	807	724	131	-103	86	39	-576	-889	-848
Net foreign direct investment	999	730	379	654	685	684	1,034	600	599
Financial capital f/	-192	-6	-248	-757	-599	-645	-1,609	-1,489	-1,447
Overall balance	194	80	162	441	502	116	409	734	1,893
Variation in reserve assets g/	-175	-76	-162	-441	-502	-116	-409	-734	-1,893
Other financing h/	-18	-4	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) i/	107.9	105.3	102.2	100.0	94.5	91.1	91.8	93.2	91.8
Net resource transfer (percentage of GDP)	6.8	6.0	-3.9	-9.0	-5.1	-4.9	-11.8	-11.0	-10.2
Gross external public debt (millions of dollars)	1,565	1,471	1,585	1,680	1,666	1,549	1,553	1,351	1,281
Gross external public debt (percentage of GDP)	26.1	23.3	23.3	20.6	18.9	17.2	14.5	11.1	9.3
Net profits and interest (percentage of exports) j/	-12.7	-11.6	-11.7	-13.0	-11.1	-10.5	-11.6	-6.1	-6.0
Employment									
Average annual rates									
Labour force participation rate k/	...	...	60.8	61.2	60.7	60.9	61.6	63.0	63.7
Unemployment rate l/	15.0	14.2	13.2	12.2	10.8	10.4	10.5	8.4	8.0
Prices									
Variation in consumer prices (December-December)	3.5	5.6	3.4	5.6	3.2	4.3	3.0	5.6	7.2
Variation in nominal exchange rate (December-December)	1.7	-0.2	0.2	0.0	-0.3	0.3	0.0	-0.4	-0.2
Nominal deposit rate m/	...	5.4	5.3	5.3	5.3	3.5	2.9	2.4	1.7
Nominal lending rate m/	...	17.0	17.1	16.5	15.6	13.4	11.0	9.4	9.1

Table 25 (continued)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Central government	Percentages of GDP								
Total income	...	...	22.6	25.4	24.4	25.7	26.5	28.6	34.6
Current income	...	...	22.4	25.3	24.3	25.6	26.5	28.6	34.6
Tax revenue m/	...	...	15.7	14.9	15.5	16.0	14.7	16.3	15.6
Capital income	...	...	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Total expenditure	...	...	25.8	23.8	24.5	25.0	23.8	26.1	29.1
Current expenditure	...	...	24.6	21.4	22.9	23.7	22.6	24.0	25.7
Interest	...	...	5.5	4.7	4.0	4.1	3.7	3.3	2.7
Capital expenditure and net lending	...	...	1.2	2.4	1.6	1.3	1.3	2.1	3.4
Primary balance	...	...	2.3	6.3	4.0	4.8	6.4	5.8	8.2
Overall balance	...	...	-3.2	1.6	-0.1	0.6	2.7	2.5	5.5
Public-sector external debt	27.3	24.3	23.3	20.6	18.9	16.3	14.4	12.6	1.7
Money and credit o/									
Domestic credit p/	39.9	36.1	36.5	28.6	25.1	26.6	22.7	19.3	15.5
To the public sector	9.7	7.9	7.9	0.6	-2.5	-2.0	-2.6	-7.3	-10.5
To the private sector	30.2	28.2	28.6	28.0	27.6	28.6	25.3	26.5	26.0
Liquidity (M3)	37.4	40.9	39.7	34.6	36.3	39.6	34.4	33.3	33.8
Currency in circulation and local-currency deposits (l)	29.3	31.1	30.2	25.8	26.8	30.0	26.6	24.7	25.8
Foreign-currency deposits	8.1	9.8	9.5	8.8	9.5	9.7	7.8	8.6	...

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 2000 prices.

c/ Refers only to the oil sector.

d/ Includes quarrying

e/ Includes errors and omissions.

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

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

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

i/ Annual average, weighted by the value of merchandise exports and imports.

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

k/ Economically active population as a percentage of the working-age population. Nationwide total.

l/ Unemployment rate as a percentage of the economically active population. Includes hidden unemployment. Nationwide total.

m/ Weighted average.

n/ Includes interest.

o/ The monetary figures are annual averages.

p/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

TURKS AND CAICOS ISLANDS⁵⁸

1. General trends

In 2005, the Turks and Caicos Islands turned in a strong performance with growth of 12% (compared to 11.6% in 2004).⁵⁹ The economy was driven by tourism, which is the mainstay of the economy. The expansion of the tourism industry was a catalyst for the other sectors, especially construction and communications and, to a lesser extent, manufacturing.

The authorities managed to reduce the fiscal deficit from 3.6% of GDP in fiscal 2004 to 1% in fiscal 2005⁶⁰ despite unforeseen increases in expenditure on health and education. The deficit was financed with external resources, which led to an increase in the external debt stock. Inflation rose slightly, reaching 3.7% in 2005.

The balance of payments posted a positive result, both in the current account and in the capital account. The current account surplus was due to the increase in tourism income, which amply compensated for the significant rise in the energy bill. The trend in the capital and financial account reflected larger flows of foreign direct investment and official aid.

In 2006, the authorities hope to maintain the current economic growth and inflation rates (11% and 3.5%, respectively). Projections include an increase in the fiscal deficit to a figure close to 4% of GDP and a public debt stock of 25% of GDP. One of the government's main medium- and long-term goals is to diversify productive activity (which hitherto has been concentrated geographically in Providenciales Island) in order to achieve more balanced economic development and to create a stable framework that will be conducive to tourism development and will help to attract adequate inflows of foreign exchange.

2. Economic policy

(a) Fiscal policy

The government reduced its fiscal deficit, thanks to the significant increase in current income, from 24% of GDP in fiscal 2004 to 28% in fiscal 2005. This result was due to the rise in the collection of revenues from import duties, stamp duties, work permits and residency fees, as well as the high level of economic growth, the buoyancy of the tourism sector and the increase in commercial and residential construction.

⁵⁸ In its resolution 628(XXXI), ECLAC granted the Turks and Caicos Islands the status of associated member of the Commission.

⁵⁹ This corresponds to growth of GDP at basic prices.

⁶⁰ The Turks and Caicos Islands record their government accounts on the basis of a fiscal year that runs from 1 April to 31 March of the following year.

Government expenditure, which was equivalent to 25% of GDP, climbed by 17% in 2005 owing to the increase in overseas medical costs, student grants and disbursements relating to public security, which amounted to 70% of current expenditure for fiscal 2005. The government increased the police budget by 50%, police wages rose by 30% and 40 new officers were recruited.

Fiscal accounts will probably show a deficit equivalent to 4% of GDP in fiscal 2006. The government plans to raise its tax revenues by 20%. The main sources, which account for 58% of tax receipts, include import fees, stamp duties on transactions, hotel taxes and fees for work permits. Expenditure will probably increase by 40% owing to outlays on health and education.

The public debt stock represented 17% of GDP in fiscal 2005, with maturities ranging between 12 and 15 years and a fixed interest rate. The debt servicing and net debt ratios in relation to GDP were lower than the limits agreed upon between the Government of the Turks and Caicos Islands and the United Kingdom in 2002 (8% and 80%, respectively). In 2006, public debt is expected to reach 25% of GDP, in line with the planned expansion of expenditure.

3. The main variables

(a) Economic activity

The economy maintained its high growth rate thanks to the buoyancy of tourism, construction and telecommunications. With regard to expenditure, consumption and gross capital formation accounted for the bulk of economic growth (amounting to 60% and 39% in 2004 and 2005, respectively).

The expansion of tourism (15% in 2005 compared with 6.5% in 2004) reflected an increase in air transport capacity, improved marketing initiatives and higher levels of investment in ports and infrastructure. Higher numbers of cruise ship arrivals and long-stay tourists were also recorded (increases of 6% and 16% in 2004 and 2005, respectively). Hotel occupancy rates showed a rising trend in 2005 and were over 65% on average.

As part of the continuing effort to develop the tourism sector, the government completed the construction of the first cruise-ship port in the Islands, which will be operational in the first half of 2006. The first port on a Caribbean beach was also finalized. In 2006, the authorities projected a growth rate of 18% for the sector and an increase of 20% in tourist arrivals.

The main goods-producing sector, fishing, moderated its growth rate, which was 8% in 2005 compared with 16% in 2004. This was attributable to the decline in the volume of lobster and conch catches, which were down by 13% and 7%, respectively, between January-October 2004 and January-October 2005. These items account for 55% and 45% of total exports of goods. The performance of the fishery sector was hurt by illegal fishing practices, which are a cause of concern to the authorities in view of their detrimental effect on marine resources. An additional 5% drop in the growth rate for this activity is forecast for 2006.

Construction, which grew by 28% and 25% in 2004 and 2005, respectively, benefited from the expansion of the tourist sector and from public spending on infrastructure works, health and sports. An increase of 8% is projected for 2006 thanks to the completion of a number of infrastructure projects.

The telecommunications industry returned to its past trend and expanded by 8% in 2005, following an unprecedented upswing of 25% in 2004, owing to the expectations created by the imminent liberalization of the sector in 2005. During the year, four new telecommunications licenses were issued, which put an end to the monopoly within that sector. Greater competition has brought lower prices and more efficient provision of services. Growth of 7% is forecast for 2006.

The financial sector expanded by 24% and 19% in 2004 and 2005, respectively, as a result of greater confidence in the economy, increased capital flows and product diversification. In December 2005, the country opened its first locally-owned bank, which increased the number of financial institutions to seven. Growth of 14% is projected for this sector in 2006.

(b) Prices, wages and employment

The inflation rate rose from 3.3% in 2004 to 3.7% in 2005, mainly as a result of the rise in international oil prices and, to a lesser extent, the higher cost of construction materials and food items. Price rises were tempered, however, by the drop in the cost of telecommunications services. No change in the inflation rate is expected in 2006.

In 2005, wages for the police force were raised by 30%. For 2006, the government plans a restructuring of public-sector employment, which will include a reclassification of existing posts. As a result, a retroactive increase effective as of April 2006 is expected in the wage levels for reclassified posts.

The public sector is the largest employer in the Turks and Caicos Islands and accounts for over one third of the workforce. During the year, 159 new posts were created, which represents an increase of 6% in relation to the previous year. The expansion of public employment benefited the police force, the immigration department and health facilities, which received 26%, 19% and 9% of the total, respectively. In 2006, the authorities plan to increase the number of work permits by 6% in order to alleviate the current labour shortage.

(c) The external sector

The external sector posted a positive result, as both the current account and the capital and financial account recorded surpluses. These results also helped to increase the country's stock of international reserves.

The decline in the current account surplus from 20% of GDP in 2004 to 7% in 2005 was basically the result of the increase in merchandise imports from 52% to 62% of GDP for those same years. The boom in external purchases was a response to the buoyancy of the economy,

especially tourism and construction, as well as the rise in international oil prices, construction materials and food items. Merchandise exports were 20% higher.

Non-factor services registered a surplus equivalent to 75% of GDP, as in 2004, thanks to the increase in passenger flows. As in previous years, this offset the structural deficit in the trade balance for goods, which was 43% and 51% of GDP in 2004 and 2005, respectively.

The capital and financial account balance, which rose from 35% of GDP in 2004 to 45% in 2005, reflected official aid and foreign direct investment in the tourism sector amounting to US\$ 222 million, as well as the increase in external borrowing.

In 2006, the country is expected to post a surplus on its overall balance of payments as a result of surpluses on its current account and its capital and its financial account of 12% and 45% of GDP, respectively, while a deficit equivalent to 57% of GDP is forecast for the trade balance.

Table 26
TURKS AND CAICOS ISLANDS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005 a/
Annual growth rates b/						
Gross domestic product	...	7.3	-0.3	8.6	11.6	12.0
Per capita gross domestic product	...	-0.5	-3.7	-9.1	1.9	2.3
Gross domestic product, by sector						
Agriculture, livestock, hunting, forestry and fishing	...	5.9	-20.9	20.5	10.4	7.2
Mining	...	6.6	-7.6	11.2	28.2	24.6
Manufacturing	...	-10.8	-14.6	11.0	1.6	9.1
Electricity, gas and water	...	3.0	22.4	0.0	26.2	5.3
Construction	...	6.6	-7.6	11.2	28.2	24.6
Wholesale and retail commerce, restaurants and hotels	...	2.8	5.9	9.4	16.2	10.4
Transport, storage and communications	...	9.2	-7.4	6.6	6.5	15.5
Financial institutions, insurance, real estate and business services	...	5.4	2.1	0.5	17.3	5.4
Community, social and personal services	...	4.3	3.2	6.3	13.4	11.7
	...	10.5	8.8	9.3	7.0	13.0
Balance of payments						
Millions of dollars						
Current account balance	89	97	105	97	85	32
Merchandise trade balance	-140	-149	-147	-161	-209	-289
Exports, f.o.b.	9	7	9	10	12	15
Imports, f.o.b.	149	156	156	170	221	304
Services trade balance	228	246	253	257	293	322
Net foreign direct investment	84	93	85	103	150	222
Other external-sector indicators						
Total gross external debt (millions of dollars) c/	3.6	3.6	13.9	13.9	37.2	40.4
Total gross external debt (percentage of GDP) c/	1.1	1.0	3.8	7.7	10.0	17.0
Employment						
Average annual rates						
Labour force participation rate d/	...	79.4	80.3	80.4	80.1	79.3
Unemployment rate e/	...	9.7	6.2	7.8	9.9	8.0
Prices						
Annual percentages						
Variation in consumer prices (December-December)	3.4	1.6	2.4	1.9	3.3	3.7

Table 26 (continued)

	2000	2001	2002	2003	2004	2005 a/
State income and expenditure	Percentages of GDP					
Current income	22.5	20.9	22.9	25.5	24.2	28.1
Current expenditure	20.3	21.2	21.5	22.9	25.1	25.1
Current balance	2.2	-0.3	1.4	2.5	-0.9	3.0
Net capital expenditure	-4.7	-3.9	-2.2	-2.7	-2.9	-3.8
Overall balance f/	-0.9	-2.5	-0.8	0.1	-3.6	-0.8
Money and credit g/						
Net domestic credit h/	62.5	63.1	68.7	65.7	65.1	70.2
To the public sector	0.0	0.0	0.0	0.0	0.1	1.3
To the private sector	62.5	63.0	68.7	65.7	65.0	68.8
Liquidity	198.4	173.6	156.5	150.0	151.8	163.7

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 1996 prices.

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

d/ Economically active population as a percentage of the working-age population.

e/ Unemployment rate as a percentage of the economically active population. Includes hidden unemployment.

f/ Includes grants.

g/ The monetary figures are annual averages.

h/ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.