

## OVERVIEW

Policy attention in 1994 continued to focus firmly on measures to stimulate the output of exportable products, on the one hand, and provide an affordable social safety net for the protection of the most vulnerable people. Gradually, a consensus was being built across the wider Caribbean as to what the contents of these policies should be. There was still a considerable gap in the progress made by various countries toward the application of these policies, however, either because of the extent of the disequilibrium which they originally experienced and the consequent social fallout which they experienced, or because of the pace and consistency with which the policies were applied.

The initiatives being taken to meet these objectives fell into three categories. The primary focus was on domestic macroeconomic policy, to provide a framework in which private actors could build competitive enterprises. Attention remained on fiscal and monetary policy and the real exchange rate, although setbacks were experienced in some instances as political considerations superseded economic objectives. Trade policy continued also to receive attention, with the objective of removing anti-export biases and increasing the efficiency in the use of domestic resources, though action at the national level often needed to be synchronized with regional arrangements. Measures were also gradually being taken to liberalize foreign exchange regimes, to encourage the repatriation of flight capital, stimulate the inflow of private external resources and facilitate transactions within the region.

Regional initiatives were being taken, within the Organization of Eastern Caribbean States (OECS), the Caribbean Community (CARICOM) and the wider Association of Caribbean States (ACS), to consolidate markets. For the longer term, the integration of Caribbean countries into a wider hemispheric market, was also being considered under the ambit of the Free Trade Area of the Americas (FTAA). The perceived benefits to be derived from market consolidation were that indigenous operators could be gradually exposed to external competition, develop economies of scale wherever feasible, identify complementarities within the wider market and reap those induced growth effects evident elsewhere, as markets consolidated. Progress toward market consolidation at all levels seemed to be slow, however, as many feared that Caribbean enterprises would be unable to compete in wider regional or global markets, while the beneficiaries of protection sought to retain it. Moreover, the logic of the exercise seemed to point in the direction of greater specialization in each of the small Caribbean islands and this fueled fears of increased risk “from putting all of one’s eggs into the same basket”. Despite the hesitance to face market opening, it remains a fact that Caribbean economic performance is determined in any given year by its accomplishments on global markets, since it is export receipts and other external inflows which energize domestic activities.

Finally, there was a heightened awareness of growing disparities among citizens, consequent on recent economic contraction and restructuring. Efforts were accordingly being made to better identify the poor and to bolster social policies in ways that were sustainable, especially in health and education, so as to secure the twin goals of greater equity and human productivity.

<b>COUNTRY PERFORMANCE</b>					
<b>PERCENTAGE CHANGE IN G.D.P.</b>					
<i>(At constant prices)</i>					
	1990	1991	1992	1993	1994
Anguilla	6.6	-3.7	7.1	7.5	8.3
Antigua/Barbuda	2.8	1.6	1.7	3.5	5.3
Aruba	8.2	7.1	7.0	1.0	4.2
Barbados	-3.1	-4.1	-4.0	1.0	4.0
Belize	10.2	3.0	11.3	3.6	1.6
Cuba	-3.1	-25.0	-14.0	-10.0	0.0
Dominica	6.3	2.3	2.9	2.6	1.8
Dominican Republic	-5.0	0.5	6.9	3.0	4.0
Grenada	5.3	3.6	1.1	-1.3	2.3
Guyana	-3.1	6.1	7.7	8.2	8.5
Haiti	-0.2	-3.0	-14.5	-4.7	-10.0
Jamaica	5.5	0.7	1.4	1.4	0.8
Montserrat	14.1	-23.4	1.3	1.9	-0.8
Netherlands Antilles	0.6	5.8	5.2	-1.8	...
Puerto Rico	2.5	0.9	0.8	3.0	2.6
St.Kitts/Nevis	3.0	3.9	3.5	5.0	4.1
St. Lucia	4.5	2.3	7.1	2.3	2.2
St. Vincent	7.1	3.1	6.5	1.2	0.4
Suriname	0.1	2.9	4.3	-3.0	-0.8
Trinidad/Tobago	-0.1	2.6	-0.5	-1.2	4.7

SOURCE: ECLAC, derived from national data

Most countries experienced expanded output, consistent macroeconomic policies and a relatively favourable external environment<sup>1</sup>, being the main contributory factors. A notable quickening of the tempo of economic performance was evident in Aruba, Barbados, the Dominican Republic, Guyana, continuing strong from three previous years, and Trinidad and Tobago. The OECS<sup>2</sup> countries, with the exception of Anguilla, Antigua and Barbuda and Grenada, all experienced declining output, although as a group output was up slightly. The rate of economic expansion, however, slowed in Belize, Jamaica and Puerto Rico. Finally, three countries remained in severe disequilibrium. Cuba continued in the throes of a simultaneous and comprehensive

<sup>1</sup> More detailed discussion of global economic developments is contained in the ECLAC document entitled, "Summary of Global Economic Developments 1994" (LC/CAR/G.348), dated 31 March 1995.

<sup>2</sup> For the purposes of this paper reference to the OECS also includes Anguilla, i.e all members falling under the jurisdiction of the Eastern Caribbean Central Bank (ECCB). Data and analysis were also kindly provided by the ECCB.

reorientation in its policy framework and production structure. Haiti continued, until just before the end of the year, to suffer domestic instability and the consequences of a far-reaching economic embargo and Suriname grappled with appropriate policy tools to contain rapidly rising inflation.

Buoyant growth returned to **Aruba**, following 1993 where economic activity was constrained in an effort to reduce inflation. Economic activity continued to be led by animated construction activities in the tourism and petrochemical sectors, and in infrastructure. Tourism arrivals continued their upward trend, increasing by 3.6 per cent, though the performance of the free-zone was scant. The current account surplus, nevertheless, increased as a result of the contribution of the petroleum sector, though the overall balance of payments surplus contracted because of increased profit remittances. The primary policy objective of curtailing inflation was fulfilled, in part, since inflation fell overall from 6.5 per cent to 4 per cent in 1994. Concerns, nevertheless, remained since inflation, stemming mainly from a tight labour market and excess domestic demand, currently exceeded that of Aruba's major trading partners. Unemployment fell below 1.5 per cent since 1989, to rest at 0.5 per cent or below since 1991. Macro policy was, therefore, being oriented to improving labour productivity in all sectors, but especially in the public sector, in the hope that manpower might be liberated for directly productive activities.

Following three consecutive years of decline, economic activity in **Barbados** quickened in 1994, following a hesitant start in 1993. Unemployment also declined from 24.7 per cent to 21 per cent. The increased tempo of activity was to be explained primarily because of the expanding sugar sector, which grew by 6.4 per cent, manufacturing which was up by 7.3 per cent and tourism which also increased by 9.2 per cent. These activities all contributed to increased foreign earnings, which together with increased foreign direct investment and external borrowing by government helped to rebuild the international reserves. Monetary policy focused on containing rising demand and prices remained moderate. Fiscal policy, however, weakened with the deficit widening over that which obtained in the two previous years.

The tempo of economic activity also quickened in **the Dominican Republic**, mining, manufacturing and construction activities all expanding, though agriculture and the rest of the economy contracted. Overall expansion was, however, stimulated through fiscal disequilibrium in the first eight months, prior to the election, with consequent erosion of the fiscal account and Central Bank accommodation. There was a concomitant erosion of the external account, for while exports increased and the current external deficit was reduced, severe erosion was evident in the capital account, caused by capital flight and a consequent reduction in the external reserves. In the remaining four months of 1994, some stability was reintroduced, with severe measures being taken to contain expenditure, restrict credit and reduce liquidity. A unification of the exchange rate was introduced, simultaneously effecting a slight depreciation. Corrective measures were unable to contain inflation, however, and for the longer term, the process of structural transformation was setback.

**Guyana**, also experienced expanded output, by 8.5 per cent compared with 8.3 per cent in 1993. Growth was expected to be slower in 1995 as the benefits from incorporating a huge informal sector waned. Growth was notable in agriculture, up 12 per cent, industry up 9 per cent, of which

manufacturing was up by 6 per cent, and services which increased by 5.6 per cent. Export earnings were also buoyant, thanks to increased exports of bauxite, rice, shrimp and gold, although sugar earnings remained flat. Exchange inflows from these products fueled several domestic activities, especially in services. Simultaneously, progress was being made in the domestic account and the rate of monetary expansion decelerated. The national debt remained a severe impediment to further development since much effort was needed to improve infrastructure to liberate further productive capacity.

**Trinidad and Tobago**, was another country which experienced resumed growth. It had been through four years of decline in the last five. The strong economic performance was led by the petroleum/petrochemicals sector, which expanded by over 8 per cent, although more modest expansion was also evident in the other sectors, notably sugar and construction. The buoyant economy strengthened the balance of payments and bolstered fiscal revenues so that expenditures could rise to mitigate some of the most painful effects of the recent adjustment programme. Quickened economic activity also had a positive impact on the labour market, so that unemployment contracted. Inflation moderated, falling from an annual average of 10.8 per cent in 1993, to 8.8 per cent in 1994.

The rate of output growth in the **OECS** countries as a group increased slightly, to 2.8 per cent compared to 2.2 per cent in 1993, although it remained well below the average of 6.6 per cent for the period 1988-1990. Growth was driven by services, mainly tourism and construction, since agriculture and manufacturing performed poorly. Performance varied within the grouping, faster growth being evident in Antigua and Barbuda and Grenada, the latter resuming growth after a year of contraction, while output remained substantially unchanged in Saint Lucia. Reduced performance was evident in Dominica, Saint Kitts and Nevis and Saint Vincent and the Grenadines, while output contracted in Montserrat. The island of Anguilla, not a member of the OECS, but a member of the Eastern Caribbean Central Bank (ECCB) continued to record strong performance for the third consecutive year, driven by tourism expansion.

**Belize** experienced a decreasing rate of economic expansion for the second successive year. Government expenditures and related construction activities were reduced, in an effort to reestablish fiscal balance, while the withdrawal of British troops, estimated to have contributed nearly 4 per cent of Product had a dampening effect. Nevertheless, agricultural and manufacturing activities expanded to compensate and services activities were also strong, especially transport, communications and tourism. Overall, fiscal performance improved slightly, but this was achieved by a severe contraction of capital expenditure, since current spending continued its upward climb. The rate of domestic credit expansion also slowed, though it remained predominantly directed to the public sector, and this may have dampened the demand for imports. Consequently, the balance of payments improved slightly, the main increases being in the merchandise account, allowing the rate of decline of the reserves to be arrested. The rate of inflation, however, increased, though this remained relatively modest.

**Jamaica** also experienced sluggish growth in 1994. Expansion was recorded for the mining and agriculture sectors, though expansion of the latter was not as strong as in the previous year. Manufacturing and construction activities both declined, reflecting work stoppages in

manufacturing and reversal of the steady expansion of tourism. High interest rates also inhibited investment perspectives. The balance of payments reflected these developments. Merchandise trade performance improved and although earnings from tourism declined, high interest rates induced capital inflows and remittances, so that the reserves were significantly augmented. Monetary policy was oriented toward the containing of inflation, tight money pushing up interest rates, which in turn put strain on the fiscal account but strengthened the external, inducing capital inflows. Fiscal performance remained problematic, complicated by debt management and the need to cover Central Bank losses. While the average inflation rate increased over the previous year, monthly inflation declined progressively in the last five months of 1994, benefiting from sustained monetary policy and exchange rate stability.

Output grew slightly less quickly in **Puerto Rico** than in the previous year, but was sufficient to reduce the unemployment rate by almost one per cent age point. Manufacturing, commerce and financial services recorded robust growth, though agriculture stagnated. The merchandise trade balance improved, as did earnings from the travel account, while public unilateral transfers increased. Outflows for transportation services and investment income increased and private remittances were less than in the previous year. Overall, the positive trends in the balance of payments prevailed, so that the current deficit declined from just over 9 per cent of product to 8.5 per cent.

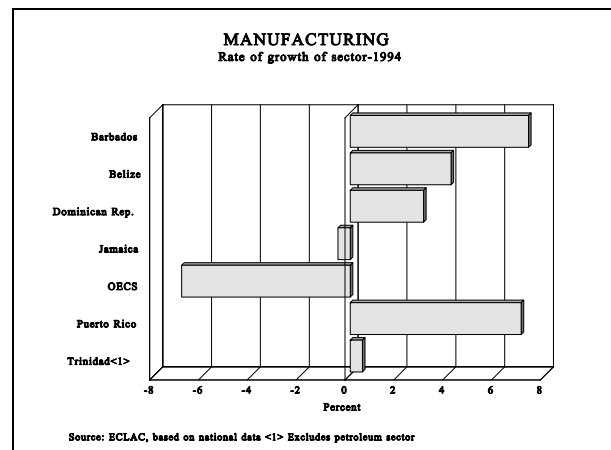
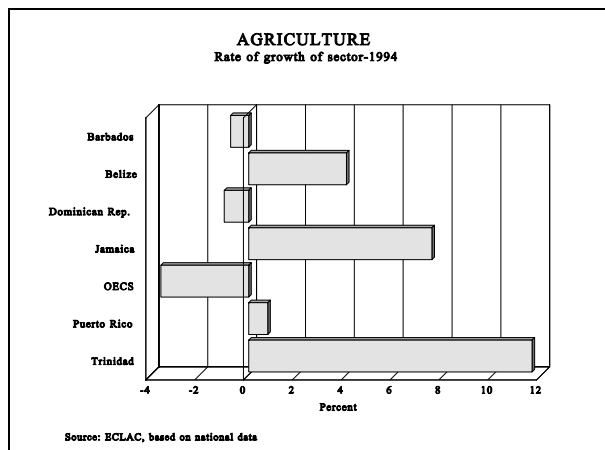
In recent years, the **Cuban** economy has undergone severe contraction, estimated to be 45 per cent of Product between 1989 and 1992. Since 1992, it contracted further, by an estimated 22 per cent. No growth was expected in 1994. Underlying this contraction, however, was also significant policy change and restructuring of the economy. Sugar production, previously the mainstay of the economy, contracted by one-half and tourism expanded rapidly to overtake sugar as the main export earner in 1994. Fiscal reform was also underway, the immediate objective of which was to reduce the large fiscal deficit. An income tax law was promulgated for the first time, in late 1994, to accommodate growing private activities, while blanket transfers and subsidies were being rapidly phased out. State farms were being converted to cooperatives, responsible for their own viability and consequently relieving the fiscal burden. Divestment had also quickened, initially through joint ventures but more recently outright sales were sanctioned. The consequent inflows of hard currency allowed some servicing of debt. The huge monetary overhang, one of the causes of inflation, was being reduced by the issue of government peso bonds with interest paid in dollars. A convertible peso was also being instituted as part of the comprehensive monetary reform..

Output contracted a further 10 per cent in **Haiti**, registering a cumulative contraction of 29 per cent since 1990, almost 36 per cent in per capita Product. This decline reflected the severe political instability in the country and the cumulative effects of suspended foreign assistance and the trade embargo. In agriculture, there was a switch from export crops to domestic food production, though most other sectors contracted. Manufacturing was strangled by the embargo and consequent lack of imported inputs, while construction stagnated because of low public investment and minimal private building. In the midst of the contraction in output prices rose by 50 per cent, reflecting scarcities consequent on the embargo, fiscal expansion equivalent to 5 per cent of GDP and currency depreciation, from 12 to 21 Gourdes per United States dollar, although the rate subsequently

rebounded to 15 gourdes. The regularization of political activities and the lifting of the embargo by the end of 1994 were expected to ease many of the economic pressures for the future, but the effects were not evident in 1994.

The economic instability evident in **Suriname** in 1993 continued in 1994. Output declined for the second successive year, mainly because of contracting agricultural and government activities. But it was inflation, and its twin, the depreciating currency, both of which increased rapidly in 1994, which provided a true measure of the disequilibrium. Broad money expansion, of 72 per cent at the end of 1993, increased further to 167 per cent by the end of 1994. This rapid money creation was to be explained by fiscal deficits, (inclusive of Central Bank losses caused by a policy of multiple exchange rates) equivalent to 19 per cent and 13 per cent of Product in 1993 and 1994, respectively. While the central government fiscal deficit was fairly constant in both years at 8 per cent of Product, Central Bank losses were contained to 5 per cent of Product in 1994, down from 11.5 per cent in 1993, by the exchange rate unification introduced in June of 1994. In the external account the current balance improved. Export earnings declined but imports contracted faster, consequent on revenue valuation of imports at the new exchange rate, and official and private unrequited transfers increased. Capital outflows and debt service payments led to a small deficit in the overall external

## SECTORAL PERFORMANCE



balance, financed by a contraction in the gross reserves.

**Agriculture** sector performance continued to suffer from the vagaries of adverse climatic conditions and unpredictable market arrangements for the major export crops. This was exacerbated by marginal competitiveness for OECS bananas and sugar in most countries. Performance for the most part was, therefore, disappointing in 1994, although strong performance was evident in Belize, Guyana, Jamaica and Trinidad and Tobago.

**Sugar exports** for the region as a whole, excluding Cuba, increased by over 2 per cent. Earnings, however, were disappointing since they fell by almost 7 per cent. This was mainly because of the Dominican Republic having to sell more of its output outside of preferential markets. In Cuba, the precipitous decline in output evident in 1993 seems to have been arrested, although at a low level compared to 1980.

**BANANA EXPORTS**

	1990	1991	1992	1993	1994	1990	1991
	Value (US\$m.)			Volume ('000 tonnes)			
Barbados	8	7	10	14	16	26	23
Belize	30	30	30	24	21	57	56
Dominica	4	4	3	2	2	4	7
Grenada	38	45	40	36	44	61	75
Jamaica	69	54	57	51	43	134	101
St. Lucia	41	43	28	23	15	80	63
St. Vincent	10	9	10	9	8	28	28
Suriname							

The sugar industry in **Belize** continued to perform favourably with increases in sugar cane production and raw sugar output of just over and under 5 per cent, respectively. The volume of sugar exported also increased, although earnings fell by almost 3 per cent. Unfavourable prices for European Union exports and reduced volumes under the United States quota were contributory factors. A decision to increase the Belizean quota into the European Union to 35,000 tonnes also provided a fillip to the industry. Export volumes, which were up by 10 per cent, plus the benefits from fruit quality bonuses and good prices all served to boost earnings by 12 per cent.

**Trinidad and Tobago** also experienced good performance in its sugar industry. Good weather, more stable industrial relations, more efficient harvesting, and better conversion rates all contributed to the outcome which permitted an 11 per cent increase in export volumes and an 8 per cent growth in earnings. Exports from **Jamaica** increased, but not commensurate with expectations, given the 7 per cent increase in land under cultivation and the efforts made to improve fruit quality. Moreover, exports in 1994 were able to meet only 75 per cent of the reserved quota. Output was, however, limited by poor weather and headway was made to improve fruit quality thus improving earnings. Quality was still hampered by poor access roads, however, and greater efforts were needed to improve crop yields, if success was to be achieved in liberalized markets.

**Saint Kitts and Nevis** went somewhat against the trend with an 18 per cent contraction in sugar output consequent on severe drought and cane fires. The industry was also unable to meet its labour needs locally and needed to import labour. Sugar earnings were almost 16 per cent below 1993, attributable to reduced export volumes of over 6 per cent and a lower unit price for sugar.

**Agricultural activities** were buoyant in **Belize**, with increases in sugar, citrus and banana production. Forestry and logging operations also expanded, though shrimping operations declined. In **Jamaica**, domestic agriculture continued to make strong advances, benefitting in part from recent exchange rate depreciation. The performance of export agriculture was, however, mixed with the earnings from bananas and non-traditional exports increasing. Sugar earnings also declined, because of forward selling of the 1994 crop in 1993, although both sugar cane and coffee output decreased. In **Trinidad and Tobago**, the contribution of agriculture to Product increased significantly, being led by sugar which outstripped two previous years of decline. Domestic agriculture also expanded, though at a somewhat more modest rate.

The decline in agriculture was evident in Barbados, Cuba, the Dominican Republic and the OECS countries. In **Barbados** the decline, unbroken since 1990, continued in 1994. The rate of decline was eased somewhat by a slight reversal in the fortunes of the sugar sector, since it expanded slightly. Fisheries also expanded marginally as did the exports of agricultural produce and cotton.

Agricultural output contracted for the second year in **Cuba**. Sugar cane and other crops performed poorly because of a scarcity of imported inputs, adverse weather and lack of incentives to the labour force. This had an adverse effect on food production and supplies, although the re-opening of free farmers markets provided stronger incentives with consequent increased outputs towards the end of the year.

In the **Dominican Republic**, agricultural output fell slightly, although within this category livestock production, forestry and fisheries expanded. Cultivation was affected by drought though declining acreage under cultivation and crop diseases also contributed to contracting output. Among the export crops, sugar and coffee decreased, although tobacco and cocoa output increased. Domestic food crop production, however, declined.

Agricultural output for the **OECS** countries declined for the second consecutive year. Banana production fell in all four producing countries, consequent on adverse weather conditions throughout the year, while market arrangements currently under threat added a further measure of uncertainty to the industry. This encouraged switching to other fruit crops for regional export. Other traditional export crops, such as sugar, cocoa and nutmeg were also affected by bad weather, all suffering declining outputs.

**The manufacturing sector** and its nurturing, provided the rationale for the import substitution model of development. As this model was superseded by trade liberalization and export orientation, some dislocation was evident as existing enterprises geared to local markets adapted to the new external markets, or foundered. Other traditional manufacturing activities which relied on the processing of traditional agricultural export products, notably sugar, also experienced declines as the export agriculture base on which they depended, contracted. In some countries where the adjustment process was well established, manufacturing expanded into areas such as garment assembly, but, in general, the sector was unable to meet the expectations of its supporters. The development of a vibrant export-oriented manufacturing sector remained the goal of much current



policy as it was deemed to be the most likely means of absorbing technological modernization and employing the growing young population.

**Puerto Rico** provided an exception to the regional norm. There, manufacturing provided a growing contribution to total Product, moving from 29 per cent in 1974 to over 40 per cent of Product in 1994. An increase of 7 per cent in sectoral contribution in 1994 was not atypical of recent performance. Rapid growth was evident in the manufacture of food, tobacco products, leather goods and chemicals and derivatives. While incentives were provided to manufacturing, especially through Law 936, secure access to the United States market provided the major incentive for the expansion of manufactures and gave a pointer as to what might be possible if secure market access and appropriate policies were applicable to other Caribbean countries.

In the **Dominican Republic** the manufacturing sector, which at about 16 per cent of Product was closer to the regional norm, also expanded. Increased activities were evident in subsectors relating to sugar-cane by-products, and the production of alcoholic beverages, tobacco, dairy products and construction materials. Rapid expansion was also evident in the free-zones. Currently they encompassed over 500 enterprises and employed over 170,000 people, having faster growing export receipts than traditional activities.

Manufacturing contributed about 16 per cent of Product in **Belize**, close to the regional norm. The main link was with agriculture which remained diverse and robust, with sugar, molasses, bananas, citrus and marine and forestry products being exported. There was also a growing component of assembly type activities. Expansion in the sector in 1994 was broad based.

The sector experienced its second consecutive year of overall contraction in **Jamaica**, although within it, change was occurring to favour export performance. Manufacturing was bedeviled by tight monetary policy, high nominal rates of interest, frequent work stoppages, increasing wage costs and growing foreign competition. While domestic consumption of manufactures declined, the export of manufactures increased by over 20 per cent, notably in textiles and wearing apparel, which now account for over 50 per cent of the sector's exports.

Restructuring of the manufacturing sector was also underway in **Trinidad and Tobago**<sup>3</sup> with output for domestic consumption seeming to languish in the face of increasing imports but with exports increasing. Expansion was evident in steel, chemicals, cement and assembly and related industries. Declines were evident in food, beverages and tobacco, textiles and garments and the printing and publishing subsectors.

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<sup>3</sup> Petroleum and petrochemicals are not included in manufacturing in Trinidad and Tobago.

The steady decline in manufacturing evident in **Barbados** since 1989 was reversed in this survey year, with strong sectoral growth. All activities expanded, with the exception of garments and chemicals. Notable performance was recorded in the output of wooden furniture, but food processing, beverages, tobacco and petroleum products all performed well, and increased exports might signal increased competitiveness for Barbadian manufactures. The sector continued to be heavily promoted by government policy.

Manufacturing provided a smaller share of GDP in the **OECS** countries than was the case for the larger islands. It depended mainly on agriculture for processing materials or packaging, although garment production and the assembly of electronic components for export presage a possible new phase of development for the sector. Manufacturing activities declined for the second successive year, significantly in 1994, mainly because of poor performance in the traditional agricultural exports, specifically sugar, bananas and soap. Conversely, gains were made in electronics assembly activities. The greatest contraction was evident in Saint Lucia, down 12 per cent, and Dominica, down by over 9 per cent, though Grenada and Saint Kitts/Nevis also experienced declines in the sector.

In **Haiti**, the sector contracted severely. Domestic manufacturing activities were impacted by the embargo denying it inputs and spare parts, many enterprises having to suspend their operations. At the beginning of 1994, free-zone output was at 60 per cent of 1991 output, the number of people employed falling from 44,000 in September 1991 to 8,000 in May 1994. Subsequently activities virtually ceased as the embargo was tightened.

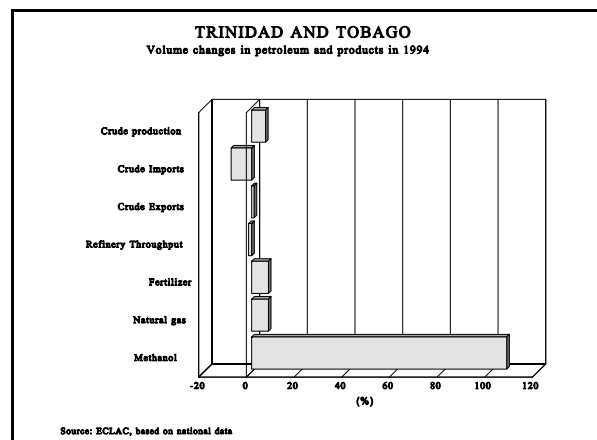
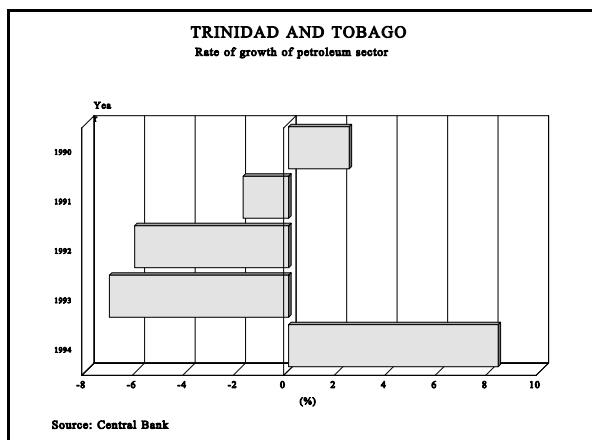
The **minerals** sector provided a surprising fillip to many countries, after languishing for several years. In the Dominican Republic it expanded by 90 per cent, after the contraction in previous years, consequent on greater activity in the nickel, gold and silver industries. Exports of nickel, for example increased in volume by 20 per cent, earnings growing by 32 per cent. Gold and silver earnings were up by 500 per cent, after a precipitous fall in 1993. Similarly, in **Cuba** minerals provided one of the growth poles for the beleaguered economy. Value added from minerals expanded for the third consecutive year, increasing foreign investment into the sector leading to expansion in petroleum, gas, copper and zeolite production, although nickel extraction fell.

The mining and quarrying sector in **Guyana** accounted for about 12 per cent of Product and

BAUXITE/ALUMINA EXPORTS										
	Value (US\$m.)		Volume ('000 tonnes)							
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
	<b>Bauxite</b>									
Guyana	80	82	54	73	77	1387	1254	841	841	1902
Jamaica	103	113	89	84	76	3886	4261	4128	3917	3649
	<b>Alumina</b>									
Jamaica	625	543	471	440	545	2889	3032	2941	2943	3326
Source: National data										

grew by about 6 per cent. This was explained mainly by the expansion of its gold component since bauxite performed only moderately. Gold was the major export product, representing 26 per cent of merchandise exports. Earnings increased by 20 per cent in 1994. Bauxite export earnings also increased by 5 per cent, although export volumes increased by 126 per cent overall. This was explained by the fact that while the volume of dried bauxite increased by 185 per cent, calcinated bauxite, which earns a much higher price, registered a decline of 23 per cent.

In **Jamaica**, the sector which accounted for just under 10 per cent of Product, expanded by almost 7 per cent, compared with a decline of 2.5 per cent in 1992 and virtual stagnation in 1993. The bauxite/alumina industry, the main contributor to the sector benefited from a steady recovery in the world aluminum market, essentially following the economy-wide expansion in the United States. Total bauxite production increased by over 2 per cent. Total crude bauxite exports, however, declined by almost 7 per cent, explained by a reduced demand for United States stockpiles as well as the impact of canceled contracts with Russia. Alumina production, however, increased by 8 per cent and exports expanded by 13 per cent. Gross earnings from bauxite and alumina increased by 17 per cent, while overall foreign inflows for the sector, which include operational expenses and plant expansion, grew by over 5 per cent.

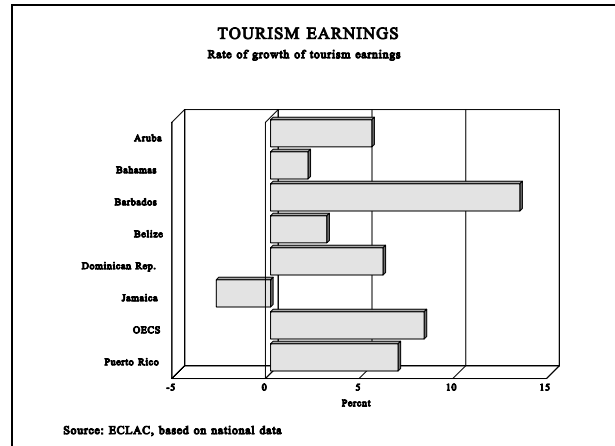
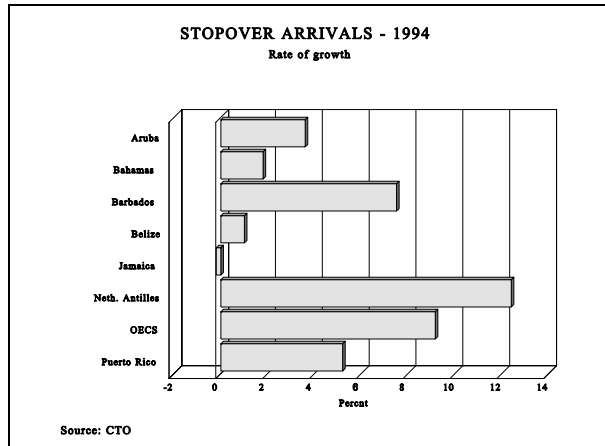


In Trinidad and Tobago **the petroleum/ petrochemical sector** as a whole expanded by over 8 per cent, reversing the decline evident over the past three years. Domestic crude production increased by 6 per cent over 1993. This was sufficient to permit reduced imports, by 9 per cent, yet allow exports to increase slightly. Slight output increases were recorded for all petroleum based products, except fuel oil which fell by 10 per cent. Crude oil prices, however, were on average lower than in 1993. Drilling activity also quickened, being over 80 per cent greater than in the previous year.

The petrochemicals sector expanded by 25 per cent, after a three-year decline. Substantial increases in the output of fertilizers and natural gas were recorded, the former also benefiting from improved prices but the fillip to the subsector was provided mainly by methanol production, which more than doubled. The increased output was consequent on the first full year of production of the

second methanol plant, commissioned at the end of 1993. Together with increased exports of methanol, average prices also doubled over 1993, reflecting strong global demand.

The **tourism sector** did not perform as well as in 1993<sup>4</sup>. For the region as a whole<sup>5</sup> stopover arrivals increased by over 4 per cent, although performance varied from country to country. The OECS countries for example recorded increases of 11 per cent while the CARICOM countries as a whole recorded an increase which was less than the regional average. The region earned about 5 per



cent more from tourism in 1994, although the OECS countries did somewhat better, by increasing their earnings by over 8 per cent. The rate of increase in cruise ship visitors remained sluggish as with the previous year, at about 1 per cent and compares unfavorably with the previous five years, 1987-1992 where it averaged more than 9 per cent.

As might be deduced from the foregoing summary, **the OECS countries** experienced a successful tourist performance in 1994. Value added, as measured for the hotels and tourism sector, increased by about 10 per cent and managed to offset the weak agriculture sector performance. The exception to strong OECS performance was Saint Vincent and the Grenadines, where arrivals fell

<sup>4</sup> This section relies for data and some analysis on publications from the Caribbean Tourism Organization.

<sup>5</sup> Data, for arrivals to the Dominican Republic and earnings for Cuba, are unavailable.

<b>STOPOVER TOURIST ARRIVALS</b>					
<i>(Thousands)</i>					
	1990	1991	1992	1993	1994
Anguilla	31	31	31	37	44
Antigua/Barbuda	206	182	194	221	235
Aruba	433	501	542	562	582
Bahamas	1561	1427	1399	1489	1516
Barbados	432	394	385	396	426
Belize	67	65	84	95	96
Cuba	334	...	...	546	630
Dominica	45	46	47	52	57
Grenada	82	92	88	94	109
Guyana	67	75	95	107	116
Jamaica	841	845	909	979	977
Montserrat	17	19	...	23	21
Netherlands Antilles	832	803	826	789	888
Puerto Rico	2560	2613	2657	2855	3004
St.Kits/Nevis	76	84	88	86	94
St. Lucia	138	160	177	195	219
St. Vincent / Grenadines	54	46	53	57	56
Trinidad/Tobago	194	220	235	203	...
US Virgin Islands	523	682	658	729	683

Source: CTO

by almost 1 per cent, following strong performance in 1993. Earnings were also down in Saint Vincent and the Grenadines, by over 2 per cent. Stopovers and earnings increased for the remaining countries and exceeded double digits in Anguilla, Grenada and Saint Lucia.

Performance by the remaining CARICOM countries varied quite widely, from Barbados with a strong performance after the previous year, to Jamaica which recorded a decline in the sector after many years of strong performance. In **Barbados**, value added increased by over 9 per cent, compared with 4 per cent in the previous year, stopover arrivals were up by 7.5 per cent compared with 3 per cent in the previous year and cruise visitors increased by 7.2 per cent, Barbados maintaining a stable growth in this segment of 7.5 per cent average since 1986. The industry had a sluggish performance in the **Bahamas**. Stopover arrivals increased by 1.8 per cent compared with 6 per cent in the previous year. Underlying this growth, however, was the fact that overall tourist days fell by 1 per cent, where they had increased by 4 per cent in 1993. Earnings increased by a scant 2 per cent. The decline in cruise ship visitors was notable at 12 per cent so overall the visitor count fell by over 6 per cent. Sluggish performance was also noted in **Belize**, where arrivals increased by a scant 1 per cent, following a 13 per cent increase in 1993. Gross tourism earnings were up by 3 per cent, and while the industry was still considered to be small and relatively unimportant in Belize, tourism earnings exceeded those from visible trade. In **Jamaica** the sector contracted. Despite continued investment- total number of rooms increased by over 4 per cent- stopovers declined by -0.2 per cent, so that room occupancy rates fell by 3 per cent. Gross foreign exchange earnings fell by an equal amount. Cruise ship arrivals also fell by 5.5 per cent so that overall total arrivals declined by 2.4 per cent. This reversal from 1993 was significant, since stopover arrivals, for example,

increased by 8 per cent in 1993. The decline in 1994 was attributable to adverse publicity in overseas media following episodes of violence against visitors.

In the larger non-CARICOM countries tourism was an activity of growing importance. In **Cuba**, it exceeded sugar as the main export earner in 1994, with arrivals increasing by over 15 per cent. Massive foreign investment in hotels, provided the major stimulus to that country's stagnating economy and a valued source of employment. In the **Dominican Republic**, tourism supplanted sugar some years ago and investment in the sector continues to be rapid. Earnings from the industry were up by 6 per cent in 1994, although in **Haiti** it remained dormant, consequent on that country's political instability. A revival was expected to follow the lifting of the embargo, provided domestic instability could be contained. In Puerto Rico tourism growth continued to be steady with all indicators being positive, stopover arrivals up by over 5 per cent compared with 7 per cent in 1993, earnings up by 7 per cent and cruise visitors up slightly by 0.4 per cent.

For the three smaller non-CARICOM countries surveyed, Aruba, the Netherlands Antilles and the United States Virgin Islands, tourism was the dominant activity and they account for 22 per cent of the total market. If the Cayman Islands, the British Virgin Islands, Martinique and Guadeloupe were included, the proportion would have been much higher. In **Aruba**, arrivals were up by 3.6 per cent, slightly less than 1993 at 4 per cent, while earnings were up by over 5 per cent. In the **Netherlands Antilles** there was a revival in 1994, arrivals increasing by over 12 per cent, going mainly to St. Maarten, which was up by 12.6 per cent, while Curacao and Bonaire recorded increases of 5.6 per cent and 1.3 per cent, respectively. Fewer visitors went to the United States Virgin Islands, however, stopover arrivals were down by 6 per cent after a 11 per cent increase in 1993. Cruise ship arrivals were, however, up by 3 per cent, these islands receiving more cruise passengers than any other Caribbean destination with the exception of the Bahamas.

Cruise ship performance was, however, generally erratic, gains and losses being quite substantial as operators switched between destinations in a highly competitive segment of the market. Several countries sought to maximize earnings from an activity which they considered to be insufficiently remunerative. Cruise operators, simultaneously sought to minimize costs and spending outside of the cruise ships. This created instability in the market, since it was easy for operators to switch destinations at short notice. Accordingly, cruise arrivals varied sharply between destinations, but a further consequence of this instability was reduced market share for the Caribbean as a whole.

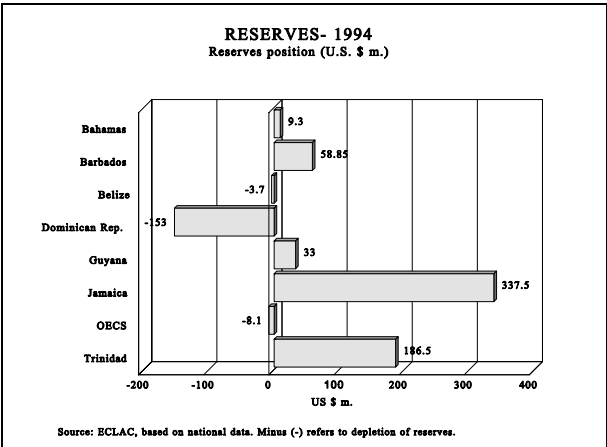
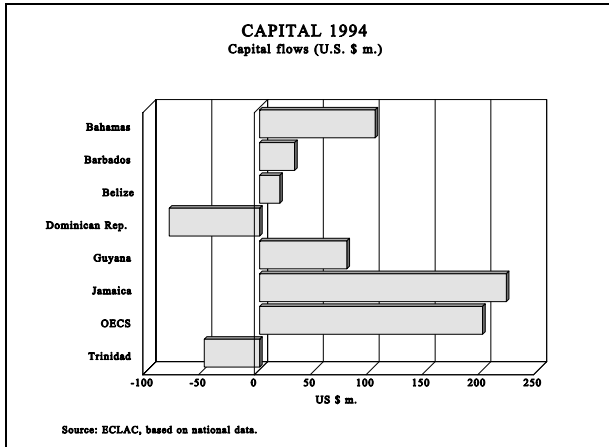
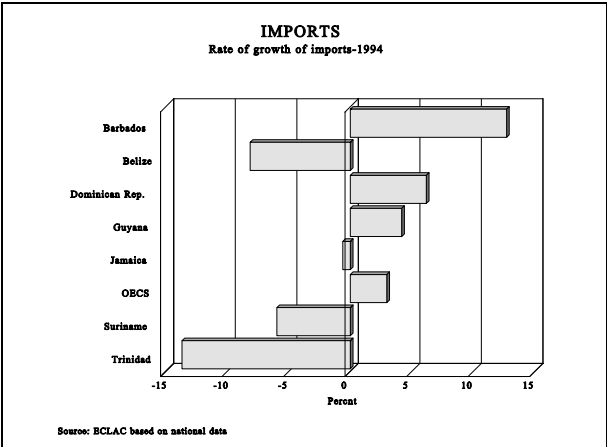
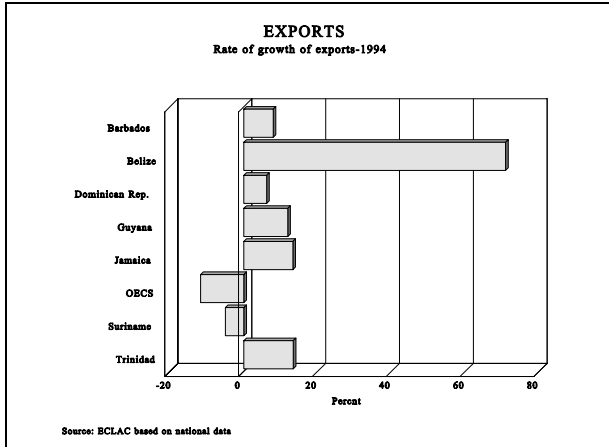
Arrivals from the three major market groups increased fairly equally. Visitors from the **United States** were up by 5 per cent over 1993. Performance in the winter months was strongest, with an increase of 8 per cent, summer arrivals increasing by only 3 per cent. St. Lucia and Curacao received many more visitors from the United States than previously, up 38 and 43 per cent, respectively, while Antigua, Barbados, Saint Kitts/Nevis and Saint Vincent received fewer visitors from this source. More tourists came from **Canada**, by 4 per cent, mainly in the winter months, where they favoured the Bahamas, Barbados, Cuba, Jamaica and St. Maarten. Greatest increases were to Curacao and St. Maarten. Arrivals also increased from Europe, by about 4 per cent<sup>6</sup>, again,

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<sup>6</sup> Details for Cuba and the Dominican Republic, both major destinations for German tourists, were unavailable.

winter arrivals were greater than in the summer, with the former up by 8 per cent. Europeans favour the Bahamas, Barbados, Cuba, Saint Lucia and the Dutch speaking islands. Greatest increases were to Antigua and Grenada though fewer went to Jamaica, by 10 per cent, than in 1993.

**TRADE AND PAYMENTS**



The trade balance for the region as a whole improved in 1994. Nominal exports increased by 8 per cent, while imports grew at a somewhat slower rate, by 4 per cent. Notable improvements on the merchandise account were made in Aruba, Belize, Guyana, Jamaica, Puerto Rico, Suriname and Trinidad and Tobago. The positive performance in merchandise trade was carried forward to the current account, the major component of which was travel receipts which grew by 5 per cent<sup>7</sup>, so that the current account deficit contracted by 23 per cent over 1993. The reserves improved in

<sup>7</sup> Based on a sample of earnings for 14 countries.

<b>BALANCE OF PAYMENTS - CURRENT ACCOUNT</b>					
<i>(Millions of U.S. dollars)</i>					
	1990	1991	1992	1993	1994
Anguilla	-5.8	-7.6	-14.8	-10.4	-9.7
Antigua/Barbuda	-37.3	-33.2	-28.2	-21.1	-14.3
Aruba	...	-235.4	33.9	33.0	69.8
Bahamas	-173.8	-183.6	-34.1	-92.0	-189.2
Barbados	-16.4	-25.5	144.6	70.0	83.6
Belize	15.2	-26.2	-29.1	-49.0	-24.5
Dominica	-31.0	-21.2	-17.5	-19.2	-26.9
Dominican Republic	-64.0	-115.0	-478.0	-230.0	-72.0
Grenada	-28.0	-34.8	-23.8	-28.3	-16.9
Guyana	-147.8	-118.0	-146.7	-137.9	-100.8
Jamaica	-328.0	-255.8	10.9	-212.2	126.9
Montserrat	-19.3	-15.3	-11.6	-2.4	...
Puerto Rico	-3296.1	-2696.0	-3370.1	-3432.3	-3334.1
St.Kitts/Nevis	-44.3	-31.7	-12.5	-21.3	-24.4
St. Lucia	56.7	67.7	46.9	50.2	54.1
St. Vincent	-5.5	-23.8	-12.6	-40.9	-47.3
Suriname	25.4	-76.9	18.0	5.9	39.8
Trinidad/Tobago	430.0	-20.7	122.6	67.3	369.8

Source: ECLAC, based on national data

several countries, notably in Aruba, the Bahamas, Barbados, Jamaica and Trinidad and Tobago, although they were depleted in Belize, the Dominican Republic, Guyana and Suriname.

This general picture, however, concealed contrary developments in the **OECS** countries, for their exports declined by almost 12 per cent, while imports increased by 3 per cent, so that the combined trade deficit widened by over 10 per cent. Weak performance in the traditional agricultural exports, mainly bananas and sugar, was responsible for the decline in export receipts. While imports increased, they represented a smaller proportion of Product in 1994 at 51.4 per cent, than in the previous year, when it was 52.6 per cent. The trade deficit deteriorated in all OECS countries, though at varying rates, from Saint Lucia by 24 per cent, with all other countries between 6-10 per cent, except Grenada, where it deteriorated least, at about 1 per cent. The reduced trade performance of the OECS was not fully compensated by services earnings, up 9 per cent and equivalent to 20 per cent of Product in 1994. Tourism earnings and remittances were up 8 per cent and 7 per cent, respectively. Nevertheless, the current account deficit widened by 17 per cent. Capital flows were up by 4 per cent, mainly private direct investment for the development of hotels and telecommunications. The external reserves fell by 3.1 per cent to represent 2.5 months of import cover at the end of 1994.

The trade deficit in **Barbados** widened in 1994, despite good performance from exports of sugar, electronic components and food and beverages, since imports also grew quickly. With the quickening economy, imports of intermediate consumer and capital goods all increased. Strong performance in tourism, however, with earnings being up over 13 per cent, ensured an improvement in the current account, the surplus increasing to almost 6 per cent of GDP, up from 5 per cent in 1993. The capital account also recorded a surplus, government borrowing exceeding amortization payments and private capital inflows being strong to finance hotel development. The reserves were



consequently augmented to provide 11 weeks of import cover, compared to seven weeks at the end of 1993.

The balance of payments in **Belize** was strengthened by good performance in agricultural exports. Citrus, banana and molasses exports all increased and were sufficient to compensate for declines in sugar and marine exports. At the same time imports were reduced, so that the trade deficit was reduced by 25 per cent. This momentum was sufficient to carry forward in the face of sluggish earnings from tourism and other services. Transfers remained substantially unchanged, with government transfers compensating for reduced private transfers. The capital surplus evident in 1993 declined somewhat, being attributable to reduced long-term official capital, since net private inflows contracted only slightly. Accordingly, the erosion in reserves of US\$ 19 million evident in 1993 was stanching to US\$ 4 million.

In **Guyana**, export earnings increased mainly because of gold, rice and bauxite, since sugar earnings remained substantially unchanged. Imports also grew but relatively slowly, so that the trade deficit contracted by 42 per cent. Despite a small increase in the services deficit, Guyana unlike most other Caribbean countries has only a putative tourism industry, merchandise trade performance was sufficient to compensate so that the current deficit was also reduced, by 27 per cent. Capital inflows were greatly reduced over 1993, however, disbursements to government were reduced by almost 50 per cent, while private capital flows contracted by 38 per cent. Simultaneously, amortization payments were higher by 42 per cent, so that the balance of payments deficit increased by almost 30 per cent.

Strong merchandise export performance in **Jamaica** strengthened the balance of payments. The merchandise deficit contracted by 20 per cent, with traditional and non-traditional exports increasing. In the former category expansion, at 9 per cent, was recorded by alumina and bananas, though sugar and bauxite exports declined. Non-traditional exports increased by 17 per cent in actual amounts almost equal to the contribution of traditional exports. Imports fell slightly, mainly because of a 6 per cent decline in consumer goods, while capital goods imports declined marginally. Raw material imports, however, increased. The services account contracted by 12 per cent, mainly because of a 5 per cent decline in the travel account, which had grown steadily since 1988. Private transfers, mainly remittances from nationals living abroad, increased by 75 per cent, however, moving the current account from a deficit in 1993, to a surplus in 1994. The capital account showed a reduced surplus, since private inflows remained fairly constant while official payments increased substantially. Overall the reserves were substantially bolstered to about 2.5 months of import cover. Capital inflows from nationals abroad were induced by interest rate differentials and greater confidence in the emerging liberalized foreign exchange market and better financial instruments for facilitating them. Such flows were also deemed to be less volatile than the customary portfolio type investments.

Export performance was strong in **Trinidad and Tobago**. The trade balance more than doubled, thanks to a doubling of output and international prices of methanol. Export earnings from chemicals increased by over 80 per cent, while earnings from fertilizers, natural gas and manufactures were also up. Conversely, imports were down by 13 per cent, machinery and transport

equipment falling most, though ores and scrap iron imports for the steel industry increased. Imports of food remained stable. The services balance deteriorated in all its components except travel and freight. The travel account remains in deficit, since tourism was a small component of the economy, but travel earnings increased while travel expenditures fell so that the deficit contracted. The current account surplus increased fivefold and this was sufficient to offset the erosion of the capital account, which moved from a small surplus in 1993 to deficit in 1994. Private capital flows were slightly less overall, for while direct investment, including the proceeds of divestment increased, short-term and commercial bank outflows also increased. Official capital outflows increased, mainly for debt servicing. The overall balance, nevertheless, improved by 23 per cent, the reserves being augmented from 5 to 8 weeks of import cover.

In **Aruba** the merchandise trade deficit was reduced by one fifth, despite an increase in consumer imports, consequent on the 170 per cent increase in earnings from the oil sector. This contribution was sufficient to expand the current account surplus, despite the fact that tourism receipts fell by 3 per cent, a deficit was incurred by the free-zone and a greater outflow of unrequited transfers was registered. Repatriated revenues from the oil sector surfaced in the capital account, however, causing a large increase in the capital account deficit. Even so, net foreign assets increased by 4 per cent, the non-oil merchandise import coverage ratio increasing from 4.5 to 5.1 months, within the plan target of 5-6 months coverage.

The merchandise deficit increased modestly in the **Dominican Republic**, for while exports of ferro-nickel, coffee and cacao increased, the exports of raw sugar, furfural and tobacco declined, while the quantum of imports, mainly of automobiles, pharmaceuticals and machinery and equipment also increased. The services balance increased, exports of free-zone and tourism services growing by over 5 per cent, while private unilateral transfers increased by 16 per cent and factor payments declined. The current account deficit therefore contracted. Activity on the capital account dominated the balance of payments of the Dominican Republic, since there was a significant turnaround in the capital account, from strong inflows in 1993 to a net outflow in the first nine months caused by unfavourable economic fundamentals and consequent uncertainty. Accordingly, there was a balance of payments deficit and a contraction in the reserves.

The adjusted merchandise trade balance in **Puerto Rico** increased by 19 per cent. Manufactures, which comprise 99 per cent of merchandise exports increased by 9 per cent, while imports increased by less than 6 per cent. Travel earnings also increased, the travel balance improving by 10 per cent. However, transportation services costs showed a growing deficit as did outflows of investment income, so that the deficit on goods and services widened by 3 per cent. Unrequited transfers increased by 7 per cent, mainly those from the Federal Government (which were equivalent to about 22 per cent of merchandise earnings), since private remittances fell. Transfers from non-residents also increased though this remains relatively small. Overall, the current deficit contracted by 3 per cent.

**EXTERNAL DEBT**

The external debt for the region as a whole<sup>8</sup> contracted by almost 4 per cent. For **CARICOM** countries it declined by slightly over 1 per cent, declines being recorded for the Bahamas, Guyana and Trinidad and Tobago, with marginal increases in Barbados and Jamaica.

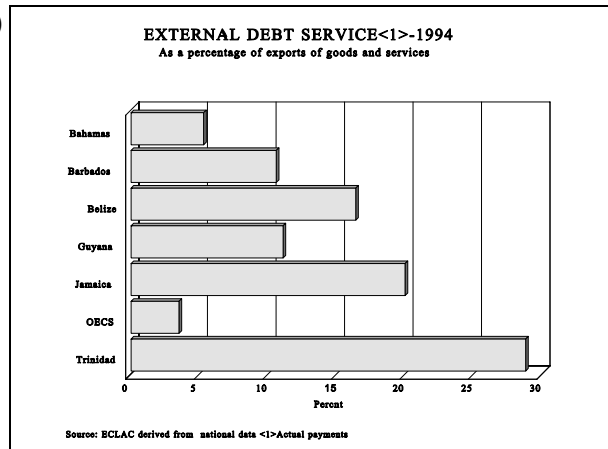
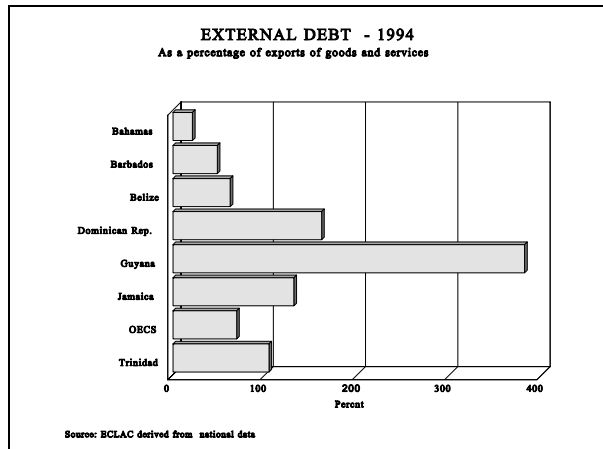
In **Guyana**, the debt declined by almost 3 per cent. Its composition moved away from suppliers credit with increases in the relative proportions of official bilateral and multilateral debt. The former declined slightly but the latter increased. Amortization costs increased by 43 per cent, enough to increase the debt service ratio by one percentage point over 1993. In **Trinidad and Tobago**, persistent efforts were made to reduce the stock of debt which contracted from 46 per cent of Product to 44.4 per cent. The 2 per cent reduction in the stock of debt understated the effort in 1994, since valuation adjustments added almost US\$ 75 million. Accordingly, the currency composition of debt was readjusted, so that by year-end 70 per cent of debt was United States dollar denominated, 16 per cent Special Drawing Right (S.D.R.) denominated and under 5 per cent Yen denominated.

For the **OECS** members the external debt increased by 3 per cent, although as a share of Product it declined slightly, from 32.7 per cent in 1993 to 32 per cent in 1994. Greatest increases were made by Saint Kitts and Nevis, up 9.5 per cent, Saint Vincent and the Grenadines, up 5.7 per cent and Saint Lucia, up 4.4 per cent. All other members recorded increases of 3 per cent or less. The growing debt was to be explained by the accumulation of arrears, of principal and interest, which represented 44 per cent of the total outstanding in 1994. Nevertheless, debt service payments were low and declined by 4 per cent over the previous year. Actual servicing costs represented 3.2 per cent of goods and services exports in 1994, down from 3.5 per cent in 1993. Repayments were substantially down, at 2 per cent of product, in both 1993-1994, compared with the five preceding years when it was 10 per cent.

There was a marginal increase in Barbados' and Jamaica's external debt and an 8 per cent increase in Belize. In **Barbados** external debt represented just over 24 per cent of Product, down from 28 per cent since 1990. The composition of debt changed substantially, however, with bilateral debt falling to 2.7 per cent of the total, consequent on Canadian debt forgiveness and multilateral debt falling to 38.7 per cent consequent on reduced borrowing from the International Financial

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<sup>8</sup> Excluding Cuba and Suriname for which data are not available.



Institutions. Bonds comprised 38.6 per cent of external debt. The increase in **Jamaica** was in government direct debt which accounted for 76 per cent of external debt, up from 70 per cent in

<b>EXTERNAL DEBT</b>					
(Millions of U.S. dollars)					
	1990	1991	1992	1993	1994
Anguilla	7.4	8.4	9.2	8.6	8.7
Antigua/Barbuda	265.9	261.1	250.6	235.8	238.7
Bahamas	267.7	321.7	377.6	358.9	328.5
Barbados	418.0	385.5	341.8	337.7	323.3
Belize	132.8	142.8	141.4	167.4	180.4
Dominica	84.7	91.6	93.0	88.9	90.9
Dominican Republic	4482.0	4572.0	4426.0	4500.0	4030.0
Grenada	85.1	84.2	80.9	79.0	81.1
Guyana	1812.0	1873.3	2054.0	2062.0	2004.0
Haiti	841.0	809.0	819.0	830.0	870.0
Jamaica	4152.4	3874.3	3678.0	3647.2	3650.0
Montserrat	3.0	3.4	5.2	10.0	10.3
St. Kitts/Nevis	37.7	39.1	39.2	40.1	43.9
St. Lucia	70.7	81.0	97.1	100.9	105.3
St. Vincent	56.3	66.1	70.8	77.5	82.0
Suriname	101.3	117.8	124.1	126.3	...
Trinidad/Tobago	2520.5	2437.9	2214.7	2095.8	2052.5

Source: IMF; IBRD; ECLAC.

1993. Government guaranteed debt declined as did Bank of Jamaica debt, currently accounting for 11 and 12 per cent of total external debt, respectively. Rescheduling operations covered US\$84 million in 1994 and debt forgiveness was received from the Netherlands for 8.4 million. Accordingly, actual debt repayments were 1 per cent less in 1994 than in the previous year. For **Belize**, the debt which represented 38 per cent of Product, slightly down since 1993, was incurred by the Central Government, disbursements being mainly from the Caribbean Development Bank, the World Bank and the European Union., since the rest of the public sector reduced its debt.

External debt increased in **Haiti** by nearly five per cent. Given the severe contraction in export earnings, servicing became problematic since the ratio of debt to exports of goods and non-factor services moved from 345 per cent in 1990 to 692 per cent in 1993 and 1160 per cent in 1994.

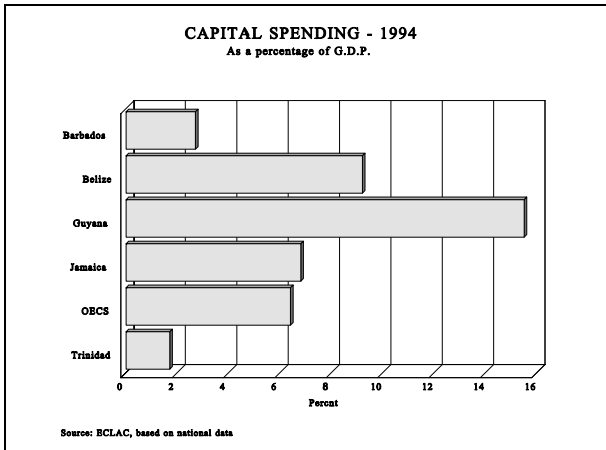
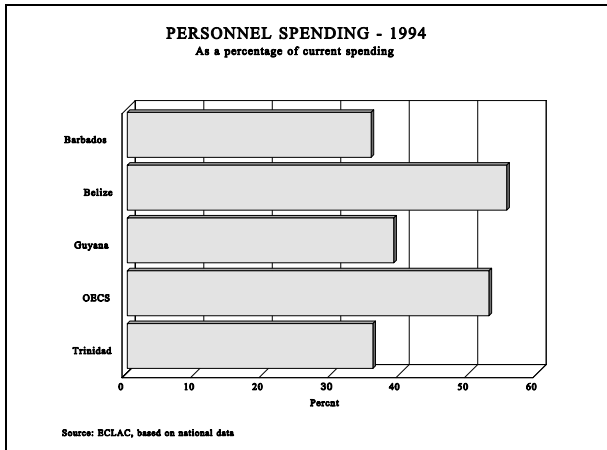
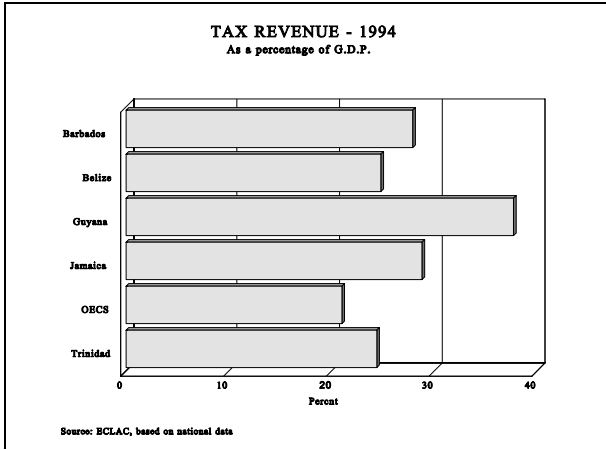
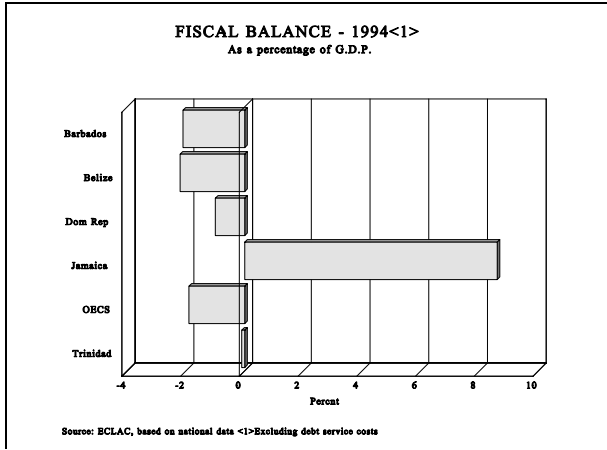
This was the highest figure in the hemisphere, except for Nicaragua. In the **Dominican Republic**, the debt contracted by over 10 per cent as it completed the renegotiation of its debt with commercial banks, a process which began in 1993. The agreement combined the normal conditions of the Brady Plan with an option for further debt reduction and permitted a reduction in private debt of over US\$ 700 million.

## PUBLIC FINANCE

Fiscal and monetary policies remained the key instruments for short-term economic management. Most governments recognized the importance of maintaining conservative fiscal policies if their economies were to increase the rate of investment in productive activities. The trend to shift the main source of revenue away from income, profits and international trade and direct it to consumption gained new adherents, while efforts continued to reduce current spending, focus being placed on the persistent proportional growth of wages in the smaller countries. There was also a growing consensus on the need to refocus the government spending on basic social services and the rehabilitation of infrastructure. This clarity of purpose was, nevertheless, complicated by the legacy of previous fiscal laxity, in the form of heavy debt servicing and liquidity management costs. Concern continued to be expressed about the state of some key social services, especially health and education, and policy debate continued as to the appropriate pace and means by which rectification should be effected. Also, natural disasters and the vagaries of the political arena provided further rationale for the relaxation of fiscal discipline. All of these factors, sometimes in combination, were evident in the Caribbean in 1994.

Fiscal performance deteriorated somewhat in the **OECS** countries. Gains made in 1993, where the overall budget deficit fell from 2 per cent of combined Product to 1.3 per cent, were eroded in the current survey year as the deficit increased once more to 1.9 per cent of Product. This was, however, to be explained largely by a 12 per cent reduction in capital receipts. Current revenue increased in line with Product, remaining at just over 24 per cent. Buoyant activity in 1993 and greater efforts at collection were relevant factors. Consumption taxes also increased as a proportion of total taxes, to 45 per cent. However, current expenditure increased slightly to 22 per cent of Product the main component of which was wages and salaries, increasing by over 5 per cent. Accordingly, the recurrent surplus was reduced to 2.2 per cent of Product from 2.7 per cent in 1993. While Antigua and Barbuda achieved a surplus on current account, instead of a deficit in 1993, the converse was true in Dominica and reduced surpluses were evident in most other countries. Capital spending retained its proportion of Product, going mainly to the development of infrastructure.

For calendar year 1994, the fiscal out turn in **Belize** was an improvement over the previous year, moving from a deficit of 6 per cent of Product, if debt servicing was excluded, to just over 2 per cent in 1994. This outcome was achieved by a severe curtailment of capital spending, which fell from 15 per cent of Product in 1993 to 9 per cent. Current spending increased from just over 23 per cent of Product to almost 25 per cent. Wages and salaries, which currently represented over 55 per cent of current expenditure, increased by 12 per cent in 1994 alone and by 55 per cent since 1991.



Interest payments also increased during the same period, from 5.7 to 9 per cent of current spending. Total revenues and grants were marginally up in nominal terms, though down from 31 per cent of Product to 29 per cent. Current revenues grew marginally over the previous year, from just under 28 per cent of Product to 28 per cent. Taxes on international trade and transactions, which still remain high at 48 per cent of current revenue, grew by over 4 per cent. Capital revenues, mainly divestment proceeds, however, fell, though grants increased.

In **Barbados**, the fiscal out-turn was relatively stable, compared with 1993. The deficit, excluding debt servicing, contracted slightly, to just over 2 per cent of Product. Current revenue grew by 4.4 per cent, spread evenly among the major taxes, while current expenditure increased by 5 per cent. Major areas of expenditure growth were for employment expenses, up 5 per cent, debt interest and amortization up almost 9 per cent, and goods and services up 17.5 per cent. Overall expenditure was, however, contained to a 3.6 per cent increase because of a compression of capital spending by almost 9 per cent.

The debt servicing burden and the cost of monetary policy overshadowed fiscal performance in **Jamaica**. This was illustrated by the fact that interest and amortization absorbed almost 83 per cent of government revenues, over 27 per cent of product, compared with 49 per cent of revenues and 16 per cent of Product in 1993. The effort to achieve a surplus of 8.6 per cent of Product before debt servicing was, therefore, noteworthy, but insufficient to prevent the deficit of almost 19 per

cent of Product after meeting debt obligations. Total revenue increased, from 32 to 35 per cent of Product though tax revenues remained a stable proportion of Product at 28 per cent. Consumption tax represented almost 30 per cent of tax revenues, the same proportion as in 1993 by up from about 10 per cent from fiscal 1991/2, the year of introduction. Divestment of public entities continued, 29 such being listed, though only five sales were completed. These, however, included four agricultural enterprises and the national airline, the latter contributing to the debt servicing problem, since accumulated arrears had to be cleared before transfer to private operators. Expenditures other than debt servicing increased from 22 per cent of Product to just over 24 per cent. Gross investment increased from over 5 per cent of Product to almost 7 per cent, the focus being on infrastructure while recurrent expenses excluding interest increased slightly to 16 per cent of product, partly because of unplanned personnel costs.

The fiscal accounts deteriorated in the **Dominican Republic**, from a surplus of 2.6 per cent of Product in 1992, to a deficit of 0.3 per cent in 1993 growing to 1 per cent in 1994. Government revenues increased by 8 per cent, reflecting a special tax on petroleum and the adoption of sales taxes. Revenues, nevertheless, represented under 15 per cent of Product, much lower than the Caribbean norm. Expenditures increased by 12 per cent, comprising recurrent expenses and expanded public works in an election year. Commercial bank lending rose by 19 per cent, Central Bank lending by 22 per cent. This injection gave a major boost to construction, which was up 9 per cent, but was rapidly curtailed in September, after the election, when excess aggregate demand placed pressures on prices and the external account. Credit to the public sector by the Reserve Bank was curtailed and placed under the jurisdiction of the Monetary Board while Central Bank accommodation ceased. Open market operations were also taken to further reduce liquidity, the exchange rate consolidated and supported by bank intervention.

Fiscal operations in **Guyana** were overshadowed by debt servicing and the cost of containing excess liquidity. Interest charges and amortization absorbed 82 per cent of current revenues in the survey year, up from 76 per cent in 1993, though modest compared to 1992 at 114 per cent. A further increase over 1994 was projected for 1995. Current revenues increased by 9 per cent, though this was below target, shortfalls being evident in the collection of customs and excise taxes. Capital revenue, 33 per cent of which comprised divestment proceeds, increased by 217 per cent. Current expenditures, excluding interest payments, increased by 9 per cent mainly going to public sector wages and salaries. Allocations for health and education increased in 1994, 14 and 17 per cent of current spending being earmarked for those sectors, respectively.

Consolidation of fiscal operations was the salient fact in **Trinidad and Tobago**. The fiscal deficit contracted from almost 3 per cent of Product in 1992 to 0.1 per cent in 1993. A small surplus of 0.1 per cent was achieved in 1994. The rate of increase of recurrent revenues declined, mainly because of slowing oil sector revenues, up a scant 2 per cent, compared to non-oil sector revenues which increased by almost 12 per cent. This represents a trend, since oil sector revenues fell as a proportion of recurrent revenue from 41 per cent in 1990, to 25 per cent in 1994. Increased taxes came from income, up 10 per cent, property, up 50 per cent and VAT, up 8 per cent while non-tax revenues increased by 33 per cent. Expenditures increased by almost 9 per cent. Transfers and subsidies increased by 12 per cent, transfers to households increasing by 34 per cent and comprising in part severance pay and retirement benefits to retrenched government workers. Government consumption increased by 48 per cent, notably comprising a doubling of the school feeding

programme and interest payments rose by 7 per cent. Capital spending rose by 20 per cent, focused on road improvement works, health care and primary education and infrastructure to a squatter settlement.

## PRICES

Inflation varied quite widely across the Caribbean in 1994. Most countries had price increases of or below 5 per cent, reflecting the openness of their economies and macroeconomic policies oriented to maintaining a stable real exchange rate<sup>9</sup>. The OECS as a group qualified for this category, averaging 2.1 per cent on a weighted basis, although Saint Lucia fell outside of the limit with price increases of 5.8 per cent. For the period 1991-1993 inflation averaged 3.6 per cent for the OECS countries. Other countries pursuing similar macroeconomic policies were Aruba, though facing cost pressures from a shortage of labour, the Bahamas, Barbados and Belize, though the latter was facing incipient problems on the fiscal side. Puerto Rico also had low inflation, reflecting the prevailing rate in the United States.

The second category of countries had price increases of below 10 per cent, essentially the Dominican Republic up 8.1 per cent and Trinidad and Tobago, up 8.8 per cent. Prices rose markedly from the previous year consequent on fiscal imbalances induced by electoral pressures in turn fueling excess aggregate demand and pressures on the external account. In Trinidad and Tobago inflation in 1994 was a reduction from 10.7 per cent in 1993, the year in which the exchange rate was liberalized. The monetary base grew by 24 per cent, M1A by 10.6 per cent and M2 by a more modest 2.3 per cent. Retail prices fell from 13.5 per cent to 5.5 per cent although wholesale prices rose slightly from 5.3 to 5.4 per cent.

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<sup>9</sup> In these instances also a stable nominal exchange rate.



<b>CONSUMER PRICES</b>					
<i>(Annual percentage rates of growth)</i>					
	1990	1991	1992	1993	1994
Anguilla	5.1	4.9	2.4	4.3	3.5
Antigua/Barbuda	7.7	2.1	1.2	1.5	3.6
Aruba	7.1	3.7	4.5	6.4	5.0
Bahamas	4.7	7.1	5.7	2.7	1.3
Barbados	3.1	6.3	6.1	1.1	0.1
Belize	3.0	5.6	2.8	1.3	2.3
Curacao	3.7	4.0	1.5	1.9	...
Dominica	4.7	2.0	4.4	1.7	0.9
Dominican Republic	41.2	100.7	4.3	5.3	8.1
Grenada	3.7	1.0	4.6	3.5	1.8
Guyana	64.9	70.3	14.2	7.7	16.1
Haiti	26.1	6.6	18.0	39.3	...
Jamaica	22.0	51.0	77.3	22.1	35.1
Puerto Rico	4.1	5.3	2.6	3.0	2.9
St.Kitts/Nevis	3.7	4.5	1.5	1.8	2.7
St. Lucia	5.9	7.3	2.5	0.7	5.8
St. Vincent	9.2	2.3	3.1	4.5	0.4
Suriname	21.8	26.0	43.7	143.4	357.0
Trinidad/Tobago	11.4	3.8	6.5	10.8	8.8
Montserrat	6.8	9.2	1.4	0.7	2.8

Source: National data.

At the lower end of the category of high inflation countries, those exceeding 10 per cent, were Guyana with price increases of 16 per cent and Jamaica up 35.1 per cent. While there was an increase in the annual average rate in Jamaica, the point to point rate fell from 30 to 26.7 per cent inflation abating from the first quarter to rest at 2.7 per cent in the final quarter. Since containing inflation was a primary policy goal for the year, the outcome must be considered only a qualified success, complicated by large capital inflows which destabilized monetary policy. Nevertheless, these inflows also stabilized the exchange rate. Other factors increasing inflation were high nominal rates of interest, the liberalization of some prices, such as sugar, increased cost recovery from public utilities and drought affecting the supply and cost of some domestic produce.

Three countries remained in severe disequilibrium and this manifested itself in several indicators, including inflation. In **Suriname**, insufficient control of monetary and fiscal policy provided the main explanation for price increases. Fiscal deficits of 13 per cent of Product, accommodated by the Central Bank, (and including Central Bank losses, amounting to 5 per cent of Product in 1994, consequent on its, now discontinued, multiple exchange rate policies), explained the increase in Domestic Credit. Yet, controlled, interest rates became progressively negative and in the face of diminishing confidence in policy prompted capital outflows and a reduction in net foreign assets. As a consequence, broad money was expected to show a real contraction, to about 37 per cent of Product.

Prices increased by over 50 per cent in **Haiti**. The trade embargo severely curtailed the supply of a broad range of goods, in turn putting pressure on prices. As an example, gasoline prices

increased tenfold. Further aggravating factors were the increased money supply to accommodate a fiscal deficit of 5 per cent of Product, and substantial depreciation in the currency.

In **Cuba**, severe policy and structural changes affected prices in various ways. In the formal regulated economy, prices which were subsidized rose substantially and some items for which no charge was levied incurred costs for the first time prompted by severe fiscal constraints. The deregulated sector, in part informal still, showed a contrary trend as prices moderated from the previous year. The moderation was to be explained by increased supply to the free markets, especially in food products.

## UNEMPLOYMENT

Unemployment remained an intractable problem for many Caribbean countries. Yet for many of the smaller countries sporadic surveys indicate that unemployment rates were lower than for the larger countries. In some instances labour shortages constitute a short-term constraint to economic expansion. Such was the case in Aruba and to lesser extent in Saint Kitts and Nevis. In **Aruba**, the current rates of unemployment were especially low, so that policies to improve productivity and labour market flexibility were given high priority. Notable measures related to education and training, reduction of the public service by providing incentives for personnel to transfer to the private sector, measures to induce Arubans living abroad, and those currently not in the labour market, to seek employment locally and more liberal procedures for granting work permits.

	UNEMPLOYMENT RATES				
	<i>(Percent)</i>				
	1990	1991	1992	1993	1994
Aruba	1.3	0.3	0.5	0.5	0.5
Barbados	14.7	17.2	23.0	22.1	21.2
Jamaica	15.3	15.4	15.7	16.3	15.4
Netherlands Antilles	24.4	21.0	19.8	16.4	...
Puerto Rico	14.3	15.2	16.5	16.8	16.0
Trinidad/Tobago	20.0	18.5	19.7	19.8	18.5
Source: National data					

The constraints facing most other countries differ widely from the foregoing, however, although there was a growing awareness that more flexible labour market policies might assist in reducing the levels of employment which prevail even at high points in the economic cycle. This was particularly true for young people, who although often well trained, experienced particular difficulty in entering the job market. In **Barbados**, the upturn in the economy was reflected in an incipient decline in unemployment. An increase in the labour force and increased female participation rates, currently 75 per cent for males and 61 per cent for females, masked the extent of

job creation in the survey year. Major contributors to job creation were the services sectors, government, the wholesale and retail trades and tourism in order of priority.

Despite slow growth in the **Jamaican** economy, employment expanded three times as fast as the labour force. New jobs went predominantly to men. Male unemployment, which had been rising since 1991, declined by 12 per cent. They found jobs predominantly in construction, community, social and personal services and in financial services. Female unemployment also declined, but at a lower rate of about 2 per cent, jobs being found in services, the wholesale and retail trades and in hotels and restaurants. Females continued to have poorer chances of employment than men. Young persons also traditionally had poorer chances of employment than those 25 and over. This remained true of men, but since 1992 women 25 and over have constituted a smaller percentage of the unemployed labour force than older women. Private sector employment increased by 4 per cent public sector employment falling by almost 5 per cent. Participation rates registered no change over the previous year, at 74.6 per cent for males and 62.4 per cent for females. This represented a halt in the decline in participation rates evident for men over the past five years.

The employed labour force increased by just over 1 per cent in **Puerto Rico**. The majority of jobs were created in services sectors, government, finance, communications and other services. Jobs were lost in apparel manufacturing and construction, while the number of jobs in agriculture remained the same. Participation rates were somewhat lower than in other Caribbean countries, at 46 per cent, which also was a slight decline over the previous year.

Job opportunities expanded faster than the labour force in **Trinidad and Tobago**, so that the number of persons without employment fell by 6 per cent. As was the case in most other Caribbean countries, the incidence of unemployment was higher among women at, 22 per cent against 16 per cent for men. Entry into the job market continued to be difficult for young people who had a higher level unemployment, at 40 per cent for 15-19 age group, 29 per cent for the 20-24 age group, than for the population as a whole. Women also had more difficulty getting jobs so that unemployment among women was higher at 22.4 per cent for women than for men at 16.3 per cent. Services provided more than half of the jobs, followed by agriculture 13 per cent and manufacturing 10 per cent. Job expansion occurred especially in services and in agriculture, notably in the sugar sector.

GENERAL  
LC/CAR/G. 444  
14 June 1995  
ORIGINAL: ENGLISH

**SUMMARY OF CARIBBEAN ECONOMIC PERFORMANCE**

**- 1994 -**

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