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**PRELIMINARY OVERVIEW  
OF  
CARIBBEAN ECONOMIES  
2003-2004**

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**PRELIMINARY OVERVIEW  
OF  
CARIBBEAN ECONOMIES**

**2003-2004**

**I. States members of the Organisation of Eastern Caribbean States (OECS)<sup>1</sup>**

**General trends**

In 2003, the States members of the Organisation of Eastern Caribbean States (OECS) noted a gradual process of economic recovery following two years of negative growth (-2.1%, -0.3% and 1% in 2001, 2002 and 2003, respectively). The recovery was led by the tourism sector. The performance of agriculture reflected the sector's long-standing technical and financial difficulties as well as unfavorable external conditions. The agricultural sector faced additional pressures as it will have, within the foreseeable future, to confront the economic and social effects resulting from the progressive dismantling of preferential market access provisions. Manufacturing stagnated due to high production costs and low productivity levels which hampered the development of its competitiveness.

The fiscal accounts deteriorated as rising current expenditure was not matched by greater revenue in spite of the fact that a number of OECS countries implemented tax measures to strengthen their financial position. The expansion of current expenditure responded to greater wages and salaries, and interest payments on the OECS member States' debt, which, in some cases, has reached significant levels. The behavior of capital expenditures responded to the OECS member States' objectives of enhancing their physical infrastructure as a basis of sectoral growth and development.

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<sup>1</sup> The States members of OECS include Anguilla, Antigua and Barbuda, the British Virgin Islands, Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. The analysis here presented covers all member States with the exception of the British Virgin Islands. These States form a currency union and fall under the monetary authority of the Eastern Caribbean Central Bank (ECCB). These economies have three different fiscal years. Dominica's fiscal year starts in July and ends in June. The fiscal year in Anguilla, St Kitts and Nevis and Montserrat coincides with the calendar year. The rest of the economies have a fiscal year spanning from April to March. ECCB reports the fiscal accounts on a calendar-year basis to make them comparable.

The fiscal disequilibrium was accompanied by a rising current account deficit, which was not fully financed by foreign exchange earnings. The current account result responded to a weak merchandise export performance accompanied by a modest rise in the non-factor services account surplus. The capital and financial account outturn reflected foreign direct inflows destined to the tourism sector and official grants.

The consequent decline in reserves did not affect the currency backing position of the Eastern Caribbean Central Bank (ECCB) which remained, as in other years, high above the statutory 60% level. The commercial banks' balance sheets registered an increase in foreign assets which was the main determinant of money supply growth.

Apart from the rising debt levels, the main current concerns of the OECS member States relate to trade negotiations, including the impact that the Free Trade Area of the Americas (FTAA) might have on the OECS economies, which are service-based economies, and the formulation of a negotiating position that articulates the needs and specificities of Small Island Developing States (SIDS). Member States are also paying close attention to the African, Caribbean and Pacific Countries-European Union (ACP-EU) negotiations. The focus is on the implementation of the Cotonou agreement which is based on the principle of reciprocity between trading partners.

For 2004, OECS economies are likely to remain on a low growth plateau as the positive effects of the recovery in tourism are likely to be partly offset by the stagnation in agriculture and manufacturing and by the impending macroeconomic imbalances.

### **Fiscal policy**

OECS member States registered in the aggregate a deficit in their fiscal accounts as a result of rising current and capital expenditures and listless growth in current revenue. Current expenditure expansion was determined by wage and salary outlays. Capital expenditure responded to ongoing and new infrastructure projects. The underperformance of current revenue reflected a very moderate rate of growth despite a number of tax measures implemented by OECS member States that included customs and service charges, consumption and sales tax, and the travel tax.

At the individual country level available information indicated that Anguilla, Antigua and Barbuda, Dominica, Montserrat and St. Kitts and Nevis recorded current account deficits. Contrarily Grenada, Saint Lucia and St. Vincent and the Grenadines recorded surpluses.

Anguilla managed to reduce its deficit due to fiscal measures which included a 1.0% surcharge on goods with *ad valorem* import duties, increases in ticket taxes and passenger handling fees. However capital expenditures rose due to divestment for infrastructure on ongoing projects including the airport, road building and rehabilitation.

Antigua and Barbuda's fiscal deficit reflected a higher wage bill and increased pension payments. Capital expenditure also recorded an expansion due to road and

building rehabilitation. The authorities have expressed concern over the fiscal situation and are planning to downsize the public sector.

Dominica's situation reflects the programme of adjustment that the country implemented following widening and unsustainable fiscal deficits in the previous years. Measures to trim expenditure in 2003 included the decline in the public sector's wages by 5%, the suppression of temporary employment and the increase in tax rates (effective from February 2003) and the imposition of a 1% stabilization levy. In addition in the previous year the tax base was widened as telecommunication services were included in the base of the sales tax.

Grenada's surplus is gradually eroding as a result of a ballooning external debt that has reached close to 70% of GDP and which has inflated interest payments. In addition, capital expenditures related to the health sector and cruise terminal facility have risen.

Montserrat's fiscal outturn is explained by higher current expenditures related to the ferry and helicopter services, which were transferred to the government in 2002, and capital expenditures on real estate. For its part, revenue performance was affected by tariff adjustment on imports. In May 2003, the government suppressed duties, the consumption tax and the customs service tax. In addition, the authorities decided that the consumption tax levied on imported furniture would be reduced by 13%.

St. Kitts and Nevis' fiscal situation was the product of higher current expenditures due in part to the hosting of a regional meeting and capital expenditures to build and maintain basic infrastructure. The fiscal position is expected to improve due to more efficient tax administration (the authorities created the post of director of fiscal affairs), the start of audits on professionals, and the winding down of capital projects. St. Kitts and Nevis will also refinance part of its debt and the debt burden is expected to decline due to lower interest on its treasury bills. It has presently one of the highest internal debt to GDP ratios within the OECS.

Saint Lucia's overall surplus is accounted for by a capital grant (income housing and rural credit facilities) as the current account yielded a negative result. The current account in turn reflects a narrowing of the tax base as the exemption threshold on income and profits was lowered. Saint Lucia's rate of implementation of its public sector investment programme and the revenue effects of tax measures, including a 1% rise in the customs service charge on imports, the adjustment of the consumption tax rate for selected goods and the rise in licenses fees, will shape and determine the final fiscal outcome.

St. Vincent and the Grenadines' positive result is linked with tax measures to raise government revenues and the containment of current expenditure which will outstrip the expansion of capital expenditures, due to the implementation of the country's public sector investment programme.

In 2004 some adjustment in the fiscal finances is expected in part as a response to moderate the fiscal stance which has been expansionary since 1997 and has not been commensurate with the level of the resources captured by these governments as measured by the tax to GDP ratio.

### **Monetary policy**

The OECS economies have formed a currency union since 1983. Its monetary unit, the Eastern Caribbean dollar, is pegged to the United States dollar at EC\$2.70 per US\$1. The union's monetary authority, the Eastern Caribbean Central Bank, acts as a quasi-currency board and is required by statute to back up 60% of its monetary liabilities. The monetary authority of the OECS, the ECCB maintained, as in the past, a neutral policy stance and did not vary any of the key interest rates.

During the year, the monetary union has managed to increase its foreign assets while maintaining a stable level of foreign liabilities. The positive external net position (EC\$730,105 and 1,013,925 in January and September 2003, representing an increase of 39%) has helped to maintain the solid financial position of the currency board at a time of high indebtedness by most OECS member States. The level of foreign assets is the key determinant of the money base (5%).

At the same time, net domestic credit has not risen proportionately and its rate of expansion has remained at very moderate levels. This has reflected containment in domestic credit to the government and the stagnant growth in credit to the private sector reflecting, in turn, a very moderate expansion of the OECS economy as a whole. Banking credit responded mostly to personal loans related to the acquisition of property (home construction and renovation) and other personal loans. Personal loans are put back into the banking system closing the monetary and simple circuit between the banking and private sector. The overall result is a moderately expanding money supply. Narrow money and broad money expanded within a 6%-8% range.

The situation is unlikely to change in 2004 and the commercial banking system will continue to show in its balance sheets a high level of foreign assets.

### **Sectors of economic activity**

Following two years of negative growth rates, OECS member States are poised on their way to a moderate recovery. The recovery is led by the tourism sector.

The performance of the tourism sector (3%) benefited from the increase in visitors in all categories (stay over and cruise ship passengers) and from all the major markets. The recovery in tourism is due to an active marketing campaign in some of the OECS member States (Dominica is an exception), an increase in airline services and the progressive return to normalcy following the events of 11 September. As part of the countries' efforts to boost tourism, Dominica reduced its port charges by 34% and St Kitts and Nevis and Antigua and Barbuda have increased their flight frequency to both

islands. In addition, Antigua and Barbuda is expanding its hotel capacity and St. Kitts and Nevis has renovated part of its ports and hotels. The influence of the tourism sector on the rest of the sectors was particularly felt in wholesale and retail trade (4%).

Agriculture contracted in most of the OECS economies (-2% in the aggregate). Banana production fell in Saint Lucia and St. Vincent and the Grenadines as a result of poor weather conditions and the reduction in international prices. The exception was Grenada where cocoa and nutmeg production was on the rise due to increased efficiency and productivity and despite seasonal declines in the cocoa yield and infestation which affected the output of nutmeg.

As in past years, manufacturing stagnated (1%) and reflected low levels of technology, high costs and increased competition in external markets which affected the competitiveness of both primary and higher technology intensity manufacturing such as electrical components. Manufacturing output also reflected the current situation of Dominica -the leading producer and exporter of soap and dental cream in the region - which noted some recovery during the first semester in relation to the levels obtained during the previous year.

For its part, the performance of the construction sector (2%) reflected the rate and stage of implementation of public and private sector projects. Private sector endeavors centered on residential building and real estate construction and tourism projects, while the efforts of the public sector focused on the construction and renovation of both human capital and physical infrastructure.

### **Inflation, unemployment and wages**

The rate of inflation was higher than that registered in the previous year (0.6% and 1.34% in 2002 and 2003, respectively) due to a higher level of economic activity and remained moderate as a result of the stability of international prices. Country events, which explain the overall level of inflation include higher airport fees in Anguilla, the lowering of the fuel surcharge on electricity in Montserrat, Saint Lucia and St. Vincent and the Grenadines, and increased telephone rental rates in St. Vincent and the Grenadines.

The rate of unemployment registered a decline in line with an increased level of economic activity.

### **The external sector**

The overall result of the balance of payments was negative as the current account deficit (19% of GDP) was not fully offset by the surplus in the capital and financial account (9% of GDP).

The increase in the merchandise account deficit (-4.5%) mainly reflected the underperformance of exports and in particular the contraction of banana external sales in

the Windward Islands (-35% on average in volume terms), which was due to internal difficulties and lower international prices in electrical components in the case of St. Kitts and Nevis and nutmeg (-4%) and mace (-6%), in the case of Grenada.

The positive result in the non-factors services which increased 4.7% in relation to the previous year is basically explained by the recovery in the tourism sector and in particular in stay-over visitors. The factor services outturn was negative as a result of profit repatriation outflows.

The capital and financial account surplus is explained by the rise in foreign direct investment directed to the tourism sector and official grants to the government of OECS member States.

## **II. Other Caribbean countries**

### **General trends**

The economic performance of the rest of Caribbean countries was mixed. Trinidad and Tobago registered the highest growth rate (5.5%) and looks poised to maintain a robust growth path as the energy sector continues to benefit from capital inflows.

Contrarily, Jamaica and Guyana recorded the lowest growth rates (1.5% and 1%, respectively). Jamaica was affected by high government deficits and an unstable currency position. Guyana's growth was hampered by the lack of dynamism of most economic sectors and the burden of its external debt.

For their part, the Bahamas (2%), Barbados (2%), Belize (3%) and Suriname (2.7%) exhibited moderate growth. Their performance is explained mainly, as in the OECS economies, by the recovery of the tourism sector following the events of 11 September 2001. In both economies, visitor arrivals and tourist expenditures increased. Belize's growth was driven by public expenditure and is likely to decline as the deterioration of the fiscal accounts will force the authorities to adopt a contractive policy stance. In the case of Suriname, growth resulted from foreign direct investment in the mining sector and from a disciplined economic policy stance aimed at correcting short-term macroeconomic disequilibria.

The rate of inflation increased in most economies as a result of currency depreciation (Suriname, Jamaica) and higher fuel costs (Guyana, Barbados).

Most economies (with the exception of The Bahamas and Trinidad and Tobago) witnessed an increase in their fiscal deficit. The fiscal situation shaped and, to some extent, determined the monetary policy course of the authorities. Listless or moderate growth in most of these economies allowed the commercial banking system to accumulate liquidity which was used to purchase government debt issued in some cases by the monetary authorities. The increased demand for government paper led to a decline

in the benchmark rates of interest which was transmitted to the lending and loan interest rates.

As with the OECS, the current account deficit rose (again with the exception of Trinidad and Tobago) reflecting a poor performance of merchandise exports and in some cases of non-factor export services. The capital and financial account surplus benefited from foreign direct investment flows, government divestment proceeds, official aid and grants. Guyana recorded the largest current account disequilibrium.

At the regional level the Caribbean Community (CARICOM) economies have continued to perfect the Common Market and Single Economy initiative due to come on stream by the year 2005 by allowing the free movement of labor for certain job categories and creating the Caribbean Court of Justice. In addition, CARICOM economies have agreed to put in place a Regional Stabilisation Fund facility to provide short-term credit to confront macroeconomic imbalances and a Trade Support Fund with the aim of contributing to the economic and commercial stability of the subregion.

For 2004 the picture for most non-OECS economies is bleak. Trinidad and Tobago will continue to register high rates of growth and Barbados and the Bahamas moderate rates of economic expansion. The growth prospects for the rest of the economies are overshadowed by currency concerns (Jamaica and Suriname), macroeconomic disequilibria (Belize and Guyana) and sectoral stagnation (Guyana).

## **1. The Bahamas**

### ***Fiscal policy***

The fiscal position of the Central Government improved as its deficit narrowed for FY 2002/03 with respect to the previous year. The outturn for the first 11 months of FY 2002/2003 shows that the deficit stood at B\$87 million in comparison to B\$93 million for the same period of FY 2001/2002.<sup>2</sup>

The fiscal performance responded in part to the recovery of tourism and economic activity, which boosted tax revenues (4%) and a tight control on expenditures. The fiscal result was not significantly affected by fiscal incentive measures aimed at stimulating the development of selected economic activities.

These measures include the creation of duty free Economic Enterprise Zones to revamp activity in depressed areas. It also contemplates higher levels of exemptions and reduced property tax rates and the suppression of the stamp tax for first homebuyers to foster the construction sector.

The first quarter results for FY 2003/04 indicate that the fiscal imbalance will continue to decline albeit at a moderate pace due in great part to the containment of

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<sup>2</sup> The fiscal year in the Bahamas runs from July to June.

expenditures. Between FYs 2002/03 and 2003/04 the deficit of the Central Government is expected to decline from 3.4% to 2.5% of GDP. Further, fiscal gains are on the agenda of the authorities for FY 2004/05.

The present deficit is financed mainly through external sources and in July the authorities issued a US\$200 million bond with a 30-year maturity period. The debt service to GDP ratio rose from 26% to 31% between September 2002 and September 2003.

The total debt of the public sector stood at B\$2 410 million in September 2003 which represented an increase of 7% in relation to the previous year. The internal and external debt stocks represent 20% and 80% of the total. For its part the foreign currency debt represents 25% of the total debt stock.

### *Monetary policy*

The authorities pursued a tight monetary stance to avoid the continuing deterioration of the balance of payments position. The Central Bank's domestic net assets contracted (-4.1% between September 2002 and September 2003) to offset the liquidity effect of the increase in international reserves (29% for the same period). The authorities also maintained the ceiling on banks' outstanding loans and advances, which was imposed as a preventive measure following the events of 11 September.

As a result the money base declined -1.7% and the narrow and broad money supplies expanded at similar rates as those registered in the previous year (6% and 1.4%, respectively). The rates of interest moved in line with the monetary policy strategy. The weighted loan rate rose from 11.37% to 12.02% between September 2002 and 2003. In response the demand for credit from the private sector slowed from 3.5% in September 2002 to 1.4% in September 2003.

For 2004 the authorities are not expected to change the course of monetary policy reflecting the Central Bank's preoccupation with sound commercial bank supervision.

### *Sectors of economic activity*

GDP grew 2% reflecting a moderate recovery of the tourism sector and a weak performance of the construction sector.

Tourist arrivals increased by 2.7% (3.7% in 2002) as a result of the rise in sea arrivals (4%) mainly to New Providence since arrivals to other destinations (i.e., Grand Bahama) declined. In addition, air arrivals stagnated (0.9%). In the same vein tourism expenditure expanded a paltry 1.7%.<sup>3</sup>

The construction sector registered a lower rate of growth in relation to the previous year as reflected by the reduction in the commercial mortgage commitments for

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<sup>3</sup> The numbers refer to the first nine months of the year.

new construction in number and value (20 and 24 in number; B\$6 483 and B\$4 161 in the third quarter of 2002 and 2003, respectively). Residential mortgage commitments witnessed a similar trend. Single dwellings and duplex and row recorded a decrease in number and value of -16% and -17% in the former and of -49% and -62% in the latter between the third quarter of 2002 and that of 2003. However, the outlook for the sector will improve due to greater than expected foreign direct investment inflows destined for the construction of tourist infrastructure.

### ***Inflation, unemployment and wages***

The rate of inflation increased with respect to the previous year (2.2% and 3.5% in 2002 and 2003) due to higher import prices and in particular imported fuel prices. An analysis at the component level shows that recreation and entertainment services, medical care and health and other goods and services registered the highest rates of increase (14%, 12% and 7%, respectively).

The rate of unemployment which remained at the level of the previous year (9%) reflected the moderate expansion of the economy and the tight monetary stance of the authorities adopted during the course of the year.

### ***The external sector***

In 2003, the result of the overall balance of payments was negative as the surplus in the financial and capital account (B\$95 and B\$373 million in 2002 and 2003) was insufficient to finance the deficit in the current account (B\$300 and B\$150 million in 2003 and 2002). The external gap was financed from the buildup of international reserves due to greater tourism inflows and the increase in external indebtedness.

The merchandise trade deficit narrowed in relation to the previous year (B\$1019 and B\$823 million in 2002 and 2003) as a result of the improvement in export performance and the containment in imports due in turn to the tight monetary stance of the authorities.

The surplus in the services sector (B\$1 085 and B\$888 million in 2002 and 2003) reflected the recovery in tourist arrivals.

The capital and financial account result reflected foreign direct investment in equity and land purchases (B\$42 and B\$29 million, respectively) and other net investment (B\$196 million) which was partly offset by migrants transfers (B\$25 million).

For 2004 the current account is expected to deteriorate due to the increase in imports consequent upon the expected continued recovery of the tourism sector.

## **2. Barbados**

### *Fiscal policy*

The fiscal deficit for the fiscal year 2002/2003 reached 5.4% of GDP due to a marginal decline in expenditure (0.3%) and a moderate increase in expenditure (4.1%).<sup>4</sup> The behavior of the former is explained by decreased revenue intakes in goods and services taxes (4.1%), property taxes (6.6%) and special receipts (12%). That of the latter responded to a rise in current expenditure including wages and salaries (5.7%), goods and services (5.9%). For their part capital expenditures contracted (-6.7%) due in part to the completion of capital projects. The deficit was financed in its majority through domestic sources and in particular by drawing on government deposits at the Central Bank.

The fiscal position of the government as reflected in the 2003/2004 fiscal is expected to yield a lower disequilibrium estimated at 4.8% of GDP. The rise in revenues reflects (4.7% above the collected for 2003-2004) the intakes from the Value Added Tax and excise taxes due a turnaround in economic growth. Expenditure (7.4% above that registered in the previous fiscal year) was determined by interest payments and rises in public sector wages.

The projections for the fiscal year 2004/2005 include an increase in current revenue and expenditure of 2.2% and 3.0% above that recorded for the fiscal year 2003/2004. Contrarily capital expenditures will contract by -18.5% leading to an overall increase in total expenditure of 1%. The overall balance is expected to be positive yielding a surplus close to 16 million Barbados dollars.

### *Monetary policy*

The monetary authorities maintained a cautious course. As the fiscal agent of the government the Central Bank accommodated the needs of finance of the public sector and issued government treasury bills for a nominal value of BB\$130 million. Between the months of January and September the total value of the amount of outstanding treasury bills increased by 17%.

The banking system absorbed the greater majority of treasury bills due to excess levels of liquidity. This was reflected in the accumulation of excess reserves in the banking system which stood at 64% of total reserves in August. The level of excess liquidity resulted from the growth in liabilities and a weak expansion of assets. In particular savings deposits grew 12% while the demand for credit expanded by a meager 4.7%. The demand for loans responded to a moderate and uneven rate of expansion of the different sectors of economic activity. The demand for loans rose in mining and quarrying, distribution, tourism and entertainment and catering. Contrarily it contracted in agriculture, fisheries, manufacturing and transport.

The high demand for treasury bills exerted downward pressure on interest rates. The 3-month Treasury bill interest rate declined from 1.36 to 0.94 between January and August. Following suit the term structure of interest rates in the banking system also

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<sup>4</sup> The fiscal year in Barbados runs from April to March.

exhibited a downward, albeit moderately, trend. The weighted average deposit rate declined from 2.59% to 2.55%. For its part the weighted average rate for total loans declined from 10.42 to 10.17 between January and September.

For 2004, high levels of liquidity are expected to prevail allowing the monetary circuit to function smoothly transferring funds from the financial sector to the central government to cover its finance gap without triggering unwarranted increases in interest rates or money supply. In addition, the Central Bank of Barbados will maintain the present term structure of interest rates and has recommended a lowering of the liquidity requirement of commercial banks and more important the elimination of the requirement to hold government securities.

### *Sectors of economic activity*

During 2003 the rate of economic expansion was led by tourism as most economic sectors stagnated or registered moderate rates of growth.

Sugar agriculture contracted (-12%) due to climatic factors and operational difficulties in some of the factories. Non-sugar agriculture stagnated (-0.3%). Fish catching improved with respect to last year (-7.4% and 7% in 2002 and 2003) but its positive contribution was offset by the decline in milk and chicken production (-2% and -1% respectively).

The performance of manufacturing (0.1%) is explained by the electronics and chemical subsectors (-10% and -5% respectively). In turn, the behavior of electronics responded to the closure of a plant.

Construction maintained the previous year rate of growth (3%) due to a combination of the stagnation in residential building activities and the gradual completion of public sector infrastructure projects.

The tourism sector recovered its traditional impulse (-3% and 6.0% in 2002 and 2003) driven by tourist arrivals (-2% and 6.0% in 2002 and 2003) which are in turn explained by cruise arrivals (-1% and 5% in 2002 and 2003). The performance of tourism is explained in part by the gradual return to normalcy of the tourism routes and activities following the events of 11 September and the active marketing initiatives of the authorities which include the Best of Barbados campaign.

For its part, in consonance with the performance of tourism, transportation, storage and communications and wholesale and retail trade saw an increase in their levels of activity (-3% and 3% and 1% and 3.1% in 2002 and 2003, respectively).

For 2004, tourism is expected to continue to recover. The Hotel Development Act approved and enacted into legislation at the end of 2002, which targets upper niche tourism, should be a key legislation piece enabling the sector to expand according to the plans and expectations of the authorities.

### ***Inflation, unemployment and wages***

The rate of inflation rose from 0.2% to 2% (measured by the consumer price index) as a result of the expansion of economic activity as international prices remained stable. At the component level the major increases were registered in fuel and light, medical and personal care, and food. These were partly offset by declines in household operations and supplies, clothing footwear and alcoholic beverages and tobacco.

The rate of unemployment increased (10.3% and 11.1% in 2002 and 2003) as the jobs created in the tourism, wholesale and retail trade, and transport and communications were more than offset by job destruction in the other sectors of economic activity. Classified by gender category the rate of unemployment of males was 10.2% and that of females 13.1% (10.7% and 12.9% in 2002 respectively).

### ***The external sector***

The overall result of the balance of payments was positive as the capital and financial account surplus (14% of GDP with errors and omissions) more than compensated for the deficit on the current account (6.6% and 8.6% of GDP in 2002 and 2003). As a result the international reserves increased by \$141 million and the import cover ratio remained at the level of the previous year (31 weeks when taking into account both goods and services).

Domestic exports, including sugar, electrical components, chemicals, food and beverages stagnated due to internal conditions (0.12%) in particular as a result of unfavorable climatic factors and technical difficulties and to the closure of a plant in the case of chemicals. For their part the growth in imports (10%) is explained by the expansion in economic activity. By category the main contributors to the rate of growth are consumer and intermediate goods purchases (8% and 12%).

The services account (4.3%) reflects the recovery and dynamism of the tourism sector. For their part current transfers grew by 8% and the income account registered a negative result due to debt payments and profit repatriation.

The surplus on the capital and financial account reflects foreign direct investment inflows to the tourism sector (US\$92 and 158 million in 2002 and 2003), the repayment of a loan by the Government of Barbados granted to a tourism company, and the sale of government's shares in the Barbados National Bank to Trinidad and Tobago's Republic Bank. The last two items correspond to long term public capital inflows which totaled US\$79 million.

For 2004 the current account deficit is expected to remain above 6% of GDP as a result of increased economic activity and the continued under performance of exports. The current account deficit will be covered by foreign direct investment oriented to the development of the tourism sector and by the government divestment proceeds.

### 3. Belize

#### *Fiscal policy*

In the fiscal year 2002/2003 the Central Government managed to reduce its budget deficit to 5% of GDP after it ballooned to 9% of GDP in the previous period due to a policy aimed at aggregate demand expansion through rising capital expenditures.<sup>5</sup> The fiscal outturn in fiscal year 2002/2003 resulted mainly from the significant contraction in capital expenditure (-43%) and to a lesser extent from improved tax revenue performance (8%).

For the fiscal year 2003/2004, the authorities are seeking further fiscal retrenchment from additional cutbacks in capital expenditures and the reduction in the fiscal deficit to 3% of GDP. Capital expenditures financed from local and foreign sources are set to decline by -48% and -24% respectively. In conjunction with an expected increase in tax revenues and in particular in revenues from international trade and transactions (11% and 19%, respectively), the restraint in capital expenditure is expected to offset the rise in current revenue due to wage increases, the narrowing of the tax base and greater social security expenditures.

The fiscal imbalance will be financed mainly from external sources. External sources include US\$125 million raised for debt restructuring purposes and a Bear Sterns bond issue in June for \$200 million, and additional funds from multilateral (US\$34 million) and bilateral (US\$8 million) creditors.

Greater access to external finance means that the stock of external debt will continue on its upward trend. The stock of external debt outstanding rose from US\$556 to 674 million between 2002 and 2003 (January to September) representing an increase of 21%. A similar rate of increase is expected for the entire year.

#### *Monetary policy*

During the year, in greater part due to the increase in the stock of external debt and debt servicing, the stock of international reserves declined. The net foreign assets of the Central Bank, the commercial banks and the financial system as a whole declined -4%, -164% and -49%, respectively, between January and September 2003 weakening the foreign currency backing ratios. The ratios of net international reserve to money base and narrow and broad money supply declined from 19% to 9%; 32% to 27% and 93% to 84%.

The decline in international net assets was accompanied by a slight increase in total net domestic credit (8%) mainly to the private sector (10%) as net credit to the government decreased (-12%). The overall result was reflected in a contraction in narrow and broad money supplies (-10% and -4%, respectively).

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<sup>5</sup> The fiscal year in Belize runs from March to April.

The restraint in liquidity did not translate into an increase in the lending rate of interest in spite of the rise in the deposit rate of interest. The weighted average deposit rate rose from 4.4% to 4.9% between September 2002 and September 2003 while the lending rate remained at level of the previous year (14%). This responded to a cautious attitude on part of the commercial banking system poised to increase their liquidity position and to the slow growth in the demand for loans from the private sector.

### *Sectors of economic activity*

The rate of growth of GDP (3%) reflected the performance of selected agricultural products; that of the fisheries subsector and the continued dynamism of the tourism sector.

The agricultural sector registered a mixed performance. Sugar output declined by 6.7% between the 2001/2002 and 2002/2003 sugar cane harvest, as a result of unfavourable climatic conditions, low farm productivity and the high levels of indebtedness of farmers. Similar factors caused a decline in citrus deliveries (-4.2%).

Contrarily banana production rose in spite of the reduction in the average box price due to improved methods of production, the coordination between the harvest cycle and the market demand for bananas, and a freight penalty for unused cargo space which acted as an incentive to use existing cargo capacity. As well the production of marine products increased as the subsector recovered from pest infestation and negative external conditions.

The manufacturing sector benefited from the increase in output volume and pound price (1.2%) of garments.

Activity in the tourism sector was boosted by total visitor arrivals (58% between January-September 2002 and 2003) mainly explained by cruise ship arrivals (98% for the same period). The explanation lies in the fact that Belize has been able to offer one of the most diversified tourism products in the Caribbean and Central American regions. It includes the traditional beach and sun tourism and the advantages of the second largest barrier reef in the world as well the heritage of the Mayan culture. Belize is also the least deforested Central American Isthmus country and is endowed with a rich and varied fauna.

### *Inflation, unemployment, wages*

Inflation is expected to remain at the level of the same year (2.3%) due to stable international prices, monetary restraint and moderate level of economic activity.

The government announced in February wage increases for public sector employees. The wages increases will be implemented in three phases between the year 2003 and 2005.

### *The external sector*<sup>6</sup>

The overall result of the balance of payments (including errors and omissions) was negative (US\$-7 and -36 million) as the current account deficit (US\$116 and 129 million in 2002 and 2003, representing an increase of 16%) surpassed the capital and financial account surplus (US\$98 and 99 millions for 2002 and 2003, respectively) causing a deterioration in the international reserve position of the country.

The imbalance in the current account is explained by the widening of the trade merchandise deficit (11% in relation to 2002) and the negative result in the income account (12% in relation to 2002). The trade deficit responded to the underperformance of all the major traditional, exports with the exception of bananas and marine products. In turn, the underperformance of exports is explained by unfavourable climatic conditions, low prices, inadequate management, low levels of productivity and the high indebtedness of farmers. The income account result responded to external debt payments.

The non-factor services balance witnessed a significant improvement (US\$39 and 55 million between September 2002 and 2003, representing an increase of 41%) due to the dynamism of the tourism sector. The positive non-factor services balance jointly with the surplus in the transfer account (US\$29 million) were able to finance 69% of the current account deficit.

The surplus in the capital and financial account responded to foreign direct investment flows (US\$19 and 14 million in 2002 and 2003) and most important to foreign currency inflows resulting from international bond issues.

## **4. Guyana**

### *Fiscal policy*

The deficit of the Central Government increased (5.7% and 13.2% of GDP in 2002 and 2003) as a result of increased expenditures (46% and 50% of GDP in 2002 and 2003) as revenues and the tax effort did not experience any substantial changes. Total revenues and the tax to GDP remained at 32% and 29% of GDP, respectively, in spite of a series of measures announced to broaden the tax base and improve tax collection, which include a consumption tax on local telephone calls and an increase in the withholding tax on interest income from 15% to 20%. Capital revenue, constituting a minor part of the total, registered a significant expansion (100%) due to the increase in grants under the under the Highly Indebted Poor Country (HIPC) initiative.

The expansion of expenditures responded partly to the behavior of the capital component (11% and 16% of GDP in 2002 and 2003). Capital expenditures rose as a result of a loan transfer to Guysuco and in spite of the low rate of implementation of the

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<sup>6</sup> Data for the external sector are available from January to September.

public sector investment programmes. Non-interest current expenditures also rose (26% and 29% of GDP in 2002 and 2003) reflecting increases in wages and salaries (11% and 12% of GDP in 2002 and 2003) and in other goods and services (6.8% and 8.2% of GDP in 2002 and 2003). Finally the interest component of current expenditures declined as a result of lower interest charges on the stock of domestic outstanding treasury bills and debentures and the debt relief initiative.

The fragile fiscal situation is aggravated by the deterioration in the cash basis performance of the non-financial public sector resulting from payments by the Guyana Oil Company (GUYOIL) to creditors and increased current expenditure on materials and supplies by other major state companies.

The deficit of the Central Government was financed by domestic sources mainly by issuing treasury bills and, to a lesser extent, by divestment proceeds obtained from the sale of government-owned assets. The imbalance of the enterprises of the non-financial public sector was financed with external resources. Overall the stock of the government's domestic and external debt increased.

For 2004 the authorities have planned to lower the deficit as the current imbalance has raised serious concerns about its sustainability. The external debt is expected to increase from US\$ 1.4 to 1.5 billion.

### *Monetary policy*

During 2003 monetary policy was partly shaped and determined by the fiscal position of the government. As in the previous year the commercial banking system registered important levels of excess liquidity as a result of the low level of economic activity and a very cautious lending stance.

Excess reserves represented 62% and 38% of required and total reserves at the beginning of the year. Moreover total liquid assets saw an increase from the previous year (4% between September 2002 and 2003). This excess liquidity allowed the banking system to retain the majority of the government's treasury bills (60%) issued by the Central Bank to finance the domestic debt. The stock of outstanding treasury bills held by the commercial banking system rose from 24,035 to 35,938 million G\$ representing an increase of 49%.

The higher demand for treasury bills translated into a decline in the bills interest rates. The 91-day Treasury bill rate, the benchmark for other interest rates, declined from 3.91% in December 2002 to 2.84% in August 2003. In a similar vein, the 182-days and the 364-days Treasury bill rates decreased from 4.12% and 4.91% to 3.53% and 3.83% for the same period. The rest of the interest rate terms structure was also adjusted downwards. The bank rate decreased from 6.25% to 5.00% between December 2002 and August 2003. The prime lending rate exhibited a similar trend (16.25% and 14.88% for the same period). The decline in interest rates serves to lower the government's burden of debt service payments and acts as a vehicle to stimulate economic activity.

The growth of monetary aggregates resulted from this monetary policy stance aimed at lowering interest rates. Narrow and broad based money grew by 12% and 5% respectively between September 2002 and September 2003.

The foreign exchange market remained stable and the exchange rate depreciated marginally by 2% during the year.

### ***Sectors of economic activity***

GDP growth (1%) reflected a decline in mining and a moderate performance in the agricultural and manufacturing sectors.

The behavior of agriculture responded in part to the decline in sugar production as a result of climatic conditions which had a negative impact on the growth and the sucrose content of the cane. This translated into a lower productivity in the field and at the factory level. The expansion in output resulted from an increase in the number of hectares sown and favorable harvesting conditions.

Mining responded to a combination of the contraction in gold production, the expansion in diamond output and the recovery in bauxite production. The performance of diamonds is explained by higher concessions, productivity and favorable international prices. Bauxite production responded to technical improvements, retooling and streamlining of production.

Manufacturing reflected insignificant increases in the garment industry and a lower output in the non-durable subsector of the economy. For its part, construction was determined by the low rate of implementations of public sector investment programmes.

### ***Inflation, unemployment and wages***

The rate of inflation (6%) reflected higher fuel costs, stable international prices and nominal exchange rate, and a moderate rate of expansion of the economy as a whole.

Employment declined in the public sector as a freeze on hiring was declared in the public sector and reduced in public owned firms. Available data provides an indication of employment expansion in the livestock, transport and communication sectors.

### ***The external sector***

The overall result of the balance of payments was negative as the current account deficit (17% and 21% of GDP in 2002 and 2003) was not fully financed by the capital account surplus (12% of GDP). The negative overall balance was financed by drawing on the Bank of Guyana net foreign assets and through debt relief assistance.

The merchandise account deficit doubled (17% of GDP) as a result of the stagnant export performance (4%) and the buoyancy of imports (14%) due in part to higher fuel import bill. The performance of sugar exports was hampered by lower international prices while that of rice by lower prices and volume. Contrarily bauxite exports experienced higher international prices and an expansion in the volume sold in international markets.

The service account registered a deficit as Guyana is a net service importer mainly explained by freight and merchandise insurance. For its part the net factor payments rose responding to lower receipts yielded by investments in foreign securities and interest payments on public sector debt. Finally remittances which account for the bulk of the transfer account rose 12%.

The capital account result reflected higher disbursements and a stable level of debt service, corresponding to the non-financial public sector (2% of GDP) and a doubling of the private sector long-term capital inflows (\$44 and 83 million in 2002 and 2003) related to the HIPC debt relief initiative.

## **5. Jamaica**

### ***Fiscal policy***

The operations of the Central Government for fiscal year 2002/2003 yielded a deficit of 7.7% above the established target of 4.4%.<sup>7</sup> The result responded to a rise in the recurrent expenditure of the government (20%) and more specifically in public programmes and wages and salaries (37% and 21% respectively). These, in turn, responded to an unfavourable external environment including adverse terms of trade fluctuations, natural disasters, wage settlements, the adjustment of public pay packages and a rise in the minimum wage. Interest payments (22% with respect to the previous fiscal year and representing 44% of total recurrent expenditures) were determined by the depreciation of the exchange rate which increased the cost of the domestic debt denominated in United States dollars and contractive monetary measures which pushed upwards the interest rate increasing the debt payments denominated in local currency.

For fiscal year 2003/2004, the fiscal deficit is expected to reach 5.5% of GDP. Revenues and expenditures are expected to rise by 25% and 15%, respectively. The aim of fiscal policy is to reduce the debt burden. The debt stock stood at 151% of GDP in March 2003. The high indebtedness ratio is reaching unsustainable levels absorbing a significant part of available resources and constraining the authorities' developmental efforts.

The authorities are planning to enhance the tax revenue intake through a series of measures. These include: broadening the tax base through the prepayment of the income tax by importers and the imposition of a 4% cess on all external purchases; the

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<sup>7</sup> The fiscal year in Jamaica runs from April to March.

implementation of an environmental levy (J\$2.00 per kilogram on imported containers); a rise in the special consumption tax on alcoholic beverages; the rationalization of the tax structure which is applied to imported vehicles; an increase in the stamp duty levied on goods imported by in-bond merchants and rates applied to assets tax of companies.

On the expenditure side, 65% will be allotted to the payment of the debt service while the rest is expected to cover wages and salaries, and capital expenditures. Of total recurrent expenditure, 49% will be allocated to cover interest payments, 20% the costs of the ministries of education, health and national security while the remaining 20% must cover all other expenditures.

Preliminary data for the first seven months of the fiscal year 2003/2004 shows that the fiscal deficit is above the planned target (J\$-24 182.4 and -21 547.8 million actual and provisional respectively excluding loan receipts, divestment proceeds and amortization) due to a smaller tax revenue intake than expected (J\$68,011.8 and 71,277.4 million actual and provisional, respectively). This in turn responds to the stagnation of economic activity and to the delay in the implementation of the announced fiscal measures.

### *Monetary policy*

During 2003, monetary authorities adopted a contractive stance to confront the situation of currency instability which predominated in the first six months of the year and which was particularly prevalent during the second quarter. Monetary authorities used three tools to tame the instability in the foreign-exchange market: international reserves, open-market operations and temporary direct controls.

The currency started to depreciate following the announcement in December 2002 that the expected budget deficit (8% of GDP) would double the programmed (4.4% of GDP). The weighted average bilateral exchange rate (J\$ vis-à-vis the US\$) depreciated 4.7% and 9.4% in the first and second quarter (J\$ 56.24 and J\$59.01 at the end of March and June, respectively). The month that registered the highest exchange rate volatility was May and the exchange rate depreciated 14.6% and 13.1% in the first and second half of that month.

The first quarter of the year was marked by the unsuccessful implementation of several measures including a special deposit requirement of 5% on financial institutions' liabilities with the Bank of Jamaica and a 120-day reverse repurchase instrument with a 30% yield. These measures were superseded by open-market operations and interest-rate hikes (on both short- and long-term instruments) and intervention in the foreign-exchange market. Between December 2002 and March 2003, the 30, 60 and 90 days interest rates on the Central Bank papers rose from 12.95%, 13.05% and 18.25% to 15.0%, 15.30% and 20%, respectively.

In the second quarter of the year the authorities continued to intervene in the foreign exchange market and, at the same time, sought to restore investors' confidence by

announcing their commitment to greater fiscal discipline, obtaining resources to intervene in the foreign exchange rate market by issuing a US\$ indexed government bond and the decision to maintain a tight monetary policy stance through open market operations in spite of the currency's return to relative stability in the month of June.

In the last two quarters of the year the authorities took advantage of the stability of the foreign exchange rate market (the nominal exchange rate depreciated 0.7% while the real exchange rate managed to appreciate 3.0% in the third quarter of the year) and the recovery of foreign currency earning sectors to cautiously lower the rates of interest at the longer time-frame end of the term structure of interest rates. Between March and July the 180, 270 and 365-day Central Bank maturities declined from 33.15%, 34.50%, and 35.95% to 23.90%, 23.75% and 24.00%, respectively.

The behaviour of base money and money supply responded to the authorities' concern over exchange rate stability. The decline in the stock of net international reserves that followed the Central Bank's intervention in the foreign exchange market (US\$1510, 1233 and 1183 million in the months of January, May and September) had a contractive effect on the money base (-8.8% between December 2002 and September 2003 and 0.4% between March and September 2003). Narrow money followed a similar path decreasing -0.8% between September 2002 and 2003.

### *Sectors of economic activity*

GDP growth was positive (0% and 1.5% in 2002 and 2003) as a result of the recovery in the agricultural sector. The rest of the sectors registered rates of growth in line with those of the previous year.

The performance of agriculture (4.2%) responded to the favorable climatic conditions, which permitted the recovery of output from the effects of the May and September 2002 floods. Notwithstanding, export agriculture was affected by the delay in the replanting and lower levels of replanting with respect to that of the previous year of the sugar crop.

As in past years manufacturing output contracted (-1.7%). The behavior of manufacturing responded to the contraction in sugar output, technical difficulties that curtailed output at one of the assembly plants, lack of efficiency and low levels of productivity.

Mining and quarrying (4.9%) reflected increases in production capacity and capacity utilization in alumina refinery plants. Capacity utilization stood above 95% on average for the entire year.

Construction (0.8%) stagnated due to the reduction in public capital expenditure and the completion of infrastructure projects. For its part, the transport, storage and communications sector witnessed an increase in its rate of growth by 3.7% due to higher levels of inbound and outbound cargo, the increase in tourist arrivals and in the number

of ships calling at Jamaican ports, and the expansion in mobile services as a result of greater competition in the communications subsector.

The tourism subsector (6%) reflected the increase in arrivals (above 5% for the year) evidencing the gradual recovery of the sector from the effects following the events of 11 September.

### ***Inflation, unemployment and wages***

The rate of inflation (12%) increased with respect to the previous year. The factors that pushed the inflation upwards included the depreciation of the exchange rate, the increase in the tax base leading to the removal of exemptions for selected products, the increase in fuel and transportation costs in the third quarter of the year and the adjustment of 11% in the minimum wage effective from November 2003.

The rate of unemployment (14.7%) reflected the increase in the level of economic activity with regard to the previous year.

### ***The external sector***

The current account deteriorated (11.8% and 13% of GDP in 2002 and 2003) as the merchandise trade deficit and the negative result in the income account were not compensated by the surpluses in the non-factor services and unilateral transfer balances.

The merchandise trade deficit (24% of GDP) reflected the moderate growth of exports (4%) and the significant increase in imports (10%) responding mainly to the demand for raw materials. External sales reflected in turn the recovery of the agricultural sector from the effects of the May and September (2002) floods and the continued expansion of the mining sector. Import growth responded to the demand for raw materials. The potential growth of exports was limited by the underperformance of the manufacturing sector and in particular by that of the textile and garment subsectors.

The services balance evidenced the gradual pick up of the tourism subsector and, more specifically, the rise in stopover passengers. The income account balance outturn reflected the increase in profit repatriation flows and the payments corresponding to the external debt service. Current transfers driven by private inflows remained at the level of the previous year.

The capital and financial account (21% with respect to 2002) result was determined by a combination of net official investment outflows and foreign direct investment inflows to the services sector and the mining sectors.

## **6. Suriname**

### ***Fiscal policy***

Following a significant increase in the fiscal deficit in 2002 (1.4% and 11% in 2001 and 2002) and a prospect of further deterioration as a result of the implementation of the third and fourth phases of the CARICOM common external tariff (January 2003), the authorities enacted a series of measures to close the fiscal gap.

These included an increase in the threshold of the wealth tax and the introduction of a threshold in the rental value tax and a casino tax consisting of the payment of a set amount per table and per machine. Changes were also made to the threshold income brackets, and the rates of income and sales taxes (effective in December 2002) went up. Sales taxes rose from 5% to 8% for services and from 7% to 10% for goods. These measures geared to narrowing the budget deficit are expected to raise 100 billion guilders in tax revenues. The revenue-enhancing effects were felt in the first three months of 2003 as direct and indirect tax receipts expanded by 81% and 16%, respectively.

As a result of these measures and a prudent control on expenditures (in spite of a wage increase in the electricity sector), the authorities have managed to turn the budget deficit into a surplus (1% of GDP) for the first eight months of 2003. For the entire year, the expectation is a deficit situated within a range of 3%-4% of GDP. The gap will be financed from external sources. The stock of external debt to GDP stands at 33%. The authorities are also looking to improve tax collection and administration to consolidate the fiscal gains.

### *Monetary policy*

The monetary authorities adopted a contractive stance to halt the depreciation of the currency which became a serious source for concern in August 2002. The Central Bank followed a strategy based on quantitative controls accompanied by the manipulation of the money base. Money base growth declined from 32% to -2% between December 2002 and August 2003. At the same time, the Central Bank implemented a reserve requirement on foreign exchange deposits of 17.5%. The objective of this measure was to reduce the incentive for currency substitution and thus avoid a further depreciation of the currency.

The measures succeeded in bringing short-run stability to the guilder as the illegal parallel foreign exchange rate appreciated and tended to converge to the official rate. The official exchange rate (used for the payment of the debt and selected imports such as fuel purchases) of the Guilder to a United States dollar stood at SG 2,650, while the maximum non-official selling rate remained at SG 2,800. In addition, to deepen the confidence of consumers and investors alike the government has announced the introduction of a new currency in January 2004, the Suriname dollar. One Suriname dollar will be equivalent to 1,000 Suriname Guilders.

### *Sectors of economic activity*

Economic activity expanded (2.7% and 0.4% in 2002 and 2003) mainly as a result of foreign direct investment activity in the mining sector.

Agricultural output was affected by adverse weather conditions and lower international prices for some of its major export products, and greater competition from low cost producers.

Mining benefited from increased capacity and new prospective investment projects. These include a joint venture between a United States and an Australian-based firm which will boost bauxite and alumina production and the opening of a new gold mine operated by a Canadian firm. The latter investment project involves an investment close a US\$100 million, which will have a positive impact on the construction sector.

### ***Inflation, unemployment and wages***

The rate of inflation declined (28% and 20% in 2002 and 2003) as a result of the contractive monetary policy strategy adopted by the authorities, stable international prices and the strengthening of the domestic currency.

In 2003, with the exception of a wage increase to workers in the electricity sector (19%), the government did not grant nominal wage increases as a fundamental step to sound fiscal and macroeconomic management. In 2004, the government is also committed to not altering the level of real wages.

### ***The external sector***

The overall result of the balance of payments was positive as the current account deficit (US\$-216 million) was more than offset by the surplus in the capital and financial account (US\$225 million) permitting an increase in the level of international reserves.

The current account deficit widened in relation to the previous year (10% and 20% of GDP in 2002 and 2003), as a result of the growth in merchandise imports (21%). In turn the dynamism of imports is related to the recovery in the level of economic activity (US\$102 and 216 million in 2002 and 2003) and the start of the new investment projects mentioned above.

The capital account (US\$22 million) responded to grants. The financial account result (US\$203 million) is explained by foreign direct investment flows (US\$116 million), non financial public sector disbursements (US\$41.4 million), private sector loans (US\$46 million) and short-term flows (US\$36 million).

For 2004, the current account deficit may decline if the merchandise export performance improves. Imports are bound to grow as economic activity expands and foreign direct investment projects continue to unfold.

## **7. Trinidad and Tobago**

### ***Fiscal policy***

The Central Government registered a surplus for the fiscal year 2002/2003 above that projected (0.8% of GDP) due to higher than expected international prices of oil and its derivatives and the improvement in tax collection.<sup>8</sup> The surplus was transferred to the Revenue Stabilisation Fund. Both sets of factors boosted tax revenues visible especially in the tax earnings from oil companies. For its part expenditures were driven by its most important current component, subsidies and transfers. Capital expenditures registered a decline due to constraints which reigned in the rate of implementation of public sector investment programmes.

The 2003/2004 outturn based on a GDP growth of 4%, an inflation rate of 2.7% and an average oil price of US\$25 per barrel will be negative (1% of GDP). Revenue collection will be affected by a series of fiscal measures which include, among others, the removal of tax on savings, the increase in allowance for pensioners, increase in disability grant and new petroleum pricing arrangements. Expenditures will also rise due to the decision to focus on health, infrastructure and education a part of an overall government strategy to become a developed economy by the year 2020. Health, infrastructure and education are currently key weak areas of the economic development of the country.

During 2004, the government plans to reduce the debt burden, which is high standing at 53% of GDP. Total public debt is almost equally divided between internal and external debt. In 2003 the debt service rose due to the government restructuring programme.

### *Monetary policy*

Throughout most of the year, the monetary authorities adopted a neutral monetary stance. From January to August 2003, the key Central Bank interest rate, the repo rate, that rate at which the monetary authority provides temporary overnight funds with collateral to commercial banks stood at 5.25. In the same vein the basic prime rates remained at 11.50.

In last four months of the year the monetary authorities decided to ease the liquidity conditions in order to stimulate demand and growth in all of the subcomponents of the non-energy sector. As a result the repo and discount rates declined 25 basis points (5.25 to 5.00 and 7.25 to 7.00).

The change in the course of monetary policy responded to fiscal injections of the Central Government and a weak demand for credit. It also responded to an implicit objective of lowering the burden the government debt.

The Central Government's surplus coupled with the re-financing operations of its high cost domestic debt which translated into a two bond issue of 500 million in the second quarter of the year allowed the Government to increase its deposits at the Central Bank (19% between January and September).

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<sup>8</sup> The fiscal year in Trinidad and Tobago runs from October to September.

The demand for credit grew a paltry 1% on average for the calendar year. This is attributed in part to the stagnant growth of some of the subsectors of economic activity (agriculture and manufacturing) and also to the fact that firms financed their activity from internal sources and in particular from retained earnings. The demand for credit partly picked up in the last two months of the year for seasonal reasons and also due to the high levels of growth in the services subsectors.

The foreign exchange market was subject to temporary pressures in the first six months of the year originating in an excess demand for foreign currency as a result of seasonal factors, the need to cover funding gaps and capital transactions. Due to a strong international foreign exchange reserve position, the authorities were able to intervene and neutralize the existing gap in demand. The bilateral weighted nominal rate of exchange of the Trinidadian dollar with the United States dollar barely budged registering 6.2996 and 6.2928 with the United States in January and September.

### *Sectors of economic activity*

Most of the economic impulse originated in the oil sector (9.5% for 2003) due to increased capacity and increased gas production with the coming on stream of Atlantic LNG Trains II and III.

The behavior of the non-oil sector (5.9% and 3.3% in 2003 and 2002) responded to the improved performance of the services subsector and in particular in that of the construction sector. The increase in the latter (13% for 2003) responds mainly to the implementation of the public sector investment programme.

For their part the other sectors of economic activity and in particular those of manufacturing and agriculture stagnated.

### *Inflation, unemployment and wages*

The rate of headline inflation remained subdued at 4% on average for the entire calendar year, which marks a slight decline from the previous year. For its part core inflation, which excludes food prices, registered a 2% increase. The behavior of headline inflation responded to a decline in the rate of increase of food prices with respect to last year, a moderate expansion of aggregate demand and a stable exchange rate.

In line with the robust rate of growth of GDP, the rate of unemployment declined from 11% in 2002 to 10.2% in 2003 despite the restructuring of the sugar industry, which is bound to generate employment losses. During the year, the community, social and personal services, petroleum and gas, and sugar cultivation and manufacturing activities created the largest number of new jobs. Contrarily jobs were lost in the subsectors of finance, real estate and business services, transport storage and communications, private construction and other agriculture.

### *The external sector*

The current and capital and financial accounts registered a surplus (US\$398 and 63 million; 4% and 0.6% of GDP) leading to an accumulation of international reserves (US\$1924 and 2385 million in 2002 and 2003, respectively; 4.9 and 5.6 months of imports for 2002 and 2003, respectively).

Merchandise exports (US\$3 894 and 4 621 million in 2002 and 2003, respectively) reflected the increase in fuel exports (62% of the total) and to a lesser extent in petrochemical exports (15% of the total). For their part, imports (US\$3 701 and 3 911 million in 2002 and 2003) responded to the purchases of raw materials and intermediate goods (55%).

The services account was negative (US\$ -348 million in 2002) as the deficit in the factor services account (US\$-539 million in 2003) more than offset the surplus in the non-factor services account (US\$191 million in 2003).

The capital and financial account surplus was smaller than that recorded in the previous year (US\$339 and 63 million in 2002 and 2003) as foreign direct investment (US\$403 million in 2003) inflows in the energy sector were partly compensated by short term outflows of commercial bank and private sector capital and also of regional bond issues.