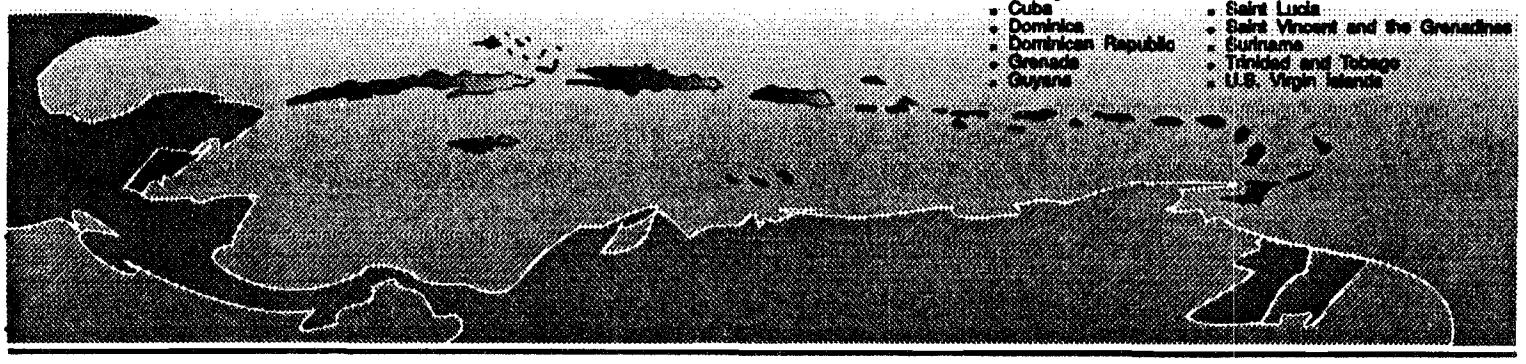
UN ECLAC/CDCC

- Antigua and Barbuda
- Aruba
- Bahamas
- Barbados
- Belize
- Br.Virgin Islands
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Montserrat
- Netherlands Antilles
- Puerto Rico
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago
- U.S. Virgin Islands



GENERAL
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25 June 1996
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SUMMARY OF CARIBBEAN ECONOMIC PERFORMANCE

- 1995 -

UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean
CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE

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OVERVIEW

Economic activity in 1995 was conducted in a context of heightened anxiety as Caribbean governments sought to stabilize their economies, while reducing the protection accorded to them in line with current and anticipated international trading agreements. This shift in policy required that domestic firms increase their productivity, if they were to survive the increased challenge posed by foreign competitors. The challenge faced by Caribbean policy makers was, therefore, broad based, requiring concerted action in macroeconomic, trade and commercial policies. Regional firms also faced a challenge along a broad range of activities, ranging from banana producers, accustomed to a reserved European Union (EU) market, to several industries weaned on protected domestic or regional markets. While the immediate challenge arose because of a declining Common External Tariff within the CARICOM countries, the future promised no respite, but rather an intensified rate of transformation, since the mooted Free Trade Area of the Americas (FTAA) held the prospect of unfettering the trade in goods and services within the hemisphere by the year 2005.

While the issues faced by all countries were, in general, similar, their responses differed quite widely. Some seemed to be trying to apply measures to anticipate and maximize future prospects while others attempted to defend tried and familiar policies which had worked well in the past. Responses varied, in part, as a result of whether such past policies retained credibility or whether they had been discredited and in part, by calculations made by the various countries as to their chances of successfully integrating into wider global markets.

In general, the smaller countries seemed to experience a greater sense of vulnerability in the face of changing international developments and 1995 gave them ample evidence to reinforce these fears. Natural disasters shocked and damaged several economies reliant on a single export earner, while political developments regarding the marketing of bananas in Europe reminded the smaller producers in the Organization of Eastern Caribbean States [1] (OECS) of their inability to secure their commercial interests.

Overall, 1995 was a difficult year for most countries. The smaller OECS countries, which had posted strong performance in the past, seemed to experience increased vulnerability, in part because of the impact of natural disasters. Simultaneously, some of the larger countries, such as Cuba and Haiti, seemed poised for a new phase of growth following a period of protracted economic decline. Guyana had, of course, experienced a similar phase of expansion beginning in 1991 and growth remained quite strong in 1995, though the strong momentum of earlier years seemed to be slowing. Barbados and Trinidad and Tobago, both seemed to be slowly adapting their economies to a more liberalized environment, although while the latter seemed to find new prospects deriving from natural gas and petrochemicals activities Barbados was having greater difficulty in achieving steady growth in export earnings. Jamaica continued a phase of relatively high inflation and low growth, the protracted period of adjustment, together with high debt servicing costs, seeming to sap policy resolve and investor confidence. Loose monetary policy in 1995 rapidly eroded the external account and the exchange rate and threatened to undo past efforts to contain inflation.

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[1] For the purposes of this paper they will be defined as: Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and the Grenadines and Anguilla, not a member of the group but covered by the ECCB and falling within its financial arrangements.

COUNTRY PERFORMANCE

Table 1
PERCENTAGE CHANGE IN G.D.P.
(At constant prices)

	1991	1992	1993	1994	1995
Anguilla	-3.7	7.1	7.5	7.0	-4.3
Antigua/Barbuda	4.4	1.3	3.9	5.5	-3.8
Barbados	-4.1	-4.0	1.0	4.0	2.5
Belize	3.1	9.5	4.3	1.5	3.8
Cuba	-10.7	-11.6	-14.9	0.7	2.5
Dominica	2.1	2.7	1.9	2.1	1.8
Dominican Republic	0.5	6.8	2.3	4.3	4.8
Grenada	3.6	1.1	-1.2	2.6	2.8
Guyana	6.1	7.7	8.2	8.5	5.1
Haiti	-0.8	-14.3	-5.1	-12.2	4.0
Jamaica	0.7	1.4	1.4	0.8	0.5
Montserrat	-23.4	1.3	1.9	-0.8	-2.9
St. Kitts/Nevis	3.9	3.5	5.0	5.5	3.4
St. Lucia	2.8	7.1	2.3	2.1	4.1
St. Vincent	3.1	6.5	1.1	-1.2	7.4
Trinidad/Tobago	2.6	-0.5	-1.2	4.7	1.9

SOURCE: ECLAC, derived from national data

The rate of economic expansion slowed for most Caribbean countries and for three of them the vagaries of nature, in the form of hurricane damage in Anguilla and Antigua and Barbuda, or the dislocating effects of an active volcano in the case of Montserrat, caused their economies to contract. Conversely, the economies of Cuba and Haiti demonstrated renewed vitality. The former country seemed to be expanding after a period of protracted policy adjustment and structural change, the latter relieved from the dampening effects of the economic embargo, which was lifted following the restoration of the legitimate government deposed by coup d'etat in 1991.

For those countries falling within the ambit of the **OECS**, the policy challenge was to increase productivity in traditional exports, especially in bananas where preferential arrangements were being challenged, to diversify economic activities, preferably into export earning industries and to expand their tourism industries in a sustainable fashion, given their limited carrying capacity. Fiscal accounts also required revision, to make revenues less dependent on import taxes and secure a more stable source of revenues for national development without creating disincentives to industry. For the countries as group aggregate Product expanded by about 3.5 per cent. This reflected a steady decline

from 5.2 per cent in 1992. Nevertheless, actual country performance varied quite widely. Some countries, such as Saint Vincent and the Grenadines and Saint Lucia, which had experienced poor performance over the previous two years, reversed the trend, to record strong performance in this survey year. Expansion was based on expansion in agriculture and tourism. Conversely, Anguilla and Antigua and Barbuda, both strong performers in the period 1993-1994, experienced shocks to their economy and serious declines in their tourism sectors and, consequently, in output. Others, such as Dominica and Grenada, continued their modest performance, with Dominica showing a slightly slower rate of expansion consequent on declining agriculture performance. Conversely, Grenada experienced a slightly faster rate of growth, led by agriculture, since tourism performance was weak. Montserrat, meanwhile, suffered its second year of economic contraction, reflecting the uncertainty and dislocation caused by its sporadically active volcano.

The remaining CARICOM countries all recorded reduced performance over 1994, although Guyana continued to experience strong economic expansion. Growth slowed in **Guyana**, because of an industrial accident in the gold sector, one of the major contributory factors to recent Guyanese economic recovery, which set back production. Nevertheless, agriculture performance remained strong, despite a decrease in sugar, with rice, livestock and forestry activities all expanding. Both manufacturing and the services sectors also expanded. Strong real sector performance allowed the current deficit of the balance of payments to narrow although amortization payments increased the overall deficit, while the current fiscal balance strengthened allowing increased capital spending. Inflation was also contained, to half of that recorded for 1994.

In **Trinidad and Tobago**, minimal growth in the petroleum sector and a decline in export agriculture accounted for slower economic expansion, but while the petroleum sector had a flat year the non-oil sector expanded by 2.5 per cent, ensuring a second consecutive year of growth. Tight fiscal and monetary policies underpinned real sector performance to ensure fiscal and balance of payments surpluses, while both the rate of inflation and the rate of unemployment fell.

In **Barbados**, the rate of expansion achieved in 1994 was not replicated, because of weaker performance in the sugar subsector and modest growth in tourism. Despite these setbacks, however, non-sugar agriculture and industry demonstrated unexpected vitality and merchandise exports expanded. The balance of payments deteriorated, however, because of increased demand, credit to the private sector expanding by almost 40 per cent and this had to be curtailed by increased interest rates in the second half of the year. Fiscal policy was, however, restrained and so was inflation, which increased over the previous year but still remained low. The level of unemployment also fell.

Jamaica continued to experience economic instability in 1995. Hard won stability regained in the latter part of 1994, spilled over into the first part of 1995, with declining rates of inflation. Credit was subsequently eased, however, with the objective of stimulating the economy, M_2 expanding by 38.5 per cent over the year. Increased credit, together with large wage increases granted to public and private sector workers and strong private transfers, which increased by 16 per cent, all served to increase demand. The effect was to quickly erode the external account, depreciate the currency by 16 per cent and reverse the trend towards lower inflation. In the first six months prices increased on average by 1 per cent per month, but accelerated to 2.7 per cent per month for

the remaining six months. Overall, economic performance was sluggish, expansion averaging less than 1 per cent, which was consistent with the average for the period 1990-1994. The listless performance in 1995 was to be explained, in part, by the aforementioned difficulty being experienced to stabilize the economy and contain inflation, in part by the cost of servicing the outstanding debt and in part by poor real sector performance, notably in manufacturing and mining.

Economic performance quickened in **Belize**, however, benefiting from strong performance in agriculture, up by almost 8 per cent, manufacturing, up by over 4 per cent, public utilities and services, both up by over 3 per cent. Export earnings were, therefore, strong and imports contained so that the overall external balance achieved a surplus. Fiscal performance continued to be problematic, for although the deficit narrowed this was achieved by reduced capital expenditure. A revised tax system was introduced towards the end of the year to include the introduction of a Value Added Tax, and measures were applied to reduce current spending. Inflation increased marginally, though still remaining low.

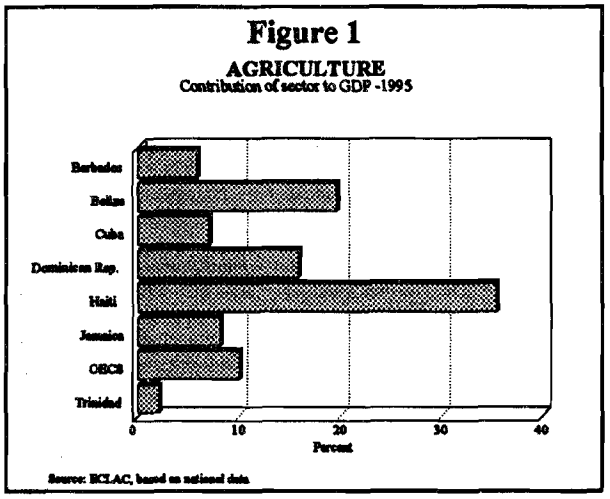
Among the non-CARICOM countries surveyed, strong performance was once again recorded in Aruba, where tourism continued to provide the engine of growth. In **Cuba**, the economy seemed to have overcome its most difficult phase of adjustment. Output also seemed to have passed its nadir, growth accelerating for the second year, based on expansion in the agriculture, manufacturing and tourism sectors. Imports were able to expand significantly financed by inflows from tourism and private capital flows from foreign direct investment. Attention was also being paid to the fiscal account, the deficit falling significantly as transfers to loss-making public enterprises were curtailed and taxes levied on the self employed increased. Local markets were taking some time to consolidate and prices remained volatile while unemployment was estimated officially at 7 per cent as workers shifted to newly dynamic sectors.

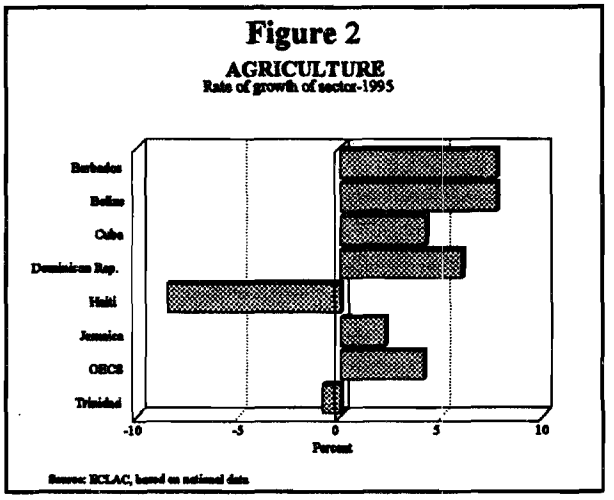
In the **Dominican Republic**, growth accelerated over 1994, as policies to stabilize the economy took hold. Expansion was broad based with several sectors, notably tourism, agriculture and minerals recording strong performance. Both exports and imports increased rapidly, but services earnings were also up so that sufficient current earnings were available to offset the small deficit on capital account and permit an expansion in the reserves. Fiscal policy remained tight, the erosion on the current account being offset by reduced capital spending to secure a small surplus. Monetary expansion was not as well contained, however, M_2 expanding by 21 per cent compared with 9 per cent in 1994.

A measure of economic expansion resumed in **Haiti** for the first time since 1990, Product having contracted by one third during the ensuing years. Renewed activity followed the lifting of the economic embargo with capital inflows stimulating various services, notably construction. Agriculture, however, continued to suffer from previous years of neglect and contracted further in 1995. The balance of payments benefited by increased exports, but increased inflows much of it in the form of grants-in-aid explained the greatly augmented imports. They also bolstered current and capital spending thus affording a more sizeable budget. Debt consolidation and the monetization of outstanding arrears also paved the way for new flows from multilateral financial institutions to finance development projects and replenish the reserves.

SECTORAL PERFORMANCE

The **agriculture** sector performed well in most countries. Exceptions were to be found in Haiti, where the sector contracted severely and in Trinidad and Tobago. In Barbados, reduced sugar performance was, however, offset by non-sugar agriculture which recorded strong increases. The OECS countries, taken as a group, returned a fair performance in agriculture. Within the group, however, Dominica experienced a devastating year, hurricane damage wiping out the banana crop and reducing the contribution of the sector by 8 per cent.





Taken as a group, the OECS recorded moderate agricultural expansion in 1995. Yet aggregates concealed immoderate divergences in performance. Saint Vincent and the Grenadines recorded significant increases in agriculture, mainly because banana output grew in excess of 60 per cent. The contribution of the sector expanded from 10 to 13 per cent of Product after three years of contraction. In addition to banana rehabilitation, efforts were also being made to diversify agricultural production into other areas for domestic consumption and for exports; but the results were mixed. Several crops increased output but arrowroot production experienced difficulties in harvesting which adversely affected the production of starch. More modest expansion was also evident in Saint Lucia, up nearly 10 per cent and Grenada, expanding by almost 7 per cent. Following two years of contraction the sectoral expansion experienced by Saint Lucia was attributable mainly to the recovery in bananas, but other non-traditional crops also recorded increases. In Grenada, the increase in agricultural output was attributable to a 50 per cent increase in cocoa and a 20 per cent increase in nutmeg, both crops recovering from previous declines. The sector contracted slightly in Montserrat, by 1.2 per cent and significantly in Dominica, by over 8 per cent. Natural phenomena explained both declines.

The diversified agricultural base in Belize recorded a strong performance in 1995, primarily because of a 53 per cent increase in citrus production. Sugar output fell by 15 per cent as a result of cane fires and banana production also fell, but several domestic crops posted increased outputs. Agricultural expansion in Jamaica continued for the sixth consecutive year, although the rate of expansion has been declining. Growth was underpinned by non-traditional exports which expanded by over 5 per cent. Traditional exports also expanded, notably bananas, for while sugar production declined slightly sugar exports increased. In Trinidad and Tobago, export agriculture recorded a reduced rate of expansion at 2 per cent. Conversely, domestic agriculture recovered from declines in previous years to expand by almost 5 per cent. The decline in sugar production, down by 8 per cent, was too severe to be offset by fairly strong expansion achieved elsewhere in agriculture. Accordingly, the sector as a whole contracted by almost 1 per cent.

In Cuba, sugar cane production continued the steep decline commenced in 1990, to fall a further 17 per cent between 1994 and 1995. Non-sugar agriculture, mainly domestic food production, continued to expand, however, so that the sector as a whole posted an expansion for the first time since 1989. At that time agriculture accounted for about 10 per cent of Product, but in 1995 it barely reached 7 per cent, although up from a low point of 6.8 per cent in 1994. In the Dominican Republic, agriculture expanded despite the contraction in the sugar industry. Other exports, such as tobacco coffee and cocoa, posted gains but these were insufficient to offset the losses from sugar so that export agriculture declined by 2 per cent. Conversely, domestic agriculture expanded by 16 per cent. In Haiti, agriculture accounted for about one third of Gross Domestic Product. The sector contracted severely in 1995, following a trend since 1990. Contraction in 1995 was to be explained by the legacies of unrepaired hurricane damage from late 1994, shortages of agricultural inputs, insufficient investment in plant and equipment and poor infrastructure. Production of sugar cane, rice, bananas and coffee were all down, as were other basic foodstuffs.

Bananas

The banana industry was buffeted by uncertainty over its future marketing arrangements in the EU and by unpredictable weather conditions. The latter factor caused large swings in the fortunes of several producing countries, although in aggregate, export volumes and earnings of CARICOM countries were up by 7 per cent and 8 per cent, respectively. The subset of OECS countries performed somewhat better, although the partial recovery experienced in 1995 should be seen in the light of two previous years of contraction. For the OECS countries export earnings from bananas grew by 10 per cent, in response to a 13 per cent increase in the volume of fruit shipped.

Within the OECS, performance was mixed, reflecting the vagaries of the climate and specifically the impact of hurricane damage in Dominica. The strongest performance was recorded by Saint Vincent and the Grenadines, which recorded an increase in export earnings of about 54 per cent. This reflected an almost complete recovery from poor performance caused by adverse weather in 1993 and 1994 but was still below 1992 performance. Similar circumstances explained the recovery in Saint Lucia, where earnings, which expanded by 11 per cent, were insufficient to counteract two

Table 2
BANANA EXPORTS

	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
	Value (US$m.)					Volume ('000 tonnes)				
Belize	7	10	17	23	22	23	31	43	53	44
Dominica	30	30	24	21	17	56	58	55	43	32
Grenada	4	3	2	2	2	7	5	5	5	5
Jamaica	45	40	36	46	48	75	77	77	79	85
St Lucia	54	57	51	43	47	101	133	120	90	104
St Vincent	33	38	23	15	23	63	77	58	31	50

Source: ECLAC, based on national data

years of decline of 25 and 10 per cent, respectively. The most seriously affected producer was Dominica, where output ceased in the last quarter of 1995. Earnings fell by almost 20 per cent in 1995, the third consecutive year of contraction.

In Belize, exports were adversely affected by unseasonably dry conditions in the first half of the year, followed by flooding and inadequate irrigation, which destroyed almost 20 per cent of the crop. Industrial disputes in the industry further hampered production. Nevertheless, because of the inability of several of the Windward Island producers to meet their EU quotas, Belize was able to export a further 12 per cent by volume, consequent on their reallocated quotas. In Jamaica, favourable weather, improved technology and better management all contributed to the over 8 per cent increase in export volumes. Productivity was also improving in the major plantations, with the exportable yield per hectare increasing.

Overall, the year was one of mixed fortunes. The Windward Islands producers were unable to meet their quotas to the EU and also experienced problems in maintaining appropriate quality. Prices received by them fell by 11 per cent because of declining fruit quality. All Caribbean producers, moreover, face the prospect of having to compete freely for the European Market, consequent on pressure being put on the EU, via the World Trade Organization (WTO), by the United States and hemispheric producers. The challenge facing Caribbean producers is to sustain a stable output of high quality fruit, at a price which will be sufficiently competitive on global markets.

Sugar

Sugar producers within CARICOM continue to benefit from preferential sugar prices for their exports to the United Kingdom market. In 1995 these producers benefited from a 10 per cent increase in the average realized price, which rose to US$ 670 per tonne, compared to US$ 607 per tonne in 1994. This was considerably above world market prices in 1995, which averaged about US$

Table 3
SUGAR EXPORTS

	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
	(Value US$m.)					(Volume '000 tonnes)				
Barbados	31	33	28	30	26	53	52	49	50	39
Belize	42	38	41	40	48	103	90	90	93	92
Cuba <1>	...	...	...	...	...	760	700	430	400	330
Dominican Republic	167	115	112	117	103	319	321	320	348	306
Guyana	90	134	116	116		150	230	237	...	
Jamaica	87	83	99	76	98	151	139	150	126	145
Saint Kitts/Nevis	11	13	14	12	13	18	20	21	19	19
Trinidad/Tobago	31	32	27	29		57	59	51	57	69

Source: ECLAC, based on national data
<1> Refers to output

390 per tonne. Despite this preference, several producers were unable to meet their contractual obligations and the industry continued to contract. Contraction was not restricted to CARICOM producers, however, the decline in sugar output being most dramatic in Cuba.

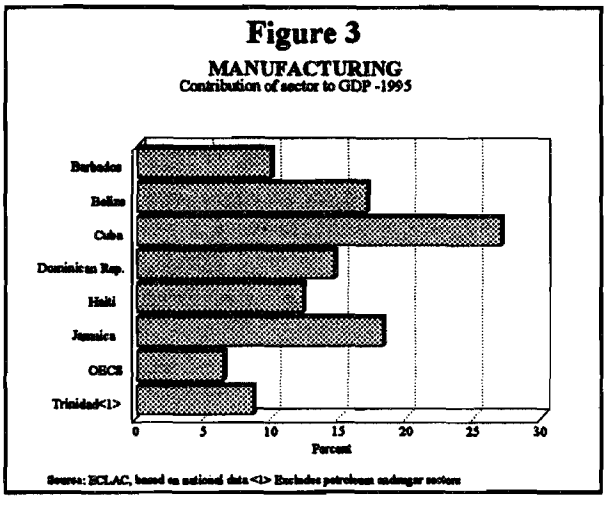
Contraction of **Barbados'** sugar output continued in the survey year, production being less than one third of that achieved in 1980. It fell by over 20 per cent in 1995, the total now being 28 per cent below the volume necessary to meet export obligations. Accordingly, Barbados had to claim *force majeure* in an effort to defend its preferential quota. Conversely, the industry performed creditably in **Belize**, for while sugar cane deliveries declined slightly, sugar output remained the same since conversion rates improved. Total exports declined marginally, although the quantities sold under preferential arrangements increased. This was made possible by the temporary reallocation of unmet export quotas from other deficient producers. Increased volumes to preferential markets, together with increased preferential prices accounted for increased earnings in excess of 18 per cent. In **Jamaica**, the volume of cane milled and the output of sugar derived therefrom declined slightly, although the volume and value of sugar exported increased by 15 per cent and 30 per cent, respectively. Despite this increase, Jamaica did not meet its full quota allocation of 156,000 tonnes for 1995. Exports from **Saint Kitts/Nevis** increased slightly, all being sold on the United Kingdom market where favourable prices and exchange rate movements increased earnings by over 12 per cent. Like several other producers sugar output in **Trinidad and Tobago** was not as buoyant as in 1994, explained, in part, by unfavourable climatic conditions. Notwithstanding the fall in production, export contracts were all met from existing high inventories, so that the volume exported and the earnings derived therefrom both increased.

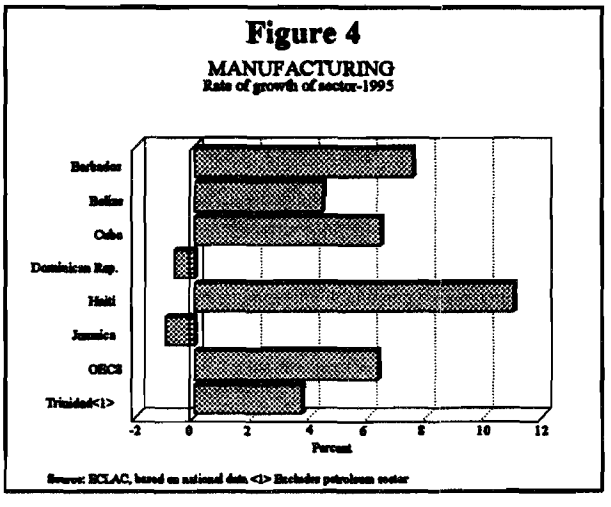
The largest Caribbean sugar producers remain Cuba and the Dominican Republic. Like other Caribbean countries, they also faced an industry in turmoil where complex marketing arrangements

ensured that only a small part of production was freely traded. Moreover, the world market price could seldom cover production costs. Since the collapse of its preferential arrangements within the Council for Mutual Economic Assistance (CMEA), **Cuba** has had to cope with severe shocks to the economy as a whole, from which the sugar sector was not immune. This was evident in the collapse of sugar production from 8 million tonnes in 1990 to one-half of that figure in 1994. Output fell by a further 17 per cent in 1995. Efforts were being made to revitalize the industry, special credits being made available within the constraints facing the economy as a whole. Nevertheless, a return to previous levels of production seemed neither likely nor justifiable, although output for 1996 was projected to increase to 4.5 million tonnes. The industry also faced a challenge in the **Dominican Republic**, with the volume of sugar cane harvested in 1995 being 25 per cent below that reaped in 1991. Crude and refined sugar output fell by 17 and 11 per cent, respectively, compared with output in 1994. Export receipts from sugar fell by 12 per cent. The industry faces problems of competitiveness, insufficient investment to replace outdated plant and equipment and institutional problems with the State Sugar Council.

Manufacturing

Manufacturing constitutes a relatively small portion of most Caribbean economies, its contribution to Product only rarely exceeding 15 per cent. It is based essentially on three categories of enterprise, those derived from agro-processing, those enterprises intended to serve the local or regional market and new activities, often in free-zones intended essentially for export. The first set





of activities ebb and flow with the tempo of agricultural production and are generally stagnant, since for the most part traditional agricultural production is stagnant. The second set of activities were spawned under high levels of protection, for the regional CARICOM market or for national markets in the larger islands. Many of them are now facing stagnation and decline as they find it difficult to expand globally or even to satisfy domestic needs, as markets are opened to external competition. The third set of activities, essentially assembly-type operations often in free-zones, produce for

international markets. These enterprises, which are relieved of many of the disincentives of the old manufacturing regime, although still fragile, manifested strong dynamism and expanding output.

In **Barbados**, the manufacturing sector expanded for the second consecutive year, although this must be seen in the light of a decline for the previous four years, averaging 4.9 per cent. Indeed, the output of the sector did not match that of 1989, or the period 1978-1981 when CARICOM trade was highest. These facts hinted at the difficulty being experienced, by essentially traditional activities in transforming themselves to the new circumstances. Output increased in the categories relating to food processing, beverages, chemicals, petroleum products and other non-metallic minerals.

In **Belize**, manufacturing is essentially related to agro-processing. Almost uniquely, Belize has experienced strong growth in agricultural output, with good productivity. In 1995 growth in manufacturing derived mainly from the increased output in citrus, from which citrus concentrates and juices were produced.

In **Cuba** the manufacturing sector is quite significant, being more extensive than in other countries. No doubt this is in part because of a potentially large domestic market which is still relatively highly protected. Export penetration is not so far evident. For 1995 the sector, excluding sugar production, showed some new vitality, although its contribution in constant prices was still almost 30 per cent below that of 1989. Basic production of fertilizers and cement showed new life but chemicals, lubricants and packaging products continued to contract. Energy remained a basic constraint, for while domestic petroleum production was increasing, to 1.5 million tonnes, it constituted only 20 per cent of total current availability. Moreover, the 7.5 million tonnes of petroleum and derivatives available in 1995 was scarcely more than one half of that consumed in 1988.

In the **Dominican Republic** manufacturing contributed nearly 15 per cent of Product in 1995, slightly less than its share in 1980. Its contribution to Product declined in 1995. As was the case in several other Caribbean countries, the manufacturing sector manifested dual characteristics. The traditional activities stagnated in 1995, although the export processing activities showed strong growth. At the end of 1995 there were 506 free-zone enterprises, 30 more than in the previous year, representing an increase in investment of 8 per cent. They currently employed 8 per cent of the labour force and increased their foreign exchange earnings of 20 per cent over 1994.

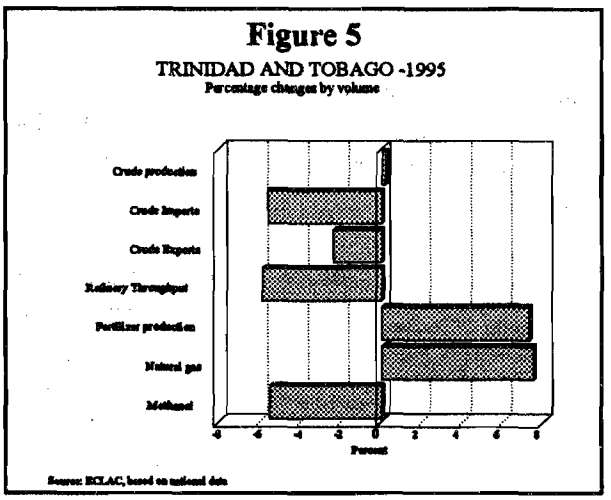
In **Jamaica** the manufacturing sector contracted slightly in 1995. Factors adduced for this included reduced protection, deficient infrastructure, regulatory impediments, crime and industrial unrest. Simultaneously, manufacturing exports increased by 12.3, credit to the sector expanded and the imports of machinery and equipment increased. Gross export earnings from the free-zones increased by almost 10 per cent, inflows to the local economy from free-zone activities were up by 26 per cent. Taken together, these indicators suggested an industry in transition, where traditional protected sectors were experiencing difficulties in making the transition to greater productivity, while some non-traditional export activities were expanding their export penetration. Nevertheless, it appeared that further work was necessary to improve the business climate.

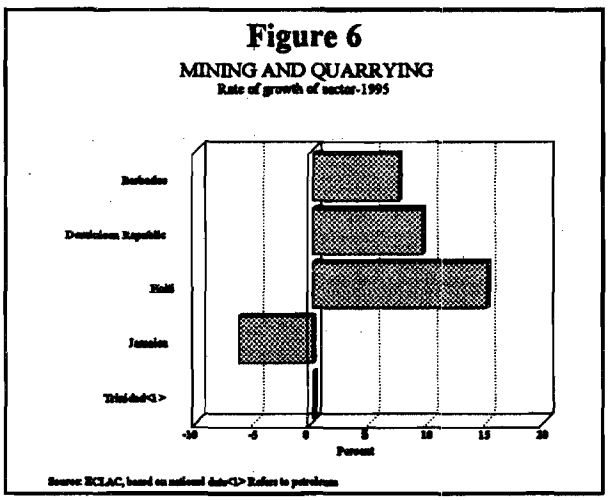
Manufacturing activity in the **OECS** countries was concentrated mainly on agro-processing, garments, beverages and the assembly of electronic components. The sector faced constraints of small market size and low productivity and like several manufacturing activities in other Caribbean countries was particularly vulnerable to market liberalization. Nevertheless, it grew by about 6 per cent in 1995, following a 2.5 per cent contraction in the previous year. Manufacturing output increased in six member countries, notably as a result of soap production increasing in Dominica and paper products and alcoholic beverages in Saint Lucia, where the sector rebounded after contraction in 1994. Rice processing also increased in Montserrat. The sector contracted, however, in Antigua and Barbuda and in Saint Vincent and the Grenadines, the former country suffering general dislocation as a result of hurricane damage.

Manufacturing[2] in **Trinidad and Tobago**, showed further expansion, although the rate of expansion did not match the 18 per cent growth of 1994. Nevertheless, the expansion was broad-based, assembly and related industries expanding by 15 per cent, printing and paper up by 10 per cent and food processing, up by 6 per cent. Declines were also recorded, however, in drinks and tobacco, down by 3 per cent and garments and footwear by 1 per cent. Overall, the sector seems to be weathering the shift to a more open economy relatively well.

Minerals

The petroleum sector accounted for about 28 per cent of GDP in **Trinidad and Tobago** in 1995. Following a 8.2 per cent expansion in 1994, recent performance of the sector was somewhat subdued, with growth of 0.1 per cent. The contribution of oil to the economy actually contracted slightly, by 0.3 per cent, following growth of 6.2 per cent in 1994. This reflected declines in exploration and production, refining and service contracting activities, consequent on the maturation





[2] Excluding oil and sugar activities.

of east-coast fields, the suspension of operations in another major south-coast well and widespread industrial unrest. The petrochemicals subsector expanded by 3.1 per cent, but again this performance was overshadowed by the 25 per cent expansion in 1994. Towards the end of the year a new methanol facility commenced construction, with operations to begin in 1996, at which time a new ammonia facility is also expected to come on-stream.

Mining and quarrying accounted for almost 9 per cent of Product in **Jamaica**, down slightly from the previous year. This was explained by a 6.5 per cent contraction in the bauxite and alumina subsector, following industrial unrest and other operational problems. Total exports declined in volume by about 7 per cent, although alumina shipments increased. Prices were buoyant throughout the year, however, so that the gross earnings of the industry as a whole increased by about 16 per cent.

Table 4
BAUXITE - ALUMINA EXPORTS

	Value (US$m.)					Volume ('000 tonnes)				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
Bauxite										
Guyana	82	54	73	77	83	1254	841	841	1902	
Jamaica	113	89	84	72	72	4261	4128	3917	3649	3547
Alumina										
Jamaica	543	471	440	537	632	3032	2941	2943	3326	3045

Source: ECLAC, based on national data

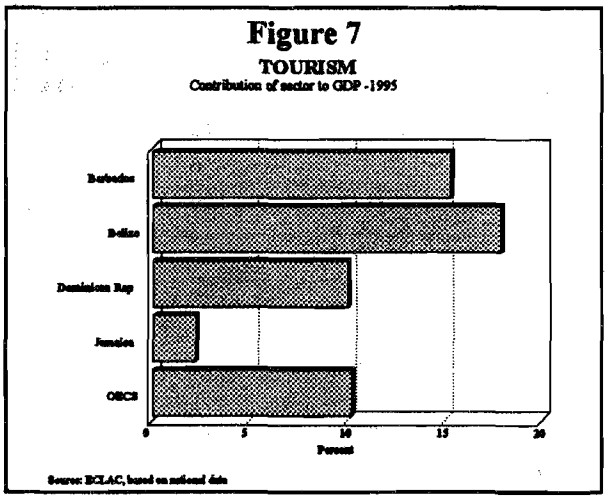
Minerals are of declining importance to the economy of the **Dominican Republic**, with the demise of the bauxite/alumina industry, falling from over 5 per cent of Product in 1980, to the current 3.3 per cent in 1995. Nevertheless, the sector expanded by almost 10 per cent in 1995 since the production of ferro-nickel, gold and silver all increased.

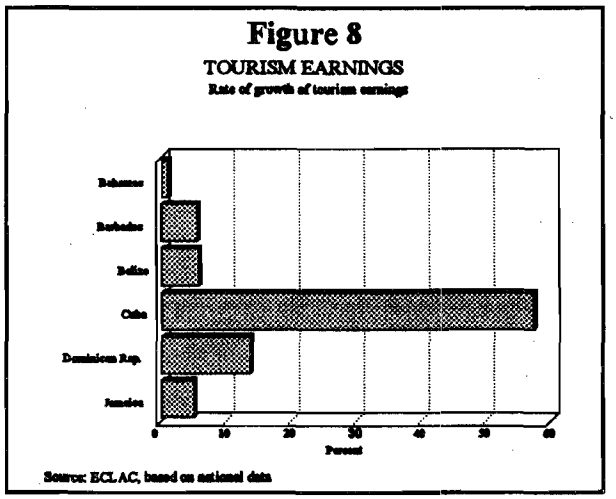
In **Cuba** minerals contributed scarcely one per cent of Product in 1994, although its contribution is expected to increase slightly in 1995, as a result of increases in the output of petroleum, natural gas and ferro-nickel. Foreign investment in the sector was strong, accounting for 13 per cent of foreign investment agreements since 1988. The intense search for petroleum and natural gas continued in 1995, in conjunction with the participation of foreign investment. This has been a priority, in an attempt to relieve the foreign exchange constraint faced by the Cuban economy since the late 1980s. A 15 per cent increase in the output of hydrocarbons was achieved in 1995, though this still only met a small part of potential requirements. Nickel was also a useful earner of foreign exchange, accounting for about 20 per cent of goods exports in 1995. Production of nickel

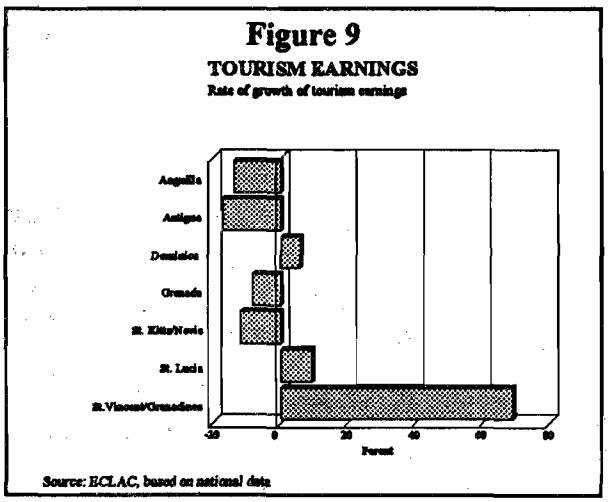
expanded by almost 60 per cent in 1995, after several years of decline, so that current output was only marginally below the peak year of production in 1989.

Tourism

Tourism provides a major source of foreign earnings in most Caribbean countries. Indeed, those countries without growing tourist industries constituted the exception, namely Guyana, Suriname and Trinidad, although tourism was the main source of activity in the twin island of







Tobago. Until the mid- 1980s tourism was not given high priority in Cuba, but since the collapse of trading relations with the CMEA, tourism has proved, as it has in several other countries in the Caribbean to be the single most dependable source of income and the industry has been providing the engine for new growth.

Stopover arrivals increased only marginally throughout the Caribbean. After a slow start in the first quarter of the year, arrivals picked up in the second and third quarters, so that the period January to October recorded a 4 per cent increase for the region as a whole. However, hurricane damage to several major destinations had its impact towards the end of the year. While some reallocation was made to unaffected destinations, the aura of uncertainty hovering over the Caribbean, after three severe hurricanes in rapid succession, had an adverse impact on perceptions of the readiness of the region to welcome guests. Consequently, arrivals were down in the final quarter of 1995.

Table 5
STOPOVER TOURIST ARRIVALS
(Thousands)

	1991	1992	1993	1994	1995
Anguilla	31	31	37	44	39
Antigua/Barbuda	182	194	221	235	191
Aruba	501	542	562	582	614
Bahamas	1427	1399	1489	1516	1598
Barbados	394	385	396	426	442
Belize	65	84	101	106	112
Cuba	418	455	544	617	742
Dominica	46	47	52	57	60
Grenada	92	88	94	109	109
Jamaica	845	909	979	977	1019
Montserrat	19	...	23	21	18
Netherlands Antilles	803	826	789	888	767
Saint Kitts/Nevis	84	88	86	94	89
Saint Lucia	160	177	195	219	231
Saint Vincent / Grenadines	46	53	57	56	60
US Virgin Islands	682	658	729	683	562

Source: CTO

The OECS countries, experienced a 4 per cent reduction in stopover arrivals. The most seriously affected among them were Antigua and Barbuda, with stopovers down by over 18 per cent, Montserrat, down 17 per cent consequent on volcanic activity in the island, and to a lesser extent Saint Kitts/Nevis, down about 6 per cent. In all instances, arrivals were strong in the first half of the year but recorded drastic declines after the hurricane season. Some OECS destinations, however, benefited, such as Saint Lucia, with arrivals up by about 6 per cent. Dominica and Saint Vincent and the Grenadines both also recorded 7 per cent increases. Cruise passenger arrivals were up in all the OECS countries, notably in Saint Vincent and the Grenadines, up by almost 47 per cent. Taken together with its good performance in stopover guests, earnings from tourism were especially strong in Saint Vincent and the Grenadines. Total visitor arrivals for the OECS, including the cruise passenger component, increased by about 4 per cent in 1995. This was a reasonable performance given the incidence of natural disasters, although the rate of increase was slower than the increase in 1994, which was about 10 per cent.

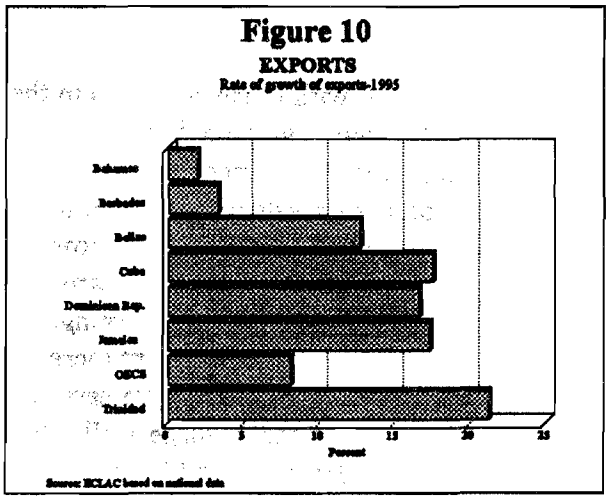
The rate of increase in stopover arrivals was modest for the larger CARICOM countries. For example, the overall increase in Barbados was under 4 per cent, despite benefiting from the hurricane damage in other adjacent countries. Performance in the early part of the year was weak, a decline of 2.5 per cent being recorded in the first quarter, although the remainder of the year experienced a 7.5

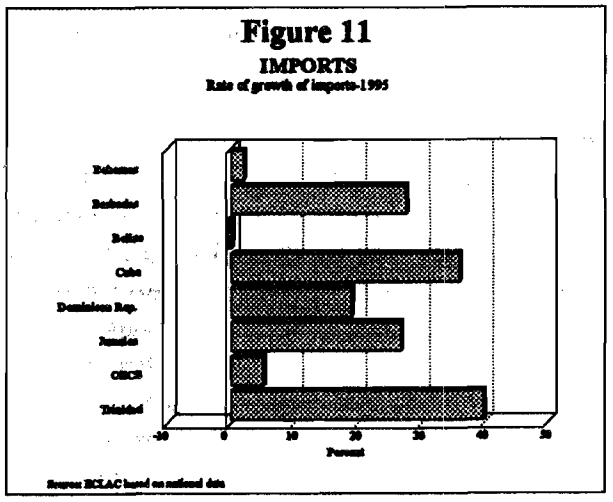
per cent increase. Similiar trends were evident in the Bahamas and Jamaica, both of which had increases in stopover tourist of about 5 per cent. Performance in both cases was weak in the first quarter of 1995, with increased arrivals being recorded towards the end of the year.

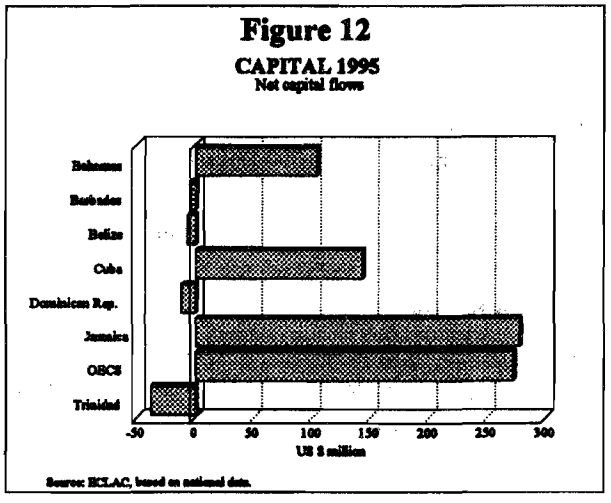
Among the non-CARICOM countries performance was mixed, with those countries in the hurricane belt suffering severe damage and being able to accommodate fewer visitors. Most affected were Anguilla, down by 12 per cent, the United States Virgin Islands, down by 18 per cent, and Saint Maarten, having decreases of over 18 per cent and consequently reducing arrivals to the Netherlands Antilles as a whole, by about 14 per cent. Within the Antilles, arrivals to Curacao also recorded a decline of 1 per cent, the weakest performance once again, being experienced in the first quarter of 1995. In the Dominican Republic arrivals were reported to have increased by 6 per cent, earnings by almost 14 per cent. Finally, Cuba continued to record strong performance, with a 20 per cent increase in stopovers and significant increases in earnings. For the second consecutive year tourism earnings exceeded all other sources of foreign earnings in Cuba. Gross earnings currently surpass all other Caribbean destinations, with the exception of the Bahamas, the Dominican Republic and Puerto Rico. This growth was made possible in part by a 13 per cent increase in hotel rooms and improved room occupancy rates.

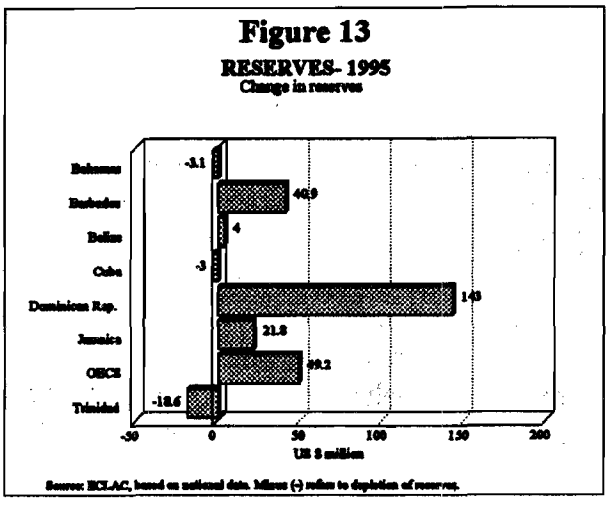
The main source of tourists remained the United States and in 1995 arrivals from that source showed the most rapid growth, at 5 per cent. The main beneficiaries from this growth were Puerto Rico and Saint Lucia, both exceeding 10 per cent, while Jamaica, the Bahamas and the OECS countries all exceeded 5 per cent. Arrivals from Europe grew by 3 per cent. The main beneficiaries of this growth were Dominica, Puerto Rico and Saint Lucia, although more modest growth in European tourists was also recorded by most CARICOM countries. Conversely, arrivals from Canada contracted, by 3 per cent. Despite this Jamaica and the Netherlands Antilles recorded growth of over 5 per cent. Most destinations received fewer Canadian visitors, however, notably Antigua and Barbuda, the Bahamas, Grenada and Puerto Rico, all of which received over 15 per cent fewer visitors. Visitors to Cuba originated primarily from Canada, Italy, Spain and Mexico.

TRADE AND PAYMENTS









Trade accounts deteriorated throughout the region, although the deterioration was less marked in the smaller OECS countries. Overall, export earnings increased by almost 18 per cent but imports grew faster, payments increasing by 26 per cent. For the OECS both imports and exports recorded more modest increases, at 8 per cent and 5 per cent, respectively, so that the merchandise trade deficit widened by a modest 2.2 per cent. For the non-OECS countries listed, the trade deficit widened significantly, by 46 per cent, in part because of exceptional circumstances in Haiti. Nevertheless, even if the impact of Haitian developments was excluded, the trade deficit still widened appreciably, at 37 per cent. Only two countries went counter to the general trend, Belize, whose trade deficit contracted by 22 per cent and Saint Lucia whose deficit also contracted though somewhat less, at 6 per cent. The services account, which usually compensated for the substantial merchandise trade deficits incurred by most countries, was sluggish this year, mainly because tourist earnings did not grow at the expected pace. Moreover, in several countries burgeoning domestic

Table 6
BALANCE OF PAYMENTS - CURRENT ACCOUNT
(Millions of U.S. dollars)

	1991	1992	1993	1994	1995
Anguilla	-7.9	-16.7	-12.8	-10.3	-8.3
Antigua/Barbuda	-33.5	-18.9	-0.5	-18.0	-16.7
Bahamas	-183.6	-34.1	-54.5	-214.5	-199.8
Barbados	-23.4	145.5	65.4	123.8	78.8
Belize	-26.2	-29.1	-49.0	-30.5	-21.2
Cuba	-1933.0	-403.0	-372.0	-81.0	-146
Dominica	-33.6	-25.8	-24.7	-40.0	-42.6
Dominican Republic	-93.0	-530.0	-241.0	-281.0	96.0
Grenada	-46.4	-32.3	-43.6	-21.4	-29.0
Guyana	-118.0	-146.7	-137.9	-100.8	-94.9
Haiti	-288.0	-126.4	-177.9	-93.0	-470.6
Jamaica	-255.8	10.9	-194.2	18.3	-255.1
Saint Kitts/Nevis	-34.9	-15.8	-30.0	-27.1	-25.9
Saint Lucia	-71.9	-54.8	-49.3	-53.8	-30.2
Saint Vincent	-44.0	-25.5	-46.7	-61.3	-57.9
Trinidad/Tobago	-20.7	122.6	67.3	239.4	193.0

Source: ECLAC, based on national data

demand, which inflated the merchandise import bill, also reduced the travel surplus, since locals used some of the easily available credit to take foreign vacations.

For the **OECS** countries the external accounts strengthened appreciably, though mainly because of inflows related to the compensation and repair of hurricane damage. Merchandise export earnings increased by 8 per cent, being buttressed mainly by a 10 per cent increase in banana earnings from Saint Vincent and the Grenadines and Saint Lucia, although earnings from cocoa sales in Grenada, up by 12 per cent, sugar exports from Saint Kitts/Nevis, up by 12 per cent and earnings from the export of soap, up by 4 per cent in Dominica, all contributed. Simultaneously, the increase in imports was relatively modest at 5 per cent. The surplus on services account was, however, disappointing, for while it had grown steadily between 1990-1994 it contracted by 9 per cent in 1995, consequent on the decline in gross tourism receipts in Anguilla, Antigua and Barbuda, Grenada and Saint Kitts/Nevis. Nevertheless, current transfers increased more than three fold, consequent on increased inflows of grants and insurance claims, so that the current account deficit narrowed, to just over 10 per cent of Product as compared to 11 per cent in 1994. Inflows increased by 19 per cent, mainly in the form of government grants for emergency relief, but portfolio investment and long term

private capital flows also increased. This permitted an overall surplus, and an increase in the reserves of almost US$50 million.

Among the larger countries, the most notable change in the external account was to be observed in **Haiti**, where the trade deficit increased more than fivefold. The removal of the trade embargo in Haiti created several unusual changes in the trade indicators, not least because of several years of trade suppression and because informal trade was slowly being reincorporated into formal accounting systems. Exports of goods accordingly increased, almost all categories recording increases. Significant capital inflows also permitted years of suppressed import demand to be relieved, so that imports grew much faster, by 340 per cent. A similiar pattern was evident for services, for while services exports increased, they were outstripped by services imports leading to a widening of the current deficit, since the increase in private transfers, which more than doubled was unable to close the gap. Official unilateral transfers more than quadrupled, however, sufficient to create a positive overall balance and augment the reserves by US$200 million, sufficient to cover almost three months of imports, at 1995 rates.

The trade deficit widened significantly in **Cuba**, imports growing twice as fast as exports. Nevertheless, gross tourism earnings continued to grow rapidly, reportedly by 57 per cent in 1995, though expenditure on factor services also increased slightly. Unilateral transfers also increased, by 13 per cent, though these inflows were insufficient to contain the current deficit which increased by 80 per cent. The capital surplus was almost double that achieved in 1994, however, notably because of increased direct foreign investment flows which were up by 42 per cent. Overall, a modest balance of payments deficit was incurred.

The trade deficit also widened significantly in **Jamaica**, by over 44 per cent. This outcome was achieved despite fair expansion in exports, which exceeded the rate of growth in the two previous years. Both traditional and non-traditional exports grew, though the rate of the latter slowed somewhat. Among the traditional exports bauxite earnings fell and in the non-traditional sector earnings from manufactures declined by about 12 per cent. Imports, however grew much faster than exports, caused mainly by more accommodating monetary policy. All categories of imports grew, with the exception of motor cars, expenditure on which fell for the second year after an unusual peak. The positive balance on services also contracted, for while tourism earnings increased, expenditure by Jamaicans on travel increased faster, in line with expenditure generally, so that net travel earnings declined. The current account moved from a surplus in 1994 to a quite substantial deficit in 1995, despite a 20 per cent increase in transfers. The capital account was again positive, though inflows were about 13 per cent below the previous year, the bulk of inflows being private funds. These were sufficient to create a positive balance and to augment the reserves slightly.

In **Barbados** the trade deficit widened by slightly less than Jamaica, by 38 per cent. Once again exports grew, slightly in this instance, though all sectors increased, except sugar and electrical components, but the rate of increase of imports greatly outstripped them. Consumer items grew by over 12 per cent, notably motor vehicles which fell in price as duties declined. Intermediate imports also grew, however, by 9 per cent, reflecting buoyant construction activity while capital goods also increased by 14 per cent. Earnings from services grew slightly, up 3.4 per cent compared with 18.8 per cent in 1994. This decline was to be explained partly by the reduced rate of increase

in tourism earnings and partly by increased tourism expenditures incurred by Barbadian travelers. Transfers were up only slightly. Accordingly, the current account surplus contracted by over one third. A slight deficit was incurred on the capital account, though a positive overall result was achieved and the reserves augmented. However, the overall balance was less than half of that achieved in 1994.

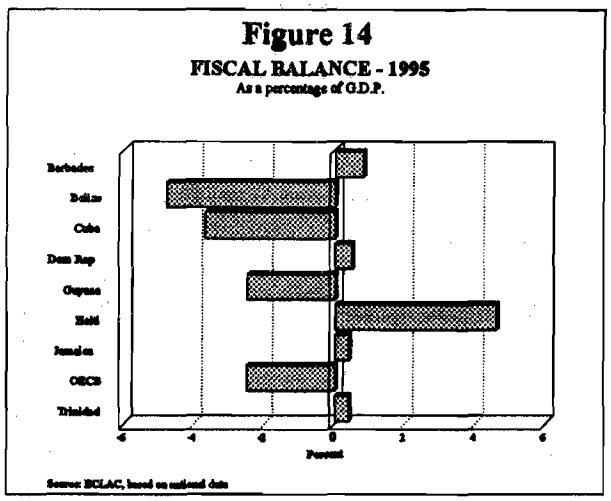
In **Trinidad and Tobago**, the trade surplus was 20 per cent less than in 1994. Export earnings increased for oil and petrochemicals but also for manufactures. Imports grew more rapidly, however, because of trade liberalization measures and more accommodating monetary conditions which encouraged expenditure on consumer and capital goods. Motor vehicle imports were up by 20 per cent, other manufactured goods by 45 per cent. Food imports were also up, by 33 per cent. Outflows for services and income declined, earnings from transportation services being up, while net outflows on investment income decreased. Transfers abroad, however, increased. The capital account deficit increased slightly, private inflows declining as a result of less direct investment, reduced proceeds from divestment and less retained earnings from investment abroad. The deficit on official transactions increased, reflecting reduced loan drawdowns to the central government and increased debt repayments. An overall surplus was recorded for the third consecutive year, though it was less than one quarter of that recorded in 1994.

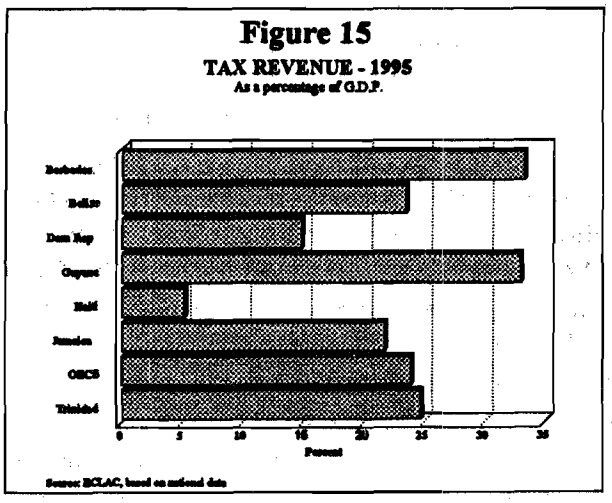
The trade deficit in the **Dominican Republic** grew by slightly less than 20 per cent. Export performance was fairly strong across all sectors. Crude sugar export earnings were down, but earnings from most other major export products increased. Imports grew faster, however, notably primary and intermediate goods, exports of which were up by 34 per cent. Consumption goods increased by 18 per cent, food within the category showing the highest increase over 1994, by 60 per cent. Capital goods imports declined by 17 per cent. Services earnings were up, however, notably the travel account, with net earnings growing by 44 per cent. Unilateral transfers also increased, by over 7 per cent. Accordingly, the current account moved from a deficit in 1994 to a small surplus in 1995 and while the capital account also recorded a small deficit it was not sufficient to create an overall deficit, allowing the reserves to be supplemented.

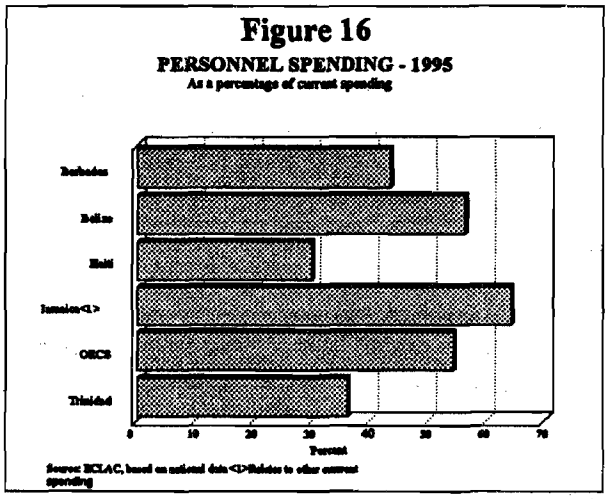
A slightly increased trade deficit was recorded for the **Bahamas**, both imports and exports increasing modestly. The surplus on services increased by about 5 per cent, though net earnings from travel did not contribute to this, since they were down slightly. Investment outflows were down, however, while earnings from transportation and offshore services increased. The capital surplus also increased, notably private long-term investment capital, which doubled. Overall the balance of payments moved from a small surplus in 1994 to a small deficit in 1995.

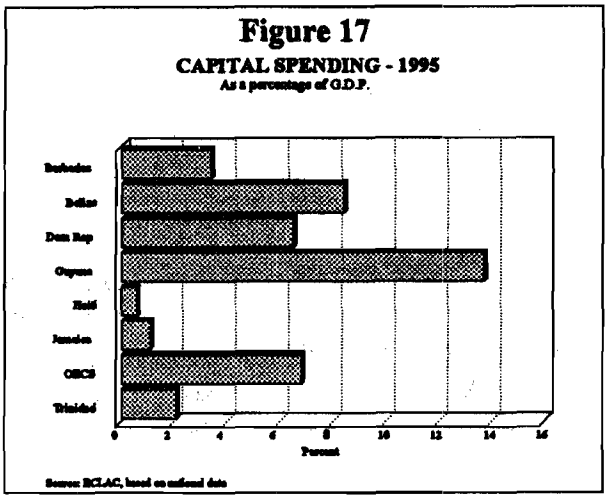
In **Belize**, relatively strong performance on merchandise trade was recorded, the deficit being reduced by 22 per cent. The growth in export earnings accrued from increased sales of sugar, citrus and marine products. Reduced imports, mainly manufactures, were explained by the completion of two government capital programmes, which offset increased imports of food, fuels and lubricants. The surplus earned from services shrank, mainly because inflows from military operations had almost ceased. Earnings from tourism, on the other hand, increased by almost 6 per cent. The capital account moved into deficit, although there was a slight increase in the reserves, which were sufficient at the end of the year to cover 1.5 months of imports.

PUBLIC FINANCE

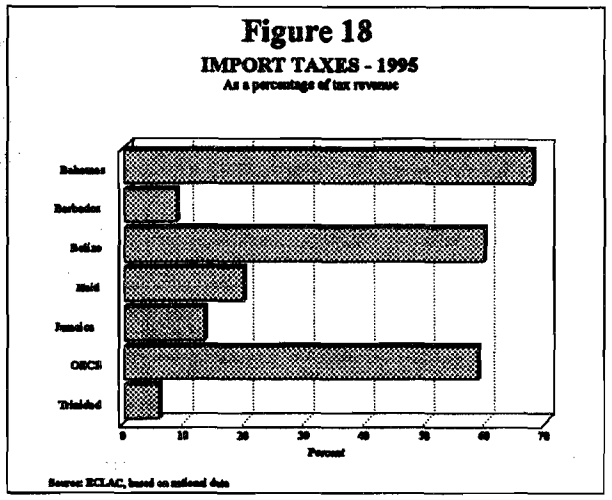


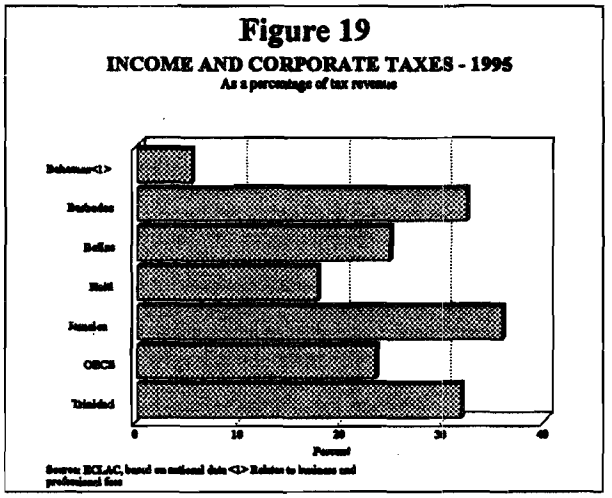


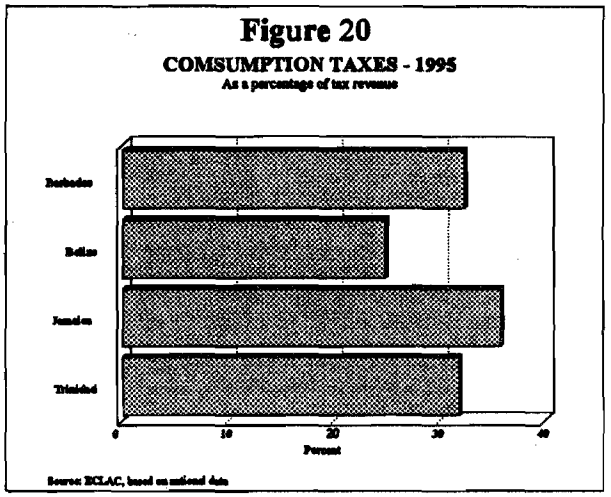




Public finance remained a key area of focus for Caribbean governments, as they prepared their economies to integrate effectively into the global economy. They were increasingly cognizant that fiscal deficits siphoned off resources from directly productive activities, yet the demands for public intervention remained as acute, to improve infrastructure, human resources and social equity. Given these competing claims, the battle to secure fiscal balance remained uneven between countries in 1995, as was the case in previous years. Tax systems were also under scrutiny, to ensure that they were not punitive to individual initiative, that they did not discourage new corporate investment and that they were based on stable foundations. Tax reform had commenced in several countries, driven by the foregoing objectives but also by the impact of liberalization on trade taxes. Those implementing tax reform were joined in 1995 by Belize, which introduced a Value Added Tax, the full effects of which were expected to be evident in 1996. In Cuba, fiscal accounts were also an area







of focus and private taxes were introduced while subsidies to enterprises were curtailed, all a part of their wide ranging economic reforms.

The fiscal performance of the OECS countries deteriorated in 1995, with an overall deficit equivalent to 2.5 per cent of aggregate Product being recorded, an increase from the 1.8 per cent of aggregate Product recorded for 1994. The main issues which must be faced in these smaller economies relate to improved tax collection, on one hand, and reducing current expenditures, especially on personnel spending, on the other. Revenues expanded by just under 4 per cent, though falling as a portion of Product, to just under 24 per cent. Currently, import taxes contribute almost 60 per cent of tax revenues and since most consumption comes from imports the authorities are not easily persuaded that the emphasis should be changed from import to consumption taxes, even if difficulties are currently experienced in their collection and their stability. This was demonstrated in 1995, as taxes from international trade and transactions fell by 4.3 per cent over 1994, in part because of concessions granted on materials destined for hurricane rehabilitation. The reliance on trade taxes, in turn, complicated the policy calculus of OECS countries in the face of trade liberalization within CARICOM and globally. Current expenditures, conversely, increased as a portion of Product to almost 22 per cent, leaving just under 2 per cent of Product for capital spending. In some countries current deficits were still incurred. Within the expenditure basket, remuneration to public officials and transfers both increased. The former constituted more than one half of current spending and ways will ultimately have to be found to craft a public apparatus which is sustainable.

At the country level, erosion of the fiscal account was most notable in **Saint Kitts/Nevis**, where the deficit reached 6 per cent of Product. Both current and capital expenditures increased, the current account moving from a surplus of 0.4 per cent in 1994 to a deficit of 1.1 per cent in 1995. Current outlays increased across the board, wages and salaries now accounting for more than 10 per cent of Product. Capital expenditure increased by 70 per cent, the bulk of which was allocated to developing infrastructure. The deficit also increased in **Antigua and Barbuda**, the current account moving into deficit again after achieving a fleeting surplus in 1994. Overall, the deficit expanded from 2.4 to 3.4 per cent of Product, explained by increased outlays in goods, services and transfers following the hurricane. In **Saint Lucia** the deficit also increased, from 0.7 per cent in 1994 to 1.6 per cent of Product in 1995. Erosion was most evident in the current account, notably in personnel spending, which accounted for over 55 per cent of current expenditure. In **Grenada**, the longstanding battle to restrain the fiscal deficit bore some fruit, greater efforts to collect revenues and to restrain current and capital spending turning the deficit of 2.4 per cent of Product into a small surplus, of 0.1 per cent of Product in 1995.

In **Barbados**, a fiscal surplus of just under 1 per cent of Product was achieved in 1995, as compared to a deficit of about 2 per cent in 1994. Current revenues and expenses were both up, although the current surplus almost doubled, to just under 4 per cent of Product. Current revenues were augmented by increases in income taxes from an expanded employment base, increased corporation taxes and increased property taxes. Expenditures increased, consequent on the desire to clear arrears and the need for increased outlays for payments to public officials, interest payments and transfers and subsidies. Capital expenditures, however, declined by 13 per cent, reversing an upward trend observed in the prior two years.

The quest for fiscal balance continued to make slow progress in **Belize**. After expanding to 1993, the fiscal deficit was gradually contained, falling thereafter to rest at 4.8 per cent of Product in 1995. This result was, however, achieved despite further erosion of the current surplus which fell to 2 per cent of Product in 1995. Revenues fell by 2.6 per cent, the decline being evident in tax and non-tax revenues. In the former instance, income taxes declined, consequent on tax relief given to some taxpayers and arrears which accrued to others as a result of deficient tax collection measures. Receipts from international trade were up, however, as a result of greater efforts in the customs department to collect them. Total expenditures fell by over 7 per cent, current expenditures rising by 2.6 per cent, capital expenditures falling by almost 28 per cent. Current spending increased on wages and salaries, pensions, interest on debt and also for transfers. Failure to meet fiscal targets elicited new policies toward the end of 1995. These included a reduction in the number of public officials and some interim measures to compensate for reduced duties. A value added tax was also scheduled for 1996, in the context of widespread fiscal reform, intended to compensate for the duty reductions scheduled and expected for the future, deriving from liberalized trading regimes.

The restructuring of the **Cuban** economy was amply illustrated by examination of the fiscal accounts. Fiscal discipline was necessary once it became clear that the Cuban economy was no longer able to benefit from preferential trade and cooperative arrangements. As market reforms were introduced the inflationary consequences of large fiscal deficits were also recognized. Nevertheless,

the magnitude of the task of reform required time and the results only became evident after a protracted period of severe imbalance. Since 1993, when total public spending amounted to almost 97 per cent of Product, and the fiscal deficit set at over one-third of Product, the role of the State had declined substantially. By 1995, total public spending was below 60 per cent of Product and the fiscal deficit reduced to under 4 per cent. Notable new sources of revenue were taxes derived from self employed persons, as more of them sought activities outside the loss-making State enterprises. Symbiotically, the major form of expenditure reduction came from the reduction of subsidies to these enterprises, which fell by 48 per cent in 1995, following on a 37 per cent reduction in 1994.

Fiscal policy in the **Dominican Republic** followed the pattern set in late 1994, the resultant discipline achieving a consolidated public sector surplus of 0.5 per cent, compared with a deficit exceeding 1 per cent in 1995. Current revenues remained substantially the same proportion of Product, revenues from imports, which still contribute almost one third of tax revenues, increasing by 14 per cent. Current spending also remained relatively stable. The surplus was, therefore, achieved by reducing capital spending, since the recurrent surplus fell to just over 7 per cent of Product, as compared to almost 7.5 per cent of Product in 1994. Capital spending declined by 2 per cent of Product, the reduction being possible because of declines in fixed investment.

The return to a more normal state of affairs in **Haiti** was illustrated by a significantly augmented budget. Nevertheless, the recuperation still did not match the, even then small, budget of 1991. Revenues increased to 5.7 per cent of Product, compared to 3.3 per cent in 1994 and the 8.7 per cent of Product achieved in 1991. Spending increased much more quickly to 10.2 per cent of Product, compared with 7.5 per cent in 1994, three fifths of which was dedicated to capital spending. The fiscal deficit, which widened slightly, from 4.2 per cent of Product in 1994 to 4.6 per cent in 1995, was met substantially by external financing, which comprised mainly grants.

In its continuing battle to stabilize the exchange rate, reduce inflation and liberate funds for investment, fiscal policy in **Jamaica** aimed at a surplus of 2 per cent of Product. However, these plans had to be modified mid-year, in the absence of concomitant restraint in monetary policy. Accordingly, further tightening of fiscal policy was necessary in an effort to achieve a surplus of 3 per cent of Product. Revenues showed a gain of almost 50 per cent, substantial despite high prevailing rates of inflation. Tax revenues increased to almost 22 per cent of Product, up by 5 per cent from the previous year and reflecting broad based increases in income, consumption and trade taxes. Gains from the latter two taxes reflected buoyant consumption, the former, substantial wage increases to public and private sector personnel. Expenditures were well contained, in part because of reduced payments for interest, though the reduced interest rates which made that possible had negative impacts elsewhere. Expenditures on wages and salaries were up by about 19 per cent, however, consequent on retroactive wage payments to public officials. Capital expenditures were marginally down, restraint in expenditure being assisted by the 32 per cent decline in amortization payments. These were possible because of the decline in debt obligations, consequent on improved debt management, debt forgiveness and rescheduling. Reduced amortization, in turn, permitted an increase in gross investment, up from 20 per cent of capital expenditure in 1994 to 48 per cent in 1995. Preliminary returns suggest that a small overall surplus will be achieved in 1995. While not likely to

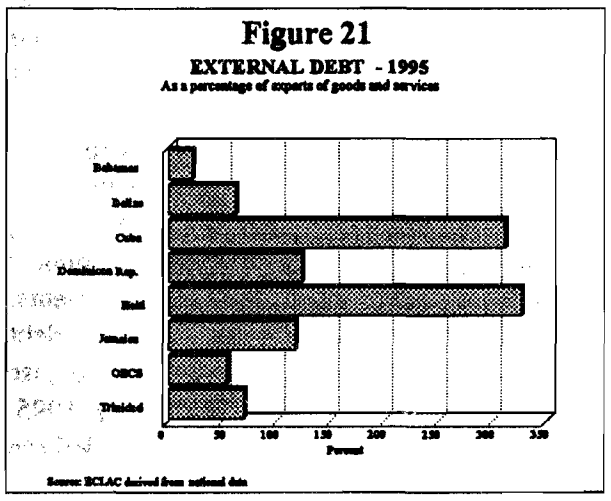
meet the targeted 3 per cent of Product, the outcome is a substantial improvement on the deficit, equivalent to 5 per cent of Product, recorded in 1994.

In **Trinidad and Tobago**, the fiscal accounts continued to be in surplus from the previous year. Although some revenue reducing measures were included in the budget, revenues for 1995 grew by 11 per cent, while expenditures grew at the slightly slower pace, of 9.4 per cent. The current surplus, accordingly, increased by 1 per cent of Product, to 2.4 per cent. Revenue increases derived mainly from the petroleum sector, both from company taxes and oil price increases. Corporate and personal taxes in the non-oil sector also recorded increases, however, despite reduced tax rates introduced for 1995, while VAT revenues fell slightly. Revenues from international trade also declined, as tariffs fell. All categories of current spending rose slightly, including payments made to public servants to reduce arrears owing to them by government. Subsidies also increased, resulting from the restructuring of two public enterprises, while interest payments on government debt rose marginally. Capital expenditure rose by 30 per cent, allocated mainly to upgrading physical infrastructure.

EXTERNAL DEBT

Fiscal conservatism was expected to have its payoff in several areas, including the reduced debt burden. This expectation seemed to be rewarded again, since the external debt for the Caribbean countries surveyed contracted for three of the last four years, though the reduction in 1995 was less than 1 per cent. Within the group, the debt outstanding to the OECS countries moved in a contrary direction, however, expanding by about 2 per cent. For the most part, the external debt service payments remained below 20 per cent of exports of goods and non-factor services, the exceptions being Guyana and Haiti where the ratios were just over that figure.

Public and publicly guaranteed debt in the OECS countries increased to just under 33 per cent of their aggregate Product. The degree of concessionality of the debt has also been falling for the past three years, the ratio declining from 68 per cent concessionality in 1993 to 65 per cent in 1995.



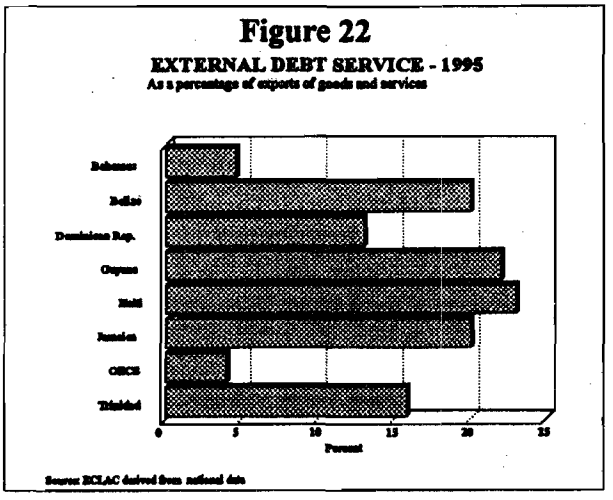


Table 7
EXTERNAL DEBT
(Millions of U.S. dollars)

	1991	1992	1993	1994	1995
Anguilla	8.4	9.2	8.6	8.7	7.8
Antigua/Barbuda	261.1	250.6	235.8	231.4	234.7
Bahamas	412.4	440.4	453.3	411.4	392.2
Barbados	417.2	377.5	352.0	357.2	358.9
Belize	142.8	141.4	167.4	184.0	183.9
Cuba <1>			8784.7	9082.8	9161.8
Dominica	92.8	94.1	90.0	98.7	102.2
Dominican Republic	4614.0	4413.0	4559.0	3924.0	4001.0
Grenada	84.2	80.9	79.0	88.2	88.3
Guyana	1873.3	2054.0	2062.0	1999.5	2058.3
Haiti	809.0	873.0	866.0	875.0	901.0
Jamaica	3874.3	3678.0	3687.2	3651.9	3451.9
Montserrat	3.4	5.2	10.0	10.2	10.2
St. Kitts/Nevis	39.1	39.2	40.1	52.1	52.4
St. Lucia	81.0	97.1	100.9	106.0	113.6
St. Vincent	66.1	70.8	77.5	87.5	86.9
Trinidad/Tobago	2438.1	2215.0	2102.1	2063.5	1905.2

Source: IMF; IBRD; ECLAC.
<1> Relates to debt in freely convertible currencies

Disbursements fell compared to 1994 and there was a net outflow of resources. Nevertheless, the total stock of debt was augmented by arrears on debt service which continued to accrue, by 10 per cent over 1994. Renewed efforts were, nevertheless, being made to reduce the outstanding arrears, so that debt service payments actually increased by 8.5 per cent in 1995 and currently represented 2.3 per cent of Product and 4 per cent of exports of goods and non-factor services. Debt in the OECS was contracted primarily for the utilities, which received 26 per cent of the total, industrial development, 17 per cent, and tourism 17 per cent, while agriculture accounted for 5 per cent and education, training and housing accounted for a further 3 per cent.

The stock of external debt increased to several other countries. In Barbados, it increased marginally to represent just under 24 per cent of Product. New debt was sourced from within the region. In Guyana the debt increased by about 3 per cent, new debt being incurred mainly with multilateral agencies for the consolidation of bilateral arrears. Debt in freely convertible currencies increased in Cuba by almost 1 per cent, the increase being almost totally in official bilateral debt which accounted for 44 per cent of the total. In the Dominican Republic, debt also increased by about 2 per cent, the total stock currently representing 123 per cent of export earnings. Debt service ratios

fell, however, mainly because of the increase in export earnings. Debt to Haiti increased by about 3 per cent, a major increase given past trends. This was made possible because of debt restructuring, to consolidate arrears and pave the way for new multilateral inflows. Balance of payments supports comprised 44 per cent of new inflows, 17 per cent went for humanitarian assistance, while the balance was distributed to a variety of public sector projects.

The stock of external debt contracted in several other countries. In the Bahamas the external debt decreased by almost 5 per cent. Of the total outstanding, 40 per cent was to the government and the remainder was outstanding to public corporations. Government securities remained unchanged, though debt outstanding to commercial banks, offshore financial institutions and bilateral debt all contracted. Debt to International Financial Institutions increased by about 4 per cent. Overall debt obligations were small, being 22 per cent of export earnings, servicing requiring less than 5 per cent of exports, both coefficients being the lowest of the countries surveyed. Debt also contracted slightly in Belize, resting at about 37 per cent of Product or 62 per cent of export earnings. Net flows were also negative for the first time, representing a turning point in the profile of Belizean capital flows. Bilateral debt, commercial bank debt and suppliers' credits all contracted, although debt to multilateral institutions to finance infrastructure increased, by 8 per cent. Debt servicing amounted to 6 per cent of Product or 20 per cent of exports.

In Jamaica the external debt contracted for the third consecutive year, by 5.5 per cent in 1995. All categories of debt declined, bilateral debt, comprising 52 per cent of the total decreased marginally but the major decrease was in multilateral debt which contracted by 10 per cent. The volume of debt service payments increased by 10.6 per cent, amortization payments accounting for 68 per cent of the total and increasing by 15 per cent. While the quantum of debt service payments increased, the debt service burden remained fairly constant because of the increase in export receipts. Benefits were also received in the survey year in the form of debt relief from the Paris Club and from the Netherlands Government. Debt relief valued at over US $ 46 million has been received since 1990. External debt consolidation also continued in Trinidad and Tobago, with a decline in obligations for the sixth consecutive year, debt to GDP ratios falling from 44 per cent in 1994 to 37 per cent in 1995. New flows came exclusively from International Financial Institutions for ongoing projects, although flows were negative since repayments exceeded new flows. Reduction in the stock of debt and its improved profile contributed to the reduced debt service ratio, down from 27 per cent in 1994 to the current 16 per cent.

PRICES

Table 8
CONSUMER PRICES
(Annual percentage rates of growth)

	1991	1992	1993	1994	1995
Anguilla	4.9	3.0	3.1	4.0	1.6
Antigua/Barbuda	2.1	1.2	1.5	7.1	-0.6
Bahamas	7.1	5.7	2.7	1.3	2.2
Barbados	6.3	6.1	1.1	0.1	1.9
Belize	5.6	2.8	1.3	2.6	2.9
Dominica	2.0	4.4	1.7	0.8	1.4
Dominican Republic	7.9	5.2	2.8	14.3	9.2
Grenada	1.0	4.6	3.5	1.9	2.1
Guyana	70.3	14.2	7.7	16.1	8.1
Haiti	8.4	17.9	34.7	46.5	16.1
Jamaica	51.0	77.3	22.1	35.1	19.9
Montserrat	9.2	1.4	0.7	2.8	4.4
St. Kitts/Nevis	4.5	1.5	1.4	1.3	2.6
St. Lucia	7.3	2.5	0.7	5.8	4.7
St. Vincent/Grenadines	2.3	3.1	4.5	0.4	3.1
Trinidad/Tobago	3.8	6.5	8.7	9.4	5.4

Source: ECLAC, based on national data.

For the most part, Caribbean countries, especially the smallest amongst them, maintained their traditional low rates of inflation, though in five of the eight OECS countries prices rose faster in 1995 than in the previous year. The notable exceptions were in Antigua and Barbuda, where the rate was negative, and in Anguilla. Several other low inflation countries, such as the Bahamas, Barbados and Belize, retained that status although slight increases in the rate of inflation were evident in each of them. Among the larger, higher inflation countries, careful attention to macroeconomic policy ensured declining inflation rates, but slippages were evident in at least one country. Low inflation was deemed necessary by them as they prepared to open their economies and felt the need to increase productivity. Nevertheless, opening which has commenced in some cases also contributed to the fight against inflation by giving both producers and consumers lower priced imported goods. In Cuba, markets were still putative and a clear picture of inflation outside the formal apparatus was still difficult to discern. Nevertheless, some prices, such as for agricultural produce on deregulated markets, had started to fall.

Inflation was modest for the third consecutive year in **Barbados**, in part because of the wage freeze instituted in 1991 in an effort to increase national productivity. The freeze, however, came to an end in the survey year with wage settlements averaging 3 per cent. Nevertheless overall output per worker remained constant for the economy as a whole, although some productivity losses were evident in the sugar sector, the wholesale and retail trades and in tourism. These losses were offset by gains in electricity, gas and water, non-sugar agriculture and fishing, construction and quarrying. Price gains were noted in other areas, such as alcoholic beverages, tobacco and housing.

Prices rose marginally in **Belize**, increases being noted in medical care, rent, water, fuel and power. In the **Dominican Republic** price increases were contained from 1994, primarily because of tight monetary control implemented in later 1994. Other factors affecting inflation were trade liberalization and the reduction of subsidies to several State enterprises. Food, the major item in the index, expanded at about the average rate, while household costs increased somewhat faster, at over 12 per cent.

The rate of inflation fell in **Guyana,** to be more in line with the trend established for the period 1991 to 1993, which was disrupted in 1994. Contributing factors were a relatively stable exchange rate and declining customs duties. Several factors contributed to reduced inflation in **Haiti,** notably the liberalization trade, inflows of funds from abroad and the reorientation of monetary policy which provided the means to relieve suppressed demand and equilibrate the market. Food prices, for example, were being contained, average increases being 33 per cent, but year end rates had declined to 20 per cent. The minimum wage was significantly increased, in real terms by about 89 per cent, returning purchasing power to that which existed in 1991.

Policy explicitly targeted inflation in **Jamaica**, the target being an average annual rate of 12 per cent. The outcome was a reduction from 1994, although the targeted rate was not achieved. Performance was ahead of target for the first six months, the average being 6 per cent but inflation accelerated in the second semester. Looser liquidity management must account for most of the increase, which increased demand, eroded the external account and caused a depreciation in the exchange rate. A fall in output for some agricultural products, the increase in the international price of wheat and the removal of subsidies on some foodstuffs all contributed to the 66 per cent price rises in the food and drink category. Fuels were next with an increase of just over 9 per cent.

The rate of inflation continued to fall in **Trinidad and Tobago** for the second consecutive year. This was attributable mainly to trade liberalization measures which reduced the rate of price increases for food items, 16.8 per cent up in 1995 compared with 17 .4 per cent in 1994. The continued stable exchange rate was a further factor. Prices declined throughout the year, the lowest rate being recorded in the fourth quarter. Producer prices also showed a decline of 2 percentage points reflecting mainly cheaper imports. Industrial productivity increased marginally, compared with a big jump of 18 per cent in 1994, attributable to production declines in the petroleum and sugar sectors. Conversely significant productivity increases were evident in assembly type and related industries, notably construction.

UNEMPLOYMENT

Table 9
UNEMPLOYMENT RATES
(Percent)

	1991	1992	1993	1994	1995
Barbados	17.2	23.0	22.1	21.8	19.7
Jamaica	15.4	15.7	16.3	15.4	16.2
Trinidad and Tobago	18.5	19.7	19.8	18.5	17.3

Source: National data

Employment increased in several sectors in **Barbados**, notably in the wholesale and retail trades, manufacturing, government services and information services. In manufacturing, the subsectors showing the greatest employment were food, beverages and tobacco, and information services. In **Belize** the rate of unemployment was estimated to have declined by 2.2 per cent. Female unemployment fell to 19.2 per cent, while male unemployment fell to 13.7 per cent. Large public sector redundancies towards the end of the year were expected to adversely affect unemployment rates for 1996. In the **Dominican Republic**, unemployment was expected to remain the same as in 1994, at 16 per cent. Most new jobs were created in tourism, while the rate of job growth in the free zones fell by 3 percentage points when compared with 1994 as efforts to increase productivity were implemented.

Job creation was not sufficient in **Jamaica** to absorb the 28,500 new entrants to the labour market. Accordingly, the unemployment rate increased by 0.8 per cent in 1995. Young people, especially young women, defined as under 25 years old, continued to represent the bulk of the unemployed although the imbalance against women as a whole was reduced slightly, since they represented 64 per cent of the unemployed in 1995 compared with 68 per cent in 1994. Nevertheless, the unemployment rate for young men also increased from 18.5 per cent in 1994 to 25.1 per cent in 1995. For young women, it was 44.6 against 37.7, while for older women it was down from 16.9 to 14.5 per cent. The services sectors contributed the most new jobs, these going mainly to females, while "white collar" employment came next followed by manufacturing.

Unemployment in **Trinidad and Tobago** fell for the second consecutive year, despite a 2.3 per cent increase in the labour force. The majority of new jobs were created in the services sector, which already accounted for 56 per cent of the jobs. Slight increases were also registered in all other sectors, with the exception of agriculture, which lost over 5,000 jobs. Unemployment among the age group 15-24 remained above the average, although unemployment fell more quickly in this age group in 1995 from 32.5 per cent to 30.9 per cent. Females, at 20.6 per cent, also continued to have a higher rate of unemployment than for males who had 15.1 per cent.