Countries members of the Organisation of Eastern Caribbean States (OECS)[1]

1. General trends

The countries members of the Organisation of Eastern Caribbean States (OECS) recorded an upturn in their growth trend (from 0.2% in 2002 to 3.7% in 2003), driven by the construction and tourism sectors. Agriculture declined by 4.4% owing to a contraction in banana production and flat growth in the manufacturing sector (0.2%). In terms of individual countries, the highest growth rates were seen in Antigua and Barbuda and Grenada (almost 6%), while the lowest were posted in Saint Kitts and Nevis and Dominica (0.1% and 1%, respectively).

Better growth prospects had a positive effect on the member countries' tax receipts. This, together with cutbacks in expenditure, enabled most of them to narrow their fiscal deficits. Despite these efforts, the public debt stock (109% of aggregate GDP) continues to limit the OECS countries' growth capacity. Tax reform has become a priority for the member countries, since their governments expect that trade arrangements such as the Cotonou Agreement and the Free Trade Area of the Americas (FTAA) will reduce their revenues from taxes on foreign trade, which in some countries account for as much as half of all tax receipts.

As in previous years, the monetary authorities maintained a neutral stance. The monetary aggregates expanded in line with the accumulation of net external assets, while net domestic credit creation stagnated. The consequent improvement in the banking system's liquidity position, together with stable international prices and the absence of supply constraints, helped to reduce the rate of inflation from 3% in 2002 to 1.8% in 2003.

The balance-of-payments current account ran a deficit that was similar in size to the one posted the preceding year (23% of GDP), as higher tourism earnings were more than offset by an increase in merchandise imports. Even so, the overall balance-of-payments position remained positive (1.3% of GDP), basically because of an increase in foreign investment channelled towards the development of physical infrastructure.

OECS predicts that GDP will grow by about 3% in 2004. Tourism and construction will continue to boom and banana production will recover thanks to an anticipated improvement in external conditions, more effective pest control and the expansion in the number of European Union members.

1 The countries members of OECS are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Table 1
ORGANISATION OF EASTERN CARIBBEAN STATES: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
	Annual growth rates [b]								
Gross domestic product	0.7	2.7	3.2	4.0	4.5	2.7	-1.4	0.2	3.7
Per capita gross domestic product	-0.5	2.4	3.3	3.8	3.1	1.8	-3.1	…	…
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	…	…	-7.1	1.1	-4.7	0.8	-8.3	5.6	-4.4
Mining and quarrying	…	…	7.0	2.1	6.5	8.5	-0.8	-0.8	…
Manufacturing	…	…	2.7	2.3	3.3	5.2	-0.9	-1.2	0.2
Electricity, gas and water	…	…	6.7	6.2	9.0	4.0	5.5	2.5	3.2
Construction	…	…	7.9	11.5	8.3	4.2	-1.5	-2.4	5.8
Wholesale and retail commerce, restaurants and hotels	…	…	3.6	4.2	4.6	0.7	-5.3	-0.2	6.0
Transport	…	…	6.1	2.4	3.5	1.3	-2.9	-1.0	6.2
Communications	…	…	6.1	10.3	15.6	6.1	0.4	-3.3	-1.6
Tourism	…	…	7.9	0.3	3.7	-1.4	-4.9	-0.9	12.6
Financial institutions and insurance	…	…	10.0	7.9	6.3	5.9	-0.4	3.7	3.1
Other services	…	…	-5.7	-2.9	-2.4	0.3	5.2	1.3	5.5
	Millions of dollars								
Balance of payments									
Current account balance	-213	-329	-402	-371	-441	-417	-394	-576	-594
Merchandise trade balance	-756	-853	-948	-982	-1 056	-1 076	-993	-1 004	-1 135
Exports, f.o.b.	354	338	298	316	327	352	303	…	…
Imports, f.o.b.	1 111	1 191	1 246	1 299	1 383	1 428	1 296	…	…
Services trade balance	504	527	576	628	656	691	660	520	646
Income balance	-125	-127	-131	-147	-175	-196	-176	-205	-221
Net current transfers	164	124	100	131	134	164	114	113	118
Capital and financial balance [c]	256	326	440	444	486	450	459	639	626
Net foreign direct investment	210	183	261	313	333	304	265	316	…
Financial capital [d]	46	142	179	134	153	148	198	288	…
Overall balance	36	-14	25	64	32	19	65	63	33
Variation in reserve assets [e]	-35	15	-24	-66	-32	-19	-65	-63	-27
Other external-sector indicators									
Total gross external debt (millions of dollars)	752	759	885	976	1 266	1 319	1 511	1 856	2 073
Total gross external debt (% of GDP)	34.6	33.1	36.6	37.6	46.1	46.5	53.1	63.7	67.6
Prices									
Variation in consumer prices (December-December)	2.8	2.0	2.4	2.8	1.7	3.4	0.5	3.0	1.8
	Millions of Eastern Caribbean dollars								
Central government									
Current income	1 450	1 567	1 628	1 775	1 903	1 947	1 910	2 043	2 158
Current expenditure	1 354	1 466	1 549	1 657	1 785	1 871	2 038	2 208	2 260
Net capital expenditure	225	230	287	268	371	438	455	701	361
Primary balance	-17	11	-46	12	-63	-127	-245	-375	-131
Overall balance [f]	-123	-108	-171	-115	-220	-329	-500	-699	-463
	Percentages of GDP								
Money and credit									
Bank credit	56.2	58.9	63.4	63.5	68.0	75.5	75.6	74.9	71.0
To the public sector	…	…	-4.7	-5.0	-3.4	-0.8	-2.2	-2.5	-4.2
To the private sector	…	…	68.1	68.5	71.4	76.3	77.8	77.4	75.1
Liquidity (M3)	66.0	63.7	66.2	69.6	72.8	77.9	82.3	85.6	89.2
Money stock and local-currency deposits (M2)	60.5	58.1	59.6	62.8	65.3	67.9	71.8	73.9	77.4
Foreign-currency deposits	5.5	5.6	6.6	6.8	7.5	10.0	10.4	11.7	11.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant 1980 prices. [c] Includes errors and omissions. [d] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [e] A minus sign (-) denotes an increase in reserves. [f] Includes grants.

2. Economic policy

(a) Fiscal policy

In 2004 the States members of OECS have maintained the same fiscal stance as in 2003, applying a tight policy in order to reduce the fiscal imbalance and bring the debt down to sustainable levels.

The authorities of Saint Kitts and Nevis will focus their fiscal efforts on making tax collection more efficient and effective and on expanding the tax base. In Dominica the authorities intend to implement a tax reform designed to reduce the government payroll; in addition, they plan to increase the tax base by rationalizing tax incentives and reforming the pension system through measures such as raising the retirement age for civil servants.

In 2003 the OECS members' fiscal deficit remained at just under 7% of GDP. Current income rose (from 30.7% of GDP in 2002 to 31.4% in 2003), as did grants (from 3.1% of GDP in 2002 to 3.7% in 2003). These increases offset the rise in total expenditure (from 41.3% to 42.2% of GDP), which was mainly attributable to a 30% expansion in capital expenditure.

Tax revenue performance reflected efficiency gains –obtained through efforts to rationalize public administration, introduce tax measures (in some member States) and expand the tax base– and also, in particular, the economic upswing. Economic growth boosted public revenues both directly, through an increase in domestic tax receipts, and indirectly, through the expansion of demand for imports and, consequently, of income from taxes on external trade.

At the national level, overall fiscal deficits were recorded in all the OECS countries except Anguilla (-0.13% and 2% of GDP in 2002 and 2003, respectively), whose government sold off some of its shares in the Anguilla Electricity Company. Meanwhile, Saint Lucia was the only country whose fiscal deficit worsened (from 4% of GDP in 2002 to 9% in 2003), owing to the country's policy of stimulating economic growth through the expansion of current and capital expenditure. Most of the other member States took steps to curb government spending.

In 2003 Antigua and Barbuda's fiscal balance was equivalent to 9% of GDP (compared to 13% in 2002), thanks to the contraction of current expenditure (from 28% of GDP in 2002 to 25% in 2003) and capital expenditure (from 5% of GDP in 2002 to 3% in 2003). The performance of current expenditure reflected a decline in spending on goods and services since 2002, when this item of expenditure had included the purchase of office equipment for a financial centre. Another reason for the decrease in current expenditure was the moratorium granted by the banking system. Capital expenditure reflected the lower rate of implementation of capital projects.

Dominica's fiscal performance (-10% and -5% of GDP in 2002 and 2003) reflected an improvement in tax collection and the recovery of overdue payments (25.4% of GDP, compared to 23.5% in 2002). A more significant contributing factor was the 30% contraction in current expenditure (which had declined by 33% in 2002) due to the reduction of the public wage bill and the postponement of external debt-servicing payments. Since the end of 2003 Dominica has been implementing a three-year IMF programme designed to strengthen its fiscal position and introduce structural adjustment measures to revive growth and alleviate poverty.

Grenada reduced its fiscal deficit from 21% of GDP in 2002 to 10% in 2003, as capital expenditure returned to historical levels following the completion of infrastructure projects.

Montserrat's fiscal deficit narrowed slightly, from 31% of GDP in 2002 to 28% in 2003. Although current expenditure rose as a result of activities associated with the volcanic eruption early in the second half of 2003, there was a concurrent upturn in income and an increase in the level of activity due to the repair and reconstruction operations that followed this natural disaster.

The fiscal deficit posted in Saint Vincent and the Grenadines was almost unchanged from the preceding year's level (2.6% of GDP in 2002 and 2.4% in 2003), as an increase in capital expenditure due to the launching of public investment programmes was offset by a cutback in current expenditure under the heading "other goods and services". Lastly, the fiscal deficit of Saint Kitts and Nevis increased from 7.6% of GDP in 2002 to 8.8% in 2003, owing mainly to a sharp reduction in capital inflows.

(b) Monetary policy

The economies that make up the Organisation of Eastern Caribbean States formed a monetary union in 1983. Their single currency, the Eastern Caribbean dollar (EC$), is linked to the United States dollar at a fixed rate of EC$ 2.7. The union's monetary authority, the Eastern Caribbean Central Bank (ECCB), acts as a virtual currency board and is required by its statutes to maintain reserves equivalent to 60% of its monetary liabilities. Ever since the monetary union's inception, ECCB has maintained a neutral stance and has changed its benchmark interest rate only slightly. The monetary union has two features that account for this neutral behaviour: on the one hand, the management of external assets and liabilities has enabled the monetary authority to keep its reserves at a level well in excess of the statutory requirement; and on the other, the commercial banking system complies strictly with its obligation to maintain a balance between assets and liabilities.

In 2003, and in accordance with the rules of the currency board, the expansion of monetary aggregates (14% in the case of M1 and 10% in the case of M2) reflected the accumulation of external assets in the consolidated banking system (33%), as there was no change in net domestic credit (1%). This reflected a contraction in credit to the public sector, which was partly offset by an increase in credit to the private sector (2%).

Personal loans, especially for the purchase of property, account for the bulk of commercial bank loans (48% and 27% of the total, respectively). Only three production sectors showed increased demand for loans: agriculture (0.7%), manufacturing (7%) and entertainment (3%). Tourism and construction, which were the two sectors that made the biggest contributions to economic growth, sharply reduced their demand for credit (-7% and -8%, respectively). The main lenders within the monetary union are Antigua and Barbuda and Saint Lucia, which together extended 25% of total loans and advances in 2003 and 22% in 2004.

The expansion of commercial bank deposits (10%) and the sluggish growth of lending activity improved the financial system's liquidity position. The ratio of total loans and advances to deposits declined from 0.78 in December 2002 to 0.72 in December 2003. In March 2004 the ratio stood at 0.69, indicating that there is still excess liquidity in the commercial banking system.

3. The main variables

(a) Economic activity

After three consecutive years of declining economic activity, in 2003 the OECS member countries reached a turning point in their economic growth path, posting an expansion of 3.7% (as against 0.2% in 2002) owing to an increase in construction and the recovery of tourism.

The agricultural sector contracted by 4.4%, mainly because of a fall in banana production on the Windward Islands (from 8.241 billion tons in 2002 to 5.608 billion in 2003). Dominica experienced the sharpest decline, followed by Saint Vincent and the Grenadines (-39% and -32%, respectively). Saint Lucia remained the leading banana producer, accounting for 50% of the total. The contraction in the banana subsector was due to adverse weather conditions, pests, reductions in the area under cultivation and in the number of farmers and bottlenecks in the production process and in financing. The output of other crops, such as nutmeg, cocoa and mace, was affected by declines in their international prices.

The manufacturing sector posted anaemic growth (-1.2% in 2002 and 0.2% in 2003) owing to a variety of factors, including weak domestic demand in the cases of Dominica and Saint Lucia, the effects of the contraction in banana production, the downturn in the manufacture of paper and paper products, the fall in the sugar cane harvest (which affected sugar-cane derivatives in the case of Saint Kitts and Nevis) and the expiry of trade preferences for rice exports in the case of Saint Vincent and the Grenadines.

All the OECS countries except Montserrat and Saint Vincent and the Grenadines posted positive tourism figures in 2003, with aggregate growth of 12.6%, compared to-0.9% in 2002. This robust performance was led by a 9% increase in arrivals of cruise-ship passengers, which reflected an upturn in overall demand, the expansion of air transport services, favourable exchange rates (in the case of the United Kingdom) and improvements in promotional initiatives and in capital investment in infrastructure.

The construction sector, whose growth had slipped by 2.4% in 2002, expanded by 5.8% in aggregate terms in 2003, with upturns in most of the OECS countries. This sector benefited in part from the buoyancy of activities linked to the revival of tourism, such as hotel repairs and renovations, infrastructure maintenance and the implementation of projects in Anguilla, Antigua and Barbuda, Dominica and Grenada. In Anguilla, Dominica, Grenada and Saint Vincent and the Grenadines the construction sector's expansion was also boosted by other private- and public-sector projects. In

Saint Kitts and Nevis and Saint Lucia this sector contracted (-4.7% and -1.2%, respectively) owing to the completion of large-scale public and private infrastructure projects, delays in the implementation of the public-sector investment programme and cutbacks in public investment, such as those observed in Saint Kitts and Nevis with the implementation of the Structural Adjustment Technical Assistance Programme (SATAP).

(b) Prices, wages and employment

Aggregate inflation diminished (from 3% in December 2002 to 1.8% in December 2003), essentially as a result of general stability in most international prices.

The different countries recorded varying rates of inflation, ranging from 0.4% in Saint Lucia to 6.9% in Anguilla. A breakdown of consumer price increases by country and category shows that the items with the sharpest price hikes were medical care, transport and communications (in the case of Anguilla). The smallest increases were in the categories of alcoholic beverages, tobacco, fuel and, in the case of Saint Lucia, electricity. The biggest declines, meanwhile, occurred in the categories of housing (Anguilla), transport and communications (Saint Lucia) and alcoholic beverages (Dominica).

Available information shows that wages went up in three OECS countries (Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines). In Antigua and Barbuda civil-service wages were raised in the last quarter of the year, while in Grenada both public- and private-sector remuneration increased by 4%. Saint Vincent and the Grenadines raised the minimum wage as from April 2003. Dominica was the only State in which wages decreased (by 5% in the case of civil servants), owing to the implementation of the Poverty Reduction and Growth Facility (PRGF) arrangement.

No data are available on employment and unemployment at the aggregate level for the period under consideration; only partial information is available for some of the countries. In Grenada the employed population grew by 17%, while in Saint Lucia public-sector employment expanded by 2%. In Montserrat public-sector hiring declined by 11%. Nevertheless, it is estimated that the employed population increased in 2003 in keeping with the levels of activity recorded, particularly in sectors such as construction and tourism, whose growth trends diverged from their patterns of recent years.

(c) The external sector

The overall balance-of-payments position showed a surplus (1.3% of GDP), as the current account deficit (slightly over 23% of GDP in both 2002 and 2003) was easily financed with the surplus on the capital and financial account (about 25% of GDP). In terms of individual countries, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines recorded deficits on their external accounts (of 2.7%, 0.3% and 1.3% of GDP, respectively), while the rest had positive balances.

The performance of the current account reflected the widening of the merchandise trade deficit from 41.3% of GDP in 2002 to 44.6% in 2003, which was partly offset by the surplus on the services trade balance (of 21.4% of GDP in 2002 and 25.3% in 2003).

Merchandise exports contracted (-3.2%), owing especially to the poor performance of the agricultural sector, particularly the fall in banana production. Sugar exports also declined because yields were lower than they had been the preceding year. Exports of manufactures reflected a combination of factors, including the restructuring of a major company, the expansion of the regional market, increases in external demand and the negative effect of the agricultural sector's contraction on the production of paper and paperboard, among others.

Merchandise imports were up by 9.6%, reflecting the expansion in economic activity, renewed vigour in the construction sector and the increase in the oil import bill due to the surge in oil prices on the international market.

The balance of trade in services mirrored the recovery in tourism activity. The number of visitors grew by 9% and average tourist expenditure amounted to US$ 367 in 2002 and US$ 373 in 2003. Most visitors to the OECS countries come from the United States (31%), the Caribbean (29%) and the United Kingdom (25%). Among the member States, Saint Lucia received the largest share of total tourist arrivals, long-stay visitors and cruise-ship passengers, followed by Antigua and Barbuda.

The deficit on the income account essentially reflected debt interest payments (6% of GDP, in the aggregate, in 2003). Saint Lucia, Saint Vincent and the Grenadines and Grenada were the primary contributors, as their external debt-servicing payments accounted for nearly one fourth of the total.

Lastly, the capital and financial account reflected the combined effects of an increase in foreign direct investment in the development of tourism infrastructure (11% and 14% of GDP in 2002 and 2003, respectively), a decline in official grants as investment projects reached completion and a downturn in short-term capital inflows to commercial banks. Antigua and Barbuda, Grenada and Saint Lucia were the main recipients of foreign direct investment (22%, 19% and 24% of the total, respectively).