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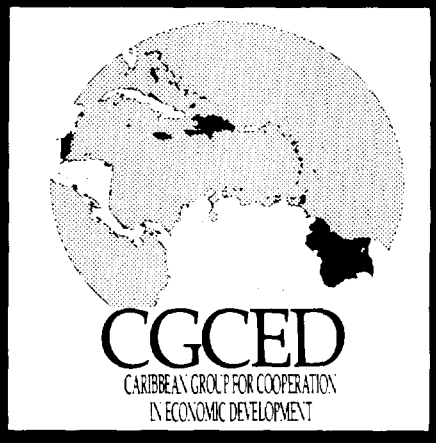

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ECONOMIC POLICIES FOR TRANSITION IN THE ORGANIZATION OF EASTERN CARIBBEAN STATES

World Bank
Caribbean Division
Country Department III
Latin America and the Caribbean

Caribbean Development Bank
Economic Programming Department

Economic Policies For Transition In The Organization Of Eastern Caribbean States

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THE WORLD BANK
CARIBBEAN DIVISION

CARIBBEAN DEVELOPMENT BANK
ECONOMIC PROGRAMMING DEPARTMENT

Preface

This report is written to assist OECS governments to make a successful transition to the new world economy. It is one of three reports prepared for the Caribbean Group for Cooperation in Economic Development (CGCED) meetings in June of 1994, the other two being Caribbean Region: Coping with Changes in the External Environment (Report No. 12821 LAC), and Caribbean Countries: Policies for Private Sector Development (Report No. 12617 LAC). Together they provide a vision for the Caribbean for the future. Coping with Changes in the External Environment discusses in detail the impact of global trading trends and what the Region must do to accommodate itself for the transition to a new environment. Preferential market access, trade policy, NAFTA and the response to external shocks are examined in detail. Policies for Private Sector Development is an in-depth examination of the legislative, fiscal and regulatory framework in place in the Region, and of the reforms that are required to position the Region to take advantage of private sector development, especially in tourism and in a multitude of viable service sector activities.

This report was prepared as part of a collaborative agreement between the Caribbean Development Bank (CDB) and the World Bank. It was prepared under the overall direction of José B. Sokol of the World Bank. A Mission Team consisting of Liaqat Ali (consultant), Carlos Holder (CDB) and Alasdair Sinclair (consultant), visited the OECS countries from July 19 to August 7, 1993. The team was accompanied by the country economist from the OECS Economic Affairs Secretariat in each country. Other contributions came from: the Eastern Caribbean Central Bank (ECCB); Raj Nallari, Badrul Haque and others in the World Bank; Nelson Modeste, Patrick Kendall, Michael Tharkur, Orai Williams, Averil Scantlebury-Maynard, Clarence Hinkson, Andrew Gilmour, Dorla Humes and Alan Slusher from the CDB. Richard Bernal, Jamaican Ambassador to the U.S., and Spiros Voyadzis of the World Bank, both made important suggestions. The support staff was headed by Hazel Vargas and included Milagros Divino, Deborah Trent, and Melissa Willams. The layout of the finished volume was done by Wendeline De Zan.

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Abbreviations and Acronyms

ACP	African, Caribbean and Pacific
ADCU	Agricultural Diversification Coordinating Unit
CARIBCAN	Canada's Preferential Trade Scheme for the Commonwealth Caribbean
CARICOM	Caribbean Community
CBI	Caribbean Basin Initiative
CD	Certificate of Deposit
CDB	Caribbean Development Bank
CET	Common External Tariff
CGCED	Caribbean Group for Cooperation in Economic Development
CIDA	Canadian International Development Agency
EC	Eastern Caribbean
ECCB	Eastern Caribbean Central Bank
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
ECSEDA	Eastern Caribbean States Export Development Agency
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FIA	Fiscal Incentives Act
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	General System of Preferences
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labor Office
IMF	International Monetary Fund
LDCs	Less Developed Countries
MFN	Most Favored Nation
MIGA	Multilateral Investment Guarantee Agency
MTESP	Medium Term Economic Strategy Paper
NACO	National Agricultural Corporation
NAFTA	North American Free Trade Agreement
NEAP	National Environmental Action Plan
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OECS	Organization of Eastern Caribbean States
OFA	Oils and Fats Agreement
PPP	Purchasing Power Parity
PSIP	Public Sector Investment Program
SAP	Structural Adjustment Program
SSMC	St. Kitts Manufacturing Corporation
UNDP	United Nations Development Programme
U.S.	United States of America
USAID	United States Agency for International Development
WINBAN	Windward Islands Banana Growers Association

Data Notes

Currency Unit = Eastern Caribbean Dollar (EC$)

Upon its creation in 1965, the EC dollar was tied to sterling at the rate of £1 = EC$4.8. In July 1976, the link with sterling was broken and the EC dollar was aligned with the US dollar.

Exchange Rate since July 1976

US$1 = EC$2.70
EC$1 = US$0.3704

OECS COUNTRIES' FISCAL YEAR

January 1 - December 31

Antigua and Barbuda, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines

April 1 - March 31

St. Lucia

July 1 - June 30

Dominica

Summary and Conclusions

Overview

The Organization of Eastern Caribbean States (OECS) countries are in a state of transition, from a world of protected market access for key products and large concessionary aid flows from bilateral donors to a world which is going to be much more competitive and market oriented. Globalization pressures are causing tariff and non-tariff barriers to fall world-wide, and aid flows are in danger of drying up as the major Organization for Economic Cooperation and Development (OECD) economies experience large fiscal constraints, and new and pressing claims for aid emerge from Eastern Europe, the Middle East, and Southern Africa.

The major implications of this report are: (i) banana producers in the Windward Islands are likely to be subject to a double squeeze involving price and quantity over the next few years, followed by the possibility of a shock in the form of the elimination of quotas in European Union (EU, formerly the European Community) markets; (ii) bananas will remain an important product only if the industry is reorganized on commercial grounds to increase productivity and quality closer to Latin American standards, implying a sharp reduction in employment in the industry; (iii) diversification into other agricultural crops will provide very limited opportunities for workers displaced from the banana industry; (iv) the sugar industry in St. Kitts and Nevis might be subject to steady declines in the real returns to the industry, making its long term existence problematic; (v) tourism with its direct and indirect impacts on other sectors is the key to long term income and employment growth in the Region; (vi) other service industries including business, financial and information services, repair, and medical activities provide opportunities for significant expansion; (vii) a macro-framework involving a stable and competitive exchange rate, liberalized trading relationships and fiscal discipline by governments will be required to enhance export prospects for tourism, agriculture, manufacturing and other services, supported by a public sector wage policy linked to productivity increases and by targeted public sector initiatives to remove key constraints; and (viii) environmental and human resource development policies must be consistent with long term sustainable growth.

Current Economic and Social Environment

The record of economic growth of the OECS countries from 1983 to 1990 was impressive by world standards, averaging over 6 percent per annum. This record is among the best in Latin America and the Caribbean over this period. Several factors were important to this achievement, including expanding export markets for traditional export products and success in the highly competitive tourist industry. Among the institutional factors engendering a successful economic performance were sound economic management by governments, and relatively high levels of official aid from multilateral and bilateral donors. A well articulated Public Sector Investment Program (PSIP) and increased attention to human resource development also contributed to this successful experience. A replication of the latter will be necessary to maintain rapid growth rates in the 1990s.

Poverty indicators for the OECS countries suggest that poverty is not a serious problem compared with the lower-middle-income group of countries. However, pockets of poverty exist in all countries. Health and education are important in themselves, and to sustain progress in tourism and other service sector activities. Women in the OECS countries are becoming better educated relative to men, and progress is being made in integrating women into positions of authority and responsibility in both public and private sectors. Maintenance and upgrading of the social infrastructure will require continued donor support.

The environment in the OECS countries remains pristine, but the rapid growth of banana production, tourism and other activities is placing an increasing burden on the environment, which is a matter of concern. Potential environmental problems could arise from inadequate waste management, land use practices and coastal zone management. Governments recognize the importance of pursuing

sound environmental policies, and each government has finalized a separate National Environmental Action Plan.

A Framework for Transition

The OECS countries experienced rapid growth in the 1980s, but performance in the 1990s has been at a much reduced level. Previous reports have identified many of the key problems in adjusting to the changing external environment. Despite many policy reforms to date, continuous improvement in the design and implementation of sound measures of economic policy will be required to achieve growth rates of the order of 4 percent. The trend to a more competitive external environment, illustrated clearly by the completion of the Uruguay Round and the successful formation of the North American Free Trade Agreement (NAFTA), means that the OECS countries will need to ensure that their economic policies are appropriate for a period of transition. Official aid flows to the Region will not maintain their previous levels. In addition, the banana industry is entering a period of uncertainty, engendered by the introduction of a new banana regime in the EU on July 1, 1993.

The banana industry must be restructured on commercial grounds so that productivity and quality are enhanced. In the meantime, efforts to promote export diversification and alternative sources of employment must be accelerated. Flexibility in goods and factor markets must be increased by trade liberalization and improvements in regulatory requirements, and by increased efficiency in implementation of policies (customs administration, work permits, fiscal incentives, etc.). Levels of debt, including domestic debt as well as foreign debt, need careful monitoring, since these levels are becoming a concern in some countries. The PSIP must be focused on areas that will support private sector development, with priorities established so as to eliminate the number of low return projects.

St. Lucia is in the best position to counter increased international competition and a reduction in aid flows, owing to its strong central government financial position and the high level of private direct foreign investment (DFI). Antigua and Barbuda are the most vulnerable, despite its high level of per capita income and strong tourist industry: its central government fiscal system is weak, and it has virtually no ability to borrow except on the basis of expensive suppliers credit. Dominica, with its heavy agricultural base and limited manufacturing and tourist activity, will have the most difficult adjustment problems. Grenada's situation is improving as it implements its structural adjustment program but there are still impediments to foreign capital inflows perceived by investors. St. Vincent and the Grenadines, St. Kitts and Nevis, and Montserrat have a sound macroeconomic framework, but should continue to encourage DFI, especially in the tourist and other services sectors. All countries, however, will need to develop and implement economic policies that will support adjustment and ease the process of transition to a new economic environment.

The OECS countries already recognize that policy coordination and the provision of common services can provide substantial benefits. The Eastern Caribbean Central Bank (ECCB), the OECS Secretariat and Windward Islands Banana Association (WINBAN) are but three of the successes in these areas. However, much remains to be accomplished to achieve maximum benefits from joint efforts. In addition to the need for coordination in administrative areas, there is an ongoing need for harmonization of policies relating to fiscal incentives, the Common External Tariff (CET) and consumption taxes, income and property taxes, and similar areas. Moreover, in light of rapidly changing external circumstances, the OECS countries should consider forming an economic union.

Formation of an economic union would be the logical culmination of the existing *Treaty Establishing the Organization of Eastern Caribbean States* and would provide concrete advantages to the member states. Labor mobility would be enhanced, and the flexibility of the economies in the face of external shocks increased. Bargaining strength would be increased vis-à-vis the EU and NAFTA, with the ability to negotiate as one bloc. Monetary and exchange rate issues would be viewed from a larger union perspective. Membership in organizations such as the Inter-American Development Bank would be easier to negotiate. Harmonization of tax and regulatory arrangements would be simpler, and many similar benefits would ensure from enhanced coordination services.

To increase competitiveness and reduce vulnerability to external shocks, increased factor mobility among

the OECS needs to be actively encouraged. Despite recent initiatives, much needs to be done in this area, particularly with respect to labor mobility, where free movement of OECS nationals within the OECS area should be encouraged. Improvements in capital mobility within the OECS and externally are an important means of mitigating the effects of a terms of trade shock that impinges upon only some member countries. The ECCB has recognized this and has initiated plans for improving capital mobility.

In the future, the OECS countries will have to rely more on domestically generated savings than in the past. This requires that governments adopt sound fiscal management policies which will generate increased public sector savings through surpluses on central bank's recurrent account and on state enterprises. Private sector savings need to be encouraged through improvements in financial markets, including development of regional (CARICOM - Caribbean Community) capital flows. In the case of public sector savings, these should be equivalent to at least 5 percent of GDP, particularly to meet the 40 percent counterpart financing requirement of multilateral donors on which the OECS countries will increasingly depend for development finance in the coming years.

A sound fiscal policy is necessary to constrain domestic inflationary pressures, to maintain a stable real exchange rate, and to enhance competitiveness in foreign markets. A critical component of a sound fiscal policy is to constrain the growth of public sector wage levels and amounts. Public sector wage levels should be geared to productivity increases. They should therefore allow for sufficient differentiation so that the public sector can attract well-trained and capable civil servants in competition with the private sector. General settlements that raise overall public sector wage levels in excess of productivity improvements will generate strong inflationary pressures and distort the relative price of tradeable goods, resulting in a less competitive economy.

On the revenue side, countries should undertake the following: (i) broaden the tax base for indirect taxes (import duties and consumption taxes) by reducing exemptions and concessions: typically such exemptions from import duties run to 50 percent or more of total imports; (ii) reduce the CET and integrate it with the consumption tax, and abolish stamp duties, customs surcharges ad other taxes on imports; (iii) strengthen tax administration in all countries, focusing initially on areas where a high benefit-cost ratio exists in terms of additional revenue achieved; and (iv) simplify the tax system in all countries by eliminating nuisance taxes, consolidating the number of different tax rates, and improving tax reporting forms. Tax harmonization among the OECS countries should be a priority issue.

On the expenditure side, governments should consider the following measures: (i) develop a smaller, leaner civil service establishment with competitive salary rates to attract able people. Set a target for wages and salaries as a percent of total government revenues below current levels; (ii) implement user pay charges in cases where efficiency gains are large (i.e., user-pay charges for water - or metering - can substantially increase efficiency and reduce required capital expenditures on water resource development and pressures on fiscal balances). Contract out government services where appropriate for private sector delivery; (iii) privatize government operated enterprises to increase efficiency of operation and reduce the drain on government fiscal budgets (successful privatization efforts have provided governments with lump sum funds from the sale of assets plus increased taxes and/or dividends from more efficient operation of the enterprises). Proceeds from the sale of assets should be used to reduce debt or finance investment; (iv) maintain or improve essential health, education and other social sector expenditures, while reducing or eliminating unnecessary programs in other areas; and (v) monitor PSIP estimates and project implementation more effectively in order to attain priority objectives in human resource development and infrastructure to support private sector development, and to reduce waste.

The OECS countries have a monetary and exchange rate system that has withstood two oil shocks, two major world recessions and a series of devastating natural disasters in the last 25 years. The system has been well structured and appropriately managed. In addition, it has been supported by substantial concessional flows. However, the outlook is for a number of shocks to come, including reductions in banana and sugar prices, reduced aid flows, and a possible negative impact from NAFTA. In general, a more competitive situation will prevail in the future. Export diversification has been taking place. Tourism has become the main source of export earnings in

most countries, and private capital flows have offset somewhat the recent decline in concessional aid programs. Thus, banana receipts, while important to individual countries, are and will continue to be dwarfed in importance by receipts from tourism, as tourism represents an increasing component of foreign exchange earnings. However, bananas have a significantly higher ratio of net value added to sales revenue, and the employment impact of bananas is considerable. The short-run mobility of labor employed in the banana industry is not high for most occupations in tourism and service sector industries. In the short term, any pressure on the monetary system can be handled by using stockpiled reserves or government generated fiscal reserve funds. However, there should be no relaxation of the strict limits on the central bank's lending to governments. Moreover, before stocks of reserves are depleted the countries will need to realign their relative price structures. Whatever the policy stance, the countries will have to adjust rapidly to external shocks with the instruments available. Recession with increased levels of unemployment is not a viable alternative.

Given the fixed rate of exchange between the EC dollar and the U.S. dollar, price competitiveness depends upon relative inflation rates in the OECS and in its major markets, and on shifts in the U.S. dollar exchange rate vis-à-vis European currencies. Low inflation rates in the OECS and a low U.S. dollar vis-à-vis European currencies enhance price competitiveness for OECS goods and services. In situations where the exchange rate is fixed and where domestic price levels for all goods rise relative to foreign price levels, causing an appreciation of the real exchange rate, a devaluation may be the preferred way in which to realign domestic and foreign prices. If the real exchange rate is not devalued, deflationary macroeconomic policies are required, whereas if it is devalued, stable macroeconomic policies are sufficient. If the parity of the currency were to be altered, if would be important that the move be viewed as a move to a new fixed parity, not as a move to a series of downward adjustments. To achieve this, complementary monetary and fiscal policy restraint, including public sector wage restraint, would be called for.

Exports of goods and non-factor services from the OECS countries depend upon price competitiveness, income levels in North America and Europe, preferential trading relationships, CARICOM policies, the quality of goods and services offered, and marketing arrangements. The OECS countries are subject to increased competitive forces in the world as a whole, together with the likely erosion of preferential market arrangements and reductions in aid flows. The potential loss associated with a drop in the price of bananas is large. Governments need to ensure that the banana industry is restructured on commercial grounds, increase flexibility in goods and factor markets, increase the efficiency of PSIP expenditures, improve the coordination of policy and of the provision of public services, and implement sound fiscal policies backed up by tight incomes policies on public sector wages. Monetary and exchange rate policies need constant monitoring to ensure that a competitive relative price regime is in place.

Export Prospects

OECS countries, along with other members of CARICOM, have agreed to a series of tariff reductions to take place between January 1-July 1, 1993 and January 1-July 1, 1997 (and 1998). These tariff reductions will reduce effective protection rates on uncompetitive import substitution industries and will enhance export prospects as the economies become more competitive. The OECS countries should move to reduce tariffs and other trade restrictions on a "fast-track" basis (January 1-July 1, 1997), since the initial stages of the CARICOM CET should not prove historically troublesome to OECS countries which have had a lower CET than other members of CARICOM. High tariffs add to the cost of operating a tourism and service sector oriented economy. A 5 percent across-the-board tariff eliminates high and variable effective protection rates, and provides some level of protection for light manufacturing industry without inducing serious distortions. Thus, over the longer term, and in tandem with a services oriented growth strategy, and with a tariff structure more consistent with those of more developed island countries, the OECS countries should strive to achieve a uniform 5 percent tariff.

Opportunities exist in the service sector for income and employment generation in many areas: financial and business services, retirement homes, offshore medical services, typing, 1-800 answering services, hospitals, and so on. Improved communications networks and enhanced public and private sector coordination are needed for success, including

increased factor mobility and harmonized company law, accounting and fiscal systems. Human resource development should be geared to the service sector.

In tourism, a wide range of improvements are needed to maintain and increase the number of arrivals and the length of stay. These problems are more acute in some countries than in others, but no country can afford to rest on its laurels in this highly competitive industry. Industry officials are aware of all of these problems, but government and private sector initiatives will need to be expanded and coordinated to ensure that tourism attains a high quality status in all of these areas.

The OECS countries must enhance export prospects by a variety of measures. A competitive real effective exchange rate is one essential, requiring a sound fiscal policy regime. Preferential trading relationships have been critical to the export of goods from the OECS, but they are under severe pressure. Preferential trading relationships are likely to be less favorable in the future for bananas and sugar, and changes under the General Agreement on Tariffs and Trade (GATT) because of the 1993 Uruguay Round negotiations and as a consequence of NAFTA may impact negatively on some manufactured exports. Niche marketing will be required for successful development of most manufacturing, and will require marketing information and intelligence support. Breaking into new export markets has been difficult for Caribbean producers in the past. Trade in services provides a real opportunity for expansion, however, if bottlenecks are eliminated and an appropriate regulatory framework is developed. Public sector reform encompasses a wide range of broad categories, from more efficient markets to improved administrative procedures to improved financial intermediation.

Bananas, Sugar and Manufacturing

On July 1, 1993, the EU introduced a new regime for banana marketing which will have major long term repercussions for the banana industry in the OECS countries. Prior to July 1, 1993, Windward Island and other ACP producers were able to sell any amount of production they were able to achieve in a protected UK market which gave high returns to producers, owing to a UK policy of import quotas on so-called "dollar bananas." Subsequent to July 1, 1993, Windward Island producers are restricted to selling a fixed quota of bananas per country in an EU wide market protected by a tariff-quota system which effectively limits imports of "dollar bananas" to 2 million tonnes per year. The initial reaction of the banana market in Europe to the changed policy has been moderate, as banana prices have stabilized at roughly their previous levels. However, this initial reaction is deceptive, since the new banana regime does not appear to be sustainable over the longer term (i.e., it is currently being challenged in the European Court and might be challenged by future GATT members), and the preferred position of Windward Island producers is likely to be substantially eroded over the next decade. In addition, the new regime is not transparent. Quotas are subject to annual reviews by a Banana Management Committee, and a complex licensing system is in place.

A distinct possibility of the new regime is that the quota rents will increasingly be captured by the marketers as opposed to the producers, owing to the enhanced role of the marketers in the licensing system. A mechanism should be developed to ensure that the rents are instead captured by the producing countries during the transition. One way to do this would be to eliminate the import licenses administered by the EU and allow the Caribbean countries that hold export quotas to sell or auction the import rights based on their export allocation.

Successful adaptation to the uncertainties created by the new banana regime, and to the eventual loss of preferential market access, requires a coordinated response from the EU, the donor community and the governments of the Windward Islands. The key issues involve the reduction of uncertainty, the rapid development and implementation of a strategy for economic diversification, the institution of appropriate incentives and the provision of a social safety net. The EU must increase the transparency and flexibility of the banana regime, and clarify the long term prospects for banana from the Windward Islands. The donor community must support required transitional measures, including enhanced technical assistance, and must assist in establishing the parameters of a targeted safety net program for those likely to be seriously disadvantaged.

A rapid response by Windward Island governments to the impending loss of preferential market access for bananas is critical for a successful transition to the new trading environment. Above all, governments

must demonstrate responsible leadership. This requires governments to articulate clearly that a competitive industry is an absolute requirement, in order to reduce uncertainty and to allow individual producers to make correct decisions concerning their future in the industry. The objective is to keep productive farmers in the industry, while discouraging the inefficient.

A credible plan for future development involves a stable and competitive macroeconomic framework and diversification into non-agricultural areas, including tourism and other services, and manufacturing. The PSIP needs to be targeted to these objectives, focusing on human resource development and provision of appropriate physical infrastructure for private sector development. As a transition measure, a financially viable social safety net program needs to be devised, based on an assessment of the likely impacts of adjustment on seriously disadvantaged groups, with increased donor flows to support the adjustment.

The key requirements for government policy are: (i) articulate a credible plan for the future of the banana industry; (ii) ensure that an appropriate, market-driven, organizational structure for the industry is in place; (iii) provide an incentive structure that encourages the efficient producers; (iv) provide a financially viable social safety net program; and (v) encourage rapid diversification into productive and competitive activities, particularly services, to the fullest possible.

Beginning September 1992, unit banana earnings have declined by about 20 percent. The Banana Growers Associations (BGA) in Dominica, St. Lucia, and St. Vincent and the Grenadines converted substantial accumulated reserves and also borrowed from local financial institutions to sustain price-support to the banana growers. By December 1993, the BGAs in all three countries were bankrupt with large outstanding debts - estimated at EC$25 million or 5 percent of GDP in Dominica, EC$42 million or 3 percent of GDP in St. Lucia, and EC$20 million or 4 percent of GDP in St. Vincent and the Grenadines. In addition, the governments of these countries are under pressure from the banana growers (ranging from 6,000 in Dominica to 8,000 in St. Lucia) to intervene in the day-to-day operations of the banana industry and to guarantee banana price-support at the current unsustainable levels. If the governments were to follow this course of action, the administrative and fiscal implications would be disastrous and could rapidly lead to macroeconomic imbalances in these countries.

Prospects for St. Kitts' sugar exports depend entirely on the continuation of the preferential market arrangements. A key aspect of these arrangements is their unilateral character; their benefits can be ended through a general reduction of trade barriers. In this respect, the internal harmonization of the EU market may adversely affect the premium prices which St. Kitts and Nevis enjoys for its sugar exports. Similarly, the ratification of NAFTA may, in the longer term, adversely affect Caribbean sugar exports to the U.S. market. Moreover, food and agriculture legislation in the U.S. has gradually reduced the U.S. quota. Because of the 1993 Uruguay Round negotiations, all U.S. and other OECD countries' quotas on sugar and other agricultural products will be converted to tariffs and these will be reduced 36 percent in stages. Prospects for sugar exports from St. Kitts and Nevis are not promising in the long run, owing to the possibilities of reduced U.S. quotas, an impending price squeeze on exports to the EU, and the general trend towards trade liberalization. Sugar prospects for St. Kitts and Nevis will not depend on its quota allocations in the future but on how competitive the country will be. The industry needs to improve its efficiency, but revenue losses are certain to occur if the preferential markets disappear. Human resource development programs are needed to improve diversification prospects.

While it is impossible to predict the future, a reasonable scenario for sugar is that preferential arrangements, in the long run, are likely to disappear and prices will continue to be eroded. This will place increasing pressure on the industry to improve its productivity. Some restructuring of the industry has taken place, but divestiture efforts need to be intensified now that costs have declined. Diversification into other sugar-based products, including high-quality rum, should be stepped-up. Given the significance of the preferential markets, it is important that any reduction in access be phased in over a period of years to reduce the shock effect and to allow for resources to move more easily into other productive areas.

All significant manufacturing export products benefit from preferential trading arrangements. Garments benefit from U.S. 806/807 customs regulations,

whereby duty in the U.S. is payable only on the OECS value added where the raw material (i.e., cloth) is of U.S. origin. Sugar is supported by quotas under Lomé and in the U.S. Soap products are protected within CARICOM by a high tariff on non-regional imports, as are flour, cardboard boxes and beer. In general, all manufacturing firms in non-enclave industries enjoy high levels of effective protection, whether or not they export within the Region. In the face of the probable decline in the benefits received from preferential market access, combined with competition for labor and rising real wages as a result of the expansion of tourism, the best strategy for development of manufacturing in the OECS is to focus on high skill, high technology activities.

The Incentive Framework

The new CET was to have been implemented by July 1, 1993, but not all OECS countries met this deadline. Following detailed analysis, most countries plan to offset any revenue loss from the implementation of the new CET with adjustments - in general, involving increases - to the consumption tax rate on a given product. The purpose of these increases in the consumption tax is to make the combined tariff reduction and consumption tax increases roughly revenue neutral in terms of recurrent tax revenue accruing to the central government.

The OECS central governments derive about 50 percent of their total recurrent revenue from taxes on international trade and from consumption taxes. Consumption taxes are charged on both foreign and domestic products, but owing to the limited nature of domestic production of taxable products, most consumption taxes are in practice raised from foreign produced goods. Changes to the CET or to consumption taxes have significant impacts on central government revenue. Apart from its impact on revenue, the new CET has raised concerns in the OECS relating to the pattern of trade flows, and to the ability of the countries to adapt to a more open trade regime. OECS countries should also eliminate stamp duties, customs surcharges and other restrictions on trade. In reducing their cost structure, the OECS countries will achieve a real devaluation, a requirement imposed by the more competitive world trading environment.

Most OECS countries have marketing boards, whose objectives are varied. While some concentrate on imports of selected items, others are also engaged in export promotion for non-traditional exports, in marketing farmers' produce to domestic hotels and supermarkets, and in operating markets. The service provided to local farmers is more extensive in some countries than in others, depending on the institutional strength of the marketing board. The export promotion service is also independently supported by regional organizations such as the Eastern Caribbean States Export Development Agency (ECSEDA). Experience in other countries suggests that the private sector can perform the marketing board tasks more efficiently. Reforms to marketing boards have improved the performance of the agricultural sector. These boards in the OECS countries should be privatized. In cases where this cannot be done immediately, a minimum first step should be the elimination of any legal monopoly rights the boards now have. Price controls need to be eliminated as part of this reform process.

Governments play a major role in reviewing and approving investment decisions in the Caribbean countries. While some of these activities are necessary, and in the public interest, poor administrative practices have increased the costs of doing business through delays and excessive information requirements. Also, in many countries lack of clear criteria has impaired transparency and increased the costs of doing business. It is therefore difficult for an investor to know how to satisfy information requirements. Reforms are required in a number of areas, including tax administration, customs administration, land use approval, companies legislation and market access.

There are several ways in which the incentive framework in the OECS countries can be improved. Reduction of the CET should be undertaken on a fast-track basis. Duty free entry of imports under fiscal incentive programs needs to be restricted in scope. Calculations show that duty free entry is very common, and results in large revenue losses. Import licensing and price controls should be eliminated, and market access improved through the elimination of marketing boards and through administrative reforms, including the provision of effective one-stop shop arrangements.

The Public Sector Investment Program

Given the pressures arising from a more competitive world trading environment and the need to support private sector development, the PSIP should support projects designed to provide an appropriate framework for the expansion of private investment. Social infrastructure and human resource development projects are critical in this regard. The total proposed PSIP for 1994-96 reflects this focus with emphasis on infrastructure (61 percent), social sectors (22 percent) and supporting economic sectors (12 percent). Administration and public safety projects account for the remainder (5 percent). PSIP planning and implementation needs improvement, however.

Growth Prospects

Projections for individual OECS countries indicate low growth prospects if external pressures are allowed to impact on the economies without an appropriate policy response. Higher growth prospects require that an effective transition to the new trading environment be achieved through appropriate policy measures, including a stable and competitive macroeconomic framework, increased factor mobility, and improved tax and regulatory procedures. These are the measures that should receive priority attention in the short run.

Repositioning of Economies

Caribbean economies, including the OECS countries, are in a state of transition. Old economic institutions and ideas are being altered by external circumstances, and there is a need to reposition the economies to take advantage of the existing comparative advantage in skilled, human resource intensive activities. Private sector initiatives in tourism and other service sector activities need to be supported by investment in suitable infrastructure (telecommunications links, water and sewerage, transportation) and by human resource investment (education, health). Location and manpower advantages exist and need to be exploited through strategic planning that capitalizes on these advantages, given the stable political and social environment. This is the agenda that challenges the OECS countries.

1
Introduction

Overview

This report is a joint study of the economies of the Organization of Eastern Caribbean States (OECS)[1] countries undertaken by the Caribbean Development Bank (CDB) and the World Bank. It is one of three reports that are being prepared for the Caribbean Group for Cooperation in Economic Development (CGCED) meetings in June of 1994, the other two being Caribbean Region: Coping with Changes in the External Environment (Report No. 12821 LAC) and Caribbean Countries: Policies for Private Sector Development (Report No. 12617 LAC). Together they provide a vision for the Caribbean for the future. Coping with Changes in the External Environment discusses in detail the impact of global trading trends and what the Region must do to accommodate itself for the transition to a new environment. Preferential market access, trade policy, North American Free Trade Agreement (NAFTA) and the response to external shocks are examined in detail. Policies for Private Sector Development is an in-depth examination of the legislative, fiscal and regulatory framework in place in the Region, and of the reforms that are required to position the Region to take advantage of private sector development, especially in tourism and in a multitude of viable service sector activities.

Over the last decade, the OECS countries have achieved significant gains in the standard of living of their people despite being exceptionally vulnerable to unfavorable external circumstances. Overall, the economies performed well despite declines in their terms of trade, fluctuations in the growth performance of the world economy and inclement weather, including devastating hurricanes, thanks to substantial inflows of concessionary financing. However, a variety of favorable external factors which fuelled past growth are less likely to be at hand in the future. The guaranteed market for bananas, of great significance to many of these countries, will be affected adversely by developments in the European Union (EU, formerly European Community) which are leading to the creation of a fully integrated market. Additionally, the multilateral grant aid and concessionary flows upon which the countries have been dependent have been declining, and are likely to continue to decline over time. Nevertheless, a significant potential for expansion exists if the countries pursue their comparative advantage.

The OECS countries are in a state of transition, from a world of protected market access for key products and large concessionary aid flows from bilateral donors to a world which is going to be much more competitive and market oriented. The OECS countries have displayed resilience in the past with the rise and fall of specific agricultural products, especially sugar. There is an urgent need to ensure that current levels of investment in human and physical capital are sufficient to ensure that this flexibility exists in the new world environment that they collectively face. Globalization pressures are causing tariff and non-tariff barriers to fall world-wide, and aid flows are in danger of drying up as the Ogranization for Economic Cooperation and Development (OECD) economies experience fiscal cyonstraints and new and pressing claims for aid emerge from Eastern Europe, the Middle East, and Southern Africa. This report is written to assist OECS governments to make a successful transition to the new world economy. A key issue relates to the change in EU's banana regime introduced on July 1, 1993, a change which alters the

[1] The OECS countries include Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

preferential arrangement for bananas in the United Kingdom market enjoyed in recent decades by the Windward Islands. This development will impact on both banana producers and non-banana producing countries within the OECS, and will have regional implications for the Caribbean Community (CARICOM) as a whole, owing to trade and financial linkages among the countries. Sugar agreements, of major significance to St. Kitts and Nevis, are also under potential pressure. Other key issues discussed in the Report relate to trade liberalization policies, and to public infrastructure policies as reflected in each country's Public Sector Investment Program (PSIP). The Eastern Caribbean Central Bank (ECCB) has prepared "A Proposed Economic Development Strategy for the OECS/ECCB Area," dated March 1993, which has been endorsed by the Heads of governments and which complements this report. Other economic and sector work is addressing environmental policy, private sector development, social sector policy, and tourism.

The purpose of this report is to identify and analyze factors and policies that have contributed to past performance, to set recent developments in better perspective and to assist in framing the relevant issues and questions for policy formulation. Thus, the report focuses on a number of key areas which are critical for the countries' longer-term development. Chapter I of this report discusses recent economic reports relating to the OECS, and the progress made towards meeting their recommendations. Recent economic progress is then analyzed. Chapter II describes the economic framework that is required for transition to the new world trading environment. Chapter III discusses the factors which bear on export prospects, a key determinant of growth. Chapter IV is concerned with important impending changes in preferential market access for bananas, sugar and manufacturing products. Chapter V discusses the incentive framework necessary to move the OECS economies towards an export oriented service sector basis. Chapter VI describes the focus of the PSIP. Chapters VII through XIII analyze for each country its economic prospects under low growth (base case) and high growth (alternative case) scenarios.

The major implications are:

- banana producers in the Windward Islands are likely to be subject to a double squeeze involving price and quantity over the next few years, followed by the possibility of a shock in the form of the elimination of quotas in EU markets;

- bananas will remain an important product only if the industry is reorganized on commercial grounds to increase productivity and quality closer to Latin American standards, implying a sharp reduction in employment in the industry;

- diversification into other agricultural crops will provide very limited opportunities for workers displaced from the banana industry;

- the sugar industry in St. Kitts and Nevis is likely to be subject to steady declines in the real returns to the industry, making its long term existence problematic;

- tourism with its direct and indirect impacts on other sectors is the key to long term income and employment growth in the Region;

- other service industries including business, financial and information services, repair, and medical activities provide opportunities for significant expansion;

- a macro-framework involving a stable and competitive exchange rate, liberalized trading relationships and fiscal discipline by governments will be required to enhance export prospects for tourism, agriculture, manufacturing and other services, supported by a public sector wage policy linked to productivity increases and by targeted public sector initiatives to remove key constraints; and

- environmental and human resource development policies must be consistent with long term sustainable growth.

Previous Reports - Selected Issues

This report updates the previous World Bank report on *The Long Term Prospects of the OECS Countries* (Report No. 8058-CRG, dated February 15, 1990) in selected areas relating to the macro-framework, bananas and sugar, trade liberalization and public sector investment. Since that report was prepared, the World Bank has issued for each

OECS country except Montserrat, an "Updating Economic Note" in 1990, and a "Country Economic Memorandum" (or related document) in 1992. Trade policies for CARICOM are discussed in "The Caribbean Common Market: Trade Policies and Regional Integration," Report No. 8381-CRG, dated December 21, 1990. The "*Caribbean Region: Current Economic Situation Regional, Issues, and Capital Flows, 1992,*" (Report No. 10472-CRG, dated April 23, 1992), discussed many of the issues raised in this report, including those related to the environment, and their emergence at this time is not unexpected. All OECS countries have prepared National Environmental Action Plans (NEAPs) which complement this report.[2]

Economic Performance

Previous reports indicate that the OECS countries performed well in economic terms in the 1980s owing to a number of circumstances: a stable exchange rate; generally sound macroeconomic policies; absence of external debt problems owing partly to private investment and aid flows; an increase in the sterling price of bananas combined with favorable preferential market access; ready access to grants, concessionary loans and transfers from abroad; the development of enclave manufacturing industries in garments and electronics linked to U.S. markets via 806/807 arrangements and the Caribbean Basin Initiative (CBI); and the strong growth in tourism capacity and subsequent increase in tourist arrivals. Health, education and other social indicators indicate that the economic growth in this period was accompanied by improvements in these areas to levels generally above those for countries with similar levels of per capita GDP. For most countries, growth rates in the 1990s have been reduced below the very impressive performance of the 1980s owing to the world recession, weather disruptions, falling terms of trade for agricultural output and the depreciation of the Pound Sterling.

Country Response to Policy Recommendations

Policy recommendations for the OECS countries have covered a wide range of issues. For the purposes of this report, key recommendations relate to reducing dependence on bananas, maintenance of a fixed exchange rate regime, reduction in fiscal imbalances, liberalization of trading relationships, privatization of commercial-type government enterprises and improvements in public administration. Several reports have emphasized increased labor and capital mobility. External debt arrears have been problematic in Antigua and Barbuda and Grenada, and recommendations have covered ways in which these problems could be overcome (fiscal restraint, privatization, better tax administration). In general terms, most OECS countries have tended to adopt these recommendations. All governments recognize that the role of government is to support private sector initiatives through regulatory reform, public infrastructure programs and the provision of education, health and related social services.

The vulnerability of the banana industry receives regular attention at the highest levels of government, exemplified by the relative success of the Region in continuing to gain access to EU markets on preferential terms, and by government concern that the industry be restructured to meet competitive pressures from Latin American bananas. The EC dollar has remained pegged to the US dollar, with the ECCB holding foreign exchange reserves that are slightly in excess of its note liabilities, and well above the legal requirement of 60 percent cover. A salient feature of the economic performance of the OECS countries has been their inability to monetize debt via central bank operations, which has resulted in generally sound fiscal management practices. With respect to fiscal imbalances, some countries have generated enviable records of current account surpluses on public sector accounts, but in others the situation is less impressive (see Table 2.4 in Chapter 2).

All governments recognize the critical role of fiscal policy in maintaining a stable macroeconomic framework within the context of the fixed exchange rate regime. All governments have agreed to implement the new CARICOM Common External Tariff (CET), which provides for the progressive reduction of most tariff rates over a five year period. However, not all have implemented the new policy in a way which reduces real protection, since one import tax has been replaced with another in some cases. Governments have moved slowly to take advantage of opportunities in service sector activities.

[2] In addition, CGCED meetings held in Washington, D.C. in June 1992 stressed the need for adjustment to take place in response to the changing external environment, including increasing competitiveness in world markets and reduced aid flows.

Governments are also conscious of the potential distortions caused by price controls and import licensing systems, and these systems are gradually becoming liberalized throughout the Region. Results with respect to privatization have been slow but governments are receptive to the need to privatize more rapidly. Improvements in public administration have occurred in several dimensions: improvements in the regulatory framework, increased training for civil servants, and down-sizing the civil service establishment where numbers are excessive. However, much remains to be done in these areas. Similarly, labor mobility among the OECS countries has not been systematically approached by governments, but efforts to promote capital mobility, under the direction and impetus of the ECCB, are impressive for their timeliness and comprehensive nature. External debt problems remain serious constraints on economic policy in both Antigua and Barbuda and Grenada, causing, among other problems, a dangerously low level of public sector investment even to maintain the level of social infrastructure capital.

Despite the impressive performance to date, the OECS countries remain vulnerable to a changing world environment of increased competitiveness, reduced access to preferential markets and diminished aid flows. Continuous improvement in the design and implementation of sound measures of economic policy will be required to maintain adequate levels of economic growth. Small island economies are particularly vulnerable to external pressures, given their narrow resource base and restricted administrative capacity. Some of the required policies are outlined in this report, and others have been developed or will be developed in a number of major initiatives.

Recent Economic Performance[3]

Overview

The first three years of the 1990's were marked by a slowing down of growth to an annual average of about 3.4 percent (see Table I.1). The record of economic growth of the OECS countries from 1983 to 1990 was impressive by world standards, averaging over 6 percent per annum. This record is among the best in Latin America and the Caribbean over this period. Several factors were important to this achievement, including expanding export markets for traditional export products and success in the highly competitive tourist industry. Among the institutional factors engendering a successful economic performance were sound economic management by governments, and relatively high levels of official aid from multilateral and bilateral donors. The slower economic growth in the 1990s was due to a combination of factors including damage to agricultural crops, tourism facilities and other infrastructure which resulted from the passage of hurricane Hugo in September 1989. Recovery from the effects of the hurricane was constrained by the OECD economic slowdown, particularly in the United States, the United Kingdom and Canada, which are the main markets for exports and tourism.

In 1992, preliminary estimates of real GDP growth for the Region as a whole were set at 3.6 percent, up from 1.9 percent in 1991 but down from 5 percent recorded in 1990. The increased rate of economic growth in 1992 was attributed to the recovery in agricultural production and exports and continued growth in tourism. Output in 1991 was severely impacted by hurricanes.

Sectoral Performance

Sectoral performance has varied, with tourism showing the fastest growth overall. Cruise ship arrivals have expanded sharply. Agricultural output has been influenced by weather and variable terms of trade, and manufacturing performance has shown a generally steady improvement.

Production of agricultural commodities, which are important sources of foreign exchange, fluctuated substantially from year to year reflecting the effects of variable weather and market conditions. (See Table I.2. Figures are for current dollar GDP by sector since constant dollar estimates use different base years for different countries). Real output in agriculture for the Region grew by 11 percent in 1992, following a contraction of 4.5 percent in 1991 and about 4.5 percent growth in 1990.

Banana production accounts for a large proportion of the value added in agriculture in St. Lucia and St. Vincent and the Grenadines, and to a lesser extent Dominica. Production for the group as indicated by

[3] The Statistical Appendix contains country-specific data for 1988-92 on GDP, GDP by sector, balance of payments and central government operations.

export volume rose by 14 percent in 1992 following an estimated 18 percent contraction in 1991 and 10.9 percent growth in 1990. However, the future of the industry is uncertain as preferential access to the United Kingdom market may be eroded as a result of the formation of the European single market which will allow more competitive non-traditional suppliers to have easier access to this market.

In Grenada, where cocoa, nutmeg and mace have been important earners of foreign exchange, cocoa production rose by 17 percent in 1992 following a sharp rise in 1990 and a 26 percent decline in 1991. The 11 percent reduction in nutmeg in 1992 reflected a sharp reduction in the price paid to the farmers. Since the late 1980's, the earnings of the cocoa industry have been affected by depressed prices caused by excess world supply and accumulated stocks. However, in recent times, the Cocoa Association concluded an arrangement with the United States importer for the purchase of specific quantities at agreed prices. With the breakdown of the agreement between Grenada and Indonesia, export prices of nutmeg continued to fall and the market has been generally depressed.

In St. Kitts and Nevis, sugar cane production was adversely affected by hurricane Hugo and the output of sugar dropped to a historically low level in 1990 as a result of a 33 percent drop in cane production in 1990. In 1991, sugar cane production rose by 30 percent reflecting, in part, favorable weather conditions and measures introduced to improve the operational efficiency of the industry. The industry also improved its financial situation markedly, but continued to be affected by a shortage of labor for harvesting. However, the problem was alleviated to some extent as workers from other CARICOM countries were brought in to assist with the reaping of the crop.

The manufacturing sector in the Region comprises chiefly agro-processing, beverages and light manufactured goods, garment manufacture and electronic assembly. Following a 2 percent contraction in the sector in 1990, there was a recovery in 1991 when regional manufacturing rose by 28 percent. Growth in the sector in 1992 averaged 2 percent as sugar production rose by 4 percent while there was also increased output of commodities such as flour, rice and soap. In 1991, growth in manufacturing came primarily from a 28 percent increase in sugar production. The performance in the enclave sector was sluggish due to the recession in the United States, the main market.

Tourism in the Region grew by 9 percent in 1992 as indicated by the value added in the hotel and restaurant sector, compared with 6 percent in 1991 and 8 percent in 1990. In 1990, stay-over visitors to the Region increased by 9 percent while cruise ship visitors rose 21 percent. The growth in stay-over visitors was strongest for Dominica and Grenada which recorded increases of 28 and 19.5 percent, respectively. In 1991, the number of stay-over visitors to the area rose by 6 percent, despite the unfavorable economic conditions in the main tourist markets. As in previous years, there was considerable variation in the performance of the individual countries. Strong growth was recorded in Grenada, St. Kitts and Nevis and St. Lucia, countries in which hotel capacity expanded recently. There was a more moderate increase in Dominica while the remaining countries realized a decline in arrivals. Stay-over visitors to the area rose 5 percent in 1992, with growth exceeding the average for the area in Antigua and Barbuda, St. Kitts and Nevis, and St. Lucia. Grenada recorded a moderate decline while growth in the remaining countries was modest.

Cruise ship arrivals in the individual countries were quite varied in 1990 with sharp rises in Grenada and St. Vincent and the Grenadines, declines in St. Kitts and Nevis, and St. Lucia and moderate increases in the remaining countries. The growth in cruise ship passenger arrivals at 25 percent in 1991 was stronger than in 1990 and this reflected the improvements to berthing facilities in some countries and a rise in traffic in the Caribbean generally. In 1992, cruise ship visitors increased by just 4.5 percent with performance varying in the individual countries.

Activity in the construction sector was sharply curtailed throughout the Region in 1990. This was due to tight liquidity conditions in the banking system which led to cutbacks in commercial bank lending to the sector. This coincided with weak public sector investment in economic and social infrastructure following the completion of a number of major projects in 1988 and 1989. Direct foreign investment (DFI) in the hotel industry provided the impetus to growth in the sector in 1990. In 1991, construction activity for the Region as a whole remained relatively flat, expanding by just about one percent. Activity

during the year was based on a revival of public sector investment in some countries, especially St. Lucia, and St. Vincent and the Grenadines, and a pick-up in residential construction. In 1992, activity continued to be flat, expanding by just under one percent. While private sector investment activity increased, reflecting further investment in hotel

Table 1.1: Real Gross Domestic Product, 1983-92 (annual growth rates)

	1983-87	1988	1989	1990	1991	1992
Antigua and Barbuda	8.4	7.7	6.3	3.5	4.3	1.7
St. Kitts and Nevis	5.4	9.8	6.7	3.0	3.9	3.6
Montserrat	3.5	9.4	11.5	14.7	-23.7	4.3
Dominica	4.6	7.9	-1.1	6.6	2.0	2.6
St. Lucia	7.3	12.7	8.5	3.9	1.6	6.6
St. Vincent and the Grenadines	5.9	8.6	7.2	7.1	3.1	4.7
Grenada	4.6	5.3	5.7	5.2	2.9	0.6
OECS[a]	6.5	9.1	5.7	5.0	1.9	3.6

a. OECS average uses nominal GDP as weights.

Source: Statistical Appendix.

capacity and a resumption of commercial bank lending for residential construction, this was almost offset by a 6.4 percent decline in the investment activity of the regional governments.

There are no officially compiled statistics on the labor force and employment for the member countries. However, the available labor market indicators suggest that in 1990 overall employment increased in line with the overall growth of the regional economy, though it may have fallen in some sectors. The construction and manufacturing sectors weakened in 1990 and were most likely to have realized job losses but these would have been partially offset by employment gains in the tourism sector. Mismatching of vacancies and skills remains a problem.

The population census which was conducted in 1991 indicated that the populations of most of the countries had been previously overestimated. There is a need for assistance to improve the quality of data.

Public Finances

The public finances of a number of member countries of the OECS recorded satisfactory performances during the period as a result of prudent fiscal policies. Despite the slow-down in economic activity, three of the seven countries were able to strengthen central government savings while it weakened in the others. In 1992, the weakening in the finances of the central governments was a reflection of slower economic activity. The combined current account surplus for the Region fell to EC$95 million from EC$105 million in 1990, as only three countries recorded surpluses, while four recorded deficits (see Table 2.4).

During 1990, revenue grew at a slower pace than in the previous two years. As the economies experienced slower growth there was a corresponding slow-down in the growth of imports from which a substantial portion of revenue is derived through the imposition of import duties and consumption taxes. Public sector savings were achieved mainly by the containment of expenditure.

In 1991, revenue collection for the group totalled about EC$1,150 million, an increase of 4.7 percent as against 9.4 percent in the previous year. In general, the weakness in revenue collected was more evident in the countries with a stronger dependence on indirect taxes as a major source of revenue and with

Table 1.2: OECS-GDP by Economic Activity in Selected Sectors, 1990-92
(current EC$ million and percent of GDP)[a]

	1990		1991		1992	
Antigua and Barbuda						
Agriculture	37.3	(3.4)	39.2	(3.5)	41.2	(3.5)
Manufacturing	30.2	(2.8)	28.6	(2.6)	26.8	(2.3)
Hotels and Restaurants	129.0	(11.9)	122.8	(11.1)	140.0	(11.8)
Dominica						
Agriculture	92.5	(19.9)	96.9	(19.5)	98.5	(16.2)
Manufacturing	26.4	(5.7)	30.7	(6.2)	31.3	(5.2)
Hotels and Restaurants	7.6	(1.6)	8.8	(1.8)	10.1	(1.7)
Grenada						
Agriculture	71.3	(13.2)	68.8	(12.1)	63.7	(11.2)
Manufacturing	22.6	(4.2)	24.3	(4.3)	25.5	(4.5)
Hotels and Restaurants	27.7	(5.1)	33.2	(5.9)	34.9	(6.1)
Montserrat						
Agriculture	4.1	(2.2)	5.0	(3.1)	6.3	(3.7)
Manufacturing	4.9	(2.6)	3.2	(2.0)	3.4	(2.0)
Hotels and Restaurants	5.8	(3.1)	6.2	(3.9)	6.3	(3.7)
St. Kitts and Nevis						
Agriculture	23.3	(5.5)	25.5	(5.5)	25.1	(4.9)
Manufacturing	46.2	(10.8)	45.4	(9.8)	48.9	(9.5)
Hotels and Restaurants	27.5	(6.4)	34.7	(7.5)	41.6	(8.1)
St. Lucia						
Agriculture	130.6	(12.4)	128.4	(11.4)	149.6	(11.8)
Manufacturing	73.0	(7.0)	77.7	(6.9)	81.5	(6.4)
Hotels and Restaurants	77.4	(7.4)	89.0	(7.9)	105.0	(8.3)
St. Vincent and the Grenadines						
Agriculture	83.9	(16.3)	79.1	(14.0)	89.8	(14.7)
Manufacturing	38.5	(7.5)	43.4	(7.7)	45.9	(7.5)
Hotels and Restaurants	10.1	(2.0)	11.3	(2.0)	12.8	(2.1)

a. Percent of GDP in parentheses.
Source: Statistical Appendix.

weaknesses in tax administration. By 1992, the combined revenue intake of the Region increased by about 5 percent over 1991 to about EC$1200 million. All countries except Grenada and Montserrat realized revenue increases in excess of 5 percent. The reduction of revenue in Montserrat reflected the return to a normal level of economic activity, following the high level associated with the rehabilitation exercise following the hurricane.

During 1990, public sector savings were achieved mainly by containing expenditure. This was done by keeping in check increases in wages and salaries which is the largest expenditure item in the current account finances of the governments. In 1991, the expenditure on current account rose by 6.2 percent to about EC$1050 million. Current expenditure was somewhat invariant to the level of economic activity as obligations such as wages, salaries and interest payments tend to be fixed. Expenditure for wages and salaries for the Region grew 7 percent while that

on interest payments rose only marginally. The efforts to contain expenditure were directed mainly at goods and services and some restraint in outlay was observed.

In the future, OECS countries will have to rely more on domestically generated savings than in the past. This requires that governments adopt sound fiscal management policies which will generate public sector savings through surpluses on recurrent account. Moreover, private sector savings need to be encouraged through the strengthening and deepening of financial markets.

Money and Credit

Monetary conditions during 1992 were characterized by falling interest rates, reflecting high liquidity in most of the banks, and the low interest rates prevailing internationally. During the period of strong export growth in the latter half of the 1980s, both deposits and credit grew rapidly. The growth of export earnings fell in 1989-1990, and the growth of private sector deposits was insufficient to meet the continued strong loan demand. This led to a reduction in the banks' liquid assets, a sharp increase in interest rates, and the curtailment of lending, particularly for home mortgages. The liquidity situation improved markedly, starting in the latter half of 1991, and this precipitated a sharp drop in deposit interest rates in 1992. Time deposit interest rates ranged between 2 percent and 6.5 percent, depending on the amount and maturity, compared with a range of 4 percent and 8 percent a year earlier. By contrast, the banks' lending rates showed very little downward movement. The prime lending rates reported by the banks continued to range between 9 percent and 13 percent, although within the range a few banks have reduced the prime rate by half a percentage point. The spread is very high, reflecting the small size of the market and limited competition.

Despite the higher rate of growth in 1992 relative to 1991, there was a deceleration in the rate of monetary expansion. The total monetary liabilities of the banking system grew by 7.6 percent in 1992, as against an increase of 8.8 percent in 1991. Coincidentally, both the currency holdings of the public and private sector deposits grew at the same rate of 7.6 percent. The narrow measure of money, currency plus demand deposits, which is perhaps more closely linked to economic activity, grew at a comparatively stronger rate of 15.5 percent, and contrasted with near zero growth in 1991.

Domestic credit in 1992 also expanded at a slower rate, 8 percent, as against 9 percent in 1991. Reflecting the improvement in fiscal performance and a reduction in capital outlays, net credit to the Central Government declined by 8.4 percent. However, lending to the rest of the public sector rose sharply by 23.7 percent. Private sector credit extended solely by the commercial banks, expanded at a slightly slower rate of 10 percent compared with 10.4 percent in 1991. The increase in private sector credit was directed mainly to businesses, credit to which expanded by 13.4 percent. Personal loans, which absorbed about 40 percent of commercial bank loans, grew at a much slower rate of 4.6 percent.

In the increased credit to business, significant allocations were made to agriculture (13 percent), manufacturing (5.7 percent), tourism (11.4 percent) and distribution (12.6 percent). In the credit allocated to personal loans, the amount extended for mortgages rose by 8.8 percent, while lending for consumer durable goods fell by 2.9 percent.

The net foreign assets of the monetary system at the end of 1992 stood at US$1,041 million, an increase of 11.5 percent over the figure at the end of 1991. In that amount, the net reserves of the Central Bank accounted for US$716 million, an increase of 27.3 percent compared with the figure at the end of 1991. The net reserves of the Central Bank have increased by over US$300 million since 1988. Net foreign assets held by the commercial banks stood at US$325 million, a reduction of 12.4 percent. The commercial banks' net foreign assets fell significantly in the latter half of 1992, due to the external borrowing of one major bank to finance the activities of a large corporate client. In aggregate, the net foreign assets of the monetary system at year end were roughly equivalent to about 4 months of imports.

Table I.3: Selected Central Government Debt Indicators, 1992 [a]

	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines	Overall
	in percent of exports of goods and nonfactor services						
Total public external debt	113.6	88.1	91.1	37.8	33.3	51.0	74.6
o/w: Arrears	57.2	0.0	11.8	0.0	0.0	0.0	21.8
External debt service (cash)	1.9	5.5	5.5	2.3	3.8	3.5	3.3
External debt service (due)	12.6	5.5	7.6	2.3	3.8	3.5	7.3
	in percent of central government revenue -						
Domestic debt	73.0	81.8	98.0	148.8	35.6	49.9	69.9
Total public external debt	561.3	173.1	177.9	102.4	80.5	109.7	209.8
o/w: Arrears	282.8	0.0	23.1	0.0	0.0	0.0	61.3
Total debt service (cash)	10.8	15.8	12.9	11.2	11.6	9.9	11.6
Total debt service (due)	63.6	15.8	16.8	11.2	11.1	9.9	23.1
Domestic	1.2	4.9	1.9	4.9	1.9	2.4	2.5
External (cash)	9.5	10.9	10.8	6.3	1.2	7.5	9.2
External (due)	62.4	10.9	14.9	6.3	9.2	7.5	20.8
	in percent of GDP						
Domestic debt	15.1	23.6	26.6	32.2	10.2	13.0	17.8
Total public external debt	116.4	50.0	48.3	22.4	23.1	28.5	53.3
o/w: Arrears	58.6	0.0	6.3	0.0	0.0	0.0	15.6
Total debt service (cash)	2.2	4.6	3.4	2.5	3.2	2.6	3.0
Total debt service (due)	13.2	4.6	4.6	2.5	3.2	2.6	5.9
Domestic	0.2	1.4	0.5	1.1	0.5	0.8	0.8
External (cash)	2.0	3.1	2.9	1.4	2.6	1.9	2.3
External (due)	12.8	3.1	4.0	1.4	2.6	1.9	5.2
	in percentt						
Average interest on external debt	8.4	2.5	3.5	n.a.	n.a.	3.4	5.8
MEMORANDUM ITEMS:	in millions of US$						
Domestic debt	65.9	43.6	57.3	62.1	48.1	28.4	306.3
Debt service	1.1	2.6	1.1	2.1	2.5	1.4	10.9
Total public external debt	506.4	92.4	103.9	43.4	108.7	64.6	919.3
Public external debt (excl. arrears)	251.3	92.4	90.4	43.4	108.7	64.6	650.7
Debt service (cash basis)	8.6	5.8	6.3	2.7	12.4	4.4	40.1
Debt service (due basis)	56.3	5.8	8.7	2.7	12.4	4.4	90.2
Stock of arrears	255.1	0.0	13.5	0.0	0.0	0	268.8
Principal	147.4	0.0	11.1	0.0	0.0	0	158.5
Interest	107.7	0.0	2.4	0.0	0.0	0	110.1
Central government revenue	90.2	53.4	58.4	42.3	135.0	58.9	438.2
GDP	435.2	185.0	215.1	193.0	471.0	226.6	1725.9
Export of goods and nonfactor services	445.9	105.0	114.1	115.1	326.6	126.6	1233.2
	in percent of exports of goods and nonfactor services						
Domestic debt	14.8	41.6	50.2	53.9	14.7	23.2	24.8
Domestic debt service	0.3	2.5	1.0	1.8	0.8	1.1	0.9

The External Sector

In the balance of payments, the deficit on the current account for the Region in 1992 is estimated to have narrowed to 12.8 percent of the aggregate GDP from 16.9 percent in 1991. To a large extent, the improvement reflected a significant increase in exports, mainly increased earnings from bananas, and the re-export of petroleum products from Antigua and Barbuda. As was often the case, in previous years, the

current account deficit in 1992 was more than covered by private inflows and official capital. Accordingly, the overall balance showed an increased surplus, equivalent to 3.8 percent of GDP, up from just under 1 percent in 1991.

The countries of the OECS are price-takers in world markets in respect of most of their exports. While, in principle, this means that they can sell all that they can produce, they must do so at prices determined in world markets and in internationally traded currencies. Therefore, movements in the bilateral exchange rate of the EC dollar against the currencies of trading partners in goods and tourism services, influence to a great extent the Region's export earnings, the number of visitors and consequently tourist receipts.

Merchandise exports in 1992 were provisionally estimated at about US$980 million, about 36 percent higher than in 1991. Bananas, the main export commodity earned US$376 million, an increase of 14 percent, reflecting a 20.8 percent volume increase. The unit price received for bananas fell by 5.8 percent on account of the sharp depreciation of sterling in the final quarter of the year. Sugar exports rose by 6.7 percent to US$32.6 million, receipts from cocoa fell by 14.6 percent to US$7.1 million due to a 17 percent fall in volume, while receipts from nutmeg fell by 37 percent to US$6 million, despite a 20.6 percent increase in the volume exported. In relation to non-traditional exports, increased earnings were realized from the export of flour, soaps and electronic components, as well as from minor agricultural crops exported both regionally and extra-regionally.

Imports to the area increased by 5 percent during 1992 to represent about 66 percent of GDP. Given the modest growth in investment expenditure during the year, the increase was likely to be associated with consumption.

The services account is dominated by travel receipts and payments on account of investment income and other factor services. Net travel receipts in 1992 are estimated to have increased by 4.9 percent to US$1,487 million, on the strength of a 5 percent increase in stay-over visitors and a 4.5 percent increase in cruise visitors. Net factor payments abroad were estimated at US$284 million, an increase of 5.2 percent, and reflected largely the repatriated profits of direct investment companies and telecommunications payments.

In the capital account, inflows associated with direct investments fell sharply in 1992 following completion of hotels in some countries. In the official sector, there was a net outflow of capital estimated at US$15.5 million as amortization payments on external debt exceeded loan disbursements during the year. In 1992, gross foreign exchange reserves of the ECCB were US$276 million. Net reserves were US$265 million, up US$57 million over 1991.

Government and Government-Guaranteed Debt

Government and government-guaranteed debt obligations are not at critical levels in most OECS countries. However, the domestic debt stock is high in selected countries and two countries encountered difficulties in recent years in making payments on their external debt obligations. Without close monitoring of all debt, including government-guaranteed private external debt, countries could reach critical debt ratios and jeopardize their access to external capital. In at least one country, the government discovered recently that some of the private external debt previously thought to be without government guarantees in fact had government guarantees. Governments must be aware that public sector guarantees of private debt are extremely risky and should not be undertaken.

Sources of funds suggest that some domestic debt outstanding in these countries has balance of payments implications and that the future integrity of the national insurance schemes could be jeopardized by the continued reliance on these schemes for low-interest financing of government borrowing: some domestic debt obligations are to foreign banks, and the national insurance schemes' investment options are limited to mainly direct purchase of government securities and bank deposits, which are then used to require banks to buy government securities also.

Central Government Domestic Debt

Total domestic debt of the OECS central governments, excluding Montserrat,[4] amounted to US$306 million at end-1992 or 18 percent of the aggregate output and 70 percent of central government revenues. Domestic debt service remains low, equivalent to 0.8 percent of output and

[4] Montserrat's central government and total public external debt are not discussed below owing to small debt stock and lack of readily available information.

2.5 percent of central government revenues. Thus, the central government budgetary implication of the overall OECS domestic debt is not a serious issue. However, in selected countries domestic debt outstanding is at a high level. Central government debt outstanding relative to revenues in St. Kitts and Nevis (149 percent), Grenada (98 percent), Dominica (82 percent) and Antigua and Barbuda (73 percent) exceed the overall average (see Table 1.3). The debt service ratio relative to revenues in Dominica (4.9 percent) and St. Kitts and Nevis (4.9 percent) exceed the overall average also. Thus, although the debt service ratio is not high, it could increase when interest rates start to rise from the present low levels.

Of the domestic debt outstanding, almost 14 percent is owed to commercial banks, many of which are subsidiaries of foreign banks; another 30 percent has been obtained through debenture issues, some of which are also purchased by foreign-owed banks. To the extent that lenders are foreign institutions, funds borrowed from them have a balance of payments implication except that the payments are made in local currency. Domestic sources of funds are national insurance schemes (36 percent), the single largest source, and the ECCB (10 percent).

Total Public External Debt

The external public and publicly-guaranteed debt of the six OECS countries exceeded US$919 million at end-1992 or 53 percent of aggregate GDP and 75 percent of exports of goods and nonfactor services. Together with domestic debt, total central government and the government-guaranteed debt almost equal to the total value of the Region's exports of goods and nonfactor services. Of this total, US$269 million represents arrears on principal and interest payments on the external debt of Antigua and Barbuda (US$255 million) and Grenada (US$14 million). As a result, overall debt service due is twice the actual payment. The actual debt service payments amounted to over 3 percent of the exports of goods and nonfactor services, almost 12 percent of central government revenues, and about 3 percent of GDP. In addition to the two countries in payment arrears on external debt service, the group's overall average external debt to exports of goods and nonfactor services is exceeded by Grenada (91 percent). However, Grenada's debt service ratio is below 10 percent owing to the larger share of concessionary loans.

Social and Environmental Issues

Poverty

Available poverty indicators for the OECS countries suggest that poverty is not a serious problem in these countries compared with the lower-middle-income group of countries (Table I.4). The social safety nets are adequate in most countries. For example, in Dominica, social security is private sector managed,social services are offered free of charge, and some low-income housing and social programs cater to community development, youth employment, and vulnerable groups of women and children. No systematic poverty study has been undertaken for the Region.[5] A poverty assessment for St. Lucia with respect to family size, overcrowding, educational attainment of household heads, welfare payments and infant mortality points to a reduction in poverty levels between 1980 and 1991.[6] Unemployment in the Region ranges between about 20-30 percent, largely a result of skills mismatch. Women in the OECS countries are becoming better educated relative to men, and progress is being made in integrating women into positions of authority and responsibility in both public and private sectors. Remittance from expatriates play an important role in combating poverty in all OECS countries.

However, casual observations suggest pockets of poverty exist in all countries. Good overall health and other social indicators mask inadequate coverage and poor quality of the social services. Per capita income in the OECS is still high compared to other developing countries, but the relative quality of life has deteriorated in some countries. According to the UNDP, the human development index improved relative to other countries in the 1990s in Dominica, Grenada, and St. Vincent and the Grenadines but it deteriorated in Antigua and Barbuda, St. Kitts and Nevis and St. Lucia.[7]

[5] The CDB, CIDA and IFAD are collaborating on a poverty study, and a pilot study on two OECS countries is expected to commence during 1994.

[6] Bryan Boxill: *Poverty in St. Lucia: A Quantitative Assessment*, A Draft Report submitted to ECLAC.

[7] The human development index is constructed from an average of the intra-country differences in life expectancies, education and income levels. See UNDP, *Human Development Report 1993* for

Education and environmental services need greater attention of the OECS governments. Some of the skills mismatch could be alleviated through vocational training. Certain social indicators, such as health and safe potable water, are important to tourism in the whole Region. Assistance will be required to maintain and improve these indicators. The social safety net may require more resources if the OECS countries experience adverse external shocks from reduced banana exports. It is important to avoid the tensions that arise if job opportunities are not available to local people in tourism and other service sector activities. Human resource development efforts need to be enhanced. Maintenance and upgrading of the social infrastructure will need continued donor support.

The State of the Environment

The environment in the OECS countries remains pristine. The lush green mountain landscapes, rich and exotic flora and fauna, and beaches and coral reefs have attracted an increased number of tourists each year to the Region. Forest cover ranges from a third to two-thirds of each country. Certain endemic birds are unique to each island. As a result, tourism is probably the largest sector of the economy in most countries. However, the rapid growth of tourism-related activities is placing an increasing burden on the environment, which had hitherto been considered not to be a serious problem.

Potential environmental problems could arise from inadequate waste management, land use practices and coastal zone management. All countries offer environmental services to some of their residents, but proper land use practices are not enforced, and coastal zone management suffers from inadequate planning, regulation and enforcement. The services are offered either free of charge, such as solid waste collection, or the cost recovery is well below the long run marginal cost, as in the charges for sewer and potable water supply. Lack of cost recovery poses a financial burden on the governments' fiscal balances and, in turn, contributes to inadequate services and regulations. For example, untreated wastes are often discharged into rivers and seas. Agricultural insecticide and fertilizer uses are often not regulated, especially in private water catchments. Also, countries are not equipped to monitor the quality of potable water. It is more by chance that the overall incidence of waterborne diseases remain low. Remedial actions are needed in all countries to avert a possible adverse effect on the public health and the regional tourism industry.

All OECS governments recognize the importance of pursuing sound environmental policies within their respective countries and on a region-wide basis. A number of the OECS countries have agreed to provide facilities for the collection, treatment and disposal of domestically-generated and ship-generated solid wastes. In the country context, each government has prepared a separate National Environmental Action Plan (NEAP) document. These NEAPs identify and describe precise environmental problems, prevailing institutional and legal frameworks to address such problems, government's economic policies on environmental issues, and changes in economic policies and in environmental law and institutions required to ensure sustainable growth.

Conclusions

The OECS countries experienced rapid growth in the 1980s, but performance in the 1990s has been at a much reduced level. Previous reports have identified many of the key problems in adjusting to the changing external environment, including limited factor mobility, burdensome regulatory regimes and low levels of public saving. Despite many policy reforms to date, continuous improvement in the design and implementation of sound measures of economic policy, particularly to offset perceived problems and to allow for a transition to the new world trading environment, will be required to achieve growth rates of the order of 4 percent. An economic framework to aid in this transition is discussed in Chapter II, and subsequent chapters outline the details of appropriate policies in specific areas.

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details. This index is not available for Montserrat. For other countries, the index ranks are as follows:

	1991	1993
Antigua and Barbuda	46	60
Dominica	53	51
Grenada	64	59
St. Kitts and Nevis	65	79
St. Lucia	68	72
St. Vincent and the Grenadines	79	76
Total # of countries ranked	**160**	**173**

Table 1.4: Selected Poverty Indicators

Indicator	Units	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines	Average[a]	Lower-Middle-Income Countries
GNP per capita	US$	4,430	2,510	2,310	4,670	2,830	1,990	3,123.3	3,820
CPI (Food)	1987=100	121	109	121	100	106	100	109.5	-
Energy Consumption per capita	kg of oil equivalent	1,544	287	284	500	347	206	528.0	1,249
Primary School Enrolment Ratio	% of School Age	-	95	-	-	-	-	-	100
Access to Health Care	% of Population	100	100	-	99	100	80	95.8	-
Infant Mortality	per '000 live birth	20	18	30	30	17	21	22.7	40
Child Mortality	per '000 live birth	23	20	36	41	22	25	27.8	53
Immunization Measles	% of Age Group	89	88	85	99	82	96	89.8	70
DPT	% of Age Group	99	94	80	99	89	98	93.2	74
Life Expectancy	Years	74	72	70	70	72	71	71.5	67
Total Fertility Rate	Births per Woman	1.9	2.6	3.0	2.6	3.1	2.5	2.6	3.5
Population Growth Rate	Annual %	1.2	-0.4	0.1	-1.6	1.7	0.9	0.3	1.7

a. Unweighted.

Source: The World Bank, Social Indicators of Development, 1993.

2
Framework for Transition

Overview

The economic performance of the OECS countries in the last decade has been impressive, but has slowed down in the last two years. Antigua and Barbuda, Dominica and Grenada in particular have experienced slow growth in recent years, relative to their past performance. Contributing factors have been weak agricultural prices, internal fiscal weaknesses and slow growth in OECD countries. All countries are very open, with total exports representing a high proportion of GDP. Growth has been generated by tourism, agriculture, especially bananas, and selected manufacturing industries (especially enclave and agro-processing), supported by sizeable flows of aid and private foreign investment. Between 1988 and 1992, merchandise exports increased by about 6 percent to about US$980 million, but exports of services, mainly tourism, increased by about 50 percent to about US$2900 million. Tourism prospects continue to be favorable, but agriculture and manufacturing are under pressure, partly as a result of the increase in real wages engendered by tourism. The trend to a more competitive external environment, illustrated clearly by the completion of the Uruguay Round and the successful formation of the NAFTA, means that OECS countries will need to ensure that their economic policies are appropriate for a period of transition. The incentive regime needs to capture opportunities in the services sector. Aid flows to the Region are unlikely to remain at their previous levels. In addition, the banana industry is entering a period of great uncertainty engendered by the introduction of a new banana regime in the EU on July 1, 1993.

Prior to July 1, 1993, bananas from the Windward Islands enjoyed preferential access to the UK market at prices that were substantially above world prices (about 30-40 percent). As a result, banana exports constitute an important source of income, employment and foreign exchange (see Table 2.2). Banana exports are subject to adverse weather, especially hurricanes, but the figures in Table 2.3 show a clear downward trend in the relative importance of bananas since 1988. In 1988, banana exports were EC$378 million, or 21 percent of GDP in the Windward Islands. In 1992, banana exports of EC$359 million represented 15 percent of Windward Islands' GDP. Despite the decline in relative importance, the industry remains critical to the economies directly involved and to the OECS as a whole.

Table 2.1: Exports Of Goods and Nonfactor Services, 1988-92
(percent of GDP)

	1988	1989	1990	1991	1992
Antigua and Barbuda	90.4	94.5	100.9	98.1	102.8
St. Kitts and Nevis	71.2	70.5	64.6	70.8	71.3
Montserrat	39.6	32.5	30.4	39.5	36.5
Dominica	68.0	55.1	62.2	59.3	58.3
St. Lucia	82.3	76.3	78.5	73.0	73.0
St. Vincent and the Grenadines	92.3	81.6	81.4	66.7	66.3
Grenada	51.7	46.8	56.9	58.0	48.8
OECS[a]	77.7	73.5	76.3	74.8	73.8

a. OECS average uses nominal GDP as weights.

Source: CDB.

Table 2.2: Windward Islands' Exports of Bananas, 1988-92
(percent of GDP)

	1988	1989	1990	1991	1992
Dominica	31.5	19.6	22.5	20.6	19.1
St. Lucia	24.0	18.8	21.0	16.0	17.4
St. Vincent and the Grenadines	24.0	23.0	25.9	20.1	16.4
Grenada	3.6	2.7	2.5	2.3	1.7

Source: CDB.

Details of the new EU policy are discussed in Chapter IV. The particular details of the new policy can be critical for the small, open and vulnerable OECS economies. However, for the present purposes, it is assumed that the net effect can be summarized as a fall in the price of bananas in the U.K. up to 30 percent over the next few years, and that this translates into a 30 percent reduction in the per unit price received by the Windward Islands. This is equivalent to an adverse movement in the terms of trade of about 9 percent, given the weight of bananas in total exports. In order to restore equilibrium, other things being equal, the real exchange rate would have to depreciate to switch production from non-tradeables to tradeables. Recent research suggests that a simple purchasing power parity (PPP) estimate of the required change in the real exchange rate in the face of a terms of trade shock can be a severe underestimate, so that a 9 percent fall in the relative price of non-tradeables would not be sufficient to bring the balance of payments back to where it was. For low elasticities of substitution between domestic goods and imports, and for low elasticities of transformation between domestic goods and exports, the actual change in the relative price of non-tradeables that is required in the face of a terms of trade shock can be a multiple of the estimate derived from PPP assumptions.[8] The policy aspects of this problem are discussed below.

Alternative Scenarios

The potential economic loss associated with a banana shock (a sudden sharp drop in price) or squeeze (a gradual decline in price) is large. Other shocks to the OECS could emerge from a reduction in official aid flows, or from the full implementation of NAFTA provisions, but the order of magnitude of these impacts would be small relative to the possible impact from a sharp reduction in banana revenues.[9] For example, in 1992 official transfers to the OECS amounted to 4 percent of the total current account inflows, compared to about 15 percent from banana exports. Conceptually, however, they pose the same problems of adjustment. Losses can emerge at several different levels (see Box 2.1):

- the banana industry must be restructured on commercial grounds so that productivity and quality are enhanced, and so that the industry can attain its quota level of output. In 1992, St. Lucia and St. Vincent and the Grenadines exported quantities roughly equal to their new quota levels, but Grenada's exports were only about 50 percent of its new quota level, and Dominica's 80 percent;

- flexibility in goods and factor markets must be increased by trade liberalization and improvements in regulatory requirements, and by increased efficiency in implementation of policies (customs administration, work permits, fiscal incentives, etc.);

[8] See S. Devarajan, J. Lewis and S. Robinson, "External Shocks, Purchasing Power Parity, and the Equilibrium Real Exchange Rate", *World Bank Economic Review*, January 1993.

[9] The fundamental equation in S. Devarajan, J. Lewis and S. Robinson, op. cit., is:

$$\dot{p}^d = \frac{1}{a+b}\left[(a-1)\bullet \dot{p}^m + (1+b)\bullet \dot{p}^x + \dot{c}\right]$$

The authors argue that low elasticities of substitution and transformation are typical of developing countries. Assuming p^m and $c = 0$, and that $p^x = -9$ percent, the equilibrium change in the price of domestic good (p^d) equals -14 percent when $a = b = .5$. For low elasticities, therefore, the required relative fall in the domestic price of domestic goods to restore the real exchange rate to equilibrium in the face of a 9 percent terms of trade shock is 14 percent, 1.5 times the terms of trade shock. When quantities do not adjust, price adjustments must be that much larger in the face of a disturbance to equilibrium.

Box 2.1: Potential Economic Loss From a Reduction in the Price of Bananas

A fall in the price of bananas reduces the subsidy or economic rent that the Windward Islands have gained from selling in the protected UK market. This subsidy has been of the order of 10 percent of GDP for Dominica, St. Lucia and St. Vincent and the Grenadines in the recent past.[a]

The fall in the price of bananas reduces the output of bananas: a 30 percent fall would reduce output by about 40 percent, since estimated supply elasticities are of the order of 1.3. Economic losses occur to the extent that resources released from banana production move to less remunerative activities, with a real possibility of substantial unemployment in the short term at least. Current estimates show that in Dominica, for example, in 1992 60 percent of the output was produced by only 22 percent of the 6000 growers. Improved productivity in banana output, given a fixed EC quota, would increase the number of redundant growers.

A fall in the value of banana exports will result in a drop in central government tax receipts, since imports will subsequently fall, with a consequent fall in customs revenues. Pressure will mount to increase government expenditures to facilitate employment generation and structural adjustment. Deficits on recurrent account will impact negatively on the PSIP, owing to a lack of counterpart funding and a loss of donor confidence. Long term structural adjustment will be delayed owing to inadequate levels of social infrastructure.

Government deficits will lead to expenditure cuts which may impact negatively on critical recurrent expenditures in the areas of education, health, social services and environmental protection.

Under circumstances such as these, the countries would need to strengthen competitiveness, which will require more flexibility in wage policy and other steps to increase productivity. An exchange rate adjustment could also be considered, but for this step to be effective, it would need to be supported by wage restraint as well as prudent fiscal and monetary policies.

a. See Caribbean Exports: Preferential Markets and Performance, World Bank, 1988.

- the PSIP must be focussed on areas that will enhance private sector development, with priorities established so as to eliminate the number of ineffective projects;

- governments must streamline their operations to increase efficiency: in general terms, civil service establishments must contract, and governments must increase the speed at which privatization is taking place, but the professionalism and technical competence of the streamlined civil service must be increased in order to have the administrative capacity to undertake successful adjustment programs; and

- donor support must be sought to bridge the critical period between a fall in banana receipts and the emergence of new economic activities. Experience suggests that donor support will be enhanced if governments are following sound adjustment policies, and if governments can show they are working with others in an effective network to resolve common issues. Effective implementation of sound policies should allow the OECS countries as a whole to attain economic growth rates of the order of 4 percent, to prevent high levels of unemployment and to maintain social and political cohesion internally and within the Region. A 4 percent growth rate, while below past performance, would allow for employment growth and an increase in the standard of living, and is a higher rate than that projected for many developing countries in the early 1990s. Given population growth and productivity gains, a growth rate of about 4 percent is required simply to prevent levels of unemployment from rising and to maintain the current standard of living.

Sources of Growth

In virtually all OECS countries, tourism has been the most dynamic sector of the economy. Tourism receipts in the seven countries increased from 31 percent of aggregate GDP in 1983 to over 38 percent in 1992. Simultaneously, value added to the domestic economy of the tourism sector has increased. In some countries, tourism has replaced agriculture as the largest sector of the economy. The growth in the importance of tourism demonstrates that the OECS countries have already proceeded along the path of structural adjustment and away from heavy reliance on agriculture, and the problem for the future is to accelerate this transformation towards an economy based on tourism and the service sector activities. To facilitate export diversification and the growth of tourism, it has been necessary to undertake public investment in economic and social infrastructure. These investments will need to be stepped-up in the

next three to five years in order to maintain the growth momentum.

Economic growth is determined by the quantity and quality of the factors of production. The extraordinary growth of East Asian countries suggests the importance of the accumulation of physical and human capital, and the allocation of these factors of production to highly productive investments and to acquire and master technology. Sources of economic growth equations for the OECS countries also indicate the importance of quality of factors of production and the use to which these factors are put (see Table 2.3). First, in countries with a reasonably well articulated PSIP, increased physical capital accumulation has a positive effect on the real output growth. This is not so where public investment is determined in a more ad hoc manner and without consideration of sectoral linkages. Second, in most countries, government consumption has a negative effect on growth. If payment arrears in Antigua and Barbuda and Grenada were to be included in government consumption, then the negative impact of government consumption could be true in all countries. Third, where data on labor supply exists, this factor of production is not a contributing factor to output growth. This suggests scope for improving the quality of labor and its productivity. Fourth, there is some evidence of exports contributing to economic growth. (Regression equations are given in Annex B).

To the extent that these equations capture the important elements of the production functions of the OECS countries, they suggest that higher growth would be possible if: (i) countries develop their investment programs with due consideration to sectoral linkages; (ii) government consumption expenditures are redirected to physical capital accumulations; (iii) the quality of labor is improved through education; (iv) and exports rise, especially the value added to the domestic economy of the tourism sector, which has become the most dynamic sector of most economies.

The Macro Setting for Economic Adjustment

It is axiomatic that economic adjustment is easier to undertake from a position of strength rather than of weakness. A position of strength requires a sizeable surplus on the recurrent government fiscal account, a flexible and well trained labor force, a well functioning and simplified administrative structure, and the right mix of incentives to encourage private sector development. Given anticipated changes in aid flows, domestic saving, both public and private, will need to be increased to finance required levels of investment. The OECS countries differ markedly in the state of their central government finances and with respect to key balance of payments and debt indicators.

St. Lucia's central government financial situation has been the strongest among the OECS countries in the last five years (see Table 2.4). The current balance has been positive in every year, averaging an impressive 7.6 percent of GDP, and the overall balance has been about 1 percent or less of GDP. Dominica and St.

Table 2.3: Sources Of Real GDP Growth In OECS Countries, 1975-92

Country	Investment/GDP [a]	Government Consumption/ GDP	Exports of GNFS/GDP[b]	Growth of Labor
Antigua and Barbuda	-*	+***	+*	n.a.
Dominica	+*	-**	n.a.	n.a.
Grenada	-	+*	+	n.a.
Montserrat	+	-**	-	-
St. Kitts and Nevis	+	-	+***	n.a.
St. Lucia	+*	-*	+	+**
St. Vincent and the Grenadines	+***	-	+*	n.a.

a. Lagged investment to GDP ratio in Dominica, current ratio in St. Kitts and Nevis, and moving average investment to GDP ratios in the other countries.

b. For St. Kitts and Nevis, growth rate of exports of goods and nonfactor services.

* Significant at 5 percent level.

** Significant at 10 percent level.

*** Significant at 20 percent level.

+/- Indicates direction of effect.

Source: Annex B.

Vincent and the Grenadines have also displayed a strong performance on the current balance account, but each has shown some deterioration in recent years. Dominica has experienced a large negative overall balance, averaging over 10 percent of GDP. Financing has been by means of capital grants and concessionary loans, but in the last two years substantial financing has been provided by commercial banks and statutory bodies. St. Kitts and Nevis and Montserrat have had no significant imbalance in their central government finances in recent years. Grenada and Antigua and Barbuda, on the other hand, have shown consistent weakness in current balance accounts. In the case of Antigua and Barbuda, this is not matched by large deficits on capital account, largely because the financial situation has deteriorated to such an extent that the government cannot borrow or provide counterpart funding to donor projects. Grenada has been in danger of moving into the same situation for a number of years, but the current government has initiated a structural adjustment program to head off this possibility, which has shown encouraging signs of success in 1993. Antigua and Barbuda will need to implement a stabilization program to surmount its debt and government finance problems.

Official transfers are negligible for some countries (Antigua and Barbuda, St. Kitts and Nevis, and St. Lucia) and are tending to fall in most of the others (see Table 2.5).[10] However, they are still very significant in Montserrat, Dominica, St. Vincent and the Grenadines, and Grenada, and any diminution would compound the problem of adjusting to a banana shock. Similarly, private transfers are very important, averaging 4.1 percent of GDP in Antigua and Barbuda, 7.2 percent in St. Kitts and Nevis, 6.9 percent in Montserrat, 7.5 percent in Dominica, 3.9 percent in St. Lucia, 4.9 percent in St. Vincent and the Grenadines, and 10.6 percent in Grenada. While is it not obvious how public policy could maintain or increase the levels of private transfers from abroad, governments need to be aware of their significance and monitor carefully their performance (see Box 2.2). Foreign direct investment is an important component of an adjustment program, and the estimates suggest that the OECS countries are able to attract relatively sizeable amounts. In particular, Antigua and Barbuda, St. Kitts and Nevis, St. Lucia and Grenada in many years have been able to attract DFI in excess of 10 percent of GDP. Virtually all of the DFI on a large scale is directed to the tourism industry. For example, St. Vincent and the Grenadines has formulated plans for tourist related projects which should result in a sharp increase in foreign direct investment in 1994 and subsequent years. For many countries in the last five years the current account balance reflects closely the level of DFI.

Existing levels of external debt and of debt servicing obligations are not problems in St. Kitts and Nevis, Montserrat, St. Lucia and St. Vincent and the Grenadines, in all of which debt service is either equal to or less than 3 percent of GDP. Dominica's external debt as a proportion of GDP is relatively high, but debt servicing is relatively low and falling as a percent of GDP. However, domestic servicing requirements are also a source of fiscal pressure. In sharp contrast, Antigua and Barbuda and Grenada have been experiencing severe difficulties with external debt, and both had been accumulating arrears on principal and interest. Antigua and Barbuda is paying virtually none of its debt service obligations, resulting in a sharp escalation of arrearsas a percent of GDP. Grenada's situation is somewhat less serious, but arrears are a sizeable proportion of GDP. However, Grenada is now reducing its arrears on both its external debt and on obligations to international and regional organizations. The other countries, however, with low debt servicing requirements have some room to maneuver in financing current account deficits. Timely payment of debt servicing obligations is important to maintain the creditworthiness of the OECS as a whole, and to continue donor flows to the Region. Arrears and payment delays are potentially very damaging and will make the maintenance of sustainable growth more difficult.

[10] Official transfers are measured here using balance of payments accounts rather than government revenue and expenditure accounts. The two are not always easy to reconcile. In general, it should be borne in mind that the data base for the OECS countries remains weak, so that caution is required in interpreting the existing data.

Table 2.4: OECS - Central Government Finances, 1988-92
(percent of GDP)

	1988	1989	1990	1991	1992
Antigua and Barbuda					
Current balance	-0.1	-3.3	-1.5	0.0	-0.5
Capital balance	-7.0	-4.1	-0.8	-2.5	-0.2
Overall balance	-7.1	-7.4	-2.3	-2.5	-0.7
St. Kitts and Nevis					
Current balance	0.3	2.4	0.1	-2.5	-0.2
Capital balance	-4.6	-1.1	-2.9	-1.0	-2.0
Overall balance	-4.3	1.3	-2.8	-3.5	-2.2
Montserrat					
Current balance	-0.1	3.6	1.9	2.4	-0.1
Capital balance	1.0	0.0	-2.6	-5.0	-0.4
Overall balance	0.9	3.6	-0.7	-2.6	-0.5
Dominica					
Current balance	7.6	6.7	2.6	0.9	1.5
Capital balance	-14.4	-17.9	-12.8	-11.2	-16.9
Overall balance	-6.8	-11.2	-10.2	-10.3	-15.4
St. Lucia					
Current balance	8.8	6.9	6.8	7.6	8.0
Capital balance	-8.0	-7.4	-6.4	-7.2	-9.3
Overall balance	0.8	-0.5	0.4	0.4	-1.3
St. Vincent and the Grenadines					
Current balance	3.6	2.9	4.6	4.2	2.7
Capital balance	-5.4	-5.7	-9.5	-9.2	-4.4
Overall balance	-1.8	-2.8	-4.9	-5.0	-1.7
Grenada					
Current balance	-2.8	-3.0	0.1	-1.5	-2.5
Capital balance	-16.4	-8.6	-4.1	-10.4	-2.0
Overall balance	-19.2	-11.6	-4.0	-11.9	-4.5

Note: The overall balance includes concessional financing.

Source: CDB.

The preceding analysis suggests that, among the Windward Islands, St. Lucia is in the best position to counter the adverse changes in the external environment owing to its strong central government financial position and the high level of DFI. Antigua and Barbuda is clearly the most vulnerable, despite its high level of per capita income and strong tourist industry: its central government finance system is weak, and it has virtually no ability to borrow except on the basis of expensive suppliers' credit. Dominica, with its heavy agricultural base and limited manufacturing and tourist activity, will have the most difficult adjustment problems. Grenada's situation is improving as it implements its structural adjustment program but there are still impediments to foreign capital inflows perceived by investors. St. Vincent and the Grenadines, St. Kitts and Nevis and Montserrat should continue to encourage DFI, especially in the tourist sector. All countries, however, will need to develop and implement economic policies that will support adjustment and ease the process of transition to a new economic environment.

Economic Policies for Adjustment: Policy Coordination, Factor Mobility, Fiscal Policy, Monetary Policy and Exchange Rate Policy

Policy Coordination and Common Services

The OECS countries already recognize that policy coordination and the provision of common *Treaty* services can provide substantial benefits. The ECCB, the OECS Secretariat and the Windward Islands Banana Growers Association (WINBAN) are but three of the successes in these areas. However, much remains to be accomplished to achieve maximum benefits from joint efforts. The *Establishing the Organization of Eastern Caribbean States* lists areas

Box 2.2: Importance of Remittances in the OECS Economies

The importance of unrequited transfers in the external accounts of the sub-region cannot be ignored, despite economic recession in the OECD countries which has led to a contraction in official grant inflows and in private remittances in recent times. On a gross basis, transfers provide the third largest source of inflow on the current account following exports and tourism receipts respectively; however, comparing those accounts on a net basis indicates that net remittances provide the second largest inflow of funds on the current account after net travel receipts with the trade account being the biggest drain on the current account.

GROSS CURRENT ACCOUNT INFLOWS, 1988-92[a]

	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
	US$ million					percent				
Exports	920.6	828.1	921.2	870.6	981.4	32.8	28.0	27.2	25.0	26.3
Receipts from tourism	1090.9	1211.0	1464.9	1582.3	1718.1	38.9	40.9	43.2	45.4	46.0
Transfers (gross)	406.2	490.8	479.6	467.1	442.8	14.5	16.6	14.2	13.4	11.9
Private	266.4	338.7	321.7	299.8	296.7	9.5	11.4	9.5	8.6	7.9
Official	139.8	152.1	157.9	167.3	146.1	5.0	5.1	4.7	4.8	3.9
Total current account inflows	2807.0	2959.4	3388.2	3486.3	3734.7	100.0	100.0	100.0	100.0	100.0

Although total transfers as a ratio of GDP show a declining trend since 1990, they have remained above 10 percent. They are expected to have remained flat in 1993 and possibly to show a small increase in 1994, consistent with projected economic recovery in North America and the UK where most of the inflows of private remittances originate.

Given the strong family ties of Caribbean people, economic stagnation resulting from the banana crisis would be expected to lead to some increase in the inflows of private remittances from family overseas. Inflows of official transfers are, however, not expected to increase.

RATIOS OF SELECTED BOP INFLOWS TO GDP, 1988-92

	1988	1989	1990	1991	1992
Exports	29.7	24.5	24.9	22.2	23.5
Receipts from tourism	35.2	35.8	39.6	40.3	41.1
Transfers (gross)	13.1	14.5	13.0	11.9	10.6
Private	8.6	10.0	8.7	7.6	7.1
Official	4.5	4.5	4.3	4.3	3.5
GDP	3039.6	3384.9	3697.4	3927.8	4175.5

NET CURRENT ACCOUNT FLOWS, 1988-92
(US$ million)

	1988	1989	1990	1991	1992
Trade balance	1179.8	1633.1	1692.2	1837.5	1748.8
Net transfers	328.6	427.4	390.2	384.5	349.9
Net travel 975.2	1082.2	1308.0	1416.7	1538.1	

a. Includes Anguilla.

where co-ordination, harmonization and joint policies are to be pursued, including: (i) international marketing of goods and services including tourism; (ii) matters relating to the sea and its resources; (iii) audit; (iv) statistics; (v) income tax administration; (vi) customs and excise administration; and (vii) training in public administration and management.

In addition to the need for coordination in administrative areas, there is an ongoing need for harmonization of policies relating to fiscal incentives, the CET and consumption taxes, income and property taxes, and similar areas. Existing regional institutions, including CDB, the ECCB and the OECS Secretariat, should rapidly develop proposals for consideration by national governments. Particular attention needs to be paid to existing data limitations. Sound policy can only be based on a sound statistical base. In many areas the existing base is too weak to support government operations. Increased coordination of policies and enhanced provision of common services will improve the competitive position of the OECS countries by streamlining procedures, reducing operating costs and improving factor mobility. They will also serve to optimize the use of scarce highly trained human resources. Moreover, in light of rapidly changing external circumstances, the OECS countries should consider forming an economic union.

Formation of an economic union would be the logical culmination of the existing *Treaty*, and would provide concrete advantages to the member states. Labor mobility would be enhanced, and the flexibility of the economies in the face of external shocks increased. Bargaining strength would be increased vis-a-vis the EU and NAFTA, with the ability to negotiate as one bloc. Monetary and exchange rate issues would be viewed from a larger union perspective. Membership in organizations such as the IDB would be easier to negotiate. Harmonization of tax and regulatory arrangements would be simpler, and many similar benefits would ensure from enhanced coordination services.

Factor Mobility

To increase competitiveness and reduce vulnerability to external shocks, increased factor mobility among the OECS needs to be actively encouraged. Despite recent initiatives, much needs to be done in this area, particularly with respect to labor mobility. Improvements in capital mobility within the OECS and externally are an important means of mitigating the effects of a terms of trade shock that impinges upon only some member countries. The ECCB has recognized this and has begun implementing plans for improving capital mobility within the OECS Region. With respect to short term capital movements, the ECCB will promote a secondary market for government treasury bills, an inter-bank money market, a foreign currency market for spot and forward transactions, and a market for commercial bank negotiable CDs, promissory notes and bankers' acceptances. On the long term capital side, the central bank is to undertake four major initiatives: the establishment of the Eastern Caribbean Home Mortgage Bank, the Eastern Caribbean Enterprise Fund, a regional share market and Eastern Caribbean Unit Trust Company.[11] These developments will significantly improve the capital mobility in the OECS, and will be accompanied by the establishment of a regional regulatory framework.

Labor mobility among the OECS countries needs to be enhanced by a commitment by governments to support it through the elimination of work permits to permit free mobility of labor, the adoption of a regional information system on job opportunities, and in other ways. The OECS Secretariat will be initiating a study with International Labor Office (ILO) support of regional labor mobility issues. Increased mobility provides a better match of skills and jobs, reduces bottlenecks and utilizes scarce human resources more fully. Private sector business persons in particular need to be able to move freely within the Region to improve prospects for joint ventures, cooperative agreements and mergers of existing small firms, to enhance efficiency and improve competitiveness.

Fiscal Policy

A sound fiscal policy is necessary to constrain domestic inflationary pressures, to maintain a stable real exchange rate and to enhance competitiveness in foreign markets. A critical component of a sound fiscal policy is to constrain the growth of public sector wage levels. Public sector wage levels should be geared to productivity increases. They should therefore allow for sufficient differentiation so that the public sector can attract well-trained and capable civil servants in competition with the private sector. General settlements that raise over-all public sector wage levels in excess of productivity improvements will generate strong inflationary pressures and distort the relative price of tradeable goods, resulting in a less competitive economy. Public sector wage restraint

[11] ECCB, *A Proposed Economic Development Strategy for the OECS/ECCB Area*, March, 1993, pp. 63-66.

Table 2.5: Balance of Payments, Selected Entries, 1988-92
(percent of GDP)

	1988	1989	1990	1991	1992
Antigua and Barbuda					
Official Transfers	0.6	0.2	0.4	0.6	0.6
Private Transfers	4.4	4.7	4.1	3.6	3.9
Direct Foreign Investment	17.5	12.5	10.6	10.5	5.6
Current Account	-30.2	-26.2	-17.7	-11.5	-11.6
St. Kitts and Nevis					
Official Transfers	4.0	1.5	-0.4	0.6	-0.4
Private Transfers	8.5	6.6	5.0	9.5	6.4
Direct Foreign Investment	10.5	28.8	30.6	12.6	12.4
Current Account	-21.0	-29.7	-33.1	-18.7	-9.7
Montserrat					
Official Transfers	3.6	5.0	2.6	3.8	6.1
Private Transfers	8.0	8.5	4.9	6.8	6.5
Direct Foreign Investment	8.2	3.6	5.8	5.9	3.4
Current Account	-1.6	-6.8	-15.3	-8.5	-5.0
Dominica					
Official Transfers	6.0	6.5	5.9	4.8	2.9
Private Transfers	7.4	7.8	7.6	7.1	7.7
Direct Foreign Investment	4.7	5.4	4.3	6.0	6.2
Current Account	-3.6	-27.5	-22.8	-17.4	-12.4
St. Lucia					
Official Transfers	2.0	2.0	0.7	1.1	0.2
Private Transfers	4.3	3.7	3.8	4.0	3.8
Direct Foreign Investment	9.0	8.8	11.4	13.5	15.7
Current Account	-4.6	-18.1	-17.2	-18.9	-23.2
St. Vincent and the Grenadines					
Official Transfers	5.4	5.3	4.3	4.6	2.8
Private Transfers	4.7	4.8	4.8	4.5	5.7
Direct Foreign Investment	5.7	6.1	3.9	4.8	4.1
Current Account	1.6	-0.4	3.7	-3.9	-9.4
Grenada					
Official Transfers	1.6	4.5	2.5	3.1	6.8
Private Transfers	9.4	9.6	10.7	11.2	12.3
Direct Foreign Investment	9.0	5.6	6.4	7.2	10.7
Current Account	-12.5	-20.5	-17.7	-23.8	-16.5

Source: CDB and IMF.

reduces the pressure on fiscal resources, increases competitiveness, and will also reduce the cost of an external shock by allowing for more people to be employed in the private sector at a lower wage rate, other things being equal. Some recent high wage settlements in the public sector in the OECS suggest that wage policy needs careful monitoring and control by central governments. St. Kitts and Nevis, for example, announced a 15-20 percent wage award in September 1, 1993, equivalent to about 2 percent of GDP. Even Dominica's granting of a 3 percent wage award will put pressure on the fiscal balance, given the current pressure on banana prices. In Grenada, negotiations for the 1993-95 wage award are long overdue.

Given the situation of the OECS countries, where public sector investment is critical to the development of private sector initiatives, a sound fiscal policy would also involve a surplus on recurrent account of something of the order of 5 percent of GDP, an expenditure on capital account (PSIP) of roughly 10 percent of GDP, and financing of the overall balance on concessionary terms from external donors. More generally, public savings must be maintained at a level sufficient to finance the local counterpart of the PSIP. A recurrent account surplus is also necessary to generate domestic savings and to enhance donor support by adopting credible internal policies. Governments should be aware that counterpart costs tend to be much higher in multilateral than in bilateral projects, and that interest rates will in many cases be

on less concessionary terms than in the past. These considerations increase the need for fiscal surpluses in recurrent accounts.

As noted previously, several OECS countries have not attained a surplus on recurrent account in recent years. Common harmonized policies with respect to tax structures and levels, and common services with respect to tax and customs administration, should be rapidly developed as part of a fiscal reform package. On the revenue side, countries should undertake the following: (i) broaden the tax base for indirect taxes (import duties and consumption taxes) by reducing exemptions and concessions: typically such exemptions from import duties run to 50 percent or more of total imports; (ii) reduce the CET and integrate it with all other import taxes and levies, the consumption tax, and abolish stamp duties, customs surcharges and other taxes on imports; (iii) strengthen tax administration in all countries, focussing initially on areas where a high benefit-cost ratio exists in terms of additional revenue achieved; and (iv) simplify the tax system in all countries by eliminating nuisance taxes, consolidating the number of different tax rates, and improving tax reporting forms. All countries should seek to broaden the tax base, through a broad-based consumption tax and/or a personal income tax system. Tax harmonization among the OECS countries should be a priority issue.

On the expenditure side, governments should consider the following measures: (i) develop a smaller, leaner civil service establishment with competitive salary rates to attract able people. Set a target for wages and salaries as a percent of total government revenues below current levels; (ii) implement user pay charges in cases where efficiency gains are large (i.e. user pay charges for water - or metering - can substantially reduce required capital expenditures on water resource development). Contract out government services where appropriate for private sector delivery; (iii) privatize government operated enterprises to increase efficiency of operation and to reduce the drain on government fiscal budgets (successful privatization efforts have provided governments with lump sum funds from the sale of assets plus increased taxes and/or dividends from more efficient operation of the enterprises). Proceeds from sale of assets should be used to reduce debt or finance investment; (iv) maintain or improve essential health, education and other social sector expenditures, while reducing or eliminating unnecessary programs in other areas; and (v) monitor PSIP estimates and project implementation more effectively to attain priority objectives, in human resource development and infrastructure to support private sector development, and to reduce waste.

It is critical that governments have in place an efficient and equitable tax and expenditure system prior to the onset of a change in the external environment, while there is still breathing room to undertake the necessary reforms. Increasing tax rates is extremely difficult in a period of economic crisis, and governments tend to meet fiscal objectives by sharp cuts in government expenditure. The problem is to design budget cuts that do not impact negatively on essential social expenditures in health and education, or that do not curtail needed infrastructure investment by squeezing counterpart funds. Sound planning based on a solid fiscal framework is required to devise a strategy that is economically, socially and politically feasible.

Monetary Policy and Exchange Rate Policy

The exchange rate in principle involves a number of options, but unanimous agreement among member countries is required to alter existing policy. Under the current system, the ECCB is strictly limited in the amount of government debt it can purchase or monetize, and at least 60 percent of note liabilities must be covered by foreign exchange holdings. This pegged exchange rate system has worked well, and should be maintained unless there are compelling reasons to change it. One option considered in the past has been to link the EC dollar to a basket of currencies rather than to the US dollar. The change in the marketing arrangements for bananas has altered one aspect of exchange rate vulnerability, since in principle the price of bananas in the future will reflect European rather than UK markets. Given the law of one price, a future devaluation of sterling should result in an equivalent upward movement in the £ price of bananas, unlike past episodes where the £ price of bananas was effectively insulated from the £ exchange rate. In addition, tourism is attracting more visitors from Continental Europe than before. Both of these changes would suggest a basket be used consisting of the ECU and the US dollar if this approach were adopted. However, disadvantages in terms of complexity and uncertainty would seem to outweigh the theoretical advantages of a link to a basket of currencies.

The OECS countries have a monetary and exchange rate system that has withstood two oil shocks, two major world recessions and a series of devastating natural disasters in the last 25 years. The system has been well structured and appropriately managed. However, the outlook is for a number of shocks to come, including reductions in banana and sugar prices, reduced aid flows, and a possible negative impact from NAFTA. In general, a more competitive situation will prevail in the future. Whatever the policy stance, the countries will have to adjust rapidly to external shocks with the instruments available. Recession with increased levels of unemployment is not a viable alternative. Banana receipts, while important to individual countries, are dwarfed in importance by receipts from tourism, and tourism represents an increasing component of foreign exchange earnings. However, bananas have a significantly higher ratio of net value added to sales revenue, and the employment impact of bananas is considerable. The short-run mobility of labor employed in the banana industry is not high for most occupations in tourism and service sector industries. In the short-term, any pressure on the monetary system can be handled by using stockpiled reserves or government generated fiscal reserve funds. However, there should be no relaxation of the strict limits on the Central Bank's lending to the governments. Moreover, before stocks of reserves are depleted the countries will need to realign their relative price structures.

Devaluation is a slippery tool at best for small, open economies. Exchange rate adjustments are controversial, since they raise the domestic currency price of both exports and imports, and result in a redistribution of income. In situations where the exchange rate is fixed and where domestic price levels for all goods rise relative to foreign price levels, causing an appreciation of the real exchange rate, a devaluation may be the preferred way in which to realign domestic and foreign prices. If the real exchange rate is not devalued, deflationary macroeconomic policies are required, whereas if it is devalued, stable macroeconomic policies are sufficient. As noted above, a fall in the terms of trade requires a downward adjustment in relative domestic price levels. Increasing an economy's openness through import tariff reductions increases the equilibrium level of the real exchange rate as do adverse terms of trade shocks and reductions in external flows. The alternative of an absolute deflation of domestic price levels may result in substantial and prolonged unemployment. A nominal devaluation accompanied by tight fiscal policy and a policy of wage restraint should allow a quicker and less painful adjustment to an external shock, resulting in faster GDP recovery and less unemployment. A fall in the real exchange rate stimulates the production of tradeable goods and improves the competitive position of the economy. Recent economic events in Guyana, which has depreciated its real exchange rate in recent years, and Barbados, which has not, illustrate the significance of achieving a speedy adjustment to a loss of competitiveness.

Given that a currency is to be devalued, the optimal timing of such a move is before it has been anticipated by the market and while demand pressures can be contained by a speedy adjustment in fiscal policy. In the Latin America and the Caribbean Region, the past history of devaluations has shown that many of them have tended to lose their effectiveness quickly, and to generate a series of more frequent and larger devaluations in an attempt to devalue the real exchange rate because tight complementary policies have not been fully in place. The OECS countries have successfully avoided this cycle of decline, and should continue to attempt to do so, by the adoption of sound macroeconomic policies. If the parity of the currency were to be altered, it would be important that the move be viewed as a move to a new fixed parity, not as a move to a series of downward adjustments. To achieve this, complementary fiscal policy restraint, including public sector wage restraint, would be called for, plus a reduction in import tariffs. The differential impact of any change in the exchange rate parity in different countries would require close OECS coordination for an effective overall policy response. The situation is complex since some countries would not be affected directly by a banana shock, for example, and the increased cost of debt servicing in terms of local currency would also have a differential impact on countries. As indicated above, fiscal policy should aim at generating a surplus on recurrent account sufficient to finance the local counterpart of the PSIP. A key element in fiscal policy is an incomes policy for the public sector that restricts wage awards to productivity increases.

In principle, taxes on imports and subsidies on exports can substitute for a nominal devaluation. In practice, this option is not realistic: CARICOM regulations

prevent unilateral taxes and subsidies on trade, and problems caused by increased contraband and smuggling would tend to mitigate the effect of trade taxes in any event. The increase in the CET to 45 percent in some OECS countries in 1991 appears to have led to a significant increase in smuggling activity.

Conclusions

The OECS countries are subject to increased competitive forces in the world as a whole, combined with a loss of preferential markets and a reduction in aid flows. The potential loss associated with a drop in the price of bananas is large. An economic framework for transition requires that governments: (i) harmonize policies relating to fiscal incentives and tax regimes; (ii) coordinate action in administrative areas such as customs and excise administration; (iii) increase factor mobility by reducing restrictions on labor flows and by expanding capital markets; (iv) adopt fiscal tax reform and expenditure policies that will generate sizeable recurrent government fiscal surpluses; (v) enhance domestic saving capability; (vi) maintain a competitive relative price regime through fiscal restraint, including an incomes policy for public sector wages; and (vii) monitor monetary and exchange rate policy to ensure that a competitive price regime is in place.

3

Factors Bearing on Export Prospects

Price Competitiveness

Exports of goods and non-factor services from the OECS countries depend upon price competitiveness, income levels in North America and Europe, preferential trading relationships, CARICOM policies, the quality of goods and services offered, and marketing arrangements.

Given the fixed rate of exchange between the EC dollar and the US dollar, price competitiveness depends upon relative inflation rates in the OECS and in its major markets, and on shifts in the US dollar exchange rate vis-a-vis European currencies. Low inflation rates in the OECS and a low US dollar vis-a-vis European currencies enhance price competitiveness for OECS goods and services. Very low import duties reduce the pass-through effects of increased import prices and, thus, restrain the overall inflationary pressures in the OECS countries. The index for the real effective exchange rate for each of the OECS countries fluctuated sharply in the 1980s with movements in the US dollar. Since 1988, indices of real effective exchange rates have been relatively stable. Some year to year changes have been sizeable, but they tend to cancel out, as with Grenada. Devaluations among CARICOM countries have tended to generate real appreciations, e.g., Jamaica in 1991. In order to enhance price competitiveness, OECS countries should work to increase currency stability within CARICOM, and they should implement sound fiscal policies, and rapidly reduce import duties and phase out stamp duties and differential consumption taxes to reduce pressures on the domestic price level.

Income Levels in North America and Europe

Projections for real growth in the G-7 countries (i.e., the United States, Japan, Germany, France, Italy, the United Kingdom and Canada) show a decline in the 1990s, from 3.3 percent per year on average in 1985-92 to 2.5 percent during 1993-2000. Tourism is highly sensitive to income levels, and these projections suggest that world tourism may grow less in the 1990s than in the late 1980s. However, G-7 growth rates of 2.5 percent should be strong enough to engender 4 percent growth in the OECS if appropriate macroeconomic and trade policies are implemented, as described elsewhere in this report.

Preferential Trading Relationships

Preferential trading relationships have been critical to the export of goods from the OECS, but they are under severe pressure and will not be as helpful in the future as in the past. The preferential market for bananas in the U.K. has been lost, and the new EU

Table 3.1: Real Effective Exchange Rates, 1988-92
(index: 1988=100)

	1989	1990	1991	1992
Antigua and Barbuda	98.7	100.9	99.9	99.3
St. Kitts and Nevis	95.4	103.7	100.6	97.1
Dominica	92.2	100.0	93.2	93.2
St. Lucia	98.1	106.4	99.0	100.0
St. Vincent and the Grenadines	99.8	102.4	101.3	101.3
Grenada	90.8	103.7	98.2	101.8

Note: Data for Montserrat not available. An increase in the index indicates a real depreciation. Annual estimates are calculated mid-year to mid-year.
Source: IMF.

BOX 3.1: THE URUGUAY ROUND AND GATT: THE OECS COUNTRIES

Small countries are particularly vulnerable to potentially adverse trade consequences owing to a limited resource base and the inability of domestic markets to provide a base for exports. Reductions in MFN tariff rates as a result of GATT negotiations could impact negatively on exporters who benefit from tariff preferences since margins of preference are eroded by tariff cuts. OECS exports benefit from CBI, GSP and Lomé Convention preferences. The implementation of NAFTA could lead to trade diversion from OECS suppliers to Mexican suppliers. On the other hand, trade liberalization provides general benefits to world trade and is potentially beneficial to the OECS countries.

A World Bank and UNCTAD trade projection model (SMART: Software for Market Analysis and Restrictions on Trade) has been used to project the impact of Uruguay Round MFN tariff cuts on OECS exports to the United States and the European Union (Montserrat is not included). Results are shown below. The negative entries for the EU reflect mainly the reduction in preferential market access for bananas assumed in the model (i.e., an average reduction of 40 percent in EU tariffs). The positive entries for the U.S. reflect net gains resulting from MFN tariff reductions on textiles and clothing which outweigh the losses on other products as a result of tariff erosion. EU losses outweigh U.S. gains for all countries except Grenada and St. Kitts and Nevis. Inclusion of non-tariff barriers in the analysis would probably increase the potential gains from the Uruguay Round resulting from improved access to U.S. textile and clothing markets, but measurement of these effects is not possible within the model as developed. Reduction in barriers to international trade in services will generate additional net benefits for OECS countries in areas such as transport costs, health care provision and providers of educational services.

ESTIMATED CHANGES IN IMPORTS DUE TO URUGUAY ROUND TARIFF CUTS
(US$000)

	EUROPEAN UNION IMPORTS			UNITED STATES IMPORTS		
	All Items	Foodstuffs	Manufactures	All Items	Foodstuffs	Manufactures
Antigua and Barbuda	-56	-53	-3	41	0	15
Dominica	-3253	-3238	-11	678	-1	681
Grenada	-396	-386	-6	473	0	474
St. Kitts and Nevis	0	0	0	315	-19	334
St. Lucia	3741	-5726	-3	3361	0	3361
St. Vincent and the Grenadines	-2878	-2865	-13	747	0	747

If NAFTA is to cause trade diversion away from OECS exports to North America, existing exports must face trade barriers in North America and NAFTA countries must be viable competitors for OECS exports. Analysis at a four-digit SITC level shows that potentially affected OECS trade is confined to the textile and garment sector. Most analysis suggests these longer term effects are positive, and that trade liberalization will enhance economic welfare. The Table below gives results for those OECS countries where the effects are judged to be significant. The estimates suggest that 1 to 2 percent of OECS exports to the U.S. are vulnerable to displacement as a result of NAFTA. The negative effects of NAFTA on clothing and textile exports to the U.S. are more than offset by the positive effects on clothing and textile exports to the U.S. as a result of Uruguay Round MFN reductions: for St. Lucia, for example, the NAFTA effect is a negative US$309,000, whereas the GATT effect is a positive US$3,361,000. The SMART model was used to project the effects of the removal within NAFTA of tariffs on textiles and clothing and the removal of all U.S. non-tariff barriers facing Mexico's clothing exports. Projections relate to the final stage of implementation which may extend up to 10 years before all barriers are eliminated. The SMART model measures short run static effects of trade liberalization. Longer term effects encompassing growth, technology and investment factors could alter the short run effects.

PROJECTED DISPLACEMENT OF 1992 OECS CLOTHING AND TEXTILE EXPORTS IN THE U.S. DUE TO NAFTA
(US$000 or percent)

		PROJECTED TRADE LOSSES	
	Value of Exports in 1992	Value	Percent of 1992 Exports
St. Kitts and Nevis	4839	84	1.7
St. Lucia	2377	5309	1.3
St. Vincent and the Grenadines	3098	43	1.4

Source: Caribbean Region: Coping with Changes in the External Environment, IBRD, 1994.

banana regime instituted on July 1, 1993 poses uncertainties in the short to medium term and the distinct possibility of the complete elimination of a protected market for bananas within a decade (see Chapter IV for extended discussion.) The Lomé Agreement on sugar gives a guaranteed quota, but downward price pressures will continue. In addition, because of the 1993 Uruguay Round negotiations, all U.S. and other OECD countries' quotas on sugar and other agricultural products will be converted to tariffs and these will be reduced 36 percent on stages. The U.S. and Canada give preferential access to some Caribbean products but the impending implementation of the North American Free Trade Agreement will effectively reduce the value of this preferential access by allowing Mexico, a major

competitor, eventual free access to the North American market (see Box 3.1). The U.S. tariff arrangements under 806/807 regulations and CBI concessions have been responsible for most of the garment and electronics firms in the OECS, firms which are particularly important in St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia. Changes under GATT to the Multi-Fibre Agreement may also impact negatively on the garment industry in the OECS by reducing the number of firms from countries whose U.S. quotas have been filled, and who seek indirect access to U.S. markets, but positively by reducing barriers to trade in garments. Finally, CARICOM has provided a protected market for some OECS products, a market which is to become less protected if current agreements to reduce the CET are implemented on schedule to 1997 (and 1998).

Box 3.2: Trade in Services: An Opportunity for Expansion

Worldwide trade liberalization and the elimination of trade preferences will force countries to concentrate on areas where they have a comparative advantage. In the longer term, the future of manufactured exports from the OECS countries is not strong, owing to emerging competition from other countries and the absence of economies of scale. Services provide an area where a comparative advantage exists, and where expansion should occur. World trade in services is the fastest growing segment of trade, and the OECS countries are well placed to expand in these areas given their demonstrated capacity in the tourism sector and the quality of their human resource base (both within and outside of the Region).

Existing and new communications networks are crucial for success in exporting services: air, telecommunications, fax, e-mail and satellites. Opportunities exist in many areas: financial and business services, retirement homes, offshore medical services, typing, 1-800 answering services, medical record keeping, hospitals, and so on.

Service sector exporting will require public and private sector initiatives. The public sector will need to become receptive to new opportunities and quick to respond. Capital and labor mobility must be enhanced, to promote corporate integration and joint ventures (i.e. jointly owned hospital complexes). Mobility of key professionals, especially former residents living abroad, needed to be encouraged. Regulations that impede development of the service sector must be changed. Company law, accounting and fiscal systems need to be simplified and standardized. Copyright laws and laws respecting intellectual property rights need to be brought into line with practices elsewhere. The public sector should develop, on a regional basis, an action plan to provide an environment for export-oriented service industries to expand, and quickly, while preferential market access for traditional exports still exists.

CARICOM Policies

OECS countries, along with other members of CARICOM, have agreed to a series of tariff reductions to take place between 1993 and January 1, 1997 (and 1998). These tariff reductions will reduce effective protection rates on uncompetitive import substitution industries and will enhance export prospects as the economies become more competitive. The OECS countries should move to reduce tariffs and other trade restrictions on a "fast-track" basis (January 1-July 1, 1997), since the initial stages of the CARICOM CET should not prove historically troublesome to OECS countries which have had a lower CET than other members of CARICOM. High tariffs add to the cost of operating a tourism and service sector oriented economy. A 5 percent across-the-board tariff eliminates high and variable effective protection rates, and provides some level of protection for light manufacturing industry without inducing serious distortions. Thus, over the longer term, and in tandem with a services oriented growth strategy, and with a tariff structure more consistent with those of more developed island countries, the OECS countries should strive to achieve a uniform 5 percent tariff.

Quality of Goods and Services

High quality of goods and services is especially important in a period of increasing competitiveness in markets for bananas, manufactured products and tourism. Quality improvement is a key objective of the restructuring of the banana industry (see Chapter IV). The manufacturing industry will need to be even more quality conscious in future, as more open markets become more demanding of high quality products. The OECS countries will need increased and probably concerted action in this area, which is technically demanding and expensive. In tourism, a wide range of improvements are needed to maintain and increase the number of arrivals and the length of stay, including: (i) improved air access, especially for countries without international airports; (ii) enhanced

customs and immigration procedures which can provide quick and friendly service; (iii) facilities for training of management and staff in the requirements of the modern hospitality industry; (iv) increased use/availability of high quality local food and handicrafts; (v) provision of adequate infrastructure in water, electricity, communications, roads and health care facilities; (vi) environmental improvements in solid waste disposal, sewerage treatment and coastal zone management; (vii) upgraded cruise ship facilities including duty-free shopping. These problems are more acute in some countries than in others, but no country can afford to rest on its laurels in this highly competitive industry. Industry officials are aware of all of these problems, but government and private sector initiatives will need to be expanded and coordinated to ensure that tourism attains a high quality status in all of these areas. Efforts to expand trade in other services need to be stepped-up (see Box 3.2).

Marketing Arrangements

The OECS governments see themselves as facilitators providing economic and social infrastructure, necessary investment incentives, access to commercial and financial services for private sector development and support for human resource development. Throughout the 1980s and into the 1990s, the OECS governments have introduced a number of economic reforms aimed at creating a macroeconomic and regulatory environment conducive to private sector economic development. As a result of these reform measures, the role of the public sector within their economies has changed, although its size remains somewhat large in most countries (see Box 3.3).

For a number of years the OECS governments have been aware of the need to diversify their economies

BOX 3.3: THE ROLE OF THE PUBLIC SECTOR: AN AGENDA FOR REFORM

Governments, the private sector, trade unions and other key organizations must work together to generate economic and social progress. Increased productivity and efficiency are critical to this progress. The public sector is responsible for providing a macroeconomic environment and an incentive structure that will facilitate private sector development. Tax burdens need to be reduced, and the public sector must become streamlined and efficient. Product and factor markets must become more competitive on a regional and world-wide basis. Policy uncertainty, delays in processing applications and discretionary public interventions must be replaced by efficient public sector institutions that reduce the costs and risks of doing business, especially in the key areas of tax and customs administration and land registry.

The agenda for reform encompasses seven broad categories:

- Macroeconomic and trade policy reform: fiscal balance, a broad based and neutral tax system, improvement in tax administration, and a rapid movement to trade liberalization are required.
- Labor markets: an efficient work permits system, improved labor-management relations and a reduction in restrictions on dismissals and on temporary employment are required. Human resource development needs increasing attention. A fiscally responsible social safety net needs to be put in place.
- Capital markets: unnecessary controls and restrictions on capital movements exist with respect to foreign investment, currency convertibility, and incompatible tax and accounting systems. Legislative frameworks require updating, and systems for transfer, clearing and settlement upgraded.
- Administrative procedures: certain administrative procedures impact negatively on the private sector and need to be improved through increased efficiency and transparency. Customs administration needs special attention, along with land use approval. One-stop-shops need to become a reality.
- Legal framework and institutional development: the model companies legislation developed for the OECS countries should be adopted. Record keeping and registries need improvement to facilitate dispute settlements.
- Financial intermediation: the regulatory system for banks and financial institutions in the Caribbean Region needs to be strengthened and standardized, and new institutions and instruments encouraged to improve competition and reduce the high cost of credit.
- Market access: existing barriers to competition have generated strong vested interests in both public and private spheres. Public education and improvements in the competitive environment are needed, including trade reform, privatization, elimination of price controls, elimination of discrimination between foreign and domestic investors and reduction in discriminatory fiscal incentives.

Source: *Caribbean Countries: Policies for Private Sector Development*, IBRD, 1994.

and have actively encouraged foreign and local entrepreneurs to establish businesses. Equally important, the governments have limited the scope of their involvement in the ownership of businesses and have pursued a policy of selected divestment of public and quasi-public enterprises. Faced with an increasingly competitive environment, the OECS governments are keen to set up efforts to continue to attract foreign investment, particularly in tourism and manufacturing. To this end, the OECS governments have sought support from multilateral institutions, such as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), for entrepreneurial development. IFC's involvement in the OECS countries includes: (i) US$3.7 million co-financing of the Club St. Lucia in FY91 in St. Lucia; and (ii) US$0.7 million toward the financing of the Fort Young hotel in FY89 in Dominica. The OECS countries have recently subscribed to MIGA in order to enable: (i) prospective foreign investors to purchase investment insurance against political risks; and (ii) the governments to seek promotional and advisory services from MIGA to attract foreign direct investment.

Study after study has reported on the need for improved marketing arrangements in the OECS countries, and some progress has been made. Geest boats can now handle products other than bananas, for example, and the Eastern Caribbean States Export Development Agency (ECSEDA) seeks to identify market opportunities in the United States. However, the general neglect of marketing is illustrated by the fact that the Agricultural Diversification Coordinating Unit (ADCU) does not have funding for market development. This gap and others are highlighted in the ECCB's "Proposed Economic Development Strategy for the OECS/ECCB Area." Increased coordination and additional funding are needed in all areas of actual and potential exports. In most cases, private sector initiatives will be needed to address the issues, but a strong case has been made by some Heads of OECS governments that public funding is required to provide information and technical assistance in the marketing area, given the urgency of the need to diversify away from bananas. Past government involvement in the marketing area has, however, not been successful, owing in part to their organizational structure: import monopolies on basic foods have been granted to government agencies which in turn are expected to cross-subsidize the export of non-traditional products. If governments are to be successful providing a supporting role for the private sector in marketing, they need to develop small, highly professional and goal oriented agencies with strong links to private sector interests which have a potential interest in exporting. Such agencies should have a five year "sunset clause," and they should at that time either be absorbed by private sector interests or disbanded.

Conclusions

Export prospects of the OECS countries are influenced by the trend towards increased trade liberalization at the global level, a trend that creates opportunity while it eliminates protected market access. The uncertainty posed by an increasingly competitive world environment requires that public and private effort be expended to ensure that potential export markets be turned into actual export markets. This is important in all areas, but most critically so in the tourist industry. Heads of government in the OECS have tended to take over the role of Minister of Finance because of its importance: they should seriously consider adding the Minister of Tourism to their responsibilities.

The OECS countries must enhance export prospects by a variety of measures. A competitive real effective exchange rate is one essential, requiring a sound fiscal policy regime. Preferential trading relationships will be less favorable in the future for bananas and sugar, and changes under GATT and as a consequence of NAFTA and of reductions in CARICOM tariff rates may impact negatively on some manufactured exports. Niche marketing will be required for successful development of most manufacturing, and will require marketing information and intelligence support. Breaking into new export markets has been difficult for Caribbean producers in the past. Trade in services provides a real opportunity for expansion, however, if bottlenecks are eliminated and an appropriate regulatory framework developed. Public sector reform encompasses a wide range of broad categories, from more efficient markets to improved administrative procedures to improved financial intermediation.

4

Preferential Trading Arrangements

Bananas, Sugar and Manufactured Exports

On July 1, 1993, the EU introduced a new regime for banana marketing which will have major long term repercussions for the banana industry in the OECS countries. Prior to July 1, 1993, Windward Island producers were able to sell any amount of production they were able to achieve in a protected UK market which gave high returns to producers and marketing agents, owing to a UK policy of import quotas on so-called dollar bananas. Subsequent to July 1, 1993, Windward Island producers are restricted to selling a fixed quota of bananas in an EU wide market protected by a tariff-quota system which effectively limits imports of dollar bananas to 2 million tonnes per year. The initial reaction of the banana market in Europe to the changed policy has been moderate, as banana prices have stabilized at roughly their previous levels. However, this initial reaction is deceptive, since the new banana regime does not appear to be sustainable over the longer term (i.e., it is currently being challenged in the European Court and might be challenged by future GATT members), and the preferred position of Windward Island producers is likely to be eroded during the rest of the decade. This chapter discusses some of the main implications of the new banana regime in the EU, examines the impact on the Windward Islands, and proposes a policy agenda. It also discusses prospects for sugar exports from St. Kitts and Nevis and manufacturing exports benefits from preferential arrangements which are also likely to be eroded.

Bananas

The New Banana Regime

The new EU policy on bananas is more complex and less transparent than the previous mix of national banana policies, and it has therefore increased the uncertainty attached to the production of bananas. This poses major problems for governments as well as producers. The complexity of the new regime arises from the manner in which quotas and tariffs are allocated: traditional African, Caribbean and Pacific (ACP) suppliers receive non-transferable country specific quotas based on past export performance, which quotas are not subject to a tariff in the EU, and other producers receive a transferable quota initially set at 2 million tonnes per year, the allocation of which is determined by past export performance. A key point is that 30 percent of the 2 million tonnes or 600,000 tonnes is to be allocated to traditional ACP marketeers based on the level of their primary imports (shipping to Europe), secondary imports (customs clearance) and ripening activity. Inside the 2 million tonnes quota, non-traditional ACP bananas are duty-free; a tariff of ECU 100 per tonne only applies to dollar bananas. Tariffs on above-quota EU, ACP and other suppliers are at prohibitively high levels, effectively restricting supply to the 3.7 million tonnes allocated under the new system.[12]

The lack of transparency in the new system arises because: (i) key decisions are to be made by a Banana Management Committee, which has, along with other powers, the ability to issue licenses to import and to alter the level of the current 2 million tonne quota; (ii) the new regime has no clearly defined transition procedures; and (iii) income support schemes to provide assistance to traditional ACP producers are not defined. A distinct possibility of the new regime is that the quota rents will increasingly be captured by the marketers as opposed to the

[12]As this report was going into print, the EU announced the conclusion of an agreement with four of the five Latin American countries (Colombia, Costa Rica, Nicaragua and Venezuela) involved in the GATT panel on bananas. The fifth country Guatemala, had not accepted the agreement. The agreement, which runs until December 31, 2002, involves an increase in the import tariff quota to 2.1 million metric tonnes in 1994, rising to 2.2 million metric tonnes in 1995. A share of this quota will be allocated to each of the banana-producing countries individually on the basis of their historic exports to the EU, and their national authorities will have the right to give export licences for 70 percent of these exports. Within the quota, the tariff will be reduced from 100 ECU per metric tonne to 75 ECU per metric tonne.

Table 4.1: Banana Production And Exports, 1981, 1985 and 1991[a]

(000 metric tonnes)

	1981	1985	1991	
Windward Islands				
Production	144	184	313	
Exports	114	161	232	
Dominica				
Production	35	40	67	
Exports	28	35	56	(71)
Grenada				
Production	18	13	11	
Exports	10	8	7	(14)
St. Lucia				
Production	58	90	155	
Exports	43	74	102	(127)
St. Vincent and the Grenadines				
Production	33	41	80	
Exports	33	44	68	(82)

a. Current EU quotas in parentheses.

Source: Statistical Appendix and FAO.

producers, owing to the enhanced role of the marketers in the licensing system. A mechanism should be developed to ensure that the rents are instead captured by the producing countries during the transition. One way to do this would be to eliminate the import licenses administered by the EU and allow the Caribbean countries that hold export quotas to sell or auction the import rights based on their export allocation.

In addition, there are strong external pressures which further increase the uncertainty that the new banana regime has engendered. Opposition to the level of protection provided to traditional EU and ACP suppliers has come from Latin American producers, from U.S. based large multinational trading corporations, and from member countries of the EU itself which traditionally had zero or low tariffs on bananas (Germany, Netherlands and Belgium in particular). Other opposition has come from supporters of the Uruguay Round who see the new banana regime as running directly counter to GATT policies on agriculture. It is a major assumption of this report, based on the evidence of trends in the world trading environment, that the preferential position of traditional EU and especially ACP suppliers is likely to be eroded over the next decade, and that the Windward Islands need to move now to prepare for the inevitable disappearance of their preferred banana markets in the EU.

Impact on the Windward Islands

Bananas are an important crop in the Windward Islands and production increased sharply in the 1980s (see Table 4.1). Bananas constitute a significant share of exports and of GDP (see Table 4.2). Prior to the introduction of the new banana regime, Windward Island producers were hit by a sharp fall in prices owing to the depreciation of the Pound Sterling in the fall of 1992. As a result, the industry is in a weak position financially to mount an effective response to the new banana regime. Banana Growers Associations are experiencing severe economic pressures in 1994.

Beginning September 1992, unit banana earnings have declined by about 20 percent. The Banana Growers Associations (BGA) in Dominica, St. Lucia, and St. Vincent and the Grenadines converted substantial accumulated reserves and also borrowed from local financial institutions to sustain price-support to the banana growers. By December 1993, the BGAs in all three countries were bankrupt with large outstanding debts – estimated at EC$25 million or 5 percent of GDP in Dominica, EC$42 million or 3 percent in St. Lucia, and EC$20 million or 4 percent of GDP in St. Vincent and the Grenadines. In addition, the governments of these countries are under pressure from the banana growers (ranging from 6,000 in Dominica to 8,000 in St. Lucia) to intervene in the day-to-day operations of the banana industry and to guarantee banana price-support at the current unsustainable levels. If the governments were to

Table 4.2: Windward Islands' Banana Exports, 1980, 1991 and 1992
(in percent)

	1980	1991	1992	1980	1991	1992	1980	1991	1992
	Banana Exports/GDP			Banana Exports/ Merchandise Exports			Banana Exports/ Agricultural Exports		
Windward Islands	n.a.	14.6	15.1	n.a.	50.9	53.5	n.a.	75.8	n.a.
Dominica	5.1	20.3	19.1	30.9	58.5	56.6	68.2	91.6	85.3
Grenada	4.8	2.2	1.7	24.4	18.6	17.2	21.9	28.4	31.4
St. Lucia	9.3	16.1	17.5	31.2	54.0	60.1	75.9	87.4	86.2
St. Vincent and the Grenadines	10.7	18.6	18.3	32.8	49.7	49.3	66.5	63.6	n.a.

n.a. = not available.

Source: WINBAN Annual reports and World Bank.

follow this course of action, the administrative and fiscal implications would be disastrous and could rapidly lead to the macroeconomic imbalances in these countries.

The new banana regime has resulted in complicated production and marketing problems for Windward Island producers. Quotas have been set on an annual basis: Dominica 71,000 metric tonnes, Grenada 14,000, St. Lucia 127,000 and St. Vincent and the Grenadines 82,000. However, the new system sets quarterly import quotas within these annual limits. A key problem is that countries cannot transfer quota amongst themselves and reduce the risk of underproduction. As a result, overproduction to reduce risk is a distinct possibility, once the countries have achieved a production level consistent with their quotas. Failure to achieve these quota levels could result in their reduction in subsequent years, adding to the pressure to increase production in the short run.

While producers in the Windward Islands have received benefits from past policies which provided a protected market in the UK market, their share of the retail price has been in the range of 15 to 20 percent (see Table 4.3). World Bank estimates show that most of the benefits from the pre-1993 banana regime accrued to preferred marketers, and not to farmers in EU or ACP countries. Faced with a price squeeze as a result of the depreciation of the Pound Sterling, and anticipating future liberalizations of the EU quota system, banana producers must become more productive. At present, average yields per acre in the Windward Islands are less than half those in Latin America with part of the differences accounted for by topography and soil fertility, and labor costs are at least double. Quality is also more variable. Cost reductions must focus on all segments of the production-marketing chain from farm to supermarket.

At the farm level, a priority objective of policy is to encourage efficient producers and discourage inefficient ones. Cost curves for efficient producers need to be lowered by a variety of measures: common procurement of inputs (fertilizer, blue plastic), efficient procurement and use of boxes, a coordinated program of aerial spraying, and so on. Beyond the farm level, costs of transport to the port, and from the port to Europe, need to be reduced. A recent CDB consultant's report has recommended a reorganization of the industry in the Windward Islands to increase the competitiveness of the industry, and action along these lines will be necessary to ensure the survival of the industry. More specific policies are outlined below.

A Policy Agenda

Successful adaptation to the uncertainties created by the new banana regime, and to the eventual loss of preferential market access, requires a coordinated response from the EU, the donor community and the governments of the Windward Islands. The key issues involve the reduction of uncertainty, the rapid development and implementation of a strategy for economic diversification, the institution of appropriate incentives and the provision of a social safety net.

The European Union should be encouraged to: (i) increase the short run flexibility and transparency of the banana regime by adopting regional (Windward Islands) quotas, eliminating quarterly allocations and clarifying procedures for issuing licenses and altering quotas; (ii) define clearly the price objective of the banana regime over the medium term; (iii) define policies for income maintenance and diversification support to the Windward Islands; (iv) clarify intentions with respect to bananas in any subsequent Lomé Agreement, following expiration of the current

agreement; and (v) outline a long term strategy for economic assistance to the OECS countries. A possible source of funding for targeted development assistance is the tariff revenue achieved from dollar banana imports, much of which will be a net gain in revenue to the respective Treasuries.

Multilateral and bilateral donors need to rethink their aid strategy for the Windward Islands, and the OECS countries as a group, in the light of the likely erosion in banana preferences. Short run requirements from donors include: (i) support to transitional measures, including increased technical assistance to enhance public sector initiatives in fiscal reform, project planning and implementation, environmental planning and other priority areas; and (ii) funding of an immediate in-depth study of the regional and sectoral implications of a sharp reduction in banana production with a view to establishing the objectives and financial parameters of a safety net program for those most likely to be seriously disadvantaged.

Donor requirements include: (i) financial support for a limited term and appropriate social safety net program to ease the transition to the new trading environment; (ii) continued support for projects to enhance human resource development and to improve the physical infrastructure, including in particular infrastructure to support private sector development; (iii) encouragement of regional initiatives on policy harmonization and on provision of common services; and (iv) promotion of economic union and improvement of flexibility of economic responsiveness.

The key requirements for government policy are: (i) articulate a credible plan for the future of the banana industry; (ii) ensure that an appropriate, market-driven, organizational structure for the industry is in place; (iii) provide an incentive structure that encourages the efficient producers; (iv) provide a financially viable social safety net program; and (v) encourage rapid diversification into productive and competitive sectors, including tourism and services, to the fullest possible.

Timely response by Windward Islands governments to the impending loss of preferential market access for bananas is critical for a successful transition to the new trading environment. Above all, governments must demonstrate responsible leadership. Positively, this requires governments to articulate clearly how the banana industry should develop, in order to reduce uncertainty and to allow individual producers to make correct decisions concerning their future in the industry. The objective is to keep productive farmers in the industry, while discouraging the inefficient.

Bananas are too important as a cash crop, and as a catalyst to support other agricultural activity on the basis of the infrastructure that has developed around bananas, to allow the industry to disappear. A key responsibility for a revised and revitalized industry organization will be to develop and implement a strategy with respect to minimizing transport and distribution costs and shifting more of the quota rents to the producers. Negatively, governments cannot guarantee the future of the industry, nor can they guarantee price or returns to producers. Any attempt to guarantee returns to producers by governments will generate an endless fiscal drain, will raise expectations unrealistically, and will simply delay needed adjustment.

A credible plan for future development involves a stable macro-framework and diversification into non-agricultural areas, including tourism and other services, and manufacturing. The PSIP needs to be targeted to these objectives, focussing on human resource development and provision of appropriate physical infrastructure for private sector development. As a transition measure, a financially viable social safety net program needs to be devised. Safety net support needs to be targeted, and to focus on retraining for alternative employment. Depending on circumstances, small scale decentralized efforts may prove beneficial in the Windward Islands as they have elsewhere. EU financing should be sought for funding safety net programs.

The appropriate incentive framework to induce an efficient response from producers will be difficult to achieve, given the political implications of a reduction in the labor force employed in bananas. The incentive framework and the safety net provisions must therefore work together. One option is to tax all banana production, and to subsidize, by means of a bonus scheme, farmers who achieve productivity increases measured by yields per acre and quality. Marginal farmers would leave the industry, and efficient farmers would be encouraged to increase yields and quality. This option, however, may no longer be appropriate.

Table 4.4: St. Kitts and Nevis - Sugar Operations Indicators

	1985	1988	1989	1990	1991	1992
Sugar Output (000 tonnes)	26.9	25.9	24.9	15.5	18.9	20.5
Sugar Exports (000 tonnes)	24.3	23.6	22.5	14.2	18.8	20.1
Exports Value (US$ million)	11.2	13.1	11.9	9.2	11.3	12.1
Acres Cultivated (000)	10.3	11.0	11.4	10.0	10.3	10.5
Yield (tonnes of sugar/acre)	3.6	2.2	2.6	2.8	1.9	2.1
Unit cost (sugar/tonne in EC$)	744	1501	1435	1744	1628	1520
Total employees (000)	3.6	3.4	3.4	3.1	3.0	3.0
Loss/Surplus (EC$ million)	n.a.	-10.6	-14.5	-7.2	-2.6	4.4

n.a. = not available.

Source: SSMC.

Sugar

The sugar sector (see Table 4.4) employs about 70 percent of the agricultural labor in St. Kitts and Nevis and its exports accounted for about 18 percent of foreign exchange earnings in 1992. About 90 percent of the sugar produced is exported to the United Kingdom and the United States of America under preferential arrangements.[13] The country is the beneficiary of the EU Sugar Protocol quota and the U.S. quota. Sugar exports depend entirely upon the continuation of these two preferential markets. The 1993 Uruguay Round of GATT requires liberalization of world agricultural trade. Sugar trade under preferential arrangements is threatened: (i) by the agreements under these trade negotiations; (ii) by internal harmonization of the EU market; (iii) NAFTA as U.S. quotas under various Agriculture Acts in the U.S. have already declined and further reduction cannot be ruled out; and (iv) EU and the developed world are now the world's largest exporters and, therefore, might not extend the preferential arrangements to the ACP countries. Preferential prices under the Sugar Protocol are linked to domestic EU prices. These preferential prices have been well above world free market prices.

In St. Kitts and Nevis, until 1975 the sugar industry consisted of 52 private estates and one sugar factory. In face of severe financial difficulties on account of low world market prices, low production yields and inefficiencies in operations, the Government took over the industry in 1975. Government corporations -- the National Agricultural Corporation (NACO) was responsible for cane production while the St. Kitts Manufacturing Corporation (SSMC) was responsible for manufacture and sale of sugar - managed the industry until 1986, when the entire operation was brought to SSMC.[14] By the early 1980s, acreage and production had declined steadily. These factors along with managerial and organizational weaknesses have made SSMC a fiscal burden. The financial decline of the 1980s resulted from rising production costs, low sugar yields, excessive staffing, weak management, poor cost accounting, and increasing interest payments on debt.

The critical financial situation of SSMC is a key factor in the fiscal imbalance. The government took over debt of SSMC of EC$56.2 million in 1987 and another EC$31 million of losses have accumulated up to 1991. The government, recognizing the need for fundamental changes in the sugar industry, has: (i) contracted a private company to manage the operations of SSMC; (ii) appointed a private financial manager; (iii) formalized a land tenure policy that enables long-leases of land, i.e., up to 35 years; (iii) employed foreign laborers (from Guyana) through private contractors to satisfy needs unfilled by Kittian workers; (iv) adjusted the domestic sugar price to the border price; and (v) enforced existing retirement age regulations to reduce labor costs. Further, agricultural diversification is to be intensified and priority to alternative export crop development is being given in the PSIP. Under the World Bank's Agricultural Development Support Project, which became effective in 1992, the government is: (i) working closely with the management team to make the sugar industry financially viable; (ii) divesting the sugar operations; (iii) mechanizing; and (iv) shedding factory labor.

[13]The preferential prices in these markets were about 3 times higher than the world price during 1982-92. The sugar quota for the EU (mainly the U.K.) market is 16,500 metric tonnes and 8,000 metric tonnes to the U.S. market.

[14]In 1979, a world-wide review of sugar industries ranked St. Kitts as the fifth most efficient producer in the world.

Table 4.5: Manufacturing Value Added in The OECS, 1978-82

	1978-82	1983-87	1988	1989	1990	1991	1992
				EC$ million			
Antigua and Barbuda	12.9	20.3	24.1	26.8	30.2	28.6	26.8
St. Kitts and Nevis	15.7	26.1	44.3	45.8	46.2	45.4	48.9
Montserrat	3.4	5.7	7.1	5.7	3.9	3.2	3.4
Dominica	8.3	15.2	21.0	24.5	26.4	30.7	31.3
St. Lucia	29.2	45.9	62.2	69.5	73.0	77.7	81.5
St. Vincent and the Grenadines	15.7	28.5	38.2	43.0	38.5	43.4	45.9
Grenada	8.5[a]	12.4	18.4	20.8	22.6	24.3	25.5
Total	93.7	154.1	215.3	236.1	240.8	253.3	263.3
				shares of GDP			
Antigua and Barbuda	5.1	4.2	3.1	3.1	3.4	2.9	2.7
St. Kitts and Nevis	14.2	13.9	15.3	14.3	12.8	11.9	11.9
Montserrat	6.4	6.4	6.1	4.2	2.3	2.3	1.5
Dominica	6.2	6.7	6.5	7.1	7.1	7.5	7.3
St. Lucia	9.4	8.7	8.4	8.3	8.1	8.0	7.7
St. Vincent and the Grenadines	10.9	11.0	10.7	11.0	8.7	9.1	8.9
Grenada	4.7[a]	4.9	5.3	5.3	5.4	5.5	5.6
Total	8.1	7.6	7.3	7.2	6.8	6.7	6.5

a. 1980-82.
Source: OECS.

While it is impossible to predict the future, a reasonable scenario for sugar is that preferential arrangements are likely to disappear in the long run, and prices will continue to decline. This will place increasing pressure on the industry to improve its productivity. Given the significance of the preferential markets, it is important that any reduction in access be phased in over a period of years to reduce the shock effect and to allow for resources to move more easily into other productive areas.

In the transition period, human development programs will have to be developed to retrain the sugar industry workers in newer skills. In pursuit of diversification away from sugar, a diversification assistance program needs to be established. In the short and medium term it will be necessary to examine the possibilities and to identify the avenues for continued diversification within and outside the agriculture sector. In the transition period and prior to the sugar shock inflicting damage to the social structure of the society, a review should be undertaken to identify ways and means to mitigate the adverse impact of the loss of preferential markets.

Manufactured Products

Value added in manufacturing in the OECS countries has increased in nominal EC dollar terms over the last 15 years, but its share of GDP has steadily declined, from 8.1 percent in 1978-82 to 6.5 percent in 1992 (see Table 4.5). Declines have been sharpest in Antigua and Barbuda, St. Kitts and Nevis, and Montserrat, but Dominica and Grenada have experienced slight growth in manufacturing as a share of GDP. In the past, sugar was a major component of manufacturing in St. Kitts and Nevis, but the importance of the sugar industry has declined over time: in 1978-82 the value added in sugar averaged 7.3 percent of GDP, compared to 1.7 percent in 1992. Even without sugar, manufacturing in St. Kitts and Nevis is a more important component of GDP than in any other OECS country.

Manufacturing firms in the OECS can be classified into three main types: (i) enclave industries serving U.S. markets; (ii) agro-processing and related industries serving largely CARICOM markets; and (iii) industries serving local markets. Enclave industries consist almost exclusively of firms producing garments and electronic equipment. Agroprocessing and related industries serving CARICOM markets include soap products, flour and feed grains and cardboard boxes. Industries serving local markets typically include beer,

Table 4.6: Exports of Manufactured Products, OECS, 1988-92
(EC$ million)

		1988	1989	1990	1991	1992
St. Kitts and Nevis	Total, of which:	68.9	68.3	75.3	n.a.	n.a.
	Sugar	35.4	32.1	40.8	30.7	32.0
	Clothing	n.a.	n.a.	31.9	n.a.	n.a.
Dominica	Total, of which:	38.5	44.6	50.8	n.a.	n.a.
	Soap	25.3	28.8	31.8	32.8	30.6
	Garments/Gloves	4.0	4.4	5.9	n.a.	n.a.
St. Lucia	Total [a], of which:	111.0	115.0	121.5	105.6	118.0
	Clothing	43.7	48.1	51.3	50.0	52.7
	Boxes	26.2	21.1	18.4	10.8	15.1
	Beer	8.1	10.0	12.7	13.2	13.8
St. Vincent and the Grenadines	Flour	18.2	18.8	19.5	18.7	n.a.
Grenada	Total, of which:	6.6	8.1	9.6	12.8	9.2
	Flour	1.8	2.0	2.0	3.6	3.5
	Clothing	3.0	2.0	3.2	4.6	1.8

a. Includes "other domestic exports".
n.a. = not available.

Source: CDB, IMF. Data for Antigua and Montserrat not available.

cigarettes, soft drinks, toilet paper, furniture, small appliances, concrete blocks and paint. Small amounts of these products are frequently exported to regional markets. Sugar is exported to non-CARICOM markets.

Accurate data on exports of manufactured products are not available. Table 4.6 presents selected data for 1980-92. Manufacturing exports are heavily concentrated on a few products: in 1990, of recorded exports of manufactured products amounting to EC$276 million, 33 percent consisted of garments, 15 percent of sugar, 11 percent of soap products, 8 percent of flour, 7 percent of cardboard boxes, and 5 percent of beer. All other products accounted for only 20 percent of manufacturing exports.

All significant manufacturing export products benefit from preferential trading arrangements. Garments benefit from U.S. 806/807 customs regulations, whereby duty in the U.S. is payable only on the OECS value added where the raw material (i.e. cloth) is of U.S. origin. Sugar is supported by quotas under Lomé and in the U.S. Soap products are protected within CARICOM by a high tariff on non-regional imports, as are flour, cardboard boxes and beer. In general, all manufacturing firms in non-enclave industries enjoy high levels of effective protection, whether or not they export within the Region. The CET and its impact on intra-regional trade is discussed in Chapter 5.

In addition to U.S. 806/807 preferences, OECS firms are eligible for preferential benefits under the CBI. Canada provides somewhat similar benefits under the CARIBCAN program. All of these preferences will be eroded by the implementation of NAFTA because Mexico, a significant competitor in both enclave industries and in agroprocessing industries, will eventually achieve duty free access to markets in the U.S. and Canada. Garments, electronic components and citrus concentrates are the industries most likely to be adversely affected.

In the face of the probable decline in the benefit received from preferential market access, combined with competition for labor and rising real wages as a result of the expansion of tourism, the best strategy for development of manufacturing in the OECS countries is to focus on high skill, high technology activities in areas such as electronics. These skills would also be useful in generating job opportunities in the informatics area (data processing, editing, accounting, software development and so on). In selected areas, agro-processing also offers income and employment opportunities, especially in sugar, soap, citrus concentrates, preserves and hot spices.

Tourism and regional markets will generate some niche openings for high quality handicrafts and specialty products (furniture, designer sun clothing, banana boxes, etc.). On balance, however, these and other developments will at best cause the share of manufacturing in GDP to remain roughly at its present level.

Conclusions

It is critical that an appropriate response to the new EU banana regime be developed, since every indication points to the disappearance of the preferential market for bananas over the next decade. The EU, the donor community and OECS governments all have a role to play in easing the transition to the new economic realities. Above all, governments must demonstrate responsible leadership, in order to reduce uncertainty, to maintain a broad base of the industry, and to provide a stable macroeconomic framework for diversification. A targeted PSIP and a fiscally responsible social safety net are important components of a successful transition.

Prospects for sugar exports from St. Kitts and Nevis are not promising in the long run, owing to the possibility of reduced U.S. quotas, the tariffication of quotas because of the 1993 Uruguay Round negotiations, an impending price squeeze on exports to the EU, and the general trend towards trade liberalization. The industry needs to improve its efficiency, but revenue losses are certain to occur if the benefits from preferential markets are eroded. Human resource development programs are needed to improve diversification prospects.

Manufacturing exports benefits from preferential arrangements which are also likely to be eroded over time. Given upward pressure on real wages, manufacturing industry must focus on high skill, high value added niche markets.

5

Incentive Framework and Policies

Overview

The OECS central governments derive about 50 percent of their total recurrent revenue from taxes on international trade and from consumption taxes (see Table 5.1). Consumption taxes are charged on both foreign and domestic products, but owing to the limited nature of domestic production of taxable products, most consumption taxes are in practice raised from foreign produced goods. Changes to the CET or to consumption taxes have significant impacts on central government revenue.

Trade Policies

The CARICOM Heads of Government in October 1992 at a Conference in Trinidad and Tobago agreed to introduce a new CET and to revise downward many of its tariff rates over the next five years to January 1, 1998. The details are complex. The general principle behind the revised rate structure is that imports into CARICOM that compete with regional production face higher tariff rates than non-competing imports, "competing" being defined as the situation where current CARICOM regional production or potential production satisfies or will satisfy at least 75 percent of regional demand. Two other important principles involve tariff escalation, and continued protection to agriculture at a 40 percent rate. In general, the CET implemented in 1993 has a rate structure,with, apart from agriculture, a maximum rate of 30 percent for countries on the "fast track" and 35 percent for countries on the "slow track." From January 1, 1998, this maximum rate is to be 20 percent, attained by 3 further incremental downward

Table 5.1: Central Government Recurrent Revenue, 1993

Country	Total Recurrent Revenue	Income Taxes	Taxes on International Trade	Consumption Tax	Other Taxes	Non-Tax Revenue
	EC$ million	percent of recurrent revenue				
Antigua and Barbuda	289.6	10.5	19.4	23.8	26.0	20.2
St. Kitts and Nevis	122.5	10.2	19.0	16.3	27.7	26.8
Montserrat[a]	38.8	27.6	22.7	18.0	19.8	11.9
Dominica	151.7	22.1	15.9	32.5	9.5	20.0
St. Lucia	294.5	n.a.	25.5	35.3	n.a.	n.a.
St. Vincent and the Grenadines[b]	158.8	27.5	16.8	28.8	13.1	13.9
Grenada	177.1	7.7[c]	14.0	37.6[d]	27.4	13.2
Total	1233.0	n.a.	19.4	29.3	n.a.	n.a.

n.a. = not available.
a. 1992.
b. 1991.
c. Debt service levy.
d. VAT.
Income taxes include personal and corporate taxes. Taxes on international trade include customs duties, customs service tax and customs surcharge. Consumption tax includes tax on both imported and domestic goods. Other taxes include property tax, business tax, business levy, banana levy, social services levy, stamp duties, etc.
Sources: Budget *Estimates*, CDB, IMF

Table 5.2: OECS - Status of CET Implementation, Mid-1993

Country	Implementation Date	Comment
Antigua and Barbuda	To be decided	Detailed analysis completed. Adjustment to consumption tax rate probable.
St. Kitts and Nevis	1 July 1993	Consumption tax rate to be adjusted if revenue falls.
Montserrat	To be decided	Customs examining impact.
Dominica	1 September 1993	Consumption tax rate to rise by 5 percent.
St. Lucia	1 July 1993	Consumption tax adjusted to achieve revenue neutrality.
St. Vincent and the Grenadines	1 April 1993	Consumption tax adjusted to achieve revenue neutrality.
Grenada	1 July 1993	Adjustments to be part of far ranging tax reform package.

Note: In the first phase of adjustment to the newly approved CET rates, a typical schedule has rates ranging from zero to 30 or 35 percent, with agricultural products protected at 40 percent.

Source: National authorities.

changes of 5 percent each. Agriculture inputs have a zero duty throughout. Some countries have opted for a "fast track" process to implement tariff reductions in 1997. This would put increased downward pressure on prices and improve export competitiveness. However, the potential increases in consumption taxes, which are also a tax on imports, may nullify some of these advantages, as discussed below.

Two special features underlie the tariff history of the OECS countries. Many countries raised their tariff rates in the early 1990s to make them more consist with the external tariff rate structure of other CARICOM countries. Secondly, OECS countries enjoy some special rights under the Treaty that established CARICOM, owing to their designation as Less Developed Countries (LDCs). Of particular significance is that LDCs have the power of derogation, i.e., they can apply a tariff rate to an import that is below the CET rate on that particular product. Countries differ significantly in the extent to which they have used the power of derogation, making generalizations difficult. Analysis of the revenue impact of the new CET is complicated by this issue, plus the fact that the revenue impact for a given country will depend upon the extent to which trade patterns change as between extra regional sources of imports (which generate customs duties) and intra regional sources of imports (which do not generate customs duties). These patterns will differ among the OECS countries, depending, in part, on their location vis-a-vis Jamaica and Trinidad and Tobago, the major CARICOM exporters. OECS countries, assisted by the World Bank and by the OECS Economics Affairs Secretariat in Antigua, have undertaken detailed analyses of the potential revenue impact of the new CET.

The new CET was to have been implemented by July 1, 1993, but not all OECS countries met this deadline (see Table 5.2). Following detailed analysis, most countries plan to offset any revenue loss from the implementation of the new CET with adjustments – in general involving increases – to the consumption tax rate on a given product. The purpose of these increases in the consumption tax is to make the combined tariff reduction and consumption tax increases roughly revenue neutral in terms of recurrent tax revenue accruing to the central government.

The revenue implications of the new CET are also affected by the degree to which countries offer duty free entry to imports under various fiscal incentive programs. A detailed examination of Grenada's imports during March-December, 1992, revealed that the full CET rate was on only 39 percent of total imports. Exemptions for the domestic market under various fiscal incentive programs amounted to 21 percent of total imports, a loss that is compounded

because duty free status under these programs also exempts the products from VAT. Exemptions also generate high and variable levels of effective protection that lead to misallocation of resources.

Table 5.3: Regional Trade in Selected Countries, 1988-91
(EC$ million)

	1988	1989	1990	1991
St. Kitts and Nevis				
Exports to CARICOM	5.6	6.1	7.0	7.4
Imports from CARICOM	36.0	43.1	43.0	47.8
Dominica				
Exports to CARICOM	31.7	35.7	37.5	n.a.
Imports from CARICOM	62.5	57.1	67.8	n.a.
St. Lucia				
Exports to CARICOM	55.1	55.4	54.5	44.6
Imports from CARICOM	91.8	115.8	131.0	138.0
St. Vincent and the Grenadines				
Exports to CARICOM	96.0	75.0	76.6	n.a.
Imports from CARICOM	52.5	65.1	76.3	n.a.
Grenada				
Exports to CARICOM	12.9	15.0	16.2	19.0
Imports from CARICOM	52.2	61.0	69.5	74.7

n.a. = not available.

Sources: CDB and World Bank estimates.

Imports from CARICOM countries amounted to 13 percent of total imports, such imports being duty free under the provisions of CARICOM. Grenada is undertaking a major reform of its tax structure to improve revenue buoyancy, reduce smuggling, and broaden the tax base. Other countries should also examine their policy regarding remission of import duties and other taxes: at a minimum, such concessions should be offered only to export oriented firms as a means of offsetting the anti-export bias in the tax structure, but firms which do not export should not receive tax concessions. Recent suggestions that the minimum tariff be returned to zero rather than 5 percent should be resisted on revenue grounds: projections of revenue implications show that a minimum 5 percent tariff is required to reduce the fiscal impact of lowering the CET. Import licensing remains a feature of trade policy in the OECS. Import licenses are typically required for agricultural products and locally produced manufactured products. In the case of agriculture, the pattern is to forbid imports during the period when local produce is on the market (i.e., onions, tomatoes, etc.). With manufactured products, the question arises whether local sources can provide the quality and volume required. Administration of an import licensing system is costly in terms of skilled civil servants, and import licensing systems tend to lack transparency, to generate inefficiency and to promote rent-seeking activity. The lists of items subject to import licenses are gradually being reduced in the Region, but considerable local protection is still generated by this system. Governments should examine carefully the costs of the present system of import licensing and accelerate its elimination, relying instead on the substantial protection still provided under the CET to much domestic production activity. Price controls will need to be eliminated as part of this reform process. OECS countries should also eliminate stamp duties, customs surcharges and other restrictions on trade.

Apart from its impact on revenue, the new CET has raised concerns in the OECS relating to the pattern of trade flows, and to the ability of the countries to adapt to a more open trade regime. On the first issue, concern is expressed that the new CET is resulting in an increase in the adverse trade balance between individual OECS countries and CARICOM as a result of trade diversion. Data on trade flows are incomplete and out of date, but the available evidence suggests that deterioration in the trade balance between the OECS and the rest of CARICOM is not a recent phenomenon (see Table 5.3). From 1988 to 1991, exports by OECS countries to the rest of CARICOM were stagnant relative to imports from CARICOM: for the five countries for which data are available, the adverse trade balance increased from EC$94 million in 1988 to EC$196 million in 1990. Given the comparative advantage of the OECS in tourism, the CARICOM trade imbalance may well reflect fundamental economic factors rather than trade diversion generated by the CET. To the extent that the CET creates a problem, it is the uneven implementation of the proposed schedule rather than the CET itself which creates a trade diversion potential. In addition, the trade flows reflect real devaluations combined with improvement in the

economic performance of major CARICOM producers, including Jamaica and Trinidad and Tobago. The new CET should, over time, reduce any trade diversion that exists vis-a-vis U.S. and other sources of supply since CET rates on most products are scheduled to fall.

The major concern relating to the adoption of the new CET regime is that small countries will experience difficulty in adjusting to reduced protection, owing to structural rigidities and a lack of local entrepreneurial ability. In this context, it is relevant that agriculture becomes efficient, that light industries such as beverages will continue to have a competitive edge owing to transport cost factors, and that the new CET will be phased in, allowing time for dislocations to be minimized. Also, OECS tariff schedules were relatively low within CARICOM. Exchange rate changes within CARICOM pose a greater threat to OECS trade flows than reductions in the CET.

Marketing Boards

Most OECS countries have marketing boards, whose objectives are varied (see Table 5.4). While some concentrate on imports of selected items, others are also engaged in export promotion for non-traditional exports, in marketing farmers' produce to domestic hotels and supermarkets, and in operating markets. The service provided to local farmers is more extensive in some countries than in others, depending on the institutional strength of the marketing board. The export promotion is also independently supported by regional organizations such as the ECSEDA. In recent years, some marketing boards have been victims of international trade scams, especially with respect to their fresh produce. To counter this, market information has now been developed in the Region and all agencies share such information.

The source of revenue for the marketing boards is mostly the government imposed wholesale mark-up for each import. This achieves two objectives. First, it allows the government to regulate the price of certain essential imports. Price regulation extends to certain other essential imports undertaken by the private sector also. Second, the mark-up formula ensures that the marketing boards appear financially sound. In St. Vincent and the Grenadines, for example, this surplus generated from sugar importing is used to pay off the commercial loan of the now defunct sugar factory. Most marketing boards cross-subsidize export promotion with profits from the mark-up on imports. Such mark-ups are a form of indirect taxes on all consumers, and are an inefficient way of collecting taxes. This is an especially inefficient way to promote exports, since the import taxation increases the trade regime's overall anti-export bias. Also, price regulation slows down private sector development. There is a critical need for a more competitive environment.

Experience in the OECS and other countries suggests that the private sector can perform the marketing board tasks more efficiently. The results of reforms to these institutions have improved the marketing services provided to farmers, and the farmers have responded accordingly. In Ghana, Mali, and Nigeria, export crop marketing boards were abolished and their functions privatized, with good results. Nigeria's abolition of marketing boards for palm oil, cocoa, rubber, cotton, and groundnuts, together with exchange reforms in 1986, led almost immediately to a 6 percent increase in cash crop production in 1987 in spite of bad weather[15]. After cashew production in Tanzania had fallen from 145,000 tonnes in the early 1970s to 17,000 in the late 1980s, in 1991 the government eliminated the parastatal's legal market monopoly and opened the sector to private traders. By the 1992-93 harvest, farmers were beginning to rehabilitate old plantings and plant new trees. The harvest rebounded to 41,000 tons[16].

Guyana has retained its marketing board in name only, completely changing its role from directly intervening in the market to providing information and export brokerage services. The results have been favorable. Following a decade of stagnation under government parastatal control, the banana sector in Belize was completely privatized in early 1985. This generated a flurry of investment and improved cultivation practices, with a consequent rise of production by 150 percent by 1987 and expansion still continuing. It is also noteworthy that the most vibrant agricultural subsectors in many countries are those in which governments have played little if any marketing role, such as fruits and vegetables in Chile

[15]See Knudsen, O. and J. Nash. 1990. *Redefining the Role of Government in Agriculture for the 1990s*, World Bank Discussion Paper, No. 105.

[16]See Jones, C. and M. Kiguel. 1993. *Adjustment in Africa: Reform, Results, and the Road Ahead*, World Bank, Policy Research Department.

Table 5.4: OECS Marketing Boards

Country	Marketing Boards	Functions
Antigua and Barbuda	Central Marketing Corporation	Sole importer of rice and sugar, carrots, cabbages, onions and tomatoes.
Dominica	Export-Import Agency (DEXIA)	Sole importer of bulk rice and sugar.
Grenada	The Marketing and National Importing Board	Sole importer of bulk refined sugar. Has the sole right in marketing of nontraditional export crops and agro-industrial products.
Montserrat	Agricultural Marketing Corporation	Authorized to market agricultural produce within the country, but has been dormant for 5 years.
St. Kitts and Nevis	Central Marketing Corporation (CEMACO)	Sole importer/distributor of certain basic foods, and assists farmers in the selling of their produce to the hotels, supermarkets and for exports.
St. Lucia	Marketing Board and the Ministry of Trade	The Marketing Board is the sole importer of cabbage, lettuce, tomatoes, carrots, sweet peppers and eggs. The Ministry of Trade is the sole importer of bulk rice, sugar and baking flours.
St. Vincent and the Grenadines	St. Vincent Marketing Corporation	Sole importer of sugar, trading vegetable seeds, marketing of fresh produce, and operates several markets.

Source: National authorities.

and Mexico, cut flowers in Colombia, and cocoa in Belize.

In Grenada, the Productive Farmers Union, a private non-profit organization, also markets non-traditional crops for export and the local market, albeit on a small scale. In recognition of these problems and constraints, the marketing board in St. Kitts and Nevis is being reorganized with assistance from the Commonwealth Secretariat with a view to possibly privatizing the export and import functions of the board. The Government of Montserrat is: (i) considering reviving the Agricultural Marketing Corporation, which is mandated to purchase farm produce and sell it only in the domestic market; and (ii) possibly privatizing it.

Price Controls

Price controls are a common source of distortion in Caribbean countries. In most cases, price-controlled items are also subject to import licenses, which tend to reinforce their detrimental impact on consumers. The extent of price controls - exercised mostly through maximum profit margins on commodities at the wholesale and retail level - varies. In Dominica, administered prices are based on a pre-determined mark-up on landed cost of cement, petroleum and petroleum-based products, milk, baby food, flour, chicken, codfish, and other fish. The stated rationale for the controls is the oligopolistic nature of the small Dominican market and the need to protect consumers. Measured by market response, the success of this policy has been mixed. Cement is cited as an example where government intervention has reduced profit margins without endangering supply. Other price-controlled goods such as milk and flour, however, are said to be in short supply at regular intervals. A reduction of the list of price-controlled items, complemented by the establishment of a Consumer Advisory Board, as intended by the government, would improve efficiency of resource use. Even if price controls are not enforced, their existence acts as a deterrent to investors. A good example of the beneficial effects of price decontrol is the fishery sector in St. Vincent and the Grenadines. After years of fish in short supply and illegal exports to neighboring islands, the St. Vincentian fishing industry is doing well in the wake of the 1989 price decontrols.

One-Stop Shop and Administrative Procedures

Governments play a major role in reviewing and approving investment decisions in the Caribbean when incentives are involved. While some of these activities are necessary, and in the public interest, poor administrative practices have increased the costs of doing business through delays and excessive information requirements. Also, in many countries lack of clear criteria has impaired transparency and increased the uncertainty of doing business. It is therefore difficult for an investor to know how to satisfy requirements.

New corporations are required to file information with the registrar of companies under the Companies Act or its equivalent in all countries of the Region. Registration is needed before operations can begin. In general this is the least troublesome of the steps involved in establishing a business. A variety of other registrations are also needed including some or all of the following: (i) value added tax; (ii) business enterprise number; (iii) income tax number; and (iv) national insurance. Registration can be time-consuming and may require contacts at various ministries or agencies.

Most countries have a Fiscal Incentives Act (FIA) dating from the mid-1970s and derived from the CARICOM agreement on fiscal harmonization. FIAs are virtually identical in all countries and defined three categories of firms: those meeting thresholds of 10, 25 or 50 percent of domestic value added. These firms get import duty and income tax relief for periods of up to 10 years depending on the value added category. FIAs also define enclave firms as those that produce exclusively for export and these are accorded the same privileges. Similar incentives are also granted through the *Income Tax Acts*. All countries have sectoral incentives entrenched in their Income Tax Acts. Despite efforts to harmonize fiscal incentives there are significant variation across countries. Problems in the administration of these incentives relate to subjectivity and lack of transparency. The FIAs generally require that approvals take account of: (i) the benefit to the country; (ii) the impact on wages and employment; (iii) the effect on existing industries; (iv) use of local raw materials; (v) the capacity of existing manufacturers; (vi) the risk of the venture; and (vii) the applicant's financial capacity, access to trained personnel, access to technology, access to raw materials, and access to factory space. Some of these are vague criteria, but more importantly the Act provides that the responsible minister can disregard all of the above in arriving at a decision, and can award full, partial or nil benefits.

One area of improvement relates to the consolidation of incentive approval and administration functions in the hands of a single agency which is usually also responsible for export and investment promotion. Despite the advances there is room for further streamlining in the following areas: (i) there has been a proliferation of Incentive Acts, followed by further laws covering agriculture, small business, export manufacturing and finally services. Additional incentives have been woven into Income Tax Acts. All this legislation is in need of rationalization; (ii) there are unnecessary overlaps and duplication in the procedures which applicants for incentives regimes must follow if their activities qualify for incentives granted by different laws; (iii) the scope of the incentive regimes is too broad. Virtually any enterprise (except retail trade) potentially qualifies under some act. This means there are no "normal" cases and everyone must go through the approval process; (iv) the tax benefit approval process in some instances is slow, opaque and assigns too much power to individual ministers; and (v) the operations of one-stop shops need to be made more effective especially with regard to the system of links and referrals to and from other government departments, the type of information required from investors and the agencies' abilities to analyze and monitor the effects of incentives.

An important issue is the insufficient follow-up and monitoring of firms receiving the incentives. Firms with approved status do not send annual returns regularly. In addition, there is no frequent monitoring to determine the level of compliance with the basic conditions of the scheme. Another problem with insufficient monitoring is that the government lacks adequate information to assess the extent to which incentives affect firm performance. The agencies do relatively little research on the effectiveness of the incentives in increasing investment and creating employment. Most have some sort of record of the number of approvals but there is no analysis of the effect of expiry of benefits at the end of tax holidays, the revenue losses associated with tax exemptions, the possibility of imposing small income taxes, or the relative importance of various benefits (e.g., duty

exemptions versus income tax relief). Most agencies do industry and sector studies to identify investment opportunities. The agencies have limited resources and prefer forward-looking promotional work to retrospective analysis.

Assistance and Information Regarding Licenses, Permits, Registrations, Approvals, Land Title and Land Use

This is the area which is the most problematic for investors and for the one-stop-shops assisting them. The one-stop-shops have no power to compel other government bodies to make decisions, or to change laws and regulations. There appears to be a need for better liaison between the one-stop-shop and the various other regulatory bodies. Powers to compel decisions or automatic default approvals after a time limit might help the one-stop-shops expedite the process. Better liaison can also be facilitated by allowing the one-stop-shop to coordinate or even absorb separate agencies performing related functions.

In several countries the one-stop-shop also manages the *industrial estates* owned by the government. There has been much controversy about the need for public sector involvement in the provision of factory space. However, there is a general perception that providing low-cost space is like tax concessions: foreign investment will go elsewhere if it is not available and that without such programs the small-island economies, in particular, would have missed out on much of the manufacturing investment of the 1980s. Caribbean countries also view themselves to be in competition with industrial park space provided by state governments in the U.S. reputed to be as low as US$1.00 per square foot at locations much closer to the North American mass market. In addition, some factory space is offered at less than cost to local firms in an effort to encourage new domestic industries.

When the public supply of factory shells was started, there were no private sector programs to build factory space for rent in the OECS Region, for example. When such a program was undertaken, funded by the United States Agency for International Development (USAID) under its Infrastructure for Productive Investment Program (IPIP), it did not deliver as expected. The difficulties encountered with support institutions and services had been underestimated. Meanwhile, the CDB-funded Industrial Estates Program created 17 services sites with factory shells in the OECS Region and Belize during the early 1980s. These estates still provide the bulk of rentable factory space today. Although the financial costs of the projects were similar throughout the Region, rental charges vary widely. Rent collections are a problem for management agencies in the sub-region, and everywhere else in the Caribbean. In the Region as a whole, there has been no real attempt to rationalize the strategies for providing factory shells. Rental rates and other investment incentives are managed in such a way as to allow an investor the opportunity to play one country off against another. At the same time, the accumulation of rental arrears affects the managing agencies' abilities to finance maintenance and other necessary expenditures, which ultimately increases costs for all tenants.

Conclusions

There are several ways in which the incentive framework in the OECS countries can be improved. Reduction of the CET should be undertaken on a fast-track basis. Duty free entry of imports under fiscal incentive programs needs to be restricted in scope. Import licensing and price controls should be eliminated, and market access improved through the elimination of marketing boards and through administrative reforms including the provision of effective one-stop shop arrangements. Incentive Tax Acts require rationalization, duplication in procedures eliminated, the scope of incentive schemes narrowed, the approval process made more transparent, and inter-agency linkages streamlined. Industry estates require more efficient operation.

6

Public Sector Investment Programs

Overview

The OECS countries are undergoing transition because of a changing environment for banana and sugar exports, new world trading relationships and reduced official development assistance. To adjust to these changes, the countries need to strengthen economic diversification efforts, including redirecting their strategies to encourage increased services-oriented activities, and put in place social safety net and retraining programs for those people most adversely affected by these changes.

To facilitate services-oriented activities, all countries need increased public investment in infrastructure and human resource development. High costs relating to social and economic infrastructure developments in small, mountainous islands and relatively small private sector in terms of financial capital necessitate a large public investment effort so that the private sector can develop and flourish. In some countries, the need to duplicate infrastructure found on other islands also adds to the total cost. Therefore, in the OECS context, large public investment should not be regarded as crowding out private investment.

To sustain domestic investment efforts at past levels, increased public savings in the form of fiscal current account surpluses are needed in all countries. This is because adverse changes in the preferential trading arrangements in banana and sugar will induce lower private sector savings. With reduced official development assistance to the Region, foreign savings available for domestic investment will also fall unless this is compensated by increased DFI or other capital inflows. Overall, savings available for domestic investment will be lower than they were prior to the changes in the external environment. Yet, to adjust to the external changes, countries need to increase their investment efforts in order to allow a rapid transition for alternative economic activities to develop.

Fiscal current account balances are weak in most OECS countries, and together with recent changes in the external environment for bilateral aid, this poses a serious threat to the Region for undertaking PSIPs of sufficient size to withstand the impact of changes in the preferential trading arrangements for bananas and sugar and the potential diversionary impact of NAFTA on capital flows and export trade from the region. With the economies of the major bilateral donors still weak, a large amount of the Official Development Assistance (ODA) finance is being diverted from the high income OECS countries to the Middle East, South Africa, and Eastern Europe where recent political changes have attracted donor attention. This is reflected in reduced official transfers to most OECS countries in the 1990s. As a result, the OECS countries will increasingly depend on multilateral donors for development finance. Since interest payments to multilateral donors for a given amount is typically higher than to bilateral donors, increased dependence on multilateral financing will have a stronger impact on the OECS countries fiscal and balance of payment accounts. Those OECS countries with weak fiscal performance will come under increased pressure. Thus, the need to adopt policies recommended in this report.

Simultaneously with increased investment on infrastructure and human resource development, the OECS governments need to have in place social safety-nets and retraining programs for those people most affected by the adverse changes in the banana and sugar industries. Without timely policy measures, the social stability enjoyed in these islands could be affected and private investment and output growth would be below their potential.

Public Sector Investment in the OECS Countries

The proposed PSIPs for 1994-96 in the OECS countries reflect the governments' objectives of developing infrastructure, supporting economic and social sector projects designed to provide the appropriate facilitating framework for the expansion of private investment. The total proposed PSIP in the OECS countries is equivalent to US$392 million for 1994-95. An additional US$21 million is proposed by St. Kitts and Nevis and St. Vincent and the Grenadines for 1996. The remaining OECS countries are preparing projects for 1996 and beyond. Altogether, the total proposed PSIP amounts to about 10 percent of projected aggregate GDP.

Public investment varies among countries and within sectors, partly reflecting availability of domestic counterpart funds. Infrastructure and social sectors together account for 83 percent of the proposed PSIP. Infrastructure developments include road and port developments and water and sewerage, and social sectors include education and health. Most countries have also placed some emphasis on capital formation in agricultural rehabilitation programs, and tourism and industrial sites developments. In all countries, the PSIP includes a large investment in environmental projects, such as the donor-funded forest management and institutional strengthening project in Grenada.

The proposed PSIPs do not include two World Bank projects currently under preparation. Both projects are expected to start in 1995, to be executed over a five year period, and should be added to the respective PSIPs once these are finalized. A Solid Waste Management Project is being prepared for the IBRD-member OECS countries (i.e., excluding Montserrat) for a total cost of US$53.4 million. An education project is also under preparation, initially in Dominica, St. Lucia and St. Vincent and the Grenadines, for a total of US$22.7 million. In the second phase of the Education Project, other IBRD-member OECS countries will be included.

Total Financing Requirements

The total external financing requirement for the period 1994-95 amounts to US$283.4 million for the seven OECS countries with an additional US$13.4 million required for St. Kitts and Nevis and St. Vincent and the Grenadines for 1996. Of the total requirement for the three year period, donor assistance has been pledged for US$243.5 million and additional assistance is sought for US$53.3 million. Countries with new unidentified external financing requirements are Grenada (US$44.8 million), St. Kitts and Nevis (US$4.4 million), and St. Vincent and the Grenadines (US$4 million). Domestic financing is projected to be US$116.3 million. This represents locally funded projects as well as domestic counterpart funds for donor-funded projects (see Table 6.1).

While the PSIPs have placed increased focus on infrastructure and human resource development, they have largely neglected social safety net and retraining programs for the people likely to be most affected by external changes. Donor assistance is needed to develop appropriate social safety network and retraining programs for people displaced by adjustments in the banana and sugar industries. In view of the economic transition problems, the OECS governments are also seeking technical and financial assistance from the donor community to (i) improve the PSIP process to develop a pipeline of projects for three year rolling plans, maintain project data banks, and generally strengthen all aspects of project cycle management, including developing the recurrent cost implication of each project and monitoring external finance in a more transparent manner; (ii) link the projects and programs to environmentally-sustainable development strategies; and (iii) increase the project rates of return.

The Size and Composition of the PSIP

Overall OECS Public Investment Program

The average annual proposed PSIP amounts to US$26 million for each of the OECS countries, for a total of US$413 million for the three year period. The proposed public sector investment efforts remain low in most countries, although the average is at an adequate level of output owing to large infrastructure expenditures in selected countries. About 76 percent of the PSIP relates to ongoing projects, reflecting lack of identified new projects in Dominica and St. Lucia. Only in Montserrat and Grenada new projects in the PSIP exceed ongoing ones (see Table 6.2). In all

cases, the PSIPs include airport rehabilitation projects. Also, there is a general shift in emphasis from direct economic support to economic infrastructure development. All except Antigua and Barbuda and Montserrat have projects designed to upgrade water and sewerage systems.

The composition of the PSIP reflects the importance attached by the OECS governments to supporting infrastructure and social sector expenditures. Accordingly, the focus of the ongoing and new projects is on infrastructure (61 percent), social sectors (22 percent), and supporting economic sector (12 percent). Administration and public safety projects account for the remainder (5 percent). Inadequate expenditure on repairs and maintenance is a problem in Antigua and Barbuda, Dominica and Grenada.

Ongoing infrastructure projects account for about 45 percent of the total PSIP, mainly in the transport and communications sector. In Grenada and Montserrat, relatively more resources are being allocated to new projects in the sector while in the remaining countries ongoing projects dominate, and in Dominica and St. Lucia new projects in the sector are being developed. The high expenditures on the social sectors reflect the importance given by the governments to improved water and sewerage services, education and health facilities and public health. However, the differences between the ongoing and new project shares in the PSIP in the sector show that some countries have been slow to initiate projects in the social sector areas. In the supporting economic sector projects, the emphasis in most countries is primarily on agricultural feeder roads or rehabilitation projects in the agriculture sector, factory shells in the manufacturing sector and the development of tourist sites or of tourism promotion marketing. New projects are being formulated in Dominica, Grenada and Montserrat for this sector. In Antigua and Barbuda, and St. Kitts and Nevis the emphasis on tourism projects has increased in terms of the share of the PSIP. Overall, the share of the tourism sector in the OECS countries has remained at 0.8 percent of PSIP outlays. Finally, about 3 percent of the proposed PSIP is allocated to public administration, and another 1 percent mainly to public safety.

Country Public Investment Programs

In *Antigua and Barbuda*, the proposed PSIP for 1994-95 totals US$11.6 million or 1.2 percent of projected GDP. Owing to a weak fiscal situation, the PSIP is more in the nature of rehabilitation of existing infrastructure rather than capital formation. Lack of domestic counterpart financing, together with the country's low credit rating, has meant that the proposed public investment effort is the lowest in the Region. Economic services account for 27 percent of the PSIP, mainly in the tourism sector. The major projects in tourism are the visitor center, the hotel training center and the convention/cultural center. In education, the emphasis is on restoration and rehabilitation of primary and secondary schools, with the major projects being the construction of St. John's Technical Vocational Junior Center and the Antigua State College Science building. No significant expenditure is proposed on health, housing and water and sewerage, although the country is currently experiencing a severe water shortage problem which affects its hotels.

In Dominica, the proposed PSIP for FY94-95 total US$19.4 million or 4.6 percent of output. All projects are ongoing, and new projects in all sectors are being developed for donor funding. The major objectives of the PSIP are to focus on the expansion and upgrading of economic infrastructure to facilitate greater efficiency in the private sector and the development of the country's human resources. The size of the requeired PSIP is twice the proposed expenditure levels at this stage. However, the low level of public savings, equivalent to 1.5 percent of output in 1992, cannot support a level of public investment necessary to ensure rapid exonomic growth. Yet, Dominica is likely to be hardest hit by the changes in the banana regime the government will have to make additional efforts to raise public savings to the level that prevailed in the late 1980s, i.e., in excess of 5 percent of GDP. In the proposed

Table 6.1: External Financing Disbursement Requirements for the Public Sector Investment Programs, 1994-96[a] (US$ millions)

	Public Sector Investment			Financing Sources			
	Total	of which: Ongoing Projects	of which: New Projects	Local Contribution	Estimated Disbursements from Existing External Commitments	Estimated Disbursements from New Identified External Commitments	New Unidentified External Financing Requirements
1994							
Antigua and Barbuda	6.5	5.7	0.8	0.0	5.7	0.8	0.0
Dominica[b]	10.6	10.6	0.0	4.6	6.0	0.0	0.0
Grenada	37.2	19.3	17.9[c]	5.4	13.9	0.0	17.9
Montserrat	22.6	10.8	11.8[d]	0.3	10.8	11.5	0.0
St. Kitts and Nevis	26.3	24.0	2.3	2.9	20.3	0.1	3.0
St. Lucia[b]	74.2	74.2	0.0	34.2	40.0	0.0	0.0
St. Vincent and the Grenadines[e]	29.4	27.3	2.1	14.2	12.9	0.2	2.1
Total	206.9	171.9	34.9	61.6	109.6	12.6	23.1
1995							
Antigua and Barbuda	5.1	2.9	2.2	0.3	2.9	1.9	0.0
Dominica[b]	8.8	8.8	0.0	3.5	5.4	0.0	0.0
Grenada	26.9	0.0	26.9[c]	0.0	0.0	0.0	26.9
Montserrat	18.3	2.0	16.3[d]	0.9	2.0	15.4	0.0
St. Kitts and Nevis	21.5	15.9	5.6	3.8	14.1	3.1	0.5
St. Lucia[b]	80.9	80.9	0.0	28.1	52.8	0.0	0.0
St. Vincent and the Grenadines	23.7	14.7	9.0	10.6	5.5	7.6	0.0
Total	185.3	125.3	60.0	47.2	82.7	28.0	27.4
1996							
St. Kitts and Nevis	10.7	8.2	2.5	1.2	7.0	1.6	0.9
St. Vincent and the Grenadines[f]	10.2	8.1	2.2	6.4	0.4	1.6	1.9
Total	20.9	16.2	4.7	7.6	7.4	3.2	2.8
MEMORANDUM ITEMS:							
Total for 1994-95	392.2	297.2	94.9	108.7	192.3	40.6	50.5
Total for 1994-96	413.1	313.4	99.6	116.3	199.7	43.8	53.3
Annual Average for 1994-96				(In percent of GDP)			
Antigua and Barbuda	1.2	0.9	0.3	0.0	0.9	0.3	0.0
Dominica[a]	4.6	4.6	0.0	1.9	2.7	0.0	0.0
Grenada	14.2	4.3	9.9	1.2	3.1	0.0	9.9
Montserrat	28.4	8.9	19.5	0.8	8.9	18.7	0.0
St. Kitts and Nevis	8.8	7.2	1.6	1.2	6.2	0.7	0.7
St. Lucia[a]	15.0	15.0	0.0	6.0	9.0	0.0	0.0
St. Vincent and the Grenadines[e]	8.1	6.4	1.7	4.0	2.4	1.2	0.5
Regional Total	9.6	7.3	2.3	2.7	4.6	1.0	1.2

a. World Bank projects on OECS Waste Management (US$53.4 M) and Education (US$22.7 M) are excluded from this table. Both are expected to start in 1995. See text.
b. On fiscal year basis, beginning in 1994, etc.
c. Of the total proposed new PSIP for 1994-95, the allocation is 40 percent in the first year and the balance in 1995.
d. Assumes 20 percent counterpart funding on CDB/COM transport project.
e. New unidentified external financing requirements for 1994 is obtained as the residual between total investment and identified financing totals.
f. New unidentified external financing requirements for 1996 is obtained as the residual between total investment and identified financing totals.
Sources: National authorities, CDB and IBRD Staff.

Table 6.2: Structure of The 1994-96 Proposed PSIP in OECS Countries
(in percent)

Country		Economic Support			Infrastructure			Social Sectors			Other Public		Total
		Ongoing	New		Ongoing	New		Ongoing	New		Ongoing	New	
Antigua and Barbuda		14.5[a]	12.8		17.8	12.5		41.4	1.1		0.0	0.0	100.0[b]
	Agriculture	3.7	0.0	Transport and Comm.	17.8	12.5	Education	41.4	1.1	Admin.	0.0	0.0	
	Tourism	10.9	12.8	Power	0.0	0.0	Housing	0.0	0.0	Other	0.0	0.0	
	Manufacturing	0.0	0.0	Water and Sewer	0.0	0.0	Health	0.0	0.0				
Dominica		11.9	0.0		40.2	0.0		43.3	0.0		4.6	0.0	100.0
	Agriculture	11.0	0.0	Transport and Comm.	28.1	0.0	Education	7.1	0.0	Admin.	2.1	0.0	
	Tourism	1.0	0.0	Power	0.0	0.0	Housing	28.3	0.0	Other	2.5	0.0	
	Manufacturing	0.0	0.0	Water and Sewer	12.1	0.0	Health[c]	8.0	0.0				
Grenada		10.8	19.3		13.9	37.8		4.2	7.4		0.4	2.8	100.0
	Agriculture	9.2	5.9	Transport and Comm.	5.8	24.8	Education	3.5	7.4	Admin.	0.4	2.8	
	Tourism	1.5	1.5	Power	1.9	0.0	Housing	0.0	0.0	Other	0.0	0.0	
	Manufacturing	0.0	11.9	Water and Sewer	6.2	13.0	Health	0.7	0.0				
Montserrat		0.3	0.0		2.7	65.2		14.6	0.5		9.8	3.0	100.0
	Agriculture	0.3	0.0	Transport and Comm.	2.7	65.2	Education	5.7	0.0	Admin.	9.8	3.0	
	Tourism	0.0	0.0	Power	0.0	0.0	Housing	0.0	0.0	Other	0.0	0.0	
	Manufacturing	0.0	0.0	Water and Sewer	0.0	0.0	Health	0.5	0.5				
St. Kitts and Nevis		6.5	3.6		58.4	9.1		14.2	4.2		3.1	0.1	100.0
	Agriculture	6.3	2.0	Transport and Comm.	30.7	5.1	Education	3.2	0.6	Admin.	3.0	0.1	
	Tourism	0.0	1.4	Power	20.4	3.6	Housing	5.5	1.6	Other	0.1	0.0	
	Manufacturing	0.1	0.3	Water and Sewer	7.3	0.4	Health[c]	5.5	1.9				
St. Lucia		5.2	0.0		65.3	0.0		25.3	0.0		5.1	0.0	100.0
	Agriculture	1.9	0.0	Transport and Comm.	42.5	0.0	Education	11.3	0.0	Admin.	2.0	0.0	
	Tourism	0.3	0.0	Power	0.1	0.0	Housing	1.8	0.0	Other	3.1	0.0	
	Manufacturing	3.0	0.0	Water and Sewer	22.8	0.0	Health[c]	12.1	0.0				
St. Vincent and the Grenadines		15.6	1.0		44.5	19.9		16.1	2.2		1.6	0.4	100.0
	Agriculture	15.0	1.0	Transport and Comm.	27.2	8.0	Education	6.7	0.0	Admin.	1.1	0.4	
	Tourism	0.6	0.0	Power	16.7	11.3	Housing	0.0	0.0	Other	0.5	0.0	
	Manufacturing	0.0	0.0	Water and Sewer	0.6	0.6	Health[c]	9.3	2.2				
Group Average		7.9	4.0		44.5	17.0		19.3	2.2		3.9	0.8	100.0
	Agriculture	6.0	1.3	Transport and Comm.	27.4	12.6	Education	7.6	1.3	Admin.	2.5	0.8	
	Tourism	0.8	0.8	Power	5.8	2.2	Housing	2.8	0.2	Other	1.4	0.0	
	Manufacturing	1.2	1.9	Water and Sewer	11.2	2.2	Health	7.3	0.7				

a. Underlined totals refer to total PSIP proposed in the sector identified in the column head.
b. Components may not add to 100 due to rounding errors and discrepancies between published totals and the sum of components.
c. Includes community services.

Sources: National authorities, CDB and IBRD Staff.

PSIP, the focus of the infrastructure investment is on the provision of roads, air and sea transportation facilities, and power supply. The major infrastructure projects are the Bay Front Development in Roseau (US$6 million), a Sea Defense Project (US$8 million), and water and sewerage services, including the construction of several new rural water systems and an integrated water and Sewerage Development Project for Roseau. The emphasis in the social sectors, which account for 43 percent of the total PSIP, is on completing housing projects. Public investments in the economic sector include projects in agricultural diversification, manufacturing and tourism promotion and marketing.

In *Grenada*, the PSIP for 1994-95 totals US$64.1 million with less than one-third of it on ongoing projects. The proposed PSIP to GDP ratio is 14.2 percent, which makes it the third largest investment ratio in the Region. Yet, public savings have been negative for some time, in the order of 2.5 percent of GDP. As a result, this proposed PSIP could be implemented only if bilateral donors fund the entire project costs and/or if public savings increase. Donor funding is sought for US$44.8 million. The PSIP represents a discernible shift in emphasis from direct economic support to infrastructure, reflecting the government's desire to restructure the economy and lay the foundation for increased foreign and domestic private investment. Infrastructure projects include port improvement, roads and sea defense, and water supply projects. In the social sectors, the focus is on construction and renovation of schools. In the economic sectors, the major projects are on fish processing and fruit production.

In *Montserrat*, the proposed PSIP for 1994-95 totals US$41 million or 28 percent of output, the largest proposed investment effort in the Region. About 27 percent of the total expenditure is on ongoing projects. The fiscal situation is also weak in Montserrat, making it difficult to provide any counterpart funding. Bilateral donors have been identified for all projects. The PSIP includes the development of a new airport, with donor assistance from BDD and EDF. Initial project design estimates suggested a total cost of about US$44 million. The project design is being re-examined. For the purpose of this report, an estimate of about US$30 million is used with 30 percent of expenditure in 1994 and a further 40 percent in 1995. Other projects include road improvement exceeding US$6 million and construction of government buildings.

In *St. Kitts and Nevis*, the proposed PSIP for 1994-96 totals US$58 million with over 82 percent of it on ongoing projects. The PSIP to GDP ratio is 9 percent, the fourth lowest ratio in the Region. The fiscal situation has deteriorated in the 1990s, so that public savings is now negative. Donor funding have been identified for most projects, and an additional funding of US$4.4 million is being sought. The focus is on investment in physical and human capital so as to facilitate tourism development, agricultural diversification and encouragement of small manufacturing. In the infrastructure sector, the major developments are the upgrading of the port and airport in Nevis, road improvement, the sea defense project, electricity expansion and upgrading, and a water development project. In the social sectors, the focus is on the strengthening of the College of Further Education, and the renovation of the JNF Hospital. A Resettlement Project at Newcastle is planned at a total cost of US$0.9 million to be funded by the national insurance agency.

In *St. Lucia*, the proposed PSIP for FY94-95 totals US$155 million or 15 percent of GDP. All projects are ongoing, and new projects are being prepared for donor funding. The high level of investment efforts could be sustained if bilateral donor support continues and the government fiscal surpluses are maintained in the order of 8 percent of GDP. Similar to other countries in the Region, the major objective of the PSIP is to continue upgrading social and economic infrastructure so as to ensure a sustained growth momentum and to facilitate an increasing role for the private sector in actively promoting the development and expansion of the export sector. In the infrastructure sector, the major projects are the Vigie airport development, roads, a proposed tunnel linking Castries with the industrial estate in Cul de Sac, and water development and management. In the social sectors, the projects include construction of new secondary schools, rehabilitation of the Victoria hospital, low income housing, and shelters for boys and girls. In the tourism sector, the major project is the completion of the Vendors' Arcade. Other major

projects include the completion of an industrial estate and support to sustainable hillside farming.

In *St. Vincent and the Grenadines*, the proposed PSIP for 1994-96 totals US$63 million or 8 percent of GDP. About 78 percent of the expenditure is on ongoing projects. Donor funding is sought for US$4 million. The share of infrastructure in the proposed PSIP is over 64 percent, and it reflects the need to duplicate social and economic infrastructure on each island. Ongoing and new infrastructure projects include improvement to Canouan and E.T. Joshua airports, development of Campden Park Container Port, completion of the Diamond Industrial Estate, electrification of Canouan, improvements to electric transmission and distribution, and construction and rehabilitation of agricultural feeder roads. The infrastructure projects include construction of cold storage facilities at Joshua airport on the mainland to facilitate exports of perishable items. In the social sectors, the major projects are the construction of Campden Park Secondary School and a post-secondary facility, and the continuation of Kingstown Hospital redevelopment. In the economic sectors, the major projects are in fisheries development, smallholder crop improvement and marketing, and agricultural rehabilitation and diversification. The government distinguishes between a three year financing PSIP and a more tentative five year planning PSIP which is formulated in conjunction with the Five Year Development Plan.

Financing

Financing of the PSIP comes from governments' fiscal surpluses, domestic borrowing, external grants and loans on concessionary terms. St. Lucia generates adequate fiscal surpluses for counterpart funds. This explains why the country is able to undertake a public investment effort larger than the average for the Region. Montserrat's even larger effort, however, is financed primarily by external donors. The fiscal situation in St. Vincent and the Grenadines is also reasonably good, and it could improve its public investment efforts provided external financing is available as grants or on concessional terms. Most other countries continue to generate insufficient fiscal surpluses.

There is a critical need to raise public savings in most OECS countries so as to support a PSIP of adequate size, especially as bilateral donors are replaced by multilateral donors. To attract multilateral donor funding, the countries need to contribute about 40 percent of the projects' total cost as counterpart funding. This implies that the OECS countries need to maintain sound fiscal discipline and management that result in fiscal current account surpluses of at least 5 percent of output. Only St. Lucia has generated adequate public savings (fiscal surpluses) in the 1990s and it will remain in good shape provided it does not change policies that undermine this savings effort. In 1992, the current account deficit ranged between 0.1 to 2.5 percent of output in four countries, with surpluses only in St. Lucia (8 percent), Dominica (1.5 percent) and St. Vincent and the Grenadines (2.7 percent).

Scope for funding public investment from domestic borrowing is also limited. Already, virtually all countries use their national insurance schemes to fund development projects. As discussed in Chapter I, heavy reliance on the national insurance schemes for development project financing could jeopardize the future integrity of these schemes and contribute to fiscal strain. Changes in the banana regime are already impacting the fiscal situation in each country and are likely to deteriorate further, thereby limiting the governments' ability to undertake domestically financed development projects and/or provide counterpart financing for projects funded by multilateral lenders. While the OECS countries need to strengthen their fiscal current account surpluses, increased bilateral donor support is needed in the interim so the countries may prepare for the changes in the external environment.

Overall, the OECS countries depend on external financing for nearly 72 percent of the total PSIP. External financing ranges from over 80 percent in Montserrat, Antigua and Barbuda, and St. Kitts and Nevis, to 51 percent in St. Vincent and the Grenadines. Most of the external financing consists of grants or concessionary loans. Although the authorities are aware of the distribution between external grants and concessionary loans, these are not monitored on a systematic basis. Antigua and Barbuda, Dominica and St. Kitts and Nevis present

data on external grants and loans but without further details on external loans. In the proposed PSIP, external grant financing is 85 percent for Antigua and Barbuda, 54 percent for Dominica, and 45 percent for St. Kitts and Nevis.

PSIP Planning and Implementation

Donor assistance to the OECS countries has established the mechanisms for preparing and implementing public investment projects. Public investments are undertaken in each country in the context of a PSIP with a view to maximizing the social and economic returns.

The PSIP process in most OECS countries has improved in recent years and these countries have sectoral plans and strategies. The PSIP process is still relatively weak in Antigua and Barbuda and in Montserrat. In Antigua and Barbuda, projects are devised and implemented on an *ad hoc* basis without reference to well articulated national or sectoral development frameworks, and without appropriate project analysis. In St. Kitts and Nevis, the PSIP process is rudimentary with project formulation and monitoring still at an incipient stage. The sources of growth analysis reported in Chapter II reinforces the importance of an integrated PSIP. Improvement to the PSIP process in all countries would accelerate the social and economic returns from public investment and facilitate a more rapid private sector development. Donor technical assistance will be required in some countries to facilitate this process.

The success of the PSIP depends on the capacities to monitor, evaluate and implement projects, in addition to the ability of governments to secure financing for these projects. Project absorptive capacity depends on a well trained cadre of project analysts, design engineers, and implementing and executing agencies, including a well structured and well equipped planning unit. While the PSIP process in the OECS countries has improved in recent years, external technical and financial assistance will be critical in the next five years to further develop this process and to undertake a PSIP of sufficient size to provide the supporting facilities for private sector development. Also, aid coordination within the countries needs to be improved as PSIPs continue to be donor-driven to a large extent.

The PSIP implementation ratio varies among countries, critically depending on the availability of counterpart funds (e.g., in Grenada), and the human resource constraint. It is estimated that the average financial implementation ratio is less than 80 percent, with the physical implementation ratio even smaller. Both ratios vary widely among countries. Common problems affecting the implementation ratio in all countries are lack of adequately trained staff and frequent staff changes. This suggests a continuing need to develop human resources in PSIP programming. To maximize social and economic returns from public investment, the OECS countries need to improve further their project cycle management.

7

Antigua and Barbuda

Overview

Over the five years to 1992, the economy of Antigua and Barbuda grew at an annual average rate of about 4 percent compared with an average of 8 percent in the mid-1980s. Tourism has been the principal engine of growth. Notwithstanding the slowdown in economic activity in North America, the Gulf War, and growing competition in the global tourist industry, there has been a 16 percent increase in visitor arrivals in Antigua and Barbuda since 1988. Much of this increase reflects a 10 percent increase in air arrivals and a 23 percent increase in cruise ship arrivals. During the 1988-1992 period, arrivals from the United States, Canada, Europe and the Caribbean contributed about 40 percent, 8 percent, 30 percent, and 17 percent, respectively of all stayover visitors to Antigua and Barbuda. The construction sector, which experienced phenomenal growth in the mid-1980s, grew much more slowly over the review period. During this period, the annual average growth in this sector was 4 percent compared with an average of 30 percent in the mid-1980s. The drop in public sector construction projects has been a major factor contributing to the fall-off in activity in the construction sector.

In the area of public finance, the central government's financial position weakened as the growth in expenditure exceeded the growth in revenue. As a result, in each of the five years under review, a current account deficit was recorded. Stemming from this, the government has been forced to extensively reduce its investment expenditures. In addition, the government has experienced difficulty in meeting its scheduled debt obligations. Consequently, there has been a sizable build-up of arrears.

In the external sector, there was an improvement in the current account balance as the services balance improved due, in large part, to increased earnings from tourism. Capital inflows fell significantly as private direct investment contracted sharply. As a result, there was a steady worsening of the overall balance in the balance of payments, most of which was financed through the accumulation of arrears.

Within the banking system, liquidity was tight up until 1991. Consequently, interest rates for loans and deposits were high. However, with the banking system becoming more liquid in 1992 as the loan expansion rate fell, interest rates were lowered. Estimates put the rate of inflation for the period under review at 5 percent.

Over the medium term, the economy is likely to remain in some difficulty as investment spending remains low. To turn the situation around, the government must act swiftly to improve its fiscal performance and restore the country's creditworthiness. Both of these conditions must be satisfied if the authorities are to obtain the foreign and domestic resources that are needed to support the PSIP.

Major Macroeconomic Issues

Debt Management and Fiscal Stabilization

At the present time, Antigua and Barbuda's outstanding external debt, including interest arrears, is about 84 percent of GDP. The stock of external arrears is now at about 50 percent of GDP. Other salient features of the debt and arrears situation are that most of the debt is owed to commercial institutions and the debt is primarily short-term in nature. With the scheduled debt service payments absorbing at least 45 percent of public revenue and grants, the debt problem, needless to say, has put considerable pressure on the fiscal operations of the government. In fact, for the past five years, the central government has generated not only a current account deficit, but also an overall budget deficit ranging in value from US$55 million in 1988 to US$8 million in 1992. These current account deficits have tended to lower the country's savings rate at times when per capita income was growing sharply. To increase the

resources available for development purposes, the government must improve both its fiscal and debt management. Otherwise, the PSIP will continue to contract and arrears will continue to build up.

Economic Planning and Investment Programming

Presently, public sector investment programming is not well developed. Neither is the process of economic planning and management. There are several reasons for this, First, there is an absence of a carefully articulated national development strategy. Second, the project selection procedure is markedly deficient. Third, the implementation and monitoring capacity of the local authorities is weak. Fourth, the responsibility for tracking expenditures on capital projects is not centralized. Fifth, the capacity of the local authorities to collect and analyze, in a timely manner, data pertaining to variables like GDP, employment, the price level and wages, is grossly inadequate. To rectify this situation, institutions should be strengthened and other reforms introduced. A more systematic approach towards project analysis must be developed. A database containing all of the vital information on projects must be created. In addition, the productive capacity of the statistical unit must be enhanced.

Environmental Degradation

Environmental degradation is another issue of concern, given the importance of tourism in generating income in the economy. For tourism to remain viable over the long run, the authorities must address the problems of waste disposal and coastal erosion. At the present time, the facilities for sewage and solid waste disposal are inadequate. As a result, there is the leaking of waste water from the dumps into the environment as well as uncontrolled dumping at most sites. With beach sand mining, as well as the destruction of the wetlands and the lack of strict building codes, the coastal zone is also under stress. In recognition of these environmental problems, the government of Antigua and Barbuda has recently set up an environmental commission. Among other things, the commission will help shape the government's environmental policies as well as propose the legal and other frameworks for protecting the environment.

Medium-Term Economic Prospects

The medium-term development of Antigua and Barbuda is looked at from two perspectives. One is the baseline scenario. The other is the alternative scenario.

Baseline Scenario

In the baseline scenario, no changes in macroeconomic policies are assumed up to 1998. As a result, weak fiscal performance and high debt and arrears levels are expected to persist (see Table 7.1). In this environment, real GDP is projected to grow at about 2 percent annually between 1993 and 2000. Mirroring this weak performance of the economy is the slow projected growth in consumption and investment expenditures, and in exports. These expenditures are projected to grow by about 2 percent annually in the 1993-96 subperiod. Over the second subperiod, 1997-2000, while investment and exports are projected to continue growing by about 2 percent annually, consumption growth is expected to be marginally higher at about 2.5 percent. The latter result is in keeping with a higher consumption to GDP ratio for the second subperiod. A corollary to this development is the expected fall in the savings to GDP ratio over time. In the case of domestic savings, the share goes from an annual average of 24 percent of GDP during the subperiod 1993-96 to an annual average of 21 percent of GDP in the second subperiod. Projections for national savings, meanwhile, show a drop from an annual average of 17 percent of GDP in the 1993-96 subperiod to an average of 15 percent in the 1997-2000 subperiod.

Stimulated by annual average growth in imports of about 2 percent, the resource balance in the balance of payments is expected to average about US$20.5 million annually during the sub-period 1993-96 and US$5.5 million annually in the second sub-period (see Table 7.3). When current transfers and factor payments and receipts are taken into consideration, the current account balance of the balance of payments is, however, expected to worsen over the next several years.

In the capital account, with no change in macroeconomic policy, the analysis is projecting very small increases in net DFI. Over the first subperiod, 1993-96, an annual net inflow of US$20.5 million is projected from foreign investors compared to US$22.5 million in the second subperiod. As far as

Table 7.1: Antigua and Barbuda - Base Case Macroeconomic Indicators, 1992-2000[a]

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
		real growth rates	
Gross domestic product	2.0	1.5	2.0
Consumption	11.0	2.0	2.5
Public	8.3	3.0	3.0
Private	12.0	1.2	2.3
Fixed domestic investment	1.3	2.0	2.0
Exports of GNFS	4.4	1.9	1.9
Imports of GNFS	8.4	1.7	2.3
		shares of GDP	
Domestic savings	24.4	24.3	21.0
National savings	18.0	17.4	15.4
Consumption	75.6	75.7	79.2
Fixed domestic investment	20.9	20.0	20.0
Exports of GNFS	88.2	89.9	89.8
Imports of GNFS	84.7	85.6	88.8
Terms of trade index (1992=100)[b]	100.0	99.5	96.5

a. Projections based on constant 1991 prices.
b. A decrease in the index implies that the terms of trade are unfavorable to the country.
Source: CDB.

Table 7.2: Antigua and Barbuda - Alternative Case Macroeconomic Indicators, 1992-2000[a]

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
		real growth rates	
Gross domestic product	2.0	3.0	3.9
Consumption	11.0	1.9	3.9
Public	8.3	2.8	3.0
Private	12.0	1.7	3.9
Fixed domestic investment	1.3	2.4	4.1
Exports of GNFS	4.4	3.0	3.8
Imports of GNFS	8.4	3.0	3.6
		shares of GDP	
Domestic savings	24.4	24.2	22.6
National savings	18.0	17.3	17.3
Consumption	75.6	75.6	77.3
Fixed domestic investment	20.9	20.8	21.0
Exports of GNFS	88.2	88.6	88.3
Imports of GNFS	84.7	85.0	86.6
Terms of trade index (1992=100)[b]	100.0	99.5	96.4

a. Projections based on constant 1991 prices.
b. A decrease in the index implies that the terms of trade are unfavorable to the country.
Source: CDB.

the public capital sub-account is concerned, negative balances are expected through 1997, as amortization payments by the government exceed loans disbursed to the government. In the first subperiod, 1993-96, an annual average outflow of US$9 million is expected compared to a net inflow of about US$5 million in the second subperiod. Official grants to Antigua and Barbuda are projected to remain fairly flat at about US$2.8 million annually over the first subperiod and US$3.0 million annually over the second subperiod.

Alternative Scenario

The second scenario assumes that there is early policy reform conducive to the rescheduling of the country's external debt. In this new policy environment, the analysis projects a stronger economic performance. GDP growth is projected to be about 3 percent over the 1993-96 subperiod and about 4 percent in the latter subperiod (see Table 7.2). The projected growth in exports and investment expenditures is also correspondingly higher. In the balance of payments, there would also be a marked improvement in the country's holdings of net international reserves as the capital account improves (see Table 7.4).

Table 7.3: Antigua and Barbuda - Base Case Balance of Payments, 1992-2000 [a]
(US$ million)

Item	Preliminary	Projected	
	1992	1993-96	1997-2000
Resource balance	15.0	20.5	5.5
Exports of GNFS	388.0	425.3	518.0
Imports of GNFS	373.0	405.0	512.5
Net factor payments	-33.0	-39.0	-39.5
of which: interest on public debt	3.0	3.3	2.0
Private transfers	5.0	5.5	6.8
Current account balance	-13.0	-12.8	-27.2
Capital account			
Net direct foreign investment	20.0	20.5	22.4
Official grants	1.0	2.8	3.0
Public capital	5.0	-9.2	4.8
Disbursements	10.0	2.8	18.8
Amortization	-5.0	-12.0	-14.0
Other capital, n.e.i.	5.0	1.7	0.0
Changes is reserves (-) = increase	-18.0	-3.0	-3.0
MEMORANDUM ITEMS:			
Total debt (US$ million)	369.3	343.3	293.4
Total debt/GDP	83.9	72.9	51.3
Debt service (US$ million)	7.8	16.1	17.5
Debt service/XGS	2.0	3.7	3.3
Debt service/GDP	1.8	3.4	3.0
Interest/GDP	0.6	0.8	0.6

a. Totals may not add up due to rounding.
Source: CDB.

Table 7.4: Antigua and Barbuda - Alternative Case Balance Of Payments, 1992-2000
(US$ million)

Item	Preliminary 1992	1993-96	Projected 1997-2000
Resource balance	15.0	16.7	10.5
Exports of GNFS	388.0	434.5	564.8
Imports of GNFS	373.0	417.8	554.3
Net factor payments	-33.0	-39.5	-40.5
Private transfers	5.0	5.5	6.8
Current account balance	-13.0	-17.3	-23.2
Capital account balance			
Net direct foreign investment	20.0	21.5	23.7
Official grants	1.0	2.0	2.0
Public capital	5.0	-2.2	5.2
Disbursements	10.0	9.8	22.2
Amortization	-5.0	-12.0	-17.0
Other capital, n.e.i.	5.0	-1.0	0.3
Changes in reserves (-) = increase -	18.0	-3.0	-8.0
MEMORANDUM ITEMS:			
Total debt (US$ million)	369.3	414.7	343.4
Total debt/GDP	83.9	84.4	54.1
Debt service (US$ million)	7.8	16.8	22.9
Debt service/GDP	2.0	3.5	3.5
Debt service/exports	1.8	3.8	4.0
Interest/GDP	0.6	0.9	0.9

Source: CDB.

8

Dominica

Overview

During the period 1988 to 1992, real GDP growth exhibited a high degree of variability beginning with 8 percent in 1988, slipping to a negative 1 percent in 1989 because of hurricane Hugo, rebounding to 6.6 percent in 1990, and subsequently reaching a plateau of 2-3 percent in the last two years. Inflation, meanwhile, has been averaging approximately 5 percent per annum. Fiscal performance during the period, however, has deteriorated. In 1988 the overall budgetary deficit was 6 percent of GDP. By 1992, it had escalated to 9 percent of GDP. The external debt also escalated from US$66 million or 44 percent of GDP to US$105 million or 56 percent of GDP. Because of the highly concessionary nature of the debt, Dominica has been able to maintain a debt servicing ratio below 10 percent. During the period, with the exception of 1989 and 1990, when both exports and imports were significantly influenced by hurricane Hugo, Dominica's current account deficit has averaged approximately 11 percent of GDP. With the exception of 1992, private and official capital flows more than compensated for the deficit. However, the current banana crisis and a weak economic environment are likely to present significant challenges to the external account. Given its resource base and heavy dependence on agriculture, Dominica fares the most difficult problems of adjustment in the OECS.

Major Economic Issues

Banana Industry

The erosion of preferential access to the UK market poses a major threat to the banana industry. During the period 1988-1992, the industry accounted for more than 90 percent of primary exports and approximately 61 percent of all exports. A significant proportion of agricultural production, which accounts for approximately 25 percent of GDP, is also attributable to banana production. In addition, the banana industry and related services employ more than 60 percent of agricultural workers. Consequently, any shock to banana exports will have a major impact on the Dominican economy.

There are basically two strategies possible in the current crisis. Firstly, the banana industry must undergo significant restructuring in order to increase efficiency and product quality if producers are to compete effectively in an increasingly liberalized trade environment. Secondly, there must be increased efforts at economic diversification in order to compensate for the expected contraction within the banana sector.

Diversification

One of the major strategies for long-run economic growth has to be the development of the non-banana sectors. This will pose a number of problems. The continuation of trade preferences for some time, together with the lack of sufficient supporting infrastructure, will make difficult the movement of factors of production out of the banana sector. It is expected, however, that as the sector becomes increasingly exposed to full international competition, resources will be taken out of banana production. The challenge will be to direct the newly released resources into alternative sources of production.

Possible alternatives include meat, milk and fish products, which in 1992 are estimated to have accounted for 63 percent of food imports. In addition, Dominican farmers currently produce more than twenty agricultural crops which can help to counteract the expected contraction in the banana sector if the marketing and transportation bottlenecks, in particular, can be overcome. Moreover, the tourism sector is currently exhibiting considerable dynamism. Indications are, however, that given the current economic difficulties, a successful transition to a post-banana economy will not be able to take place

without a significant influx of foreign resources, both private and official.

Capital Inflows

The current banana crisis and its impact on the Dominican economy is being exacerbated by another disturbing trend - the decline in official and private capital inflows. Capital inflows contracted sharply from US$33.8 million in 1990 to US$17.7 million in 1992. The majority of this contraction has been occasioned by reduced official inflows which plummeted from US$12.4 million in 1991 to US$2.3 million in 1992. Reasons for the reduced official inflows include the continuing recession in donor countries, the accompanying fiscal difficulties and the focus on Eastern Europe. The current scarcity of foreign capital resources suggests strongly the need to increase the domestic capital savings ratio and to search for new sources of foreign capital inflows.

Public Finances

Ongoing initiatives to diversify the economy are also taking place against a background of fiscal difficulties. In FY1987/88, the overall budgetary deficit was estimated at EC$20 million or 6 percent of GDP. In FY1991/92, the deficit had escalated to EC$42 million or 9 percent of GDP. The recent initiatives to increase efficiency in the collection of revenues through the Customs and Inland Revenue Departments are timely and are likely to bring some improvement. Together with additional revenue measures, including a tax of EC$2 per person on cruise ship passengers, there will likely be an improvement in the fiscal balance. Efforts also need to be concentrated on broadening the tax base, making the tax burden more equitable, and enhancing the effectiveness of tax administration policies. The establishment of a joint government/union committee to discuss salaries and other issues should be seriously considered to avoid a repetition of past experiences regarding wage increases which led to a deterioration in the public finances and in international competitiveness.

In addition, it would be useful for the GOCD to introduce multi-year budgetary planning that encompasses at least a three-year period. This would allow GOCD to project the short as well as medium-term effects of various policy measures and developments on fiscal performance, and to formulate, at an early stage, strategies to reverse any negative trend in the fiscal accounts. Within an environment which seems destined to be difficult over the next three to five years because of problems in both the banana industry and the manufacturing sector, and the implementation of the CET, a comprehensive review and reformulation of fiscal policy is necessary.

Medium-Term Economic Prospects

Effective July 1, 1993, the new EU trade regime for bananas came into effect. Under this regime Dominica will continue to have access to the EU market for its exports, but recent price developments point to the possibility of the banana export price falling by about 20 percent during 1993-94. In view of this possible development, the base case scenario projects a relatively bleak economic outlook.

Base Case Scenario

The base case scenario considers: (i) the recent banana developments; and (ii) the current policies and programs of the government, including the 3 percent wage increase to public employees. Under the new EU regime, Dominica will continue to have access to its banana exports (see Table 8.1). Given the possibility of the banana export price falling by 20 percent, however, banana output is projected to decrease by about 30 percent in line with the estimated supply-price elasticity of recent years. Export earnings could potentially be reduced by US$9 million per year (US$25 million), which could then have a multiplier effect of about 5 percent of GDP. The cumulative effect could be up to 10 percent of GDP during 1993-96. In addition, if the fiscal balances deteriorate as a result of unsustainable wage increases and negligible improvements take place in the incentive framework, international competitiveness will decline. Similarly, if regulatory and trade reforms fail to be realized, private sector investment would not come forward to the degree necessary to achieve the growth rates included in these projections. If such events were to materialize, the economic outlook for Dominica would become severely clouded.

Table 8.1: Dominica - Base Case Macroeconomic Indicators, 1992-2000 [b]

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
		real growth rates	
Gross domestic product	2.1	0.4	-1.5
Gross domestic income	1.1	0.6	-2.0
Consumption	-8.1	-0.8	-5.3
Public	11.9	0.5	-2.0
Private	17.2	-0.2	-6.3
Gross fixed investment	-18.2	-4.5	-5.2
Exports of GNFS	5.1	2.0	2.5
Imports of GNFS	-0.1	-0.5	-1.4
		shares of GDP	
Domestic savings	12.3	3.8	7.4
National savings	14.5	6.9	9.3
Consumption	87.7	95.5	92.3
Fixed domestic investment	32.5	27.8	24.5
Exports of GNFS	53.6	46.4	53.2
Imports of GNFS	73.8	69.7	70.0
Terms of trade index (1992=100) [b]	96.2	71.8	67.6

a. Projections based on constant 1991 prices.
b. A decrease in the index implies that the terms of trade are unfavorable to the country.
Sources: MTESP and IBRD Staff.

Table 8.2: Dominica - Alternative Case Macroeconomic Indicators, 1992-2000 [a]

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
		real growth rates	
Gross domestic product	2.1	2.5	3.8
Gross domestic income	1.1	2.9	3.9
Consumption	-8.1	2.0	3.0
Public	-11.9	0.8	0.4
Private	17.2	2.5	3.5
Gross fixed investment	-18.2	2.7	3.7
Exports of GNFS	5.1	4.6	6.0
Imports of GNFS	-0.1	1.8	3.3
		shares of GDP	
Domestic savings	12.3	10.4	16.3
National savings	14.5	13.5	18.7
Consumption	87.7	89.1	83.4
Fixed domestic investment	32.5	30.4	31.9
Exports of GNFS	53.6	50.7	54.8
Imports of GNFS	73.8	70.2	70.1
Terms of trade index (1992=100)$_b$	96.2	82.2	79.3

a. Projections based on constant 1991 prices.
b. A decrease in the index implies that the terms of trade are unfavorable to the country.
Sources: MTESP and IBRD Staff.

Under such a scenario, economic growth is projected to slow down significantly during 1993-94 and become negative during 1995-2000 (see Table 8.1). The current account deficit of the balance of payments is projected to increase to US$30 million by the year 2000. Debt service as a proportion of exports of goods and services would rise from about 7 percent in 1992 to about 10 percent in the year 2000. Under this scenario, imports would be reduced as the public sector investment program would be smaller as the economy tapers into a recession.

Alternative Scenario

The alternative scenario takes into account the 20 percent drop in bananas prices, effective July 1, 1993 as Dominica continues to have access to the EU market for its exports of high quality bananas. In response to external developments, the government speedily implements its economic reform agenda in the areas of: (i) fiscal adjustment,including following a tight wage policy, to generate additional public savings to undertake investment in private sector supporting infrastructure; (ii) liberalizing the trade regime, and improving the incentive framework and regulatory environment to increase economic efficiency, enhance international competitiveness, and attract private investment in all sectors; and (iii) stimulating private sector-led economic growth and focussing diversification efforts on non-traditional agriculture, manufacturing, agro-products, nature tourism, and informatics. Under these assumptions, based on the implementation of the reform agenda and barring any other unforeseen external event, real GDP is projected to grow at about 2.5 percent per year during 1993-96 and 3.8 percent per year during 1997-2000.

Real exports of goods and non-factor services are projected to grow at about 5-6 percent per year on average during 1993-2000, as soap manufacturing (2.5 percent), non-banana agriculture (4 percent), tourism and other services (7 percent) continue to increase. With real GDP growth projected at 3.4 percent per year, the real import growth is projected to be between 2 percent and 3 percent per year on average during 1993-2000. As a result, the current account deficit of the balance of payments is projected to fall from 18 percent of GDP (US$34 million) in 1992, to about US$37 million (16 percent of GDP) by 1996, and to US$33 million (or 11 percent of GDP) by the year 2000. To cover this deficit, the government projects that Dominica will continue to attract all of its financing requirements in the form of grants and highly concessionary assistance from bilateral and multilateral sources.

The ongoing and new public sector investment program is concentrated on large infrastructure projects geared to support tourism expansion and agricultural diversification. Therefore, the ratio of total external debt to GDP is projected to move from 56 percent of GDP in 1992 to about 63 percent of GDP during 1993-96 and to 71 percent of GDP during 1997-2000. Debt service levels are projected to remain manageable during 1993-2000, amounting to less than 7 percent of exports of goods, services and net private transfers, and less than 13 percent of central government current revenues.

Table 8.3: Dominica - Base Case Balance of Payments, 1992-2000
(US$ million)

Item	Preliminary 1992	Projected 1993-96	1997-2000
Resource balance	-38.3	-48.8	-38.0
Exports of GNFS	101.7	97.1	121.0
Imports of GNFS	140.1	145.8	158.9
Net factor payments	-8.7	-7.1	-10.2
of which: interest on public debt 2.1	2.6	4.2	
Private transfers	13.0	13.5	14.4
Current account balance	-34.1	-42.4	-33.9
Capital account			
Net direct foreign investment	13.0	10.9	7.9
Official grants	5.4	5.0	4.8
Public capital	7.2	22.1	21.3
Disbursements	11.4	27.4	28.3
Amortization	-4.2	-5.3	-7.0
Other capital, n.e.i.	13.7	0.0	0.0
Changes in reserves (-) = increase -	5.2	4.4	-0.1
MEMORANDUM ITEMS: [a]			
Total debt (US$ million)	105.4	153.1	244.9
Total debt/GDP	55.6	72.8	107.7
Debt service (US$ million)	7.6	9.5	12.6
Debt service/GDP	4.0	4.6	5.6
Debt service/exports[b] 6.5	8.2	9.1	
Debt service/current revenues	12.5	15.5	19.9
Interest/GDP	1.4	1.7	2.1

a. IBRD DRS data.
b. Exports of goods, services and net private transfers.
Sources: MTESP and IBRD Staff.

Table 8.4: Dominica - Alternative Case Balance of Payments, 1992-2000
(US$ million)

Item	Preliminary 1992	Projected 1993-1996	Projected 1997-2000
Resource balance	-38.3	-42.1	-42.5
Exports of GNFS	101.7	110.3	154.3
Imports of GNFS	140.1	152.3	196.9
Net factor payments	-8.7	-6.9	-7.8
Interest on public debt	2.1	2.4	3.4
Private transfers	13.0	13.5	14.4
Current account balance	-34.1	-35.5	-35.9
Capital account			
Net direct foreign investment	13.0	16.5	24.3
Official grants	5.4	5.0	4.8
Public capital	7.2	15.3	13.9
Disbursements	11.4	20.6	20.7
Amortisation	-5.2	-5.3	-5.8
Other capital, n.e.i.	13.7	0.0	
Changes in reserves (-) = increase	-5.2	-1.3	-7.1
MEMORANDUM ITEMS [a]			
Total debt (US$ million)	105.4	138.0	199.7
Total debt/GDP	55.6	63.3	71.1
Debt service (US$ million)	7.6	9.3	11.7
Debt service/GDP	4.0	4.3	4.2
Debt service/exports [b]	6.5	7.3	6.8
Debt service/current revenues	12.5	13.1	12.1
Interest/GDP	1.4	1.5	1.5

a. IBRD DRS data.
b. Exports of goods, services and net private transfers.
Sources: MTESP and IBRD Staff.

9

Grenada

Overview

Growth in real GDP, after averaging over 5 percent between 1984 and 1990, slowed considerably in 1991-92 to about 1.5 percent as the adverse effects of the recession in the developed countries and the decline in the agricultural sector were compounded by poor fiscal management. The external current account deficit widened from about 10 percent of GDP in 1988 to about 15 percent in 1991 before falling to 10 percent in 1992, largely reflecting fluctuations in export earnings from agriculture. The current balance of the fiscal accounts moved from a small surplus in 1988 to a deficit of 3 percent of GDP in 1992, as total revenues and grants fell while current expenditures increased. As a result of the poor fiscal outturn, the Government of Grenada (GOG) made substantial use of domestic borrowing, especially from the National Insurance Scheme, accumulated domestic and external arrears, and sharply cut capital expenditures.

Major Economic Issues

Fiscal Performance

In early 1992, GOG, with the assistance of a Caribbean Development Bank-led mission, prepared a macroeconomic policy framework paper (PFP) which identified the persistent fiscal deficits to be the major problem in Grenada. Consequently, a Structural Adjustment Program (SAP) was developed and is being implemented.

The SAP aims to achieve a sustainable rate of economic growth that will provide increased employment as well as the resources to improve the standard of living. The critical elements of the SAP include strengthening of the fiscal position and sectoral policies aimed at increasing output and improving the balance of payments.

A major part of the SAP is the current fiscal review, which includes tax reform, expenditure controls and privatization. The policies are aimed at reversing the fiscal imbalance, thereby providing GOG with resources for counterpart funding and reducing arrears. Measures to enhance revenue collection and to close loopholes in the tax legislation are also suggested. Notwithstanding the fiscal measures introduced in 1991 and 1992 to address the critical fiscal situation, GOG continues to run a fiscal deficit and is unable to meet its debt obligations. In 1992, the fiscal deficit was 3 percent of GDP while debt service arrears reached 7 percent of GDP.

In the area of expenditure controls, much attention has been placed on the wages and salaries bill which accounts for, on average, 50 percent of recurrent revenue. A staff reduction policy has been implemented. Further efforts in this area should involve the establishment of a committee comprising government and trade unions to discuss salary revision and other labor matters, as well as to promote an increased understanding of the role of labor in the implementation of government policy.

GOG also needs to review the present policy which puts the brunt of the fiscal adjustment on capital expenditure. In an environment where public sector investment, particularly in infrastructure, is a major incentive for private investment, the persistent decline in capital expenditure impacts adversely on future growth. Concessions to entrepreneurs are fairly widespread and GOG needs to review its policy in this critical area. The low level of manufactured exports brings into question the effectiveness of concessions to the sector.

Arrears on external debt service still remain high but GOG has been trying to meet current charges. Grenada is now reducing its arrears on both external debt and on obligations to regional and international organizations. In 1991, GOG succeeded in having some US$30 million of its debt rescheduled. GOG needs to accelerate efforts to have other debts rescheduled or forgiven. This would ease the strain on public finances and improve the country's credit-

worthiness. Further, any rescheduling will reduce the call on the export earnings.

Public Sector Management

The greatest threat to the successful implementation of the SAP may be the capacity of the public sector to efficiently and effectively manage the program. A small technical staff, which is relatively inexperienced, may compromise the value of technical assistance. GOG should seek external assistance with training for its staff. This should form an integral part of the fiscal reform program. In the interim, GOG should endeavor to get additional technical staffing from regional and international organizations.

Export Base

Tourism has been the engine of growth over the past three years. The country is well positioned to take advantage of the eco-tourism market. However, the question of capacity, especially at the up-market level, needs to be addressed. New investment to expand capacity is required. The elimination of acute water shortages in the tourism belt must also be given priority.

The decline in the output of major commodities (bananas, nutmeg and mace) needs to be reversed. GOG has taken steps to revitalize production of cocoa and bananas and has initiated a program to improve the marketing arrangements for nutmeg and mace. The problem of moko disease in the banana industry and reduction in acreage in both the banana and cocoa industries has been addressed. Nutmeg and mace production have suffered after the decline in prices as a result of the collapse of the marketing agreement between Grenada and Indonesia. To improve the industry's competitiveness, immediate efforts are required to control the growth in costs, particularly of wages and inputs. GOG should consider the merging of the commodity boards to improve efficiency.

Despite being the recipient of a very high level of fiscal concessions, the manufacturing sector is still very weak. GOG has announced plans to promote new investment in agro-processing and in upgrading institutional support. To this end, GOG needs to review the role of the Industrial Development Corporation (IDC) and ensure that more effective marketing is done. Further, present legislation needs to be reviewed, especially as it relates to the length of time it takes to process applications. The restructuring of IDC into a one-stop shop should help to ensure that applications are processed more speedily. GOG has undertaken to assist small entrepreneurs through the Small Enterprise Development Unit of the Grenada Development Bank. GOG also continues to support training in required skills through the expansion of its technical and vocational educational program.

Environment

Disposal of solid and liquid waste remains the major environmental issue. A sewerage system has been completed in the major tourist area but connections have not been made because of lack of finance. However, a donor agency has recently provided a loan to assist in this area. It is important that GOG take steps to ensure all establishments in the area are linked to the system.

Medium-Term Economic Prospects

GDP growth projections are based on robust growth in the tourism sector and recovery in the agricultural sector. An expansion in both private and public investment is forecasted as a result of the implementation of the SAP.

Base Case Scenario

The base case scenario takes into consideration: (i) the effect of banana shock and trade liberalization; and (ii) no slippages in the implementation of the SAP. Grenada's quota under the new European Union regime is substantially higher than its present production. The base scenario projects an initial increase in production up to 1996 but a tapering off thereafter as banana prices slide. The scenario also forecasts buoyant growth in cocoa production on the heels of the rehabilitation program and also in light of GOG ability to sell as much as it can produce. Nutmeg production is expected to slow but output in non-traditional agriculture should expand. GOG has placed much emphasis on agricultural diversification but must address the issue of competitiveness within the sector if it is to support the tourism sector which will be the engine of growth.

Table 9.1: Grenada - Base Case Macroeconomic Indicators, 1992-2000

	Preliminary 1992	Projected 1993-1996	1997-2000
		real growth rates	
Gross domestic product	0.6	1.6	3.5
Consumption	0.6	2.5	3.4
Public	-10.7	-0.2	3.5
Private	4.1	3.3	3.4
Fixed domestic investment	-19.3	-2.8	3.5
Exports of GNFS	-1.0	3.5	4.2
Imports of GNFS	-6.3	1.9	3.9
		shares of GDP [a]	
Domestic savings	16.8	12.7	12.5
National savings	25.9	22.5	23.0
Consumption	83.2	86.7	85.9
Fixed domestic investment	36.2	30.4	30.0
Exports of GNFS	53.8	56.7	58.8
Imports of GNFS	73.1	73.8	74.7

a. Projections based on constant 1991 prices.
Source: CDB

Table 9.2: Grenada - Alternative Case Macroeconomic Indicators, 1992-2000[a]

Item	Preliminary 1992	Projected 1993-1996	1997-2000
		real growth rates	
Gross domestic product	0.6	1.7	3.5
Consumption	0.6	2.4	3.1
Public	-10.7	-0.2	3.5
Private	4.1	3.2	3.1
Fixed domestic investment	-19.3	-2.8	3.5
Exports of GNFS	-1.0	3.6	4.4
Imports of GNFS	-6.3	1.9	3.8
		shares of GDP [a]	
Domestic savings	16.8	12.7	13.7
National savings	25.9	22.5	24.4
Consumption	83.2	86.7	84.8
Fixed domestic investment	36.2	30.4	30.0
Exports of GNFS	53.8	56.6	59.5
Imports of GNFS	73.1	73.7	74.3

a. Projections based on constant 1991 prices..
Source: CDB

Central government surpluses are projected to increase as the result of the implementation of the SAP. These surpluses should be used for counterpart financing for donor-financed projects under the PSIP. Government investment is, thus, projected to expand in order to support new domestic and foreign private investment (see Table 9.1).

Table 9.3: Grenada - Base Case Balance Of Payments, 1992-2000[a]
(US$ million)

Item	Preliminary 1992	Projected 1993-1996	1997-2000
Resource balance	-41.8	-41.2	-53.2
Exports of GNFS	116.2	131.1	174.2
Imports of GNFS	158.0	172.3	227.4
Net factor payments	-6.5	-5.7	-5.0
Private transfers	26.1	28.6	36.1
Current account balance	-22.2	-18.3	-22.1
Capital account			
Net direct foreign investment	26.5	20.1	23.7
Official grants	2.3	3.0	0.0
Public capital	6.3	0.4	5.7
Disbursements	10.2	6.8	11.7
Amortisation	3.9	6.4	6.0
Other, capital, n.e.i.	-6.1	-1.1	0.0
Changes in reserves (-) = increase	-6.8	-4.1	-7.3
MEMORANDUM ITEMS:			
Total debt (US$ million)	109.2	92.4	106.0
Total debt/GDP	50.5	39.5	35.5
Debt service (US$ million)	5.6	9.2	9.5
Debt service/XGS[b]	4.7	6.9	5.3
Debt service/GDP	2.6	4.0	3.2
Debt service/government revenues	3.5	5.2	4.2
Interest/GDP	0.8	1.2	1.2

a. Totals may not add due to rounding.
b. Exports of goods, services and net private transfers.
Source: CDB.

Expenditure is projected to be dampened due to the implementation of the SAP and will result in lowering the current deficit on the external account from 10 percent of GDP in 1992 to about 8 percent in 2000. As a result of better savings in the public sector, a return of confidence in the private sector and increased competitiveness, both domestic and national savings are projected to expand gradually. Under the above scenario, living standards would improve and employment opportunities would expand.

Alternative Scenario

The alternative scenario takes into account similar assumptions to the base scenario but also incorporates: (i) a faster decline in debt outstanding; (ii) a slightly stronger fiscal performance; and (iii) higher levels of direct foreign investment which would guarantee much stronger future growth. In other words, it assumes that the result of the SAP on the economy will be much stronger than was evident in 1993.

The improved policy environment is projected to lead to higher export and import growth (see Table 9.2). As a result, the current account balance will remain, on average, constant throughout 1994-2000 at about 6.5 percent of GDP. This, coupled with the reforms introduced under the SAP, will induce increased direct foreign investment.

Debt outstanding is forecasted to decline under this scenario after 1996, unlike the base scenario where debt increased continuously until 2000 (see Table 9.4).

Table 9.4: Grenada - Alternative Case Balance Of Payments, 1992-2000[a]
(US$ million)

Item	Preliminary 1992	Projected 1993-96	1997-2000
Resource balance	-41.8	-41.3	-49.6
Exports of GNFS	116.2	131.2	175.9
Imports of GNFS	158.0	172.5	225.5
Net factor payments	-6.5	-5.8	-4.5
Private transfers	26.1	28.6	36.1
Current account balance	-22.2	-18.4	-18.0
Capital account			
Net direct foreign investment	26.5	20.1	25.1
Official grants	2.3	3.8	2.3
Public capital	6.3	-0.3	-1.5
Disbursements	10.2	6.1	4.6
Amortisation	3.9	6.4	6.0
Other capital, n.e.i.	-6.1	-1.1	0.0
Changes in reserves (-) = increase	-6.8	-4.1	-7.9
MEMORANDUM ITEMS:			
Total debt (US$ million)	109.2	91.9	86.2
Total debt/GDP	50.5	39.3	29.4
Debt service (US$ million)	5.6	9.3	9.0
Debt service/XGS [b]	4.7	6.9	5.0
Debt service/GDP	2.6	4.0	3.0
Debt service/government revenues	3.5	5.2	4.0
Interest/GDP	0.8	1.2	1.0

a. Totals may not add due to rounding.
b. Exports of goods, services and net private transfers.
Source: CDB.

10
Montserrat

Overview

The economy experienced rapid growth between 1988 and 1990 as a result of the high level of reconstruction activity following hurricane Hugo 1989. With the completion of most reconstruction activities in 1990, the economy underwent a sharp downturn of 23 percent in 1991. Against this background, the 4 percent growth recorded in 1992 is notable in that it reflects a return toward the pre-hurricane structure and level of output of the economy. Growth in 1992 was evenly spread across most sectors, but was largely influenced by growth of government services, and growth of construction activity. Tourism performance remained weak, with stopover arrivals increasing by 3 percent. Of the productive sectors, agriculture recorded the strongest growth, 12.5 percent, reflecting growth in domestic agricultural production under GOM's strategy of import substitution.

Montserrat depends heavily on tourism as its main export earning sector. The structure of this sector is unique in that it consists largely of villas and apartments built by North Americans and British for investment or as retirement homes. Export earnings from the sector have been relatively stable in the past due to the high rate of repeat visitors and the long average length of stay (varying from six weeks to six months).

In 1992, stopover visitor arrivals were estimated at 18,650, a 3 percent increase over arrivals in 1991. Since the hurricane of 1989, the tourism sector has suffered a downturn, with total visitor arrivals declining from 30,300 in 1988 to an estimated 19,596 in 1992. Several factors have restricted growth of the sector. In particular, a large number of apartments and villas were destroyed by the hurricane. Extensive hurricane damage to the marine port facilities also halted cruise ship visitors which, in 1988, accounted for 10,206 or 34 percent of total arrivals.

The broad development thrust of the Government of Montserrat (GOM) emphasizes the attainment of self-sustaining growth in the quality of life of the population over the medium to long run. Consistent with this overall aim, the GOM has identified several distinct objectives to be pursued in the medium term. The GOM acknowledges that the private sector, as the main engine of growth in the economy, is intent on facilitating increased investment, especially in export activities. A second strand of GOM's development objectives is the pursuit of self-sufficiency in food production. Expansion of the domestic agricultural sector is, therefore, considered to be a policy priority. A third area of GOM's development focus is greater diversification of the tourism sector by developing eco-tourism and increasing marketing/promotion. In the area of manufacturing, the GOM intends to continue encouraging light manufacturing, pursue a more proactive investment promotion strategy, and support the development of small businesses. The GOM, in collaboration with the British Government, is also presently conducting a strategic review of the economy with a view to defining an appropriate development strategy covering tourism, export manufacturing and agriculture.

Major Economic Issues

Low Domestic Savings and Economic Vulnerability

The main economic concern is the low level of domestic savings, estimated at 7.5 percent of GDP in 1992. This is reflected in the persistent external current account deficit, estimated at 30 percent of GDP at market prices in 1992, and strong dependence on official aid to finance the economy's import requirements. Recent data show a deterioration in net public sector savings, and a low level of private investment.

Historical data over the past ten years show that financing of economic growth is largely sourced from

external grant aid which is channelled through government construction projects. Indications are that the existing primacy of the public sector in the overall structure of the economy increases the vulnerability of the economy to external shocks by attracting labor from private sector activities. Within the past three years, this has been intensified due, in part, to the hurricane reconstruction efforts. In the context of a small labor force, this has contributed to economy-wide upward pressures on wages, higher inflation, and reduced competitiveness of the tourism sector. In order to sustain a more viable growth path, there is an urgent need to restrain private consumption, which averaged 89 percent of GDP over the past five years, and increase domestic savings.

Fiscal Adjustments and Public Sector Reform

The government has become a significant employer in the economy. This occurred as GOM sought to rehabilitate the basic economic and social infrastructure following hurricane Hugo. Despite relatively small fiscal surpluses in the past, these have been inadequate to complement the largely externally financed PSIP. The pace of the PSIP has consequently been undermined, with, for example, only half of targeted development expenditures achieved in 1992. In recognition of the unsustainable growth of the public sector, and the need for greater fiscal savings, GOM has expressed a commitment to reducing the size and costs of the public sector wage bill from 60 percent of total recurrent expenditure in 1992 to 50 percent over a five year period. This is expected to provide greater scope for the PSIP through increased domestic counterpart finance, while also making more labor available for private sector activities.

Notwithstanding the need for expenditure restraint, indications are that weak fiscal operations have resulted from significant revenue losses. A joint ECCB/CDB/OECS study of the economic situation in Montserrat in 1992 highlighted several weaknesses in the tax regime which require attention. The study found that, compared with other OECS countries, the revenue base in Montserrat was too narrow to maintain tax buoyancy, and that recent reductions or exemptions on personal income taxes have further aggravated revenue losses. A reform of the indirect tax structure was recommended to accompany current plans to implement the CARICOM CET. Consideration should be given to reducing the level and dispersion of tariffs rates, while preserving tax buoyancy. The study also recommended an examination of the extent of revenue losses arising from duty-free concessions and based on discretionary waivers.

Tourism Development and Export Diversification

To facilitate a more sustained growth path for the economy, there is need for greater diversification of the export sector. In this regard, the need for an active strategy to attract foreign investment is viewed as critical. This is particularly important in view of the present recession in the United Kingdom and the resulting uncertainty that past levels of official aid are sustainable in the future.

Diversification of exports into tourism and other services stems from a perspective of what is sustainable in a small, open economy such as Montserrat in the context of rapid global attention to international price competitiveness in production and trade, and the increased acceptance in the Caribbean and in Latin America of the efficacy of a more market driven economic policy framework.

The scope for agricultural exports is considered to be limited due to the combination of small size and generally steep topography which severely limits economies of scale in such activities.

Production of light manufactures, which has been a feature in Montserrat in the past, continues to serve an important role in the economy. In the long run, however, the attractiveness of Montserrat in terms of unit labor costs and technical skills cannot be guaranteed in view of regional and hemispheric trends. Greater comparative advantage exists in other Caribbean and Latin American countries in the production of commodity exports than is achievable in Montserrat.

The promotion of an up-market eco-tourism product, therefore, should be a centerpiece of the development strategy of Montserrat in the medium to long run. This does not preclude diversification in other services such as data entry, finance, or commodity exports where niche markets or trade arrangements allow temporary trade advantages, for example, within CARICOM.

The long run economic development of Montserrat hinges on maintaining a competitive export sector. In the context of a fixed exchange rate regime and a relatively open economy, external competitiveness depends largely upon changes in domestic inflation. In particular, wage restraint is critical to controlling domestic inflation..

GOM's program of import substitution contains several elements which conflict with the goal of sustainable export-led development. The import regime is restrictive with import duties ranging from 5-45 percent. In addition, an 8 percent customs service charge is levied on all imports. Further, all imports are subjected to ad valorem consumption taxes ranging from 5-45 percent. The consumption tax range in Montserrat is higher than most other members of the OECS. It is exceeded only by Antigua and Barbuda with a range from 10 percent to 50 percent. Of the eight ECCB member countries (including Anguilla), four require no customs service charges, while the others require a maximum of 2.5 percent. Since 1984, there has been a progressive increase in the number of imported items subjected to import licenses and restrictions with the list of import licenses presently totalling 21 and covering agricultural produce and some processed foods.

There are early signs that GOM's import substitution policy is generating unsustainable wage and price pressures. Indications are that growth of farmgate prices has accelerated over the past two years, averaging around 25 percent, or much faster than the 6 percent average increase in the consumer price index (50 percent of which comprises imported goods). Partly as a result of the restricted import alternatives, domestic crop production increased by 42 percent in 1991 and an estimated 38 percent in 1992. Despite the surge in food production, food exports remained virtually unchanged at US$1.0 million over the 1991-1992 period. With further increases in import restrictions envisaged to protect domestic production, economy-wide upward pressures on wages and prices are likely to increase. These will ultimately undermine external competitiveness, and the scope for export expansion.

Economic Infrastructure

A significant deterrent to the development of the export sector in Montserrat has been the small size and alignment of the airport runway. This severely constrains aircraft access, and has restricted airport operations to daylight hours. The inadequacies of the airport have also prevented direct access to the island from the major tourism markets. Airline passengers have to be routed through Antigua with the attendant logistical difficulties. The potential for export of goods has also been limited, with exports having to be transhipped via Antigua at additional costs to the producers. Upgrading of the airport would be a significant boost to opening up investment opportunities and development in the tourism sector.

Medium-Term Economic Prospects

Prospects for the economy are largely contingent upon the pace of further recovery and diversification of the tourism sector, and GOM's access to official aid and other external financing to maintain adequate social and economic infrastructure. Two scenarios are therefore presented, both of which assume that Montserrat will remain a member of the ECCB and CARICOM. Fiscal recurrent expenditure is therefore assumed to be limited by recurrent revenues, with no significant monetization of deficits. The gradual reduction of import tariffs to maximum rates of 20 percent by 1997 by member countries of CARICOM is also assumed.

In the high growth scenario, shown in Tables 10.1 and 10.3, the recent decline in the economy is projected to be reversed in 1994. Economic growth projections for the medium term reflect further recovery and expansion of the tourism sector, coupled with steady investment in public infrastructure. Growth is also expected to be enhanced by increased agricultural activities under GOM's program to develop that sector. Tourism expansion and diversification will be mainly financed by foreign private capital, while the pace of public sector investment is expected to be maintained from continued access to official aid and concessionary external loan financing.

In the low growth scenario, shown in Tables 10.2 and 10.4, tourism activity is assumed to be stymied by continued weak institutional support and marketing, reduced foreign private investment in new hotels, and slowdown in external official aid flows.

The High Growth Scenario

In the high growth scenario, overall GDP is projected to improve from 3 percent in 1994 to a high of 6 percent in 1998, with subsequent slowdown to 4 percent in 2000. The main impetus for this growth pattern will derive from tourism and related activities in construction and utilities, which combined are expected to grow by around 7 percent per annum over the period 1993-2000. Agricultural activity is expected to show growth of 4-5 percent between 1993 and 1998, tapering steadily thereafter to 1 percent growth in 2000.

The pace of expansion in tourism is expected to reflect the realization of current plans for two new resort complexes. Construction of at least one, a 70 villa resort at Barnesby Point, is expected to begin in 1994. Tourism is also expected to be boosted by a more aggressive marketing of the destination through the newly formed tourism board comprising both public and private sector interests. Indications are that present problems of limited air access to the island are being addressed through introduction of air services by a local airline. Advanced negotiations for financing of a proposed airport expansion project are also currently underway and it is expected that air access problems should be resolved in the medium term. Cruise ship visitor arrivals, which fell significantly following the hurricane in 1989, have also resumed, with two cruiselines commencing calls from late 1993.

Real GDP growth reflects the pace of both public and private investment, which combined are projected to be maintained at 35-40 percent over the period 1993-2000. Financing is projected to be derived mainly from increases in the savings ratio from 6.5 percent in 1993 to 17 percent in 2000. This would be supplemented by net foreign private capital, official grants and external borrowings. Long term capital inflows are projected to increase from 11 percent of GDP in 1993 to a peak level of 13 percent in 1996, thereafter falling steadily to 3 percent in 2000. The tapering off of long term capital investment towards the end of the review period is reflective of sustained growth in domestic savings to match growth in investment demand. Official capital inflows are assumed to be rise steadily from US$4 million in 1993 to peak levels of US$6 million in 1997, thereafter declining to US$5 million in 2000.

With the projected growth in tourism activity, growth in exports of goods and non-factor services is projected to average 9 percent over the period 1993-1998, tapering off to 7 percent in 2000. This pattern of growth is assumed to reflect the pace of investment in tourism over the review period, and the attainment of environmentally sustainable limits to developments in order to preserve the pristine attractiveness of the island. With increased economic activity, imports of goods and non-factor services are also expected to show parallel movements, albeit at a slower pace as local agricultural production displaces some food imports.

The projected rise in exports of goods and non-factor services is expected to contribute significantly to a gradual reduction of the external current account deficit from US$14.5 million in 1993 to US$11 million in 2000. Net capital inflows are therefore expected to rise from US$15 million in 1993 to a peak level of US$18 million in 1997, and thereafter slowing to US$13 million in 2000.

Despite an anticipated steady improvement in the external resource gap, the economy will continue to depend upon external borrowings. Net long term loans is projected to rise from US$2.0 million in 1993 to a peak of US$6 million in 1997. Thereafter this is assumed to fall steadily to US$2.5 million in 2000. Montserrat has benefitted in the past from concessionary terms on debt accumulation. As a result, debt servicing has remained at manageable levels. In 1993, debt service was 1 percent of gross exports of goods, non-factor services and net private transfers, and 1 percent of estimated recurrent revenues of GOM. Over the period 1993-2000, debt service payments are expected to rise to peak level at about 5 percent of gross exports of goods, non-factor services and net private transfers, and about 4 percent of GOM's recurrent revenues in 2000. The external debt burden is expected to remain manageable in the review period assuming further tourism-led growth in the economy.

Table 10.1: Montserrat - High Growth Case Macroeconomic Indicators, 1992-2000

Item	Preliminary	Projected	
	1993	1993-1996	1997-2000
		real growth rates	
Gross domestic product	-2.0	3.0	5.0
Consumption	-0.7	0.4	3.6
Public	4.0	3.3	4.0
Private	-2.1	-0.5	3.1
Fixed domestic investment	-16.7	2.9	2.5
Exports of GNFS	9.0	8.7	7.7
Imports of GNFS	-3.7	2.3	4.0
		shares of GDP[a]	
Domestic savings	6.5	12.3	17.4
National savings	18.2	24.4	29.7
Consumption	93.7	87.8	80.8
Fixed domestic investment	35.0	38.3	37.5
Exports of GNFS	37.2	38.5	42.3
Imports of GNFS	64.8	63.3	61.4

a. Projections based on constant 1991 prices.
Source: CDB.

Table 10.2: Montserrat - Low Growth Case Macroeconomic Indicators, 1992-2002

Item	Preliminary	Projected	
	1993	1993-1996	1997-2000
		real growth rates	
Gross domestic product	-2.0	1.5	2.5
Consumption	9.9	1.4	1.6
Public	4.0	3.3	3.3
Private	11.7	0.9	1.0
Fixed domestic investment	-40.5	1.3	-0.1
Exports of GNFS	4.8	5.0	5.3
Imports of GNFS	-5.7	0.8	1.7
		shares of GDP[a]	
Domestic savings	-3.6	2.2	8.7
National savings	8.1	13.6	14.3
Consumption	103.8	97.8	89.7
Public	22.2	22.3	22.9
Private	81.6	75.5	66.7
Fixed domestic investment	25.0	30.0	32.5
Exports of GNFS	36.7	36.1	39.2
Imports of GNFS	65.5	62.6	61.9

a. Constant prices.
Source: CDB.

The Low Growth Scenario

The low growth scenario is based on slow pace of expansion in tourism, increased incentives to development of domestic agriculture including non-tariff barriers to imports, and slow-down in inflows of official and private capital.

GOM's enhanced tourism thrust is expected to derive largely from aggressive marketing through the newly formed tourism board. GOM's financial commitment to this entity is, however, expected to be significant in the medium term, and will compete with resources aimed at developing the domestic agriculture sector under GOM's Food Self-Sufficiency Program. This scenario assumes that lack of adequate commitment to tourism promotion and marketing will undermine the export earning capacity of the economy in the medium to long run.

Indications are that increased non-tariff barriers to food imports have contributed to price increases, and it is assumed that continuation of this in the medium term will further aggravate domestic price inflation. Under such a scenario, external competitiveness of tourism is expected to be steadily undermined, leading to weak overall export performance, and lowering of GOM's recurrent revenues (derived mainly from import taxes), and contraction of domestic demand. Within this context, external private capital is expected to contract, and the ability of GOM to secure external loan financing for infrastructure will be jeopardized by weak counterpart financing. In short, economic prospects are expected to deteriorate in the absence of a demonstrable policy emphasis on tourism development.

In the absence of enhanced policy support for tourism, the leading export sector, real GDP is projected to grow by 2-3 percent over the period 1993-2002. This will be reflective of slower growth (3-4 percent) in the combined tourism, construction and utilities sector. Agriculture is expected to maintain its average growth of 4-5 percent over the period 1993-1998, falling to 1 percent in 2000.

Slower growth of the economy reflects a lower rate of domestic investment, ranging from 25-35 percent of GDP over the period 1993-2000. Financing of this investement is projected to originate partly from domestic savings. The main source of investment financing will be external. Long- term capital inflows are projected to rise steadily from 11 percent of GDP in 1993 to 18.6 percent in 2000. Official capital grants are assumed to remain at comparable levels to the high growth scenario to 1995, but it is assumed that they will be reduced in the long run.

The reduced growth of domestic savings will increase reliance on external borrowings. Thus, the current account deficit is expected to increase from US$14.5 million in 1993 to US$20 million in 2000. With official grants expected to contract in the long run, and foreign investment in tourism stymied by uncompetitive domestic prices and policy support, external borrowings are expected to increase from US$2 million in 1993 to US$10 million in 2000. As a result, total external debt service as a proportion of gross export of goods and non-factor services is expected to increase from 1 percent in 1993 to 8 percent in 2000. The rise in debt service ratios reflect increased pressure on GOM to provide resources for maintenance of public infrastructure and provision of public services. It also constrains GOM's ability to maintain the pace of public sector investment and employment.

Sustainability of growth is dependent upon the extent to which competitiveness in tourism can be maintained, and continued access by GOM to official aid to maintain the required pace of public investment. Prospects are also contingent upon the minimization of policy-induced distortions which fuel inflation in the tourism sector. In particular, close monitoring is required of public sector wages, as well as import substitution measures which fuel inflation.

Long run growth prospects are also contingent upon a reform of GOM's indirect tax structure in order to increase revenue collection, and remove distortions. This reform should focus on replacing the consumption tax on imports with one that does not discriminate against the tradeable sector. Consideration should also be given to reducing the customs service tax of 8 percent to a level comparable with that in other OECS countries. The elimination of import licensing and price controls on imports is urgently required to limit domestic production inefficiencies and monopoly behavior by importers. In sum, favorable growth prospects for Montserrat rest upon an early reversal of recent declines in tourism, and sustained efforts to promote and develop this sector.

Table 10.3: Montserrat - High Growth Case Balance of Payments, 1992-2000 [a]
(US$ million)

Item	Preliminary 1993	Projected 1993-1996	Projected 1997-2000
Resource balance	-17.9	-17.9	-19.6
Exports of GNFS	23.1	28.2	43.7
Imports of GNFS	41.0	46.1	63.3
Net factor payments	-2.7	-3.0	-3.6
of which: interest on public debt	0.1	0.4	1.1
Private transfers	6.1	5.9	10.3
Current account balance	-14.5	-15.0	-13.0
Capital account			
Net direct foreign investment	5.2	4.7	5.8
Official grants	4.0	5.5	5.3
Public capital	2.0	4.8	4.0
Disbursements	2.1	5.0	4.8
Amortization	0.1	0.2	0.8
Other capital, n.e.i.	3.8	1.0	0.0
Changes in reserves (-) = increase	-0.5	-1.0	-2.1
MEMORANDUM ITEMS:			
Total debt (US$ million)	6.2	14.8	35.6
Total debt/GDP	9.5	19.6	34.5
Debt service (US$ million)	0.2	0.6	2.0
Debt service/XGS [b]	0.9	2.1	4.5
Debt service/GDP	0.3	0.8	2.0
Debt service/government revenues	0.5	1.3	3.2
Interest/GDP	0.1	0.5	1.2

a. Totals may not add due to rounding.
b. Exports of goods, services and net private transfers.
n.e.i. = not elsewhere included.
Source: CDB.

Table 10.4: Montserrat - Low Growth Case Balance of Payments, 1988-2000[a]
(US$ million)

Item	Preliminary 1993	Projected 1993-1996	Projected 1997-2000
Resource balance	-17.9	-18.8	-20.5
Exports of GNFS	23.1	25.7	35.8
Imports of GNFS	41.0	44.5	56.3
Net factor payments	-2.7	-3.0	-3.9
of which: interest on public debt	0.1	0.4	1.5
Private transfers	6.1	5.7	5.0
Current account balance	-14.5	16.1	-19.4
Capital account			
Net direct foreign investment	5.0	5.5	6.9
Official grants	4.0	5.0	3.3
Public capital	2.1	5.5	10.6
Disbursements	2.3	5.8	11.4
Amortisation	0.1	0.2	0.8
Other capital, n.e.i.	0.0	1.0	0.2
Changes in reserves (-) = increase	-0.5	-0.9	-1.6
MEMORANDUM ITEMS:			
Total debt (US$ million)	6.3	15.4	53.2
Total debt/GDP	9.8	21.1	57.9
Debt service (US$ million)	0.2	0.6	2.4
Debt service/XGS[b]	0.9	2.3	6.2
Debt service/GDP	0.3	0.9	2.5
Debt service/government revenues	0.5	1.4	4.1
Interest/GDP	0.1	0.6	1.7

a. Totals may not add due to rounding.
b. Exports of goods, services and net private transfers.
Source: CDB.

11

St. Kitts and Nevis

Overview

Real GDP growth averaged 6 percent during 1988-1992, mainly reflecting the strength of tourism and related construction and services activities. Economic growth slowed to 3 percent in 1990 due to a combination of adverse external factors including the impact of the Gulf War and recession in North America on the tourism sector, and the detrimental effects of Hurricane "Hugo" in 1989 on the 1990 sugar crop. The economy rebounded in 1991 to grow by about 7 percent as sugar output and tourism arrivals, particularly on Nevis, grew strongly. This rate was not sustained through to 1992 as fiscal constraints and a still weak international economy saw a drop in both public and private sector investment activity. Sugar output and tourism arrivals continued to grow, but real GDP growth slowed to an estimated 3 percent for the year.

Major Macroeconomic Issues

Fiscal Policy and Debt

The main task facing the Government of St. Kitts and Nevis (GOSKN) is to generate increased public savings by maintaining fiscal restraint and improving recurrent revenue performance. Such savings are needed to help finance the capital investment program and reduce the need for borrowing. Public savings are particularly critical during the early part of 1994-1996 as GOSKN faces both a bunching of loan-financed capital projects which require counterpart funding and pressure on the recurrent account due the September 1993 granting of a 15-20 percent public sector salary increase, retroactive to May 1993.

In this context, there is a clear need to enhance revenue performance. Recurrent revenues as a percentage of GDP have fallen from over 24 percent in 1989 and 1990 to 22 percent in 1992, and the tax effort has dropped to 19 percent of GDP compared with over 20 percent in 1988 and 1989. A review of the existing level of tax exemptions and the current property tax, as well as a broadening of the tax base and continued administrative improvements, should enable GOSKN to raise the tax effort. In addition, a reduction in the number of import duty exemptions would raise custom duty collections.

The need for continued adherence to expenditure restraint also needs to be stressed in light of the tight fiscal situation and program capital expenditures in both St. Kitts and Nevis. In particular, measures to restrain growth in the domestic wage bill should be considered strongly.

Recent indications are that GOSKN's domestic debt began to decline in 1993. However, based on the proposed PSIP, external debt levels are expected to rise, offsetting this decline. Although this debt is likely to be of a concessionary nature, GOSKN needs to carefully monitor the debt service implications of such financing, as its expenditure activities, including the provision of counterpart funds for investment projects, are likely to be constrained by such obligations.

Government Priorities

The economy of St. Kitts and Nevis is growing rapidly. Issues relating to the size and composition of the work force need to be carefully integrated into the development policy framework. The preparation of the PSIP has tended to be haphazard and no core projects have been identified. Projects are consequently often chosen on the basis of funding availability,

rather than on the basis of integrated development objectives. In this context, institutional strengthening of the Planning Units in St. Kitts and Nevis, and the identification of a clearly defined role for them, will be a priority task for the government.

Human Resource Development

Although the total population of St. Kitts and Nevis has been declining over the past five years, demand for labor has been rising in line with the development of the tourism sector. Reliable data on the labor force and employment are not available. However, indications are that labor and skills shortages have emerged. The seasonal importation of sugarcane cutters has eased the problem in the sugar sector, but the government still faces the challenge of overcoming skilled labor shortages in the manufacturing and tourism sectors. In addition, the increase in both public and private construction activity scheduled for 1993-1994 is expected to lead to further increases in the demand for labor and in wage pressures which could adversely affect the operations of the enclave manufacturing sector. If this is to be avoided, the government will have to adopt a judicious approach to wage policy. In addition, enhancing the educational and skills level of the population should be seen as a priority in order to satisfy the demands of a growing tourism and services sector.

Sugar

The cultivation and processing of sugarcane has traditionally dominated the economy of St. Kitts and Nevis. This dominance has been steadily eroded over the last decade, with tourism and export-orientated manufacturing assuming a larger role. Sugarcane cultivation accounted for 9.5 percent of real GDP in 1981, while sugar processing accounted for 8 percent. This contribution had fallen to 3.5 percent and 3 percent in 1991, respectively. However, the sector remains important to the economy – sugar exports still account for about 45 percent of merchandise export earnings and the industry provides approximately 2,500 jobs – and its future performance will have a significant impact on the medium-term development of St. Kitts and Nevis.

At present production levels of 20,500 tonnes, the industry is just about breaking even. However, it is estimated that about 28,000-30,000 tonnes are needed per year if the industry is to remain viable. Substantial new investment, particularly in improving the transport system, is needed in order to ensure increased production.

St. Kitts and Nevis currently benefits from preferential trading arrangements with both the U.S. and EU. The Federation has a small export quota with the U.S., but relies principally on exports to the EU under the Sugar Protocol to the Lomé Agreement. However, the worldwide move to freer trade is expected to result in lower prices for sugar. In all, the industry faces an uncertain future. Should GOSKN fail in its efforts to privatize the industry, it is likely to be left overseeing a slow decline in the industry.

Non-Sugar Agriculture

Diversification of the agricultural sector is an important element in the government's overall development strategy. A program supported by the United Nations Development Program, the Food and Agriculture Organization and the World Bank is already under way to encourage non-sugar agriculture, and this has begun to address the issues of land distribution, land tenure and institutional support. There are now an estimated 20 full-time commercial farmers with an average age of 30, which bodes well for the long-term future of the non-sugar agricultural sector. The sector has potential for further diversification and rapid growth, especially in the production of vegetables and fruits to meet demand by hotels. Many hotels have already established contracts with several growers to ensure adequate supply. As production expands, it should be possible to begin exporting on a regular basis to neighboring countries. It is, therefore, undertaking the preparation of a new Development Plan and reformulating its medium-term economic strategy. The government plans to speedily implement its revised policy agenda to place the economy of St. Kitts and Nevis on an alternative growth path. An alternative scenario is detailed below.

Tourism Development

Tourism has grown rapidly over the past five years and has emerged as the dominant sector in SKN. The sector receives considerable government support, principally in the form of investment incentives, and further growth is envisaged as new private sector hotels are constructed, and the cruise ship industry expands. GOSKN is already considering investments to improve air and sea ports so as to upgrade the facility for receiving passengers and has plans to develop a large cruise ship berthing facility in Basseterre. Such investments will enhance tourism development and provide a boost to the construction industry, but are also likely to exacerbate skilled labor shortages and put pressure on the environment.

GOSKN's policy and investment strategy in the sector will thus need to be sensitive to existing human resource constraints and environmental issues, and concern itself with establishing the optimum size of the tourism industry. At present SKN, and particularly Nevis, has concentrated on developing the luxury tourism market. Despite its lack of white sandy beaches in comparison with other islands in the Caribbean, SKN has been able to play on its relative underdevelopment, quiet, friendly welcome, and scenic beauty to attract visitors.

Medium-Term Economic Prospects

Projections of real GDP growth in St. Kitts and Nevis reflect the projected growth in tourism, decline in the sugar industry, continued gains in non-sugar agricultural output, and slow but steady growth in the non-sugar manufacturing sector. Private net foreign investment is assumed to finance developments in tourism, but government borrowing to support supporting infrastructure requirements will also be necessary.

Under the Sugar Protocol, SKN has access to the EU market for its exports. But recent agricultural liberalization resulting from the 1993 Uruguay Round negotiations will lead to a tariffication of EU and U.S. quotas. Also, recent price developments, arising from increased sugar production in the world, might result in a fall of the sugar export price during 1994-1996. In view of these developments, the base case scenario projects an economic outlook with a relatively low GDP growth rate of about 2 percent per year.

The government recognizes that the country's growth prospects are highly dependent on: (i) the guaranteed markets for its exports of sugar in the EU and the U.S.; (ii) the preferential market access under CBI of garments and other small manufacturers to the U.S.; (iii) the implementation of the government's economic policy agenda and the degree of success of accelerating economic diversification; and (iv) economic developments in major markets. [17]

To assist in this transition, the EU is to provide support for the economic diversification projects during 1994-96, with the understanding that St. Kitts and Nevis and other OECS countries would achieve significant economic diversification by 1996. In view of these factors, two scenarios are presented below.

Base Case (Low Growth) Scenario

The base case scenario considers: (i) the recent developments in the external environment mentioned above; and (ii) the current policies and programs of the government.

Under the Sugar Protocol, St. Kitts and Nevis will continue to have access to the EU sugar markets until 2000. The projections are based on the assumption of sugar export prices in real terms would drop beginning in 1994. In addition, if government fiscal operations remain weak in 1993-94 as a consequence of the recent wage award of 15-20 percent to the civil service, compensatory revenue measures are not introduced, and negligible improvements take place in the incentive framework, international

[17] Projections for real growth in the G-7 countries (i.e., Canada, France, Germany, Italy, Japan, United Kingdom, and the US) show a moderate slowing down in the 1990s, from 3.3% per year on average in 1985-1992 to 2.5% during 1993-2000. Inflation, in US dollars is projected to average 3.2% per year. None of these trends would pose a serious constraint to the country's growth. Other potentially more serious constraints which could result from non-economic factors such as adverse weather conditions, which of course cannot be predicted, are thus not included in the projections.

Table 11.1: Base Case – Actual and Projected Macroeconomic Indicators, 1992-2000 [a]

	Preliminary 1992	Projected 1993-96	Projected 1997-2000
		real growth rates	
Gross domestic product	3.0	2.1	2.5
Gross domestic income	3.2	2.0	2.3
Consumption	8.3	1.9	2.5
Public	5.2	2.9	3.2
Private	9.4	1.6	2.3
Gross fixed investment	10.3	3.8	3.0
Exports of GNFS	2.4	2.4	2.3
Imports of GNFS	3.1	2.7	2.6
		shares of GDP	
Central government savings	0.6	-0.1	-2.2
Domestic savings	10.5	11.4	10.0
National savings	12.7	14.8	14.1
Consumption	89.5	88.5	89.4
Gross fixed investment	24.3	25.4	26.3
Exports of GNFS	59.7	60.6	60.0
Imports of GNFS	73.5	74.5	75.6

[a] Projections based on constant prices.
Source: Statistical Appendix

Table 11.2: Alternative Case – Actual and Projected Macroeconomic Indicators, 1992-2000 [a]

	Preliminary 1992	Projected 1993-96	Projected 1997-2000
		real growth rates	
Gross domestic product	3.0	3.5	5.0
Gross domestic income	3.2	3.5	4.8
Consumption	8.3	3.1	3.9
Public	5.2	2.9	3.2
Private	9.4	3.1	4.2
Gross fixed investment	10.3	5.8	7.4
Exports of GNFS	2.4	4.6	5.3
Imports of GNFS	3.1	4.5	4.9
		shares of GDP	
Domestic savings	10.5	11.9	13.5
National savings	12.7	15.4	18.0
Consumption	89.5	88.0	85.8
Gross fixed investment	24.3	25.8	28.3
Exports of GNFS	59.7	61.6	62.4
Imports of GNFS	73.5	75.3	76.5

[a] Projections based on constant prices.
Source: Statistical Appendix.

competitiveness will decline. Therefore, the central government's current account is projected to be in deficit over the medium-term. Similarly, if regulatory and trade reforms fail to materialize, private sector investment would not come forward to the degree necessary to achieve the growth rates included in these projections. If such events were to occur, the economic outlook for St. Kitts and Nevis would be one of low growth, of about 2 percent per year.

Under such a scenario of slowdown in economic growth, the standard of living would only improve slowly. The economic environment would be less conducive for significant private sector expansion.

Import growth would slow down. The current account deficit of the balance of payments is projected to remain at 1992 levels of US$22 million during 1993-96, and thereafter rapidly increase to US$33 million during 1997-2000. Debt service as a proportion of exports of goods and services. Living standards would rise from about 3 percent in 1992 to about 4 percent in the year 2000.

The government is committed to re-orienting the economy away from the adverse impact of the above scenario. It is, therefore, undertaking the preparation of a new Development Plant and reformulating its medium-term economic strategy. The government plans to speedily implement its revised policy agenda to place the economy of St. Kitts and Nevis on a higher growth path propelled by private investment. An alternative scenario is detailed below.

Alternative (High-Growth) Scenario

An alternative scenario takes into account the 10 percent drop in sugar prices beginning 1994 and that the terms of trade would be unfavorable during the rest of the 1990s. However, St. Kitts and Nevis continues to have access to the preferential markets in the U.S. and the EU for sugar exports. St. Kitts is currently a relatively low cost sugar producer. It needs to maintain costs at least at current levels in order to compete in the changing world environment. In response to external developments, the government should rapidly implement its economic reform agenda, particularly in the areas of: (i) fiscal adjustment, including maintenance of a tight wage policy and implementing revenue enhancing fiscal measures to generate additional public savings to undertake investments in infrastructure and human resource development in support of private sector investments; (ii) trade liberalization, and improving further the incentive framework and regulatory environment to increase economic efficiency, enhance international competitiveness, and attract private investment in all sectors; and (iii) economic diversification, in particular up-market tourism, and informatics. Under these assumptions, and barring any other unforeseen external event, real GDP is projected to grow between 4-5 percent per year during 1993-96 as a result of growth in nontraditional agriculture, manufacturing, and tourism and other service sectors.

On the basis of the timely implementation of the above mentioned policies, investment is projected to increase from about 24 percent of GDP of 1992 to about 26-28 percent of GDP during 1993-2000. This ratio reflects some increase in public infrastructure agro-processing, manufacturing, tourism, and other services. An appropriate economic policy environment would allow an increase in foreign investment in excess of 30 percent between 1993 and 2000. Domestic savings are projected to increase from 10 percent of GDP in 1992 to about 14 percent during the late-1990s as rising per capita incomes will lead to increased domestic resource mobilization. The central government's revenue enhancing measures - elimination of duty exemptions, broadening of the property tax base, and improvements in tax administration - coupled with continuing wage restraint, are projected to yield current surpluses of about 3-5 percent of GDP during the rest of 1990s.

Real exports of goods and non-factor services are projected to grow at about 5 percent per year on average during 1993-2000, as small manufacturing, non-sugar agriculture, tourism and other services continue to increase. As real GDP grows at a sustainable 4-5 percent per year, real import growth is projected to be about 5 percent per year on

average during 1993-2000. As a result of these developments, the current account deficit of the balance of payments is projected to decrease from 12 percent of GDP in 1992, to about 10 percent of GDP by 1996, and to 9 percent of GDP by the year 2001. To cover this deficit, the government projects that St. Kitts and Nevis will attract its financing requirements on reasonable terms from bilateral and multilateral sources. The increasingly uncertain external environment would require some external borrowing on commercial terms and increased domestic resource mobilization for St. Kitts and Nevis to rapidly adapt to the changing world. Reserves, equivalent to about 2-3 months of imports, are projected to be gradually built up during 1993-2000. The PSIP is concentrated on large infrastructure projects geared to support tourism expansion, agricultural diversification and human resource development. Therefore, the ratio of total external debt to GDP is projected to be between 24-28 percent of GDP during 1993-2000. Debt service levels are projected to remain manageable during this period, amounting to about 3 percent of exports of goods and services.

Table 11.3: Base Case – Actual and Projected Balance of Payments, 1992-2000
(US$ million)

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
Resource balance	-26.7	-29.8	-43.6
Exports of GNFS	115.2	128.9	159.4
Imports of GNFS	141.9	158.7	203.0
Net factor income	-8.0	-7.1	-6.5
Private transfers	12.3	14.2	17.3
Current account balance	-22.4	-22.7	-32.8
Capital account			
Net direct foreign investment	23.9	23.3	24.5
Official grants	1.0	0.3	0.0
Public capital	0.8	7.0	17.9
Disbursements	2.9	9.6	21.6
Amortization	-2.1	-2.6	-3.7
Other capital, n.e.i.	6.2	-0.9	-9.0
Changes in reserves (increase -)	-9.5	-7.0	-9.0
MEMORANDUM ITEMS:			
Total debt (US$million)	44.1	59.0	114.4
Total debt/GDP	22.8	27.0	42.7
Debt service (US$million)	3.7	4.5	7.3
Debt service/GDP	1.9	2.1	2.7
Debt service/exports [a]	3.1	3.3	4.3
Ext. debt service/current Revenue	3.3	3.5	4.5
Interest/GDP	0.8	0.8	1.3

a. Exports of goods and services.
n.e.i. = not elsewhere included.
Source: Statistical Appendix.

Table 11.4: Alternative Case - Actual and Projected Balance of Payments, 1992-2000
(US$ million)

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
Resource balance	-26.7	-30.3	-44.6
Exports of GNFS	115.2	134.6	186.8
Imports of GNFS	141.9	164.9	231.4
Net factor income	-8.0	-7.2	-6.6
Private transfers	12.3	14.8	20.1
Current account balance	-22.4	-22.7	-31.1
Capital account			
Net direct foreign investment	23.9	25.1	29.5
Official grants	1.0	1.0	1.0
Public capital	0.8	3.9	9.6
Disbursements	2.9	6.5	13.1
Amortization	-2.1	-2.6	-3.4
Other capital, n.e.i.	6.2	-0.3	0.0
Changes in reserves (-) = increase	-9.5	-7.0	-9.0
MEMORANDUM ITEMS:			
Total debt (US$million)	44.1	53.3	83.3
Total debt/GDP	22.8	23.9	27.7
Debt service (US$million)	3.7	4.4	6.1
Debt service/GDP	1.9	2.0	2.0
Debt service/exports [a]	3.1	3.1	3.1
Ext. debt service/current revenue	3.3	3.3	3.3
Interest/GDP	0.8	0.8	0.9

a. Exports of goods, services and net private transfers.
n.e.i. = not elsewhere included.
Source: Statistical Appendix.

12
St. Lucia

Overview

While there has been continuing expansion in economic activity in St. Lucia over the five years to 1992, annual growth rates have been subject to considerable fluctuation as a result of the performance of the banana industry. At the same time, sustained growth in tourism has resulted in this sector becoming a major contributor to economic activity. Given the expected erosion of preferential access and prices for St. Lucian bananas in Europe over the medium term, and a continuation of the relative decline of the manufacturing sector, the growing importance of tourism and other services is likely to continue in the future. As the economy adjusts to lower unit banana earnings, output growth is likely to slow noticeably. This will impact adversely on the high recurrent surpluses which have been a feature of central government financial management during the last few years.

Major Macroeconomic Issues

The banana industry is the most important activity in the agricultural sector, and contributed an average of about 9 percent of GDP during 1988-1992. Industry operations have been based on exports to the UK under a system of preferential access. The relatively high preferential prices have provided a dependable income-stream to growers, and have encouraged expansion of production from 29,850 tonnes in 1980 to about 135,720 tonnes in 1992, making St. Lucia the largest OECS banana exporter. Banana export earnings have also contributed substantially to government revenues and to the financing of domestic activities.

Under the new European single-market regime, preferential access is likely to be eroded, and ACP banana producers are expected to face declining prices as access to the European market is widened for lower-cost, dollar-area bananas.

The depreciation in the Pound Sterling (in which banana prices are quoted) beginning in the latter part of 1992 has already resulted in declining domestic-currency unit export earnings. The resulting impact on growers, on industry operations, and on the rest of the economy will be exacerbated when the price declines continue to take place.

Efforts are underway to restructure banana industry operations in an effort to make the industry more competitive. At the government level in the Windward Islands, arrangements are underway in conjunction with the banana growers and marketers to reorganize production and marketing in order to reduce costs and increase revenues. A major component of the reorganization effort involves the streamlining of operations within the Banana Growers Association.

Whether the industry survives when the current transitional access and price arrangements are ended will depend on the level of production and handling efficiency which can be achieved, and on the extent to which residents of St. Lucia can participate in the value-added between fruit production and the sale to the final consumer.

Although the importance of bananas in GDP has been declining slowly over the last five years, large variations in industry export earnings continue to have a noticeable impact on the macroeconomic aggregates. The authorities will need to intervene carefully in order to limit the adverse effects of the expected earnings decline without unduly increasing vulnerability in other directions, e.g. through major deterioration in the fiscal accounts, or rapid increase in public sector borrowing, domestic or external.

Human Resources Development

Significant attention has been paid in the recent past to the development of the country's human resources in recognition of past deficiencies in public sector management performance and the importance of public sector management capacity in the development process, and in response to increasing demands for skilled workers as a result of rapid expansion in tourism and related activities. While primary and secondary school enrollment has been growing faster than the OECS average, the enrollment ratio at the tertiary level is noticeably below the OECS average. The main barriers to entry in higher-level educational institutions for St. Lucians are the academic entry requirements and the costs of training the latter including living costs given the absence of significant tertiary capacity on the island.

Increased attention to improving the quality of education at the primary and secondary level and to re-examine funding arrangements for tertiary training are needed. Both approaches will involve substantial increases in public sector expenditure, at least at the outset, at the same time that the economy is facing the prospect of reduced earnings from bananas. Some assistance should be forthcoming from the proposed OECS education project at the primary and secondary level; and more effort will need to be put into private sector funding of, students at the tertiary level, as well as to continue the development of domestic capacity for tertiary training, including the utilization of distance-teaching arrangements, in order to address the high the cost of overseas education, and to increase the efficiency of spending on education and training.

Environmental Management

Increasing reliance on tourism will require the authorities to expand the level of the current effort to conserve the environment. While a focus on the up-market end of the tourist industry will tend in the direction of greater visitor expenditure per unit of required infrastructure, high-income visitors are more likely to demand value for money, and will react faster to perceptions of environmental degradation.

St. Lucia currently has excellent beach and rainforest attractions, a combination, when put together with ease of access and high-quality accommodation, that is not very common in the Caribbean. These will need to be conserved. The authorities will need to plan further development of the industry very carefully in order to ensure that expansion in the physical capacity to accommodate visitors, and the growth in the ancillary operations and activities which accompany increased visitor arrivals, do not reduce the attractiveness of the destination and result in a perverse impact on the performance of the industry. While growth in the industry will probably continue for a considerable period into the future, the authorities will need to start examining, as quickly as possible, likely industry candidates to replace tourism as the main contributors to output growth in the future, in order that the transition can be easy and that the expansion process can proceed smoothly.

Fiscal Management

In recent years the authorities have paid a great deal of attention to public sector fiscal management, as a result of difficult times in the past, and the results of that attention is shown in the high central government recurrent account surpluses; in the relatively small (when they have occurred) overall central government deficits despite high levels of capital spending; and in the performance of the rest of the public sector. The expected decline in economic activity as a result of the banana situation will have an adverse impact on public finances. Increased attention will need to be paid to the maintenance of fiscal stability although St. Lucia, in comparison with other affected OECS countries, is in a better position to deal with the banana crisis. St. Lucia has been a model among OECS countries in adopting sound fiscal policies, and these policies have been accompanied by a diversifying economy, solid economic growth and high levels of foreign direct investment.

Medium-Term Economic Prospects

Under the new EU trade regime for bananas, St. Lucia will continue to have access to the EU market for its exports, but recent developments might result in a sharp fall of the banana export price.

Taking into account these developments, the base case scenario projects an economic outlook with a relatively low GDP growth rate of 2 percent per year.

The government recognizes that the country's growth prospects are highly dependent on: (i) the prices of bananas and efficiency of banana production in the context of the new EC banana regime; (ii) the implementation of its economic policy agenda and the degree of success of economic diversification efforts; and (iii) economic developments in major markets. To mitigate the adverse impact of a drop in banana prices, the EU is to provide support for the banana related and agricultural diversification projects during 1993-96, with the understanding that St. Lucia and other Windward Islands would achieve significant economic diversification by 1996. In view of these factors, two scenarios are presented below.

Base Case Scenario

The base case scenario considers: (i) the recent banana developments; and (ii) the current policies and programs of the government. Based on the assumption of banana export prices falling by 20 percent, banana output is projected to decrease by about 30 percent in line with the estimated supply-price elasticity of recent years. Export earnings could potentially be reduced by about US$25 million per year (EC$68 million), which could then have a multiplier effect of about 5 percent of GDP during 1993-96. In addition, if fiscal balances deteriorate as a consequence of the drop in banana related revenues and incomes of banana growers, and as a result of large public sector wage increases, and negligible improvements take place in the incentive framework, international competitiveness will decline. The fiscal surpluses generated during 1990-92 are projected to erode by 40 percent during 1993-96 and by more than half in the outer years. Similarly, if regulatory and trade reforms fail to materialize, private sector investment would not come forward to the degree necessary to achieve the growth rates included in these projections. If such events were to occur, the economic outlook for St. Lucia would be one of low growth rate with a rising population growth rate of about 1.6 percent per annum.

Under such a scenario of slowdown in economic growth, the standard of living would decrease. The economic environment would not be conducive for significant private sector expansion and the flow of foreign investment would be significantly reduced. Import growth would also slow down. The current account deficit of the balance of payments is projected to increase from US$70 million in 1992 to US$101 million during 1993-96, and thereafter taper off at US$89 million during 1997-2001. Debt service as a proportion of exports of goods, services and private transfers would rise from about 3 percent in 1992 to about 9 percent in the year 2001. Living standards would be further affected because of the significant increase in unemployment. St. Lucia's CARICOM partners would also be adversely affected by these developments, thereby inducing a cumulative negative effect.

The conclusion, therefore, under a base case scenario is that a steep price drop for banana exports would have an adverse impact upon output and employment in St. Lucia as well as in its domestic and external balances.

The government is committed to countering the adverse impact of the above scenario. It is, therefore, undertaking the preparation of a Development Plan and reformulating its medium-term economic strategy. The government plans to timely implement its revised policy agenda to place the economy of St. Lucia on an alternative growth plan. The alternative scenario is detailed below.

Alternative Scenario

An alternative scenario takes into account a 20 percent drop in banana prices as St. Lucia continues to have access to the EU market for its exports. In response to external developments, the government would speedily implement its economic reform agenda in the areas of: (i) fiscal adjustment, including continuation of a tight wage policy, to generate adequate public savings to undertake infrastructure investments in support of private sector investments; (ii) liberalizing the trade regime, and improving the incentive framework and regulatory environment to increase economic efficiency, strengthen international competitiveness, and attract private investment in all sectors; and (iii) continuing with the banana

intensification and economic diversification efforts in nontraditional agriculture, manufacturing, agro-products, up-market tourism, and informatics.

Under these assumptions, and barring any other unforeseen external event, real GDP is projected to grow at about 3 percent per year during 1993-96 as a result of growth in nontraditional agriculture, manufacturing, and tourism and other service sectors. This would be a decreased growth rate compared to the recent ones of about 5 percent per year.

On the basis of timely implementation of the above-mentioned policies, the efficiency of investment is projected to improve and total investment is projected to decrease marginally from about 30 percent of GDP in 1992 to about 29-30 percent of GDP during 1993-2001. This ratio reflects some increase in public infrastructure projects and increasing private investment, mainly in agro-processing, manufacturing, tourism, and other services. An appropriate economic policy environment would allow a 75 percent increase in the foreign investment between 1993 and 2001. Domestic savings are projected to decrease from 15 percent of GDP in 1992 to 9 percent during 1993-96 as consumers adjust to lower banana prices and farm incomes. Subsequently, as a result of increased domestic resource mobilization efforts, domestic savings are projected to increase to about 14 percent of GDP during 1997-2001. The central government's revenue enhancing measures by elimination of duty exemptions, broadening of property tax base and improvements in tax administration, coupled with continuing wage restraint, is projected to yield lower current surpluses of about 8 percent of GDP during the rest of the 1990s.

Real exports of goods and non-factor are projected to grow at about 2-6 percent per year on average during 1993-2001, as small manufacturing (5.5 percent), non-banana agriculture (4 percent), tourism and other services (7 percent) continue to increase. As real GDP grows at a sustainable 3-4 percent per year, after decelerating to about 3 percent in 1993-94 owing to the impact of the fall in banana prices, real import growth is projected to be between 2 percent and 4 percent a year on average during 1993-2001. As a result of these developments, the current account deficit of the balance of payments is projected to increase from 15 percent of GDP (US$70 million) in 1992 to about 22 percent of GDP (US$129 million) by 1996, and then level off at about 15 percent of GDP by the year 2001. To cover this deficit, the government projects that St. Lucia will continue to attract all of its financing requirements in the form of grants and highly concessionary assistance from bilateral and multilateral sources. The increasingly uncertain external environment would require external assistance on concessional terms for St. Lucia to rapidly adapt to the changing world. Reserves, equivalent to about 3 months of imports, are projected to fall marginally during 1993-2001.

The PSIP is concentrated on large infrastructure projects geared to support tourism expansion, agricultural diversification and human resource development. Therefore, the ratio of total external debt to GDP is projected to move from 18 percent of GDP in 1992 to about 30 percent of GDP during 1993-96, and to 41 percent of GDP during 1997-2001. Debt service levels are projected to remain manageable during 1993-2001, amounting to between 4-10 percent of exports of goods, services, and net private transfers, and less than 11 percent of central government current revenues.

Table 12.1: St. Lucia - Base Case Macroeconomic Indicators, 1992-2001[a]

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2001
	real growth rates		
Gross domestic product	6.6	1.3	2.4
Gross domestic income	3.2	0.7	2.3
Consumption	-6.6	2.5	0.8
Public	3.0	2.2	2.0
Private	-8.5	2.6	0.5
Gross fixed investment	25.3	-2.1	2.4
Exports of GNFS	10.4	0.9	3.8
Imports of GNFS	1.0	1.0	2.0
	shares of GDP		
Public sector savings	11.4	6.5	5.0
Domestic savings	14.7	9.3	12.3
Consumption	82.1	85.3	82.1
Gross fixed investment	30.0	28.0	26.0
Exports of GNFS	71.8	70.4	73.8
Imports of GNFS	83.9	83.6	82.0
Terms of trade index (1991=100)[b]	88.8	76.4	75.5

a. Shares based on constant prices, except for public sector savings.
b. A decrease in the index implies that the terms of trade have been unfavorable to the country.
Source: MTESP.

Table 12.2: St. Lucia - Alternative Case Macroeconomic Indicators, 1992-2001[a]

Item	Preliminary 1992	Projected 1993-1996	Projected 1997-2000
	real growth rates		
Gross domestic product	6.6	2.6	3.9
Gross domestic income	3.2	2.2	3.9
Consumption	-6.6	4.0	1.7
Public	3.0	-0.4	-6.0
Private	-8.5	4.9	2.8
Gross fixed investment	25.3	1.8	3.9
Exports of GNFS	10.4	1.8	6.1
Imports of GNFS	1.0	3.0	3.6
	shares of GDP		
Public sector savings	11.1	7.9	8.0
Domestic savings	14.7	9.1	13.8
Consumption	82.1	85.7	81.1
Gross fixed investment	30.0	29.8	29.0
Exports of GNFS	71.8	69.4	74.3
Imports of GNFS	83.9	84.9	84.5
Terms of trade index (1991=100)[b]	88.8	76.6	75.3

a. Shares based on constant prices, except for public sector savings.
b. A decrease in the index implies that the terms of trade are unfavorable to the country.
Source: MTESP.

Table 12.3: St. Lucia - Base Case Balance of Payments, 1992-2001
(US$ million)

Item	Preliminary 1992	Projected 1993-96	1997-2001
Resource balance	-72.6	-95.8	-87.4
Exports of GNFS	326.6	334.0	441.1
Imports of GNFS	399.2	429.8	528.5
Net factor income	-15.2	-25.8	-31.4
Interest on MLT debt	5.1	6.5	14.6
Private transfers	17.7	20.5	29.4
Current account balance	-70.2	-101.0	-89.4
Capital account	103.6	141.5	165.8
Net direct foreign investment	74.0	76.5	81.0
Official grants	1.1	1.0	1.0
Public capital	14.7	23.3	14.8
Disbursements	21.1	32.0	41.9
Amortisation	-6.4	-8.7	-27.1
Other capital	-13.6	0.0	0.0
Changes in reserves (-) = increase	-6.0	0.2	-7.4
MEMORANDUM ITEMS:			
Total debt (US$ million) [a]	88.8	148.1	233.3
Total debt/GDP	18.4	28.2	35.8
Debt service (US$ million)	11.8	15.5	41.9
Debt service/GDP	2.5	2.9	6.3
Debt service/exports [b]	3.4	4.2	8.6
Debt service/current revenues	7.8	11.5	25.4
Interest/GDP	1.1	1.3	2.3

a. IBRD DRS data.
b. Exports of goods, services and net private transfers.
Source: MTESP.

Table 12.4: St. Lucia - Alternative Case Balance of Payments, 1992-2001
(US$ million)

Item	Preliminary 1992	Projected 1993-96	1997-2001
Resource balance	-72.6	-109.8	-106.5
Exports of GNFS	326.6	340.4	495.3
Imports of GNFS	399.2	450.2	601.8
Net factor income	-15.2	-30.0	-52.2
Interest on public debt	5.1	7.2	19.8
Private transfers	17.7	21.4	29.6
Current account balance	-70.2	-118.5	-129.1
Capital account	103.6	172.3	231.1
Net direct foreign investment	74.0	86.6	122.7
Official grants	1.1	1.0	1.0
Public capital	14.7	33.7	16.9
Disbursements	21.1	42.3	53.7
Amortisation	-6.4	-8.6	-36.8
Other capital, n.e.i.	-13.6	0.0	0.0
Changes in reserves (-) = increase	-6.0	2.8	-11.5
MEMORANDUM ITEMS:			
Total debt (US$ million) [a]	88.5	166.1	293.3
Total debt/GDP	18.3	30.5	40.9
Debt service (US$ million)	11.8	16.1	56.9
Debt service/GDP	2.4	3.0	7.7
Debt service/exports [b]	3.4	4.3	10.4
Debt service/current revenue	7.8	11.2	29.8
Interest/GDP	1.1	1.4	2.8

a. IBRD DRS data.
b. Exports of goods, services and net private transfers.
n.e.i. = not elsewhere included.
Source: MTESP.

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St. Vincent and the Grenadines

Overview

Over the five years to 1992, real GDP growth in St. Vincent and the Grenadines averaged about 6 percent, reflecting expansion in banana production and tourism, with associated productive operations being particularly marked in transport and communications, and in construction. Construction sector activity was further stimulated by public sector investment in infrastructure. During the first part of the period, growth was facilitated by prudent fiscal management, attractive prices for bananas in the European market, and the absence of natural disasters, and the small economy was able to absorb the closure of three offshore manufacturing operations during 1989/90 which reduce real output in the sector by about 16 percent and caused the loss of nearly 800 jobs. Since 1991, however, while further effort has gone into improving the management of the public finances, a drought in 1991 adversely affected the agricultural sector and reduced banana exports by 19 percent. Although output levels mostly recovered in 1992, earnings levels in domestic currency were held near the 1991 level by the depreciation in the Pound Sterling, which occurred in the latter part of the year. The slowdown in banana earnings adversely affected activity in the rest of the economy, and despite continued steady expansion in tourism and in public sector capital spending, the overall rate of real GDP growth fell from an average of over 7 percent during 1988-90 to about 4.5 percent on average during 1991-92.

During the review period, growth in consumer prices remained low, averaging 4.8 percent per annum, although the growth rate tended to rise during the period as a result of the trend in import prices. The level of outstanding public sector external borrowing rose steadily in support of the capital program. However, outstanding debt remained below 30 percent of GDP, and debt service, though rising, has remained manageable, partly as a result of the concessional nature of most of the external borrowing.

Economic performance over the short- to medium-term is likely to worsen if prices to Windward Islands' producers decline as competition from lower-cost, dollar-area bananas intensifies. During the last few years the authorities have been promoting economic diversification, including both product diversification within agriculture as well as non-agricultural production, particularly in tourism, and substantial new investment is underway or planned.

Major Macroeconomic Issues

Banana Industry

The banana industry contributed about 16 percent of GDP and about 48 percent of merchandise export earnings in 1992, and is the single most important economic activity in St. Vincent and the Grenadines. The industry employs two-thirds of all agricultural workers; agriculture itself accounts for about 20 percent of GDP and for about 80 percent of merchandise export earnings. In the recent past, variations in the output and earnings performance of the industry have influenced the level and pattern of activity in the rest of the economy.

Banana industry operations have been based on exports to the UK under a system of preferential access and prices. The relatively high preferential prices provided a dependable income-stream to growers and encouraged expansion of production even onto marginal lands. The high prices constituted a major obstacle to the government's diversification efforts at the same time that they contributed to the financing of government operations and to the general level of activity.

The depreciation of the Pound Sterling (in which banana prices are quoted) beginning late in 1992 has already resulted in an estimated 20 percent decline in unit banana earnings. The resulting ongoing shake-out in the industry has had a number of effects, including some marginal lands going out of production; a decline in central government revenue growth; a slowdown in the pace of domestically-financed investment; a rise in unemployment; and major financial difficulties for the Banana Growers Association, which converted substantially accumulated reserves into an overdraft position in an attempt to sustain prices to growers.

Efforts are being made to restructure operations in the industry. At the government level in the Windward Islands, arrangements are underway in conjunction with the banana growers and marketers to reorganize production and marketing arrangements in order to reduce costs and increase revenues. In St. Vincent and the Grenadines, a major program to streamline operations and to cut costs is currently ongoing in the Banana Growers Association. One effect of this has been to transfer some operations and their costs (e.g. some transportation and handling as a result of the closure of six buying stations in rural areas) back to the growers, with the consequence that some growers have reduced or ceased operations.

Whether the industry survives when the current transitional access arrangements are phased out will depend on the level of production efficiency which can be achieved, and the extent to which growers can participate in the value-added between fruit delivery at the shipping port and the sale to the final consumer.

Agricultural Diversification

The changed market prospects for bananas will encourage and support ongoing government efforts to diversify agricultural production. Significant resources have been put into land reform programs, under which state-owned land (mostly acquired from previous owners) has been made available for family farms. Although production of root crops and vegetables has declined substantially following the contraction of the Trinidad and Tobago market, opportunities still exist in that market for high-quality graded and packaged produce, and the trade continues at a reduced level. Some local traders have expanded the operation into a two-way activity, bringing in for resale items in daily consumption manufactured in Trinidad and Tobago rather than returning with just cash as in previous years.

Transportation arrangements have been cited as a major obstacle to the expansion of non-banana agriculture in St. Vincent the Grenadines. Within the past year the transportation of agricultural and horticultural output has received a major boost with the provision of a jet cargo service from St. Vincent (and other Caribbean islands) to the U.S. This service has recently been increased from one flight per week to three, probably reflecting some agricultural production adjustments as a result of the banana situation. In support of these arrangements the authorities have commissioned an airports development study to assess the feasibility of providing long-haul air traffic airport facilities, and are expanding and upgrading cargo storage facilities at E.T. Joshua Airport in St. Vincent.

Tourism Development

The St. Vincent authorities regard the tourist industry as the activity most likely to provide substantial dependable economic diversification capacity in the short- to medium-term. Most of present tourism activity is concentrated in the Grenadines, where activities are in the traditional Caribbean sun/sea/sand pattern, and substantial new investment is underway or planned to expand capacity in the Grenadines. Efforts to increase the share of the main island in tourism activity require a different kind of marketing approach because of the substantially different physical attributes involved. The government is contemplating the establishment of a major hotel and a golf course along a stretch of main-island coast where attractive beach development is possible. The possibility of government involvement is as a result of perceived failure of private sector interests to follow through on previously stated intentions.

As a result of the archipelagic nature of St. Vincent and the Grenadines and the resulting high per capita cost of infrastructure development, the focus has been on up-market rather than mass tourism. This approach as been reinforced by the

environmental implications of large numbers of visitors on the relatively small islands. One consequence of this has been an ambivalent attitude on the part of the authorities towards cruise ship tourism. While it is likely that development of cruise ship facilities will proceed, the authorities may seek to limit the number of visiting liners in order to minimize adverse environmental effects, including the reaction of stopover tourists to cruise passengers.

Human Resource Development

There has been a continuing perception of unacceptably high unemployment in St. Vincent and the Grenadines side by side with shortages of required technical and managerial skills throughout the economy, especially in the public sector. The problem has been particularly acute in the main island, partly as a result of the nature of tourism activity in the country and the greater capacity of the main island to support unemployed persons.

The authorities have embarked on an extensive program in an attempt to address the situation. The program involves major investment in training and education in all their aspects, including an apprenticeship scheme to be operated in conjunction with the private sector. A labor management information system has been established, designed to provide information for manpower development planning. The country is participating in the World Bank-led education project for the OECS, and expects to structure the operations of that project to meet its needs. One of the major tourism projects currently being implemented will include a small school for hospitality industry training, and this will reduce the cost of training tourism industry workers.

Public Sector Management

As in most small countries, the activities of the public sector exert considerable influence on the rest of the economy and the society. The authorities have been mindful of the economic difficulties faced by other countries in the region, and have sought to manage the public finances prudently. Considerable effort has gone into the generation of recurrent surpluses, and external financing has been consistently sought on concessional terms.

In recognition of the unfavorable medium-term outlook because of the banana situation, the authorities have been seeking ways to increase public sector efficiency even further. Most of the loss-making public enterprises have been privatized (leased or sold), or their operations have been or are being discontinued. A tax reform and institutional strengthening program is currently underway in the major revenue earning agencies, and expenditure control has been tightened. In addition, an administrative reform program has already resulted in considerable changes in system operations, and further work is continuing. The new emphasis on training has brought a number of new university graduates into the public sector, particularly in the area of finance and planning, and effort is underway to provide graduate training to existing staff.

The authorities have indicated their agreement in principle to trade liberalization, to a rationalization of the incentives framework and to the streamlining of procedures, particularly as they affect foreign investment. They have indicated, however, that the approach must be cautious, particularly given the uncertainty surrounding the public finances as a result of the banana situation and the unpredictability of foreign investment, particularly in the manufacturing sector.

Medium-Term Economic Prospects

Under the new EU trade regime for bananas, St. Vincent and the Grenadines will continue to have access to the European market for its exports, but the regime, in allowing increased competition from lower-cost producers in Latin America, will most likely result in falling export prices during the medium term. In view of these developments, the base case scenario projects relatively low GDP growth rate of less than 2 percent per year.

The country's growth prospects are highly dependent on: (i) domestic currency banana prices in the context of the new EU banana regime; (ii) the extent to which the authorities are able to implement their economic policy agenda and the degree of success attained with the economic diversification efforts; (iii) economic developments in major markets in the context of the global economic environment.

Base Case Scenario

The base case scenario considers recent banana developments and the current programs and policies of the government. Based on the assumption of domestic currency banana prices falling by 20 percent, banana production is projected to decline by about 30 percent in line with the estimated supply-price elasticities of recent years. Export earnings could potentially be reduced by about US$10 million per year (EC$27 million), which would then have a multiplier effect of about 10 percent of GDP through to 1996. In addition, if fiscal balances deteriorate as a consequence of the drop in the incomes of banana growers and in related revenues, and there are no significant changes either in the domestic private sector business climate or in the level of success achieved in efforts to attract foreign investment, economic performance will decline. In addition, the fiscal surpluses generated during 1990-92 are projected to decline during 1993-96, and to turn negative to the extent of about 3 percent of GDP during 1997-2000. Under such conditions, and assuming the continuation of population growth at around 1 percent per annum, the economic outlook for St. Vincent and the Grenadines would include negative per capita income growth and possibly negative overall GDP growth as well.

Under this scenario, living levels would decline, import growth would slow, and the domestic economic environment would become less attractive to private investors, especially foreign investors. The current account deficit of the balance of payments is projected to increase from US$18 million in 1992 to US$28 million during 1993-96, and thereafter fall to US$22 million during 1997-2000. Debt service as a proportion of exports of goods and services would rise from about 4 percent in 1992 to about 5 percent in the year 2000. Living standards would be further affected by increasing unemployment. The country's regional trading partners would be adversely affected by these developments, thereby inducing a cumulative negative effect.

Alternative Scenario

An alternative scenario takes account of the government's concern to avoid the base scenario projected outcome, and assumes that the government implements its reform agenda in the areas of: (i) fiscal adjustment, including the maintenance of a tight wages policy, in order to generate additional public sector savings for infrastructure development to facilitate private sector investment; (ii) trade regime reform, improvement in the regulatory and business climate, and intensification of investment promotion efforts in order to increase economic efficiency, enhance international competitiveness, and attract private investment in all sectors; and (iii) intensifying diversification efforts in non-banana agriculture, agro-processing, manufacturing, tourism and services. Under these assumptions, particularly those relating to the flow of private investment, and barring unforeseen adverse events, real GDP is projected to grow at about 3 percent per year during 1993-96 as a result of growth in non-banana agriculture (7 percent), manufacturing (5 percent), and tourism and other services (8 percent).

On the basis of timely implementation of the policy reform agenda, investment is projected to increase from about 31 percent of GDP in 1992 to about 32 percent-33 percent of GDP during 1993-2000. This ratio reflects some increase in the volume of public investment in infrastructure, and increases in private investment, mainly in agro-processing, manufacturing, tourism, and in other services. Domestic savings are projected to decrease from 13 percent of GDP in 1992 to 6 percent during 1993-96 as households and firms adjust to lower banana prices. Subsequently, as a result of increased domestic resource mobilization efforts, domestic savings are projected to increase to about 8 percent of GDP during 1997-2000. Efforts to increase central government revenue (mainly via broadening the property tax base, eliminating trade tax exemptions, and improving the tax administration) and to restrain current spending are projected to yield current surpluses of about 4-5 percent of GDP during the rest of the 1990s.

Real exports of goods and non-factor services are projected to grow at about 5 percent-6 percent per year on average during 1993-2000, as small manufacturing (2.5 percent), non-banana agriculture (4 percent), tourism and other services (7 percent) continue to increase. Real GDP is projected to grow at about 3 percent-4 percent per year, after falling below 2 percent in 1994 as a

result of the domestic currency banana price impact, and real import growth is projected at between 3 percent and 4 percent on average during 1993-2000. As a result of these developments, the current account deficit of the balance of payments is projected to increase from 8 percent of GDP (US$18 million) in 1992 to about 11 percent of GDP (US$29 million) by 1996, and then fall to 5 percent of GDP (US$19 million) by the year 2000. This deficit is expected to be covered by grants and by loans on concessional terms, and such flows are required if, given the increasingly competitive world economic environment, the adjustment process is to take place in St. Vincent and the Grenadines in a timely manner.

The public sector investment program includes large infrastructure projects intended to support tourism expansion, agricultural diversification, and human resource development. The ratio of total external debt to GDP is projected to move from 28 percent of GDP in 1992 to about 37 percent of GDP during 1993-96, and to 42 percent of GDP during 1997-2000. Debt service levels are projected to remain manageable if financing flows take place on concessional terms.

Prospects

Economic growth in likely to decline in St. Vincent and the Grenadines from the current 4.5 percent during the short- to medium-term as a result of the banana situation. The extent of the decline in growth will depend on the extent of the fall in the domestic unit price to growers over the next 12 to 24 months (which will involve both market price and exchange rate effects), and the extent to which exports of non-banana agricultural output, including marine products, can be substituted. The ability of the tourism sector to take up the slack will be limited in the medium-term by the physical concentration of the industry in the Grenadines, and the limited capacity of the islands, both in terms of the number of hotel rooms and the number of aircraft seats for stopover visitors. Investment in new productive capacity in non-banana agriculture, manufacturing and other services-based activity as complements to the ongoing activity in tourism will be required if the banana outturn approximates a worst-case scenario. If banana production can remain competitive without a substantial loss in output volume, the growth in GDP could remain positive even at the bottom of the trough.

Table 13.1: St. Vincent and the Grenadines - Base Case Macroeconomic Indicators, *(1992-2000)*

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
	real growth rates		
Gross domestic product	5.0	1.3	2.5
Gross domestic income	6.0	-1.3	2.4
Consumption	6.3	1.5	2.2
Public	2.5	3.0	3.0
Private	7.4	1.1	2.0
Fixed domestic investment	1.3	0.0	2.1
Exports of GNFS	3.8	1.4	2.7
Imports of GNFS	4.1	1.1	2.2
	shares of GDP		
Domestic savings	12.9	3.6	2.2
National savings	22.5	17.9	21.3
Consumption	89.6	90.7	89.7
Gross fixed investment	31.0	30.0	29.0
Exports of GNFS	55.5	47.4	47.2
Imports of GNFS	72.9	73.0	73.7
Terms of trade index (1990=100)[a]	105.1	76.3	68.4

a. A decrease in the index implies that the terms of trade have been unfavorable.
Source: MTESP.

Table 13.2: St. Vincent and the Grenadines - Alternative Case Macroeconomic Indicators, 1992-2000

Item	Preliminary 1992	Projected 1993-1996	Projected 1997-2000
	real growth rates		
Gross domestic product	5.0	2.8	4.2
Gross domestic income	6.0	-0.2	3.9
	6.3	1.5	2.9
Consumption			
Public	2.5	3.0	3.0
Private	7.4	1.1	2.9
Fixed domestic investment	1.3	4.4	4.2
Exports of GNFS	3.8	4.0	5.3
Imports of GNFS	4.1	2.9	3.6
	shares of GDP[a]		
Domestic savings	12.9	6.0	7.8
National savings	22.5	20.2	25.4
Consumption	89.6	87.4	82.4
Gross fixed investment	31.0	32.0	33.0
Exports of GNFS	55.5	48.2	49.1
Imports of GNFS	72.9	73.5	74.0
Terms of trade index (1990=100)[b]	105.1	74.7	64.8

a. Projections in 1991 prices.
b. A decrease in the index implies that the terms of trade are unfavorable.
Source: MTESP.

Table 13.3: St. Vincent and the Grenadines - Base Case Balance of Payments, 1988-2000[a]
(US$ million)

Item	Preliminary 1992	Projected 1993-96	Projected 1997-2000
Resource balance	-40.0	-63.4	-79.6
Exports of GNFS	127.0	117.0	142.1
Imports of GNFS	167.0	180.3	221.8
Net factor payments	-14.0	-9.8	-8.7
of which: interest on public debt	2.0	2.4	3.8
Private transfers	36.0	45.6	66.8
Current account balance	-18.0	-27.5	-21.6
Capital account			
Net direct foreign investment	9.0	10.1	11.7
Official grants	7.0	10.0	5.0
Public capital	3.0	9.3	7.0
Disbursements	6.0	12.8	11.3
Amortisation	-3.0	-3.5	-4.4
Changes in reserves (-) = increase	-1.0	-1.9	-2.1
MEMORANDUM ITEMS:			
Total debt (US$ million)	63.2	87.9	119.3
Total debt/GDP	27.6	35.5	39.7
Debt service (US$ million)	4.7	5.9	8.2
Debt service/GDP	2.1	2.4	2.7
Debt service/exports[a]	3.6	4.8	5.5
Debt service/current revenues	7.9	10.1	12.3
Interest/GDP	0.8	1.0	1.3

a. Exports of goods, services and net private transfers.
Source: MTESP.

Table 13.4: St. Vincent and the Grenadines - Alternative Case Balance of Payments, 1992-2000
(US$ million)

Item	Preliminary 1992	Projected 1993-1996	Projected 1997-2000
Resource balance	-40.0	-64.7	-82.9
Exports of GNFS	127.0	123.1	163.9
Imports of GNFS	167.0	187.7	246.8
Net factor payments	-14.0	-8.5	-7.6
of which: interest on public debt	2.0	2.5	4.3
Private transfers	36.0	45.6	66.8
Current account balance	-18.0	-27.7	-23.7
Capital account			
Net direct foreign investment	9.0	11.4	14.8
Official grants	7.0	10.0	5.0
Public capital	3.0	12.4	9.7
Disbursements	6.0	15.9	14.0
Amortisation	-3.0	-3.5	-4.4
Changes in reserves (-) = increase	-1.0	-6.1	-5.8
MEMORANDUM ITEMS:			
Total debt (US$ million)	63.2	94.0	141.1
Total debt/GDP	27.6	36.6	42.4
Debt service (US$ million)	4.7	6.0	8.7
Debt service/GDP	2.1	2.3	2.6
Debt service/exports[a]	3.6	4.6	5.1
Debt service/current revenues	7.9	9.5	10.3
Interest/GDP	0.8	1.0	1.3

a. Exports of goods, services and net private transfers.
Source: MTESP.

Annex A

World Trade in Bananas and the New European Union Banana Regime

Overview

The European Union (EU, formerly Economic Community) market for bananas was organized primarily on a national basis with different regulations applying to each of the member states up to June 30, 1993. The advent of the single EC market on July 1, 1993 made it essential, however, for these fragmented markets to conform to a single marketing system. The new regime permits free movement of bananas. The regulations contain, inter alia, quota provisions governing trade with traditional EU and African, Caribbean and Pacific (ACP) bananas, and with non-traditional bananas. For the importation of quota bananas, a licensing system has been established which strengthens the position of the established marketers in the EU market. Consequently, Windward Island bananas, although allowed duty free entry under a fixed quota, face increased competition from other sources.

Prior to July 1, 1993 most bananas originating from the Windward Islands countries entered the protected UK market under a preferential agreement that provided significant benefits by restricting imports from other sources of supply. Under the new regime, the UK market cannot be insulated from third country bananas once they enter any EU member country. Banana exports from all Caribbean countries are, therefore, vulnerable to the changing market environment and to the monopoly powers exercised by traditional importers. Rapid downward changes in banana prices have, thus, been described as a "banana shock" to the Caribbean economies. The impact of the "banana shock" will be considerable, especially in Dominica, St. Lucia and St. Vincent and the Grenadines, but it will also affect the other countries of the Commonwealth Caribbean. In fact, this process has already begun to have an adverse effect on the export earnings because of the easing of prices in the UK market, owing to the realignment of currencies in the EU, and the depreciation of the Pound Sterling.

The current banana regime is even more complex than the previous quota regime it replaced which segmented the EU market, because critical decisions on banana imports are determined by a Management Committee prior to the beginning of each year and importation is allowed only on a quarterly basis under licenses granted to the marketers. These two new elements will further distort supply and demand conditions in the world banana market.

World Banana Market

World production of fresh bananas consists of bananas grown for subsistence and local consumption, and for international trade. The latter is a distinct economic activity in most exporting countries, with a few varieties predominant, selected for their high yields, durability in long distance transport, consistent quality and unblemished appearance. In recent years, world production has hovered between 45 to 48 million tonnes. However, only about 11 million tonnes enter international trade.

The geographical distribution of production is wide, although mainly confined to tropical and sub-tropical climates. In 1991, the largest producing

regions were Asia with 40 percent of total world production or 19 million tonnes, and South America with 26 percent or 12.4 million tonnes. The largest single producers were India and Brazil, accounting for 13 percent and 12 percent of world production, respectively.

Between 1980 and 1991, world banana production increased by 19 percent. This growth, however, was uneven. For example, Central and South America, including Cuba and Mexico, increased by about 7.9 percent. As Table A.1 above shows, the Caribbean region exhibited 54 percent growth, although in absolute numbers, its share of world production was only 3.2 percent in 1991. The Windward Islands[18] output grew at 148 percent and accounted for 0.7 percent of world production. In the rest of the world, production has continued to increase in Asia mainly due to expansion in China. Africa's production increased by 41 percent. European production is relatively insignificant to the total and has exhibited a declining trend. The main impetus for increased production resulted from increased demand in the developed countries and in the case of the Caribbean countries, because of the protected UK market.

Unlike other tropical products entering world trade - rubber, cocoa, sugar and coffee - bananas are fragile, highly perishable, and cannot be stored. Their skins are easily blemished. When ripe they have a shell life of less than a week. They have, therefore, to be cut green and prevented from ripening while travelling long distances. The proportion of bananas entering world trade amounted to 21 percent of world production in 1991 or a little over 10 million tonnes. However, in some countries, particularly the Caribbean and Central and South America, production is mostly geared to the world market.

World exports from all sources increased by over 30 percent during 1980-91, while world production grew by 19 percent. Exports from Central and South America increased from 4.1 million tonnes to 7.9 million tonnes, an increase of 93 percent. During the same period, Windward Islands exports rose from 73,300 tonnes to 232,000 tonnes, or by 232 percent. Both area expansion and yield increases contributed to this trend, although by the 1980s, the scope for further yield increases by most Central and South American exporters had been reduced.

The volume of bananas entering international trade reached a peak of 10.2 million tonnes in 1991. By far the most important contributors were the Central and South American exporters, also commonly known as "dollar-area banana" suppliers. These countries accounted for around 77 percent of world exports. Among these countries, Ecuador, with exports of 2.7 million tonnes, is the world's largest exporter, accounting for 27 percent of world exports, and acts as a residual supplier whenever shortfalls occur. On the other hand, Caribbean banana exports accounted for only around 6 percent of world exports, and the Windward Islands only 2 percent. During 1980-91, the Caribbean Islands' exports more than doubled, and those of the Windward Islands, trebled (Table A.2). Although their yields have improved, given the prevailing small holder production and ecological conditions, they remain significantly lower than those achieved on Central and South American plantations.

In 1991, world banana imports reached a record level of 9.5 million tonnes, an 8 percent increase over the previous year.[19] More than 90 percent go to the developed countries. The largest importers are the EU and the USA, with 37 percent and 31 percent of the world total, respectively. Japan is the third major importer with around 9 percent of total world imports. The countries of Eastern Europe and the former USSR remain insignificant as importers. Within the European Community, Germany is the largest import market, accounting for nearly 14 percent of the world total, followed by the UK with 5 percent. Some European

[18]Windward Islands output growth has been achieved through acreage expansion and through increases in yields per acre. In recent years, there was a concerted drive, supported by the donor community, to rehabilitate and revitalize the industry. Inputs became readily available; their use widespread. A feeder road program opened up new areas to banana cultivation. The redistribution of lands previously under plantation-type ownership attracted small farmers. The pattern of production, however, is influenced by the vagaries of climate, seasonal trends in grower prices, time and extent of annual plantings, etc.

[19]FAO has not yet been able to reconcile banana exports and imports, and for 1991 there remains a considerable gap between reported exports and reported imports.

Table A.1: Caribbean Banana Production, 1980 and 1991
(000 metric tonnes)

	1980	1991	1980-1991
		Percentage Growth	
Windward Islands	126	313	148
Dominica	32	67	109
Grenada	18	11	-39
St. Lucia	55	155	182
St. Vincent and the Grenadines	21	80	281
Caribbean Total	985	1517	54

Source: FAO, *Production Yearbooks*, 1980-91.

Community imports might be regarded as home production – trade between Madeira and Portugal, the Canary Islands and Spain, and the French West Indies and France, are all counted as imports.

Table A.2: Caribbean Exports, 1980 and 1991
(000 metric tonnes)

	1980	1991
Windward Islands	73.3	232.0
Dominica[a]	7.8	55.6
Grenada	12.6	6.7
St. Lucia	33.5	101.5
St. Vincent and the Grenadines	19.6	68.2
Caribbean Total	281.0	603.7

a. Dominica's exports were unusually low in 1980 relative to measured production.
Source: FAO, *Trade Yearbooks*, 1980-91.

During 1980-91, world banana imports increased by around 48 percent. Imports by the EU, other Western Europe and the USA increased by 57 percent, 76 percent, and 51 percent, respectively. In contrast, the Japanese market grew by 216 percent, although from a small base. In the EU market, the average growth per year was 4 percent, while in its open market portion (mainly Germany), it was 7.2 percent.

Price,[20] income, and non-economic factors such as the growing interest in and shift towards healthy eating affect import demand. The price elasticity of demand for bananas at retail is less than unity; its income elasticity in the major importing countries has been estimated to vary in the range of +1.3 to -1.3.

The banana export market is not a single world market where countries compete equally regarding production costs and freedom of access to different destinations. There are six world market segments. This division is broadly valid even now, but with the introduction of the single EU market, Germany will no longer be an open market, and imports since July 1, 1993 are subject to a 20 percent tariff and limited by quota.

Open Markets. Open markets are by far the largest segment, equivalent to 48 percent of world imports in recent years. They are tariff free and cover major trade flows from Central and South America to North America. Germany was included in this category until June 30, 1993. There are no quantitative restrictions on the origin or volume of imports, a high proportion of trade is undertaken by three multinational banana companies, and there is relatively high flexibility in the direction of trade, based on market conditions in the different importing countries.

Open Markets - Subject to Tariff. These markets include Japan, Non-EU Western Europe and the smaller EU countries until June 30, 1993, which accounted for 18 percent of world imports.

Preferential Markets. Preferential markets account for 16 percent of world imports. Trade flows from

[20] Because of the perishability of bananas, there is no world market price for bananas. Rather, prices are determined by supply and demand at a specific place at a specific time; they differ from location to location and almost from day to day.

Table A.3: Windward Islands' Domestic Merchandise Export Earnings, 1988-1992
(US$ million, and banana share in percent)

	1988		1989		1990		1991		1992	
	Total	Banana Share	Total	Banana Share	Total	Banana Share	Total	Banana Share	Total	Banana Share
Windward Islands	288.9	48.6	256.2	47.2	285.6	69.8	246.5	79.4	198.3	84.3
Dominica	56.0	68.6	44.7	56.1	53.8	57.2	54.1	58.3	57.9[a]	55.0
Grenada	28.4	16.5	25.0	16.0	21.8	17.9	19.7[a]	18.8	17.6[b]	18.8
St. Lucia	119.2	54.9	111.9	52.2	127.3	50.7	105.5	53.1	122.8	55.7
St. Vincent and the Grenadines	85.3	37.4	74.6	44.6	82.7[a]	51.3	67.2[b]	52.8	n.a	n.a.

a. Preliminary figures
b. Estimates.
Source: IMF.

the French Overseas Departments of Guadeloupe and Martinique and ACP countries (mainly Jamaica, Windward Islands, Suriname, Belize, Cameroon, Ivory Coast and Somalia) to France, Italy and the United Kingdom. These suppliers had preferential access, under quota and licensing arrangements, to their import markets. Shortfalls were made up from open market suppliers.

Spain and Portugal. Their share of world trade has been 6 percent in recent years but is not subject to new EU regime. Domestic trade flows from the Canary Islands to Spain and from Madeira to Portugal. Suppliers are part of the countries to which they export so that trade flows are outside the main competitive banana trade.

Potential Markets. There are two groupings in this category, Eastern Europe and the former USSR, and the oil exporting countries of the Near East and North Africa, consistently identified by low per capita consumption. Growth in these markets had been promising, but recent economic difficulties have led to a sharp reduction in demand in all but a few countries.

Other Markets. Diverse trade flows of only local or minor quantitative significance includes exports to near by or adjacent markets such as from Ecuador to Chile and Argentina, and from various Pacific Islands and Ecuador to New Zealand.

A well-known feature of the export trade is the major role played by three multinational corporations: United Brands responsible for the Chiquita brand, Castle & Cook responsible for Dole, and Del Monte. On a much smaller scale, GEEST from the UK is a significant player in marketing of Windward Islands bananas. The three major multinationals are vertically integrated between production and/or purchase in the open market exporting countries, and in the wholesale trade of the fruit in the importing countries. Together, these three companies account for around 60 percent of world exports.

The multinationals are most closely involved with exports from Central and South America and particularly from Central America, where they are directly involved in the production of around 60 percent of their export supplies. They were, however, quick to become involved in the Philippines after the opening of the Japanese markets in the 1980's. The involvement of multinationals in the production and trade of what is after all an unsophisticated, unprocessed, fresh

Table A.4: Exports to the UK Market, 1980 and 1991
(000 metric tonnes)

	1980	1991
Belize	13.9	19.2
Jamaica	35.0	69.5
Suriname	22.4	27.7
Windward Islands	75.9	202.5
Dominica	7.3	49.4
Grenada	11.1	7.0
St. Lucia	31.2	85.1
St. Vincent and the Grenadines	26.3	61.0
Total Caribbean	147.2	318.9
Total UK Market	328.5	489.3

Source: FAO.

Table A.5: UK Market: Farm-retail spread, 1976, 1986 and 1992
(pence per lb or percent)

Year	Farm Value[a]	Wholesale Price	Retail Price	Farm-Retail Spread	Farmer Share of Retail Price	Marketings Share of Retil Price
1976	2.9	n/a	15.8	12.9	18.4	81.6
1981	4.5	17.9	26.6	22.1	16.9	83.1
1986	8.9	29.8	43.7	34.8	20.4	79.6
1992	8.8	30.4	54.0	45.2	16.3	83.7

[a]The price Windward Island banana growers receive is the residual market value left after all the costs and margins associated with the operations of the Banana Growers Association and GEEST have been deducted. Prices are not uniform either within or between each of the islands because of the unit costs of each one of the Associations are different; the rate of input varies from island to island; and other premia payment, if and when received, also differ from island to island.

Source: WINBAN- Consultant study for CDB, 1993, on Banana Industry of Windward Islands.

product has been noted by analysts of this quality control in the marketing of a highly perishable product. This perishability leads to the importance of the shipping, marketing and distribution chains, which in turn lead to high returns that can be earned in these activities rather than in production. However, the logistics need to be managed very efficiently for these profits to be realized, and it is here that the management skills of the multinationals are relevant. The economies of scale in production, shipping and transportation also encourage large vertically integrated organizations.

In the Windward Islands, bananas account for between 47 percent and 84 percent of foreign exchange export earnings; in the French Overseas Departments, Guadeloupe and Martinique, 50 percent; in Belize the equivalent proportion is about 9 percent; in Costa Rica, Honduras, Panama and Somalia, it is in excess of 20 percent; and in most other banana exporting countries less than 10 percent. In some of the producing countries, the industry is also an important source of income and employment. In the Windward Islands, the banana sector contributes around 30 percent of GDP and provides employment for about 50 percent of the labor force. Moreover, bananas have a weekly harvesting schedule throughout the year and, thus, offer regular employment. This regularity has important social and infrastructure implications. As a result of this dependency, many of these

Table A.6: UK Banana Prices, 1980-1992
(pence per lb. or percent)

Year	FOB Price	CIF Price	Wholesale Price	Retail Price	Retail Margin/ Retail Price[a]	Wholesale Margin/ Retail Price[b]	Shippers & Handlers Margin CIF-FOB/Retail Price
1980			17.1	25.7	33.5		
1981			17.9	26.5	32.5		
1982			20.3	29.8	31.9		
1983			23.5	33.6	30.1		
1984			25.7	39.3	34.6		
1985			27.5	44.1	37.6		
1986			29.8	45.8	34.9		
1987			31.0	48.5	36.1		
1988	15.3	19.6	29.9	48.3	38.1	21.3	8.9
1989	15.1	20.4	28.9	48.0	40.0	17.7	11.0
1990	14.6	20.9	29.9	51.9	42.4	17.3	12.1
1991	15.0	21.7	30.7	53.9	43.0	16.6	12.4
1992	13.8		30.4	54.0	43.7	-	

a. Retail Margin = Retail Price - Wholesale Price.
b. Wholesale Margin = Whole Price - CIF Price.

Source: FAO.

economies are especially exposed to external shocks.

Caribbean Market

Banana exports from Jamaica and the Windward Islands owe their origin to the scarcity of "dollars" in the UK in the 1950s. Subsequently, other producers, such as Belize and Suriname, also became dependent on the UK market and the other three Windward Islands became UK suppliers in the 1950s. Since then, these countries have geared their exports to the UK market. Since the early 1980s, considerable expansion has taken place in Jamaica and the Windward Islands. Among the other Caribbean countries, Belize and Suriname were also the principal suppliers to the UK market. In 1991, the combined share of the Caribbean countries' exports to the UK market accounted for 65 percent of the total compared with 45 percent in 1980 (see Table A.4). The remainder of the UK market was supplied by "dollar banana" exporters, namely, Colombia, Costa Rica, Ecuador, Guatemala and Honduras, and some other African and Central and South American suppliers. It should be noted that these countries have been the residual suppliers to the UK market -- allowed to ship only when Caribbean bananas were unable to supply total demand. In 1980, a little over 95 percent of total Caribbean exports was destined for the UK market. By 1991, this share had fallen to 90 percent, although the quantity exported had more than doubled; yet, it was not sufficient to meet the demand. The resulting shortfall was filled by "dollar banana" imports and from African ACP producers.

The UK has traditionally granted unrestricted duty-free access to Commonwealth producers such as Belize, Dominica, Grenada, Jamaica, St. Lucia and St. Vincent, and to Suriname. These arrangements are, however, no longer valid. The Commonwealth Caribbean countries will continue to maintain a duty-free preferred position in the EU under the new regime, but their export quantities have now been fixed. Most of the Caribbean bananas will continue to be shipped to the UK market under the new EU regulations. Bananas from other sources will, however, be able to enter the UK market through other EU member states.

Although the UK market is growing (import demand will continue its upward trend because per capita consumption is relatively low) and the Caribbean exporters aim to capture their quota allocations by expanding production in the short term, other sources will continue to expand their supplies unless restricted by quota. One question is whether fast Caribbean banana growth is desirable in the expectation of remaining in the UK market while production costs are much higher than those of Central and South America "dollar bananas."

Data on marketing costs are not easily available, but it is generally believed that prices are highest in the protected markets of France, Italy and the UK. The cost of marketing in the UK is considered to be the highest while that in the German market is believed to be the lowest. As Table A.5 demonstrates, the farm-retail spread in the UK between 1976 and 1992 ranged from 80 to 84 percent.

As seen in Table A.6, retail prices in the UK rose steadily from 1980 while at the same time the retail margin was also rising, both in absolute and relative terms. The margin at the wholesale level, however, appears to be declining since 1988. This may reflect some competition among banana ripeners. There are only three major importers in the UK, of which GEEST has a 40 percent share, but there is an increasing role for multiple chain stores in selling bananas. What is obvious from Tables A.5 and A.6 is that increased demand for more processing and improvements in marketing services has resulted in lowering the share of the farmer by depressing farm prices.[21]

Data on costs of production in the Caribbean and in Central and South America are limited. It is, therefore, not possible to compare the competitiveness of Caribbean bananas with that of the most efficient Central and South America producers. However, based on estimates produced in 1990, a comparison of costs of production in the Windward Islands and Central America is shown in Table A.7. There is a marked difference between the Windward Islands and Central America in the FOB cost at the point of shipment. Central America enjoys a cost advantage

[21] See consultant study for the CDB entitled "Development of a time phased action plan to improve competitiveness of the banana industry in the Windward Islands," Appendix 4.

Table A.7: Production Costs In Windward Islands And Central America

	Windward Islands	Central America
Productivity	5 go 7 tonnes per acre	23 to 24 tonnes per acre
Production cost	US$1760 to 2420 per acre	US$1100 to 1540 per acre
Marketing cost[a]	US$1540 to 2200 per acre	US$1320 to 1650 per acre
FOB cost	US$3300 to 4620 per acre	US$2420 to 3190 per acre

a. Marketing costs are the cost incurred by the Banana Growers Association in bringing bananas to the wharf for shipping to the UK and Italy.
Source: USAID Office, Barbados.

of US$880 to US$1,430 per tonne. This means that the Windward Islands have a 36 to 45 percent disadvantage on FOB cost. Given the productivity levels of 5 to 7 tonnes per acre and existing FOB costs at the wharf, many producers in the Windward Islands have very little, if any, chance of competing in the open market. An important factor is labor; low productivity and high costs adversely affect the cost structure.

for Dominica and Grenada are pointed out - significant variations in production systems used, variation in size and scale of operations, and inability to determine the true cost of inputs and other services provided by the Banana Growers Associations.[22] Some of these figures may be at variance from estimates contained in earlier tables because figures in Table A.9 are based on 1991 prices and assumptions about yield and size of farms may be different.

The high cost of labor in the Windward Islands is

Table A.8: Windward Islands Production Cost of Assumed 10 Tonnes Per Acre, 1990

	Cost per Acre	
	US$	Percent
Cost of labor	857	43.5
Cost of inputs	512	26.0
Post harvest cost	194	9.8
Management cost	370	18.8
Depreciation cost	37	1.9
Total production cost	1,970	100.0

Source: FAO and USAID Office, Barbados.

Cost estimates based on higher than average productivity - 10 tonnes per acre - show that the cost of producing in the Windward Islands is US$1,970 per acre. The major cost component is labor, accounting for 44 percent (if the post harvest cost is included then labor cost would average 54 percent), followed by inputs (26 percent), and management (19 percent) (see Table A.8).

A recent study prepared for the Caribbean Development Bank on "The development of a time phased action plan to improve the competitiveness of the industry in the Windward Islands", estimated costs of production. Difficulties in preparing cost profiles

attributable to alternative employment opportunities in construction and tourism. These two sectors continue to attract labor away from agriculture. Input costs are higher because of smaller volumes purchased. To compete in the single European market, costs must be sharply reduced and productivity rapidly increased.

In considering the implications of the single European market for Caribbean producers it must be stressed

[22]See consultant study for CDB: Development of a time-phased action plan to improve competitiveness of the banana industry of the Windward Islands, 1993, p. 35.

that these countries face an uphill task in an open market. The difference in competitive conditions with Central and South America can be summarized in the box below:

Caribbean	Central and South America
1. Growing areas hilly or mountainous. Limited land availability.	1. Large flat plains. Almost limitless land availability.
2. Poor soil conditions and therefore low yields (to 10 tonnes per acre). Subject to hurricanes.	2. Rich soil and high yields (18 to 24 tonnes per acre). Frost and hurricanes rare.
3. Majority are independent small farmers.	3. Largely plantation agriculture often owned by multinationals and vertically integrated operation.
4. Higher wages but not as high as European Community producers.	4. Wage rates can be low.
5. Unit costs of inputs much higher due to smaller volumes and varying soil types.	5. Lower unit cost of inputs due to high volumes. Lower FOB price due to lower wages, low social benefits and economies of large scale.
6. Shipping costs generally higher because smaller volumes and more ports.	6. Lower shipping costs because of higher volumes.

Notwithstanding relatively higher production costs, bananas are vital to the Windward Island economies. They provide stable foreign exchange earnings, significant employment opportunities, and contribute to national income. The industry has been a major source of economic growth, achieved under the umbrella of protectionism in the EU. Table A.10 demonstrates the importance of the industry to the Caribbean economies. It should be noted that, as far as tax revenues are concerned, banana farmers have been exempted from the payment of direct taxes in the Windward Islands. Nevertheless, there is a relationship between fiscal revenue and producer income from bananas because of indirect taxes. A rise in banana income leads to an increase in expenditures on goods and services which are subject to import duties and consumption tax in the Windward Islands. 1989-91 estimates indicate that indirect taxes contributed between 27 percent and 45 percent of current revenue in Dominica, Grenada, St. Lucia and St. Vincent, whereas direct taxes accounted for less than 13 percent. It is, therefore, obvious that any fall in producer income translates into significant reductions in current revenues and pressures on fiscal balances.

Although data on employment in the banana and related sectors are rather weak in these countries, unofficial estimates point to the fact that banana production, internal transportation and distribution of inputs is probably a source of nearly 50 percent of the total employment. A decrease in banana export earnings would have an adverse impact on employment.

European Union Regime

Since 1986 the EU has become the largest banana market in the world. In 1991, it accounted for 37 percent of world imports. These reached a peak of 3.6 million tonnes from 2.5 million tonnes five years earlier. The growing share is reflected in the increasing EU banana per capita consumption, which in 1991 reached a peak of 10.1 kg as compared to 7 kg five years earlier. The German market contributed significantly to this growth. In 1991 Germany imported 1.29 million tonnes, or 36 percent of total EU imports. In the same year, the UK, France and Italy imported 489,300, 454,300 and 452,000 tonnes respectively, and in percentage terms these figures represented 14, 13 and 13 percent, respectively. These four states imported 76 percent of total EU imports.

Banana supplies to the EU originate from three main groups: EU domestic producers, producers from ACP countries signatories in the Lomé Convention, and "dollar banana" producers from Central and South America. EU imports of "dollar bananas" in 1991 accounted for about 64 percent of the total, domestically produced bananas contributed nearly 20 percent, and African and Caribbean bananas about 18 percent. Of the EU countries, the UK was the principal importer of Caribbean bananas (Windward Islands, Jamaica, Belize and Suriname). UK imports from this source rose from 274,000 tonnes in 1986 to 319,000 tonnes in 1991, accounting for 9 to 12

Table A.9: Windward Islands Cost of Production[a]

	Dominica (1991)	Grenada (1991)	St. Lucia (1990)
Labor Cost per Acre (US$)	964	1,616	1,097
Input Cost (US$)	791	609	362
Production Cost (US$)	1,755	2,225	1,459
Labor Share of Production Cost	55	73	75
Input Cost Share of Production Cost	45	27	25

a. Based on farms of size five acres or less for St. Lucia and for Dominica and Grenada farms size of three acres.
Source: Consultant study for CDB 1993 on Banana Industry of Windward Islands, p. 36.

percent of total EU imports. Exports from the Windward Islands have contributed from 7 to 10 percent of total EU imports between 1986 and 1991, a significant increase from about 4 to 5 percent in the early 1980s.

The EU banana market, prior to the coming into force on July 1, 1993 of the single market banana regime, was governed by four distinct regulations:

- **Duty Free.** Germany was the only EU member in this category because of a special protocol to the Treaty of Rome. Germany is also the largest importer, accounting for 36 percent of EU banana consumption in 1991.

- **Duty Paid.** Belgium, Denmark, Ireland, Luxembourg and the Netherlands applied a 20 percent tariff on dollar bananas and accounted for 9 percent of EU consumption.

- **Domestically Produced.** This category encompassed France, Greece, Portugal and Spain. In the case of France, production of the French Overseas Territories of Guadeloupe and Martinique was included in this group. France imported from the ACP countries (Cameroon and Ivory Coast) nearly 37 percent of its total imports. It also imported, along with Greece and Portugal, from dollar suppliers under license and subject to the 20 percent duty. Spain relied on its supplies from domestic sources. This group accounted for 28 percent of EU consumption in 1991.

- **ACP Supplies.** UK and Italy were included in this category. The UK imported nearly 65 percent of its imports from the Caribbean sources. "Dollar bananas," if imported, were subject to licensing and to the 20 percent common external tariff. Italy was also in this category and in recent years, due to shortfalls from supplies from Somalia, had been importing "dollar bananas". In 1991, the UK and Italy together accounted for 26 percent of EU banana consumption.

Table A.10: Windward Islands' Banana Exports, 1980, 1991 and 1992

	Banana Exports/ GDP			Banana Exports/ Domestic Merchandise Exports			Banana Exports/ Total Export Earnings		
	1980	1991	1992	1980	1991	1992	1980	1991	1992
Windward Islands	n.a.	14.620	15.1	n.a.	50.9	53.5	n.a.	51.0	54.5
Dominica	5.1	.3	19.1	30.9	58.5	56.6	30.9	58.5	57.0
Grenada	4.8	2.2	1.7	24.4	18.6	17.2	23.6	19.0	17.2
St. Lucia	9.3	16.1	17.5	31.2	54.0	60.1	22.9	54.0	60.0
St. Vincent	10.7	18.6	18.3	32.8	49.7	49.3	31.0	50.0	49.3

n.a. = not available.
Sources: WINBAN Annual reports and World Bank.

The main features of the new regime are:

- Financial support and restructuring schemes for bananas produced within EU territory (Guadeloupe, Martinique, Canary Islands, Madeira and Greece);[23,24]

[23]Financial support means that compensation for any loss of income shall be granted to EC producers who are members of a

- Tariff-free entry for traditional quantities of ACP bananas and for non-traditional ACP bananas inside the 2 million tonnes quota;[25]

- A tariff quota of 2 million tonnes (subject to possible upward adjustment as consumption expands) for other bananas at a tariff of 100 ECUs per tonne, roughly equivalent to the former 20 percent tariff;

- A much higher tariff (750 EUU per tonne) on any imports above the quota; and

- An allocation of the quotas among importers in such a way that importers of the ACP bananas would also have a share in imports from elsewhere.

It is important to note that the actual level of the tariff quota will be determined in advance of the year to which it applies in the light of likely supplies and market requirements. It can, therefore, be adjusted upwards from the basic level of 2 million tonnes.[26] For each individual ACP state, its "traditional" quantity or quota is set out in an annex to the regulation. This is shown in Table A.11 for the Windward Islands.

License allocation procedures for importers within the tariff quota are complex. They are largely based on historic trade but there are two stages to consider. First, the 2 million tonnes are divided into three parts, that is: 66.5 percent to be allocated according to third-country trade ("dollar bananas" and non-traditional ACP bananas); 30 percent according to trade in ACP including Caribbean or EU fruit; and 3.5 percent for newcomers, that is, those with no record of trade in non-ACP third country fruit. Secondly, there is a weighting given to each stage of the operations of an importer that qualify for license entitlement. Each banana, for these purposes, is considered to have undergone three marketing stages: (a) primary import (shipping to Europe); (b) secondary import (customs clearance); and (c) ripening. The weightings accorded to each stage are respectively 57:15:28. If a trader undertakes all three operations, they can claim the total tonnage handled. If a trader is simply the primary importer, the weight is 0.57 for each tonne handled, and so on.

Table A.11:
Traditional Banana Quantities From Windward Islands

	Metric Tonnes
Dominica	71,000
Grenada	14,000
St. Lucia	127,000
St. Vincent and the Grenadines	82,000

Source: OECS Secretariat.

Quotas are not transferable among ACP states, nor can ACP states group together for quota purposes. The four Windward Islands have thus to be considered separately. Quantities in excess of the traditional levels may be imported either: (i) on payment of an over-quota tariff of 750 ECUs per tonne or (ii) as part of the 2 million tonnes tariff quota. In this case, a license would be required but the duty would be zero. The ACP states, including Caribbean exporters of bananas, enjoy a 100 ECU[27] margin of preference over the dollar regime within their respective "quotas" or without.

recognized producer's organization which is marketing in the EC bananas complying with the common standards laid down. However, compensation may be paid to an individual producer who, because of a specific situation, and in particular geographical location, is unable to join a producer's organization. The methodology for calculating compensation is described in the regulations. The regulation fixes the maximum quantity of bananas produced in the EC and marketed for which compensation may be paid at 854,000 tonnes to be broken down as follows for each producer region in the EC: Canary Islands 420,000 tonnes, Guadeloupe 150,000 tonnes; Martinique 219,000 tonnes; Madeira, the Azores and the Algarve 50,000 tonnes and Crete and Lakonia 15,000 tonnes.

[24]Initially it was suggested that ACP exporters to the EU would benefit from such an income support scheme a Commission proposal for technical assistance and revenue support for traditional ACP suppliers is at present blocked in the Council.

[25]Importers are required to make a security deposit of 15 ECUs per tonne which will be refunded on importation of the licensed quantity.

[26]It is possible to raise quotas whenever prices move upwards but it is not clear whether the 2 million tonnes quota can be reduced, if prices fell sharply. This task is assigned to the Banana Management Committee of the EU Commission.

[27]Caribbean traditional exports enter duty-free whereas "dollar bananas" pay a duty of 20 percent or 100 ECUs, but if they were to export over and above their traditional quota and do not obtain a license, in that event, they are liable to pay a tariff of 750 ECUs, thus the preference of 100 ECUs for Caribbean bananas is maintained.

The reference period for past trade is a three-year rolling average, starting with 1989-91 for the quota distribution covering the second half of 1993, moving to 1990-92 for 1994 licenses and so on. An individual's license entitlement is calculated separately in respect of third country, that is, dollar banana, and EU/ACP including Caribbean fruit. Purely to illustrate, if a trader had been the primary importer (but not the secondary importer or ripener) of 10,000 tonnes per year of ACP fruit in a reference period when total ACP imports and EU sendings[28] to the EU were 1.5 million metric tonnes per year, he would qualify for a license on the basis of the formula given in the footnote below.[29] The newcomer's share (70,000 tonnes) will be divided equally among all the newcomers who apply. For the second half of 1993, it amounts to 0.48 tonnes per applicant.

A Management Committee for Bananas has been established to operate the regulations. The Committee has made the first distribution of importers licenses for the quarter beginning July 1, 1993. The price objective of the regulations is to permit bananas produced in the EU and those from the ACP states which are traditional suppliers to be disposed of on the EU market providing an adequate income for producers and at fair prices for consumers without undermining imports of bananas from other third country suppliers. Although the objective is laudable, only the implementation of the regulations over a period of time will demonstrate whether it is achievable.

The EU's decision on bananas sparked hostile reactions from "dollar banana" interests in Central and South America, and from the U.S. and within the Community itself, on an unprecedented scale both in terms of intensity and objectives. The challenges to the EU regulations have come from two fronts. The first, which is ostensibly targeted at the EU under the umbrella of the GATT, has been launched by five Latin American countries (Costa Rica, Colombia, Guatemala, Nicaragua and Venezuela), which claimed that both the regime prior to July 1, 1993 and the future regime as provided for by the regulation and which came into effect from July 1, 1993, were contrary to the existing rules of the GATT, and were discriminatory and severely limited their entitlements, and were therefore illegal. A GATT Panel has upheld the Central and South American complaint. The GATT Council, however, failed to obtain a consensus in a meeting on June 16, 1993. Instead, the GATT Council appointed another panel to examine the current regulations. The GATT Panel reported again on February 15, 1994, that the European Union banana regime violates GATT's rules.

The second challenge came from Germany supported by Belgium and the Netherlands, on the basis that the Community decision revoked the special Protocol Germany enjoyed under the Treaty of Rome and was adopted by a qualified majority while unanimity was required in such a case, and that the EU regulation discriminated against Central and South American suppliers and would result in significant increases in price for the German consumer. Germany, therefore, initiated proceedings against the new regime in the European Court of Justice. Germany also asked for the postponement of the coming into force of the regime on July 1, 1993. The European Court decided on June 29, 1993 to deny the German request.

Prior to the advent of the new EU regime, the scenario most talked about was that the exporters would face a slow and gradual removal of subsidies. It was also thought that prices would drop initially due to increased supplies and then would rise again but to lower levels than before. Afterwards, prices would respond to supply and demand forces in a more open market.

In 1991, the highest retail price in the EU was US$2,386 per tonne in Italy and in the UK it was US$2,219. These levels were 29 percent and 15 percent higher than those in Germany and France. On the whole, the prices in the protected segment of the EU market were, on average, 26 percent higher than in Germany. In the period 1980 to 1992, retail prices rose sharply in the UK. Between 1980 and 1991 retail prices rose 110 percent. In Germany, France and Italy, prices between the same period rose by 36 percent, 129 percent and 87 percent respectively. Price forecasts for 1993 differ widely depending upon the assumptions about quota and tariffs. However, according to a World Bank Discussion Paper,[30] with the assumption of a dollar

[28] EC sendings refer to imports from Guadeloupe, Martinique, Canary Islands, Madeira, the Azores and the Algarve, and Crete and Lakonia.

[29] 10,000 x 0.57 x 600,000 = 2,280 tons. 1,500,000

[30] Borrel, Bren and M.C. Yang. EC Bananarama 1992. The Sequel, World Bank Working Paper WPS 958, p. 12.

quota of 2 million tonnes and a 20 percent tariff, a retail price of US$2,099 will be reached. The 1991 average weighted retail price for Germany, France, Italy and the UK was US$1,954 per tonne. The forecast price will thus be 7.4 percent above the 1991 weighted price. In the first six months of 1993, that is, prior to the single European market coming into being on July 1, 1993, retail prices in selected countries were as shown below. UK prices were only 0.6 percent higher than German prices. If this trend were to be translated into the longer term then the differential between the German and the formerly protected markets of the UK will be negligible. Current market intelligence suggests that the German and the UK prices are fairly stable but that German prices are edging upwards. Since the advent of the single European market, prices in the formerly protected markets in the EU have not fallen but have remained above the free market price (US price):

January to June 1993 (US cents per lb.)

UK	France	Germany	USA
71.4	98.0	71.0	47.0

From 1985-90, ACP suppliers received an average of CIF price of US$669.8 as compared with EU producer CIF price of US$684.2, while that for "dollar bananas" was US$501.5 (see Table A.12). During this period ACP producers had an average advantage of 31 percent over dollar producers. The current EU regulations would attempt to maintain this advantage to the ACP suppliers, including Caribbean suppliers. But whether they will be able to achieve this objective is a question mark. Quota manipulation will require fine tuning; fine tuning hardly ever succeeds.

Under the new regime, Caribbean exporters continue to have a favorable position within the EU. However, this favorable position can be eroded since there are no assurances that the 2 million tonne "dollar bananas" quota will not be increased[31]. The EU regulations for the organization of a single European banana market have begun to evolve but have not yet been time-tested. There are a number of unknowns and details have yet to be developed. There are many factors such as consumer behavior, flexibility in distribution patterns, reconciliation of quality differentials, etc., the shaping of which, together with the implementation of Management Committee decisions, will affect market operations. Moreover, the banana distribution chain from farm to retail is highly integrated based on a precise rotation schedule which ensures regularity of supply and rapid turnaround of vessels, ripening techniques, effective utilization of ripening capacity, etc. The perishability of bananas precludes any action which would seriously hamper the smooth operation of this chain. Any action which results in a serious distortion of the marketing chain is likely to have a major impact on costs and prices which in turn would impact upon consumer demand. Another element to be considered in the short run, is the inflexibility of the supply chain. Both Caribbean and "dollar banana" producers are locked into contractual arrangements with traditional marketing groups. It would take time to disentangle such arrangements, even if it were practical and desirable to do so in the longer term.

The Banana Management Committee is targeting a price by fixing the volume of imports into the EU but it is not clear what the target is. This price should meet the commitment of the EU to maintain a fair and equitable price for both banana exporters and consumers. The present quota allocations amount to 3.7 million tonnes. The Caribbean countries have a quota of 477,000 tonnes, the rest of the ACP countries 380,700 tonnes and the EU producers 854,000 tonnes. Collectively the duty free exporters have a quota of 1.7 million tonnes. The Caribbean quota is 24 percent of the dollar quota and the Windward Islands is 14.7 percent. The dollar area exporters have a quota of 2 million tonnes, which if required, could be adjusted upwards. In all, the quota is 3.7 million tonnes, and the projected import requirements are 3.85 million tonnes by 1995. This would mean that demand and supply equilibrium will normally be reached at a higher price. However, since all bananas will flow freely in the EU, a certain amount of competition will have some adverse impact on prices. For the time being, therefore, Caribbean countries are assured of the volume but not the price. It should, however, be noted that the average price of bananas in the EU following the new regime is likely to be higher as compared to the old regime, particularly if the overall quota is maintained at 3.7 million metric tonnes. The Windward Islands bananas, because of quality differences, may fetch a lower price, possibly as much as 20 percent.

[31] Importers are required to make a security deposit of 15 ECUs per tonne which will be refunded on importation of the licensed quantity.

Table A.12: EU Import Prices, 1985-1990
(CIF Price US$ per tonne)

	ACP Suppliers	EU Suppliers	Dollar Suppliers	Weighted Average
1985	544.2	482.5	427.6	464.9
1986	665.3	636.8	495.5	571.0
1987	737.6	764.1	348.6	661.4
1988	779.0	773.1	532.8	646.4
1989	683.0	672.5	518.1	586.5
1990	789.3	776.5	636.5	693.8
Average 1985-90	699.8	684.2	501.5	

Source: EU Commission.

Prospects for Caribbean Exports

In a FAO study on world banana import requirements in 1995,[32] an annual per capita consumption of around 10 kg., which some years ago was considered to represent saturation level, was exceeded in many importing countries. In fact, world banana imports previously projected for 1994 were reached in 1991. However, developments varied considerably in the European and North American markets. While imports into the EU and other areas of Western Europe rose more rapidly than anticipated, they increased only moderately in the U.S. and Canada from 1988 to 1991. In forecasting the 1995 level, FAO took into account past trends of per capita demand and gave higher weighting to the larger import/consumption figures of recent years. On this basis, FAO forecasts and World Bank projections for world import demand in 1995 are shown in Table A.13. This table illustrates that world import demand in 1991 matched the World Bank projected demand for 1995. The main factors influencing demand since 1990s were marketing promotion, increased consumer preference for convenience foods, increasing health consciousness, competitive pricing, the unification of Germany, and trade liberalization in Korea.[33]

In the FAO forecasts, EU banana imports were projected to grow at an annual rate of 1.3 percent and reach 3.85 million tonnes by 1995. Banana imports in Germany were projected to grow only moderately but they could reach about 1.4 million tonnes by 1995, accounting for 37 percent of the EU total. Import demand in the UK is expected to be 8 percent higher than in 1991. On the other hand, World Bank projections of import demand for 1995 were reached in 1991. These forecasts do not take into account the new regime in the EU. On the whole, world import demand would rise by an annual average growth rate of 2.3 percent from 1991. This projection implies the continuation of the favorable annual growth in banana imports observed since the mid-1980's. Imports by developed countries, as a whole, are projected to grow at an annual rate of 1.9 percent over the 1991-95 period and may account for 88 percent of world imports.

Caribbean banana exporters to the EU continue to receive preferential treatment under the new regime being challenged by competitors from Central and South America and by the major importer, Germany. The Caribbean exports will, therefore, be operating in an uncertain environment. The uncertainties surrounding the creation of the single EU banana market and the regulations governing it pose a major problem to banana marketing in the EU. The lifting of barriers between EU member states should raise the demand for cheaper "dollar bananas" and stimulate re-export from Germany to other EU member states to the disadvantage of all other EU traditional suppliers including the Caribbean exporters.

A possible scenario is the one where the Windward Islands and Belize, Jamaica and Suriname will have to compete with the cheaper "dollar bananas" from

[32]FAO: CEP: BA92/3: Medium Term Outlook for World Trade in Bananas, July, 1993, p. 3.

[33]World Bank: Market Outlook for Major Primary Commodities, October 1992, p. 61.

Table A.13: World Imports of Bananas, 1991 and 1995
(000 metric tonnes)

	FAO		World Bank
	1991	1995	1995
EU	3,622.6	3,850.0	n.a.
France	454.3	480.0	507.0
Germany	1,355.2	1,400.0	1,355.0
Italy	452.0	520.0	443.0
UK	489.3	530.0	483.0
Rest of Developed Countries	4,883.2	5,297.0	6,611.0
Developing Countries	1,013.0	1,254.0	1,227.0
World	9,518.8	10,401.0	9,606.0

n.a. = not available.
Sources: FAO Medium Term Outlook for World Trade Bananas, July 1992 and World Bank: Market Outlooks for Major Primary Commodities, October 1992.

Central and South America. Since the Caribbean countries, especially the Windward Islands, depend heavily on banana exports to the EU, this scenario will reduce the demand for the relatively costly Windward Islands bananas, and, therefore, reduce their export earnings. A sharp reduction in the Windward Islands export earnings will place their economic future in jeopardy. This is because small-scale farmers - which constitute a significant proportion of producers and do not have supplementary means of income - will suffer a sharp decline in incomes and will not be able to provide employment for the rural population. In addition, small-scale farmers live in the rural areas, hence their income tends to remain within the local economy.

The probability of further liberalization of preferential treatment to a selected group of countries cannot be ruled out. Some Caribbean countries will find it difficult, if not impossible, to maintain their current EU banana export levels in a competitive atmosphere since their costs of production are much higher than those of dollar bananas.

One of the extreme scenarios which might be envisaged is that Caribbean exporters of bananas, especially from the Windward Islands, are unable to withstand the wind of competition which may lead to total extinction of the industry. The consequences of such an event will be extremely high. If these countries fail to find alternative crops, and to diversify into other productive activities, this would have far reaching adverse economic, political and social ramifications.

The erosion of full market protection in the UK market will adversely affect the export earnings of Caribbean exporters. It is generally forecast that prices for Caribbean bananas will be much lower than those obtained prior to July 1, 1993. Some forecasters are of the view that a price decline of as much as 30 to 40 percent may occur. This may be due to the fact that the UK prices were much higher than those in Germany. If this were to occur and assuming a lower range of this forecast of a 30 percent decline in export earnings, Table A.14 shows the decline in export earnings from the 1991 level. If export prices were to fall to the level indicated, export volumes would also be affected. The magnitude of the decline in export earnings would have a devastating impact on the economies of the Windward Islands.

In the Windward Islands, the actual price received by the banana growers is the residual market value left after all costs and margins associated with the Banana Growers Association operations and GEEST's cost have been deducted. As a result, it is fair to assume that a 30 to 40 percent decline in UK CIF prices would translate itself into a proportionate decline all the way to the farm. On this basis, Table A.15 illustrates the fall which would occur in CIF prices for the Windward Islands' bananas shipped to the UK market. If the quantum of exports from the Windward Islands was maintained at the level of 1992 exports of 274,600 tonnes and prices fell to the levels indicated, total earnings would amount to Pound Sterling 89.6 million and 79.6 million (US$155.9 million and US$133.8 million) at 30 percent and 40 percent falls respectively. This would mean a loss of US$67.4 million and US$89.5 million from the 1992 base, which if it occurred over a five year period would average a fall of approximately US$16 million each year. Farmers revenues would also decline, and the banana industry earnings have a large multiplier

effect on the economy. The issue is one of cash flow to farmers and also of employment. Roughly 30,000 farmers are involved in the Windward Islands banana industry, of which as many as 50 percent may be marginal farmers. In addition, the banana industry provided employment to a large segment of the

is the inescapable conclusion that the preferential treatment for Caribbean exporters is likely to be eroded. Moreover, three of the four countries within the Windward Islands (Dominica, Grenada and St. Vincent) may be unable to fulfill their quota although efforts are under way to increase production and

Table A.14: Windward Islands Export Earnings from Bana

	Actual Export Earnings
Windward Islands	
Dominica	33,709
Grenada	3,704
St. Lucia	56,020
St. Vincent and the Grenadines	35,482

Source: IBRD estimates.

additional labor force. In all, it is estimated that about 15,000 farmers and another 10,000 to 15,000 workers involved in harvesting and post-harvesting, transportation and other ancillary activities could be adversely affected.

Policy Options. The Caribbean banana industry, particularly that of the Windward Islands, is undergoing the end of an era with the introduction of the new EU banana regime. Under the new regime some measure of guaranteed access is being permitted for the Caribbean exporters but competition is now the watchword in the EU market. Pressure for increased competition within the EU

productivity to meet these targets. However, while output expansion may appear beneficial in the short run due to the current uncertain environment, in the long run it will encourage an allocation of scarce resources in a manner which may not be their most efficient use.

The Caribbean exporters of bananas will have to adjust in the face of an uncertain transition and future. The issue is not one of adjustment but at what speed should the adjustment be made. In this context, Caribbean governments should be encouraged to develop a strategy for speedy adjustment. The governments have to face the question of short term

Table A.15: Windward Islands' - Estimated Fall in Export Earnings

		Actual	30 percent Decline	40 percent Decline
1992 CIF Price *(Pence per lb.)*		21.2	14.8	12.7
1992 Farmer Price *(Pence per lb.)*		8.8	6.2	5.3
	Volume of Exports (MT)	1992 CIF Price and Quantity Pound Sterling	30 percent Decline Pound Sterling	40 percent Decline Pound Sterling
Windward Islands	274,600	128.3	89.6	76.9
Dominica	58,000	27.1	18.9	16.2
Grenada	6,300	2.9	2.1	1.8
St. Lucia	132,900	62.1	43.4	37.2
St. Vincent and the Grenadines	77,400	36.2	25.2	21.7

Source: Actual price figures are from the UK Ministry of Agricultural, Fisheries and Food and WINBAN.

market is being built by the Central and South American exporters and the question of preferential treatment might reemerge as an issue within the GATT framework and unhappiness over the present arrangements has emerged within the EU. All in all, it

maximization of benefits or a longer term strategy to evolve a more secure and stable economy.

Improving efficiency and the incentive structure should be the long term objective of a banana

development strategy. Being a small holder based economy, the level of farm value relative to farm production costs is crucial to the banana industry's sustainability. This farm value which approximates 16 percent of the UK retail price is the residual remaining after all the costs and margins associated with the post-farmgate stages have been covered. In an environment where real prices for bananas are likely to continue their slow decline, savings in post-farmgate costs will be required if farm incomes are to be maintained.

Moreover, in order to increase productivity in the agricultural sector, it is of paramount importance to develop strategies to improve the effectiveness of agricultural research, extension and training. Effort should be directed to improving cost effectiveness in this area. Consideration should be given to transferring greater responsibility for providing extension services to the private sector. Attention needs to be directed to rationalizing and eliminating some institutions and to providing a leaner framework to operate efficiently.[34]

It is now widely accepted that the EU banana policy may become less restrictive during the 1990s and the prices received by the preferred suppliers are likely to fall substantially. At lower prices, some banana industries will become uncompetitive. The extent to which this will be so will differ from country to country, depending on changes in their real exchange rates and real wages, and their potential for productivity gains. However, in the short term, it is necessary for the Caribbean exporters to improve productivity and reliability of supply in the banana industry to meet their EU quota and maximize export earnings from this source. Not to do so risks losing part of the quota and foregoing the implicit income transfer. In devising policies to improve productivity in the short run, it would seem sensible to seek means which would allow the most efficient producers and those with the most scope for productivity increases the opportunity to improve productivity, but not adopt policies which attempt to increase productivity by all farmers. At the same time, it seems desirable to encourage the marginal farmers to move out of the industry.

The banana industry of the Caribbean would be forced to compress and become much smaller. The economic and social consequences of this compression would be enormous. Apart from the farmers, the industry provides employment and income to a large segment of society. The cost of the industry's compression would be high. It would not only adversely affect the national economy but would affect the living standards of farmers and those associated with the banana industry. For example, it is estimated that 27,000 to 30,000 farmers scattered all over the Windward Islands produce bananas. A compression of the industry would deprive 50 percent of these farmers of their livelihood. A safety net needs to be provided to ease the economic and social costs to countries and those dependent on the industry in the transition period. A mechanism to provide a safety net must be cost effective and should be applied to an identifiable target. Any safety net program must be geared to providing training activities aimed at durable solutions to problems. Moreover, a safety net should also assist those who can, with help, operate more efficiently. An efficiency objective should be factored into the program.

In evolving transition measures to support the compression of the banana industry, safety net measures should emerge as part of an over-all strategy rather than be considered as a separate activity. In this context, correction of the relative prices of various factors of production need to be considered.

Caribbean banana production is mostly undertaken by small farm holders, and it is estimated that around 50 percent of these are marginal farmers. Under the pressure of lower prices these farmers will not be able to sustain productive activity. This will inevitably lead to a labor displacement. The question is how to absorb these resources in alternative activities. It would be essential to establish training facilities to train displaced workers to undertake diversification. In anticipation of this, a labor training fund should be created.

Under the new EU banana regime, there is not only a country quota but the importers are being allocated a quarterly quota for importation and require a license. Shipments will, therefore, have to be geared to quarterly production and this will require accurate forecasting. In view of this, as well as for overall productivity, establishment of a production forecasting

[34]World Bank: *Strategies To Improve The Effectiveness Of Agricultural Research, Extension And Training In CARICOM*, May 1993, suggests various avenues to reduce cost and improve effectiveness.

system to maximize the efficiency of shipping and distribution operations, is an urgent necessity.

Another area of possible help to the Windward Islands is in the level of transport costs incurred in shipping bananas from the Caribbean to the UK. Studies have shown that ocean freight rates are the most important single contract cost of exporting bananas from the Caribbean. A small reduction in that cost item will have a relatively large impact on the landing cost of Caribbean bananas. This may help the Windward Islands bananas to become more competitive.

The cost of marketing bananas in the U.K. is considered to be the highest in the EU. Farm price and retail price spreads range from 80 percent to 84 percent. Thus, marketing margins take the largest share. It is necessary to find a mechanism to transfer the rent element in marketing in the short term to a fund which will assist the removal of marginal producers from the industry.

The strategy for diversification away from bananas should include a well planned and a coherent program which ought to include, apart from tourism and other services, manufacturing, fishery development, and development of market intelligence and technology in production and processing of alternative crops such as mangos, citrus fruit, horticultural products and cut flowers. The countries will need technical assistance to develop their market intelligence and its dissemination to farmers. In this context an examination should be undertaken of transport bottlenecks to diversification including airports.

Tourism has emerged as a major source of diversification in some of the Windward Islands but Dominica, although attempting to move into ecological tourism, has limitations because of black sand. Tourism is also a seasonal industry and moreover is subject to cyclical influences originating in the developed countries of Europe and North America. But is has potential for further expansion. The agriculture sector can also be geared to cater for fruit and vegetable requirements of the tourist industry.

The macroeconomic setting for economic adjustment in the Windward Islands differs markedly in the state of their central government finances and with respect to key balance of payments and debt indicators.

Policies for adjustment require coordinated action on fiscal, monetary and exchange rate options among the OECS countries. A sound fiscal policy is necessary to constrain domestic inflationary pressures, to maintain a stable real exchange and to enhance competitiveness on foreign markets.

Table A.16: World Trade in Banana Exports, 1980-1991
('000 metric tonnes)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Caribbean												
Belize	15.0	10.5	10.7	10.8	10.7	10.9	15.3	22.1	27.5	29.6	28.8	18.7
Jamaica	33.1	18.2	21.4	23.4	11.0	13.0	20.9	34.7	27.9	43.0	61.2	75.3
Suriname	34.0	38.5	30.6	32.2	34.9	37.3	36.0	34.0	35.6	28.8	28.3	28.2
Sub-region	82.1	65.1	62.7	66.2	56.6	61.2	72.2	90.7	91.1	101.4	116.3	122.2
Windward Islands												
Dominica	7.8	27.5	27.5	29.9	33.3	34.5	51.0	61.2	73.3	52.6	59.9	55.6
Grenada	12.5	10.2	9.6	4.1	8.6	8.1	8.2	8.1	9.1	8.6	7.7	6.7
St. Lucia	33.5	43.1	41.8	46.9	64.5	74.0	11.1	83.0	141.8	120.6	134.0	101.5
St. Vincent & the Grenadines	19.6	33.4	26.8	25.0	34.5	44.1	43.4	39.0	60.4	67.3	77.8	68.2
Sub-region	73.3	114.2	105.6	105.9	140.9	160.7	113.7	191.4	284.6	249.2	279.3	232.0
Others												
Dominican Republic	11.1	28.2	17.7	6.3	5.6	3.2	2.2	1.5	1.8	5.4	12.3	16.5
French West Indies:												
Guadaloupe	60.5	90.4	119.2	114.4	131.6	102.7	128.4	91.4	105.4	81.7	70.6	88.5
Martinique	53.9	74.8	94.5	167.8	178.0	154.1	173.7	170.8	174.5	188.6	220.4	146.5
Sub-region	125.6	183.3	231.5	288.6	315.1	260.1	304.4	263.7	281.7	275.6	303.3	249.5
Region	281.0	372.7	399.8	460.7	512.6	482.0	490.3	545.8	657.3	626.1	698.8	603.7
Mexico and Central America												
Costa Rica	999.2	1025.8	1015.8	1032.5	1029.8	856.5	886.2	991.2	1060.8	1275.7	1443.6	1641.1
Guatemala	391.1	400.0	404.1	316.1	320.9	365.8	342.7	363.5	332.9	395.8	366.3	332.3
Honduras	33.1	804.1	914.5	714.4	848.2	871.8	810.4	931.6	891.2	849.6	811.5	698.7
Mexico	16.0	6.0	7.0	30.8	32.4	43.8	80.5	94.6	891.2	100.1	154.1	210.0
Nicaragua	120.5	94.3	146.7	68.6	82.	89.0	78.4	75.8	72.0	79.6	92.0	106.6
Panama	504.9	572.6	565.5	652.0	655.4	686.2	586.9	675.8	583.4	676.9	745.8	706.6
Sub-region	2064.9	2902.8	3053.7	2814.4	2814.4	2913.2	2784.2	3132.4	3831.6	3377.7		3595.4
South America												
Brazil	67.3	66.7	59.2	89.4	103.2	105.3	101.2	81.2	76.2	83.5	53.1	38.4
Colombia	691.6	802.9	804.2	786.9	1029.8	783.0	987.1	994.0	977.7	986.4	1148.2	1473.4
Ecuador	1290.6	1229.6	1261.3	910.0	907.2	1075.0	1365.3	1406.2	1551.2	1770.0	2209.6	2714.3
Venezuela	5.7	6.9	7.5	14.2	26.2	28.0	30.3	15.4	16.4	34.2	37.5	38.4
Sub-region	2055.3	2106.0	2132.1	1800.5	2066.3	1991.4	2483.8	2496.8	2621.4	2873.2	3448.4	4264.5
Region	4120.2	5008.8	5186.8	4614.9	5036.0	4904.6	5268.0	5629.3	6453.1	6250.9	7061.8	7880.0

Table A.16: World Trade in Banana Exports, 1980-1991 (cont'd)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Asia												
China	10.1	95.4	99.0	121.0	127.1	135.3	96.9	124.5	102.5	97.1	52.2	75.0
Israel	0.8	3.2	5.2	7.7	9.2	6.9	6.0	2.9	5.8	0.4	0.5	0.8
Malaysia	23.6	28.0	26.1	26.3	33.6	27.2	28.6	30.2	28.5	27.2	35.3	35.0
Pakistan	12.4	9.5	10.8	4.6	3.2	4.6	5.2	8.6	6.0	0.4	0.4	0.8
Philippines	923.8	869.7	927.7	644.6	800.3	689.3	955.7	775.0	866.8	851.0	839.5	950.5
Thailand	12.7	16.2	18.4	9.7	4.4	4.0	2.2	1.8	1.6	3.6	2.4	2.1
Viet nam	8.2	8.0	1.3	12.5	8.0	8.0	9.8	11.7	7.2	3.5	2.9	10.1
Region	991.5	1030.0	1088.4	826.4	985.8	974.2	1004.5	954.7	1018.4	973.3	933.5	1074.3
Oceania												
Cook Islands	2.1	2.4	2.1	0.2	1.2	1.9	0.7	0.2	0.7	0.4	0.3	0.3
Samoa	2.3	1.2	2.1	1.3	0.4	0.1	0.1	0.1	0.1	0.1	0.0	0.2
Tonga	2.3	2.7	0.6	1.1	2.6	2.6	4.1	3.6	1.3	0.4	0.3	1.2
Region	6.7	6.3	4.8	2.6	4.2	4.6	4.9	3.9	2.2	1.0	0.6	1.7
Africa												
Cameroon	64.9	53.3	40.9	45.7	62.0	50.4	38.6	20.2	38.1	83.2	61.3	116.0
Cape Verde	1.0	2.0	1.2	1.2	0.5	1.4	1.9	1.4	2.2	3.2	3.2	3.0
Ethiopia	5.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Ivory Coast	122.0	111.4	91.7	99.6	99.6	11.2	91.7	94.9	77.8	85.7	101.0	120.0
Madagascar	2.3	1.3	0.2	0.1	0.1	0.5	0.0	0.5	0.1	0.7	0.0	0.1
Somalia	60.0	34.3	50.5	47.9	47.9	45.3	57.9	64.0	73.4	78.0	74.6	10.0
Region	245.0	204.3	186.5	212.1	212.1	110.8	192.1	173.0	193.5	250.2	242.1	251.1
Europe												
Portugal (incl. Madeira)	28.3	26.9	27.6	32.5	32.5	32.5	38.7	40.5	37.4	37.3	40.0	36.0
Spain (incl. Canary Islands)	405.4	410.5	396.4	401.6	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
Region	433.7	437.4	424.0	434.1	432.6	432.5	438.7	440.5	437.4	437.3	440.0	436.0
World	6078.0	7059.4	7289.3	6529.6	7183.2	6939.0	7398.5	7747.2	8761.9	8538.6	9376.6	10226.8

Source: Food and Agriculture Organization, Trade Yearbooks 1991. Food and Agriculture Organization, Banana Statistics, 1992.

Table B.1: Sources of Growth: Regression for OECS Countries

Country	Period	Regression Estimates	R^2
Antigua & Barbuda	1981-92	Real GDP Growth = -29.49 (1.05)[a] - 0.86 I^{**}/GDP (7.26) + 1.68 GC/GDP (1.77) + 0.30 XGNFS/GDP (3.97)	0.80
Dominica	1977-92	Real GDP Growth = 9.64 (0.88) + 0.36 I/GDP_{-1} (2.3) - 0.67 GC/GDP (2.05) - 15.03 D (4.08)	0.70
Grenada	1979-92	Real GDP Growth = -1.66 (0.09) - 0.28 I^{*}/GDP (1.28) + 0.52 GC/GDP (3.53) + 0.07 XGNFS/GDP (0.33)	0.65
Montserrat	1979-92	Real GDP Growth = 126.49 (2.34) + 0.22 I^{*}/GDP (0.42) - 5.99 GC/GDP (2.08) - 0.63 XGNFS/GDP (1.37) - 0.003 LFG (0.002)	0.64
St. Kitts & Nevis	1977-92	Real GDP Growth = 18.17 (1.75) + 0.04 I/GDP (0.35) - 0.40 GC/GDP (1.07) + 0.06 G of XGNFS (1.47) - 3.79 D (2.08)	0.53
St. Lucia	1975-92	Real GDP Growth = -2.35 (2.29) + 0.16 I^{*}/GDP (3.31) - 0.24 GC/GDP (3.04) + 0.10 XGNFS/GDP (1.31) - 9.32 D (3.99) + 1.07 LFG (1.38)	0.76
St. Vincent and the Grenadines	1977-92	Real GDP Growth = -4.04 (0.47) + 0.31 I^{*}/GDP (1.70) - 0.23 GC/GDP (0.79) + 0.09 XGNFS/GDP (2.84) - 0.06 D (0.04)	0.57

NOTES: I = total investment, I^{*} = 3-year moving average of total investment, I^{**} = 5-year moving average of total investment, GDP = gross domestic product, GC = government consumption, XGNFS = export of goods and nonfactor services, LFG = labor force growth, G of XGNFS = growth of XGNFS, and D = dummy for hurricanes and/or volcano.

a. Numbers in parentheses refer to t-statistics.

Source: IBRD staff estimates

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Table 1.1: ANTIGUA AND BARBUDA: SELECTED INDICATORS, 1980-91

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 442												
Mid-year Population ('000)	...	...	...	...	...	...	...	...	...	...	...	64.0
Population Growth Rate (%)	...	...	...	...	...	...	...	...	...	...	...	...
Unemployment Rate (%)	20.7	...	20.9	20.9	...	...	...	...	...	...	...	...
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	17.0	16.0	15.6	15.8	15.0	15.7	14.8	14.3	13.0	...	...	...
Crude Death Rate	5.1	5.1	5.3	5.4	5.1	5.4	5.0	5.1	...	...	...	...
Infant Mortality Rate	...	...	...	...	...	...	...	...	20.0	...	...	...
Life Expectancy at Birth (years)								73.0	73.0			
Male	...	...	...	...	...	...	...	...	...	...	...	...
Female	...	...	...	...	...	...	...	...	...	...	...	...
II. Education												
School Enrollment (No.)												
Primary	...	9,501	10,277	9,933	9,184	9,072	9,087	9,097	...	...	...	...
Secondary	...	3,388	3,407	4,197	5,300	4,480	4,346	4,413	...	...	...	...
Pupil-Teacher Ratio												
Primary	...	25.0	31.0	29.0	27.0	20.6	20.1	20.4	...	...	...	...
Secondary	...	11.0	14.0	19.0	14.0	14.0	13.8	13.8	...	...	...	...
III. Health and Housing												
No. Doctors per 1000 population	0.3	...	...	0.4	0.5	0.6	0.6	0.6	0.6	...	...	...
No. Dentists per 1000 population	0.04	...	...	0.05	0.07	0.07	0.09	0.09	...	...	...	...
Average Household Size	...	...	...	...	...	...	...	...	...	...	...	...
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	6.7	5.0	0.4	6.9	7.5	8.8	9.7	8.8	7.7	6.3	3.5	4.3
Consumer Prices (%)	...	...	...	2.3	3.8	(2.0)	0.5	3.6	6.8	3.7	7.0	...
Money Supply (M1) (%)	...	...	...	...	...	...	...	...	...	...	...	...
Net Foreign Assets ($mn)	...	...	...	...	...	(8.4)	9.0	(4.7)	39.6	(19.7)	(15.5)	76.7

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	...	...	...	(77.4)	(116.7)	(130.1)	(192.8)	(202.0)	(184.1)	(226.5)	(211.8)	(217.1)
Exports (fob)	...	...	...	32.3	34.0	26.9	19.6	16.8	17.0	15.7	19.0	35.4
Imports (cif)	...	...	...	(109.7)	(150.7)	(157.0)	(212.4)	(218.9)	(201.1)	(242.3)	(230.7)	(252.6)
2. Services Account	...	...	...	65.2	86.0	91.1	63.3	79.4	128.8	135.1	163.1	173.6
Exports	...	...	...	...	...	...	176.2	199.4	237.2	274.5	318.8	320.4
Imports	...	...	...	...	...	...	(113.0)	(120.1)	(108.4)	(139.4)	(155.6)	(146.8)
3. International Transfers (net)	...	...	...	5.1	6.1	14.2	12.8	11.7	12.1	12.3	10.4	9.3
Private	...	...	...	4.9	5.3	13.5	9.5	9.2	9.4	9.0	7.9	6.6
Official	...	...	...	0.2	0.9	0.7	3.3	2.5	2.7	3.3	2.5	2.7
4. Current Account Balance (1+2+3)	...	...	...	(7.1)	(24.5)	(24.8)	(116.7)	(111.0)	(43.2)	(79.2)	(38.2)	(34.2)
5. Net Capital Movements	...	...	...	...	...	...	117.7	76.5	25.1	35.9	14.3	5.3
6. Change in Reserves ( ) = increase	...	...	...	(1.0)	(2.5)	(4.3)	(10.0)	2.7	(2.4)	0.0	0.6	(5.1)
7. Current Account Balance as % of GDP	...	...	...	(4.6)	(14.1)	(12.3)	(47.5)	(38.7)	(12.7)	(21.3)	(9.7)	(8.1)
IV. Principal Exports ($mn)												
S.I.T.C Sections (0 + 1)	3.5	2.8	2.5	2.8	2.6	2.0	2.5	3.7	...	...	...	...
S.I.T.C Sections (6 + 8)	47.4	55.1	30.9	26.8	21.2	22.1	25.1	21.7	...	...	...	...
V. Central Government Operations ($mn)												
Current Revenues	56.8	69.1	80.3	77.8	99.9	117.7	152.1	172.8	193.5	202.7	222.8	221.5
Current Expenditures	57.2	65.4	70.3	73.2	112.9	122.7	131.0	156.9	194.4	225.2	236.3	221.6
Current Account Surplus/(Deficit)	(0.4)	3.7	9.9	4.6	(13.0)	(5.0)	21.1	15.9	(0.9)	(22.5)	(13.5)	(0.1)
Capital Revenue and Grants	...	...	...	...	-	-	7.3	7.6	11.3	36.3	12.2	13.2
Capital Expenditure	...	...	...	...	32.6	37.4	69.5	35.0	29.6	27.4	19.1	37.6
Overall Surplus/(Deficit)	...	...	...	...	(45.6)	(42.4)	(48.4)	(19.1)	(30.5)	(49.9)	(20.4)	(24.5)
Current Surplus/(Deficit) as % of GDP	(0.2)	1.3	3.1	1.3	(2.8)	(0.9)	3.2	2.1	(0.1)	(2.2)	(1.3)	0.0
Overall Surplus/(Deficit) as % of GDP	...	...	...	...	(9.7)	(7.8)	(7.3)	(2.5)	(3.3)	(5.0)	(1.9)	(2.2)
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	...	...	383.5	443.4	543.4	616.7	658.3	694.5
Private Sector	...	...	...	...	...	...	295.1	353.9	415.7	482.5	525.4	570.7
Productive Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Services Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Other Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Public Sector	...	...	...	...	...	...	88.4	89.5	127.7	134.2	132.9	123.8
Central Government (net)	...	...	...	...	...	...	80.2	77.5	118.1	124.4	125.6	118.1
Other Public Sector	...	...	...	...	...	...	8.2	12.0	9.6	9.8	7.3	5.7
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	33.6	46.9	51.6	53.0	58.7	62.2	151.8	231.3	243.1	258.7	264.7	261.9
Debt Service	6.7	7.0	10.6	10.2	7.4	11.0	7.0	15.8	11.3	4.5	11.6	7.0
Interest	3.0	4.2	7.6	4.8	1.1	5.1	4.9	6.7	8.2	1.4	2.9	2.7
Amortization	3.7	2.8	3.0	5.4	6.3	5.9	2.0	9.1	3.1	3.1	8.7	4.5
Debt Service as % of GDP	6.1	5.6	7.7	6.7	4.3	5.5	2.8	5.5	3.3	1.2	2.9	1.7
Debt Service as % of Current Revenue	31.8	27.4	35.7	35.4	20.0	25.2	12.4	24.7	15.8	6.0	14.1	8.5
Debt Service Ratio	9.0	8.2	13.0	11.1	6.5	8.9	3.6	7.3	4.4	1.6	3.4	2.0

Source: National Governments and Caribbean Development Bank.

Table 1.2: ANTIGUA AND BARBUDA: BASE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	2.0	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GNP Growth Rate	..	-0.1	1.2	2.3	2.6	2.5	1.8	2.7	2.5	2.3	2.3
GNP/Capita Growth Rate	..	-0.6	0.7	1.8	2.1	2.0	1.3	2.2	2.0	1.8	1.8
Pvt.Cons/Capita Growth Rate	..	-0.2	-0.6	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Total DOD 1/ (in US$)	369.3	383.2	340.5	328.5	320.9	315.9	300.9	285.9	270.9	255.9	240.9
DOD/XGS 2/	93.6	94.1	81.0	74.9	69.5	64.9	58.8	53.1	47.7	42.8	38.3
DOD/GDP	83.9	85.4	74.3	68.5	63.6	59.4	53.7	48.4	43.5	39.0	34.9
Debt Service (in US$)	7.8	13.2	22.5	16.9	11.7	8.6	21.8	20.2	19.5	21.2	23.2
Debt Service/XGS	2.0	3.2	5.4	3.8	2.5	1.8	4.3	3.7	3.4	3.6	3.7
Debt Service/GDP	1.8	2.9	4.9	3.5	2.3	1.6	3.9	3.4	3.1	3.2	3.4
Interest/XGS	0.6	1.1	1.0	0.9	0.7	0.6	1.1	0.6	0.4	0.4	0.4
Interest/GDP	0.6	1.0	0.9	0.8	0.6	0.5	1.0	0.6	0.4	0.4	0.4
Gross Investment/GDP 3/	20.9	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Domestic Savings/GDP 3/	24.4	25.1	25.2	23.9	23.1	22.3	21.4	20.5	19.7	19.5	19.3
National Savings/GDP 3/	18.0	17.7	18.0	17.0	16.7	16.3	15.3	15.1	14.7	14.8	14.8
Government Revenue/GDP	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Government Expenditure/GDP	20.0	18.7	17.7	17.7	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Deficit(-) or Surplus(+)	0.6	2.0	3.0	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Export Growth Rate (G&NFS)	..	1.9	1.9	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9
Exports/GDP (G&NFS)	88.2	89.3	90.2	90.1	90.1	90.0	89.9	89.8	89.7	89.6	89.5
Import Growth Rate (G&NFS)	..	0.6	1.5	2.3	2.3	2.3	2.3	2.3	2.4	2.4	2.4
Imports/GDP (G&NFS)	84.7	84.2	85.0	86.1	86.9	87.6	88.4	89.2	90.0	90.1	90.2
Current Account (US$)	-13.0	-10.6	-9.3	-14.3	-16.7	-19.5	-26.5	-29.2	-33.4	-34.6	-36.0
Current Account/GDP	-3.0	-2.4	-2.0	-3.0	-3.3	-3.7	-4.7	-4.9	-5.4	-5.3	-5.2
Terms of Trade Index	100.0	100.7	100.2	98.9	98.2	97.5	96.8	96.1	95.5	95.8	96.0

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.3: ANTIGUA AND BARBUDA: BASE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	388	401	414	432	454	479	504	530	559	588	618
1. Merchandise	55	56	58	60	63	66	69	73	76	80	83
2. Non-Factor Services	333	344	356	372	391	412	434	458	483	508	535
B. Imports of Goods & NFS	373	378	390	413	439	466	496	527	561	591	623
1. Merchandise	297	300	310	330	351	374	399	425	453	478	503
2. Non-Factor Services(less ship)	76	78	80	83	88	92	97	102	108	114	120
C. Resource Balance	15	23	24	19	16	13	8	3	-2	-3	-5
D. Net Factor Income	-33	-39	-39	-39	-39	-38	-41	-40	-39	-39	-39
1. Factor Receipts	7	6	7	7	7	8	8	8	9	9	10
2. Factor Payments	40	45	45	46	46	46	49	48	48	48	49
E. Net Current Transfers	5	5	5	6	6	6	7	7	7	8	8
F. Current Account Balance	-13	-11	-9	-14	-17	-20	-26	-29	-33	-35	-36
G. Long-Term Capital Inflow	26	14	6	17	20	23	29	32	36	38	39
1. Direct Investment	20	20	20	21	21	22	22	23	23	23	24
2. Official Capital Grants	1	2	3	3	3	3	3	3	3	3	3
3. Net LT Loans (DRS data)	5	-8	-18	-6	-5	-2	4	7	10	11	12
a. Disbursements	10	1	0	6	4	4	21	23	27	30	33
b. Repayments	5	9	18	13	8	6	16	17	17	19	21
4. Other LT Inflows (net)	0	0	0	0	-0	-0	0	0	0	0	0
H. Total Other Items (net)	5	0	0	0	0	0	0	0	0	0	0
I. Capital Account Balance	31	14	6	17	20	23	29	32	36	38	39
J. Overall Balance	18	3	-3	3	3	3	3	3	3	3	3
J. Changes in Net Reserves	-18	-3	3	-3	-3	-3	-3	-3	-3	-3	-3
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-18	-3	3	-3	-3	-3	-3	-3	-3	-3	-3
Shares of GDP (Current US$):											
1. Resource Balance	3.5	5.1	5.2	4.0	3.2	2.3	1.5	0.6	-0.3	-0.5	-0.7
2. Total Interest Payments	0.6	1.0	0.9	0.8	0.6	0.5	1.0	0.6	0.4	0.4	0.4
3. Current Account Balance	-3.0	-2.4	-2.0	-3.0	-3.3	-3.7	-4.7	-4.9	-5.4	-5.3	-5.2
4. LT Capital Inflow	5.9	3.0	1.3	3.6	3.9	4.2	5.3	5.5	5.8	5.7	5.7
Memorandum Item:											
GDP (Mlns. of Current US$)	440	449	459	479	505	532	561	591	623	656	691
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	51.5	54.5	51.1	54.1	57.1	60.1	63.1	66.1	69.1	72.2	75.3
2. Gross Res.in Months of Imports	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3

Source: Caribbean Development Bank.

Table 1.4: ANTIGUA AND BARBUDA: ALTERNATIVE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	2.0	2.0	3.0	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0
GNP Growth Rate	..	0.9	3.4	3.7	4.2	4.1	4.0	4.8	4.6	4.3	4.3
GNP/Capita Growth Rate	..	0.4	2.9	3.2	3.7	3.6	3.5	4.3	4.0	3.8	3.8
Pvt.Cons/Capita Growth Rate	..	1.5	2.3	3.2	2.6	2.5	3.8	3.8	3.1	3.1	3.1
Debt Service (in US$)	7.8	13.2	22.5	18.1	13.2	12.4	26.7	26.0	26.4	29.2	32.2
Debt Service/XGS	2.0	3.2	5.3	4.0	2.7	2.4	4.8	4.4	4.2	4.3	4.4
Debt Service/GDP	1.8	2.9	4.8	3.6	2.5	2.2	4.3	3.9	3.7	3.8	3.9
Interest/XGS	0.6	1.1	0.9	1.2	1.0	0.9	1.3	1.0	0.8	0.9	0.9
Interest/GDP	0.6	0.9	0.8	1.1	0.9	0.8	1.2	0.9	0.8	0.8	0.8
Gross Investment/GDP 1/	20.9	20.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Domestic Savings/GDP 1/	24.4	24.8	24.6	23.7	23.5	23.3	22.8	22.3	22.1	22.7	23.2
National Savings/GDP 1/	18.0	17.5	17.6	16.8	17.2	17.6	17.0	17.2	17.5	18.4	19.2
Government Revenue/GDP	20.7	20.8	20.8	21.0	21.1	21.2	21.2	21.2	21.2	21.2	21.2
Government Expenditure/GDP	20.0	18.8	17.8	18.0	17.6	17.7	17.7	17.7	17.7	17.7	17.7
Deficit(-) or Surplus(+)	0.6	2.0	3.0	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Export Growth Rate (G&NFS)	..	2.3	2.8	3.2	3.7	3.7	3.6	3.7	4.1	4.1	4.1
Exports/GDP (G&NFS)	88.2	88.8	88.6	88.4	88.5	88.6	88.3	88.0	88.1	88.2	88.3
Import Growth Rate (G&NFS)	..	1.3	3.8	3.3	3.3	3.3	3.7	3.7	3.7	3.7	3.7
Imports/GDP (G&NFS)	84.7	84.0	85.0	85.6	86.0	86.2	86.4	86.7	86.9	86.4	86.0
Current Account (US$)	-13.0	-11.7	-15.9	-20.8	-20.1	-19.4	-24.3	-25.0	-24.5	-19.7	-14.4
Current Account/GDP	-3.0	-2.6	-3.4	-4.2	-3.7	-3.4	-4.0	-3.8	-3.4	-2.6	-1.8
Terms of Trade Index	100.0	100.7	100.2	98.9	98.2	97.5	96.7	96.0	95.3	95.6	95.8

1/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.5: ANTIGUA AND BARBUDA: ALTERNATIVE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	388	402	419	443	474	508	543	582	626	673	723
1. Merchandise	55	56	58	60	63	66	69	72	76	79	83
2. Non-Factor Services	333	346	361	383	411	442	474	509	550	594	640
B. Imports of Goods & NFS	373	381	401	429	460	494	532	573	618	659	704
1. Merchandise	297	302	320	343	368	396	427	461	498	531	567
2. Non-Factor Services	76	78	82	86	92	98	105	112	120	128	137
C. Resource Balance	15	22	17	14	14	14	11	9	8	13	19
D. Net Factor Income	-33	-39	-39	-40	-40	-39	-42	-41	-40	-41	-42
1. Factor Receipts	7	6	7	7	8	8	9	10	10	11	12
2. Factor Payments	40	45	45	47	47	48	51	50	51	52	54
E. Net Current Transfers	5	5	5	6	6	6	7	7	7	8	8
F. Current Account Balance	-13	-12	-16	-21	-20	-19	-24	-25	-24	-20	-14
G. Long-Term Capital Inflow	26	14	18	27	26	27	32	32	32	27	21
1. Direct Investment	20	20	21	21	22	23	23	24	25	26	26
2. Official Capital Grants	1	2	2	2	2	2	2	2	2	2	2
3. Net LT Loans (DRS data)	5	-9	-5	3	2	2	7	6	5	-1	-7
a. Disbursements	10	0	13	16	10	10	26	27	26	22	18
b. Repayments	5	9	18	13	8	8	19	20	21	23	25
4. Other LT Inflows (net)	-0	0	-0	-0	0	0	0	0	0	0	0
H. Total Other Items (net)	5	0	0	0	0	0	0	0	0	0	0
1. Net Short Term Capital	0	0	0	0	0	0	0	0	0	0	0
2. Capital Flows N.E.I.	5	0	0	0	0	0	0	0	0	0	0
3. Errors and Omissions	0	0	0	0	0	0	0	0	0	0	0
I. Capital Account Balance	31	14	18	27	26	27	32	32	32	27	21
J. Overall Balance	18	2	2	6	6	8	8	7	7	7	7
J. Changes in Net Reserves	-18	-2	-2	-2	-6	-8	-8	-8	-8	-8	-8
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-18	-2	-2	-2	-6	-8	-8	-8	-8	-8	-8
Shares of GDP (Current US$):											
1. Resource Balance	3.5	4.8	3.6	2.7	2.5	2.4	1.9	1.3	1.2	1.7	2.3
2. Total Interest Payments	0.6	0.9	0.8	1.1	0.9	0.8	1.2	0.9	0.8	0.8	0.8
3. Current Account Balance	-3.0	-2.6	-3.4	-4.2	-3.7	-3.4	-4.0	-3.8	-3.4	-2.6	-1.8
4. LT Capital Inflow	5.9	3.0	3.8	5.4	4.8	4.7	5.2	4.9	4.5	3.5	2.6
Memorandum Item:											
GDP (Mins. of Current US$)	440	453	472	501	535	573	615	661	711	763	819
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	51.5	53.5	55.5	61.5	67.5	75.5	83.5	91.5	99.5	107.5	115.5
2. Gross Res.in Months of Imports	1.5	1.5	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.8

Source: Caribbean Development Bank.

Table 1.6: DOMINICA: SELECTED INDICATORS, 1980-91

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 750												
Mid-year Population ('000)	73.9	73.8	73.5	73.3	73.0	72.7	72.5	72.2	72.7	72.4	72.1	71.8
Population Growth Rate (%)	...	0.7	2.4	2.1	1.6	(0.4)	(0.3)	(0.4)	0.7	(0.4)	(0.4)	(0.4)
Unemployment Rate (%)	...	...	...	...	...	...	...	...	...	...	...	...
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	...	19.8	25.4	26.7	24.5	22.2	21.4	19.1	17.7	20.1	22.5	...
Crude Death Rate	...	4.4	4.7	4.9	5.6	5.3	4.6	5.6	5.0	6.2	7.2	...
Infant Mortality Rate	...	...	...	...	...	...	...	...	...	...	15.0	...
Life Expectancy at Birth (years)												
Male	62.8	...	...	...	...	...	63.5	...	...	...	...	...
Female	67.9	...	...	...	...	...	69.8	...	...	...	...	...
II. Education												
School Enrollment (No.)												
Primary	16,840	19,000	17,816	17,615	17,339	16,362	16,360	15,510	14,970	14,832	14,427	...
Secondary	3,218	3,299	3,464	3,443	3,439	3,345	3,347	3,240	3,270	3,450	4,374	...
Pupil-Teacher Ratio												
Primary	26.6	30.9	27.0	26.2	26.4	25.3	25.3	24.9	24.0	23.8	23.0	...
Secondary	22.3	22.8	22.1	21.9	21.2	20.2	19.6	17.8	18.7	19.1	22.0	...
III. Health and Housing												
No. Doctors per 1000 population	...	...	...	...	...	...	...	0.3	...	...	...	...
No. Dentists per 1000 population	...	...	...	...	...	...	...	0.04	...	...	...	...
Average Household Size	...	...	...	...	...	...	...	...	...	...	...	...
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	16.4	6.4	2.4	2.1	5.4	1.7	6.8	6.8	7.9	(1.1)	6.6	2.1
Consumer Prices (%)	32.7	13.3	4.4	4.1	2.2	2.1	3.0	4.8	2.2	6.3	2.5	5.9
Money Supply (M1) (%)	...	...	...	...	...	...	...	...	...	...	...	...
Net Foreign Assets ($mn)	...	...	...	...	...	(21.9)	20.5	48.0	16.2	(8.0)	(16.8)	6.4

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	(37.9)	(30.5)	(23.0)	(19.6)	(32.2)	(26.9)	(4.6)	(9.6)	(20.2)	(48.1)	(47.9)	(40.9)
Exports (fob)	9.7	19.2	24.4	27.5	25.6	28.4	44.6	49.3	57.0	46.3	56.1	55.6
Imports (cif)	(47.7)	(49.7)	(47.5)	(47.1)	(57.8)	(55.3)	(49.2)	(58.9)	(77.2)	(94.4)	(103.9)	(96.5)
2. Services Account	...	...	...	4.9	6.5	2.2	(7.7)	(7.9)	(4.0)	(7.3)	(4.9)	(2.5)
Exports	...	...	...	...	...	...	16.6	19.7	24.8	27.4	35.0	40.0
Imports	...	...	...	...	...	...	(24.3)	(27.6)	(28.9)	(34.6)	(39.9)	(42.5)
3. International Transfers (net)	...	...	...	9.4	19.0	21.3	18.2	14.8	18.9	23.0	21.8	22.2
Private	...	...	...	5.0	6.3	6.7	3.0	7.6	8.4	11.7	12.8	12.7
Official	...	...	...	4.4	12.7	14.6	15.2	7.2	10.4	11.3	9.1	9.5
4. Current Account Balance (1+2+3)	...	...	...	(5.3)	(6.7)	(3.4)	5.9	(2.7)	(5.4)	(32.4)	(30.9)	(21.2)
5. Net Capital Movements	...	...	...	...	...	...	4.2	8.9	5.5	32.6	30.0	25.7
6. Change in Reserves ( ) = increase	...	...	...	3.0	(3.8)	2.7	(4.8)	(8.1)	3.4	2.1	(2.9)	(3.6)
7. Current Account Balance as % of GDP	...	...	...	(6.6)	(7.4)	(3.5)	5.3	(2.1)	(3.7)	(20.6)	(18.0)	(11.5)
IV. Principal Exports ($mn)												
Bananas	8.0	24.6	26.9	30.3	30.0	36.0	68.1	86.1	102.0	67.8	83.1	81.3
Toilet Soap	5.8	9.4	11.5	9.5	9.1	10.8	10.9	12.3	13.2	13.2	15.5	...
Household Soap	7.3	11.2	12.0	10.8	5.8	8.4	8.0	8.9	12.1	15.5	16.3	...
V. Central Government Operations ($mn)												
Current Revenues	50.2	58.9	58.6	69.7	74.8	84.4	93.3	109.7	123.2	129.2	139.7	144.9
Current Expenditures	62.6	64.1	66.0	73.2	77.5	83.6	88.7	101.8	98.5	106.1	130.1	141.3
Current Account Surplus/(Deficit)	(12.4)	(5.2)	(7.4)	(3.5)	(2.7)	0.8	4.6	7.9	24.7	23.1	9.6	3.6
Capital Revenue	21.6	18.5	24.9	36.6	40.8	46.6	12.2	41.1	6.6	0.4	1.3	3.5
Capital Expenditure	18.5	25.4	21.0	38.7	45.7	48.8	13.7	31.5	53.2	74.7	81.4	48.8
Overall Surplus/(Deficit)	(30.9)	(30.6)	(28.4)	(42.2)	(48.4)	(1.4)	3.1	17.5	(21.9)	(51.2)	(70.5)	(41.7)
Current Surplus/(Deficit) as % of GDP	(7.8)	(2.9)	(3.8)	(1.6)	(1.1)	0.3	1.5	2.3	6.3	5.4	2.1	0.7
Overall Surplus/(Deficit) as % of GDP	(19.4)	(17.1)	(14.6)	(19.6)	(20.0)	(0.5)	1.0	5.2	(5.6)	(12.1)	(15.2)	(8.4)
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	...	...	130.5	121.7	133.5	190.0	267.6	311.5
Private Sector	...	...	...	...	...	...	93.3	98.9	130.2	175.6	212.7	236.0
Productive Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Services Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Other Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Public Sector	...	...	...	...	...	...	37.2	22.8	3.3	14.4	54.9	75.5
Central Government (net)	...	...	...	...	...	...	34.8	21.8	(2.7)	6.1	36.4	50.9
Other Public Sector	...	...	...	...	...	...	2.4	1.0	6.0	8.3	18.5	24.6
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	12.3	18.9	27.7	40.4	43.2	42.7	37.1	54.1	65.8	72.0	85.6	92.9
Debt Service	0.9	0.8	1.4	2.8	4.4	4.3	1.8	2.8	5.7	3.6	5.2	5.3
Interest	0.3	0.4	0.8	1.7	2.0	2.0	0.8	1.0	1.7	1.6	1.8	1.9
Amortization	0.6	0.4	0.6	1.1	2.4	2.3	1.0	2.0	4.0	4.1	3.4	3.4
Debt Service as % of GDP	1.5	1.2	1.9	3.5	4.9	4.4	1.6	2.2	3.9	2.3	3.0	2.9
Debt Service as % of Current Revenue	4.8	3.7	6.5	10.8	15.9	13.8	5.2	6.9	12.5	7.5	10.1	9.9
Debt Service Ratio	5.7	3.4	4.7	8.5	11.9	11.2	2.9	4.1	7.0	4.9	5.7	5.5

Source: National Governments and Caribbean Development Bank.

Table 1.7: DOMINICA: BASE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2001

	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP Growth Rate	2.1	2.0	0.5	0.0	-1.0	-1.5	-1.5	-1.5	-1.5	-1.5
GNP Growth Rate	2.1	3.1	0.6	-0.0	-1.1	-1.6	-2.2	-2.1	-2.0	-1.8
GNP/Capita Growth Rate	1.1	2.1	-0.4	-1.0	-2.1	-2.6	-3.2	-3.0	-2.9	-2.8
Pvt.Cons/Capita Growth Rate	16.0	4.9	0.6	-2.2	-4.3	-5.4	-6.5	-5.9	-7.3	-7.7
Total DOD 1/ (in US$)	105.4	118.0	138.1	165.5	190.8	214.1	236.4	255.9	273.0	284.1
DOD/XGS 2/	90.3	105.5	123.8	143.3	157.1	167.0	175.9	181.1	183.5	180.6
DOD/GDP	55.6	59.1	66.5	77.8	87.8	96.8	105.1	111.8	117.1	119.9
Debt Service (in US$)	7.6	8.7	9.1	9.7	10.4	11.0	12.0	13.1	14.4	16.3
Debt Service/XGS 2/	6.5	7.8	8.2	8.4	8.6	8.6	8.9	9.3	9.7	10.3
Debt Service/GDP	4.0	4.4	4.4	4.6	4.8	5.0	5.3	5.7	6.2	6.9
Debt Service/Current Revenue	12.5	14.1	15.1	15.7	17.1	17.8	19.0	20.5	22.1	24.5
Interest/XGS 2/	2.3	2.9	3.0	3.0	3.2	3.4	3.5	3.6	3.5	3.5
Interest/GDP	1.4	1.6	1.6	1.6	1.8	2.0	2.1	2.2	2.3	2.3
Gross Investment/GDP 3/	32.5	30.3	28.0	27.0	26.0	25.0	25.0	24.0	24.0	24.0
Domestic Savings/GDP 3/	12.3	5.7	3.1	2.7	3.5	4.7	6.7	8.1	10.2	12.6
National Savings/GDP 3/	14.5	8.8	6.3	5.9	6.5	7.5	8.8	9.6	11.2	13.4
Government Revenue/GDP	32.1	31.0	29.0	29.0	28.0	28.0	28.0	28.0	28.0	28.0
Government Expenditure/GDP	30.8	31.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Deficit (-) or Surplus (+)/GDP	1.3	0.0	-1.0	-1.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Export Growth Rate (G&NFS)	5.0	0.9	2.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Exports/GDP (G&NFS)	53.6	47.3	45.1	45.7	47.4	49.5	51.9	54.4	57.0	59.5
Import Growth Rate (G&NFS)	-0.2	0.7	-0.8	-0.5	-1.4	-1.8	-1.1	-1.6	-1.2	-1.2
Imports/GDP (G&NFS)	73.8	71.3	69.0	69.3	69.3	69.4	69.9	70.1	70.6	70.7
Current Account (US$)	-34.1	-41.7	-43.1	-43.5	-41.1	-37.8	-35.8	-32.5	-29.5	-24.8
Current Account/GDP	-17.9	-20.9	-20.8	-20.4	-18.9	-17.1	-15.9	-14.2	-12.6	-10.5
Terms of Trade Index	96.2	79.9	72.1	68.1	67.0	66.7	67.2	67.9	68.5	69.4

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods, services and private transfers.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.8: DOMINICA: BASE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2001
(US$ million)

	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
A. Exports of Goods & NFS	101.7	94.4	93.6	97.3	103.0	109.5	116.8	124.6	132.9	141.0
1. Merchandise	58.1	46.8	41.9	40.4	41.1	43.0	45.7	48.9	52.6	56.6
2. Non-Factor Services	43.6	47.5	51.7	56.9	61.9	66.6	71.1	75.7	80.2	84.4
B. Imports of Goods & NFS	140.1	142.2	143.3	147.3	150.5	153.4	157.3	160.5	164.6	167.7
1. Merchandise	102.5	103.4	103.8	106.8	109.1	111.3	114.4	116.7	120.1	122.4
2. Non-Factor Services	37.6	38.9	39.5	40.5	41.4	42.1	42.9	43.7	44.5	45.3
C. Resource Balance	-38.3	-47.9	-49.7	-50.1	-47.5	-43.9	-40.5	-35.8	-31.8	-26.6
D. Net Factor Income	-8.7	-7.0	-6.9	-7.1	-7.5	-8.0	-9.6	-11.0	-12.3	-13.2
1. Factor Receipts	2.0	4.3	4.5	4.5	4.5	4.6	3.3	2.3	1.3	1.3
2. Factor Payments	10.7	11.3	11.4	11.6	12.1	12.5	12.9	13.3	13.6	14.5
E. Net Current Transfers	13.0	13.1	13.4	13.7	13.9	14.1	14.3	14.4	14.6	15.0
F. Current Account Balance	-34.1	-41.7	-43.1	-43.5	-41.1	-37.8	-35.8	-32.5	-29.5	-24.8
G. Long-Term Capital Inflow	31.5	30.3	36.8	43.6	41.3	37.9	35.9	32.5	29.5	24.8
1. Direct Investment	13.0	12.0	11.0	10.5	10.0	9.0	8.0	7.5	7.0	7.0
2. Official Capital Grants	5.4	5.0	5.0	5.0	5.0	4.8	4.8	4.8	4.8	4.8
3. Net LT Loans (DRS data)	7.2	13.3	20.8	28.1	26.3	24.1	23.1	20.2	17.7	13.0
a. Disbursements	11.4	18.1	25.9	33.5	32.0	30.0	29.6	27.5	26.1	23.1
b. Repayments	4.2	4.8	5.1	5.4	5.7	5.9	6.5	7.3	8.4	10.0
4. Other LT Inflows (net)	5.9	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.0	0.0	-0.0
H. Total Other Items (net)	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I. Overall Balance	5.2	-11.4	-6.3	0.2	0.1	0.1	0.1	0.1	0.1	-0.0
J. Changes in Net Reserves	-5.2	11.4	6.3	-0.2	-0.2	-0.1	-0.2	-0.1	-0.2	-0.2
1. Net Credit from the IMF	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
2. Other Reserve Changes (- indicates increase)	-4.5	12.1	7.0	0.6	0.6	0.7	0.6	0.7	0.6	0.6
Shares of GDP (Current US$):										
1. Resource Balance	-20.2	-24.0	-23.9	-23.5	-21.9	-19.8	-18.0	-15.7	-13.6	-11.2
2. Total Interest Payments	1.4	1.6	1.6	1.6	1.8	2.0	2.1	2.2	2.3	2.3
3. Current Account Balance	-17.9	-20.9	-20.8	-20.4	-18.9	-17.1	-15.9	-14.2	-12.6	-10.5
4. LT Capital Inflow	16.6	15.2	17.7	20.5	19.0	17.1	16.0	14.2	12.7	10.5
Memorandum Item:										
GDP (Mlns. of Current US$)	190	200	208	213	217	221	225	229	233	237
Foreign Exchange Reserves:										
1. Gross Reserves incl. Gold	24.2	12.8	6.4	6.6	6.8	6.9	7.1	7.2	7.4	7.6
2. Gross Res.in Months of Imports	1.9	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Source: Caribbean Development Bank.

Table 1.9: DOMINICA: ALTERNATIVE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2001

	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP Growth Rate	2.1	2.0	2.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0
GNP Growth Rate	2.1	3.1	2.2	3.1	3.1	3.1	4.1	4.1	4.2	4.0
GNP/Capita Growth Rate	1.1	2.1	1.2	2.1	2.1	2.1	3.1	3.1	3.1	2.9
Total DOD 1/ (in US$)	105.4	113.3	129.1	146.0	163.6	180.5	194.3	208.0	216.1	213.3
DOD/XGS 2/	90.3	95.9	104.6	111.4	116.5	119.2	118.2	115.8	109.3	98.0
DOD/GDP	55.6	56.8	61.3	65.7	69.2	71.7	71.9	71.7	69.3	63.7
Debt Service (in US$)	7.6	8.7	9.0	9.5	10.0	10.5	11.3	12.0	12.9	13.9
Debt Service/XGS 2/	6.5	7.4	7.3	7.3	7.2	6.9	6.9	6.7	6.5	6.4
Debt Service/GDP	4.0	4.4	4.3	4.3	4.2	4.2	4.2	4.1	4.1	4.2
Debt Service/Current Revenue	12.5	13.7	13.4	12.8	12.6	12.3	12.2	12.0	11.9	11.9
Interest/XGS 2/	2.3	2.7	2.6	2.5	2.5	2.5	2.5	2.3	2.2	2.0
Interest/GDP	1.4	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.3
Gross Investment/GDP 3/	32.5	30.3	30.0	30.5	31.0	31.5	32.0	32.0	32.0	32.0
Domestic Savings/GDP 3/	12.3	9.0	9.7	10.7	12.1	13.8	15.3	17.1	19.1	21.6
National Savings/GDP 3/	14.5	12.1	12.9	13.9	15.0	16.5	17.8	19.4	21.3	23.5
Government Revenue/GDP	32.1	31.9	32.0	33.4	33.7	34.0	34.3	34.6	34.9	35.0
Government Expenditure/GDP	30.8	31.3	30.0	30.9	30.7	30.0	30.0	30.1	30.4	30.0
Deficit (-) or Surplus (+)/GDP	1.3	0.6	2.0	2.5	3.0	4.0	4.3	4.5	4.5	5.0
Export Growth Rate (G&NFS)	5.0	4.6	4.5	4.6	4.8	5.1	5.7	6.3	6.7	6.8
Exports/GDP (G&NFS)	53.6	50.5	50.1	50.8	51.6	52.8	53.8	55.4	57.2	59.1
Import Growth Rate (G&NFS)	-0.2	0.6	1.4	2.6	2.7	2.8	3.6	3.4	3.4	3.4
Imports/GDP (G&NFS)	73.8	71.2	69.5	69.9	70.0	70.1	70.2	70.1	69.9	69.4
Current Account (US$)	-34.1	-35.3	-34.4	-35.7	-36.6	-36.9	-37.5	-36.1	-33.2	-28.2
Current Account/GDP	-17.9	-17.7	-16.3	-16.1	-15.5	-14.7	-13.9	-12.4	-10.6	-8.4
Terms of Trade Index	96.2	85.2	82.7	80.9	80.0	79.4	79.1	79.1	79.4	80.3

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods, services and private transfers.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.10: DOMINICA: ALTERNATIVE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2001
(US$ million)

	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
A. Exports of Goods & NFS	101.7	100.7	105.5	112.8	122.0	132.8	145.4	160.7	178.5	198.1
1. Merchandise	58.1	53.2	53.7	55.8	58.7	62.2	66.4	71.4	77.2	83.5
2. Non-Factor Services	43.6	47.5	51.7	57.0	63.2	70.6	79.1	89.3	101.2	114.6
B. Imports of Goods & NFS	140.1	142.2	146.5	155.3	165.3	176.4	189.5	203.3	218.2	232.6
1. Merchandise	102.5	103.3	106.4	113.3	120.7	129.0	139.2	149.7	161.2	171.9
2. Non-Factor Services	37.6	38.9	40.0	42.1	44.6	47.3	50.3	53.6	57.0	60.6
C. Resource Balance	-38.3	-41.4	-41.0	-42.5	-43.4	-43.6	-44.1	-42.6	-39.8	-34.5
D. Net Factor Income	-8.7	-7.0	-6.8	-6.9	-7.2	-7.4	-7.7	-7.9	-8.0	-8.7
1. Factor Receipts	2.0	4.3	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6
2. Factor Payments	10.7	11.3	11.3	11.4	11.7	12.0	12.3	12.5	12.6	13.4
E. Net Current Transfers	13.0	13.1	13.4	13.7	13.9	14.1	14.3	14.4	14.6	15.0
F. Current Account Balance	-34.1	-35.3	-34.4	-35.7	-36.6	-36.9	-37.5	-36.1	-33.2	-28.2
G. Long-Term Capital Inflow	31.5	27.7	37.5	39.6	42.5	43.5	43.4	44.4	40.5	33.9
1. Direct Investment	13.0	14.0	16.0	17.0	19.0	21.0	24.0	25.0	27.0	30.0
2. Official Capital Grants	5.4	5.0	5.0	5.0	5.0	4.8	4.8	4.8	4.8	4.8
3. Net LT Loans (DRS data)	7.2	8.7	16.5	17.6	18.5	17.7	14.6	14.6	8.7	-0.9
a. Disbursements	11.4	13.5	21.6	23.0	24.2	23.6	21.1	21.5	16.5	7.9
b. Repayments	4.2	4.8	5.1	5.4	5.7	5.9	6.5	7.0	7.8	8.8
4. Other LT Inflows (net)	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0
H. Total Other Items (net)	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I. Overall Balance	5.2	-7.6	3.1	3.9	5.9	6.6	5.9	8.3	7.3	5.7
J. Changes in Net Reserves	-5.2	7.6	-3.1	-3.9	-5.9	-6.6	-5.9	-8.3	-7.4	-5.8
1. Net Credit from the IMF	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
2. Other Reserve Changes (- indicates increase)	-4.5	8.3	-2.4	-3.1	-5.1	-5.8	-5.1	-7.5	-6.6	-5.0
Shares of GDP (Current US$):										
1. Resource Balance	-20.2	-20.8	-19.5	-19.1	-18.3	-17.3	-16.3	-14.7	-12.7	-10.3
2. Total Interest Payments	1.4	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.3
3. Current Account Balance	-17.9	-17.7	-16.3	-16.1	-15.5	-14.7	-13.9	-12.4	-10.6	-8.4
4. LT Capital Inflow	16.6	13.9	17.8	17.8	18.0	17.3	16.1	15.3	13.0	10.1
Memorandum Item:										
GDP (Mlns. of Current US$)	190	200	211	222	236	252	270	290	312	335
Foreign Exchange Reserves:										
1. Gross Reserves incl. Gold	24.2	16.6	19.7	23.6	29.5	36.1	42.0	50.4	57.7	63.5
2. Gross Res.in Months of Imports	1.9	1.3	1.5	1.7	2.0	2.3	2.5	2.8	3.0	3.1

Source: Caribbean Development Bank.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 345												
Mid-year Population ('000)	86.0	89.1	89.5	91.6	94.1	93.9	90.4	94.1	99.2	100.0	100.2	90.7
Population Growth Rate (%)	0.3	3.6	0.4	2.3	3.4	(0.2)	(3.7)	4.1	5.4	0.8	0.2	...
Unemployment Rate (%)	...	...	...	...	...	...	...	...	26.0	...	...	13.2
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	23.5	27.2	29.2	31.4	30.0	33.1	34.8	33.0	24.7	29.5	28.0	...
Crude Death Rate	6.9	8.2	8.1	8.7	7.7	8.7	7.7	8.3	7.2	8.2	8.6	...
Infant Mortality Rate	22.8	14.9	13.4	21.2	10.6	18.0	15.9	15.9	17.5	13.4	26.7	...
Life Expectancy at Birth (years)												
Male	66.7	...	...	...	...	...	67.8	...	...	...	...	...
Female	73.0	...	...	...	...	...	74.3	...	...	...	...	...
II. Education												
School Enrollment (No.)												
Primary	21,449	...	...	...	19,939	19,834	19,969	19,988	20,207	...	...	...
Secondary	5,253	...	...	...	6,508	4,921	6,437	5,457	6,412	6,509	...	...
Pupil-Teacher Ratio												
Primary	27.7	...	...	...	27.1	26.4	25.9	26.3	26.5	...	...	...
Secondary	...	...	...	...	20.9	15.7	20.9	20.3	20.6	19.7	...	...
III. Health and Housing												
No. Doctors per 1000 population	0.3	...	...	...	0.3	...	...	0.4	0.4	0.4	...	...
No. Dentists per 1000 population	0.1	...	...	...	0.1	...	...	0.1	0.1	0.1	...	...
Average Household Size	...	...	...	...	...	...	...	...	4.0	...	...	3.7
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	...	2.1	5.3	1.2	5.6	4.9	5.5	6.0	5.3	5.7	5.2	2.9
Consumer Prices (%)	21.1	18.8	6.6	6.1	5.6	2.5	0.6	(0.9)	6.5	3.7	2.6	2.7
Money Supply (M1) (%)	...	7.1	3.9	(3.9)	(8.0)	8.7	26.9	2.8	11.3	15.6	(1.0)	4.7
Net Foreign Assets ($mn)	...	...	...	...	...	(8.3)	(3.9)	16.7	5.4	(45.0)	26.0	2.9

Table 1.11: GRENADA: SELECTED INDICATORS, 1980-91 (con't)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	(36.9)	...	...	(38.0)	(40.4)	(54.8)	(52.2)	(57.2)	(59.4)	(70.9)	(79.7)	(90.4)
Exports (fob)	17.2	...	...	19.2	16.7	23.6	28.7	31.9	32.6	28.2	26.6	23.2
Imports (cif)	(54.1)	...	...	(57.2)	(57.1)	(78.4)	(80.9)	(89.1)	(92.2)	(99.0)	(106.3)	(113.6)
2. Services Account	13.7	...	...	7.2	8.2	14.6	15.8	13.7	18.3	15.5	19.2	28.5
Exports	...	...	...	...	...	...	49.0	49.6	56.1	57.4	67.7	76.3
Imports	...	...	...	...	...	...	(33.2)	(36.0)	(37.9)	(42.0)	(48.6)	(47.8)
3. International Transfers (net)	21.9	...	...	22.1	36.3	41.9	33.7	23.9	24.9	25.3	32.5	27.1
Private	9.6	...	...	10.8	11.7	12.0	9.8	14.9	15.6	16.7	17.0	18.7
Official	12.3	...	...	11.3	24.6	29.9	23.9	9.1	9.4	8.6	15.5	8.4
4. Current Account Balance (1+2+3)	(1.3)	...	...	(8.7)	4.1	1.7	(2.7)	(19.6)	(16.2)	(30.0)	(28.0)	(34.8)
5. Net Capital Movements	...	...	...	...	...	...	9.0	20.9	10.6	26.5	11.8	25.1
6. Change in Reserves ( ) = increase	(0.7)	...	...	1.0	(9.0)	1.0	0.2	(2.8)	5.9	1.6	(2.1)	(2.3)
7. Current Account Balance as % of GDP	(1.7)	...	...	(9.3)	4.0	1.5	(2.0)	(13.0)	(9.7)	(16.5)	(13.9)	(16.6)
IV. Principal Exports ($mn)												
Bananas	11.1	10.0	8.9	8.1	7.9	8.6	10.1	11.1	12.7	10.8	10.6	10.1
Fresh Fruit	0.8	1.3	4.5	11.2	13.9	17.3	15.3	6.3	3.9	3.0	2.3	...
Cocoa	18.3	19.1	12.5	11.0	11.0	13.5	11.3	10.8	8.8	6.7	7.1	8.3
Nutmegs	8.5	8.2	8.2	8.8	8.8	11.4	26.2	39.4	31.3	27.4	18.0	9.5
Mace	1.8	1.7	2.5	2.1	2.5	3.8	5.3	7.2	7.3	5.9	3.2	2.7
V. Central Government Operations ($mn)												
Current Revenues 1/	59.1	63.9	77.0	84.5	105.8	123.9	115.5	108.4	123.3	151.4	147.6	161.8
Current Expenditures	59.6	64.4	71.6	74.4	105.3	115.1	101.4	133.2	176.5	171.4	153.9	164.5
Current Account Surplus/(Deficit)	(0.5)	(0.5)	5.4	10.1	0.5	8.8	14.1	(24.8)	(53.2)	(20.0)	(6.3)	(2.7)
Capital Revenue and Grants	-	-	-	-	...	...	42.7	12.6	7.3	3.9	13.5	22.6
Capital Expenditure and Net Lending	37.5	74.8	103.6	92.2	67.9	78.2	76.7	37.8	58.2	34.4	70.6	46.1
Overall Surplus/(Deficit)	(38.0)	(75.3)	(98.2)	(82.1)	(67.4)	(69.4)	(19.9)	(50.0)	(104.1)	(50.5)	(63.4)	(26.2)
Current Surplus/(Deficit) as % of GDP	(0.2)	(0.2)	2.3	4.0	0.2	2.8	4.0	(6.1)	(11.9)	(4.1)	(1.2)	(0.5)
Overall Surplus/(Deficit) as % of GDP	(18.8)	(34.7)	(41.0)	(32.5)	(24.5)	(22.3)	(5.7)	(12.3)	(23.2)	(10.3)	(11.6)	(4.6)
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	...	...	212.4	246.9	288.0	346.4	360.8	376.0
Private Sector	...	...	...	...	...	...	152.4	188.8	213.0	273.3	271.1	287.8
Productive Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Services Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Other Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Public Sector	...	...	...	...	...	...	60.0	58.1	75.0	73.1	79.7	88.2
Central Government (net)	...	...	...	...	...	...	52.1	48.5	64.4	58.6	66.9	77.2
Other Public Sector	...	...	...	...	...	...	7.9	9.6	10.6	14.5	12.8	11.0
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	14.4	26.2	33.7	48.4	48.4	46.7	53.7	63.6	65.0	66.5	83.5	82.9
Debt Service	1.7	1.4	2.4	2.6	7.2	3.2	4.5	5.6	6.1	3.1	2.9	3.7
Interest	0.5	0.6	0.9	1.4	2.3	0.9	2.0	2.3	2.4	1.4	1.2	1.4
Amortization	1.2	0.8	1.5	1.2	4.9	2.3	2.5	3.3	3.7	1.7	1.7	2.3
Debt Service as % of GDP	2.3	1.7	2.7	2.8	7.1	2.8	3.5	3.7	3.7	1.7	1.4	1.8
Debt Service as % of Current Revenue	7.8	5.9	8.4	8.3	18.4	7.0	10.5	13.9	13.4	5.5	5.3	6.2
Debt Service Ratio	...	...	...	...	...	5.8	7.4	8.7	8.2	3.9	2.2	5.1

1/ Includes grants

Source: National Governments and Caribbean Development Bank.

Table 1.12: GRENADA - BASE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	0.6	0.5	1.0	2.0	3.0	3.5	3.5	3.5	3.5	3.5	3.5
GNP Growth Rate	..	0.6	1.2	2.3	3.4	3.7	3.7	3.3	3.8	3.6	3.6
GNP/Capita Growth Rate	..	0.1	0.7	1.8	2.9	3.2	3.2	2.8	3.3	3.1	3.0
Total DOD 1/ (in US$)	109.2	92.1	91.6	91.6	94.1	97.3	101.6	108.0	117.0	121.6	133.0
DOD/XGS 2/	91.4	74.6	70.5	66.0	63.1	60.5	58.6	57.8	58.1	56.1	57.1
DOD/GDP	50.5	41.5	40.4	38.7	37.4	36.1	35.3	35.1	35.5	34.6	35.4
Debt Service (in US$)	5.6	10.2	10.0	8.4	8.4	8.5	9.5	10.4	9.7	9.9	11.0
Debt Service/XGS	4.7	8.2	7.7	6.0	5.7	5.3	5.5	5.6	4.8	4.6	4.7
Debt Service/GDP	2.6	4.6	4.4	3.5	3.4	3.2	3.3	3.4	2.9	2.8	2.9
Debt Service/Current Revenue	3.5	6.0	5.8	4.7	4.4	4.2	4.3	4.4	3.9	3.7	3.9
Interest/XGS	1.5	2.4	2.2	2.0	1.9	1.8	1.8	2.2	1.9	1.9	2.0
Interest/GDP	0.8	1.3	1.2	1.2	1.1	1.1	1.1	1.3	1.2	1.2	1.2
Gross Investment/GDP 3/	36.2	31.7	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Domestic Savings/GDP 3/	16.8	12.5	12.6	13.0	12.9	12.7	12.6	12.5	12.4	12.6	13.0
National Savings/GDP 3/	25.9	21.4	22.2	23.1	23.4	23.4	23.3	22.8	22.7	22.7	22.9
Government Revenue/GDP	27.3	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1
Government Expenditure/GDP	28.2	27.0	26.1	25.6	25.1	24.6	24.1	23.6	23.1	23.1	23.1
Deficit (-) or Surplus (+)/GDP	-1.0	1.1	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.0	5.0
Export Growth Rate (G&NFS)	..	2.6	3.8	3.8	3.8	4.1	4.1	4.2	4.2	4.1	4.2
Exports/GDP (G&NFS)	53.8	54.1	55.6	56.7	57.2	57.6	58.1	58.5	59.0	59.4	59.8
Import Growth Rate (G&NFS)	..	1.6	0.5	2.2	3.4	3.9	3.9	3.9	3.9	3.9	3.7
Imports/GDP (G&NFS)	73.1	73.0	72.9	73.7	74.4	75.1	75.8	76.5	77.1	77.2	77.2
Current Account (US$)	-22.2	-22.5	-17.5	-16.5	-17.0	-18.5	-20.4	-23.6	-25.9	-27.3	-28.5
Current Account/GDP	-10.3	-10.1	-7.7	-7.0	-6.7	-6.9	-7.1	-7.7	-7.9	-7.8	-7.6
Terms of Trade Index	100.0	95.7	96.0	95.3	95.2	95.3	95.5	95.9	96.4	96.9	97.5

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.13: GRENADA - BASE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	116	120	126	134	144	155	167	180	194	209	225
1. Merchandise	20	19	20	21	22	24	25	27	29	30	32
2. Non-Factor Services	96	101	107	114	122	132	142	153	166	179	193
B. Imports of Goods & NFS	158	162	165	175	187	202	218	235	254	272	320
1. Merchandise	130	134	136	144	155	167	181	195	211	225	240
2. Non-Factor Services	28	28	29	30	32	35	37	40	43	47	80
C. Resource Balance	-42	-42	-39	-40	-43	-47	-51	-55	-60	-63	-96
D. Net Factor Income	-7	-6	-6	-6	-5	-5	-5	-6	-5	-5	-5
1. Factor Receipts	3	3	4	4	5	6	6	7	7	8	8
2. Factor Payments	10	10	10	10	10	11	11	12	12	13	13
E. Net Current Transfers	26	26	28	29	31	33	35	37	39	40	42
F. Current Account Balance	-22.2	-22.5	-17	-16	-17	-18	-20	-24	-26	-27	-59
G. Long-Term Capital Inflow	35	22	24	23	24	25	27	31	34	36	38
1. Direct Investment	27	19	20	21	21	22	23	24	25	25	26
2. Official Capital Grants	2	4	5	3	0	0	0	0	0	0	0
3. Net LT Loans (DRS data)	6	-0	-0	-0	3	3	4	6	9	11	11
a. Disbursements	10	7	7	5	8	9	11	13	15	17	18
b. Repayments	4	7	7	6	6	6	6	6	6	6	6
4. Other LT Inflows (net)	-0	0	0	0	0	0	0	0	0	-0	1
H. Total Other Items (net)	-6	-4	0	0	0	0	0	0	0	0	0
I. Capital Account Balance	29	18	24	23	24	25	27	31	34	36	38
J. Overall Balance	7	-5	7	7	7	7	7	7	8	9	-20
J. Changes in Net Reserves	-7	5	-7	-7	-7	-7	-7	-7	-8	-9	-10
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-7	5	-7	-7	-7	-7	-7	-7	-8	-9	-10
Shares of GDP (Current US$):											
1. Resource Balance	-19.3	-19.0	-17.3	-17.0	-17.2	-17.5	-17.7	-17.9	-18.1	-17.8	-25.4
2. Total Interest Payments	0.8	1.3	1.2	1.2	1.1	1.1	1.1	1.3	1.2	1.2	1.2
3. Current Account Balance	-10.3	-10.1	-7.7	-7.0	-6.7	-6.9	-7.1	-7.7	-7.9	-7.8	-15.6
4. LT Capital Inflow	16.2	10.0	10.8	9.9	9.5	9.4	9.5	9.9	10.3	10.3	10.2
Memorandum Item:											
GDP (Mlns. of Current US$)	216	222	227	237	252	269	288	308	329	352	376
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	25.9	21.4	28.4	35.4	42.4	49.4	56.4	63.4	71.4	80.4	90.4
2. Gross Res.in Months of Imports	1.9	1.5	1.9	2.3	2.6	2.8	3.0	3.1	3.2	3.4	3.6

Source: Caribbean Development Bank.

Table 1.14: GRENADA - ALTERNATIVE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	0.6	0.5	1.0	2.5	2.6	3.0	3.5	3.5	4.0	4.0	4.0
GNP Growth Rate	..	0.6	1.2	2.9	3.0	3.2	3.8	3.4	4.4	4.3	4.2
GNP/Capita Growth Rate	..	0.1	0.7	2.3	2.5	2.7	3.3	2.9	3.9	3.7	3.6
Total DOD 1/ (in US$)	109.2	92.1	91.7	92.6	91.4	88.3	86.2	85.0	85.4	80.9	83.5
DOD/XGS 2/	91.4	74.6	70.5	66.7	60.9	54.6	49.4	45.1	41.8	36.7	35.0
DOD/GDP	50.5	41.5	40.4	38.9	36.3	32.9	30.1	27.7	25.9	22.9	22.0
Debt Service (in US$)	5.6	10.2	10.0	8.4	8.5	8.4	9.1	9.8	8.8	8.3	8.5
Debt Service/XGS 2/	4.7	8.2	7.7	6.0	5.7	5.2	5.2	5.2	4.3	3.8	3.6
Debt Service/GDP	2.6	4.6	4.4	3.5	3.4	3.1	3.2	3.2	2.7	2.4	2.2
Debt Service/Current Revenue	3.5	6.0	5.8	4.6	4.4	4.1	4.2	4.2	3.5	3.1	2.9
Interest/XGS 2/	1.5	2.4	2.2	2.0	1.9	1.8	1.5	1.8	1.4	1.3	1.2
Interest/GDP	0.8	1.3	1.2	1.2	1.1	1.1	0.9	1.1	0.9	0.8	0.8
Gross Investment/GDP 3/	36.2	31.7	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Domestic Savings/GDP 3/	16.8	12.5	12.6	12.7	13.2	13.6	13.7	13.7	13.6	13.8	14.1
National Savings/GDP 3/	25.9	21.4	22.2	22.8	23.8	24.4	24.5	24.3	24.2	24.3	24.4
Government Revenue/GDP	27.3	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1
Government Expenditure/GDP	28.2	27.0	26.1	25.6	25.1	24.6	24.1	23.6	23.1	23.1	23.1
Deficit (-) or Surplus (+)/GDP	-1.0	1.1	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.0	5.0
Export Growth Rate (G&NFS)	..	2.6	3.8	3.9	4.3	4.3	4.3	4.4	4.5	4.5	4.5
Exports/GDP (G&NFS)	53.8	54.1	55.7	56.4	57.4	58.2	58.8	59.3	59.7	60.1	60.4
Import Growth Rate (G&NFS)	..	1.6	0.5	2.7	2.7	3.2	3.8	3.8	4.3	4.3	4.3
Imports/GDP (G&NFS)	73.1	73.0	72.9	73.8	74.3	74.8	75.4	76.0	76.6	76.7	76.7
Current Account (US$)	-22.2	-22.5	-17.5	-17.4	-16.2	-15.7	-16.7	-18.6	-20.8	-21.7	-22.9
Current Account/GDP	-10.3	-10.1	-7.7	-7.3	-6.4	-5.9	-5.8	-6.1	-6.3	-6.1	-6.0
Terms of Trade Index	100.0	95.7	96.0	95.3	95.2	95.4	95.8	96.3	97.0	97.9	98.9

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.15: GRENADA - ALTERNATIVE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	116	120	126	134	145	156	168	182	197	213	230
1. Merchandise	20	19	20	21	22	24	25	27	30	32	34
2. Non-Factor Services	96	101	107	114	122	132	143	155	167	181	195
B. Imports of Goods & NFS	158	162	165	176	187	201	216	233	252	271	291
1. Merchandise	130	134	137	145	155	166	179	193	210	225	242
2. Non-Factor Services	28	28	29	30	32	34	37	39	43	46	49
C. Resource Balance	-42	-42	-39	-41	-42	-44	-48	-51	-56	-59	-62
D. Net Factor Income	-7	-6	-6	-6	-5	-5	-4	-5	-4	-3	-3
1. Factor Receipts	3	3	4	4	5	6	6	7	7	8	9
2. Factor Payments	10	10	10	10	10	10	10	12	11	11	12
E. Net Current Transfers	26	26	28	29	31	33	35	37	39	40	42
F. Current Account Balance	-22	-22	-18	-17	-16	-16	-17	-19	-21	-22	-23
G. Long-Term Capital Inflow	35	22	25	24	23	23	24	27	30	33	35
1. Direct Investment	27	19	20	21	21	23	24	26	27	29	30
2. Official Capital Grants	2	4	5	3	3	3	2	2	2	2	2
3. Net LT Loans (DRS data)	6	-0	-0	1	-1	-3	-2	-1	0	2	3
a. Disbursements	10	7	7	6	4	3	4	5	6	7	8
b. Repayments	4	7	7	6	6	6	6	6	6	6	6
4. Other LT Inflows (net)	-0	0	0	0	0	0	0	0	0	0	0
H. Total Other Items (net)	-6	-4	0	0	0	0	0	0	0	0	0
I. Capital Account Balance	29	18	25	24	23	23	24	27	30	33	35
J. Overall Balance	7	-4	7	7	7	7	7	8	9	11	12
J. Changes in Net Reserves	-7	5	-7	-7	-7	-7	-8	-8	-9	-11	-12
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-7	5	-7	-7	-7	-7	-8	-8	-9	-11	-12
Shares of GDP (Current US$):											
1. Resource Balance	-19.3	-19.0	-17.3	-17.4	-16.9	-16.5	-16.6	-16.6	-16.8	-16.6	-16.3
2. Total Interest Payments	0.8	1.3	1.2	1.2	1.1	1.1	0.9	1.1	0.9	0.8	0.8
3. Current Account Balance	-10.3	-10.1	-7.7	-7.3	-6.4	-5.9	-5.8	-6.1	-6.3	-6.1	-6.0
4. LT Capital Inflow	16.2	10.0	10.8	10.3	9.2	8.5	8.4	8.7	9.0	9.2	9.1
Memorandum Item:											
GDP (Mlns. of Current US$)	216	222	227	238	252	268	287	307	330	354	380
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	25.9	21.4	28.4	35.4	42.4	49.4	56.9	64.9	73.9	84.9	96.9
2. Gross Res.in Months of Imports	1.9	1.5	1.9	2.3	2.6	2.8	3.0	3.2	3.4	3.6	3.8

Source: Caribbean Development Bank.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 103												
Mid-year Population ('000)	11.6	11.6	11.7	11.8	11.9	11.9	11.9	11.9	11.9	11.9	11.9	10.9
Population Growth Rate (%)	...	0.0	0.9	0.9	0.8	0.1	0.1	0.1	0.1	0.1	(0.4)	(8.2)
Unemployment Rate (%)	6.1	5.5	5.6		5.8	5.3	4.2	2.0	1.1	0.2	1.0	...
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	19.3	19.9	22.3	22.7	20.7	21.0	16.8	15.1	15.3	13.0	15.2	...
Crude Death Rate	8.9	10.1	9.8	10.6	8.8	11.5	10.6	9.8	10.4	11.4	11.1	...
Infant Mortality Rate	40.2	21.6	7.7	30.1	12.3	17.0	5.0	27.8	11.0	19.4	11.3	...
Life Expectancy at Birth (years)												
Male	62.8	...	...	...	...	...	63.5	...	...	...	...	...
Female	67.9	...	...	...	...	...	69.8	...	...	...	...	...
II. Education												
School Enrollment (No.)												
Primary	...	...	...	...	...	1,487	1,351	1,403	...	...	...	...
Secondary	...	...	...	...	...	955	1,016	984	...	...	...	...
Pupil-Teacher Ratio												
Primary	...	...	...	...	...	22.5	20.2	20.9	...	...	...	...
Secondary	...	...	...	...	...	14.7	14.3	13.9	...	...	...	...
III. Health and Housing												
No. Doctors per 1000 population	...	...	...	...	...	...	...	0.6	...	...	...	...
No. Dentists per 1000 population	...	...	...	...	...	...	...	0.08	...	...	...	...
Average Household Size	3.1	...	...	...	...	...	...	...	...	...	...	...
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	10.3	3.6	4.4	(4.3)	1.8	6.0	2.8	5.3	9.4	11.5	14.7	(23.7)
Consumer Prices (%)	29.8	7.1	9.8	4.7	5.5	2.7	3.1	3.7	4.1	1.8	6.8	...
Money Supply (M1) (%)	...	...	...	...	...	...	...	...	...	...	...	...
Net Foreign Assets ($mn)	...	...	...	...	...	0.8	0.1	3.0	11.1	27.3	(19.7)	(20.9)

Table 1.16: MONTSERRAT: SELECTED INDICATORS, 1980-91(con't)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	...	...	...	(16.5)	(16.3)	(15.5)	(15.8)	(18.7)	(21.1)	(31.3)	(40.9)	(33.1)
Exports (fob)	...	...	...	1.6	1.5	2.9	2.3	3.5	2.3	1.3	1.5	1.0
Imports (cif)	...	...	...	(20.1)	(18.9)	(18.4)	(18.1)	(22.2)	(23.4)	(32.6)	(42.4)	(34.1)
2. Services Account	...	...	...	4.9	4.9	5.3	2.7	3.4	5.8	2.7	1.7	3.1
Exports	...	...	...	...	...	...	11.2	12.7	15.5	17.0	18.6	19.0
Imports	...	...	...	...	...	...	(8.5)	(9.4)	(9.6)	(14.3)	(16.9)	(15.8)
3. International Transfers (net)	...	...	...	11.6	9.5	10.6	9.6	9.9	13.4	40.4	19.8	14.6
Private	...	...	...	10.0	...	...	7.8	8.6	9.3	33.7	15.6	9.5
Official	...	...	...	1.6	...	...	1.8	1.3	4.2	6.7	4.3	5.1
4. Current Account Balance (1+2+3)	...	...	...	(2.0)	(1.0)	0.4	(3.5)	(5.4)	(1.8)	11.7	(19.3)	(15.3)
5. Net Capital Movements	...	...	...	...	...	...	6.3	8.8	(4.8)	(9.0)	23.9	5.4
6. Change in Reserves ( ) = increase	...	...	...	(0.4)	(1.7)	(2.6)	(1.0)	(1.3)	(0.3)	(0.3)	(2.6)	3.6
7. Current Account Balance as % of GDP	...	...	...	(7.0)	(3.1)	1.1	(10.0)	(14.2)	(4.2)	24.8	(31.7)	(25.9)
IV. Principal Exports ($mn)												
S.I.T.C Section 0	0.2	0.4	0.1	0.1	0.2	0.2	0.1	0.1	0.1	...	...	...
S.I.T.C Sections (6+8)	1.7	3.4	3.6	4.3	1.4	1.1	2.9	6.8	3.5	...	...	...
V. Central Government Operations ($mn)												
Current Revenues	14.7	18.0	19.8	20.9	21.6	24.0	25.0	25.0	25.8	36.6	39.1	42.2
Current Expenditures	13.5	15.7	18.0	20.0	21.4	21.3	23.4	21.8	25.3	32.8	38.2	38.7
Current Account Surplus/(Deficit)	1.2	2.3	1.8	0.9	0.2	2.7	1.6	3.2	0.5	3.8	0.9	3.5
Capital Expenditure	7.5	10.9	7.6	4.5	4.6	5.6	8.7	8.7	5.7	14.1	15.7	14.0
Overall Surplus/(Deficit)	(6.3)	(8.6)	(5.8)	(3.6)	(4.4)	(2.9)	(7.1)	(5.5)	(5.2)	(10.3)	(14.8)	(10.5)
Current Surplus/(Deficit) as % of GDP	2.1	3.6	2.5	1.2	0.2	3.1	1.7	3.1	0.4	3.0	0.5	2.6
Overall Surplus/(Deficit) as % of GDP	(10.8)	(13.3)	(8.0)	(4.6)	(5.2)	(3.3)	(7.5)	(5.4)	(4.5)	(8.0)	(9.0)	(7.8)
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	...	30.1	30.8	30.2	32.8	40.0	80.2	93.3
Private Sector	...	...	...	...	...	24.9	27.5	29.6	34.5	44.8	82.8	96.5
Productive Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Services Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Other Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Public Sector	...	...	...	...	...	5.2	3.1	0.6	(1.7)	(4.8)	(2.6)	(3.2)
Central Government (net)	...	...	...	...	...	3.6	1.6	(0.8)	(2.7)	(5.3)	(2.9)	(3.3)
Other Public Sector	...	...	...	...	...	1.6	1.5	1.5	1.0	0.5	0.3	0.1
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	1.5	2.0	2.4	2.7	3.6	3.7	3.0	3.4	3.5	3.4	3.0	3.4
Debt Service	0.1	0.1	0.1	0.2	0.4	0.4	0.2	0.2	0.3	0.4	0.5	0.4
Interest	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Amortization	0.0	0.0	0.0	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3
Debt Service as % of GDP	0.5	0.4	0.4	0.7	1.3	1.2	0.6	0.5	0.7	0.8	0.8	0.8
Debt Service as % of Current Revenue	1.8	1.5	1.4	2.6	5.0	4.5	2.2	2.2	3.1	3.0	3.5	2.6
Debt Service Ratio	4.1	2.4	3.5	2.6	...	9.3	1.5	1.2	1.7	2.2	2.5	2.0

Source: National Governments and Caribbean Development Bank.

Table 1.17: MONTSERRAT - LOW CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	4.1	-2.0	2.0	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0
GNP Growth Rate	..	-1.8	1.9	2.7	3.2	3.1	2.9	1.7	1.9	2.0	1.9
GNP/Capita Growth Rate	..	-1.3	2.1	2.4	2.8	2.6	2.4	1.2	1.4	1.5	1.4
Pvt.Cons/Capita Growth Rate	..	12.2	-4.9	1.4	-5.0	0.5	0.4	5.3	-1.1	-1.3	-0.7
Total DOD _1/ (in US$)	3.4	6.3	11.7	17.3	26.3	37.3	48.3	58.2	69.1	78.8	89.1
DOD/XGS _2/	15.1	26.8	46.7	63.8	88.7	114.6	135.8	151.5	166.1	175.4	185.1
DOD/GDP	5.3	9.8	17.1	23.6	33.8	44.8	54.5	62.2	70.0	75.6	80.9
Debt Service (in US$)	0.4	0.2	0.3	0.9	1.1	1.5	2.0	2.6	3.3	3.4	4.0
Debt Service/XGS	1.8	0.9	1.3	3.3	3.7	4.7	5.6	6.8	7.9	7.5	8.4
Debt Service/GDP	0.6	0.3	0.5	1.2	1.4	1.9	2.2	2.8	3.3	3.2	3.7
Debt Service/Current Revenue	1.0	0.5	0.8	2.0	2.3	3.0	3.6	4.5	5.3	5.2	5.9
Interest/XGS	0.6	0.3	0.8	2.2	2.6	3.2	3.8	4.5	4.9	5.0	5.3
Interest/GDP	0.2	0.1	0.3	0.8	1.0	1.2	1.5	1.9	2.1	2.2	2.3
Gross Investment/GDP 3/	41.2	25.0	30.0	30.0	35.0	35.0	35.0	30.0	30.0	30.0	30.0
Domestic Savings/GDP 3/	7.5	-3.6	1.8	2.5	7.9	9.1	10.3	7.2	8.4	10.0	11.1
National Savings/GDP 3/	17.3	8.1	14.4	14.8	17.2	16.3	16.8	11.7	12.3	13.4	14.1
Government Current Revenue/GDP 4/	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
Government Current Expenditure/GDP 4/	23.3	23.1	22.0	21.2	19.9	19.6	19.3	19.0	19.0	19.0	19.0
Government Current Account Balance/GDP 4/	-0.3	-0.1	1.0	1.8	3.1	3.4	3.7	4.0	4.0	4.0	4.0
Export Growth Rate (G&NFS)	..	4.8	4.8	4.8	5.7	5.7	5.7	4.8	4.8	4.8	3.9
Exports/GDP (G&NFS)	34.3	35.7	35.8	36.0	36.8	37.8	38.7	39.7	40.7	41.7	42.4
Import Growth Rate (G&NFS)	..	-5.7	2.8	2.5	3.7	2.5	2.5	0.3	1.5	1.5	1.6
Imports/GDP (G&NFS)	68.0	63.4	62.4	61.9	62.5	62.4	62.2	61.5	61.5	60.9	60.3
Current Account (US$)5/	-18.7	-14.5	-16.1	-16.6	-17.2	-18.8	-19.5	-19.5	-19.9	-19.3	-19.7
Current Account/GDP	-29.7	-22.3	-23.3	-22.7	-22.1	-22.7	-21.9	-20.7	-20.1	-18.6	-17.9
Terms of Trade Index	100.0	100.5	101.2	100.8	100.5	100.1	99.8	99.3	98.9	99.0	99.2

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.
4/ Central Government.
5/ Current Account excludes net Official Transfers

Source: Caribbean Development Bank.

Table 1.18: MONTSERRAT - LOW CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	21.8	23.1	24.5	26.3	28.7	31.4	34.3	37.1	40.2	43.5	46.6
1. Merchandise (FOB)	1.6	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.3
2. Non-Factor Services	20.2	21.6	23.0	24.7	27.0	29.6	32.4	35.1	38.2	41.3	44.4
B. Imports of Goods & NFS	43.2	41.0	42.8	45.3	48.7	51.9	55.2	57.6	60.7	63.5	66.4
1. Merchandise (CIF)	33.9	31.8	33.3	35.3	38.0	40.5	43.1	44.8	47.3	49.3	51.5
2. Non-Factor Services	9.3	9.2	9.5	10.1	10.7	11.4	12.1	12.7	13.4	14.2	14.9
C. Resource Balance	-21.4	-17.9	-18.3	-19.0	-20.0	-20.4	-20.9	-20.4	-20.5	-20.0	-19.8
D. Net Factor Income	-2.8	-2.7	-2.8	-3.2	-3.2	-3.4	-3.6	-4.0	-4.4	-4.6	-5.0
1. Factor Receipts	0.5	0.6	0.6	0.7	0.9	1.1	1.3	1.3	1.4	1.4	1.5
2. Factor Payments	3.3	3.2	3.4	3.9	4.2	4.5	4.9	5.4	5.8	6.1	6.5
(interest payments - mlt)	0.1	0.1	0.1	0.5	0.7	0.9	1.3	1.7	2.0	2.2	2.5
E. Net Current Transfers	5.5	6.1	5.0	5.6	6.0	5.0	5.0	5.0	5.0	5.0	5.0
F. Current Account Balance	-18.7	-14.5	-16.1	-16.6	-17.2	-18.8	-19.5	-19.5	-19.9	-19.3	-19.7
G. Long-Term Capital Inflow	8.0	11.2	16.8	17.2	21.1	23.3	22.8	22.2	22.7	22.3	21.5
1. Direct Investment	4.6	5.0	5.4	5.7	6.0	6.4	6.8	7.2	7.2	7.2	7.2
2. Official Capital Grants	3.5	4.0	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0	4.0
3. Net LT Loans (DRS data)	-0.1	2.1	5.4	5.5	9.1	10.9	11.0	10.0	10.5	10.1	10.3
a. Disbursements	0.2	2.3	5.5	5.8	9.4	11.4	11.6	10.8	11.8	11.2	11.8
b. Repayments	0.3	0.1	0.1	0.3	0.3	0.5	0.6	0.9	1.2	1.1	1.5
H. Total Other Items (net)	10.8	3.8	0.0	-0.1	-2.0	-2.0	-1.0	-1.9	-1.9	-2.2	-1.0
I. Changes in Net Reserves	-0.1	-0.5	-0.7	-0.5	-1.9	-2.5	-2.3	-0.7	-0.9	-0.8	-0.8
1. Net Credit from the IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Other Reserve Changes (- indicates increase)	-0.1	-0.5	-0.7	-0.5	-1.9	-2.5	-2.3	-0.7	-0.9	-0.8	-0.8
Shares of GDP (Current US$):											
1. Resource Balance	-33.7	-27.7	-26.6	-25.9	-25.6	-24.6	-23.5	-21.8	-20.7	-19.1	-17.9
2. Total Interest Payments	0.2	0.1	0.3	0.8	1.0	1.2	1.5	1.9	2.1	2.2	2.3
3. Current Account Balance	-29.7	-22.3	-23.3	-22.7	-22.1	-22.7	-21.9	-20.7	-20.1	-18.6	-17.9
4. LT Capital Inflow	7.1	11.1	15.7	15.5	19.4	20.9	20.1	18.3	17.9	16.7	16.0
Memorandum Item:											
GDP (Mlns. of Current US$)	63	65	69	73	78	83	89	94	99	104	110
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	6.5	7.0	7.7	8.2	10.1	12.7	15.0	15.7	16.6	17.4	18.2
2. Gross Res.in Months of Imports	1.7	1.9	2.0	2.0	2.3	2.7	3.0	3.0	3.0	3.0	3.0

Source: Caribbean Development Bank.

Table 1.19: MONTSERRAT - HIGH CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	4.1	-2.0	3.0	5.0	6.0	6.0	6.0	4.0	4.0	4.0	4.0
GNP Growth Rate	..	-1.8	3.0	4.7	6.3	6.3	6.2	4.0	4.2	4.2	4.2
GNP/Capita Growth Rate	..	-1.3	3.2	4.4	5.9	5.8	5.7	3.5	3.6	3.7	3.7
Pvt.Cons/Capita Growth Rate	..	-1.6	-4.1	-0.3	4.0	3.8	3.8	8.2	1.1	0.9	0.8
Total DOD 1/ (in US$)	3.4	6.2	12.0	17.5	23.5	29.7	35.2	37.6	40.0	39.8	38.5
DOD/XGS 2/	15.1	25.1	44.2	57.9	69.2	77.8	82.1	79.7	76.8	69.6	61.1
DOD/GDP	5.3	9.5	17.3	23.2	28.4	32.7	35.4	35.1	34.7	32.1	28.8
Debt Service (in US$)	0.4	0.2	0.3	0.9	1.1	1.5	1.8	2.2	2.7	2.5	2.8
Debt Service/XGS	1.8	0.9	1.2	3.0	3.2	3.8	4.1	4.7	5.2	4.5	4.4
Debt Service/GDP	0.6	0.3	0.5	1.2	1.3	1.6	1.8	2.1	2.3	2.1	2.1
Debt Service/Current Revenue	1.0	0.5	0.7	1.9	2.1	2.6	2.9	3.4	3.8	3.3	3.3
Interest/XGS	0.6	0.3	0.7	2.0	2.3	2.5	2.7	2.9	2.8	2.5	2.3
Interest/GDP	0.2	0.1	0.3	0.8	0.9	1.0	1.1	1.3	1.3	1.2	1.1
Gross Investment/GDP 3/	41.2	35.0	38.0	40.0	40.0	40.0	40.0	35.0	35.0	35.0	35.0
Domestic Savings/GDP 3/	7.5	6.5	11.5	14.8	16.2	17.5	18.9	15.9	17.2	18.8	20.6
National Savings/GDP 3/	17.3	18.2	24.0	26.8	28.8	30.1	31.3	28.1	29.4	31.1	32.7
Government Current Revenue/GDP 4/	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
Government Current Expenditure/GDP 4/	23.3	23.1	22.0	21.2	19.9	19.6	19.3	19.0	19.0	19.0	19.0
Government Current Account Balance/GDP 4/	-0.3	-0.1	1.0	1.8	3.1	3.4	3.7	4.0	4.0	4.0	4.0
Export Growth Rate (G&NFS)	..	9.0	8.5	8.5	8.6	8.6	8.6	6.7	6.8	6.8	6.8
Exports/GDP (G&NFS)	34.3	37.2	38.1	39.0	39.9	40.8	41.7	42.7	43.8	44.8	45.9
Import Growth Rate (G&NFS)	..	-3.7	3.0	4.6	5.1	5.2	5.2	2.2	3.4	3.4	3.4
Imports/GDP (G&NFS)	68.0	64.8	63.2	62.7	62.3	62.1	61.8	61.0	60.9	60.2	59.6
Current Account (US$)5/	-18.7	-14.5	-15.2	-15.4	-14.8	-14.6	-13.4	-12.3	-11.6	-10.0	-7.4
Current Account/GDP	-29.7	-22.3	-22.0	-20.5	-17.8	-16.0	-13.5	-11.4	-10.1	-8.1	-5.5
Terms of Trade Index	100.0	100.4	101.2	101.0	100.6	100.3	99.9	99.4	99.0	99.2	99.3

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.
4/ Central Government.
5/ Current Account does not include net official transfers.

Source: Caribbean Development Bank.

Table 1.20: MONTSERRAT - HIGH CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	21.8	24.0	26.4	29.4	32.9	37.0	41.5	45.7	50.5	55.6	61.3
1. Merchandise	1.6	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.3
2. Non-Factor Services	20.2	22.5	24.9	27.8	31.2	35.2	39.6	43.7	48.4	53.4	59.0
B. Imports of Goods & NFS	43.2	41.9	43.8	47.2	51.5	56.3	61.5	65.3	70.2	74.7	79.6
1. Merchandise	33.9	32.7	34.2	36.9	40.2	43.9	47.9	50.7	54.5	57.9	61.5
2. Non-Factor Services	9.3	9.2	9.6	10.3	11.3	12.4	13.6	14.6	15.7	16.8	18.1
C. Resource Balance	-21.4	-17.9	-17.4	-17.8	-18.6	-19.3	-20.0	-19.6	-19.7	-19.1	-18.3
D. Net Factor Income	-2.8	-2.7	-2.8	-3.2	-3.3	-3.3	-3.5	-3.8	-3.9	-3.9	-4.0
1. Factor Receipts	0.5	0.6	0.6	0.8	1.0	1.2	1.4	1.4	1.5	1.6	1.7
2. Factor Payments	3.3	3.2	3.4	3.9	4.2	4.5	4.8	5.2	5.4	5.5	5.7
E. Net Current Transfers	5.5	6.1	5.0	5.6	7.0	8.0	10.0	11.0	12.0	13.0	15.0
F. Current Account Balance	-18.7	-14.5	-15.2	-15.4	-14.8	-14.6	-13.4	-12.3	-11.6	-10.0	-7.4
G. Long-Term Capital Inflow	8.0	11.1	16.0	16.0	17.0	17.6	16.3	13.3	12.8	11.2	8.5
1. Direct Investment	4.6	5.2	4.2	4.5	5.0	5.4	5.8	5.9	5.9	5.9	5.9
2. Official Capital Grants	3.5	4.0	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0	4.0
3. Net LT Loans (DRS data)	-0.1	2.0	5.8	5.5	6.0	6.2	5.5	2.4	1.9	0.3	-1.4
a. Disbursements	0.2	2.1	5.9	5.8	6.3	6.7	6.1	3.3	3.2	1.4	-0.1
b. Repayments	0.3	0.1	0.1	0.3	0.3	0.5	0.6	0.9	1.2	1.1	1.3
H. Total Other Items (net)	10.8	3.8	0.0	0.1	-0.0	-0.0	-0.0	0.0	0.0	0.0	0.1
I. Changes in Net Reserves	-0.1	-0.5	-0.9	-0.7	-2.2	-3.0	-2.9	-1.1	-1.3	-1.2	-1.2
1. Net Credit from the IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Other Reserve Changes (- indicates increase)	-0.1	-0.5	-0.9	-0.7	-2.2	-3.0	-2.9	-1.1	-1.3	-1.2	-1.2
Shares of GDP (Current US$):											
1. Resource Balance	-33.7	-27.6	-25.1	-23.7	-22.5	-21.3	-20.1	-18.3	-17.1	-15.4	-13.7
2. Total Interest Payments	0.2	0.1	0.3	0.8	0.9	1.0	1.1	1.3	1.3	1.2	1.1
3. Current Account Balance	-29.7	-22.3	-22.0	-20.5	-17.8	-16.0	-13.5	-11.4	-10.1	-8.1	-5.5
4. LT Capital Inflow	7.1	11.0	14.5	13.4	13.3	12.8	11.4	7.8	6.8	5.0	3.4
Memorandum Item:											
GDP (Mlns. of Current US$)	63	65	69	75	83	91	99	107	115	124	134
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	6.5	7.0	7.9	8.5	10.7	13.7	16.6	17.6	18.9	20.1	21.3
2. Gross Res.in Months of Imports	1.7	1.9	2.0	2.0	2.3	2.7	3.0	3.0	3.0	3.0	3.0

Source: Caribbean Development Bank.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 269												
Mid-year Population ('000)	43.3	43.9	44.8	45.7	44.8	44.0	43.7	43.4	44.4	43.0	42.9	41.8
Population Growth Rate (%)	...	1.4	2.1	2.0	(2.0)	(1.8)	(0.7)	(0.7)	2.2	(3.1)	(0.2)	(2.5)
Unemployment Rate (%)	...	...	...	...	...	...	...	...	...	...	...	...
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	27.0	25.9	29.2	23.9	24.1	23.3	23.0	21.8	21.3	23.6	23.1	...
Crude Death Rate	11.4	10.3	11.3	10.5	10.7	10.0	10.5	10.6	10.5	11.5	10.3	...
Infant Mortality Rate	53.0	45.7	42.8	41.2	27.8	30.2	39.7	22.7	24.4	22.2	19.7	...
Life Expectancy at Birth (years)												
Male	62.8	...	...	...	...	...	63.5	...	...	...	...	...
Female	67.9	...	...	...	...	...	69.8	...	...	...	...	...
II. Education												
School Enrollment (No.) a/												
Primary	7,149	7,074	7,120	6,902	6,902	6,765	6,564	6,457	6,331	6,196	6,105	...
Secondary	4,214	4,334	4,145	4,051	4,032	4,047	4,153	4,115	4,046	4,021	4,148	...
Pupil-Teacher Ratio a/												
Primary	23.0	24.0	23.0	23.0	22.0	22.0	23.0	23.0	23.0	21.0	21.0	...
Secondary	16.0	16.5	15.0	15.0	14.0	15.0	15.0	15.0	14.5	14.0	15.0	...
III. Health and Housing												
No. Doctors per 1000 population	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.7	...
No. Dentists per 1000 population	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	...
Average Household Size	2.1	...	...	...	...	...	...	...	...	...	...	...
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	3.9	5.1	6.3	(1.1)	9.0	5.6	6.2	7.4	9.8	6.7	3.0	6.8
Consumer Prices (%)	...	...	5.9	2.3	2.7	2.2	0.4	0.9	-	5.4	4.2	...
Money Supply (M1) (%)	...	...	...	...	...	...	...	...	...	...	...	...
Net Foreign Assets ($mn)	...	...	...	...	...	36.7	12.3	47.8	6.0	(15.2)	7.9	(1.2)

Table 1.21 : ST. KITTS AND NEVIS: SELECTED INDICATORS, 1980-91 (con't)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	...	...	...	(33.9)	(32.4)	(31.8)	(30.2)	(42.0)	(54.5)	(61.6)	(69.8)	(67.8)
Exports (fob)	...	...	...	17.4	19.5	21.8	25.2	28.0	27.4	28.6	27.7	29.2
Imports (cif)	...	...	...	(51.4)	(51.9)	(53.6)	(55.4)	(70.0)	(82.0)	(90.2)	(97.4)	(97.0)
2. Services Account	...	...	...	7.8	10.4	14.3	12.8	16.9	17.3	11.0	13.1	24.2
Exports	...	...	...	...	...	...	35.0	44.4	52.2	54.9	58.0	71.8
Imports	...	...	...	...	...	...	(22.2)	(27.4)	(34.9)	(43.9)	(44.9)	(47.6)
3. International Transfers (net)	...	...	...	11.1	11.4	13.5	12.6	14.7	15.7	16.3	12.3	13.2
Private	...	...	...	7.4	...	...	8.5	9.6	10.7	14.2	12.8	12.4
Official	...	...	...	3.7	...	...	4.0	5.1	5.0	2.1	(0.5)	0.8
4. Current Account Balance (1+2+3)	...	...	...	(15.0)	(10.6)	(4.0)	(4.8)	(10.4)	(21.4)	(34.3)	(44.3)	(30.4)
5. Net Capital Movements	...	...	...	...	...	...	6.0	13.9	19.0	51.6	51.5	25.9
6. Change in Reserves ( ) = increase	...	...	...	(1.4)	(1.7)	(1.7)	(2.8)	(0.3)	0.3	(6.1)	0.1	(0.3)
7. Current Account Balance as % of GDP	...	...	...	(25.6)	(15.4)	(5.4)	(5.4)	(9.8)	(17.1)	(24.2)	(28.0)	(17.8)
IV. Principal Exports ($mn)												
Sugar and Molasses	14.9	40.7	31.4	28.1	52.6	19.8	25.5	23.9	23.8	27.5	...	30.7
Clothing	4.8	4.6	4.4	4.6	1.8	3.8	15.1	16.3	14.5	10.2	...	...
V. Central Government Operations ($mn)												
Current Revenues	...	55.4	51.1	48.0	50.6	49.1	62.3	73.0	79.3	93.0	106.1	94.7
Current Expenditures	...	58.7	62.6	56.6	54.1	58.0	58.9	69.5	78.5	85.4	105.7	104.1
Current Account Surplus/(Deficit)	...	(3.3)	(11.5)	(8.6)	(3.5)	(8.9)	3.4	3.5	0.8	7.6	0.4	(9.4)
Capital Revenue and Grants	...	6.8	8.6	12.2	8.0	15.2	1.9	3.1	1.9	8.2	3.2	9.6
Capital Expenditure	...	10.6	10.9	13.3	8.7	18.0	15.9	9.3	15.2	11.6	13.6	13.4
Overall Surplus/(Deficit)	...	(7.1)	(13.8)	(9.7)	(4.2)	(11.7)	(10.6)	(2.7)	(12.5)	4.2	(10.0)	(13.2)
Current Surplus/(Deficit) as % of GDP	...	(2.2)	(7.2)	(5.4)	(1.9)	(4.4)	1.4	1.2	0.2	2.0	0.1	(2.0)
Overall Surplus/(Deficit) as % of GDP	...	(4.7)	(8.7)	(6.1)	(2.3)	(5.8)	(4.3)	(0.9)	(3.7)	1.1	(2.3)	(2.9)
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	...	...	202.1	162.7	237.4	305.7	334.5	374.5
Private Sector	...	...	...	...	...	...	102.7	122.7	170.3	224.2	232.1	263.5
Public Sector	...	...	...	...	...	...	99.4	40.0	67.1	81.5	102.4	111.0
Central Government (net)	...	...	...	...	...	...	41.2	37.7	58.6	61.8	67.9	79.4
Other Public Sector	...	...	...	...	...	...	58.2	2.3	8.5	19.7	34.5	31.6
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	...	...	...	...	16.5	19.0	17.8	21.3	26.6	31.7	36.4	36.8
Debt Service	...	...	...	...	1.1	1.5	1.1	1.4	1.6	1.9	2.8	2.7
Interest	...	...	...	...	0.4	0.9	0.4	0.6	0.6	0.8	1.8	1.2
Amortization	...	...	...	...	0.7	0.6	0.6	0.8	0.9	1.1	1.0	1.5
Debt Service as % of GDP	...	...	...	...	1.6	2.0	1.2	1.3	1.3	1.3	1.8	1.6
Debt Service as % of Current Revenue	...	...	...	...	5.9	8.2	4.8	5.2	5.4	5.5	7.1	7.7
Debt Service Ratio	...	...	...	...	...	3.5	1.8	1.9	2.0	2.3	3.3	2.7

a/ Public schools only.

Source: National Governments and Caribbean Development Bank.

Table 1.22: ST. KITTS AND NEVIS - BASE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	3.0	2.0	2.0	2.2	2.2	2.4	2.5	2.5	2.5	2.5	2.5
GNP Growth Rate	..	2.3	2.2	2.6	2.6	2.6	2.6	2.5	2.6	2.5	2.5
GNP/Capita Growth Rate	..	1.8	1.7	2.1	2.1	2.1	2.1	2.0	2.1	2.0	2.0
Pvt.Cons/Capita Growth Rate	..	-0.8	1.8	1.6	1.9	2.3	2.5	0.9	1.3	1.2	0.5
Total DOD 1/ (in US$)	44.1	48.2	53.9	61.5	72.2	86.5	103.6	123.2	144.2	166.5	190.5
DOD/XGS 2/	37.2	38.8	41.7	45.2	50.2	56.8	64.4	72.1	79.4	86.6	93.6
DOD/GDP	22.8	24.1	25.5	27.6	30.9	35.2	40.0	45.2	50.3	55.2	60.0
Debt Service (in US$)	3.7	4.0	4.4	4.6	4.9	5.0	6.3	8.2	9.6	11.8	14.4
Debt Service/XGS	3.1	3.2	3.4	3.4	3.4	3.3	3.9	4.8	5.3	6.1	7.1
Debt Service/GDP	1.9	2.0	2.1	2.1	2.1	2.0	2.4	3.0	3.4	3.9	4.5
Debt Service/Current Revenue	3.3	3.4	3.5	3.5	3.5	3.4	4.1	5.0	5.5	6.4	7.4
Interest/XGS	1.4	1.2	1.3	1.4	1.6	1.7	2.0	2.3	2.5	2.9	3.2
Interest/GDP	0.8	0.7	0.8	0.8	1.0	1.0	1.2	1.5	1.6	1.8	2.0
Gross Investment/GDP 3/	24.3	25.0	25.0	25.5	26.0	26.0	26.0	26.5	26.5	26.5	27.0
Domestic Savings/GDP 3/	10.5	12.0	11.6	11.3	10.8	10.3	9.7	10.0	10.1	10.4	11.2
National Savings/GDP 3/	12.7	14.8	14.7	14.8	14.8	14.4	13.8	14.1	14.2	14.5	15.2
Government Revenue/GDP	21.7	21.7	21.7	21.9	22.0	22.1	22.2	22.3	22.4	22.5	22.6
Government Expenditure/GDP	21.1	21.2	21.5	22.0	22.9	23.5	24.1	24.9	25.4	26.0	26.4
Deficit(-) or Surplus(+)	0.6	0.5	0.2	-0.1	-0.9	-1.4	-1.9	-2.6	-3.0	-3.5	-3.8
Export Growth Rate (G&NFS)	..	3.7	2.0	2.0	1.7	2.1	2.1	2.6	2.6	2.6	2.6
Exports/GDP (G&NFS)	59.7	60.3	59.2	59.1	59.1	59.4	59.6	60.1	60.6	60.9	61.2
Import Growth Rate (G&NFS)	..	2.4	2.6	2.9	2.9	2.7	2.8	2.6	2.3	2.2	2.3
Imports/GDP (G&NFS)	73.5	73.1	72.3	73.0	74.0	75.0	76.0	76.8	77.4	77.5	77.5
Current Account (US$)	-22.4	-20.2	-21.2	-23.2	-26.0	-28.5	-31.9	-34.4	-36.4	-37.6	-38.9
Current Account/GDP	-11.6	-10.1	-10.0	-10.4	-11.1	-11.6	-12.3	-12.6	-12.7	-12.5	-12.3

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.23: ST. KITTS AND NEVIS - BASE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	115	121	125	131	138	146	154	164	174	184	194
1. Merchandise	33	34	35	36	38	40	42	44	47	49	51
2. Non-Factor Services	83	87	90	95	100	106	112	119	127	135	144
B. Imports of Goods & NFS	142	147	153	162	173	184	197	209	222	234	246
1. Merchandise	114	117	122	130	139	148	158	168	179	189	199
2. Non-Factor Services	28	30	31	32	34	36	38	41	43	45	48
C. Resource Balance	-27	-26	-28	-31	-35	-38	-42	-45	-48	-50	-52
D. Net Factor Income	-8	-8	-7	-7	-6	-6	-6	-7	-7	-7	-8
1. Factor Receipts	3	3	4	5	6	6	7	7	8	8	9
2. Factor Payments	11	11	11	12	12	12	13	14	15	16	17
E. Net Current Transfers	12	13	14	15	15	16	17	18	19	20	21
F. Current Account Balance	-22	-20	-21	-23	-26	-29	-32	-34	-36	-38	-39
G. Long-Term Capital Inflow	31	27	28	30	34	38	41	43	45	47	48
1. Direct Investment	24	23	23	24	24	24	25	25	25	25	26
2. Official Capital Grants	1	1	0	0	0	0	0	0	0	0	0
3. Net LT Loans (DRS data)	1	4	6	8	11	14	17	20	21	22	23
a. Disbursements	3	7	8	10	13	17	20	24	26	28	31
b. Repayments	2	3	3	3	3	2	3	4	5	6	8
4. Other LT Inflows (net)	5	-1	-1	-1	-1	-1	-1	-1	-1	-0	-0
H. Total Other Items (net)	1	0	0	0	0	0	0	0	0	0	0
I. Capital Account Balance	32	27	28	30	34	38	41	43	45	47	48
J. Overall Balance	10	6	7	7	8	9	9	9	9	9	9
K. Changes in Net Reserves	-10	-7	-7	-7	-8	-9	-9	-9	-9	-9	-9
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-10	-7	-7	-7	-8	-9	-9	-9	-9	-9	-9
Shares of GDP (Current US$):											
1. Resource Balance	-13.8	-12.8	-13.1	-13.9	-14.9	-15.6	-16.4	-16.7	-16.8	-16.6	-16.3
2. Total Interest Payments	0.8	0.7	0.8	0.8	1.0	1.0	1.2	1.5	1.6	1.8	2.0
3. Current Account Balance	-11.6	-10.1	-10.0	-10.4	-11.1	-11.6	-12.3	-12.6	-12.7	-12.5	-12.3
4. LT Capital Inflow	15.9	13.3	13.2	13.6	14.5	15.3	15.8	15.9	15.8	15.4	15.1
Memorandum Item:											
GDP (Mlns. of Current US$)	193	201	211	222	234	246	259	272	287	302	318
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	26.2	32.7	39.3	46.3	54.3	63.3	72.3	81.3	90.3	99.3	108.3
2. Gross Res.in Months of Imports	2.1	2.5	2.9	3.2	3.5	3.9	4.1	4.4	4.6	4.8	4.9

Source: Caribbean Development Bank.

Table 1.24: ST. KITTS AND NEVIS - ALTERNATIVE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2002

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth Rate	3.0	2.0	3.8	3.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GNP Growth Rate	..	2.3	4.0	3.9	5.5	5.3	5.1	5.1	5.2	5.1	5.1
GNP/Capita Growth Rate	..	1.8	3.5	3.4	5.0	4.8	4.6	4.6	4.7	4.6	4.6
Pvt.Cons/Capita Growth Rate	..	-0.8	4.1	1.8	5.3	4.1	3.9	3.3	3.2	3.2	2.5
Total DOD 1/ (in US$)	44.1	48.2	51.2	54.0	59.7	68.3	78.1	88.3	98.5	108.9	119.5
DOD/XGS 2/	37.2	38.8	38.7	37.7	38.3	40.2	42.3	43.9	44.9	45.7	46.1
DOD/GDP	22.8	24.1	23.8	23.6	24.1	25.6	27.2	28.5	29.5	30.2	30.7
Debt Service (in US$)	3.7	4.0	4.4	4.5	4.6	4.5	5.6	6.9	7.5	8.7	10.3
Debt Service/XGS 2/	3.1	3.2	3.3	3.1	2.9	2.6	3.0	3.4	3.4	3.7	4.0
Debt Service/GDP	1.9	2.0	2.0	2.0	1.8	1.7	1.9	2.2	2.2	2.4	2.7
Debt Service/Current Revenue	3.3	3.4	3.5	3.3	3.1	2.8	3.2	3.7	3.7	3.9	4.3
Interest/XGS 2/	1.4	1.2	1.3	1.2	1.3	1.2	1.3	1.5	1.4	1.5	1.6
Interest/GDP	0.8	0.7	0.8	0.8	0.8	0.8	0.9	1.0	1.0	1.0	1.1
Gross Investment/GDP 3/	24.3	25.0	25.5	26.0	26.5	27.5	28.0	28.5	29.0	29.5	30.5
Domestic Savings/GDP 3/	10.5	12.0	11.6	12.2	11.9	12.4	12.9	13.8	14.7	15.9	17.4
National Savings/GDP 3/	12.7	14.8	14.8	15.9	16.1	16.8	17.4	18.4	19.5	20.7	22.2
Government Revenue/GDP	21.7	21.7	21.7	21.9	22.0	22.2	22.4	22.5	22.7	22.9	23.0
Government Expenditure/GDP	21.1	19.7	18.7	18.9	18.5	18.2	17.9	17.5	17.7	17.9	18.0
Deficit(-) or Surplus(+)	0.6	2.0	3.0	3.0	3.5	4.0	4.5	5.0	5.0	5.0	5.0
Export Growth Rate (G&NFS)	..	3.7	4.8	4.8	4.9	5.1	5.3	5.4	5.4	5.4	5.5
Exports/GDP (G&NFS)	59.7	60.3	59.8	60.5	60.8	61.3	61.9	62.6	63.3	63.8	64.4
Import Growth Rate (G&NFS)	..	2.4	5.9	4.2	5.7	5.6	4.9	4.6	4.5	4.5	4.7
Imports/GDP (G&NFS)	73.5	73.1	73.3	74.0	75.2	76.4	77.0	77.4	77.9	77.8	77.8
Current Account (US$)	-22.4	-20.2	-22.5	-22.7	-25.5	-28.6	-30.7	-32.1	-33.1	-33.1	-33.5
Current Account/GDP	-11.6	-10.1	-10.5	-9.9	-10.3	-10.7	-10.7	-10.3	-9.9	-9.2	-8.6

1/ Total debt outstanding and disbursed includes IMF debt.
2/ Exports of goods and services.
3/ Projections are in constant prices.

Source: Caribbean Development Bank.

Table 1.25: ST. KITTS AND NEVIS - ALTERNATIVE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2002
(US$ million)

	Actual	Prel.	Est.	Projections							
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Exports of Goods & NFS	115	121	129	139	150	164	178	194	212	230	250
1. Merchandise (FOB)	33	34	35	38	40	43	46	49	52	55	58
2. Non-Factor Services	83	87	93	101	110	120	132	145	159	175	192
B. Imports of Goods & NFS	142	147	158	170	186	204	221	240	260	280	303
1. Merchandise (CIF)	114	117	126	136	149	164	178	194	210	226	244
2. Non-Factor Services	28	30	32	34	37	40	43	46	50	54	58
C. Resource Balance	-27	-26	-29	-31	-35	-40	-43	-46	-49	-50	-52
D. Net Factor Income	-8	-8	-8	-7	-7	-6	-7	-7	-7	-7	-7
1. Factor Receipts	3	3	4	5	6	6	7	7	8	8	9
2. Factor Payments	11	11	11	12	12	13	13	14	15	15	16
E. Net Current Transfers	12	13	14	15	17	18	19	21	22	24	26
F. Current Account Balance	-22	-20	-22	-23	-26	-29	-31	-32	-33	-33	-33
G. Long-Term Capital Inflow	31	27	29	30	34	38	40	41	42	42	42
1. Direct Investment	24	23	25	26	27	28	29	30	31	32	33
2. Official Capital Grants	1	1	1	1	1	1	1	1	1	0	0
3. Net LT Loans (DRS data)	1	4	3	3	6	9	10	10	10	10	9
a. Disbursements	3	7	6	5	8	11	13	14	14	15	16
b. Repayments	2	3	3	3	3	2	3	4	4	5	6
4. Other LT Inflows (net)	5	-1	0	-0	0	0	0	-0	0	0	-0
H. Total Other Items (net)	1	0	0	0	0	0	0	0	0	0	0
I. Capital Account Balance	32	27	29	30	34	38	40	41	42	42	42
J. Overall Balance	10	6	7	7	8	9	9	9	9	9	9
K. Changes in Net Reserves	-10	-7	-7	-7	-8	-9	-9	-9	-9	-9	-9
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-10	-7	-7	-7	-8	-9	-9	-9	-9	-9	-9
Shares of GDP (Current US$):											
1. Resource Balance	-13.8	-12.8	-13.5	-13.5	-14.3	-15.0	-15.1	-14.9	-14.6	-14.0	-13.5
2. Total Interest Payments	0.8	0.7	0.8	0.8	0.8	0.8	0.9	1.0	1.0	1.0	1.1
3. Current Account Balance	-11.6	-10.1	-10.5	-9.9	-10.3	-10.7	-10.7	-10.3	-9.9	-9.2	-8.6
4. LT Capital Inflow	15.9	13.3	13.5	13.0	13.6	14.1	13.8	13.2	12.6	11.7	10.9
Memorandum Item:											
GDP (Mlns. of Current US$)	193	201	215	229	247	267	287	310	334	360	389
Foreign Exchange Reserves:											
1. Gross Reserves incl. Gold	26.2	32.7	39.3	46.3	54.3	63.3	72.3	81.3	90.3	99.3	108.3
2. Gross Res.in Months of Imports	2.1	2.5	2.8	3.1	3.3	3.5	3.7	3.8	3.9	4.0	4.1

Source: Caribbean Development Bank.

Table 1.26: ST. LUCIA: SELECTED INDICATORS, 1980-91

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 616												
Mid-year Population ('000)	115.5	117.4	119.4	121.0	122.9	124.8	126.7	128.5	130.4	132.2	134.1	136.0
Population Growth Rate (%)	1.6	1.6	1.7	1.3	1.6	1.5	1.5	1.4	1.5	1.4	1.4	1.4
Unemployment Rate (%)	14.0	...	...	...	...	...	...	...	20.0	...	...	...
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	34.1	32.9	33.9	33.6	33.8	33.8	30.8	29.8	27.4	27.8	26.1	26.9
Crude Death Rate	7.3	7.2	7.1	6.6	6.0	6.6	6.7	7.3	6.9	6.7	6.4	6.3
Infant Mortality Rate	24.3	23.8	22.7	26.1	17.1	23.6	21.5	20.3	19.3	15.8	20.3	18.6
Life Expectancy at Birth (years)												
Male	67.4	66.7	69.0	67.0	70.0	69.0	67.9	67.0	68.0	68.3	68.6	69.3
Female	71.8	72.2	72.0	75.0	75.0	76.0	73.7	75.0	74.0	73.9	74.4	74.0
II. Education												
School Enrollment (No.)												
Primary	30,391	30,766	31,785	32,107	32,383	32,273	32,400	32,809	32,649	32,636	32,402	32,221
Secondary	3,875	5,047	4,982	4,989	5,030	5,665	5,934	6,284	6,790	6,771	7,238	8,155
Pupil-Teacher Ratio												
Primary	30.5	30.4	32.3	29.6	29.3	29.8	29.4	31.0	26.6	29.3	28.8	27.4
Secondary	16.6	17.8	18.5	16.1	17.1	18.3	17.6	17.9	17.9	18.0	18.3	19.2
III. Health and Housing												
No. Doctors per 1000 population	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.5	0.4	0.5
No. Dentists per 1000 population	0.03	0.03	0.04	0.04	0.04	0.04	0.04	0.04	0.1	0.1	0.1	0.1
Average Household Size	4.6	...	...	...	...	...	...	...	...	...	...	4.0
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	(1.7)	4.8	2.2	4.3	6.7	9.1	15.0	1.7	13.5	8.5	3.9	1.6
Consumer Prices (%)	...	...	...	...	1.2	0.0	2.2	7.0	1.4	3.7	3.8	6.2
Money Supply (M1) (%)	18.7	5.0	12.0	(2.5)	4.0	11.9	37.7	20.8	17.2	12.5	7.8	5.5
Net Foreign Assets ($mn)	6.6	...	...	...	13.9	62.4	59.5	42.4	29.7	(14.9)	(1.7)	11.9

Table 1.26 ST. LUCIA: SELECTED INDICATORS, 1980-91 (con't)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	...	...	...	(59.3)	(70.9)	(73.0)	(53.3)	(77.2)	(75.4)	(128.9)	(111.4)	(151.1)
Exports (fob)	...	...	...	47.5	47.8	52.0	82.9	79.5	119.1	112.0	127.3	110.3
Imports (cif)	...	...	...	(106.9)	(118.7)	(125.0)	(136.2)	(156.7)	(194.5)	(240.9)	(238.7)	(261.4)
2. Services Account	...	...	...	32.9	32.8	40.5	30.1	44.1	43.3	53.6	39.2	61.6
Exports	...	...	...	...	...	...	86.9	104.8	126.7	146.4	160.2	186.0
Imports	...	...	...	...	...	...	(56.8)	(60.7)	(83.4)	(92.8)	(121.0)	(124.5)
3. International Transfers (net)	...	...	...	21.0	14.3	23.1	25.5	28.9	19.6	18.9	15.5	21.8
Private	...	...	...	13.7	...	14.2	17.6	19.9	14.1	13.7	15.2	17.3
Official	...	...	...	7.3	...	8.9	7.9	9.0	5.4	5.3	0.3	4.5
4. Current Account Balance (1+2+3)	...	...	...	(5.5)	(23.8)	(9.4)	2.3	(4.3)	(12.5)	(56.4)	(56.7)	(67.7)
5. Net Capital Movements	...	...	...	...	...	...	7.8	14.1	10.0	53.9	55.4	61.9
6. Change in Reserves ( ) = increase	...	...	...	-	(0.8)	(4.8)	(10.7)	(5.7)	(1.8)	(5.6)	(4.6)	(7.7)
7. Current Account Balance as % of GDP	...	...	...	(4.0)	(15.6)	(4.3)	0.9	(1.5)	(3.8)	(15.2)	(14.3)	(15.8)
IV. Principal Exports ($mn)												
Bananas	28.4	39.6	42.2	50.2	64.2	81.4	149.9	120.1	184.5	163.1	199.7	161.9
Paper & Paper Board	7.0	15.1	14.2	11.8	13.2	13.5	15.4	18.8	23.3	17.2	16.4	10.8
Beer and Ale	3.3	2.8	5.7	4.3	3.1	3.1	4.2	5.9	8.0	10.1	12.6	13.2
V. Central Government Operations ($mn)												
Current Revenue and Grants	85.1	88.3	106.4	111.4	119.3	145.8	169.7	194.3	228.1	257.0	266.8	296.8
Current Expenditure	80.5	90.9	116.2	119.8	122.9	145.2	154.2	160.5	163.3	199.4	206.4	223.3
Current Account Surplus/(Deficit)	4.6	(2.6)	(9.8)	(8.4)	(3.6)	0.6	15.5	33.8	64.8	57.6	60.4	73.5
Capital Revenue and Grants	8.8	16.4	6.7	9.9	17.5	6.6	0.0	23.5	18.6	19.9	8.7	5.5
Capital Expenditure and Net Lending	30.6	34.8	23.3	18.2	24.7	28.0	43.3	53.2	57.3	62.9	63.8	72.3
Overall Surplus/(Deficit)	(26.0)	(37.4)	(33.1)	(26.6)	(28.3)	(11.1)	(27.8)	4.1	26.1	14.6	5.3	6.7
Current Surplus/(Deficit) as % of GDP	1.5	(0.8)	(2.7)	(2.2)	(0.9)	0.1	2.2	4.4	7.3	5.7	5.6	6.4
Overall Surplus/(Deficit) as % of GDP	(8.5)	(10.8)	(9.2)	(7.1)	(6.8)	(1.9)	(3.9)	0.5	3.0	1.5	0.5	0.6
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	...	...	349.9	386.4	460.2	581.9	626.4	681.4
Private Sector	...	...	...	...	...	...	276.5	311.4	411.7	527.3	589.6	634.4
Productive Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Services Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Other Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Public Sector	...	...	...	...	...	...	73.4	75.0	48.5	54.6	36.8	47.0
Central Government (net)	...	...	...	...	...	...	71.4	72.2	45.5	44.0	22.2	35.6
Other Public Sector	...	...	...	...	...	...	2.0	2.8	3.0	10.6	14.6	11.4
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	18.2	18.7	24.0	31.1	28.0	29.6	31.5	27.6	42.9	53.5	70.8	81.3
Debt Service	1.4	1.2	2.1	2.4	2.7	4.3	1.7	2.7	3.3	5.2	6.1	8.5
Interest	0.7	0.8	1.0	1.4	1.2	1.5	0.9	1.2	1.4	2.5	3.0	4.1
Amortization	0.7	0.4	1.1	1.0	1.6	2.8	0.8	1.4	1.9	2.7	3.1	4.4
Debt Service as % of GDP	1.2	0.9	1.5	1.6	1.6	2.3	0.8	1.1	1.2	1.7	1.8	2.4
Debt Service as % of Current Revenue	4.4	3.7	5.3	5.8	6.1	8.0	2.7	3.8	3.9	5.5	6.2	7.7
Debt Service Ratio	...	...	...	...	...	4.0	1.0	1.5	1.3	2.0	2.1	2.9

Source: National Governments and Caribbean Development Bank.

Table 1.27: ST. LUCIA - BASE CASE - ACTUAL AND PROJECTED MACROECONOMIC INDICATORS, 1992-2001

	Est.	Projections								
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Growth Rates:										
Gross Domestic Product (GDP)	6.6	3.0	0.0	0.5	1.5	2.0	2.5	2.5	2.5	2.5
Gross Domestic Income (GDY)	3.2	0.7	-0.5	1.4	1.3	1.9	2.4	2.3	2.3	2.5
Real per Capita Growth Rates:										
Gross Domestic Product (GDP)	4.4	0.9	-2.0	-1.6	-0.6	-0.1	0.4	0.4	0.4	0.4
Total Consumption	-8.5	2.0	-1.0	3.3	-2.7	-1.9	-1.0	-1.1	-1.2	-1.2
Private Consumption	-10.4	2.4	-1.3	4.1	-3.3	-2.3	-1.2	-1.4	-1.4	-1.5
Debt and Debt Service (LT+IMF+ST):										
Total DOD (in US$)	88.8	116.8	134.4	158.8	182.2	202.9	220.6	236.0	248.2	258.6
DOD/GDP	18.4	23.2	26.4	30.3	33.1	35.0	35.9	36.3	36.0	35.5
DOD/Exports 1/	25.5	33.1	38.1	44.1	47.2	48.9	49.5	49.4	48.4	47.2
Debt Service (in US$)	11.8	11.3	12.5	16.0	22.2	27.0	34.5	43.7	48.8	55.7
Debt Service/Exports 1/	3.4	3.2	3.5	4.4	5.8	6.5	7.7	9.1	9.5	10.2
Debt Service/GDP	2.5	2.3	2.5	3.0	4.0	4.7	5.6	6.7	7.1	7.6
Interest Burden (LT+IMF+ST):										
Interest Paid	5.4	5.0	6.2	7.1	9.0	11.1	12.9	14.9	16.7	18.8
Interest/Exports 1/	1.6	1.4	1.8	2.0	2.3	2.7	2.9	3.1	3.3	3.4
Interest/GDP	1.1	1.0	1.2	1.4	1.6	1.9	2.1	2.3	2.4	2.6
Gross Investment/GDP	30.0	30.0	30.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Domestic Savings/GDP	14.7	11.7	10.2	6.9	8.6	10.1	11.1	12.3	13.4	14.7
National Savings/GDP	15.2	10.1	8.7	6.3	8.1	9.5	10.9	12.0	13.3	14.3
Government Current Revenue/GDP	31.4	28.0	26.5	24.0	25.0	25.0	25.0	25.0	25.0	25.0
Government Current Expenditure/GDP	20.0	19.4	19.4	19.4	19.4	20.0	20.0	20.0	20.0	20.0
Government Current Balance/GDP	11.4	8.6	7.1	4.6	5.6	5.0	5.0	5.0	5.0	5.0
Exports (GNFS) Growth	10.4	1.8	-0.8	-1.3	3.8	3.8	3.7	3.8	3.8	3.8
Exports (GNFS)/GDP	67.7	64.6	63.5	63.1	64.6	65.8	66.6	67.5	68.4	69.4
Imports (GNFS) Growth	1.0	3.1	0.4	-0.7	1.1	1.6	2.1	2.1	2.1	2.1
Imports (GNFS)/GDP	82.7	82.7	83.0	81.9	81.7	81.5	81.3	81.1	80.9	80.5
BOP Curr Acct (US$ million)	-70.2	-98.6	-106.9	-101.6	-97.1	-94.1	-91.7	-89.7	-87.0	-84.4
BOP Curr Acct/GDP	-14.5	-19.6	-21.0	-19.3	-17.7	-16.2	-14.9	-13.8	-12.6	-11.6

1/ As percent of Exports of Goods, Services and Private Transfers.

Source: Caribbean Development Bank.

Table 1.28: ST. LUCIA - BASE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2001
(US$ million)

	Est.	Projections								
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
A. Exports of Goods & NFS	327	325	324	331	355	381	409	439	471	505
1. Merchandise	123	107	91	83	89	95	102	109	116	124
2. Non-Factor Services	204	219	233	248	266	286	307	330	355	381
B. Imports of Goods & NFS	399	416	423	430	449	473	499	527	557	587
1. Merchandise	313	327	332	336	351	369	390	411	434	457
2. Non-Factor Services	86	90	91	94	98	103	109	116	123	130
C. Resource Balance	-73	-91	-99	-99	-94	-91	-90	-88	-86	-82
D. Net Factor Income	-15	-26	-27	-24	-26	-28	-30	-31	-33	-35
1. Factor Receipts	4	9	9	8	8	8	9	9	10	11
2. Factor Payments	19	35	36	32	34	36	38	41	43	45
E. Net Current Transfers	18	19	20	21	23	25	28	30	32	32
F. Current Account Balance										
1. Before Official Grants	-70	-99	-107	-102	-97	-94	-92	-90	-87	-84
2. Official Capital Grants	1	1	1	1	1	1	1	1	1	1
3. After Official Grants	-69	-98	-106	-101	-96	-93	-91	-89	-86	-83
G. Long-Term Capital Inflow	89	103	94	101	101	99	98	96	94	91
1. Direct Investment (net)	74	75	76	77	78	79	80	81	82	83
2. Net LT Loans (DRS data)	15	28	18	24	23	20	18	15	12	8
a. Disbursements	21	34	24	33	37	36	39	44	44	45
b. Repayments Due	6	6	6	9	13	16	22	29	32	37
3. Other LT Inflows (net)	0	0	0	0	0	0	0	0	0	0
H. Total Other Items (net)	-14	0	0	0	0	0	0	0	0	0
I. Changes in Net Reserves	-6	-5	12	-1	-5	-6	-7	-8	-8	-8
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-6	-5	12	-1	-5	-6	-7	-8	-8	-8
J. As Shares of GDP (current US$)										
1. Resource Balance	-15.0	-18.1	-19.4	-18.8	-17.1	-15.7	-14.7	-13.6	-12.5	-11.2
3. Current Account Balance	-14.5	-19.6	-21.0	-19.3	-17.7	-16.2	-14.9	-13.8	-12.6	-11.6
5. LT Capital Inflow	18.4	20.4	18.4	19.3	18.4	17.2	15.9	14.8	13.7	12.5
K. GDP (Current US$M)	483	504	510	525	550	580	614	650	689	729

Source: Caribbean Development Bank.

Table 1.29: ST. LUCIA - ALTERNATIVE CASE - ACTUAL AND PROJECTED KEY MACROECONOMIC INDICATORS, 1992-2001

	Est.	Projections								
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real Growth Rates:										
Gross Domestic Product (GDP)	6.6	3.0	2.5	2.5	2.5	3.5	4.0	4.0	4.0	4.0
Gross Domestic Income (GDY)	3.2	0.7	2.1	3.5	2.4	3.4	4.0	3.9	3.9	4.1
Real per Capita Growth Rates:										
Gross Domestic Product (GDP)	4.4	0.9	0.4	0.4	0.4	1.4	1.9	1.9	1.9	1.9
Total Consumption	-8.5	2.0	3.6	2.9	-1.1	-0.9	-0.0	-0.3	-0.4	-0.6
Private Consumption	-10.4	2.4	4.4	3.9	0.2	0.4	1.3	0.9	0.6	0.4
Debt and Debt Service (LT+IMF+ST):										
Total DOD (in US$)	88.5	116.5	138.8	185.6	223.5	256.7	283.8	303.1	312.3	310.5
DOD/GDP	18.3	23.1	26.6	33.8	38.5	41.3	42.5	42.3	40.5	37.5
DOD/Exports 1/	25.4	33.0	38.9	50.2	55.5	58.1	58.6	57.0	53.5	48.7
Debt Service (in US$)	11.8	11.3	12.4	16.3	24.4	31.8	45.9	59.7	68.7	78.3
Debt Service/Exports 1/	3.4	3.2	3.5	4.4	6.1	7.2	9.5	11.2	11.8	12.3
Debt Service/GDP	2.4	2.2	2.4	3.0	4.2	5.1	6.9	8.3	8.9	9.5
Interest Burden (LT+IMF+ST):										
Interest Paid	5.4	5.0	6.2	7.5	11.3	14.7	17.6	20.6	22.9	24.8
Interest/Exports 1/	1.6	1.4	1.7	2.0	2.8	3.3	3.6	3.9	3.9	3.9
Interest/GDP	1.1	1.0	1.2	1.4	1.9	2.4	2.6	2.9	3.0	3.0
Gross Investment/GDP	30.0	30.0	30.0	30.0	29.0	29.0	29.0	29.0	29.0	29.0
Domestic Savings/GDP	14.7	11.7	8.6	7.4	8.6	10.5	12.0	13.7	15.4	17.4
National Savings/GDP	15.3	10.1	7.6	5.7	6.4	7.8	9.1	10.5	12.1	13.8
Government Current Revenue/GDP	30.8	28.0	26.5	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Government Current Expenditure/GDP	19.7	19.4	19.0	18.5	18.0	18.0	18.0	18.0	18.0	18.0
Government Current Balance/GDP	11.1	8.6	7.5	7.5	8.0	8.0	8.0	8.0	8.0	8.0
Exports (GNFS) Growth	10.3	1.8	-0.1	0.3	5.3	6.1	6.1	6.2	6.2	6.2
Exports (GNFS)/GDP	67.7	64.6	62.5	61.9	63.7	65.5	66.9	68.5	70.1	71.7
Imports (GNFS) Growth	1.0	3.1	3.5	3.2	2.0	3.3	3.8	3.7	3.7	3.6
Imports (GNFS)/GDP	82.7	82.7	83.5	84.1	83.8	83.7	83.7	83.6	83.5	83.2
BOP Curr Acct (US$ million)	-70.1	-98.5	-115.1	-131.0	-129.3	-129.9	-131.5	-131.4	-128.7	-124.2
BOP Curr Acct/GDP	-14.5	-19.6	-22.0	-23.9	-22.3	-20.9	-19.7	-18.3	-16.7	-15.0

1/ As percent of Exports of Goods, Services and Private Transfers.

Source: Caribbean Development Bank.

Table 1.30: ST. LUCIA - ALTERNATIVE CASE - ACTUAL AND PROJECTED BALANCE OF PAYMENTS, 1992-2001
(US$ millions at Current Prices)

	Est.	Projections								
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
A. Exports of Goods & NFS	327	325	327	340	370	407	446	491	540	593
1. Merchandise	123	107	92	84	91	98	105	114	123	132
2. Non-Factor Services	204	219	235	255	279	309	341	377	417	461
B. Imports of Goods & NFS	399	416	436	462	486	520	558	599	644	688
1. Merchandise	313	327	343	364	383	409	439	471	506	540
2. Non-Factor Services	86	90	93	98	104	111	119	128	137	148
C. Resource Balance	-73	-91	-110	-122	-116	-113	-112	-109	-104	-95
D. Net Factor Income	-15	-26	-26	-31	-37	-42	-48	-53	-57	-61
1. Factor Receipts	4	9	9	8	9	9	10	11	12	12
2. Factor Payments	19	35	35	39	46	52	58	64	69	74
E. Net Current Transfers	18	19	21	22	24	26	28	30	32	32
F. Current Account Balance										
1. Before Official Grants	-70	-99	-115	-131	-129	-130	-131	-131	-129	-124
2. Official Capital Grants	1	1	1	1	1	1	1	1	1	1
3. After Official Grants	-69	-98	-114	-130	-128	-129	-130	-130	-128	-123
G. Long-Term Capital Inflow	89	103	105	137	136	139	141	142	140	136
1. Direct Investment (net)	74	75	83	91	98	106	114	123	131	139
2. Net LT Loans (DRS data)	15	28	22	47	38	33	27	19	9	-4
a. Disbursements	21	34	28	55	51	50	55	58	55	50
b. Repayments Due	6	6	6	9	13	17	28	39	46	53
3. Other LT Inflows (net)	0	0	0	0	0	0	0	0	0	0
H. Total Other Items (net)	-14	0	0	0	0	0	0	0	0	0
I. Changes in Net Reserves	-6	-5	9	-7	-8	-10	-11	-12	-12	-12
1. Net Credit from the IMF	0	0	0	0	0	0	0	0	0	0
2. Other Reserve Changes (- indicates increase)	-6	-5	9	-7	-8	-10	-11	-12	-12	-12
J. As Shares of GDP (current US$)										
1. Resource Balance	-15.0	-18.1	-21.0	-22.2	-20.1	-18.3	-16.8	-15.2	-13.5	-11.5
3. Current Account Balance	-14.5	-19.6	-22.0	-23.9	-22.3	-20.9	-19.7	-18.3	-16.7	-15.0
5. LT Capital Inflow	18.4	20.4	20.0	25.0	23.4	22.4	21.2	19.8	18.2	16.4
K. GDP (Current US$M)	483	504	523	549	581	621	667	716	770	827

Source: Caribbean Development Bank.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. GENERAL INFORMATION												
Area (km sq): 388												
Mid-year Population ('000)	102.8	104.0	105.5	106.9	108.2	109.5	111.0	112.4	113.1	115.0	118.0	107.6
Population Growth Rate (%)	...	1.2	1.4	1.3	1.2	1.2	1.4	1.3	0.6	1.7	2.6	...
Unemployment Rate (%)	23.5	...	...	...	...	...	30.0	...	...	...	...	19.8
Average Exchange Rate ($ per US$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
B. SOCIAL INDICATORS												
I. Vital Statistics												
Crude Birth Rate	...	31.0	31.8	30.8	26.2	26.6	24.5	23.7	22.4	22.4	22.3	24.3
Crude Death Rate	...	7.4	7.1	7.3	6.5	6.0	5.9	5.8	6.3	6.3	6.0	6.1
Infant Mortality Rate	...	46.8	40.5	37.0	26.5	20.3	24.7	23.4	21.7	21.5	20.8	19.3
Life Expectancy at Birth (years)												
Male	65.6	...	...	...	...	...	66.8	...	...	...	...	...
Female	70.9	...	...	...	...	...	72.2	...	...	...	...	...
II. Education												
School Enrollment (No.)												
Primary	24,346	24,158	24,569	24,551	24,651	24,755	24,561	24,521	24,605	25,114	24,366	24,525
Secondary	5,421	5,329	5,123	5,170	5,501	5,875	6,535	6,358	6,774	6,822	6,909	6,934
Pupil-Teacher Ratio												
Primary	...	...	...	...	19.6	19.5	19.5	19.5	17.9	22.5	18.8	22.4
Secondary	...	...	...	...	17.8	17.0	17.4	17.0	18.4	18.4	17.4	19.1
III. Health and Housing												
No. Doctors per 1000 population	...	...	...	...	...	0.3	...	0.3	...	...	...	...
No. Dentists per 1000 population	...	...	...	...	...	0.02	...	0.02	...	...	...	...
Average Household Size	4.8	...	...	...	...	...	...	...	...	...	4.8	...
C. ECONOMIC INDICATORS												
II. Annual Change of Selected Indicators												
GDP - Constant Prices (%)	3.4	3.2	5.8	5.1	9.7	4.5	7.2	6.3	8.6	7.2	7.1	4.6
Consumer Prices (%)	17.2	12.7	7.3	5.4	2.7	2.0	1.2	2.9	0.3	2.7	7.3	5.9
Money Supply (M1) (%)	...	...	...	...	...	...	...	...	...	...	...	...
Net Foreign Assets ($mn)	...	...	...	...	...	20.7	42.7	2.4	37.6	5.2	21.5	(13.1)

Table 1.31: ST. VINCENT AND THE GRENADINES: SELECTED INDICATORS, 1980-91 (con't) Page 2 of 2

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
III. Balance Of Payments (US$mn)												
1. Balance of Trade	...	...	...	(29.4)	(22.6)	(15.9)	(12.9)	(34.3)	(22.3)	(37.5)	(37.0)	(52.5)
Exports (fob)	...	...	...	42.0	53.5	63.3	63.9	51.7	85.3	74.7	82.7	67.2
Imports (cif)	...	...	...	(71.4)	(76.1)	(79.2)	(76.8)	(86.0)	(107.6)	(112.2)	(119.8)	(119.7)
2. Services Account	...	...	...	8.0	5.8	7.7	(7.4)	4.7	(2.6)	(2.4)	2.4	(2.4)
Exports	...	...	...	...	...	...	31.3	43.4	43.7	45.4	52.0	50.5
Imports	...	...	...	...	...	...	(38.7)	(38.7)	(46.3)	(47.6)	(49.7)	(52.9)
3. International Transfers (net)	...	...	...	20.3	9.5	17.1	17.9	15.5	17.4	21.4	29.2	31.1
Private	...	...	...	...	...	...	11.1	10.6	11.1	12.6	13.1	12.8
Official	...	...	...	...	...	...	6.7	4.9	6.3	8.9	16.1	18.3
4. Current Account Balance (1 + 2 + 3)	...	...	...	(1.1)	(7.3)	8.9	(2.5)	(14.1)	(7.6)	(18.4)	(5.5)	(23.8)
5. Net Capital Movements	...	...	...	...	...	...	7.7	17.9	4.2	18.2	2.6	21.8
6. Change in Reserves ( ) = increase	...	...	...	0.0	(5.2)	(5.0)	(10.3)	5.8	(1.6)	(1.0)	(3.7)	3.8
7. Current Account Balance as % of GDP	...	...	...	(1.2)	(7.1)	7.9	(2.0)	(9.9)	(4.7)	(10.6)	(2.8)	(11.4)
IV. Principal Exports ($mn)												
Bananas	16.9	27.3	24.7	29.8	32.0	45.6	52.4	53.1	86.1	89.9	120.3	99.9
Eddoes and Dasheen	2.8	5.7	7.4	11.5	24.2	34.5	31.6	11.3	21.4	8.6	5.5	6.1
Flour	3.5	17.3	15.1	14.8	17.3	19.4	15.1	16.7	18.2	18.8	19.5	18.7
Sweet Potatoes	1.3	0.8	0.7	1.2	3.0	11.0	15.4	6.0	10.8	5.1	3.7	3.5
Plantains	0.6	2.2	2.0	1.6	3.4	3.9	4.7	11.3	3.1	1.8	1.0	-
V. Central Government Operations ($mn)												
Current Revenue and Grants	40.7	55.4	68.7	76.2	84.8	101.1	107.7	110.3	123.7	133.9	152.4	159.9
Current Expenditure	44.5	59.3	61.2	70.6	87.5	90.0	97.4	99.8	110.8	128.5	150.3	139.9
Current Account Surplus/(Deficit)	(3.8)	(3.9)	7.5	5.6	(2.7)	11.1	10.3	10.5	12.9	5.4	2.1	20.0
Capital Revenue and Grants	-	-	-	-	-	-	12.5	19.5	19.5	37.5	26.4	-
Capital Expenditure	6.7	7.6	10.6	10.8	9.8	12.1	26.4	18.0	19.4	22.3	37.1	44.2
Overall Surplus/(Deficit)	(10.5)	(11.5)	(3.1)	(5.2)	(12.5)	(1.0)	(3.6)	12.0	13.0	20.7	(8.6)	(24.2)
Current Surplus/(Deficit) as % of GDP	(2.4)	(2.0)	3.3	2.2	(1.0)	3.6	3.1	2.7	3.0	1.2	0.4	3.5
Overall Surplus/(Deficit) as % of GDP	(6.6)	(5.9)	(1.4)	(2.0)	(4.5)	(0.3)	(1.1)	3.1	3.0	4.4	(1.6)	(4.3)
VI. Domestic Credit by Sector ($mn)												
Total Domestic Credit	...	...	...	...	172.9	174.6	168.1	191.1	217.5	262.2	272.1	300.4
Private Sector	...	...	...	...	105.3	107.8	109.4	131.4	160.1	191.0	207.4	241.6
Productive Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Services Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Other Sectors	...	...	...	...	...	...	...	...	...	...	...	...
Public Sector	...	...	...	...	67.6	66.8	58.7	59.7	57.4	71.2	64.7	58.8
Central Government (net)	...	...	...	...	23.6	21.8	36.8	37.1	32.0	47.5	39.8	33.7
Other Public Sector	...	...	...	...	44.0	45.0	21.9	22.6	25.4	23.7	24.9	25.1
VII. External Debt Outstanding (US$mn)												
Total External Debt Outstanding	9.7	16.2	18.3	20.9	24.8	25.1	26.1	34.9	45.0	50.9	56.4	65.8
Debt Service	0.4	0.6	1.4	1.4	1.9	2.2	1.7	2.2	2.8	3.1	3.4	4.3
Interest	0.3	0.3	0.6	0.7	1.0	0.7	0.7	0.9	1.1	1.5	1.5	1.8
Amortization	0.1	0.3	0.8	0.7	0.9	1.5	1.1	1.3	1.7	1.7	2.0	2.5
Debt Service as % of GDP	0.7	0.8	1.7	1.5	1.9	2.0	1.4	1.5	1.7	1.8	1.8	2.1
Debt Service as % of Current Revenue	2.7	2.9	5.5	5.0	6.0	5.9	4.3	5.4	6.1	6.2	6.0	7.3
Debt Service Ratio	1.6	1.6	3.0	3.0	3.2	2.7	1.8	2.3	2.2	2.6	2.5	3.7

Source: National Governments and Caribbean Development Bank.

Table 1.32: ST. VINCENT AND THE GRENADINES - BASE CASE - KEY INDICATORS, 1992-2000

	Prel.	Est.	Projections						
	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP Growth Rate	5.0	2.0	0.5	1.0	1.5	2.0	2.3	2.8	3.0
GNP Growth Rate	5.0	2.4	2.7	1.1	1.6	2.2	2.4	3.0	3.2
GNP/Capita Growth Rate	4.1	1.5	1.9	0.3	0.8	1.3	1.6	2.2	2.4
Pvt.Cons/Capita Growth Rate	6.5	2.5	-0.7	-0.4	-0.4	0.8	0.7	1.5	1.9
Total DOD/(in US$)	63.2	73.8	84.7	93.0	100.2	108.6	116.8	123.6	128.2
DOD/XGS	48.1	61.2	71.6	76.7	78.7	80.6	81.6	81.1	78.8
DOD/GDP	27.6	31.2	35.2	37.3	38.4	39.4	40.2	40.1	39.0
Total Debt Service (in US$)	4.7	4.8	5.5	6.5	6.8	7.2	8.1	8.4	8.9
Debt Service/XGS	3.6	4.0	4.6	5.3	5.3	5.4	5.7	5.5	5.4
Debt Service/GDP	2.1	2.0	2.3	2.6	2.6	2.6	2.8	2.7	2.7
Debt Service/Current Revenue a/	7.9	8.1	9.5	11.3	11.3	11.9	12.7	12.4	12.3
Interest/XGS	1.4	1.5	1.9	2.2	2.4	2.5	2.6	2.6	2.6
Interest/GDP	0.8	0.8	0.9	1.1	1.2	1.2	1.3	1.3	1.3
Gross Investment/GDP	31.0	31.0	30.0	29.5	29.5	29.0	29.0	29.0	29.0
Domestic Savings/GDP	12.9	6.4	3.6	2.1	2.1	1.9	2.1	2.3	2.6
National Savings/GDP	22.5	17.3	17.9	17.7	18.7	19.5	20.7	21.9	23.1
Current Revenue/GDP	26.0	25.0	24.0	23.0	23.0	22.0	22.0	22.0	22.0
Current Expenditure/GDP	21.8	24.0	24.5	25.0	25.0	25.0	25.0	25.0	25.0
Current Account Balance	4.2	1.0	-0.5	-2.0	-2.0	-3.0	-3.0	-3.0	-3.0
Export Growth Rate (G&NFS)	3.8	-0.0	1.5	1.8	2.2	2.5	2.8	2.8	2.8
Exports/GDP (G&NFS)	55.5	49.0	47.2	46.6	46.7	46.9	47.2	47.4	47.5
Import Growth Rate (G&NFS)	4.1	2.0	0.1	0.8	1.4	1.6	2.1	2.4	2.6
Imports/GDP (G&NFS)	72.9	72.7	72.7	73.2	73.5	73.5	73.7	73.8	73.8
Current Account (US$)	-17.9	-29.9	-26.6	-27.3	-26.2	-24.4	-22.6	-20.6	-18.6
Current Account/GDP	-7.8	-12.6	-11.0	-11.0	-10.0	-8.9	-7.8	-6.7	-5.7
Terms of Trade Index	105.1	86.4	77.0	71.8	70.0	68.8	68.3	68.3	68.3

Source: Caribbean Development Bank.

Table 1.33: ST. VINCENT AND THE GRENADINES - BASE CASE - BALANCE OF PAYMENTS PROJECTIONS, 1990-2000
(US$ million)

	Prel.	Est.	Projections						
	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. Exports of Goods & NFS	127	116	114	116	122	129	137	146	156
1. Merchandise (FOB)	71	57	51	49	49	51	53	56	59
2. Non-Factor Services	56	59	63	67	73	78	84	90	97
B. Imports of Goods & NFS	167	172	175	182	192	202	214	228	243
1. Merchandise (CIF)	143	148	150	157	165	174	185	196	209
2. Non-Factor Services	24	24	25	25	27	28	30	31	33
C. Resource Balance	-40	-56	-61	-66	-70	-73	-77	-82	-87
D. Net Factor Income	-14	-13	-9	-9	-9	-9	-9	-9	-9
1. Factor Receipts	4	5	5	5	5	6	6	6	7
2. Factor Payments	18	18	13	14	14	14	15	15	15
E. Net Current Transfers	36	39	43	48	52	58	63	70	77
F. Current Account Balance	-18	-30	-27	-27	-26	-24	-23	-21	-19
G. Long-Term Capital Inflow	19	30	31	29	28	26	25	23	21
1. Direct Investment	9	10	10	10	11	11	11	12	12
2. Official Capital Grants	7	10	10	10	10	7	5	4	4
3. Net MLT Loans (DRS data)	3	11	11	8	7	8	8	7	5
a. Disbursements	6	14	14	12	11	12	13	11	9
b. Repayments	3	3	3	4	4	4	4	4	5
H. Total Other Items (net)	-1	0	0	0	0	0	0	0	0
I. Changes in Net Reserves	-1	-0	-4	-1	-2	-2	-2	-2	-2
Shares of GDP (Current US$):									
1. Resource Balance	-17.5	-23.6	-25.4	-26.6	-26.8	-26.6	-26.5	-26.4	-26.3
2. Total Interest Payments	0.8	0.8	0.9	1.1	1.2	1.2	1.3	1.3	1.3
3. Current Account Balance	-7.8	-12.6	-11.0	-11.0	-10.0	-8.9	-7.8	-6.7	-5.7
4. LT Capital Inflow	8.3	12.7	12.9	11.5	10.6	9.5	8.4	7.4	6.4
Memorandum Item:									
GDP (Mlns. of Current US$)	229	237	241	249	261	275	291	309	329
Foreign Exchange Reserves:									
1. Gross Reserves incl. Gold	25	25	30	31	33	34	36	38	41
2. Gross Res. in Months Imports (G&S)	1.6	1.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9

Source: Caribbean Development Bank.

Table 1.34: ST. VINCENT AND THE GRENADINES - ALTERNATIVE CASE - KEY INDICATORS, 1990-2000

	Prel.	Est.	Projections						
	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP Growth Rate	5.0	3.0	1.8	2.8	3.5	3.8	4.0	4.5	4.5
GNP Growth Rate	5.0	4.8	2.8	3.0	3.7	4.1	4.3	4.7	4.7
GNP/Capita Growth Rate	4.1	4.0	2.0	2.2	2.9	3.2	3.4	3.9	3.9
Pvt.Cons/Capita Growth Rate	6.5	2.3	-1.7	0.3	0.0	1.4	1.7	2.6	2.5
Total DOD/(in US$)	63.2	75.8	87.5	100.0	112.7	128.8	138.0	146.2	151.5
DOD/XGS	48.1	61.6	71.0	77.6	81.4	85.8	84.4	82.0	77.8
DOD/GDP	27.6	31.7	35.5	38.5	40.7	43.3	43.2	42.4	40.7
Total Debt Service (in US$)	4.7	4.8	5.6	6.5	7.0	7.6	8.7	9.0	9.5
Debt Service/XGS	3.6	3.9	4.5	5.1	5.1	5.0	5.3	5.1	4.9
Debt Service/GDP	2.1	2.0	2.3	2.5	2.5	2.5	2.7	2.6	2.5
Debt Service/Current Revenue 1/	7.9	8.0	9.4	10.3	10.2	10.2	10.7	10.3	10.0
Interest/XGS	1.4	1.5	1.8	2.1	2.3	2.5	2.6	2.6	2.5
Interest/GDP	0.8	0.8	0.9	1.1	1.2	1.2	1.3	1.3	1.3
Gross Investment/GDP	31.0	31.0	32.0	32.0	33.0	33.0	33.0	33.0	33.0
Domestic Savings/GDP	12.9	7.1	5.8	5.0	5.9	6.5	7.4	8.2	9.1
National Savings/GDP	22.5	19.2	19.9	20.1	21.8	23.1	24.7	26.1	27.5
Current Revenue/GDP a/	26.0	25.0	24.0	24.5	24.8	25.0	25.5	25.5	25.5
Current Expenditure/GDP a/	21.8	24.0	22.0	21.5	21.0	20.5	20.0	20.0	20.0
Current Account Balance a/	4.2	1.0	2.0	3.0	3.8	4.5	5.5	5.5	5.5
Export Growth Rate (G&NFS)	3.8	2.5	3.8	4.6	5.2	5.2	5.2	5.3	5.3
Exports/GDP (G&NFS)	55.5	49.6	48.0	47.5	47.8	48.2	48.8	49.4	50.0
Import Growth Rate (G&NFS)	4.1	2.8	2.4	2.6	3.6	3.3	3.4	3.8	3.8
Imports/GDP (G&NFS)	72.9	72.5	73.2	73.8	74.3	74.2	74.1	74.0	73.8
Current Account (US$)	-17.9	-25.7	-27.2	-28.8	-29.0	-27.6	-25.1	-22.6	-19.4
Current Account/GDP	-7.8	-10.8	-11.0	-11.1	-10.5	-9.3	-7.9	-6.5	-5.2
Terms of Trade Index	105.1	86.0	75.8	69.9	67.2	65.5	64.8	64.5	64.3

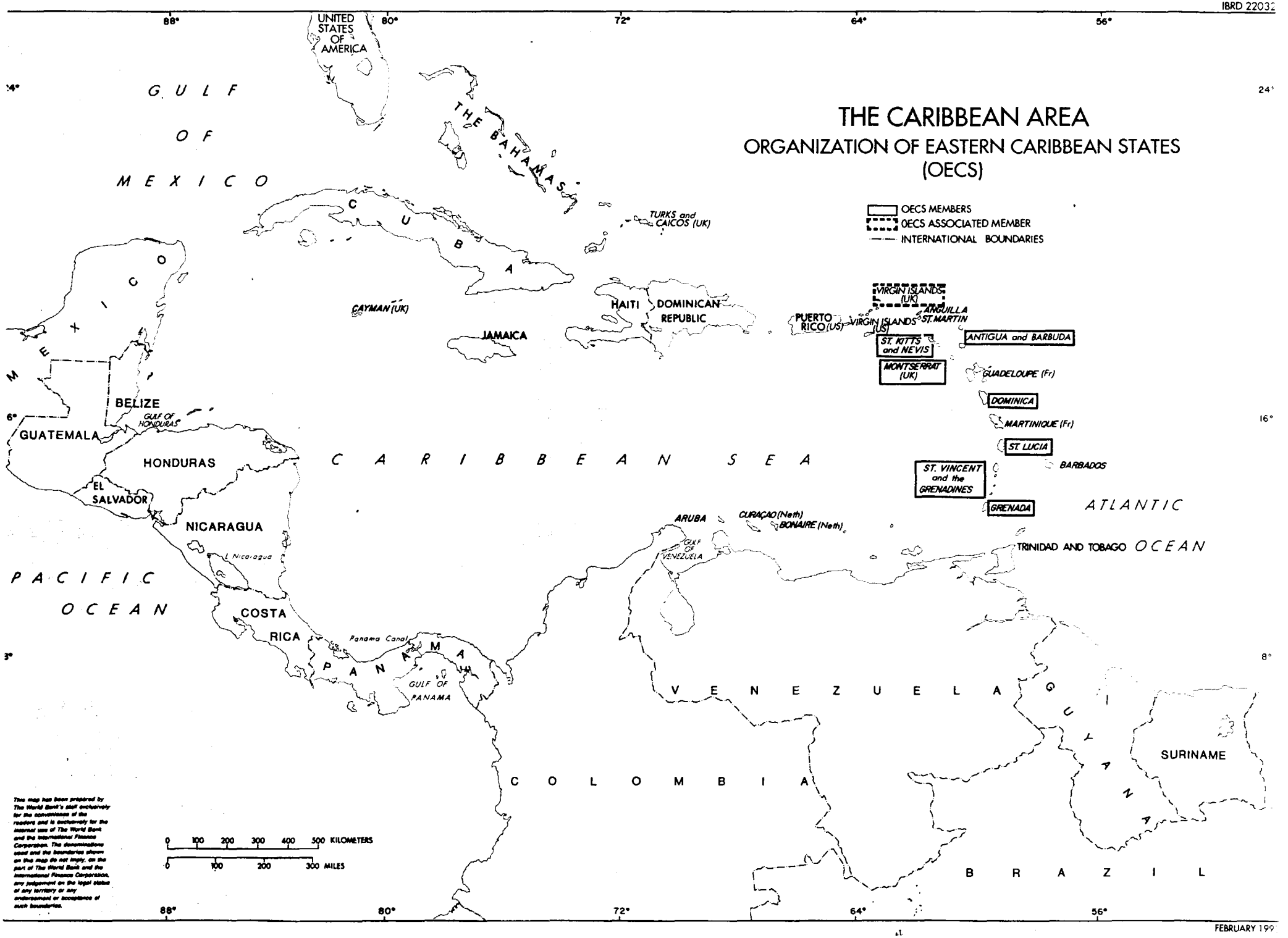
1/ Central Government.

Source: Caribbean Development Bank.

Table 1.35: ST. VINCENT AND THE GRENADINES - ALTERNATIVE CASE - BALANCE OF PAYMENTS PROJECTIONS, 1990-200
(US$ million)

	Est.	Projections						
	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. Exports of Goods & NFS	127	119	118	123	132	143	156	170	186
1. Merchandise (FOB)	71	59	53	52	54	57	60	64	69
2. Non-Factor Services	56	60	65	71	78	87	96	106	117
B. Imports of Goods & NFS	167	173	180	192	206	221	237	255	275
1. Merchandise (CIF)	143	149	155	165	178	191	205	220	238
2. Non-Factor Services	24	24	25	26	28	30	32	35	37
C. Resource Balance	-40	-55	-62	-68	-73	-77	-81	-85	-89
D. Net Factor Income	-14	-10	-8	-8	-8	-8	-8	-7	-7
1. Factor Receipts	4	5	5	6	6	7	8	8	9
2. Factor Payments	18	15	13	14	14	15	15	16	16
E. Net Current Transfers	36	39	43	48	52	58	63	70	77
F. Current Account Balance	-18	-26	-27	-29	-29	-28	-25	-23	-19
G. Long-Term Capital Inflow	19	32	33	34	36	37	29	27	24
1. Direct Investment	9	9	11	12	13	14	15	15	15
2. Official Capital Grants	7	10	10	10	10	7	5	4	4
3. Net MLT Loans (DRS data)	3	13	12	12	13	16	9	8	5
a. Disbursements	6	16	15	16	17	20	14	13	10
b. Repayments	3	3	3	4	4	4	4	4	5
H. Total Other Items (net)	-1	0	0	0	0	0	0	0	0
I. Changes in Net Reserves	-1	-6	-6	-6	-7	-9	-4	-5	-5
Shares of GDP (Current US$):									
1. Resource Balance	-17.5	-22.9	-25.3	-26.3	-26.5	-26.0	-25.3	-24.6	-23.8
2. Total Interest Payments	0.8	0.8	0.9	1.1	1.2	1.2	1.3	1.3	1.3
3. Current Account Balance	-7.8	-10.8	-11.0	-11.1	-10.5	-9.3	-7.9	-6.5	-5.2
4. LT Capital Inflow	8.3	13.4	13.4	13.3	12.9	12.4	9.2	7.9	6.6
Memorandum Item:									
GDP (Mlns. of Current US$)	229	239	246	259	277	297	319	345	372
Foreign Exchange Reserves:									
1. Gross Reserves incl. Gold	25	31	37	43	49	59	63	68	73
2. Gross Res. in Months Imports (G&S)	1.6	2.0	2.3	2.5	2.7	3.0	3.0	3.0	3.0

Source: Caribbean Development Bank.



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