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## The Caribbean



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## Bahamas

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### 1. General trends

In 2004, economic growth (2.8%) was higher than in the previous year (1.9%), despite the effects of hurricanes Jeanne and Frances, which hit the country in September and caused total damage estimated at 7% of GDP.

Tourism, transport, telecommunications and, to a lesser extent, fishing were among the sectors worst affected. Nevertheless, tourism made a rapid recovery, recording an unprecedented number of visitors in 2004. Construction, driven in part by the reconstruction and rehabilitation work, also made a significant contribution to economic growth.

The improvement in the economy, which brought the unemployment rate down from 10.8% in 2003 to 7% in 2004, also had a positive impact on tax receipts. This factor, together with rigorous control of public spending, reduced the fiscal deficit from 2.4% in fiscal year 2003 to 2.3% in 2004.<sup>1</sup>

The monetary policy stance was closely linked to fiscal goals. Accordingly, for most of the year the central bank deployed a tight policy based on direct controls of expansion in liquidity, which it cautiously loosened at

the end of the year. This policy contributed in part to the reduction in the inflation rate.

The balance of payments returned a surplus, thanks to the increase in the positive balance on the capital and financial account which, excluding errors and omissions, was more than sufficient to compensate for the current account deficit. This deficit, in turn, was significantly lower than the year before (8% and 4% of GDP in 2003 and 2004, respectively).

The consequent accumulation of reserves in the financial system, together with the improved quality of the commercial banks' portfolios, prompted the monetary authorities to change their policy stance in 2005. They proceeded to lower the reference interest rates in order to stimulate economic activity. The government also plans a significant rise in public spending for fiscal year 2005.

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### 2. Economic policy

#### (a) Fiscal policy

The central government fiscal deficit diminished as a result of the expansion of current income (equivalent to 16.9% and 18.1% of GDP in fiscal years 2003 and 2004, respectively) while public spending increased from 19.6% to 20.6% in 2004. This occurred despite the negative impact of hurricanes Jeanne and Frances on tax collection and the higher public spending occasioned by reconstruction activities.

The rise in tax collection (9.8%), especially taxes on commerce and international transactions, which account for 55% of the total, made a significant contribution to the increase in public revenues. Efforts to improve stamp tax collection, which was 55% higher than in the previous fiscal year, also contributed to this result.

As for disbursements, current expenditure rose by 18.1% and 18.6% of GDP in fiscal years 2003 and 2004, respectively, while capital spending increased from 1.5% to 2% of GDP over the same periods.

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<sup>1</sup> Fiscal year 2004 runs from 1 June 2004 to 31 May 2005.

The fiscal deficit was financed mainly through local-currency loans. The government's obligations in Bahamas dollars, amounting to 86% of total debt, were up by 10% at the end of 2004. State enterprises are the main holders of public debt (40%), followed by private and institutional investors (28%), local commercial banks (24%) and the central bank (8%). Meanwhile, the government made payments on external debt principal, which reduced its external debt stock from US\$ 603 million in 2003 to US\$ 559 million in 2004, or from 11% to 9% of GDP.

The authorities estimate that the fiscal deficit will be equivalent to 2.8% of GDP in fiscal year 2005. Current spending is expected to increase by 5.5%, mainly as a result of payroll expenses and expenditure on social programmes for public-sector employees. The wage policy has been drawn up in response to demands that have resulted from labour negotiations between the government and the trade unions.

Capital spending will grow from 2% of GDP in fiscal year 2004 to 2.7% in 2005. Of the total planned capital expenditure, 33% is earmarked for the ministry of public works and services, and 10% for the ministry of education, in order to improve public education facilities.

### **(b) Monetary and exchange-rate policies**

During the first eight months of the year the authorities maintained the tight monetary policy stance adopted in 2001, based on quantitative restrictions on commercial bank lending.

Increased inflows of foreign currency swelled international reserves and bank liquidity, and improved the quality of commercial bank portfolios. Accordingly, the central bank eased its monetary stance. Bank liquidity, measured by the level of voluntary reserves, grew by 47% in 2004.

Improved portfolio quality was reflected in a decline in loans arrears, with the non-performing portfolio narrowing from 5.3% of the total in 2003 to 4.9% in 2004. The share of bad loans in bank balances also diminished. Payment arrears declined as a proportion of secured private loans, from 10.4% in 2003 to 9.4% in 2004.

In September the authorities began to adopt a more flexible credit policy. The banks were allowed to resume lending operations, albeit on two conditions. First, the increase in their personal loans portfolio must not exceed the equivalent of 15% of net assets and, second, they must not extend loans whose servicing would exceed the range of 40% to 45% of the borrower's monthly income.

In accordance with the monetary policy shift, interest rates came down. The real weighted average interest rate on loans went down from 8.1% in 2003 to 6.8% in 2004 and the weighted average rate on deposits decreased by 0.25 percentage points. The banks took advantage of their improved portfolios to purchase government paper, thus bringing down the corresponding interest rate from 1.6% in 2003 to 0.3% in 2004 and lightening the burden of local-currency public-debt servicing.

Although the expansion of credit supply slowed after the passage of hurricanes Jeanne and Frances in the month of September, the figure for 2004 (5%) still exceeded that of the previous year (1%). Credit to the private sector rose by 6% (compared to 0.6% in 2003), with significant growth in personal loans, real estate mortgages and consumer credit (10.2%, 14.6% and 6.2%, respectively).

International reserves showed an unprecedented 38% year-on-year expansion at the end of 2004, which resulted in a coverage of non-petroleum imports of 21.7 weeks, compared to 16.6 in 2003.

These monetary trends strengthened in 2005. Credit to the private sector, especially to commercial establishments, grew rapidly. In addition, the continued expansion of liquidity in the economy (with reserves at US\$ 800 million) and in the commercial banks has prompted a further loosening of monetary policy. The sale of public assets, such as state properties at Cable Beach, has helped to create this situation of abundant liquidity.

At the beginning of 2005 the discount rate for open-market operations went from 5.5% to 5.25%. The commercial banks lowered their prime lending rate from 6% to 5.5%, which should boost the activity of enterprises that finance their operations with such loans, including mortgage-lending and commercial establishments.

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## **3. The main variables**

### **(a) Economic activity**

Economic activity improved in relation to the previous year and was based on growth in tourism, construction and

financial services. The country is expected to maintain its growth trend in 2005 with a rate of 3.5%.

The number of visitors rose 8.9% to 5 million (an unprecedented figure, despite the damage caused by the

Table 1  
**BAHAMAS: MAIN ECONOMIC INDICATORS**

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates <sup>b</sup></b>									
<b>Gross domestic product</b>	4.2	4.9	6.8	4.0	1.9	0.8	1.4	1.9	2.8
<b>Per capita gross domestic product</b>	2.6	3.4	5.3	2.5	0.4	-0.6	0.0	0.5	1.4
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	8.7	0.1	-2.4	-6.8	8.8	-6.9	20.7	-3.5	3.8
Mining	-24.9	5.1	-1.2	-22.3	11.6	3.4	0.2	13.5	24.8
Manufacturing	11.4	8.8	-4.0	-0.6	7.4	13.0	2.2	-2.6	-1.7
Electricity, gas and water	0.3	7.5	11.3	2.4	0.2	11.3	3.6	7.9	2.5
Construction	7.2	32.0	21.2	8.3	13.3	-13.3	6.2	-0.9	0.8
Wholesale and retail commerce, restaurants and hotels	5.4	0.8	8.2	11.4	-3.4	4.9	-6.4	1.9	7.1
Transport, storage and communications	15.7	4.1	12.4	0.7	10.4	-5.3	7.2	-2.3	7.0
Financial institutions, insurance, real estate and business services	1.8	12.1	10.7	9.1	5.4	3.1	2.7	0.8	1.3
Community, social and personal services	-4.7	5.6	-0.6	-0.9	-7.4	-3.4	-0.5	9.3	6.1
<b>Gross domestic product, by type of expenditure</b>									
Consumption	6.4	6.0	8.6	5.1	1.3	4.4	-1.4	2.2	2.8
General government	7.0	6.3	-0.8	-1.8	-4.9	3.8	3.5	4.6	7.3
Private	6.3	6.0	10.5	6.3	2.3	4.5	-2.1	1.8	2.0
Gross domestic investment	15.1	28.7	19.9	-0.4	13.6	-7.4	-5.6	3.5	6.4
Exports (goods and services)	3.6	1.4	0.3	7.0	5.2	-5.7	4.0	0.9	2.2
Imports (goods and services)	10.2	21.0	12.1	6.1	10.4	-4.6	-3.6	2.6	6.3
<b>Real sector indicators</b>									
Tourist arrivals	5.5	1.1	-3.1	9.0	15.2	-0.5	5.2	4.3	8.9
Value of building starts	51.1	154.4	-64.3	-0.6	19.0	-8.0	55.0	-6.9	...
Value of building completions	42.5	9.2	187.9	-7.4	-34.2	8.0	-5.9	-12.7	...
Electricity generation (MWh)	2.9	5.7	8.7	5.1	6.9	3.9	5.6	5.4	-8.0
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-263	-472	-995	-672	-471	-645	-421	-448	-229
Merchandise trade balance	-1 014	-1 116	-1 374	-1 428	-1 371	-1 387	-1 327	-1 331	-1 339
Exports, f.o.b.	273	295	363	380	805	417	422	427	471
Imports, f.o.b.	1 287	1 411	1 737	1 808	2 176	1 804	1 749	1 757	1 810
Services trade balance	862	757	542	857	1 029	819	965	888	868
Income balance	-149	-153	-198	-138	-173	-186	-102	-54	-9
Net current transfers	37	39	34	37	43	110	42	49	251
Capital and financial balance <sup>c</sup>	256	529	1 115	737	410	615	482	559	413
Net foreign direct investment	88	210	146	144	250	101	153	165	274
Financial capital <sup>d</sup>	168	319	969	593	161	514	329	393	139
Overall balance	-8	57	119	65	-61	-30	61	111	184
Variation in reserve assets <sup>e</sup>	8	-57	-119	-65	61	30	-60	-110	-183
<b>Other external-sector indicators</b>									
Gross external public debt (millions of dollars)	286	335	323	338	349	328	309	362	343
Gross external public debt (percentage of GDP)	7.6	8.1	8.1	7.7	7.5	7.0	6.1	6.7	6.0
<b>Average annual rates</b>									
<b>Employment</b>									
Open unemployment rate <sup>f</sup>	11.5	9.8	7.8	7.8	...	6.9	9.1	10.8	7.0
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	1.1	0.8	1.9	1.4	1.0	2.9	1.9	2.3	1.2
Nominal deposit rate <sup>g</sup>	5.1	5.3	5.6	4.5	4.0	4.2	4.1	3.9	3.8
Nominal lending rate <sup>g</sup>	12.6	12.8	12.3	11.8	11.7	11.5	11.3	12.0	11.2
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	20.4	20.9	...	19.8	19.1	16.7	16.7	16.9	18.1
Current expenditure	19.1	19.4	...	17.4	16.9	17.5	17.8	18.1	18.6
Net capital expenditure	2.4	2.5	...	2.3	1.7	2.0	1.6	1.5	2.0
Overall balance <sup>h</sup>	-2.0	-1.8	...	-0.8	-0.3	-1.9	-2.7	-2.4	-2.3

Table 1 (concluded)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Money and credit</b>									
Domestic credit	80.1	97.5	109.2	121.7	135.5	152.4	161.0	162.1	...
To the public sector	16.0	16.5	19.1	21.6	21.1	25.2	28.4	28.7	...
To the private sector	64.1	81.1	90.2	100.1	114.4	127.1	132.6	133.4	...
Liquidity (M3)	62.5	65.3	67.8	69.0	70.9	72.4	71.0	72.8	77.1
Currency in circulation and local-currency deposits (M2)	61.7	64.2	66.4	67.9	69.2	70.7	69.3	70.9	75.4
Foreign-currency deposits	0.8	1.1	1.4	1.1	1.7	1.8	1.7	1.8	1.7

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1991 prices. <sup>c</sup> Includes errors and omissions. <sup>d</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>e</sup> A minus sign (-) denotes an increase in reserves. <sup>f</sup> Unemployment rate as a percentage of the economically active population; nationwide total. <sup>g</sup> Weighted average. <sup>h</sup> Includes interest.

hurricanes), with 71% of the total being cruise passengers. The tourist sector benefited from a 1.5% rise in average hotel rates which, together with higher occupancy, boosted the sector's average income from 32% of GDP in 2003 to 33% in 2004.

In the first quarter of 2005, arrivals declined by 4.1% in relation to the same period of the previous year. In fact, arrivals were up 5% on Nassau/Paradise Island and down by 27% and 5% on Grand Bahama and Out Islands, respectively. In the case of Grand Bahama, the drop was the result of hurricane damage and the authorities viewed the situation as temporary. They expect a positive arrivals trend over the rest of the year, driven partly by foreign direct investment flows and increased air transport capacity.

The construction sector performed well thanks to inflows of foreign direct investment, increased liquidity in the economy, lower interest rates and the reconstruction work undertaken by the authorities after the hurricanes. Growth in construction was reflected in a 28% rise in the number of mortgages (95% of which were for residential building projects) and a 43% increase in their value.

Agriculture and fishing contracted, basically due to hurricane damage, although they were less affected than other areas of the economy. Fishing suffered a setback in terms of both volume and price (-5.5% and -10.2%, respectively). Lobster tails, which account for 72% of fishing production, were down 10%.

### (b) Prices, wages and employment

The inflation rate, measured by the average retail price index, decreased with respect to the previous year, from 2.4% to 0.9%.

This was mainly due to a contraction in the largest component of the price index—housing (33% of the total)—and, to a lesser degree, to lower prices under the headings of recreation, entertainment and other services, and other goods and services.

In contrast, the components of health and medical services, foodstuffs and beverages, and transport and communications, which together account for 33% of the total price index, showed growth of 7%, 3% and 2%, respectively.

Reflecting trends in economic activity, the unemployment rate went down from 10.8% in 2003 to 7% in 2004, absorbing a 1.5% increase in the work force.

### (c) The external sector

The balance of payments turned in a surplus of 3.2% of GDP (compared to 2% in 2003). The capital and financial account surplus (including errors and omissions) amounted to 9.7% of GDP in 2003 and 6.8% in 2004, and was more than sufficient to finance the current account deficit, which narrowed to half the level of the previous year.

The services account recorded a surplus of 15%, as a result of growth in tourism.

The trade deficit continues to represent almost a quarter of GDP, owing to an increase in imports and low growth in the export sector. This was partly because of the negative effects of the hurricanes on fishing exports. Import trends reflected the higher oil bill resulting from the rise in international fuel prices (29% in relation to the previous year).

Meanwhile, the deficit on the income balance narrowed from US\$ 54 million in 2003 to US\$ 9 million in 2004, thanks to a substantial drop in profit repatriation flows. Current transfers expanded as a result of increases in official assistance and remittances from workers resident abroad.

The capital and financial account surplus reflects flows of foreign direct investment to the tourist sector, which amounted to 3% of GDP in 2003 and 4.8% in 2004. Increases in equity investment, private borrowing and real estate sales also contributed to this result.

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## Barbados

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### 1. General trends

In 2004, the economy picked up speed and by the end of the year had reached the highest growth rate in real terms since 1999 (4.5% compared with 3.7% in 2003). The rise in GDP was the result of the dynamic expansion of tourism, construction and commerce. Despite the high economic growth rate, stable macroeconomic conditions sufficed to bring down inflation (measured on the basis of annual averages) from 1.6% in 2003 to 1.4% in 2004.

By reducing expenditure, the government was able to narrow the fiscal deficit from 2.8% of GDP to 2.2%, in accordance with the sustainability target it had set. Monetary policy was altered to reduce fluctuations in the net international reserves of the banking system, thereby protecting the fixed exchange rate and facilitating lending for private-sector production activities. The overall balance-of-payments outturn was a deficit (-6.1% in 2004), due to an increase in imports, which weakened the current account position.

Economic activity is expected to grow by 3.2% in 2005, with the impetus coming from commerce, non-sugar agriculture, and fishing and tourism. Inflation is expected to be between 1.5% and 2% as a result of higher food prices.

The fiscal deficit should stand at 2.7% of GDP on account of lower tax receipts. As far as the balance of payments is concerned, the overall deficit is expected to narrow to approximately 1% of GDP thanks to a smaller current account deficit and a larger surplus in the financial account.

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### 2. Economic policy

#### (a) Fiscal policy

The aim of fiscal policy in 2004 was to reduce the budget deficit with a view to achieving stable growth, following the countercyclical fiscal expansion that had been needed to stimulate the economy in previous years. The economic upturn contributed to the recovery in public finances in 2004, and the fiscal deficit shrank from 2.8% of GDP in 2003 to 2.2% in 2004, thus outperforming the budget target of 2.9%. The government considers a deficit of 2.5% of GDP to be sustainable in the medium- and

long-term. In general, a much more manageable fiscal position appears to have been achieved.

The decline in fiscal revenues from 34.4% of GDP in 2003 to 33.7% in 2004 was attributable to the tax measures implemented. These included a cut in the rate applied to the first 24,200 Barbados dollars of taxable personal income and a 1.5% reduction in the corporate tax rate, which translated into a drop of 4% in receipts from direct taxes. Non-tax revenues and grants were up by 1.9% in 2004, which was almost identical to the increase recorded in 2003.

Table 1  
**BARBADOS: MAIN ECONOMIC INDICATORS**

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates <sup>b</sup></b>									
<b>Gross domestic product</b>	3.2	4.6	6.2	0.5	2.4	-3.4	-0.5	3.7	4.5
<b>Per capita gross domestic product</b>	2.8	4.3	5.9	0.2	2.1	-3.7	-0.7	3.4	4.2
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	17.7	-0.6	-13.3	9.5	3.7	-9.5	-4.2	-4.0	-5.9
Mining	0.0	-1.7	49.2	8.0	-8.4	-12.6	-6.6	-8.5	1.5
Manufacturing	-0.9	3.8	3.4	-2.4	-0.5	-8.2	0.2	-0.7	1.6
Electricity, gas and water	4.3	3.8	9.1	5.0	0.0	3.7	1.8	2.8	2.2
Construction	4.0	14.2	16.9	10.0	2.6	-4.4	3.1	16.1	3.5
Wholesale and retail commerce, restaurants and hotels	2.5	5.7	9.7	-4.6	4.7	-4.4	-0.7	5.4	6.9
Transport, storage and communications	2.6	3.8	5.8	4.3	0.9	0.6	-3.0	1.4	3.2
Community, social and personal services <sup>c</sup>	2.3	3.5	4.3	1.9	1.3	-1.2	0.0	2.3	5.1
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	70	-50	-63	-148	-145	-111	-192	-198	-319
Merchandise trade balance	-456	-599	-651	-714	-744	-681	-714	-816	-980
Exports, f.o.b.	287	289	270	275	286	271	241	250	278
Imports, f.o.b.	743	888	921	989	1 030	952	955	1 066	1 258
Services trade balance	540	550	591	571	603	570	538	632	672
Income balance	-52	-48	-56	-71	-82	-93	-102	-107	-107
Net current transfers	38	47	52	66	78	93	86	93	96
Capital and financial balance <sup>d</sup>	17	54	55	182	324	326	281	386	148
Net foreign direct investment	10	14	15	16	18	17	17	301	113
Financial capital <sup>e</sup>	7	40	40	166	306	309	264	85	35
Overall balance	86	4	-7	35	179	215	89	188	-170
Variation in reserve assets <sup>f</sup>	-61	5	7	-35	-180	-216	-89	-188	170
Other financing <sup>g</sup>	-25	-9	1	1	1	1	0	0	0
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>h</sup>	102.5	98.1	100.6	101.0	100.0	98.4	100.1	103.4	107.9
Gross external public debt (millions of dollars)	481.0	428.0	453.0	492.0	605.0	539.0	755.0	737.0	792.0
Gross external public debt (percentage of GDP)	24.1	19.4	19.1	19.8	23.3	21.1	29.1	27.3	28.4
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>i</sup>	68.1	67.8	67.8	67.8	68.6	69.5	68.5	...	...
Open unemployment rate <sup>j</sup>	15.6	14.5	12.3	10.4	9.2	9.9	10.3	11.0	9.8
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December) (annual average)	...	...	...	...	3.8	-0.3	0.9	0.3	4.3
Nominal deposit rate	2.4	7.7	-1.2	1.6	2.4	2.8	0.2	1.6	1.4
Nominal lending rate	...	...	...	...	...	...	...	...	3.0
	...	...	...	...	...	...	...	...	7.4
<b>Percentages of GDP</b>									
<b>Non-financial public sector</b>									
Income	29.4	27.9	31.0	31.5	31.7	33.9	34.6	34.4	33.7
Expenditure	-30.2	-31.3	-32.1	-32.2	-33.0	-35.8	41.0	37.3	35.9
Overall balance	-0.8	-3.4	-1.1	-0.7	-1.3	-1.9	-6.4	-2.8	-2.2
<b>Money and credit</b>									
Domestic credit	62.5	62.9	63.8	67.1	69.0	71.2	75.1	73.0	74.8
To the public sector	14.5	15.9	14.1	12.6	12.7	13.3	15.7	17.6	19.4
To the private sector	48.0	47.0	49.7	54.5	56.3	57.8	59.4	55.4	55.4
Currency in circulation and local-currency deposits (M2)	...	...	...	...	...	...	99.5	100.7	110.7

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1974 prices. <sup>c</sup> Includes financial institutions, insurance, real estate and business services. <sup>d</sup> Includes errors and omissions. <sup>e</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>f</sup> A minus sign (-) denotes an increase in reserves. <sup>g</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>h</sup> Annual average, weighted by the value of merchandise exports and imports. <sup>i</sup> Economically active population as a percentage of the working-age population. <sup>j</sup> Unemployment rate as a percentage of the economically active population. Includes hidden unemployment.



Expenditure dipped slightly from 37% of GDP in 2003 to 36% in 2004, owing to the reduction in capital expenditure from 5% of GDP in 2003 to 3.8% in 2004. This reflected the completion of several large-scale projects.

The current expenditure aggregate and its headings remained at the same level as in the previous year (32% of GDP for wages, 11% for goods and services and 4% for interest). Transfers rose because the operating costs of the Queen Elizabeth Hospital, which is no longer administered directly by the central government, are now included in this category.

The fiscal deficit was financed mainly using national resources, which helped to mitigate the currency movements and exchange risks associated with international interest rates. Commercial banks contributed 143 million Barbados dollars (BDS\$), while BDS\$ 111.1 million were provided by the national insurance system. Principal payments amounted to BDS\$ 81.8 million.

Public finances weakened during the first four months of 2005, and by the end of April had accumulated a deficit of around BDS\$ 10 million. This stood in sharp contrast to the BDS\$ 14 million surplus posted for the same period in 2004. Revenues climbed by 2.7%, owing to a considerable upswing in income from corporate tax, due to higher company profits. Expenditure rose in even higher proportions (7.5%), however, as a result of payments to the Barbados Tourism Authority, the Transport Board and the University of the West Indies.

According to projections, the overall fiscal deficit is set to swell to 2.7% of GDP in 2005. In particular, capital expenditure is expected to rise as a result of work to upgrade the Kensington Oval stadium for the 2007 Cricket World Cup and other projects. Barbados will continue to open its economy progressively, with the implementation of the Caribbean Community (CARICOM) Single Market and Economy (CSME), which will mean lower tax receipts and increased competition in manufacturing and agriculture.

#### **(b) Monetary and exchange-rate policy**

In 2004, monetary policy was aimed at stemming the loss of international reserves and reducing the pressure

on the balance of payments in order to support the fixed exchange-rate system with the United States dollar and improve financial intermediation for production activities. With these aims in mind, the authorities' main policy instrument was the minimum interest rate on deposits, which they calibrated to encourage commercial banks to adjust their lending rates.

In keeping with the growing trend towards monetization of the economy, broad liquidity expanded by 7.4% to BDS\$ 4.482 billion (almost 80% of GDP). Savings deposits shot up by 15.2%, while time deposits edged up by a more moderate 4.5%; both increases were in response to a rise in household income.

An upswing in credit was partly thanks to buoyant economic activity, but the main impetus came from public sector demand. Credit to the public sector increased by almost 19% to BDS\$ 521 million (16% of GDP), while credit to the private sector slipped down to just under 47% of GDP. This sluggish growth (1.6% between 2001 and 2003) is a cause for concern, particularly as regards the relatively low level of loans to the tourism and agriculture sectors.

The banking system in Barbados has typically displayed ready liquidity. This apparently reflects the limited number of projects generating demand for the funds available and presumably, the risk-aversion of the system in general. Judging by the considerable dip in the liquid reserves held by the commercial banks in central bank deposits, however, liquidity in the banking system decreased in 2004. As a result, the liquid asset ratio dropped 5.8 percentage points to 14.3%.<sup>1</sup>

There was also a notable slowdown in the growth rate of net international reserves of the banking system, which was 2.8% compared with the high figure of 21.9% recorded in 2003.

The growth of broad liquidity is expected to pick up in 2005, given that lower personal and corporate income tax rates will lead to an increase in deposits. Recent high demand for mortgage loans should trigger a pronounced expansion in credit, which would, in turn, help to reduce liquidity in the banking system. In addition, as well as the sustained climb in international interest rates, domestic rates are expected to rise.

<sup>1</sup> The liquid assets ratio is the amount of cash plus treasury notes held by commercial banks, divided by their total assets.

### 3. The main variables

#### (a) Economic activity

The Barbadian economy had slowed down in the wake of the events of 11 September 2001 and their effects on the tourism sector, the country's main engine of growth. Economic activity recovered in 2003 and gained strength to expand by 4.5% in 2004.

The expansion was driven by both the tradable and non-tradable sectors. Tourism climbed healthily for the second year in a row, with a 9.4% increase in value added (compared with 7% in 2003). Tourist activity benefited from an increase of almost 4% in long-stay arrivals thanks to the expansion of flight seating capacity. There was an increase in the number of visitors from the main tourist markets, and the effects of the hurricane that hit Grenada also resulted in higher number of tourists visiting Barbados. In other tradable goods sectors, manufactures grew by 1.6% following the slight contraction recorded in 2003. The decline in food production was offset by encouraging increases in output in the electronics, chemical and non-metallic minerals sectors.

The sector of financial and international business services, which has become increasingly significant over time, expanded during 2004. Between January and November, 327 new licences were issued to offshore enterprises providing services to international companies.

Agriculture is still prey to competitiveness problems, since productivity has stood still in relation to foreign competitors. This is combined with limited research, technological development and innovation, and the failure to attract a sufficient number of young and inventive farmers. With the area under sugar-cane cultivation continuing to shrink, sugar production fell by 5.1% during 2004, in a fourth consecutive year of decline. The non-sugar agriculture and fishing sectors also declined owing to a dip in milk and fish production.

The non-tradable sector reported buoyant activity and posted growth of 4.5%. Most services performed well, including transport, storage, communications, government services and construction. The 3.5% expansion in construction was attributable to new residential buildings and business premises, a major hotel and public projects such as the refurbishment of Grantley Adams International Airport. Strong demand for imports, fuelled a 7% increase in the value added of wholesale and retail trade.

#### (b) Prices, wages and employment

Inflation (measured by the average retail price index) retreated slightly to stand at 1.4% in 2004, compared with 1.6% in 2003. Increases in the cost of food, medical services and personal care were offset by reductions in the cost of housing, domestic service and household items. Imported inflation remained low thanks to government subsidies, that mitigated the effects of the rise in international oil prices.

Growth had a positive effect on employment. Average unemployment dropped 1.2 percentage points to 9.8% at the end of September 2004 (compared with 11% in 2003). Unemployment fell faster among women (2.2%) than among men (0.7%). Most new jobs were generated in general services, construction, finance and business services.

In 2005, inflation is expected to be 3.2% as a result of higher food prices, and sustained growth should maintain the level of unemployment below 10%.

#### (c) The external sector

The balance of payments deteriorated considerably in 2004. The overall balance moved from a surplus of 7.0% of GDP in 2003 to a deficit of 6.1% of GDP in 2004. Capital inflows failed to offset the rise in imports (18%), and the current account deficit widened by BDS\$ 120 million to stand at an unprecedented 11.4% of GDP. Expenditure on imports of capital goods surged by over 26%, while imports of consumer goods and fuel posted more moderate, but nonetheless considerable, increases. Exports climbed by a significant 11%, but this only partly offset the rise in imports. Sugar exports rose by over 9%, owing to the positive effects of the appreciation of the euro against the United States dollar. Exports of electronic components recorded an increase for the first time since 1999.

Services grew, albeit at a lower rate than in 2003, as a result of higher tourist spending amidst record arrival figures. It is hoped that the competitiveness strategy adopted by the government in association with the private sector will continue to bear fruit in this area.

The capital and financial account surplus shrank considerably to stand at US\$ 148 million in 2004, compared with US\$ 386 million in 2003 (14.3% and 5.3% of GDP respectively). This result is linked to the lower level of incoming investment due to the completion of private projects, the lack of privatization income (unlike the situation in 2003), and an increase in national banking

institutions investing outside the country. This last factor is the result of the Second-Tier Reserve programme, under which the central bank authorized certain banks to invest some of their reserves overseas, on condition that the funds are repatriated upon request.

As a result of the worsening balance-of-payments situation, net international reserves declined by some US\$ 170.2 million, after increasing by US\$ 188 million in 2003. This was the biggest drop since 1975.

In 2005, the balance of payments is expected to improve, with an overall budgeted deficit of US\$ 73.1 million (0.8% of GDP). The current account position is also expected to improve, with the deficit decreasing by 6.5% to stand at 4.5% of GDP, on the back of continued growth in tourist spending and the consequent gains in the services account. At the same time, the financial account surplus is projected to swell with an upturn in private investment flows.



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## Belize

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### 1. General trends

The economy of Belize grew more moderately than the previous year, slowing from 9% to 4.2%. Activity was boosted by a significant increase in tourism, buoyancy in construction and manufacturing, and productivity gains in the primary sector, while basic and non-tourist services showed a less satisfactory performance.

The expansion of economic activity and the implementation of tax measures resulted in an increase in tax collection. There was also a policy of restricting capital spending and reducing the central government deficit, in accordance with the fiscal targets set by the authorities.

The budget deficit was financed with external and domestic resources, thereby expanding the country's public debt from 89% of GDP in 2003 to 93% in 2004.

In contrast to fiscal policy, monetary policy was openly expansionary for most of the year. It was based on the expansion of net domestic credit, both public and private, which increased the liquidity in the financial system.

The external sector posted a deficit of US\$ 31 million, owing to a decline in the capital and financial

account surplus, which was thus insufficient to finance the current account deficit, and the economy's international reserves were eroded as a result. The capital and financial account result was due to a contraction of foreign direct investment flows.

In 2005 the authorities plan to keep policy tight in both the fiscal and monetary domains. This policy, which should bring the fiscal deficit down to 2.8% of GDP, is aimed at curbing growth in demand and avoiding a further deterioration in the country's external position, based on increases in taxes and in the commercial bank legal reserve requirements. The authorities consider that this should not affect the growth target of over 3% per year.

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### 2. Economic policy

#### (a) Fiscal policy

The central government reduced its fiscal deficit from 6.5% of GDP in 2003 to 4.2% in 2004, thanks to a cutback in capital spending and the higher level of tax collection. The significant increase in official grants from the Chinese Province of Taiwan, up from 6 million Belize dollars in 2003 to 35 million Belize dollars in 2004, gave the authorities more room for manoeuvre. The deficit was financed from domestic resources, in particular commercial

bank credit, and external resources. Consequently, the total external debt balance grew from 76% of GDP in 2003 to 79% in 2004.

Capital spending went from 4.5% of GDP in 2003 to 2.8% in 2004 in the case of capital II expenditure, and from 5% to 4.1% over the same period in the case of capital III expenditure.<sup>1</sup> The effect of this on the overall fiscal balance was partially offset by the government's expansionary stance on spending (19.9% and 22.1% of GDP in 2003 and 2004 respectively).

<sup>1</sup> In the fiscal accounts, capital spending is subdivided into capital II and capital III. The first of these items is financed from domestic resources and the second from external funds.

Table 1  
**BELIZE: MAIN ECONOMIC INDICATORS**

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	1.5	3.6	3.7	8.8	12.3	5.0	4.2	9.0	4.2
<b>Per capita gross domestic product</b>	-1.2	1.0	1.2	6.2	9.7	2.6	1.9	6.7	2.1
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	7.1	6.7	2.2	10.7	11.1	-0.3	0.9	38.7	9.6
Mining	-4.2	-2.9	3.0	7.4	23.3	3.3	-5.4	0.0	...
Manufacturing	-0.3	4.2	-3.8	6.5	24.2	-0.7	1.5	-0.4	9.0 <sup>c</sup>
Electricity, gas and water	-5.5	4.7	1.3	8.2	9.9	0.4	2.3	8.4	-5.5
Construction	-2.1	-5.4	-2.3	16.6	38.9	-1.7	5.2	-13.7	15.3
Commerce, restaurants and hotels	3.6	5.3	8.6	9.8	11.9	8.7	3.7	5.6	4.5
Transport and communications	4.5	5.8	5.3	11.9	12.5	11.8	11.2	3.0	3.9
Financial institutions and insurance	-3.8	3.1	3.8	13.0	12.2	7.3	10.5	10.2	21.9 <sup>d</sup>
Other services	1.9	0.9	3.5	1.1	4.6	4.2	2.3	4.1	...
<b>Gross domestic product, by type of expenditure</b>									
Consumption	1.7	2.7	5.9	6.8	7.7	9.5	7.1	3.8	3.9
General government	2.1	4.0	2.1	-2.4	7.3	5.9	12.0	4.3	0.3
Private	1.6	2.4	6.7	8.6	7.8	10.1	6.3	3.7	4.5
Gross domestic investment	-3.5	0.4	-1.4	34.7	46.5	-18.5	2.3	-25.6	-2.0
Exports (goods and services)	5.3	13.2	5.1	13.0	7.2	6.9	9.4	20.3	-1.3
Imports (goods and services)	5.5	12.1	10.4	24.6	20.1	0.2	3.8	2.3	-7.4
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-7	-32	-60	-78	-139	-185	-163	-207	-187
Merchandise trade balance	-58	-90	-105	-124	-191	-214	-190	-207	-182
Exports, f.o.b.	171	193	186	213	212	275	310	316	299
Imports, f.o.b.	230	283	291	337	404	489	500	523	481
Services trade balance	47	46	41	53	53	53	53	40	53
Income balance	-26	-23	-32	-44	-54	-72	-72	-86	-111
Net current transfers	31	35	36	37	53	48	46	45	52
Capital and financial balance <sup>e</sup>	27	33	46	90	96	181	155	177	...
Net foreign direct investment	11	8	13	47	18	60	25	28	...
Financial capital <sup>f</sup>	16	25	33	43	78	122	130	142	...
Overall balance	21	1	-14	13	-43	-3	-8	-30	...
Variation in reserve assets <sup>g</sup>	-21	-1	14	-27	-52	3	5	...	...
Other financing <sup>h</sup>	0	0	0	16	95	0	3	...	...
<b>Other external-sector indicators</b>									
Gross external public debt (millions of dollars)	...	...	260	252	434	487	575	750	841
Gross external public debt (percentage of GDP)	...	...	37.8	34.5	52.1	56.1	62.0	75.8	79.0
<b>Average annual rates</b>									
<b>Employment</b>									
Open unemployment rate <sup>i</sup>	13.8	12.7	14.3	12.8	11.1	9.1	10.0	12.9	11.6
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	6.4	1.0	-0.8	-1.2	0.6	1.1	2.3	2.6	3.1
Nominal deposit rate <sup>j</sup>	6.5	6.6	6.4	5.8	5.4	4.4	4.3	4.8	...
Nominal lending rate <sup>k</sup>	16.3	16.3	16.5	16.3	16.0	15.5	14.8	14.4	...
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	...	...	...	...	...	...	...	21.4	21.8
Current expenditure	...	...	...	...	...	...	...	19.9	22.1
Current balance	2.9	2.8	2.1	2.0	1.5	1.6	3.2	1.5	-0.3
Net capital expenditure <sup>l</sup>	-0.6	-0.6	-0.4	-3.6	0.0	-1.2	0.7	8.0	4.0
Overall balance <sup>m</sup>	7.8	7.4	8.5	13.1	14.0	15.5	14.9	6.5	4.2
<b>Money and credit</b>									
Domestic credit	49.7	53.7	44.5	47.0	45.6	50.7	51.4	57.2	63.8
To the public sector	3.5	2.4	1.6	2.7	3.7	4.0	3.2	5.7	10.5
To the private sector	46.1	51.3	42.9	44.3	41.9	46.6	31.9	51.5	53.3
Currency in circulation and local-currency deposits (M2)	61.4	68.0	55.7	57.4	58.1	60.0	57.4	55.7	58.9

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 2000 prices. <sup>c</sup> Includes mining. <sup>d</sup> Includes community, social and personal services. <sup>e</sup> Includes errors and omissions. <sup>f</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>g</sup> A minus sign (-) denotes an increase in reserves. <sup>h</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>i</sup> Unemployment rate as a percentage of the economically active population. Nationwide total. <sup>j</sup> Saving rate. <sup>k</sup> Weighted average rate for loans. <sup>l</sup> Includes grants. <sup>m</sup> Includes interest.

Current spending reflected, in turn, interest payments on public debt, which accounted for half of the total. There were also rises in payroll (11.4%), retirement and other pension payments (16.5%) and subsidies (15.8%).

Total income (22.9% and 24.7% of GDP in 2003 and 2004, respectively) reflected the impact on current income of hikes in the rate of sales tax, utility rates and the business tax on commercial property rentals. Higher revenues from taxes on income and profits, as well as international transactions, also contributed to the overall income balance. In contrast, non-tax income decreased.

The data available on budget year 2005 show central government spending for the year apparently growing more rapidly than income. Nevertheless the authorities expect the policy of public spending cuts, especially in capital spending, together with the higher level of tax collection, to bring an improvement in the fiscal situation. The performance of tax collection will mainly depend on the economic growth projected.

### **(b) Monetary and exchange-rate policies**

In 2004, the authorities adopted a monetary policy which was based on expanding total net domestic credit (from 57% of GDP in 2003 to 64% in 2004), particularly commercial bank credit extended to the central government at preferential interest rates. Domestic credit to the private sector remained at levels close to the previous year, and external assets contracted. Credit to the private sector went mainly to the real estate and tourism segments (56% of

the total), private services and commercial and residential construction projects (40%).

Movements in net external assets reflected the central bank's foreign-currency sales to the government for external debt payment. This was more than sufficient to counter inflows from loans, exports of traditional products (especially sugar) and the sale of investments by the Social Security Board of Belize. Consequently, the stock of international reserves diminished from US\$ 85 million to US\$ 53 million, which resulted in a drop in the coverage rate from 2.1 months of imports in 2003 to 1.3 months in 2004.

In order to counteract the effects on prices and exchange-rate stability of the increased monetary liquidity that resulted from the operations of the Social Security Board, at the end of the year the central bank raised the legal reserve requirement from 19% to 20% for liquid assets and from 6% to 7% for cash reserves.

Be this as it may, monetary aggregates expanded in both 2004 and 2005: by 1% and 13%, respectively, in the case of narrow money, and by 4% and 13%, respectively, in the case of broad money. Liquid assets in the commercial banks rose beyond the statutory requirement (to 20% in 2003 and 36% in 2004).

The excess liquidity did not bring down commercial bank interest rates, which were similar to those of the previous year (the weighted rate of commercial bank loans was 14% in real terms). The information available for the first quarter of 2005 indicates a consolidation of these trends, which will force the authorities to shift their monetary policy stance.

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## **3. The main variables**

### **(a) Economic activity**

Economic activity grew by 4.2%, driven by rapid growth in tourism (17%), construction (15%) and agriculture (9.6%). Growth is expected to exceed 3% in 2005, thanks to a good performance by the agricultural sector and the continued expansion of tourist services.

Growth in the agricultural sector will depend on a number of factors. These include favourable weather conditions for sugar cultivation, as well as improvements in productivity and distribution. In the case of bananas, in addition to enhanced productivity and broader access to financing, the area under cultivation has been expanded. Citrus production made a good recovery from the effects of hurricane Iris, which had been felt over the past two years. In 2005, the sector will probably turn in a growth

rate of 10%, thanks to productivity gains and better promotion strategies.

The manufacturing sector recovered from a contraction of 0.4% in 2003 to post an expansion of 9% (including mining) in 2004 as the result of growth in production capacity and yields. These factors resulted in an increase in sugar extraction (that is, a lower ratio of sugarcane volume to volume of sugar produced, from 10.28 tons of cane per ton of sugar in 2003 to 9.87 in 2004), and in citrus production. Rises in the production of alcoholic (38%) and non-alcoholic (1.2%) beverages also contributed, albeit to a lesser extent. An uneven performance is projected in 2005, as sugar extraction will probably diminish owing to poor weather conditions in the first half of the year. In contrast, citrus fruit will show an expansion because of a rise in international prices.

The buoyant performance of the construction sector, which moved from a setback of 14% in 2003 to an expansion of 15% in 2004, was the result of the implementation of a series of infrastructure projects, including a hydroelectric plant, two new casinos and a number of commercial and residential buildings. In 2005, construction will be negatively affected by the policy of fiscal austerity, while projects financed from external resources will have a positive impact.

Tourism maintained its growth trajectory on the back of cruise-ship arrivals. The number of arrivals increased apace to 766,000, representing a 50% expansion. Long-stay tourist arrivals rose by 5%, to reach 219,657. In the first quarter of 2005, the number of cruise passengers and long-stay visitors rose by 15% and 2%, respectively, in relation to the same period of the previous year.

The rise in average hotel rates, from 167.41 to 186.85 Belize dollars between 2003 and 2004, and in the number of rooms available brought an increase in total spending by overseas visitors, from 15.8% to 16.3% of GDP for those years.

In 2005 moderate growth is projected for tourism. The flow of long-stay tourists should increase by 5% and cruise visitors by 10%.

#### **(b) Prices, employment and wages**

The inflation rate rose slightly (by 2.6% and 3.1% in 2003 and 2004, respectively), in response to rises in international petroleum prices, in the rates on sales tax and the business tax on commercial property rentals, and in water utility rates.

With regard to the components of the price index, the main drivers of inflation were transport and communications (5.5%), public services (5.3%) and food and beverages (2.5%).

In 2005, the tight policy measures planned may slow the rate of inflation, but higher taxes will probably be reflected in price increases.

The reduction in the unemployment rate from 12.9% in 2003 to 11.6% in 2004 is attributable to the rapid creation of new jobs in the services sector, in particular tourism and other services, and to the recovery of agriculture and manufacturing.

#### **(c) The external sector**

The overall balance was negative to the tune of US\$ 31 million, given that the current account deficit, which was equivalent to 16.7% of GDP, exceeded the

13.9% surplus on the capital and financial account. In consequence, reserve assets declined.

At 16% of GDP, the current account deficit was smaller than the figure of 18.3% recorded in 2003, thanks to the narrowing of the trade deficit (from 21.1% of GDP in 2003 to 16.2% in 2004) and an expansion in the services account surplus. The trade balance reflected a contraction in imports (estimated at 10% of GDP), more specifically, in external purchases of food and transport machinery and equipment, as well as smaller demand for goods imported for the export processing zones.

Exports were down because the drop in free-zone exports outweighed an increase in external sales of national products. The performance of national exports is related to the high growth in agricultural production, despite the drop in international prices of some products. Free-zone exports were affected by the higher level of customs controls and preferential prices for the sale of gasoline in the Mexican border town of Chetumal.

The surplus on the services balance, which went from 4% of GDP in 2003 to 5% in 2004, again showed vigorous growth as a result of the increase in the travel component (US\$ 73 million and US\$ 92 million in 2003 and 2004, respectively). In contrast, the components of transport and other goods and services showed net outflows of US\$ 17 million and US\$ 22 million, respectively.

Unilateral transfers, which amounted to US\$ 45 million and US\$ 52 million in 2003 and 2004, respectively, reflected an increase in official grants, since remittances showed a decline of US\$ 4 million.

The capital and financial account surplus was basically the result of net direct foreign investment flows, which amounted to US\$ 145 million in 2004. Investments went mainly to the tourist industry, the real estate sector and the purchase of equity in state enterprises. Albeit to a lesser degree, this surplus also reflected the implementation of external debt forgiveness programmes by Europe and the United States, for an amount of US\$ 4 million.

The authorities project a narrowing of the external deficit, thanks to the tight policy measures announced, as well as the improvements expected in export performance. This second factor will reflect rises in productivity in the traditional sectors (including fishing), an increase in the area under cultivation for some agricultural products, and better financing conditions. The authorities consider that the increase in administrative efficiency, more intensive use of inputs, and favourable international prices for citrus fruits and some other products will help to achieve the projected result.



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## Cuba

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### 1. General trends

In 2004, GDP increased by 3% and, despite adverse circumstances, the balance-of-payments current account posted a surplus after decades of negative external balances. This was driven by a 21% rise in exports of goods and services, mainly of nickel and tourist and professional services, as well as public services. The country suffered the worst drought in 100 years and the onslaught of two hurricanes, Charley and Ivan. The hurricanes caused damage that required contingency public transfers of the order of US\$ 3 billion (8.8% of GDP). This was compounded by a crisis in the country's electric power system and the tightening of the economic embargo, which increased restrictions on remittances and travel to Cuba and put pressure on foreign banks, thus encumbering the country's external financial flows.

In November 2004 the United States dollar was withdrawn from cash circulation and replaced by the convertible Cuban peso (CUC). As of 18 March 2005, the exchange rate in the parallel market was set at 24 non-convertible Cuban pesos (CUP) per convertible peso or United States dollar for personal transactions, while the official rate remained at one to one.

The Cuban economy grew by about 6% in the first quarter of 2005. The year is expected to end with a 5% increase in output, driven by a greater availability of foreign currency thanks to the increased value of nickel exports and rapid growth in tourist services. Terms of trade are likely to be further eroded, however, by higher international prices for crude petroleum and foodstuffs.

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### 2. Economic policy

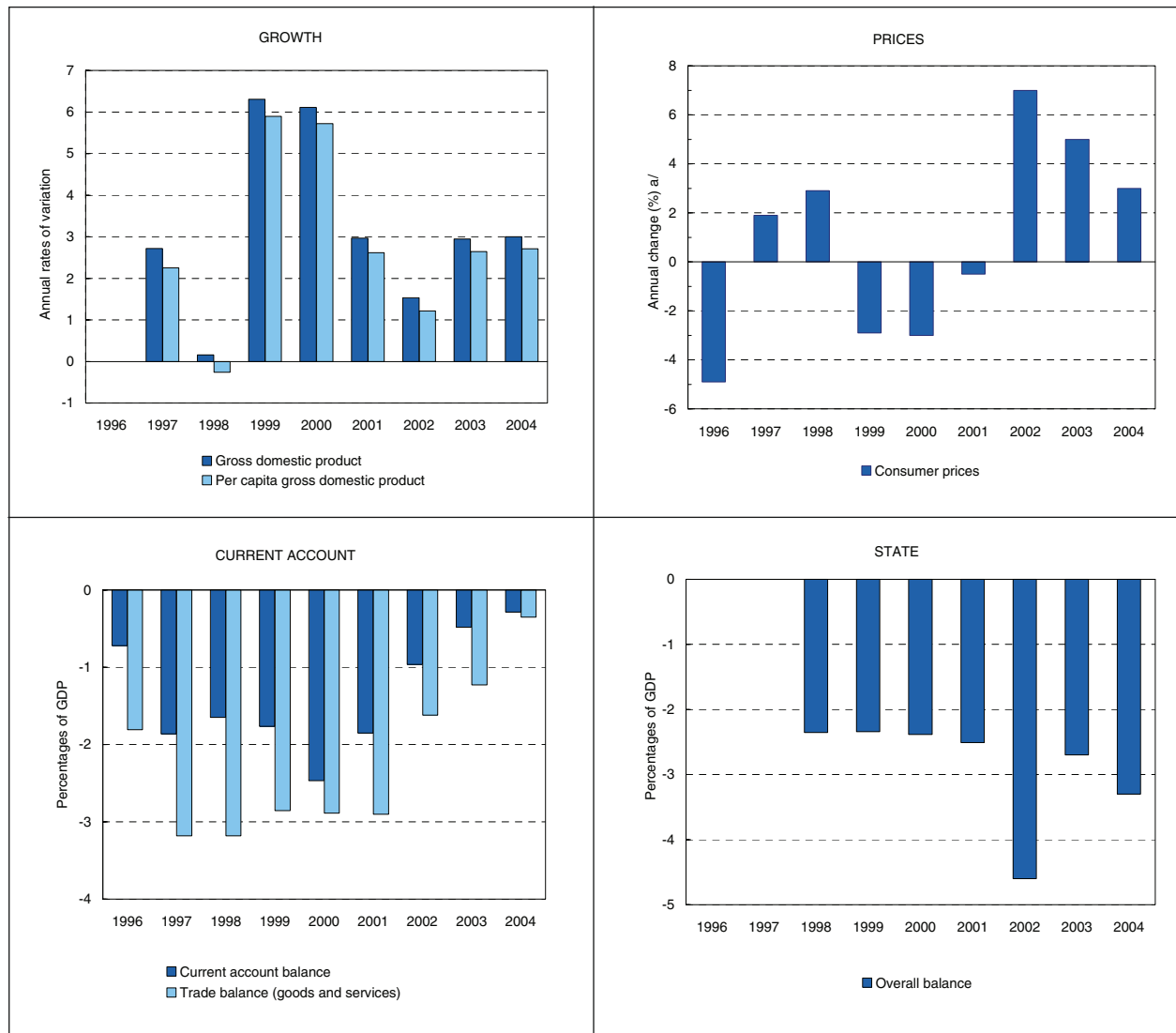
#### (a) Fiscal policy

The fiscal deficit (4.2% of GDP, compared to 3.3% in 2003) exceeded the 3.5% limit established in the framework of economic policy. Accordingly, the State Council authorized the financing of the deficit by the Central Bank of Cuba (BCC), as no public credit system exists in the country. Usually, the commercial banks buy public debt and the central bank repurchases it to regulate the level of monetary liquidity in the economy.

The larger fiscal deficit reflected the fact that the rise in expenditure (12.4%) exceeded income growth (11.2%); current income expanded by 11.8%, while capital income declined by 8.4%. Within current income, non-tax revenue rose faster than tax revenue (40.4% and 3.5 %, respectively).

The increase in tax income reflected higher revenues from both direct and indirect taxes (7.3% and 0.9%, respectively). Receipts from circulation and sales taxes showed an increase of 0.9% apiece and revenue from

Figure 1  
CUBA: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> December-December variation.

service taxes was up 1%. Social security contributions also expanded (10.4%), owing to the greater number of workers included in the corporate development programme and a rise in the tax rate (12.6% instead of the 12% rate in place up to the previous year). Profit tax revenues also rose (5.9%), thanks to growth in economic activity.

With regard to spending, there was a higher increase in capital spending (17%) than in current spending (11.8%). This reflects increased investment in social services, especially education, health, and sports and culture, as

well as resources channelled to the agricultural sector in response to the adverse natural phenomena mentioned above. Current disbursements included financing for the expansion of social programmes.

There was also an increase in transfers to State enterprises and to private producers (8.9%), mainly in agricultural activities, the sugarcane segment and construction, owing to drought and hurricane damage. Expenditure on defence and public order rose (6.5%), in connection with the worsening of the dispute with the United States.

### (b) Monetary and exchange-rate policies

As of 15 November 2004, the circulation of United States dollars in cash was prohibited. The main provisions of the measure were as follows:

(i) Individuals may hold unlimited foreign currency and their bank deposits are not affected. A grace period of three weeks was allowed for individuals to change dollars in their possession into convertible Cuban pesos free of commission. The central bank secures existing personal bank accounts in United States dollars. Unlimited withdrawals may be made in dollars or convertible pesos, as preferred, at the official rate of one to one, without tax.

(ii) All individuals, including foreign visitors, must pay a 10% commission to exchange cash dollars for Cuban pesos (whether CUC or CUP). This commission is intended to cover the costs of depreciation of the dollar and the risks inherent in handling it. This charge is not applicable to other foreign currencies or to transactions with credit or debit cards accepted on the island.

(iii) Transactions in hard-currency shops are to be conducted in convertible Cuban pesos, euros, Canadian dollars, Swiss francs and pounds sterling according to the exchange rate on the international market. In practice, convertible Cuban pesos will be floated on the market.

This reform, which was planned five years in advance, is intended to restore the management of monetary policy and the benefits of seigniorage to the central bank which has, it may be noted, scrupulously observed savers' existing contracts with the banking system. Lastly, the measures described apply only to the national territory, and therefore

do not affect the operation of foreign enterprises which have business in the country, nor do they limit the use of credit and debit cards, which means there is little negative impact on international tourism.

Liquidity in non-convertible Cuban pesos (M2) rose by 7.4% as a result of a greater increase in fixed-term deposits (33.3%) in relation to M1 (4.6%). Within M1, cash in circulation expanded by 11.3% and regular savings accounts deposits decreased by 3.8%. Of the funds in the banking system's 4.8 million savings accounts, 37% were placed in deposits for terms of between 3 and 36 months, although there were no changes in interest rates. A significant part of those deposits correspond to own-account workers and small farmers.

### (c) Other policies

Generally speaking, production management became more centralized, since enterprises operating in foreign currency have to buy it from the banking system after substantiating their purchase.

The public sector's foreign-currency income, including contributions, taxes, receipts and other revenues, are now deposited in a single account for foreign-currency income in the central bank, which has tightened control over the allocation of foreign currency.

Fresh restrictions were imposed on the legal exercise of own-account work in 2004, since it was limited 118 activities. A further 40 previously authorized activities were brought within the public sector. Private self-employment is construed only as a complement to State activity in the production of goods and services for the population.

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## 3. The main variables

### (a) Economic activity

In 2004, external demand grew much faster than domestic demand (11% and 2.1%, respectively). At 8%, growth in investment exceeded the 1.3% increase in consumption, and public consumption outstripped private, at 4% and 0.5%, respectively. Gross domestic investment, which amounted to 11.3% of GDP, is still below the average of the 1980s, and therefore needs to be increased. Investment is needed particularly in housing, transport, and water and electricity, which have borne the brunt of shortfalls in capital formation.

Imports of goods and services grew by 6%, above the rate of GDP (3%), in view of the structural traits of the Cuban economy, whose production system requires voluminous imports of natural resources, materials, fuel, energy resources and foods. Difficulties also arose in connection with the electricity crisis and the downturn in petroleum extraction.

The fastest-growing sectors were construction (11.2%), international tourism (10%) and public services (6.3%). Expansion in construction reflected hurricane repair work, housing construction and other projects.

International tourism was boosted by improved international promotion efforts. The government attempted

Table 1  
CUBA: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates <sup>b</sup></b>									
<b>Gross domestic product</b>	...	2.7	0.2	6.3	6.1	3.0	1.5	2.9	3.0
<b>Per capita gross domestic product</b>	...	2.3	-0.3	5.9	5.7	2.6	1.2	2.6	2.7
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	...	2.3	-14.1	11.6	9.1	0.9	-2.5	2.4	1.0
Mining	...	2.8	-11.7	2.7	33.2	-3.6	12.6	1.7	1.9
Manufacturing	...	6.2	-8.1	7.2	5.1	-0.6	0.1	-2.0	-2.0
Electricity, gas and water	...	7.0	3.7	8.1	12.8	1.1	2.4	3.1	-0.9
Construction	...	3.0	-2.6	7.5	8.4	-5.3	-2.4	4.4	11.2
Wholesale and retail commerce, restaurants and hotels	...	-0.2	5.8	0.7	7.6	4.4	2.0	5.0	2.0
Transport, storage and communications	...	3.1	15.6	17.6	5.0	8.4	0.0	2.7	5.0
Financial institutions, insurance, real estate and business services	...	1.7	5.1	12.7	0.9	5.4	1.2	0.2	3.0
Community, social and personal services	...	3.6	0.2	4.7	3.5	5.5	4.8	4.9	6.3
<b>Gross domestic product, by type of expenditure</b>									
Consumption	...	2.3	1.5	5.1	2.3	3.4	3.0	5.8	4.5
General government	...	2.3	0.1	5.2	2.9	2.2	5.8	4.5	4.0
Private	...	2.3	1.9	5.1	2.1	3.8	2.1	6.2	0.5
Gross domestic investment	...	7.6	-11.0	0.5	11.3	0.8	-10.8	-9.7	8.0
Exports (goods and services)	...	-4.9	5.8	12.8	14.1	-3.6	-3.8	5.8	11.0
Imports (goods and services)	...	-1.9	1.4	2.4	-0.2	-3.8	-7.3	12.1	6.0
<b>Percentages of GDP</b>									
<b>Investment and saving <sup>c</sup></b>									
Gross domestic investment	17.2	16.2	14.3	12.9	13.5	12.3	10.1	9.4	9.3
National saving	16.5	14.3	12.6	11.1	11.1	10.4	9.2	9.0	9.8
External saving	0.7	1.9	1.7	1.8	2.5	1.9	0.9	0.4	-0.5
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-167	-437	-392	-462	-696	-547	-277	-132	176
Merchandise trade balance	-1 790	-2 265	-2 689	-2 909	-3 120	-3 171	-2 707	-2 947	-3 063
Exports, f.o.b.	1 866	1 823	1 540	1 456	1 675	1 622	1 422	1 678	2 223
Imports, f.o.b.	3 657	4 088	4 229	4 365	4 796	4 793	4 129	4 625	5 286
Services trade balance	1 372	1 519	1 932	2 163	2 306	2 313	2 211	2 550	2 940
Income balance	-493	-483	-449	-514	-622	-502	-600	-650	-800
Net current transfers	744	792	813	799	740	813	820	915	1 100
Capital and financial balance <sup>d</sup>	174	457	409	485	805	595	300	200	800
Net foreign direct investment	82	442	207	178	448	39	0	0	0
Financial capital <sup>e</sup>	92	15	203	307	357	556	300	200	800
Overall balance	8	21	17	23	109	47	23	68	976
Variation in reserve assets <sup>f</sup>	-8	-21	-17	-23	-109	-47	-23	-68	-976
<b>Other external-sector indicators</b>									
Official exchange rate (pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Average unofficial exchange rate (pesos per dollar)	19.20	23.00	21.00	20.00	21.00	26.00	26.00	26.00	26.00
Terms of trade for goods (index: 2000=100)	136.1	131.2	126.3	115.6	100.0	103.5	103.5	110.2	109.1
Gross external public debt (millions of dollars) <sup>g</sup>	10 465	10 146	11 209	11 078	10 961	10 893	10 900	11 300	12 000
Gross external public debt (percentage of GDP) <sup>g</sup>	45.3	43.3	47.1	42.4	38.9	36.9	35.5	34.1	35.5
<b>Average annual rates</b>									
<b>Employment</b>									
Unemployment rate <sup>h</sup>	7.6	7.0	6.6	6.0	5.5	4.1	3.3	2.3	2.0
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices <sup>i</sup> (December-December)	-4.9	1.9	2.9	-2.9	-3.0	-0.5	7.0	-1.0	3.0

Table 1 (concluded)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Percentages of GDP</b>									
<b>State income and expenditure</b>									
Current income	...	...	...	...	51.7	50.0	51.5	54.8	58.6
Current expenditure	...	...	...	...	56.2	53.4	56.2	51.1	54.7
Current balance	...	...	...	...	-4.4	-3.5	-4.7	3.7	3.9
Fiscal balance	...	...	...	...	-9.5	-9.3	-9.8	-3.3	-4.2
<b>Liquidity</b>									
Currency in circulation	...	...	...	...	17.9	21.7	22.6	20.6	21.8
M1	...	...	...	...	37.3	38.5	41.1	37.1	37.1
M2	...	...	...	...	39.9	41.8	44.5	41.7	43.0

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures, and *Cuba: evolución económica durante 2000* (LC/MEX/L.525), Mexico City.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1997 prices. <sup>c</sup> Based on figures in local currency expressed in dollars at current prices. <sup>d</sup> Includes errors and omissions. <sup>e</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>f</sup> A minus sign (-) denotes an increase in reserves. <sup>g</sup> Calculated using the official exchange rate of 1 peso to the dollar. <sup>h</sup> Unemployment rate as a percentage of the economically active population; nationwide total. <sup>i</sup> Local-currency markets.

to take advantage of adverse conditions in other destinations, such as outbreaks of severe acute respiratory syndrome (SARS) and avian flu in South-East Asia, armed conflicts in the Middle East, and the onslaught of hurricanes in the Caribbean, for which Cuba is better prepared. Room availability was expanded by 8.2% to 45,000 units and occupancy levels rose, while tourists also lengthened their average stay.

Both the manufacturing industry and electricity, gas and water services contracted (by 2% and 0.9%, respectively). The energy sector was also affected by a 2.5% decline in crude petroleum extraction, since no new oilfields have been discovered since 1999, which has pushed up imports of petroleum and petroleum products in the last few years. In contrast, gas extraction grew by 7.2% in 2004. The downturn in manufacturing is attributable mainly to the crisis in the sugar industry.

The expansion of the agricultural sector slowed by 1%, basically because of weather-related problems, including a drought and two hurricanes. Sugar farming picked up again, but the fishing sector slipped back. In mining, there was an increase in nickel production.

### (b) Prices, wages and employment

In the local-currency markets, the consumer price index rose but remained in single digits (3%). Regulated prices remained unchanged, while informal market prices rose as a result of the dip in supply caused by the drought. In particular, tomatoes, sweet potatoes, beans and rice became much more expensive, while the prices of onions and oranges fell.

At the beginning of 2004 convertible peso prices and rates were cut for transactions among State firms, in order

to improve hard-currency billing and payments. In May of that year, however, the authorities raised consumer prices on articles sold in hard-currency shops. The rise averaged about 15%: 10% in the case of food items, toiletries, cleaning products, children's footwear, cosmetics, home appliances, furniture and mattresses; between 12% and 20% for adults' clothing and footwear and sports articles; and between 5% and 22% for fuel.

The substantial hike in international petroleum prices was passed through not only to the hard-currency markets, but also to some in local currency—including the agricultural market and private own-account employment, which is regulated by the ratio of supply to demand—which nudged up inflation. The State budget subsidized the impact of this on regulated markets and utilities such as electricity, gas and water, so that it was not passed on to consumers.

In 2004, 35% of the total workforce (1,447,582 workers) benefited from the implementation of payment systems based on production results, representing wage rises of 70 Cuban pesos as a monthly average. A further 26% of workers (1,075,236 individuals) benefited from incentive systems in convertible pesos, based on special financing of US\$ 107.6 million for stimulating priority activities, while wages in Cuban pesos were raised by 30% in about 500 business units as part of the programme to improve business practices. Overall, the average wage showed an increase of 3.3% which was, in any case, insufficient to compensate for the price rises in the free markets.

The authorities are gradually implementing a wage system reform to take into account workers' training, qualifications and knowledge, as well as their actual

performance. The idea is to stimulate productivity increases and enhance other efficiency indicators; employ economically and socially determined wage bonuses for workers in priority activities, territories and entities; and to have the pay system reward exceptional and significant contributions to national production.

Lastly, the unemployment rate declined from 2.3% in 2003 to 2% in 2004.

### **(c) The external sector**

The balance-of-payments current account balance turned positive, by US\$ 176 million, or the equivalent of 0.5% of GDP. This reflected higher growth in exports of goods and services (21%) in relation to imports (14%), as well as a 20% increase in current transfers, although net factor service payments expanded by almost 23%.

Accordingly, the trade deficit narrowed decisively in 2004, despite the steep rise in international petroleum prices. Nevertheless, even though the prices of Cuba's export commodities (especially nickel) increased, its terms

of trade were eroded in view of the significant price rises for energy resources and foodstuffs.

The higher value of imports was due mainly to increases in the oil bill, of 75% or US\$ 1.5 billion, and to an increase of 19%, or US\$ 1.2 billion, in the bill for foodstuffs. One third of the foods bought abroad, or US\$ 400 million, came from the United States, compared to US\$ 345 million the previous year.

The value of external sales of nickel and cobalt amounted to US\$ 500 million (23% of the total value of goods exports). Nickel has become consolidated as the leading traditional export product, having displaced sugar for a number of years running in terms of foreign currency generation.

Exports of non-traditional products continued to expand, particularly sectors with high value added, including biotechnology, pharmaceutical products and genetic engineering.

With regard to foreign direct investment, the number of joint ventures declined from 342 in 2003 to 313 in 2004 but, importantly, their net profits increased from US\$ 150 million to US\$ 200 million over the same period.

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## Dominican Republic

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### 1. General trends

The economy of the Dominican Republic grew by 2% in 2004, which reversed the contraction of 1.9% in 2003 and exceeded expectations formed early in the year. The export sector turned in a positive, although moderate, performance as tourist arrivals and exports of local goods increased, while free zone activity was virtually stagnant. Family remittances also grew (6.8%), reaching the equivalent of 12% of GDP. Domestic demand, in contrast, continued to suffer the consequences of the banking crisis in 2003. Consumption edged up gradually and investment slipped back for the second year running.

In the second half of the year, after the presidential elections and the adoption of a drastic stabilization programme, the depreciation of the nominal exchange rate (21% from December to December) was reversed, inflation decreased (28.7% over the same period), despite high international petroleum prices, and interest rates on central bank investment certificates dropped from almost 60% at mid-year to 25.4% in December. All of these factors contributed to the recovery of a number of sectors of production.

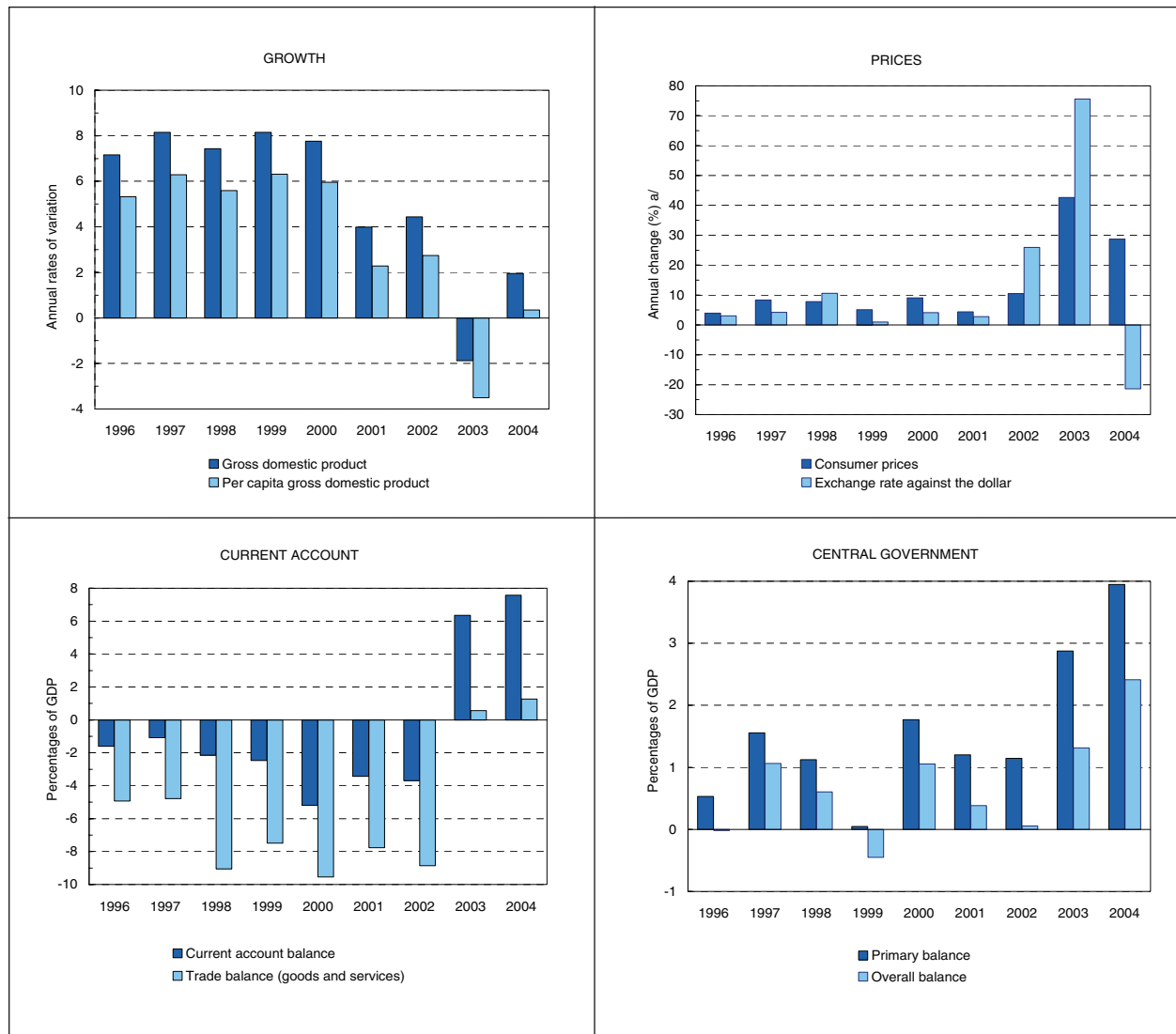
The overall public sector deficit remained high (6.7% of GDP), however, including the large quasi-fiscal deficit of the central bank (4% of GDP). Arrears built up in external debt servicing, due partly to renegotiation of liabilities owned to the Paris Club. The balance-of-payments current account recorded a surplus (7.4% of GDP) for the second consecutive year, and international reserves began to recover from meagre levels, after two

years of capital flight. The country's agreement with the International Monetary Fund was reviewed in the early months of 2005, which helped to reduce uncertainty.

In 2004 unemployment and underemployment in informal activities increased and real wages shrank for the third year running. At the end of the year, hurricane Jean caused substantial damage to infrastructure.

In 2005 significant progress should be made with regard to macroeconomic stabilization and economic growth is expected to be between 2% and 2.5%, driven by increased family remittances, external demand (especially for tourism) and, to a lesser extent, the free zones. Stabilization of the exchange rate will be crucial for keeping inflation low. Prices are expected to rise between 11% and 13% from December to December, and the current account is likely to record another surplus, equivalent to 1.8% of GDP. International reserves will increase.

Figure 1  
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> December-December variation.

## 2. Economic policy

The new government entering office in August adopted drastic fiscal and monetary measures, and improved coordination of both areas. The stabilization of prices and of the foreign-exchange and financial markets, which had become more volatile at mid-year, meant reducing the high consolidated public-sector deficit, which was

mainly attributable to the quasi-fiscal deficit of the central bank, and absorbing the considerable liquidity resulting from the massive support given to banks which had undergone intervention. The agreement with the International Monetary Fund (IMF), which had been suspended for several months, was renewed, and a fiscal



reform was put in place in September. In January 2005 the economic targets and reforms agreed upon with IMF were redefined.

### (a) Fiscal policy

The non-financial public sector deficit reached 2.8% of GDP, missing the target of 0.2% surplus established in the agreement with IMF, and the quasi-fiscal deficit came in at 4%. The central government recorded a deficit of almost 3% of GDP on an accrual basis in 2004, compared to 3.8% in 2003. In cash terms, however, it had a surplus of 2.4% of GDP, compared to 1.3% in 2003, owing to the accumulation of arrears in debt servicing.

Central government income was 4% higher in real terms, after falling by 6.4% the previous year. Indirect tax revenue expanded (4.3%), thanks to special taxes established at the beginning of the year and the tax reform implemented in October. Tax income from foreign trade increased by 39.8%, owing mainly to the taxes and surcharges applied.

Revenue from the industrialized goods and services transfer tax (ITBIS) was 2.3% higher in real terms, owing to a rate increase from 12% to 16% in the fiscal reform of October and to a modest upturn in private consumption. A number of selective taxes were also levied on consumption (including fuel, alcoholic beverages and tobacco) and the tax base was changed. A 10% tax on telecommunications services was created, in addition to a surcharge of 0.15% on the value of cheques paid by the banking system, payments by electronic transfer, transfers to third-party accounts in the same bank and cash withdrawals. Nevertheless, fiscal revenue in these segments fell in real terms.

Direct tax revenues were down by 20.9% in real terms, compared to a drop of 1.5% in 2003, as a result of the decline in real wages and the financial difficulties experienced by firms. In part, this was offset by the establishment of special levies of 1% on luxury housing and vacant lots with a value of over 5 million pesos, 3% on real estate transfers and 2% on real estate title transfers. Despite all these measures, the tax burden rose by scarcely 0.2 GDP percentage points to reach 15.1%. Non-tax revenues grew by 9.4% in real terms.

Central government spending was down 2.9% in real terms. This was due to a contraction in capital spending (26.4%) which, in turn, was caused by a decline in fixed investment, transfers (despite a last-quarter upturn in transfers to local governments, drinking water companies and the National Housing Institute) and other capital spending. In contrast, current expenditure expanded by 3.8% in real terms, mainly as a result of a substantial 74.9% increase in transfers

to the electricity sector (some of which went to cover payments arrears owed to generating companies), local governments, and the subsidy on liquefied gas. In real terms, the interest payments on public debt remained virtually unchanged, but salaries and wages contracted by 26.5%, because of staff cuts in the central government as of July and a 14.9% drop in purchases of goods and services. In the last five months of the year, the government created a programme entitled *Comer es primero* ("Eating first"), in order to channel food assistance to the poorest households.

External public debt amounted to US\$ 6.38 billion, which was 6.3% higher than the 2003 figure and equivalent to 34.6% of GDP. The increase was due mainly to the accumulation of arrears in debt servicing, which led to the renegotiation of debt owed to the Paris Club and, to a lesser extent, to changes in the dollar exchange rate against other currencies such as the euro and the yen. The country's renegotiation with the Paris Club involved liabilities of US\$ 190 million, including arrears from 2003 and payments due in 2004 for debt incurred prior to June 1984.

### (b) Monetary policy

The excess liquidity caused by the central bank's massive intervention during the banking crisis of 2003 was one of the most pressing monetary problems in 2004, costing the equivalent of 20.5% of GDP. The facilities extended to struggling banks led to the issuance of increasing numbers of deposit certificates, with a view to neutralizing the effects of excess liquidity.

The number of central bank investment certificates in circulation increased by 84.7% and their value rose from 60 billion to over 110 billion pesos. The interest rate on these issues was close to 60% per annum in the first half of the year, but in August it began to drop rapidly. Maturities were extended and an effort was made to diversify the conditions by indexing rates to the consumer price index, the dollar and the United States Treasury bond rate. In May the authorities also increased the minimum investment ratio for full-service banks from 5% to 8% and imposed a ceiling on total loans extended by the banking system to the public sector.

Nominal bank interest rates on both deposit and lending operations moved slowly. Lending rates for periods of 90 to 180 days reached an average of 31.2%, compared to 30.4% in 2003, while the rates on 30-day deposits declined from 20.3% to 19.6%. As an annual average, these lending rates yielded a real rate of 25.2%, compared to -7.4% in 2003, and real deposit rates went from -15.1% to -3.7%.

Table 1  
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	7.2	8.2	7.4	8.2	7.8	4.0	4.4	-1.9	2.0
<b>Per capita gross domestic product</b>	5.3	6.3	5.6	6.3	6.0	2.3	2.7	-3.5	0.3
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	9.2	3.3	1.1	8.8	5.6	8.1	2.5	-2.6	3.5
Mining	2.4	3.1	-15.9	-1.5	13.3	-15.6	-2.7	8.8	3.7
Manufacturing	3.1	7.5	5.7	6.0	7.5	-1.3	4.4	-3.1	0.7
Electricity, gas and water	10.3	10.1	13.8	8.1	7.0	18.4	7.8	-8.5	-19.6
Construction	13.4	17.1	19.6	17.7	5.6	0.5	3.2	-8.6	-6.3
Wholesale and retail commerce, restaurants and hotels	10.1	12.4	9.4	8.6	10.7	-0.1	3.9	-5.0	1.8
Transport, storage and communications	10.0	11.7	13.5	11.1	15.0	16.4	9.9	5.1	11.4
Financial institutions, insurance, real estate and business services	2.1	2.8	3.0	3.2	2.8	2.5	2.6	-1.7	0.6
Community, social and personal services	5.1	3.8	4.6	3.7	4.3	6.2	3.9	2.8	2.5
<b>Gross domestic product, by type of expenditure</b>									
Consumption	8.9	7.3	8.6	3.7	8.9	3.9	7.4	-10.3	2.4
General government	10.7	1.2	6.5	3.6	-1.0	14.9	7.3	6.2	6.3
Private	8.7	8.2	8.9	3.8	10.2	2.7	7.4	-12.4	1.8
Gross domestic investment	9.2	18.3	26.2	13.5	6.8	2.0	2.3	-12.5	-6.1
Exports (goods and services)	4.8	9.0	6.8	6.6	6.4	-7.2	-3.4	7.8	4.2
Imports (goods and services)	8.4	12.8	18.3	4.0	6.9	-6.2	0.8	-14.4	-0.4
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross domestic investment	19.0	19.8	23.5	24.2	23.8	22.9	22.8	23.3	24.3
National saving	17.4	18.7	21.3	21.7	18.6	19.4	19.1	29.7	31.9
External saving	1.6	1.1	2.1	2.5	5.2	3.4	3.7	-6.3	-7.6
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-213	-163	-338	-429	-1 027	-741	-798	1 036	1 399
Merchandise trade balance	-1 674	-1 995	-2 617	-2 904	-3 742	-3 503	-3 673	-2 156	-2 095
Exports, f.o.b.	4 053	4 614	4 981	5 137	5 737	5 276	5 165	5 471	5 750
Imports, f.o.b.	5 727	6 609	7 597	8 041	9 479	8 779	8 838	7 627	7 845
Services trade balance	1 019	1 275	1 182	1 602	1 854	1 826	1 757	2 249	2 328
Income balance	-725	-795	-890	-975	-1 041	-1 092	-1 152	-1 393	-1 332
Net current transfers	1 168	1 352	1 987	1 848	1 902	2 028	2 269	2 336	2 498
Capital and financial balance <sup>d</sup>	173	254	350	581	978	1 256	243	-1 583	-853
Net foreign direct investment	97	421	700	1 338	953	1 079	917	613	645
Financial capital <sup>e</sup>	76	-167	-350	-757	25	177	-674	-2 196	-1 498
Overall balance	-40	91	11	151	-48	515	-555	-546	546
Variation in reserve assets <sup>f</sup>	15	-40	-98	-194	70	-519	527	358	-542
Other financing <sup>g</sup>	25	-51	87	42	-22	4	28	189	-4
<b>Other external-sector indicators</b>									
Terms of trade for goods (index: 2000=100)	103.5	106.1	108.0	105.7	100.0	100.9	101.5	97.9	96.7
Net resource transfer (percentage of GDP)	-4.0	-3.9	-2.9	-2.0	-0.4	0.8	-4.1	-17.1	-11.9
Gross external public debt (millions of dollars)	3 807	3 572	3 546	3 661	3 682	4 177	4 536	5 987	6 380
Gross external public debt (percentage of GDP)	28.6	23.7	22.4	21.1	18.6	19.3	21.0	36.7	34.6
Net profits and interest (percentage of exports) <sup>h</sup>	9.8	10.1	11.1	12.1	11.9	13.0	14.0	15.6	13.4
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>i</sup>	52.6	54.1	52.6	53.5	55.2	54.3	55.1	54.7	56.3
Open unemployment rate <sup>j</sup>	16.5	15.9	14.3	13.8	13.9	15.4	16.1	17.0	18.4
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	4.0	8.4	7.8	5.1	9.0	4.4	10.5	42.7	28.7
Variation in nominal exchange rate (December-December)	3.0	4.2	10.6	1.0	4.2	2.8	25.9	75.6	-21.4
Variation in real minimum wage	0.6	1.4	4.3	4.8	-0.1	5.5	-0.5	-9.5	...
Nominal deposit rate <sup>k</sup>	...	13.3	17.0	15.4	18.6	16.1	16.4	20.6	21.1
Nominal lending rate <sup>l</sup>	...	19.0	23.5	22.2	23.6	20.1	21.3	27.8	30.3

Table 1 (concluded)

	1997	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	14.2	15.9	15.9	15.6	15.8	16.3	16.5	15.8	16.2
Current expenditure	8.1	11.0	11.1	11.2	11.3	11.9	12.0	11.5	11.7
Current balance	6.1	5.0	4.7	4.4	4.5	4.4	4.5	4.4	4.6
Net capital expenditure	6.1	4.1	4.3	5.0	3.6	4.2	4.5	3.2	2.3
Primary balance	0.5	1.6	1.1	0.0	1.8	1.2	1.1	2.9	3.9
Overall balance	0.0	1.1	0.6	-0.5	1.1	0.4	0.1	1.3	2.4
Public sector debt									
Domestic	...	...	...	...	...	...	...	...	...
External	28.6	23.7	22.4	21.1	18.6	19.3	21.0	36.7	34.6
Interest payments (percentage of current income)	3.9	3.1	3.3	3.2	4.5	5.0	6.6	9.8	9.5
<b>Money and credit <sup>m</sup></b>									
Domestic credit <sup>n</sup>	25.3	25.4	28.2	31.0	33.1	35.4	38.6	41.3	31.3
To the public sector	1.5	1.3	1.0	1.7	2.0	1.8	2.2	2.6	2.3
To the private sector	23.7	24.2	27.1	29.3	31.1	33.5	36.4	38.7	28.9
Currency in circulation and local-currency deposits (M2)	24.8	25.0	26.7	28.7	29.2	31.6	34.4	39.5	34.0

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1970 prices. <sup>c</sup> Based on figures in local currency expressed in dollars at current prices. <sup>d</sup> Includes errors and omissions. <sup>e</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>f</sup> A minus sign (-) denotes an increase in reserves. <sup>g</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>h</sup> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>i</sup> Economically active population as a percentage of the working-age population. <sup>j</sup> Unemployment rate as a percentage of the economically active population, nationwide total. <sup>k</sup> 90-day certificates of deposit. <sup>l</sup> Average of the reference rate. <sup>m</sup> The monetary figures are annual averages. <sup>n</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

Monetary aggregates showed a sharp contraction in real terms as a result of the severe fiscal and monetary stabilization measures. Money creation fell sharply. M1 diminished by 24.6% from December to December, owing to a 30% fall in cash in circulation and a drop of 19.3% in current account deposits. Broad money decreased by 16.4%, reflecting a 12.7% decline in term deposits. The dollarization caused by the banking crisis eased in the latter months of the year. Credit to the private sector was down for the second year running (28.9% in real terms), which translated into a contraction in credit allocation to construction (-52.6%), commerce (-43.5%) and personal loans (-2%).

### (c) Exchange-rate policy

In the context of the free-floating exchange rate regime established at the beginning of 2004, the price of the dollar rose persistently and reached a high of 54 pesos in February, compared to 37.5 pesos in December 2003.

Subsequently, the local currency gained in value and the dollar stood at close to 30 pesos in December 2004; the peso thus appreciated by around 5% in real terms as an annual average.

### (d) Other policies

In August 2004 the agreement associating the Dominican Republic with the Central America-United States free trade accord was signed, and is now awaiting approval by Congress in both the Dominican Republic and the United States.

The main reforms in 2004 were aimed at strengthening the institutional and regulatory framework of the banking and financial system. Regulations were adopted in relation to the exchange rate regime, credit limits for related parties, liquidity risks, market risk management, the establishment and operation of financial intermediation entities and representative offices, prudential standards for capital adequacy, and asset evaluation and related provisions.

Table 2  
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2003				2004 <sup>a</sup>				2005 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) <sup>b</sup>	1.6	-7.0	-0.8	-1.1	-0.1	1.8	2.6	3.4	4.3	...
Merchandise exports, f.o.b. (millions of dollars)	1 351	1 414	1 414	1 287	1 335	1 496	1 460	1 459	1 277	...
Merchandise imports, c.i.f. (millions of dollars)	1 971	1 932	2 070	1 949	1 707	1 900	2 071	2 168	2 133	...
International reserves (millions of dollars)	561	437	251	253	424	453	560	798	1 247	...
Consumer prices (12-month percentage variation)	18.7	26.1	33.1	42.7	62.3	60.3	47.9	28.7	4.3	-1.0
Average nominal exchange rate (pesos per dollar)	23.64	27.96	33.80	37.92	48.49	47.28	41.61	31.09	27.78	27.85
Nominal interest rates (annualized percentage)										
Deposit rate <sup>c</sup>	20.0	20.4	21.4	20.6	20.2	23.0	20.7	20.7	19.3	10.5
Lending rate <sup>d</sup>	26.8	26.7	29.5	28.3	29.1	31.7	30.7	29.8	28.7	21.8
Interbank interest rate	19.7	23.0	26.8	27.4	45.8	50.5	26.3	24.5	19.3	9.5
Domestic credit (variation from same quarter of preceding year) <sup>e</sup>	17.2	39.9	42.4	30.9	37.5	10.7	6.3	7.2	-4.1	-6.0
Non-performing loans as a percentage of total credit <sup>f</sup>	6.2	9.4	7.3	7.4	7.4	7.3	6.6	6.0	6.4	6.8 <sup>g</sup>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1970 prices. <sup>c</sup> 90-day certificates of deposit. <sup>d</sup> Average of the benchmark rate. <sup>e</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. <sup>f</sup> Refers to total credit extended by the consolidated financial system. <sup>g</sup> Data for April.

### 3. The main variables

#### (a) Economic activity

Exports provided the main impetus for economic growth in 2004. In addition, domestic demand recovered in the last quarter of the year. Consumption increased by 2.4% but uncertainty continued to affect investment, which fell back by 6.1%.

The performance of the sectors of production was uneven in 2004. Agricultural production recovered (3.5%) from the sharp contraction of 2003, as supply expanded in the livestock, forestry and fishing sectors. In contrast, adverse weather conditions associated with hurricane Jean, which scourged the country in September, caused a drop of 3.8% in crop farming, with declines in production of rice (5.3%), coffee (4.3%), tobacco (1.6%), bananas (16.3%) and most legumes, tubers and fruit.

It was a good year for mining (3.7%), as ferronickel production increased by 8.2%, in response to a rise in both external demand and international prices. Value added in

the manufacturing industry ticked up (0.7%), reflecting a rise in sugar refinery production (6.7%) and in value added in the free zones (6.2%), thanks to the expansion of spending on local services. The production of pasta, beer and cigarettes continued to decline, however, as did earnings from rice and coffee processing and various sectors producing for the construction industry.

Construction was down by 6.3%, affected by high input prices and the rise in interest rates. In contrast, the communications sector continued to grow rapidly and reached an expansion rate of 18.3%, owing to an increase in the number of fixed telephone lines and the expansion of cellular telephone services.

The prolonged crisis in the electricity sector worsened and production declined by 19.6%, reflecting a 33% drop in thermal generation due to the generating companies' financial difficulties.

The hotel, bar and restaurant sector grew by 4.6%, thanks to the higher number of tourists. By contrast, the

financial sector contracted again in 2004. After the crisis of the previous year, the restructuring of the banking and insurance system continued and there were difficulties in channelling the new credit. Commerce was virtually stagnant, despite an upturn in the last quarter.

### **(b) Prices, wages and employment**

Average annual inflation reached 51.5%, almost double the figure for 2003, and the highest for more than a decade. The rate slowed in the second half of the year, however, bringing the December-to-December increase in prices to 28.7%, compared to 42.7% in the same period of the previous year. In fact, in the last quarter prices fell.

The prices of foods, beverages and tobacco, which account for close to half of the consumer price index basket, rose by 69.2% as an annual average, compared to 26.6% the previous year. In the hotel, bar and restaurant sector, the hikes were 63.3% and in transport, 58.3%. The price increases for furniture and accessories (49.7%), recreation, entertainment and culture (48.1%), education (26.4%) and housing (25.3%) were less than the national average. The moderation of inflation in housing costs was due to subsidies granted for electricity and gas consumption.

The difficult economic situation resulted in an increase in the labour market participation rate, to 56.3%, which was 1.6 points higher than the average for 2003. The expanded unemployment rate increased from 17% to 18.4%, although open unemployment was down from 6.5% in 2003 to 5.3% in 2004.

Formal enterprises in the private and public sectors adjusted nominal wages in 2004. In real terms, however, workers' incomes diminished for the third consecutive year.

### **(c) The external sector**

The surplus in the balance-of-payments current account, at US\$ 1.399 billion, was equivalent to 7.4% of GDP. The balance of goods and services showed a surplus; factor payments abroad diminished and family remittances increased. In contrast, financial capital flows were persistently negative since, despite a moderate rise in foreign direct investment, other capital movements, especially of private resources, led to a net outflow. Nevertheless, the central bank built up international reserves after two years of losses.

The value of goods and services exports rose by a moderate 3.8%, compared to 8.5% in 2003. Sales of local goods (23% of the total) performed best, with a 25% increase. Exports of ferronickel and tobacco performed particularly well (up 63% and 116%, respectively, on the previous year), driven by the sharp exchange rate

depreciation in the first semester and high international prices. Quayside sales of fuel also increased, as did exports of various non-traditional goods, but the poor weather conditions which affected coffee and cacao production caused a setback in exports of these products.

Free zone exports performed poorly for the fourth year running, up only 0.2%, largely as a result of stiffer competition from Asian products in the United States market. The sales of the largest segments, clothing and footwear, diminished by 5.5% and 3.4%, respectively, although there were upturns for jewellery and related items (19.2%), tobacco manufactures (12.7%), pharmaceutical products (8.3%) and some others.

Owing to the impact of hurricane Jean in the last quarter of the year, income from tourist services increased by only 1.8%, after the climb of 13.1% in 2003. In 2004, 2.8 million tourists visited the Dominican Republic (4.1% more than the previous year), generating revenues of US\$ 3.18 billion. The traditional services trade surplus rose to US\$ 2.328 billion, which amply exceeded the merchandise trade deficit.

Goods imports rose by scarcely 2.9%, after a contraction of 13.7% in 2003. Free zone imports were down for the fourth consecutive year (2.2% in 2004), but local market imports rose by 5.4%. By category, imports of intermediate goods expanded by 10.9% while purchases of other inputs, excluding petroleum and petroleum products, rose 2.8%. The gradual strengthening of the population's purchasing power helped to boost imports of consumer goods (5.9%), especially durables, including some replenishment of inventories. Purchases of capital goods continued to fall (4.9%), especially construction and transport equipment.

Family remittances have acquired a growing significance, since they amounted to US\$ 2.2 billion, or 6.8% more than in 2003. They almost matched the international services surplus and more than tripled foreign direct investment flows. Remittances were equivalent to 12% of GDP and 18% of private consumption.

Exchange-rate and financial instability led to a negative capital and financial account balance for the second year in a row, this time of around US\$ 850 million. This stood in contrast to positive flows of resources in the years prior to the crisis. Foreign direct investment amounted to US\$ 645 million, which was US\$ 32 million higher than in 2003 but 30% less than in 2002. For the third consecutive year, both commercial loans and portfolio investment turned in negative figures, and there was an expansion in assets held abroad. At the end of the year the improvement in the exchange-rate and financial outlook began to counteract this trend. As a result, after two years of downturns, reserve assets rose by US\$ 542 million.



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## Guyana

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### 1. General trends

Economic activity improved slightly in 2004, with GDP showing 1.6% growth, compared with a contraction of 0.6% in the previous year. This upturn was due to a recovery in sugar and livestock production and to growth in the services sector.

The rise in petroleum prices and economic recovery had little impact on overall price levels, since inflation remained under control at 5.5% in 2004, albeit under pressure from increases in food, transport and housing prices. Public sector reform led to a 1.3% contraction in public employment. Boosted by economic growth, the private sector took up the slack. Average wages increased during the year, since the government raised the minimum wage by 5% in the final four months, making the measure retroactive to January. Some other sectors also recorded higher wages.

With a slightly more robust economy, the government's fiscal performance strengthened so that the overall fiscal deficit, including grants, stood at 4.9%, down from 7.1% in 2003. The increase in total revenue outpaced that of total expenditure, thereby contributing to a more favourable fiscal outcome.

In 2004, monetary policy was geared towards maintaining growth in liquidity in keeping with rising nominal GDP, improving the intermediation costs of credit to the private productive sector, and facilitating a more flexible rate of exchange. Liquidity in the banking system

remained high, with excess reserves more than 15% up on the previous year, reflecting risk aversion in the banking system as well as a lack of profitable projects.

External constraints worsened in 2004, leading to an overall balance-of-payments deficit of US\$ 43.1 million, four times the previous year's figure and equivalent to 5% of GDP. The lower current-account deficit (17% less than the previous year) was counterbalanced by a deterioration in the capital account. The weaker balance-of-payments position had an adverse effect on the exchange rate, which depreciated by almost 3% against the United States dollar.

Economic performance in 2005 is expected to reflect the negative impact of serious flooding in Guyana at the beginning of the year, which is likely to cancel out the incipient upturn recorded in 2004. GDP projections for 2005 point to a 2.8% contraction, which will be felt in most of the main sectors, including sugar, rice and some non-tradable services. The rehabilitation and reconstruction work, together with compensation for flood victims, will increase the central government deficit to approximately 14% of GDP.

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### 2. Economic policy

#### (a) Fiscal policy

Fiscal policy was geared towards curbing the deficit in order to achieve public debt sustainability in the medium term. In 2005, public finances improved as a result of higher tax receipts and a relatively small increase in

expenditure. The overall fiscal deficit trended downwards with a significant reduction from 7.1% of GDP in 2003 to 4.9% in 2004. This stronger performance was based on higher tax receipts and the containment of current spending, together with a better outcome by non-financial public enterprises.

Table 1  
GUYANA: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	7.0	7.1	-1.7	3.0	-1.4	2.3	1.1	-0.6	1.6
<b>Per capita gross domestic product</b>	6.7	6.8	-2.0	2.7	-1.7	2.0	0.9	-0.8	1.4
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	5.1	4.0	-6.7	15.9	-9.0	3.4	3.4	-2.3	2.8
Mining	15.2	15.0	2.7	-8.4	5.9	4.2	-6.9	-8.7	-6.5
Manufacturing <sup>c</sup>	3.9	2.3	-8.7	15.5	-13.9	2.5	10.9	-0.5	2.5
Construction	14.0	13.1	4.7	-10.0	6.6	2.0	-3.9	5.6	4.1
Wholesale and retail commerce, restaurants and hotels	5.1	5.6	5.3	-8.0	5.2	0.5	-0.9	-2.6	1.9
Transport, storage and communications	10.9	8.9	-3.1	2.1	7.1	5.4	4.5	4.9	3.6
Financial institutions, insurance, real estate and business services	8.9	5.1	3.8	0.0	3.6	-3.5	-0.8	1.6	1.0
Community, social and personal services	3.1	3.4	0.7	1.2	4.6	0.7	-0.8	1.1	1.2
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-69	-111	-102	-78	-115	-129	-106	-86	-71
Merchandise trade balance	-20	-48	-54	-25	-80	-94	-68	-59	-58
Exports, f.o.b.	575	593	547	525	505	490	496	513	589
Imports, f.o.b.	595	642	601	550	585	584	563	572	647
Services trade balance	-23	-23	-32	-31	-24	-20	-24	-15	-20
Income balance	-67	-80	-60	-61	-58	-59	-55	-55	-39
Net current transfers	41	40	44	39	47	44	40	43	46
Capital and financial balance <sup>d</sup>	81	110	89	100	156	32	31	44	46
Net foreign direct investment	59	52	44	46	67	56	44	26	30
Financial capital <sup>e</sup>	22	58	45	54	88	-24	-13	18	16
Overall balance	12	-2	-13	22	40	-12	-25	-9	-43
Variation in reserve assets <sup>f</sup>	-14	3	23	-11	-24	-17	-4	-1	32
Other financing <sup>g</sup>	2	-1	-10	-10	-16	29	29	10	12
<b>Other external-sector indicators</b>									
Gross external public debt (millions of dollars)	1 537	1 513	1 516	1 210	1 195	1 193	1 246	1 092	1 078
Gross external public debt (percentage of GDP)	205.5	185.7	188.6	163.6	144.7	143.4	152.4	132.3	128.1
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	4.5	4.2	4.7	8.7	5.8	1.5	6.0	5.0	5.5
Variation in nominal exchange rate (December-December)	0.6	1.8	14.0	10.2	2.4	2.6	1.2	2.0	2.2
Nominal deposit rate <sup>h</sup>	7.7	7.4	7.1	8.1	7.3	6.7	4.3	3.8	3.4
Nominal lending rate <sup>i</sup>	17.0	17.0	17.0	17.1	17.2	17.3	17.3	16.6	16.6
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	35.5	32.0	30.7	29.8	31.8	31.1	32.2	31.5	33.0
Current expenditure	24.2	26.3	27.8	25.7	33.0	32.5	32.3	32.4	30.0
Current balance	11.3	5.6	2.8	4.0	-1.1	-1.4	0.0	-0.9	3.0
Net capital expenditure <sup>j</sup>	12.9	12.6	10.9	6.5	5.3	8.1	7.1	5.7	7.9
Overall balance <sup>k</sup>	-1.6	-6.9	-8.1	-2.5	-6.4	-9.5	-7.1	-6.6	-4.8
<b>Money and credit</b>									
Domestic credit	17.2	25.9	36.2	23.5	25.0	25.2	26.5	25.0	23.9
To the public sector	-19.4	-16.2	-11.8	-21.6	-19.9	-18.1	-15.9	-8.8	0.3
To the private sector	36.7	42.1	48.0	45.1	44.9	44.9	42.4	33.7	30.9
Currency in circulation and local-currency deposits (M2)	...	...	60.2	56.6	60.9	65.7	68.4	69.9	70.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1988 prices. <sup>c</sup> Includes electricity, gas and water. <sup>d</sup> Includes errors and omissions. <sup>e</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>f</sup> A minus sign (-) denotes an increase in reserves. <sup>g</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>h</sup> Small savings rate. <sup>i</sup> Weighted average prime rate. <sup>j</sup> Includes external grants. <sup>k</sup> Includes interest.



The upturn in tax receipts, coupled with prudent fiscal management under a public expenditure reform programme, enabled the authorities to turn the current-account deficit of recent years into a surplus equivalent to 3% of GDP. Current revenues (excluding refundable taxes on rice) were up by 13.8%, exceeding the projected figure of 7.9%. Income tax figures also showed solid growth, while consumption tax soared by 27%, reflecting rising revenues due to an expansion in imports.

Current spending, including interest payments, increased only marginally (0.4%), which meant a drop in GDP terms to 30%, compared with 32% of GDP in 2003. In keeping with the principle of fiscal prudence established by the government, this result represented 96% of the year's total budgeted expenditure. The main spending item—payroll expenses—increased by 6% in nominal terms, reflecting wage hikes during the year. Owing to the increase in GDP, fiscal spending on wages remained stable at 11% of GDP. Other current expenditure also grew (2.7%), fuelled by an increase in transfers to local organizations. An 86% increase in social spending, which nevertheless remains below 0.5% of GDP, was also a significant item.

In the framework of the Heavily Indebted Poor Countries (HIPC) Debt Initiative administered by the World Bank and International Monetary Fund, interest payments on the external debt diminished by 24.4% to stand at 2.9% of GDP. Interest payments on domestic debt also came down, to just under 2% of GDP.

The capital-account deficit rose by 38.2% in value, widening to 7.9% of GDP in 2004, compared with 6.2% in 2003. Capital inflows increased significantly as a result of non-project grants, but capital spending rose even more sharply, mainly reflecting higher spending on transport and communications, housing and agriculture.

Fiscal policy is expected to be countercyclical in 2005, in view of the recessionary impact of the floods on the economy. The overall fiscal deficit will widen substantially to approximately 14% of GDP, reflecting a surge in capital spending on reconstruction work in the aftermath of the floods and planned outlays on infrastructure associated with the building of a cricket stadium for the 2007 World Cup. In keeping with projections, current expenditure will increase more moderately, since the government is striving

to keep these outlays within reasonable margins (even after the floods) and to reduce non-production expenditure.

The public debt showed mixed results in 2004: domestic debt increased by more than 5%, reaching some 44% of GDP; external debt diminished by 1.2% to 128.1% of GDP. Guyana benefited from debt relief granted by the Paris Club under the HIPC Initiative and external debt servicing payments declined by 11%. The resulting ratio of debt servicing to exports of goods and services came down to 7.5%, compared with 9.6% in 2003.

Guyana will also benefit from the new debt forgiveness initiative recently announced by the Organisation for Economic Co-operation and Development (OECD).

### **(b) Monetary and exchange-rate policies**

Monetary policy remained focused on managing liquidity to secure exchange-rate and price stability and boost credit to the private sector in order to stimulate productive activity and economic growth.

The principal instrument for control of the money supply continued to be auctions of treasury bills on the primary market, using a monetary programming model.

The broad money supply (M2) expanded by 7.8%, driven by strong growth in demand for deposits in national currency (16.7%), although savings and time deposits expanded at a lower rate (5.9%). M3 also expanded, reflecting a 9.3% increase in foreign-currency deposits.

Bank credit to the public sector swelled by a substantial 48.4% (24% of GDP), following a contraction in 2003. This sharp increase was due mainly to a single operation in which the government, acting through the central bank, sold reserves to commercial banks to finance a loan to the sugar corporation, GUYSUCO. One cause for concern has been a contraction averaging 6.1% in credit to the private sector over the last three years. In 2004, credit to the private sector decreased by 0.4% to stand at 31% of GDP, with the bulk of such loans going to commerce (15.3%), personal services (13.5%) and property and mortgages (12.6%). The manufacturing industry was the only sector of production to receive a relatively large proportion of credit (14.5%). Agriculture and mining, by contrast, experienced a credit shortfall, receiving 5.6% and 0.7%, respectively.

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## **3. The main variables**

### **(a) Economic activity**

Real GDP growth was modest (1.6%) in 2004, following a contraction of 0.6% in 2003. Growth was driven by

significant upturns in sugar production, livestock, services and, on the demand side, private consumption.

Agricultural activity picked up strongly, with growth in all categories except rice production. Value added in the

sugar sector increased by 3.9%. Production expanded by 7.6% with respect to 2003, to stand at 325,317 tons, thus meeting 95% of the target for the year. The increase in output was thanks to good weather conditions and higher on-farm productivity.

The livestock and fishing subsector also posted an upswing, with a substantial rise in egg production offsetting a collapse in fisheries output (-98.6%). Production in the forestry subsector was up by 43.2%, reflecting an increase in logging.

Real value added in mining and quarrying declined following a drop in gold and bauxite production (5.8% and 12.4%, respectively), which was only partly offset by rising diamond production. Gold production continued to wane with the depletion of the reserves of OMAI Gold Mines, the industry's main stakeholder.

The manufacturing sector remained in the doldrums in 2004, with improvements in the intermediate goods subsector being counteracted by a decrease in production of alcoholic beverages, owing to a fall in market share.

Construction expanded by 4.1%, reflecting a high rate of investment project implementation, which has often represented a challenge for the authorities. The services sector was up by 3% in 2004, with most subsectors posting an expansion; transport and communications grew particularly strongly thanks to planned expansions in fixed telephone lines, cellular phone systems and information technologies.

### **(b) Prices, wages and employment**

At 5.5%, the rate of inflation in 2004 was slightly higher than the previous year's figure of 5% and was driven mainly by the pass-through to consumers of higher costs for fuel imports, transport services and communication equipment. Seasonal food shortages also helped to push up domestic prices.

Household income increased in the course of the year, after the government raised the minimum wage by 5%, bringing it into line with inflation, and increased the minimum income tax threshold by 11.1%. Wages were also raised in most of the other sectors.

The structural adjustment programme entailed a 1.3% cut in public-sector employment in 2004, with a freeze on new hiring and the curtailment of some areas of public service. The labour market was assailed by strikes (a total of 227 in 2004, compared with 205 in 2003). Consequently, the total number of work days and income lost to strike action increased by 55% and 40%, respectively. The effects of the flooding in early 2005 are expected to push inflation up to 6% for the year.

Some projections suggest that food shortages caused by the floods may result in price increases, while persistently high oil prices will probably affect transport and communications.

### **(c) The external sector**

The external position worsened in 2004, since the overall balance-of-payments deficit expanded to US\$ 43.1 million (almost 5% of GDP). An improvement in the current-account position was offset by a deterioration in the capital account.

The current account, which had worsened in the previous two years, posted an improvement, with the deficit dropping to US\$ 71.3 million (9.0% of GDP). The trade deficit contracted to US\$ 57.9 million, compared with US\$ 58.8 million in 2003, thanks to a higher rise in exports with respect to imports and an upturn in the terms of trade.

Exports picked up by 15%, benefiting from higher prices for a number of commodities, although export volumes may have dipped. Export earnings from sugar and rice increased by 6% and 21%, respectively.

GDP growth, together with wage hikes and project activity, resulted in a 13% expansion in imports. Imports of consumer goods were up 3.6%, reflecting a rise in imports of food and vehicles, thanks in part to higher incomes. Imports of intermediate and capital goods increased by 10.5% and 16.8%, respectively, in step with rising fuel prices and demand for capital goods for investment projects.

The deficit on the services account narrowed by 15% in 2004. This was due to a sharp decline in payments for factor services, which was partly a reflection of a 75% drop in interest payments on public debt under the HIPC Debt Initiative.

The capital account weakened in 2004, owing to a decline of over 33% in net inflows. This was partly the outcome of a single transaction in which central bank reserves were used to set up a trust fund for the modernization of the GUYSUCO plantation at Skeldon.

The balance-of-payments deficit was financed thanks to the HIPC Debt Initiative. The central bank's reserves contracted. As a result, the Bank of Guyana's gross reserves totalled US\$ 224.7 million, meeting the target of three months' import coverage.

Despite the floods, the balance-of-payments figure for 2005 is expected to show an overall surplus of US\$ 12 million. The current-account deficit is projected to widen substantially to US\$ 116 million, owing to a fall in the principal commodity exports, while imports will grow significantly to reach US\$ 700 million. Nevertheless, the capital account should improve considerably with net capital inflows being channelled into rehabilitation and reconstruction work as well as projects to expand bauxite mining operations. In addition, it is anticipated that current transfers will increase with inflows of international assistance and grants for flood relief.

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## Haiti

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### 1. General trends<sup>1</sup>

The socio-political events which shook Haiti in 2004 had a strong negative impact on its economic performance. The resignation of President Jean-Bertrand Aristide on 29 February, the deployment of a multinational force to the country, the formation of a transitional government, the establishment in June 2004 of the United Nations Stabilization Mission in Haiti (MINUSTAH), and the floods in May and September were among the factors which created a climate of instability in a country which had already been experiencing a difficult situation. There were falls in gross domestic product (GDP), which was down 3.8%, consumption (-2%) and investment (-3.1%). The slight rise in exports (2.8%) only partially made up for these negative developments.

In mid-2005, the political situation unquestionably remains the most important factor for Haiti in terms of possible economic scenarios and prospects for the current year. The violence reigning especially in the capital, Port-au-Prince, which has worsened since September 2004, is endangering the fragile political and institutional balance and the successful implementation of economic and social programmes; it could also jeopardize the holding of the municipal, legislative and presidential elections scheduled for October and November 2005.

The target of a modest recovery in GDP for 2005 (2.5%), based on the external resources provided for in the Interim Cooperation Framework (CCI) and the Economic Recovery Programme (PROREC) is in doubt, owing to the poor results achieved to date. It is expected that GDP growth will probably be down, by 1.5% to 2%, and will hinge mainly on the performance of consumption and investment.

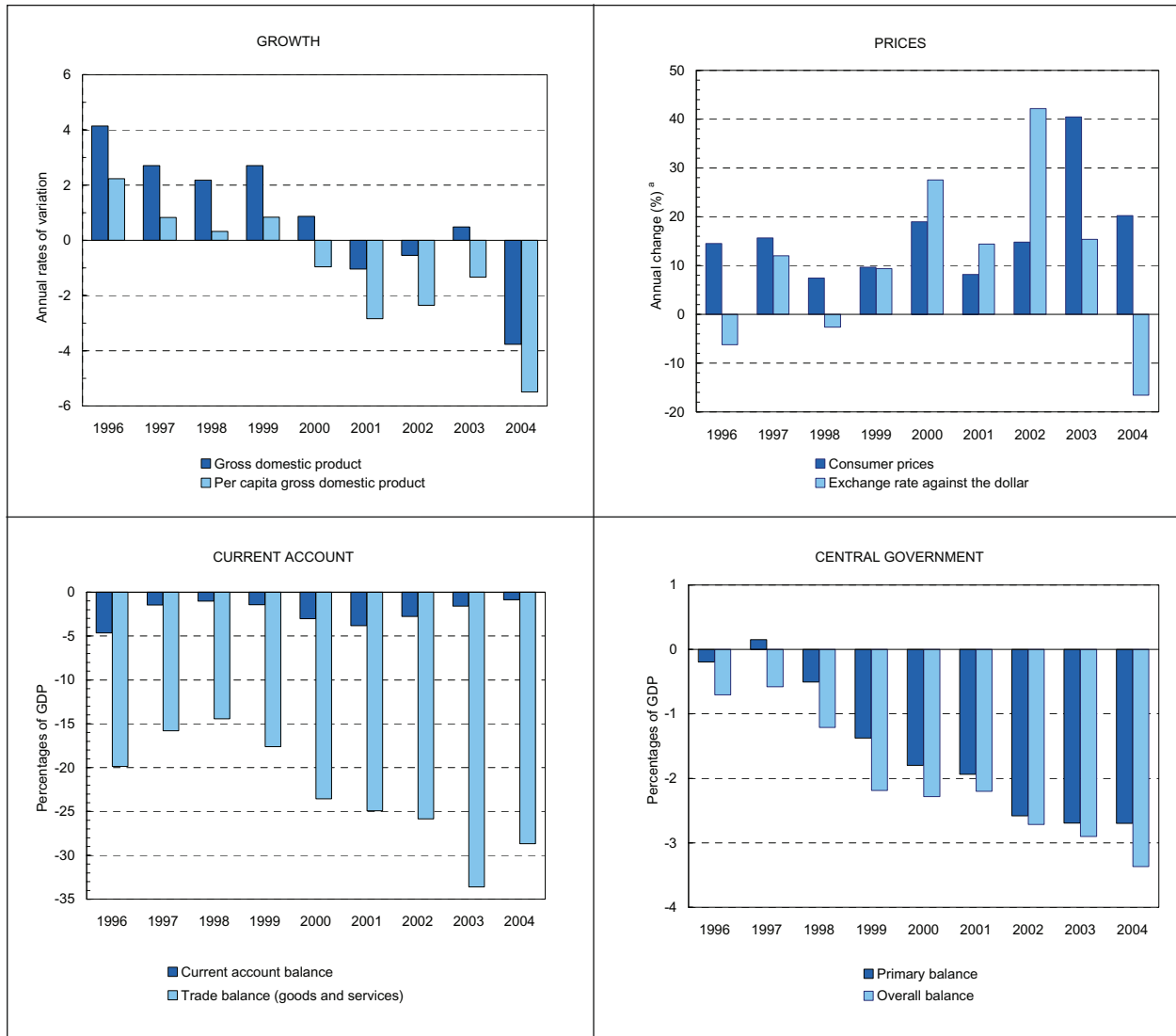
The increase in hydrocarbons prices (at an annualized rate of 47% from October 2004 to April 2005) has had a strong impact on inflation. Inflation seems very likely to exceed slightly the 12% inflation target established for September in the programmes agreed upon with the International Monetary Fund (IMF), with a rate of 15%.

The increased availability of dollars in the economy will probably ensure a stable exchange rate, however, while foreign currency purchases by the country's central bank (Banque de la République d'Haïti) should improve the level of net reserves. The second stage of the Emergency Post-Conflict Assistance (EPCA) programme, from October 2004 to September 2005, which provides for the receipt of some US\$ 15.6 million in fresh resources, together with other fast-disbursing loans promised under CCI and remittances of about US\$ 1 billion, may strengthen the appreciation of the gourde.

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<sup>1</sup> The analysis refers to fiscal year 2004 (October 2003 to September 2004) and 2005 (October 2004 to September 2005).

Figure 1  
**HAITI: MAIN ECONOMIC INDICATORS**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> December-December variation.

In terms of economic policy, the commitments undertaken in the framework of the IMF agreements are unlikely to change over the rest of the year. The greatest concerns are in the area of monetary policy, where the main challenges are the need to revive credit and control

excessive liquidity in the banking system. Public expenditure may be the key to restoring some degree of growth in the economy, together with external cooperation, which will have to finance the totality of the programmed fiscal deficit of 6% of GDP.

## 2. Economic policy

### (a) Fiscal policy

Faced with a diminished tax take (8% of GDP), together with financing requirements equivalent to about 25% of the past decade's total public expenditure, the Haitian authorities have turned to central bank financing to cover the public deficit. In fiscal 2004 financing from that source declined considerably (-40%), however, as the transitional government taking office in March deployed an economic policy directed towards restoring a measure of macroeconomic stability, as a matter of urgency. The fiscal deficit, which in late December 2003 already exceeded the level planned for the whole financial year, led the new authorities to reduce the spending of the public administration by 5.7% in real terms. Revenue also fell, by 7.5%, owing to the almost complete paralysis of economic activity in February and March.

Initially, the new authorities signed a short-term staff-monitored programme (SMP) with IMF, valid until September 2004, whose encouraging results subsequently led to the EPCA programme begun in January 2005. The goals of this programme, which were “to consolidate the stabilization gains and create conditions for economic recovery and reconstruction of government and social infrastructure”, although subject to certain conditions, were attractive for the Haitian authorities because they guaranteed the immediate provision of fresh resources.

The first stage of this programme was completed in June 2005, and the preliminary results suggest that there will be a second phase. Aside from macroeconomic criteria, the execution of this programme calls for certain “structural reforms”, including a comprehensive census of civil servants and the monitoring of arrears on domestic obligations, two tasks which do not yet appear to have been carried out.

Tax revenue dropped off abruptly during the first half of fiscal 2004 because of socio-political events; in particular, there was a substantial fall, almost 8%, in VAT revenue. Average tax revenue at that time was barely 84% of the amount seen in previous years.

There was also a significant fall in current spending (-3.7%) and investment expenditure (-12%). Public expenditure was virtually frozen from March to May 2004. The overadjustment on the current-account side seems to have worsened the decline in the level of economic activity.

The fiscal deficit was contained at 3.4% of GDP, thanks to the reduction in spending, and from April to June

2004 the current account was in surplus. The deficit was covered mainly by central bank financing, since external funding was still limited and in some cases conditional upon the settlement of arrears in external debt servicing which remained to be cleared.

During the first four months of fiscal year 2005 (October to January), loan disbursements of US\$ 49 million, mostly from the Inter-American Development Bank (IDB) and the World Bank, greatly surpassed the amount for fiscal year 2004 as a whole. During that same period, however, net debt-servicing payments—especially to the World Bank—totalled US\$ 66 million. As a result, there was a net resource outflow of US\$ 17 million. This should change in the coming months, since the schedule of disbursements and payments provides for a positive balance of about US\$ 89 million by the end of the year, mostly owing to IDB contributions.

### (b) Monetary policy

For most of the second half of fiscal year 2004 (April–September 2004), the monetary authorities maintained a tight policy stance in order to contain the inflationary surges of the first three months (over 40%). Broad liquidity in the economy (M3) fell by 11% in real terms, while M1 and M2 were down 8% and 7%, respectively.

There was a steep fall in net credit to the public sector (-44%), in particular. The new authorities made successive cuts in the leading interest rate (central bank bonds)—from 27.8% in April to 7.6% in September—to promote the recovery of private credit, but these efforts were unsuccessful. Private financial institutions did not lower their lending rates to reflect the leading rate, but kept them substantially higher (33% and 14% in gourdes and dollars, respectively); on the other hand, the deposit rates offered did follow the downward trend in bonds. This allowed financial intermediaries to charge a still greater spread (an average of 26 and a spread of 12 percentage points from April 2004 to April 2005), which, nevertheless, did not compensate for the overall results of the financial system, whose major indicators showed a declining performance.

During the current financial year (2005), the authorities have been concerned over excessive liquidity in the banking system, since measures to reactivate credit do not seem to have had the desired effect, and they are faced with the dilemma of sterilizing the excess liquidity or changing their current monetary policy.

Table 1  
HAITI: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	4.1	2.7	2.2	2.7	0.9	-1.0	-0.5	0.5	-3.8
<b>Per capita gross domestic product</b>	2.2	0.8	0.3	0.8	-1.0	-2.8	-2.3	-1.3	-5.5
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	1.0	-1.5	-0.2	-2.8	-3.6	0.9	-3.7	0.3	-5.4
Mining	-26.0	10.2	9.5	6.8	6.1	-4.9	1.5	1.4	-5.0
Manufacturing	5.6	0.3	0.3	-3.0	-0.5	0.1	1.6	0.5	-0.4
Electricity, gas and water	0.6	5.3	-2.8	-3.6	-9.2	-27.1	2.0	3.1	2.1
Construction	-7.9	9.1	11.2	10.4	8.3	0.7	0.8	1.5	-2.8
Wholesale and retail commerce, restaurants and hotels	8.6	5.8	3.1	4.0	4.5	0.4	1.8	1.1	-7.2
Transport, storage and communications	7.2	7.2	7.1	17.0	12.5	2.2	-0.3	1.6	0.9
Financial institutions, insurance, real estate and business services	31.9	6.8	5.9	3.2	4.4	-0.7	-1.5	0.2	-0.8
Community, social and personal services	1.8	1.2	1.3	-0.1	-1.6	-2.6	1.1	-1.4	-3.2
<b>Gross domestic product, by type of expenditure</b>									
Consumption	13.4	3.0	3.1	8.4	14.8	-1.6	-2.3	0.9	-2.0
General government	1.2	-0.1	1.1	0.2	1.3	-4.9	-3.5	...	...
Private	15.2	3.4	3.4	9.4	16.3	-1.3	-2.2	10.4	-2.0
Gross domestic investment	11.8	7.6	-3.2	24.0	18.3	-1.2	1.9	3.7	-3.1
Exports (goods and services)	27.3	14.2	23.3	16.5	6.3	-2.2	-2.1	7.1	2.8
Imports (goods and services)	32.6	7.2	6.6	22.7	29.3	-2.1	-2.6	3.4	0.2
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross domestic investment	28.1	24.5	26.0	27.7	27.3	25.9	24.9	30.7	27.4
National saving	23.5	23.1	25.0	26.3	24.3	22.0	22.2	29.1	26.5
External saving	4.6	1.5	1.0	1.4	3.0	3.8	2.8	1.6	0.9
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-138	-48	-38	-59	-111	-134	-89	-45	-30
Merchandise trade balance	-416	-354	-341	-677	-755	-750	-706	-783	-808
Exports, f.o.b.	83	205	299	341	332	305	274	333	378
Imports, f.o.b.	499	560	641	1 018	1 087	1 055	980	1 116	1 186
Services trade balance	-174	-158	-201	-43	-108	-124	-123	-166	-203
Income balance	-10	-14	-12	-13	-9	-9	-14	-14	-12
Net current transfers	463	478	516	674	761	750	754	918	993
Capital and financial balance <sup>d</sup>	87	78	73	80	64	131	8	37	66
Net foreign direct investment	4	4	11	30	13	4	6	14	6
Financial capital <sup>e</sup>	83	74	62	50	51	127	3	23	60
Overall balance	-50	30	34	21	-47	-2	-81	-8	36
Variation in reserve assets <sup>f</sup>	49	-51	-29	-34	57	-5	49	25	-50
Other financing <sup>g</sup>	2	21	-5	12	-10	7	32	-17	15
<b>Other external-sector indicators</b>									
Terms of trade for goods (index: 2000=100)	98.6	101.4	107.6	104.2	100.0	101.2	100.2	98.7	96.0
Net resource transfer (percentage of GDP)	2.7	2.6	1.5	2.0	1.2	3.7	0.8	0.2	1.9
Gross external public debt (millions of dollars)	914	1 025	1 104	1 162	1 170	1 189	1 212	1 287	1 316
Gross external public debt (percentage of GDP)	30.8	31.6	29.4	28.4	31.9	33.9	37.8	45.6	37.3
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	14.5	15.7	7.4	9.7	19.0	8.1	14.8	40.4	20.2
Variation in nominal exchange rate (December-December)	-6.3	12.0	-2.6	9.4	27.5	14.4	42.2	15.4	-16.5
Variation in average real wage	-17.1	-13.9	-11.3	-7.9	-11.9	-11.6	-8.9	33.5	-14.7
Nominal deposit rate <sup>h</sup>	10.9	10.8	13.1	7.4	11.8	13.6	8.2	14.0	10.9
Nominal lending rate <sup>i</sup>	26.3	21.5	23.5	22.9	25.1	28.6	25.5	30.7	34.1

Table 1 (concluded)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	7.4	8.9	8.5	9.1	8.0	7.4	8.2	9.0	9.0
Current expenditure	8.5	9.4	8.8	9.3	8.1	8.2	9.0	9.3	9.7
Current balance	-1.2	-0.6	-0.3	-0.2	-0.2	-0.8	-0.8	-0.4	-0.7
Net capital expenditure	0.3	1.3	2.0	2.1	2.4	1.8	2.0	2.8	2.6
Primary balance	-0.2	0.2	-0.5	-1.4	-1.8	-1.9	-2.6	-2.7	-2.7
Overall balance <sup>j</sup>	-0.7	-0.6	-1.2	-2.2	-2.3	-2.2	-2.7	-2.9	-3.4
Public debt	37.9	40.0	36.6	38.6	43.8	46.2	60.3	58.3	46.2
Domestic	12.6	12.0	11.1	12.1	13.6	14.8	17.5	17.4	15.6
External	25.3	28.0	25.5	26.5	30.2	31.5	42.8	40.9	30.6
Interest payments (percentage of current income)	7.0	8.3	8.3	9.0	6.1	3.6	1.6	2.3	7.5
<b>Money and credit <sup>k</sup></b>									
Domestic credit <sup>l</sup>	21.3	21.4	20.4	21.3	21.5	24.1	25.6	23.6	26.5
To the public sector	11.5	10.7	8.7	8.2	8.8	10.4	12.2	11.7	12.9
To the private sector	9.8	10.7	11.7	13.1	12.7	13.7	13.4	11.9	13.6
Liquidity (M3)	...	...	29.7	30.8	34.8	36.1	37.8	41.3	41.1
Currency in circulation and local-currency deposits (M2)	...	...	22.8	22.9	24.0	24.2	24.5	24.7	24.5
Foreign-currency deposits	...	...	7.0	7.9	10.7	11.9	13.4	16.6	16.6

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1986-1987 prices. <sup>c</sup> Based on figures in local currency expressed in dollars at current prices. <sup>d</sup> Includes errors and omissions. <sup>e</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>f</sup> A minus sign (-) denotes an increase in reserves. <sup>g</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>h</sup> Average of highest and lowest rates on time deposits, commercial banks. <sup>i</sup> Average of highest and lowest lending rates, commercial banks. <sup>j</sup> Overall balance calculated "below the line" (financing). <sup>k</sup> The monetary figures are annual averages. <sup>l</sup> Refers to net credit extended to the public and private sectors by the monetary authority and deposit banks.

Demand for credit is unlikely to contribute greatly to economic reactivation through a more active role for the private financial and business sector, especially in view of the social and political instability still prevailing. Once again, the public sector will have to stimulate economic growth from the demand side, through investment and wages.

As for deposit rates, despite the long-standing policy of lowering the rate of local-currency deposits in order to close the gap between rates on these and dollar-denominated deposits, the problem of dollarization remains, with dollar deposits making up 39% of total liquidity in the economy (M3).

### (c) Exchange-rate policy

The end of the financial year 2004 saw a relatively high availability of foreign exchange, for reasons which

included the lack of demand generated by economic activity (reduced imports) and also thanks to increased supply which was caused by abundant remittances and a relative upturn in foreign aid. This led to a nominal 12% appreciation of the gourde against the dollar between September 2003 and September 2004.

The real exchange rate rose by 21% during fiscal year 2004. The April 2005 figures show that trend continuing over the current fiscal year, by a further 14%. Comparison of the first six months (October to March) of the two fiscal years show that average monthly trading in dollars went up from US\$ 75 to US\$ 84 million, with an all-time high in December 2004, when transactions exceeded US\$ 100 million.

From April to September 2004, the central bank rebuilt its reserves by systematically purchasing some US\$ 71 million, thus ensuring that net international reserves were within the target agreed with IMF.

Table 2  
HAITI: MAIN QUARTERLY INDICATORS

	2003				2004 <sup>a</sup>				2005 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II
Merchandise exports, f.o.b. (millions of dollars)	73	75	92	92	93	56	100	107	99	...
Merchandise imports, c.i.f. (millions of dollars)	317	285	285	313	305	142	359	361	432	...
Consumer prices (12-month percentage variation)	37.0	41.7	42.5	40.4	25.4	24.1	22.5	20.2	17.2	...
Average nominal exchange rate (gourdes per dollar)	42.86	42.03	42.11	42.46	42.68	37.29	36.30	35.90	36.32	38.20
Nominal interest rates (annualized percentages)										
Deposit rate <sup>b</sup>	12.1	14.3	14.6	14.9	15.3	13.0	9.3	5.9	3.0	29.8 <sup>c</sup>
Lending rate <sup>d</sup>	27.0	30.6	33.0	32.3	33.0	36.5	33.8	33.0	31.8	2.5 <sup>c</sup>
Domestic credit (variation from same quarter of preceding year) <sup>e</sup>	37.9	38.5	27.1	23.2	15.8	8.4	11.8	1.3	2.6	...
Non-performing loans as a percentage of total credit <sup>f</sup>	5.8	6.5	5.8	...	7.5	...	...	...	...	...

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Average of highest and lowest rates on time deposits, commercial banks. <sup>c</sup> Data to May. <sup>d</sup> Average of highest and lowest lending rates, commercial banks. <sup>e</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. <sup>f</sup> Refers to total credit extended by the financial system.

### 3. The main variables

#### (a) Economic activity

Productive sectors did not perform well in the unstable environment which prevailed in 2004. GDP declined by 3.8% and per capita GDP fell for the fifth consecutive year (-5.5%). Investment spending was significantly lower (-3.1%), owing to the negative influence of social and political conditions in the country and the steep fall in public investment (-12.4%). Although increased inflows of remittances softened the fall in purchasing power—the minimum wage was down 21% in real terms—this was insufficient to halt the downtrend (-2%) in consumption, particularly by households (-1.2%).

Value added in the agricultural sector declined by 5.4%, and commercial activity dipped by 7.2%. These two areas together make up more than 50% of GDP, and their slowdown had a particularly strong impact on overall economic performance.

Construction (-2.8%) was especially hurt by the unstable environment and the depressed state of the economy as

a whole, especially the delayed implementation of new public works.

The energy sector experienced a considerable downturn, with a fall of 1.1% in thermal and hydroelectric power generation as a whole. There was little improvement until the last quarter of the financial year (July-September), which saw an upturn mainly thanks to grants amounting to US\$ 22 million provided to the Haitian authorities by the United States Agency for International Development (USAID) for fuel purchases, under an agreement that lasted from May 2004 to February 2005. The current level of power generation, 498 million kWh, is 22% below the 1999 level, which was the highest of the past two decades.

Aside from a modest increase in the —maquila-dominated— textile segment (1.2%), which accounts for a fifth of manufacturing value added, the rest of the manufacturing industry experienced a heavy slump, reflected in the stagnation (-0.4%) of the industry as a whole.



**(b) Prices, wages and employment**

Inflation fell from 40.4% in 2003 to 20.2% in 2004, despite the impact of higher international prices for petroleum products, which was countered by exchange-rate stability. Food prices, however, saw a much greater increase because of rising commodity import prices and the relative shortages caused by the adverse environment in the country.

Up until April 2005, the annual rise in the consumer price index was 12.6%, compared with 25.4% in 2004. This decrease, together with the downward trend in the monthly inflation rate, might give grounds for a degree of optimism. Rather than its absolute level, however, what remains a matter of concern is Haiti's real capacity to contain inflation. This was demonstrated in April, when the monthly variation jumped to 2.4%, which was triple the average rate for the previous few months and mainly attributable to the continued climb of international fuel prices. There is also the question of whether the authorities may continue to use the exchange rate to anchor inflation, explicitly or otherwise, for the rest of the fiscal year without jeopardizing the established growth targets.

Since the adjustment in 2003, there has been no change in the minimum wage. Average salaries for civil servants, who number about 46,000, have been increased twice: in August 2004 (33%) and in February 2005 (15%), the latter by means of a post reclassification process. However, these increases have not been prompted the private sector to follow suit.

In the area of employment, the recessionary production environment worsened an already serious unemployment situation. The few exceptions to this were job creation in services and related industries, resulting from the presence in the country of many international contingents in the context of the United Nations mission and of other international and non-governmental organizations. The scheme of temporary labour-intensive employment programmes —provided under CCI as a short-term response to unemployment through the creation of 44,000 such jobs— was not fully deployed because of delays in disbursements and programme execution, in relation to what had been agreed.

**(c) The external sector**

The external sector, too, reflected the depressed state of productive activities and the special circumstances that prevailed during fiscal year 2004, but given the absolute level of imports —three times that of exports— the trade deficit widened by 7% and the current-account deficit amounted to 0.9% of GDP.

The instability prevailing in Port-au-Prince during the most trouble-filled weeks in February and March 2004 caused many maquila enterprises to scale down their activities or close altogether; there were also physical losses of stock and equipment because of looting and destruction. Nonetheless, fiscal year 2004 saw improvements in both the volume (7%) and the value (15%) of maquila exports. Traditional exports were not overly affected either, and there were increases in the export volume of goods such as mangoes (31%), cocoa (31%) and coffee (7%).

There was a 6.2% nominal increase in imports, but in real terms they were down 6.1%. Considerable price increases in both hydrocarbons and other import commodities (rice, wheat, chicken, milk and oils), with the notable exception of pulses, brought about a 6.7% deterioration in the terms of trade.

Once again, the level of remittances (US\$ 993 million) made it possible to achieve equilibrium in the balance of payments current account, while the amount of external contributions was less than expected. The central bank's interventions to buy foreign exchange rebuilt net international reserves to a certain extent; at the end of the financial year, they represented the equivalent of 50 days' imports, in line with the criteria agreed upon with IMF.

In late September 2004, the country's net external debt stood at US\$ 1.316 billion, almost three times the value of goods and services exports. Arrears of US\$ 72 million in debt repayments remained an area of contention with the main international financial institutions. In particular, the country owed the World Bank US\$ 44 million, and the largest bilateral debt, US\$ 18 million, was owed to France. For this and other reasons, the figure for net disbursements in 2004 was negative by US\$ 10 million. Since 2002, the ratio of debt servicing to disbursements has shown a net outflow of resources, with levels almost six times higher than those prevailing a decade ago.



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## Jamaica

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### 1. General trends

Economic growth in 2004 (1.2%) marked a slowdown in comparison with the previous year (2.3%). This was due chiefly to damage caused by hurricane Ivan, which was estimated at 8% of GDP and affected mainly housing, agriculture and mining, tourism, and telecommunications. The largest contributions to growth came from manufacturing, construction and other services (3.6%, 4.7% and 2.1%, respectively).

Despite adverse weather conditions and their dampening effect on growth, the government was successful in reducing the fiscal deficit (from 5.6% of GDP in fiscal year 2003 to 4.8% in fiscal year 2004),<sup>1</sup> in line with the target set at the beginning of the year. Notwithstanding double-digit inflation (14%), macroeconomic stability, combined with higher international reserves, enabled the authorities to adopt an expansionary monetary policy.

The positive external sector balance reflected a narrower current-account deficit (down from 9.4% of GDP in 2003 to 7.9% in 2004), which was

more than offset by the surplus on the capital and financial account.

The Jamaican economy is expected to record 2.5% growth in 2005, led by tourism, mining and construction. The resulting expansion in government revenue, together with the implementation of a series of tax reforms and a public spending containment policy, should help to balance the fiscal accounts by the end of the budget period corresponding to fiscal year 2005. This will be contingent upon fulfillment of the authorities' commitment to lower labour costs and interest rates.

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### 2. Economic policy

#### (a) Fiscal policy

The central government fiscal deficit narrowed, thanks to efforts to contain total expenditure, which represented 34% of GDP in fiscal year 2004, down from 37% in 2003.

The decrease in expenditure was due to a contraction in current spending, in particular on wages and interest

payments on domestic debt. The wage bill declined from 12% of GDP in fiscal year 2003 to 11% in 2004 and interest payments, from 15% to 13% over the same period. The decline in the wage bill was attributable to the implementation of a memorandum of understanding signed by the government and the Jamaica Confederation of Trade Unions. The purpose of this agreement is to reduce the payroll through a public employment and

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<sup>1</sup> The fiscal year begins in April and ends in March of the following calendar year.

Table 1  
JAMAICA: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates <sup>b</sup></b>									
<b>Gross domestic product</b>	0.3	-1.1	-1.1	0.9	0.8	1.5	1.1	2.3	1.2
<b>Per capita gross domestic product</b>	-0.6	2.0	-1.9	0.1	0.1	0.9	0.6	1.8	0.7
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	...	-13.4	-1.7	1.0	-12.0	5.8	-7.0	4.8	-10.4
Mining	...	4.3	1.8	0.1	-1.0	2.6	3.3	4.9	3.1
Manufacturing	...	-2.7	-4.7	-1.9	0.6	0.8	-0.8	-0.8	3.6
Electricity, gas and water	...	6.6	6.3	4.6	2.2	0.7	4.6	4.7	-0.1
Construction	...	-3.5	-6.7	-1.7	0.7	2.2	2.4	1.2	4.7
Wholesale and retail commerce, restaurants and hotels <sup>c</sup>	...	0.8	-1.3	-0.5	1.2	0.0	0.1	1.0	1.4
Transport, storage and communications	...	6.3	6.4	6.8	6.5	5.1	6.2	3.7	0.7
Financial institutions, insurance, real estate and business services	...	-8.3	-3.6	3.6	1.9	-4.8	4.0	3.6	0.1
Community, social and personal services	...	0.5	1.0	0.8	1.5	-0.2	0.4	2.3	2.1
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-143	-332	-334	-216	-367	-759	-1 074	-761	-700
Merchandise trade balance	-994	-1 132	-1 131	-1 187	-1 442	-1 618	-1 871	-1 944	-1 940
Exports, f.o.b.	1 721	1 700	1 613	1 499	1 563	1 454	1 309	1 386	1 586
Imports, f.o.b.	2 715	2 833	2 744	2 686	3 004	3 073	3 180	3 329	3 526
Services trade balance	453	467	477	655	603	383	315	565	561
Income balance	-225	-292	-308	-333	-350	-438	-605	-571	-651
Net current transfers	624	625	628	647	821	914	1 087	1 189	1 331
Capital and financial balance <sup>d</sup>	414	162	378	80	886	1 624	834	326	1 401
Net foreign direct investment	90	147	287	429	394	525	407	604	...
Financial capital <sup>e</sup>	324	15	91	-349	492	1 099	427	-278	...
Overall balance	271	-170	44	-136	518	865	-240	-435	701
Variation in reserve assets <sup>f</sup>	-202	205	-27	155	-499	-847	259	451	-694
Other financing <sup>g</sup>	-70	-35	-17	-19	-19	-18	-19	-16	-8
<b>Other external-sector indicators</b>									
Gross external public debt (millions of dollars)	...	3 278	3 306	3 024	3 375	4 146	4 348	4 192	5 120
Gross external public debt (percentage of GDP)	...	44.2	42.8	39.2	42.5	51.2	51.6	51.5	58.0
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>h</sup>	67.7	66.6	65.6	64.5	63.3	63.0	63.6	64.4	64.3
Unemployment rate <sup>i</sup>	16.0	16.5	15.5	15.7	15.5	15.0	14.2	11.4	11.7
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	15.8	9.2	7.9	6.8	6.1	8.7	7.3	14.1	13.7
Variation in nominal exchange rate (December-December)	-11.8	3.6	2.6	10.7	10.2	4.3	6.0	20.7	2.1
Nominal deposit rate <sup>j</sup>	...	14.5	12.9	11.8	10.5	9.4	9.1	8.3	6.7
Nominal lending rate <sup>j</sup>	...	46.3	42.1	36.8	32.9	29.4	26.1	25.1	25.1
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	24.9	24.4	25.3	27.0	28.1	25.7	26.2	28.7	29.3
Current expenditure	26.1	27.0	29.5	30.0	27.6	29.9	33.8	35.0	33.9
Current account balance	-1.2	-2.6	-4.1	-3.0	0.5	-4.2	-7.6	-6.3	-4.6
Net capital expenditure	5.2	4.7	2.4	1.0	2.2	1.9	0.3	-0.3	1.2
Primary balance	5.0	1.7	5.4	9.4	11.5	7.8	7.2	12.0	11.7
Overall balance <sup>k</sup>	-6.1	-7.5	-6.7	-4.0	-0.9	-5.6	-7.6	-5.8	-5.0
<b>Interest payments on public debt</b>									
Domestic debt	11.1	9.2	12.0	13.4	12.4	13.4	14.9	17.8	16.7
Foreign debt	8.7	7.1	9.9	11.3	9.9	10.6	11.2	14.4	13.1
	2.4	2.1	2.1	2.2	2.5	2.8	3.6	3.4	3.6

Table 1 (concluded)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Money and credit <sup>l</sup></b>									
Domestic credit <sup>m</sup>	35.0	36.8	36.0	38.1	37.6	39.2	36.7	39.0	41.5
To the public sector	8.2	9.4	8.8	7.6	6.9	17.1	23.2	22.8	23.1
To the private sector	26.8	27.3	27.2	30.6	30.7	22.1	13.5	16.2	18.4
Currency in circulation and local-currency deposits (M2)	...	...	...	...	30.0	29.5	29.0	26.1	26.1

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1996 prices. <sup>c</sup> Restaurants and hotels are included in community, social and personal services. <sup>d</sup> Includes errors and omissions. <sup>e</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>f</sup> A minus sign (-) denotes an increase in reserves. <sup>g</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>h</sup> Economically active population as a percentage of the working-age population. <sup>i</sup> Unemployment rate as a percentage of the economically active population. Includes hidden unemployment; nationwide total. <sup>j</sup> Average rates. <sup>k</sup> Includes grants. <sup>l</sup> The monetary figures are annual averages. <sup>m</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

wage restraint policy which will apply over a two-year period from 1 April 2004 to 31 March 2006. The trend in interest payments reflected the impact of lower rates of interest paid on domestic debt service.

The cost of the external debt service was similar to the previous year's figure (3.5% of GDP). Expenditure on public programmes rose from 5% of GDP in fiscal year 2003 to 6% in 2004, owing to reconstruction activities, which also translated into an expansion in capital spending from 1% of GDP in fiscal 2003 to 2% in fiscal 2004.

Fiscal revenue diminished from 31.4% of GDP in 2003 to 29.6% in 2004. The administrative and legislative tax measures adopted in the course of the year failed to increase this income, partly because of the impact of the hurricane on production activities.

The authorities' objective for fiscal year 2005 is to balance the budget by reining in public expenditure (which is expected to amount to 31% of GDP in fiscal year 2005) and, to a lesser extent, by increasing tax collection from 26% of GDP in fiscal year 2004 to 27% in 2005. The fulfilment of this target will depend on the extent to which the authorities and trade unions observe the memorandum of understanding, as well as on a continuing downward trend in interest rates.

The projected increase in tax revenue is based on the promulgation and application of a series of tax measures. The most salient of these are an expansion of the consumption tax base, through a hefty reduction in the list of exemptions, and an increase, to 16.5%, in the corresponding rate.

If revenues are, in effect, increased, the proposed fiscal policy will bring a significant reduction in the public debt balance. The authorities expect the ratio of public debt to GDP, which stood at 137% in fiscal year 2004, to drop to 126% in 2005.

## (b) Monetary and exchange-rate policy

In 2004, the central bank followed a policy of reducing its rates on repo transactions, which it combined with sterilization operations to avoid unwanted surges in the money supply.

This policy was facilitated by favourable external conditions, prudent management of the fiscal accounts and an increase in foreign exchange inflows. This last factor reflected long- and short-term investment flows into both public and private sectors, as well as government issues of eurobonds, which accounted for much of the increase in international reserves from 16% of GDP in 2003 to 23% in 2004.

Monetary policy was expansionary, markedly so in the first half of the year but more moderately in the second. This attenuated the effects of hurricane Ivan and international fuel price hikes on macroeconomic stability.

In 2005, the central bank maintained the thrust of the monetary policy adopted the year before, given the continuing increase in international reserves, an economic upturn in hurricane-damaged sectors and a central government surplus in the first quarter of fiscal year 2005.

The rate of inflation remained at the same level as in the previous year, real interest rates declined and so did the central bank's benchmark rate (the repo rate).

The repo rate dropped by 300 basis points between December 2003 and December 2004 and by 85 basis points between December 2004 and March 2005. The average yield on treasury bills decreased by 221 basis points between January and December 2004 and by 148 additional points between December 2004 and March 2005. Lastly, the weighted nominal rate on commercial bank loans moved from 19% to 18% (representing a decrease from 7.8% to 3.9% in real terms) between December 2004 and March 2005.

Lower interest rates fuelled credit demand and benefited those sectors of production, such as manufacturing, which are locally financed, as well boosting the performance of construction. Even more importantly, it helped to reduce the cost of servicing local-currency-denominated debt, which is crucial to the achievement of central government fiscal targets.

Notwithstanding its positive effects, the decline in interest rates hurt commercial bank profits, since public

securities form a large component of their assets portfolio (47% of bank investments).

The foreign-exchange market remained stable, partly thanks to sound fiscal performance and to interventions by the central bank. Thus, the bilateral exchange rate showed a slight depreciation of the Jamaican dollar against the United States currency, from J\$ 60.70 to the dollar in 2003 to J\$ 61.40 in 2004 and J\$ 61.60 in the first semester of 2005.

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### 3. The main variables

#### (a) Economic activity

In 2004, GDP growth slowed to 1.2% (from 2.3% in 2003), owing mainly to the destruction wrought by hurricane Ivan in the main sectors of economic activity (mining and tourism). Ivan also had a significant impact on the social sectors. Growth of 3% is projected for 2005, spurred by tourism, manufacturing and a partial recovery in agriculture and mining.

Adverse weather conditions, whose residual effects will be felt throughout most of 2005, led to a 10% contraction in agricultural activity in 2004, in contrast with a 5% expansion in 2003. A further contraction of 17% is anticipated for the first half of 2005.

Trends in the mining sector, whose growth rate slowed from 5% in 2003 to 3% in 2004, reflected both positive and negative factors. On the positive side, external demand for bauxite and alumina strengthened and there was an increase in production capacity at the alumina plants. On the negative side were the damage caused by hurricane Ivan to production infrastructure and mechanical problems at the bauxite loading port. Preliminary estimates point to a 1% increase in the first half of 2005, as a result of mechanical difficulties at the alumina refineries, which are expected to counterweigh bauxite production profits.

Manufacturing recorded its highest growth rate in five years, moving from a 1% contraction in 2003 to a 4% expansion in 2004. This performance reflected the impetus from construction, an increase in external demand for beverages, a drop in food imports, an expansion of productive capacity and efficiency gains. Despite constraints imposed by the closure of the oil refinery, the sector will maintain its current growth path, led by the food and beverages sector (2.4% in the first half of 2005).

Construction activity strengthened, with growth up from 1% in 2003 to 5% in 2004, thanks to the reconstruction and rehabilitation activities that followed the hurricane

and both new and existing infrastructure projects. This sector is expected to expand at a similar rate in 2005 (6% in the first semester).

Tourism expanded by 6% in both 2003 and 2004, thanks to an increase in long-stay tourist arrivals (5% over the previous year's figure), which recorded unprecedented figures despite a hiatus caused by hurricane Ivan. In turn, this increase, which reflected favourable external conditions, greater flight capacity and more effective promotion of the tourist industry, had a positive impact on expenditure (6.4% in 2003). The number of cruise-ship passengers contracted by 3% with respect to 2003. In 2005, the tourist sector is expected to see an upturn of 6%, with increases in the number of long-stay tourists (8%) and cruise-ship passengers (2%) and higher tourist spending (13%).

#### (b) Prices, wages and employment

The adverse weather conditions that hit Jamaica kept the inflation rate in double digits (14.1% in 2003 and 13.7% in 2004). Also contributing to this result were the rise in prices for fuel and a number of commodities, as well as hikes in administered domestic prices (utility rates).

A breakdown of the consumer price index shows price trends being driven mainly by the food and beverages category, followed by fuels and housing costs.

According to projections, the rate of inflation will slow to between 9% and 10% in 2005, based on deployment of the wage restraint policy set out in the memorandum of understanding between the government and the Jamaica Confederation of Trade Unions.

The expected economic upswing and exchange-rate stability will have a positive impact on inflation. These two factors will help to offset upward pressure on prices from the contraction of agricultural output and high fuel costs in the first four months of 2005.

Unemployment increased from 11.4% in 2003 to 11.7% in 2004. This reflected a 3.4% decline in the number of employees in goods-producing sectors, particularly in agriculture (8%) and mining (7%), owing mainly to poor weather conditions.

**(c) The external sector**

The overall balance yielded a positive result in 2004, since the surplus recorded on the capital and financial accounts (5% and 16% of GDP in 2003 and 2004, respectively) was more than sufficient to finance the current-account deficit, which was smaller than in 2003. As a result, net international reserves increased from US\$ 1.165 billion to US\$ 1.859 billion.

The current-account balance reflected essentially a decrease in merchandise imports from 40.9% of GDP in 2003 to 40.0% in 2004. This was in keeping with the slackening of economic growth, which counteracted the effect of rising international fuel prices. It also reflected, albeit to a lesser extent, a rise in current transfers, which included financial support provided to hurricane victims by family members abroad. The performance of goods

exports (17% of GDP in 2003 and 18% in 2004) was linked to the increase in the price and volume of traditional exports (bauxite, alumina and sugar).

The services balance showed no variation, since higher inflows from increased tourist spending were counteracted by a rise in the maritime shipment bill corresponding to imports. The income balance (7% of GDP in 2003 and 2004) reflected the repatriation of private-sector profits.

The capital and financial account balance reflected an increase in loans incurred on domestic and international markets and, to a lesser degree, in private investment flows. Net official investments amounted to US\$ 479 million (up from US\$ 364 million in 2003). Net private investments, including domestic-market loans to the government, stood at US\$ 911 million (US\$ 695 million in 2003).

The balance of payments is expected to show an improvement in 2005, thanks to good external conditions, including a rise in international ore prices and a higher level of tourist spending. If fulfilled, the fiscal targets established for fiscal year 2006 will enable the government to cover its domestic and international debt, with positive consequences for the financial and capital account balance.





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## Suriname

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### 1. General trends

In 2005, in the absence of any brusque policy changes, Suriname's GDP is expected to grow for a third consecutive year, this time at around 5% (compared to 6.4% in 2003 and an estimated 4.6% in 2004), which has not occurred for at least a quarter of a century.<sup>1</sup> Favourable export commodity prices, as well as higher inflows of foreign investment, are the factors underlying the economic boom. The positive economic performance and the containment of inflation did not, however, secure the governing coalition the two-thirds majority it needed in the National Assembly to directly re-elect the President in office in May 2005. The new executive power will be elected by a larger assembly, and the parties are considering their options as regards the formation of coalitions. The outcome of these negotiations could have a significant impact on economic policy.

The macroeconomic stabilization achieved in 2003 paved the way for the introduction of a new currency, the Surinamese dollar, on 1 January 2004. Changes in the legal reserve policy for local and foreign currency deposits helped to rebuild public confidence in the local currency and to reverse the trend towards the dollarization of the economy. Fiscal policy became more expansionary, without macroeconomic stability

being affected. In the reporting period, a longer-term perspective was adopted with regard to economic policy, with results that are modest as yet. The authorities began to roll out projects to modernize public administration. They established multi-year programmes for the health and education sectors and initiated structural changes, including the removal of several public enterprises from the state sphere.

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### 2. Economic policy

Following the stabilization of the economy in 2003, which had brought a fiscal surplus, lower inflation, a narrowing of the balance-of-payments current account deficit and

expansion of international reserves, economic policy for 2004-2005 was aimed at accelerating growth while safeguarding stability. Few instruments were available

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<sup>1</sup> After the closing date for this edition of the *Economic Survey*, the General Bureau of Statistics of Suriname published updated figures for these economic growth rates, of 5.4% for 2003 and 7.8% for 2004, which could not be included in this publication.

Table 1  
SURINAME: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
	<b>Annual growth rates <sup>b</sup></b>								
<b>Gross domestic product</b>	6.0	3.6	4.5	-1.4	1.8	4.6	2.8	6.4	4.6
<b>Per capita gross domestic product</b>	5.3	2.9	3.8	-2.2	1.0	3.8	2.1	5.8	4.0
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-5.1	-2.3	-6.5	4.3	6.3	11.1	-3.8	4.3	...
Mining	5.3	13.3	5.0	5.2	-8.4	24.9	-8.2	-0.5	...
Manufacturing	11.4	8.8	5.1	-8.9	58.6	13.3	-2.6	1.6	...
Electricity, gas and water	9.9	2.1	6.2	-5.8	-7.7	2.2	11.4	-2.4	...
Construction	16.3	15.7	35.0	-14.6	-11.9	4.5	0.6	17.2	...
Wholesale and retail commerce, restaurants and hotels	5.4	2.4	3.8	-5.6	-15.8	-14.6	8.5	32.6	...
Transport, storage and communications	6.7	-3.7	-1.1	1.8	24.8	28.8	11.9	-1.4	...
Financial institutions, insurance, real estate and business services	1.2	0.0	1.5	-1.6	2.8	0.1	0.6	3.0	...
Community, social and personal services	8.9	2.9	-0.5	2.0	-2.1	1.5	3.4	5.5	...
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-64	-68	-155	-29	32	-84	-131	-159	-127
Merchandise trade balance	-2	36	-27	44	153	140	47	30	51
Exports, f.o.b.	397	402	350	342	399	437	369	488	481
Imports, f.o.b.	399	366	377	298	246	297	322	458	430
Services trade balance	-66	-102	-125	-72	-125	-115	-128	-136	-147
Income balance	3	-3	-1	0	6	-108	-42	-49	-41
Net current transfers	1	1	-2	-2	-2	-1	-9	-5	9
Capital and financial balance <sup>c</sup>	62	87	163	25	-23	162	112	166	151
Net foreign direct investment	19	-9	9	-62	-148	-27	-74	-76	...
Financial capital <sup>d</sup>	43	96	154	86	125	189	186	242	...
Overall balance	-2	19	8	-4	10	78	-19	7	24
Variation in reserve assets <sup>e</sup>	2	-19	-8	4	-10	-78	19	-7	-24
<b>Other external-sector indicators</b>									
Total gross external debt (millions of dollars)	...	...	...	...	196	270	280	270	236
Total gross external debt (percentage of GDP)	...	...	...	...	40.0	54.4	68.7	49.4	40.2
	<b>Average annual rates</b>								
<b>Employment</b>									
Unemployment rate <sup>f</sup>	11.0	11.0	11.0	12.0	14.0	14.0	10.0	7.0	...
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	1.2	17.4	22.9	112.7	76.1	4.9	28.4	13.1	9.1
Variation in nominal exchange rate (December-December)	-0.3	0.0	0.0	146.3	120.6	0.0	15.4	4.4	4.2
Nominal deposit rate	...	...	...	...	...	11.1	8.4	8.5	8.1
Nominal lending rate	...	...	...	...	...	23.5	21.3	21.0	19.1
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Current income	...	...	...	...	32.8	37.1	31.0	34.1	35.3
Current expenditure	...	...	...	...	46.0	36.4	37.0	31.5	34.7
Overall balance	...	...	...	...	-12.8	-1.6	-6.0	1.4	-2.5
Public debt	...	...	...	...	...	58.5	66.1	51.0	46.1
Domestic	...	...	...	...	...	10.3	19.9	17.4	18.9
External	...	...	...	...	...	48.2	46.2	33.6	27.3
<b>Money and credit</b>									
Domestic credit	...	...	...	...	...	13.6	20.1	23.2	26.5
To the public sector <sup>g</sup>	...	...	...	...	...	5.7	5.3	4.0	4.3
To the private sector	...	...	...	...	...	7.9	14.8	19.1	22.2
M1	...	...	...	...	...	26.5	27.6	21.3	23.9
M2	...	...	...	...	...	64.8	64.0	58.0	67.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1990 prices (1996-1998: guilders; 1999-2004: Suriname dollars, new currency in circulation since January 2004). <sup>c</sup> Includes errors and omissions. <sup>d</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>e</sup> A minus sign (-) denotes an increase in reserves. <sup>f</sup> Unemployment rate as a percentage of the economically-active population, nationwide total. <sup>g</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

to the authorities, however. Credit to the public and private sectors expanded, and an effort was made to save part of the approved budget, in particular by controlling government posts and wages. The fiscal deficit was financed by increasing domestic borrowing. As regards economic activity, markets were gradually liberalized and initial steps were taken towards privatizing some state enterprises in the areas of agricultural production, telecommunications services and transport. At any rate, growth in 2004 was slower than in 2003, as the propulsion from foreign investment in 2003 did not recur to the same extent in 2004.

#### (a) Fiscal policy

The fiscal policy adopted in 2003 had resulted in a financial surplus of 1.4% of GDP. In 2004, which was a pre-election year, fiscal policy was loosened, leading to a deficit of 2.5% of GDP. This reflected, in particular, a higher level of capital spending and a drop in receipts from certain taxes. Despite electoral expenditure, the government proposes to achieve a small current surplus in 2005 and expects a deficit on the financial balance, which will probably be covered by grants.

Fiscal income depends largely on receipts from a few large enterprises engaged in the extraction of bauxite, gold and petroleum, whose international prices have tended to fluctuate sharply. According to the International Monetary Fund, the volatility of fiscal income is further exacerbated by the system of gasoline taxes. The effect was not particularly negative in 2004, except for lower-than-expected takings from the gasoline tax referred to above. Direct taxes increased from 11% of GDP in 2003 to 12.8% in 2004. This compensated for the downturn in indirect taxes, from 16.2% to 15.2% of GDP. Including non-tax revenues, current income went down from 39.7% to 38.6% of GDP.

Fiscal expenditure grew at a faster rate than income in 2004, producing a deficit. Fiscal control is exercised mainly by means of monthly spending authorizations, which the Ministry of Finance uses to try to save a portion of approved spending. Consistent efforts have been made to curtail wage expenditures, which have dropped from 16.8% to 15.9% of GDP. In contrast, outlays on purchases of goods and services rose by 3.5 GDP percentage points, partly for pre-election reasons. Current expenditure increased by 3.2 GDP points, while payment of interest for debt-servicing remained close to 2.5% of GDP.

The main source of financing for the deficit (after grants) is the domestic capital market. The government issues six-month treasury bonds through the commercial banks at a rate of 12.5%. These are bought by pension funds, insurance companies and a certain number of private

individuals. In 2004, domestic public debt expanded by 1.5% of GDP. The consolidated debt from 1995, programmed over 15 years, continues to be a significant component of domestic debt.

#### (b) Monetary and exchange-rate policies

Monetary policy was directed at ensuring the successful introduction of the new currency, the Surinamese dollar, which is equivalent to 1,000 units of the old currency (Surinamese guilders), and at restoring public confidence in the local currency. The main policy instrument is the legal reserve requirement for both local- and foreign-currency deposits. The legal reserve for local-currency deposits was reduced from 35% to 30% in the course of 2004, while the requirement for foreign-currency deposits increased from 17.5% to 22.5%, then to 33.3% in February 2005. In 2004 the legal reserve requirement was also enforced for the final two of the seven commercial banks operating in the country. The interest rate on legal reserves remains unchanged at 6% for Surinamese dollars and a real rate of 0.75% for foreign currency.

The money supply (M1) expanded by 28% in 2004, after a very low rate (1.6%) in 2003. Foreign-currency deposits, which form part of the broadly defined money supply (M2), increased by 33% in 2004, after a rise of 19% in 2003. An expansion of 17% is projected for 2005, together with a reversal of the economy's tendency towards dollarization. The expansion of the money supply reflects both the higher level of international reserves and the expansion of credit to the private sector.

The policy of the legal reserve requirement has also been combined with the objective of stimulating credit for housing construction. In 2004 the commercial banks were authorized to allocate up to 20% of their legal reserve to financing in that sector. The interest rate was set at 7% (one percentage point above the legal reserve rate) for a 25-year term. A credit ceiling of 70,000 Surinamese dollars, or approximately US\$ 25,000, was set per housing unit. The banks seized this opportunity and virtually filled the available quota.

Another monetary policy objective is to bring down the lending rate and narrow the spread between lending and deposit rates. At the beginning of 2004, the lending rate stood at a real average of 12.3%, but by the end of the year it had eased down to 10.7%. Since the deposit rate, which remains slightly negative, declined less (by 0.4%), the spread between the two narrowed.

The exchange-rate reform entailed a change in the indicative exchange rate, from 2.6 to 2.7 Surinamese dollars per United States dollar, in order to bring it closer to the market exchange rate. The central bank kept the exchange rate stable for most of 2004, then revalued in

December to 2.68 Surinamese dollars to the United States dollar. Throughout the year, the rate offered in exchange offices was indistinguishable from the official indicative rate. Specific exchange rates are applied to some imported products, but these diverge little from the indicative rate. This policy has naturally led to a significant depreciation of the local currency in relation to the euro.

### (c) Other policies

The Ministry of Planning and Development Cooperation is responsible for the management of international cooperation funds. These funds come from bilateral

cooperation and the sources include the Netherlands, the Inter-American Development Bank and the United Nations Development Programme. The Netherlands cooperation funds, which were set up when the country became independent in 1975, provide grants and counterpart resources. At the beginning of 2005, agreement was reached on the disbursement of the final grants and the scheduling of counterpart resources. These funds go mainly to four sectors: health, housing, education and agriculture. The counterpart resources (136 million euros) are allocated to objectives established by the government, namely reform of the public sector and the enhancement of conditions for private investment.

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## 3. The main variables

### (a) Economic activity

In 2004 the economy expanded at a rate of 4.6%, compared to 6.4% in 2003. Growth of around 5% is projected for 2005, assuming that the formation of a new government will not be so lengthy as to create uncertainty. Growth in 2004 was led by mining, construction and, to a lesser extent, agriculture.

The early 2004 startup of the Rosebel gold mine, which is 95% owned by the Canadian firm Cambior and 5% by the government, meant an investment of US\$ 95 million. This activity, which provides almost 1,000 jobs, generated US\$ 2.5 million in royalties in 2004. The mine produced 273,700 ounces of gold in 2004, with a production value of US\$ 46.5 million.

The United States firm ALCOA, the world's largest company in the subsector of aluminium and related markets, completed the expansion of its refinery in Paranam at the beginning of 2005.

The state oil company Staatsolie suffered a setback of 5% in physical production, but posted an increase of 17.5% in gross income in 2004, thanks to the start-up of international marketing activities.

Construction also provided an impetus for growth. On the one hand, the commercial banks had an incentive to allocate part of their legal reserves to long-term financing of low-cost housing projects. On the other, the government implemented a refurbishment programme for road infrastructure and rural roads, and work is under way to modernize the port and airport.

Projects aimed at effecting structural change were initiated in a number of sectors, particularly in agriculture. In the banana subsector, a loan from the Inter-American Development Bank facilitated restructuring of the state firm Surland, whose debts had become unsustainable. The new company resulting from the reform, Stichting Behoud Bananensector Suriname (SBBS), began exporting bananas to the European market in March 2004 and production should reach 60,000 tons in 2005.

In the rice segment, which provides 9% of employment in Suriname, the main rice producer, the state enterprise SML, was broken up. A new organization, SRO, was created to work with half of the 10,000 hectares owned by the former company. The remaining 5,000 hectares will be distributed among the workers of the former company. The restructuring has not yet gone through, however, and the sector remained at a standstill in 2005.

Telecommunications are in the process of being liberalized. The state enterprise Telesur is to become a corporation; a new telecommunications authority will be responsible for regulation of the sector, and two new companies will be allowed entry to the sector.

Tourism is still at an incipient stage of development. According to the tourism foundation, 137,000 foreign visitors entered the country in 2004, bringing in US\$ 128 million, which was a substantial increase on the 85,000 visitors received in 2003.

It must be recalled that the informal sector also plays a very significant role in the economy, contributing between 40% and 60% of GDP, according to official estimates.

**(b) Prices, wages and employment**

Inflation is estimated to have been 9.1% in 2004 and was projected at slightly less for 2005 (9%). In the light of first-quarter data for 2005, however, it may be expected to be even lower than this figure. Inflation was non-existent in February, mainly due to a reduction in the cost of housing and basic services. In March, prices rose by only 0.2%, and this was the result of an increase in health service costs.

Wages at the lower end of the scale in the public sector average between US\$ 185 and US\$ 500. The average wage increase in the public sector was approximately 15%. The official projection for public-sector wage rises in 2005 is between 5% and 10%.

**(c) The external sector**

In the first nine months of 2004, the current account posted a small surplus (US\$ 8 million), which was based on a higher surplus in trade in goods (US\$ 138 million)

and a positive current-transfers balance (US\$ 7 million). Goods exports expanded from US\$ 500 million in the first nine months of 2003 to US\$ 600 million in the same period of 2004, driven by the external sales of gold produced by the new Rosebel mine. Other export products were petroleum, bananas and beer. Imports declined from US\$ 500 million to US\$ 470 million, owing to completion of construction work for Rosebel.

The goods trade surplus was sufficient to compensate for the structural deficit in trade in services (US\$ 106 million), which reflected losses sustained in transport and business services as well as the income account deficit of US\$ 30 million. The transfer account showed a positive result of US\$ 7.5 million, owing to official transfers.

The deficit on the financial account widened from US\$ 41 million in 2003 to US\$ 56 million in 2004, in view of liabilities owed to foreign investors (US\$ 44 million), payments on public debt (US\$ 20 million) and debt restructuring. Public external debt, one third of which has been in arrears since 1999, declined from 33.6% to 27.3% of GDP.



## Trinidad and Tobago

### 1. General trends

In 2004, the economy of Trinidad and Tobago showed real growth of 6.2%, driven by the energy sector. The other sectors grew at a moderate rate of 3%.<sup>1</sup>

Despite the slowdown in growth in non-energy sectors and intensive capital use in the energy sector, the unemployment rate decreased from 10.5% in 2003 to 8.6% in 2004. Construction, commerce and the public sector were the main sources of job creation. Employment fell in the agricultural sector, owing to restructuring of the sugar industry.

The strong upturn in the energy sector's performance (10.5%) brought an increase in its contribution to tax revenue, which led to a positive fiscal balance (1.4% and 2.1% for fiscal years 2003 and 2004, respectively).<sup>2</sup>

The economy's rapid growth, driven largely by high international petroleum prices, allowed a relaxation of

monetary policy in order to encourage expansion in the other sectors. Signs of an upsurge in inflation in the last quarter of 2004, however, led to a policy shift in early 2005. The inflation rate almost doubled, from 3.0% in 2003 to 5.6% in 2004.

In 2005 the economy is expected to continue on its current growth trajectory, of around 6%-7%, especially in view of the energy sector's performance and expectations that international petroleum prices will remain high. The current-account surplus in the fiscal budget should therefore come in at between 2% and 3% of GDP. Inflation will probably increase by 7% owing to the sustained rise in food prices.

### 2. Economic policy

#### (a) Fiscal policy

The government's fiscal policy was oriented towards maximizing revenues from the energy sector by introducing a new tax regime. This regime is also intended to channel resources to support economic diversification with a view to reducing the country's dependence on the energy sector.

The surplus for fiscal year 2004 was 2.1% of GDP, compared to 1.4% in 2003, which occurred because of

higher-than-budgeted international petroleum prices (US\$ 31 per barrel instead of the US\$ 25 projected). As a result, the revenue stabilization fund grew by more than 80% over fiscal year 2004.

The bulk of receipts (24% and 29% of GDP for fiscal years 2003 and 2004, respectively) came from income and value added taxes. Income from taxes on oil companies also increased significantly owing to the rise in petroleum and gas prices.

<sup>1</sup> The analysis in this report is based on the new annual series of GDP at 2000 prices, which are prepared by the Central Bank using new weightings calculated by the Central Statistical Office for that year.

<sup>2</sup> The fiscal year is from 1 October to 31 September.

Table 1  
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	7.0	7.7	8.1	8.0	6.9	4.2	6.9	12.6	6.4
<b>Per capita gross domestic product</b>	6.5	7.2	7.7	7.6	6.5	3.8	6.5	12.3	6.1
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	6.9	13.1	-7.2	2.3	-2.4	8.7	6.0	-18.0	-20.2
Mining <sup>c</sup>	7.5	0.9	8.9	21.6	12.5	5.6	13.5	31.2	10.5
Manufacturing	4.4	7.9	11.5	-7.2	6.0	9.8	4.6	5.0	6.6
Electricity, gas and water	27.0	10.0	6.7	0.3	5.5	4.1	7.9	3.8	2.8
Construction <sup>d</sup>	5.3	-0.7	14.2	6.0	7.6	10.3	-16.0	6.7	9.0
Wholesale and retail commerce, restaurants and hotels	7.9	17.7	7.4	8.7	5.4	-2.5	1.0	1.7	2.3
Transport, storage and communications	11.6	18.3	15.6	0.8	8.9	7.7	9.9	5.8	4.4
Financial institutions, insurance, real estate and business services	11.2	22.5	-0.4	11.7	12.4	0.8	12.0	7.1	1.7
Community, social and personal services	2.4	0.9	3.6	-3.3	-4.3	-0.4	2.7	1.2	0.6
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	105	-614	-644	31	544	416	76	985	1 623
Merchandise trade balance	382	-529	-741	64	969	718	238	1 293	1 509
Exports, f.o.b.	2 354	2 448	2 258	2 816	4 290	4 304	3 920	5 205	6 403
Imports, f.o.b.	1 972	2 977	2 999	2 752	3 322	3 586	3 682	3 912	4 894
Services trade balance	244	292	416	329	166	204	264	314	671
Income balance	-514	-381	-341	-400	-629	-539	-480	-681	-450
Net current transfers	-7	4	22	38	33	33	55	59	53
Capital and financial balance <sup>e</sup>	133	807	724	131	-103	86	39	-583	473
Net foreign direct investment	355	999	730	643	680	835	791	...	...
Financial capital <sup>f</sup>	-222	-192	-6	...	...	...	...	...	...
Overall balance	238	194	80	162	441	502	116	334	734
Variation in reserve assets <sup>g</sup>	-213	-175	-76	-162	-441	-502	-116	-334	-734
Other financing <sup>h</sup>	-25	-18	-4	0	0	0	0	0	0
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>i</sup>	104.7	107.9	105.3	102.2	100.0	94.5	91.1	91.1	92.5
Gross external public debt (millions of dollars)	...	1 565	1 471	1 585	1 680	1 666	1 549	1 553	1 351
Gross external public debt (percentage of GDP)	...	27.3	24.3	23.3	20.6	18.9	16.3	14.4	12.6
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>j</sup>	...	...	...	60.8	61.2	60.7	60.9	61.6	61.5
Unemployment rate <sup>k</sup>	16.2	15.0	14.2	13.2	12.2	10.8	10.4	10.5	8.6
<b>Prices</b>									
Variation in consumer prices (December-December)	4.3	3.5	5.6	3.4	5.6	3.2	4.3	3.0	5.6
Variation in nominal exchange rate (December-December)	3.3	1.7	-0.2	0.2	0.0	-0.3	0.3	0.0	-0.4
Nominal deposit rate <sup>l</sup>	13.5	13.4	14.4	15.4	14.5	14.0	12.3	11.4	...
Nominal lending rate <sup>l</sup>	5.7	5.4	5.9	6.0	5.7	5.5	3.5	2.5	...
<b>Percentages of GDP</b>									
<b>Central government</b>									
Current income	...	...	...	23.4	25.3	24.3	26.1	24.0	29.0
Current expenditure	...	...	...	25.7	21.4	22.9	24.1	22.0	24.0
Net capital expenditure	...	...	...	-1.0	-2.3	-1.5	-1.3	-1.2	-2.2
Primary balance	...	...	...	2.4	6.3	4.0	4.8	5.2	5.4
Overall balance <sup>m</sup>	...	...	...	-3.3	1.6	-0.1	0.7	1.4	2.1
<b>Money and credit<sup>n</sup></b>									
Domestic credit <sup>o</sup>	47.7	49.3	53.7	52.9	46.4	47.3	49.5	43.6	38.0
To the public sector	9.6	12.2	12.4	10.1	8.3	7.6	9.3	8.2	6.2
To the private sector	38.1	37.1	41.2	42.7	38.1	39.7	40.2	35.4	31.8
Liquidity (M3)	...	...	...	...	34.6	36.3	40.3	34.9	...
Currency in circulation and local-currency deposits (M2)	...	...	...	...	25.8	26.8	30.5	27.0	...
Foreign-currency deposits	...	...	...	...	8.8	9.5	9.8	7.9	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 2000 prices. <sup>c</sup> Refers only to the oil industry. <sup>d</sup> Includes quarrying. <sup>e</sup> Includes errors and omissions. <sup>f</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>g</sup> A minus sign (-) denotes an increase in reserves. <sup>h</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>i</sup> Annual average, weighted by the value of merchandise exports and imports. <sup>j</sup> Economically active population as a percentage of the working-age population. <sup>k</sup> Unemployment rate as a percentage of the economically active population. Includes hidden unemployment. Nationwide total. <sup>l</sup> Weighted average. <sup>m</sup> Includes interest. <sup>n</sup> The monetary figures are annual averages. <sup>o</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.



Current expenditure (22% and 24% of GDP in fiscal years 2003 and 2004, respectively) corresponded mainly to wages, transfers and subsidies to households and State organizations and institutions. In accordance with the government's aim of improving overall well-being, gasoline prices were subsidized and pensions and other social benefits were increased. Interest payments decreased, as the interest rates on domestic debt dropped and the stock of public external debt stock was reduced.

Capital spending rose from 1.2% of GDP in fiscal year 2003 to 2.2% in fiscal year 2004, with resources allocated to the "dollar for dollar" programme (education), road upgrading and projects included in the public sector investment programme.

Public debt diminished from 55.9% of GDP in fiscal year 2003 to 52.7% in 2004, and external debt from 15% to 13.1% of GDP. Debt servicing remained relatively low, at 5.7% of exports of non-factor goods and services. In June 2004, Standard & Poor's raised the country's investment rating for long-term public debt to BBB+.

The increase in the liabilities of central government, public enterprises and other State institutions represented 4.6% of domestic debt. The higher level of central government debt was due to the issuance of liabilities to counteract increased market liquidity following the reduction of the legal reserve requirement for commercial banks and the payment of debts.

Receipts from the petroleum sector are expected to reach US\$ 3.8 billion in 2005, which would account for 40% of total revenue. Programmed expenditure amounts to US\$ 4.4 billion dollars. Any price differences will be passed through to the revenue stabilization fund. Taking this transfer into account, the fiscal surplus is expected to be close to 4% of GDP.

### **(b) Monetary policy**

The goal of the government's monetary policy is to keep inflation low, the foreign-exchange market stable and international reserves at an adequate level.

Since 1996, the central bank has used market-based monetary policy instruments, namely open-market operations

and the repo rate, which is used for repurchase transactions to provide day-to-day financing to the commercial banks. The legal reserve requirement applicable to financial institutions has also been used to influence liquidity in the system.

In 2003, the central bank lowered the repo rate by 25 basis points to 5%, and began to gradually reduce the legal reserve requirement. This policy reflected the need to stimulate growth in non-energy sectors, which had been lagging behind significantly. The legal reserve requirement was lowered from 14% to 11% in September 2004.

As a result, interest rates declined; the prime lending rate of the commercial banks went down from 11.5% in 2003 to 8.75% in 2004. The drop in interest rates was reflected in an appreciable expansion in credit to the private sector, from 27.8% of GDP at the end of 2003 to 31.3% of GDP at the end of 2004.

In the first week of March 2005, the central bank raised the repo rate by 25 basis points, to 5.25%, because of the upsurge in inflation and the narrowing of the short-term interest rate spread between local and foreign currency. The shift in the central bank's policy prompted a rise in commercial bank interest rates, as the prime lending rate jumped from 8.75% to 9%.

Monetary management represented a challenge for the authorities in 2004, in view of the economy's substantial growth and the significant increase in liquidity deriving from fiscal operations. Some of this liquidity was sterilized through open-market operations, which absorbed the equivalent of 3.5% of GDP.

### **(c) Exchange-rate policy**

Foreign-currency operations increased during 2004 and the first four months of 2005. International reserves expanded significantly, thanks to capital inflows to the energy sector. The central bank therefore intervened in the exchange market in order to meet the demand for foreign currency and keep the local currency stable with respect to the United States dollar. The local currency did, in fact, remain relatively stable in United States dollar terms (6.2 Trinidad and Tobago dollars to the United States dollar in 2004).



## **3. The main variables**

### **(a) Economic activity**

Output has grown rapidly since 2001. In 2004 the growth rate was 6.2%, which was virtually the same

as in 2002 (6.8%), after a peak of 13.2% in 2003. The expansion was due mainly to increased production of natural gas (10.7%), liquefied natural gas (21.3%) and petrochemicals (11.5%).

In 2004, the combined growth of the non-energy sectors was 2.9%. Construction, manufacturing and tourism were the most dynamic sectors, with rates of 9%, 6.6% and 5.9%, respectively. The expansion of services slowed considerably, from 4.2% in 2003 to 2.9% in 2004, as a result of sluggish growth in financial services and insurance. Agriculture continued to decline, adding a contraction of 20.2% in 2004 to the 18% drop recorded in 2003. This was chiefly attributable to restructuring in the sugar industry and poor weather conditions.

The energy sector will continue to be the main engine of growth. The government proposes to increase this sector's value added and its contribution to fiscal revenue by introducing a new tax system.

The strengthening of non-energy sectors will be based on tourism and will include the development of hotel activity and promotion of tourism. The agricultural sector's contribution to growth will be boosted by upgrading infrastructure, improving access to credit and enhancing the agricultural incentives programme, among other measures.

#### **(b) Prices, wages and employment**

Inflation almost doubled in 2004 (5.6%) with respect to 2003 (3%), with food prices being the determining factor in this result. The higher cost of food reflected rises in the prices of grains and other inputs, as well as a scarcity of fresh agricultural products (fruit and vegetables) caused by the extreme weather conditions in 2004, including the impact of hurricane Ivan on agricultural imports from neighbouring Caribbean countries.

Unemployment dropped sharply in 2004 (an average of 8.6% compared to 10.5% in 2003). Growth in employment (5.3%) outstripped the expansion of the labour force (2.8%). The services sector, particularly community, social and personal services, was the largest contributor to job creation. Employment also expanded considerably in construction, finances and insurance, manufacturing and energy, but declined significantly in agriculture.

Demand for skilled and unskilled labour will continue to rise and, in the view of employers, who indicate there is a supply shortage, will have to be met by imported labour. This shortage translated into a wage increase from 8 to 9 Trinidad and Tobago dollars per hour at the beginning of 2005.

#### **(c) The external sector**

The continuing buoyancy of the energy sector contributed to a significant rise in the surplus on the

overall balance. This surplus amounted to 6.4% of GDP in 2004, compared to 3.2% in 2003, while the current account surplus expanded by 65%. Most of this surplus may be attributed to the merchandise trade balance, which rose by 17%, but other contributing factors included the doubling of the surplus on the services account and a sharp reduction in the repatriation of income and foreign investment.

Goods exports accounted for 55.8% of GDP in 2004, compared to 49.2% in 2003. Minerals and fuels represented 60% of exports, but grew by only 11% in 2004. Exports of chemicals posted the highest growth rate (67.8%), followed by manufactures (28.3%) and foods (12.6%). Manufactures account for 9% of exports and go mainly to the markets of CARICOM member countries.

Imports rose to 42.5% of GDP in 2004 (37% in 2003). Machinery and transport equipment, and minerals and fuels, were the largest import categories, accounting for 37% and 24%, respectively, of total imports in 2004. The largest jumps in imports were recorded by manufactures (50.3%) and capital goods (43%).

Exports of services were equivalent to 8.1% of GDP in 2004, compared to 6.4% in 2003. The leading exports corresponded to tourism, transport and insurance, which accounted for 34%, 33% and 12%, respectively, of total services exports in 2004. The fastest-growing categories were tourism (up 68.6%) and transport (25%).

The deficit in the capital and financial account of the balance of payments rose by approximately 4.6% in 2004 and was equivalent to 6.4% of GDP (4.8% in 2003). Net direct investment increased by 66.8% in 2004. Nevertheless, there was also substantial capital flight, most of which reflected asset purchases abroad and the issue of regional bonds on the domestic capital market. Regional bond issues were equivalent to 6% of GDP in 2004, which compares with 4.8% in 2003.

The expansion of the overall surplus led to further strengthening of the country's international reserves, which grew by 30% in 2004. Net official reserves were equivalent to 26% of GDP or about 7 months of imports of goods and services.

Energy exports continued to be significant in 2005 and, in a context of high international prices, will produce a surplus estimated at between 6% and 7%. Petrochemical exports will also continue to rise, thanks to a planned increase in production. Whether manufacturing exports continue to expand will depend on the growth of regional markets and the ability of the manufacturing companies to penetrate markets outside the region. In addition, the considerable efforts under way to develop tourism should contribute to the growth of the sector's services exports.

## Countries members of the Organisation of Eastern Caribbean States (OECS)<sup>1</sup>

### 1. General trends

The countries members of the Organisation of Eastern Caribbean States (OECS) posted a positive growth rate for the third consecutive year since the events of September 2001. Economic activity expanded (by 3.5% in 2003 and 3.9% in 2004) in response to the buoyancy of tourism and construction. GDP grew in almost all the OECS countries except Grenada, where output fell by 3% as a result of the devastation caused by hurricane Ivan.

The impetus of economic activity pushed up tax receipts, which, combined with efforts to curb public expenditure, narrowed the fiscal deficit across the member countries from 8% of GDP in 2003 to 7% in 2004. Fiscal performance was uneven among the individual countries.

Inflation climbed from 1.5% in 2003 to 2.4% in 2004, in response to rising aggregate expenditure that resulted from increased economic activity, higher international oil prices, wage increases and the appreciation of the euro.

The external sector turned in an improved performance, mainly thanks to the narrowing of the current account deficit from 21% of GDP in 2003 to 17% in 2004. This reflected a widening service account surplus thanks to growth in tourism, and contributed to the expansion of

net transfers following efforts to mitigate and offset the damage caused by natural disasters.

In 2005, the member countries anticipate that their economies will maintain their current growth trajectory, buoyed by tourism and construction. Despite increasing output, fiscal imbalances are expected to sharpen as capital spending rises in preparation for Cricket World Cup to be held in 2007 and public and private infrastructure projects are implemented.

Travel-industry revenues have been offset by the sustained increase in merchandise imports and only moderate growth in remittances, while production activity is still recovering from the impact of natural disasters, all of which will widen the external deficit. Member States anticipate that flows of public and private capital will be sufficient to meet their economies' financing requirements.

### 2. Economic policy

#### (a) Fiscal policy

The overall consolidated fiscal deficit of the OECS economies narrowed from 8% of GDP in 2003 to 7% in

2004, mainly due to an increase in tax receipts to 24% of GDP (up from 23% in 2003) and, albeit in smaller measure, to a drop in capital expenditure (from 8% of GDP in 2003 to 7% in 2004).<sup>2</sup>

<sup>1</sup> The members and associate members of the Organisation of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The analysis in this section refers only to the independent States members by OECS.

<sup>2</sup> Fiscal results do not include grants.

Table 1  
**ORGANISATION OF EASTERN CARIBBEAN STATES (OECS): MAIN ECONOMIC INDICATORS**

	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>Annual growth rates <sup>b</sup></b>									
<b>Gross domestic product</b>	2.7	3.2	4.0	4.5	3.9	-1.3	0.5	3.5	3.9
<b>Per capita gross domestic product</b>	2.0	2.6	3.4	4.0	3.4	-1.8	0.0	2.9	3.3
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	...	-7.1	1.1	-4.7	0.4	-8.4	5.3	-4.7	0.1
Mining	...	7.0	2.1	6.5	21.5	-6.3	-1.5	5.6	3.7
Manufacturing	...	2.7	2.3	3.3	-0.1	-1.4	-1.3	0.6	-1.8
Electricity, gas and water	...	6.7	6.2	9.0	14.3	5.6	2.0	2.9	1.0
Construction	...	7.9	11.5	8.3	4.9	-1.5	-2.5	4.4	5.5
Wholesale and retail commerce, restaurants and hotels	...	5.5	2.4	4.2	1.5	-5.3	-0.4	8.3	5.9
Transport, storage and communications	...	6.1	5.9	9.2	2.6	-1.2	-0.6	3.7	7.2
Financial institutions, insurance, real estate and business services	...	6.9	6.1	5.5	15.3	0.8	3.3	2.8	2.2
Community, social and personal services	...	-5.7	-2.9	-2.4	-6.4	6.4	0.5	1.1	0.9
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-329	-403	-366	-450	-438	-462	-585	-652	-563
Merchandise trade balance	-853	-948	-982	-1 056	-1 066	-1 006	-1 006	-1 176	-1 286
Exports, f.o.b.	338	298	316	327	359	303	305	307	321
Imports, f.o.b.	-1 191	-1 246	-1 299	-1 383	-1 426	-1 309	-1 311	-1 483	-1 607
Services trade balance	527	576	629	642	671	606	527	615	739
Income balance	-127	-132	-147	-170	-207	-174	-208	-218	-247
Net current transfers	124	100	134	133	164	112	101	127	232
Capital and financial balance <sup>c</sup>	310	426	417	472	451	527	646	698	666
Net foreign direct investment	183	261	313	335	307	271	...	...	...
Financial capital <sup>d</sup>	127	165	104	137	144	259	306	179	186
Overall balance	-19	23	51	22	12	65	61	46	103
Variation in reserve assets <sup>e</sup>	20	-23	-54	-22	-12	-65	-61	-46	-103
Other financing <sup>f</sup>	-1	-1	2	0	0	0	0	0	0
<b>Other external-sector indicators</b>									
Gross external public debt (millions of dollars)	759	885	976	1 266	1 319	1 511	1 856	2 073	1 964
Gross external public debt (percentage of GDP)	33.1	36.6	37.6	46.1	46.5	53.1	63.7	67.6	59.9
Net profits and interest (percentage of exports) <sup>g</sup>	80.9	76.5	83.7	96.2	99.0	88.1	87.8	82.1	71.5
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	2.0	2.4	2.8	1.7	1.7	1.3	0.3	1.5	2.4
Nominal deposit rate <sup>h</sup>	...	11.6	11.3	11.8	11.6	11.4	11.0	12.8	...
Nominal lending rate <sup>h</sup>	...	4.2	4.2	4.2	4.4	4.3	3.7	4.6	...
<b>Millions of Eastern Caribbean dollars</b>									
<b>Central government</b>									
Current income	1 567	1 628	1 775	1 903	1 947	1 910	2 012	2 166	2 371
Current expenditure	1 466	1 549	1 657	1 785	1 871	2 038	2 172	2 224	2 396
Net capital expenditure	...	380	456	531	586	556	445	602	549
Primary balance	...	-46	12	-63	-127	-245	-160	-73	50
Overall balance <sup>i</sup>	...	-171	-115	-220	-329	-500	-449	-403	-324
<b>Percentages of GDP</b>									
<b>Money and credit</b>									
Domestic credit	58.9	63.4	63.5	68.0	75.5	75.6	74.9	71.0	71.7
Public	-0.3	-0.8	-1.6	0.1	2.1	-0.4	-0.6	-2.4	-2.6
Private	63.3	68.1	68.5	71.4	76.3	77.8	77.4	75.1	74.7
Liquidity (M3)	63.7	66.2	69.6	72.8	77.9	82.3	85.6	89.2	86.5
Currency in circulation and local-currency deposits (M2)	58.1	59.6	62.8	65.3	67.9	71.8	73.9	77.4	73.2
Foreign-currency deposits	5.6	6.6	6.8	7.5	10.0	10.4	11.7	11.8	13.3

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in Eastern Caribbean dollars at constant 1990 prices. <sup>c</sup> Includes errors and omissions. <sup>d</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>e</sup> A minus sign (-) denotes an increase in reserves. <sup>f</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>g</sup> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>h</sup> Weighted averages. <sup>i</sup> Includes grants.

In 2004, current expenditure remained at the level recorded in 2003 (27% of GDP). The tax burden increased in response to healthier growth prospects, while the pattern of capital expenditure was determined mainly by the completion of infrastructure works. The level of indebtedness of the OECS as a group retreated from 105% to 100% of GDP, as a result of debt restructuring by Antigua and Barbuda. Indebtedness increased in the rest of the economies.

The aggregate fiscal results mask large differences in the countries' individual performances. Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia improved their fiscal results, while the government accounts of Dominica worsened. Grenada and Saint Vincent and the Grenadines showed no change on the previous year in terms of budget outturn.

Most of the OECS countries are expected to see their fiscal accounts deteriorate in 2005, since the anticipated rise in income will be more than outweighed by the climb in capital expenditure. Rising economic activity will have an effect on taxes on international trade and transactions, with an increase in revenue flows and in the demand for imports. The implementation of planned tax and administrative measures is also expected to make the governments' tax collection procedures more efficient. Once the countries begin preparations for the 2007 Cricket World Cup, however, the rise in capital expenditure is likely to offset the increase in current income.

The fiscal balance of Antigua and Barbuda, which went from -7% of GDP in 2003 to -6% in 2004, reflected higher income from international trade and transactions and hotel taxes, which made up for outlays on debt servicing payments.

Tax performance was the result of increased demand for imports and a rise in tourist spending. For 2005, the authorities have announced wage cuts (20% for civil servants) and a package of tax measures (including the reintroduction of income tax and tax rates of 5% on retail commerce and 7% on consumption) as a continuation of the policy aimed at reducing budgetary imbalances and lowering the external debt stock. This stock was halved in 2004 (41% of GDP, compared with 84% in 2003) thanks to restructuring operations.

The deficit of the Government of Dominica widened from 6% of GDP in 2003 to 8% in 2004, as a result of rising capital expenditure, which more than offset the positive effects of increased revenues from taxes on sales and international trade and transactions. Capital spending corresponded to rehabilitation and reconstruction work undertaken by the authorities in the wake of the earthquake in November. The pattern of income was attributable to the upturn in economic activity and the rise in the customs clearance rate. The fiscal accounts will reflect the full

impact of the earthquake in 2005, with smaller receipts and higher capital expenditure.

Grenada again posted a deficit (-9.7% of GDP in both 2003 and 2004) and reduced capital spending, which offset the effects of shortfalls in government income and higher current spending. Tax performance was affected by the aftermath of hurricane Ivan. Current expenditure rose as a result of civil-service wage rises. In 2005, spending on reconstruction work and wages (8%) is expected to exceed income, despite plans to introduce a special income tax and increase petroleum retail prices.

In Saint Kitts and Nevis, the improved tax ratio offset an expansion in current expenditure, thereby narrowing the fiscal deficit from 9% of GDP in 2003 to 8% in 2004. Government revenues reflected better economic growth prospects and buoyant tourism. Current expenditure reflected higher payments for goods and services and payroll increases. The government intends to continue its fiscal consolidation efforts in 2005, although public-sector wages and capital expenditure are projected to increase. The repercussions for central government income and expenditure of the closure of the sugar industry in the second half of 2005 will have a crucial impact on fiscal performance.

Saint Lucia managed to narrow its budgetary imbalance significantly, from 6.4% of GDP in 2003 to 2.5% in 2004, thanks to the introduction of a series of tax measures and a decline in capital expenditure. The tax measures included increases in the airport tax payable by members of the Caribbean Community (CARICOM) and in the rate applicable to banking and marriage licences and work permits. The government also raised specific taxes, as well as rates of duty on the consumption of imported alcoholic beverages, tobacco and the retail price of gasoline and fuel.

The authorities expect the fiscal deficit to widen in 2005 as capital expenditure is up 51% on the previous year and receipts are anticipated to drop due to a cut in the corporate tax rate.

The fiscal deficit of Saint Vincent and the Grenadines remained at 4% of GDP, reflecting an increase in payroll and higher expenditure on goods and services, which was covered by a rise in tax revenues thanks to the economy's high growth rate. In 2005, the central government's current expenditure will climb by 8.4% owing to wage increases (7.8%), while capital expenditure will expand by 4.8%. On the income side, the authorities plan to introduce a tax exemption for small enterprises, raise the tax-free threshold and increase the retail price of petroleum products.

#### **(b) Monetary and exchange-rate policies**

The economies that make up the Organisation of Eastern Caribbean States formed a monetary union in

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

The expansion of the union's broad money supply (M2 of 10% in 2003 and 13% in 2004) was mainly a reflection of a rise in net external assets (22%) and, to a lesser extent, an increase in net domestic assets (9%).

The rise in net external assets was attributable to travel-industry revenues, foreign direct investment and private and official assistance to remedy the damage caused by natural disasters.

Net domestic credit was affected by a standstill in demand for credit to the private sector, despite good prospects for growth within OECS (3% in 2003 and 2.4% in 2004); as a result, liquidity in the commercial banking system swelled.

A sectoral breakdown of credit shows that personal loans represented 49% of the total. Tourism, construction and agriculture were the sectors to register the largest increases in demand for loans.

Monetary conditions are not expected to change in 2005. Indeed OECS should follow its characteristic patterns with liquidity above the statutory level, growth of monetary aggregates driven by net external assets, weak demand for loans from the private sector and a spectrum of interest rates with no significant variations.

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### 3. The main variables

#### (a) Economic activity

The growth rate in the OECS economies trended upwards for the third year in a row, which was a reflection of growth in construction and tourism. In 2005, as in previous years, the growth pattern in the member countries will continue to be sustained by these two sectors. Economic activity will benefit from activities related to the Cricket World Cup (2007), increased air flight capacity and higher foreign capital flows.

Agriculture stagnated in aggregate terms (-4.9% in 2003 and 0.1% in 2004), as the downturn in Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines offset the positive performances of all the other countries. In most countries, agriculture benefited from larger areas under cultivation, increased productivity and higher international prices. Bananas, in particular, posted a clear recovery (up 16% for OECS as a whole).

The repercussions of natural disasters, particularly in Grenada and, to a lesser extent, in Saint Lucia and Saint Vincent and the Grenadines, will be felt more keenly in 2005. In Grenada, agricultural production is expected to fall by 39%. Another significant factor that will affect the performance of agriculture in 2005 is the shutdown of sugar production in Saint Kitts and Nevis due to low profitability.

Manufacturing contracted in OECS as a whole (0.6% in 2003 and -1.8% in 2004), while individual performance varied from one country to another. The sector expanded by 1% in Dominica and 2.9% in Saint Vincent and the Grenadines, as a result of increased production of traditional goods such as soap, food, beverages and milling products (whose supply rose in keeping with higher consumption). Greater intraregional trade flows were also a contributing factor.

The standstill in manufacturing in Saint Kitts and Nevis (-0.2%) was due to high operating costs and low levels of technology in most of the sector's enterprises. In Saint Lucia, manufacturing performance (-2.5%) was attributable to reduced production capacity following a plant closure. In Grenada, the poor manufacturing outturn reflected the disruption and damage caused by hurricane Ivan.

The manufacturing sector is expected to post a positive growth rate in 2005, as Grenada's economy recovers and build up its capacity to respond to rises in domestic and foreign demand for manufactures.

Construction developed in step with economic growth and with new and ongoing public and private infrastructure projects. Preparations for the Cricket World Cup, expectations of higher growth and the effects of

reconstruction work will provide a significant boost for the construction sector in 2005.

Tourism performed unevenly across the OECS countries (12.4% in aggregate terms for 2003 and 8.4% for 2004). In Grenada, it contracted by 13% in 2004, but in the rest of the economies, it responded to growth in its main foreign markets, increased flight capacity, larger flows of investment in tourist establishments and higher numbers of cruise stopovers and itineraries. These variables will also underlie the performance of tourism in 2005.

### **(b) Prices, wages and employment**

Aggregate inflation rose (from 1.5% in 2003 to 2.4% in 2004), partly as a result of the rise in international oil prices, the introduction of new tax measures, wage increases, the appreciation of the euro in relation to the Eastern Caribbean dollar and the effects of natural disasters. These factors will also play a significant part in determining the rate of price increases in 2005, which is expected to exceed 2%.

In terms of countries, Saint Kitts and Nevis posted the lowest rate of inflation in 2004 (1.7%), while Saint Lucia recorded the highest (3.5%). By price components, inflation in Saint Kitts and Nevis was driven by rises in prices for beverages (1%) and housing (6%). In Saint Lucia, the inflation rate reflected higher prices for food (1%); electricity and fuel (6%); and clothing and footwear (5%).

Civil-service wages were raised by 4% in Grenada, 10% in Saint Kitts and Nevis, 3% in Saint Lucia and 4% in Saint Vincent and the Grenadines. The governments of Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines expect additional increases in the public wage bill in 2005.

Employment trends in OECS followed the pattern of expansion in economic activity. The unemployment rate climbed steeply in Grenada and Dominica. In February 2005, Grenada's unemployment rate was estimated to stand at 30% of the workforce, due to the destructive effects of hurricane Ivan. The number of unemployed rose in Saint Kitts and Nevis as a result of the closure of the sugar industry, which employs 1,000 people.

### **(c) The external sector**

The overall balance-of-payments position showed a surplus (1.5% of GDP in 2003 and 3.1% in 2004), as the current-account deficit (21% of GDP in 2003 and 17% in 2004) was easily financed by the surplus on the capital and financial account (23% of GDP in 2003 and 20% in 2004). As a result, OECS increased its stock of international reserves, thus helping to maintain the credibility of the monetary union.

The current-account position improved in line with the buoyancy of the tourist sector which, in turn, widened the services account surplus from 20% of GDP in 2003 to 23% in 2004. Travel-industry revenues jumped by 13% on account of higher visitor numbers (2.5 million in 2003 and 3.2 million in 2004). Current account operations also reflected an increase in unilateral transfers from 4% of GDP in 2003 to 7% in 2004, which resulted from private and public financial assistance for victims of natural disasters, plus insurance and reinsurance.

The balance of trade was much the same as the previous year (-38% of GDP in 2003 and -39% in 2004), owing to similar increases in imports and exports. Export performance responded to the recovery of agriculture, a rise in the international prices of some products, such as bananas (16% in 2004), and increased exports of certain manufactures (soap, beverages and food).

The capital account reflected flows of official grants, while the financial account balance was attributable to net foreign direct investment (US\$ 479 million, compared with US\$ 519 million in 2003). This investment went to tourism (60%), construction (3%) and sport-related activities (1%).

In 2005, the current-account balance will show the effects of increased exports, as a result of the economic upswing. At the same time, merchandise exports will drop as the effects of hurricane Ivan kick in fully. Sustained buoyancy in the tourism sector and preparations for the Cricket World Cup will be the key factors in the services account balance. The balance of current transfers will reflect the gradual reduction of official and private assistance for renovation and rehabilitation work. The capital account will record inflows related to infrastructure projects in those States affected by natural disasters. Lastly, the financial account will record foreign direct investment flows being channelled into development of the tourism sector.