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## The Caribbean



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## Bahamas

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### 1. General trends

Economic growth increased from 1.8% in 2004 to 2.7% in 2005, driven by tourism, construction and financial services.

Increased economic activity led to higher tax receipts and a subsequent narrowing of the fiscal deficit. Economic growth also resulted in increased demand for credit, a need that was satisfied by commercial banks.

While the improved economic performance did not bring down the unemployment rate, the labour market was able to absorb the increase in the labour force as the participation rate rose.

The balance of payments worsened: the overall balance was negative as the capital and financial account surplus failed to cover the growing current account deficit. The current account deficit is attributable to higher international

oil prices and the rise in imports in the face of increased economic activity.

For 2006, growth of 4.7% is expected to affect the balance of payments in the short term. Despite the hefty external debt that is worrying the authorities, no significant changes are expected in terms of fiscal policy. This continuation of the status quo is partly due to the fact that elections are scheduled for 2007.

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### 2. Economic policy

#### (a) Fiscal policy

The fiscal deficit narrowed from 2.5% of GDP in 2004 to 1.9% in 2005 thanks to increased tax revenues (19.1% of GDP in 2005 compared with 17% in 2004), which successfully offset the rises in expenditure (20.9% of GDP in 2005 compared with 19.4% in 2004).

The performance of total public revenues (including grants) is due to higher levels of economic activity, particularly the expansion of imports and higher levels of hotel occupancy. These factors then resulted in significant increases in income from tax on international transactions and trade (26%) and especially gaming taxes (88%).

Levels of current expenditure (18% of GDP in 2004 and 19% in 2005) are attributable to government purchases,

and more specifically to transfers and subsidies. Capital expenditure (1.5% of GDP in 2004 and 1.9% in 2005) was associated with infrastructure projects, including building construction, road maintenance and the repair of State schools.

The fiscal deficit was financed mainly through domestic borrowing. This pushed up total public debt by 6.5% to stand at US\$ 2.7 billion, equivalent to 46% of GDP. Foreign-currency debt (which includes domestic and external debt) contracted by 5.4% to stand at US\$ 531 million in 2005 (9% of GDP, down from 10% in 2004), of which over 50% is external public debt. Total external debt decreased from 6.1% of GDP in 2004 to 5.7% in 2005, while debt servicing fell from 3.4% of GDP in 2004 to 2.9% in 2005.

Table 1  
**BAHAMAS: MAIN ECONOMIC INDICATORS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	4.9	6.8	4.0	1.9	0.8	2.3	1.4	1.8	2.7
<b>Per capita gross domestic product</b>	3.3	5.2	2.5	0.4	-0.6	0.8	0.1	0.4	1.4
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	0.1	-2.4	-6.8	8.8	-6.9	20.7	-4.8	-11.7	-9.3
Mining	5.1	-1.2	-22.3	11.6	3.4	0.2	13.5	3.8	15.8
Manufacturing	8.8	-4.0	-0.6	7.4	13.0	2.2	-0.6	-3.2	5.2
Electricity, gas and water	7.5	11.3	2.4	0.2	11.3	3.6	5.7	2.4	4.3
Construction	32.0	21.2	8.3	13.3	-13.3	6.2	2.5	-7.4	6.2
Wholesale and retail commerce, restaurants and hotels	0.8	8.2	11.4	-3.4	4.9	-8.7	3.1	-0.3	2.7
Transport, storage and communications	4.1	12.4	0.7	10.4	-5.3	3.8	1.0	0.6	-0.3
Financial institutions, insurance, real estate and business services	12.1	10.7	9.1	5.4	3.1	1.1	3.8	4.0	3.5
Community, social and personal services	5.6	-0.6	-0.9	-7.4	-3.4	4.7	9.4	1.3	3.5
<b>Gross domestic product, by type of expenditure</b>									
Consumption	6.0	8.6	5.1	1.3	4.4	-1.0	3.3	1.9	0.7
General government	6.3	-0.8	-1.8	-4.9	3.8	9.1	4.9	1.2	2.7
Private	6.0	10.5	6.3	2.3	4.5	-2.6	3.0	2.0	0.3
Gross domestic investment	28.7	19.9	-0.4	13.6	-7.4	-0.2	-0.2	1.5	3.0
Exports (goods and services)	1.4	0.3	7.0	5.2	-5.7	7.7	-1.2	10.7	6.2
Imports (goods and services)	21.0	12.1	6.1	10.4	-4.6	-1.0	2.1	6.2	4.4
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-472	-995	-672	-471	-594	-423	-472	-305	-513
Merchandise trade balance	-1 116	-1 374	-1 428	-1 371	-1 340	-1 327	-1 331	-1 428	-1 625
Exports, f.o.b.	295	363	380	805	423	422	427	477	523
Imports, f.o.b.	1 411	1 737	1 808	2 176	1 764	1 749	1 757	1 905	2 148
Services trade balance	757	542	857	1 029	835	1 046	962	1 013	1 134
Income balance	-153	-198	-138	-173	-199	-184	-153	-141	-107
Net current transfers	39	34	37	43	110	42	49	251	85
Capital and financial balance <sup>c</sup>	529	1 115	737	410	564	484	583	489	424
Net foreign direct investment	210	146	144	250	102	153	190	274	360
Financial capital <sup>d</sup>	319	969	593	161	461	331	393	215	64
Overall balance	57	119	65	-61	-30	61	111	184	-89
Variation in reserve assets <sup>e</sup>	-57	-119	-65	61	30	-60	-110	-183	88
Other financing <sup>f</sup>	0.0	0.0	0.0	0.0	0.4	-0.6	-0.7	-0.3	0.8
<b>Other external-sector indicators</b>									
Net resource transfer (percentage of GDP)	-0.1	0.0	2.4	4.8	4.6	0.8	2.4	1.0	3.3
Gross external public debt (millions of dollars)	335	323	338	349	328	310	363	343	335
Gross external public debt (percentage of GDP)	8.7	7.5	7.2	7.0	6.4	5.8	6.6	6.1	5.7
Net profits and interest (percentage of exports) <sup>g</sup>	-8.1	-10.4	-6.3	-6.1	-8.9	-7.4	-6.1	-5.2	-3.5
	<b>Average annual rates</b>								
<b>Employment</b>									
Unemployment rate <sup>h</sup>	9.8	7.8	7.8	...	6.9	9.1	10.8	10.2	10.2
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	0.8	1.5	1.5	1.1	2.6	1.8	2.0	2.1	1.8
Nominal deposit rate <sup>i</sup>	...	...	...	...	...	...	3.9	3.8	3.2
Nominal lending rate <sup>j</sup>	...	...	...	...	...	...	12.0	11.2	10.4
	<b>Percentages of GDP</b>								
<b>Central government<sup>k</sup></b>									
Total income	19.9	18.8	19.8	19.1	16.7	16.7	17.2	17.0	19.1
Current income	19.9	18.8	19.8	19.1	16.7	16.7	16.9	16.7	18.8
Tax revenue	17.3	17.0	18.1	17.1	15.0	15.1	15.1	15.1	16.8
Capital income <sup>l</sup>	...	...	...	...	...	...	0.3	0.3	0.2
Total expenditure	20.9	19.7	19.8	18.6	19.5	19.4	19.5	19.4	20.9
Current expenditure	18.6	17.4	17.4	16.9	17.5	17.9	18.1	18.0	19.0
Interest	2.5	2.3	2.0	1.8	2.0	1.9	2.1	2.0	2.1
Capital expenditure	2.4	2.2	2.4	1.7	2.0	1.6	1.5	1.5	1.9
Primary balance	1.4	1.4	2.0	2.3	-0.8	-0.8	-0.3	-0.5	0.2
Overall balance	-1.0	-0.9	0.0	0.5	-2.8	-2.7	-2.4	-2.5	-1.9
External public debt	8.7	7.5	7.2	7.0	6.4	5.7	6.6	6.1	5.7
<b>Money and credit</b>									
Net domestic credit	70.9	74.1	75.3	78.9	84.5	86.8	85.5	89.4	91.8
To the public sector	13.0	12.7	13.3	13.1	13.4	15.5	14.8	16.0	15.7
To the private sector	58.0	61.4	62.1	65.8	71.2	71.3	70.7	72.1	76.1
Liquidity (M3)	62.0	63.2	65.4	67.9	70.8	69.3	71.2	75.3	79.5
Currency in circulation and local-currency deposits (M2)	61.1	62.0	64.2	66.5	69.4	69.3	69.4	73.4	77.2
Foreign-currency deposits	0.9	1.2	1.2	1.4	1.4	0.0	1.8	1.9	2.2

**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> 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> Unemployment rate as a percentage of the economically active population, nationwide total. Includes hidden unemployment. <sup>i</sup> Weighted average of interest rate on deposits. <sup>j</sup> Weighted average of interest rate on loans and overdrafts. <sup>k</sup> For the period 1997-2003, information refers to the fiscal year. <sup>l</sup> Includes grants.

In 2006, current revenue is projected to rise by 11% as a result of increased economic activity. Current expenditure will climb by 14% owing to debt servicing (33%), while capital expenditure will expand by 19%. This could negatively affect the fiscal situation and push up the country's level of indebtedness.

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

In 2005, the authorities eased the monetary stance following the large build-up of excess liquidity in the banking system during 2004. The discount rate for open-market operations was reduced from 5.5% to 5.25% in February 2005. Commercial banks therefore reduced their prime lending rate from 6% to 5.5%, thereby reducing the interest rate spread from 7.4% in 2004 to 7.15% in 2005. This, in turn, pushed up demand for credit to 13% (compared with 5% in 2004).

Most loans (83%) were for the private sector. Personal loans increased (14%), with the highest growth rates

recorded in consumer credit and residential mortgages (12% and 17%).

Buoyant demand for credit, combined with import growth, facilitated the reduction of commercial banks' excess liquidity (US\$ 156 million). This was in contrast with the US\$ 157 million inflows from operations related to natural disasters. The result was a 13% contraction in external reserves, which at year end represented the equivalent of 19.5 weeks of non-oil merchandise imports (compared with 23.3 weeks in 2004).

So far in 2006, the surge in commercial banks' excess liquidity (which is double the level observed in 2005) has forced the monetary authorities to implement additional measures to stimulate activity in the inter-bank market. The authorities relaxed restrictions on capital transactions in foreign currency by reducing the premium levied on such operations. They also reduced the refund on repatriation of invested capital from 20% to 10%, and introduced an allowance for investments of Bahamians abroad.

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## **3. The main variables**

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

Economic activity expanded moderately (2.7% in 2005 compared with 1.8% in 2004), on the basis of tourism, construction and financial services. Growth is expected to be 4.7% in 2006.

In 2005, total tourist arrivals edged up slightly (0.9% as opposed to 8.9% in 2004), mainly owing to the effects of hurricanes Katrina, Rita and Wilma on the United States (the country's main tourist market). Cruise arrivals decreased marginally (0.3%) in 2005, while stopover visitors increased by 4.4%.

Accordingly, tourist spending heightened by 9.9% to stand at US\$ 2.1 billion. Per capita spending of stopover visitors rose by 6.5% to US\$ 1,244 in 2005. Hotel industry earnings strengthened as a result of increased occupancy rates (70% up from 66% in 2004) and higher room rates (up 4%).

Growth in tourism is expected to pick up pace in 2006. Changes in United States tax legislation will benefit the country: from 2006, United States companies will be able to make tax deductions against conferences hosted in the Bahamas. The country will also continue to benefit from increased competition in the airline industry, which has

reduced the effect of higher oil prices on transport costs. Lastly, the Atlantis tourist complex is due to complete its Phase III expansion in New Providence in 2006, after which major construction is expected to begin in Cable Beach.

Construction activity picked up thanks to increased investment in tourism and to reconstruction projects in the wake of the natural disasters that struck the country in 2004. The number of residential mortgage commitments increased by 61%, and those for commercial mortgage commitments by 98%.

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

Cumulative inflation at December 2005 was 1.8% (compared with 2.1% in December 2004). This was mainly attributable to a 1.6% decline in clothing and footwear and the small increase in transport and communications (-0.2%), as airline competition neutralized the rise in international fuel prices. Other major components, such as food and rentals, increased by 2.9% and 3.2% respectively.

The unemployment rate remained stable at 10.2%. The labour force increased by 1.3%, while the participation rate rose from 75.7% in 2004 to 76.3% in 2005. Construction is the largest employer (22% of the labour force), followed

by social and personal services, which employ 20% of the total.

**(c) The external sector**

The balance of payments posted a deficit of 1.5% in 2005, compared with 3.2% in 2004. This was because the capital and financial account surplus (equivalent to 7.2% of GDP, compared with 8.6% in 2004) was not sufficient to offset the considerable widening of the current account deficit (8.7% in 2005 compared with 5.4% in 2004).<sup>1</sup> Reserves therefore contracted by US\$ 88 million (compared to the US\$ 183 million increase in 2004).

The current account balance is attributable to the widening of the trade deficit, which was mainly due to

the higher oil bill, which represents 24% of international merchandise purchases. The increase in non-oil imports was another contributing factor, albeit a less significant one.

The positive balance in the services account (19.3% of GDP compared with 17.9% in 2004) reflected buoyant tourist activity, yet was only able to partially offset the merchandise trade deficit. The deficit on the income balance narrowed from 2.5% of GDP in 2004 to 1.8% in 2005, thanks to an improvement in the net creditor position of commercial banks.

The surplus on the capital and financial account is due to increased foreign direct investment flows to the tourism sector (6.1% of GDP in 2005 compared with 4.8% in 2004). Increases in share capital investments, private debt and real estate sales also contributed to this result.

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<sup>1</sup> Not including errors and omissions.

## Barbados

### 1. General trends

In 2005 Barbados recorded moderate economic growth (3.9%) compared with 2004 (4.8), owing to the decline in tourism, the mainstay of the country's economy. Construction, on the other hand, picked up significantly in relation to the previous year.

The fiscal stance was loosened slightly in 2005 and the overall fiscal deficit widened. Fiscal performance reflected a decline in the tax burden and increased expenditure. Despite lower GDP growth, inflation climbed to 7.4% in 2005 (compared with 4.3% in 2004), which reflected higher fuel prices and excess demand for construction materials.

The monetary authorities adopted a tight policy stance to combat rising inflation and moderate the effects of higher fuel prices on demand for imports. This

demand rose considerably and the resulting increase in the balance-of-payments current account deficit was not entirely offset by the surplus on the capital and financial accounts. The economy therefore experienced a loss in net international reserves.

Higher GDP growth (4.3%) is expected in 2006 as a result of the positive impact on tourism and construction of preparations for the 2007 Cricket World Cup. Larger revenues from tourism should cover the increased demand for imports of construction materials.

### 2. Economic policy

Economic policy was directed towards containing the surge in inflation and the balance-of-payments current account deficit. Structural reforms were also introduced to boost private-sector activity; these included the liberalization of the telecommunications market and strengthening of the programme to develop domestic production.

#### (a) Fiscal policy

The fiscal position deteriorated,<sup>1</sup> with the overall deficit increasing from 2.2% of GDP in 2004 to 4.0% in 2005. This was the combined effect of the smaller tax burden and increased expenditure fuelled by the extension of loans.

Tax revenues in current prices held steady. Personal income tax receipts decreased as a result of the downward revision of the tax rate from 40% to 37.5%, and an increase in the personal tax allowance from B\$ 8,750 to B\$ 10,000. Corporate tax takings, however, increased by

13%. Indirect taxes climbed thanks to higher receipts from excise taxes on some classes of motor vehicles, while the VAT intake stood still.

Total expenditure expanded (from 36% of GDP in 2004 to 37% in 2005), owing to higher spending on goods and services (3.6% and 3.9% of GDP in 2004 and 2005, respectively) and in net lending (from 0% of GDP in 2004 to 1.4% in 2005). These loans went mainly to small and medium-sized enterprises and the Barbados Tourism Investment Corporation (BTIC).

External public debt increased in 2005 and total central government debt rose from 78% of GDP in 2004 to 87% in 2005.

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

Monetary policy in 2005 continued to be directed towards containing the widening balance-of-payments current account deficit, as the expansion in credit

<sup>1</sup> The fiscal outcome has been calculated on the basis of the calendar year to correspond with other macroeconomic data.

Table 1  
**BARBADOS: MAIN ECONOMIC INDICATORS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	4.6	6.2	0.5	2.3	-2.6	0.5	2.0	4.8	3.9
<b>Per capita gross domestic product</b>	4.2	5.9	0.2	2.0	-2.9	0.2	1.8	4.5	3.6
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-0.6	-13.3	9.5	3.7	-9.5	-4.2	-4.0	-5.7	3.5
Mining	-1.7	47.5	9.2	-8.4	-12.6	-6.6	-7.0	6.1	4.3
Manufacturing	3.8	3.4	-2.4	-0.5	-8.2	0.2	-0.7	1.9	2.9
Electricity, gas and water	3.8	9.1	5.0	0.0	3.7	1.8	2.8	2.2	5.0
Construction	14.2	16.9	10.0	1.1	6.8	7.7	0.6	2.8	13.4
Wholesale and retail commerce, restaurants and hotels	5.9	9.5	-4.6	4.8	-4.4	-0.6	5.2	7.6	1.0
Transport, storage and communications	2.9	6.7	4.3	0.9	0.6	-2.9	2.6	5.2	4.8
Community, social and personal services <sup>c</sup>	3.5	4.3	1.9	1.3	-1.2	1.6	0.6	4.9	4.5
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-50	-63	-148	-145	-111	-168	-169	-337	-410
Merchandise trade balance	-599	-651	-714	-744	-681	-702	-801	-971	-1 069
Exports, f.o.b.	289	270	275	286	271	253	264	293	359
Imports, f.o.b.	888	921	989	1 030	952	955	1 066	1 264	1 428
Services trade balance	550	591	571	603	570	550	647	668	725
Income balance	-48	-56	-71	-82	-93	-102	-107	-122	-148
Net current transfers	47	52	66	78	93	86	92	88	82
Capital and financial balance <sup>d</sup>	54	55	182	324	326	145	237	180	342
Net foreign direct investment	14	15	16	18	17	17	58	-16	0
Financial capital <sup>e</sup>	40	40	166	306	309	128	179	196	342
Overall balance	4	-7	35	179	215	-23	67	-157	-68
Variation in reserve assets <sup>f</sup>	5	7	-35	-179	-216	23	-68	157	68
Other financing <sup>g</sup>	-8	1	1	1	1	1	1	1	0
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>h</sup>	98.1	100.6	101.0	100.0	98.4	100.1	104.5	108.7	107.4
Gross external public debt (millions of dollars)	382	391	436	578	746	733	738	788	874
Gross external public debt (percentage of GDP)	17.3	16.5	17.6	22.3	29.3	29.6	27.4	28.0	29.3
Net profits and interest (percentage of exports) <sup>i</sup>	-3.8	-4.3	-5.4	-5.9	-7.0	-7.8	-7.5	-8.0	-8.5
	<b>Average annual rates</b>								
<b>Employment</b>									
Labour force participation rate <sup>j</sup>	67.8	67.8	67.8	68.6	69.5	68.4	69.2	69.5	69.6
Unemployment rate <sup>k</sup>	14.5	12.3	10.4	9.2	9.9	10.3	11.0	9.8	9.1
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December) (annual average)	3.6	1.7	2.9	3.8	-0.3	0.9	0.3	4.3	7.4
Nominal deposit rate	...	...	...	...	...	...	2.8	3.0	3.7
Nominal lending rate	...	...	...	...	...	...	7.6	7.4	8.4
	<b>Percentages of GDP</b>								
<b>Non-financial public sector</b>									
Total income	32.6	32.5	31.4	32.9	34.3	34.6	34.5	33.7	32.8
Tax revenue	30.5	30.1	29.7	30.7	32.1	32.0	32.3	32.2	30.6
Total expenditure <sup>l</sup>	33.5	33.3	33.8	34.4	37.8	40.9	37.2	35.9	36.8
Current expenditure	27.5	28.1	28.4	29.0	31.6	33.7	32.2	32.1	31.6
Interest	4.3	4.3	4.6	4.6	5.4	5.4	5.0	4.8	4.7
Capital expenditure	5.8	5.4	5.3	5.4	5.8	7.2	5.0	3.8	3.8
Primary balance	3.4	3.5	2.2	3.1	1.9	-1.0	2.3	2.6	0.7
Overall balance	-0.9	-0.8	-2.4	-1.5	-3.5	-6.4	-2.7	-2.2	-4.0
External debt of the central government	15.9	14.3	15.7	19.8	26.7	27.2	24.8	23.7	25.6
<b>Money and credit</b>									
Domestic credit	...	...	...	...	...	...	68.1	72.7	79.7
To the public sector	...	...	...	...	...	...	17.5	20.4	20.4
To the private sector	...	...	...	...	...	...	50.6	52.3	59.3
Liquidity (M3)	83.7	81.9	87.1	87.4	95.4	110.3	110.6	121.5	120.4
Currency in circulation and local-currency deposits (M2)	76.1	75.0	79.2	80.7	88.3	101.3	100.7	110.7	110.3
Foreign-currency deposits	7.6	6.9	7.8	6.7	7.1	9.0	9.9	10.8	10.1

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 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> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <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. <sup>l</sup> Includes net lending.



helped to push up imports. Another policy objective was to maintain price stability in view of worsening inflation.

To this end, the Central Bank of Barbados tightened its monetary stance and raised the discount rate by 2.5 percentage points. This was backed up by three increases in the minimum deposit rate, which rose from 2.25% to 4.25% in the first nine months of the year.

At the same time, commercial banks hiked up the price of credit and the weighted average nominal rate on loans increased from 7.8% to 9.5%.

These measures, together with the decrease in the

stock of international reserves, slowed the growth rate of the money supply from 22.1% in 2004 to 6.8% in 2005 in the case of narrow money, and from 14.7% in 2004 to 9.2% in 2005 in the case of broad money, and checked the expansion in commercial banks' surplus liquidity. Nonetheless, overall credit posted an increase (especially private-sector credit).

The bulk of the increase in credit (over 45%) in 2005 corresponded to large personal loans, reflecting demand for mortgages and consumer durables, while credit to tourist enterprises recovered well and was up by over B\$ 77 million.

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### 3. The main variables

#### (a) Economic activity

The economic growth rate slowed down in 2005 as the tourist sector contracted. Sectors that fared better included agriculture, manufacturing and, especially, construction.

Tourism value-added fell by almost 4% after having made a comeback in 2004. Activities related to both the long-stay and the cruise-ship sectors suffered, in the former case partly because there was no English cricket tour in 2005, which always affects the number of visitors. The cruise-ship sector was affected by the home-porting of a number of cruise ships in the United States. Another negative factor is that Barbados is regarded as a costly destination.

The performance turned in by the construction sector (2.8% in 2004 and 13.4% in 2005) was the result of buoyant residential construction, work on a cricket stadium and other major infrastructure projects.

Agricultural output picked up (-5.7% and 3.5% in 2004 and 2005, respectively), with sugar production rising by 11.3% thanks to favourable weather conditions.

Similarly, the growth rate of manufacturing output (2.9%) was one percentage point higher than the previous year. For a long time, manufacturing was hampered by competitiveness problems stemming from high production costs and weak productivity. In 2005, however, increased demand for certain manufacturing products boosted overall value-added.

Activity in business and financial services expanded by over 4%, propelled by an increase in the registration of international businesses and offshore companies.

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

Inflation climbed to 7.4% in 2005, compared with 4.3% in 2004. This was the result of higher international fuel prices (11.5%) which, in turn, pushed up the price of transport services by 9%. The overall impact was cushioned by food prices, however, which climbed by a moderate 4%, compared with 7% the previous year. The introduction of the import tax in September 2005 also contributed to the rise in inflation.

In the framework of the tripartite agreements, public-sector wages rose by 3% in 2005 (less than half the rate of inflation). Meanwhile, continued buoyancy in the labour-intensive construction sector helped to lower the unemployment rate (9.1%). This benefited male employment, since men form the bulk of the labour force in the construction sector.

#### (c) The external sector

The overall balance was in deficit by the equivalent of 2.3% of GDP, since the widening of the current account deficit (from 12% of GDP in 2004 to 13.8% in 2005) was not offset by the capital and financial account surplus (4.8% of GDP in 2004 and 11.9% in 2005).

The current account result reflects the rise in imports (from 44.9% of GDP in 2004 to 47.9% in 2005) resulting from greater demand for construction materials and a higher energy bill, which more than offset the increase in exports of manufactures, foodstuffs and beverages.

The surplus on the services account (23.8% and 24.3% of GDP in 2004 and 2005, respectively) swelled

despite the decline in tourist activity (27.6% in 2004 and 26.1% in 2005).

The capital and financial account performance was linked to the expansion of tourism capacity, infrastructure projects and preparations for the Cricket World Cup.

In 2006, the balance-of-payments position is expected to improve, with the overall deficit projected to stand at 1.2% of GDP. Moderate growth of imports (5%) will slow the increase in the merchandise deficit. Merchandise exports are expected to decline marginally, but this will be offset by an upturn in services, particularly tourism, thanks to the Cricket World Cup.

## Belize

### 1. General trends

The economy of Belize expanded at a more moderate rate of 3.1% in 2005, compared to 4.6% in 2004. This growth was driven by the buoyancy of tourism and fishing, which offset the contraction in construction and manufacturing and the stagnation of agriculture.

The widening of the fiscal deficit was mainly due to the considerable increase in debt servicing, despite the combined effects of tax increases, a cutback in capital spending and the rise in official grants and donations. The deficit was financed by expanding the external debt stock.

The monetary authorities adopted a restrictive policy in order to at least partially neutralize the impact of the

fiscal expansion on spending and the balance of payments.

The external sector posted a positive balance equivalent to 1.6% of GDP, mostly owing to the increase in the capital and financial account surplus, which more than compensated for the deterioration in the current account.

Projections for 2006 include growth of 2.5% and a fiscal deficit of less than 3% of GDP.

### 2. Economic policy

#### (a) Fiscal policy

The central government's deficit widened from 6% of GDP in 2004 to 6.4% in 2005 owing to the higher level of current spending and a drop in government revenues.

The downward trend in public revenues, which slipped from 25.3% of GDP in 2004 to 24% in 2005, was due to the contraction of capital inflows, as current income expanded from 22.3% of GDP in 2004 to 23.1% in 2005. The rise in tax revenues, was due to the increase in corporate taxes and taxes on consumption and trade, among others. Non-tax current income was higher because of the rise in licenses and the return of loans to the Belize Social Security Board.

Current expenditure climbed from 22.6% of GDP in 2004 to 25.1% in 2005, mainly owing to debt servicing (31% of total current expenditure) and, to a lesser extent, the increase in the public wage bill (10% of GDP) and purchases of goods and services.

Capital expenditure contracted (by 8.7% and 5.3% of GDP in 2004 and 2005, respectively) despite higher spending on infrastructure, which accounted for 52% of the total.

The widening of the fiscal deficit pushed up the external debt stock from 82.2% of GDP in 2004 to 84.3% in 2005.

The authorities hope to reduce the fiscal gap to a figure below 3% of GDP in 2006. This is based on the expectation of higher economic growth, as the government does not plan to introduce any further tax measures.

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

In 2005, the monetary authorities adopted a contractionary policy in order to counteract the effect of the expansion of net external assets and public and private spending. International reserves were buttressed by increased external borrowing, bond issues, exports of traditional products and income from the sale of equity in Belize Telecommunications Limited.

As part of this strategy, in May 2005 the legal reserve requirements for commercial banks were raised from 7% to 8% for cash reserves and from 20% to 21% for assets. The commercial banks' lending capacity was also reduced, except for long-term loans of its liquid assets to the government. Lastly, the government agreed, together

Table 1  
**BELIZE: MAIN ECONOMIC INDICATORS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	3.6	3.7	8.7	13.0	4.6	4.7	9.2	4.6	3.1
<b>Per capita gross domestic product</b>	1.0	1.2	6.2	10.4	2.3	2.4	6.9	2.4	1.0
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	6.6	2.4	10.7	11.5	-0.4	0.5	38.9	9.2	0.3
Mining	-2.9	3.0	7.4	23.3	3.3	-5.4	0.0	5.7	3.2
Manufacturing	4.2	-3.8	6.5	24.2	-0.7	1.5	-0.4	12.1	-1.2
Electricity, gas and water	5.0	1.6	7.9	9.8	0.3	2.7	8.5	-1.5	0.6
Construction	-5.4	-2.3	16.6	38.9	1.3	3.7	-17.8	4.5	-5.6
Commerce, restaurants and hotels	5.3	8.7	9.8	12.1	8.3	3.8	3.8	2.9	8.1
Transport and communications	5.7	5.2	11.4	13.1	7.9	7.1	8.1	6.0	2.9
Financial institutions and insurance	3.0	3.5	13.1	17.3	6.3	17.7	16.9	4.3	4.6
Other services	0.8	3.5	1.2	4.4	4.2	4.0	5.0	1.4	-3.3
<b>Gross domestic product, by type of expenditure</b>									
Consumption	2.6	5.9	6.8	7.9	8.8	7.4	3.2	3.9	...
General government	4.0	2.1	-2.4	7.0	6.1	13.1	4.8	0.3	...
Private	2.3	6.7	8.6	8.1	9.3	6.4	3.0	4.6	...
Gross domestic investment	9.5	11.5	69.7	63.9	-17.1	-17.4	1.8	-14.2	...
Exports (goods and services)	13.2	5.1	13.0	8.7	4.0	8.7	13.2	-1.3	...
Imports (goods and services)	12.1	10.4	24.6	20.1	-0.8	2.6	2.1	-7.4	...
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-32	-60	-73	-162	-184	-166	-176	-150	-152
Merchandise trade balance	-90	-105	-114	-197	-209	-187	-207	-175	-238
Exports, f.o.b.	193	186	262	282	269	310	316	306	318
Imports, f.o.b.	283	291	376	478	478	497	522	481	556
Services trade balance	46	41	42	28	43	44	70	87	141
Income balance	-23	-32	-40	-53	-67	-69	-85	-114	-111
Net current transfers	35	36	40	60	48	47	46	51	56
Capital and financial balance <sup>c</sup>	33	46	100	213	181	160	146	119	170
Net foreign direct investment	8	13	96	23	61	25	-11	103	107
Financial capital <sup>d</sup>	25	33	4	190	120	135	158	16	63
Overall balance	1	-14	27	52	-3	-5	-30	-31	18
Variation in reserve assets <sup>e</sup>	-1	14	-27	-52	3	5	30	31	-18
<b>Other external-sector indicators</b>									
Net resource transfer (percentage of GDP)	1.5	2.0	8.2	19.3	13.2	9.9	6.2	0.5	5.3
Gross external public debt (millions of dollars)	...	230	254	430	486	577	754	851	933
Gross external public debt (percentage of GDP)	...	33.4	34.7	51.7	55.9	62.3	76.9	82.2	84.3
Net profits and interest (percentage of exports) <sup>f</sup>	-7.1	-9.8	-9.8	-12.2	-15.3	-14.1	-16.1	-21.0	-17.9
<b>Average annual rates</b>									
<b>Employment</b>									
Unemployment rate <sup>g</sup>	12.7	14.3	12.8	11.1	9.1	10.0	12.9	11.6	11.0
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	1.0	-0.8	-1.2	0.6	1.1	2.3	2.6	3.1	3.7
Nominal deposit rate <sup>h</sup>	6.6	6.4	5.8	5.4	4.4	4.3	4.8	5.2	5.3
Nominal lending rate <sup>i</sup>	16.3	16.5	16.3	16.0	15.5	14.8	14.4	13.9	14.3
<b>Percentages of GDP</b>									
<b>Central government<sup>j</sup></b>									
Total income	24.0	26.0	29.5	26.1	27.8	30.6	23.1	25.3	24.0
Current income	22.0	21.9	23.0	20.4	26.3	29.1	21.5	22.3	23.1
Tax revenue	19.7	19.7	17.4	17.8	23.9	26.7	18.9	20.2	20.7
Capital income	2.0	4.1	6.4	5.7	0.7	0.2	1.3	1.3	0.3
Total expenditure	25.2	27.7	32.9	31.8	39.4	34.2	34.1	31.3	30.4
Current expenditure	19.3	19.2	19.9	17.9	30.7	27.0	20.0	22.6	25.1
Interest	1.9	1.8	2.1	2.5	10.1	6.4	3.9	5.9	7.7
Capital expenditure	5.9	8.5	13.1	14.0	8.7	7.2	14.1	8.7	5.3
Primary balance	0.6	0.1	-1.4	-3.2	-1.5	2.8	-7.1	-0.2	1.3
Overall balance	-1.3	-1.7	-3.5	-5.7	-11.6	-3.6	-11.0	-6.0	-6.4
Public debt total	...	...	...	...	66.4	74.3	92.5	109.2	96.9
Domestic	...	...	...	...	10.2	11.8	12.6	12.7	12.9
External	...	33.4	34.6	51.6	56.2	62.5	79.9	96.5	84.0
<b>Money and credit</b>									
Domestic credit	47.5	49.4	51.9	49.6	50.8	53.6	53.8	59.1	58.3
To the public sector	7.9	8.0	8.8	9.7	9.3	8.3	4.8	10.2	5.9
To the private sector	39.6	41.5	43.1	39.9	41.5	45.3	49.0	51.7	52.4
Liquidity (M3)	52.6	53.7	54.9	53.9	58.1	57.4	56.4	56.3	58.8

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 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> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>g</sup> Unemployment rate as a percentage of the economically active population, nationwide total. <sup>h</sup> Saving rate. <sup>i</sup> Weighted average rate for loans. <sup>j</sup> Up to 2003, indicators for income, expenditure and balances correspond to the fiscal year.

with the Belize Social Security Board, to sterilize the expansionary effect of its liquid income flow.

This monetary policy stance moderated the growth of monetary aggregates. The narrow money supply expanded by 4%, compared to 13% in 2004, while broad money grew by 7% (13% in 2004). Consequently, interest rates

for loans rose by 10 basis points, to 8.9%. The interest rate hike dampened the demand for credit (19.7% and 4.2% in 2004 and 2005).

In 2006, the central bank has maintained its restrictive policy, raising the legal reserve requirement for commercial banks by one percentage point.

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### 3. The main variables

#### (a) Economic activity

In 2005, the 3.1% expansion in economic activity (compared to 4.6% in 2004), was driven by tourism, transport and communications and distribution sectors.

The tourism sector, the spearhead of the economy, grew by 3.5%, with a 3% increase in the number of long-stay visitors, thanks at least in part to the expansion of hotel and air transport capacity. The number of cruise passengers, which has much less impact on the economy, was down.

The performance of the construction industry reflected the completion of hydroelectric infrastructure projects and the cutback in government capital spending.

Manufacturing declined by 1.2% owing to the closure of operations in the sugar industry and the poor performance of most products intended for the domestic market, while a rise in taxes discouraged consumption. This contraction in manufacturing was softened by growth in the output of concentrated juices.

Agriculture stagnated, with growth of scarcely 0.3%, compared to 9.2% the previous year. This poor performance was due to a variety of factors, including: adverse weather conditions, as in the case of sugar; lower prices for some traditional crops, such as bananas; a decrease in the lobster industry's production capacity and in some other activities; and pests, including outbreaks affecting forestry activities. These factors were exacerbated by increased production costs due to higher international energy prices.

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

The inflation rate rose from 2.8% in 2004 to 3.1% in 2005 as a consequence of higher international oil prices, utility rates and taxes. A breakdown of the consumer price index (CPI) shows that the categories of transport and communications; food, beverages and tobacco; and rent, water and fuel posted the highest increases (5.7%, 4.7% and 4.2%, respectively).

The unemployment rate continued its downward trend. In 2005 it amounted to 11%, compared to 11.6% in 2004, despite a 2% expansion of the labour force. The sectors where job creation grew most rapidly were tourism, public services, and community, social and personal services (16.2%, 21.6% and 11.5%, respectively).

#### (c) The external sector

The overall balance showed a positive result of 1.6% of GDP (-3% in 2004), as the current account deficit was easily financed by the capital and financial account surplus. Net international reserves expanded accordingly.

The trend in the current account reflected the strong performance of the services account (thanks to the tourism boom), but the trade gap actually widened. The increase in the overall trade deficit was attributable to the rise in the value of merchandise imports associated with the country's hefty energy bill, in addition to the stagnation of exports. External sales were hurt by the drop in volume of the country's main traditional exports and by a decline in the average export price for lobsters.

The balance on the capital and financial account reflected the increase in the government's liabilities associated with the refinancing of its net loan balances.



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## Cuba

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### 1. General trends

According to data from Cuba's National Statistical Office, the country's economy grew by 11.8% (compared with 5.4% in 2004), thanks to improved availability of foreign exchange, the rising value of nickel exports, and growth in tourism services; the latter was particularly boosted by the sale of professional services to the Bolivarian Republic of Venezuela, generating income which helped to pay the oil bill. All this was despite adverse weather conditions, including the worst drought in a century and three hurricanes which created direct and indirect damage estimated by the government at US\$ 3.661 billion (7.9% of GDP in 2005).

For the third consecutive year there were surpluses on both the current account (US\$ 7 million) and the balance-of-payments capital account (US\$ 500 million), which boosted foreign reserves, providing improved protection against possible external shocks.

Goods and services imports (35.2%) grew faster than exports (19.3%); family remittances declined and net factor service payments rose.

The fiscal gap widened from 3.5% in 2004 to 4.2% in 2005 and there was a sizeable increase in cumulative monetary liquidity (M2) in the hands of the population (35.5%), although inflation was not affected (3.7%). Fixed-term deposits were up by 76%.

The Government estimates that growth in 2006 will exceed 10%, thanks to growing trade with the Bolivarian Republic of Venezuela and China. Oil and gas extraction is expected to rise, and an increase of about 70% is planned

in public investments, with priority for social programmes, housing, the energy sector, tourism and nickel.

Agricultural output is also expected to grow. Sugar production should hold steady at its 2005 level, but 4.6% growth is expected in the non-sugar sector. A growth rate of 15% is projected in construction and transport, and the numbers of foreign tourists and gross tourism revenue are also forecast to rise (10% and 8%, respectively).

Official estimates point to another current account surplus, resulting from an increased trade surplus, but partly counteracted by increased net factor service payments and reduced current transfers. Exports are expected to rise by 17.7% and imports to fall by 1.5%. The capital-account surplus will also help to boost international reserves.

The fiscal gap is expected to fall to 3.4% of GDP, and retail sales should be up 26% thanks to increased supply of goods and services to the population.

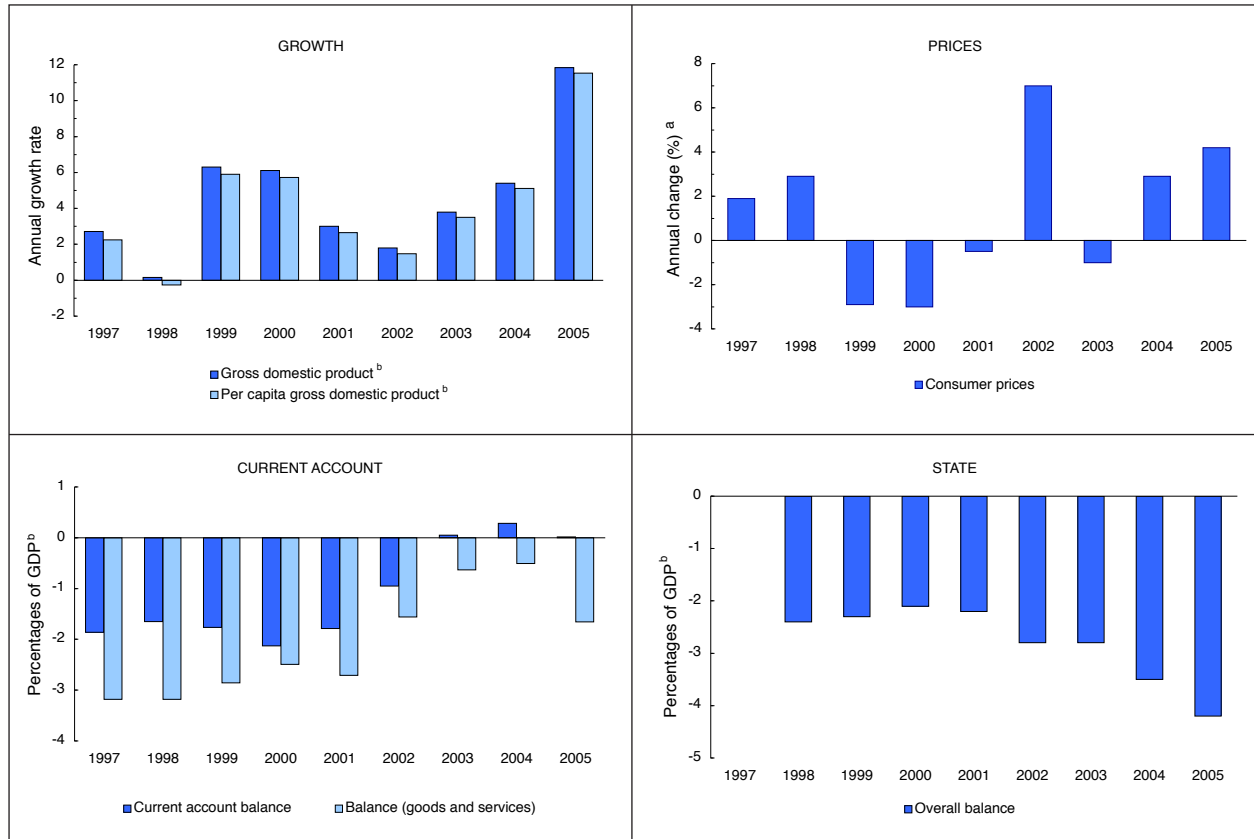
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### 2. Economic policy

The Cuban economy has various strengths and weaknesses which have to be taken into account in formulating economic policy. The strengths include highly skilled human resources, and the universal provision of basic services such as education, health care, culture and sport. However, the economy suffers from weaknesses such as the lack of efficiency in the use of available resources

and poor business management. These are reflected in the country's external financial deficit, although there have been some improvements. The crisis in the sugar industry is another factor, together with the lack of modern technology in production facilities resulting from several years of low investment, and the terms of trade have worsened, mostly because of increasing world prices

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.

<sup>b</sup> From 2000, the data used came from the new calculations of the National Statistical Office of Cuba.

for oil and foodstuffs. The functioning of the economic system is also hindered by market segmentation and the duality of monetary and price structures. Legal restrictions on own-account work do nothing to improve the supply of goods and services to the population, stimulate job creation or increase tax revenue.

Economic policy in 2005 focused on fighting corruption, restructuring the electric-power sector, rehabilitating transport, mitigating the effects of drought, the housing and food programme, job creation, raising public-sector wages and retirement pensions, improving household consumption levels, intensifying social programmes, repairing and modernizing hospitals and polyclinics, centralized control of foreign exchange, strengthening control over external trade and diversifying it geographically, and reforming the system of regulated distribution of goods and services at subsidized prices.

Increased import capacity, resulting from the greater availability of foreign exchange, has paved the way

for improvements in the supply of goods and services in response to higher wages and pensions, and in the relative price structure through reduced subsidies and price increases for electric power and other goods and services. This policy was pursued in order to avoid more acute shortages of goods and services, expansion of the informal market, and a decline in labour productivity.

#### (a) Fiscal policy

Revenue increased by slightly less than expenditure (24.3% and 25.2%, respectively), leading to a larger fiscal deficit. Fiscal revenue was boosted by improved production; current income rose by 23.7%, but capital income stagnated. Tax revenue grew more slowly (17.3%) than non-tax revenue (40.7%).

Receipts from indirect taxes rose faster (22.8%) than those from direct taxes (9.7%). Circulation and sales tax receipts were up 24.1%, but service tax receipts by only 10.2%.



Within direct taxes, social security contributions increased by 14.9%, receipts from the tax on the utilization of the labour force by 8.2%, and those from profit taxes by 6.9%.

On the expenditure side, capital outlays rose faster (39.2%) than current expenditure (23.4%). In accordance with the social content of fiscal policy, the largest spending increases were on social welfare (67.9%), social security (34.5%), sport (26.3%), health care (24.3%), culture and the arts (18.2%), education (14.3%) and housing and community services (12.7%).

Particularly noteworthy in the category of transfers to the business and cooperative sector, which increased at the same rate as current expenditure, were economic assistance to basic cooperative production units (196.7%) and compensation for losses (18.4%).

Increases to social-security and social-welfare pensions implemented in April 2005 involved additional spending equivalent to 2.6% of GDP.

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

In 2005, monetary policy focused on implementing the measures adopted in 2004 as part of the institutional reform, including centralized control of foreign currency and the strengthening of the national currency. As of November 2004 cash transactions in United States dollars were prohibited and the circulation of the convertible peso was extended nationwide, to protect national sovereignty in monetary policy. A 10% commission will be charged for changing dollars into convertible pesos.

As of 18 March 2005, the exchange rate in the parallel market was cut from 26 to 24 non-convertible Cuban pesos (CUP) for the sale of convertible pesos or United States dollars, for personal transactions in the network of State

currency exchange offices, and from 27 to 25 pesos for personal purchases of convertible pesos.

On 9 April 2005 the convertible peso was revalued by 8% against all foreign currencies, including the United States dollar and the euro.

The purchasing power of the Cuban currency has strengthened, and the authorities have announced that they will continue to revalue it gradually until monetary unification is achieved. As a result, the population's bank balances in dollars declined by 57% in 2005, balances in convertible pesos more than tripled and those in Cuban pesos increased by 35%.

The new monetary policy has had a variety of results. First, international reserves have increased and have been concentrated in the Central Bank of Cuba, giving the financial system improved security. There is now greater control and efficiency in the use of resources, and Cuba's financial institutions have more liquidity and are more solvent.

The centralization of the State's foreign-currency income has facilitated the payment of external debt and of obligations arising out of new external financial commitments. There is more precision in the measurement of the money supply, facilitating decision-making to protect monetary and financial stability.

Similarly, the authorities have improved the use of the banking system for domestic and external financial transactions, and the use of United States dollars in cash inflows to Cuba has fallen from 80% to 30%. Euros, Canadian dollars and pounds sterling are now more widely used.

Lastly, exchange control has been consolidated, leading to improved commercial and financial discipline and greater efficiency in spending.

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## **3. The main variables**

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

According to official statistics, GDP rose by 11.8% in 2005, the best figure seen in recent decades, compared with 5.4% in 2004. Investment grew faster than consumption, and was particularly strong in the energy sector, the nickel industry, education, health and international tourism services, and works implemented to mitigate the impact of the severe drought affecting the country.

Government consumption increased more than private consumption. Despite a fall in family remittances, household consumption rose because of salary increases.

The National Statistical Office reports that the sectors with the greatest expansion were community, social and personal services (28%), construction (18.9%), tourism (12.3%), transport, storage and communications (8.2%) and commerce, restaurants and hotels (4.8%), whereas the agricultural sector slumped (-11.6%), mining was

Table 1  
CUBA: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <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	1.8	3.8	5.4	11.8
<b>Per capita gross domestic product</b>	2.3	-0.3	5.9	5.7	2.6	1.5	3.5	5.1	11.5
<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	0.2	-11.6
Mining	2.8	-11.7	2.7	33.2	-3.5	12.4	1.8	-4.7	0.1
Manufacturing	6.2	-8.1	7.2	5.1	-0.6	0.2	-2.0	2.5	1.2
Electricity, gas and water	7.0	3.7	8.1	12.8	1.1	2.4	3.1	-2.5	-1.6
Construction	3.0	-2.6	7.5	8.4	-5.3	-2.4	4.4	10.0	18.9
Wholesale and retail commerce, restaurants and hotels	-0.2	5.8	0.7	7.6	4.4	2.0	5.0	0.7	4.8
Transport, storage and communications	3.1	15.6	17.6	5.0	8.4	0.0	2.7	4.8	8.2
Financial institutions, insurance, real estate and business services	1.7	5.1	12.7	0.9	5.4	1.2	0.2	4.9	1.0
Community, social and personal services	3.6	0.2	4.7	3.5	4.5	4.2	6.8	11.3	28.0
<b>Gross domestic product, by type of expenditure</b>									
Consumption	2.3	1.5	5.1	2.3	3.4	3.1	6.3	4.9	...
General government	2.3	0.1	5.2	2.9	2.7	4.8	6.6	10.9	...
Private	2.3	1.9	5.1	2.1	3.8	2.1	6.2	1.6	...
Gross domestic investment	7.6	-11.0	0.5	11.3	0.8	-10.8	-9.6	14.8	...
Exports (goods and services)	-4.9	5.8	12.8	14.1	-3.6	-3.8	5.8	9.5	...
Imports (goods and services)	-1.9	1.4	2.4	-0.2	-3.8	-7.3	12.1	12.9	...
	<b>Percentages of GDP</b>								
<b>Investment and saving<sup>c</sup></b>									
Gross domestic investment	16.2	14.3	12.9	13.5	12.3	10.1	9.4	9.3	...
National saving	14.3	12.6	11.1	11.1	10.4	9.2	9.0	9.8	...
External saving	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	-437	-392	-462	-696	-605	-343	20	116	7
Merchandise trade balance	-2 265	-2 689	-2 909	-3 120	-2 847	-2 388	-2 574	-2 918	-5 003
Exports, f.o.b.	1 823	1 540	1 456	1 675	1 622	1 422	1 671	2 180	2 160
Imports, f.o.b.	4 088	4 229	4 365	4 796	4 469	3 810	4 245	5 098	7 163
Services trade balance	1 519	1 932	2 163	2 306	1 931	1 825	2 329	2 710	4 240
Income balance	-483	-449	-514	-622	-502	-600	-650	-650	-200
Net current transfers	792	813	799	740	813	820	915	974	970
Capital and financial balance <sup>d</sup>	457	409	485	805	595	300	200	800	500
Net foreign direct investment	442	207	178	448	0	0	0	0	0
Financial capital <sup>e</sup>	15	203	307	357	595	300	200	800	500
Overall balance	21	17	23	109	-11	-43	220	916	507
Variation in reserve assets <sup>f</sup>	-21	-17	-23	-109	11	43	-220	-916	-507
<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)	23.00	21.00	20.00	21.00	26.00	26.00	26.00	26.00	24.00
Terms of trade for goods (index 2000=100)	67.0	64.2	53.2	47.4	49.2	45.8	44.9	44.4	...
Total gross external debt (millions of dollars) <sup>g</sup>	10 146	11 209	11 078	10 961	10 893	10 900	11 300	12 000	...
Total gross external debt (percentage of GDP) <sup>g</sup>	43.3	47.1	42.4	33.5	32.2	30.2	29.3	29.2	...
Net profits and interest (percentage of exports) <sup>h</sup>	-12.2	-10.9	-11.9	-13.0	-11.0	-14.1	-13.3	-11.9	-11.5
	<b>Average annual rates</b>								
<b>Employment</b>									
Unemployment rate <sup>i</sup>	7.0	6.6	6.3	5.5	4.1	3.3	2.3	1.9	1.9
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices <sup>j</sup> (December-December)	1.9	2.9	-2.9	-3.0	-0.5	7.0	-1.0	3.0	3.7
	<b>Percentages of GDP<sup>k</sup></b>								
<b>State income and expenditure</b>									
Current income	...	50.5	49.6	44.6	49.6	43.8	45.9	46.7	51.5
Current expenditure	...	48.3	45.8	42.3	40.8	42.2	42.8	43.7	48.1
Fiscal balance	...	-2.4	-2.3	-2.1	-2.2	-2.8	-2.8	-3.5	-4.2
<b>Liquidity</b>									
Currency in circulation	...	...	...	15.5	18.9	19.2	17.2	18.0	21.1
M1	...	...	32.2	33.7	34.9	31.1	29.1	32.9	...
M2	...	...	34.4	36.6	37.8	35.0	35.4	42.7	...

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 1997 prices. Data not comparable from 2001 onwards due to changes in methodology. <sup>c</sup> Based on figures in local currency expressed in dollars at current prices, not including the new calculations of the National Statistical Office of Cuba for the period 2000-2005. <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> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>i</sup> Unemployment rate as a percentage of the economically active population, nationwide total. <sup>j</sup> Local-currency markets. <sup>k</sup> From 2000, the data used came from the new calculations of the National Statistical Office of Cuba.

stagnant (0.1%), manufacturing growth was slow (1.2%) and financial services crept up slightly (1%).

The upturn in community, social and personal services was due to the provision of professional services (in areas such as health, education, culture and sport) to the Bolivarian Republic of Venezuela, Guatemala, Pakistan and other countries, as well as improvements to those services within Cuba.

Despite problems relating to the efficient use of resources, construction was boosted by strong investment, the development of tourism infrastructure and the repair of direct and indirect damage caused by the hurricanes. In particular, housing construction grew by 160%, after having remained depressed for a long period. It is expected that 150,000 housing units will be completed between September 2005 and December 2006.

International tourism expanded thanks to improved international promotion, greater efficiency in the use of available resources and the expansion in the accommodation available (6.4%, equivalent to 48,100 rooms). The hotel occupancy rate fell, however (55.7% in 2005, compared with 63.5% in 2004). Gross income expanded (10.7%; US\$ 2.34 billion). Tourists came mainly from Canada (26%), Spain (8.4%), the Bolivarian Republic of Venezuela (8%), Italy (7.3%) and Germany (5.4%).

Communications and data-processing services grew by 8% thanks to capital formation in that area, which has led to improved service for both Cubans and tourists visiting the country. The digitalization of the telephone network reached almost 90%. Commerce, restaurant and hotel services expanded owing to growth in tourism and stronger domestic demand.

The agricultural sector declined sharply, owing to the effects of the hurricanes and the intense drought and also inefficiencies in the use of available resources. Levels of activity were down in both the sugar-cane and non-sugar-cane segments, and also in livestock production.

The stagnation of the mining sector was due to a decline in the extraction of petroleum (-9.6%) and nickel (-0.4%), although natural gas production was up (5.6%).

In the energy sector, output of refined oil was up (2.5%), as were motor gasoline other than aviation fuel (23%), kerosene (21%) and liquefied petroleum gas (29.3%); production of fuel oil stagnated (0.2%) and manufactured gas was down (-3.1%).

Electric power generation continued to decline in 2005 (-2%) owing to breakdowns in electric power plants, the lengthening of their maintenance periods and the impact of eight hurricanes over the past four years. The crisis in the electric power system is due to the technical obsolescence of equipment, leading to low levels of efficiency, high self-consumption rates in thermoelectric

plants (7% of the power generated), considerable transmission and distribution losses (17%), and outdated domestic equipment affecting households' electric power consumption. A crash programme to improve saving and efficiency is being implemented, and the provision of electric power already showed some improvement in the first few months of 2006.

The performance of manufacturing was uneven, with output rising in 12 out of 20 segments. Non-sugar industrial output increased by 3.2%, but sugar plummeted by 48%. Although production was damaged by the drought and hurricanes, inefficiency in the use of available resources was also a factor.

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

The consumer price indices in local and foreign currency rose by 3.7% and 5%, respectively. This inflation resulted from higher monetary liquidity in the hands of the population, supply difficulties resulting from the drought and hurricanes, stronger domestic demand due to higher pensions and wages, and rising hard-currency fuel prices. Prices in the formal and informal markets were up by 8.4% and 3.3%, respectively, but prices in the free markets for agricultural products edged up by just 1.2%.

On 1 May 2005 wage increases were promulgated for 1.6 million workers, raising the minimum wage from 100 to 225 Cuban pesos, and resulting in additional budgetary outlays equivalent to 2.3% of GDP.

A new wage increase was implemented as of December 2005, benefiting 2.2 million workers, with an annual cost equivalent to 2.7% of GDP, and resulting in an average monthly increase of 44 Cuban pesos per worker (12.7%). This measure meant that all public-sector workers had received a wage increase. The unemployment rate remained virtually unchanged at 1.9%, thanks to increased waged employment in the State sector.

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

The country's main exports of traditional goods made up the following percentages of the total: nickel (50%), medicines (13%), tobacco (11%), and sugar and sugar cane derivatives (8%), compared with the 2001 levels of 7.1%, 2.1%, 13.3% and 33.9%, respectively. World prices for nickel and sugar were up. The increase in nickel sales was considerable, but sugar and sugar cane derivatives had fallen to fourth place in just five years. Exports of non-traditional products continued their upward trend, particularly in areas such as pharmaceutical products, biotechnology and genetic engineering.

There was a reduction in the role of family remittances as a source of external financing in the economy, but sales in dollar shops increased by 6%.

The number of joint ventures with foreign corporations fell from 313 in 2004 to 287 in 2005, but there was a considerable upswing in foreign direct investment from China, the Bolivarian Republic of Venezuela and Canada.

Imports of goods and services also rose, with an increased volume of higher-priced goods, especially petroleum and foodstuffs. The surplus on the services balance climbed steeply as a result of growth in international tourism, professional services and telecommunications.

There has been a significant change in Cuba's trade in goods with the Americas (50%), Europe (29%) and Asia (19%), compared with 40.6%, 43.4% and 15.3% in 2000, respectively. Imports from the European Union crept up slightly (0.5%), to US\$ 1.553 billion, but exports to the European Union declined by 2.5%, to US\$ 817 million.

Cuba's main trading partners were the Bolivarian Republic of Venezuela, China, Spain, Canada, the Netherlands, Brazil, Italy, Mexico, and Japan. Trade with the Bolivarian Republic of Venezuela has been rising rapidly, with goods and services exports to that country climbing from US\$ 500 million in 2000 to US\$ 2.5 billion in 2005.

Cuba is the third largest trading partner of the Bolivarian Republic of Venezuela, after the United States of America and Colombia. This is due in large part to the 90,000 barrels of oil per day supplied to Cuba by the Bolivarian Republic of Venezuela. In 2005, the value of Cuba's imports of hydrocarbons from that country totalled US\$ 1.8 billion. Cuba's trade with China also increased significantly, by 67%, or US\$ 873 million.

The country's external debt declined and its debt profile improved. Only 27% of the country's obligations are now short-term ones, and the rest is medium- and long-term credit, whereas formerly the majority of Cuba's liabilities were short term ones.

## Dominican Republic

### 1. Main trends

The economic recovery was consolidated in 2005 and GDP growth surpassed all expectations, at 9.2%. The number of employed was up by 2.1% and real minimum wages climbed significantly. Inflation dropped from 28.7% to 7.4% and the public-sector deficit narrowed to 3.3% of GDP. These trends have strengthened in 2006 and an annual growth rate of 8% is projected.

A strong recovery in domestic demand fuelled the upturn in imports of inputs and capital goods. National exports gathered momentum but maquila exports continued to perform poorly. The balance-of-payments current account moved from a surplus to a small deficit although family remittances expanded again. Broader availability

of foreign currency in 2005 fuelled the appreciation of the exchange rate and helped to replenish international reserves.

Legislative elections in May 2006 turned out well for the government, thus creating the conditions to deepen the economic reforms of the past biennium.

### 2. Economic policy

Fiscal and monetary policies were again coordinated with a view to maintaining the credibility of macroeconomic policy. The targets set in government and monetary programmes and in the agreement signed with the International Monetary Fund (IMF) were easily met.

#### (a) Fiscal policy

The central government deficit was 0.7% of GDP (compared to 4% in 2004) and the non-financial public sector (NFPS) deficit was equivalent to 0.4% of GDP (2.8% in 2004). The quasi-fiscal deficit narrowed from 4% to 2.9% of GDP. The public sector closed the financial year with a consolidated deficit equivalent to 3.3% of GDP, which was slightly less than half of the previous year's negative balance.

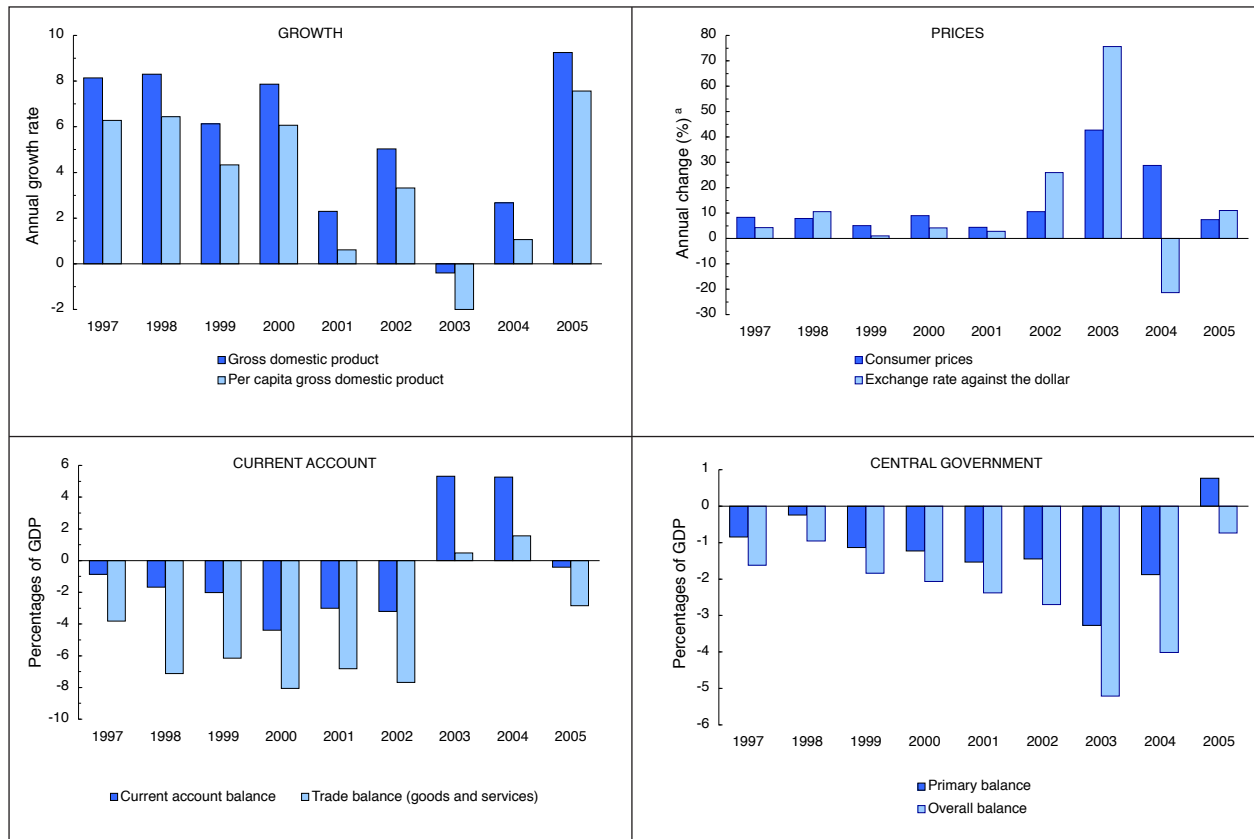
The central government's total revenues rose 15.8% in real terms, with revenues from taxes, particularly indirect taxes, generating most of the increase. This was thanks to the tax reforms of late 2004, which raised the goods and services transfer tax (ITBIS) from 12% to 16% and increased the selective consumption tax (ISC) on alcoholic

beverages and cigarettes. The fiscal reform of December 2005 broadened the base and coverage of ITBIS, raised the ISC rate to 20% and introduced a selective tax of 13% on the consumption of petroleum products.

Revenues from direct taxation rose by 17% in real terms, with the bulk of receipts coming from income taxes, but the fastest-growing item in 2005 was assets tax, which generated additional revenues of 1.632 billion pesos, 70% more than a year before. Under the fiscal reform of 2005, the tax on real property, luxury dwellings and unbuilt urban sites approved in 2004 was replaced in December 2005, in the case of single-owner businesses, with a new assets tax. The 2005 reform also created a tax of 17% of c.i.f. value on newly imported vehicles and established new income tax rates effective as of 2006. The new rates were 15%, 20%, 25% and 30%, depending on income bracket, for natural persons and a single rate of 30% for legal persons.

Spending policy was consistent with budget ceilings, the central government's expenditure obligations and public debt servicing commitments. Outlays on domestic debt servicing declined because of falling interest rates,

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.

but other components of current spending rose. Unlike what had occurred in 2004, transfers — almost all to the electricity sector — declined slightly. Capital spending rose substantially, particularly fixed investment, which recorded a real increase of 78.4%.

The cost of servicing the external public debt totalled US\$ 872 million, 2.3% less than in 2004, thanks to the negotiation of maturities with the Paris Club, the London Club and sovereign bondholders. Arrears in the servicing of external public debt were well down on 2004.

### (b) Monetary policy

Monetary policy management resulted in the reduction of inflation to single digits. The median rates of interest on zero-coupon certificates and on certificates directly sold to the public declined by 12 and 11 percentage points, respectively, to close at 13% and 12%. The maturities of certificates, which stood at 30 days in early 2004, lengthened gradually to an average of 14

months at the start of 2006, which significantly changed the central bank's maturity profile and lowered the cost of its liabilities, despite an increase of almost 30% in the balance of certificates. Reflecting the lesser cost of interest payments, the quasi-fiscal deficit narrowed by one GDP percentage point, 0.2% of GDP more than expected.

Net international reserves in the central bank expanded by US\$ 1.038 billion, exceeding the established target. Most of the build-up of reserves was sterilized.

The downward trend in the interest rates on central bank certificates spilled over to bank rates. With inflation falling, the real cost of money turned sharply positive: the real average annual lending rate was 17.9%, compared with -13.1% a year earlier, and the real deposit rate was 7.6% (as against -19.9% in 2004).

Money expanded by 10.4% in real terms, which was consistent with the overall upturn in the economy and reflected the increase in sight deposits and cash in circulation. By contrast, other monetary aggregates expanded at much lower rates. Local-currency liquidity (M2) and



broad liquidity recorded real increases of only 4.4%.

Loans extended by commercial banks were up by a nominal 12.1%. Commercial and consumer lending accounted for over half of this portfolio (55.1%), although loans for building and home buying grew at an extraordinary pace (annual rates of 68% and 210%, respectively), increasing their share from 5% to 9% of the total.

### (c) Exchange-rate policy

The free currency float operated efficiently. The peso's tendency to appreciate, which had begun in the second half of 2004, reached an inflection point in August 2005 at around 29 pesos to the dollar. From September 2005 onwards, the exchange rate moved gradually upwards to averages of over 33 pesos to the dollar and even, in the first two months of 2006, above 34 pesos to the dollar. The result of these trends was a year-on-year depreciation of 11% in December 2005, but a 28.3% average appreciation of the real exchange rate.

### (d) Other policies

In 2005 new regulations were put in place to enhance the oversight capacity of the Superintendence of Banks. In 2006 a programme was launched to inspect the asset quality of full service banks. The results of such inspections will form the mandatory basis for the preparation of financial statements.

In the energy sector, a contingency plan was created to improve the operational and financial management of distribution companies. In view of the sector's fragile financial position, the government proposed in 2006 to conduct a monthly performance evaluation in order to implement measures as required to offset the fiscal impact of any deviation, so that the non-financial public sector balance would not be affected.

The new Letter of Intent submitted to IMF in April 2006 includes a structural reform programme which, if approved by Congress, will modernize the institutional structures needed to process economic policy.

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## 3. The main variables

### (a) Economic activity

The economic recovery strengthened in 2005 with a higher-than-expected expansion of GDP (9.2%). Per capita GDP grew by 7.6%, taking it almost four percentage points higher, in real terms, than it had been before the crisis of 2003. This momentum carried over into the first quarter of 2006, with a rate similar to that recorded in the second half of 2005 (12.6%). Economic growth is expected to be 8% in 2006.

The economy's momentum has been driven by domestic demand. In 2005 private consumption was up by 11.7% after contracting the year before, and gross fixed investment rose by 12.2% after two straight years of shrinkage. As a proportion of GDP, private consumption is now close to regaining pre-crisis levels, though the investment ratio is still more than six percentage points short of the 2001-2002 average. In the first quarter of 2006 growth in investment began to gather strength, with a year-on-year rate of 26.6%. If this trend continues, in 2006 the investment ratio should fully regain the ground lost.

Agriculture posted a positive growth rate (7.4%), more than triple the 2004 figure, which pushed the general production index above the level seen prior to the 2003

crisis. This expansion was almost entirely attributable to livestock activities, which grew strongly (14.2%) for the second year running, boosted by official development programmes. By contrast, crop-farming output contracted for the fourth year in a row. The dip of 1.8% in 2005 reflected sharp downturns in sugar cane (12.6%) and cocoa (38.4%), which account for a large share of the total. The fall in output of these two crops — and of others such as pineapples, oranges and beans — was largely due to weather conditions. Crop-farming output did, however, show clear signs of increasing as of the period July-September and into the first quarter of 2006 (with a 19% rise in volume). Unless there are adverse weather conditions, in 2006 agriculture should enjoy a positive annual growth rate for the first time since 2002.

The different branches of manufacturing performed unevenly in 2005. An overall increase of 7.9% was driven by local non-sugar industry, which was up by 8.5%. The dynamic performance of manufacturing was directly linked to the upturn in domestic demand and the first-quarter data for 2006 suggest that performance will be good this year too. By contrast, the sugar industry and free-zone textiles contracted in 2005, by 6.8% and 5.4%, respectively, owing to constraints on raw material supply and the rising costs

Table 1  
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	8.1	8.3	6.1	7.9	2.3	5.0	-0.4	2.7	9.2
<b>Per capita gross domestic product</b>	6.3	6.4	4.3	6.1	0.6	3.3	-2.0	1.1	7.6
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-1.9	1.7	1.3	4.0	9.4	2.7	3.3	2.4	7.4
Mining	2.3	-15.4	-0.4	12.0	-19.7	-2.6	8.0	6.0	-1.7
Manufacturing	10.2	7.1	7.0	6.6	-1.2	5.0	-0.4	2.0	7.9
Electricity, gas and water	16.7	8.3	6.5	3.9	15.1	6.7	-7.5	-16.4	3.6
Construction	1.3	18.4	12.0	-2.7	-3.6	5.8	-12.5	-6.5	6.8
Wholesale and retail commerce, restaurants and hotels	8.2	3.7	5.3	6.8	-0.0	3.8	3.2	3.2	12.6
Transport, storage and communications	14.8	16.4	15.5	12.8	11.1	13.2	4.9	11.6	18.7
Financial institutions, insurance, real estate and business services	3.7	4.1	6.2	4.1	14.8	4.9	-3.9	-0.2	3.2
Community, social and personal services	6.0	6.5	1.3	2.9	6.1	2.8	3.0	3.1	2.7
<b>Gross domestic product, by type of expenditure</b>									
Consumption	9.2	8.2	5.4	8.7	5.7	4.4	-3.3	1.1	11.7
General government	13.0	9.2	3.4	4.6	8.7	8.4	-2.2	-5.3	11.9
Private	9.1	8.1	5.5	8.9	5.6	4.2	-3.3	1.4	11.7
Gross domestic investment	15.9	43.2	-0.9	7.3	-10.6	9.0	-30.2	-4.7	14.5
Exports (goods and services)	14.1	7.3	5.2	9.7	-5.3	2.5	6.9	3.1	4.9
Imports (goods and services)	18.6	21.5	0.9	10.3	-4.5	3.7	-13.1	-2.4	11.6
	<b>Percentages of GDP</b>								
<b>Investment and saving<sup>c</sup></b>									
Gross domestic investment	19.0	24.0	22.7	23.5	19.9	21.1	15.8	17.0	15.0
National saving	18.1	22.3	20.7	19.1	16.9	17.9	21.1	22.2	14.6
External saving	0.9	1.7	2.0	4.4	3.0	3.2	-5.3	-5.3	0.4
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-163	-338	-429	-1 027	-741	-798	1 036	1 142	-143
Merchandise trade balance	-1 995	-2 617	-2 904	-3 742	-3 503	-3 673	-2 156	-1 952	-3 481
Exports, f.o.b.	4 614	4 981	5 137	5 737	5 276	5 165	5 471	5 936	6 133
Imports, f.o.b.	6 609	7 597	8 041	9 479	8 779	8 838	7 627	7 888	9 614
Services trade balance	1 275	1 182	1 602	1 854	1 826	1 757	2 249	2 291	2 495
Income balance	-795	-890	-975	-1 041	-1 092	-1 152	-1 393	-1 724	-1 886
Net current transfers	1 352	1 987	1 848	1 902	2 028	2 269	2 336	2 528	2 730
Capital and financial balance <sup>d</sup>	254	350	581	978	1 256	243	-1 583	-596	813
Net foreign direct investment	421	700	1 338	953	1 079	917	613	758	899
Financial capital <sup>e</sup>	-167	-350	-757	25	177	-674	-2 196	-1 354	-86
Overall balance	91	11	151	-48	515	-555	-546	546	670
Variation in reserve assets <sup>f</sup>	-40	-98	-194	70	-519	527	358	-542	-1 103
Other financing <sup>g</sup>	-51	87	42	-22	4	28	189	-4	433
<b>Other external-sector indicators</b>									
Terms of trade for goods (index: 2000=100)	106.1	108.0	105.7	100.0	100.9	101.5	97.9	96.7	95.8
Net resource transfer (percentage of GDP)	-3.1	-2.3	-1.7	-0.4	0.7	-3.5	-14.3	-10.7	-1.8
Total external debt (millions of dollars) <sup>h</sup>	3 572	3 546	3 661	3 682	4 177	4 536	5 987	6 380	6 756
Total external debt (percentage of GDP) <sup>h</sup>	18.9	17.6	17.3	15.7	17.0	18.2	30.7	29.4	19.5
Net profits and interest (percentage of exports) <sup>i</sup>	-11.3	-11.9	-12.2	-11.6	-13.0	-14.0	-15.6	-18.3	-18.8
	<b>Average annual rates</b>								
<b>Employment</b>									
Labour force participation rate <sup>j</sup>	54.1	52.6	53.5	55.2	54.3	55.1	54.7	56.3	55.9
Open unemployment rate <sup>k</sup>	16.0	14.4	13.8	13.9	15.6	16.1	16.7	18.4	18.0
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	8.4	7.8	5.1	9.0	4.4	10.5	42.7	28.7	7.4
Variation in nominal exchange rate (December-December)	4.2	10.6	1.0	4.2	2.8	25.9	75.6	-21.4	11.0
Variation in real minimum wage	-1.6	7.5	-1.1	-0.4	5.7	-0.5	-9.2	-15.0	18.7
Nominal deposit rate <sup>l</sup>	13.3	17.0	15.4	18.6	16.1	16.4	20.6	21.1	12.7
Nominal lending rate <sup>m</sup>	19.0	23.5	22.2	23.6	20.0	21.3	27.8	30.3	21.4



Table 1 (concluded)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income	16.2	16.1	15.8	15.9	16.5	16.8	16.1	16.4	17.9
Current income <sup>n</sup>	15.9	15.9	15.6	15.8	16.3	16.5	15.9	16.2	17.8
Tax revenue	15.1	15.2	14.9	14.9	15.7	15.7	14.8	15.1	16.8
Capital income	0.3	0.1	0.0	0.0	0.1	0.2	0.0	0.0	0.0
Total expenditure	17.5	16.5	17.4	15.6	17.6	18.5	19.6	19.5	19.3
Current expenditure	11.5	11.7	12.2	11.8	11.8	12.0	12.4	14.6	14.5
Interest	0.8	0.7	0.7	0.8	0.8	1.3	1.9	2.1	1.5
Capital expenditure	6.0	4.7	5.2	3.8	5.8	6.5	7.2	4.9	4.7
Primary balance	-0.8	-0.2	-1.1	-1.2	-1.5	-1.4	-3.3	-1.9	0.8
Overall balance	-1.6	-1.0	-1.8	-2.1	-2.4	-2.7	-5.2	-4.0	-0.7
<b>Money and credit<sup>o</sup></b>									
Domestic credit <sup>p</sup>	25.4	28.2	31.0	33.1	35.4	38.6	41.3	31.3	...
To the public sector	1.3	1.0	1.7	2.0	1.8	2.2	2.6	2.3	...
To the private sector	24.2	27.1	29.3	31.1	33.5	36.4	38.7	28.9	...
Currency in circulation and local-currency deposits (M2)	25.0	26.7	28.7	29.2	31.6	34.4	39.5	34.0	31.9

**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 1991 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 guaranteed public and private external debt. <sup>i</sup> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>j</sup> Economically active population as a percentage of the working-age population. Nationwide total. <sup>k</sup> Unemployment rate as a percentage of the economically active population, nationwide total. <sup>l</sup> 90-day certificates of deposit. <sup>m</sup> Average of the prime rate. <sup>n</sup> Includes grants. <sup>o</sup> The monetary figures are annual averages. <sup>p</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

of industrial inputs. Although some of these problems persist, there are now clear signs of a recovery.

The end of the Multifibre Arrangement in January 2005 accounts to a large extent for the minus signs among the free zone production figures. With the elimination of preferential access to the United States market, 56 textiles firms closed, while 15 firms in other lines of business were forced into liquidation by other types of problems. Taking into account the establishment of 69 new firms (20 of them in the textile segment), the sector experienced a net loss of 17,900 jobs in 2005. This segment of the Dominican economy does not appear to have finished adjusting to the new market conditions, judging by the 4.7% fall in its output in the first quarter of 2006.

The decline in nominal rates of interest and the price of some key inputs, combined with increases in mortgage loans and public works, fuelled an upturn in construction in 2005 (6.8%). Driven by these same factors, the industry gathered further momentum in January-March 2006, when it recorded a year-on-year expansion of 31.8%.

In 2005 the communications sector made further gains on the rapid expansion seen in the preceding years, with an upswing of 22.2%. This pattern has continued into 2006 with a real variation of 30.3% in the first quarter.

Production of electric power and water improved on the 2004 figures, with growth of 3.6% thanks to an upturn in generation capacity and despite a shortage of

fuel and persistent technical problems in power plants. This pattern is expected to continue in 2006.

Rising tourist numbers, combined with longer stays and higher average expenditure, made 2005 another year of expansion in the hotels, bars and restaurants sector. Value added and foreign direct investment (FDI) were up by 6.8% and 132% on the respective 2004 figures in this branch of activity. Tourist arrivals continued to increase in the first quarter of 2006 (8.8%), underpinning a positive outlook for the sector in the coming months.

With annual growth of 4.9%, the financial sector began to recover from the downturn of 2003 and stagnation of 2004. In the first quarter of 2006 the volume of transactions conducted rose by a sharp 21.3%, consistently with the upturn in the wider economy.

Rising levels of economic activity, together with increased employment and purchasing power, helped to bring about an ample recovery in the commerce sector after the contraction of 2004. Commerce expanded by 17.2% in 2005 and 16.1% in the first quarter of 2006 and the outlook remains good for this branch of activity.

## (b) Prices, wages and employment

Inflation averaged 4.2% in 2005, down from 51.2% in 2004. The December-December rate of inflation was 7.4%, compared to 28.7% a year earlier. Almost two thirds of general inflation in 2005 (4.7 points) was

Table 2  
**DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS**

	2004				2005 <sup>a</sup>				2006 <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>	-0.1	4.8	-1.1	3.8	4.3	7.2	10.4	14.6	...	...
Merchandise exports, f.o.b. (millions of dollars)	1 342	1 489	1 525	1 538	1 422	1 564	1 532	1 615	...	...
Merchandise imports, f.o.b. (millions of dollars)	1 702	1 920	2 073	2 081	2 122	2 369	2 616	2 507	...	...
International reserves (millions of dollars)	424	453	560	798	1 247	1 456	1 488	1 843	1 831	2 059 <sup>c</sup>
Consumer prices (12-month percentage variation)	62.3	60.3	47.9	28.7	4.3	-1.0	4.2	7.4	8.3	10.3
Average nominal exchange rate (pesos per dollar)	48.47	47.25	41.48	31.06	27.78	27.84	29.14	32.77	33.76	32.51
Nominal interest rates (annualized percentages)										
Deposit rate <sup>d</sup>	20.2	23.0	20.7	20.7	19.3	10.5	8.8	12.3	12.1	11.3
Lending rate <sup>e</sup>	29.1	31.7	30.7	29.8	28.7	21.8	18.2	17.1	17.7	16.9
Interbank interest rate	45.8	50.5	26.3	24.5	19.3	9.5	9.5	12.0	11.9	11.5
Non-performing loans as a percentage of total credit <sup>f</sup>	7.4	7.9	7.1	6.4	6.8	7.8	7.3	6.6	6.9	6.7 <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> Data to May. <sup>d</sup> 90-day certificates of deposit. <sup>e</sup> Average of the prime rate. <sup>f</sup> Refers to total credit extended by the consolidated financial system. <sup>g</sup> Data to April.

attributable to the rise in international oil prices. The largest price hike occurred in transport services, with an annual variation of 24.7%. By contrast, the index for goods, beverages and tobacco, which represent almost half of the consumer basket, recorded a small annual variation (0.5%), which helped to soften the impact of hydrocarbons on inflation.

The effect of international oil prices on the consumer price index continued to be felt strongly in 2006. Cumulative inflation in the first four months of the year (2.12%) clearly indicated an upward pressure that will last for the rest of the year, suggesting that inflation will exceed the 2005 figure. Not including oil, the rate of cumulative inflation for the first four months was 0.9%.

In 2005 the main labour market indicators stopped deteriorating and the employment survey conducted in October showed the broad unemployment rate declining, at 17.5%, compared with 19.7% a year earlier, which brought the annual average down from 18.4% to 18%. Commerce and tourism generated the largest numbers of jobs; employment continued to contract in manufacturing and other services. The consolidation of economic momentum in 2006 should stimulate an improvement in the basic labour market indicators.

Wages regained part of their purchasing power. After a series of nominal increases that started in late 2004, the average real minimum wage rose substantially across all sectors in 2005: almost 18% in the public sector, 10.5%

in the free zones and nearly 20% in the rest of the private sector. This represented a break with three consecutive years of sharp declines, but real minimum wages are still below 2001 values.

### (c) The external sector

After running a surplus for two years, the balance-of-payments current account reverted to a negative balance in 2005, moving from a surplus of 6.1% of GDP to a deficit of 0.5%. This reflects an increase of US\$ 1.529 billion on the trade deficit, equivalent to a variation of 78%.

Merchandise imports rose 21.9%, driven entirely by non-maquila activities, since free-zone imports contracted by 4.5%. Consumer goods imports were up 44.2%, reflecting an upswing in personal consumption. Imports of capital goods and of raw and intermediate materials also climbed strongly (29.9% and 30.6%, respectively). A rise of 33% in international petroleum prices pushed the oil bill up by US\$ 784 million. In the first quarter of 2006, imports of raw materials increased by 15.8%, as a result of the sustained drive of domestic activity.

Exports recovered somewhat, but still performed sluggishly in 2005. Three quarters of the US\$ 197 million increase (3.3% up on 2004) came from national exports, of which a very large proportion were national goods bought by foreign tourists during their stay in the

country. Free-zone exports, which account for 77% of all merchandise exports, registered little variation (1.1%). Textile manufactures, which represent two fifths of free-zone exports, contracted sharply, by 10.2%. National exports kept up the momentum in 2006 with a 22% climb in the first quarter.

The surplus on the services account increased by 8.9%, thanks to additional tourism revenues. Family remittances continued to be an important source of income, standing at almost US\$ 2.39 billion (8.1% more than the 2004 figure). Remittances continued to expand

in the first quarter of 2006, with a year-on-year increase of 14.3%, and are expected to keep up this pace for the rest of the year.

In 2005 FDI came in at US\$ 900 million, 18.5% more than the year before. These funds went mainly to tourism, construction of new free zones and telecoms. FDI inflows are expected to be larger in 2006.

International reserves were boosted US\$ 1.103 billion by the balance of payments, reaching US\$ 1.843 billion at the end of 2005. This figure was equivalent to three months of non-maquila imports.



## Guyana

### 1. General trends

The adverse effects of the floods on Guyana's main economic sectors, coupled with rising oil prices in international markets, resulted in a contraction in the country's economy in 2005. GDP declined by 3%, following growth of 1.6% in 2004. Imports expanded sharply in response to reconstruction needs. Nevertheless, the overall balance of payments showed a surplus equivalent to 1% of GDP, largely attributable to substantial capital inflows.

Fuelled by surging international oil prices and tight agricultural supply conditions in the domestic market, inflation trended upwards to 8.2% (compared with 5.5% in 2004). Public sector wages were raised by 7% in 2005, which, given the inflation level, meant that real incomes declined marginally.

The public finance position weakened in 2005, reflecting the economic downturn combined with a broad public investment programme that encompassed reconstruction and rehabilitation following the flood damage and preparations for the Cricket World Cup. The central government's overall deficit after grants more than doubled.

The monetary policy stance was loosened early in the year, in order to stimulate credit demand for the financing of reconstruction work, but was later tightened to counter the expansion of liquidity in the system.

Economic activity is expected to recover in 2006, in spite of fresh flooding in the early part of the year, since the damage was less severe than that caused in 2005. GDP is projected to grow by 4.3%, while inflation will be around 6%. Public finances are expected to improve as growth in total revenues should exceed expansion in total expenditure. The balance of payments will worsen to show an overall deficit of over US\$ 6 million.

### 2. Economic policy

#### (a) Fiscal policy

The central government's overall deficit after grants widened to 14.2% of GDP (compared with 6.9% in 2004), owing essentially to the increase in capital expenditure (22.4% in 2005, as against 14.3% in 2004). This expenditure went mainly to infrastructure work, modernization of the public sector and the economic rehabilitation following the floods of early 2005. The poor performance of the non-financial public enterprises contributed significantly to the total deficit.

The increase in current expenditure from 32% of GDP in 2004 to 36% in 2005 was due to an expansion in

purchases of goods and services, transfers to the Linden community and support to the rice industry.

Current revenues increased to 35.7% of GDP, reflecting improved tax administration and receipts.

In 2005, the domestic and external public debt stock increased. The growth in domestic debt stemmed from sterilization operations, while the expansion in external debt reflected obligations contracted in order to finance the modernization programme of the State-owned Guyana Sugar Corporation (GUYSUCO) and the construction of the new cricket stadium. This increase in debt stock occurred despite Guyana's qualification for the Multilateral Debt Relief Initiative (MDRI), under which the country's

Table 1  
GUYANA: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	6.2	-1.7	3.8	-1.4	2.3	1.1	-0.7	1.6	-3.0
<b>Per capita gross domestic product</b>	5.9	-2.0	3.5	-1.7	2.0	0.9	-0.8	1.4	-3.1
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	4.0	-6.7	15.9	-9.0	3.4	3.4	-2.3	2.8	-10.8
Mining	15.0	2.7	-8.4	5.9	4.2	-6.9	-8.7	-6.5	-17.8
Manufacturing <sup>c</sup>	2.3	-8.7	15.5	-13.9	2.5	10.9	-0.5	2.5	-13.8
Construction	13.1	4.7	-10.0	6.6	2.0	-3.9	5.6	4.1	9.4
Wholesale and retail commerce, restaurants and hotels	5.6	5.3	-8.0	5.2	0.5	-0.9	-2.6	1.9	8.6
Transport, storage and communications	8.9	-3.1	2.1	7.1	5.4	4.5	4.9	3.6	9.4
Financial institutions, insurance, real estate and business services	5.1	3.8	0.0	3.6	-3.5	-0.8	1.6	1.0	6.1
Community, social and personal services	3.4	0.7	1.2	4.6	0.7	-0.8	1.1	1.2	3.4
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-111	-102	-78	-115	-134	-111	-91	-70	-150
Merchandise trade balance	-48	-54	-25	-80	-94	-68	-59	-58	-235
Exports, f.o.b.	593	547	525	505	490	495	513	589	551
Imports, f.o.b.	642	601	550	585	584	563	572	647	786
Services trade balance	-23	-32	-31	-24	-20	-24	-20	-47	-82
Income balance	-80	-60	-61	-58	-64	-59	-52	-39	-33
Net current transfers	40	44	39	47	44	40	40	74	167
Capital and financial balance <sup>d</sup>	110	89	100	156	160	125	100	27	158
Net foreign direct investment	52	44	46	67	56	44	26	0	0
Financial capital <sup>e</sup>	58	45	54	88	104	82	74	27	158
Overall balance	-2	-13	22	40	26	15	10	-43	8
Variation in reserve assets <sup>f</sup>	3	23	-11	-24	-10	-6	0	32	-24
Other financing <sup>g</sup>	-1	-10	-10	-16	-16	-9	-9	12	16
<b>Other external-sector indicators</b>									
Net resource transfer (percentage of GDP)	4.2	3.0	4.6	12.1	12.2	8.6	5.6	-0.1	18.5
Gross external public debt (millions of dollars)	1 513	1 507	1 211	1 193	1 197	1 247	1 085	1 071	1 096
Gross external public debt (percentage of GDP)	223.9	227.9	193.4	178.4	181.2	185.8	154.9	141.6	143.1
Net profits and interest (percentage of exports) <sup>h</sup>	-10.8	-8.7	-9.1	-8.6	-9.6	-8.8	-7.5	-5.3	-4.8
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	4.2	4.7	8.7	5.8	1.5	6.0	5.0	5.5	8.2
Variation in nominal exchange rate (December-December)	1.8	14.0	10.2	2.4	2.6	1.2	2.0	2.2	0.0
Nominal deposit rate <sup>i</sup>	7.4	7.1	8.1	7.3	6.7	4.3	3.8	3.4	3.4
Nominal lending rate <sup>j</sup>	17.0	17.0	17.1	17.2	17.3	17.3	16.6	16.6	15.1
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income <sup>k</sup>	34.5	33.3	33.8	37.0	37.0	40.5	37.3	39.5	44.2
Current income	31.9	30.7	29.8	31.8	31.1	32.2	31.5	33.0	35.7
Tax revenue	29.4	28.6	26.9	29.1	28.3	29.5	28.8	30.9	33.7
Capital income	2.6	2.6	4.0	5.2	6.0	0.0	0.0	0.0	0.0
Total expenditure	41.7	40.1	35.7	44.4	47.6	46.1	46.5	46.4	58.4
Current expenditure	26.3	28.0	25.7	31.3	35.3	34.8	34.5	32.1	36.1
Interest	...	...	...	...	8.8	7.7	6.2	4.9	4.6
Capital expenditure	15.4	12.1	10.0	13.2	12.4	11.4	12.0	14.3	22.4
Primary balance <sup>k</sup>	...	...	...	...	-1.8	2.0	-3.0	-2.0	-9.6
Overall balance <sup>k</sup>	-7.2	-6.8	-2.0	-7.4	-10.6	-5.7	-9.1	-6.9	-14.2
Public-sector external debt	185.7	188.6	163.6	144.7	143.4	152.4	132.3	128.1	139.4
<b>Money and credit</b>									
Domestic credit	22.4	25.9	22.6	18.8	20.3	18.8	17.9	18.6	23.7
To the public sector	-16.2	-14.6	-16.5	-20.2	-17.3	-17.3	-10.7	-5.4	-1.7
To the private sector	42.1	44.8	43.5	43.9	43.4	41.7	34.9	30.6	31.9
Other	-3.4	-4.3	-4.4	-4.9	-5.8	-5.6	-6.3	-6.5	-6.5
Liquidity (M3)	60.3	60.2	56.6	60.9	65.7	68.0	69.8	69.5	74.6

**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 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> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>i</sup> Rate on small savings. <sup>j</sup> Weighted average of prime interest rate. <sup>k</sup> From 2002, includes grants.

entire debt with the International Monetary Fund (IMF) and the International Development Association (IDA) of the World Bank was forgiven. In total, US\$ 283 million in debt were written off.

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

In 2005, monetary policy was aimed at achieving price and exchange-rate stability, while fostering private-sector credit to productive sectors to promote growth and employment.

During the year, the monetary base expanded owing mainly to the increase in net international assets (25% in 2005), since the central bank's net domestic credit was flat. The flow of remittances and official emergency assistance following the natural disaster account in part for the growth in net international assets. This was reflected in an increase in the narrow and broad monetary aggregates (by 10.2% and 7.9%, respectively), as well as by increased liquidity in the commercial banking system (up by 48% in 2004, compared with 7% in 2005).

The effect of the higher level of liquidity was two-fold. First, combined with rising oil prices, it generated

stronger demand for foreign exchange, which forced the monetary authority to intervene in the foreign-exchange market. The Guyana dollar depreciated marginally (0.2%) against the United States dollar. Consequently, the rate of exchange closed 2005 at G\$ 200.94 to the dollar.

Second, there was a stronger demand for low-risk financial instruments, such as treasury bonds, whose yield diminished as a result (from 3.79% at the end of December 2004 to 3.74% at the end of December 2005). In turn, the lower yield of these instruments forced commercial banks to channel their resources towards alternative uses. Thus, the average lending rate fell from 16.6% in 2004 to 15.1% in 2005.

Consistently with this trend, credit to the private sector expanded quite significantly (33.4%) as demand for loans from the productive sector and from private individuals rose in the wake of the flooding; in the former case for the rehabilitation of productive enterprises and in the latter for consumption. Mortgage loans increased considerably as well, reflecting in part the flood damage caused to housing. The increase in personal loans was driven by demand for consumer durables and other household goods.

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## **3. The main variables**

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

The level of economic activity of the main productive sectors was severely hurt by the impact of the floods on the main productive sectors in the early part of the year.

Agriculture value-added declined by 10.8% in 2005, compared with a 2.8% increase in 2004. Sugar production plummeted by 23.9%, while rice output showed a smaller reduction. Another reason for the lower sugar output was the diminished sucrose content of the canes in the wake of the flood and this situation was compounded by strikes and worker absenteeism. A significant part of the rice crop was lost to the floods, with some fields not harvested.

Mining output also contracted in 2005, by 18% after a downturn of 7% in 2004. Gold declarations<sup>1</sup> fell

by over 27%, reflecting the depletion of reserves in the OMAI Gold Mines, which later shut down. Increased output by individual operators seeking to capitalize on higher international gold prices was not enough to offset this downturn. Diamond production was down by 21.5% owing to the temporary closure of mining operations because of the threat of flood-borne malaria, and to lower prices.

Manufacturing output declined by 14% in 2005, compared with an expansion of 2.5% in 2004, reflecting the sharp contraction in sugar production. Other sectors, such as alcoholic beverages and paint production were up, but could not compensate for the lower sugar output.

Conversely, construction activity expanded by 9.4% (4.1% in 2004), in response to a sharp increase in public

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<sup>1</sup> The quantity of gold declared by producers is often less than their actual production as some is sold in the informal trade and unaccounted for in the official figures.



spending on flood-damage repair and rehabilitation work and on the construction of the World Cup Cricket Stadium and housing.

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

Higher inflation in 2005 was due to domestic shortages following the floods, with a 7.8% rise in the cost of food, especially fresh fruits, vegetables, milk and meat products. Transport and communications and housing prices also increased (by 13.8% and 11.6%, respectively), the former reflecting rising international oil prices and the latter, strong housing demand.

In an effort to contain demand for wage hikes, the government raised public sector wages by only 7%, slightly below inflation. This brought the minimum wage to US\$ 124.13 per month.

In the framework of public-sector restructuring and rationalization, employment in this sector declined by 1.7% in 2005. Employment losses in public enterprises, including Guysuco (4.5%) and Aroaima Bauxite Company (9.8%) were offset by a 3.2% gain in the number of employees in the central government.

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

The overall balance of payments position improved significantly in 2005 to post a surplus of US\$ 8 million, equivalent to 1% of GDP, compared with a deficit of US\$ 43 million in 2004. This outturn was facilitated by an upturn in capital inflows, associated with private investment, and by reduced debt payments.

The current account deteriorated, the structural deficit doubling to reach US\$ 150 million (19.6% of GDP). The current account was affected by the sharp rise in oil prices and the decrease in the quantity and value of commodity exports. Exports declined by 6.5% to US\$ 551 million, following a strong recovery in 2004. Export volumes were down for all the major commodities, except bauxite and timber. Revenues from sugar exports contracted by 13.6% and those from exports of rice declined by 16.1%, in both cases as a result of the floods in the early part of the year.

The import bill increased by over 21%, reflecting higher oil prices, flood rehabilitation and the higher demand generated by an expanded infrastructure expansion programme, partly linked to the Cricket World

Cup. Imports of consumer goods increased significantly in response to rising demand in the wake of the flood. Intermediate goods imports climbed strongly as a result of higher fuel prices. A positive development was a 14.1% increase in imports of capital goods for capacity-building in mining and agriculture, which is important for future growth. Imports were strongly up despite the downturn in output.

The services account deficit worsened again in 2005, while net factor service payments continued to decline, reflecting lower debt service payments thanks to forgiveness of part of the country's liabilities. Interest payments on public-sector and Bank of Guyana debt declined by US\$ 0.5 million and US\$ 1.9 million, respectively, in 2005.

Meanwhile, current transfers increased to US\$ 167 million (21% of GDP), reflecting a strong increase in grants extended to mitigate some of the impacts of the flooding.

The surplus on the capital and financial account increased six-fold to stand at US\$ 158 million or 20.6% of GDP. This was partly due to the increase in private investment, larger disbursements on existing commitments and lower debt service payments. Foreign direct investment stood at US\$ 76.8 million, owing largely to capacity-building in mining and telecommunications, especially cellular telephony.

With the improvement in the balance of payments position, international reserves at the Bank of Guyana strengthened to US\$ 251 million, equivalent to three months of import cover.

In 2006, the balance of payments position is expected to weaken, to yield an overall deficit of US\$ 6.7 million. The merchandise account will also deteriorate, since imports are expanding at a faster rate (4%) than exports (2.5%). Gold revenues will decline owing to the closure of OMAI Gold Mines, the largest producer. Sugar and rice exports should, however, help to offset this reduction. Imports are expected to expand owing to the continued rise in fuel costs and to expenditure on public infrastructure and private-sector projects.

The current account is also expected to show the effects of higher net payments for services and a fall-off in remittances, leading to a deficit of around US\$ 199 million. Capital account inflows are expected to increase by about 9%, however. The overall balance-of-payments deficit will be financed by debt relief under the Multilateral Debt Relief Initiative.



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## Haiti

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

Following two years of transitional government, the elections held in February and April 2006 heralded a more settled political and institutional situation, with René Garcia Préval sworn in as President in May and the formation of a new parliament. Yet considerable challenges remain, particularly in terms of normalizing the social climate in a framework of justice and security, establishing a forum for national dialogue and building up the new authorities' capacity to respond to the numerous long-deferred social demands.

The social peace plan announced by the new authorities consists of a set of emergency measures focused on humanitarian aid, job creation, basic public services (electricity, water and sanitation) and economic revival, with a view to dealing with unfinished business left over from the transitional period. This will be funded by resources approved as part of the Haiti Interim Cooperation Framework (ICF), some of which have already been assigned to specific projects, although no disbursements have yet reached the stage of actual expenditure.

In 2005, GDP grew by only 1.8%, despite improvements in the benchmark indicators of macroeconomic equilibrium. Inflation stood at 14.8%, the fiscal deficit narrowed to 0.5% of GDP and net international reserves amounted to US\$ 68 million. Nonetheless, the volatile political and social environment, with the much-postponed elections

and the climate of instability that prevailed for most of the year, had many negative effects.

Two thirds of the way through the 2006 fiscal year, many question marks remain although the post-election political stabilization process, the new government and the programmes announced by the new authorities bode well for the rest of the year. Uncertainty surrounds issues such as the source of additional funds for extending the ICF until December 2007, the scope of new cooperation agreements, the benefits of Haiti's eligibility for the Heavily Indebted Poor Countries (HIPC) Debt Initiative (approved in April) and a possible Poverty Reduction and Growth Facility (PRGF). Despite the announced efforts to jump-start the economy immediately, current trends for the year point to a modest increase in GDP (2.5%) in a context of fiscal discipline, a stabilized exchange rate and relatively well-controlled inflation (15%).

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### 2. Economic policy

During the 2005 fiscal year, the authorities maintained a tight stance in terms of fiscal, monetary and foreign-exchange policy, in keeping with the guidelines agreed with international financial institutions (the International Monetary Fund (IMF) and the World Bank) under the Emergency Post-Conflict Assistance (EPCA) programme.

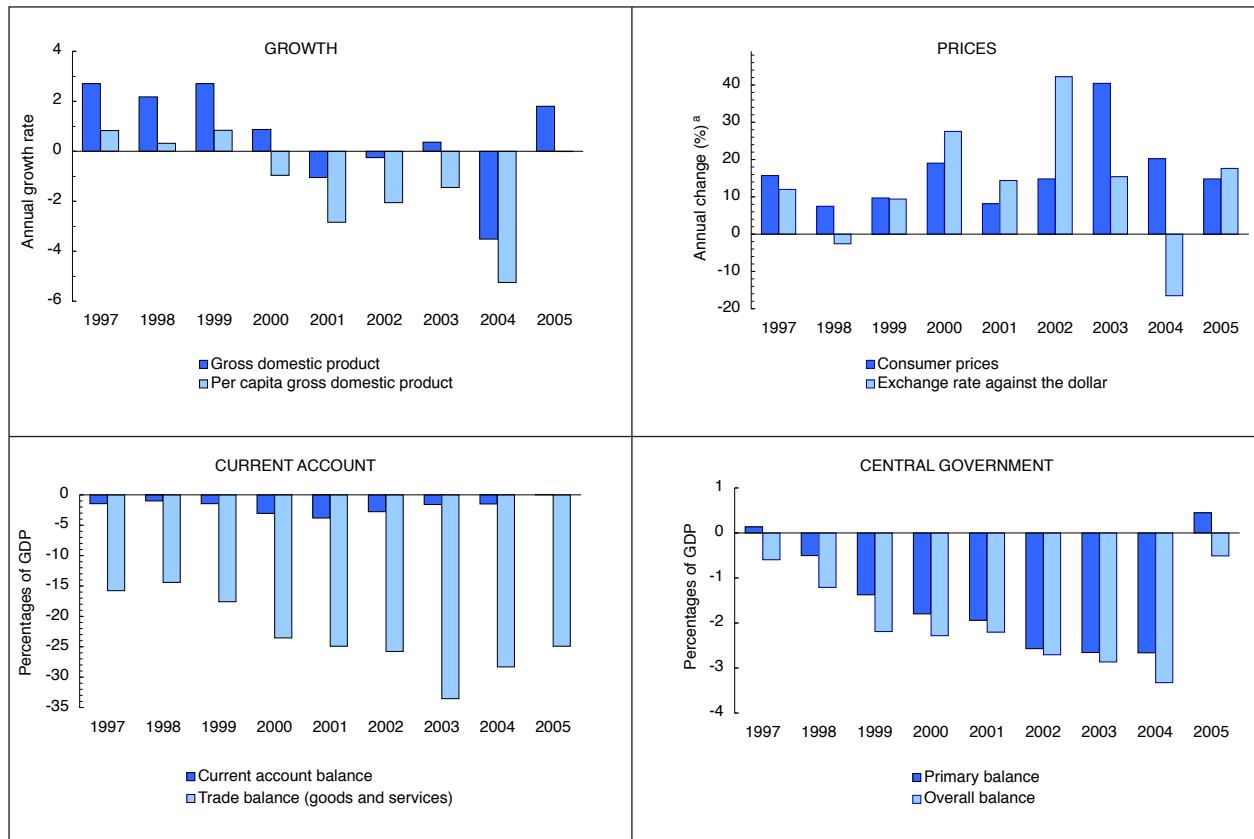
The latter was arranged in January 2005, and a recent IMF assessment report suggests that it will be renewed until September 2006.

In order to access such programme benefits, however, the new authorities will have to follow precise guidelines. In particular, they will have to comply with

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<sup>1</sup> The analysis refers to fiscal year 2005 (October 2004-September 2005) and 2006 (October 2005-September 2006).

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.

a Poverty Reduction Strategy (PRS), ensure they are HIPC eligible and establish mechanisms for monitoring spending on poverty reduction. According to the economic policy guidelines announced by the new President, the government's main objective is to protect the achievements made in terms of macroeconomic and financial stabilization, and this will facilitate implementation of the EPCA programme.

#### (a) Fiscal policy

In 2005, the fiscal deficit stood at 0.5% of GDP, less than one sixth of the 3.3% recorded in 2004. This was largely due to a sharp drop in capital expenditure using national financing. Indeed, capital expenditure in real terms amounted to less than half the previous year's figure, because investment fell below the level originally provided for in the Economic Recovery Programme (PROREC), and the authorities actively tightened fiscal control. However, this was partly offset by investments

based on external financing, either in the form of budget support (donations) or in accordance with the Interim Cooperation Framework (ICF). The main beneficiaries were infrastructure projects for highways and agriculture.

Total expenditure in real terms was down 4% as a result of lower capital expenditure. The 9.1% rise in current expenditure (resulting from the 21% wage increase for civil servants) was mitigated by a substantial expansion of current revenues (11.5%), particularly from customs (7.7%). Financing therefore remained within the range agreed with IMF.

Additional resources approved during the current fiscal year, including those from multilateral sources (the Inter-American Development Bank (IDB), the World Bank and the European Union) and bilateral sources (Canada and Spain), will provide the financial authorities with more room for manoeuvre in the rest of the year. This should enable them to expedite expenditure on socio-economic programmes without jeopardizing the IMF-agreed targets in terms of budgetary and fiscal control.

The better-than-expected performance of fiscal revenues to March 2006 was mainly due to the widening of the corporate tax base. The fiscal outcome was also improved because expenditure was delayed by hold-ups in obtaining certain external funds and by the limited absorptive capacity of the public sector. This was despite the subsidy (approximately 1.30 billion gourdes) granted to the State electricity company, which did not benefit from “extraordinary donations” as in the previous financial year.

External budgetary financing required for the rest of the fiscal year will have to cover a shortfall of around US\$ 18 million. A substantially larger shortfall (of US\$ 80 million) is expected for the 2006-2007 fiscal year. Both constitute very short-term challenges that the new authorities will have to overcome in consultation with international financial institutions and bilateral counterparts.

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

During 2005, a smaller monetary base (-2.9%) in real terms, stalled net domestic credit (0.9%) and other monetary indicators reflected a monetary policy stance that was generally tight, while designed to permit a certain degree of recovery. Positive growth was recorded for M1 (7%) and M3 (7.8%), with the latter being due to the dramatic surge in foreign-exchange liquidity (18.6%).

Net domestic credit to the economy (29.6% of GDP) was down two percentage points on 2004, largely owing to the public sector component, which declined by 10% in real terms. The authorities maintained high yields

(nominal rate of 18.9%) on the bonds of the Bank of the Republic of Haiti (BRH) in order to contain any surge in inflation.

The composition of reserve requirements (legal reserve 31%) in gourdes and foreign exchange was changed between February and May 2006 to free up more dollars on the market and reverse the depreciation of the exchange rate that had been observed at the beginning of the year. By the third quarter of the 2006 fiscal year, a degree of stability had been achieved in terms of the exchange rate, which even appreciated in real terms.

However, there is concern surrounding the banking system’s arrears rate (nonperforming or delinquent loans as a percentage of the loan portfolio), which soared to 14.1% compared with 8.5% at the end of the previous fiscal year.

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

The increased availability of dollars in the economy has enabled BRH to build up reserves in excess of US\$ 200 million (including foreign exchange deposits of commercial banks). The Bank’s purchases of foreign exchange (US\$ 42.3 million) contributed to this performance, which surpassed the targets agreed upon with IMF for the current fiscal year.

During the first nine months of the 2006 fiscal year, the average real exchange rate showed an appreciation of the gourde in a continuation of the trend observed during 2005 (real appreciation of 13%). This was the result of the increased inflow of foreign exchange into the economy.

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### **3. The main variables**

The standstill in per capita GDP (while overall GDP edged up by 1.8%), the chronic job creation deficit, the loss of purchasing power, international but mainly national volatility and a structural vulnerability based on the prevailing deep-seated inequality and inequity have hardly been conducive to getting the country back on track towards growth.

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

During 2005, low growth in agriculture (2.6%) and construction (3%) contributed to the small rise in GDP, and will probably once again be the main reasons for the predicted outcome for 2006 (2.5%). In the manufacturing

sector, the most noteworthy performer was the maquila-dominated textile industry, with a 3.6% expansion (almost twice the 1.7% rate for the sector as a whole) and positive growth for the third year in a row. The volume of maquila exports swelled by 33.5%. Other manufacturing activities either stagnated or grew only marginally.

Agriculture benefited from steady inflows of resources from commitments under the Haiti Interim Cooperation Framework (US\$ 30 million) and from the public purse. These resources were largely channelled towards recovering production supply and strengthening certain high-potential agricultural niches.

In terms of aggregate supply and demand, the year 2005 saw upward trends in imports (2.6%) and exports (3.4%).

Table 1  
HAITI: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	2.7	2.2	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8
<b>Per capita gross domestic product</b>	0.8	0.3	0.8	-1.0	-2.8	-2.1	-1.4	-5.2	0.0
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-1.5	-0.2	-2.8	-3.6	0.9	-3.7	0.2	-4.8	2.6
Mining	10.2	9.5	6.8	6.1	-4.9	2.2	0.7	-5.0	4.5
Manufacturing	0.3	0.3	-3.0	-0.5	0.1	1.6	0.4	-2.5	1.6
Electricity, gas and water	5.3	-2.8	-3.6	-9.2	-27.1	2.0	3.3	11.1	7.1
Construction	9.1	11.2	10.4	8.3	0.7	1.0	1.9	-2.7	3.0
Wholesale and retail commerce, restaurants and hotels	5.8	3.1	4.0	4.5	0.4	2.9	0.6	-6.4	1.4
Transport, storage and communications	7.2	7.1	17.0	12.5	2.2	-0.2	1.6	0.8	3.2
Financial institutions, insurance, real estate and business services	6.8	5.9	3.2	4.4	-0.7	-1.5	0.2	-0.8	1.3
Community, social and personal services	1.2	1.3	-0.1	-1.6	-2.6	1.1	-1.4	-3.2	1.6
<b>Gross domestic product, by type of expenditure</b>									
Consumption	3.0	3.1	8.4	14.8	-1.6	-1.2	0.9	-3.7	2.2
General government	-0.1	1.1	0.2	1.3	...	...	...	...	...
Private	3.4	3.4	9.4	16.3	8.1	-1.2	0.9	-3.7	2.2
Gross domestic investment	7.6	-3.2	24.0	18.3	-1.2	2.6	3.1	-3.2	1.4
Exports (goods and services)	14.2	23.3	16.5	6.3	-2.2	-2.1	7.1	9.8	3.4
Imports (goods and services)	7.2	6.6	22.7	29.3	-2.1	-1.2	3.2	-1.1	2.6
	<b>Percentages of GDP</b>								
<b>Investment and saving<sup>c</sup></b>									
Gross domestic investment	24.5	26.0	27.7	27.3	25.9	25.1	30.7	27.3	27.4
National saving	23.1	25.0	26.3	24.3	22.0	22.3	29.1	25.8	29.0
External saving	1.5	1.0	1.4	3.0	3.8	2.8	1.6	1.5	-1.6
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-48	-38	-59	-111	-134	-89	-45	-56	67
Merchandise trade balance	-354	-341	-677	-755	-750	-706	-783	-833	-850
Exports, f.o.b.	205	299	341	332	305	274	333	378	459
Imports, f.o.b.	560	641	1 018	1 087	1 055	980	1 116	1 210	1 308
Services trade balance	-158	-201	-43	-108	-124	-123	-166	-203	-185
Income balance	-14	-12	-13	-9	-9	-14	-14	-12	-37
Net current transfers	478	516	674	761	750	754	918	993	1 138
Capital and financial balance <sup>d</sup>	78	73	80	64	131	8	37	91	-16
Net foreign direct investment	4	11	30	13	4	6	14	6	10
Financial capital <sup>e</sup>	74	62	50	51	127	3	23	85	-26
Overall balance	30	34	21	-47	-2	-81	-8	35	51
Variation in reserve assets <sup>f</sup>	-51	-29	-34	57	-5	49	25	-50	-22
Other financing <sup>g</sup>	21	-5	12	-10	7	32	-17	15	-29
<b>Other external-sector indicators</b>									
Terms of trade for goods (index: 2000=100)	101.4	107.6	104.2	100.0	101.2	100.2	98.7	96.0	92.4
Net resource transfer (percentage of GDP)	2.6	1.5	2.0	1.2	3.7	0.8	0.2	2.6	-2.0
Gross external public debt (millions of dollars)	1 025	1 104	1 162	1 170	1 189	1 212	1 287	1 316	1 335
Gross external public debt (percentage of GDP)	31.6	29.4	28.4	31.9	33.9	37.7	45.5	36.0	32.1
Net profits and interest (percentage of exports) <sup>h</sup>	-3.6	-2.4	-2.4	-1.8	-2.1	-3.2	-3.0	-2.3	-6.1
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	15.7	7.4	9.7	19.0	8.1	14.8	40.4	20.2	14.8
Variation in nominal exchange rate (December-December)	12.0	-2.6	9.4	27.5	14.4	42.2	15.4	-16.5	17.6
Variation in real minimum wage	-13.9	-11.3	-7.9	-11.9	-11.6	-8.9	33.5	-14.7	-13.2
Nominal deposit rate <sup>i</sup>	10.8	13.1	7.4	11.8	13.6	8.2	14.0	10.9	3.5
Nominal lending rate <sup>j</sup>	21.5	23.5	22.9	25.1	28.6	25.5	30.7	34.1	27.1
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income <sup>k</sup>	10.1	9.6	9.2	8.2	7.8	8.3	9.1	8.9	10.9
Current income	8.9	8.5	9.1	8.0	7.4	8.2	8.9	8.9	9.7
Tax revenue	8.7	8.3	8.8	7.9	7.4	8.2	8.9	8.9	9.7
Total expenditure	10.7	10.8	11.4	10.5	10.0	11.0	12.0	12.2	11.5
Current expenditure	9.4	8.8	9.3	8.1	8.2	9.0	9.2	9.6	10.2
Interest	0.7	0.7	0.8	0.5	0.3	0.1	0.2	0.7	1.0

Table 1 (concluded)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
Capital expenditure	1.3	2.0	2.1	2.4	1.8	2.0	2.7	2.6	1.2
Primary balance	0.1	-0.5	-1.4	-1.8	-1.9	-2.6	-2.7	-2.7	0.4
Overall balance	-0.6	-1.2	-2.2	-2.3	-2.2	-2.7	-2.9	-3.3	-0.5
Central government debt									
Domestic	40.0	36.6	38.6	43.8	46.2	60.2	57.5	46.7	40.8
External	12.0	11.1	12.1	13.6	14.8	17.4	17.2	14.8	13.1
External	28.0	25.5	26.5	30.2	31.5	42.7	40.4	31.8	27.7
<b>Money and credit<sup>l</sup></b>									
Domestic credit <sup>m</sup>	23.8	23.4	24.1	26.6	28.0	30.0	31.0	29.6	26.6
To the public sector	10.1	9.0	9.9	11.5	13.4	14.9	15.0	14.6	12.4
To the private sector	13.7	14.4	14.2	15.2	14.7	15.2	15.9	15.1	14.2
Liquidity (M3)	...	29.7	30.8	34.8	36.1	37.8	41.2	40.9	38.7
Currency in circulation and local-currency deposits (M2)	...	22.8	22.9	24.0	24.2	24.4	24.6	24.4	22.6
Foreign-currency deposits	...	7.0	7.9	10.7	11.9	13.3	16.6	16.5	16.0

**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 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> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>i</sup> Average of highest and lowest rates on time deposits, commercial banks. <sup>j</sup> Average of highest and lowest lending rates, commercial banks. <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 the monetary authority and deposit banks.

Within the latter, particularly impressive performances were turned in by maquila exports (33%) and mangos (15%). During the first half of 2006, however, mango exports to the United States suffered a major decline in real terms (-69%). As for imports, rice soared during 2005 and 2006, with an increase of 18% in value and 59% in volume terms. Investment growth (1.4%) was less than expected due to delayed disbursements of external resources for public works. The 2.2% rise in consumption was not enough to improve per capita consumption, which remained stagnant (0.4%).

### (b) Prices, wages and employment

In 2005, the hike in international petroleum prices pushed up hydrocarbon import prices by 44%, which in turn had a strong impact on various links in the price chain including transport (22%). In March 2006, price increases slowed, with hydrocarbon prices up by 18%, leading to an 11.3% rise in transport prices. The cost of the basic basket of foodstuffs, on the other hand, continued to grow (16.7%) at almost the same rate as the previous year (18%). In April 2006, annualized inflation was higher for imported basic foodstuffs (21.6%) than for those of national origin (15.2%).

Household purchasing power suffered as the real minimum wage retreated 13% in 2005 and 10% in 2006. Meanwhile, few jobs were created, and they were temporary, unskilled and poorly paid, to boot. This was a far cry from the expectations announced in the transitional government's programmes.

### (c) The external sector

In 2005, the balance of payments posted a current account surplus of US\$ 67 million, or 1.5% of GDP. Net inflows of remittances (US\$ 925 million) and donations (US\$ 212 million) successfully offset the US\$ 1.034 billion trade deficit, which was largely caused by worsening terms of trade (-10.3%). Forecasts for 2006 predict a similar pattern, resulting from two major constraints: the continuing rise in international hydrocarbon prices, and problems with availability of external resources. Unlike in 2005, the capital account is nonetheless expected to reflect a net income of resources.

The main agricultural export products — mangos, essential oils, cocoa and coffee — accounted for only 15% of overall exports, totalling US\$ 217 million (for the maquila industry, only value added is counted). Maquila products remain the largest category of exports, representing US\$ 155 million, 71% of the total. Coffee exports declined despite favourable international prices, while export volumes rose for mangos (15%) and essential oils (27%).

In the first half of 2006, there was a considerable reversal of the strong performance of the three main products, as mangos slumped by 70%, essential oils by 24% and cocoa by 16%.

Besides hydrocarbons (which make up 19% of the total), imports were concentrated on rice, wheat, chicken and dairy products, a subset that represents 40% of food imports and 10% of total imports. During the first six

Table 2  
**HAITI: MAIN QUARTERLY INDICATORS**

	2004				2005 <sup>a</sup>				2006 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II
Merchandise exports, f.o.b. (millions of dollars)	76	100	107	110	104	129	119	...	...	...
Merchandise imports, c.i.f. (millions of dollars)	247	359	361	339	340	345	360	...	...	...
Consumer prices (12-month percentage variation)	20.8	24.1	22.5	20.2	17.2	13.4	14.2	14.8	16.6	14.1 <sup>b</sup>
Average nominal exchange rate (gourdes per dollar)	42.66	37.28	36.30	35.90	36.32	38.20	41.43	42.16	42.20	39.43
Nominal interest rates (annualized percentages)										
Deposit rate <sup>c</sup>	15.3	13.0	9.3	5.9	3.0	2.5	3.6	4.8	6.0	5.3
Lending rate <sup>d</sup>	33.0	36.5	33.8	33.0	31.8	27.5	24.1	25.0	24.8	31.0
Domestic credit (variation from same quarter of preceding year) <sup>e</sup>	15.8	8.4	11.8	1.3	2.6	11.4	10.9	14.9	10.4	...
Non-performing loans as a percentage of total credit <sup>f</sup>	7.5	...	...	...	10.3	9.6	12.4	12.2	...	...

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

<sup>a</sup> Preliminary figures. <sup>b</sup> Data to May. <sup>c</sup> Average of highest and lowest rates on time deposits, commercial banks. <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.

months of the 2006 fiscal year, wheat prices increased by 8%, chicken by 18% and dairy products by 36%.

The balance-of-payments financial account recorded net outflows of US\$ 18 million, largely due to the US\$ 70 million capital flight from the private banking system. Disbursements resulting from external debt (US\$ 98.1 million) were similar to payments for services (US\$ 101.2 million). Expectations of greater foreign investment were not generally fulfilled except in telecommunications, where a new mobile telephone company began operating in May 2006, competing directly with the two existing enterprises.

With the return to political normality, expectations for the rest of fiscal 2006 should largely reverse the situation that prevailed in 2005. Most multilateral and bilateral

financial institutions have expressed their commitment to provide increased resources.

IDB agreed to new loans totalling US\$ 540 million over the next three years, US\$ 140 million of which are part of new ICF commitments from July 2006 onwards. The many donors showing their commitment to helping the new government deal with future challenges include the European Commission (20 million euros), the World Bank (US\$ 20 million), Canada (US\$ 48 million) and the United States Agency for International Development (USAID) (US\$ 40 million). These signals, while positive, will require the implementation in the medium term of additional measures such as debt relief schemes under the HIPC initiative and creditor programmes to grant forgiveness for more of Haiti's external debt.



## Jamaica

### 1. General trends

Jamaica maintained modest growth (1.4% in 2005, compared with 0.9% in 2004 and) due to the negative impact that rising international petroleum prices and natural disasters have had on production. Growth was led by buoyant tourism, construction and mining sectors, while manufacturing and agriculture contracted.

This sluggish economic growth —coupled with the fall in government income in the wake of hurricanes and the partial implementation of a tax reform package— caused a reduction in the tax burden that prevented the government from balancing its fiscal accounts. Nevertheless, efforts to control expenditure enabled the government to reduce its overall fiscal deficit from 4.8% of GDP in 2004 to 3.3% in 2005.<sup>1</sup>

This performance is partly attributable to the reduction of interest rates resulting from the stance taken by the monetary authorities during the first half of the year. In the second half of the year, a rise in inflation expectations forced the authorities to act with greater caution in order to maintain the stability of prices and the exchange rate.

The overall result of the balance of payments was positive, which swelled the stock of international reserves. The current account deficit, which widened owing to

rising petroleum prices and decreased earnings for certain traditional export products, was amply offset by the surplus in the capital and financial account. The surplus is attributable partly to increased inflows of foreign direct investment in the tourism and mining sectors, and partly to the rise in official flows resulting from the placement of Eurobonds on the international market.

The forecast for 2006 is 2.8% growth on the back of a rebounding agricultural sector, the continued dynamism of mining and tourism and 9% inflation. The government intends to continue focusing its efforts on reducing the fiscal deficit and the public debt, the latter being one of the main obstacles to Jamaica's medium- and long-term development. The fiscal objectives are based on expectations of stronger growth, a favourable international climate, an expansionary monetary policy and the renewal of the Memorandum of Understanding between the government and the Confederation of Trade Unions.

### 2. Economic policy

In 2005, economic policy was centered on the reduction of the public debt. This entailed adopting an expansionary monetary policy (which was called into question because it triggered a rise in inflation) and containing the expansion of the public wage bill.

#### (a) Fiscal policy

The government reduced the fiscal deficit with rigorous public spending control (33% of GDP in 2005, compared with 36% in 2004), the effects of which were

<sup>1</sup> The fiscal year runs from April 1 to March 31 of the following year.

Table 1  
**JAMAICA: MAIN ECONOMIC INDICATORS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	-1.0	-1.2	1.0	0.7	1.5	1.1	2.3	0.9	1.4
<b>Per capita gross domestic product</b>	-1.8	-2.0	0.2	0.0	0.9	0.6	1.8	0.5	1.0
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-13.3	-2.4	2.1	-12.5	6.3	-7.0	4.8	-8.9	-7.3
Mining	4.3	1.8	0.1	-1.0	2.6	3.3	4.9	2.6	2.8
Manufacturing	-2.6	-4.8	-1.9	0.6	0.8	-0.9	-0.9	3.0	-1.0
Electricity, gas and water	6.6	6.3	4.6	2.2	0.7	4.6	4.7	-0.1	4.1
Construction	-2.7	-6.6	-1.5	0.7	2.3	2.6	1.5	5.0	7.0
Wholesale and retail commerce, restaurants and hotels <sup>c</sup>	0.8	-1.3	-0.5	1.2	0.0	0.1	1.0	1.3	1.1
Transport, storage and communications	6.3	6.4	6.8	6.5	5.1	6.2	3.6	0.9	1.2
Financial institutions, insurance, real estate and business services	-8.3	-3.6	3.6	1.9	-4.8	4.0	3.3	0.3	1.0
Community, social and personal services <sup>c</sup>	0.5	1.0	0.7	1.5	-0.2	0.5	2.3	2.0	1.6
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-332	-334	-216	-367	-759	-1 074	-773	-509	-975
Merchandise trade balance	-1 132	-1 131	-1 187	-1 442	-1 618	-1 871	-1 943	-1 945	-2 587
Exports, f.o.b.	1 700	1 613	1 499	1 563	1 454	1 309	1 386	1 602	1 659
Imports, f.o.b.	2 833	2 744	2 686	3 004	3 073	3 180	3 328	3 546	4 246
Services trade balance	467	477	655	603	383	315	552	572	670
Income balance	-292	-308	-333	-350	-438	-605	-571	-583	-637
Net current transfers	625	628	647	821	914	1 087	1 189	1 446	1 580
Capital and financial balance <sup>d</sup>	162	378	80	886	1 624	832	342	1 203	1 203
Net foreign direct investment	147	287	429	394	525	407	604	542	602
Financial capital <sup>e</sup>	15	91	-349	492	1 099	425	-263	661	601
Overall balance	-170	44	-136	518	865	-242	-432	694	229
Variation in reserve assets <sup>f</sup>	205	-27	155	-499	-847	261	448	-686	-229
Other financing <sup>g</sup>	-35	-17	-19	-19	-18	-19	-16	-8	0
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>h</sup>	100.7	96.0	97.7	100.0	101.6	101.1	115.9	114.3	105.6
Gross external public debt (millions of dollars)	3 278	3 306	3 024	3 375	4 146	4 348	4 192	5 120	5 376
Gross external public debt (percentage of GDP)	44.0	42.7	39.1	42.8	51.1	51.3	51.2	58.0	53.0
Net profits and interest (percentage of exports) <sup>i</sup>	-8.6	-9.1	-9.6	-9.8	-13.1	-18.8	-16.2	-14.9	-15.6
	<b>Average annual rates</b>								
<b>Employment</b>									
Labour force participation rate <sup>j</sup>	66.6	65.6	64.5	63.3	63.0	63.6	64.4	64.3	63.9
Unemployment rate <sup>k</sup>	16.5	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	9.2	7.9	6.8	6.1	8.7	7.3	14.1	13.7	12.9
Variation in nominal exchange rate (December-December)	3.6	2.6	10.7	10.2	4.3	6.0	20.7	2.0	4.5
Nominal deposit rate <sup>l</sup>	14.5	12.9	11.8	10.5	9.4	9.1	8.3	6.7	5.9
Nominal lending rate <sup>l</sup>	46.3	42.1	36.8	32.9	29.4	26.1	25.1	25.1	23.2
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income <sup>m</sup>	24.8	25.8	29.2	29.1	27.0	28.0	30.3	31.1	29.4
Current income	24.4	25.3	27.0	28.1	25.7	26.2	28.7	29.3	27.9
Tax revenue	22.2	23.3	24.4	25.1	23.8	24.6	26.5	27.0	25.6
Capital income	0.2	0.2	1.9	0.5	0.7	1.6	1.4	1.0	1.3
Total expenditure <sup>n</sup>	32.3	32.5	33.3	30.0	32.6	35.7	36.1	35.9	32.7
Current expenditure	27.0	29.5	30.0	27.6	29.9	33.8	35.0	33.9	30.3
Interest	9.2	12.0	13.4	12.4	13.4	14.9	17.8	16.7	13.9
Capital expenditure	4.9	2.6	2.9	2.7	2.7	1.9	1.1	2.0	2.4
Primary balance	1.7	5.4	9.4	11.5	7.8	7.2	12.0	11.9	10.6
Overall balance	-7.5	-6.7	-4.0	-0.9	-5.6	-7.6	-5.8	-4.8	-3.3
Public-sector external debt	48.2	45.8	41.9	46.1	54.8	55.4	58.3	63.8	55.4
<b>Money and credit<sup>o</sup></b>									
Domestic credit <sup>p</sup>	...	...	42.3	40.1	41.6	40.2	43.4	43.3	40.6
To the public sector	...	...	33.9	33.4	35.1	31.9	32.4	29.6	25.8
To the private sector	...	...	10.4	8.6	8.7	10.2	13.0	15.2	15.6
Other	...	...	-1.9	-1.9	-2.2	-1.9	-2.0	-1.5	-0.9
Liquidity (M3)	...	...	39.5	39.6	39.3	39.6	38.3	39.1	34.6
Currency in circulation and local-currency deposits (M2)	...	...	30.7	30.1	29.5	28.9	26.0	25.8	22.8
Foreign-currency deposits	...	...	8.9	9.6	9.8	10.6	12.4	13.3	11.8

**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> Annual average, weighted by the value of merchandise exports and imports. <sup>i</sup> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <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> Average rates. <sup>m</sup> Includes grants. <sup>n</sup> Includes statistical discrepancy. <sup>o</sup> The monetary figures are annual averages. <sup>p</sup> Refers to net credit extended to the public and private sectors by commercial banks and other



partially neutralized by the reduction of the tax effort from 27% of GDP in 2004 to 25.6% in 2005. The deficit was financed through two Eurobond issues amounting to US\$ 550 million: one with maturities of 10 years and a rate of return of 9%, and the other with a 20-year maturity and a 9.2% rate of return.

The performance of tax revenues is attributable to various factors. First, inflows were interrupted by external shocks (in particular natural disasters), and this had a negative effect on tax receipts.

Second, the authorities were unable to put into effect all the tax measures contemplated in the Report of the Tax Policy Review Committee (November 2004). Also, modifications were made to the proposed measures, delaying their implementation. The measures included increases in the income tax threshold, the general consumption tax (from 15% to 16.5%), taxation on the tourism sector and the special consumption tax, plus a reduction in the corporate income tax.

Third, the decrease in interest payments and wage payments and the increase in the income tax threshold diminished receipts for taxes on interest and pensions. Lastly, revenues from the special consumption tax dropped owing to the closure of Jamaica's only cigarette factory.

The total expenditure result was attributable to the contraction of current expenditure, since capital expenditure increased due to reconstruction efforts aimed at alleviating the destructive effects of recent natural disasters.

Current expenditure reflected falling interest and wage payments. In the case of wages, this was primarily due to compliance with the Memorandum of Understanding between the government and the unions, which seeks to freeze the wage bill. Lower interest payments were the result of the expansionary monetary policy.

The government's fiscal efforts, coupled with a strategy aimed at financing its fiscal deficit through fixed-rate bonds with longer maturity periods, helped to reduce the public debt balance from 143% of GDP in 2004 to 133% in 2005.

For 2006, the government predicts a fiscal deficit of 2% of GDP. The government and unions are considering

a new wage agreement that includes a wage bill increase of between 13% and 26%.

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

In the first half of the year, favourable external conditions enabled the Bank of Jamaica to increase its stock of net international reserves and adopt an expansionary monetary stance, lowering interest rates on its main instruments. Returns on reverse repo bonds fell three times in a row during the year, with a total reduction of 120 basis points for 30-day bonds 190 basis points for 365-day bonds.

The Bank of Jamaica operated with greater caution in the second half of the year. During this period, natural disasters and high petroleum prices put pressure on financial and goods markets. Expectations of lower yields prompted investors to avoid potential capital losses by seeking refuge in instruments indexed to inflation.

The Bank of Jamaica abstained from reducing interest rates and intervened in the exchange market to curb the excess demand for foreign exchange. It also mopped up some of the domestic liquidity by means of sterilization operations. The consequent reduction in net foreign and domestic assets resulted in a reduction of the monetary base.

Between February and December, the weighted average rate of return on treasury bonds dropped from 13.83% to 13.34% for three-month bonds and from 14.4% to 13.55% for six-month bonds. The weighted commercial bank lending rate fell from 5.3% to 4.9% in real terms.

The drop in the interest rates of commercial banks resulted in a rise in demand for credit (from 0.5% in 2004 to 3.2% in 2005). Demand for loans was driven primarily by tourism (23%), construction (6%), and transport and communications (5%).

The nominal exchange rate depreciated by 4% between December 2004 and December 2005, in line with the downward trend in interest rates, which was in turn counteracted by central bank interventions in the foreign-exchange market.

### 3. The main variables

#### (a) Economic activity

The growth rate of the economy rose slightly. Mining, construction and tourism were the most dynamic sectors, while agriculture and manufacturing turned in sluggish performances.

Agriculture contracted by 8.9% in 2004 and 7.3% in 2005, owing primarily to adverse climate conditions and, to a lesser extent, rising production costs. The sector is expected to rebound in 2006 by 3% as it recovers from the destructive effects of natural disasters.

The poor performance of manufacturing (down 1% in 2005, compared with an increase of 3% in 2004) is attributable to the closure of the Petrojam petroleum refinery, the effects of flooding and rising production costs resulting from high international petroleum prices. A decline of 1.3% is expected for 2006 as a result of rising petroleum prices, an unstable industrial climate, the closing of the only cigarette factory in the country and a diminishing supply of cement.

In the mining sector (up 2.6% in 2004 and 2.8% in 2005), the positive effect of the expansion in bauxite production (6.2%) was partially offset by the slower growth in alumina production (1.6%). Bauxite benefited from an increase in production capacity, while alumina production suffered from the destruction caused by natural disasters and labour unrest. In 2006, the sector is expected to expand by 4.7%.

Expansion in the construction sector (up 5% in 2004 and 7% in 2005) was fuelled by reconstruction activities, robust tourism and increased public spending on infrastructure. The current economic growth rate for the sector is expected to carry over into 2006 despite constraints affecting the cement industry.

Growth in the tourism sector (up 4.6% in 2004 and 3.4% in 2005) slowed due to cooling external demand and the effects of natural disasters. Natural disasters in other countries, however, had the positive effect of directing tourism toward destinations located in Jamaica.

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

Inflation fell slightly, but remained in double digits (13.7% in 2004 and 12.9% in 2005). Price patterns responded partly to external shocks such as rising international fuel prices, increased food prices and the effects of natural disasters. They were also attributable to the rise in controlled prices, including increases in

the minimum wage, the rates for general and special consumption taxes and public transport fares.

A breakdown of the consumer price index (CPI) reveals that the categories posting the most significant increases were food and beverages and transport, which represented 59% and 13% of total price movements respectively.

In 2005, wages climbed in both the public and private sectors. The minimum wage rose by 20% in January of that year, and an amendment to the Memorandum of Understanding between the government and unions was also approved. The amendment includes the payment of a temporary allowance (from 19 September 2005 to 31 March 2006) to compensate government employees for lost purchasing power. Wages in the private sector increased by 11% on average.

The unemployment rate fell relative to the previous year (from 11.7% in 2004 to 11.3% in 2005). This pattern reflected reductions in male and female unemployment rates (the former falling from 7.9% in 2004 to 7.6% in 2005, and the latter from 16.4% in 2004 to 15.8% in 2005).

Projections for 2006 suggest a return to single-digit inflation. This prediction is based on the standardization of agriculture prices and the adoption of a prudent monetary policy. The possibility of future hikes in international petroleum prices and the wage increases being contemplated in the Memorandum of Understanding may jeopardize this goal.

#### (c) The external sector

The global balance registered a positive result, as the widening of the current account deficit (from 6% of GDP in 2004 to 10% in 2005) was amply offset by the surplus in the capital and financial account. Consequently, net international reserves expanded (from 21.1% of GDP in 2004 to 21.5% in 2005).

The performance of the current account is due mainly to the widening of the deficits on the trade balance and the income account.

The trade balance result (-US\$ 1.945 billion in 2004 and -US\$ 2.587 billion in 2005) reflected expanding imports of petroleum, chemicals and agricultural commodities resulting from the rise in the prices of these products on international markets. Exports expanded only slightly, as the increase in external sales of bauxite and alumina (23% and 13%, respectively) was partially offset by the contraction in sugar and bananas (down 22% and 63%, respectively).

The balance of services figure (US\$ 572 million in 2004 and US\$ 670 million in 2005) was primarily due to the rise in the number of tourists (1.3% and 4% in 2004 and 2005, respectively). The number of long-stay visitors grew by 4.5%, while the number of cruise ship passengers grew by 3%. Factors contributing to this performance included the increased capacity of air transport, rising hotel capacity, marketing efforts by the authorities and the redirecting of visitors toward Jamaica in the face of natural disasters that struck other tourist destinations.

The negative income balance result (-US\$ 583 million and -US\$ 637 million in 2004 and 2005,

respectively) reflect increased debt-servicing payments (US\$ 66 million) and profit repatriation outflows. Current transfers (US\$ 1.446 billion and US\$ 1.580 billion in 2004 and 2005, respectively) reflected remittances to the private sector.

The surplus on the capital and financial account (US\$ 1.203 billion in 2004 and 2005) was due to official capital inflows from international markets (resulting from the placement of Eurobonds valued at US\$ 550 million), operations to finance Air Jamaica and inflows of private capital to the tourism and mining sectors (US\$ 479 million and US\$ 923 million in 2004 and 2005, respectively).



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## Suriname

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### 1. General trends

The indicators show a good level of macroeconomic stability in Suriname. GDP looks set to continue its rapid growth, driven by high commodity export prices and rising foreign direct investment in mining.<sup>1</sup> President Venetiaan was re-elected in August 2005 for a second consecutive five-year term, and the new Government's objectives are to strengthen economic strategy, reform the public sector and pave the way for poverty reduction.

The new administration is off to a slow start. By law, the Multiannual Development Plan must be approved by the National Assembly before the first annual budget may be submitted. The plan was sent to the Assembly in June 2006, so the Government is operating on an extended 2005 budget. Meanwhile, the country is enjoying a degree of fiscal and monetary stability,

thanks to a conservative approach to spending and increased revenues.

Heavy rainfall in May 2006 caused rivers in the south to burst their banks. This natural disaster, unusual in Suriname, reflected the lack of development in the interior of the country and the plight of indigenous and Maroon communities.

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### 2. Economic policy

The most complex issue facing the new Government relates to the size, functions and efficiency of the public sector. A draft of the five-year plan dated March 2006 acknowledges that 40% of the economically active population is employed by the State and that the efficiency of public services is unsatisfactory. Social subsidies and transfers weigh heavily on the budget but fail to target the most vulnerable groups. Lastly, the existence of many of the State-owned corporations (which number more than 100) has been called into question. Three Inter-American Development Bank projects are under way to address public-sector reform.

In the field of economic policy, the private sector should promote growth and job creation. The Caribbean Single Market and Economy (CSME) took effect on 1 January 2006, but the private sector is showing little interest. A new investment law has been adopted, in order to harmonize conditions within CARICOM and improve the investment climate.

The Suriname Debt Management Office (SDMO), which began operating in 2004, has improved the transparency of information on public debt, and this has strengthened the country's position in international credit ratings. Preparations are under way for negotiations on arrears on certain bilateral loans, which have been detrimental to the country's access conditions for entering international capital markets.

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<sup>1</sup> GDP data are released in July each year. The National Planning Office projects 5.7% GDP growth for 2005 and 6.4% for 2006. IMF forecasts 5% and 4.5%, respectively.

Table 1  
**SURINAME: MAIN ECONOMIC INDICATORS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	2.2	3.1	-2.4	4.0	5.9	1.9	6.1	7.7	5.7
<b>Per capita gross domestic product</b>	1.3	2.1	-3.3	3.0	5.1	1.2	5.4	7.0	5.0
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-2.8	-6.4	4.4	5.9	11.4	-3.9	4.3	1.5	...
Mining	12.2	6.5	5.5	-8.8	25.0	-8.6	0.0	31.2	...
Manufacturing	0.2	2.1	-9.0	58.8	13.3	-3.6	5.6	9.5	...
Electricity, gas and water	3.3	7.1	-5.6	-7.7	2.1	10.3	-1.7	9.2	...
Construction	-20.6	16.6	-14.8	-11.8	4.5	0.6	17.0	10.1	...
Wholesale and retail commerce, restaurants and hotels	11.2	2.2	-5.6	-15.7	-14.5	8.4	32.2	6.0	...
Transport, storage and communications	6.7	5.6	1.8	25.0	28.7	12.6	-0.4	14.0	...
Financial institutions, insurance, real estate and business services	-1.6	1.8	-1.7	2.9	0.2	5.4	3.5	1.6	...
Community, social and personal services	0.3	3.1	0.0	2.0	2.0	1.1	0.2	1.3	...
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-68	-155	-29	-34	-116	-60	-141	-59	-144
Merchandise trade balance	36	-27	44	13	16	52	-30	167	22
Exports, f.o.b.	402	350	342	514	449	529	639	871	1 212
Imports, f.o.b.	366	377	298	501	434	477	669	703	1 189
Services trade balance	-102	-125	-72	-115	-115	-128	-133	-130	-148
Income balance	-3	-1	0	-2	-80	-44	-49	-161	-40
Net current transfers	1	-2	-2	69	63	59	71	64	22
Capital and financial balance <sup>c</sup>	87	163	25	33	203	62	140	90	163
Net foreign direct investment	-9	9	-62	-148	-27	-74	-76	-37	-37
Financial capital <sup>d</sup>	96	154	86	181	230	136	216	128	200
Overall balance	19	8	-4	-1	87	2	-1	32	19
Variation in reserve assets <sup>e</sup>	-19	-8	4	1	-87	-2	1	-32	-19
<b>Other external-sector indicators</b>									
Net resource transfer (percentage of GDP)	10.9	17.3	3.3	4.0	18.5	1.9	8.1	-5.5	8.3
Gross external public debt (millions of dollars)	...	...	...	291	349	371	382	383	382
Gross external public debt (percentage of GDP)	...	...	...	37.6	52.5	38.9	34.1	29.8	25.8
Net profits and interest (percentage of exports) <sup>i</sup>	-0.5	-0.1	0.1	-0.2	-15.7	-7.7	-7.0	-15.9	-2.9
	<b>Average annual rates</b>								
<b>Employment</b>									
Unemployment rate <sup>f</sup>	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)	17.4	22.9	112.9	76.1	4.9	28.4	14.0	9.3	15.8
Variation in nominal exchange rate (December-December)	0.0	0.0	146.3	120.6	0.0	15.4	4.4	3.5	0.8
Nominal deposit rate <sup>g</sup>	...	16.0	15.6	15.5	11.9	9.0	8.3	8.3	8.0
Nominal lending rate <sup>h</sup>	...	27.1	27.4	29.0	25.7	22.2	21.0	20.4	18.1
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income	...	...	...	...	37.1	26.6	27.2	27.7	28.1
Current income	...	...	...	...	34.1	25.5	25.9	26.3	27.2
Tax revenue	...	...	...	...	29.7	21.0	21.7	21.6	22.1
Capital income	...	...	...	...	13.9	9.1	9.2	10.3	11.4
Total expenditure	...	...	...	...	36.7	31.0	26.5	28.5	30.2
Current expenditure	...	...	...	...	31.0	28.0	23.6	24.7	26.2
Interest	...	...	...	...	2.0	2.3	2.0	1.7	1.8
Capital expenditure	...	...	...	...	5.0	2.9	2.6	3.8	4.0
Primary balance	...	...	...	...	2.3	-2.1	2.6	0.8	-0.3
Overall balance	...	...	...	...	0.4	-4.4	0.7	-0.8	-2.1
Public sector debt	...	...	...	...	55.3	48.7	42.5	41.5	38.9
Domestic	...	...	...	...	7.8	13.9	12.1	15.2	15.6
External	...	...	...	...	47.5	34.9	30.3	26.3	23.3
<b>Money and credit</b>									
Domestic credit	18.5	24.2	26.5	25.2	22.9	19.8	24.3	24.5	26.3
To the public sector <sup>i</sup>	1.0	5.3	11.7	15.7	15.6	8.1	9.5	8.3	8.4
To the private sector	17.6	18.9	14.7	9.4	7.2	11.6	14.7	15.9	17.8
Other	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.3	0.2
M1	...	...	...	22.8	19.0	17.6	15.9	14.9	15.3
M2	...	...	...	36.9	30.7	25.6	23.1	21.5	22.5

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

<sup>a</sup> Preliminary figures. <sup>b</sup> 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> Deposit rate published by IMF. <sup>h</sup> Lending rate published by IMF. <sup>i</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

**(a) Fiscal policy**

In 2005 the overall fiscal deficit widened by 1.3 percentage points to 2.1% of GDP.<sup>2</sup> Despite strict control of public-sector employment and wages, higher spending on goods and services more than offset the growth of tax receipts. The deficit was financed with an increased issue of treasury bonds.

The budget for 2006 anticipates a still higher deficit, but actual spending, particularly capital spending, usually falls well short of what is planned.

Fiscal revenue will continue to depend mainly on the prices of commodities such as bauxite, alumina, gold and oil. In 2005, the State Oil Company of Suriname (Staatsolie) contributed US\$ 80 million to the treasury, almost 17% of total revenue and about three times the previous year's amount.

Another factor in the vulnerability of fiscal revenues as of September 2005 was the fuel taxing mechanism. Fixed retail price for fuels were in place, and had not been revised since March 2003. Distribution margins were also fixed, and the difference between costs and the retail price accrued to the Government. This represented a positive contribution to the State, equivalent to 4% of GDP in 2003; by mid-2005, however, rising fuel costs meant that the Government was no longer receiving revenue from that tax, but paying a subsidy equivalent to 1% of GDP. In September 2005, the new Government was forced to double domestic fuel prices, and in December 2005 a new pricing and taxation mechanism came into effect.

In the area of fiscal policy, the five-year plan's main proposals on the revenue side relate to the creation of a Tax Authority and the introduction of value-added tax instead of the sales tax.

Fiscal expenditure rose by more than one percentage point of GDP owing to the strong increase (2.2 percentage points of GDP) in spending on goods and services, for which the authorities have offered no explanation. Expenditure on public-sector wages and social subsidies did not grow as fast as GDP; they have not been adjusted since late 2004, except for the introduction of an allowance to compensate for increased fuel prices.

The current-account fiscal balance is still positive, but less so than in previous years. The global deficit is due to increased capital spending and diminishing grants, and was financed by the issue of treasury bonds. The 2002 legislation on public debt established a ceiling of 15% of GDP for domestic public debt, but the actual ratio is higher (15.6% according to ECLAC estimates) and is trending

upwards. A revision of the ceiling is being considered. Since the external debt has practically not increased, total public debt as a percentage of GDP has been declining rapidly in recent years.

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

Monetary policy has been aimed at providing liquidity in response to the needs of the economy. In this context, the draft five-year plan provides for a maximum M2/GDP ratio of 25%. The ratio is currently lower but trending upward.

Monetary policy was expansionary in terms of the local-currency market, but not in foreign currency. The cash reserve requirement in local currency was lowered from 30% to 27%, and the part of that requirement that may be fulfilled with long-term mortgage loans for social housing was expanded from 7% to 8%. Consequently, domestic credit to the private sector increased by almost one percentage point of GDP. In foreign currency, however, reserve requirements were increased from 22.5% to 33.5%.

Treasury bonds have become an instrument of monetary policy. In early 2006, the interest rate on the bonds was reduced from 12.5% to 10%. The draft five-year plan proposes the establishment of an auction system for treasury bonds, to improve the functioning of the domestic capital market.

As for its exchange-rate policy, Suriname has moved closer to a fixed exchange-rate system. The authorities increased the exchange rate from 2.75 to 2.78 Surinamese dollars to the United States dollar, and imposed a "code of conduct" instructing exchange houses not to exceed a rate of SRD 2.80. This exchange-rate policy is intended to restore public confidence in the national currency and contain inflationary expectations.

**(c) Other policies**

The March 2006 draft of the five-year plan offers a gamut of policy proposals. Together with sectoral plans to channel and coordinate international aid, such as the "Vision 2020" project, a medium- and long-term development strategy is emerging based around the Millennium Development Goals.

In the energy sector, electricity prices do not cover the cost of production, so resources for investment and maintenance are scarce. A national energy advisory committee was established in January 2006 to review the pricing policy.

<sup>2</sup> The fiscal data are preliminary, and GDP figures are only projections.



The transport and communications sector has seen positive developments, mostly owing to intensifying regional and international integration. The Government has pledged to build roads in the interior of the country during the five-year planning period, as well as improving land transport linkages with South America. An integrated master plan for the development of waterways has also been announced.

In addition, an air transport authority will be set up

and the air travel sector will be further liberalized. As of 1 May 2006, the air route between Amsterdam and Paramaribo was opened up to competition.

Lastly, mining is another essential sector for the country's economic growth. A new draft mining law was submitted to the National Assembly, providing for increased taxation, shortened concession periods, and a reduction of maximum concession areas. A Minerals Institute will be established, to guide policy in the sector.

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### 3. The main variables

#### (a) Economic activity

The economy grew at a rate of 5.7% in 2005. A figure of about 6.4% is expected for 2006, depending on fluctuations in commodity export prices.

International prices for oil, gold and alumina continued their upward trend in 2005. The first half of 2006 should see increased exploration activities, greater demand for mining-related services and higher tax revenue.

Crude oil production at Staatsolie was 5.5% higher in 2005 than in 2004. Gold production at Cambior's Gross Rosebel mine was 25% higher and, in January 2005, the Suriname Aluminum Company (Suralco) boosted its capacity by 15% by expanding the alumina refinery in Paranam.

Service sectors showed considerable growth, boosted by the strong performance of the commodities sector. Projections from the National Planning Office show that after mining (15.4%), the sectors with the strongest growth were transport and communications (10.6%) and construction (10.3%). Basic services, hotels, restaurants and commerce also enjoyed above-average growth.

The agriculture, fisheries and manufacturing sectors averaged 3.4% growth. Prospects vary for these sectors: the rice industry is looking at a new organizational set-up based on commodity boards (productschappen), and solutions are being considered for the debts inherited from the former State company. Rice production was down 18% in the last four months of 2005, compared with the same period in 2004.

The privatization of the banana company is pending confirmation of new arrangements for accessing the European market. In the same four months, production was up 50% compared with the year-earlier period. The fisheries sector, which includes shrimp fisheries, has been going through a severe crisis (-9%), owing to high fuel

costs, obsolete equipment and inadequate organizational and regulatory structures.

The number of visitors to the country rose by 20% in the first seven months of 2005 compared with the same period in 2004, but the emerging ecotourism sector was hit by the floods that struck the country in May 2006.

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

Consumer prices were pushed upwards (15.8% in 2005, compared with 9.1% in 2004) by the fuel price rise of 1 September 2005. Nonetheless, inflation has fallen since November 2005.

Public-sector wages have not been adjusted since November 2004. Since January 2006, however, public servants have been receiving a bonus to compensate for rising fuel prices. The average gross labour cost per worker for large employers, including State bodies, was 18% higher from May to August 2005 than in the same period in 2004. Wages in the banking sector climbed steeply, and other upswings are reported in insurance companies and hotels and restaurants.

Little information is available on employment and unemployment. In his New Year speech, the President mentioned a figure of 8% for unemployment in 2005. Such a figure would be very close to the 8.4% rate recorded in 2004.

#### (c) The external sector

The current-account deficit (US\$ 144 million) was mostly due to the deficit in the services account (US\$ 148 million), made up of the deficit on the transport services account (US\$ 65 million) and on the other services account (US\$ 111 million), which relates to mining industry operations. The income account remained negative owing to the repatriation of mining-industry profits.

The balance of goods account posted a slight surplus. Merchandise exports exceeded US\$ 1.2 billion in 2005, whereas in the early 2000s they barely reached US\$ 500 million. The difference was due to rising commodity prices and the beginning of operations at the large-scale gold mine at Rosebel.

The import bill also doubled over the same period. On the one hand, the country's exports are very import-intensive and, on the other, imports were affected by rising oil prices because Suriname depends on a number

of types of imported fuel. Imports of consumer goods were also boosted by higher incomes.

The external debt has not risen in nominal terms since 2003. With three years of fast GDP growth, the debt/output ratio declined from 30% in 2002 to 25% in 2005. Arrears on the servicing of certain large bilateral loans have had a negative effect on the country's rating with international credit agencies. Net international reserves were up by US\$ 19 million, although import coverage remained below the two-month mark.



## Trinidad and Tobago

### 1. General trends

The economic growth rate in Trinidad and Tobago remained high, as in the previous year (6.5% and 7% in 2004 and 2005, respectively), helped by the strong performance of the energy sector. The upward trend in oil prices had a positive impact on construction, manufacturing, government revenue and external sales. Growth in 2006 is expected to be close to 10%.

The government increased its fiscal surplus (2.5% and 5.5% in 2004 and 2005, respectively) thanks to a marked increase in tax revenue from oil companies, and this helped to finance higher public spending. The fiscal surplus was used to create a petroleum stabilization fund to protect the economy from fluctuations in world oil prices.

Increased liquidity resulting from higher foreign exchange inflows, increased public expenditure and rising inflation (5.6% and 7.2% in 2004 and 2005, respectively)

led the authorities to adopt a contractionary policy. The central bank based its policy mainly on the discount rate, complementing it with open-market operations.

The overall balance of the external sector was positive (6% and 13.7% of GDP in 2004 and 2005, respectively), which boosted international reserves. The current-account surplus, strengthened by exports of oil and petroleum products, was accompanied by a downturn in the capital and financial account deficit.

### 2. Economic policy

#### (a) Fiscal policy

Central government showed a higher positive balance than in the previous year thanks to increased current income (29% and 35% of GDP in 2004 and 2005, respectively), which exceeded the rise in public spending (26% and 29% of GDP). The authorities prepared the Government spending budget on the basis of oil prices standing at US\$ 35 per barrel, considerably below the market price (US\$ 65 per barrel).

Increased State revenue was mostly due to the positive impact of rising oil prices. On the other hand, tax receipts from the non-energy sector stagnated, and this situation is expected to worsen as a result of the Government's tax reforms, which came into effect in 2006 and have led to significant cuts for most taxpayers.

Among other things, the reforms involve increased personal allowances and tax exemptions. A single rate of 25% was introduced for individuals' incomes, and the rate for legal persons was cut from 30% to 25%, except for petrochemical and energy companies, which will continue to be taxed at 33% and 55%, respectively. As of 1 January 2006, small and medium-sized enterprises may, in certain circumstances, benefit from a five-year tax exemption regime.

The growth of overall spending was mostly influenced by increases in transfers and subsidies (11% and 13% of GDP in 2004 and 2005, respectively) and capital expenditure (2.1% and 3.4%). Resources allocated to transfers and subsidies, amounting to half the total, were mostly spent on reforming State-owned corporations and improving their infrastructure. Other expenditure items

Table 1  
**TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	7.7	8.1	8.0	6.9	4.2	7.9	13.4	6.5	7.0
<b>Per capita gross domestic product</b>	7.2	7.7	7.7	6.5	3.8	7.6	13.0	6.2	6.7
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	13.1	-7.2	2.3	-2.4	8.7	8.7	-18.2	-21.1	-0.5
Mining <sup>c</sup>	0.9	8.9	21.6	12.5	5.6	13.5	31.3	7.9	10.9
Manufacturing	7.9	11.5	-7.2	6.0	9.8	3.8	4.2	9.5	8.6
Electricity, gas and water	10.0	6.7	0.3	5.5	4.1	8.7	2.7	4.4	5.3
Construction <sup>d</sup>	-0.7	14.2	6.0	7.6	10.3	-5.1	22.4	14.5	8.1
Wholesale and retail commerce, restaurants and hotels	17.7	7.4	8.7	5.4	-2.5	1.4	1.6	3.4	3.7
Transport, storage and communications	18.3	15.6	0.8	8.9	7.7	9.4	3.9	1.5	6.4
Financial institutions, insurance, real estate and business services	22.5	-0.4	11.7	12.4	0.8	11.5	7.3	9.7	0.5
Community, social and personal services	0.9	3.6	-3.3	-4.3	-0.4	4.3	0.6	1.7	1.1
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-614	-644	31	544	416	76	985	1 623	2 741
Merchandise trade balance	-529	-741	64	969	718	238	1 293	1 509	2 648
Exports, f.o.b.	2 448	2 258	2 816	4 290	4 304	3 920	5 205	6 403	8 373
Imports, f.o.b.	2 977	2 999	2 752	3 322	3 586	3 682	3 912	4 894	5 725
Services trade balance	292	416	329	166	204	264	314	512	596
Income balance	-381	-341	-400	-629	-539	-480	-681	-450	-554
Net current transfers	4	22	38	38	33	55	59	53	53
Capital and financial balance <sup>e</sup>	807	724	131	-103	86	39	-576	-889	-848
Net foreign direct investment	999	730	379	654	685	684	1 034	600	599
Financial capital <sup>f</sup>	-192	-6	-248	-757	-599	-645	-1 609	-1 489	-1 447
Overall balance	194	80	162	441	502	116	409	734	1 893
Variation in reserve assets <sup>g</sup>	-175	-76	-162	-441	-502	-116	-409	-734	-1 893
Other financing <sup>h</sup>	-18	-4	0	0	0	0	0	0	0
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>i</sup>	107.9	105.3	102.2	100.0	94.5	91.1	91.8	93.2	91.8
Net resource transfer (percentage of GDP)	6.8	6.0	-3.9	-9.0	-5.1	-4.9	-11.8	-11.0	-10.2
Gross external public debt (millions of dollars)	1 565	1 471	1 585	1 680	1 666	1 549	1 553	1 351	1 281
Gross external public debt (percentage of GDP)	26.1	23.3	23.3	20.6	18.9	17.2	14.5	11.1	9.3
Net profits and interest (percentage of exports) <sup>j</sup>	-12.7	-11.6	-11.7	-13.0	-11.1	-10.5	-11.6	-6.1	-6.0
	<b>Average annual rates</b>								
<b>Employment</b>									
Labour force participation rate <sup>k</sup>	...	...	60.8	61.2	60.7	60.9	61.6	63.0	63.7
Unemployment rate <sup>l</sup>	15.0	14.2	13.2	12.2	10.8	10.4	10.5	8.4	8.0
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	3.5	5.6	3.4	5.6	3.2	4.3	3.0	5.6	7.2
Variation in nominal exchange rate (December-December)	1.7	-0.2	0.2	0.0	-0.3	0.3	0.0	-0.4	-0.2
Nominal deposit rate <sup>m</sup>	...	5.4	5.3	5.3	5.3	3.5	2.9	2.4	1.7
Nominal lending rate <sup>m</sup>	...	17.0	17.1	16.5	15.6	13.4	11.0	9.4	9.1
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income	...	...	22.6	25.4	24.4	25.7	26.5	28.6	34.6
Current income	...	...	22.4	25.3	24.3	25.6	26.5	28.6	34.6
Tax revenue <sup>n</sup>	...	...	15.7	14.9	15.5	16.0	14.7	16.3	15.6
Capital income	...	...	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Total expenditure	...	...	25.8	23.8	24.5	25.0	23.8	26.1	29.1
Current expenditure	...	...	24.6	21.4	22.9	23.7	22.6	24.0	25.7
Interest	...	...	5.5	4.7	4.0	4.1	3.7	3.3	2.7
Capital expenditure and net lending	...	...	1.2	2.4	1.6	1.3	1.3	2.1	3.4
Primary balance	...	...	2.3	6.3	4.0	4.8	6.4	5.8	8.2
Overall balance	...	...	-3.2	1.6	-0.1	0.6	2.7	2.5	5.5
Public-sector external debt	27.3	24.3	23.3	20.6	18.9	16.3	14.4	12.6	1.7
<b>Money and credit<sup>o</sup></b>									
Domestic credit <sup>p</sup>	39.9	36.1	36.5	28.6	25.1	26.6	22.7	19.3	15.5
To the public sector	9.7	7.9	7.9	0.6	-2.5	-2.0	-2.6	-7.3	-10.5
To the private sector	30.2	28.2	28.6	28.0	27.6	28.6	25.3	26.5	26.0
Liquidity (M3)	37.4	40.9	39.7	34.6	36.3	39.6	34.4	33.3	33.8
Currency in circulation and local-currency deposits (M2)	29.3	31.1	30.2	25.8	26.8	30.0	26.6	24.7	25.8
Foreign-currency deposits	8.1	9.8	9.5	8.8	9.5	9.7	7.8	8.6	...

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 2000 prices. <sup>c</sup> Refers only to the oil sector. <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> Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. <sup>k</sup> Economically active population as a percentage of the working-age population. Nationwide total. <sup>l</sup> Unemployment rate as a percentage of the economically active population. Includes hidden unemployment. Nationwide total. <sup>m</sup> Weighted average. <sup>n</sup> Includes interest. <sup>o</sup> The monetary figures are annual averages. <sup>p</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

remained at the previous year's levels.

To enhance spending capacity and efficiency, many State-owned corporations were created or strengthened. These include the Urban Development Corporation of Trinidad and Tobago Limited (UDeCOTT), which is involved in a number of projects. Other recently-established corporations include the Educational Facilities Company Limited (March 2005), responsible for building schools, and the Rural Development Company of Trinidad and Tobago Limited (May 2005), which is mostly involved in public investment projects in rural areas.

The growing fiscal imbalance in the non-energy sector is giving rise to increasing concern. If oil is excluded from Government accounts, the fiscal balance is strongly negative (-8% and -11% of GDP for 2004 and 2005, respectively). The non-energy fiscal deficit will grow still further when measures to reduce the tax burden for the non-energy sector come into force and fiscal expenditure on development projects is increased. This will greatly increase the dependency of spending and of the overall orientation of fiscal policy on the surplus generated by the energy sector.

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

The country's economy showed a considerable increase in liquidity in 2005, mostly owing to rising international reserves and the monetization of oil revenue, which were reflected in expansion of the monetary base and money supply.

Growing liquidity, inflationary pressure, the narrowing of the gap between internal and external interest rates and the resulting pressure on the foreign-exchange market, and the scarcity of certain foodstuffs led the monetary authorities to adopt a contractionary policy. As a result, the central bank applied eight 25-basis-point increases to its benchmark rate, bringing it up from 5% in early 2005 to 7% in May 2006.

The central bank strengthened its monetary position by means of open-market operations in local and foreign currency, in order to sterilize liquidity. In keeping with that measure, it abolished the interest rate for bank deposits with the central bank, seeking to deter the placement of commercial banks' excess liquidity in that type of deposits and encouraging them to purchase central bank securities. The legal reserve requirement was not reduced as had been planned for 2005, but remained at 11%. Lastly, in December, the central bank adopted an unusual measure, requiring the commercial banks to deposit one billion Trinidad and Tobago dollars (TT\$) in a one-year interest-bearing account.

These measures, however, were not sufficient to decisively influence fluctuations in the range of the

commercial banks' nominal interest rates, in real interest rates, which actually fell, and in demand for credit, which grew, mostly owing to rising demand for personal loans.

Monetary policy had a limited impact in terms of controlling liquidity and inflationary expectations, but it boosted demand for long-term government bonds. Investors showed a preference for six- and twelve-month bonds rather than the more usual three-month ones, and this steepened the yield curve for such investments.

On the foreign-exchange market, the pressure for devaluation increased because of higher demand for foreign exchange resulting from the narrowing of the gap between internal and external interest rates, rising prices, stronger demand for imported construction materials, and foreign-currency purchases. The central bank intervened heavily, given its high level of reserves, and was able to protect the stability of the nominal exchange rate (6.29 and 6.33 Trinidad and Tobago dollars for one United States dollar). Nonetheless, the real exchange rate rose because of the increased price differential between tradables (external inflation) and non-tradables (internal inflation).

#### **(c) Other policies**

The authorities hope to make Trinidad and Tobago a regional financial centre. Owing to the banking crises of the past, it is recognized that achieving that goal will require the regulation of the financial system to adapt to the rapid development of local financial activities in recent years.

In 2005, efforts continued to strengthen the financial-sector supervision and regulation regime in order to improve compliance with international standards and best practices. One of the pillars of the regulatory reform is the replacement of regulation based on compliance with established standards and auditing services with a system based on risk estimation. This would aim to identify as quickly as possible the early signs of potential problems in financial institutions, and to restrict their spread to other institutions in the sector. The Financial Institutions Act, 1993, has been amended in order to centralize the regulatory function, the promotion of financial efficiency and the prevention of unfair practices. The monetary authorities are also taking measures to ensure that the commercial banks comply with the Basel Core Principles, including the changes to regulatory and supervisory frameworks, in preparation for the signature of the New Basel Capital Accord (Basel II).

The central bank also has the power to supervise financial conglomerates engaging in interlinked transactions, and ensure improved supervision of insurance companies and non-banking financial institutions, particularly credit

unions. As of 2005, insurance companies are required to produce quarterly reports, and guidelines were adopted for the financing of pension funds and the presentation of their financial statements. All this is essential to prevent any mismatch of assets and liabilities, and inappropriate risks which might affect consumers. As for the capital market, the Securities Industry Act has been updated to

bring the regulatory system into line with international standards, and an independent credit rating agency has been established. In 2004, Caribbean Information and Credit Rating Services Limited (CARICRIS) was set up, to evaluate other financial institutions. Subsequently, in 2005, a clearing house was set up to process high-volume electronic payments.

### 3. The main variables

#### (a) Economic activity

The economic growth rate in Trinidad and Tobago was similar to the previous year's (6.5% and 7% in 2004 and 2005, respectively). The energy sector was the main engine of growth, contributing over 40% of the country's GDP. Construction, manufacturing and transport services also contributed to growth.

The energy sector (8% in 2004 and 11% in 2005) benefited from rising world oil prices and expanding production capacity, with the launching in 2005 of the world's biggest methanol plant (leading to a 38% increase in methanol exports), and Atlantic LNG's fourth natural-gas plant. Trinidad and Tobago is currently the world's fifth largest exporter of liquefied natural gas (LNG). Lastly, a new discovery of crude oil reserves boosted the production rate (17% in 2005).

Manufacturing was strengthened by growing demand for cement from the construction sector, whose growth figure of 8.1% was due to increased private- and public-sector spending, especially through expansion in productive capacity in the energy sector and in infrastructure.

The downturn in agriculture was very slight compared with the previous year (-21% and -0.5% in 2004 and 2005). The sugar subsector, however, lost about 25% for raw sugar and 15% for refined sugar, and citrus fruits slumped by 35%. The agricultural sector was faced with rising production costs, adverse weather conditions which hit the sugar industry hardest, and technical difficulties.

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

Inflation continued to rise (5.6% and 7.2% in 2004 and 2005, respectively). This trend was due to increased liquidity, rising world oil prices, insufficient supply of

certain staple foods, and rising demand for cement in the construction sector. A breakdown of the consumer price index shows that the most significant increase was in the food component, making up 70% of the total. There were also marked increases in construction materials and housing costs.

The unemployment rate dipped slightly (8.4% and 8.0% in 2004 and 2005, respectively), reflecting the upswing of employment in certain sectors such as construction and energy. This improvement made up for falls in other activities, including manufacturing (with the adoption of more capital-intensive methods) and agriculture. The labour force participation rate rose from 63% in 2004 to 63.7% in 2005.

#### (c) The external sector

The overall balance of payments result was positive, and higher than the 2004 figure. The current-account surplus (13.3% and 19.9% of GDP in 2004 and 2005, respectively) more than made up for the deficit on the capital and financial account (11% and 1% of GDP). As a result, the country's international reserves increased (23% and 33% of GDP in 2004 and 2005, respectively).

The performance of the current account was basically due to rising exports of goods and, more specifically, to increases in both the price and the volume of the country's main exports (31%, 15% and 38% for crude oil, petroleum products and methanol, respectively). Imports rose by 17%, mainly owing to economic growth, especially rising demand for raw materials and intermediate goods. The balance of the capital and financial account was due to reduced net flows from commercial banking and regional bond issues, and net foreign direct investment remained stagnant.



## Turks and Caicos Islands<sup>1</sup>

### 1. General trends

In 2005, the Turks and Caicos Islands turned in a strong performance with growth of 12% (compared to 11.6% in 2004).<sup>2</sup> The economy was driven by tourism, which is the mainstay of the economy. The expansion of the tourism industry was a catalyst for the other sectors, especially construction and communications and, to a lesser extent, manufacturing.

The authorities managed to reduce the fiscal deficit from 3.6% of GDP in fiscal 2004 to 1% in fiscal 2005<sup>3</sup> despite unforeseen increases in expenditure on health and education. The deficit was financed with external resources, which led to an increase in the external debt stock. Inflation rose slightly, reaching 3.7% in 2005.

The balance of payments posted a positive result, both in the current account and in the capital account. The current account surplus was due to the increase in tourism income, which amply compensated for the significant rise in the energy bill. The trend in the capital and financial account reflected larger flows of foreign direct investment and official aid.

In 2006, the authorities hope to maintain the current economic growth and inflation rates (11% and 3.5%, respectively). Projections include an increase in the fiscal deficit to a figure close to 4% of GDP and a public debt stock of 25% of GDP. One of the government's main medium- and long-term goals is to diversify productive activity (which hitherto has been concentrated geographically in Providenciales Island) in order to achieve more balanced economic development and to create a stable framework that will be conducive to tourism development and will help to attract adequate inflows of foreign exchange.

### 2. Economic policy

#### (a) Fiscal policy

The government reduced its fiscal deficit, thanks to the significant increase in current income, from 24% of GDP in fiscal 2004 to 28% in fiscal 2005. This result was due to the rise in the collection of revenues from import duties, stamp duties, work permits and residency fees, as well as the high level of economic growth, the buoyancy of the tourism sector and the increase in commercial and residential construction.

Government expenditure, which was equivalent to 25% of GDP, climbed by 17% in 2005 owing to the increase in overseas medical costs, student grants and disbursements relating to public security, which amounted to 70% of current expenditure for fiscal 2005. The government increased the police budget by 50%, police wages rose by 30% and 40 new officers were recruited.

Fiscal accounts will probably show a deficit equivalent to 4% of GDP in fiscal 2006. The government plans to

<sup>1</sup> In its resolution 628(XXXI), ECLAC granted the Turks and Caicos Islands the status of associated member of the Commission.

<sup>2</sup> This corresponds to growth of GDP at basic prices.

<sup>3</sup> The Turks and Caicos Islands record their government accounts on the basis of a fiscal year that runs from 1 April to 31 March of the following year.

Table 1  
**TURKS AND CAICOS ISLANDS: MAIN ECONOMIC INDICATORS**

	2000	2001	2002	2003	2004	2005 <sup>a</sup>	
			<b>Annual growth rates<sup>b</sup></b>				
<b>Gross domestic product</b>	...	7.3	-0.3	8.6	11.6	12.0	
<b>Per capita gross domestic product</b>	...	-0.5	-3.7	-9.1	1.9	2.3	
<b>Gross domestic product, by sector</b>							
Agriculture, livestock, hunting, forestry and fishing	...	5.9	-20.9	20.5	10.4	7.2	
Mining	...	6.6	-7.6	11.2	28.2	24.6	
Manufacturing	...	-10.8	-14.6	11.0	1.6	9.1	
Electricity, gas and water	...	3.0	22.4	0.0	26.2	5.3	
Construction	...	6.6	-7.6	11.2	28.2	24.6	
Wholesale and retail commerce, restaurants and hotels	...	2.8	5.9	9.4	16.2	10.4	
Transport, storage and communications	...	9.2	-7.4	6.6	6.5	15.5	
Financial institutions, insurance, real estate and business services	...	5.4	2.1	0.5	17.3	5.4	
Community, social and personal services	...	4.3	3.2	6.3	13.4	11.7	
	...	10.5	8.8	9.3	7.0	13.0	
			<b>Millions of dollars</b>				
<b>Balance of payments</b>							
Current account balance	89	97	105	97	85	32	
Merchandise trade balance	-140	-149	-147	-161	-209	-289	
Exports, f.o.b.	9	7	9	10	12	15	
Imports, f.o.b.	149	156	156	170	221	304	
Services trade balance	228	246	253	257	293	322	
Net foreign direct investment	84	93	85	103	150	222	
<b>Other external-sector indicators</b>							
Total gross external debt (millions of dollars) <sup>c</sup>	3.6	3.6	13.9	13.9	37.2	40.4	
Total gross external debt (percentage of GDP) <sup>c</sup>	1.1	1.0	3.8	7.7	10.0	17.0	
			<b>Average annual rates</b>				
<b>Employment</b>							
Labour force participation rate <sup>d</sup>	...	79.4	80.3	80.4	80.1	79.3	
Unemployment rate <sup>e</sup>	...	9.7	6.2	7.8	9.9	8.0	
			<b>Annual percentages</b>				
<b>Prices</b>							
Variation in consumer prices (December-December)	3.4	1.6	2.4	1.9	3.3	3.7	
			<b>Percentages of GDP</b>				
<b>State income and expenditure</b>							
Current income	22.5	20.9	22.9	25.5	24.2	28.1	
Current expenditure	20.3	21.2	21.5	22.9	25.1	25.1	
Current balance	2.2	-0.3	1.4	2.5	-0.9	3.0	
Net capital expenditure	-4.7	-3.9	-2.2	-2.7	-2.9	-3.8	
Overall balance <sup>f</sup>	-0.9	-2.5	-0.8	0.1	-3.6	-0.8	
<b>Money and credit<sup>g</sup></b>							
Net domestic credit <sup>h</sup>	62.5	63.1	68.7	65.7	65.1	70.2	
To the public sector	0.0	0.0	0.0	0.0	0.1	1.3	
To the private sector	62.5	63.0	68.7	65.7	65.0	68.8	
Liquidity	198.4	173.6	156.5	150.0	151.8	163.7	

Source: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de cifras oficiales.

<sup>a</sup> Preliminary figures. <sup>b</sup> Based on figures in local currency at constant 1996 prices. <sup>c</sup> Includes the use of IMF credit and loans and exceptional financing. <sup>d</sup> Economically active population as a percentage of the working-age population. <sup>e</sup> Unemployment rate as a percentage of the economically active population, nationwide total. Includes hidden unemployment. <sup>f</sup> Includes grants. <sup>g</sup> The monetary figures are annual averages. <sup>h</sup> Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

raise its tax revenues by 20%. The main sources, which account for 58% of tax receipts, include import fees, stamp duties on transactions, hotel taxes and fees for work permits. Expenditure will probably increase by 40% owing to outlays on health and education.

The public debt stock represented 17% of GDP in fiscal 2005, with maturities ranging between 12 and 15

years and a fixed interest rate. The debt servicing and net debt ratios in relation to GDP were lower than the limits agreed upon between the Government of the Turks and Caicos Islands and the United Kingdom in 2002 (8% and 80%, respectively). In 2006, public debt is expected to reach 25% of GDP, in line with the planned expansion of expenditure.

### 3. The main variables

#### (a) Economic activity

The economy maintained its high growth rate thanks to the buoyancy of tourism, construction and telecommunications. With regard to expenditure, consumption and gross capital formation accounted for the bulk of economic growth (amounting to 60% and 39% in 2004 and 2005, respectively).

The expansion of tourism (15% in 2005 compared with 6.5% in 2004) reflected an increase in air transport capacity, improved marketing initiatives and higher levels of investment in ports and infrastructure. Higher numbers of cruise ship arrivals and long-stay tourists were also recorded (increases of 6% and 16% in 2004 and 2005, respectively). Hotel occupancy rates showed a rising trend in 2005 and were over 65% on average.

As part of the continuing effort to develop the tourism sector, the government completed the construction of the first cruise-ship port in the Islands, which will be operational in the first half of 2006. The first port on a Caribbean beach was also finalized. In 2006, the authorities projected a growth rate of 18% for the sector and an increase of 20% in tourist arrivals.

The main goods-producing sector, fishing, moderated its growth rate, which was 8% in 2005 compared with 16% in 2004. This was attributable to the decline in the volume of lobster and conch catches, which were down by 13% and 7%, respectively, between January-October 2004 and January-October 2005. These items account for 55% and 45% of total exports of goods. The performance of the fishery sector was hurt by illegal fishing practices, which are a cause of concern to the authorities in view of their detrimental effect on marine resources. An additional 5% drop in the growth rate for this activity is forecast for 2006.

Construction, which grew by 28% and 25% in 2004 and 2005, respectively, benefited from the expansion of the tourist sector and from public spending on infrastructure works, health and sports. An increase of 8% is projected for 2006 thanks to the completion of a number of infrastructure projects.

The telecommunications industry returned to its past trend and expanded by 8% in 2005, following an unprecedented upswing of 25% in 2004, owing to the expectations created by the imminent liberalization of the sector in 2005. During the year, four new telecommunications licenses were issued, which put an end to the monopoly

within that sector. Greater competition has brought lower prices and more efficient provision of services. Growth of 7% is forecast for 2006.

The financial sector expanded by 24% and 19% in 2004 and 2005, respectively, as a result of greater confidence in the economy, increased capital flows and product diversification. In December 2005, the country opened its first locally-owned bank, which increased the number of financial institutions to seven. Growth of 14% is projected for this sector in 2006.

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

The inflation rate rose from 3.3% in 2004 to 3.7% in 2005, mainly as a result of the rise in international oil prices and, to a lesser extent, the higher cost of construction materials and food items. Price rises were tempered, however, by the drop in the cost of telecommunications services. No change in the inflation rate is expected in 2006.

In 2005, wages for the police force were raised by 30%. For 2006, the government plans a restructuring of public-sector employment, which will include a reclassification of existing posts. As a result, a retroactive increase effective as of April 2006 is expected in the wage levels for reclassified posts.

The public sector is the largest employer in the Turks and Caicos Islands and accounts for over one third of the workforce. During the year, 159 new posts were created, which represents an increase of 6% in relation to the previous year. The expansion of public employment benefited the police force, the immigration department and health facilities, which received 26%, 19% and 9% of the total, respectively. In 2006, the authorities plan to increase the number of work permits by 6% in order to alleviate the current labour shortage.

#### (c) The external sector

The external sector posted a positive result, as both the current account and the capital and financial account recorded surpluses. These results also helped to increase the country's stock of international reserves.

The decline in the current account surplus from 20% of GDP in 2004 to 7% in 2005 was basically the result of the increase in merchandise imports from 52% to 62% of GDP for those same years. The boom in external purchases was a response to the buoyancy of the economy,

especially tourism and construction, as well as the rise in international oil prices, construction materials and food items. Merchandise exports were 20% higher.

Non-factor services registered a surplus equivalent to 75% of GDP, as in 2004, thanks to the increase in passenger flows. As in previous years, this offset the structural deficit in the trade balance for goods, which was 43% and 51% of GDP in 2004 and 2005, respectively.

The capital and financial account balance, which

rose from 35% of GDP in 2004 to 45% in 2005, reflected official aid and foreign direct investment in the tourism sector amounting to US\$ 222 million, as well as the increase in external borrowing.

In 2006, the country is expected to post a surplus on its overall balance of payments as a result of surpluses on its current account and its capital and its financial account of 12% and 45% of GDP, respectively, while a deficit equivalent to 57% of GDP is forecast for the trade balance.

## Member countries 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 higher growth rate in 2005 (5.4%) than the previous year (4.1%), despite rising international petroleum prices and adverse weather conditions.<sup>2</sup>

Economic activity was driven by the buoyancy of the construction sector, which benefited from high levels of investment in preparation for the Cricket World Cup (2007). The manufacturing sector showed signs of recovery, while agriculture contracted.

Fiscal performance varied. Some economies took advantage of increased tax revenues while controlling expenditure in order to close the fiscal gap (Anguilla, Dominica, Montserrat, and Saint Kitts and Nevis). Others chose instead to raise public expenditure in order to improve their infrastructure and basic services and stimulate economic growth by increasing aggregate demand (Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines).

The overall result of the balance of payments was negative, as the current-account deficit was greater than the

surplus in the capital and financial account. The current-account deficit widened due to rising international fuel and food prices and the loss of competitiveness in traditional exports. The performance of the capital and financial account reflected higher investment in the tourism sector, greater flows of government transfers and the completion of infrastructure projects.

In 2006, the OECS economies will continue to benefit from preparations for the Cricket World Cup. Economic growth will be fuelled by tourism and construction. It is hoped that activities linked to these two sectors will serve to attract foreign direct investment. At the fiscal level, the OECS countries plan to modernize their tax systems with the introduction of a value-added tax (VAT) and then adapt them to current economic circumstances by eliminating the gasoline subsidy.

### 2. Economic policy

#### (a) Fiscal policy

The OECS member States reduced the government deficit from 6.0% of GDP in 2004 to 5.7% in 2005.<sup>3</sup> The fiscal performance varied between countries, however, as the fiscal gap closed in Anguilla, Dominica, Montserrat

and Saint Kitts and Nevis, while it widened in Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines.

The budget result for Anguilla (-4.6% of GDP in 2004 and -4.4% in 2005) was attributable to the decrease in capital expenditure, which more than compensated for the decline in current revenue.

<sup>1</sup> The members of the Organisation of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, Dominica, Grenada, the British Virgin Islands, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. The analysis presented in this section refers to all the member territories, with the exception of the British Virgin Islands, which have a monetary union administered by the Eastern Caribbean Central Bank.

<sup>2</sup> The aggregate growth rate at basic prices.

<sup>3</sup> Excluding donations.

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005 <sup>a</sup>
	<b>Annual growth rates<sup>b</sup></b>								
<b>Gross domestic product</b>	3.2	4.0	4.5	3.9	-1.3	0.5	3.0	4.1	5.4
<b>Per capita gross domestic product</b>	2.6	3.4	4.0	3.4	-2.0	-0.1	2.4	3.4	4.7
<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	0.4	-12.1
Mining	7.0	2.1	6.5	21.5	-6.3	-1.5	6.7	-7.1	17.3
Manufacturing	2.7	2.3	3.3	-0.1	-1.4	-1.3	0.8	-1.4	5.4
Electricity, gas and water	6.7	6.2	9.0	14.3	5.6	2.0	2.9	1.3	3.6
Construction	7.9	11.5	8.3	4.9	-1.5	-2.5	2.9	5.1	21.1
Wholesale and retail commerce, restaurants and hotels	5.5	2.4	4.2	1.5	-5.3	-0.4	8.4	4.9	5.8
Transport, storage and communications	6.1	5.9	9.2	2.6	-1.2	-0.6	3.7	7.2	4.9
Financial institutions, insurance, real estate and business services	6.9	6.1	5.5	15.3	0.8	3.3	2.0	5.7	4.3
Community, social and personal services	-5.7	-2.9	-2.4	84.4	2.0	2.8	1.2	2.9	2.9
	<b>Millions of dollars</b>								
<b>Balance of payments</b>									
Current account balance	-402	-366	-450	-460	-516	-595	-681	-564	-739
Merchandise trade balance	-948	-982	-1 056	-1 076	-1 004	-1 004	-1 176	-1 268	-1 424
Exports, f.o.b.	298	316	327	349	260	271	259	298	256
Imports, f.o.b.	1 246	1 299	1 383	1 426	1 264	1 275	1 435	1 566	1 680
Services trade balance	576	629	642	668	573	524	604	744	710
Income balance	-131	-147	-170	-217	-194	-215	-238	-260	-231
Net current transfers	100	134	133	165	110	100	129	221	206
Capital and financial balance <sup>c</sup>	427	426	479	480	581	659	722	679	713
Net foreign direct investment	261	313	335	312	370	343	553	435	450
Financial capital <sup>d</sup>	166	114	144	168	211	317	169	244	263
Overall balance	25	61	28	21	65	64	41	115	-27
Variation in reserve assets <sup>e</sup>	-24	-63	-28	-21	-65	-63	-41	-115	27
Other financing <sup>f</sup>	-1	2	-0	0	0	-1	0	0	0
<b>Other external-sector indicators</b>									
Gross external public debt (millions of dollars)	885	1 061	1 212	1 283	1 462	1 764	2 008	1 964	...
Gross external public debt (percentage of GDP)	36.6	37.6	46.1	46.5	53.1	63.7	67.6	59.9	...
	<b>Annual percentages</b>								
<b>Prices</b>									
Variation in consumer prices (December-December)	...	...	...	...	2.4	-0.1	1.0	2.7	4.2
Nominal deposit rate <sup>g</sup>	4.2	4.2	4.2	4.4	4.3	3.7	4.6	...	...
Nominal lending rate <sup>g</sup>	11.6	11.3	11.8	11.6	11.4	11.0	12.8	...	...
	<b>Percentages of GDP</b>								
<b>Central government</b>									
Total income <sup>h</sup>	27.5	29.0	28.4	27.8	27.7	29.0	29.6	30.6	36.2
Current income	24.9	25.2	25.7	25.4	24.9	25.8	26.1	26.7	26.7
Tax revenue	21.3	21.7	21.6	21.6	21.3	22.1	22.6	23.4	23.9
Capital income	0.6	0.6	0.3	0.2	0.1	0.5	0.4	0.4	0.5
Total expenditure	30.1	30.6	31.4	32.1	34.9	37.9	34.8	33.9	33.5
Current expenditure	23.7	23.6	24.1	24.4	26.9	28.0	27.1	27.4	26.4
Interest	1.9	1.8	2.1	2.6	3.4	4.1	4.1	4.4	3.9
Capital expenditure and net lending	6.4	7.1	7.3	7.7	8.0	9.9	7.7	6.5	7.1
Primary balance <sup>h</sup>	-0.7	0.2	-0.9	-1.7	-3.9	-4.8	-1.0	1.1	6.5
Overall balance <sup>h</sup>	-2.6	-1.6	-3.0	-4.3	-7.3	-9.0	-5.1	-3.4	2.7
Public-sector external debt	36.6	37.6	46.1	46.5	53.1	63.7	67.6	59.9	...
<b>Money and credit</b>									
Domestic credit	70.2	71.9	74.3	78.9	85.5	87.4	87.6	83.8	84.5
Public	-1.5	-1.6	-2.5	-3.4	-1.5	-1.3	-3.5	-1.5	-1.6
Private	76.3	78.1	80.8	85.7	90.4	91.0	88.9	87.8	87.1
Liquidity (M3)	66.8	68.1	73.1	78.4	83.7	87.2	90.0	93.2	105.8
Currency in circulation and local-currency deposits (M2)	60.5	61.5	65.6	69.1	72.6	75.6	78.0	80.2	81.6
Foreign-currency deposits	6.3	6.6	7.5	9.3	11.1	11.6	11.9	13.0	24.2

**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. <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> Weighted averages. <sup>h</sup> Includes grants.



Antigua and Barbuda's performance (-5.1% of GDP in 2004 and -6.2% in 2005) reflected increased capital expenditure. The authorities approved a package of tax measures intended to reduce the fiscal deficit and the public debt balance. The measures include the reintroduction of the income tax, a 5% wholesale sales tax, and a special excise tax of 7%.

Dominica (-9.3% of GDP in 2004 and -0.4% in 2005) adjusted its public finances primarily by reducing capital expenditure and, to a lesser extent, by increasing tax efforts and containing current expenditure. Capital expenditure returned to its usual levels after posting a sharp increase due to reconstruction efforts to repair the damage caused by Hurricane Emily in 2004. Tax efforts were most visible in the rise in revenues from corporate taxes. The government controlled current spending by freezing public wages and implementing operations to restructure the public debt, thereby facilitating the reduction of interest payments. In 2006, the government of Dominica plans to reduce the public wage bill by 20% and introduce VAT.

Grenada (-10% of GDP in 2004 and 2005) continued its strategy for reconstruction and recovery in the wake of the devastation caused by Hurricane Ivan in 2004. Capital expenditure rose as a result of reconstruction efforts, but this effect was offset by increased revenues from taxes on companies and on international trade and by reduced spending on salaries and interest payments. The introduction of a special income tax for a five-year period and a more efficient tax system also contributed to this result. Like Antigua and Barbuda and Dominica, Grenada is in the process of restructuring its public debt.

Montserrat contained its government deficit, which remained very large nevertheless (-81% and -63% of GDP in 2004 and 2005, respectively) as a result of the drop in payments from transfers and subsidies.

The fiscal result for Saint Kitts and Nevis (-8.2% of GDP in 2004 and -6.6% in 2005) was partly attributable to increased tax revenues and lower capital expenditure. The rise in the tax yield responded to the strong performance of taxes on companies and on international trade. The reduction in capital expenditure was the result of the closing of the sugar industry. In 2006, the government plans to improve the efficiency of public administration and modify the system of assessing real estate properties for tax purposes. It will also generalize the tax on international telephone calls to include all calls. In order to make the tax system more progressive, the government intends to raise the social services levy from 8% to 10%. Finally, the authorities indicated their plans to introduce an excise tax on tobacco and alcoholic beverages.

Saint Lucia's fiscal balance (-3.3% and -3.9% of GDP in 2004 and 2005, respectively) responded to higher

capital expenditure, which offset the reduction in current expenditure. The rise in capital expenditure owed partly to the demand for construction in preparation for the Cricket World Cup in 2007, and partly to government efforts to stimulate aggregate demand and economic growth. The contraction of current expenditure was the result of the reduction in the wage bill, despite retroactive payments made to government employees. Tax revenues remained at the same level as the previous year despite the decrease in taxes on companies from 32% to 30%. For 2006, the government announced plans to reduce the excise tax on various goods in order to counteract the effects of inflation on consumer purchasing power.

The budget result for Saint Vincent and the Grenadines (-3.7% of GDP for 2004 and -5.8% for 2005) was influenced considerably by increased current expenditure and diminished tax receipts. Fiscal spending reflected the expansion of the wage bill and increased payments to service the external debt (which rose by 11% relative to 2004). Decreased revenues were attributable to the poor performance of taxes on goods and services and on external trade. In 2006, the government plans to pave the way for the introduction of VAT and a system of special excise taxes. In accordance with this objective, the government intends to discontinue a series of taxes including the general consumption tax and stamp duties. At the same time, the authorities plan to increase the tax base for excise taxes and taxes on foreign trade by halving exemptions.

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

The economies that make up the Organisation of Eastern Caribbean States have been a monetary union since 1983 with their own currency, the Eastern Caribbean dollar, which is linked to the United States dollar at a fixed exchange rate of EC\$ 2.70. The monetary authority of this union, the Central Bank of the Eastern Caribbean, acts as a currency board and is required by its statutes to maintain reserves equivalent to 60% of its monetary liabilities. Since the creation of the monetary union, the institution has maintained a neutral monetary position and has changed the reference rate of interest only slightly. The monetary union has two characteristics that explain its neutral position: The first is that its management of foreign assets and liabilities has allowed it to maintain a reserve that far exceeds the statutory requirement. The second is that the commercial banking system is a closed circuit that strictly adheres to the obligation to maintain a balance between assets and liabilities.

In accordance with the regulations for currency boards, the financial system accommodated the demand for money, which expanded commensurately with economic



activity. Domestic credit (8% in 2004 and 15% in 2005) was driven by activities in the private sector and to a lesser extent by government operations (91% and 9% of the total, respectively).

Total loans, credit advances, and overdrafts increased from 8% to 13% between 2004 and 2005 owing to the demand for commercial lending (47% of the total). Of the productive sectors, transport and storage, tourism, financial services, and construction posted the strongest expansion (30%, 18%,

15%, and 11%, respectively). The largest borrowers were Anguilla, Saint Lucia, Saint Kitts and Nevis, and Montserrat (21%, 20%, 16%, and 15%, respectively).

In 2005, the discount rate of the Central Bank of the Eastern Caribbean held steady at 6.5%, as economic conditions did not justify an increase. Similarly, interest rates for commercial banks remained the same (the prime lending rate remained at 8.5% (minimum) and 12.0% (maximum)).

### 3. The main variables

#### (a) Economic activity

The OECS member States posted a higher growth rate in 2005 (5.4%) than the previous year (4.1%) due to the buoyancy of the construction sector. The highest rates were observed in Saint Kitts and Nevis (6.8%), Saint Lucia (6.5%), and Antigua and Barbuda (5.6%). Saint Vincent and the Grenadines posted a growth rate of 2.8% in 2005 (just over half the rate in 2004), while Montserrat fell by 3%.

Agriculture contracted in most of the OECS countries (0.4% in 2004 and -12% in 2005). The performance of the primary sector was attributable to adverse weather conditions, pests, the accumulative effects of past natural disasters, high production costs, and limited access to financing. Traditional crops reflected the drop in banana production (-26% for the Windward Islands) and the destruction of nutmeg crops in Grenada caused by Hurricane Ivan. The contraction of sugarcane production (-24%) due to the shutting down of sugar industry operations in July 2005 also contributed to this result.

Despite the negative effect that the rise in international petroleum prices had on productive activity, manufacturing (-1.4% and 5.4% in 2004 and 2005, respectively) benefited from improved growth prospects due to the expansion of tourism and construction. At the country level, the manufacturing sector in Saint Kitts and Nevis turned in a positive performance (despite the decline in agricultural production) due to expanding productive capacity and the diversification of certain product lines in various national companies. In Saint Lucia, the food and beverage and paperboard sub-sectors benefited from the increase in long-term visitors and more buoyant commercial activity. In Saint Vincent and the Grenadines, beverage production surged while flour production contracted. Lastly, in Grenada the manufacturing sector showed signs of recovering from the damage caused by Hurricane Ivan.

In aggregate terms, growth in tourism activity was more moderate. Contributing to this result were the rise in petroleum prices (which drove up hotel rates and air-transport costs), a severe hurricane season, and faltering external demand.

Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines posted the highest rates of expansion in the tourism sector (24%, 12%, and 18%, respectively) thanks to an energetic campaign to create market niches, the expansion of hotel and air-transport capacity, the hosting of sporting and musical events and greater efforts to attract cruise ship passengers.

The construction sector (5% and 21% in 2004 and 2005, respectively) benefited from preparations for the Cricket World Cup (2007). The sector experienced some difficulties, however, such as a cement shortage and the rising international prices of construction materials.

The OECS member States initiated plans to construct sports facilities, improve the infrastructure of ground, sea, and air transport, and expand hotel capacity. Also, tax concessions offered for activities related to the Cricket World Cup have attracted some investments in fixed capital. The majority of the construction activities for this event have been financed with foreign direct investment. In the case of Antigua and Barbuda and Grenada, these activities have been made possible by donations from the People's Republic of China.

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

Inflation rose (2.7% in 2004 and 4.1% in 2005) owing to higher international petroleum and food prices, faltering agricultural production and the resulting increase in freight charges, rising costs for construction materials and higher mark-ups.

Breaking down the consumer price index into individual components reveals that the categories showing the most

significant hikes were fuel, food and electricity, and transport and communications. The rise in the consumer price index did not fully reflect the increase in international petroleum prices, as energy consumption is subsidized in OECS countries.

Real wages retreated in the majority of the countries, as increases in nominal wages did not keep pace with rising prices. The fiscal adjustment implemented by some economies contributed to this result.

Employment expanded along with economic activity. Tourism and construction posted notable increases, while employment in agriculture declined.

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

The overall result for the balance of payments was negative (3.7% of GDP in 2004 and -0.8% in 2005), as the widening of the current-account deficit (from 18% of GDP in 2004 to 22% in 2005) exceeded the surplus in the capital and financial account (22% and 21% of GDP).

The result for the current account was attributable to poor export performance and the expansion of imports. The performance of external sales reflected faltering aggregate demand, the contraction of banana, sugar, rice, and flour production, and the detrimental effects of natural disasters on the productive capacity of the agricultural sector in Grenada.

The increase in external purchases was the result of the rising international prices of petroleum, construction materials, and food products. The buoyancy of domestic demand (particularly for construction) also contributed.

The balance of non-factorial services fell (24% of GDP in 2004 and 21% in 2005) as tourism stagnated in a context of external conditions that were unfavourable to development in that sector. The total number of visitors remained at lower levels than in 2004, as did tourist spending.

The balance of the income account (-9.5% and -7.9% of GDP in 2004 and 2005, respectively) reflected debt payments and the repatriation of profits. Debt-service payments dropped in some countries due to efforts to restructure (Antigua and Barbuda, Dominica and Grenada) and reduce (Saint Kitts and Nevis and Saint Lucia) the external debt.

The surplus in the capital and financial account reflected a lower level of official flows (5.2% and 4.9% of GDP in 2004 and 2005, respectively) due to the implementation of new procedures for obtaining official financing from the European Union and the completion of infrastructure projects. Antigua and Barbuda (2.6% of GDP in 2004 and 24.4% in 2005) and Grenada (9.1% of GDP in 2004 and 9.5% in 2005) are exceptions, having received donations from the People's Republic of China for the expansion of sports infrastructure. Grenada benefited as well from continued international assistance for reconstruction activities. Flows of foreign direct investment remained were similar to levels recorded in the previous year (13.9% of GDP in 2004 and 13.3% in 2005), amid favourable expectations for the tourism and construction sectors and for the financial and monetary stability of OECS in general.

