The Caribbean

Bahamas

The Bahamian economy is estimated to have grown by 3.5% in 2005. While tourism declined, the economy was boosted by growth in construction and the expansion of consumer demand. High energy costs mean that fuel imports will continue to affect the balance of payments. Nevertheless, forecasts for 2006 point to stable growth. The continued investment in the tourism sector is having a positive impact on construction.

The fiscal deficit is expected to increase to 2.8% of GDP in 2005, after having contracted to 2.3% in 2004.[1] Thus, the deficit is expected to be close to the level observed in 2003 (2.9% of GDP).

According to estimates, fiscal revenue will grow, without any increase in taxes nor the introduction of new taxes. The government is seeking to recover a higher percentage of the expenses relating to air transport in the Family Islands, but the expansion in revenue will be mainly the result of more efficient tax administration.

The increase in collections will be insufficient to offset the additional expenditure attributable to the rises in wages and benefits paid to civil servants as well as to members of the police and national defence forces, and to education expenses. Improvements in infrastructure will push up capital expenditure.

The fiscal deficit will add to the public debt, which is cause for concern. This debt, which includes government guarantees for debt of public corporations, stood at 44.3% of GDP at the end of 2004 and increased by a nominal 10% in the 12 months to June 2005.

The monetary base expanded as a result of foreign currency inflows to the private sector and tourism earnings. This has led to an increase in time deposits (18%), reflected in a higher money supply, that is an increase in the M3 aggregate (9.6% in the 12-month period to June 2005). The more accelerated expansion in credit was insufficient to absorb these inflows and the result was higher external reserves and more abundant liquidity.

The credit supply strengthened in the 12 months to September 2005, in spite of which credit to the public sector contracted (-10.5%). On the other hand, credit to the private sector expanded by 10.3%, of which more than half consisted of mortgage loans and approximately one third, of consumer loans.

The liquidity in the banking system fuelled an expansion in construction in the first half of 2005. In that period, the number of mortgage loans increased by 104% for housing and 68% for commerce, with respect to the same period of the previous year, and total values increased by 146% and 106%, respectively.

The tourism sector contracted in the first eight months of 2005 compared with the same period of 2004. The total number of tourist arrivals to August fell by 6.9%: arrivals of air passengers were down by 2.4% and cruise-ship visitors by 9.1%. Tourist arrivals in Grand Bahama dropped by 25.6%, partly because of a reduction in capacity due to the closure of the "Global Oasis" tourist complex in September 2004.

Investment in tourism has been substantial. Kerzner International will start the third phase of the expansion of its property "Atlantis" and Grand Bahama could benefit from various large projects that are still in the planning phase. Improvements at the airport have made it possible to increase the air transport capacity. In addition, new connections have been opened up from Europe as well as from the United States.

The sector continues to face challenges, given that the 2005 hurricane season could result in a decline in demand from the United States, while demand from Europe could be adversely affected by the increase in oil prices.

Inflation stood at 2.4% (September to September). The rise in oil prices affected the cost of transport and communications (3.1%), as well as food and beverage prices (3.3%). Indeed, price increases were seen in all categories except for clothing and footwear, which continued to follow a downward trend (-1.8%).

[1] Fiscal year 2005 runs from 1 July 2005 to 30 June 2006.

In the first half of 2005, the overall balance of payments figure stood at US$ 93 million, 45% less than in the same period of 2004. A significant increase in the financial and capital account surplus, considering errors and omissions, offset the sharp increase in the current account deficit, which was reflected in a marginal inflow of net international reserves.

The widening of the current account deficit was due, on the one hand, to the increase in oil imports and, on the other, to a slight contraction in net inflows under travel. Meanwhile, the significant growth in transfers was cancelled by the expansion in the deficit on the income balance.

The financial and capital account, including errors and omissions, improved in the first half of 2005, compared with 2004, moving from a deficit of US$ 85 million to a surplus of US$ 232.8 million. The higher inflows from investments in construction and tourism as well as funds associated with the "Cable Beach" project contributed to this improvement.

BAHAMAS: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	1.9	2.8	3.5
Consumer prices	2.3	1.0	2.4 [b]
Money (M1)	4.8	23.3	18.8 [c]
	Annual average percentage		
Unemployment rate	10.8	7.0	...
Central government overall balance / GDP	-2.9	-2.3	-2.8
Nominal deposit rate	3.9	3.8	3.2 [d]
Nominal lending rate	12.0	11.2	10.5 [d]
	Millions of dollars		
Exports of goods and services	2 405	2 590	2 755
Imports of goods and services	2 709	3 032	3 418
Current account	-418	-199	-408
Capital and financial account	322	383	438
Overall balance	-97	184	30

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to September 2005.
[c] Year-on-year average variation, January to September.
[d] Average from January to September, annualized.

Barbados

In 2005 there was a dip in the rate of growth of the Barbadian economy (2.8% as compared with 4.9% in 2004). Economic activity was boosted by all sectors producing non-tradable goods. Despite the reduced growth rate, there was a significant rise in inflation (5.1% for the 12 months to June) compared with previous years, owing to the increase in international oil prices. In 2006, GDP growth is expected to be 3.3%, inflation is forecast to decline to 2.4%, and the overall balance-of-payments deficit should be down to 1.2% of GDP.

In the first nine months of 2005, fiscal accounts improved because revenue expanded more than spending. The deficit fell by 2.9 million Barbados dollars (BDS$) to BDS$ 98 million.

Revenue expanded by 6.3%, boosted by an increased tax take from international corporations and financial service companies. Revenue from personal taxation dipped by 14%, owing to the reduction from 40% to 37.5% of the top tax rates applicable to income in excess of BDS$ 24,200.

Expenditure was up by 5.7%, as a result of rising current and capital spending, the latter being due to the beginning of preparations for the Cricket World Cup. The deficit was financed locally to avoid any disturbances which might affect the economy if financing had been obtained from the international capital market.

The authorities expect to end the current year with a deficit equivalent to 2.3% of GDP, in view of the slowdown of the growth rate and, as a result, of tax revenue. For 2006, a further increase in the deficit is expected (2.7% of GDP) following the rise in spending on infrastructure improvements and on preparations for the Cricket World Cup.

Faced with rising inflation, the monetary authorities adopted a restrictive approach. The central bank increased the minimum deposit rate in order to hold back rising demand for credit, reduce bank liquidity and restrain inflationary expectations. The deposit rate increased from 2.25% in January to 4.25% in September. Accordingly, the interest rate on treasury bills rose from 2.76% to 5.28%.

The broad money supply expanded by more than 6% in the first nine months of 2005, owing to increased deposits by statutory bodies and the central government. In the course of the year, the money supply is expected to grow by 7% (85.3% of GDP), slowing in comparison with the 2004 growth rate of 17%.

In the first nine months of the year, economic growth was led by the construction sector, particularly the residential subsector, the preparations for the Cricket World Cup, and road works. Growth in wholesale and retail trade and in transport and communications (2.7% and 4.2% respectively) was due to increased demand for consumer goods and mobile telephones. Also in the first nine months, the growth rate of the tourism sector (4%) slowed from the year-earlier period (12%). The number of tourists from Canada and the United Kingdom was down by 9%. Growth of 3% is expected for the year as a whole.

The unemployment rate dipped from 9.8%, the average figure for 2004, to 9.4% for the first half of 2005.

The balance-of-payments deficit was also down, from 6.1% of GDP in 2004 to 4.8% in 2005, thanks to an

BARBADOS: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	2.4	4.9	2.8
Consumer prices	0.3	4.3	5.5 [b]
Money (M1)	23.4	22.1	3.0 [c]
Real effective exchange rate [d]	3.3	4.4	-0.3 [e]
	Annual average percentages		
Open unemployment rate	11.0	9.8	9.4 [f]
Nominal deposit rate	2.9	3.0	3.4 [g]
Nominal lending rate	7.4	7.4	8.1 [g]
	Millions of dollars		
Exports of goods and services	1 430	1 460	1 493
Imports of goods and services	1 584	1 780	1 819
Current account	-169	-354	-353
Capital and financial account	237	184	208
Overall balance	67	-170	-145

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to June 2005.
[c] Year-on-year average variation, January to August.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to June.
[f] Figure shown corresponds to first semester.
[g] Average from January to September, annualized.

improvement in the capital and financial balance, while the current-account balance remained stable.

Goods exports rose slightly, as did imports. The latter was due to slower growth in economic activity because of soaring international oil prices. There was a fall in tourism-related income, resulting in a reduced surplus on the services trade account (28% and 26% of GDP in 2004 and 2005 respectively).

Belize

The economy of Belize grew much more moderately in 2005 than in the previous year, slowing from 4.6% to 3%. Performance in the first half of the year was attributable to buoyancy in the fishing, trade and tourism sectors, although this was offset in the second half of the year as tourist inflows dropped off and drought caused problems in the agricultural sector. The balance-of-payments surplus widened thanks to greater net capital inflows in the form of official loans intended to cover the fiscal deficit.

The government deficit shrank from 9% of GDP to 7% between the financial years of 2004 and 2005,[1] despite the fact that revenues were below target and expenditure was higher than anticipated.

In 2004, the fiscal deficit was much wider than the target established by the authorities, and they have therefore set a target of 3% of GDP in an attempt to significantly reduce the deficit during 2005. In the light of the tax reductions implemented following the adoption of the fiscal budget and the expenditure adjustments, the target was reset at 3.6%. However, the deficit will not narrow as much as the government had hoped, on account of lower tax receipts and higher expenditure in the wake of the unexpected hike in petroleum prices. This fiscal situation will result in a 9% increase in public debt, which already exceeded 100% of GDP in 2004.

Broad money supply grew by 4.6%, owing to the expansion of net international assets, which more than offset the net domestic credit squeeze. The performance in terms of net external assets was attributable to net income from official loans and sale of shares in the Belize telecommunications company. The credit squeeze is part of a tight monetary policy designed to curb the rise in aggregate expenditure.

The authorities increased the legal reserve requirement by one percentage point in December 2004 and by another percentage point in May 2005. In July, the authorities set the parity at 2.15 Belize dollars to every United States dollars for transactions of exchange houses with operating licences.

These restrictive measures mopped up some of the excess liquidity. Commercial banks responded by increasing the level of financial intermediation by 20 basis points in the first eight months of the year, thereby slowing down demand for credit. In fact, demand for credit expanded slightly in manufacturing (2.2%) and services (1.4%).

BELIZE: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	9.2	4.6	3.0
Consumer prices	2.3	3.0	4.4 [b]
Money (M1)	0.1	4.1	8.7 [c]
	Annual average percentages		
Nationwide total unemployment	12.9	11.6	11.0 [d]
Nominal deposit rate	4.8	5.2	5.3 [e]
Nominal lending rate	14.4	13.9	14.2 [e]
	Millions of dollars		
Exports of goods and services	529	526	571
Imports of goods and services	665	654	723
Current account	-181	-187	-211
Capital and financial account	170	219	261
Overall balance	-11	31	50

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to August 2005.
[c] Year-on-year average variation, January to August.
[d] Data correspond to April.
[e] Average from January to September, annualized.

Economic activity expanded on the back of buoyant fishing, trade and tourism, while agriculture was negatively affected by lower sugar production (and associated distribution problems) and the adverse weather productions that plagued the banana harvest.

Growth in tourism slowed somewhat, partly due to the after-effects of the hurricanes that have struck the Caribbean. Between January and August 2005, the number of long-stay visitors was 1.3% higher than the

1 Belize's fiscal year runs from April to March.

year-earlier period and the number of cruise passengers was up by 1.2%.

Between August 2004 and August 2005, inflation rose by 4.4%. Food, beverage and tobacco prices displayed the largest increases (6.3%) —due to higher import costs from the United States— followed by transport costs (5.9%) and public utilities (4.5%). The rise in transport costs is the result of higher petroleum prices, while the increase in utility prices is due to the higher cost of importing electricity from Mexico.

The unemployment rate dropped by 0.6 percentage points to stand at 11% (in April 2005).

During 2005, the fact that good export performance failed to offset the oil bill resulted in a significant current account deficit, although this was more than compensated by the widening surplus in the capital and financial account. This increased surplus is attributable to higher income from official loans, and inflows of foreign direct investment in the infrastructure and tourism sectors. As a result, the overall surplus of the balance of payments rose from US$ 31 million in 2004 to US$ 50 million in 2005, which represented a significant accumulation of net international reserves.

Cuba

The economy continued to grow in relation to the previous year, thanks to the combined effect of favourable external conditions resulting from growth in goods and services exports and capital inflows, making possible an increase in consumption and boosting investment.[1] This growth was also helped by greater availability of foreign exchange in Government hands, which permitted the implementation of the new monetary policy adopted in 2004.

According to data from the Government of Cuba, the growth rate reached 11.8% in 2005. As a result of the changes taking place in Cuba's productive structure, involving a greater role for tourism and the provision of highly complex services, exports of goods and services climbed by 48.5%, driven by the sale of professional services to the Bolivarian Republic of Venezuela, the growth of tourism (12.2%) and, to a lesser extent, higher sales of nickel, although sugar exports were down. Despite the fall in family remittances, the current account was in surplus. Together with considerable capital inflows, this led to a significant rise in international reserves for the second consecutive year. The payment of external debts contributed to a gradual restoration of the country's creditworthiness. Rising prices for imported oil and foodstuffs once again brought about a decline in the terms of trade.

Considerable wage adjustments pushed household consumption upwards, and there were sizeable investments, especially in the energy sector. Increased spending widened the fiscal gap, the supply of money in the hands of the population (M2) increased (27.4%), and inflationary pressures intensified (4.2%).

Although there was growth in the extraction of petroleum and gas (8.8%) and nickel (7%), the sugar industry and electric power generation remained slack, there were transport problems resulting from the substantial increase in imported goods, and the country was also affected by a drought. Also of note was the direct and indirect damage resulting from hurricane Dennis, totalling US$ 1.4 billion, or 3.1% of GDP.

The foreign-exchange measures adopted in 2004 strengthened the centralized control of foreign currency, giving the authorities scope for greater implementation of the economic-policy changes begun previously, especially in the monetary and financial field. Changes in State-owned corporations, intended to link incentives to productive efficiency, also continued. The overall goal is to strengthen productive and labour discipline in the face of possible diversions of resources.

The fiscal gap widened even though State revenue had been boosted by economic growth, the upswing in the tax base and improvements in fiscal discipline. As of April 2005 there were rises in pensions and social welfare benefits. These measures benefited 1,468,641 and 476,512 people respectively, and entailed additional disbursements equivalent to 2.6% of GDP.

There were also adjustments in public-sector salaries. As of May, the minimum wage for 1.6 million workers was increased, costing the equivalent of 2.4% of GDP. From December, a further 2.2 million workers received wage increases, at a budgetary cost of 2.8% of GDP. Notable among other budgeted current expenditure are increased allocations for the arts and culture, education and public health.

In response to insufficient supply of energy and increasing demand for it, the 2005 budget included US$ 432 million for maintenance of electric power plants and improvements in distribution networks. Progress was made in the construction of a new combined-cycle power plant and the conversion of a thermo-electric plant for gas production. There were also imports of durable goods to increase domestic energy saving.

In 2005, exchange controls were strengthened and central bank interventions continued in order to absorb more foreign exchange. In November 2004, the circulation of United States dollars in cash was banned and the circulation

1 The data on output growth contained in this note, are provided by the Government of Cuba and take into account high levels of social services exports to a number of countries, particularly the Bolivarian Republic of Venezuela. ECLAC is evaluating those calculations on the basis of the methodology used by the United Nations, a process which has not yet been concluded; ECLAC, therefore, does not yet have its own figures. Furthermore, Cuba has begun applying a new way of valuing social services, which is also being analysed.

of the convertible Cuban peso (CUC) was generalized, in reaction to new external disturbances resulting from unilateral acts by the United States of America.

The official exchange rate remained at one peso to the United States dollar, but as of 18 March, the rate in the parallel market fell from 26 to 24 Cuban pesos for the sale of convertible pesos and United States dollars, and from 27 to 25 pesos for the purchase of convertible pesos from the network of State-owned currency exchange offices (CADECA). In April 2005, the convertible peso appreciated by 8% against all foreign currencies.

As a result, the purchasing power of United States dollars fell by one third within the space of 12 months, owing to the price increases in 2004 in shops operating in foreign currency, the 10% surcharge on changing them into convertible pesos, and the appreciation of the convertible peso in April. The authorities announced that gradual and cautious increases in the exchange rate for the convertible peso would continue, and that it was expected that exchange-rate unification could be achieved in the future.

As mentioned above, the acceleration of economic growth in 2005 resulted from specialization in highly complex services, in which Cuba has achieved internationally-recognized quality, and from growth in tourism services and construction. Cuba's economic activity has also been buoyed by the Government's disaster relief efforts in Guatemala and Pakistan. There was a decline in the agricultural sector, however, mostly because of a 39% drop in sugar production. Electric power generation faltered again, because of the damage and the prolonged maintenance work caused by the eight hurricanes that have hit the country in the past four years.

The prices of goods and services rose because of the significant growth of the supply of money in the hands of the population, rising consumption resulting from higher pensions and salaries, supply problems caused by drought and hurricanes, and the rising prices of fuels on foreign-currency markets.

Consumer prices on the local-currency market rose for the second consecutive year, this time by 4.2%. With the exception of coffee, the State-controlled market held steady, with price controls and subsidies remaining unchanged. On the other hand, prices rose on the agricultural and informal free markets. Electric power prices underwent a significant upward adjustment from December. Prices in foreign-currency shops increased by about 5%.

CUBA: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product [b]	3.8	5.4	11.8
Consumer prices [c]	-1.0	2.9	4.2
	Annual average percentages		
Urban unemployment rate	2.3	1.9	2.0
State fiscal balance / GDP	-2.8	-3.5	-3.6
	Millions of dollars [d]		
Exports of goods and services	4 871	5 860	8 700
Imports of goods and services	5 263	6 219	8 400
Current account	-127	41	60
Capital and financial account	200	800	800
Overall balance	73	841	860

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Figures provided by the Government of Cuba.
[c] Local-currency markets.
[d] Calculated using the official rate of 1 peso to the dollar.

As mentioned above, there was a strong upswing in real wages and the unemployment rate remained stable at 2%, together with increased State employment and the downturn in private own-account employment.

Economic growth was strong for the second consecutive year, with a current-account surplus (US$ 60 million) resulting from a considerable increase in exports of goods and services (48.5%), and despite rising imports (35%), a dip in family remittances (-30%) and soaring profit and interest payments (42.9%). The balance-of-payments capital account was positive (US$ 800 million) owing to rising foreign direct investment, particularly from the Bolivarian Republic of Venezuela, Canada and China. The US$ 860 million increase in international reserves provided some protection against external disturbances.

International tourism attracted 2.3 million people, and there were upswings in professional services and telecommunications. This resulted in a surplus in the services trade balance, in spite of increased services imports.

Of particular note was the upturn in economic relations with China, which boosted its purchases of commodities such as nickel, and with the Bolivarian Republic of Venezuela, which expanded its demand for professional services such as medical care, education, culture and sport.

Dominican Republic

The economy of the Dominican Republic expanded in 2005 (7%), with a 5.2% rise in per capita GDP, the highest percentage since 2000. The main impetus came from a strong recovery in domestic demand, particularly private consumption, but the export sector also performed better than in 2004. The consolidation of domestic macroeconomic stability, achieved thanks to the standby arrangement with the International Monetary Fund (IMF), was reflected in a major exchange-rate appreciation (30% against the United States dollar), falling interest rates, single-digit inflation (estimated at 9% for 2005) and improved public finances, including a cut in the high quasi-fiscal deficit caused by the banking crisis of 2003. The resurgence of domestic demand, together with the impact of rising oil prices, led to a strong increase in imports. The balance-of-payments current account went from a surplus equivalent to 5.9% of GDP in 2004 to a 0.8% deficit in 2005, despite increases in exports, in tourism revenue and in family remittances. The capital and financial account turned positive, and international reserves improved. The purchasing power of wages strengthened, and the April 2005 survey showed a slight upswing in the employment rate compared with that of October 2004. In 2006, it is expected that GDP will grow by 5%, inflation will be between 6% and 8%, and there will be progress in the rehabilitation of public finances.

Monetary and fiscal discipline brought about a rapid stabilization of the economy. The fiscal reform of October 2004 raised public revenue, leading to a reduction of the public-sector deficit to 0.8% of GDP and a primary surplus of 1% of GDP.

Revenue grew by 18% in real terms owing to hikes in direct and indirect taxes, the high level of economic activity, the increase from 12% to 16% in the rate of the goods and services transfer tax (ITBIS), selective consumption taxes and the foreign-exchange commission.

Spending also rose (7% in real terms), particularly current expenditure, owing to salary adjustments and increased gas and electric power subsidies, but less interest was paid on the external debt. Capital spending also rose, with a revival in physical investment and increased capital transfers.

The surplus enabled the Government to expand deposits in the commercial banking system, make overdue payments for the electric-power sector, pay off debt-servicing arrears for the rest of the public sector, and reduce its domestic debts to suppliers. In late 2005, the Congress discussed the tax-reform proposal submitted in September by the executive branch with a view to increasing receipts.

In June, the external public debt stood at US$ 6.448 billion, very close to the December 2004 level. The renegotiation with the Paris Club of sovereign bonds and debt made it possible to reduce interest payments and regularize arrears.

With excess liquidity resulting from the banking crisis having been sterilized, monetary policy focused on lowering inflation, emphasizing control of the monetary base and complying with pre-established ceilings. The main instrument of monetary control was open-market operations, but the authorities also used interest-bearing reserves. As of October, the stock of investment certificates was up 4.8% compared with December, an amount equivalent to 16.3% of GDP, and interest rates on those certificates were down to 11.3% compared with the figure of 32.4% 12 months earlier.

Monetary aggregates showed real increases, in contrast with the extensive reduction seen in 2004. From October to October, M1 money was up 7.5% in real terms, especially current deposits, and broad money expanded by 1.1%. Banking operations revived, in both deposits and lending, with particular intensity in the second half of the year, while interest rates fell by about 10 percentage points. As of September, deposit rates stood at 10.3% and lending rates at 20.9%. Bank lending to the private sector rose by 3.4%, mostly owing to the marked increase in lending to the construction sector and to individual borrowers, whereas other sectors lagged behind considerably.

In contrast with the considerable exchange-rate volatility and depreciation in 2004, it is estimated that in 2005, the rate against the United States dollar fell by 27%, reflecting a 30% real appreciation of the peso.

The largest expansion was in the services sectors. There was strong growth in communications (24.3%) because of the growing numbers of telephones, in commerce (17.5%), hotels, bars and restaurants (7.3%), and tourism and transport (6.3%), which mobilized a considerable volume of domestic and imported goods.[1] Expansion in the agricultural sector (4.7%) was led by growth in livestock output. The electricity, gas and water sector recovered (4.1%), while manufacturing (3.4%) was stimulated by rising private consumption, but output fell in the sugar industry and in free trade zones. Output continued to decline in construction, mining and government services.

The estimated inflation figure for 2005 stood at 9%, as against 28.7% in 2004. There was a surge in prices in the second half of the year, owing to increases in transport and housing costs in response to high international fuel prices. Food prices, however, trended downwards for most of the year. Minimum wages for public employees were raised by a nominal 30%, and in the private sector the raises of December 2004 took full effect, leading to a considerable improvement in purchasing power.

The balance-of-payments current account slumped from a surplus equivalent to 5.9% of GDP in 2004 to a 0.8% deficit in 2005. The recovery of domestic demand led to an unusual surge in imports and, as a result, in the trade deficit. Family remittances, which rose to US$ 2.6 billion, partly made up for the deficit, and positive inflows of capital from abroad brought about an increase in international reserves.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual rates of variation		
Gross domestic product	-1.9	2.0	7.0
Consumer prices	42.7	28.7	4.8 [b]
Real minimum wage	-9.5	...	...
Money (M1)	38.6	46.5	7.4 [c]
Terms of trade	-3.5	-1.2	-2.4
	Annual average percentages		
Urban unemployment rate [d]	17.0	18.4	18.4 [e]
Central government overall balance / GDP	-5.2	-3.0	-0.8
Nominal deposit rate	20.6	21.1	12.8 [f]
Nominal lending rate	27.8	30.3	21.8 [f]
	Millions of dollars		
Exports of goods and services	8 940	9 252	9 872
Imports of goods and services	8 846	9 057	10 944
Current account	1 036	1 088	-240
Capital and financial account	-1 583	-541	1 106
Overall balance	-546	546	867

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Year-on-year average variation, January to October.
[d] Includes hidden unemployment.
[e] Data correspond to April.
[f] Average from January to November, annualized.

Merchandise imports grew by 21.6%, owing to the considerable increase in consumer goods (52% to September), particularly consumer durables, and also in intermediate goods (18%), including a hike of almost 50% in the bill for oil, petroleum products and natural gas. The recovery in investments led to an upswing of 30% in capital goods during the same period.

Overall exports grew by 4.2%, led mostly by domestic exports (8.4%); the growth of those from free trade zones continued to stagnate, owing to the fall in clothing exports. Income from tourism swelled by almost 12%, resulting in an improved services surplus.

The outflow of capital was reversed in 2005, with the capital and financial account showing an inflow of US$ 1.106 billion.[2] That was due to increased foreign direct investment, which totalled US$ 900 million, and to inflows of short-term private capital (banking and other lending), which returned to a positive balance.

1 Estimates for 2005 by the Central Bank of the Dominican Republic.
2 Including errors and omissions.

Guyana

In 2005, GDP dropped by 2.9%, largely due to the negative impact of flooding in February that affected Guyana's main economic sectors including sugar and rice production. Inflation is expected to rise from the 5.5% recorded in 2004 to 7%, as a result of higher international petroleum prices, food shortages following the floods and the increase in the money supply.

The fiscal balance was negatively affected by flooding, higher energy costs and non-budgeted capital expenditure, bringing the deficit from 5% of GDP 2004 to 13% in 2005. The greatest costs corresponded to rehabilitation and reconstruction work in the wake of the flooding, and preparations for the World Cricket Cup to be held in 2007.

Monetary policy remained focused on carefully managing excess liquidity in the financial system in order to secure exchange-rate and price stability and improve the flow and distribution of credit to the private sector.

Despite the widening of the balance-of-payments current account deficit (17% of GDP in 2005), the government predicts a small positive overall balance thanks to greater capital inflows and the forgiveness of part of the external debt.

In 2006, the economy is expected to grow by 4% on the strength of construction and an upturn in agricultural activity. The central government deficit is predicted to remain at current levels.

The central government's debt expanded from 64.438 billion Guyanese dollars (G$) in June 2004 to G$ 69.203 billion in June 2005. The debt forgiveness initiative adopted by the Organisation for Economic Co-operation and Development (OECD) in July will reduce the country's debt stock and corresponding interest payments.

At the end of September 2005, the broad money supply swelled by a hefty 27% compared with the 7% contraction in the year-earlier period. This increase in the money supply was due to a rise in savings deposits.

During the first nine months of 2005, domestic credit expanded by 30%, driven by lower interest rates. This increase was significantly higher than the growth rate recorded the previous year. The rise in domestic credit mopped up some banking liquidity, although this remains high despite the open market operations actively carried out by the Bank of Guyana in order to bring the levels of liquidity down.

GUYANA: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	0.7	1.6	-2.9
Consumer prices	5.0	5.5	7.4 [b]
Money (M1)	7.4	19.6	13.1 [c]
	Annual average percentages		
Central government overall balance / GDP	-6.6	-4.8	-13.0
Nominal deposit rate	3.8	3.4	3.4 [d]
Nominal lending rate	16.6	16.6	16.2 [d]
	Millions of dollars		
Exports of goods and services	698	735	672
Imports of goods and services	777	852	944
Current account	-91	-112	-173
Capital and financial account	100	66	176
Overall balance	10	-45	3

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to September 2005.
[c] Year-on-year average variation, January to June.
[d] Average from January to September, annualized.

Credit to the private sector swelled by over 6% to reach G$ 50.869 billion. Some loans were for the agricultural sector, and this enabled producers to recover production levels following the negative impact of the flooding. Average interest rates dropped between September 2004 and September 2005. The weighted prime interest rate fell from 16.84% to 16.38%, while the commercial banking rate decreased from 14.08% to 8.81%.

The net external assets of the banking system dropped by less than 1% following the impressive 21% increase registered in 2004. The expansion of the commercial banking system's net external assets for purchasing sovereign bonds was offset by the reduction in the net external assets held by the Bank of Guyana. The exchange rate depreciated by 0.2% in the first half of 2005, owing to considerable demand for foreign exchange.

The floods affected rice production (estimated contraction of 15%) and a substantial number of sugar refineries, in addition to causing a reduction in the sucrose content of sugarcane. These difficulties were further aggravated by labour problems. In the first half of the year, sugar production was 86,906 tonnes, which is the equivalent of only 27% of production that had been forecasted for 2005. For the year as a whole, the sector is expected to contract by over 20%, in contrast with the 7% increase posted in 2004. The lacklustre performance of agriculture should be partly offset by the projected 13% increase in bauxite production.

In 2005, the balance-of-payments figure is expected to be positive (US$ 3.1 million), thanks to abundant capital inflows. This will more than offset the current account deficit, which is wider than the previous year as a result of lower revenues from exports of goods and services and the higher oil bill.

In the first half of the year, the overall balance-of-payments position was positive (US$ 8.1 million), despite the significant worsening of the merchandise trade deficit, which widened from US$ 30 million in 2004 to US$ 130 million in 2005. The poor performance of rice and sugar production was only partially offset by higher revenues from bauxite sales. In contrast, imports soared (26%) thanks to external purchases of consumer goods and intermediate and capital goods.

Haiti

The unstable socio-political context continued to be one of the most significant factors affecting the Haitian economy. GDP growth, at 1.5%, was substantially lower than the original official estimates and per capita GDP declined for the sixth consecutive year. The causes included the slower-than-expected disbursement rate of external cooperation funds, the social situation marked by recurring violent incidents and of course the impact of the high rises in international oil prices. Investment and consumption performed modestly, while the external sector showed a higher level of exports (6.9%), thanks to the rapid growth of the maquila industry, and imports showed some signs of recovery (2.2%).

In the course of the year, another three follow-up meetings were held in relation to the agreements reached under the Interim Cooperation Framework (CCI). At the meetings in Cayena (March 2005), Montreal (July 2005) and Brussels (October 2005), the international community reaffirmed its intention of implementing the agreed aid programmes, while proposing an extension of the period of validity of CCI to December 2007 and the joint preparation with the authorities of a Poverty Reduction Strategy Paper.

The largest multilateral contributions were made by the Inter-American Development Bank (US$ 64 million), the World Bank (US$ 28 million) and, more recently, the European Union (70 million euros, which had been frozen since 2000).

In October, the International Monetary Fund approved the second stage of the emergency post-conflict assistance programme for one year and approximately US$ 15 million (12.5% of the country's quota). This second agreement, which includes performance targets similar to those of the agreement covering the period October 2004 to September 2005, will be evaluated in March 2006 with the new authorities.

The balance of external cooperation in the context of CCI was US$ 567 million (90% of the agreed amount). This lower amount is due to both delays in the disbursement process by multiple donors and the absorption capacity of national entities. The delay in making disbursements has been the major criticism made of the programme.

The presidential elections planned for January 2006 dominate the political situation. This process, however, may be postponed once again in view of serious logistics and infrastructure problems (provision of electoral credentials, voting centres) and also purely political problems, including the conflicts which have emerged within the Provisional Electoral Council and between that institution and the executive, which could alter the agreed dates.

The international financial institutions endorsed the transitional government's management of economic affairs. In general, the agreed targets —fiscal deficit, monetary and inflation control, and net international reserves— seem to have been achieved relatively successfully, taking into account the hostile socio-political context which prevailed for most of the year. The macroeconomic results, however, were more modest.

The central government deficit (4.5% of GDP, excluding grants), reflects first of all a rise in income (9.9%) which is less than expected, as revenue from foreign trade and value added taxes performed negatively in real terms (-8.5% and -14.7%, respectively) in view of the low levels of economic activity and short-term situations such as customs strikes. Income tax (20.5%) posted positive results, thanks to the administrative measures to strengthen controls. During the last two months of the financial year there was an exceptional recovery in income because of late tax payments and the operating rights for a new cellular telephony company. Spending was 10.6% lower, despite the upward adjustment of the budget (April-September). The slight rise in current spending (1.3%), which includes the wages of civil servants and energy subsidies, was insufficient to compensate for the steep drop in investment spending (-50%). In addition, there was a retreat as regards implementing some of the measures included in the Emergency Economic Recovery Programme in relation to compensation, support for private investment (a guarantee fund) and job creation.

HAITI: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	0.5	-3.8	1.5
Consumer prices	40.4	20.2	15.2 [b]
Real minimum wage	33.5	-14.7	...
Money (M1)	28.6	13.2	11.9 [c]
Terms of trade	-1.4	-2.8	-4.6
	Annual average percentages		
Central government fiscal balance / GDP [d]	-3.5	-2.4	-1.5
Nominal deposit rate	14.0	10.9	3.2 [e]
Nominal lending rate	30.7	34.1	27.5 [e]
	Millions of dollars		
Exports of goods and services	468	510	628
Imports of goods and services	1 417	1 519	1 654
Current account	- 45	- 27	64
Capital and financial account	37	63	- 41
Overall balance	- 8	35	23

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2005.
[c] Year-on-year average variation, January to June.
[d] Overall balance calculated below the line.
[e] Average from January to October, annualized.

In order to contain the inflationary impulse, the authorities modified monetary policy, imposing a contraction of supply, instead of the expansion that was expected in response to the weakness of the national economy. The rates of bonds from the Bank of the Republic of Haiti (BRH) rose significantly (from 7.5% to 13.4%), without an accompanying change in the nominal deposit rates (3.7% for term deposits in national currency), which translated into negative real deposit rates (-11.2%) and positive lending rates (10.9%).

Although external resources expanded, thanks to remittances and contributions from external cooperation, the nominal devaluation of the gourde (September-September) was 15.8%. Its rapid devaluation from June to August added 10 percentage points to the annual variation. The interventions by the central bank in the foreign-exchange market involved an amount of barely US$ 40.7 million, less than half of the amount for the previous year (US$ 98.8 million).

The balance of external debt (US$ 1.324 billion) remained stable, as repayments (US$ 98 million) were counteracted by service payments (US$ 101 million). The authorities and the international financing institutions are considering a restructuring programme with the Paris Club, in the context of a possible poverty reduction and growth facility.

The budget for 2005-2006 (US$ 860 million) included a deficit for investment spending which will be covered by external cooperation funds; in fact international contributions account for 90% of the public investment programme (US$ 350 million). There is also the strengthening of fiscal control measures through a new decree on tax matters with rate reductions and stricter regulations for exemptions.

The socio-political instability was to a large extent responsible for the low level of economic growth and in the second half of the year policy was tightened in order to ensure that the targets agreed upon with the international financial institutions were met. Growth was mainly due to the positive export performance. Investment increased by only 0.5% and consumption was up by 1.4%, but was still restricted by the limited creation of jobs and income.

The best results in the productive sector were in the recovery of electricity generation (41%), which received numerous subsidies, and, to a lesser extent, the construction industry owing to the infrastructure works undertaken on highways and in the agricultural sector to repair the damage caused by the natural disasters of 2004.

In 2005, inflation was down by five percentage points, at 15.2%. The hike in oil prices (43%) had a strong impact on domestic hydrocarbon prices, transport (21.8%), food (17.9%) and other essential goods.

In this context, the vulnerability of the country's external accounts was once again mitigated by the flow of remittances (US$ 1.043 billion) and the disbursement of external cooperation funds referred to, despite the significant level of capital flight (US$ 60 million) shown by the financial account. Income from foreign direct investment remained low in view of the prevailing uncertainty.

Jamaica

Jamaica's economic performance improved somewhat in 2005, with a growth rate of 1.4%, thanks to a rally in the mining and construction sectors and, to a lesser extent, in tourism. Growth of 3% is expected in 2006, propelled by the recovery of agriculture and continuing growth in mining and tourism. The Petro Caribe initiative is expected to alleviate the pressure of energy costs on the external account by converting 40% of the oil import bill into long-term loans.

Adverse external factors and slow growth had a negative impact on the fiscal accounts, calling into question the achievement of the goal of a balanced budget which the authorities had proposed for the fiscal year 2005.[1] Even so, the Government remains committed to a substantial cut in the public deficit in order to reduce the public debt stock.

The monetary authorities, whose objectives had been focused on interest rate reductions in order to diminish the debt burden and promote economic growth, were obliged to adopt a more conservative stance owing to foreign-exchange pressure.

For fiscal 2005, the authorities are planning to balance fiscal accounts through strict spending controls and, to a lesser extent, increased tax revenue. Spending controls are based on implementation of the agreement concluded between the Government and the Jamaica Confederation of Trade Unions and the adoption of an expansionary monetary policy. The increase in revenue is based on modifications to the general consumption tax and the expansion of the tax base.

The Government expects to end the year with a deficit close to 1% of GDP, which should not endanger the authorities' commitment to reducing the external debt stock. Despite flexible monetary, fiscal and labour policies, however, the Government will find it difficult to achieve its goal, mostly owing to the impact of natural disasters and rising fuel prices.

During the first two quarters of the fiscal year (April to September), tax receipts dropped off and the total take was lower than expected. The Government responded by holding back current and capital spending, and managed to keep outflows below the budgeted level. Nonetheless, the fiscal effects associated with rehabilitation and reconstruction operations will be felt fully in the coming months.

In the first eight months of the year, the authorities followed an expansionary monetary policy. Taking advantage of a favourable situation, the Bank of Jamaica cut interest rates in order to promote economic growth and reduce interest payments on the domestic-currency denominated debt, which make up almost two thirds of total interest.

From September, the impact of natural disasters brought about a reduction in foreign-exchange inflows and, together with rising oil prices, led to heightened inflationary expectations. Economic agents reacted by replacing domestic-currency denominated assets with those denominated in foreign currency, causing the exchange rate to fall. The Bank of Jamaica responded by adopting a more cautious monetary policy and intervening in the foreign-exchange market. Open market operations were also conducted. This resulted in a fall in foreign-exchange reserves, and there was a slight fluctuation in the interest rate.

The reduction in net international reserves more than made up for the growth in net domestic assets, owing to interest payments on Bank of Jamaica securities. This resulted in a 23% fall in the money stock and a 5% decline in the M1 money aggregate from September 2004 to September 2005.

Commercial bank loans expanded by 14% in 2005. Credit expanded in response to the fall in real interest rates, which in turn was due to higher inflation and the financing of reconstruction and rehabilitation operations in the tourism sector.

The negative performance of the agricultural sector (-11%) was caused by unfavourable weather conditions and natural disasters, but the sector is expected to grow by 7% in 2006. The growth rate in manufacturing (0.6%) was held back by the agricultural situation, high production

1 The fiscal year runs from 1 April to 31 March.

costs and low levels of competitiveness. Manufacturing is expected to achieve growth of 2% in 2006. The mining sector had to some extent been obstructed by the impact of hurricanes and labour disputes, but it made a recovery (5%) thanks to increased capacity. It also benefited from increased flows of foreign direct investment. For 2006, growth is projected at 6%.

Growth in the construction sector (8%) was boosted by an upswing in the non-residential subsector, improved access to credit, and the beginning of reconstruction and rehabilitation activities. Thanks to this stimulus, the sector is expected to expand by 5% in 2006.

Growth in the tourism sector stood at 2%. There was a fall in the numbers of extended-stay and cruise passengers, owing to increased competition from other destinations and to the interruption of tourism services as a result of natural disasters. For 2006, growth is projected at 3%.

The inflation rate was still in two figures (16%), owing to rising prices in transport and public services, energy costs, and the impact of natural disasters on agricultural and mining output.

Higher prices meant a fall in the purchasing power of wages, and the Government was forced to amend the agreement concluded with the trade unions in September 2005, providing public employees with special payments and debt rescheduling facilities. The unemployment rate (12.2% in April 2005) was mainly due to a seasonal pattern of performance and to the impact of hurricanes on some sectors.

The overall balance declined, owing to the growth of the current-account deficit (6% and 9% of GDP in 2004 and 2005 respectively) and the reduced surplus on the capital and financial account, owing to lower inflows of external private capital.

JAMAICA: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	2.3	0.9	1.4
Consumer prices	14.1	13.7	15.9 [b]
Money (M1)	4.4	18.9	17.0 [c]
Real effective exchange rate [d]	14.6	-1.4	-8.3 [e]
	Annual average percentages		
Urban unemployment rate [f]	11.4	11.7	11.5 [g]
Central government overall balance / GDP	-5.8	-5.0	...
Nominal deposit rate	8.3	6.7	6.0 [h]
Nominal lending rate	25.1	25.1	23.4 [h]
	Millions of dollars		
Exports of goods and services	3 517	3 899	4 042
Imports of goods and services	4 896	5 271	5 858
Current account	-761	-509	-847
Capital and financial account	326	1 203	1 070
Overall balance	-435	694	223

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2005.
[c] Year-on-year average variation, January to August.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Data correspond to the average for January and April.
[h] Average from January to October, annualized.

The current-account deficit was due to rising imports of goods and slower growth in exports of goods. The growth of imports (44% and 45% of GDP) was caused by the rising oil bill, while exports were hit by the destructive impact of natural disasters. The capital and financial account responded to the increased differential between international and domestic interest rates and to inflationary expectations, which discouraged inflows of foreign capital.

Suriname

According to estimates from the National Planning Office, there will be economic growth of 5.2% and 5.1% in 2005 and 2006, respectively. In July 2005, the General Bureau of Statistics reported that the official figure for growth in 2004 was 7.8%, which was much higher than most of the estimates. This rapid expansion was due to the rise in private investment, especially foreign investment attracted by the improved economic stability and high international prices of export commodities such as alumina and, more recently, gold and oil.

In this context, Suriname is experiencing the five-year period with the highest growth in its 30 years of independent existence. Real per capita income has returned to the level reached in the second half of the 1970s, which had been lost owing to the political and economic disturbances of the 1980s and 1990s.

President Venetiaan was re-elected in August 2005 when the government coalition, which had been expanded from four to eight parties, managed to win 28 of the 51 seats in the National Assembly. The government agreement is still being negotiated but continuity in political and economic management is expected, together with new impetus for reform in the public sector.

The rise in international oil prices forced the new authorities to double domestic fuel prices for fiscal reasons. There had been a problem with the functioning of the hydrocarbons tax: in May 2005 the government stopped receiving income from this tax and yet was continuing to pay subsidies. The sudden price increase decreed on 1 September ended the subsidy and had a significant impact on the consumer price index for the month of October, when the 12-month variation rose to 16.6% compared with the August value of 8.7%.

Despite the fact that 2005 is an electoral year, the fiscal surplus (including grants) is expected to be 0.1% of GDP, which is an improvement compared to 2004, when there was a deficit of 0.8% of GDP. This result was due to the policy of suspending public wage adjustments and the significant rise in current revenues (over four percentage points of GDP), boosted by overall growth and in particular the higher level of imports. For 2006, the announced budget shows a large deficit (-6% of GDP), as a reduction in revenue and a significant expansion of spending are expected.

After the introduction of the Suriname dollar (SRD) on 1 January 2004, the Government kept the currency's value stable in terms of United States dollars. In March, the central bank raised the exchange rate from 2.75 to 2.80 Suriname dollars per United States dollar. At the end of May, the figure was lowered to 2.78. The rate in exchange offices was virtually identical. Naturally, in view of the inflation rate of 16.6%, the real exchange rate appreciated significantly in relation to the dollar.

In May 2005 the banking law was modified and new regulations were included on advances and loans from the central bank to the government. New restrictions were placed on the legal provisions for monetary financing of the fiscal deficit.

The legal reserve rate was used to reverse the trend to dollarization and increase the demand for national

SURINAME: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	3.5	7.8	5.2
Consumer prices	13.1	9.1	16.6 [b]
Money (M1)	18.4	13.4	21.4 [c]
	Annual average percentages		
Central government overall balance / GDP	0.7	-2.2	-1.3
Nominal deposit rate	8.5	8.1	7.9 [d]
Nominal lending rate	21.0	19.1	18.3 [d]
	Millions of dollars		
Exports of goods and services	547	776	906
Imports of goods and services	640	864	1 088
Current account	-148	-138	-187
Capital and financial account	155	162	198
Overall balance	7	24	11

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2005.
[c] Year-on-year average variation, January to September.
[d] Average from January to September, annualized.

currency. At the beginning of 2005, the legal reserve rate for foreign-currency deposits was raised from 22.5% to 33.3%, with a view to ensuring monetary stability during the election period. Meanwhile, the legal reserve rate for Suriname dollar deposits remained stable at 30%.

The construction and mining sectors led the growth. Construction benefited from the regulation that allows banks to use part of the legal reserve for mortgage loans. Mining was strengthened by the expansion of gold production in the new Rosebel mine and crude oil from the state enterprise Staatsolie. Alumina production did not increase, despite higher capacity, owing to technical problems at the refinery. Meanwhile, agricultural activity recorded a sudden rise in plantain exports. For 2006, further expansion is expected in the agricultural subsector, although rice production has to be restructured, and in the mining subsector owing to new oil and possibly gold exploration.

In 2005, there were no adjustments to public sector wages and social subsidies, which meant a considerable loss of purchasing power for a large sector of the population. In the construction sector, in contrast, the real wage index increased by nine percentage points. Unemployment in Paramaribo and Wanica diminished by 9% in 2004 and by 8% in the first quarter of 2005.

The current account deficit in the first half of 2005 rose to US$ 94 million, compared to US$ 55 million in the first half of 2004. If this trend continues throughout the year, the deficit will reach 14% of GDP. The value of goods imports increased sharply (27%) and the higher level of exports and the improvement in the services, capital income and transfers accounts could not offset this expansion.

The financial and capital account deficit expanded from US$ 4 million to US$ 50 million owing to the decline in stocks of foreign currency in the commercial banking system.

Trinidad and Tobago

In 2005, economic activity continued to grow significantly in Trinidad and Tobago. The energy sector boom has been a major factor in the growth of GDP, tax collection and foreign exchange receipts. Unlike in previous periods, the energy sector has benefited from high prices and also the discovery of major petroleum and natural gas reserves. This provided a major boost to the liquefied natural gas subsector, thereby reducing the strong dependence on petroleum.

In the first half of 2005, the GDP growth rate was 6.2%, and is expected to be 7% by the end of the year and 10.6% in 2006. Growth is largely due to sustained high international petroleum and gas prices and higher value added in the energy sector. The non-energy sector also performed well, with estimated growth of 5.6% compared with the 3% recorded in 2004. Construction has been the main engine of growth (8.1%) in the non-energy sector. Although agriculture continued to decline (-0.5%), the sector turned in a better performance than in 2003 (-18.2%) and 2004 (-21.1%).

Between the first half of 2004 and the first six months of 2005, the number of people employed rose by 20,300, mainly thanks to growth in construction, which generated 16,900 new jobs. This absorbed the increase in the work force (19,100 personas), thereby bringing down the unemployment rate from 8.6% to 8.2% during the same period. The unemployment rate is expected to be below the 8% mark for the 2005-2006 fiscal year.

The economy has been subjected to inflationary pressure since the beginning of 2005. Inflation rose from 5.6% in 2004 to 6.8%, which exceeds the target set by the central bank.

Inflation was pushed up mainly by food prices, which increased by an average of 13% in 2004 and an average of 23% in 2005. Higher prices for construction materials (variation of 6.4% in 2004 and 11.3% in 2005) also contributed to the rise in inflation.

Public spending is still financed from tax receipts collected from the energy sector, although it is hoped that reforming the tax system applicable to other sectors will provide more permanent sources of income. According to recent data, fiscal revenue from the energy sector represented 43% of government receipts. However, this income is expected to fall in the 2005-2006 period as a result of reductions in corporate tax and income tax announced in the 2006 budget.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	12.6	6.4	7.0
Consumer prices	3.0	5.6	6.8 [b]
Real wages	7.6	...	...
Money (M1)	12.0	8.1	13.7 [c]
Real effective exchange rate [d]	0.0	1.6	-1.0 [e]
	Annual average percentages		
Rate of urban unemployment [f]	10.5	8.6	8.2
Central government overall balance / GDP [g]	1.4	2.1	...
Nominal deposit rate	2.9	2.4	2.4 [h]
Nominal lending rate	11.0	9.4	8.9 [h]
	Millions of dollars		
Exports of goods and services	5 890	7 335	10 036
Imports of goods and services	4 283	5 315	5 608
Current account	985	1 623	4 132
Capital and financial account	-651	-889	-3 132
Overall balance	334	734	1 000

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2005.
[c] Year-on-year average variation, January to June.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Includes interest.
[h] Average from January to July, annualized.

It is estimated that public expenditure will increase to 27% of GDP in the 2005-2006 fiscal year, mainly as a result of increased spending on wages and salaries (19%) and transfers and subsidies (34%). Government expenditure has been concentrated on major public construction projects, such as new government buildings and improvements to existing ones, and low-cost housing.

Monetary policy changed its expansionary stance in response to the inflationary pressure that had been making itself felt since early 2005. The repo rate rose by 100 basis points during the year to reach 6.0% in October. In addition, the prime lending rate of the commercial banks climbed from 8.75% at the end of 2004 to 9.5% in 2005.

Liquidity has remained high, mainly due to the increase in fiscal expenditure. In the 2005 fiscal year, more than twice as many public resources were pumped into the economy than in 2004. The expansion of credit has also contributed to current liquidity pressures. Credit to the private sector was up by 20.3%, while credit from commercial banks to consumers recorded the highest increase (24.0%), followed by credit to companies (15.1%).

The central bank increased its open market operations with a view to controlling liquidity. Net sales of securities rose from an average of US$ 14 million per month in the 2004 fiscal year to US$ 41.4 million a month in 2005. Nonetheless, the continued expansion of liquidity challenges the central bank to identify other absorption mechanisms. Increases in the repo rate have had limited effect on key market rates including the interbank rate and the prevailing market rates for credit from commercial banks. While the repo rate climbed several times during 2005, the interbank rate fluctuated between 4.12% and 4.31%.

Despite pressures on the foreign exchange market, the exchange rate has remained almost completely stable, while the real effective exchange rate weighted by currencies of the country's trading partners is lower than in 2004.

In the first half of 2005, the balance-of-payments current account surplus was more than twice as large as in the first six months of 2004, which was attributable to the hike in exports from the energy sector (60%). Forecasts for 2005 suggest a sizeable deficit in the capital account, based on the fact that the first six months of the year show a deficit of US$ 1.189 billion compared with a negative balance of only US$ 177.1 million in 2004.

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

The countries members of the Organization of Eastern Caribbean States (OECS) maintained their growth trajectory, achieving 5.8% growth in 2005. Economic activity was led by construction, tourism and transport. For 2006, 7% growth is predicted, driven by construction (21%), tourism (10%), transport (9%) and agriculture, which is also expected to expand.

The fiscal deficit of the OECS member countries widened as the increase in capital expenditure exceeded the rise in revenue in some of the economies. This increased spending is due mainly to preparations for the Cricket World Cup, which is scheduled to be held in 2007.

Capital expenditure in Saint Lucia and Saint Vincent and the Grenadines was up by more than 50%. Disbursements for rehabilitation and restoration operations such as those carried out in Dominica and Grenada also contributed to this result.

Most governments kept a tight rein on current expenditure. Antigua and Barbuda announced a 20% cut in public wages and Saint Kitts and Nevis closed down their sugar industry. On the other hand, the Governments of Grenada and Saint Vincent and the Grenadines increased their payroll by 8%.

In terms of revenue, some OECS member countries improved their tax collections. Antigua and Barbuda approved a tax reform which included the reintroduction of income tax, a 5% wholesale sales tax and a 7% excise tax aimed at reducing the fiscal deficit and the public debt stock. Similarly, Grenada sought to increase government revenue by improving the efficiency of public administration.

On the other hand, other member countries, in particular Saint Lucia and Saint Vincent and the Grenadines, took steps to ease the tax burden. Saint Lucia reduced the corporate tax rate, while Saint Vincent and the Grenadines established a tax credit for small businesses and raised the tax exemption threshold.

Monetary policy did not register significant changes. The Eastern Caribbean Central Bank continued to operate with liquidity levels above the statutory requirements. The economies belonging to the Organization of Eastern Caribbean States formed a monetary union in 1983. Their single currency, the Eastern Caribbean dollar (EC$), is linked to the United States dollar at a rate of EC$ 2.70. The union's monetary authority, the Eastern Caribbean Central Bank (ECCB) acts as a currency board and is required by its statutes to maintain reserves equivalent to 60% of its monetary liabilities.

In 2005, foreign direct investment (FDI) inflows contributed to a rise in the net external assets of the OECS member States. At the same time, net domestic assets expanded in line with the vibrancy of some of the main economic sectors.

High liquidity and the upturn in economic activity boosted credit by 6%. This was geared mainly towards tourism, construction and, to a lesser extent, agriculture.

Grenada and Saint Lucia recorded the highest growth rates (9% and 8%, respectively), while Dominica and Saint Vincent and the Grenadines recorded the lowest rates of expansion (3% in both cases).

Agriculture contracted (-12%) owing to lower banana production in the Windward Islands, unfavourable weather conditions and pests that affected agricultural output. The poor agricultural performance was also attributable to the virtual suspension of agricultural production in Grenada, following the devastation caused by hurricane Ivan. The manufacturing sector rallied (2.3%) from the setback (-1.2%) experienced in the previous year. Saint Vincent and the Grenadines recorded the highest growth rate (4.5%), while Grenada posted a negative growth rate due to the effects of hurricanes Ivan and Emily.

The construction sector rebounded strongly (22%) thanks to the start-up of preparations for the Cricket World

[1] The members and associate members of the Organization of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Cup, reconstruction and rehabilitation activities following the natural disasters and the continued implementation of government projects and infrastructure works relating to development of the tourism sector. This sector (5%) has responded to the sound economic performance of the main markets in the developed countries, to favourable prices for European tourists as a result of the depreciation of the United States dollar against the euro, and to the increase in air-transport capacity. Cruise-ship tourism has fallen, however, following the reduction in the number of cruises and restrictions on anchorage capacity in OECS ports.

The rate of inflation rose in line with the escalation in international oil prices and in controlled prices and the depreciation of the United States dollar vis-à-vis the euro. The jobless rate reflected the upturn in the economy.

The overall balance of payments turned sligthly negative, owing to the expansion of the current account deficit (from 17% of GDP in 2004 to 23% in 2005), which more than offset the increase in the surplus on the capital and financial account (from 19% of GDP in 2004 to 23% in 2005).

OECS: MAIN ECONOMIC INDICATORS

	2003	2004	2005 [a]
	Annual growth rates		
Gross domestic product	3.7	3.0	5.8
Consumer prices	0.6	1.4	...
	Millions of dollars		
Exports of goods and services	1 572	1 805	1 833
Imports of goods and services	2 144	2 328	2 524
Current account	-678	-562	-807
Capital and financial account	603	617	796
Overall balance	-74	55	-11

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

The current account deficit reflected the rise in international oil prices, growth in the demand for construction materials and the fall in exports of bananas and other agricultural crops. The balance on the services account was affected mainly by the variation in the category "travel" and to a lesser extent, "transport".

The surplus on the capital and financial account (19% and 23% of GDP for 2004 and 2005) stems from the strong FDI inflows into the tourism sector.