THE CARIBBEAN

Bahamas

The moderate 2% growth of the Bahamian economy approximated the 2002 rate and reflected the gradual recovery of tourism after its expansion came to a standstill in 2001. Inflation, at 2.5%, sped up slightly, while the fiscal deficit and the balance-of-payments current account deficit narrowed.

Tax revenues increased by 4% between fiscal years 2001/2002 and 2002/2003, while the authorities kept a tight rein on expenditure.[1] Tax incentives for certain economic activities (including the establishment of tax-free zones in low-growth areas and higher exemptions and lower property tax rates for first-time home buyers) did not significantly affect fiscal performance, and the deficit contracted from B$ 171 million in fiscal year 2001/2002 to B$ 87 million in the first 11 months of the next fiscal year. Initial data for fiscal year 2003/2004 show that fiscal performance is continuing to improve, thanks to the efforts made to control expenditure. A central government deficit of 2.5% of GDP is expected, compared to 3.4% in the previous period.

The deficit will be financed mainly with external resources. In July 2003 the authorities issued a bond for US$ 200 million, with a 30-year maturity. In September the public debt, 80% of which consists of external debt, reached US$ 2.41 billion, which is 7% higher than the previous year's level. Between September 2002 and September 2003 debt servicing rose from 26% to 31% of GDP.

To counteract the effects of the increase in international reserves (29% from September 2002 to September 2003) on liquidity, the authorities applied a tight monetary policy, and the net domestic assets of the central bank contracted by 4.1% over the above-mentioned period. The limits on commercial bank loans introduced as a precautionary measure after the events of 11 September 2001 were maintained.

As a result, the monetary base contracted by 1.7% and the monetary aggregates M1 and M2 expanded at rates similar to those of the previous year (6% and 2%, respectively, from September 2002 to September 2003). In accordance with monetary policy, in the same period interest rates rose from 11.4% to 12%. This dampened the demand for credit, so that by September 2003 credit had grown by just 1.4%, compared to 3.5% twelve months earlier.

GDP grew by 2%, primarily reflecting a moderate recovery in tourism and a weak performance in construction. The number of tourists increased by 2.7% owing to a rise in sea arrivals, since air arrivals stagnated. Tourist expenditure was up by 1.7%. The decline in

1 The fiscal year runs from July to June.

mortgage loans reflected reduced activity in both commercial and residential construction. This sector is expected to rally, however, as a result of increased foreign direct investment in tourism infrastructure.

The 12-month inflation rate increased in comparison to the previous year, from 1.9% at the end of 2002 to 2.5% in September 2003. The biggest increases were in recreation, entertainment and health services. Unemployment is expected to stay at the previous year's level (9%) in view of the sedate pace of economic growth.

The overall balance of payments result was positive, partly because of the smaller current account deficit produced by the decline in imports, which, in turn, reflected the restrictive monetary policy. Meanwhile, the surplus on the capital and financial account (including errors and omissions) increased despite short-term capital outflows through the banking system.

Barbados

The economy of Barbados posted moderate growth (2.5%) in 2003. As in other Caribbean nations, this result is mainly due to the recovery of tourism after the attacks of 11 September 2001 in the United States. Both the number of visitors and tourist expenditure increased. Inflation rose slightly because of higher fuel costs, and the unemployment rate also rose. The balance of payments was positive thanks to the capital and financial account surplus, which more than covered the current account deficit. The outlook for 2004 is that moderate growth will continue and will have a favourable effect on the government accounts.

The fiscal deficit for fiscal year 2002/2003 amounted to 5.4% of GDP because of a marginal decline in income (-0.3%) and a moderate rise in spending (4.1%).[2] The spending increase was due to higher expenditure on salaries and wages (5.7%) and to purchases of goods and services (5.9%). Capital expenditure, in contrast, diminished (-6.7%), partly because of the completion of investment projects. The deficit was financed primarily from domestic sources, particularly the government's deposits with the central bank.

The projections for fiscal year 2004/2005 estimate increases in current income and expenditure of 2.2% and 3%, respectively. In contrast, capital expenditure will contract by 18.5%, so that total expenditure will rise by only 1%. A positive overall result is expected, in an amount close to BDS$ 16 million.

The monetary authorities maintained a cautious stance. As a financial agent of the government, the central bank had to issue treasury bills for a nominal value of BDS$ 130 million to cover the fiscal deficit. Between January and September the total value of the debt issued increased by 17%.

Most treasury bills were absorbed by the banking system, in view of excess liquidity. The large-scale accumulation of excess reserves in the banking system, equivalent to 64% of total reserves in August, was the result of growth in liabilities and a slight expansion of assets. In particular, savings deposits by individuals climbed by 12%, while the demand for credit increased by only 4.7%. The meagre demand for loans reflected the modest and unequal growth of the different economic sectors.

2 Barbados's fiscal year runs from April to March.

BARBADOS: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-2.2	-0.4	2.5
Consumer prices	2.8	0.2	1.5
Money (M1)	9.6	24.8	-9.6
Real effective exchange rate	2.4	3.5	2.5
Annual average percentages			
Unemployment rate	9.9	10.3	11.7
NFPS fiscal balance/GDP	-3.8	-5.6	-4.2
Real deposit rate	0.3	6.5	0.8[b]
Real lending rate	8.1	10.1	8.3[b]
Millions of dollars			
Current account	-94	-171	-231
Capital and financial account	321	187	303
Overall balance	227	16	72

Source: Statistical appendix.
[a] Preliminary estimates to third quarter.
[b] August.

The demand for loans increased in extraction activities, distribution, tourism and entertainment and the food industry, but contracted in agriculture, fishing, other branches of manufacturing and transport. The strong demand for treasury bills exerted downward pressure on interest rates; the three-month rate on treasury bills declined from 1.36 to 0.94 between January and August. Interest rates in the banking system also tended to decline, albeit moderately, as the average deposit rate went from 2.59% to 2.55% between January and September and the lending rate, from 10.42% to 10.17%.

Tourism was the standout in the Barbadian economy's expansion in 2003, while most other sectors stalled or grew only moderately. Sugar production was down by 12% because of weather-related factors and operational difficulties in some sugar plants. Other agricultural crops stagnated. Fishing improved in comparison to the previous year, rising from a decline of 7.4% to an increase of 7%, but this positive contribution was counteracted by declines in milk and chicken production.

Manufacturing stagnated because of sharp declines in electronics (owing to a plant closure) and chemicals. Construction maintained its moderate growth of the previous year (3%), as residential activities stalled and public-sector infrastructure projects were gradually completed.

The tourism sector regained its traditional vigour in 2003 with a 6% increase, after a 3% fall in 2002, thanks to the recovery of cruise-ship arrivals. This improvement was due in part to the sector's gradual return to normal after the events of 11 September 2001, and also to the promotional activities launched by the authorities, including the "Best of Barbados" campaign.

Buoyed by the robust growth of tourism, the transport, storage, communications and commerce sectors expanded by about 3% in 2003, after their weak performance of the previous year.

Tourism is expected to continue its recovery in 2004. In late 2002 the authorities adopted a law on the development of the hotel sector, with a view to raising the country's profile as a tourist destination; this step should give the sector a significant boost.

The inflation rate, measured by the consumer price index, increased from 0.2% in 2002 to 1.5% in 2003 as a result of the expansion of economic activity, in a context of stable international prices. The biggest increases were in fuels and electricity, medical and personal care and food, which were offset in part by declines in the cost of housing, clothing and footwear and of alcoholic beverages and tobacco.

The unemployment rate rose from 10.3% in 2002 to 11.7% in 2003 as job creation in activities related to tourism, commerce, transport and communications was more than offset by job losses in other economic sectors. Male unemployment increased from 8.7% in 2002 to 10.5% in 2003, while the female rate rose from 12.1% to 13%.

The overall result of the balance of payments was positive thanks to the capital and financial account surplus (of 14% of GDP, including errors and omissions), which more than compensated for the current account deficit (of 6.6% and 8.6% of GDP in 2002 and 2003, respectively). Accordingly, international reserves increased by US$ 141 million and kept import coverage at the previous year's level (31 weeks, including both goods and services).

Exports, which include sugar, electrical components, chemicals, and food and beverages, were listless owing to internal problems such as poor weather conditions, technical difficulties and the closure of a chemical plant. The growth in imports (10%) was attributable to the upturn in economic activity. The categories with the largest increases were consumer goods (8%) and intermediate purchases (12%).

The services account (4.3%) reflected the recovery and brisk growth of the tourism sector. Current transfers grew by 8% and the income account posted a negative result owing to debt interest payments and profit repatriation.

The capital and financial account surplus reflects inflows of foreign direct investment to the tourism sector

(US$ 92 million and US$ 158 million in 2002 and 2003), the repayment of a loan granted by the government of Barbados to a tourism company and the sale of government shares in the Barbados National Bank to the Republic Bank, based in Trinidad and Tobago. The latter two items brought in long-term public capital in the amount of US$ 79 million.

For 2004 it is expected that the current account deficit will remain above 6% of GDP, as a result of expanding economic activity and continued low export growth. This deficit will be covered by foreign direct investment aimed at the development of the tourism sector and by the proceeds of the privatization programme currently being carried out by the government.

Belize

In 2003 economic growth in Belize (4%), as in other Caribbean countries, was driven mainly by the recovery of tourism after the crisis caused by the events of 11 September 2001. The restrictive stance of economic policy prevented faster growth, as the authorities sought to reduce the unwieldy fiscal deficit and prevent international reserves from declining further. Inflation was once again very low.

In fiscal year 2002/2003 the central government focused on reducing the budget deficit to 5% of GDP. The deficit had reached 9% in the previous period owing to a policy aimed at expanding aggregate demand by increasing capital expenditure. The fiscal year now ending saw a sharp contraction in investment outlays (43%) and a satisfactory increase in fiscal revenues (8%).

A further cutback in investment expenditure and a reduction of the fiscal deficit to 3% of GDP are planned for fiscal year 2003/2004. Capital outlays financed from local sources will be cut by 48%, while those financed from foreign sources will drop by 24%. Together with an estimated 11% increase in fiscal revenues, in particular from international trade (19%), the restriction of capital expenditure is expected to compensate for the rise in current expenditure caused by increases in wages and social security.

The fiscal deficit will be financed mainly from external sources. This financing includes US$ 125 million obtained for debt restructuring, the placement of a US$ 200 million bond issue in June, US$ 34 million from multilateral creditors and US$ 8 million from bilateral creditors. This improved access to international resources will maintain the upward trend in the level of external debt, which increased from US$ 556 million to US$ 674 million between January and September 2003.

Net international reserves diminished during the year, mainly because of the increase in debt servicing. The central bank's external assets decreased by 4% between January and September 2003, and the foreign-currency assets of commercial banks also declined.

The contraction in net external assets was accompanied by an 8% increase in total net domestic credit (credit to the private sector grew by 10% and credit to the public sector fell by 12%). As a result, the level of liquidity decreased by 10% in the case of narrow money and 4% in the case of broad money, causing a slight upturn in deposit rates, from 4.4% in September 2002 to 4.9% in September 2003. Lending rates remained at the same level as in 2002 (14%) owing to weak demand for credit in the private sector.

GDP growth (4%) reflected the performance of certain agricultural products, the fishing industry and continued growth in the tourism sector.

The agricultural sector posted mixed results. The sugar cane harvest was down by 6.7% because of adverse weather conditions, low productivity in the cane fields and the producers' high levels of debt. Similar factors reduced shipments of citrus fruit (4.2%).

BELIZE: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
	Annual growth rates		
Gross domestic product	4.7	3.7	4.0
Consumer prices	1.1	2.3	2.3
Money (M1)	17.6	-1.8	-1.3[b]
	Annual average percentages		
Real deposit rate	3.2	2.2	2.4[c]
Real lending rate	14.1	11.9	11.8[c]
	Millions of dollars		
Current account	-185	-163	-163
Capital and financial account	181	158	127
Overall balance	- 4	- 5	- 36

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from September 2002 to September 2003.
[c] Rate in September.

In contrast, banana output increased despite the fall in prices, owing to improvements in production methods, coordination between the harvest cycle and market demand and the penalty imposed for unused cargo space, which was intended as an incentive for making optimum use of available cargo capacity. There was also growth in seafood production, which recovered from the effects of contamination by parasites and adverse external conditions. Manufacturing (1.2%) benefited from increases in the production volume and prices of clothing.

The tourism sector expanded because of a 58% increase in total visitor arrivals between January-September 2002 and the same period of 2003, mostly due to cruise-ship calls (98% over the same period). These results do not reflect the full potential of tourism in Belize, which offers one of the most diversified tourist destinations in the Caribbean and Central American subregion. In addition to traditional seaside tourism, this country has the world's second-largest barrier reef and the heritage of Mayan culture. As it is the least deforested country in the Central American isthmus, Belize is also home to a wide variety of wildlife.

Inflation remained at the previous year's level (2.3%), thanks to stable international prices, monetary control and the moderate expansion of economic activity. In February the government announced wage increases for public-sector employees, to be implemented in three stages in 2003 and 2005.

The balance-of-payments deficit (including errors and omissions) increased from US$ 7 million in 2002 to US$ 36 million in 2003, while the current account deficit rose to US$ 129 million, which represents an increase of 16%. This deficit was larger than the capital and financial account surplus (US$ 99 million), resulting in an erosion of international reserves.

The current account imbalance was due to the widening of the merchandise trade deficit (by 11% over its 2002 level) and the negative balance on the income account (by 12% over the 2002 level). The trade deficit stemmed from the lacklustre performance of the main traditional export segments (except bananas and seafood) as a result of adverse weather conditions, low prices, poor management, low productivity and the large debts incurred by agricultural producers. The deficit on the income account was mainly due to interest payments on external debt.

The non-factor services account surplus improved significantly (41%) because of the growth in tourism. The positive balance of those services, together with the transfers account surplus (US$ 29 million), made it possible to finance 69% of the current account deficit.

The capital and financial account surplus was attributable to foreign direct investment inflows (of US$ 19 million in 2002 and US$ 14 million in 2003) and, in particular, to foreign exchange inflows from the bond issue on the international market.

Cuba

After three years of slowing growth, the Cuban economy turned in a more robust performance in 2003, with a growth rate of 2.6% as opposed to 1.2% the previous year. This upturn was driven mainly by increases in foreign tourist arrivals, family remittances, goods exports and repair work following the damage caused by three hurricanes that hit the island in 2001 and 2002.

Economic policy again had little room for manoeuvre, however, as it was constrained by a relative shortage of foreign exchange caused by a stagnation in foreign direct investment, a rise in the cost of servicing external debt (mainly interest), cash payments for food and agricultural imports from the United States and a fresh downturn in the terms of trade.

Although transfers from abroad continued to expand (US$ 915 million), the balance-of-payments current account deficit widened slightly to 1.1% of GDP. This reflected an increase in the goods and services trade deficit and in factor service payments, in the latter case because of interest on external liabilities and the repatriation of profits generated by foreign direct investment on the island.

External demand, which was up by 10%, and the expansion of government consumption (6.2%) both acted as a powerful engine of GDP growth. A rise in current fiscal expenditure (8.9%) pushed the fiscal deficit to 3.4% of GDP, as against 3.2% in 2002, but money in circulation (M1A) declined appreciably, from 44.5% of GDP in 2002 to 38.4% in 2003. The market exchange rate held steady at 26 Cuban pesos to the dollar; the official rate remained unchanged at one peso to the dollar.

Tax revenues rose by 8.9%, while non-tax revenues slipped by 2.1%. The higher tax receipts reflected an increase of 11.9% in indirect levies and a smaller rise of 4.7% in direct taxes. The jump in indirect tax receipts was due to an increase in the rate of circulation and sales taxes (11.6%) and service taxes (14.2%). Personal income taxes (8.7%) were the main component of the rise in direct levies, owing to larger receipts from small-scale farmers, since the intake from own-account workers contracted. Revenues from the tax on the utilization of the labour force also rose (2.8%).

Current expenditure rose by 8.9% owing to increases in budgetary allocations for social assistance (93.5%), science and technology (36.6%), culture and art (13.8%), sports (9.4%), education (9%), public health (6.6%), social security (3.3%) and municipal services (2.4%), in keeping with the strong social slant of fiscal policy.

The amount of budgetary resources channelled into capital formation was down by 2.5%, but priority was given to the construction of housing for the victims of hurricanes Isidore and Lili and to the tourism development programme. Large slices of investment were also earmarked for the sugar industry, forestry development, the development of pastureland and shade tobacco, improvement of soil and waterworks and repair work on schools and public health facilities.

The decline in money in circulation reflected increased sales of convertible currency by the network of currency exchange offices (CADECA), higher retail sales and a rise in fixed-term savings deposits in response to attractive rates of interest. Accordingly, M1 dropped by 11.4%, with declines of 12.1% in cash in circulation and 10.1% in regular savings accounts. By contrast, fixed-term deposits expanded considerably (42.9%).

The drive to improve business practices also continued in 2003, extending to some 600 firms, which represent almost 20% of the total and contribute 38% of the output of goods and 40% of profits. The petroleum, nickel and electricity industries are participating in this scheme. The idea is to make more efficient use of financial, material and human resources and, in particular, of foreign exchange, and to give the firms more autonomy in the decentralized management and administration of part of their profits. The sugar industry continued to be restructured, in order to cut production costs and foreign-exchange outlays in response to falling international prices. The government hopes to encourage import substitution and the development of derivatives.

CUBA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.9	1.2	2.6
Consumer prices	-0.5	7.0	5.0[b]
Money (M1)	17.6	10.3	-11.4
Annual average percentages			
Urban unemployment rate	4.1	3.3	3.0
State fiscal balance/GDP	-2.5	-3.2	-3.4
Millions of dollars [c]			
Exports of goods (f.o.b.) and services	4 616	4 238	4 200
Imports of goods (f.o.b.) and services	-5 479	-4 785	-4 485
Current account	-552	-327	-200
Capital and financial account	595	300	270
Overall balance	43	-27	70

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Local-currency markets.
[c] Calculated using the official rate of 1 peso to the dollar.

The number of joint ventures with foreign partners declined to 360, compared to 403 in 2002. By the end of 2003 reciprocal investment promotion and protection agreements had been signed with 63 countries, and double taxation agreements, with a further 11.

Overall supply expanded by 3.2% thanks to an increase in imports of goods and services (7.2%), since output rose by 2.6%. Higher overall demand was due more to external demand, which expanded by 10%, than to domestic demand, which was up by 3.2%. Although gross investment dropped again, this time by 5%, consumption expanded by 3% as a result of higher government spending (6.2%), since private consumption grew only moderately (2%).

Given the lower level of investment, priority was given to energy projects with rapid returns, the completion of approximately 2,000 rooms for international tourists, the modernization and rehabilitation of nickel plants, the electrification of agricultural irrigation systems (in order to save diesel fuel) and social programmes.

Non-sugar production took a turn for the better in 2003. The standouts in this regard were international tourism (13%), commerce, restaurants and hotels (4.8%), government services (4.1%) and financial services (4%). Smaller upturns were recorded in mining (3.4%), electricity, gas and water (3%), and agriculture (2.3%). The downturn in investment brought construction to a standstill (0.7%), while manufacturing dropped by 2% owing to the sugar industry's poor performance (sugar cane farming, sugar manufacturing and sugar cane products).

Inflation declined from 7% in 2002 to 5% in 2003 thanks to the more ample supply of goods and services, especially from the agricultural sector, and to the smaller amount of money in circulation. The employment situation improved, since the unemployment rate dropped from 3.3% to 3%, but underemployment remained high.

Although services exports were up by 12.8%, mainly in the areas of tourism and telecommunications, the goods and services trade deficit widened by 11% because the rise in the volume of merchandise imports (7%) exceeded that of merchandise exports (6%) and because of a downturn in the terms of trade. On the other hand, a smaller amount of sugar was exported at better prices and a larger quantity of nickel at high prices. Exports of non-traditional goods were also up again, especially in high-value-added categories such as biotechnology, pharmaceuticals and medical and diagnostic equipment.

The capital account recorded an inflow of US$ 400 million, which was enough to finance the current account deficit and to generate a slight increase in international reserves (US$ 57 million). Lastly, the balance of public external debt (US$ 11 billion) increased marginally because of the appreciation of the euro and the yen in relation to the United States dollar, since Cuba's liabilities are mostly denominated in these currencies.

Guyana

Guyana's economy grew at a modest rate of 1% in 2003, reflecting sluggish performances by most economic sectors and the burden of the country's external debt. Inflation continued to be low, but the fiscal deficit widened considerably. The balance of payments out-turn, meanwhile, was negative. The economic outlook for 2004 is not particularly heartening, in view of Guyana's macroeconomic imbalances and sectoral stagnation.

The central government deficit widened from 5.7% of GDP in 2002 to 13.2% in 2003. This reflected increased spending, which rose from 46% to 50% of GDP, while total revenues and the tax burden remained at 32% and 29% of GDP, respectively, despite the announcement of measures to broaden the tax base and augment receipts by imposing a tax on local telephone calls and raising the withholding tax on interest income from 15% to 20%. Capital revenues, though they represent a small share of the total, expanded by a substantial 100% owing to an increase in subsidies secured under the World Bank and IMF Heavily Indebted Poor Countries (HIPC) Initiative.

The expansion of spending was partly due to capital outlays, which were up from 11% of GDP in 2002 to 16% in 2003. Some of this expansion was attributable to the implementation of investment plans by the State-owned sugar company Guysuco, which was able to secure the necessary financing. This was more than enough to offset the low rate of implementation of investment plans in the public sector. Current expenditure (not including interest payments) also increased, from 26% of GDP in 2002 to 29% in 2003, because of higher spending on wages and salaries and purchases of goods and services. Meanwhile, the value of interest payments dropped as the burden of the government's obligations eased and debt relief was secured under the HIPC Initiative. The fragile fiscal situation worsened, however, as a result of a liquidity squeeze in the non-financial public sector produced by the State oil company Guyoil's payments to creditors and increased spending on materials and supplies by other major State firms.

The central government deficit was covered using domestic resources raised mainly through the issuance of public debt and, to a lesser extent, through the sale of government assets. The non-financial public sector deficit was financed with external resources. As a result, total public debt, domestic and external alike, expanded.

In 2004 the government hopes to narrow the fiscal deficit, since the existing negative balance has prompted serious concerns over the sustainability of the public debt. External debt is likely to increase from US$ 1.4 billion to US$ 1.5 billion.

In 2003 monetary policy was shaped in part by the fiscal situation. As in 2002, there was abundant liquidity in the commercial banking system, due to the sluggish performance of the economy and very restrained demand for credit. In turn, narrow money expanded by 12% between September 2002 and September 2003.

Excess reserves represented 62% of the reserves required at the beginning of the year. Total liquid assets were up from 2002 (4% between September 2002 and September 2003). The liquidity overhang enabled the banking system to hold on to most (60%) of the treasury bills issued by the central bank to finance domestic debt. The stock of treasury bills held by the commercial banking system increased from 24 to 36 billion Guyana dollars.

Strong demand for government securities caused a decline in the corresponding rates of interest. The benchmark rate for 91-day securities dropped from 3.9% in December 2002 to 2.8% in August 2003. Over the same period the bank discount rate came down from 6.3% to 5% and the lending rate for prime borrowers, from 16.3% to 14.9%. The drop in interest rates eased the burden of public debt servicing and helped to stimulate economic activity. In a context of sluggish foreign-exchange activity, the exchange rate increased by 2% during the year.

The modest 1% rate of GDP growth was a reflection of a downturn in mining production and a moderate performance from the agricultural and manufacturing sectors. Agriculture suffered from poor weather conditions, which affected the growth and sucrose content of sugar cane, causing a dip in production. The expansion of agricultural output resulted from an increase in the area sown and good harvest conditions.

GUYANA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.3	1.5	1.0
Consumer prices	1.9	6.1	6.0
Wages [b]	5.5	5.0	...
Money (M1)	-0.1	6.3	11.2[c]
Annual average percentages			
Overall central government balance/GDP	-9.2	-5.7	-13.2
Real deposit rate	4.7	-1.7	-2.5[d]
Real lending rate	17.6	16.8	9.9[d]
Millions of dollars			
Current account	-129	-107	-154
Capital and financial account	117	82	90
Overall balance	-12	-25	-64

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Public sector minimum wage.
[c] Variation from September 2002 to September 2003.
[d] September value.

In the mining sector, gold production contracted, diamond output expanded and bauxite production rebounded. The rise in diamond production was due to an increase in concessions, higher productivity and good international prices. Bauxite production rose thanks to technical improvements and the reorganization of production.

Manufacturing saw a negligible upturn in the clothing industry and a slowdown in the non-durables subsector. Construction, meanwhile, was hurt by the low rate of implementation of public investment plans.

The moderate rate of inflation (6%) reflected a combination of higher fuel prices, stable international prices, a steady nominal exchange rate and slight overall economic expansion.

Employment contracted in the public sector as a result of a hiring freeze in the government and cutbacks in employment in State enterprises. The available data show an increase in employment in livestock-raising, transport and communications.

The overall balance of payments position was negative, since the capital account surplus of 12% of GDP was not enough to cover the current account deficit, which rose from 17% of GDP in 2002 to 21% in 2003. It was therefore necessary to use net foreign assets belonging to the Bank of Guyana and part of the aid corresponding to debt reduction under the HIPC Initiative.

The merchandise trade deficit doubled to 17% of GDP owing to the low growth of exports (4%) and the strong expansion of imports (14%) caused by the higher cost of fuel supplies. Sugar exports were hurt by low international prices, while rice exports decreased in both value and volume. By contrast, both the international price and the volume of bauxite exports went up.

The services account turned in a deficit again, since Guyana is a net service importer, especially of shipping and merchandise insurance services. Net factor payments increased owing to the rise in interest on the public sector debt. Lastly, remittances, which represent the bulk of the transfers account, expanded by 12%.

The capital account balance reflected higher outlays, a stable level of non-financial public sector debt servicing (2% of GDP) and a twofold increase in long-term capital from the private sector (up from US$ 44 million in 2002 to US$ 83 million in 2003), in connection with the HIPC Initiative.

Haiti

Haiti's economy grew by a meagre 0.7% in 2003 against the backdrop of a political impasse which moved into its third year. Although this represented a reversal of the contraction recorded in the preceding two years, per capita output slipped again and the country's considerable social lags worsened. A dearth of investment, lack of international financial resources and low levels of productivity helped to perpetuate the vicious circle of poverty. In July the authorities therefore began to prepare a Poverty Reduction Strategy Paper (PRSP) in agreement with IMF and the World Bank, with a view to gaining access to the Poverty Reduction and Growth Facility (PRGF).

The signature in May of an agreement to implement an IMF staff-monitored programme helped Haiti to re-establish relations with the international financial community. This agreement gave priority to controlling and stabilizing inflation, the exchange rate, net international reserves and the fiscal deficit, which had behaved in an alarming manner in the first two quarters of the year. The year's end brought encouraging results, although both the structural and the circumstantial determinants of the Haitian economy's recessionary tendencies persisted.

In the political arena, no sign of a solution to the current problems has yet emerged, and recent events seem to have put the necessary mechanisms for consensus even further out of reach. The conflict between the government authorities, on the one hand, and Democratic Convergence (a coalition of different opposition groups) and the Group of 184, on the other, has become even more bitter in recent months. The antagonistic stances of the different sides are such that the country's affairs still appear unlikely to return to normal.

For this reason, the outlook for 2004 is shrouded in uncertainty. The projections are cautious (GDP growth of between 1% and 3%) and depend to a large extent on the political situation, full resumption of external cooperation flows and greater macroeconomic stabilization.

Despite the limited room for manoeuvre imposed by the unstable socio-political environment, the authorities were forced to implement a set of compensatory and stabilization measures to deal with the shortage of external financing and the severe fiscal, inflationary and exchange-rate imbalances the economy has suffered since the last quarter of 2002.

With regard to public finances, administrative and tax measures were geared to broadening the tax base. In particular, the government stepped up its scrutiny of both taxpayer compliance, by intensifying verification and follow-up procedures, and customs inspection, hiring a Swiss company for pre-shipment inspection of imports. In addition, new sectors were incorporated into the tax base, exemptions were reduced (especially for non-governmental organizations) and certain duties and tariffs were restructured (especially on hydrocarbons). Tax revenues were also boosted (by 3.6% in real terms) through a change in the tax regime for tobacco and alcoholic beverages (from specific to ad valorem rates), a rise in verification fees (from 4% to 5%), the unification at 2% of advances on imports (against income tax) and an increase in utility rates (electricity, water and telephone).

On the expenditure side, the government made a systematic effort to reduce current expenditure (by 1.7%) following the signature of the IMF staff-monitored programme. Investment expenditure rose by 30% in real terms, however, largely because of infrastructure work associated with the 2004 celebration of the bicentenary of Haiti's independence and the construction of low-income housing. In real terms, total outlays expanded by 4% (compared to 11% in 2002), while the fiscal deficit increased again.

The Banque de la République d'Haïti (BRH) returned to a very tight monetary policy in the second

HAITI: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-0.6	-0.5	0.7
Consumer prices	8.1	14.8	42.5[b]
Terms of trade	1.2	-1.0	-2.0
Annual average percentages			
Central government fiscal balance/GDP [c]	-2.7	-3.1	-4.0
Real deposit rate	5.1	-5.6	-17.3[d]
Real lending rate	19.0	9.6	-5.0[d]
Millions of dollars			
Exports of goods and services	445	421	452
Imports of goods and services	1 300	1 232	1 379
Current account	-97	-49	-56
Capital and financial account	94	-32	52
Overall balance	-2	-80	-4

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between September 2002 and September 2003.
[c] Overall balance calculated above the line.
[d] Average for October 2002 to September 2003, annualized.

quarter in order to contain the inflationary pressures that had been in evidence since the fourth quarter of 2002, mainly because of rises in hydrocarbon prices. To that end, BRH instituted a vigorous campaign to soak up liquidity (M3) in the economy (-2.4%) by means of a series of hikes in the interest rates on BRH bonds (27.8% since March), which translated into a decline in both public and private credit (-15% and -7%, respectively). Bank deposit and lending rates were negative, and the latter dampened the credit supply in the financial system. This resulted in the increased dollarization of assets (dollar deposits represented 42% of M3), despite small yields (between 2.5% and 3.5% in nominal terms).

BRH maintained a flexible exchange-rate policy in a context of severe devaluation (49%) of the local currency and low levels of reserves. The gourde came under strong pressure between November 2002 and February 2003. This was offset later in 2003, but had a considerable impact on inflation and eroded the population's purchasing power.

The main productive sectors performed modestly. Agriculture posted a slight upturn of 2% after its steep fall in 2002, thanks to good weather conditions, while most of the other sectors tended to stand still. The unstable political environment and the repercussions of inflation and devaluation were partly to blame. The manufacturing sector failed to emulate the growth of the maquila industry (27%), while construction (2.3%) benefited from infrastructure and social projects undertaken by the public sector.

Despite an increase in both exports (12.4%) and imports (7.5%), domestic demand displayed no more than moderate growth. The business sector's continued lack of confidence and the shortage of external resources hurt investment, while the downturn in the living conditions of large sectors of the population –despite a 51% jump in the real minimum wage– sharpened, forcing the government to embark on the preparation of a PRSP.

A steep rise (130%) in the domestic prices of hydrocarbon derivatives during January and February made it possible to reduce public subsidies and improve fiscal revenues. It also triggered a severe bout of inflation (42.5% from September to September), however, which was further fuelled by a rapid rise in the dollar exchange rate (49.5%).

Except for the resumption of external financing from IDB in July 2003, the international financial institutions maintained their freeze on cooperation with Haiti. In the specific case of the World Bank, payment arrears, which amount to US$ 31 million, are holding up new disbursements.

Given the Haitian economy's fragile macroeconomic situation in 2003, remittances (US$ 744 million) were of substantial help in softening the harmful impact of inflation on consumption, and offered a relatively stable source of foreign exchange at a time of scarce external funding and net outflows of capital (US$ 59 million). Net international reserves are still minimal (representing just over a month's worth of imports), leaving Haiti highly vulnerable in the event of fresh domestic or external crises.

Jamaica

The Jamaican economy grew very moderately in 2003 (1%), driven by a 4% expansion in exports. The central government recorded a deficit of 7.7% of GDP in fiscal year 2002/2003,[3] which was considerably higher than its target figure of 4.4%. The failure to meet this objective triggered a depreciation of the Jamaican dollar, which, in turn, pushed inflation up to more than 15%. The merchandise trade deficit and the balance-of-payments current account deficit also widened, owing mainly to less favourable terms of trade. In order to restore investor confidence, the authorities intervened in the foreign exchange market, announced a strict fiscal discipline policy and implemented a tight monetary policy.

The central government deficit in fiscal year 2002/2003 was the product of an increase in current expenditure (20%), specifically on public programmes, salaries and wages and interest payments. This last item rose by 22% and came to account for 44% of current expenditure as a result of devaluation, which raised the local-currency value of domestic debt denominated in United States dollars, and restrictive monetary measures, which exerted upward pressure on the interest rate.

For fiscal year 2003/2004 the fiscal deficit is expected to stand at 5.5% of GDP, with a 25% increase in income and a 15% increase in expenditure. The debt-to-GDP ratio (151% of GDP in March 2003) is reaching unsustainable levels, swallowing up a significant portion of available resources and hampering the authorities' efforts to boost development. The government plans to increase tax revenue through a series of measures such as expansion of the tax base, tax rate increases and new taxes. In the first seven months of 2003/2004 the fiscal deficit exceeded the target level, since fiscal revenues were lower than expected. This, in turn, was due to economic stagnation and delays in the implementation of the measures announced.

The currency started to depreciate after the authorities announced in December 2002 that the budget deficit would reach 8% of GDP, almost double the amount expected. The exchange rate rose by 20% between January and May, with an increase of almost 7% in May alone. The monetary authorities adopted a contractionary stance to deal with this volatility. They used three mechanisms to control instability on the foreign exchange market: international reserves, open-market operations and temporary direct controls. Specifically, they drew on resources from the issuance of a United States dollar-indexed bond for exchange-rate intervention. In addition, the authorities raised interest rates in the early months of the year.

Starting in June the rate of exchange settled at approximately J$ 59 per United States dollar. This greater stability enabled the authorities to cautiously lower interest rates in the second half of the year, especially on longer-term instruments. Intervention in the foreign exchange market in the course of the year eroded net international reserves and had a contractionary effect on the monetary base (8.8% between December 2002 and September 2003). Narrow money followed a similar trend, diminishing by 0.8% between September 2002 and September 2003.

GDP growth was positive (1%) in 2003, thanks to the recovery of the agricultural sector. The remaining sectors expanded at rates similar to those of 2002. The robust performance of agriculture (4.2%) was attributable to good weather conditions, which enabled the sector to bounce back from the losses caused by flooding in May and September 2002, although export agriculture was adversely affected by low levels of sugar-cane replanting and by the delay in starting this activity.

As in previous years, manufacturing contracted (by 1.7%), owing to the slump in sugar output and to technical difficulties that cut production in one of the

3 Jamaica's fiscal year runs from April to March.

JAMAICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.8	0.9	1.0
Consumer prices	8.8	7.3	14.1[b]
Wages[c]	8.1	8.0	...
Money (M1)	-2.3	12.5	14.7[d]
Real effective exchange rate	-3.6	3.6	12.8
Annual average percentages			
Urban unemployment rate[e]	15.0	15.1	14.7
Central government primary balance/GDP	5.3	7.9	...
Real deposit rate	10.1	8.9	-2.6[f]
Real lending rate	19.5	18.3	12.3[f]
Millions of dollars			
Current account	-757	-1 117	-1 146
Capital and financial account	1 629	874	608
Overall balance	871	-244	-538

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between October 2002 and October 2003.
[c] Weekly average of employee wages in 1990 Jamaican dollars.
[d] Variation between August 2002 and August 2003.
[e] Includes hidden unemployment.
[f] September.

country's assembly plants. Mining expanded by 4.9% as output increased and alumina refineries operated closer to capacity (over 95% on average for the year). Construction edged up by only 0.8% owing to cutbacks in public investment and the completion of infrastructure projects. Transport, storage and communications recorded 3.7% growth, reflecting heavier cargo traffic, an increase in tourist arrivals and in the number of vessels calling at Jamaican ports and the expansion of mobile telephone services, which were boosted by competition in the communications subsector. Tourism was up by 6% as a result of the above-mentioned increase in arrivals (more than 5%), which attests to this sector's gradual comeback after the events of 11 September 2001.

Inflation is estimated to have risen to over 15% in 2003. The contributing factors were devaluation, the increase in the tax base due to the elimination of exemptions for numerous products, fuel and transport price hikes in the third quarter and an 11% adjustment of the minimum wage in November. Unemployment declined slightly to 14.7%, reflecting the modest increase in the level of economic activity.

The balance-of-payments current account deficit widened from 11.8% of GDP in 2002 to 13% in 2003, as the surpluses on non-factor services and current transfers were not enough to offset the merchandise trade and income account deficits. The merchandise trade deficit, equivalent to 24% of GDP, reflected the moderate growth of exports (4%) and the significant increase in imports (10%). External sales, in turn, owed their expansion to the agricultural sector's emergence from the serious losses it had sustained as a result of flooding in 2002 and the continued encroachment of mining activities. Import growth, meanwhile, was spurred by increased demand for raw materials. The services balance reflected the gradual revival of tourism and, in particular, the resurgence in passenger arrivals. The negative result on the income account reflected an increase in profit repatriation and interest payments on the external debt. Transfers from private sources stayed at the previous year's level. The bigger surplus on the capital and financial account (21% over its 2002 level) was due to a combination of net official capital outflows and foreign direct investment inflows to the service and mining sectors.

Dominican Republic

The 1.3% contraction of economic activity in the Dominican Republic in 2003 brought about a 2.9% reduction in per capita GDP; a result this poor had not been posted in more than a decade. The banking crisis that broke out in the second quarter of the year triggered a strong wave of uncertainty and lack of confidence, which resulted in increased dollarization and considerable capital flight. Pressures on the foreign-exchange market caused a devaluation of the peso and triggered an across-the-board increase in prices, which reached 40.1% in November. In order to limit the damage to the financial system, the authorities injected vast amounts of resources into banks that were suffering from such problems. The costs to the government were huge, at a time when the fiscal and monetary restrictions in force since the end of 2002 were further tightened. Although investment and consumer spending dropped by 12.1% and 9.8%, respectively, the increase in remittances and the sustained recovery of goods and services exports prevented the economic downturn from worsening. Despite the reversal in the balance-of-payments current account, which posted a massive surplus, the year closed with a very low level of international reserves.

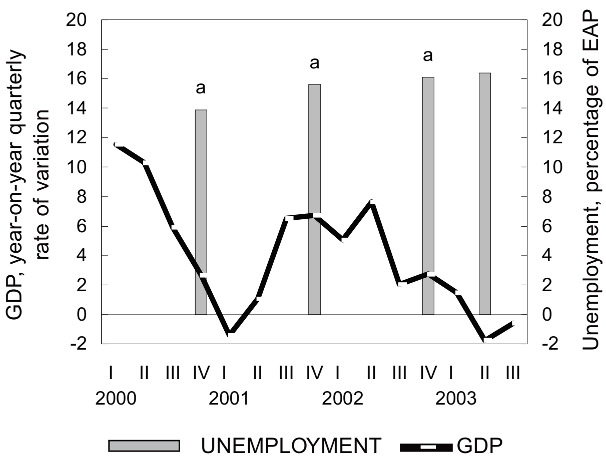
In 2004 the government will seek congressional approval of a fiscal reform, and fiscal and monetary restrictions will continue. The standby arrangement signed with IMF provided for US$ 600 million in financial support over two years, of which US$ 120 million had already been paid out. Further payments were postponed pending an assessment of the fiscal impact of the government's repurchase of two electric power distributors. The standby arrangement also includes a set of measures aimed at restoring confidence in the banking system, reinforcing supervision and prudential regulation, strengthening public finances and monetary discipline and establishing a flexible exchange-rate system. For 2003 the arrangement assumed a 3% fall in GDP, 35% inflation, a current account surplus of 1% of GDP and a fiscal deficit of 3.5% of GDP. In addition, the fiscal deficit is expected to drop to 2.5% of GDP in 2004 and 1% in 2005, owing to the sale of public assets.

The intervention, rehabilitation and subsequent sale of the three banks affected by the crisis involved shoring up the system to an extraordinary extent (13% of GDP). The authorities therefore substantially increased the issuance of certificates to neutralize the monetary impact. As a result, gross public debt rose to 47.9% of GDP [4] and the quasi-fiscal deficit shot up to 2.8% of GDP. Credit limits were also established and the legal reserve requirement was raised from 17% to 20% for local-currency deposits, from 12% to 20% for foreign-currency deposits and from 10% to 15% for non-bank institutions. By September cash in circulation had fallen by almost 10%, but broad money had climbed by 13.7%, both in real terms. Also by September, deposit rates in universal banks had reached 21.61%, which was 2.18 percentage points higher than in December. Lending rates were up by 4.1 percentage points, to 32.74%. The interest-rate spread widened by 192 basis points and credit to the private sector expanded by around 7% in real terms.[5]

4 This figure was 20.9% of GDP in 2002.

5 Because of changes in the methodology used for calculating monetary and financial statistics and in their coverage, the figures for 2002 and 2003 are not strictly comparable. The rates of variation included in the text are therefore merely indicative.

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.
[a] Yearly average.

A floating exchange-rate system, subject to intervention to prevent excessive fluctuations, was adopted. The foreign exchange market was unified as official operations were transferred to the private market.

The public-sector deficit, of about 3.5% of GDP, was the result of the central bank's large quasi-fiscal deficit and a smaller central government deficit (0.4%). The sharp fall in domestic demand prompted a real reduction in government revenues (from 16.9% of GDP to 15.2%) from both direct and, especially, indirect taxes, despite the various temporary measures adopted to boost receipts. These included a 2% surcharge on imports, a 5% tax on exports (which was abolished and replaced with an increase in the currency exchange commission from 4.75% to 10%), a cheque-cashing fee of 0.15% of the cheque's value and a 100% increase in the airport departure tax. Electricity rates were adjusted (while maintaining subsidies for small-scale consumers) to solve financial problems in the sector that resulted in service rationing. There was a sharp cutback in public expenditure (from 18.8% to 16% of GDP), in terms of both current and capital expenditure. The only outlays that rose significantly were debt interest payments. Given its commitment to the sustainability of public finances, the government gave priority to reducing liabilities.

Currency depreciation and the resulting increase in consumer prices had significant effects on consumption and investment. Only the increase in family remittances and the recovery of external demand mitigated the extreme recessionary pressures exerted by a tight economic policy.

The production sectors that contracted the most included construction (8.1%), commerce (13.1%), transport (7.7%), electricity (6.6%) and finance (4.3%). Agricultural output dropped by 3.9% and was further impaired by serious flooding at the end of the year. Manufacturing fell by 3.2%, despite a slight improvement in the sugar sector and free trade zones. The sectors that recorded growth included telecommunications (10.7%), government services (3.7%) and other miscellaneous services (1.9%). Mining expanded by 11.4% on the strength of increased exports, while tourism revitalized the hotels, bars and restaurants segment (36.4%).

In November the inflation index was 40.1%, the highest level in 12 years. Food and transport prices rose considerably, while the increases in prices for health care, entertainment and culture, hotels and restaurants and other miscellaneous services were close to the average. Clothing and footwear prices rose much more slowly, as did housing and education prices.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual rates of variation			
Gross domestic product	3.0	4.3	-1.3
Consumer prices	4.4	10.5	40.1[b]
Money (M1)	7.3	13.9	32.3
Real effective exchange rate [c]	-0.4	13.2	29.6[d]
Terms of trade	1.5	-0.6	-0.5
Annual average percentages			
Urban unemployment rate [e]	15.4	16.1	16.4[f]
Central government fiscal balance/GDP	-1.9	-2.2	-0.4
Real deposit rate	11.6	5.7	-8.0[g]
Real lending rate	15.4	10.1	-2.4[g]
Millions of dollars			
Exports of goods and services	8 387	8 238	9 060
Imports of goods and services	10 063	10 166	9 460
Current account	-741	-875	850
Capital and financial account	1 256	322	-1 000
Overall balance	515	-553	-150

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from October 2002 to October 2003.
[c] A negative rate signifies an appreciation of the currency in real terms .
[d] Variation from December 2002 to October 2003.
[e] Includes hidden unemployment.
[f] April.
[g] Average from November 2002 to October 2003, annualized.

Wage adjustments were varied, but purchasing power fell in real terms. Public employees received a pay rise in January, and private-sector wages increased by 25% in nominal terms (15% in October 2003 and 10% in January 2004). Varying increases were negotiated in free-zone firms. The economic crisis was reflected in labour market indicators. April's labour survey showed a decline in the participation rate (from 55.1% to 53.9%) and a one-point drop in employment (45.1%). The movement of workers from the formal to the informal sector meant that unemployment was only 16.4%.

The current account posted an unprecedented surplus equivalent to 5.8% of GDP owing to the reduction of the trade deficit, a larger surplus on the services balance and a steady increase in remittances. However, the year closed with a minimum level of international reserves because of the persistent outflow of private capital.

The value of exports in current dollars was up by 7%. Exports by domestic companies climbed by 18.8%, whereas the performance of free trade zones was modest (4.6%). Tourism revenues shot up and increased the recurrent surplus on the services account. The shrinking of domestic demand brought about an overall reduction in imports (10.3%). By the third quarter, imports of consumer and capital goods had plunged by 59% and 28%, respectively. Upswings were posted only in certain categories of intermediate goods, such as fuels (31%), wheat (21%) and maize (32%).

Inflows of foreign direct investment slipped by 13.4%. Even though the country received US$ 600 million from the sovereign bond issue, the overall balance was negative and was financed with reserve assets and the use of IMF credit.

Suriname

Economic activity in Suriname grew by 3.5% in 2003. Inflation remained high, though without reaching its 2002 rate, while external trade ran a large deficit and government accounts posted a narrower shortfall. This last factor, together with a tight monetary policy, helped to stem the devaluation of the local currency.

Following a significant increase in the fiscal deficit in 2002 (11%) and the prospect of a further deterioration due to the implementation of the third and fourth phases of the Caribbean Community's common external tariff (January 2003), the authorities adopted a series of measures –including changes to income and sales taxes– designed to close the fiscal gap. Sales tax rates were raised from 5% to 8% for services and from 7% to 10% for goods with effect from December 2002. These measures are expected to reduce the budget deficit by increasing fiscal revenue by 100 billion guilders. Both direct and indirect tax receipts were noticeably higher in the first three months of 2003, expanding by 81% and 16%, respectively.

Thanks to these measures and to prudent expenditure management (despite a wage increase in the electricity sector), the authorities turned the budget position around from a deficit in 2002 to a surplus (1% of GDP) in the first eight months of 2003. For the year as a whole, a deficit equivalent to 3% to 4% of GDP is expected, which will be financed from external sources. The amount of the external debt will continue to represent approximately 33% of GDP. The government is also seeking to improve tax collection and tax administration in order to consolidate the increases in fiscal revenues.

Monetary policy took a contractionary stance to curb the depreciation of the local currency, which became a serious cause of concern in August 2002. The central bank followed a strategy based on both quantitative controls and management of the monetary base. The base's 12-month expansion, which amounted

SURINAME: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.3	1.2	3.5
Consumer prices	38.6	28.0	20.0[b]
Money (M1)	42.8	42.7	30.6
Annual average percentages			
NFPS Fiscal balance/GDP	-1.4	-10.9	...
Real deposit rate	5.9	-15.5	...
Real lending rate	17.7	-5.1	...
Millions of dollars			
Exports of goods (f.o.b.) and services	496	568	577
Imports of goods (f.o.b.) and services	472	643	763
Current account	-84	- 102	- 216
Capital and financial account	161	100	225
Overall balance	77	2	9

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Annual average.

to 32% in December 2002, became a 2% decline in August 2003. At the same time the central bank imposed a 17.5% reserve requirement on foreign currency deposits in order to reduce the incentive for currency replacement and thus prevent the exchange rate from rising further.

These measures succeeded, since they stabilized the guilder, and the price of foreign currency on the parallel market declined and tended to converge with the official rate, which is the rate used for debt service payments and selected imports, notably fuel. Towards the end of 2003 the official exchange rate stood at 2,650 guilders to the dollar, while the parallel market rate was 2,800 guilders. In addition, in order to build confidence among consumers and investors, the government announced the introduction of a new currency in January 2004, the Surinamese dollar, whose unit value will be equal to 1,000 guilders.

Economic activity expanded by 3.5% in 2003. Agricultural production suffered as a result of poor weather conditions, low international prices for some of the major agricultural exports and stronger competition from other producers with lower costs. Mining benefited from an increase in capacity and from the advent of new investment projects, including a bauxite mining and alumina production project to be conducted by a United States/Australian partnership and the development of a new gold mine by a Canadian company. The latter project involves a US$ 100 million investment and will have a positive impact on the construction sector.

The authorities' contractionary monetary policy, along with stable international prices and a stronger local currency, drove inflation down from 28% in 2002 to 20% in 2003.

Apart from a wage hike for workers in the electricity sector (19%), the government, intent on pursuing the rehabilitation of public finances and improving macroeconomic management, did not concede any nominal wage increases in 2003, and trusts that the level of real wages will not change in 2004.

The overall balance of payments out-turn was positive, while the current account deficit (US$ 216 million) was more than offset by the capital and financial account surplus (US$ 225 million). This made it possible to increase the level of international reserves.

The current account deficit swelled from 10% of GDP in 2002 to 20% in 2003 owing to the sharp increase in merchandise imports (19%). This import buoyancy is due to the above-mentioned investment projects in the mining sector.

The capital account posted a positive balance of US$ 22 million thanks to grants. The financial account surplus (US$ 203 million) was due to foreign direct investment flows (US$ 116 million), non-financial public sector outlays (US$ 41 million), private sector loans (US$ 46 million) and short-term flows (US$ 36 million).

The current account deficit may shrink in 2004 if the performance of merchandise exports improves. Meanwhile, the growth of imports will depend on the expansion of economic activity and the execution of new foreign direct investment projects.

Trinidad and Tobago

The economy of Trinidad and Tobago expanded in 2003 and this trend is expected to continue in 2004, driven by a dynamic energy sector. Increased fiscal revenues from hydrocarbons-related production sectors will sustain higher public spending in 2004. The non-energy sector of the economy failed to rally, however, and the employment situation recorded no significant improvements, despite the high rate of economic growth. Monetary policy was expansionary, geared towards stimulating demand. The large volume of hydrocarbons exports helped to narrow the balance of payments deficit. The local currency, meanwhile, continued to appreciate in real terms.

In fiscal year 2002/2003 the central government recorded a surplus of 0.8% of GDP, which was in excess of projections. This was due largely to an increase in tax receipts in the wake of the rise in international oil prices, in contrast to the poor performance of receipts not related to the hydrocarbons sector (particularly VAT). Public spending was driven by expanded current expenditure. Capital expenditure was affected by a slowdown in the rate of implementation of public investment programmes.

The budget for fiscal year 2003/2004 is based on a growth rate of 5.5% of GDP, a 3% inflation rate and an average oil price of US$ 25 per barrel, and it allows for a deficit of 1% of GDP. Tax receipts should reflect new fiscal measures, which include the elimination of the bank savings tax, an increase in pensions, larger benefits for the disabled, higher taxes on the gambling industry and a rise in taxes on oil companies whose production exceeds a certain level. Spending will also expand, thanks to the government's comprehensive development strategy to 2020, which targets spending on education, health and infrastructure –key areas that need to be improved in order to stimulate economic development.

In 2004 the government plans to reduce its debt, which stands at 53% of GDP and is more or less equally divided between domestic and external liabilities. Debt servicing rose in 2003 under the government's restructuring programme.

Monetary policy remained neutral for most of 2003. From January to August the central bank's repo rate stayed at 5.25% and the prime lending rate, at 11.5%. In September the monetary authorities decided to ease liquidity conditions in order to stimulate aggregate demand and boost the growth of the non-energy sectors of the economy. As a result, the repo and discount rates were lowered by 25 basis points (from 5.25% to 5% and from 7.25% to 7%, respectively), and in October the commercial bank reserve requirement was also reduced, from 18% to 14%. Together, these measures triggered a reduction in lending rates.

The shift in monetary policy reflected the central government's need to strengthen weak demand for credit, as well as its implicit objective of whittling down the public debt.

To refinance its most costly domestic liabilities, the government placed two bond issues, for a total of TT$ 500 million, in the second quarter. Together with the budget surplus, this enabled the central government to increase its deposits at the central bank by 19% between January and September.

Credit demand expanded by only 1% on average over the year, partly because of sluggish activity in some sectors (agriculture and manufacturing) and partly because businesses financed their activities by drawing on their own resources, particularly undistributed profits. The rise in credit in the last two months of the year was a reflection of seasonal factors and rapid growth in the service sector.

The exchange rate came under sporadic pressure in the first half of the year owing to higher demand for foreign exchange as a result of seasonal factors, the need to cover financing gaps and capital transactions. Given the healthy level of international reserves, the authorities were well positioned to intervene in the market and neutralize the gap between foreign exchange supply and demand. The weighted nominal exchange rate of the

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	4.3	3.0	5.5
Consumer prices	3.2	4.2	4.0
Real wages	3.5	7.6	...
Money (M1)	37.0	9.5	5.0
Annual average percentages			
Rate of urban unemployment [b]	10.8	10.4	10.6[c]
NFPS fiscal balance/GDP	5.9	3.4	1.0
Real deposit rate	6.2	2.1	1.5
Real lending rate	7.8	5.2	7.5
Millions of dollars			
Current account	513	-18	399
Capital and financial account	-27	62	63
Overall balance	486	44	462

Source: Statistical appendix.
[a] Preliminary estimates at third quarter.
[b] Includes hidden unemployment.
[c] Estimate based on average for January to June.

Trinidad and Tobago dollar to the United States dollar was 6.2996 in January and 6.2928 in September.

The main driver of the economy in 2003 was the hydrocarbons sector (which grew by 9.5%), whose productive capacity was boosted by an increase in gas production as the international consortium Atlantic LNG brought two new liquefaction plants (Train 2 and Train 3) on stream.

Non-petroleum activity expanded by 5.9%, thanks mainly to the performance of the service sector and, in particular, construction, which was up by 13% thanks to the implementation of the public investment programme.

The other sectors, including manufacturing and agriculture, recorded no growth.

Inflation held steady at around 4% in 2003, thanks to the relative stability of the exchange rate. Core inflation, which does not include food prices, rose by 2%.

In keeping with the strong rate of GDP growth, the rate of unemployment dropped from 11% in 2002 to 10.2% in 2003, despite the job losses caused by the restructuring of the sugar industry. A large number of jobs were created during the year in personal, social and community services, petroleum and gas activity, sugar growing and manufacturing. There were losses, however, in finance, real estate and business services, transport, storage and communications, private construction and the rest of the agricultural sector.

The current account and the capital and financial account posted surpluses of US$ 399 million and US$ 63 million, or the equivalent of 4% and 0.6% of GDP, respectively. This allowed international reserves to build up to US$ 2.385 billion (compared with US$ 1.924 billion in 2002), or 5.6 months' worth of imports.

Goods exports, whose value was US$ 4.621 billion, reflected an increase in shipments of hydrocarbons (representing 62% of the total) and a smaller rise in petrochemical exports (15% of the total). Imports, which totalled US$ 3.911 billion, consisted mainly of raw materials and intermediate goods (55% of the total).

The deficit on the service account in 2003, of US$ 348 million, was the result of a US$ 539-million deficit on the factor services account and a US$ 191-million surplus on the non-factor services account.

The capital and financial account posted a surplus of US$ 63 million. This was smaller than the 2002 figure, since in 2003 capital flows to the energy sector in the form of foreign direct investment were offset by outflows of short-term capital remitted by commercial banks and the private sector, and by regional bond issues.

OECS[6]

The countries members of the Organisation of Eastern Caribbean States (OECS) recorded a slight upturn of 1% in 2003, which was driven by the tourism sector, after two years of declining activity. Inflation stayed very low, but the fiscal accounts took a turn for the worse, since the increase in current spending was not sustained by revenues, even though several OECS countries took steps to strengthen public finances. The balance-of-payments current account deficit also widened, and was not fully covered by foreign capital inflows. Reserves declined as a result, but did not fall below the statutory level of foreign exchange reserves held by the Eastern Caribbean Central Bank, which is set at 60%.

Trade negotiations lie at the centre of the OECS countries' current concerns. In particular, the countries are concerned about the potential impact of the Free Trade Area of the Americas (FTAA) on their economies and about the definition of a negotiating position that reflects the needs and specific features of development in small island States. The OECS countries are also engaged in negotiations with the European Union.

The aggregate fiscal accounts of the OECS countries posted a deficit, reflecting an increase in current and capital expenditure and low growth in current income. The expansion of current expenditure was attributable to wage and salary payments and debt servicing, which has reached considerable levels in some countries. Capital expenditure rose in response to the OECS objectives of broadening the countries' physical infrastructure and sectoral development.

Current income posted a poor performance despite the implementation of tax measures, which consisted of adjustments to customs duties and utility rates and taxes on sales, consumption and travel.

Anguilla, Antigua and Barbuda, Dominica, Montserrat and Saint Kitts and Nevis turned in current account deficits. By contrast, Grenada, Saint Lucia and Saint Vincent and the Grenadines recorded surpluses.

In 2004 the OECS members are expected to make a number of adjustments to alter their fiscal stance, which has been expansionary since 1997 and has not been matched by increases in government resources.

The OECS economies formed a monetary union in 1983. Their monetary unit, the Eastern Caribbean dollar, is linked to the United States dollar at a fixed rate of 2.7. The union's monetary authority, the Eastern Caribbean Central Bank, acts as a virtual currency board, since it is required by its statutes to keep reserves at 60% of its monetary liabilities. The institution has consistently maintained a neutral stance in monetary policy and has not altered any of its key interest rates.

During the year the monetary union increased its foreign exchange assets, while its foreign exchange liabilities remained stable. The positive net external position increased by 39% between January and September 2003, which has helped to strengthen the currency board in a context of heavy borrowing on the part of most of the member countries. The balances returned by commercial banks showed an increase in foreign assets, which are the main determinant of growth in the money supply.

Both narrow and broad money expanded by between 6% and 8%, but domestic credit has risen at a much more sedate pace. This has been reflected in the containment of growth in domestic credit to the government and in the stagnation of credit to the private sector. This has, in turn, contributed to lacklustre growth

6 The analysis refers to the following members of the Organisation of Eastern Caribbean States: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

OECS: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-2.1	-0.3	1.0
Consumer prices	2.2	0.6	1.3
Money (M1)	2.8	5.9	10.2[b]
Annual average percentages			
NFPS fiscal balance/GDP	-6.5	-5.8	...
Real deposit rate	2.0	2.7	3.0
Real lending rate	9.0	10.3	10.0
Millions of dollars			
Current account	-407	-481	-576
Capital and financial account	427	566	...
Overall balance	20	85	...

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between September 2002 and September 2003.

in the OECS economies. Bank credit consists mainly of personal loans extended for property purchases.

The performance of the tourism sector (3%) was boosted by an increase in visitors in all categories (stay-over and cruise ship passengers) and in all the main markets. This upturn was attributable to an active advertising campaign by a number of OECS members, an increase in airline services and a gradual return to normality after the events of 11 September 2001. As part of the effort to boost tourism, Dominica lowered its port charges by 34% and Saint Kitts and Nevis and Antigua and Barbuda increased flight frequencies. Antigua and Barbuda is also expanding its hotel capacity and Saint Kitts and Nevis has renovated some of its port and hotel infrastructure. The impact of the tourism sector on other economic activities is particularly visible in commerce (4%).

By contrast, agriculture contracted in most of the OECS economies (-2%), owing to the sector's perennial technical and financial difficulties and to unfavourable external conditions. In addition, in the near future agricultural producers will have to deal with the problems arising from the gradual dismantling of preferential market access. Banana production declined in Saint Lucia and Saint Vincent and the Grenadines because of poor weather conditions and a downturn in international prices. Grenada was an exception to the general trend, however, with an increase in the production of cacao and ground nutmeg thanks to efficiency improvements and rising productivity, despite the pest problems that affected the nutmeg harvest.

As in previous years, manufacturing grew very sluggishly (1%) as a result of low levels of technology, high production costs and lower productivity, which prevented the sector from improving its competitiveness. The sector also faced keener competition in external markets. By contrast, in Dominica, the region's leading producer and exporter of soap and toothpaste, there was a slight upturn.

The performance of construction (2%) reflected the implementation of public and private projects. Private investors concentrated on residential buildings and tourism, while the public sector turned its efforts to the construction and renovation of physical infrastructure.

In 2004 growth will probably continue to be slack in the OECS economies, since the positive effects of the upturn in tourism may be offset by stagnation in agriculture and manufacturing and by the effects of macroeconomic imbalances.

The rate of inflation was 1.3% in 2003. This was slightly higher than the 2002 rate of 0.6%, as a result of increased economic activity, though it was attenuated by international price stability. The higher inflation was also partly due to an increase in airport fees in Anguilla and higher telephone charges in Saint Vincent and the Grenadines.

The balance of payments was negative, since the current account deficit (19% of GDP) was not fully offset by the surplus on the capital and financial account (9% of GDP). The current account position resulted from the poor performance of goods exports and the modest increase in the surplus in non-factor services. The capital and financial account balance reflected inflows of foreign direct investment to the tourism sector and official donations.

The expansion of the merchandise trade deficit (4.5%) was largely attributable to the poor export results. In particular, banana exports were down in the Windward Islands owing to domestic problems, while dips in international prices hurt exports of electrical components from Saint Kitts and Nevis and exports of ground nutmeg (-4%) and mace (-6%) from Grenada.

Non-factor services climbed by 4.7% with respect to 2002, basically because of the upturn in the tourism sector. The balance on the factor services account was negative owing to profit repatriation.