THE CARIBBEAN

Barbados

The Barbadian economy registered negative growth (-0.4%) for the second year in a row. Authorities reacted to the slump by stepping up capital expenditures, which led to a widening of the fiscal deficit. The build-up of liquidity in the banking system, created by sluggish demand for credit, helped to finance that gap.

The external sector was also affected by the economic contraction. Revenue from tourism and merchandise exports declined and demand for imports waned. The net result was a marginal widening of the current account deficit. Inasmuch as the external deficit could not be financed by a surplus on the capital and financial account, international reserves fell.

The central government registered a fiscal deficit equivalent to 4.1% of GDP, up slightly from the 3.6% registered in 2001. This outturn was due to an increase in government expenditure and, to a lesser extent, lower inflows. Direct tax revenues slipped as a result of the underperformance of corporate tax receipts; personal income tax receipts were down as well. The underperformance of direct taxes was offset by receipts of indirect taxes, particularly the value added tax and the international trade tax, which expanded 22% –despite the decline in total import value– owing to the adoption of a 60% bound tariff on selected agricultural products.

Capital expenditure projects, mainly ongoing work on infrastructure, ports and transportation facilities, were the main source of the increase in spending. Current expenditures showed only a marginal increase.

The deficit was financed mainly from domestic sources. Net external financing was down in relation to the previous year, as the government did not go to international capital markets and its loan repayments exceeded the project-fund portion of external financing.

Base money expanded by 36%, while the banking system's liabilities to the private sector recorded no growth. The behaviour of monetary aggregates mirrored the slowdown in economic growth and the fiscal stance of the government. In a shrinking economy, overall demand for loans increased only marginally, and the marked absence of attractive alternatives to commercial bank deposits had the effect of inflating these banks' reserves (73%).

This monetary policy strategy had two main effects. First, the accumulation of commercial bank reserves, coupled with an ample stock of government deposits in the central bank, enabled the latter to finance a larger share of the government's budget deficit (70% of the total). Second, by enabling the central bank to mop up excess bank liquidity and obviating the need for new domestic debt issues, the policy stifled interest rate movements that could have put pressure on the fixed exchange rate regime. The weighted average lending interest rate declined marginally, from 10.97% to 10.79%. In December 2002, the monetary authorities decided to lower loan and deposit rates in an effort to reduce the operating costs of businesses and banking institutions.

The shares of GDP contributed by sugar production and manufacturing continued to shrink or remain stagnant in 2002, thus highlighting the growing importance of the services sector (79% of the total), especially those related to tourism. The sugar sector experienced a contraction (-10%) owing to adverse weather conditions and the late start of the harvest season. All other subsectors stagnated.

Tourism shrank by 3% as a result of the sector's underperformance in the first half of the year (-10%). However, the third quarter witnessed a marked recovery in tourist and cruise ship arrivals.

As in the past, inflation shadowed the trend of international prices and stood at 2.8% for the year. The main components of the retail price index posted declines or only marginal expansion. Unemployment rose from 9.9% to 10.5%, reflecting the prevailing economic conditions.

The balance of payments posted a negative overall outturn (-US$ 23 million) as the result of a marginal increase in the current account deficit and a substantial decline in the capital and financial account surplus (from US$ 288 million in 2001 to US$ 74 million in 2002). The current account deficit reflected a slight increase in the trade deficit that can be traced to a combination of factors: falling exports (-12%) due to decreased output of sugar and electronic components; stagnation of the chemicals, food and beverages subsectors; and the downturn in imports (-5%) linked to the slowdown of the economy.

The outturn of the capital and financial account was partly a result of the decision to tap domestic rather than external funding sources. In 2001 the government had borrowed US$ 150 million on the international capital markets as a precautionary measure to cope with the economic fallout from the events of 11 September. Private-sector foreign direct investment (US$ 133 million in 2001 and US$ 55 million in 2002) focused on the tourism sector and infrastructure projects.

BARBADOS: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	3.1	-2.2	-0.4
Consumer prices	3.8	-1.2	-1.4 [b]
Real effective exchange rate [c]	-1.1	-1.0	3.0 [d]
Average annual percentages			
Urban unemployment rate	9.2	9.9	10.5
Central government fiscal balance/GDP	-1.5	-3.6	-4.1
Real deposit rate	1.9	…	…
Real lending rate	7.0	…	…
Millions of dollars			
Exports of goods and services	1,328	1,309	1,243
Imports of goods and services	1,616	1,539	1,470
Current account	-145	-94	-97
Capital and financial account	324	288	74
Overall balance	201	227	-23

Source: Statistical Appendix.
[a] Preliminary estimates to third quarter.
[b] Variation between July 2001 and July 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Average January-October.

Belice

Belize's economy grew by 3.7% in 2002, almost one percentage point less than the previous year. Although agriculture and agro-processing failed to recover fully from adverse weather conditions, other sectors (such as sugar production) posted favourable performances that, coupled with the increase in cruise ship arrivals, made satisfactory GDP growth possible.

The central government's fiscal deficit rose to 10.9% in fiscal year 2001/2002, due to an increase in spending that was not offset by tax receipts. Total revenues were equivalent to 25% of GDP, reflecting the performance of international trade and transactions taxes, specifically the revenue replacement levy on petroleum. Spending trends mirrored increases in both current and capital spending. The rise in current expenditures was attributable to interest payments and wages, while the higher capital outlays were owed to domestically financed projects. The budget deficit was financed from government deposits at the Central Bank as well as external sources.

The fiscal accounts are expected to show improvement in 2002-2003. Revenues from international trade and transactions, which accounted for the bulk of the increase in current revenue, were up, while current expenditures declined, as the result of lower payroll outlays and interest payments. Capital spending also contracted, by 15%. A deficit target of 5% of GDP was set for the year.

The government's financing strategy helped to expand the net domestic assets of the Central Bank. At the same time, the economy experienced increased demand for foreign exchange, which translated into a weakening in the net international reserve position of the monetary authorities (-23%). As a result, the growth rate of the monetary base slowed from 8% in 2001 to 6% in 2002.

Credit demand witnessed an increase of 9%, fuelled by personal loans, manufacturing activity, real estate and tourism. Commercial banks responded to this heightened demand with measures to expand the supply of credit and attract deposits by offering more favourable conditions. Also in response to the increased demand for liquidity, banks reduced their excess reserve ratios and cut lending rates.

The authorities sought to ease pressure on the foreign exchange market by partially legalizing the parallel currency market, tightening monetary and fiscal policies and widening the scope of liquidity-absorbing measures. As part of this strategy, from the beginning of the second quarter of 2002 the Government allowed currency exchange establishments to trade at non-official exchange rates. Later, in the third quarter, the cash-reserve requirement for all deposits was increased by 2 percentage points.

Sugar cane delivery increased by 7% thanks to the introduction of more efficient production methods. Sugar production posted a more modest increase of 3%, owing to a decline in cane purity that translated into a lower cane-sugar ratio.

The citrus sector recorded a downturn of 24%, because of damage caused by Hurricane Iris. Specifically, the orange and grapefruit harvests were down (by 26% and 16%, respectively) and, as a result, so was juice production (by 26% and 36%, respectively).

Banana production showed some signs of recovery from the hurricane damage. The upturn in the banana sector has been aided by ready availability of financing for rehabilitation purposes.

The tourism sector yielded mixed results. In the first semester, tourist stay-over arrivals fell by 1.5%, but cruise ship arrivals jumped from 20,000 to 105,000, subsequent to the signing of agreements with cruise lines for year-round port calls to Belize.

Inflation remained unchanged from the previous year, reflecting higher fuel costs for consumers and a hike in the rates for basic telephone services in January. Transport and communications saw the highest rise in prices.

BELICE: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	10.5	4.7	3.7
Consumer prices	0.6	1.1	1.5
Money (M1)	21.6	20.8	…
Average annual percentages			
Urban unemployment rate	11.1	9.3	...
Central government fiscal balance/GDP	-8.2	-10.0	-10.9
Real deposit rate	5.0	4.3	4.3 [b]
Real lending rate	15.8	15.4	14.6 [b]
Millions of dollars			
Exports of goods and services	288	269	297
Imports of goods and services	462	461	424
Balance of goods and services	-131	-153	-71.6
Current account	-127	-170	-102
Capital and financial account	206	145	…
Overall balance	77	-11	-24

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Rate in June.

Tighter monetary and fiscal policies and the resulting decline in the level of absorption will probably push the rate of unemployment above the figure of 9.3% posted in 2001.

The overall balance of payments is expected to turn in a negative result because the expected surplus on the financial account will not be enough to offset the current account deficit. Even so, that deficit should narrow from 21% of GDP in 2001 to 12% in 2002, thanks to improved export performance and weaker demand for imports as a result of tighter monetary and fiscal policies.

In the first semester, merchandise exports expanded by 8%, led by the export-processing zones. The improved performance in services stemmed from a 10% upturn in the tourism sector, spearheaded by higher inflows of foreign exchange from cruise ship arrivals.

The surplus on the capital and financial account is expected to drop significantly, owing chiefly to the public sector's commitment to repay part of the external debt. Lastly, foreign direct investment is likely to decline from the sizeable levels recorded in 2001 with the privatization of the water and sewerage company.

Cuba

External setbacks and adverse weather conditions caused the Cuban economy to lose momentum for the third consecutive year in 2002 (GDP growth slowed to 1.4% compared with 2.5% in 2001). The external context remained unfavourable given the decline in international tourism following the terrorist attacks of 11 September 2001 in the United States. Foreign direct investment stagnated for the second year in a row as a result of the weak world economic situation. Overall, capital formation was flat.

Hurricane Michelle struck the island late in 2001, and then in 2002, two other hurricanes –Isidore and Lili– caused substantial material damage to export crops, including sugar and citrus fruits. Hurricane Michelle caused direct and indirect damage totalling US$ 1.9 billion (6.3% of GDP) and its effects were fully felt in 2002. The other two hurricanes followed similar paths and struck the western region of the country, leaving in their wake over US$ 800 million in damage (2.7% of GDP).

These adversities exacerbated existing macroeconomic disequilibria. In the realm of public finances, the fiscal deficit widened to 2.9% of GDP, up from 2.5% the previous year, although this was still within the range provided for by economic policy (3% of GDP). The narrow money supply (M1A) expanded substantially, rising to 45% of GDP (38.6% in 2001), and the consumer price index showed increases both in national currency (5%) and in foreign currency, after having declined during the previous three years. With foreign exchange becoming gradually scarcer, the exchange rate on the parallel market rose by 8%. The country's balance-of-payments current account position also deteriorated, going further into the red.

The current account deficit climbed to US$ 630 million as a result of higher net factor service payments (US$ 600 million), while trade in goods and services showed a deficit of US$ 850 million and net current transfers increased slightly (US$ 820 million). The capital account surplus (US$ 650 million) was sufficient to offset that deficit and to permit a slight increase in the country's low level of international reserves.

Tourism activity remained virtually at the same level as in 2001. Tourist arrivals totalled 1.8 million and generated gross earnings of US$ 1.84 billion. Hotel capacity stood at 40,000 rooms, while the occupancy level was 50%.

The increasingly tight foreign-exchange situation and the need to repair the hurricane damage forced authorities to concentrate on short-term economic management. As a result, longer-term reforms came to a virtual standstill. Some advances were made, however, in upgrading State-owned companies by providing greater autonomy in the area of production management. Measures of this type were extended to include some 300 firms as compared with 205 the year before.

As spending outstripped revenues, the fiscal deficit widened to 2.9% of GDP. The increase in current outlays was notable since capital outlays actually declined. In highly adverse conditions and with a declining growth rate for the economy, tax income rose by almost 1 percentage point of GDP over the previous year's figure to represent 52% of GDP. This brought total expenditures to 55% of GDP. Current income grew as a net result of the increase in tax collections, principally of direct taxes, since non-tax receipts declined. The new tax system was applied to all businesses in the country and generated an increase in direct tax collections, mainly from taxes on profits and on labour force use. Social security contributions and personal income tax receipts also increased but less significantly.

Receipts from the country's main taxes –the circulation and sales taxes– grew, while taxes on services diminished, mainly because the increases in wholesale fuel prices were not passed on to consumers.

The external public debt balance was higher than in the previous year, amounting to US$ 12 billion. It was composed mainly of government-guaranteed export credits (32.5%), bank deposits and loans (26%) and inter-government loans (16.9%).

Progress continued with decentralization and modernization of the financial, banking and non-banking system, affording companies greater access to temporarily immobilized financial resources, consolidating domestic convertibility for the public, and making loans available in national and foreign currency

CUBA: MAIN ECONOMIC INDICATORS

	2000	2001[a]	2002 [a]
Annual growth rates			
Gross domestic product	5.3	2.5	1.4
Consumer prices [b]	-3.0	-0.5	5.0
Money (M1)	…	16.4	18.8
Terms of trade	-5.7	4.9	-9.2
Average annual percentages			
Urban unemployment rate	5.5	4.1	3.5
Central government fiscal balance/GDP	-2.4	-2.5	-2.9
Millions of dollars			
Exports of goods and services [c]	4,791	4,615	4,320
Imports of goods and services [c]	5,671	5,561	5,170
Current account [c]	-776	-553	-630
Capital and financial account [c d]	805	595	650
Overall balance [c]	29	42	20

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Refers to local currency markets.
[c] Based on the official exchange rate: 1 peso = US$ 1.
[d] Includes Errors and omissions.

through risk analysis. Insurance continued to be extended to all productive activities.

In the area of exchange rate policy, the official exchange rate was maintained at Cuban peso 1 = US$ 1, although the scarcity of foreign exchange led to an 8.3% devaluation in the parallel rate, which stood at 26 Cuban pesos per dollar.

One of the most notable economic reforms was the restructuring of the sugar industry. Almost one half of the 156 sugar mills were shut down and 50% of the area used for sugar was replanted to import-substitution food crops; 25% of the labour force was relocated to other productive jobs. Sugar production reached 3.6 million metric tons in the 2001/2002 harvest, compared with 3.5 million in the previous period.

The dip in goods and services imports (-11.2%) led overall supply to display virtually flat growth (-0.4%), in a context of 1.4% growth in GDP. External demand contracted for the second year (-11.5%). Domestic demand, on the other hand, expanded (1.6%), with total consumption up (2%) as a result of higher government consumption (4.9%) and, to a lesser extent, higher private consumption (1%). By contrast, investment declined slightly in the wake of adjustments implemented as of mid-2001 to address the country's acute shortage of foreign exchange.

At the sectoral level, energy production expanded thanks to the significant increase (20%) in national oil and associated gas production. Accordingly, imports under this heading diminished and the electricity supply improved. Government services (5.2%) and trade (2.5%) also showed increases. On the other hand, agricultural output declined (-3.8%), manufacturing was down (-1%), and the construction sector was flat (0.3%).

After three years of deflation, the consumer price index increased by 5%, basically because of the lower supply of agricultural products on the open market. In the managed market, supply was maintained at the same level as in 2001. Unemployment declined to 3.5%, compared with 4.1% in 2001.

Haiti

The economic climate in Haiti has been openly recessionary since the year 2000. The main signs of this deterioration in 2002 were a 1.5% contraction in GDP, a downturn in foreign trade (with a marked drop in exports), sharp devaluation of the gourde and an extremely fragile fiscal situation, all due mainly to the persistent political and institutional instability. The political crisis led to the almost total suspension of external financing by international agencies, which forced the country to declare a moratorium on its foreign-debt interest payments. Stronger remittance flows helped to mitigate the damage to the balance-of-payments current account. By the end of the fiscal year, net international reserves were equivalent to less than two months' imports.

A 13% increase in real government revenue was generated by higher receipts from customs (7.4%) and indirect taxation (8.4%), although these were insufficient to reduce the fiscal gap. Those increases, which fell short of the Government's targets, were undermined by losses associated with oil-related taxation. Despite the depreciation of the currency, domestic fuel prices have not changed since September 2000, implying higher subsidies and losses to the public treasury. The central government deficit grew by 8%, financed with resources from the Central Bank (Banque de la République d'Haïti - BRH) and the accumulation of external arrears.

The climate of deep distrust was exacerbated by the credit union crisis, during which payments where suspended, and by the failure of authorities to repay, as promised, funds that had been withheld. Persistent rumours of a possible conversion of dollar deposits into local currency triggered a rapid devaluation of the gourde in October and November, and led to a significant outflow of foreign exchange.

A new agreement with the IMF remains on hold pending fulfilment of the respective requirements, which include raising domestic oil and gas prices and restoring external payments to a sound footing. These two factors are the main prerequisites for renewing the staff-monitored programme for the 2002/2003 fiscal year. Execution and compliance with the programme for a six-month period will lay the foundations for possible agreement on a Poverty Reduction and Growth Facility with the IMF.

Exports fell by 11.5% despite a strong surge in mango sales (63%). Sluggish demand in the United States affected the maquila industry, which recorded an 8% decline. Imports, too, were off (by 7%), because of the slow economic growth and sharp devaluation of the currency. The merchandise trade balance with the United States –Haiti's main international market– remained practically flat compared with 2001. Net current transfers (inflows) were again high, thanks to substantial remittances from Haitians living abroad. Consequently, the current account deficit stood at only US$ 45 million (1.3% of GDP). However, this deficit was difficult to cover in view of the suspension of multilateral financial assistance. This situation led to a build-up of arrears (US$ 49 million) in interest owed on foreign debt, in particular to the Inter-American Development Bank (IDB) and the World Bank, which, together, accounted for 76% of this heading.

As the result of negotiations between the Government and the IDB, the latter agreed –subject to the full settlement of arrears– to extend close to US$ 50 million in new credits under accelerated policy-based lending arrangements. This should ease the severe financial restrictions on the Government, since total disbursements amounted to scarcely US$ 13 million in 2002.

HAITI: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	1.9	-0.7	-1.5
Consumer prices	19.0	8.1	10.1 [b]
Money (M1)	19.7	7.8	18.5
Terms of trade [c]	-7.5	1.2	-1.5
Average annual percentages			
Central government fiscal balance/GDP	-2.6	-2.7	-2.9
Millions of dollars			
Exports of goods and services	503	442	427
Imports of goods and services	1,336	1,300	1,230
Current account	-71	-97	-45
Capital and financial account	26	99	-25
Overall balance	-45	2	-70

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change September 2001-September 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.

The measures taken by the authorities in 2002 were insufficient to achieve higher growth or macroeconomic stability. Given the sharp contraction in the economy, monetary policy was relaxed; the interest rate on Central Bank bonds (91-day BRH bonds) was reduced by 11 percentage points (from 21.1% to 10.2%) over the course of the fiscal year, and the M1 money supply expanded by 11%. While the bond policy enabled the Government to reduce its financing costs, there were no wider repercussions in terms of recovery, and the real lending rate (16.5%) continued its upward trend. Credit to the private sector grew by 5%, while public-sector borrowing increased by 16%.

Upward pressure on the exchange rate, coupled with the associated inflationary effects, prompted the monetary authorities to announce, on 11 November, a hike in the BRH bond interest rate to 15%.

Although dollarization had been proceeding steadily (dollar deposits account for 37% of M3), there was an apparent reversal triggered by rumours that foreign currency accounts would be converted into gourdes. In October, close to US$ 90 million in foreign exchange flowed out of the country (20% of total deposits in the banking system). The exchange rate rose by 36% in 2002, hitting the mark of 36 gourdes to the dollar in early December.

To compensate for the lack of external financing, the Government imposed stiffer taxation measures on the main contributors (10% of whom account for two thirds of total tax revenues). There was an increase in real terms both in direct taxation (17%) and in the value added tax (8%); more than one quarter of inflows continued to originate in taxes on foreign trade. Some specific taxes were also increased (e.g., long-distance telephone services). Central-government investment expenditure increased by 11% (for public works in general and maintenance work on the Péligre hydroelectric dam, in particular) to compensate for the drastic reduction (-26%) in the preceding fiscal year. The fiscal deficit (2.9% of GDP) was financed almost exclusively through BRH, with a higher contribution (21%) than in the previous year.

Industrial production expanded by 2.8% but its modest contribution to GDP (7%) and the considerable decline in maquila exports do not augur well for the sector. If the initiative presented in October 2002 by the Haitian Chamber of Commerce to the United States Congress (Haiti Recovery Opportunity Act - HARO) is successful in obtaining preferential treatment for textiles, this could herald a more promising future.

The downturn in the construction sector (-1.2%) also reflects the recessionary trend in the economy as a whole. Public works undertaken or completed in the course of the year mitigated this decline, attracting more than one third of government investment.

The marginal expansion in power generation (1.2%), following the sharp fall in the previous fiscal year (-31%), is far from sufficient to meet demand. The authorities had to contract with private suppliers in order to meet part of the emergency pent-up demand, especially after the temporary closure of the country's largest hydroelectric plant in the middle of the year.

Year-on-year inflation stood at 10.1% in September, which meant an increase with respect to the rate recorded in December 2001. Consequently, purchasing power continued to deteriorate and the real minimum wage showed an 8% decline compared with the previous year. The sharp devaluation in the gourde in the closing months of 2002 could result in higher inflation, especially if oil and gas prices, which are currently frozen, increase.

Jamaica

In 2002 the Jamaican economy returned to modest growth (2%) against a backdrop of supply shocks, adverse external conditions and uncertainty in the foreign exchange market. Economic activity was also affected by the political climate during the run-up to the general elections of October 2002.

The fiscal accounts registered a higher-than-expected imbalance due to the increase in current expenditures and the decrease in tax revenues. The deficit thus amounted to 6% of GDP. Capital expenditures were used as adjustment leverage.

The slide in the value of the Jamaican dollar, supply shocks and higher wages fuelled inflationary expectations, forcing monetary authorities to intervene. The Central Bank had to draw on international reserves and tightened its monetary stance.

Export performance was undermined by flood rains and the poor competitiveness of non-traditional exports. The services account suffered adverse effects from the dip in tourist spending. However, the negative current account balance and the significant flight of private capital were offset by foreign direct investment, which led to a positive change in international reserves.

The decline in tax revenues is explained by the performance of the income and profits taxes and, more importantly, taxes on interest (-16%). The poor showing by international trade taxes reflected developments in the tourism sector, which had not yet fully recovered from the downturn of the previous year.

Total government expenditure rose by 18%, owing to increases in current expenditure since capital expenditures contracted significantly (-25%). The higher current expenditures stemmed from wages and salaries (12%) and interest on the external debt (60%).

The government deficit was financed from both domestic and external sources. The former included long-term bond issues designed to lengthen the maturity period of the debt and government surpluses deposited with the Central Bank. External financing included US$ 300 million raised through the placement of a 15-year Eurobond.

Monetary policy sought chiefly to maintain exchange-rate stability in order to achieve the Central Bank's inflation target. The exchange rate moved from J$ 47.40 at the end of December 2001 to around J$ 50.00 at the end of 2002. This movement can be traced to lower-than-expected net inflows of foreign exchange, an increase in private capital outflows and foreign debt service.

The monetary authorities responded to these market pressures by selling foreign exchange, thus reducing the country's net international reserves (-10%). Authorities also raised interest rates with effect from September.

In July, the Bank of Jamaica lowered its repurchase –or repo– rates (interest rate charged for overnight borrowings). Commercial banks followed suit and lowered the weighted loan rate from 19.7% to 17.85% between August 2001 and August 2002. Credit demand during this period increased by 42%, while narrow money expanded 7% and broad money 5%.

The country's modest GDP growth is the result of climatic vagaries that affected the agricultural sector and poor performance by the mining sector, specifically the drop in bauxite production owing to technical problems at one of the refineries. Lower-than-projected growth in the food processing industry, petroleum refining, the tobacco industry, and the textile and garment industries was reflected in a stagnant manufacturing sector. The construction sector, on the other hand, grew during the year, thanks to liquidity in the economy and the recovery activities launched once the heavy rains stopped.

The tourism sector had still not recovered from the weather events of July, the slowdown in the United States economy and the events of 11 September 2001. Total visitor arrivals were down 6% in comparison with the previous year.

JAMAICA: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	1.0	1.8	2.0
Consumer prices	6.1	8.7	5.8 [b]
Money (M1)	-2.5	18.9	7.2 [c]
Real effective exchange rate [d]	7.3	-3.5	0.0 [e]
Average annual percentages			
Urban unemployment rate	15.5	15.0	...
Central government fiscal balance/GDP	1.4	-6.3	-6.0
Real deposit rate	6.0	0.2	2.1 [f]
Real lending rate	17.1	10.3	11.5 [f]

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between October 2001 and October 2002.
[c] Variation between September 2001 and September 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average January to October.
[f] Average January to September, annualized.

Inflation abated in 2002 to 5.8%, nearly 3 percentage points lower than in 2001. The main price increases were triggered by supply shocks, mainly in the foods subsector, although increases were also recorded in beverages, housing and other home-related expenditures. Unemployment is expected to exceed 15%, as fallout from the meagre performance by most economic sectors.

The current account balance registered a deficit, which was more than offset by a surplus on the financial and capital account that led to an increase in international reserves. This outturn was the result of a widening of the trade deficit, an increase in the income account and a narrower surplus in the services balance.

Total merchandise exports were adversely affected by supply shocks and temporary production disruptions in the mining sector. Non-traditional exports also showed a decrease, owing to stiff competition in the apparel sector and the interruption in the production of limestone.

Imports were down as well, mirroring essentially the dip in raw material imports, since all other categories recorded increases over the previous year.

The smaller surplus in the services account reflected the sluggish recovery in the tourism sector, while the deficit in the income account stemmed from the repatriation of profits and dividends, and debt service payments.

Dominican Republic

Although external demand continued to shrink, economic activity in the Dominican Republic expanded by almost 4% in 2002, a higher rate than in the previous year but considerably lower than the average of 7.7% recorded in the period 1996-2000. Growth was driven mainly by domestic demand owing to the strong increase both in consumer spending and in capital formation.

Public expenditure expanded substantially –financed in part by unused resources from sovereign bonds issued in 2001– and helped to offset the slump in activity in export-processing zones and international tourism. Employment grew and real wages improved slightly. However, domestic and external macroeconomic imbalances led to an adjustment of the compensatory policy in the second half of the year. For the year as a whole, the fiscal deficit and the balance-of-payments current-account deficit widened somewhat. The monetary authorities intervened in the foreign exchange market, allowing a gradual slide in the peso-dollar ratio; the rate adjustment was significant enough, however, to lead to a loss in international reserves. The inflation rate doubled, and interest rates crept upwards as a result of monetary restrictions.

Given the possibility of continued weak external demand in 2003, GDP growth is estimated at between 3.0% and 3.5%. Fiscal and monetary restrictions will be maintained for much of the year in an effort to attenuate macroeconomic disequilibria. In December, the Senate approved the issue of US$ 600 million in sovereign bonds on the international market, which will help to achieve this purpose.

Family remittances climbed to nearly US$ 2 billion. However, the wider trade deficit and higher interest and dividend payments pushed the balance-of-payments current-account deficit up to US$ 915 million (equivalent to 4.2% of GDP, compared with 3.5% in 2001). Capital inflows declined, partly as a result of the lower level of foreign direct investment, which –in conjunction with Central Bank interventions to stabilize the exchange rate– produced a dip in reserves on the order of US$ 560 million.

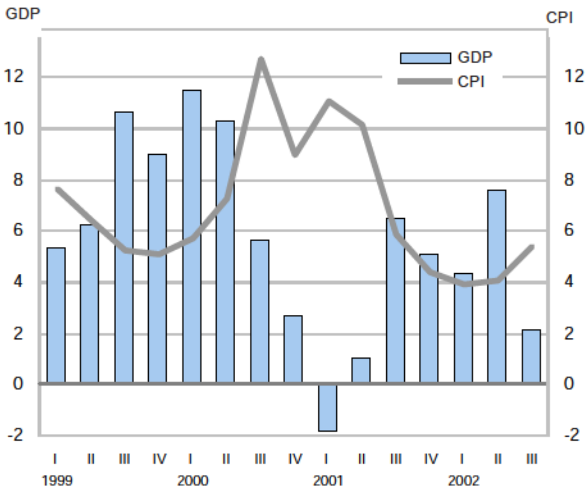
Weak performance of the export-processing zones, which account for 85% of total merchandise exports, resulted in a decline in this heading for the second consecutive year (-2%). In particular, garment sales to the United States, the sector's main client, were down. Declines were also noted in ferro-nickel, tobacco and coffee, because of lower demand and weak international prices. Sugar and cocoa were the only categories to post improvements, thanks to stronger prices.

Although imports into the export-processing zones declined, their total value did not fall off sharply (-0.3%) inasmuch as the expansion in domestic demand helped to spur purchases.

Although tourist arrivals fell by 9.3% in the first ten months of the year, the services balance continued to run a surplus. Even so, the improvement observed at the end of the year was not sufficient to offset the meagre results. Outlays for dividends and earnings increased as bonds issued in 2001 started to fall due.

Economic policy at the beginning of 2002 was conducted with the expectation that external demand would pick up in the course of the year. Accordingly, public expenditure expanded strongly, in parallel with efforts by the monetary authorities to maintain domestic and external stability. This expansionary policy was discontinued, however, when external demand failed to rally and signs came in that the macroeconomic imbalances were unsustainable. Two measures merit special mention: the broad-based adjustment in

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	7.3	2.7	4.0
Consumer prices	9.0	4.4	8.8 [b]
Real urban minimum wage	-0.1	5.5	...
Money (M1)	-10.1	24.7	0.6 [c]
Real effective exchange rate [d]	-2.7	-3.0	1.6 [e]
Terms of trade	-1.9	1.5	-0.2
Average annual percentages			
Urban unemployment rate [f]	13.9	15.4	16.1 [g]
Central government fiscal balance/GDP	1.1	0.4	-2.1
Real deposit rate	6.7	12.9	5.1 [h]
Real lending rate	15.0	21.3	13.7 [h]
Millions of dollars			
Exports of goods and services	8,964	8,366	8,091
Imports of goods and services	10,852	10,056	9,978
Current account	-1,026	-751	-915
Capital and financial account	979	1,264	353
Overall balance	-48	513	-562

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] Percentage change August 2001-August 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average from January to October.
[f] Includes hidden unemployment.
[g] April.
[h] Average January to September, annualized.

electricity rates and the adoption of the Monetary and Financial Act.

Even taking into account the restraint in spending in the second half of the year, central government expenditure grew by 15% in real terms, financed in part by funds remaining from sovereign bonds issued in 2001. On the one hand, a number of jobs were created, wages were raised and debt interest payments increased. On the other hand, capital outlays for various infrastructure works rose considerably.

Tax revenue was up as a result of stronger domestic demand and the reforms and adjustments launched in 2001. However, the increase was insufficient, and the central government deficit rose to 2.1% of GDP.

Domestic credit expanded significantly (20% in real terms in October compared with December), especially credit made available to the central government. The higher placement of treasury certificates and the cutback in money creation were aimed at curbing liquidity and avoiding excessive pressure on the external sector, the foreign exchange market and prices. Consequently, deposit and lending rates rose (by 7 percentage points with respect to December), the money supply contracted and term deposits expanded. As credit demand shrank in the final months of the year, monetary policy was relaxed, with the authorities reducing the legal reserve requirement from 20% to 17% and opening up the Reserve Bank's loan portfolio to the private sector.

The limited supply of foreign exchange generated pressure on the foreign exchange market throughout the year. In order to stabilize the exchange rate, the Central Bank intervened during much of the first half of the year, but in April the focus shifted towards allowing adjustments consistent with the foreign exchange balance. As a temporary measure, the monetary authorities, banks and foreign exchange agents agreed in October to adopt a fixed exchange rate as a means of stabilizing the market. At the beginning of December, however, the exchange rate against the dollar had depreciated by 15% compared with the same month of the previous year, and authorities therefore decided to implement monetary and foreign exchange restrictions.

Negotiations with the United States to include the Dominican Republic in that country's free trade agreement with Central America were not successful, and the Government is now seeking to establish bilateral arrangements with the United States. Progress was made with negotiations on a trade agreement with Panama, and initial contacts have been made to negotiate with Colombia and Chile.

Consumption and investment grew at high rates in the period from January to September, notwithstanding a slowdown in GDP growth in the third quarter. Activities linked to the domestic market were the most buoyant. These included manufacturing, construction, communications, commerce and energy. By contrast, the export sector contracted sharply, especially the export-processing zones and the hotel industry.

Agriculture suffered a setback, as a result of the dip in tobacco and tomato production and adjustments in the production of items for domestic consumption following the abundant supply in 2001. Although power generation expanded significantly, there continued to be a shortfall and, consequently, consumers and producers continued to face power outages. In order to regularize the service, the Government approved a sharp hike in electricity rates and modified the generalized subsidies to target the low-income sectors of the population.

Inflation climbed to 8.8% –a rate double that observed a year earlier– and generated an important impact on the adjustment in electricity rates. Fuel prices also increased. The public sector implemented a 6% wage increase at the beginning of the year, and the private sector (except in the export-processing zones) followed suit in October, with an 8% salary increase. In both cases, the adjustments were positive in real terms.

Trinidad and Tobago

The GDP of Trinidad and Tobago grew 2.7% in 2002, compared with 3.3% in the previous year. The oil sector experienced faster expansion than in 2001, and the agricultural sector saw a return to growth. Manufacturing output also expanded. Political uncertainty reigned throughout most of the period, inasmuch as the December 2001 election results were so heatedly contested that it was not possible to elect a prime minister and new general elections had to be called.

The external sector yielded a balanced result thanks to a current account surplus (generated by higher insurance flows) that was able to offset the deficit on the capital and financial account (the result of external debt payment obligations). This favourable balance-of-payments situation enabled the authorities to maintain a solid reserve position and to keep the exchange rate and inflation within the Government's target ranges.

Fiscal year 2001/2002 ended with a balanced budget, since the shortfall in projected revenue was matched by lower levels of fiscal expenditure. The Government was thus able to honour its debt service obligations and pursue a monetary policy built around interest rate targets. The main challenge was to establish rules for trading on the money market in an environment of excess liquidity. The Central Bank engaged in sterilization operations and at the same time eased its monetary stance so as to stimulate the demand for credit.

Tax revenues reflected a drop in receipts from the income and profits tax (-17%), as tax payments by oil firms plummeted (-38%) because of lower crude prices in 2001 and higher allowances and deductions for capital goods. The tax intake on goods and services increased as VAT revenues expanded (13%). The lower level of expenditure was the result of a contraction in capital outlays (-24%). Current expenditure rose marginally, mirroring increases in wage payments and emoluments. The fiscal outcome allowed the Government to pare back its borrowing requirements and make substantial debt repayments.

The budget for fiscal year 2002/2003 will likely yield a deficit of 1% of GDP due to payments to settle salary arrears. Allowance has been made for the reduction in the marginal rate for the top brackets of the income and corporation taxes (from 35% to 30%) and the elimination of export subsidies to comply with WTO-related agreements.

The Central Bank introduced the repo rate (the interest rate charged to commercial banks for overnight borrowing) as the key indicator for guiding monetary policy. Private-sector demand for loans slid steadily throughout the year, and commercial bank deposits rose 15%.

Within this context, the Central Bank opted to lower the repo rate from 5.75% to 5.25%, while sterilizing the excess liquidity through Treasury bill issues. The net result was an across-the-board drop in interest rates (the basic prime rate fell from 14.5% to 12% between January and September). Money supply aggregates were responsive to interest rate objectives. Narrow and broad money rose by 7% and 14%, respectively, between August 2001 and August 2002. Implementation of monetary policy was made easier by the build-up in net international reserves, which kept the exchange rate stable.

The petroleum sector grew 4.5% in 2002, despite uneven performance by the petrochemicals subsector. Nitrogenous fertilizer production rose 1%, and methanol production expanded thanks to upgrades in plant capacity and production methods. Iron and steel output increased as well.

The revival of growth in the agricultural sector (11%) came from the strong performance by sugar production (21%). Slow manufacturing growth (1.1%) was due to low levels of technology, high costs, an unsuited marketing strategy and supply constraints in the provision of raw materials. The drop in construction activity reflected the contraction in public capital expenditures. Lastly, the tourism sector remained depressed (-1.3%), following the sharp drop the previous year.

Inflation jumped from 3.2% to 4.7%, with foodstuffs accounting for the bulk of the increase. The participation and unemployment rates remained unchanged from the previous year (61% and 11% in 2001 and 2002, respectively).

The external sector registered a balanced overall result thanks to a current account surplus which, for the most part, offset the shortfall on the capital and financial account. The current account performance reflected surpluses on the merchandise and services accounts that outweighed the deficit on the income account.

Export growth was down with respect to the previous year, showing a decline in trade in fuels that was offset in part by a rise in petrochemicals. Trade in fuels was affected by unfavourable price and demand conditions for part of the year and by the expiration of a fuel trade agreement with Venezuela. Manufacturing exports increased, while agricultural exports contracted.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	6.1	3.3	2.7
Consumer prices	5.6	3.2	4.7 [b]
Money (M1)	14.1	36.9	7.0 [c]
Real effective exchange rate [d]	-2.3	-4.8	-4.3
Average annual percentages			
Urban unemployment rate [e]	12.2	10.7	11.0
Real deposit rate	3.3	2.3	3.4 [f]
Real lending rate	11.2	10.0	10.7 [f]
Millions of dollars			
Exports of goods and services	4,290	4,124	…
Imports of goods and services	3,322	3,694	…
Current account	544	127	…
Balance of goods and services	1,135	730	…
Capital and financial account	-103	344	…
Overall balance	441	471	…

Source: Statistical Appendix.
[a] Preliminary estimates to third quarter.
[b] Variation from October 2001 to October 2002.
[c] Variation from August 2001 to August 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Includes hidden unemployment.
[f] Average from January to July, annualized.

The expansion in merchandise imports was spurred by production requirements in the energy sector.

The surplus on the services account swelled from US$ 34 million in 2001 to US$ 52 million in 2002, reflecting mainly the rise in insurance flows, since the transportation and travel headings declined in response to stalled activity in the tourism sector. The deficit on the income account was attributable to foreign exchange outflows in the form of repatriation of profits.

The poor financial account outturn stemmed from repayment of the public external debt, although foreign direct investment increased with respect to the previous year, drawn by investment opportunities in the energy sector.