THE CARIBBEAN

Barbados[1]

The Barbadian economy, having experienced declines in the second and third quarters of 2001, slipped below its long-term growth trend. Real GDP contracted by 1.5% over the first nine months of 2001 in response to downturns in tradables and slow growth in non-tradables. This contraction contrasts with an average annual growth rate of 3% over the previous eight years. The reduction in economic activity reflected the slowdown in the world economy. The manufacturing sector suffered the effects of trade liberalization as all of the major sub-sectors contracted. Inflation was substantially lower than in the previous year. Uncertainty in the economy sparked by the effects of globalization and the events of 11 September drove liquidity up above the preceding year's level. The fiscal deficit was almost twice as high as it had been in the same period in 2000 and was financed locally for the most part. The slowdown reflected the effects of adjustments in some sectors as they confronted the challenges of trade liberalization.

Real value-added in the tourism sector contracted by 3.2% in the first three quarters of 2001, as compared with a 7.5% increase in the corresponding period of the previous year. The decline in real tourism output reflected a reduction in long-stay arrivals, which fell by 4.9% for January-September 2001 after an expansion of 6.6% in the corresponding period of 2000. The relatively poor performance of tourism resulted from continued competition from other destinations and an economic decline in the source markets for the country's tourism.

The 50,000-ton sugar crop in 2001 was 14.7% lower than the previous year's. Despite lower output, Barbados just managed to meet its contractual obligations to the European Union. Non-sugar agriculture decreased by 5.1% during the first nine months of 2001, as reductions in the output of fish and chicken more than offset an increase in the production of milk.

The manufacturing sector suffered the effects of trade liberalization, with decreases in all of the major subsectors. Output for the sector as a whole fell by 7.6%.

[1] This report is based on information provided by the Central Bank of Barbados.

BARBADOS: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	3.1	3.0	-1.5
Consumer prices	2.6	3.8	0.3
Real effective exchange rate[b]	-0.5	0.0	-0.8
	Percentages		
Unemployment rate	10.4	9.3	10.0

Source: Statistical Appendix.
[a] Preliminary estimates to end of third quarter.
[b] A negative rate indicates an appreciation of the currency in real terms.

Value-added in the food-processing subsector fell by 5.8%, while wearing apparel dropped by 26.2%. Beverages declined by 6.4% and chemicals by 2.7%.

Construction activity increased by an estimated 2.3% in the first three quarters of 2001, following a marginal decrease in the corresponding nine months of the previous year. The performance of this sector was strongly influenced by activity in commerce and tourism-related projects and by a number of large government infrastructure projects.

Other non-tradables sectors that registered growth were transportation, storage and communications, and business and other services. Output in the wholesale and retail subsectors is estimated to have contracted by 1.4% owing to reduced activity in tourism and the other tradables. Output from mining and quarrying was also down, mainly because of the temporary suspension of drilling of new wells.

By October 2001, the annual rate of inflation as measured by the retail price index was 0.3%. This rate reflects the steady decline recorded since August 2001.

Data for the first nine months of 2001 indicate that the number of new licenses issued to international business service companies was lower than in the corresponding period of 2000. During the review period, 189 companies were registered as opposed to 371 in 2000. Employment was down in manufacturing, construction, distribution and tourism, and gains in employment in finance, insurance and other services failed to offset the losses in other sectors.

The unemployment rate at the end of June 2001 was some 10%. This compares with the 9.3% figure recorded at the end of 2000. The female unemployment rate increased from 11.3% to 11.8%, while the male unemployment rate rose from 7.4% to 8.3%.

For the period January-September 2001, the Government recorded a deficit of BDS$ 140 million, which was about twice the size of the deficit for the corresponding period of 2000. This was attributable to a decrease in receipts and the upswing that was seen in current and capital expenditure as the effect of slacker economic activity worked itself through the country's accounting system. Government current expenditure had increased by 7.9% by September 2001. Spending on goods and services rose by some 17.2%, while interest payments climbed by 8% owing to the country's larger stock of external debt. Wages and salaries declined by 1.2%. Expenditure on the government capital works programme expanded by 14.8% as work continued on a number of projects.

Most of the fiscal deficit was financed by domestic sources. Commercial banks provided BDS$ 54.9 million, while the National Insurance Scheme and private non-banking institutions expanded the level of credit they extended to government bodies, with holdings amounting to BDS$ 43 million in government securities.

For the first nine months of 2001, the economy's liquidity remained relatively high. Excess liquidity was approximately 11.5% at the end of September, as compared with a rate of 7.7% at the end of December 2000. As a result, the treasury bill interest rate had fallen to 2.7% by the end of September, down from 3.9% at the end of December 2000. Domestic deposits expanded by BDS$ 185 million. On the other hand, credit to the private sector rose by BDS$ 24 million as growth in loans to the construction, tourism, manufacturing and personal services sectors outstripped the reductions in loans to agriculture and distribution. The lower rate of credit to the agricultural sector was matched by lower output.

The central bank lowered the minimum deposit rate from 4% to 3.5%, the discount rate from 9.5% to 8.5%, and the reserve requirement from 6% to 5% of deposit liabilities. It also set indicative lending rates which required the weighted average lending rate to be no higher than 10% by 1 August 2001 and no higher than 9.5% by 1 September 2001.

A small current account surplus of some BDS$ 0.3 million was recorded, in contrast to the deficit of BDS$ 3.6 million posted for the corresponding period of the previous year. This outcome was the result of a 10% drop in retained imports. Imports of capital and consumer goods declined while tourism earnings remained almost constant. Domestic exports fell by 12.4% as higher earnings from food and beverages and from electronic components were offset by lower inflows from chemicals and sugar. The surplus on the capital and financial account of the balance of payments was estimated at BDS$ 133 million, which was less than one-third of the figure for the corresponding period of the previous year.

Net international reserves of the central bank stood at BDS$ 1.1 billion at the end of September, which represented an increase of BDS$ 137.6 million over the December 2000 figure. Liquid foreign assets represented 27 weeks' worth of imports at the end of September 2001.

Belize

During the first semester of 2001, declining export prices and the disruption of agricultural production in the wake of Hurricane Keith, which struck the country in late 2000, negatively impacted the performance of external sales; these factors accounted in part for the 12.4% decline in the total value of exports. Imports were also down, but by a smaller amount, and the trade deficit consequently widened. Whereas stay-over tourist arrivals increased somewhat, cruise ship arrivals fell. Consumer prices increased by 1.7%.

Sugar-cane production declined by 9.1% in the first six months of 2001 as compared to production in the corresponding period of 2000. This is attributable to poor farming practices and damage to sugar-cane fields caused by Hurricane Keith. As a result, sugar production and exports also fell. Exports of sugar for the first half of 2001 amounted to 63,816 long tons as compared to 83,717 long tons one year earlier. Deliveries of oranges and grapefruit for the period from October 2000 to June 2001 topped the previous year's figure by 2.3% as young groves reached harvest maturity.

Sugar production decreased by 13.2%, owing to the decline in processing volumes and relatively significant reductions in factory time efficiency. Molasses production also contracted.

Citrus products in the form of concentrate and pulp turned in a mixed performance. The production of orange concentrate increased in the period from October 2000 to June 2001, thus improving upon its performance of one year earlier, and grapefruit concentrate posted an 8.5% increase over a similar period. The production of orange and grapefruit pulp for the period October 2000-June 2001 was also higher than the year before.

For the first six months of 2001, stay-over arrivals increased by 0.2% over the figure for the same period of 2000. A slight increase in seaport arrivals offset a reduction in visitors entering through land border crossings. The main source markets for stay-over tourists continue to be the United States and Europe, which accounted for approximately 66% and 11% of the total, respectively. Arrivals began to slow, however, as a result of the economic downturn in those markets and the financial difficulties being experienced by one of the cruise lines that calls at Belize. Nevertheless, the outlook was for a resumption of cruise ship arrivals in the latter part of the year.

Between February and May 2001, the consumer price index rose by 0.6%, with significant increases in transport and communications and in personal care. The implementation of a common external tariff (CET) reduced import duties and contributed to the price declines observed in clothing and footwear, household goods and maintenance, and recreation, education and culture. The annualized rate of inflation from May 2000 to May 2001 (1.7%), is largely a reflection of the increase in fuel costs.

Over the first half of the year, monetary growth was largely driven by an 8.7% (BZ$ 71.2 million) expansion in net domestic credit. M1 rose by 24%, an increase far in excess of the average growth rate of 9.8% recorded over the same period of the previous two years. Contrasting with the rapid growth of M1, quasi-money contracted by 2.7% to BZ$ 17.5 million as excess liquidity and low interest rates prompted a reduction in time deposits of some BZ$ 39.1 million. Time deposit holdings by individuals, cooperatives, credit unions and private financial institutions declined by BZ$ 44.8 million. Savings deposits rose by BZ$ 21.6 million, with individuals accounting for 79.2% of the increase. Over the first half of 2001, the net foreign assets of the banking system rose slightly (by BZ$ 0.6 million), with a BZ$ 6.8 million improvement in the net external position of commercial banks slightly outweighing a BZ$ 6.2 million decline in the central bank's net foreign assets.

During the period from January to June 2001, the central government's domestic debt rose by BZ$ 17.8 million to BZ$ 189.7 million. As there were no disbursements or new issues of securities, the expansion of the debt was attributable to an increase of BZ$ 18.5 million in its overdraft with the central bank; amortization payments on that credit exceeded BZ$ 0.7 million.

For the first half of 2001, the total volume of international trade was down from the previous year's level. Gross imports fell by 7.4% to BZ$ 468.8 million, while poor market prices and bad weather resulted in a 14.3% drop in the value of total exports, which slipped to BZ$ 209.9 million. The trade deficit widened by BZ$ 6.8 million to BZ$ 217.1 million. Domestic exports fell from BZ$ 245.1 million for the period from January to June 2000 to BZ$ 209.9 million, as export performance weakened under pressure from exogenous shocks. Sugar exports declined in value as production losses caused by Hurricane Keith in late 2000 were reflected in smaller export shipments, especially to the European Union. Banana exports also fell in value after adverse weather conditions reduced yields and hence export volumes. The decline in the value of citrus shipments from BZ$ 100.2 million to BZ$ 78.7 million is attributable to the mix of juices shipped. Marine products increased in terms of export value as investments in the shrimp-farming industry boosted output and export volumes.

Cuba

Economic growth in Cuba slowed to 3% in 2001 owing to a weak performance by the sugar industry and a decline in foreign currency inflows, which restricted the country's import capacity. Although exports exceeded imports in terms of volumes and despite an improvement in the terms of trade, the balance-of-payments current-account deficit widened (to 2.5% of GDP, compared with 2.1% in 2000), following a decrease in remittances by family members abroad and an increase in net factor service payments.

Although the official rate of exchange remained fixed, the national currency lost value against the dollar on the open market, the events of 11 September having led to a decline in foreign currency inflows. The monetary overhang expanded to 36% of GDP and the fiscal deficit grew slightly (2.5% of GDP compared with 2.2% in 2000), since income declined faster than expenditure. Nevertheless, inflation was barely 0.5%, thanks to the stability of regulated prices and to a general fall in prices attributable to increased supply on the open market.

The authorities concentrated on the constraints caused by the shortage of foreign exchange, which started to become more acute in September. In fact, investments were frozen, tourist facilities temporarily closed, imports restricted and budget adjustments made, especially in dollars. The situation was further complicated in early November, when Hurricane Michelle struck the centre of the island causing direct and indirect damage estimated at over US$ 1.5 billion (5% of output).

In terms of the fiscal position, current revenues fell (-3.7%) while capital revenue increased (7.9%). Non-tax revenue contracted more sharply (-12.9%) than tax revenue (-1.1%). The latter included an increase in direct revenue (7.4%) whereas indirect revenue diminished (-7%), as a result of the reduction in circulation and sales taxes (-13.4%).

On the expenditure side, current expenditure contracted (-3%), reflecting a reduction in subsidies to State-owned corporations. Nevertheless, there were increases in expenditure for culture and the arts, defence and internal order, administration, education and social welfare. Meanwhile, capital expenditure remained at the same level as in 2000.

The external public debt, not including debt contracted with member countries of the now defunct Council for Mutual Economic Assistance (CMEA), was almost the same as in the previous year (US$ 10,960,000), or 35.6% of output calculated at the official rate of exchange. The majority of these loans were government-insured export credits (33% of total), inter-government loans (17%) and medium- and long-term bilateral and syndicated loans (16%).

Reform of the financial sector, which now includes more than 20 new institutions, was consolidated and a new system of charges and payments was established to improve financial discipline and expedite the settlement of outstanding debts between national corporations.

Further progress was made with economic reforms designed to enhance the corporate structure of public entities and open up the economy to foreign investment. Thus, 300 State-owned companies were covered by the corporate reforms, while the process of opening-up has been extended to 405 joint-venture companies and contracts (395 at the end of the previous year). In total, committed capital investments amount to about US$ 5 billion, of which half has already been disbursed.

Total supply grew (3%) reflecting an increase in output (3%) and an upturn in imports (2.8%). On the demand side, external and domestic demand grew at similar rates (2.9% and 3% respectively). The increase in investment (4.4%) exceeded growth in consumption (2.8%); of the latter, growth in government investment (3.5%) was stronger than private investment (2.4%). The priority was given to capital formation in the energy sector, as well as in nickel, the sugar-based agro-industry, shrimp farming, tourism and telecommunications. There was a slight improvement in the quality of the food distributed through regulated consumption (ration books).

With respect to individual sectors, strong growth was observed in construction (6.7%) and mining 3.4%. Growth in construction is attributable to the work carried out in sectors that are part of the foreign currency circuit and to the start of reconstruction work following the hurricane. Growth in manufacturing (2.4%) is in keeping with the level of activity in 14 of the 21 branches of the sector, notably in the fuel industry, non-ferrous metals, electronics, paper, food and beverages, and tobacco.

Nickel production was at a record high (75,000 tons), showing a 5% increase over the previous year's figure; meanwhile, growth in the energy sector made it possible to expand coverage of basic services: 78,000 persons were connected to the gas supply and 40,000 households to the electricity grid.

However, sugar production was down in the 2000-2001 harvest (3.5 million tons). This decline, together with the slump in fish catches, caused a slowdown in the agricultural sector, which showed barely 1.4% growth (compared with 11.5% in 2000). Increases were recorded in the production of foodstuffs, coffee and tobacco.

Tourism boomed in the first eight months, but took a definite downturn in September; in response to this, authorities decided to adjust the volume of supply rather than prices. Thus, they took advantage of the temporary closure of 20 hotels (of a total of 225) and one third of the island's 36,000 rooms to commission repairs or remodeling of hotel facilities and to retrain the labour force, while launching a more intensive international campaign to promote Cuba as a tourist destination.

Perseverance with the price control policy and increased supply on the open agricultural markets kept inflation down to 0.5%. The unemployment rate declined for the sixth consecutive year (this time, to stand at 4.5%), at a time when labour productivity was growing and real wages were stronger.

Export earnings from the sale of goods and services increased by 2.7%, reflecting higher volumes of nickel –which actually fell in price– and of non-traditional exports, including tourism services and telecommunications. Sugar shipments decreased in volume, but prices had rallied.

The value of imports rose by 0.9%, owing mainly to the greater volume of foodstuffs purchased abroad, since oil purchases showed practically no variation.

Net current transfers declined reflecting a decrease in family remittances. Overall, the level of net current transfers received (US$ 750 million) were in balance with net factor service payments, so that the balance of payments current-account deficit (US$ 758 million) was equivalent to the trade deficit in goods and services. This deficit was more than offset by the surplus on the current account (US$ 770 million), leaving US$ 12 million to add to international reserves.

CUBA: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	6.8	5.5	3.0
Consumer prices	-2.9	-3.0	0.5
Nominal parallel exchange rate	-4.8	5.0	7.1
	Percentages		
Unemployment rate	6.0	5.5	4.5
Fiscal balance/GDP	-2.2	-2.2	-2.5
	Millions of dollars		
Exports of goods and services	4 295	4 763	4 893
Imports of goods and services	5 041	5 599	5 651
Current account	-462	-687	-758
Capital account	485	717	770

Source: Statistical Appendix.
[a] Preliminary estimates.

Haiti [2]

The poor performance of the Haitian economy has been cause for disquiet for the third consecutive year. GDP has declined by almost 1 percentage point, inflation slowed considerably (9.5%) and the fiscal deficit remained high at 2.8% of GDP, slightly more than the balance-of-payments current-account deficit. The evident weakening in all productive sectors was aggravated by the uncertain political outlook and by the economic slowdown in the United States, and, together with the highly unstable political situation, augurs ill for the year 2002.

Restrictions in external financing persisted despite the efforts of the international community, headed by the Organization of American States (OAS), to achieve a negotiated settlement to the post-electoral conflict of the previous year. In addition, the advisory mission from the International Monetary Fund (IMF) was unsuccessful in concluding a new Staff Monitored Program (SMP) with the Haitian authorities, following the suspension of the prior agreement for non-fulfilment of the established quantitative criteria.

The external bottleneck and the internal recession restricted the authorities' margin for manoeuvre with respect to their economic policy. Meanwhile, fiscal revenues fell by 12% in real terms and expenditure contracted by 9%. In spite of the increases applied in the previous year to local prices for petroleum products, the replenishment of related tax resources did not materialize and losses under this heading remained significant (over 900 million gourdes).

The central bank continued to bear almost the full burden (94%) of the fiscal deficit, equivalent to 2.8% of GDP, while its contribution declined by 9%. Unlike the situation of the preceding years, this financing reflected a shift in capital expenditure towards current outlays in order to avoid an even greater deterioration in government accounts. Capital expenditure shrank by 40% in real terms. Government external debt payments contracted sharply, which extended the vicious circle of non-payments and undisbursed commitments and pushed up cumulative arrears to US$ 18.7 million.

Monetary authorities intensified liquidity control measures. In June, they raised the legal reserve ratio to 31% and altered the form of provisioning for such reserves. In the case of dollar liabilities, 70% of this fund must be set up in foreign exchange and the remaining 30% in national currency, which is the opposite of the previous situation.

At the end of the fiscal year, total liquidity in the economy (M3) contracted by 6% in real terms, largely as a result of the withdrawal of nominal amounts of dollar liabilities (67%), of term deposits in national currency (16%) and of narrow money (M1) (17%). The actual money supply in September 2001 reflected a 4% increase in real terms, owing to the strong expansion of loans from the banking system to the Government (15%), while credit to the private sector declined by 18%.

The annual average exchange rate of the gourde reflected a 21.7% devaluation against the dollar. Although the decline was sharper in the last few months, the Banque de la République d'Haïti had to refrain from intervening on the foreign exchange market as its reserves were extremely low. In fact, gross external assets declined and owing to external constraints, no new debts could be contracted.

All the components of total demand have shown a downward trend. Investments fell (-2.5%), since the contraction of public-sector investments could not be

[2] The period under consideration refers to fiscal year 2000-2001, starting in October 2000 and ending in September 2001.

HAITI: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	2.4	1.3	-0.9
Consumer prices	9.7	19.0	9.5
Real effective exchange rate [b]	-4.8	12.3	0.5
Terms of trade	-1.5	-7.6	-3.1
	Percentages		
Fiscal balance/GDP	-2.5	-2.6	-2.8
	Millions of dollars		
Exports of goods and services	528	500	457
Imports of goods and services	1 169	1 276	1 227
Current account	20	-74	-90
Capital and financial account	1	28	91
Overall balance	21	-46	1

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

offset by the private sector, the latter preferring to wait for signs of an improvement in the political situation; in addition, interest rates were high (28% for loans in gourdes and 15% for those in dollars).

Consumption declined by 1% owing to the weak demand for labour and the decline in real income (the minimum wage fell by 14%) in an economy where a high percentage of the people are poor.

The contraction (-5%) in the maquila garment industry, attributable to the slowdown in the United States and to a structural lag in adjusting to the new hiring conditions (full processing) affected exports as a whole (-0.8%).

Favourable weather conditions prompted forecasts of an upturn in the agricultural sector, which accounted for almost one third of output; however, this upturn was insufficient to reverse the overall economic decline. Gross electricity generation diminished by 28%, with clear proof of damage to productive activities and households.

During the fiscal year, average inflation was high (18%), but diminished towards the end of the year (9.5%), largely as a result of the attenuation in the rate of devaluation and the increases in domestic prices for petroleum products.

The balance-of-payments current account showed a negative balance of the order of US$ 90 million. In spite of this decline, remittances (US$ 588 million) performed a key role to avoid a major deterioration faced with the reduction in external grants. Part of this deficit was financed using the limited foreign assistance funding available: net disbursements amounted to barely 11.3 million dollars; extraordinary funding came from the accumulation of arrears (US$ 19 million) in interest payments on the external debt.

The trade balance remained virtually unchanged: exports contracted by 8%, while imports diminished by 3%, owing largely to a sharp decline in hydrocarbons both in value and volume terms (-12% and -17%, respectively). Once again, the terms of trade showed a deterioration of close to 9%, despite a slight variation (0.9%) in crude oil prices on the international market, since national prices for imports of refined products increased by 5%.

Exports from the textile maquila industry declined both in value terms (-6.4%) and in terms of volume (-5%), while the slump (-30%) in coffee prices on the international market worsened conditions in this sector. Exports of non-traditional products (mangoes) were down 50%.

Owing to the restrictions maintained by virtually the whole international financial community and by donors, there was only a minimal variation (2%) in the net external debt balance (US$ 1,188,000). Disbursements barely amounted to US$ 34.8 million, while debt servicing and repayment (US$ 23.5 million) declined considerably.

Jamaica[3]

It is estimated that GDP increased by over 3.5% during the first nine months of 2001 compared to the same period of 2000, as output in the mining industry rebounded to normal levels after the Gramercy accident. All of the other major sectors except electricity and water and miscellaneous services recorded increases. Consumer prices rose by 8.3% between January and October 2001, while central government operations showed a fiscal deficit of J$ 2.6 billion.

Increases in output were posted for agriculture, forestry and fisheries, manufacturing, and transport, storage and communications in the first semester of 2001. Growth rates slowed in these industries in the third quarter, however, when compared with their performance in the first half of 2001. A lower level of real output in the electricity and water sectors is attributable to problems at generating plants that drove down the level of electricity generation. Slower growth rates for miscellaneous services reflect a drop in output for hotels, restaurants and clubs as tourist arrivals declined.

Agricultural production had shown a 10.3% increase in January-September 2001 over the corresponding period of 2000 due to an almost fivefold increase in the volume and value of the sugar cane produced. The floods of October 2001 are thought to have eroded that increase, however, and the forecast is therefore that production will remain at its 2000 level.

The increase in the production of sugar cane was primarily responsible for the improved performance reflected in the export-crop subindex. The upswing in output was a consequence of the deferral of milling operations, which influenced production figures. For the crop year November 2000/September 2001, some 2.2 million tons of sugar cane were milled, yielding 204,478 tons of sugar. One of the factors underlying these statistics was the yield in terms of tons of cane to tons of sugar.

The mining sector continued to recover as bauxite and alumina production increased.

Construction and infrastructure works continued to record significant increases. Residential construction rose largely in response to the Government's Settlement Upgrading Programme. Activity in non-residential construction was spurred by major infrastructure projects undertaken by the Ministry of Transport and Works.

In the services sector, tourism slackened its pace of growth owing to a continued reduction in cruise ship arrivals and a slowdown in the rate of growth of stopover visitors as the slowdown in the United States economy continued and as negative reports on safety conditions in the country were carried on major news networks.

JAMAICA: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	0.7	0.5	1.5
Consumer prices	6.8	6.1	7.6
Real effective exchange rate[b]	-7.6	2.3	-2.4
	Percentages		
Unemployment rate	15.7	15.5	...

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

[3] The present description of main aspects of the Jamaican economy was prepared from the third quarter analysis as presented by the Planning Institute of Jamaica.

Financial services continued to expand at a significant rate. Growth in the sector is attributable to an ongoing recovery in the banking and insurance industries.

In basic services, although sales and generation in the electricity, light and power subsector continued to climb, they did so more slowly than before as a consequence of the generation problems being experienced by the Jamaica Public Service Company. Water production fell by 3.4% compared to the corresponding period in 2000. The reactivation of the financial services sector was fuelled by improved supply conditions in the credit market, stronger demand for insurance-related products (as evidenced by an increase in the number of policies being sold) and the continued recovery of the stock market.

Government consumption expenditure is estimated to have increased by less than 1% in real terms, in part because of higher wages.

The devastation caused by flooding in the Portland and St. Mary areas have put additional pressure on the production and service sectors to meet their growth target of 4.5% in 2001. The drop in tourist arrivals in the wake of the September 11th attacks on the United States has resulted, as an immediate response, in hotel occupancy rates of some 11% ¾less than one-third of the normal occupancy rate. The available information indicates that occupancy rates are on the rise, however, and some increase in arrivals is expected in the last month of the year. A decline in cruise ship calls has hurt the industry's performance. The floods and the reaction to the September 11th attacks have put pressure on government expenditure. The floods had a particularly strong impact given the need to provide emergency financial support to victims in Portland and St. Mary. A fiscal deficit is therefore forecast for 2001.

Between January and September 2001, the overall performance of the manufacturing sector improved by 2.5% as compared to the corresponding nine months of 2000. A significant factor behind this performance was the return to normal operations at the Petrojam refinery, which led to a 27.3% increase in petroleum production.

Consumer prices increased by 8.3% between January and October 2001, the largest jump in the last three years. This relatively high rate of inflation reflected cost-push effects as well as seasonal increases in domestic food-crop prices.

For the 12-month period to July 2001, M1 grew by 13.5%, while quasi-money expanded at a rate of 7.8%. Total M2 increased by 9.7% on an annual basis. Growth in time deposits continued to outstrip the expansion of savings deposits, as investors moved into higher-yield interest-bearing accounts. Domestic credit continued to expand, with credit to the public sector increasing by 17.8% and credit to the private sector by 8.7%.

The central government's fiscal operations generated a deficit of J$ 2.6 billion during the third quarter of 2001. This contrasted sharply with a surplus of J$ 333 million in the corresponding quarter of 2000. The fiscal outturn was, however, somewhat better than the programmed deficit of J$ 3.4 billion as steps were taken to curtail government expenditure on capital projects and programmes by 49.5% and 23.3%, respectively. There was also a reallocation of funds in an effort to meet the established fiscal targets while dealing with some degree of social unrest in July 2001. Total expenditure stood at J$ 28 billion and was 4.3% less than the sum budgeted for the period. When compared with the outturn for the corresponding period of 2000, total expenditure for the quarter was 14.1% greater. This increase was accounted for by an upswing in recurrent expenditure amounting to some 16.8% as the government wage bill rose by J$ 11.2 billion.

The country's balance-of-payments position improved in January-July 2001, with a build-up in net international reserves of US$ 556 million. The positive balance-of-payments outturn was due to large inflows on the financial account and reflected increases in both official and private investment. Official investment climbed to US$ 423.9 million, thanks to the government's receipt of US$ 400 million from a Eurobond issue. Private investment increased by 4.3% as the government received the final payment from the sale of the Jamaica Public Service Company. The capital account moved from a surplus of US$ 2.8 million to a deficit of US$ 8.4 million.

The current account registered a deficit of US$ 224.7 million for January-July 2001. The trade deficit increased by 18.5% as the net effect of an upturn in the value of imports and a decline in that of exports.

The income account was less favourable than it had been in the corresponding periods of 1999 and 2000 as multinational corporations increased their profit remittances. The services and current transfers accounts remained positive. The improved position of the services account was due to the travel component of that account and reflected increased earnings from the tourism sector up to the end of July 2001.

Dominican Republic

The GDP growth rate slowed to 3% in 2001 (7.8% in the previous year), owing to an adjustment policy applied at the beginning of the year and the entry into force of fiscal and tariff reforms. The tax reform put pressure on prices, but their monthly fluctuations diminished, so that the variation was about 5%, which is less than in 2001. The performance of the external sector was characterized by dampening of trade in goods and services and continuity of the foreign direct investment flows. The slowdown of the United States economy had a negative impact on employment and external sales. The economy showed signs of a strong recovery however, as of the third quarter, boosted by a successful placing of sovereign bonds, although the events of 11 September were prejudicial to tourism.

The tax reform made it possible to increase fiscal pressure, maintain stability in the fiscal accounts and make a timely contribution to external debt repayments. This provided a basis, in the second half of the year, for implementing a monetary policy aiming to reduce nominal interest rates with a view to boosting the economy.

The fiscal result was surplus (1% of GDP), as a result of the tax reform. This increased receipts, despite the reduction (-10%) in income from external trade, deriving from the tariff reform. The growth rate of tax income rose to 25% (1% in the previous year) and the tax burden increased from 13.7 to 16.1% of GDP. Current and capital costs maintained their share of GDP.

The tax reform included the increase from 8% to 12% in the tax rate on transfers of goods and services, an advance income tax payment of 1.5% of the gross monthly income of commercial establishments, and the increase in selective taxes. New legislation on oil and gas was also implemented, with a selective fixed tax per gallon of fuel consumed. The tariff reform simplified the structure of import duties and reduced the tariff ceiling from 35% to 20%.

As the fiscal balance was maintained, a flexible monetary policy was possible for most of the year, based on reducing the nominal interest rates; the debt of the Central Bank was also reduced through absorption of participation certificates. The weighted average of nominal loan rates decreased from 29.3% in January to 23.5% in October, and the average for deposit rates fell from 18.8% to 12%.

The revitalization policy was complemented, towards the end of the year, by the issuing and placement of sovereign bonds for a total of US$ 500 million, payable in five years at an annual interest rate of 9.5%. Of this total, 79% of the bonds were placed with United States companies, 20% with European investors and the remaining 1% in Latin America. The income from this government issue was allocated to infrastructure works.

The marked slowdown in growth was the result of the adjustment measures implemented between August 2000 and January 2001, which had a negative impact on investment and consumption. In the last four months of the year, however, there were signs of a recovery, owing to the lowering of interest rates and the favourable prospects for income from the sovereign bonds issue.

Agricultural production grew by 4%, despite a setback for some crops. Manufacturing (-2.3%) was affected by the fall in internal demand and the increase in production costs due to the rise in fuel prices. The

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	8.0	7.8	3.0
Consumer prices	5.1	9.0	5.3
Real effective exchange rate [b]	4.2	-1.7	-5.7
Terms of trade	0.9	-1.9	-1.0
	Percentages		
Unemployment rate	13.8	13.9	15.2
Fiscal balance/GDP	-0.5	1.1	1.0
	Millions of dollars		
Exports of goods and services	7 987	8 964	7 989
Imports of goods and services	9 289	10 852	9 802
Current account	-551	-526	-564
Capital and financial account	592	979	1 862
Overall balance	163	-48	580

Source: Statistical Appendix.
a Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

final price of some goods increased as a result of the reform of selective taxes, which eroded the real income of consumers.

Activity in the export-processing zones lost momentum owing to the reduction in sales of textile manufactures to the United States market. Employment in the export-processing zones declined owing to the deteriorating international situation and the use of more capital-intensive production processes.

Affected by the global slowdown, and then by the events of 11 September, tourism stagnated, following the 16% growth rate in 2000.

Inflation remained at around 8% until September, this result being mainly due to the one-time impact of the fiscal measures adopted at the beginning of the year, which in January alone resulted in an increase of 2.5% in consumer prices. On the other hand, in the fourth quarter, the CPI fell significantly to around an annual 5%. Sound economic management and the depressed internal situation prevented an increase in inflationary pressures. The temporary suspension of the liquid-gas subsidy also affected the rise in prices.

The slowdown of the economy pushed unemployment to over 15% (13.9% in 2000), resulting in an increase in social expenditure. Recent measures to stimulate economic and social development in economically depressed areas, the establishment of a minimum salary in those areas, and, above all, the multiplier effect expected from the use of resources from sovereign bonds may manage to revert the trend of rising unemployment.

The global balance of payments was positive, as the economic slowdown caused a drop in imports, which reduced the gap in the current account by the equivalent of 3% of GDP (5.2% in 2000). Foreign direct investment flows (US$ 900 million) also contributed to this result.

Exports of goods were affected by the fall in international prices of traditional products and the lack of growth in external demand. With the aim of boosting export growth, the dismantling began in October of the exchange commission on purchases of foreign currency. The first steps were also taken towards the unification of the exchange market, so that traditional exporters would no longer have to offer their foreign currency to the Central Bank at the official exchange rate. Lastly, a compensation fund for coffee production was created using resources obtained from the sovereign bonds.

The decrease in the surplus of the non-factor services balance reflected the performance of tourism. Despite the unfavourable international context, remittances remained an important source of financing for the current account deficit (6% of GDP).

The result of the financial and capital account (US$ 1,850 million) was sustained by foreign direct investment flows similar to those of the previous year. The investments were in electricity, tourism and communications. The resources resulting from the sovereign bonds issue reinforced the effect of foreign direct investment flows on the global result of the balance of payments; at the same time, they represented an increase in the country's external debt.

Trinidad and Tobago

GDP growth for the first two quarters of 2001 was 1%. During the first nine months of the year, consumer prices rose by 2.2%. Fiscal accounts continued to reflect a better-than-expected performance in the second quarter, since expenditure remained below projections while revenues continued to benefit from higher-than-budgeted oil prices. Monetary conditions in the second quarter were generally very liquid as short-term technical considerations restricted the central bank's ability to conduct open market operations; credit growth was fairly slack.

The marginal improvement in economic growth was associated with the recovery in the petroleum sector, which expanded by 3.3%. Other sectors such as manufacturing, government services, other services and construction experienced either a slowdown or an outright contraction, but agriculture, distribution, finance and electricity and water strengthened. Overall, growth in the non-petroleum sector slowed but, when measured on a year-on-year basis, the economy nonetheless expanded by 4% in the first half of the year. The petroleum sector was the major driver of growth in the second quarter as the rate of expansion of the non-petroleum sector slowed. Some weakening in the non-petroleum sector of the economy became apparent in the second quarter when declines were registered in manufacturing (1.4%), government services (5.5%) and other services (4.3%). Distribution and finance remained major areas of strength, with rates of 5.8% and 5.4%, respectively. Agricultural output expanded by 5.1%.

Despite an uneven performance by industrial sectors, production was up by 4% in the first half of the year. Growth was fairly well balanced between the petroleum (3.4%) and non-petroleum (4.1%) sectors, with agriculture being the only sector to register a contraction (-19.1%) for the first half of 2001 despite an upturn in the second quarter.

The sugar industry experienced a number of problems during the second quarter of 2001, which made it necessary to shut down one plant for two weeks. As a result, sugar output amounted to just 26,600 tons in the second quarter, or about half the level produced in the corresponding quarter of 2000. Exports totalled 32,400 tons, which was 25.7% below the volume shipped in the second quarter of 2000.

The year-on-year inflation rate to September 2001 was 5.8%. The food component of the index exhibited an increase of 17.3% and thus continued to be the major source of upward pressure. The non-food components of the index reflected no more than a marginal increase.

The central government registered a surplus of TT$ 1.156 billion during the first six months of 2001. This hefty surplus was expected to decline by the end of the fiscal year, however, owing to a projected increase in expenditure. This outcome stood in sharp contrast to a projected budget deficit of TT$ 701 million. Strong

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	7.8	5.0	1.0
Consumer prices	3.4	5.6	5.8
Real effective exchange rate[b]	-5.7	-4.1	-7.2
	Percentages		
Unemployment rate	13.1	12.5	…

Source: Statistical Appendix.
[a] Preliminary estimates to the end of the third quarter.
[b] A negative rate indicates an appreciation of the currency in real terms.

revenue growth came from both the oil and non-oil sectors, with the Government's oil revenues in the first semester of 2001 amounting to TT$ 2.685 billion.

Outside the oil sector, better collection measures helped to raise corporate tax receipts by 21.8%. Personal income tax receipts jumped by 70% thanks, in large part, to payments of arrears to some categories of public-sector employees, as well as to improved collection procedures.

In addition to running up a sizeable surplus for the quarter, the Government borrowed TT$ 676 million on the domestic market. Consequently, during this period the Government's balance with the central bank rose by over TT$ 1.5 billion; TT$ 376 million of its total borrowings were sterilized by the central bank, however.

The public sector external debt fell by US$ 1 million to US$ 1.656 billion in the second quarter of 2001. The external debt profile therefore showed little change, with United States dollar-denominated debt accounting for about 94% of the total debt stock.

Conditions in the financial system fluctuated but remained generally liquid in the three-month period ending in July 2001. In attempting to smooth out these fluctuations and to soak up liquidity, the central bank relied mainly on repo operations, since its ability to conduct open market operations continued to be constrained by a lack of available securities. The existing level of liquidity exerted downward pressure on interest rates, and this trend was reinforced when, in mid-May, the central bank lowered the reserve ratio for commercial banks from 21% to 19%.

In contrast to the situation a year earlier, when similar monetary conditions had fuelled a strong demand for foreign exchange, there were no signs of pressure in the local foreign-exchange market. Indeed, against the background of sharply falling United States interest rates, this market was remarkably stable during the first seven months of 2001, with inflows surpassing the levels seen in the corresponding period of 2000 by more than 40%. As a result of strong demand for the TT dollar, the selling rate of the United States dollar slipped from TT$ 6.30 at the end of 2000 to TT$ 6.17 by the end of July 2001.

Preliminary data indicate that the domestic money supply exhibited strong growth despite a much more moderate expansion in credit. In particular, the narrow money supply (M1A) expanded by 31.4%, which was a sharp upswing from the rate of 14.1% seen at the end of 2000. The year-on-year increase in the broad money supply (M2) was also significantly larger than the rate of 6.9% recorded in 2000, but this was not matched by changes in the level of outstanding bank credit. Credit to the private sector reflected a year-on-year increase of 6.3% in July, while total commercial bank credit rose by 5.3%. The slow growth of credit relative to the increase in bank deposits was mirrored in the accumulation of liquidity in the financial system and the weakening of domestic interest rates.

In the first semester of 2001, Trinidad and Tobago's merchandise trade balance yielded a surplus of TT$ 4 billion, whereas the surplus for the same period of the preceding year had been TT$ 2.756 billion. The current account posted a surplus of 4.7% of GDP in the first quarter of 2001, compared with a surplus of 1.9% in the previous quarter.

As of the end of August 2001, net foreign reserves stood at US$1.715 billion and the country's gross foreign assets amounted to US$ 430 million. This sum represented an estimated import cover of 5.7 months, compared to an import cover of 5.2 months at the end of 2000.